

FUND FINANCE FRIDAY

Financial Times Article on Collateralized Fund Obligations

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Collateralized Fund Obligations (CFOs) are securities that create leveraged exposure to portfolios of fund investments through the issuance of an equity tranche and one or more debt tranches. Although CFOs have been around since the early 2000s, the product has recently received renewed interest from private equity sponsors and investors as a potential fund financing solution. *The Financial Times*, in a recent article, discussed CFOs, noting certain sponsors that have recently issued CFOs and mentioning interest in the product from insurance companies and public pension plans.

The article also notes that CFOs are currently a subject of increased scrutiny. It also briefly discusses fund finance generally, and makes some of the same generalized critiques that *FFF* readers will be familiar with – among others, that sponsors use fund finance to magnify returns figures and describing “layers of leverage.” That aside, the *FT* article provides a good description of CFOs and is well worth a read. It even throws in a quote from FFA Chair Jeff Johnston!

The subscription-required article is available [here](#).