Abrdn's Duitz Says Private Infrastructure Values 'Make No Sense' Right Now

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Josh Duitz, head of global income at Abrdn, manager of the Aberdeen Global Infrastructure Income Fund. Read the Q&A below as Josh says that private infrastructure investments have attracted so much money that valuations have gotten off-kilter, creating an 'illiquidity premium' that 'makes no sense.' Duitz explains that publicly listed companies should have higher valuations because investors value the liquidity and ability to trade them easily, meaning that current conditions are making public infrastructure investments particularly attractive right now. Duitz, who says that politics isn't likely to impact infrastructure as much as headlines suggest, makes a broad case for infrastructure investing now but particularly likes the renewable space.

Josh Duitz

The podcast can be found on AICA's website by clicking here:
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CHUCK JAFFE: Josh Duitz, head of global income investing at Abrdn is here, we're talking about infrastructure investing now on The NAVigator. Welcome to 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 headed in the direction of infrastructure investing, because my guest is Josh Duitz, head of global income at Abrdn, where he manages the Abrdn Global Infrastructure Income Fund, that's ticker symbol ASGI, and its open-end sister, the Abrdn Global Infrastructure Fund, AIFRX. Learn about the firm and the funds at Abrdn.com, and specifically the closed-end fund at AbrdnASGI.com. To learn more generally about closed-end funds, interval funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. Josh Duitz, great to have you back on The NAVigator.

JOSH DUITZ: It's nice to be back, Chuck.

CHUCK JAFFE: Infrastructure investing is something that people kind of consider bedrock, it's the kind of defensive play that folks want to have when the market is maybe scaring them a little bit. Give us a general overview right now on infrastructure investing, where we are in the cycle and what it is that looks attractive or not so attractive, because infrastructure covers a lot of ground.

JOSH DUITZ: Infrastructure is considered defensive, but there is a good part of it that is growing, so let's just talk a little bit about infrastructure and what has happened. If you look back over the past 20+ years, the only time in negative earnings was during Covid in 2020, if you look at global listed infrastructure, otherwise earnings continue to grow. There's an inflation protection component to it, so even as inflation comes down when actually it's higher inflation than we've seen over the past 20 years, and that's a good time to invest in infrastructure because so many of the sectors we invest in, the companies have an inflation protection component to it. In addition, there's a lot of spending on infrastructure. So let's just start with one sector that we really like within infrastructure right now, and that's the renewable space. And if I could take a step back and explain why the renewable space is attractive, there's a lot of different reasons. The first is we've been talking about climate change and the EU goals since the early 2000s, so that's number one. The second, there's now attractive economics to invest in infrastructure, the price of solar's come down 88%, and wind, 68% from 2010 to 2021. In addition, during the pandemic, many countries had stimulus packages with a focus on renewables. Here in the United States, we had the Inflation Reduction Act, it had nothing to do with inflation, it had everything to do with infrastructure for renewables, it's a game change in legislation aimed to support the decarbonization of the

US economy. And Europe has reacted to that through the Europe Renew REPowerEU Act. And then the fourth part of it is an energy crisis we had that started with the Russian-Ukraine war last year, where it disrupted gas supplies to Europe, and energy resilience has become extremely important and shouldn't be used for a tool of war, so therefore Europe's now focusing even more so on it. And it's great to have the backdrop to support it, but what's happening in the real world? We saw last year there was a record $532 billion of new investments in renewable energy, that was up 13% year over year, and over the past three years, global investment in renewable energy and energy transition technologies have grown 70%. What's in the future? We know all the government's commitments to it, and it's estimated it's going to cost between $100-300 trillion to hit the net zero target by 2050. Just to put that figure into context, our annual GDP right now is about $100 trillion and we spend roughly 2-2.5% on energy investment every year, that needs to at least double by 2030. So a huge amount of opportunity in the renewable space and that's one area we're extremely excited about, and there's many others.

CHUCK JAFFE: We are also however entering a presidential election year. A lot of things are going to be promised, a lot of things are going to be talked about, but there's not going to be much agreement in Washington because you can't get much agreement in Washington these days. Now we got through an infrastructure bill, although there's a lot of threat about what could happen to it moving forward. How much does the politics worry you right now as an infrastructure investor?

JOSH DUITZ: That's the one thing both democrats and republicans have agreed on, is the need to invest in infrastructure, especially here in the US, and we've seen every year, bridges collapsing, roads crumbling. If you look at the American Society Civil Engineers, they estimate we need about $2.9 trillion to spend on infrastructure, and both democrats and republicans agree. But really our thesis doesn't depend on any new infrastructure packages, and the companies that we invest in do not depend on that, so we're really trying to invest in companies with steady, predictable cash flows, that have inelastic demand for their services, so they're going to grow whether it's a republican in office or if there's a democrat in office. As long as people are still using the roads, people are using the utilities, people are flying on airplanes, because we like to own airports as well, not the airlines, we believe that infrastructure could grow and we've seen that in earnings as I mentioned earlier.

CHUCK JAFFE: Let's talk about the differences between public and private infrastructure. Is one better than the other right now in terms of its investment prospects? And also, is that part of the big difference in the funds that you own, where of course the closed-end fund has a little bit more flexibility?

JOSH DUITZ: It's interesting what's happened in private infrastructure, there's been so much money flowing into private investments for infrastructure for private equity. We've seen the valuations, on the private side they're higher than on the public side, which makes no sense really, because publicly listed companies should have a higher valuation because there's a liquidity discount, but right now there's an illiquidity premium which makes no sense. So we should have a liquidity premium, not the reverse, so we think the public listed infrastructure investments are extremely attractive. But what we do have, in ASGI where we invest in both public and private, we're not competing with those large private equity companies, we really focus on the middle market infrastructure opportunities. And when we do that, we look for only companies that we can't get access to in the public market or have a cheaper valuation than what's trading in the public market. So that's why we really like it, retail investors generally don't have that opportunity to invest alongside the institutional investors on the private equity side of infrastructure, but you do have that opportunity in ASGI. So we think it's really unique to be able to pivot where we see the opportunities between public and private in ASGI.

CHUCK JAFFE: Do the prospects dramatically change in infrastructure when we get through a political thing like the election? Like we said, both sides agree on it but they're fighting over it, et cetera. Do you worry what happens as we get through the election cycle and we see how things play out depending on which party winds up in power?

JOSH DUITZ: You know, we don't really think about that, that's just a free call option if there's more spending by the government. Any company that we invest in, we look at the economic prospects for that company today based on the overall macro environment, based on where that, if we're investing in a road per se, where that road is located, what's going on in the local economy, are more cars going to be on that road, do they have the ability to raise their tariffs? So it's really driven by the private sector rather than the government sector, so we don't need the extra stimulus packages. Now for the renewable sector, that was great in the beginning and it was a subsidy for the renewables, but as we've seen, the costs have come down where it's now competitive with carbon emitting alternatives. So we don't believe that the election cycle's really going to drive major infrastructure investment, we believe that we have the ability to invest in companies that are growing their earnings and growing their cash flows and paying good dividends, which we like to pay out to our shareholders.

CHUCK JAFFE: In terms of the prospects that we're talking about, help people set an expectation. Since infrastructure is that defensive play and it's designed to be consistent, will infrastructure be able to deliver at, above, or below historic returns? And what do you consider a historic return for the asset class? Not so much a fund, but the asset class in general, what's a reasonable expectation as an infrastructure?

JOSH DUITZ: Infrastructure investments should be a combination of a few things. It should be a combination of global GDP, so how fast GDP's growing, inflation on top of that because there's an inflation protection component to it, as well as the operational leverage too. In general I've said that infrastructure, and depending on the economic cycle, over the long term because that's what we're talking about, I can't predict what's going to happen in a year or two, but over the long term, there should be probably somewhere between eight and 10% returns. Now for our open-end fund, which has a longer track record, we've been doing it for almost 15 years now, in November it'll be our 15th year anniversary, we've produced an annual return of about 10.9%, so that fund has outperformed what the expectations are for infrastructure in general. We would hope that continues, there's no guarantee of that, but I think that's a fairly good indication of what we'd expect for infrastructure returns over the long term.

CHUCK JAFFE: Josh, great stuff, thanks so much for joining me on The NAVigator to talk about it.

JOSH DUITZ: Thank you for having me, always a pleasure.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yeah, that's me, why don't you check out my show on your favorite podcast app or by going to MoneyLifeShow.com. 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, Josh Duitz, head of global income at Abrdn, manager of the Abrdn Global Infrastructure Income Fund, which is ticker ASGI. Learn about the firm at

Abrdn.com and the closed-end fund at AbrdnASGI.com. The NAVigator podcast is new every Friday, follow along on your favorite podcast app to make sure you don't miss an episode. We'll see you again next week, and until then, happy investing everybody.

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