

Fund Finance Insights

Navigating the Growth of Rated Note Feeders

October 2026



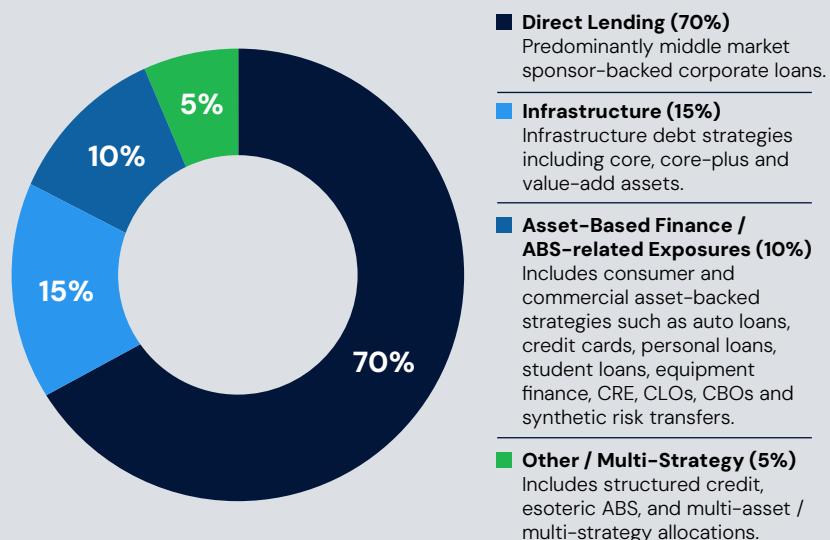
Introduction

Rated Note Feeders (RNFs) are becoming an increasingly important route for institutional fixed income investors to access direct lending, infrastructure, asset-based finance (ABF), and other private fund strategies. This paper considers how RNFs work, their typical features and the perspectives of lenders, investors, and GPs.

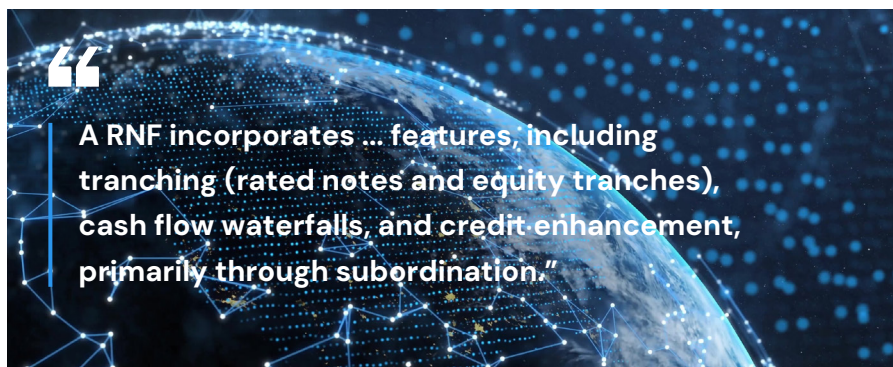
How does a RNF work?

A RNF incorporates securitisation-like features¹, including tranching (rated notes and equity tranches), cash flow waterfalls, and credit enhancement, primarily through subordination. The structure involves a feeder vehicle that issues debt liabilities alongside equity interests, with the issuance proceeds used to make and fund limited partner (LP) capital commitments to the master fund (see Figure 1: Feeder Fund Rated Notes Transaction Structure). Distributions from the master fund ultimately provide the cash flows available to service the rated debt obligations.

RNFs - Asset class distribution by exposure



Note: Percentages are approximate and based on qualitative disclosures in KBRA reports. KBRA does not disclose a precise quantitative asset class split for rated note feeders. Based on KBRA Reports as of 30 June 2025



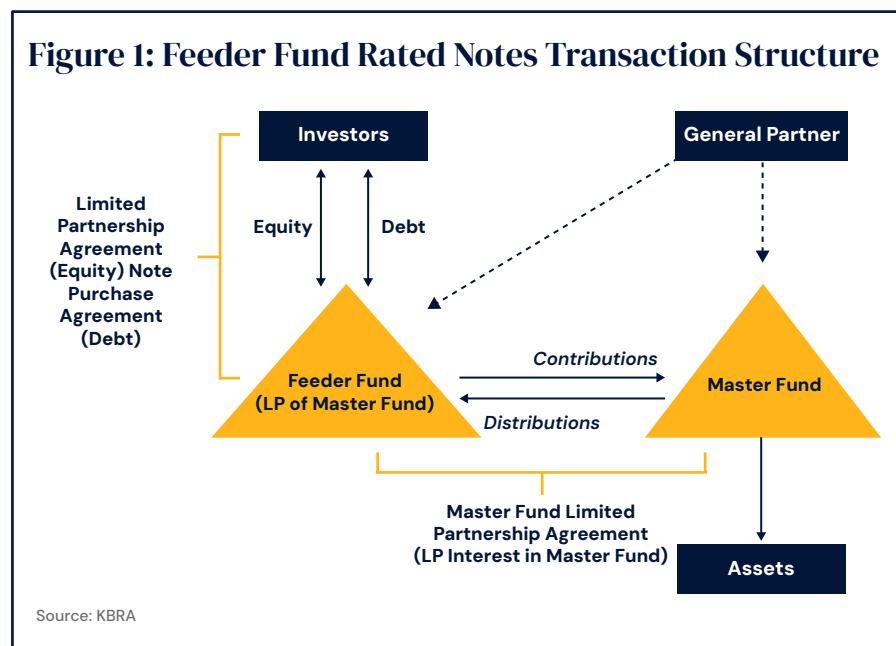
¹The determination of whether a structure is a securitisation is complex and nuanced.

The notes and equity tranches have distinct legal and economic terms and associated levels of credit risk implemented through a suite of interlocking legal documents that

govern the rated debt, including the feeder fund limited partnership agreement (**LPA**), the master fund LPA and a note purchase agreement, trust deed, or indenture.

In practice, the analysis is usually based on a combination of quantitative and qualitative factors. Given the diversity of fund strategies, structures and security, the analysis is on a case-by-case basis, however the considerations can be grouped into the following key areas:

Figure 1: Feeder Fund Rated Notes Transaction Structure



Typical features

There are certain characteristics which are common across RNF transactions:

- (a) **Credit enhancement** is primarily achieved through the subordination of junior-ranking debt and equity tranches and excess asset spread.
- (b) **Cash flow waterfalls** prioritise senior expenses and interest, allocating distributions across note classes in accordance with defined priorities of payment resulting in sequential deleveraging of rated tranches.
- (c) **Structural protections** are reinforced through triggers, including over-collateralisation or loan-to-value tests, minimum diversity requirements and other triggers that may accelerate deleveraging and the repayment of the rated debt.

Additional considerations include the alignment of debt and equity mechanics, with capital typically called in fixed proportions based on commitments during the reinvestment period and in a manner during amortisation that aligns with the deleveraging of the structure. Where subscription facilities are present, structures may incorporate reserve or contingent equity commitments to address concerns around debt commitment enforceability concerns in an insolvency scenario and to support borrowing base inclusion for the subscription facility (see further below).

Rating considerations

Ratings play a key role in RNF structures as they provide institutional investors exposure to private credit and related strategies in a fixed income format. In broad terms, the ratings analysis assesses the ability of the feeder fund to satisfy its obligations to pay interest and principal on the rated notes in accordance with the transaction documents.



Portfolio asset quality – the credit quality of the master fund's actual or expected portfolio.



Asset coverage – the extent to which asset value supports the rated debt, including under stress scenarios and factoring in any long-term fund leverage at the master fund level.



Liquidity and Duration – the ease and efficiency with which assets can be liquidated without significant loss in value, and the potential volatility of asset values over time.



Cash flow analysis – the amount and timing of cash flows available to service the rated notes, including under stress scenarios and with the effect of covenants and triggers that support value preservation and deleveraging.



Manager review – the role and capabilities of the manager in originating and managing the underlying assets.



Legal review – an evaluation of whether the legal and structural features of the rated note transaction may enhance or detract from the underlying credit quality of the master fund's portfolio, including the enforceability of rights, creditor protections, priority of claims, and other structural features that may affect credit outcomes.



RNFs are typically raised and executed during the early stages of a fund's life, when the underlying portfolio may be only partially ramped. As a result, rated note investors may be exposed to greater portfolio uncertainty, reflecting both the limited seasoning of the portfolio and the flexibility afforded to the fund manager with respect to investment pace and collateral composition. To assess the credit quality of a newly established fund with a minimally ramped portfolio, the manager's target portfolio for the master fund is considered alongside the composition and performance of fully ramped predecessor funds or representative loans from the manager's platform. Given the uncertainty regarding the fund's ultimate portfolio composition, conservative assumptions are also incorporated into the portfolio construction used for the analysis.

Lender and investor perspectives

From a lender and investor perspective, RNF structures can raise a number of practical issues, particularly where subscription facilities are involved. The key issue is not simply the presence of the RNF itself, but whether the structure and documentation preserve creditor protections, enforceability and borrowing base treatment.

Interaction of RNFs with subscription facilities

In a number of RNF structures, the liquidity and operational needs of the fund are supported by a subscription facility. A typical subscription facility is secured by the uncalled capital commitments of the fund investors, which have traditionally been in the form of equity (most often LP interests). These commitments also form the borrowing base against which subscription facility lenders advance funds. Since investor commitments into a RNF are largely structured as debt (rather than equity), the interplay with a subscription facility can present particular considerations.

For historical and legal reasons, subscription facility lenders have typically had reservations about lending against debt commitments. While the exercise of remedies by subscription facility lenders has not been extensively tested in court, there is some support in case law for the position that equity commitments remain enforceable in insolvency. Accordingly, subscription facility lenders generally give credit in the borrowing base to equity commitments, but not debt commitments. The subscription facility market has adapted to the rise of RNFs in a number of ways to address this issue.

One approach is to structure the RNF to include a reserve (or contingent commitment) designed to support the subscription facility upon the occurrence of specified triggers, to the extent it becomes necessary for the subscription facility lenders to enforce their security. Another approach is for investors to subscribe for debt commitments alongside parallel equity commitments. The appropriate analysis and structuring will, however, depend on the facts and applicable law in each case, including the jurisdiction and legal form of the RNF, to preserve the debt nature of the commitments.

Against that background, lenders and investors typically focus on:

- whether a lender has the right to step into the shoes of the GP and call directly on the LPs within the RNF following an enforcement event;
- whether the note purchase agreement remains subordinated to the subscription facility; and
- whether reserve or contingent commitment mechanics are included to support the subscription facility in an insolvency or enforcement scenario.

A recurring challenge is that these issues are not always addressed early enough in the structuring process. As a result, constitutional documents or note terms may need to be revisited later, or certain commitments may not receive full borrowing base credit.

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GP perspectives

RNFs may be viewed by GPs as an attractive structure through which insurance capital can access private markets. As insurance investors continue to seek diversification and yield, private credit, particularly senior direct lending, remains a focus given its contractual cash flows and illiquidity premium, which can align well with long-dated insurance liabilities.

RNF structures facilitate this flow by transforming a traditional LP interest in a master fund into debt and residual equity tranches, which may assist insurers in meeting their asset-liability management needs and certain regulatory capital objectives.

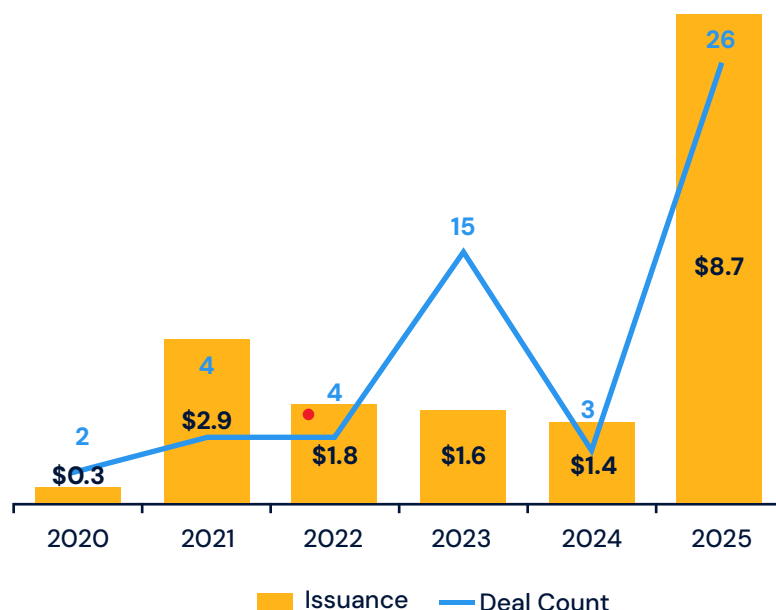
These vehicles are typically designed with strong asset-liability alignment to the underlying master fund, alongside additional structural protections such as credit enhancement. The presence of external ratings on the debt tranches introduces an additional layer of independent validation on both the underlying assets and the structure.

Trends and Structural Evolution

Expanding asset classes

RNFs have historically been used most heavily in direct lending funds, but the market has expanded into a broader range of asset classes, including infrastructure and ABF strategies. One particularly notable development has been the growing use of RNFs in funds pursuing infrastructure debt strategies. This is important as the expansion of RNFs into a wider range of strategies is likely to bring these structuring and financing considerations into a broader set of fund and loan market contexts.

Infrastructure Issuance (\$Bn)



Note: Issuance amounts include rated debt tranches, liquidity facilities, and equity along with any upsizes in the year they occurred. Deal count includes upsizes in the year they occurred. Source: KBRA

Evergreen fund structures

Another notable development is the increasing use of RNFs in evergreen master funds, which introduces additional structural considerations and complexity, including duration risk given potentially longer investment holding periods, and liquidity risk arising from a structural maturity mismatch between the perpetual life of the master fund and the fixed maturity of the rated notes.

These funds typically have limits on redemptions in any period in order to manage the fund's liquidity relative to the typically illiquid underlying asset base (see further the LMA Insight on [The growth of evergreen funds: Practical considerations](#)). For repayment of the RNF, the liquidity risk is typically managed through withdrawal account frameworks or in-kind redemption mechanisms, pursuant to which the feeder fund's interest is placed into run-off and underlying asset proceeds are applied to repay the rated notes.

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Looking Ahead

Demand for RNF structures is expected to grow as the market expands across a wider range of asset classes and structures. As the market develops, participants will need greater clarity, shared understanding and practical guidance on the structuring, legal and financing issues involved. The LMA will continue to support this through education, dialogue and practical market insight, helping members to navigate an evolving landscape.

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To learn more about the LMA's work to support efficiency, liquidity and transparency in the fund finance market, please visit the LMA's Fund Finance Microsite:

<https://www.lma.eu.com/fund-finance>

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