

## KEYNOTE INTERVIEW

# Uncertainty demands patience and proactivity



*Macroeconomic turbulence and deglobalisation trends have increased uncertainty, but opportunities abound if infrastructure investors can hold their nerve, says Astatine Investment Partners' **Jim Metcalfe***

Despite all the market volatility, the fundamentals underpinning many infrastructure asset types and projects remain unchanged. Some investors may choose to delay pursuing a particular opportunity, in the face of market turbulence, but conversely the current environment may present an opening to invest in a business that might otherwise have been unavailable, or even have attracted more intense competition. From an exit perspective, managers can still unlock capital from high-quality assets and businesses if they are willing to consider the full range of alternatives.

Jim Metcalfe, co-managing partner and CEO of mid-market specialist

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Astatine Investment Partners, says that while challenges may come and go, if investors maintain a long-term view, they can deliver success. He also shares his views on how digitalisation and deglobalisation are shaping the sector, as well as why infrastructure remains a superior asset class.

**Q What are the key trends and sectors driving infrastructure investment?**

Our strategy is defined by our investment focus on the mid-market, primarily in digital, transport and utility-related sectors. Thematically, we seek downside risk protection in businesses underpinned by strong industry themes and competitive positioning, or robust contractual frameworks. We also look for businesses driven by themes like outsourcing to strong end-market customers, especially those that serve regulated utilities, ports, airports, toll roads and other major infrastructure projects. While we don't invest in such "core" infrastructure assets directly, we invest in businesses that have commercial exposure by serving them as

customers and, therefore, have alignment with their growth.

Of course, the infrastructure asset class is extremely broad, but currently we see three areas receiving significant focus: data centres, thermal generation and circular economy businesses. Within this, data centres represent the asset class receiving the greatest attention from most infrastructure funds at this time.

Historically, renewables would have been the next focus area, but legislative changes and a reduction in incentives have cast some renewable strategies into question. The emphasis has shifted towards more conventional thermal generation, particularly natural gas-fired generation. This shift is partly driven by the immense power demands of data centres associated with delivering services such as artificial intelligence. Natural gas-fired generation has really come to the fore in 2024 and 2025 as a solution to AI's power needs.

Finally, circular economy businesses, which are highly sustainable and have a strong ESG dimension, are gaining significant traction. While the US may not be as singularly focused on sustainability as Europe, many investors continue to prioritise this theme.

Beyond these three focus areas, the transportation space is also attractive although it's less in favour due to the deglobalisation theme, which is re-directing rather than stopping global trade flows. We still consider it to be part of constructing a viable long-term investment strategy with significant future opportunities, highlighting the transitory nature of many trends and importance of understanding the detail behind headlines.

### **Q Are there any particular value creation levers that are effective across the mid-market investment lifecycle?**

For us, the primary attraction of the mid-market is supply and demand of opportunities. By transaction number, the mid-market accounts for roughly

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three-quarters of the overall market, but only about a third or a quarter of the deal volume. As such, we view the mid-market as an under-loved and under-appreciated sector, with fewer people chasing opportunities. The demand placed on many managers is to grow AUM by pursuing larger and larger transactions, which often moves them out of the mid-market space unless there's a conscious decision to remain.

A second key element is that companies of this size genuinely benefit from strong, active managers with experienced teams. The portfolio companies tend to have many different levers for growth and may be international in scope. We believe mid-market companies can be found that are in a strong growth phase that successfully operate in niche sectors with strong barriers to entry. There can be many different winners within the mid-market space, whereas mega-cap markets are far more consolidated.

To take advantage of mid-market investment opportunities, once we acquire an asset, a critical next step is the implementation of the right systems, procedures and alignment. This often starts with a 100-day plan. Beyond that baseline, we pursue specific strategies around business model transformation, review key terms in standard

commercial contracts, optimise financing structures and review procedures for capital deployment.

### **Q How can investors support digitalisation and sustainability?**

To a certain extent, we believe that satisfying the immense power demands of data centres, especially at the scale being pursued, requires an all-of-the-above energy strategy. It won't be solved by renewables alone, nor by nuclear or natural gas in isolation. Short-term energy needs likely require a diverse approach, potentially integrated with batteries. They aren't necessarily in conflict; all approaches are necessary.

Regarding the principle of sustainability, which many interpret as solely relying on renewables, we're supportive of renewables as a business line. However, we haven't been large investors due to the return profile and legislative risk.

We feel that infrastructure investors can certainly continue to support sustainability. Within our portfolio companies, we seek opportunities to reduce costs through energy efficiency and reduction of supplies such as equipment and paper.

### **Q How has deglobalisation accelerated the investment risks and opportunities?**

The desire for seamless global trade and travel has historically created great opportunities in the infrastructure space. Deglobalisation implies a halt in global trade between certain countries where, in fact, recent trade deals are more likely to increase costs or result in a change in trade flows among countries and regions. The actual effect of the recent uncertainty and new trade deals has been to slow down decision-making by companies, which has led to reduced growth in certain segments, forced re-evaluation of supply chains and increased the cost of capital



### **Q How can digitalisation help streamline or optimise company processes?**

The infrastructure space is often viewed as unsophisticated and asset-intensive, implying fewer opportunities for cost savings or growth related to better usage of information. However, a core concept of digitalisation is finding ways to create value in data through efficiency and enhanced services to customers. This is a principle frequently overlooked by infrastructure investors, but we see it as critical.

For example, in one of our businesses, we launched an initiative to provide customers with real-time visibility of our assets and to track equipment usage over time. This is a form of digitalisation that's not typically associated with infrastructure, but we believe it's extremely important as a service.

More obviously, but still often overlooked, is the digitalisation of internal systems and procedures. There are significant opportunities to better manage a business, enhance risk assessment and perform scenario analysis beyond what a simple Excel spreadsheet can offer.

By having the right systems and procedures in place, we've seen many instances where upgrading an enterprise resource planning or accounting system during our holding period has allowed management teams to identify overlooked opportunities, address operational issues they hadn't realised were occurring and achieve synergies that previously seemed non-existent. We believe a comprehensive review of a company's software stack, operational control tools and customer needs is essential to leverage data for improved service delivery.

by slowing rate cuts and reduced the level of M&A.

Regarding procurement, some of our portfolio companies lease and rent equipment to companies such as consumer-packaged goods customers, utilities and telecom providers. If the

cost of sourcing equipment increases significantly because of tariffs, the companies must pass on that cost to maintain cashflows or rethink their supply chain to mitigate the increase in cost of equipment. This emphasises the importance of the procurement

process, not only for cost pass-through but also for identifying the lowest-cost procurement options. Friend-shoring or near-shoring to reduce transportation costs and avoid tariff restrictions or other transaction costs are likely part of the changing trade flows.

Uncertainty caused by macro events has translated into some investors sitting on the sidelines and others demanding a higher cost of capital because investors seek higher returns when they cannot accurately assess or price risk. Risk averse investors may delay buying or selling until the outcome of deglobalisation is resolved or rate cuts by the US Federal Reserve begin. While this higher cost of capital can be a challenge if you're selling into the marketplace (as buyers may price risk differently), it can also be a great opportunity to acquire businesses currently suffering from a very large uncertainty premium.

### **Q Despite recent market turbulence, how optimistic are you about the future?**

We remain optimistic, viewing the current dynamics as somewhat transitory. We anticipate that if elevated transaction costs, whether due to tariffs or the challenges of doing business in specific markets, are sustained, the playing field will be reset soon. The rally in the equity markets suggest some investors are well down the path. Others may be waiting on the Fed to begin cutting rates – some Wall Street analysts forecast this before end of 2025. We believe that infrastructure continues to demonstrate its resilience in terms of revenues and EBITDA, and remains a superior asset class compared to many alternatives.

While the market uncertainty has created a challenging mindset for some, this is where patience and thorough analytics becomes a virtue in finding investing or exiting opportunities to pursue. We're focused on staying disciplined while keeping an eye open for compelling opportunities. ■