

Real Estate Recommendation

May 30–31, 2019



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 recommendation to the Board on the last page of this presentation reflects the full legal name of the investment.

Section I

EXECUTIVE SUMMARY

Manager Recommendation

Executive Summary

Summary of Recommendation			
Recommended Manager/Fund	Strategy Classification	Target Return	Recommended Amount
Pennybacker V, LP	Value-Add Real Estate	13-16% + Net IRR	Up to \$75 million
Pennybacker Extended Investment Vehicle	Value-Add Real Estate	13-16% + Net IRR	Up to \$37.5 million
Total Approximate Recommended Investment/Commitment			Up to \$112.5 million

Inclusive of the recommendation noted above, total real estate allocation activity for 2019 is \$112.5 million, on target to end the year within the targeted pacing of \$200 – \$400 million.

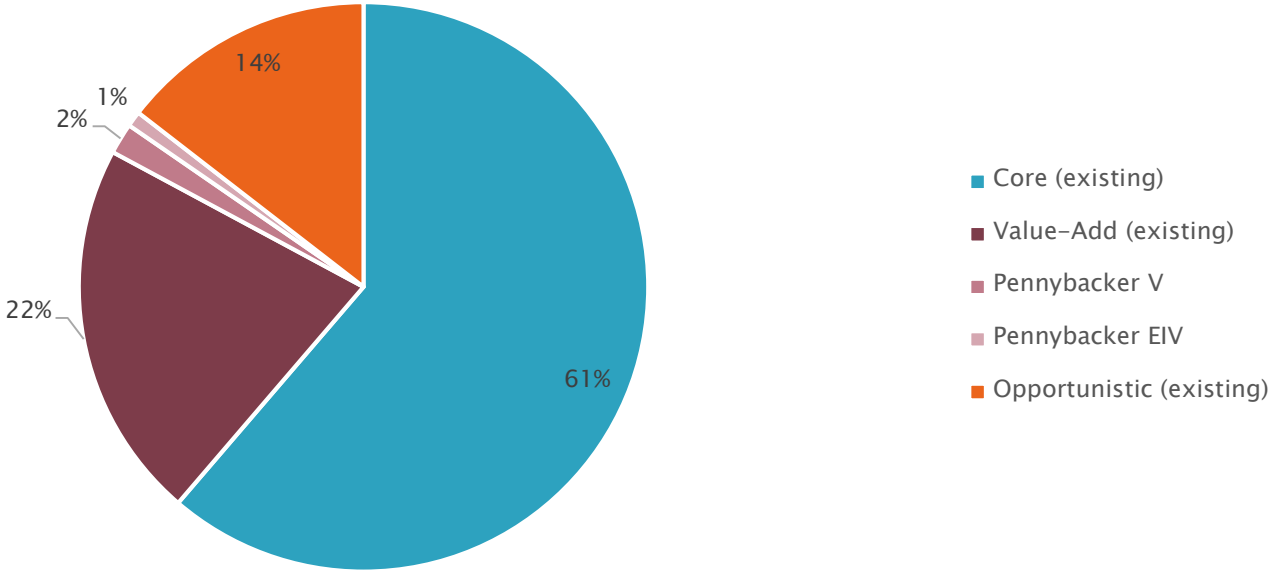
Section II

PORTFOLIO CONSTRUCTION

Real Estate Portfolio Statistics

TMRS Real Estate Portfolio

2019 Recommendation Detail by Adjusted Commitments



The TMRS portfolio is tracking within policy statement goals for strategy allocation levels. The newly proposed investments keep TMRS in-line with all IPS objectives.

Section III

MANAGER SELECTION & RECOMMENDATION

Top Candidate Characteristics – Pennybacker

\$112.5 million Recommendation

Pennybacker Capital (Pennybacker) is a Texas based real estate focused US private equity firm founded in 2006 by Tim Berry in order to invest in middle market value add commercial real estate.

Pennybacker is currently targeting \$600 million to invest in a diversified commercial real estate portfolio utilizing the same core strategy used in their first four fund raises. They will invest in middle market real estate across US cities that have a highly positive growth outlook, seeking to create value through rehabilitating assets and repositioning in accordance with their proprietary data analytics. Pennybacker will simultaneously raise an extended investment vehicle set to commence at the close of the investment period for Fund V.

Pennybacker Pennybacker V, LP Pennybacker Extended Investment Vehicle
<u>Date of First TMRS Meeting</u> 1/08/2014
<u>Dates of Subsequent Meetings</u> 8/16/2016 1/30/2017 12/6/2017 3/9/3018 11/9/2018 1/17/2019 3/6/2019
<u>Dates of Diligence Advancement</u> 'A' Rating – 3/7/2019
<u>Date of Consultant Report</u> May 14, 2019
<u>Legal Negotiation Initiated</u> March 25, 2019
<u>Comparable Strategies Reviewed</u> US Non-Core Diversified Real Estate (66)

Section IV

REQUESTED BOARD ACTION

Approval of Recommendation

- TMRS Staff and Courtland, a Stepstone Company, recommend that the Board of Trustees approve the selection of the following fund:

Recommendations:

- Pennybacker V, LP ...Up to \$75 million
- Pennybacker Extended Investment Vehicle ...Up to \$37.5 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.