Mendocino County Employees Retirement Association

Date: August 19, 2026
To: Board of Retirement
From: F. Robert Reveles, Retirement Financial Investment Officer
Subject: Second Quarter 2026 Infrastructure Update and Manager Characteristics

Recommended Action:

Receive and file.

Fiscal and Financial Impacts:

There is no financial impact to receiving this informational item.

Strategic Plan Importance and Risk Assessment:

This report pertains to Goal 1 – Protect the Plan's long-term financial health and Goal 2 – Strengthen Risk Oversight.

Background and Discussion:

Manager Strategy Highlights:

IFM GIF

The IFM Global Infrastructure Fund (GIF) strategy returned a net 3.72% during the fourth quarter of fiscal year 2026, bringing its trailing 12-month net return to 10.75%. Since our capital call in December 2021, MCERA's total cumulative net return is 51.58%. For the past 12 months, management and incentive fees were 81 bps and 96 bps, respectively. Annualized fees are inflated because of a $4 million redemption received in April 2026.

Over the last quarter, the strategy's Net Asset Value (NAV) increased from $69.0B to $72.4B. The growth was driven by increased valuations of the Toll Road portfolio (Aleatica, Indiana Toll Road, Atlas Arteria), Switch, and Aqualia. These gains were partially offset by currency impacts at Airports Group Europe (AGE) and performance at Buckeye. In total, the fund received $224.5 million in distributions, primarily from the airports, GCT, Freeport Train and VTTI.

Aleatica

Aleatica delivered a 2.1% quarterly total return, primarily driven by positive forecast updates, though gains were partially offset by higher financing costs at floating-rate facilities. Key forecast revisions included an updated long-term business plan for Conmex in Mexico and the incorporation of updated central bank data, where higher short-term inflation boosted value despite some moderation in near term GDP expectations. Year-to-date traffic across Aleatica's roads climbed 13.2% above the prior comparable period, propelled by newly opened Mexican toll booths and a continued ramp-up of multiple South American routes that entered full operation in 2025. Meanwhile, the UK's M6 Toll overcame a 3.6% traffic dip to achieve a 6.9% revenue increase through distance-based price optimization. Financially, Viaducto Bicentenario implemented an $18 million letter of credit in May 2026 to successfully release restricted cash from its debt service reserve account. On the sustainability front, the company announced it surpassed its 2030 climate goals ahead of schedule by cutting Scope 1 and 2 emissions by 43% since 2019. Lastly, the Aleatica Foundation for Road Safety earned recognition as a top 10 corporate foundation in Mexico and launched the fourth edition of its risk-reduction program. The "We Are Road Safety" program lowers accident risks in high-incidence areas by funding community projects, altering street layouts near schools, installing pedestrian barriers, and training both youth and specialized instructors.

Indiana Toll Road

The Indiana Toll Road (ITR) delivered a 22.0% quarterly total return, propelled by an ownership increase and modifications to its toll escalation mechanism. Specifically, on June 24, 2026, the company amended its Concession and Lease Agreement with the Indiana Finance Authority (IFA), boosting the minimum annual toll increase to 3.0% and shifting to a semi-annual adjustment frequency. The agreement replaces the Nominal GDP per capita metric with Nominal GDP, which is expected to provide incremental revenue growth over time. In exchange for these favorable adjustments, ITR committed to paying the IFA $700 million over two years, completing an initial $300 million payment at signing to fund Northern Indiana infrastructure. Concurrently, IFM GIF strengthened its stake in the company by acquiring an additional 2.64% minority stake from co-shareholders CBUS and Allstate at the March 2026 valuation level. Traffic volumes for the six months ended June 2026 remained strong, with heavy and light vehicle traffic rising 0.4% and 3.9% over the prior comparable period, respectively. Light vehicle growth was notably aided by alternative free route construction projects. Due to favorable toll increases allowed under the Concession Agreement, year-to-date revenue climbed 6.4% and earnings grew 6.3%, tracking closely to corporate budget targets.

Atlas Arteria

Atlas Arteria delivered a strong 28.4% total return for the quarter. This performance was largely driven by its share price rising to A$5.10 following IFM GIF's successful takeover offer, which increased its ownership stake to 67.4% by July 2026. The acquisition process was supported by a temporary A$1.0 billion credit facility that was successfully repaid on July 10. Operational performance across the portfolio was mixed; severe winter weather impacted the Warnow Tunnel and Chicago Skyway, while the Dulles Greenway achieved a 7.6% traffic increase. Despite a 2.6% traffic decline at French toll road operator APRR Group, revenues there grew 1.1% due to CPI-linked toll escalations. Notably, the company has not observed any material impacts from rising fuel costs, allowing weighted average toll revenues across the entire portfolio to edge up 0.1%. As a follow-up to the Dulles Greenway case reviewed at the February offsite meeting, the U.S. District Court has dismissed the federal litigation, though the Virginia State Corporation Commission continues its review of the new rate application.

This proposed toll increase faces ongoing opposition from the local county board of supervisors, the chamber of commerce, and the regional U.S. Representative.

Switch

Switch achieved a 12.2% quarterly return, driven by updated business plans reflecting newly leased capacity. In April, the company finalized a 331MW lease at the Atlanta campus with a hyperscale customer. Business plan updates incorporated this capacity, while adjusting for revised administrative expense and capital expenditure assumptions. In June 2026, the company significantly increased its corporate revolving credit and letter of credit facilities, improving pricing by 100 basis points across both facilities. While year-to-date revenue and earnings for May 2026 were slightly below budget due to timing and costs, they significantly outperformed the prior comparable period. The company remains focused on delivering 1.3GW of pre-leased capacity through 2029, with 350MW scheduled for completion by the end of 2026.

Aqualia

Aqualia delivered a 5.1% total return for the quarter, supported by a $5.5 million cash distribution, driven by strong performance in revenue and earnings for the five months ending 31 May 2026. Growth was underpinned by a 4.9% average price increase and volume growth of 1.2% in Spain and 2.8% globally. Fitch and S&P reaffirmed the company's investment-grade rating with stable outlooks in May and July 2026, respectively. In April, the company secured an emergency design-build-operate contract to address severe water scarcity in Corpus Christi, Texas. The contract allows the development of an emergency desalination plant to support acute water scarcity in a region where reservoir levels have declined to less than 10% of capacity. The facility will have sufficient capacity to serve around 200,000 inhabitants and is expected to be operational within a year. In Spain, in May 2026, the company was awarded a contract for a water supply plant in the Andalusian Green Hydrogen Valley. The Andalusian Green Hydrogen Valley is a €3 billion clean energy project in southern Spain that will establish 2 GW of electrolysis capacity to produce 300,000 tons of green hydrogen annually. Developed by Moeve, this project will decarbonize heavy regional industry and fuel a green maritime export corridor directly to northern Europe. Finally, the company's commitment to innovation was recognized at the Global Water Awards with the Wastewater Project of the Year 2026 award for its NICE nature-based solutions project. The NICE project is a multi-site European initiative that deploys zero-energy, nature-based artificial wetlands to treat and recycle urban wastewater while mitigating floods and enhancing city biodiversity.

Buckeye

Buckeye delivered a quarterly total return of -2.2%, driven by updated long-term forecasts and higher debt refinancing rates, alongside a $23.6 million distribution from Freeport Train 2. Despite Middle East conflict-driven price spikes causing minor gasoline and jet fuel volume declines, strong diesel and heating oil volumes in the Southeast kept overall throughput slightly below the prior period. Storage utilization rose from 65% in December 2025 to 77% by May 2026, driven by 8 million barrels of new positions in the Caribbean, allowing the company to continue benefiting from increasing Venezuelan crude exports. Year-to-date earnings grew 4.6% thanks to increased pipeline rates and higher commodity margins. This improved financial performance and ongoing deleveraging prompted Fitch to revise Buckeye's credit outlook from Stable to Positive while affirming its BB corporate rating.

JPM IIF

The J.P. Morgan Infrastructure Investments Fund (IIF) strategy returned a net 2.29% during the final quarter of fiscal year 2026, bringing its trailing 12-month net return to 11.20%. Since our capital call in April 2021, MCERA's total cumulative net return is 67.99%. For the past 12 months, management and incentive fees were 87 bps and 49 bps, respectively. Annualized fees are inflated because of a $3 million redemption received in May 2026.

Investor Committee Meeting Update

On April 8th, 2026 IIF held its virtual mid-year virtual Investor Committee meeting. The meeting covered the fund's 2026 outlook, provided updates on recent portfolio transactions, outlined the fund-level AI strategy, and concluded with an open session for committee member feedback.

The meeting opened with a review of the pre-Iran conflict outlook for 2026, which was broadly constructive. This outlook anticipated trend-like, broad-based economic growth globally, easing inflationary pressures, impending central bank rate cuts, and near double-digit corporate earnings growth. It was noted that the conflict's disruption of commodities markets and the shocks to other critical inputs were expected to be short lived. While the conflict subsequently disrupted commodity markets and critical inputs, these shocks were initially expected to be short-lived. Despite fluctuating peace agreement headlines, equity markets have remained resilient, pricing the geopolitical tension as a temporary disruption. Conversely, bond markets remain focused on heightened inflation and potential rate hikes, as evidenced by a 60 to 80 basis point increase in U.S. yields since the conflict began.

Next, the fund presented its strong 2025 calendar year results, achieving a fund level net return of 10.6%. Capital activity was robust: the fund raised over $8 billion in new commitments, generated $1 billion in dividend reinvestments, and paid $1.3 billion in redemptions. Management also highlighted that all 2025 capital investment went exclusively toward existing portfolio platforms, while continuing to maintain strong liquidity. As a reminder, MCERA recently received its full $3 million redemption.

The final portion of the performance update outlined the IIF value creation playbook, highlighting five key strategic levers used to drive asset performance. First, at Enstor, the commercial optimization lever drove higher recontracting volume, securing longer contract terms at above-anticipated rates. Second, at Beacon Rail, operational efficiencies produced annual savings and lower operating costs post-acquisition of Mitsui Rail in Europe. Third, capital deployment at South Jersey Industries directed nearly $600 million toward modernizing delivery infrastructure. Fourth, the capital structure optimization lever at GETEC secured over €3 billion in refinancings, providing financial flexibility for future growth. Lastly, asset rotation at Sonnedix leveraged non-core sales and partial sell-downs to successfully recycle sales proceeds back into the fund.

The fund provided its 2026 outlook: An uncertain and volatile macroeconomic, geopolitical, and policy backdrop will likely persist. Supply chains are adapting slowly while awaiting long-term industrial policy clarity. Within financing, robust debt markets support core infrastructure, but inconsistent equity capital formation slows long-term investment behind major secular trends. Operationally, a premium remains on project labor and experienced executive leadership, even as AI investment accelerates and use cases are refined.

Key priorities for the fund in 2026 focus on four strategic areas. First, management will maintain a strict governance focus on safety and performance amid uncertain operating conditions. Second, the fund aims to effectively align large-scale growth opportunities with key stakeholders and supply chain networks. Third, human capital initiatives will continue to attract, develop, and retain top-tier talent, while fostering cross-portfolio collaboration through dedicated cohort connections. Finally, the fund will establish a coordinated framework for AI investment and utilization, ensuring alignment with existing cross-portfolio technology initiatives.

IIF sees capital deployment opportunities across three specific areas: capital expenditures (capex) tied to energy demand, energy security, and the energy transition; exit-driven opportunities from closed-end private infrastructure funds; and carve-outs from corporate owners. Secular tailwinds are strong, with global energy capex projected to exceed $100 trillion through 2040 and U.S. utility investment alone estimated at $2 trillion by 2030. At the same time, public equity markets are underfunding these utility needs, with recent equity issuances covering less than 10% of the projected demand. The fund's internal estimates of the closed-end infrastructure ecosystem indicate there will be about $120 billion expected exits over the next three to five years. On a geographic basis, the fund expects $150 billion of announced power and utilities carve-outs in the upcoming years. (These are companies in physical proximity to current portfolio companies.) The fund expects owners to divest lower-growth businesses, and customers will opt into a contract with IIF's portfolio companies to build and operate the assets under long-term agreements.

IIF also reviewed its implementation framework for AI across portfolio companies. The fund recognizes AI's potential to deliver new insights, enhance customer experiences, and drive operational and cost efficiencies. To address adoption challenges, IIF established a formal AI framework following the October investor meeting. The framework streamlines the sharing of results, strengthens governance consistency, and unlocks cross-portfolio data access. Modeled after IIF's blueprint for prior cross-portfolio initiatives, the framework will accelerate learning, optimize costs, and enable effective pilot deployments. Progress is well underway: management has engaged a leading AI advisor, aligned with company CEOs and Chairs, and mapped baseline strategies with portfolio representatives. Pilot programs and data readiness initiatives are currently launching across the portfolio.

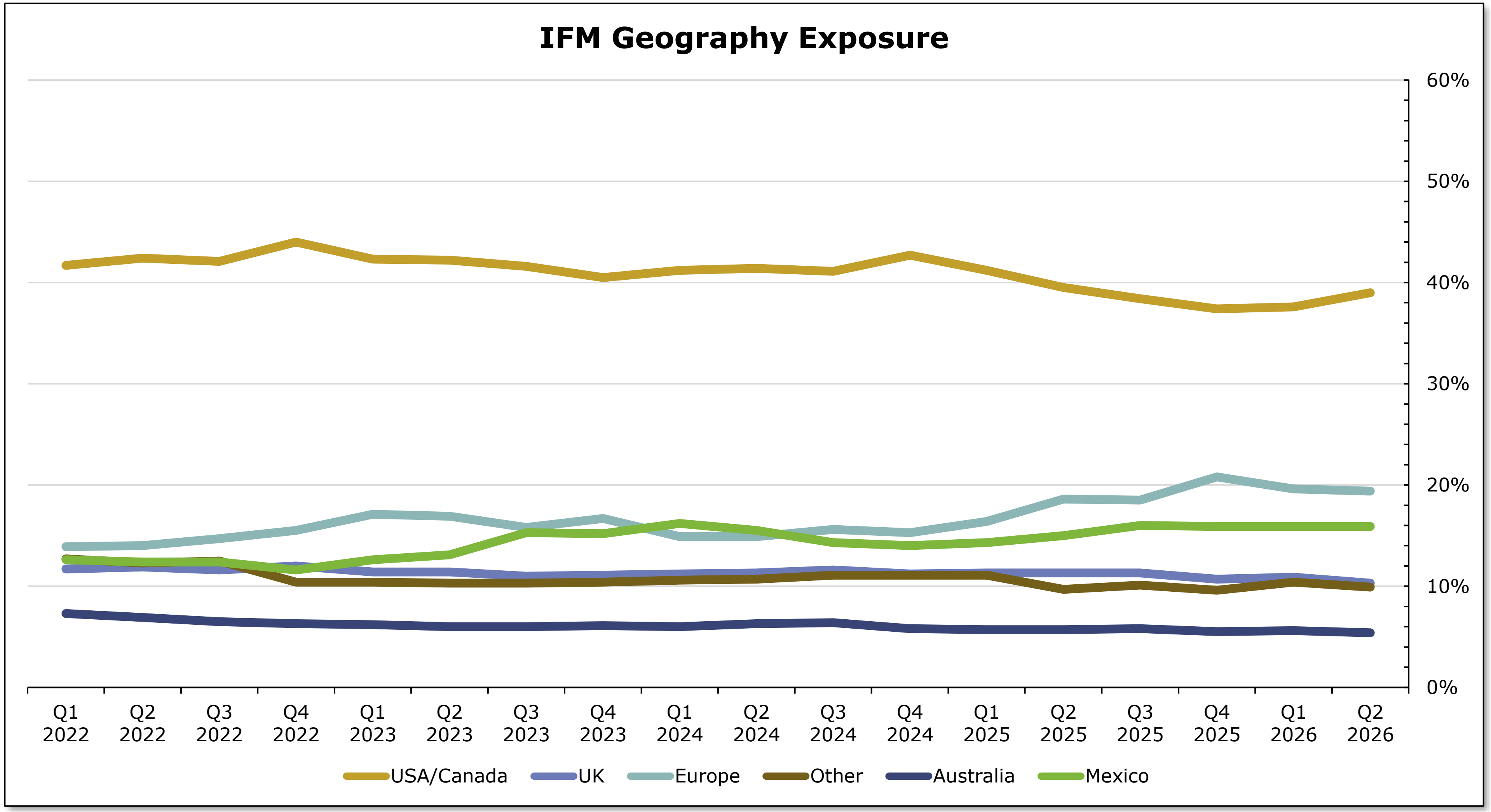
Attachment:

1. Infrastructure Portfolio Characteristics – 6/30/26

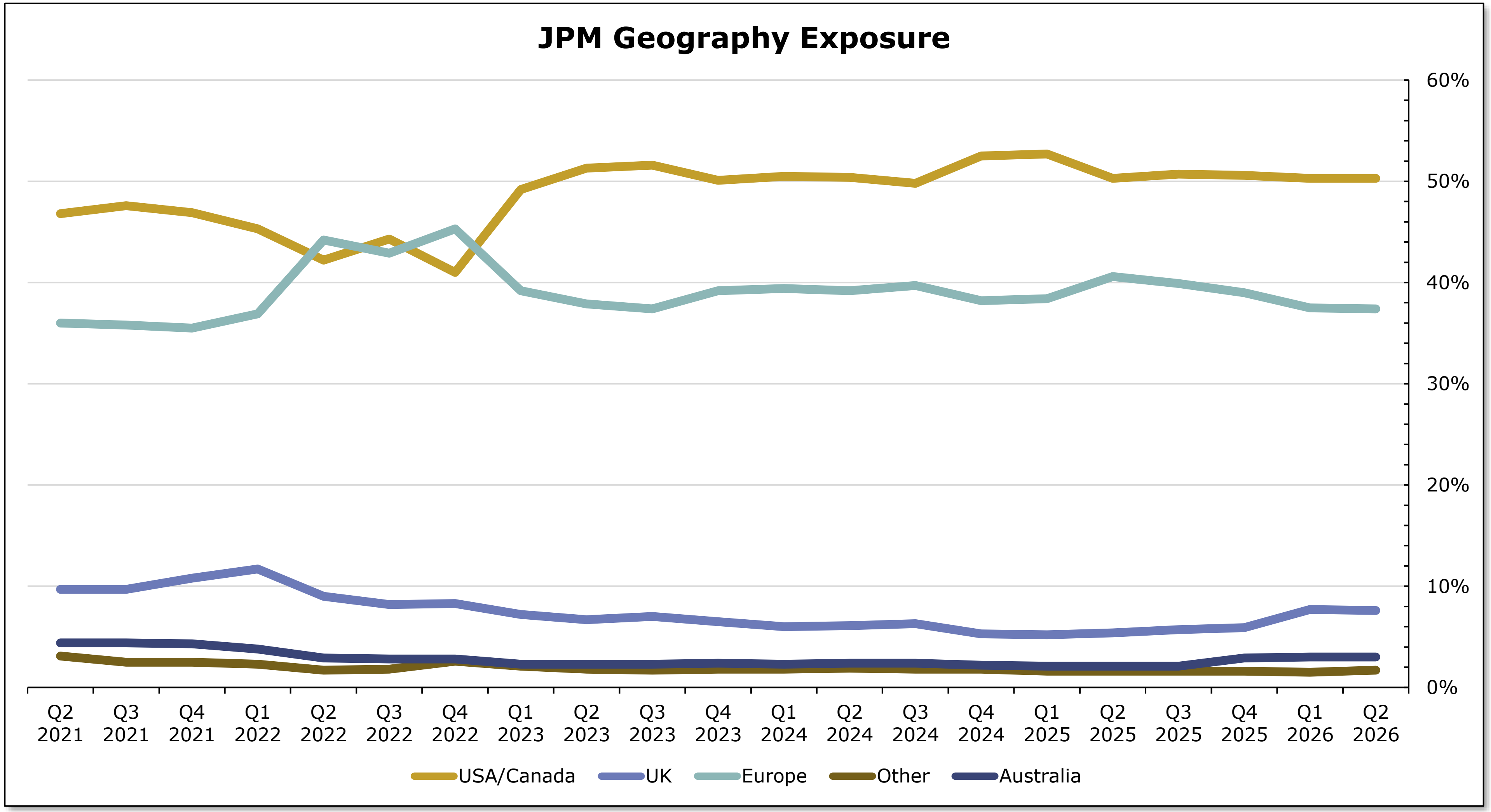
Mendocino County Employees Retirement Association

Infrastructure Characteristics

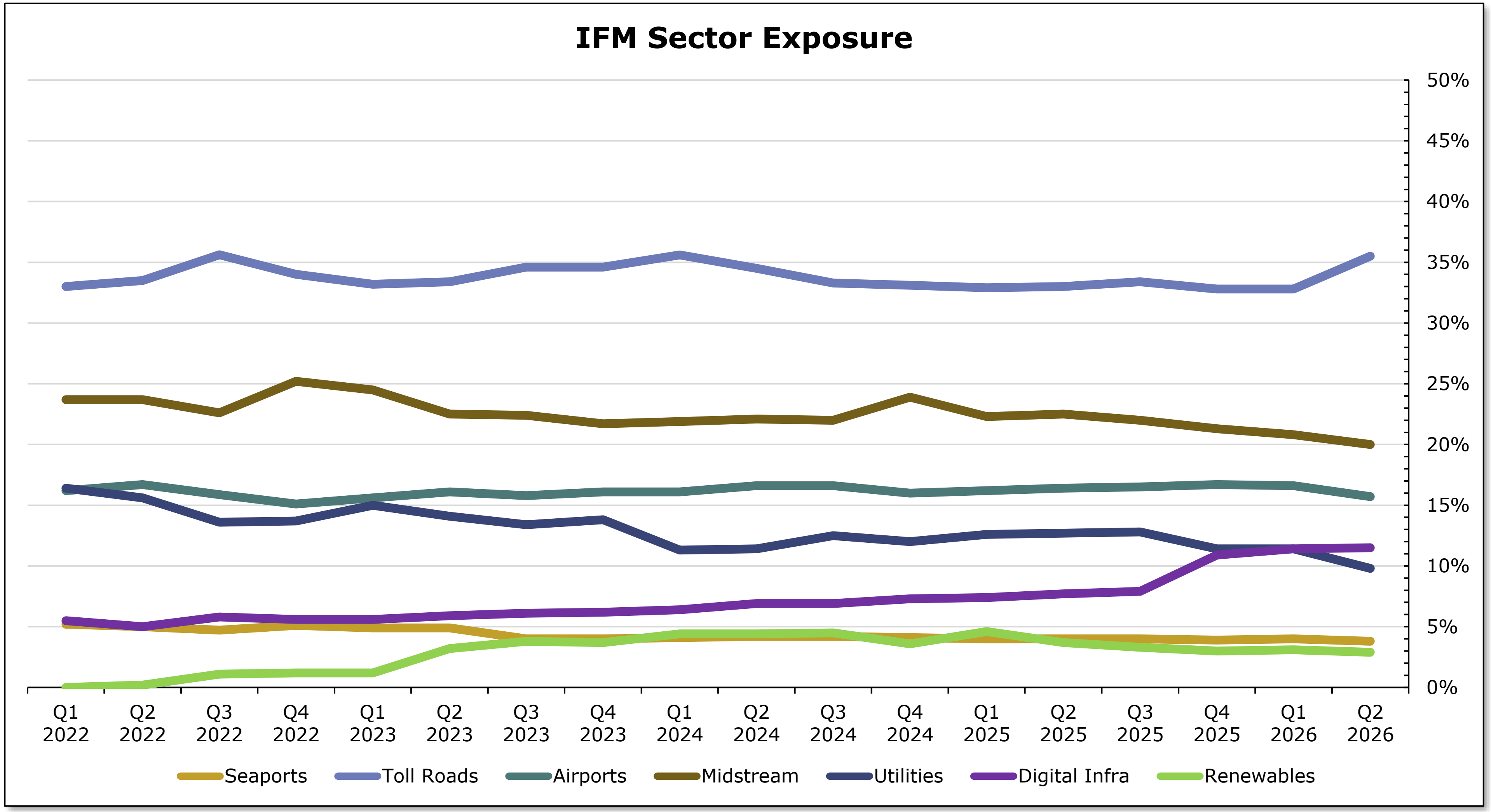
IFM Geography – 6/30/26



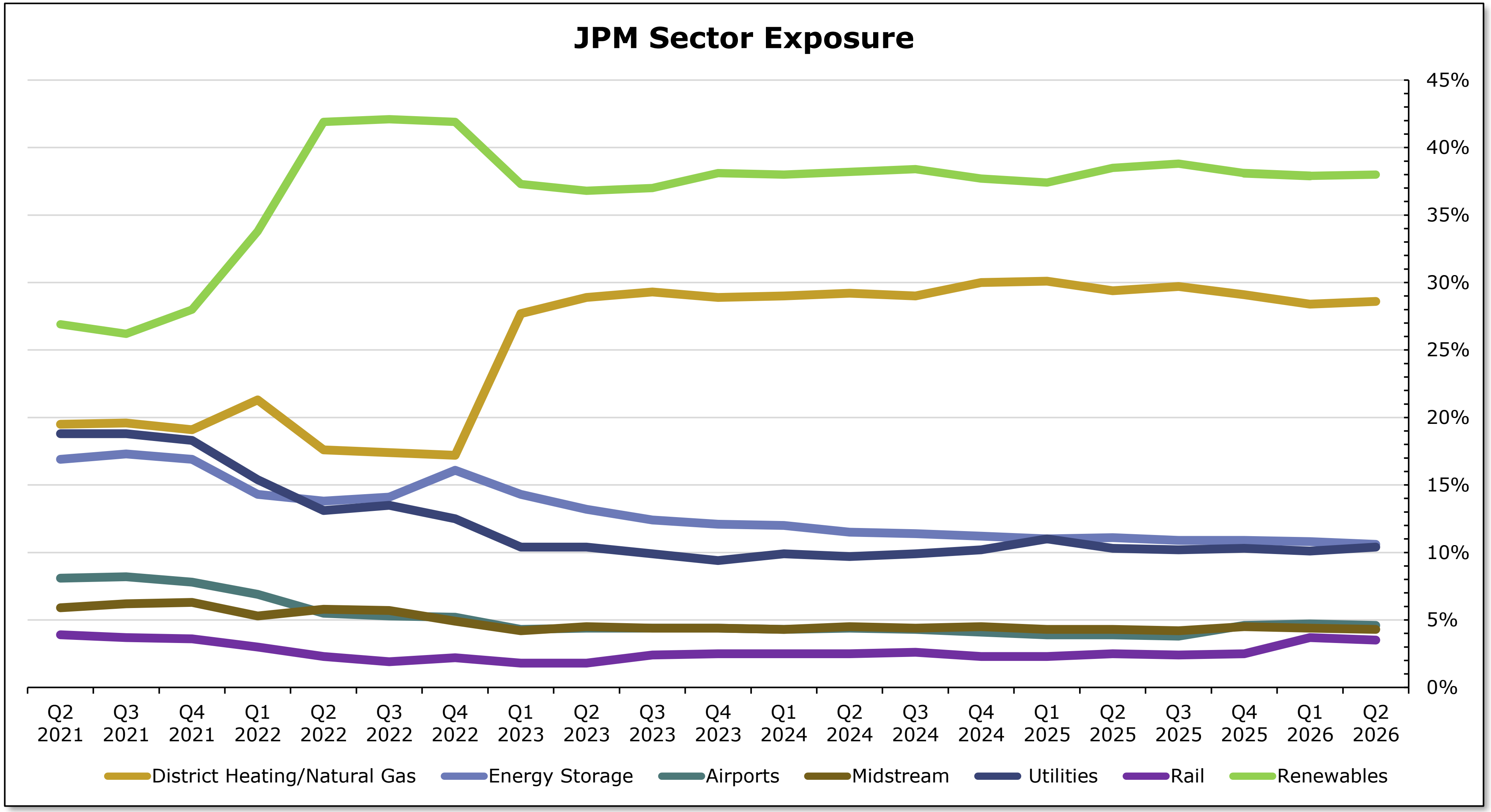
JPM Geography – 6/30/26



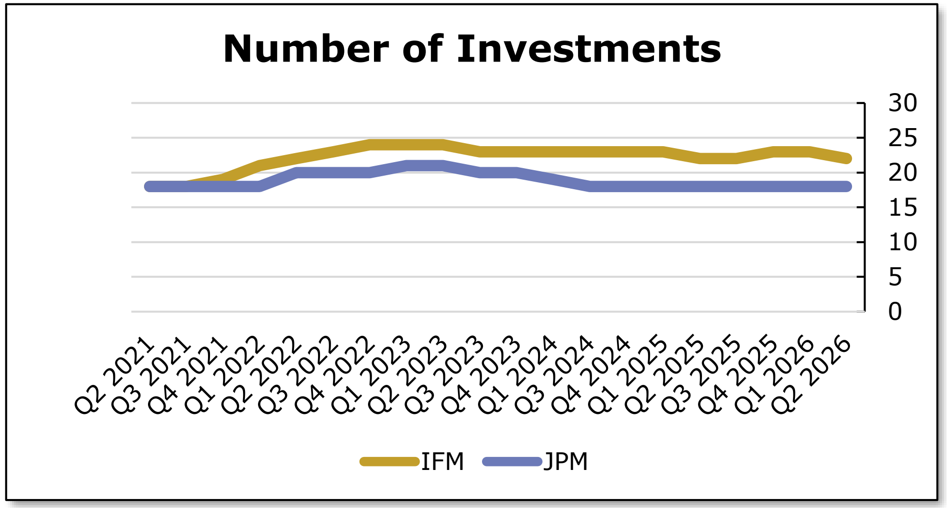
IFM Sectors – 6/30/26

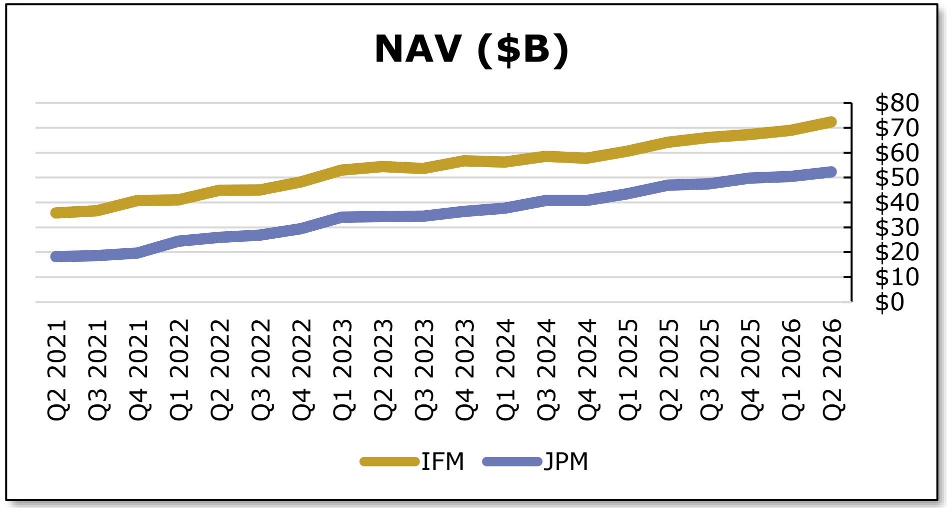


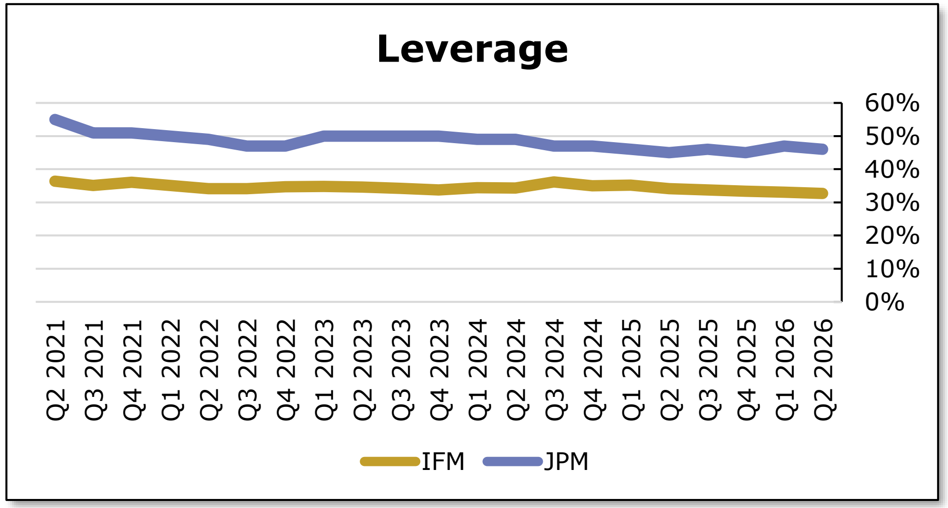
JPM Sectors – 6/30/26



Investments, Leverage, NAV – 6/30/26







Other Metrics– 6/30/26

For the period Q2 2021 through Q2 2026	IFM GIF	JPM IIF	Composite
Net Asset Value ($B)	$ 72.4	$ 52.3	
Leverage	32.7%	46.0%	
Fiscal YTD Net Return	10.75%	11.20%	10.94%
Inception Net Return	51.58%	67.99%	62.78%
Average Annualized Net Return	9.18%	10.39%	9.73%
Trailing 12 Month Distribution Yield	2.62%	5.62%	4.09%
Annualized Standard Deviation	2.52%	1.10%	1.41%
Correlation with S&P 500	0.2305	0.1945	0.2178

MENDOCINO COUNTY EMPLOYEES
RETIREMENT ASSOCIATION

Thank you