

## KEYNOTE INTERVIEW

# Society's indispensable digital frontier



*Mission-critical assets can play a vital yet often overlooked role in infrastructure portfolios, says Palistar Capital's **Omar Jaffrey***

We are living increasingly digital lives, with expectations for superfast, reliable and constant internet connectivity now the norm.

However, like any system, these networks are not entirely infallible and operational failures can leave businesses, governments and communities at risk. This has led to a growing recognition of the part mission-critical infrastructure plays in society's digital networks.

Omar Jaffrey, founder and managing partner at Palistar Capital, discusses the importance of these assets as well as the investment opportunities and long-term evolution of digital networks.

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### **Q** How would you define mission-critical infrastructure?

In this context, mission-critical infrastructure comes down to three key areas: wireless, broadband and data centres. These are the critical ingredients for anything we use to communicate. Whether you do it for personal use, for business or are a government, most digital technologies require these three things to be working in unison all the time.

A few decades ago, communicating on the move was only for top business

executives with pagers and cell phones. It has become so critical that most people really cannot do without it. These devices are present throughout our lives, and we need them to work permanently. Mission-critical means you need it all the time and you cannot do without it.

When you define it that way, there are a lot of things we invest in that cover all of those points. However, within that, we are cautious about where we deploy capital.

An example of non-mission critical could be if you are on vacation, you are streaming music, and it stops working. Though irritating, you could do without it, so for the

consumer that digital infrastructure is not mission critical. We don't invest where people only need the technology episodically.

**Q To what extent does the definition change? Using the music streaming example, wouldn't a platform providing music and podcasts see the technology as mission-critical?**

Indeed, and perspective on this matters. What is crucial for a business may be different for a consumer. A streaming platform like Spotify needs the technology to work, however consumers don't necessarily. That is why with the mission-critical nomenclature is much tighter for us than perhaps for others.

Another way to look at this would be if the network is substitutable. If it can be replaced, it is not mission critical. For example, you can get internet connection via a satellite, but also a better connection in most instances from fibre. Which of those two technologies is mission critical? It depends on your particular needs, and we are constantly making that judgement call.

**Q What does mission-critical infrastructure offer an infrastructure portfolio?**

Mission-critical infrastructure gives us resilience, durability and stable returns without any drama. You could go elsewhere and make artificial intelligence investments through venture capital and pursue 25 percent returns but at much higher risk, which is not what mission-critical infrastructure is about. It is not speculative.

Going into the pandemic, people thought everything in infrastructure was durable but as we saw the roads, ferries, airports and other traditional infrastructure assets all shut down. Instead, people realised how resilient digital infrastructure really is and it now has a special place in people's minds.

**Q What are the challenges faced when it comes to investing in mission-critical infrastructure?**

Valuations can often get inflated, which makes it challenging for us to invest but not overpay. For example, we might view fair value on a given asset as \$100. But if 50 bidders show up and drive the price to \$120, we are not willing to chase that number – though, naturally, the sellers would be happy with that price. This dynamic is very common in the space – there is strong demand for access, which leads to a frothy bidding environment as a result. By contrast, we take a more disciplined approach to valuation and bidding.

Another issue is that people will invest and buy into forward execution of a business plan. With this comes euphoric assumptions where people firmly believe in the “best case” scenario. This is where we do a lot of work, with objective thinking and experience, which lets us inform our view around valuations in a much more realistic sense.

And of course, there are the technological challenges in this asset class. You have to be very knowledgeable about technology, and how it can change, which may lead to some technologies being directly replaced. If you come from the industry, you will be able to understand this with a strong perspective and judgment, unlike a recent newcomer to the space.



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Covid changed everything. Prior to 2020, I had to convince people that digital infrastructure was something they needed to pay attention to. Coming out of the pandemic, a lot of investors realised they needed exposure to digital infrastructure which shone a spotlight on players like us. It was a meaningful shift in investor interest.

Let me give you an example of how we look for investments. Walking around New York, you obviously want

your phone to connect. How does it do that? It connects because AT&T have Spectrum, which they bought for a lot of money, and provides that signal via equipment on a rooftop somewhere with antennas. That network needs to be operational all of the time and cannot be allowed to go down at all.

As investors, we are thinking with that lens and trying to see which elements are super durable and which will continue to generate profits over our investment horizon (which is typically 10 years).

Importantly, revenues are disconnected from GDP, macroeconomics and whatever the wider market is doing. Regardless of where the market is, you still need to use your phone!

### **Q From an investor standpoint, what is required to be successful when accessing mission-critical infrastructure opportunities?**

Let's imagine someone wants to invest in digital infrastructure, they will look to the users of these assets – cable companies, tech firms, governments, etc. You need to understand what they need from their infrastructure, so access to them is crucial.

Senior conversations with these players are required to learn their needs and plans, and how the infrastructure comes into this. We have deep relationships within the ecosystem with all these players, so we know exactly what to build for them.

Today, we are experiencing significantly greater interest in the space, and with it, greater competition since the pandemic. We are a middle market focused investor and like to look at the sub-\$2 billion deal size. That is our sweet spot. We are alpha driven and seek to drive returns above and beyond what is typically seen as routine.

We focus on complicated and problem-solving opportunities, versus something available for auction where I might happen to be the highest bidder. We spend a lot of our time doing

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bilateral, off-market curated transactions. We find that meaningful scale in the middle market, where we can deploy capital and solve a problem for a client. You do not get that in an auction.

### **Q How do you view the outlook for mission-critical infrastructure?**

We see tremendous opportunities for big dollar deployment in wireless, broadband and data centres. If you add them together, trillions in investment are needed and right now.

For us, that is a great tailwind but comes up against the challenge of being able to invest at the right price, add value while owning an asset and then successfully exiting at the right point. When you overlay those filters on the huge investment gap we see, a lot of things feel too euphoric as opportunities and you need to have an objective perspective.

We have a very significant pipeline we have created through bilateral discussions with partners. We are trying to solve their capital needs in a special way, which allows us to deploy with a lot of confidence and at scale. Taking this all into account, the subset where we feel able to deliver strong outsize returns is small. If I just had to deliver the exact returns as my competition, my shooting area would be huge!

However, in reality it is quite narrow as I want to generate outsized returns in respect to the risk being taken on. We have a multibillion pipeline, which is significant but smaller than even a single deal in the wider ecosystem. We want deals in the multi-hundred-million dollar zone and that is where we specialise.

We want the middle area of the Venn diagram that can give us stronger, more resilient and more predictable returns. This means the more generic areas fall out of our scope. It is also an incredibly interesting time to be an investor. The timing is now, not ten years from now. ■