

# Data centres

Don't tell me this is not **infrastructure**



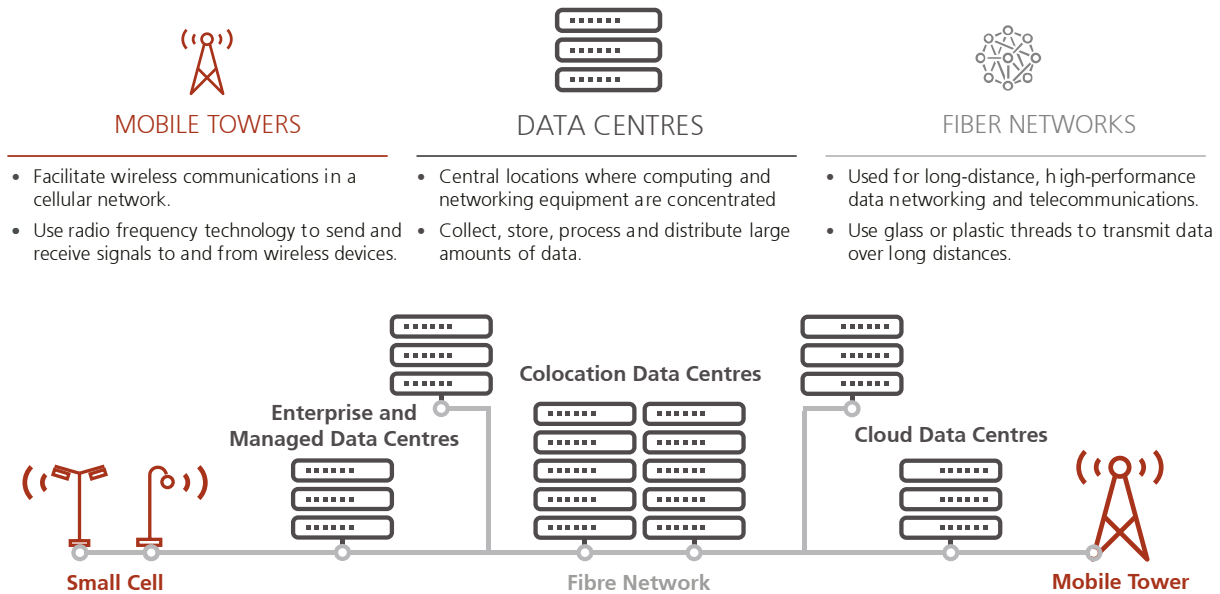
As investors' interest in infrastructure continues to rise, so does the debate over the types of assets considered core infrastructure. Data centre companies are at the nexus of this debate, as the sector is not universally considered core infrastructure in the listed space but increasingly sought after by private infrastructure investors. While not all data centre companies qualify as core infrastructure, the select group that does qualify provides investors attractive growth potential driven by long-term secular demand trends tied to the rise of the global digital economy.

## Defining core infrastructure with a private market perspective

Our definition of core infrastructure is guided by a private market perspective that identifies core infrastructure as the marriage of a physical asset providing society an essential service with resilient long-term cash flows. Our analysis of companies for inclusion in our core infrastructure investment universe is forward-looking and unconstrained by index definitions. The benefit of our relatively unconstrained approach is the flexibility to keep pace with evolving market trends and actively construct a listed infrastructure portfolio inclusive of core assets with investment characteristics consistent with those owned by private market investors. For investors seeking exposure to infrastructure in the listed markets, we believe our approach provides the most accurate universe of core infrastructure assets.

# Data centres are essential assets critical to the digital infrastructure ecosystem

Data centres are essential assets that provide society with the digital interconnectivity critical for daily function and economic growth.



## Not all data centres are core infrastructure

Our view is that not all data centre assets qualify, and only a select group of companies can be considered core infrastructure. Data centres as a core infrastructure investment have high barriers to entry stemming from premium platforms and premiere assets integral to the flow of data. Such assets are well-located and well-connected which drives sustainably high levels of demand from top tier tenants across the globe. Data centres that are infrastructure have more operational control of the assets versus the real estate approach which focuses more on the ownership of the land and building. Companies focused more exclusively on the services side of the data centre business are neither core infrastructure nor real estate.

### Case study: EQUINIX

Equinix is an example of an data centre infrastructure company included in our investment universe, which we don't believe is widely included by our peers and is not included in industry benchmarks. Using our private market perspective as our guide, our analysis of Equinix draws a clear alignment with core infrastructure's key investment characteristics.

**Essential Assets:** Equinix is the largest data centre company with a global platform built for retail co-location and network interconnection. Their premiere data centre assets provide critical connection points that help power the digital economy and are essential in supporting social and economic activity.

**Resilient Cash Flows:** The company has historically generated consistent cash flow, delivering 70 quarters of sequential revenue growth. Revenues tied to contractual cash flows with creditworthy customers, including mobile carriers, "blue chip" technology companies, and other industry-leading businesses. The average contract length is greater than 18 years, including extensions.

**High Barriers to Entry:** Asset and service quality and high switching costs result in high customer retention. Equinix continues to enhance value proposition by densifying its asset base, enhancing service offerings, and looking to provide a globally interconnected set of low-latency data centre assets.

**Predictable Growth:** Growth driven by the accelerating digital economy trends - continued network proliferation and interconnection, the rise of cloud-based architectures, and secular growth in data from long-tailed trends including AI, 5G & IoT.

**378,000+**

Network Interconnections

**9,500+**

Customers

**214**

Data Centres

**56**

Metros

**5**

Continents

Source: CBRE Clarion and Equinix Q2 2020 Earnings Presentation. Security is discussed for illustrative purposes only and should not be considered a recommendation or investment advice. This security was selected based on attributes which can illustrate our investment analysis. It should not be assumed that an investment in this security was or will be profitable.

## Not a broad-brush approach

When identifying core infrastructure in the listed markets, we believe it is critical to look beyond industry classifications or benchmark definitions to a company's underlying assets. We identify core infrastructure companies through a detailed analysis of company assets, sources of revenue, and predictability of future cashflows. While our process may result in a more inclusive opportunity set than our peers, it is not one applied with a broad-brush at risk of style drift. Infrastructure is a dynamic and evolving asset class. We believe our flexible and forward-looking approach, guided by our private market perspective, is fundamental in successfully managing risk and delivering long-term outperformance.

## About CBRE Clarion Securities

CBRE Clarion Securities is the listed equity management arm of CBRE Global Investors, a global real asset investment firm sponsoring investment programs across real estate, infrastructure, and private equity. CBRE Clarion manages client portfolios with a focus on generating attractive risk-adjusted returns through a total return and income focused strategies. Headquartered near Philadelphia, Pennsylvania, the firm has staff in offices in the United States, United Kingdom, Hong Kong, Japan, and Australia.

The global transfer of ideas, in-depth local market research, and market intelligence distinguishes CBRE Clarion. Our team of dedicated listed real asset investment professionals draws upon the research and resources of CBRE's global organisation. Our global perspective and local infrastructure and real estate market insight combined with our disciplined investment approach, enhance our teams' ability to underwrite risks and capitalise on potential opportunities.

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