Navigating Europe's alternative credit market

THE EUROPEAN alternative credit market has grown substantially in recent years, with many global asset managers racing to secure a share. However, navigating this market is no simple task – it remains highly fragmented, with distinct legal, regulatory, and cultural differences across jurisdictions. With more than 25 years' experience in investment management and asset servicing, Zach Lewy (pictured) understands exactly what it takes to succeed in this deeply local and complex landscape.

Lewy founded Arrow Global in 2005 and has since led the business as group chief executive and chief investment officer, transforming it into a leading pan-European investment manager specialising in private credit and real estate. Under his leadership, Arrow now manages more than €110bn (£91.3bn) in serviced assets across Western Europe. The company operates across various alternative asset classes, including opportunistic credit, lending and real estate.

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"We're very comfortable with our geographic footprint," says Lewy. "We plan to continue to strengthen our credit, lending and real estate presence in-country, while also deepening our insurance expertise within the Western European market we've built up over the years."

"Private credit is in a favourable position right now"

Arrow Global grew significantly after the 2008/2009 financial crisis, when Lewy identified an opportunity to take some credit business away from the banks. He observed that many European banks were over-leveraged and inefficient in terms of cost-to-income ratios. By integrating operations, compliance, capital, regulatory licences, and data excellence, he realised Arrow Global could become a major force in improving that segment of the European financial services industry.

Today, those opportunities remain, but Lewy sees plenty of room for growth in the European alternatives space.

"I would have thought that, 40 years into the EU common market exercise, there would have been substantial harmonisation," he says. "In reality, it's still far from a single market."

European fund managers are often stymied by country-specific laws and regulations, which can slow down growth plans and increase the administrative burden of launching new products. Lewy points out that the largest banks in Germany, the UK, Italy, and France have minimal overlap, reflecting the lack of harmonisation in the European market.

Over the past two decades, Arrow Global has steadily built a pan-European presence. Lewy is confident that the firm is now in a position to serve its global investor base while capitalising on the compelling opportunities in the European mid-market and mitigating risk. Currently, the primary concern is the impact of lower interest rates on investor returns. However, having navigated similar credit cycles before, Lewy has built Arrow to be resilient to macroeconomic uncertainty.

"There are some strategies that do very well when interest rates are rising," says Lewy. "Some of our lending strategies naturally

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benefit from higher rates. Other strategies thrive when rates fall – such as securitisations, structured credit strategies, and capital-expenditure-intensive value-add strategies.

"I think private credit is in a favourable position right now, with viable strategies for both rising and falling interest rates. We just have to see where rates go from here."

Looking ahead, Lewy intends to keep doing what Arrow does best. That means focusing on residential real estate and asset-backed collateral in sectors positioned for strong demographic and structural tailwinds.

"We've been focusing on the asset-backed sectors where we're one of the largest players in Europe," he says.

"That includes both bulk categories and specialist categories, where we've established a very strong presence. The market opportunity has been strong across the board. As asset values have risen with inflation and interest rates have increased, we've benefited from improving collateral values and higher returns. This combination has given us a significant advantage.

"Looking ahead, with our pan-European platform and multi-product offering, I'm excited about our current position and the opportunities that lie ahead." ■