

PRIVATE EQUITY | Q&A

Infrastructure Is a Booming Asset Class. This Pro Favors 5 Sectors.

Sadek Wahba, founder of I Squared Capital, sees opportunity in public-private partnerships. Why well-run funds are generating roughly 20% annualized returns.

BY AMEY STONE

Infrastructure investing has lately become almost synonymous with the build-out of artificial intelligence. But for Sadek Wahba, founder, chairman, and managing partner of I Squared Capital, a \$55 billion private-equity firm investing in infrastructure, the sector has a much broader mission—to enable economic development around the world.

Born in Egypt and educated mainly in the United Kingdom, Wahba did stints at the World Bank and the International Monetary Fund early in his career before finishing his doctorate in economics at Harvard University and then turning to Wall Street. He founded I Squared after about a dozen years managing the infrastructure business at Morgan Stanley.

I Squared's flagship funds, which are available only to institutional investors, have generally posted net annual returns in the 15%-to-20% range. I Squared recently launched a fund available to eligible individual investors through financial advisors.

More conservative private infrastructure strategies like I Squared's differ from publicly traded infrastructure funds, which invest in stocks and aim for capital appreciation. Fidelity Infrastructure and Global X



Sadek Wahba, founder, chairman, and managing partner of I Squared Capital.

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US Infrastructure Development both have three-year annualized returns around 20%, but lower income. BlackRock's iShares Global Infrastructure exchange-traded fund, which yields about 2%, is closer to a private infrastructure strategy.

In a recent interview with Barron's, Wahba discussed the Miami-based firm's investments in roads, data centers, energy, and transportation. He also explained why he's a fan of public-private partnerships, and why managing the details of an infrastructure project is a lot like overseeing a kitchen renovation. We followed up by email after the start of the Iran war to discuss the firm's investments in the Middle East.

An edited version of the conversation and email exchange follows.

Barron's: How did you first get interested in infrastructure investing?

Sadek Wahba: I did both my undergraduate and graduate studies in economics. Early on, when I was working at the World Bank, I saw firsthand the link between economic growth and investing in infrastructure. At a basic level, people need schools, they need electricity, they need roads and transportation.

I think my first eureka moment was when I was traveling in sub-Saharan Africa on the Ivory Coast doing a site visit. We were on a mud road, and I saw children, aged about 7 to 14, well dressed and walking to school. They walked an hour both ways every day, and I thought what a difference a school bus would make for them. Experiences like that, plus my studies in economic theory, led me to appreciate that investing in infrastructure can have a massive impact on growth.

I am always thinking about the right conceptual framework to apply to infrastructure investing. I find it fascinating. There is a continuing debate in the U.S. about how to go about building infrastructure. Do you want to subsidize municipal bonds? Who should own the infrastructure? Do you want the government to own it and the private sector to manage it? You want to regulate it, but it could be an independent regulator. If we want to succeed and continue to have a vibrant economy over the coming decades, we have to have new ways of thinking about how we go about investing in infrastructure.

What is the case for investors to get into this sector?

Infrastructure as an asset class will continue to grow. Governments simply don't have the means to continue to invest in infrastructure at the scale required. The U.S. is running a budget deficit that will probably go up. That is the same in other industrial economies.



I Squared's flagship funds, which are available only to institutional investors, have generally posted net annual returns in the 15%-to-20% range. Above, Sadek Wahba at I Squared's Miami office.

PHOTOGRAPH BY MARY BETH KOETH

The point is, where do you get the revenue to be able to spend? More people are living in urban areas globally, and the demand for urban infrastructure—transportation, power, heating, and cooling—is massive.

That is the opportunity. When a portfolio is set up properly, this is an asset class that can provide stable cash flows and attractive risk-adjusted returns. For example, if we manage a road, we collect the tolls. If we operate a data center, we get fees from the users. The portfolio companies should also appreciate in value. At I Squared, we aren't looking for home runs. We're looking for singles and doubles. Returns are linked to inflation, but not correlated to the rest of the market.

Where are you investing today?

We invest in private companies in the U.S., Europe, and the rest of the world in five different sectors: energy, utilities, transportation and logistics, digital infrastructure, and environmental infrastructure. So, we allocate across a five-by-three matrix. Our portfolio includes over 90 companies operating in 70 countries. Diversification is very important to us.

The U.S. has invested less than 2% of its gross domestic product in infrastructure. In contrast, China has invested 8% or sometimes 10% of GDP in infrastructure, and that continues. The U.S. remains without a doubt the most attractive, deepest market for infrastructure investing.

Europe is a different opportunity. It has good infrastructure but needs to invest and upgrade it.

We also make investments in high-growth economies, such as India, at about 25% of the portfolio. We want to get an extra boost, and these investments aren't really correlated to our investments in the U.S.

Let's get into some of those investments, starting with data centers, which are tied to the buildout of artificial intelligence.

With AI we are only at the beginning, and the technology is growing fast. In data centers, the U.S. is ahead of everyone else, and there are few barriers to entry. The need for centers is going to be driven in part by the development of chips. If they become more efficient, the industry may require fewer data centers. I need to think about residual value and where the data center is located. All sorts of issues come in. We own a data center network in Mexico, Central America, and the Caribbean.

We like the sector, but you have to understand fundamentals, and that has made us a little more cautious than other investors. This area is unlike many of the public-private partnerships we form.

Tell me about some of the projects in which you're involved.

We invest in school transportation in the U.S. We own concessions that work with school districts to provide buses to transport children to school, including in New York state.

We invest in roads in India. We manage the roads, collect tolls at a rate determined by the government, and then will return the

management of the roads to the government at the end of 30 years.

We have also taken some companies private in Europe. Applus, which conducts inspections, testing, and certifications, is based in Spain and has been growing substantially. Arriva provides public transportation. You know the red buses? We work with municipalities in Italy and the U.K. We are bringing in new technology and converting the buses from diesel to electric.

You were on President Joe Biden's national infrastructure advisory council. Do you work now with the Trump administration on projects?

President Donald Trump is making sure we have onshoring of key industrial sectors, and that is providing a boost to infrastructure. What people don't understand is that for manufacturing, you need infrastructure—power generation, roads, transmission lines, and so on.

We have been investing in the manufacture of key components of lithium batteries. That wouldn't have been possible in the past. We have been working with the Department of Energy. We are also developing power generation with carbon capture, something the administration has been supporting. This onshoring is absolutely critical, especially in sectors associated with national security, and has been a bipartisan effort.

How do you manage risks across the portfolio?

We look for projects that our models show will allow us to make the kinds of returns we are seeking without taking on too much risk.

We aim to build a portfolio that is resil-

ient, with projects that are uncorrelated to one another. I don't want to find myself exposed to a single risk by having a concentration in a certain sector. You can see the importance of diversification from some of the examples I have mentioned. There is very little correlation between school buses in the U.S. and roads in India.

Does your doctorate come in handy?

Investing in infrastructure doesn't require a Ph.D. It requires being extremely organized and having a focused plan. We spend a lot of time planning. No one parachutes into a new market.

I explain to people that our work is like the experience of renovating your kitchen. You spend a lot of time planning. Then, when you execute, you uncover issues, and you have to issue change orders. This is a business about details. You have to focus on details and ask the right questions.

What part do you focus on?

My main role is to ensure the portfolio is properly constructed and avoids taking on too much risk in one area. I review every investment, and in some cases I lead the investment for the team. We have 300 employees and dedicated teams responsible for managing these investments from offices around the world.

It sounds like you feel a sense of mission around the projects you invest in.

As an infrastructure investor, you need to provide a public service, and you have to be a custodian of that asset, which, ultimately, you are going to pass on. But I also want to perform a service for my investors.

Many of them are schoolteachers or public servants who invest through their pensions. I want them to make careful investments that provide them with good returns.

At one point, you thought you would be an academic. Do you ever miss that world?

I have stayed involved in policy. I wrote a book, *Build: Investing in America's Infrastructure*, which is really a policy book. And I have written many articles, including for *Barron's*, about infrastructure development. I am also involved with universities as a foundation fellow at St. Antony's College, University of Oxford, and a senior fellow at the New York University Developmental Research Institute. I am a member of the Council on Foreign Relations.

Would you ever move beyond infrastructure investing?

We invest solely in infrastructure. We're specialists, and we want to maintain that. We're not interested in expanding to other things.

How is the war with Iran affecting your investments?

Recent developments in the Middle East highlight the importance of diversifying investments globally. The Middle East currently represents a small part of our overall portfolio. Critically, the long-term fundamentals driving the region's infrastructure market remain intact, including strong economic growth trends and a robust push to involve private players in the sector. We will continue to monitor developments closely.

Thank you, Sadek.