

The mid-market's starring role



Guest comment by **John Hanna**

The mid-market's appeal lies in its balance of scale, agility and value creation potential, writes a managing partner at Basalt Infrastructure Partners

The infrastructure industry never stands still for very long. What began as a relatively narrow focus on traditional core assets – regulated utilities, toll roads and airports – has expanded into a diverse and dynamic asset class that sits at the heart of global economic transformation.

However, as with any industry the evolution is ongoing.

Private infrastructure now stands at the threshold of another major phase, with key thematic including the surging infrastructure and power requirements of digitalisation, the decarbonisation of transport and a focus on natural resources as well as the growth of the circular economy.

This is at a time when demanding macroeconomic conditions have slowed capital flows and challenged institutional investors on how to efficiently access opportunities.

Within this shifting landscape, the mid-market is emerging as an attractive route, offering a wide and diverse opportunity set, resilient underlying growth and deliverable liquidity.

The shifting landscape

At the macro level, the requirement for global infrastructure investment continues to expand, with the OECD estimating that annual infrastructure investment needs to reach over \$6

trillion by 2030 to support sustainable growth.

However, large-scale projects driving this requirement typically have material political risk, execution complexity and a scale of funding which requires sovereign and very large institutional capital. The challenge for investors is how to access the opportunity set below this level.

This is where the mid-market, typically defined as companies or projects below \$1 billion, can support those larger trends and offers a dynamic and diversified opportunity set.

Assets sit below the threshold of the large-cap managers and institutions, but operate in strong and established local market positions. They also combine attractive opportunities to scale, while meeting rising levels of demand.

Digitalisation and decarbonisation

The digital and AI revolutions are creating unprecedented demand for power and connectivity. This is best demonstrated in the US power market, which has seen load growth for the first time in 20 years. In particular, hyper-scale data centres require growing levels of investment for the grid and new sources of power generation.

As digital activity increases, the relationship between energy and digital

infrastructure is becoming more critical and presents a real opportunity for mid-market investors. Investors can play a key role in developing distributed generation capacity, upgrading grid infrastructure and integrating renewable energy supply – all key investment domains of mid-market infrastructure.

While decarbonisation has different drivers globally, it remains one of the key investment themes. Customers and stakeholders are increasingly demanding carbon reduction, a trend supported by government policies.

We believe that mid-market investors are well placed to capture value in this evolving sector – in particular, in transportation businesses providing essential public transportation, such as buses and ferries, where investing in electric or reduced-emission vehicles is a key requirement to grow.

In many industrial areas, sources of and the sustainability of natural resources have also come increasingly into focus. This is driving the growth of the circular economy. This is a highly fragmented and regional industry where dominant local players need significant new capital in order to meet demand. This provides an opportunity for experienced mid-market investors to scale up, digitalise and professionalise these platforms. ■