



State of Rhode Island
Office of the General Treasurer

Stonepeak Infrastructure Fund V Staff Recommendation

January-2024

RECOMMENDATIONS:

- **Rhode Island Employees Retirement Systems Pooled Trust:** Approve i) a commitment of up to \$25 million to Stonepeak Infrastructure Fund V (“SIF V”) and ii) an amendment to allow for Stonepeak Master Co-Investment Partners L.P. (“SMCP”) co-investing with Stonepeak Infrastructure Fund V. ERSRI previously committed \$43 million to Stonepeak Infrastructure Partners Fund II (“SIF II”) a 2016 vintage fund, \$35 million to Stonepeak Infrastructure Partners Fund III (“SIF III”) a 2018 vintage fund, \$50 million to Stonepeak Infrastructure Partners Fund IV (“SIF IV”) a 2020 vintage fund, \$25 million to Stonepeak Opportunities Fund LP (“SOF” or “Stonepeak Middle Market Fund”) a 2023 vintage fund focusing on middle market companies, and \$30 million to SMCP that’s structured to co-invest in parallel with SIF II, III & IV.
- **Rhode Island OPEB System Trust:** Approve a commitment of up to \$2 million to Stonepeak Infrastructure Fund V (“SIF V”). OPEB, in 2023, committed \$2 million to Stonepeak Opportunities Fund LP (“SOF” or “Stonepeak Middle Market Fund”).

ASSET CLASS: Private Real Assets (ex-Real Estate)

SUB-STRATEGY: Infrastructure (Value-Add)

ALLOCATIONS:

- **Rhode Island Employees Retirement Systems Pooled Trust:** The target allocation for Private Real Assets (ex-Real Estate) is 4% and the actual allocation as of 12/31/2023 is 4.0%. The preliminary pacing plan for 2024 is \$50 million to 1-2 primary funds per year at \$25-50 million per fund. Pending approval, ERSRI’s 2024 commitments will be \$25 million.
- **Rhode Island OPEB System Trust:** Effective January 1, 2023, the target allocation for Private Real Assets (ex-Real Estate) is 4% and the actual allocation as of 12/31/2023 is 1.4%. The preliminary pacing plan for 2024 is \$4-8 million committed to 2-4 primary funds at \$2 million per fund. Pending approval, OPEB’s commitments will be \$2 million in 2024.

PORTFOLIO FIT:

- **Rhode Island Employees Retirement Systems Pooled Trust:** The Private Real Assets (ex-Real Estate) portfolio consists of six managers. The allocation is built around a base of private infrastructure funds and may also invest in other real assets, ex-real estate such as farmland to provide additional diversification. As part of the Inflation Protection bucket, the Private Real Assets allocation is meant to exhibit inflation hedging characteristics. Infrastructure valuations are little impacted by inflation in the medium to long-term as many infrastructure assets have strong contractual projections (take-or-pay contracts), pass-through protections and fixed rate debt.

In April 2023, RI State Investment Commission (“RI SIC”) approved up to \$25 million to Stonepeak Opportunities Fund LP, which targets the same four key focus sections that the flagship SIFs are targeting – digital infrastructure, energy transition, transportation & logistics and social infrastructure. The plan is to split 50/50 between SOF and SIF V to create a mix of middle and large infrastructure assets in the same four key focus sections. Pending approval of a \$25 million commitment to Stonepeak Infrastructure Fund V, Stonepeak would represent 32% of exposure (NAV + unfunded commitments), as of 9/30/2023, in Private Real Assets (ex-Real Estate).

- [Rhode Island OPEB System Trust](#): The Private Real Assets (ex-Real Estate) portfolio is in the process of ramping up to its target allocation through commitments made in tandem with those from ERSRI. Pending approval of a \$2 million commitment to Stonepeak Infrastructure Fund V, the fund would represent 28% of exposure (NAV + unfunded commitments) as of 9/30/2023, in Private Real Assets (ex-Real Estate).

MERITS:

- [Experienced Team, Larger Platform & Consistent Key Focus Sections](#): Stonepeak was founded in 2011 and its fund size has grown from \$1.6 billion (SIF I) in 2012 to \$3.5 billion (SIF II) in 2016, to \$7.2 billion (SIF III) in 2018 and to \$14 billion (SIF IV) in 2020. Stonepeak raised its first dedicated middle market fund with the same sector focus in 2023. Stonepeak has built an investment team of 120+ members and a large group of dedicated operating partners to support its global infrastructure platform. Its senior leadership team are supported by investment team members in key focus sections.
- [Sourcing, Operating Partners & Value Add](#): Across all Stonepeak’s flagship North American funds, most deals are sourced off-the-run, without a competitive process, which allows for favorable entry valuations. The ability to source off the market shows Stonepeak’s deep sector-specific relationships, experience, and insight. Stonepeak always looks to identify opportunities that valuation is not the only dimensions that the counterparty is trying to maximize in the transaction. Stonepeak employs a team of operating partners, senior advisors, and industrial specialists to add value through operational enhancement. Stonepeak’s ability to act quickly and to solve complex issues have made it an attractive partner.
- [Downside Protection & Inflation Protection](#): Stonepeak has a rigorous and disciplined diligence process that focuses on downside protection. The investment team uses a conservative model as part the underwriting process and stress-test the impact of various combinations of assumptions to develop a bear case. The team focuses on understanding the impact of potential downside risks and how the team might mitigate them. Stonepeak seeks to ensure at least a full return of invested capital in its downside case, and it has a 0% overall loss ratio across 46 total investment deals. SIF V will target companies that have 1) high barriers to entry and 2) stable, inflation-adjusted cash flow. Structural protection is often used to enhance downside protection while giving up on some upside.

Risks:

- [Rapid Organization Expansion](#): Stonepeak has hired more than 100 professionals since 2018, doubling the team size. Rapid expansion may create issues. The expansion of team comes with new strategies – Stonepeak Asia Infrastructure Fund, Global Renewable Fund, Real Estate Fund and Stonepeak Core Fund.
 - [Mitigant](#): Stonepeak will continue to expand ownership through shares in the Firm. Professionals will be compensated and incentivized to possess and improve upon these strong performing investments.

ESG:

- [ESG](#): Stonepeak is categorized as an ESG **Leader**. Stonepeak has a Responsible Investment Policy that is intertwined with sourcing, due diligence, and operation and is reviewed annually. A mandatory ESG checklist is instituted for all transactions that proceed to the Investment Committee and Stonepeak holds quarterly ESG portfolio reviews. Stonepeak is a signatory to “PRI – the Principles for Responsible Investment,” “TCFD - Task Force on Climate-related Financial Disclosures”, and “NZAM - Net Zero Asset Managers”. Stonepeak has committed to reducing firm-level emissions by more than 50% by 2025 (vs. a 2019 baseline) with established plans to achieve net zero by 2050. The ESG performance for Stonepeak and all portfolio companies is calculated through an internally developed ESG dashboard. A portion of senior management discretionary compensation at the firm and portfolio company level is attributed to ESG KPIs/metrics.
- [DE&I](#): Stonepeak is committed to creating a diverse and inclusive team. Stonepeak has also partnered with organizations that focus on increasing the universe of potential diverse candidates and it has updated both the recruiting and interview process to include diverse candidates for all open roles. Stonepeak has set a goal that all majority-controlled portfolio companies will have at least one diverse board member within one-year of ownership.

FEES: Fee terms are in-line with industry standards.

- **Management Fee & Carry:** The management fee is 1.4% (including a 10bps first close discount) on committed capital during the five-year investment period and on invested capital thereafter. Carry is 20% on the deal-by-deal-level after a 8% hurdle. The fees will be further reduced to 1.275% if Cliffwater aggregates \$250M in commitments to SIF V.

Appendix 1: ERSRI Prior Fund Exposure

Current Partnerships	Vintage Year	Type	Amount Committed	Amount Drawn	Amount Distributed	Amount Unfunded	Valuation	Exposure (Unfunded + Valuation)
Stonepeak Infrastructure Partners Fund II	2016	Value Add Infra	43,000,000	54,600,603	68,151,494	6,179,285	12,439,913	18,619,198
Stonepeak Infrastructure Partners Fund III	2018	Value Add Infra	35,000,000	37,624,948	12,642,402	4,926,276	43,418,488	48,344,764
Stonepeak Infrastructure Fund IV LP	2020	Value Add Infra	50,000,000	23,290,842	464,977	27,013,573	25,654,823	52,668,396
Stonepeak Opportunities Fund LP	2023	Value Add Infra	25,000,000	3,705,178	0	21,339,044	3,333,026	24,672,070
Stonepeak Infrastructure Partners Master Co-Investment Partners LP		Value Add Infra	20,000,000	22,772,997	12,997,566	7,727,946	25,191,837	32,919,783

* Data as of 9/30/2023

Appendix 2: ERSRI Prior Fund Performance

Current Partnerships	Vintage Year	Type	Net Performance*		Public Market Equivalent (PME)		
			Net IRR (%)	Net Multiple	Distributed to Paid-In Capital (DPI)	MSCI ACWI Net PME IRR**	Fund Excess Return (Fund IRR - PME IRR)
Stonepeak Infrastructure Partners Fund II	2016	Value Add Infra	13.4%	1.5	1.2	11.1%	2.3%
Stonepeak Infrastructure Partners Fund III	2018	Value Add Infra	14.5%	1.5	0.3	7.6%	6.9%
Stonepeak Infrastructure Fund IV LP	2020	Value Add Infra	8.1%	1.1	0.0	-0.4%	8.5%
Stonepeak Opportunities Fund LP	2023	Value Add Infra	N/A	N/A	N/A	N/A	N/A
Stonepeak Infrastructure Partners Master Co-Investment Partners LP		Value Add Infra	16.3%	1.7	0.6	9.9%	6.5%

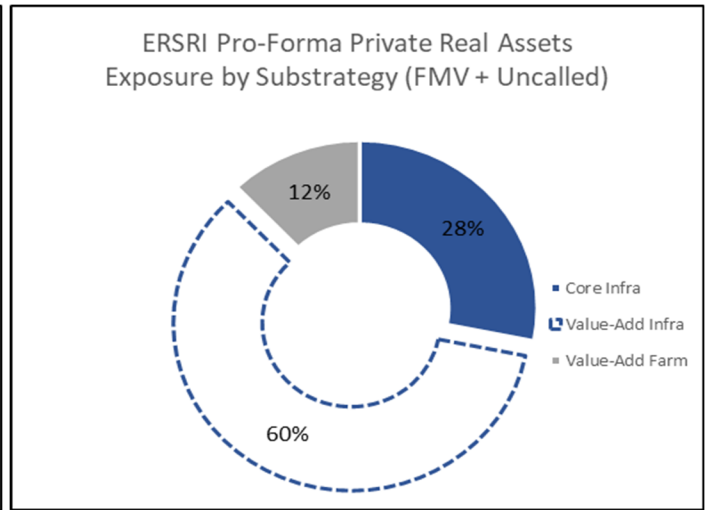
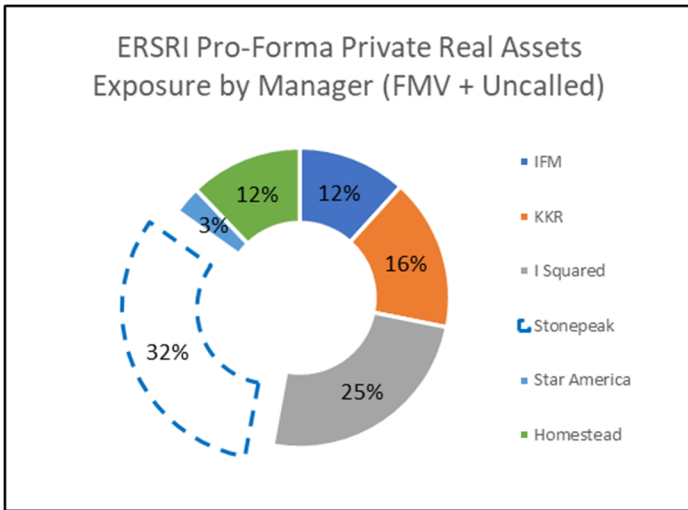
* Data as of 9/30/2023

* Long Nickels PME Methodology

Appendix 3: ERSRI Private Real Assets (ex-Real Estate)

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

Appendix 4: ERSRI Portfolio Fit



Appendix 5: OPEB Portfolio Fit

