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Insurance Capital in Fund Finance: An Analysis of Rated Note Feeders

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Insurance capital is emerging as a key player in private markets, but its growing role brings new consideration for lenders.

At its core, an insurer's business model involves collecting premiums from policyholders and investing those premiums to meet future claims and other liabilities. For life insurers in particular, those liabilities can extend many years into the future.

Conversely, private credit and other private market investments can offer long-dated, relatively predictable cash flows, making them a natural fit for insurers who are seeking to maximise their returns and match the profile of their long-term liabilities.

However, attractive returns are only part of the consideration for insurers. They are subject to regulatory capital requirements which require them to hold capital as a buffer against investment risk.

They need private market investment products that not only offer competitive returns and make sense from a balance sheet perspective but also work within their regulatory capital requirements.

Factors such as duration, liquidity, ratings and cash-flow characteristics can all affect their investment strategy.

As a result, two investments with broadly similar economics may look quite different to an insurer where one benefits from more favourable capital treatment.

What Are Rated Note Feeders?

A rated note feeder is an investment vehicle that allows investors, particularly regulated institutions such as insurance companies and banks, to access alternative investment funds through investment-grade credit-rated debt instruments rather than solely through traditional equity.

Structurally, the rated note feeder sits between the investor and the underlying fund. Rather than making its investment through a conventional equity commitment, the investor can hold all or a portion of its investment via a rated debt instrument.

The first component of the feeder is a rated debt component. The investor purchases rated notes issued by the feeder, making it a creditor of the feeder and entitling it to principal and interest payments in accordance with an agreed payment waterfall. The feeder then invests the proceeds into the underlying fund or strategy.

The second is an unrated equity (or equity-like) component. An entity retains an equity interest (which may be structured as a debt that operates economically as a residual profit instrument) in the feeder, giving it exposure to the residual performance of the underlying fund after amounts due to noteholders have been paid.

The rated debt component can be particularly attractive to insurers and other regulated entities because rated debt will often receive more favourable regulatory capital treatment than equivalent

equity exposure. That can allow an insurer to obtain exposure to private funds in a form that fits more readily with its balance-sheet and regulatory requirements.

How Do They Differ from Conventional LP Investments?

With a conventional LP, there is a direct relationship between the investor and the fund. The investor holds an equity interest in the fund and is bound by the LPA to contribute capital when called.

A rated note feeder introduces an additional layer between the ultimate source of capital and the borrower so there is no longer a direct relationship between the investor and the fund. The investor may have committed to purchase notes and/or equity issued by the feeder but the feeder itself has made the capital commitment to the underlying fund. This creates a chain of obligations from the investor through the feeder to the borrower.

Why This Matters for Subscription Lenders

Subscription lending depends on investors honouring capital calls. The lender's security rests on being able to access investor capital reliably when needed.

With a conventional LP, that path is direct. With a feeder structure, the path is indirect and the lender must carefully trace the commitment through the feeder to the ultimate investor. While a highly rated investor behind the feeder is helpful from a credit perspective, the real question is not simply the investor's creditworthiness, but whether the commitment behind it is legally and practically reliable and can ultimately be accessed by the lender if things go wrong.

A subscription line lender will need to analyse what its enforcement rights would be if a rated note feeder became insolvent. In certain jurisdictions, the law may protect rated noteholders in a way that restricts the lender's ability to issue the notes in a bankruptcy. Legal due diligence on the rated note feeder's note purchase agreement and constitutional documents is also critical to establish whether drawings from investors must be made sequentially. For example, the general partner or manager of the feeder may only be permitted to draw first from certain investors, such as the rated noteholders, until specified thresholds are met, after which it may draw from other investors. Provisions of this kind need to be factored into the lender's analysis of the borrowing base.

Priority, Ranking and Subordination

The presence of both debt and equity components in the feeder's capital structure introduces questions of priority and ranking. Noteholders are creditors of the feeder and generally rank ahead of equity investors, who are entitled to the residual value of the feeder after amounts due to the noteholders have been paid. This means that the order in which cash is distributed and the priority attaching to different claims becomes an important feature of the structure.

Where a lender lends directly to the feeder, it becomes another creditor of the feeder. The lender needs to determine how its claims rank relative to those of the noteholders, including how payments are prioritised under the applicable payment waterfall and how this could affect recoveries.

Specifically, lenders need to understand:

- Where their claims sit in the capital stack and the payment waterfall.
- How they rank against noteholders.
- Whether payments on the notes can continue while the subscription facility is outstanding.
- Whether the notes can be amended in ways that affect the lender's position.
- Whether notes can be issued to investors when the feeder is insolvent.

Where the lender lends directly to the underlying fund, it is a creditor of the fund, so there may be no direct ranking issue between the lender and the noteholders. However, the notes remain relevant because payments to noteholders reduce the cash available to meet capital calls from the underlying fund.

This requires the lender to know how cash moves through the feeder. Specifically, they need to understand the order in which payments are paid, whether other creditors or contractual obligations

could affect the timing and amount of cash available for capital calls, and how the subordination structure impacts the reliability of funding when capital is needed.

Regulatory Considerations

Rated note structures are often specifically designed with regulatory capital outcomes in mind. Changes to the notes, their rating or the wider structure can have significant consequences for insurers. Regulatory considerations can also influence how an insurer or feeder behaves if the structure comes under pressure. This is an important factor for lenders to monitor when evaluating the feeder as a source of capital.

Insurance Capital on Both Sides of Fund Finance

Insurers and other regulated entities are not only investing in funds that use fund finance facilities. They are also increasingly providing the financing themselves.

The same insurer might invest directly as an LP in one fund, through rated notes in another and participate as a fund finance lender elsewhere in the market. In that sense, insurance capital is increasingly appearing on both sides of the fund finance equation.

Subscription finance has historically experienced very low default rates, supported by diversified investor commitments and strong structural protections. For insurers, this offers attractive high-quality private credit exposure. Different fund finance products also suit different parts of an insurer's balance sheet. Longer-dated NAV and hybrid financings can generate cash flows aligned with life insurers' long-term liabilities, while shorter-dated subscription facilities offer relatively high-quality floating-rate exposure.

The scale of insurer participation in fund finance is already significant. In June 2026, Lloyds Banking Group and Legal & General announced that their fund finance co-investment partnership had exceeded £1.5 billion of participations since its launch in 2022.

The UK Market

The growing role of insurers as fund finance lenders reflects the way these assets can fit within their broader balance sheet and regulatory framework.

In the UK that is particularly relevant given the size of the annuity market and the importance of the matching adjustment.

The matching adjustment is a regulatory mechanism which allows insurers to recognise a capital benefit where the assets they hold generate cash flows that closely match the payments they expect to make to policyholders.

This means that the structure of an investment matters. A rated note will not necessarily be attractive to a UK insurer simply because it carries a rating. Its cash flows also need to be sufficiently predictable and capable of being matched against the insurer's liabilities.

Recent reforms to the UK matching adjustment regime are particularly relevant in this context as they have widened the range of assets that can potentially qualify. The scope now extends beyond traditional government and investment-grade corporate bonds to include infrastructure debt, private credit and other illiquid assets with sufficiently predictable cash flows.

This gives insurers greater flexibility to invest against long-dated liabilities while seeking to optimise returns. For rated note feeders, it also places greater emphasis on structuring the notes in a way that works with UK insurers' regulatory and liability-matching requirements.

Final Thoughts

As insurance capital becomes more embedded in private markets, the structures used to deploy it are becoming more sophisticated.

For insurers, those structures can provide access to private assets in a form that works more effectively with their regulatory and balance-sheet requirements.

For lenders, the focus can no longer be simply on who the investor is. They must understand how that investor's capital reaches the fund, what conditions attach to it, what happens when the structure is tested and, critically, where their claims sit in the payment waterfall.

For fund managers, the attraction is simply access to a deeper pool of institutional capital.

Traditionally, fund finance, structured finance and insurance regulation have occupied relatively distinct domains. As insurers deepen their exposure to private markets, these worlds increasingly resemble overlapping circles in a Venn diagram, with rated note feeders sitting at the intersection.

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