Private Equity Recommendation

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March 28–29, 2019

TMRS
Texas Municipal Retirement System
I. Due Diligence Process Review

II. Portfolio Construction

III. Manager Selection & Recommendation

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 recommendation to the Board on the last page of this presentation reflect the full legal names of the investment.
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 ~$308 million of closed and/or recommended investments, in line with the $525mm 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.

2019: Steady state on pacing, selectively adding new relationships and Venture and European exposure.

Private Equity Strategy Diversification by Commitment
- Buy-out (40% to 75%)
- Growth/Venture (10% to 40%)
- Special Situations (5% to 35%)

Commitment:
- 53.5%
- 27.3%
- 19.2%
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.
Manager Selection Portfolio Considerations
Geographic Diversification

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

![Private Equity Geographic Diversification by Commitment](chart)

The Target Portfolio keeps a conservative stance on international exposure.
Section III

MANAGER SELECTION & RECOMMENDATION
Manager Recommendation

Executive Summary

<table>
<thead>
<tr>
<th>Summary of Recommendation</th>
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<tbody>
<tr>
<td>Recommended Manager/Fund</td>
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<tr>
<td>Searchlight III</td>
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<td>Total Approximate Recommended Investment/Commitment</td>
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Inclusive of the above recommendation, 2019 year to date total private equity recommendations approved will equal ~$308 million (with the committed amount to be determined), within limits set forth in the 2019 Private Equity Pacing Model and the IPS.
Searchlight Capital Partners ("Searchlight" or the "Firm") is an investment firm with offices in New York, Toronto, and London that invests in value-oriented and turnaround corporate situations in North America and Europe. The Firm targets complex transactions in middle market companies that can be acquired at below-market purchase prices outside of auction channels or competitive processes. The Firm’s Transatlantic platform, capital structure-agnostic approach to accessing value, and willingness to embrace complexity allows them to invest at discounts to competitors across the cycle. Searchlight is targeting $2.75 billion for Searchlight Capital III, L.P. to continue the strategy employed in the prior funds.
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:

**Recommendation:**

- Searchlight Capital III, L.P. $50 million
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