

Mid-market infrastructure is a must for well-diversified portfolios

Institutional investors have gradually increased their average allocation to infrastructure, prompting a more thoughtful approach to optimal portfolio construction. Increasingly, investors seek diversification by geography and sector, complemented further by size, as a path to reduce a portfolio's sensitivity to macro factors, as well as financial and other external shock events. CBRE Investment Management's research indicates that mid-market infrastructure – which we define as unlisted infrastructure companies with an enterprise value of \$500 million to \$2 billion – is a compelling addition to established infrastructure portfolios.

The largest 100 unlisted mid-market infrastructure companies have historically outperformed the core infrastructure market across five- and ten-year periods, both on an absolute and risk-adjusted basis. The chart below shows that imputed annualized returns for the top 100 mid-market companies over these time periods were strong and consistent at 12.2 percent and 12.4 percent, respectively. Below we investigate the reasons for the mid-market return advantage.



Source: EDHECInfra 100 Mid-market, market capitalization \$28 billion and EDHECInfra 100 Core, market capitalization \$238 billion. As of May 30, 2025, gross of fees, equally weighted, in local currency.

I. Sizable opportunities set

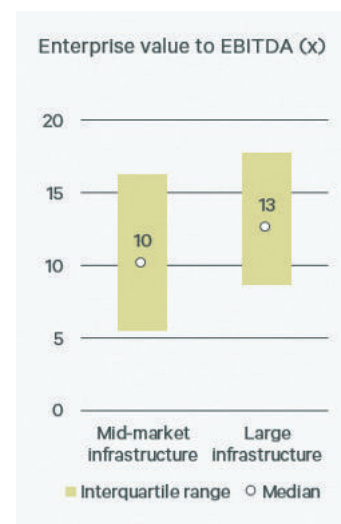
While investors tend to associate infrastructure with singular large infrastructure businesses, the likes of international airports or incumbent power utilities, the mid-market segment is equally thriving, if not more so. In the past five years, mid-market infrastructure transactions accounted for close to \$600 billion annually, on average, spread across more than 1,500 deals.¹ Mid-market opportunities arise in climate-sustainable sectors, such as solar, wind and battery projects or the electrification of transport, thus riding on the energy transition wave. Renewables and transport are behind more than half of the mid-market infrastructure deal value.

Traditionally, we relate successful mid-market businesses with European countries, in particular Germany and the Nordics.

In Germany, it is estimated that the Mittelstand (middle class) is responsible for 60 percent of the country's jobs. But in infrastructure, in addition to these countries, mid-market transactions predominate in core markets such as the U.K. and are fast growing in volume and count in the U.S. One in 10 mid-market deals in the U.S. took place in either fiber optic networks, data centers or wireless towers, benefiting from exponential digital demand growth.

II. More attractive entry multiples

The trend toward larger fund sizes in private infrastructure has become more pronounced in recent years. Mega funds



Source: EDHEC Valuation metrics for mid-market assets (between \$100 million and \$1 billion) and large assets (above \$1 billion) as of May 30, 2025. Entry level enterprise value to EBITDA is imputed based on recent transactions and a risk factor model.

exceeding \$10 billion to \$15 billion in final close sizes typically focus on larger – or trophy – assets, indicating reduced competition in the mid-market space.

As mid-market infrastructure is less contested, investors are often able to conclude acquisitions at lower entry multiples – generally expressed in terms of enterprise value to EBITDA, than what is observed in the large asset space. The middle market is prone to relationship-based investing. This often enables investment managers to forgo involvement in auction processes, engaging instead in bilateral deals. By avoiding bid processes with multiple parties, mid-market investors are less likely to overpay for acquisitions at prices that exceed fair value.

III. Powerful engines of economic growth

In the U.S., there are approximately 200,000 mid-market companies that account for one-third of private sector GDP according to the National Center for the Middle Market (NCMM). Based on surveys of 1,000 CEOs, the Center points to an outperformance of U.S. mid-market companies compared to the S&P 500 in revenue growth during each quarter in the past three years. Mid-market businesses continue to be nimble in business expansion, product innovation and employment growth.

Economic sentiment has, however, turned sour and the macroeconomic environment has shifted to one of structurally high interest rates and a tense geopolitical landscape. The revenue growth for mid-market infrastructure slowed down in 2024 to under 2 percent from exceptionally high median levels of 11.1 percent in 2022 and 5.4 percent in 2023. This is based on the financial accounts of a sample of 368 mid-market

infrastructure companies, tracked by the unlisted infrastructure index provider EDHEC Infra and private assets.

Mid-market companies were able to recover the exceptionally high levels of inflation following the pandemic and the European energy crisis. With inflation easing but remaining persistent, mid-market infrastructure businesses will need to deal with the potential impact of tariff hikes and supply chain reconfiguration on project development costs.

One mitigating factor is that mid-market infrastructure companies are suited for platform build-ups and bolt-on acquisitions (where a larger company acquires a smaller one) and proliferate in sectors which benefit from structural megatrends. The infrastructure asset class is poised for an investment supercycle driven by energy transition, digitalization and changing demographics. The International Energy Agency estimates that the global power demand from AI-driven data centers may double or even triple by 2030. Globally, half of this additional demand is going to be met by renewable energy as the form of new power generation that is cheapest and fastest to build.

IV. Defensive play

As the market globally heads into a period of below-trend economic growth, investors continue to pivot toward risk-averse investment strategies. There is a perception that core infrastructure is most durable in changing economic cycles while mid-market infrastructure investing carries a higher degree of volatility and market risk.

Contrary to popular belief, risk metrics for mid-market infrastructure at the market level are comparable to the asset class average and better than core infrastructure. Using the same unlisted infrastructure mid-market index, produced by EDHECInfra, we see that historical volatility of returns and their maximum drawdown (the decline from a historical peak) outperform the global dataset and core infrastructure across all time periods. A deep-dive into the dataset shows that most of the included mid-market companies have a contracted business model and some, such as small road

projects, may benefit from 30 to 40 years of availability-based concession income.

V. Opportunities for value creation

Smaller deal sizes allow for more forms of value creation. Mid-market companies may face limitations in accessing debt markets given that leading infrastructure lenders tend to focus on larger assets. Infrastructure fund sponsors can help maximize value by tailored debt financing, using targeted instruments such as preferred or structured equity during periods of fast capital deployment.

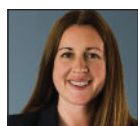
Adequate funding is particularly needed in periods of market dislocation. Recently, U.S. clean energy developers experienced a sharp devaluation due to interest rate rebasing and federal policy uncertainty. Optimizing balance sheets and ensuring adequate liquidity have been behind renewable energy platforms being taken private at discounted valuations. Strategic investors have used multiple avenues to recycle capital, including brownfield asset dispositions and sales of minority stakes. Many of these opportunities are compatible with mid-market infrastructure investment.

Fund managers can also enhance the financial stability of mid-market infrastructure companies by encouraging inflation-linked, contracted cash flows. In heating and cooling infrastructure, clients can opt in for 15-plus years of contracted cash flows, known as electricity-as-a-service model. Electric vehicle (EV) charging depots can rely on fixed subscription payments from long-term dwell contracts with logistics management companies and cargo owners operating zero-emission vehicles.

VI. Conclusion

The investment return advantage of mid-market infrastructure is grounded in market and company fundamentals. Infrastructure investors are pivoting toward the mid-market to capitalize on the considerable deal flow, coupled with opportunities for prudent acquisitions, business innovation and active sponsor asset management.

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CORPORATE OVERVIEW

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1 *InfraLogic, 2020-2024, includes M&A, greenfield and refinancing, equity deal size between \$100 million and \$1 billion.*

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