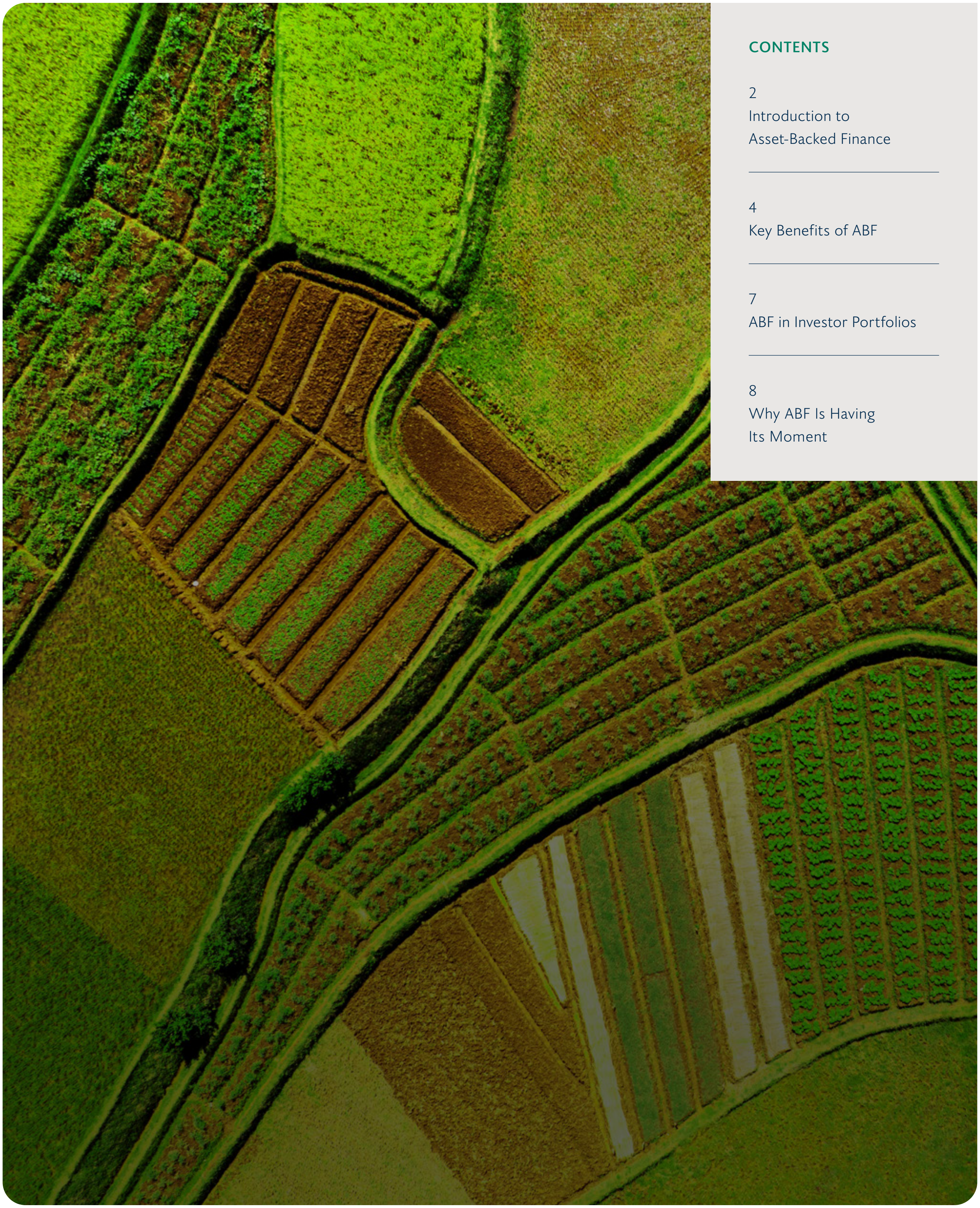
The Alts Institute

Understanding Asset-Backed Finance

Brookfield | OAKTREE
WEALTH SOLUTIONS



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Introduction to Asset-Backed Finance

At a time of growing economic and market uncertainty, investors are seeking ways to strengthen their portfolios, boost diversification, and produce steady income. Increasingly, they are turning to asset-backed finance (ABF), a growing and important part of private credit investing, as a solution.

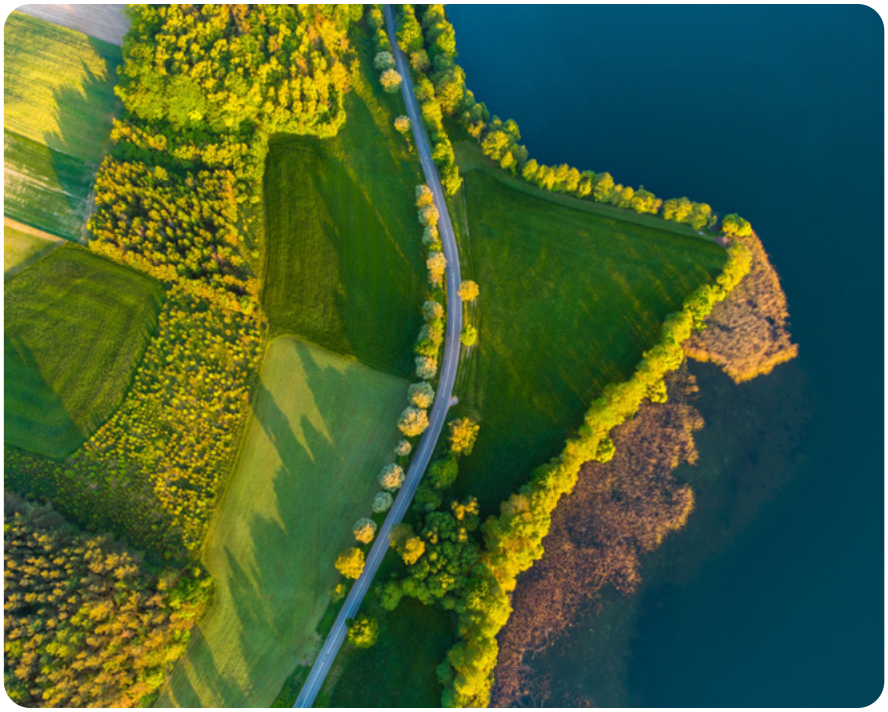
ABF loans are secured by income streams backed by a variety of assets, including mortgages, data center or aircraft leases, credit card receivables or music royalty streams. It helps fund a wide range of activities—from transportation to consumer lending—and helps to fuel the global economy (**Figure 1**).

Figure 1: ABF Fuels the Global Economy

It supports everyday activities, to help keep our lives moving

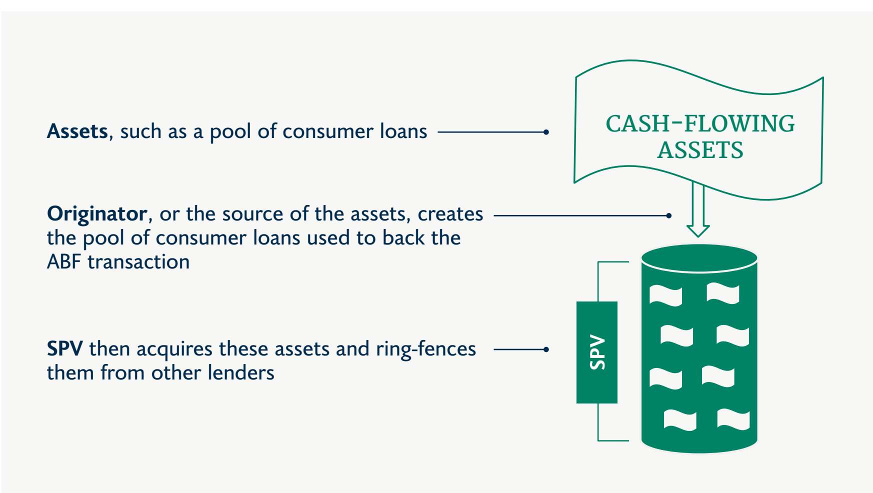
For illustrative purposes only. Diversification does not guarantee a profit or protect against loss.

For investors, ABF can play a key role of supplementing traditional private credit allocations in a portfolio. ABF is similar to traditional corporate direct lending, since it involves non-bank lending activities, but it contains key differences. Most importantly, traditional private credit relies on an individual company's fundamentals and ability to refinance, while ABF centers on the consistency and predictability of cash flows tied to specific hard assets or asset pools.



ABF also differs from traditional direct lending given its usage of special-purpose vehicles (SPVs). These vehicles isolate assets from the originator's balance sheet, establish a repayment waterfall, and enhance security for lenders and investors (**Figure 2**).

Figure 2: SPVs—the Engines Driving ABF



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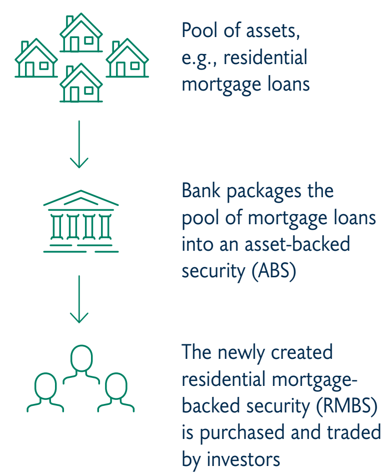
Comparing ABF and ABS

It is important to clarify how ABF differs from asset-backed securities (ABS)—two approaches that share similar collateral types but differ significantly.

ABF typically involves privately negotiated lending arrangements, allowing lenders to influence deal terms and maintain close alignment with originators. ABS, by contrast, involves pools of loans bundled and sold as tradable structured securities in public markets.

How ABS works

Securitized pools of assets traded in public markets



ABS structures are generally more standardized, and often they are rated by credit agencies, with performance tracked through broad market indices. They generally offer greater liquidity and transparency, but lenders have less control over underwriting and deal customization compared with private ABF transactions.

Key Benefits of ABF

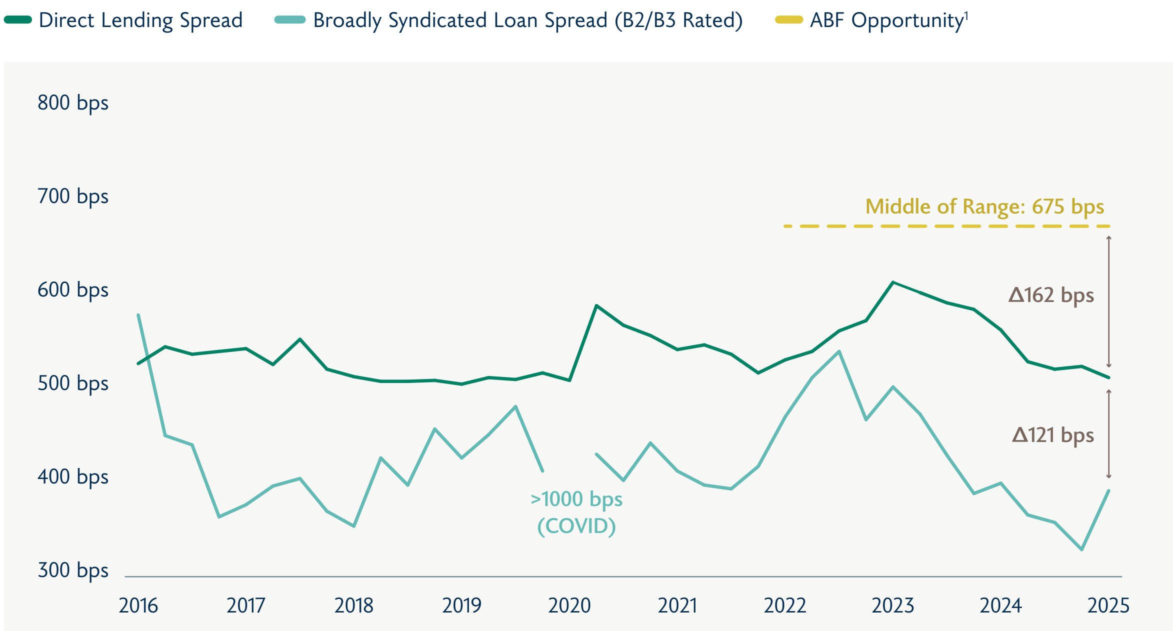
At a time of growing uncertainty and increased volatility in the markets, investors are looking for new ways to diversify portfolios, with the aim of helping them ultimately meet their investment goals. With that in mind, ABF may play a crucial role in helping to strengthen investor portfolios in three key ways:

ABF has produced attractive risk-adjusted returns. Private ABF has offered compelling yields relative to other fixed-income investments, across varied interest rate environments (**Figure 3**). Moreover, ABF typically features scheduled principal repayment over the life of the loan, providing investors with a predictable cash flow profile.

Figure 3: ABF May Deliver Attractive Spread Premiums

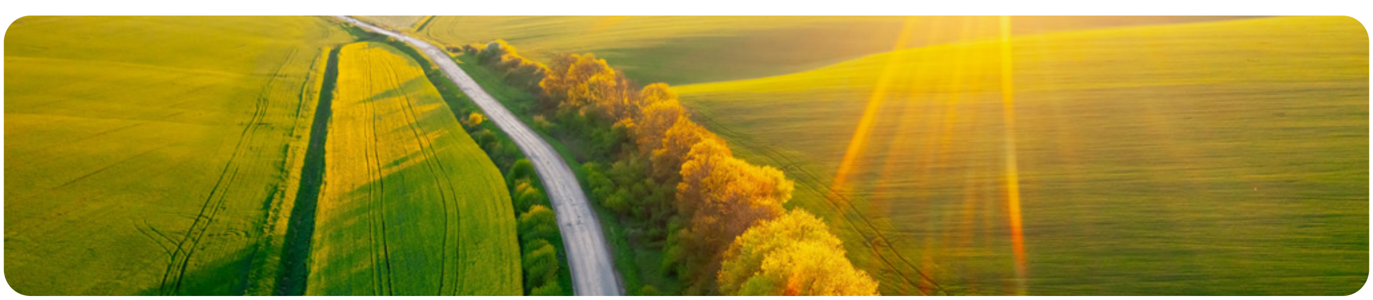
Less crowded markets and complexity premiums can help drive stronger returns

Historical Broadly Syndicated Loans and Direct Lending Spreads (bps)



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 the BSL first-lien margin for B2 and B3 stands at 329.0 bps.

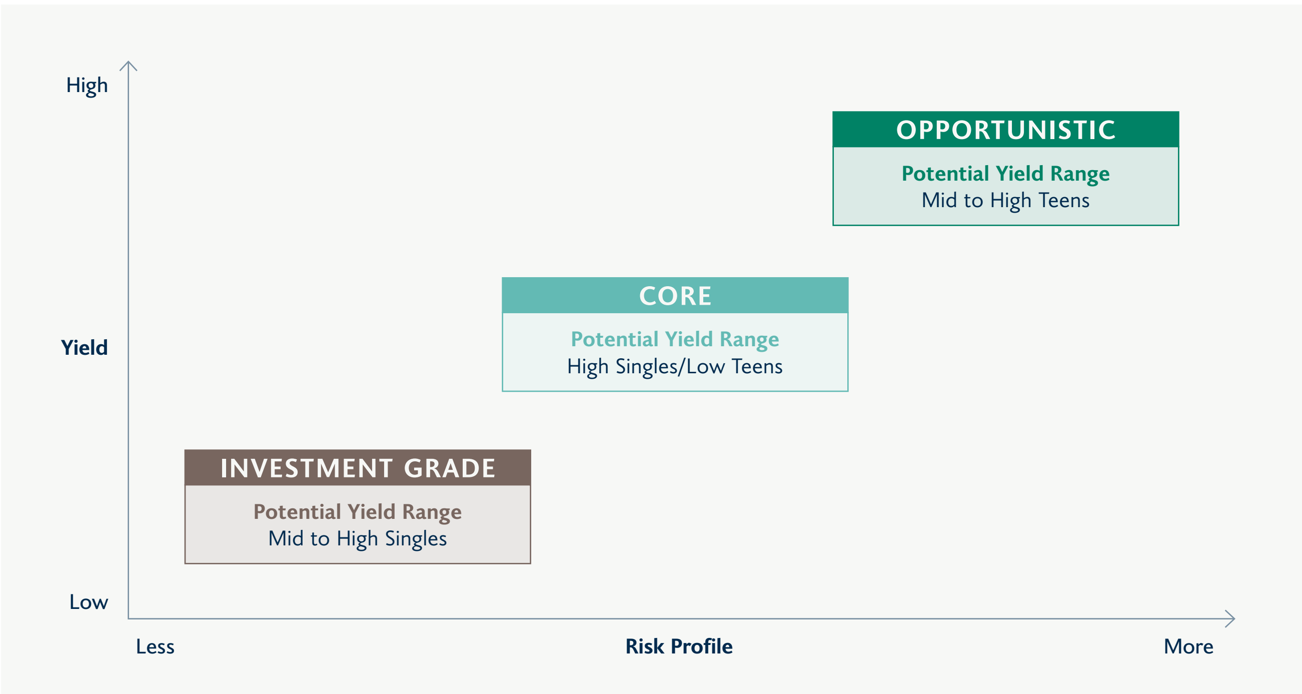
[1] Based on Oaktree's observations. Higher spreads typically reflect higher credit risk and do not guarantee higher actual returns. Comparative spread advantages may not persist over time, and spread potential does not ensure actual performance outcomes. Investment decisions should not be based solely on spread comparisons between different strategies.



Because private ABF loans are secured by underlying assets, they may offer higher return potential, given risk characteristics that differ from those of many traditional credit strategies. Within private ABF, strategies vary by risk and return, from investment grade to opportunistic (**Figure 4**).

Figure 4: Private ABF Universe Offers a Spectrum of Risk/Return Avenues

Private ABF Universe



Source: Brookfield Oaktree Wealth Solutions. These projections are hypothetical and for illustrative purposes only and should not be considered forecasts of future performance. The potential yield ranges shown are based on assumptions that may prove to be higher or lower. Higher potential yields in opportunistic categories involve correspondingly higher risks of loss. These projections are for illustrative purposes only and should not be considered forecasts of future performance.

ABF can help mitigate risk. A number of features of ABF can help mitigate potential risk. For example, SPVs help isolate the assets from the originator's balance sheet, enhancing investor protection in the event of a default.

Additionally, ABF transactions are commonly structured with strong contractual protections, meaning they contain safeguards that monitor the performance of the underlying assets. These structural protections make ABF a resilient option for investors focused on capital preservation and income generation.

ABF helps diversify your portfolio. ABF's historically low correlation to other private credit strategies means it complements a diversified portfolio. In doing so, it contributes not only to income generation but also to long-term total return and portfolio stability.

Moreover, ABF spans sectors including infrastructure, consumer finance, transportation and real estate—each responding differently to economic conditions. This broad exposure helps reduce concentration risk across counterparties and asset types. By pooling loans with varied cash flow sources and underlying borrowers, ABF structures mitigate idiosyncratic risk and enhance portfolio resilience.

Figure 5: ABF as a Private Credit Diversification Tool

Comparing direct lending and ABF

Direct Lending[1]		Asset-Backed Finance[2]
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.

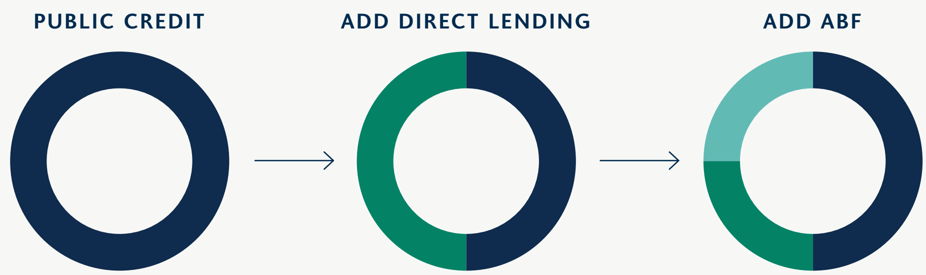
[2] Asset-Backed Finance represents Oaktree estimates based on internal data. Returns based on a broad range of private deals and internal assessment of return profile are shown for illustrative and informational purposes only and are subject to change without notice.

ABF in Investor Portfolios

We believe that ABF should be viewed as a complement to, not as a substitute for, direct lending in a private credit allocation. Diversifying across private credit strategies can help strengthen portfolios by offering compelling income streams, attractive risk-adjusted returns, and important diversification benefits (**Figure 6**).

Figure 6: Reimagined Credit Allocation: Unlock Yield, Spread, and Risk Advantages

Public Credit | Direct Lending | Asset-Based



	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
Expected Credit Loss	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 U.S. High Yield Index. "Public + Direct Lending" 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 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 and a 7.5% allocation to Sub-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.

Still, ABF is not a one-size-fits-all market. Success in ABF requires a deep understanding of both the originators of the cash-flowing assets and the credit quality of the underlying assets. We believe that working with an experienced manager is advisable in navigating the complexity of the asset class. Look for managers who cast a wide net for attractive opportunities and yet keep risk control at the forefront.

Why ABF Is Having Its Moment

ABF is the next chapter in the evolution of private credit. Over a decade ago, following the GFC, banks pulled back meaningfully from corporate direct lending, paving the way for the private credit market as we know it today. Now we're seeing a similar dynamic unfolding in ABF. Banks—pressured by fiscal tightening, deposit flight, questions around the value of assets on their balance sheets, and regulatory headwinds—are significantly reducing their lending activity in core ABF markets. This retrenchment is creating a compelling opportunity for private alternative lenders with the expertise and scale to step in and fill the financing void. As a result, ABF is poised as an important component of private credit, offering attractive potential benefits for a wide range of investors.

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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-investment-grade 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 euro-denominated high-yield corporate debt from non-financial European issuers, excluding Russian exposure and capping issuer weights at 3%.

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

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

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

ICE BofA U.S. 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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