TO: The Employee Retirement System of Rhode Island and the Other Pension Employee Benefits Plan
FROM: Meketa Investment Group
DATE: August 16, 2023
RE: IPI Partners III

On behalf of The Rhode Island Employees Retirement Systems Pooled Trust ("ERSRI") along with The Rhode Island OPEB System Trust ("OPEB"), (collectively, the "Plans"), Meketa Investment Group ("Meketa") has conducted due diligence on IPI Partners III, L.P. ("IPI III," "Fund III," or the "Fund") and its sponsor, IPI Partners, LLC ("IPI" or the "Firm"). The opportunity is being considered as part of the Plans' Non-Core real estate allocation, within the Private Growth class. The Fund's value-add risk profile and data center sector focus supports the objective of diversifying ERSRI's non-core holdings with sectors supported by favorable demographic trends. Based on the Plans' investment strategies, the merits of the Fund and the information provided in this summary, Meketa is of the opinion that an investment in the Fund is a prudent investment opportunity for the Plans. Meketa's opinion is limited to the merits of the Fund and does not constitute, nor shall it be considered tax, legal, or transaction-structuring advice. In making any investment decision with respect to this Fund, the Plans may rely on this report but must also make their own examination and assessment of the Fund, including the terms of the offering, the merits, and the risks involved.

Investment Overview

IPI Partners Fund III is a value-add, closed-end fund targeting data center assets in the United States, Europe, and Asia Pacific. The Fund is targeting a 13%-17% gross IRR and a 10%-14% leveraged net IRR. The Fund will target a 40% loan-to-value ratio on an asset and portfolio-level basis, subject to a 65% portfolio level limit.

Organization

IPI was established in 2016 as a 50/50 joint venture between ICONIQ Capital ("ICONIQ"), a private wealth management firm, and Iron Point Partners ("Iron Point"), a real estate private equity manager. Prior to co-founding IPI, Iron Point had invested in data center properties since raising its first fund in 2006. ICONIQ and Iron Point agreed to join forces and create a standalone business primarily focused on data center investments. Recognizing the need for a dedicated team to pursue this opportunity, the sponsors selected CEO Matt A'Hearn to lead the new company based on his experience in the sector and his longstanding relationship with Iron Point. IPI currently employs a team of over 50 professionals. Approximately 83% of the team are based in the U.S., while roughly 13% and 4% of the team are based in Europe and the Asia Pacific region, respectively.

Since inception, the Firm has raised and invested two commingled funds. IPI Partners Fund I closed on approximately $1.5 billion in 2016, and IPI Partners Fund II fund raised roughly $3.8 billion in 2020. IPI Fund III is targeting $4.0 billion in equity commitments and has agreed to limit commitments to $6.0 billion.

Fund III Strategy

The incessant demand, and persistent undersupply, for data center space by the large, domestic cloud services providers is the driving force behind the Fund's investment opportunity. The Fund will focus on the global needs of large, cloud services hyperscalers[1] like Amazon Web Services, Google Cloud Platform, and Microsoft Azure. IPI estimates that hyperscale leases will account for 80% of the Fund's revenues.

IPI Partners Fund III will invest in data center assets, primarily through build-to-suit developments for hyperscale tenants. Additionally, the Fund may acquire other assets including fiber, towers, and other technology and connectivity-related infrastructure. The Fund will target long-term leases with a single tenant in most of its assets. Investments in land acquisition and pre-development costs may not exceed 25% of aggregate commitments before new land acquisitions and developments commence. IPI does not have pre-lease requirements to build new data centers but often fully leases each property before completion.

The Fund will target a 40-50% allocation to investments within the United States, a 30-40% investment allocation to Europe, and a 20-30% investment allocation to Asia Pacific. IPI has expanded its current relationships with hyperscale tenants in the US through acquisitions and developments in the European and Asia Pacific regions. No more than 25% of aggregate commitments may be invested outside of the Organization for Economic Co-Operation and Development's 38 member countries.

Terms

The Fund has secured $1.5 billion in commitments as of August 1, 2023. The General Partner will commit the lesser of 1% of capital commitments or $40 million to the Fund. The management fee is 1.50% of commitments during the investment period and 1.50% of invested capital thereafter. The Fund has a 7% preferred return, a 20% carried interest structure, and a 50% / 50% catch-up provision calculated on a whole-fund basis.

Meketa believes that the general partner's 7% preferred return hurdle is low given the nature of the Fund's strategy. An 8% preferred return hurdle is more common for non-core funds.

[1] A hyperscaler is a firm that sells elastic computing infrastructure, data storage, and other cloud computing services to third parties. Hyperscale customers typically buy cloud computing services on an as needed basis and can scale their usage of computing power or storage up or down as workloads require.

Fund Performance

IPI Partners, LLC
As of March 31, 2023

Fund	Vintage Year	Invested ($M)	Realized Value ($M)	Total Value ($M)	Net Multiple (X)	Net IRR (%)	Top Quartile[2] (%)
IPI Data Center Partners I	2016	1,370.3	742.2	2,796.3	1.7	17.9	22.2
IPI Partners Fund II	2020	2,541.9	37.4	2,735.4	1.0	-0.6	21.2
Total		**3,912.2**	**779.6**	**5,531.7**	**1.3**	**13.4**	

IPI Data Center Partners I has generated median performance but is tracking above its targeted return range between a 10%-14% net IRR. Fund I has realized more than 50% of invested capital to date. IPI Partners Fund II is still investing capital in several development projects, and many are held at cost. This, in combination with fees on committed but uncalled capital are the drivers of the slightly negative IRR to date. However, Fund II investments are generally tracking to their business plans with respect to construction, build-out, and leasing. We expect Fund II performance to steadily improve in the coming quarters as more tenants reach their rent commencement dates and additional properties are stabilized.

Recommendation

Meketa recommends a commitment of $15,000,000 should be considered for ERSRI and $450,000 for OPEB, as part of their non-core real estate portfolios. The Fund's value-add risk profile and data center sector focus support the objective of diversifying ERSRI's non-core holdings with sectors supported by favorable demographic trends. The investment is consistent with the role of non-core real estate within the Private Growth sections of the Plans.

[2] Preqin, Global Non-Core Real Estate, As of March 31, 2023.