

PRIVATE CREDIT

Innovation at Work: Building a Resilient Private Market Ecosystem

INSIGHTS

Private markets are innovating fast, opening new paths to diversification, income, and downside protection beyond traditional equities and bonds.



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Private markets have entered a phase shaped not only by secular shifts, but also by heightened geopolitical uncertainty and growing scrutiny around risk. Against this backdrop, innovation is doing more than expanding the opportunity—it’s strengthening risk management, improving transparency, and helping investors build more resilient exposures across the private market spectrum.

The addressable private debt opportunity is often pegged at \$20–40 trillion,¹ driven by borrower demand for flexibility, investor demand for income, and balance sheet constraints across the banking sector. At the same time, allocators are increasingly focused on how risk is underwritten and managed, rather than simply where returns come from. In response, new products are emerging—from private wealth vehicles and capital efficient formats, to rated feeders and semi liquid strategies—which are enabling investors to target specific risk parameters within core fixed income allocations.

Expanding the Private Market Toolkit

As platforms scale and investor needs evolve, three areas stand out for both their innovation and their ability to deliver structured, risk-controlled exposure to private markets: collateralized loan obligations (CLOs), asset-based finance (ABF), and portfolio finance.

CLOS: WIDENING THE LENS

CLOs have long been structured credit’s workhorse, delivering diversified exposure to floating rate loans with built in structural protections—particularly relevant characteristics during periods of heightened uncertainty. What’s evolving is where the collateral comes from and how structures are being applied.

Private Credit CLOs: Backed by directly originated loans to mid sized companies, this segment has grown rapidly. Relative to broadly syndicated CLOs, these deals typically offer a spread pickup as well as elevated subordination—reflecting both the illiquidity premium and more conservative capital structures.

Infrastructure CLOs: Backed by senior secured loans tied to essential assets, these structures skew higher in credit quality, carry lower correlation to corporate credit, and benefit from long term contracted or regulated revenues—features that can help dampen risks during periods of volatility. The market is still small compared to the U.S. BSL CLO market, but momentum is strong as institutions look for scalable, risk adjusted access to infrastructure debt through familiar CLO mechanics.

COLLATERAL FIRST LENDING: ABF GAINS TRACTION

ABF offers diversification away from single issuer corporate risk by financing pools of mortgages, leases, transportation assets, digital infrastructure, and consumer receivables. Cash flows are often self amortizing and diversified across hundreds or thousands of loans. Importantly, this ties risk to asset performance rather than a single corporate balance sheet.

1. Source: KBRA. As of January 2025.

The market is substantial (estimated at \$5–6 trillion) with expectations for roughly \$1 trillion of new origination over the next five years. Insurers remain leading allocators, using long-duration, investment grade private structures to match liabilities while capturing incremental yield. Historically, ABF has offered a +150–200 bps spread pickup over IG corporates. Pensions, endowments, and other institutions are also leaning in, using ABF to add yield without materially increasing headline risk. Where mandates allow, ABF can also be used to complement direct lending with select collateral-backed exposures targeting low double-digit returns at a low BB/high single-B risk level.

Against today’s backdrop, ABF’s characteristics have become increasingly relevant, and leading platforms are investing heavily in loan level data infrastructure, stress testing, and documentation discipline to avoid pitfalls highlighted by recent headlines.

PORTFOLIO FINANCE: BRIDGING THE PRIVATE MARKET FUNDING GAP

Portfolio finance is reshaping how institutional investors access private markets. As private markets scale and banks remain constrained, a funding gap has emerged—one portfolio finance is designed to fill. Rather than financing single companies or projects, these facilities provide loans to diversified pools of private assets that are cross-collateralized and actively monitored. The result is investment grade exposure with real-time reporting and dynamic covenants—which help managers stay ahead of emerging risks.

The market is moving fast. The broader opportunity—including private credit and real estate portfolio finance, secondary portfolio finance, and GP financing—is significant, with

annual financing needs estimated to exceed \$100 billion. Just as important portfolio finance addresses deployment challenges: in a market where syndicated deals can be oversubscribed, these structures enable managers to secure meaningful allocations, control terms, and deploy capital at scale. For insurance investors, portfolio finance offers an additional advantage: the ability to align liability tenor with asset duration, helping investors avoid the mismatches common in subscription lines or concentrated NAV facilities.

Navigating Risk Without Losing the Plot

Recent headlines have brought the private market risk discussion into sharper focus. Yet they haven’t derailed innovation; they’ve reinforced the importance of documentation rigor, rating credibility and structural resilience. Innovation is responding directly to these challenges. CLOs buffer senior investors through subordination and waterfall cures; ABF grounds risk in granular asset performance with increasingly sophisticated data and stress testing; and portfolio finance relies on cross-collateralization and dynamic covenants that allow proactive management as conditions evolve.

Across all three areas, manager selection is decisive. Equally, the quality of legal documentation remains a first-order risk, and with dispersion in document strength across the market, creditor rights and enforceable covenants are essential.

The Bottom Line

For sophisticated investors, the opportunity is clear: harness innovation not as a trend but as a toolkit for resilience.

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