

Recommendation for KKR Diversified Core Infrastructure Fund

To: RISIC
Prepared: May 11, 2021
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The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on KKR Diversified Core Infrastructure Fund ("KKR DCIF" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI's Real Asset allocation.

Summary of KKR Diversified Core Infrastructure Fund

Fund Overview: The KKR DCIF is an open-ended fund that will focus on critical core infrastructure investments with low volatility and strong downside protection.

People and Organization: Kohlberg Kravis Roberts & Co. ("KKR" or the "Firm") was founded in 1996 by Henry Kravis and George Roberts. In total, the Firm consists of approximately 1,600 employees across offices located globally in markets KKR is or intends to invest capital across its various strategies. In 2009, the Firm combined both its private and public entities and subsequently became listed on the New York Stock Exchange. The Firm initiated its infrastructure investment practice in 2010. The Firm launched its first dedicated infrastructure Fund, KKR Global Infrastructure Investors (Fund I) in 2009. In 2019, the Firm launched fundraising for KKR Asia Pacific Infrastructure Fund I which has closed on approximately \$3.3 billion of commitments. KKR has approximately 360 private market investment professionals and the infrastructure team consists of 46 investment professionals.

Investment Strategy and Process: KKR DCIF will focus on critical core infrastructure investments with low volatility and strong downside protection. The Fund will execute its strategy with a focus on a "buy simplicity and hold simplicity" strategy within an open-ended structure that aligns with the long-term cash flows and contracts of the underlying assets. The target investments will require less operational improvements due to their mature nature. Where applicable, KKR will utilize its broad set of value-add resources to create incremental operational improvements that drive incremental returns with a low risk profile. The Fund is targeting an overall gross return of 8% to 10% and an overall time-weighted net return of 7% to 9%. The Fund will focus on critical core brownfield infrastructure investments that have mature cash flow histories with few if any active value-add initiatives. Sectors will include water, wastewater, electricity and natural gas distribution, digital infrastructure, renewable power, contracted transportation, and energy transition. The Fund may invest globally in OECD countries. Initially, the Fund will invest \$250 million to \$750 million per transaction with the expectation that larger investments will be made as the Fund matures and grows.

Performance: Since 2011, KKR has raised three dedicated global infrastructure funds, totaling \$11.39 billion in total commitments. Unlike KKR DCIF, these funds have a value-added strategy taking more risk than the Fund's strategy. As of December 31, 2020, the funds have invested \$7.49 billion, distributed \$5.07 billion, and generated a fair market value of \$6.37 billion, for a total return of 1.53 times invested capital. As of December 31, 2020, the three funds have generated an aggregate net IRR of 16.1%, outperforming the Dow Jones Brookfield Global Infrastructure Index by 11.1%.

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Investment Terms: The Fund is an open-ended structure with an annual management fee for commitments less than \$200 million of 0.8% of net asset value. For investors who commit within one year of the initial close, the management fee for the first six years declines to 0.6% for commitments between \$50 million and \$200 million. The Fund has a three-year hard lock-up followed by a three-year soft lock-up with a 5% early redemption fee. There is no performance fee for the first six years. After year six, the Fund charges a carried interest equal to 5% of the asset level cash yield subject to a minimum asset level cash yield hurdle of 4%. KKR will commit at least \$500 million to the Fund.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$100 million in KKR Diversified Core Infrastructure Fund as part of ERSRI's Real Asset allocation.