Why Independent Challenge and Oversight Matter in Private Market Valuations

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The biggest valuation risk in private markets is not always the methodology itself. It is whether the assumptions behind that methodology have been properly challenged.

As private market portfolios become more complex, institutional investors are placing greater emphasis on the governance behind valuation decisions. They want to understand not only how assets are valued, but who has reviewed the assumptions, how conflicts are managed and whether the process is supported by independent oversight.

For investment managers, independent oversight has become more than a governance requirement. It is now an important source of investor confidence.

The focus has shifted to challenge

In private markets, valuation frequently depends on judgement. This is particularly true for private credit, asset-backed finance, distressed debt and non-performing loan portfolios, where assets may be illiquid, market evidence may be limited and outcomes may depend on future cash flows or recovery assumptions. The lack of equivalent public-market disclosure requirements creates a transparency gap that makes challenge more important, because valuation inputs may depend on limited borrower disclosures, servicer information or manager judgement.

In that environment, investors are asking more detailed questions. How was the methodology selected? Were key assumptions challenged? How are conflicts of interest addressed? Are policies applied consistently across the portfolio? Can the manager evidence the process behind the valuation?

These questions reflect the continued institutionalisation of private markets. Investors are no longer focused only on the reported valuation. They are evaluating the quality, independence and resilience of the framework supporting it.

Managing conflicts and strengthening credibility

Valuation outcomes are closely linked to reported performance. That naturally creates potential conflicts, particularly where assets are illiquid or where there is limited external market evidence. Independent oversight helps address this by introducing objective challenge into the valuation process. The gap between carrying values and realised credit outcomes can be significant, so independent challenge helps test whether valuations are supported by evidence rather than simply reflecting a manager's current view of the portfolio.

Effective oversight does not mean adding unnecessary complexity. It means ensuring that valuation policies are clear, assumptions are tested, decisions are documented and methodologies are reviewed as portfolios and market conditions evolve.

This is particularly important during periods of market volatility or stress. When assumptions become more subjective, independent review helps managers demonstrate that valuations are not simply accepted at face value, but are subject to disciplined challenge and governance. Where subjective credit judgements become more prominent, the oversight framework needs to test not only the chosen methodology, but the reasonableness, consistency and evidential support behind the assumptions. It is also where methodology review becomes critical: accounting standards and market practice are not static, and valuation frameworks need to adapt as stressed conditions reveal new information about liquidity, recoveries and asset performance.

Oversight cannot be replaced by technology

Technology is playing an increasingly important role in valuation. Better data, improved automation and more advanced analytics can enhance efficiency, consistency and reporting. These tools are valuable, particularly as managers oversee larger and more complex portfolios.

But technology does not remove the need for experienced judgement. Valuation models still depend on the quality of their inputs, the appropriateness of their assumptions and the strength of the review process around them. For specialist private market strategies, independent oversight remains essential to interpreting outputs and challenging whether they remain appropriate.

Key considerations: Valuation framework

Below are four questions managers should ask of their valuation framework:

- Who can independently challenge valuation assumptions?
- How are potential conflicts identified and managed?
- Is there a clear audit trail behind material valuation decisions?
- Could the valuation process withstand investor, auditor or regulatory scrutiny tomorrow?

A stronger framework for investor confidence

A robust valuation framework brings together methodology, documentation, independence and oversight. Each element plays a role in helping managers demonstrate that valuation decisions are transparent, consistent and capable of withstanding scrutiny.

For investment managers, this matters beyond compliance. Strong oversight can support investor due diligence, strengthen auditor engagement and provide greater confidence in the integrity of reported valuations. It also helps managers scale their valuation processes as portfolios grow in size and complexity.

Supporting independent valuation oversight

As private markets continue to mature, independent oversight is becoming a defining feature of robust valuation governance. Investors expect managers to demonstrate not only that valuations are appropriate, but that the process behind them is objective, disciplined and well controlled.

Waystone supports investment managers across private markets with independent valuation oversight, combining technical expertise, disciplined review processes and practical experience across multiple asset classes and fund structures. By bringing independent challenge to the valuation process, we help managers strengthen confidence with investors, auditors and regulators.

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