

State of Rhode Island

Employees' Retirement System of Rhode Island

OFFICE OF THE GENERAL TREASURER

**STONEPEAK
INFRASTRUCTURE
PARTNERS**

FUND II CO-INVESTMENT SIDECAR

**STATE INVESTMENT COMMISSION
PRESENTATION**

JUNE 22, 2016



STONEPEAK
INFRASTRUCTURE PARTNERS

Executive Summary

- Stonepeak Fund II has invested nearly \$1 billion to date across three transactions
 - \$40 million perpetual convertible preferred equity investment in Plains All American (NYSE: PAA)
 - \$440 million preferred equity investment in Targa Resources Corp (NYSE: TRGP)
 - \$440 million convertible preferred equity investment in MPLX LP (NYSE: MPLX)
- As in Fund I, we continue to focus on exclusively sourced, non-auction deal flow with strong downside protection
- Our investments to-date have generated approximately \$1.1bn of potential co-investment opportunity, only ~1/3 of which has been placed with Fund II LPs
- We are setting up a co-investment sidecar to streamline the Fund II co-investment process
 - The sidecar will invest alongside Fund II in deals on which co-investment is offered
 - We believe the sidecar will help re-direct potential co-investment to our LPs while providing Stonepeak with greater visibility and certainty over LP co-investment demand as we structure and negotiate transactions
- The co-investment sidecar offers Rhode Island the opportunity to efficiently participate in Fund II co-investment opportunities on a no management fee / no carried interest basis

The Stonepeak Formula

FIRM OVERVIEW

FOUNDED	August 2011
LOCATION	New York
GEOGRAPHIC FOCUS	U.S. and Canada
ASSETS UNDER MANAGEMENT	\$5.7 billion (Funds I and II) plus co-investment from certain investors
TARGET RETURNS	Mid-teens target gross IRR, ~12% target net IRR for Fund II
SECTOR FOCUS	Power, water, midstream energy, renewables, transportation and communications
STRATEGY FOCUS	High-quality core, core-plus, and value-add infrastructure assets with strong downside protection

➤ **INFRASTRUCTURE**

- Long-lived, essential, difficult-to-replicate, hard-asset businesses
- Focus on stable, visible cash flows supported by long-term contracts or sustainable competitive advantage

➤ **NORTH AMERICA FOCUSED**

- Growing economies, with political stability and rule of law
- Developed capital markets underpin deal financing / exit opportunities

➤ **VALUE-ADD**

- Through operational improvement and pursuit of meaningful growth opportunities
- Active partnership with top management teams, leveraging Stonepeak's experience, strong network, and exclusive operating partners

➤ **OFF-THE-RUN SOURCING**

- Focus on exclusively sourced and negotiated investments, avoiding highly competitive, expensive auction processes
- Combination of thematic sourcing and relationship-driven investments with high quality management teams and partners

➤ **DOWNSIDE PROTECTION**

- Investments in highly strategic assets with strong contracted cash flows
- Structural protections (such as preferred position in capital structure) frequently provide additional protection of invested capital

Stonepeak believes its focused investment strategy and experienced team represent a unique opportunity in North American infrastructure investing

Investment Focus – Infrastructure Target Sectors



Midstream Energy

- The emergence of horizontal / directional drilling and the discovery of new oil and gas production basins has, in our view, resulted in a once-in-a-generation build-out of associated new infrastructure
- Target investments include contracted pipelines, storage, processing facilities, and crude-by-rail terminals



Power Generation

- Increasingly strict environmental standards, historically cheap natural gas prices, the need for flexible generation capacity to integrate new renewable energy supplies, and tightening reserve margins (especially in the South / Gulf Coast and California) present significant opportunities for gas-fired power generation in our view
- Target investments include operating or construction-ready contracted gas-fired generation projects



Alternative Energy

- Government investment incentives, ambitious renewable portfolio standard (RPS) requirements, rapidly improving technology (and declining costs), and the emergence of distributed generation business models have, in our view, combined to create massive investment opportunities in alternative energy
- Target investments include contracted solar, wind, and energy storage opportunities



Water

- Aging infrastructure, increasing environmental requirements, lack of capital and a fragmented U.S. water industry owned by public sector, are factors which we believe push the trend towards the involvement of the private sector
- Target investments include water desalination projects, consolidation of small-scale water utilities, alternative water technologies, water reuse and wastewater treatment



Transportation

- Rail has experienced strong pricing power as a result of high utilization and an inability to expand track miles
- Rising long-term cost trend in trucking driven by fuel prices, congestion
- Investments may include port infrastructure, highly defensible barge and terminal businesses (e.g. Tidewater), and short line / regional railroads with roll-up opportunities



Telecommunications Infrastructure

- The ubiquitous penetration of smartphones and ever increasing list of connected devices (including tablets, wearables, cars, appliances, etc.) has resulted in significant growth in wireless data usage, necessitating a continued rapid expansion of wireless towers and antenna infrastructure
- Target investments include wireless towers and distributed antenna systems (DAS)

Stonepeak Fund I and II Portfolio Highlights

											
FUND	Fund I	Fund I	Fund I	Fund I	Fund I and II	Fund II	Fund II				
DATE	August 2012	December 2012	December 2012	October 2013	March 2014	November 2014	November 2015	October 2015	January 2016	March 2016	April 2016
STATUS	Realized (Aug. 2014)	Active, operating	Active, Operating	Realized (Oct. 2015)	Active, operating	Active, operating	Active, Operating	Active, Operating	Active, Operating	Active, Operating	Active, Operating
ASSET CLASSIFICATION¹	Core	Value-Add	Core	Core Plus	Core Plus	Core Plus	Core Plus	Core Plus	Core Plus	Core Plus	Core Plus
EXCLUSIVELY SOURCED	✓	Limited auction	✓	✓	✓	✓	Limited auction	✓	✓	✓	✓
SECTOR	Renewables	Transport	Water	Transport	Midstream	Comms. Infrastructure	Comms. Infrastructure	Midstream	Midstream	Midstream	Midstream
LP Co-INVEST OFFERED			✓				✓	✓		✓	✓
FUND EQUITY COMMITMENT	\$11m	\$120m	\$107m	\$64m	\$350m	\$150m	\$247m	\$344m	\$140m	\$440m	\$440m

- ~\$2.4bn of aggregate Fund I and Fund II equity commitments across 11 investments to-date
 - Generated an additional ~\$1.4bn of potential co-investment opportunities to-date
 - Co-investment offered on 5 of the 11 deals closed to-date
- Actively invested across diversified set of infrastructure sectors
- Focus on relationship-driven, non-intermediated, 'off-the-run' sourcing
- Stonepeak seeks strong downside protection through a combination of high-quality contracted cash flows and thoughtful deal structuring to ensure capital preservation

1) Asset classifications reflect Stonepeak's internal view of the classification of infrastructure assets

Fund II – Investments To-Date

- Stonepeak Infrastructure Fund II LP (“Fund II”) investment period kicked off in January 2016 with the closing of the PAA Preferred Equity Investment, \$40mm of which was allocated to Fund II
- Fund II has made three investments to-date representing nearly \$1bn of aggregate invested capital
 - Represents 26% of total Fund II Capital Commitments of \$3.5bn deployed thus far in the first half of 2016
- Total of ~\$1.1bn of co-invest opportunity combined between the Targa and MPLX investments

<u>Fund II Investments To-Date</u>	<u>Deal</u>	<u>Date</u>	<u>Sector</u>	<u>Fund II Equity</u>	<u>Total Deal Size</u>	<u>Cash Yield</u>	<u>Overview</u>
	Plains All American (NYSE: PAA)	Jan 2016	Midstream Energy	\$40mm ⁽¹⁾	\$1,560mm	8% ⁽²⁾	<ul style="list-style-type: none"> • 8% perpetual convertible preferred equity • Proceeds used to fund remaining capital expansion program • Largest crude-oil centric MLP in North America
	Targa Resources (NYSE: TRGP)	March 2016	Midstream Energy	\$440mm	\$1,000mm	9.5% ⁽²⁾	<ul style="list-style-type: none"> • 9.5% perpetual preferred equity with detachable warrants • Proceeds used to retire debt • One of the largest independent midstream operators in North America with focus on gas gathering and processing and NGL transportation and logistics
	MPLX (NYSE: MPLX)	May 2016	Midstream Energy	\$440mm	\$1,000mm	6.5+% ⁽³⁾	<ul style="list-style-type: none"> • 6.5% convertible preferred equity • Proceeds used to fund growth capex • Leading processor of rich gas in the Marcellus and Utica shale plays

(1) Stonepeak Infrastructure Fund I LP (“Fund I”) also invested \$100mm in Plains All American Preferred Equity offering

(2) Represents the preferred equity distribution, though both transactions allow the issuer the option to elect to pay-in-kind for the first two years

(3) Preferred distributions set at 6.5% coupon for the first two years, after which the coupon tracks the common distributions on an ‘as-converted’ basis

Summary Co-Investment Sidecar Terms

CARRIED INTEREST	<ul style="list-style-type: none"> ▪ 0% on all cumulative co-investment amounts up to the investor's Fund II capital commitment ▪ 7.5% on all aggregate co-investment amounts in excess of investor's Fund II capital commitment ▪ <i>No carried interest applicable to proposed Rhode Island \$10mm sidecar commitment</i>
MANAGEMENT FEE	<ul style="list-style-type: none"> ▪ No management fee on all cumulative co-investment amounts up to the investor's Fund II capital commitment ▪ ½ of the management fee rate applicable to such investor's Fund II commitment on all aggregate co-investment amounts in excess ▪ Charged on invested capital only (no fees charged on capital committed to the sidecar vehicle but not yet invested/called) ▪ <i>No management fee applicable to proposed Rhode Island \$10mm sidecar commitment</i>
INVESTMENT PERIOD	<ul style="list-style-type: none"> ▪ Five years from the first closing date (coincides with Fund II)
TERM	<ul style="list-style-type: none"> ▪ 12 years from the first closing date with up to three one-year extensions (coincides with Fund II)
INVESTMENT OBJECTIVE	<ul style="list-style-type: none"> ▪ To generate attractive returns primarily through privately-negotiated equity and equity-related investments in infrastructure assets and businesses in the United States and Canada ▪ To participate alongside Fund II in investment opportunities for which co-investment is offered

Fund II Co-Investment Sidecar Summary

- The objective of the co-investment sidecar is exclusively to participate alongside Fund II on transactions where the Fund has received its full target investment amount
 - The sidecar will not invest in deals where Fund II does not make an investment
 - The sidecar will not displace Fund II from holding its target investment amount in a given deal
- The sidecar will be able to participate in any Fund II deal where co-invest is made available (across all sectors in which we are active)
- The sidecar is intended to formalize and streamline the co-investment process for existing Fund II LPs, but will not fundamentally change the terms or availability of co-investment opportunities
 - Co-investment fee structure is equivalent whether participating in the sidecar or independently
 - LPs will continue to be offered their pro-rata share of co-investment opportunities regardless of whether they commit to the sidecar

Conclusion

- We view a \$10mm commitment to the Fund II co-investment sidecar as an attractive opportunity for the Employees' Retirement System of Rhode Island to efficiently gain additional exposure to select investments alongside Fund II
- Executing co-investment will allow Rhode Island to meaningfully reduce its average fee load
 - Co-investment alongside Fund II is on a no-fee / no carried interest basis up to the amount of Rhode Island's commitment to the main Fund
 - Executing co-investment on the full \$10mm sidecar commitment would allow Rhode Island to reduce its weighted average management fees and carried interest by 0.26% and 2.8%, respectively, across its combined commitments to Stonepeak Fund II and the co-investment sidecar

APPENDIX

Appendix: Stonepeak Fund II Case Study

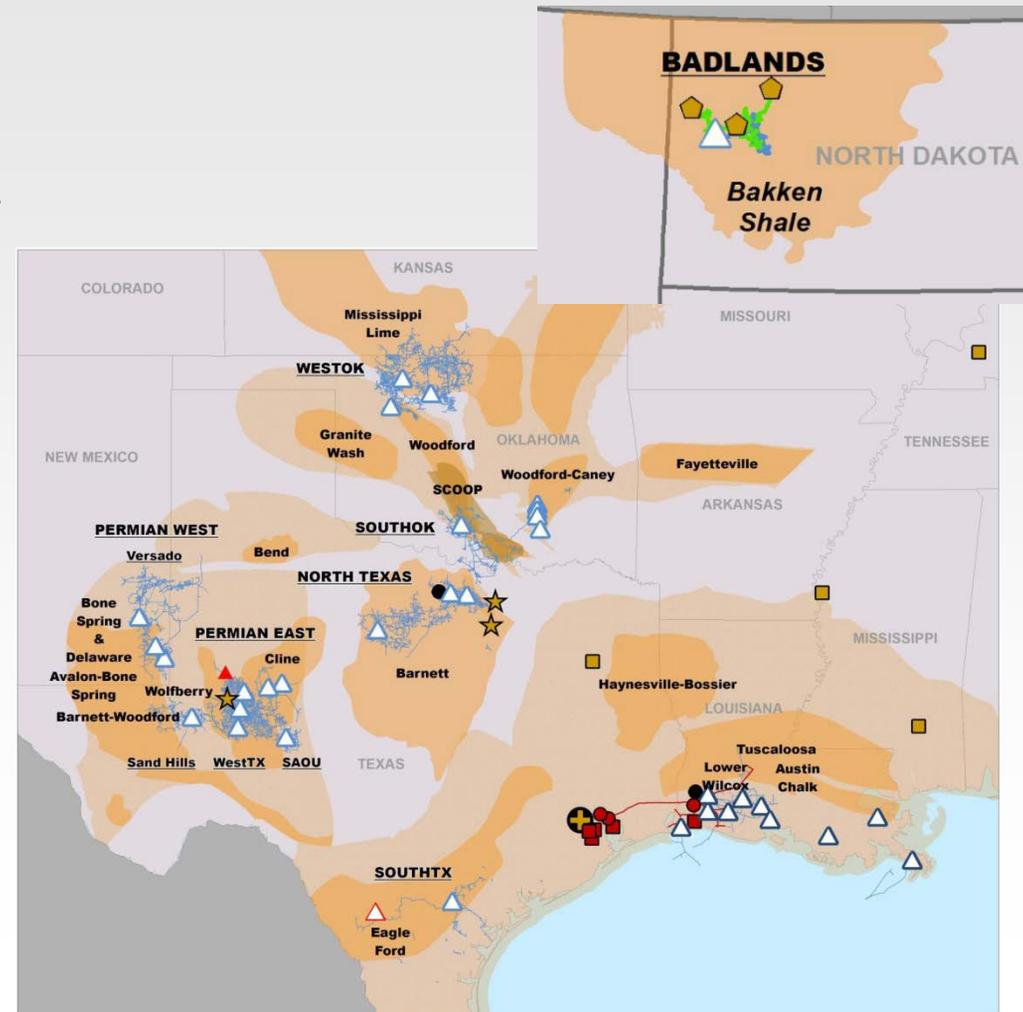
Targa Resources Corp.



Transaction Overview

- On March 17th, Stonepeak Infrastructure Partners (“Stonepeak”) closed a \$490mm preferred equity investment in Targa Resources Corp (“TRGP”, “Targa”, “TRC” or the “Company”) as lead investor in a total \$1.0 billion preferred issuance
 - Subsequently sold down a portion of the Fund II commitment to co-investors, resulting in \$440mm total Fund II hold
 - An aggregate of \$220mm of additional preferred equity investment in Targa is held by Stonepeak co-investors
- TRC is a leading provider of midstream services and is one of the largest independent midstream energy companies in North America
 - Footprint across multiple shale and natural resource plays, including the Permian Basin, Eagle Ford Shale, Bakken Shale, Anadarko Basin (SCOOP), Arkoma Basin, Barnett Shale, onshore Louisiana and the Gulf of Mexico
 - Strong presence in the Permian Basin, the lowest cost basin in the U.S.
 - TRC also has the 2nd largest fractionation presence at Mont Belvieu and 2nd largest LPG export presence on the U.S. Gulf Coast
- Proceeds from the offering will be used to repay indebtedness and fund a capex buildout that will add to projected EBITDA (\$525mm of expected capex spend in 2016E)
- Key terms of the offered securities:
 - 9.5% Series A Preferred
 - 13.6 million warrants at 10-day VWAP (\$18.88); 6.5 million warrants at 33% premium to 10-day VWAP (\$25.11), all with a 7-year term (for full \$1.0bn issuance)
 - TRC can redeem the Preferred after 5 years
 - After 12 years, TRC and Stonepeak can redeem into TRC common stock under certain conditions

Targa Resources Corp Asset Map



Appendix: Stonepeak Fund II Case Study

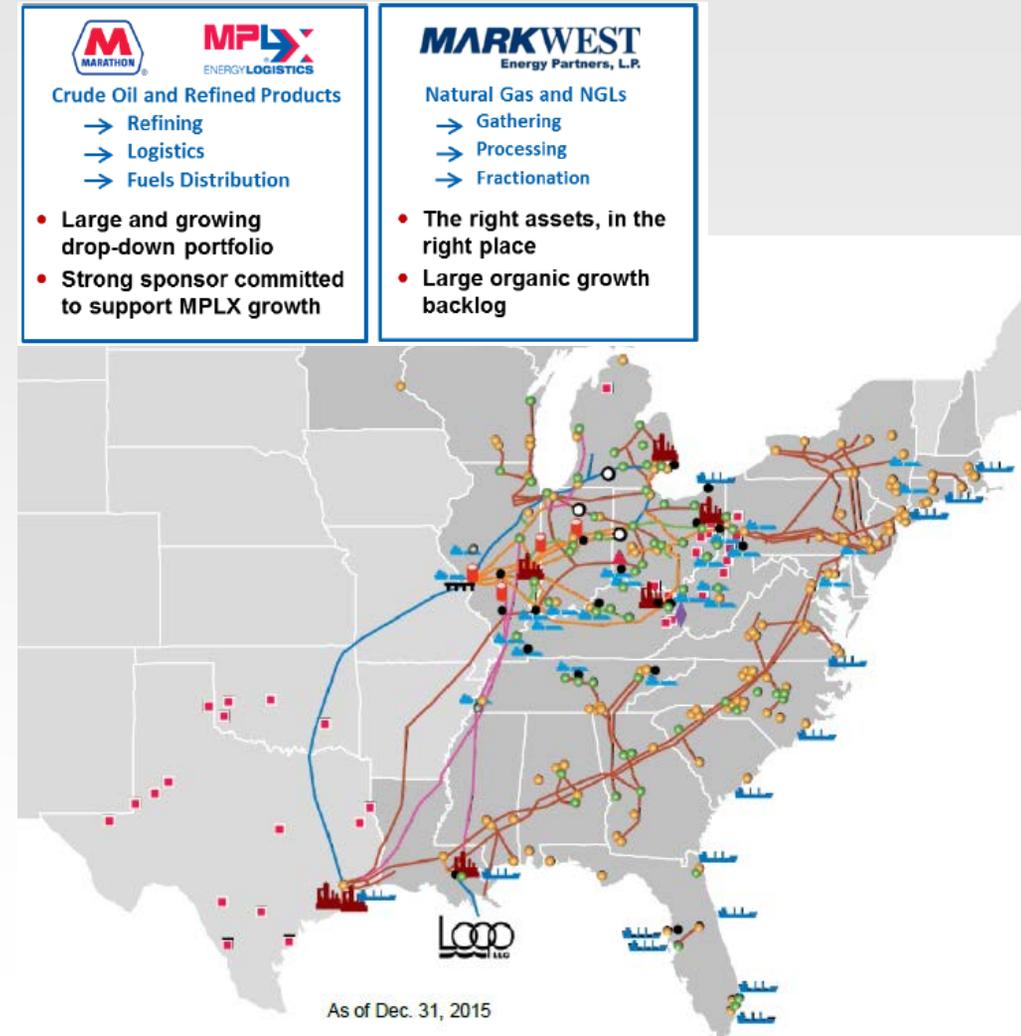
MPLX



Transaction Overview

- On April 27th, Stonepeak Infrastructure Partners (“Stonepeak”) executed a \$630mm preferred equity investment into MPLX LP (“MPLX” or the “Company”) as the lead investor in its \$1.0Bn offering
- MPLX is the publicly-traded drop-down MLP of Marathon Petroleum Corporation (NYSE:MPC) formed to own, operate, develop and acquire midstream energy infrastructure assets
 - MPLX is the leading processor of rich gas in the Marcellus and Utica shale plays, processing ~75% of total rich gas production across the two basins and with plans to substantially increase its footprint
 - Significant revenue visibility and protection from commodity price movements with over 90% fee-based revenues
- Proceeds from the offering will be used to fund growth capital expenditures that are expected to support projected distribution growth
- Key terms of the preferred equity:
 - Series A Preferred Equity with 6.5% cash distributions
 - Convertible at Stonepeak’s election after three years
 - Convertible at MPLX’s election after four years, subject to certain conditions
 - Purchase price of \$32.50 per unit (0.2% premium to closing price as of 4/27/2016)

MPLX Asset Map



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No Assurance of Investment Return. There can be no assurance that the Fund’s objectives will be achieved or that a limited partner will receive any distribution from the Fund. An investment should only be considered by persons who can afford a loss of their entire investment.

Leveraged Investments. The assets in which the Fund invests (including those discussed herein) are expected to employ significant leverage. The leveraged capital structure of such assets will increase their exposure to certain factors such as rising interest rates, downturns in the economy, or deterioration in the financial condition of such assets or industry. In the event an asset cannot generate adequate cash flow to meet its debt service, the Fund will suffer a partial or total loss of capital invested in the asset, which would adversely affect the returns of the Fund and/or the performance of its investments.

No Market for Limited Fund Interests and Restrictions on Transfer. Interests in the Fund have not been registered under the securities laws of any jurisdiction, and, therefore, cannot be sold unless they are subsequently registered under applicable securities laws or an exemption from registration is available. There is no public market for Interests in the Fund and one is not expected to develop. A Limited Partner will generally not be permitted to assign, sell, exchange, or transfer its Interest in the Fund without the consent of the general partner (which consent may not be unreasonably withheld).

Failure to Make Payments. If a limited partner fails to make capital contributions or other payments when due to the Fund, such limited partner will be subject to various remedies including, without limitation, preclusion from further investment in the Fund, reductions in its capital or loan account balance, and a forced sale of its Interest in the Fund.

Highly Competitive Market for Investment Opportunities. The activity of identifying, completing and realizing attractive investments is highly competitive and involves a high degree of uncertainty. There can be no assurance that the Fund will be able to locate, consummate and exit investments that satisfy the Fund’s rate of return objectives or realize upon their values or that it will be able to invest fully its committed capital.

Reliance on the General Partner and the Investment Advisor. The success of the Fund will depend in part upon the skill and expertise of the professionals of employed by the General Partner. The interests of these professionals in the general partner and the investment advisor should tend to discourage them from withdrawing from participation in the Fund’s investment activities. However, there can be no assurance that such professionals will continue to be associated with the general partner or its affiliates throughout the life of the Fund.