

Real Return Recommendations

June 21-22, 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

- Board approved 3 real return managers totaling \$800 million in new real return investments. Managers selected include two diversified liquid real return strategies and an energy focused private investment mandate.
- TMRS staff presented and Board approves the 2016 Real Return Pacing Plan recommending a commitment of up to \$800 million of net new real return exposure.

2016

- Board approves 3 private real return managers, and upsizing/rebalancing of liquid real return portfolio with existing managers resulting in \$900 million of net new real return commitments/capital deployed.
- Board approves 2017 pacing plan with up to \$1 billion in real return investments for 2017.

Q1 2017

- Board approves 2 mandates: i) Actis, an emerging markets power infrastructure focused manager; and ii) Sprott, a manager focused on senior lending to mining companies.

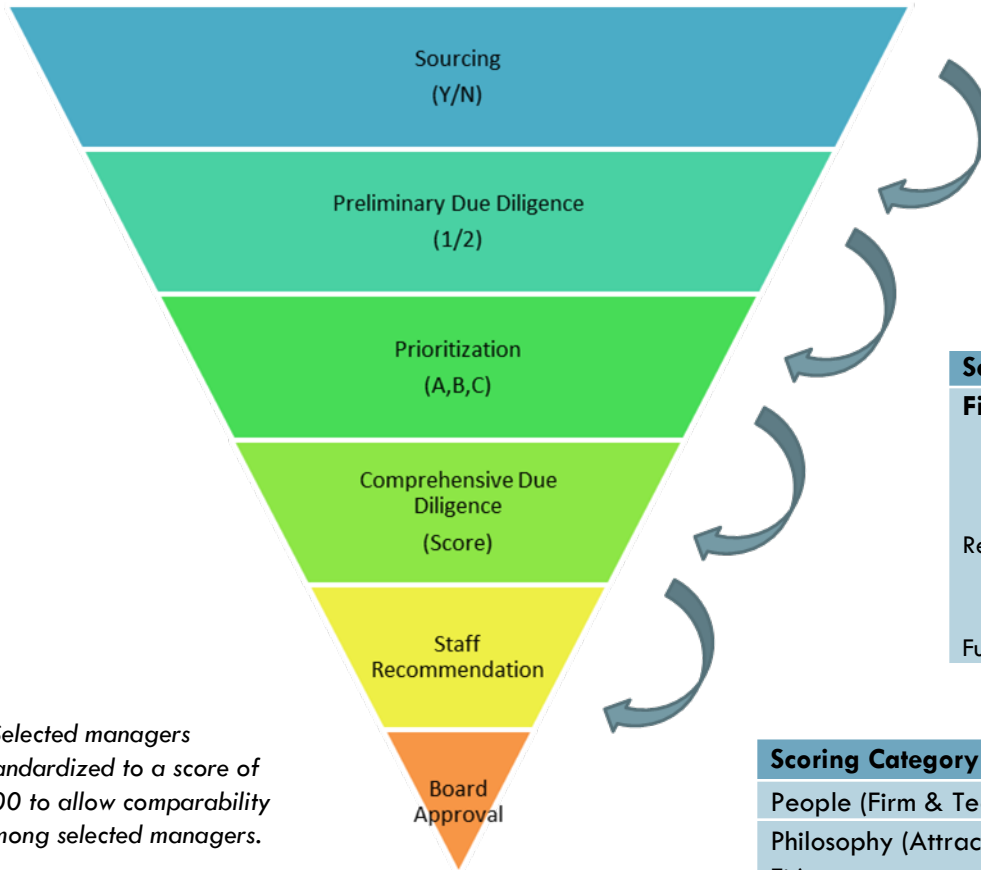
Q2 2017

- Staff & Albourne recommend 2 mandates: i) I Squared, a Global Private Infrastructure Manager; and ii) Blue Sky, a manager focused on Australian Agriculture Opportunities.
- 2017 YTD, Real Return recommendations & closed commitments total \$355 million.

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

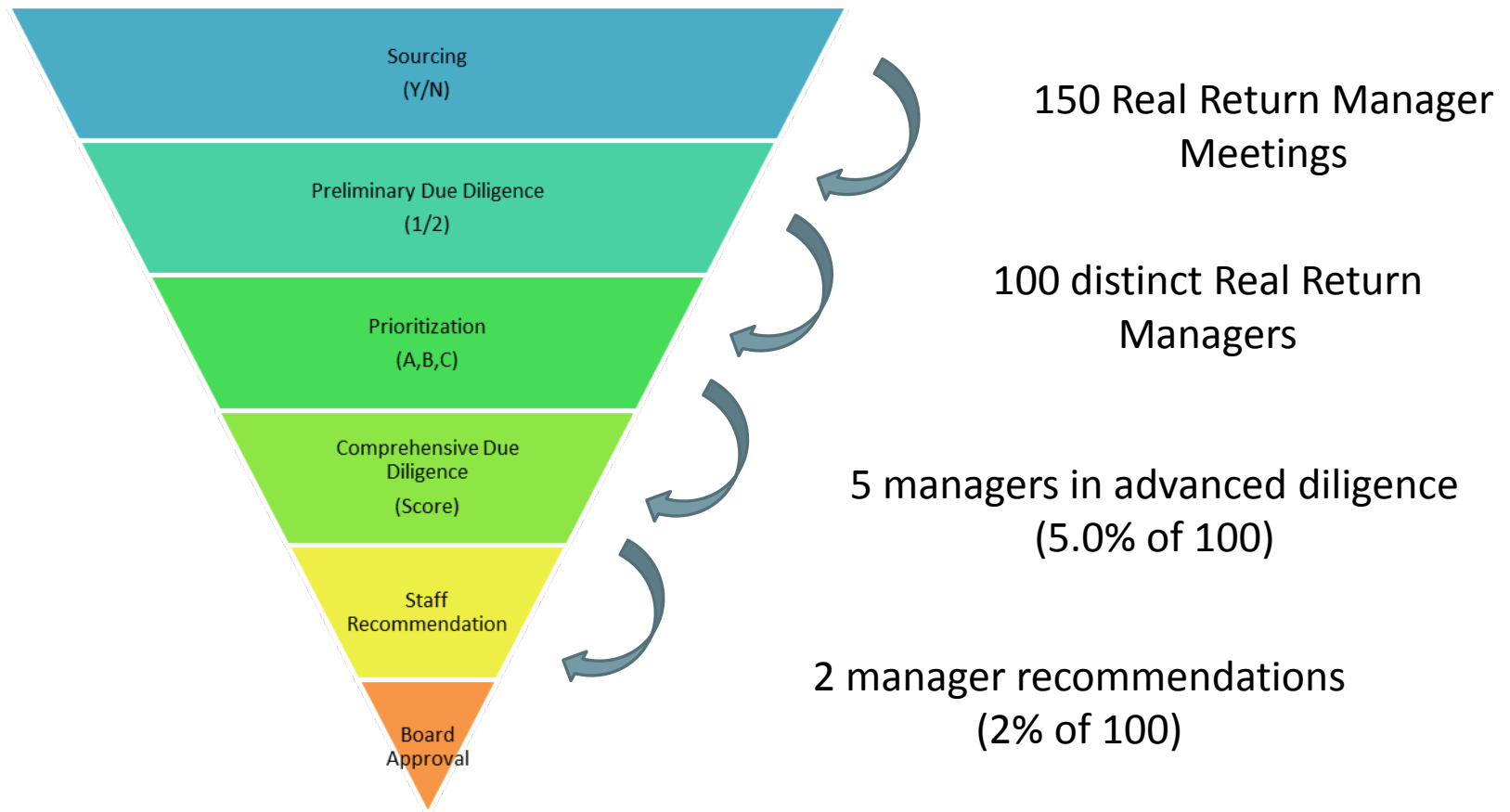
Semi-Finalist Scoring Matrix

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

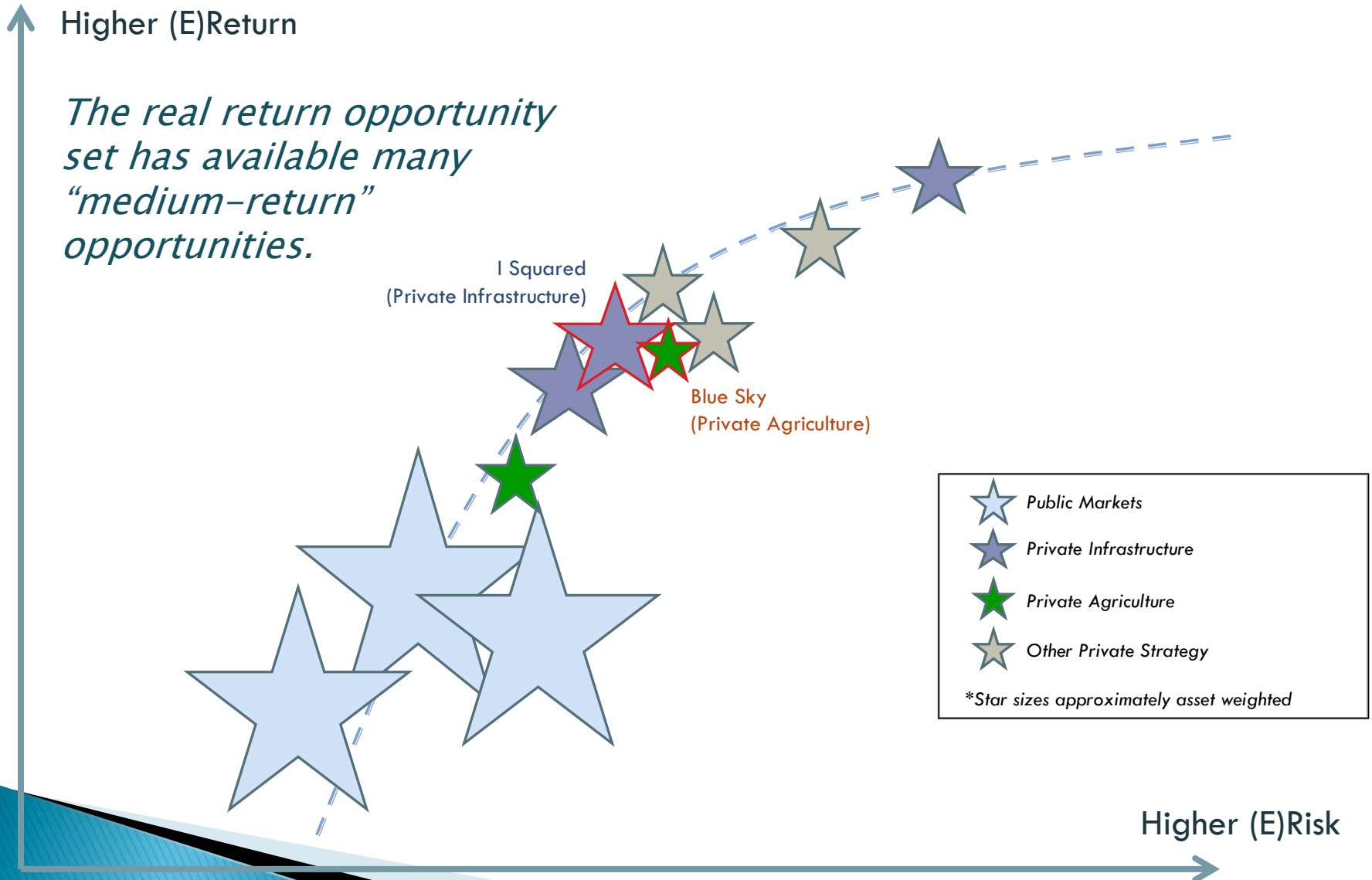
Final Due Diligence Scoring Matrix Aggregated Results			
Recommended Manager/Fund	Selected Manager	Comp 1	Comp 2
I Squared	100	99	93
Blue Sky	100	87	86

Section III

PORTFOLIO CONSTRUCTION

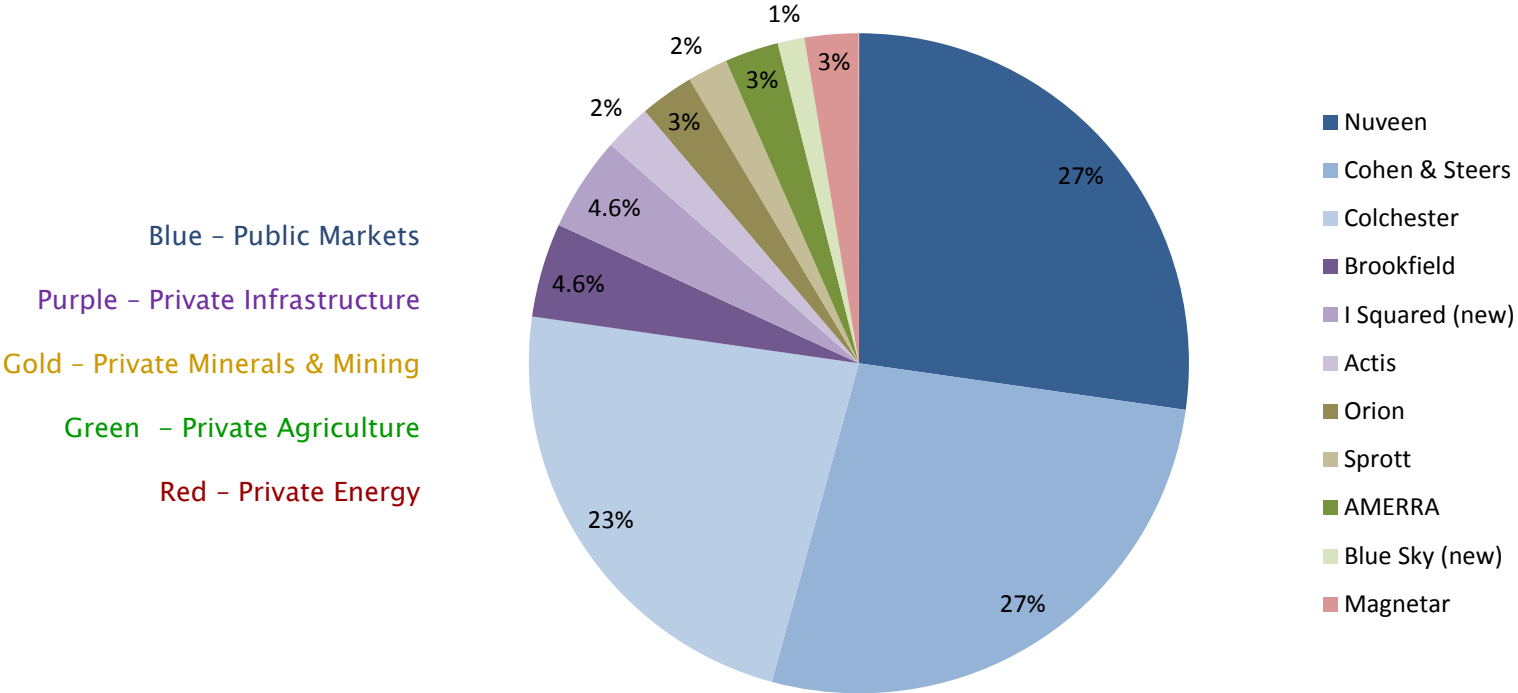
Manager Mapping

Ex-Ante Risk Return Expectations: The Traditional Model



Real Return Portfolio Statistics

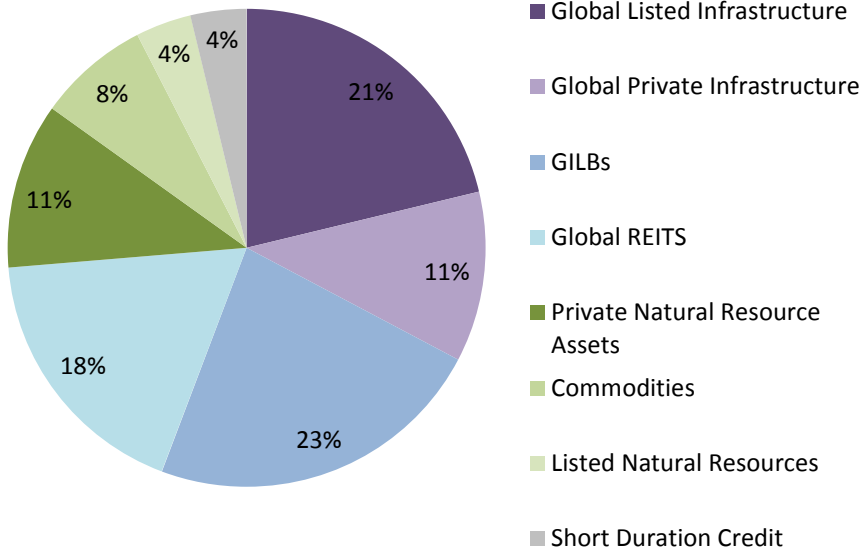
Portfolio Exposure by Manager



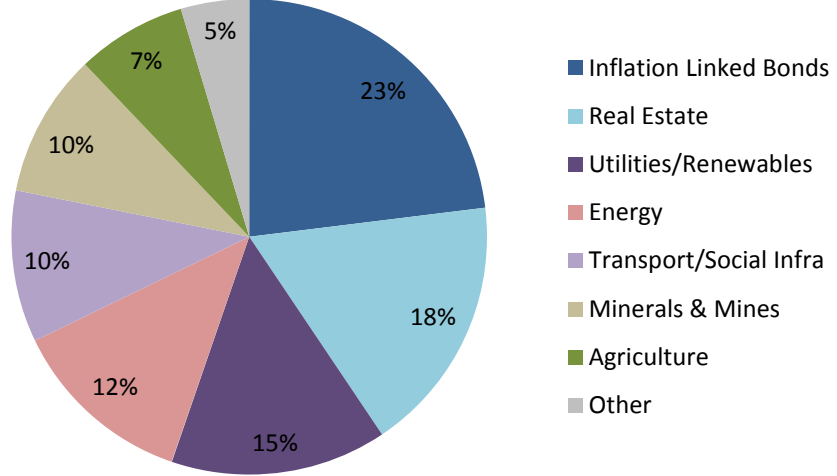
TMRS has diversified its public real return portfolio and ramped its private investing pace over the course of the past 15 months.

Real Return Portfolio Statistics

Portfolio Exposure by Asset Type



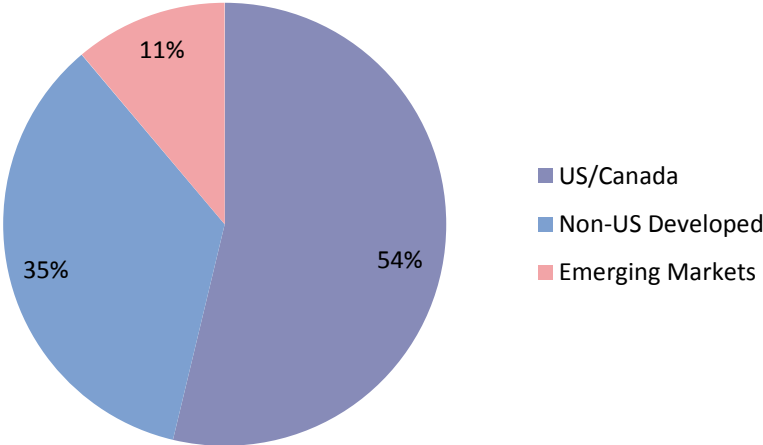
Portfolio Exposure by Sector



Recommendations to I Squared and Blue Sky enhance TMRS' diversification within the infrastructure and agricultural sectors.

Real Return Portfolio Statistics

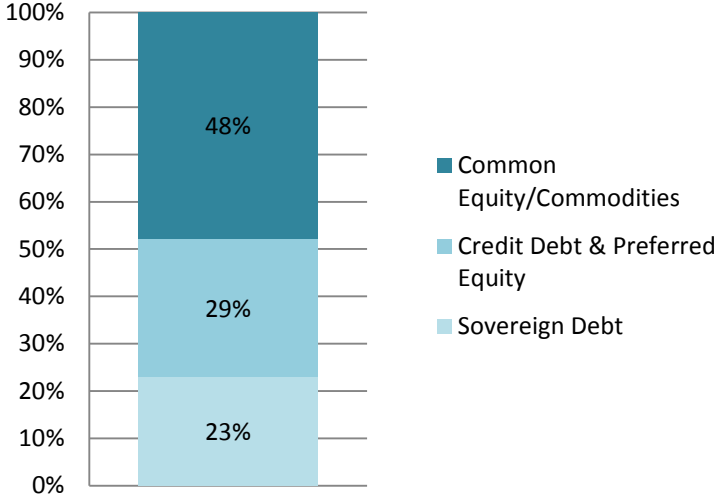
Portfolio Exposure by Geography



Real Return is a global opportunity set. TMRS continues a path of portfolio level conservatism.

TMRS has pursued a conservative real return portfolio capital structure.

Real Return Portfolio Capital Structure



Section IV

MANAGER SELECTION & RECOMMENDATION

Top Candidate Characteristics – I Squared

\$150 million Recommendation

Category	I Squared	Comp 1	Comp 2
People	24	24	23
Philosophy	20	19	18
Process	30	27	25
Performance	13	15	12
Terms	13	14	15
Total Points	100	99	93

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.

I Squared Capital (ISQ) is a global, upper mid-market infrastructure manager that focuses on building and creating platform companies in the power, energy and utilities space. The team spun out of Morgan Stanley Infrastructure Partners (MSIP) to start I Squared in 2012. The team is led by the previous CIO of MSIP, Sadek Wahba, as well as two other managing partners, Adil Rahmathulla and Gautam Bhandari, who also joined from MSIP.

I Squared is currently raising a \$5 billion private infrastructure fund focused principally on acquiring and building brownfield, OECD domiciled infrastructure companies.

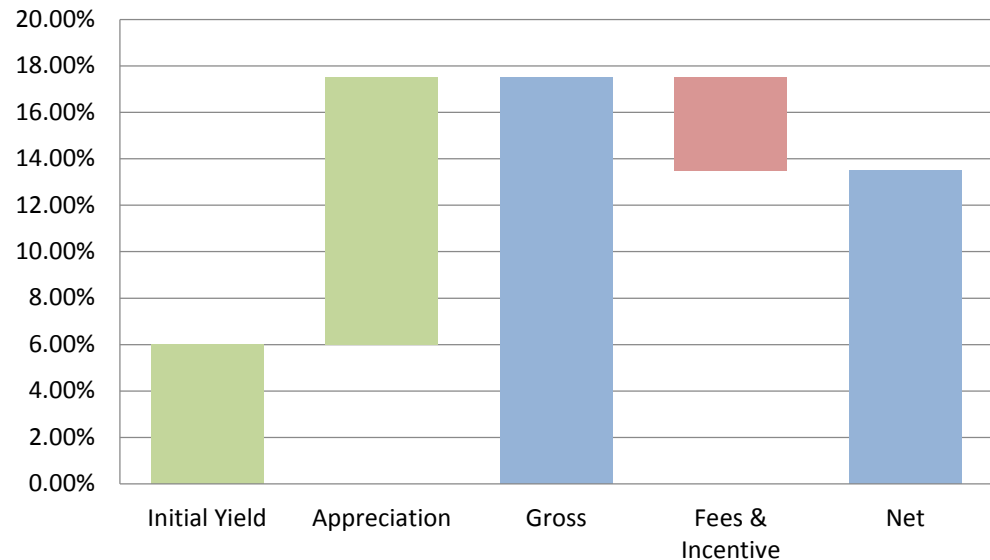
Top Candidate Characteristics – I Squared

\$150 million Recommendation

Investment Case

- *Cohesive & Truly Global Team – ISQ has offices in NY, Houston, London, New Delhi, Hong Kong & Singapore.*
- *Systematized & Detailed Risk Process – ISQ has developed a 10 dimensional risk model.*
- *Complementary and strategically consistent with TMRS' existing real return portfolio.*
- *Best in Class Reporting.*

ISQ Return Bridge



Issues to Consider

- *Evolving and increasingly competitive private infrastructure market for both LPs and GPs.*
- *Emerging Market risk – strict fund limitations in place.*
- *Limited Track Record.*

Top Candidate Characteristics – Blue Sky

A\$75 million Recommendation

Category	Comp 1	Comp 1	Comp 2
People	20	20	17
Philosophy	25	22	21
Process	19	16	15
Performance	21	17	21
Terms	15	12	12
Total Points	100	87	86

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.

Blue Sky Water GP (Blue Sky) is a wholly owned subsidiary of Blue Sky Alternative Investments Limited, an A\$2.7 billion publicly listed Australian funds management business founded in 2006. The Blue Sky Water GP was founded in 2007 with the specific purpose of managing water and agriculture investments as the government of Australia restructured the water market to create a traded exchange.

Blue Sky is targeting a A\$300 million fundraise to pursue an agricultural strategy enhanced by water rights management. In times of drought, water intensive crops might fail but water rights become more valuable, mitigating the significant downside agriculture is exposed to due to unpredictable climatic events.

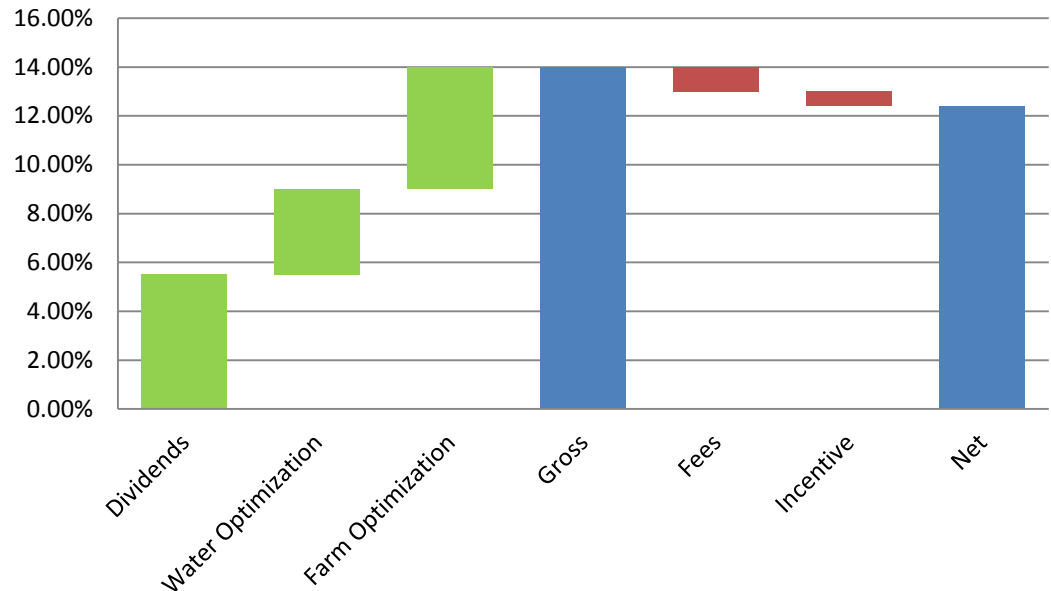
Top Candidate Characteristics – Blue Sky

A\$75 million Recommendation

Investment Case

- *Jurisdiction Favorable Growth Market Exposure – Strategy taps into strong SE Asian Agricultural demand.*
- *Uniquely Qualified & Well-Resourced Team – Blue Sky team been investing in water rights since market inception.*
- *Water Market an Extra Return Source/downside protection for Agriculture Investors.*

Blue Sky Return Bridge



Issues to Consider

- *Newly Formed Team – team has a long history of working together.*
- *Historically volatile commodity and water pricing.*
- *Foreign Currency Exposure.*

Section V

REQUESTED BOARD ACTION

Approval of Recommendation

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

Recommendations:

- I Squared Global Infrastructure Fund II \$150 million
- Blue Sky Strategic Australian Agriculture Fund A\$75 million

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