

# Real Return Search Process and Recommendations

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# Agenda

- I. Real Return Search Process Timeline & Allocation Objectives
- II. Manager Search Process
- III. Portfolio Construction
- IV. Manager Selection & Recommendation\*
- V. Requested Board Action

\*Names used in this presentation are a shortened version that is used for ease of communication purposes throughout this document. The formal recommendations to the Board on the last page of this presentation reflect the full legal names of the investments.

# I. Real Return Search Process Timeline & Allocation Objectives



# Real Return Search Process Timeline

Q2 2015 -  
Ongoing

- Conduct manager reviews through a multi-phase evaluation process for all candidates.
- Multiple conference calls /meetings with Albourne to score and determine best candidates for TMRS, as well as incorporate their sourcing and due diligence.

Dec 2015

- TMRS Staff continued with the multi-phase search process, in concert with Albourne.
- TMRS staff presented and Board Approved the 2016 Real Return Pacing Plan recommending a commitment of up to \$800 million of net new real return exposure.
- Board approved 3 Real Return managers totaling \$800 million in new real return investments.

Q1 2016

- March 2016: TMRS Board approves investments in two Real Return funds for a total of \$200 million in new real return commitments.

Q2 2016

- May 2016: TMRS and Albourne will be presenting to the board the search process utilized for the Real Return search as well as manager recommendations. One recommendation for \$150 million will be presented.

# Real Return Search Process Objectives

- **Portfolio Diversification / Return Enhancement**

- Work towards appropriately balanced portfolio with efficient number of partnerships for TMRS oversight purposes.
- Build a portfolio with suitable geographic and economic concentrations to achieve decreased volatility in returns while providing access to alpha producing opportunities that are accretive and cognizant of risk.

- **Inflation Protection**

- Identify best in class managers pursuing strategies designed to protect against inflation, be that through strategies with stable return profiles in most market environments or assets highly responsive to inflationary regimes.

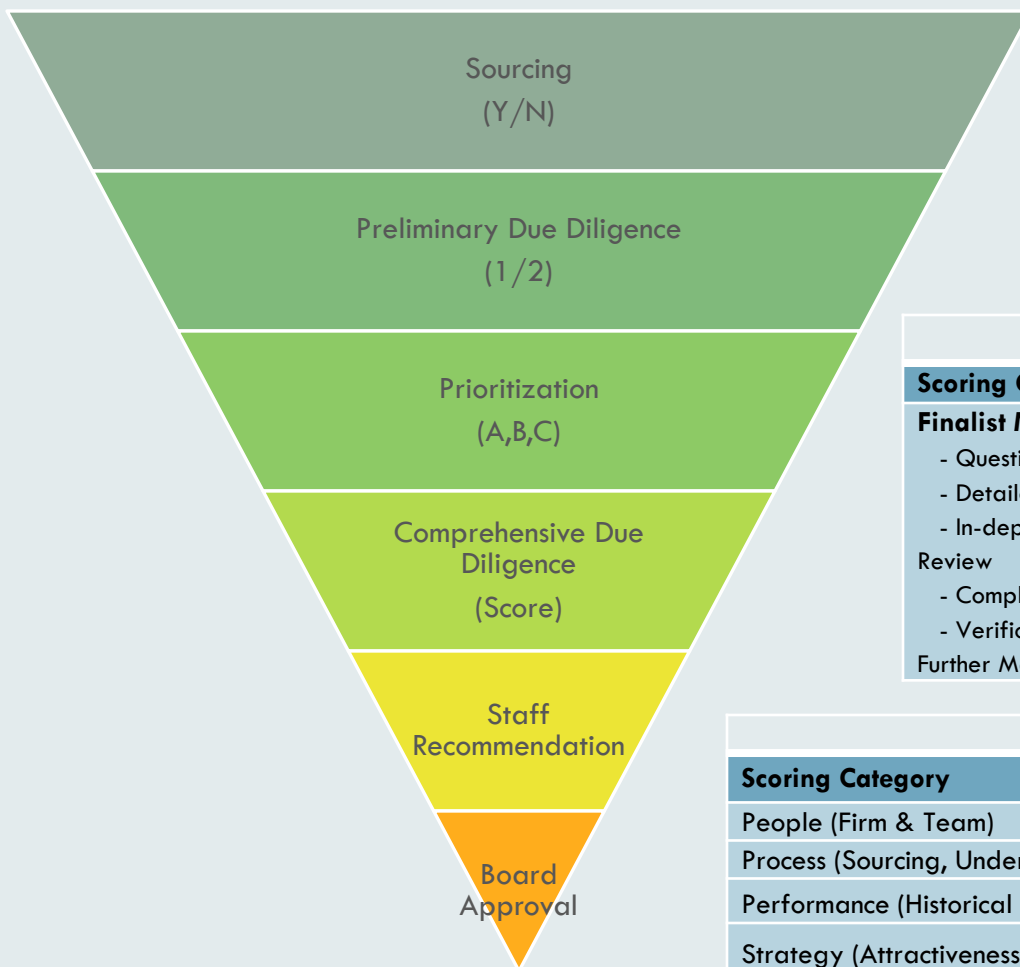
- **Targeted Commitment Level**

- Per the December 2015 Board approval, the targeted Real Return Pacing Plan for 2016 is \$800 million.

## II. Manager Search Process



# Manager Search Process



## Manager Screen & Universe Analysis Scoring

Scoring Category	Score / Outcome
<b>Manager Screen</b> - Is vehicle consistent w/ TMRS' objectives?	Yes - Take Meeting; No - Don't Take Meeting
<b>Manager Analysis</b> - Does vehicle have adequate capacity and timeline? - PPPST* Preliminary Review	1 - Advance; 2 - Stop Research

## Semi-Finalist Scoring Matrix

Scoring Category	Score
<b>Finalist Manager Review</b> - Questionnaire Review - Detailed PPPST* Review - In-depth Manager Qualifications Review - Compliance with TMRS IPS - Verification of Research, References, Further Market Research	A - Prioritize for Final Due Diligence B - Perform More Research C - Stop Research / Manager not Selected

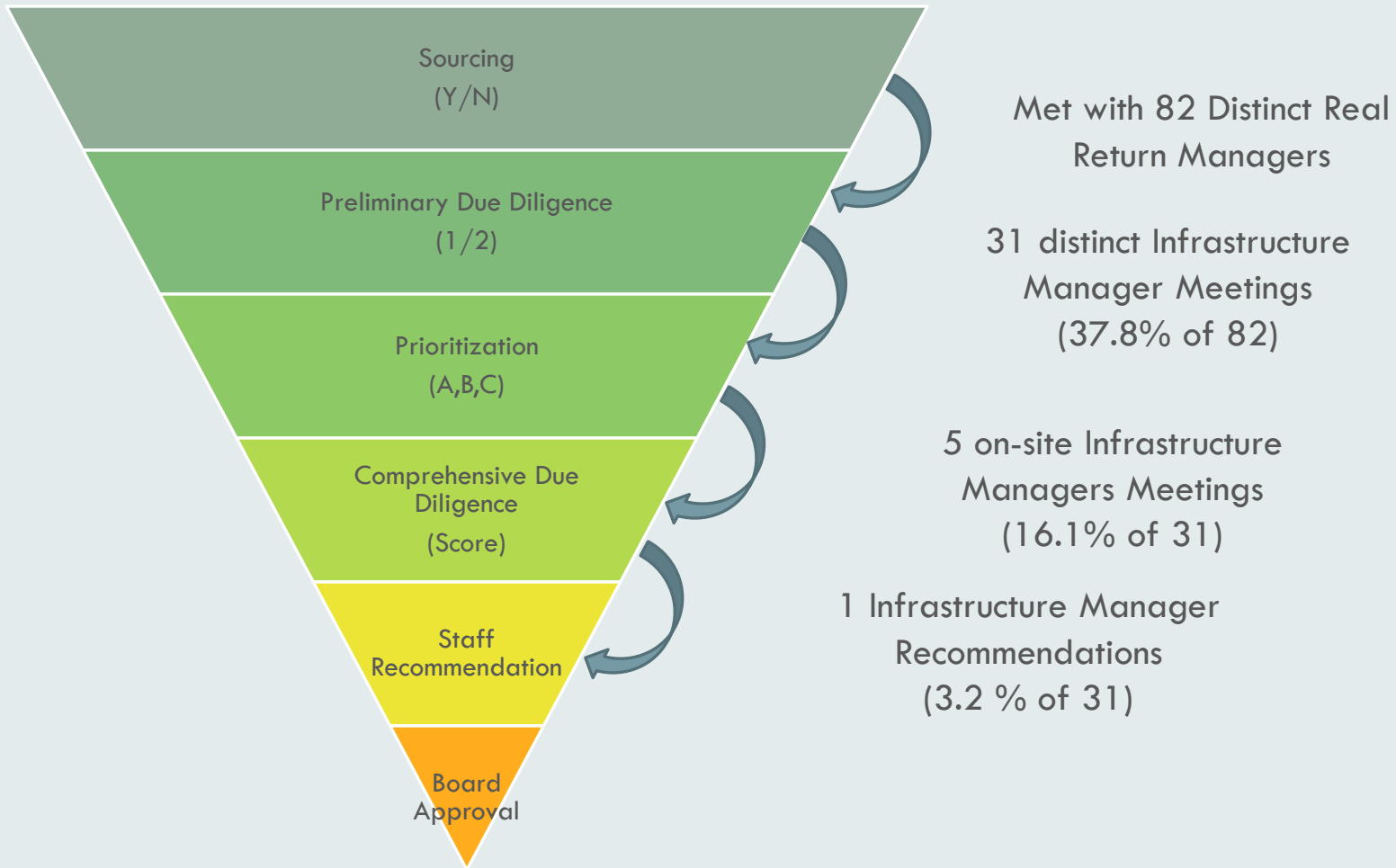
## Final Due Diligence Scoring Matrix

Scoring Category	Possible Points
People (Firm & Team)	0 - 40 points
Process (Sourcing, Underwriting and Managing)	0 - 40 points
Performance (Historical / Expected)	0 - 40 points
Strategy (Attractiveness of Opportunity / Portfolio Fit)	0 - 20 points
Terms (Fees, Liquidity, etc.)	0 - 20 points
<b>Total</b>	<b>100†</b>

\*PPPST – People, Process, Performance, Strategy, Terms

†Selected managers standardized to a score of 100 to allow comparability among selected managers.

# Manager Search Process





# Final Selected Managers Scoring Matrix

Final Due Diligence Scoring Matrix - Aggregated Results*				
Recommended Manager/Fund	Manager Score†	Comparable Mgr. 1 Score	Comparable Mgr. 2 Score	Comparable Managers
Brookfield Infrastructure Fund III, L.P. (Brookfield)	100	97	76.5	A) GIP III B) IFM

\*Scoring matrices utilize difference calibrations depending on the strategy being utilized.

†Selected managers standardized to a score of 100 to allow comparability among selected managers.

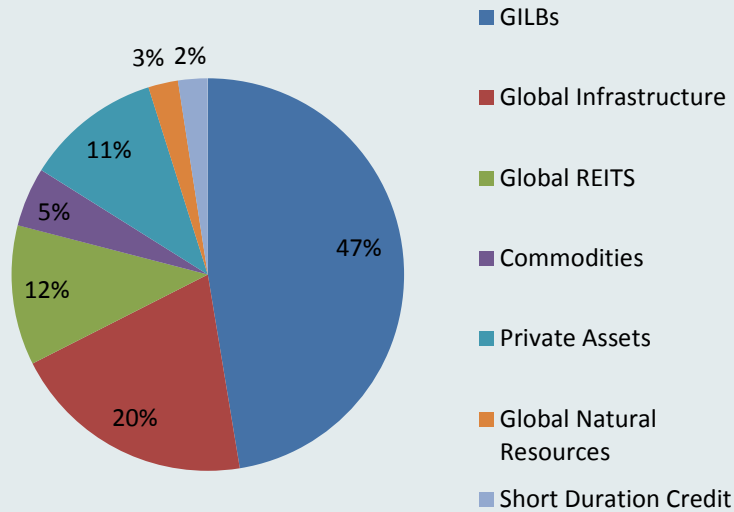
# III. Portfolio Construction



# Manager Selection Portfolio Considerations

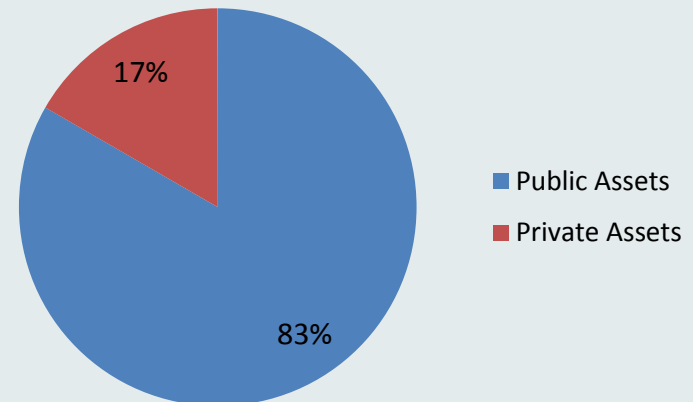
## Strategy Diversification

**Strategy/Asset Type Diversification**  
*(Post-Recommendation by Adj. Commitments)*



*Over time the strategy/asset type exposures of the portfolio will become more balanced and private assets will increase as a percentage of the total portfolio.*

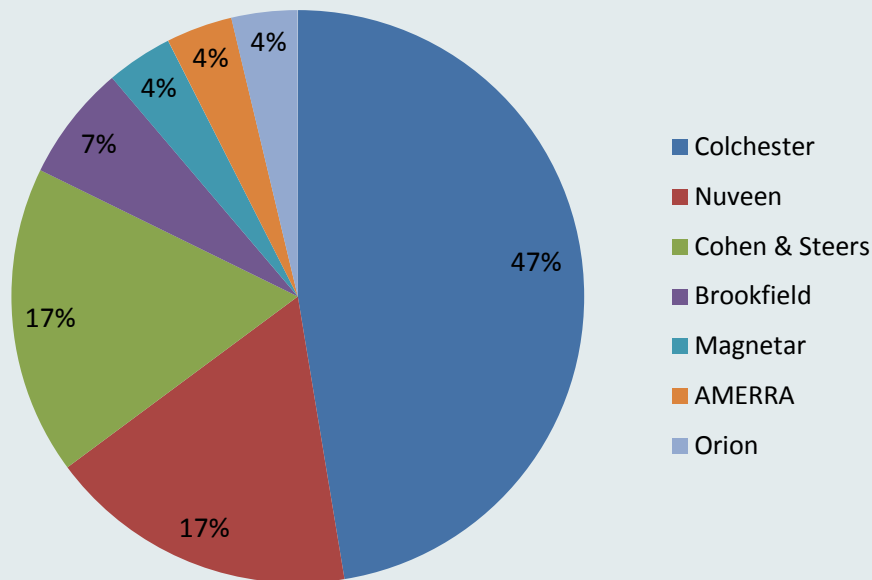
**Private vs. Public Assets**  
*(Post-Recommendation by Adj. Commitments)*



# Manager Selection Portfolio Considerations

## *Manager Implementation*

**Post-Recommendation Exposure by Manager**



*Seeking top performing managers to form beneficial partnerships for the TMRS Real Return portfolio.*

*The number of partnerships / investments is being watched closely by TMRS and Albourne so monitoring and maintenance does not become an undue cost.*

*Sizing of manager relationships remains critical, based upon portfolio needs, manager capabilities & opportunity set.*

# Manager Selection Portfolio Considerations

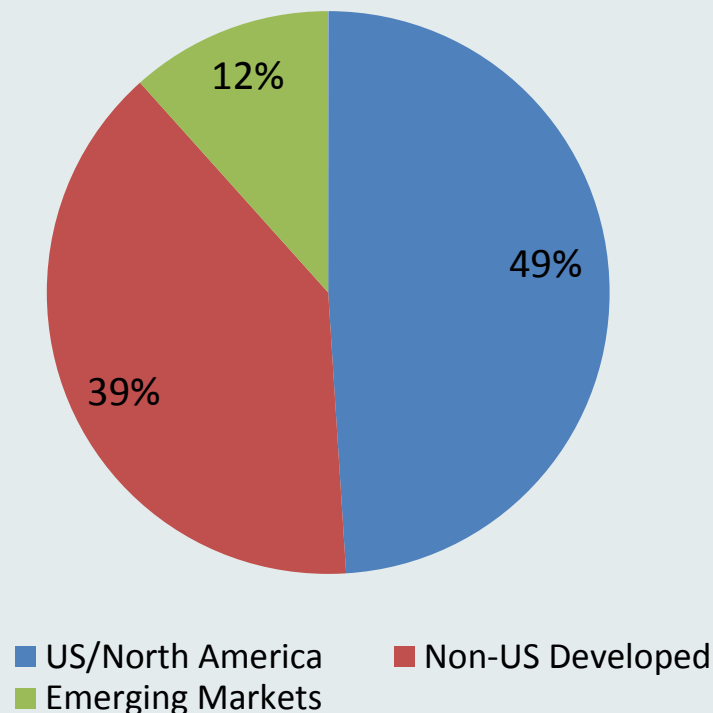
## *Geographic Diversification*

The TMRS Real Return portfolio will pursue geographic diversity in the underlying portfolio assets through a measured and modest implementation.

Brookfield is a global investor active in countries with stable economies, established legal and regulatory systems, enforceable property rights and long histories of private investment.

### Post-Recommendation Portfolio Exposure by Geography

*(by Adj. Commitments)*



## IV. Manager Selection & Recommendation



# Executive Summary of Manager Recommendation

## Summary of Recommendations

Recommended Manager/Fund	Strategy Classification	Target Return	Recommended Amount
Brookfield	Infrastructure	10-12% net	\$150 million
Total Net Recommendations:			\$150 million

# Top Candidate Characteristics – Brookfield (1 of 2)

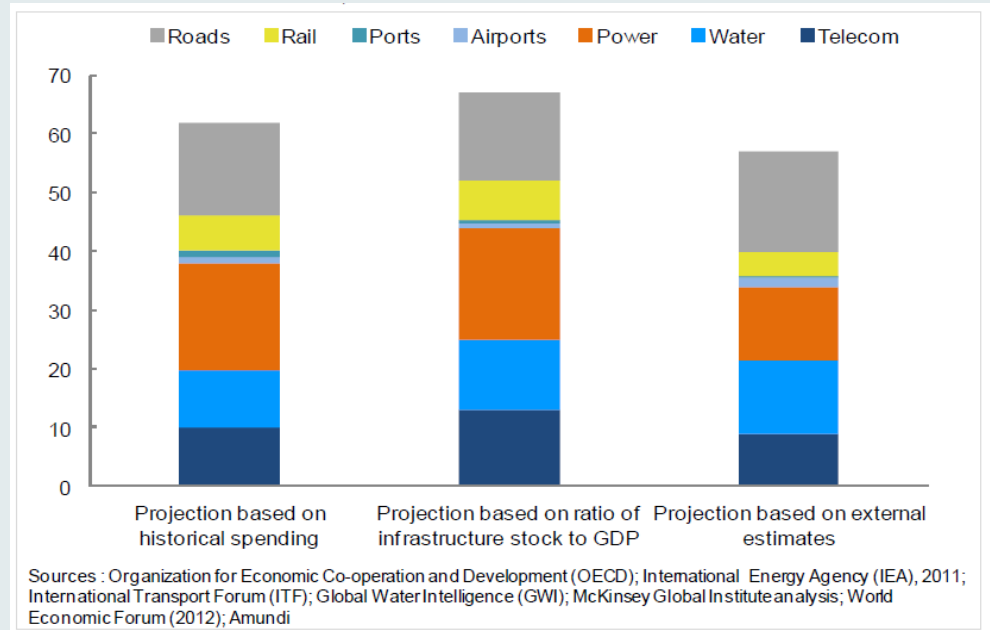
## \$150 Million Recommendation

### Investment Case

- Global shortage of infrastructure financing
- Established asset manager & operator of infrastructure assets
- Fund can tap into corporate group resources in regard to tax mitigation and legal issues, risk management etc.

### Issues to Consider

- Political influences and foreign policy
- Large fund size of \$12 billion
- Unproven end liquidity market for private infrastructure



### Return Profile Emphasis





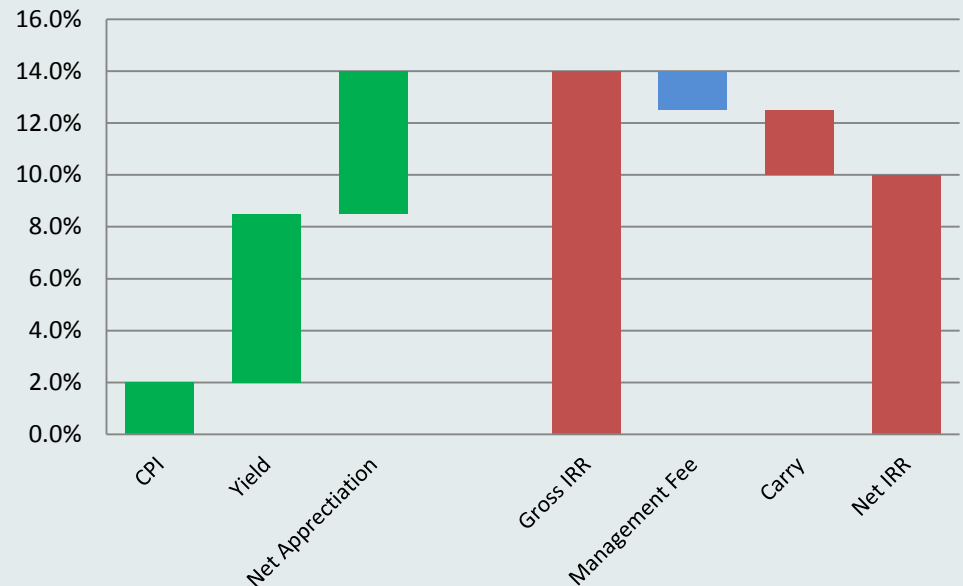
# Top Candidate Characteristics – Brookfield (2 of 2)

## \$150 Million Recommendation

Brookfield Asset Management (BAM) is a publicly traded alternative asset manager that invests in infrastructure, property, private equity and renewable energy. The fund offers exposure to high quality core assets that generate strong risk-adjusted returns. The firm executes deals globally, in countries where they have a local presence.

BAM has been an owner and operator of Real Return investments for over 100 years, with over \$52 billion of infrastructure assets under management. They have professionals located on 5 continents and in each of their target markets.

### Brookfield Return Bridge



Category	Brookfield	Comp. Mgr. A	Comp. Mgr. B
People	25.0	25.0	20.0
Process	25.0	25.0	19.0
Performance	15.0	15.0	13.0
Strategy	20.0	20.0	12.5
Terms	15.0	12.0	12.0
<b>Total Points</b>	<b>100.0</b>	<b>97.0</b>	<b>76.5</b>

\*Scoring matrices utilize difference calibrations depending on the strategy being utilized.

†Selected managers standardized to a score of 100 to allow comparability among selected managers.

# V. Requested Board Action



# Recommendation

- TMRS Staff and Albourne recommend that the Board of Trustees approve the selection of the following fund as referenced in the Board Communication Memo for investment in the specified fund below:
  - Brookfield Infrastructure Fund III, LP \$150 million