

## What is asset-backed finance (ABF)?

A form of private lending secured by cash-flowing contracts backed by diverse underlying assets

## ABF is a key part of the larger private credit universe

#### **Private Credit Universe**

Direct lending	Mezzanine financing	Asset-backed finance	Opportunistic lending	Distressed debt
Senior debt issued to founder-owned or private equity-owned businesses, often to assist with growth capital.	Junior debt situated between senior debt and equity, often used to finance leveraged buyouts, recapitalizations and corporate acquisitions.	Specialty lending where the loan is collateralized by the company's assets, cash or receivables.	Lending to performing companies with acute financing needs (e.g., liquidity or maturities).	Discounted financing to companies facing financial distress, such as possible insolvency, or bankruptcy.

Private ABF finances the lenders while the lenders finance the end borrowers.



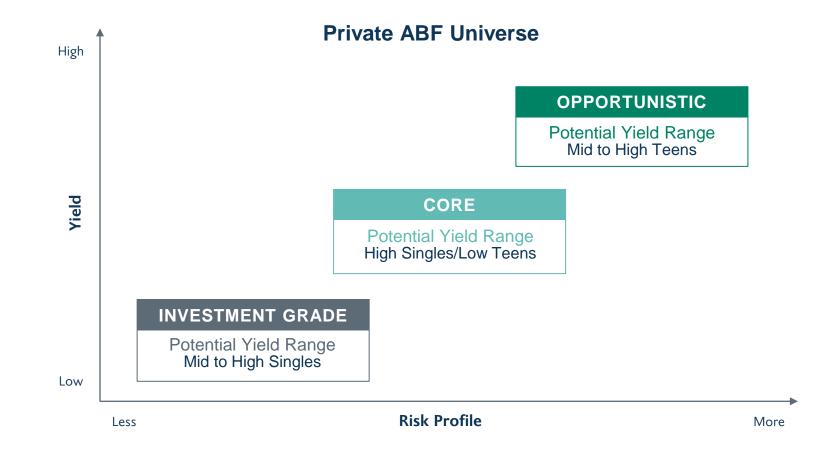
## The private ABF investment universe

### A growing core market presents compelling investment opportunities

**Investment Grade**: Senior financing with lower risk, typically supported by insurers and banks relying on investment-grade ratings (BBB- or higher).

**Core**: Often unrated; focused on income from asset cash flows; yields similar to or slightly above first-lien loans. May include higher-risk features like junior debt or equity for enhanced return potential.

**Opportunistic**: Higher-risk opportunities that often come with equity or junior debt participation. Targeting higher returns and potential long-term capital appreciation.





## ABF fuels the global economy

It supports everyday activities, to help keep our lives moving

The home you live in



**MORTGAGES** 

The data centers that power your workday



DATA CENTER LEASES

The hit songs you have on replay



MUSIC ROYALTY STREAMS

The credit card you use for your summer vacation



CREDIT CARD RECEIVABLES

The plane that takes you there



AIRCRAFT LEASES

For illustrative purposes only. Not indicative of ABIF portfolio allocation. Diversification does not guarantee a profit or protect against loss.



# Three key ABF asset types underscore its importance in the global economy

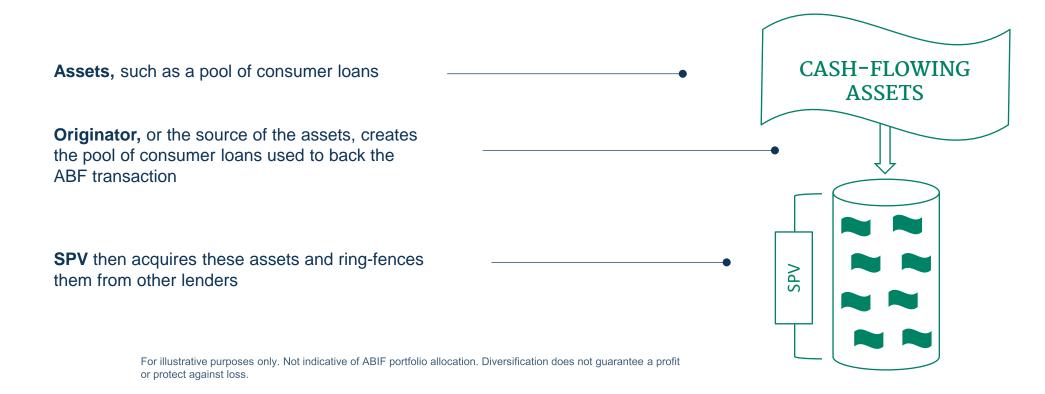
Asset Type	Examples	Collateral	Recurring Cash Flows
Hard Assets	Tangible or physical assets	<ul><li>Aircraft</li><li>Equipment leases</li><li>Infrastructure assets</li></ul>	<ul><li>Long-term leases</li><li>Rental payments</li><li>Take-or-pay contracts</li></ul>
Financial Assets	Pools of leases or mortgages	<ul><li>Auto loans</li><li>Residential mortgages</li><li>Business and consumer loans</li></ul>	<ul><li>Monthly car payments</li><li>Lease payments</li><li>Debt servicing</li></ul>
	NAV lending	LP interests	GP commitments
Intellectual Property	Cash flow-producing assets	Music royalties	Streaming revenue



## How does ABF work?

## ABF financings often use SPVs to pool and protect assets

Special-purpose vehicles (SPV) separate assets from company debts to limit the potential impact of default



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## SPVs enable tailored investment exposure

Capture relative value up and down the capital structure to achieve risk-adjusted return objectives

Buy Assets (without leverage)	Senior Lending	Mezzanine Lending	Buy Assets (with leverage)
Buy portfolio of assets or whole loan "pools"	Make senior loan secured by portfolio of assets	Make non-senior loan secured by portfolio of assets, with others (typically equity holders) in the first-loss position	Buy assets and borrow against the portfolio to seek enhanced returns

Illustrative selection of investment formats; not comprehensive of all formats available within the ABF universe. While senior debt typically offers greater security and priority in bankruptcy scenarios, mezzanine debt carries higher risk due to its subordinate status and limited collateral. All opinions are subject to change without notice and should not be interpreted as forecasts or assurances.



## A variety of asset types diversifies income streams



#### FINANCIAL ASSETS

Typically self-liquidating, cash flow-generating assets such as loans, leases or receivables



#### HARD ASSETS

Physical, tangible assets such as infrastructure, equipment, or aircraft



#### INTELLECTUAL PROPERTY

Intangible assets with licensing income such as patents, trademarks, copyrights or royalties



# Three examples of ABF in action

## 1. Financial assets underpin many everyday consumer loans









**BORROWERS** 



HOME IMPROVEMENT LOAN ORIGINATIONS



PRIVATE ABF FINANCING



COLLATERALIZED BY A POOL OF CASH-FLOWING ASSETS

Many homeowners require urgent, costly roof repairs.

They often seek loans to cover these improvements.

LendCo originates loans to homeowners, stepping in where banks have pulled back.

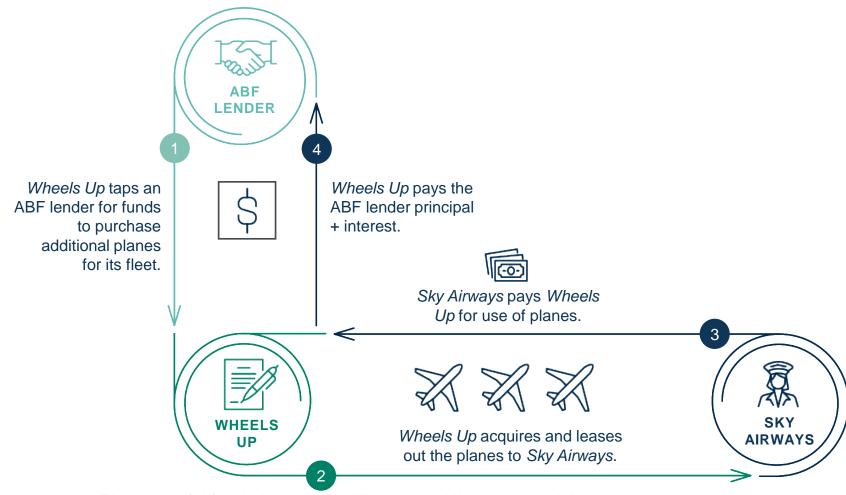
To meet rising demand, LendCo seeks additional funding to expand its lending capacity.

LendCo partners with a private ABF lender for a flexible financing solution tailored to its business model.

Regular loan repayments generate the cash flow used to repay the ABF lender. LendCo pools hundreds of loans into an SPV to collateralize the ABF lender's financing, providing added legal protections and cash controls.

This case study is for informational purposes only and illustrates a potential investment process. It does not constitute a recommendation or investment advice and should not be relied upon for investment decisions. The views expressed are those of Brookfield Oaktree Wealth Solutions and are for illustrative purposes only.

## 2. Hard assets help unlock flexible financing in capitalintensive industries





# 3. Intellectual property can secure funding while preserving future rights





Echo owns a music catalog (IP) that generates royalties from streaming platforms. It seeks to protect long-term rights while expanding the label to sign more artists. It requires funding for its expansion.



SOUND BRIDGE LOAN FACILITATOR

Sound Bridge originates loans to record labels by pooling IP assets like streaming rights. Sound Bridge seeks an ABF lender to provide capital for a loan to Echo.



PRIVATE ABF LENDER

ABF lender provides a flexible financing solution collateralized by the SPV. The loan is tailored to *Sound Bridge's* business model.



RING-FENCED MUSIC RIGHTS AND CASH FLOWS

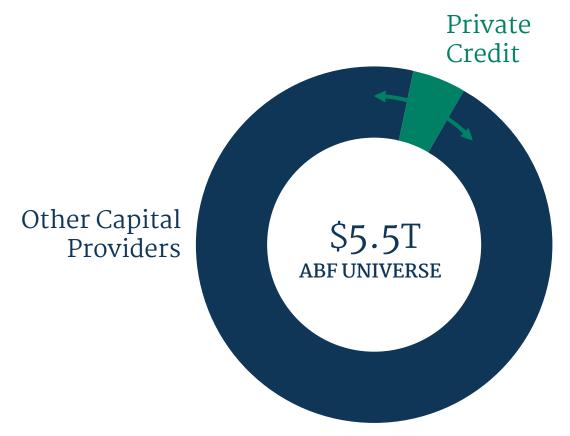
SPV ring-fences music rights, protecting them from risk of *Echo* bankruptcy or legal claims. Regular principal and interest payments on the assets generate the cash flow to repay the ABF lender.

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# Why is the ABF opportunity growing?

## Private lenders are increasingly important in ABF

Banks have been vacating the ABF market due to regulatory environment, risk aversion, and shrinking bank balance sheets.



Today, private lenders account for less than 5% of the \$5.5 trillion ABF universe. But, with banks retreating, private lenders are expected to gain share rapidly.



## Market tailwinds keep expanding the ABF opportunity



#### BANKS RETREATING

- · Higher regulatory requirements, risk aversion, and shrinking balance sheets are prompting banks to shrink their ABF footprint
- This shift is expanding the opportunity set for non-bank lenders



#### **UNCROWDED MARKET**

- Hedge funds prefer assets with greater liquidity than ABF can often offer
- Insurers favor investments typically found in investment-grade-rated opportunities
- Private equity typically pursues more aggressive risk/return profiles



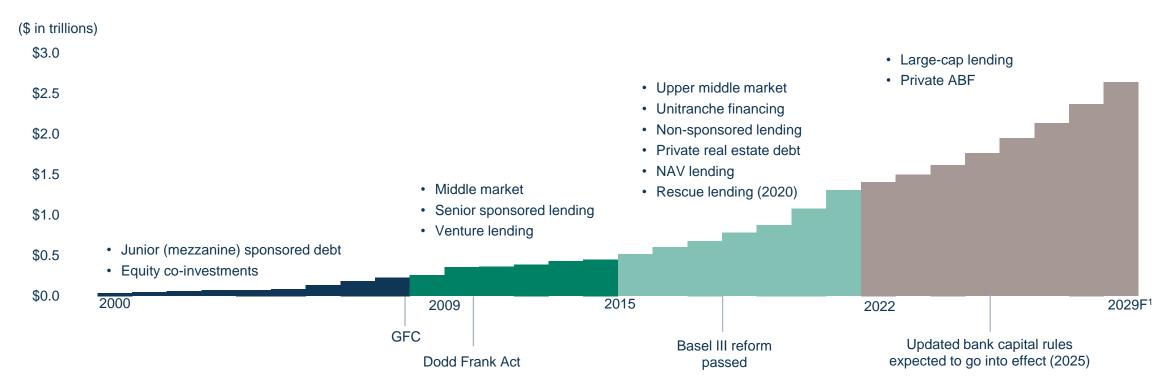
#### **BORROWER DEMAND**

- Reduced competition creates an opportunity for non-bank lenders to capitalize on their market advantage
- Greater influence in loan negotiations can lead to higher yield spreads and stronger lender protections

All expressions of opinion are subject to change without notice and are not intended to be a forecast of future events or results. There can be no assurance that historical trends will continue during the life of any Oaktree investment vehicle. Competitive advantages in asset-based finance markets may not persist over time. Market conditions can change rapidly, competition may increase, and other market participants may develop similar capabilities. Any benefits from reduced competition are not guaranteed and may be offset by other market factors, increased credit risks, or changing market dynamics. Historical competitive conditions may not continue.

## Regulatory shifts are fueling the rise in alternative lenders

### Private ABF is benefiting substantially



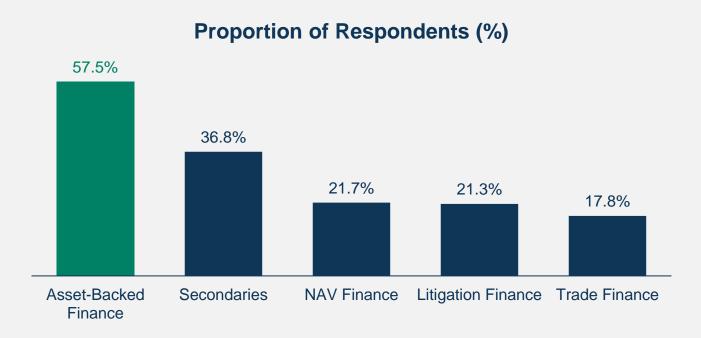
There is no assurance that such events or projections will occur, and actual outcomes may be significantly different than those shown here. 1. Based on assumption that Global Private Credit will grow at a compound annual growth rate of 9.88% (Preqin's projected growth rate for global private credit) between 2023 and 2029 (forecasted).



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## Favorable market trends are driving demand for ABF

#### ABF is the most favored emerging strategy



58% of investors indicated they would prioritize ABF strategies in 2025, underscoring the growing interest in this space.

There is no assurance that such events or projections will occur, and actual outcomes may be significantly different than those shown here. Source: Preqin Investor Outlook, H2 2024. As of June 2024. Preqin survey asked investors: "What types of emerging private debt funds do you think will present the best opportunities in the next 12 months?"



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# ABF in your portfolio

## Key potential benefits of ABF

With less direct correlation to the market and insulation from the health of the originator or service, ABF can offer several potential benefits to a portfolio:



 Cash flows from underlying assets support consistent income

INCOME

 Less competition can lead to stronger returns and better deal terms



#### **RISK MITIGATION**

- Bankruptcy-remote structures include protections to help limit downside risk
- Investments are backed by real, cash-generating assets



#### **DIVERSIFICATION**

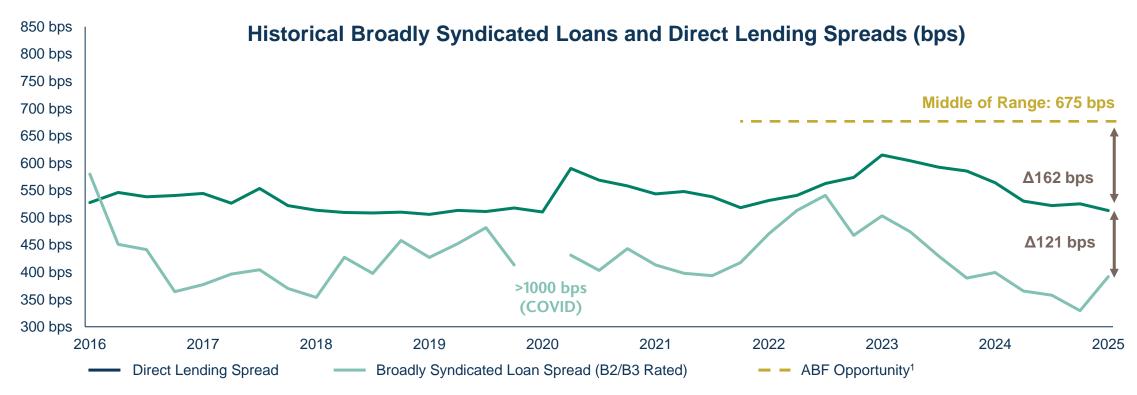
- Differentiated exposure beyond traditional corporate credit
- A wide range of asset types further reduces sector correlation

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## Unlock higher yield potential with ABF

Less crowded markets and complexity premiums can help drive stronger returns



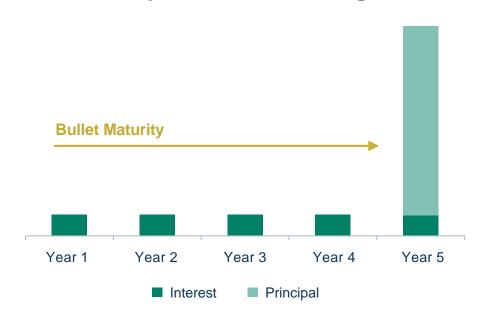
As of March 31, 2025. Source: BofA Global Research. The chart shows first-lien margin for Direct Lending loans and BSL first-lien margins for B2 and B3 BSL as separate lines on a quarterly basis from 2016 through December 2024. Currently, DL 1L Margin stands at 525.2 bps and BSL first-lien margin for B2 and B3 stands at 329.0 bps. 1. Based on Oaktree's observations. Higher spreads typically reflect higher credit risk and do not guarantee higher actual returns. Comparative spread advantages may not persist over time, and spread potential does not ensure actual performance outcomes. Investment decisions should not be based solely on spread comparisons between different strategies.



## Reduced potential risk exposure with amortized payments

Like your mortgage, ABF borrowers pay both principal and interest over time

#### **Illustrative Corporate Direct Lending Transaction**



Reliant on capital markets exit, refinancing or sale

#### **Illustrative Asset-Based Private Credit Transaction**



Reduced exit risk: Substantially self-amortizing due to profile of underlying assets

For informational and illustrative purposes only.



## How ABF complements corporate private credit:

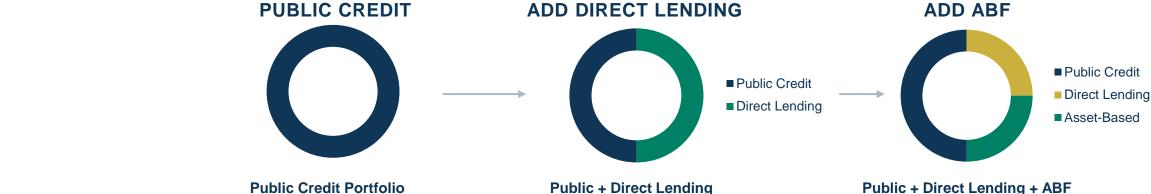
DIRECT LENDING <sup>1</sup>		ASSET-BACKED FINANCE <sup>2</sup>
Corporate credit	Collateral	Consumer, corporate, equipment, real estate, infrastructure & energy
No	Self-Liquidating	Yes
Tailored corporate cash flow	Underwriting	Specialized asset expertise
Subject to bankruptcy process	Structural Protection	Enhanced protections/non-recourse SPVs
Refinancing exit	De-Risking Assets	Contractual cash flows
Medium	Market Competition	Low
Low-mid teens	Yield Potential	Low-mid teens (junior) High singles (senior)
Medium	Correlation to Other Indices	Low

Source: Cliffwater, Oaktree. 1. Corporate Direct Lending represented by Cliffwater Direct Lending Index. The indexes are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. 2. Asset-Backed Finance represents Oaktree estimates based on internal data. Returns based on a broad range of private deals and internal assessment of return profile are shown for illustrative and informational purposes only and are subject to change without notice.



# A reimagined credit allocation may include public and private credit

Diversifying with ABF and direct lending has demonstrated yield, spread and risk advantages



	Public Credit Portfolio	Public + Direct Lending	Public + Direct Lending + ABF
Gross Yield	6.06%	6.58%	7.10%
Gross Spread	195 bps	262 bps	318 bps
<b>Expected Credit Loss</b>	0.57%	0.47%	0.40%
Average Credit Rating	BB+	BB+	BB+

Past performance does not guarantee future results. Past performance shown for illustrative purposes only and does not predict or depict the future performance of any investment. Indexes are unmanaged and cannot be purchased directly by investors. The metrics shown are hypothetical and intended for illustrative purposes only. They do not represent actual or projected investment results and should not be relied upon as predictions of future performance. "Public Credit" is based on an illustrative portfolio comprising a 70% allocation to the ICE BofA U.S. Corporate Index, and a 30% allocation to the ICE BofA US High Yield Index, "Public + Direct Lending" represents an illustrative portfolio comprising a 35% allocation to Private Investment-Grade Corporates and a 15% allocation to Direct Lending based on representative spreads and yields. "Public + Direct Lending + ABF" represents an illustrative portfolio comprising a 35% allocation to the ICE BofA U.S. Corporate Index, a 15% allocation to the ICE BofA U.S. High Yield Index, a 17.5% allocation to Private Investment-Grade Corporates, a 7.5% allocation to Direct Lending, a 17.5% allocation to Investment-Grade Asset-Based Finance based on representative spreads and yields. As of April 30, 2025. The chart compares select credit allocation strategies but omits several material factors that may significantly impact investment decisions. Differences in liquidity constraints, management fees, tax treatment, and risk considerations are not fully reflected and should be carefully evaluated before investing.



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# When alternatives are the answer, we help with the questions

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## Appendix: Key Terms

**Attach/Detach**: The percentage of the loan balance at which a lender's risk begins (attach) and ends (detach) in the capital structure.

Basel III Reform: A comprehensive set of international banking regulations developed by the Basel Committee on Banking Supervision in response to the 2007–2009 Global Financial Crisis. Basel III aims to strengthen bank capital requirements, improve risk management, and enhance liquidity standards to promote financial system stability.

**bps (basis points)**: A unit of measure for interest rates and other percentages in finance, where 100 basis points equal 1%.

**GFC (Global Financial Crisis):** A severe worldwide economic crisis that occurred in 2007–2008, triggered by the collapse of the U.S. housing market and the failure of major financial institutions. It led to widespread credit tightening, sharp declines in consumer wealth, and global recession. The crisis exposed systemic risks in financial markets and prompted significant regulatory reforms and government interventions.

**Interval fund**: An investment fund that periodically offers to repurchase its shares from investors, providing limited liquidity.

**Leverage**: The use of borrowed money to increase the potential return of an investment, which also increases risk.

**Mezzanine lending**: Loans that are subordinate to senior loans, carrying higher risk and potential return.

**Senior lending**: Loans with the highest priority of repayment in the event of default.

**SOFR (Secured Overnight Financing Rate)**: A benchmark interest rate used for U.S. dollar-denominated loans.

**SPV** (special-purpose vehicle): A separate legal entity created to isolate financial risk and protect investors in case the original asset owner faces financial trouble.



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#### **Private Credit Risks**

All investing involves risk. The value of an investment will fluctuate over time, and an investor may gain or lose money, or the entire investment. Past performance is no guarantee of future results.

As an asset class, private credit comprises a large variety of different debt instruments. While each has its own risk and return profile, private credit assets generally have increased risk of default, due to their typical opportunistic focus on companies with limited funding options, in comparison to their public equivalents.

Because private credit usually involves lending to below-investmentgrade or non-rated issuers, yield on private credit assets is increased in return for taking on increased risk.

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#### **Index Definitions**

Cliffwater Direct Lending Index (CDLI): An asset-weighted index of directly originated U.S. middle market loans, designed to benchmark private loan performance and characteristics. It covers ~19,000 loans totaling \$465 billion in assets.

Credit Suisse Leveraged Loan Index: Mirrors the investable universe of U.S. dollar-denominated senior secured leveraged loans issued to below-investment-grade borrowers.

Credit Suisse Western European Leveraged Loan Index: Represents the leveraged loan market in Western Europe, including loans from issuers with assets or revenues in the region.

FTSE U.S. High-Yield Market Capped Index: Measures the performance of U.S. dollar-denominated high-yield corporate debt, capping issuer exposure and delaying inclusion of downgraded investment-grade bonds.

ICE BofA Merrill Lynch Global High Yield European Issuers Non-Financial 3% Constrained Ex Russia Index: Tracks eurodenominated high-yield corporate debt from non-financial European issuers, excluding Russian exposure and capping issuer weights at 3%.

ICE BofA US Bullet Agency Index: Represents U.S. dollar-denominated bullet (non-callable) agency securities issued in the domestic market.

ICE BofA US Corporate Index: Tracks the performance of U.S. dollardenominated investment-grade corporate debt publicly issued in the U.S. domestic market.

ICE BofA US Mortgage-Backed Securities Index: Measures the performance of fixed-rate and hybrid residential mortgage pass-through securities issued by U.S. agencies.

ICE BofA US Treasury Index: Captures the performance of U.S. Treasury securities across maturities, reflecting interest rate sensitivity and credit quality of government debt.

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