WHITEPAPER:
ASSET FOCUSED FINANCE

PHOENIX MERCHANT PARTNERS

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Abstract

The objective of this report is to offer an overview the U.S. Asset-Focused Finance market, which is expected to see significant change due to regulatory shifts within the banking sector.

The wide range of financeable assets and structural advantages inherent in the asset class are expected to drive the next phase of growth in private credit, replicating the evolution of corporate direct lending over the past decade.

Asset-Focused Finance (AFF)

The term AFF describes lending in which a loan is supported by (i) either the contractual cash flows generated by a specific pool of assets (i.e. asset-backed) or specific financial or physical assets (i.e., asset-based), and (ii) the liquidation value of those assets.

Given the comprehensive lending activity it covers, the AFF market is significantly larger than the corporate credit market. The size of the U.S. AFF market is currently estimated at ~$7.0tn[1], excluding real estate and mortgage finance activities, which cover another ~$12.6tn.

The private market is at an early stage of development and estimated to account for only ~5% of the overall AFF market[1], at ~$350bn (ex. property finance). Should the private market share achieve 10%, mirroring the direct lending share in corporate credit, private AFF could experience annual growth of ~20% over the next few years, reaching a $900+ bn volume.

Figure 1 – For Illustrative Purposes Only

AFF Investment Characteristics

	Asset Focused Lending	Direct Lending
Credit Exposure	• Perfected interest of asset level collateral with typically low value correlation to market activity	• Reliance on stability of borrower EBITDA and enterprise value multiples
Risk Structure	• De-risking via self-amortising nature of investments	• Significant bullet payment due at maturity, dependence on capital markets refinancing
Origination	• Highly fragmented market • Specialised underwriting expertise and direct sourcing capability required	• Strong competition i.e. for upper middle market transactions

Private AFF Ecosystem

The Private AFF market includes loans, leases, and secured contractual cash flows, primarily focusing on senior-secured asset-based loans & leases and debt service coverage ratios (DSCR) that ensure robust asset/cash flow coverage.

Historically, AFF has constituted an important part of finance, largely serviced by bank lending. However, the advent of the "Basel 3 Endgame" rules, taking effect from 6/2025, is prompting banks to reassess their business lines, and provide the bulk of their capital to large corporate borrowers. This regulatory shift and limited risk appetite have reduced liquidity and negatively impact access to credit. Thus, overlooked corporate borrowers will seek alternative means of capital investment.

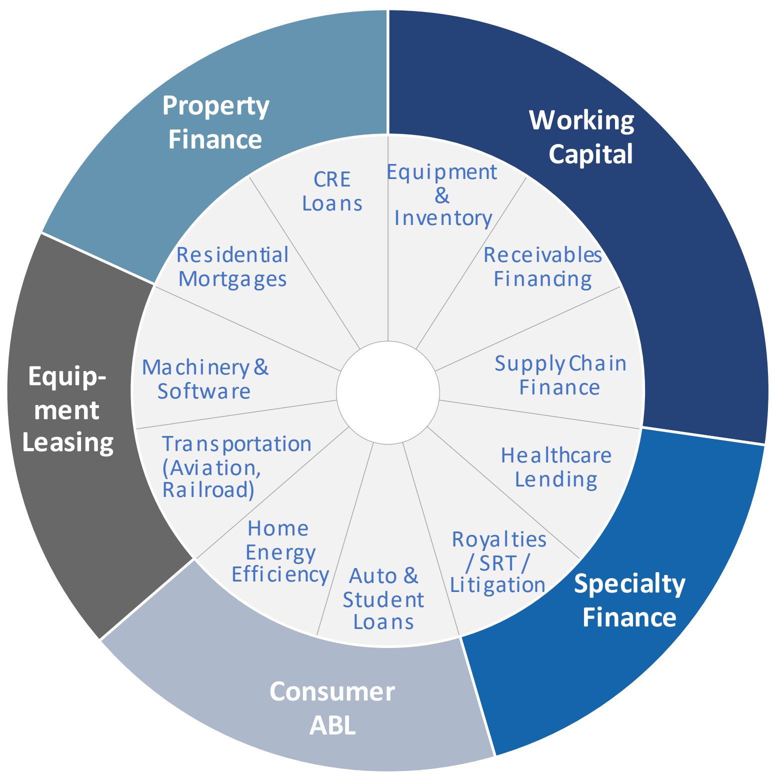
[1] MSI Advisory: "ABF: Sizing the Next Generation of Private Credit", Q1-2024

AFF lenders can fill this financing need by providing upfront liquidity secured by a borrower's "mission-critical" assets. The implementation of Basel 3 Endgame risk capital requirements is expected to have a comparable impact on AFF private capital as the post- GFC Basel rules had for corporate direct lending, coinciding with smaller banks de-risking.

AFF covers a broad range of business sectors, collateral, and borrowers. It is largely a primary origination asset class, requiring specialized structuring, underwriting, and servicing expertise as well as direct sourcing capability. Successful AFF investing relies on the capacity to customize, structure, and monitor asset quality. This enables investors to optimize income stability and downside protection.

Figure 2 – For Illustrative Purposes Only

Asset Focused Finance - Segments



At the same time private credit investors are seeking to diversify their direct corporate lending portfolios. ABF represents a natural addition, offering credit exposure to pools of hard and/or financial assets, and current income.

Phoenix has strong origination capabilities within the AFF segments mentioned above. While the primary investment strategy revolves around structured corporate cash flow lending, further portfolio diversification is attained via allocation capacity of ~20% to asset-based lending.

Phoenix's AFF focus segments, outlined in this paper, include:

Corporate Working Capital	Equipment Leasing	Consumer Asset Backed (Private)	Specialty Finance

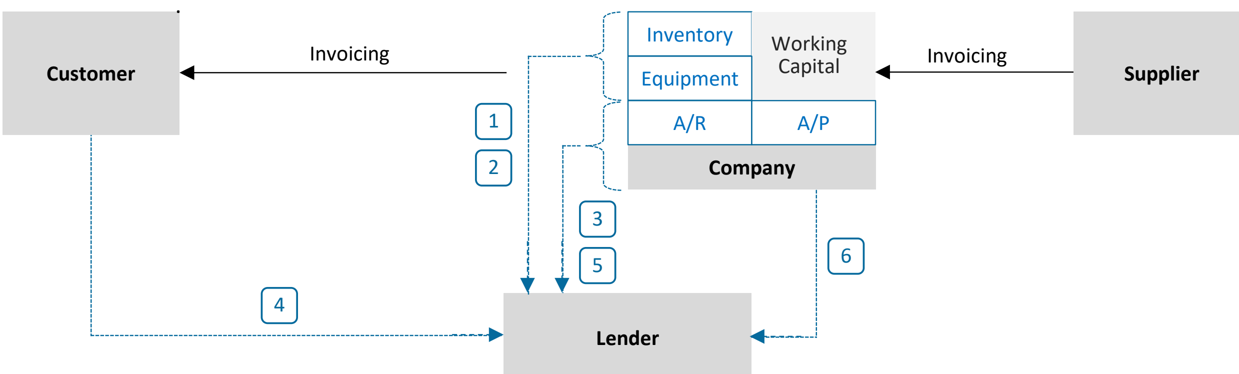
Corporate Working Capital

Working capital AFF lines of credit typically rely on the current assets of the borrowing Company (or Supplier in the case of "quick pay" financing). These facilities have short duration (<1 year) and are self-amortizing. This ensures exposures can be run off relatively quickly, without reliance on refinancing activities.

True sale and factoring facilities, in particular, are well suited for active management. Their uncommitted nature allows for dynamic sizing of exposure, based on the borrower situation or asset quality. Additionally, there is enhanced visibility on liquidity deployment compared to daily committed revolving facilities.

Working capital financing is a focus area of Phoenix's AFF strategy. The full spectrum of structures is evaluated, and bespoke solutions are devised and assessed based on commitment level, average/peak utilization, economics, and structural seniority to align with exposure and return targets.

Figure 3 – For Illustrative Purposes Only



	Financing Type	Lien / Collateral	Recourse	Facility
1	Equipment Finance	Specific Equipment	Limited Recourse	Committed Defined Borrowing Base
2	Inventory Finance	Specific Inventory	Limited Recourse	Committed Defined Borrowing Base
3	ABL Revolver	Specific Asset Pool (A/R, Inv., Equip.)	Company	Committed Defined Borrowing Base
4	A/R Purchase (True Sale)	Unsecured	Customer	Uncommitted
5	Factoring	Specific Asset Pool (A/R)	1st lien Secured Indemnity from Company	Uncommitted
6	Supply Chain Finance (True Sale; A/P)	Unsecured	Company	Uncommitted

Equipment Leasing

Equipment lease financing typically involves term loans with durations exceeding one year. These loans are serviced by lease cash flows and are secured by the specific assets. This includes the capitalization of leasing companies that own the assets, which are then leased out to end-user companies (e.g. aviation, rolling stock), as well as term financing of on balance sheet equipment.

Figure 4 – For Illustrative Purposes Only

	Operating Lease	Capital Lease
Structure	Rental agreement, where owner of equipment (lessor) allows the user (lessee) to operate equipment in exchange for periodic lease pmts.	Loan, issued by the lessor to the lessee, secured by the relevant equipment, which is owned by the lessee
Lessor	• Ability to claim depreciation on the asset • Potential for upside via equipment residual value at the end of lease term	• Credit is secured by the asset in question • Limited risk of equipment obsolescence / value depreciation.
Lessee	• Greater flexibility to replace or update equipment • Lease payments are tax-deductible • Potential to lower or match payments to usage	• Ability to claim depreciation on the asset, • More predictable cost of financing equipment ownership • Limits off-balance sheet liabilities

The size of the U.S. equipment leasing industry currently exceeds $1.15 tn[2] , with ~80% of companies borrowing to acquiring equipment. Most financed equipment types include transportation, information technology & software, construction, and manufacturing. Financing volume is dominated by banks (~63%) and captive leasing companies (~31%), leaving ~$70bn for independent providers.

Phoenix has strong access and underwriting expertise across sectors in equipment finance. This covers bespoke equipment-backed working capital and term funding solutions for corporate borrowers, as well as providing capital to leasing companies.

Consumer Asset Backed (Private)

Since cost of funds started rising in 2022, providers of consumer finance are facing challenges to tap their usual funding sources, namely regional banks and the public asset-backed securities market. These constraints are expected to persist, giving private credit firms an opportunity to grow in this $3.7tn[1] (ex. mortgages) market.

Consumer lending requires specific skills in assessing the quality of large portfolios and various loan types, which differ from company underwriting analysis. The typical approach for a direct lender consists of buying entire loan portfolios from bank balance sheets[3] (e.g. disposal of non-core assets).

In contrast, Phoenix seeks to become involved at an earlier stage of the origination by providing “forward flow” capacity to specialized origination platforms. Under this origination method, eligible loans are sold to a segregated warehouse on an ongoing basis.

The warehouse funders maintain strict control over underwriting guidelines, pricing strategy and portfolio construction. Following a portfolio ramp-up, the warehouse is funded to term via a public or private take-out, locking in a long-term servicing fee stream for the originator.

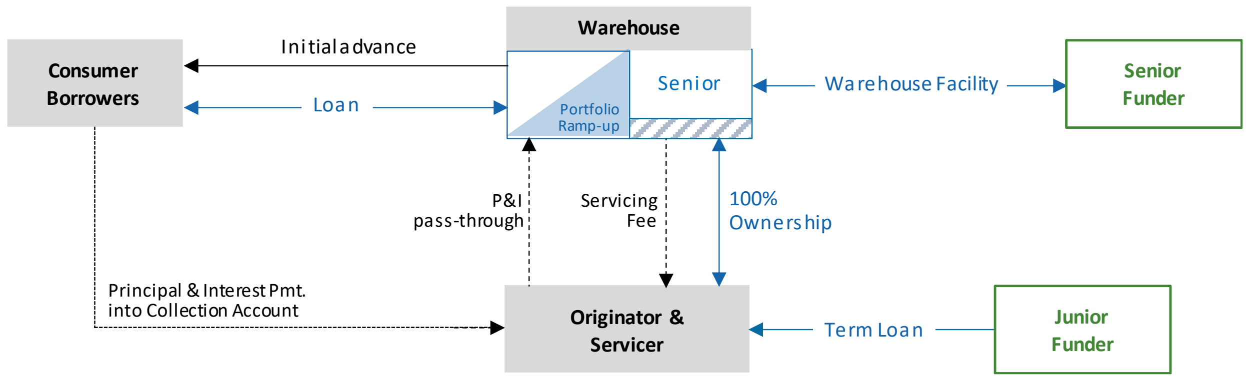
The team at Phoenix is positioned to capitalize on current developments in consumer lending, leveraging its extensive background in bank balance sheet management and structuring expertise with consumer loan securitization.

[2] Equipment Leasing and Finance Association, as of Mar-2024

[3] Bloomberg “Private Credit builds Cash Hoard to take on Consumer Debt”, Bloomberg, Aug-2023

Figure 5 – For Illustrative Purposes Only

Example – Consumer Forward Flow Structure



Specialty Finance

These are focused strategies, that aim to capture financing opportunities in distinct niche segments, providing diversification to conventional asset-backed and cash flow lending portfolios.

These strategies harness sector-specific expertise, direct sourcing capacity and structuring capabilities aiming to deliver uncorrelated returns with built-in structural protections.

Figure 6 – For Illustrative Purposes Only

Royalties	Litigation	Bank Capital	Healthcare
Backed by revenues from e.g. technology, life sciences or entertainment IP	Backed by the value of legal claims. Provides financing for plaintiffs to pursue their cases	Junior exposure to granular bank loan portfolios for bank regulatory capital relief	Health sector specific financing of insurance exposures and/or health insurance claims

Phoenix leverages its broad access to specialty finance borrowers and its core structuring expertise to actively pursue investment prospects in key specialty segments.

Asset Servicing

Considering the broad array of collateral and industries covered by AFF, the diverse segments require specialized loan servicing. Product attributes show substantial variation across borrower categories, assets, regulations, and platforms, resulting in a number of service providers with specific sector focus and dedicated infrastructure.

Figure 7 – For Illustrative Purposes Only

Working Capital	Equipment Leasing	Consumer Lending	Specialty Finance
Historically serviced by banks, the expansion of private capital creates demand for specialised fintech servicers with scalable infrastructure	Given the specificity of collateral (e.g. airplanes, machinery), leasing platforms cover the full value chain of origination to servicing	Dedicated servicers for granular and high turnover portfolios, subject to specific regulatory requirements.	Broad segment with varying service needs, covered by banks, financing platforms and specialized providers (e.g. healthcare pmts.)

Conclusion

AFF investments offer several attractive characteristics that justify their inclusion in a diversified private debt portfolio,

- Large addressable market
- Diversified exposure across the economy
- Stable income and structural protection

In addition, it is worth noting that the underlying assets of AFF investments may provide certain inflation protection where they appreciate.

As regulatory and structural challenges mount for traditional AFF funders such as banks and public securitizations, the asset class is undergoing a transition. This presents a timely opportunity for private debt investors to seize market share.

Phoenix views AFF as a cornerstone of its strategy, with assets representing an important lever for the structuring of bespoke financing solutions. The team has broad structural expertise in the field, leveraging 30+ years of experience in relevant origination and structuring.

We welcome you to contact us with questions, curiosity, and interest.

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About Phoenix's Approach:

Phoenix aims to distinguish itself as a credit manager by adopting a tailored approach to investment structuring. Rather than following conventional direct lending strategies, we focus on addressing multifaceted situations with flexible credit solutions, acting as a provider of capital solutions.

Our approach involves a combination of tailored credit products and bespoke debt servicing structures designed to align with the specific aspects of each investment opportunity. Consistent with our problem-solving focus, AFF is one of our capital solutions to address borrowers' capital needs, positioning us as a relevant lender where conventional direct lending cannot assist.

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