

Absolute Return Strategy Process & Recommendations

March 23-24, 2016

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Agenda

- I. ARS Search Process & Allocation Objectives
- II. Manager Search Process
- III. Manager Selection Recommendations
- IV. Requested Board Action

I. ARS Search Process & Allocation Objectives



ARS Search Process Timeline

Phase I (Completed)

- Hired BAAM August 2014
- Hired Director of ARS in December 2014
- Hired Albourne as Hedge Fund Consultant March 2015
- Hired Absolute Return Analyst Q2-Q3 2015
- Hired additional legal Q4 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

II. Manager Search Process



Manager Search Process Review *(1 of 2)*

Step 1

- **Manager Universe Analysis & Screen**
 - TMRS performs portfolio and market analysis
 - Based on analysis, meetings are sought with qualified managers
 - Meetings taken with qualified managers; others eliminated

Step 2

- **Semi-Finalist Candidate Analysis**
 - 334 ARS Meetings taken by Evaluation Team
 - 137 Distinct Managers Assessed
 - Managers scored 1 or 2: Managers scored '1' advance

Step 3

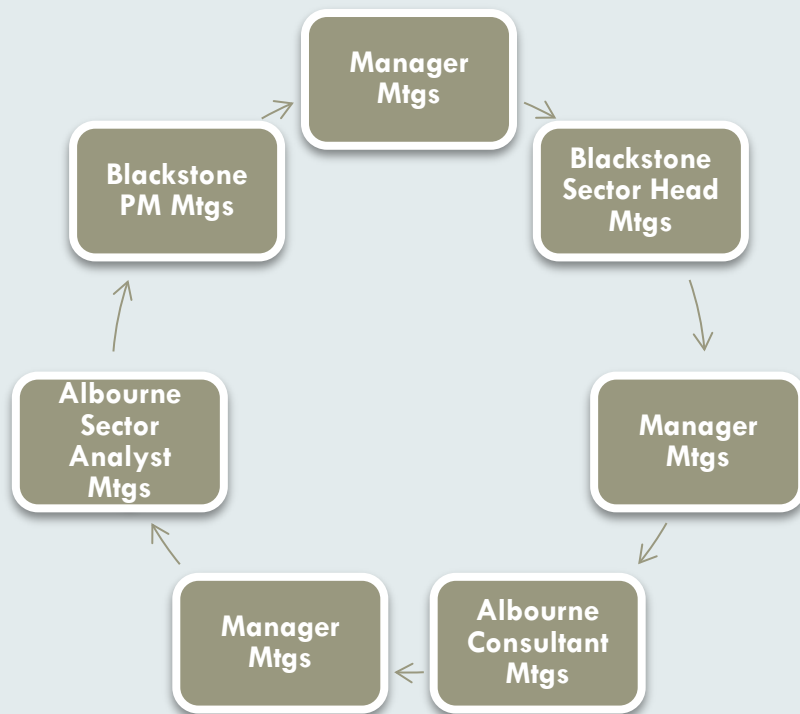
- **Finalist Candidate Analysis**
 - 14 Managers Selected as Finalists
 - Due Diligence Questionnaire Responses Obtained and Reviewed
 - Managers Scored A, B or C: Managers Scored 'A' Advance

Step 4

- **Final Due Diligence & Manager Selection**
 - 'A' rated Finalist Funds enter final due diligence
 - Final Scoring Matrices are compiled for distinct possible recommended funds and immediately comparable fund products
 - 7 Funds Selected for Recommendation to Board of Trustees

Manager Search Process Review (2 of 2)

- The search process is an iterative one, with direct input from Albourne and secondary input from BAAM. The process consisted of multiple meetings with the respective consultants, portfolio managers and sector heads to gain insight into areas of opportunities as well as to narrow the search field.



Over the course of the search process, TMRS staff conducted 334 meetings with 137 distinct managers across a variety of strategies:

| Strategy | Number of Meetings |
|------------------------|--------------------|
| Credit | 75 |
| Event Driven | 26 |
| L/S Equity | 45 |
| Macro | 52 |
| Relative Value | 17 |
| Multi-Strategy | 38 |
| Other | 81 |
| Grand Total | 334 |
| Distinct Managers Seen | 137 |

Manager Scoring Matrix *(1 of 2)*

- Scoring was compiled by TMRS Investment Staff and discussed with Albourne to determine advancement in the search process:

| Manager Screen & Universe Analysis Scoring Matrix / Semi-Finalist Selection | |
|--|--|
| Scoring Category | Score / Outcome |
| Manager Screen - Is vehicle consistent w/ TMRS' objectives? | Yes - Take Meeting; No - Don't Take Meeting |
| Manager Analysis - Does vehicle have adequate capacity and timeline? - PPPST* Preliminary Review | 1 - Advance; 2 - Stop Research |

- Based on initial scoring screen, further diligence efforts were prioritized based on a number of factors:

| Finalist Scoring Matrix / Final Due Diligence Selection | |
|--|---|
| Scoring Category | Score |
| Finalist Manager Review - Due Diligence 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 |

**137 Managers Advance Past Initial Screen → 14 Managers Scored '1' (10% Selection Rate)
 → 7 Managers Scored 'A' (5% Selection Rate)**

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

Manager Scoring Matrix *(2 of 2)*

- Scoring was provided by TMRS and discussed with Albourne to determine final Selection.
- Based on the above criteria, 14 managers were selected for finalist review & 7 managers were selected for final due diligence:

| Final Due Diligence Scoring Matrix | |
|--|------------------|
| Scoring Category | Possible Points* |
| People (Firm & Team) | 0 - 25 points |
| Process (Investment Process & Risk Management) | 0 - 25 points |
| Performance History | 0 - 25 points |
| Strategy (Attractiveness of Opportunity / Portfolio Fit) | 0 – 12.5 points |
| Terms (Fees, Liquidity, etc.) | 0 – 12.5 points |
| Total | 100† |

*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. Manager Selection Recommendations



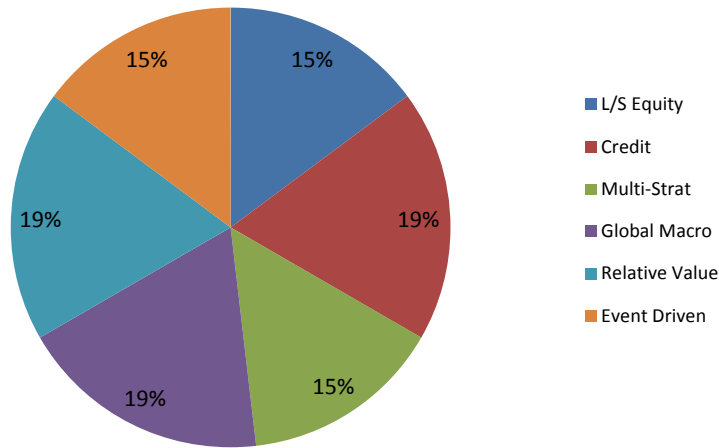
Executive Summary of Manager Recommendations

| Summary of Recommendations | | |
|--|-------------------------|----------------------|
| Recommended Fund | Strategy Classification | Recommended Amount |
| Man AHL Hydrogen LLC (Hydrogen) | Macro | \$90 million |
| PDT Mosaic Offshore Fund Ltd. (Mosaic) | Relative Value | \$90 million |
| DSAM Long/Short Equity Fund LP (DSAM L/S) | Long/Short Equity | \$75 million |
| East Lodge Capital Credit Opportunities Fund LP (East Lodge) | Credit | \$75 million |
| River Birch Partners LP (River Birch) | Credit | \$75 million |
| Field Street Partners LP (Field Street) | Relative Value | \$60 million |
| Pharo Gaia Fund Ltd. (Gaia) | Macro | \$60 million |
| Total Recommendation | | \$525 million |

Portfolio Considerations

Strategy Diversification

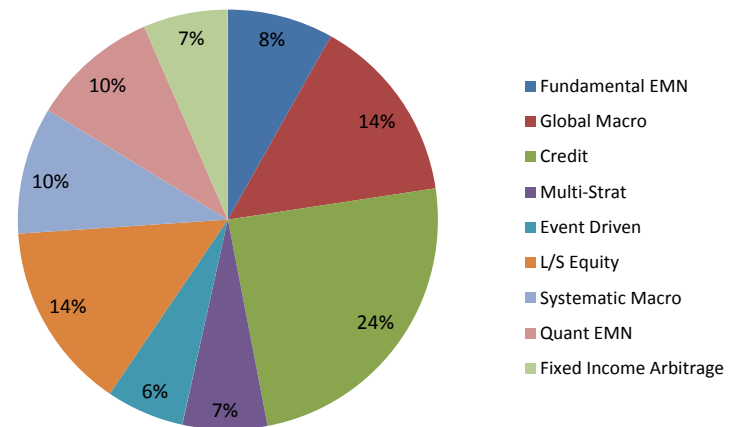
ARS Direct Portfolio (pre-March approvals)
Exposure by Strategy



While initial portfolio construction took into account the non-correlated return profiles of the six managers, further diversification and additional strategies are required to effectively build out the Direct Portfolio in 2016.

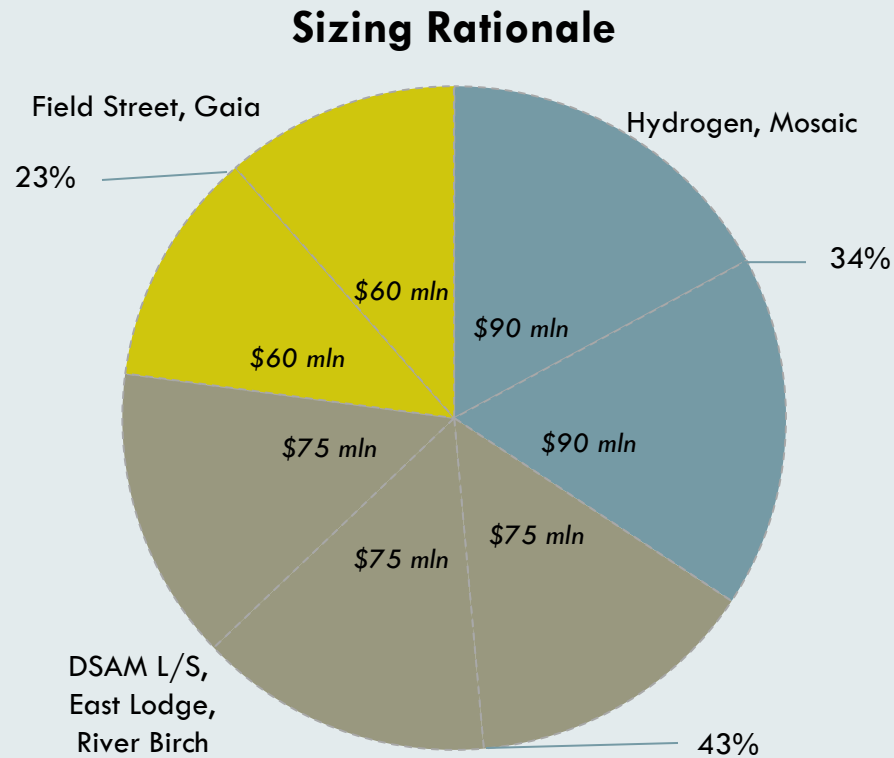
The current ARS direct portfolio is fairly concentrated across six different strategies. This strategy mix offers basic diversification across alternative strategies, asset classes, geography, and many other factors. It is less diversified than BAAM and as such, returns are relatively more volatile.

ARS Direct Portfolio (post-March approvals)
Exposure by Strategy



Portfolio Considerations

Position Sizing



Sizing of managers is based on both qualitative and quantitative factors

Final Selected Managers Scoring Matrix

| Final Due Diligence Scoring Matrix - Aggregated Results | | | |
|---|------------------------|-------------------------|-------------------------|
| Recommended Manager/Fund | Selected Manager Score | Comparable Mgr. A Score | Comparable Mgr. B Score |
| Hydrogen | 100 | 86.0 | 81.0 |
| Mosaic | 100 | 94.5 | 86.0 |
| DSAM L/S | 100 | 92.0 | 87.0 |
| East Lodge | 100 | 92.5 | 77.0 |
| River Birch | 100 | 88.0 | 86.0 |
| Field Street | 100 | 88.0 | 80.0 |
| Gaia | 100 | 88.5 | 77.0 |

*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.

Top Candidate Characteristics – Hydrogen (1/2)

\$90 Million Recommendation

Highlights

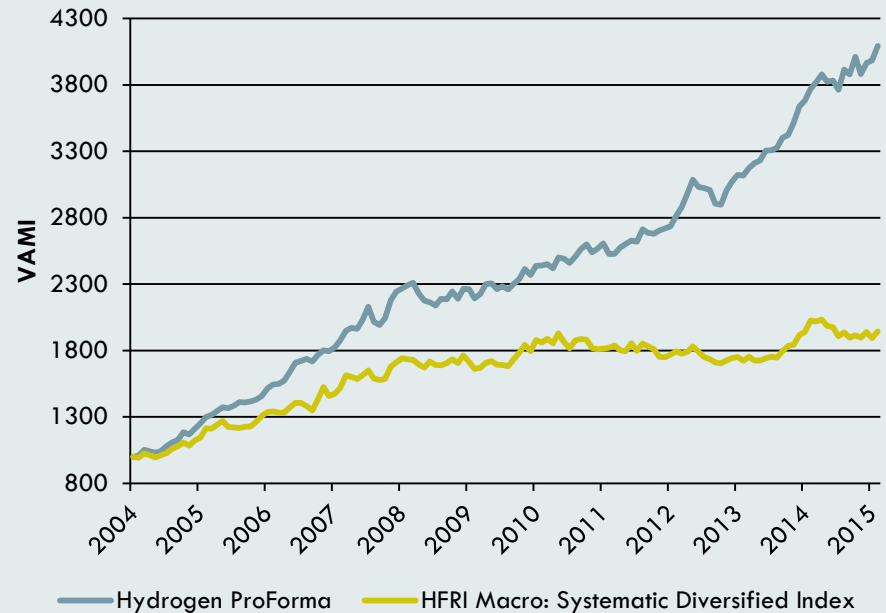
CEO: Sandy Rattray

Firm AUM: \$17.9 billion

Employees: 112

Office Location(s): London, UK

Hydrogen Pro Forma¹



¹Returns based on pro forma results of proposed allocations to the four AHL trading vehicles for Hydrogen

*VAMI definition: “Value-Added Monthly Index” is the growth in value of a \$1,000 invested calculated by multiplying $(1 + \text{current monthly rate of return}) \times (\text{previous month VAMI})$.

Top Candidate Characteristics – Hydrogen (2/2)

\$90 Million Recommendation

Hydrogen is a custom fund-of-one strategy created for TMRS combining four diversified AHL strategies. This is attractive to TMRS given the highly diversified sources of alpha. The product is designed to essentially be an all-weather strategy that should not only protect capital but also generate attractive risk-adjusted returns across a broad range of market environments.

Investment Case

- *Innovation*
- *Diversification*
- *Highly institutional organization*
- *Strong risk-adjusted returns*

Issues to Watch

- *Subsidiary of a public company*

Scoring Matrix

| Category | Hydrogen | Comp. Mgr. A | Comp. Mgr. B |
|--------------|----------|--------------|--------------|
| People | 25.0 | 19.0 | 18.0 |
| Process | 25.0 | 23.0 | 20.0 |
| Performance | 25.0 | 24.0 | 23.0 |
| Strategy | 12.5 | 10.0 | 11.0 |
| Terms | 12.5 | 10.0 | 9.0 |
| Total Points | 100.0 | 86.0 | 81.0 |

Top Candidate Characteristics – Mosaic (1/2)

\$90 Million Recommendation

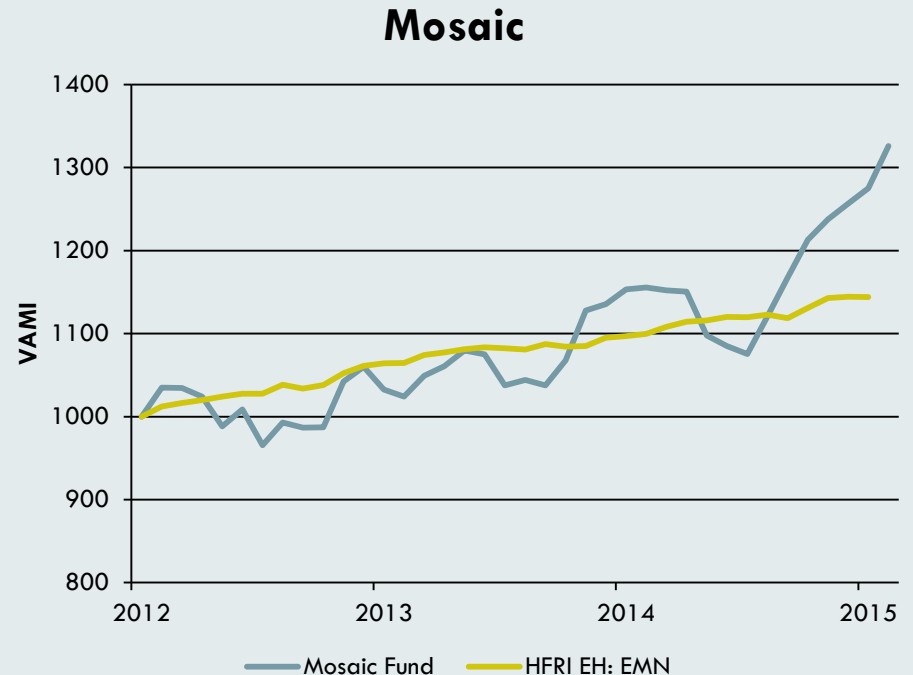
Highlights

Founder: Peter Muller

Firm AUM: \$4.3 billion

Employees: 157

Office Location(s): New York
and London



Top Candidate Characteristics – Mosaic (2/2)

\$90 Million Recommendation

Mosaic is a quantitative equity market neutral fund that trades single name equities over a 6 to 12 month time horizon based primarily on fundamental data. The Fund is attractive to TMRS given its negative correlation to broader markets and strong negative correlation to other hedge funds during times of stress. The Fund is intended to serve as a source of protection in the TMRS Direct Portfolio. In addition, the manager is able to generate attractive risk adjusted returns even during “normal” market environments.

Investment Case

- *Proprietary models*
- *Robust research process*
- *Adaptive Signals*

Issues to Watch

- *Low transparency*
- *Time frame diversification*

Scoring Matrix

| Category | Mosaic | Comp. Mgr. A | Comp. Mgr. B |
|---------------------|--------------|--------------|--------------|
| People | 25.0 | 24.0 | 23.0 |
| Process | 25.0 | 25.0 | 25.0 |
| Performance | 25.0 | 25.0 | 20.0 |
| Strategy | 12.5 | 12.5 | 10.0 |
| Terms | 12.5 | 8.0 | 8.0 |
| Total Points | 100.0 | 94.5 | 86.0 |

Top Candidate Characteristics – DSAM L/S (1/2)

\$75 Million Recommendation

Highlights

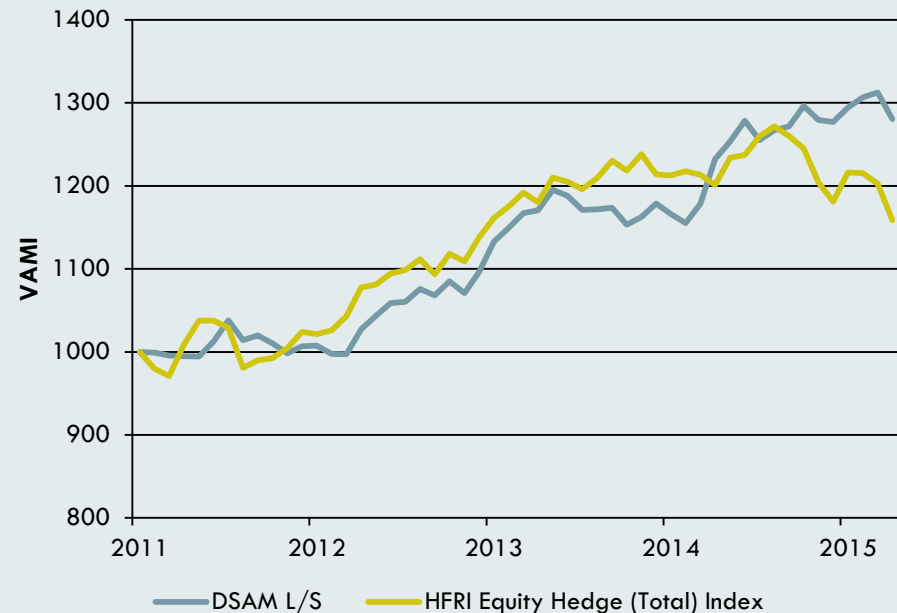
Founder: Guy Sahar & James Diner

Firm AUM: \$1.6 billion

Employees: 18

Office Location(s): London

DSAM L/S



Top Candidate Characteristics – DSAM L/S_(2/2)

\$75 Million Recommendation

DSAM L/S is a long/short European equity fund that efficiently utilizes options while combining long term fundamental investing with short term tactical trading. The Fund is attractive to TMRS given the manager's unique ability to express positions via both derivatives and cash instruments, which historically has resulted in superior risk-adjusted returns versus peers in the long/short space. This allocation will provide TMRS with exposure to European equity markets with enhanced downside protection.

Investment Case

- Unique product based on options usage
- Senior, stable team
- Low correlation

Issues to Watch

- Small team
- Lower alpha on shorts

Scoring Matrix

| Category | DSAM L/S | Comp. Mgr. A | Comp. Mgr. B |
|--------------|----------|--------------|--------------|
| People | 25.0 | 25.0 | 23.0 |
| Process | 25.0 | 21.0 | 20.0 |
| Performance | 25.0 | 25.0 | 25.0 |
| Strategy | 12.5 | 12.0 | 8.0 |
| Terms | 12.5 | 10.0 | 11.0 |
| Total Points | 100.0 | 93.0 | 87.0 |

Top Candidate Characteristics – East Lodge (1/2)

\$75 Million Recommendation

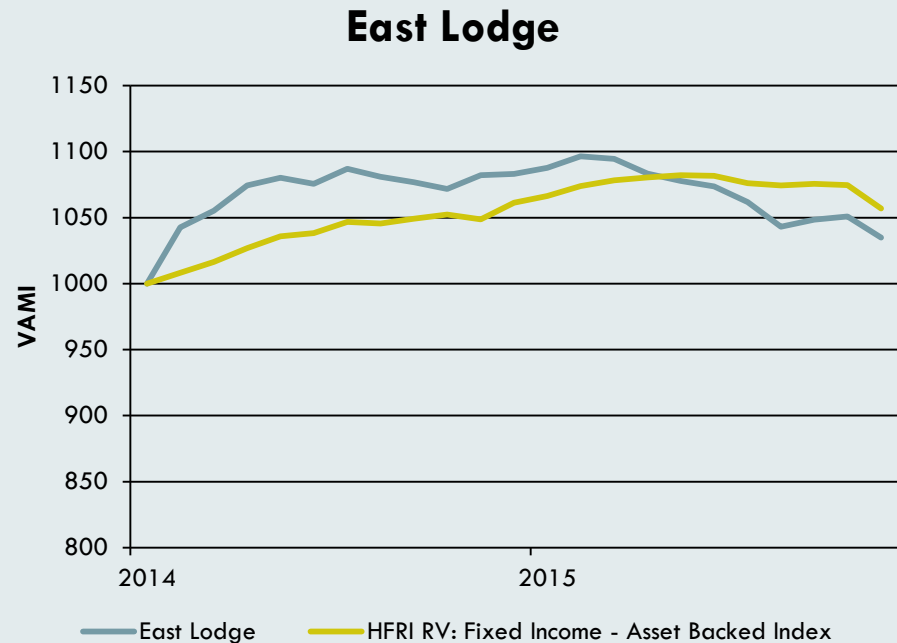
Highlights

Founder: Alastair Lumsden

Firm AUM: \$600 million

Employees: 17

Office Location(s): London



Top Candidate Characteristics – East Lodge (2/2)

\$75 Million Recommendation

East Lodge is a long/short structured credit strategy focused on opportunities in Europe and also Globally. The Fund is attractive to TMRS given the opportunity set in European structured credit, which is interesting in part due to ECB actions, but also due to strong fundamental collateral performance. East Lodge's experience in these markets as well as the team's rigorous investment approach makes them best suited to take advantage of these opportunities. In addition, in his former role, the manager has generated outsized returns that have exhibited low correlation to existing and proposed TMRS Direct Portfolio managers.

Investment Case

- *Seasoned team*
- *Robust modeling capabilities*
- *Differentiation on the short side*

Issues to Watch

- *Key person*
- *Start-up*

Scoring Matrix

| Category | East Lodge | Comp. Mgr. A | Comp. Mgr. B |
|--------------|------------|--------------|--------------|
| People | 25.0 | 25.0 | 22.0 |
| Process | 25.0 | 23.0 | 20.0 |
| Performance | 25.0 | 25.0 | 18.0 |
| Strategy | 12.5 | 7.0 | 7.0 |
| Terms | 12.5 | 12.5 | 10.0 |
| Total Points | 100.0 | 92.5 | 77.0 |

Top Candidate Characteristics – River Birch (1/2)

\$75 Million Recommendation

Highlights

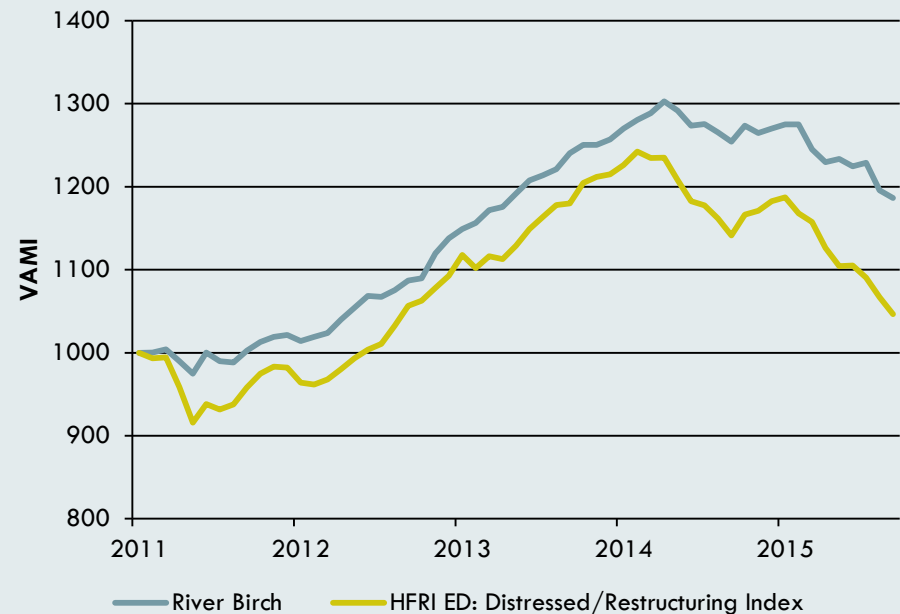
Founder: Bart McDade &
Alex Kirk

Firm AUM: \$1.4 billion

Employees: 16

Office Location(s): New York
and London

River Birch



Top Candidate Characteristics – River Birch (2/2)

\$75 Million Recommendation

River Birch is a global long/short corporate credit manager with a focus on high yield and distressed credits. The Fund is attractive to TMRS as it is well positioned to take advantage of the anticipated pick up in distressed credit activity. The Fund's size is small enough to take advantage of under-followed idiosyncratic investment opportunities that should result in medium to high alpha generation without significant beta to broader credit markets.

Investment Case

- Senior team
- Global mandate
- Risk management

Issues to Watch

- Potential deal flow disadvantage due to size
- Recent performance
- Lehman related lawsuits because they were there – not bad actors

Scoring Matrix

| Category | River Birch | Comp. Mgr. A | Comp. Mgr. B |
|--------------|-------------|--------------|--------------|
| People | 25.0 | 20.0 | 25.0 |
| Process | 25.0 | 24.0 | 20.0 |
| Performance | 25.0 | 25.0 | 20.0 |
| Strategy | 12.5 | 8.0 | 11.0 |
| Terms | 12.5 | 11.0 | 10.0 |
| Total Points | 100.0 | 88.0 | 86.0 |

Top Candidate Characteristics – Field Street (1/2)

\$60 Million Recommendation

Highlights

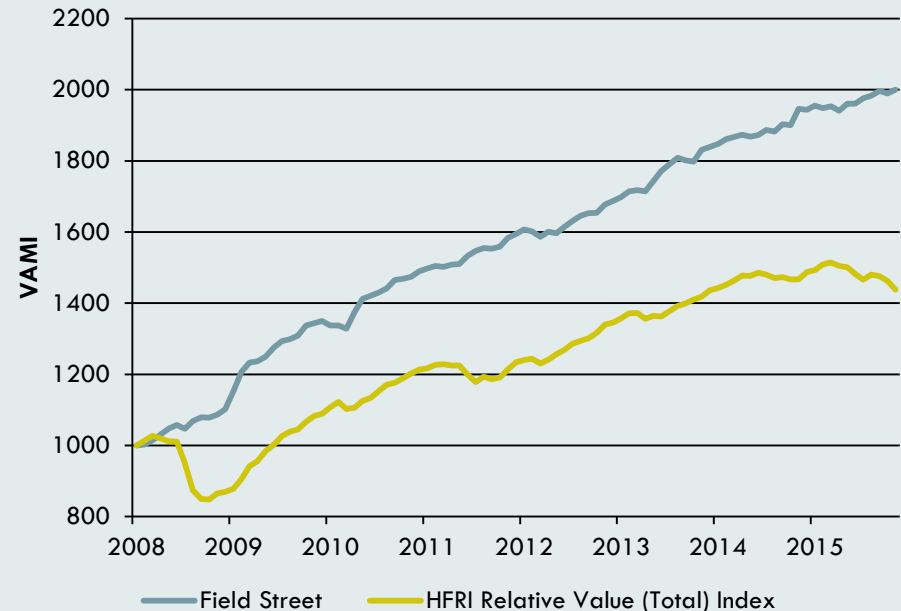
Founder: Rod Gancas

Firm AUM: \$3.7 billion

Employees: 55

Office Location(s): New York
and Monaco

Field Street



Top Candidate Characteristics – Field Street (2/2)

\$60 Million Recommendation

Field Street combines a fixed income relative value strategy with directional macro and volatility trading with a focus on liquid G10 rates and currency markets. The Fund is attractive to TMRS for its ability to generate strong risk adjusted returns with low correlation to traditional asset classes and other hedge fund strategies. In addition, the manager's prudent approach to risk should serve as a volatility dampener during times of market stress.

Investment Case

- Experienced CIO with measured approach to risk
- Uncorrelated return stream
- Attractive size

Issues to Watch

- Counterparty risk
- Sustainability of opportunity set
- Turnover
- Former employee lawsuit – not unusual

Scoring Matrix

| Category | Field Street | Comp. Mgr. A | Comp. Mgr. B |
|--------------|--------------|--------------|--------------|
| People | 25.0 | 21.0 | 20.0 |
| Process | 25.0 | 24.0 | 20.0 |
| Performance | 25.0 | 23.0 | 22.0 |
| Strategy | 12.5 | 10.0 | 8.0 |
| Terms | 12.5 | 10.0 | 10.0 |
| Total Points | 100.0 | 88.0 | 80.0 |

Top Candidate Characteristics – Gaia (1/2)

\$60 Million Recommendation

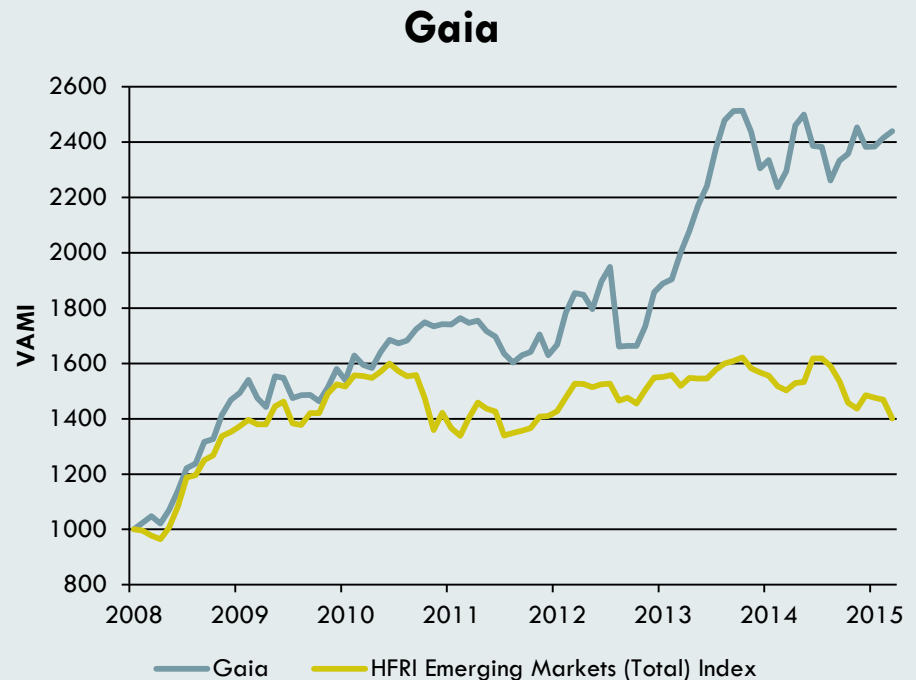
Highlights

Founder: Guillaume Fonkenell

Firm AUM: \$5.3 billion

Employees: 64

Office Location(s): London and
New York



Top Candidate Characteristics – Gaia (2/2)

\$60 Million Recommendation

Gaia is an emerging market focused discretionary macro portfolio. The portfolio managers take long term views with the intention to buy and hold positions for a minimum of six months. The Fund is attractive to TMRS given the portfolio managers' proven skill set in navigating emerging markets. Their investment strategy should result in outsized alpha when dispersion is high, while their approach to risk management should help to prevent significant drawdowns. In particular, the opportunity set in emerging markets is currently quite large given diverging monetary policies globally. Further, as Gaia does not trade equities, the Fund's inclusion in the TMRS Direct Portfolio helps to reduce broad equity market beta.

Investment Case

- *Experienced team*
- *In-house research*
- *Risk management*
- *EM opportunity set*

Issues to Watch

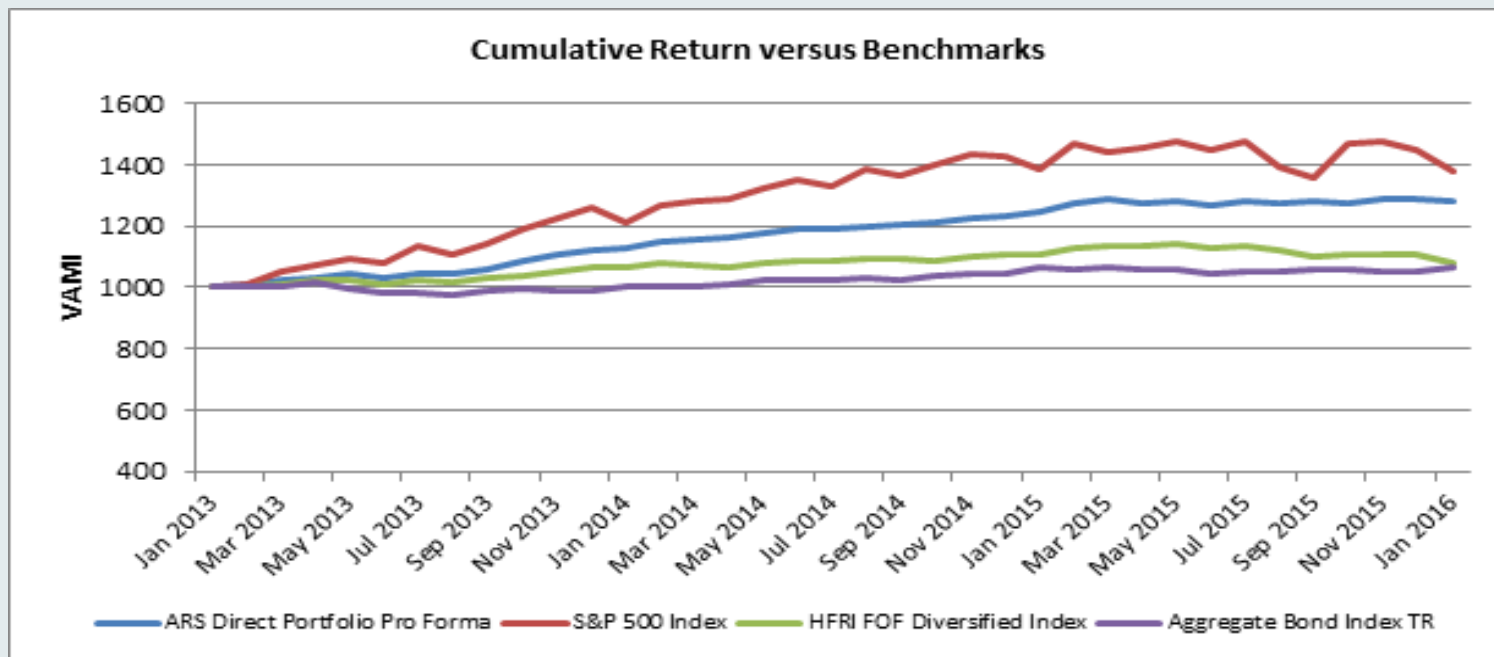
- *Volatility*
- *AUM growth*
- *Gaia PM changes*

Scoring Matrix

| Category | Gaia | Comp. Mgr. A | Comp. Mgr. B |
|--------------|-------|--------------|--------------|
| People | 25.0 | 23.0 | 20.0 |
| Process | 25.0 | 20.0 | 15.0 |
| Performance | 25.0 | 25.0 | 23.0 |
| Strategy | 12.5 | 8.0 | 11.0 |
| Terms | 12.5 | 12.5 | 8.0 |
| Total Points | 100.0 | 88.5 | 77.0 |

Hypothetical Portfolio Performance

ARS Direct Pro Forma Returns



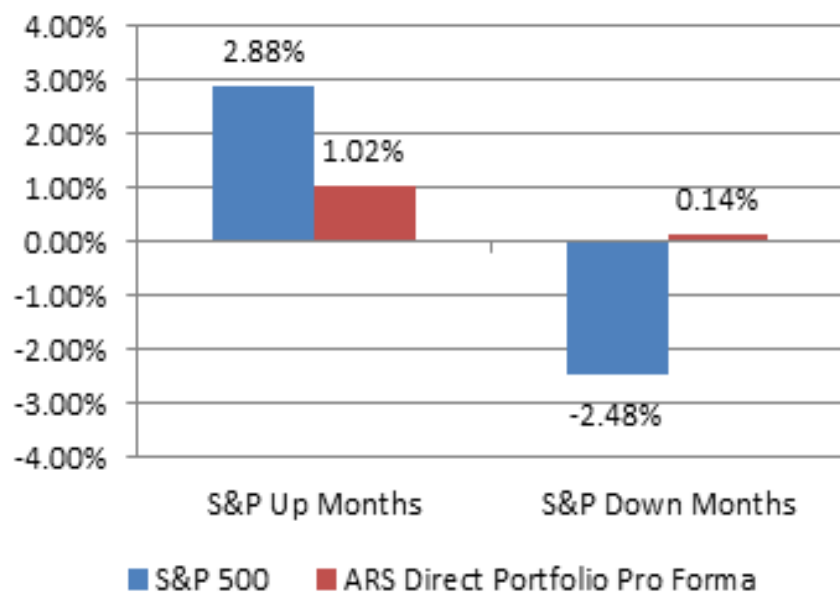
*VAMI definition: "Value-Added Monthly Index" is the growth in value of a \$1,000 invested calculated by multiplying (1 + current monthly rate of return) x (previous month VAMI).

| Performance Analysis: Feb-13 to Jan-16 | Annualized Return | Annualized Volatility | Sharpe Ratio | Max Drawdown |
|--|-------------------|-----------------------|--------------|---------------|
| ARS Direct Portfolio Pro Forma | 8.69% | 2.99% | 2.89 | -1.43% |
| HFRI FOF Diversified Index | 2.63% | 3.54% | 0.73 | -2.15% |
| S&P 500 Index | 11.30% | 10.94% | 1.03 | -6.03% |
| Aggregate Bond Index TR | 2.15% | 2.96% | 0.71 | -1.78% |

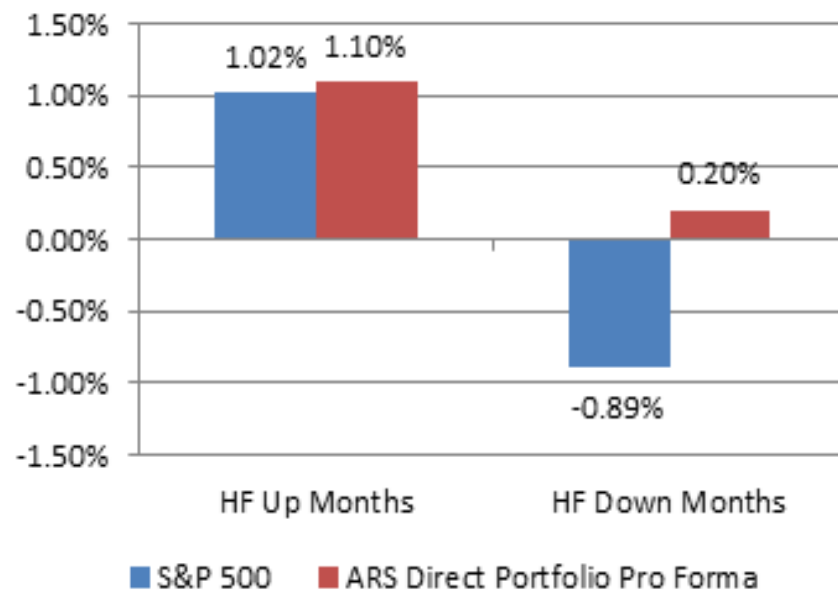
Hypothetical Portfolio Performance

Up/Down Capture

Fund Performance Across S&P Up & Down Markets



Fund Performance Across Hedge Fund Up & Down Markets



Pro Forma Performance: February 2013 - January 2016

IV. Requested Board Action



Approval of Recommendation

- TMRS Staff and Albourne recommend that the Board of Trustees approve the selection of the following managers for investment in the specified strategies below:

| | |
|---|--------------|
| • Man AHL Hydrogen LLC | \$90 million |
| • PDT Mosaic Offshore Fund, Ltd. | \$90 million |
| • DSAM Long/Short Equity Fund LP | \$75 million |
| • East Lodge Capital Credit Opportunities Fund LP | \$75 million |
| • River Birch Partners LP | \$75 million |
| • Field Street Partners LP | \$60 million |
| • Pharo Gaia Fund, Ltd. | \$60 million |