TELLARO CAPITAL PARTNERS

Investment Committee Insights

May 2026

Institutional Private Credit | Senior Secured Lending

Marks Are Not Prices

A global regulator spent May examining private credit for the first time as a system, and found its softest spot where the market least wished to look: not in defaults, which remain low, but in valuation. A mark is an opinion until a buyer tests it.

Reporting period: calendar month ended 31 May 2026. Data and transaction information are derived from publicly available sources. Estimates and approximations are identified where applicable.

~9 yrs	13.4x	~1.1%	~0.86x
PE INVENTORY OVERHANG	**UPPER-MM ENTRY MULTIPLE**	**PAYMENT DEFAULT RATE**	**BDC PRICE / NAV**
Time to clear unsold companies at today's exit pace. Price discovery has stalled.	Versus 8.8x at the small end. One asset class, two very different prices.	Near cycle lows. This month's question is valuation, not default	The public market's standing discount to private marks.

MARKET THESIS

May's most important document was not a deal but a warning. On 6 May the Financial Stability Board published its first full assessment of vulnerabilities in private credit, examining the asset class not as a collection of loans but as a system: its links to banks, its retail investors, and above all its marks. The finding that matters is where it looked, not at defaults, which remain near cycle lows, but at valuation.

Tellaro begins every credit with the same three questions: where a loan attaches, what it would recover, and what its documentation is worth. Each is a question about realizable value, and realizable value is precisely what a self-reported mark is not. Private credit has grown to roughly two trillion dollars with almost no secondary market to price it, and the machinery that would test its marks, namely exits, refinancings and a clearing multiple, thinned this spring. Where price discovery stalls, marks drift free of prices.

The evidence is visible in what the market does to avoid a real price. Sponsors are moving assets into continuation funds at valuations they set themselves; payment-in-kind defers the moment a coupon must be paid in cash; a near-record nine years of unsold inventory sits waiting for a bid. None of this is fraud, and none of it is stability. It is deferral. The discipline that follows is old and unwelcome: underwrite to what a loan would recover, not to what it is marked, because a mark is an opinion until a buyer tests it.

CREDIT SIGNALS

Three patterns in the month's transactions, read not as events but as evidence of where the risk is concentrating.

Signal 1: The regulator has arrived, and it is looking at valuation.

Evidence. On 6 May the Financial Stability Board published a report on vulnerabilities in private credit, focused on bank-to-fund interconnectedness, the growth of retail investors in semi-liquid vehicles, and the reliability of valuations in an asset class with little secondary trading. It followed a spring in which high-profile leveraged-loan defaults and rising payment-in-kind use had already drawn scrutiny to how private marks are struck.

Interpretation. For a decade private credit's defining advantage was that it did not have to mark to a market. That advantage is now the supervisory question. A loan that never trades is a loan whose value is an assertion, tested only at repayment or default. The point is not that the marks are wrong, but that they are unverified, and that the market has built its comfort on the absence of the very price signal that would confirm them.

Read-through: *treat an untraded position as an estimate, not a fact; the absence of a price is a risk, not a comfort.*

Signal 2: The exit has been replaced by the continuation fund.

Evidence. With a near-record nine years of portfolio inventory to clear and the public-listing and strategic-sale windows only ajar, sponsors leaned further on continuation vehicles and other liquidity solutions in May, including a $300m continuation fund used to move a portfolio company between one manager's funds. Fundraising dollars rose in the first half even as the number of funds fell, as capital concentrated in a shrinking group of managers.

Interpretation. A continuation fund is, in valuation terms, a sale in which the buyer and the seller are the same house. It provides liquidity to investors who want it without forcing the price discovery an arm's-length sale would. That is useful, and it is also the mechanism by which a mark is confirmed by the party with the most interest in confirming it. When exits are scarce, the reported value of a portfolio and its realisable value can drift apart for years.

Read-through: *read a mark set by a related party as the hypothesis it is; a price requires a counterparty with no stake in the answer.*

Signal 3: A real price still exists, and it is struck in the carve-out.

Evidence. Against a quiet primary market, the month's cleanest transactions were divestitures at arm's length: Hubbell's $3bn purchase of NSI Industries from Sentinel Capital, and Pacific Avenue's carve-out of Oldcastle Lawn and Garden from CRH for over $1.1bn. In each, a motivated seller and an independent buyer set a number that no internal model could soften.

Interpretation. A carve-out is price discovery in its purest form. A large owner is compelled to name what a non-core business is worth, and a buyer with its own capital at risk agrees or walks. The resulting price is information of a kind a marked book cannot provide. For a lender, this is why carve-outs from disciplined sellers remain among the most underwritable credits available: the enterprise value is not a projection, it is a receipt.

Read-through: *prefer the credit whose price was set by a transaction to the one whose value was set by a model.*

WHAT CHANGED IN UNDERWRITING

Loan terms were broadly stable in May. Unitranche coupons held near SOFR plus 475 to 550 basis points, all-in first-lien yields sat in the low-to-mid eight per cent range as the base rate held, and covenant packages were, at the margin, firmer than a year ago. The change was not in terms but in attention: for the first time, the valuation of the book itself became the subject.

The mechanism worth understanding is the relationship between a mark and a recovery. A mark is an estimate of present value; a recovery is the cash a lender actually collects when a loan goes wrong. In a liquid market the two are tethered, because a mark can be tested by sale at any time. In private credit they are not tethered, and the gap between them stays invisible until a credit deteriorates, at which point the mark falls to meet the recovery rather than the other way round. Underwriting to the mark is therefore underwriting to the wrong number. The only figure that protects a lender is the recovery, and the recovery is a function of attachment point and documentation, not of the value stated on a quarterly report.

This is why valuation scrutiny is, properly understood, an underwriting discipline rather than a reporting one. It is too early to say whether the current vintage's marks are optimistic; the honest position is that they are untested, and that the test comes only when a credit is sold or breaks. Building the recovery in advance, through a low attachment point and enforceable documentation, is the only response that does not depend on the mark being right.

TELLARO READ-THROUGH

The discipline is to underwrite to realizable value and to treat the mark as a claim about it, not a substitute for it. A position is worth what a disinterested buyer would pay, and until one does, its value is an estimate held with conviction. Recovery is computed at origination, in the attachment point and the documents, or it is discovered in the workout, when it is too late to change it. Marks are not prices, and prices are not recoveries; the lender who conflates the three is paid to learn the difference.

SECTOR ROTATION

Read through the lens of valuation, the month's sectors sort by how honestly they can be priced.

Building products and consumer staples

The month's carve-outs clustered in tangible, cash-generative businesses: lawn-and-garden consumables, electrical products, industrial supply. These are the easiest assets in the market to price and to lend against, because they have physical collateral, observable replacement cost, and demand that does not depend on a narrative. Where a business can be valued from its assets and its order book, the mark and the price stay close.

Software

Software is the hardest to price and, this spring, the most repriced. Platform buyouts fell to a decade low as buyers confronted a valuation reset and the threat that artificial intelligence erodes the retention on which recurring-revenue multiples depend. Recurring revenue is not recurring cash flow, and a revenue multiple is a mark resting on an assumption; when the assumption is questioned, the mark has nowhere solid to stand. Lending against annual recurring revenue is lending against the least verifiable value in the market.

Healthcare services

Healthcare deployment continued through take-privates and roll-ups, but valuation dispersion widened with reimbursement and labor exposure. The relevant question is whether a platform's earnings are the sum of durable local franchises or a stack of acquisition multiples awaiting a write-down.

Financial and specialty finance

Continuation vehicles, subscription-line funds and asset-based finance drew capital as managers built liquidity machinery around portfolios they were not selling. These structures are useful and legitimate, and they are also where reported value and realized value are most likely to diverge, because they are designed to provide liquidity without a sale.

TELLARO READ-THROUGH

Valuation legibility is the organizing question. The discipline is to lend where the price is set by something outside the borrower's own model: physical assets, a strategic buyer, a genuine market. Where value rests on a multiple of a narrative, as in asset-light software, the mark is an argument, not a number. Prefer the business whose worth was proven by a transaction to the one whose worth is asserted by a statement.

INVESTMENT COMMITTEE CASE STUDY

Each issue examines one transaction as Tellaro's investment committee would, using public information only. This month: Pacific Avenue Capital Partners' carve-out of Oldcastle Lawn and Garden from CRH, announced on 30 April and closing in early May 2026 at an enterprise value above $1.1bn, after which the business was renamed GardenCore. Financing terms were not disclosed. The transaction is instructive precisely because it produced what most of the market lacked this month: a real, arm's-length price.

Business quality. GardenCore is a leading US manufacturer of lawn-and-garden consumables, mulch, soil, stone and lime, with a national footprint and long-standing private-label and branded programmed for major home-improvement retailers and garden centers. It is a tangible, scaled business with real plants, real inventory and observable market positions, the kind of asset whose value can be built from the ground up rather than inferred from a multiple.

Revenue durability. Demand for lawn-and-garden consumables is steady and lightly cyclical, tied to home ownership and seasonal maintenance rather than discretionary splurges. The durability is real but not unqualified: volumes track housing turnover and weather, and a cold or wet spring can move a season. Revenue is repeatable, which is not the same as recurring.

Cash conversion. Consumables convert reasonably well, but the business carries the working-capital and freight intensity of a heavy, low-value-density product; mulch and soil are expensive to move relative to their price, and inventory builds ahead of a compressed selling season. A lender must underwrite the seasonal swing in working capital, not the annual average.

Customer concentration. This is the central risk. A private-label consumables manufacturer selling into home-improvement retail is structurally concentrated in a handful of large customers whose buying power is considerable. Concentration is not disqualifying, national programs are sticky and expensive to re-source, but it caps pricing power and makes the loss of a single program a material event.

Capital structure and purchase multiple. Terms were not disclosed. What is disclosed is more useful than a mark: an independent buyer paid over $1.1bn for the business in an arm's-length process advised on both sides. That price is the attachment reference a lender should use, because it was set by a counterparty with capital at risk rather than by a model.

Collateral. Unusually for this market, the collateral is real. Plants, equipment, inventory and receivables provide a hard-asset floor beneath the enterprise value; the products are commoditized enough to be re-sold and the retail programs valuable enough to be re-assigned. Recovery here is a question a lender can actually answer.

Sponsor. Pacific Avenue is a carve-out specialist, and carve-out execution is the first-year risk in any divestiture: standing up the standalone finance, systems, procurement and logistics that the parent previously provided. The sponsor's track record in exactly this maneuver is the relevant credential, more so than the headline multiple.

Recovery analysis. This is the case's strength. A senior lender attaching below an equity cheque struck at a real, arm's-length price, against tangible collateral, in a business with repeatable demand, has a recovery it can estimate with confidence. Recovery is not an output of underwriting; it is the product of it, and here the raw materials, a market price and hard assets, are present. The principal threat to recovery is not valuation but execution: a botched separation that impairs service to concentrated customers.

Primary risks. First, customer concentration and the pricing power of large retail buyers. Second, carve-out execution and the cost and duration of transition services. Third, seasonality and weather, and the working-capital swing they impose. Fourth, input and freight costs on a low-value-density product. Fifth, the ordinary risk that add-on ambitions lever the platform faster than the base business deleverages.

Structural mitigants. A conservative attachment point set against the arm's-length purchase price rather than a projection; a fixed-charge coverage covenant tested through the seasonal trough; an excess-cash-flow sweep; limits on debt-funded add-ons until the carve-out is complete; and information rights sufficient to monitor retention of the customer programs, the one variable that would move recovery.

INVESTMENT COMMITTEE VERDICT

Would Tellaro lend? Yes, and with more confidence than most credits this month permit. The business is tangible, the demand repeatable, the collateral real, and, decisively, the price was set by a transaction rather than a model. The reservations are customer concentration and carve-out execution, both addressable with a conservative attachment point, a coverage covenant tested at the seasonal low, and disciplined limits on debt-funded growth. In a month spent worrying about the reliability of marks, the appeal of this credit is precisely that it does not require one: an independent buyer has already told the lender what the business is worth.

DOCUMENTATION WATCH

If May had a lesson for documentation, it is that the value of a covenant is highest exactly where the value of a mark is lowest.

The connection is direct. A self-reported mark tells a lender what a manager believes a position is worth. A covenant, an information right, a cash-flow test tells a lender what is actually happening inside the borrower, and gives the lender the ability to act on it before the mark and the recovery converge downward. In an asset class with no secondary price, documentation is the only independent instrument the lender holds. It is the substitute for the market that private credit does not have.

Value covenants as options, as ever. A maintenance covenant is a call on early intervention; an information right is a call on knowing sooner than the quarterly report admits. In a market where the reported value of a book may lag its realizable value by quarters, the information right is worth more than usual, because it shortens the lag. The lender who can see deterioration in the borrower's own numbers need not wait for the mark to catch up.

The honest qualification is that documentation is only as good as the willingness to use it, and that willingness is itself untested in this vintage. Covenants written in a benign market are exercised, or not, in a difficult one, and the market has been benign for a long time.

TELLARO READ-THROUGH

Documentation is the private market's substitute for a price. Where no trade sets the value, the covenant and the information right are what convert a lender's opinion into knowledge. We believe the discipline of underwriting to documented, observable cash flow rather than to reported value will prove one of the durable advantages in private credit as the asset class is examined, for the first time, as a system. A mark can be revised; a covenant is either there or it is not.

TELLARO UNDERWRITING VIEW

May does not change Tellaro's method; it changes what the method is defending against. The risk in focus is not default but valuation, and the same three questions, where a loan attaches, what it would recover, and what its documentation is worth, are the questions that make valuation irrelevant, because each is answered in realizable value rather than in reported value.

The first question governs the number that matters: attach below an equity cheque set by a real price where one exists, and discount a projection where it does not. The second governs the whole discipline of the month: favor cash flows and collateral a lender could actually realize, tangible-asset businesses, carve-outs priced at arm's length, franchises with observable economics, and treat with caution any value that rests on a self-set mark, a continuation-fund valuation, or a multiple of a narrative. The third governs the defense: insist on the information rights and covenants that let a lender see and act on the truth before the mark does.

One further discipline follows from the month. Distrust liquidity that is engineered rather than earned. A continuation fund, a subscription line, a payment-in-kind toggle each provides cash, or the appearance of value, without a sale, and each defers the day the position meets a price. That deferral is sometimes prudent and always informative: the need to engineer liquidity is itself a signal about the underlying value.

A mark is what a position is said to be worth; a recovery is what it pays. Underwrite the second, and the first cannot hurt you.

CONCLUDING OBSERVATIONS

May was the month a regulator held private credit up to the light and asked the question the market had been able to avoid: what is any of this actually worth? The answer, honestly given, is that no one yet knows, because most of it has never been sold. That is not a crisis; defaults are low and the businesses are, for the most part, sound. But it is a discipline. In an asset class without a price, value is an opinion, and the lender's job is to hold opinions that survive contact with a buyer. That means underwriting to what a loan would recover rather than to what it is marked, insisting on the documentation that reveals the truth early, and preferring the credit whose worth was set by a transaction to the one whose worth was set by a statement. Marks are not prices, and prices are not recoveries. The whole of the craft is in the distance between the three.

MARKET DASHBOARD

The dashboard is arranged to read as evidence for the issue's thesis rather than as a data table. Figures are drawn from public market data and, where a precise monthly reading is unavailable, from the latest reported period; such cases are estimates.

Metric	Current	Prior	Signal
PE inventory overhang	~9 years to clear	Rising	Exits scarce; price discovery has stalled
MM entry multiple (upper vs lower)	13.4x vs 8.8x	Gap widening	Same asset class, two very different prices
MM leverage (upper vs lower)	5.2x vs 2.5x	Gap widening	Risk concentrated at the larger end
Add-ons (share of MM deal count)	~68%	~65% plus	Buy-and-build dominates; platforms scarce
Software platform buyouts	Decade low	Falling	A valuation reset the marks have not taken
Unitranche spread (MM)	SOFR + 475-550	Broadly flat	Price steady; scrutiny has moved to value
All-in first-lien yield	~8.0-8.5%	Lower a year ago	The base rate is doing less of the work
Payment default rate	~1.1%	~1.1%	Low; the month's question is valuation
Distress incl. liability mgmt	~3%	Elevated	PIK and extensions defer the reckoning
BDC price / NAV	~0.86x	Discount persists	The public market's verdict on private marks
Continuation-fund activity	Rising	Rising	Liquidity without a sale; marks set in-house
Fed funds target range	3.50-3.75%	3.50-3.75%	Held since the late-2025 cuts
Est. recovery (private credit)	~50c	~70c assumed	Recovery, not the mark, defines the vintage
Private credit AUM	~$2tn+	Growing	Now examined as a system, not a niche