



BARINGS

PRIVATE CREDIT

# Innovation at Work: The New Private Market Ecosystem

## INSIGHTS

Private markets are innovating fast, opening new paths to diversification, income, and downside protection beyond traditional equities and bonds.



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Private markets have entered a new phase, where secular shifts are redrawing the lines between public and private credit. The result—call it Private Credit 2.0—is a broader, more connected opportunity set that spans the private market spectrum, with innovation driving improved access, new opportunities, and risk control for sophisticated allocators.

The backdrop is clear: bank disintermediation has been underway for decades, but the pace has accelerated sharply over the past 10 years, pushing credit creation toward non bank lenders. Traditional banks' share of U.S. private lending has fallen sharply as private platforms have scaled and institutions have broadened their allocations. Today, private credit fund AUM exceeds \$1.6 trillion,<sup>1</sup> and the addressable private debt opportunity is often pegged at \$20–40 trillion<sup>2</sup>—driven by borrower demand for flexible structures, investor demand for income, and capacity constraints on bank balance sheets.

New access points are also emerging. Private wealth vehicles have grown rapidly, while institutional investors like insurers and pensions are adopting capital efficient formats, rated feeders, and semi liquid strategies that make private credit more programmable inside core fixed income portfolios. These innovations are reshaping how investors participate, offering structures that align with liquidity needs, regulatory frameworks and liability profiles.

At the same time, AI and digital infrastructure are catalyzing a long dated capex cycle, fueling demand for investment in capital-intensive areas like power generation, grid resilience, and data center connectivity. As AI adoption accelerates, companies are increasingly seeking flexible, large-scale financing with certainty of execution—which private credit is well-suited to provide alongside more traditional sources.

## Innovation: Expanding the Private Market Toolkit

Innovation in private markets isn't just about new products—it's about rethinking architecture and access. As platforms scale and investor needs evolve, three areas stand out for how they're reshaping participation: collateralized loan obligations (CLOs), asset-based finance (ABF), and portfolio finance.

### CLOs: WIDENING THE LENS

CLOs have long been the structured credit workhorse, delivering diversified exposure to floating rate loans with built in structural protections. What's evolving is where the collateral comes from and how structures are being applied. CLOs now extend beyond broadly syndicated loans into private credit/middle market and infrastructure debt—two adjacent pools with distinct advantages.

1. Source: Preqin. As of May 2025.

2. Source: KBRA. As of January 2025.

**Private Credit (middle market) CLOs:** Backed by directly originated loans to mid sized companies (\$15–\$75 million of EBITDA), this segment has grown rapidly. U.S. private credit CLO issuance hit \$45 billion in 2024 and is on track to surpass \$54 billion this year, accounting for roughly 16% of total issuance.<sup>3</sup> These deals typically offer a spread pickup over BSL CLOs as well as elevated subordination, reflecting both the illiquidity premium and more conservative capital structures. Notably, during the pandemic, only 1.3% of middle market CLO tranches were downgraded, versus 15.0% for BSL CLO tranches—underscoring the rating stability that tighter structures and manager control can provide.<sup>4</sup>

**Infrastructure CLOs:** These CLOs pool senior secured loans tied to essential assets like renewable power, regulated utilities and pipelines, digital infrastructure, transportation, and social infrastructure. They skew higher in credit quality (average BB– vs. B for BSL CLOs), carry lower correlation to corporate credit, and benefit from long term contracted or regulated revenues.<sup>5</sup> At roughly \$10 billion, the market is still relatively small compared to the \$1 trillion U.S. BSL CLO market. Momentum is strong, however, as institutions look for scalable, risk adjusted access to infrastructure debt through familiar CLO mechanics: tranching, self healing waterfalls and active management/reinvestment.

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## COLLATERAL FIRST LENDING: ABF GAINS TRACTION

ABF offers diversification away from single issuer corporate risk by financing pools of loans that aren’t tied to physical assets, such as mortgages, leases, transportation assets, digital infrastructure, and consumer receivables. Cash flows are often self amortizing and diversified across hundreds or thousands of loans, anchoring risk to asset performance rather than a single corporate balance sheet.

**The market is substantial:** ABF is often estimated at \$5–6 trillion,<sup>6</sup> with expectations for roughly \$1 trillion<sup>7</sup> of new origination over the next five years. Insurers remain the dominant allocators, matching long-duration liabilities with long-duration, investment grade private structures while capturing incremental yield. Pensions, endowments, and other institutions are also leaning in, using ABF to lift portfolio yields without materially increasing headline risk. Where mandates allow, ABF can also be used to complement direct lending with select collateral-backed exposures targeting low double-digit returns at a low BB/high single-B risk level. Across investor types, the spread advantage remains a key draw: ABF has historically offered roughly +150–200 bps over IG corporates.<sup>8</sup>

3. Source: J.P. Morgan. As of September 30, 2025.

4. Source: S&P. As of January 2024.

5. Source: J.P. Morgan; Barings market observations. As of July 2025.

6. Source: Barings; Market Estimates. As of September 2025.

7. Source: Pitchbook; Moody’s. As of January 2025.

8. Source: Barings. As of October 2025.



The appeal is clear: ABF provides exposure that behaves differently from traditional direct lending, while platforms invest heavily in loan level data infrastructure, stress testing, and documentation discipline to avoid pitfalls highlighted by recent headlines.

## PORTFOLIO FINANCE: BRIDGING THE PRIVATE MARKET FUNDING GAP

Portfolio finance is quietly reshaping how institutional investors access private markets. As private markets scale and banks face persistent constraints, a funding gap has emerged—one portfolio finance is designed to fill. Rather than financing single companies or projects, these facilities provide loans to diversified pools of private assets that are cross-collateralized and actively monitored, creating investment grade-like exposure with real-time reporting and dynamic covenants.

The market is moving fast. While NAV lending against private equity portfolios is now a roughly \$75 billion annual market, the broader opportunity—including private credit and real estate portfolio finance, secondary portfolio finance, and GP financing—is much larger, with financing needs estimated to exceed \$100 billion annually.<sup>9</sup> Just as important, portfolio finance addresses deployment challenges: in a market where syndicated deals can be oversubscribed and allocations too small to matter, these structures enable managers to secure meaningful allocations, maintain control over terms, and put capital to work quickly. The ability to deploy at scale is a hallmark of innovation in today's evolving landscape.

For insurance investors, portfolio finance also brings an asset-liability management advantage. Facilities can align liability tenor with asset duration, helping investors avoid mismatches that often arise in other private market vehicles. This is a key distinction: subscription lines—typically a bank stronghold—are short-term and secured by investor commitments, while concentrated NAV facilities often fall below investment grade and may not match asset and liability profiles.

## Navigating Risk Without Losing the Plot

Recent headlines—First Brands' covenant concerns and bankruptcy, Tricolor's performance volatility and ultimate collapse, and heightened scrutiny of certain ratings providers—have put risk management front and center in private markets. These events have sharpened the focus on documentation rigor, rating credibility and structural resilience. Yet they haven't derailed innovation; they've reinforced why architecture and oversight are non-negotiable as the private market ecosystem expands.

9. Sources: Barings; Becker Friedman Institute for Economics at University of Chicago (January 2023); Preqin (December 2023); Pitchbook (November 2023).

Innovation is responding directly to these challenges. **CLOs** buffer senior investors through subordination and waterfall cures, while tighter documentation and loan-level analytics help managers identify stress early. **ABF** anchors risk to asset performance rather than issuer financials, supported by platforms investing in granular data infrastructure and stress testing. **Portfolio finance** embeds cross-collateralization and dynamic covenants, enabling proactive management as conditions evolve—critical when liquidity pressures hit.

Across all three, manager selection is decisive: origination reach, documentation control, and robust data infrastructure separate platforms that act early from those that passively collect yield. Equally, the quality of legal documentation remains a first-order risk, and with dispersion in document strength across the market, creditor rights and enforceable covenants are essential. Add that to the credibility questions surrounding certain private ratings, and allocators are increasingly relying on independent analytics and real-time monitoring to navigate a more complex landscape.

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## The Bottom Line

Private markets aren’t just bigger—they’re being built with greater intention and discipline. The lines between “public” and “private” are blurring, creating a continuum where origination rigor, documentation strength, and real-time surveillance matter more than the wrapper. Platforms that combine public and private perspectives can capture relative value across markets and pivot quickly as conditions change. In this environment, active management beats passive beta—and the payoff for security selection and early-warning analytics is rising.

**For sophisticated investors, the opportunity is clear: harness innovation not as a trend but as a toolkit for resilience.** CLOs, ABF, and portfolio finance aren’t isolated products—they’re part of an architecture designed to deliver income, diversification, and downside protection in a more complex world. The mandate now is to lean into platforms with robust data, strong documentation, and dynamic risk controls. That’s the modern private market playbook.

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