



## I Squared Global Infrastructure Fund III Staff Memo

**Recommendation:** Approve a commitment of up to \$50 million in I Squared Global Infrastructure Fund III and up to \$10 million in I Squared Global Infrastructure Fund III Co-Investment

**Asset Class:** Private Infrastructure/Timber/Agriculture within the inflation protection bucket

**Sub-strategy:** Middle-market non-core/value-add private infrastructure

**Allocation:** The target allocation is 2.4% and the allocation as of 8/31 is 2.3%. This commitment is consistent with our pacing plan of an average of \$65 million per year to 1-2 funds per year at \$20-\$65 million per fund.

**Portfolio Fit:** The private infrastructure/timber/agriculture allocation consists of five managers. Our strategy has been to target the less efficient non-core space due to the elevated pricing of core assets and the value-add capabilities of non-core managers that can help drive returns. The opportunity set in infrastructure is largely dominated by energy assets, but we have sought diversification in underlying strategies.

Manager	Asset Class	Strategy	Structure	Sectors	Market	Geography
IFM	Infrastructure	Core	Evergreen	Diversified	Large	Global
I Squared	Infrastructure	Value-add	Close-ended	Diversified	Mid	Global
Stonepeak	Infrastructure	Opportunistic	Close-ended	Diversified	Mid -large	North America
Star	Infrastructure	Value-add	Close-ended	PPP (no energy)	Mid	U.S.
Homestead	Farmland	Value-add	Close-ended	Prem and row crop	Mid	U.S.

I Squared focuses largely on middle market deals, even with a larger fund size, due to their creative platform strategy. The firm will also opportunistically invest in larger market deals where there is a unique value-add play or value on entry (about 1/3 of the time). The strategy is diversified by sector and geography and gives the ERSRI portfolio exposure to middle market value-add deals on a global basis. The firm has offices in Miami, Hong Kong, London, New Delhi, New York, and Singapore. I Squared uses its on-the-ground presence, government relationships such as with the IFC, and a team of global senior policy advisors to execute the global strategy. This is unique to the ERSRI portfolio as most managers focus on North America and the other global fund, IFM, is in the large market core space.

**ERSRI History:** ERSRI committed to ISQ Global Infra Fund I (\$50 million) and ISQ Global Infra Fund II (\$40 million)

**Merits:** I Squared has shown the ability to “create” unique deals through their platform strategy and source larger assets where they can deploy their value-add approach. I Squared has an edge in having a global presence to execute on deals globally in the middle market, which is rare for a fund targeting that market size. This diversification allows them to deploy capital in geographies that are most attractive at the time of entry. The team is cohesive and growing with no senior departures. The firm has demonstrated a strong track record in its earlier vintages.

**Concerns:** The fund size increase from \$7 billion for Fund II to a target of \$12 billion for Fund III and new adjacent strategies are concerning since it could lead to strategy drift and movement out of the middle market. Alleviating this concern is the fact the firm deploys globally and therefore has a large opportunity set. Additionally, with the platform strategy there is still the ability to “roll-up” smaller deals into larger platforms. On firm growth, the managing directors demonstrated enthusiasm and a high level of involvement in managing existing assets as well enthusiasm in developing new theses and pursuing new deals, including new creative platforms in the middle market.

**ESG:** I Squared ranked as a **Leader** in ERSRI’s ESG review. The firm is a UNPRI signatory, has formalized policies and has an independent in-house ESG team. This team reviews each deal during due diligence to assess ESG risks and either comes up with solutions to adhere to their ESG standards with the deal team or the deal does not pass IC. Once invested KPIs are tracked and ESG issues are reviewed quarterly at the asset level. Given the nature of the underlying assets the firm is focused largely on E, S and G issues naturally. Governance is important as they are often working with local governments. Case studies showed the firm has demonstrated making capex investments to that benefit the environment/increase efficiency, setting up programs with local communities for their benefit and passing on deals due to ESG concerns. They demonstrated a strong ESG culture and Sadek Wahba, chairman and managing partner, has been heavily involved. The firm stated it intends to continue to move forward with ESG integration.

**Fees:** The fees are in accordance with industry standards. ERSRI will receive a 5% loyalty discount on the management fee for being an existing investor and a 5% discount for being a first close investor. In addition to the main fund, ERSRI has the opportunity to invest in a co-investment vehicle at further reduced fees which has a 35 bps management fee and a 5% carry over an 8% preferred return.