

# Private Equity Recommendation

Chris Schelling, Director of Private Equity  
Peter Teneriello, Analyst  
StepStone Group  
March 28–29, 2019



# Agenda

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

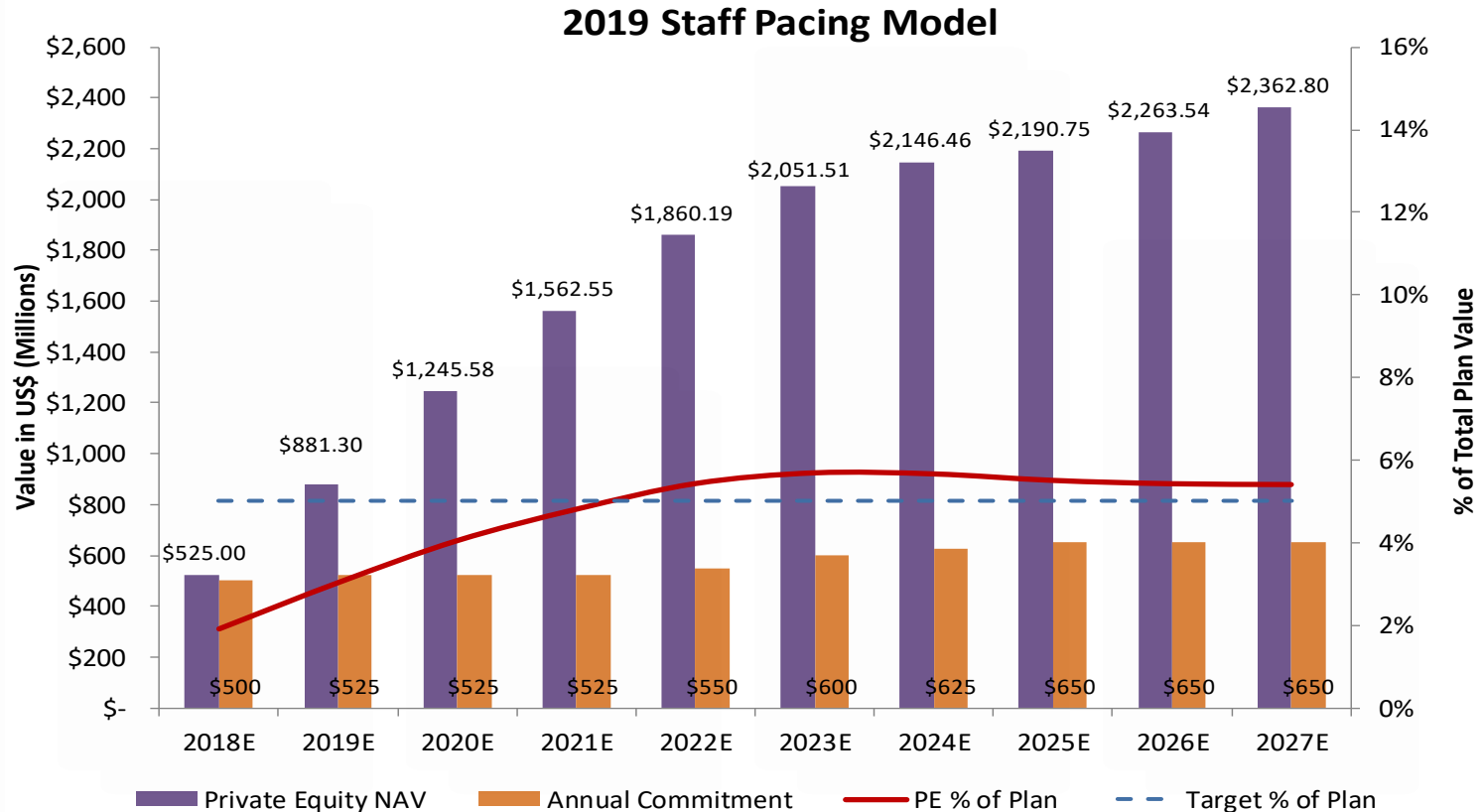
\*Names used in this presentation are shortened versions that are used for ease of communication purposes throughout this document. The formal recommendation to the Board on the last page of this presentation reflect the full legal names of the investment.

Section I

# **DUE DILIGENCE PROCESS REVIEW**

# Due Diligence Processes

As part of Multi-year time periods

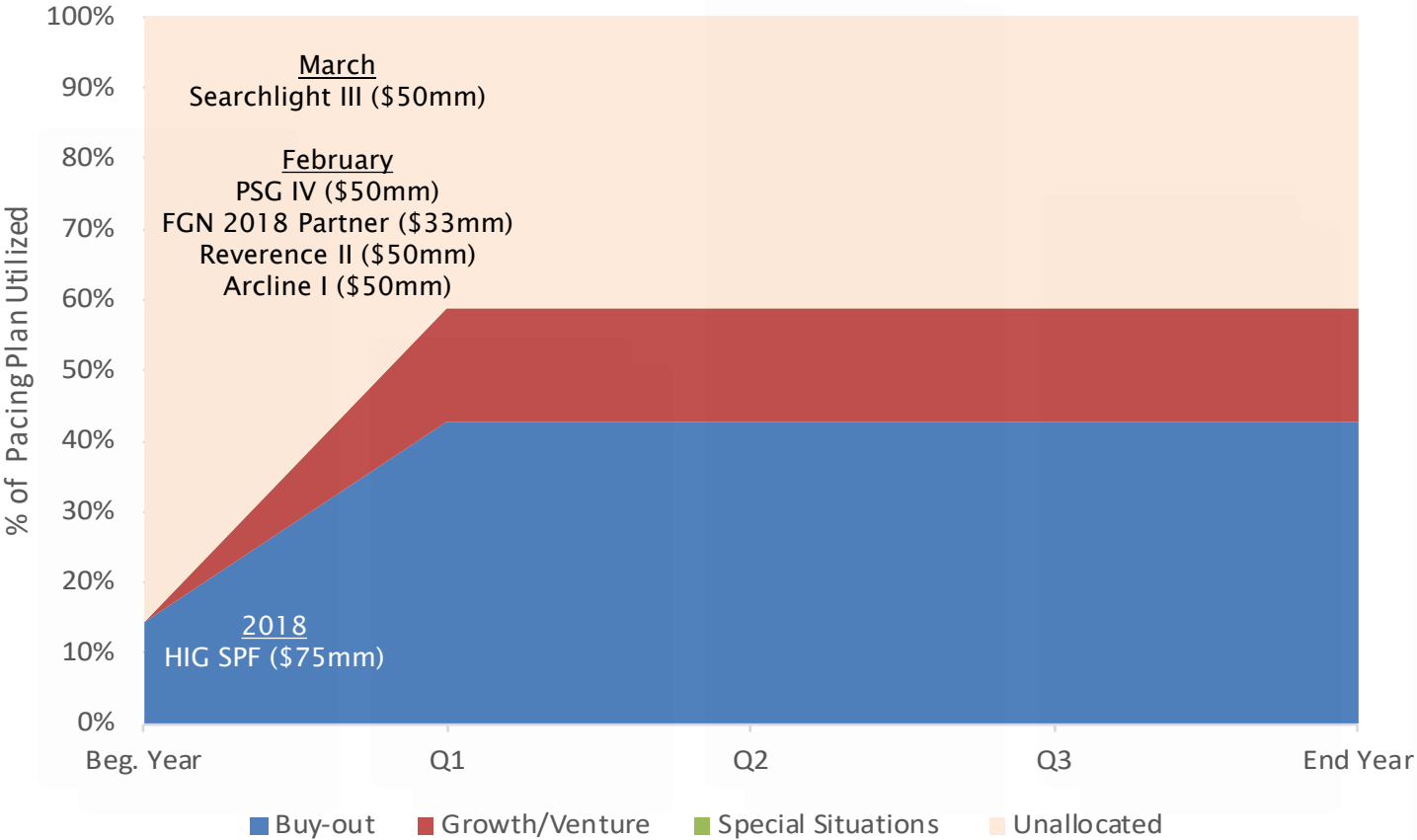


Annual pacing plans are developed in the context of multiple year investment horizons. This is necessary because private capital investments deploy and return capital over time rather than all at once.

# Due Diligence Processes

As part of Annual Search Processes

### 2019 Private Equity Pacing Plan Progress



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.*

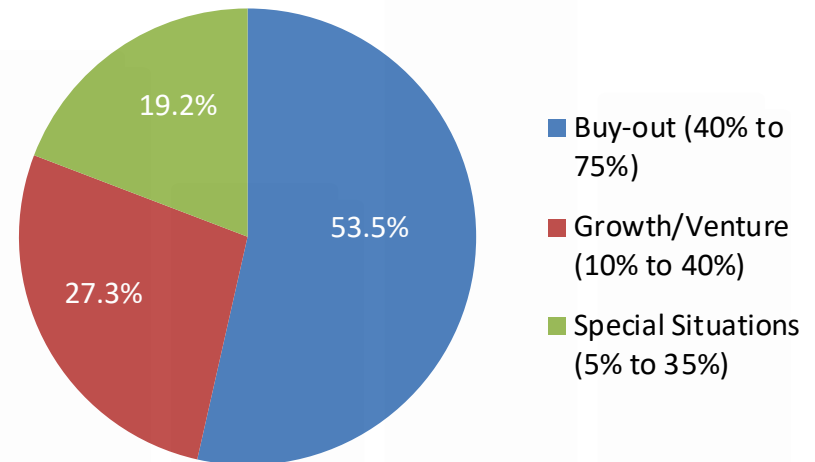
*2016: Focus on growth opportunity set and continue to add buy-out exposure.*

*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



# Manager Selection Portfolio Considerations

## Manager Implementation

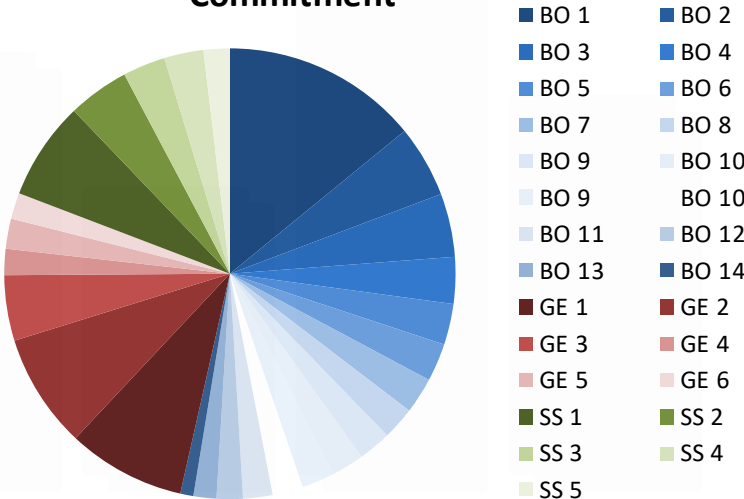
*The overall goal remains identifying top quartile performers to partner with.*

*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**

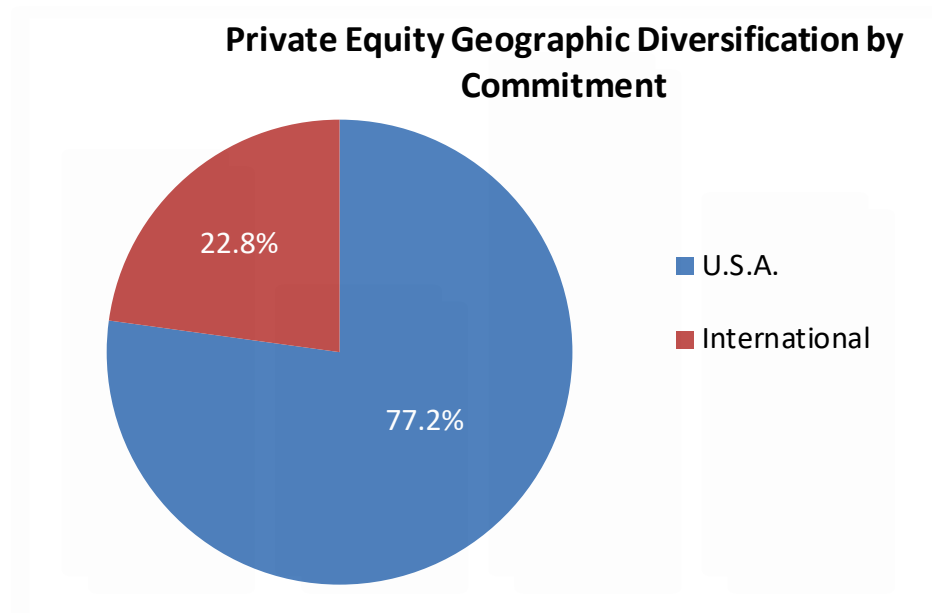




# Manager Selection Portfolio Considerations

## 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 & RECOMMENDATION

# Manager Recommendation

## Executive Summary

Summary of Recommendation			
Recommended Manager/Fund	Strategy	Target Return	Recommended Amount
Searchlight III	Buy-Out	20% Net IRR	\$50 million
Total Approximate Recommended Investment/Commitment			Up to \$50 million

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.

# Top Candidate Characteristics – Searchlight III

## *\$50 million Recommendation*

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.

### Searchlight Due Diligence Summary

#### Date of First TMRS Meeting

9/30/2015 (Call)

#### Dates of Subsequent Meetings

10/7/2015 (Call)

10/26/2015 (Onsite)

11/11/2015 (Annual meeting)

2/14/2017 (Update)

8/3/2017 (Onsite)

12/6/2017

5/2/2018 (Onsite)

9/27/2018 (Update)

11/13/2018 (Annual meeting)

2/22/2019 (Onsite)

#### Dates of Diligence Advancement

‘B’ Rating – 10/7/2015

‘A’ Rating – 10/26/2015

‘A’ Re-affirmed – 2/25/2019

#### Date of Consultant Report

March, 2019

#### Legal Negotiation Initiated

February, 2019

#### Comparable Strategies Reviewed

22 (Opportunistic special situations)

10 (TMT-focused buy-out)

#### Opportunistic Meetings

127 manager meetings

#### TMT-Focused Buy-Out Meetings

15 manager meetings

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

## **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.***