

Non-Core Fixed Income Recommendations

June 28-29, 2018



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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

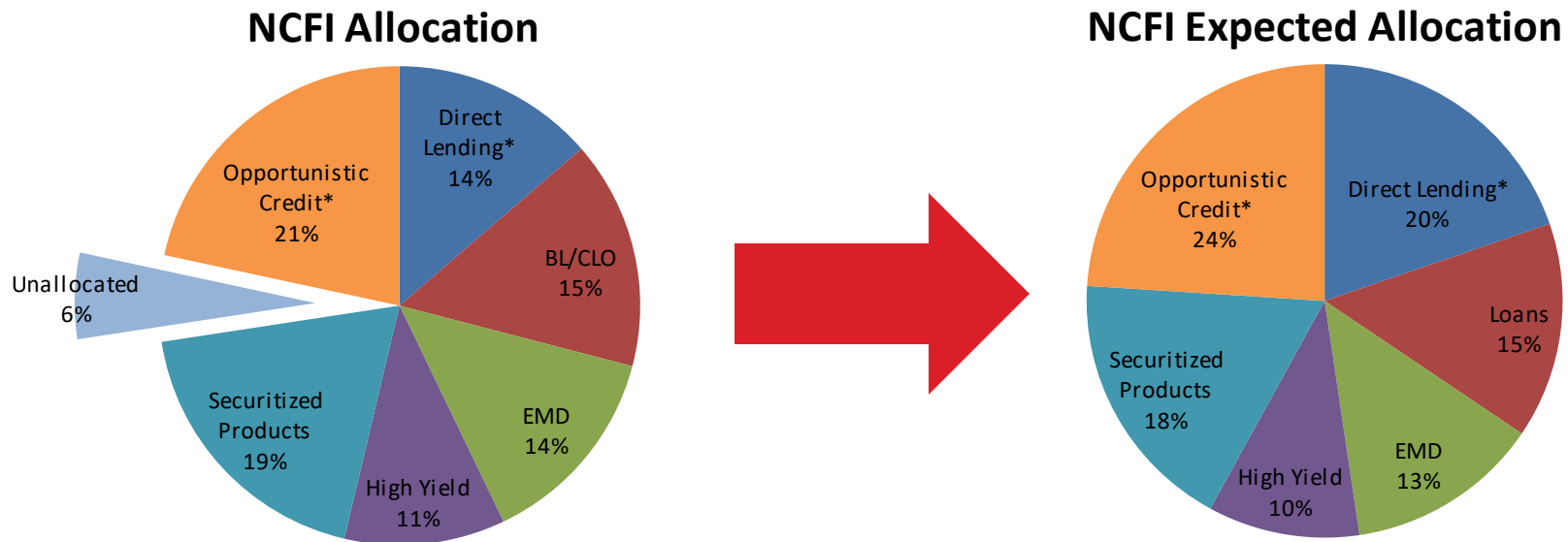
Executive Summary

Summary of Recommendations			
Recommended Manager/Fund	Strategy Classification	Target Return	Recommended Amount
AG Direct Lending Fund III (Unlevered), L.P. (AG)	Direct Lending	6%–8% Net IRR	\$250 million
H.I.G. Whitehorse Trinity, L.P. (Whitehorse)	Direct Lending	8%–10% Net IRR	\$150 million (Add-on to our original \$150 million investment)
Värde Private Debt Opportunities Fund, L.P. (Värde)	Opportunistic Credit – Special Situations	9%–12% Net IRR	\$200 million
Total Recommended Investments/Commitments			\$600 million

Section II

PORTFOLIO CONSTRUCTION

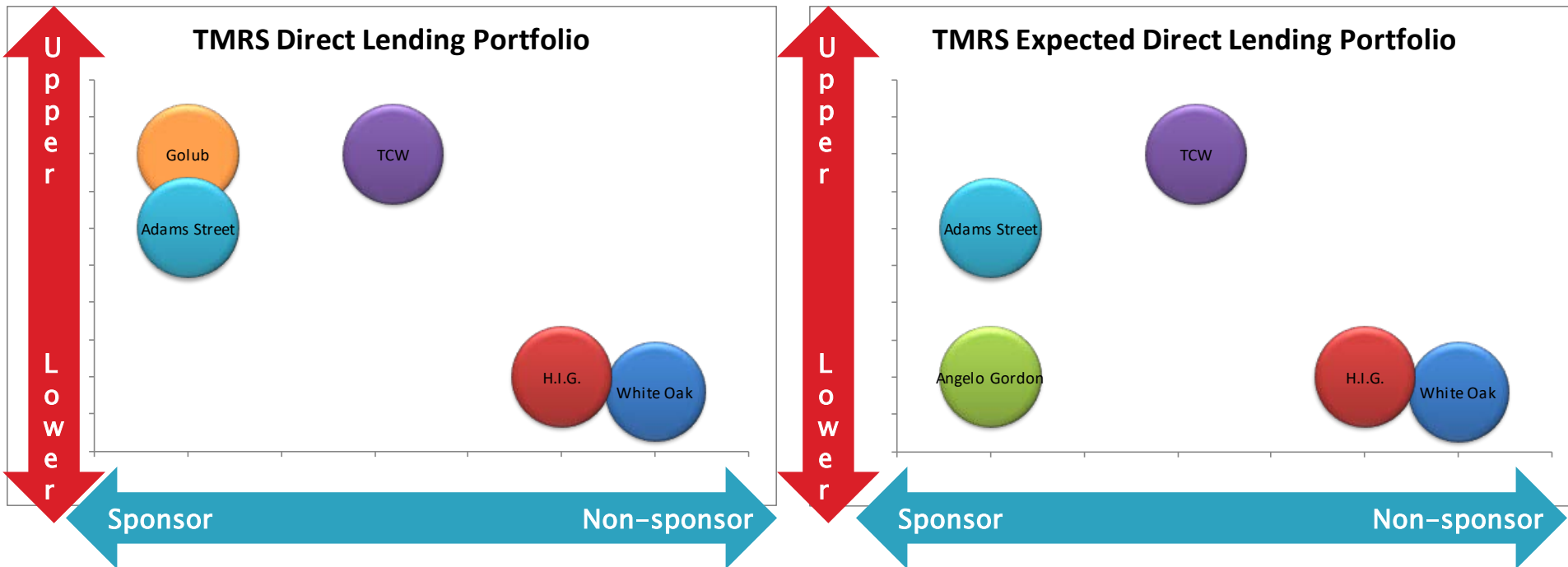
Non-Core Fixed Income Portfolio Construction



- In late 2017, Golub informed investment staff of their intent to close the P.E.A.R.L.S. Direct Lending program.
- TMRS reached an agreement in April of 2018 to terminate the investment period and let the existing portfolio mature.
- Recommendations today address the reinvestment of Golub's commitment plus an additional allocation to an existing direct lender and a new opportunistic credit allocation.

*Partially funded

Direct Lending Portfolio



- AG and HIG recommendations target the more attractive lower middle market direct lending space and tries to avoid the current issues in some of the upper middle market.
- AG complements existing manager allocation given the unique investment approach.
- HIG has performed well in our existing portfolio.

Section III

MANAGER SELECTION & RECOMMENDATION

Top Candidate Characteristics – AG

\$250 million Recommendation

Angelo Gordon & Co. L.P. (AG) is a privately owned firm specializing in global alternative investments. The firm was founded in 1988 and manages approximately \$28 billion as of March 31, 2018 across a broad range of investment strategies that focus on corporate credit, real estate and private equity.

The Fund focuses on sourcing and underwriting senior secured loans to lower middle market sponsor-backed companies with EBITDA of \$25 million and below. The team has grown steadily over the last four years with over 40 employees dedicated to the direct lending business. This will be the third Fund raised by AG's Direct Lending team since the strategy was established in 2014.

AG Process Summary

Date of First TMRS Meeting

5/12/16 (Call)

Dates of Subsequent Meetings

8/24/16 (Austin)

10/19/16 (Austin)

4/9/18 (Call)

5/4/18 (Chicago)

Dates of Diligence Advancement

'B' Rating – 4/9/18

'A' Rating – 5/4/18

Date of Consultant Report

June, 2018

Legal Negotiation Initiated

6/1/18

Comparable Strategies Reviewed

22 Direct Lenders

Top Candidate Characteristics – Whitehorse

\$150 million Recommendation

H.I.G Capital is a leading global alternative asset manager focused exclusively on lower to middle market companies. The firm was founded in 1993 and has 18 offices around the world with approximately 350 investment professionals and \$25 billion in AUM invested across direct lending, special situations, leveraged buyouts, growth equity and real estate.

HIG Whitehorse (Whitehorse) provides senior secured loans to performing lower middle market companies with \$8-50 million EBITDA. Whitehorse has a dedicated team of 32 seasoned investment and origination professionals with unique sourcing capabilities. The Whitehorse platform manages about \$2.6 billion.

Whitehorse Process Summary

Date of First TMRS Meeting

8/15/15 (New York)

Dates of Subsequent Meetings

Multiple meetings through 2015 & 2016

3/9/17 (Call)

5/22/17 (Call)

10/12/17 (Call)

12/14/17 (New York)

4/19/18 (Austin)

Dates of Diligence Advancement

'A' Rating – established upon initial

recommendation in 2015

Maintain current 'A' rating

Date of Consultant Report

June, 2018

Legal Negotiation Initiated

Not yet started

Comparable Strategies Reviewed

22 Direct Lenders

Top Candidate Characteristics – Värde

\$200 million Recommendation

Värde Management L.P. (“Värde”) was founded in 1993. The firm has 295 employees, including over 90 investment professionals. It is headquartered in Minneapolis with additional primary offices in London and Singapore. Värde manages over \$13 billion in assets through several products across the credit spectrum that range from liquid hedge funds to private equity vehicles.

The Fund will lever the firm’s extensive network of contacts and considerable sourcing capabilities to pursue asset-based, secured private lending opportunities across their global platform. The Fund will focus on the private debt space with a high income component.

Värde

Date of First TMRS Meeting

3/1/17 (Austin)

Dates of Subsequent Meetings

9/13/17 (Austin)

1/26/18 (Austin)

3/20/18 (Austin)

3/29/18 (Call)

4/16/18 (Call)

4/30/18 (Call)

5/18/18 (Call)

5/23/18 (Minneapolis)

Dates of Diligence Advancement

‘B’ Rating – 3/20/18

‘A’ Rating – 5/23/18

Date of Consultant Report

June, 2018

Legal Negotiation Initiated

5/22/18

Comparable Strategies Reviewed

56 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:

AG Direct Lending Fund III (Unlevered), L.P.	\$250 million
H.I.G. Whitehorse Trinity, L.P. (Add-on)	\$150 million
Värde Private Debt Opportunities Fund, L.P.	\$200 million

DISCLOSURES

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