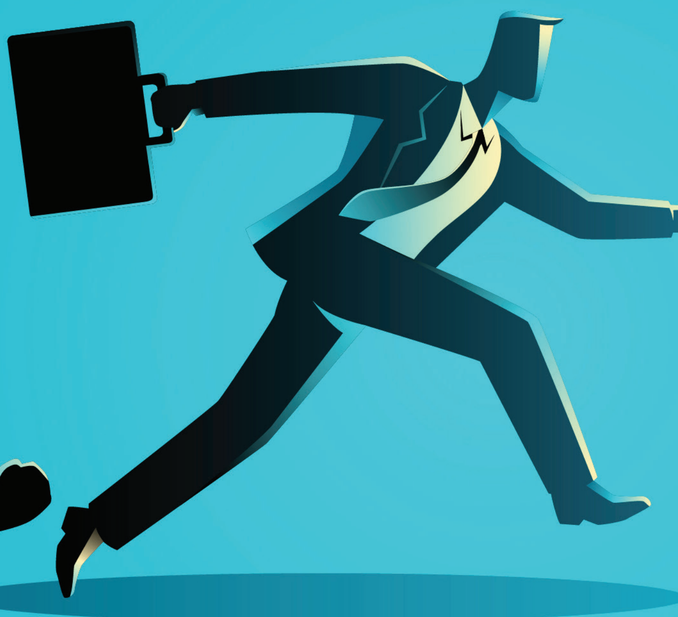
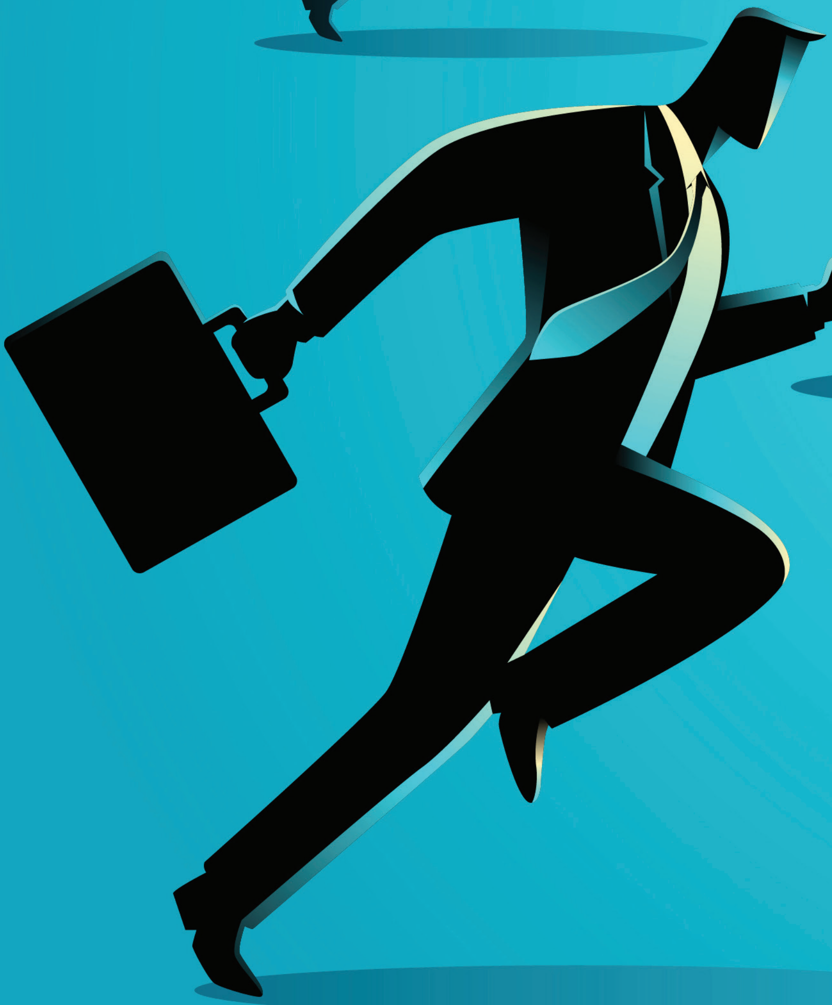
Crowding the middle

by James Wallace

Mid-market opportunities, capital flows and deal complexity are all on the rise



Middle-market infrastructure companies are increasingly central to capital allocators seeking exposure to long-term structural change — from community-level services up to global-scale systems. Typically defined as assets with enterprise values between $400 million and $2 billion, these companies sit at the intersection of economic growth and innovation, addressing some of the most pressing challenges facing global economies.

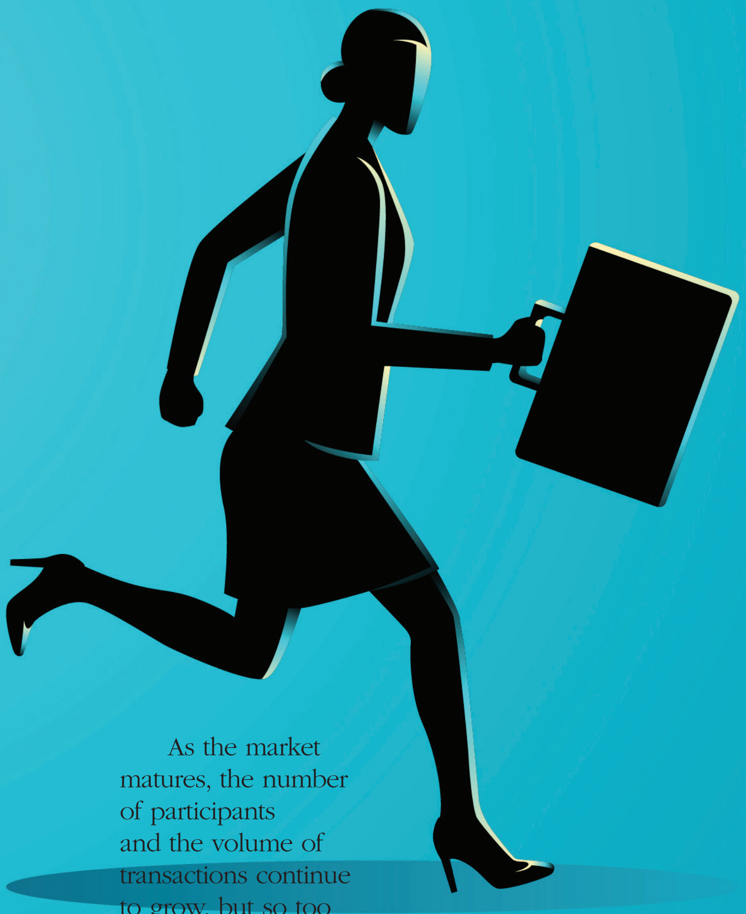


Demographic shifts, evolving government policy, decarbonization, energy security, electrification, digitalization, the rise of artificial intelligence (AI) and supply-chain realignment are all reshaping infrastructure priorities and expanding the investable universe. These forces are accelerating demand for private capital into adjacent and emerging segments including battery storage, electric vehicle (EV) charging, distributed clean energy, fiber and data networks, sustainable logistics, municipal-scale utilities, and essential services such as water and waste systems.

These assets are often characterized by scalable operating models, inflation-linked revenues and close alignment with local or national policy goals. Investors are drawn to opportunities with high operational engagement, growth potential, policy alignment and clear strategic relevance.

As the definition of infrastructure expands, midsize formats — whether public-private partnerships (P3s) or privately controlled platforms — increasingly represent the most practical route for investing in emerging infrastructure themes. This convergence of demand and flexibility is attracting a broadening field of capital. While most institutional infrastructure capital still flows to large-scale platforms, investors are now seeking complementary exposure to mid-market assets with differentiated risk-return profiles. According to HarbourVest, more than 90 percent of infrastructure managers now fall within the middle market by number. Specialist managers, second-time funds and even large-cap GPs are pivoting into the space, seeking to capitalize on this growing segment.

"The market was not structured for mid-market platform investing 10 or 15 years ago," remembers Renaud de Matharel, chairman and CEO of Cube Infrastructure Managers. "What has changed is the convergence of structural needs — energy transition, mobility and digitalization — and the growing realization that these are not all megaprojects. Many are regional or thematic in nature, which is why the mid-market has emerged as the natural home for infrastructure innovation."



As the market matures, the number of participants and the volume of transactions continue to grow, but so too does its complexity. While competition is rising and barriers to entry remain high, seasoned managers appear undeterred. "There's still two to three times more deal opportunities per fund in the mid-market than in the large-cap space," says Allison Kingsley, founding partner at NOVA Infrastructure. The opportunity set still appears to be expanding faster than capital deployment, helped by bilateral dealmaking, P3s and a widening pool of essential but overlooked assets.

For investors, the focus is increasingly on downside protection, inflation resilience and the credibility of manager underwriting. For managers, the challenge lies in securing proprietary deal flow, structuring bilaterally and scaling differentiated platforms in a more competitive and policy-sensitive environment.

GROWING APPEAL

The middle market remains a durable sweet spot for infrastructure investors — not only for its breadth of deal flow, but also for the differentiated return potential it offers. At a time of heightened volatility, investors are drawn to midsize assets that combine essential service delivery with operational control and multiple levers for value creation. "All the things that make the mid-market distinctive — more opportunities, more control, more bilateral deal flow — still hold true," says Kingsley.

Many of these advantages are structural. "Subsectors that provide an essential service but are smaller and overlooked by the larger funds can be aggregated into a portfolio and a premium earned on exit," explains Geraldine Barlow, managing director of infrastructure at Affinius Capital. "The greater ability to negotiate bilaterally on an opportunity or partnership can lead to the potential for a higher overall return from the investment."

Ross Posner, managing partner of Ridgewood Infrastructure, said the firm's strategy targets essential services with predictable demand and inflation-linked revenues that can generate strong cash flows across cycles. He cited the recent sale of Vista Ridge Water Pipeline — a critical asset supplying San Antonio — as a case in point. "We get to pick our spots, focusing on businesses that provide services for which demand is relatively inelastic and where there is inflation linkage, which are therefore positioned to generate long-term and high-quality cash flows across cycles," he said. "Regardless of what happens in the macro, the people of San Antonio need water for cooking, cleaning and other aspects of daily life."

Essential service sectors such as regulated utilities, waste management and water infrastructure offer pricing power, long-term contracts and demand inelasticity. That allows managers to focus on growth and operations rather than timing exits. Mid-market value creation is increasingly driven by platform building and institutionalization. "Platform scaling is one of our favored methods for value creation," says Barlow. "By aggregating smaller investments and scaling a portfolio with either an operating partner or developer, you not only expand exit optionality but also create differentiated strategic value."

Filip Guz, partner at InfraRed Capital Partners, agrees. "Platform scaling and institutionalization are two of the key strategies we employ. Our focus is to drive growth through the provision of capital for asset expansion, developing additional revenue streams and expanding business capabilities," he says.

This approach is particularly potent in fragmented or transitioning sectors.

"The ability to create thematic, scalable platforms in fragmented subsectors like energy transition or mobility remains one of the most compelling features of the mid-market," says de Matharel. "In the mid-market, you find opportunities where scale, regulation and local embeddedness create long-term resilience, but they also require strong alignment and patient capital to unlock," adds Cube's Emmanuel Rogy, partner and COO. For LPs, co-investment opportunities and flexible governance structures are also becoming decisive differentiators.

"We are seeing investors finding appeal in club structures or other vehicles that provide more flexibility outside of a traditional closed-end fund construct," notes Barlow.

The combination of operational alpha, platform-driven scale and downside protection continues to distinguish the segment, even as the investor base grows.

CROWDING IN

The expanding opportunity set is attracting a wave of new entrants — from successor funds to large-cap managers pivoting into the mid-market — creating fresh tension between scale and specialism. Real estate and private equity firms also are crossing over, prompting questions about strategic fit and execution capabilities.

"All LPs should be skeptical about whether a fund that is starting in the middle market will stay," says Kingsley. "There are some funds that are doing it for an AUM play. They're not really mid-market specialists and don't have the sourcing or operating skill. They are chasing alpha, but they may not be able to deliver it."

"Some call a €500 million ($568 million) deal mid-market, but true mid-market means sourcing proprietary deals from families or local owners," says Rogy. "That takes time, experience and networks. You can't just become a mid-market manager overnight."

These concerns extend to crossover strategies from adjacent asset classes, where capabilities do not always translate. NOVA Infrastructure's Kingsley observed some managers mistakenly assuming they could shift into infrastructure with ease. "You saw people raising in infrastructure and thought, 'I can just cross in,'" she explains. "But real estate is a property business, not an operating business. Private equity has focused on operating companies, but not real assets." Infrastructure, particularly in the mid-market, "sits at the intersection of both — and demands the capabilities to match."

This is accelerating manager bifurcation. Ridgewood's Posner points to the firm's disciplined approach to sourcing, emphasizing the benefits of building direct relationships and conducting extended due diligence. This, he says, supports more attractive valuations and stronger familiarity with target businesses. "We typically originate through relationships on a direct and bilateral basis," he explains. "If you are just looking at investment-banked transactions, you will see heavily trafficked deal flow with a relatively shorter and more proscribed period of due diligence."

Affinius sees the implications playing out in LP preferences. "We see more sophisticated investors looking for autonomy and governance," says Barlow. "But they're still drawn to the mid-market, which requires lead time and early-stage risk that GPs are best positioned to take."

Cube offers a more measured view. "We are not chasing every theme," says de Matharel. "Our strategy relies on durable secular trends, local access and execution capabilities. That's how we build conviction."

AN EVOLVING OPPORTUNITY

Investor appetite for mid-market infrastructure is expanding in scope and sophistication. As policy agendas, macro dynamics and technology adoption evolve, so do investment parameters. While traditional assets such as utilities and transport remain relevant, capital is increasingly flowing into digitalization, decarbonization, energy resilience and climate adaptation.

"These aren't bubbles," says Kingsley. "We're talking about foundational businesses that will scale over time — local utilities, waste management, clean energy — all of which sit in the middle market and all of which need capital and operating expertise to grow."

Energy transition remains dominant across mid-market pipelines, but strategies vary. Posner says rising demand is accelerating the need for efficient, sustainable infrastructure. "Energy demand is increasing, with digitization and AI supercharging the growth," he notes. "Against this backdrop, we are focused on opportunities to invest in infrastructure that provides efficient and sustainable energy solutions." As an example, Posner explains Ridgewood owns an energy-efficiency business, as well as a smart cities infrastructure platform with smart meters and availability-based EV charging projects.

Across all sectors, including energy transition, Posner says Ridgewood focuses on opportunities to invest under long-term availability contracts, thereby limiting the firm's exposure to demand and volumetric risks. Water infrastructure is another core conviction area for Ridgewood.

"It's a great example of secular change," adds Posner. "Stormwater, transmission, reuse — it's all accelerating. There's real growth and real public need, and it fits our model: long-term contracts, real assets and essential services."

Affinius continues to favor regulated or quasi-monopoly services. "Investments that deliver essential services under long-dated contracts or with true monopoly protection augur for more stability," explains Barlow. "Limiting pricing and volume risk and avoiding exposure to uncontracted revenues helps cushion portfolios from exogenous shocks."

Digital infrastructure also is gaining traction, especially at the smaller end of the mid-market. "Energy transition and digitalization trends continue to drive the growth of investment opportunities," says Guz. "Investors are now focusing beyond sector allocations; it's about how these trends shape portfolios. Decarbonization and digitalization are interdependent."

This interconnectedness between digital capacity, localized energy and municipal services is pushing managers to rethink traditional verticals. Environmental services, distributed clean energy, fiber networks and smart grids are increasingly seen not as niche subsectors but as essential components of future infrastructure portfolios.

EXIT OPTIONALITY

In the middle market, exit planning starts at entry. Well-structured, de-risked platforms are commanding premium valuations from a broadening pool of buyers. "When we bring scaled, de-risked platforms to market, the interest is strong," says Kingsley. "It's still a great exit environment, especially for middle-market sellers."

At Affinius, capital planning underpins exit flexibility. "Ensuring the investment vehicle has an appropriate duration for business plan execution helps with delivering returns," notes Barlow. "Factoring in shareholder liquidity mechanisms where investments are co-owned can enhance optionality."

Ridgewood's recent exits of Vista Ridge and SiEnergy, a regulated utility with operations in Texas, reinforce the point. "Both exceeded underwriting," confirms Posner. "The key was differentiation: unique investment opportunities resulting from their essential service, inflation-linked cash flows and strong demand visibility, among other things."

InfraRed sees continued strength for well-positioned sellers. "The higher rate environment has impacted exits," says Guz. "But less so for high-quality mid-market infrastructure, which attracts a broader range of potential buyers."

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Cube echoes the need for planning and repeatability. "We think about exit at entry," says de Matharel. "Strategics, large-cap funds, IPOs — they're all viable, but only if the platform is well structured and aligned to long-term themes."

While price compression continues to weigh on core assets, many mid-market deals remain better cushioned. "Total return is typically less reliant on the exit than in core," adds Barlow. "That gives mid-market strategies more levers to preserve value." Ultimately, it is this combination of structural flexibility, strategic relevance and capital discipline that underpins the mid-market's growing appeal, particularly as more capital flows into the space. ❖

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