



State of Rhode Island
Office of the General Treasurer

Meridiam Infrastructure North America IV Staff Recommendation
October-2024

RECOMMENDATIONS:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): Approve a commitment of up to \$40 million to Meridiam Infrastructure North America IV (“MINA IV”).
- [Rhode Island OPEB System Trust](#): Approve a commitment of up to \$3 million to Meridiam Infrastructure North America IV (“MINA IV”).

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

SUB-STRATEGY: Infrastructure (Development-to-Core)

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 9/30/2024 is 4.0%. The pacing plan for 2024 is \$75 million to 1-2 primary funds per year at \$25-50 million per fund. Pending approval, ERSRI’s 2024 commitments will be \$65 million.
- [Rhode Island OPEB System Trust](#): Effective January 1st, 2023, the target allocation for Private Real Assets (ex-Real Estate) is 4% and the actual allocation as of 9/30/2024 is 1.3%. The pacing plan for 2024 is \$4-8 million committed across 2 to 4 primary funds. Pending approval, OPEB’s commitments will be \$5 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.

Meridiam Infrastructure North America IV is a build-to-core strategy, and it intends to design, build, finance, operate and maintain infrastructure assets in North America for the whole life. Meridiam’s greenfield development focus with its whole-of-life approach comes with a 25-yr fund life with an optional extension of 15 years. Longer fund life and whole-of-life approach provides better alignment with public bodies and other stakeholders including end users and local communities. Investments are typically structured as Public-Private-Partnerships (PPPs) and have both availability income (take-or-pay contracts) as downside protection and demand income as inflation linked returns. Unlike closed-end funds that have 10-15 years fund life, MINA IV typically ignores terminal values (in year 25), and disposition of assets is not critical for it to reach its target net return. Pending approval of a \$40 million commitment to Meridiam Infrastructure North America IV, Meridiam would represent 6% of exposure (NAV + unfunded commitments), as of 9/30/2024, 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 \$3 million commitment to Meridiam Infrastructure North America IV, the fund would represent 17% of exposure (NAV + unfunded commitments) as of 9/30/2024, in Private Real Assets (ex-Real Estate).

MERITS:

- **Experienced Team & Deep Network:** Meridiam’s investment team has deep experience in project development, and many come from an engineering background. Meridiam focuses on greenfield development project in PPP markets and less market competition is observed in the space. Meridiam has extensive network relationships with developers, operators and public grantors which helps the firm to develop a long-term pipeline of PPP projects and to form a top tier consortium to successfully winning bidding processes.
- **Downside Protection & Inflation Protection:** Meridiam invests in assets that typically have mixed revenue streams - 1) availability-based revenue which offers downside protection and some inflation projection, and 2) demand based (volume driven) which offers inflation protection and upside. Prior fund assets have shown resilience to inflation and Meridiam seeks to mitigate demand risk by having revenue guarantees from the grantor.

Risks:

- **Limited Distributions during Early/Mid-Stage:** Meridiam intends to hold investments to fund maturity (25 years) and there are no expected major distributions to LPs from asset sales. Cash distributions are almost non-existent during the initial 3-to-5 constructions period and build slowly post construction years. Cash distributions are primary from operating income and will NOT be meaningful until the mid/late-stage of the fund. The limited cash distribution is reflected by Meridiam’s lower DPI compared to funds in the same vintage year which have a shorter fund life (10-to-15 years) and rely on the asset sales for distributions.
 - **Mitigant:** Meridiam supports liquidity events every 2 years starting year 8 and fund investors can potentially sell their interest in the secondary fund market. Meridiam provides a data room and makes management available for due diligence to prospective investors who are seeking stabilized portfolio delivering core/core+ risk/return. There has been adequate investor demand in the past for assets outside design & build phase and past investors were able to sell at or above NAV (“Net Asset Value”).
- **Development & Construction Risk:** Meridiam Infrastructure North America IV will have substantial development and construction risk during the initial 3-to-5 constructions period as the strategy pursues greenfield development projects.
 - **Mitigant:** Meridiam has extensive experience in managing greenfield development projects and transferring such risks to reputable firms/contractors who have adequate guarantees covering the contractual obligations. All Meridiam projects were completed on budget, and most are on time. In a few cases where there was a delay, Meridiam was compensated by the contractor.

ESG:

- **ESG:** Meridiam is categorized as an ESG **Leader**. Meridiam has a robust ESG framework and believes a responsible and sustainable infrastructure will benefit all stakeholders. Meridiam’s ESG principles incorporates several global standards including the UN Principles of Responsible Investment (“UN PRI”) and it has scored well above median score by several agencies such as UNPRI and Moody’s. Meridiam’s focus on ESG aligns the interests of public grantors as those essential infrastructure assets typically have big impacts to local communities and neighboring areas. ESG KPIs are often included in broader performance reporting by project grantors and Meridiam uses a dedicated Sustainability Impact Measurement Platform to track and to monitor progress. A portion of the carried interest is dependent on the achievement of SDG KPIs which get reviewed on a quarterly basis at the asset and fund level.
- **DE&I:** Meridiam has offices in 11 countries and investments in 25 countries. It recruits employees from 48 countries, and it strives to create an environment that’s open and inclusive. Meridiam tracks the progress on diversity metrics such as female share of the board of directors at firm and at portfolio companies’ level through its broader annual questionnaire that includes 200+ ESG/SDG KPIs.

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

- **Management Fee & Carry:** The management fee is 1) 1.3% on committed capital during the five-year investment period, 2) 0.9% on invested capital with CPI indexation from investment periods to year 12, 3) 0.6% on invested capital with CPI indexation from year 12 to year 25. Carry is 15% on the whole fund basis after a 7% hurdle.

Appendix 1: ERSRI Prior Fund Exposure

This section is left blank intentionally. ERSRI has no current exposure to Meridiam.

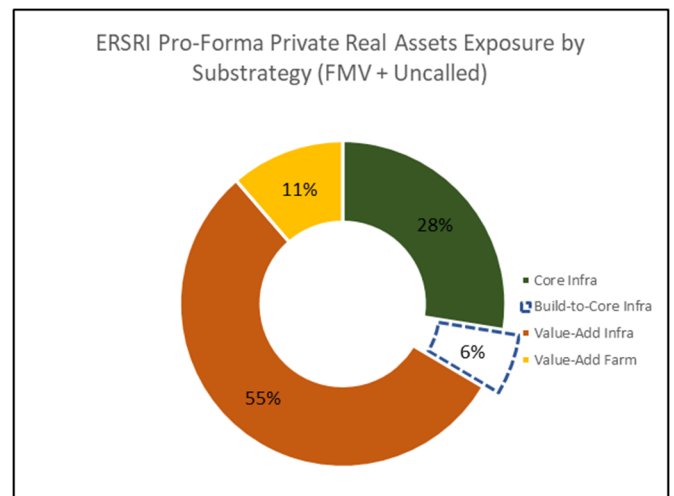
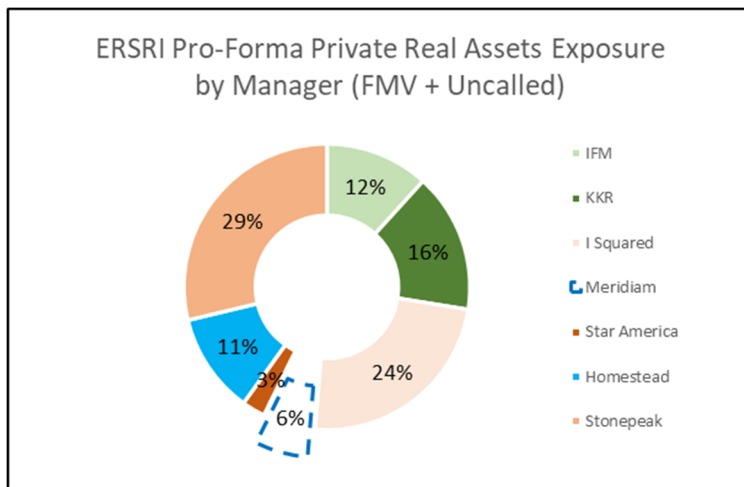
Appendix 2: ERSRI Prior Fund Performance

This section is left blank intentionally. ERSRI has no current exposure to Meridiam.

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
ISquared	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.
Meridiam	Infrastructure	Build-to-Core; Greenfield	Close-ended (25-yr)	PPP	Middle-Large	North America
Homestead	Farmland	Value-add	Close-ended	Prem and row crop	Middle	U.S.

Appendix 4: ERSRI Portfolio Fit



Appendix 5: OPEB Portfolio Fit

