

The case for growth markets infrastructure



Michael Harrington,
Partner, Chief Investment
Officer at Actis

We firmly believe that the global investment landscape is being shaped by three mega-trends: decarbonisation, digitalisation and deglobalisation. These trends are generating what we think are strong opportunities to invest in critical, essential service sustainable infrastructure.

We believe there is a fourth ‘D’: demographics. Since the 1960s, global population growth has been on the decline. The 1960s saw the planet’s population grow at 2% per annum and now we are adding less than 1% each year to the global population¹. This will likely continue to decline. In contrast to these ageing populations in the West, over 90% of the population growth through 2045 will come from non-OECD countries².

We are seeing emerging “big middle” income economies experience a dynamism driven by increasing wealth, industrialisation and urbanisation. Households buying their first appliances, mobiles or video game consoles, and companies connecting to the cloud through new towers and fibre networks – this is all creating demand similar to what the US experienced half a century ago. Southeast Asia for example, has seen electricity demand grow by four to five times since 2000³, while demand in the US has been relatively flat⁴.

Not only do we see these creating a circa US\$9 trillion annual infrastructure investment opportunity, but we think this opportunity is particularly relevant and compelling in today’s economic and geopolitical outlook⁵. We’re living through a period of disruption affecting many markets and policy areas, from trade to defence. In this context, countries are likely to reassess their reliance on old global systems, which could see policymakers re-focus political attention to domestic matters such as infrastructure, including energy security and data protection.

This shift can create further opportunities in the funding of infrastructure. But it is in emerging

markets where we believe these opportunities to be strongest. Indeed, it is outside the West that the demand for infrastructure is growing fastest, notably in sectors such as energy and data, thanks to multiple factors including higher economic growth, rising populations, industrialisation and the rise of mass consumer classes.

While advanced economies grapple with high debt, emerging markets in Asia, Latin America, parts of Central Eastern Europe, and the Middle East and Africa are, we believe, better positioned. These regions often have lower debt, stronger growth projections, and more resilient financial systems, insulating them from external shocks. We think it is primarily perceived risk – often overstated in our experience – and limited on the ground experience that dissuades more global investors from allocating capital to these markets. Western markets were never risk-free but hopefully the perception of risk between advanced and emerging markets is shifting and can be more nuanced.

Beyond the broad developed or emerging market characterisations, investors ought to remain selective as to the markets they invest in. Emerging and growth markets are not a monolith. As such, Actis takes a prudent and targeted approach to these markets, using the Actis Atlas tool and taking into account a broad range of macroeconomic factors before deploying capital. The firm favours growth markets with a demonstrated history of private infrastructure investment across business and political cycles.

We have long invested in the “big middles” – economies like India, Brazil, Mexico, and South Korea. These G20 members have substantial financial resources and resilience from domestic savings, not credit. We believe they are attractive investment destinations due to low or declining currency volatility, high real rates, and central bank credibility. Big middles are large markets with significant domestic financial sector resilience. When combined with solid macro performance and fiscal discipline they can enable superior economic growth. India is a case in point and has become the third largest infrastructure market in the world.

We think that for investors that can navigate today’s complexity, private market infrastructure is increasingly attractive, as pension funds and insurance capital demand stable, longer-term investments with predictable cash flows and some

degree of inflation protection. Infrastructure outside the US and Europe can offer exactly that: diversification, better pricing with less competition, and the fundamentals for long-term value creation. They are also more insulated from tariff volatility. This is all in contrast to US public markets which have demonstrated significant volatility in recent months and are unlikely to be able to maintain the growth rates of the past 15 years.

Southeast Asia is a testament to this, notably in the energy sector with the growth of power demand and this trend is expected to continue. In fact, it’s already happening at scale. Actis recently completed an investment into MTerra Solar in the Philippines, which will be one of the world’s largest integrated solar and battery storage facilities once developed, featuring a 3.5GW solar photovoltaic plant and a 4.5 GWh battery energy storage system. Similarly, data centre demand is growing at twice the rate of the US. This expansion is propelled by emerging economies’ increasing access to electricity, mobile phones, and cloud-based technologies.

To capitalise on these what we call most of world opportunities, infrastructure investors should focus their strategy on operational excellence and disciplined pricing. Today, leveraging debt to drive returns is less effective. Instead, we think driving organic growth, operational improvements, and identifying the best-priced assets in emerging markets will be core levers of success.

Those asset managers with experience in these lesser understood global markets and that have longer-term capital commitment ready to deploy, will be well placed to navigate uncertainty. We think these approaches can offer diversification, unlock growth, and deliver superior returns to investors, even when the investment tea leaves are getting harder to read.

The three global themes there remain same:

- What has changed
- How best to seize these opportunities
- In our view the case for investing in growth markets infrastructure has never been more compelling.

¹Population growth (annual %) | Data

²OPEC Digital Publications – World Oil Outlook

³Southeast Asia Energy Outlook 2019 – Analysis – IEA Southeast Asia’s growth in electricity demand at an average of 6% per year [from 2000-2019] translates to a 4-5x overall growth over a 20-25-year period.

⁴After more than a decade of little change, U.S. electricity consumption is rising again – U.S. Energy Information Administration (EIA) (excluding AI driven forecasts)

⁵The net-zero transition: Its cost and benefits | Sustainability | McKinsey & Company

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