

2016 Absolute Return Strategy (ARS) Asset Class Review

March 23-24, 2016

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Agenda

- I. ARS Historical Timeline
- II. ARS Asset Class Overview
- III. ARS Market Update
- IV. Blackstone Alternative Asset Management (BAAM) Overview
- V. BAAM Portfolio Statistics
- VI. ARS Direct Portfolio Monitoring and Review
- VII. ARS Roadmap
- VIII. Conclusion

I. ARS Historical Timeline



Absolute Return Timeline Review

2011

- October – Educational Session (ARS Part I: Intro to Absolute Return)

2012

- February – Educational Session (ARS Part II: Hedge Fund Strategies)
- June – Educational Session (ARS Part III: Risks and Risk Mitigation)
- October – Educational Session (ARS Part IV: Implementation Options)

2013

- September – Absolute Return Manager Search authorized by the Board

2014

- February – Educational Session (Introduction to ARS: Educational Series Overview); Board authorized the creation of a GP/LP type of partnership; custom fund of one advisor recommendation approved by Board (Blackstone BAAM)
- June – Absolute Return Consultant search authorized by the Board
- August – Board ratified and approved the final BAAM fund structure, the document execution and implementation of the investment; Absolute Return program funded.
- October – Consultant recommendation approved by the Board (Albourne America)
- December – Director of Absolute Return Strategies hired

Absolute Return Timeline Review (Continued)

2015

- March – Contract with Albourne America signed.
- July – Board approved new TMRS portfolio asset allocation increasing ARS to 10% (from 5%)
- October – Board approved the first group of 6 direct ARS (or hedge fund) investments

2016

- January – Executed legal documents and funded 4 of the approved 6 direct hedge fund investments
- February – Executed legal documents and funded the remaining 2 of the approved 6 direct hedge fund investments
- March – Recommend another 7 direct hedge fund investments for Board approval
- September – Recommend 5-7 direct hedge fund investments for Board approval

II. Absolute Return Asset Class Overview



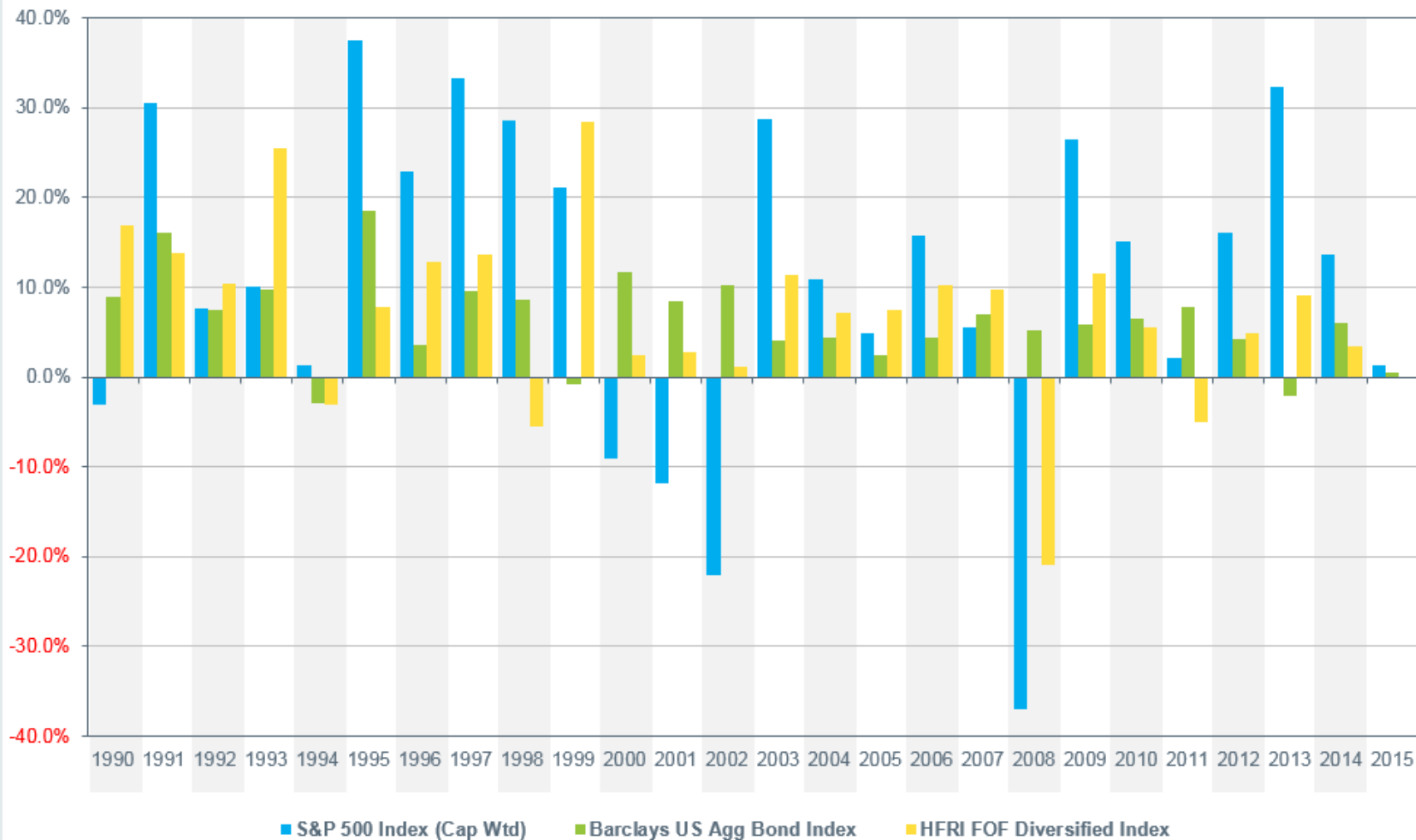
Absolute Return Objectives

Absolute Return Strategies are typically utilized to:

- Decrease portfolio risk
- Potentially increase portfolio returns (Fixed Income substitute)
- Provide performance with low correlation to traditional asset classes
- Attractive risk-adjusted returns over the long-term
- Seek to generate positive returns, regardless of traditional market benchmark returns
- Seek to capture Alpha: a manager's rate of return in excess of that which can be explained by its systematic risk (represented by Beta)

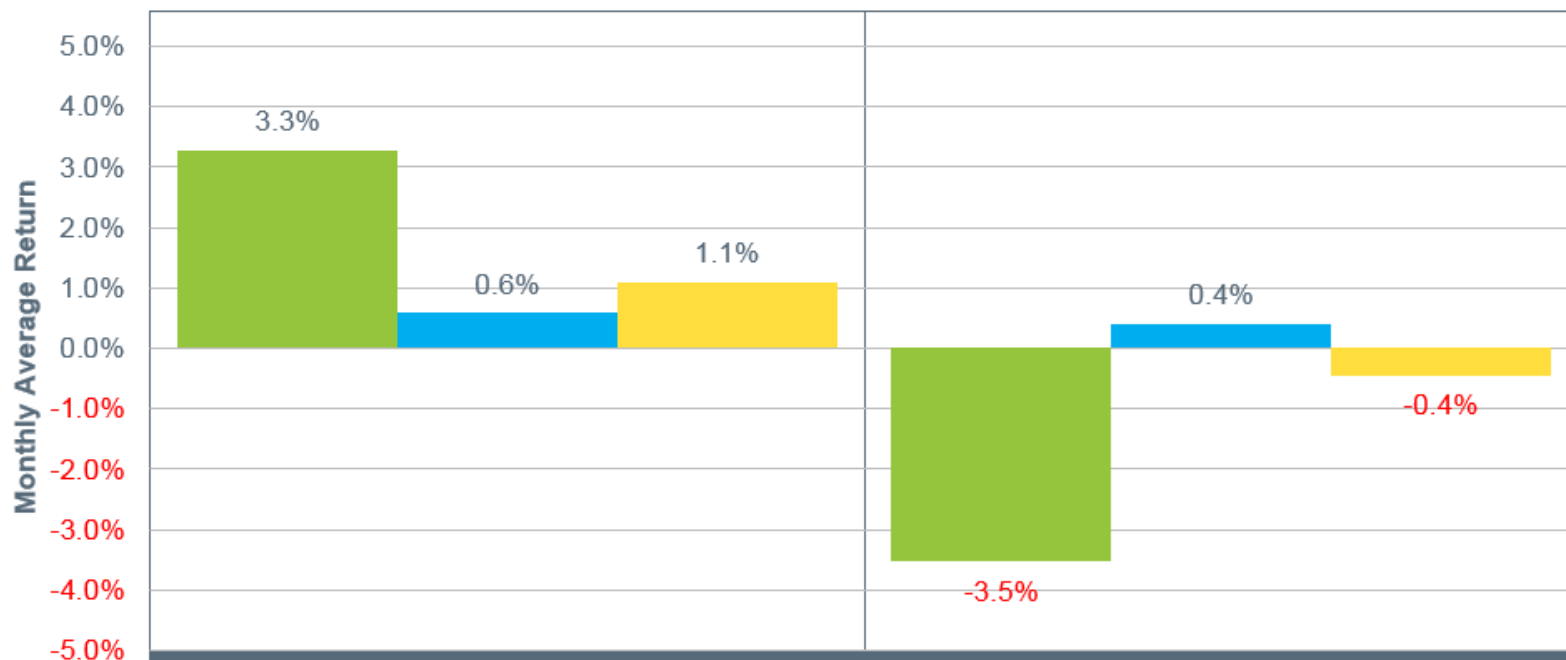
Annual Index Performance

1990 through December 31, 2015



Return Distribution & Up/Down Capture

Versus the S&P 500 Index (1990 - December 31, 2015)



	During S&P 500 Up Months			During S&P 500 Down Months		
	S&P 500 Index (Cap Wtd)	Barclays US Agg Bond Index	HFRI FOF Diversified Index	S&P 500 Index (Cap Wtd)	Barclays US Agg Bond Index	HFRI FOF Diversified Index
% of Months > 0	100%	74%	86%	0%	63%	40%
% of Months < 0	0%	27%	15%	100%	38%	60%
# of Months > 0	200	147	171	0	70	45
# of Months < 0	0	53	29	112	42	67

Sample Strategy/ Sub-Strategy Classifications

Strategy	Sub-Strategies
Equity Long Short	<ul style="list-style-type: none"> • L/S Fundamental • L/S Trading • Quantitative Market Neutral • Activist • Sector Specific (Healthcare, Financials, TMT) • Geographic Specific (US, Europe, Japan, Asia) • Short Only
Credit	<ul style="list-style-type: none"> • Fundamental • L/S Trading • Distressed • Structured Credit • Sector Specific (RMBS, CMBS, High Yield, etc...) • Emerging Market Distressed • Fixed Income Arbitrage • Short Biased • Direct Lending
Event Driven/Relative Value	<ul style="list-style-type: none"> • Activist • Distressed/Restructuring • Quantitative Equity Market Neutral • Statistical Arbitrage • RV Credit • Capital Structure Arbitrage • Risk / Merger Arbitrage • Convertible Arbitrage • Volatility Arbitrage
Global Macro / Commodity Trading Advisor (CTA)	<ul style="list-style-type: none"> • Thematic • Quantitative Strategies • Discretionary • Systematic • Emerging Markets • Currencies • Commodities
Special Situations	<ul style="list-style-type: none"> • Co-investments • Direct Lending • Restructuring/Distressed • Trade Claims • Re-Insurance • Tail Hedging
Multi-Strategy	<ul style="list-style-type: none"> • Includes all strategies

III. Absolute Return Market Update



Historical Hedge Fund Strategy Returns

December 2015 Periodic Table of Hedge Fund Returns

Total Returns Ranked in Order of Performance for Key Credit Suisse Hedge Fund Indices

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Emg. Mkts. 20.25%								
Emg. Mkts. 20.46%	Global Macro 17.37%								
Distr. Secs. 15.58%	L/S Equity 13.65%		Conv. Arb 47.35%	Global Macro 13.45%		Distr. Secs. 11.78%	L/S Equity 17.73%		
Multi-Strat. 14.54%	CS HF Index 12.58%		Emg. Mkts. 30.02%	Fxd. Inc. Arb. 12.48%		Multi-Strat. 11.17%	Distr. Secs. 16.02%		
L/S Equity 14.38%	Multi-Strat. 10.08%		Fxd. Inc. Arb. 27.4%	Mgd. Futures 12.2%		Fxd. Inc. Arb. 11.05%	Multi-Strat. 11.21%	Mgd. Futures 18.36%	Multi-Strat. 3.84%
Conv. Arb 14.29%	Eq. Mkt. Neutral 9.25%		Multi-Strat. 24.64%	Emg. Mkts. 11.33%	Global Macro 6.43%	Emg. Mkts. 10.27%	CS HF Index 9.72%	Multi-Strat. 6.09%	L/S Equity 3.57%
CS HF Index 13.86%	Risk Arb. 8.77%		Distr. Secs. 20.95%	Conv. Arb 10.97%	Fxd. Inc. Arb. 4.68%	L/S Equity 8.2%	Eq. Mkt. Neutral 9.29%	L/S Equity 5.54%	Short Bias 2.37%
Global Macro 13.54%	Distr. Secs. 8.35%		L/S Equity 19.46%	CS HF Index 10.95%	Eq. Mkt. Neutral 4.49%	Conv. Arb 7.82%	Emg. Mkts. 8.8%	Fxd. Inc. Arb. 4.38%	Eq. Mkt. Neutral 1.69%
Eq. Mkt. Neutral 11.15%	Short Bias 6.02%		CS HF Index 18.58%	Distr. Secs. 10.26%	Short Bias 3.86%	CS HF Index 7.67%	Conv. Arb 6.05%	CS HF Index 4.14%	Conv. Arb 0.81%
Fxd. Inc. Arb. 8.65%	Mgd. Futures 6%		Risk Arb. 12.02%	Multi-Strat. 9.28%	Multi-Strat. 1.83%	Global Macro 4.57%	Risk Arb. 4.89%	Global Macro 3.11%	Fxd. Inc. Arb. 0.58%
Risk Arb. 8.15%	Conv. Arb 5.19%	Mgd. Futures 18.33%	Global Macro 11.54%	L/S Equity 9.27%	Conv. Arb 1.12%	Risk Arb. 2.8%	Global Macro 4.32%	Distr. Secs. 2.55%	Risk Arb. 0.41%
Mgd. Futures 8.05%	Fxd. Inc. Arb. 3.82%	Short Bias 14.88%	Eq. Mkt. Neutral 4.06%	Risk Arb. 3.15%	Risk Arb. 0.78%	Eq. Mkt. Neutral 0.85%	Fxd. Inc. Arb. 3.81%	Emg. Mkts. 1.52%	Global Macro 0.16%
Short Bias -6.62%		Risk Arb. -3.26%	Mgd. Futures -6.58%	Eq. Mkt. Neutral -0.84%	CS HF Index -2.53%	Mgd. Futures -2.92%	Mgd. Futures -2.56%	Eq. Mkt. Neutral -1.2%	Emg. Mkts. -0.24%
		Global Macro -4.62%	Short Bias -25.02%	Short Bias -22.45%	Mgd. Futures -4.17%	Short Bias -20.4%	Short Bias -24.93%	Risk Arb. -1.31%	CS HF Index -0.7%
		CS HF Index -19.07%			Distr. Secs. -4.22%			Conv. Arb -1.68%	Mgd. Futures -0.94%
		L/S Equity -19.74%			Emg. Mkts. -6.7%			Short Bias -5.61%	Distr. Secs. -5.29%
		Distr. Secs. -20.48%			L/S Equity -7.31%				
		Multi-Strat. -23.64%							
		Fxd. Inc. Arb. -28.83%							
		Emg. Mkts. -30.41%							
		Conv. Arb -31.58%							
		Eq. Mkt. Neutral -40.33%							

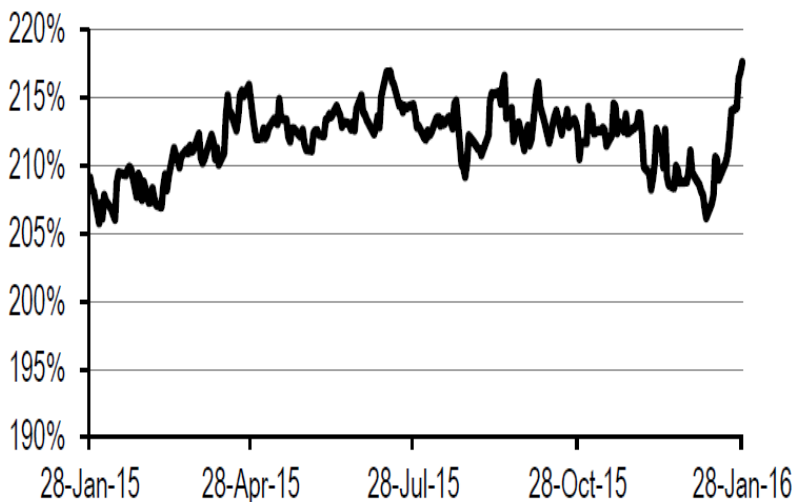
Historical Hedge Fund Strategy Returns

Gross and Net Leverage*

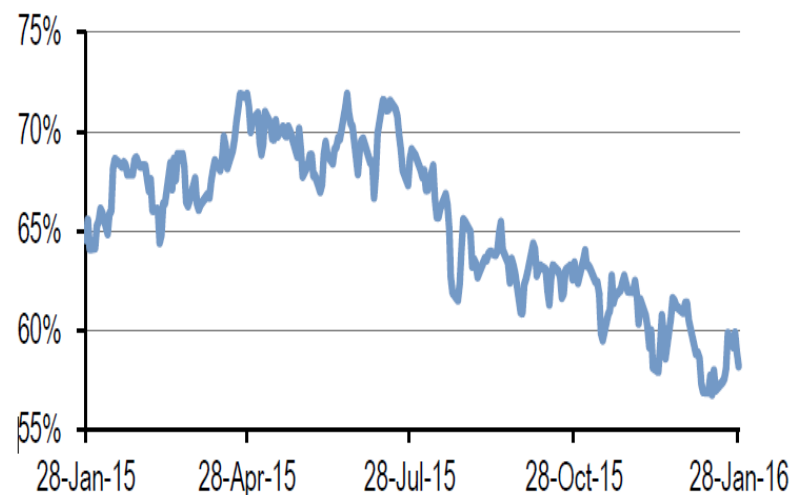
■ Gross leverage is +5.6% above its T12M average and at its highest level since mid-2014; net leverage is -7.2% below its T12M average.

	Gross	Date	Net	Date
Current	217.6%	28-Jan-16	58.2%	28-Jan-16
T12M High	217.6%	28-Jan-16	71.9%	28-Apr-15
T12M Low	205.8%	2-Feb-15	56.8%	13-Jan-16
T12M Average	212.0%		65.4%	

Gross Leverage

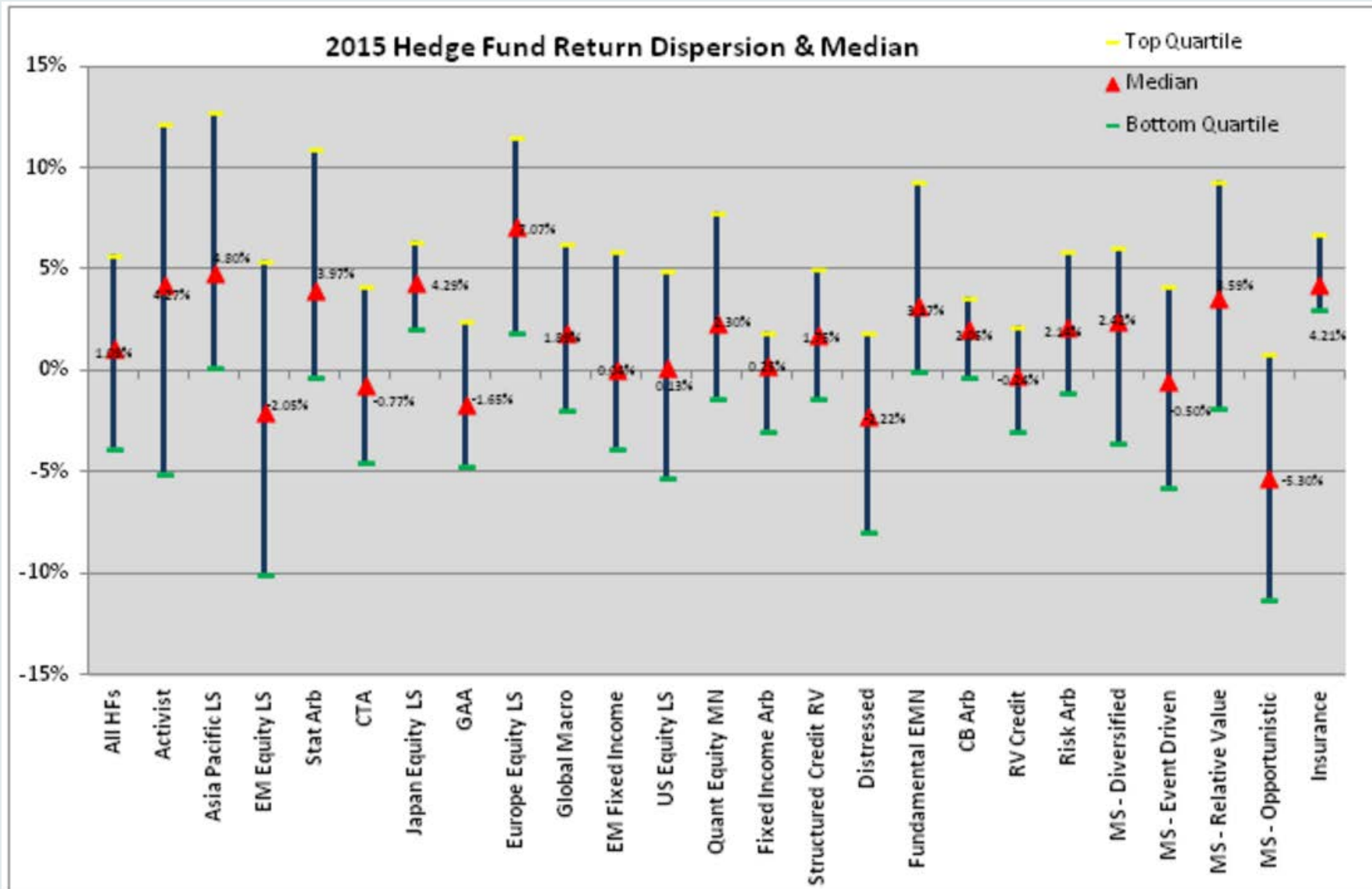


Net Leverage



*Source: Goldman Sachs. Gross Leverage is the gross delta-adjusted market value divided by the net market value plus net cash. Net Leverage is the net delta-adjusted market value divided by the net market value plus net cash.

Median Performance and Returns Dispersion



2016 Outlook & Opportunities

Strategy Expected Alpha: 12-month Horizon

Quartile	Rank	Strategy	Super-Strategy	Jan '16 - Dec '16				Change		
				Weighted average	Downside	Central	Positive	Alpha	Quartile	Rank
				100%	20%	60%	20%			
1	1	Statistical Arbitrage	Relative Value	5.2%	5.0%	5.5%	4.5%	1.0%	0	2
	2	Global Macro	Directional	4.8%	4.8%	4.5%	6.0%	0.0%	0	-1
	3	Risk Arbitrage	Event	4.8%	1.9%	5.1%	6.7%	1.0%	1	3
	4	FEMN	Relative Value	4.7%	3.3%	4.8%	6.0%	0.0%	0	-2
	5	Fixed Income Arbitrage	Relative Value	4.1%	2.3%	4.3%	5.4%	0.0%	0	-1
2	6	CTA	Directional	4.1%	6.6%	2.1%	7.3%	0.0%	-1	-1
	7	Asia Pacific Long/Short	Long/Short	3.8%	0.0%	5.0%	3.8%	0.5%	1	4
	8	QEMN	Relative Value	3.8%	-0.1%	5.2%	3.3%	0.3%	0	-1
	9	Distressed	Event	3.7%	-9.6%	7.1%	7.0%	0.5%	1	3
	10	Europe Equity Long/Short	Long/Short	3.5%	-0.5%	4.3%	5.2%	1.4%	2	8
3	11	US Equity Long/Short	Long/Short	3.4%	-0.4%	4.4%	3.8%	0.0%	-1	-3
	12	EM Fixed Income	Event	3.3%	-4.7%	5.2%	5.8%	0.0%	-1	-3
	13	GAA	Directional	3.2%	1.2%	3.5%	4.1%	0.0%	0	0
	14	Activist	Event	3.1%	3.9%	3.3%	2.0%	0.0%	0	1
	15	Japan Equity Long/Short	Long/Short	3.0%	-1.2%	4.3%	3.5%	0.0%	1	1
4	16	Structured Credit RV	Relative Value	3.0%	-4.5%	4.4%	6.2%	-0.2%	-1	-2
	17	Convertible Bond Arbitrage	Relative Value	2.9%	-3.6%	5.0%	3.0%	-0.4%	-2	-7
	18	EM Equity Long/Short	Long/Short	2.9%	0.9%	4.1%	1.2%	0.1%	0	-1
	19	Relative Value Credit	Relative Value	1.7%	-10.0%	4.4%	5.2%	-0.2%	0	1
	20	Insurance	Directional	1.5%	2.3%	1.3%	1.4%	-0.3%	0	-1

Note: FEMN = Fundamental Equity Market Neutral LS = Long Short RV = Relative Value FI = Fixed Income GAA = Global Asset Allocation QEMN = Quantitative Equity Market Neutral EM = Emerging Markets

IV. Blackstone Alternative Asset Management (BAAM) Manager Review



BAAM Overview

Firm

- Founded in 1985; went public in 2007
- 2,000+ employees with 17 global offices
- Overall firm AUM: \$333 Billion

Hedge Fund Solutions

- AUM \$68 Billion (largest Fund of Fund in industry)
- \$2 Billion of BAAM capital invested
- 408 professionals including 121 investment professionals
- Global footprint
- Approximately 126 managers on BAAM's platform

Annual Manager Report Card for: BAAM

Assessment Area	Grade	Update & Comments
Organization		Global organization, with growing AUM, diversified investor base, opportunistic culture
People		Experienced team with deep hedge fund experience and substantial resources. Mild turnover has occurred at mid-level positions
Philosophy/Strategy/Process		Diversified Fund of Fund. No changes to the investment philosophy
Portfolio(s)		Customized portfolio solution includes BAAM affiliated funds, underlying customized accounts and commingled funds
Performance		Twenty-five year track record and history of attractive risk adjusted returns. Performance start date was August 1, 2014. Performance (+1.35% ITD) has underperformed BAAM's expectations on absolute basis. Relative to the HFRI Diversified FoF Index (-1.24% ITD), it has outperformed its benchmark.
Compliance		In compliance according to the executed terms and agreement
Guideline Changes		No changes
Risk Management		No changes
Operations		No changes
Client Service		Meets expectations with respect to transparency and reporting
Other		N/A

Excellent	In Good Standing	Fair <i>(working with manager)</i>	Unsatisfactory <i>(remedial action being taken)</i>	Comprehensive Review
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V. BAAM Portfolio Review



BAAM ARS Portfolio

Objectives

- Diversification of TMRS portfolio from major portfolio risk factors
- Customized Fund of One vehicle called Treaty Oak Fund L.P.
- Diversified portfolio of hedge fund strategies targeting low beta to traditional asset classes
- Strong risk-adjusted returns
- Access to a wide variety of strategies
- Exposure to “difficult to access” opportunities via BAAM affiliated funds and BAAM deal flow
- BAAM has discretionary authority to manage the Fund in accordance with the guidelines of the fund documents

BAAM Portfolio Snapshot

Manager Count by Strategy:

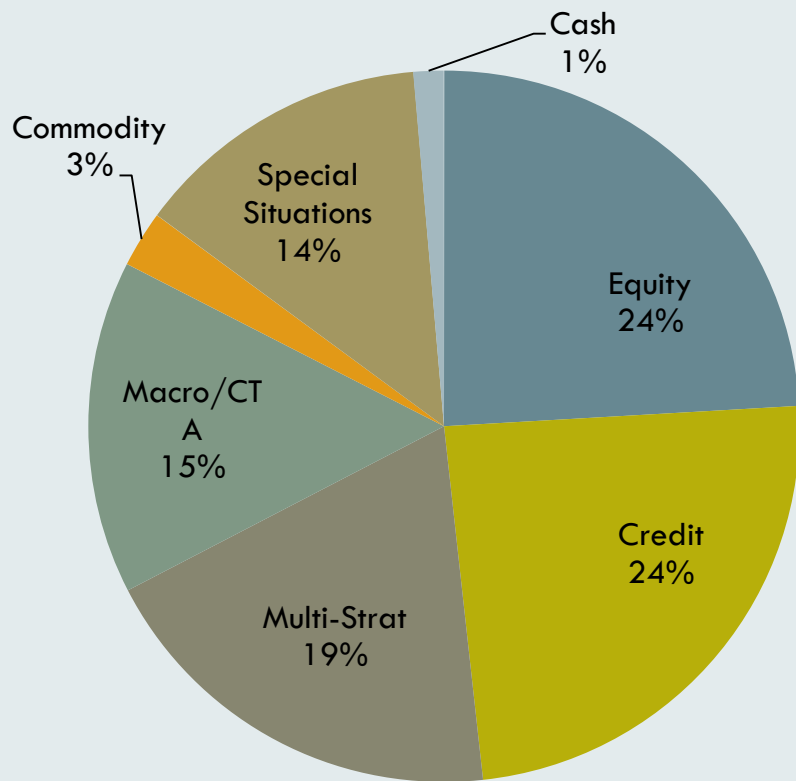
Strategy	December 31, 2014	December 31, 2015
Long/Short Equity	9	12
Credit	7	9
Multi-Strat/Event	6	4
Macro/CTA	6	8
Special Situations	1	2
Total Managers:	29	35

2015 Portfolio Turnover and Rebalancing

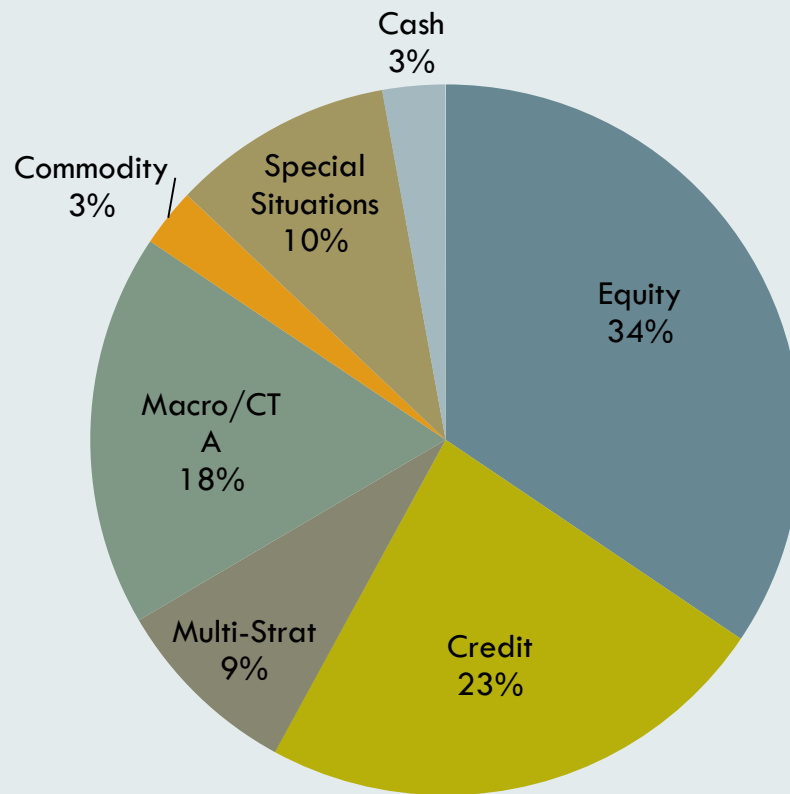
- New manager additions: 10
- Full manager redemptions: 4

BAAM Strategy Exposures

EOY 2014 Aggregated Manager Exposures



EOY 2015 Aggregated Manager Exposures



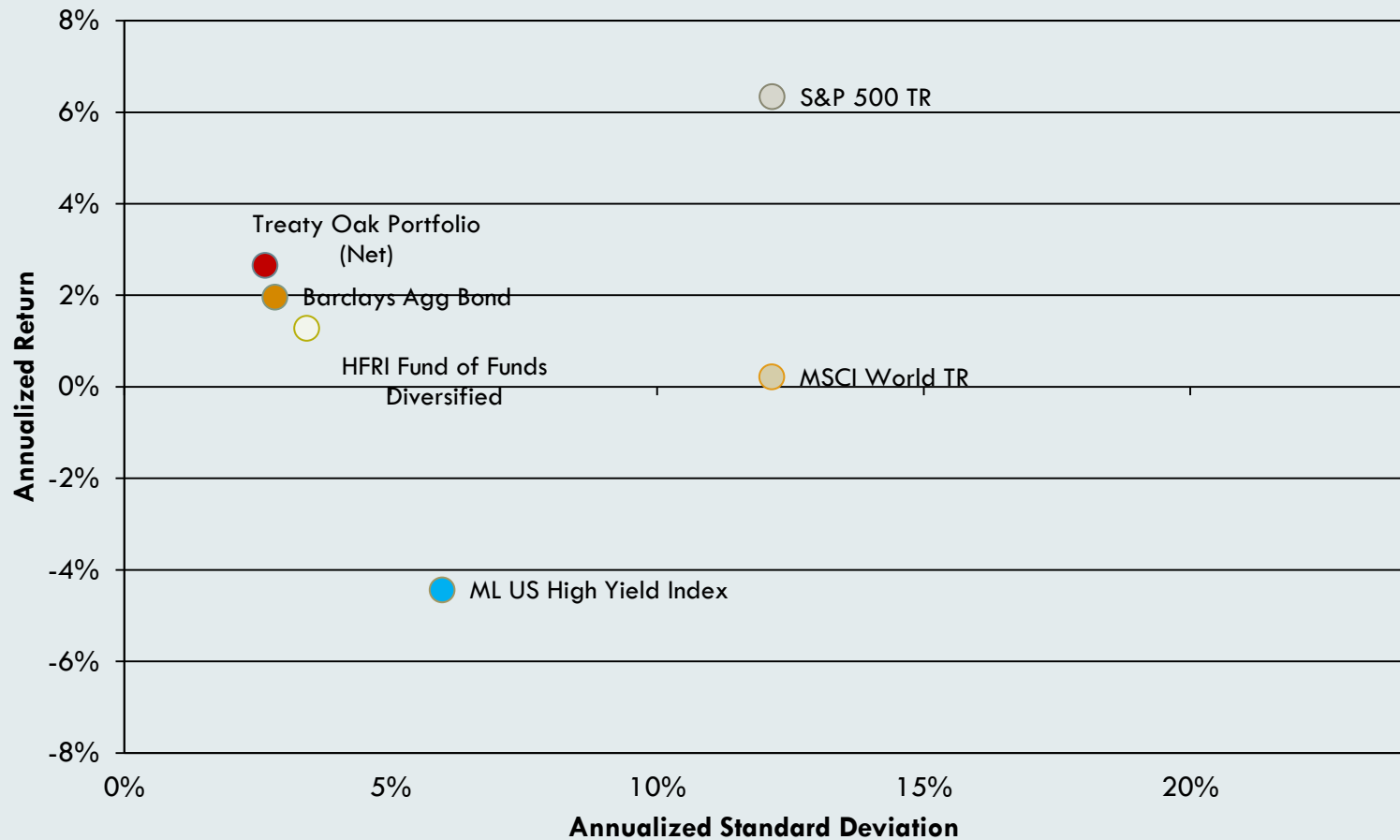
BAAM Performance

August 2014 – December 2015

	<u>1 Year</u>			<u>Since 8/1/14</u>		
	Return	Volatility	Sharpe	Return	Volatility	Sharpe
Treaty Oak Portfolio (Net)	2.99%	2.60%	1.13	2.64%	2.65%	0.98
HFRI Fund of Funds Diversified	-0.02%	3.60%	(0.02)	1.27%	3.43%	0.36
S&P 500 TR	1.38%	13.08%	0.10	6.33%	12.16%	0.52
Barclays US Aggregate Bond Index	0.55%	2.82%	0.18	1.96%	2.83%	0.67
MSCI World TR	-0.32%	13.33%	(0.03)	0.22%	12.16%	0.01
ML US High Yield Index	-4.64%	6.13%	(0.77)	-4.44%	5.97%	(0.75)

Historically Low Beta to Traditional Asset Classes, Resulting in Low Volatility

Treaty Oak Portfolio Relative Risk / Return Statistics Risk Return: August 2014 – December 2015



VI. ARS Direct Portfolio Monitoring and Review



ARS Direct Portfolio

Objectives

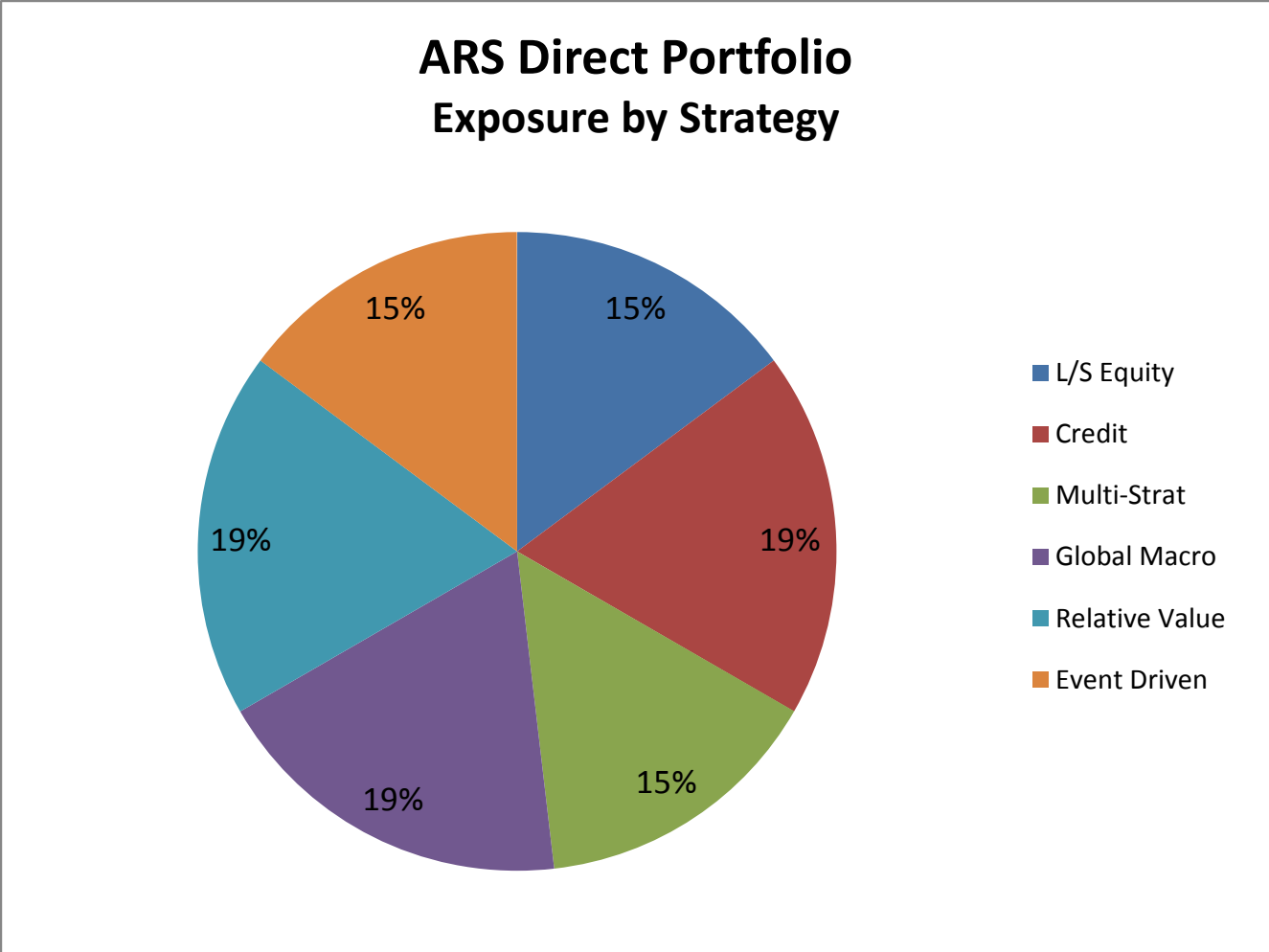
- Approximately 20-25 hedge funds
- Diversified portfolio of hedge fund strategies targeting low beta to traditional asset classes
- Strong risk-adjusted returns
- Access to a wide variety of strategies
- Provide performance with low correlation to traditional asset classes
- Seek to capture Alpha: a manager's rate of return in excess of that which can be explained by its systematic risk (represented by Beta)

Current Funded Portfolio

Summary of Funding Status			
Recommended Fund*	Strategy Classification	Amount	Funded
Alyeska	Fundamental Equity Market Neutral	\$75 million	February 1, 2016
Graticule	Global Macro	\$75 million	January 1, 2016
Värde	Diversified Credit/ Distressed	\$75 million	January 1, 2016
Myriad	Opportunistic Multi-Strategy	\$60 million	February 1, 2016
Roystone	Event Driven	\$60 million	January 1, 2016
Southpoint	Fundamental Long/Short Equity	\$60 million	January 1, 2016
Total		\$405 million	

**Fund names as provided above do not necessarily represent the legal names of the vehicles. The fund names as used in the above table have been shortened or altered to make the fund name more readily identifiable.*

ARS Direct Portfolio Exposure



Annual Monitoring Process

- Per the TMRS IPS, comprehensive reviews are to be conducted and documented at least annually.
- The annual review process includes:
 - Annual due diligence questionnaire, ADV and/or compliance questionnaire as appropriate are reviewed from all managers, covering any potential changes to the firm, personnel, investment strategy or style, philosophy and process, compliance and operations, risk management, and performance.
 - Managers are reviewed on both quantitative and qualitative factors.
 - The review includes a due diligence visit by Staff to the Manager's office or a meeting to take place at TMRS at least once annually.
 - Results are reported to the Board along with any recommended actions, if appropriate.

Manager Monitoring Summary Report

Manager	Fund Name	Strategy	Under Review?	Qualitative Evaluation	Quantitative Evaluation
Alyeska	Alyeska Fund LP	Fundamental Equity Market Neutral	No	Excellent	Meets Expectations
Graticule	Graticule Asia Macro Fund LP	Global Macro	No	Excellent	Meets Expectations
Värde	Värde Investment Partners LP	Diversified Credit / Distressed	No	Excellent	Meets Expectations
Myriad	Myriad Opportunities US Fund Limited	Opportunistic Multi- Strategy	No	Excellent	Meets Expectations
Roystone	Roystone Capital Partners LP	Event Driven	No	Excellent	Meets Expectations
Southpoint	Southpoint Qualified Fund LP	Fundamental Long/Short Equity	No	Excellent	Meets Expectations

Annual Manager Report Card for: Alyeska

Assessment Area	Grade	Update & Comments
Organization		Manager has \$4.5 billion in AUM, based in Chicago with 37 employees.
People		No additions or departures from the investment team
Philosophy/Strategy/Process		US Fundamental Equity Market Neutral. No changes to the investment philosophy
Portfolio(s)		Decentralized multi-PM fund focused on liquid US equities and delivering low equity beta exposure. Strategy PM's are specialized according to industry sectors with the portfolio managed with a market neutral mandate
Performance		Funded February 1, 2016, performance meets expectations
Compliance		In compliance according to the executed terms and agreement
Guideline Changes		No changes
Risk Management		No changes
Operations		No changes
Client Service		Meets expectations with respect to transparency and reporting
Other		N/A

Excellent	In Good Standing	Fair <i>(working with manager)</i>	Unsatisfactory <i>(remedial action being taken)</i>	Comprehensive Review
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Annual Manager Report Card for: Graticule

Assessment Area	Grade	Update & Comments
Organization		Manger has \$4.4 billion in AUM with 50 employees. Offices in Singapore, New York, San Francisco, London
People		No additions or departures from the investment team
Philosophy/Strategy/Process		Discretionary Global Macro. No changes to the investment philosophy
Portfolio(s)		Liquid discretionary macro strategy that takes positions in foreign exchange, equities, rates, liquid credit, and commodities that are thematically linked to the Asia-Pacific region
Performance		Funded January 1, 2016, performance meets expectations
Compliance		In compliance according to the executed terms and agreement
Guideline Changes		No changes
Risk Management		No changes
Operations		No changes
Client Service		Meets expectations with respect to transparency and reporting
Other		N/A

Excellent	In Good Standing	Fair <i>(working with manager)</i>	Unsatisfactory <i>(remedial action being taken)</i>	Comprehensive Review
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Annual Manager Report Card for: Värde

Assessment Area	Grade	Update & Comments
Organization		Manager has \$10 billion in AUM with 200 employees. Offices in Minneapolis, London, Singapore, Luxembourg, Spain, Ireland, Italy
People		No material additions or departures on the investment team.
Philosophy/Strategy/Process		Global Credit. No changes to the investment philosophy
Portfolio(s)		The portfolio consists of a blend of relatively liquid and illiquid credit investments that include stressed/high yield debt, restructurings (including reorg equities), liquidations, and loans. Global scope with particular expertise in financials, real estate, and sovereigns
Performance		Funded January 1, 2016, performance meets expectations
Compliance		In compliance according to the executed terms and agreement
Guideline Changes		No changes
Risk Management		No changes
Operations		No changes
Client Service		Meets expectations with respect to transparency and reporting
Other		N/A

Excellent	In Good Standing	Fair <i>(working with manager)</i>	Unsatisfactory <i>(remedial action being taken)</i>	Comprehensive Review
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Annual Manager Report Card for: Myriad

Assessment Area	Grade	Update & Comments
Organization		Manager has \$4.4 billion in AUM with 26 employees. Based in Hong Kong
People		No material additions or departures to the investment team
Philosophy/Strategy/Process		Multi-Strategy. No changes to the investment philosophy
Portfolio(s)		Global multi-strategy fund with an Asian bias that invests in a diverse set of strategies including fundamental and relative value Asian long/short, global TMT, event driven (M&A, fund raisings, spinouts), convertible and equity derivative arbitrage, and fundamental credit in high yield and converts
Performance		Funded February 1, 2016, performance meets expectations
Compliance		In compliance according to the executed terms and agreement
Guideline Changes		No changes
Risk Management		No changes
Operations		No changes
Client Service		Meets expectations with respect to transparency and reporting
Other		N/A

Excellent	In Good Standing	Fair <i>(working with manager)</i>	Unsatisfactory <i>(remedial action being taken)</i>	Comprehensive Review
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Annual Manager Report Card for: Roystone

Assessment Area	Grade	Update & Comments
Organization		Manager has \$3 billion in AUM with 18 employees. Located in New York
People		No material additions or departures to the investment team
Philosophy/Strategy/Process		Event Driven. No changes to the investment philosophy
Portfolio(s)		Opportunistic event-driven fund that invests across the capital structure in corporate event, GARP, and value-oriented situations. Flexible mandate that includes equities, corporate credit, and episodic sovereign or structured credit
Performance		Funded January 1, 2016, performance meets expectations
Compliance		In compliance according to the executed terms and agreement
Guideline Changes		No changes
Risk Management		No changes
Operations		No changes
Client Service		Meets expectations with respect to transparency and reporting
Other		N/A

Excellent	In Good Standing	Fair <i>(working with manager)</i>	Unsatisfactory <i>(remedial action being taken)</i>	Comprehensive Review
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Annual Manager Report Card for: Southpoint

Assessment Area	Grade	Update & Comments
Organization		Manager has \$2.5 billion in AUM with 17 employees. Located in New York
People		In January 2016, the manager lost a key Senior Analyst who left on good terms to join another fund as a step up in responsibility. TMRS staff discussed the departure with the manager and believes that the impact will be manageable. Southpoint is in the process of hiring a replacement.
Philosophy/Strategy/Process		Fundamental Long/Short Equity
Portfolio(s)		Value focused equity portfolio that is fairly concentrated across US equities in “off the run” names. The portfolio is managed with low leverage and modest net exposure and a focus on risk-adjusted returns
Performance		Funded January 1, 2016, performance meets expectations
Compliance		In compliance according to the executed terms and agreement
Guideline Changes		No changes
Risk Management		No changes
Operations		No changes
Client Service		Meets expectations with respect to transparency and reporting
Other		N/A

Excellent	In Good Standing	Fair <i>(working with manager)</i>	Unsatisfactory <i>(remedial action being taken)</i>	Comprehensive Review
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ARS Strategies Reviewed in 2015

- The ARS team took 334 individual meetings in 2015 +
- Distinct managers seen: 137

	Credit	Event Driven	L/S Equity	Macro	Market Neutral	Multi-Strat	Other	Total
Meetings In 2015+	75	26	45	52	17	38	81	334
Distinct Managers								137

+ Includes meetings through February 2016

VII. ARS Roadmap



Absolute Return Pacing Plan

Phase I (Completed)

- Hired BAAM August 2014
- Hired Director of ARS December 2014
- Hired Albourne as Hedge Fund Consultant (finalized in March 2015)
- Hired Absolute Return Analyst in 2015
- Hired additional legal in 2015 to ramp up for ARS, PE, RE mandates

Phase II (Current Focus)

- First direct hedge fund investments (group of 6):
 - Board approved October 2015
 - Fully funded February 2016
- Second group of direct hedge fund allocations (group of 7):
 - Board recommendation March 2016
 - Funding goal: May-July 2016

Phase III (Q3-Q4 2016)

- Anticipate recommendation and allocation to an additional 5-7 managers
- Fully Diversified Portfolio : approximately 20-25 hedge funds across strategies / sub-strategies and opportunistic, niche strategies
- Strategically decrease exposure to BAAM, simultaneously ramping up manager weights in the ARS Direct Portfolio

Phase IV

- Monitor and selectively add/redeem/rebalance strategically, opportunistically, and tactically

ARS Execution Plan

Ideal allocation pathway: groups of approximately 5-7 managers at a time for Phase II and Phase III

- Immediate diversification
- Minimize dispersion and tracking error with BAAM
- Allocation weighted according to risk/reward profile
- Risks of “one manager at a time” approach
 - Increases volatility and dispersion
 - Increases probability of underperformance
 - Extends time horizon implementing diversified portfolio objectives
 - Contract uncertainty due to legal negotiations

VIII. Conclusion



Conclusion

- Absolute Return Strategies provide diversification across the traditional asset class benchmarks and attractive risk-adjusted returns over time
- Blackstone allocation provides an initial diversified portfolio with the expected return profile over the long run
- TMRS staff continues to expand the ARS Direct program with the intent to fulfill the target allocation by building a diversified, direct portfolio over the intermediate and long-term time horizons
- Expected Cost Savings over time