

2017 Private Equity Search Process and Recommendations

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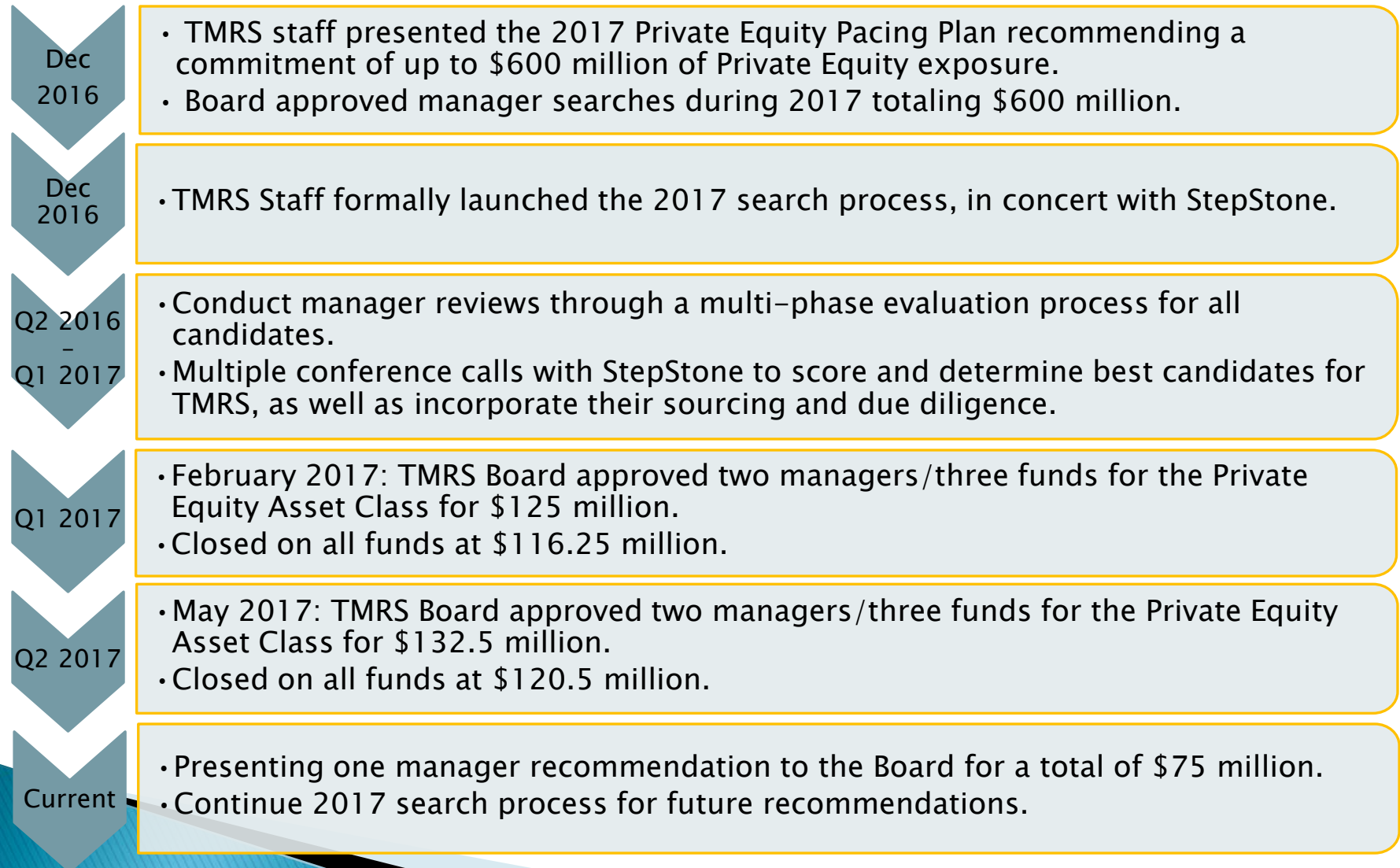
Agenda

- I. 2017 Private Equity Search Process Timeline & Allocation Objectives
- II. Manager Search Process
- III. Portfolio Construction
- IV. Manager Selection & Recommendation
- V. Requested Board Action

Section I

2017 PRIVATE EQUITY SEARCH PROCESS TIMELINE & ALLOCATION OBJECTIVES

2017 Private Equity Search Process Timeline



2017 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.

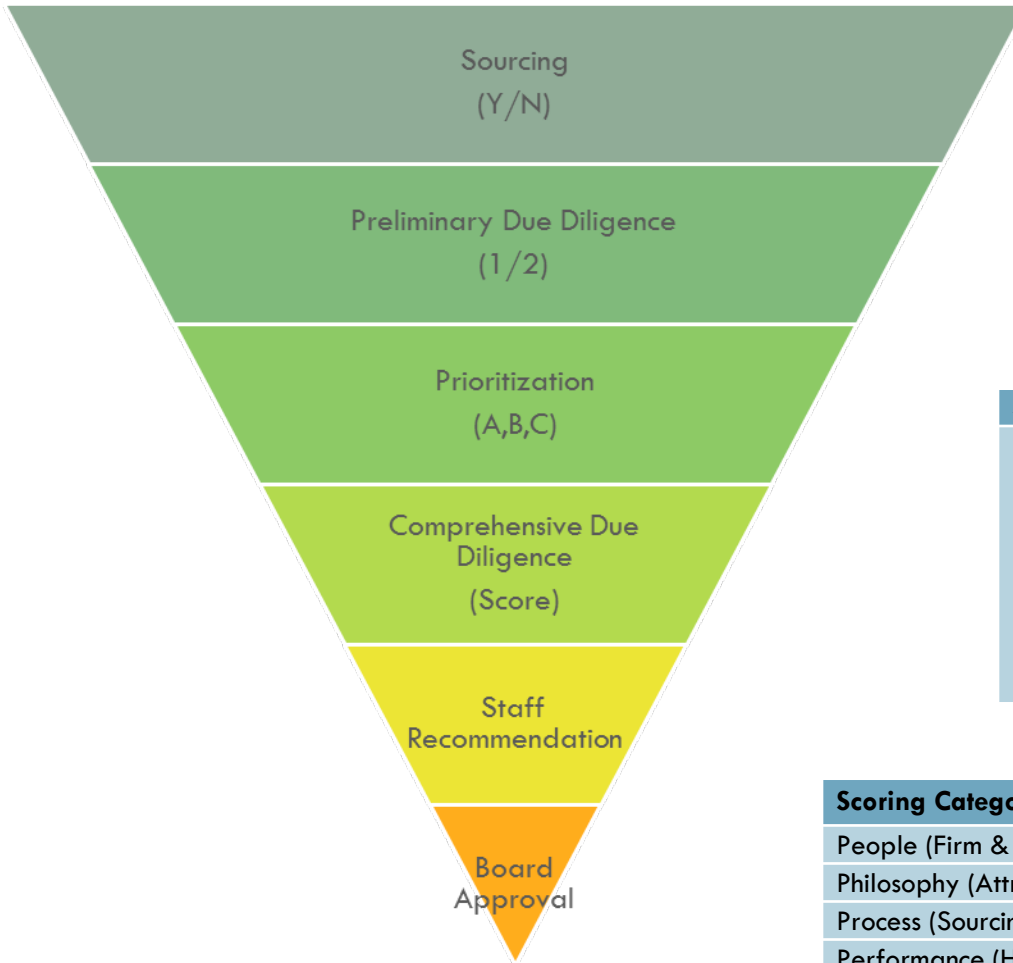
▶ Targeted Commitment Level

- Per the December 2016 Board approval, the targeted Private Equity Pacing Plan for 2017 is \$600 million.

Section 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

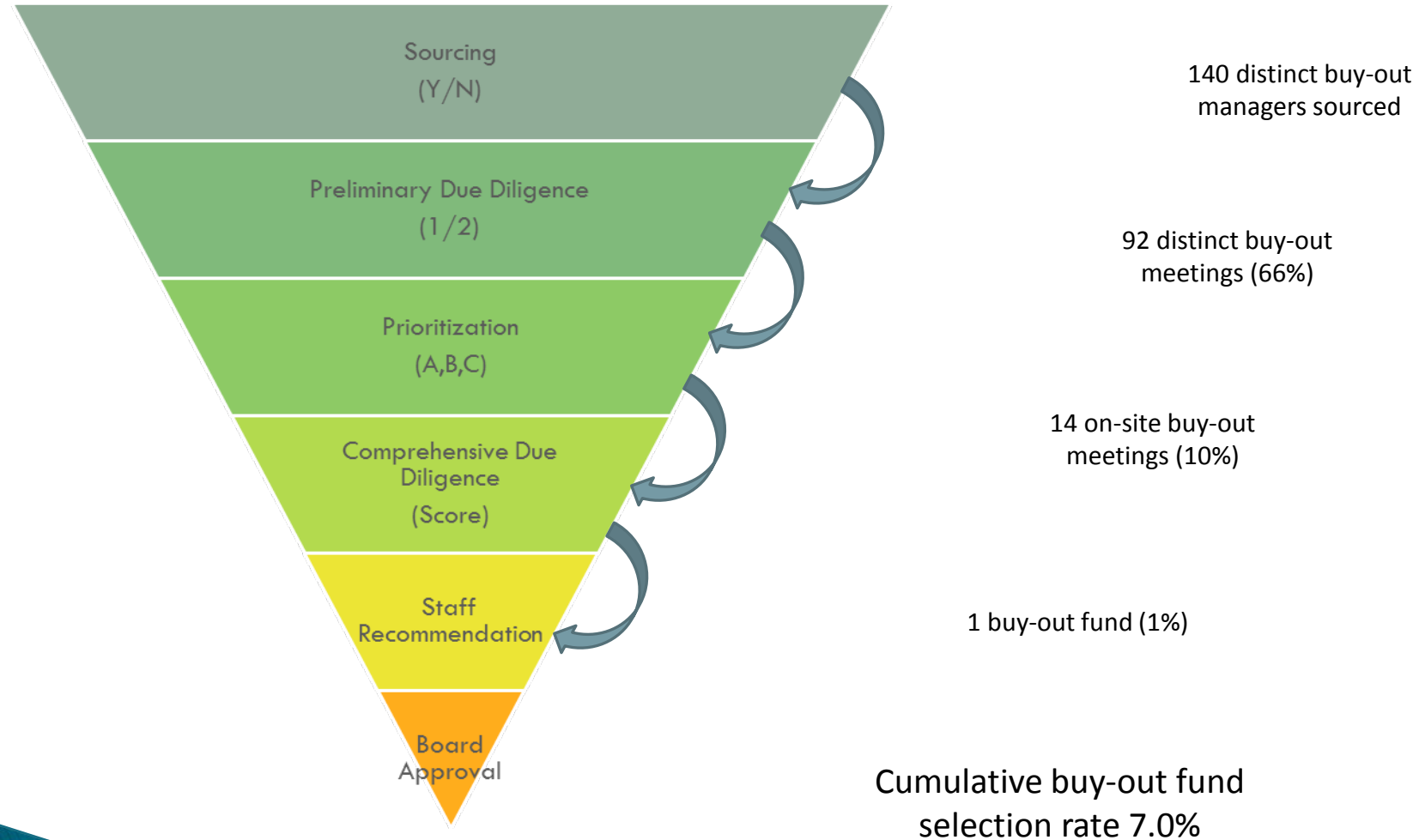
Semi-Finalist Scoring Matrix

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†

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
GTCR Fund XII, L.P.	100.0	91.0	80.0

*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

Section 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 1: Private Equity Strategy Diversification by Commitment

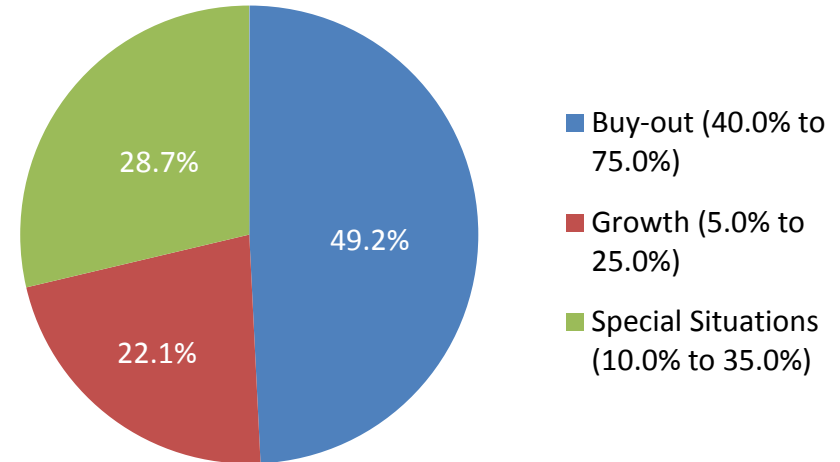
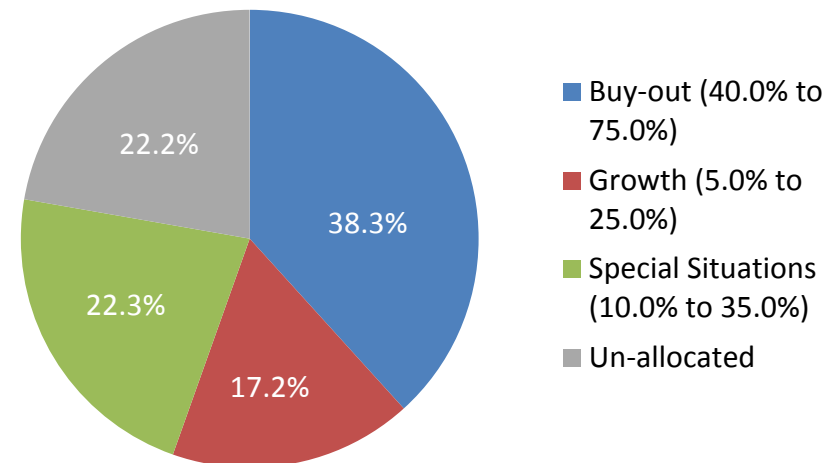


Figure 2: Private Equity Target Diversification



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 3: Private Equity Manager Diversification by Commitment

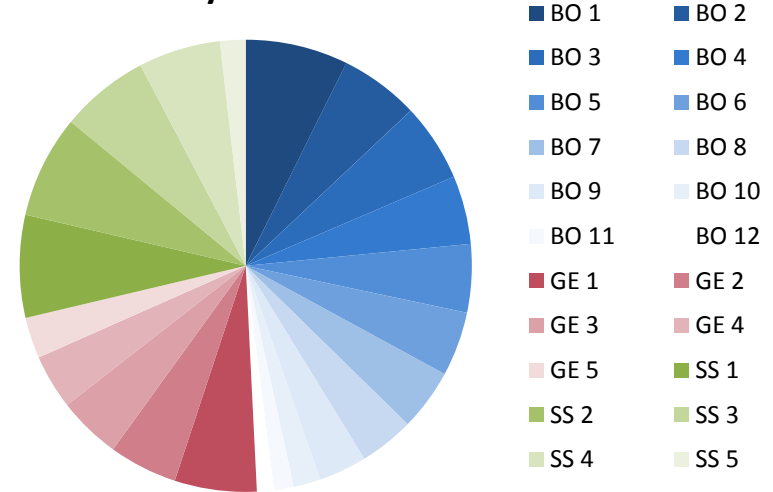
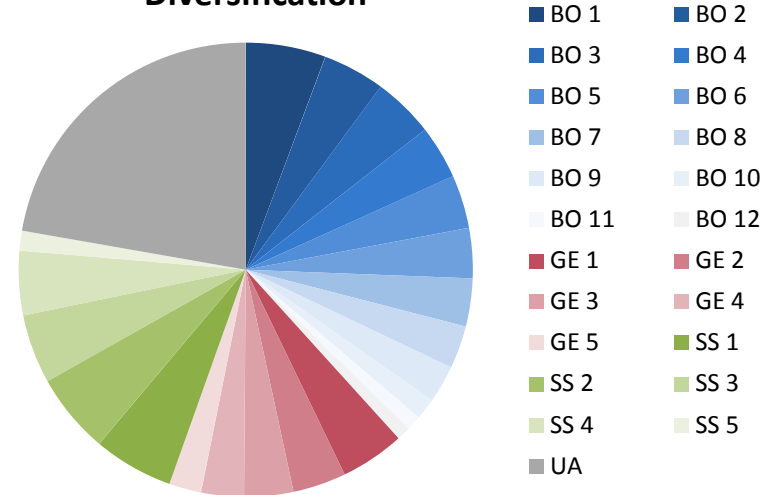


Figure 4: Private Equity Target Manager Diversification



Manager Selection Portfolio Considerations

Geographic Diversification

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

Figure 5: Private Equity Geographic Diversification by Commitment

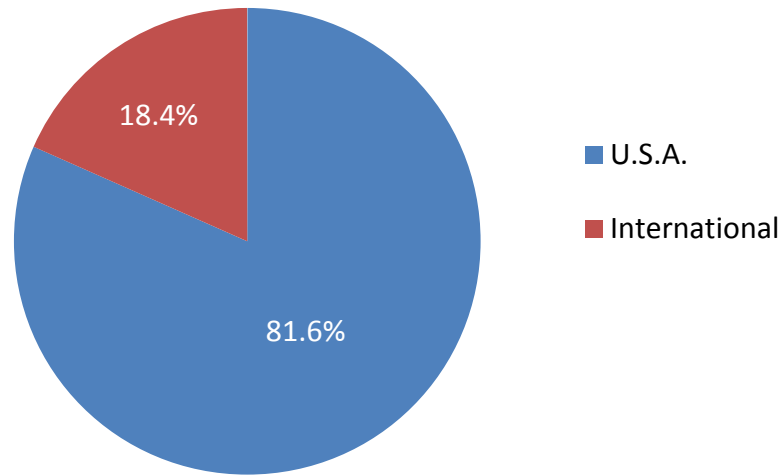
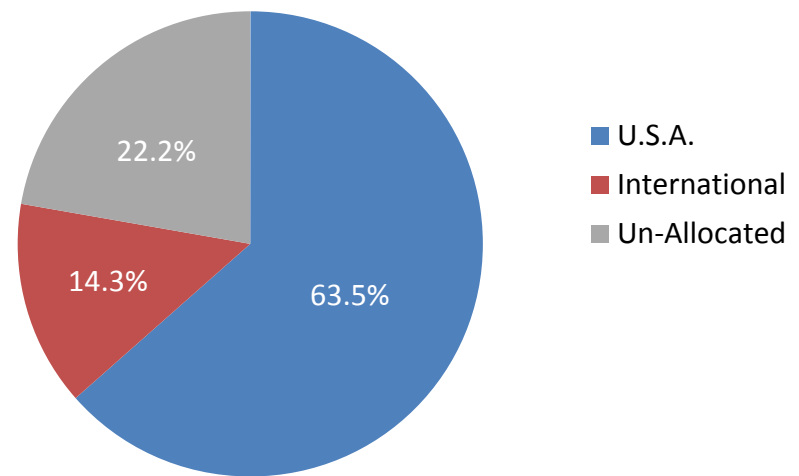


Figure 6: Private Equity Target Geographic Diversification



The Target Portfolio keeps a conservative stance on international exposure.

Section IV

MANAGER SELECTION & RECOMMENDATION

Executive Summary of Manager Recommendation

Summary of Recommendations			
Recommended Manager/Fund	Strategy Classification	Target Return	Recommended Amount
GTCR Fund XII, L.P. (GTCR)	Buy-out	20% / 2.0X	\$75 million
Total Net Recommendations:			\$75 million

Private Equity Pacing model as approved by the TMRS Board of Trustees in December 2016 established \$600 million as the targeted level of commitments for 2017.

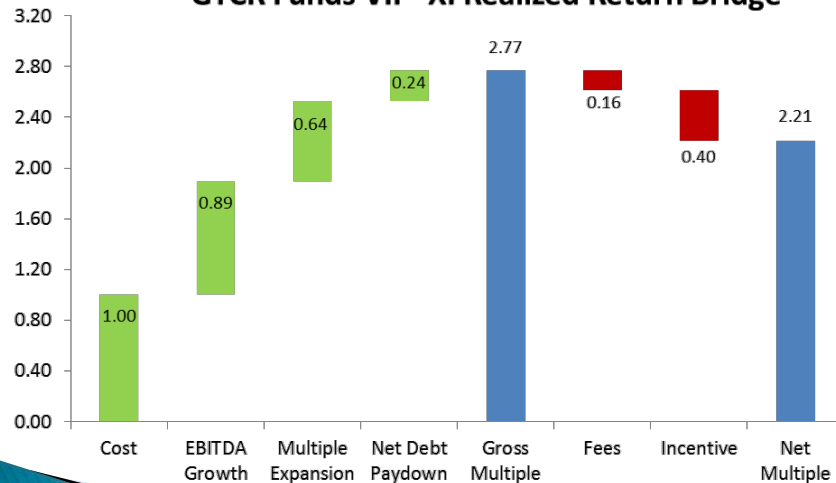
Top Candidate Characteristics – GTCR

\$75 million Recommendation

GTCR is a Chicago, Illinois-based Middle Market private equity firm formed in 1980. Throughout its 37-year history, GTCR has focused on North American-based Middle Market companies in the following growth-oriented sectors: Technology, Media & Telecommunications; Financial Services & Technology; Healthcare; and Growth Business Services. The Firm seeks to partner with industry-leading management teams in GTCR's core sectors to enact transformational growth – both acquisition driven and organic – to create value within portfolio companies. GTCR is currently raising GTCR Fund XII, targeting \$4.5 billion, and is not expected to raise in excess of \$5.0 billion. The Fund is expected to be significantly oversubscribed.

Category	GTCR Fund XII	Buyout Comp 1	Buyout Comp 2
People	19	19	17
Philosophy	23	20	16
Process	24	23	17
Performance	21	16	18
Terms	13	13	12
Total	100	91	80

GTCR Funds VII - XI Realized Return Bridge



Reasons to Invest

- Experienced, cohesive team - Strong senior investment team consisting of 11 Managing Directors who have an average of 17 years of private equity experience and 16 years at GTCR
- Broad, long history - The Firm's long standing relationships and deep industry knowledge through its "Leaders Strategy" has enabled GTCR to source proprietary and unique investment opportunities
- Fund size discipline - Despite significant demand from LPs, Fund XII has a target of \$4.5 billion, which is only 17% larger than Fund XI and only 40% larger than Fund X

Risks & Mitigants

- Increasing purchase price multiples - While the platform purchase prices are high, GTCR's buy and build strategy decreases the combined purchase price multiple and also creates multiple arbitrage opportunities
- No Preferred Return Hurdle - Keeping with the terms of prior GTCR funds, Fund XII will not have a preferred return hurdle. However, the lowest net IRR generated by a GTCR fund since 2000 was 14% and the fund has a 1.25 minimum valuation hurdle

Section V

REQUESTED BOARD ACTION

Recommendation

- TMRS Staff and StepStone Group recommend that the Board of Trustees approve allocating to the following fund as referenced in the Board Communication Memo for investment:
 - GTCR Fund XII, L.P. \$75 mm Buy-out

DISCLOSURES

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 Managing General Partner (GP), any of its Associates or other data provider to TMRS or a TMRS service provider, and contained in these materials (i) may have been independently produced or modified by TMRS or the TMRS service provider; (ii) has not been reviewed or approved by the manager, Managing GP or any of its Associates; and (iii) may not reflect the historical performance or asset value reflected in the manager's, Managing GP's or any of its Associates' records and, therefore, should not be used for comparative purposes.