



IPI Partners II, L.P. - Staff Memo

RECOMMENDATION: Approve a commitment of up to \$30 million to IPI Partners II, L.P.

ASSET CLASS: Non-core real estate

SUB-STRATEGY: Value-added strategy focused on data centers

ALLOCATION: The non-core real estate portfolio target allocation is 2.25% and the actual allocation as of 12/31/2020 is 1.6%. This commitment is consistent with our pacing plan of an average of \$80 million per year to 2-3 funds per year at \$25 - \$40 million per fund.

PORTFOLIO FIT: The strategy of the non-core real estate portfolio has been to primarily target funds with a sector focus to which they can bring operational expertise to value-add and opportunistic asset acquisitions. IPI, which is sponsored by ICONIQ Capital and Iron Point Partners, focuses on data centers and other technology and connectivity-related assets. Data centers are facilities composed of networked storage used to organize, process, store, and disseminate large amounts of data. IPI focuses on cloud data centers. ERSRI's real estate portfolio does not yet have a dedicated manager focusing on the data center sector and lacks significant exposure to the sector. It should be noted, that ERSRI's infrastructure portfolio has exposure to data centers. However, the exposure is small as it is not through dedicated strategies and the assets are typically carrier hotels which are data centers that offer colocation services to multiple tenants along with interconnectivity to many network providers which exhibit more infrastructure like characteristics.

MERITS: IPI will invest in stabilized assets, value-add opportunities, and development projects with an emphasis on the latter two categories given its development and operational capabilities. IPI has unique relationships with large technology companies, which look to lease or own data centers, giving the firm a large sourcing advantage. By working closely with these high credit quality tenants on hyperscale built-to-suit opportunities, IPI is able to make largely de-risked development investments which it can then exit into a low cap rate market.

CONCERNS: The firm has a short track record as it is raising its second fund; however, Fund I is performing in line with expectations and there is a strong pipeline for Fund II acquisitions. Additional risks are that competitive markets will continue putting downward pressure on cap rates for stabilized assets as well as potential technology risk. Given this environment, IPI is increasingly focusing on value-add and development opportunities where hold periods are often short and the fund can exit these assets by selling to buyers seeking a high quality stabilized asset.

ESG: IPI is categorized as an integrator. IPI has a formal ESG policy and an ESG committee that is chaired by Partner Matt A'Hearn. The firm has developed ESG due diligence templates and monitoring KPIs. The Fund I portfolio is performing better than industry benchmarks on an efficiency basis. ESG is also stressed as IPI is customer focused and large hyperscale tenants often have their own ambitious ESG goals for their data centers. The firm plans to become a Signatory to the Principles for Responsible Investment.

FEES: The fees are in accordance with industry standards. There is a 1.5% management fee and a 20% carry with a 7% preferred return.