

Real Estate Strategy Process & Recommendations

March 23-24, 2016

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Agenda

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

I. Real Estate Search Process & Allocation Objectives



2016 Real Estate Search Process Timeline

Q1-Q4
2015

- Contract with Courtland Partners signed. TMRS and Courtland determined the focus for ongoing real estate market research and manager searches would be on both US and non-US real estate strategies. Manager universe canvassing concentrated on a broad spectrum of US and non-US institutional quality managers in order to find both attractive strategies and managers.

Q3
2015

- Utilizing a multi-phase evaluation process TMRS Staff and Consultant recommends and Board approves 8 new real estate funds and terminates one real estate manager.
- Board actions push TMRS Real Estate portfolio to approximately 76% implemented.

Q3-Q4
2015

- Execution of 2015 RE manager contracts.
- Continuation of Real Estate manager universe research.
- December 2015 Board Meeting: Board approves 2016 Real Estate Search processes in an amount up to \$600 million in new commitments.

Current

- **March 2016 Board Meeting:** TMRS and Courtland will present to the Board the search process utilized for the Phase I of the 2016 Real Estate search process as well as manager recommendations.
- Recommended actions push TMRS real estate portfolio to approximately 100% implemented.

Q1-Q2
2016

- Execution of Phase I 2016 Real estate manager contracts.
- Continuation of Real Estate manager universe research.

Real Estate Execution Plan

Pacing Plan Update

- **July 30, 2015:** Board actions push real estate portfolio implementation to 76% implemented.
- **March 23, 2016:** Recommend approximately \$375 million in new real estate commitments.

Subsequent Allocation Plans

- **Q2-Q4 2016:** Recommendations to allocate to 0-3 more funds in an amount up to \$225 million in additional commitments (up to \$600 million in aggregate commitments for the year).
- With Board approval & contract execution, Real Estate portfolio will be approximately 100% allocated. Continuing commitments going forward will still be required due to return of capital over time from investment managers.

II. Manager Search Process



Manager Search Process Review

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**
 - 293 Real Estate Meetings taken by Evaluation Team
 - 162 Distinct Managers Assessed
 - Managers scored 1 or 2: Managers scored '1' advance

Step 3

- **Finalist Candidate Analysis**
 - 9 Managers Currently Selected as Finalists
 - Additional Due Diligence Materials Obtained and Reviewed
 - Managers Scored A, B or C: Managers Scored 'A' Advance

Step 4

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

Manager Scoring Matrix (1 of 3)

- Scoring was compiled by TMRS Investment Staff and discussed with Courtland 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

- 162 Managers Advance Past Initial Screen
- 9 Managers Currently Scored '1' (5.6% Selection Rate)

Manager Scoring Matrix (2 of 3)

- 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 <ul style="list-style-type: none"> - 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

- 3 Managers Currently Scored 'A' (1.9% Selection Rate)
- 2 Managers Currently being recommended (1.2% Recommendation Rate)

Manager Scoring Matrix (3 of 3)

- Scoring was provided by TMRS and discussed with Courtland to determine final selection.
- Based on the process criteria, 9 managers were selected for finalist review, 3 managers were selected for final due diligence, and 2 managers selected for recommendation at this time.

Final Due Diligence Scoring Matrix	
Scoring Category	Possible Points*
People (Firm and Team)	0 - 40 points
Process (Investment Process and Risk Management)	0 - 40 points
Performance (Historical / Expected)	0 - 40 points
Strategy (Attractiveness of Opportunity / Portfolio Fit)	0 - 40 points
Terms (Fees, Liquidity, etc.)	0 - 20 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



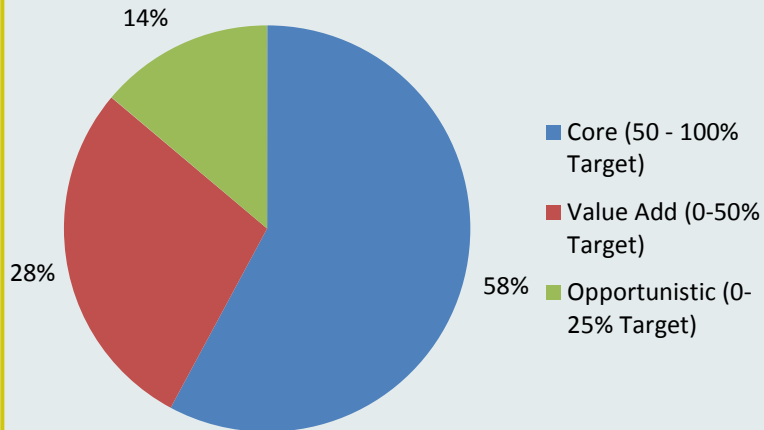
Executive Summary of Manager Recommendations

Summary of Recommendations		
Recommended Investment	Strategy Classification	Recommended Amount
Blackstone Property Partners LP (BPP)	Core	\$300 million
DivcoWest Fund V LP (Divco)	Value-Add	\$75 million
Total Recommendation		\$375 million

Portfolio Considerations

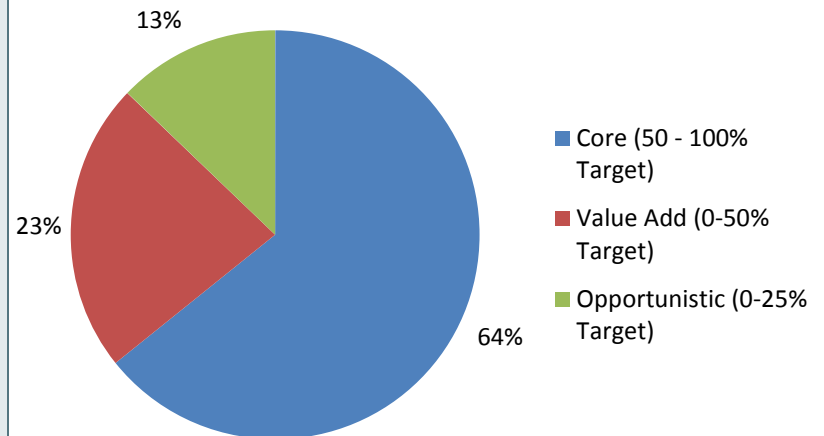
Diversification & Risk Management (1 of 4)

**Pre-Recommendation Strategy
Diversification**
(by Adj. Commitments)



**As of July 2015 Real Estate Recommendations*

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



Recommendations diversify the real estate portfolio toward a more conservative positioning with increased allocations to core. Prior to the July 2015 Board approved real estate commitments, Core represented 47% of investment activity to date.

Portfolio Considerations

Diversification & Risk Management (2 of 4)

Implementation Phase Complete

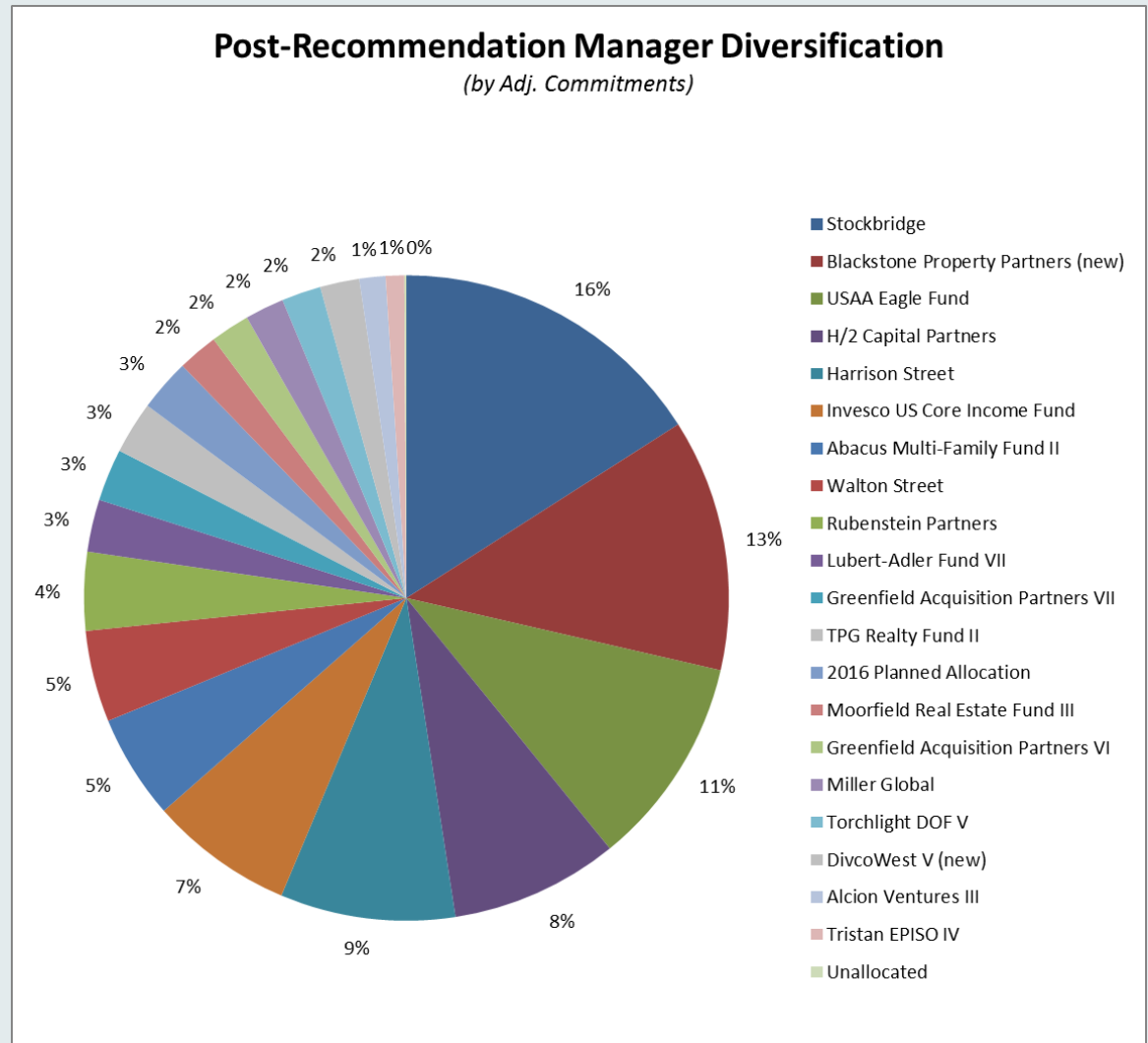
Portfolio currently 6.2% invested in real estate. Post-recommendation portfolio is approximately 100% committed in order to achieve targeted 10% real estate allocation.

Pre-Recommendation Portfolio

76% Allocated
24 % Unallocated
17 Managers

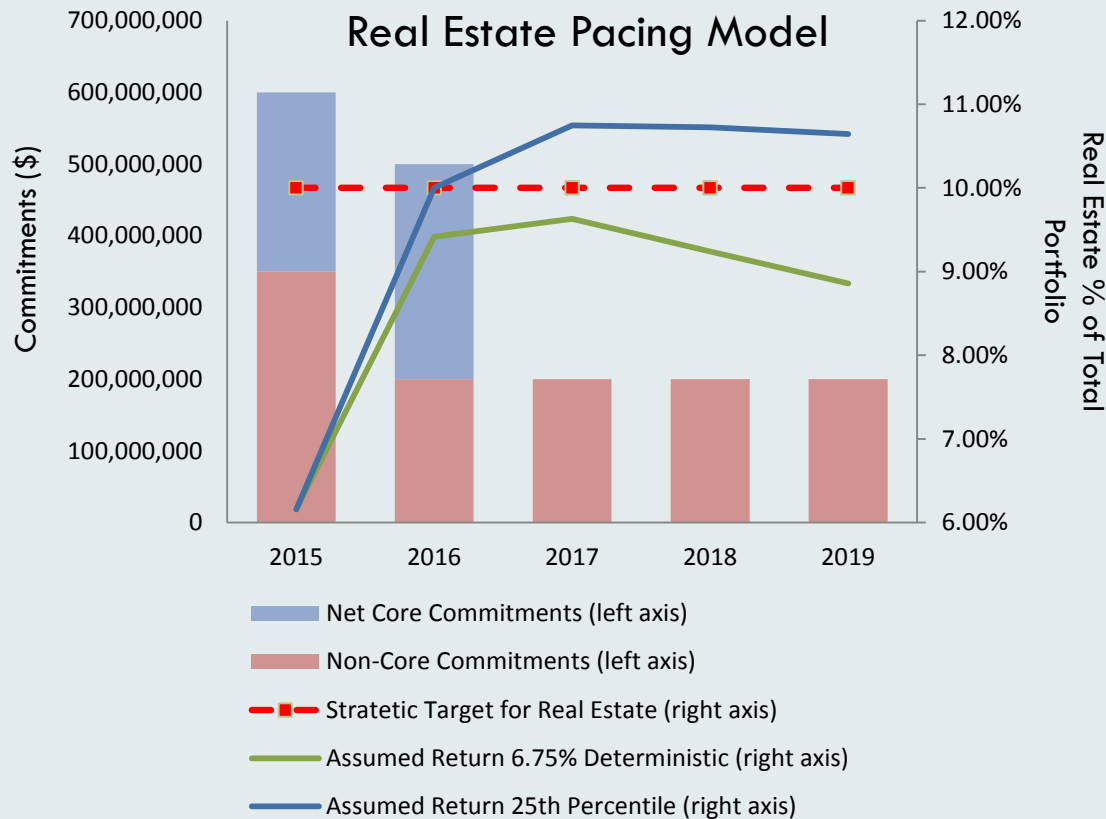
Post-Recommendation Portfolio

100% Committed
0% Unallocated
19 Managers



Portfolio Considerations

Diversification & Risk Management (3 of 4)



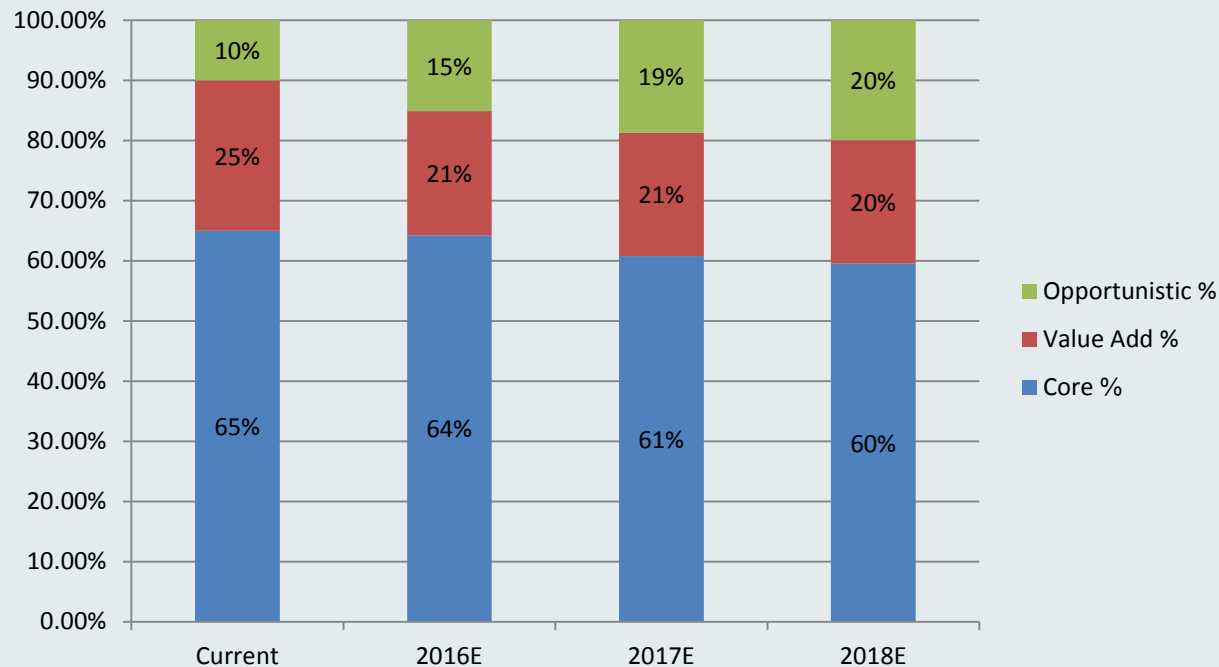
The above chart shows projections regarding real estate portfolio exposure levels and activity where time has been incorporated into the analysis. The model has been sensitized for market drawdowns and lower than expected market returns going forward.

Portfolio Considerations

Diversification & Risk Management (4 of 4)

Real Estate Portfolio Composition

(by Market Value / Projected MV)



Current recommendations and future pacing plans are expected to stabilize the portfolio around 60% core and 40% non-core allocations. The TMRS IPS dictates greater than 50% of portfolio must be core.

Final Selected Managers Scoring Matrix

Final Due Diligence Scoring Matrix - Aggregated Results			
Recommended Investments	Selected Manager Score	Comparable Mgr. A Score	Comparable Mgr. B Score
BPP	100	85	70
Divco	100	65	60

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

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

Top Candidate Characteristics – BPP (1/2)

\$300 Million Recommendation

Highlights

Portfolio Manager: AJ Agarwal

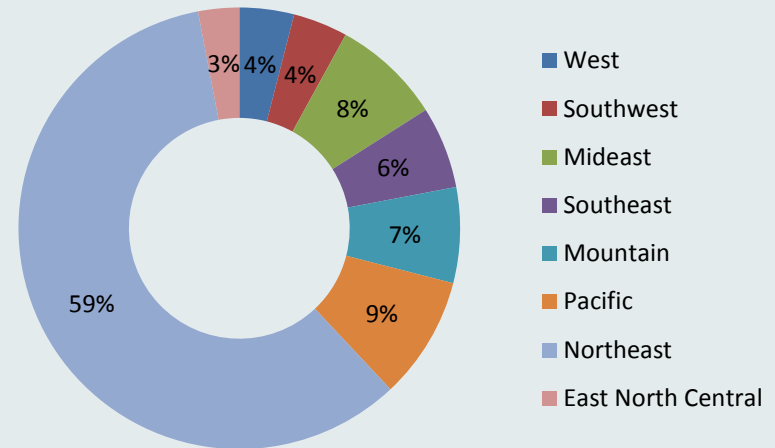
Firm AUM: \$336.4 Billion

Real Estate AUM: \$93.9 Billion

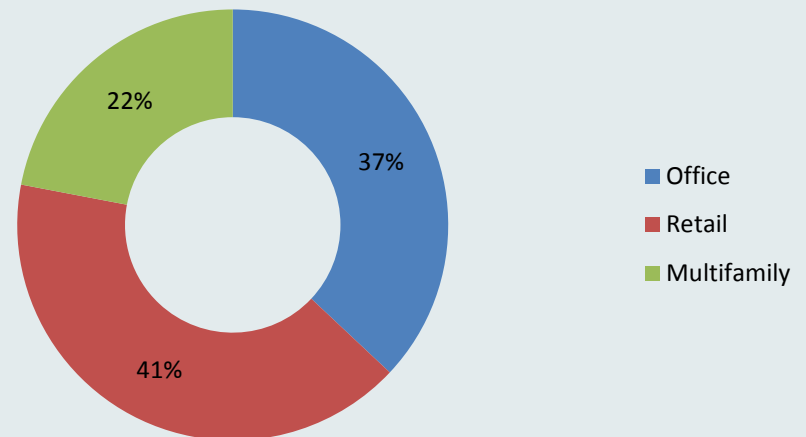
Investment Professionals: 970

Office Location: New York, NY

Current Portfolio Geographic Breakdown*



Current Portfolio Sector Breakdown*



* As of Q3 2015 Invested & Committed

Top Candidate Characteristics – BPP (2/2)

\$300 Million Recommendation

Blackstone is one of the world's largest real estate investment managers with a 25 year track record in transitional real estate. BPP is their first core/core+ fund offering to date. Expected returns are greater than 8% net with approximately half of projected return coming from current income with a focus on investing in substantially stabilized office, multifamily, retail and industrial assets in primary markets in the US and Canada. The proposed recommendation fulfills a strategic core allocation for TMRS.

Reasons to Invest

- *Largest real estate manager in the space with 25 year history of excellent returns*
- *Focus on current income with limited new development exposure*
- *Ability to execute on core assets at below market prices due to enhanced access*

Issues to Watch

- *First time core fund – successful launch & execution*
- *Public parent company – contractual alignment of interests*
- *AUM Growth – transparent about future plans*

Scoring Matrix

Category	BPP	Comp. Mgr. A	Comp. Mgr. B
People	20	12.5	15
Process	12.5	7.5	10
Performance	25	25	15
Strategy	22.5	22.5	17.5
Terms	20	17.5	12.5
Total Points	100.0	85.0	70.0

Top Candidate Characteristics – Divco (1/2)

\$75 Million Recommendation

Highlights

Portfolio Manager: Stuart Shiff

Firm AUM: \$4.7 billion

Real Estate AUM: \$4.7 billion

Investment Professionals: 95

Office Location(s):

San Francisco, Boston, Los Angeles

Target Markets for Investment



Top Candidate Characteristics – Divco (2/2)

\$75 Million Recommendation

Divco West Real Estate Services, LLC is a vertically integrated institutional real estate investment manager that has a 23 year track record of operating and investing in real estate. Divco will invest in office / R&D properties across the United States with expected overweight to the Western United States. The strategy of the Fund will be to invest in value-add properties in high growth markets, looking primarily at job growth and office space demand as key indicators.

Investment Case

- Vertically integrated real estate manager with established history
- Expertise in high growth markets
- Ability to maintain cash flow and occupancy

Issues to Watch

- Focus on tech markets
- Growing geographic focus
- AUM growth of the firm

Scoring Matrix

Category	Divco	Comp. Mgr. A	Comp. Mgr. B
People	20	15	10
Process	25	15	10
Performance	30	20	20
Strategy	15	10	10
Terms	10	5	10
Total Points	100	65	60

IV. Requested Board Action



Approval of Recommendation

- TMRS Staff and Courtland Partners recommend that the Board of Trustees approve the following investment allocations:

Manager Recommendations:

- | | |
|------------------------------------|---------------|
| • Blackstone Property Partners, LP | \$300 million |
| • DivcoWest Fund V, LP | \$75 million |