FIRESIDE CHAT

A golden source of data

The private credit industry is at an exciting stage in its evolution, bringing operational challenges and opportunities for fund managers. Aztec Group's head of private credit Kevin Hogan (pictured below right) sat down for a fireside chat with Meera Savjani (below left), fund chief financial officer at Arrow Global, to discuss data, liquidity, AI and more. *Alternative Credit Investor* was there to report on the discussion...

Kevin Hogan (KH): Can you tell us a little about the history of your career?

Meera Savjani (MS): I'm a qualified accountant and worked at PwC in London. I then spent just over a year working at BP before I joined Apollo Global Management, where I spent almost nine years. My role diversified from credit into hybrid and real estate, so I was essentially looking at everything that Apollo did outside of the US. I then went to Oaktree Capital Management, which was a little bit different as I sat alongside the deal team, working with them, and helping with the operations side. I decided to change again and join somewhere which wasn't so US-centric because I'd worked at two large US asset managers by then. I did around three years at Oaktree before I came to Arrow.

KH: What is your role at Arrow?

MS: I'm the CFO of the fund management business. Arrow's history has been servicing platforms around Europe. It then evolved into being an asset manager, raising third-party funds, around 2019. I sit within the fund management

part of the Arrow business – I'm on the board of the fund manager and I look after all of the fund offerings that we have in place.

KH: I think you're uniquely qualified, having gone through audit, outsourcing, scaling, and the US. How have you seen the private credit industry evolve?

MS: It's changed a lot. Even if I think of my time at Apollo, the way that we made investments changed over time. It went from these granular non-performing loan portfolios that we were purchasing to the point where Apollo owned a Spanish bank through its funds. It's become more and more hybrid as well. It went from the non-performing to the performing, and then to more and more hybrid transactions.

KH: Moving on to liquidity, how do you manage that? LPs have evolved and matured; do you find their demands are changing?

MS: Yes, they are. They're asking for more and more transparency of information and there's an expectation that you can deliver it as well. Not that we didn't provide bespoke templates for investors previously, but now there are increasing requirements from bodies like the ILPA, and more and more SEC guidance. Whether you're regulated in those jurisdictions or not, LPs want uniformity of information across their managers, in order to know what they're looking at and to be able to make the comparisons. That's what is going to drive more information.

KH: How do you deliver that information in a timely manner to LPs? Do you leverage your vendors or manage it in-house?

MS: For Arrow, it's generally been in-house due to our model, origination and servicing the assets, as well as the fact that we own the asset management and servicing platforms. We obviously rely on our platforms to give us the information, and we have an internal database where we maintain some of this information.

KH: So you can do it at the drop of a hat. You don't have to be quarterly bound.

MS: We're increasingly agile in how we deliver reporting, but the sheer volume of data does require careful management. We're continuously enhancing our processes and leveraging technology to ensure we maintain both speed and accuracy, especially as the demand for transparency grows.

KH: In terms of investments themselves, the deal origination at the very beginning, what process do you go through in terms of modelling forward loans all the way through to maturity? Do you look at the commercials of it?

MS: Yes, it's part of the underwriting process, so we will look at that. If we do the deal, that will factor into the cash flow profiles that you'll need. You're thinking about liquidity from the very beginning of a transaction.

KH: How frequently are you looking at liquidity?

MS: Not as frequently as I would like! While it's an area that we monitor regularly, we're always looking for ways to increase the frequency and depth of our analysis. We're focused on refining our processes and exploring technology-driven solutions to make liquidity management even more seamless and forward-looking.

"LPs want uniformity of information across their managers"

KH: It's the CFO talking.

MS: Yes, exactly. I think as ever, we need to get better at doing that. I think that's always the challenge for every manager. We're looking at ways in which we can do that better, whether it's process-driven, but also technology-driven.

KH: What tools do you use to assist you in the funding side of things? I'm talking about sublines. I'm talking about NAV financing. Do you utilise either?

MS: Yes, we have sublines in place for most of our vehicles.

KH: I was on a panel recently that said up to 80 per cent of private markets firms are using sublines at this stage.

MS: As soon as we can have them, we get them in place because there are some LPs that like the use of leverage and the use of sublines to enhance returns. There are others that don't want you to do that, so you're just using it to smooth the capital call process.

KH: Would you ever fund distributions? Would you think of funding distributions from a fund financing tool?

MS: I think it's more about smoothing the cash flow profile, as opposed to thinking about funding distributions. It's more of a short-term bridge, knowing that something's coming in.

KH: Moving on to data. You manage an awful lot of stuff yourself. You have your own platforms. You must have quite a bit of infrastructure in there. Where do you collect your data elements? Who are the vendors that you're getting the data in from? Do you use it to reconcile? How do you consume it?

MS: So that's been an evolving process if I'm honest. Taking a step back, Arrow is obviously a growing firm. So, I compare it to the

Oaktrees, the Apollos of the world. They've had to put together models and technology just because they've had things that exist. And you will have seen this through your lens, they've put things together and technology that doesn't really match or data that is having to go from one place to another to work. They tape it together because it's just too expensive to undo. Arrow has had a really strong focus on the data piece, given that it owns those platforms, and it has its own in-house built tool, which it uses as, I would say, a pseudo portfolio monitoring solution.

It's called the Fund Management System. We have data coming in from platforms that we need to collate. But I've also been shifting the focus towards looking at our third-party administrators and having to get data back in as well. The other side of it has been utilising the data that we've collated, given that we have so many assets, and our premise has been granular investing, to get the data of 300 or so assets over to an admin. It's quite challenging, and we've done it. However, it can be much more seamless. If we take something like our new lending strategy as an example, we're trying to do that, push it through daily.

KH: It must be wonderful, firstly, having built a system in the data era. You've got a nice, neat tech stack by the sounds of things.

MS: I would say it's an evolving tech stack. We have this Fund Management System as our centre. We've had predominantly one administrator in the past, we've now got a second one in the mix. I don't think we've necessarily utilised those relationships to the best that we can and the technologies that they also have. It's evolving in that sense. However, we've done some really good things. For example, we've integrated Kyriba with our fund management system. Where you're making an investment, for example, there's an investment payment form effectively that has to get signed off. But then it has the bank flows in it, the transactions – that can then go directly into Kyriba through an API. So, the payment input side is already done.

KH: So it's the integration of this data into downstream platforms, which you see as the real benefit?

MS: Yes. Because if you think about it, all the data starts at cash. If you take out everything else from a finance perspective, it's all about the cash piece. So then what we're trying to do is tag that data. Effectively, when we're engaging with third-party administrators, the model I'm evolving is to say, we'll take this tagged data as well, to book the transactions and drive it, because it's the same source, it's the same data. But rather than collecting data over here and then going back to bank statements and trying to map it out, let's just have it flow through. Then if you take that cash data, you're mapping it out to LPs and doing the investor allocations, and then it's got to come back in.

KH: If I talk accounting, reconciliation is the centre of the world. So how do you go about reconciling all that data, keeping the quality clean? Are you using AI?

MS: We're not using AI for data reconciliation right now. We have an in-house tool that can do the matching piece and then throw out the reconciling items. But I think we can do a lot more in that space and AI will become super important in reconciliation. Additionally, if you think about underwriting and other areas, we don't use AI, because I think it's still too new for everybody, but there's definitely benefits to it.

> *"AI will become super important in reconciliation"*

KH: It's an evolving process. I'm excited about the exception management type of AI, the sense checks that you want somebody to eyeball. Do you have anybody working on this?

MS: There is an AI group. They're not specifically working on this piece, but they've been looking at insurance claims, so we can use it more in the origination process. With construction claims you can go through a data tape of thousands in just a few minutes, which could take somebody days. Some of our deal people and the IT team are working on those developments.

KH: In terms of outlook, private credit has been growing tremendously, hasn't it? You hear the $1.6tn (£1.25tn) [market valuation] going to $2.8tn and so forth. Do you expect to see a continuation of this trend?

MS: I think it will continue, but I also think it will evolve in terms of the way deals are structured and it will get increasingly competitive. More and more people are seeing it as an opportunity, so they will come into the sector. So, it will still continue to grow, but maybe not at the same rate it has for the last 15, 20 years.

KH: I often see it as a spin-off of private equity, as private credit is the funder of LBOs. So, if private equity slows down, private credit slows down. Is that right?

MS: A little bit, but they also get to be more bespoke in the capital solutions that they're offering. We go back to the hybrid point we were talking about earlier. I think there'll be a bit of a bigger lift in that area. I think we will see capital solutions that are a little bit more bespoke than the traditional private equity.

KH: In the private credit environment, the banks seem to be coming back into play a little bit more. You hear about bank financing in a lot of the big deals. They are becoming a real competitor again, where there was a void.

MS: So we don't see it necessarily, at Arrow, just because of the way we are originating. A lot of our origination is happening through our platforms. 90 per cent of transactions are off market. We're trying to stay away from being in that competitive environment.

KH: There's a lot of big players out there, that are going gangbusters in terms of their private credit offering. It becomes harder for the smaller, mid-tier players to get a slice of that. Is it weighted towards the bigger players at the moment?

MS: I don't think so, where you've got the niche experience and the expertise that Arrow has. We focused on five core geographies across Western Europe until now and it's expanded quite significantly – we'll be at eight countries, probably by the end of the year. The way the Arrow premise works is that we only invest in assets and geographies where we have an in-country platform. We try to originate and service our own transactions. Given that, I think we heard [Apollo chief executive] Mark Rowan a few weeks ago say, our origination is the key. So, these platforms become the key. We have these in what will soon be eight jurisdictions around Europe. We'll have covered off Western Europe probably by the end of the year. A lot of our platforms also service third parties. That's how we're getting a lot of the intel and the knowledge of how we're going to work out some of these.

"90 per cent of transactions are off market"

KH: You've got quite a neat internal system. Is an administrator a necessary evil? You have all your own data; would you look to outsource more in the future?

MS: Being a specialist player, we don't have all the technology necessarily in-house. We've been developing it. When I've been looking at service providers, for me, the focus has been on the technology that they have in place that I don't have in-house.

But we're always going to need to have an administrator, in which case I've got to partner with the right people. I've got to have the right technology so that we can have this flow through of data that I envision, and I think many others will do this in the industry, too. For service providers, the challenge is building that tech stack to complement the fund managers. People make choices around preferences whether it is Investran and Geneva or E-Front. But I know some start thinking about Anaplan, for example, and other offerings that they can then make where the service provider is doing that rather than the manager having to do some of that, which is also interesting.

KH: Do you see opportunities for the two combining? Quality of data being the requirement.

MS: Yes. If I think about the finance function and how it's evolved over time, I see it as a data function. I am a golden source of data to the firm to provide all sorts of data so that people can make decisions. Yes, some of those will be decisions that I'm making as well, but that's what people will look to the finance function for. ■