

Private Infrastructure

Sussex County

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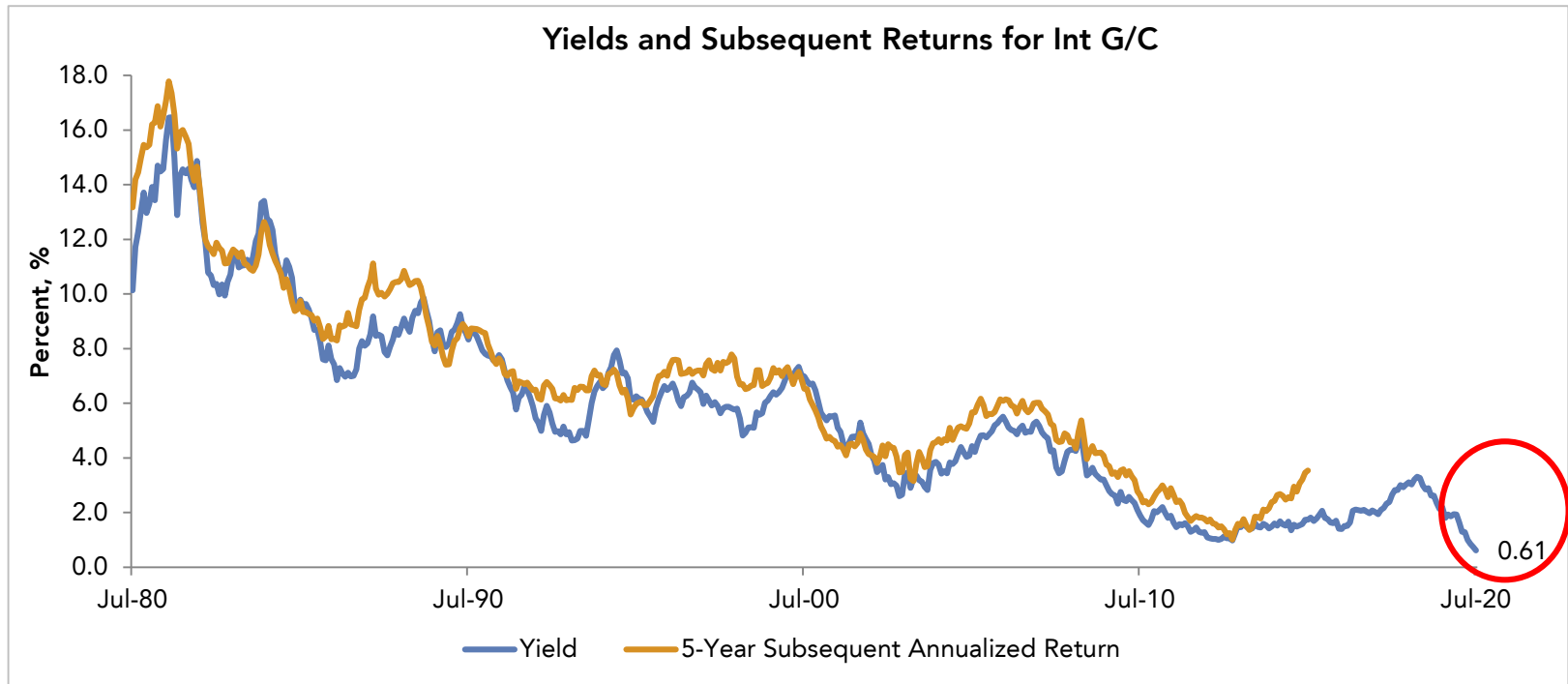
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Proposal

Core Fixed Income Yields and Returns

Low fixed income yields signal low returns



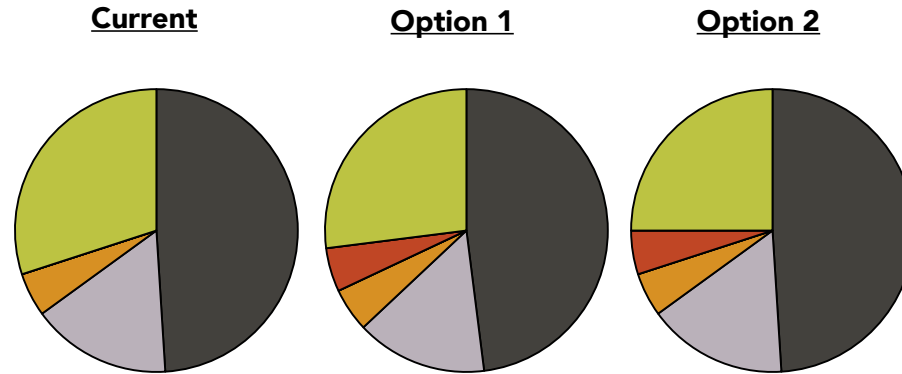
Source: Refinitiv.

Proposed Investment Policy Changes

- Goal
 - Increase the probability of success (meeting assumed rate of return over the long run) without taking a lot more risk
- Proposal
 - Add 5% allocation to Private Infrastructure
 - More than 40% of the institutional clients* served by our West Chester office have invested or approved an allocation in private infrastructure, with allocations ranging from 4-5%
- Options
 - Lower Fixed Income by 3% and Equities by 2%
 - Lower Fixed Income by 5%

*Includes only those clients large enough to make an allocation.

Asset Allocation Targets



	<u>Current</u>	<u>Option 1</u>	<u>Option 2</u>
■ U.S. Equities	49%	48%	49%
■ Non-U.S. Equities	16%	15%	16%
■ Core Real Estate	5%	5%	5%
■ Private Infrastructure	-	-	5%
■ U.S. Fixed Income	30%	27%	25%

	<u>Current</u>	<u>Option 1</u>	<u>Option 2</u>
Avg. Annualized Net Return	6.2%	6.3%	6.4%
Avg. Annualized Volatility	11.9%	11.8%	12.2%

Private Infrastructure

The “Backbone” of an Economy

The physical assets and networks necessary to operate a society – a prerequisite for sustainable economic, industrial, and social growth & development

Common attributes of infrastructure assets:

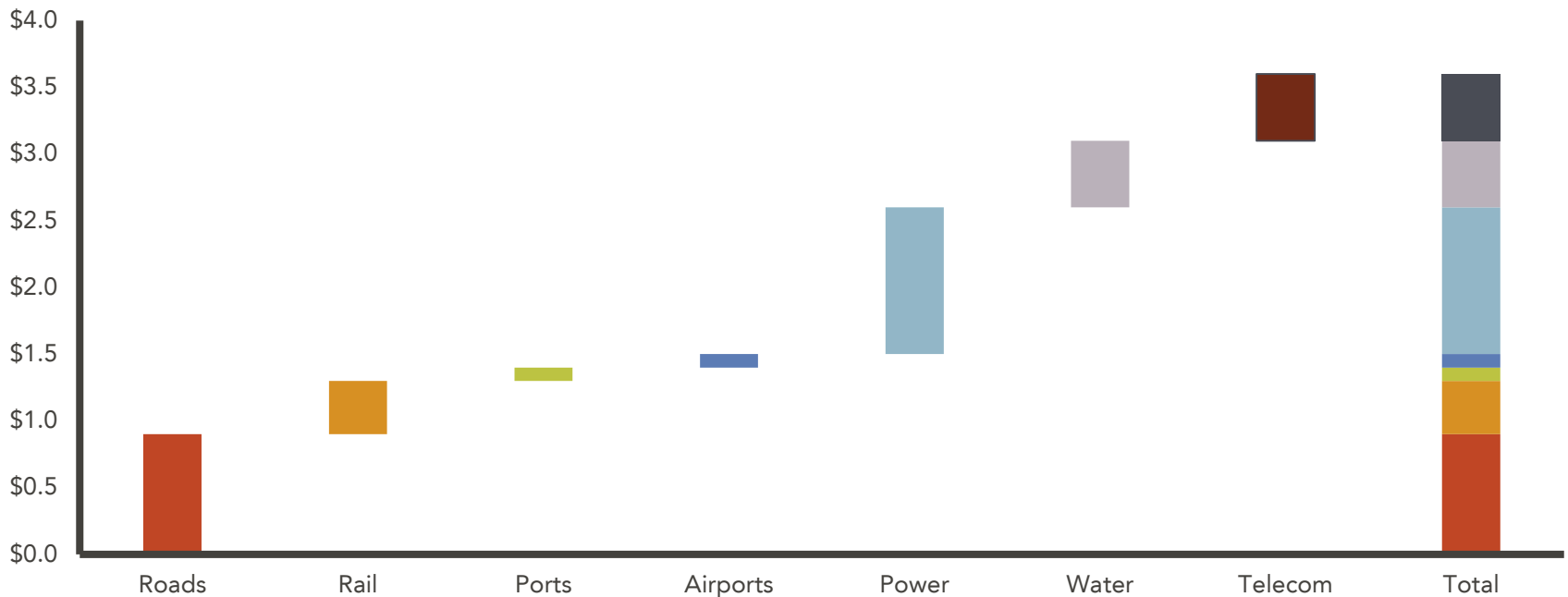
- Essential service to society
- Monopoly/quasi-monopoly
- Regulatory oversight
- Stable and predictable cash flows
- Inflation protection



Need for Infrastructure Investments

The need for infrastructure investments globally continues to drive demand despite market downturn





▣ Average Annual Infrastructure Need (\$ Trillions)



Source: McKinsey Global Institute. Data is based on available information as of February 29, 2020.

Infrastructure Sectors

Infrastructure assets are commonly defined by their physical characteristics and grouped into two main categories: economic and social infrastructure

Economic Infrastructure			Social Infrastructure
Transportation	Energy & Utility	Communications	
Airports	Electricity	Broadcast towers	Municipalities
Bridges	Gas	Cable networks	Universities
Rail	Oil	Mobile towers	Schools
Roads	Pipelines	Satellite networks	Hospitals
Seaports	Water/wastewater		
Tunnels	Solar/wind		
			

Infrastructure Characteristics

Economic Infrastructure Assets

Throughput assets

- Derive income per usage
- Prices determined by operator/owner

Ex: roads, airports, rail



Regulated assets

- Derive income per usage
- Prices determined by regulatory body
- Asset owner typically has some pricing power protection

Ex: utilities, water, gas



Contracted assets

- Operated by a contract between operator and entity
- Contract determines pricing system and identifiable revenues

Ex: schools, satellite networks, broadcast towers



Infrastructure Maturity States

Greenfield New construction or development

Brownfield Existing, established asset

Rehabilitated Brownfield Redevelopment



How to Invest in Infrastructure

Institutional investors can access infrastructure through a variety of investment options

Private Vehicles/Unlisted Funds

- Open-end fund
- Closed-end fund

Public Vehicles/Listed Funds

- Open-end fund
- Listed closed-end fund

Infrastructure Unlisted vs Listed

Unlisted (Private) Infrastructure

Advantages

- Greater opportunity set
- Direct investing
- Control of asset more likely

Disadvantages

- Limited liquidity
- Potential lack of diversification and high leverage
- High capital requirements

Listed (Public) Infrastructure

Advantages

- Traded on an exchange
- Transparent
- Liquid

Disadvantages

- Limited opportunity set
- Indirect exposure
- High regulatory parameters of assets
- Market volatility

Attractive Investment Profile

Annualized performance

(common period 3Q07-2Q20)

	Private Infrastructure*	U.S. Equities	Non-U.S. Equities	Fixed Income	Core Real Estate
Annualized Return	5.4%	7.9%	1.6%	4.0%	4.4%
Annualized Risk (Std Dev.)	8.1%	18.3%	20.3%	2.9%	7.5%
Sharpe Ratio	0.67	0.43	0.08	1.38	0.59

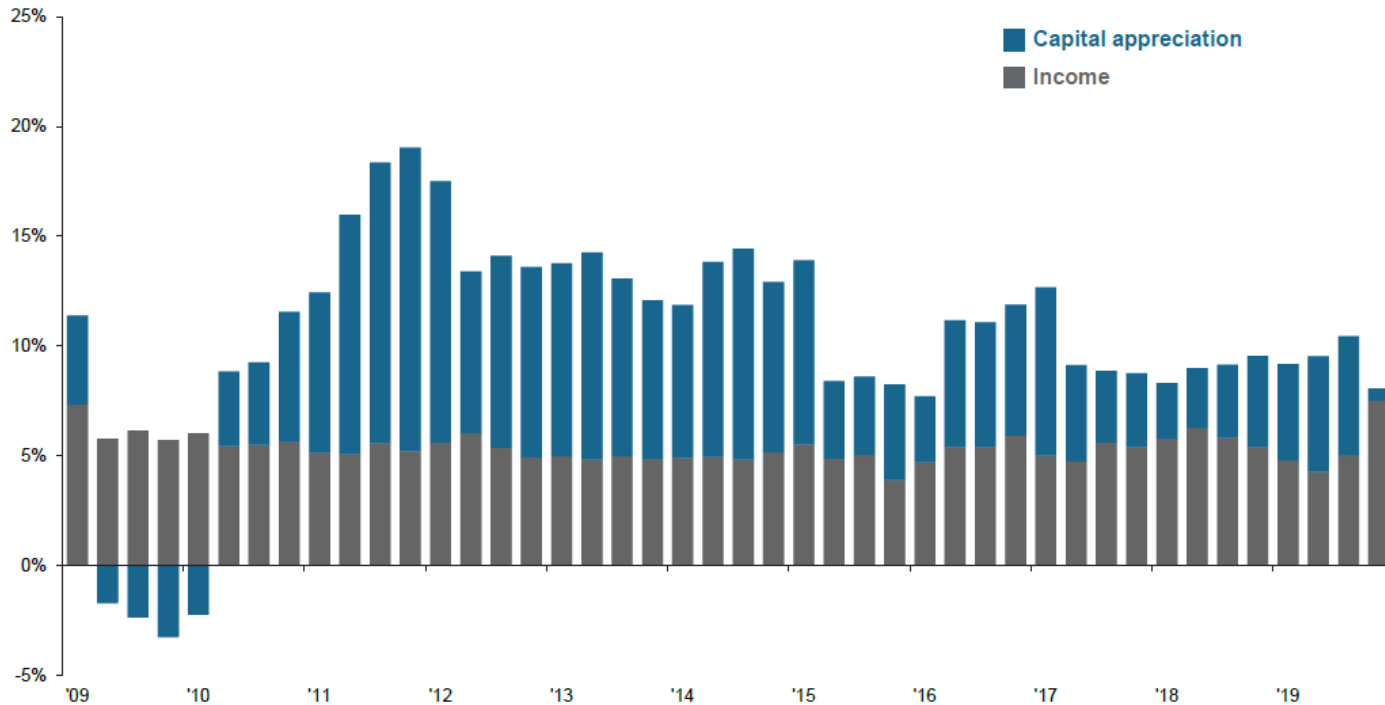
Exhibit uses quarterly data. *Private Infrastructure represents the equal-weighted returns of the two largest open-ended core infrastructure funds since the first inception date of the two (July 2007).

Sources of Global Infrastructure Returns

A sustainable cash yield underpins the risk profile of an infrastructure portfolio

Global core infrastructure returns

Rolling 4-quarter returns from income and capital appreciation



Source: MSCI. Infrastructure returns represented by the "low risk" category of the MSCI Global Quarterly Infrastructure Asset Index. Data show rolling 1-year returns from income and capital appreciation. The chart shows the full index history, beginning in the first quarter of 2009.

Correlations

The asset class also provides key diversification relative to traditional asset classes

(common period 3Q07-2Q20)

	Private Infrastructure*	U.S. Equities	Non-U.S. Equities	Fixed Income	Core Real Estate
Private Infrastructure*	1.00				
U.S. Equities	0.48	1.00			
Non-U.S. Equities	0.60	0.91	1.00		
Fixed Income	-0.15	-0.20	-0.04	1.00	
Core Real Estate	0.40	0.13	0.02	0.40	1.00

Exhibit uses quarterly data. *Private Infrastructure represents the equal-weighted returns of the two largest open-ended core infrastructure funds since the first inception date of the two (July 2007).

Infrastructure Benefits vs Risks

Infrastructure Benefits

- Growing opportunity set
- Stable predictable cash flows
- Potential hedge against inflation
- Strong and consistent performance
- Low correlation to other asset classes

Infrastructure Risks

Fund Level:

- Concentration
- Currency
- Financing
- Interest Rate
- Liquidity
- Valuation

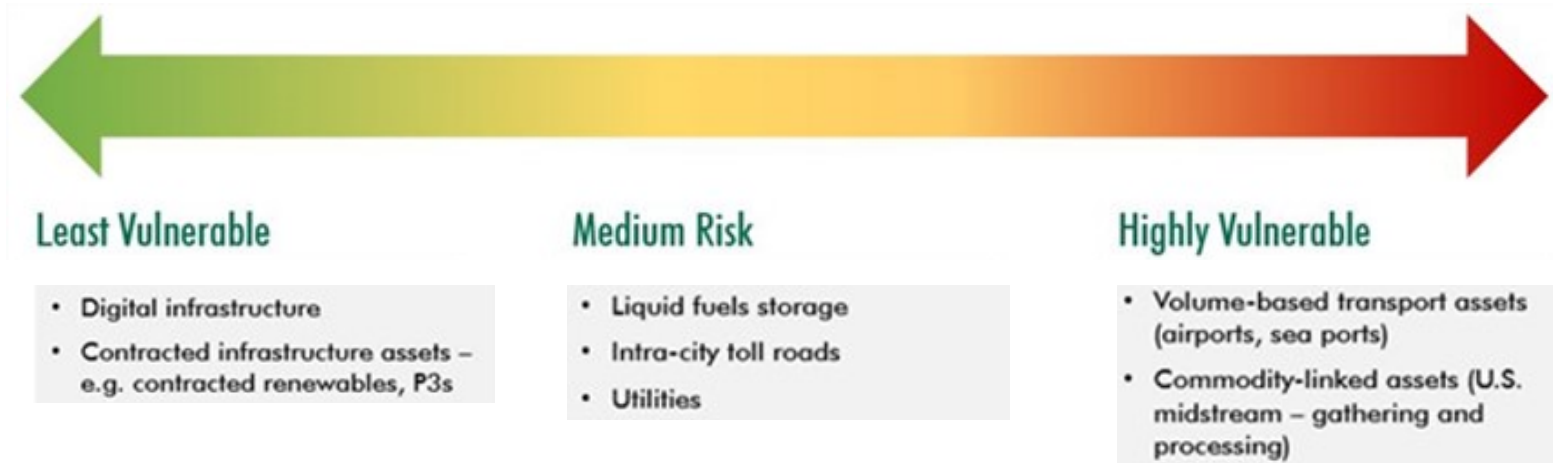
System Level:

- Demand/ patronage
- Inflation
- Political
- Public perception
- Regulatory

Unsystematic:

- Disaster
- Environmental
- Obsolescence

COVID-19 Impact



- Infrastructure is expected to be less sensitive to broader market and economic movements. “Core” essential services, such as regulated utilities and long-term contracted assets, are anticipated to hold-up well.
 - Heat, water and electricity remain essential to daily life whether at home or at work, and in many cases regulated businesses have an obligation to serve customers.
- Infrastructure strategies that are highly diversified and invest in core, yield-focused assets in high income OECD geographies are expected to perform well on a relative basis.
- “Core-plus” and “value-add” GDP-sensitive assets with volumetric and/or GDP exposures are anticipated to be more affected on a relative basis.

Example: JP Morgan IIF

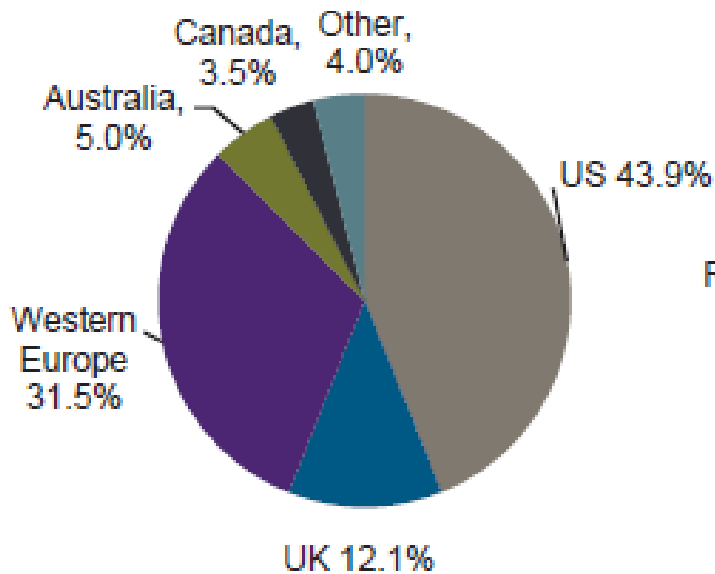
Overview

Long-term	Founded in 2006; open-end structure
Net Asset Value	\$12.4 billion
Diversification	17 portfolio companies (541 assets) in 22 countries & 11 subsectors
Guideline Midpoints	Regulated: 40% Contracted/Power: 40% GDP Sensitive: 20%
Team Alignment	Team has considerable investment in the fund
Investment Queue	Estimated 6-12 months

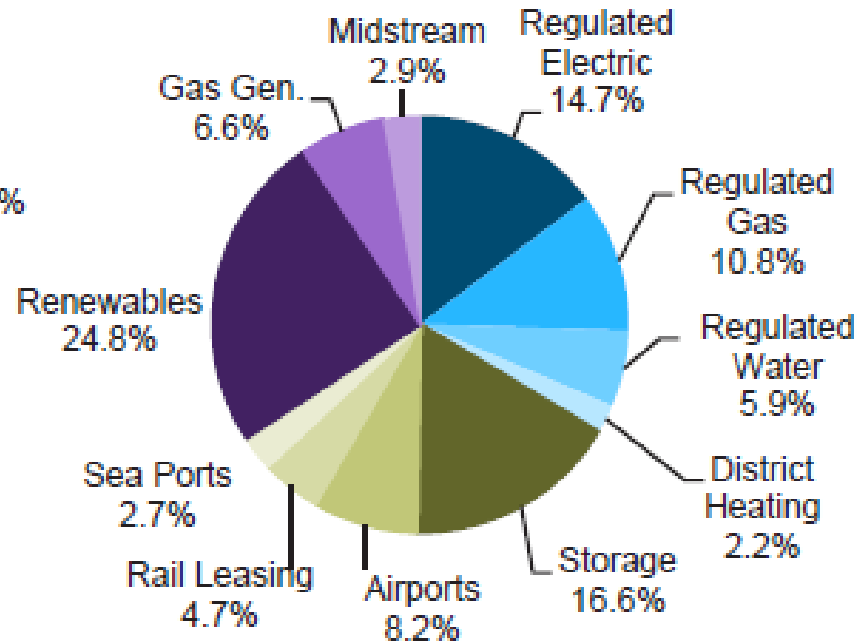
Source: JP Morgan.

Portfolio Geography and Sub-Sectors

Portfolio Geography

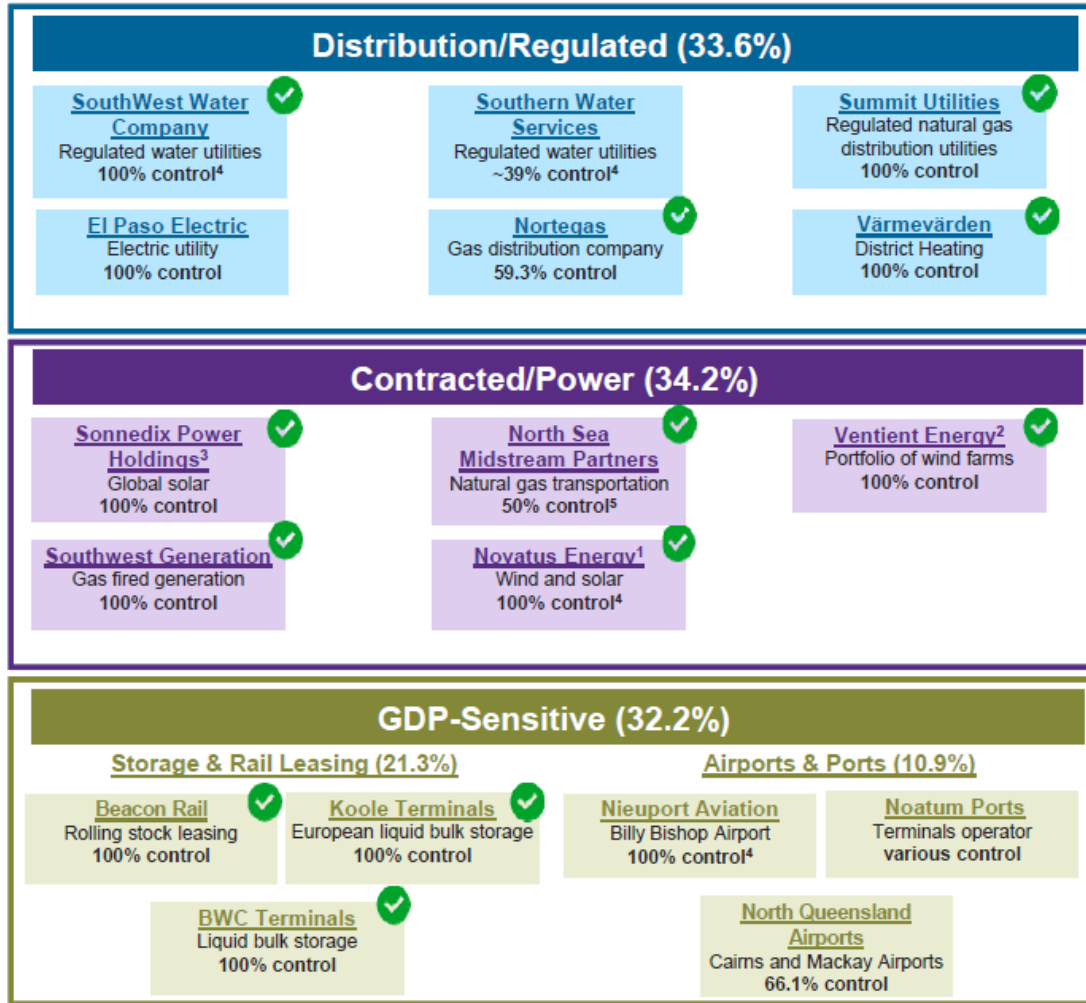


Portfolio Sub-Sectors



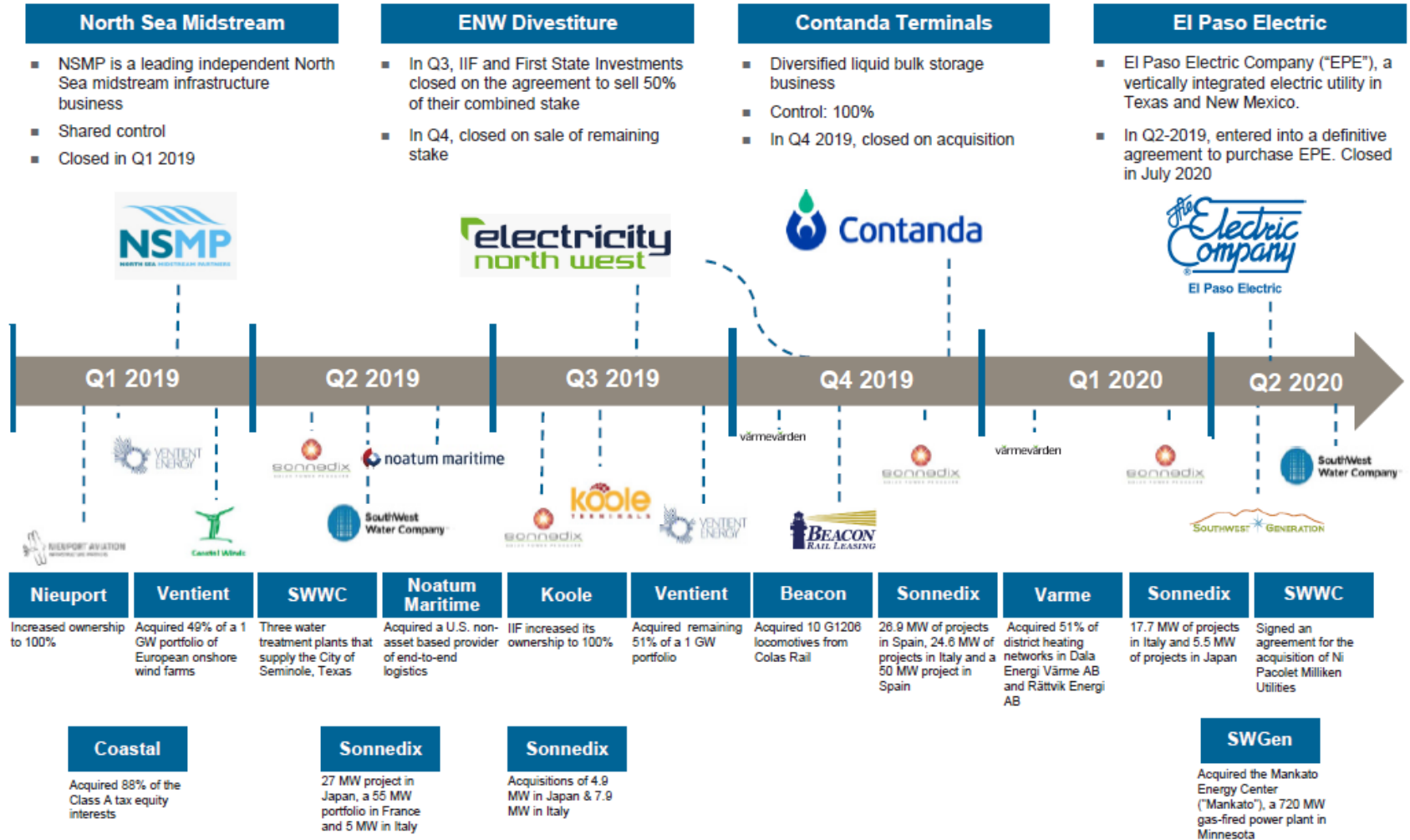
Source: JP Morgan.

Portfolio Investments



Source: JP Morgan.

2019 & 2020 YTD Select Transaction Activity



Source: JP Morgan.

Historical Return and Yield Summary

Long-term results and projections reflect the diversity and long-term business plans of the underlying portfolio companies

Annualized Returns for Period Ended June 30, 2020							
<i>Since July 1st, 2007</i>	Quarter	One Year	Three Year	Five Year	Ten Year	Inception	5-yr Vol.
Gross Asset Performance (Local Currency)	2.3%	6.9%	9.4%	8.9%	8.9%	8.2%	
Net Total Return Local Currency	1.8%	5.9%	7.7%	7.1%	6.6%	5.8%	1.5%
Net Total USD <i>Unhedged</i> Return	3.2%	4.6%	6.8%	5.7%	5.8%	3.4%	4.2%
Cash Yield (Distributions / NAV)	1.6%	11.3%	9.2%	7.9%	6.7%	5.8%	

Source: JP Morgan.

Key Terms

Min Investment	\$2.5M*
Subscriptions/ Redemptions	Quarterly/ Semi-annual
Distributions	Quarterly (can receive as cash or reinvest)
Currency hedging	US\$ hedged and unhedged available
Lock-up	Semi-annual during a 4yr soft lock-up; quarterly thereafter**
Management Fees	0.95%
Incentive Fees	15% over 7% per year, capped at 10%

*Stated minimums is \$10.0M.

**Redemptions made prior to the fourth anniversary of the final drawdown of an Investor's Commitment subject to a 4% repurchase discount .

Disclosures

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