

Private Equity Recommendations

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March 22–23, 2018



Agenda

- I. Due Diligence Process Review
- II. Portfolio Construction
- III. Manager Selection & Recommendations
- IV. Requested Board Action

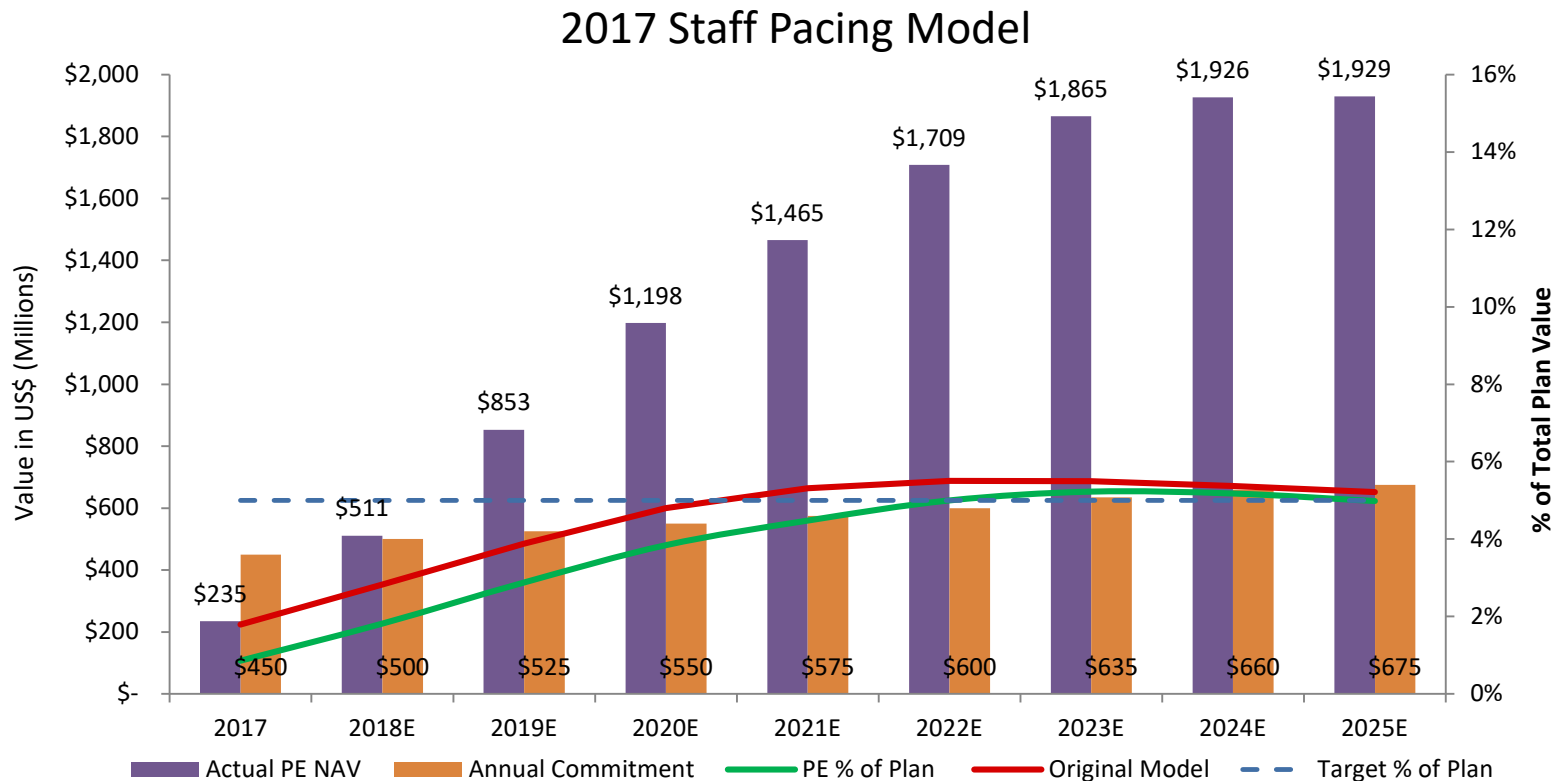
*Names used in this presentation are a shortened version that is used for ease of communication purposes throughout this document. The formal recommendations to the Board on the last page of this presentation reflect the full legal names of the investments.

Section I

DUE DILIGENCE PROCESS REVIEW

Due Diligence Processes

As part of Multi-year time periods

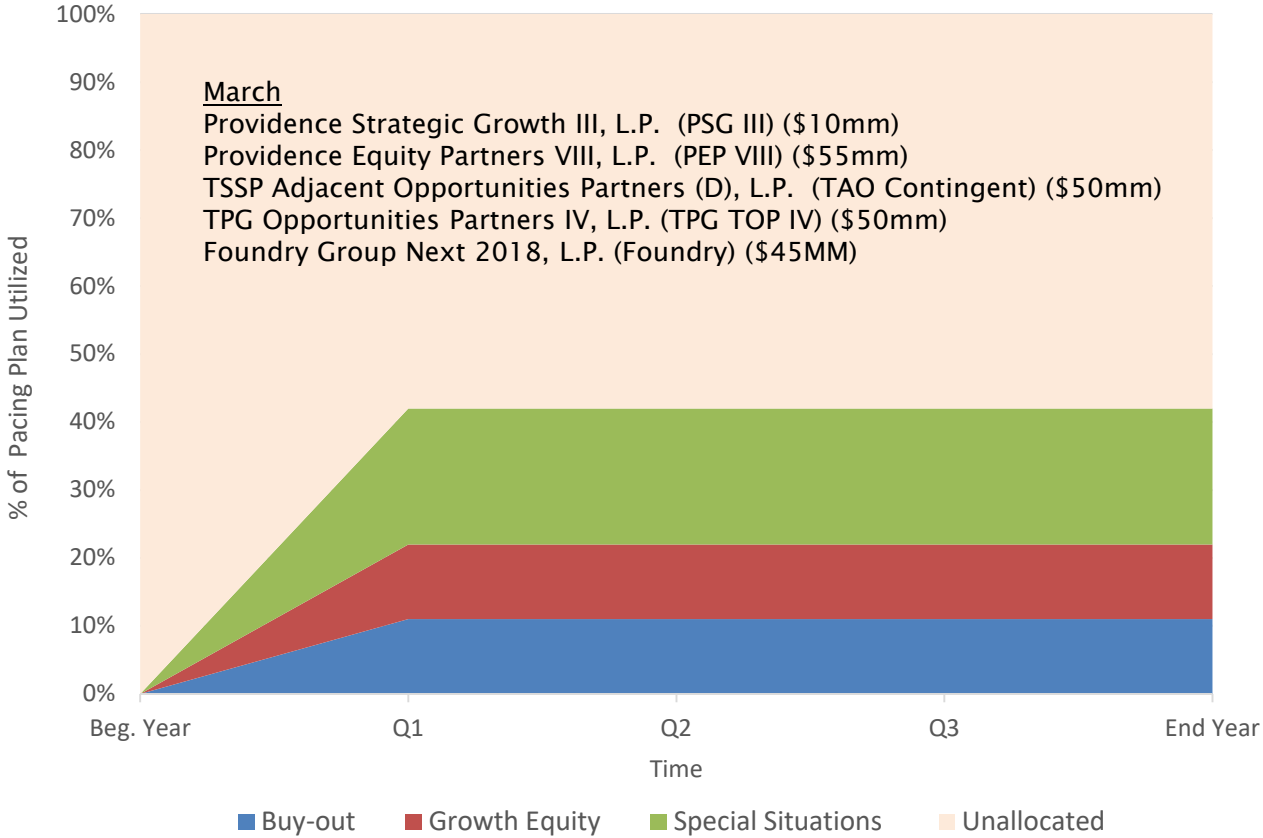


Annual pacing plans are developed in the context of multiple year investment horizons. This is necessary because private capital investments deploy and return capital over time rather than all at once.

Due Diligence Processes

As part of Annual Search Processes

2018 Private Equity Pacing Plan Progress



The 2018 Private Equity search process has culminated in \$210 million of closed and/or recommended investments, in line with the \$500 mm primary fund pacing model goal for the year.

Search processes are approved in annual amounts. Progress will be made throughout the year as opposed to all at once.

Section II

PORTFOLIO CONSTRUCTION

Manager Selection Portfolio Considerations

Strategy Diversification

Strategy considerations:

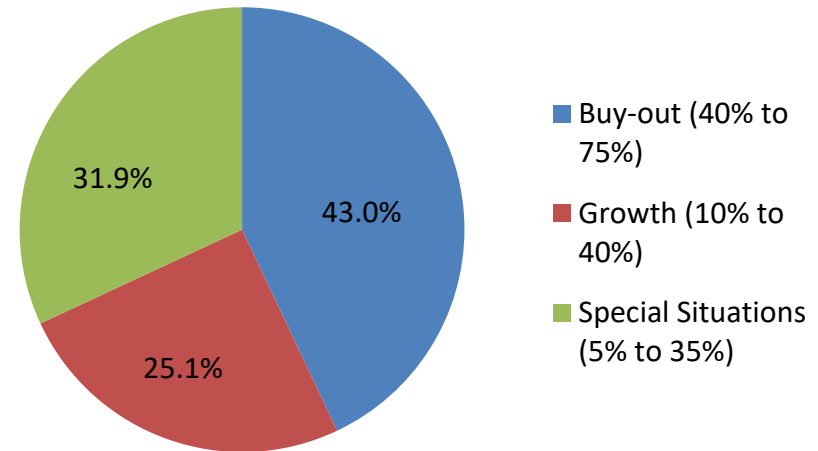
2015: Overweight special situations early for J-Curve mitigation, efficiency of capital deployment, and tactical opportunities.

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

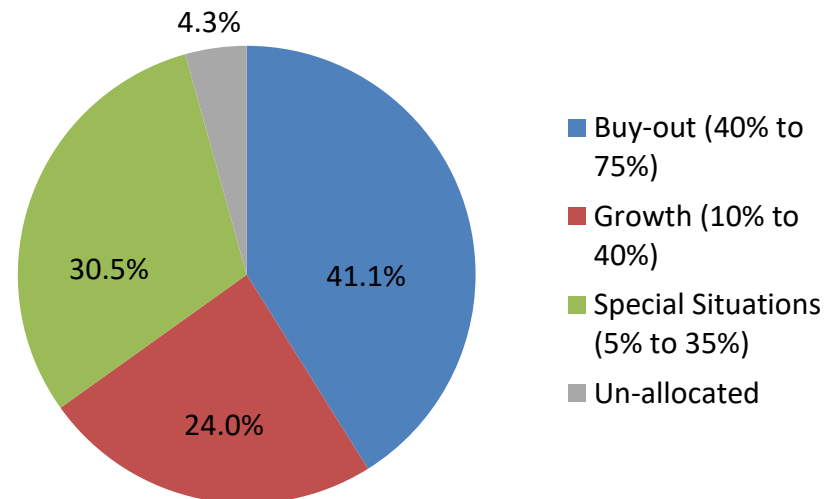
2017: Round out buy-out portfolio, and opportunistically add to growth and credit.

2018: Continue to add high quality funds to the portfolio opportunistically

Private Equity Strategy Diversification by Commitment



Private Equity Target Diversification



Manager Selection Portfolio Considerations

Manager Implementation

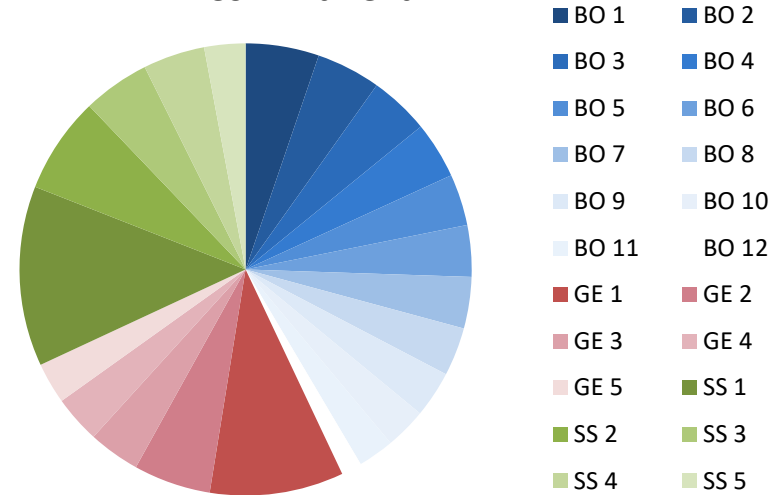
The overall goal remains identifying top quartile performers to partner with.

Position sizing considerations:

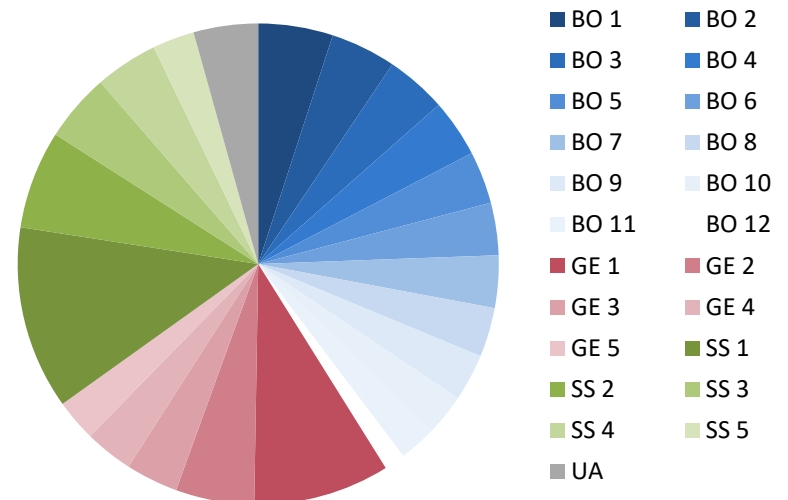
Continue to reduce the unallocated portion of the private equity portfolio while sensibly balancing the trade-off between diversification and concentration.

Areas of focus are enhancing manager diversification, and building strategic relationships where possible/appropriate.

Private Equity Manager Diversification by Commitment



Private Equity Target Diversification by Manager

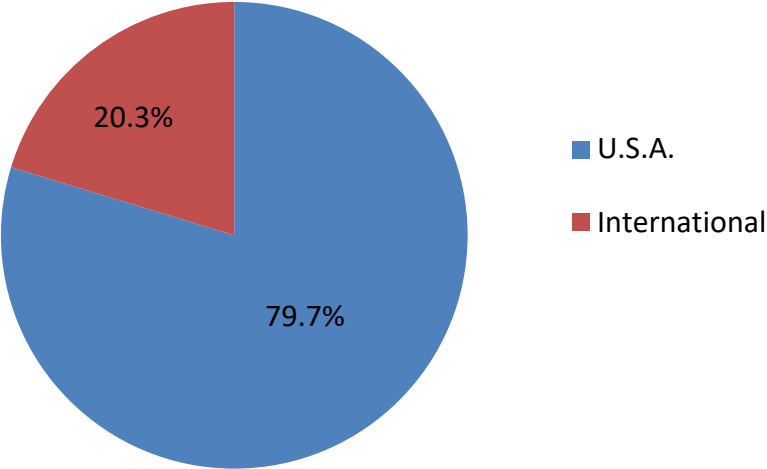


Manager Selection Portfolio Considerations

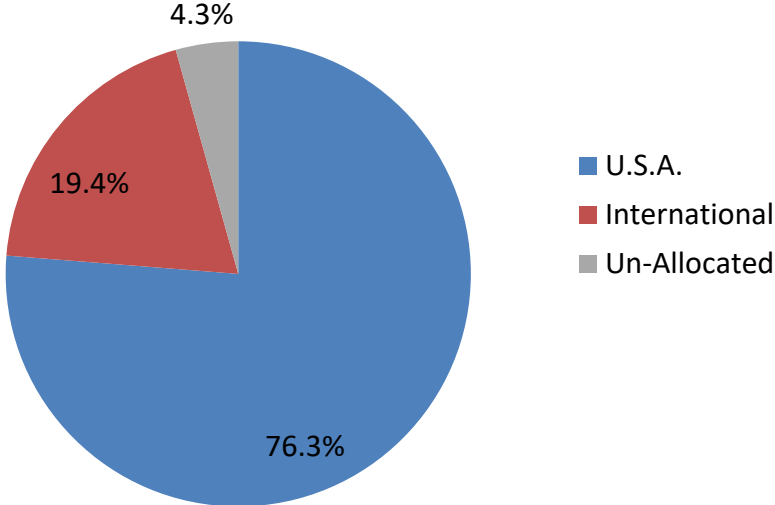
Geographic Diversification

TMRS is focused on taking a measured approach to global geographic diversification.

Private Equity Geographic Diversification by Commitment



Private Equity Target Geographic Diversification



The Target Portfolio keeps a conservative stance on international exposure.

Section III

MANAGER SELECTION & RECOMMENDATIONS

Manager Recommendations

Executive Summary

Summary of Recommendations				
Recommended Manager/Fund	Strategy	Target Return	Terms (no greater than)*	Recommended Amount
PSG III	Growth Equity	20%-25% Net IRR	Fee: 2.0% of Committed Capital Carry: 20% Carry, 8% preferred Term: 10 yrs. plus extensions	\$10 million
PEP VIII	Buy-Out	20% Net IRR	Fee: 1.5% of Committed Capital Carry: 20% Carry, 8% preferred Term: 10 yrs. plus extensions	\$55 million
TAO Contingent	Special Situations	15% Net IRR	Fee: 1.5% of Invested Capital Carry: 18.5% Carry, 5% preferred Term: 6 yrs. plus extensions	\$50 million
TPG TOP IV	Special Situations	15%-20% Net IRR	Fee: 1.75% of Committed Capital Carry: 20% Carry, 8% preferred Term: 8 yrs. plus extensions	\$50 million
Foundry	Venture Capital	25% Net IRR	Fee: 1.5% of Committed Capital Carry: 15% until 2.0x, 20% thereafter Term: 10 yrs.	\$45million
Total Approximate Recommended Investments/Commitments				Up to \$210 million

Inclusive of the above recommendations, 2018 year to date total private equity recommendations approved will equal \$210 (with the committed amount to be determined), within limits set forth in the 2018 Private Equity Pacing Model and the IPS.

Top Candidate Characteristics – PSG III

\$10 million Recommendation (\$60 million prior commitment)

Providence Strategic Growth is an affiliate of the Providence Equity Partners platform, which oversees more than US\$50 billion of AUM and is headquartered in Providence, Rhode Island. PSG targets growth equity investments in Lower Middle Market technology-enabled companies in North America. PSG will make both majority and significant minority investments in breakeven or profitable companies with an emphasis on companies that have not taken prior institutional capital. The GP will partner with founders and entrepreneurs to invest between US\$5-50 million in companies with revenues between US\$5-75 million.

Providence Due Diligence Summary PSG III

Date of First TMRS Meeting

2/02/2016 (Austin)

Dates of Subsequent Meetings

3/22/2016 (GP Office)

6/28/2016 (Austin)

11/15/2016 (GP office)

2/16/2017 (LPAC call)

4/15/2017 (Austin)

6/13/2017 (Austin)

11/7/2017 (GP Office)

Dates of Diligence Advancement

'B' Rating – 2/2/2016

'A' Rating – 3/28/2016

'A' Re-affirmed – 10/1/2017

Date of Consultant Report

October, 2017

Legal Negotiation Initiated

9/22/2017

Comparable Strategies Reviewed

69 (Growth Equity)

17 (Software focused Growth)

Growth Meetings

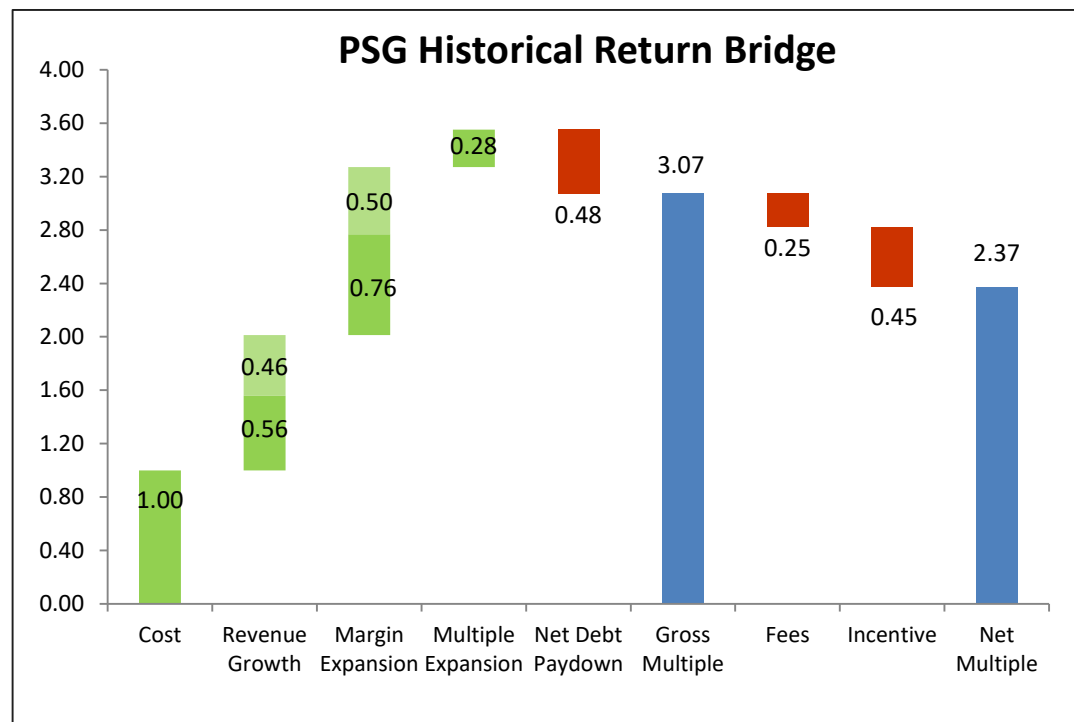
131 manager meetings

Top Candidate Characteristics – PSG III

\$10 million Recommendation (\$60 million prior commitment)

Investment Case

- *Strong performance and low loss ratios – Funds I and II are solidly top quartile in every measure*
- *Unique buy-and-build expertise in growth equity*
- *Strong alignment of interests and large GP commitment*
- *Leverage global brand with powerful sourcing engine – PSG benefits from Providence sourcing team and back office resources*



Issues to Consider

- *Largely young and unrealized fund I & II*
- *Investment pace remains rapid*
- *Fund size increase*

Top Candidate Characteristics – PEP VIII

\$55 million Recommendation

Providence Equity Partners VIII ("PEP") is being formed to pursue growth-oriented and traditional buyout investments in media, communications, education and information services companies. The Firm will focus on companies with recurring revenues, attractive margin profiles and defensible market positions, across North America and Western Europe. PEP will target a diversified portfolio of 15 to 20 investments, and will seek opportunities in which the Fund can invest US\$150 million to US\$500 million per company, with enterprise values between US\$500 million and US\$2 billion.

Providence Due Diligence Summary PEP VIII

Date of First TMRS Meeting

2/02/2016 (Austin)

Dates of Subsequent Meetings

3/22/2016 (GP Office)

6/28/2016 (Austin)

2/2/2017 (Update call)

4/4/2017 (Austin)

11/7/2017 (GP Office)

2/13/2018 (Austin)

Dates of Diligence Advancement

'B' Rating – 2/2/2017

'A' Rating – 2/20/2018

Date of Consultant Report

March 2017

March, 2018

Legal Negotiation Initiated

2/21/2018

Comparable Strategies Reviewed

188 (Buyout)

24 (Large / Global Buyout)

Buyout Meetings

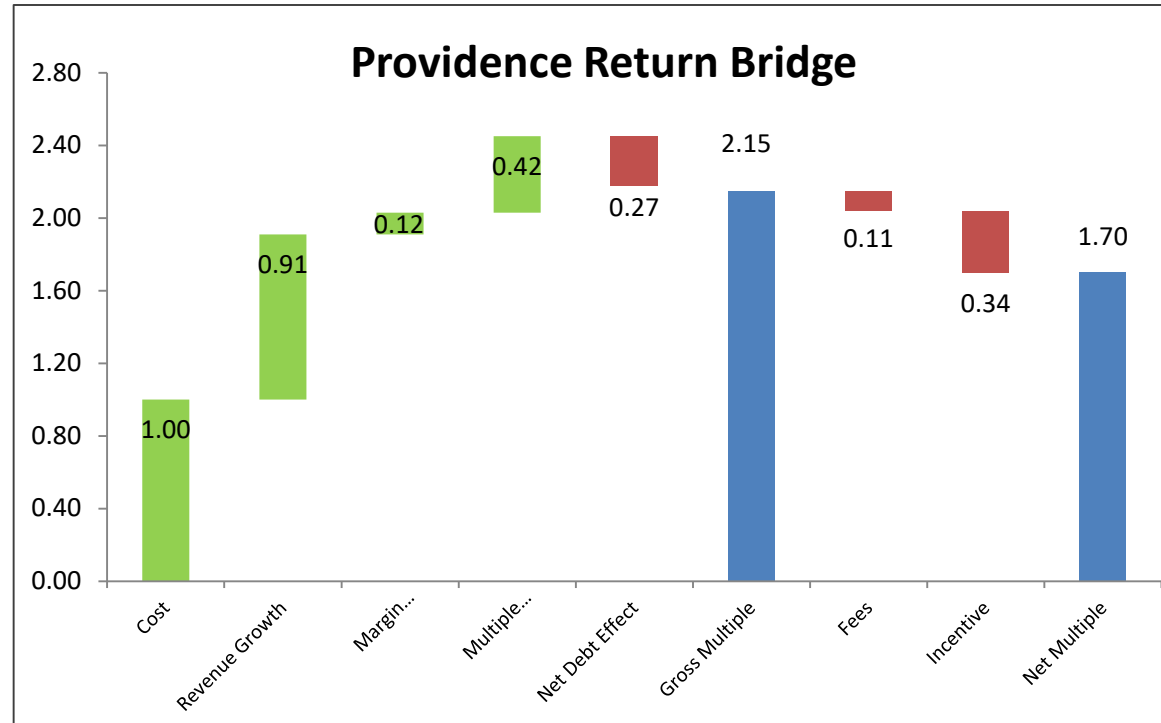
218 manager meetings

Top Candidate Characteristics – PEP VIII

\$55 million Recommendation

Investment Case

- *Large and experienced team with deep resources – over 350 investment professionals across 3 global offices*
- *Refocused strategy and strong recent performance – strengthened team, added resources and industry focus*
- *Fund size discipline – 50% decreased since Fund VI*
- *LP friendly terms and fees*



Issues to Consider

- *Stumbles in funds V and VI*
- *Higher historical loss ratios, but improved in VII*
- *Platform asset aggregation*

Top Candidate Characteristics – TAO Contingent

\$50 million Recommendation

TPG Sixth Street Partners (“TSSP” or the “Firm”) is a San Francisco-based affiliate of TPG, overseeing more than US\$20 billion of total AUM as TPG’s primary investment platform for pursuing special situations and distressed investments across the credit cycle. TAO Contingent is targeting a fund size of \$3 billion and will invest in opportunities sourced across the TSSP platform, including TPG Opportunities Partners, TPG Specialty Lending and TPG Specialty Lending Europe funds. The Fund will invest ~60-70% of its capital in opportunities that do not fit the mandates of the other TSSP funds, including defensive yield, stressed and distressed non-control opportunities. The Fund will seek to invest between US\$15 million and US\$300 million in each transaction.

TSSP Due Diligence Summary TAO Contingent

Date of First TMRS Meeting
8/11/2015 (Austin)

Dates of Subsequent Meetings
8/18/2015 (Update call)
9/17/2015 (Onsite)
7/11/2016 (Onsite)
6/21/2017 (Update call)
1/24/2018 (Austin)
2/8/2018 (Update call)

Dates of Diligence Advancement
‘B’ Rating – 8/20/2015
‘A’ Rating – 9/1/2015
‘A’ Re-affirmed – 2/22/2018

Date of Consultant Report
September, 2017

Legal Negotiation Initiated
2/26/2018

Comparable Strategies Reviewed
132 (Total Special Situations)
34 (Opportunistic Special Situations)

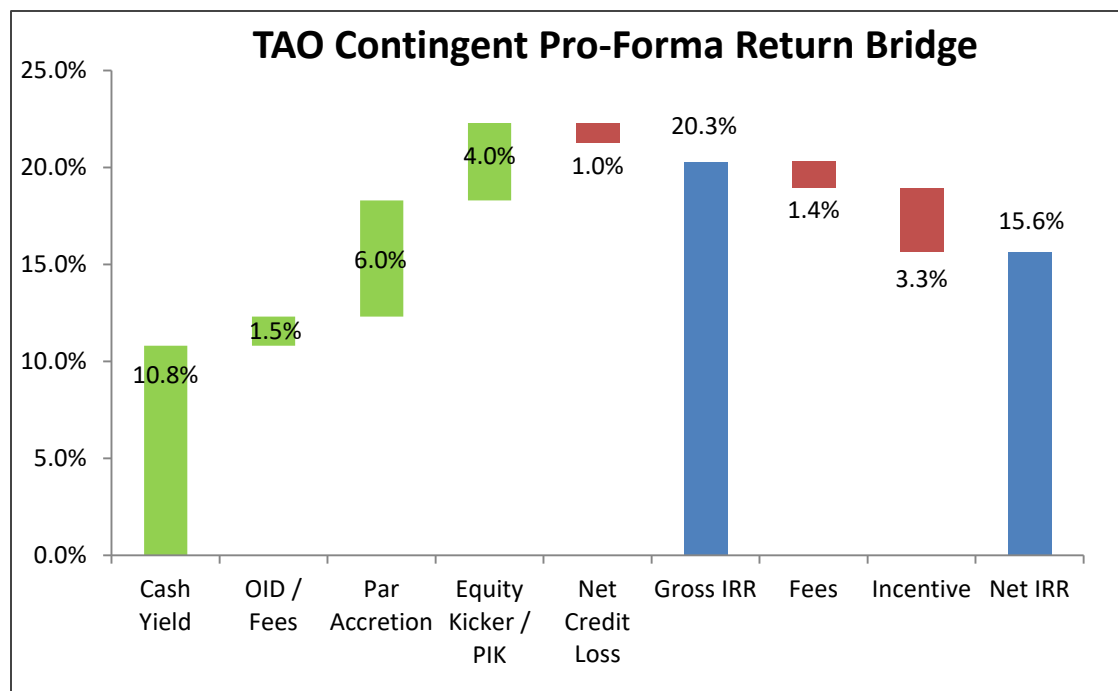
Special Situations
150 manager meetings

Top Candidate Characteristics – TAO Contingent

\$50 million Recommendation

Investment Case

- *Deep, cohesive team and sourcing infrastructure – TSSP leverages a large, tenured team fluent across all credit markets*
- *Strong performance and low loss ratios*
- *Opportunistic mandate and solid structuring capability – unique contingent structure reduces fees and provides tactical ability to deploy into credit cycle*
- *Favorable terms overall for higher returning credit*



Issues to Consider

- *Largely young and unrealized fund II & III*
- *Low preferred return and high catch-up*

Top Candidate Characteristics – TPG TOP IV

\$50 million Recommendation

TPG Sixth Street Partners (“TSSP” or the “Firm”) is a San Francisco-based affiliate of TPG, overseeing more than US\$20 billion of total AUM as TPG’s primary investment platform for pursuing special situations and distressed investments across the credit cycle. TPG Opportunities Partners IV (“TOP IV” or the “Fund”) will have three main areas of focus: corporate dislocations, corporate distressed-for-control, and asset special situations (i.e. Non—Performing Loans (NPL’s) containing small balance Commercial Real Estate (CRE), residential whole loans, or consumer loans). Though TSSP will be opportunistic in allocating between these strategies, they expect the Fund to be 75% in the corporate-related distress, and 25% in asset special situations. The Firm manages assets in excess of \$6.9 billion in the TOP series, and is targeting \$3.0 billion for the Fund.

TPG Sixth Street Partners Due Diligence Summary TPG TOP IV

Date of First TMRS Meeting
8/18/2015 (Austin)

Dates of Subsequent Meetings
8/18/2015 (Austin)
9/17/2015 (GP Office)
7/11/2016 (GP Office)
6/21/2017 (Call)
1/24/2018 (Austin)
2/8/2018 (Call)

Dates of Diligence Advancement
‘B’ Rating – 8/20/2015
‘A’ Rating – 2/22/2018

Date of Consultant Report
2/12/2018

Legal Negotiation Initiated
March, 2018

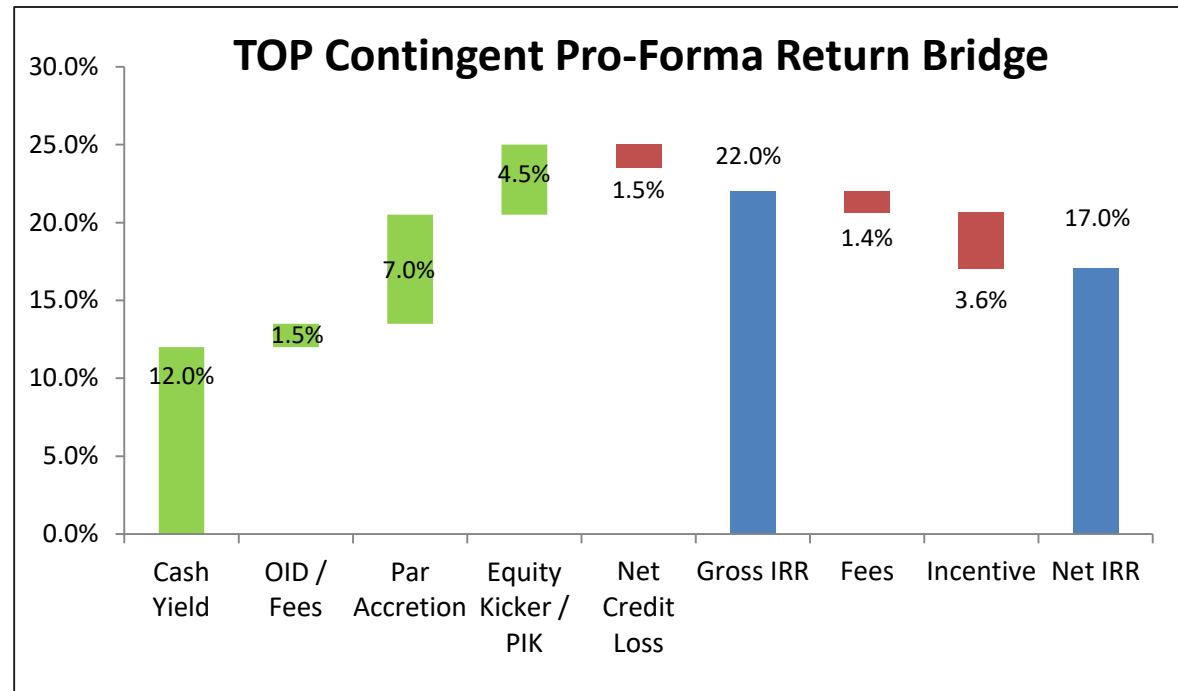
Comparable Strategy Meetings
Credit: 83
Distressed: 38

Top Candidate Characteristics – TPG TOP IV

\$50 million Recommendation

Investment Case

- *Strong historical performance with low loss ratios – performance across prior funds is top quartile, and 17% to 18% net*
- *Experienced team*
- *Robust investment platform*
- *Income-generating investment strategy – for a distressed fund, TOP produces a large amount of return from income helping to mitigate risk, as 80% of the portfolio is performing*



Issues to Consider

- *Institutional focus*
- *Third-party ownership*
- *Size of the current distress opportunity*

Top Candidate Characteristics – Foundry

\$45 million Recommendation

Foundry Group was formed in 2007 by Brad Feld, Seth Levine, Ryan McIntyre and Jason Mendelson. The four founders had previously worked together since 2001 at Mobius Venture Capital, and have since added Lindel Eakman (2015), Chris Moody (2017), and Jamey Sperans (2018) to the partnership. To date, Foundry has raised four early stage funds, (2007, 2010, 2013, and 2016), and two growth funds (2013 and 2016) to invest in both outperforming later stage opportunities and micro VC funds. Foundry Group manages assets in excess of \$1.7 billion in total. The Fund is targeting \$750 million.

Foundry Group Due Diligence Summary Foundry Group Next 2018

Date of First TMRS Meeting
1/19/2016 (Austin)

Dates of Subsequent Meetings
3/1/2016 (GP Office)
11/14/2016 (Austin)
4/27/2017 (LPAC meeting)
9/6/2017 (Austin)
2/8/2018 (Call)
3/19/2018 (Austin)

Dates of Diligence Advancement
'B' Rating – 1/19/2016
'A' Rating – 3/1/2016
'A' Re-affirmed – 2/21/2017

Date of Consultant Report
March, 2018

Legal Negotiation Initiated
March, 2018

Comparable Strategy Meetings
Growth Equity: 95
Venture Capital: 29

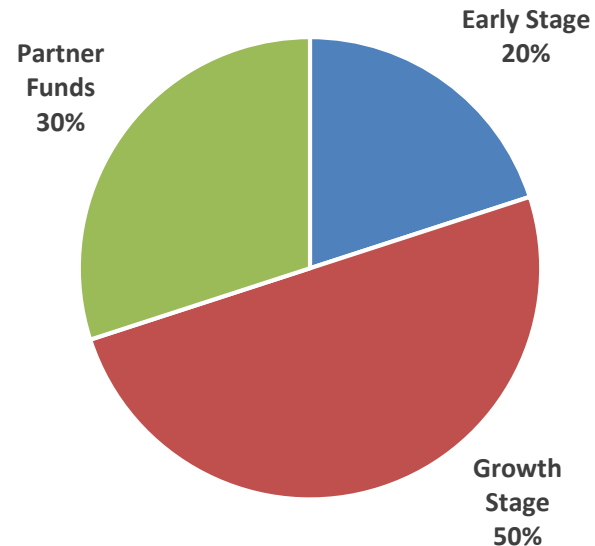
Top Candidate Characteristics – Foundry

\$45 million Recommendation

Investment Case

- *Strong performance across strategies and low losses*
- *Unique fund structure with access to their early stage deals, later-stage de-risked deals, and access-constrained venture managers – combination of exposures is excellent fit for TMRS’ portfolio*
- *Extremely strong brand and team – the Foundry team are widely regarded as venture industry thought leaders*
- *LP-friendly fees*

FG Next 2018 Expected Allocation



Issues to Consider

- *Young and unrealized predecessor funds*
- *Two new partners added since close of prior fund*
- *Potential adverse selection bias*
- *Increased capital flows into venture*

Section IV

REQUESTED BOARD ACTION

Approval of Recommendation

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

Recommendations:

- | | |
|--|--------------|
| • Providence Strategic Growth III L.P. | \$10 million |
| • Providence Equity Partners VIII L.P. | \$55 million |
| • TSSP Adjacent Opportunities Partners (D), L.P. | \$50 million |
| • TPG Opportunities Partners IV L.P. | \$50 million |
| • Foundry Group Next 2018, L.P | \$45 million |

DISCLOSURES

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