

Private credit 2.0: why growth is inevitable

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Zach Lewy of Arrow Global says the fragmentation in Europe is why there is no shortage of opportunities to build market-leading private credit platforms



Zach Lewy
CEO and CIO
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Arrow Global was founded in 2005 by **Zach Lewy**, CEO and CIO, with the ambition of building Europe's leading private credit and real estate investment platform. The firm's platform franchise creates sustainable value across a range of alternative asset classes, including opportunistic credit, real estate and lending.

With the added advantage of key European regulatory licences, Arrow Global currently services approximately €112bn in third-party AUM.

The mid-market in Europe is seen as fragmented and opaque. How does that affect the private credit market?

The mid-market in Europe is profoundly divided. With 44 distinct local markets, each with its own language, legal system, industrial structure, and cultural norms, Europe presents a uniquely complex landscape. These countries remain so distinct that the majority of capital is still deployed domestically. Germans transact with Germans, the French with the French, and so on.

This fragmentation presents challenges but also opportunities for those positioned to navigate it effectively. Within each country, supply and demand dynamics vary significantly. We have selected 25 local platforms in regions where these dynamics are compelling, where we have built meaningful market share and consistently identified attractive investment opportunities across the cycle. Europe is not short of such areas.

These local platforms give us essential advantages: access, sourcing, underwriting, operating capabilities, regulatory permissions, and deep local knowledge, all of which are critical to success in these markets. We continue to invest significant effort in identifying incremental opportunities by country and by individual sector. The matrix spans 44 countries and 20–40 sector classes. And that is just in credit. If we include equity or buyout, the opportunity set expands even further. The potential to build a local champion in each space is high.

That is the mission: to develop market-leading platforms and construct portfolios with the right balance of key attributes such as position sizing, duration, return multiple, downside protection, internal rate of return, and cash flow profile. These are the core components of portfolio construction that support an attractive investment programme.

Asset-based lending (ABL) has garnered a lot of attention. What opportunities do you see in that market?

Asset-based lending is an extremely broad category. It includes everything from aircraft leasing and maritime finance, to auto leasing and various forms of mortgage lending. Each of these areas has distinct characteristics and requirements. As a result, a wide range of business models will eventually emerge across the space.

There are two constants in asset-based lending. First, the assets are tangible and exist in the real world, which introduces an entirely different set of operational challenges. Second, success in these markets depends heavily on people. Managers typically require more personnel and broader regulatory permissions because there is no intermediary between the investor and the end user. Many segments, such as mortgage lending, fall within regulated banking activities that cannot be undertaken without appropriate licences.

This is a space that suits us well, as our business model is built around operating at the granular end of each category. However, the barriers to entry are significant. Meaningful participation in areas such as construction lending or mortgage servicing requires substantial infrastructure, regulatory approval, and operational capability.

We expect ABL to become a highly dynamic part of the market. In corporate lending, private credit already holds approximately 90% of market share. In contrast, private credit's share in real estate and asset-based lending is closer to 10%. The growth potential is clear, which is why the sector is attracting so much interest from institutional investors.

Are you changing your approach to particular countries and segments or underwriting risk differently given the macro environment?

There are areas within our coverage universe that are benefiting from clear tailwinds. One example is student housing in Europe, which has seen rising demand partly due to challenges facing universities and international student policies in the US. We can measure the impact through enquiry volumes, occupancy rates and rental growth, giving us a reliable, data-driven view of the market.

At the same time, some sectors are following longer-term structural trends. For instance, offices in Northern Europe remain significantly below their levels of a decade ago, whereas hospitality assets such as hotels and aparthotels in Southern Europe have experienced notable growth. These developments influence both investor sentiment and asset pricing.

The key question in underwriting today is whether such shifts should be treated as cyclical or structural. Our approach involves close analysis of the underlying drivers so we can assess whether the changes represent temporary dislocations or long-term revaluations.

How are you meeting investors' demands for more transparency, control, data, and bespoke products?

One of the things I am most proud of at Arrow is that we have built a single fund management system across all our platforms. In terms of data reporting and transparency, this infrastructure allows us to respond effectively to a wide range of investor requirements. As we have expanded into multiple products, we have also created more tailored separate managed accounts. Our technology platform, data architecture, and operating capabilities enable us to deliver investor-specific products, portfolio structures, and customized reporting.

Innovation is central to this. AI is a particularly exciting area, and we are exploring its applications with enthusiasm and discipline. In certain areas, AI is unlocking opportunities that were previously uneconomical. For example, construction claims in Italy are now within scope. In the past, analysing these claims would have required a team of 50 to sift through tens of thousands of documents, making the process cost-prohibitive. Today, we use an AI-driven programme that can generate claim scorecards in seconds.

Technology is allowing us to meet investors' expectations not only for transparency and control, but also for efficiency, scalability and precision. This is becoming a core part of how we differentiate ourselves.

Where do you think the private credit market is heading, and what do you see as Arrow's place in that evolution?

We are seeing continued structural shifts across the asset-based spectrum, with significant volumes migrating into private credit. This trend is likely to accelerate and aligns closely with our strategy. It creates substantial opportunity for firms like ours that can deploy capital effectively in specialised markets.

For us, the key question is how many of these asset classes we can lead. We aim to outperform by focusing on areas where we hold a competitive edge, particularly through operational expertise and proprietary data. Our ambition is to become the market leader in select segments where those capabilities create a meaningful advantage.

The growth of private credit has moderated in fundraising terms in the past few years. Do you think we are entering a period of slower growth for the asset class?

We do not believe so. Structural changes in the banking system continue to push more activity into private credit. If you analyse the regulatory efforts to de-risk and streamline traditional lending institutions, it becomes clear that this is a zero-sum shift. Following the GFC, a range of lending categories migrated from banks into the private credit space. That evolution drove rapid growth in the market.

We see the same dynamic unfolding today in asset-backed credit. As the regulatory landscape continues to reshape bank behaviour, more lending activity will likely move into private hands. This is not a temporary trend, but part of a long-term reallocation of credit origination.