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.

2

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 as either **consumer-related** (including mortgages, credit card receivables, and auto loans) or **non consumer-related** (including aviation finance, equipment finance, and small business loans).



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

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.

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.

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

Certain information contained herein concerning economic trends and/or data is based on or derived from information provided by, in some cases, independent third-party sources. PIMCO believes that the sources from which such information has been obtained are reliable; however, it cannot guarantee the accuracy of such information and may not independently verified the accuracy or completeness of such information or the assumptions on which such information is based.

This material contains the current opinions of the manager and such opinions are subject to change without notice. This material is distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

PIMCO as a general matter provides services to qualified institutions, financial intermediaries and institutional investors. Individual investors should contact their own financial professional to determine the most appropriate investment options for their financial situation. This is not an offer to any person in any jurisdiction where unlawful or unauthorized. | Pacific Investment Management Company LLC, 650 Newport Center Drive, Newport Beach, CA 92660 is regulated by the United States Securities and Exchange Commission. | PIMCO Europe Ltd (Company No. 2604517, 11 Baker Street, London W1U 3AH, United Kingdom) is authorised and regulated by the Financial Conduct Authority (FCA) (12 Endeavour Square, London E20 1JN) in the UK. The services provided by PIMCO Europe Ltd are not available to retail investors, who should not rely on this communication but contact their financial adviser. Since PIMCO Europe Ltd services and products are provided exclusively to professional clients, the appropriateness of such is always affirmed. PIMCO Europe GmbH (Company No. 192083, Seidlstr. 24-24a, 80335 Munich, Germany) is authorized and regulated by the German Federal Financial Supervisory Authority (BaFin) (Marie- Curie-Str. 24-28, 60439). Frankfurt am Main) in Germany in accordance with Section 15 of the German Securities Institutions Act (WplG), PIMCO Europe GmbH Italian Branch (Company No. 10005170963, Via Turati nn. 25/27 (angolo via Cavalieri n. 4) 20121 Milano, Italy), PIMCO Europe GmbH Irish Branch (Company No. 909462, 57B Harcourt Street Dublin D02 F721, Ireland), PIMCO Europe GmbH UK Branch (Company No. FC037712, 11 Baker Street, London W1U 3AH, UK), PIMCO Europe GmbH Spanish Branch (N.I.F. W2765338É, Paseo de la Castellana 43, Oficina 05-111, 28046 Madrid, Spain), PIMCO Europe GmbH French Branch (Company No. 918745621 R.C.S. Paris, 50-52 Boulevard Haussmann, 75009 Paris, France) and PIMCO Europe GmbH (DIFC Branch) (Company No. 9613, Unit GD-GB-00-15-BC-05-0, Level 15, Gate Building, Dubai International Financial Centre, United Arab Emirates) are additionally supervised by: (1) Italian Branch: the Commissione Nazionale per le Società e la Borsa (CONSOB) (Giovanni Battista Martini, 3 - 00198 Rome) in accordance with Article 27 of the Italian Consolidated Financial Act; (2) Irish Branch: the Central Bank of Ireland (New Wapping Street, North Wall Quay, Dublin 1 D01 F7X3) in accordance with Regulation 43 of the European Union (Markets in Financial Instruments) Regulations 2017, as amended; (3) UK Branch: the Financial Conduct Authority (FCA) (12 Endeavour Square, London E20 1JN); (4) Spanish Branch: the Comisión Nacional del Mercado de Valores (CNMV) (Edison, 4, 28006 Madrid) in accordance with obligations stipulated in articles 168 and 203 to 224, as well as obligations contained in Tile V, Section I of the Law on the Securities Market (LSM) and in articles 111, 114 and 117 of Royal Decree 217/2008, respectively, (5) French Branch: ACPR/Banque de France (4 Place de Budapest, CS 92459, 75436 Paris Cedex 09) in accordance with Art. 35 of Directive 2014/65/EU on markets in financial instruments and under the surveillance of ACPR and AMF and (6) DIFC Branch: Regulated by the Dubai Financial Services Authority ("DFSA") (Level 13, West Wing, The Gate, DIFC) in accordance with Art. 48 of the Regulatory Law 2004. The services provided by PIMCO Europe GmbH are available only to professional clients as defined in Section 67 para. 2 German Securities Trading Act (WpHG). They are not available to individual investors, who should not rely on this communication. According to Art. 56 of Regulation (EU) 565/2017, an investment company is entitled to assume that professional clients possess the necessary knowledge and experience to understand the risks associated with the relevant investment services or transactions. Since PIMCO Europe GMBH services and products are provided exclusively to professional clients, the appropriateness of such is always affirmed. PIMCO (Schweiz) GmbH (registered in Switzerland, Company No. CH-020.4.038.582-2, Brandschenkestrasse 41 Zurich 8002, Switzerland). According to the Swiss Collective Investment Schemes Act of 23 June 2006 ("CISA"), an investment company is entitled to assume that professional clients possess the necessary knowledge and experience to understand the risks associated with the relevant investment services or transactions. Since PIMCO (Schweiz) GmbH services and products are provided exclusively to professional clients, the appropriateness of such is always affirmed. The services provided by PIMCO (Schweiz) GmbH are not available to retail investors, who should not rely on this communication but contact their financial adviser. PIMCO Asia Pte Ltd (8 Marina View, #30-01, Asia Square Tower 1, Singapore 018960, Registration No. 199804652K) is regulated by the Monetary Authority of

PIMCO

Singapore as a holder of a capital markets services licence and an exempt financial adviser. The asset management services and investment products are not available to persons where provision of such services and products is unauthorised. | PIMCO Asia Limited (Suite 2201, 22nd Floor. Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong) is licensed by the Securities and Futures Commission for Types 1, 4 and 9 regulated activities under the Securities and Futures Ordinance. PIMCO Asia Limited is registered as a cross-border discretionary investment manager with the Financial Supervisory Commission of Korea (Registration No. 08-02-307). The asset management services and investment products are not available to persons where provision of such services and products is unauthorised. | PIMCO Investment Management (Shanghai) Limited. Office address: Suite 7204, Shanghai Tower, 479 Lujiazui Ring Road, Pudong, Shanghai 200120, China (Unified social credit code: 91310115MA1K41MU72) is registered with Asset Management Association of China as Private Fund Manager (Registration No. P1071502, Type: Other). | **PIMCO Australia Pty Ltd** ABN 54 084 280 508, AFSL 246862. This publication has been prepared without taking into account the objectives, financial situation or needs of investors. Before making an investment decision, investors should obtain professional advice and consider whether the information contained herein is appropriate having regard to their objectives, financial situation and needs. To the extent it involves Pacific Investment Management Co LLC (PIMCO LLC) providing financial services to wholesale clients, PIMCO LLC is exempt from the requirement to hold an Australian financial services licence in respect of financial services provided to wholesale clients in Australia. PIMCO LLC is regulated by the Securities and Exchange Commission under US laws, which differ from Australian laws. | PIMCO Japan Ltd, Financial Instruments Business Registration Number is Director of Kanto Local Finance Bureau (Financial Instruments Firm) No. 382. PIMCO Japan Ltd is a member of Japan Investment Advisers Association, The Investment Trusts Association, Japan and Type II Financial Instruments Firms Association. All investments contain risk. There is no guarantee that the principal amount of the investment will be preserved, or that a certain return will be realized; the investment could suffer a loss. All profits and losses incur to the investor. The amounts, maximum amounts and calculation methodologies of each type of fee and expense and their total amounts will vary depending on the investment strategy, the status of investment performance, period of management and outstanding balance of assets and thus such fees and expenses cannot be set forth herein. | PIMCO Taiwan Limited is an independently operated and managed company. The reference number of business license of the company approved by the competent authority is (112) Jin Guan Tou Gu Xin Zi No. 015. The registered address of the company is 40F., No. 68, Sec. 5, Zhongxiao East Rd., Xinyi District, Taipei City 110, Taiwan (R.O.C.), and the telephone number is +886 2 8729-5500. | PIMCO Canada Corp. (199 Bay Street, Suite 2050, Commerce Court Station, P.O. Box 363, Toronto, ON, M5L 1G2) services and products may only be available in certain provinces or territories of Canada and only through dealers authorized for that purpose. | Note to Readers in Colombia: This document is provided through the representative office of Pacific Investment Management Company LLC located at Carrera 7 No. 71-52 TB Piso 9, Bogota D.C. (Promoción y oferta de los negocios y servicios del mercado de valores por parte de Pacific Investment Management Company LLC, representada en Colombia.). Note to Readers in Brazil: PIMCO Latin America Administradora de Carteiras Ltda. Av. Brq. Faria Lima, 3477 İtaim Bibi, São Paulo - SP 04538-132 Brazil. Note to Readers in Argentina: This document may be provided through the representative office of PIMCO Global Advisors LLC AVENIDA CORRIENTES, 299, Buenos Aires, Argentina. | No part of this publication may be reproduced in any form, or referred to in any other publication, without express written permission. PIMCO is a trademark of Allianz Asset Management of America LLC in the United States and throughout the world. @2025, PIMCO.