

Private Equity Search Process and Recommendations

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Agenda

- I. 2016 Private Equity Search Process Timeline & Allocation Objectives
- II. Manager Search Process
- III. Portfolio Construction
- IV. Manager Selection & Recommendation
- V. Requested Board Action

I. 2016 Private Equity Search Process Timeline & Allocation Objectives



2016 Private Search Process Timeline

Dec
2015

- TMRS staff presented the 2016 Private Equity Pacing Plan recommending a commitment of up to \$600 million of Private Equity exposure.
- Board approved manager searches during 2016 totaling \$600 million.

Dec
2015

- TMRS Staff formally launched the 2016 search process, in concert with StepStone.

Q2 2015
–
Ongoing

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

Q1 2016

- February 2016: The Board approved one manager recommendation for the Private Equity Asset Class for \$75 million.
- Negotiations completed and contracts executed on \$75 million.

Q2 2016

- May 2016: The Board approved four manager recommendations for the Private Equity Asset Class for \$185 million.
- Negotiations completed and contracts executed on \$180 million.

Aug
2016

- August 2016: The Board approved four manager recommendations for the Private Equity Asset Class for \$100 million.
- Negotiations completed and contracts executed on \$81 million.

Dec
2016

- Investment Staff and StepStone are currently recommending one manager for the Private Equity Asset Class for \$50 million.
- Executive Director approved an \$18.75 million co-investment, GSO COF III Co-investment Fund.

2016 Private Equity Search Process Objectives

- **Excess Return Potential**

- Expected excess return consistent with TMRS' overall objective for Private Equity asset class: Russell 3000 + 3.00%.
- Identify best in class managers currently in fundraising.

- **Portfolio Diversification**

- Balance concentration and diversification across managers.
- Ensure sufficient strategy diversification, consistent with policy guidelines, and whenever possible incorporate tactical and opportunistic considerations into manager selection.

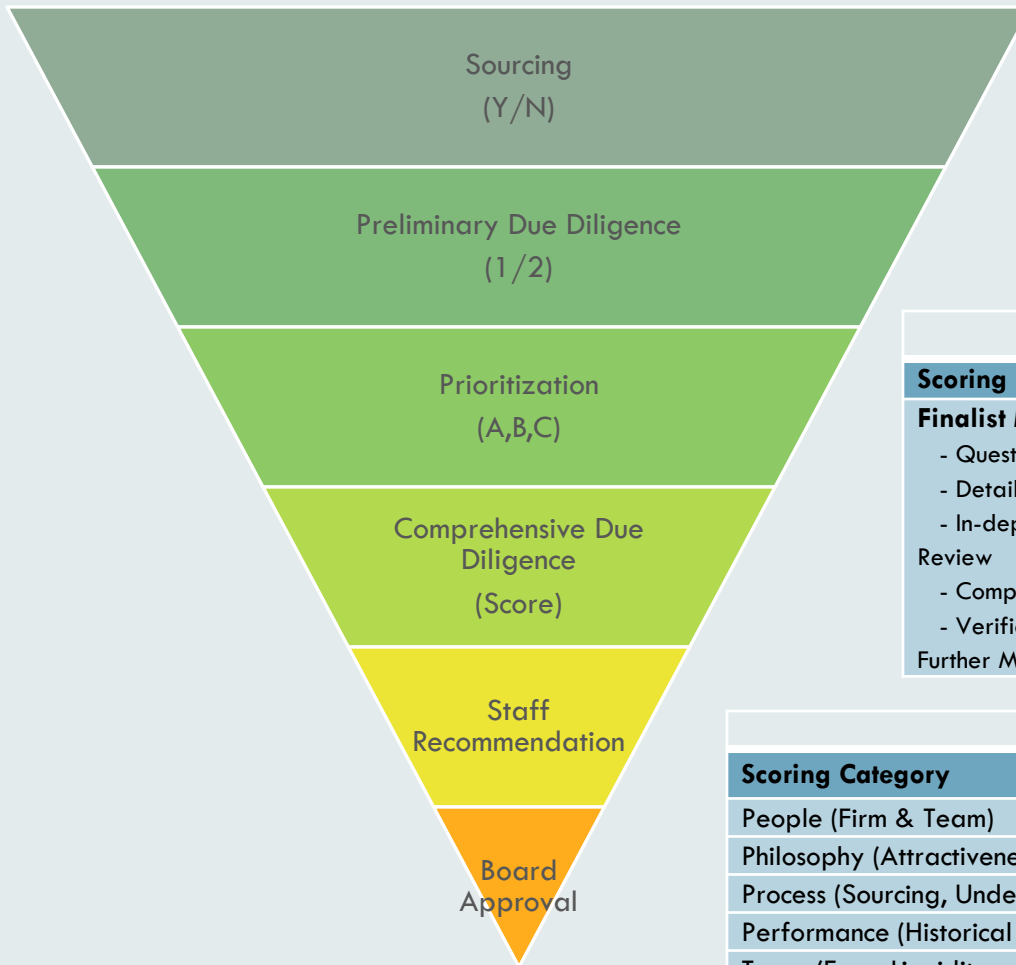
- **Targeted Commitment Level**

- Per the December 2015 Board approval, the targeted Private Equity Pacing Plan for 2016 is \$600 million.

II. Manager Search Process



Manager Search Process



Manager Screen & Universe Analysis Scoring	
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? - PPPPT* Preliminary Review	1 - Advance; 2 - Stop Research

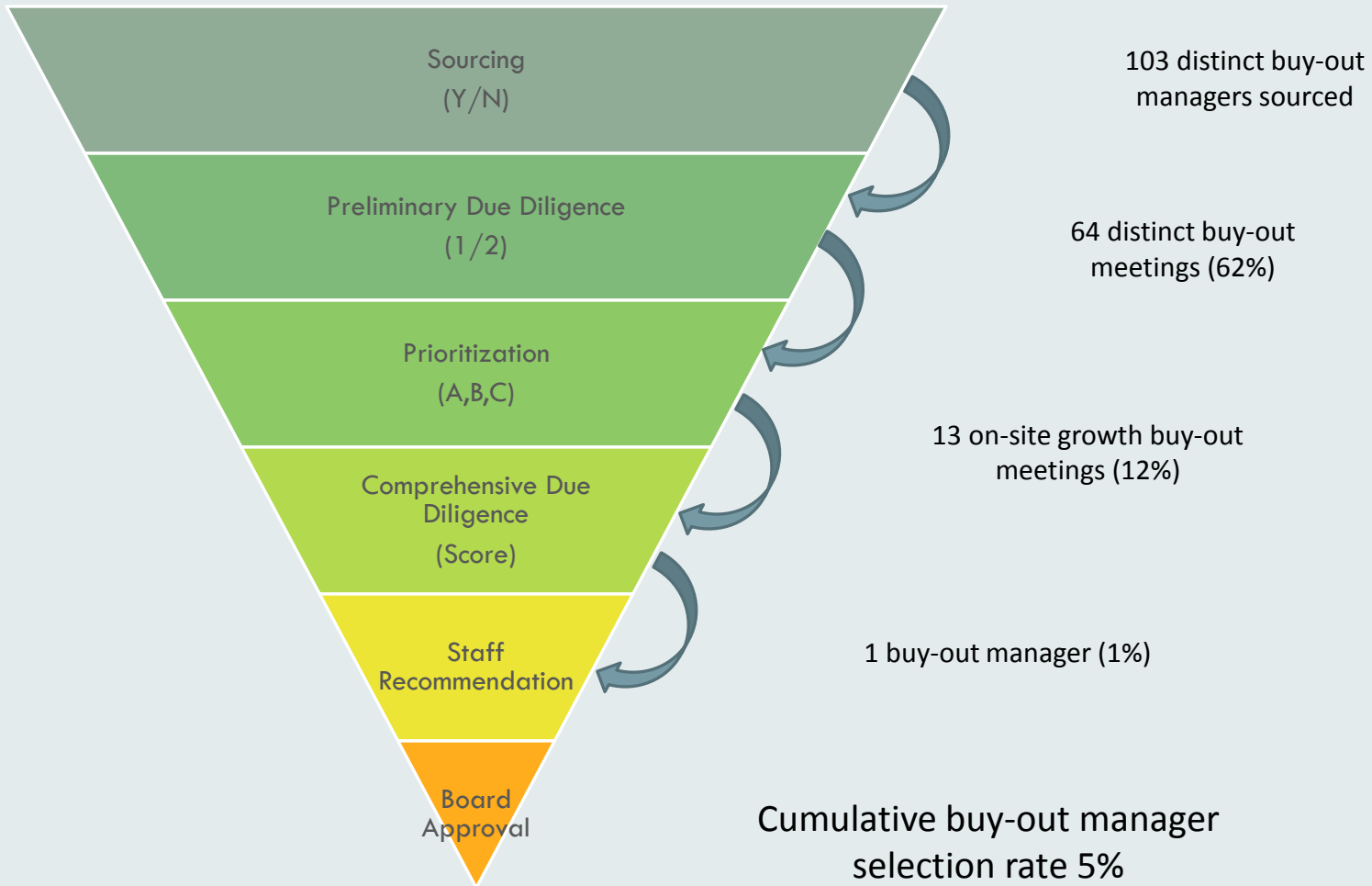
Semi-Finalist Scoring Matrix	
Scoring Category	Score
Finalist Manager Review - Questionnaire Review - Detailed PPPPT* Review - In-depth Manager Qualifications Review - Compliance with TMRS IPS - Verification of Research, References, Further Market Research	A - Prioritize for Final Due Diligence B - Perform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

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

*PPPPT – People, Philosophy, Process, Performance, 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	Comparable Mgr. 1 Score	Incline Score	Comparable Mgr. 2 Score	Comparable Mgr. 3 Score
Incline Equity Partners IV, L.P. (Incline)	100.0	98.0	93.0	90.0

*Scoring matrices may 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 considerations:

2015: Overweight special situations early for J-Curve mitigation, efficiency of capital deployment, and tactical opportunities.

2016: Focus on growth opportunity set and continue to add buy-out exposure.

2017: Round out buy-out portfolio, and opportunistically add to growth and credit.

Figure 2 : Private Equity Strategy Diversification by Commitment

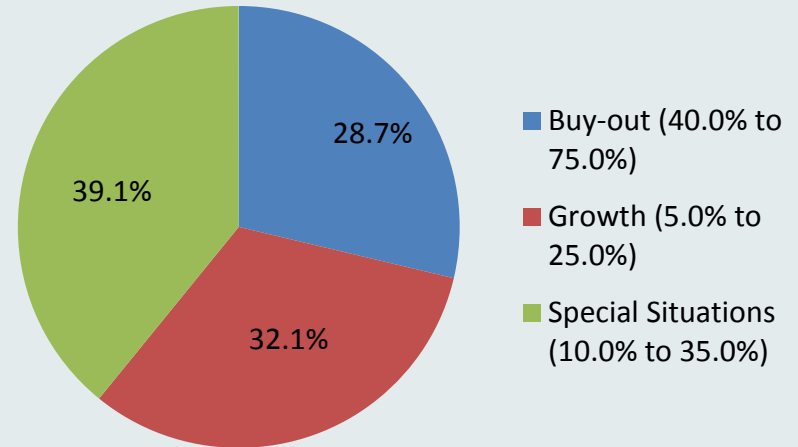
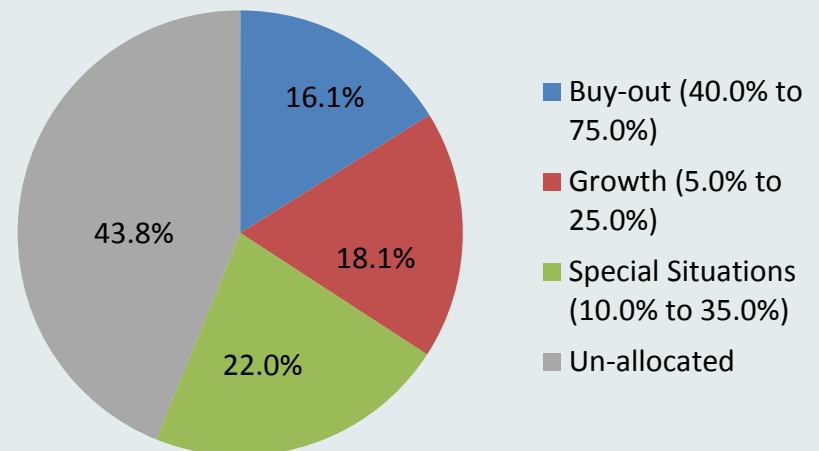


Figure 3 : Private Equity Target Diversification



Manager Selection Portfolio Considerations

Manager Implementation

The overall goal remains identifying top quartile performers to partner with.

Position sizing considerations:

Continue to reduce the unallocated portion of the private equity portfolio while sensibly balancing the trade-off between diversification and concentration.

Areas of focus are enhancing manager diversification, and building strategic relationships where possible/appropriate.

Figure 4: Private Equity Manager Diversification by Commitment

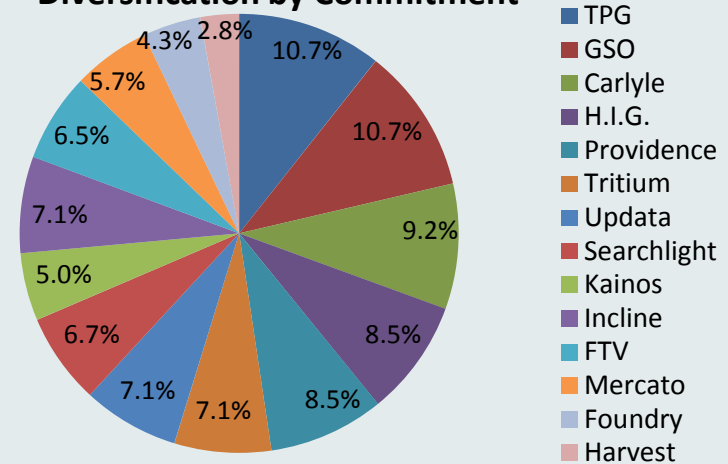
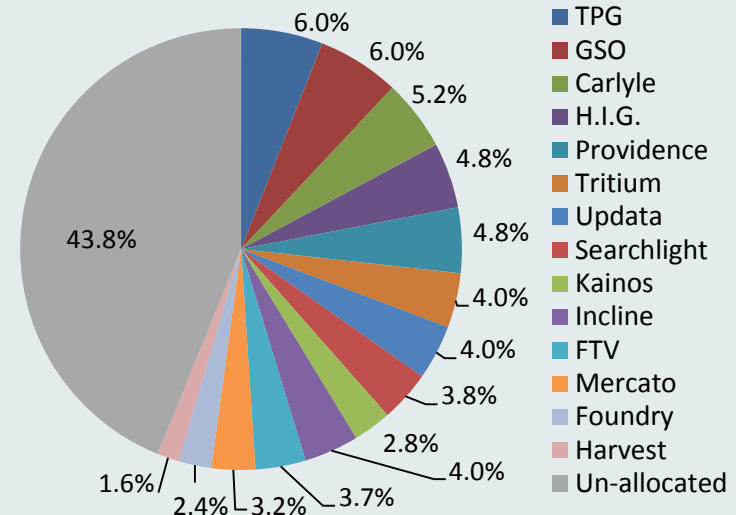


Figure 5: Private Equity Target Manager Diversification



Manager Selection Portfolio Considerations

Geographic Diversification

TMRS is focused on taking a measured approach to global geographic diversification.

Figure 6 : Current Private Equity Geographic Diversification by Commitment

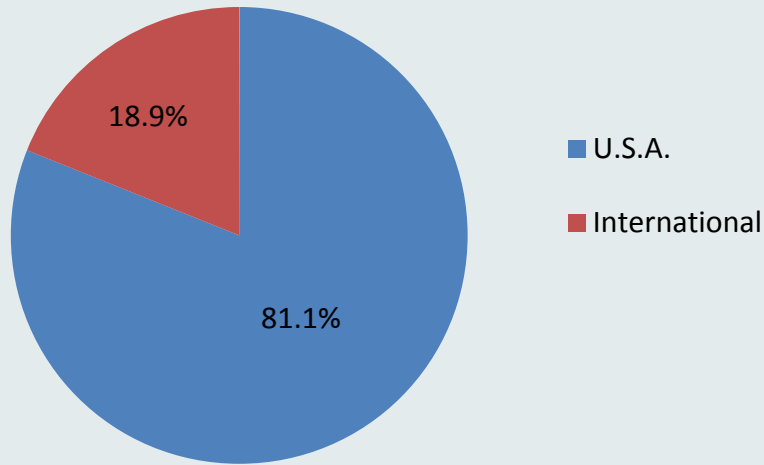
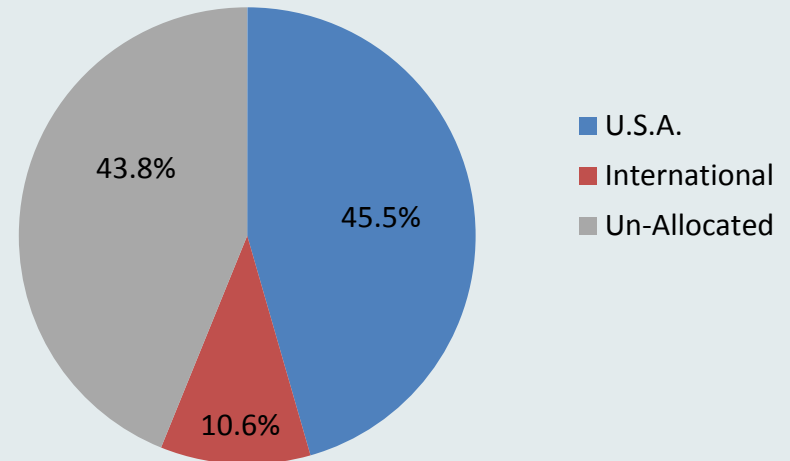


Figure 7 : Target Private Equity Geographic Diversification



The Target Portfolio keeps a conservative stance on international exposure.

IV. Manager Selection & Recommendation



Executive Summary of Manager Recommendation

Summary of Recommendations			
Recommended Manager/Fund	Strategy Classification	Target Return	Recommended Amount
Incline Equity Partners IV, L.P. (Incline)	Buy-out Strategy	18% / 2.0X	\$50 million
Total Net Recommendations:			\$50 million

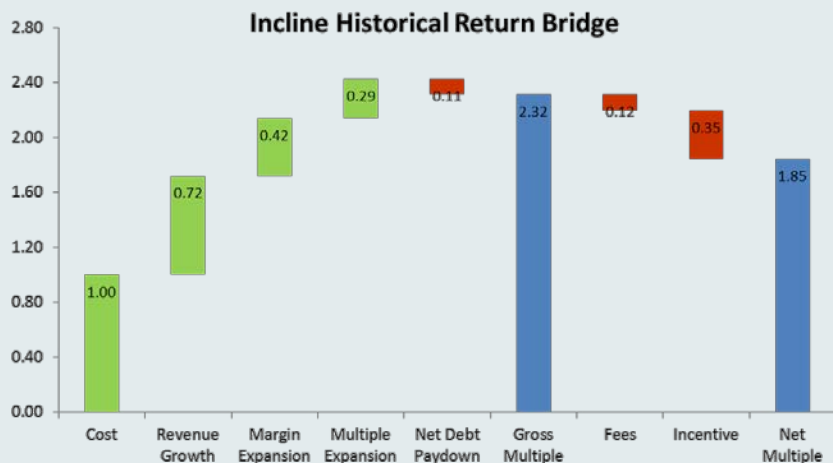
Private Equity Pacing model as approved by the TMRS Board of Trustees in December 2015 established \$600 million as the targeted level of commitments for 2016.

Top Candidate Characteristics – Incline

\$50 million Recommendation

Scoring Matrix

Category	Industrial Comp 1	Incline	Industrial Comp 2	Industrial Comp 3
People	22.0	22.0	22.0	21.0
Philosophy	22.5	23.0	19.0	20.0
Process	18.0	18.0	17.0	16.0
Performance	24.5	22.0	21.0	18.0
Terms	13.0	13.0	14.0	15.0
Total	100.0	98.0	93.0	90.0



Reasons to Invest

- Stable and cohesive senior team – 3 of the partners have worked together for 18 years
- Focus on core sectors – Partners have considerable experience investing in distribution, manufacturing and business/industrial services
- Established and strong track record – 3 prior top quartile funds and gross realizations averaging 2.6X and net IRRs of 20%

- Impressive, low loss ratio – loss ratio of just 5% across all funds

Risks & Mitigants

- Fund size increase – They have added to the team and historically have done well on larger deals. Showed considerable discipline in limiting fund size as there was over \$2 billion in demand
- Modest level turnover - Staff believes partly due to location as well as driven culture
- Fund III largely unrealized – However, realizations (0.4 DPI) are averaging 4X+, and company operating performance is very strong.

Incline Equity Partners is currently raising Incline, targeting \$450 million of commitments, with a hard cap of \$575 million, to continue its strategy of investing in specialized manufacturing, business and industrial services and value-added distribution businesses operating in North America. The General Partner will commit \$15 million, or 3.3% of target commitments to the fund. Incline expects to close on its hard cap of \$575 million in December 2016, and the fund is substantially oversubscribed with demand exceeding \$2 billion.

V. Requested Board Action



Requested Board Action

- TMRS Staff and StepStone Group LP recommend that the Board of Trustees approve the selection of the following manager or their affiliates as referenced in the Board Communication Memo for investment in the specified strategy below:
 - Incline Equity Partners IV, L.P. \$50 Million Buy-out Strategy

DISCLOSURE

TMRS periodically discloses public information that is not excepted from disclosure under Section 552.0225(b) of the Texas Public Information Act. Information provided by a manager, a general partner or other data provider to TMRS or a TMRS service provider, and contained in these materials, may have been independently produced or modified by TMRS or the TMRS service provider.