A DIGITAL WORLD

How institutional investors are approaching digital infrastructure assets

BY MICHAEL MCKIERNAN

DIGITAL INFRASTRUCTURE BY THE NUMBERS

- **US$49 BILLION** Projected annual global spending on the construction of data centres alone by 2030, up from **$32 billion** in 2022
- **8%** Proportion of U.S. power that data centres are expected to consume by 2030, up from around **3%** in 2022
- **80,000** The number of households that could be powered by the equivalent amount of energy consumed by a single data centre
- **$2.9 BILLION** The amount the CPPIB paid in March 2024 to acquire a **17.5%** share in NetCo, Italy's most extensive telecoms network

Sources: *McKinsey, 2023; Goldman Sachs; the CPPIB*

For institutional investors looking to add some glitz to their portfolio, digital infrastructure may not be the right asset class.

Benn Mikula and his colleagues at Cordiant Capital Inc. have a nickname for the group of assets — which includes communications towers, data centres and fibre optics — typically featured in a digital infrastructure portfolio. "We call it the plumbing of the internet," says Mikula, the organization's managing partner and chief executive officer.

The firm raised its first digital fund in 2021 and now holds assets in various locations across Europe and the U.S. "As a society, we have embraced the notion of a digital economy and the centrality of digital ways of doing things in our personal lives and in our business lives," he says. "And for that to work, you need digital infrastructure. So it may not be the most glamorous thing, but it certainly is an essential one."

Digital infrastructure has a relatively short history as an investable asset class, says Sebastian Nicholson, principal in infrastructure investments at Nicola Wealth Management Ltd., explaining the physical structures that are now attracting such interest were often buried on the balance sheets of the world's largest telecommunications companies.

But that changed when providers around the world began spinning off the towers and cables that supported their operations — a process that continues today, as evidenced by Brookfield Corp.'s recent acquisition of a major share in GD Towers, a subsidiary of Deutsche Telekom. "It's cheaper for them if someone else owns the towers so they are free to invest more in their core business, which is the network that sits on top of the towers," he says.

This is part of what makes the sector so attractive to institutional investors in particular, notes Mikula.

"The customers are blue chip or government, the contracts tend to be long term . . . and the use of these assets tends to be quite sticky because it is dental surgery to move data from one data centre to another."

In recent years, the coronavirus pandemic's induced rise of remote working and the emergence of generative artificial intelligence technology has only boosted the demand for digital infrastructure assets, he adds.

Digital infrastructure in practice

Still, nobody had heard of the coronavirus when the Ontario Municipal Employees Retirement System first developed an interest in digital infrastructure assets, according to spokesperson James Thompson.

Since 2018, the pension fund has announced major investments in France's XpFibre, German broadband business Deutsche Glasfaser and Australian towers platform Waveconn, as well as Canadian firm Beanfield Metroconnect, which provides broadband services to both residential and business customers.

"As most people can relate, the COVID pandemic further highlighted the importance of connectivity and enabling digital infrastructure on a global scale," he says. "For OMERS, this reinforced the thesis that had initially attracted us to the sector."

ISTOCKPHOTO/TIPPAPATT

James Bryce, head of infrastructure at the Canada Pension Plan Investment Board, says digital investments represent a growing part of the plan's portfolio, both in absolute and relative terms. "As the world becomes increasingly connected on both the consumer and business levels, the need for stable and reliable digital infrastructure around the world is critical for productivity and economic growth."

Digital infrastructure typically requires significant financial commitments on both an upfront and an ongoing basis, he adds, noting that, as the digital sector evolves, it has started to demonstrate many of the same attributes associated with assets in the broader infrastructure category. "For example, capital intensity, essential service supporting the broader economy, high barriers to entry, predictable cash flows and inflation protection. It's an existing trend, but a trend we expect to continue for the next 15 to 20 years. There's a big role for private investors like CPP Investments to play."

In the last year, the CPPIB has invested $2.9 billion for a 17.5 per cent share in NetCo — Italy's most extensive telecoms network — and boosted its commitment to majority-owned platform Boldyn Networks via its acquisition of Apogee Telecom, one of the largest providers of on-campus connectivity infrastructure in the U.S. higher education industry. And they're unlikely to be the investment organization's last plays in the sector. "We are actively pursuing a number of digital infrastructure opportunities across the globe," adds Bryce.

But the digital infrastructure sector isn't without its risks, according to Mikula, who says there have been signs of local pushback in densely populated urban areas where the demand for new data centres is highest. "Data centres are far from attractive to look at. The cloud sounds fluffy and ethereal, but in fact it takes physical form in a non-descript box that looks like a warehouse with a lot of air conditioning attached."

Aesthetics aren't the only concern for critics, who also point to the high levels of energy and water consumption at digital processing sites. "For many communities, the trade-offs of having data centre development versus the resource burden that they embody is becoming a matter of debate, so that's something we need to watch," says Mikula. "The attentive investors are keenly focused on ensuring their facilities are as efficient as possible and use as much renewable energy as possible."

Still, institutional investors' recent struggles with more traditional infrastructure assets — such as airports and water utilities — should have put an end to any idea that the broader asset class can be considered a "boring bond proxy," he adds.

"If one accepts the thesis that all parts of infrastructure require a certain degree of dynamic, active management, go to where the growth is. And digital has been growing quite steadily, really since the advent of the internet."

Michael McKiernan is a freelance writer.