

Real Estate Recommendations

March 30–31, 2017



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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

2017 Real Return Search Process Timeline

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.

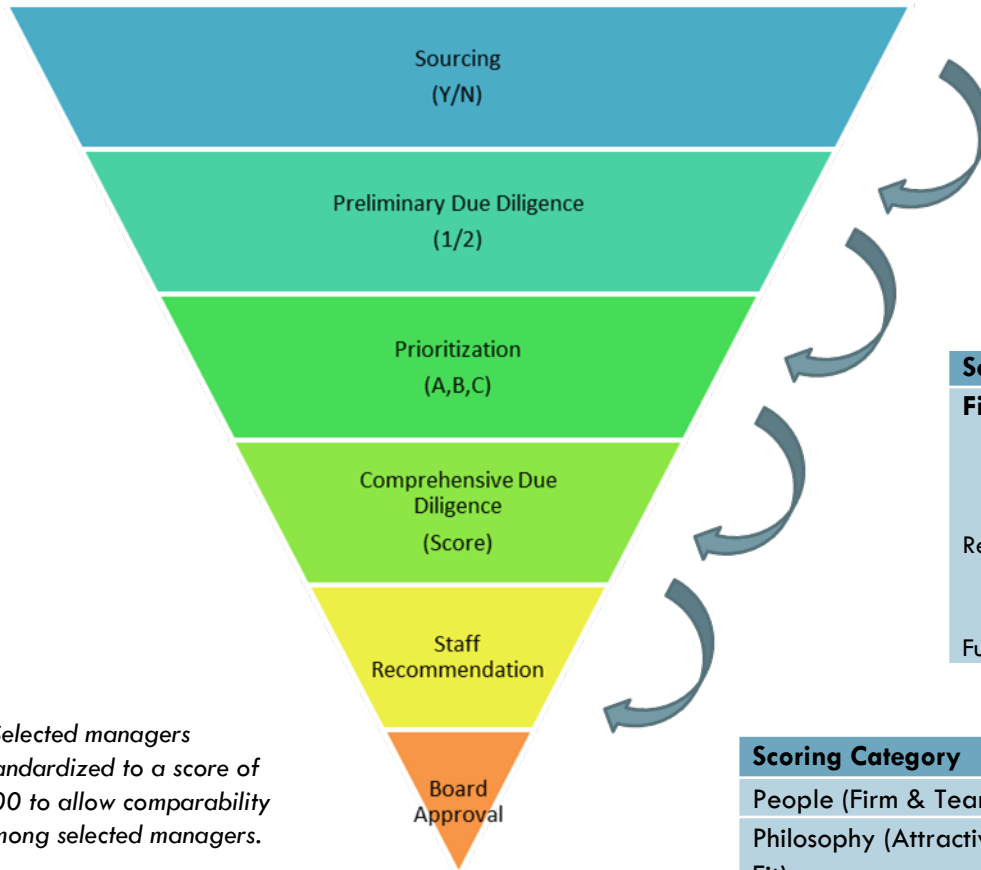
- **Targeted Commitment Level**

- 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



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

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

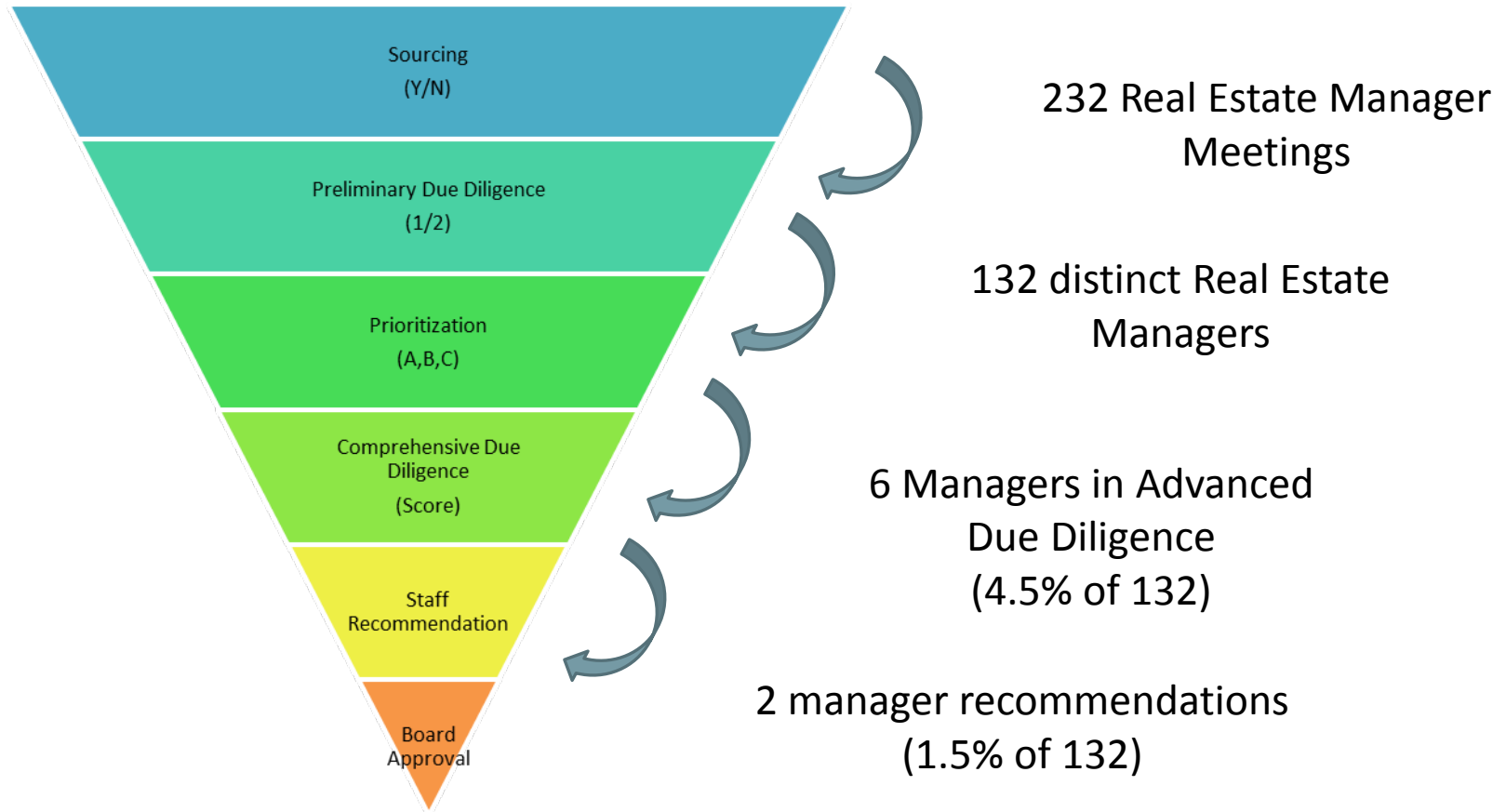
Semi-Finalist Scoring Matrix

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 - 40 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	Selected Manager	Comp 1	Comp 2
Stockbridge	100.0	90.0	87.0
Berkeley	100.0	85.0	84.0

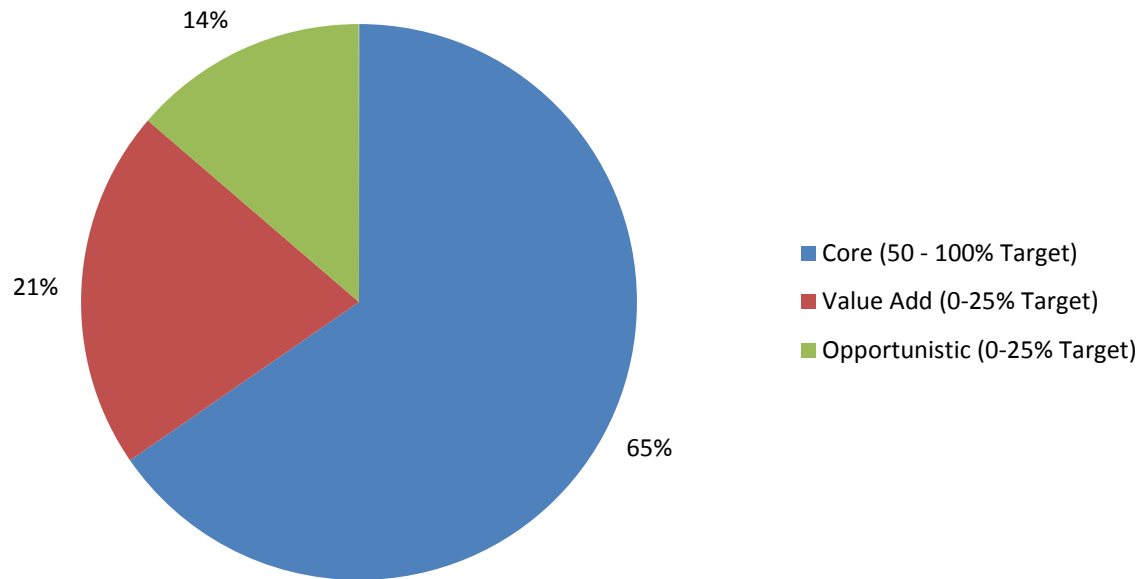
Section III

PORTFOLIO CONSTRUCTION

Real Estate Portfolio Statistics

Post-Recommendation Strategy Diversification

(by Adjusted Commitments)

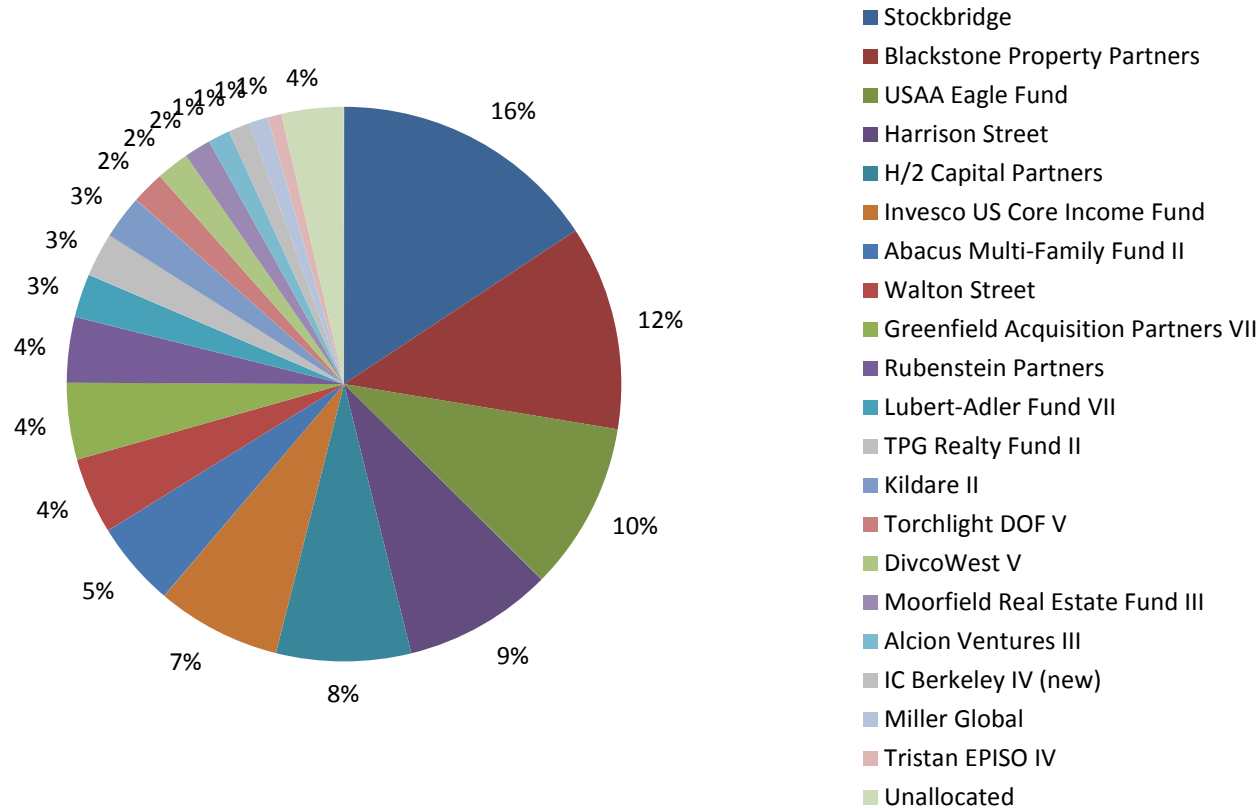


TMRS' portfolio is well diversified by strategy and in-line with longer term targets for each categorization.

Real Estate Portfolio Statistics

Post-Recommendation Manager Diversification

(by Adjusted Commitments)



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

Category	Stockbridge III	Comp 1	Comp 2
People	15	15	14
Philosophy	25	22	20
Process	25	22	20
Performance	20	19	18
Terms	15	12	15
Total Points	100	90	87

* 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.

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.

Top Candidate Characteristics – Stockbridge

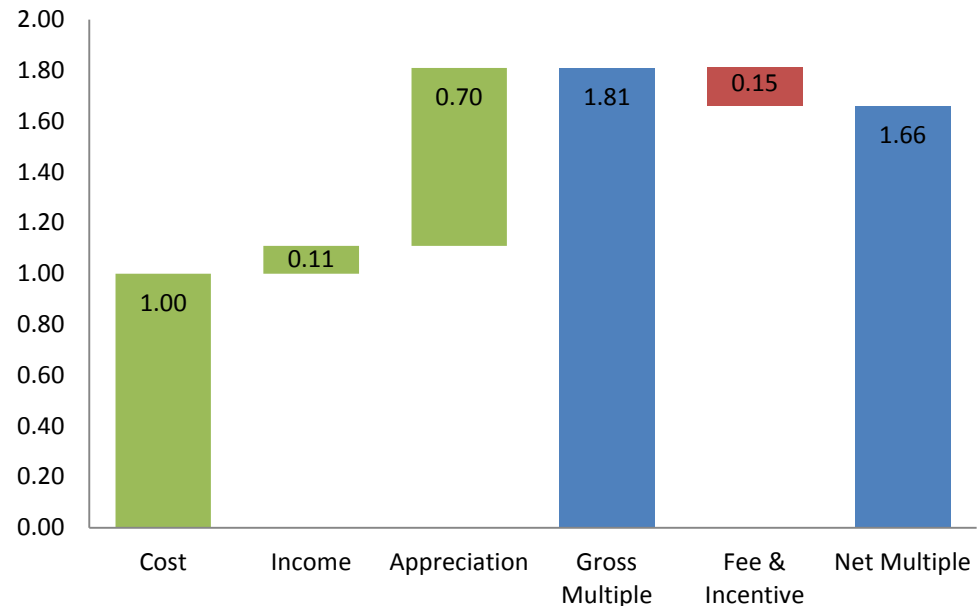
\$50 million Recommendation

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.*

Stockbridge Realized Return Bridge

(by Investment Multiple)



Issues to Consider

- *Manager Concentration*
- *Increasing Industry Costs*
- *Late Cycle Real Estate Fundamentals*

Top Candidate Characteristics – Berkeley

\$50 million Recommendation

Category	ICB IV	Comp 1	Comp 2
People	18	16	17
Philosophy	24	21	22
Process	23	20	16
Performance	20	18	17
Terms	15	10	12
Total Points	100	85	84

* 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.

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.

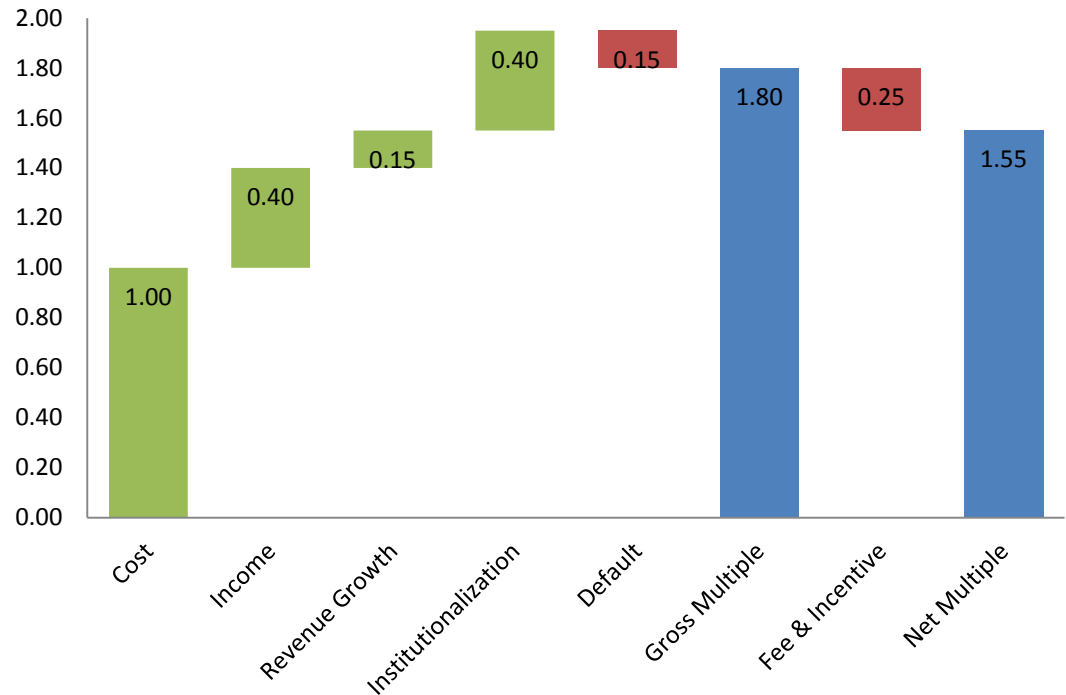
Top Candidate Characteristics – Berkeley

\$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.

IC Berkeley IV Historical Return Bridge



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 |

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