

# GRAVIS IS RIDING THE WAVE OF A FOURTH INDUSTRIAL REVOLUTION

In an exclusive conversation with IFA Magazine's Brandon Russell, **Matthew Norris**, Director of Real Estate Securities at Gravis, discusses the major developments at work in the world of infrastructure investing, as well as how his team at Gravis are best placed to provide an access point to the market.

**T**he way we shop, game, watch TV and even work has changed in so many ways in recent years. Remote working, online streaming and next-day delivery services are not only common but are in fact the norm.

With our shopping, entertainment, and work in the palm of our hands, there is evidently a need for the world we live in to be built around these services. This means more data centres, e-commerce fulfilment warehouses and communication towers are being constructed every day and so the opportunity to invest in them is as exciting as it has ever been.

Matthew Norris and his team at Gravis believe that the digital sector of the market is where the real opportunity lies. That's why the Digital Infrastructure Income

strategy is all set to take advantage of this new-age industrial revolution and aims to provide reliable and high-growth income over the long term in the fastest-growing area of the real estate market.

**He said:** "The reason behind the launch of this strategy was that the infrastructure investors at Gravis identified the fourth industrial revolution as a major change for infrastructure and specifically, digital infrastructure. The world of work, play, and the way we live our lives has changed. We're conducting more business online and that requires a new type of infrastructure in the form of data centres. The way that we seek entertainment has changed. We are all big consumers of online content. Streaming is becoming ever more popular and doing that in a mobile fashion is increasingly popular too. That also requires a new type of infrastructure in the way of communication towers.

The way that we live our lives has clearly changed. About a quarter of what people buy in the UK is purchased online. Obviously, any form of online shopping requires more e-commerce fulfilment warehouses as well as same-day logistics hubs. At Gravis, we identified the fourth industrial revolution would lead to demand for a new type of digital infrastructure and through the listed equity markets, we identified an opportunity for investors to get access to the best-in-class owners, operators, and developers of the next generation of infrastructure assets."

"In short, there's a massive secular megatrend at play. This is the next generation of property investment. The risk with investing in traditional property - in offices, or assets of that type - is an obsolescent risk. Climate change requires that buildings are upgraded, and working from home has changed demand dynamics. Whereas digital infrastructure is on the receiving end of that. Clearly, with generative AI, there will be further increased demand for data centre space so owning the data centres themselves will be a massive positive. As more of us use 5G and consume more data, communication tower companies will continue to grow. The more we spend online, the better the news is for the landlords of these next-generation e-commerce fulfilment assets and those that have invested in them."

**IFA MAGAZINE: IS THIS INVESTMENT STRATEGY FOCUSING MORE ON PROPERTY OR INFRASTRUCTURE?**

**MATTHEW NORRIS:** "These are real and physical assets. What we like about them and what unifies data centres with e-commerce fulfilment, and with communication towers, is contractual income. This

means leasing out space for communication dishes on communication towers, leasing out space for servers in data centres and then e-commerce companies leasing out space for their online operations."

"This means that it provides contractual rental income from infrastructure that is required to enable modern society to operate. In addition, from a tax perspective, they are very clearly structured as real estate investment trusts, which is a very tax-efficient way of distributing income to investors. Overall, they straddle both property and infrastructure but clearly, it's the next generation of property and the next generation of infrastructure so it is the best of both worlds."

**IFA MAGAZINE: WHY AND HOW DO YOU THINK CLIENT PORTFOLIOS COULD BENEFIT FROM HAVING EXPOSURE TO INFRASTRUCTURE INVESTING?**

**MATTHEW NORRIS:** "For those clients that have had investments in traditional property types, whether that be retail assets, industrial assets, or regional offices, this is the next generation of assets where you see good rental growth and thus good dividend growth. On top of that, for those clients that like to invest in infrastructure, this is the megatrend of digitalisation. At Gravis, we get excited about these thematic investment cases and so for infrastructure investors, digital infrastructure assets are some of the strongest-performing assets you will find within the market."

"In terms of how it could benefit clients' portfolios, there are some studies out there, from the likes of Morningstar, that show that if you add infrastructure or real assets to a client's portfolio, then you get slightly higher returns and slightly lower volatility. How much should you add to a



client portfolio? Obviously, that depends on how far they are away from retirement. The further away, the higher the allocation towards infrastructure and real assets.”

“When you think about how and why this should fit into a client’s portfolio, I think there are three key things to highlight. One is the yield; this is natural and real income to investors. The second component is growth. This is growth income not fixed income. And then the third is the upside potential. That’s really looking at private equity coming along and buying these assets and paying investors a premium. So, if you have investors or clients looking for those components in their portfolio, then we think digital infrastructure plays an important role in building towards those needs.”

“One final point I would raise when it comes to investing in digital infrastructure is that considering an ESG perspective is vital. It’s important to note that climate change is the biggest risk facing humankind and data centres consume a vast quantity of electricity. This means that if you’re going to invest in this space, you really need to invest in the most modern data centres. Who’s developing and owning the most modern data centres? It’s the listed companies.”

#### **IFA MAGAZINE: WHAT EXPERIENCE DO YOU AND THE TEAM HAVE OF INVESTING IN THE SECTORS AND SUB-SECTORS YOU MENTION?**

**MATTHEW NORRIS:** “Gravis has been around for well over a decade. We’re a boutique fund management business specialising in infrastructure, property, and real assets. We have a long track record of investing in these sectors. In the digitalisation megatrend, specifically in the listed market, we’ve been an active investor for over five years. In this space, we launched

the VT Gravis Digital Infrastructure Income Fund, three years ago, and established a good track record with the investments that we’ve highlighted. Many of those have been acquired by private equity. Private equity loves public equity. We have a portfolio of the best-in-class owners, operators, and developers of the next generation of digital infrastructure assets which puts us in a great position for the here and now, as well as going forward.”

Overall, Matthew Norris’ message is a very clear one. What may have worked yesterday is unlikely to continue working tomorrow and the need to move with the times has never been greater than in the past few years.

Successfully investing in retail locations and regional offices is likely a thing of the past and in order to see real growth, investing in the infrastructure of the future is the right approach.

Gravis’ Digital Infrastructure Income strategy provides advisers and their clients with access to a market of limitless potential whilst also providing comfort in knowing that the team are always looking at what major developments might be just around the corner.

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Of course, there are always going to be unexpected changes in the market, but with Matthew and his team already successfully spotting recent developments in the infrastructure market, you can be sure that they will be primed and ready for whatever is to come next. 