

E X P E R T Q & A

Jim Moore, head of private placements and asset-based finance at Barings, explains how the market is reacting to the growing ABF opportunity set



Defining and capitalising on the ABF opportunity

Asset-based finance (ABF) represents a broad and expansive opportunity set that can be complementary to traditional private credit. Jim Moore, head of private placements and ABF at Barings, discusses how to define ABF, who is investing in the space and what makes it attractive.

Q What is ABF and how does it differ from other private credit strategies?

ABF is a broad label, with different managers and investors defining its boundaries differently. Unlike more clearly delineated markets such as asset-backed securities (ABS) or public corporate credit, ABF spans a wide variety of collateral types and risk-return profiles. It's typically broken down into hard assets and financial assets.

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While hard assets focus on tangible assets such as equipment financing, digital infrastructure, aviation and mortgages, financial assets centre more on pools of loans not tied to physical assets – like consumer or small business loans.

We divide ABF into three main areas: residential (such as residential mortgages), consumer asset finance (financial assets like credit cards, auto loans/leases and small business loans), and commercial asset finance (areas like equipment finance, transportation, digital infrastructure and fund finance). From there, the lens can widen or narrow. In our view, the opportunity

set is not limited to securitised credit, even though that's a core component – we also include asset-based loans (ABLs), whole loans, project finance and other secured structures with similar attributes.

One of ABF's strengths is its breadth of risk-return profiles, which range from AAA down to equity. And importantly, ABF is complementary to other private credit strategies because it offers diversification from corporate credit risk. Unlike private placements or direct lending, which are fundamentally corporate-risk focused, ABF centres on collateral and cashflow behaviour rather than traditional corporate financials alone.

Q How is the convergence between public and

private markets playing out in ABF?

Convergence can be over-hyped in benign markets, and it will be interesting to see how things play out when credit markets become more volatile. That said, there are certainly secular trends at work. On the originator or sponsor side, funding needs are expanding, and more platforms are operating across public and private markets to build a diversified funding base. They then pivot between the two as windows open and close: when public markets are choppy, they can tap private, and vice versa.

On the investor side, more investors are allocating across both public and private securitised credit, which is a key reason we combined our private and public ABF teams last year. We are seeing this play out in a few specific ways, depending on the type of investor involved.

For insurance investors that have been allocating to public and private securitised credit for years, the focus is more on optimisation and balancing liquidity requirements from a regulatory perspective with illiquidity premium and volume needs, and less on the 'public-versus-private' debate, particularly as annuity growth drives demand for yield.

Pension funds and non-insurance investors that have traditionally focused on public investment grade securitised debt are now exploring private ABF for additional yield. The challenge lies in balancing allocation size to manage illiquidity while including enough to achieve outperformance.

Q Why are investors allocating to ABF, and what portfolio objectives does it serve?

The size and breadth of the opportunity is a big draw for investors. ABF represents a massive opportunity set spanning residential, consumer, and commercial segments with a wide range of risk-return profiles. There are also real, secular growth drivers at play

across key segments. This is an exciting proposition for everyone, including the banks that stepped back from certain segments of ABF post-financial crisis but are re-engaging in most areas and will continue to be important partners for us.

In terms of portfolio objectives, we see two large camps of investors. The first consists of insurers or reinsurers seeking excess yield for liability manufacturing, and pensions looking to layer private investment grade into traditional core or core-plus allocations to pick up spread. The second includes a wide range of institutions and wealth channels looking to complement their existing direct lending allocations, targeting returns of around 10 percent in a low BB/high single-B (or equivalent) non-corporate, collateral-backed exposure.

Q How can investors access ABF?

As investors and managers, we think of accessing ABF typically through three primary channels. The first is owned or affiliated origination, which provides recurring and proprietary dealflow. You might retain certain tranches and sell others, but the key lies in the visibility and consistency of flow – this is critical for meeting annuity and other insurance liability needs.

The second is direct or bilateral origination. ABF is a large, segmented space, requiring managers to pick the spots where they have specialisation and a track record of underwriting and performance. It's important to have capital sources to participate up and down the capital structure or in whole loans. If you're waiting on investment grade-only deals, you can end up stuck in line with everyone else. Having the ability to act earlier, or to structure and allocate across the stack, often leads to better access.

The final channel consists of club and broadly syndicated deals where everyone, in theory, can transact. We'll always be involved in these spaces, but

we tend to pick our areas of focus and use them to supplement the first two channels.

Typically, ABF has been highly sought after by large institutional investors, mainly insurance companies, that access the asset class through customised separately managed accounts. Given the size of the opportunity, there has been growing interest from non-insurance investors to allocate across public and private, as well as potentially through a dedicated product offering.

Q Where are you seeing the best opportunities?

We see opportunities across a number of ABF segments, particularly those benefiting from strong secular growth trends. One example is residential mortgages. Supported by favourable housing data, we see opportunities in non-qualified mortgages, residential transition loans and second lien/home equity loans that don't align with typical bank underwriting needs but still have strong credit profiles. Aviation and equipment finance are other areas where solid tailwinds are creating attractive opportunities.

Broadening the ABF lens, infrastructure and digital stand out. Staggering amounts of capital will be needed to upgrade US core infrastructure and capitalise on the artificial intelligence wave, according to spending estimates, and institutional investors and private markets will play a critical role in this transition – public markets and banks alone cannot absorb this flow.

Going forward, there will be bumps in the road as cycles bring volatility. Our long-term strategy focuses on maintaining downside protection, having the flexibility to pivot during dislocations and leveraging our origination and structuring strengths to deliver strong outcomes. We're not aiming to be all things to all people, but where we have origination specialisation, risk management and structuring resources, we believe we can deliver the best results to investors. ■