Real Estate Recommendations
March 30–31, 2017

Presenters: Tom Masthay, Eddie Schultz, Rachel Cleak, Mike Murphy (Courtland)
Agenda

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

Names used in this presentation are a shortened version that is used for ease of communication purposes throughout this document. The formal recommendations to the Board on the last page of this presentation reflect the full legal names of the investments.
Section I

TIMELINE & ALLOCATION OBJECTIVES
Dec 2015
• TMRS Staff presented and Board approved the 2016 Real Estate Pacing Plan recommending a commitment of up to $600 million of net new real estate exposure.

2016
• TMRS recommends 3 real estate commitments totaling $475 million.
• These commitments brought TMRS in-line with being fully allocated to real estate on a committed basis. It was communicated to the Board that ongoing commitments would still be required to maintain market value exposures in-line with asset allocation targets.

Dec 2016
• TMRS Staff presented and Board approved the 2017 Real Estate Pacing Plan recommending a commitment of up to $400 million of net new real estate exposure. 2017 search processes commence.

March 2017
• March 2017 Board Meeting: TMRS and Courtland will present to the Board the search process utilized for the Real Estate search as well as manager recommendations. Two recommendations for a total of $100 million are being presented today.
2017 Real Estate Search Process Objectives

• Portfolio Diversification
  • Work towards appropriately balanced portfolio with efficient number of partnerships for TMRS oversight purposes.
  • Build a portfolio with suitable geographic and economic concentrations to achieve decreased volatility in returns while providing access to alpha producing opportunities where accretive and cognizant of risk.

• Portfolio Partnerships
  • Identify best in class managers currently in fundraising capable of investing in uncertain market with strong alignment of interests.

• Targeted Commitment Level
  • The targeted Real Estate Pacing Plan for 2017 is for up to $400 million in total commitments.
Section II

MANAGER SEARCH PROCESS
Manager Search Process

Manager Screen & Universe Analysis Scoring

<table>
<thead>
<tr>
<th>Scoring Category</th>
<th>Score / Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager Screen</td>
<td></td>
</tr>
<tr>
<td>- Is vehicle consis\n with TMRS' objectives?</td>
<td>Yes - Take Meeting; No - Don't Take Meeting</td>
</tr>
<tr>
<td>Manager Analysis</td>
<td></td>
</tr>
<tr>
<td>- Does vehicle have adequate capacity and timeline?</td>
<td>1 - Advance; 2 - Stop Research</td>
</tr>
<tr>
<td>- PPPP* Preliminary Review</td>
<td></td>
</tr>
</tbody>
</table>

Semi-Finalist Scoring Matrix

<table>
<thead>
<tr>
<th>Scoring Category</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finalist Manager Review</td>
<td></td>
</tr>
<tr>
<td>- Questionnaire Review</td>
<td>A - Prioritize for Final Due Diligence</td>
</tr>
<tr>
<td>- Detailed PPPP* Review</td>
<td>B - Perform More Research</td>
</tr>
<tr>
<td>- In-depth Manager Qualifications Review</td>
<td>C - Stop Research / Manager not Selected</td>
</tr>
<tr>
<td>- Compliance with TMRS IPS</td>
<td></td>
</tr>
<tr>
<td>- Verification of Research, References, Further Market Research</td>
<td></td>
</tr>
</tbody>
</table>

Final Due Diligence Scoring Matrix*

<table>
<thead>
<tr>
<th>Scoring Category</th>
<th>Possible Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>People (Firm &amp; Team)</td>
<td>0 - 40 points</td>
</tr>
<tr>
<td>Philosophy (Attractiveness of Opportunity / Portfolio Fit)</td>
<td>0 - 40 points</td>
</tr>
<tr>
<td>Process (Sourcing, Underwriting and Managing)</td>
<td>0 - 40 points</td>
</tr>
<tr>
<td>Performance (Historical / Expected)</td>
<td>0 - 40 points</td>
</tr>
<tr>
<td>Terms (Fees, Liquidity, etc.)</td>
<td>0 - 20 points</td>
</tr>
<tr>
<td>Total</td>
<td>100†</td>
</tr>
</tbody>
</table>

†Selected managers standardized to a score of 100 to allow comparability among selected managers.
Manager Search Process

232 Real Estate Manager Meetings

132 distinct Real Estate Managers

6 Managers in Advanced Due Diligence (4.5% of 132)

2 manager recommendations (1.5% of 132)
## Final Selected Managers Scoring Matrix

### Final Due Diligence Scoring Matrix Aggregated Results

<table>
<thead>
<tr>
<th>Recommended Manager/Fund</th>
<th>Selected Manager</th>
<th>Comp 1</th>
<th>Comp 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stockbridge</td>
<td>100.0</td>
<td>90.0</td>
<td>87.0</td>
</tr>
<tr>
<td>Berkeley</td>
<td>100.0</td>
<td>85.0</td>
<td>84.0</td>
</tr>
</tbody>
</table>
Section III

PORTFOLIO CONSTRUCTION
TMRS’ portfolio is well diversified by strategy and in–line with longer term targets for each categorization.
The TMRS portfolio is well diversified. Exposures to Stockbridge represent TMRS’ largest allocation.
Section IV

MANAGER SELECTION & RECOMMENDATION
Top Candidate Characteristics – Stockbridge

$50 million Recommendation

<table>
<thead>
<tr>
<th>Category</th>
<th>Stockbridge III</th>
<th>Comp 1</th>
<th>Comp 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>People</td>
<td>15</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Philosophy</td>
<td>25</td>
<td>22</td>
<td>20</td>
</tr>
<tr>
<td>Process</td>
<td>25</td>
<td>22</td>
<td>20</td>
</tr>
<tr>
<td>Performance</td>
<td>20</td>
<td>19</td>
<td>18</td>
</tr>
<tr>
<td>Terms</td>
<td>15</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total Points</strong></td>
<td><strong>100</strong></td>
<td><strong>90</strong></td>
<td><strong>87</strong></td>
</tr>
</tbody>
</table>

Stockbridge is a San Francisco based real estate private equity firm founded in 2003. Stockbridge Value Fund III is the firm’s third institutional value fund – the firm also has an open-end core fund, Stockbridge SmartMarkets, which TMRS is also invested in. The team is led by Doug Sturiale, based in San Francisco, who has 34 years of real estate experience and is the head of the value fund series.

The fund is seeking to achieve target returns of 12%-15% gross of fees, which will come from sector-diversified value-add, U.S. real estate investments.

* 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 – Stockbridge

$50 million Recommendation

Investment Case

• Top-quartile historical performance.

• Strong working relationship with Stockbridge across value-add and core product lines.

• Consistent Philosophy – strategy has been transparent and predictable.

• Demonstrated ability to execute – TMRS’ investment in the 2012 vintage value fund has returned more than its capital base to date.

Issues to Consider

• Manager Concentration
• Increasing Industry Costs
• Late Cycle Real Estate Fundamentals

Stockbridge Realized Return Bridge (by Investment Multiple)
### Top Candidate Characteristics – Berkeley

* **$50 million Recommendation**

<table>
<thead>
<tr>
<th>Category</th>
<th>ICB IV</th>
<th>Comp 1</th>
<th>Comp 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>People</td>
<td>18</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Philosophy</td>
<td>24</td>
<td>21</td>
<td>22</td>
</tr>
<tr>
<td>Process</td>
<td>23</td>
<td>20</td>
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Berkeley is a fully integrated real estate operating company with 65+ employees. The firm currently owns and operates 4.3 million square feet of small bay “light” industrial property valued at approximately $338 million.

Berkeley will invest in small bay light industrial real estate across the United States. Their focus is on multi-tenant properties typically around 120,000 square feet located in in-fill locations. The average tenant is around 5,000 square feet, but ranges anywhere from 1,000 to 50,000 square feet.

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Top Candidate Characteristics – Berkeley

$50 million Recommendation

**Investment Case**
- Experienced investor with heavily built out infrastructure to systematize a highly inefficient investing space.
- Defensive strategy - Low capex / high turnover strategy, akin to multi-family strategies.
- Focus on income and debt coverage (50% LTV target in ICB IV).
- Highly diversified - Asset class accesses small to mid-sized business space which comprises 98% of firms.

**Issues to Consider**
- *Increase in Fund Size*
- *Expanding Geographical Footprint*
- *Developing Institutional Capital Base*
Section v

REQUESTED BOARD ACTION
Approval of Recommendation

- TMRS Staff and Courtland recommend that the Board of Trustees approve the selection of the following funds as detailed in the Board Communication Memo:

**Recommendations:**

- Stockbridge Value Fund III, LP $50 million
- IC Berkeley Partners IV, LP $50 million
DISCLOSURES

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