



Private Capital Valuation

Looking Beyond Paper Returns
to the Metrics That Matter Most



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The ultimate validation of a private capital manager lies not in the performance they promise, but in the cash they return. Historically, the private markets relied heavily on paper-driven metrics to signal health and attract allocators. However, structural shifts have transformed the evaluation framework. Discerning investors have shifted their focus away from theoretical valuations and toward concrete realization metrics, making return quality the central issue in manager selection and portfolio health.

Current Metrics

Evaluating a private capital portfolio requires balancing three core metrics. Each provides a distinct view of fund health, but looking at any single metric in isolation can distort performance reality:

- **Internal Rate of Return (IRR):** As a time-weighted metric, IRR measures the annualized growth rate of an investment. While essential for comparing private market returns against public benchmarks, IRR is highly sensitive to the timing of cash flows. Managers can artificially boost early-stage IRR through the strategic use of subscription lines of credit, delaying capital calls and shortening the holding period on paper without creating underlying fundamental value.
- **Multiple on Invested Capital (MOIC) / Total Value to Paid-In (TVPI):** This metric tracks the absolute multiple of value generated per dollar called, blending both realized cash and unrealized asset appraisals. While TVPI reflects the manager's ultimate wealth-generation potential, it remains heavily dependent on quarterly valuation marks. In opaque private markets, these marks represent paper-driven calculations rather than market-clearing liquidation realities.
- **Distributed to Paid-In Capital (DPI):** The definitive metric of realization, DPI measures the actual cash distributions returned to limited partners relative to total contributed capital. DPI is generally harder to influence, though NAV loans and recapitalizations can accelerate distributions. It represents cold, hard cash returned to the allocator's balance sheet.

Realized vs. Unrealized returns

The core tension in modern private market analysis centers on the divergence between TVPI (what the fund is worth on paper) and DPI (what the fund has actually paid out).

During market expansions, wide gaps between these two metrics are common as investments mature. However, prolonged divergence reveals valuation opacity. Paper gains are highly vulnerable to macro headwinds, changing multiple environments, or shifts in sector fundamentals. Until an asset is fully exited via a strategic sale, IPO, or sponsor-backed recapitalization, a high TVPI is simply a statement of intent. A premium manager's true edge is isolated alpha—the ability to systematically convert high TVPI into realized DPI, proving that their operational value-add can withstand changing market cycles.

A New Paradigm

The modern macroeconomic environment has firmly established DPI as the primary anchor of private market diligence.

Metric Focus	Legacy Market Paradigm	Modern Market Paradigm
Primary Metric	IRR & TVPI Emphasis	DPI & Realization Focus
Market Driver	Low-interest rates and rapid multiple expansion.	Higher-for-longer base rates and compressed public exits.
Fund Strategy	Quick paper roll-ups; high reliance on financial engineering.	Deep operational value-add and organic EBITDA growth.
LP Behavior	Reinvesting theoretical distributions based on paper marks.	Requiring hard cash realizations to fund new capital calls.

When public exit windows narrow, funds must hold assets for longer periods. Managers can no longer rely on rising market tides or financial leverage boosters to rescue weak underwritings. Instead, sustainable returns must be driven by organic EBITDA growth and hands-on operational improvements.

For institutional allocators, managing liquidity requires strict cash-flow matching. When DPI stalls, the entire private capital recycling mechanism slows down. Investors face a numerator effect, becoming overallocated to illiquid assets on paper while lacking the liquidity needed to commit to new fund vintages. Consequently, top-tier managers are distinguished by their distributions rather than their growth projections.

By making cash realization the central pillar of performance analysis, investors ensure they are backing managers who generate repeatable investment alpha, rather than those simply riding market waves.

Key Takeaways:

- **CASH IS THE PROOF**
Performance ultimately matters when paper gains become realized distributions.
- **REALIZATION SEPARATES MANAGERS**
The ability to consistently convert TVPI into DPI is an increasingly important measure of manager quality.
- **OPERATIONAL ALPHA MATTERS MORE**
In a higher-rate, constrained-exit environment, value creation increasingly has to come from improving businesses—not simply financial engineering.



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