Drivers of Opportunities in Digital Infrastructure

The telecommunications sector represents one of the most compelling infrastructure opportunities that we see today. Exponential growth in data and connectivity has created substantial investment opportunities in the tower, small cell, data center, and fiberoptic cable subsectors, known as “digital infrastructure.” The COVID-19 pandemic has further increased demand for data, accelerating these trends. Consequently, telecommunications infrastructure has proven to be an attractive and resilient sector with continued transaction activity in the current environment.

Here, we highlight some market developments that are impacting digital infrastructure, explore some of the positive characteristics of each subsector, and share insights from our robust pipeline of current opportunities in this space.

MARKET TRENDS HAVE CREATED TAILWINDS

Several factors are simultaneously and significantly shifting the digital infrastructure investment landscape. These trends include behavioral changes, an increase in demand for data, and favorable merger and acquisition activity, all of which have positively impacted investment performance and valuations. As a result, the market has continued to grow and scale across subsectors, geographies, and stages of telecommunications infrastructure projects.

Growth in traffic

Exponential growth in data traffic among businesses, individuals, and communities is the primary driver of demand for digital infrastructure. As traffic has grown, so too have demands on telecommunications infrastructure, specifically regarding:

- Speed – big data applications require quicker response times (e.g., lower latency)
- Stability – resilient connectivity at home and on mobile
- Capacity – more data stored in the cloud requires network and data center space

Shifting work habits due to COVID-19 pandemic

COVID-19 has compounded the pressures on telecommunications infrastructure caused by increasing data traffic. We have seen data consumption spike because of recent work from home trends. Post-COVID peak broadband usage rose 18% while usage during work hours (9:00 a.m. - 5:00 p.m.) grew 43%.² In addition, the increase in remote work has in turn increased demand for reliable fiber network backhaul and residential broadband.

2. Citi, April 29, 2020.
Favorable transaction environment
With the T-Mobile/Sprint merger completed and the increased capital expenditure guidance of the mobile carriers to support 5G roll-out, higher cell tower lease up activity is expected in 2H 2020. ³ Within telecommunications, towers are highly resilient opportunities due to increased wireless traffic and carrier spending on tower infrastructure and high free cash flow visibility. Confidence in the sector has driven continued M&A and financing activity since the pandemic’s onset (e.g., Telxius’ acquisition of a portfolio of contracted German mobile towers, Digital Colony acquisition of UOL Diveo, Equinix/GIC joint venture).

Valuation Implications
As a result of the confluence of these aforementioned trends, towers, data centers, and broadband public company stock performance have outpaced broader telecom and S&P indices. ⁴ Pureplay US tower multiples now trade above 30x EBITDA and public data center companies are trading at near all-time highs. Additionally, we see a divergence in valuations, including those between developed and emerging markets, and established and small/build-up platforms. ⁵

FAVORABLE CHARACTERISTICS OF TELECOM SUBSECTORS
There are several subsectors within digital infrastructure, each with certain characteristics that we view as attractive for investment. Projects in our pipeline of mobile towers, small cells, data centers, and fiber maintain many of these traits.

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<th>Subsector</th>
<th>Description</th>
<th>Characteristics</th>
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| Mobile towers | Towers that host the infrastructure for mobile network operators to efficiently propagate wireless signals | • Use of existing infrastructure in developed countries  
• Long-term contracts with inflation escalators  
• Large and stable customer base  
• High operating leverage  
• Active consolidation of tower portfolios by large telecom companies |
| Small cells | Distributed antenna systems that enable densification of mobile tower coverage | • High data usage has created a need for densification of networks in urban areas  
• Long-term contracts with inflation escalators  
• Large and stable customer base  
• Significant growth opportunity |
| Data centers | Physical buildings that provide space for data storage, cooling technology and power connection | • Significant need for buildout despite the large base of existing assets  
• A wide variety of opportunities in edge, retail, wholesale, hyperscale assets  
• Contract length and quality of counterparty varies depending on type of data center |
| Fiber       | Fiberoptic cables that transport data significantly faster than traditional copper cables | • Opportunities across dark fiber (unused fiber available under long-term leases) and lit fiber (active fiber available for partial use under short/medium-term contracts)  
• Significant opportunities for buildout globally |

³ TD Securities, June 2020.  
⁴ Goldman Sachs Communications Infrastructure Ecosystem Update, April 2020.  
⁵ FactSet, TD Securities, June 2020, Citi, April 29, 2020.  
No assurance can be given that any investment will achieve its objectives or avoid losses.
We see a strong flow of digital infrastructure investment opportunities in North America and Europe. Our pipeline reflects a diversified investment strategy by sub-sector, geography, and stage, and includes seven near-term actionable opportunities of scale.

While the sector has seen increased interest and elevated valuations, we believe there are still opportunities that present significant, persistent value. Though we believe a successful approach to the sector must include broad sourcing, in-depth due diligence, and a selective approach to purchasing assets.

**A ROBUST PIPELINE OF PROJECTS**

- **Telecom infrastructure platform anchored by portfolio of ~400 cash-flowing cell towers; several hundred more under contract in late-stage development.**
- **Fiber-to-the-home ("FTTH") buildout in the fast-growing suburbs in Toronto.**
- **Data center operator with customers mainly located in the Midwest U.S.**
- **Opportunity to acquire minority interest in one of the largest independent fiber infrastructure platforms in the U.S.**
- **Critical telecom infrastructure owner and service provider in Europe and Americas.**
- **Towers**
- **Small Cells**
- **Data Centers**
- **Fiber**
- **UK telecom towers portfolio**
- **Pan-European fiber concessions with a focus on the UK and Germany.**
- **Contracted data center opportunity in a Tier 1 European market.**
- **Opportunity to invest in incumbent secondary fixed line telecom infrastructure (copper and fiber) in Europe.**

**WHY GCM GROSVENOR FOR DIGITAL INFRASTRUCTURE**

We believe GCM Grosvenor is an ideal partner for those who wish to invest in infrastructure. As it relates to digital infrastructure, we have been investing in the sector since 2003, having committed $650 million to investments in data centers, towers, and fiber. Today, our Infrastructure team of 15 dedicated investment professionals manages over $5 billion in global infrastructure investments and maintains global coverage with investments in Europe, North America, and Latin America, and a pipeline of investments diversified by subsector, geography, and stage.

We believe we are one of the most experienced and longest tenured platforms globally, with unparalleled sourcing capabilities. We also have significant board of director representation/influence on underlying infrastructure investments, and a broad network of industry relationships with strategic and financial sponsors and intermediaries to enable originations. All of this, combined with the broader GCM Grosvenor global platform, provides us with a uniquely comprehensive view of the infrastructure landscape, allowing us to present investors with interesting, timely opportunities such as those in the digital infrastructure space.
ABOUT GCM GROSVENOR

GCM Grosvenor is a global alternatives investment firm with $57 billion in assets under management in private equity, infrastructure, real estate, credit, absolute return strategies, and multi-asset class opportunistic investments. We have specialized in alternatives since 1971, and we are dedicated to unlocking value for our clients by leveraging our cross-asset class and flexible investment platform.

Our experienced team of approximately 500 professionals from diverse backgrounds serves a global client base of institutional and high net worth investors. GCM Grosvenor is headquartered in Chicago, with offices in New York, Los Angeles, London, Tokyo, Hong Kong, and Seoul.

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