

Data centres: the infrastructure driving digitisation

In 2006, then Google CEO Eric Schmidt, popularised what would become a defining phrase by describing computing as happening ‘in a cloud somewhere’. Almost two decades later, cloud computing is no longer a metaphor, but the essential infrastructure underpinning our modern lives. From Netflix to online banking, e-commerce to AI, the cloud is enabling a range of applications we now take for granted, and data centres are at the heart of this online experience.

Enterprises are shifting from owning infrastructure to renting the services they need. Computing power, storage and software can all be provisioned on demand, enabling businesses to scale quickly without costly capital investment. Unlocking huge efficiencies, the cloud has become the backbone of the digital revolution and data centres provide the essential infrastructure that underpins it.

Artificial Intelligence represents a further leap in cloud computing’s evolution, and its infrastructure needs are immense. Training and operating large models requires enormous compute power and real-time access to vast datasets, making cloud data centres the perfect environment to support at scale.

Our investment thesis: digital infrastructure with defensive growth

We believe two portfolio holdings, **NextDC** and **DigiCo**, are well positioned to provide the mission critical infrastructure for the digital economy and are exposed to key drivers:

- Structural demand growth: AI, cloud services, and edge computing are accelerating demand for secure, high-performance data centres.
- Locked-in revenue: Facilities are often pre-leased before completion, with long-term contracts (10+ years) offering predictable income.
- Geographic expansion: Both companies are scaling regionally to meet growing requirements.
- Interconnectivity edge: Clients can connect directly to telcos, cloud providers, and partners - boosting performance and reliability.

We took an opportunity to invest in NextDC after a recent share price fall, resulting in markets mispricing the company’s future earnings. Investors fixated on short-term political and trade relationships miss the long-term drivers behind NextDC’s role in digital expansion. This dislocation presented a compelling entry point for long-term investors. As these holdings continue to deliver operationally and market places more value on their future growth profile and their strategic role in the AI/cloud infrastructure stack, we are optimistic about the potential for growth.

ESG in focus: cleaner, smarter, more efficient

There is no denying that data centres are energy intensive. They consumed 1.5% of global electricity in 2022¹, but efficiency gains and innovative practices are narrowing the environmental gap. Improvements in energy efficiency have limited energy use - despite an increase in workloads of 340% between 2015 and 2022, data centre energy use (excluding crypto) rose by only 20-70%² over the same period.

Modern data centres are far more efficient than the legacy in-house systems they replace. Each year in Australia, data centres save 2TWh of electricity than would be consumed if the computation had taken place on inefficient in-house systems – a 67% saving³. NextDC helps deliver these improvements through its innovative approaches:

- Smart cooling: Developing approaches using filtered ambient air and immersion-cooling to cut electricity and water use at newer sites.
- Solar initiatives: Exploring opportunities to source renewable power from solar arrays at sites in Melbourne, Sydney and Perth, as well as other clean energy procurement
- High energy efficiency: PUE as low as 1.25, averaging 1.42 across its locations⁴, more efficient than the global average of 1.56⁵.
- Industry recognition: First in Australia to earn a NABERS 5-star rating (Melbourne and Sydney).
- Carbon accounting: NextDC is also actively exploring Scope 3 emissions reporting, working closely with customers to improve transparency.

A core asset class for the digital age

Just as roads and railways powered the industrial economy, data centres are the infrastructure of the digital era. They offer:

- Secular, long-term growth
- Defensive, recurring revenue
- Exposure to AI, SaaS, cloud, e-commerce, and enterprise tech
- ESG leadership in a high-impact sector

Companies like NextDC and DigiCo are strategically positioned to capture rising demand, secure premium clients, and lead the transition to sustainable digital infrastructure.

In a cloud somewhere?

No. In efficient climate aware data centres, delivering real solutions, real returns and real ESG progress.

Sources:

¹ IEA (2025).

² IEA (2025).

³ Mandala (2024). Empowering Australia’s Digital Future.

⁴ NextDC (2024). Environmental, Social and Governance Report.

⁵ Statista (2025).

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