

# Real Assets Quarterly

March quarter, 2021

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# Frontier's Real Assets Team



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The background image shows a person's hand pointing at a tablet that displays a bar chart. Another person's hand is holding a pen over a document that also features a bar chart. The scene is set in an office environment with a laptop and papers visible. The entire image is overlaid with a dark orange grid and a semi-transparent orange filter.

# Digital infrastructure





# Digital infrastructure – COVID-19 impact

COVID-19 accelerated digital adoption into a mega-trend and digital infrastructure is a key beneficiary

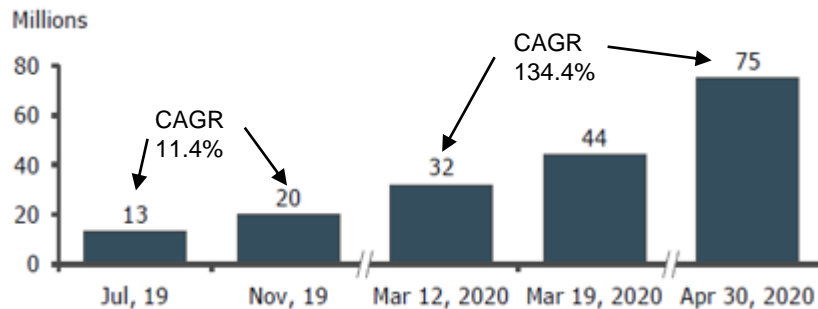
**Broadband, e-commerce, video streaming and collaboration tool usage increased tremendously**

Growth in US data consumptions (Jan 2020 – Apr 2020)



Source: PWC, Citi Research, Morgan Stanley Research, IEA 2020, S&P

Global daily users of Microsoft Teams (2019-2020)



Source: Infrastructure Australia; Statista, L.E.K. Research

**Australian consumers and businesses were quick to adopt remote trends**

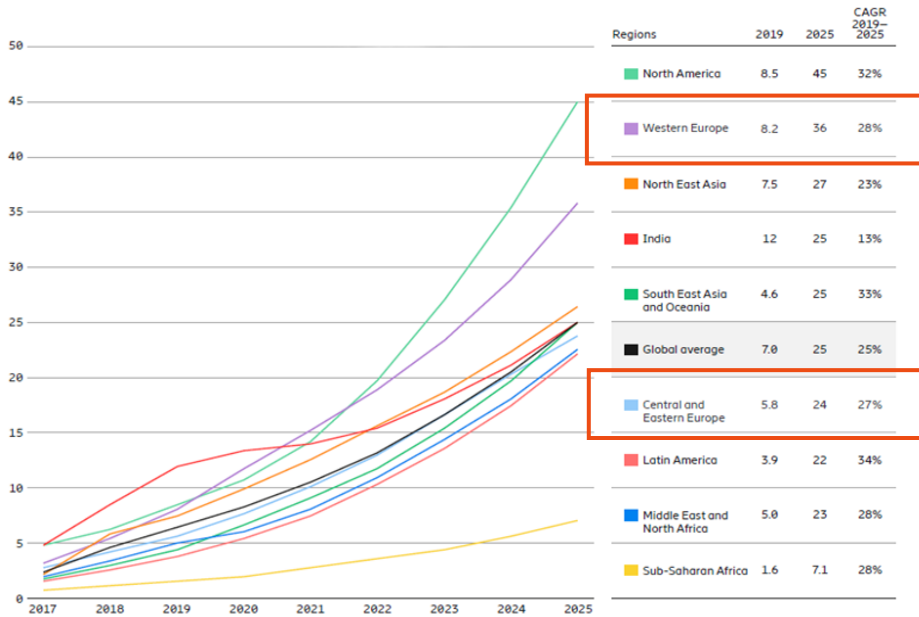
- COVID-19 lockdowns caused a rush to remote trends for workers and consumers and all things digital, with online shopping (e-commerce) and video streaming services experiencing surges in month-to-month growth.
- As a consequence, broadband users and bandwidth usage increased substantially, which was extremely beneficial for digital infrastructure.
- Australian businesses were forced to accelerate adoption of collaboration tools such as Zoom, Cisco Webex and Microsoft Teams.
  - Microsoft Teams experienced a surge in usage as number of daily active users on the app increasing from 32 million in March 2020 to 75 million in April 2020.
  - Zoom noted its video conference software usage rose by 85% during the COVID-19 period.
- According to Microsoft and AlphaBeta, nearly 9 in 10 Australian firms adopted new technologies during COVID-19, supporting 3.2 million workers.

# Digital infrastructure – opportunities

Rapid developments and changing consumer behaviour will lead to more opportunities in digital infrastructure

## 5G and IoT are key drivers for data growth and digital infrastructure

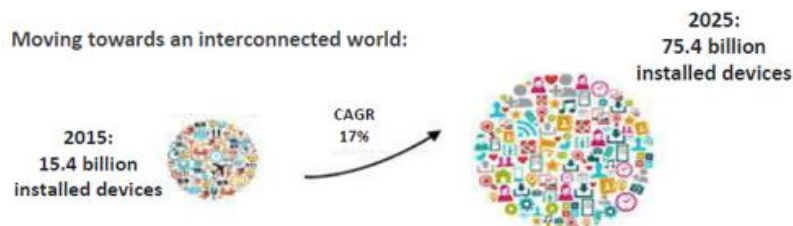
Mobile traffic data per smartphone (GB per month)



Source: Ericsson mobility report, June 2020

## Internet of Things (IoT) devices expected to increase rapidly

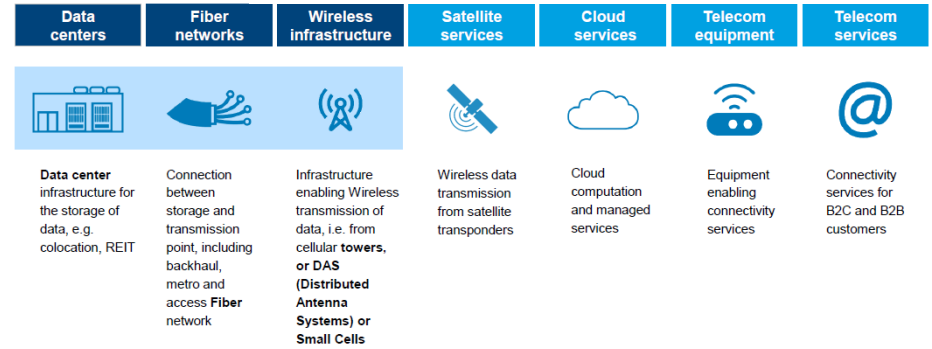
Moving towards an interconnected world:



Source: Manager research

## Telecommunications encompasses various sub-sectors, some more attractive than others

Sub-sectors of telecommunications



Source: Manager research

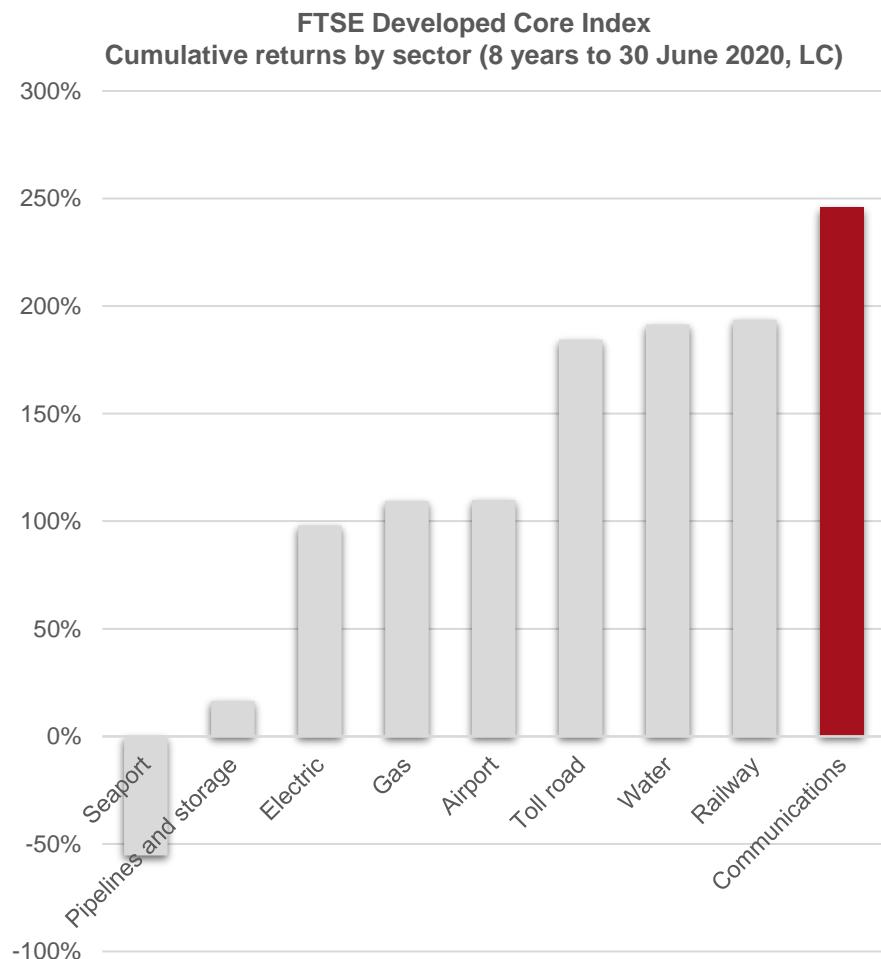
- **Cell towers:** Mobile network operators are spinning out their cell towers into “TowerCos” to fund their 5G rollout.
- **Data centres:** Increased activity from data demand, localisation, privacy and EU’s data safeguarding rules.
- **Fibre:** EU legislation for ubiquitous, high-speed digital connectivity is creating FTTx fibre rollout opportunities.
- **Wireless:** Radio access networks (RAN) will require heavy investments due to the large scale of 5G rollouts.
- With heightened activity and capital inflow, investors need to be mindful of valuations.



# Digital infrastructure – performance

## Listed infrastructure sector performance

Digital infrastructure performance has outpaced performance from other infrastructure sectors



- While listed infrastructure delivered strong returns over the trailing period, communications meaningfully outpaced other sectors.
- Similar trends have played out in the unlisted infrastructure market, with strong earnings growth combining with the significant weight of capital to deliver substantial performance for early investors in many digital infrastructure assets.
  - It's important to note though performance between digital assets has differed materially.
- Historically, digital infrastructure was perceived as a higher risk investment private-equity style investment and exposure within unlisted infrastructure portfolios was often limited
- Frontier believes digital infrastructure is an attractive growth sector for investors to consider due to:
  - the strong data growth tail winds.
  - governments consider digital connectivity a national priority.
  - regulatory support being offered globally.
  - depth of the communications and technology markets, particularly in the US and Europe.
  - however, investors will need to be wary of increasing valuations and their impact on future returns.

**Frontier believes digital infrastructure is an attractive growth sector for the foreseeable future**

Source: FTSE



The background features a person's hand pointing at a tablet computer. The tablet displays a bar chart with three bars of increasing height. The scene is overlaid with a semi-transparent orange grid. In the bottom right corner, there are three vertical orange bars of increasing height, mirroring the chart on the tablet. A horizontal orange line is located on the left side of the page.

# Notable infrastructure transactions

# Notable infrastructure transactions

Q4 2020

Region	Transaction	Sector	Vendors	Equity providers	AUD (\$m)	Description
Asia	Reliance Tower Infrastructure Trust	Telecommunications	Reliance Industries	BCI GIC, Brookfield Infrastructure Fund IV	4,824	135,000 towers to a Brookfield Infrastructure-led consortium.
	TSK Corporation Sale (37.39%)	Environment		KKR Asia Pacific Infrastructure Fund I	544	Landfill operator and sewage treatment/water O&M provider.
Australasia	Metlifecare Acquisition	Social Infrastructure	Metlifecare	EQT Infrastructure IV	1,499	NZX listed retirement village operator.
	Qscan (71.25%)	Social Infrastructure	Quadrant	Infratil	735	Qscan provides diagnostic imaging services for 70 radiology clinics.
	Opticomm	Telecommunications		Uniti Group	675	ASX listed telecommunications fibre business.
Europe	BRISA Auto-estradas de Portugal	Transport	Arcus European Infrastructure Fund	Swiss Life Funds, Korea National Pension Service, APG	4,746	Portuguese toll road operator which owns five concession companies controlling 1,525km of toll roads.
	Orsted Radius	Power	Orsted	SEAS-NVE	3,634	Danish power distribution business which operates the power grid around Copenhagen.
	Colisee	Social Infrastructure	IK Investment Partners	CDPQ, EQT Infrastructure Fund V	3,537	Operator of a network of 270 nursing homes across France, Belgium, Spain and Italy.
	EDPR Iberian 1.7GW Hydro	Renewables	EDP Renewables (EDPR)	Engie, Credit Agricole CIB, Eurofideme 4	2,657	1.7GW hydro assets in the Iberian Peninsula.
	Inwit Joint Venture	Telecommunications	Telecom Italia	Ardian Infrastructure Fund V, Predica Infrastructure, Azimut Infrastrutture per la Crescita, Canson Capital Partners	2,431	Italian telecoms tower unit.
	Telefonica German Towers Sale	Telecommunications	Telefonica	Telxius/KKR	2,328	Telxius acquisition of German mobile towers from Telefonica.
	Q-Energy 216MW Solar Portfolio	Renewables	Q-Energy Fund III	CDPQ	2,288	216MW solar portfolio located throughout Spain.
	Borkum Riffgrund II 465MW (50%)	Renewables	Global Infrastructure Partners III (GIP III)	Gulf Energy Development Company	2,105	Windfarm of 56 Vestas turbines capable of producing 8.3 MW each.
	Covage	Telecommunications	Cube Infrastructure Fund, Partners Group	Altice	1,855	Owner of 45 fibre networks that cover three million homes and businesses across 11 regions in France.

Source: Inframation

# Notable infrastructure transactions

Q4 2020

Region	Transaction	Sector	Vendors	Equity Providers	AUD (\$m)	Description
Europe	G.Network Communications	Telecommunications	Cube Infrastructure Fund II	Universities Superannuation Scheme	1,666	Provider of fibre broadband connectivity to homes in the London area.
	Adven	Energy	AMP Capital Global Infrastructure Fund, Infracapital Partners II	JP Morgan Infrastructure Investments Fund	1,648	District heating business.
	Sorgenia	Energy	Banco BPM, Intesa Sanpaolo, UBI Banca, UniCredit Group	Asterion Industrial Infra Fund	1,621	Sorgenia owns 3.17 GW of power plants and supplies over 300,000 electricity and gas customers.
	Vauban Infra Fibr	Telecommunications	Vauban Infrastructure Partners	Predica Infrastructure, Core Infrastructure Fund II & III	1,450	Newly-created fibre optic platform that is investing EUR 6bn into French broadband.
	Viesgo Portfolio	Energy	Macquarie European Infrastructure Fund 4	EDP	1,397	Coal generation, renewables and electricity distribution
	Sofia Airport Concession	Transport	Bulgarian Ministry of Transport and Communications	Strabag SE, Munich Airport Group, Meridiam Eastern Europe	1,278	Sofia Airport Concession to oversee the construction of a new terminal, as well as manage and operate it for 35 years.
	Babilou	Social Infrastructure	Edouard Carle, Rodolphe Carle	Antin Infrastructure Partners IV	998	French nursery operator of 670 sites.
	Miya Water Sale	Environment	Bridgepoint Capital	Antin Infrastructure Partners IV	2,958	Spanish water management company.
North America	Cheniere Energy Partners (42%)	Energy	Blackstone Energy Partners	Brookfield Infrastructure Fund IV	4,617	Indirectly-held common units in Cheniere Energy Partners, which operates the Sabine Pass LNG export terminal in Louisiana.
	InSite Wireless Acquisition	Telecommunications	InSite Wireless Group	American Tower Corporation	3,644	Owner and operators of 3,000 communications sites, primarily in the U.S. and Canada.
	EdgeConneX Sale	Telecommunications	EdgeConneX, Providence Equity	EQT Infrastructure IV	3,542	Virginia-based data center owner and developer.
	International-Matex Tank Terminals	Energy	Macquarie Infrastructure Corporation	Riverstone Holdings	3,126	IMTT stores and handles bulk liquid products across 19 terminals.
	Lightpath Altice (49.99%)	Telecommunications	Altice	Morgan Stanley Infrastructure	1,792	Commercial and wholesale fiber business Lightpath, focused on New York.
	Zayo zColo Cloud Sale	Telecommunications	Zayo	Siemens, DataBank	1,090	Data centre portfolio with 51 facilities that total 1 million square feet globally.
	Bell Canada Data Center Platform	Telecommunications	Bell Canada	Equinix	4,824	Bell Canada owns 17 data center locations across Canada.



# Property performance

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# Property performance

Performance to 31 December 2020

	1 year return			Total returns						Index composition		
	Income	Capital	Total	3 years % p.a.	5 years % p.a.	10 years % p.a.	15 years % p.a.	20 years % p.a.	25 years % p.a.	Assets	Value A\$m	%
<b>All Australian property</b>	<b>4.7</b>	<b>-4.4</b>	<b>0.1</b>	<b>6.0</b>	<b>8.3</b>	<b>9.5</b>	<b>9.2</b>	<b>9.9</b>	<b>9.9</b>	<b>1,330</b>	<b>184,203</b>	<b>100</b>
Retail	4.1	-13.7	-10.1	-0.9	3.3	6.7	7.3	9.1	9.3	362	59,820	32
Office	4.9	-0.2	4.7	10.0	11.3	10.9	10.2	10.0	9.9	326	89,496	49
Industrial	5.6	7.9	13.9	13.3	12.3	12.2	10.3	11.0	11.5	419	23,514	13
Others	4.5	1.9	6.4	8.4	11.7	12.6	11.8	-	-	227	11,802	6
<b>Retail - Australia</b>												
Super regional and major regional	3.6	-15.4	-12.4	-2.2	2.4	5.6	6.9	8.7	8.9	64	32,339	18
Regional	5.2	-14.6	-10.1	-2.1	2.2	6.4	7.2	8.8	9.0	26	5,118	3
Sub regional	5.5	-11.5	-6.5	0.0	3.8	7.5	7.3	9.5	9.7	69	8,287	4
Neighbourhood	5.3	-6.7	-1.8	1.6	5.2	8.3	7.6	9.4	10.2	65	2,933	2
Other	3.7	-12.2	-8.9	1.8	5.6	8.6	8.9	-	-	135	10,970	6
<b>Office - Australia</b>												
Premium grade CBD	5.0	-0.9	4.0	9.3	10.3	10.6	10.1	9.9	9.9	61	31,364	17
Grade A CBD	4.7	0.0	4.7	10.1	11.6	11.0	10.2	9.8	9.6	122	40,068	22
Grade B CBD	4.9	-4.1	0.6	8.6	12.5	11.2	10.5	10.7	10.3	24	2,315	1
Non CBD	5.4	1.6	7.1	11.2	11.9	11.4	10.1	10.1	10.6	112	15,182	8
<b>Industrial - Australia</b>												
Warehouse	5.5	7.8	13.7	13.1	12.1	13.2	11.2	11.6	11.8	167	7,083	4
Distribution	5.8	8.4	14.6	13.2	12.2	12.0	10.7	11.5	11.4	139	9,676	5
Industrial estate	5.8	7.3	13.5	13.6	12.9	11.7	9.1	10.3	11.4	30	2,338	1
<b>International unlisted</b>												
IPD UK All Property	5.4	-6.0	-0.8	2.8	4.4	7.4	4.8	6.8	5.9	N.A.	N.A.	N.A.
IPD Europe Ex-UK	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
NCREIF US Property Index	N.A.	N.A.	1.6	4.9	5.9	9.0	7.1	8.2	9.1	N.A.	N.A.	N.A.
<b>REITs</b>												
S&P/ASX 300 AREIT	N.A.	N.A.	-4.0	5.8	7.4	11.3	3.7	6.6	7.8	N.A.	N.A.	N.A.
FTSE EPRA GREIT \$A (H)	N.A.	N.A.	-13.7	0.1	2.9	7.2	4.9	N.A.	N.A.	N.A.	N.A.	N.A.

Source: Bloomberg, NCREIF, MSCI, Frontier

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