Rated Note Feeders in Music Catalog Investment

Bridging Long-Duration Music Ownership and Rated Insurance Capital

OCTOBER 2026 · FIRDAUS DAWOOD

Insurers have bought rated music catalog ABS for six years, but music fund investment still reaches them only as unrated fund stakes. This looks at whether a rated note feeder, a structure gaining traction in other asset classes, could bring insurance capital into music catalog ownership when paired with an evergreen music fund.

Between April and September 2026, I spent most of my working hours on music ABS, researching the transactions, writing about them and talking with people who have spent far longer in music than I have. Several of them raised the same point, that music is one of the longest-duration assets an institution can own, yet the vehicles holding it have lifespans of five to 10 years with 10-year financing only becoming available at scale in 2025. The more I compared the listed funds that once held music catalogs, the closed-end funds that hold more catalogs today and the ABS structures built around them, the more I wondered whether a product elsewhere in finance already bridged ownership vehicles and ABS. Some weeks later, I came across a LinkedIn post about rated note feeders attached to evergreen funds. I knew rated note feeders could sit over closed-end funds, but I had not seen the evergreen pairing. And so I decided to dig into whether a rated note feeder over an evergreen music fund could close that duration gap.

Listed funds were one early attempt to give owners capital that lasts as long as the asset. Hipgnosis Songs Fund and Round Hill Music Royalty Fund held catalogs in listed investment companies with no scheduled end date. Both were taken private in 2023 and 2024 at 16x to 18x net publisher's share (NPS), against public market values of 10x to 13x in the prior six months. The listed funds showed that permanent capital fits a catalog's duration, but the gap between the two sets of multiples showed the cost of pricing permanent capital daily in public markets. Private evergreen funds keep the permanent capital concept and price units at appraised net asset value (NAV), which removes the daily market discount and places more weight on the valuation process.

A lender to a music master trust expects to be repaid or refinanced within five to 10 years, while the owner holds a claim on royalties that can run for decades and carries the asset's full duration.

Private evergreen music funds suit investors who can hold long-dated, unrated fund interests, including pension funds, endowments and family offices. Insurance companies can hold unrated fund interests as well, but the capital they must set aside against an unrated fund stake keeps most insurance money in music at the level of the ABS notes. A rated note over an evergreen music fund would serve both sides of the market. Insurance investors would gain exposure to catalog ownership at a bond charge comparable to the one they pay on music ABS, and evergreen music funds would gain access to insurance capital that unrated fund interests do not reach today.

Music Funds Move Toward Permanent Capital

Closed-end funds remain a core source of ownership capital in music. Primary Wave closed its fourth fund at $2.225 billion in April 2026, with insurers, pension funds, endowments and family offices among its limited partners. Managers of closed-end funds handle the gap between a fund term of about 10 years and a multi-decade asset through extensions, continuation vehicles and successor funds. Each option requires limited partners to decide, at a price and on a date the fund sets, whether to sell or stay.

Some managers have avoided the sell-or-stay decision by moving to capital with no end date. Brookfield committed $1.7 billion to a permanent Primary Wave vehicle in October 2022, seeded with more than $700 million of rights from Primary Wave's first two funds. ICM's Crescendo Music Royalty Fund has been open-ended since 2020, with

monthly valuation, subscriptions and redemptions. Units outstanding in the ICM fund nearly tripled from 9.3 million at the start of 2024 to 27.7 million at the end of 2025, a measure of demand for evergreen music exposure among investors who can hold unrated fund interests. Round Hill Music has adopted an evergreen structure as well.

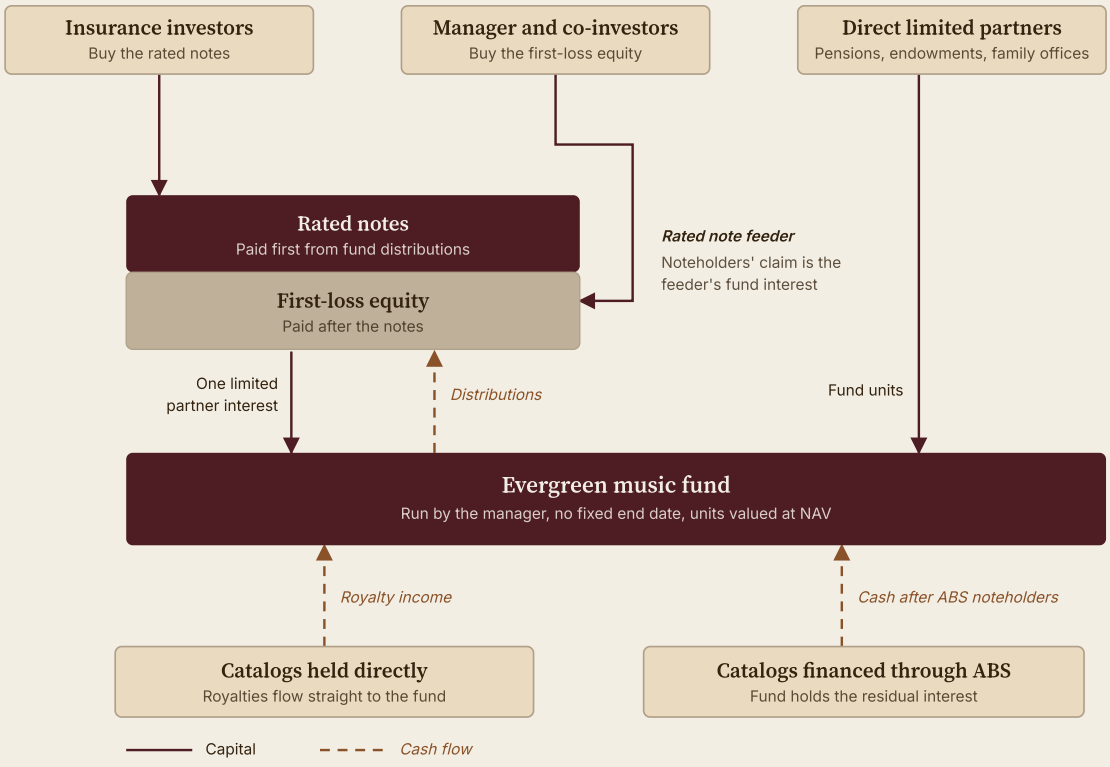
Insurers invest in both kinds of music fund, including as limited partners in Primary Wave's fourth fund, but they size their commitments around the capital and allocation rules that govern them. Under the NAIC's risk-based capital rules, a US insurer's limited partner interest carries a capital charge of about 30% to 45%, against about 0.7% to 1% for a note rated A. A $100 million fund commitment can therefore tie up $30 million to $45 million of capital, against less than $1 million for the same amount of A-rated notes. State insurance investment laws also cap how much of a general account can go into fund interests and other non-bond assets. As a result, a music fund competes for a small allocation, while a rated note can sit within a much larger bond portfolio. Many insurers' own guidelines, particularly for fixed income portfolios, require a rating, so some insurers, or some of their portfolios, cannot buy unrated paper even where the law allows it.

What Is a Rated Note Feeder?

Private credit managers met the same capital charge, allocation caps and rating requirements and built the rated note feeder to address all three (Figure 1). A feeder invests in a single limited partner interest in a fund and pays for that investment by issuing rated notes and a slice of first-loss equity. An insurer holding the notes carries the fund exposure at a bond charge of about one fortieth of the equity charge for an A-rated note, within its bond allocation and within guidelines that require a rating.

Figure 1. Structure of a Rated Note Feeder Over an Evergreen Fund

Insurers hold rated notes issued by the feeder, the feeder holds a limited partner interest in the fund, and royalty income flows back up to pay the notes without a catalog being sold.



Bloomberg reported in November 2024 that market practitioners described virtually every major middle-market private credit manager as having a rated feeder or raising one. KBRA rated $17 billion of feeder notes in 2025, more than double its 2024 total. Managers have since built feeders over infrastructure, real estate credit and secondary funds, in both closed-end and evergreen form.

The ABS trusts beneath the fund in Figure 1 add a layer of debt below the feeder, a structure with precedent in private credit. Mayer Brown reports that master funds often finance their investments through securitizations, repurchase agreements or other borrowing, and that the borrowing places effective leverage well above the leverage at the feeder level. Mayer Brown adds that rating agencies have still assigned relatively high ratings to feeder notes over those funds. S&P rates such feeders much as it rates a collateralized loan obligation (CLO). The agency credits the tranched notes, overcollateralization tests and interest coverage tests that recent feeders carry, and it can run the master fund's assets through CDO Evaluator, its CLO portfolio model, so S&P bases the rating on the credit quality of the assets inside the fund as well as on the feeder's structure. DLA Piper attributes institutional demand for feeders to those structured finance features, which let insurers and other credit-sensitive buyers underwrite feeder notes with the methods they apply to ABS. A music feeder over a fund holding ABS residuals would present rating agencies with a layered structure they already rate, and insurers that buy music ABS would be familiar with the waterfall and coverage tests they already underwrite.

Over a closed-end music fund such as one of Primary Wave's, a feeder would repay its notes within the fund's term from distributions and from the fund's eventual exit. Insurers gain rated access to music ownership on the fund's existing timetable. Over an evergreen fund, a feeder repays from income while the fund continues to hold its catalogs, which suits a decades-long asset. Evergreen feeders remain a small part of the feeder market. KBRA had rated seven feeders over evergreen credit funds as of April 2025, with $2.1 billion of combined debt and equity commitments. In each of the seven, the notes mature while the fund continues. The rating depends on whether the fund's income and redemption terms can repay the notes by maturity. Rating agencies would apply the same standard to a music fund, and the royalty income behind music ABS gives it a strong starting position.

Critics, the NAIC among them, have questioned whether feeders let insurance investors hold equity risk at bond charges. The NAIC responded by setting a test in its bond rules. A note backed by a fund interest counts as a bond only when the fund produces predictable cash flow and the equity beneath the note absorbs a meaningful share of losses. Royalty income meets the first condition, and a manager who builds a music feeder with a meaningful equity layer meets the second, so insurers would then be able to hold the notes at a bond charge.

Where Insurance Capital Stops in Music ABS

KBRA rated the sector alone through most of 2023, Moody's joined on Concord's 2024-1 series, and Fitch and S&P had rated music deals by early 2026, so general accounts that need more than one rating could then partake. Nuveen, PPM America, Aflac and Pacific Life were among the buyers of Influence Media Partners' first securitization in January 2025. Concord's $1.765 billion deal in July 2025 extended music ABS maturities to 10 years, with 7- and 10-year notes rated A+ by KBRA and A2 by Moody's.

The 10-year notes cover only a fraction of a catalog's earning life, so sponsors still finance a decades-long asset in five- to 10-year steps and carry refinancing risk at every maturity. US policy rates rose from near zero in early 2022 to 5.25% to 5.50% in 2023. After two years of cuts, the Federal Reserve raised rates again in September 2026 with one more on the horizon for 2026 and at least one more potentially in 2027. A sponsor whose notes mature while rates rise refinances the same catalogs at a higher coupon, pays a higher cost of capital and keeps less of each year's collections. Catalog buyers set prices from their cost of capital, so a sponsor that refinances at a higher rate can also pay less for its next acquisition.

Class A advance rates run from 51.1% of catalog value in Concord's 2025 series to 65% in the Hipgnosis, Hi-Fi and Kobalt deals, and lenders have pushed them higher as the sector's performance record has lengthened. Jihane Hassad of Crayhill Capital Management told the Amplify Music Investment Summit in May 2026 that lenders are "starting to go higher in the capital structure, with higher advance rates." A higher advance rate gives a sponsor more cash from each catalog to spend on acquisitions, while the lender takes on a larger loan against the same royalties.

An insurer that wants a share of catalog ownership today takes it as an unrated equity investment.

Insurers buy the Class A notes, which cover 51% to 65% of catalog value, while the sponsor funds the remaining 35% to 49% as an unrated residual interest held through its funds and shareholders.

Why a Feeder Suits an Evergreen Music Fund

A rated note feeder over an evergreen music fund would let insurers hold exposure to catalog ownership as rated notes. Managers of evergreen music funds could add insurers that buy only rated paper alongside their existing limited partners, whether a fund holds catalogs directly or finances some of them through ABS. In either case, the feeder depends on royalty income to pay and retire its notes.

Macfarlanes regards evergreen private credit funds as well suited to rated note feeders because their debt investments produce regular income. Managers can pay note coupons from that income, and rating agencies find the notes easier to analyze as a result. Music royalties carry no contractual interest, so a manager building a music feeder would need to show that catalog income arrives as regularly as interest on a loan book. ICM has paid a distribution every month on its open-ended fund since late 2020, including through the 2022 to 2023 rate increases. The fund also raised its Series A payout from C$0.0500 to C$0.0625 per unit by August 2023, against a 5% to 6% annual distribution target. In rated music ABS, average debt service coverage stood near 1.8x in the first quarter of 2026, meaning net cash flow exceeded interest due on the notes by about 80%. Stable income at both levels matters for a feeder, because Fitch applies a simpler analysis to feeder debt when a fund's income exceeds its costs and note interest. A fund paying out 5% to 6% a year meets that condition for a feeder of moderate size.

A music manager pairing ABS with a feeder could finance up to 79% of a catalog portfolio with rated debt.

In an illustrative case where a feeder's notes equal 40% of its fund interest and pay a 6% coupon, interest costs 2.4% of the fund interest a year. With notes at 40% and equity at 60%, the feeder's debt-to-equity ratio would be about 67%, slightly below the 70% to 90% that Mayer Brown reports feeders usually target. At that ratio, the feeder's equity would form a larger first-loss layer than the market norm. A manager sizing the notes this way gains a stronger case under the NAIC test that the equity absorb a meaningful share of losses, and takes on more equity to place. A 6% distribution, the top of ICM's target range, covers the interest two and a half times. Applied in full to interest and principal, the distribution repays the notes in just under nine years, before expenses and any decline in collections, with no catalogs sold. A feeder that repays from income reaches maturity with little or no balance left, so the interest rate at maturity matters less to the feeder than to an ABS sponsor refinancing a large note balance. Where a fund holds residual interests in its ABS trusts, the ABS and a feeder would raise rated capital against different layers of the same catalog portfolio. Class A notes carry 51% to 65% of a trust's appraised catalog value and leave the fund a residual of 35% to 49%. For a fund whose assets consist of those residuals, feeder notes at 40% of the fund interest would equal a further 14% to 20% of catalog value. Class A and feeder notes together would then finance roughly 71% to 79% of the portfolio, against 51% to 65% through ABS alone. KBRA and S&P each rated Canon's 2026-1 notes A, and S&P typically places feeder notes in the A to BBB range, so feeder notes over a music fund would rate at or below music ABS Class A notes. Feeder noteholders would also hold only a pledge of the fund interest, with no direct claim on the royalties, so the notes would likely price wider than the 160 basis points over swaps at which Canon's notes priced in April 2026. On a look-through basis, Class A and feeder notes would total about 2.4x to 3.8x the feeder's equity, against about 67% at the feeder level. A manager running permanent capital therefore weighs the additional 14% to 20% of rated financing against a lower rating, a wider spread and higher look-through leverage.

Applying the full distribution to the notes leaves the feeder's equity without cash until the notes are repaid, so the equity earns its return from growth in the value of the fund interest. At ICM's 8% to 12% total return target, with 6% paid out each year, the equity in this example would earn about 8.5% to 13.4% a year over 10 years, against 8% to 12% for the fund itself, a premium of 0.5 to 1.4 percentage points for nearly nine years without income. A manager placing the equity with investors who want current income could split each distribution between principal and the equity, which lengthens repayment and leaves a balance to refinance at maturity.

The 6% coupon in that example also sits below the 8% to 12% total return ICM targets for its unitholders. Replacing part of a fund's equity with notes at that coupon lowers the blended return the fund must earn on its catalogs, and a lower required return raises what the fund can pay for them. Shot Tower Capital estimated in April 2025 that a buyer financing a catalog through ABS at 65% leverage carried a discount rate 1.13 percentage points below a buyer using bank debt at 55%. The lower rate let the ABS-financed buyer pay about 10% more for the same catalog at the same

14.9% equity return. Shot Tower's estimate applies to senior notes with a direct pledge on royalties. Feeder notes rank behind any debt the fund carries, hold only a pledge of the feeder's fund interest and typically rate in the A to BBB range, so feeder notes would price wider than senior music ABS and lower a fund's cost of capital by less than Shot Tower's figures suggest. The fund's cost of capital still falls whenever the feeder coupon sits below the return its equity investors require.

Issuing feeder notes in series, the way ABS sponsors issue notes from a master trust, keeps the lower cost of capital in place. Staggered maturities spread refinancing risk across years and let insurers choose maturities that match their liabilities, starting with the 5- to 10-year range music ABS investors already accept. Because an evergreen fund has no date on which it must sell or roll its catalogs, each series can be refinanced against the same catalogs for as long as the catalogs earn.

Evergreen funds depend on new subscriptions to meet redemptions. ICM has met redemptions with new money, as investors redeemed 1.46 million units in 2025 while new investors bought 12.9 million. If inflows slow, ICM can cap redemptions at 1% of units a month and suspend them for up to 365 days. Feeder noteholders have no redemption right and are repaid on a schedule from income, so their capital stays in place whether or not new subscriptions arrive.

The noteholders join the fund's existing investors without displacing them. Family offices, pension funds, endowments and individuals keep investing directly, insurers and other investors that need ratings buy the notes, and investors who want a levered share of the fund's long-term growth buy the feeder's equity.

Implementation of a Music Feeder

One caveat is that a feeder adds another claim on the same royalty income, and its notes rank behind any debt the fund already carries. S&P Global Ratings notes that feeder creditors hold at most a pledge of the feeder's interest in the master fund, with no direct security over the fund's assets, while music ABS noteholders hold a direct pledge on the royalties in each trust. If the fund owns residual interests in ABS trusts, cash reaches the fund only after each trust pays its noteholders and passes its coverage tests. Coverage tests operate trust by trust, so a fund holding several residual interests is limited by its weakest trust, and the sector average near 1.8x overstates the headroom in a tighter deal. In KBRA's 2026 surveillance, net cash flow at Concord could fall about a third before reaching its cash trap, while the Lyra Music Assets trust had room for a fall of less than a tenth, a reading KBRA attributes to a timing effect after an asset disposition. Feeder notes sized to the tightest trust in the fund's portfolio leave room for collections to fall before distributions to the feeder are cut. The feeder's coupon comes due each period whether or not the trusts release cash to the fund, so the feeder can carry only as much debt as the fund's distributions support after the tightest trust has trapped its cash. In the illustrative case, the fund's full distribution covers feeder interest 2.5 times, and a manager would size the notes by testing that coverage with a trapped trust's cash removed. The NAIC's June 2026 capital charges favor the same restraint, falling from 45% to as low as 22.5% on loans backed by residual interests as overcollateralization rises.

Smaller notes leave a larger first-loss layer, and placing the first-loss equity is often the hardest part of a feeder transaction.

European and UK securitization rules can require a 5% retention in tranched structures such as feeders. Dechert flags the UK and EU ban on resecuritization as a particular concern for funds with exposure to ABS. The EU Securitisation Regulation defines a resecuritization as a securitization with at least one securitization position among its underlying exposures, and counts any exposure to a securitization as such a position. A residual interest that a music sponsor retains in its own trust meets that definition as fully as an ABS note bought in the market, so a feeder over a fund holding residuals would need careful structuring to stay outside the ban before European investors could buy it. US insurance general accounts, the buyer base this article addresses, sit outside the EU and UK rules. Music sponsors start with an advantage, since they hold the residual interests in their ABS trusts today. A music manager would likely hold part of the feeder's equity, an alignment of interest S&P considers when it rates a feeder, and place the rest through a vertical structure, in which each investor buys notes and equity in a fixed ratio. Insurers have traditionally bought feeder exposure through such vertical strips, although S&P notes that more investors now buy individual tranches.

The equity cushion and the notes' loan-to-value test are both measured against the fund's NAV, so valuation carries more weight in an evergreen fund with a feeder than in a closed-end fund. No standard valuation model exists for music royalties yet. Valuation agents on rated music deals have moved discount rates in both directions, from 7.00% to 8.00% on Hipgnosis Music Assets 2022-1 between August 2022 and June 2026 and from 8.25% to 8.00% on Concord's 2025 series. RBA Advisors warned in February 2026 that a one-percentage-point cut in a headline discount rate is a material valuation driver. In an evergreen fund, a change in the discount rate passes straight into the unit price and the feeder's loan-to-value test. Third-party valuation agents are standard in rated music deals, and ICM adds an independent review committee that approves material changes to valuation policy.

Fitch generally rates feeder debt no higher than A+ and limits it to BB+ where the master fund follows a broad, opportunistic strategy with few investment covenants. S&P typically places feeder notes in the A or BBB range, below the AAA ratings common on middle-market CLOs, because fund documents are more flexible, portfolios are less transparent and the rating leans more on the manager. A music fund limited to acquiring and administering catalogs, with concentration limits by songwriter, artist and release era, would sit at the stronger end of Fitch's range. ABS sponsors report catalog concentrations to rating agencies through trustee reports from bankruptcy-remote master trusts, two of the CLO features S&P credits with higher ratings, so much of the transparency a feeder rating requires exists today. S&P also typically requires a track record for the master fund or for a comparable fund run by the same team, and ICM has valued and reported on its open-ended fund monthly since 2020.

Since January 2026, the NAIC's Securities Valuation Office has had authority to replace a rating it considers unreasonable with its own designation. Some fund documents allow distributions to exceed cash flow in a given period, while music ABS has paid noteholders from royalty collections alone since 2020. A feeder that carries the same collections-only requirement meets the predictable cash flow test the NAIC set for bond treatment.

Conclusion

A rated note feeder over an evergreen music fund would supply that link. Music royalty funds suit the structure better than several asset classes feeders now serve, because managers pay out royalty income regularly from catalogs the funds already own and the catalogs earn for longer than any fixed fund term.

Music now has a rated market for catalog debt and a growing set of evergreen funds for catalog ownership, but no rated instrument yet links that debt to ownership.

The structure could mark the next stage in music's development as an asset class. Royalty payments still pass through collecting societies, publishers and administrators on uneven schedules, often with part of the income arriving late or remaining unmatched. Rating analysts measure that shortfall through capture rates and the industry is already building tools to close the payment and matching gaps. The Mechanical Licensing Collective has worked steadily to match and pay US streaming mechanical royalties since 2021. As tracking and payment improve, lenders and noteholders can underwrite royalty income with more confidence.

With more confidence in royalty income, insurers could fund catalog ownership from their bond portfolios, and platforms that add a feeder could hold their catalogs without the extensions, continuation vehicles and successor-fund rolls that closed-end funds require at the end of each term.

Private credit managers built the feeder market on top of a rated loan market. Music now has an equivalent foundation in six years of rated ABS performance on royalty collections. Insurers already hold music on both sides of the capital structure, as noteholders in ABS trusts and as limited partners in funds. A rated note feeder over an evergreen music fund could pair the rated access of music ABS with the permanent capital catalogs require, bringing insurance capital into music ownership for the full life of the asset.

REFERENCE

Glossary

Advance rate	The portion of a catalog's value that lenders provide as debt in an ABS deal.
Cash trap	A provision that withholds excess collections from the sponsor when debt service coverage falls below a set level.
Continuation vehicle	A new fund, run by the same manager, that buys assets from an expiring fund so investors can sell or stay.
First-loss equity	The ownership layer of a feeder that absorbs any decline in value before the noteholders are affected.
Master trust	A vehicle that holds a sponsor's catalogs and issues notes in series against them.
NAIC	The National Association of Insurance Commissioners, which sets capital and reporting rules for US insurance companies.
Net publisher's share (NPS)	The portion of songwriting royalties left after the songwriters' share is paid.
Overcollateralization	The amount by which the value of pledged assets exceeds the debt they secure.
Rated note feeder	A vehicle that invests in a fund and pays for the investment by issuing debt graded by a credit agency, supported by a layer of equity that absorbs losses first.
Residual interest	The sponsor's right to an ABS trust's collections after the noteholders are paid.
Risk-based capital charge	The share of an investment's value that an insurer must back with its own funds under NAIC rules, scaled to the asset's type and credit rating.

REFERENCE

Sources

01 Bloomberg, “Backdoor Private Credit Funds Luring Billions From Insurers,” November 2024

02 KBRA, “Playback: Issuance, Industry, and Performance Trends in Music ABS,” May 2026

03 Hypebot, “Key Insights From the 2026 Amplify Music Investment Summit,” May 2026

04 Shot Tower Capital, Music Report, April 2025

05 KBRA, New Issue Report, Canon Music Issuer Trust Series 2026-1, April 2026

06 KBRA, New Issue Reports, Lyra Music Assets 2025-1 and Concord Music Royalties Series 2025-1, 2025-2 and 2025-3, 2025

07 KBRA, Surveillance Reports, Concord Music Royalties, July 2026, Lyra Music Assets, August 2026, and Hipgnosis Music Assets 2022-1, August 2026

08 KBRA and Moody’s rating actions on music royalty ABS, 2023 to 2026

09 Primary Wave Music, fourth fund final close announcement, April 2026; strategic partnership announcement with Brookfield Asset Management, October 2022

10 ICM Asset Management, Crescendo Music Royalty Fund offering memorandum, 2026, including audited financial statements for the year ended December 2025

11 Concord, “Concord Closes $1.765 Billion ABS,” Business Wire, July 2025

12 Influence Media Partners, securitization announcement, Business Wire, January 2025

13 Chord Music Partners, “Chord Music Partners Prices $500 Million ABS Backed by Diversified Music Catalog,” Business Wire, April 2026

14 Dechert LLP, “Rated Note Fund Market Update 2026,” August 2026

15 Regulation (EU) 2017/2402 (EU Securitisation Regulation), Articles 2 and 8

16 Macfarlanes, “Rated note feeders: structuring access to private capital,” July 2026, citing Financial Times, March 2026

17 KBRA, “Private Credit: A Breakout Year for Rated Note Feeders and CFOs,” September 2025

18 KBRA, “Private Credit: Maturity Matching, Rated Notes and Evergreen Funds,” May 2025

19 Mayer Brown, “Rated Note Feeder Funds: Increasingly Common and Not Tax Motivated,” January 2026

20 DLA Piper, “Driving market adoption: Structural similarities between rated feeder funds and structured finance products,” October 2025

21 Fitch Ratings, “Feeder Fund Debt Rating Criteria,” September 2025, and “Criteria Essentials: Feeder Fund Debt Ratings,” November 2025

22 S&P Global Ratings, “ABS Frontiers: Are Direct Lending Feeder Funds CLOs In Disguise?”

23 NAIC, Issue Paper No. 169, Principles-Based Bond Definition, effective January 2025; AllianceBernstein, “Applying the NAIC’s Principles-Based Bond Definition Guidance,” 2024

24 Sidley Austin, “NAIC Adopts New Risk-Based Capital Charges for Collateral Loans and CLOs,” July 2026

25 RBA Advisors, “The Flipside,” February 2026 Addendum

26 The Mechanical Licensing Collective, public materials on royalty matching and distribution, 2021 to 2026

27 Federal Reserve, federal funds target rate history and implementation notes, 2022 to September 2026