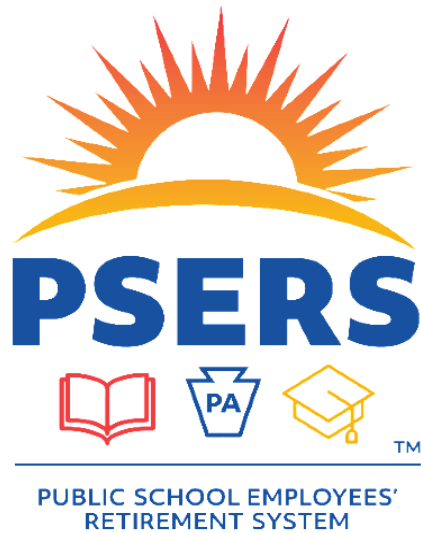


PSERB Resolution 2025-20
Re: I Squared Global Infrastructure Credit Fund II
March 21, 2025

RESOLVED, that the Public School Employees' Retirement Board (the "Board") accepts the recommendation of the Investment Committee and commits an amount not to exceed \$150 million, plus reasonable and normal investment expenses, to I Squared Global Infrastructure Credit Fund II, and/or related investment vehicles in accordance with the recommendation of Sean T. Sarraf, Portfolio Manager and Aksia, LLC.

The final terms and conditions of the investment are subject to legal due diligence and must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of Executive Director, as evidenced either by the appropriate signatures on, or by a memo to that effect appended to, the implementing investment contracts.



I Squared Global Infrastructure Credit Fund II, L.P. Private Credit Recommendation

Sean Sarraf, CFA, CAIA
Portfolio Manager

Michael Severance, CAIA
Senior Investment Professional

Lynn Dang
Intermediate Investment Professional

March 2025

Today's Presentation

I Squared Global Infrastructure Credit Fund II, L.P. (“ISQC II”, “Fund II”, or “the Fund”)

Main Presentation

1. Asset Class Considerations
 - *Recommendation is consistent with PSERS’ Strategic Asset Allocation (SAA) and current year commitment planning*
2. Recommendation Overview
 - *PSERS IO and Aksia recommend committing \$150 million to ISQC II*
3. Strategy & Expertise
 - *Demonstrated experience in infrastructure credit investing*
4. Investment Considerations
 - *The Fund is expected to face risks consistent with infrastructure investments, and staff believes that I Squared has identified appropriate mitigants to those risks.*
5. Investment Highlights
 - *Attractive market opportunity, downside protection and operating expertise*

Appendix

- Investment Committee Disclosure
- Private Credit Dashboard

1. Asset Class Considerations

Recommendation is consistent with PSERS Strategic Asset Allocation (SAA) and current year commitment planning

PSERS SAA and Pacing

1. PSERS SAA has established a target allocation of 7.0% to Private Credit.
2. The current Private Credit allocation is within rebalancing ranges (+/- 2%).
3. Aksia’s latest pacing analysis suggests \$800M – \$1.2B of annual commitments to maintain the target exposure. IOP propose a range of \$600M - \$1.0B in 2025.
4. The pacing analysis is revisited frequently based on the actual performance of the Private Credit allocation and the broader PSERS portfolio.

SAA Allocation	
Private Credit Target	7.0%
Private Credit Actual	7.6% ¹
Pacing Budget for 2025	
Pacing Budget Range	\$600M - \$1.0B
Primary Fund Commitments	
YTD Commitment	\$0
March 2025 Recommendations	\$150M
Co-Investments	
YTD Commitment	\$0
Total Primary and Co-Investments	
Remaining Budget ²	\$650M
Est. Remaining Primary Fund Recommendations	\$475M
Expected to be in Target Budget Range for 2025?	Yes
Est. Co-Investment Capacity	\$230.9M ³

1. Private Credit Actual sourced from Verus 2024 3Q Total Fund Report

2. Remaining to the mid-point of the pacing budget

3. Co-Investment Capacity as of 9/30/2024.

2. Recommendation Overview

PSERS IPERS IO and Aksia recommend committing \$150 million to ISQC II

Firm Name	I Squared
Investment Professionals / Employees	11 / 109
Fund Name	I Squared Global Infrastructure Credit Fund II, L.P.
Strategy Invested Capital ¹	\$743.0 million*
Net Target Levered Return	13% - 16%
Target Fund Size / Hard-cap	\$1.5 billion / \$2.5 billion
Recommended Commitment Amount	\$150 million
GP Commitment	The lesser of 2% of total Fund commitments and \$25 million
PSERS Existing Relationship	Yes
Notable Investment Committee Disclosure ²	None

1. As of June 30, 2024
 2. Detail in appendix (Slide 9)

3. ISQC II Strategy & Expertise

Demonstrated expertise in Middle Market infrastructure investing

1. **Downside Protection:** The Fund will focus on asset quality and capital preservation with an emphasis on downside protection. ISQC II will target borrowers that exhibit characteristics of high barriers to entry with low price elasticity, a well-defined regulatory framework and operational structure, stable cash flows that grow with inflation, and management teams with strong execution acumen. ISQ sizes individual investments appropriately to avoid concentration risk and invests across sectors / asset types with uncorrelated cash flows.
2. **Operating Expertise:** ISQ's inhouse asset management and value creation professionals have decades of experience in managing infrastructure assets across all stages of development, including planning, permitting, construction, procurement, operations, maintenance, restructuring, and refurbishment. ISQ professionals collectively have direct management and operating experience across all of the Fund's target sectors and are actively involved in monitoring Fund investments.
3. **Attractive Market Opportunity:** The scale of infrastructure investment needs is immense, with an estimated \$11 trillion funding gap for needed infrastructure investments through 2024 (per Global Infrastructure Hub). Target sectors of the Fund have been identified as having secular and macroeconomic tailwinds that provide a visible runway growth over the next several years. Bank retrenchment creates an opportunity for ISQ to fill the gap by sourcing bespoke, bilateral direct lending transactions. Furthermore, the Fund will focus on middle market borrowers where the majority of infrastructure transactions occur (~85% of total transaction volume), but where there is often limited competition due to borrower complexity and market fragmentation requiring greater sourcing capabilities.

4. Investment Considerations

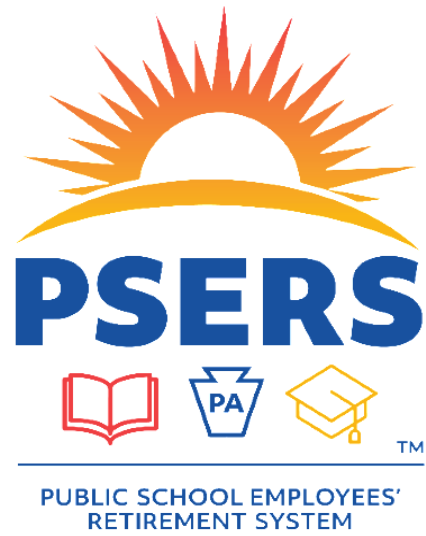
The Fund is expected to face risks consistent with infrastructure investments, and staff believes that I Squared has identified appropriate mitigants to those risks

Risk	Detail	Mitigating Factors
Default Risk	As with any credit-related investment, a key risk to the Fund is default risk, or the risk that underlying borrowers fail to make required principal or interest payments, which could impair returns up to and including a complete loss of principal.	<i>The majority of fund investments will be senior secured (70%) or holding company debt (30%) with significant equity cushion to absorb potential losses before impairing ISQC II capital. Individual investments are expected to have financial maintenance covenants, fixed charge covenants, and a restrictive approach to allowing EBITDA add backs.</i>
Use of Leverage	IOP are recommending investment in ISQC II via a rated feeder vehicle which provides 3:1 (debt-to-equity) leverage. While leverage may be used to enhance returns, it also has the potential to magnify losses in downside scenarios.	<i>IOP evaluated a range of modeled scenarios assessing the impact to overall Fund returns at various annual default levels, and the Fund performed well under elevated default scenarios, including producing a double-digit net return at default rates 8x average historical levels, per Moody's.</i>
Second Time Fund	The Fund represents ISQ's second vintage of their global infrastructure credit strategy. Second time funds may face additional risks including limited track record and risk in scaling the investment team to deploy a larger capital base.	<i>Firm leadership is well-established with managing partners, Sadek Wahba and Gautum Bhandari, sitting on the Fund's investment committee. IOP reviewed all prior deals in the ISQC Fund I portfolio to evaluate sourcing, structuring, and risk / return characteristics of each loan, which were in line with stated Fund objectives.</i>

5. Investment Highlights

Attractive market opportunity, downside protection and operating expertise

Highlight	Detail
Non-Corporate Collateral	PSERS Private Credit portfolio is predominantly comprised of corporate credit, which represented 80% of total Portfolio exposure as of March 31, 2024. A commitment to the Fund provides exposure to non-corporate collateral from various infrastructure sectors with low correlation to corporate credit.
Co-Investment	Given the diversification parameters of the Fund and greater potential for large transactions within infrastructure credit, ISQC II is expected to be a significant source of co-investment for PSERS' Private Credit portfolio.
Strong Performance of Fund I	I Squared Global Infrastructure Credit Fund I generated an unlevered 9.1% net IRR and 1.2x net MoC as of June 30, 2024, relative to its 8% - 10% net return target. To-date, Fund I has a 0% loss rate.



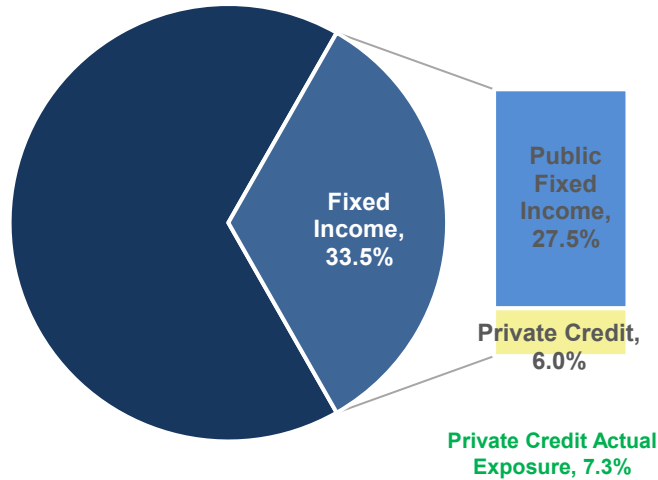
Appendix

Investment Committee Disclosure

Disclosure	Response
Relationship with Aksia	As of September 30, 2024, three (3) current Aksia advisory and investment management clients have made total aggregate commitments of \$627.8 million across investment managed by I Squared Capital Advisors (US) LLC, including two (2) current advisory accounts (\$621.9 million) and one (1) current investment management account (\$5.9 million). As of December 6, 2024, there is one additional Aksia client considering a commitment to ISQ Global Infrastructure Credit II.
Introduction Source	PSERS IOP
Compliance with Placement Agent Policy	As confirmed by PSERS' Office of Chief Counsel on February 5, 2025, this investment complies with the Public School Employees' Retirement Board Placement Agent Policy.
PA Political Contributions	None Disclosed
PA Presence	None Disclosed
Potential Conflicts	PSERS is not currently aware of any actual or potential conflicts of interest that would be created by PSERS' investment in the Fund.
Litigation Disclosure	PSERS is not currently aware of any litigation – past, outstanding, pending, or threatened - which has or may have a material effect on the Fund.
Has the Firm reimbursed and/or paid for PSERS IOP travel in the past two calendar years?	No, the Firm has not paid for or reimbursed PSERS IOP travel.
Certification of Diligence Costs	IOP certifies that PSERS paid all travel costs, if any, and was not reimbursed for the travel costs related to due diligence of the Fund.

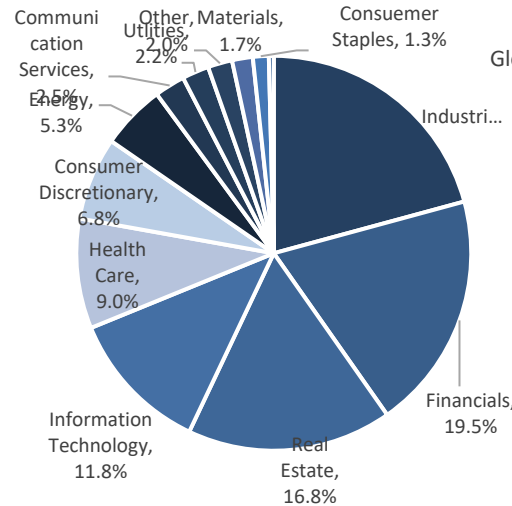
Private Credit Portfolio *as of June 30, 2024*

Target Allocation to Private Credit as of 6/30/2024

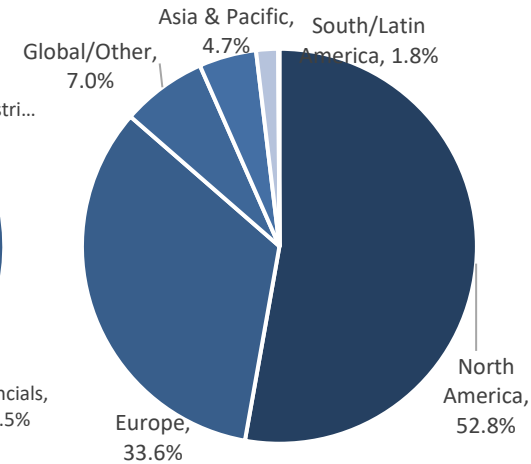


Source: Verus 2024 Q2 – Total Fund Report.

Sector Diversification



Geography

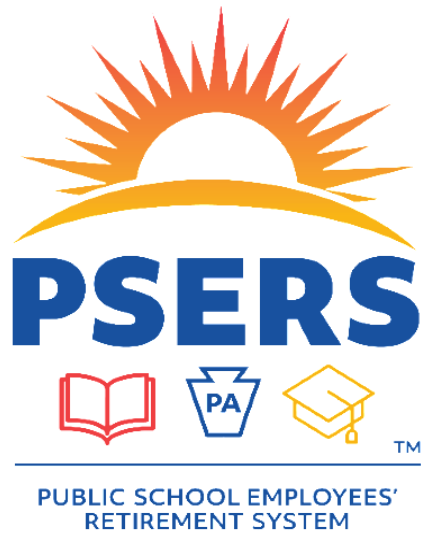


Recent Fund Commitments (\$M)

2024-to-date	
ICG Mid-Market II	€150m
ACORE Opportunistic Credit II, L.P	\$175m
Sixth Street SLE III	\$165m

PSERS Private Credit Portfolio Performance as of 6/30/2024

	Time-Weighted					Dollar-Weighted		
	1-Yr	3-Yr	5-Yr	10-Yr	ITD	KS PME	Direct Alpha	ITD
Direct Lending	12.6%	9.9%	8.6%	9.3%	8.1%	1.05x	1.8%	9.9%
Mezzanine	14.3%	8.0%	12.5%	10.3%	11.0%	1.13x	3.9%	10.7%
Distressed & Special Situations	10.2%	7.9%	7.6%	7.2%	7.1%	1.01x	0.2%	8.4%
Specialty Finance	12.3%	10.6%	23.1%	14.0%	13.0%	1.02x	1.1%	9.4%
Real Estate Credit	9.8%	7.7%	1.3%	2.1%	1.9%	0.89x	-4.9%	3.1%
Real Assets Credit	21.5%	21.0%	10.5%	4.1%	5.0%	0.88x	-3.0%	3.3%
Total Portfolio	12.0%	9.9%	8.4%	7.6%	7.4%	1.02x	0.6%	8.5%
Benchmark	13.3%	8.3%	7.6%	6.7%	7.0%			



I Squared Global Infrastructure Credit Fund II, L.P. Private Credit Recommendation

Sean Sarraf, CFA, CAIA
Portfolio Manager

Michael Severance, CAIA
Senior Investment Professional

Lynn Dang
Intermediate Investment Professional

March 2025

Manager Recommendation Memo

January 17, 2025

Board of Trustees
Commonwealth of Pennsylvania, Public School Employees' Retirement System ("PSERS")
5 North Fifth Street
Harrisburg, PA 17101

Re: ISQ Global Infrastructure Credit Fund II (Onshore) LP

Dear Trustees:

Aksia LLC ("Aksia"), having been duly authorized by the Board of PSERS, has evaluated and hereby recommends, in line with PSERS' Investment Policy Statement, Objectives, and Guidelines, a commitment of up to \$150 million to ISQ Global Infrastructure Credit II Enhanced Leverage Sleeve, a bespoke rated feeder vehicle which will invest via ISQ Global Infrastructure Credit Fund II (Onshore) LP ("GIC II" or the "Fund").

I Squared Capital ("I Squared", "ISQ", or the "Firm") is an independent global middle-market infrastructure asset management firm with over \$40 billion of assets under management across equity and fixed-income strategies. Founded in 2012, the Firm's flagship equity funds have focused on developing infrastructure platforms primarily through mid-market infrastructure asset acquisitions and post-acquisition operational improvements. The GP formed its private infrastructure credit business in 2019 to provide debt solutions to project owners and sponsors in the middle market infrastructure sector. The Firm's credit strategy seeks to offer bespoke solutions to middle-market borrowers underserved by the traditional bank lenders. As of June 30, 2024, the Firm manages \$39.9 billion across its three flagship ISQ Infrastructure equity commingled funds, SMAs, and co-investment vehicles. On the credit side, the Firm manages \$784 million as of June 30, 2024.

I Squared is currently in the market with GIC II with a \$1.5 billion target for the commingled fund. The Fund intends to employ a direct origination model targeting a mix of senior secured (70%) and subordinated (30%) investments in sponsor-backed infrastructure assets. Uses of proceeds can include construction financing, asset acquisition, growth capital, refinancing, and recapitalization. Assets will primarily be brownfield, therefore structural considerations include the extent of inflation-indexed long-term contracts, bankruptcy-remote SPVs, security pledges in existing operational assets, guarantees from borrowers, and covenant packages. Core sectors for the Fund are expected to be energy & renewables, transportation & logistics, digital infrastructure, environmental & utilities, and social infrastructure where I Squared has experience as an infrastructure owner and operator.

Aksia believes private infrastructure credit offers diversification benefits for investors with traditional private credit allocations through exposure to projects and companies that feature contracted cash flows and hard assets with inflation protection characteristics. I Squared is expected to leverage and benefit from the equity infrastructure business of the Firm along with its various resources and operating partners.

Aksia's recommendation is based upon the following analytical factors and is made within the context of PSERS' investment guidelines:

- Due diligence of I Squared's investment process, including a review of the sponsor, investment strategy, market positioning, investment personnel, and risk management;
 - Most recent investment due diligence review was conducted in August 2024.
- Due diligence of I Squared's operations, including a review of its organizational structure, service providers, regulatory and compliance, LPA and financial statement analysis;
 - Most recent on-site operational due diligence visit was conducted in August 2024.
- Evaluation of the Fund's strategy within the context of the current investment environment; and
- Appropriateness of the Fund's strategy as a component of PSERS' portfolio.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in these funds, since their needs, objectives, and circumstances may not be identical to those of PSERS. In addition, please consult your tax, legal and/or regulatory advisors before allocating to any private investment fund.

Please feel free to contact us should you have any questions about this recommendation.

Respectfully,



Tim Nest
Partner, Co-Head Private Credit



Simon Fludgate
Partner, Head of Operational Due Diligence