



October 12, 2021

To: Board of Trustees

From: David Wescoe, Executive Director

A handwritten signature in blue ink, appearing to read "David Wescoe", is written over the printed name in the "From:" field.

Re: Agenda Item 13: Board Education: Private Equity Asset Class

In accordance with the TMRS Investment Policy Statement, comprehensive asset class reviews are conducted at least annually. At the October Board meeting, Tom Masthay, Director of TMRS' Private Equity portfolio, will present the annual PE review. His presentation material is available in the Diligent Resource Center in the tab titled "October 28, 2021 Board Meeting."



Annual Review: Private Equity

Tom Masthay, Peter Teneriello, Celisse Cobos, Josh Garcia

October 28, 2021

Why TMRS Invests in Private Equity

To enhance Trust Fund performance.

- PE is expected to earn an 8.39% compounded return in the capital market expectations used in TMRS' asset allocation model.
- TMRS' PE portfolio has earned a 27.0% cash-weighted return inception-to-date (December 2015). TMRS' public equity benchmark earned 13.0% over the same period.

Why TMRS Invests in Private Equity

And because most companies are privately owned.

- The number of investable US publicly listed companies decreased by 45% over the last 25 years from approximately 7,200 to 3,900.
- Less than 1% of US firms are publicly traded.
- 86% firms with 500 or more employees are privately owned.

Private Equity Strategic Goals

Outperform Public Equities



Performance

Portfolio is outperforming on all relevant metrics.

Achieve 10% Target Allocation



Scale

Expect to achieve 10% target in early 2024, possibly sooner.

Reduce Program Costs



Cost Reduction

Scaling of co-investments is reducing program costs.

The three strategic PE goals drive portfolio composition.

How TMRS Invests in Private Equity

Buyout/Control – Buying a controlling position in an existing business in order to fix it, grow it, and/or add other companies to it. Buyout managers aim to achieve returns superior to those that can be earned in public markets.

Growth/Venture/Minority – Buying a minority position in smaller, newer companies to pursue new products and markets, among other strategies. Growth/Venture strategies target rates of return higher than Buyout/Control.

Special Situations/Opportunistic – Special situations are opportunities that do not fit neatly into pre-defined boxes. These strategies are expected to earn private equity-like returns.

IPS Limits

(TMRS Exposure)

Buy-out/Control

40% to 75% (46.3%)

Growth/Venture/Minority

10% to 45% (41.6%)

Special Situations/Opportunistic

5% to 35% (12.1%)

Limits per IPS dated 7/1/21; TMRS exposure data as of 9/30/21

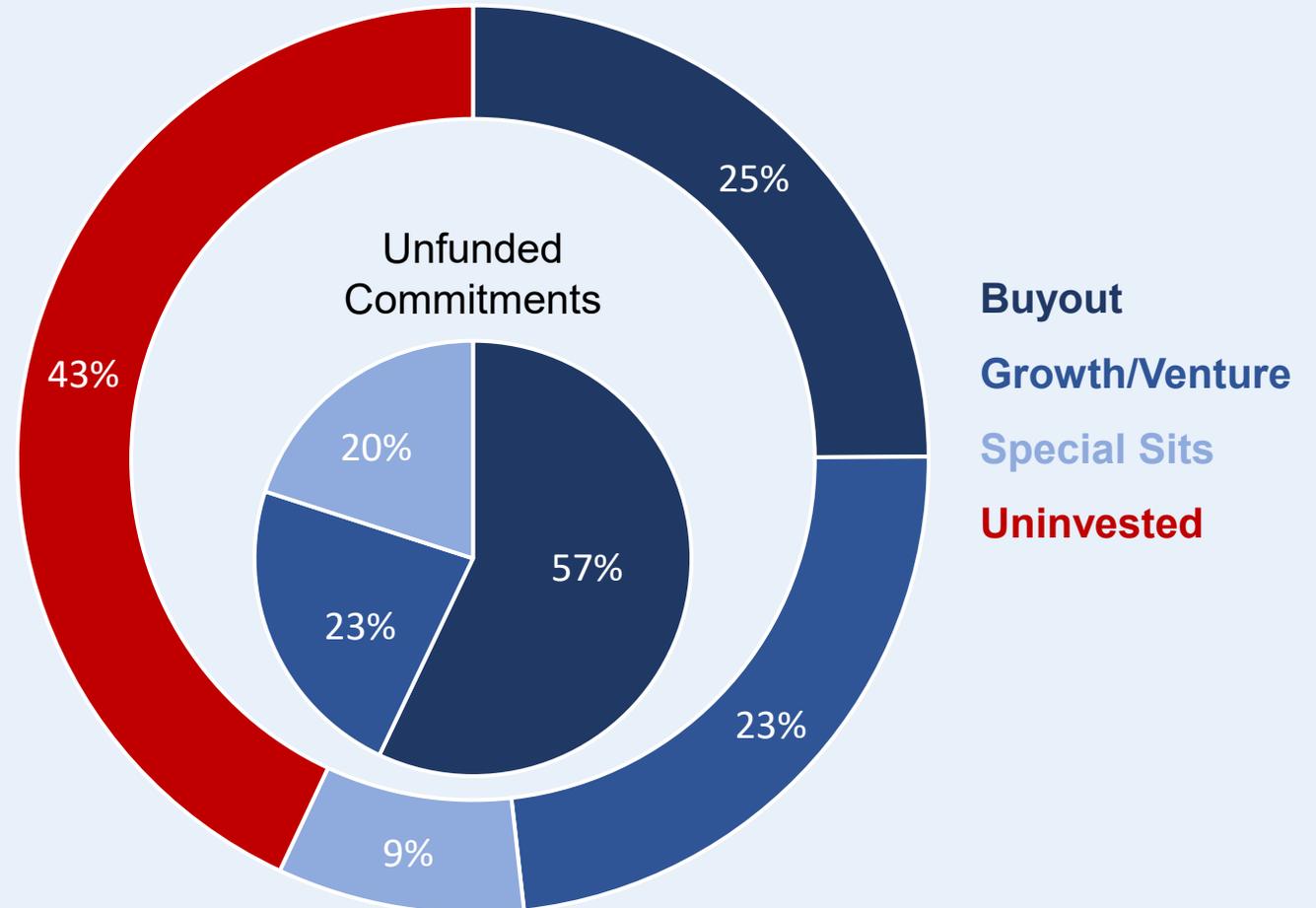
Private Equity Portfolio Summary

Market Value Exposure by Strategy

PE Portfolio Summary

Total Commitments:	\$5.4 billion
Net Asset Value:	\$2.4 billion
Portfolio Weight:	6.72%
Investment Managers:	40
Investment Funds:	69

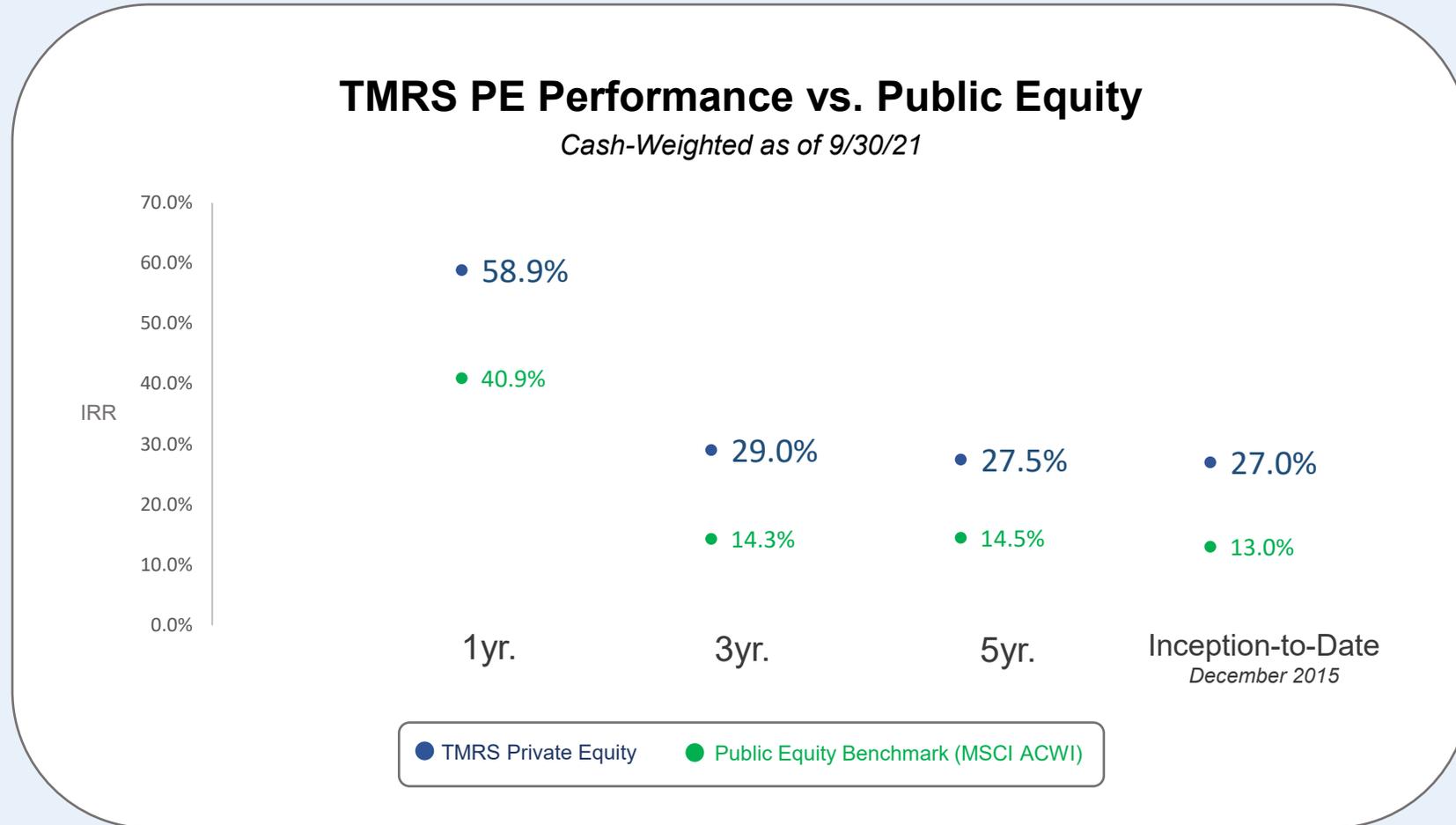
As of 9/30/21



Private Equity Performance

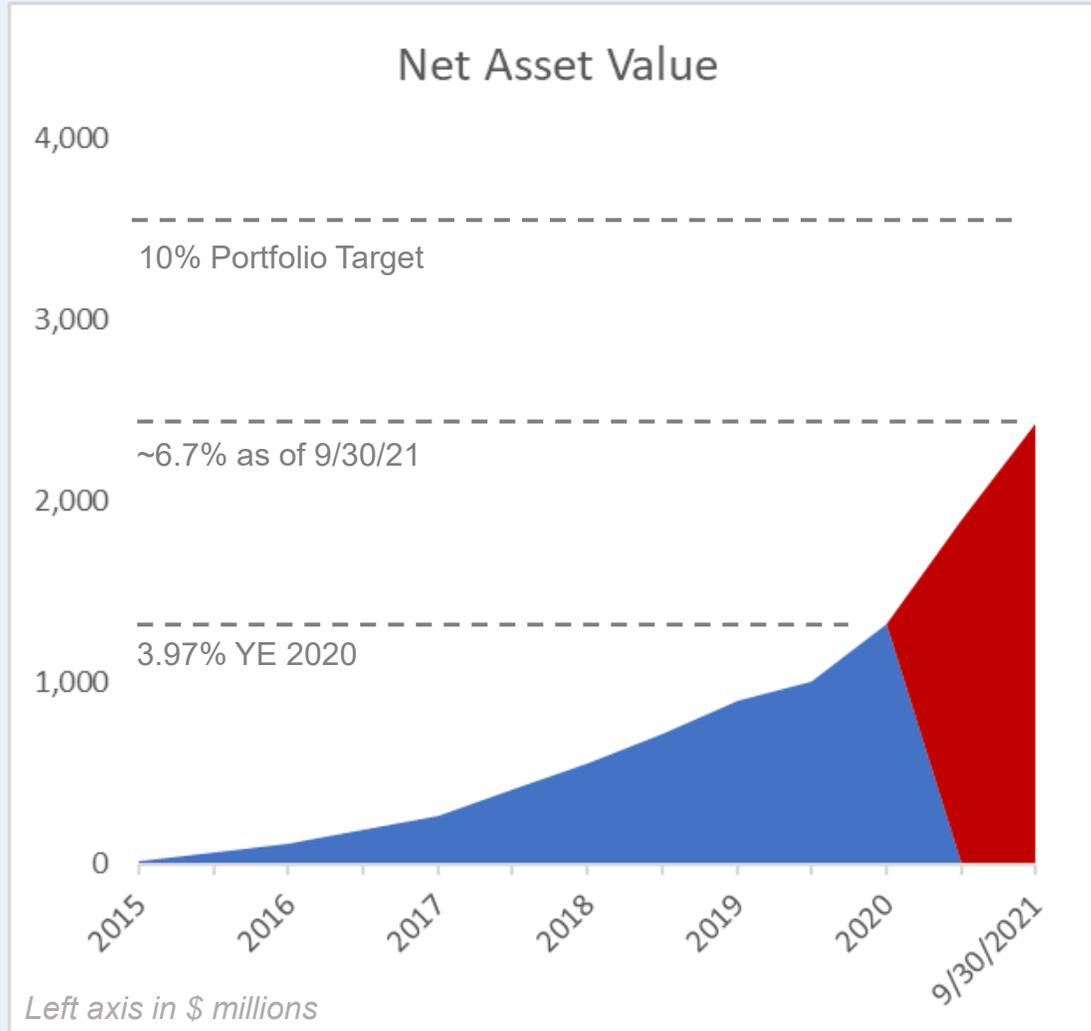
- TMRS has \$292 million more in the Trust Fund because of its decision to invest in PE instead of TMRS' public equity benchmark.
- TMRS' PE portfolio has earned a 27.0% cash-weighted return inception-to-date (December 2015). TMRS' public equity benchmark earned 13.0% over the same period.
- TMRS' PE portfolio is outperforming all relevant industry metrics, including peer universes and passive manager selection.

Private vs. Public Equity Performance



TMRS' PE portfolio has achieved meaningful long-term return premiums relative to its public equity benchmark.

Scale: Invested Capital



TMRS controls when capital is committed.
Managers control when capital is invested.

\$2.3 billion

estimated 9/30/21 Net Asset Value ("NAV")

\$1.1 billion

NAV increase year-to-date

Scale: Commitment Pacing

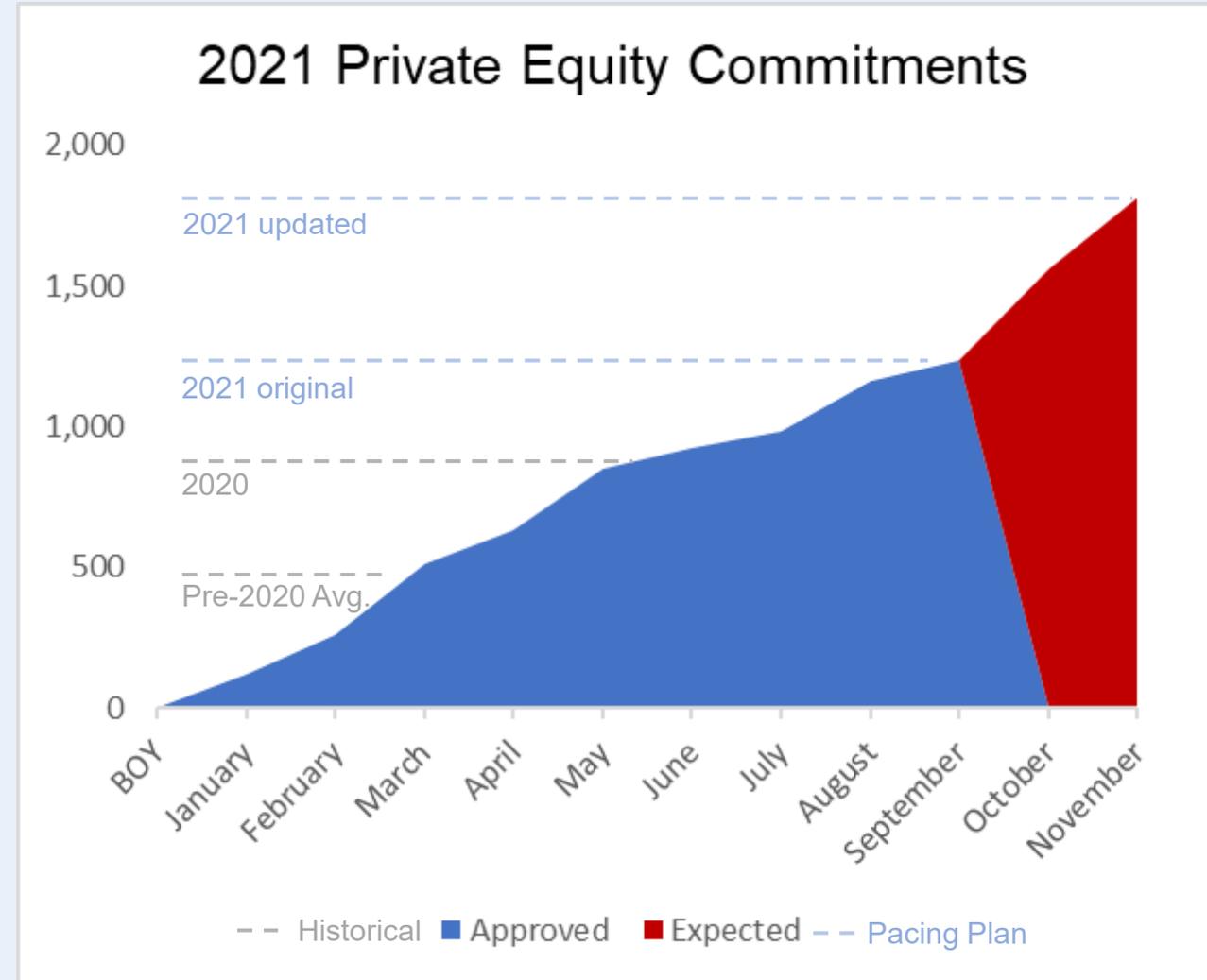
2021 has been the most active year in the history of TMRS' PE portfolio.

\$1.2 billion

year-to-date new commitments
(16 investments)

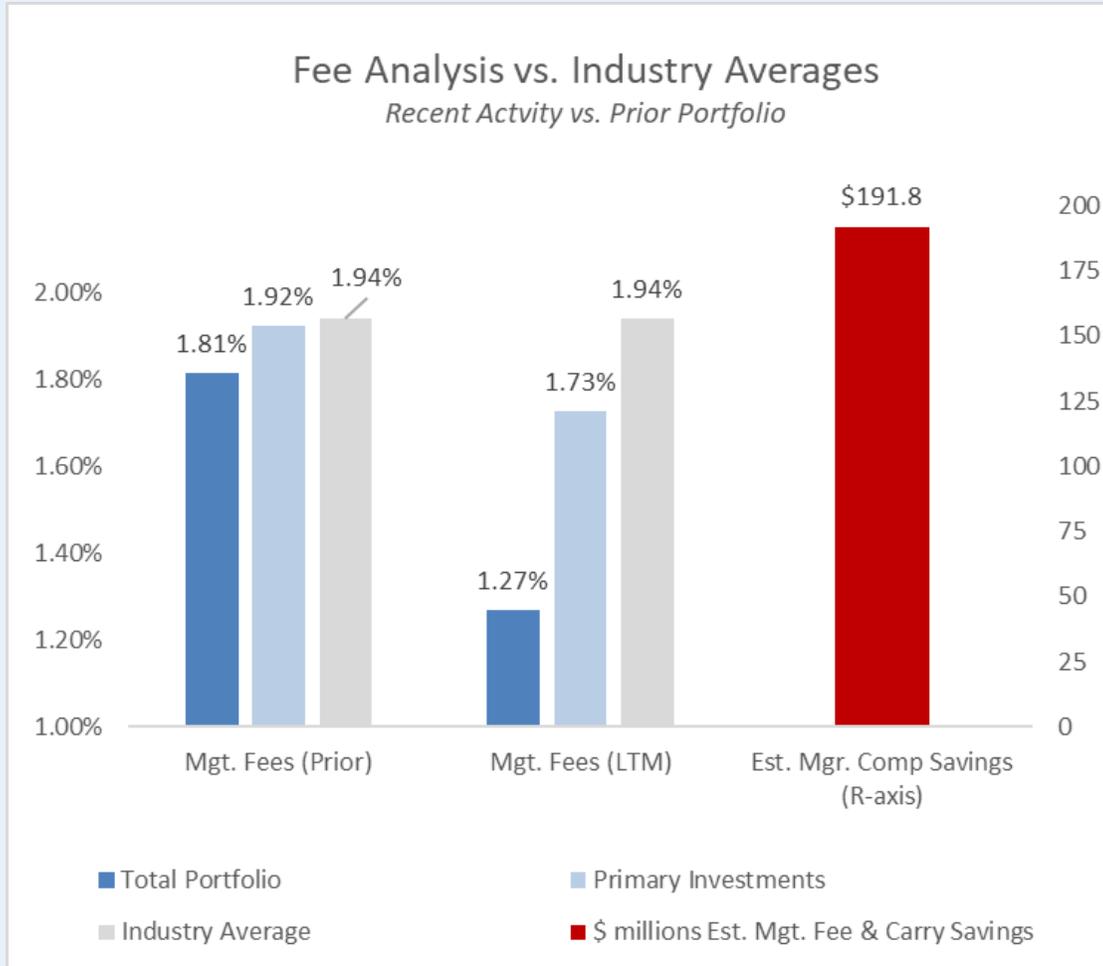
\$600 million

planned commitments through year-end
(6-8 investments)



Left axis in \$ millions

Cost Reduction



TMRS' PE program is cost conscious.

Co-investments meaningfully reduce program costs.

\$560 million

dedicated co-invest commitments in the last twelve months

\$198 million

invested/approved into 13 deals Year-to-Date

Fee savings comparisons are vs. industry averages. Industry averages fees source: Paul, Weiss, Rifkind, Wharton & Garrison, LLP. Industry avg. carried interest is 20.6%, TMRS prior portfolio was 20.2%, TMRS LTM portfolio was 16.6%. \$ savings estimate over the entire lives of investment vehicles. Right axis in \$ millions.

Compliance & Monitoring Program

- The Private Equity portfolio is compliant with all IPS provisions.
- No systematic areas of concern identified in 2020-21 monitoring.

Accomplishments & Planning

2021 Goals

Goals presented at October 2020 Board meeting



Commit \$900mm to \$1.2 billion of capital.
\$1.2B committed YTD. Pacing plans were increased to \$1.8B mid-year. High levels of re-ups led to active year of commitments.



Implement co-investment mandate.
Manager contracted with in December 2020. Deal review processes have been developed and the program is actively deploying capital.



Improve capital deployment traction.
Meaningful accelerations in capital commitments & co-invest deal-flow are being translated into invested capital.

2022 Goals



Commit \$900mm+ of capital.
The PE team's goal is to commit \$900mm of capital in 2022.



Scale co-investments / fee-efficiency.
Goal is to increase the percentage of TMRS' PE portfolio being invested in fee efficient co-investments.



Maintain relative performance edge.
Increasing co-investment and venture capital activities are aimed at enhancing returns.