January 2026

Asset-based finance

Unlocking investment opportunities with a growing asset class

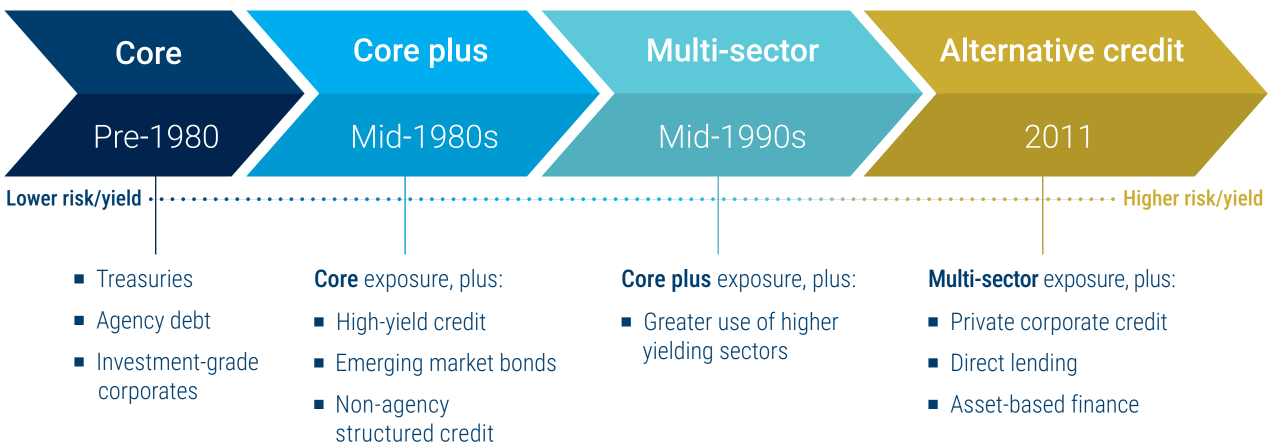
Key points

- Investors are increasingly turning to alternative credit strategies in an effort to boost returns and improve portfolio diversification.
- Asset-based finance (ABF) is the next evolution in alternative credit investing and an integral part of everyday life.
- Backed by real assets and monthly cash flows, asset-based finance has the potential to improve risk-adjusted returns by generating a premium yield and overall reducing portfolio volatility.

The evolution of fixed income

Fixed income has traditionally played a key role in client portfolios. While the goal — income and diversification — hasn't changed, the way we achieve that goal has evolved. We've progressed from public bond markets, including Treasuries, investment-grade corporates and emerging market bonds, to private debt markets as alternative sources of income-producing investments.

Evolving search for yield



Public asset-backed securities before the 2008 global financial crisis

The public asset-backed securities market dates back more than 40 years. It began with the packaging of agency-backed mortgages in the 1980s and has evolved to include many common sources of consumer and corporate finance, such as residential and commercial mortgages, student loans, autos and equipment financing.

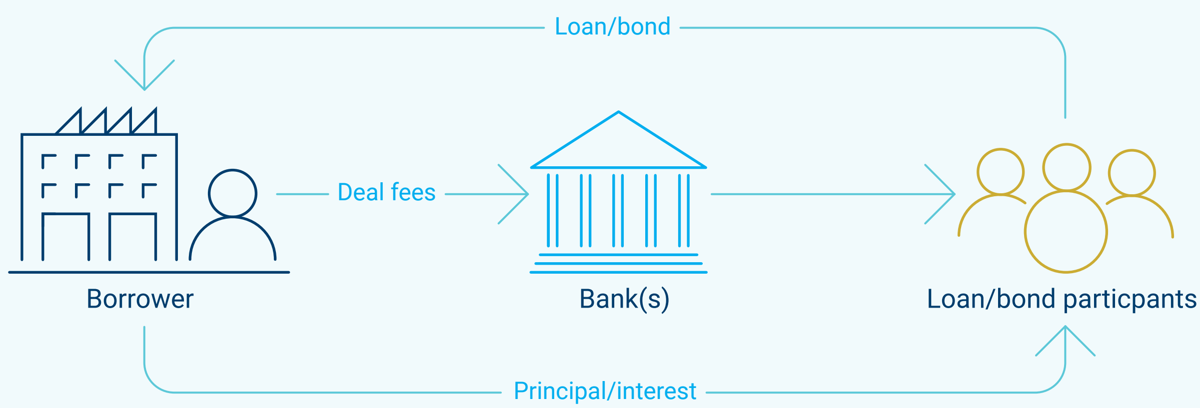
Prior to 2008, these loans — primarily made by banks — were accumulated, packaged and securitized by investment banks, rated by the public rating agencies and sold to money managers, pension funds and insurance companies. The market was driven by robust bank balance sheets, looser credit underwriting standards, favorable capital treatment and a strong appetite for risk and income.

The shift from public to private markets

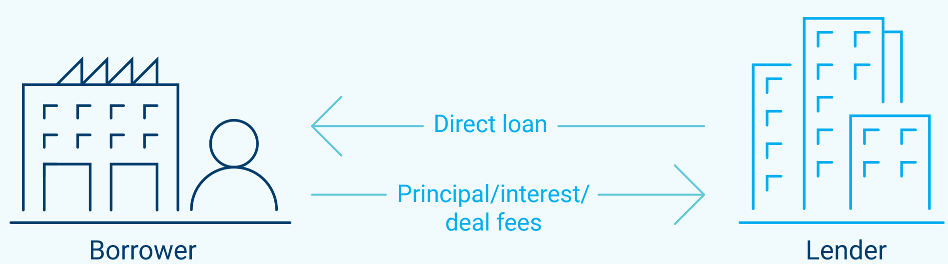
A key shift followed the global financial crisis. New regulations curtailed the banks' ability and willingness to lend. Banks tightened their lending standards and retrenched, leaving many consumers and companies without adequate sources of liquidity. This cutback catapulted the private credit market.

Private credit lenders stepped in as an alternative source of capital to businesses and consumers that may not meet traditional lending criteria. These non-bank lenders provide financing solutions with greater flexibility, including tailored repayment schedules and the ability to underwrite more complex transactions.

Public credit



Private credit

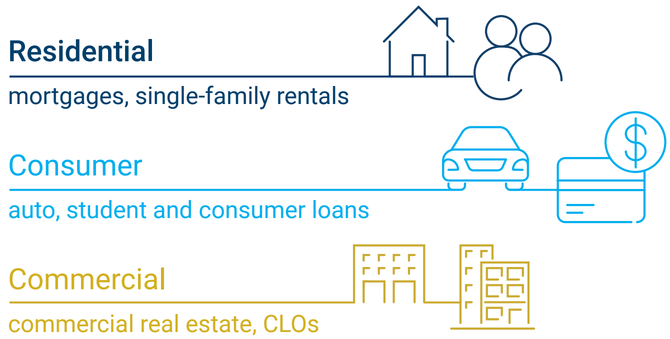


Tapping into a less crowded market: Asset-based finance

Investors are turning to alternative credit strategies to boost returns and improve portfolio diversification. One area that's seen major growth is asset-based finance.

Formerly considered a specialty sector, asset-based finance is a large, underused market that allows businesses and consumers to efficiently use their assets as collateral to secure loans. And it's more common than you may realize — think mortgages, auto loans, commercial real estate and more. These securities are available in both public and private markets.

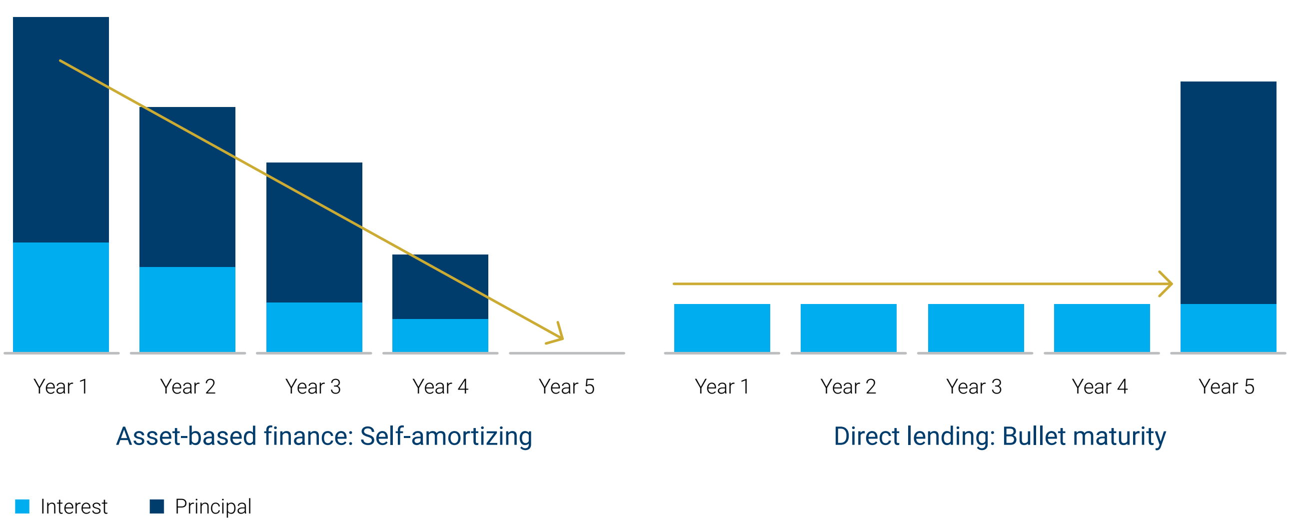
Asset-based finance: It's all around you
While asset-based finance can encompass a broad range of assets, Columbia Threadneedle segments the investable universe into three primary categories:



Investors are turning to alternative credit strategies in an effort to boost returns and improve overall portfolio diversification.

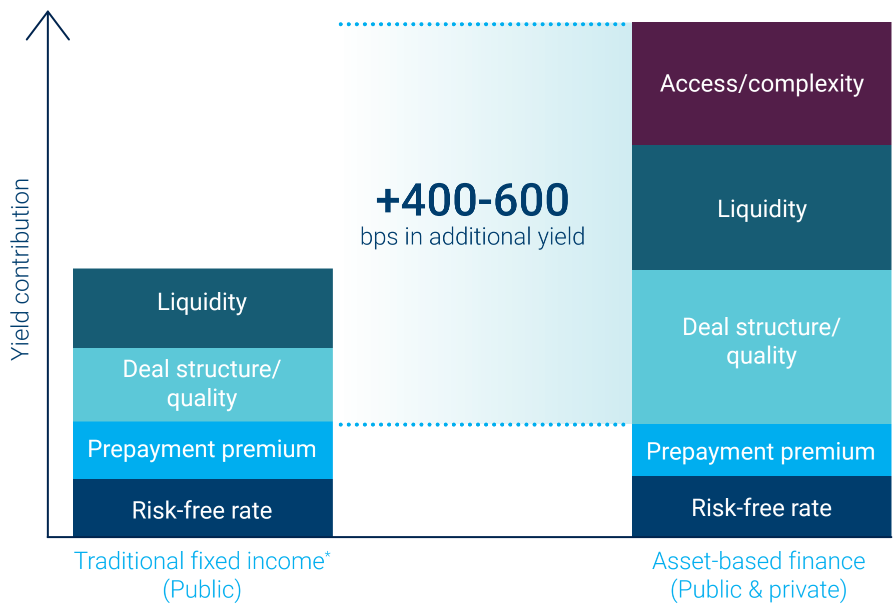
Asset-based finance vs. direct corporate lending
Unlike direct lending, which often relies on bullet loans to small- and middle- market companies with large lump-sum payments at maturity, asset-based finance is backed by large pools of real assets that self-amortize. By paying down both interest and principal over time, asset-based finance mitigates the impact of any defaults that may occur later in the lending cycle.

Amortization profile



Targets more durable income than traditional fixed income

Asset-based finance may offer a yield advantage over publicly traded corporate debt, thanks to exposure to additional yield premiums that can boost investors' income potential. These yield premiums include taking on more credit risk and investing in securities that have reduced liquidity and are often more complex in structure.



Generating a premium yield through asset-based finance
Historically, asset-based finance[1] has generated 400-600 bps greater in yield than traditional fixed income.

* Traditional fixed income is represented by the Bloomberg U.S. Aggregate Index.

[1] Asset-based finance data is based on residential mortgage and asset-backed securities held in a representative Columbia Threadneedle U.S. Structured Credit account over the time period September 2018 through December 2024 and internally rated below investment grade. Yields will vary.

Enhanced portfolio diversification

Asset-based finance yields remain attractive because historically they haven't come with high correlations to investment-grade fixed income, developed market equities or other income-producing asset classes — which helps contribute to lower portfolio volatility.

Correlation[2]

	Private debt		Private debt
MSCI EAFE	0.50	U.S. MBS	−0.14
Russell 2000	0.57	U.S. high-yield corporate	0.51
S&P 500	0.55	Leveraged loan	0.57
U.S. aggregate	−0.15	Private debt	1.00
U.S. corporate	0.12		

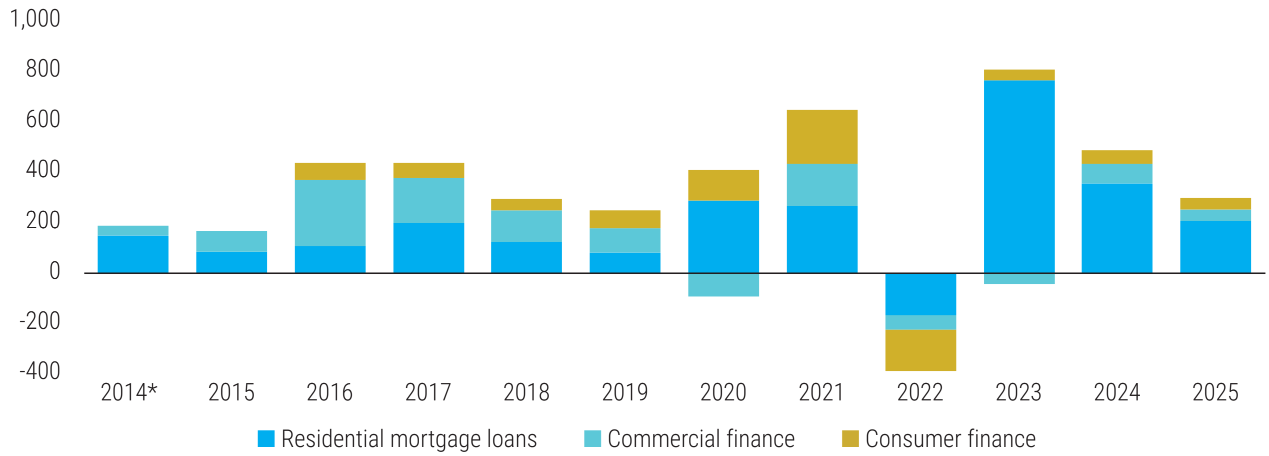
Source: Columbia Threadneedle as of 09/30/25 Correlation data is based on a 10-year period. Updated annually.

[2] U.S. aggregate is the Bloomberg U.S. Aggregate Bond, U.S. corporate is the Bloomberg US Corporate Bond, U.S. high yield is the Bloomberg High Yield Corporate, leveraged loan is the Markit iBoxx USD Liquid Leveraged Loan, U.S. MBS is the Bloomberg U.S. MBS and private debt is the Preqin Private Debt - North America, a part of BlackRock.

The return potential of asset-based finance

Because it's a relatively new and growing asset class, reporting resources are somewhat scarce. However, the chart below illustrates the return potential of the three asset-based finance sectors.

Excess return contributions (basis points)



Source: Columbia Threadneedle as of 12/31/25. Updated annually.

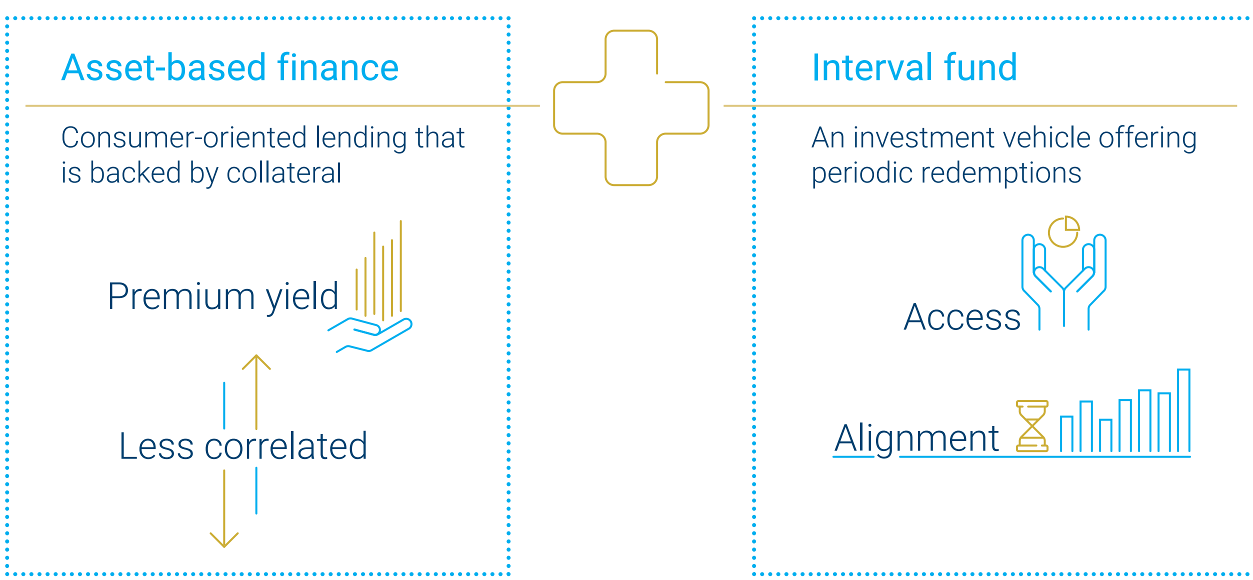
* Partial year as the fund incepted on 04/30/14.

Past performance is no guarantee of future results.

Excess return for non-agency structured credit vs. cash. Data based on a representative Columbia Threadneedle U.S. Structured Credit account.

Access opportunity through an interval fund structure

So how can an investor access this income opportunity? While certain types of asset-based finance are widely available to retail investors through liquid vehicles such as mutual funds, others are better suited through less-liquid vehicles. One option that only offers periodic redemptions and can therefore accommodate less-liquid investments is an interval fund. Interval funds have grown in popularity as advisors continue to explore ways to offer alternatives while still providing investors some liquidity and potential for higher returns.



The bottom line

We believe asset-based finance has become essential for investors seeking diversification and higher yields. It provides potential liquidity and financial support to various sectors as an integral aspect of a well-functioning economy, offering potential risk mitigation and increased diversification.

Due to its complexity, asset-based finance also requires a bottom-up approach with detailed knowledge of sectors and issuers. At Columbia Threadneedle, we have the scale, rigorous research and relationships required to effectively deliver asset-based finance solutions. We manage $67.8 billion in structured credit assets under management* across portfolios. Our portfolio management team averages 23 years of experience and is supported by 11 dedicated analysts. And we're a Tier 1 trading partner of the Street, with strong relationships across the asset-based finance ecosystem.

As the asset-based finance market grows, understanding the advantages and risks will be crucial for maximizing portfolio potential. A strong partnership with a trusted asset manager offering expertise and access to data in this highly diverse market will be key to success.

At Columbia Threadneedle Investments, we invest to make a difference in your world, and the wider world. Millions of people rely on us to manage their money and invest for their future; together they entrust us with $675 billion.* Whatever world you want, our purpose is to help you achieve it. We do this by being globally connected, intense about research, having a responsible ethos and a focus on continuous improvement.

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* Source: Columbia Threadneedle Investments as of September 30, 2025.

Alternative investments encompass a broad spectrum of strategies, asset classes, and structures typically designed to exhibit low correlation to traditional equity and fixed-income markets with a long-term expectation of illiquidity. Certain alternative investments are speculative in nature and involve greater risks than traditional investments. Alternative investments are more appropriate for investors who can afford a complete loss of investment.

Diversification does not assure a profit or protect against loss.

The **Bloomberg U.S. Aggregate Bond Index** is a market-value-weighted index that tracks the daily price, coupon, pay-downs and total return performance of fixed-rate, publicly placed, dollar-denominated and non-convertible investment-grade debt issues with at least $250 million par amount outstanding and with at least one year to final maturity.

The **Bloomberg U.S. Corporate Index** measures the investment-grade, fixed-rate, taxable, corporate bond market.

The **Bloomberg U.S. Mortgage-Backed Securities Index** measures the performance of investment-grade, fixed-rate, mortgage-backed pass-through securities.

The **MSCI EAFE Inde**x is a capitalization-weighted index that tracks the total return of common stocks in 21 developed-market countries within Europe, Australasia and the Far East.

The **Russell 2000 Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

The **S&P 500 Index** tracks the performance of 500 widely held, large-capitalization U.S. stocks.

Indices shown are unmanaged and do not reflect the impact of fees. It is not possible to invest directly in an index.

Interval funds provide limited liquidity compared to other registered funds. Investors can only redeem shares back to the fund during specified intervals and at least once per year.

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