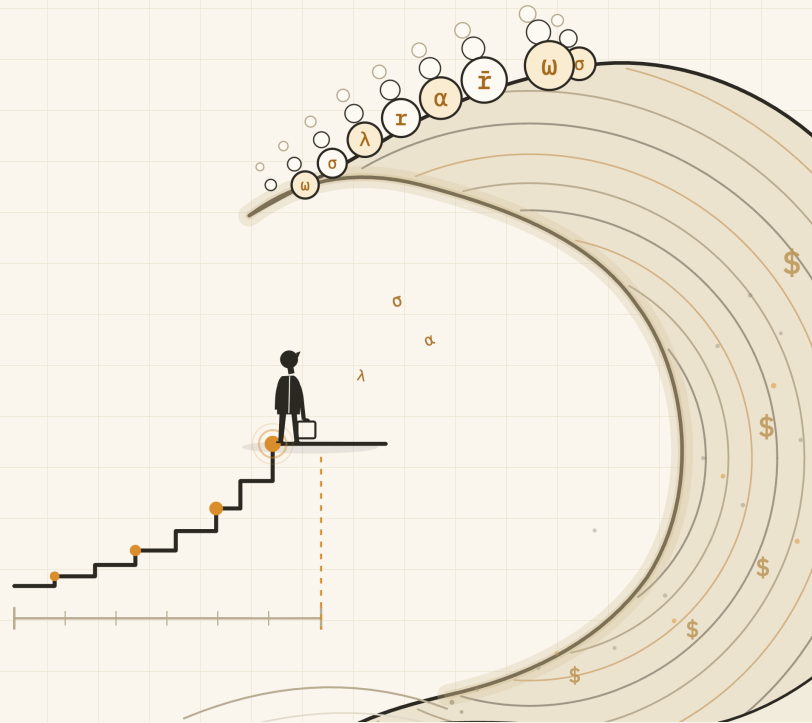


Private equity has scaled past its risk management.

Trillions are coming. The instruments to measure risk need to keep up.

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Asset management is a fast-moving business. New styles, asset classes, and fund structures emerge and quickly become a standard part of the allocator's toolkit. Today it is private markets' turn in the fast lane, particularly in the retail channel. Preqin projects global alternatives AUM reaching \$32 trillion by 2030, roughly a doubling, and names retail participation as a major driver. Private equity ex-venture stood at \$8.6 trillion at the end of 2024. Bain has the buyout category compounding at about 11% annually for two decades.

The investor base has widened at the same pace as the asset base. Semi-liquid evergreen vehicles crossed \$607 billion across 567 funds as of March 31, 2026, per Morningstar PitchBook, up from \$590.8 billion at the end of 2025 and roughly double their level three years ago. MSCI puts wealth investors at one-fifth of evergreen AUM, and PitchBook's base case has wealth-focused evergreen assets growing around 20% a year toward \$1.1 trillion by 2029. A 2025 survey found 86% of private fund managers had launched or planned to launch semi-liquid vehicles aimed at retail.

The retirement channel is also in play. Executive Order 14330, signed in August 2025, directed the DOL and SEC to clear the path for alternatives in defined contribution plans, which cover more than 90 million Americans and over \$12 trillion in capital. The DOL's proposed safe harbor followed on March 30, 2026. A 2% shift in target-date allocations would move \$244 billion into private markets, exceeding the entire current wealth-channel evergreen market.

The growth, popularity, and regulatory oversight of private equity all increase the visibility of what private equity is sorely missing: better risk management. The techniques that worked in the past will not be sufficient at this scale of AUM and this level of scrutiny. The factor models that serve public equity so well cannot be pointed at private equity. The apparatus of decomposing returns into exposures, estimating covariances, and attributing performance depends on long series of daily price observations. Millions of private businesses have no price history to factor, and the desmoothing routines applied to the problem are well-intentioned attempts to manufacture a return series from a faint pattern of underlying data.

There is also debate about the marks themselves, which seems unwinnable with the data currently available. Cliff Asness coined "volatility laundering" for the way infrequent, appraisal-based valuations understate realized risk, and the mechanism — stale pricing and serial correlation — is well documented across illiquid asset classes. The opposing view holds that quarterly marks track fundamentals while public prices swing on sentiment.

The lack of private equity risk models also weakens relationships with institutional investors, the limited partners who invest with private equity managers. Over the last 50 years, institutional investing has come to rest almost entirely on the idea of risk-adjusted return. Portfolio managers forecast return and risk models estimate risk. Put them together and you have expected risk-adjusted return, a measure of efficiency that almost all institutional allocators use to make decisions. In private equity, risk tends to be expressed on a qualitative basis for lack of practical risk models, so LPs are left struggling to compare the efficiency of private equity returns against other asset classes.

The solution lies in a different starting point

To break through these problems, we need to recognize that prices and marks reveal risk that has already transpired; they do not measure where risk originates. Risk originates in the operations of a business, in how many revenue events arrive in a period and how large each one is. From revenues, variance amplifies or dampens as it propagates through the cost structure into earnings and outward to enterprise value and cash flow. Measured this way, price history stops being necessary and the model can run at much higher cadences as information arrives.

Risk originates in the operations of a business — in how many revenue events arrive in a period, and how large each one is.

This insight is the foundation of Saliency, a risk model for private companies. Revenue variance decomposes into count risk, covering how many orders, contracts, patients, loads, or renewals arrive, and size risk, covering how large each one is. The Saliency cascade then runs forward: revenue variance through the expense structure into earnings variance, and earnings variance forking two ways, through the valuation model into valuation variance and through working capital into operating cash flow variance and the probability of covenant breach. Sentiment still has a place — it resides in the model used to carry EBITDA to valuation — but market sentiment and sector pricing can be taken from the current cross-section by the user. It does not require a history of prices.

Saliency answers each of the problems above. No price history is required, since the inputs are operating data already sitting in monthly reporting. The public proxy is replaced by the company's own business process, so the volatility estimate belongs to the actual business being measured. The debate over sparse and smoothed marks is sidestepped, because risk is measured forward from operations at operating cadence instead of being reverse-engineered out of four appraisals a year. Integrations into CRM and accounting systems can provide daily estimates if desired.

Portfolio construction follows similarly. Company-level variance aggregates into a fund-level risk estimate, with each holding ranked by its marginal contribution to portfolio risk, so follow-on capital can be steered toward the positions where it works most efficiently on a risk-adjusted basis.

In contrast to the familiar returns-based factor models, because Saliency looks at underlying business activities to measure risk, it can also be used to manage and reduce risk. The sales desk owns new logo risk. The customer success team owns churn. Variance that can be attributed can be managed, and reducing earnings variance improves earnings quality, which all else equal drives up the multiple. Measured risk reduction becomes a value-creation lever with a return attached to it, a source of measurable alpha that integrates into the risk-adjusted return framework investors already expect.

Meeting the moment

Trillions of dollars are coming, and a meaningful share will arrive through advisors and retirement accounts. LPs will ask GPs to report risk with the rigor they already apply to return, and regulators have started writing the word "valuation" into fiduciary safe harbors. Private equity managers can meet the moment from the perspective of risk management, or watch the industry move on to the next thing without them. Solutions are emerging in time to meet that moment. Learn more on the method at castillelabs.net/salience.

SOURCES

Preqin/BlackRock, *Private Markets in 2030* (Oct 2025); Bain & Company, *Global Private Equity Report*; Morningstar PitchBook *Evergreen Fund Landscape* (Q1 2026); MSCI, "The Ascendancy and Implications of Evergreen Funds in Private Markets"; Executive Order 14330 (Aug 7, 2025); U.S. Department of Labor proposed rule, EBSA (Mar 30, 2026).