



**BARINGS**

**PRIVATE CREDIT**

# Asset-Based Finance Steps Into the Spotlight

**CONVERSATIONS**

Asset-based finance (ABF) is a broad and expansive market that can serve as a complement to traditional private credit. Jim Moore, Head of Private Placements and ABF, shares his views on how to define ABF, who is investing in it, and what makes it attractive.



**Jim Moore**

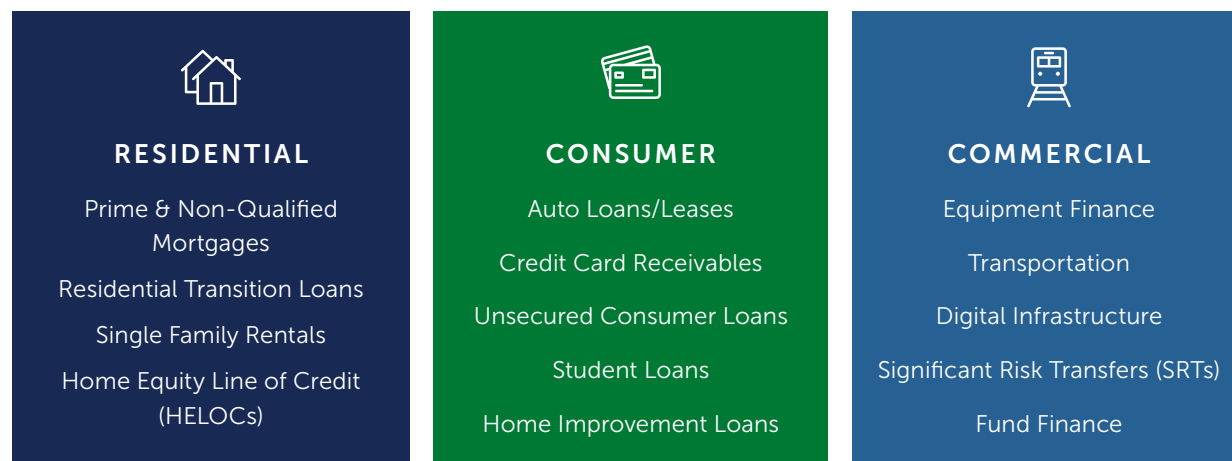
Head of Private Placements  
& Asset-Based Finance

## Can you start by defining ABF and how the opportunity set differs from other private credit strategies?

ABF is certainly very topical, attracting attention from investors, managers and headlines alike—but the big question is how to define it. ABF is a broad label, with different managers and investors defining its boundaries differently. Unlike more clearly delineated markets like asset-backed securities (ABS) or public corporate credit, **ABF spans a wide variety of collateral types and risk-return profiles.**

At a high level, ABF is typically broken down into hard assets and financial assets across a variety of sectors. While hard assets are focused on tangible assets like equipment financing, digital infrastructure, aviation and mortgages, financial assets center more on pools of loans that aren't tied to physical assets—like consumer or small business loans.

At Barings, we divide ABF into three main areas: **residential**, **consumer** and **commercial** asset-based finance. From there the lens can widen or narrow. In our view, the opportunity set is not limited to securitized 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 away from general corporate credit risk. Unlike private placements or direct lending, which are fundamentally corporate-risk focused, ABF centers on collateral and cash-flow behavior rather than traditional corporate financials alone.

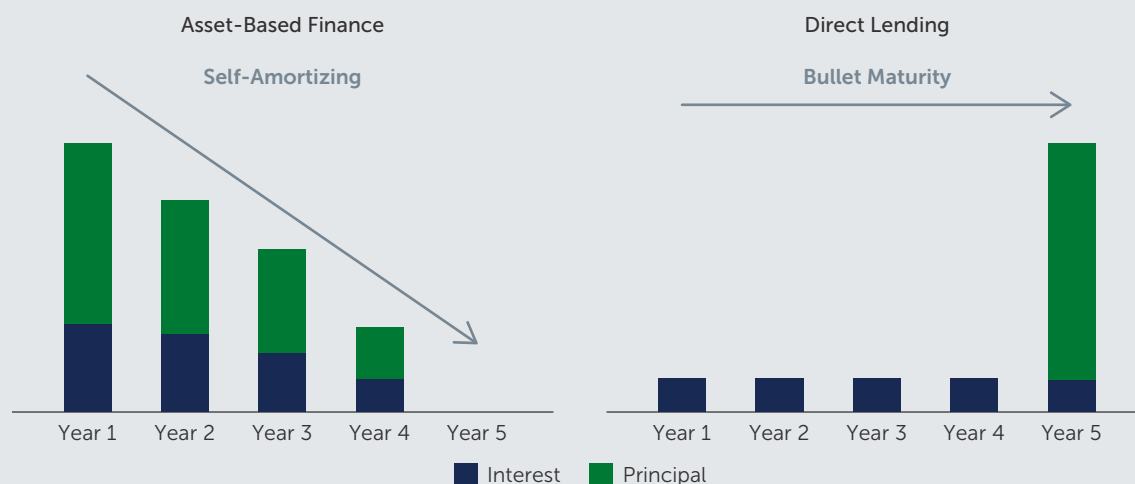
## ABF VS. DIRECT LENDING

ABF differs from direct lending in a few key ways. In ABF, the underlying collateral typically comprises hundreds (or even thousands) of loans, such as consumer receivables, auto loans, or small business credit assets. Because cash flows are generated from a broad pool of loans rather than a single corporate entity, ABF investors typically receive principal and interest in a self-amortizing way, where payments steadily reduce the outstanding balance over time (**Figure 1**).

Conversely, direct lending involves making loans to individual middle market companies, often with bullet repayment structures. Here, investors typically receive periodic interest payments, while the majority of the principal is repaid at maturity or upon a capital market event.

Given these structural differences, ABF requires a different underwriting “muscle,” and one we believe is valuable in a broader portfolio as a diversifier to traditional corporate lending strategies.

**Figure 1: ABF vs. Direct Lending**



Source: Barings.

## How big is the market and what’s driving the growth of ABF?

While ABF has been around for decades, it has seen significant growth alongside the broader boom in private credit. Estimates vary widely depending on what’s included, but **many put the “core” ABF market somewhere between \$5 and \$6 trillion**—and that number gets even bigger (up to \$20+ trillion) if including areas like real estate and collateralized loan obligations (CLOs).<sup>1</sup>

1. Source: Barings & other market estimates. As of September 30, 2025.



Looking ahead, the momentum shows no signs of slowing. Moody's expects ABF to be a key growth engine within private credit broadly, translating to at least \$1 trillion in new ABF origination over the next five years.<sup>2</sup>

This trend reflects a broader structural shift: the disintermediation of bank balance sheets. While banks did pull back from certain types of lending after the financial crisis—creating space for non-bank lenders to step in and fill the gap—the story today is less about withdrawal and more about capacity constraints. Regulatory and capital requirements limit how much risk banks can retain, even as financing needs continue to grow. As a result, private and non-bank capital is increasingly stepping in to absorb portions of the risk and provide additional funding.

**At the same time, investors are seeking diversification and yield, and ABF's collateral-backed structures and lower correlation to public markets are proving attractive.** Insurance companies are already significant players, with participation from other institutional investors, as well as wealth investors, beginning to rise through innovative fund structures. Together, these forces suggest that ABF is not only large, but also positioned for sustained expansion as a broader set of investors expand their private markets allocation—offering greater private capital financing options.

## We've seen increased convergence between public and private markets. How is that playing out within ABF?

Convergence can be overhyped in benign markets, and it will be interesting to see the interplay between convergence and divergence 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 both public and private markets to build a diversified funding base.**

They tend to 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 securitized credit**, which is a key reason we combined our private and public ABF teams last year. There are a few specific areas where we're seeing this, and it hinges on the type of investor involved.

## INSURANCE INVESTORS

For insurance investors that have been allocating to public and private securitized credit for years, the focus is less on "public vs. private." It's more on optimization, and balancing liquidity requirements from a regulatory perspective with illiquidity premium and volume needs. The big shift for many of these investors (and the reinsurers of their risk) has been the rapid growth of annuity products over the last 5+ years, which increases the need for "raw material yield" to manage liabilities efficiently.

## PENSION FUNDS & NON-INSURANCE INVESTORS

Meanwhile, pension funds and non-insurance investors traditionally focused on public IG securitized debt, are now exploring private ABF for additional yield. The challenge lies in striking the right balance: moving from public IG into private ABF introduces illiquidity, so allocations need to be sized appropriately. Too little, and the impact on overall portfolio performance can be negligible; too much, and liquidity constraints may become a concern. We think we're in the early innings still, but we do see growing interest among investors for multi-strategy private IG solutions with the potential to deliver a meaningful spread pick-up over traditional fixed income, without sacrificing credit quality.

2. Source: Pitchbook; Moody's. As of January 2025.

## What is drawing investors to focus on allocations to ABF, and what portfolio objectives does it serve?

Investors are increasingly looking to broaden their private credit exposure and deployment beyond middle market/direct lending. In addition to the size and breadth of the opportunity set, ABF stands out for a few key reasons:

### EXCESS SPREAD/YIELD POTENTIAL VS. PUBLIC MARKETS

ABF has historically delivered a spread premium over both IG corporate debt and U.S. Treasuries, averaging 125–200 bps and 225–300 bps, respectively. This can be especially valuable for insurance investors seeking liability-matching solutions, as well as for other institutional and wealth investors looking to generate additional yield beyond their traditional investment-grade corporate allocations.

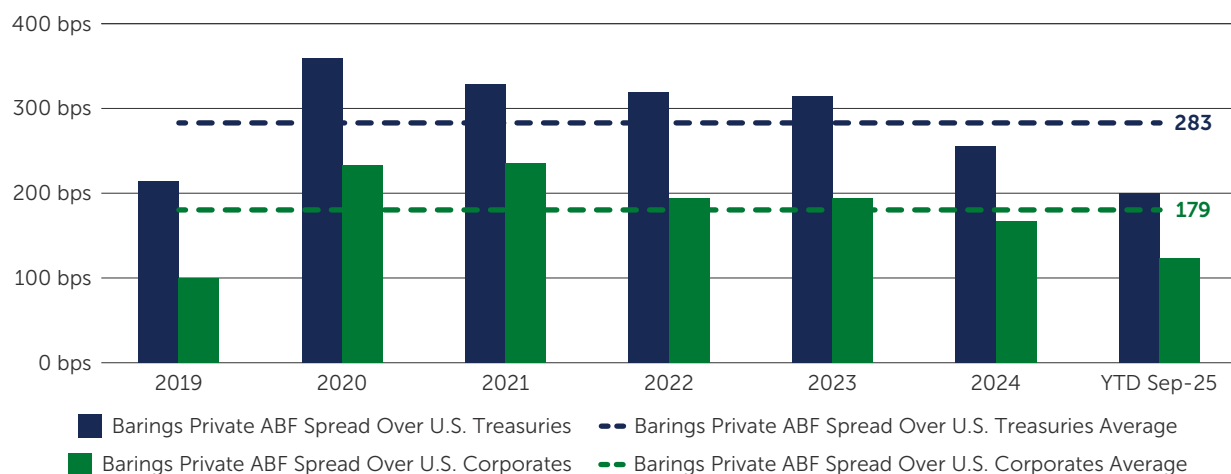
### DIVERSIFICATION RELATIVE TO TRADITIONAL CORPORATE CREDIT

ABF can also support investors seeking diversification from their existing middle market/direct lending allocations. Because these strategies are backed by highly diversified, non-corporate collateral with contractual cashflows, ABF can serve as a complementary allocation to direct lending. For investors willing to move beyond a pure investment grade ABF focus, an interesting opportunity exists to achieve high single to low double digit returns with a more IG/below-IG crossover risk profile—secured by non-corporate, collateral-backed exposures.

### DOWNSIDE PROTECTION POTENTIAL

The combination of highly diversified collateral pools and structural protections—such as overcollateralization, subordination, and covenants—also provide meaningful downside protection potential. These features can help both mitigate credit losses and preserve capital, making ABF an attractive option for investors focused on risk management and resilience during periods of market stress.

**Figure 2: ABF Has Historically Offered a Spread Premium Over IG Corporates**



Sources: Bloomberg; Barings. As of September 30, 2025. Barings Private ABF is based on historical origination volumes across residential mortgage finance, consumer asset finance, and commercial asset finance. Spreads for residential mortgage finance reflect Treasury + OAS. Consumer and commercial asset finance reflect Treasury + spread.

## What are the different ways ABF can be accessed or originated?

As investors and managers, we think of accessing ABF typically through three primary channels. Across these, our focus is on origination that offers meaningful influence over credit policy and structure, transparency into underlying collateral and performance data, and the ability to build volume and scale over time.

**The first channel is owned or affiliated origination, which provides recurring, proprietary deal flow.** You might retain certain tranches and sell others, but the key lies in the visibility and consistency of flow, which are critical for meeting annuity and other insurance liability needs. While we don't aim to own all origination—that's not realistic or necessary—having direct relationships, as well as selective and flexible ownership in key areas like residential and targeted commercial asset finance, is a critical and deliberate part of our strategy.

**The second channel is direct or bilateral origination.** ABF is a large, segmented space, requiring managers to pick the spots where they have specialization and a track record of underwriting and performance. In today's competitive environment—particularly consumer and to some extent commercial—it's important to have capital sources to participate up and down the capital structure or in whole loans. **In the current market, there aren't many syndicated or IG-only deals in these segments; if you're waiting on those, 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 spots and use them to supplement what we're doing in the first two channels.

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

## Where are you seeing the best opportunities within ABF, and why?

**We see opportunities across a number of ABF segments, particularly those benefiting from strong secular growth trends.** These include areas where there is potential to capture deal flow from originators with large financing programs seeking to diversify funding sources—away from traditional public ABS or banks—through private ABF. We also see opportunities in segments more exposed to bank retrenchment and in sectors that require access to multiple end markets.

One example is residential mortgages. **Supported by favorable 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.** In the commercial segment, aviation and equipment finance are examples, where solid tailwinds are creating attractive opportunities.

Broadening the ABF lens beyond residential, consumer and commercial, we see opportunities in infrastructure and digital. **With staggering spending estimates to upgrade U.S. core infrastructure and capitalize on the digital/AI wave, institutional investors and private markets will play a critical role,** as public markets and banks alone cannot absorb this flow.

Going forward, there will be bumps in the road, and cycles will bring volatility—but we view this opportunity through a long-term lens. Our strategy emphasizes downside protection, with the flexibility to pivot during market dislocations and leverage our origination and structuring expertise across multiple segments of the ABF market. By originating deals where we have a high degree of influence on credit and structure, access to collateral data, and a disciplined focus on risk management, we believe we're well-positioned to design flexible, high-quality solutions for our investors with the potential to generate excess spread and attractive risk-adjusted returns over time.

## Barings' ABF Platform

Our global sourcing capabilities and creative structuring expertise position us to deliver attractive risk-adjusted returns across the residential, consumer and commercial asset-based sectors.

**\$55 B+**

*in Assets Under Management*

**40+**

*year history investing across public and private ABF markets*

**65+**

*dedicated professionals across North America, Europe and Asia Pacific*

**Over 50%**

*of private transaction deal flow sourced directly, outside of broadly syndicated markets*



Our established platform has a **track record of capital preservation** and generating attractive risk-adjusted returns across market cycles.



A subsidiary of MassMutual, our ownership model ensures **long-term alignment of interests** with our clients and provides a foundation for strategic growth and innovation.



We actively manage our portfolios with a strong **emphasis on risk management**, supported by a robust data platform with high-quality loan-level data and advanced analytical capabilities.

Data as of September 30, 2025.

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