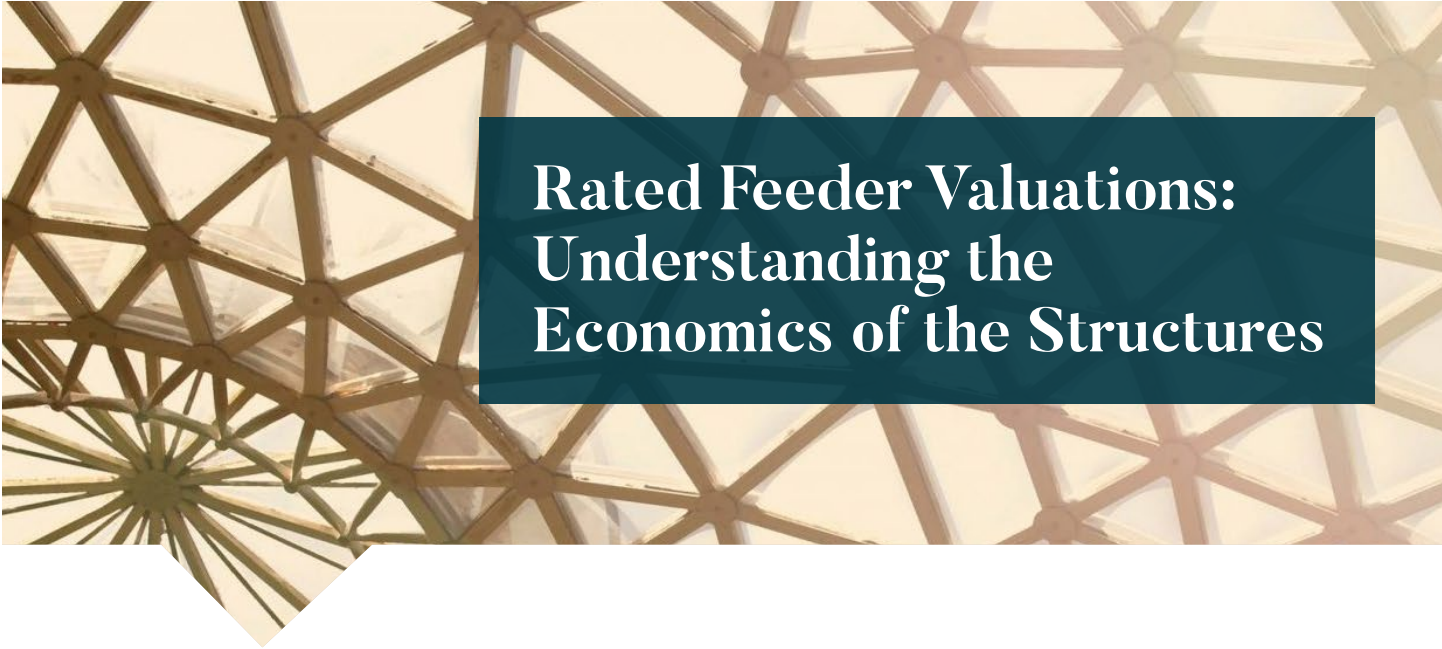




Rated Feeder Valuations: Understanding the Economics of the Structures

Why investors are increasingly accessing private markets through rated securities and what that means for valuation

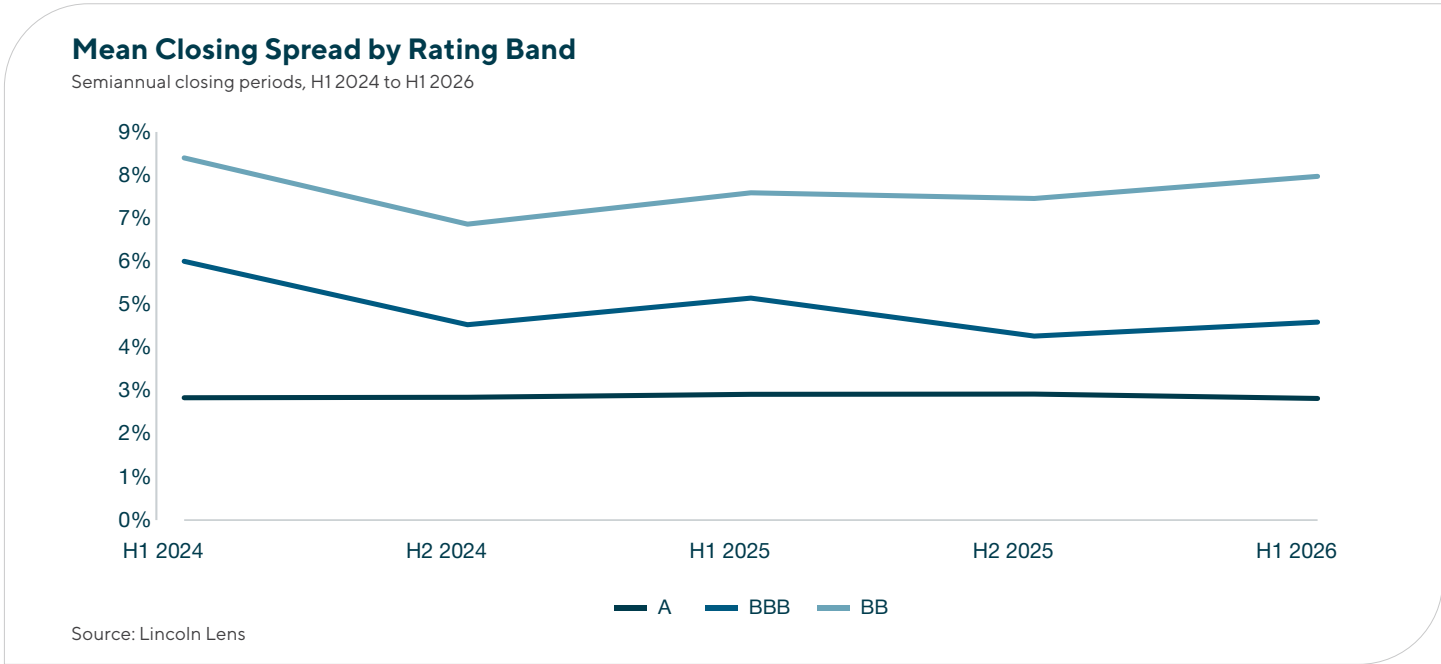
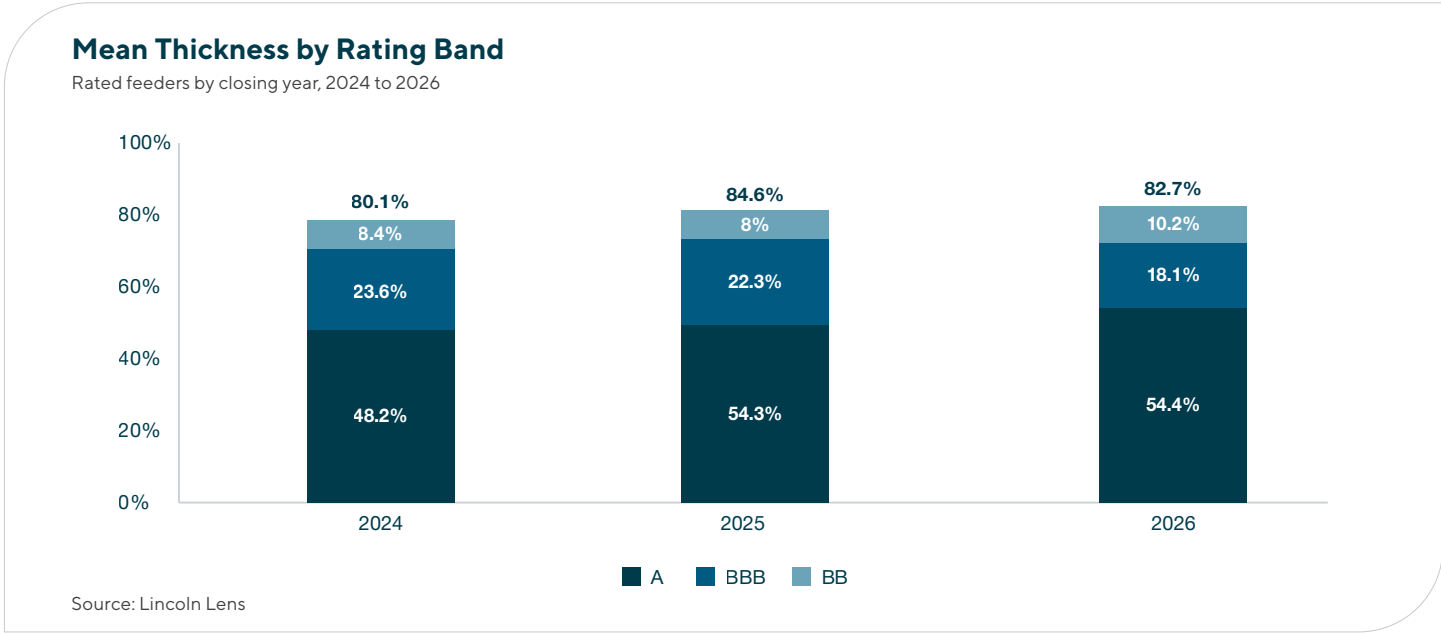
As allocations to private equity, private credit, infrastructure and real estate have grown, investors have increasingly sought structures that facilitate access while satisfying regulatory, accounting and portfolio construction objectives.

One such innovation is the rated feeder fund. Unlike a traditional feeder fund, which is typically financed solely with equity, a rated feeder raises capital by issuing a combination of rated debt tranches and equity. The proceeds are invested in an underlying investment fund, with the resulting fund distributions subsequently allocated through the feeder's contractual payment waterfall to service the issued securities. The different debt tranches vary by seniority, payment priority, expected maturity and credit risk, allowing investors to gain exposure to the same underlying portfolio through securities with different risk and return characteristics.

As these structures continue to evolve, so too does the need for valuation methodologies that appropriately reflect their contractual features and economic terms. The article below outlines the trends driving growth in rated feeders, considerations for the valuation process and the outlook for the fund structure.

Why Rated Feeders Have Emerged

The rated feeder market has expanded rapidly in recent years. Over the past three years, Lincoln Lens, Lincoln International’s proprietary market database, has tracked more than 100 rated feeder transactions representing nearly \$20 billion of aggregate notional across a broad range of sponsors, underlying investment strategies and rating categories. The breadth and growing volume of this dataset provide an increasingly robust body of observable issuance and pricing information. Market activity accelerated materially in 2025, with issuance tracked by Lincoln approximately doubling compared with 2024, further demonstrating the increasing depth of the market.



The emergence of rated feeders reflects the convergence of two broader trends. First, institutional investors have continued to increase allocations to private markets, reaching record levels in 2026. Second, many of these investors operate within regulatory capital frameworks or investment mandates that distinguish between rated debt securities and traditional private fund interests.

U.S. insurers, for example, are subject to the National Association of Insurance Commissioners (NAIC) risk-based capital framework, while European insurers are subject to Solvency II. Although these frameworks differ, they often assign different capital treatment and risk charges to rated debt securities than to direct private fund interests.

To meet this demand, rated feeders are structured so that the issued notes exhibit the contractual and economic characteristics of debt rather than direct ownership interests in the underlying fund. The transaction structure, including its leverage, payment waterfall and credit enhancement mechanisms, is typically calibrated to satisfy the published rating criteria for the target ratings, with each tranche designed to withstand stress scenarios consistent with its intended credit rating.

Rated feeders therefore bridge these two objectives by transforming private fund interests into rated securities. For investors, this can provide more efficient regulatory capital treatment while retaining exposure to the underlying investment strategy. For sponsors, rated feeders broaden the potential investor base by making private market exposure accessible to institutions that may otherwise be unable or unwilling to invest directly in limited partnership interests.

Valuing Rated Feeders

Background

Under ASC 820 and IFRS 13, the fair value of a rated feeder investment is measured from the perspective of a market participant. The objective of a valuation process is to estimate the price that would be received if the specific security was sold in an orderly transaction at the measurement date.

Assessing the Net Asset Value

Investors in rated feeders own securities issued by the feeder rather than a direct interest in the underlying investment fund. Although the underlying fund ultimately generates the economic returns, those returns are first received by the feeder and distributed in accordance with its contractual financing arrangements. As a result, investors are exposed not simply to the performance of the underlying fund but also to the contractual rights and obligations attached to the securities they hold.

In practice, investors are typically provided with a reported NAV for the underlying investment fund rather than a valuation of the securities issued by the feeder. While the reported NAV can provide a useful indication of collateral coverage, it is a static balance-sheet measure that does not capture the value of optionality held by the equity holders, the timing and path of future cash flows

or the contractual dynamics of the feeder's payment waterfall. Accordingly, a market participant first assesses whether the reported NAV provides a reasonable representation of the underlying collateral and then develops forward-looking expectations for the fund's future cash flows.

Developing Market Participant Cash Flows

For performing rated feeders, an income approach based on discounted cash flow (DCF) analysis generally provides the most appropriate valuation framework. Expected future fund draws and distributions are projected and allocated through the rated feeder's contractual payment waterfall to determine the cash flows attributable to each class of securities. Those cash flows are then discounted using rates of return that reflect the returns required by market participants for comparable investments.

Unlike traditional bonds with predetermined principal and interest cash flows, the expected timing and amount of cash flows are influenced by structural features such as drawdown schedules, callability, cash sweeps and turbo provisions. These features can materially affect duration, repayment timing and expected returns and therefore must be explicitly reflected in the valuation.

Determining a Market Participant Discount Rate

Selecting an appropriate spread and discount rate is therefore just as important as modeling the underlying cash flows. In practice, market participants determine required returns by considering the credit quality, structural features, expected cash flow profile, liquidity and prevailing market spreads of comparable securities. Credit ratings provide an important reference point in this process, but they represent only one input into the valuation.

Although secondary trading remains limited, primary issuance provides valuable evidence of the returns required by market participants across different rating categories and transaction structures. Lincoln combines detailed cash flow modeling with observable market evidence and proprietary market intelligence available through Lincoln Lens to calibrate spreads and discount rates while reflecting the specific characteristics of each transaction.

Figure 1 presents representative spread ranges derived from primary rated feeder transactions tracked by Lincoln Lens in the second quarter of 2026. While transaction-specific characteristics such as expected cash flow profile, structural features, liquidity, duration and collateral quality must all be considered, the spreads shown below provide an important benchmark for measuring fair value consistently with market participant assumptions under ASC 820 and IFRS 13.

Figure 1: Representative Rated Feeder Note Spread Ranges

Primary rated feeder transactions tracked by Lincoln Lens, Q2 2026



Looking Ahead

Rated feeder funds are part of a broader evolution in private markets, affecting how investors access alternative assets and how those investments are financed and priced. As issuance grows and the investor base expands, these structures generate increasingly observable market evidence on pricing and required returns, improving transparency in a market that has historically relied heavily on unobservable inputs. For valuation professionals, this growing transparency represents an important shift, allowing fair value to be informed by both rigorous cash flow modeling and increasingly observable market pricing in a manner that more closely reflects how market participants value comparable securities.

Ready to discuss the opportunities ahead for you?

Connect with a senior professional at connect@lincolninternational.com