

Private Credit Valuations and Retail Investors: Key Trends for 2025



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The Private Credit market is poised for significant growth as we approach 2025, driven by evolving regulatory frameworks, technological advancements and shifting investor preferences.

Analysts project that the Private Credit market, valued at approximately \$1.5 trillion in early 2024, could expand to \$2.8 trillion by 2028¹.

This rapid growth is attributed to investors seeking higher yields and diversification away from traditional equity markets. Additionally, the convergence of public and private credit markets is expected to continue, offering new opportunities and challenges for market participants.

As we approach 2025, these factors are reshaping valuation practices, particularly in private markets, introducing new challenges and opportunities for investors and financial institutions. Here are some of the trends we anticipate for 2025:

1. Regulatory Developments and their Implications

As 2025 approaches, regulatory bodies are intensifying their focus on valuation practices, especially in relation to retail investors' exposure to private markets. New regulations aim to improve transparency, stress testing and governance, reshaping private credit valuation processes.

— **Entity Structure and Valuation Policies:**

Inadequate alignment with local regulations and insufficient oversight by senior management remain key vulnerabilities in valuation practices, prompting regulators to demand more rigorous governance and operational integrity. Some valuation entities have adopted global solutions without fully understanding local regulatory requirements or engaging senior management in the review process. This has led to inadequate procedures and processes, with no clear mapping of the teams and the regional requirements involved in valuation activities. Regulators have also highlighted inefficiencies in current methodologies, particularly when large entities only partially implement valuation frameworks. The Financial Conduct Authority (FCA) has underscored the importance of adopting localised approaches, especially in the post-Brexit landscape, where governance must adapt to meet regional regulatory expectations.

- ### — **Stress Testing:**
- Stress testing has become a focal point for regulatory intervention, especially within open-ended and hybrid structures designed for retail investors. Regulators have raised concerns about the lack of robust mechanisms to model liquidity management under stressed conditions, which impact private asset valuations. Current stress tests are often generic and fail to account for the specific challenges posed by illiquid assets and in some cases are only fit for liquid assets. Additionally, bid-offer spreads and market depth are rarely analysed in depth, leaving stress-testing frameworks underdeveloped. This inadequacy places the

burden of analysis on investors, who must navigate these gaps independently. To address these issues, the Financial Conduct Authority (FCA) has prioritised embedding stress testing into liquidity management frameworks. With Round 2 of their reviews scheduled for early 2025, the FCA aims to ensure stress tests adequately address liquidation costs and align more effectively with the requirements of open-ended structures.

- **Lack of Processes and Audits:** The lack of formal audit and review mechanisms has emerged as a significant concern for regulators, with these gaps leading to valuation errors and undermining investor confidence. Insufficient annual reviews and weak escalation protocols for addressing valuation errors have been highlighted as critical weaknesses. This situation has also given rise to reputational risks, particularly where NAV errors and discrepancies occur. Furthermore, inconsistent implementation of policies has exacerbated these challenges. In response, regulators such as the Financial Conduct Authority (FCA) and the Commission de Surveillance du Secteur Financier (CSSF) have emphasised the need for independence in valuation policies. They stress that audits must ensure organisations are actively implementing the procedures outlined in their policies to maintain transparency and accuracy.
- **Transparency and Investor Communication:** Transparency remains a key focus for regulators, particularly in private credit valuations, where opaqueness can undermine investor confidence and affect asset liquidity. Limited information flow to retail investors has been identified as a significant gap, making it challenging for them to understand valuation methodologies and associated risks. Reporting practices frequently fail to address the specific concerns of retail investors, especially in hybrid fund structures, further exacerbating these issues. Regulators have called for clearer messaging and better engagement to build confidence in private credit vehicles. In response, the Securities and Exchange Commission (SEC) has highlighted concerns about market concentration and valuation transparency in the private credit sector. Meanwhile, the European Securities and Markets Authority (ESMA) has announced stress tests for UCITS and AIFMD in 2025, aimed at enhancing transparency and providing stronger protections for investors.

2. Transition from Closed-Ended to Open-Ended Structures

The shift from the use of closed-ended fund structures for private assets such as Private Credit, to open-ended and hybrid models is set to accelerate in 2025. This has been driven by investor demand for liquidity, regulatory mandates and evolving market preferences. Open-ended structures, offering greater flexibility, but come with challenges that will shape how the industry adapts to these changes in the coming year, particularly as interest in Private Assets grows.

- **Valuation Frequency and Monthly NAVs:** Open-ended structures require valuations to be conducted more frequently, typically on a monthly basis, to align with investor entry and exit demands. This is a stark contrast to the quarterly valuations traditional in closed-ended funds. Regulatory frameworks such as the ESMA-mandated stress tests for UCITS and AIFMD in 2025 will further push for higher valuation granularity and timely reporting. Pure open-ended structures, like the LTAF, will implement monthly NAVs, while evergreen private credit funds (PC Evergreens) will rely on gating, redemptions in kind and side pockets to manage liquidity effectively.
- **Regulatory Compliance:** The regulatory landscape for open-ended and hybrid funds is becoming more demanding, particularly for structures catering to retail investors. ESMA's stress-testing requirements for UCITS and AIFMD in 2025 will prioritise robust frameworks to protect investors and manage redemption risks. Long-term asset funds (LTAFs), despite being technically open-ended, will face constraints such as extended lock-up periods and matching mechanisms for subscriptions and redemptions, ensuring stability. These regulations will help align investor demand for liquidity with the need to produce realistic valuations in sectors such as private credit markets.

- **Fee Structure:** We expect this to be an interesting area for investors to examine in 2025. As open ended structures come more affiliated with Private Assets, are the fees common to closed-ended structures likely to continue or are retail-style fees likely to prevail? The expectation is that management fees for open-ended structures will be on the higher side of the typical range, especially if the asset is private in nature (1% – 1.5% for Retail; slightly lower for institutional). An important consideration is the liquidity of the asset and frequently it is traded (more trading, higher fees). Performance fees are not too common for Retail investors and for Institutional investors, there may be hurdle rates that sit alongside target returns (like some closed ended structures). For the latter, for early deals within open-ended structures, we expect this not to apply, to entice more retail investors into the space. Load fees may be more related to the Retail side, specifically related to share classes.

3. The Role of Evolving Technologies

As we approach 2025, technological advancements are set to revolutionise Private Credit valuation methodologies, with data analytics and artificial intelligence (AI) playing pivotal roles.

- **Enhanced Data Utilisation:** The integration of extensive datasets enables more comprehensive borrower credit analyses, leading to precise internal ratings and risk assessments. AI-driven tools can process transactions up to 90% faster, enhancing efficiency in financial operations. Possessing more data ensures more complete reporting for Retail and Institutional investors within Private Assets. This also addresses Regulator concerns within this asset class.
- **AI Integration in Valuation Models:** Advanced AI models offer predictive insights and automate complex calculations, resulting in timely and accurate valuations. This reduces the margin for error, improves borrower risk analysis, ensures more accurate and complete private asset valuations and a more streamlined reporting process for investors.
- **Strategic Implementation and Competitive Advantage:** Investment managers recognise that leveraging data and AI is crucial for maintaining a competitive edge in a rapidly evolving market. A significant majority, 85%, fear falling behind if they delay AI adoption, underscoring the urgency to integrate these technologies.

4. Dynamic Valuation Models: Reflecting Market Realities for Managers

- **Incorporating Liquidity Premiums:** Dynamic valuation models adjust for liquidity premiums through the credit cycle, which represent the additional return investors demand for holding less liquid assets. This becomes very prevalent when accounting for the vintage when deals are closing. If deals are closed within a competitive environment, spreads and liquidity premia are likely to be low (and vice versa). If the credit cycle shifts, spreads and liquidity premia will increase (or decrease), thus having an immediate impact on valuations. By factoring in these premiums, valuations more accurately reflect the true market value of assets, especially in fluctuating liquidity conditions. This approach enhances the precision of asset pricing and aligns valuations with investor expectations.
- **Utilising Real-Time Market Data:** The adoption of real-time data analytics allows for immediate reflection of market dynamics in valuation models. This capability enables investment managers to respond promptly to market shifts, reducing reliance on outdated assumptions and improving decision-making accuracy. Real-time data integration ensures that valuations are based on the most current information, enhancing their relevance and reliability.
- **Adapting to Evolving Asset Characteristics:** As asset classes become more complex, dynamic valuation models can adjust to align with changing asset features and market conditions. This flexibility is crucial for maintaining transparency and consistency in valuations, particularly in evolving markets. By adapting to new asset characteristics, these models support more accurate and fair valuations.

- **Workout Assets:** Since Covid, there is more onus placed on working out assets. This feature ensure managers work with sponsors to ensure the borrower return to financial health – thus increasing probability of repaying loans. When in workout, the position is often not changing on a regular basis – leading to stale pricing within the fund. It is important to have a robust model to account for company dynamics to ensure complete valuation.

5. Sustained Returns

Despite the tight credit spreads that continue to characterise the market, attractive yield levels are expected to sustain total returns in the private credit sector through 2025. This stability offers a promising outlook for investors and driving growth in private credit and other alternative asset classes, particularly as fund structures continue to evolve.

The persistence of strong yields underscores the importance of accurate valuation methodologies, including the integration of liquidity premiums and evolving market data. It also reinforces the need for robust stress-testing and governance frameworks, as highlighted by regulatory bodies like the FCA and ESMA. By aligning valuation practices with these yield trends, investment managers can better position themselves to navigate market complexities while maintaining investor confidence.

Waystone's Private Credit Valuation Offering

Waystone delivers a Private Credit valuation service designed to meet the evolving needs of fund managers and investors. Leveraging cutting-edge technology, Waystone ensures valuations are precise, transparent and aligned with global best practices that address concerns raised by Regulators. The offering includes bespoke solutions tailored to private credit and hybrid or open-ended fund structures, addressing challenges such as liquidity management, stress testing, high-frequency valuations within Private Credit and regulatory compliance. With a dedicated team of valuation experts and a commitment to independence and integrity, Waystone empowers clients to navigate the complexities of 2025's dynamic credit markets with confidence.

If you have any questions or would like to sign-up to receive our communications, please contact [Austin Brady](#) or your usual Waystone representative via the below.

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¹<https://www.morganstanley.com/ideas/private-credit-outlook-considerations>