

Recommendation on ISQ Global Infrastructure Fund II, L.P.

To: RISIC
Prepared: July 1, 2017
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on ISQ Global Infrastructure Fund II, L.P. ("ISQ Fund II" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund.

Summary of ISQ Global Infrastructure Fund II

Fund Overview: ISQ Fund II will follow the same strategy as the prior Fund I investing in medium sized value-add infrastructure assets with enterprise values ranging from \$200 million to \$400 million. The Fund will invest globally, including up to 25% in non-OECD countries, which is unique among infrastructure funds. The Fund will invest more than 50% in energy related investments with water and waste water and transportation asset representing the remaining 50%.

People and Organization: I Squared Capital ("ISQ" or the "Firm") is an independently owned firm founded in 2012 by Sadek Wahba, managing partner. The Firm is led and managed by its three partners including Wahba, Gautam Bhandari, and Adil Rahmathulla. Eight of the investment professionals previously worked together at Morgan Stanley Infrastructure Partners. The Firm has 76 employees. The I Squared investment team is comprised of 24 investment professionals, including one managing partner, two partners, four managing directors, three principals, five vice presidents, and nine analysts and associates. The investment team is organized to focus on North America, Europe, and Asia. The team is supplemented by an in-house team of 10 operating partners. The Firm also has three joint venture partners, which will provide access to professional engineers and consultants, and a team of 10 senior policy advisors to assist with regulatory matters and maintain relationships with governments.

Investment Strategy and Process: Fund II will focus on three subsectors: energy, utilities, and transportation, and three geographies: North America, Europe and select high growth economies in Asia and Latin America. Fund II will allocate approximately 75% of commitments to OECD countries and 25% to high growth non-OECD countries where risks can be mitigated. I Squared is focused on mid-market assets with a platform build-up approach. The Firm will target mid-market investment that have core risk characteristics and significant value add opportunity. The Fund is targeting 15% to 20% net IRRs and will utilize its proprietary in-house risk model to compare risk assets by sector and region. I Squared will seek to independently source control investments under bilateral agreements. The Firm has employed a large staff of operations professionals that is nearly as large as the investment team and plays as important a role in the due diligence and management of the platform investments. The Firm's platform company strategy allows them to avoid increasing competition in larger investment markets. However, The Firm will not avoid bigger assets but will ensure they provide an optimal fit within the portfolio. The Firm is differentiated by their global footprint. Few if any other global infrastructure funds have a presence in the U.S., Europe, India, China, and Latin America. The Firm's optionality of investing globally and willingness to invest in mid-market to form platform assets and to invest in larger assets is unique.

Performance: ISQ Global Infrastructure Fund I ("ISQ I" or "Fund I") has drawn approximately \$2.10 billion from investors and has generated a return of 1.1 times paid-in capital. The Fund has

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not distributed any capital. As of March 31, 2017, Fund I was generating a net IRR of 21.5%. Relative to public equities, Fund I has outperformed the Dow Jones Global Infrastructure Total Return Index by 9.6%

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. During the investment period, the management fee will be equal to the weighted average percentage on commitments ranging from 1.60% of the first \$100 million in commitments 0.95% of commitments in excess of \$300 million. Thereafter, the same fee percentages are applied to the sum of invested capital, indebtedness incurred in anticipation of capital contributions, and the amount committed to be contributed to underlying investments within five years. 100% of all transaction, commitment, financing, investment banking, advisory, consulting, management, directors', and similar fees and 100% of all placement agent fees and excess organizational expenses will offset the management fee. The General Partner will receive 20% of the Fund's profits. There is a preferred return for investors of 8% per annum. The Fund has a five year investment period and a ten year term. The General Partner will invest 1% of total fund commitments up to \$50 million.

Cliffwater Recommendation

Cliffwater recommends a commitment of \$40 million to ISQ Global Infrastructure Fund II.