

THE CASE FOR ASSET-BACKED LENDING IN PRIVATE CREDIT PORTFOLIOS

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As the private credit market continues to expand and evolve, asset-backed lending (ABL) has emerged as a compelling strategy for investors seeking a diversified return stream. ABL's defining features are its reliance on tangible or financial assets as collateral and its corresponding potential for downside mitigation and ability to offer cash flows. These qualities tend to align with the priorities of insurance companies, pensions, endowments, and other institutional investors looking for income potential, quality risk-adjusted returns, and a defensive allocation in their portfolios.

This paper explores the case for ABL as a differentiated and complementary strategy within private credit portfolios and introduces Victory Park Capital's (VPC) approach to ABL.

What is asset-backed lending?

The global private credit market now exceeds US\$2 trillion in AUM, with asset-backed strategies playing a critical role in filling the gaps left by banks, which have been restricted by tighter lending standards. Unlike traditional direct lending, which depends on the free cash flows or enterprise value of a borrower, ABL is rooted in the value of tangible or financial assets pledged as collateral. These assets can range from accounts receivable and inventory to real estate and contractual cash flow streams.

In its simplest form, ABL provides credit backed by assets that can be readily liquidated if necessary. If a borrower defaults, the lender can recover capital by either selling or simply allowing the underlying assets to turn into cash over time as they organically amortize, unlike traditional corporate loans which are secured by the ultimate free cash flows and/or the enterprise value of operating businesses.

Features of ABL include:

- **Collateral-driven risk management:** Lenders focus on the liquidation potential of the collateral, with less emphasis on the borrower's operating free cash flow.

Key takeaways

- **The asset-backed opportunity:** The global private credit market, currently approaching US\$2 trillion in assets under management¹, presents a roughly US\$40 trillion addressable market for ABL.² This includes opportunities across consumer finance, real estate, hard assets, and small business lending.
- **Portfolio benefits:** Often viewed as an "all-weather"³ strategy, ABL may be able to enhance private credit portfolios by providing diversification through exposure to uncorrelated, asset-secured income streams. This has the potential to reduce portfolio volatility and enhance liquidity while delivering attractive unlevered net returns.
- **VPC's approach to ABL:** With an 18-year track record and over US\$10.6 billion invested across 225+ transactions⁴, VPC is an established player in the ABL market. VPC's proprietary sourcing, risk management, and deal structuring processes are integral to the firm's operations, forming the foundation of its strategic decision-making and growth to date.

¹ Source: Preqin, as of December 2024.

² Source: Apollo Analysts Estimates, as of February 2025.

³ VPC believes "all-weather" describes how ABL strategies are generally structured to seek consistent performance across market cycles, with the goal of providing stability and opportunities in both expansionary and contractionary environments.

⁴ Victory Park Capital, as of December 2024.

- **Structured deal making:** Robust covenants, first-loss equity subordination, and dynamic borrowing bases work to align interests and mitigate downside risk.
- **Flexibility across industries:** ABL serves diverse sectors, including consumer finance, real estate, small businesses, and specialized lending such as music royalties and trade finance.

ABL vs. direct lending: Complementary private credit strategies

ABL and direct lending are both key components of private credit portfolios, but they serve distinct purposes and offer different benefits to investors.

	ABL	Direct lending
Collateral vs. cash flow	Loans are secured by specific tangible or financial assets , such as receivables, inventory, or real estate. The value of these assets helps to mitigate losses because they can be liquidated if needed.	Primarily relies on a company’s cash flow or enterprise value to support loan repayment. This makes direct lending more dependent on the borrower’s operational success relative to ABL.
Liquidity and duration	Loans typically have shorter durations (less than four years) and are backed by assets that either self-liquidate over time or can be readily sold to third parties. In downside scenarios, this collateral can typically be monetized to preserve value.	Loans typically have longer durations and rely on market conditions for refinancing or change-of-control transactions to achieve repayment.
Risk mitigation	Offers structural provisions , including first-loss equity subordination, dynamic borrowing bases, and robust covenants. These provisions offer early warning signs of potential collateral deterioration, allowing lenders to take proactive measures if needed.	Risk is often accounted for at origination, with limited opportunities for lenders to adjust during the loan term. In downside scenarios, recovery depends on enterprise value or a potential sale.
Sole lender	ABL loans are typically provided by sole lenders. This enables one party to structure and control ultimate decision-making, which aids in managing risk.	Loans are predominantly syndicated to multiple investors. Syndicates can lead to complexity in loan management and an inability to make decisions quickly if needed.

Investment features of ABL

For investors seeking to diversify existing private credit portfolios or access the asset class for the first time, ABL offers several prospective portfolio benefits, including:

- **Portfolio diversification:** ABL’s low correlation to traditional equity and fixed income may reduce overall portfolio risk and volatility.
- **Attractive risk-adjusted return potential:** Unlevered risk-adjusted returns can offer differentiated return and income streams, even in challenging environments.
- **Resilience across cycles:** The short duration of loans and collateral-backed nature of ABL results in adaptability in varying macroeconomic conditions.

While ABL comes with certain considerations, including structuring, execution, and event risks, investors often view these as manageable trade-offs in pursuit of the compelling potential benefits.

- **Structuring risk** can arise from the need to properly align collateral, covenants, and advance rates to protect against downside scenarios.
- **Execution risk** can stem from the operational complexity of underwriting, monitoring, and managing collateral over the life of a loan.
- **Event risk** – including borrower distress or unexpected industry downturns – can impact the value and recoverability of underlying assets.

ABL as an “all-weather” strategy

As an asset class, ABL has earned its reputation as an all-weather strategy given its history of benefitting from:

- **Consistent credit demand:** Businesses and consumers rely on credit during strong economic environments as well as bear markets and recessions. This creates an enduring need for asset-backed credit solutions.
- **Short loan durations for flexibility:** With loans averaging less than four years, ABL portfolios can quickly adapt in volatile markets. The self-liquidating nature of most ABL collateral means that capital can be recouped organically, limiting reliance on external refinancing or sales.
- **Built-in stress testing:** Leading ABL managers employ strict underwriting and monitoring processes designed to weather adverse scenarios. For example, VPC’s underwriting process assumes potential wind-down scenarios, with attachment points targeting recovery even in challenging situations.

Liquidity management

ABL’s structural features create income potential for investors while enabling managers to respond swiftly to changing market conditions. Structural features include:

- **Recurring distributions:** The recurring cash flows generated by ABL investments typically flow through to distributions and income for investors.
- **Dynamic borrowing bases:** ABL loans are secured by dynamic collateral pools that adjust with the underlying assets’ performance. This structure aids in managing risk and adjusting portfolio positioning.
- **Rapid rebalancing in shifting environments:** During periods of uncertainty, a leading ABL manager like VPC has the flexibility to wind down portfolios or reorient capital efficiently. For example, in response to macroeconomic shifts during the COVID-19 pandemic,

VPC reallocated approximately US\$650 million in funded exposure, significantly de-risking firm-wide positioning from Q1 2020 through Q2 2021.

Scalability

ABL’s scalability – though it requires access to reliable funding sources and a deep pipeline of quality borrowers – is another advantage. Scaling enables managers that employ a partnership-oriented approach to grow alongside their borrowers and adapt to varying capital needs. Examples of scalability include:

- **Starting small, scaling large:** Leading ABL managers have the flexibility to work with businesses early in their life cycle and later as they grow larger. For example, VPC often serves as a company’s first institutional lender and expands support as the business grows.
- **First-mover advantage:** Unlike larger institutions that require substantial deal sizes, more flexible managers like VPC have the capacity to enter early-stage opportunities and hold them as they develop. The ability to catch opportunities early, in our view, is a key ingredient of VPC’s competitive edge in the market.
- **Custom-tailored growth:** ABL structures are inherently flexible, allowing funding to increase incrementally as businesses scale. This minimizes upfront risk while aligning capital deployment with demonstrated performance.

Scaling ABL can be challenging due to the need for specialized underwriting (particularly where early-stage companies are concerned), active collateral monitoring, and operational infrastructure to support loan servicing. As portfolios grow, risk management processes and execution techniques becomes increasingly complex. However, with the right expertise, technology, and disciplined approach, ABL platforms are capable of achieving growth and compelling credit performance, which in turn presents investors with opportunities for growth and portfolio diversification.

Case study

VPC has helped businesses globally grow through ABL since 2010. The support provided and structure implemented is tailored to each company's needs, but the case study below is provided to illustrate VPC's general approach and considerations.

The opportunity

The borrower, a point-of-sale financing provider, was founded to address a growing consumer need for flexible, needs-based purchase financing. At the time of initial engagement, the company had completed a seed funding round and was seeking institutional credit to scale its portfolio. Its business model involved offering installment-based financing solutions for in-person purchases, such as automotive repairs and healthcare needs, targeting an underserved consumer segment.

The solution

VPC entered the relationship as the company's first institutional lender, crafting a bespoke ABL structure that aligned with the company's growth trajectory.

Key features of the funding arrangement included:

- **Initial facility:** A senior secured loan facility designed to support the company's early-stage growth, with funding commitments tailored to the size and performance of its receivables portfolio.
- **Dynamic structuring:** As the company expanded, VPC scaled its funding commitments in line with the growth of its loan portfolio. This continuity allowed the borrower to meet increasing demand without having to seek another financing partner to support its portfolio growth.
- **Robust risk management:** VPC implemented a comprehensive covenant package, including dynamic borrowing bases and performance triggers, to manage risk effectively while maintaining flexibility for the borrower.

The results

Over the course of the multi-year relationship, VPC's funding enabled the borrower to achieve significant milestones while demonstrating VPC's ability to deliver value as a long-term strategic partner:

1. **Nationwide expansion:** Starting from a regional presence, the borrower became a leader in its sector, reaching thousands of retail partners and achieving over 50% market penetration in its target industry.
2. **Portfolio growth:** The company's receivables portfolio grew, supported by VPC's incremental funding.
3. **Graduation to bank financing:** After many years of successful partnership, the company ultimately paid down VPC in full and transitioned to a consortium of large money-center banks that were able to offer a lower-cost financing solution as a result of the company's established track record with VPC.

Key takeaways

This case study highlights the value of truly understanding the borrower's need and showcases VPC's ability to:

- **Build long-term relationships** with borrowers, serving as a reliable partner throughout their growth journey.
- **Tailor funding solutions** to meet evolving business needs while maintaining rigorous risk controls.
- **Support the scaling of businesses**, positioning them for long-term success and broader capital market access while strengthening VPC's reputation in the market as an innovative, go-to lender for high-growth companies.

The VPC approach, strengthened by Janus Henderson

VPC is well established as a leader in the ABL space. With over 18 years of dedicated experience in the asset class, VPC brings a unique combination of industry expertise, proprietary processes, and strategic partnerships to investors.

Established track record

- **Extensive experience:** Since its founding in 2007, VPC has deployed more than US\$10.6 billion across 225+ transactions. This long-standing presence in the ABL market provides unique insight and strengthens VPC's execution capabilities.
- **Disciplined risk management:** VPC's systematic underwriting and risk management processes have helped VPC's ABL strategy in its goals of generating income for investors and demonstrating resilience across economic cycles.

Differentiators in philosophy, process, and people

- **Philosophy:** VPC is deeply committed to a borrower-first approach and working intimately with businesses to develop tailored solutions. This approach is differentiated from other lenders because it prioritizes long-term collaboration and customized strategies over transactional, one-size-fits-all approaches. VPC partners with companies at various stages of their lifecycle – whether they are early in their growth journey or well established – and provides flexible capital solutions that evolve with their needs.
- **Process:**
 - **Direct sourcing:** Over 80% of VPC's deals are sourced directly through strong, long-standing relationships –

this avoids competitive bid processes that peers are often subject to and uncovers unique opportunities.

Proprietary technology: VPC's Data Analytics and Risk Technology System (DARTS) provides granular insights into collateral performance, enabling proactive risk management and enhanced decision-making.

Dynamic structuring: VPC tailors each deal with bespoke covenants, first-loss equity subordination, and dynamic borrowing bases to align interests and mitigate risks.

- **People:** VPC's senior leadership team has worked together for more than a decade, fostering consistency, collaboration, and expertise. This cohesive team has a proven history of navigating complex credit markets and continually seeks to deliver strong results for investors.

Benefits of the Janus Henderson partnership

VPC's partnership with Janus Henderson that began in 2024 enhances VPC's ability to deliver innovative ABL solutions to investors globally. This collaboration leverages the complementary strengths of both organizations and reinforces VPC's position as a leader in the private credit space.

Janus Henderson's expertise in public asset-backed and securitized credit markets aligns seamlessly with VPC's extensive capabilities in asset-backed lending, creating a robust platform capable of addressing a broader range of client needs. This synergy not only expands private credit capabilities but also accelerates the development of innovative investment solutions tailored to clients seeking to diversify their credit exposure.

Meet the VPC team

At the heart of VPC's success is a team of seasoned professionals dedicated to delivering innovative solutions and exceptional results. Our leadership combines decades of experience across alternative investments, private credit, and asset-backed strategies, ensuring a strong foundation for navigating complex market dynamics.



Richard Levy

VPC Chief Executive Officer, Chief Investment Officer and Founder

Richard Levy is the Chief Executive Officer, Chief Investment Officer, and Founder of VPC. He oversees the firm's investment and operational activities. Mr. Levy is also the chairman of VPC's Investment Committee and Valuation Committee. Mr. Levy serves as chairman of the board of directors of VPC portfolio company, Giordano's. He also serves as a member of the board of directors of VPC portfolio companies, Caribbean Financial Group, Tradable, and United Automobile Insurance Company. Mr. Levy received a B.A. in political science from The Ohio State University, an MBA from the Illinois Institute of Technology's Stuart School of Business, and a J.D. from Chicago-Kent College of Law.



Brendan Carroll

VPC Co-Founder and Senior Partner

Brendan Carroll is a Senior Partner at VPC, which he co-founded in 2007. He is responsible for strategic initiatives and firm operations in addition to sourcing, evaluating, and executing investment opportunities. Mr. Carroll also oversees marketing, fundraising, business development, and investor relations for the firm. He is a member of VPC's Investment Committee and Valuation Committee. Mr. Carroll received a B.A. with honors in government from Georgetown University and an MBA from Harvard Business School.

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Asset Backed Lending involves loans secured by assets, where the loan value is based on the value of the collateral offered. While it provides a security cushion, it carries risks such as collateral depreciation, borrower default, and potential liquidity constraints during market downturns.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

A **facility** refers to a structured lending arrangement that provides a borrower with access to capital, typically secured by specific assets and governed by defined terms.

Free Cash Flow: The cash a company generates after accounting for capital expenditures needed to maintain or expand its asset base. It represents the funds available for distribution to investors or reinvestment.

Private Credit refers to direct lending or debt financing outside of traditional banking, typically involving non-publicly traded companies. It may offer higher returns but comes with increased risk including limited liquidity, reliance on the borrower's financial health, and less regulatory oversight compared to traditional bank lending.

Any **risk management process** discussed includes an effort to monitor and

manage risk which should not be confused with and does not imply low risk or the ability to control certain risk factors.

Self-Liquidating Collateral: Assets pledged for a loan that generate cash flow sufficient to repay the loan over time.

Senior Secured Loan: A loan that is backed by collateral and holds priority over other debts in case of borrower default.

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