



State of New Jersey

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March 18, 2021

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Director

SUBJECT: **Real Asset Investment - Stonepeak Infrastructure Fund IV LP**

The Division of Investment (the “Division”) is proposing an investment of up to \$200 million, allocated as \$125 million to Stonepeak Infrastructure Fund IV LP (the “Fund”) and \$75 million to a co-investment sidecar vehicle alongside the Fund. This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

The Division is recommending this investment based on the following factors:

Experienced management team and existing relationship with the Division: Stonepeak Partners LP (“Stonepeak”, and together with its affiliates (but excluding portfolio companies), the “Firm”) has sponsored three diversified infrastructure funds since its founding in 2011. The Division committed \$125 million to Stonepeak Infrastructure Fund III LP in 2017 and \$100 million to Stonepeak Global Renewables Fund LP in 2021. The team is highly experienced with its senior investment professionals having approximately 17 years of private equity investing experience. The team continues to grow under the leadership of Michael Dorrell.

Strong and consistent returns with conservative leverage: The Firm’s track record is strong and consistent across its three infrastructure funds. The Firm demonstrates its consistency as it has not relied on outlier high performers for driving fund returns. Additionally, the Firm currently has a 0% loss ratio across its three infrastructure funds.

Compelling infrastructure opportunity: Infrastructure assets provide investors with stable, cash-yielding, and downside protected exposure. The Fund’s diversified infrastructure focus allows investment across multiple sectors while focusing on North America, a region which exhibits a strong economic backdrop, rule of law, developed regulatory regimes, and strong capital markets.

Downside protection: The Firm’s investment philosophy is focused heavily on downside protection and preservation of capital. The Fund’s assets will have inflation-resilient cash flows, stable revenue streams, monopolistic characteristics, and high barriers to entry.

A report of the Investment Policy Committee (“IPC”) summarizing the details of the proposed investment is attached.

Division Staff and its real asset consultant, Aksia TorreyCove Partners, undertook extensive due diligence on the proposed investment in accordance with the Division’s Alternative Investment Due Diligence Procedures.

As part of its due diligence process, staff determined that the Fund has engaged a third-party solicitor (“placement agent”) in the fundraising of the Fund, but no placement agent was engaged or paid in connection with the Pension Fund’s potential investment.

The Firm has an Environmental, Social & Governance (“ESG”) Policy as well as a Responsible Contractor Policy. The Firm’s ESG Officer participates and is active in the investment process as well as with operations within the Firm. The Firm’s Executive Committee is responsible for ESG within the Firm. The Firm is a signatory to the Principles for Responsible Investment.

Staff will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents to govern the investment. A preliminary Disclosure Report of Political Contributions has been obtained in accordance with the Council’s regulation governing political contributions (N.J.A.C. 17:16-4), and no political contributions have been disclosed. An updated Disclosure Report will be obtained at the time of closing.

Note that the investment is authorized pursuant to Articles 69 and 71 of the Council’s regulations. Stonepeak Infrastructure Fund IV LP is considered a real asset investment, as defined under N.J.A.C. 17:16-71.1.

A formal written due diligence report for the proposed investment was sent to each member of the IPC and a meeting of the IPC was held on March 10, 2021. In addition to the formal written due diligence report, all other information obtained by the Division on the investment was made available to the IPC.

We look forward to discussing the proposed investment at the Council’s March 24, 2021 meeting.

Attachment

Fund Name: Stonepeak Infrastructure Fund IV LP (the "Fund") **March 18, 2021**

Contact Info: Michael Dorrell, 55 Hudson Yards, 550 West 34th Street, 48th Floor, New York, NY 10001

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|-----------------------------------|--|---|
| Fund Details: | | |
| Total Firm Assets (\$bil): | \$31.3 billion | Key Investment Professionals: Michael Dorrell: (Co-Founder, Chairman and CEO, and Member of the Executive Committee) Prior to co-founding Stonepeak Partners LP ("Stonepeak" and together with its affiliates (but excluding portfolio companies), the "Firm") in 2011. Mr. Dorrell worked as a Senior Managing Director in Private Equity and co-head of the infrastructure investment group at The Blackstone Group L.P. ("Blackstone"). Prior to Blackstone, Mr. Dorrell worked for over a decade at Macquarie Group ("Macquarie"), where he started his career and ultimately held the title of Senior Managing Director. He has been engaged in North American infrastructure for over 20 years, and has been involved in all phases of the Firm's development since its founding. Trent Vichie: (Co-Founder, Executive Vice Chairman, and member of the Executive Committee) Prior to co-founding Stonepeak, Mr. Vichie formerly worked as a Senior Managing Director in Private Equity and co-head of the infrastructure investment group at Blackstone. Prior to Blackstone, Mr. Vichie was a Managing Director with Macquarie in New York. Mr. Vichie joined Macquarie's infrastructure division in 1999 based out of Sydney and transferred to the New York office in 2000 where he helped build and grow one of the leading infrastructure platforms in North America. As announced on October 21, 2020 to investors, Mr. Vichie will be retiring on March 31, 2021. Luke Taylor: (Senior Managing Director and Member of the Executive Committee) Mr. Taylor joined the Firm in 2011. He leads the Transportation and Logistics sector. He has been investing in infrastructure for over 14 years and currently sits or has board or is a former director of several portfolio companies. Prior to joining Stonepak, he was a Senior Vice President with Macquarie Capital based in New York. Jack Howell: (Senior Managing Director and Member of the Executive Committee) Mr. Howell joined the Firm in 2015. He co-leads the Global Energy team. Prior to joining Stonepeak, he worked for Davidson Kempner focusing on distressed investments and merger arbitrage, and prior to that he worked for Denham Capital, an energy-focused private equity firm. He started his career in Credit Suisse's energy investment banking group. |
| Strategy: | Infrastructure | |
| Year Founded: | 2011 | |
| Headquarters: | New York | |
| GP Commitment: | minimum of 1.5% of aggregate capital commitments | |

1. Stonepeak's assets under management calculation provided herein is determined by taking into account (i) unfunded capital commitments of Stonepeak Infrastructure Fund LP ("Fund I"), Stonepeak Infrastructure Fund II LP ("Fund II"), Stonepeak Infrastructure Fund III LP ("Fund III"), Stonepeak Global Renewables Fund LP ("GRF"), and Stonepeak Infrastructure Credit Fund I LP and any co-invest vehicles managed by Stonepeak as of September 30, 2020, (ii) the gross asset value of such funds and co-invest vehicles, plus any feeder fund level cash with respect to such funds and co-invest vehicles as of September 30, 2020, (iii) accepted capital commitments of Stonepeak Infrastructure Fund IV LP as of February 16, 2021, and (iv) capital commitments of Stonepeak Global Renewables Fund LP accepted between September 30, 2020 and February 22, 2021. The AUM figure differs from the amount of assets under management reported for regulatory purposes and is based on gross asset values that are estimated and unaudited.

Investment Summary

The fund will seek to make investments in core, core-plus and value-add infrastructure assets in North America. The strategy will invest in the following sectors: transportation & logistics, communications, water, power & utilities, and energy. The team focuses on assets with downside protection, inflation-resilient cash flows, stable revenue streams, and monopolistic characteristics. The team is strong and long-tenured with proven returns using conservative leverage. The \$200 million commitment will be allocated as \$125 million to the Fund and \$75 million to a co-investment vehicle alongside the Fund.

Existing and Prior Funds

| <u>Funds</u> | <u>Vintage Year</u> | <u>Strategy</u> | <u>Returns as of 09/30/2020</u> |
|--------------|---------------------|-----------------|---------------------------------|
| Fund I | 2012 | Infrastructure | 10.5% Net IRR; 1.5x Net MOIC |
| Fund II | 2016 | Infrastructure | 12.4% Net IRR; 1.3x Net MOIC |
| Fund III | 2018 | Infrastructure | 21.5% Net IRR; 1.2x Net MOIC |
| GRF | 2020 | Infrastructure | 15.2% Net IRR; 1.1x Net MOIC |

Source of Returns - Aksia TorreyCove

IRR = Internal Rate of Return; MOIC = Multiple on Invested Capital

Vehicle Information:

| | | | |
|-----------------------------|---|-----------------------|--------------------------------|
| Inception: | 2020 | Auditor: | PricewaterhouseCoopers ("PwC") |
| Fund Size: | \$10 billion (hard cap \$12 billion) | Legal Counsel: | Simpson Thacher & Bartlett LLP |
| Management Fee: | 1.225% of aggregate capital commitments vs. Standard Fee of 1.5%, and Fund III fee of 1.375% charged quarterly, based on: Committed capital during investment period Net invested capital thereafter | | |
| Carry: | 20% | | |
| Hurdle Rate: | 8% | | |
| Additional Expenses: | 100% management fee offset | | |

NJ AIP Program

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|--------------------------------|----------------------|---|-----|
| Recommended Allocation: | up to \$200 million | LP Advisory Board Membership: | YES |
| % of Fund: | 2.0%; 1.67% hard cap | Consultant Recommendation: | YES |
| | | Placement Agent: | NO |
| | | Compliance w/ Division Placement Agent Policy: | N/A |
| | | Compliance w/ SIC Political Contribution Reg: | YES |

*This review memorandum was prepared in accordance with the State Investment Council rules governing the Alternatives Investment Program and the policies and procedures related thereto.