



Runaway Train

How Cordiant is riding the tailwinds of the digital revolution to deliver attractive risk-adjusted returns...

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As the saying goes, “all things are difficult before they are easy,” and determining the right time to step off the gravy train of US large-caps certainly feels that way. Investors may have enjoyed rich and easy pickings over the last couple of years but investing is about looking forward and concerns linger around the Magnificent Seven borrowing from future returns.

With the era of easy monetary policy firmly in the rear-view mirror, investors may be looking to safeguard their portfolio against the trifecta of higher-for-longer interest rates, subdued economic growth and heightened geopolitical tensions.

Enter alternative investments, which have the potential to inject a healthy dose of resilience into portfolios without sacrificing returns in the process. As illustrated by the graph below, global infrastructure is forecast to deliver the highest annual return of 9.5% (more than double the 4.7% return from US large-cap equities) but, most importantly, with significantly lower risk than other equity classes. While forecasts are obviously subject to uncertainty, this does highlight an underappreciated point that investing for high returns isn't necessarily all about finding the biggest and most visible opportunities.

Fig.1: Global Infrastructure Offers Attractive Risk-Adjusted Returns



Source: Invesco Capital Markets Assumptions, September 2024. Returns in USD, data labels refer to equity sectors unless otherwise specified

As well as returns, infrastructure can also serve as a valuable source of diversification. Traditionally, bonds have offered a hedge against equity downturns but the sharp fall in both equities and bonds during 2022 highlighted the danger of the correlation turning positive.

Infrastructure assets enjoy predictable long-term revenues, regulated markets and high barriers to entry and these

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unique return drivers reduce the correlation with mainstream asset classes.

Riding the mega-trends

The volume of 'data' has exploded, with an estimated 90% of all data ever created bring created in the last two years alone. This exponential growth is forecast to continue due to the roll-out of AI technologies, advancements in cloud computing and the proliferation of Internet of Things (IoT) devices.

A significant driver of returns around the US mega-caps has been excitement around the transformative potential of AI. Digital infrastructure provides exposure to these powerful secular trends, but through a uniquely different lens.

Meeting the demands of this data supercycle will require substantial investment in digital infrastructure to provide the critical backbone for information storage and transmission from fibre-optic networks and mobile towers to ever-larger data centres.



Exposure, experience & expertise

It can be challenging for investors to gain exposure to pure digital infrastructure plays but **Cordiant Digital Infrastructure (CORD)** offers access to a specialist digital infrastructure fund with the benefits that come with an investment trust structure, such as the ability to invest in more illiquid, long-term assets.

Buy, Build and Grow

Cordiant's 'Buy, Build and Grow' strategy aims to maximise revenue and create significant value from a portfolio of high-quality assets. By sub-sector, the portfolio encompasses over 1,440 communication towers, 11,700km of fibre-optic cable and 22 strategically-located data centres with 31.3MW of power capacity.

The team has diversified the trust's revenue mix in the last couple of years: while revenue from TV broadcast infrastructure has increased from 2022 to 2024, its percentage share of overall revenue has fallen as other assets have entered the mix.

Cordiant has a financially-disciplined investment strategy, acting as an 'intelligent buyer' of attractively priced mid-market assets where competition from large private equity firms and corporate buyers is limited. The team also looks for assets that are already cash-generative, which supports the trust's yield, and has significant dry powder available for investment.

A strong competitive moat is central to Cordiant's investment criteria, with its largest holdings, Emitel and CRA, being market leaders in Poland and the Czech Republic. The trust also holds market-leading positions in fibre networks in Ireland and data centres in Belgium, supported by blue-chip customers such as Amazon, Verizon, O2, AT&T and Vodafone.

Cordiant takes an active approach to management, supporting management teams to pursue both organic and acquisition-led growth. Organic strategies include enhancing tenancy ratios, acquiring new customers and investing in additional infrastructure such as the expansion of radio networks and mobile towers in Poland. Strategic bolt-on acquisitions, such as Speed Fibre's purchase of BT Ireland, may be used to add scale or additional service capabilities.

Deep industry expertise

One of the differentiating features of Cordiant is the strength and depth of its 16-strong management team. Many of the team possess a long track record of

operational experience in acquiring and managing mid-market infrastructure businesses.

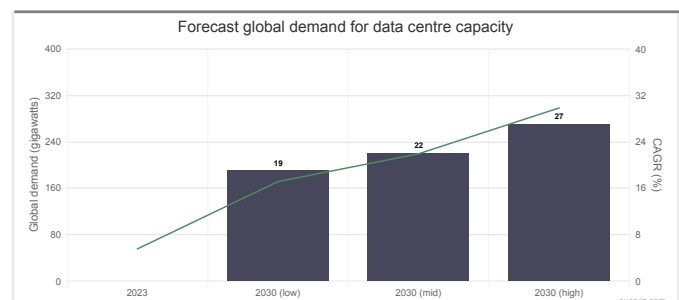
This combination of operational know-how and private equity experience uniquely positions Cordiant to implement best practices from larger entities and leverage proprietary deal pipelines, securing favourable entry and exit valuations.

Tapping into high-growth drivers

The acceleration in the use of AI has triggered a race to build sufficient data centre capacity, with cloud service providers such as Amazon, Alphabet and Microsoft fuelling demand for hyper-scale data centres.

As highlighted in the graph below, global demand for data centre capacity could more than triple from 55 gigawatts in 2023 to almost 300 gigawatts by 2040, under McKinsey's upper-range scenario.

Fig.2: Global Demand For Data Centre Capacity Could More Than Quadruple By 2030



Source: McKinsey (29 October 2024). Based on low, mid and upper-range scenarios for forecast demand by 2030

Cordiant has tilted its portfolio to tap into this high-growth sector with the acquisition of data centres in New York and Belgium and significantly increasing CRA's market share by investing in 'edge' facilities in the Czech Republic, including securing tenants for a newly-opened data centre outside Prague.

Another potential growth driver is the delivery of video content through Cordiant's terrestrial broadcast infrastructure in Poland and the Czech Republic, which could provide a low-cost alternative to paying for data through mobile phone or broadband networks, for example via a 5G chip in a laptop or television.

Strong track record

Cordiant has exceeded its 9% NAV total return target, delivering a 9.9% annualised return since inception (according to Bloomberg, as at 30/09/2024) with a current dividend yield of just under 5%. This performance reflects steady underlying asset growth and progressive, well-covered dividends.



Cordiant's portfolio also provides an effective inflation hedge due to its long-term, inflation-linked contracts. Over 70% of contracts in major holdings such as Emitel and CRA feature inflation linkage, which is a useful protection mechanism for investors in a higher inflation environment.

Looking ahead, the infrastructure sector offers the opportunity to combine diversification with attractive risk-adjusted returns, with long-term revenue streams and unique growth drivers reducing the correlation to mainstream equity markets. As a result, digital infrastructure could just be the next runaway train as it rides the tailwinds of the digital revolution.

As Klaus Schwab, founder of the World Economic Forum, aptly noted, "We stand on the brink of a technological revolution that will fundamentally alter the way we live, work, and relate to one another. In its scale, scope, and complexity, the transformation will be unlike anything humankind has experienced before."

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