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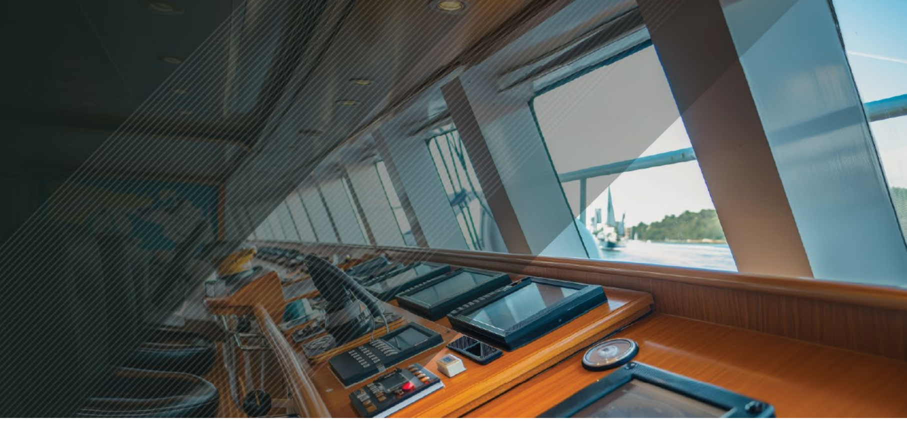

December 11, 2025

How Private Markets Really Work: Valuations, Volatility, and the Case for Resilience

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Private market investments aren't "hiding" risk, they're valuing it differently

Unlike public securities that are marked-to-market every second, private assets are priced through conservative, audited, and institutionally governed processes. While they're typically valued quarterly; the methods use: discounted cash flows, public comps, third-party appraisals, are designed to reflect fair value based on real fundamentals, not market sentiment.

The result?

- Valuations that are disciplined, not delayed
- Typically reduced drawdowns during public market stress
- Greater portfolio resilience through structure, not opacity

Yet despite their growing use, private markets are still misunderstood. One of the most persistent objections is that they only appear stable because they're not marked daily. This paper addresses that concern head-on, using historical data, institutional valuation practices, and real-world performance to show how private assets truly behave, and why that matters.

Whether you're a financial advisor educating clients or an investor looking to diversify beyond traditional markets, this paper will help you understand:

- How private market valuations are calculated
- Why they hold up during volatile periods
- And how to structure private market allocations appropriately

With the right education, access, and framework, private markets can move from the sidelines of a portfolio to a core pillar of modern wealth management.

Proof Under Pressure: Private Markets in Past Crises

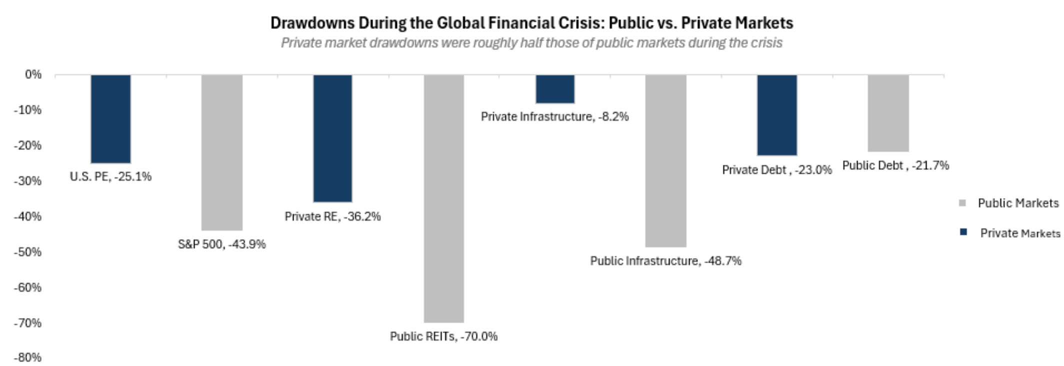
One of the most compelling reasons to allocate to private markets is their historical resilience during periods of public market stress. Financial advisors know that volatility is inevitable, but how portfolios respond to it is where real diversification earns its keep.

Private market strategies, especially when implemented thoughtfully through diversified, professionally managed funds, have historically offered meaningful protection against drawdowns. Not just by avoiding daily repricing, but by being structurally insulated from the behaviors that cause most public market selloffs: panic selling, short-term earnings pressure, and index crowding.

In this section, we'll walk through key market downturns and examine how private equity, private credit, and real assets responded, and why.

2008–2009: The Global Financial Crisis (GFC)

Table 1:



Source: YCharts, Preqin. Data range: Q4 2007 (12/31/2007) to Q1 2009 (03/31/2009). Quarterly return data was collected across multiple public and private asset classes to calculate peak-to-trough drawdowns during the Global Financial Crisis.

- **Public equities** experienced historic losses. Major indices like the S&P 500 fell more than **-40% from peak to trough**.
- **High-yield bonds** and **REITs** also suffered severe drawdowns.
- In contrast, **private market drawdowns were quite a bit less severe**, particularly in diversified vehicles and closed-end fund structures.

- *Private equity* saw markdowns averaging **-20% to -30%**, depending on region and strategy.
- *Private credit*, largely in the form of senior secured loans, held up relatively well, with many deals continuing to perform due to conservative underwriting and asset backing.
- *Private real estate* experienced valuation pressure, but income-oriented strategies (e.g., multi-family, storage, industrial) remained cash-flowing and experienced a faster recovery than public REITs.

2018: Rate Shock Mini-Crash

While brief, Q4 2018 was a reminder that rising interest rates can quickly unnerve public markets:

- The S&P 500 fell nearly **15% in a single quarter**, with volatility spiking.[1]
- Meanwhile, **private market funds largely showed flat to modest performance**, aided by quarterly valuation practices and stable underlying fundamentals.

This episode highlighted the “volatility buffer” inherent in private markets, not due to opacity, but because asset values aren’t dictated by intraday sentiment and algorithmic trading. Underlying earnings and cash flows didn’t change materially; public prices did.

2020: COVID Crash

When the pandemic sparked a global liquidity crisis:

- Public equity markets dropped almost **30% in March 2020 alone**, while credit spreads blew out across credit markets.[2]
- Institutional and diversified private market funds, however, withstood the shock far better:
    - *Private credit funds* saw modest markdowns, largely reflecting spread widening, not fundamental impairment.

[1] YCharts: S&P500 Total Return Index
[2] YCharts: S&P500 Total Return Index

- *Private equity* positions were marked down conservatively in Q1 but began recovering as early as Q2.
- *Private real estate* proved remarkably resilient, especially industrial, logistics, and multi-family assets.

The COVID crash reinforced that private market valuations respond to fundamentals, not fear. By the time public markets rebounded, private portfolios had already weathered the storm with significantly less realized volatility.

2022: Inflation & Interest Rate Spike

In 2022, rising rates and inflation drove simultaneous losses in both equities and bonds, a nightmare scenario for traditional portfolios:

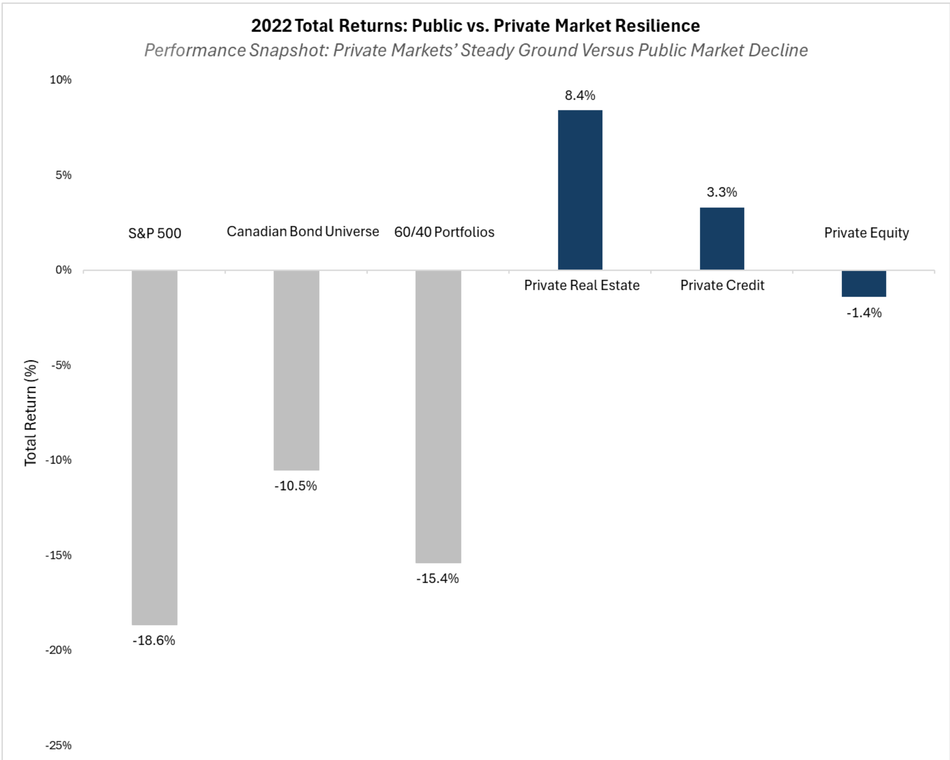
- **S&P 500**: -18%[3]
- **Canadian bond universe**: ~ -11%[4]
- **Traditional Balanced Portfolio:** significantly underperformed investor expectations

Yet across many private market categories:

- *Core private real estate* (e.g., industrial, storage) delivered flat to modestly positive total returns.
- *Private credit* continued to perform, as loans are typically **floating rate**, benefiting from rate increases.
- *Private equity* saw markdowns primarily in growth/venture sectors, but many diversified buyout funds posted muted declines or even gains.

[3] YCharts: S&P500 Total Return Index
[4] YCharts: IShares Core Canadian Universe Bond Index ETF Total Return Level

Table 2:



Source: YCharts, MSCI. Data ranges from Q1 2022 to Q4 2022. 60/40 Portfolios is represented by 60% S&P500 Total Return and 40% IShares Core Canadian Universe Bond Index ETF Total Return. Performance figures were pulled from publicly available online dashboards and institutional reports, with data accessed as of January 30, 2023, and July 25, 2025. Annual return figures for public and private asset classes were used directly as published, without further adjustment.

Advisor Insight:

This was a real-world test of the idea that private markets only appear resilient because they're not marked daily. Yet even after year-end audits, most core private strategies posted **far smaller drawdowns** than public equivalents, backed by real cash flows and governance.

Key Takeaways for Advisors

- **Private markets don't "hide" volatility, they defer and smooth it**, reflecting changes in intrinsic value, not market noise.
- In nearly every major downturn, diversified private asset portfolios have drawn down **less than public markets**, and often recovered faster.

- **Private credit and core real assets**, in particular, have provided reliable income and principal protection, even during rate shocks and liquidity events.

Downturns are inevitable, but how a portfolio responds can determine long-term success. Private markets have shown, time and again, that they help investors stay invested, preserve capital, and participate in the recovery, without the daily whiplash that public markets often deliver.

Beyond the Smoothing Myth: Why Private Assets Reduce Volatility

A common misconception about private markets is that their apparent stability during public market volatility is just an illusion, that they only look resilient because they aren't marked to market daily.

This objection is understandable. Public securities are priced in real time by global exchanges. Private assets, by contrast, are typically valued quarterly. But this *difference in frequency* is not the same as a *difference in substance*. The smoothing effect of private markets is real, but it’s **earned through structural advantages**, not accounting tricks.

Let’s unpack why private assets genuinely reduce volatility and enhance diversification, beyond how often they’re priced.

1. Structural Differences in Capital and Behavior

Public market prices are often driven by short-term sentiment, momentum trading, and institutional flows. This dynamic can amplify volatility, especially during periods of panic or liquidity shocks.

Private markets, by contrast, are structured to *avoid* these behaviors:

- Investors commit capital for longer periods (e.g., multi-year lockups), reducing forced selling.
- Managers are not pressured by quarterly earnings reports or public scrutiny.
- Portfolio companies or assets are not marked by speculation, but by operational results.

Result: When markets get choppy, private market managers can stay the course. There typically significant increase in redemptions to meet, no headlines to respond to, and no need to “sell at any price.”

2. Diversified Return Sources

Private markets are less correlated to public equities and bonds because they're exposed to entirely different return drivers:

Table 3:

	Public Markets	Private Markets
Return Source	Price movements driven by investor sentiment, macroe trends, earning results, and trading activity	Private Credit - Interest income, loan repayment Private Equity - Grow businesses for profitable exits Private Real Estate - Rent collection, asset appreciation Infrastructure - Inflation-linked, regulated cash flows
Valuation Frequency	Priced daily on stock exchanges	Valued Quarterly based on asset-level fundamentals and third-party reviews
Volatility	High: Sensitive to headlines, macroe trends, and trading flows	Lower: smoothed by long-term capital commitments and private ownership strcutures
Investment Horizon	Short-term trading focus	Long-term built for patient capital and long-term value creation
Correlation to Equities	High correlation across asset classes	Low to moderate correlation - varies by asset type, offering stronger diversification benefits
Income Dependability	Mixed: income varies; most returns come from capital gains	High: Private Credit & Real Estate due to contractual income; Infrasturcture offers inflation protection

These drivers don't fluctuate day-to-day like public market prices. As a result, even when the public markets swing, the cash flows and valuations of private assets tend to hold steady, because they're built on **business fundamentals**, not sentiment.

3. Valuation Discipline is Real (Even If It's Less Frequent)

More on this later, but private market investments are required to follow **IFRS 13** (in Canada) or **ASC 820** (in the U.S.), which mandate **fair value accounting**. This means that valuations must reflect what an asset could reasonably be sold for in an orderly transaction, not a fire sale.

Valuations are updated quarterly based on:

- Public market comps (if applicable)
- Discounted cash flow models
- Independent third-party appraisals
- Market transaction data (e.g., secondary trades, exits)
- Adjustments from auditors and valuation committees

So, while valuation frequency is lower, the *rigor* is often higher, especially in institutional-grade funds. This reduces both noise and overreaction, creating a more **accurate and stable reflection of intrinsic value**.

Private Market Valuation ≠ Guesswork

- Updated quarterly with disciplined methodologies
- Reviewed by top tier auditors (e.g., PWC, KPMG, Deloitte)
- Anchored to actual cash flows and market comparable
- Internal valuation committees review every mark
- Regulatory compliance (IFRS 13/ ASC 820) ensures fairness
- Third-party appraisals for complex or illiquid assets

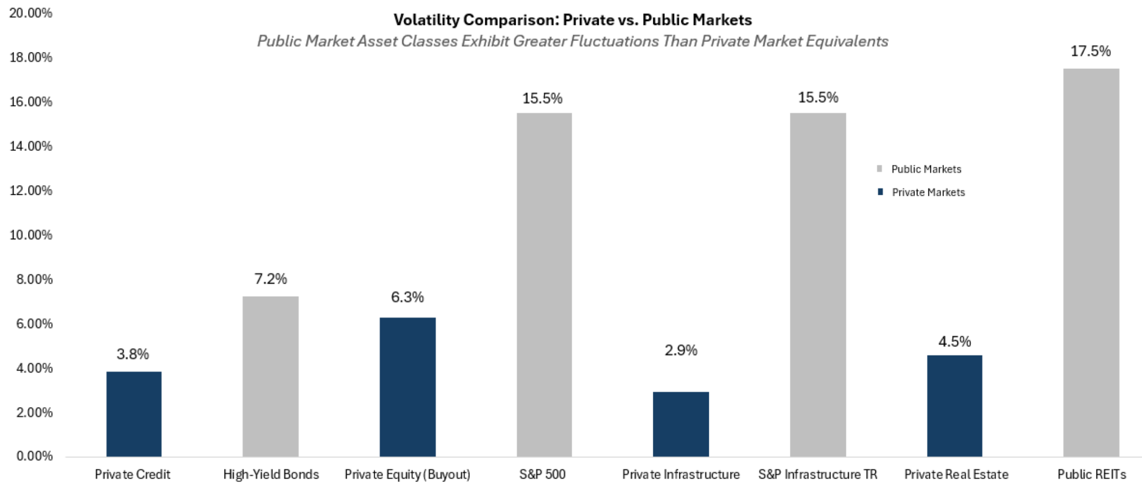
4. Volatility Is Lower, Because the Assets Are Fundamentally Different

Multiple studies have shown that even after adjusting for stale pricing, **private assets exhibit lower beta, higher Sharpe ratios, and smaller drawdowns** relative to public market peers.

A few examples:

- Private credit funds typically report volatility in the **2%–4% range**, compared to **6%–12%** for high-yield bonds.
- Core real estate funds often post annualized standard deviations of **3%–5%**, versus **15%+** for public REITs.
- Private equity buyout funds tend to outperform public equities on a risk-adjusted basis over full market cycles, even after adjusting for lagged valuations.

Table 4:



Source: Preqin, YCharts, MSCI. Data reflects 15-year annualized standard deviation of selected public and private asset classes from July 23, 2010 to July 24, 2025. All data was retrieved from institutional dashboards and public platforms, as accessed most recently on July 24, 2025.

5. Diversification Isn't Just About Return Streams, It's About Behavior

Perhaps most importantly, private assets can help clients **stay invested**. Their smoother performance, longer lockups, and infrequent repricing reduce the risk of emotional decisions in volatile markets. Clients are less likely to panic, redeem, or sell at the bottom, because they don't see daily red ink.

This "behavioral alpha" is often underappreciated, but it's one of the most powerful advantages of private market exposure.

Private market investments offer more than just a smoother ride, they offer **true portfolio resilience**, grounded in fundamentals, structure, and long-term thinking. Their stability is not a result of delayed pricing, but a reflection of different mechanics, different incentives, and different sources of value.

For advisors and clients looking to reduce public market dependence and enhance long-term outcomes, private markets provide a compelling, durable solution.

How Private Market Valuations Actually Work

Skepticism about private market valuations is common, and understandable. Unlike public securities, which are priced continuously by market participants, private assets are valued periodically and through less transparent processes.

But “less frequent” doesn’t mean “less accurate.” In fact, private market valuations are subject to **rigorous accounting standards, third-party oversight, and conservative methodologies**. These valuations are designed to reflect *fair value*, not inflated estimates or internal optimism.

This section helps demystify how private assets are valued, by explaining the rules, the process, and the controls in place.

1. The Standards That Govern Valuation

Private funds in Canada and the U.S. must follow global accounting principles that define how investments are valued:

Jurisdiction	Accounting Standard	Mandate
Canada	IFRS 13 – Fair Value	Reflect “exit price” in orderly sale
United States	ASC 820 (FASB)	Fair value based on observable inputs

Both standards define fair value as the price that would be received to sell an asset in an **orderly transaction** between market participants. Not fire-sale prices. Not manager projections. But *realistic exit value* under normal conditions.

2. Common Valuation Methodologies by Asset Class

Valuation methods vary depending on the type of investment and the availability of comparable data. Most fund managers apply one or more of the following:

Table 5:

Asset Type	Valuation Method(s)	Basis of Value
Private Credit	Discounted cash flows, credit spreads	Loan risk, repayment structure, market rates
Private Real Estate	Appraisal, cap rate, discounted cash flow	Rental income, market comps., occupancy
Infrastructure	Long-term discounted cash flow, regulatory pricing models	Contractual cash flows, inflation linkage
Private Equity	Public comps, discounted cash flows, precedent transactions	Growth potential, exit value, peer comparison

3. Layers of Oversight

Private market valuations are **not just left to the discretion of the manager**. High-quality funds employ multiple layers of control and verification:

- **Independent auditors**: Review fund NAVs annually, and often quarterly for large funds.
- **Third-party valuation firms**: Frequently engaged to value harder-to-price assets or cross-check manager estimates.
- **Governance boards or fund trustees**: Oversee the fairness and transparency of valuation policies.
- **Internal valuation committees**: Provide consistency and review assumptions across holdings.

In many cases, asset values are actually *conservatively stated* to reduce risk of overstatement and to align with long-term, institutional investors.

4. Real-Time Calibration Through Market Events

Private valuations don’t exist in a vacuum. They are updated based on:

- **Comparable public company valuations**
- **Exit transactions (e.g., M&A, IPOs)**
- **Secondary market trades** of private fund units
- **Changes in macro inputs** (e.g., discount rates, credit spreads, inflation assumptions)

When market conditions shift meaningfully, private fund marks are adjusted, just not reflexively or over reactively. This results in valuation changes that are timely but deliberate, capturing real impacts without succumbing to day-to-day volatility.

5. Audit Trails and Disclosure

Regulators and sophisticated investors expect transparent processes. That's why most private funds:

- Provide a **detailed NAV breakdown** every quarter
- Include valuation commentary and key assumptions
- Are **audited annually by third-party accounting firms** (e.g., Deloitte, PwC, KPMG)

Advisors can often access fund valuation policies, methodologies, and audit reports, helping them build client confidence through documentation, not just narrative.

Private market valuations may not show up in a stock ticker, but that doesn't mean they're opaque or arbitrary. In fact, they're grounded in **global accounting standards**, validated by **independent professionals**, and updated based on **real-world events and cash flows**.

For advisors, understanding this process, and being able to explain it, is critical. When clients question the marks, the answer isn't that they're "less volatile because they're private." It's that they're valued differently because **the assets themselves are different**, longer-term, less reactive, and focused on fundamentals over sentiment.

How Much Private Market Exposure Should You Have?

Even after understanding the benefits of private market investments, diversification, downside protection, stable income, the next natural question clients ask is: **"How much should I have in this?"**

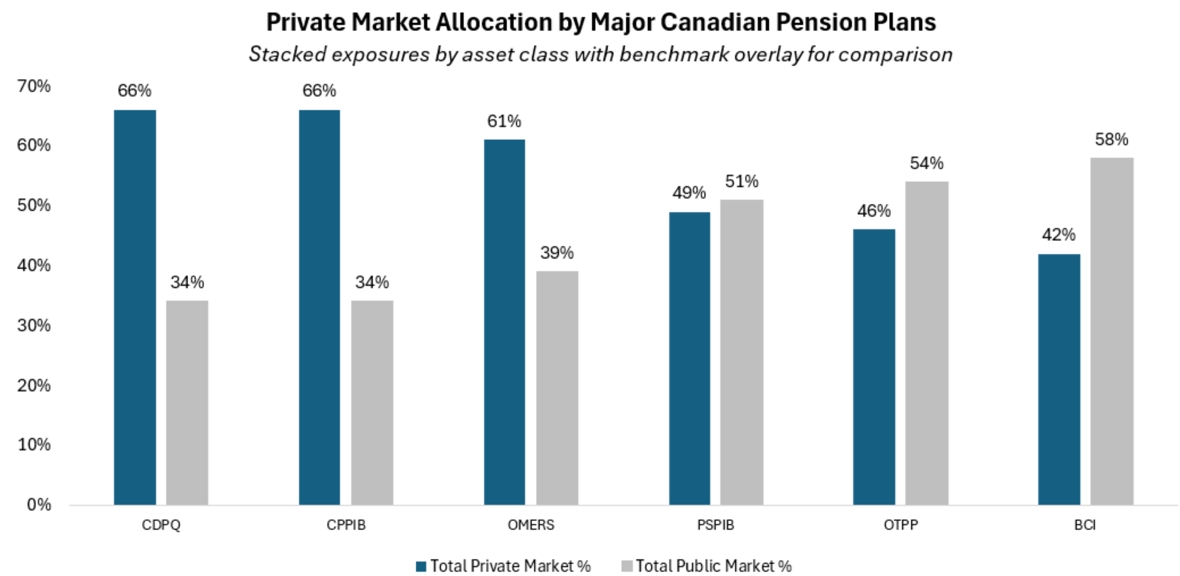
The answer isn't one-size-fits-all. But there are well-supported frameworks and institutional models that can help advisors tailor the right allocation based on a client's objectives, time horizon, liquidity needs, and risk tolerance.

This section explores how to think about position sizing, what constraints to consider, and how other sophisticated investors approach this same question.

1. Institutional Models Offer a Starting Point

Top endowments and pension funds often allocate between **30% and 60% of their portfolios** to private market investments. While these entities have longer time horizons and less sensitivity to liquidity, their allocations reflect a strong conviction in the return and diversification benefits of private assets.

Table 6:



As of August 7, 2024

Source: Hymans Robertson, The Canadian Model (Maple-8 Pension Funds, £570bn AUM, Canadian pension investment strategy).

For retail investors, those levels are rarely appropriate, but they signal that even modest exposure (e.g., 10–30%) can have a **material impact** on portfolio outcomes.

2. A Practical Range for Retail Clients

For most clients, a typical target range might fall between:

Investor Type	Private Market Allocation Range
Conservative (income-focused)	5–15%
Balanced (growth/income)	15–25%
Growth-oriented (long horizon)	20–35%

This exposure can be diversified across:

- **Private credit** (for yield and downside protection)
- **Private equity** (for long-term capital appreciation)
- **Private real estate and infrastructure** (for income and inflation hedging)

Advisors should consider using a **core-satellite approach**, where private markets serve as a strategic complement to traditional asset classes rather than a wholesale replacement.

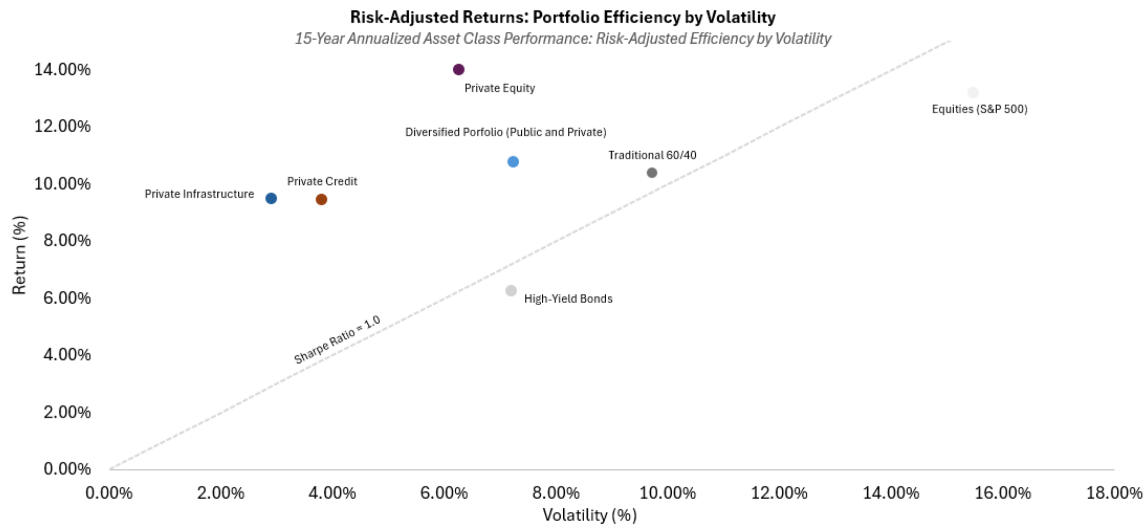
3. Key Allocation Considerations

Several important factors should guide private market sizing:

- **Liquidity Needs**:
  These assets are less liquid, so exposure should match the portion of a client's portfolio not needed in the short-to-medium term. For example, a retiree drawing income may hold less in illiquid assets, whereas an accumulation-phase investor could hold more.
- **Risk Tolerance**:
  While many private investments are less volatile, they are still subject to risk, particularly economic sensitivity and valuation uncertainty. Risk-averse clients may need smaller, more diversified exposures.
- **Investment Horizon**:
  Longer timeframes are an advantage. The illiquidity premium is best harvested over multi-year periods.
- **Access & Structure**:
  Are investments being made through feeder funds, OM pools, or interval funds? What are the redemption terms? What reporting and transparency are provided?

- **Tax Efficiency**:
  Income from private credit and real estate is often taxed as ordinary income, while capital gains from private equity may be more efficient. Placement in registered vs non-registered accounts can influence sizing.

Table 7:



Source: Preqin, YCharts. Data reflects 15-year annualized standard deviation of selected public and private asset classes from July 23, 2010 to July 24, 2025. Traditional 60/40 portfolio represents 60% S&P500 Total Return Index and 40% Bloomberg US Corporate High Yield Bond Index. Diversified Portfolio represents 45% S&P500 Total Return Index, 25% Bloomberg US Corporate High Yield Bond Index, 10% Preqin Private Equity Benchmark, 10% Preqin Private Credit Benchmark, 10% Preqin Private Infrastructure Benchmark. All data was retrieved from institutional dashboards and public platforms, as accessed most recently on July 24, 2025.

4. Start Small, Scale Smart

Allocations don't have to be implemented all at once. Start with liquidity-aware pooled funds, which allow gradual exposure through diversified manager portfolios.

Advisors might consider:

- Starting with 10%–15% core exposure
- Using pooled funds with monthly, or quarterly liquidity features
- Building over time with dollar-cost averaging

This approach helps manage liquidity, mitigate J-curve effects (in private equity), and improve client comfort with a newer asset class.

The question isn't *whether* private markets belong in a portfolio, but *how much*, and *how*. With the right sizing, structure, and client communication, advisors can use private markets to create stronger, more resilient portfolios, tailored to long-term goals and real-world risk.

What It All Means for Investors

The argument that private market investments "only appear stable" because they are not marked to market is both outdated and misleading. It ignores the evolution of valuation practices, the increased transparency and governance of modern private funds, and—most importantly—the underlying fundamentals that make these investments genuinely resilient.

Private market assets are not priced daily like public stocks, but they are **not unpriced**. In fact, valuations are based on:

- International accounting standards (e.g., IFRS 13)
- Independent third-party appraisers
- Market-based comparables, cash flow models, and transaction data
- Quarterly updates and audits

This discipline leads to pricing that reflects economic reality, not investor sentiment. As a result, private markets avoid the panic-driven price swings that often define public markets during selloffs, not because they ignore risk, but because they reflect it differently.

Real Downside Protection, Not Just Delayed Markdowns

History supports the value of private markets during periods of stress:

- In 2008, many private credit and real asset funds delivered positive or modestly negative returns while public markets collapsed.
- In 2022, as public stocks and bonds fell sharply, private equity, credit, and real estate funds often held steady or declined far less, especially those focused on senior debt or core assets.

The lower volatility is **not just an illusion of infrequent pricing**, it's the result of:

- Higher structural protections (e.g., senior secured loans, income-generating assets)
- Active management and long-term capital
- Reduced exposure to herd behavior and passive selling pressure

From Misconception to Modern Diversification

The misconception that private investments are simply “smoothing the ride” without true diversification is not supported by evidence. These are fundamentally different assets with distinct cash flow drivers, capital structures, and valuation methodologies. Their inclusion in a portfolio has been shown to:

- Lower drawdowns
- Reduce standard deviation
- Improve risk-adjusted returns (Sharpe and Sortino ratios)

For advisors, the implication is clear: private markets are not just an option, they’re a necessity for building portfolios resilient to modern market stressors.

Final Thought: Rethinking the Role of Stability

True portfolio resilience isn't about avoiding volatility, it's about understanding it. Public market prices change by the second, often for reasons unrelated to long-term fundamentals. Private markets give clients a different rhythm, one based on real economic activity, not algorithmic trading or headlines.

This doesn't make them perfect or risk-free, but it makes them valuable. And in today's environment of correlation spikes, concentration risk, and sentiment-driven selling, that value is more important than ever.

I, David Ferreira, have prepared this commentary to give you my thoughts on various investment alternatives and considerations which may be relevant to your portfolio. This commentary reflects my opinions alone and may not reflect the views of Harbourfront Wealth Management Inc. In expressing these opinions, I bring my best judgment and professional experience from the perspective of someone who surveys a broad range of investments. Therefore, this should be viewed as a reflection of my informed opinions rather than analyses produced by Harbourfront Wealth Management Inc.