



## Portfolio Valuations (ASC 820 Fair Value Measurement)

**ASC 820 Compliant Fund Portfolio Valuations | Accredited Specialists by IntelEK**

When your fund holds investments in privately held companies – whether equity, debt, convertible instruments, or structured securities – U.S. GAAP requires a defensible determination of Fair Value at each reporting date. IntelEK's accredited valuation specialists deliver audit-ready, ASC 820-compliant portfolio valuations built specifically for private equity, venture capital, growth equity, credit, and multi-strategy funds.

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# Why Portfolio Valuations Matter

When your fund holds investments in privately held companies, U.S. GAAP requires a defensible determination of **Fair Value at each reporting date**. That value directly drives what you report in your fund's audited financial statements, what you communicate to limited partners in quarterly capital account statements, and what determines management fees, carried interest calculations, and performance metrics like **IRR and TVPI**.

## Overstatement Risk

Inflated portfolio values inflate reported performance and can trigger SEC enforcement actions, LP disputes, and fraud allegations – a career-ending outcome.

## Understatement Risk

Understating values shortchanges fund economics, misrepresents returns, and undermines investor confidence and fund performance metrics.

## The Solution

An accredited valuation specialist who understands ASC 820's fair value framework – and how auditors and regulators evaluate Level 3 measurements – is the single most important safeguard.

## ASC 820 — The Fair Value Framework for Portfolio Investments

ASC 820 (Fair Value Measurement) 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**. For investment funds, this means every portfolio company investment must be measured at its exit price — not what the fund paid, not what it hopes to receive, but what a knowledgeable, willing market participant would pay today.

Portfolio valuations under ASC 820 are required whenever a fund reports financial results under U.S. GAAP. In practice, this means:

- **Annual audited financial statements** — Required for virtually all institutional-quality funds and subject to external audit review of every material fair value measurement.
- **Quarterly capital account statements** — Most LPAs require quarterly NAV reporting, which necessitates updated fair value estimates for all material holdings.
- **Interim reporting triggers** — Material events such as new financing rounds, significant operational changes, or market dislocations may require interim fair value updates.
- **Fund-of-funds and secondary transactions** — Investors acquiring or selling fund interests rely on reported NAVs anchored to ASC 820-compliant portfolio valuations.

# The Fair Value Hierarchy Applied to Portfolio Investments

## Level 1 — Quoted Prices

Quoted prices in active markets for identical investments. Applies to publicly traded securities held by the fund with sufficient trading volume.

## Level 2 — Observable Inputs

Observable inputs other than Level 1 prices — quoted prices for similar securities, recent transaction prices in less active markets, or market-corroborated inputs like yield curves and credit spreads.

## Level 3 — Unobservable Inputs

Unobservable inputs reflecting the fund's own assumptions about what market participants would use. The vast majority of private equity, venture capital, and credit fund investments fall here — requiring sophisticated models and well-documented assumptions.

## Level 3 Audit Scrutiny

Level 3 measurements are the primary focus of auditor testing, PCAOB inspection findings, and SEC examination inquiries. InteleK's valuations are engineered from the outset to satisfy documentation and transparency requirements auditors and regulators expect.



## Equity Investment Valuations

Valuing equity investments in privately held portfolio companies is the core of most fund valuation programs. IntelEK applies the valuation approaches most appropriate for the company's stage, industry, and available data – delivering defensible enterprise value conclusions for every holding.

📄 ⚠️ **Calibration Requirement:** When the fund or other investors have recently transacted at an arm's-length price, ASC 820 and the 2025 IPEV Guidelines require the valuation to be calibrated to that transaction price – not simply carried at the prior period's conclusion.

# Enterprise Value Determination

The starting point for any equity valuation is estimating the total enterprise value of the portfolio company. IntelK applies the approaches most appropriate for each situation:

- **Market Approach** – EV/Revenue, EV/EBITDA, and EV/Gross Profit multiples derived from comparable public companies or M&A transactions applied to the portfolio company's financial metrics.
- **Income Approach (DCF)** – Projects future cash flows and discounts them at a rate reflecting the risk of those cash flows. Most relevant for companies with predictable revenue streams.
- **Calibration to Recent Transactions** – Calibrating valuation model inputs so that the model output equals the transaction price at the transaction date – then rolling forward using updated performance, market conditions, and company-specific developments.
- **Cost Approach / Price of Recent Investment** – For very early-stage companies with limited financial history, supplemented with qualitative and quantitative analysis per the 2025 IPEV Guidelines.



# Equity Allocation — Waterfall and Option Pricing Models

Once enterprise value is determined, it must be allocated across the portfolio company's capital structure. Preferred stock, common stock, and other equity classes have different economic rights – liquidation preferences, participation features, conversion ratios, anti-dilution protections – that directly affect their respective fair values.

- Waterfall Analysis (Current Value Method)
- Option Pricing Method (OPM)
- OPM Backsolve – calibrated to price of recent financing round
- Hybrid Methods – probability-weighted scenario combinations

## OPM

### Option Pricing

For early-to-mid-stage companies with complex capital structures

## 4x

### Equity Methods

Waterfall, OPM, Backsolve, and Hybrid approaches

## L3

### Level 3 Focus

Primary audit focus requiring rigorous documentation

# Debt & Credit Investment Valuations

For credit-focused funds, BDCs, CLO vehicles, and funds holding mezzanine or structured debt, ASC 820 requires fair value measurement of debt instruments that often lack active secondary markets. IntelK values the full spectrum of credit instruments using approaches tailored to each instrument's specific terms.

## DCF / Yield Analysis

Projects contractual cash flows and discounts at a market-participant required yield — reflecting current market yields for comparable credit risk, tenor, seniority, and collateral.

## Market Approach — Comparable Transactions

Uses observed yields or prices from secondary market transactions in comparable debt instruments to benchmark the fair value of the fund's holdings.

## Enterprise Value Coverage Analysis

Assesses whether the estimated enterprise value provides sufficient coverage for the debt position — determining whether debt trades at, above, or below par.

# Key Considerations for Credit Portfolios

1

## Credit Quality Changes

Deterioration or improvement in the borrower's financial condition since origination directly affects fair value. Auditors expect the valuation to reflect current credit metrics, not origination-date underwriting.

2

## PIK and Deferred Interest

Payment-in-kind features, capitalized interest, and other non-cash accruals must be incorporated into the fair value analysis, reflecting market-participant expectations about ultimate collectability.

3

## Unit of Account

ASC 820 requires careful consideration of the unit of account. When a fund holds both equity and debt in the same portfolio company, each instrument is generally valued separately based on its specific rights and priority in the capital structure.

4

## Calibration Is Not Optional

The 2025 IPEV Guidelines reinforce that fair value must evolve from one measurement date to the next. Funds must demonstrate how they have calibrated to the transaction and adjusted for changes in performance and market conditions.

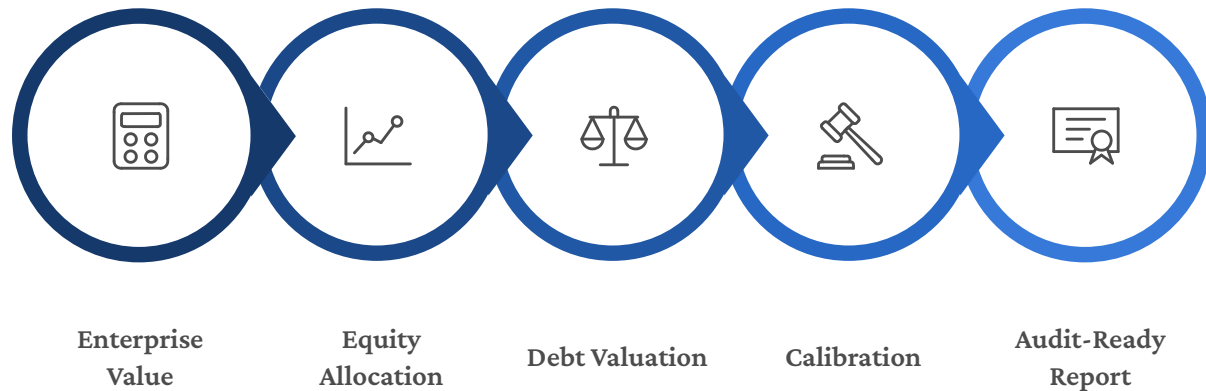
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## ESG Integration

The 2025 IPEV Guidelines require that environmental, social, and governance factors be integrated quantitatively into fair value analysis where they have a material impact on value – not just referenced qualitatively.

# InteleK's Portfolio Valuation Approach

Our accredited appraisers bring deep ASC 820 and IPEV compliance experience to every portfolio valuation engagement. Every valuation memo is structured and documented to satisfy the requirements of Big Four, mid-tier, and national audit firms.



Our proven multi-phase approach first establishes enterprise value, then allocates across the capital structure, values credit instruments, and calibrates to recent transactions — delivering a fully documented, audit-ready conclusion for every portfolio holding.



# What Sets IntelleK's Process Apart



## Audit-Ready Deliverables From Day 1

Every valuation memo is structured and documented to satisfy the requirements of Big Four, mid-tier, and national audit firms. We understand what auditors test – and we build that standard into every engagement.



## Full Suite of Valuation Methodologies

We apply Market, Income, and Cost approaches as appropriate, with rigorous calibration to recent transactions. Our equity allocation expertise spans waterfall analysis, OPM, OPM backsolve, and hybrid methods.



## Calibration-First Philosophy

Consistent with ASC 820 and the 2025 IPEV Guidelines, every subsequent-period valuation begins with calibration to the most recent arm's-length transaction, then systematically adjusts for changes in performance, market conditions, and company-specific events.



## ASC 820 Fair Value Hierarchy Compliance

All Level 3 measurements include detailed disclosure of significant unobservable inputs, valuation techniques applied, and sensitivity analyses – meeting ASC 820-10-50 disclosure requirements and giving your auditor a clear path to their own assessment.



# SEC & Regulatory Scrutiny — The 2026 Landscape

Portfolio valuations are not just an accounting exercise — they are a **regulatory compliance obligation**. The SEC's Division of Examinations has consistently identified pricing and valuation practices as a priority area, and the 2026 Examination Priorities continue this focus.

## → **Methodology Consistency**

Consistency of valuation methodology across reporting periods — and documented justification for any changes — is a primary SEC focus area.

## → **Independence & Qualifications**

Independence and qualifications of the valuation specialist are scrutinized — including whether the fund's valuation policy is actually followed in practice, not just documented on paper.

## → **Enforcement Context**

The SDNY and SEC are examining whether advisers' valuations are consistent with stated policies and whether material valuation changes are properly disclosed to investors. An independent, well-documented portfolio valuation is the strongest defense against regulatory challenge.

# Portfolio Valuation (ASC 820): Key FAQs

Expert insights into ASC 820 fair value measurement for private equity, venture capital, and credit fund portfolio investments in 2026.

## What is ASC 820 and why does it matter for fund portfolio valuations?

ASC 820 defines fair value as the exit price in an orderly transaction between market participants. For investment funds reporting under U.S. GAAP, every portfolio holding must be measured at fair value at each reporting date – directly impacting NAV, LP reporting, fees, and carried interest.

## What are the risks of overstating or understating portfolio values?

Overstating values inflates reported performance and can trigger SEC enforcement actions, LP disputes, and fraud allegations. Understating values shortchanges fund economics, misrepresents returns, and can trigger management fee and carried interest disputes.

## What is "calibration" and why do auditors focus on it?

Calibration means adjusting valuation model inputs so the model output equals a recent arm's-length transaction price – then rolling forward to the current measurement date. Auditors focus on it because the 2025 IPEV Guidelines and ASC 820 require valuations to evolve from period to period, not remain anchored to a prior transaction price.

## Is the SEC examining portfolio valuation practices in 2026?


Yes. The SEC's 2026 Examination Priorities continue to flag pricing and valuation practices as a core focus for investment adviser examinations. The SDNY and SEC are actively examining whether advisers' valuations are consistent with their stated policies and whether material changes are properly disclosed.

## What valuation methods are used for equity investments?

The market approach (EV multiples), income approach (DCF), calibration to recent transactions, and cost approach (price of recent investment) are the primary methods. Equity allocation then applies waterfall analysis, OPM, OPM backsolve, or hybrid methods to allocate value across the capital structure.

## What changed in the 2025 IPEV Valuation Guidelines?

Key updates include: calibration is explicitly not optional; ESG factors must be integrated quantitatively; enhanced disclosure expectations for governance and documentation; and expanded guidance on complex structures including earn-outs, milestone-based payments, and hybrid securities.

 General information only. IntelK Business Valuations & Advisory recommends obtaining professional accounting and legal advice for all financial reporting and fund valuation matters.

ABOUT US

# About IntelleK

## Business Valuations For Today.... & Tomorrow

Business Valuations are an "opinion of value" so finding the right professional valuer is key, an opinion with trust. Business Valuations need the combination of science (technology) and art (knowledge & experience).

IntelleK embraces the two worlds to deliver the most robust and efficient service to its clients, adapting to the ever changing environment of businesses and how to value them.

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OUR PURPOSE

## Transferring Business Valuation Knowledge to Business Owners

Most business owners don't know the value of the business, let alone where the value comes from, how to influence / increase it, or where the risk exposure is, which limits its potential.

[Contact Us](#)

