# EXPERT Q&A

*The role of local scale, vertical integration and platform control in sourcing and managing mid-market opportunities, by Enrico Sanna, CEO of Platforms at Arrow Global*

# How to build a vertically integrated pan-European investment model

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**Q The European market is often described as highly fragmented. Just how fragmented is it, and what does that mean for private credit strategies?**

It is certainly true that the European market is highly fragmented – structurally, legally, and operationally. Despite more than 50 years of the EU and multiple efforts to create a unified financial market, it remains highly diverse.

Across the continent, 82 percent of lending occurs within national borders, with minimal cross-border activity. Additionally, there are 44 countries, more than 7,000 banks and a wide array of regulatory regimes and local supervisory bodies. It is certainly not a single, unified market in the way the US is.

This fragmentation presents challenges and significant opportunities for private credit. We see a particular opportunity in the mid-market. As European banks and governments prioritise the development of both European and nationally local champions, their focus tends to shift toward servicing large corporate clients, leaving mid-market companies underserved.

Currently, there is an estimated €14 trillion in local, asset-backed mid-market lending opportunities across Europe. This represents a vast investable asset class, what we refer to as the 'last mile' of lending. These mid-sized, often non-core or distressed assets, typically too small for institutional capital, are exactly where we see the greatest asymmetry between risk and return.

We also see the ability to lend across geographies. As a pan-European manager, we can cross-collateralise a client's assets, enabling us to pursue cross-border transactions. As banks continue to retrench from many of these markets, private credit is well positioned to step in. While fragmentation is seen as a bad thing for many lenders, we see it as a real opportunity.

**Q What are the advantages and challenges associated**

**with building a vertically integrated investment platform across Europe?**

If you accept the view that Europe's fragmented market presents an opportunity, particularly in the mid-market, then it follows that you need to be deeply embedded in that segment and close to individual assets.

Securing off-market, bilateral opportunities requires 'boots on the ground'. You're not going to find a €30 million distressed opportunity in the middle of France if you're based in London or New York. Yes, you might see the €100 million- €200 million deals from a distance, but in the mid-market, everything is local.

That's why vertical integration is essential. It means having a deep local presence, coupled with operational control to manage assets and credit effectively.

Another key element of our model is institutional-grade execution. As a fund manager, we are responsible for delivering returns to our institutional investors, which means we must operate with the same level of execution quality as a much larger global player. Our investors benefit from the combination of local reach and institutional-level underwriting and investment process.

You also need a clear understanding of where investment opportunities exist across your geographies. That requires rigorous collaboration between platforms and funds. We follow a highly specific, country-by-country approach to evaluating investment opportunities.

The next challenge is how to build the full suite of capabilities including origination, execution, asset management and servicing across multiple markets. That can be done either organically or inorganically. Much of our business has been built inorganically, simply because it allows us to scale more quickly. Moreover, because we hold our platforms on balance sheet, this structure gives us the flexibility to adapt our capital strategy. We retain platforms when they are strategically aligned and divest them selectively when they no longer fit our focus.

**Q You've talked about seeking to control the entire investment lifecycle in-house. Why is that operational control so critical, and how does it work in practice?**

At its core, the role of a fund manager is to identify a position, underwrite it, and ultimately recover it for a return. We believe the most effective way to do that is by maintaining operational control across the entire value chain.

In every country where we operate, we have dedicated teams that source deals, originate, underwrite, asset manage, and service the loans. We also have specialists who understand the recovery process when a deal goes off track. We literally control the value chain from origination through to exit.

This model is strengthened by our ability to underwrite positions at an

**Q How important is local presence when it comes to competing in fragmented markets?**

If you're making an investment in a municipality in southern Spain, and you don't understand the regulatory landscape, pricing dynamics, or the local competitive environment, there's a high probability that you'll get it wrong.

Having a local presence is critical to navigating these nuances. Across our platform, for example, Zenith Global is a leading master servicer in Italy, giving us visibility into nearly everything happening in the non-performing loan market there. Sagitta manages our funds in Italy, while Europa Investimenti handles underwriting, together forming a deep local footprint.

That embedded presence allows us to access genuine opportunities across the Italian mid-market. Without it, we'd most likely be limited to Milan, which is the easiest market to access and understand. Instead, we're actively investing in Turin, Florence, Pisa, Rome, and beyond.

In all, we operate through 24 platforms and have 4,000 employees across eight Western European geographies. Approximately 85 percent of the deals we execute are bilateral and off-market, deals we can uncover precisely because of our strong local presence. Many of our platforms began as joint ventures or long-term partnerships, which helped us ensure operational and cultural alignment well before full integration, something that is important in relationship-driven markets.

institutional level, drawing on data from our €110 billion portfolio of assets under management. This allows us to monitor default rates, recovery performance and credit risk with exceptional accuracy.

That insight helps us not only choose the right investments but also manage them smartly through to exit. We're able to identify the right time to sell a position well before it becomes obvious to others who may be operating from a distance.

We also approach operational control with a cross-border mindset. We have in-country expertise tailored to different asset classes and investment types, and we actively share that knowledge across geographies. For example, our Italian bankruptcy experts may not be familiar with every local regulation, that's where local teams step in, but they can still share their experience across markets.

> *"As European banks and governments prioritise the development of both European and local champions, their focus tends to shift toward servicing large corporate clients"*

### Q Where do you see attractive opportunities to invest, in terms of both geographies and sectors?

We invest thematically across Europe, and one area where we have strong conviction is Southern European hospitality. It's a strategic theme that we have been very active in.

For example, we own a hotel operator in Portugal. If we identify a new hotel investment opportunity in Sicily, or Majorca, that same Portuguese team becomes directly involved. They manage the development process and collaborate with the local operator to ensure the asset performs to the standards outlined in our business plan.

We apply this same model to other sectors, including multi-family residential real estate and student accommodation, where we see strong demand. We don't view these opportunities purely through a national lens, we leverage our sector specialisations across borders. While some opportunities are country-specific, wherever possible, we bring a cross-border perspective to how we underwrite and manage investments.

### Q What about underwriting risk across such a complex and varied market landscape – how does that work?

It's a balance between local insight and centralised, institutional discipline. When we underwrite, we heavily rely on local knowledge and proprietary data, we have a deep understanding of what's happening on the ground. But we also integrate this with the perspective of our central teams, who have experience with deals across European markets and bring a broader institutional risk lens.

Our servicing platforms play a crucial role in this process. They enable us to monitor default behaviours, refine risk models, and assess recovery rates across multiple geographies at a granular level. That detailed, data-driven view allows us to make more informed and confident decisions when it comes to underwriting risk.

### Q Finally, how do you ensure your servicing operations and asset management strategies are aligned?

That alignment is a fundamental part of our approach. Around 90 percent of our fund investments are serviced on our platform, giving us a high level of control and ensuring strong alignment between our fund strategy and asset management execution.

While servicing involves significant complexity and a large operational footprint, it also provides a valuable source of opportunity. We see a vast array of assets, allowing us to cherry-pick those that align with our fund strategy. And because we manage those assets directly, we have complete visibility into every aspect of the credit positions, offering us a unique and informed perspective.

It's true that servicing adds complexity, but the returns and opportunities it provides more than justify that complexity. Many of our competitors avoid this complexity and, as a result, miss the €14 trillion opportunity we see in the mid-market. While they're chasing a handful of large deals, we're consistently generating dozens of solid mid-market transactions every quarter.

From a risk management standpoint, we prefer a diversified portfolio of hundreds of mid-market positions over a handful of large ones, where a single underperformance could adversely affect returns. Diversification builds resilience and reduces vulnerability to macroeconomic disruption.

Additionally, our servicing platform covers 35 million individual credits and assets across the European banking system. That scale gives us real-time performance insights and enables us to engage banks in discussions about acquiring positions they're winding down. Our granular approach and established relationships make it easy for banks to transfer positions to us, giving our servicing capabilities a real edge in the market. ■