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Let’s Be Clear

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“Investors need to understand that private markets don’t have the same degree of transparency as public markets.”

If we’ve seen one version of this quote, we’ve seen a million. Private credit and opacity are the media’s favorite couple. One would think sophisticated investors simply hand over capital to managers, then wait in the dark for signs of life.

Conflating “lack of publicly available information” with “lack of pricing” is central to this misconception. There is no shortage of materials for investors to develop well-informed understandings of the asset class. For example, BDC investors, and for that matter the general public, receive detailed filings, have access to earnings calls and thought leadership pieces, which are becoming even more prevalent today.

One proposed cure? Supply daily valuations – net asset valuations (NAVs) – on portfolio holdings. The stated goals are to broaden access, drive adoption and build confidence in privates. But as we’ve stated often in this space, middle market loan prices are based on performance of the underlying companies relative to a risk budget. There’s often little change month to month, or even quarterly. Problem loans are more quickly identified by internal rating changes, which managers communicate to investors every quarter.

How would a daily price make sense in that context? Any more than a daily price on your home? It creates the illusion of precision and liquidity where little exists. And as one sophisticated manager put it to us, “unless the information is actionable – which on a non-traded loan, it isn’t – daily NAV is meaningless.”

The result of these offered solutions is that private credit would be made to appear more liquid than it is. The same goes for the concept of “semi-liquid” funds. They are illiquid funds with a small liquid sleeve of tradable broadly syndicated loans. Private credit is no more semi-liquid than hospital rooms are semi-private.

Retail access to privates has yet to develop the same patient outlook institutional investors learned to adopt over decades. Market turbulence tends to trigger more buying and less selling from the patient private capital crowd.

Could future AI technology make daily private credit valuations a reality? One bank veteran is skeptical. “Broadly syndicated loans aren’t even liquid,” he said. “The daily marks are suspect, you can’t trade even a small block efficiently, and they can take weeks to settle.”

To be clear, we agree with the statement that private markets transparency is different than public markets. It’s better.