



As the Summer of 2017 begins, Caledon Capital would like to take this opportunity to provide an update on the Firm and some of its recent developments.

**Caledon Capital announces definitive agreement
with CBRE Global Investors**

Deals Done

We've Expanded our Team

Data Centers: Infrastructure or Private Equity

Caledon's Speaking Engagements



Caledon Capital announces definitive agreement with CBRE Global Investors

Caledon Capital Management has entered into a definitive agreement to partner with CBRE Global Investors, a leading manager of private and listed real estate. CBRE Global Investors, headquartered in Los Angeles, is a global real assets investment management firm with US\$86.5 billion in assets under management.

Upon closing, Caledon will be renamed CBRE Caledon Capital Management Inc. and will continue to operate as an independent in-

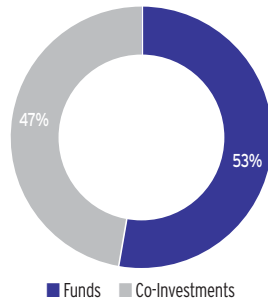
vestment unit within CBRE Global Investors. Combining forces with CBRE Global Investors will enhance our ability to deliver leading investment solutions to our clients by leveraging CBRE's global reach and resources, and capitalizing on increased access to more and larger investment opportunities. The existing Caledon management team will continue to manage the business on a day-to-day basis and will maintain significant long-term ownership in the firm.

Deals Done

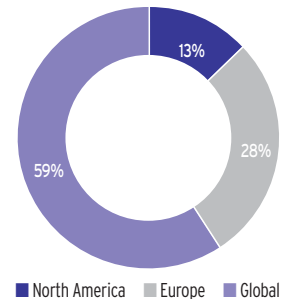
The last 12 months have been another very busy period for the Caledon team that committed or invested over \$790 million to infrastructure and private equity funds and co-investments. A summary of the investments completed is provided below:

Infrastructure Investments

Investments by Type

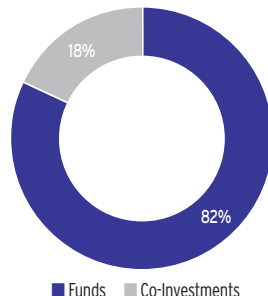


Investments by Geography

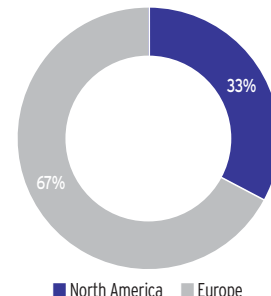


Private Equity Investments

Investments by Type



Investments by Geography



Note: All Figures are in CAD unless otherwise noted



We've Expanded Our Team

Kevin Fitzpatrick (Senior Associate) - Kevin is focused exclusively on the private equity investment program. Prior to joining Caledon, Kevin was an Associate Director on the Private Fixed Income team at Sun Life Financial.

Wen Liao (Senior Associate) - Wen is focused exclusively on the infrastructure investment program. Prior to joining Caledon, Wen was part of the M&A team at Algonquin Power and Utilities Corp.

Allison Williams (Analyst, Business Development) - Allison is actively involved in all aspects of Caledon's business development initiatives. Prior to joining Caledon, Allison worked at University Ventures, a private equity and venture capital firm based in New York.

Tammy Ha (Analyst) - Tammy is actively involved in all aspects of Caledon's private markets investment process. Prior to joining Caledon, Tammy worked as an Analyst in various co-op internships, including with PSP Investment's private equity and Fairfax Financial Holding's investment divisions.

Kevin Dieu (Analyst, Investment Finance) - Kevin works with the investment finance team and monitors client accounts. Prior to joining Caledon in December 2016, Kevin was a Senior Financial Reporting Analyst at State Street.

Jason Wan (Analyst, Portfolio Monitoring) - Jason is responsible for portfolio monitoring and reporting and works with both the investment and finance teams. Previously, Jason was a derivative valuations analyst with RBC.

Market Commentary - Data Centers: Infrastructure or Private Equity?

As the backbone of global trends such as increased mobile usage, frequent video consumption and wireless connectivity, instant access to data is becoming increasingly necessary. At the enterprise level, data availability facilitates the growing appetite for Software as a Service ("SaaS"), digital storage and cloud computing. In response to growing demand, corporate IT departments face the decision of whether to operate data center

is at the apex of the outsourcing trend.

Institutional investors are increasingly including data centers as a component of their private markets portfolios. Alongside steady growth in the data center industry, investors are drawn to the attractive fundamentals of the underlying business model: data center investments offer recurring, contracted revenues, customer price escalators that can often provide inflation protection, high customer switching costs, and resiliency to economic downturns.

Although this combination of characteristics forms the basis of an attractive investment opportunity, many investors debate how to incorporate data centers into their broader portfolio. Given that data center investments exhibit characteristics of both infrastructure and private equity assets, investors grapple with which allocation is more suitable.

Understanding the Basics of Data Centers

At its core, the data center industry is responsible for building, managing, and growing the IT infrastructure serving the world's three billion internet users. Data centers are large facilities that house computer servers and related networking equipment used to process, store and communicate data. These facilities support the applications of a wide variety of customers by providing power, cooling and security along with communication and networking systems.

Data centers offer a variety of services that are vital to the digital functioning of corporations, including facilities that rent space and bandwidth, interconnection services that enable enterprises to connect with telecommunications carriers and each other to exchange data, and other managed services such as data security, backups, installation and monitoring.

infrastructure within their own facilities or outsource to third-party providers.

For organizations where managing data center infrastructure is not a core competency, outsourcing provides a flexible alternative that can potentially afford annual cost savings of ~35%. Growing at a rate of 16% per year, the \$30 billion global outsourced data center industry

Data Centers in the Broader Portfolio

Because of their unique blend of attributes, data centers lie at the intersection of traditional private equity and infrastructure investments. When evaluating a data center asset in the context of its fit within a broader private equity or infrastructure portfolio, its relative private equity and infrastructure investment characteristics should be considered. Some assets may be clearly classified as either infrastructure or private equity opportunities. Conversely, assets that exhibit blended characteristics could make a strong addition to infrastructure, private equity, and real estate programs depending on their fit within the broader portfolio.



INFRASTRUCTURE CHARACTERISTICS OF DATA CENTERS

A subset of data centers may exhibit a number of traditional infrastructure attributes. The infrastructure investment characteristics associated with certain data center opportunities include:

- **Stable Cash Flows:** Highly strategic data centers have longer-term contracts with automatic renewals and price escalators linked to inflation. Data centers also exhibit defensive investment characteristics, with revenues often increasing when overall IT budgets decrease due to an acceleration in outsourcing.
- **Essential Assets Providing a Critical Service:** Data storage on servers is a critical and required component of the internet, email service, file backup programs and electronic commerce. As long as data is stored on servers that are either co-located or in the cloud, data centers can be considered essential assets.
- **Barriers to Entry:** Data center construction involves several barriers to entry, including high requirements for power, capital and other resources. Data centers also require access to connectivity and high voltage electricity sources. In addition, data centers require a stable customer base and strong reputation to thrive.

PORTFOLIO FIT: THE KEY CONSIDERATION

In some cases, individual data centers can be categorized as infrastructure or private equity assets on the basis of their particular investment characteristics. For those opportunities that are more ambiguous, however, assessing the fit of specific data center investment opportunities in the context of a full-portfolio view can be helpful. Fundamentally, these assets can constitute strong diversification benefits to private markets programs that are heavily weighted towards other sectors, provided they fit within investment guidelines and are aligned with the broader risk-return profile of a portfolio.

Whether in infrastructure or private equity, institutional investors would be well served to take a closer look at the role data center investments could play in their own private markets strategies.

CASE STUDY:

CALEDON'S PRESENT DATA CENTER INVESTMENT

Caledon's investment is in a data center with six facilities across the U.S. Caledon's deal partner has an experienced team with a proven track-record of building, operating and acquiring data center assets. At the time of acquisition, the company had more than 320 customers, including leading blue-chip technology enterprises.

The company's business model exhibits certain infrastructure attributes, as follows:

- **Cash Flow Profile:** ~97% of revenues are based on recurring revenue contracts and the majority of customers are contracted under 3-5 year contracts (up to 10+ years for larger customers). Contracts have automatic renewals and annual lease escalations typically fixed to a consumer price index (CPI) adjustment or a fixed escalator.
- **Barriers to Entry:** Barriers to entry for data centers typically arise from access to robust fibre networks and high voltage electricity. The barriers to entry in this investment are site-specific and range from moderate (as expected for a private equity asset) to very high (as expected for an infrastructure asset).
- **Projected Hold Period:** Caledon expects to hold the investment for a period of 10 years, which falls between the typical holding periods for private equity and infrastructure.
- **M&A Activity Not Required to Achieve Targeted Returns:** As is typical of infrastructure assets, the company relies on expansion arising from the fixed cost nature of data centers. As such, this company does not need to undertake M&A activity to achieve its base case targeted returns. Nevertheless, M&A activity is a planned component of the business's growth strategy.

CALEDON'S SOLUTION

Caledon saw this data center investment as a compelling opportunity with strong fundamentals that was a good addition to its clients' private markets portfolios.

Caledon's Speaking Engagements

Institutional Investing in Infrastructure (i3), May 24, 2017

Stephen Dowd moderated a panel called "What's on infrastructure investor's minds?".

CAIP East (Canadian Alternative Investments in Pensions), April 26, 2017

Caledon Capital team members spoke about

"The Next Frontier in Private Equity - More Return with Less Risk?" and *"Overcoming Barriers to Better Access Infrastructure Investments for Long Term Growth"*.

The Next Wave of Infrastructure Investment Opportunities, Toronto, March 2017

Caledon Capital and Deloitte hosted an

industry forum to discuss trends in the infrastructure investment market.

SuperReturn U.S. West 2017 Conference, February 6, 2017

Martin Day moderated a panel entitled "A Complete Guide to Structuring the Co-investment Deal".



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Caledon is registered in Ontario with the Ontario Securities Commission as a Portfolio Manager and is registered in the United States as a Registered Investment Advisor with the Securities and Exchange Commission.

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