

CASE STUDIES

Power and connectivity

I Squared Capital is connecting the dots between energy transition and digitalisation, [Harsh Agrawal](#) tells [Florence Chong](#)

I Squared Capital

Infrastructure AUM: €36.3bn

Ranked: 13

Europe: €13.1bn

North America: €10.9bn

Latin America: €4.85bn

Asia-Pacific: €7.46bn

Traditional energy: €14.4bn

Renewables: €2.23bn

Other energy transition assets: €206m

Transport: €4.64bn

Digital: €8.66bn

Utilities: €605m

Social: €1.86bn

Other: €3.74bn

Digital infrastructure and energy transition are inextricably linked. Green power availability is a key pillar of digital infrastructure, and it is on this premise that global infrastructure manager I Squared Capital has mapped out its growth strategy.

I Squared is currently deploying US\$15bn (€13.8bn) from its ISQ Global Infrastructure Fund III and another US\$1.8bn from its multi-country ISQ Growth Markets Infrastructure Fund to invest in Asia and Latin America. It has largely invested the capital in the two funds and will soon be launching a new one.

I Squared has been deploying capital into several renewable energy assets. Among its latest investments are Absolute Energy, an Italian renewables and transition technology investment platform. I Squared intends to invest up to €400m in Absolute Energy to develop a 3GW pipeline of solar photovoltaic, wind and storage projects in Italy.

The firm has also invested in renewables projects through its pan-Asian platform HEXA Renewables. In April, the platform was the biggest foreign winner of the first power capacity auction hosted by the Japanese government, winning 11 contracts for battery energy storage systems. HEXA is also developing utility-scale renewables projects in Malaysia and the Philippines. In Australia, it is invested in Clean Energy Fuels Australia, while in Brazil it plans to invest up to US\$400m in Origo Energia, the country's distributed solar-generation company.

Another pillar of I Squared's portfolio is connectivity. Partner Harsh Agrawal says: "Data centres can't live on their own. They must be connected to other data centres and that is where our fibre platforms come in. Increasingly, to be able to invest across sectors is quite powerful when supplying solutions to big-tech companies and hyperscalers."

One of I Squared's larger investments was the US\$2.15bn purchase in 2021 of the infrastructure division of listed GTT Communications, which runs pan-European, North American subsea and trans-Atlantic fibre network and data centre infrastructure services.

Agrawal says it was a complex transaction, but I Squared managed to carve out the company's long-distance fibre networks. It was "the type of

investment I Squared is good at", he says. "We were very fortunate to be able to buy such a big, unique portfolio of assets in Europe."

I Squared immediately launched a new company, EXA Infrastructure, to house the assets. "EXA gives us the capability to provide long-distance fibre-network connections within Europe and to the US," he says.

"Why is this deal different to others? Because in some ways this is a derivative play on data-centre growth. As data centres grow, fibre is required to connect low latency over long distances. We will grow this business to connect with more data centres across Europe and other parts of the world."

In January, another I Squared company, Lightstorm, bought three subsea cables in the Pacific connecting the US to Japan and Australia. Lightstorm is a carrier-neutral, low-latency fibre network based in India. It has now expanded into Indonesia and is planning further expansion into the rest of Southeast Asia and the Middle East. Its assets complement 1.4m km of fibre network that I Squared acquired in 2017 from HGC, a fixed-line service provider in Hong Kong.

The fund manager has invested to grow the business as there is no option of acquiring a company with a big footprint across Asia. Agrawal says: "It is now connected to close to 70 or 75 data centres across Asia. Again, like EXA in Europe, we see Lightstorm as an adjacent play to capture high growth in data centre markets in Asia."

Ezee Fibre was established in 2021 to install fibre networks in growing and underserved US markets. The platform made its first investment in the US fibre market with the US\$200m acquisition of ICTX WaveMedia, a 2,000km carrier-grade, all-fibre connectivity provider serving the Houston metropolitan area.

Agrawal says geopolitical events have seen a wave of reshoring, with manufacturers relocating to markets such as Mexico. "Our investment in KIO Networks, which is primarily in Mexico, has been a big beneficiary in the reshoring of manufacturing into that country."

In Asia, BDx has bought data centres from government-owned telecommunications companies such as Indonesia's Indosat. In January this



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year, BDx formed a joint venture with Indosat to acquire a portfolio of data centres in Indonesia for the equivalent of €154m. They consist of carrier-neutral, colocation and edge sites in key cities including the capital, Jakarta. BDx has an agreement with Indosat to develop more capacity for AI in that market, Agrawal says.

BDx has also bought data centres in Hong Kong and Singapore to broaden its reach. Over time, Agrawal sees the business continuing to expand as it secures more ventures.

I Squared last year established nLighten, an edge data centre platform dedicated to delivering solutions for both traditional and low-latency use cases. The firm has committed more than US\$500m in equity to fund its expansion into underserved cities and regions across Europe. nLighten last year took over Euclyle Data Centres, a leading French regional platform.

Data centres are in the third wave of growth today, driven by AI, Agrawal says. "The computing power required by AI is very high. Some statistics we look at show that a CHAT GPT query takes up 10 times as much power as a normal Google query. So you need a lot more data centres as you build out artificial intelligence."

In the first wave, data-centre growth was driven by companies outsourcing their data to common data centres, then came the advent of cloud solutions driving the second wave of incremental capacity.

In the buildout of AI, the third wave of growth will be large facilities to train AI models – work that is not latency-sensitive.

"As you are building bigger data centres, you require more power and, of course, customers all want that power to be green as much as possible. As part of providing digital solutions, we build centres using green energy and we build transmission lines to carry the data. This is how we can offer an integrated solution to our customers."

Agrawal says there is good synergy among its investments – at different levels. "First, big technology companies are themselves global in nature, so they look for connectivity solutions globally and we can offer them, for example, EXA in Europe and BDx and Lightstorm in Asia.

"The second big synergy is procurement. We can have economy of scale through our global procurement programmes, whether it is for cooling equipment for data centres or solar panels and wind turbines."

Pressure from cost and competition has yet to detract from the returns that I Squared is able to achieve. "Our returns have been healthy because we offer operational expertise alongside capital. If you are a fund manager who focuses just on operational assets and takes a passive approach then with more competition your returns will probably go down over time."

Today, between 20% and 25% of I Squared's global assets under management of US\$40bn are in pure digital infrastructure. Agrawal says that proportion is unlikely to change in future. "We want to have diversified portfolios," he says. "Around two-thirds of I Squared's investments are in OECD countries, leaving a third to high-growth countries – primarily in Asia with some in Latin America."