Digital Infrastructure: Defensive Access to the Growing Theme of AI Investment

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Foresight

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Introduction

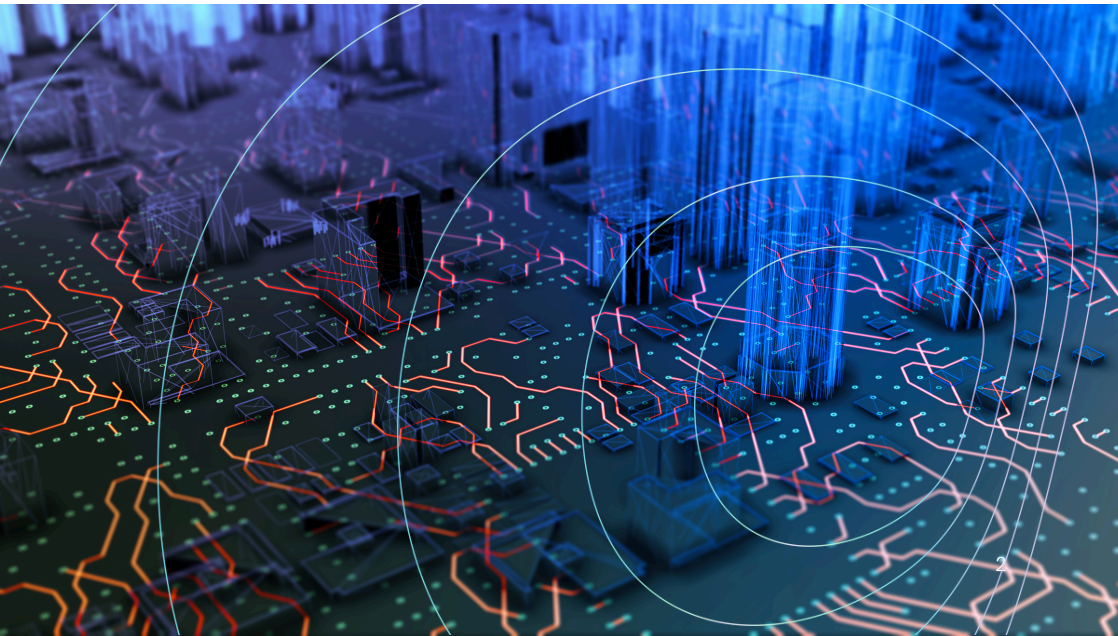
We are witnessing an era where digital technologies, artificial intelligence ("AI"), the rollout of 5G, and the pervasive adoption of digital platforms by both consumers and businesses are increasing at an unprecedented rate.

Investment in these themes is broad, with dollar values substantial. A significant proportion of this spend will flow through to the physical infrastructure required to support the digital world.

Digital infrastructure provides investors with a defensive access point to a fast growing and competitive theme, whereby the requirement for positive investment returns does not necessarily rely on picking the winner of the AI race.

We believe there is a strong case for active management within the sector, with a deeper understanding of the underlying technologies and the companies' asset bases being vitally important.

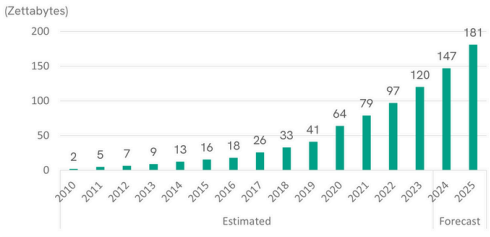
Foresight Capital Management's "(FCM") Global Real Infrastructure Fund ("GRIF") currently has a c.30% allocation to digital infrastructure, giving investors access to the sector as part of a more diversified infrastructure portfolio.



The Digital Gold Rush: Why Data Growth Means Big Investment Potential

The expansion of digital infrastructure is poised to surge dramatically. We are witnessing an era where digitisation and increasing connectivity is driving real world change. Digital technologies, such as AI, the rollout of 5G, and the pervasive adoption of digital platforms by both consumers and businesses are increasing at an unprecedented rate. The absolute amount of data, and the need to access, process and transfer it, continues to increase dramatically.

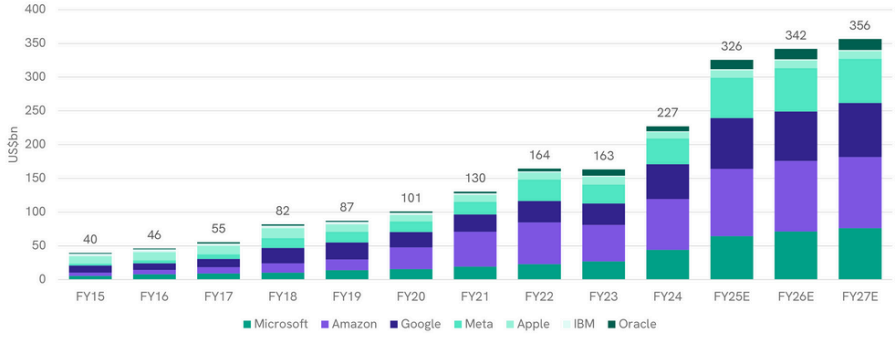
Annual Global Data Generation



The growth in the absolute amount of data, and the speed at which we require it to be processed and transported, requires physical backing. The exponential growth in data consumption over the past decades is forecast to continue growing strongly, with AI just the latest accelerator to a long running trend.

This is translating to record levels of investment with estimates from S&P Global Market Intelligence highlighting that five of the largest US tech firms are projected to account for more than $1 trillion in capex from 2024 to 2027, spending primarily on AI. Even if capital expenditures were to scale back, the absolute spend is likely to remain north of $100bn per annum, underscoring its sheer scale.

US Big Tech Capex Spend



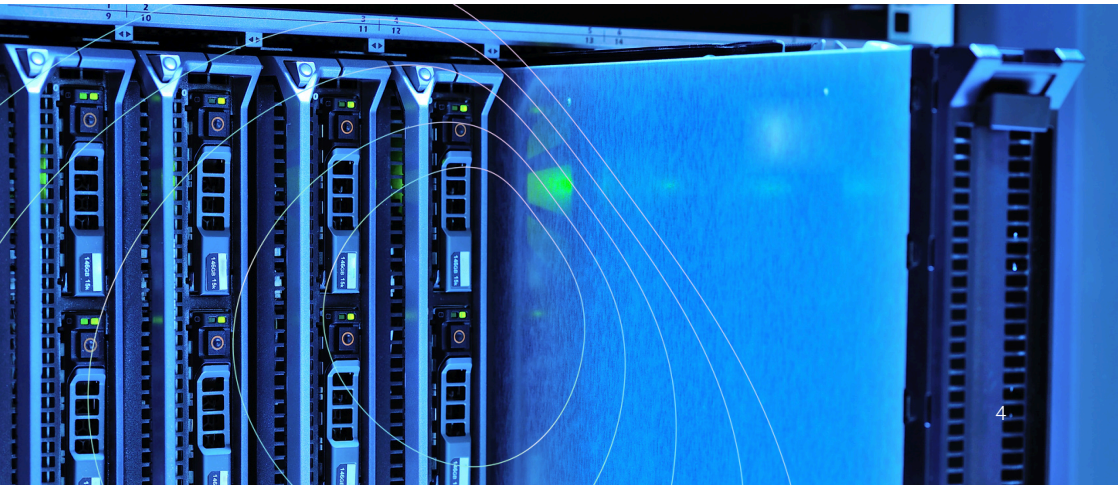
Sources: Statista, 2024 and Bloomberg consensus forecast Feb-2025

The Digital Goldrush (continued)

Why Does This Matter?
More Data Requires More Infrastructure

Data consumption growth necessitates robust physical infrastructure capable of managing data traffic, and we believe that the digital infrastructure owners and developers that can take advantage of this demand represent an attractive investment opportunity in the coming years. Accessing the theme of AI via infrastructure assets allows investors to gain defensive exposure to a fast growing and enduring theme.

Importantly for infrastructure investors, the sector is a valuable addition to a diversified infrastructure portfolio, providing diversification benefits that help improve the overall risk adjusted return profile. The drivers of risk and return vary in comparison to areas such as renewable energy, whereby factors such as power prices and government policy effect the outlook, or transport, where usage level drive returns. The addition of the sector reduces fund level volatility, due to intra-sector correlations, and improves the liquidity profile, due to the large nature of businesses in the sector.

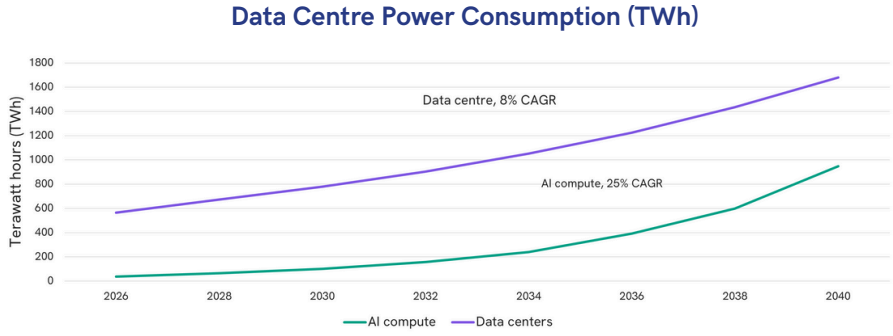


Data Centres: Digital Engine Rooms

Data centres play a fundamental role in supporting the modern digital economy. These facilities house the critical computing and networking equipment that power everything from cloud services to AI workloads. While businesses once operated their own data centres via internal server rooms, the need for greater efficiency, scalability, and connectivity has driven the growth of specialist data centre providers such as Equinix and Digital Realty. These companies offer colocation and interconnection services, allowing enterprises, cloud providers, and AI firms to securely store and process data while benefiting from high-speed, low-latency connections.

The increasing adoption of cloud computing, AI, streaming, and enterprise digitization means data centres are becoming essential infrastructure. This represents a long-term demand-driven investment opportunity, as rising data consumption continues to fuel the need for cutting-edge facilities. AI and machine learning require high-performance computing environments, further driving demand for premium data centre space. Moreover, interconnection services, which facilitate seamless data exchange between networks, are becoming a growing, high-margin revenue stream. With global data traffic surging, data centres are positioned at the heart of digital transformation, offering sustained growth potential for infrastructure investors.

The emergence of AI is, however, just the latest tailwind behind a fast-growing sector, but it is one that could have a material impact. This is displayed by the forecast power consumption and increase in AI compute it may lead to. More data means a greater need for data storage and processing. This directly translates to higher demand for data centre services.



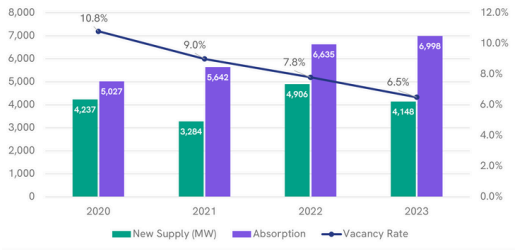
Sources: AvidThink and DigitalBridge, Foresight Capital Management

Data Centres: Digital Engine Rooms (continued)

McKinsey & Co predicts a significant increase in global demand for data centre capacity by 2030, however there are significant limitations to new supply. The huge growth in power consumption puts significant pressure on electricity grids, meaning that new grid connections will be restricted. This dynamic has occurred in leading global data centre markets such as the US and UK, whereby a pause on new projects has further contributed to a supply/demand imbalance. Large investments in grid modernisation projects are underway but will take years to catch up. Furthermore, due to zoning restrictions, new data centre supply faces hurdles relating to factors such as permitting, land usage, noise, and access to fibre networks.

Demand outstripping supply can be observed through data centre vacancy levels, which continue to decline and now sit at historically low levels. High occupancy rates have a knock-on effect to rental rates, allowing landlords to increase rents.

Declining Global Data Centre Vacancy



As discussed, the current data centre market structure, whereby demand is growing and new supply faces headwinds, is a positive for specialist data centre businesses. The two largest listed data centre businesses globally are Equinix Inc (market cap $93bn) and Digital Realty Trust Inc (market cap $64bn).

Both own global portfolios of data infrastructure assets, with Equinix focused on high density, "colocation" data centres, and Digital Realty tilted towards larger "hyperscale" data centres, both of which are particularly attractive for AI compute. These businesses are expected to see rental growth and decreasing vacancy for their operating assets, whilst their advanced investment pipelines and expertise in the sectors should see them as well positioned to navigate a tricky development market and deliver new facilities.

Source: DatacenterHawk as of June 2024. New supply calculated based on the change in commissioned power year-over-year

Data Centres: Investment Thesis

Data Centre REITs are positioned for strong Adjusted Funds from Operations (AFFO) growth, driven by sustained data growth, headwinds to new supply, high-margin interconnection revenues, and accelerating AI-driven demand.

1. Publicly listed businesses should benefit from their superior scale, established market positions, global network, financial stability and, crucially, deep tenant trust built over many years.

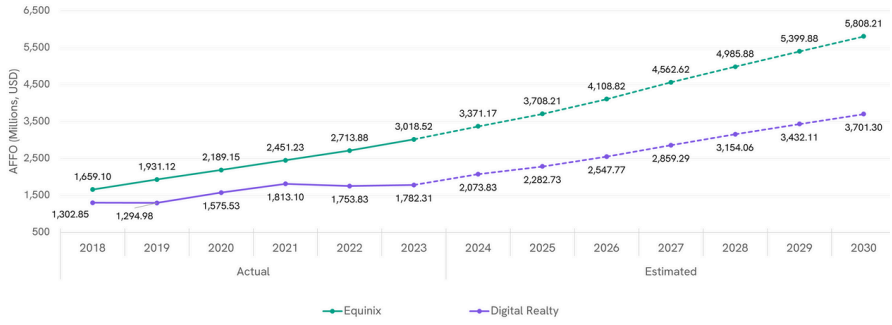
2. Demand for data centre space due to the rapid growth of factors such as AI, cloud computing, gaming, and digital content has created a supply and demand imbalance, with available space decreasing and rents growing.

3. New data centre supply to meet this demand faces difficulties driven by zoning constraints and power limitations, with required upgrades to grid infrastructure unlikely to materially improve speed in the next five years.

4. Despite competition, high quality data centre owners have the capital access, operational expertise, and strategic partnerships to develop and acquire next-generation assets. With a strong investment pipeline and proven execution capabilities, they can deploy capital efficiently to meet demand, ensuring long-term value creation.

5. Interconnection services, which facilitate data exchange between tenants within a data centre, generate recurring, high-margin revenue. As Data Centre REITs scale their digital operations, these revenues grow at notably high margins, enhancing overall profitability and AFFO expansion.

Data Centre Cash Flow Growth in US$

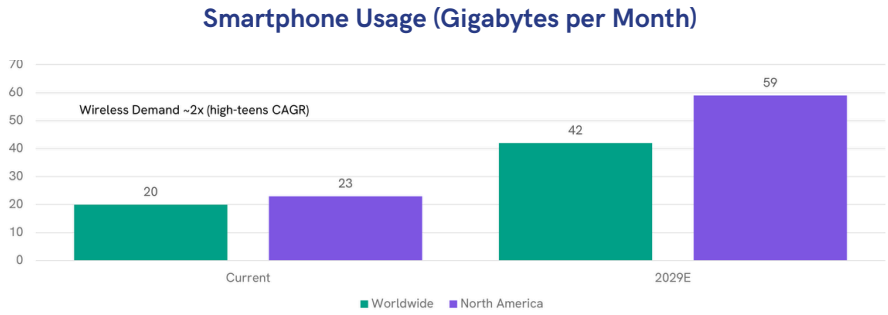


Source: Bloomberg, December 2024

Telecommunication Towers: Backbones of Digital Connectivity

When considering the growth of digital infrastructure, it is important to consider the broader opportunity set. Cell towers and communications infrastructure are well established yet continually critical. These assets are increasingly targeted by infrastructure investors, previously being owned by the telecoms carriers themselves. This has given birth to the "TowerCo", a company that specialises in the long-term ownership and operations of the assets, leasing them back to telecoms carriers such as T-Mobile, Verizon and Vodafone. Having provided the backbone for the growth of 3G and then 4G, and thus the explosion of digital connectivity that followed, these assets remain vital for the growth of 5G.

This global drive for enhanced digital connectivity, coupled with the accelerated rollout of 5G networks, presents a strong investment case for communication tower infrastructure. This is a user driven investment opportunity, whereby user experience drives demand for faster internet speeds, which is monetised by telecoms firms. 5G helps reduce lag time, making activities such as video calls, streaming, gaming, and social media usage work more smoothly. Furthermore, 5G can handle more devices at once, allowing better service in crowded areas which also supporting smart devices, such as autonomous cars. Broadly, this trend is best illustrated with the expected rise in both data usage and the number of wireless connections.



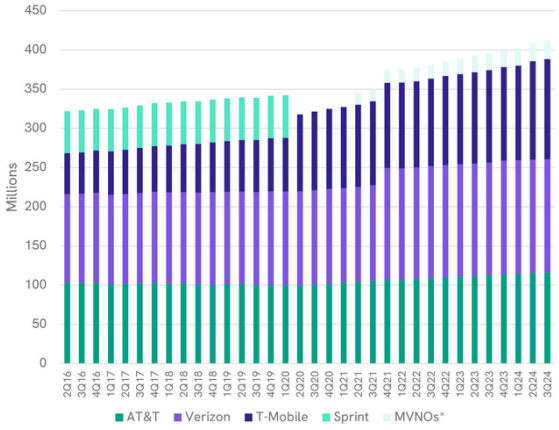
Source: Greenstreet, November 2024

Telecommunication Towers (continued)

The deployment of 5G operates on higher frequency bands with shorter ranges, which necessitates a denser network of cell sites and compels telecommunications providers to secure additional tower space to ensure comprehensive coverage. This has seen the growth to newer forms of communications infrastructure, such as small cells. Small cells are short-range wireless transmitters used to enhance 5G and 4G network coverage. They help improve signal strength, capacity, and speed, especially in crowded areas like high streets or sports stadia.

As mobile operators like AT&T, Verizon, and Vodafone expand their network coverage and capacity to support growing data consumption and 5G requirements, communication towers in urban, high-traffic, and rural areas offer critical support by enabling shared infrastructure, reducing costs, and increasing operational scalability.

Number of Wireless Connections (US)



Source: Greenstreet, November-2024 *Spectrum Mobile (Charter), Xfinity Mobile (Comcast), and EchoStar (DISH)

Telecommunication Towers: Investment Thesis

The resilience of communication tower assets lies in their mission-critical nature and robust contract structures. These assets are indispensable for maintaining digital connectivity, making them largely insulated from macroeconomic volatility and political uncertainty. Their stability provides investors with a dependable revenue stream and solidifies communication towers as a low-risk, high-value long-term investment opportunity.

1. The ongoing trend of telecommunications companies monetizing their tower assets through sales or partnerships has created compelling opportunities for specialist tower investors, allowing them to curate high-quality, diversified, cash-generative portfolios strategically positioned in key growth markets.
2. Tower owners benefit from long-term lease agreements with stable, creditworthy tenants, alongside fixed and inflation-linked escalators that ensure predictable and high-margin revenue which grows overtime.
3. Tenant demand for tower space and small cell connections continues to grow, as tenants compete on providing the best coverage network as they roll out 5G.
4. The ability to co-locate new tenants on existing tower assets leads to a business model where the owners are able to lease space on their towers to new tenants at minimal incremental costs, driving high incremental cash flow margins. These towers require relatively low maintenance capital expenditures, further enhancing their profitability.

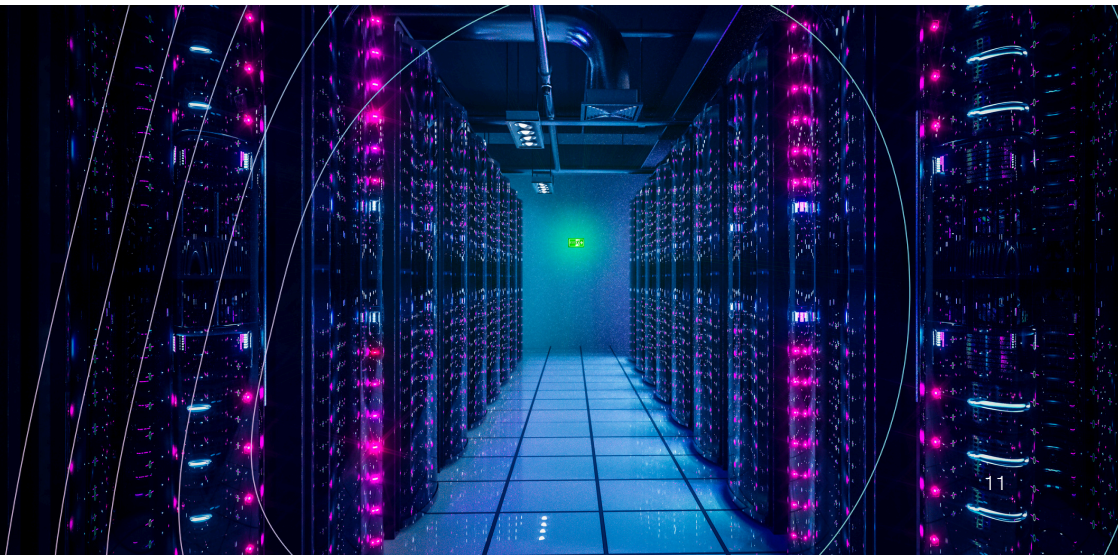
Listed Tower Companies	2016	2017	2018	2019	2020	2021	2022	2023	2024	SP500
Leasing growth - organic	6%	6%	5%	5%	4%	5%	6%	7%	6%	N/A
Gross margin	59%	60%	61%	63%	64%	64%	63%	64%	66%	45%
Operating margin	34%	36%	38%	42%	38%	36%	33%	36%	42%	16%
FCF margin	28%	24%	25%	22%	32%	30%	19%	28%	32%	9%
Cash conversion	101%	99%	97%	97%	95%	91%	83%	90%	92%	85%

Source: Bloomberg January-2025, Company reports, Greenstreet

How Does Digital Infrastructure Feature in the FP Foresight Global Real Infrastructure Fund ("GRIF")?

Within GRIF the sector allocation to digital infrastructure sits at c.30%. This allocation to digital infrastructure has grown from 17% two years prior as we continue to increase our conviction in the sector. Breaking down the sector to its constituent parts, the Fund has exposure to infrastructure assets that are diversified with respect to the technology and geographic location. Holdings in the sector benefit from deep sector expertise, strong financial positioning, whilst being broadly diversified.

In the data centre sector, GRIF holds Equinix and Digital Realty, two of the world's largest data centre REITs, which generate high-margin, recurring revenues by leasing colocation and interconnection services to enterprises, cloud providers, and AI-driven businesses. In the TowerCo sector, the fund owns American Tower Corporation, Cellnex Telecom S.A., Infrastrutture Wireless Italiane S.p.A. ("Inwit"), and Crown Castle Inc, all of which operate wireless tower infrastructure that enables mobile network operators to expand coverage and densify 5G networks. Chorus, a leading New Zealand-based fibre network operator, provides essential high-speed broadband infrastructure, benefiting from rising data consumption. Additionally, Infratil Ltd owns a significant stake in a data centre business, leveraging growing cloud and AI-driven demand, while Cordiant Digital Infrastructure holds both broadcast infrastructure and a tower company as part of its diversified digital asset strategy. Collectively, these investments position GRIF to benefit from strong secular tailwinds in data consumption, mobile connectivity, and AI-driven digital infrastructure demand.



How Does Foresight's Actively Managed Approach Add Value?

Taking an actively managed approach to digital infrastructure is optimal, and when combined with Foresight Group's deep infrastructure expertise, can be a valuable addition to a diversified portfolio.

1. FCM's constructive view on the supply-demand outlook informs portfolio management decision-making, where the Fund can actively increase tactical sector weightings within the portfolio to increase exposure relative to an infrastructure index. We believe this is a potential source of outperformance versus indices where the inclusion of emerging sectors within real assets, such as digital infrastructure are largely under-represented or where it is difficult to gain exposure in a 'clean' manner through ETFs.

2. FCM take the view that a deep understanding the underlying technologies and the quality of the companies' asset bases is vitally important. This allows the Fund to invest in the companies that have the technological capability, management expertise and deep customer relationships to enable them to adapt to the rapidly changing demands of customers and therefore will continue to benefit from the structural demand supporting the sector for a sustained period.

3. The scale of the growth in data consumption will undoubtedly be met by large capital investment over the coming years. FCM believes that companies that translate this revenue opportunity into cash flow growth for shareholders and then into increasing distributions over time will outperform peers. We believe the foundations of high-quality cash flows will continue to be, high-quality assets with a strong tenant base, well-structured leasing to embed future rental and cash flow growth, best-in class management teams, and appropriate levels of debt within the capital structure as the companies grow rapidly.

Conclusion

We are witnessing an era where digital technologies, AI, the rollout of 5G, and the pervasive adoption of digital platforms by both consumers and businesses are increasing at an unprecedented rate.

Investment in these themes is broad, with dollar values substantial. A significant proportion of this spend will flow through to the physical infrastructure required to support the digital world.

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The value of an investment in the Funds, and any income from it, can fall as well as rise. Investors may not get back the full amount they invest. Past performance is not a reliable indicator of future results.

The value of units in FP Foresight Global Real Infrastructure Fund ("GRIF") may increase or decrease and you may not get back the amount originally invested, for reasons including adverse market and foreign exchange rate movements. Portfolio holdings are subject to change without notice. Past performance is not a reliable guide to future performance. Your capital is at risk. For full risks and investor rights, please see December 2024 FP Foresight OEIC prospectus and the February 2024 Key Investor Information Document for more information.

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