ARINI

"Back to the Future" with European Asset-Based Finance

June 2026

Key Takeaways

01 The European ABF market is enormous, rivaling the US, but severely undercapitalized given persistent bank retrenchment, few regional ABF specialists, and the majority of ABF capital raised invested in the largest US transactions.

02 The capital imbalance is felt most acutely in middle-market ABF where numerous moats restrict access for investment managers without true European DNA and local market presence.

03 Demand for European credit and Asset-Based Finance (“ABF”) has reached an all-time high as investors increasingly seek strategies complementary to their core US private credit exposures.

04 A disciplined strategy avoiding large and opaque structures can help mitigate risks, including fraud-related losses.

Introduction

In the iconic film Back to the Future, protagonist Marty McFly is transported back to his hometown 30 years in the past. Escaping a cynical present, he encounters a familiar yet fundamentally different world — simple, optimistic, and blissfully naïve of the future. There, Marty observes how the smallest decisions directly shape his future.

Using our creative license, we draw parallels between the film’s premise and today’s opportunity in European Asset-Based Finance.

In our case, European ABF is the vehicle in which investors can travel back to a time when private credit was “alternative”; managers strove for alpha over asset gathering, investors were institutions, and “private credit” flew below the headlines. In this era of less competition and distraction, skilled managers had latitude to generate alpha.

Today, investors' demand for European credit and Asset-Based Finance powered record fundraising for both in 2025[1].

Combined, we believe European ABF — particularly in the middle market — is among the most attractive opportunities in private credit today, valued as a complement to corporate credit and source of attractive risk adjusted returns.

The opportunity is underpinned by:

I **A Vast Market:** The European ABF market is estimated to be €4.2 trillion[2], comparable to the US size of approximately $5.5 trillion[3], but regionally diverse and protected by moats that we believe only investors with true European DNA and on-the-ground presence can cross.

II **Under Capitalized:** We have seen banks retrenching, a diminished and concentrated ABS market, few regional ABF specialists and global managers who have raised most of the capital focusing on US ABF and mega-sized transactions.

III **Space to Unpack Alpha:** In our experience, the middle-market is significantly less competitive than the upper-market, affording managers greater control over structure, terms, and outcomes.

Arini's ABF Approach Prioritising the Middle-Market

Arini pursues a multi-strategy approach lending against diverse, granular asset pools primarily in the property, commercial finance, and consumer credit sectors in the UK and Western Europe. Underlying assets are typically short-maturity, self-amortizing and cash-flowing with strong performance histories. We seek to identify originators with proven capabilities in established credit products and overlooked market inefficiencies and asset mispricings. Our ABF team possesses deep, local expertise, generally sourcing and structuring opportunities bi-laterally. The team also draws upon the knowledge of Arini's 20 sector research specialists as well as Risk, Financing, Transaction Counsel and Workout team members. All are guided by Arini's integrated culture and alpha-seeking investment philosophy while maintaining keen awareness of downside risks.

Four principles guide our approach to ABF investing:

01 Strive to be sole lender to avoid large, competitive transactions with borrower-friendly structure and terms

02 ii. Source opportunities backed by high-quality, granular asset pools generating attractive risk-adjusted yield

03 Perform thorough due diligence directly and through third party audits

04 Create uncompromising structures and monitor them rigorously

1. With Intelligence by S&P Global, Private Credit Fundraising 2025 (March 2026)
2. Oliver Wyman, Private Credit's Next Act in Europe (February 2026), includes ABF assets held on bank balance sheets, non-bank lenders and public instruments
3. Oliver Wyman, Private Credit's Next Act (April 2024), includes ABF assets held on bank balance sheets, non-bank lenders and public instruments
4. As of May 2026

Pillars Underpinning the European ABF Opportunity

Pillar 01 - Large and Nuanced Market

Size and Scale[5]

Europe's combined GDP of $29 trillion is second only to US GDP of $32 trillion, the world's largest, while its population, a metric closely tied to economic output, is estimated at 765 million, more than twice the US population of 343 million. The GDP of Western Europe[6] alone is $24 trillion with a population of 517 million, still 1.5x that of the US. Given Europe's economic and human scale, it stands to reason that the size of its ABF market rivals that of the US ABF market.

Regulations and Cultural Attitudes Toward Debt

Beyond market scale, regulation is another European hallmark. Consumer related regulations are often strict, proactive and precautionary, in contrast to the US where consumer choice and competition are emphasized. We observe European consumers as more averse to personal debt, one reason why the household Debt to GDP ratio stands at ~50% in Europe versus ~68% in the US[7]. Furthermore, the implications of default and bankruptcy in Europe are consequential and long-lasting; for example, unlike U.S. mortgages which are generally non-recourse, European lenders are able to pursue borrowers for any residual losses. Rebuilding credit to access mainstream financial products is long and difficult – an effective deterrent to aggressive borrowing.

Stricter consumer protection, a conservative borrowing culture and lower household indebtedness are manifested by Europe's strong through-the-cycle credit performance. In the consumer segment, European asset-backed securities ("ABS") have exhibited materially lower default rates and higher recovery rates. In European auto ABS, 60-90 day delinquency runs at ~0.18%[8], well below the US Prime Auto ABS 60+ day delinquency of 0.56% to 0.65%[9]. In credit card ABS, 90-day US arrears rates are approximately ten-times higher than equivalent European metrics[10].

Illusory for Most, But Not All

Notwithstanding the allure of Europe's size and conservative profile, its diversity and regional differences can render ABF opportunities illusory for many. Access is protected by tangible moats – differing judicial systems and languages, and intangible ones – cultural norms and difficult to penetrate social and educational networks. In the middle market, we believe even wider moats amplify inefficiencies and mispricings, creating alpha opportunities for a select group of managers with a distinctly European risk approach and strong local presence to capitalise on this diversity and complexity.

5. Worldometer, 2026 estimates based on data from the US Bureau of Economic Analysis, US Census Bureau and International Monetary Fund
6. Comprised of the UK and European Union countries
7. Bank for International Settlements, as of Q3 2025
8. S&P Global Ratings, European Auto ABS Index Report, Q1 2026
9. S&P Global Ratings, US Auto Loan ABS Tacker, February 2026
10. S&P Global Ratings, US and European Credit Card ABS Performance Watch (most recent edition; accessed: 19 March 2026)

Pillar 02 - Systemic Undersupply of Capital in European ABF

European ABF suffers from a systemic undersupply of capital from traditional and alternative sources. The retreat of banks post Great Financial Crisis ("GFC") and their migration to more conservative lending is well documented and persists to this day.

Banks

Pre-GFC, European banks dominated asset-based finance; underpinned by inexpensive deposit funding and much lighter regulatory requirements, banks lent in scale. Basel III and Basel III Endgame regulations have increased capital requirements, forcing further retrenchment from specialist lending where their absence is felt in core ABF sectors.

European banks have exited, consolidated or significantly reduced exposure to specialist lending segments that require costly expertise and carry greater risks. Still reeling from the GFC and very recent fraud-related losses, they are migrating to less profitable plain vanilla lending and fee-based, capital-light activities.

Non-bank lenders ("NBLs"), such as fintech enabled and specialty finance origination platforms, have emerged to fill the capital gap. However, NBLs account for just an estimated 13% of asset-backed lending activity in Europe – plenty of white space for them and their private capital financiers. By comparison, non-bank lenders account for an estimated 34% in the US.

Asset-backed financing market by lender type[11]:

	UK & Europe	US
Bank	78%	54%
Non-Bank	13%	34%
Public Instruments	9%	12%

Public Instruments – Asset Back Securities ("ABS")

Issuance of European ABS has not recovered from levels of two decades ago following imposition of numerous post-GFC regulations[12]. Volumes, excluding transactions retained by banks mainly for European Central Bank and Bank of England collateral, across the major sectors - collateralised loan obligations (CLOs), residential mortgage-backed securities (RMBS), and larger commercial mortgage-backed securities (CMBS) – have fallen from a peak of €400 Bn - €500 Bn in 2006-2007[13] to approximately €93 Bn today[14]. The market remains structurally concentrated in these sectors and relatively inefficient compared with the depth and diversity of the US ABS market which has had 10x greater securitization issuance (2013-2023) notwithstanding similarly sized addressable markets[15]. This concentration of issuance and investor liquidity has resulted in a funding ecosystem optimized for scale, ratings familiarity and regulatory capital efficiency leaving plenty of white space for ABF which excels at addressing diversity and complexity to address today's funding gaps.

Private Capital

Fund managers raised $47 billion for ABF strategies in 2025 (20% of total private credit raised), 72% greater than 2023 and 2024 combined[16]. Global, mega-firms represent the lion's share, having leaned heavily into ABF several years ago by scaling teams, acquiring non-bank lenders to secure origination, and investing heavily in product and distribution to penetrate the retail and insurance channels.

Only a limited portion (we estimate 15% to 20%) of this capital will reach Europe and what does will target the upper market transactions given managers' significant deployment obligations. In our experience, the largest transactions – which can span multi-billions of Pounds and Euros – are more likely to involve multiple lenders, opaque structures and fewer financial controls.

We estimate there to be fewer than ten European regional ABF specialists with the local presence, requisite ABF expertise and platform breadth to pursue a multi-strategy ABF approach. These dynamics leave middle-market European ABF greatly underserved by private capital.

11. Oliver Wyman, Private Credit's Next Act in Europe (April 2024)
12. E.g., Basel III, Solvency II, EU Risk Retention Rules, STS Framework, Re-securitisation restrictions
13. AFME / SIFMA Europe Securitisation Data Quarterly, December 2007. Excludes transactions retained by banks for collateral purposes
14. EU securitisation reform: "Unlocking the market and driving growth – our view". Schroder Capital (3 December 2025).
15. With Intelligence by S&P Global, Private Credit Fundraising 2025 (March 2026)
16. AFME / SIFMA Europe Securitisation Data Quarterly, December 2007s. Excludes transactions retained by banks for collateral purposes

Pillar 03 - European Middle-Market ABF is an Opportunity "Too Small" to Ignore

In our view, the middle-market is best suited for nimble managers who avoid obvious "elephant" deals and roll-up their sleeves to unpack complexity in search of alpha. Its smaller size and greater intricacy keep scaled capital at bay, shifting advantage from consumers to providers of capital. This dynamic can promote more methodical diligence, higher spreads and fees and greater negotiated downside protections[17]. Other important differentiators between the Upper and Middle-Market are:

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Upper-Market

- Intense competition for scaled, standardized assets
- Potentially one of many lenders in a syndicate susceptible to "group think"
- Complex corporate structures with multiple financing vehicles, greater exposure to fraud risk
- Borrowers are transactionally driven by balance sheet optimization, i.e. pricing and leverage

Middle-Market

- Small number of regional ABF specialists competing for investments
- Greater potential to be sole lender in bespoke structures
- Extended underwriting / structuring timelines
- Greater ability to dictate structure and terms
- Borrowers are relationship and solutions driven seeking a long-term financing partner to support growth

A Bridge Too Far: Market Financial Solutions Case Study

The collapse of Market Financial Solutions ("MFS") in February 2026, one of the UK's largest real estate bridge lenders, is a reminder that European ABF is not immune to the headlines recently bestowed upon US private credit. What's lost in headlines is that the roots of MFS's collapse are not in credit losses, but in management's alleged financial crimes and red flags overlooked by multiple global banks and asset managers.

Bridge lending is an established credit product with what we have observed to be de minimis losses historically. Of course, not all bridge lenders are created equal and we believe genuine local expertise is essential to properly assess factors that determine the risk–reward profile and relative value of each one, including:

I. **Quality of a bridge lending team and underwriting** - Arini's real estate expertise embedded within the ABF team provides the team with a highly informed view in a large and core ABF sector.

II. **Market competitive dynamics** – The UK, for example, is very competitive with an estimated 200-400[18] bridge lenders in differing shapes and sizes vs. continental markets where we estimate there to be fewer than five local champions.

III. **Market legal idiosyncrasies** - For instance, security registration/perfection, priority, and enforcement mechanics differ significantly across jurisdictions, with material consequences for ABF structures.

17. Downside protection," as used herein, refers solely to the specific structural features of the investment designed to mitigate losses under predefined market conditions. Downside protection is not a guarantee against loss and may be subject to important limitations, conditions, thresholds, and counterparty or structural risks. Investors may still lose some or all of the principal invested.
18. "Bridging Solutions for All", The Intermediary, August 2024

We are sympathetic that well-orchestrated financial crime is difficult to detect in a system built on imperfect information, trust and susceptibility to "group think". Arini seeks to mitigate such risk by:

01 Avoiding large, "clubbed" investments and

02 Treating fraud risk as a distinct category where we have implemented specific manual and automated verification procedures at the borrower, platform and asset levels both pre-and post-investment.

Prioritising the middle market, we seek to partner with borrowers as sole lender whenever possible and over multiple transactions. With this approach, we can exert greater control over structure, borrowing base formulation, covenants, and fees, while building trust with management and market knowledge.

If there is a silver lining to MFS, ABF investors should be far more discerning now – alert to the risks of large, clubbed deals, potential fraud, and the importance of rigorous corporate and asset-level diligence. Greater sophistication ultimately strengthens the asset class for everyone.

Bridge lending helps alleviate acute housing shortages in the UK and Europe by increasing the supply of new and refurbished homes.

The sector is illustrative of how non-bank lenders responded to a market opportunity created by bank retrenchment post GFC with a superior product and customer experience. We like the underlying loan collateral given strong performance across housing cycles and pro-lender features. Bridge lending is a core European ABF strategy that can deliver strong risk-adjusted returns when structured appropriately.

	Illustrative Bridge Loan Characteristics[19]
Maturities	12 to 24 months
Borrower Type	Professional property investors (no retail borrowers)
Seniority	First lien mortgages
Collateral	Completed residential properties; no construction / development risks
Loan to Value	60% to 75%
Monthly Rate	0.7% to 0.8%
Est. Historic Loss Rate	De minimis

19. Terms and characteristics are representative only and there is no guarantee that investment opportunities will be identified that meet the parameters above. The components of a future portfolio are not guaranteed and all allocations and others terms and characteristics are subject to change.

Conclusion

Asset-Based Finance in the European middle-market can transport investors back to a disciplined time in private credit with an expansive opportunity set and structural undersupply of capital. We maintain that crossing Europe's "moats" to capture alpha in ABF is difficult from afar and without deep local resources such as the ones Arini has developed.

Principle guiding our approach to ABF investing:

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The future of European middle market ABF is bright and through disciplined decisions made today, can be an important contributor to investor portfolios going forward.

> "**Crossing Europe's "moats" to capture alpha in Asset-Based Finance is difficult from afar** and without deep local resources such as the ones Arini has built."

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