

Contact: Patrice Sayre

FUND MANAGER ISSUES

Action Requested: Recommend that the Board approve Ardian Secondary Fund VI Infrastructure (“ASF VI Infrastructure” or “ASF VI”) for the Long Term Endowment Pools, subject to any final due diligence which would include, but not necessarily be limited to, legal review of investment documents. The recommended commitment amounts are as follows and are consistent with commitment “pacing” studies conducted by Wilshire Associates for the Private Real Assets allocation.

- ♦ Iowa State University: \$7.8 million *
- ♦ University of Iowa: \$17.9 million *

* Recommended commitment amount is shown. Fund manager will draw capital over time.

Executive Summary: The Board of Regents investment policy requires that the investment advisor (Wilshire Consulting) provide recommendations and advice on matters regarding investment manager selection, retention, and termination. (<http://www.regents.iowa.gov/Policies/Chapter%207/chapter7.04.htm>)

The arrival at this recommendation follows numerous discussions about how to address investment needs for the Long Term Endowment Pools in the Private Real Assets space. In light of existing investments in Private Real Estate and Natural Resources/Energy, it was determined that infrastructure investments would represent a unique opportunity to complement existing real asset investments, but only if a suitable implementation vehicle could be identified. The investment advisor, Wilshire, identified Ardian as a potential candidate in the very limited space of infrastructure fund-of-funds.

Regent Downer, as Chairman of the Audit/Compliance and Investment Committee, along with university staff, Board Office staff, and Wilshire conducted an in-person interview of Ardian on November 3, 2014. Attendees from Ardian included: (1) Benoit Verbrugge, Executive Board Member and Head of Ardian USA; (2) Vladimir Colas, Managing Director; (3) Mark Benedetti, Managing Director; and (4) Michael Bane, Head of US Investor Relations. The interview session included education on the infrastructure asset class and details of Ardian’s current offering, ASF VI Infrastructure.

Several follow-up due diligence items were addressed by Ardian following the in-person interview. Collectively, the group arrived at the decision to move forward with this fund manager recommendation as a result of its strategic role in the long-term endowment portfolios and its anticipated return/risk characteristics.

Background and Analysis: Private Real Assets has a 15% target allocation within the long-term endowment portfolios. ASF VI Infrastructure falls within this allocation and represents the first dedicated infrastructure investment. The infrastructure asset class is characterized by physical assets typically demonstrating regular income (except for development situations), inflation protection, and diversification versus other asset classes.

ASF VI focuses in areas of transportation (roads, bridges, airports, railways); energy/utilities (electricity transmission and distribution, gas transportation, energy generation, and water utilities); and communications networks (mobile phone towers, cable, fiber optic networks).

In many cases, infrastructure assets demonstrate inelastic demand. Further, the focus of ASF VI is specifically on mature investments such that there is limited/no development risk and assets are currently operating and generating cashflows which support income payments to investors.

The infrastructure asset class is represented by a global opportunity set. Many infrastructure assets are large in size and therefore require significant equity capital to make a purchase/investment. In 2006, the private fund marketplace for infrastructure greatly expanded with over \$20 billion of capital raised during the calendar year thereby providing substantial investment financing. Private infrastructure fund raising remained solid over subsequent years and in more recent years a market for secondary interests of mature funds has developed.

About Ardian

Ardian established itself as one of the largest private secondary market investors in the world having invested over \$21.9 billion in secondary partnerships of various types. Formerly, the group was known as AXA Private Equity. In May 2013, AXA Group agreed to sell a majority of AXA Private Equity to management and employees. This ownership change is viewed positively by Wilshire and strengthens what was already viewed as a strong platform. The manager maintains a premier position in the market thereby enabling it to source deal flow from a number of portfolio restructuring situations. Given their robust sourcing network and consistent performance across predecessor funds, Ardian is viewed as a suitable manager for investors pursuing secondary market transactions. Today, the firm continues to be led by its founder, Dominique Senequier, who founded the firm in 1996.

ASF VI Infrastructure

ASF VI Infrastructure is a closed-ended partnership investment vehicle with a target fund size of \$500 million. Consistent with the long-term nature of this asset class, the Fund's term is 15 years subject to three 1-year extensions with investor approval. The management fee is 1% of the commitment amount during the investment period with provisions for reduction after the investment period. Investor terms include a 7% preferred return after which carried interest is allocated 90% to investors and 10% to the fund manager (subject to a 50/50 "catch up" allocation for the fund manager). ASF VI seeks to provide a meaningful income return component of 5-10% annualized which will be distributed quarterly to investors.

Notably, ASF VI has begun investing and two investments exist in the Fund's portfolio. Approximately 36% of the \$500 million target fund size has been committed as of September 30, 2014. All investments, including these, are subject to a well-articulated investment process. A designated project team is identified for each potential opportunity and takes an investment from initial stages to final due diligence. A seven-member investment committee is the final approval step in the process for ASF VI.

Investment Merits

- ▶ Established private equity manager with proven success in sourcing and investing in secondary fund interests
- ▶ Fund is managed by same team responsible for primary fund investments - represents unique sourcing and informational advantage
- ▶ Attractive investment offering providing a diversified exposure (by geography and property type) to a difficult to access asset class
 - ◆ In contrast, direct/primary funds often have concentrated risk exposures
- ▶ Return characteristics
 - ◆ Income / current yield
 - ◆ Inflation sensitivity
 - ◆ Diversifying to other asset classes; unique return drivers / inelastic demand

Investment Concerns

- ▶ Fund manager's first dedicated infrastructure fund
 - ◆ *Two investments already made; deal pipeline is robust*
 - ◆ *Differentiated opportunity in expanding infrastructure secondaries market*
- ▶ Illiquid asset class / exit opportunities
 - ◆ *Asset class has become "institutionally accepted" with growing number of strategic investors/buyers*
 - ◆ *Public offering exit opportunities*
 - ◆ *Expanded market for underlying partnership interests*

Recommendation

Wilshire supports an investment in ASF VI Infrastructure. Structurally, this investment plays a strategic role within Private Real Assets and establishes exposure in an area not currently represented in the endowments. The Fund represents an appropriate implementation vehicle leveraging capabilities of an established organization. The focus is in an area that is arguably under exploited, thereby representing opportunity. This recommendation is subject to any final due diligence which would include, but not necessarily be limited to, legal review of investment documents.