

# 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

Dec  
2016

- TMRS staff presented the 2017 Private Equity Pacing Plan recommending a commitment of up to \$600 million of Private Equity exposure.
- Board approved manager searches during 2017 totaling \$600 million.

Dec  
2016

- TMRS Staff formally launched the 2017 search process, in concert with StepStone.

Q2 2016  
Q1 2017

- 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 2017

- February 2017: TMRS Board approved two managers/three funds for the Private Equity Asset Class for \$125 million.
- Closed on all funds at \$116.25 million.

Q2 2017

- May 2017: TMRS Board approved two managers/three funds for the Private Equity Asset Class for \$132.5 million.
- Closed on all funds at \$120.5 million.

Aug  
2017

- TMRS Board approved one manager for a total of \$75 million.
- Negotiations ongoing.

Sep  
2017

- Presenting one manager to the Board for a total of \$50 million.
- Continue 2017 search process for December recommendation timeframe.

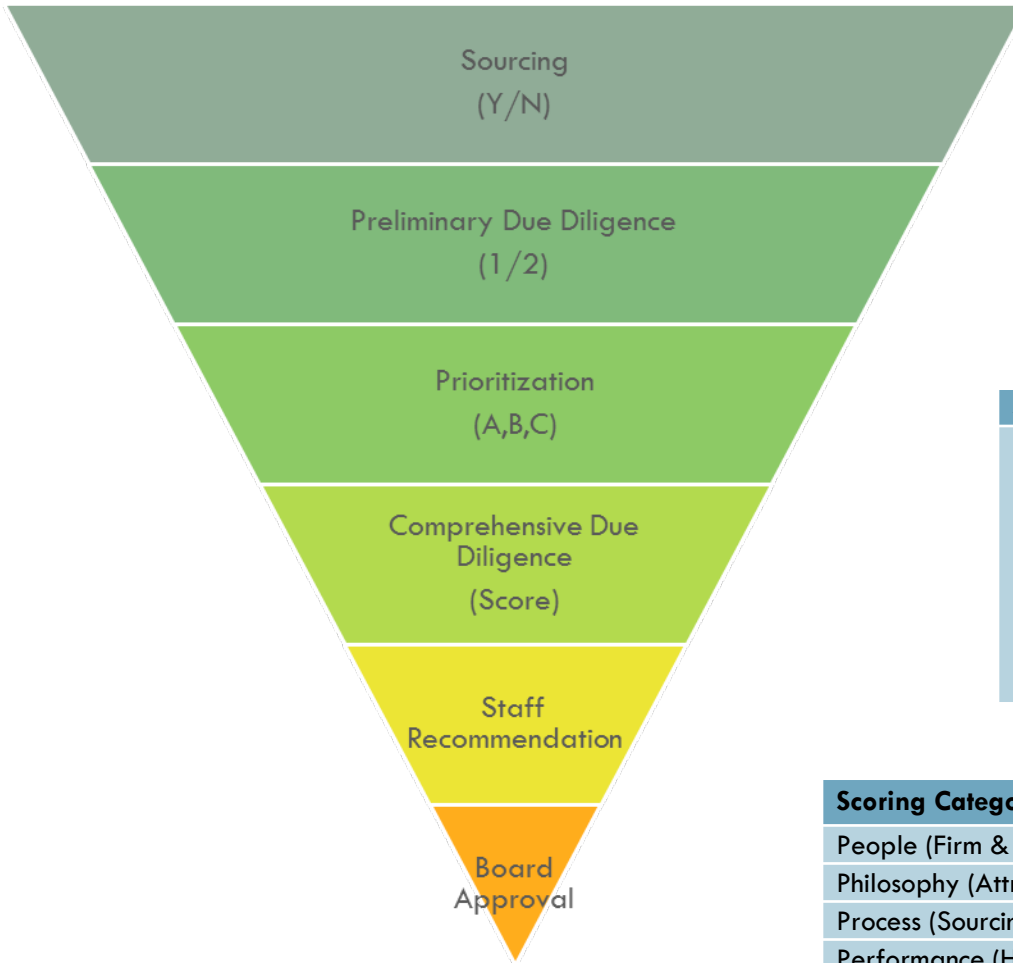
# 2017 Private Equity Search Process Objectives

- ▶ **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
<b>Manager Screen</b> - Is vehicle consistent w/ TMRS' objectives?	Yes - Take Meeting; No - Don't Take Meeting
<b>Manager Analysis</b> - Does vehicle have adequate capacity and timeline? - PPPPT* Preliminary Review	1 - Advance; 2 - Stop Research

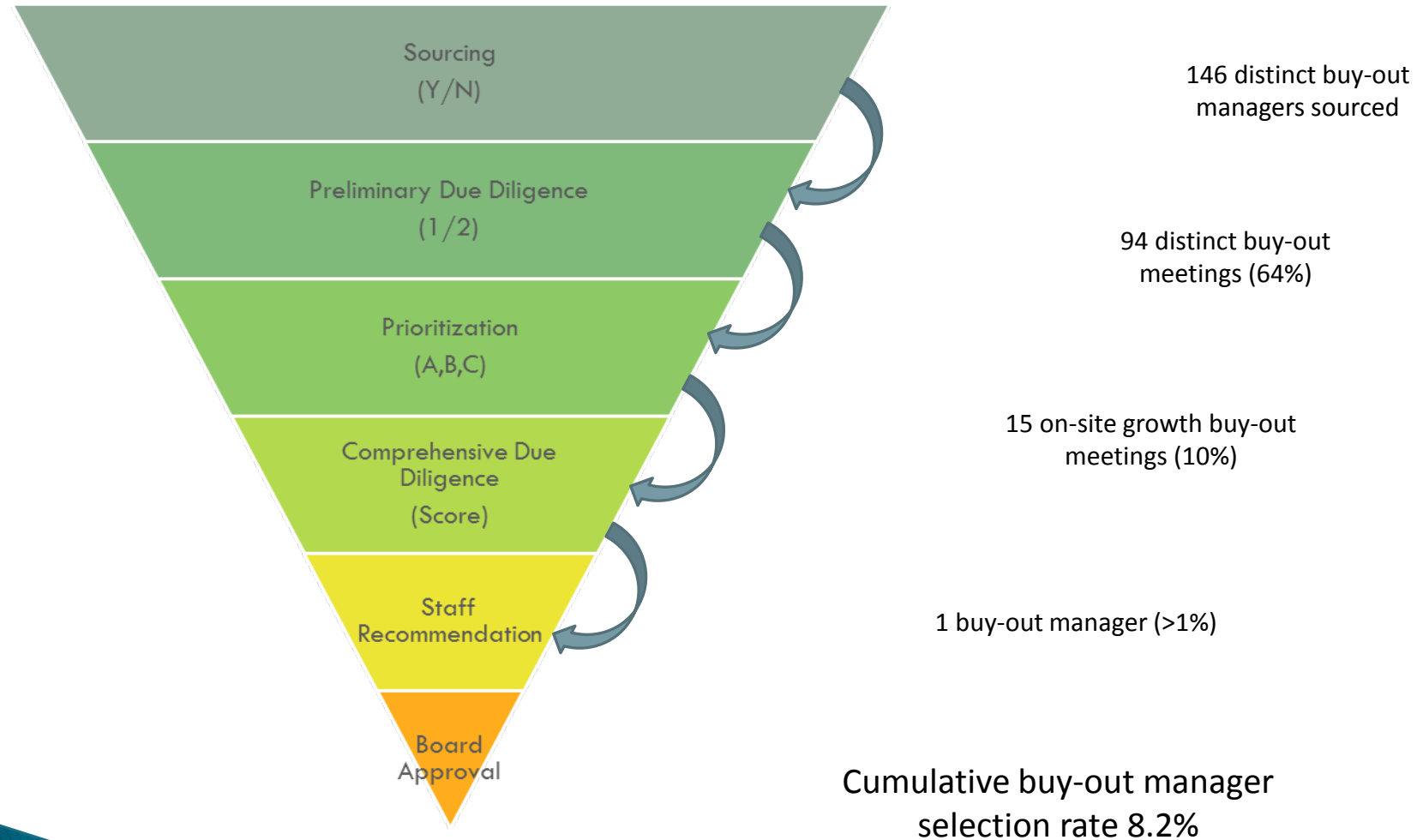
## Semi-Finalist Scoring Matrix

Scoring Category	Score
<b>Finalist Manager Review</b> - 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
<b>Total</b>	<b>100†</b>

# 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
Dunes Point Capital Fund II, L.P.	100.0	92.0	85.0

\*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

Section III

# PORTFOLIO CONSTRUCTION

# Manager Selection Portfolio Considerations

## *Strategy Diversification*

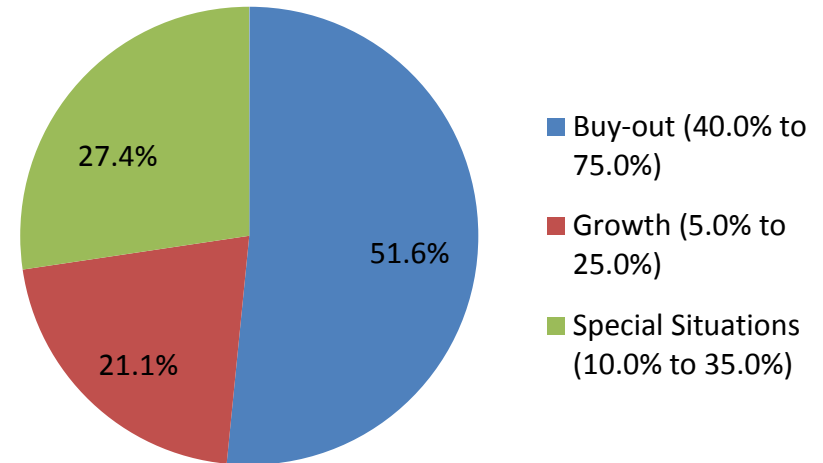
### *Strategy considerations:*

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

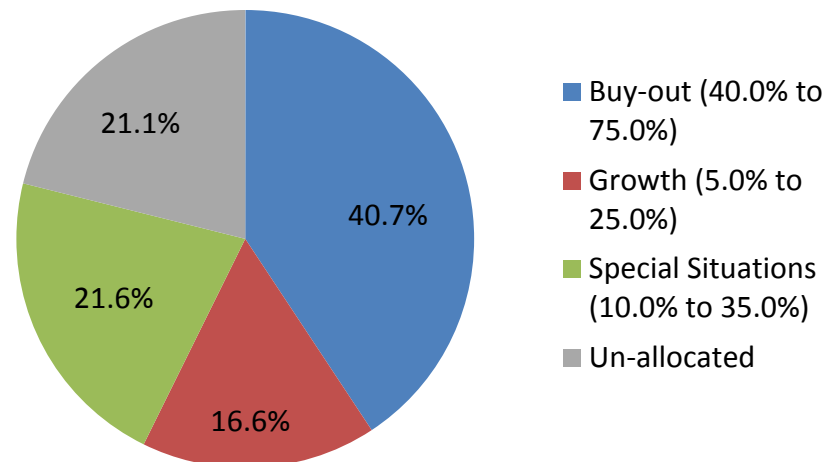
*2016: Focus on growth opportunity set and continue to add buy-out exposure.*

*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

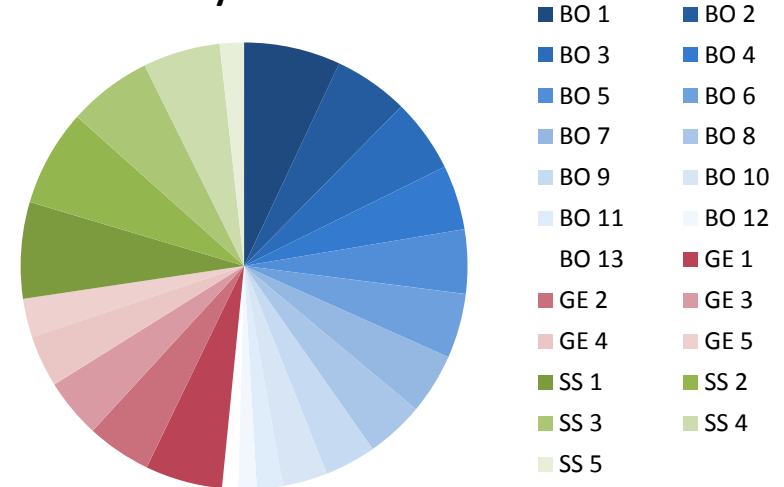
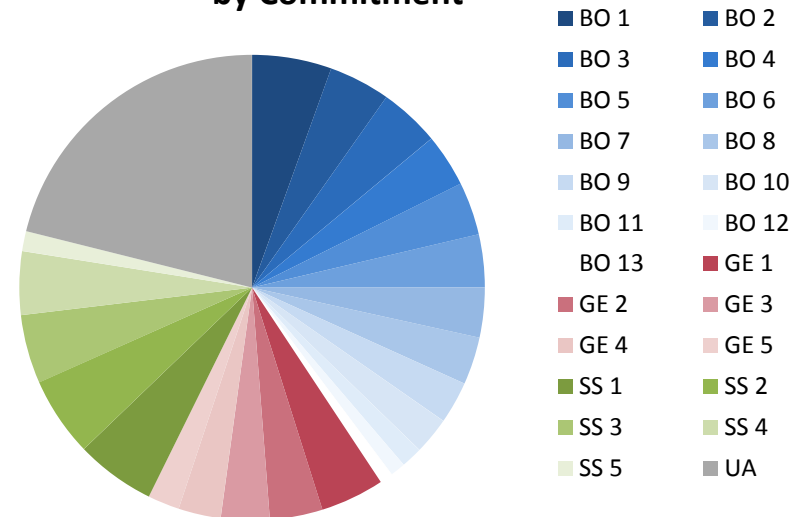


Figure 4: Private Equity Manager Diversification by Commitment

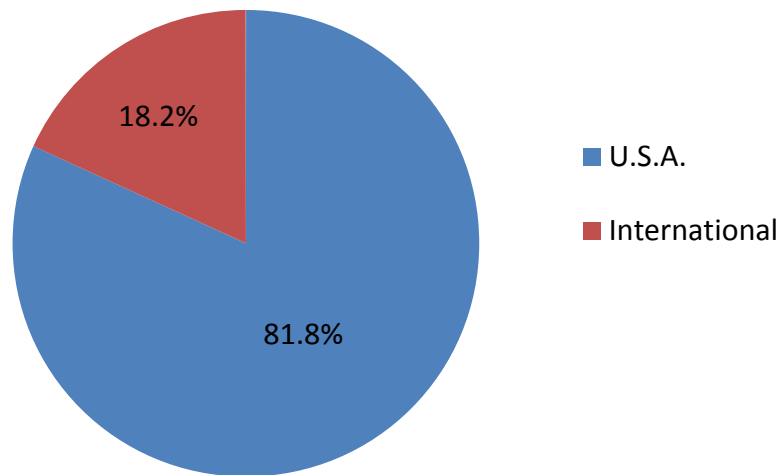


# Manager Selection Portfolio Considerations

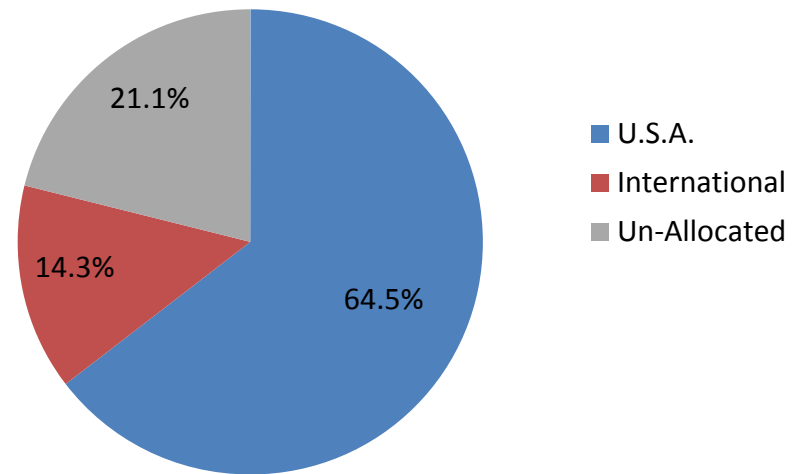
## *Geographic Diversification*

*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
Dunes Point Capital Fund II, L.P.	Buy-Out Strategy	25% / 2.5x	\$50 million
Total Net Recommendations:			\$50 million

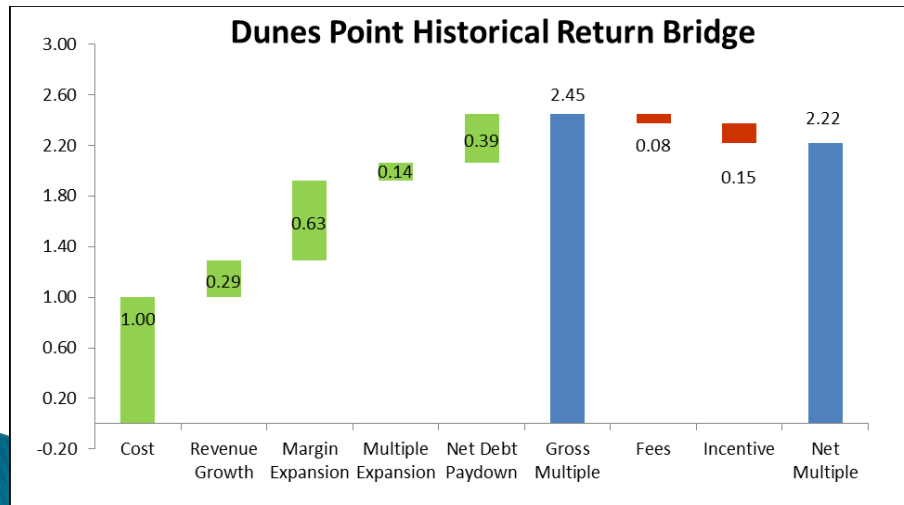
*Private Equity Pacing model as approved by the TMRS Board of Trustees in December 2016 established \$600 million as the targeted level of commitments for 2017.*

# Top Candidate Characteristics – Dunes Point

## *\$50 million Recommendation*

*Dunes Point Capital is a Rye, New York based Small Market private equity buy-out firm focused on North American Small and Middle Market companies within the industrials sector. The Firm was founded in 2013 by Timothy White, who was formerly a Senior Managing Director of Blackstone and GSO Capital Partners, a Managing Director in the private equity group of Audax Group, and a Principal with DLJ Merchant Banking Partners. Prior to founding DPC, Mr. White was Head of GSO Private Equity, Co-Head of GSO Mezzanine Investing, and Co-Portfolio Manager of GSO's Capital Opportunities Fund I. The Firm is currently seeking to raise its first institutional fund, Dunes Point Capital Fund II, LP, targeting \$600 million of capital commitments, with an \$800 million hard cap. The Fund will pursue control equity investments in North American Small and Middle Market companies generally focused on the industrials sector.*

Category	Dunes Point	Buyout Comp 1	Buyout Comp 2
People	21	20	16
Philosophy	19	15	14
Process	23	22	22
Performance	22	24	23
Terms	15	11	10
<b>Total</b>	<b>100</b>	<b>92</b>	<b>85</b>



### Reasons to Invest

- Experienced leader with history of success – Founder, CEO and CIO Tim White has originated or led the investment of \$4 billion in private investments.
- Strong Pre-Fund Track Record – these investments were marked at a 2.3x/61% gross TVM/IRR and a 2.1x/51% net TVM/IRR.
- GP Alignment / Economics - The GP will contribute at least \$25 million, or 4% of the Fund's target size. The team will also share broadly in economics.

### Risks & Mitigants

- Key man risk – While the team behind Tim is strong, and continues to be bolstered with new hires, Dunes Point is clearly highly reliant upon Tim White's acumen and decision making. Key man language appropriately reflects this.
- Lack of prior realizations – the Fund I/Pre-Fund track record is light on realizations, but financial and operating performance is quite strong. Pre-fund realizations are also quite strong, providing evidence of the strategy's success.



Section V

# REQUESTED BOARD ACTION

# Approval of Recommendations

- TMRS Staff and StepStone Group recommend that the Board of Trustees approve the selection of the following managers or their affiliates as referenced in the Board Communication Memo for investment in the specified strategies below:
  - Dunes Point Capital Fund II, L.P.: \$50 mm to Buy-out Strategy

## **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.***