

## Frontier Line 218: System scan of digital infrastructure

November 2023

Digital infrastructure had developed a track record for offering attractive investments and strong, steady returns before the COVID-19 pandemic. However, the sector rose to prominence during the pandemic, given society's total reliance on digital communications and processing for all its needs including work, education, shopping and leisure. The secular tailwinds driving data consumption growth in the sector have been prevalent for some time. However, these accelerated during and after the pandemic, leading to digital infrastructure becoming an indispensable utility. Such rapid and total reliance creates an obligation for digital infrastructure to keep society and the economy functioning. As communications technology has evolved, so has the investment landscape and historical investments in satellites and integrated telecommunication networks have given way to a new wave of investment in three popular sub-sectors of:

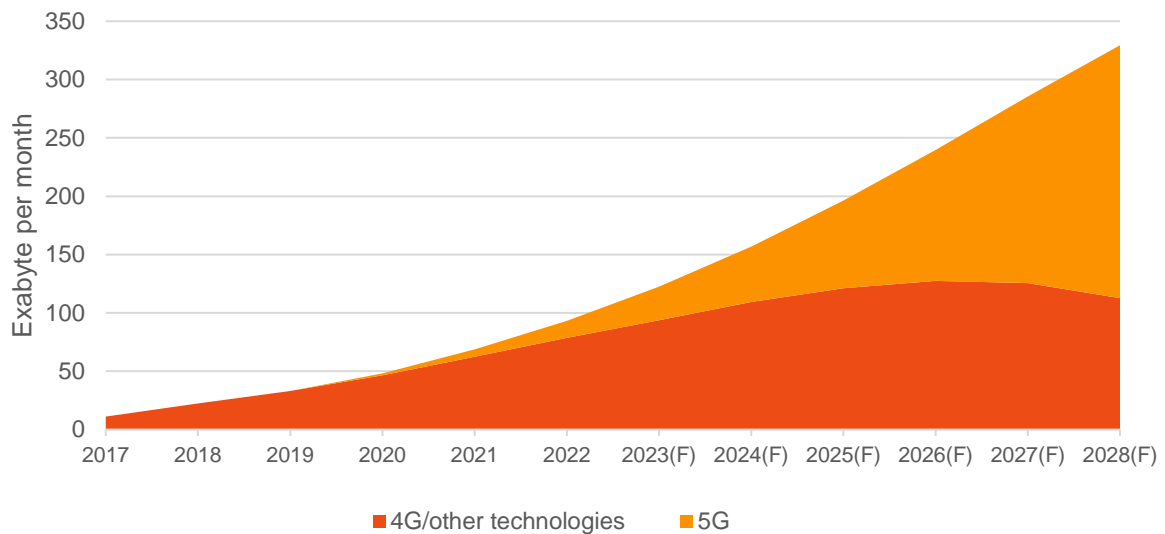
- **Optical fibre networks**, driven in part by government incentives for higher bandwidth under the EU Green Deal and US Inflation Reduction Act (IRA).
- **Data centres**, driven by migration of data networks to cloud computing and of late, by development in artificial intelligence (AI).
- **Mobile towers**, driven by deployment and expansion of 5G mobile networks.

Investors' appetite for digital assets is evident in the recent growth in the digital infrastructure transactions. The Frontier-tracked universe of infrastructure managers allocations to digital asset has grown from 3% in 2018 to 9% in 2023.

Frontier has written an extensive research paper focusing on the three key sub-sectors identified above and the thematics driving their investment thesis including:

- The relentless growth of data storage and transmission (see Chart 1 for mobile data growth).
- Developments in the application of AI leading to a step change in demand for AI-capable data centres.
- The need for in-fill tower sites to provide greater mobile data bandwidth to consumers.
- Institutional investors' focus on the environmental impact and carbon emissions of their assets.
- Due diligence factors, specifically technology assessment, to consider for digital infrastructure investments.
- An analysis of valuations trends transacted in the sector and assessment of current valuations.

Chart 1: Global mobile data traffic<sup>1</sup>



Digital infrastructure is a proven sector for investments having demonstrated resilient demand, growth tailwinds and returns before and during the COVID-19 pandemic. The sector was once favoured by private equity but has since attracted infrastructure investors with abundant opportunities across sub-sectors such as fibre networks, mobile towers, data centres, fixed-line networks and even integrated telecommunication companies. Frontier believes digital will remain a fertile sector for investors over the long-term. The positive trends of increasing digitisation across societal needs, proliferation of AI and hybrid workplaces will continue to drive demand for data and foster innovation for new digital products, which in turn will drive capital and investment into existing and new digital infrastructure.

Our paper provides a guide on how investors can access the investment opportunities, while also reviewing recent market transactions and valuations trends.

### Learn more

Frontier has researched the digital sector for an extended period. We have rated strategies and maintain relationships with a variety of managers that provide access to core, core plus and value-add digital infrastructure assets. Our Real Assets Team has the expertise to undertake comprehensive due diligence in the digital sector and is well placed to advise investors on the benefits, pitfalls and access methodologies.

To receive the full report please email [frontier@frontieradvisors.com.au](mailto:frontier@frontieradvisors.com.au)

Frontier clients can access the report through your Partners Platform subscription.

<sup>1</sup> Ericsson, [‘Mobility Report, June’ 2023](#).

## Authors



### **Manish Rastogi – Head of Real Assets**

Manish Rastogi is the Head of Real Assets with Frontier. He has over 20 years of experience in global funds management, investment banking, advisory and the telecoms industry.

Manish leads a team of real assets professionals that provide portfolio advice, investment research and support to clients on infrastructure, real estate and timberland. Prior to Frontier, Manish worked at IFM Investors as Vice President in the Infrastructure Investment team, and previously in M&A advisory with O’Sullivan Partners (now Lazard) in Sydney and with Lehman Brothers in its TMT M&A team in London.

Manish holds a Bachelor of Engineering (Honours) in Computer Engineering from the University of Melbourne, and an MBA (Finance major) from the London Business School.



### **Dean Steinberg – Consultant**

Dean joined Frontier as a Consultant in January 2023 and is a member of the Real Assets Team. Dean has responsibility for undertaking investment and manager research with a focus on infrastructure.

Prior to Frontier, Dean worked in the Victorian Public Service for seven years across infrastructure policy, venture capital research and transport planning.

Dean holds a Master of Urban Planning and a Bachelor of Environments both from the University of Melbourne.



### **Daniel Cave – Senior Consultant**

Dan joined Frontier as a Senior Consultant in August 2023 and is a member of the Real Assets Team. Dan has responsibility for undertaking investment and manager research with a focus on infrastructure and property.

Prior to Frontier, Dan worked at Zenith Investment Partners for six years undertaking manager research. He had sector lead responsibilities across listed infrastructure, listed property and real assets. Prior to this, Dan worked as a financial adviser for two years.

Dan holds a Bachelor of Business (Economics and Finance) from RMIT and is RG146 compliant.



### **Jack Westcombe-Casey - Associate**

Jack joined Frontier as an Associate in October 2022. As part of the Real Assets Team, he is responsible for undertaking manager and investment research in property, infrastructure and private equity.

Before Jack joined Frontier, he worked as an investment analyst at Mai Capital in private equity real estate with exposure in both funds management and property development. Jack also brings experience working at PwC in financial services covering institutional asset managers and superannuation clients.

Jack holds a Bachelor of Commerce (Finance/Accounting) from the University of Melbourne and is currently studying towards his CFA.



### **Keshia Audrey - Associate**

Keshia joined as an Associate in October 2023 as part of the Real Assets Team. She is responsible for undertaking manager and investment research and general real assets coverage. Keshia’s professional background includes previous roles as a private equity analyst at Principia Management Group and an internship with BRI Ventures.

Keshia holds a Bachelor of Commerce (First Class Honors) from the University in Melbourne, with double majors in Economics and Finance.