

Unlocking the next frontier of private credit: The rise of asset-based finance and other alternative credit verticals

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As private credit continues to evolve, the market is entering a new phase – one defined less by beta-driven yield compression and more by alpha generation through complexity, structure, and specialization. The broad private credit boom of the past decade has created strong tailwinds for direct lending, but with traditional middle-market direct lending now well-established in investor asset allocation frameworks, capital is rotating toward harder-to-access and structurally more unique segments.

For this piece, we will focus on alternative credit, with an emphasis on two areas: asset-based finance (“ABF”) and other alternative credit verticals. These segments sit at the intersection of secular bank retrenchment, regulatory arbitrage, and the growing appetite among institutions and private wealth for income-generating, differentiated exposures with diversified return streams relative to both traditional public and private assets.

From direct lending to specialized credit

The last decade of growth in private credit was largely dominated by corporate direct lending – senior secured loans to sponsor-backed middle-market borrowers. This segment grew rapidly as banks pulled back from traditional lending and private equity sponsors sought scalable, flexible financing solutions.

But as that space matured, spreads compressed, leverage became more expensive and returns normalized. While we still view the space as attractive given healthy spread levels of 500+ basis points over the Secured Overnight Financing Rate (SOFR), we believe it is prudent to start adding diversified sources of income to complement current allocations and enhance portfolio resiliency. The shift in the opportunity set is prompting a strategic pivot: rather than pursuing similar types of credit risk, investors are now looking to exploit complexity premiums, capitalize on origination scarcity, and build exposure to assets with cash flow visibility and hard collateral.

Asset-based finance: Systemic tailwinds and structural advantages

Asset-based finance broadly refers to lending strategies secured by pools of identifiable financial or real assets – ranging from consumer receivables, equipment leases, and aircraft, to litigation finance, royalties, and insurance-linked cash flows. These loans are typically non-mark-to-market, amortizing, and feature strong asset coverage.

The growth in ABF is being driven by three converging factors:

1. **Bank retrenchment:** Regulatory capital requirements (Basel III¹, Basel IV², stress testing) and liquidity coverage ratios have led banks to curtail lending in structured or esoteric asset classes – even those with strong credit fundamentals. Banks are increasingly opting to originate and distribute (or not originate at all), opening the door for private capital to step in.

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1. Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision in response to the financial crisis of 2007-09. It aims to strengthen the regulation, supervision and risk management of banks. Source: Bank for International Settlements.
 2. Basel IV refers to the set of capital rules finalized by the Basel Committee in December 2017 as part of the finalization of Basel III. It aims to enhance the bank capital framework through significant revisions to the treatment of credit risk, market risk, operational risk, and credit valuation adjustment (CVA) risk. The new rules also introduce an output floor to limit the extent to which banks can use internal models to reduce capital requirements for credit and market risk. Source: KPMG

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2. **Capital efficiency:** For institutional investors, especially insurance and liability-driven pools, ABF offers short- to medium-duration cash flows, low mark-to-market volatility, and natural alignment with asset-liability matching. The securitized nature of ABF allows for creative structuring, overcollateralization, and tranching to meet yield or risk appetite targets.
3. **Origination scarcity:** Unlike sponsor-backed lending, where origination is broadly intermediated, ABF platforms often require bespoke sourcing networks, domain expertise, and operational capabilities. This creates high barriers to entry and enables first movers or scaled platforms to secure deal flow and defensible economics.

Examples of ABF opportunities

- **Consumer & small and medium-sized enterprise (SME) lending platforms:** Fintech lenders with strong underwriting algorithms but limited balance sheet capacity. Private credit funds can provide warehouse lines or forward flow arrangements with structural protections and performance triggers.
- **Transportation finance:** Lending against aircraft, railcars, or marine vessels with long-term lease agreements. With traditional export credit agencies and bank balance sheets retreating, private lenders can step into underwritten, collateral-rich deals.
- **Insurance-linked premium finance:** Short-duration loans backed by policy premiums, often with low default risk and high recovery visibility.
- **Trade finance and supply chain receivables:** Lending against accounts receivable in well-structured programs with tier-one corporates. Banks have pulled back due to compliance burdens and capital charges, creating alpha for private players who can navigate the ecosystem.
- **Royalty streams and IP-backed credit:** Loans secured by predictable, contractual payments from intellectual property – whether pharmaceuticals, music, or software licenses.

Each of these verticals is characterized by information asymmetry, origination complexity, and collateral-backed structures – distinct from the traditional direct lending opportunity set.

Other alternative credit verticals: Complexity creates opportunity

If ABF is about structure and collateral, other alternative vertical credits are more about specialization and insight. These are areas where the underlying creditworthiness depends on understanding industry-specific dynamics, contractual nuances, and regulatory frameworks.

While the risk/return profiles vary, what unifies these strategies is limited institutional saturation and return potential driven by insight rather than broad market beta.

Examples of other alternative credit verticals

- **Litigation finance:** Non-recourse lending to plaintiffs or law firms with expected settlements. Returns are high, duration is idiosyncratic, and risk is uncorrelated—but requires deep underwriting and case law knowledge.
- **Music & media royalties:** Lending against catalog income streams with decades of cash flow history and contractual stickiness. This vertical combines IP analytics with credit structuring, ideal for investors seeking income from “passive” creative assets.
- **Healthcare-related lending:** Financing against medical receivables, equipment leases, or clinic roll-ups. The idiosyncratic reimbursement dynamics require underwriting depth but offer stable cash flows.
- **Fund finance (NAV lending, general partner (GP) financing):** Providing leverage at the fund or GP level secured by the NAV of underlying portfolios. This niche has expanded as private market sponsors seek flexible liquidity tools beyond limited partners (LP) capital.

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- **Venture lending:** Lending to late-stage, venture-backed companies, often those with positive cash flows. As the U.S. IPO market has decelerated, these companies have opted to tap the debt market as opposed to raising additional equity financing, especially if the company is at risk of a “down round”. This space was previously dominated by Silicon Valley Bank, so there is a sizable market opportunity for emerging players.

Differentiation through origination

These strategies require not just capital, but origination capability and underwriting discipline. Investors who can partner with experienced operators, platform lenders, or specialist GPs are best positioned to access these niches. Scale is helpful but not sufficient – the edge lies in knowing which assets to look for, how to structure them, and how to monitor loan performance.

What’s driving demand?

There are several secular drivers increasing institutional interest in ABF and other niche verticals:

- **Yield premium:** These strategies often offer 650-1000bps spread over SOFR (150-400bps spread over direct lending)³, with lower correlation to credit cycles and less crowded capital stacks
- **Structural risk protection:** Most transactions feature hard collateral, amortizing payments, covenants, and overcollateralization. Many investors prefer this to covenant-lite structures common in other private credit structures and adjacent categories.
- **Duration management:** ABF and structured credit exposures tend to offer short- to medium-duration cash flows, helping investors manage reinvestment risk and interest rate sensitivity.
- **Diversification:** Given their low correlation to equities, traditional credit, or public markets, these segments enhance portfolio construction. Their return drivers are often contractual or asset-based, not tied to macro beta.
- **Customization:** Institutional and private wealth clients increasingly seek tailored exposures – across risk/return targets, asset types, and geographies. ABF allows investors to “dial in” the exposure they want.

Bank retrenchment: A structural realignment

At the heart of this evolution is the withdrawal of banks from traditional credit markets. This isn’t just cyclical – it’s structural. Regulatory tightening post-2008, and more recently under Basel III and IV, has increased the cost of capital for certain types of lending. Banks are now required to hold more capital against loans with complexity, illiquidity, or perceived risk – even if those loans are ultimately low loss-given-default.

This is particularly evident in:

- Commercial real estate, especially non-core sectors or transitional assets
- Structured credit, where banks have reduced balance sheet exposure
- Middle-market and SME lending, where underwriting complexity no longer justifies balance sheet usage
- Trade and supply chain finance, due to compliance and capital burdens

As banks pull back, non-bank lenders, asset managers, and private capital platforms are stepping in – creating a secular opportunity to rewire how credit is distributed, originated, and priced.

We see this not just in the U.S., but also in Europe and increasingly in Asia, where regulatory capital treatment and state-directed lending priorities are creating similar dislocations.

3. Source: Invesco Solutions, views as of August 20, 2025. For illustrative purposes only.
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The role of private wealth and family offices

Private credit is no longer a purely institutional play. Increasingly, private wealth platforms, family offices, and high-net-worth investors are looking to access these strategies for income, diversification, and real asset linkage.

Asset-based finance and other niche verticals offer a compelling narrative for this audience:

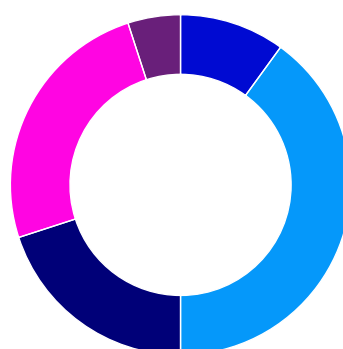
- They are understandable – investors can intuitively grasp lending against royalties, aircraft, or receivables.
- They offer contractual cash flows, which are attractive in volatile markets.
- They bring real economy exposure without public market correlation.

The challenge is access: these strategies are often capacity-constrained, operationally complex, and best accessed through institutional-grade platforms that offer scale, risk management, and reporting.

How does this fit into a private credit portfolio?

As portfolio constructionists, the next integral step after identifying asset class opportunities is to properly integrate these assets into a portfolio of public and private assets. We believe alternative credit categories serve as a strong complement to other core private credit asset classes and adjacent exposures such as direct lending, broadly syndicated loans, collateralized loan obligations (CLOs), and distressed credit.

Private credit portfolio allocation



	%
■ Asset Backed Finance (0-10%)	10
■ Direct Lending (40-60%)	40
■ Broadly Syndicated (20-40%)	20
■ Opportunistic Credit (10-30%)	25
■ Structured Credit (0-10%)	5

* For illustrative purposes.

Conclusion: Specialization is the new edge

Private credit has moved beyond its early phase of growth. The next frontier is not just about deploying capital – it's about deploying insight. Asset-based finance and other niche vertical alternative credit strategies represent a structural opportunity to generate alpha through origination, specialization, and underwriting edge.

For investors, the key is platform selection: identifying managers with the sourcing relationships, operational infrastructure, and structuring expertise needed to extract value from complexity.

As banks continue to retrench and capital becomes more specialized, we believe these strategies will play an increasingly central role in portfolio construction – across institutions, insurers, and private wealth.

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