



State of Rhode Island
Office of the General Treasurer

Stonepeak Opportunities Fund LP- Staff Recommendation

April-2023

RECOMMENDATIONS:

- **Rhode Island Employees Retirement Systems Pooled Trust: Approve i) a commitment of up to \$25 million to Stonepeak Opportunities Fund LP (“SOF” or “Stonepeak Middle Market Fund”).** ERSRI previously committed \$43 million to Stonepeak Infrastructure Partners Fund II (“SIF II”) a 2016 vintage fund, \$35 million to Stonepeak Infrastructure Partners Fund III (“SIF III”) a 2018 vintage fund, \$50 million to Stonepeak Infrastructure Partners Fund IV (“SIF IV”) a 2020 vintage fund, and \$30 million to Stonepeak Master Co-Investment Partners L.P. (“SMCP”) that’s structured to co-invest in parallel with SIF II, III & IV.
- **Rhode Island OPEB System Trust: Approve a commitment of up to \$2 million to Stonepeak Opportunities Fund LP.**

Current Partnerships	Vintage Year	Type	Amount Committed	Amount Drawn	Amount Distributed	Amount Unfunded (\$)	Valuation (\$)	Net IRR (%)	Net Multiple
Stonepeak Infrastructure Partners Fund II	2016	Value Add Infra	43,000,000	54,362,121	65,337,443	6,417,767	13,971,698	13.61%	1.46
Stonepeak Infrastructure Partners Fund III	2018	Value Add Infra	35,000,000	33,449,705	9,482,496	6,475,370	42,754,082	19.80%	1.56
Stonepeak Infrastructure Fund IV LP	2020	Value Add Infra	50,000,000	18,738,748	385,559	31,505,303	19,421,793	8.21%	1.06
Stonepeak Infrastructure Master Co-Investment Partners LP		Value Add Infra	20,000,000*	19,648,520	12,482,066	852,423	20,528,955	17.52%	1.68

Table above reflects ERSRI’s performance as of 9/30/2022

**State Investment Commission approved an increase of \$10 million to Stonepeak Infra Co- Master-Investment in 2020 which is not reflected in the above table*

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

SUB-STRATEGY: Infrastructure (Value-Add)

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 March 2023 is 3.9%. The pacing plan for 2023 is \$50 million to 1-2 primary funds per year at \$25-50 million per fund. Pending approval, ERSRI’s 2023 commitments will be \$25 million.
- **Rhode Island OPEB System Trust:** Effective January 1, 2023, the target allocation for Private Real Assets (ex-Real Estate) is 4% and the actual allocation as of March 2023 is 0.0%. The pacing plan for 2023 is \$4-8 million committed to 2-4 primary funds at \$2 million per fund. Pending approval, OPEB’s commitments will be \$2 million in 2023.

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. SOF targets the same four key focus sections that the flagship SIFs are targeting – digital infrastructure, energy transition,

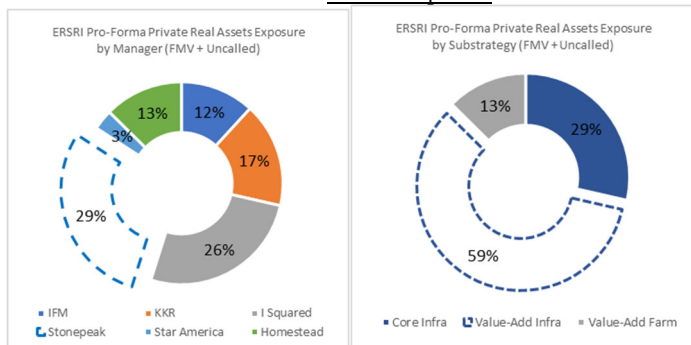
transportation & logistics and social infrastructure which the firm has significant experience and expertise. SOF will primarily invest in North American and European regions, targeting businesses with stable and visible revenue stream, and inflation-adjusted cash flows. SOF will generally continue to seek majority ownership rights and will create operational value-add through partnership among portfolio company management teams, Stonepeak deal team lead, Stonepeak operating partners (the sector-specialists) and Stonepeak internal portfolio operations group. Stonepeak is one of the two diversified value-add infrastructure managers in ERSRI. SOF isn't considered as a strategy shift compared to SIF. Stonepeak will launch SIF V in Q2/Q3 2023. Splitting 50% of the planned budget (\$50 million) from SIF V (to be launched) to SOF creates a mix of middle and large infrastructure assets in the same four key focus sections. Pending approval of a \$25 million commitment to Stonepeak Opportunities Fund, Stonepeak would represent 29% of exposure (NAV + unfunded commitments), as of 3/31/2023, 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. The proposed commitment to SOF would represent the portfolio's first commitment within the value-add sub-strategy. Pending approval of a \$2 million commitment to Stonepeak Opportunities Fund, the fund would represent 17% of exposure (NAV + unfunded commitments) as of 3/31/2023, in Private Real Assets (ex-Real Estate).

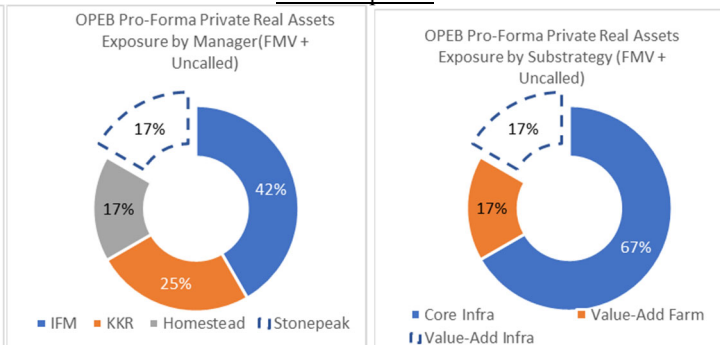
Manager**	Asset Class	Strategy	Structure	Sectors	Market	Geography
IFM	Infrastructure	Core	Evergreen	Diversified	Large	Global
KKR	Infrastructure	Core	Evergreen	Diversified	Large	Global
I Squared	Infrastructure	Value-add	Close-ended	Diversified	Middle-Large	Global
Stonepeak	Infrastructure	Value-add	Close-ended	Diversified	Middle-Large	North America
Star	Infrastructure	Value-add	Close-ended	PPP (no energy)	Middle	U.S.
Homestead	Farmland	Value-add	Close-ended	Prem and row crop	Middle	U.S.

**ERSRI Private Real Assets (ex-Real Estate) managers as of 3/31/2023

ERSRI Exposure



OPEB Exposure



MERITS:

- **Experienced Team, Larger Platform & Consistent Key Focus Sections:** Stonepeak was founded in 2011 and its fund size has grown from \$1.6 billion (SIF I) in 2012 to \$3.5 billion (SIF II) in 2016, to \$7.2 billion (SIF III) in 2018 and to \$14 billion (SIF IV) in 2020. With the growth in fund size, Stonepeak has been targeting larger deals requiring equity investment of more than \$500 million. Similar to Stonepeak, many large and established infrastructure managers have migrated up-market, leaving an experienced manager gap within the middle market space. Stonepeak will launch its flagship fund V (SIF V) targeting up-market late Q2 or Q3'2023. With Stonepeak's gradual shift on larger deals from SIF I to SIF IV, splitting commitment between SOF (targeting middle market) and SIF V (targeting up market) will further diversify the portfolio. SOF and the flagship funds have the same investment team who is responsible for sourcing, due diligence, and asset management. SOF will benefit from the experience and resources of the larger Stonepeak platform (leadership, relationships, and expertise) that has been built over the past 12 years.

- **Sourcing, Operating Partners & Value Add:** Across all Stonepeak’s flagship North American funds, about 67% deals are sourced off-the-run, without a competitive process, which allows for favorable entry valuations. The ability to source off the market shows Stonepeak’s deep sector-specific relationships, experience, and insight. Stonepeak always looks to identify opportunities that valuation is not the only dimensions that the counterparty is trying to maximize in the transaction. Stonepeak employs a team of operating partners, senior advisors, and industrial specialists to add value through operational enhancement. Stonepeak’s ability to act quickly and to solve complex issues have made it an attractive partner.
- **Downside Protection & Inflation Protection:** Stonepeak has a rigorous and disciplined diligence process that focuses on downside protection. The investment team uses a conservative model as part the underwriting process and stress-test the impact of various combinations of assumptions to develop a bear case. The team focuses on understanding the impact of potential downside risks and how the team might mitigate them. Stonepeak seeks to ensure at least a full return of invested capital in its downside case, and it has a 0% overall loss ratio across 46 total investment deals. SOF will target companies that have 1) high barriers to entry and 2) stable, inflation-adjusted cash flow. Structural protection is often used to enhance downside protection while giving up on some upside.

Risks:

- **Market Segment:** SOF will invest in middle market companies that are often more vulnerable to general market changes. These investments can also be affected by changes within the markets and technology. Medium size companies may have limited financial resources. The limited marketplace may make realizations/exits more difficult.
 - **Mitigant:** Some cases have shown that Stonepeak is able to get their medium-sized companies the resources that aren’t typically available to medium infrastructure manager. Stonepeak is able to leverage its relationship through its platform.
- **Rapid Organization Expansion:** Stonepeak has hired more than 100 professionals since 2018, doubling the team size. Rapid expansion may create issues. The expansion of team comes with new strategies – Stonepeak Asia Infrastructure Fund, Global Renewable Fund, Real Estate Fund and Stonepeak Core Fund.
 - **Mitigant:** Stonepeak will continue to expand ownership through shares in the Firm. Professionals will be compensated and incentivized to possess and improve upon these strong performing investments.

ESG:

- **ESG:** Stonepeak is categorized as an ESG **Leader**. Stonepeak has a Responsible Investment Policy that is intertwined with sourcing, due diligence, and operation and is reviewed annually. A mandatory ESG checklist is instituted for all transactions that proceed to the Investment Committee and Stonepeak holds quarterly ESG portfolio reviews. Stonepeak is a signatory to “PRI – the Principles for Responsible Investment,” “TCFD - Task Force on Climate-related Financial Disclosures”, and “NZAM - Net Zero Asset Managers”. Stonepeak has committed to reducing firm-level emissions by more than 50% by 2025 (vs. a 2019 baseline) with established plans to achieve net zero by 2050. The ESG performance for Stonepeak and all portfolio companies is calculated through an internally developed ESG dashboard. A portion of senior management discretionary compensation at the firm and portfolio company level is attributed to ESG KPIs/metrics.
- **DE&I:** Stonepeak is committed to creating a diverse and inclusive team. Stonepeak has also partnered with organizations that focus on increasing the universe of potential diverse candidates and it has updated both the recruiting and interview process to include diverse candidates for all open roles. Stonepeak has set a goal that all majority-controlled portfolio companies will have at least one diverse board member within one-year of ownership.

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

- **Management Fee & Carry:** The management fee is 1.55% on committed capital during the five-year investment period and on invested capital thereafter (including a 5bps loyalty discount). Carry is 20% on the deal-by-deal-level after a 8% hurdle.