KEYNOTE INTERVIEW

Digital's sustainable potential

By boosting connectivity, infrastructure investors have the power to address deep-rooted social issues and reduce emissions, say Palistar Capital's Chester Dawes and Taylor Gillespie

During the pandemic, digital infrastructure became a lifeline for millions, allowing ongoing access to education, healthcare and the labour markets. Today, investing in digital infrastructure continues to help tackle some of these same social issues that perpetuate inequity and isolation.

That's not all, either, according to Chester Dawes, chief operating officer and chief financial officer, and Taylor Gillespie, ESG director, at Palistar Capital. After all, investing in connectivity also supports decarbonisation efforts across a range of infrastructure sectors.

As they explain, this makes it a particularly appealing opportunity for investors seeking significant impact across various aspects of ESG.

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Q How can an investment in digital infrastructure achieve positive social impact?

Chester Dawes: When it comes to digital inclusion and bridging the digital divide, an investment in digital infrastructure can be a great route to achieving a positive social impact. There is a significant issue around connecting underserved communities, in that they may not have the same access and therefore the same opportunities as other more connected or affluent communities.

Taylor Gillespie: That's right. Digital infrastructure supports overall community resilience, which in a time of uncertainty is critical to supporting the principle of equity. We know digital infrastructure can positively influence 81 of the United Nations' 169 sustainable development targets, across all 17 Sustainable Development Goals (SDGs). That includes SDG 5, which centres on achieving gender equality and empowering women and girls, because we know that women tend to be disproportionately affected by digital exclusion.

Then of course there is SDG 4, which aims both to ensure inclusive and equitable access to quality education, and to promote lifelong learning opportunities for all. We have seen that digital connectivity has a key role to play there, too.

What's more, digital infrastructure does not just support communities on a day-to-day basis. It also has a critical role to play in times of crisis, by increasing people's ability to stay connected with each other and even get help when it's needed. Emergency services can respond much more quickly to areas with good connectivity, so an investment in digital infrastructure also builds community resilience.

Q How can a telecoms-focused strategy support net-zero commitments and decarbonisation efforts?

TG: Digital telecoms infrastructure can directly support decarbonisation efforts by reducing reliance on some of the more heavily polluting infrastructure sectors. For instance, because we can now do meetings by video call, there is less need for people to get on planes and fly around the world, so we are significantly reducing the impact that a meeting might have on the environment.

Another aspect of this is that an investment in digital infrastructure can balance out other investments that might be operating on a longer sustainability or net-zero timeframe. Investments in digital infrastructure generally have a low emissions profile and are also important enablers of decarbonisation because they can reduce reliance on other types of infrastructure. This makes them a strong addition to portfolios.

CD: It's also worth noting that according to research by the UN, while the infrastructure sector is one of the highest emitting industries, digital infrastructure contributes just 2 percent of global infrastructure emissions. So, as companies look to achieve their net-zero commitments and address their Scope 1, 2 and 3 emissions, they can look to their investments in digital infrastructure as potentially providing a route to connectivity with fewer emissions than they might incur by investing elsewhere.

That means an investment into a telecoms-focused strategy has the potential to make a big difference to a company's environmental footprint.

Q Can digital infrastructure really serve as an alternative to more highly polluting forms of infrastructure?

CD: Digital infrastructure investment is never going to completely replace other forms of infrastructure investment. But it can be complementary or offer a trade-off to investments in other forms of infrastructure, like airports, railways, bridges and tunnels. Those traditional infrastructure assets connect people in different ways and tend to be much more polluting, making digital infrastructure an attractive alternative or complement.

Q Can connectivity really move the dial on equity and inclusion goals? If so, how can investors access that?

TG: An investment in digital infrastructure can help an investor achieve their equity goals because access to connectivity affects everyone, regardless of their background or location. So, these investments are a way for an investor that is maybe interested in promoting a goal around women in the workforce or access to education to invest in infrastructure that supports underserved communities in meeting those objectives.

When we talk about digital inclusion, there are three critical components:

access, affordability and digital skills. We know that people on low incomes or in rural areas are less likely to have broadband access, and people in those communities are therefore also less likely to have the technological skills needed to capitalise on the social and economic benefits of connectivity.

There is also data that shows how women are less likely than men to have access to technology and less likely to be proficient in digital skills. So, investments in telecoms, media and technology, especially when paired with efforts to provide affordable access and improve digital skills, can help to address these inequalities and create more inclusive access.

CD: From an investment point of view, digital infrastructure is a fast-growing infrastructure subsector that offers some attractive attributes, including a stable return profile, healthy underlying growth and the potential to create sustainable long-term value. As you might expect, there are a number of different ways for investors to access this, ranging from a traditional infrastructure approach through to more private equity and growth equity-like approaches.

Q Can digital infrastructure play a role in sustainability efforts given the increase in energy consumption associated with artificial intelligence?

CD: There are two sides to the AI coin. We have all heard that AI is power-hungry and requires data centres that in turn come with significant energy and water consumption requirements. On top of that, we also need to connect everything together with fibre and cell sites.

But there is also the complementary upside, where the benefits outweigh the downsides, which is that AI can produce efficiency gains that will ultimately be good news for energy consumption. For instance, AI can help us to realise some great energy savings when we use it to optimise aircraft routing, or to improve shipping and transport patterns to reduce emissions. We believe those savings can offset the harm done elsewhere in the AI value chain.

There is also scope to invest in data centres and other digital infrastructure that manages electricity and water more efficiently, leading to more sustainable outcomes.

TG: Data centres need to be built, designed and run in a way that leverages global best practices and standards. In order to realise those efficiency gains and deliver more sustainable outcomes with those centres, it's important to take a holistic approach to designing and building them. Digital infrastructure can continue to support broader sustainability efforts if it's managed with social and environmental considerations in mind.

There are a lot of learnings being generated right now as innovators work to make these data centres more energy efficient. Down the road, we may see more modular nuclear power use, for example; there are all sorts of organisations developing creative ways to supply the power that AI requires.

Our strategy has tended to lean more towards the infrastructure style of investing rather than that higher-risk approach, but opportunities exist for investors across the spectrum, depending on their risk tolerance and return expectations.

Often, people look at an investment in digital infrastructure through the lens of a low-emission investment, but really the potential for impact on the social side and on digital inclusion is just as significant and complementary. This is one way in which investors can really make an impact at scale.

Q What different criteria can be used to assess the ESG impact of a digital infrastructure investment?

TG: Many different approaches are possible. For instance, as part of our ESG strategy, we look at where our digital infrastructure investments are located in relation to population density. We know that more than 95 percent of our tower investments are in rural or suburban areas, so one example of how we are supporting connectivity in our strategy is the way we are investing into more remote areas.

One of our portfolio companies is CTI Towers, which is one of the US' largest private tower companies, with more than 1,800 towers across the country. Another is Harmoni Towers, which is a build-to-suit tower operator. The location of the towers in relation to population density is something that we track on a quarterly basis across our portfolio, and in the future we intend to track the real-life impacts on the people in those communities to further quantify that impact.

> *"Access to connectivity affects everyone, regardless of their background or location"*
>
> **TAYLOR GILLESPIE**

Another piece of this is looking at the low-cost connectivity options that are available in the communities that need them. As I mentioned earlier, it's not just access to digital infrastructure that can be a barrier, but also the cost of paying for that internet access or mobile phone connection.

So, when looking at how to compound the positive ESG impact of an investment, it's not just a question of thinking about providing access but also about low-cost carrier options, ensuring the carriers that use a given piece of infrastructure are also supporting inclusion efforts.

Q What should the ESG aspect of the due diligence process look like for digital infrastructure investments?

CD: It's important to really prioritise ESG from day one. For example, we have developed tools that help our teams systematically and consistently factor ESG into investment decisions and governance frameworks. It is integral to how we operate, and never an afterthought. ■