



To: Trustees of the SBCERA Retirement Board

From: Neil Sheth

Date: July 30, 2025

Subject: European-Based Credit Manager Investment Committee Meeting on August 14, 2025

Background

During the second and third quarters of 2024, the Investment Team at SBCERA conducted a broad search of European-based Credit Investment Managers requesting information materials and performance track records of the managers fund offerings. During the fourth quarter of 2024, the Investment Team reviewed and evaluated the materials, conferred with NEPC and its Research Team and decided to focus its investment diligence on eleven of these managers. Thus, I traveled with three members of SBCERA's Investment Team, Amit Thanki, Jacob Abbott and Thomas Kim to London the last week of January in 2025, to conduct detailed due diligence meetings with all eleven of these managers. After returning from this weeklong set of meetings, the Investment Team and I reviewed each of our notes, opinions and findings and we all concluded that there were a few investment firms that stood out from the rest with their fund offerings, track records, investment personnel and potential fit with the existing SBCERA investment portfolio.

Three of these four investment managers will be presenting to you on August 14th, and NEPC has been deeply involved in evaluating each of those managers. In addition to this summary memorandum, NEPC has provided confidential investment reports on each of the managers, which are included in the Board materials.

Summary of Investment Manager Offerings

Arrow Global has worked diligently alongside SBCERA's Investment and Legal Team and NEPC to construct a specific offering for SBCERA that aligns its investment strengths and practice areas with SBCERA's preference for a Fund of One/Master Custodial Agreement ("MCA"), while also providing investment terms that are consistent with a large investment mandate.

Arrow Global Group Capital Management

Arrow Global Group Capital Management was founded in 2005 by Zach Lewy, who continues to lead the Firm as CEO, CIO & Fund Principal. Arrow Global has evolved into a pan-European alternative investment firm with €100+ billion in servicing assets under management ("AUM"), as of December 31, 2024. It has three broad platforms, all focused on European markets: Opportunistic Credit, Real Estate Lending, and Real Estate Equity. Over the years, Arrow Global has developed a vertically integrated ecosystem that provides the Firm with insights across European markets; Arrow has built, primarily through acquisitions, a pan-European line-up of 24 local servicing platforms across 8 European markets. These platforms help provide differentiated origination, underwriting and servicing capabilities across heterogeneous & fragmented European markets as well as in-depth insights into various markets for the team.

The Firm is headquartered in London, where the senior leadership of the Firm resides and where the investment operations of the Firm take place. Overall, Arrow Global's top-line company employs 160 professionals, of which 60 are investment professionals. Arrow Global is led by a senior leadership team including five individuals: Zach Lewy (Founder), John Calvao (Fund Principal), Monique O'Keefe (Chief Risk & Governance Officer), Phil Shepherd (CFO), and Rob Leary (Chair-Arrow Board). Arrow Global is majority-owned by TDR Capital, a European middle market private equity firm.

Arrow's investment edge is primarily derived from its vertically integrated ecosystem, which provides Arrow with both broad and unique perspectives across the European market. Through its experience and platform, Arrow has built a competitive moat that would take substantial time and resources for peers to replicate. Its investment team sources a significant amount of off-the-run deal flow including access to a significant amount of opportunities in bilateral and non-competitive situations. There is no clear market comparable to what Arrow Global has built. A commitment to the Firm should provide investors with deal flow that is otherwise not accessible in the market.

Arrow Credit Opportunities III ("ACO III") is the third vintage in the Firm's opportunistic credit platform and is targeting \$3.5BN in a current fundraise. Arrow's opportunistic credit platform extends back to 2010, when the Firm was investing via its own balance sheet; between the pre-fund track record, ACO I, and ACO II, Arrow has deployed ~€7 billion into the Firm's pan-European opportunistic credit mandate.

ACO III will have three core pillars that the strategy will be able to pivot between: i) credit portfolios and single names (40% to 60% target), ii) bankruptcies & restructurings (25% to 35% target), and iii) secured collateral & value-add opportunities (15% to 25% target). Credit portfolios and single names entails purchasing of non-performing and performing loans, and creating value by workout, refinance or repayment. Bankruptcies & restructurings involve investments with attached collateral such as claims, cash-in-court, receivables, and real estate, and creating value via workout and liquidation, or refinancing and collect-out. Secured collateral & value-add opportunities involves acquisition of real estate, primarily in the living or mixed-use sector, and creating value by repositioning or enhancing an asset, and then selling it. The vast majority of the time, there will be collateral attached to an investment, including: mortgages, claims, cash-in-court, receivables, real estate etc. Non-performing loans will have a target gross IRR of 15% to 20%, performing loans will have a target of 14% to 18%, bankruptcies will have a target of 15% to 20%, restructurings will have a target of 14% to 18%, and secured collateral & value-add will have a target of 18% to 25%. *ACO III* is expected to be extremely diversified, likely comprising 100+ individual positions.

Arrow Lending Opportunities I ("ALO I") is the first commingled vintage in Arrow's real estate lending platform. *ALO I* held the first close in the second half of 2024, has secured ~€1.1 billion in commitments, and should hold a final close in Q4 2025. *ALO I*'s track record consists of ~€7 billion in deployed capital, since 2010, across European real estate bridge loans and development loans. It has a target fund size of €1.5 billion. The Fund will be offered in an unlevered and levered format, the unlevered vehicle will target a net IRR of 10 to 12%, the levered vehicle will target a net IRR of 12% to 14%.

ALO I will have two main pillars to the strategy, and a third pillar to round out the strategy. The two main pillars will be “Bridging Loans,” & “Development Loans.” The final pillar of the strategy will be “Stabilized Mortgages.” Both Bridging Loans & Development Loans will have a target allocation of 30% to 45%, and Stabilized Mortgages will have a target allocation of 10% to 25%. Bridging Loans will consist of auctions, pre-planning loans, land banking, and refurbishment projects. Development Loans will consist of senior secured and stretch senior loans to finance longer term development projects. Stabilized Mortgages will involve longer term lending to stable and completed properties. Bridging Loans will be in the range of ~1 year, Development Loans in the range of 2-3 years, and Stabilized Mortgages will be in the range of 5+ years. The entire portfolio will have real estate collateral attached, with the majority being residential real estate. The average loan-to-value, LTV, will be in the range of ~60%.

SBCERA’s \$175MM investment partnership with Arrow Global Group will be structured as follows:

- \$125MM into a Separate Account that replicates Arrow Global Group’s *Arrow Credit Opportunities III*
- \$50MM Co-Investments into same Separate Account (may include investments from *Credit Opportunities* as well as *Lending Opportunities*)