

Infrastructure Investment Policy Statement

Introduction

Infrastructure assets are basic facilities and services which are the cornerstone of community growth and development. Traditionally, governments have facilitated investment in infrastructure assets either by directly financing and building these assets or by subsidizing others to do so. However, governments have been feeling political pressure to focus resources on services, reduce taxes, and balance budgets. Additionally, the escalating cost of continued improvements to existing infrastructure has caused governments to look for alternative funding options. Although analyst forecasts vary, industry experts expect between \$1-\$3 trillion in annual infrastructure investment demand globally through 2030, with almost \$200 billion per year of demand expected annually in the United States alone.

For these reasons, there has been a growing trend toward private financing of public infrastructure projects and the privatization of existing public infrastructure assets. As a result, infrastructure investing has been gradually moved from the public to the private sector on a global level. With this trend, the role of government has shifted from the provider of services to that of a regulator. This has provided a stream of investment opportunities and fueled the development of an alternative investment class for institutional investors.

There are two primary types of infrastructure transactions: (i) Public-originated transactions; and (ii) Privately-originated transactions.

1. **Public-originated transactions.** Consist of three key types: (i) public-private partnerships (“PPPs”); (ii) privatizations; and (iii) long-term concessions. PPPs refer to transactions in which a public agency is involved as either the user of the asset (often through a contractual agreement) or as the facilitator of a tax-exempt debt issue for the transaction. From an investment perspective, the involvement of the public agency often improves the credit quality of the transaction. Privatization generally involves the sale to a private investor of publicly owned infrastructure. Finally, long-term concessions are long-term agreements (some as long as 99 years) where a private investor has the right to operate an infrastructure asset in return for either a lump sum and/or an ongoing concession payment to the public entity. Frequently, stakeholders are most sensitive to privatizations as those entail the outright and permanent transfer of ownership.
2. **Privately-originated transaction.** These transactions transfer infrastructure assets from one private investor to another, and while historically focused in the energy and telecommunication sectors, may also include other sectors (e.g., ports).

Infrastructure Assets Overview

Infrastructure assets can be broken down into five key sectors:

1. **Transportation.** Consists of toll roads, tunnels, bridges, ports, railroads, and airports.
2. **Utilities.** Consists of electric, gas, water, and waste-water services.
3. **Communications.** Consists of broadcast towers, wireless towers, cable, and satellites.
4. **Midstream & Contracted Energy.** Consists of pipelines, storage facilities, and electric generation facilities.
5. **Social Infrastructure.** Consists mostly of PPPs, including for hospitals, schools, courthouses, and correctional facilities.

Similar to real estate investing, infrastructure investing can be split into three separate styles of investing based on the risk/ return profiles of the underlying assets: core, core plus/value added, and opportunistic.

- **Core.** Tend to consist of assets with significant downside protection, the least relative risk and less capacity for operational value creation. These assets are typically in developed countries.
- **Core plus / value added.** These assets provide the opportunity for operational value creation and more active management, typically involving an investment thesis with some degree of business transformation. Again, these assets are typically in developed countries.
- **Opportunistic.** These infrastructure investments have the highest risk, and potentially the greatest return, with a risk/return balance more typical of private equity buyouts. Strategies may include the material use of financial leverage, investments in emerging market economies, Greenfield projects with volume risk, and other special situations.

Infrastructure investments have unique investment characteristics that can be attractive for some institutional investors, including:

1. The assets are essential to the public;
2. They have stable and predictable consumer demand;
3. In general, they have a strategic competitive advantage with high barriers to entry;
4. They typically consist of hard physical assets that are designed to exist over long time periods;
5. Predictable cash flows often linked to inflation;
6. Low volatility;
7. Long-term sustainable yield; and
8. Low correlation to other asset classes.

In summary, because of these characteristics, infrastructure assets can provide downside protected investments with potential upside through operational value creation. These investments often match up well with the long-term liabilities of many institutional investors.

Investment Objective

The System's infrastructure program seeks to achieve consistent positive real returns with strong downside protection, maximizing long-term total return within prudent levels of risk through a well-diversified portfolio of investments.

Performance Objectives

Due to the inevitability of short-term market fluctuations that may cause variations in the investment performance, it is intended that the performance objectives outlined below will be achieved by the investment managers over the life of the investment, generally 10 - 15 years. However, the Board reserves the right to evaluate the funds' interim performance. Annual performance will be evaluated to test progress toward attainment of these longer-term goals. It is understood that there are likely to be short-term periods during which performance deviates from expectations. Minimum expectations are as follows:

1. The nominal rate-of-return for the infrastructure program will be calculated as a dollar-weighted, internal rate of return (IRR), net of all fees and expenses.
2. The fund's IRR performance will target outperformance of the CPI +7% over the life of the investment.

Attaining these objectives does not guarantee continued investment by the System nor does failure to achieve these guidelines mandate termination of the investment.

Limited Partnership/Pooled Fund Exceptions

The Board expects to implement its investment through a limited partnership or other pooled investments vehicle. The Board recognizes that by investing in a limited partnership or other pooled investment vehicle, the Investment Manager will likely serve a wide range of investors with potentially conflicting investment objectives (e.g. taxable vs. tax-exempt, ERISA vs. non-ERISA, U.S. vs. non-U.S.). Therefore, in the case of limited partnerships or other pooled investment vehicles, the Board will waive the Investment Manager's strict adherence to investment guidelines described below.

Investment Manager Hiring Guidelines

When conducting a search for an Investment Manager, the Board shall apply the following guidelines for qualifying an Investment Manager:

- In the case of a limited partnership or other pooled investment vehicles, the Board prefers that its investment shall not represent more than 10% of the vehicle's total market value or commitments, except if the vehicle has substantially the same managers and strategic allocations as another vehicle of the Investment Manager, in which case the investment shall not exceed 10% of the total market value or commitments of the combined vehicles.
- Infrastructure investments can include, but are not limited to, the sectors described above: transportation, utilities, communications, midstream & contracted energy, and social infrastructure.
- The risk/return profile of the investment can include, but is not limited to core, core plus/value added, and opportunistic.
- The investment vehicle can be either closed or open ended.

Reporting Requirements

Each Investment Manager should note that the Systems operate on a fiscal year basis, from July 1st through June 30th; therefore, all performance reports should be prepared on a fiscal year basis. The Board requires continual awareness of the System's activity and position, both absolute and relative. To accomplish this, the following reports should be sent to the Board:

A. Quarterly Report

Reporting requirements will be governed by the stand-alone partnerships' legal documentation, which at a minimum will provide for quarterly unaudited financial statements and other relevant investment holdings-related exhibits, and annual audited financial statements and relevant investment holdings-related exhibits. At the time of reviewing any investment vehicles' legal documents, the System's staff and legal counsel should negotiate by incorporation in the agreement, or by side-letter, the System's specific reporting requirements, which may include:

- Performance results.
- Listing of strategic allocations (by infrastructure sector) as a percent of the Investment Manager's total fund assets as of quarter end.
- Notice of changes in organizational structure, ownership, key personnel, and investment strategy of the firm. Material changes shall be reported in a timely manner by at least two means of communication (e.g., phone call, email, fax, and/or letter).
- Dealings with minority and woman-owned businesses.
- Clients gained or lost for the strategy invested in by the System.

On an annual basis, the reports should also include:

- Annual filing of Form ADV with the Securities and Exchange Commission.
- Annual audited financial statements related to the Fund Sponsor's investment.
- Firm composition specifying majority, minority, and women personnel by management.

B. Report Submission

Written quarterly reports are to be submitted within 90 days of the end of each quarter (September 30th, December 31st, March 31st, and June 30th) and mailed directly to the members of the Board, the System's Executive Director, Deputy Executive Director, and Accounting Manager. These reports can also be submitted electronically. The System will supply each Investment Manager with a current mailing list. When necessary, a revised list will be sent to each Investment Manager.

Performance Review Presentation before the Board of Trustees

It is the Board's intention to formally review Investment Manager performance on a regular basis. Investment Managers are expected to personally appear annually, or at the Board's request, at regular monthly or special meetings of the Board to discuss performance results, economic outlook, investment strategy, organizational changes, and other pertinent matters. The written and oral

presentations at these meetings should include the following:

- *Performance for Past Period:* Updated Net IRR Return calculations. All returns should be net of all management and incentive fees and should be presented by both fiscal and calendar year.
- *Rationale for Performance Results:* Discussion of the rationale for performance results, relating specifically to strategic and manager allocations during the current review period.
- *Specific Near-Term Strategy:* Discussion of the Investment Manager's strategy for the portfolio over the near-term period.
- *Changes in the Investment Manager's Firm:* Discussion of any changes in the Investment Manager's firm including, but not limited to, organizational structure, ownership, key personnel, investment strategy and philosophy.
- *Changes in the Fund's Requirements:* Discussion of any changes in the Investment Manager's fund objectives or guidelines, particularly in relation to the Fund Sponsor's above stated objectives and guidelines.

In a month when an Investment Manager is scheduled to personally appear before the Board, the written quarterly reports are to be mailed directly to the members of the Board of Trustees, the Executive Director, the Deputy Executive Director, and the Accounting Manager at least one week in advance of the appearance date. Ten (10) additional copies of the reports should also be mailed to the Executive Director one week prior to the appearance date. If the additional copies cannot be delivered in this manner, then the reports can be personally delivered on the appearance date. The additional copies are only required for review meetings with the Board and are not required any other time.

Telephone and Written Communication

Immediate telephone and written communication should be made by the Investment Manager to the Executive Director when information of an important nature, such as unusual market activity (oil embargo, monetary crisis, SEC Regulatory issues, etc.) may have a material impact on the System's assets.

Amendments

If at any time these objectives cannot be met, or these guidelines constrict performance, the Board should be notified in writing. The Investment Manager is encouraged to suggest changes to these guidelines at any time.

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Accepted by:

Name

Date

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