

# **Australia's capital markets: Forces shaping the next decade**

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The author, Carole Comerton-Forde, is a Professor of Finance at the University of Melbourne. This report is undertaken in her private capacity and does not represent the university or its views.

## Acronyms

Term	Meaning
ABS	Australian Bureau of Statistics
AICD	Australian Institute of Company Directors
AOFM	Australian Office of Financial Management
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUM	assets under management
CEFC	Clean Energy Finance Corporation
CHES	Clearing House Electronic Subregister System
CPP	Canadian Pension Plan
DPI	distributions to paid-in
ESG	environmental, social and governance
ETF	Exchange Traded Fund
FCA	Financial Conduct Authority
GDP	gross domestic product
GP	General Partner
IGR	Intergenerational Report
ILPA	Institutional Limited Partners Association
IMF	International Monetary Fund
IPO	initial public offering
IRR	internal rate of return
LICs	listed investment companies
LITs	listed investment trusts
LP	Limited Partner
NSX	National Stock Exchange of Australia
OECD	Organisation for Economic Co-operation and Development
PISCES	Private Intermittent Securities and Capital Exchange System
PME	public market equivalent
RBA	Reserve Bank of Australia
SBAI	Standards Board for Alternative Investments
SEC	Securities and Exchange Commission
SG	superannuation guarantee
SMA	separately managed account
SMEs	small and medium enterprises
SWF	sovereign wealth fund
TVPI	total value to paid-in

## Executive summary

Australia's capital markets are undergoing significant changes. The association between public and private markets is shifting as domestic and global forces reshape how capital is raised, allocated and governed. This paper offers a forward-looking perspective, outlining drivers of change, developing four scenarios contemplating how the markets may evolve over the next ten years and examining enduring challenges that will likely influence outcomes across all scenarios.

## Structural forces

The evolution of Australia's capital markets over the next decade will be shaped by eight structural forces, which can be grouped into three clusters:

- **Macroeconomic and structural environment:** which includes macroeconomic and global conditions, decarbonisation capital needs and demographic shifts that will shape the retirement system.
- **Regulation, market structure and technology:** which includes the regulatory and governance frameworks for public versus private markets, the regulatory and prudential settings for the superannuation sector, the role of intermediaries and access channels, and innovations such as tokenisation and new trading infrastructure.
- **Capital flows:** which includes issuers' capital raising choices (for example, initial public offerings (IPOs) versus private funding) and the asset allocation strategies of investors (for example, superannuation funds, global institutions and retail investors).

## Scenarios for the next ten years

The interaction of these structural forces points to four distinct scenarios for Australian capital markets. In assessing them, it is important to recognise that the size of both public and private markets will likely grow, driven by superannuation inflows and economic growth. The main difference across scenarios lies not in whether the markets will expand in absolute terms, but in how issuers and investors allocate between them, and how each channel shapes price discovery, governance and capital allocation in the broader economy.

- **Dual expansion:** Both public and private markets flourish. Public markets attract new listings across a wider set of sectors, while private markets deepen as superannuation grows and global managers expand allocations. The result is greater diversity, liquidity and resilience on both sides of the system.
- **Private market dominance:** Listings stagnate and the breadth of public markets narrows. Super funds and global asset managers channel a rising share of flows into private equity, credit and infrastructure, making private markets the primary venue for capital formation and corporate control.
- **Public market revival:** Reforms to listing settings, market infrastructure and index design reinvigorate the appeal of public markets. More companies choose to list domestically, sectoral representation broadens and liquidity improves. Private markets remain important but no longer outpace the listed sector.

- **Dual contraction:** Weak global conditions and domestic policy missteps undermine both channels. IPOs remain scarce, private fundraising slows and the overall capacity of the capital markets to finance growth is transformed or reduced.

These scenarios provide a framework for considering future possibilities. To assess their implications, the paper explores four enduring challenges that will be pivotal, regardless of which path is realised: valuation governance and performance measurement, expanding retail participation in private assets, liquidity management in a maturing superannuation system and reforms to sustain the viability of public markets.

### Enduring challenges

Enduring challenges span both public and private markets. First, weaknesses in private market valuation practices and performance measurement risk overstating returns and misallocating capital. Second, the expansion of products aimed at retail mass-affluent investors raises concerns about suitability, disclosure and risk allocation. Third, a maturing superannuation system and ageing population increase the need for robust liquidity management as funds balance illiquid allocations with rising benefit payments. Fourth, reforms to revitalise public markets are critical to ensuring they remain broad, liquid and attractive. Perceived regulatory burdens may be overstated, but targeted innovations – such as introducing periodic disclosure and trading mechanisms for small-cap firms, expanding research coverage and broadening index products – could restore depth and diversity to the listed sector. These challenges will shape outcomes across all scenarios and are central to the integrity and resilience of the overall system.

### Implications

The implications of these findings extend across policy makers, industry and investors. For policy makers, the priority is to balance vibrant public markets with credible and well-governed private markets. This means reducing unnecessary frictions for listings while encouraging improvements in valuation and disclosure practices for private funds. Improving recurrent data collection on private market exposures and performance is critical to enhancing transparency and supporting effective oversight. Retail access to private assets should be expanded cautiously, and only when stronger valuation governance and disclosure standards are in place.

It is essential that investors, particularly superannuation funds, scrutinise private market returns. Reported internal rates of return (IRR) can be misleading; cash-based measures such as total value to paid-in (TVPI) or Public Market Equivalents (PME) provide a clearer picture of performance. Transparency of fees and risks should be a non-negotiable expectation. At the portfolio level, funds need to recognise the trade-offs in allocations. While private markets can provide long-term opportunities, the liquidity, governance and price discovery functions of public markets remain fundamental to the resilience of the financial system.

For industry participants, credibility will rest on strengthening governance, improving disclosure and acting as stewards of other people's money. Innovation in product design, whether through listed feeder funds, transparent private-asset vehicles or new index structures, should reinforce rather than erode trust. Ultimately, allocation choices and product structures will shape not only portfolio returns but also the overall balance and health of Australia's capital markets.

## 1. Background

Public equity markets, which have historically been the dominant channel for corporate funding in Australia, showed signs of strain in 2023 and 2024. During this period, IPO activity slowed sharply, delistings rose and the number of listed companies declined. In contrast, private capital continued its decade-long expansion, supported by global investor demand and increasing allocations from Australian superannuation funds (ASIC 2025a, 2025b). These developments have raised important questions for policy makers, market participants and investors about how the balance between public and private markets will evolve, and what this means for capital formation, transparency and investor outcomes.

The Australian Securities and Investments Commission (ASIC) highlighted these concerns in *Australia's evolving capital markets: A discussion paper on the dynamics between public and private markets* (ASIC 2025a). That paper pointed to the risk of opacity, valuation uncertainty and leverage in private markets undermining confidence, while noting the economic and governance importance of healthy public markets. The regulator's call for evidence has prompted a broader conversation about how Australia's capital markets might look in five to ten years, and what reforms or innovations would be needed to sustain their contribution to the economy. This paper responds to that challenge by outlining the structural forces shaping the market and exploring how their alignment could lead to different futures.

The approach taken in this paper is deliberately scenario-based. Rather than predicting a single outcome, the aim is to describe a plausible set of paths that demonstrate how public and private markets might evolve under different conditions. Scenario analysis is particularly useful because the drivers at play – ranging from interest rate cycles and superannuation cash flows to regulatory settings, technology adoption and global capital flows – interact in complex ways that cannot be forecast with precision. By considering alternative scenarios, market participants and policy makers can better understand the risks, opportunities and decision points that lie ahead.

In this context, references to public or private markets 'growing' or 'declining' should be understood in relative terms. With compulsory superannuation contributions and a growing economy, both channels are likely to expand in absolute size. What matters is the share of capital formation, the direction of issuer and investor preferences, and the relative influence of each on price discovery, governance and economic activity.

Four scenarios have been developed to capture the main possibilities.

- **Dual expansion** describes an environment where both public and private markets flourish; public listings are active, while private capital also grows as a complementary channel.
- **Private dominance** represents a continuation of the recent trends, with private markets expanding their share of capital markets and public markets becoming thinner over time.
- **Public revival** is a mirror image, where public markets regain primacy as the default option for raising capital, driven by reforms, investor preferences for liquidity and transparency, and renewed listing activity.
- **Dual contraction** captures the downside, where both channels stagnate – either through outright declines in issuance and fundraising in a downturn, or through a long period of subdued activity that leaves neither channel functioning at full strength.

These scenarios are not predictions, and none will materialise exactly as described. Their purpose is to outline how different combinations of forces could reshape Australia's markets, and to provide a framework for considering which outcomes are most consistent with current trajectories and which would require purposeful intervention. While it is not feasible to assign probabilities, the recent trajectory of rising private allocations suggests that private dominance is the most natural continuation of the status quo. Public revival or dual expansion would require decisive reforms and innovation. However, a public revival could emerge if confidence in private markets weakens, such as if funds struggle to deliver promised returns, continue to face difficulties in existing investments or if the private credit sector experiences significant failures. Dual contraction, though less likely in benign conditions, cannot be ruled out in the event of adverse global shocks.

While the scenarios highlight how structural forces could combine in different ways, some issues are relevant across all possible scenarios and warrant closer examination. These are the areas where the dynamics of public and private markets are most contested, and where intervention by regulators, funds or market operators may prove decisive. To keep the scenario narratives focused, short callouts are provided on specific topics, including the valuation gap between public and private markets, private market trading venues and index concentration in listed markets.

The remainder of the paper is structured as follows. Section 2 provides a snapshot of the current public and private market landscape in Australia. Section 3 sets out the key structural forces shaping Australian capital markets, drawing on international experience and domestic drivers. Section 4 outlines four alternative scenarios for the evolution of the market over the next ten years. Section 5 turns from broad scenarios to focused deep dives on four enduring challenges – valuation practices in private markets, the push for greater retail participation in private markets, the importance of liquidity management in super as the population ages, and reforms in public markets – that will be central to policy and industry outcomes regardless of which scenario eventuates. Section 6 provides a brief global comparison. Section 7 concludes by setting out the implications for policy makers, market participants and investors.

## **2. Snapshot of Australia's public and private markets**

A clear empirical baseline helps anchor the discussion of future scenarios. ASIC has documented (ASIC 2025a, 2025b) significant shifts in the balance between public and private markets over the past decade.

### **2.1. Public markets**

Australian Securities Exchange (ASX) market capitalisation was AUD 3.3 trillion at the end of August 2025, almost double the AUD 1.7 trillion recorded in 2014 ([ASX website](#)).<sup>1</sup> However, the number of listed companies has decreased from 2,073 to 1,920 over the same period ([ASX website](#)). The value of equity raised in IPOs has collapsed by 82%, decreasing from AUD 22.9 billion in 2014 to just AUD 4.2 billion in 2024 (ASIC 2025b). Between 1 January and 30 August 2025, only 14 new companies listed on the ASX, raising only AUD 1.8 billion (Morningstar).

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<sup>1</sup> Note that the ASX changed its reporting of market capitalisation in 2024. Before then, it reported market capitalisation of domestic incorporated entities; now it includes all listed entities.



Australia's market is highly concentrated: financials and resources account for around half of market capitalisation, and the largest 10 companies comprise about 40% of the total market. While concentration levels are high by world standards, they are lower than the levels observed in Australia a decade ago (ASIC 2025b).

## **2.2. Private markets**

While still substantially smaller than listed markets, private markets have expanded rapidly. Assets under management (AUM) in Australia focussed private capital funds grew from AUD 57 billion in 2014 to AUD 149 billion in 2024, with strong increases across private equity (up 131%), private credit (up 240%), and unlisted infrastructure and property (up 189%) (ASIC 2025a). ASIC (2025e) estimates the private credit market in Australia to be worth around AUD 200 billion, of which approximately half is real estate-focused finance. Private capital is now a meaningful complement to public capital, supported by superannuation allocations and international investors.

## **2.3. Superannuation**

Australia's superannuation system has more than doubled in size over the past decade, growing from AUD 1.9 trillion to AUD 4.3 trillion in June 2025. Funds regulated by the Australian Prudential Regulation Authority (APRA) account for AUD 3.04 trillion, slightly lower than the market capitalisation of ASX-listed companies (APRA 2025b). Since 2017, APRA-regulated super funds have, in aggregate, allocated a larger fraction of their portfolios to international public equities than to domestic public equities. As at September 2024, 29% of super assets were invested in international public equities, compared to 24% in domestic equities (ASIC 2025b). Allocations to private assets are also substantial, with the two largest funds holding 22%, while one fund's private holdings are as high as 38% (ASIC 2025a). In the 18 months to June 2025, total unlisted and listed assets (equities, infrastructure and property) stabilised at around 15–16% and 56–59%, respectively ([APRA Quarterly Fund Level Statistics](#)).

Taken together, these data points demonstrate that the size of the superannuation system serves as a structural driver of the dynamics between public and private markets in Australia. This has implications for liquidity, transparency and governance across the financial system.

## **3. Structural forces driving changes**

The following section outlines eight structural forces, organised into three clusters, that will shape the evolution of the Australian capital markets over the next five to ten years. Together, these forces will describe the base case or status quo against which alternative scenarios can be assessed. These structural forces are summarised in Figure 1.

**Figure 1. Structural forces driving change**

Macroeconomic and structural environment	Regulation, market structure and technology	Capital flows
<ul style="list-style-type: none"> <li>• Macroeconomic and global conditions</li> <li>• Decarbonisation capital needs</li> <li>• Demographic shifts</li> </ul>	<ul style="list-style-type: none"> <li>• Regulatory and governance frameworks for public and private markets</li> <li>• Intermediaries and access channels</li> <li>• Technology and market infrastructure innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Issuers' capital raising choices</li> <li>• Investors' asset allocation decisions</li> </ul>

The first cluster captures the macroeconomic and structural environment (interest rates, decarbonisation capital needs and demographics). The second relates to regulation, market structure and technology (the rules, infrastructure and channels through which markets operate). The third focuses on capital flows (the decisions issuers raising funds and investors allocating capital make). The following sections describe how changes in these forces will impact the evolution of the market.

### 3.1. Macroeconomic and structural environment

Three forces drive the macroeconomic and structural environment: macro and global conditions, decarbonisation needs, demographic shifts and Australia's ageing population.

#### 3.1.1. Macro and global conditions

- **Baseline outlook:** Treasury and the Reserve Bank of Australia (RBA) both project long-run real gross domestic product (GDP) growth of roughly 2% to 2.5% annually and inflation returning to the 2% to 3% target band by 2026. Growth is expected to be lower than it has been over the past 40 years due to an ageing population and low productivity growth (Treasury 2023; RBA 2025a). A major global downturn, a collapse in commodity prices, or a sharp China slowdown are downside risks, while an Asia-led commodities upswing or domestic productivity revival would boost the outlook.
- **Inflation and monetary policy:** The RBA is committed to a 2% to 3% inflation target. Interest rates are expected to fall, consistent with lower inflation. Year-ended headline inflation is expected to increase above 3% in the second half of 2025 before returning to just above the midpoint of the target range later in the forecast period (RBA 2025a).
- **Tariff shock (April 2025):** The International Monetary Fund (IMF) lowered its 2025 global growth forecast to 2.8% (–0.5 percentage points) and flagged higher 'capital flows at risk' due to potential new US tariffs (IMF 2025a, 2025b). Likewise, the Organisation for Economic Co-operation and Development (OECD) predict slower growth and stickier inflation as trade barriers rise (OECD 2025).
- **Australia's sensitivity:** Treasury's Pre-election Economic and Fiscal Outlook 2025 – in which China's growth decreases by 1 percentage point and commodity prices decrease by 10% – shaves about 0.25 percentage points from Australia's real GDP between 2025 and 2026 and cuts federal revenue by approximately ~AUD 6 billion (Treasury 2025b).

- **Commodities and China:** As more than half of Australia's merchandise exports to China in 2023 were iron ore (RBA 2025b), China's economic trajectory directly impacts Australia's terms of trade. If Chinese demand for steel weakens (for example, due to a structural slowdown in construction), iron ore prices and export revenues could soften. Indeed, Chinese policy makers' efforts to deflate a real estate bubble have already reduced China's steel demand. However, increased Chinese manufacturing and steel exports have kept iron ore imports resilient (RBA 2025b) so far. By contrast, new economy minerals are rising. Lithium (for batteries) and other critical minerals now account for roughly 10% of Australian exports to China (RBA 2025b). As the world shifts towards clean energy, Australia's export mix may increasingly favour metals like lithium, nickel and copper, while coal and gas are expected to decline.
- **US economy:** The US will continue to exert influence through global capital markets and investor sentiment. US monetary policy cycles – such as the aggressive rate hikes in 2022 and 2023 – spill over into Australian markets via higher borrowing costs and a strong US dollar. Geopolitical and economic shocks emanating from the US or Europe (for instance, a US recession or global financial market volatility) could dampen Australia's growth and risk appetite. Conversely, a robust US and global economy would support Australia's expansion.
- **Capital-flow tilt:** The IMF's *Global Financial Stability Report* shows investors rotating out of US and emerging-market assets to other AAA sovereigns. Early fund-flow data indicates modest reallocations into Europe, Japan and Australia (EPFR via Reuters 2025a; IMF 2025b).

### 3.1.2. Decarbonisation capital needs

- **Investment scale:** Achieving Australia's net zero greenhouse gas emissions target by 2050 will require an unprecedented mobilisation of capital – in the order of hundreds of billions to even trillions of dollars. The way this financing is sourced – whether through public vs private markets and equity vs debt – will be a defining feature of capital markets over the next decade. BloombergNEF's Net Zero Scenario calls for USD 2.4 trillion in cumulative climate investment by 2050. This scenario necessitates only about 12% more investment than a business-as-usual approach; however, there will need to be a substantial reallocation from high-carbon to low-carbon infrastructure (BloombergNEF 2024a, 2024b).
- **Financing mix:** Given that Australia's energy sector is largely privatised, private capital is expected to fund most of the energy transition. However, government support will also be necessary. Public entities such as the Clean Energy Finance Corporation (CEFC) and the Australian Renewable Energy Agency act as catalysts, providing concessional finance. However, super funds and banks are will likely supply most of the capital. In a 2023 survey of institutional investors managing AUD2.1 trillion, 82% indicated that Australia is a target market for investing in climate solutions (IGCC 2023). Green and sustainability-linked bonds are a growing segment. Australia's issuance of its inaugural AUD 7 billion sovereign green bond in 2024 underscored investor appetite (AOFM 2024).
- **Market impact:** Rapid growth in green bond issuance, infrastructure syndications and listed renewable yield vehicles is expected, making climate finance a structural driver of allocation decisions (IGCC 2023).

### 3.1.3. Demographic shifts and Australia's ageing population

- **Ageing population:** The median age is expected to increase from 38.5 years in 2022 to approximately 41 years by 2035, with projections suggesting it could reach 44–48 years by 2071. The percentage of people aged 65 or older is projected to grow from 17% to about 21% over the next decade (ABS 2023).
- **Dependency pressure on the budget and labour supply:** Treasury projects the old-age dependency ratio (the number of people aged 65 or older per 100 working-age individuals) will jump from 28 to 37 by 2063. This will cut annual GDP growth by 0.3 percentage points unless participation and productivity improve (Treasury 2023).
- **Migration offsets, but does not stop, the impacts of ageing:** Net overseas migration will return to historical norms after the 2023–24 catch-up surge. However, births plus immigration will not prevent the workforce share of the population from falling after 2030 (Treasury 2023).
- **Productivity and participation responses:** Boosting the participation of female and older workers could lift GDP by up to 9% by 2060 (RBA 2025b). However, the Productivity Commission reported that Labour productivity fell in 2022–2023 because output growth failed to keep pace with a record increase in hours worked (Productivity Commission 2024).
- **Superannuation cash flow pivot:** Benefit payments will accelerate as retiree numbers rise. Most industry modelling shows that net outflows will surpass inflows around 2060. However, higher compulsory contributions (the superannuation guarantee (SG) rate is currently 12%) and wages growth are expected to expand the pool to between AUD 6 to 8 trillion by 2035 (APRA 2025; Treasury 2023).
- **Portfolio re-tilt towards income and liquidity:** Mega funds' internal models favour more yielding, inflation-linked assets, such as infrastructure and credit, and scalable index equity for residual growth. This reinforces the drift from public to private allocations (APRA 2025).
- **Liquidity risk management:** APRA requires that super funds maintain a liquidity management plan, conduct regular stress tests and set liquidity targets consistent with their investment strategy and member profile (APRA 2023, 2025c). Trustees must ensure funds can meet member redemptions within three business days, which is a practical constraint on holding large private asset exposures.
- **Decumulation demand:** Retirees' reluctance to run down capital is costing the economy. A Grattan Institute blueprint argues that simpler drawdown rules could release AUD 15 billion per year in additional consumption by 2035 (Grattan Institute 2024). Some segments of the investment community advocate for developing more annuity and retirement income default products to help retirees manage their risk, although this view is not universal.
- **Tax on superannuation:** Superannuation is currently a very tax-effective vehicle. Although it impacts only a small percentage of the population, the recently abandoned proposal to tax on unrealised gains in superannuation funds would have altered investment behaviour, with excess balances likely directed to other vehicles.

### 3.2. Regulation, market structure and technology

Three forces drive regulation, market structure and technology: regulatory and governance frameworks for public and private markets, intermediaries and access channels and financial market innovation.

#### 3.2.1. Regulatory and governance frameworks for public and private markets

- **ASIC reform agenda:** ASIC (2025a) canvasses lighter disclosure for small-cap companies, closer oversight of unlisted asset valuations and expanded retail access to private markets. In June 2025, ASIC announced a trial that will allow some entities to have a shorter IPO process (ASIC 2025c).
- **ASX proposals:** In a May 2025 submission to ASIC, the ASX suggested a range of possible reforms, including having a shorter IPO exposure period, allowing dual-class shares, changing financial forecasts disclosures in prospectuses, allowing founder sell-down plans, reducing financial thresholds for Foreign Exempt Listings, lowering free-float thresholds and widening bond-listing access (ASX 2025).
- **Market participant proposals:** Responses to ASIC’s discussion paper (ASIC 2025a) from market participants suggested a range of reform measures, including streamlining governance, reviewing director and liability settings – such as class action risks – and conducting a substantive review of the *Corporations Act 2001* (Cth) (AICD 2025; Herbert Smith Freehills 2025; King & Wood Mallesons 2025). Some of these suggestions are beyond ASIC’s remit and require legislative change. Additionally, some participants suggested that regulation should also consider company features such as size and sector, rather than just their listed or private status.
- **New competition:** ASIC has approved Cboe Australia’s application to operate a new listing market for public companies. This will also allow Cboe to offer cross-listing within its global network (Cboe Australia, 2025). The National Stock Exchange of Australia (NSX) has been acquired by the Canadian Securities Exchange.<sup>2</sup> The revamped exchange is expected to focus on early-stage and small-cap companies.

#### 3.2.2. Intermediaries and market access

- **Evergreen and open-ended funds:** To attract mass-affluent and high-net-worth investors into private capital funds, managers have adopted evergreen and open-ended funds with lower minimum investment amounts (AIC and Preqin 2025).
- **Changes in default asset allocation:** The standard portfolio allocation of 60% in equities and 40% in bonds has been questioned, with some advocating for 50% equities, 30% bonds and 20% in private assets (Fink 2025; Manley 2024). It is argued that although private assets may face greater risk, assets such as infrastructure can provide an inflation hedge. Some also argue that these assets provide further diversification; however, this benefit may be illusory due to smoothed returns (see section 5.1.1 for more information).
- **Changes in adviser models:** Financial advisers are increasingly adopting managed accounts, with the percentage of advisers using them rising from 36% in 2019 to 54% in 2024. This

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<sup>2</sup> Canadian Securities Exchange, Canadian Securities Exchange’s Parent Company Completes Acquisition of National Stock Exchange of Australia, 24 October 2025.

shift aims to achieve operational efficiencies, improve investment outcomes and provide more time for customer engagement (Ensombl 2024). The percentage of people considering getting an adviser is also rising (from 20% in 2022 to 24% in 2024), but the number of those using advisers remains unchanged at around 10%. Many still find financial advice unaffordable (Adviser Ratings 2024).

- **Research coverage gap:** Analyst coverage of small- and mid-cap companies is limited. The ASX Equity Research Scheme subsidises the coverage of more than 100 under-researched small-cap companies each year; however, many companies remain unresearched. The use of AI tools may help extend research coverage.
- **Cheaper brokerage:** Low-cost providers such as Superhero and Stake have made it cheaper for retail investors to gain access to ASX- and Cboe-listed products, including exchange traded fund (ETFs). Low-cost investment platforms such as Raiz and Pearler facilitate access to investing with low dollar amounts.

### 3.2.3. Technology and market-infrastructure innovation

- **Market infrastructure:** Technological innovation – particularly the rise of distributed ledger technology, asset tokenisation and digital trading platforms – is likely to transform how capital markets function. By 2035, these technologies could blur the line between public and private markets in Australia, improving liquidity and access for traditionally illiquid assets.
- **Global proof points:** Other countries have progressed more quickly than Australia in this area. For example, Switzerland's SIX Digital Exchange has surpassed CHF 1 billion in digital bond issuance, while Singapore's Project Guardian demonstrates tokenised funds settling in central bank money (SIX Group 2024; MAS 2024). A widely cited forecast by UK Finance, the UK banking industry body, projects that digital assets (primarily tokenised traditional assets) could account for approximately 10% of the global market by 2030 – ranging between USD 4 and 5 trillion in value.

## 3.3. Capital flows

The drivers of capital flows are: issuers' capital raising behaviour, investors' decisions about asset allocations, and the role of indexing.

### 3.3.1. Issuers' capital raising behaviour

- **Listings drought:** Net ASX listings fell by 145 during 2023 and 2024, marking the steepest decline since the early 1990s. During this period, there were 66 IPOs and 211 delistings (ASIC 2025a). This year, only 14 new companies have listed on the ASX.<sup>3</sup> As at August 2025, the number of listed companies had declined by 69 ([ASX website](#)). Only AUD 2 billion was raised via IPO in 2024, and AUD 1.8 billion in the year to 30 August 2025. The ASX attributes the slump to global market volatility and founders' preference for private capital (ASX 2025).

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<sup>3</sup> J Shapiro and J Tran (2025) Small cap rally brings hope of more IPOs for the ASX, *Australian Financial Review*, 14 September 2025.



- **Private capital surge:** As at September 2024, AUM in private equity, venture capital, infrastructure and private credit reached AUD 139 billion, showing no change from December 2023. Dry powder decreased by 14% to AUD 39 billion (AIC and Preqin 2025).
- **Founder preferences:** Desire for control, lower disclosure burdens and better valuations in private markets keep growth companies private for longer (ASIC 2025b).
- **Superannuation funds:** Because of the size and scale of the superannuation sector, large super funds typically do not invest in small companies seeking capital (SIAA 2025). Their scale also gives them the capacity to take large companies private to gain control over them.
- **Sector-specific dynamics:** In the technology and biotech sectors, the trend to private is more pronounced as companies attempt to prove their model and scale privately before going public.
- **Public bond market limitations:** The Australian bond market is relatively small compared to its global counterparts, and retail investors have limited access to corporate bonds due to significant disclosure burdens for issuers (ASX 2025).

### 3.3.2. Investor asset allocations and the rise of indexing

- **Sovereign wealth funds (SWFs):** Australia's Future Fund hit a record AUD 240 billion in assets on 31 December 2024 and flagged a larger tilt to private equity, infrastructure, housing and renewable energy projects (Future Fund 2025; Johnston 2025). Offshore SWFs – such as Singapore's GIC and the Canadian Pension Plan (CPP) – remain large buyers of Australian airports, toll roads and energy assets. Among global investors surveyed, 90% say they will maintain or lift Australian infrastructure exposure over the next three years (Infrastructure Partnerships Australia and Allens 2024).
- **Superannuation funds:** Total super assets reached AUD 4.3 trillion in June 2025 and are on track to reach between AUD 6 trillion and AUD 8 trillion by 2035 (APRA 2025; Treasury 2023). The industry has experienced significant consolidation, with the top ten funds managing approximately 64% of APRA-regulated assets. Seven funds manage more than AUD 100 billion in assets, giving them 'mega fund' scale ([APRA Quarterly Fund Level Statistics, September 2025](#)). Asset allocation is shifting, with domestic listed equities falling to approximately 24% of portfolios. In contrast, international listed equities have increased to approximately 30% and allocations to private assets have also been rising (ASIC 2025a). Bigger, internally managed funds favour low-cost index exposure for large-cap equities and direct deals in private markets, reducing small-cap liquidity while deepening the pool for large renewables and social infrastructure projects. The preference for indexing is partly driven by the Annual Superannuation Performance test administered by APRA, which penalises funds for missing the benchmark by more than 50 basis points.
- **Retail investors:** About 44% of the Australian population – or 10.2 million adults – now hold investments outside superannuation. ETF use among retail investors rose from 15% in 2020 to 20% in 2023 (ASX 2023). Younger cohorts (those aged under 24) account for 22% of new investors, often via micro-investing and thematic ETFs (ASX 2023; Raiz Invest 2023). Retail flow provides incremental liquidity – especially in small-cap stocks and thematic ETFs – and accelerates demand for low-fee, index-linked and eventually tokenised products. However, this highlights the need for robust disclosure and digital advice safeguards.

- **Role of investor beliefs:** Begenau, Liang and Siriwardane (2025) present evidence from US pension funds indicating that perceptions of higher risk-adjusted returns relative to public equities strongly influence rising private asset allocations. They also show that investment consultants, peer behaviour and institutional experience shape these perceptions. Similar belief-formation mechanisms are likely to be relevant for Australian superannuation funds, advisers guiding retail investors and the broader investment ecosystem.
- **Rise of indexing and ETFs:** The Australian ETF market cap reached AUD 246 billion in December 2024, reflecting almost 39% growth year on year (BetaShares 2024). Vanguard alone attracted AUD 10 billion of the net flows in 2024 (Lingat 2025). The SPIVA® 2024 Scorecard shows 77% of active Australian equity funds lagged the S&P/ASX 200 over five years, highlighting the difficulty in justifying higher active fees when low-cost index products deliver better results (S&P Dow Jones Indices 2025). Coupled with fee pressure, this resulted in a notable acceleration of flows into index funds and ETFs. Fee compression in listed markets has also increased the commercial appeal of private asset products for managers, as higher fees and performance-based compensation remain more achievable.

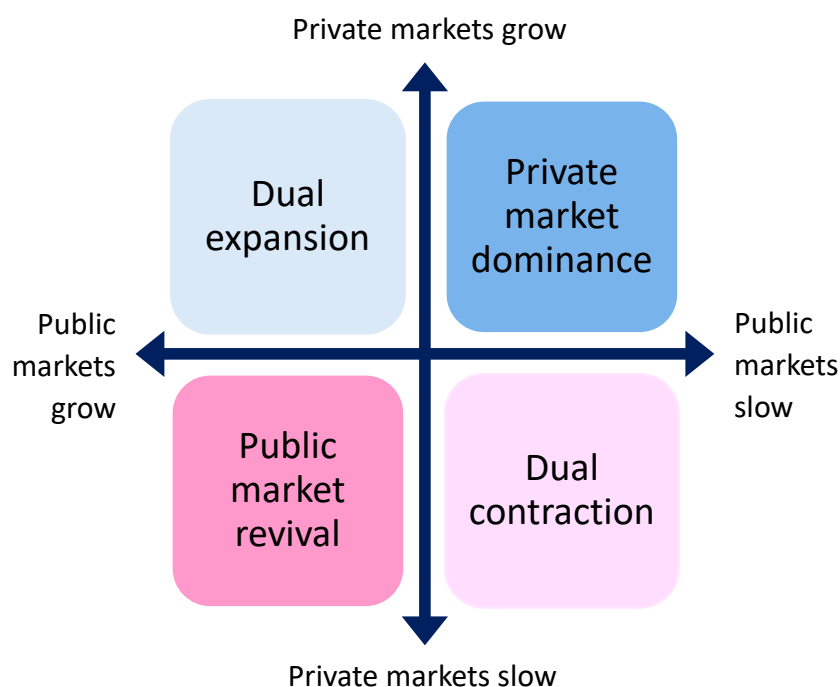
#### 4. Potential market scenarios

This section describes how the eight structural forces considered in section 3 may combine to position the market in one of four potential scenarios. Each force can move in directions that either expand or contract public and private market activity. This section combines the most plausible directions for each force to develop four internally consistent scenarios of how the market might evolve over the next five to ten years (see Figure 2). The scenarios are as follows.

- **Dual expansion:** Both public and private markets grow.
- **Private market dominance:** Private markets grow and public markets decline.
- **Public market revival:** Public markets grow and private markets decline.
- **Dual contraction:** Both public and private markets decline.



**Figure 2. Potential market scenarios**



For each scenario, three levels of analysis are provided, moving from a high-level view to a detailed perspective, allowing the reader to choose their preferred depth of engagement with the paper.

- **Constellation of drivers:** a snapshot that identifies the decisive elements of the eight forces that will drive the market towards that scenario
- **Brief force narratives:** a short explanation for each force that transforms the force-by-force analysis into a short storyline
- **Force-by-force tables:** a list of the relevant dimensions of each force, noting the key developments expected under each scenario and outlining the implications for the market.

The three-layer structure aims to avoid redundancy. The constellation summarises what is most important, the short narratives provide a story and the tables provide the details.

#### **4.1. Dual expansion scenario**

This scenario reflects growth in both public and private markets. The constellation of drivers delivering dual expansion of public and private markets includes:

- **Strong macro backdrop:** Steady 2.5% to 3% growth, low inflation and subdued market volatility support investor confidence, risk appetite and capital formation across public and private markets.
- **Balanced rulebook:** Enhanced listing rules and voluntary private fund disclosure enable IPOs and private equity fundraising to grow simultaneously.
- **Complementary capital stack:** Private equity exits recycle capital into new deals, while IPO proceeds fund listed company growth.
- **Massive climate-related spend:** This supplies a steady pipeline that starts in private markets and exits via listed yield vehicles, so both channels can scale together.

- **Back-office tech improvements:** In public markets, this reduces the cost of listing, and in private markets, tokenisation provides liquidity. These improvements broaden the investor funnel in both public and private markets.
- **Broadened investor base:** Mega super funds, SWFs, ETFs and retail savers (both old and young) find products suited to their risk–return needs, fuelling growth across the spectrum rather than cannibalising one channel.

Dimension	Key developments	Implications
<b>I. Macroeconomic and global conditions</b>		
<b>Narrative:</b> Moderate global and domestic growth with subdued inflation raises corporate earnings and risk appetite. Stable geopolitics drives market volatility down and keeps cross-border capital flowing steadily into Australia. As real policy rates come down, the cost of buy-out debt falls, boosting leveraged returns for private equity funds while lifting public valuations. The combination of strong growth and sustained inflows, low market volatility and falling rates allows both public and private markets to expand in tandem.		
Strong economic conditions	Moderate GDP growth in Australia and globally, with subdued inflation; Australia's commodities remain in demand	Macroeconomic tailwinds increase risk appetite; moderate growth and inflation encourage investor demand for equities over safer assets
Interest rates continue to decline	Real policy rates shift downwards	Lower debt costs make leverage more accretive and support private equity returns, while lower discount rates simultaneously lift public valuations, making IPOs more attractive. Because rates also boost public equity performance, the relative return premium of private equity narrows even as both channels expand
Trade tensions and policy uncertainty subside	Market volatility reduces and confidence returns to markets	Market volatility is no longer a deterrent to going public; investors are willing to invest across all asset classes
Global inflows continue	Australia remains a stable, attractive destination for cross-border capital	A steady foreign capital supply underpins valuations and liquidity in domestic financial markets
<b>II. Decarbonisation capital needs</b>		
<b>Narrative:</b> Net zero capital expenditure expands, providing a steady flow of deals that start in private markets and then exit via listed vehicles. Both channels expand.		
Green capital demands	Scale of capital requires support from both private (infrastructure and venture capital) and listed instruments (green bonds and ETFs)	Same underlying projects cycle through private then public markets as risk profile evolves over the life of the projects
Government co-investment and policy certainty	Public financing vehicles like CEFC play a catalytic role, providing concessional funding; the government provides greater policy certainty	Both the public and investors seek government support for long-term projects

Dimension	Key developments	Implications
<b>III. Demographics and retirement system dynamics</b>		
<b>Narrative:</b> Australia's ageing population causes increased outflows from super funds, but in a strong economic environment, this is more than offset by mandated contributions, wage growth and fund performance. Retirement income defaults and drawdown products continue to evolve, with new offerings integrating public and private market exposures. These products meet the dual needs of income stability and long-term capital growth. Regulatory backing for product innovation, combined with rising financial literacy, support continued growth in both markets. The retirement phase becomes a key driver of capital formation, not merely a constraint.		
The SG rate holds at 12% or rises; strong economy and returns ensure new inflows exceed drawdowns	Lower volatility sustains long-term demand for both liquid and illiquid investments	Encourages more IPO activity and greater diversity in companies going public
Development of drawdown-aligned, inflation-protected vehicles across public and private assets	Expands role of capital markets in the post-retirement phase	Builds trust and supports the growth of unlisted products and feeder funds, especially with retail investors; enhances understanding of return smoothing in private assets
<b>IV. Regulation and market structure</b>		
<b>Narrative:</b> The regulatory environment in this scenario evolves to support both public and private markets. Public market reforms focus on reducing listing frictions. This may include a streamlined listing process, green-shoe options for listing, better sell-side coverage and competition for listings from Cboe Australia and NSX. It may also include reconsideration of director liabilities associated with continuous disclosure requirements. These reforms encourage more firms to go public. At the same time, there are industry-led improvements in private market disclosures, valuation practices and governance. This balance promotes trust in both markets, avoiding over-regulation and regulatory arbitrage.		
Balanced regulation of public listings	Listing rule reforms reduce frictions without diluting investor protection; innovation in periodic disclosure and trading; director liability and remuneration (two strikes) challenges diminish	Encourages more IPO activity and greater diversity in companies going public
Improved transparency in private markets	Industry-led or mandated disclosure of private fund fees, performance (for example, TVPI and PME) and valuation methods	Builds trust and supports the growth of unlisted products and feeder funds, especially with retail investors; enhances understanding of return smoothing in private assets
<b>V. Intermediaries and market access</b>		
<b>Narrative:</b> Financial advisers shift towards fee-for-service models and adopt digital platforms that facilitate exposure to public and private products. They play a key role in channelling retail and high-net-worth capital into listed structures representing private assets. The growth of high-quality investment products – listed investment companies (LICs), listed investment trusts (LITs) and ETFs – designed specifically for retail distribution supports this development.		
Financial advisers evolve beyond distribution	Move to conflict-free, client-paid models; improved low-cost access to private products	Better aligns between client interests and long-term capital deployment in both public and private markets
Public-private feeder structures grow	LICs, LITs and potentially ETFs or new product structures are developed to house private assets	Increases access to private assets in a more regulated environment while supporting public market liquidity

Dimension	Key developments	Implications
<b>VI. Technology and financial innovation</b>		
<p><b>Narrative:</b> Digital infrastructure is a key enabler in both public and private markets. The ASX enhances its market infrastructure with the delivery of a replacement Clearing House Electronic Subregister System (CHES) and a move to T+1 (meaning the transaction completes one business day after the trade date). It is also enhanced to facilitate fractionalised shares and provide a real-time corporate actions feed, reducing investor frictions. In private markets, tokenised platforms, such as those piloted under Project Guardian in Singapore, allow fractional ownership of private market assets, expanding the potential investor base. The ability to seamlessly integrate public and private assets into portfolio tools – through managed accounts, wrap platforms or digital brokers – lowers barriers to entry and facilitates balanced asset allocations across public and private markets.</p>		
Public market infrastructure matures	The ASX launches a new settlement system and transitions to T+1, a fractional shares platform, and a real-time corporate actions feed	Lowers frictions, increases transparency, widens retail participation and creates secondary liquidity in listed equities
Asset tokenisation infrastructure for private assets matures	Fintech adoption enables easier access to fractionalised private assets and potential tradability of private assets	Facilitates retail and smaller institutional participation in private markets; investors can access liquidity and price discovery in private funds; private fundraising accelerates alongside IPOs
Interoperability with adviser platforms	Seamless integration of listed and unlisted products on wrap and separately managed account (SMA) platforms	Enables diversified portfolio construction and ease of access
<b>VII. Issuer capital raising behaviour</b>		
<p><b>Narrative:</b> Founders adopt a ‘dual-track’ norm – private markets for early development and public markets for eventual exit. Founders no longer view public markets as a ‘last resort’. Company-specific or industry factors (for example, intangible assets and consumer products) influence the choice between public and private capital. More transparency in private markets reduces the valuation gap between public and private markets (see page 22 for a more detailed discussion about the valuation gap). This enables private equity firms to clear their backlog of deals and return funds to investors. Abundant private dry powder funds pre-IPO growth rounds. A wider menu of capital sources drives down costs. Both channels expand.</p>		
Two options for capital raising	Founders and firms see flexible, deep pools of capital in both public and private markets	Lifecycle financing becomes fluid – early-stage financing comes from private markets, scale-ups and exits occur in public markets
Valuation differences converge	Enhanced transparency in private markets reduces differences in valuation expectations	Private equity can exit the backlog of deals. Returns money to Limited Partners (LPs) freeing up capital for new investments

Dimension	Key developments	Implications
<b>VIII. Investor demand dynamics</b>		
<p><b>Narrative:</b> Superannuation funds remain large allocators to both public and private assets. The continued growth in super funds and the larger pools of assets enable access to large infrastructure and private equity deals but creates a mismatch with smaller investment opportunities. Super funds address this challenge by co-investing and/or allocating mandates to mid-sized specialist managers and investing via ETFs and feeder funds targeting smaller public companies. Institutional and retail investors diversify beyond market-cap weighted indices to equal-weighted and factor-based ETFs and environmental, social and governance (ESG) benchmarks. Index providers launch more small- and mid-cap benchmarks. New products emerge using these indices, reducing concentration risk and deepening market liquidity. Retail investors gain access to both markets via LICs and LITs that house private market assets. New product structures may also be developed for this purpose. The requirements of public listing increase the transparency of private market assets. Adviser-led models also shift to more client-centric structures, encouraging allocation to high-quality diversified offerings.</p>		
Greater diversity in approach to indexing	Increased use of equal-weighted, small- and mid-cap or ESG indices	Reduces public market concentration issues without abandoning index investing
Greater retail access and engagement	The number and diversity of ETF offerings grow; growth in LICs and LITs brings private assets to public markets	More diversity in products expands ASX participation; ETF index products expand beyond the S&P/ASX 300; deepens market liquidity and demand outside the largest listed stocks; public markets bring greater transparency to private assets
High-net-worth capital is allocated to alternatives	Financial advisers direct capital into well-structured private vehicles (for example, LICs, LITs and tokenised funds)	Supports growth in private assets without compromising investor protections

## The valuation gap

One of the clearest signs of divergence between public and private markets is the valuation gap – the mismatch between ‘marks’ reported on private fund balance sheets and the prices investors are willing to pay in listed markets. Public assets are continuously marked to market, with prices adjusting immediately to shifts in interest rates and sentiment. Private assets, by contrast, are typically valued quarterly or semi-annually using appraisal-based methods, which smooth price volatility and delay write-downs.

The divergence was stark in 2022–23. While the S&P/ASX 200 A-REIT Index fell by 20.6% over the year, the MSCI/Mercer Australia Core Wholesale Property Fund Index – representing unlisted property – recorded a 6.4% gain (Fund Business 2023). The valuation gap is also evident in several large infrastructure and energy assets that were taken private at prices exceeding public market comparables.<sup>4</sup> Additionally, media outlets and advisers have commented that some IPOs were abandoned at the 11th hour because public markets did not meet the marks set in pre-IPO funding. Similar gaps appeared globally, as public valuations adjusted rapidly to higher discount rates, while private marks proved stickier (McKinsey & Company 2025; Hamilton Lane 2025).

Another direct consequence has been a backlog of private equity exits and delayed fund distributions. The average holding period for global private equity buy-out funds in 2024 was 6.7 years, compared to the historical average of 5.7 years over the past 20 years (McKinsey & Company 2025). Distributions to LPs have fallen from 29% of net asset value in 2014–17 to only 11% in 2024 (Bain & Company 2025). Assets purchased or marked at peak valuations when interest rates were low can often not be sold at prevailing market prices. McKinsey & Company (2025) reports that in 2024, average valuations were 17% above the market-clearing price, compared to only 4% in 2020.

The valuation gap is central to understanding the relative fortunes of public and private markets. Private valuations can remain persistently above public market benchmarks for some time, sustaining cash flows into unlisted assets – but this equilibrium is fragile. If the gap persists, capital will continue to tilt towards private markets, reinforcing the trajectory of private dominance. By contrast, if valuations correct – whether through regulatory intervention, improved disclosure or market stress – the relative appeal of public markets would increase, supporting either a dual expansion or public revival path.

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<sup>4</sup> See Fowler, [Spark shareholders approve \\$5.2 billion takeover](#), *Australian Financial Review*, 22 November 2021 and Macdonald-Smith, [AusNet takeover leaves void in energy sector](#), *Australian Financial Review*, 28 January 2022.

## 4.2. Private market dominance scenario

This scenario reflects a sustained rise in private capital markets in Australia paired with declining participation in public equity markets. The constellation of drivers delivering private market dominance includes:

- **Volatile macro environment:** Growth and inflation remain broadly contained, but unpredictable external shocks and high market volatility undermine public market confidence and shift capital towards private structures.
- **Regulatory asymmetry:** Listing frictions remain high and private funds enhance disclosures, either voluntarily or with a regulatory nudge, increasing investor confidence in private assets.
- **Dry powder overhang:** Record private equity cash piles meet limited exit routes, so sponsors keep firms private for longer, reinforcing the shift.
- **Tokenisation breakthrough:** The tokenisation of private units draws high-net-worth individuals and retail investors into private assets, deepening the private pool while traditional infrastructure redevelopment stalls.
- **Scale-biased super sector:** Larger funds chase large ticket deals, bypassing smaller listed companies and reducing public market participation.

Dimension	Key developments	Implications
<b>I. Macroeconomic and global conditions</b>		
<b>Narrative:</b> Continued macroeconomic instability – characterised by trade tensions, geopolitical fragmentation and commodity volatility – creates an unfavourable environment for IPOs. Founders and boards prefer capital raising options that allow more discretion over timing and valuations, which private markets offer. Concurrently, international capital flows, particularly from pension and SWFs, tilt further towards illiquid assets due to stability and yield on offer.		
Persistent global market volatility	Elevated uncertainty from geopolitical instability, US policy shifts and commodity price swings	Disincentivises IPOs; issuers favour controlled private settings in which they are not subject to frequent price swings
Capital allocated to illiquid assets	Long-duration institutional investors seeking yields increase allocations to private markets	Fuels the expansion of global and domestic private capital supply
<b>II. Decarbonisation capital needs</b>		
<b>Narrative:</b> The scale, capital-intensive and risk-return structure of energy transition projects (for example, those involving renewables and carbon capture) make them better suited to large private market asset players. Climate tech startups seek venture capital funding due to the speculative nature of the investments and perceived regulatory risks.		
Transition infrastructure financing	Large capital-intensive infrastructure projects are funded through private channels due to scale, complexity and structuring	Increases reliance on large investors in private markets due to long-term investment horizons
Government co-investment and concessional financing	Large, long-term projects requiring concessional financing favour public-private partnerships	Projects with long-term horizons are better suited to private capital managers

Dimension	Key developments	Implications
<b>III. Demographics and retirement system dynamics</b>		
<b>Narrative:</b> As Australia's population ages, the design focus of default retirement products shifts from accumulation to income generation. This results in reduced public equity exposure due to a heightened appetite for yield-focused alternatives. Despite high market volatility creating a denominator effect – where illiquid asset portfolio weights increase due to listed asset values falling – super funds can continue to invest in private, illiquid assets because cash inflows from members are strong enough to offset the denominator effect.		
Stability sought for default retirement products	Retirement income defaults favour yield and capital stability	Listed equities deemed to be too volatile; shift to illiquid income
Strong inflows and retirement system scale maintained	SG rate holds at 12% or rises, and workforce participation remains high, ensuring new inflows exceed retiree drawdowns	Fresh cash contributions more than offset the denominator effect, so super funds can continue to expand commitments to private markets without concerns about liquidity
<b>IV. Regulation and market structure</b>		
<b>Narrative:</b> Despite efforts by ASIC, the ASX and Cboe Australia, public company regulation is still perceived as burdensome. Directors cite concerns with continuous disclosure, class action risks, shareholder activism and media scrutiny. ASIC introduces modest new private market regulation, enhancing transparency, or market leaders voluntarily enhance disclosures on performance and fees, building trust with the investment community.		
Limited ASX listing reforms	Proposed IPO reforms do not proceed or are insufficient	Frustrates potential issuers; firms remain private
Increase in private market transparency	Modest new regulation in private markets to improve transparency, or market leaders voluntarily enhance disclosures	Builds trust with investors without excess regulation
<b>V. Intermediaries and market access</b>		
<b>Narrative:</b> Through traditional wrap platforms, private markets become more accessible to retail and high-net-worth investors. This further weakens public markets by reducing their comparative advantage in terms of liquidity and accessibility. Advisers steer clients towards private assets despite higher complexity and lock-up periods due to higher fee structures.		
Adviser preference for private assets	Higher fees and search for returns push advisers to recommend private market products	Provides access to a growing pool of new high-net-worth and retail investors and increasing AUM
Platform gatekeeping	Major wrap platforms accept wholesale feeder funds for private assets	Provides access to a growing pool of new high-net-worth and retail investors and increasing AUM
<b>VI. Technology and financial innovation</b>		
<b>Narrative:</b> Global experiments with tokenisation, led by regulators in Singapore and Switzerland, are successful, improving liquidity and access in previously illiquid asset classes. Domestic providers such as FCX succeed in building a private company and fund market, supporting broader investment in venture capital, private credit, real estate and infrastructure (see page 26 for more information on trading platforms for private assets). Private markets increasingly produce data to provide greater certainty about valuations and pricing, and the further development of private market indices supports transparency. In contrast, public markets fail to modernise access, settlement technology and product offerings, particularly for small and medium enterprises (SMEs) and niche exposures.		
Public market infrastructure renewal fails	ASX efforts to upgrade its settlement system fail; market does not move to T+1	Investors lose confidence in domestic market infrastructure and seek to reallocate capital to other markets



Dimension	Key developments	Implications
Asset tokenisation infrastructure for private assets matures (identical to the dual expansion scenario)	Fintech adoption enables easier access to fractionalised private assets and potential tradability of private assets	Facilitates retail and smaller institutional participation in private markets; investors can access liquidity and price discovery in private funds; private fundraising accelerates alongside IPOs
<b>VII. Issuer capital raising behaviour</b>		
<b>Narrative:</b> Founders and boards increasingly see public listings as a source of reputational risk. Private markets are considered safer and allow more control. Even companies large enough to list choose to stay private as they can access the capital they need without these risks and loss of control. As highlighted on page 22, persistent valuation gaps between private marks and public comparables reinforce this trend, leaving many potential listings on hold and extending the average holding period for private equity funds.		
Founders favour private capital	Valuation control, limited scrutiny and flexible timing	IPO pipeline remains weak
Public listing seen as reputational liability	Directors wary of community expectations, ESG activism, class action suits and investor short-termism	Preference for private forums and bilateral capital
<b>VII. Investor demand dynamics</b>		
<b>Narrative:</b> Scale and consolidation in the super sector pushes investment into large private deals, rather than incurring market impact in public markets due to size. Continued growth in market-cap weighted indexing in public markets concentrates flows in large stocks, marginalising others. This bifurcation reduces the economic viability of small- and mid-cap listings and deters active fund managers from competing in the increasingly illiquid end of the market.		
Super fund consolidation drives large deal bias	Infrastructure, real estate and private equity dominate new capital deployment	Institutional demand for large deals entrenches private market primacy
Reduced support for public managers	Index flows dominate public markets, skewing investment to large-cap companies; active equity mandates shrink amid fee pressure; Your Future, Your Super encourages index hugging	Shrinks liquidity and relevance of small- and mid-cap listings, leading to deterioration of public ecosystem

## **Trading platforms for private assets**

A notable recent innovation is the emergence of trading platforms designed to help private companies raise capital and provide controlled access to liquidity. For many founders, the appeal lies in accessing new investors and creating exit opportunities for employees and early backers without the obligation of continuous listing. By structuring periodic liquidity windows, these platforms offer companies a way to broaden their investor base while avoiding the costs of full public market disclosure.

Several models are operating internationally. In Australia, FCX provides a platform for private companies to conduct capital raisings and run trading windows for existing shareholders. The UK's Private Intermittent Securities and Capital Exchange System (PISCES) framework allows firms to open scheduled trading windows, backed by a cleansing notice instead of ongoing disclosures. In the US, Nasdaq Private Markets and Forge Global have emerged as leading venues for late-stage companies, particularly in the technology sector. Nasdaq and Forge are also building data analytics businesses to support private company trading.

These platforms can also be extended to bring liquidity to private capital funds, allowing fund investors to sell interests through organised trading windows. FCX has signalled plans to facilitate this in the Australian market. Such functionality could help address one of the structural limitations of private markets – the long lock-up periods and uncertain secondary exit routes for fund investors.

The periodic model is central. Companies or funds issue a cleansing notice, after which a defined trading window opens and wholesale investors transact simultaneously. This approach avoids the burden of continuous disclosure while still generating effective price discovery for illiquid assets. With suitable regulation, it offers the prospect of fairer pricing and greater confidence compared to ad hoc bilateral secondary sales.

For regulators, the key challenge is ensuring that conflicts of interest are appropriately managed – for example, when insiders or related funds participate in transactions. However, if designed well, these platforms can improve transparency and broaden access to capital. At the same time, they provide further reason for companies to remain private. By delivering a middle ground between illiquidity and full public listing, they reduce one of the strongest incentives for going public.

### 4.3. Public market revival scenario

This scenario reflects public markets returning to prominence and private markets declining. The constellation of drivers delivering public market revival includes:

- **Strong economic conditions, but rates stay high:** Solid earnings but expensive leverage leads to better public market performance. Liquidity becomes a premium feature.
- **Listing reforms:** Reforms reduce frictions and public listing risk perception. Private markets remain opaque, reducing investor confidence.
- **Valuation convergence:** Private equity performance continues to decline, listed price/earnings multiples stabilise and capital rotates towards transparent, liquid assets.
- **Decarbonisation funding pivot:** Governments and multilaterals favour transparent, large-scale listed vehicles for net zero projects, boosting public deal flow.
- **Technology promotes participation:** T+1 and fractional shares facilitate expanding retail participation in private assets, and AI-driven research supports small- and mid-cap listings.
- **Retirement income products:** Dividend and franking credit strategies fit drawdown needs, sending super and self-managed super fund flows back to public markets.

Dimension	Key developments	Implications
<b>I. Macroeconomic and global conditions</b>		
<b>Narrative:</b> Economic conditions and market volatility mirror those described in the dual expansion scenario. However, real policy rates stay high, keeping the cost of debt elevated. General Partner (GP) distributions remain low, limiting new capital raising. As leverage is less attractive, investors favour the liquidity and transparency of listed equities. The same supportive growth background, therefore, channels capital towards public markets, reviving IPO activity while private capital fundraising and deal flow slow down.		
Strong economic conditions (identical to dual expansion scenario)	Moderate GDP growth in Australia and globally, and subdued inflation; Australia's commodities remain in demand	Macroeconomic tailwinds increase risk appetite; moderate growth and inflation encourage investor demand for equities over safer assets
Interest rates remain high	Real policy rates remain higher for longer in a new equilibrium	Higher debt costs compress leveraged strategy returns; private equity premium over listed equities continues to decline below typical LP hurdles, prompting capital reallocation towards liquid public markets, spurring IPO activity
Trade tensions and policy uncertainty subside (identical to dual expansion scenario)	Market volatility reduces and confidence returns to markets	Market volatility is no longer a deterrent to going public; investors are willing to invest across all asset classes
Continued global inflows (identical to dual expansion scenario)	Australia remains a stable, attractive destination for cross-border capital	A steady foreign capital supply underpins valuations and liquidity in domestic financial markets
<b>II. Decarbonisation capital needs</b>		
<b>Narrative:</b> The global energy transition stimulates interest in Australian resources, including lithium, rare earths and clean energy products. These inflows help support the revival of the public equity and debt markets. Domestic retail and institutional investors value the climate and ESG disclosures made by public companies (ASX 2023; RIAA 2023), encouraging investment in these strategies in a public setting.		

Dimension	Key developments	Implications
Global push for decarbonisation	Boosts demand for Australian resources (for example, lithium and critical minerals) and clean energy projects	Clean energy products come to market with strong investor demand
ESG and climate investing	Retail and institutional investors prefer public market liquidity and disclosure to enable ESG goals	ESG and climate-friendly businesses come to market with strong investor demand
<b>III. Demographics and retirement system dynamics</b>		
<p><b>Narrative:</b> Australia's demographic profile continues to shift as baby boomers transition to retirement and younger cohorts contribute to a maturing system. The ageing trend brings with it a heightened demand for stable, liquid and transparent investment vehicles. Public markets – particularly listed equities, bonds and ETFs – are well-positioned to satisfy this need. As retirees seek income-oriented portfolios, their portfolios tilt towards dividend-paying equities, listed real estate and fixed income. This encourages product innovation in ETFs and lifecycle investment offerings that avoid the opacity of private assets.</p>		
Retirement system scale maintained	SG rate holds or rises; strong economy and returns ensure new inflows exceed retiree drawdowns	Higher rates and uncertainty about valuations lead to more funds directed to the public market; drawdown patterns change to support public markets; rather than selling down equities, retirees use income streams from dividends to fund living costs, aided by franking credits
<b>IV. Regulation and market structure</b>		
<p><b>Narrative:</b> The reforms in the public markets are identical to those described in the dual expansion scenario, leading to the same outcomes – a revival in public markets, IPOs and greater diversity in the companies going public. The private markets stagnate due to differences in the regulatory approach to private assets. The absence of both regulatory reforms and any industry-led efforts to improve valuations and transparency leads to reduced investor confidence and trust, resulting in a decline in new private capital investment. This outcome would be compounded by a high interest rate environment. An additional dimension beyond the dual expansion scenario is considered here – the corporate bond market. Corporate bond issuance and investing are stimulated by changes that simplify the process of issuing corporate bonds to retail investors. Increasing the transparency of the institutional corporate bond market enhances liquidity and reduces the cost of debt for companies, stimulating more interest in raising debt in the corporate bond market.</p>		
Balanced regulation of public listings (identical to the dual expansion scenario)	Listing rule reforms reduce frictions without diluting investor protection; innovation in periodic disclosure and trading; director liability and remuneration (two strikes) challenges diminish	Reduces costs of being public; encourages more IPO activity and greater diversity in companies going public
No changes in private market regulation	ASIC takes a wait-and-see approach to private markets, with no meaningful changes in regulation	Uncertainty about valuations causes concerns; failures in private credit funds reduce investor trust and willingness to invest
Bond market reforms	The corporate bond market becomes more transparent; issuers rely on continuous disclosure to issue bonds to retail investors	Bond market transparency increases liquidity and reduces cost of raising debt capital; this simplified regime for retail investors stimulates demand in corporate bond issuance
<b>V. Intermediaries and market access</b>		
<p><b>Narrative:</b> Retail investor participation in public equity markets increases due to policy reforms that make access to financial advice more affordable. Financial advisers and wealth platforms increasingly recommend listed products with transparent fees and liquidity. AI tools enable broader research coverage, raising awareness and reducing information asymmetries in smaller listed companies, encouraging more diverse investment portfolios.</p>		

Dimension	Key developments	Implications
Retail participation in public equities increases	Policy reforms make access to financial advice more affordable for small investors increasing investor participation across the full spectrum of listed companies and listed products	Stronger retail participation strengthens public equity ecosystem
Expanded research coverage	AI enables expanded research coverage of smaller companies at lower cost and allows distribution to a broader pool of investors	Expanded coverage builds investor confidence in public markets and encourages investment outside large-cap stocks
<b>VI. Technology and financial innovation</b>		
<p><b>Narrative:</b> The public infrastructure scenario is identical to that of the dual expansion scenario. The difference arises in the development of technologies in the private market space. Pilot initiatives for tokenisation overseas stall or fail, slowing adoption in Australia due to a lack of confidence among both issuers and investors. Fintechs develop new solutions that simplify IPO distribution to retail investors, boosting interest in public markets.</p>		
Public market infrastructure matures (identical to the dual expansion scenario)	ASX launches new settlement system and transitions to T+1, fractional share platform, and real-time corporate actions feed	Lower friction and greater transparency widen retail participation and secondary liquidity in listed equities
Asset tokenisation infrastructure for private assets stalls	Pilot initiatives overseas to facilitate tokenisation of private assets stall or fail	Investors lack confidence in products, slowing adoption for both issuers and investors; a lack of credible secondary liquidity keeps investor appetite for private assets subdued
Fintechs enhance financial inclusion	Technology improves ability to allocate IPOs to a broader cross-section of investors	Increased retail participation strengthens the public equity ecosystem
<b>VII. Issuer capital raising behaviour</b>		
<p><b>Narrative:</b> Slow exits and distributions make new private capital raisings challenging, reducing the availability of private capital. Founders view public markets more favourably as the valuation gap with private markets narrows. Directors are less concerned about liability issues and more willing to remain in public markets to access the necessary capital. Directors change their mindsets about the value of being public, as public markets provide visibility, liquidity and access to secondary equity capital. IPO successes raise founders' confidence and bring new investor demand and liquidity.</p>		
Companies regain appetite for public listings	Founders and CEOs increasingly see listing as the preferred route to raise capital due to visibility, liquidity and the reduced availability of private capital	Improved listing conditions and lower market volatility encourage listing; lighter regulation interacts strongly with issuer behaviour
Success breeds success	As more firms decide to list, the investment universe broadens, feeding back into investor demand and reinforcing capital supply	Public revival becomes self-perpetuating as an increase in IPOs boosts ancillary services (research and trading) and improves market depth; public funding offers funding and liquidity

Dimension	Key developments	Implications
<b>VIII. Investor demand dynamics</b>		
<p><b>Narrative:</b> Concerns about opaque private valuations, return smoothing, reduced illiquidity premiums and the limitations of internal rate of return (IRR) performance metrics drive redemptions and reduce new private investments. Interest in public markets renews. ETF innovation reinforces the shift towards listed investments – small- and mid-cap, and equal-weighted index products attract flows from both retail and institutional channels. Long-run public markets perform better, aided by a greater diversity of indices, cementing this transition. These changes reduce market concentration and encourage the development of new active management strategies. New products help to deepen liquidity and demand for smaller companies (see page 31 for more information on indexing – benefits, concentration and the Australian context).</p>		
Disillusionment with private valuations	Private market assets underperform because higher interest rates cannot support current valuations	Public markets regain capital flows from super funds, and retail and offshore investors
Greater diversity in approach to indexing	Increased use of equal-weighted or ESG indices; development of new indices and index products for small- and mid-cap companies	Reduces public market concentration issues without abandoning index investing; reduced market concentration enables strong, active manager performance
Greater retail access and engagement	Growth in ETFs and more diversity in product suite expands ASX participation	Deepens market liquidity and demand outside the largest listed stocks

## **Indexing – benefits, concentration and the Australian context**

Indexing has transformed access to capital markets by delivering low-cost, diversified portfolios. Standard and Poor's SPIVA® scorecards consistently show that most Australian and global active equity managers underperform their benchmarks over the medium to long term. For households, indexing offers clear benefits, lower costs, increased transparency and more reliable long-term wealth accumulation (French 2008).

At the same time, indexing interacts with an already concentrated equity market. At the end of 2024, the ten largest ASX-listed firms comprised approximately 40% of total market capitalisation, dominated by financials and resources. While high by global standards, this concentration is not unprecedented. The top ten made up around 45% in 2014 (ASIC 2025b).

Market-cap weighted indices reinforce these structures by directing index flows to already dominant firms. US evidence links high index ownership to reduced incentives for price discovery and greater co-movement of stocks (Jiang, Vayanos and Zheng 2024; Haddad, Kozak and Santosh 2021). More recent work finds associations with wider spreads and higher tail risk (Schlag, Hoffler and Schmeling 2024). In Australia, however, index penetration is lower. Index funds manage more than AUD 700 billion, or about 20% of total funds under management (Vanguard 2023), compared to around one-third of equity assets in the US (Chinco and Sammon 2023). This suggests that structural distortions may be less pronounced domestically but likely warrant further investigation.

Superannuation funds amplify these dynamics. APRA-regulated funds hold about 23% of the ASX (ASIC 2025b). The Annual Superannuation Performance test, which benchmarks funds' equity portfolios against the S&P/ASX 300 index, has created strong incentives for trustees to hug the benchmark to avoid failure. This discourages active strategies and further concentrates flows into the largest firms, which reduces visibility for smaller companies, making active management more difficult and private markets relatively more attractive.

The policy imperative is not to undermine the clear benefits of indexing, but to mitigate its side effects. Encouraging more diverse index products – such as equal-weighted, small- and mid-cap or factor-based indices – would spread exposures more evenly. Supporting research coverage and liquidity in small-cap stocks would help sustain a healthy pipeline of listings. Importantly, reforming the Annual Performance Test so that funds are not penalised for measured, value-adding deviations from benchmark weights could reduce reflexive index hugging and support greater market breadth. This will strengthen public markets' resilience even as private markets continue to grow.

#### 4.4. Dual contraction scenario

The scenario reflects both public and private markets declining. The constellation of drivers delivering dual contraction of public and private markets includes:

- **Stagflation and shocks:** Weak growth, sticky inflation and geopolitical stress drive a flight to safety. Global capital flows from mid-sized markets to larger developed economies. Capital concentrates in large mature companies rather than growth companies.
- **Regulatory inertia:** IPO reforms stall and rising complexity discourages listings and transparency. Private market rules remain grey and both channels look costly.
- **Issuers retreat:** Companies rely on internal cash or bank debt, and equity issuance (both public and private) dries up.
- **Infrastructure freeze:** The CHESS upgrade and tokenisation projects are shelved, keeping market frictions high and liquidity thin.
- **Climate capex pause:** Economic and policy uncertainty delay critical carbonisation projects, eliminating the potential demand boost for capital markets.
- **Demographic headwinds and high unemployment:** Net outflows force super funds to prioritise liquidity.

Dimension	Key developments	Implications
<b>I. Macroeconomic and global conditions</b>		
<b>Narrative:</b> Australia experiences a prolonged period of economic underperformance. Stagflation pressures emerge, driven by global supply chain fragmentation, persistent inflation and lacklustre domestic productivity. Global capital flows favour larger, more liquid markets like the US, and yield-seeking investors shift to USD-denominated bonds. IPO activity grinds to a halt. Investment sentiment becomes risk-averse, reinforcing weak demand and low growth.		
Weak economic conditions	Prolonged low growth or stagflation domestically; global recession or trade disruptions (for example, US–China tensions); high interest rates and inflation	Broad retreat from risk assets; global capital bypasses Australia; IPO market freezes
Extreme market volatility	Elevated uncertainty from geopolitical instability, US policy shifts and commodity price swings	Persistent uncertainty erodes valuations and business confidence in both public and private markets
<b>II. Decarbonisation capital needs</b>		
<b>Narrative:</b> The decarbonisation capital needs fail to materialise due to slow economic growth and global geopolitical uncertainty. Green projects stall due to short-term focus.		
Capital allocation challenges	The transition to a low-carbon economy requires substantial investment; weak economic conditions and uncertainties in policy, regulation and market structure deter private funding	Uncertainty leads to underfunding of critical projects and reduces economic growth
<b>III. Demographics and retirement system dynamics</b>		
<b>Narrative:</b> Poor investment returns mean retirees are forced to draw down more capital from their retirement savings. High unemployment and lower wage growth lead to younger members contributing less to their retirement savings. Super funds, especially those with older membership profiles, experience net outflows. Funds are forced to prioritise capital preservation and liquidity management. The risk of the government introducing policies that allow drawdowns of capital to alleviate housing or financial stress (such as they did with the COVID-19 early release) heightens these concerns.		



Dimension	Key developments	Implications
Net outflows from superfunds	Weak economic conditions and poor returns lead to outflows exceeding inflows; retirees draw down capital; high unemployment reduces inflows	Super funds have a lower risk tolerance and higher need for liquidity; funds prefer stable, long-term infrastructure and credit over volatile equities
<b>IV. Regulation and market structure</b>		
<b>Narrative:</b> The momentum of listing reforms dissipates. Companies remain exposed to perceived high risks around disclosure requirements and litigation. Director sentiment deteriorates, with boards reluctant to recommend public listings. With no simplification of fundraising requirements or clarity on forward-looking statements, public markets continue to be viewed as unattractive for raising growth capital. Weak economic conditions lead to poor private market returns and deal failures, particularly in private credit. Investor confidence in private valuations diminishes, reducing private deal flow.		
Limited ASX listing reforms (identical to the private dominance scenario)	Proposed IPO reforms do not proceed or are insufficient	Frustration for potential issuers
No changes in private market regulation (identical to the public revival scenario)	ASIC takes a wait-and-see approach to private markets, with no meaningful changes in regulation	Weak economic conditions lead to poor private asset returns; failures in private credit funds reduce investors' trust and willingness to invest
<b>V. Intermediaries and market access</b>		
<b>Narrative:</b> A wave of consolidation in the broking and advisory services sector leaves smaller issuers with fewer channels to access capital. Research coverage contracts further, particularly for micro- and small-cap stocks. Intermediaries withdraw from both equity capital market and debt capital market activity at the lower end of the market. This results in a two-tiered financial ecosystem in which large issuers retain access and most firms are excluded.		
Brokerage and research decline	Consolidation in the broking industry and Markets in Financial Instruments Directive (MiFID)-style pressures on research budgets reduce analyst coverage	SME access to private and public capital is constrained; the investor base narrows; and blue-chip stocks still attract global coverage and trading, but small-cap stocks struggle
<b>VI. Technology and financial innovation</b>		
<b>Narrative:</b> Structural improvements – like the CHESS replacement and tokenisation – stall due to budget constraints, lack of demand and/or technology problems. Without momentum for digital transformation, market infrastructure does not improve. Settlement efficiency remains unchanged and Australia lags behind the rest of the world with T+2 settlement. Innovation in product design stagnates. Fintechs face funding shortfalls and regulatory hurdles, reducing their role in facilitating capital flows.		
Public market infrastructure renewal fails (identical to the private dominance scenario)	ASX efforts to upgrade its settlement system fail; market does not move to T+1	Investors lose confidence in domestic market infrastructure and seek to reallocate capital to other markets
Asset tokenisation infrastructure for private assets stalls (identical to the public revival scenario)	Pilot initiatives overseas to facilitate tokenisation of private assets stall or fail	Investors lack confidence in products, slowing adoption for both issuers and investors; a lack of credible secondary liquidity keeps investor appetite for private assets subdued

Dimension	Key developments	Implications
<b>VII. Issuer capital raising behaviour</b>		
<b>Narrative:</b> Valuation mismatches between private and public markets remain unresolved. Private equity funds are unable to exit via IPO or trade sales, leading to holding period extensions and lower returns. Venture capital investment slows amid limited exit pathways and low risk appetite. Start-ups increasingly seek non-equity alternatives or offshore funding – both of which are limited in availability. Public and private equity financing both dry up. Companies are forced to rely on internal financing and cost-cutting measures. Companies that can raise debt capital do so to avoid diluting ownership in a low-valuation environment.		
Dependence on internal financing	In a stagnating economy, firms rely on retained earnings and cost-cutting measures rather than on new capital raisings; with weak growth opportunities, corporates return surplus cash to shareholders	Both channels contract simultaneously – public markets see few IPOs and modest secondary raisings and private capital providers become more cautious
Shift to debt financing	Where feasible, issuers choose debt over equity to avoid diluting ownership in a low-valuation environment	Public and private equity channels shrink
<b>VIII. Investor demand dynamics</b>		
<b>Narrative:</b> Retail investors shift their savings towards cash, real estate and high-interest deposit products. Institutional investors derisk their portfolios by reducing exposure to both public equities and illiquid alternatives. Super funds meet liquidity benchmarks through defensive asset allocations. Scandals or underperformance in private funds further erode trust, particularly where valuations are opaque. Flows into ETFs and managed funds decline. Across the spectrum, demand for risk assets declines.		
Investors derisk	Institutions derisk; retail investors shift to cash and property	Demand dries up for new issuance; public equities and unlisted alternatives see outflows. Fewer investors reduces liquidity, deterring new investors in a vicious cycle of illiquidity
Flight to safety	Institutional investors prefer large, mature companies over growth companies; flight of capital to the US	Australian investors increasingly shed home bias to diversify globally; international investors bypass Australia

## 5. Key issues for deeper examination

The scenarios outlined in section 4 provide a framework for considering how Australian capital markets may evolve under different structural forces. However, some issues cut across all four scenarios and warrant deeper examination. In particular, questions about how private assets are valued, how transparent these markets should be, how retail investors are brought into private markets and how public markets are reformed will shape outcomes regardless of whether public markets revive or private markets dominate. This section provides a focused deep dive into these enduring challenges, drawing on academic evidence, international policy debates and emerging industry practice.

### 5.1. Transparency, performance measurement and valuation practices for private assets

Regulatory reviews by ASIC and APRA have highlighted that private market valuations are often opaque, inconsistent across funds and vulnerable to conflicts of interest. Unlike listed equities, which are continuously priced in transparent markets, most private assets are reappraised quarterly using manager-selected methods. This creates informational asymmetries and incentives and smooths returns. This, in turn, affects investor decision-making and system-wide capital allocation.

In stressed conditions, valuation lags and governance weaknesses can amplify liquidity pressures – a point underscored in APRA’s 2024 thematic review, which found material shortcomings in valuation oversight across half the super funds examined (APRA 2024). The way this challenge is addressed will be pivotal across scenarios. In a private dominance scenario, it could entrench opacity and delay corrections, while in a public revival scenario, convergence in valuations with listed markets may be a precondition for renewed confidence in IPOs and public equity capital raising.

#### 5.1.1. The challenges

Valuations and performance reporting for private assets present a series of challenges for the industry, investors and regulators.

**The limitation of internal rates of return (IRR).** IRR is the headline measure of performance in private equity. Yet, it is well established that the timing of cash flows distorts IRR and subscription credit lines inflate it, which shortens the measured holding period without improving the underlying value (Phalippou 2020; Albertus and Denes 2025). Recent analysis by MSCI Inc. confirms that credit line usage can boost IRR by more than 100 basis points, even as multiples remain unchanged (MSCI 2024). These findings underscore that headline IRRs can overstate value creation relative to multiples or benchmarked returns.

More robust measures include cash multiples such as total value paid-in (TVPI) and distributions to paid-in (DPI). TVPI measures the total value (distributed plus residual) relative to capital contributed, while DPI reflects only the capital returns to investors as distributions relative to capital contributed. Both are simple, auditable and unaffected by credit lines. Benchmarking returns, such as the Public Market Equivalent (PME) compare fund cash flows to public indices (Kaplan and Schoar 2005). Evidence using PME shows that while private equity funds

outperformed before 2006 (Harris, Jenkinson and Kaplan 2014), more recent vintages have delivered returns closer to listed equity benchmarks (Phalippou 2020).

**Return smoothing and ‘volatility laundering’.** Private assets are typically valued quarterly using appraisal-based methods. This creates return smoothing, which understates price volatility, induces serial correlation and inflates Sharpe ratios. Getmansky, Lo and Makarov (2004) show that this statistical effect leads to the systematic overstatement of risk-adjusted returns. Coutts, Goncalves and Rossi (2024) apply de-smoothing techniques to private fund data and find that true betas are higher, alphas lower and diversification benefits much smaller than reported. Asness (2023) describes this as ‘volatility laundering’ – investors are drawn to smoother return streams even though the underlying risks are unchanged.

Practitioner studies reinforce this concern. PIMCO (2022) estimates that ‘true’ private equity return volatility is about 30% compared to the observed 10%, requiring a public equity premium of 600 basis points to make investors indifferent. Similarly, Pitchbook (2021) finds that smoothing not only biases Sharpe ratios upwards but also overstates diversification benefits, encouraging investors to allocate more to private markets than is economically justified. Norges Bank Investment Management (2023) reaches a similar conclusion, cautioning that appraisal-based valuation methods can understate true volatility and overstate diversification benefits, leading to systematic mismeasurement of private equity risk.

These biases in reported performance also feed directly into investor beliefs. For example, Begenau, Liang and Siriwardane (2025) show that perceptions of superior risk-adjusted returns relative to public equities contributed to US pension funds shifting allocations towards private assets. This aligns with the earlier discussion about investor beliefs being a structural force that shapes capital flows, highlighting how performance measurement interacts with asset allocation decisions.

**Valuation governance and conflicts.** Weak valuation governance and practices compound these issues. APRA’s 2024 thematic review found, among other things, that half of the superannuation funds reviewed required material improvements in valuation and liquidity practices, citing insufficient board oversight and inadequate triggers for revaluation (APRA 2024). Similarly, ASIC (2025d) found that superannuation trustees should do more to ensure the valuations of unlisted assets are reliable and provide better disclosure about their valuation method. Further, they found that fund auditors need to do more to provide sufficient audit evidence about investment valuations and consider applying lower levels of materiality when conducting audits. Industry observers have raised similar concerns with AI-CIO (2024), reporting that super funds themselves acknowledge their practices are inconsistent and under scrutiny. Taken together, these perspectives underline that valuation uncertainty and conflicts of interest are systemic vulnerabilities, not isolated deficiencies.

Similar concerns have been highlighted internationally, with the UK’s Financial Conduct Authority identifying widespread valuation conflicts across private markets (Citywire 2025). In the US, the Securities and Exchange Commission (SEC) reached similar conclusions when introducing its 2023 private fund disclosures, although the courts ultimately overturned them (SEC 2023).

ASIC (2025e) also identified areas for improvement in private credit fund reporting and governance. The four main areas were better management of conflicts of interest, improvements in fees and remuneration disclosure, greater transparency and consistency in valuations, and clear and consistent definitions for key investment terms. The report states that private credit funds backed by large superannuation and institutional investors generally adhere to sound governance and transparency. The greatest area for improvement in investor protection and market integrity is reported to be in funds targeting wholesale and retail investors. This is particularly true for funds concentrated in higher-risk real estate construction and development finance.

### 5.1.2. Towards a global solution

The way forward lies in adopting globally recognised standards rather than bespoke national rules. There have been multiple global efforts by industry groups to improve valuation and performance reporting practices and governance across the spectrum of private asset funds. These include:

- the International Valuation Standards Council's International Valuation Standards (IVSC 2024), which provide a baseline method for valuation governance and practices, and the International Private Equity and Venture Capital Valuation (IPEV) Guidelines, which adapt these principles to private assets
- the Institutional Limited Partners Association (ILPA) Performance and Reporting Templates
- the Standards Board for Alternative Investments (SBAI) governance and valuation standards.

The International Valuation Standards and the IPEV Guidelines provide the foundation for robust valuation methods for LPs and GPs. The ILPA provides a template for reporting performance to LPs, and the SBAI governance and valuation standards provide principles for responsible behaviour and governance. Together, they provide a holistic governance framework.

The ILPA Performance Template (for funds raised from 2026) is a prescriptive, Excel-based format for standardising performance, fee and cash flow transparency to reduce the number of ad hoc requests GPs receive. It requires TVPI, DPI and disclosure of IRR with and without subscription line effects (ILPA 2025). ILPA did not mandate PME because index choice and methods vary; however, PME is widely used in the academic literature and offers a consistent baseline for assessing whether private funds outperform public benchmarks.

In contrast, the SBAI's standards are a principles-based 'comply or explain' framework that gives the industry more flexibility. Its strength lies in its comprehensive focus on robust valuation governance, transparency and disclosure. It addresses fundamental investor concerns such as conflicts of interest, accuracy and subjectivity in valuing hard-to-value assets through mandates for detailed valuation policies and segregation of functions, including operational and liquidity risks (SBAI 2025a, 2025b).

While both approaches have strengths, they also have limitations. ILPA's prescriptive template does not provide detailed underlying valuation methods and defers to funds for definitions of 'realised' and 'unrealised' portfolio components. In contrast, SBAI's approach provides flexibility but does not provide a uniform reporting output. This means GPs can present information in varied formats, making apples-to-apples comparisons of reported performance more challenging for LPs.

The ‘comply or explain’ regime means investors must actively scrutinise the explanations given by GPs for any deviations in reporting.

### 5.1.3. Policy implications

From a systemic perspective, opacity and weak comparability can undermine confidence in the balance between public and private markets. By adopting globally accepted standards, the industry can improve transparency, reduce incentives for opportunistic reporting, enhance trust in reported outcomes, and ensure that private market growth does not rest on distorted perceptions of risk and return. Proactive steps by the industry to adopt such standards would reduce the need for additional regulation. These standards may also form the basis for ASIC and APRA’s expectations of ‘good’ and ‘poor’ practices across the industry, as they engage in ongoing surveillance and enforcement.

## 5.2. Retail investor participation in private markets

Future growth in private markets is expected to come increasingly from private wealth capital – mass-affluent and high-net-worth individuals – rather than institutions. Bain & Company (2025) estimates that private wealth will contribute around a quarter of all growth in global private markets’ AUM over the next decade. McKinsey & Company (2025) similarly identifies private wealth as the dominant growth channel. Its potential is demonstrated by the fact that although individuals hold around half of global capital, they currently account for only about 16% of assets in alternative funds (Bain & Company 2025). In the Australian context, this expansion needs to be considered because the average Australian, whose super is managed by an APRA-regulated fund, already has a relatively high exposure to private assets. Whether additional allocations through retail products are beneficial requires careful consideration. Across the scenarios, retailisation can play very different roles – it may sustain private dominance, reinforce dual expansion or leave households vulnerable in contraction.

For GPs, the attraction of retail capital reflects emerging signs of institutional saturation. Nearly one-third of institutional investors, particularly foundations and endowments, reduced their private equity allocations in the first half of 2025 (Private Equity International 2025). Reuters and *Financial Times* reporting confirms that US endowments – once the model allocators to illiquid assets – have been scaling back exposures in response to liquidity constraints, disappointing performance relative to public markets and, in some cases, political pressure.<sup>5</sup> Against this backdrop, the private wealth channel has become essential for sustaining industry growth.

GPs are innovating with new product structures to meet this opportunity. McKinsey & Company (2025) highlights the rise of open-end and semi-open-end funds, interval funds and Business Development Companies. Evergreen funds, which provide rolling capital access and some redemption capacity, already account for about USD 700 billion, or 5%, of private AUM. Hamilton Lane (2025) predicts it could exceed 20% of the market within a decade. Partnerships between GPs and large traditional asset managers are extending distribution reach; examples include KKR with

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<sup>5</sup> H Predone, A Gara and I Levingston (2025) [Private equity fundraising slides as sector’s downturn deepens](#), *Financial Times*, 25 August 2025; S Pellejero (2025) [The new Yale model is both obvious and hidden](#), Reuters, 9 July 2025.

Capital Group, Apollo with State Street, and Vanguard and Wellington with Blackstone (Bain & Company 2025; Tucker 2025).

The Australian framework adds a distinctive dimension. Retail access to private assets is often channelled through wholesale investor exemptions. The thresholds – AUD 2.5 million in net assets, AUD 250,000 in annual income or AUD 500,000 invested in a single product – have not been indexed since 2001. In a submission to Treasury, ASIC (2024) noted that while only 1.9% of adults qualified in 2002, about 16.2% met the test by 2021. This percentage is projected to rise to 43.6% by 2041 if the threshold remains unchanged. ASIC recommended increasing the thresholds to reflect inflation, warning that growing numbers of Australians are being drawn into wholesale products without the disclosure and protection afforded to retail investors.

The retailisation of private markets presents both opportunities and risks. For the industry, expanding distribution into private wealth provides scale at a time when raising new institutional capital is more difficult, but brings operational complexity and regulatory scrutiny. Fee compression in public markets incentivises managers to promote higher-fee private products, yet serving a fragmented retail investor base requires costly compliance infrastructure.

For individuals, the risks are more direct. Private equity performance is highly dispersed across funds. For example, McKinsey & Company (2025) reports that top-quartile buy-out funds earn returns 15 percentage points higher than bottom-quartile funds. Hamilton Lane (2025) highlights persistent return gaps across regions and fund sizes. These findings emphasise that mean performance figures conceal substantial selection risk. The question is whether retail investors can gain access to top-performing funds. In addition, liquidity mismatches mean that semi-liquid structures may lock up capital precisely when it is needed most, and valuation opacity raises the danger that smoothed returns conceal true risk. McKinsey & Company (2025) notes an exit backlog, with sponsor valuations in 2024 averaging 17% above market-clearing prices, while refinancing difficulties in a higher-rates environment threaten portfolio companies. Retail inflows may be used as an outlet for these mismatched assets, to the detriment of these investors.

An important mediating role will fall to financial platforms and advisers, who act as the main conduits for direct retail participation in private markets. Advisers must play an important role in the education of their clients. They must ensure that clients understand the unique characteristics of private assets; that is, reported IRRs may overstate economic value, returns are highly dispersed and access to top-tier managers is limited, and semi-open-ended structures may evaporate in downturns. Without rigorous advice and disclosure standards, there is a heightened risk that households are drawn into complex products based on overstated performance and understated risks.

Retailisation should be understood as an enduring challenge in the evolution of public and private markets. In scenarios where private markets thrive, retail capital accelerates growth but magnifies systemic vulnerabilities. In scenarios where private markets falter, retail investors are directly exposed to underperformance, liquidity gating or valuation resets. Either way, the expansion of retail participation amplifies the stakes. It is a lever that can reinforce the system's strength or fragility.

From a policy perspective, the priority is to preserve trust and comparability. Adopting standardised reporting practices is particularly important for retail-facing private products (see section 5.1). The industry should adopt PME to enhance understanding, allowing retail investors to assess whether private funds deliver superior returns to public equities. Revising the wholesale investor threshold is also critical to avoid a situation where large parts of the population are exposed to complex products without investor protections. Combined with robust investor education campaigns and a greater role for advisers in communicating the risks of smoothing, dispersion and illiquidity, retail investor access can expand without undermining systemic confidence.

### **5.3. Superannuation, liquidity and an ageing population**

This section describes the current position of the super system, how the ageing population will impact it, the implications for asset allocation and liquidity management, and what these issues mean for the four potential market scenarios.

#### **5.3.1. Current position of the super system**

At the end of June 2025, the Australian superannuation sector was valued at AUD 4.3 trillion (APRA 2025b). The super sector dominates the local investment and economic landscape. It has recorded the fastest growth among 22 major pension markets over the past two decades, with an average annual growth rate of 11.3% (J.P. Morgan 2024). Super assets, which first matched Australia's GDP in 2010, now represent about 140% of GDP (RBA 2024a).

The rapid expansion has been underpinned by the rising SG rate, which increased from 3% of wages in 1992 to 12% in July 2025. Investment income has achieved a nominal compound annual growth rate of 7.3% over the past three decades (RBA 2024a). As a result, the system remains firmly in accumulation mode. How long this position can be sustained – and what it means for liquidity management – will depend heavily on the scenarios. In private dominance, heavier allocations to illiquid assets increase liquidity risk. In public revival, liquidity is easier to manage, but market volatility is higher. In dual contraction, demographic headwinds amplify stress.

#### **5.3.2. Demographic outlook and timing of decumulation**

While the population is ageing, net contributions are projected to remain positive until 2060 (RBA 2019, 2024b; Australian Government IGR 2023). Treasury's Model of Australian Retirement Incomes and Assets (MARIA) projects that earnings are already the largest of the three flows (contributions, earnings and drawdowns) and will continue to grow as a share of GDP. Historically, superannuation funds have delivered earnings returns greater than nominal GDP growth. This is assumed to continue, leading to sustained growth in superannuation balances as long as contributions exceed drawdowns (Treasury 2019).

The projections for these return estimates are based on specific economic growth assumptions. Treasury's MARIA model's long-run assumptions include inflation growth of 2.5%, nominal GDP growth of around 5.25% and wages growth of approximately 4%. Investment returns before fees are assumed to be 7.5% in the accumulation phase and 6.5% in the retirement phase, reflecting a more conservative investment strategy post-retirement (Treasury 2019). The 2023 Intergenerational Report (IGR) assumes a long-term labour productivity growth rate of 1.2% per



year. Real GDP is projected to grow by 2.2% per year over the next 40 years, while real gross national income per person is expected to grow by 1% annually over the same period (Australian Government IGR 2023).

The ageing population is a significant factor in the sector's evolution. The number of Australians aged 65 and over is projected to more than double, and those aged 85 and over are projected to triple by 2062–63. The median age is expected to increase by 4.5 years to 43.1 years between 2022–23 and 2062–63. Consequently, the old-age dependency ratio (people aged 65 and over per 100 people aged 15–64) is projected to rise from 26.6% to 38.2% between 2022–23 and 2062–63 (Australian Government IGR 2023). While the Age Pension will continue to provide a safety net, future retirees, having benefited from compulsory superannuation for most of their careers, will increasingly rely on their superannuation balances as their primary source of retirement income (Australian Government IGR 2023).

At a system level, decumulation is distant, but at the fund level, variation in member demographics is already creating different liquidity pressures. Some funds with older membership bases are approaching the point where benefit payments exceed contributions (RBA 2024b), forcing earlier strategic adaptation.

### 5.3.3. Implications for asset allocations and liquidity management

The size of the superannuation system relative to the size of the Australian public markets has encouraged funds to expand allocations to international equities and private markets. The largest APRA-regulated funds now hold between 20% and 30% of portfolios in unlisted assets such as infrastructure, property, private equity and private credit (ASIC 2025a, 2025b). These assets are attractive for their stable cash flows, diversification and perceived illiquidity premium.

However, as retirement phase membership grows, the trade-off between illiquidity and liquidity becomes sharper. Funds with younger member profiles and robust inflows can tolerate higher illiquidity. By contrast, funds with ageing cohorts or slowing inflows must increase allocations to cash, bonds and listed assets to ensure flexibility.

Liquidity management was tested during the COVID-19 disruption, when funds faced AUD 36 billion in early release withdrawals, large foreign exchange hedge margin calls and significant member switching into cash (RBA 2021). APRA (2020) reports that funds 'on the whole, handled the heightened liquidity pressures reasonably well, with all funds able to meet liquidity needs'. Nevertheless, this episode demonstrated how quickly liquidity stress can emerge, underscoring the need for robust stress testing, valuation governance and liquidity planning.

APRA has since reinforced expectations. Prudential Standard SPS 530 Investment Governance in Superannuation requires trustees to maintain liquidity management plans and conduct stress testing, but APRA (2024) identified weaknesses in unlisted asset valuations and liquidity triggers. It indicated that a better practice set of liquidity risk triggers would consist of both forward-looking and retrospective indicators, including member outflows, minimum cash levels, available liquid assets and integrated stress scenarios.

A further issue is whether the promise of daily switching across some investment options is sustainable. Internationally, regulators have endorsed tools such as redemption gates, extended

notice periods and side pockets to align investor access with underlying asset liquidity. The European Securities and Markets Authority (ESMA), for example, has issued guidelines on these tools for Undertakings for Collective Investment in Transferable Securities (UCITS) and open-ended Alternative Investment Funds (that is, retail investment funds, not pension funds) (ESMA 2025). The parallel is instructive – if Australian funds continue to expand into illiquid assets, mechanisms such as periodic switching windows or redemption queues may need to be considered domestically to reconcile liquidity promises with investment strategies.

#### 5.3.4. Scenario implications

In a private market dominance scenario, where allocations to unlisted assets continue to rise, liquidity mismatches and valuation lag risks could intensify. This may sharpen APRA's focus on liquidity stress testing, valuation governance and disclosure, while pushing trustees to explore mechanisms such as periodic switching windows to redemption queues, to better align member entitlements with portfolio liquidity.

In contrast, a public revival scenario would see allocations tilt back towards listed equities and bonds. Liquidity management would become more flexible and resilient, but the trade-off would be greater mark-to-market volatility and heavier reliance on currency hedging. In such an environment, regulatory scrutiny would likely pivot from unlisted valuation governance to managing volatility and collateral risk.

The core challenge is the same in both cases – ensuring super funds can reliably deliver member entitlements while sustaining long-term strategies in the face of demographic change.

#### 5.4. Reforming public markets

Many submissions in response to ASIC's discussion paper (ASIC 2025a) contend that regulatory and governance burdens deter companies from listing. Herbert Smith Freehills (2025), for example, highlighted the accumulation of obligations as a factor weighing on public market participation and cautioned against regulating private markets to 'level the playing field'. The Law Council of Australia (2025) similarly pointed to the high transparency requirements as a factor driving firms towards private equity, while the Australian Institute of Company Directors (2025) stressed that excessive legal risk – including the prevalence of class actions – has diminished the appeal of board service in listed entities. The Business Council of Australia (2025) also recognised global structural trends but warned that regulatory accumulation and public scrutiny amplify the drift towards private markets. What none of these submissions explain, however, is why the alleged burden of regulation only became apparent in 2023–24, when IPO volumes decreased and delistings rose, despite no material change in public company regulation during that period.

The weight attached to these arguments differs across scenarios. In public revival, credible reforms to listing and research coverage could decisively broaden market participation. In dual expansion, they would complement improvements in private market disclosure, but in private dominance or dual contraction, regulatory adjustments would struggle to offset the larger forces discouraging listing activity.

While these submissions reflect strongly held concerns, the weight of empirical evidence in other jurisdictions suggests that regulation is not the primary driver of public market declines. ASIC

(2025b) notes that in the US and Europe, reductions in listings long pre-dated Australia's recent slowdown and are more plausibly explained by structural changes in firm characteristics and the abundance of private capital. Doidge, Karolyi and Stulz (2017) show that the fall in US listings was primarily due to changes in firm composition and financing alternatives rather than an increase in regulatory costs. Ewens and Farre-Mensa (2020) document that younger, intangible-intensive companies increasingly choose private funding as it better suits their capital profiles. The more plausible explanation, in both global and Australian contexts, is that private capital is plentiful, flexible and less encumbered by governance obligations, leaving public markets with limited scope to compete on regulatory 'lightness' without undermining their own comparative advantages of transparency, integrity and board access.

A frequently cited potential reform is the introduction of dual-class share structures, which are already permitted for foreign exempt listings on the ASX (ASX 2025). Proponents argue that dual-class shares would encourage founder-led companies, particularly in the technology sector, to remain in Australia rather than seek offshore listings.<sup>6</sup> Academic literature, however, suggests this is a double-edged sword. Studies consistently find that dual-class firms often trade at a premium around their IPO, reflecting founder quality and insulation for innovation (Cremers, Lauterbach and Pajuste 2022; Kim and Michaely 2019). Yet, over time, this premium dissipates and reverses into a valuation discount as entrenchment and agency costs mount (Gompers, Ishii and Metrick 2010; Masulis, Wang and Xie 2009). Bebchuk and Kastiel (2017) argue against perpetual dual-class structures, recommending mandatory sunset provisions to prevent permanent entrenchment.

If the ASX were to proceed with a dual-class option, clear guardrails would be essential to preserve market integrity. International evidence suggests these should include a maximum voting ratio, mandatory sunset provisions (time-based and event-based), non-transferability of superior voting rights, stronger board independence requirements, carve-outs for fundamental resolutions where one-share-one-vote applies, and enhanced disclosures of the control wedge. Such protections are now standard in Hong Kong and Singapore, representing the minimum conditions for a credible regime. Even so, the incremental attraction of introducing dual-class shares domestically is limited, given that private markets already allow founders to retain control and the ASX can already host multi-class structures through foreign exempt listings.

Competition in listings is also viewed as a tool for enhancing public markets (ASIC 2025f). Potential competition from Cboe Australia and/or NSX is expected to reduce the explicit cost of listing, in the same way competition in trading reduced explicit trading fees (Comerton-Forde 2011). However, this is unlikely to be sufficient to fuel a rebound in the listing market. Other challenges will need to be addressed to foster genuine competition in listings. For example, inclusion in the ASX/S&P indices is only available for companies listed on the ASX. This will be a significant deterrent for large companies to list on Cboe Australia. New indices and new index-tracking products will need to be developed to foster listing competition. Further, the trading ecosystem must be considered. At present, the ASX does not trade Cboe-listed exchange traded products. If Cboe-listed companies are not traded on the ASX, it may further disincentivise Cboe listings.

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<sup>6</sup> S Murdoch (2025) [Australia considers allowing dual-class share listings, exchange executive says](#), 12 March 2025.

More radical reforms are required if public markets are to be revitalised on their own terms. One possibility is for market operators to rethink disclosure and trading mechanisms for small- and mid-cap firms. Instead of continuous disclosure tied to continuous trading, issuers could disclose information and provide liquidity only in periodic windows – monthly or quarterly – when trading could occur via batch auctions. This design would ease compliance burdens while still delivering credible price discovery. A more modest version of this idea would be to replace continuous trading in illiquid small-cap stocks with a single daily call auction, concentrating liquidity at one point in the trading day and improving execution quality (Economides and Schwarz 1995).

A second area of innovation concerns the chronic lack of research coverage for small-cap companies. Limited analyst attention reduces investor awareness, depresses trading activity and widens bid ask spreads, all of which make public listing less attractive for smaller issuers. The academic literature shows that initiating coverage is associated with improvements in liquidity, trading depth and price efficiency, whereas reductions in coverage have the opposite effect (Irvine 2003; Brennan and Subrahmanyam 1995; Roulstone 2003). These findings suggest that improving the information environment can have a material impact on market quality for smaller firms.

Recognising this, the ASX has supported its Equity Research Scheme for more than a decade. The scheme subsidises independent analyst coverage for a set of small-cap companies each year that would otherwise be overlooked by most broker research. The program targets firms outside major indices with limited analyst coverage and distributes research widely to market participants. This is one example of how exchanges can intervene to address structural information gaps that impede liquidity and participation in small-cap markets. Scaling such initiatives – or complementing them with new approaches such as AI-driven research generation – offers a credible pathway to revitalise interest in small-cap public companies without undermining the integrity of disclosure standards.

A third, complementary innovation is the development of small-cap indices and index products. Australia's index landscape is heavily concentrated in the largest stocks, reinforcing capital flows into financials and resources. Academic evidence from the US shows that index membership itself can materially improve liquidity and investor recognition for smaller companies (Chang, Hong and Liskovich 2015; Madhavan 2003). These findings suggest there may be merit in exploring expanding the range of small-cap benchmarks and associated exchange traded products in Australia to help channel more capital towards a more diverse set of listed firms. This would improve visibility and investability in the segment where public markets are most vulnerable.

Taken together, these proposals show that the future of public markets cannot be secured by mimicking lighter regulation of private markets. Instead, reforms should lean into public markets' unique strengths by experimenting with new forms of disclosure and trading, by institutionalising research support for smaller companies and by broadening index coverage to enhance visibility of under-represented firms. While dual-class shares have become the emblematic reform proposal, their benefits are already available in private settings and their costs well documented. The greater opportunity lies in radical innovations that preserve integrity while reducing frictions, thereby renewing public markets' relevance in a financial system increasingly dominated by private capital.

## 6. Global comparisons

The Australian experience mirrors a broader trend. Globally, public equity markets remain larger than private markets, but the balance is shifting. As at 2024, global listed equities were valued at USD 121 trillion, compared to USD 14.6 trillion in private capital funds AUM. Public markets are still eight times larger, but private assets have tripled over the past decade (ASIC 2025a).

In the US, the number of listed companies has halved since the 1990s, while private equity and private credit have become dominant sources of funding (ASIC 2025a). Private AUM in the US alone accounts for more than half of global totals. Recent policy interventions have aimed to widen access and oversight. The Department of Labor and the SEC have clarified pathways for defined contribution plans to include private equity allocations. In 2025, a new executive order went further by instructing agencies to promote 401(k) (employer-sponsored retirement savings plans) access to a wider range of alternative assets, including private equity (White House 2025). In 2023, the SEC introduced private fund disclosure rules, designed to improve reporting on fees, conflicts and valuations. However, these rules were struck down in 2024, creating uncertainty about regulatory oversight (SEC 2023).<sup>7</sup>

In the UK, workplace defined contribution funds now hold just 6% of assets in domestic listed equities compared to around 23% for Australian superannuation funds (ASIC 2025a). UK policy makers view this as weakening the viability of public markets. In response to this and the declining number of IPOs, the government and regulators have pursued a wide range of initiatives – simplifying listing rules (FCA 2024a); introducing Long-Term Asset Funds (FCA 2023); launching the Mansion House Reforms to encourage schemes to allocate more to domestic equities and growth companies (HM Treasury 2025); and piloting PISCES, a platform that aims to build a bridge to public listing by intermittently trading private company shares (FCA 2024b). It is too early to tell whether these changes have altered the trend.

Canada provides another relevant comparison. Its large defined-benefit pension funds (such as CPP Investments, Ontario Teachers and CDPQ) pioneered direct allocations to private equity, infrastructure and private credit. Private holdings often exceed one-third of assets, demonstrating how scale and governance can enable institutional investors to operate as global private market players (CPP Investments 2025). This model has supported market development but also raised concerns about liquidity, concentration and exposure to valuation risk – issues now being debated in Australia.<sup>8</sup> Unlike superannuation funds in Australia, Public Pension Reserve Funds in Canada are allowed to borrow at the fund level. It is argued that prudent use of leverage may enhance liquidity management and capital efficiency by allowing funds to better meet cash flow needs or avoid untimely asset sales. Evaluating this option in Australia would necessitate a thorough empirical analysis to assess the associated costs and benefits.

In the European Union (EU), the emphasis has been less on shifting allocations and more on ensuring the resilience of fund structures as private markets grow. Reforms under the Alternative Investment Fund Managers Directive II (AIFMD II) and UCITS require managers of open-ended

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<sup>7</sup> J Stempel C and Mandl (2024) [US appeals court strikes down SEC private equity, hedge fund oversight rule](#), *Financial Times*, 6 June, 2024.

<sup>8</sup> M McDougall (2025) [Private equity portfolios underperform at big Canadian investors](#), *Financial Times*, 26 May 2025.

funds to pre-select liquidity management tools such as swing pricing and redemption gates. This aims to protect retail investors and provide financial stability as access to illiquid assets expands (Directive (EU) 2024/927; ESMA 2025). The rebranding of the Capital Markets Union as a 'Savings and Investment Union' is an attempt to mobilise household wealth while safeguarding liquidity and valuation integrity (European Commission 2024).

Together, these experiences highlight that the challenges facing Australia – like shrinking public company cohorts, growing reliance on private capital and pressure to expand retail investor participation in private markets – are global challenges. What differs is the policy response. The US initially targeted disclosure but is now focusing on access. The UK is focusing on domestic market revival, Canada on pension fund-led global diversification, and the EU on fund governance and liquidity safeguards. Australia's superannuation system is comparable to Canada in scale, but concerns about sustaining vibrant domestic public markets echo those in the UK.

## 7. Conclusion

This paper shows how the balance between public and private markets may shift, and how superannuation inflows, regulatory settings, technology and global capital flows may interact to reshape Australia's market dynamics. The four scenarios outlined in the paper – dual expansion, private market dominance, public market revival, and dual contraction – show different possible paths. Each one is contingent on policy choices, investor behaviour and the strategic decisions of issuers and intermediaries.

Several enduring challenges demand particular attention. Weaknesses in valuation governance and performance measurement may reduce confidence in private markets and influence investor beliefs about the relative performance of public versus private markets. Lack of transparency around pricing, conflicts and risk exposures undermines informed and confident regulator and investor decision-making. At the same time, the push to expand retail participation in private assets raises questions about suitability, disclosure and risk allocation. These challenges are not confined to any one scenario but are fundamental to the integrity and resilience of the overall system.

For policy makers, the central task is to calibrate regulation to support both vibrant public markets and well-governed private markets. This means safeguarding transparency and protecting investors without stifling innovation or introducing unnecessary barriers to capital formation. For market participants, the imperative is to ensure that capital is allocated efficiently, performance is measured honestly, and investors – whether retail or institutional – understand the returns they are earning and the risks they are bearing. For investors, especially superannuation funds, it requires active stewardship and recognition that today's allocation decisions will shape not only portfolio returns but also the future structure of Australian capital markets.

Ultimately, the health of Australia's financial system depends on getting the balance right. Public markets will remain an essential part of the system, given their unique strengths in price discovery, liquidity and governance. But without purposeful reform, they risk stagnating and becoming thinner, more concentrated and overshadowed by private alternatives. Private markets, meanwhile, are likely to keep expanding regardless of standards, but growth built on weak

valuation and governance is inherently fragile – when stress arrives, failures and loss of trust may quickly unwind confidence.

The future health of the system will depend less on favouring one channel over the other, and more on ensuring that both evolve in ways that are complementary rather than substitutive. The task for policy makers, investors and the industry is to shape that outcome deliberately – because left to inertia, the risks of imbalance and fragility are far greater than the risks of purposeful reform.

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