Josh Duitz on trends in infrastructure

Josh Duitz, Head of Global Equities at abrdn, discusses his firm's Global Dynamic Dividend Fund (AGD) and abrdn's global income and infrastructure strategy more generally. In his interview with Jane King, Duitz says structural changes in the U.S. economy are creating exciting, new opportunities to invest in infrastructure, including energy transition, the increasing use of data in technology, and population growth. He also talks about the potential impacts of the 2024 presidential election on infrastructure investing.

Learn more about abrdn's Global Dynamic Dividend Fund, and review the AGD fund profile at CEFData.com.

Find here the video interview.

Jane King: Josh Duitz is the head of global income and infrastructure at abrdn. Josh joined Alpine Woods Capital Management in 2007, where he was a portfolio manager of the Global Dynamic Dividend and Global Infrastructure strategies. The management contracts of the funds that he managed at Alpine Woods were acquired by abrdn in April of 2018. Josh continues to be responsible for managing the Global Dynamic Dividend and Global Infrastructure strategies. Josh is with me now, welcome.

John Duitz: Nice being here, Jane.

Jane King: So infrastructure, that's kind of your main area of expertise. This looks like a very interesting place to invest. There's a lot of activity in the infrastructure industry, is that correct?

John Duitz: There is. I think it's extremely exciting. Earlier this year BlackRock bought Global Infrastructure Partners for $12.5 billion, at the time Larry Fink said, "This is one of the most exciting long-term investment opportunities because of structural changes in our economy." Now I think he's been listening to what I've had to say for years now, because I agree. I think it is extremely exciting right now, and there are lot of structural changes that make it for a great investment opportunity going forward.

Jane King: So let's be specific, what are those changes?

John Duitz: All right, so there's a few long-term trends and a few shorter term trends that's changing, so let's start with the shorter term and what's changed over the past few years. So number one is energy transition, we're now moving to more and more renewable energies, as well as growth in energy, or electrification I should say. Over the past 20 years we've basically had flat electric growth in the US, maybe close to 1% over the past 20 years. That's changing.

Why is that changing? Because of electric cars, because of datacenters and AI, we're starting to bring more manufacturing facilities back here in the United States, heat pumps. So now we're going to have this electrification, so from basically flat electric growth, now we're going to have probably 3-5% going forward, so that's changing

The second thing that's really changed, so let's switch industries a little bit, is data, and we've moved. Over the past 20 years it's been a huge structural change, we've all started on landlines and we moved to our cell phones and then smart phones, and that's had tremendous data growth. We're now going from 4G to 5G, what does that mean? So if we have autonomous driving cars over the next few years, in one hour that car is going to use as much data as an iPhone uses in 3,000 years, so a tremendous amount of data growth. They're going to need that for the radar and their sensors and all that, and to let us know how to drive without using us, so that's a huge change

So those are some of the structural changes in the infrastructure, so that's what's happening in the shorter term, and then there's the long-term trends which we've seen for years now, such as population growth. Over the last 50 years, the world's population has doubled. Number of people living in cities have tripled over that time, so that urbanization is expected to continue to grow.

We know certainly here in the United States, our infrastructure needs to be repaired. Every several years the American Society of Civil Engineers goes out and grades our infrastructure. The last grade we got was a C minus, we need to spend about $2.9 trillion on our infrastructure by the end of this decade.

Just one example, I could give you many, but the one example, we waste about six billion gallons of water every day of the wastewater that's treated. That's about 12-16% of the total wastewater, we have to repair our infrastructure. So in emerging markets they're building it because of population growth and urbanization, in developed markets it's about repairing our infrastructure.

Jane King: Yeah. When you look at all these macro trends and decide where to invest, are there some kind of prevailing principles or strategies where you know? It seems like there's so much to choose from, how do you choose where to put your money?

John Duitz: So when we think about, like our investment philosophy, what are our goals and what are we trying to achieve? Basically we want to invest in companies that have monopolistic-type assets, are high-quality companies, they have stable, predictable cash flows, and long-term viability. So when I think about what my job is as a portfolio manager, I want to protect my client's capital and grow that capital.

So by focusing on companies that have monopolistic-type assets to it, that allows for both of those to achieve protected capital and then grow their capital. And then we're looking for the long-term trends, so we take a top-down, bottom-up approach, the top-down is we want to see those long-term trends, but we won't invest unless we find companies that meet that bill and fundamentally we think are not that expensive. So it really has a top-down meets a bottom-up approach to that, and that hopefully will allow us to grow the capital.

Because you're right, there are so many good opportunities, but just because something's a good opportunity, to find an investable stock, investable company, that's our ultimate goal and what we're trying to achieve. And with that we want a really diversified portfolio, both by sector and by region.

Jane King: Now are there particular areas that you really like? You've mentioned renewable energy, datacenters, AI's going to drive a lot of energy use. Is there anything you're just like, this is like a, I don't know, once in a lifetime kind of thing that I need to be a part of?

John Duitz: I think in infrastructure, I don't look at things that way because we want that stable, predictable cash flow, so we want an asset that's already in the ground. So for instance, on the renewable side, we're not going to invest in some technology that's just coming out, because we can't predict which of that technology is going to be successful or not. We really want to invest in once, okay, talking about renewable energy, once there's a solar farm or wind farm in place and they have long-term power purchase agreements to that. So we could actually have visibility on the cash flow, that's what we're looking to invest in.

So we're not really trying to guess and say which technology is going to be the winner, because nobody knows that. Sure, you could get lucky, but we find historically that if we invest in those monopolistic-type assets with stable, predictable cash flows and pay nice dividends, that really has allowed us for success. And looking back we've had our fund now, AIFRX, the abrdn Global Infrastructure Fund for over 15 years, we've outperformed our benchmark by over 400 basis points per year over 15 years.

Jane King: Interesting. Are there any risks in infrastructure investing?

John Duitz: Absolutely, there's risks in everything, right? So to me, what are the two biggest risks for infrastructure? Number one is real interest rates going higher, and what I mean by real interest rates is if inflation goes higher and interest rates go higher, that's okay because many of the assets that we invest in, there's an inflation protection component to it. So for instance, on a road, now every concession contract is different, but many of them every year they get to adjust their toll or tariff with inflation, so there's an inflation protection component to it.

So if real interest rates were going higher, so if interest rates went high without inflation, that will be an issue for infrastructure investing. We generally don't believe real interest rates are going to go higher. If you just look at the amount on the debt governments have on the balance sheets, the central banks are going to keep interest rates at bay.

So that's one risk, and then the second risk is really nationalization or privatization, so if a government comes in and changes the rules along the way. So we've never invested in Russia, we've never invested in Venezuela, we avoid certain countries. We used to invest in Turkey, I wouldn't invest in Turkey again, or at least unless there's a government change.

And also the second part of that, even in stable countries, stable governments, there can be regulatory changes. So that's why I said earlier, we really want a diversified portfolio both by region and by sector and by company, and that allows us to invest globally without taking too much risk, but really trying to explore the opportunities within a global universe for infrastructure stocks.

Jane King: Makes sense. Now we're in an election year, what are your thoughts about which way the election may go, how that might change infrastructure investing?

John Duitz: So I won't predict what's going to happen in the election or what I want to happen in the election, but it is the one issue that both democrats and republicans agree on, is infrastructure spending. There's a bipartisan bill passed. The other question is the IRA, the Inflation Reduction Act. The IRA had nothing to do with reducing inflation, in fact I would argue it possibly increased inflation, it had a lot to do with climate change and the energy transition as I mentioned.

Since the bill was announced, there's already been 270 projects announced worth $110 billion. And if you look at it state by state, of those projects that have been announced, 45% are in republican states, 34% in democratic states, and the rest are in swing states. So in order for there to be a change, there would have to be a republican winning the president, the House, the Senate, and then also being a lot of the spending is taking place in republican states, they would have to vote in favor of that.

So I don't see a major change in that, and there has been so many projects been announced. But like I said to start, both democrats and republicans agree we need more infrastructure spending, which we do.

Jane King: All right, of course, we've been talking about that for a long time, and that's one of the things that everybody seems to agree on. So you're right, the chances of that changing are probably very slim. So Josh, thank you so much for coming in, always great to hear your thoughts.

John Duitz: All right, thanks for having me.

Jane King: Thanks.

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