ROYAL LONDON
ASSET MANAGEMENT

Private credit beyond direct lending: the role of Asset Based Finance for insurers

Alok Bedekar, Senior ABS Fund Manager, explores the key features and dynamics of Asset Based Finance, and the role it can potentially play in insurer portfolios.

In an environment characterised by higher interest rates, greater macro uncertainty and evolving regulatory constraints, insurers are increasingly focused on assets that can deliver resilient income, capital efficiency and predictable outcomes. In this article, we make the case for why we believe Asset Based Finance (ABF) is a complementary addition to fixed income portfolios, and could align closely with the needs of insurance balance sheets.

What is Asset Based Finance?

Asset Based Finance (ABF) is a subset of the private credit market and refers to a range of financial solutions where companies use their assets as collateral to secure funding; or, put more simply, it refers to debt instruments secured against a diversified pool of loans or receivables with similar characteristics.

It can offer institutional investors access to short-dated, typically floating rate, asset-backed cashflows that sit outside traditional public bond markets, potentially providing a compelling combination of high income and low duration.

The cashflows are contractual in nature and secured against tangible assets, such as property, equipment, receivables and inventory, or intangible assets such as accounts receivable and consumer loans, meaning returns are driven primarily by the performance of underlying loans, rather than broader market sentiment or refinancing conditions.

ABF hides in plain sight:

Where you live:	Financed by mortgages
How you buy:	Financed by credit card receivables and consumer loans
What you drive:	Financed by auto loans, leases and rentals
How you pay for school:	Tuition financed by private student loans
What you consume:	Big and small ticket purchases
Who you cheer for:	Media contracts financed by broadcasting rights

The privately originated and bespoke nature of ABF allows managers to shape exposure across geographies, maturities, credit quality and collateral types. This makes it valuable not only as a source of income, but as a portfolio construction tool: one that can help investors diversify away from traditional corporate borrower risk. Within a private credit allocation, ABF complements corporate direct lending by introducing different underlying assets and cashflow profiles, broadening the potential sources of return available to investors.

Key features of Asset Based Finance

Fixed income portfolios are facing renewed challenges: refinancing risk has re-emerged, volatility has increased, and the compensation for corporate credit risk has reduced. Against this backdrop, ABF offers a combination of features that we believe make it a compelling consideration for investors:

1. Contractual cashflows

ABF cashflows are contractual: underlying borrowers are expected to make payments in line with agreed schedules and returns are driven primarily by borrower behaviour. By contrast, corporate lending relies on a company's ability to generate operating cashflows and is therefore exposed to business performance and earnings cyclicality, introducing additional sources of volatility that are typically less prevalent in ABF.

2. Self-amortising

ABF structures are self-amortising with capital repaid progressively over the life of the loan (usually 1-5 years). This is different from direct lending where the principal is repaid as a lump sum at maturity and is often driven by a sale or a refinancing subject to prevailing market conditions.

These self-amortising cashflows can materially reduce refinancing risk and help lower sensitivity to changes in interest rates - an important consideration for investors seeking consistent outcomes through uncertain economic cycles.

3. Floating rate

Many ABF structures pay floating-rate coupons which can help reduce duration sensitivity and support income resilience in higher interest rate environments.

4. Investment grade

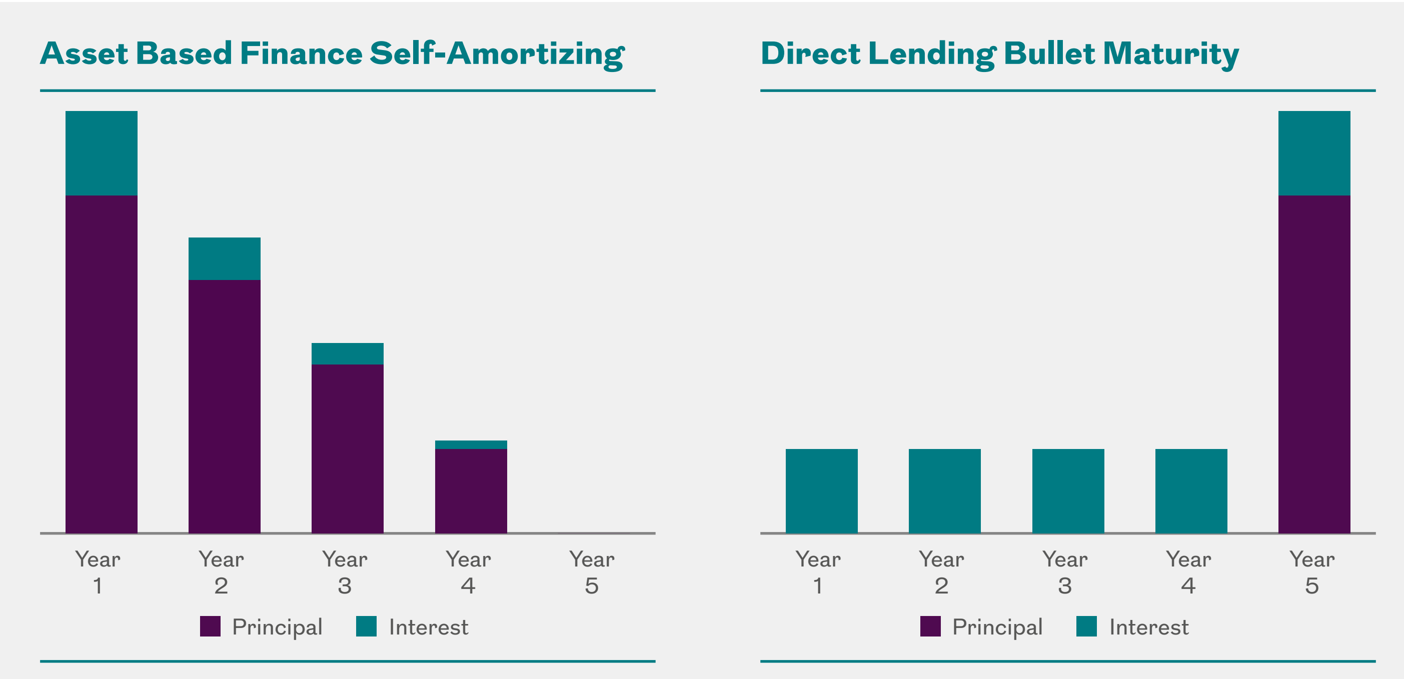
Investments are typically structured at senior levels, secured over entire pools of diversified collateral, with bespoke covenants and performance triggers linked directly to asset performance and the quality of the loan servicing and administration. These structures are set so that they can tolerate asset price declines, reinforcing their defensive characteristics.

5. Access to Illiquidity premia

ABF provides access to illiquidity premia that in our view, are difficult to capture in crowded public markets. By investing directly into privately originated, bespoke transactions investors can potentially benefit from enhanced structural control, tailored documentation and pricing that more fully reflects the complexity of the underlying assets.

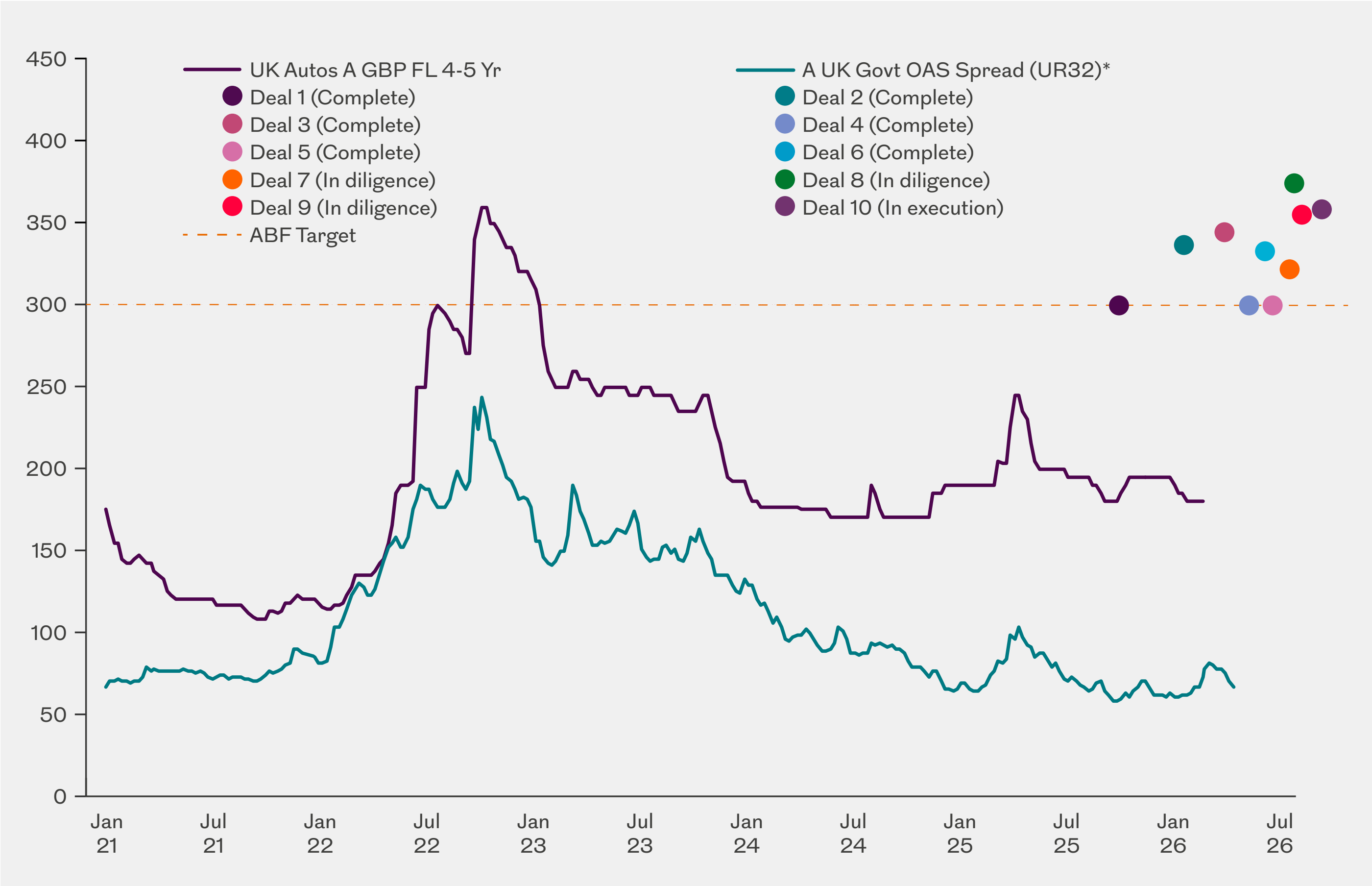
Taken together, we believe these features can result in higher spreads relative to government bonds or public ABS, while retaining an investment grade risk profile.

Figure 1. The self-amortizing nature of ABF



Source RLAM. For illustrative purposes only.

Figure 2. Royal London Asset Based Financing Fund: ABF transaction spreads



Source RLAM. As at April 2026.

Past performance is not a guarantee or reliable indicator of future returns. For illustrative purposes only.
*A benchmark index of A rated sterling bonds maturing in the next 3-5 years.

While these characteristics are relevant across investor types, we think they are particularly well aligned with the requirements of insurance balance sheets.

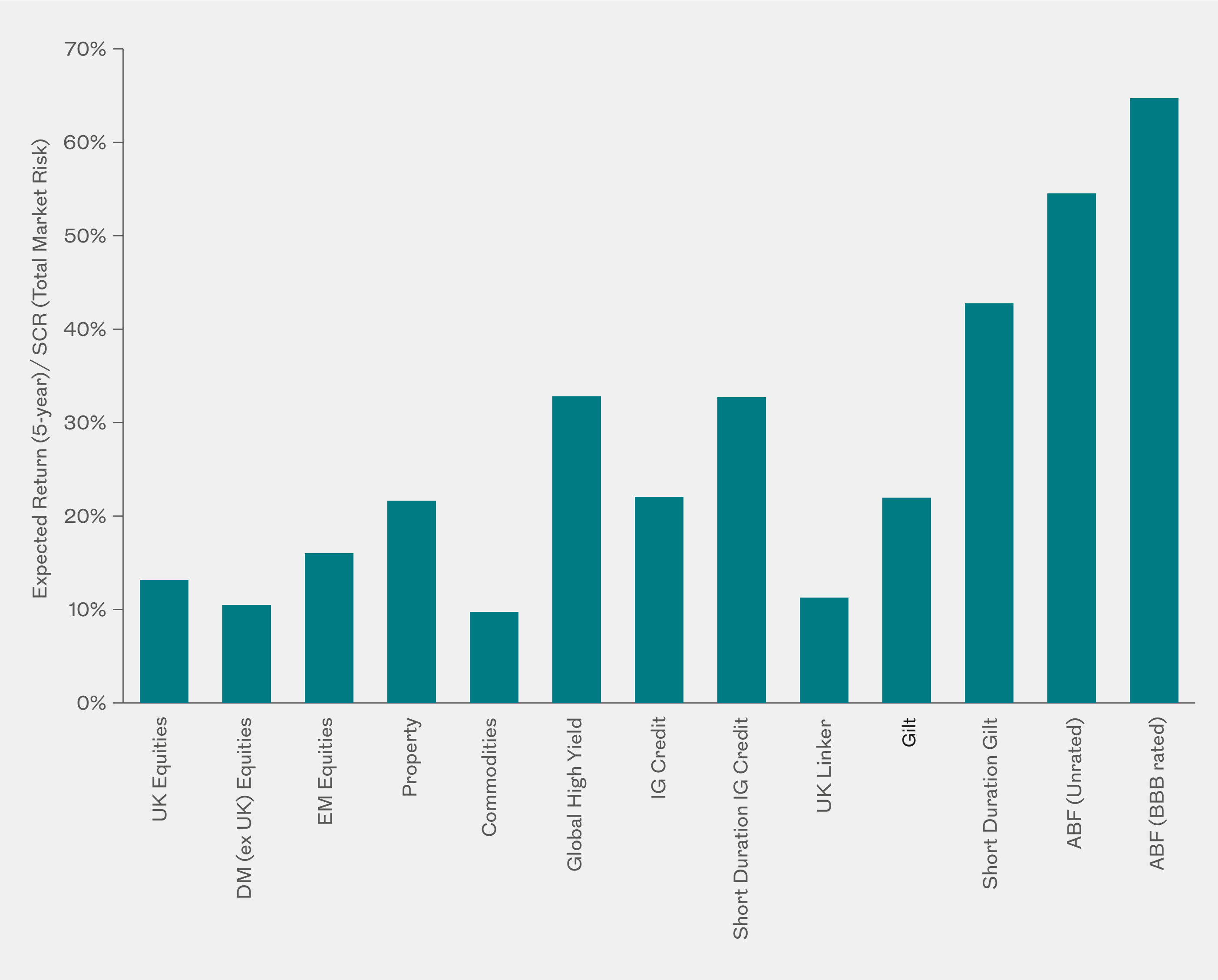
Why we believe ABF deserves a place in insurer portfolios

Insurers are arguably the institutional investor group best positioned to benefit from senior secured ABF, given their preference for high quality, fixed income cashflows and sensitivity to capital efficiency.

For insurers operating under the Solvency II or Solvency UK standard formula, private non securitised ABF assets are typically treated in line with corporate bond exposures rather than securitised credit, provided appropriate look-through is available on the underlying asset pool. In these cases, capital requirements are driven primarily by rating, spread and duration, avoiding the materially higher stresses applied to securitisations and allowing insurers to access asset backed income without incurring disproportionate increases in solvency capital.

For example, taking five-year expected returns (GBP) by asset class and adjusting for standard formula capital charges, ABF is in our opinion highly attractive versus other areas of fixed income.

Figure 3. Forecast (five-year GBP) by asset class adjusted for SCR



Source RLAM. As at March 2026.

Forecasts are not guaranteed and are not a reliable indicator of future returns.

All expected returns are part of the capital market assumptions that are prepared by the Royal London Asset Management Multi Asset team on a quarterly basis. These assumptions look at key asset classes and provide expected returns over various time horizons together with volatilities and correlations. Assumptions are not guarantees and are subject to change.

For internal model insurers, capital outcomes are driven by the insurer's assessment of cashflow stability, recovery values and stress performance. In this context, the characteristics of ABF - including contractual, asset-backed cashflows and security over diversified pools of collateral - can align well with the way internal models assess risk, particularly where the stability and recoverability of underlying cashflows can be evidenced through detailed loan-level data.

While ABF may offer these characteristics, achieving these outcomes in practice depends on how the asset class is accessed and managed.

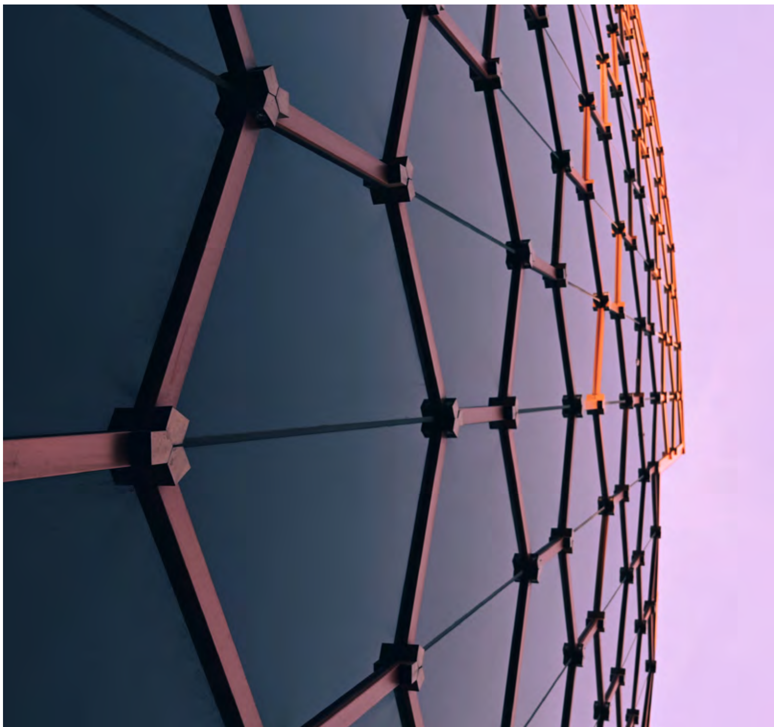


Figure 4. Capturing the benefits of ABF

Our Approach

ABF is a pure private asset class with no readily available access to deal flow

Exclusive Origination Network

- 70% of transactions directly originated through established relationships.
- Proven track record with equal focus on sponsor and non-sponsor businesses.
- Execute on time and provide funding certainty.

Target Market

- Mid-market, sponsor- and non-sponsor backed businesses.
- Avoid scale where complexity meets leverage.
- Emphasis on collateral performance and contractual cashflow

Investment-Grade Credit Quality

- Typically, senior secured structures.
- Focus on strong legal jurisdictions with established enforcement frameworks.
- Investment grade risk and high-income focus.

Institutional Partnership

- Co-investment alongside Royal London, a mutually owned and trusted £199bn asset manager.
- PRA regulated insurer with governance and controls designed to meet institutional rigour.

Experienced Team

- Led by team of professionals with 70+ years of combined structured finance/ private credit expertise, and through the cycle performance.
- Avoid spreadsheet-based lending with equal focus on operational expertise.

For information and illustrative purposes only.

Source: RLAM as at 31 December 2025.

Capturing the benefits of ABF depends on more than simply allocating to the asset class. It requires access to high-quality opportunities, disciplined underwriting and ongoing management - areas where we believe our approach is differentiated.

In private markets, access is fundamental to outcomes. The Royal London Asset Management team has built deep relationships with specialist lenders, banks and originators across sectors including specialist mortgages, equipment finance and consumer credit. These relationships - developed over many years – help support repeat partnerships and proprietary deal flow, which we believe are key determinants of opportunity quality.

Securing access to opportunities is only part of the process. In parts of the private credit market, increased capital flows and competition for assets have contributed to more remote underwriting and looser structural controls. In contrast, our approach is grounded in rigorous due diligence, including direct engagement with management teams and in-person assessment of borrowers and collateral.

This discipline continues throughout the life of each investment. ABF transactions are not 'fire and forget' assets, and we place significant emphasis on ongoing monitoring and engagement to help ensure that outcomes remain aligned with the original underwriting assumptions.

The belief in our approach is defined by Royal London Group's investment in our ABF strategy. This not only demonstrates our commitment to the asset class but creates an alignment of interest with our clients in a market where strict underwriting, active monitoring and long-term stewardship are central to generating consistent outcomes.

From opportunity to outcomes

ABF is increasingly being adopted by insurers due to its consistent return profile and the short-dated, asset-backed cashflows. It can play a complementary role within private credit portfolios and at Royal London Asset Management, we believe that a relationship-led approach, combined with disciplined underwriting, active monitoring and alignment through investing alongside our clients, is central to delivering consistent client outcomes over time.

With the right understanding and the right partner, ABF can play a valuable role in building more resilient and diversified fixed income portfolios.

Investment risks

The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Derivative Risk: Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both Fund losses and gains. The impact to the Fund can be greater where they are used in an extensive or complex manner, where the Fund could lose significantly more than the amount invested in derivatives.

Exchange Rate Risk: Investing in assets denominated in a currency other than the base currency of the Fund means the value of the investment can be affected by changes in exchange rates.

Liquidity Risk: In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Leverage Risk: The Fund employs leverage with the aim of increasing the Fund's returns or yield, however it also increases costs and its risk to capital. In adverse market conditions the Fund's losses can be magnified significantly.

Concentration Risk: The price of Funds that invest in a reduced number of holdings, sectors, or geographical areas may be more heavily affected by events that influence the stockmarket and therefore more volatile.

Liquidity and Dealing risk: The fund invests indirectly in assets that may at times be difficult to value, harder to sell, or sell at a fair price. This means that there may be occasions when you experience a delay in being able to deal in the fund, or receive less than may otherwise be expected when selling your investment.

Unrated bonds: Unrated bonds are not rated by a credit rating agency. RLAM ascribes internal ratings for these bonds which will vary for each asset.

Sub-investment grade investment risk: Lower rated investment grade securities may have large uncertainties or major risk exposures to adverse conditions. The market value of securities in lower rated investment grade categories is more volatile than that of higher quality securities, and the markets in which these securities are traded are less liquid than those in which higher rated securities are traded.

Derivatives risk for efficient portfolio management: Derivatives may be used by these Funds for the purpose of efficient portfolio management. This restricts the use of derivatives to the reduction of risk and the reduction of cost. Such transactions must be economically appropriate and the exposure fully covered.

Overseas markets risk: Funds investing in overseas securities are exposed to, and can hold, currencies other than Sterling. As a result, overseas investments may be affected by the rise and fall in exchange rates.

Contact us

For more information about our range of products and services, please contact us.

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The fund is a sub-fund of Royal London Asset Management Investment Funds ICAV, an Irish collective asset-management vehicle authorised by the Central Bank of Ireland pursuant to the Irish Collective Asset-management Vehicles Act 2015 and the AIFM Regulations, and has been established as an umbrella fund with segregated liability between funds. It is not a recognised scheme under the Financial Services and Markets Act 2000. The Investment Manager is Royal London Asset Management Limited. Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available.

The Management Company is FundRock Management Company SA, Registered office: Airport Center Building, 5 Heienhaff, L-1736 Senningerberg, Luxembourg and is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF). The Investment Manager is Royal London Asset Management Limited.

For more information on the Fund or the risks of investing, please refer to the Prospectus. Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available.

Issued in July 2026 by Royal London Asset Management Limited, 80 Fenchurch Street, London, EC3M 4BY.
Authorised and regulated by the Financial Conduct Authority, firm reference number 141665.
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Source: Royal London Asset Management unless otherwise stated.

Ref: IVC 007

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