



## Private credit valuations

### Leading practices that stand up to scrutiny

As the investor universe and appetite for private credit has continued to grow, so too have expectations around valuation discipline. For Level 3 instruments, observable pricing can be limited and judgment plays a larger role. In this environment, defensible valuation is less about finding a “perfect” number and more about demonstrating a repeatable, well-governed process that produces reasonable marks, period after period, and can be understood by investment committees, auditors, regulators, limited partners, and now retail investors.

The strongest valuation programs start by treating process quality as a primary risk-control objective. Valuation is often described as part “science” and part “art,” but the practical goal is to maximize the science: transparent inputs, consistent methods, and documentation that allows an informed third party to follow the logic from facts to assumptions to conclusion. When a valuation framework is designed this way, disagreements become manageable debates about assumptions rather than credibility tests about methodology.

#### **Build from observable evidence—then layer in judgment**

A leading-practice valuation approach begins with observable, contemporaneous evidence and uses judgment only when necessary. Recent transactions are typically the most persuasive

anchor: a manager’s own originations and amendments, and other relevant market indications where terms and timing are comparable. The key is not simply to reference transactions, but to explain comparability—how the reference deal aligns (or does not align) on seniority, structure, collateral, covenants, borrower risk, sector, and duration—and what adjustments were made, consistently, to bridge differences.

This “comparables discipline” works best when it is operationalized. High-performing teams maintain a structured, comparable selection process (including inclusion/exclusion rules), document rationale for each valuation date, and preserve a clear audit trail that ties spread movements to identifiable drivers such as macro rates, sector repricing, borrower performance, and capital structure changes.

#### **Make credit monitoring the engine of spread selection**

Because private credit is fundamentally about borrower-specific risk, valuation leading practice relies on rigorous credit monitoring that informs how spreads should evolve. Whether a firm uses a formal rating model or an internal scorecard, the objective is the same: create a repeatable way to reflect changes in borrower health and forward-looking risk. That requires timely intake of borrower financials and covenant packages, consistent monitoring of trends

(e.g., leverage, coverage, liquidity, revenue stability), and sector context that explains whether a change is idiosyncratic or market-wide.

When spread selection is explicitly linked to a documented credit view, the valuation process becomes easier to defend: Marks move for identifiable reasons, and those reasons can be evidenced and constructively challenged.

### Treat illiquidity explicitly—and keep the framework stable

Another hallmark of mature practice is a deliberate approach to illiquidity. Private credit is typically less liquid than public credit, and the market demands compensation for that. The control objective is to avoid hiding liquidity effects inside ad hoc spread changes. Strong programs define an approach for separating, at least conceptually, the compensation for credit risk from compensation for illiquidity, refresh assumptions periodically as market conditions evolve, and document how that allocation affects discount rate development and comparable selection.

Just as important as the math is the stability of the framework: Stakeholders gain confidence when the same logic is applied consistently across assets and across time, rather than changing approach whenever conditions become inconvenient.

### Govern subjective adjustments like high-risk exceptions

Even with strong data, there will be situations where judgment is unavoidable—distressed developments, amendments with complex terms, sponsor support considerations, borrower-specific events, or structural features that are not cleanly captured in comparables. Leading practice is not to eliminate judgment; it is to control it.

That means setting explicit guardrails: written justification tied to evidence, consistent adjustment “playbooks,” approval thresholds for high-impact overrides, and a complete audit trail. Over time, organizations reduce friction by treating subjective adjustments as exceptions that must be earned, not default tools to achieve a desired result.

### Add independent challenge, calibration, and learning loops

Valuation programs that hold up under scrutiny usually incorporate strong “second lines” of defense—formal or informal—through independent review and systematic calibration. Practical techniques include:

- **Sensitivity analysis** on key drivers (e.g., discount spread, recovery assumptions, default/loss expectations, liquidity premium) to show how much the mark depends on judgment.
- **Period-over-period attribution** to explain what changed and why (e.g., rates, credit, liquidity, borrower performance, structure).

- **Back-testing and outcomes tracking** where feasible (e.g., comparing prior marks to subsequent trades, exits, refinancings, or amendments) to improve future assumptions.
- **Model validation and change control** to ensure methodology changes are deliberate, approved, and documented—rather than drifting through incremental updates.

These practices do more than satisfy review; they improve decision-making by turning valuation into an institutional learning process.

### Strengthen governance, documentation, and internal controls

Governance matters because valuation outcomes often flow into financial reporting, investor reporting, and performance measurement. Strong programs clarify ownership (e.g., management responsibility, committee oversight), define escalation paths, and enforce documentation standards that make valuations reproducible to a reasonable extent.

From an internal control perspective, the highest-value controls are often operational: clear valuation policies and procedures, segregation of duties where possible, controlled access to key assumptions, evidence packages that link each mark to its support, and disciplined oversight cadences that require teams to explain—not just present—results. When these elements are present, audit and diligence conversations become faster and more focused on substance.

### Where proprietary or private-market data sets fit is useful, not foundational

Only after the core leading practices are established does the question of proprietary or private-market data sets become relevant. These data sets can be helpful as corroborative information, particularly when they are used to triangulate a conclusion already supported by transparent methods and documented evidence. The risk arises when a proprietary data set becomes the primary basis for marks without sufficient transparency, creating challenges in reproducibility, independent validation, and governance oversight.

A pragmatic stance is to treat proprietary data sets as a supplement and to manage them with third-party risk discipline (e.g., due diligence, ongoing monitoring), clear contractual safeguards around data use and retention, and internal controls that ensure changes in data set construction or methodology do not silently alter outcomes.

Ultimately, private credit valuation credibility is earned through consistency: a clear framework, applied the same way across the portfolio and through time, supported by evidence and governed with the seriousness and transparency the market now expects.

## Contacts



**George Psarianos**

Global Portfolio Valuation  
Services Leader  
Deloitte Transactions  
and Business Analytics LLP  
[gpsarianos@deloitte.com](mailto:gpsarianos@deloitte.com)



**Bruce T. Spector, CFA**

Specialist Leader  
Deloitte Transactions  
and Business Analytics LLP  
[brspector@deloitte.com](mailto:brspector@deloitte.com)

# Deloitte.

*Together makes progress*

This document contains general information only and Deloitte is not, by means of this document, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This document is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this document.

As used in this document, "Deloitte" means Deloitte Transactions and Business Analytics LLP, a subsidiary of Deloitte LLP. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of our legal structure. Certain services may not be available to attest clients under the rules and regulations of public accounting.