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Investor Intelligence report

The growth of asset-based finance in private credit markets

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Introduction

It is well known that much of private credit growth has been driven by bank retrenchment, combined with the development of private equity and its financing needs.

The early stages of the market shift saw banks retreat from corporate cash-flow lending due to its higher risk profile – characterised by a lack of collateral and frequent association with non-investment-grade borrowers – rendering it increasingly capital-inefficient under stricter regulatory frameworks. Loans secured by high-quality assets typically received more favourable capital treatment, so asset-based finance was considered less risky than unsecured direct lending. Continued scrutiny and the evolution of post-GFC regulations such as Dodd-Frank in the US and Basel in Europe[1] have meant that banks have continued to retreat, including from the asset-based finance market. At present, as banks move away from several asset-based transactions and as the corporate direct lending market matures, we see more managers launching dedicated asset-based finance and asset-based lending strategies to address this opportunity.

This article looks to define asset-based finance, showcase the growth in this market and identify key drivers and challenges for managers looking to do more in this space.

Contents

Endnotes can be found on page 11.

Defining ABF and ABL

Asset-based finance is a broader term that refers to any financing transaction where the funds are secured by specific assets that serve as collateral. This contrasts with corporate direct lending, in which lenders provide financing based on the overall value of the business without requiring collateralisation from tangible assets.

While often used interchangeably, asset-based lending represents a smaller subset of ABF transactions. Specifically, we consider ABL transactions to be those where a business is being financed, and the transaction is a loan rather than another financing agreement.

- **Asset-based finance (ABF)** – a broad term for financing arrangements secured by assets, including loans, securitisations, leasing, and factoring[2]. ABF may be used to finance a business or a specific asset, with the financed asset itself serving as collateral - for example, in real estate finance.
- **Asset-based lending (ABL)** – loans made to businesses secured by tangible or financial assets. Some definitions consider that ABL refers only to transactions where "new money" is lent, rather than purchasing existing loans – similar to direct lending but backed by assets rather than cashflows. An example of ABL transactions would be a manufacturing business applying for a working capital loan and pledging its accounts receivable as collateral.

The size of loans offered is measured against the value of the collateral pool and the complexity of recovering those assets in the case of defaults. For example, a manager may advance 80–90% on accounts receivables, 50–70% of eligible inventory, and 20–40% against machinery and equipment[3]. Mitigating recovery risk is a critical component of ABF and a key driver of complexity within these strategies.

Different collateral types of asset-based finance

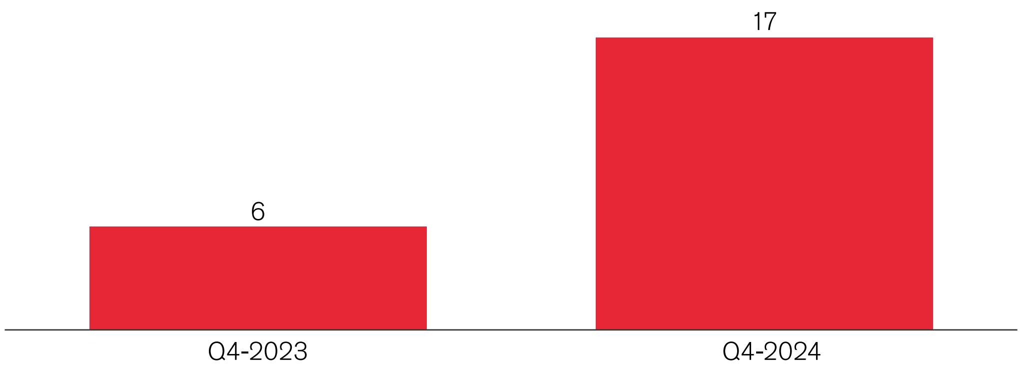
Consumer finance	Credit card	Auto loans	Consumer loans
Hard assets	Aircraft leasing	Green energy	Rail cars
	Home rentals	Solar	Telecomms
Commercial finance	Leases for businesses	Accounts receivable payments	Supply chain financing
Contractual cash flows	Intellectual property	Royalties	Financial contracts
	Third-party litigation		

A growing number of managers are launching ABF strategies and partnerships

The growing popularity of the broader strategy is evidenced by the number of asset managers that have been recently launching ABF strategies.

For example, five of the top 30 private debt managers in the US launched their first ABL-dedicated fund in 2024 and according to a Preqin survey, 58% of private credit managers indicated they will prioritise an ABL strategy in 2025[4]. According to With Intelligence data on specialty fund launches, a comparison of Q4 2023 to Q4 2024 indicates a significant growth in interest.

New specialty finance funds in development



Source: With Intelligence.

Note: With Intelligence only has data available from Q4 2023. Therefore, yearly comparison before this is not available.

Examples of fund managers that launched new ABF strategies in 2024

- **Partners Group** – launched a multi-sector ABF royalties platform, covering pharmaceuticals, entertainment, sports, brands, and energy transition, the latter of which will represent 10–30% of the fund.
- **The TCW Group** – established an ABF business with capital commitments of over $1bn. This will focus on lending against consumer goods, commercial/residential mortgages, hard assets, and financial assets.
- **Oaktree Capital** – announced a fundraising target of $2bn for its first ABF product[5].
- **Apollo** – launched the Apollo Asset Backed Credit Company, a semi-liquid vehicle that aims to bring asset-backed finance to the private wealth market. Apollo appointed a new co-head of the ABF business to grow this strategy.
- **Blackstone Credit & Insurance** – in 2023 launched the ABC platform (asset-based credit), combining the ABF and insurance groups into a single unit. They have retained a dedicated team to ABF within this group. In 2024, they partnered with banks to acquire multiple loan portfolios for example:
  - $1bn infrastructure loan portfolio from Santander; and
  - $1bn in credit card receivables from Barclays.

Specific ABL strategies

- **Sixth Street** – launched the Private Asset-Based Investment Fund I, which focuses on asset-based loans to companies with EBITDA of $10m–$250m, or a value of $50m–$1bn.
- **Ninety One** – closed its European Credit Opportunities Fund I, an asset-based fund focused on European SME lending.
- **Roundshield** – launched an asset-based fund (Fund V), while not its first ABL fund, it exceeded its fundraising target and raised over $1–$150m above target. This prompted calls for a sixth fund to be launched imminently.
- **Hudson Cove** – Asset-Based Lending Fund I – although Hudson Cove had already been active in the ABF space, they announced the launch of their inaugural ABL fund in 2024 with a target of £200m.
- **PIMCO** – similar to Hudson Cove, PIMCO has been active in the ABF space. They are now targeting $4bn for their first ABL fund and have raised half of this from two investors.

Another trend that was seen in 2024, and that is expected to continue this year, is the increase in private credit managers partnering or purchasing ABF portfolios from financial institutions. Some private credit managers have acquired ABF origination platforms, which allows them to enhance in-house ABF sourcing and facilitates partnerships with banks. Partnerships between banks (and other lending institutions) and private credit managers have become a cornerstone of the ABF market, allowing banks to de-risk while providing managers with access to high-quality deal flow, with at least 13 collaborations reported between 2023 and 2024[6]. According to Santander, ABF partnerships allow them "to streamline our balance sheet"[7]. European originators such as Barclays and Santander have sold their portfolios to North American managers suggesting an active market in North America.

Our research highlights numerous instances in 2024 where private credit managers engaged in ABF partnerships or acquired ABF portfolios. This underscores a growing interest in these collaborations. One analysis of the top 25 largest banks revealed an uptake of specialty finance partnerships, with four new partnerships established in 2024 compared to just one in 2023[8], according to an Oliver Wyman report. Our research indicates various new partnerships emerging in the ABF space, for instance:

- **Sixth Street** – partnered with Affirm Holdings, an American fintech company. Sixth Street will invest up to $4bn by purchasing Affirm loans over three years.
- **PGIM Fixed Income** – partnered with Affirm. PGIM completed their inaugural purchase of $500m of Affirm's asset-backed loans. Previously, PGIM had invested in Affirm via public asset-backed securitisations.
- **Apollo's Atlas SP** – partnered with BNP Paribas to support investment-grade, asset-backed credit originated by Apollo and Atlas with initial commitment of $5bn which is expected to increase over time[9]. Apollo originally acquired Atlas in 2023 to purchase Credit Suisse's securitised product group unit.
- **Pemberton** – partnered with Santander to launch Invensa, a supply chain inventory solutions platform for large and mid-sized corporates[10].
- **Ares** – partnered with Certified Automotive Lease Corp a consumer vehicle leasing company. Ares will purchase and invest up to $1.5bn in prime vehicle leases.
- **Castlelake** – partnered with Upstart, an AI lending platform, to acquire $1.2bn in consumer instalment loans. This builds upon a 2023 agreement for Castlelake to purchase up to $4bn of consumer instalment loans from Upstart.
- **Carlyle and KKR** – joint acquisition of a $10bn student loan portfolio from Discover Financial. It was reported that this loan book sold above par, and the auction attracted a competing joint offer from Sixth Street, BlackRock, and the Canada Pension Plan Investment Board.
- **SG Credit Partners** – worked with First Citizens Bank to increase its credit facility for its Asset-Based Lending verticals, including SG Consumer Products and SG Commercial Finance. This expansion supports SG Credit's growth strategy and the addition of its Commercial Finance division.

In 2025 we have continued to see activity in this space. Just in January, Sixth Street announced a partnership with insurance company Northwestern Mutual and will manage $13bn in assets on behalf of the insurer which will primarily be deployed into ABF. The hedge fund Point72 announced it would be growing its private credit asset-based investments, with the hire of a former Blackstone employee to grow the strategy. Mesirow acquired the ABF private credit manager, Bastion Management, to grow its ABF business.

There are opportunities for Europe to follow the growth in the US market

An analysis of the top 30 private credit managers[11] in North America and Europe reveals different approaches to ABF and ABL. In North America, 23 out of 30 managers (77%) engage in ABF. Of these, 16 managers have a dedicated ABL strategy, with five funds launched in 2024. By contrast, in Europe, 19 out of 30 managers (63%) have an ABF strategy, but only six offer ABL-focused products[12].

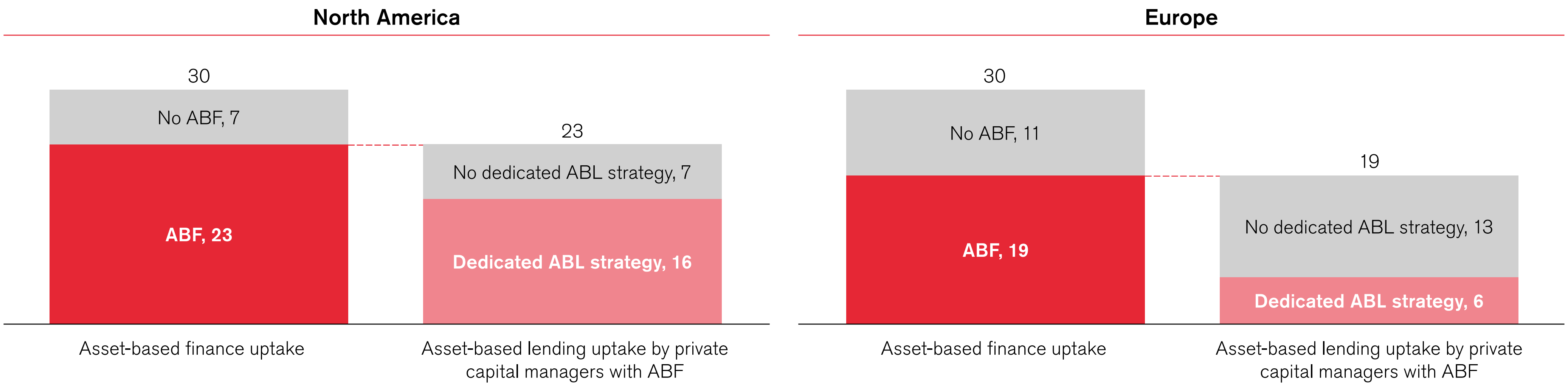
This distinction highlights North America's more advanced adoption of dedicated ABL strategies, while Europe remains focused on broader ABF approaches.

Within the broader private credit market, banks represent a smaller share of lending activity in the US compared to Europe. In Europe, banks still account for approximately 70% of lending, while in the US, this figure is closer to 20%[13]. However, according to the ECB, banks in Europe reported a 16% net increase in loan rejections for SMEs in Q4 2023, primarily driven by heightened risk perceptions and elevated interest rates[14]. In the consumer credit segment, loan rejections by banks rose by a net 8% over the same period.

This trend has continued into Q3 2024, when the ECB reported[15] that loan rejections to SMEs had continued to increase by a net 7%, mostly driven by Germany. Simultaneously, the ECB reported that demand for SME loans had increased by 3%, observed by banks in Germany, Spain, and France. For consumer credit, a similar trend is seen. Rejection rates rose by 4%, largely driven by Germany and France – two of the largest economies in Europe. Demand for consumer credit rose by 8% and was reportedly observable in Spain, Germany, and Italy.

Besides the tightening of lending standards, the ECB also highlights an increased reliance on alternative finance solutions as a significant factor contributing to the decline in traditional bank lending. This indicates a gap in financing, especially for SMEs and consumer credit, is widening in Europe.

Asset-based finance and asset-based lending strategies among top 30 private credit managers in North America and Europe



Source: Macfarlanes analysis.

A growing number of investors have ABF mandates

As more investors have established and mature direct lending portfolios, many are seeking to diversify into new strategies within their private credit allocations. ABF has been seen as attractive for its structural flexibility and risk-adjusted returns. According to a Preqin survey, 58% of investors indicated they would prioritise ABL strategies in 2025, underscoring the growing interest in this space[16].

Asset-based strategies have been increasingly gathering interest from a variety of institutional investors. Several North American pension funds committed to ABF in 2024 with some establishing these strategies as a significant part of their private credit allocations – the Orange County Employees' Retirement System for example, currently aims to deploy half of its private credit allocation to ABL and specialty or niche strategies[17]. The Employees Retirement System of Texas plans to allocate $1–$1.8bn to private credit strategies in 2025, including asset-backed strategies[18]. In Canada, pension plans such as CPP and OTPP have in-house teams that deploy directly into ABF strategies – a 2024 job posting by OTPP suggests that the pension fund is particularly looking to grow its Significant Risk Transfer[19] business line.

Investment consultants such as Aksia and Callan, with combined discretionary AUM of $64bn, have also in the past year stated how they are spending more time with clients on asset-based strategies given the diversification benefits.

Examples of US pension funds committing to ABF strategies in 2024

Investor	AUM	Location	Committed	Managers	Fund	Date
California Public Employees' Retirement System	$545bn	US	$1bn	Sixth Street	Asset-backed finance strategy	2024
New Mexico State Investment Council	$58bn	US	$200m	AB CarVal Investors	AB CarVal Asset-Based Fund	2024
Indiana Public Retirement System	$45bn	US	$200m	Atalaya Capital Management	Atalaya Special Opportunities Fund IX	2024
South Carolina Retirement System Investment Commission	$45bn	US	$100m	KKR	KKR Asset-Based Finance Partners II	2024
Louisiana Teachers' Retirement System	$27bn	US	$125m	Castlelake	Castlelake Asset-Based Private Credit III	2024
Los Angeles Employees' Retirement System	$24bn	US	$100m	HPS	HPS Specialty Loan Fund VI	2024

Source: Pension & Investment, 2024.

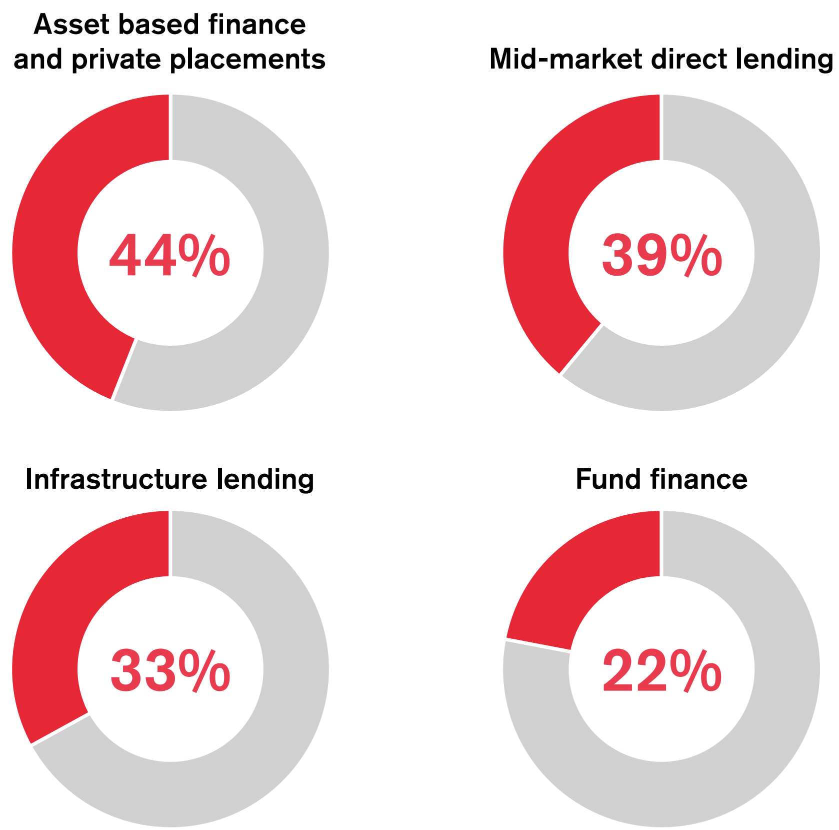
The growing interest in asset-backed strategies is also evident among pension funds in Europe. For instance, the Finnish pension fund Elo (AUM €30bn) has highlighted ABL as a particularly attractive strategy due to its yield premium and scalability[20]. In the UK, London CIV (AUM £32bn) announced last year that it would commit up to 30% of its Private Debt Fund II to ABL[21]. Railpen (£34bn AUM) also recently stated it is looking to diversify its private debt book into more asset-based strategies.

Pension funds often cite diversification, complementarity with direct lending and the additional protections provided by the asset collateralisation as key reasons for investing in asset-based strategies – particularly at a time when corporate defaults are rising. For those under risk-based capital frameworks, like Solvency II in the EU or NAIC's RBC in the US, ABF can can sometimes be more efficient in this regard because of its collateralised nature and, in some cases, its ability to be attributed an investment grade rating – both of which potentially reduce the risk-weighted capital charge for the insurer. In this context, we note that investment-grade private credit, of which a significant portion is asset-based, is becoming a key focus area for many insurance companies and private debt fund managers.

- In 2024, Guardian Life, the US insurer, stated in an interview its interest in investment-grade private credit remarking that "the areas we are focused on right now would be the ABL, infrastructure and the GP-LP fund finance" and that "we're still at the tip of the iceberg", referring specifically to opportunities within asset-based strategies. The insurer also expanded its strategic partnership with HPS last year.
- As noted above, in January 2025, Northwest Mutual announced a partnership with Sixth Street that will primarily focus on ABF[22].
- MetLife suggested last year that it will be expanding its private debt platform with a focus on ABF[23].

A 2024 Moody's study of 30 major insurers for private credit appetite also found that 44% plan to increase their long-term allocations to ABF and private placements[24], making this the preferred strategy for 2025[25].

Outlook and appetite of top 30 insurers to increase private credit allocations



Source: Moody's Ratings and PitchBook, 2024.

What's driving growth?

Banking regulation and US banking turmoil: Basel IV's stricter risk-weighting requirements make certain lending activities less attractive for banks[26], spurring sales of some portfolios to private credit managers. Basel IV regulations are expected to also reduce bank's SME lending significantly in Europe. The aftermath of the 2023 US banking turmoil is known to have further declined banks' lending appetite.

Shift in banks' focus: Banks are now emphasizing fee-based and capital-light activities such as wealth management or advisory services, as these require less regulatory capital.

Maturity of the direct lending market: The growing fee pressures within direct lending and the competitive fundraising environment, which is increasingly concentrated among the largest players, are driving a search for differentiation. As direct lending matures, more managers are diversifying into new areas and offering more specialised strategies such as those found within ABF.

Challenges for private credit managers

Market specialisation required: ABF demands robust systems for underwriting, asset valuation, and collateral management, all of which need significant expertise and resources. Established players with well-developed infrastructure and experience have a natural advantage, while new entrants may face high upfront costs and operational challenges. These barriers can make entry into the market difficult but also create opportunities for differentiation in a competitive yet less crowded market.

Legal complexity: Managers should not underestimate the complexities and challenges involved in legal proceedings to recover assets pledged as collateral in the event of default. The associated costs, potential delays, and legal hurdles can significantly affect the net recovery value. These factors should be carefully accounted for during the loan origination process when determining the advance rate. A thorough understanding of relevant laws and regulations – such as asset registration requirements, the hierarchy of creditor claims, and enforcement procedures – is essential to mitigate risks and maximise recovery outcomes.

Fragmentation: The European ABF market is significantly more fragmented than its counterpart in North America, which adds complexity. Countries like France and Germany collectively account for approximately 50% of EU banking assets, making them key markets for private credit[27]. However, enforcing cross-border collateral recovery, particularly in France, can be challenging due to legal and cultural frameworks which tend to be more borrower-friendly. French borrowers often maintain strong relationships with traditional banks, creating additional challenges for new private credit managers entering the market. These contribute to a greater focus by private credit managers in the more homogeneous opportunities in North America, where legal and regulatory frameworks are often less fragmented and borrower relationships more flexible.

Key takeaways: ABF's position in the future of private credit

In 2025, it is expected that the ABF and ABL markets will experience significant growth, as private credit managers expand strategies to address gaps left by banks retreating from capital-intensive lending. The combination of these regulatory tailwinds with the growing number of partnerships and enhanced institutional demand, will likely drive deal flow in the private credit ABF and ABL markets. It is anticipated that expansion in the year ahead will be driven by:

- **Continued growth of ABF and ABL strategies:** a growing number of private debt managers are launching dedicated ABL strategies to benefit from opportunities that have emerged from bank retrenchment. This includes established managers who are scaling their ABF capabilities through partnerships and dedicated ABL funds.
- **Partnerships as a catalyst:** collaborations between private credit managers and financial institutions are emerging as a pivotal aspect of the ABF market. With multiple partnerships emerging in 2024, these partnerships provide managers with access to high-quality loan deal flow and allow banks to de-risk and streamline their balance sheets. Expectations are for continued activity in 2025, with both portfolio loan acquisitions and joint ventures between managers and financial institutions likely to accelerate.
- **European opportunities amid challenges:** while North America is more established in terms of ABL adoption, Europe presents significant growth potential as regulatory pressures push banks to tighten lending standards. That said, fragmentation in the European market requires localised legal knowledge in order to navigate enforcement and recovery.
- **Investor demand driving diversification:** institutional investors are increasingly allocating to asset-based strategies. Investors cite benefits such as portfolio diversification away from direct lending, structural flexibility, and risk-adjusted returns. Insurers' regulatory framework are also driving capital to be allocated to these strategies.

How we can help

This note was prepared by our Investor Intelligence team who provide holistic advice on how to shape products, terms, structures and marketing strategies to support fundraising efforts and fund level transactions and deals.

Learn more about our expertise

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Endnotes

1. Basel III also applies to US banks in conjunction with the Dodd-Frank act.
2. Factoring is a transaction whereby a business sells its invoices at a discount to a third-party to meet its present liquidity needs.
3. PDI Speciality Finance Report, 2024.
4. Preqin Investor Outlook H2 2024.
5. Oaktree has been a majority shareholder in 17Capital, a NAV based lender, since 2022.
6. Oliver Wyman, "Private Credit's Next Act", 2024.
7. Blackstone Credit & Insurance press release, 2024.
8. Oliver Wyman "Private Credit's Next Act", 2024.
9. Apollo Press Release, 2024.
10. Santander Press Release, 2024.
11. According to Preqin league of tables based on funds raised within private debt.
12. This analysis treats ABF to include a range of financing structures secured by underlying assets. This includes asset-based lending (ABL), NAV (net asset value) financing, and collateralised loan obligations (CLOs).
13. M&G, "Private credit: Europe vs the US", June 2024.
14. European Central Bank, Euro area bank lending survey Q4 2023.
15. European Central Bank, Euro area bank lending survey Q3 2024.
16. Preqin Investor Outlook, H2 2024.
17. Pension & Investment, July 2024.
18. Alternative Credit Investor, September 2024.
19. Significant risk transfers are financial arrangements whereby a financial institution transfers a substantial portion of the credit risk of its loan portfolio to third-party investors, typically through securitisation or credit derivatives, to optimise capital efficiency allowing the financial institution to offer more loans without exceeding regulatory capital thresholds.
20. Nordic Investor, January 2023.
21. Room 151, August 2024.
22. Sixth Street Press Release, 2025.
23. Private Debt Investor, December 2024.
24. In this context, private placement refers to direct investments made by insurers.
25. PitchBook, 2024; Pension & Investment, 2024.
26. TPG Angelo Gordon Asset-Based Credit in 2024: The Fundamental Story, March 2024.
27. European Banking Federation, December 2024.

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