

Real Estate Recommendation

February 14–15, 2019



Agenda

- I. Executive Summary
- II. Manager Selection
- III. Requested Board Action

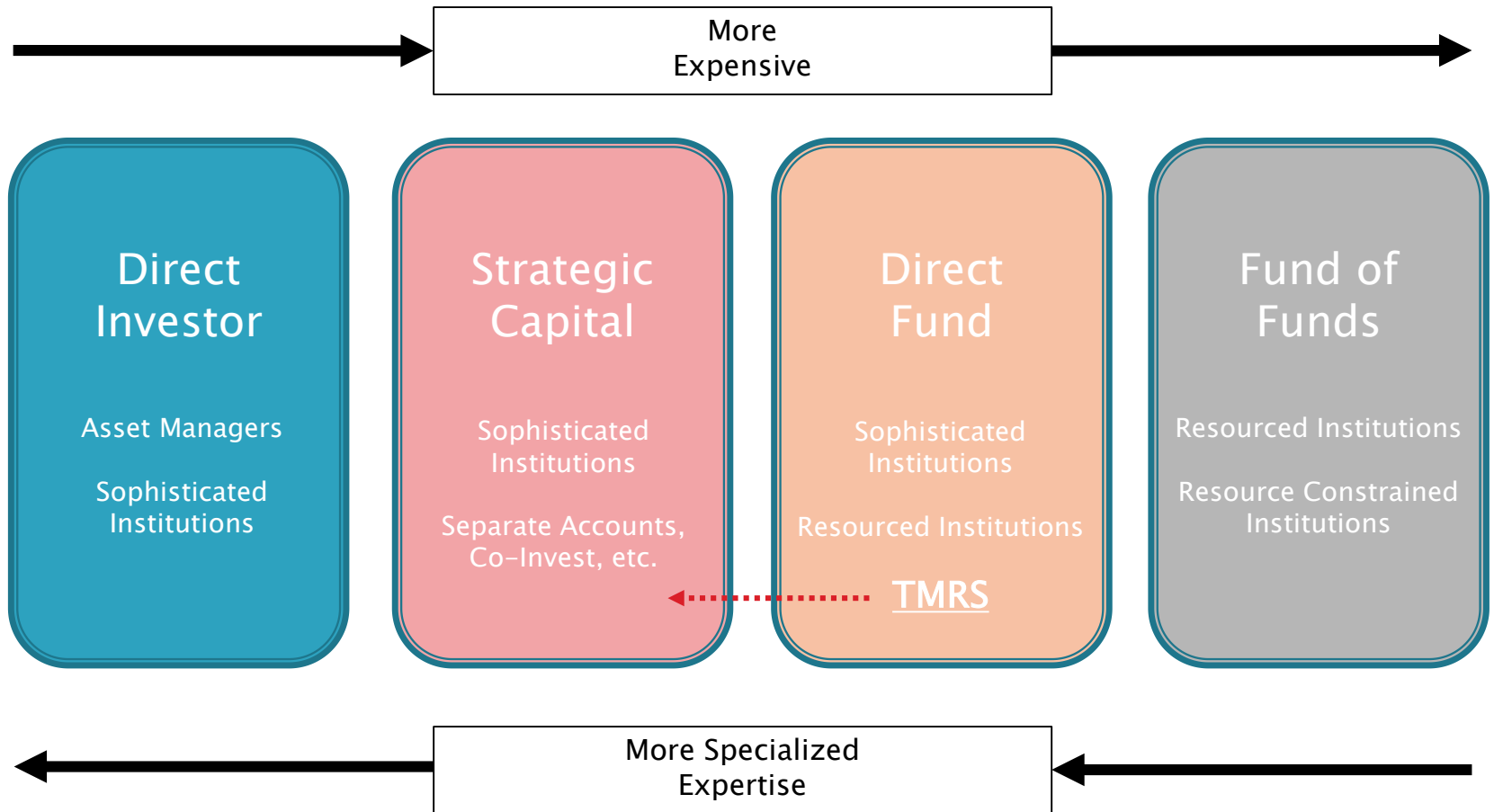
Names used in this presentation are a shortened version that is used for ease of communication purposes throughout this document. The formal recommendation to the Board on the last page of this presentation reflects the full legal name of the investment.

Section I

EXECUTIVE SUMMARY

Portfolio Management Initiatives

Becoming a Strategic Partner



Manager Recommendation

Executive Summary

Summary of Recommendations			
Recommended Manager/Fund	Strategy Classification	Target Return	Recommended Amount
<p>H/2 CP L.P.</p> <p><i>* The proposed recommendation is to restructure the existing relationship between TMRS and H/2 Capital Partners through reallocation of TMRS' existing H/2 capital accounts.</i></p>	Value-Add Real Estate	7-11%+ Net IRR	Reallocation of TMRS' existing \$200 million of subscriptions to H/2 Capital Partners.
<p>Total Approximate Recommended Investments/Commitments</p>			<p>\$0 of net capital investment</p>

This recommendation does not increase commitment levels to H/2 and therefore is not contemplated to deduct from the \$400 million of 2019 real estate pacing model approved search activities.

Section II

MANAGER SELECTION

Top Candidate Characteristics – H/2 Capital Partners

Proposed Relationship Restructure

H/2 Capital Partners provides access to liquid private commercial real estate debt markets by participating in the origination and structuring process of securities and loans, utilizing their market reputation as a conservative and strong underwriter of credit and proven ability to execute in timeline sensitive and complex situations. H/2 supports this business model by also being a rated special servicer. H/2 is a Stamford, CT / NYC based asset manager that has completed over \$22B of CRE transactions since its inception.

TMRS has been invested with H/2 Capital Partners across two product lines since initial approvals for mandates during 2015. The proposed recommendation does not represent a recommendation to deploy new capital with H/2, rather only to reallocate existing holdings differently within the H/2 platform.

H/2 Capital Partners

(\$200mm – restructure of existing investments)

Dates Subsequent Meetings*

1/14/16, 3/15/16,
3/10/17, 7/20/17,
10/17/17, 7/31/18,
11/13/18

*Only includes meetings since commencement of relationship

Dates of Diligence Advancement

'A' Rating – reaffirmed 1/14/19

Date of Consultant Report

February, 2019

Legal Negotiation Initiated

TBD

Comparable Strategies Reviewed

Real Estate Debt Managers (74)

Section III

REQUESTED BOARD ACTION

Approval of Recommendation

- TMRS Staff and Courtland, a StepStone Company, recommend that the Board of Trustees approve the following action:

Recommendation:

- Approve H/2 Capital Partners Relationship Restructure

DISCLOSURES

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