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Our quarterly perspectives on data, innovation, and industry trends in the investments space

6th Edition

What's Inside

How Asset-Based Finance Is Reshaping the Non-Bank Lending Industry

Asset-based finance (ABF) continues to shake up the non-bank lending industry[1] by enabling the monetization of otherwise illiquid assets and opening up creative financing opportunities. While the Global Financial Crisis[2] initiated this innovation, today's higher demand for non-bank funding as well as investors' pursuit of stable yields and diversification continues to drive ABF's growth.

Further, technological advancements have accelerated ABF's success. Advanced analytics, sophisticated risk models and digitized platforms enable investment firms to reliably evaluate and monitor transactions.

So let's explore the growth of this rapidly proliferating asset class and, along the way, highlight the operational complexities it imposes. Then, we can look at the role sophisticated technology solutions have played in this evolution.

Expanding opportunities in ABF

KKR research conservatively forecasts the ABF market will grow to $7.7 trillion by 2027,[3] from its current $5.2 trillion worldwide. North America dominates ABF adoption, with three out of four[4] private credit managers reporting to have an ABF strategy, compared to just two out of three in Europe.

The more striking difference between the two geographies, though, is who provides ABF options. Traditional banks still account for 70% of lending in Europe while, in the United States, they account for barely 20%.[3]

S&P Global forecasts structured finance issuance to climb to $35 billion[5] this year, up from under $32 billion, citing such factors as growing infrastructure needs and demand for non-bank lenders.

A notable feature of ABF is its breadth of asset types. While ABF initially centered on such traditional assets as auto loans, growth now stems from a broader range of sources. For example, "buy now, pay later" (BNPL) point-of-sale loans are being pooled and financed via private credit vehicles. In other instances, ABF is funding aircraft loans.[6]

The broader trend is clear: Lending is moving away from traditional banking ecosystems and toward new opportunities for players in private credit.

1. Asset-Backed Finance: The Next Evolution of Private Credit, Apollo, October 2023
2. Private Credit: Asset-Based Finance Shines as Lending Landscape Evolves, PIMCO, December 10, 2024.
3. Asset-backed finance: Riding the wave, Alternative Credit Investor, December 13, 2024.
4. The growth of asset-based finance in private credit markets, Macarlanes, January 29, 2025.
5. Latin America Structured Finance Outlook 2025: Opportunities And Challenges, S&P Global, January 17, 2025
6. The next era of private credit, McKinsey & Company, September 24, 2024.

The complexity of ABF operations

Adopting ABF into your firm's portfolio, though, isn't as simple as adding a new row to an Excel spreadsheet. Opportunities in this space may be plentiful, but ABF introduces significant operational complexities.

With ABF, lenders must contend with a diversified pool of thousands or even millions of underlying assets, requiring sophisticated infrastructure. So, what challenges can you expect with ABF?

Granular data management

ABF portfolios require firms to track loan-by-loan performance, zooming in on an array of events including interest accruals, principal amortization, prepayments and recoveries. Not only that, firms must also continuously update loan-level defaults to ensure portfolio values are accurate.

Imagine your firm is holding a pool of 50,000 consumer loans from a lending platform. This volume of data, requiring daily transactions, would overwhelm legacy systems designed to account for a handful of large corporate loans.

Adding to the complexity, ABF strategies often involve integrating multiple data sources from several originators and servicers. As a result, you should expect to receive data in different formats, so you'll need the right tech to harmonize the information into a single source of truth.

Valuations and NAV calculations

With illiquid private loans, valuations might only be required as infrequently as once per quarter. With such ABF solutions as interval funds, though, firms must perform NAV calculations daily.

This difference is substantial. Firms must now perform tasks in a single day that previously took weeks or months, so they need solutions that will automate data ingestion, apply pricing models, and rapidly reconcile accounts.

This matters because investors are constantly subscribing to and redeeming from funds with ABF loans. As a result, investment managers need to keep loan details current for accurate NAV calculations. An error in the aggregate value of thousands of loans will lead to substantively misstating the fund's NAV and create errors that could cost clients dearly.

High transaction volumes

ABF involves continuous deployment and reinvestment as asset pools revolve, resulting in potentially substantial transactional volumes. Without advanced technology supporting these volumes, firms would need to dramatically increase headcount to manually process daily loan-level cash flows and reporting from multiple services.

Diverse exposure

ABF encompasses a wide-ranging suite of consumer loans, equipment leases, royalty streams and more. While breadth is one of the benefits of ABF, it's also a major challenge.

Lending options vary widely in performance dynamics, so managers can't make like-for-like risk comparisons. Instead, they have to rely on flexible systems that accommodate different asset data fields and cash flow rules.

Jurisdictional differences also add a layer of complexity. Europe has fragmented banking systems and capital markets infrastructure. Financing assets in the region requires specialized market, regulatory, tax and legal considerations, which are less of a barrier in the U.S. As a result, private credit managers increasingly rely on sophisticated technology infrastructure to support their ABF mandates

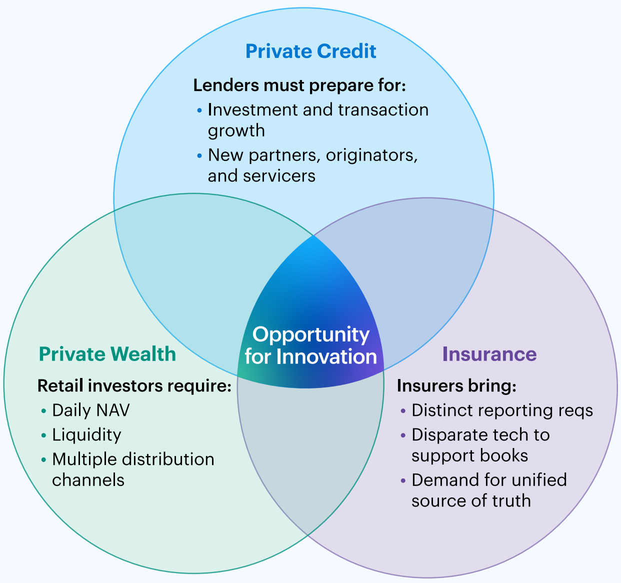
The intersection of ABF

ABF's rise blurs the lines between some products offered by private credit funds, insurance companies, and wealth management channels, introducing opportunity and accentuating the complexity.

Last year, five of the top 30 private debt managers in the United States[3] launched their first funds focused on asset-based lending (ABL). This ABF subset refers to the extension of loans and lines of credit secured by businesses' assets. Nearly six out of 10 private credit managers intend to prioritize an ABL strategy, according to a Preqin survey.[3]

Increases in valuation cycles and technology-intensive operations create more complexity. LPs should perform extra due diligence to understand a GP's capabilities in handling ABF's nuances, such as data management, before allocating funds to private credit firms.

ABF at the intersection of private credit, private wealth, & insurance



> "Nearly six out of 10 private credit managers intend to prioritize an ABL strategy, according to a Preqin survey.[3]"

ABF is transitioning into a cluster of semi-liquid fund structures that enable wealth management clients to make daily subscriptions, which require a daily fund NAV. As a result, major institutional investors are getting into the market. Apollo, for example, recently launched the Apollo Asset-Backed Credit Co., a semi-liquid vehicle[7] that gives private wealth clients access to asset-backed loans with periodic liquidity.

Still, offering ABF in a retail-friendly wrapper raises operational challenges, from timely reporting to adherence to regulatory standards. Since managers may be unable to quickly sell underlying assets, managing liquidity is risky and requires precision. Think of it this way: ABF's extension into private wealth through registered funds is forcing the industry, operationally speaking, to marry the world of alternatives with the world of mutual funds.

As a result, even insurance firms are jumping in becoming major investors in, and originators of, ABF. The steady, long-duration cash flows that characterize ABF are attractive to insurers who need to match assets to their liability profiles. Alternative asset managers are partnering with and even acquiring insurance platforms.

In 2023, Blackstone Credit & Insurance (BXCI) launched an asset-backed credit platform that merged the ABF and insurance groups into a single unit. Now, Blackstone's credit team and its insurance affiliates coordinate on ABF. In one of its biggest deals so far, BXCI partnered with banks to purchase a $1 billion infrastructure loan portion from Spanish bank Santander. Meanwhile, M&A and joint ventures with insurance companies continue to make headlines: Apollo buying Athene, KKR purchasing Global Atlantic, and Brookfield acquiring American National.

7. Apollo Asset Backed Credit Company, Apollo.

No cure for growing pains

Regulatory shifts, alternative lending needs, and investor appetite for diversified yield opportunities have helped ignite ABF's growth. Even so, the real reason for the asset class's success lies in the transformative technology that continues to impact all aspects of the financial world.

Without powerful analytics, advanced digital platforms, and sophisticated risk management systems, ABF's burgeoning growth wouldn't be possible. It's this tech that allows firms to handle increasingly complex asset pools to better serve clients, so the talent and processes needed to manage it remain a constraint on ABF.

ABF's Growth Enablers

- Powerful Analytics
- Advanced Digital Platforms
- Sophisticated Risk Management Systems
- Talent
- Process

Meanwhile, geographic reach remains uneven. While North America continues to lead in ABF adoption, huge markets throughout Latin America and the rest of the emerging world remain ripe with opportunity. Addressing these potentially lucrative prospects, though, introduces significant operational complexity.

To navigate ABF opportunities effectively, lenders and investors need to integrate bulletproof data management and maintain precise daily valuations, then harness the infrastructure to handle massive and diverse transactions. The granularity of data required for accurate performance monitoring, of course, adds an entirely new layer of complexity.

> "The real reason for the asset class's success lies in the transformative technology."

The way forward with ABF

We've seen ABF's growth drive convergence in some areas of traditionally siloed financial sectors, effectively democratizing the asset class. The products and strategies offered by private credit, insurance and private wealth management are becoming less mutually exclusive.

Meanwhile, firms that embrace advanced technological infrastructure and form strategic partnerships across sectors will likely thrive as the boundaries between sectors continue to blur.

While challenges remain for those choosing to participate in ABF, the opportunities are practically limitless to those with the vision — and the technological sophistication to pursue that vision.

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Does the Rise of "Buy Now, Pay Later" Loans Carry Hidden Risk?

On the surface, the popular buy now, pay later (BNPL) lending phenomenon appears benign. After all, the average loan is only $135[1] split into four equal payments.

Just a small transaction between a retailer and a consumer. No big deal, right?

Well, it turns out beneath the attractive and convenient payment scheme lies hidden risk.

For firms focusing on asset-based finance, understanding the risks could help safeguard portfolios and maintain financial stability in a fragile credit environment.

BNPL's rapid ascent, which began in the 2010s,[2] has created what we believe is an underappreciated credit risk that could extend beyond the consumer and retail space.

BNPL presents a set of immediate risks to borrowers and merchants that many people are at least generally familiar with. Beyond risks to immediate users, however, lies a potentially significant impact on the asset-based lending market.

The rise of BNPL

Almost overnight, the option to "buy now," and "pay later" seemingly swept the digital shopping world. The payment solution tempts shoppers to complete a purchase with just a fraction of the cash needed upfront. Often, only 25% of an item's purchase price is payable immediately,[3] with the balance split equally across three subsequent payments.

Add to this the fact that shoppers find BNPL attractive because it is usually interest- and fee-free. Free to the consumer, at least — providing they pay on time. While late fees are part of the business model, the real money in BNPL is made on the sell side.[4] Merchants reportedly pay between 4% and 9.5% on each transaction, or roughly twice what they pay credit card issuers.

Compared to a credit card, for example, BNPL providers approve consumers almost instantly using only a "soft" credit check. Thus, the assessment leaves borrowers' credit scoreslargely unaffected. Of course, the minimal check opens the program to consumers with poor credit.

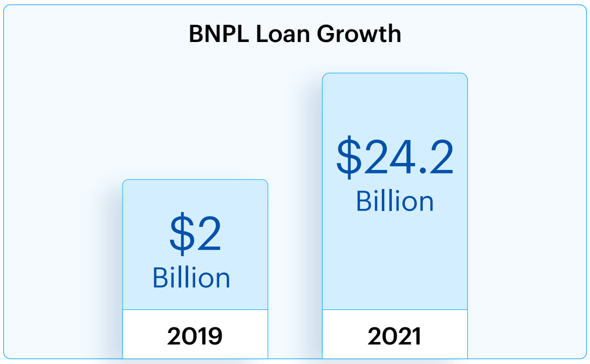
The ease with which consumers can opt for short-term loans is only part of the picture. Retailers like BNPL, too, as it drives up checkout rates and average order value and helps them attract a wider range of customers. According to online payment processor Stripe,[5] adding BNPL options at checkout drive a 14% bump in revenue.

Merchants are seeing fewer abandoned carts, with consumers more readily leveraging BNPL to complete orders — often at higher purchase prices than where they'd otherwise land.

Merchants are also making it easier to buy goods and services on an installment basis. Even the food delivery platform platform, GrubHub is entering the space. In March 2025, Klarna announced a partnership with GrubHub, allowing diners to order food delivery on installments.

1. Buy Now Pay Later Statistics, Capital One Shopping, December 31, 2024.
2. The Evolution of Buy Now, Pay Later: A Historical Perspective, Medium, January 4, 2024.
3. Buy now, pay later – Is it here to stay?, Payment Canada, January 14, 2022.
4. Who actually pays with buy now, pay later companies like Klarna and Affirm, NPR, June 12, 2022.
5. Testing the impact of buy now, pay later across 150,000+ checkout sessions, Stripe, June 18, 2024.

Consumers have increasingly adopted BNPL since its introduction to the US retail market. The Consumer Financial Protection Bureau (CFPB) found[6] the number of BNPL loans in the United States represented a more than tenfold increase from $2 billion in 2019 to $24.2 billion in 2021. And in 2023, nearly 20%[1] of American consumers used buy now, pay later.



One estimate forecasts the BNPL market will reach a monumental $1.43 trillion[7] in 2029, representing an annual growth rate of over 43%.

While consumers and retailers alike may be happy — for now — with the payment option, this loan scheme exposes borrowers and lenders to substantial risk.

For one thing, BNPL enables consumers with poor credit to access financing. And to make matters worse, the full extent of BNPL's risk remains uncertain. Tim Quinlan, Senior Economist at Wells Fargo & Co., is quoted in Bloomberg saying that BNPL is driving up so-called “phantom debt,”[8] in the U.S. economy. Why? Because regulators don't require the biggest players in the space, Affirm Holdings Inc., Afterpay, and Klarna Bank AB, to report BNPL loans to credit agencies.

When we say credit risk is hidden, we really mean hidden.

Immediate risks in the consumer sphere

BNPL allows shoppers to bypass traditional credit check hurdles. Because of this, the lending scheme is particularly appealing for consumers struggling to qualify for conventional credit because of a low credit score or a lack of credit history.

Of course, this shortcut can come at a cost to consumers.

Research published in the Journal of Marketing concluded that “BNPL adoption led to immediate and substantial increases in spending,” at least in the short term.[9]

While some view BNPL as a niche product, its rapid mass adoption says otherwise. Now, BNPL providers, with minimal underwriting standards, are extending credit to subprime borrowers. A January 2025 report from the Consumer Financial Protection Bureau[10] concluded that the majority of BNPL originations come from borrowers with subprime or deep subprime credit scores. From 2021 to 2022, a lofty 45% of BNPL originations were exclusively from borrowers with deep subprime credit scores.

The question is: Could the emergence of these high-risk loans trigger cascading defaults?

While the average amounts of each loan are typically small, at just $135, the aggregate volume is far from insignificant. And the figures are likely to rise.

Writing in the Financial Times, Patrick Jenkins warned[11] it's not uncommon for some of the most active BNPL users “to have several dozen overlapping loans from a range of providers.”

> “Could the emergence of high-risk loans trigger cascading defaults?”

6. The Rise of Buy Now, Pay Later Plans, Federal Reserve Bank of Richmond, Q4 2024.
7. 2025 Assessment of the Buy Now Pay Later (BNPL) Industry, Research and Markets, January 24, 2025.
8. Americans Are Racking Up “Phantom Debt” That Wall Street Can't Track, Bloomberg, May 7, 2024.
9. Buy Now, Pay Later: Impact of Installment Payments on Customer Purchases, Sage Journals, September 1, 2024.
10. CFPB Research Reveals Heavy Buy Now, Pay Later Use Among Borrowers with High Credit Balances and Multiple Pay-in-Four Loans, Consumer Financial Protection Bureau, January 13, 2025.
11. Buy now, pain later – the looming risks of BNPL, Financial Times.

The broader impacts on asset-based finance

Until now, discussion of BNPL risk largely focused on the consumer and retail front. However, with private equity companies and other investment firms embracing BNPL loans, lending risk is beginning to bleed into the institutional world.

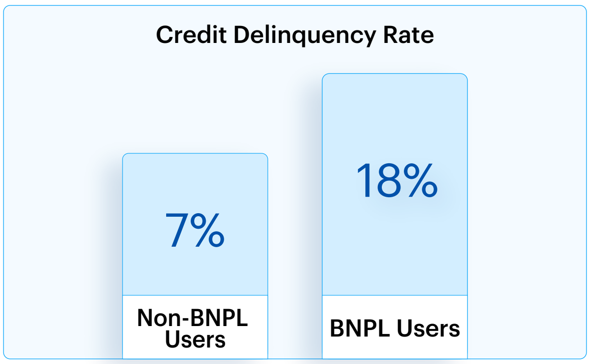
In 2023, PayPal sold upwards of $44 billion of existing loans[11] from its BNPL program to global private equity firm KKR. This freed up capital for PayPal, while it gave KKR and its investors looking for yield access to a diverse pool of short-duration consumer loans in a rapidly expanding market.

This illustrates how BNPL risk can spill over into the asset management world, and subsequently into client portfolios.

In another instance, BNPL lender Klarna signed a deal with the UK's Elliot Investment Management to unload £30 billion of future loans, in effect, transferring risk from Klarna to Elliot.

For asset managers, welcoming BNPL means taking on loans originating in the private sector with far less scrutiny than traditional lenders would exercise. However, because asset managers still view BNPL as a consumer and retail scheme, they underappreciate the underlying risks associated with these loans.

One alarming statistic from a Bank for International Settlements study shows that BNPL users in the United States have an overall credit delinquency rate of nearly 18%.[11] That's more than double the roughly 7% delinquency rate for non-BNPL users.



> “BNPL risk can spill over into the asset management world”

How serious is the credit crisis risk?

The lack of transparency can make the scale of credit risk difficult to forecast. In one sense, the growth of BNPL itself is a troubling sign. If consumers don't have cash or access to traditional credit, their increasing reliance on BNPL may signal an increasingly unhealthy credit environment.

While BNPL isn't likely to cause an event as serious as a recession, it still has the potential to produce localized shocks that could have ripple effects.

For instance, if an economic downturn were to drive a large number of BNPL loans into simultaneous default, the collateralized debt pools exposed to these loans could see performance slip.

Last year, Ireland-based payment company Scalapay partnered with BNP Paribas to securitize up to €3 billion of their BNPL loans. That's roughly 1% of the daily trade in mortgage-backed securities,[12] according to the Federal Reserve.

A massive wave of defaults is thus unlikely to occur, and even less likely to trigger major economic consequences. Even so, the cumulative risk from a growing BNPL sector remains a legitimate concern, especially if BNPL builds traction at higher price points and people begin to regularly make larger purchases under these terms.

12. Mortgage-Backed Securities, New York Federal Reserve, February 2022.

Mitigating risk in the ABF universe

Given the risks, how can a financial institution with BNPL exposure protect portfolios? There are several steps you can take:

- **Enhance portfolio transparency and granularity**
  Detailed, granular information about individuals' loans can help your teams fully understand exposure. This means obtaining real-time visibility into loan-level data, like borrower characteristics, loan performance, and geographic concentrations. With a unified view, your teams can quickly identify emerging trends, like rising delinquencies, before they cascade into larger problems. Since loan data may come from multiple sources, having the right software solutions that can consolidate information is critical.

- **Integrate robust risk management controls**
  Strong risk management controls tailored to BNPL's unique challenges are imperative. For example, enhanced due diligence to thoroughly vet underwriting standards and stress testing to simulate the impact of economic downturns on a portfolio of loans would be well-advised.

- **Embrace technological advancement**
  Powerful tools, like advanced analytics, artificial intelligence, and unified data platforms can help navigate an opaque market. From supporting due diligence activities to facilitating liquidity management, the latest technology systems can provide key insights, speed, and accuracy when it matters most. For instance, integrating a real-time risk management dashboard that aggregates data across multiple BNPL exposures can help managers spot red flags.

There's no doubt about it: BNPL loans have transformed consumer credit by delivering quick, accessible, and frictionless lending. For merchants, buy now, pay later can help expand sales and improve conversion rates.

However, these benefits also make BNPL risky. Lax underwriting, soft credit pulls, and the potential to drive excess consumer spending position this lending style for higher default rates. When issuers aggregate these loans in asset-backed securities, the risks have the potential to cascade and drive underperformance.

Navigating BNPL means investing in enhanced portfolio transparency, robust risk management controls, and sophisticated technology platforms that deliver real-time insights into loan performance. While Excel is a testament to its originators and to the power users who craft them, spreadsheets have their limits. By embracing a proactive, technology-driven approach, you can ensure your portfolios remain resilient, even in the face of potential credit shocks.

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The Blueprint for Building Your ABF Team

Staffing up a team dedicated to asset-based finance (ABF) isn't that different from staffing virtually any other revenue center in the alternative finance space. It's a matter of finding the right balance of skill. But where do you find those resources?

Should you hire people, partner with companies that extend your team's current skills, or outsource the work? The answers to these questions are moving targets. Still, awareness of trends in geopolitics, technology and the ABF field itself can provide useful guidance.

The skills necessary for a robust ABF operation can be deconstructed into four components:

1. **Investment analysis and risk management**
2. **Fundraise strategy team and investor relations**
3. **Data transformation team**
4. **Accounting and investment operations**

Let's consider how current economic conditions and market dynamics could affect your staffing approach.

Trade wars

The escalating exchange of tariffs is going to have an immediate effect — and likely a lasting one — on the ABF marketing funnel. In the short term, there could be a bump in deal volume if history is any gauge. Looking back just five years can provide relevant perspective.

Lockdown measures in response to the Covid-19 pandemic increased demand. Retail, wholesale, equipment rental companies, and, famously, the restaurant business, faced hardship and needed to move from revolving credit to asset-backed loans (ABL), a subset of asset-based finance, to keep making payroll with no revenue coming in. These industries tend to have high inventories, according to Maximize Market Research,[1] and that proved to be their lifeline.

Supply chain disruption requires expert analysis to determine where inventories will accumulate and where they'll be depleted. Logistic challenges can impact funds offering ABF strategies — whether originating ABL, acquiring and securitizing them, or offering strategies within a wider range of asset-based finance. As a result, your fund's operation would be well advised to onboard analysts and risk managers with specific expertise in the borrower's industry.

Even if we were to agree new tariffs could be a positive move in the long run, current trade policy is already contributing to an economic contraction as of this writing. The Federal Reserve of Atlanta's GDPNow[2] forecast calls for a 2.1% drop in American economic output in the first quarter of 2025. The effects of volatile trade conditions appear to be spreading.

"If the announced trade policy actions persist, [...,] the new bilateral tariff rates will raise revenues for the governments imposing them but will be a drag on global activity, incomes and regular tax revenues," the Organization for Economic Cooperation and Development reports.[3]

1. Asset-Based Lending Market: Global Industry Analysis and Forecast (2025-2032), MMR, April 2025.
2. GDP Now, Federal Reserve Banks of Atlanta, April 16, 2025.
3. OECD Economic Outlook, Interim Report March 2025, OECD, March 17, 2025.

Policy actions have some positive implications, especially for firms that see ABF as an avenue to acquire assets at deeply discounted rates. For more lending-oriented firms, though, lower demand for loans and increased risk of business failures could surface. Teams will want to pay particular attention to equipment rentals sensitive to the new-home construction market, which is often the first part of the economy to slide. In the current high-interest rate environment, a decline is almost a given.

Funds with ABF capabilities ought to consider adding staff to their risk management desk. While some may be tempted to pay for staffing demands by lightening the communications and marketing end of the payroll, that may be ill-advised. After all, the addressable market that remains will have a broader selection of ABF sources. The season when clients come to the lenders rather than the lenders going to the client may well have passed.

We would mention one other potential pivot that could be triggered by the tariff war: the services sector. Tariffs are, by definition, levies on goods. While other trade barriers such as quotas or licensure restrictions can be erected to stem international services trade, they're much more difficult to enforce and no nation has resorted to them yet. So, it may be time to enhance your firm's expertise in specific service industries. One comes immediately to mind, and we'll delve into that shortly.

The burgeoning tariff war presents an important staffing consideration: it alters the risk profile considerably, and lenders would be best advised to take this into account when balancing the relative need for risk managers and marketers in proportion to other resources.

Technology and productivity demands

Hiring new analysts, risk managers, data engineers and scientists, investor relations teams, and operations staff is one route firms can choose, but it's not the only one or necessarily the best one in all cases.

Outsourcing is a sound option if you need a skill non-core to your business model. Outsourcing is also attractive because of its predictable nature that helps firms establish the infrastructure and operations their investors can rely on. By implementing controls and oversight between firms and their investors, managers ultimately help reduce the impact of turnover on their internal teams and over-reliance on administrators.

As ABF lenders explore how technology can fill gaps, a handful of areas immediately come to mind in which sophisticated tools can immediately contribute:

1. **Improved credit evaluation and risk assessment**
   Tools like AI can automate and enhance the traditionally manual process of reviewing financial statements and collateral appraisals. AI can also monitor the creditworthiness of borrowers before and after a loan is made, thus improving risk management.

2. **Streamlined loan origination**
   ABF loan origination is paper- and labor-intensive. Automation can drastically reduce the paper-intensive timeline[4] of gathering and reviewing documentation, including such repetitive tasks as data entry, document verification, and compliance checks.

3. **Expedited lending platform integration**
   Streamlined connectivity with origination platforms to expedite how quickly new loan service providers can go to market.

4. **Modernized loan management**
   Single solution to standardize and process high volumes of loans and reference data while maintaining loan- and borrower-level integrity for risk and exposure analysis.

As helpful as new technology might be, though, you will still need people. Whether you outsource these roles or hire them outright, they need to come from somewhere — but where? For that, let's revisit that service industry we alluded to a moment ago.

> "As helpful as new technology might be, though, you will still need people."

4. Overcome loan origination complexities with automated technology, Wolters Kluwer, February 27, 2025.

New power dynamics

Thanks to its rapid rise, firms integrating ABF strategies have already become a major source of business for temporary staffing and executive search firms. Partnership opportunity largely applies to funds originating asset-backed loans — a subset of ABF. According to Access Capital, asset-based lending mitigates staffing agencies' cash flow issues[5] and offers flexibility in financing. ABL is how many businesses monetize their receivables to make timely payroll contributions every week.

Still, ABL is not the only option for staffing agencies that seek to use their receivables as collateral. So how would a fund that originates loan products get staffing organizations to pursue ABL as a funding source and their fund in particular? One way to start would be to lower the interest. Of course, your firm can lower it only so far before it becomes a loss leader. Even so, maybe it ought to be. Could it be time for a clever private market or hedge fund to strike up an alliance with a search firm? Potential partnerships arising under volatile market conditions hold the potential to reshape the hiring landscape.

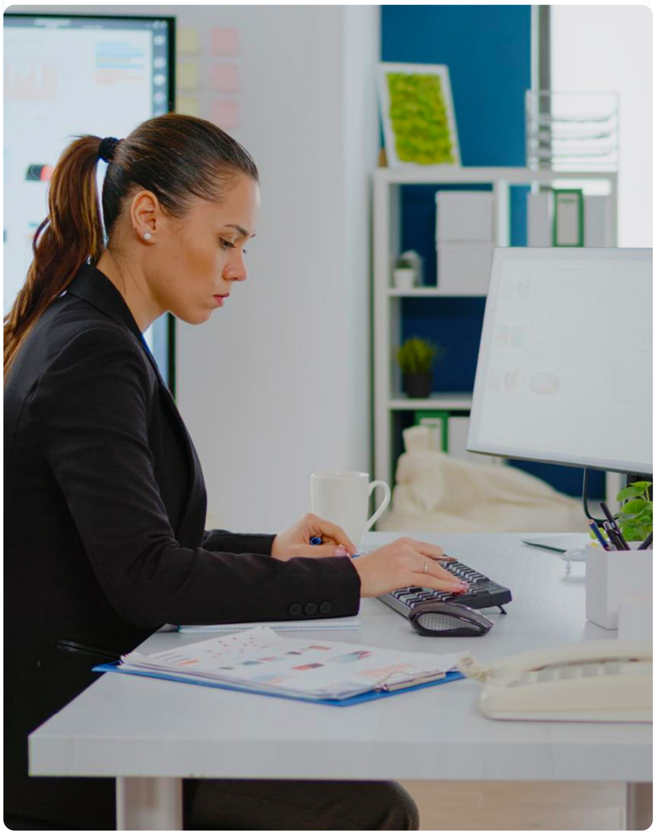
More broadly, the good news is that today, receivables eclipse inventory[6] as the dominant type of ABF collateral.

Perhaps it's time for funds to focus more intently on services as opposed to trade in and transportation of goods. And today's environment might even be the back door into new equipment-collateralized notes, according to British lender Fund Guru.[7] The healthcare sector can be capital-intensive as hospitals, clinics, and private practices scramble to come up with the funds to buy or lease MRIs, ultrasound scanners, or other diagnostic equipment. Similarly, the tech sector's assets substantially include tangibles — not just servers and storage arrays, but also data centers and the land they sit on.

Physical hardware is just the beginning when it comes to tech's inventory of assets that could be collateralized. Software costs roughly the same as hardware so for funds willing to track amortization instead of depreciation, there is another class of assets to collateralize. Hardware and software don't work without processes, though, and the monetarily quantifiable value of the intellectual property nested in those processes can also back a loan.

Before pursuing ABF opportunities in either healthcare or tech, it would be best to ensure your staff has the requisite industry knowledge. This is especially true in tech, where software development often produces disappointing results, and millions of dollars of costs end up as worthless — but still amortizing — assets known in the trade as "vaporware." Only a financial analyst with experience in the software industry can tell the difference.

The services sector provides an array of opportunities to funds offering ABF, providing they add the relevant expertise, like healthcare or tech industry knowledge, to their teams' skill set. ABF offers a vast addressable market. Firms that understand the complexities of the asset class and demands for specialized expertise can set their business apart.



5. A Guide to Asset-Based Lending in the Staffing Industry, Access Capital, April 1, 2024.
6. Global Asset Based Lending Market Size, Market.us, December 2024.
7. Top Industries That Benefit from Asset Financing, Finding Guru.

The bottom line

Focusing on trends is instructive, but trends don't last forever.

Demand for asset-based financing is higher than ever, influenced by factors such as the demand for alternative financing and recognition of ABF's growth potential. But investing in the asset class is more than having the financial backing to make a loan — it's about ensuring you can strategically manage the day-to-day demands with the right infrastructure, technology, and expertise.

As the consultancy BRG summed up its 2025 industry forecast[8]: "Asset-based lending has been around for decades and weathered numerous macroeconomic headwinds. It will this time too, but lenders and borrowers alike should be aware of shifting dynamics as they prepare for the year ahead."

By combining skilled strategic employees with process augmentation from outsourcing, partnerships, and new technologies, your firm can position itself among the long-term leaders amid changing market conditions.

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8. Corporate Finance in 2025: New Obstacles in Asset-Based-Lending Sector, BRG, Q1 2025.

Is Your Firm Ready for the Demands of ABF? Here's What to Consider

Asset-based finance is quickly becoming an attractive asset class known for its growing, uncorrelated fixed-income source with a collateral cushion.

With a steady income stream and downside protection, even in volatile markets, ABF is a welcomed allocation in a diversified portfolio. While many asset managers are considering entering this market, the question they need to ask themselves is “What actions should I be taking to ensure I am prepared from a technology and operational standpoint?”

Unfortunately, the very features that make ABF attractive also make it unwieldy. Firms must be able to manage mounting volumes of data, accelerate reporting cycles, and respond to operational complexity caused by disparate data sources.

Investment firms must rethink their internal structure and external partnerships to successfully integrate these strategies. But doing so is not as simple as adding a new product line. Adding this strategy requires funds to make fundamental shifts across their people, processes, and technology.

As your firm thinks about entering a new asset class, now is the time to make sure your team has the right skills, processes are tight, and tech is up to speed.

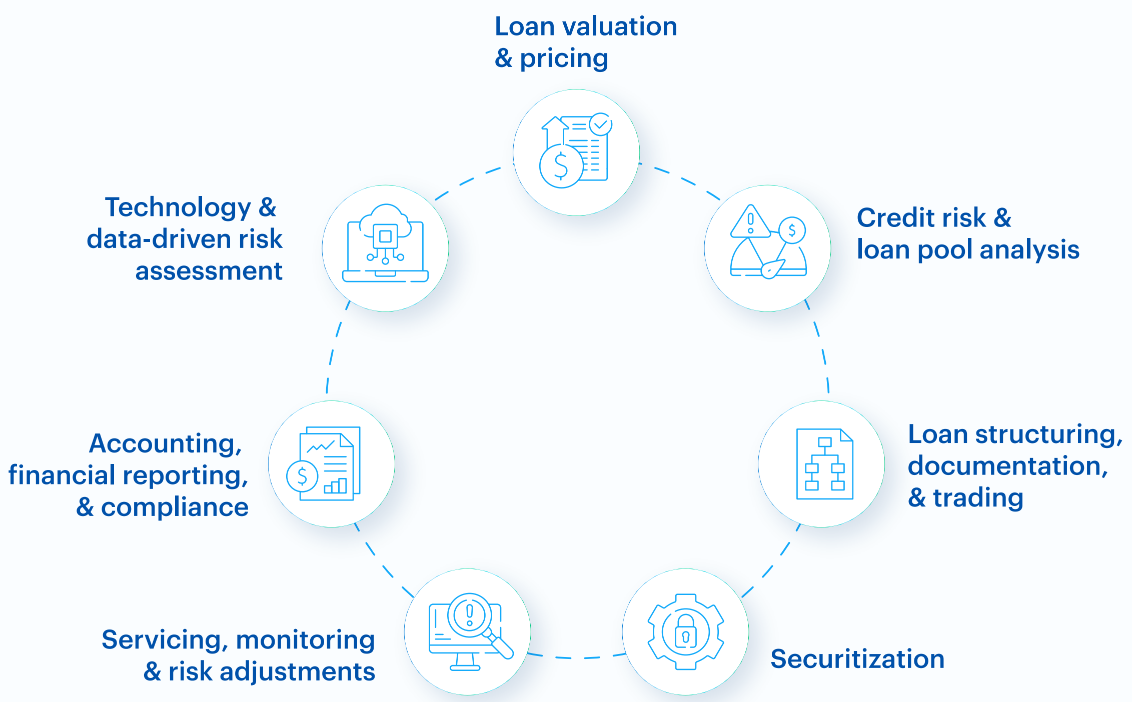
Build the right team for ABF

Even if you’ve onboarded new asset classes before, the complexities of ABF may stretch your internal resources pretty thin. As a first step, consider what skills you already have in-house versus the skills you will need to acquire. Then, solve for the gaps by hiring, partnering with third parties, or outsourcing key tasks.

More than likely, your team already has strategic skills in portfolio management, capital allocation, financial modeling, and risk assessment. Still, you may need to enhance other functions, such as:

- **Loan valuation & pricing:** Assess loan value based on expected cash flows, risk factors, and market conditions to determine fair pricing and potential impairments.

- **Credit risk & loan pool analysis:** Understanding loan-level risk exposure, borrower repayment behavior, and potential losses is critical for evaluating acquired loan portfolios and ensuring long-term stability.
- **Loan structuring, documentation, & trading:** Negotiate secured loan transactions, structure agreements to protect lender rights, and execute trades in secondary markets to facilitate efficient loan purchases and sales.
- **Securitization:** Bundling loans into investment-ready pools, allocating risk across different investor classes, and optimizing repayment structures.
- **Servicing, monitoring, & risk adjustments:** Tracking loan performance, finding early warning signs of distress, and adjusting risk exposure as conditions change.
- **Accounting, financial reporting, & compliance:** Ensure compliant financial reporting and adherence to industry regulations to maintain transparency and operational integrity.
- **Technology & data-driven risk assessment:** Use of advanced data models, automation tools, and predictive analytics allows for more precise loan evaluations, risk monitoring, and decision-making.



While some roles can be adapted from other asset classes, firms may need to assemble a specialized ABF team that understands its nuances, lifecycle events, and workflows.

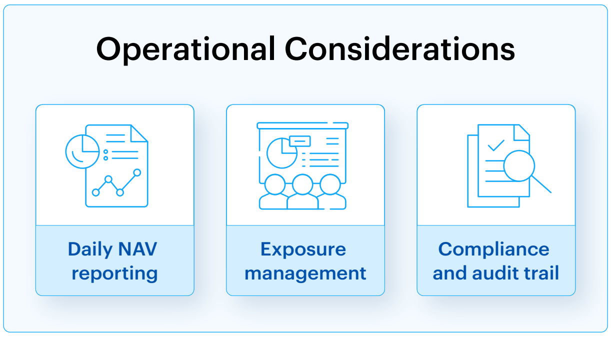
Finding a partner to support parts of your ABF workflow, particularly the process-heavy tasks that need specialized systems or have complex regulatory requirements, can provide access to scalable talent and cost-efficient execution. Partnering can help your ABF team enhance loan pricing accuracy, credit risk assessment, and secondary market trading decisions by accessing real-time borrower performance data, collateral valuation updates, and predictive risk analytics. Faster deal execution, more precise structuring of securitized loan pools, and improved prepayment/default forecasting can ultimately lead to better yield optimization and risk-adjusted returns. Meanwhile, certain roles such as relationship-driven functions, investment strategy, and portfolio management may be best kept in-house.

Streamline operations for daily reporting

ABF requires robust processes. Without transparent, integrated workflows, data discrepancies will build and lead to exposure miscalculations. Poorly integrated workflows can also make it difficult to accurately reconcile positions, resulting in regulatory breaches or overall inefficiency.

What makes ABF particularly complex isn't just the large volume of data it forces funds to deal with — it's the fact that all flows supporting it must work seamlessly together.

If your firm is considering adding this asset class, you'll want to pay close attention to a few operational areas:



- **Daily NAV reporting:** ABF can require daily NAV updates for firms distributing registered products to private wealth clients. To support daily calculations, firms must be able to confidently aggregate, validate, and report real-time data. Access to NAV reports at any cadence, whether it's daily, weekly, or monthly can also remove any sole dependence on administrators.

- **Exposure management:** Investment managers need a consolidated view of loan and borrower exposures. Without integrated processes, getting a clear picture of exposure is difficult, potentially driving asset mispricing or an inability to sufficiently monitor and assess liquidity and risk.

- **Compliance and audit trail:** Firms must keep up with ABF regulatory requirements. Processes must include auditable trails that meticulously document every transaction, adjustment, and valuation metric.

Advance automation can help close these gaps — for example, by making collateral monitoring more efficient. And when you layer in AI analytics, those systems can spot issues early and help reduce risk.

Leverage AI and automation to scale ABF

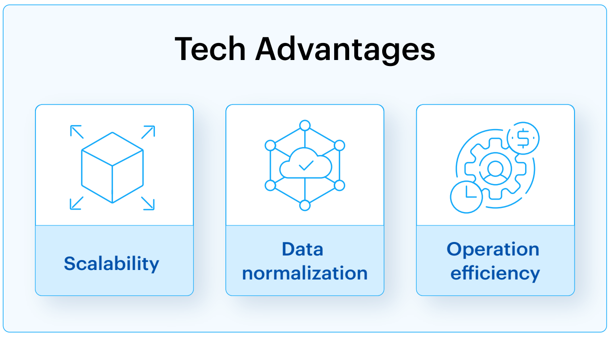
Perhaps more than any other strategy, ABF benefits from powerful computing coupled with advanced software.

Why is advanced tech so valuable when it comes to managing ABF? There are a few main reasons having access to the fastest and most advanced solutions is so critical:

- **Scalability:** Today's tech age is characterized by soaring levels of data.[1] Without the right tools, firms struggle to handle millions of data points without compromising speed or accuracy.

- **Data normalization:** Managing ABF portfolios means pulling data from various sources and asset types. Asset managers must normalize complex and abundant data to ensure consistent use in reporting and decision-making.

- **Operation efficiency:** Automation and AI can substantially reduce the need for manual intervention, helping reduce errors and make processes more efficient.



1. From Big Data to Smart Data, Arcesium, November 16, 2023.

Another area that should not be overlooked is the story of AI's potential impact on ABF.

In January, the new administration in Washington announced[2] a monumental half-trillion private-backed investment in domestic AI infrastructure.

The trend is clear: investment in state-of-the-art technology is growing.[3] Not only that, first movers who can gain access to the latest technology, like AI and automation, enjoy outsized advantages.[4]

AI enables managers to perform sophisticated predictive analytics to anticipate defaults, rapidly normalize data ingested from disparate sources, standardize it, and deliver instantaneous reports. Advanced technology also helps enhance risk management through machine learning models that spot transaction anomalies.

Advanced tech solutions, however, can be costly for firms to build in-house. When the cost of building is prohibitive, managed services offer a viable alternative.

By working with a third-party service provider, firms — like private credit funds — can tap into the expertise of tech partners who deeply understand asset-based finance. These experts handle the infrastructure, systems, and ongoing updates.

Domain-aware technology supplemented with managed services also allow firms to more rapidly onboard new asset classes. Building in-house tech solutions takes months. Comprehensive, purpose-built data models with pre-built vendor and industry utility connectivity, by contrast, can help you quickly roll out new offerings like ABF without building a system from scratch.

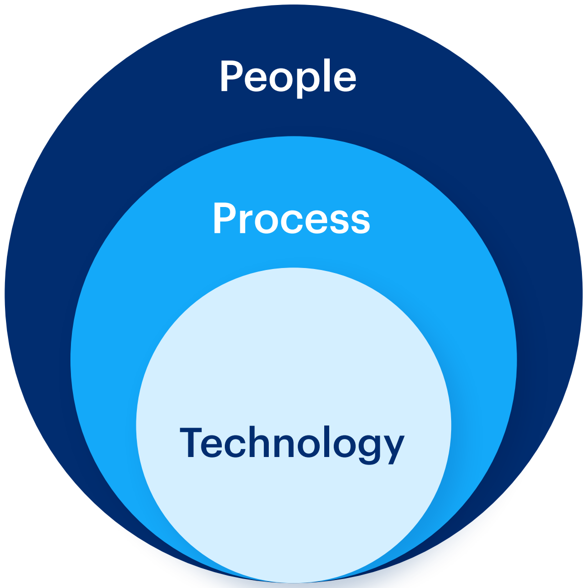
Your roadmap for integrating ABF

We've discussed how onboarding a new asset class necessitates a shift in your people setup, processes, and tech, but before you dive in, ask yourself three questions:

1. **People:** Does our current team have the expertise and capacity we need for data analytics, risk management, and operational oversight in an ABF environment?

2. **Process:** Will our existing workflows burst at the seams under the pressure of ABF's heavy reporting requirements?

3. **Technology:** Can our IT infrastructure handle the data volume and support real-time analytics while integrating disparate data sources?



2. Trump announces private-sector $500 billion investment in AI infrastructure, Reuters, January 21, 2025.
3. Private Credit: Asset-Based Finance Shines as Lending Landscape Evolves, PIMCO, December 10, 2024.
4. Estimating the innovation benefits of first-mover and second-mover strategies, Research Gate, May 2023.

Investing in ABF is a long-term strategic transformation

Asset-based finance introduces a new income stream by tapping into alternative yield sources, gives clients novel types of exposure, and offers some protection from market volatility.

However, like anything, investing in a new asset class doesn't come easily. And ABF isn't just another strategy — it's a complex product that's only now starting to reach its full potential, thanks to advances in technology like powerful automation tools.

To make ABF work, firms need rock-solid processes that keep their data clean, their reporting fast, and risk management bullet-proof. And on the tech side, tools like automation and cloud systems are no longer "optimal" — they are the bare minimum. There's just no way to scale or handle the complexity of asset-based finance today without them.

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