EXPERT Q&A

The growing market for energy and power solutions is creating opportunities for lenders that can bridge the funding gap, says Don Dimitrievich, senior managing director and portfolio manager in the Energy Infrastructure Credit group at Nuveen

Demand for power fuels the infra debt opportunity

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Q How has the opportunity to finance infrastructure projects changed in the past few months since the new presidential administration came into power in the US?
There are several factors at play. First, from a broader macro and geopolitical perspective, there are a couple of uncertainties surrounding the US government's tax and spending plans. It is already clear that President Trump's tariff negotiations are going to fundamentally change the global trade regime and we are unlikely to go back to a time when we relied on China for 85 percent of our energy storage equipment or other critical supply chains.

Some of the Trump policies may also have longer term inflationary effects, including higher power prices, and the cost of capital may increase. Those are particularly critical issues for sustainable infrastructure projects.

At the same time, the capital investment opportunity continues to be very strong. Both Presidents Biden and Trump have been consistent in their desire to bring infrastructure supply chains onshore, and we see the same thing happening with Germany's infrastructure stimulus plan, for example. Reshoring of supply chains is going to require tremendous power and comes alongside the secular trend of electrification.

While decarbonisation may now be less of the priority in the US, the penetration of renewables will be a trend that continues to play out across the market. It may not happen as quickly as some would like, but the demand for power is there and that will require a historic capital investment effort. Flexible bespoke loans will be needed more than ever to bridge gaps in the ecosystem as marginal projects get cancelled

> *"There are few asset classes better positioned to navigate the changing market cycles than this one"*

or delayed and still-viable projects look for capital solutions.

There are few asset classes better positioned to navigate the changing market cycles than this one as investors can benefit from infrastructure debt's contracted cashflow offtake, inflation protection, hard asset collateral and lower default and loss rate.

Q What loan structures are being utilised in today's market, and how do these differ from instances where we've had other more stable macro environments?

Investment-grade project finance debt typically suits 10- to 20-year projects that are operating and fully contracted. The addressable market is going to expand dramatically as multiple solutions emerge to solve for the increased energy and power demand and the associated investment opportunity set. Banks will not be able to keep up with demand.

Non-investment grade credit strategies like ours can provide five- to seven-year solutions for developers and corporates in areas like distributed generation or for evolving areas like energy efficiency, which has not historically attracted infrastructure investors.

When it comes to digitalisation, there is a disconnect between how utilities fund new generation capacity over the long term compared with hyperscalers, which can require capital more quickly. This is an area of focus for us where we can step in as an intermediary to help structure a financing that will ultimately ensure projects get funded and benefit the grid.

Q How has potential dealflow changed in this period of volatility?

We have invested north of $1 billion in the past year alone and have about another $1 billion that we are actively working to deploy. I expect that we will end up investing between $2.5 and $3 billion this year, which just speaks to the scale of the opportunity set.

The investment momentum we are seeing in the market today is more significant than we have seen for many years. We look at energy and power holistically and see a very strong market for investors like us that can provide a breadth of capital solutions.

If anything, borrowers, corporates and developers need certainty of capital in periods of volatility and dislocation. They also may not have the experience needed when it comes to navigating tax codes, power purchase agreements and the role of tax credits, and that's where we can help.

Q Are there certain sectors where you're seeing more activity?

Energy efficiency is a particularly interesting sector because of its ability to provide cost savings against a backdrop of universal power price increases. This space is not subject to regulatory risk, and it is also less correlated to macro risk.

Another space in which we are very active is distributed generation, which is less reliant on federal support from the US government because the mandates operate at the state level. For example, community solar or rooftop solar projects are smaller and easier to get permitted and provide financing at the portfolio level. Additionally, we find that the returns are higher because we don't have to pay some of the distribution costs and can benefit from a portfolio company's retail power pricing model.

We are more cautious when it comes to energy storage, simply because some of that equipment is sourced from China and we are yet to see how the tariff situation will play out.

Q How does a lender differentiate itself to borrowers and investors, especially now?

There is an advantage for larger players that can lend against the entire energy and power complex, as the aperture of investments goes way beyond just renewables. Flexibility around the provision of capital is also something that investors want to see. Speaking to the broader Nuveen platform, we can act as a long-term capital solution provider via our large investment grade business, which allows us to refinance and support borrowers over a longer timescale.

Finally, lenders that can bring significant operating industry expertise to their investments can put themselves in the shoes of a developer or operator, which gives them added credibility.

Q What is the outlook for infrastructure lenders in the short to medium term?

Growing demand for power is creating a historic opportunity for capital providers. Traditional sources of capital, while still very relevant, no longer deliver all the capital solutions required by borrowers. From a risk-adjusted returns perspective, we think this represents a prime opportunity for lenders.

If you think about the typical project capital stack being 60-80 percent debt versus equity, it makes no sense that the infrastructure equity market is nine times the size of infrastructure debt. The inverse should be true, and just as we have seen with private equity and private credit, infrastructure debt is primed to grow substantially over the coming years. ■