Abrdn's Purington: Middle-Market Infrastructure Has Some Extra Pop Right Now

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Eric Purington, portfolio manager and infrastructure specialist at abrdn. Read the Q&A below as Eric says that middle-market private investments are a path to profitability and outperformance now due to a supply-demand imbalance that has large-cap operators working with an 'ocean of capital' looking to do more acquisitions and pay a premium for them. Purington, who is responsible for private-market investments for the abrdn Global Infrastructure Income Fund, says that while infrastructure provides services and assets for the community and predictable cash flows for investors, the premiums being paid for middle-market assets could generate roughly '200 basis points of outsized returns' moving forward.

Eric Purington

The podcast can be found on AICA's website by clicking here: https://aicalliance.org/alliance-content/pod-cast/

CHUCK JAFFE: Eric Purington, portfolio manager at abrdn is here and we're talking private market investments for infrastructure now on The NAVigator. This is The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator's going to point you in the right direction. And today we're talking with Eric Purington, who's responsible for private market investments for the abrdn Standard Global Infrastructure Fund, that's ticker ASGI. And he manages abrdn's four energy and natural resources private funds. You can learn more about the firm at abrdn.com, which is A-B-R-D-N, abrdn.com, and more about ASGI by making it abrdnASGI.com. To learn more about closed-end funds, business-development companies, and interval funds in general go to AICAlliance.org, the website for the Active Investment Company Alliance. Eric Purington, welcome to The NAVigator.

ERIC PURINGTON: Yeah, great to be here, Chuck. Thanks for having me.

CHUCK JAFFE: Let's start with one basic and then one explanation. Infrastructure is something that you could make a case, heck, I could make a case that everybody needs, but I want to hear your case for why we want infrastructure now? And then on top of that what I really want is the case for why private infrastructure investments now?

ERIC PURINGTON: Happy to cover those points. As you can probably tell by my voice, infrastructure really is my passion. I've been working in the field in one way or another since 2009, and I even wrote one of my college undergraduate thesis on infrastructure. It's really something I think about and care about. So I think your question was, one, why infrastructure now? And two, why private market investment in infrastructure? And I think honestly there's a similar answer to both of them, but I'll spend a little more time on the second because that's when the investor's choice comes in. Here in the US and in most places a significant part of infrastructure investment comes from the public sector. And I think essentially the key to infrastructure, both from what the public sector is trying to achieve with our tax dollars, and what private investors are also trying to benefit from, is essential services supporting the community. This works a little bit differently in different communities and different countries, but that's the essential nature of it. That services, and really assets, and that's what we like to focus on, supporting the community. Often those with long operational life, and as such can be expensive to develop and pay for. Now let's handle the second part of that. The second part of that is why private market investment? And I think that's a little bit of a different and maybe more interesting question. Like I said, the public side of infrastructure is often paid for with our tax dollars through tax-exempt bonds and bills like the infrastructure bill that was passed two years, and also there's essential infrastructure components of the Inflation Reduction Act. Now on the private side we have a choice, we can invest in fixed income or equities, but why infrastructure really should be part of any investor's portfolio, that's something I like to think of a bit differently. When we think of infrastructure we think of things, we think of assets, right? Airports or ports or toll roads or gas pipelines, but really from an investor's standpoint we should think of characteristics. Characteristics such as essential services supporting the community, which I already covered. High barriers to entry, historically stable predictable cash flows, low demand elasticity. And this is something that is I think very much in the fore today, is underlying cash flows linked to inflation. Now these characteristics of course are often part of some of the same assets that we think of when we think of infrastructure. The same airport, roads, wireless towers perhaps, utilities, pipelines. And if those are what you think are the makings of a long-term, sustainable portfolio, then I think infrastructure's a great place to start, really investing for a lifetime in building wealth.

CHUCK JAFFE: Your specialty in the part of the market that it's not only what you specialize in, it's part of what makes the fund different, is that you're looking for middle-market private infrastructure.

ERIC PURINGTON: Definitely.

CHUCK JAFFE: Why middle market instead of the biggest projects? And how does somebody who says, "Okay, well, I want to go in that direction, but wouldn't the largest, the biggest kinds of projects be the ones that maybe have less risk?"

ERIC PURINGTON: Great questions. Great question, Chuck. So in short, ASGI is a fund that is 75% public infrastructure investment, when I say public, I mean investing in public equities, and 25% private infrastructure investments. So the fund as a whole, still the majority of its investments is on public infrastructure. I think what's interesting about infrastructure, maybe more so than other sectors, is that the public versus private differentiation often covers industries as well. On the whole, public infrastructure opportunities are the big stuff you're talking about, and we think our portfolio allocates and covers those. When I say the big stuff, I'm talking about major airports or even airport groups, toll road operators that have assets across countries. And the big place on the public side that is very much not available on the private side is of course utilities and companies related to utilities. All of these are the major public infrastructure assets that we had to exposure to. I think what sets apart at ASGI is we want basically the building blocks of major public infrastructure strategies, that is the middle market. One thing we like about the middle market today is just the ocean of capital that exists on the other side of the middle market, the large cap. These exist of course for public companies, buying our middle market companies perhaps, but also exists with this ocean of capital in private equity, in private capital that's been raised in the very large-cap space. By some measures this is almost $150 billion of infrastructure dry powder. And what we like to do as ASGI is look for opportunities that have strategies that can be summarized really just in one sentence. You know, Chuck, I know you spend a lot of time chronicling mutual funds and other products that haven't done well, and I think probably a reason for that is their managers don't really understand what their underlying investments are. That's something we want to avoid on the private side. That's simple, straightforward infrastructure businesses in the middle market, with the goal of working with management teams to grow them to investment opportunities for this ocean of capital on the larger market side. Both in the form of private equity, but also in the form of the same public companies we consider on the public side of our fund. I hope that answers the question, Chuck.

CHUCK JAFFE: Yeah, it did, but there's another question here that comes to mind almost immediately. Which is with private investments representing about 25% of the portfolio, and that being one of the things that truly distinguishes ASGI in terms of how you build the portfolio. And with public infrastructure being subject to all of the slings and arrows that you could face in Washington, and right now that's in place with lots of arrows if not as many slings. The fact is that you would look at this space and see certain types of risks. So is it ultimately that somebody should be thinking, I want the private equity because it's mitigating risk, because it's adding to my risk, or because it's goosing my returns? Is it one, the other, or both that we're expecting? And how do you expect it to play out this year?

ERIC PURINGTON: I think it's a third, in that infrastructure as a whole, and this is both large and small opportunities, I think the same time is kind of an offensive and a defensive strategy. Particularly with something we focus on, this underlying cash [inaudible] leads to inflation and overall economic growth. On the one hand that's kind of the heart of the defensive nature of infrastructure investing, but on the middle-market side, why we think this is the path to outperformance is essentially just what I spoke to before. That there is a supply-demand imbalance between looking for larger billion dollar plus infrastructure opportunities and those that have it. Just as an example, one of the managers we work with on the coinvestment side, a private equity manager, they had two consecutive investments that were sold to a multi-billion dollar private open-ended fund that's managed by a US financial institution. Two in a row. I think in earlier days that would have been unheard of. But that speaks to the nature of imbalance between the major opportunities, the large-cap opportunities on the private side versus the middle market that we focus on. We estimate that this could lead to approximately, let's call it 200 basis points of outsized returns, just based on this middle-market strategy alone. Of course, we need to choose the right opportunities and the management teams need to execute, and that's what we work on day in and day out to do.

CHUCK JAFFE: Well Eric, this has been really interesting. Thanks so much for joining me on The NAVigator.

ERIC PURINGTON: Great, thanks for having me, Chuck.

CHUCK JAFFE: You've been listening to The NAVigator, which is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffee. And yes, that's me, and you can check out my hour-long weekday show at MoneyLifeShow.com or wherever you go to get good podcasts. To learn more about interval funds, closed-end funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest, Eric Purington, who's responsible for private market investments for the abrdn Standard Global Infrastructure Fund, that's ticker ASGI, and he also manages abrdn's four energy and natural resources private funds. You can learn more about the firm at abrdn.com, which is A-B-R-D-N, and more about ASGI by adding ASGI to that address, abrdnASGI.com. The NAVigator podcast is new every Friday, we hope you'll follow along to make sure you don't miss anything. We'll see you again next week, and until then, happy investing everybody.

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