

Non-Core Fixed Income Recommendation

March 22-23, 2018



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Agenda

- I. Executive Summary
- II. Bank Loan (BL)/Collateralized Loan Obligation (CLO) Background and Market Context
- III. Search Process
- 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

EXECUTIVE SUMMARY

Manager Recommendation

Executive Summary

Summary of Recommendations

Recommended Manager/Fund	Strategy Classification	Target Return	Recommended Amount
GSO Capital Partners LP (GSO)	BL/CLO	CS Leveraged Loan Index	100%* (Approximately \$440m)
Octagon Credit Investors, LLC (Octagon)	BL/CLO	CS Leveraged Loan Index	100%* (Approximately \$425m)

*Please refer to the board communication and memo for additional information

Section II

BL/CLO BACKGROUND AND MARKET CONTEXT

Background

- Non-Core Fixed Income (NCFI) portfolio is fully invested on a commitment basis
- Staff utilizes a continuous, well defined due diligence process to review and monitor existing managers
- Process includes detailed analysis of the Core and NCFI portfolios to assess proper asset allocation
- Staff conducted a full re-evaluation of the BL/CLO mandates to:
 - Confirm market opportunity and NCFI portfolio fit
 - Identify and evaluate top BL/CLO managers
 - Assess and compare managers' investment process, philosophy and team
 - Optimize the BL/CLO allocation within the NCFI Portfolio

Market Context

BLs and CLOs continue to represent compelling investment opportunities:

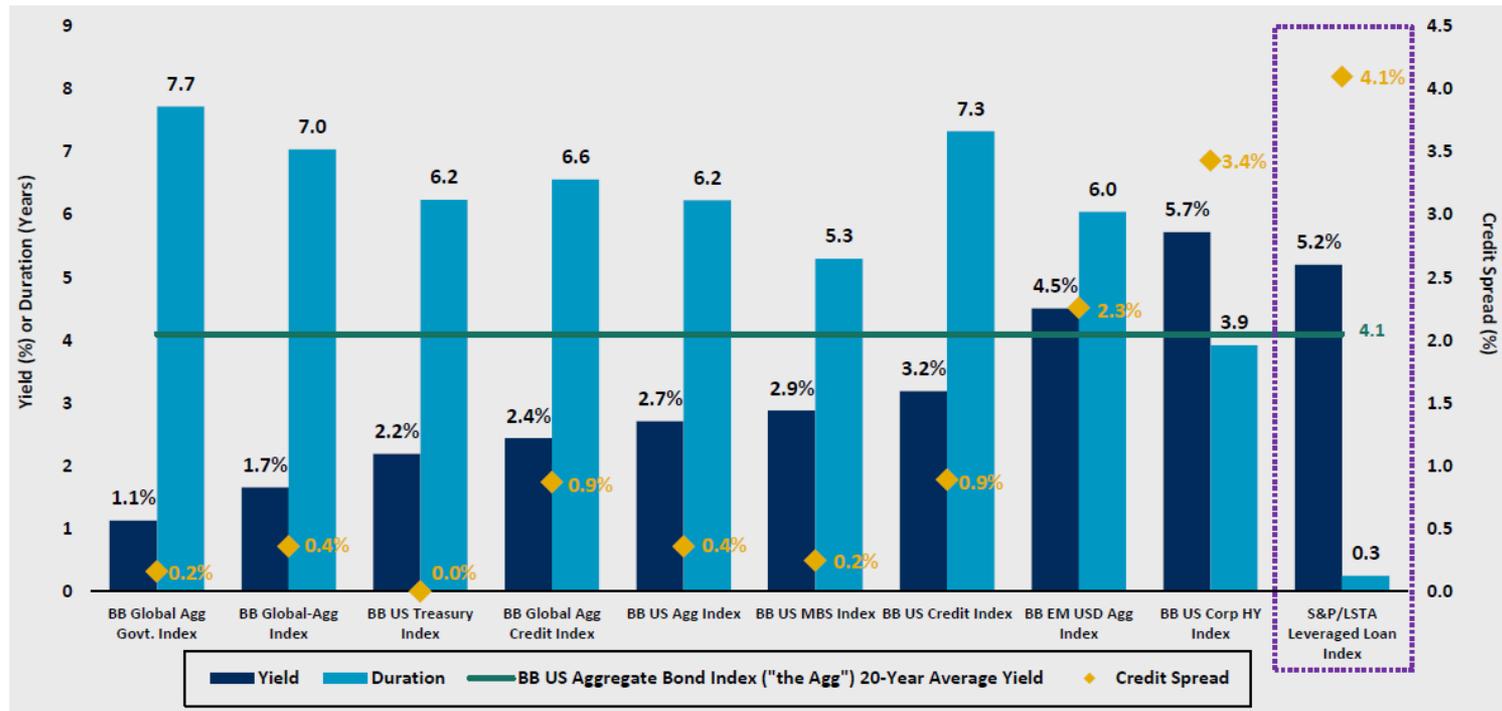
- Attractive return drivers and very low duration
- Floating rate coupon mitigates interest rate risk
- Credit spreads contribute to high income return

Asset Category	Fixed/Floating	Duration	Current Index Yield	Avg. Yield Since Dec 2011 ⁽¹⁾
Aggregate Fixed Income	Fixed	5.98	2.71%	2.22%
Investment Grade Corporate	Fixed	7.58	3.25%	3.12%
BBB Corporate Bonds	Fixed	7.60	3.54%	3.70%
Asset-Backed Securities	Fixed	2.15	2.26%	1.41%
High Yield Bonds	Fixed	3.86	5.99%	6.65%
BB High Yield Bonds	Fixed	4.39	4.33%	4.88%
B High Yield Bonds	Fixed	3.55	5.94%	6.56%
Loans	Floating	0.25	6.33%	6.00%
BB Loans	Floating	0.25	4.85%	4.41%
B Loans	Floating	0.25	6.45%	6.28%
CLO A Debt	Floating	0.25	3.75%	4.97%
CLO BBB Debt	Floating	0.25	4.57%	6.43%
CLO BB Debt	Floating	0.25	7.58%	8.99%
CLO B Debt	Floating	0.25	9.42%	10.99%

Source: Bloomberg Barclays Indices, S&P/LSTA Leveraged Loan Index, SSGA SPDR ETFs January 2018 Chart Pack and GSO

Market Context

BLs and CLOs offer very attractive return and diversification benefits relative to the majority of other traditional fixed income sectors.

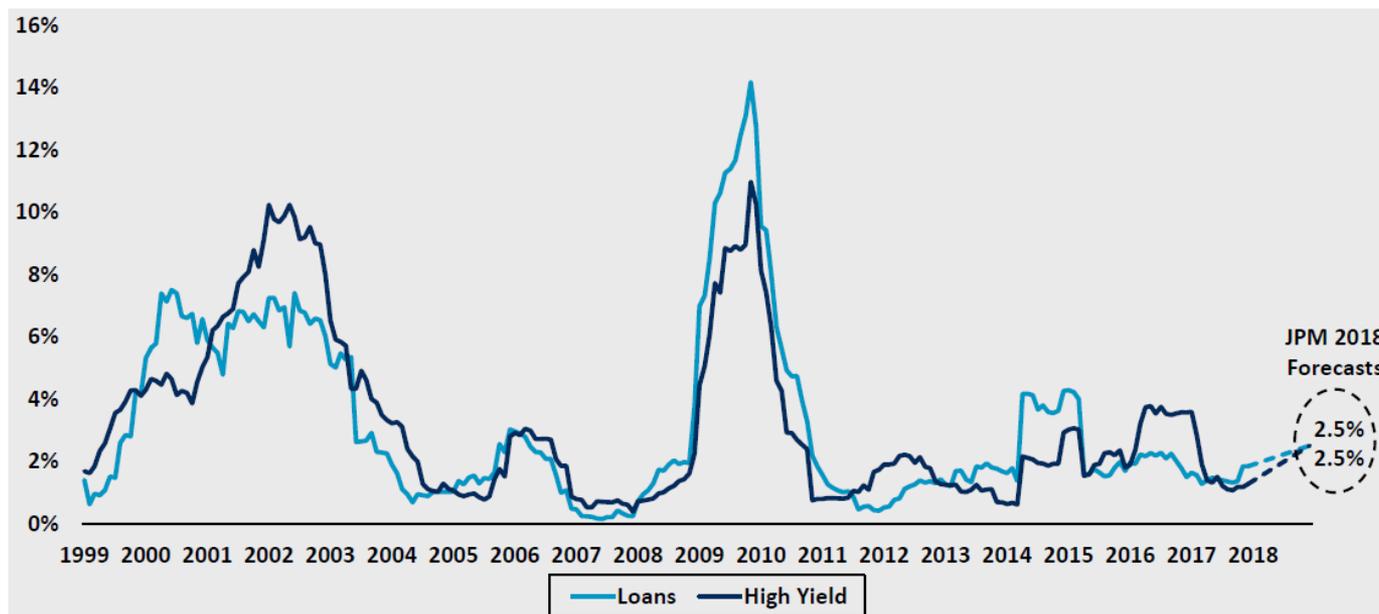


Source: Bloomberg Barclays Indices, S&P/LSTA Leveraged Loan Index, SSGA SPDR ETFs January 2018 Chart Pack and GSO

Market Context

Current default rates are very low and are expected to remain muted due to strong economic tailwinds.

U.S. Loan and High Yield Default Rates (%)



Source: JP Morgan and GSO

Market Context

CLO debt has performed well and is an important source of differentiated return.

Asset Category	2015		2016		2017	
	Price Change	Return	Price Change	Return	Price Change	Return
Loans	N/A	-0.4%	N/A	9.9%	N/A	3.0%
CLO AAA Debt	-0.1%	1.5%	1.1%	3.2%	0.3%	1.9%
CLO AA Debt	-0.2%	2.0%	2.8%	5.5%	0.3%	2.3%
CLO A Debt	-0.1%	3.0%	3.4%	7.1%	0.5%	3.0%
CLO BBB Debt	-4.7%	-0.8%	7.6%	12.0%	3.6%	7.2%
CLO BB Debt	-10.9%	-5.8%	14.9%	21.7%	7.4%	13.2%
CLO B Debt	-15.5%	-10.9%	12.4%	23.7%	15.5%	23.2%
CLO Equity	-33.7%	N/A	13.5%	N/A	-3.7%	N/A

Source: JP Morgan, Credit Suisse and GSO

Market Context

Default rates for CLO debt have been extremely low.

LOW HISTORICAL DEFAULTS

	US CLO Cumulative Default Rate ²	US Corp Avg. Cumulative Default Rate, 1981-2013, S&P ²		
	1994-2013 (20 Year)	5 Year	10 Year	15 Year
AAA	0.00%	0.42%	0.87%	1.25%
AA	0.00%	0.47%	1.13%	1.62%
A	0.45%	0.79%	2.07%	3.14%
BBB	0.47%	2.27%	5.06%	7.27%
BB	2.26%	8.83%	15.96%	19.59%
B	2.61%	20.73%	29.01%	33.11%

Source: Octagon

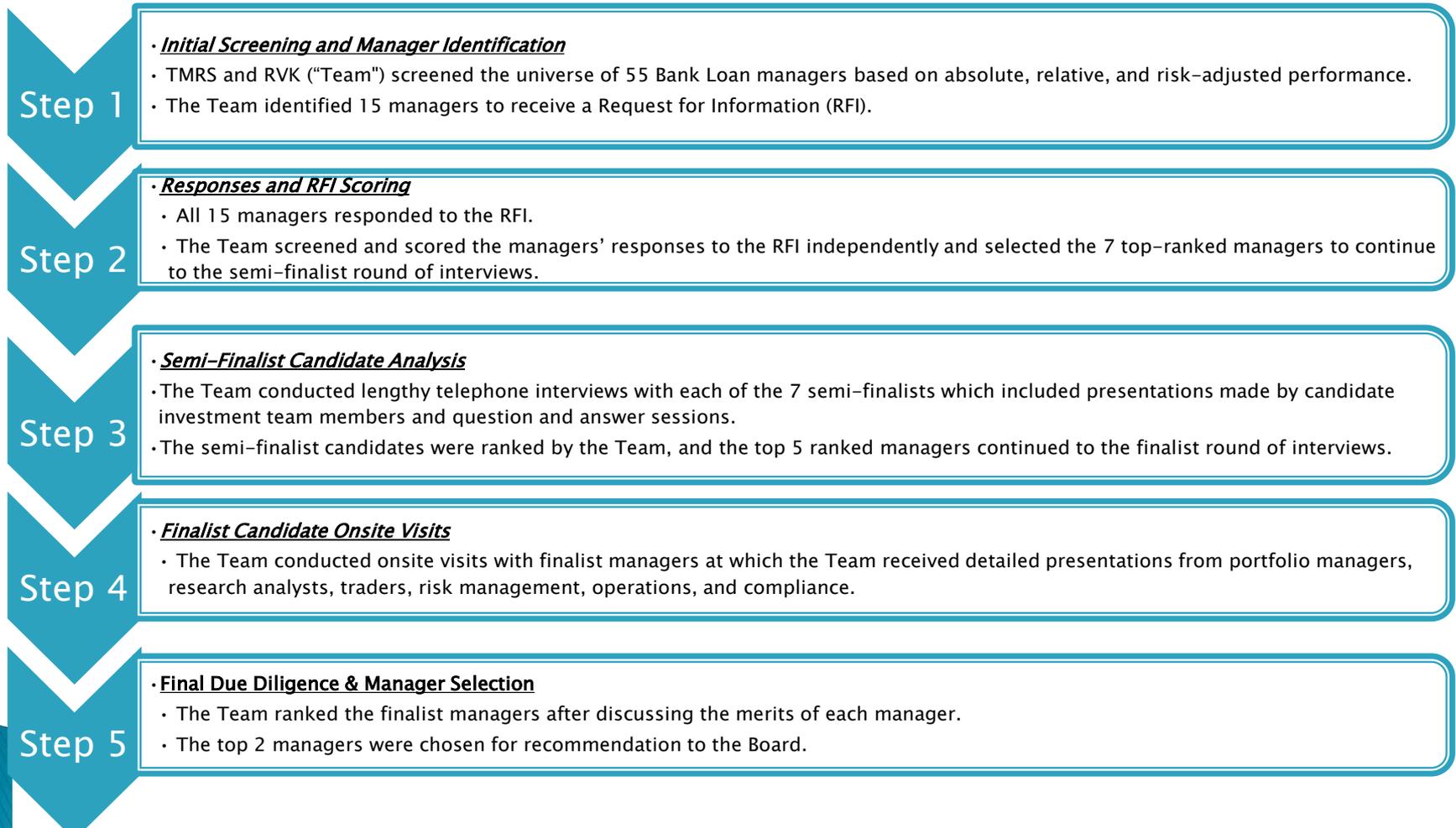
² U.S. CLO data is from Standard & Poor's RatingsDirect "Twenty Years Strong: A Look Back at US CLO Ratings Performance From 1994 Through 2013" (January 31, 2014). Please note this is the latest information available from S&P. Past default rates are not indicative/a guarantee of future default rates. For all rated CLO tranches from 1994-2013, and includes 7 tranches that were rated CC as of year end 2013, which implies that "default is a virtual certainty." U.S. Corporate Cumulative Default Rate is per S&P, for 1981 to 2012. The data presented show averages of all of the 5 yr, 10 yr, and 15 yr rolling cumulative default rates from 1981-2013, respectively.

Section III

SEARCH PROCESS

Search Process

TMRS and RVK conducted an RFI Search Process to reevaluate the BL/CLO market.



Search Process

First Round

Manager	Avg. Score
Manager 1	86.9
GSO	85.3
Octagon	85.1
Manager 2	82.6
Manager 3	81.8
Manager 4	81.2
Manager 5	80.7
Manager 6	80.1
Manager 7	79.5
Manager 8	77.6
Manager 9	77.6
Manager 10	74.4
Manager 11	73.8
Manager 12	67.8
Manager 13	58.7

- RFI review
- Top 7 Managers advance to the next round

Semi-finals*

Manager	Avg. Ranking
Manager 3	1.3
Manager 2	1.7
Manager 5	3.3
Octagon	3.7
GSO	5.3
Manager 4	6.0
Manager 1	6.3

- 60 to 90 minute calls
- Top 5 Managers advance to the next round

Finals*

Manager	Avg. Ranking
Octagon	1.3
GSO	1.7
Manager 3	3.0
Manager 2	4.0
Manager 5	5.0

- On-site due diligence
- Top 2 Managers presented for Board Recommendation

*The lower the ranking the better

Section IV

MANAGER SELECTION & RECOMMENDATION

Top Candidate Characteristics – GSO

Firm:

- GSO, headquartered in New York, was founded in 2005
- In March 2008, Blackstone acquired a controlling stake in the company
- GSO has \$93.7 billion in AUM that is invested in public and alternative private markets primarily focused on high yield, BLs, CLOs, direct lending, mezzanine, stressed/distressed debt strategies
- GSO is one of the largest CLO issuers

Team:

- 331 total employees in New York, London, Dublin and Houston
- 60 dedicated investment professionals with an average of 14 years of experience
- 31 dedicated research professionals that cover approximately 30 issuers each and 1 to 2 industries
- 5 dedicated structured credit (CLO) investment professionals

Reasons to Invest

- **Singular Focus on below investment grade and extensive experience as a top rated CLO manager**
 - GSO has focused singularly on investing in below investment grade securities since the inception of the firm.
- **Broad GSO platform provides informational advantage**
 - GSO is a substantial credit platform that manages approximately \$60 billion in alternative credit, including Direct Lending, Mezzanine Funds, Stressed/Distressed Fund, Energy Funds and others.
- **Deep and Experienced team**
 - The BL/CLO team has 31 dedicated research professionals who cover approximately 30 issuers each and 1 to 2 industries. In addition, GSO has 5 dedicated CLO investment professionals.
- **Bottom-up research driven investment process**
 - Fundamental credit research is the cornerstone of GSO's investment process.

Issues to Watch

- **Capacity**
 - GSO's size gives the firm an advantage but can also impede the ability to consistently source investments for such a large platform. Staff believes that these occasional sourcing challenges are mitigated by GSO's informational advantage and deep relationships that will drive a growing opportunity set in the loan and CLO markets.
- **Defensive Underwriting of BL and CLOs**
 - GSO's credit underwriting process that forms the foundation for all of their BL and CLO portfolios seeks to always prioritize minimizing the downside risk inherent in these sectors. Staff believes that GSO's focus on the downside potential of any investment reinforces Staff's confidence in their ability to generate great, long term risk adjusted returns over a variety of market cycles.

Top Candidate Characteristics – Octagon

Firm

- Octagon was founded in 1994 and is headquartered in New York
- In February 2016, Conning & Company acquired 82.1% of the company
- Octagon has \$16.9 billion of AUM* that focuses on below investment grade corporate debt, primarily BLs, high yield bonds, and CLOs

Team

- 28 investment professionals with many of them spending most of their careers at the firm
- 6 Portfolio Managers with an average of 21 years of experience
- 18 dedicated research professionals

Reasons to Invest

- **CLO and BL focus**
 - Octagon is a specialist firm that has focused solely on the BL and CLO markets since inception.
- **Deeply experienced and stable team**
 - The team consists of 28 investment members, including 6 portfolio managers who average over 21 years of experience.
- **Bottom-up, research driven investment process**
 - Octagon has a dedicated research team of 18 investment professionals.
- **Top tier CLO manager**
 - Octagon is regarded as a top tier CLO manager by its peers. Octagon is large enough to be meaningful to the sell-side and receive strong allocations, yet not so large that it is forced to “own the market.”
- **Successful CLO platform provides informational advantage**
 - Octagon’s experience in successfully structuring, underwriting, and managing their own CLOs informs the firm’s investment decisions for other secondary CLOs issued by peers.

Issues to Watch

- **Assets under management skewed toward Octagon’s CLO platform**
 - Octagon’s CLO platform represents approximately 72% of the AUM of the firm. Octagon is focused on utilizing their expertise in credit analysis for BL and CLO management to scale their separately managed account business. Staff believes that Octagon’s success as a CLO manager will be an advantage utilized within their investment process.

Section V

REQUESTED BOARD ACTION

Approval of Recommendation

TMRS Staff and RVK recommend that the Board of Trustees replace the two existing BL/CLO managers as described in the Board Communication Memo with the following two new BL/CLO managers:

GSO Capital Partners LP
Octagon Credit Investors, LLC

DISCLOSURES

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