



Public Investment Memorandum

ISQ Global Infrastructure Fund III, L.P.

Private Infrastructure Commitment

William P. Stalter
Senior Portfolio Manager

Jarrett B. Richards
Intermediate Investment Professional

June 30, 2020



Executive Summary

PSERS' Investment Office Professionals, together with Hamilton Lane, recommend that PSERS commit \$400 million to ISQ Global Infrastructure Fund III, L.P. (the "Fund" or "Fund III"). This recommendation is based on the assessment of the investment strategy and the evaluation of I Squared Capital and its affiliates ("ISQ" or the "Firm").

| | |
|-------------------------------|---|
| Fund Name | ISQ Global Infrastructure Fund III, L.P. |
| Firm Name / General Partner | I Squared Capital Advisors (US) LLC / ISQ Global Fund III GP, LLC |
| Target Fund Size | \$12 billion |
| Recommended Commitment Amount | \$400 million |
| Existing Relationship | No, the proposed investment would be PSERS' first commitment to ISQ. |
| Source of Funds | Cash |
| Asset Class / Sub Asset Class | Private Infrastructure / Diversified |
| Investment Office Oversight | Charles J. Spiller, Deputy CIO / Non-Traditional Investments William P. Stalter, Senior Portfolio Manager Jarrett B. Richards, Intermediate Investment Professional |
| External Consultant Oversight | Hamilton Lane |

In 2012, Sadek Wahba, Gautam Bhandari, and Adil Rahmathulla (together, "the Managing Partners") left their top global leadership positions with Morgan Stanley Infrastructure Partners to create a new global private infrastructure investment platform, I Squared Capital. ISQ, headquartered in Miami, Florida, currently employs 138 professionals across six offices on three continents. As of March 2020, the Firm had over \$14.2 billion in assets under management.

Fund III, like Funds I and II, will take a sector-agnostic approach to portfolio construction, targeting assets that fit within the Firm's risk model. ISQ focuses on platform-building by acquiring and aggregating synergistic and scalable infrastructure-focused companies relying upon the expertise of ISQ's in-house operating professionals and dedicated Senior Policy Advisors. Through March 31, 2020, ISQ has invested \$10.5 billion in 26 portfolio companies in two prior vintage partnerships:

- ISQ Global Infrastructure Fund I, L.P. ("Fund I"), a \$3.0 billion 2014 vintage fund
- ISQ Global Infrastructure Fund II, L.P. ("Fund II"), a \$7.0 billion 2017 vintage fund

As of March 31, 2020,

- Fund I has generated a 16.4% net IRR and a 1.6x net MoC.
- Fund II has generated an 14.2% net IRR and a 1.1x net MoC.

Both Funds I and II are first quartile performing funds when compared to the Cambridge Associates Global Infrastructure Benchmark as of Q4 2019. Note: The Q1 2020 Cambridge Associates Global Infrastructure Benchmark has not yet been published.

Investment Team

I Squared Capital is managed by the three original founders/Managing Partners: Sadek Wahba, Gautam Bhandari, and Adil Rahmathulla. In 2020, Thomas Lefebvre, Mohammed El Gazzar, and Harsh Agarwal were promoted to Partner and joined the Investment Committee alongside the three Managing Partners.



In addition to the senior investment team listed above, ISQ leverages a network of 12 Senior Policy Advisors. The Senior Policy Advisors comprise executives with expertise in global finance, utility regulation, global policy, infrastructure asset management, and sustainability. The Senior Policy Advisors drive deal flow to the Fund, review investment opportunities, and consult on portfolio company operations.

Market Opportunity

In 2017, the Global Infrastructure Hub, a G20 initiative, projected that global infrastructure investment needs to be \$94 trillion between 2016 and 2040. This is 19 percent higher than would be delivered under current trends and is an average of \$3.7 trillion per year. To meet this investment need, the world will need to increase the proportion of GDP it dedicates to infrastructure to 3.5 percent, compared to the 3.0 percent expected under current trends. Amid the ongoing COVID-19 pandemic, the World Economic Forum stated that global infrastructure spending will have to significantly increase to pull the global economy out of the COVID recession. The elevated spending levels are critical to address the projected global infrastructure investment deficit.

While North American and European infrastructure investment requirements are expected to be substantial over the coming decades, outsized infrastructure investment will be required in growth economies, mainly in Asia and Latin America. I Squared Capital has developed very specific investment theses for individual sectors across the globe. For example, there is opportunity for communications infrastructure and hard transportation assets in the United States as monthly data consumption continues to skyrocket and supply chains require new and differentiated solutions to meet consumer demands. Renewable energy directives in Europe mandate that 32 percent of energy consumption be produced by renewable sources before 2030, creating opportunities in renewable energy production and transmission. Also in Europe, there is an aging population coupled with a vast shortage of elderly care homes. Elderly care homes in Europe are concession-based businesses that are classified as social infrastructure investments.

The unprecedented COVID-19 pandemic has highlighted the importance of resilient, uncorrelated cash-flowing and downside-protected investments across geographies. I Squared Capital's strategic approach through platform creation and roll-up strategies allows for the liquidity and capital expenditure flexibility during short-term dislocations, with the ability to scale up when healthier market conditions persist. As capital markets continue to be volatile and traditional funding sources dry up, having well-structured and ample equity presents a unique opportunity to invest in assets at discounted relative values. On-the-ground intelligence and experience allows the team to understand the complexity of the various stakeholders involved, including governments and financial counterparties, which is critical in managing private infrastructure assets through the current pandemic.

Investment Strategy

I Squared Capital seeks to deliver attractive risk-adjusted returns through a differentiated global investment strategy focused on value creation and downside mitigation. The strategy is executed by on-the-ground teams across North America, Europe, and Asia. There are two different strategies employed by ISQ. The first strategy is mid-market platform building. "Mid-market" is characterized by portfolio company equity values less than \$500 million with EBITDA less than \$150 million. The second strategy is more opportunistic in nature whereby the Fund and its co-investors target larger investments with an element of distress or pricing dislocation. As discussed above in the *Executive Summary*, ISQ applies a sector-agnostic approach to its portfolio construction creating diversified portfolios that capitalize on risk-adjusted value mismatches as exposed by the Firm's risk model. The Fund will generally seek a controlling interest in each investment.

Investment Instruments

ISQ Fund III will invest primarily through equity interests in infrastructure-focused portfolio companies.



Portfolio Fit

The Fund will be allocated to PSERS' Private Infrastructure portfolio. To date, the Private Infrastructure portfolio comprises four partnerships and one co-investment. The table below summarizes PSERS' Private Infrastructure portfolio, as of March 31, 2020 (adjusted for subsequent cash flows), inclusive of the recommended \$400 million commitment to ISQ III:

| Investment (\$M) | NAV | % | Unfunded | % | Total Exposure | % |
|------------------------------------|-----------------|---------------|-----------------|---------------|-------------------|---------------|
| Blackstone Infrastructure Partners | \$ 78.3 | 21.9% | \$ 408.3 | 44.1% | \$ 486.6 | 37.9% |
| ISQ Global Infrastructure Fund III | 0.0 | - | 400.0 | 43.2% | 400.0 | 31.2% |
| Strategic Partners Real Assets II | 127.8 | 35.8% | 74.4 | 8.0% | 202.2 | 15.8% |
| GCM Grosvenor Customized Infra II | 73.8 | 20.7% | 24.6 | 2.7% | 98.4 | 7.7% |
| IIFC II | 77.1 | 21.6% | 18.8 | 2.0% | 95.9 | 7.5% |
| Total | \$ 357.0 | 100.0% | \$ 926.2 | 100.0% | \$ 1,283.2 | 100.0% |

In addition to the investments detailed above, PSERS has \$37.4 million of NAV exposure to private infrastructure co-investments through its internal co-investment program.

With the proposed allocation, PSERS will have 2.1% total exposure to Private Infrastructure compared to the target allocation in the Investment Policy Statement of 0%-3%.

ISQ Global Infrastructure Fund III, consistent with Funds I and II, will be broadly diversified by strategy, geography, and sector. There will be both mid-market, core, platform-building investments; and opportunistic investments in larger, distressed companies. The Fund will provide exposure to North America and Europe but also growth markets in Asia and Latin America. There will be investments in energy, transportation, utilities, telecom, midstream, and social infrastructure. As PSERS continues to develop its private infrastructure portfolio, the geographically and sectorally diverse composition of ISQ III will be a complementary building block to the portfolio.

Investment Highlights

- Experienced, Independent and Well-Aligned Senior Leadership Team
- Attractive Market Opportunity / Investing in a Post-COVID-19 World
- Solid Track Record & Cash Flow Profile
- Attractive Fund-Level / Co-Investment Economic Terms
- Commitment to ESG Practices

Investment / Risk Considerations

- Larger Fund Size / Growth of Team to Manage Increasing AUM
- Risks Associated with Constructing and Managing a Global Infrastructure Portfolio
- Key Person Risk / Succession Planning



Investment Committee Disclosure

| | |
|--|--|
| Relationship with Hamilton Lane | Hamilton Lane represents clients with commitments to prior ISQ funds. It is anticipated that additional Hamilton Lane clients will commit to Fund III. |
| Introduction Source | Hamilton Lane |
| Placement Agent | <p>The Evercore Private Funds Group is acting as global advisor and placement agent in connection with the sale of limited partner interests in Fund III. Greshler Finance Ltd., a registered company in Israel, acts as the exclusive placement agent for I Squared Capital in Israel. First Avenue Partners is also a placement agent for Fund III. No other placement agents are expected to be hired for the fundraiser for Fund III at this time.</p> <p>In accordance with Board policy, no placement agents were used, and no payments from or on behalf of PSERS to Placement Agents shall be made in connection with securing PSERS' investment in the Fund.</p> <p>Any placement fees charged to the Fund in connection with securing commitments from other investors (excluding PSERS) will result in a corresponding reduction to PSERS' management fees.</p> <p>As confirmed by PSERS' Office of Chief Counsel on July 20, 2020, this investment complies with the Public School Employees' Retirement Board Placement Agent Policy.</p> |
| PA Political Contributions | None Disclosed |
| Conflicts of Interest | We are not aware of I Squared Capital having any conflicts of interest. |
| PSERS History with the Investment Manager | PSERS has no prior investments with I Squared Capital. |
| Litigation Disclosure | I Squared Capital receives communications from regulators and may be involved in litigation from time to time in the ordinary course of business. PSERS is not currently aware of any litigation which has or may have a material effect on I Squared Capital, the Fund, or any prior funds. |
| PSERS Allocation Implementation Committee Approval | July 9, 2020 |



Hamilton Lane

June 11, 2020

Board of Trustees
Commonwealth of Pennsylvania
Public School Employees' Retirement System
5 North 5th Street
Harrisburg, PA 17101

Re: ISQ Global Infrastructure Fund III

Dear Trustees:

Since Inception, ISQ has focused on investing in and managing global infrastructure assets. At ISQ, the senior investment professionals have developed extensive expertise within the infrastructure space, averaging approximately 20 years of total experience. The Firm's Managing Partners and Partners have been with the General Partner since inception, which has fostered cohesiveness throughout the platform. Prior to founding ISQ in 2012, the three Managing Partners worked together at Morgan Stanley Infrastructure where they held top leadership positions including CEO, Head of Asia, and Head of Infrastructure Americas Executions. ISQ maintains global offices with professionals "on the ground" within its target markets, allowing the General Partner to develop a truly global platform that supports sourcing capabilities. In addition to its investment professionals, ISQ benefits from a robust platform of in-house asset management professionals, Operating Directors & Advisors and Senior Policy Advisors who are dedicated to portfolio company operations, value creation and risk mitigation. These professionals are expected to provide extensive support to the investment team and remain involved in an asset from the due diligence stage through disposition. The General Partner provides employees with attractive compensation consisting of fixed salaries and carried interest allocations that extends to all members of the investment team, as well as to asset management and operating professionals. In addition to the compensation incentives, ISQ focuses on growing its platform through internal promotions, which has led to limited senior-level turnover to date. ISQ is targeting \$12 billion in commitments from limited partners for its third fund, ISQ Global Infrastructure Fund III. ("Fund III"). ISQ expects to hold a first (1A) close in July 2020, a second (1B) close at the end of September 2020, and a final close no later than 18 months from the first close. The General Partner will commit at least 2% of commitments to invest in or alongside the Fund.

Consistent with prior funds, Fund III seeks to employ a sector-agnostic investment strategy within the infrastructure space, targeting investments in high-quality, resilient assets within the energy, utilities, transportation, telecommunication and social infrastructure subsectors. ISQ's opportunistic investment approach enables the General Partner to take advantage of market cycles and lean into different opportunities depending on the current market environment. ISQ employs a platform-based strategy in which it intends to aggregate individual assets to create scaled infrastructure portfolios with operating synergies. ISQ has developed a proprietary, ten-factor risk model that allows the General Partner to assess the relative risks and return profiles in order to foster prudent decision making and diversification. The General Partner employs 12 operating professionals and leverages the experience of 11 Senior Policy Advisors that have extensive expertise and broad industry networks within the infrastructure space. ISQ seeks to obtain control positions within its portfolio companies to drive value at the asset-level by implementing both organic and inorganic growth initiatives. The Fund will target approximately 15 to 20 equity investments in the range of \$200 million to \$1 billion. ISQ has generated top-quartile returns on a net IRR basis across prior funds.

ISQ Global Infrastructure Fund III's investment thesis can be summarized as follows:



Hamilton Lane

- Established global platform backed by operating and advisor support
- Unique platform-based investment strategy focused on relative value, risk and diversification
- Attractive gross and net returns across prior funds

Hamilton Lane's recommendation is based upon the following analytical factors and is made within the context of Commonwealth of Pennsylvania, Public School Employees' Retirement System's ("PSERS") investment guidelines.

- Detailed due diligence, including interviews with industry peers and private equity professionals. The initial review was completed April 20, 2020; the on-site due diligence was conducted May 28, 2020 by video conference; the fund was approved by Hamilton Lane's Investment Committee on June 8, 2020 and the recommendation to PSERS was issued June 11, 2020.
- Evaluation of the composition of the investment team, how they work together, compensation structure and other factors that help determine whether a group is likely to be able to replicate past successes as currently configured.
- Detailed Operational Due Diligence, including interviews with ISQ's back office team to review the controls and processes surrounding the firm's finance, fund administration, tax, legal, compliance, IT, HR, and accounting functions.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- The strategy proposed for the Fund is appropriate for the Private Infrastructure component of the portfolio.

The individuals at Hamilton Lane who were involved in the due diligence process for the Fund are:

Brent Burnett – Managing Director, Portland Office

Cameron Mountain – Associate, Portland Office

Jackie Luceri – Analyst, Bala Cynwyd Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$400 million in ISQ Global Infrastructure Fund III. Hamilton Lane makes this recommendation considering the General Partner's qualifications and PSERS' overall investment guidelines.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors, considering an investment in the Fund, since their needs, objectives and circumstances may not be identical to those of PSERS. The scope of this recommendation is limited to the investment merits of the Fund. Hamilton Lane does not provide legal or other non-investment-related advice.

Sincerely,

Michael Koenig,
Chief Client Officer

Corina English,
Principal