



Brookfield

How the
Asset-Backed
Finance Universe
Works



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Introduction: Understanding How Asset-Backed Finance Works

Asset-backed finance (ABF), a form of lending that draws income from and is backed by a range of underlying assets, is an increasingly important strategy within the broader private credit universe. We view ABF as a versatile component across credit allocations: it can stand on its own or complement corporate direct lending and other private credit, with the potential to boost income and enhance diversification.¹

ABF is hardly a recent innovation. The concept of securing contractual income from a loan backed by some sort of collateral is well established. What is new is *how* ABF has expanded into the modern economy and the significant role that it plays in our everyday lives. Today, it spans industries as diverse as aviation financing, consumer lending and music royalty earnings streams.

This paper focuses on how ABF works. We detail its structures and cash-flow dynamics across financial assets, hard assets and intellectual property. We then highlight the sourcing and underwriting that managers consider when constructing an ABF portfolio.



Three Key ABF Assets: How They Work and Why It Matters

ABF’s versatility makes it a flexible financing tool capable of unlocking capital across a wide range of sectors, from consumer finance to transportation and infrastructure.

At its core, ABF transactions are tied to assets that form the backbone of the global economy and support a variety of everyday activities (**Figure 1**). Private ABF transactions typically fall under three collateral categories:

- **Hard assets.** Tangible property such as aircraft, vehicles or equipment.
- **Financial assets.** Pools of loans, leases or mortgages that generate cash flow.
- **Intellectual property.** Intangible rights such as music royalties or patents.

Together, these categories show the breadth of the ABF universe—from physical assets to contractual obligations to creative works.



Figure 1: The ABF Universe Supports the Global Economy

Asset Type	Examples	Collateral	Recurring Cash Flows
Hard assets	Tangible or physical assets	<ul style="list-style-type: none"> • Aircraft • Equipment leases • Infrastructure assets 	<ul style="list-style-type: none"> • Long-term leases • Rental payments • Take-or-pay contracts
Financial assets	Pools of leases or mortgages NAV lending	<ul style="list-style-type: none"> • Auto loans • Residential mortgages • Business and consumer loans • LP interests 	<ul style="list-style-type: none"> • Monthly car payments • Lease payments • Debt servicing • GP commitments
Intellectual property	Cash flow-producing assets	<ul style="list-style-type: none"> • Music royalties 	<ul style="list-style-type: none"> • Streaming revenue

For investors, ABF matters because it can help drive portfolio outcomes. For example, by turning pools of contractual cash flows into secured financing, ABF can serve as an effective component of a portfolio by delivering steady income potential, diversifying away from single-borrower corporate risk and adding additional structural protections that may help dampen portfolio volatility when markets are stressed.

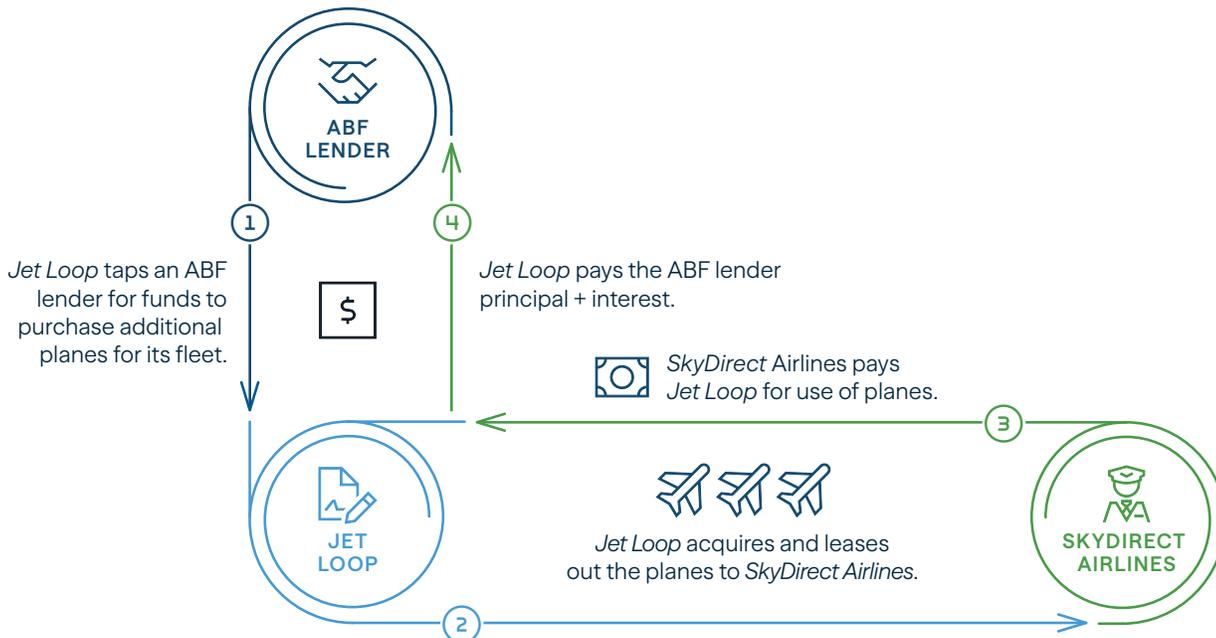
The sections that follow use hypothetical examples to explain how ABF works and what that means for investors: the relative predictability and durability of ABF’s cash flows, its historically resilient nature, and its risk mitigation. We’ll also explore how ABF exposures can fit into a portfolio and complement corporate direct lending and traditional private credit.



Lending With Hard Assets as Collateral

An ABF lender provides leasing company Jet Loop the capital to purchase three planes to add to its fleet. Jet Loop leases the planes to SkyDirect Airlines, which pays Jet Loop for the use of these commercial planes. Jet Loop pays the ABF lender the principal plus interest (**Figure 2**).

Figure 2: How It Works: Aircraft Leasing



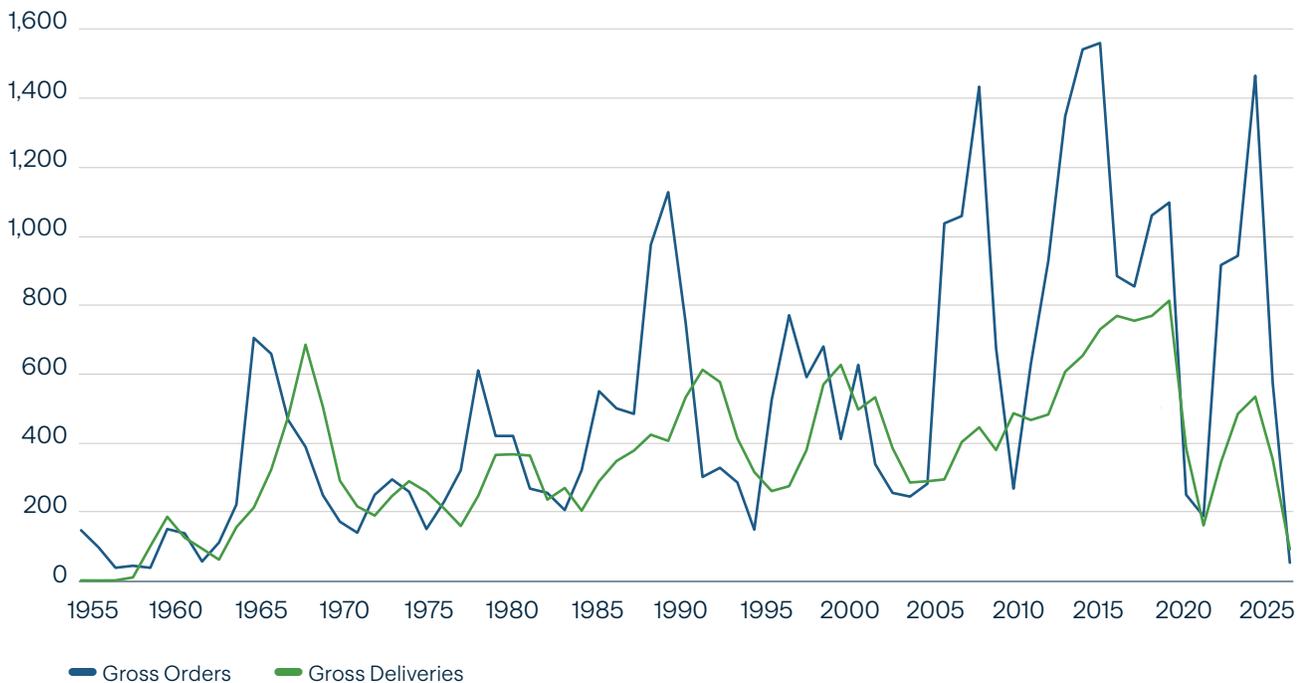
This hypothetical case study is for informational purposes only and illustrates a potential investment process. It does not constitute a recommendation or investment advice and should not be relied upon for investment decisions. The views expressed are those of Brookfield Private Wealth and are for illustrative purposes only.

Why It Matters

The aviation industry, known for its capital intensity and cyclical volatility, has increasingly turned to ABF to meet its funding needs. Using planes as collateral gives lenders tangible security, while lease payments provide predictable income. If the borrower faces financial difficulty and cannot meet its obligations, lenders can repossess and sell the aircraft, helping preserve the initial investment as well as the potential recovery value.

The need for financing solutions such as ABF is growing as aircraft demand continues to outpace supply (**Figure 3**). Over the past five years, one of the largest global manufacturers, Boeing, has fulfilled less than half of its aircraft orders, facing backlogs exceeding 6,000 units. Production has slowed due to supply chain disruptions, labor shortages and regulatory delays, with normalization not expected until 2030.²

Figure 3: Aircraft Demand Significantly Outpacing Deliveries
Boeing annual orders and deliveries



Source: Boeing, Commercial Market Outlook 2024-2043, CMO Forecast. Data as of November 30, 2025.

Consequently, airlines are increasingly turning to midlife aircraft already in operation, driving demand for leasing arrangements and ABF solutions. This shift may present an opportunity for investors to consider allocating capital to essential, income-generating assets, subject to market conditions and individual risk assessments.

Lending With Financial Assets as Collateral

Rather than lending directly to individual borrowers, ABF lenders provide capital to other lenders, known as originators. Take a hypothetical company, LendCo, which specializes in issuing home improvement loans (**Figure 4**).

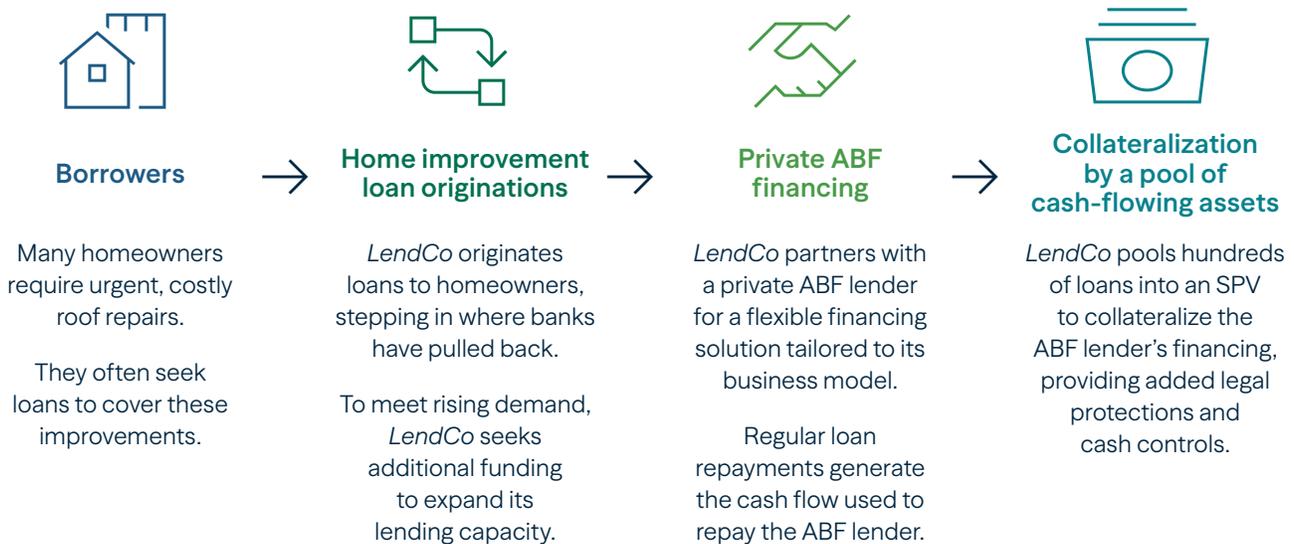
To secure financing and scale its operations, LendCo pools hundreds or thousands of these loans into a special-purpose vehicle (SPV), which becomes the legal owner of the assets. The ABF lender finances the SPV using the loan pool as collateral. Repayments flow from borrowers' scheduled payments of principal and interest, often supported by additional protections such as excess collateral or reserves.

The SPV structure isolates the collateral from LendCo's operational risks, ensuring that the predictable cash flows from borrower repayments—of both principal and interest—are used to repay the ABF lender. This arrangement allows capital to flow efficiently through the economy, enabling originators to continue supporting consumers while investors gain access to stable, contractual income streams backed by real-world financial activity.



Figure 4: How It Works: Consumer Loans

Financial assets underpin many everyday consumer loans

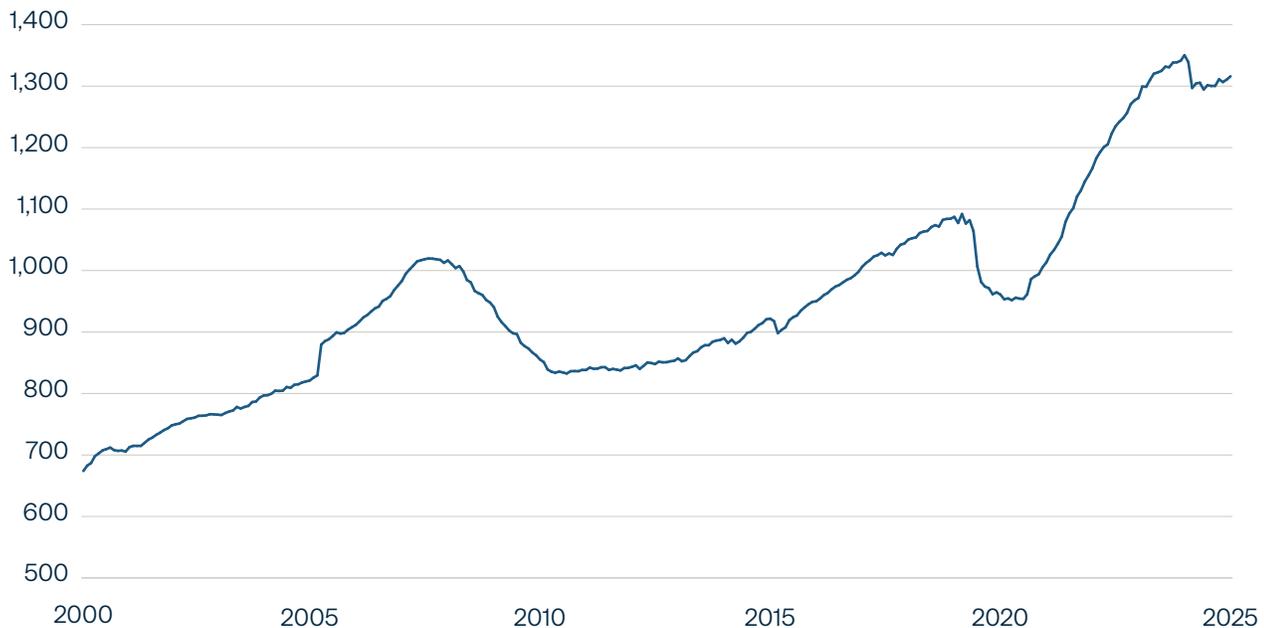


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Why It Matters

U.S. households continue to rely on consumer credit to fund essential and discretionary spending, with personal consumption accounting for nearly 70% of GDP.³ This persistent demand underpins consumer-focused ABF strategies (**Figure 5**).

Figure 5: Rising Consumption Is Driving Increased Demand for Consumer Loans
Revolving consumer credit owned and securitized (USD billions, seasonally adjusted)

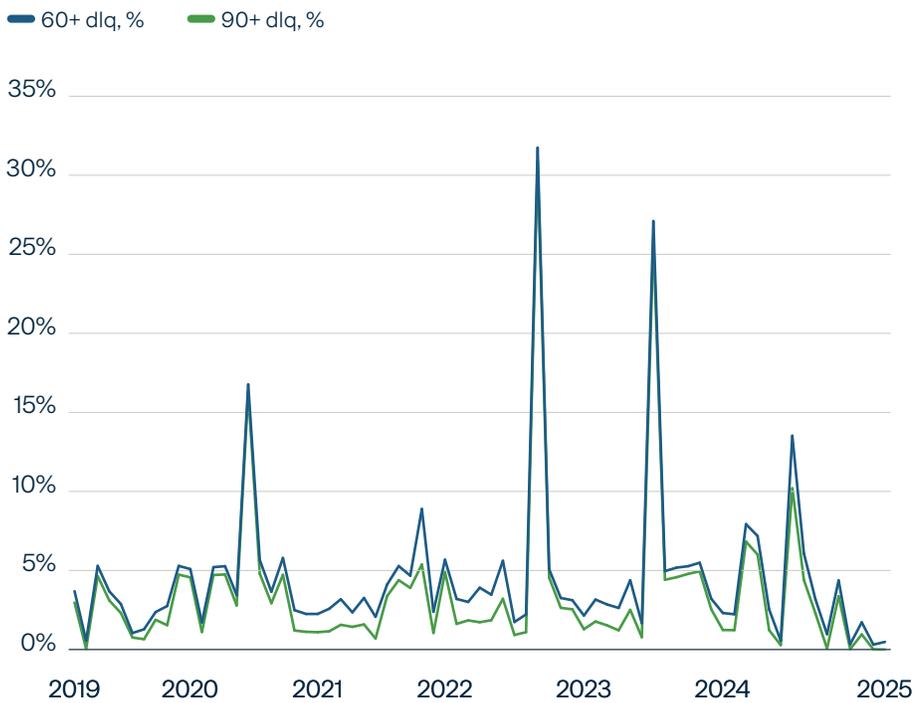


Source: Federal Reserve Economic Data. Data as of October 10, 2025.



Importantly, loan performance remains stable: Delinquencies on personal loans have settled around 4.1%, auto lease delinquencies remain near 0.2% and prime credit card delinquencies are holding steady at approximately 1%—all in line with pre-pandemic norms (**Figure 6**).⁴ Broader indicators, including debt-to-income ratios and overdue account levels, remain within historical ranges, signaling normalized repayment behavior and continued prioritization of financial obligations.

Figure 6: Consumer Loan ABS, Personal Loan Delinquency Rate



Source: Deutsche Bank, Intex Solutions. Data as of October 31, 2025.

This stability is critical for ABF investors. Low and predictable delinquency rates can translate into more reliable cash flows and strong collateral performance.

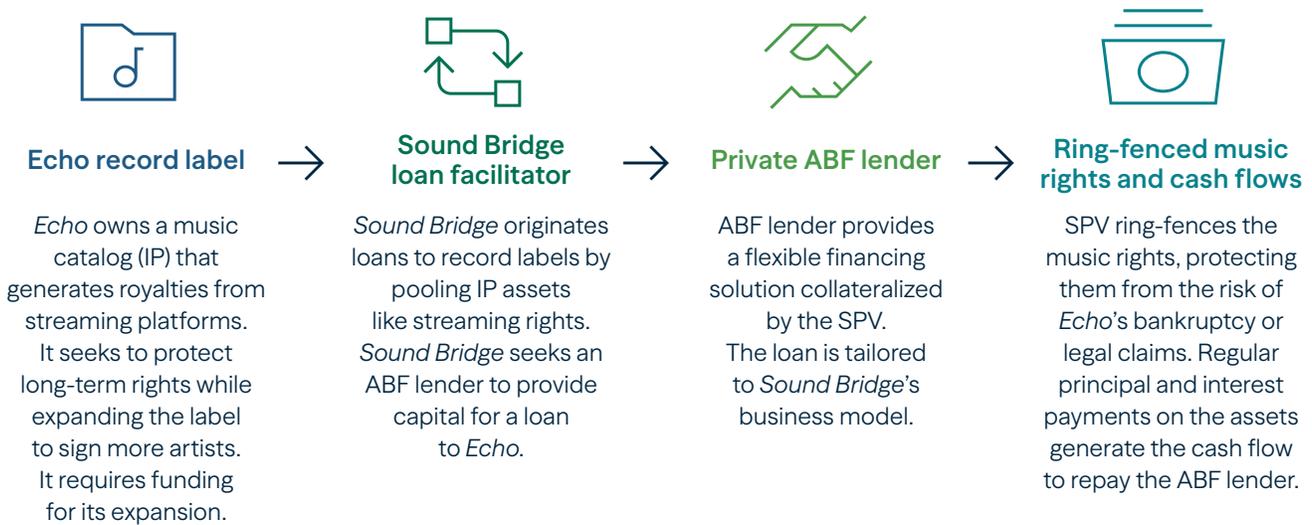


Lending With Intellectual Property as Collateral

Intellectual property (IP), such as music rights, is increasingly being used as collateral in ABF transactions (**Figure 7**). Consider this hypothetical case study: record label Echo owns a music catalog generating royalties from streaming platforms. It seeks to preserve its long-term rights while expanding its label. To fund this growth, Sound Bridge originates loans to record labels by pooling IP assets like streaming rights into a SPV. An ABF lender then provides capital for the loan, secured by the SPV.

Figure 7: How It Works: Music Royalties

Intellectual property can secure funding while preserving future rights



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Why It Matters

Using IP as collateral can help protect music rights against risks such as bankruptcy or legal claims against Echo, while offering investors a flexible financing solution tailored to Sound Bridge's business model. Regular royalty payments can provide the cash flows needed to repay the ABF lender, helping to create a more stable and collateralized income stream.

By ring-fencing IP in an SPV, originators unlock upfront funding while maintaining ownership and control over long-term royalties—making ABF a powerful tool for monetizing intangible assets in the creative economy.



Bowie Bonds were groundbreaking securities backed by David Bowie's future music royalties. Issued in 1997, they raised \$55 million upfront by monetizing intellectual property.⁵ As an early example of ABF, they demonstrated how intangible assets could be securitized to create structured investment products.

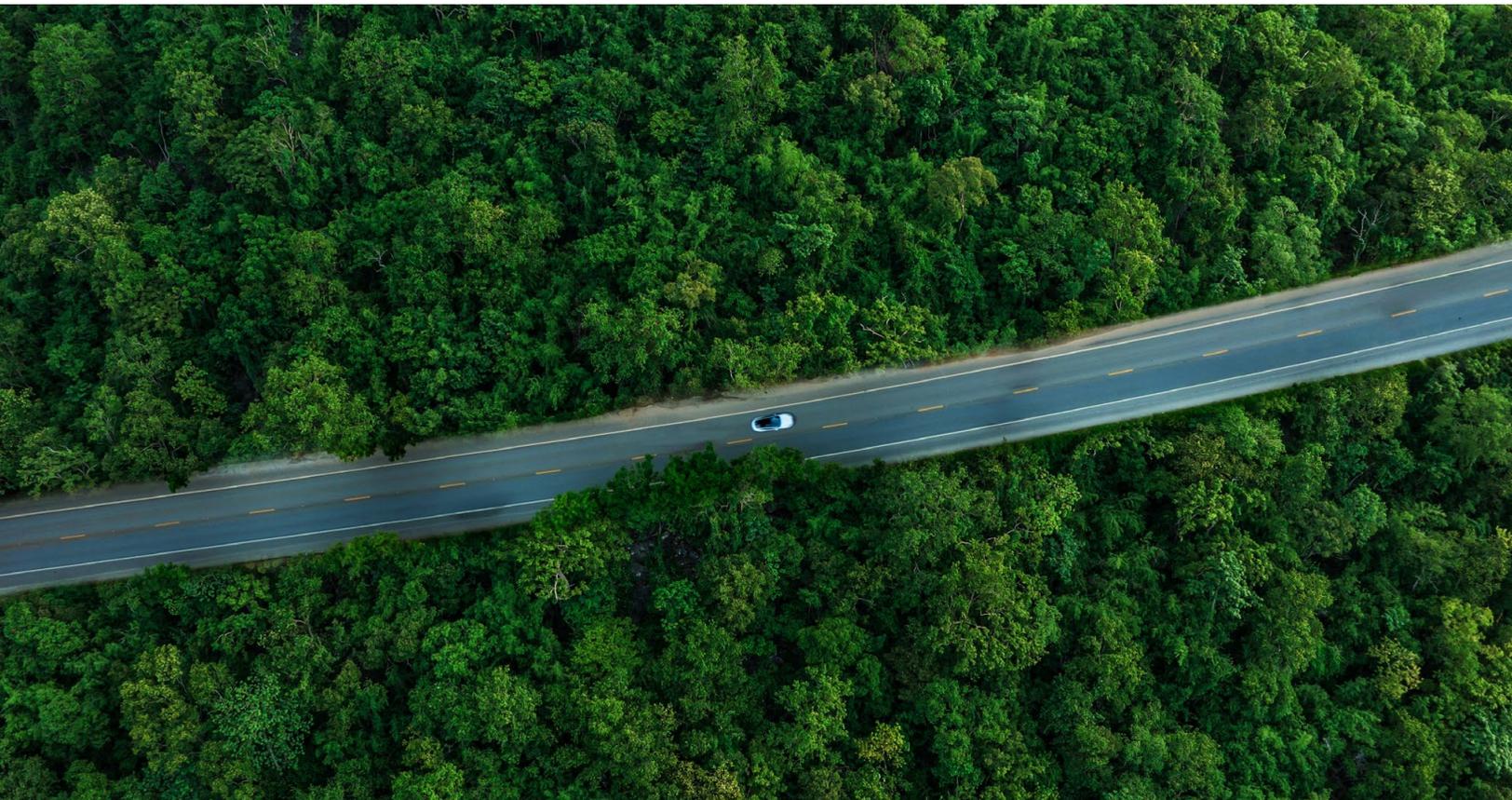


Conclusion: The Importance of Expertise and Skill

Private lending has seen significant growth since the 2008 global financial crisis, a result of secular trends in the wake of the crisis. These include banks significantly reducing lending activity, regulatory headwinds, and fiscal tightening, among others.

These trends have created a compelling opportunity for private lenders with the expertise and scale to step in and fill the financing void. We are now seeing private credit growth expand into one of the oldest areas of lending: asset-backed finance. Indeed, we believe ABF is the next frontier of private credit.

ABF loans can be complex, requiring significant expertise and skill in executing them. It is critical for investors in funds utilizing ABF to understand how the various types of ABF transactions are formed, the reliability of the income they generate and how ABF managers mitigate risk. By doing so, investors are empowered to assess potential new allocations in private credit with confidence.



Endnotes

1. ABF investments are subject to credit, collateral-value and liquidity risks that may reduce income and can create losses, and diversification benefits are not guaranteed.
2. Boeing, Commercial Market Outlook 2024-2043, CMO Forecast, November 30, 2025.
3. Federal Reserve Economic Data, Shares of Gross Domestic Product: Personal Consumption Expenditures, September 25, 2025.
4. Deutsche Bank, Credit Securitization. Personal Loan: Consumer ABS, October 31, 2025.
5. Dan McCrum, "A Short History of the Bowie Bond," *Financial Times*, January 11, 2016.

Asset-backed finance investments involve significant risks, including credit risk, illiquidity risk and market volatility. There is no guarantee that investment strategies will achieve their objectives or that portfolio diversification will prevent losses. The attractiveness of the market segments and investment opportunities described herein are based on current market conditions. Market factors such as interest-rate movements and inflation may affect returns, and investments tied to real estate or mortgages carry property and borrower-related risks. Additional considerations include foreign market and currency fluctuations, regulatory changes, operational and cybersecurity vulnerabilities, and potential conflicts of interest in managing multiple strategies.

Past performance does not guarantee future results. Actual investment outcomes may vary significantly from expectations.

A Word About Risk

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 with 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.

Investments in real estate-related instruments may be affected by economic, legal or environmental factors that affect property values, rents or occupancies of real estate.

Infrastructure companies may be subject to a variety of factors that may adversely affect their business, including high interest costs, high leverage, regulation costs, economic slowdown, surplus capacity, increased competition, lack of fuel availability and energy conservation policies.

Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. High-yield bonds are subject to interest-rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Yields are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision.

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