Abrdn's Purington: Exxon, Chevron Deals Will Trigger An Infrastructure Merger Wave

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Eric Purington, portfolio manager for the Aberdeen Global Infrastructure Income Fund. Read the Q&A below as Eric says that two mega-mergers outside of the infrastructure space – deals involving upstream energy giants Exxon and Chevron – have a lot of implications for middle-market/midstream energy companies and infrastructure stocks. Purington says that the larger energy companies are now poised to make big investments, which will trickle down to infrastructure and services companies, but adds that these big deals have opened the door to other mergers at all levels of the industry, which should make for opportunity ahead. Says Purington: "With the leaders in the space doing it, that is going to work its way down."

Eric Purington

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

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CHUCK JAFFE: Eric Purington, portfolio manager for the Aberdeen Global Infrastructure Income Fund is here, and we're talking 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 will point you in the right direction. And today it points us in the direction of Eric Purington, portfolio manager responsible for infrastructure and renewable energy private equity at Abrdn, manager of the Aberdeen Global Infrastructure Income Fund. You can learn about the firm and the fund by going to AbrdnASGI.com. And to learn more about closed-end funds, interval funds, and business-development companies in general go to AICAlliance.org, the website for the Active Investment Company Alliance. Eric Purington, great to have you back on The NAVigator.

ERIC PURINGTON: Yeah, great to be here again, Chuck.

CHUCK JAFFE: Well, you were here at the beginning of the year, and at that point you were talking about middle market infrastructure having a little bit of extra juice to it, and that kind of did play out this year but the big story in infrastructure has been pretty different because there have been some big deals announced. So let's talk about the big deals and how they are impacting infrastructure investing broadly, and your fund specifically.

ERIC PURINGTON: Yeah, great question. So I know you have a pretty savvy listener set here, so when we're talking about the big deals, we're talking about two of the biggest M&A transactions of the year, and interestingly, neither of them involve infrastructure companies per se but they involve energy companies. And those transactions are Exxon and Pioneer, penciling out roughly $60 billion dollars, and then just a couple weeks after that, also in

October, Chevron and Hess, a little more than $50 billion. Now these are upstream energy companies, all of them, and some of them have downstream or service stations, and we wouldn't consider them infrastructure, right? They're affected by commodity prices and don't have often so many contracted cash flows, honestly something from an infrastructure investment perspective that we're trying to avoid. But what they are is they're part of the broader energy economy, just as our energy infrastructure investments are, and they're much bigger companies than really the strategies that we focus on. So we're trying to maybe divine, figure out exactly what this means for our middle market infrastructure strategy on the private side, and then for the larger cap publicly traded infrastructure side on the public side of ASGI. Just as a reminder, ASGI is a publicly traded closed-end fund focused on infrastructure income, it's unique feature is that it has a 75% target of public infrastructure investments and a 25% target of private infrastructure investments that tend to be in the middle market. Now what does this big M&A mean for our sector? I think it has a couple of points. One is that the larger energy companies have figured out that their business model is something that requires investment, this is not just something that they can just use for cash for the rest of its working life, it requires investment, and I think you're going to see the same trend in the contracted infrastructure side of the energy economy, this is the stuff that we invest in. When we say infrastructure, we're focused on typically businesses that are contracted long-term cash flows that support our quality of life from transportation to energy, to power, to other services and businesses within our life.

CHUCK JAFFE: Let's talk about that broadly, because when people are talking infrastructure, you're right, they're not thinking of Exxon as an infrastructure company, they're not thinking about the fallout. What does this do to your investable universe? What does this do in terms of, going back to what you were talking about the beginning of the year, where you were looking at middle market companies, they are removed from the Exxon's of the world, but when the 800-lb. gorillas are moving everybody around them is kind of going, "Okay, what's my space?" So is there a logical shakeout here?

ERIC PURINGTON: Yeah, for sure. I think going back to what I said before, Chuck, that this means I think two key tailwinds for our space, one of which is kind of additional reinvestment, and honestly consolidation within the space. That again, larger energy companies have figured out that this is a space that requires additional investment, you've seen that I think in the M&A strategies at all four of the companies that I mentioned before. But secondly, and I think this is a key thing, this has really opened the door for M&A throughout both the public and the private side of the industry. To do a kind of tens of billions of dollars of M&A, I think that, potentially before these mega mergers, was something that larger companies might have taken pause at, the boards might have taken pause at, and now we're seeing with the leaders in the space doing it, that that is going to work its way down. And I do think that valuations in the space, particularly in the private side that have been a bit soft, we might see that coming back as publicly traded companies and strategics in the space become more acquisitive in the years to come. I really think this is a special time where your opponent has shown its cards and now it's our time to act, and that's what we're seeing in the middle market infrastructure side.

CHUCK JAFFE: One of the interesting things to me as I look into your fund from whatever screener tools I have to use, is how much of your fund is non-US equity. I think when most folks think of the big deals and they think of infrastructure, they're not necessarily thinking about it the way you are. So explain what's been going on there, because of course internationally you're dealing with a global economy where other central bankers are in some cases behind or ahead of the US. What is that doing for you in terms of how you see the global infrastructure picture, again also in the light of these deals with global multinational corporations?

ERIC PURINGTON: Great question, Chuck. That is kind of a key feature of the ASGI product, that we're not just US-focused, we have a global mandate, and we typically focus that global mandate on the larger publicly traded companies on the public side of the ASGI equation, but ultimately we take all of this into account. So I guess what are we seeing I think the year ahead for the global infrastructure space generally? I think there's a lot of uncertainty, I think that's one of the reasons again uncertainty is a reason we like infrastructure, that these companies tend to be contracted, tend to have stable cash flows, and really kind of directly connected to global quality of life, and I think something we're very much focused on is where the economy's going to shake out both in the US and abroad. We've certainly seen it play out a little bit differently, both in terms of rates and in terms of growth, and I think we do think that there remains to be significant upside opportunities outside of the US and in our infrastructure publicly traded equities. I think on the private side, which is what I focus on, we do focus almost entirely on developed markets, and of developed markets, we do tend to have a middle market US and North America focus with current investments mostly in the US, one in Canada, and one in Chile, and I think that part of our strategy will not change.

CHUCK JAFFE: The fund itself, closed-end funds, it's been a rocky year. You've had this year for the stock market in general that has been categorized by a few companies, et cetera, leading the way, but when it has come to closed-end funds, we've seen discounts widening and a lot of other things that have made it that performance has been a struggle kind of industry-wide. Your fund is up this year and has done well in a category that has been sluggish, how are you finding the broad market and how do you go when everybody kind of seems to be stuck in the mud a little bit?

ERIC PURINGTON: There's really two parts to the equation, I think. One is that it's just the underlying strategy, which is designed to do well both when the market's doing well and often when it's sluggish, and I think we've seen that with the last year. Infrastructure is an asset class that I think has performed relatively consistent going back as far as you can look, and that's why all of the world's leading investors from the institutional investors to investors like Blackstone to even Warren Buffet, do have an allocation and it makes perfect sense for some private investors as well. And the second part of that is of course execution, I mean, I work very closely with our public portfolio manager Josh Dietz to look at what we're seeing in the sector and try to form DCs based on the themes. I think one of those is that we've seen perform well for us, both on the public side and on the private side, is that the energy infrastructure sector underpins our entire economy and it's here to stay, and we're allocated to that both on the public side and the private side. On the private side we have investments in contracted pipelines, we have investments in contracted water, and these are some of the businesses that we think will continue to perform even as the rest of the economy and the rest of the stock market is a bit jumpy.

CHUCK JAFFE: Eric, thanks so much for giving us the update. I look forward to catching up with you again and seeing how this has all played out down the line.

ERIC PURINGTON: Yeah, good to be here, Chuck. Thanks a lot.

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 hour-long weekday 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 Eric Purington, who oversees investments in infrastructure and renewable energy private equity at Abrdn. He manages the Aberdeen Global Infrastructure Income Fund and you can learn more about it at AbrdnASGI.com. The NAVigator podcast is new every Friday, be sure not to miss an episode by subscribing or following along on your favorite podcast app. And until next week, happy investing everybody.

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