



Valuation Governance Considerations for Private Credit Assets in Regulated Funds

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Table of Contents

- 1 Introduction**
- 2 Background**
 - 2 Funds' Valuation Obligations
 - 2 Valuation Frequency
 - 4 Private Credit in Fund Portfolios and the Fair Value Framework
 - 5 Unlisted CEFs and BDCs and Their Investments in Private Credit
 - 8 Growth in Private Credit Markets
- 10 What Is Private Credit?**
- 12 Private Credit Investments and Regulated Funds**
- 13 Private Credit Valuation Challenges and Considerations**
- 16 Risk- and Materiality-Based Considerations for Private Credit Valuation**
- 18 Key Areas of Ongoing Monitoring Relevant to Private Credit Valuation**
 - 19 Credit Market Conditions and Monitoring
 - 21 Portfolio Company and Investment-Specific Developments
 - 21 Contractual and Covenant Developments Monitoring
 - 22 Benchmarking
- 23 Looking Ahead: Evolving Market Infrastructure and Data Availability**
 - 23 Integration of Advanced Analytics and Artificial Intelligence
- 24 Conclusion**
- 25 Appendix**

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Introduction

The growth of private credit investments¹ in regulated funds has brought increased attention to the valuation of assets that do not trade as frequently, or in comparably transparent markets, as traditional public equity or fixed income investments. This investing is predominantly in closed-end funds (CEFs), including traditional CEFs, interval funds, tender offer funds, and business development companies (BDCs), and happens to a lesser extent in open-end mutual funds and exchange-traded funds (ETFs).²

This paper begins by outlining regulated funds' valuation obligations. It then provides an overview of private credit, including key investment types and how regulated funds gain exposure. The paper next highlights important considerations in valuing these investments, which often involve a meaningful degree of expert judgment, including how funds may monitor market conditions and investment-specific developments between periodic or market-driven valuation assessments. It concludes with observations on how evolving market infrastructure and data availability may influence valuation practices over time.

This paper is not intended to prescribe specific valuation methodologies or revaluation frequencies, nor to establish valuation "best practices." Rather, it highlights considerations, based on commonly used approaches, for funds, boards, and their investment advisers (i.e., "valuation designees") when designing and applying valuation processes that are consistent with applicable regulatory and accounting requirements, while remaining operationally practical.

¹ For purposes of this paper, "private credit" generally refers to direct lending strategies and may also include certain asset-based finance (ABF) and real estate debt investments, which typically involve lending secured by pools of financial or real assets. While this paper focuses primarily on direct lending given its prevalence in retail-oriented fund structures, many of the considerations discussed herein are also applicable to ABF and real estate debt investments, although given their structurally and collateral distinct characteristics, they may involve additional or different valuation considerations.

² In this paper, we refer to mutual funds, ETFs, CEFs, and BDCs as *regulated funds* or *funds*. Mutual funds, ETFs, and CEFs are registered under the Investment Company Act of 1940 (1940 Act). BDCs are not registered under the 1940 Act but elect to be subject to and regulated by certain of its provisions.

Background

Funds' Valuation Obligations

Valuation has long been a core legal, regulatory, and accounting responsibility for funds. A well-functioning valuation process is critically important to funds and their shareholders. The Securities and Exchange Commission (SEC) has stated, "Proper valuation, among other things, promotes the purchase and sale of fund shares at fair prices, and helps to avoid dilution of shareholder interests. Improper valuation can cause investors to pay fees that are too high or to base their investment decisions on inaccurate information."³ Proper valuation also helps ensure accurate total return performance calculations, which are based on changes to a fund's net asset value (NAV).

Funds' valuation practices are guided by the 1940 Act and accounting standards.⁴ Section 2(a)(41) of the 1940 Act establishes a two-pronged approach to valuing portfolio investments: securities for which market quotations are readily available must be priced at market value, and all other securities where market prices are not readily available must be assigned a "fair value as determined in good faith by the board of directors" of the fund.

In December 2020, the SEC adopted Rule 2a-5 under the 1940 Act (the "fair value rule," or the "rule"). It establishes a process-oriented, principles-based framework for determining the fair value of fund investments (including private credit investments) in good faith.⁵ To a large extent, this rule codified existing industry practices.

Importantly, while the fair value rule sets forth requirements for "determining fair value in good faith," funds also look to the definition of "fair value" under US Generally Accepted Accounting Principles (GAAP). ASC Topic 820 defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.⁶ Fair value is an exit price—the price to sell an asset rather than the price to buy that asset.⁷ The release adopting the fair value rule, in discussing the obligation to establish and apply fair value methodologies, indicates that an appropriate methodology must be consistent with those used to prepare the fund's financial statements and thus consistent with the valuation approaches laid out in ASC Topic 820.⁸

Valuation Frequency

Valuation is a necessary step in a fund's calculation of its NAV, which most funds then use to process daily purchases and redemptions by their shareholders. Valuation frequency (Figure 1) depends on many factors, including the fund's structure and how often it sells and repurchases its shares. Mutual funds and ETFs are open-end funds (i.e., they offer redeemable shares) that value each of their portfolio holdings, strike NAVs, and

³ **Good Faith Determinations of Fair Value**, SEC Release No. IC-34128, at 5 (Dec. 3, 2020) ("Fair Value Release").

⁴ See **Fund Valuation Under the SEC's New Fair Value Rule**, ICI, at 1 (Dec. 2021) ("ICI Fair Value Paper").

⁵ The rule permits a fund's board to designate the fair value determination relating to any or all fund investments to a "valuation designee," which generally must be the fund's primary investment adviser, subject to continued board oversight. Because it is the industry norm, we assume throughout this paper that the board has made this designation, and that the fund's investment adviser is doing the day-to-day valuation work, with oversight by the board.

⁶ See ASC Topic 820, Fair Value Measurement.

⁷ An exit price embodies expectations about future cash inflows associated with the asset from the perspective of a market participant (i.e., buyers and sellers that are independent of each other, knowledgeable about the asset, willing and able to transact, but not forced or compelled to do so). A transaction is not orderly if it is forced (e.g., a forced liquidation or distress sale).

⁸ See Fair Value Release, at 23.

make their shares available for purchase and redemption each business day.⁹ By contrast, CEFs and BDCs must only value each of their portfolio holdings periodically, although many CEFs, primarily listed CEFs and interval funds, do so each business day. For example, interval funds are primarily continuously offered and typically priced daily to facilitate investor purchases, similar to mutual fund shares.¹⁰ Additionally, 95% of traditional CEFs calculate the value of their portfolios every day.¹¹ Meanwhile, most listed BDCs do not strike a daily NAV. And tender offer funds and unlisted BDCs, whose shares are not listed on exchanges or offered/repurchased each day, tend to value their portfolio holdings less frequently, such as weekly, monthly, or quarterly.

FIGURE 1
Fund NAV Calculation Frequency

Fund type	How often can an investor purchase?	How often may an investor redeem?	When is the NAV calculated?
Mutual fund	Daily.	Daily.	At least daily.
ETF	Throughout the day at market prices.	Throughout the day at market prices.	At least daily.
Traditional Listed CEF	Throughout the day at market prices.	Throughout the day at market prices.	Generally daily. Can be less frequent based on fund-specific factors.
Interval fund	Generally daily, if continuously offered.	During required repurchases. In 2025, 93% interval funds offered quarterly repurchases.	Generally daily, if continuously offered.
Tender offer fund	Varies based on the fund's subscription terms.	During discretionary tender offers. In 2025, 61% held quarterly tenders, 16% held annual or semi-annual tenders, and 23% held none or an ad hoc tender offer.	Periodically (often around tender offer or subscription dates) based on fund-specific factors.
Listed BDC	Throughout the day at market prices.	Throughout the day at market prices.	Generally at least quarterly based on fund-specific factors.
Unlisted BDC	Private (accredited investors only): Periodically or through capital commitment structure. Public: Varies based on the fund's subscription terms.	Private: In 2025, 42% offered discretionary quarterly tender offers; otherwise, investors may be able to redeem after a fixed period as part of a liquidity event, like an IPO or the fund's planned liquidation. Public: In 2025, 100% offered discretionary quarterly tender offers.	Private: Periodically based on fund-specific factors, but must occur at least quarterly. Public: Periodically (often around tender offer or subscription dates) based on fund-specific factors, but must occur at least quarterly.

⁹ Mutual fund shareholders purchase and redeem shares directly with the fund or do so through intermediaries. By contrast, most activity in ETF shares happens through secondary market trades on exchanges, rather than the primary market (i.e., creations and redemptions of ETF shares occur through authorized participants). Secondary market trades in ETF shares generally occur at prices close to the ETF's NAV due to ETFs' arbitrage mechanism (i.e., the creation and redemption activity of authorized participants).

¹⁰ While interval funds are continuously offered, they make offers to repurchase their shares less frequently (typically every three, six, or 12 months) at NAV in compliance with Rule 23c-3 under the 1940 Act.

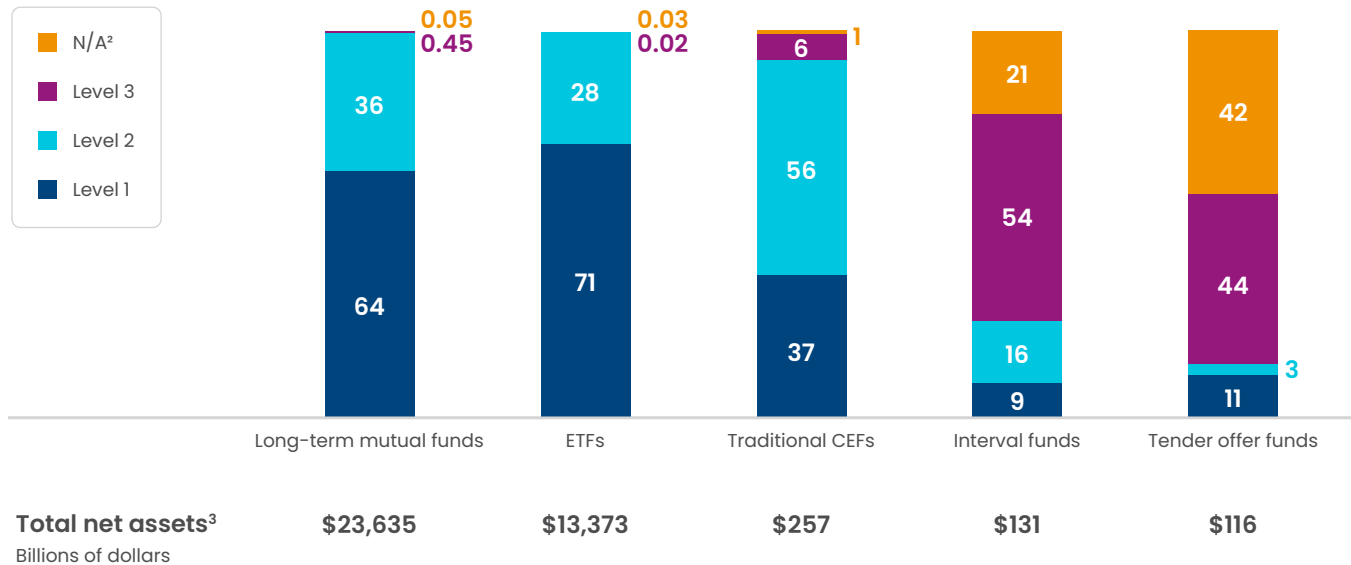
¹¹ Traditional CEFs (or listed CEFs that are not BDCs) generally issue a fixed number of shares that are listed on a stock exchange or traded in the over-the-counter market. The market price of CEF shares fluctuates like those of other publicly traded securities and is determined by supply and demand in the marketplace. Therefore, a CEF's shares may trade at a price higher or lower than its NAV (i.e., at a premium or a discount).

Private Credit in Fund Portfolios and the Fair Value Framework

The principles-based nature of the fair value rule is well suited to the wide array of portfolio investments held by funds, including equities, fixed income securities, derivatives, and, increasingly, private credit. Valuing these investments requires a variety of processes, methodologies, inputs, and assumptions.

Funds have significant experience valuing private credit and other investments where there is little, if any, market activity for the investment at the measurement date (i.e., a Level 3 asset).¹² The fair value measurement objective remains the same as with other assets—determining an exit price at the measurement date from the perspective of a market participant that holds the asset. The vast majority of net assets in open-end funds are in investments that use Level 1 or Level 2 inputs, while a much greater share of CEF assets are in investments that use Level 3 inputs (Figure 2).

FIGURE 2
Registered Fund Assets by Fair Value Level
 Percentage of total dollar value of holdings, year-end 2025¹



¹ The total dollar value of a fund's holdings may be slightly different from its total net assets. Data for fund holdings are based on quarterly public filings between November 2025 and January 2026.

² The large share of N/A values for interval funds and tender offer funds corresponds to their holdings of private funds that do not need to be assigned a level in the fair value hierarchy.

³ Total net assets for mutual funds, ETFs, and traditional CEFs are as of year-end 2025, while those for interval funds and tender offer funds are from each fund's quarterly public filings between November 2025 and January 2026. BDCs do not make SEC Form N-PORT filings. Total net assets for traditional CEFs, interval funds, and tender offer funds include the value held by preferred shares.

Sources: Investment Company Institute and publicly available SEC Form N-PORT data

¹² When pricing an asset or liability, market participants use data and assumptions—including assumptions about risks—as inputs. These inputs form the basis of the GAAP *fair value hierarchy*, which is used to categorize the fair value measurement for a portfolio investment into one of three levels: (i) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date; (ii) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and (iii) Level 3 inputs are unobservable inputs for the asset or liability and include management's own assumptions about how market participants would value the asset, such as a multiple of estimated earnings or cash flows.

It is not surprising that a very small percentage (less than 1%) of mutual fund and ETF portfolio investments use Level 3 inputs. This demonstrates the care with which fund boards and advisers select an appropriate regulated fund structure to fit the fund's investment objective, strategies, and portfolio.¹³ In many instances, investments with limited observable market inputs are also less liquid, and an open-end fund (other than a money market fund) is subject to a 15% limit on illiquid investments.¹⁴ In practice, however, many funds operate well below this limit, as investment strategies and prospectus disclosures, together with internal risk management frameworks, often result in more conservative portfolio construction than the regulatory limit alone. As a result, open-end funds typically maintain only modest allocations to less frequently traded investments.

Unlisted CEFs and BDCs and Their Investments in Private Credit

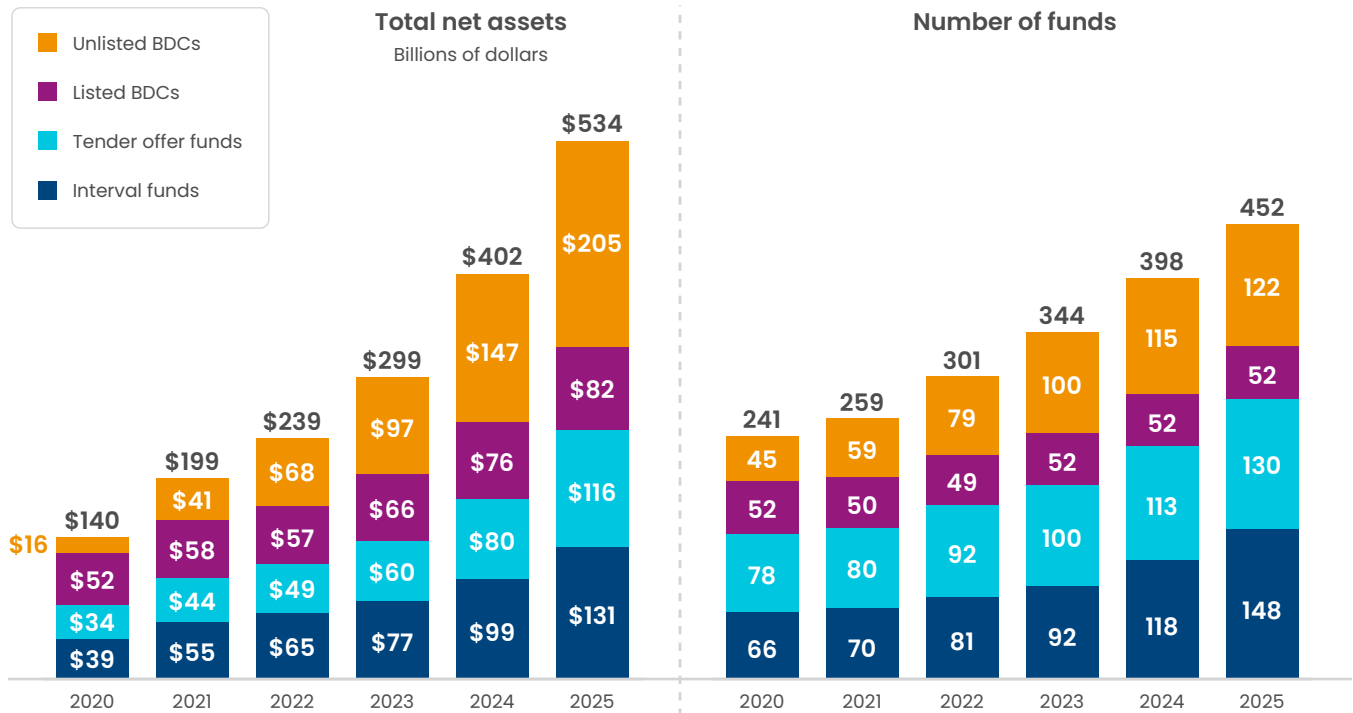
CEFs have a much greater share of their assets (compared with open-end funds) in investments that use Level 3 inputs (Figure 2). Indeed, 54% of interval fund assets and 44% of tender offer fund assets were in Level 3 securities at year-end 2025. This reflects the intended design of the CEF structure—because CEFs do not offer redeemable shares, and therefore do not meet daily, or in some cases *any*, redemptions, they have more flexibility to invest in investments that rely on unobservable inputs or that may be less frequently traded. This includes private credit, and in recent years, the demand for private credit (as well as other alternative assets) has driven growth in unlisted CEFs and BDCs (Figure 3).

¹³ See, e.g., Rule 22e-4(b)(1)(i)(A) (requiring mutual funds and ETFs to assess, manage, and periodically review their liquidity risk, including whether the investment strategy is appropriate for an open-end fund) and Rule 23c-3(b)(10)(iii) (requiring interval funds to adopt written liquidity procedures) under the 1940 Act.

¹⁴ Rule 22e-4(b)(1)(iv) under the 1940 Act.

FIGURE 3

Net Assets of Interval Funds, Tender Offer Funds, and BDCs Have Skyrocketed in Recent Years
Year-end*



* Data are based on quarterly public filings between November and January.

Note: Data exclude feeder funds.

Source: ICI calculations of data from publicly available SEC Form N-PORT, N-CEN, 10-Q, and 10-K filings

BDCs generally focus their investments in private credit through direct lending. While interval funds and tender offer funds follow a more diverse set of strategies, 64% of interval fund assets were in credit-focused funds at year-end 2025 (Figure 4). Additionally, 44% of interval fund holdings at year-end 2025 were in loans.¹⁵ Given the need to support continuous investor redemptions, very few open-end funds invest materially in private credit.¹⁶

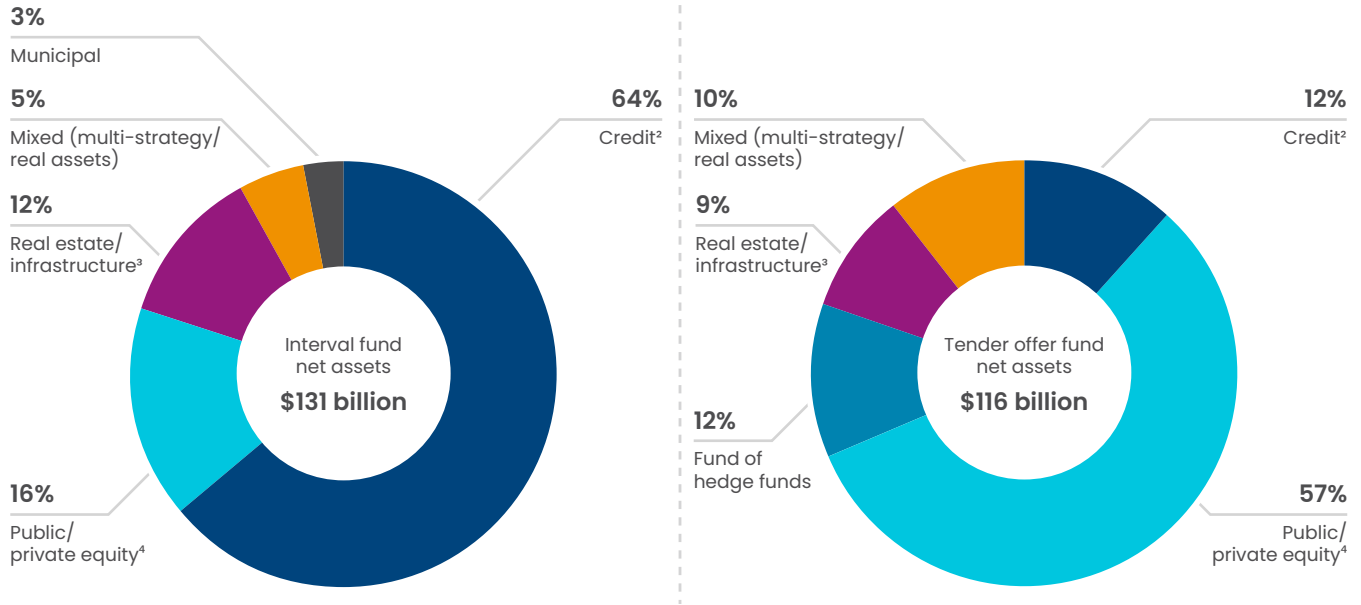
¹⁵ These loans tend to be directly-originated loans. For more information, see James Duvall, "The Closed-End Fund Market, 2025," *ICI Research Perspective* 32, no. 3 (Apr. 2026).

¹⁶ A small subset of ETFs seeks to provide investors access to private credit by investing primarily in listed BDCs, investing primarily in private credit collateralized loan obligations (CLOs), or maintaining a sleeve of their portfolios allocated to direct private credit investments.

FIGURE 4

Interval Funds Often Follow Private Credit Strategies, While Tender Offer Funds Largely Follow Private Equity Strategies

Percentage of total net assets, year-end 2025¹



¹ Data are based on quarterly public filings between November 2025 and January 2026.

² Credit includes direct lending, private debt, and other credit strategies.

³ For tender offer funds, real estate/infrastructure includes a small number of municipal funds.

⁴ Public/private equity includes hedge fund equity and venture capital strategies. For interval funds, this category also includes a small number of fund of hedge funds.

Note: Data exclude feeder funds.

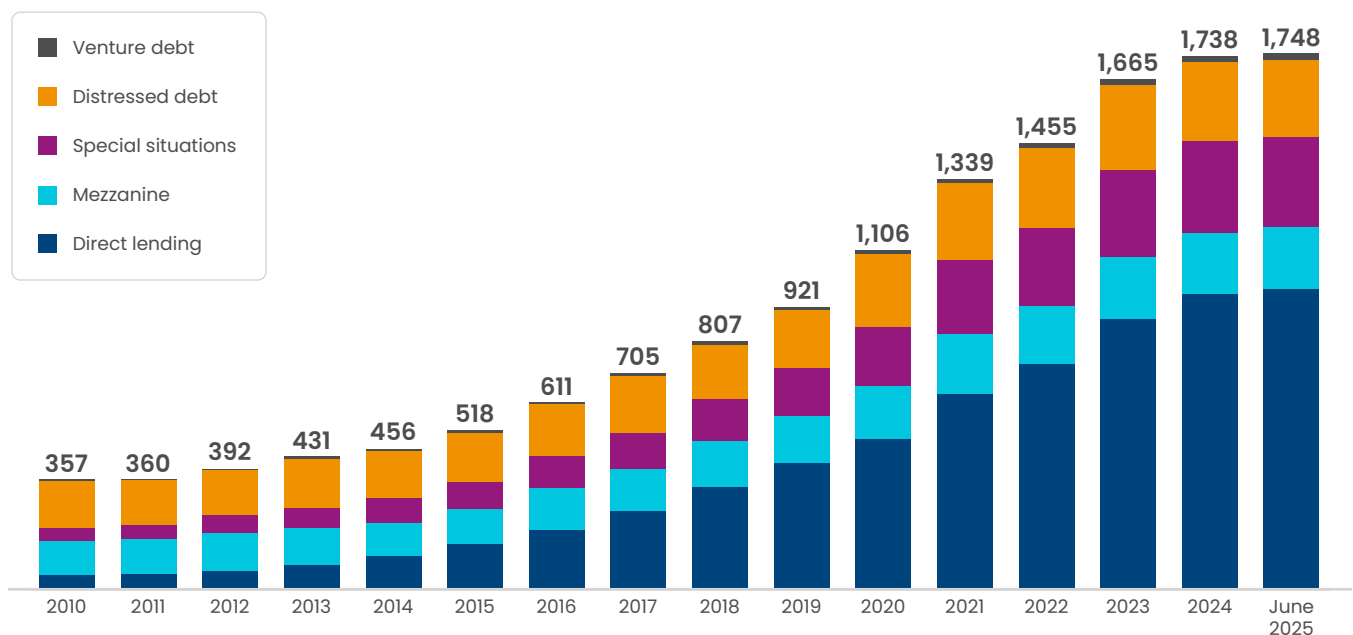
Source: ICI calculations of SEC Form N-PORT and Preqin (a part of BlackRock) data

Growth in Private Credit Markets

While regulated funds, particularly BDCs, have invested in private credit for decades, CEFs generally have only recently been investing in private credit to a greater extent. Since the global financial crisis, private credit has evolved from a niche market into a significant component of the global lending ecosystem, with assets under management growing from \$357 billion at year-end 2010 to more than \$1.7 trillion as of June 2025 (Figure 5). In particular, direct lending has accounted for the bulk of this growth, from just 13% of all private credit assets at year-end 2010 to 56% in June 2025.

FIGURE 5
Direct Lending Has Fueled the Rise in Private Credit

Global assets under management, billions of dollars, year-end*



* Data for 2025 are as of June.

Note: Data exclude funds of funds.

Source: Preqin (a part of BlackRock)

Following the global financial crisis, regulatory changes and balance-sheet de-risking constrained traditional bank lending.¹⁷ As a result, asset managers and other non-bank lenders stepped in to provide direct loans, rescue financings, and other privately negotiated credit solutions to borrowers.¹⁸

Stricter capital and liquidity requirements imposed on banks (e.g., Basel III)¹⁹ made certain forms of lending more costly or less attractive for traditional lenders, further accelerating the development and growth of private credit markets.

Demand from borrowers—particularly among middle-market companies and private equity-backed borrowers²⁰—has increased due to the availability of customized solutions, speed, certainty of execution, and borrowers’ inability to access public capital markets or traditional bank financings.

What began as a market focused primarily on mezzanine and distressed strategies through BDCs²¹ has expanded to include a broad range of categories, including direct lending, asset-based and specialty finance, infrastructure and real-asset credit, structured and securitized products, NAV and fund finance, venture debt, and other niche strategies, each addressing different borrower needs and investor objectives.

Recent policy and regulatory developments aimed at broadening access to private market investments in defined contribution retirement plans and expanding retail access through regulated funds have increased the attention paid to the valuation practices of these products.²² Further, heightened redemption requests in certain regulated funds—and the use of intentionally designed structured redemption policies by those funds—underscore the importance of aligning product design, investor expectations, and valuation governance.²³

In particular, investors and their investment professionals should select investments that match identified investment objectives and time horizons (which for these investments generally should be longer-term); fund boards and investment advisers should select a vehicle type and redemption terms that are consistent with the fund’s investment strategies and overall portfolio liquidity; and funds should maintain thoughtful valuation, governance, and disclosure practices, particularly where investor transactions occur at NAV and valuation of underlying assets relies on unobservable inputs.

¹⁷ See, e.g., Bank for International Settlements, CGFS Papers No. 58: Structural Changes in Banking After the Crisis (2018); International Monetary Fund, Global Financial Stability Report (various editions); Federal Reserve Board, Financial Stability Reports (various editions) (each describing post-crisis bank balance sheet adjustments and reduced risk appetite in certain lending segments).

¹⁸ See Financial Stability Board, Global Monitoring Report on Non-Bank Financial Intermediation (various editions); Preqin, Future of Alternatives (various editions); Preqin, Global Report—Private Debt (various editions); PitchBook, Global Private Debt Report (various editions) (each documenting the expansion of private credit and the growing role of non-bank lenders).

¹⁹ See Basel Committee on Banking Supervision, Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems (2010, rev. 2011); see also Bank for International Settlements, Mapping Capital and Liquidity Requirements to Bank Lending Spreads (2010) (analyzing and discussing the effects of enhanced capital and liquidity requirements on bank lending activities).

²⁰ See International Monetary Fund, Global Financial Stability Report (2025); Preqin, Global Report—Private Debt (2025).

²¹ BDCs were created by Congress in 1980 through amendments to the 1940 Act (the Small Business Investment Incentive Act of 1980) to facilitate the flow of capital to small- and middle-market US businesses. BDCs are CEFs subject to a tailored regulatory framework under Sections 55–65 of the 1940 Act, including asset coverage, governance, and reporting requirements, and they are designed to invest primarily in private or thinly traded operating companies. The BDC structure was intended to provide retail investors access to private capital markets while maintaining investor protections under the federal securities laws.

²² See, e.g., Executive Order, Democratizing Access to Alternative Assets for 401(k) Investors (Aug. 7, 2025); US Department of Labor, Employee Benefits Securities Administration, Fiduciary Duties in Selecting Designated Investment Alternatives, 91 Fed. Reg. 16088 (Mar. 31, 2026); SEC, Investor Advisory Committee, Retail Investor Access to Private Market Assets (Sept. 18, 2025); Rep. Troy Downing, Retirement Investment Choice Act, press release (Oct. 14, 2025).

²³ See Matt Wirz, An Exodus of Money Endangers Wall Street’s Private-Credit Craze, Wall Street Journal (Mar. 12, 2026).

What Is Private Credit?

Private credit transactions are privately negotiated debt financings for private companies or assets, provided directly to borrowers, typically outside of public markets or traditional bank intermediation. Private credit loans typically feature floating interest rates, often expressed as a spread over a benchmark such as the secured overnight financing rate (SOFR), which may mitigate interest rate duration risk for borrowers in rising rate environments relative to fixed-rate public debt instruments.

These transactions are generally governed by privately negotiated credit agreements that may include financial and affirmative covenants designed to monitor borrower performance and enhance lender protections. While corporate direct lending represents a substantial portion of the market, private credit encompasses a variety of lending products and structures across different asset classes, borrower types, and risk profiles. As these products are negotiated and customized with each borrower, terms are generally not as uniform as securitized banking products, and hence private credit is structurally designed as an underwrite and hold-to-maturity product versus a buy-and-sell trading instrument for its fund investors.

These structural features—customized terms, limited secondary market activity, and reliance on borrower-specific information—are key factors influencing how private credit investments are valued.

Both institutional and retail investors—the suppliers of capital in private credit lending arrangements—are increasingly attracted to these strategies, in part because of their potential to offer enhanced yields and portfolio diversification relative to traditional fixed income strategies.

Direct lending—loans made directly to small- or medium-sized companies that are typically held to maturity—is currently the largest segment of the private credit market, with \$977 billion in assets under management as of June 2025 (Figure 5). However, private credit strategies also include mezzanine debt, distressed debt, special situations debt, and venture debt.²⁴

Mezzanine debt has lower priority than a company's senior secured debt—the highest in the debt capital structure and the first to be repaid if the company encounters trouble—but higher priority than an equity position. This type of debt typically offers investors higher yields than senior secured debt and often includes warrants. As of June 2025, assets of mezzanine debt were \$203 billion (or 11.6% of private credit assets outstanding).

Distressed debt is the debt of financially troubled companies, such as those that have filed (or plan to file) for bankruptcy. Investors typically seek to benefit by purchasing this debt in the secondary market at a large discount to its actual value, restructuring the company, and profiting from its turnaround. As of June 2025, assets of distressed debt were \$250 billion (or 14.3% of private credit assets outstanding).

Special situations debt includes other debt strategies that aim to earn premium yields to senior or mezzanine debt given the willingness to underwrite credit for more event-driven situations such as a business line carve out, divestiture, reorganization, or other off-the-run situations. As of June 2025, assets of special situations debt were \$295 billion (or 16.9% of private credit assets outstanding).

²⁴ Data are sourced from Preqin (a part of BlackRock). Strategy descriptions are based on Preqin's private debt classifications.

Venture debt provides financing for companies backed by venture capital firms. As of June 2025, assets of venture capital debt were just \$22 billion (or 1.2% of private credit assets outstanding).

Private credit borrowers often pay a higher rate of interest than comparable public market borrowers for several structural and contractual reasons, including:

- i. Customized and negotiated terms, reflecting borrower-specific risk profiles, financing needs, and covenant structures;
- ii. Speed and certainty of execution, as private credit transactions are typically negotiated, executed, and funded without reliance on public market syndication or distribution;
- iii. Tailored debt features, such as delayed draw facilities, cash and Payment-In-Kind (PIK) interest options, bespoke covenant packages, multi-currency tranches, or complex collateral arrangements;
- iv. Transaction-specific structuring and documentation, which may increase complexity but allow financing terms to be closely aligned with borrower circumstances;
- v. Confidentiality considerations, as private transactions generally avoid public disclosure of sensitive borrower and transaction information; and
- vi. Defined maturity and repayment profiles, as private credit instruments often have contractual maturities (commonly in the five- to seven-year range), may include call protection, and frequently amortize or repay earlier than stated maturity.

Private Credit Investments and Regulated Funds

The expansion of private credit markets has coincided with increased private credit investments by regulated funds and banks. Industry and regulatory leaders have observed that private credit and public markets serve complementary functions in the capital markets ecosystem, with private markets offering more regulatory and contractual flexibility and public markets providing more liquidity and broad investor access.²⁵ Capital flows into strategies that were historically accessible primarily to large institutional investors—combined with investor demand for higher yield and diversification—have supported the inclusion of private credit in regulated funds.

Regulated funds allow private credit investments to be offered to more investors than private funds alone. The enhanced regulatory and governance framework applicable to registered funds—including oversight by the SEC, fund boards, and independent auditors—has influenced how private credit investments are structured, documented, managed, disclosed, and valued within these funds.

Many regulated fund complexes incorporate the services of independent valuation specialists or pricing service providers as part of their overall valuation processes,²⁶ particularly for complex or elevated credit risk private credit instruments.

For regulated funds, the adoption of the fair value rule formalized the board’s role in overseeing (rather than *making*) fair value determinations, including the ability to designate day-to-day valuation responsibilities to a valuation designee (i.e., the fund’s investment adviser), subject to ongoing oversight.²⁷ These distinct responsibilities are particularly relevant for funds holding assets that have less observable market inputs and therefore require significant judgment in the selection and application of valuation inputs.

Certain features of regulated funds—including periodic purchases and sales by investors, frequent NAV calculations, and enhanced investor reporting—require more frequent valuation assessments when compared to private funds that provide their investors with fewer opportunities to enter and exit. While regulated funds generally provide investors with periodic or daily liquidity, the underlying private credit investments are often not traded on a secondary market, giving rise to valuation considerations that differ from those associated with publicly traded instruments.²⁸

²⁵ Commissioner Mark T. Uyeda, [SIFMA’s Private Markets Valuation Roundtable](#) (Sept. 4, 2025).

²⁶ For a description of these entities, see ICI Fair Value Paper, at 12–13.

²⁷ To help facilitate this oversight, the rule requires a valuation designee to provide the fund board with: (i) quarterly reporting, generally related to material changes or developments affecting fair valuation; (ii) annual reporting, generally related to an overall assessment of the fair value process; and (iii) prompt reporting, under certain circumstances.

²⁸ Regulated fund sponsors should consider potential valuation complexities when determining the purchase and redemption terms best suited for the proposed fund’s investment strategy.

Private Credit Valuation Challenges and Considerations

As previously noted, the benefits of private credit for retail investors include potential for enhanced yields and portfolio diversification. Longer-term investment horizons associated with many asset allocation and target-date strategies may align more closely with private credit investments and support continued growth. As access to private credit grows, including through regulated funds, enhanced valuation processes and disclosures play an increasingly important role in protecting investors.

Although private credit investments often lack observable market prices, their valuation is grounded in established fair value principles²⁹ and commonly applied valuation techniques. In many cases, private credit valuations rely on significant unobservable inputs³⁰ that reflect market participant assumptions. In practice, many funds develop and support these judgments through layered governance structures with documented valuation processes and procedures, which may include dedicated valuation committees, independent review functions, contributions from third parties such as pricing service providers and in some cases independent valuation specialists, and periodic third-party assessments separate and independent from pricing service providers.

In addition, market participants and commentators have observed that, in less frequently traded markets, valuation inputs may not always fully reflect contemporaneous observable transaction prices or rapidly changing market conditions. This dynamic—sometimes described as “stale” pricing—can arise where observable transactions are limited or where valuation inputs are updated periodically rather than continuously. These observations underscore the importance of robust monitoring frameworks, calibration, and governance processes to assess whether valuations continue to reflect an exit price from the perspective of a market participant at the measurement date.

Valuation approaches applied to private credit investments are consistent with the fair value framework under ASC 820, which contemplates the use of income-based, market-based, and other valuation techniques to estimate an exit price from the perspective of a market participant.³¹ In practice, funds commonly incorporate income-based approaches—such as discounted cash flow analyses that project expected future cash flows and discount them using a market participant rate of return—alongside market-based considerations, including comparable issuer information and implied pricing from relevant credit markets. These approaches often involve assessing enterprise value, expected repayment capacity, and the relative position of the investment within the borrower’s capital structure. Industry materials describing the valuation of performing private credit loans similarly illustrate the use of discounted cash flow methodologies, calibration at origination, and subsequent adjustments to reflect changes in market conditions and borrower performance.³²

²⁹ ASC 820, Fair Value Measurement, establishes a framework for measuring fair value based on an exit price notion and a hierarchy of inputs that prioritizes observable market data and requires the use of valuation techniques consistent with market participant assumptions.

³⁰ ASC 820, Fair Value Measurement, establishes a fair value hierarchy in which Level 3 inputs are permitted when observable inputs are unavailable, provided such inputs reflect assumptions that market participants would use in pricing the asset.

³¹ These techniques are not intended to represent a menu of interchangeable approaches; rather, funds select and apply valuation methodologies based on the specific characteristics of the investment and the availability of relevant inputs, consistent with ASC 820.

³² See Loan Syndications and Trading Association, Valuing Performing Loans in Private Corporate Credit (2025) (providing an illustrative overview of valuation methodologies for performing private credit assets).

Funds may also incorporate calibration techniques periodically after origination to assess whether valuation methodologies continue to reflect current market participant assumptions. Calibration generally involves aligning initial model inputs to transaction pricing at origination and subsequently evaluating whether changes in market conditions, credit spreads, or investment-specific performance warrant adjustments to those inputs.

Over time, funds also may perform back-testing analyses by comparing prior valuations to actual transaction outcomes, such as sales, repayments, or restructurings, to assess the directional accuracy of valuation methodologies. These analyses may be performed at an individual investment level or on a portfolio-wide basis and can inform whether observed differences reflect model limitations, changing market conditions, or investment-specific developments.

A key valuation challenge for regulated funds holding private credit assets arises from the need to determine fair value more frequently for NAV purposes in the absence of observable market transactions. The valuation designee and the board (through its oversight) each play a critical role in ensuring the integrity of the valuation process. Because third-party valuation inputs are generally updated periodically, such inputs may not, on their own, capture current market conditions or investment-specific developments on a continuous basis. As a result, the valuation designee, acting under the oversight of the fund board, bears responsibility for determining whether adjustments to such inputs are necessary to arrive at a fair value that reflects all material information available as of the relevant measurement date.

Under the fair value rule, valuation processes are expected to include ongoing assessment of inputs, assumptions, and methodologies, as well as procedures to identify and evaluate circumstances that may require valuation adjustments between periodic valuation events. The rule also requires funds to test the appropriateness and accuracy of their fair value methodologies and oversee their pricing service providers.³³ For private credit investments, this places particular emphasis on monitoring market conditions and investment-specific developments that could materially affect fair value and maintaining proper oversight of those third parties critical to the fair value process.

As a result, the valuation of private credit investments is a multifaceted process³⁴ that may include identifying and using highly correlated market benchmarks and indicators as valuation proxies, testing of these benchmarks and indicators, making adjustments for cash flows, and assessing idiosyncratic events related to portfolio company performance or underlying collateral.

³³ For a general discussion of how funds carry out these responsibilities, see ICI Fair Value Paper, at 21–28.

³⁴ See ASC 820-10-35, which describes the use of income, market, and cost approaches and requires valuation techniques to maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

These processes can be operationally challenging in regulated funds due to compressed timelines for NAV calculation and publication. Accordingly, regulated funds typically place significant emphasis on developing, documenting, and maintaining valuation methodologies that reflect the characteristics of their private credit investments. In the absence of readily observable market pricing, such documentation may address the selection and use of benchmarks, calibration techniques, market adjustment considerations, and other factors relevant to fair value determination.

In developing and applying valuation approaches, funds may consider a range of investment-specific information, which may include the following:

- » Original credit agreements and amendments;
- » Covenant compliance certificates;
- » Investment memoranda;
- » Financial projections or budgets, if available;
- » Comparable issuer information;
- » Internal or external risk or credit ratings, if available;
- » Term sheets, if available;
- » Portfolio company capital structure information;
- » Financial statements (preferably audited) for prior periods, along with the most recently available interim financial information; and
- » Collateral performance metrics and related statistics.

Risk- and Materiality-Based Considerations for Private Credit Valuation

Valuing private credit investments requires judgment, particularly in the absence of observable market transactions. Ongoing monitoring is essential, and funds holding private credit investments must consider how frequently valuations should be changed to ensure that NAV reflects fair value when it is struck. Funds also must consider practical aspects of the valuation process—such as the timing and availability of data, third-party inputs, and internal review procedures—together with the nature of their underlying investments.

In practice, many funds apply a risk- and materiality-based approach when determining valuation frequency. Materiality is typically assessed at the fund level and may consider factors such as portfolio concentration, the relative size of private credit exposures, and the potential impact of valuation changes of these exposures on NAV. A valuation designee performs these assessments in accordance with board-approved policies and subject to ongoing board oversight. For some funds, monthly or quarterly formal valuation updates (i.e., changes to actual valuations) may be appropriate even if investors are able to purchase or redeem fund shares more frequently, provided that the fund maintains effective processes to monitor developments that could result in a material change in fair value between valuation dates.

These examples illustrate how funds may apply risk- and materiality-based considerations when determining valuation frequency and monitoring practices. The appropriate approach may vary depending on factors such as the fund's liquidity structure, portfolio composition, and the relative significance of private credit exposures within the overall portfolio.

For instance, a registered interval fund that offers daily subscriptions and periodic repurchase offers may hold a meaningful allocation to private credit instruments. In this structure, the fund may determine that formal, rigorous valuation updates for certain private credit investments occur on a monthly basis, even though investors are able to purchase fund shares more frequently. In such cases, the fund may rely on ongoing daily monitoring processes between formal valuation dates to assess whether changes in market

spreads, issuer performance, or other credit indicators could result in a material change in fair value that would warrant an interim review or actual valuation adjustments.³⁵

By contrast, a listed BDC that primarily invests in privately originated loans and typically strikes NAV on a quarterly basis may rely on quarterly formal valuations aligned with its reporting cycle. This can be appropriate for this fund type because their investors transact not with the fund, but on the secondary market at market prices based in part on less frequent NAV determinations. Nevertheless, these BDCs generally maintain monitoring processes throughout the quarter to identify significant developments that could affect valuations.

Continued on the next page...

³⁵ Cf. Rule 22e-4(b)(1)(ii) under the 1940 Act, which requires open-end funds to classify (for liquidity purposes) each of their portfolio investments at least monthly, and more frequently "if changes in relevant market, trading, and investment-specific considerations are reasonably expected to materially affect one or more of its investments' classifications."

Finally, a mutual fund or ETF may hold only a small allocation to private credit instruments within a broader portfolio of more easily valued securities. Where such exposures represent an immaterial portion of the portfolio, the fund may determine that the intensity or frequency of monitoring for those holdings is appropriately scaled relative to their potential impact on NAV. In these circumstances, periodic monitoring may be sufficient, provided that the fund maintains processes to identify developments that could result in a material change in fair value.

These differences relate to valuation process and monitoring, rather than the fair value objective itself, which remains consistent across funds. The determination of fair value continues to reflect an exit price at the measurement date (or when NAV is struck) based on the same set of relevant facts and circumstances, regardless of fund structure or valuation frequency.

Importantly, the absence of daily NAV strikes or actual changes in valuations does not mean there is no daily valuation oversight or review of current market indicators. Daily oversight involves monitoring relevant information and market conditions, which may not lead to daily valuation adjustments for each investment. Regulated funds may consider implementing procedures to monitor market conditions, portfolio company and investment or collateral performance, and contractual developments on an ongoing basis to assess whether actual valuation changes are warranted.

These considerations are particularly relevant for regulated funds offering periodic liquidity, where valuation judgments directly affect investor transaction prices and outcomes.

Key Areas of Ongoing Monitoring Relevant to Private Credit Valuation

FIGURE 6

Daily Valuation Monitoring and Oversight Considerations

Funds commonly focus on three broad areas when monitoring private credit investments for valuation purposes. Together, these areas inform ongoing valuation oversight and judgment.

Credit Market Monitoring	Portfolio Company and Investment Performance Monitoring	Covenant Compliance Monitoring
<p>Market conditions significantly influence private loan discount rates, even if the underlying loans do not trade.</p> <p>Key inputs to monitor daily:</p> <ul style="list-style-type: none"> » Sector Specific credit spreads » Public leveraged loan indices » Private Credit Indices » High-yield bond spreads » Sector-level credit trends » Interest-rate curves » Volatility measures » Sponsor fundraising and market sentiment » Threshold-Based Triggers <p>Managers often establish:</p> <ul style="list-style-type: none"> » Absolute movement thresholds (e.g., 50–100 bps) » Cumulative changes since last valuation » Volatility-adjusted triggers » Threshold frameworks help ensure objective and repeatable revaluation decisions » Minimum Revaluation Frequency <p>Many managers select:</p> <ul style="list-style-type: none"> » Monthly revaluations for concentrated private credit sleeves » Quarterly revaluations for more diversified portfolios » Daily or weekly updates for higher-volatility or actively traded strategies 	<p>Issuer-level developments are often the single strongest driver of valuation changes:</p> <ul style="list-style-type: none"> » Financial and Operational Monitoring » Liquidity and leverage metrics » EBITDA trends and margins » Customer concentration shifts » Funding Round » Cash burn rates » Covenant headroom » Sponsor engagement » Collateral performance » Material Events Requiring Immediate Review » Covenant breaches or amendments » Payment defaults » Unexpected deterioration in KPIs » Major litigation » Loss of a key customer » Management turnover » Major strategic transactions (M&A, recapitalizations) » New financings that alter capital structure <p>Fund managers should maintain structured workflows for identifying, documenting, and responding to such events.</p>	<p>Covenants serve as early indicators of credit deterioration.</p> <p>Important areas to monitor:</p> <ul style="list-style-type: none"> » Leverage and interest-coverage tests » Minimum liquidity levels » Borrowing base availability » Reporting covenants » Material adverse change (MAC) clauses <p>Why covenant drift matters—even trends toward a breach, not just breaches themselves, can indicate:</p> <ul style="list-style-type: none"> » Increased risk of loss » Reduced sponsor flexibility » Weaker recovery expectations » Need for valuation reserve adjustments

In considering whether valuation adjustments may be appropriate, funds often monitor a combination of market-wide indicators and investment-specific developments.³⁶ While approaches vary across fund complexes, areas commonly focused on in practice include credit market conditions, portfolio company performance, and contractual or covenant developments. A comprehensive surveillance system that evaluates these areas captures both systematic market movements and idiosyncratic risks and informs escalation, reporting, and reassessment decisions within a fund's valuation governance framework.

Credit Market Conditions and Monitoring

Although private credit investments have a less standardized secondary market, their valuations still may be influenced by broader market conditions, including changes in interest rates, credit spreads, equity market performance, and sector-specific trends and developments. Regulated funds may consider monitoring relevant market indicators on an ongoing basis to assess whether changes in market conditions could reasonably be expected to affect the fair value of their private credit investments.

In addition, where available, funds may consider observable transactions in the secondary market involving identical or similar instruments as part of their broader valuation assessment. Although private credit markets are less standardized, transaction data from secondary trading venues, dealer runs, or market color on comparable instruments may provide useful directional information regarding market participant pricing. Such observations are typically evaluated in the context of differences in structure, seniority, collateral, covenant protections, and liquidity, and therefore may serve as corroborative inputs rather than direct pricing sources.

Some funds establish quantitative or qualitative thresholds to help identify when market movements may warrant further valuation analysis and portfolio repricing.³⁷ These thresholds are typically informed by the risk characteristics of the portfolio, historical sensitivity analyses, and back-testing against prior valuation outcomes. Thresholds need not operate mechanically (e.g., by requiring actual valuation changes) but may serve as inputs to judgment-based escalation and review processes. In addition, thresholds may be established with reference to specific data points that serve as direct inputs into asset-level valuation models—such as credit spreads, discount rates, or other key assumptions—rather than relying solely on broader market indicators, further supporting a more tailored and investment-specific assessment.

In addition, funds may consider monitoring cumulative market movements over time since the last valuation date, rather than focusing solely on day-to-day changes, as gradual shifts in credit markets can collectively become material. These considerations may be particularly relevant in environments where observable transaction data is limited and market conditions are evolving, as incremental changes in credit spreads or borrower performance may not be immediately reflected in periodic valuation inputs.

³⁶ The fair value rule contemplates ongoing monitoring to identify circumstances that may necessitate changes to valuation inputs, assumptions, or methodologies, but does not prescribe specific monitoring techniques, thresholds, or revaluation frequencies.

³⁷ These thresholds may be investment-specific, fund-specific, or a combination thereof. What constitutes an acceptable threshold may vary by asset or fund type, as assets and funds vary in their daily price volatility. For example, short-term bonds are generally less responsive to changes in interest rates than long-term bonds, and their respective thresholds could be set accordingly.

Establishing a Multi-Layer Threshold Framework

The cornerstone of effective market monitoring is a well-calibrated threshold system coupled with specifically defined benchmarks. Rather than relying on ad hoc judgment about when markets have materially moved, fund managers may establish quantitative thresholds and escalation indicators that result in various levels of response.

These thresholds are typically informed by the risk profile of portfolios under management and supported by analysis such as sensitivity testing and back-testing against prior valuation outcomes and realized transaction data. Performing these exercises against historical portfolio valuations could help calibrate thresholds that identify portfolio valuation risks and shifts (including material changes) and potential material downstream impacts on portfolio NAVs. For example, if sensitivity and back-testing analysis reveals that representative credit spread movements historically correlated with changes in an investment/portfolio valuation of 5% or greater, then a derived threshold could be appropriately calibrated as an escalation indicator.

The impact of spread movements may vary depending on the characteristics of the investment, including its yield, duration, and credit profile. For example, a 50–100 basis point change may represent a different relative shift in expected return for a higher-yielding instrument than for a lower-yielding instrument. Accordingly, funds consider both absolute and relative changes in market indicators when evaluating whether observed movements are indicative of changes in fair value.

Consistent with this, in applying market-based indicators, funds also consider the degree to which such data is correlated with the underlying investments. Observable market data—such as index movements, comparable instruments, or broader credit market indicators—may provide useful directional information but may not be directly comparable to a specific private credit investment. As a result, funds balance responsiveness to market developments with the need to avoid implying a level of precision that is not supported by the available data. These considerations reinforce the role of judgment in evaluating whether observed market movements warrant adjustments to valuations.

Cumulative Credit Market Movement Tracking

Markets rarely move in straight lines; instead, they typically exhibit incremental daily changes that at times may accumulate into material fundamental shifts in value. An adviser that only examines daily changes might miss a material market move that unfolded gradually over time, thus resulting in a material change in fair value of the subject investment. To capture incremental market movements, monitoring frameworks would typically include cumulative market movement tracking using defined benchmarks that measure market changes since the last formal valuation update.

Minimum Revaluation Requirements

Even with ongoing monitoring, many funds establish minimum frequencies for more comprehensive valuation reviews as part of their valuation policies. The appropriate frequency may vary based on factors such as asset transaction frequency, subscription and redemption frequency, portfolio composition, private asset concentration, market volatility, and investment performance.

Portfolio Company and Investment-Specific Developments

Portfolio company and investment performance monitoring addresses idiosyncratic risks and material developments specific to individual debt investments. Private credit valuations ultimately depend on company-specific information, including credit quality, performance, and future expectations. A robust monitoring program tracks related developments that could affect the value of an investment. Below are examples of developments that could trigger an intra-period revaluation of a specific investment.

Earnings and Financial Performance Monitoring

Regular receipt and analysis of financial statements from portfolio companies and remittance reports indicating collateral performance form the foundation of investment- and company-specific monitoring that helps identify and quantify distinctive risks that could affect the investment's value. Material negative developments—such as covenant breaches (discussed below), significant underperformance relative to expectations, or liquidity concerns—may warrant consideration of whether a valuation adjustment is appropriate, independent of broader market movements. Conversely, significant positive developments like ahead-of-plan performance or material contract wins may justify favorable valuation adjustments.

Material Events

Beyond routine financial reporting, investment advisers should maintain awareness of material events affecting portfolio companies and other private credit investments. These may include events of default, litigation and regulatory developments, strategic transactions, management changes, new product launches, material new customer acquisitions or losses, and other specific developments.

Contractual and Covenant Developments Monitoring

Covenant compliance monitoring ensures investment advisers understand when contractual terms are satisfied or breached and how these developments affect investment values.

Covenant breaches or trends toward non-compliance may be relevant to valuation, as they can affect expected cash flows, recovery assumptions, or lender rights under the applicable credit agreement. Even trending toward breaches may justify incremental reserves or discounts in valuations.

These also may provide negotiating leverage that may trigger additional fees or receipt of incremental coupon, result in transaction deleveraging or coupon adjustments, or signal deteriorating credit quality that affects recovery expectations. This negotiating leverage may result in positive valuation offsets to the incremental credit risks due to underperformance.

Benchmarking

In general, benchmarks may be used as contextual indicators of broader credit market conditions rather than as direct pricing inputs for private credit investments, given differences in structure, liquidity, and contractual terms of their underlying components.

One of the key tools to enable broad and robust private credit market monitoring is the availability of relevant benchmarks for periodic review to help inform valuation. Investment advisers can consult one or a combination of credit market benchmarks to assess whether there has been a material shift in credit market returns, which may trigger additional analysis impacting the valuation of a private credit investment.

Relevant benchmarks may include daily private credit loan benchmarks such as Stout Private Credit benchmarks, S&P Lincoln Senior Debt Index Series, Cliffwater Direct Lending Index, and FTSE StepStone Global Private Market Indices, among others.³⁸ They may be used to track performance and serve as an input in daily private credit valuation monitoring and valuation processes.

Public markets indexes, such as the Morningstar LSTA US Leveraged Loan Index and Bloomberg US Leveraged Loan Index, among others, can also be used as private credit market alternatives. However, one should consider inherent differences between leveraged loans and other private credit investments, such as pricing, terms, duration, and other features that may influence how relevant leveraged loan benchmarks are for purposes of valuing private credit. Although less frequently updated, private credit benchmarks such as those available through Cambridge Associates, Preqin, and MSCI can be useful in understanding private credit fund performance.

While benchmarks can provide useful context, they may not always be sufficiently correlated to a specific private credit investment given differences in structure, collateral, borrower characteristics, and liquidity. Accordingly, funds that use benchmarks often supplement that analysis with other sources of market information. These may include periodic price observations published by third-party valuation firms or data providers, as well as firm-specific information such as recent underwriting activity, primary market pricing, or observed secondary transactions in similar instruments. These inputs are typically evaluated collectively as part of a broader, judgment-based valuation process.

³⁸ We include these indexes for illustrative purposes; we do not endorse these indexes.

Looking Ahead: Evolving Market Infrastructure and Data Availability

Consistent with principles-based valuation governance and the ongoing assessment of valuation methodologies required by the fair value rule, funds may consider whether and how evolving data sources and market infrastructure should be reflected in their valuation methodologies and monitoring processes over time.

While private credit historically has exhibited limited market observable transaction activity, the markets continue to mature. Market infrastructure that supports standardized secondary trading, readily observable market pricing, and data aggregation is also evolving. Their continued development, along with that of data providers and private market indexes, may increase the availability of transaction-based information and market-derived pricing signals for certain segments of the asset class.³⁹ Over time, these developments should enhance the range, timeliness, quantity, and quality of inputs available to support fair value determinations.

Improved access to secondary market data and related pricing observations in private credit assets could similarly influence how funds think about the frequency and nature of their valuation processes for these assets. For example, where reliable and relevant transaction data become more readily available for comparable instruments, funds may determine whether different or more frequent assessments are possible, and appropriate, for certain investments or strategies. At the same time, differences in liquidity, structure, and deal-specific terms are likely to remain important considerations, and judgment will continue to play a central role in employing any new data sources within a fund's valuation process.

Consequently, valuation practices for private credit are not static. Funds, valuation designees, and boards may periodically reassess how emerging data sources, market infrastructure, and analytical tools can be incorporated into existing valuation policies and monitoring processes in a manner that is consistent with regulatory requirements and the specific characteristics of their portfolios.

Integration of Advanced Analytics and Artificial Intelligence

Recent developments in artificial intelligence (AI) and machine learning are bound to affect the way regulated funds value and monitor their investments. When used properly—by third-party valuation service providers or investment advisers—AI has the potential to rapidly analyze financial reports, covenants, news, and publicly available SEC filings to flag information that might affect an investment's value. Leveraging such tools can help ensure timely updates to valuation-relevant inputs. Machine learning models can sift through large pools of borrower data to identify patterns or early warning signals (e.g., predicting default probabilities or rating changes) that advisers or service provider personnel on their own might be slower to catch. Regardless, AI and machine learning models will most likely supplement, not replace, the role of valuation staff in informing valuation decisions. Fund boards and investment advisers should consider how these developments may affect regulatory and market expectations with respect to regulated fund valuation processes.

³⁹ See, e.g., Preqin, *Global Secondary Market Review (2024–2025 editions)*; PitchBook, *Private Credit Secondary Market Overview (2024)*; FTSE Russell & StepStone, *FTSE StepStone Global Private Markets Indices—Ground Rules*; Stout, *Private Credit Index Methodology*; MSCI, *Private Asset and Private Credit Index Solutions* (describing the development of private credit benchmarks and data products intended to provide greater transparency into private market performance and pricing trends).

Conclusion

The continued expansion of private credit investments into regulated funds offered to retail investors highlights the importance of thoughtful, well-governed valuation practices. Effective valuation requires clear governance, appropriate documentation, and consistent application of sound methodologies across private credit investments. Funds must consider both the need for accurate NAVs at relevant transaction points and the operational realities of valuing investments with fewer observable inputs.

The considerations discussed in this paper are intended to support funds, valuation designees, and fund boards as they evaluate how best to monitor market conditions and investment-specific developments that affect private credit valuations. As private markets continue to evolve and become more accessible to a broader investor base, fund valuation practices will likewise continue to develop, informed by a combination of experience, new data sources, governance expectations, and regulatory guidance.

The considerations presented in the paper are informed by the knowledge and experience of industry practitioners and designed to be consistent with existing valuation regulation and governance structures, including board oversight and the role of the valuation designee. Papers of this kind and current regulation in this area appropriately avoid prescribing precisely how funds should value specific investments (including private credit); fund-specific judgment remains a crucial element of effective valuation outcomes.⁴⁰

⁴⁰ This paper is intended solely for informational purposes. It does not interpret or modify applicable regulatory requirements, establish minimum standards, or prescribe specific valuation methodologies, monitoring practices, or valuation frequencies.

Appendix

Alignment of Daily Valuation Considerations with SEC Rule 2a-5⁴¹

This appendix illustrates how private credit valuation considerations discussed in this paper conceptually align with the principles-based valuation framework established under the fair value rule.

Fair Value Rule Overview

The rule establishes a framework under which a fund determines fair value of its investments in good faith. The rule permits boards to designate the day-to-day responsibility for fair value determinations to a valuation designee (typically the fund's investment adviser), subject to board oversight, reporting, and ongoing monitoring. This designation is the industry norm. The rule emphasizes process, governance, and judgment and avoids mandating specific valuation methodologies or frequencies.

Governance

The considerations discussed throughout this paper are designed to support effective valuation governance consistent with the rule. In particular:

- » The focus on investment-specific information commonly used in private credit valuation—such as credit agreements, financial statements, covenant data, and collateral performance metrics—aligns with the rule's requirements to:
 - select and apply an appropriate methodology for determining fair value, including the key inputs and assumptions specific to each asset class or portfolio holding; and
 - periodically review the appropriateness and accuracy of those methodologies and make any necessary changes or adjustments.
- » The discussion of documentation, escalation, and periodic reassessment complements the rule's emphasis on establishing, maintaining, and overseeing valuation policies and procedures.⁴²

Role of the Valuation Designee

The valuation designee is typically responsible for determining fair value, which includes implementing valuation policies, monitoring relevant information, and determining when valuation adjustments or reassessments may be appropriate.

The monitoring considerations described in this paper—such as observing market conditions, portfolio company performance, and contractual developments—are consistent with the types of inputs and analyses a valuation designee may consider when exercising judgment on behalf of the fund. These considerations are not intended to define the scope of a valuation designee's responsibilities, but rather to illustrate practices observed with respect to private credit assets.

⁴¹ See *supra* note 3 and the ICI Fair Value Paper for more information about the rule's requirements and how funds may satisfy them. Neither this appendix nor this paper generally is intended to interpret, restate, or supplement the requirements of the rule, nor to prescribe specific valuation practices.

⁴² See also Rule 38a-1 under the 1940 Act, which the SEC has stated requires a fund to adopt and implement fair value policies and procedures that are reasonably designed to prevent violations of the fair value rule.

Ongoing Monitoring and Escalation

The rule contemplates ongoing monitoring to identify circumstances that may necessitate changes to valuation inputs, assumptions, or methodologies. This paper's discussion of credit market indicators, cumulative market movements, portfolio company financial performance, and covenant or contractual developments reflects common monitoring considerations that may inform escalation, reassessment, and reporting within a fund's valuation governance structure.

Importantly, the paper does not suggest that monitoring activities operate mechanically or result in automatic valuation changes. Instead, they are presented as inputs to judgment-based processes consistent with the principles-based nature of the rule.

Frequency of Valuation and Materiality

The rule does not prescribe specific valuation frequencies because it covers all regulated funds, and their related requirements and practices differ. This paper's discussion of risk- and materiality-based approaches to valuation frequency is consistent with the rule's approach, recognizing that:

- » The appropriate frequency of valuation updates (i.e., actual changes to an investment's valuation) depends on fund-specific facts and circumstances, such as investor transaction frequency, portfolio concentration, the relative size of private credit exposures, and the potential impact of valuation changes of these exposures on NAV; and
- » The absence of daily valuation adjustments does not imply the absence of daily valuation monitoring and oversight.

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