

Non-Core Fixed Income Recommendation

December 7-8, 2017



Presenters: Jason Weiner, Germán Gaymer

Agenda

- I. Executive Summary
- II. Portfolio Construction
- III. Manager Selection & Recommendation
- IV. 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

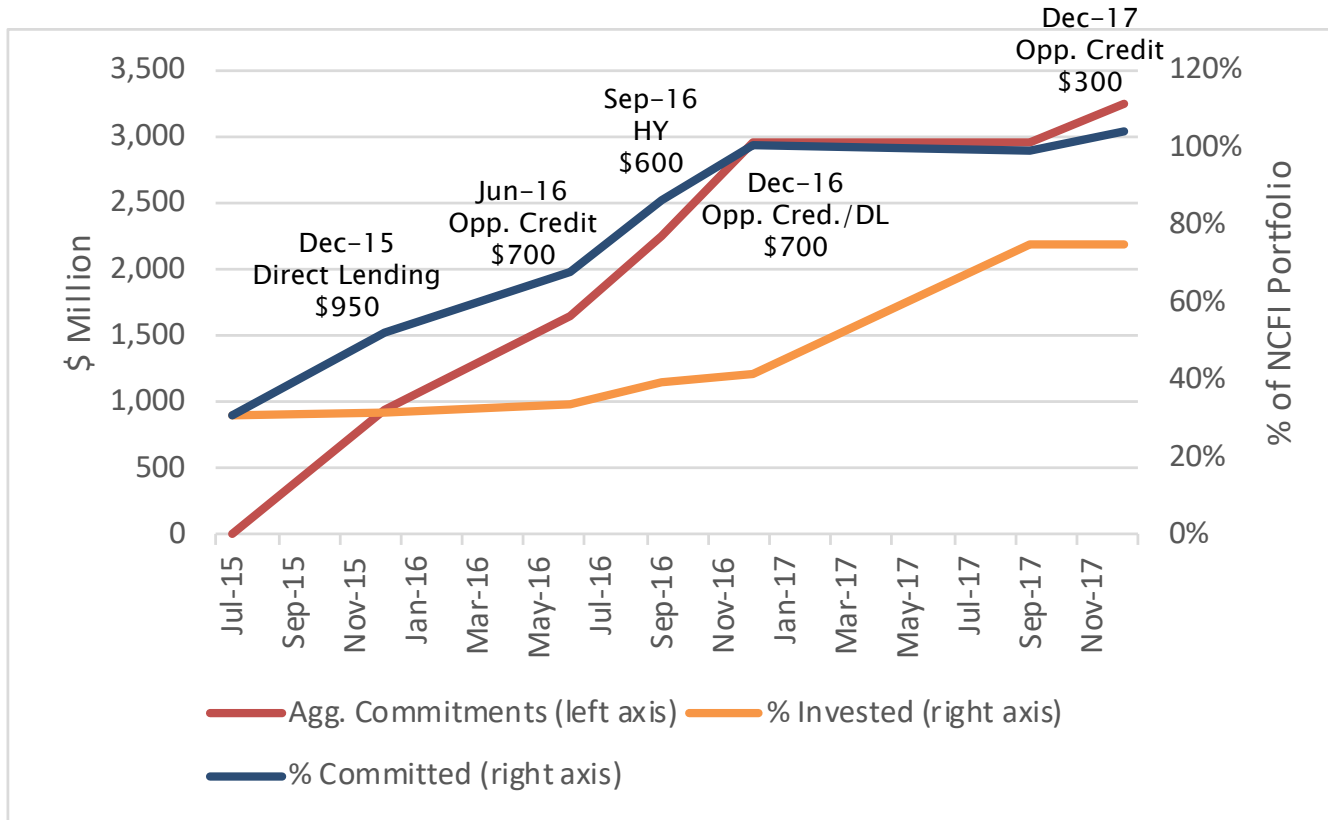
EXECUTIVE SUMMARY

Manager Recommendation

Executive Summary

Summary of Recommendations				
Recommended Manager/Fund	Strategy Classification	Target Return	Terms (no greater than)*	Recommended Amount
Global Credit Opportunities Fund, LP (GCO)	Opportunistic Credit - Special Situations	9%–12% Net IRR	Fee: 1.25% of Invested Capital Carry: 20% Carry, 8% preferred 2 yr. investment period; 5 Year Term + 2/1yr. extensions by GP	\$300 million
Total Recommended Investments/Commitments				\$300 million

Non-Core Fixed Income (NCFI) Pacing Plan



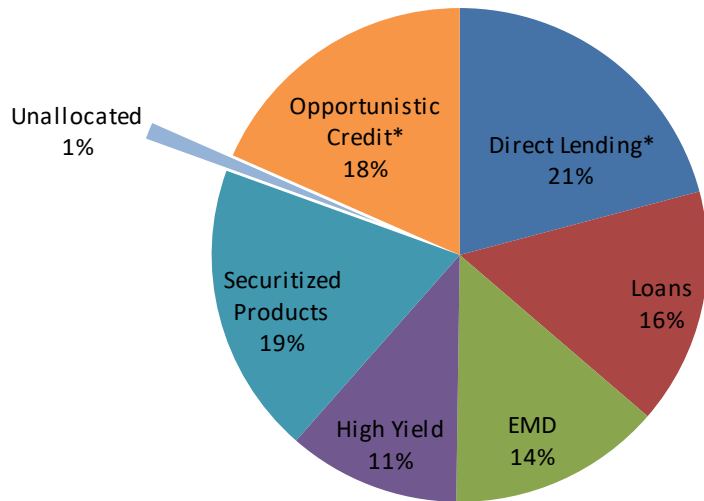
- Since December 2015 Staff has made 6 recommendations to the Board for a total of \$3.25B.
- As of Sept. 2017 NCFI portfolio is 80% invested.
- NCFI will be fully allocated on a commitment basis.

Section II

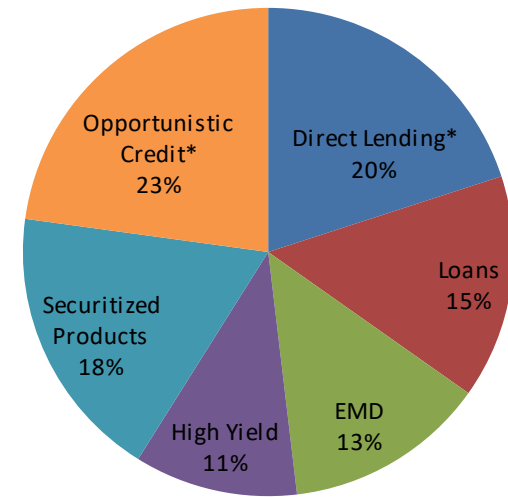
PORTFOLIO CONSTRUCTION

Non-Core Fixed Income Portfolio Construction

NCFI Current Allocation



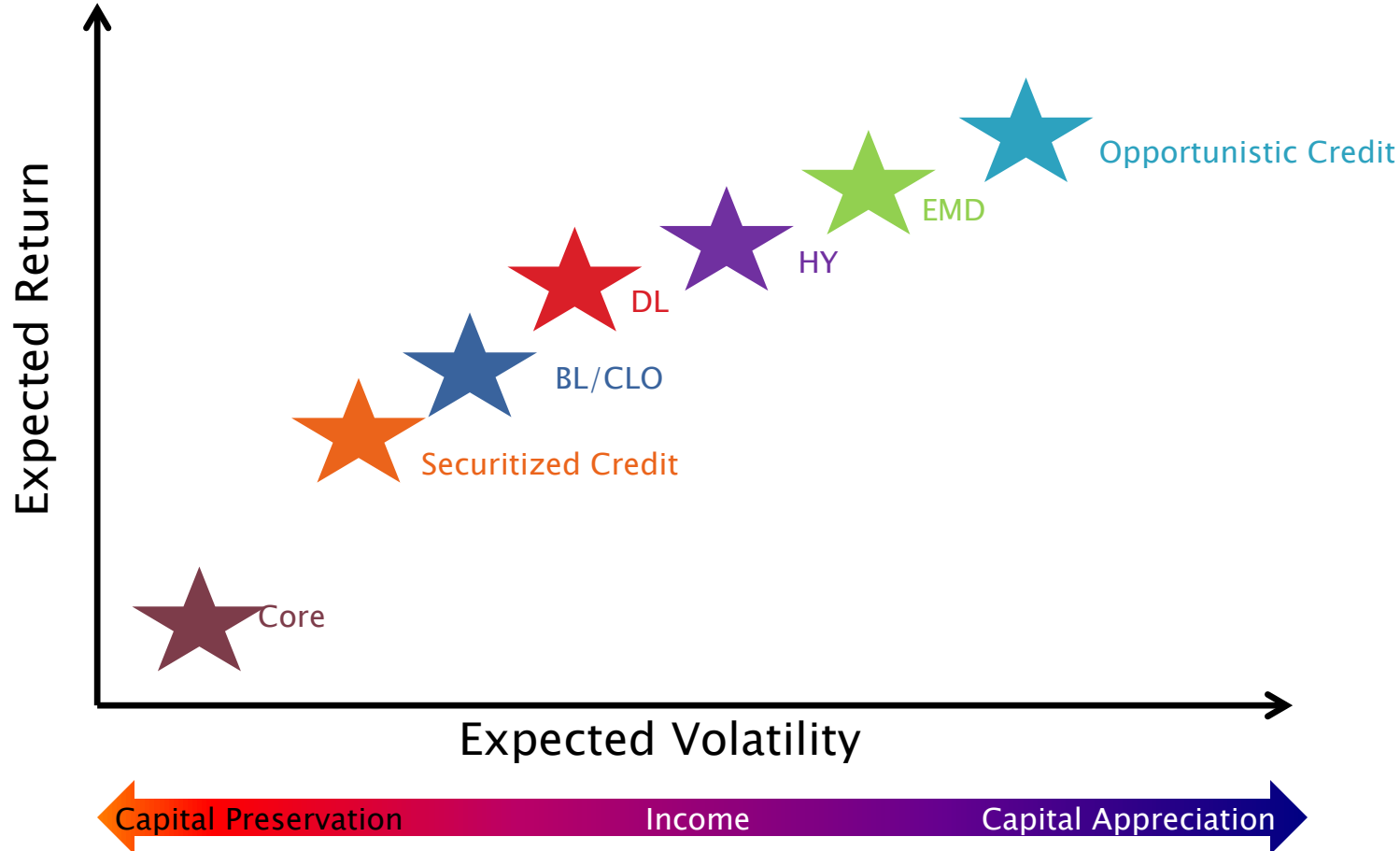
NCFI Expected Allocation



GCO will increase NCFI allocation to Opportunistic Credit.
NCFI fixed income portfolio will be fully allocated on a commitment basis.

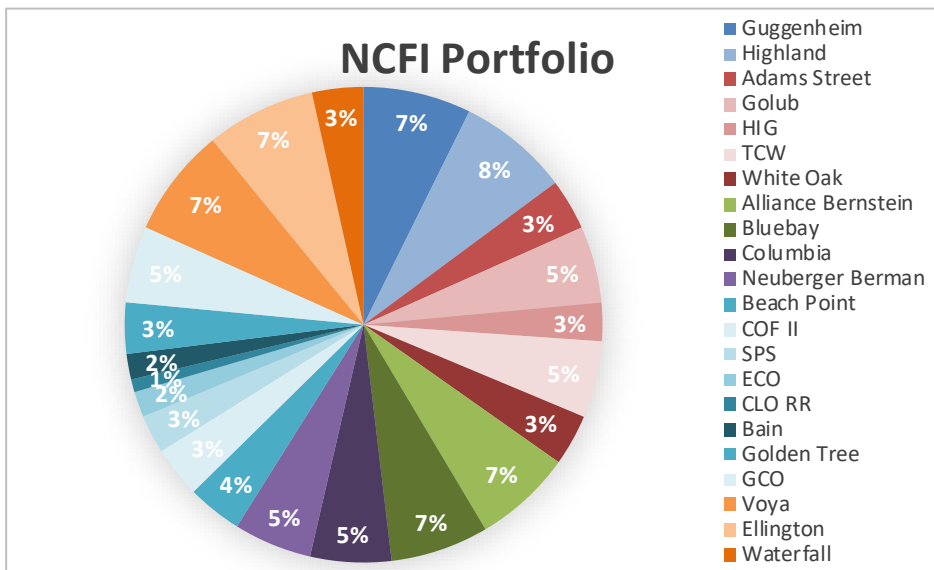
*Partially funded

Fixed Income Portfolio Construction



GCO will generate unique sources of return and provide additional diversification within the NCFI portfolio allocation.

Non-Core Fixed Income Portfolio Construction



Total non-core fixed income portfolio allocation will reach approximately \$5.7 billion upon funding.

Capital Preservation

- Core Bond
- BlackRock
 - PIMCO

Income

- BL/CLO (15%)**
- Guggenheim
 - Highland
- Direct Lending (20%)**
- Adams Street**
 - Golub*
 - H.I.G. Whitehorse*
 - TCW*
 - White Oak*

- Securitized Credit (18%)**
- Ellington
 - Voya
 - Waterfall***

Capital Appreciation

- HY (11%)**
- Columbia
 - Neuberger Berman
- EMD (13%)**
- Alliance Bernstein
 - BlueBay

- Opportunistic Credit (23%)**
- Bain
 - BeachPoint
 - GoldenTree*
 - Marathon SPS*
 - Marathon ECO*
 - Marathon CLO*
 - PIMCO COF II*
 - GCO****

*Partially funded
 **Committed, funding pending
 *** Waterfall strategy focuses on securitized credit, yet their approach is more opportunistic (and has a higher orientation to capital appreciation) compared to the other securitized mandates.

**** Pending Board's approval

Section III

MANAGER SELECTION & RECOMMENDATION

Top Candidate Characteristics – GCO

\$300 million Recommendation

BlackRock is the largest asset manager in the world with almost \$6 trillion in assets under management (AUM) as of September 30, 2017, across equity, fixed income, alternatives, etc.

GCO will seek to invest mainly in private credit and credit-related assets in special situations or in capital structures that are currently experiencing, or may experience, stress or liquidity constraints. GCO will aim to become a preferred alternative provider of capital solutions for stressed corporate borrowers. The fund will also seek to leverage BlackRock's vast network of industry relationships to gain direct access to corporations in need of capital and to transactions unavailable to many smaller investment platforms.

GCO Process Summary

Date of First TMRS Meeting

1/13/17 (Call)

Dates of Subsequent Meetings

5 additional 2017 meetings

6/29/17 (Austin)

8/14/17 (Call)

10/4/17 (New York)

10/16/17 (Call)

11/8/17 (Call)

Dates of Diligence Advancement

'B' Rating – 6/29/17

'A' Rating – 10/4/17

Date of Consultant Report

November, 2017

Legal Negotiation Initiated

Not yet started.

Comparable Strategies Reviewed

44 Opportunistic Credit Managers

Section IV

REQUESTED BOARD ACTION

Approval of Recommendation

TMRS Staff and RVK recommend that the Board of Trustees approve the selection of the following fund as detailed in the Board Communication Memo:

Global Credit Opportunities Fund, LP

\$300 million

DISCLOSURES

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