

The strong fundamentals of Southeast Asia

Southeast Asia, with its dynamic economies, burgeoning middle class and strategic geographical location, presents a compelling landscape for investors. The region features what we believe to be exciting growth markets, including Vietnam, Thailand, Singapore, the Philippines, Malaysia and Indonesia, and is home to more than 700 million people, boasting a combined GDP that ranks as the fifth largest globally.

In this macroeconomic landscape, we believe sustainable infrastructure and real assets in sectors such as energy, digital infrastructure and new economy real estate stand out as ripe for investment and poised for significant growth. This is because they are supported by the structural themes driving the global economy: decarbonisation, digitalisation and supply chain reallocation.

These themes are particularly pronounced in Southeast Asia, which, when combined with the region's specific demographic and economic growth factors, offer the prospect of scalability that can be so attractive for investors.

Powering Southeast Asia

Energy forms one of the largest investment opportunities in the region. To take the renewable energy sector as an example, we can expect the region's existing renewables generation capacity to be multiplied by two to two-and-a-half times in the next five or six years. This equates to an equity investment opportunity of approximately US\$15 billion and provides an indication of the scale of what is to come.

In a region where GDP growth rates consistently range from 4 percent to 6 percent per year, power demand growth is even higher, at one to one-and-a-half times this rate. Given this rapidly accelerating demand for electricity, the need to decarbonise, and the desire by countries in the region to ensure energy security, there is now a growing focus on renewable energy as a cost-competitive and attractive option. Even in the past five years, there has been a significant evolution on both the commercial and regulatory front – the region is now ready to scale renewables, and Actis has sought to take action as opportunities have opened up.

As a leading growth markets energy investor, Actis has built, operated or contracted more than 41 gigawatts of installed capacity globally since inception, including energy investments in Southeast Asia. Actis acquired a majority stake in Southeast Asia-focused Levanta Renewables in 2022 and aims to scale the business to become a renewables leader in the region with 1.5 gigawatts of generation capacity. Levanta is growing steadily and now has a total renewable capacity (operating and under development) of 615 megawatts, investing in Vietnam, Thailand, the Philippines and Malaysia.

Actis' more recent investment in MTerra Solar of approximately US\$600 million, which closed in March this year, demonstrates the firm's ambition for clean power in Southeast Asia. The project

will be one of the world's largest integrated renewables and energy-storage projects when fully commissioned, as measured by battery energy storage capacity. It will combine a huge 3.5 gigawatt-peak (GWp) of solar photovoltaic capacity with 4.5 gigawatt hours (GWh) of battery energy storage system, backed by a 20-year, 850-megawatt (for 12 hours daily average) power-purchase agreement. The project represented the largest foreign direct investment for a greenfield infrastructure project in the Philippines at signing and is a marker of real ambition.

Our investments and expertise in the region's energy infrastructure – let alone wider Asian energy, with further platforms currently in India, Japan and South Korea – lead us to believe we are ideally positioned to provide compelling integrated solutions to customers. We believe this allows Actis to access a superior investment opportunity across different infrastructure asset classes.

This especially matters in power-hungry assets such as data centres and industrial logistics facilities, where the supply, cost and carbon-intensity of energy can be major constraints. We believe that Actis' deep experience and skill across energy, digital and real estate turn what is a liability for many investors into a competitive advantage.

Going digital

When it comes to another major theme affecting the region and the world – digitalisation – different markets in Southeast Asia are playing the most prominent role. Singapore has long been a key data centre market; developing assets there is challenging, however. Despite Singapore's May 2024 lifting of the moratorium on the development of new data centres that had been in place since 2019, the city faces significant power and land constraints, as well as high development costs.

In this context, neighbouring Malaysia is emerging as a key data centre market, both for assets serving new artificial intelligence machine learning needs as well as the growing demand for cloud computing (including demand from Singapore). The region of Johor Bahru, Malaysia, which is located just to the north of Singapore, is becoming an important hub, attracting investment and interest from American and Chinese hyperscalers alike, thanks to its proximity to Singapore, as well as land availability and renewable power potential.

A further factor contributing to demand for data centres in the region, and digital infrastructure more widely, is data sovereignty. Historically, much of the region's data has been stored and processed in Singapore, but as individual countries in Southeast Asia improve their infrastructure, they will likely permit the enforcement of existing regulations requiring data to be stored locally. This is part of a wider deglobalisation trend affecting the global economy.

Actis is also investing behind the digitalisation trend and developing a 120-megawatt data centre in Johor through Epoch

Digital, an integrated platform developing and operating data centres across targeted Asian markets that benefit from current hyperscale demand. Actis is delivering hyperscale solutions with a focus on energy sustainability and efficiency. This is crucial given that energy is the most significant cost-item for data centres and the fact that hyperscalers have set ambitious decarbonisation targets.

The question of power is critical in this space, and we think Actis can bring huge added value in that regard thanks to its deep energy expertise, but the firm's real estate and, of course, digital skillsets and experiences also provide what we believe to be a competitive advantage.

Pairing industrial and logistics with energy experience

We have covered the tremendous opportunities in the energy and digital infrastructure sectors, which tap into the decarbonisation and digitalisation themes, and how Actis is seeking to capitalise on these, but there is a third major global theme Actis is targeting: supply chain reallocation.

In addition to investing in new economy real estate assets such as data centres, Actis is also investing in Southeast Asia's industrial and logistics facilities, which are critical, in-demand assets given the ongoing supply chain transition spurred on by China-plus-one policies and consumption growth in the region. Such facilities can be power-hungry, with domestic or international tenants that also want to reduce their carbon footprint. This also allows Actis to tap into its broader energy expertise and create compelling offerings.

Vietnam has been the prime beneficiary of China-plus-one and the reshaping of global supply chains. Northern Vietnam's key economic zone has proven an attractive area, in particular. Located just to the south of China and thereby naturally facilitating the expansion of Chinese capacity to serve global markets, this is an area Actis has been developing industrial and logistics projects in for years. This includes An Phat 1 Industrial Park, a sustainable industrial park that Actis exited in 2023 having outperformed its investment thesis.

Vietnam is not alone in benefiting from this shift, however. Malaysia is also capturing a share of this transition, with the Philippines and Thailand following suit. Vietnam and Malaysia have emerged, however, as the primary beneficiaries of the China-plus-one strategy to date, positioning themselves as key players in the evolving global supply chain landscape.

Strong fundamentals in uncertain times

All these factors, taken together, give us confidence. While the global market is witnessing uncertainty and volatility because of new tariff regimes, we are optimistic for Southeast Asia.

Southeast Asian currencies have been very stable for several years now, and, critically, these markets now have their own domestic financial power with deeper financial systems, including institutional investors. The region's governments also understand the need to attract and secure international capital and are consequently building stable regulatory environments conducive to long-term investments. This is particularly evident in countries such as the Philippines, where the regulatory backdrop has evolved favourably even in the past few years, with increasing economic liberalisation and (at least partial) privatisation of infrastructure sectors.

There are, of course, nuances from market to market in such a diverse region, with the Philippines, Malaysia and Vietnam offering more opportunities in renewable energy – or Vietnam in industrial and logistics real estate, for example – but taken as a whole, the opportunities are plentiful.

Actis' investments are deeply rooted in generating investment performance from underlying fundamentals and operating performance. This provides resilience through periods of disruption. Within Southeast Asia, our investments are tied to structural themes backed by core underlying demand and are diversified across several geographies and asset classes. These are competitive investments in competitive markets, and we remain positive and enthusiastic about the opportunities in Southeast Asia.

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COMPANY OVERVIEW

Actis is a leading global investor in sustainable infrastructure, investing in structural themes that aim to support long-term, equitable growth in defensive, critical infrastructure across the energy transition, digitalisation and supply-chain transformation.

Actis believes the firm's decades of global experience, operational know-how and strong culture allow it to create global sustainability leaders at scale and deliver competitive returns for investors. Actis is one of the longest-standing energy investors globally and a signatory to the Principles for Responsible Investment (PRI), an investor initiative supported by the United Nations.

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