Victory Park Capital
JANUS HENDERSON

THE RISE OF ASSET-BACKED FINANCE

Opportunities and risks in a dynamic area of private credit

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Asset-backed finance (ABF) is now gaining recognition as a core strategy in the private credit landscape. Once a niche strategy within private credit, the asset class is getting broader recognition for its potential to deliver income, downside mitigation, and diversification in today's volatile environment. The asset-backed finance market is estimated at US$6.1 trillion, with private credit estimated as accounting for only US$1,700 billion of that share, underscoring the significant potential growth opportunity ahead.[1]

Several factors are driving this shift. As capital becomes more selective, many growth-stage companies are turning to private credit as an alternative to equity financing, echoing patterns from the Global Financial Crisis when credit markets filled the gap left by retreating equity investors. At the same time, commercial banks are pulling back from lending to small and mid-sized businesses, constrained by regulatory pressure and balance sheet risk. This has created a growing pool of creditworthy borrowers seeking non-bank financing.

ABF is well-positioned to fill the gap. Asset-backed loans are typically senior secured and backed by tangible assets such as receivables, equipment, or real estate. Compared to traditional direct lending, these loans offer shorter durations, tighter structuring, and greater lender control, aiming to provide built-in risk mitigation in periods of stress.

For institutional investors, ABF represents a distinct way to potentially enhance private credit portfolios that is less reliant on enterprise value and more closely tied to asset performance. As demand rises, so too does the need for specialized expertise.

In the pages that follow, we explore why ABF is gaining traction, what sets it apart from other credit strategies.

[1] Source: KKR & Co. Inc. Asset-Based Finance Overview Investor Presentation, October 9, 2025 and Preqin 2025 Global Report: Private Debt.

Nimble structure, robust processes

ABF transactions typically feature loan durations of two to four years, compared with the six to ten years common in direct lending. This shorter timeframe helps mitigate long-term macroeconomic risk and allows for more efficient capital recycling.

Crucially, ABF deals seek to incorporate robust downside mitigation. These senior secured loans are backed by receivables, real estate, equipment, or other contractual cash flows. Key structural risk mitigation considerations include:

- **First-loss equity subordination,** aiming to align borrower incentives and providing an initial buffer
- **Dynamic borrowing bases,** ensuring only eligible, performing collateral counts toward loan limits
- **Strict covenants and reporting requirements** for real-time monitoring and intervention
- **First-priority liens and cash control mechanisms,** often via special purpose vehicles or blocked accounts
- **Delayed-draw features,** funding capital based on collateral performance and reducing blind pool risk
- **Rights of first refusal** (ROFR) and sole lender status, enhancing lender control and optionality

These tools enable lenders to seek to mitigate risk by underwriting defensively and actively managing collateral throughout the loan's lifecycle.

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Diversifying private credit portfolios with ABF

As institutional investors expand their private credit exposure, ABF is gaining recognition as a valuable complement to traditional direct lending. Unlike direct lending, which typically relies on projected cash flows and often involves private equity sponsors, ABF investing is based on tangible assets. This fundamental difference may shift the risk profile. In ABF, credit availability is driven by the value and performance of the borrower's assets, not enterprise value or broader market conditions. As a result, ABF is structured to be less exposed to sponsor dynamics and market sentiment, which means it is aligned more closely with the real-time productivity of underlying assets.

ABF activity is linked to borrowers' ability to originate or manage specific collateral, rather than M&A or sponsor activity.
This characteristic provides a different profile across market cycles, making ABF an effective diversifier within private credit portfolios.

- **Balancing liquidity and quality**

  While many private credit strategies involve extended capital lockups, ABF can be offered through semi-liquid structures such as interval funds, evergreen vehicles, and separately managed accounts (SMAs). Investor-friendly options include levered and rated vehicles aiming to meet the needs of investors seeking regular income and greater accessibility without compromising structural protections.

Common assets used for collateral lending



Navigating the pitfalls of "ABF tourism"

The recent surge in interest around ABF has attracted new capital to the space, but few investors are well prepared for its challenges. A growing number of generalist investors are entering the market, drawn by attractive yields and perceived downside protection, without the expertise, infrastructure, or discipline needed to manage the strategy's complexities. This phenomenon, often called "ABF tourism", poses risks not only for these investors but for the credibility of the asset class itself.

- **The expertise gap**

  The core issue with ABF tourism is a mismatch between ambition and capability. In their rush to capitalize on performance trends, many newcomers often bypass the crucial process of building the institutional capabilities needed to effectively source and manage asset-backed transactions.

  In contrast, firms like Victory Park Capital (VPC) have invested over 15 years in developing cycle-tested expertise, specialized underwriting processes, and a platform purpose-built for asset-backed credit.

- **Complexity: More than meets the eye**

  A common misconception among generalists is that ABF is straightforward because it's collateralized. In reality, collateral often brings its own set of challenges. Lending against specialized assets demands knowledge of the underlying asset class, borrower behavior patterns, legal structuring nuances, and servicing logistics. Overlooking any of these aspects can significantly impact an investment's risk-return profile.

  The capacity to underwrite complexity is an important differentiator. VPC has distinguished itself through its experience in lending against non-traditional, esoteric asset types, where many others may lack the ability or experience to properly assess risk.

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Navigating the pitfalls of "ABF tourism" (continued)

- **Digging into the details**

  In ABF, robust documentation and tight structuring are essential. Inexperienced investors often fall short here, negotiating weak covenants, misjudging asset volatility, or pushing advance rates too aggressively. These missteps can lead to substantial investor losses when markets tighten.

  VPC mitigates these risks by structuring loans around clearly defined dynamic borrowing bases and lending against liquidation value rather than enterprise value.

- **Aligning interests**

  Some newer entrants to ABF come from platforms built more for growth than durability. In such cases, incentives can become misaligned: Red flags around asset deterioration, origination quality, or lack of borrower alignment may be overlooked or unaddressed.

  VPC takes a disciplined approach to incentive alignment, requiring borrower equity contributions (first-loss cushions) and subjecting related-party transactions to independent oversight to help ensure fair value and governance integrity.

Why experience matters in ABF

The emergence of "ABF tourism" has underscored a crucial truth: Success in ABF is less about chasing yield and more about executing with experience. Unlike generalist entrants drawn by surface-level appeal, VPC's deep expertise, robust infrastructure, and disciplined approach position the firm as a true leader in this space.

- **Seasoned through market cycles**

  Founded in 2007, VPC has managed capital through periods of extreme market dislocation and borrower stress. Our long-term perspective has been earned through hands-on investing across market cycles. While others are just beginning to explore ABF, VPC has spent over a decade refining its approach to deal structuring, collateral management, and aiming to preserve capital through a wide range of market conditions.

- **A platform built for complexity**

  VPC's infrastructure is tailored for the intricacies of asset-backed financing. The firm boasts a 60+* person team spanning investment, risk, operations, legal, and investor relations, including a dedicated 25+* person group focused on risk management and operations. This institutional framework allows VPC to operate with rigor and discipline, applying our best practices across sourcing, structuring, servicing, and compliance capabilities that many generalist platforms haven't developed.

- **Proactive risk management**

  ABF demands constant engagement. VPC employs a "high-touch" model that includes real-time data monitoring, ongoing borrower dialogue, and active covenant enforcement. The firm's proprietary Data Analytics and Risk Technology System (DARTS) enables granular tracking of asset- and deal-level exposures, facilitating scenario analysis and stress testing. Regular facility audits, key performance indicator tracking, covenant verification, and swift escalation of non-compliance are all part of VPC's daily operations. This level of oversight helps identify and address issues before they become impairments.

- **Disciplined deal structuring**

  Every transaction VPC structures is calibrated for downside mitigation. The firm lends against liquidation value, utilizing dynamic borrowing bases, comprehensive covenant packages, and collateral controls such as blocked accounts and first-priority liens. Loans are typically senior-secured, delayed-draw notes, with borrowers contributing first-loss equity to ensure alignment. Right of First Refusal (ROFR) provisions help control refinancing and sourcing.

- **Strong sourcing and direct access**

  With deep relationships across venture capital, private equity, investment banks, and portfolio company management teams, VPC's offering is based on deep relationships across teams. As of June 2025, approximately 75% of ABF deals within the asset-backed opportunistic credit strategy were sourced directly or through proprietary channels. This access often allows VPC to act as the sole lender, helping enhance pricing power, control rights, and provide structural integrity in each transaction.

*Source: VPC at September 30, 2025

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Why experience matters in ABF (continued)

- **Embracing complexity**

  VPC leans in where others may hesitate. The firm actively targets high-growth sectors, particularly those undergoing digital transformation, and lends against non-traditional assets that many lenders are unequipped to underwrite. We believe our ability to assess risk in lesser-known terrain has opened attractive opportunities in fintech and other rapidly evolving markets.

- **A reputation for reliability**

  Consistency, transparency, and follow-through have earned VPC a reputation as a trusted partner for both borrowers and investors. While ABF tourism resembles inexperienced hikers rushing toward a scenic but treacherous trail, VPC operates more like a mountain guide with a deep understanding of the terrain, specialized tools and training, a proven history of navigating through storms, and a trusted network of partners.

Continue the conversation

Victory Park Capital's approach is designed for flexibility. The team's ability to enter new sectors, fund investments via delayed drawdowns, and scale with portfolio companies helps mitigate blind-pool risk and improve visibility. VPC offers investor-friendly structures, accommodating a wide range of investor needs.

Reach out to learn more.

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Asset-Backed Finance 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.

Duration measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa.

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.

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.

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

Special Purpose Vehicles: A subsidiary created by a parent company for a specific business goal, such as financing or asset securitization, to isolate financial risk from the parent entity.

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