

Portfolio Valuation

Private Equity and Credit

Fall 2025

In This Issue

FEATURE ARTICLE

Third-Party Fairness Opinions in Continuation Funds:

Bridging the Gap of Deep NAV Discounts

2

Private Credit and Equity

5

Publicly Traded Private Credit

7

Venture Capital

8

About Mercer Capital

9

FEATURE ARTICLE

Third-Party Fairness Opinions in Continuation Funds: Bridging the Gap of Deep NAV Discounts

EXECUTIVE SUMMARY

The recent Paramount-Rith Capital transaction highlights a growing challenge in private markets—valuations that fail to reflect market reality. As continuation funds become more common, conflicts arise when general partners act as both buyer and seller. Independent fairness opinions have become essential, ensuring transparency, validating valuations, and reinforcing fiduciary duties. In an environment of deep NAV discounts, these opinions are not formalities—they are vital checks that uphold integrity and trust in private market governance.

>> *Continue reading on the next page*

Third-Party Fairness Opinions in Continuation Funds: Lessons from Deep NAV Discounts

By: Jeff K. Davis, CFA

The Paramount Deal: A Reality Check on Valuations

On September 17, 2025, alternative asset manager Rith Capital Corp. (NYSE:RITM) agreed to acquire office REIT Paramount Group, Inc. (NYSE:PGRE) for \$1.5 billion cash, or \$6.60 per share. Paramount is an integrated REIT that manages and owns 13.1 million square feet of Class A offices (86% occupancy rate) in New York and San Francisco.

Word of the deal, but not the price, leaked because the shares rose 4% on September 16 to \$7.39 per share on volume that was 5x above average. Relative to the pre-leak closing price on September 15, the deal price represented a 7% discount and equated to 48% of book value and 10.2x funds from operations ("FFO").

By way of comparison, RITM's shares as of year-end 2019 closed at \$13.92 per share, which equated to 82% of book value and 14.5x LTM FFO. And for those who can time the market, the shares traded just below \$4.00 per share immediately after "Liberation Day" and thereby provided a great five-month return.

When Book Value Isn't Market Value

Paramount was not a high-flyer. The dividend was suspended in September 2024 after having been cut in June 2023 and December 2020. The stock traded below book value for years. The public market and change-of-control transactions imply the carrying value of the assets was too high though the 2024 10-K notes that real estate assets carried at cost less accumulated depreciation are individually reviewed for any impairment.

Aside from an impairment issue, GAAP did not dictate that the \$8.3 billion land, buildings and improvements be marked-to-

market so that book value could be directly equated with net asset value ("NAV"). Nonetheless, investors did so daily yet still over-estimated NAV that a competitive process revealed it to be in a change-of-control transaction.

Secondary Pricing as % of NAV

(by weighted average volume)

GP-Led	70-79%	80-89%	90-99%	100%	>100%
Single Asset CV					
2024	7%	6%	32%	44%	11%
2023	6%	16%	24%	44%	10%
Multi Asset CV					
2024	8%	22%	45%	23%	2%
2023	10%	30%	44%	15%	1%
Single & Multi CV					
2022	2%	11%	59%	28%	0%

Source: Lazard Secondary Market Reports, % of NAV

LP-Led	Buyout	VC	Credit	Infra	RE
1H25	91%	77%	93%	96%	73%
2024	91%	76%	91%	95%	65%
2023	87%	64%	84%	93%	66%
2022	90%	74%	90%	95%	74%

Source: Evercore Secondary Market Reports, % of NAV

The Broader Challenge: Overstated NAVs in Private Markets

Paramount illustrates what some think is a pervasive issue in private equity and to a lesser extent private credit whereby fair value marks and therefore NAVs are too high. An unwillingness to recognize reality may be one reason PE exits are

too low relative to investment. Assets are held in the hope that next year conditions will be better – the M&A market improves, the company's earnings will be higher, etc.

Continuation Funds and Valuation Gaps

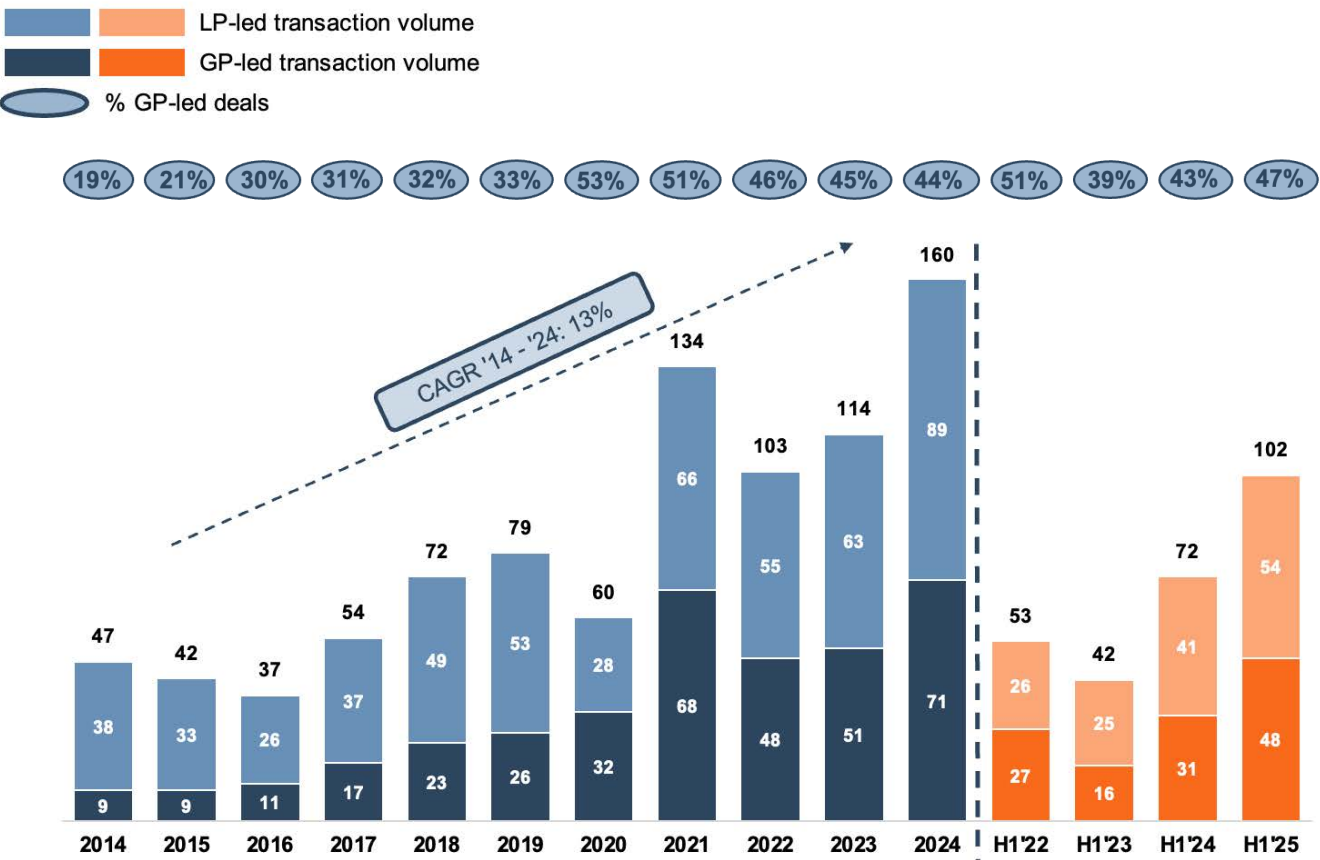
Continuation vehicles (“CV”) with five year lives that acquire assets from PE funds are a bridge to a potentially better tomorrow, but valuation gaps today based upon what the CV asset marketing process reveals vis-à-vis the current mark can be material though the data is nuanced. Evercore in its mid-year 2025 update estimates that 87% of GP-led secondaries transacted at less than NAV. Lazard estimates that 90% of single-asset and 70% of multi-asset GP-led secondaries transacted at 90% of NAV or higher in 2024. However, the data does not distinguish between cash paid at closing and contingent earn-out payments; so, the effective transaction price vs NAV may be wider.

LP-led secondaries offer additional perspective—albeit for a portfolio interest vs one or more ~plum assets—with discounts to NAV on the order of 10% for buyout interests vs 25% for venture and real estate assets. One could argue the LP discount or some portion of it reflects an illiquidity discount vs appropriateness of the NAV mark for the portfolio.

Governance Under Pressure: The Business Judgment Rule

Directors of corporations operate under the long-held concept of the Business Judgment Rule (“BJR”) where courts generally will not second guess decisions as long as directors do not violate the fiduciary triad of care (informed decision making), loyalty (interests aligned with shareholders, conflicts fully disclosed), and good faith. Application of the BJR to GPs varies by state and will be viewed through the lens of the partnership agreement when disputes arise.

Secondary Market Transaction Volume Over Time (\$bn)



BJR murkiness notwithstanding, GP-led secondary transactions are problematic from a governance perspective because GPs are both seller and buyer, and the GP has a financial incentive to extend the period on which management fees and carry are earned.

The Role of Fairness Opinions

The institutionalization of GP-led continuation funds has led to the development of a fair dealing process to address the loyalty question—at least outwardly—in which a third-party financial advisor markets the subject asset(s) to investors who would capitalize a CV. The proposal with the combination of the best price and terms with confirmed access to capital will be selected to transact subject to a conflict of interest waiver from the LP advisory committee (“LPAC”).

Third-party fairness opinions emerge as indispensable here for the LPAC, bridging process and price vis-à-vis the historical fair value marks. Unlike binary “fair/unfair” verdicts, these assessments—rooted in rigorous due diligence—evaluate the marketing process, transaction terms from a financial point of view, dissecting NAV assumptions, cap rates, and exit multiples against market comps.

Best Practices and Industry Guidance

For continuation funds, the stakes are higher: GPs must demonstrate that discounts reflect arm's-length negotiations, not convenient happenstance. The CFA Institute research on ethics in private markets emphasizes competitive bidding processes to mitigate manager incentives—strong financial additions like promoted interests in the new fund can skew outcomes toward overvaluation. ILPA's 2023 guidance amplifies this, urging 30-45 day timelines for LP re-underwriting, full disclosures on advisor conflicts, and LPAC pre-approvals to safeguard alignment.

Beyond a Checkbox: Upholding Fiduciary Integrity

Ultimately, fairness opinions are not mere check boxes; they are part of the governance protocol to address the care and loyalty duties that are the cornerstone of the BJR.

About Mercer Capital

Mercer Capital is an independent valuation and financial advisory firm founded in 1982, specializing in business valuation, corporate transactions, and financial opinions. With offices in Dallas, Houston, Memphis, Nashville, and Winter Park, we serve private equity sponsors, portfolio companies, and institutional investors in valuing complex, illiquid equity, credit, mezzanine and other such securities. Our fairness opinion practice, a cornerstone of our expertise, provides objective assessments for conflicted transactions such as GP-led secondaries and continuation funds. Drawing on deep market insights and rigorous due diligence, we help clients navigate governance challenges, ensure regulatory compliance, and maximize stakeholder alignment. For more, visit mercercapital.com.



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ADDITIONAL RESOURCES



Fairness Opinions for Continuation Fund Transactions

This presentation explores the evolving secondaries market and the critical role fairness opinions play in upholding fiduciary duty, ensuring transparency, and protecting limited partners.

[DOWNLOAD PDF](#)

Continuation Funds: Ethics in Private Markets, Part I

CFA INSTITUTE

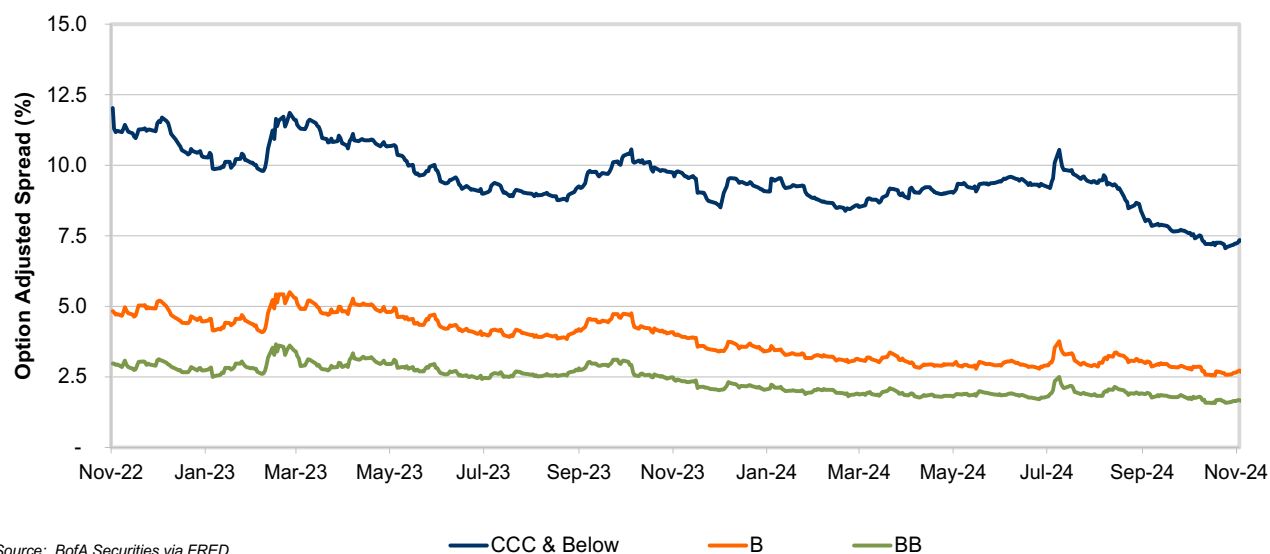
In this article, the CFA Institute explains how continuation funds give private equity managers more time and liquidity by transferring assets into new vehicles—but also create ethical challenges as managers act as both buyer and seller. The piece highlights the need for transparency, fair valuation, and strong governance to protect investor trust.

[DOWNLOAD PDF](#)

Private Credit and Equity

Richard Russell, the deceased editor of the *Dow Theory Letters* for 57 years, offered a widely quoted quip that “markets make opinions.” Applied to the high yield bond and leverage loan markets, investors do not see a recession. The HY, LL and private credit markets in 2024 and 2025, with the exception of a few weeks after Liberation Day (4/2/25), have been characterized by refinance activity via both new issues and price concessions in which levered borrowers have managed to refinance at tighter spreads following a tough 2H22-2023 when Fed rate hikes and fears of a recession weighed on markets. Also, the growth of private credit has supported spreads by taking supply from the HY and LL markets. Pitchbook reports that the share of B-rated credits in the LTSA index has declined to 25% from a recent peak of 30% with much of the volume absorbed by private credit.

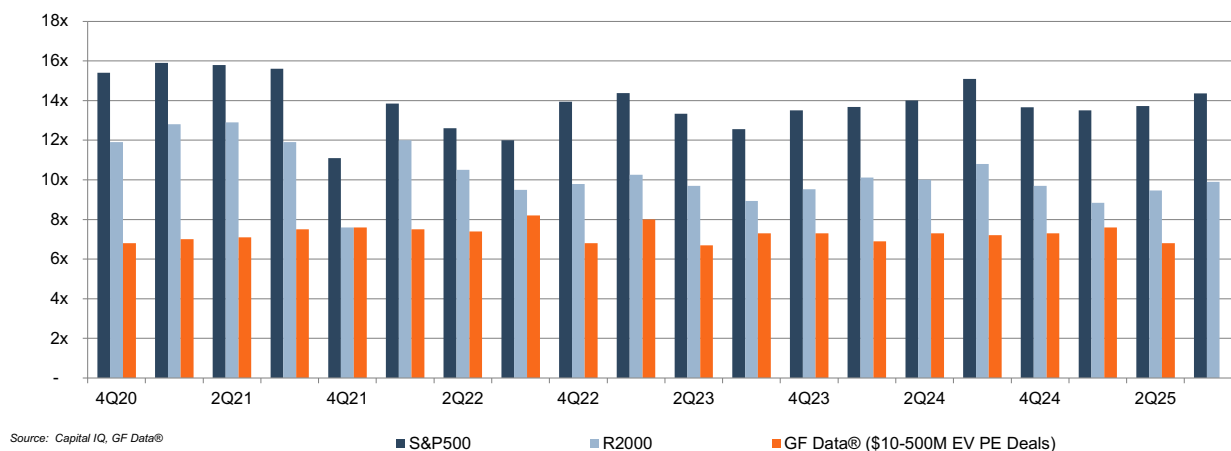
Debt Investments: High Yield Spreads by Credit Rating



Multiples for both large cap stocks (*S&P 500*) and small cap stocks (*Russell 2000*) have been range bound the past eight quarters at 13.5x-15.0x and 8.8x-10.8x (note both the *S&P* and *R2000* data exclude the financial and real estate sectors). However, the *S&P 500* has continued to post new record highs on the strength of earnings growth, especially in the dominant tech sector, while the *Russell 2000* pierced the prior high set in November 2021 during September 2025. Both indices trended lower in the first quarter of 2025 then fell sharply during early April after “liberation day” was declared. The subsequent rally since then combined with wide-open credit markets has provided a more constructive market for M&A.

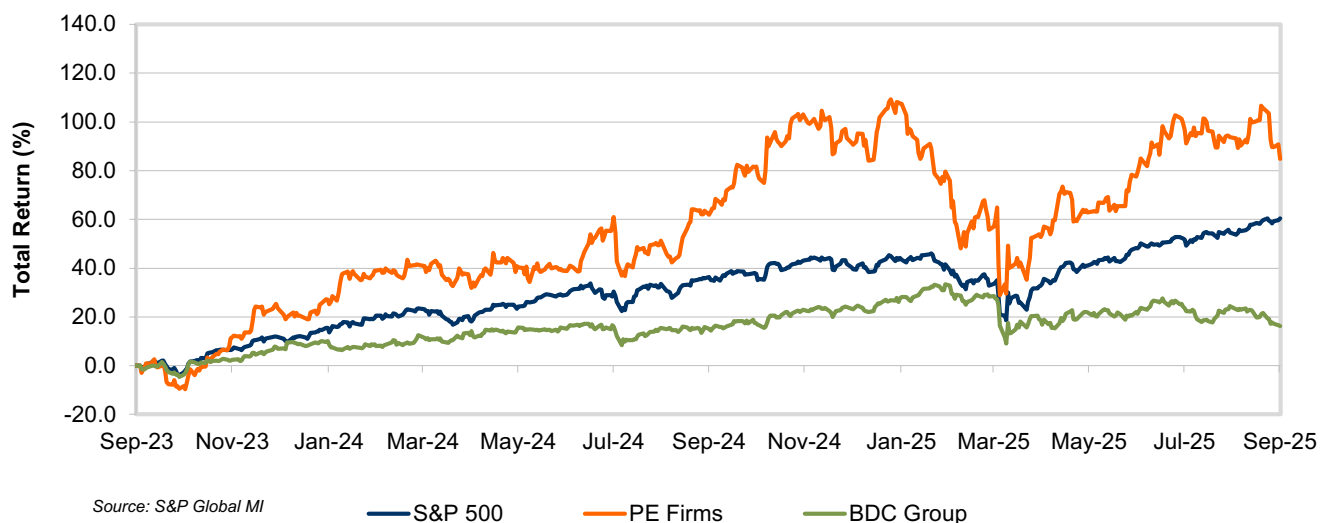
More interesting (to us) is the trend in lower middle market companies that are acquired by PE firms. *GF Data*® has chronicled the sector for ~20 years with data provided by ~400 PE firms on a no-name basis with transactions sorted into six groups based upon enterprise value up to \$500 million. The all-industry (NACIS) multiple tends to be flattish on a year-to-year basis with the smallest companies transacting around 6x vs 10x for the largest firms. During 2Q25, the overall median EV/EBITDA multiple compressed to 6.8x (70 deals) from 7.6x in 1Q25 and 7.3x in 2Q24; however, the YTD multiple of 7.2x was flat vs 2024. Deal multiples by transaction size ranged from 6.3x (EV of \$10-25M) to 9.8x (EV of \$250-\$500M) in the YTD 6/25 period.

Equity Valuation: EBITDA Multiples Over Time



PE/PC Firms (APO, ARES, BX, KKR and CG) were phenomenal outperformers as the Fed rate hiking cycle ended in mid-2023 through the 2024 national election as investor concerns about recession and the election outcome faded. The alternative asset managers also were a beneficiary of market share gains by their private credit sleeves at the expense of the banks' HY bond and leverage loan business. As a high-flyer, the group sold off hard through Liberation Day in early April but have rebounded since. The group experienced some price weakness as the third quarter ended with the exception of ARES.

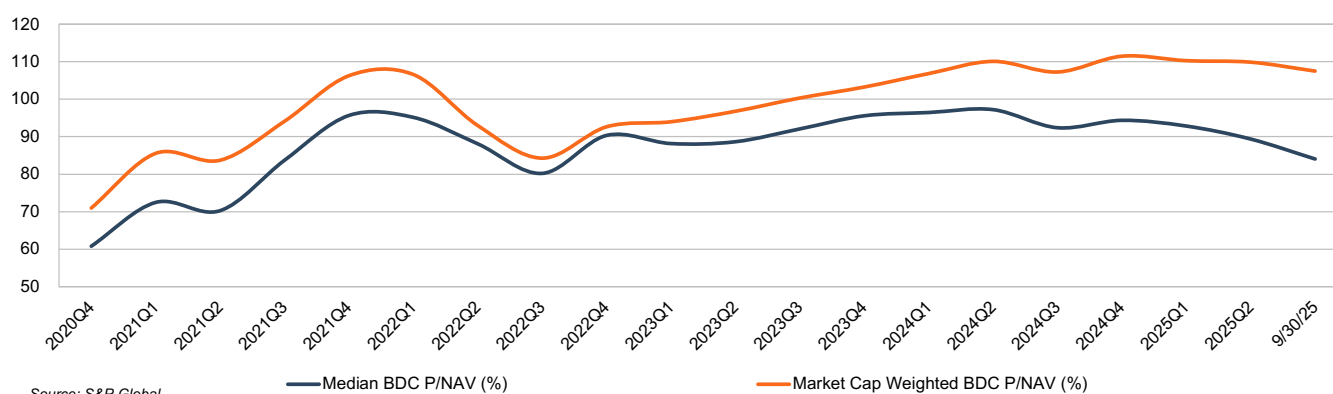
Stock Performance for Publicly Traded PE Sponsors: Total Returns (Trailing Twelve Months)



Publicly Traded Private Credit

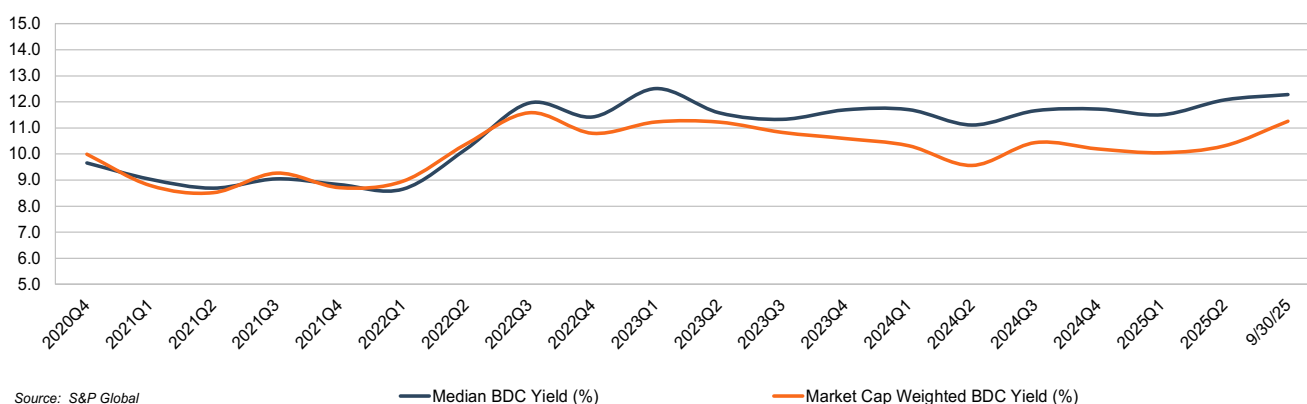
Unlike the HY and LL market where spreads are not signaling investor concerns about emerging credit issues and economic weakness, BDC share prices offer a more nuanced view. Large companies (e.g., ARCC) trade at higher P/NAV multiples vs the overall group that has seen multiples soften since year-end 2024. Among the culprits is investor concerns about the increasing number of credits that have elected to pay interest via PIKs and lower short-term rates (SOFR) that may negatively impact dividend payouts. Surprise bankruptcy filings by Tricolor (subprime auto lender) and First Brands (auto parts) during September did not help sentiment, especially since a number of BDCs held First Brands debt. During a recent KBW sponsored field trip for buy-siders, Golub's CEO opined that a (down) credit cycle has already begun.

Price / NAV for Publicly Traded Business Development Companies



BDC yields are the inverse of P/NAV multiples. Yields have trended higher since early 2025 as BDC prices have weakened somewhat. Only one BDC, TriplePoint Ventury Growth, cut its dividend in recent months, though a recent KBW field trip with buy-side investors yielded a consensus that more dividend cuts would be seen over the next year.

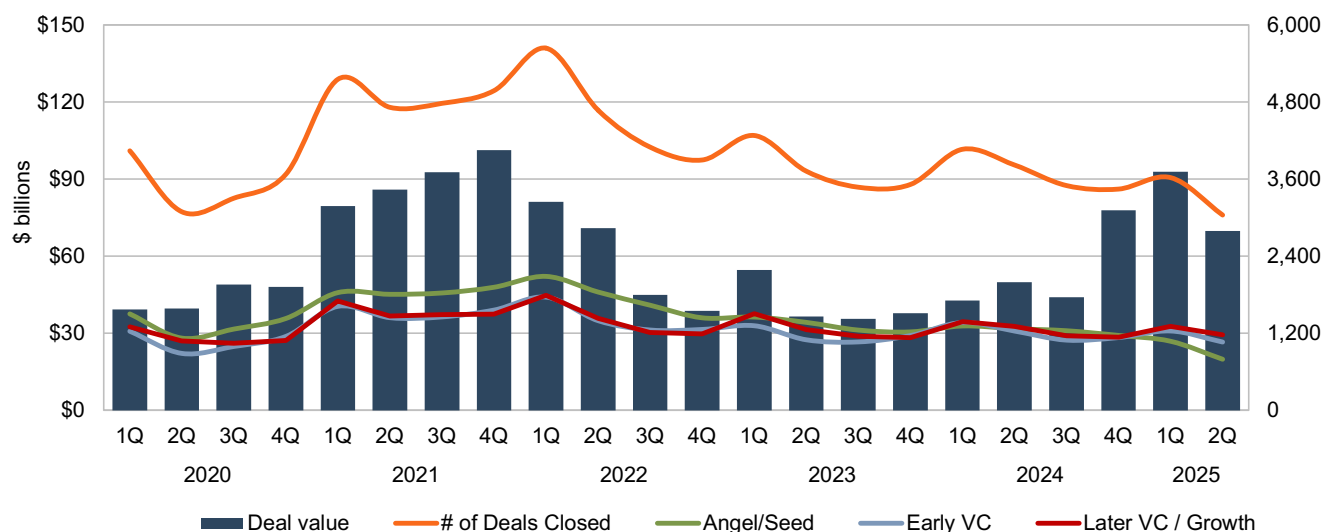
Long-Term Dividend Yield Trend



Venture Capital

VC activity measured in terms of the dollar value of funding and exits have improved in 2025 as the IPO market has picked-up. We would characterize the market as relatively healthy; yet, the magnitude of exits in 2H20-2021 colors market perceptions today when short-term interest rates were near zero and large scale bond purchases by the Fed suppressed long-term rates. In effect, it was not a true market given the distortion of asset prices.

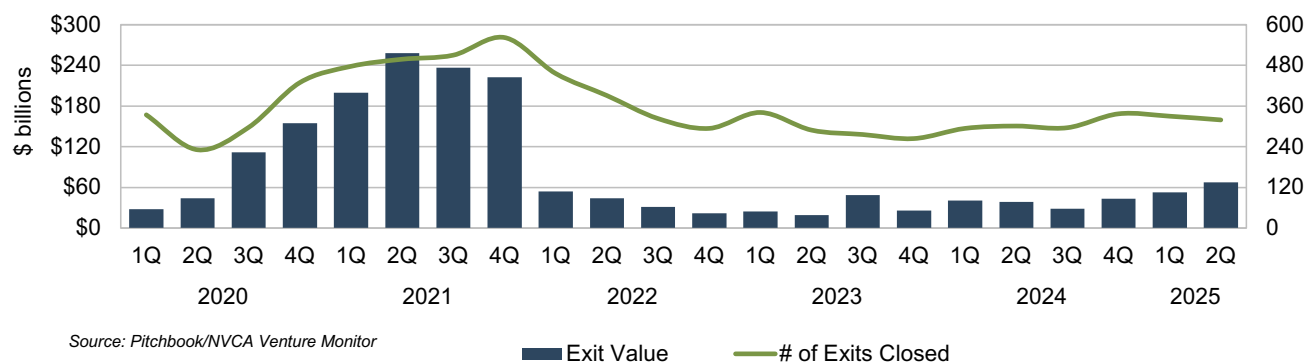
U.S. VC-Backed Funding Activity



Source: Pitchbook/NVCA Venture Monitor

VC exit activity after having bottomed in 2Q23 continues to trend higher as IPO activity has improved, especially in 2025. The distortion in capital markets during 2020-2021 by zero interest rate policies mask the health of the market today to the extent exits are compared to the surreal (or not real) environment of 2020-2021.

U.S. VC-Backed Exit Activity



Source: Pitchbook/NVCA Venture Monitor

Mercer Capital

Private Equity Firms &
Other Financial Sponsors

Mercer Capital provides business valuation and financial advisory services to private equity firms and other financial sponsors.

Mercer Capital is a valuation and transaction advisory firm. Over four decades we have valued tens of thousands of equity and credit investments in virtually every industry and sub-industry grouping that exist in a variety of markets. We also have significant M&A experience. Please call if we can assist in the valuation of your portfolio companies

Services Provided

- Portfolio Valuation
- Solvency Opinions
- Fairness Opinions
- Purchase Price Allocations
- Goodwill Impairment
- Equity Compensation / 409(A)
- Buy-Sell Agreement Valuations

Contact a Mercer Capital professional to discuss your needs in confidence.

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