PGIM

PRIVATE CREDIT SERIES | PART 3

"BACKED" TO THE FUTURE

How structure and oversight can shape investment outcomes

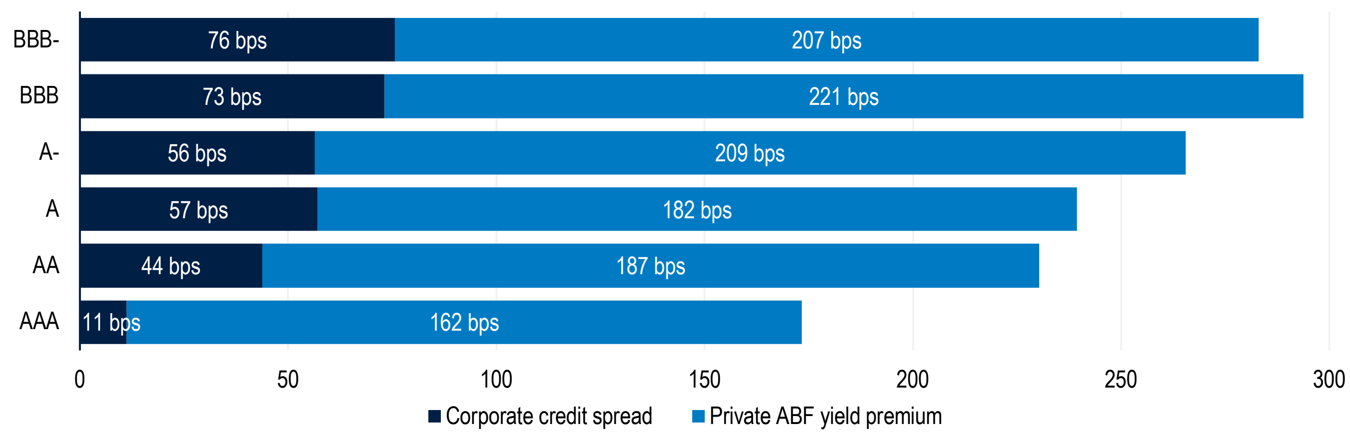
- **As private asset-backed finance markets grow, structure, covenants and lender control increasingly determine outcomes**
- **It is essential to distinguish genuinely asset-backed, bilateral deals from asset-light structures that repackage corporate risk**
- **ABF can add yield and diversification, but success rests on active monitoring and portfolio-level concentration limits**

Institutional capital is pouring into private ABF, attracted by spreads that exceed comparably rated corporate credit. Although the sector benefits from the asset pools underpinning these transactions, outcomes ultimately depend on how those assets are structured, monitored and managed. That distinction is becoming more important as the market grows.

The addressable ABF market in the U.S. alone is estimated at over $5 trillion with private credit managers holding less than 5% share of the market[1] with the total addressable market estimate at twice that size.[2] This expansion reflects a desire by both borrowers and lenders to use capital more efficiently. Banks increasingly prefer indirect exposure to certain assets over direct lending to optimise their capital treatment. Meanwhile, asset-heavy corporates can boost returns on equity by shrinking their balance sheets.

Higher Yields – Private ABF Spread Over U.S. Treasuries

Split into Corporate Spread and ABF Premium Ratings with 10+ Transactions, 2015-2026



Source: PGIM, as of August 2026

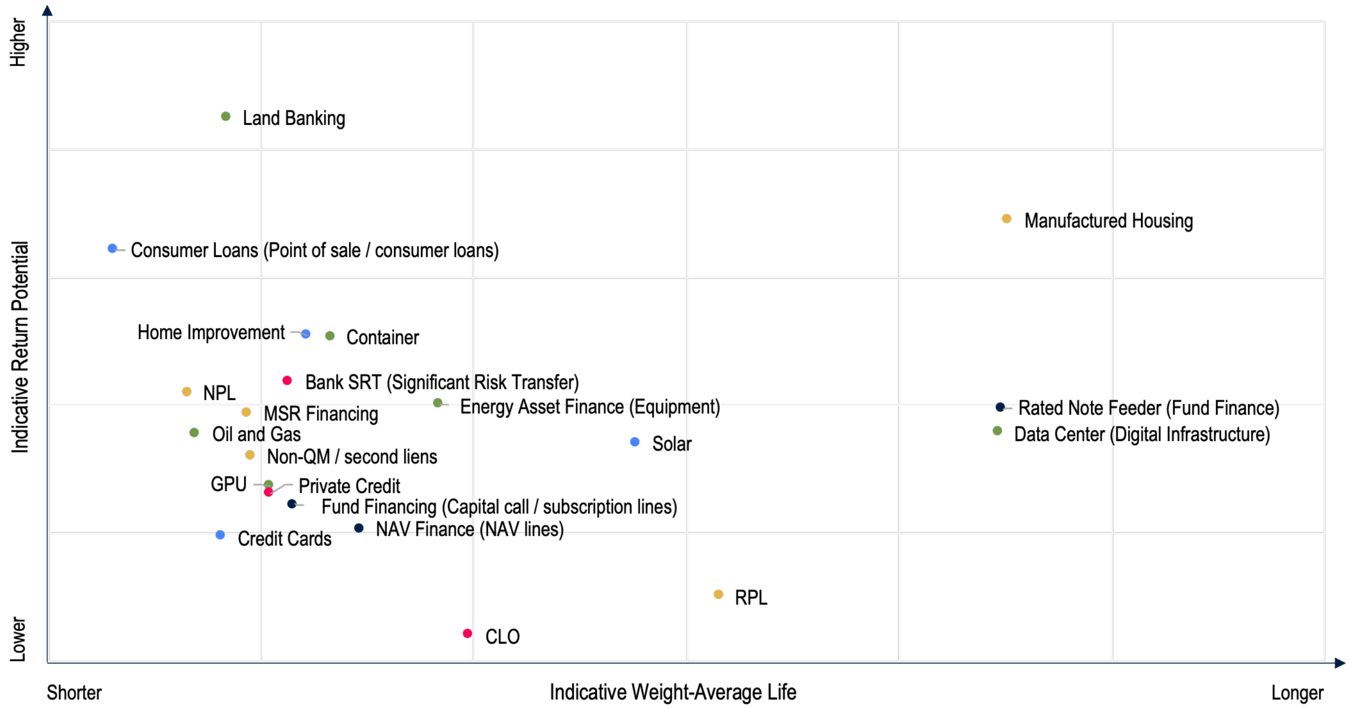
[1] Oliver Wyman, April 2024, Private Credit's Next Act
[2] PGIM estimates across consumer finance, commercial finance, mortgage finance, fund finance and specialty finance, as of 30 June 2026

A BROADER ROLE

This evolution can seem all-encompassing. Private ABF can accommodate warehouse facilities, whole-loan purchases, private notes and delayed-draw structures that do not always fit the public 144A ABS market, while private credit managers are building a more programmatic ABF market that can finance assets before, alongside or instead of public ABS issuance.

The ABF Opportunity Set

Illustrative positioning by indicative spread/return potential and pricing weighted-average life



Consumer Finance	Commercial Finance	Mortgage Finance	Fund Finance	Specialty Finance
• Consumer Loans (Point of sale / consumer loans) • Credit Cards • Home Improvement • Solar	• Container • Data Center (Digital Infrastructure) • Energy Asset Finance (Equipment) • GPU • Land Banking • Oil and Gas	• MSR Financing • Manufactured Housing • NPL • Non-QM / second liens • RPL	• Fund Financing (Capital call / subscription lines) • NAV Finance (NAV lines) • Rated Note Feeder	• Bank SRT (Significant Risk Transfer) • CLO • Private Credit

Source: PGIM, as of August 2026

Positioning is illustrative and may vary materially by collateral, structure, seniority, rating, amortisation profile and market conditions. Individual opportunities may serve more than one portfolio objective. Spread and weighted-average-life observations are not directly comparable across all transactions. Past performance is not indicative of future results.

But ABF has its boundaries. A collateral pool must be observable, legally transferable, serviceable through stressed markets and supported by enough performance history to model downside outcomes. New collateral types may feel diversified enough but often carry hidden exposure to the same macro variables. As capital flows intensify, the risk may be a shortage of genuinely financeable assets. In recent months, rapid fundraising has tilted larger ABF strategies towards jumbo transactions in digital infrastructure, power and energy, where the scale is available but exposures increasingly resemble infrastructure debt.

This is where the market's asset-heavy discipline is being evaluated. Much of the recent headline growth has been built around large-ticket financings tied to hyperscale computing, data centres and AI infrastructure.[3] Marketed as asset-backed, many of these deals sit closer to a synthetic form of corporate beta as the repayment rests on the credit of a single counterparty.

Case Study: Balancing Yield, Quality and Diversification Through ABF

Objective: Prudential Financial, Inc. ("PFI") sought first to enhance yield and second to diversify a fixed-income allocation concentrated in public and private corporate credit and commercial real estate. The objective was to add differentiated sources of income and risk without sacrificing credit quality as excess returns in more established private credit markets became less pronounced.

Solution: As an asset allocator, it is critical to understand the composition of the ABF portfolio to ensure it is accomplishing the desired objectives of yield and diversification as a lot of ABF exposure can be corporate risk in a different packaging. The large U.S. life insurer takes an aggregate portfolio view when assessing how ABF concentration and risk may overlap with other parts of the portfolio, including by working with managers to emphasize differentiated collateral (e.g., consumer, commercial cash flows) and limit corporate-linked ABF.

It built roughly $14 billion of exposure with a top-down view helping prevent concentration and double-counting across public and private holdings.[4] For example, when assessing an investment with a lessee, PFI would consider how reliant the investment is on the lease for its credit rating. Depending on the degree of reliance, it would than assess the lessee alongside corporate exposure to limit concentration risks.

Outcome: The result is a diversified, yield-accretive ABF portfolio positioned for continued growth. Spreads have compressed across the ABF landscape as investor demand has increased, but the General Account has continued to meet its spread, portfolio construction and origination targets by leaning into complexity premia and bilateral transactions, including whole loans, rather than relying on more commoditised flow.

The case study is intended as an illustrative example and that the experience described is specific to the circumstances discussed and is not indicative of future results.

THROUGH THE CYCLE

The way stress emerges in ABF often differs from public corporate credit. Performance data from the underlying assets and servicers can provide early signals of deterioration before broader market repricing occurs.

Monitoring continues well beyond closing. Delinquencies, defaults, prepayments, losses, consumer behaviour and servicer reporting typically shift ahead of any repricing in public markets. This gives investors a signal of building stress before it is reflected in valuations, an advantage that liquid, mark-to-market asset classes do not offer to the same degree.

When performance deteriorates, the difference between ABF and unsecured corporate credit becomes clearer. Investors focus on different variables. In the former, the emphasis is on whether the collateral continues to generate cash, whether losses remain within modelled tolerances and whether the original structure still has enough room to absorb stress. Where exits are delayed, extension risk can come into play.

GOVERNANCE IS KEY

Governance becomes particularly important in repeat transactions, where lenders build familiarity with borrowers, collateral behaviour and servicing arrangements over time as seen in the backdrop of a recent uptick in high-profile fraud cases.[5]

Repeat transactions with the same borrower, structured as forward flow agreements, tend to carry less uncertainty than one-off trades. A lender and borrower agree terms upfront: collateral pool characteristics, structural terms and covenants. As the borrower originates new collateral, transactions are built to this template and the lender participates

[3] Financial Times, Feb 2026, Tech groups turn to more chip-backed loans to fund AI arms race
[4] PFI, as of June 30, 2026, measurement basis is book value
[5] Guardian, March 2026, What is the £1.3bn MFS mortgage scandal and what is private credit?

on consistent terms. Over time, investors become more familiar with asset behaviour, servicer performance and documentation, reducing deal complexity.

None of this holds without the servicer. Servicers collect payments, maintain records, manage delinquencies and defaults and remit proceeds. Weak servicing undermines even the best-structured transaction. This is why due diligence on servicers carries the same weight as due diligence on the collateral itself, and why partnering with established, sector-leading servicers is not a preference but a requirement.

Bespoke structures and collateral make ABF difficult to benchmark. A single transaction may serve as a relative-return opportunity, a source of absolute return or a means of aligning assets with liabilities. Headline spreads capture a fraction of the comparison, as liquidity, duration, structural seniority, collateral performance and cash-flow timing shape its role within a portfolio.

Investor objective	Primary question	Relevant considerations
Relative return	What is the appropriate opportunity-cost comparison?	Spread, rating, duration, liquidity, expected loss and structural seniority
Absolute return	Which risks are being taken to reach the return objective?	Downside scenarios, cash-flow volatility, collateral performance and concentration
Liability or capital aware	Do the asset's cash flows fit the investor's obligations?	Amortisation, duration, liquidity, ratings, capital treatment and liability profile

As the market broadens, investors may increasingly need to distinguish between ABF exposures that provide genuinely differentiated collateral risk and those that replicate exposures already present elsewhere in the portfolio.

PGIM CONTRIBUTORS

EDWIN WILCHES
Co-Head of Securitized Products

LOREN SAGESER
Securitized Products Portfolio Specialist

JOHN MCNICHOLS
Head of Private Credit Investment Product & Strategy

OLIVER NISENSON
Head of Private Asset-Based Finance

SEAN COLLINS
Senior Vice President, Global Investment Strategy, Prudential Financial

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