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GAM Q3 2025 Market Commentary
From Constraint to Capacity: Investing in the Infrastructure of What Comes Next

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The combination of our climate adaptation and energy addition theses continues to drive outperformance vs. the major indexes. This is evidenced by performance this year across key industries such as water utilities (+58.37%),[1] independent power producers (+33.84%),[2] transition infrastructure (+14.42%),[3] transition metals (+14.95%),[4] and renewable electric utilities (+12.65%).[5]

If there's a single theme emerging from the first half of the year, it's that infrastructure is no longer in the background. Utilities, grid networks, and water systems aren't just yield plays or defensive allocations, they're the backbone of future growth.

The shift isn't being driven by a surge in ESG allocations or clean energy policy. In fact, in some instances, public policy has moved in the opposite direction. What's changed is that signs of infrastructure strain are showing up more frequently, and investors and consumers are noticing. For example, while the U.S. grid remains among the most reliable globally, the system is under pressure in key regions. PJM, the largest U.S. grid operator, has seen electricity auction pricing surge 800% given demand increase and a lag in new generation deployment. Only ~5 GW of new generation came online by the end of 2024, despite demand growth projections hitting 32 GW by 2030.[6]

U.S. utilities are requesting tens of billions in rate hikes to cover grid upgrades and weather-related reliability risks, while both the Department of Energy and the North American Electric Reliability Corporation (NERC), a regulatory authority responsible for ensuring the reliability and security of the bulk power system across the U.S., Canada, and parts of Mexico, are issuing warnings about rising blackout risks over the coming decade. This isn't a system-wide failure, but it's not

[1] Bloomberg data. Total YTD return of the water utilities GICS sector as a component of the SPDR S&P Global Infrastructure Index.
[2] Bloomberg data. Total YTD return of the independent power producers GICS sector as a component of the SPDR S&P Global Infrastructure Index.
[3] Bloomberg data. Total YTD return for the KBI Sustainable Infrastructure Fund as of 6.30.25
[4] Bloomberg data. Total YTD return for the Sprott Critical Materials ETF (SETM) as of 6.30.25
[5] Bloomberg data. Total YTD return of the renewable electricity utilities GICS sector as a component of the SPDR S&P Global Infrastructure Index.
[6] https://www.reuters.com/sustainability/boards-policy-regulation/americas-largest-power-grid-is-struggling-meet-demand-ai-2025-07-09/

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theoretical anymore either. Infrastructure, especially power and water systems are being tested more often, and with greater consequence.

As a result, assets that can operate under stress and provide capacity when it's needed - what we call "reliable throughput" - are being reevaluated by the markets. For example, power that flows, water that runs, operations that hold up during heat waves, cyber events, or usage spikes, etc. Across the economy, whether it's large language models for AI or aluminum smelters, every sector depends on infrastructure that can perform under stress. In our view, the market is beginning to recognize that growth can't happen without this hard infrastructure. Capital is accordingly reprioritizing. This is where we're positioned.

Where We Are: A Setup Without Resolution

The macro environment remains noisy and difficult to navigate. On the surface, the U.S. economy is stable. Growth is modest, unemployment is low, and markets are strong. But a closer look reveals softening fundamentals: real final sales have slowed, labor force participation is declining, freight volumes are weaker, and corporate bankruptcies are ticking up. Many of these would traditionally serve as red flags for investors, but this cycle is unusual. Weak data is being interpreted as a cue for rate cuts, not recession risk. The worse things look, the more policy support gets priced in.

This mismatch between deteriorating fundamentals and expanding liquidity has defined the first half. Weak data has not been met with caution, but with bets on rate cuts and further stimulus. Risk-on behavior is being driven by policy expectations and a historic retail equity allocation. Fiscal policy has swung toward deregulation and stimulus, with the "One Big Beautiful Bill Act" pledging trillions in new spending over the next decade. In short: the market is trading policy momentum, not long-term economic clarity.

But just because markets are stable today doesn't mean the foundation is solid. The fiscal impulse, tariff delays, and monetary easing expectations have all contributed to a buoyant first half. Whether that persists is a different question. Geopolitical tensions remain unresolved. Domestic politics are volatile. And while deregulation may spur investment in the short run, it could amplify the downside if stimulus expectations fall short, or inflation picks back up.

Taking all of this into account from an investment standpoint, infrastructure is no longer a placeholder for yield or a hedge against volatility. It's central to how economic activity happens:

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- If growth continues, we'll need far more of it.
- If it slows, it's one of the few areas with durable cash flows.
- If inflation returns, it's a natural hedge.
- If rates fall, income becomes attractive again.

Regardless of how the macro picture plays out, the case for owning infrastructure, particularly assets with reliable throughput, is only strengthening. We're not calling for a crisis, but the strain is real, and in our view, capital is beginning to recognize that such infrastructure is scarce, and scarcity is very investible.

The Case for Infrastructure: Less Optional, More Foundational

Most infrastructure benchmarks are still built on yesterday's assumptions. Pipelines, toll roads, and regulated utilities dominate the category, not because they reflect where growth is coming from, but because they've historically delivered stable yield. This model still has value, but in a system under strain, it's not enough.

What's forcing the shift is pressure from multiple directions. Years of just-in-time thinking, minimal redundancy, and deferred upgrades have left physical infrastructure optimized for the last cycle. This worked when demand was linear and the climate was predictable, but it doesn't hold up well now.

COVID revealed the limits of tightly wound supply chains. Now, AI and electrification are putting unexpected strain on power systems. Meanwhile, climate volatility is pushing water and energy infrastructure into failure conditions more often. These aren't passing disruptions, they're structural tensions. And they're increasingly showing up in operations, balance sheets, and rate cases.

Large growth sectors, particularly those tied to The Mag 7 require massive, continuous power inputs to function. That's already visible in the way data centers are driving grid congestion, straining water supplies, and creating community and political pushback. Without a step-change in how energy is delivered or stored, or a leap in computational efficiency (quantum computing remains speculative, albeit exciting), the mismatch between demand and capacity will only grow.

Public awareness is catching up to the electricity intensity of AI workloads, the water demands of cooling systems, and the fragility of long-distance transmission. All are now regular features in both financial and mainstream news coverage. Policy debates are no longer just about subsidies.

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They're about trade-offs: between speed and stability, local control and national coordination, and growth and resilience.

For investors, the takeaway is simple: legacy assets still have a role, but the growth story relates to the underpricing of systems and assets that can absorb stress and function.

A Global Patchwork: Diverging Paths of Transition Infrastructure

The U.S. policy stance, particularly after the repeal of key IRA provisions, has become a source of instability. Over $14 billion in renewable energy projects were canceled in the first half of 2025 alone.[7] Support for distributed generation has waned, and permitting reform is largely stalled. That said, some segments, such as geothermal, CCUS, and even nuclear energy remain supported, and may benefit from the deregulatory push if local jurisdictions step in where the federal government has pulled back.[8]

Contrast this with parts of Europe and Asia, where industrial policy continues to move capital toward low-carbon buildout. Japan's $1 trillion infrastructure initiative is moving from pledge to deployment. China is expanding ultra-high-voltage grid capacity. European utilities are pressing ahead with energy platform models. These aren't frictionless energy transitions, they're transitions with more intentional direction.[9]

We aren't betting on smooth policy execution anywhere, but we are allocating to companies with revenue structures that aren't wholly dependent on political winds. Some of our strongest holdings, like RWE (+47% YTD)[10] and E.ON (+65% YTD)[11] are examples of that insulation. They operate in jurisdictions with stable pricing regimes, long-duration contracts, and clear pathways to scale capacity.

Meanwhile, in the U.S., many infrastructure projects are stalled in interconnection queues, where the regulatory apparatus isn't built for speed. This is a reflection of how far behind our infrastructure planning has fallen. It would be easy to point to the Infrastructure Investment and Jobs Act, the CHIPS Act, and the IRA as decisive breakthroughs for U.S. clean energy infrastructure. In theory, they were. By mid-2024, approximately $454 billion was allocated across 56,000

[7] https://insideclimatenews.org/news/29052025/trump-clean-energy-project-cancellations-top-14-billion-dollars/
[8] https://www.energycentral.com/renewables/post/news-the-permitting-crisis-for-renewables-wveQCIyqgkpAZVC
[9] https://www.robeco.com/en-me/insights/2025/04/japans-green-transformation-plan-to-boost-smart-energy-investments
[10] Bloomberg data. YTD total return for RWE as of 6.30.25
[11] Bloomberg data. YTD total return for E.ON as of 6.30.25

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projects.[12] That's real money moving into real assets. But allocation isn't execution. Despite funding headlines, only about 17 percent of the $1.1 trillion "infrastructure decade" had been disbursed by early 2024.[13]

In our view, this is not a reason to avoid U.S. infrastructure. Instead, it's the rationale to be selective and own firms that can monetize congestion or benefit from scarce off-grid or vertically integrated solutions.

Big Tech and the Infrastructure Bottleneck

The Mag 7, once seen as champions of sustainability, are facing a more complicated narrative. For years, their impressive scope 1 and 2 emissions reductions helped anchor ESG allocations. But as AI workloads grow and data center buildout accelerates, these same firms are being scrutinized for energy consumption, grid strain, and water use. Microsoft's disclosure of rising emissions tied to AI is one recent example.[14] Others will likely follow.

This has created a disconnect. ESG capital is beginning to look elsewhere. Yet, The Mag 7 may be among the most consequential drivers of energy infrastructure investment in the next decade. These firms are no longer just large power users, they're becoming direct participants in the energy system. They're signing long-term nuclear Power Purchase Agreements (PPAs), building behind-the-meter renewable portfolios, funding battery storage, and exploring geothermal. In many cases, they're not waiting for utilities to catch up, they're building around them.

This has wider implications. Not all of this investment will translate into broader grid benefit, given that some is private, insulated, or optimized for internal needs. But big tech isn't just stretching infrastructure, it's helping to advance it. These investments may accelerate technological development in underfunded areas like nuclear energy or geothermal.

AI-driven infrastructure, training clusters, inference engines, and hyperscale data centers can't deliver without steady, cost-effective power. If those assets can't be reliably energized, data

[12] https://www.politico.com/news/2024/05/13/biden-infrastructure-week-hopes-voters-listening-00157448?utm_source=chatgpt.com
[13] https://www.americanbar.org/groups/environment_energy_resources/resources/natural-resources-environment/2025-spring/infrastructure-investment-jobs-act-where-does-progress-stand/
[14] https://www.windowscentral.com/microsoft/microsoft-admits-that-its-carbon-emissions-have-soared-on-an-168-percent-glut-in-ai-energy-demand-we-recognize-that-we-must-also-bring-more-carbon-free-electricity-onto-the-grids

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centers are just warehouses. For these firms, infrastructure isn't a back-office concern, it's potentially the primary growth constraint.

From an investment perspective, this dual role of tech as both the source of strain and the source of investment isn't easy to model. This reinforces a core view in our framework, which goes well beyond this sector: infrastructure is no longer just a defensive allocation or policy play, it's a critical enabler of overall long-term economic capacity.

Final Thought: Positioning for Constraints and Uncertainty

We don't pretend to know how the energy transition will unfold. We're not betting on perfect policy, uninterrupted growth, or smooth execution. Our job is to navigate uncertainty and find opportunities that work across different economic and policy conditions. We're focused on selecting managers that can deliver reliable throughput: power that flows, water that runs, systems that hold up when demand spikes or conditions worsen. These businesses are somewhat insulated from volatility and will help drive growth in a world where infrastructure is the constraint.

Meanwhile, physical infrastructure remains under-owned. Yet it's critical across investor types:

- For climate investors, it enables decarbonization.
- For growth investors, it's a precondition for expansion.
- For defensively positioned capital, it's a hedge against downturns and inflation.

Infrastructure that performs under strain doesn't just protect capital; it enables the very systems the economy depends on to expand. Whether we get a hard landing, soft landing, or no landing at all, that's the setup we're underwriting.

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