

Recommendation for Stonepeak Infrastructure Fund IV, L.P.

To: RISIC
Prepared: April 7, 2020
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Stonepeak Infrastructure Fund IV, L.P. ("Stonepeak IV" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI's Infrastructure allocation.

Summary of Stonepeak IV

Fund Overview: Stonepeak IV will invest in North American middle to large market infrastructure portfolio companies or assets.

People and Organization: Stonepeak Infrastructure Partners ("Stonepeak" or the "Firm") was founded in 2011 by Michael Dorrel and Trent Vichie ("Co-Founders"). The Co-Founders have worked together for more than 20 years across their time at Macquarie, Blackstone, and in co-founding and leading Stonepeak over the past eight years. Stonepeak's inaugural standalone fund, Stonepeak Infrastructure Fund I ("Fund I"), achieved a final closing in October 2013 with \$1.6 billion of capital commitments. The Firm currently manages over \$17.8 billion in commitments. Stonepeak is managed by Dorrell as Chairman, CEO and Co-Founder. Dorrell is responsible for all day-to-day management decisions of the Firm, including monitoring and managing the capacity of the investment team. Vichie, who once split the workload with Dorrell, leads the investment committee but has stepped back from other day-to-day responsibilities. Additionally, Dorrell and Vichie are supported by six senior managing directors including Jack Howell, Luke Taylor, Brian McMullen, and Hajir Naghdy who collectively bring 13 years of sector and investment experience to the Firm. Stonepeak has also added Peter Bruce and Adrienne Saunders as senior managing directors. Furthermore, the Firm has 71 total employees, including a 40-member investment team, across their New York City (Headquarters), Houston and Austin offices. Stonepeak's common equity is 100% owned by employees. In 2018, the Firm received a passive preferred equity stake from Landmark Partners in exchange for a portion of the Firm's economics.

Investment Strategy and Process: Stonepeak Infrastructure Fund IV ("Fund IV") will target 15 to 20 North American middle- to large market infrastructure portfolio companies, requiring greater than \$250 million of equity, that may require re-contracting, growth equity, or will have unique counter-cyclical characteristics that are under-valued by the market. Stonepeak will apply a high level of downside risk protection through contracting or investing in infrastructure assets that have monopolistic characteristics and/or high barriers to entry within the transportation & logistics, power & utilities, midstream energy, water, and communications infrastructure sectors. The Firm will directly source and negotiate deals to avoid competitive auctions and will target investments through a thesis driven strategy that seeks to build relationships with owners of potential investments. After an investment has been made, Stonepeak will begin to re-position non-core infrastructure assets into core assets, then will seek to generate upside value by selling the core asset to an infrastructure fund and/or other strategic investors who have a lower cost of capital. Additionally, Stonepeak will create value through operational improvements or meaningful add-on growth investments to create a larger asset that will fall into the highly competitive large core infrastructure market.

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Performance: As of September 30, 2019, Stonepeak has generated an aggregate net return of 15.3% and 1.21 times invested capital, while maintaining a 0% loss ratio across 27 total investments in the three prior funds. Furthermore, of the 27 total investments, Stonepeak has fully or partially realized six investments generating a gross IRR of 22.1% and 1.77 times gross invested capital, representing approximately \$1.44 billion of cash distributions. As of September 30, 2019, Fund I, II, and III have outperformed the Dow Jones Global Infrastructure Total Return Index by 5.3%, 5.8%, and 16.4%, respectively. In total, across all three funds, Stonepeak has generated a return of 15.3%. Investing in the Dow Jones Global Infrastructure Total Return Index over the same period would have generated a return of 8.9%. Stonepeak has outperformed the index by 6.4%. Stonepeak's prior three funds have generated net IRRs that exceed the median net IRR for each fund's respective vintage year in Cambridge Associates universe of infrastructure funds.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. During the five-year investment period, limited partners with commitments of (i) less than \$200 million, 1.5% of commitments, (ii) at least \$200 million but less than \$250 million, 1.375% of commitments, and (iii) at least \$250 million, 1.25% of commitments. Thereafter, the same fee percentages are applied to invested capital, commitments made to investments and any outstanding guarantee or borrowing by the Partnership. Cliffwater aggregated client commitments above \$200 million will receive the 1.375% management fee tier. Investors admitted at the initial closing will receive a 0.15% management fee rate discount for the first three years. The Fund has a 12-year term. The Fund charges a carried interest of 20% on a deal-by-deal basis. There is a preferred return for investors of 8% per annum. The general partner will commit at 1.5% of the Fund's commitments.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$50 million Stonepeak Infrastructure Fund IV, L.P. as part of ERSRI's Infrastructure allocation.