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Australian Securities and Investments Commission
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Australia's evolving capital markets: A discussion paper on the dynamics between public and private markets

MSCI welcomes the opportunity to respond to the Australian Securities & Investments Commission (ASIC) on *Australia's evolving capital markets: A discussion paper on the dynamics between public and private markets* ("Discussion Paper"). MSCI, as a provider of data and analytical tools for both public and private markets, supports ASIC's efforts to better understand the evolving dynamics between the public and private markets. MSCI's private capital dataset is a leading source of insight into the performance, cash flows, and transparency of private capital funds. MSCI calculates more than 280,000 indices¹ daily across global markets for public and private markets. This includes 200+ indices² that cover the spectrum of private capital asset classes.

We have the following general observations on the Discussion Paper, with more detailed comments on selected questions in the Annex:

1. **Investor appeal of private markets** - Private markets offer compelling performance potential, often attributed to GP skill, the illiquidity premium, and structural advantages like leverage and size exposure. They also provide access to investment opportunities unavailable in listed markets, especially in emerging tech and mid-market ventures. For large investors, they mitigate capacity constraints seen in public small caps.
2. **Convergence of public and private market practices** - The increasing sophistication of secondary markets and investor demand for transparency is blurring lines between public and private markets. The rise of semi-liquid structures and better data tools allows for more active management and tactical decision-making, akin to public equities. Accurate and timely valuations are critical to ensuring fairness and functionality in these evolving vehicles.
3. **Unique risks of private market investing** - Beyond traditional market and credit risk, private markets pose additional challenges like limited liquidity and valuation subjectivity. For example, valuations may diverge from fair value, particularly during market stress, affecting portfolio accuracy. These issues are amplified in semi-liquid vehicles, where valuation plays a direct role in investor entry and exit.

¹ [MSCI Indexes](#)

² [MSCI Private Capital Indexes](#)

- 4. Transparency and tools for investor protection** - Improved data availability and risk assessment tools are vital to support market integrity. MSCI's capabilities enable broad-based transparency into private asset holdings and credit exposures. These tools complement regulatory oversight and help ensure benchmarks and performance disclosures are consistent with investor protection and informed decision-making.

We look forward to continued engagement with ASIC on these topics and would be pleased to provide additional details in support of our comment letter.

Please do not hesitate to contact us to discuss our submission.

Yours sincerely,

[Redacted signature]

[Redacted name]

**Executive Director, Global Head of Policy
Government and Regulatory Affairs**

Q1: What key impacts have global market developments had on Australian capital markets? What key impacts do you anticipate in the future?

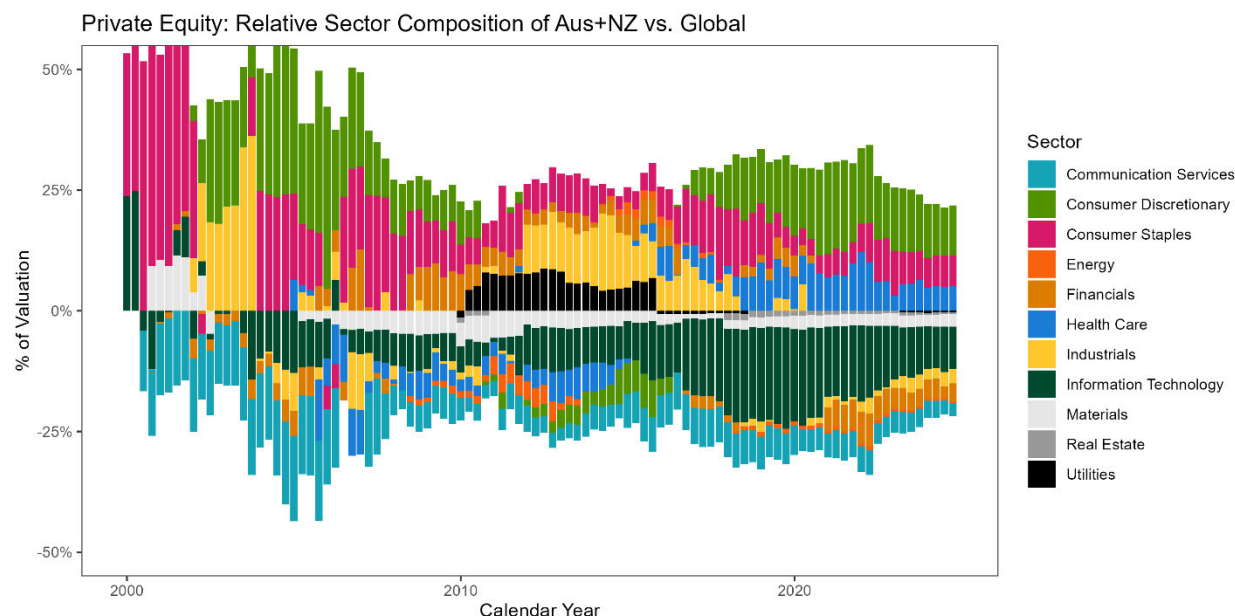
MSCI: We observe that globally, private markets have grown significantly in both size and complexity over the past decade, reaching \$9.4tn of capitalization in active funds as of September 30, 2024, representing a 2.6x increase since 2014. Private markets in Australia have also grown during the same period, although at a slower rate of 1.8x. While historically dominated by buyout funds, Australian private markets have seen more diverse fundraising activity in recent years, with increasing representation across venture capital, growth equity, and private credit, which mirrors the developments at the global level.

On a sector basis, the holdings of Australia and New Zealand-focused funds³ tend to have a greater exposure towards consumer discretionary, consumer staples, and health care investments, while simultaneously allocating a relatively smaller proportion of investments in information technology, financials, and other sectors.



While the composition of local markets has converged with the broader global private market landscape, the holdings of Australia and New Zealand-focused funds remain distinct on a sector basis.

³ Many funds have a mandate which covers both Australia and New Zealand and so both countries have been combined for this analysis. However, the sectoral differences highlighted in this section are still valid for the Australia-only funds in isolation.



Q2: Do you have any additional insights into the attraction of private markets as an issuer or an investor?

MSCI: We have observed several motivations for investing in private markets, such as:

1. **Performance.** Private markets are widely perceived to outperform their public counterparts. This may be attributed to a variety of reasons including: GP skill; allowing private investors to harvest an illiquidity premium; GP allocation, selection, and timing effects; a 'size effect' (where private equity functions as a proxy for small cap exposure); and leverage.

However, we understand that answering this foundational question is not straightforward due to limitations of the data. For example, risk-adjusted returns depend critically on estimating the risk - or more generally, the factor loadings of private capital. As reported performance is subject to smoothing due to the subjective nature of valuations, addressing these questions requires non-trivial econometric analysis.

Please refer:

[Private Equity Performance: What Do We Know? by Robert S. Harris, Tim Jenkinson, Steven N. Kaplan :: SSRN](#)

[Risk-Adjusted Performance of Private Funds: What Do We Know? – Institute for Private Capital](#), and

[Have US Buyout Funds Delivered on a Risk-Adjusted Basis? - MSCI](#)

2. **Diversification.** Although private capital returns may appear to have a low correlation with the public asset classes, this is often a result of valuation smoothing. In reality, private equity is correlated to public equity, but not perfectly correlated – suggesting the presence of a distinct private factor that may provide additional diversification. From the perspective of a market portfolio, the growing importance of private capital means that meaningful exposure is increasingly essential.

Please refer: [Did Private Capital Deliver? - MSCI](#)

3. **Capacity.** Private equity offers an investment in small cap equities and microcap for venture capital. This can present several concerns for investors, especially if they are large investors.
 - i. **Capacity constraints** - Investing in small cap (or smaller) listed equities may present large investors with capacity constraints; private equity can provide an additional destination for such capital.
 - ii. **Limited availability of comparable opportunities in listed markets** - Particularly with the lower mid-market and venture capital, it may be difficult for investors to find analogous opportunities in listed markets. This is especially true in emerging areas such as renewable technologies and AI.

Q3: In what ways are public and private markets likely to converge?

MSCI: We observed that several factors contribute to the continued convergence between public and private markets. First, the increased sophistication of secondary markets, including both asset manager-led secondary transactions and secondary trading of late-stage venture capital portfolio companies has enabled institutional investors to directly manage their portfolios, rather than simply committing to a blind pool, drawdown funds. This ability to actively manage allocations is both aligned with practices in public markets and increases the value and utility of timely, transparent data in the portfolio management process.

In addition, as allocations to private markets continue to increase, investors are seeking better tools supported by improved data to support informed investment decisions and more effective portfolio alignment with their objectives.

Finally, the availability of timely and accurate valuation information has become increasingly important. This supports tactical investment decisions (e.g., evaluating asset manager-led secondary deal) and have the opportunity to invest in semi-liquid vehicles, which by design requires a valuation mark for investor entry or exit.

Q9: Have we identified the key risks for investors from private markets?

MSCI: In general, private investments share the same risks as their public counterparts while having some additional dimensions to consider.

For example, private equity, being at the core of an equity investment, has market risk. However, unlike public equities, this risk is more difficult to observe, may be obscured by the nature of GP valuations, and can even raise conceptual questions about the meaning of market risk when regular prices cannot be observed. Addressing these concerns has required considerable study from both academics and practitioners.

Please refer: [Risk-Adjusted Performance of Private Funds: What Do We Know? – Institute for Private Capital](#) and [How Risky Are Private Assets? – MSCI](#)

Similarly, private credit is subject to credit risk, although this too can be difficult to observe due to limited availability of data and the relatively slow rate that GP marks adapt to declines in credit quality.

Please refer: [Cues from Public Markets for Private-Credit Distress – MSCI](#)

But some risks are more specific to private markets. For example, the limited liquidity of private markets can mean that investors are at the mercy of declining distributions.

Please refer: [Are Private Capital's Cash Flows Back to Normal? – MSCI](#)

In addition, private valuations are subjective and may diverge from their 'fair value', so investors may have distorted views of their portfolio's worth.

Please refer: [Foul Is Fair, Fair Is Fair: Is Private Equity Rich? – MSCI](#)

Within the rapidly growing space of semi-liquid vehicles, valuations are a key determinant in how investors can invest and redeem their investments.

Q12: What additional benefits and risks arise from retail investor participation in private markets?

MSCI: As discussed above, private markets may provide both excess returns and additional diversification compared to public markets, which are likely to be attractive to any investor — retail or institutional. Further, the long-term nature of private market investments may align well for investors saving for the purpose of retirement. However, despite this, it is likely that many vehicles designed to allow retail investors to invest in private markets will attempt to provide some amount of liquidity.

Liquidity, per se, is generally not a concern; rather it's the attempt to provide it in the absence of underlying liquidity and imperfect valuations. Some of the risks associated with this change, such as inadequate transparency into the investments of these funds, have been discussed above. However, we understand that the subjective nature of valuations leads to clear additional risks. For example, valuations that are overly smooth or insufficiently reflect other market changes, may allow investors to redeem or subscribe to benefit from the imperfect valuations at the expense of other investors. This has been a concern in other semi-liquid markets such as open-ended real estate funds but is a novel development in private equity.

Please refer: [Gated UK property funds are open to further risk | Reuters](#)

Q14: What additional transparency measures relating to any aspect of public or private markets would be desirable to support market integrity and better inform investors and/or regulators?

MSCI: While private markets have limited transparency to the outside world, the investors in these vehicles receive quarterly (or more frequent) information about the positions and performance of the fund vehicles. Various data providers — MSCI included — have a wide view of these data streams and can provide regulators with an overview of private markets holdings.

Transparency into private credit funds is likely to be of particular importance to retail investors. Such transparency data should enable investors to understand in detail the nature of loans held by such funds, and particularly their credit risks. This requires information both into the terms of the loans as well as operating metrics of the borrowing portfolio companies. Such data will allow making risk assessments for such funds.

Please refer: [MSCI and Moody's to Launch Independent Risk Assessments for Private](#)

Additionally, the entry of retail investors into private markets can increase the importance of regulatory oversight of how asset managers present their investment strategy, their own track record, and any benchmark(s) they select as a reference. Private markets were traditionally the domain of more-sophisticated institutional investors who had the capabilities (or outside consultants) to conduct due diligence in evaluating new investment opportunities and understanding the inherent risks relative to stated performance goals (or previous track records). Furthermore, asset managers must select benchmarks which represent an appropriate reference point for their fund's strategy.