

Private Equity Recommendations

Chris Schelling, Director of Private Equity
Peter Teneriello, Analyst
StepStone Group
February 14–15, 2019



Agenda

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

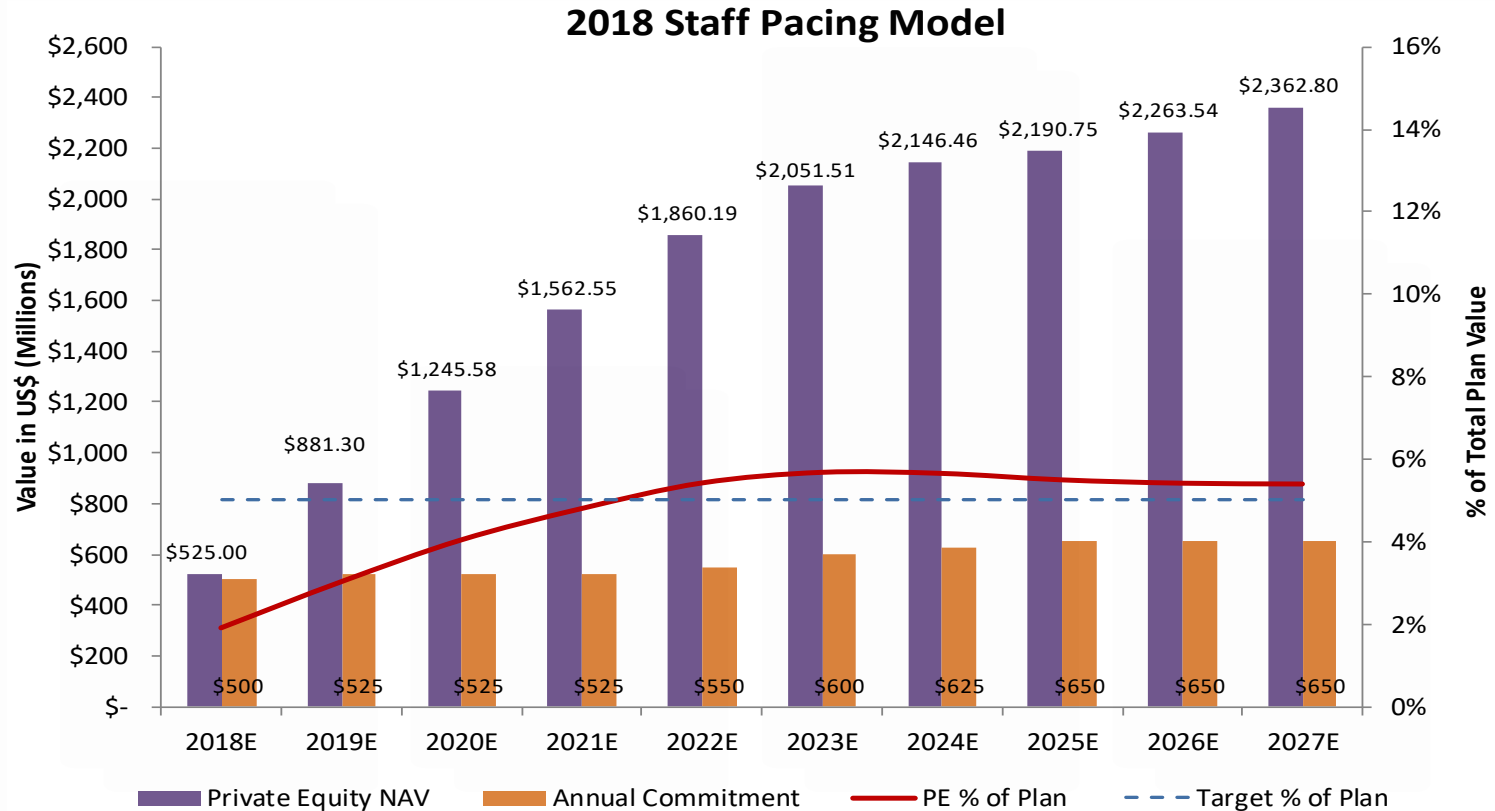
*Names used in this presentation are shortened versions that are used for ease of communication purposes throughout this document. The formal recommendations to the Board on the last page of this presentation reflect the full legal names of the investments.

Section I

DUE DILIGENCE PROCESS REVIEW

Due Diligence Processes

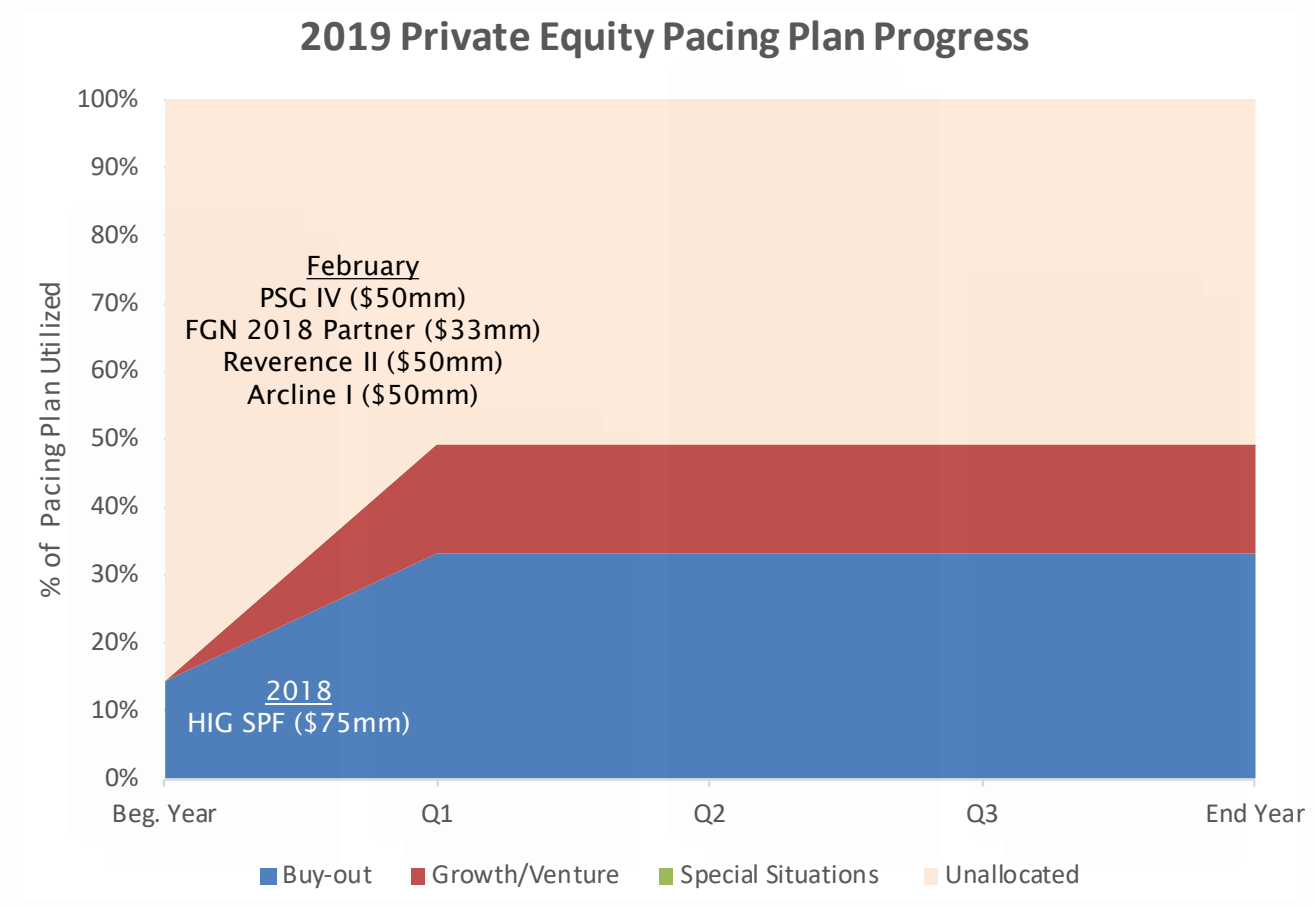
As part of Multi-year time periods



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



The 2019 Private Equity search process has culminated in ~\$258 mm of closed and/or recommended investments, in line with the \$525 mm primary 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:

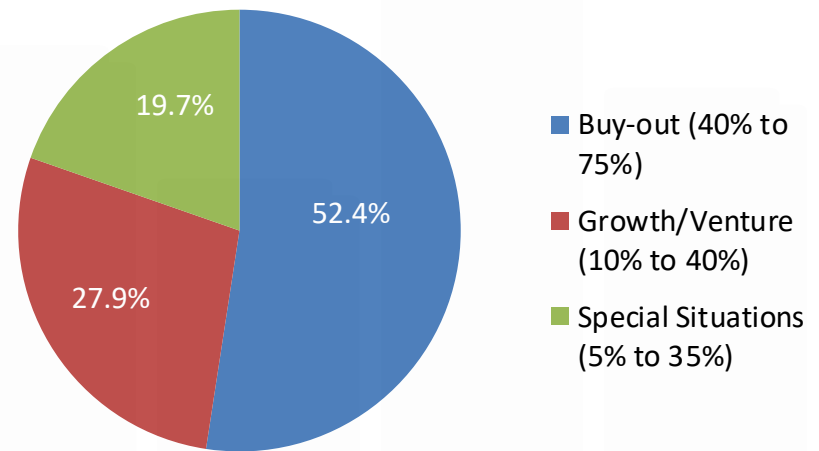
2015: Overweight special situations early for J-Curve mitigation, efficiency of capital deployment, and tactical opportunities.

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: Steady state on pacing, selectively adding new relationships and European exposure

Private Equity Strategy Diversification by Commitment



Manager Selection Portfolio Considerations

Manager Implementation

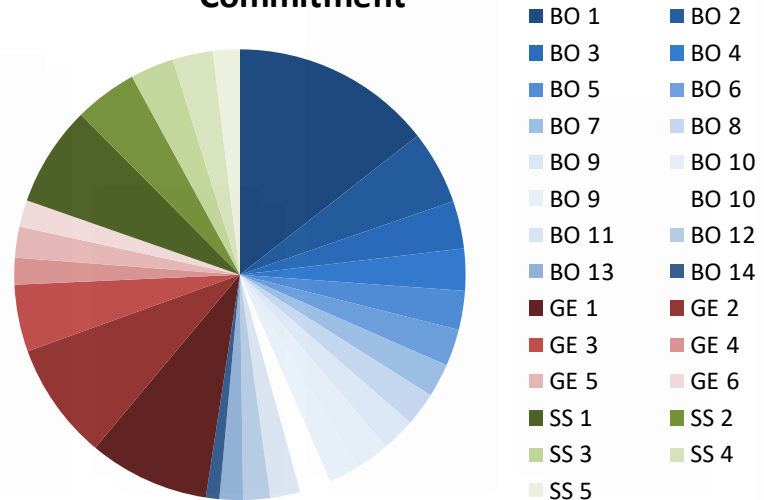
The overall goal remains identifying top quartile performers to partner with.

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.

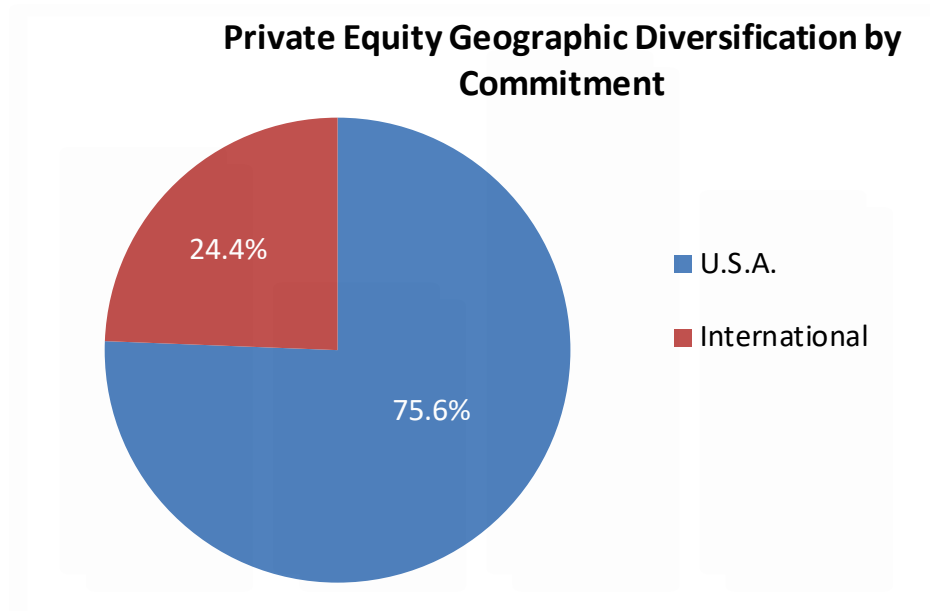
Private Equity Manager Diversification by Commitment



Manager Selection Portfolio Considerations

Geographic Diversification

TMRS is focused on taking a measured approach to global 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	Recommended Amount
Reverence II	Buy-Out	25% Net IRR	\$50 million
Arcline I	Buy-Out	25% Net IRR	\$50 million
PSG IV	Growth	25% Net IRR	\$50 million
FGN 2018 Partner Fund	Venture Capital	20% Net IRR	\$100 million
Total Approximate Recommended Investments/Commitments			Up to \$250 million

Inclusive of the above recommendations, 2019 year to date total private equity recommendations approved will equal ~\$258 million (with the committed amount to be determined), within limits set forth in the 2019 Private Equity Pacing Model and the IPS.

Top Candidate Characteristics – Reverence II

\$50 million Recommendation

Reverence Capital Partners (“Reverence”) is a New York-based investment firm founded in 2013 that focuses on the middle market of financial services, specifically within the asset/wealth management, bank and non-bank finance, capital markets, financial technology, payments and services, and insurance verticals. Reverence Capital Partners Opportunities Fund II, L.P. is targeting \$750 million to make eight to 12 control and influence-oriented investments into companies with the following characteristics: proven business models with defensible franchises, growing revenue/earnings with high free cash flow, and strong management teams. Reverence is continuing to execute the same strategy employed in the prior fund.

Reverence Due Diligence Summary

Date of First TMRS Meeting
7/10/2018 (Call)

Dates of Subsequent Meetings
8/16/2018 (Onsite)
10/10/2018 (Onsite)

Dates of Diligence Advancement
‘B’ Rating – 7/18/2018
‘A’ Rating – 9/24/2018

Date of Consultant Report
October, 2018

Legal Negotiation Initiated
October 16, 2018

Comparable Strategies Reviewed
14 (Financial services-focused)
7 (Generalist buy-out)

Buy-Out Meetings
127 manager meetings

Growth Meetings
108 manager meetings

Top Candidate Characteristics – Arcline I

\$50 million Recommendation

Arcline Investment Management LP (“Arcline”) is a San Francisco-based buyout firm founded in 2018 that focuses on acquiring middle market industrial companies and transforming their business models. Arcline Capital Partners LP is targeting \$1.25 billion to build a portfolio of 8 to 10 businesses requiring equity investments of up to \$300 million. These target companies will generate up to \$1 billion of revenue and \$125 million of EBITDA, while serving a wide variety of end-markets and sectors. Arcline will continue to execute the same strategy developed and employed during the founders’ tenure at Golden Gate Capital.

Arcline Due Diligence Summary

Date of First TMRS Meeting

11/1/2018 (Call)

Dates of Subsequent Meetings

12/3/2018 (Call)

12/20/2018 (Call)

1/3/2019 (Onsite)

Dates of Diligence Advancement

‘B’ Rating – 11/1/2018

‘A’ Rating – 1/7/2019

Date of Consultant Report

January, 2019

Legal Negotiation Initiated

January, 2019

Comparable Strategies Reviewed

12 (Industrial-focused Buy-Out)

14 (Generalist Buy-Out)

Industrial Buy-Out Meetings

12 manager meetings

Generalist Buy-Out Meetings

119 manager meetings

Top Candidate Characteristics – PSG IV

\$50 million Recommendation

Providence Strategic Growth (“PSG”) is the growth equity affiliate of the Providence Equity Partners platform, which oversees more than US\$60 billion of AUM and is currently headquartered in Providence, RI. PSG targets lower-middle market software and technology-enabled businesses in North America, making both majority and significant minority investments with an emphasis on companies that have not taken prior institutional capital. Providence Strategic Growth IV, L.P. (“PSG IV” or the “Fund”) is targeting \$1.75 billion to make 20 platform investments, seeking opportunities where the Fund can initially invest \$5 million to \$75 million. PSG will continue to execute the same strategy employed in the prior fund.

PSG Due Diligence Summary

Date of First TMRS Meeting

2/2/2016 (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)

2/13/2018 (Austin)

5/22/2018 (GP Office)

11/7/2018 (LPAC meeting)

11/8/2018 (Annual meeting)

Dates of Diligence Advancement

‘B’ Rating – 2/2/2016

‘A’ Rating – 3/28/2016

‘A’ Re-affirmed – 10/1/2017

‘A’ Re-affirmed – 1/9/2019

Date of Consultant Report

January, 2019

Legal Negotiation Initiated

January, 2019

Comparable Strategies Reviewed

72 (Growth Equity)

17 (Software focused Growth)

Growth Meetings

131 manager meetings

Top Candidate Characteristics – FGN 2018 Partner Fund

\$100 million Recommendation

Foundry Group (“Foundry”) is a Boulder, CO-based venture capital firm launched in 2007 by Brad Feld, Seth Levine, Ryan McIntyre and Jason Mendelson. The four founding partners are supported by two additional partners: Lindel Eakman (joined in 2015) and Chris Moody (joined in 2017). Foundry currently invests in three strategies out of a single fund line: early stage businesses, growth stage businesses, and early stage venture funds. Foundry manages close to \$2.5 billion in total assets, and is targeting \$100 million for Foundry Group Next 2018 Partner Fund, L.P. (the “Fund”), which will co-invest alongside Foundry Group Next 2018, L.P. into high-potential and access-constrained early stage venture fund investments.

Foundry Due Diligence Summary

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)

4/26/2018 (Annual meeting)

8/14/2018 (Call)

9/28/2018 (Call)

10/22/2018 (Call)

11/27/2018 (Call)

Dates of Diligence Advancement

‘B’ Rating – 1/19/2016

‘A’ Rating – 3/1/2016

‘A’ Re-affirmed – 2/21/2017

‘A’ Re-affirmed – 3/19/2018

Date of Consultant Report

January 2019

Legal Negotiation Initiated

November 2018

Comparable Strategy Meetings

Venture Capital: 15

Section IV

REQUESTED BOARD ACTION

Approval of Recommendation

TMRS Staff and StepStone Group recommend that the Board of Trustees approve the selection of the following funds:

Recommendations:

- Reverence Capital Partners Opportunities Fund II, L.P. \$50 million
- Arcline Capital Partners LP \$50 million
- Providence Strategic Growth IV, L.P. \$50 million
- Foundry Group Next 2018 Partner Fund, L.P. \$100 million

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.