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Understanding Asset-Based Finance

Asset-based finance (ABF) involves lending that is secured by a specific asset. In a fast-evolving private-credit universe, ABF is a $20T+ market that can provide a differentiated source of risk-adjusted return potential for investors.

As of June 30, 2025. SOURCE: PIMCO

A company of Allianz

What is asset-based finance?

Asset-based finance, also known as asset-backed finance, asset-based lending, and specialty finance, refers to private lending that occurs outside of traditional corporate and commercial real estate markets. It helps finance the everyday activities of businesses and consumers, from mortgages to credit cards to public transportation. ABF represents the private-market counterpart to public securitized investments, such as mortgage-backed securities.

ABF loans are often secured by hard assets, such as a house or airplane, or financial collateral like business receivables and intellectual property rights.

Homes Financed with mortgages	**Purchases** Financed with credit cards	**Transportation** Financed with auto loans	**Travel** Leases and loans backed by aircrafts
Entertainment Music and other media royalties	**Construction** Leases and loans backed by equipment	**Education** Financed by student loans	**Data Infrastructure** Financed by private infrastructure debt

These loans are typically classified into two key categories - **consumer-related** (including mortgages, credit card receivables, and auto loans) and **non-consumer-related** (including aviation finance, equipment finance, and small business loans).

SOURCE: PIMCO

For illustrative purposes only. All investments contain risk and may lose value. Diversification does not ensure against loss. The views expressed are those of PIMCO, based on information available to PIMCO, and are subject to change without notice, based on market and other conditions. There can be no assurance that any investment strategy will achieve the investment objectives or that the desired results will be realized.

What makes ABF an area of interest now?

In recent years, higher interest rates, tighter financial conditions, and regional banking turmoil have created challenges for borrowers who previously relied on traditional funding sources like banks. These funding sources have also generally stepped back from certain types of lending amid the challenges they've faced since the Global Financial Crisis as well as new regulations. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act, Basel III, and CECL, which affect loan accounting rules and capital reserve requirements, especially among larger, global, systemically-important banks.

As a result, certain financing activity is shifting from traditional loan providers to alternative lenders, such as institutional investors, private equity firms, and corporate investors. Because alternative lenders are subject to less stringent capital reserve requirements, they can offer more flexible funding solutions to address financing gaps. However, this lower reserve threshold may heighten investor risk by limiting the lender's capacity to absorb losses during periods of financial stress.

What are the potential benefits of asset-based finance?

ABF can add value to investor portfolios in several ways:

Seek Income Generation: from assets with durable cash flows, potentially offering better risk-adjusted returns than other forms of credit

Diversification: of a portfolio's sources of return by potentially complementing corporate private credit exposure. Also, many ABF investments are comprised of thousands of underlying borrowers, vs. a single borrower for a corporate loan

Aim for Downside Mitigation: as underlying assets are often backed by hard or financial assets that may benefit from predictable cash flows

Flexibility to Pursue Opportunities: as loans or assets are repaid, managers can reinvest cash flow toward new investments

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How can an investor use ABF in a portfolio?

Investors may complement, and diversify against, traditional forms of private credit, such as corporate direct lending, through exposure to ABF's varied sectors and granular asset pools. There are three primary ways ABF can potentially complement and diversify corporate direct lending investments:

Borrowers

Consumers, homeowners, aircraft leases, etc. reflect diversified borrower bases distinct from corporate entities.

Collateral Type

ABF often has hard collateral pledged, which can range from single-family homes to aircraft to financial collateral.

Cash Flow Profile

Unlike corporate direct lending, cash flows tend to be front-loaded and include both principal and interest. Amortizing investments self-liquidate and de-risk over time, as principal payments reduce the debt outstanding.

What are the risks?

ABF can offer attractive return potential, but it also comes with important risks—like credit, liquidity, concentration, and legal or regulatory challenges. These investments span different asset classes and might not always meet business goals or deliver expected returns, especially when interest rates change. Since alternative lenders don't have to hold as much capital in reserve, they may be less able to handle losses during tough financial times, which adds risk for investors. For those considering ABF, thorough due diligence, robust risk assessment, and a disciplined, active investment strategy are essential.

For more information on PIMCO's asset-based finance capabilities and investment solutions, visit www.pimco.com/abf.

SOURCE: PIMCO

Past performance is not a guarantee or a reliable indicator of future results.

The investment strategies discussed herein are speculative and involve a high degree of risk, including a loss of some or all capital. Investments in any asset classes described herein may be volatile, and investors should have the financial ability and be willing to accept such risks.

Investments in **asset-based lending and asset-backed instruments** are subject to a variety of risks that may adversely affect the performance and value of the investment. These risks include, but are not limited to, credit risk, liquidity risk, interest rate risk, operational risk, structural risk, sponsor risk, monoline wrapper risk, and other legal risks. Asset-backed securities across various asset classes may not achieve business objectives or generate returns, and their performance can be significantly impacted by fluctuations in interest rates. Investments in **residential and commercial mortgage loans**, as well as **commercial real estate debt**, are subject to risks that include prepayment, delinquency, foreclosure, risks of loss, servicing risks, and adverse regulatory developments. These risks may be heightened in the case of non-performing loans. Investments in **mortgage and asset-backed securities** are highly complex instruments that may be sensitive to changes in interest rates and are subject to early repayment risk. **Structured products**, such as collateralized debt obligations, are also highly complex instruments that typically involve a high degree of risk; the use of these instruments may involve derivative instruments that could result in losses exceeding the principal amount invested. **Private credit** involves investments in non-publicly traded securities, which may be subject to illiquidity risk. Portfolios that invest in private credit may be leveraged and may engage in speculative investment practices that increase the risk of investment loss. Additionally, investments in private credit may be subject to real estate-related risks, which include new regulatory or legislative developments, the attractiveness and location of properties, the financial condition of tenants, potential liability under environmental and other laws, as well as natural disasters and other factors beyond a manager's control. Investing in **banks and related entities** is a highly complex field subject to extensive regulation, and investments in such entities may give rise to control person liability and other risks. Investing in **distressed loans and bankrupt companies** is speculative, and the repayment of default obligations contains significant uncertainties. **High-yield, lower-rated securities** involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. **Collateralized Loan Obligations (CLOs)** may involve a high degree of risk and are intended for sale to qualified investors only. Investors may lose some or all of their investment, and there may be periods during which no cash flow distributions are received. These investments are exposed to risks such as credit, default, liquidity, management, volatility, interest rate, and credit risk.

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