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SFA Research Corner

Smoothing the Lumps: How Collateralized Fund Obligations Turn Illiquid Assets Into Private Market Access

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In today's structured finance landscape, a once-niche instrument is making a splash: the Collateralized Fund Obligation (CFO). First seen in the early 2000s, CFOs are evolving into a more versatile tool that sits at the intersection of private markets and securitization. Designed to transform illiquid fund interests—like stakes in private equity, private credit, or secondaries—into structured, tradable securities, CFOs represent a broader capital markets trend: applying securitization technology to the expanding universe of alternative assets.

For structured finance professionals, CFOs look familiar. These structures use classic techniques like pooling assets, tranching with different risk and return profiles, and adding credit support to protect investors. What's new is the type of assets being packaged and the growing interest from large institutional investors—especially insurance companies and pension funds—who want access to private markets but need a transparent, risk-managed, capital-efficient structure to get there.

As with all securitized transactions, the heart of the CFO structure is a special purpose vehicle (SPV) that acquires fund interests. The SPV then issues securities each with a different risk and return profile. These securities are supported by a cash flow waterfall that mirrors traditional securitization logic, directing payments first to senior tranches and then down the stack. Collateral tests are built into the structure to ensure that if performance deteriorates, cash is redirected to protect senior noteholders.

Private fund cash flows can be unpredictable, as distributions tend to be irregular or "lumpy," reflecting the illiquidity of the underlying investments, the uncertain timing of exits, and the fact that returns are often event-driven rather than delivered on a set schedule. To manage this lumpiness, CFOs include features like liquidity facilities, which provide extra available cash, delayed draw mechanisms (to time capital deployment), and interest-only periods. These tools, borrowed from the broader securitization playbook and used to address lumpy collateral in securitizations backed by litigation finance, some whole-business securitizations and natural resource-backed deals, help keep the deal stable and thus more attractive to investors who want predictable, income and clear risk profiles.

A case in point is NPC SIP 2024-1, a $750 million CFO issued by Churchill Asset Management, a part of Nuveen. The deal, which closed in March 2025, is structured as a 30-year bond with a 25-year investment period. The deal includes senior and subordinated tranches and a $70 million Liquidity Facility.

According to KBRA's Rating Report, the transaction collateral consists of three main buckets: Principal Assets composed of zero-coupon U.S. Treasuries or strips, backed by the U.S. government, that will accrete to meet the principal of the rated debt by maturity—minimizing market value risk near maturity; Liquid Assets which are investment-grade short-term assets (e.g., money market funds, Treasuries, corporate bonds, and ABS), intended to fund expenses, interest payments, and future investments; and Private Assets which are fund interests across private equity, credit, and opportunistic strategies managed by affiliated funds, featuring, long-term, illiquid capital commitment and varied return profiles.

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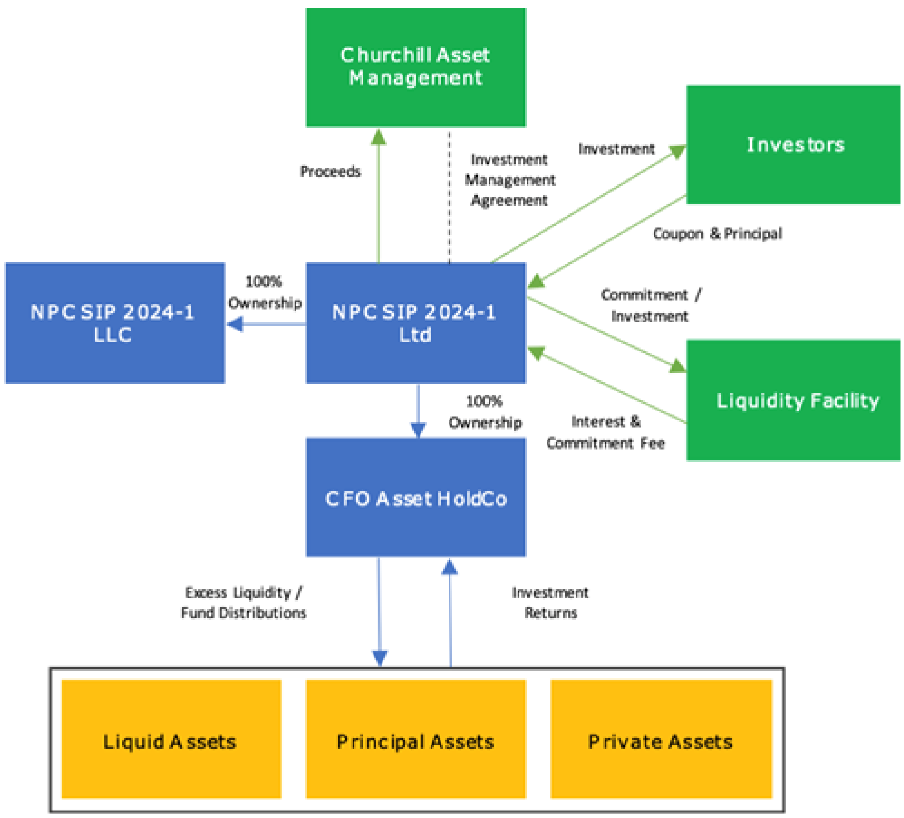
The deal begins with an asset coverage ratio of approximately 117%, meaning the underlying assets are valued at 17% more than the debt issued. In the early years, this ratio isn't expected to rise significantly, as only the Liquid Assets will be generating income—just enough to cover interest payments. Over time, however, the ratio should improve as the zero-coupon Treasuries (Principal Assets) accrete in value and the Private Assets (private credit and equity fund investments) begin to produce net returns. Together, these dynamics are expected to gradually boost asset coverage beyond the initial 117% level and address the cash flow obligations of the transaction.

NPC SIP 2024-1 Transaction Overview and Structure



Summary of Transaction	
Overview of Senior Notes & Liquidity Facility	
Classification	Senior Notes
Issuance Amount	$366 million
Fixed Coupon	7.75% (payable semi-annually)
Legal Final Maturity	30 years
Liquidity Facility Amount	$43 million
Liquidity Facility Maturity	3 year maturity & 1-year extensions options
Key Transaction Parties	
Issuer	NPC SIP 2024-1 Ltd.
Co-Issuer	NPC SIP 2024-1 LLC
Collateral Manager	Churchill Asset Management LLC
Trustee	The Bank of New York Mellon Trust Company, N.A.
Sole Structuring Advisor & Placement Agent	Evercore Group, L.L.C.

Source: KBRA Rating Report

Eric Neglia, KBRA's Global Head of Funds, notes, "KBRA's analysis and rating determination considered the quality and diversification of the asset pool, the financial strength and investment experience of Churchill, Arcmont, and Nuveen, and the long-dated tenor of the transaction. We assessed key structural features, including cash flow waterfalls, LTV and interest coverage triggers, the liquidity reserve account, and cash flow scenarios to evaluate the structure's resilience under stress." Neglia adds, "We expect continued growth in CFOs as sponsors seek alternative ways to raise capital while meeting investors' desire for more exposure to longer dated diversified pools of private market assets with tailored risk profiles."

That momentum is being fueled by institutional investors searching for yield in alternative sectors and regulators encouraging more transparent, well-structured access to private markets. For insurers in particular, rated CFO tranches offer a compelling route into private funds—potentially with favorable capital treatment, provided the structure meets stricter standards set by the NAIC, according to Dechert LLP.

Ultimately, CFOs exemplify how securitization can transform access to private markets, not by simplifying the underlying assets, but by organizing and managing their risks in a format that investors can price, understand, and underwrite. As traditional and alternative finance continue to converge, CFOs are bridging that gap.