

KKR

ABF PRIMER PART 1

Asset-Based Finance: Private Credit Hidden in Plain Sight





Introduction

Private asset-based finance (ABF) has grown with impressive speed since the Global Financial Crisis (GFC). As traditional banks continue retreating from lending to certain markets and asset classes, private, non-bank lenders like KKR are filling the gap. The last decade favored direct lending, which became a well-traveled path for investors with private credit allocations. Now ABF is taking a similar road, grabbing the spotlight with its historically attractive yields, diversification benefits, and vast market size.

Importantly, ABF investing demands scale, sophistication and capital flexibility. In our view, this will favor managers with specialized credit expertise, deep relationships, and an ability to deliver complete solutions. Before walking through the basics of ABF - including how it differs from direct lending and the role it can play in investor portfolios - it's worth explaining what this thriving sector of private credit is all about.

What is asset-based finance?

At its core, ABF is a form of credit investing where each investment is backed by large, diversified pools of assets. These assets come in many forms, including financial assets (such as pools of auto or consumer loans, or accounts receivable) and hard assets such as airplanes, industrial equipment, or residential real estate (Exhibit 1). ABF also supports contractual assets such as music IP and healthcare royalties. Simply put, today's ABF market provides the credit that our modern economy runs on.

EXHIBIT I | The Economy Runs on ABF



Source: KKR as of June 6, 2025

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Note: Unless indicated, the above reflects the current market views, opinions and expectations of KKR based on its historic experience and other analysis. Historic market trends are not reliable indicators of actual future market behavior or future performance which may differ materially, and are not to be relied upon as such.

Today's ABF opportunity is too big to ignore

The private global ABF market is over \$6.1 trillion today—a figure nearly twice as large as its pre-GFC peak of \$3.1 trillion in 2006 (Exhibit 2). By 2029, we estimate the global private ABF market could reach \$9.2 trillion. That's larger than today's syndicated loan, high yield bond, and direct lending markets combined.

How did ABF grow so fast? On the whole, banks are doing considerably less in ABF today. Following the GFC, traditional banks were subject to stricter regulations, higher capital requirements, and tighter underwriting standards – a tale that's been well documented and discussed. Bank consolidation is another contributor

to the ABF market's ascent, as the number of U.S. commercial banks has halved since 2000, with further downsizing probable.

Structurally, today's demand for credit isn't slowing; it's growing. Indeed, U.S. household debt surpassed \$18 trillion last year, up from \$8 trillion in 2004. Taken together, current market dynamics signal sustained opportunities for ABF investors. More importantly, when markets dislocate, like in 2022 when inflation and rates spiked or in 2023 as Silicon Valley Bank failed, private lenders' market-share gains often accelerate as their capital becomes more valuable to borrowers.

EXHIBIT 2 | ABF Is a Fast-Growing Market with Room to Run



Source: Integer Advisors and KKR Credit research estimates based on latest available data as of March 31, 2024, sourced from country-specific official/trade bodies as well as company reports. Represents the private financial assets originated and held by non-banks based globally, related to household (including mortgages) and business credit. Excludes loans securitized or sold to government agencies and assets acquired in the capital markets or through other secondary/syndicated channels.

What role does ABF play in a balanced portfolio?

Improving portfolio diversification

The risk-return profile of ABF offers clear diversification benefits in investor portfolios (Exhibit 3). It can diversify allocations to public fixed income and private direct lending and has one of the lowest average correlations to other common asset classes. This is largely attributable to ABF's emphasis on non-corporate credit exposures.

How diversified? ABF covers a wide variety of underlying financial and hard assets. Consumer auto loans may be expected to perform differently than railcar leases and music royalties. And as we explain

further below, each individual pool of assets contains a multitude of underlying assets — thousands of home mortgages or car loans, for example — across different borrowers, credit profiles, and geographic regions.

Beyond asset class diversification, making an allocation to ABF also offers some inflation protection. The value of underlying loan collateral, particularly hard assets, tends to rise along with consumer prices. As for yields, the vast majority of ABF investments are fixed-rate, which can complement private direct lending strategies where exposures are predominantly floating-rate.

EXHIBIT 3 | ABF Has Low Correlations with Public Credit, Private Credit, and Equities

	Global Private Credit	Global Private Equity	US Loans	US High Yield	Global Infrastructure	Global Real Estate	KKR ABF
Global Private Credit	-	0.92	0.85	0.81	0.85	0.65	0.69
Global Private Equity	0.92	-	0.73	0.77	0.80	0.69	0.66
US Loans	0.85	0.73	-	0.90	0.64	0.35	0.60
US High Yield	0.81	0.77	0.90	-	0.67	0.30	0.51
Global Infrastructure	0.85	0.80	0.64	0.67	-	0.71	0.50
Global Real Estate	0.65	0.69	0.35	0.30	0.71	-	0.67
KKR ABF	0.69	0.66	0.60	0.51	0.50	0.67	-
Average Correlation	0.79	0.76	0.68	0.66	0.50	0.67	0.61

Note: The table above reflects the correlation between market movements (which may be positive or negative) of the asset classes represented in the table from the period commencing July 1, 2017, up to and including September 30, 2024, based on their respective gross returns during this period (for example, a correlation of "1" between asset classes would indicate that market movements of both asset classes (whether positive or negative) during the period were identical). Gross performance of each asset class is based on gross returns of the following indices. Global Private Equity (Cambridge Private Equity Index), Global Real Estate (Cambridge Real Estate Index), Global Infrastructure (Cambridge Infrastructure Index), Global Private Credit (Cambridge Private Credit Index), US High Yield (ICE BofA US High Yield Index), US Loans (Morningstar LSTA US Leveraged Loan TR USD), KKR ABF (KKR Private Credit ABF Composite, investments originated post-January 1, 2017). See "Important Information" for additional detail about the use of indices. Historic market trends are not reliable indicators of actual future market behavior including future correlations of any asset classes referred to above. Diversification does not guarantee returns or capital preservation.

How does ABF differ from direct lending?

While both are part of the private credit ecosystem, ABF and direct lending represent two distinct approaches to private lending. Combined in a portfolio, these two private credit approaches are complementary.

In direct lending, corporate borrowers receive loans directly from private non-bank lenders like KKR. Setting loan terms requires assessing the company's creditworthiness. Ultimately, the borrower's ability to pay regular interest, plus the full principal at the end of the loan, is a function of the company's future operating cash flows from selling goods and services. (Exhibit 4).

In ABF, lenders don't focus on operating cash flows for loan repayments. Instead, the primary source of repayment is secured by hard assets or diversified pools of financial assets. How diversified are these pools? When it comes to auto loans and mortgages, for example, it's thousands of underlying loans across different borrowers, credit profiles, and geographic regions.

EXHIBIT 4 | Direct Lending and ABF Explained

Direct Lending — future corporate cash flows drive loan repayments



The corporate borrower's ability to pay interest and principal is a function of its future operating cash flows, which are derived from goods and services sold.

Asset-Based Finance — loan repayments are backed by financial or hard assets



ABF loans are secured by hard assets, such as company equipment, or pools of financial assets, such as auto or home loans. These assets generate their own cash flows that support repayment.

Front-loaded principal payments vs. interest-only coupons

Another difference between ABF and direct lending is that ABF investors receive front-loaded principal payments plus interest, similar to the way homeowners make their mortgage payments. Exhibit 5 shows a stylized snapshot of the “self-amortizing” nature of ABF.

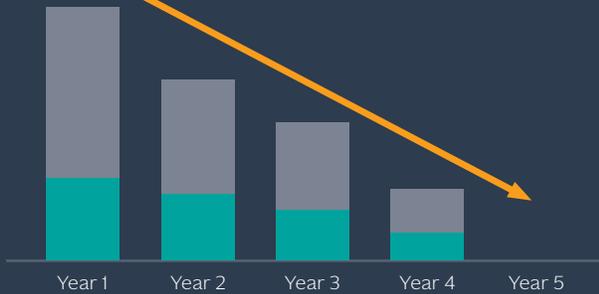
By contrast, direct lending investors typically receive interest-only coupons, while the majority of the principal amount arrives in one lump sum at the end of the loan term, with limited amortization.

EXHIBIT 5 | Getting Paid Back: ABF Differs From Direct Lending

Asset-Based Finance

■ Interest ■ Principal

Self-Amortizing



- Substantially self-amortizing due to profile of underlying assets
- 1-5-year average life

Direct Lending

■ Interest ■ Principal

Bullet Maturity



- Repayments driven by a capital markets exit, refinancing, or sale
- 3-5-year average life

How KKR approaches the ABF market – casting a wide net

At KKR, we don't pursue a single investment strategy in ABF. Instead, by casting a wider net across the four sub-sectors shown below, we're able to source a broader variety of attractive, bespoke transactions while also taking advantage of relative value opportunities. Significant investment in our team, resources, and platform over the last nine years positions us for long-term success.

Consumer & Mortgages



We finance mortgages, auto loans, student loans, and other types of consumer debt. Our focus is on high-quality borrowers (prime and super prime) and more secured risk types.

KKR ABF in Action:

In the wake of the U.S. bank failures in 2023, BMO Bank N.A., the eighth-largest bank in North America by assets, agreed to sell a \$7.2 billion portfolio of recreational vehicle (RV) loans backed by super-prime borrowers to KKR.

Commercial Finance



We support equipment leases, receivables financing, and lending to small- and medium-sized businesses and large corporations.

KKR ABF in Action:

Weber LLC is a leading global manufacturer of outdoor barbecues and grill accessories. KKR invested in a \$300 million financing facility that lends against Weber's accounts receivable from its customer base of investment-grade global retailers.

Hard Assets



We have supported aircraft leasing, single-family rentals, railcars, and green energy.

KKR ABF in Action:

Altavair L.P. is a full-service aircraft asset manager with decades of experience in acquiring, leasing, repurposing and selling commercial aircraft. KKR made a \$1.15 billion investment to form a new investment vehicle (Altitude Aircraft II) dedicated to acquiring and leasing commercial aircraft.

Contractual Cash Flows



We support investments backed by cash flow-producing assets such as intellectual property and royalty streams in industries like media and healthcare.

KKR ABF in Action:

HarbourView Equity Partners has a music rights portfolio of over 35,000 songs from artists such as George Benson, Pat Benatar, Wiz Khalifa, T-Pain and Fleetwood Mac's Christine McVie. KKR invested \$1 billion of debt financing, backed by HarbourView's music portfolio.

The companies shown above represent the breadth of KKR's underwriting expertise across four distinct ABF sub-sectors and are illustrative transactions in KKR Credit flagship funds. The specific portfolio companies identified are not representative of all of the securities purchased, sold or recommended for advisory clients, and it should not be assumed that the investment in the companies identified was or will be profitable.

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Conclusion

Private ABF is a growing and critical tool for financing the day-to-day activities of consumers and businesses around the world. Though today's addressable ABF market already feels quite large, ABF is where direct lending was a decade ago. Banks, originators, and a growing number of public companies are collaborating with KKR as a trusted balance sheet partner - selling off portfolios of assets that we believe offer attractive risk-adjusted returns through customized transactions.

As for investors, today's expanding private credit universe ostensibly requires a multi-sector, multi-asset approach. Adding ABF exposure to an existing direct lending allocation can help diversify corporate credit risk with an expanded opportunity set. Moreover, ABF offers the potential to increase yields/returns and boost downside protection, alongside low market correlations for optimizing portfolio diversification across market cycles.

To learn more about KKR's ABF capabilities, please reach out to your KKR Relationship Manager.



Important Information

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