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# Asset-Based Finance: A Different Approach to Income, Diversification and Risk

**An introductory guide to asset-based finance and its growing role in diversified income portfolios**

Asset-based finance (ABF), also known as specialty finance or asset-based credit, has grown rapidly over the past decade to a market broadly estimated at over $20 trillion.[1]

Encompassing financial instruments secured by a diverse range of contractual cash flows from financial and hard assets, ABF finances a broad range of real-economy activity—from consumer credit and small business lending to equipment, fleet and infrastructure financing—connecting main street commerce with institutional capital markets.

For investors, that breadth translates into a differentiated opportunity: one that can offer attractive current income, strong risk-adjusted return potential, portfolio diversification and a measure of downside mitigation across market cycles.

In this paper, we explore what ABF is, how it works and why we believe it warrants consideration as a dedicated allocation in investors' portfolios.

[1] S&P Global, "The Opportunity of Asset-Based Draws in Private Credit," November 20, 2024.

# Executive Summary


### What Is ABF?

The ABF market is comprised of financial instruments secured by a diverse range of financial and hard assets that usually generate contractual cashflows, including consumer and small business loans, credit card receivables, subscription and invoice payments, autos, airplanes, data centers and equipment.

This type of finance is, in many ways, the invisible infrastructure of everyday life. When paying for a coffee, financing a holiday or a new sofa with a point-of-sale loan, leasing a car through a non-bank lender or boarding a commercial flight, the underlying financial fabric connecting those transactions to institutional capital markets is likely ABF. The financing surrounds us, funding the purchases, assets and services that consumers and small businesses rely on daily.

### Why Invest in ABF?

We believe an allocation to ABF has five potential benefits:

- Attractive risk-adjusted returns
- Diversification through differentiated cash flows and exposure to shorter-duration assets
- Through-the-cycle portfolio construction to support more consistent returns across cycles
- Downside mitigation through tight covenants and first-loss protection
- Inflation protection (specific to hard assets)

### Why Manager Selection Matters

ABF investing demands the asset manager has extensive industry experience and relationships, deep origination and structuring expertise, and leading-edge technology capabilities to enable sophisticated underwriting and portfolio management.

A successful manager should have deep knowledge in the sectors which they lend against, often with a background in both investing and operating companies in the space.


## What Is ABF?

ABF is relatively short-term private financing that is secured by a diverse range of financial (consumer and small business loans, credit card receivables, subscription receivables, invoice lending) and hard assets (autos, airplanes, data centers, equipment) that typically generate contractual cashflows (see figure 1).

While this type of finance may sound complex or esoteric, it essentially funds a broad range of real-economy activity from consumer credit and small business lending to equipment and fleet financing and much more. In effect, ABF intricately connects main street commerce and institutional capital markets, making it omnipresent and essential to the way consumers and small businesses spend and grow.

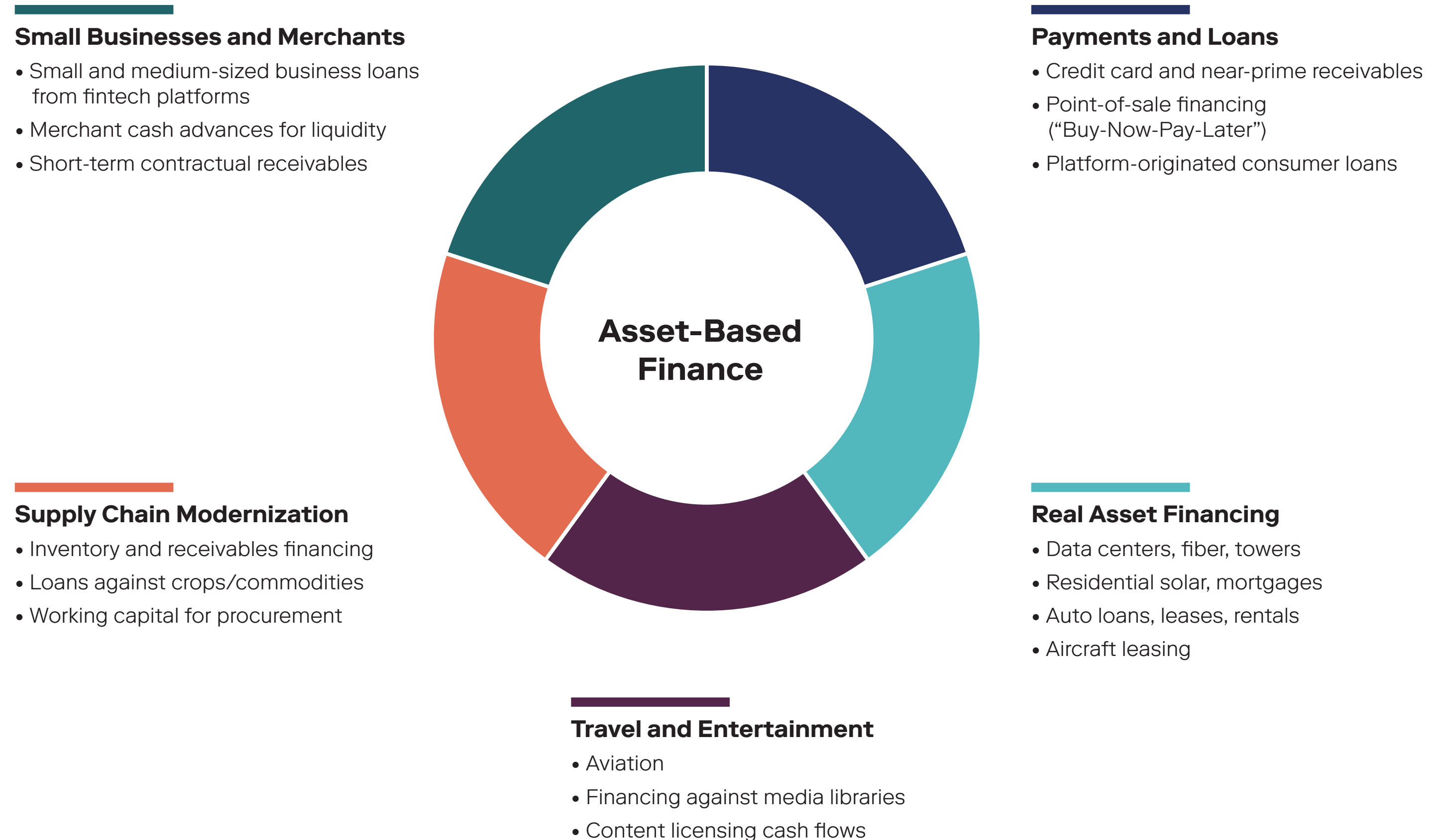
Importantly, the market has rapidly grown and developed in recent years, propelled by the advance of digital technology and regulatory developments such as Open Banking, a financial services model enabling third-party service providers such as fintechs and online retailers to access consumer data from traditional banking systems through application programming interfaces. These forces have had a transformational impact globally on consumer and small business finance.

This has happened as mainstream banks have broadly retrenched from select lending markets over the past decade, creating the opportunity for a new breed of lenders to step in and capitalize. Today, consumers, small businesses and corporations have greater access to a wider universe of credit financing formats than ever before, in turn creating new and greater investment opportunities.

**FIGURE 1**

**ABF is Relatively Short-Term Private Financing Secured By a Diverse Range of Financial and Hard Assets**

Portfolios of Assets That Generate Contractual Cashflows




Source: Neuberger Alternatives.

## Why Invest in ABF?

For an investor, ABF is simply a form of private credit investing, where the primary source of returns (interest and principal) is secured by the hard or financial assets of each transaction.

As a first-time investor or an existing investor in private credit, investing in ABF as part of a balanced portfolio across fixed income and alternatives has multiple benefits. Relative to other asset classes, for instance, ABF has a very short duration and high return potential (see figure 2).

ABF is not risk-free, however. It can experience credit losses, particularly in consumer stress environments. The difference is how those losses are anticipated and absorbed: through conservative structuring, collateral coverage requirements and early-warning triggers designed to act before problems compound rather than after.

That capacity for downside management is, in our view, precisely why ABF is well suited as a structural allocation within private credit portfolios; it is a diversifying complement to longer-duration strategies such as direct lending rather than a substitute for them.

While ABF is fundamentally different to direct lending, both asset classes offer investors a range of attractive reasons to consider them in asset allocation decisions.

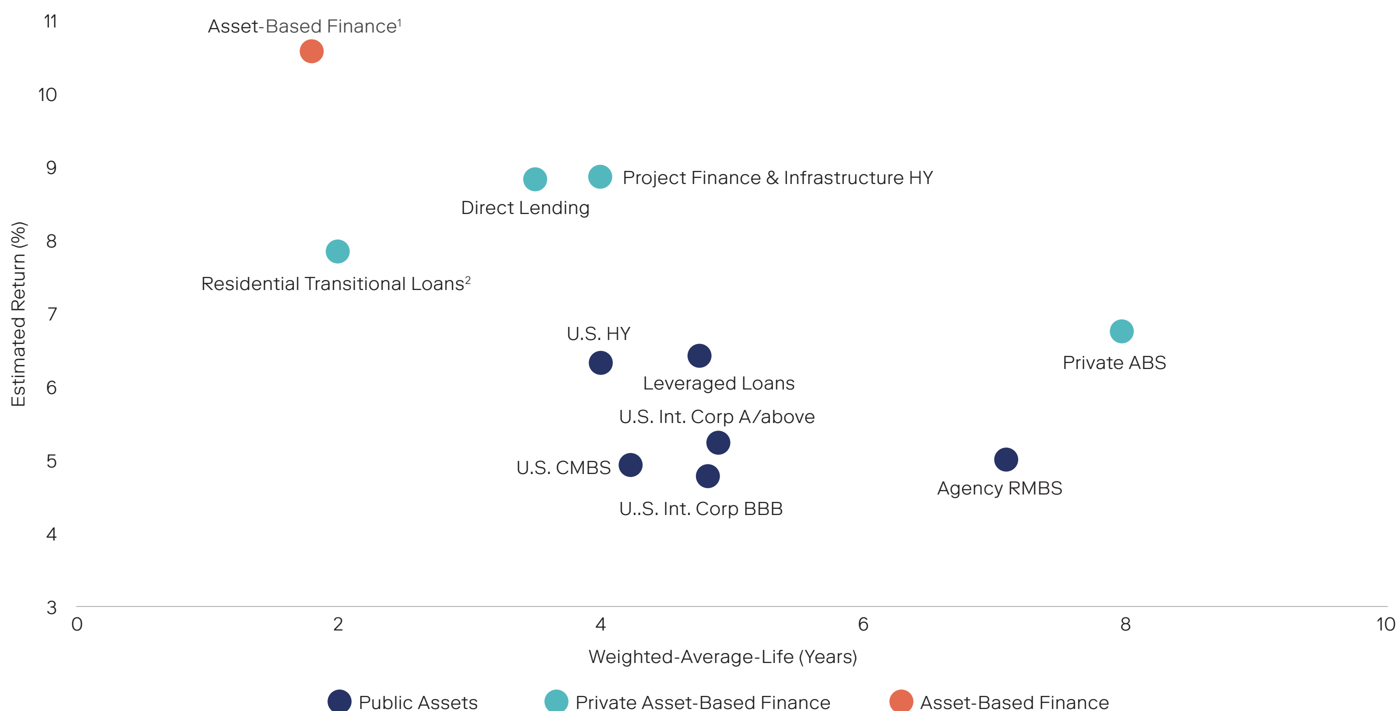
Investing in ABF has five main potential benefits:

- **Attractive risk-adjusted returns:** ABF strategies typically offer higher risk-adjusted returns compared to traditional public assets, and across the spectrum of weighted average life (see figure 2).
- **Diversification:** The risk-return profile and diversity of borrowers, industries, geographies and underlying assets offers clear diversification benefits to investment portfolios.
- **Through-the-cycle positioning:** Built-in structural protections and broad diversification across sectors, geographies and transaction types can help ABF portfolios hold up in growing and recessionary environments.
- **Downside mitigation:** Strong structural protections, including negotiated covenants and built-in repayment features, can help limit losses when conditions deteriorate.
- **Inflation protection:** The value of collateral, particularly hard assets, tends to rise along with consumer prices, which means these investments can offer a measure of inflation protection.

## FIGURE 2

### ABF Can Offer Higher Returns Than Other Public and Private Assets

Return and Average Life of Private Asset-Based Credit Strategies vs. Public Assets




Source: Neuberger Alternatives. **Past performance is not necessarily indicative of future results.**

IMPORTANT: For illustrative purposes only. The performance and risk projections/estimates are hypothetical in nature and reflect the Neuberger's Capital Market Assumptions as of 03/31/2026. The estimates do not reflect actual investment results and are not guarantees of future results. Actual returns and volatility may vary significantly. Asset classes are represented by benchmarks and do not represent any Neuberger investment product or service. Please see Additional Disclosures at the end of the presentation for asset class and index definitions, terminology definitions and Neuberger's Capital Market Assumptions. Investing entails risks, including possible loss of principal. 1. Full turn of leverage, net of management and performance fees; 2. Half a turn of leverage

## Structural Benefits of ABF

ABF is a bespoke asset class: transactions can be negotiated and structured in many ways. Figure 3 illustrates two common approaches—whole receivables purchases on the one hand, and investments in a portion of loans placed into a bankruptcy-remote special purpose vehicle (SPV) on the other.

In the first example, investors purchase loans/receivables from originators via forward-flow agreements which are arrangements whereby an originator of receivables sells its beneficial interest in those receivables on an ongoing basis to the purchaser or investor either immediately or periodically, and subject to pre-determined eligibility criteria. Many originators keep a portion of their loan originations on balance sheet to maintain alignment of interest with investors, who receive loan cash flows after fees paid to the originator.

In the second example, loan originators place loans into a bankruptcy remote SPV. They generally retain 5 – 25% of the value of the loans as equity and finance the remaining portion by borrowing from an investor for a contractual fixed or floating-rate coupon plus additional fees.

In both examples, investors hold a more senior position in the capital structure to the loan originators, which hold a first-loss position.

**FIGURE 3**

### Illustrative Transaction Structures

#### Whole Receivables Purchases

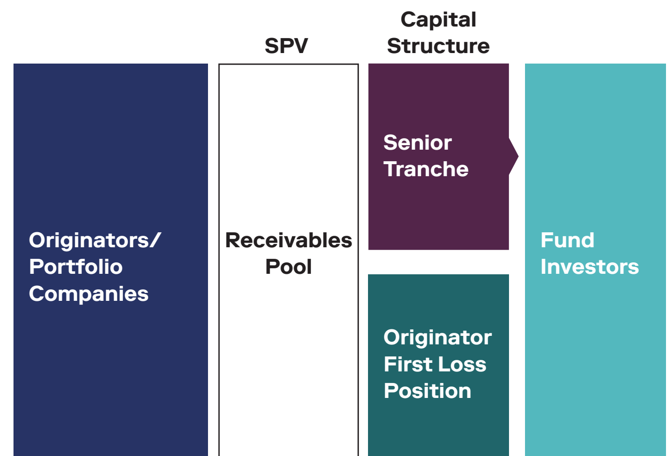
- **Purchase loans/receivables from originators** via forward flow agreements
- Many originators keep a portion of their loan originations on balance sheet to **maintain alignment of interest with investors**
- **Receive loan cash flows** after fees paid to originator

**Structural Benefits:**

- Price deals at discounted rates with preferred returns
- Scale into these positions over time
- Typically uncommitted

#### Credit Facilities/Private ABS

- Originators **place loans into bankruptcy remote SPV**
- **Investors finance a portion of the SPV** (typically 75% to 95%) and the originator finances the balance in a first loss position
- **Investors receive a fixed/floating coupon** plus additional fees




**Structural Benefits:**

- Covenant heavy: bespoke collateral performance triggers and financial covenants
- First loss protection (credit enhancement)

Source: Neuberger Alternatives.

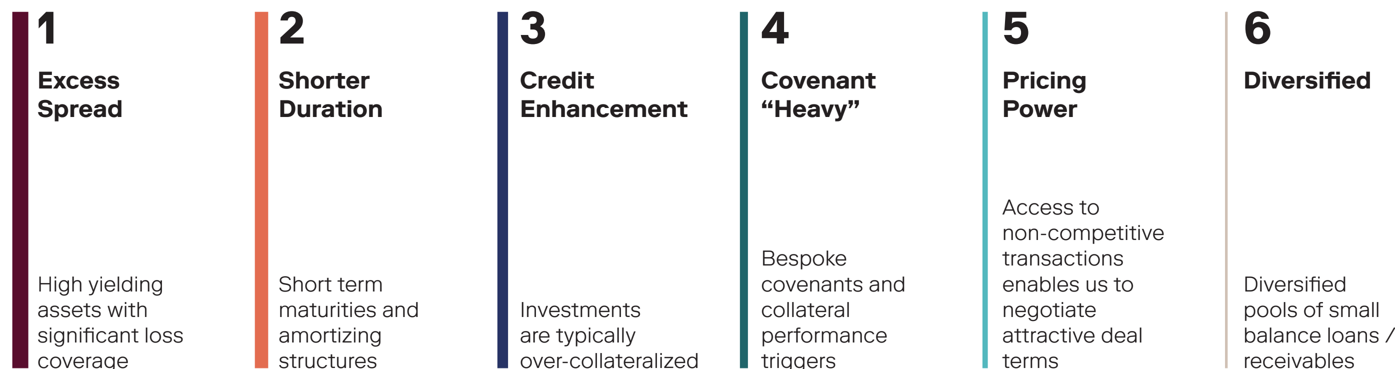
## Protecting Investment Value and Returns

ABF's defensive qualities stem from both how assets are selected and how deals are structured. Together, we believe six key pillars (see figure 4) work to mitigate risk and support consistent performance across market cycles:

- **Excess Spread:** High-yielding assets with contractual yields that generate significant return above and beyond the return paid to investors, providing a buffer that can absorb deterioration in collateral performance before interest or principal is affected.
- **Shorter Duration:** Short-term maturities and self-amortizing structures typically mean principal and interest repay steadily throughout the life of a transaction, thereby reducing the vintage and repayment risk that can weigh on longer-duration strategies, particularly in a downturn.
- **Credit Enhancement:** Investments are typically over-collateralized, meaning the value of underlying assets exceeds the amount of capital at risk, providing an additional layer of structural protection from the outset.
- **Covenant "Heavy":** Bespoke covenants and collateral performance triggers create early-warning mechanisms that allow investors to act before problems compound rather than after.
- **Pricing Power:** Access to directly sourced transactions means terms are negotiated rather than accepted, enabling structures that can provide more return per unit of underlying risk.
- **Diversified:** Exposure across large pools of small balance loans and receivables generally limit concentration risk, helping to ensure no single default or cluster of defaults can threaten the integrity of the whole portfolio.

**FIGURE 4**

**Illustrative Defensive Pillars**




Source: Neuberger Alternatives.

## Illustrative Investment – Small Business Loan Financing Company

Embedded in the daily operations of thousands of small businesses across the U.S., from dental offices and accounting firms to restaurants and retail stores, this originator has built a payment processing platform whose reach is also one of its most valuable underwriting assets. It processes transactions for its merchant clients every day, accumulating granular, real-time data on their financial health that conventional lenders simply cannot access.

Its lending arm uses that data to offer loans on an invite-only basis—a positive selection mechanism that filters for established, creditworthy businesses before underwriting even begins. The underwriting model itself is significantly more detailed than peer lenders, drawing on transaction frequency, revenue trends and early indicators of both macro and micro stress. Loss rates have remained stable even as origination volumes have grown, a track record that speaks to the quality of the model across cycles.

## Choosing the Right ABF Manager

ABF is operationally demanding: transactions are data-intensive, structures are highly bespoke, and outcomes depend as much on underwriting and documentation as on bottom-up portfolio construction. The complexity lies not in any single borrower, but in the data, diversity and ongoing monitoring of the underlying collateral pool. This requires an end-to-end analytics capability that can ingest large (and often messy) datasets, translate historical loan-level performance into base/adverse/severe projections and use those outputs to structure robust protections. Importantly, that diligence continues post-close: effective portfolio management depends on frequent monitoring and a clearly defined early-warning playbook for when asset performance deviates from expectations.

The market has also grown more crowded, with new entrants offering strategies that are difficult to compare on a like-for-like basis. The most meaningful distinction, in our view, is between managers offering broad beta exposure and those pursuing alpha through shorter-duration, higher-yielding and more bespoke strategies with stronger downside protection built in. Success requires repeat access to originators, disciplined structuring and the breadth to compare opportunities across sectors, geographies and structures—capabilities that take years to build.

### Successful ABF Managers Have Distinct Characteristics:

**Differentiated Sourcing**

- Proprietary, direct relationships
- Strong ties to the venture and banking communities
- Distinct, high-quality deal flow
- Lifecycle partnerships with originator

**Relative Value Framework**

- Disciplined investment process
- Dynamic relative value framework designed to identify optimal risk-adjusted opportunities across sectors, geogra phies, and capital structures

**Structuring for Downside Mitigation**

- Structure transactions to withstand severe stress scenarios
- Enhanced first-loss protection and conservative covenants

**Data Science-Driven Process**

- Dedicated data science team
- Proprietary infrastructure to extract actionable insights from granular data
- Informs investment decisions and dynamic portfolio management

## Conclusion

ABF plays a critical but often overlooked role in the modern economy, providing the capital that supports everyday consumer activity, small business growth and the use of essential hard assets. While it sits within the broader private credit universe, ABF differs in important ways, as we have highlighted. Exposure, for instance, is typically spread across thousands of individual loans and assets, transactions are built to absorb losses from the outset, and self-amortizing structures help reduce sensitivity to economic downturns.

ABF is not a one-size-fits-all allocation, however. Performance depends heavily on sourcing discipline, deal structuring, data-driven underwriting and ongoing monitoring of underlying collateral—capabilities that require experience, specialization and scale, making manager selection a central consideration for investors new to the asset class or expanding existing exposure.

Neuberger's experienced ABF team applies a relative value framework across sectors, geographies and structures to help investors access this evolving segment of private credit.

### Why ABF:

- **Main Street Relevance:** ABF finances the everyday economy, giving investors access to the performance of real-world consumer and small business activity.
- **Scale of Opportunity:** A total addressable market estimated at over $20 trillion, driven by the ongoing bank retrenchment and the rapid growth of non-bank lending across consumer, small business and hard-asset sectors.
- **Income With Structural Protection:** Structured to provide attractive risk-adjusted returns generated through shorter-duration assets with first-loss protection, covenant discipline and self-amortizing cash flows built in from the outset.
- **Diversification:** Exposure to thousands of individual loans across borrowers, geographies and asset types—diversification that is structural, not incidental.
- **Resilience Through Cycles:** With average durations of around 18 months and a natural lag between market deterioration and real-economy impact, ABF portfolios have historically amortized much of their pre-recession exposure before downturns take hold.

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**Rate of Return Estimate:** Rate of return or geometric return is a measure of average returns of an investment over a period of time. Geometric rates of return are typically referred to as annualized compound rate of returns and are always less than or equal to the arithmetic mean return of the same time series. Geometric rates of return are used for straight-line calculations within the analysis, for example, the cash flow calculations. In straight-line calculations, each year is represented as a gain, so the compound (geometric mean) rate of return is used to adjust for the amount needed to make up for a loss in a given year. For example, if you lose 5% in one year, and gain 5% the year after, you still have less than you started with at the beginning of year one.

**Arithmetic Mean Estimate:** Arithmetic mean or average return is calculated by dividing the sum of a series of numbers by the number of overall items. This is more typically thought of as an "average" of the data set. Arithmetic mean or average return ignores the impact of compounding in the context of analyzing investment returns and is the simple average of returns observed over a period of time. Arithmetic mean returns are used in this material and, if applicable, the Efficient Frontier, because, through randomization, losses and gains are being accounted for each year.

**Standard Deviation:** A statistical measure of the volatility based on the distribution of a set of data from its mean (average value). For example, a portfolio with an average return of 10% and a standard deviation of 15% would return a result between -5% and +25% the majority of the time (68% probability or 1 standard deviation), almost all of the time the return would be between -20% and +40% (95% probability or 2 standard deviations). If there were 0 standard deviation then the result would always be 10%. Generally, more aggressive portfolios have a higher standard deviation and more conservative portfolios have a lower standard deviation.

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