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'One Big Beautiful' asset class

From conventional energy to the onshoring of supply chains, US President Trump's legislation is reshaping the investment opportunity for infrastructure debt, seven industry professionals tell Amy Carroll and Zak Bentley

U S President Donald Trump's One Big Beautiful Bill Act has redefined America's infrastructure opportunity set, with ramifications for infrastructure lenders across the world. The most obvious impacts are being felt in the energy market.

"There are two clear themes underlying the 'One Big Beautiful Bill': US energy dominance, which, for Trump, means increasing energy supply from oil, gas, nuclear and geothermal sources," says Don Dimitrievich, senior managing director and portfolio manager for energy infrastructure credit at Nuveen. "The other objective is reducing energy costs."

The OBBBA therefore includes significant incentives for traditional hydrocarbon production. "The Trump administration's focus on energy dominance has renewed interest in conventional power," says David Rosenblum, fund partner at I Squared Capital.

"This has resulted in an enormous bid up of these assets, raising the question of whether they are overvalued."

There are also likely to be opportunities around LNG, given measures designed to stimulate LNG exports. In contrast, Trump's undisguised dislike of offshore wind means that market is incredibly challenged. Interestingly, other areas of renewables are continuing to thrive, however, in part due to escalating energy demands driven by AI and the onshoring of manufacturing capabilities.

Meanwhile, recent Treasury guidance on construction safe harbours has accelerated renewables deployment. "The irony is that some of Trump's policies have intensified investment in renewables as owners and developers wanting to qualify for tax credits have pressed ahead with projects that would otherwise have taken place over a longer period," Dimitrievich says.

Rosenblum agrees: "There is going to be an enormous acceleration of

deployment in renewables. However, the question then becomes whether those parties will be able to start or complete construction within the requisite timeframe in order to satisfy the demands of the new legislation."

Others such as Alex Campbell, head of infrastructure debt at Aberdeen Investments, argue that the impact of any one administration is dwarfed by the decarbonisation, demographic and digitalisation mega-trends that are driving the infrastructure opportunity set.

"We estimate that the world needs to spend around \$64 trillion on physical infrastructure over the next 25 years, equivalent to roughly 1.7 percent of global GDP per year," Campbell says.

"A lot of that investment is needed to support power generation, as well as transportation. Interestingly, around a third of that capital will be spent in developed markets and two-thirds in emerging markets, reflecting their greater developmental needs and faster economic growth over the longer term.

Yes, this has been a challenging year in many ways, principally due to uncertainty, but the big picture, in my view, remains pretty robust.”

“From a bank perspective we are pretty agnostic on short-term macro volatility when it comes to infrastructure, given its fundamental characteristics of stability, monopolistic positions and long-term contracted cashflows,” adds Rafick Ramadan, deputy global head of infrastructure at Crédit Agricole CIB. “In fact, we believe volatility plays in favour of infrastructure, because it can be viewed as a safe haven. We see this as a great time for the asset class.”

Meanwhile, as the US infrastructure market recalibrates in the wake of the OBBBA, Europe is having its moment in the sun. “We are seeing more opportunities than ever as Europe presses ahead with the energy transition. That is driving investment, not just in generation, but also in green mobility, energy efficiency and the decarbonisation of utilities,” says Jean-Francis Dusch, global head of infrastructure and structured finance and CIO of infrastructure debt at Edmond de Rothschild Asset Management. “Even digitalisation is part of this story to a degree. There are lots of investment opportunities.”

Bérénice Arbona, head of infrastructure debt at LBP AM European Private Markets, agrees: “Conditions are good in Europe thanks to continued commitment to the energy and digital transitions, a shared desire to reinforce European sovereignty and important national investment plans such as those that have been announced in Germany and the UK. All of that has created a strong pipeline.”

Richard Parker, head of EMEA infrastructure at Barings, meanwhile, is seeing opportunities on both sides of the Atlantic. “While we see opportunities in both the US and Europe, we have recently seen slightly more in Europe, particularly given the uncertainty around tariffs,” he says. “With regard to renewables specifically, we have been less active in the sector lately given that

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ALEX CAMPBELL
Aberdeen Investments

“Data centres represent around 20-25 percent of the deals we see right now, so you have to be disciplined and wait for the right opportunities that fit your strategy”

RICHARD PARKER
Barings

Analysis



Alex Campbell

Head of infrastructure debt,
Aberdeen Investments

Alex Campbell joined Aberdeen Investments in 2015 after prior roles in the financial guarantee industry and in investment banking in London, New York and Singapore.



Richard Parker

Head of EMEA infrastructure, Barings

Richard Parker has worked in the infrastructure industry for 20 years. Prior to joining Barings, he worked at Crédit Agricole Corporate and Investment Bank and Bank of Ireland.



Rafick Ramadan

Deputy global head of
infrastructure, Crédit Agricole CIB

Rafick Ramadan is deputy head of infrastructure sector at Crédit Agricole CIB, where he has worked for almost 18 years. He began his career at PwC.



Jean-Francis Dusch

Global head of
infrastructure and
structured finance, CIO
infrastructure debt,
Edmond de Rothschild
Asset Management

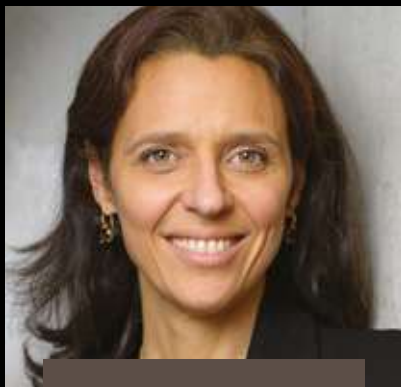
Jean-Francis Dusch joined the Edmond de Rothschild Group in 2004. He brings more than 30 years' international project and structured finance experience to the team.



David Rosenblum

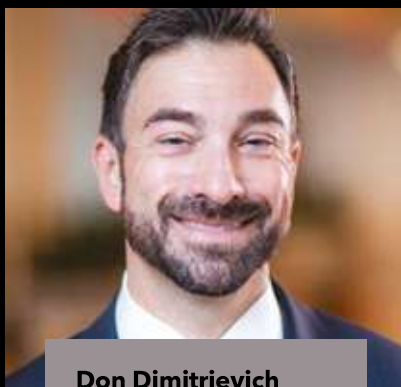
Fund partner, I Squared Capital

David Rosenblum joined I Squared Capital in 2022 as a fund partner focusing on credit. During his 20-year career he has held various roles at Deutsche Bank, Goldman Sachs and Fried Frank.


Bérénice Arbona

Head of infrastructure debt, LBP AM European Private Markets

Bérénice Arbona has 22 years' international experience in the origination, structuring and arranging of structured finance and projects. She joined the firm in 2014 and has led the team since 2020.


Don Dimitrievich

Senior managing director and head, Nuveen Energy Infrastructure Credit

Don Dimitrievich joined Nuveen in November 2022. Prior to Nuveen, he founded the energy and power business at HPS Investment Partners and Citi Credit Opportunities. Earlier in his career, he worked at Skadden, Arps, Slate, Meagher & Flom, and was a product development engineer.

it looks somewhat mispriced so, while Trump's policies may have affected volumes to some extent, for us the impact has been fairly modest."

Fundraising fortunes

Pipelines may be strong, but the bigger challenge for infrastructure debt managers may be matching those opportunities with fundraising. Per *Infrastructure Investor* data, just \$6.2 billion was raised for infrastructure debt last year compared with \$28 billion in 2023.

The market's protagonists appear unperturbed, however. "In the context of geopolitical uncertainty, including all the tariff histrionics that we have witnessed, infrastructure, as an asset class, remains very attractive for investors," says Dimitrievich.

Part of the appeal is the defensive nature of the asset class. Infrastructure debt is also benefiting from investors looking to diversify their private credit exposures. "For allocators that have invested heavily in direct lending over the past 15 years that are looking for ways to diversify their private credit allocations, infrastructure debt makes a lot of sense, particularly if you can achieve returns that are commensurate with direct lending," says Dimitrievich.

"Enormous amounts of capital have been raised for direct lending. As a consequence, there are often dozens of term sheets issued within a week of an opportunity being shopped," adds Rosenblum. "In addition to spread compression and loosening covenants, that means a lot of these portfolios are starting to look the same. Investors are looking for diversification."

Given the interest rate environment, investors have also been able to achieve infrastructure debt returns that are in line with their core or even core-plus infrastructure equity exposures, according to Dimitrievich.

Meanwhile, Arbona says Europe is proving particularly popular given the broader geopolitical context. "Out of the \$6.2 billion that was raised for infrastructure debt last year, \$5.3 billion

was raised by European managers. Canadian investors are starting to look to Europe, as an alternative to the US. We continue to see interest from Asia. There is a good opportunity right now to redefine the geographical mix of your investor base."

The advent of AI

One of the key drivers of both dealflow and investor appetite right now is, of course, the rapid proliferation of data centres as demand from AI continues to intensify. There are growing concerns that a bubble may be brewing, however, and that energy constraints could curb roll-out.

Infrastructure debt providers appear to be cautiously optimistic. "Amara's Law states that the impact of new technology tends to be overstated in the short term and understated in the long term. Against that backdrop, we continue to see the data centre space as a highly attractive and resilient investment opportunity," says Ramadan.

"The fundamental drivers of digitalisation, cloud migration, the exponential growth in computing power and, of course, AI, mean the asset class's long-term prospects are extremely attractive. We just need to be sure we maintain a disciplined approach to identifying the best credits, backed by contracted cashflows with high-quality off-takers."

"Data centres remain strong investment opportunities providing the credit fundamentals including location, quality of construction and contracts, are strong," adds Arbona. "ESG is another important factor in this space, particularly as it relates to water and energy usage. ESG is fundamental to any credit analysis."

Dimitrievich agrees that data centres represent a huge opportunity, particularly at the intersection between data centre needs and power, but adds we are seeing signs, if not of a bubble, then at least of hyper interest in the space.

"A lot of new entrants are taking a speculative approach with an ethos of

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Greenfield is how you finance the energy transition and how you deploy digital infrastructure”*

JEAN-FRANCIS DUSCH
Edmond de Rothschild Asset Management

build it and they will come, and that frothiness is being reflected in high asset valuations and low credit spreads for some financings. The question is whether the returns will prove commensurate with the risks being taken.”

“Data centres represent around 20-25 percent of the deals we see right now, so you have to be disciplined and wait for the right opportunities that fit your strategy,” says Parker. “We like to do deals with hyperscalers. We are very focused on the release risk at the back end and making sure the debt structure is appropriate for the underlying business. We like the space, but we are extremely selective about the deals we pursue.”

Rosenblum, meanwhile, adds that data centres are becoming increasingly differentiated, with facilities specifically designed for model training, inference or hyperscalers, for example. “Each has different requirements in terms of leases, power and how they are configured. Without detailed and nuanced underwriting, and discipline, the vast quantity of both equity and debt going into the space, could result in some unexpected outcomes.”

Regardless of the complexities, however, for Campbell this is a trend that is only heading in one direction. “Video consumption of data is expected to increase five-fold from covid in 2020 through to 2027. We have seen projections where data centres account for half of all US electricity growth demand by 2030,” he says. “The number of internet users in Africa has doubled over the past five years but internet penetration in a market like Nigeria is still at 46 percent compared to an OECD average of 87 percent. All of these statistics suggest that there is still a massive opportunity out there.”

Greenfield appeal

The data centre story is overwhelmingly geared towards greenfield investment, of course. Appetite among infrastructure debt providers for greenfield is mixed.

“We see select opportunities in greenfield, providing it is well structured with strong counterparties and that the technology being used is well proven,” says Parker. “At a practical level, however, a lot of investors want to be fully drawn, which can act as a constraint.”

As a bank lender, Ramadan has a different perspective. “We have always had a focus on financing traditional greenfield projects using our rigorous credit approach,” he says. “Deferred draw isn’t an issue for us in the way it can be for institutional investors. Traditionally, once the project has been built, it is then taken out by the institutional market.”

For Dusch, meanwhile, greenfield has been an integral part of his firm’s strategy since inception: “Right from when we launched our business in 2014, it was important to us to have an agreement with our investors that we would finance greenfield projects even if that meant slower initial deployment. Greenfield is how you finance the energy transition and how you deploy digital infrastructure.”

While infrastructure lenders may be open to greenfield exposure, they are generally less comfortable with merchant risk. “Construction risk is easier to take because you are typically passing it down to another party,” says Campbell.

“With merchant risk, however, you are taking that risk yourself, on the basis of where you think power prices are going to go. That also means taking a view on climate change and generational risk. It all depends on your risk appetite.”

“In the investment grade bucket, we don’t take a lot of merchant risk, but with the high-yield strategy where we are getting spreads of 350 or 400 [basis points] over base rates, we are more flexible,” adds Parker.

Dimitrievich, meanwhile, points out that wholesale power prices are 800 times more volatile than crude oil. “Trying to predict where power prices

will be in several years’ time is extremely challenging, particularly given how much regulatory and legislative change is taking place. We always approach projects on a risk-adjusted basis, but owners need to enter into some type of hedging contract or off-take for at least a portion of the market risk, in order to provide cashflow visibility to support our debt.”

Onshoring supply chains

Another area where infrastructure debt managers could be exposed to market risk is in the onshoring of the infrastructure supply chain. The OBBBA is creating significant impetus in this space.

“Some may view this as infrastructure. Others see it as an adjacency. We take a holistic view, depending on the underlying nature of the asset,” says

Dimitrievich. “What we don’t want to do is to take supply and demand risk, so there is heightened sensitivity around the off-take. After all, we all saw what happened when Chinese solar panel manufacturers dumped their product in the market. We don’t have a prohibition on market risk, but there has to be a balance with contracted off-take or hedged exposure.”

Debate around what constitutes infrastructure is intensifying as manufacturing supply chain deals proliferate. “The best definition we have found for infrastructure is assets that fulfil essential needs,” says Arbona.

“Those needs are changing, of course. Who would have thought just a couple of years ago, that the biggest sector of infrastructure would be linked to AI and data centres? But while the assets themselves may

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BÉRÉNICE ARBONA
LBP AIM European Private Markets

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DON DIMITRIEVICH
Nuveen

change, the fundamental characteristics do not and that all comes back to this issue of essentiality and long-term demand.”

Dusch takes a similar approach. “We have not changed our definition but new types of assets continue to fall within the definition that we have always had. It is all about whether the asset provides an essential service to society. True infrastructure also depends on how a deal is structured and what contractual arrangements are in place. You need to be flexible and embrace the fact that infrastructure needs continually evolve.”

Campbell adds that when an infrastructure lender provides financing, they are providing validation of a sponsor’s assertion that the asset has essential infrastructure characteristics and isn’t just a leveraged corporate. “There is a real value for the equity owner in that validation because it gets them into a world of lower discount rates when it is time to sell.”

“It is all about the underlying characteristics of a project,” adds Parker. “Does it have contracted cashflows, a monopolistic position, inflation protection and hard assets? Providing all those boxes are ticked, we are happy to take a look.

“We review around 300 deals a year across the platform and typically execute on around 40. A substantial portion of the deals we pass on don’t exhibit the right characteristics. If you pursue those deals, you just end up with a highly levered corporate, which is not where you want to be.”

For Ramadan, meanwhile, the constant evolution of assets that fall within the parameters of infrastructure is both intellectually stimulating and helps the asset class to grow as an industry.

“It is fascinating to see all these new subsectors emerge, within the energy transition and circular economy, for example,” Ramadan says.

“But it does mean, of course, that remaining rigorous in our underwriting is paramount.” ■