2016 Private Equity Search Process and Recommendation
February 18-19, 2016
Chris Schelling, Director of Private Equity
StepStone Group
Agenda

I. 2016 Private Equity Search Process Timeline & Allocation Objectives
II. Manager Search Process
III. Manager Selection Recommendation
IV. Requested Board Action
I. 2016 Private Equity Search Process Timeline & Allocation Objectives
• TMRS staff presented the 2016 Private Equity Pacing Plan recommending up to $600 million of Private Equity commitments throughout 2016 which was approved by the Board.

• TMRS Staff moved forward with the first 2016 search process, in concert with StepStone.

• Conducted manager reviews through a multi-phase evaluation process for all candidates.
  • Multiple conference calls with StepStone to score and determine best candidates for TMRS, as well as incorporate their sourcing and due diligence.

• February 2016: Staff and StepStone are currently presenting one manager recommendation for the Private Equity portfolio. The recommended commitment is $75 million.

• Execution of the contract, and starting to fund capital calls.
  • Continue second step of 2016 search process for May/June recommendation timeframe.
2016 Private Equity Search Process Objectives

• **Excess Return Potential**
  - Expected excess return consistent with TMRS’ overall objective for Private Equity asset class: Russell 3000 + 3.00%.
  - Identify best in class managers currently in fundraising.

• **Portfolio Diversification**
  - Balance concentration and diversification across managers and strategies.
  - Ensure sufficient diversification, consistent with policy guidelines, and whenever possible incorporate tactical and opportunistic considerations into manager selection.

• **Targeted Commitment Level**
  - Per the December 2015 Board approval, the targeted Private Equity Pacing Plan for 2016 is $600 million in commitments.
II. Manager Search Process
Manager Search Process Review

Step 1
- **Manager Universe Analysis & Screen**
  - TMRS performs portfolio and market analysis
  - Based on analysis, meetings are sought with qualified managers
  - Meetings taken with qualified managers; others eliminated

Step 2
- **Semi-Finalist Candidate Analysis**
  - 55 Private Equity Meetings taken by Evaluation Team
  - 44 Distinct Managers Assessed
  - Managers scored 1 or 2 - Managers scored '1' advance

Step 3
- **Finalist Candidate Analysis**
  - 6 Managers Selected as Finalists
  - Due Diligence Questionnaire and other Materials Reviewed
  - Managers Scored A, B or C - Managers Scored 'A' advance

Step 4
- **Final Due Diligence & Manager Selection**
  - A-rated Finalist Funds enter final due diligence
  - Final Scoring Matrices are compiled for distinct possible recommended funds and immediately comparable fund products
  - 1 Fund Selected for Recommendation to Board of Trustees
Manager Scoring Matrix (1 of 2)

- Scoring was compiled by TMRS Investment Staff and discussed with StepStone Group to determine advancement in the search process:

<table>
<thead>
<tr>
<th>Manager Screen &amp; Universe Analysis Scoring Matrix / Semi-Finalist Selection</th>
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<tbody>
<tr>
<td><strong>Manager Screen</strong></td>
</tr>
<tr>
<td>- Is vehicle consistent w/ TMRS’ objectives?</td>
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<table>
<thead>
<tr>
<th><strong>Manager Analysis</strong></th>
<th><strong>Score / Outcome</strong></th>
</tr>
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<tbody>
<tr>
<td>- Does vehicle have adequate capacity and timeline?</td>
<td>1 - Advance; 2 - Stop Research</td>
</tr>
<tr>
<td>- PPPPT* Preliminary Review</td>
<td></td>
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- Based on initial scoring screen, further diligence efforts were prioritized based on a number of factors:

<table>
<thead>
<tr>
<th>Finalist Scoring Matrix / Final Due Diligence Selection</th>
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<tbody>
<tr>
<td><strong>Finalist Manager Review</strong></td>
</tr>
<tr>
<td>- Questionnaire Review</td>
</tr>
<tr>
<td>- Detailed PPPPT* Review</td>
</tr>
<tr>
<td>- In-depth Manager Qualifications Review</td>
</tr>
<tr>
<td>- Compliance with TMRS IPS</td>
</tr>
<tr>
<td>- Verification of Research, References, Further Market Research</td>
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44 Managers Advance Past Initial Screen → 6 Managers Scored ‘1’ (13.6% Selection Rate) → 1 Manager Scored ‘A’ (2.3% Selection Rate)

*PPPPT – People, Philosophy, Process, Performance, Terms
Manager Scoring Matrix (2 of 2)

- Scoring was provided by TMRS and discussed with StepStone to determine final Selection.

- Based on the above criteria, 6 managers were selected for finalist review & 1 manager was selected for final due diligence:
  - GSO Capital Opportunities Fund III (GSO COF III) (Final DD)
  - Crescent Mezz Partners VII (Finalist)
  - Highbridge Mezz Partners Fund III (Finalist)
  - Sankaty Middle Market Opportunities Fund III (Finalist)
  - KKR Private Credit Opps II (Finalist)
  - THL Fund III (Finalist)

44 Managers Selected for Semi Finalist Meetings
- 6 Managers Selected as Finalists
- 4 On-Site Due Diligence Meetings
- 1 Manager Selected for Final DD

<table>
<thead>
<tr>
<th>Final Due Diligence Scoring Matrix</th>
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<tbody>
<tr>
<td>Scoring Category</td>
</tr>
<tr>
<td>People (Firm &amp; Team)</td>
</tr>
<tr>
<td>Philosophy (Attractiveness of Opportunity / Portfolio Fit)</td>
</tr>
<tr>
<td>Process (Sourcing, Underwriting and Managing)</td>
</tr>
<tr>
<td>Performance (Historical / Expected)</td>
</tr>
<tr>
<td>Terms (Fees, Liquidity, etc.)</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

*Scoring matrices utilize difference calibrations depending on the strategy being utilized.
†Selected managers standardized to a score of 100 to allow comparability among selected managers.
III. Manager Selection Recommendation
Executive Summary of Manager Recommendation

<table>
<thead>
<tr>
<th>Recommended Manager/Fund</th>
<th>Strategy Classification</th>
<th>Target Return</th>
<th>Recommended Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>GSO COF III</td>
<td>Special Situations Strategy - Mezzanine</td>
<td>12% to 14%</td>
<td>$75 million</td>
</tr>
</tbody>
</table>

Total Net Recommendations: $75 million

Private Equity Pacing model as approved by the TMRS Board of Trustees in December 2015 established $600 million as the targeted level of commitments for 2016.
Manager Selection Portfolio Considerations

Strategy Diversification

TMRS focuses on a portfolio approach to manager selection, performing searches aimed at selecting strategies and managers in a portfolio conscientious manner.

The Target Portfolio moves closer to TMRS targeted allocations, overweighting special situations for: capital deployment, J-curve mitigation and tactical opportunity.

Figure 2: Private Equity Strategy Diversification by Commitment
- Buy-out (40.0% to 75.0%)
- Growth (5.0% to 25.0%)
- Special Situations (10.0% to 35.0%)

Figure 3: Private Equity Target Diversification
- Buy-out (40.0% to 75.0%)
- Growth (5.0% to 25.0%)
- Special Situations (10.0% to 35.0%)
- Un-allocated
Manager Selection Portfolio Considerations

Manager Implementation

TMRS is focused on enhancing manager diversification, building strategic relationships, and reducing the unallocated portion of the private equity portfolio in a manner consistent with TMRS’ broader policy goals.

The Target Portfolio continues to reduce unallocated private equity exposure, and sensibly balances the trade-off between diversification and concentration.
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, within the IPS limits.
**Final Selected Manager Scoring Matrix**

<table>
<thead>
<tr>
<th>Recommended Manager/Fund</th>
<th>Manager Score</th>
<th>Comparable Mgr. 1 Score</th>
<th>Comparable Mgr. 2 Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>GSO COF III</td>
<td>100</td>
<td>88.5</td>
<td>82.5</td>
</tr>
</tbody>
</table>

*Scoring matrices utilize difference calibrations depending on the strategy being utilized.
†Selected managers standardized to a score of 100 to allow comparability among selected managers.*
GSO COF III will make investments in performing companies in need of financing, but which are unable to access it through typical capital markets channels. The types of investments made will include unitranche debt, second lien, subordinated debt, structured equity or preferred equity, among others. The Fund’s strategy focuses on providing capital to upper middle market companies and private equity sponsors for leveraged buy-outs, mergers & acquisitions, recapitalizations, and growth financing primarily.
IV. Requested Board Action
Requested Board Action

- TMRS Staff and StepStone Group recommend that the Board of Trustees approve the selection of the following manager or their affiliates as referenced in the Board Communication Memo for investment in the specified strategy below:

- **GSO COF III:** $75 mm, a Special Situations Strategy

Approval is contingent upon final Investment Committee approval from the StepStone Group, favorable background checks and successful negotiation of the investment agreements. Note: Once final approval is given by the StepStone Investment Committee, their updated investment memo will be sent to all Board members for review with a request for ratification at the next Board meeting.