REAL ESTATE ADJACENT INFRASTRUCTURE

An Emerging Investment Opportunity

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TRADITIONAL INFRASTRUCTURE INVESTING

Traditional infrastructure assets are becoming more commonplace within a diversified institutional investment portfolio as a broader allocation to real assets or private markets. Traditional infrastructure assets are generally thought to share certain common attributes:

1. Foundational, or provide critical services, to the economy
2. Often underpinned by long-term contractual revenue streams
3. Typically less susceptible to economic cycles
4. Characterized by large, fixed assets
5. Possess high barriers to entry, being either quasi-monopolistic in nature, expensive to replicate, or requiring specialized technical or operating expertise
6. Able to act as both a hedge against inflation, as well as a portfolio diversifier through a lack of correlation with other public and private market asset classes

Traditional infrastructure assets are often segmented by subsector, including social infrastructure (schools and hospitals, typically built under public-private partnership frameworks), utilities (gas, water/waste, and electricity networks), transportation (toll roads, airports, and seaports) and energy infrastructure (power generation and midstream assets, such as pipelines), amongst others.

Traditional infrastructure assets can also be segmented based on their risk-return profile, depending on factors such as development stage (brownfield or greenfield), geography (developed or emerging market), counterparty risk, term and certainty of contracted cash flows, and exposure to volumetric, merchant or commodity price exposure, amongst others.

DEMAND DRIVERS

As the global economy enters a new phase of rapid digitalization, decentralization, and decarbonization, shifting patterns of demand are fundamentally transforming the real assets landscape. The historical boundaries that separated real estate and infrastructure, both functionally and as asset classes, are becoming increasingly blurred, giving rise to a new and rapidly developing segment of the infrastructure asset class that we define as "Real Estate Adjacent Infrastructure."

We believe that Real Estate Adjacent Infrastructure is a compelling investment opportunity due to the fundamental drivers that have brought it about in the first instance.

Digitalization, decarbonization and decentralization are increasing the pressure on supply chains, accelerating the need for renewable power sources, heightening the importance of certainty and adjacency of power supply and connectivity, and increasing the need for and expanding the reliance on data and automation. These shifts in demand drivers, alongside general advances in information technology in the broader digital economy and recent U.S. federal government support in the form of the Bipartisan Infrastructure Law and the Inflation Reduction Act, are further evidenced by the following noteworthy underlying themes that have far-reaching effects throughout the economy.

We see some of the key drivers behind the macro trends being:

DIGITALIZATION

Data Demand
The exponential growth in, and dependency on, data transmission speed/reliability

Accessibility
Internet as the "fourth utility" and gaps in access to broadband

Innovation
Prescriptive and predictive data analytics driving decision making

DECENTRALIZATION

Reliability
Demand for resilient and reliable localized infrastructure

Efficiency
Faster connectivity closer to the end user, and energy efficiency needs

Private Capital
New, enhanced infrastructure that is not deliverable by the public sector

DECARBONIZATION

Clean Energy
Carbon reduction to reach public and private "Net Zero" goals

Electrification
Shift to electric alternatives for high emission industries

Modernization
Improved power systems required due to fossil fuel retirements

CHARACTERISTICS, CAPITAL NEEDS AND SCALE

With the trend of real estate and infrastructure becoming more inextricably linked and new infrastructure needs emerging to support these macro trends and themes, Real Estate Adjacent Infrastructure assets can be generally characterized as having one or more of the following characteristics:

1. Supporting or supplying real estate or its end users
2. Depending partially, or in whole, on real estate
3. Limiting cyclicality associated with the economy through their essential nature
4. Having limited uncontracted cash flows
5. Requiring some operational and/or technical expertise
6. Having moderate barriers to entry, including high demand for capital

Digitalization, decarbonization and decentralization are driving the need for new capital, which is unlikely to come from public government sources. Very few existing strategies in the market are solely dedicated to providing capital to address these themes and needs which are, by their nature, occurring on more of a local level (rather than at a national level via large, marquee assets traded between parties that are often subject to auction-like bidding processes). Given the cross-disciplinary nature of Real Estate Adjacent Infrastructure, the pool of available capital may be reduced further to those investors who have the skills and expertise necessary to invest with confidence in both the real estate and infrastructure asset classes. The confluence of these factors makes for a current shortage of capital relative to the level of investment required to finance the significant need for this sub-sector of opportunity; as such, **Real Estate Adjacent Infrastructure investments could be considered as an extension to an investor's real estate portfolio or an infrastructure/private markets portfolio.**

As for the scale of the Real Estate Adjacent Infrastructure subsector, investable opportunities include both existing assets that previously may have been considered real estate or infrastructure (or, in some cases, deemed private equity or "undefined"), as well as new, to-be-constructed assets required to address the many emerging needs driven by the trend toward digitalization, decarbonization and decentralization. Existing assets may require considerable capital investment to transition into a more digital and/or less carbon-intensive footprint. Even more Real Estate Adjacent Infrastructure may come in the form of new construction, including both newly developed assets aimed to provide reimagined essential services, or redesigned assets constructed to replace outdated existing infrastructure (e.g., assets that can address renewable energy needs, the digital transformation of essential businesses and industries, and the decentralization of the power grid).

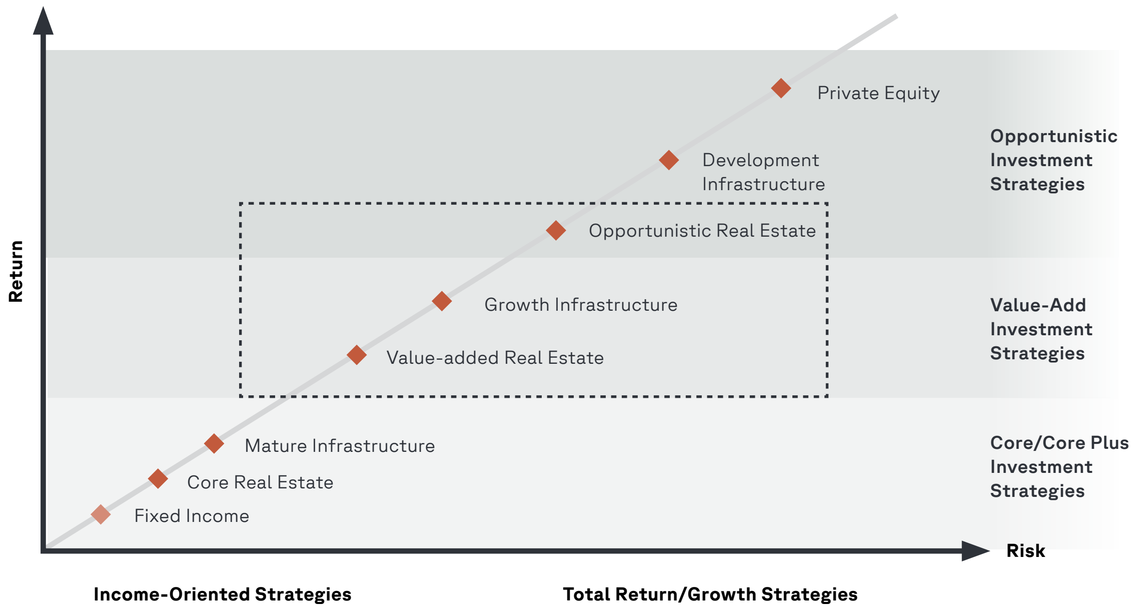
It is difficult, at present, to estimate the potential scale of the Real Estate Adjacent Infrastructure opportunity due to its emergent and evolving nature, but according to McKinsey & Company, "in 2021, infrastructure and natural resources global AUM broke the $1 trillion mark for the first time. Over the past decade, infrastructure's mandate has evolved. Capital is increasingly flowing into subsectors that support the energy transition and digitization, such as alternative energy, clean-tech solutions focused on improving environmental sustainability, and 'infratech.' Investors are also looking beyond physical assets at operating companies and technologies to generate value." This view broadly supports the enormous potential for scale and growth in the Real Estate Adjacent Infrastructure subsector in the coming years.

The fact that this subsector would unlikely exist at all, much less in scale, in any institutional portfolio today, yet has many of the features that an infrastructure or real estate investor would seek, in our opinion suggests that it should complement, rather than overlap with, a sophisticated investor's traditional infrastructure and/or real estate portfolio. This in turn could lead to a prime opportunity in the coming years for institutional investors to take advantage of a dislocation in the market – where the demand for capital to finance, develop, own, and operate Real Estate Adjacent Infrastructure assets far outweighs the supply of readily available capital to do the same.

RISK/RETURN PROFILE

As with other types of real asset investments, there are many investment approaches that can be taken to investing in the Real Estate Adjacent Infrastructure subsector from a risk/return perspective including Core/Core Plus, Value-Add, and Opportunistic investment strategies **(Exhibit 1)**. Typically, there will be considerable capital or growth capital requirements for Real Estate Adjacent Infrastructure investments; however, there is usually good line of sight on the revenue for the investment prior to advancing capital. Many Real Estate Adjacent Infrastructure investment opportunities will likely fall into the Value-Add risk/return profile on the spectrum, as shown below, due to the potential need for both platform-building growth capital and some level of ongoing operational expertise. The factors that would typically push an investment higher on the risk-return spectrum would be high leverage or capital spend relative to any initial investment size, intensive operational elements or less certainty of revenue mix.

EXHIBIT 1: REAL ESTATE ADJACENT INFRASTRUCTURE



Source: INSEAD

ASSET TYPES

Similar to traditional infrastructure assets, Real Estate Adjacent Infrastructure assets can be segmented by subsector, including but not limited to the following:

- **Power:** Distributed Generation, EV Charging Stations, Power Substations
- **Telecommunications:** Fiber Optic Networks, Cell Towers, Smart Poles
- **Renewables:** Commercial and Industrial ("C&I") Solar, Renewable Natural Gas Fueling Stations
- **Social:** University Research, Educational, Municipal and Hospital Facilities
- **Transportation:** Intermodal Logistics, Port Facilities, Cold Storage

As the Real Estate Adjacent Infrastructure opportunity is emerging, these subsectors should be considered examples, rather than an exhaustive list of investable opportunities.

To further illustrate the types of assets that might comprise the Real Estate Adjacent Infrastructure portion of a diversified investment portfolio, please see the following brief case studies:[1]

1

CASE STUDY – DISTRIBUTED ENERGY SOLUTIONS ("DES") PLATFORM

A DES platform focused on commercial real estate buildings that can be optimized as grid resources in the form of virtual power plants to offer demand response, flexible generation, load shifting and/or storage arrangements to serve the energy grid of tomorrow.

ASSET TYPE: Energy Efficiency & Onsite Renewables

SECTOR: Power & Renewables

RISK PROFILE: Value-Add

THEME(S): Decarbonization – Clean Energy, Electrification, Modernization; Decentralization – Reliability, Efficiency

REAL ESTATE-ADJACENCY: Commercial and industrial real estate properties are leveraged to achieve scale by implementing energy efficiency and onsite renewable projects

2

CASE STUDY – RENEWABLE FUEL STATIONS

Develop rCNG fueling stations to provide commercial truck fleets with renewable clean energy. The U.S. has established clean energy goals to reduce the carbon footprint in the transportation sector and will need significant investment for rCNG to become competitive as an alternative fuel.

ASSET TYPE: Renewable compressed natural gas ("rCNG") fueling stations

SECTOR: Renewables, Energy Transition

RISK PROFILE: Value-Add

THEME(S): Decarbonization – Clean Energy, Modernization; Decentralization – Reliability, Efficiency

REAL ESTATE-ADJACENCY: Ownership of the land underlying the rCNG fueling stations

3

CASE STUDY – IN-BUILDING WIRELESS & FIBER OPTICS NETWORK

Supply enterprises, typically medium and large, with high bandwidth connectivity by developing a network of fiber assets and associated in-building wireless and/or cellular access. The expansion of the network is necessary to keep up with the high demand for connectivity.

ASSET TYPE: In-Building Wireless & Fiber-to-the-Enterprise ("FTTE")

SECTOR: Telecommunications

RISK PROFILE: Value-Add

THEME(S): Digitalization – Accessibility, Data Demand; Decentralization – Reliability, Efficiency

REAL ESTATE-ADJACENCY: In-building wireless and FTTE networks exhibit real estate characteristics including often medium- to long-dated, tenant-driven revenues

1. The case studies are provided solely for the purpose of illustrating the types of investments within this asset class. The specific investments identified are not representative of investments purchased, sold or recommended for Affinius Capital, and it should not be assumed that investments identified were or will be profitable or are representative of investments that will be made in the future.

MARKET ENTRANTS REQUIRE A COMPETITIVE ADVANTAGE

Due to the emergent nature of the Real Estate Adjacent Infrastructure opportunity, new investments and markets are still evolving and continuing to be created as:

- A highly fragmented market landscape exists currently
- Opportunity creation is complex and requires a long lead time, thereby limiting the field of willing participants
- Investments can require specialized development and operational knowledge to acquire, build, consolidate, transition, modify (if needed) and manage
- There are fewer competitors with specific strategies focused on the space due to its historical lack of definition and its inherently cross-disciplinary nature
- There is considerable potential for risk mitigated value creation

The absence of private markets investment vehicles dedicated to executing in this emergent opportunity set combined with the nascency of the space results in a supply/demand imbalance. Early movers will have a period of time within which to establish their footprint and potentially earn an accretive premium.

Organizations best placed to capitalize on this market opportunity are those with skills and expertise in both real estate and infrastructure investing, a broad distributed footprint, local knowledge, market presence, an established asset base, and cross-disciplinary relationships. Execution advantages can be considered via best-in-class operators and developers. Without these strategic advantages, execution may be more challenging, including:

- Longer lead times to develop expertise and local networks
- Limited capability and capacity to grow outside of their niche strategies
- Reduced economic returns due to rent payments owed to the owners of the real estate on which Real Estate Adjacent Infrastructure relies, depends, supports, or supplies

CONCLUSION

We believe the Real Estate Adjacent Infrastructure subsector is currently developing into a compelling investment opportunity as the shifting patterns of demand discussed above fundamentally transform the real assets landscape. And with several factors that may work in favor of forward-thinking institutional infrastructure and real estate investors – an evolving and growing market; without dedicated investment vehicles pursuing it; and with the option to consider it as an extension to a real estate portfolio and/or an infrastructure/private markets portfolio – we believe that the potential for attractive risk-adjusted returns may exist, in part, due to an early mover and emergent market premium.

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