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The magic of the mid-market

Superior value creation potential and exit prospects have never been more evident than in this period of macroeconomic and geopolitical instability, our participants tell Amy Carroll and Kalliope Gourntis

The appeal of mid-market infrastructure is clear. At a time when large scale, multinational entities are being battered by mounting trade tensions and general geopolitical and macroeconomic uncertainty, mid-cap managers are quietly going about their business: selectively buying assets from a vast potential pool at reasonable prices; leveraging the array of valuation creation tools at their disposal; and, crucially, selling into a relatively broad and liquid exit market.

"I think there are three factors that make the mid-market extremely attractive. The first is lower competition. Deals with enterprise values of €500 million and below account for around 80 percent of all transactions that happen. That illustrates the scale of the opportunity. Furthermore, a lot of these deals aren't going through large auction processes. They're originated through bilateral discussions," says Maciej Tarasiuk, head of investments, economic infrastructure at Aberdeen Investments.

"Secondly, the companies we back typically have lean management teams, meaning we have a significant role to play in terms of hands-on value creation. Finally, if you've got the asset management piece right, you'll end up with a company that's both larger and more professional than when you bought it. That means, when it comes to exit, you'll have a wide potential pool of buyers."

Misha Nahorny, managing director at Arjun Infrastructure Partners, agrees there's scope for significant intervention in the mid-market: "Large-cap companies are typically already well financed. They have excellent CFO functions and strong CEOs. That's not always the case in the mid-market. You can almost always improve on capital structures, and you can usually strengthen management teams by bringing in new knowledge and expertise. Mid-market assets are looking for capital to grow, but they're also looking for expertise."

But as LPs become ever more focused on DPI, it's the mid-markets' improved exit prospects that are really adding to its allure. "Exits are much easier in the mid-market than they are in the large-cap space. There are real questions marks about the exit route for some large-cap assets," says Emil W Henry, Jr, founder, CEO and CIO at Tiger Infrastructure Partners.

"Investors are definitely more focused on exits today. DPI has become the new IRR," agrees Gianluca Minella, head of research at InfraRed Capital Partners. "Investors want to see capital coming back before they commit to new funds and that prioritisation is benefiting the mid-market."

Competition creep

The risk, of course, is that the mid-market is now so enticing that larger managers could swoop down, upsetting the favourable competitive dynamics.

Andrew Cogan, managing director and portfolio manager for the Fengate Infrastructure Yield Fund, is unperturbed: "I think bigger players would struggle to play in the sub-$250 million equity space where we typically operate, given deployment targets and the size of their funds."

Henry, however, says that competition is bound to intensify, precisely because this is such an attractive part of the market. "Some larger-cap players are already targeting the mid-market and have even created dedicated funds. The opportunity set is so large relative to the capital that exists that I think it is inevitable that more money will come into the space."

There are some investors for whom the mid-market will never make sense, regardless of its positive attributes. "The benefit of the large-cap market is the ability to deploy very significant amounts of capital. For a small segment of the investor base, such as the big sovereign wealth funds and large state pension plans, that's critical," says Bruce Chapman, partner and co-founder of Threadmark. "But for the average investor, the mid-market remains extremely interesting, and I think that view will have only been reinforced by recent economic challenges."

One of the key draws of the mid-market for LPs, says Chapman, is that mid-market funds tend to be less concentrated by sector. "The number of individual businesses that can absorb the kind of tickets that mega-funds are deploying is limited in certain sectors," he explains. "If you look at the deployment of large-cap funds in the latter part of the last decade, particularly in North America, that investment has been heavily concentrated in energy. Mid-market funds typically offer a much greater ability for diversification."

Chapman says that it's been easier for mid-market managers to hit targets in a reasonable time frame than it's been for mega-market funds in recent years. "One interesting consequence of this is that there's less of a discrepancy between the IRR you can achieve as a first close investor in a mid-market fund versus a final close investor, which has become a big challenge during this

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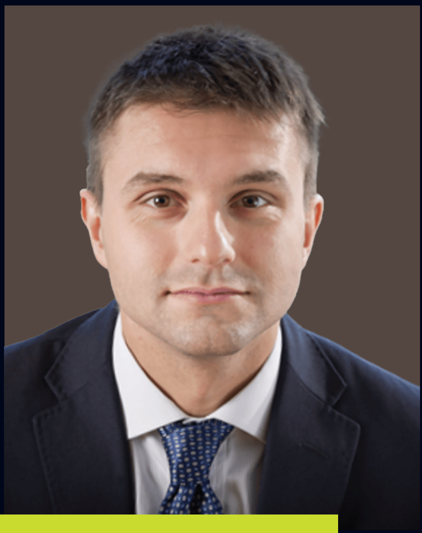
Tiger Infrastructure Partners

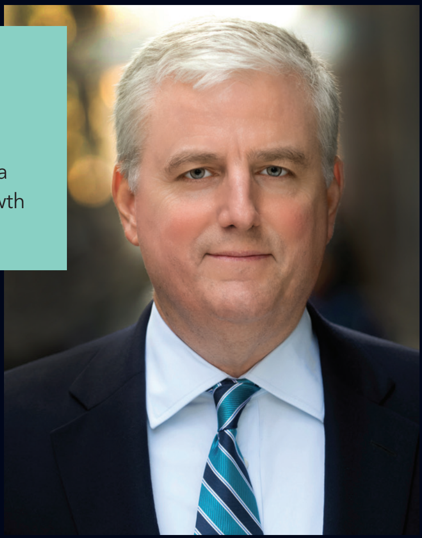


Gianluca Minella
Head of research, InfraRed Capital Partners

Gianluca Minella leads InfraRed's research function. Before joining InfraRed, Minella was head of portfolio strategy and research at the Abu Dhabi Investment Authority. He also worked at DWS, Fitch Ratings and Standard & Poor's.

Bruce Chapman
Partner and co-founder, Threadmark

Bruce Chapman has over 23 years' experience of capital raising and corporate finance. Prior to co-founding Threadmark, he was a partner at CP Eaton Partners and vice-president at Continental Capital Partners.



Emil W Henry, Jr
Founder, CEO and CIO, Tiger Infrastructure Partners

Emil W Henry, Jr is the founder, CEO and CIO of New York- and London-based Tiger Infrastructure Partners, a private equity firm that invests in transformational growth capital in infrastructure projects and platforms.

Maciej Tarasiuk
Head of core infrastructure investments, Aberdeen Investments

Maciej Tarasiuk oversees the investment activities of Aberdeen Investments' core infrastructure strategy and is an investment committee member. He previously worked at Macquarie Capital, MAP Airports, OTPP and Amber Infrastructure.

Misha Nahorny
Managing director,
Arjun Infrastructure Partners

Misha Nahorny joined Arjun in 2024 and is responsible for originating and executing infrastructure investments across Europe. He was previously a senior infrastructure investor at OMERS, Swiss Life and John Laing.

Andrew Cogan
Managing director and portfolio manager, Fengate Infrastructure Yield Fund

As portfolio manager of Fengate Infrastructure Yield Fund, Andrew Cogan is the executive responsible for the fund's investment strategy, fundraising, investments and asset management. Cogan previously worked at CIBC World Markets and Accenture.

period when fundraising has taken longer."

Mid-market fundraising is not entirely immune to the vagaries of the macroeconomic and geopolitical environment. "The risks are significant right now, and not just in terms of the economy. After 80 years of peace, we are also facing an accelerated shift into a widespread war footing," Chapman says. "Things definitely feel less stable than they did three or four years ago. There's always a risk that the denominator effect will return if stock markets were to decline substantially in value."

Minella, however, is optimistic: "Infrastructure used to be a fixed income substitute, but it's also become an equity replacement over the past two to three years. If equities are expected to produce lower returns going forward, that should divert capital into alternatives such as value-add infrastructure. In fact, that probably explains some of the positive fundraising momentum we're seeing at the moment, together with infrastructure's inflation correlation. Infrastructure has on average accounted for 8-9 percent of alternatives fundraising. Today, we're at 20 percent for 2025, year to date."

Mid-market fundraising fortunes are being further impacted by a simple rebalancing of exposures, meanwhile. "Investors are recognising that they've already put a lot of money to work in the large-cap space," says Tarasiuk. "They're now looking to build exposure in other areas where there's greater potential for value creation, and I think that's benefiting the mid-market."

Digital infrastructure

Despite the benefits of the mid-market, there are sectors less suited. In particular, the huge data centre mega-theme has typically been a difficult one for mid-market managers to tap into.

Nahorny says that Arjun has grappled with how to play in the data centre space. "Development of data centres that are secured by long-term contracts with hyperscalers tend to require too much capital for a mid-market play, while investing in the construction of data centres based purely on the expectation of satisfying future demand doesn't meet our risk profile," he says.

Arjun's response to this dilemma has been the acquisition of a stake in a 244MW stabilised data centre portfolio, operated by one of Europe's biggest data centre operators Data4.

Henry, meanwhile, adds that while data centres are primarily a large-cap phenomenon, there are opportunities for mid-market firms to leverage growth in the sector, by helping to meet data centres' vast power demands.

Power and interconnection are among the bottlenecks impeding data centre rollout. Tiger Infrastructure Partners has invested in Unison Energy, which provides 24/7 power to a range of enterprises including data centres. "These are not the hyperscale data centres that are the province of the large-cap players. These are mid-sized, edge data centres that need resilient power. Failure is not an option," Henry says.

The data centre industry is not only facing power and interconnection constraints, however. It's also facing capital constraints. As a result, capital recycling is likely to be an important source of funds for developers going forward, says Cogan. "Those that have built data centres may opt to sell down either a minority or control stake in existing, stabilised assets at a lower cost of capital in order to help fund new development. We've seen the same thing happen in the power space, but the scale here is going to be enormous. If you look at all the megawatts that have been announced in the US, and multiply that by, for argument's sake, $13 million per MW, and then look at how much infrastructure capital is out there and how much debt financing is available, even taking into account potential government subsidies, it's clear there's a very real funding gap."

Transport opportunities

After falling from favour post pandemic, transport infrastructure appears to

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Fengate Infrastructure Yield Fund

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MISHA NAHORNY
Arjun Infrastructure Partners

be making a comeback, representing around half of total dealflow in the first quarter of the year.

According to Minella, this is also partly due to a demand rebound and partly due to investors looking to rebalance portfolios that had become heavily tilted towards energy and digital in recent years. "For example, transport has been less affected by the energy transition capex super-cycle when compared to some other sectors such as utilities," Minella adds. "Investors are therefore reevaluating what does and what doesn't constitute defensive core infrastructure and that's driving a shift in demand."

As with data centres, however, traditional transport assets such as ports, airports and toll roads are typically too large for the average mid-market investor. "If you move down the size spectrum, buying a very small airport, for example, you end up being exposed to single client risk, where a single airline's decisions can destabilise your finances," adds Tarasiuk.

Aberdeen, therefore, has chosen to focus on the equipment leasing space. "There, it's possible to deploy lower cheque sizes in a fashion that's commensurate with the risk profile of a core or core-plus fund," Tarasiuk says. "It's been 10 years since we first invested in the UK rolling stock space where we've been very successful. Looking ahead we intend to continue to develop that theme. We're also in the process of replicating the model focusing on electric ground handling equipment leasing in the aviation sector."

Chapman also believes that transport adjacencies have a lot to offer. "The investors we talk to aren't particularly focused on ports, airports or roads. They are really interested in the equipment leasing space, however, and there are very few funds catering to that market," he says. "We definitely think the time is right for someone to raise a diversified transport fund that's looking at sub-segments outside of ports, airports and toll roads."

To date, however, transport has not become a specialist sector vertical in the way that digital infrastructure and the energy transition have, partly because at the time when that specialisation trend was gathering pace, transport infrastructure was still reeling from the fallout of the pandemic.

"Transport became a bit of a dirty word during that period. Investors lost material amounts of money in ports and airports. Investors therefore have some negative muscle memory from that time," says Chapman. "I'm not aware of anyone losing large amounts of money when it comes to equipment leasing, however. It's a fascinating space and I think there's a lot more to be done there."

The energy transition

There's also a strong sustainability angle to the transport infrastructure space, of course, although the energy transition more broadly has been hit hard by the arrival of the second Trump administration. The US energy transition sector may be down, however, but it's not out.

"The energy transition sector has been dealt a body blow in the US but there are still hundreds of major American corporations that have net-zero targets and many states have net-zero targets too," says Henry. "The transition is going ahead, it just won't be as fast as it would otherwise have been."

"The new administration with its One Big Beautiful Bill represents a different approach to the energy transition, but that doesn't necessarily change the way corporates will think or act," agrees Nahorny. "US corporates are very international and so many remain highly attuned to the agenda of minimising CO2 emissions based on what we see in Europe."

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> **MACIEJ TARASIUK**
> **Aberdeen Investments**

Henry adds that mid-market investors have not typically been active in the types of wind and solar generation projects that are in the firing line of Trump's One Big Beautiful Bill, in any case. "That's largely because solar plays have mostly involved utility scale, and wind projects became uneconomic when inflation hit."

Instead, many mid-market firms have been focusing on parts of the energy transition that are already viable without subsidies. "For example," Henry continues, "we made a circular economy investment in a tyre recycler called Bolder Industries. That's just one example of an aspect of the energy transition that doesn't require government support."

Meanwhile, battery storage has fared relatively well in the One Big Beautiful Bill. "The body blow that Emil has talked about has primarily been dealt to the tax credit regime for wind and solar," says Cogan. "We've invested significantly in utility-scale battery storage and our energy transition team in Houston works closely with BESS developers."

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> **GIANLUCA MINELLA**
> **InfraRed Capital Partners**

Cogan also believes, however, that fundamental demand drivers mean that investment into renewables will continue: "It's very hard to get gas plants sited and built today, and so there remains a tremendous need for wind and solar, plus storage, in an environment where base load demand is increasing. Our expectation therefore is that renewables are still going to get built. They're just going to have to be built with fewer tax credits and therefore energy prices may rise accordingly.

"On top of all this, there's the tariff regime to navigate as well. The reality is that China owns a major portion of the supply chain for batteries and solar, which is leading to a rush to diversify and onshore equipment as much as possible, before the tariffs are triggered. All of these new incentive and trade rules have been stuck in a blender, and it makes everything more challenging. But none of that takes away from the fact that the demand is still there." ■