

ARROW
GLOBAL

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Zach Lewy, Founder, CEO and CIO of Arrow Global, shares his insights into the evolving private credit market, the importance of local presence in Europe, and how structural complexity creates opportunity.

Navigating Complexity:

Private Credit's Growth in Fragmented European Markets

What major changes have shaped the private credit landscape in recent years?

Private credit has undergone a dramatic transformation. Assets originated before 2022 have come under pressure from multiple directions including COVID-19 disruption, inflationary cost increases, and shifting interest rates. These combined shocks have made refinancing difficult and, in some cases, unviable. Banks that were once reliable sources of capital are now exercising greater caution, leading to tighter credit conditions across much of Western Europe.

This is triggering a wave of restructuring activity, with many borrowers experiencing payment distress at levels reminiscent of the pandemic's peak. Arrow, managing over €112bn in assets, has responded by providing capital solutions and restructuring expertise to bridge this gap. As traditional funding sources withdraw, private credit has emerged as a stabilising force, stepping in not only with capital, but with the operational insight needed to navigate these complex scenarios.

In this environment, firms that are agile and grounded in local market realities are best positioned to act decisively and constructively.

How is the role of private credit evolving in response to these market conditions?

In today's climate, private credit is not just a supplementary asset class, it is becoming a core component of many institutional portfolios. Investors increasingly value its ability to deliver regular income, strong downside protection, and flexibility in volatile environments. With elections in many key

markets now behind us, there had been a sense of increased macroeconomic clarity, but recent announcements regarding tariffs have reintroduced a wave of global uncertainty.

This latest development could signal a period of dislocation, impacting inflation expectations, interest rate trajectories, and sector-specific trends. For Arrow, this kind of market environment is familiar territory. We've seen before, most notably during the GFC, the European sovereign-debt crisis, Brexit, the pandemic, that periods of instability can create strong tailwinds for our strategy. Our track record demonstrates that acting decisively during these times can generate compelling returns.

Today, we're already seeing signs of rebalancing as some investors step back from risk or reposition their portfolios. That dynamic is surfacing high-quality assets at more attractive valuations, particularly in Western European markets. Arrow's focus on asset-backed exposures with limited corporate credit risk offers meaningful insulation from broader shocks. Our embedded local presence allows us to assess real-time shifts in value, and our flexible capital model enables us to deploy swiftly where we see opportunity.

Capital preservation remains the cornerstone of private credit strategies. Sophisticated investors understand that success hinges not just on headline returns but on durability and transparency. That's why opportunities that are clear, data-backed, and structurally sound are favoured. The emphasis is shifting away from chasing yield toward a more disciplined focus on quality, transparency, and predictable outcomes, an approach closely aligned with

Arrow's long-term, fundamentals-driven strategy.

The asset class is increasingly being seen not just as an income-generating vehicle, but as a tool for managing volatility and building resilient, forward-looking portfolios over time. Arrow's ability to adapt to new geopolitical and macroeconomic dynamics will continue to be a competitive edge as uncertainty unfolds.

What does effective risk management look like in this evolving private credit space?

Risk management in private credit is no longer just about downside modelling, it's about structuring deals that are resilient under a range of conditions. Investors have more tools and frameworks than ever before. Some prefer to stay at the top of the capital stack, focusing on senior secured positions to minimise risk and meet regulatory thresholds. Others seek enhanced yield through mezzanine or structured solutions.

Transparency is vital. High-quality opportunities are underpinned by real data, clear cash flows, and well-understood market dynamics. Arrow, for example, uses servicing and performance data from over 35 million individual credits and assets across its platform franchise to inform underwriting and portfolio strategy. In real estate, understanding both liquidity and demand fundamentals is key, and Arrow's granular approach ensures that assets meet stringent performance and exit-readiness criteria.

What's changing is that investors now expect dynamic, real-time risk insight, not just pre-investment analysis but continuous evaluation

throughout the lifecycle of the asset.

How does Europe's market fragmentation create opportunity for local private credit operators?

While Europe may appear fragmented to outsiders, this complexity actually generates a rich set of opportunities for those equipped to operate within it. Unlike the more uniform U.S. market, Europe's regulatory, legal, and cultural diversity makes cross-border investing challenging. However, it also means that many of the most attractive opportunities remain under the radar of global institutions.

For a firm like Arrow, this fragmentation is an advantage. It allows us to access mid-market, asset-backed opportunities that are too small or too nuanced for large-scale capital providers. These localised exposures, worth around €14tn across the European mid-market, offer risk-adjusted returns that are often uncorrelated with broader markets. By embracing rather than avoiding this complexity, Arrow can consistently deliver alpha through proprietary access and strategic execution.

Why is Arrow's embedded local platform model essential for sourcing granular, off-market deals in Europe?

Arrow's network of 24 local operating companies across eight countries is designed to unlock precisely the kind of small, complex transactions that define Europe's mid-market.

These are not bolt-on acquisitions, they are strategic engines of insight and execution. By embedding ourselves within local ecosystems,

we access deals that never reach the open market.

This means working directly with banks, developers, and servicers to uncover opportunities in insolvency proceedings, legacy portfolios, and special situations. Typically ranging from €20m to €50m, these deals are below the radar of large capital allocators but highly attractive for platforms like ours that can underwrite and manage them effectively. Our ability to act quickly, price accurately, and manage assets post-acquisition is a direct result of our local infrastructure.

In essence, these local platforms serve as both the radar and the engine, sourcing deals, assessing risk, and executing strongly in their respective markets.

How is private credit diversifying beyond traditional strategies like direct lending?

Direct lending has become the standard entry point for many investors, but the private credit landscape is broadening. As familiarity with the asset class grows, interest is shifting toward niche strategies such as bridge loans, real estate-backed debt, and specialty finance. These areas can offer superior risk-adjusted returns, particularly when managed by experienced local operators.

Arrow expects the industry to evolve toward evaluating strategies not by category but by outcome. Investors will assess them based on their performance, downside protection, and fit with portfolio goals. As a result, market participants will increasingly look

beyond traditional frameworks and explore new structures with greater flexibility and innovation.

This shift also opens the door to customised investment mandates, allowing allocators to match duration, yield, and liquidity profiles to their specific needs more precisely.

Are there specific geographic regions or sectors showing particular promise for private credit?

Southern Europe, in particular, is proving fertile ground. Long considered a discounted region compared to Northern Europe, it has now demonstrated performance parity and even outperformance in certain sectors. With tourism, lifestyle migration, and remote work boosting demand for hospitality and residential real estate, there are compelling growth opportunities.

Arrow's embedded teams are well-positioned to originate and manage investments in these markets. From hotel refurbishment in Portugal to residential development in Spain, we are able to source and manage projects with the local insight and operational depth required for success.

Germany is also emerging as a rare distressed opportunity, where a depressed economy, construction defaults, and transparent insolvency law is creating access to high-quality assets at significant discounts. Our recent acquisition of Interboden, a real estate developer, enhances our ability to act on highly localised deals.