

KEYNOTE INTERVIEW

Value, volatility and the AI boom



*Capital imbalances and AI-driven power demand are creating the potential for high-value investment opportunities when coupled with a hands-on asset management approach, says Basalt Infrastructure Partners' **David Greenblatt***

After years of stagnation, electricity demand in the North American market is set to surge, driven by an eagerness to modernise assets and an excitement around AI-led innovation. For mid-market investors, this resurgence in demand presents a compelling opportunity.

Of course, challenges must be mitigated to make the most of these opportunities, while market fragmentation and political volatility will make local expertise and stakeholder engagement essential. With the right management support, however, mid-market infrastructure investors have the potential to translate market inefficiencies into

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strong exit performance, explains David Greenblatt, managing partner at Basalt Infrastructure Partners.

Q How are macroeconomic conditions across North America shaping value in the mid-market today?

Firstly, there's a fundamental supply-demand imbalance that lies between where capital is being raised and where transactions are actually taking place.

The vast majority of capital has moved to the mega-cap end of the market, whereas the bulk of real dealflow resides in smaller, founder-owned or family-led businesses. This dynamics-driven gap is what we believe makes the mid-market so attractive.

Secondly, the massive build-out of digital infrastructure and AI is rippling across multiple sectors, particularly in North America. For the first time in nearly two decades, we're seeing sustained power demand growth – specifically driven by large, concentrated data-centre loads. We believe that shift is unlocking immense capital requirements across the mid-market landscape.

In terms of specific advantages, we see direct, proprietary deal sourcing as one of the mid-market's greatest strengths. Investors can seek to uncover overlooked, capital-starved businesses outside of highly competitive, broad auction processes.

Another potential advantage is the sheer scope for operational value creation. An active, hands-on asset manager, taking 100 percent ownership or majority control, has the potential to genuinely reshape and reposition a business. Rather than relying on passive financial engineering, investors can seek to drive organic growth and build operationally resilient platforms that give confidence when it comes time to exit.

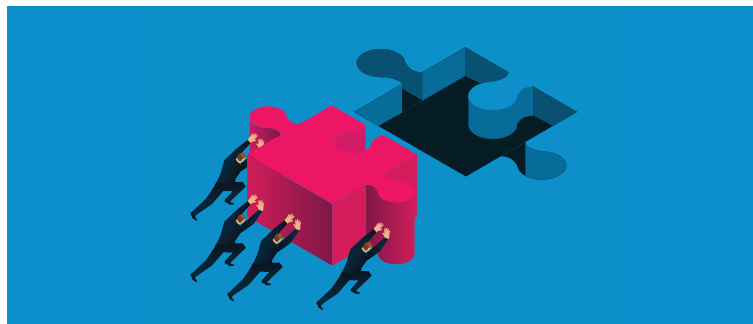
Q How are mid-market infrastructure strategies mitigating some of the bottlenecks facing the energy/utility sectors?

There's no denying that electricity grid constraints are significant right now, driven simultaneously by AI-related loads and broader electrification. One key way that mid-market investors are seeking to capitalise on this shift is through investment in behind-the-meter (BTM) power generation.

By positioning generation directly on site at customer facilities, you can potentially solve two major problems: reliability during grid outages and resiliency to balance volatile load profiles.

We've been active in BTM generation since our first fund. In 2016 we built out a BTM platform in Texas to support commercial and industrial customers, which we exited around 2022. What this experience taught us is that BTM is operationally complex – there's no one-size-fits-all solution. We believe success requires partnering with teams that can deliver tailored technology solutions – whether solar, storage or thermal – to distinct customer profiles.

Aside from grid constraints, there are certainly other potential hurdles in the market for investors to consider,



Q With utilities in North America facing significant modernisation pressures, what makes local utility carve-outs uniquely attractive for mid-market infrastructure funds?

Regulated utilities in North America are scarce and highly sought after by financial investors. Broadly speaking, there are two ways to enter the space: execute a complex take-private of a publicly listed utility or execute a targeted carve-out of a subsidiary asset from a larger utility parent.

In our view, carve-outs present an attractive opportunity for three reasons. Firstly, they are a strong fit for the mid-market. Carve-outs allow investors to acquire single-state or regional subsidiary assets that fit a roughly \$3 billion fund size. Secondly, they offer the necessary flexibility for operational repositioning. A carve-out gives investors full autonomy to restructure operations. And thirdly, they allow for bilateral execution.

Take-privates require public market checks and are inherently competitive auctions. Carve-outs require operational heavy-lifting up front by both buyer and seller, which creates opportunities for complex, bilaterally negotiated transactions.

Whatever the exact nature of the deal, however, we believe proactive stakeholder engagement is vital to building productive, multi-year relationships with utility regulators and communities. In our view, success requires local boots-on-the-ground expertise and a long-standing local track record. Building trusted partnerships with local management teams, regulators and municipal stakeholders is the single best risk-mitigation strategy when investing in fragmented markets.

such as the political volatility currently being seen in Washington. Federal policy shifts and subsidy frameworks in the US directly shape customer behaviour – and, therefore, can directly impact investor returns.

Historically, solar was one of the more dominant choices for many commercial customers. While solar remains popular for a subset of customers, shifting federal subsidies and reliability concerns have driven a massive uptick in demand for alternative and complementary technologies – including fuel cells, reciprocating engines, dedicated

substation infrastructure and battery energy storage systems. Customers are increasingly seeking diversified, resilient, multi-technology setups rather than single-source solutions.

Q Where are you seeing the most compelling mid-market opportunities to deploy capital into transport infrastructure?

We see two primary themes across our North American and European transport infrastructure strategies. The first concerns essential infrastructure

equipment leasing, with asset-backed equipment leasing platforms tied to longer-term contracts. These typically offer short payback periods (typically three to five years) combined with long useful asset lives (15 years plus) and structural downside protection via multi-year triple-net leases.

For instance, across our recent funds, we hold businesses that lease ground support equipment (GSE) at airports and speciality maintenance equipment for the rail sector. Airlines and rail operators are increasingly deploying their balance sheets into core operations while outsourcing non-core capital equipment to specialists who offer fleet flexibility.

The other major theme is fleet electrification. The drive towards sustainable fleet conversion is creating substantial potential for deployment opportunities. This trend is currently more pronounced in Europe due to an increase in top-down regulatory frameworks and government subsidies that mandate EV adoption for public transit and municipal fleets.

Nevertheless, while North America is less mature in terms of top-down

mandates, we're seeing growing pockets of demand. In one of our North American GSE businesses, we recently secured contracts specifically requiring fully electrified equipment, a clear sign that customer preference is shifting – even ahead of formal mandates.

In light of this sustainability theme, for investors aiming to balance capital needs while maintaining steady risk-adjusted returns, it all comes down to capturing high-margin growth from new customer contracts. In Europe, certain municipal transit authorities and corporate clients increasingly mandate electric fleets in their procurement tenders. Bidding on these contracts can allow operators to command better margins and secure longer-term revenue visibility, justifying the upfront capital expenditure.

In North America, where broad government mandates are less common, fleet upgrades are typically driven directly by customer economics and reliability needs rather than regulatory pressure. Investors must carefully evaluate whether replacing and maintaining existing equipment versus deploying capital into new electric assets directly aligns with contractual customer demand.

Q What is driving international appetite for North American mid-market infrastructure assets, particularly from Europe?

We see regular waves of international interest in North American infrastructure assets. The core attraction is fundamental: stronger GDP growth and superior long-term demographic trends create a much larger potential runway for organic growth.

At the same time, the US is a highly fragmented market. Infrastructure policies and regulatory frameworks are largely determined at the state level rather than nationally. For international investors, navigating 50 distinct policy frameworks is challenging, but for an established manager with local

roots, that fragmentation means the market is less efficient and may offer far more compelling entry valuations.

Additionally, North America often lags behind Europe in terms of infrastructure outsourcing maturity. For example, in Europe, over 25 percent of airport GSE is leased, whereas in North America, that figure is only around 5 percent. As North America frequently follows European operational maturity curves, it creates massive headroom for potential growth.

Q How do you see the infrastructure landscape evolving and how should mid-market managers adapt to stay ahead of the curve?

Change is the only constant in this asset class. But the key to long-term performance is staying disciplined and sticking to your core strategy. It's easy to chase capital into whatever sector is currently receiving hype, but this inflates entry valuations and degrades returns.

That said, the sheer volume of capital required on the power and utility side over the next five years is unprecedented in my 15 years plus in the mid-market. The growth of AI, data centres and industrial electrification is a total game changer. Even if only a fraction of proposed large-load projects come online, we believe the strain on transmission and generation capacity will drive massive investment opportunities in grid infrastructure and BTM generation.

In transport, we believe success will be less about macro disruption and more about execution: addressing the massive backlog of deferred infrastructure maintenance and selectively funding fleet modernisation.

Ultimately, we believe the managers who outperform will be those who leverage cross-border insights to identify relative value, maintain strict discipline on entry multiples and use active asset management to drive organic growth. ■

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