KEYNOTE INTERVIEW

Shining a spotlight on emerging markets

Strong demand, advantageous demographics and lower competition paint a positive picture for investors, argues Actis' Nicolas Escallon

The notion that investing in emerging markets is a niche strategy doesn't hold up, especially when you consider today's investment gap needed to scale renewables and drive the energy transition. Emerging economies often possess substantial low-carbon energy resources waiting to be developed.

Pioneering investors in these regions typically encounter relatively limited competition, as major funds continue to focus on more established markets. Nicolas Escallon, partner at global infrastructure investor Actis, explores the factors shaping investment in emerging markets and what the future might hold.

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Q Why focus on energy transition opportunities in emerging markets?

Fundamentally, it is all about supply and demand. Emerging markets today account for more than 80 percent of the world's population, 95 percent of the increase in global emissions and 85 percent of additional electricity demand growth projected over the coming years.

Meanwhile, only a fifth of global capital is directed towards clean energy opportunities in these markets. Most funds raised for infrastructure and the energy transition focus solely on Europe and North America, overlooking these vital regions.

This imbalance creates a compelling opportunity to invest in and build critical power infrastructure. There is less competition in emerging markets and the need for infrastructure is arguably greater. Investors with a strong reputation and track record can access more opportunities and capture a larger market share.

For instance, this year, we acquired a platform of operating assets in Peru with US dollar contracts and inflation

indexation. We hope to achieve a compelling hold-to-maturity IRR on this deal, which we think illustrates the alpha that can be realised due to supply and demand imbalances and access to competitive debt in markets like Peru.

Q Which subsectors are particularly attractive?

The primary pillars of the energy transition are wind, solar and battery storage. Gas also plays a strategic role in certain markets with access to inexpensive, local sources. This allows us to replace very dirty, expensive coal or fuel generation, while enabling increased renewable penetration, as seen in regions like Mexico and Peru.

Clean fuels present another opportunity, though we are approaching hydrogen with caution. We anticipate a role for hydrogen production across our markets but are mindful of the current hype surrounding the sector. We are dedicating substantial time to understanding it and see significant long-term potential.

Transmission also holds tremendous potential. Simply put, there can be no energy transition without transmission infrastructure. In Brazil, we have invested in portfolios of transmission lines, acquiring these through our long-life infrastructure funds. These assets are critical infrastructure, benefiting from resilient contractual and regulatory frameworks – essentially akin to government bonds, but with typically more attractive returns.

Q How should managers weigh risk perception when investing in emerging markets?

Emerging markets come with their own political cycles, which investors must factor into their strategies. Pricing in these risks is crucial and strong local stakeholder relationships are essential. In Mexico, for instance, investors in renewables faced challenges over the past

Q Where do you see the greatest investment opportunities globally?

We view our investment mandate through three primary lenses, each offering unique characteristics. First, there is emerging Asia, the world's fastest-growing region, with some economies expanding at rates of 6-8 percent. The demand for power infrastructure is vast; in India alone, there are power auctions nearly every month, underscoring the intense need for new capacity.

Latin America, while not growing as quickly as emerging Asia, is generally more developed in terms of GDP per capita and has a more institutionalised regulatory framework. Infrastructure has been privately held for 20-30 years, which creates a rich M&A landscape that we have engaged in for several fund cycles.

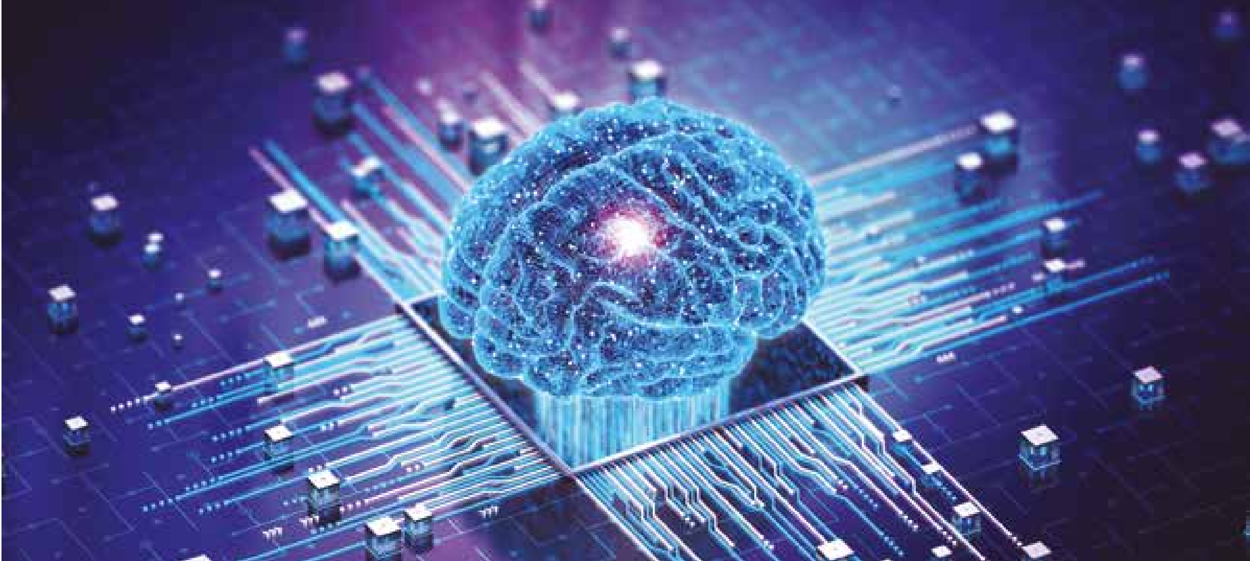
The third region includes Central and Eastern Europe, the Middle East and Africa. Although smaller in scale, these areas present attractive dynamics, with the Middle East's infrastructure needs expanding and Africa's infrastructure gap remaining substantial.

80%

Emerging markets account for the majority of the global population

20%

Only a fifth of clean energy capital is directed to emerging markets



five years due to government policies, whereas gas assets performed well because the government welcomed private investment in that sector.

It is important to position investments to mitigate political risk, operating in areas where private investment is valued. In some markets, exposure to local currencies is unavoidable, but we aim to have at least inflation indexation where possible. Our strategy includes deploying capital over time to reduce liquidity risks and diversifying our portfolio across currencies, with a significant portion in hard currency.

Q How much does climate-resilient infrastructure play into the equation?

Our approach involves both acquiring and developing assets, with a significant focus on renewables in emerging markets. Currently, around 90 percent of build activities in these regions focus on renewables due to the highly competitive cost structures. Many of these markets have high wind and solar potential – often two to three times that of developed markets.

This alignment between sustainability and value creation has been central to our strategy. Even before renewables became mainstream, we built the first wind farm in Central America, reducing dependency on costly fuel-based generation. That investment wave has only strengthened over time.

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Q Increasing demand for AI will require more data centres. How should managers weigh opportunities in this sector?

AI is a timely theme, creating fresh demand waves for data centres. We are already witnessing significant growth from hyperscalers and traditional data centres, where we have invested over a billion dollars. In Latin America, our Brazilian platform Serena has become the largest provider of clean energy to data centres, recently signing a notable deal with Scala, owned by Digital Bridge.

As demand rises, platforms with the ability to create tailored solutions will likely lead the market. Going forward, companies may increasingly evaluate energy resource distribution globally, moving data production to regions where energy efficiency is higher.

For example, machine learning models that don't require low latency may shift from Virginia to northern Brazil, where wind and solar efficiency is far superior and land availability supports large projects. This could reshape the market landscape significantly. ■

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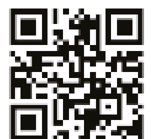

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