

Real Return Recommendations

February 23–24, 2017



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Agenda

- I. Timeline & Allocation Objectives
- II. Manager Search Process
- III. Portfolio Construction
- IV. Manager Selection & Recommendation
- V. 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 recommendations to the Board on the last page of this presentation reflect the full legal names of the investments.

Section I

TIMELINE & ALLOCATION OBJECTIVES

2017 Real Return Search Process Timeline

Dec 2015

- TMRS staff presented and Board Approves the 2016 Real Return Pacing Plan recommending a commitment of up to \$800 million of net new real return exposure.
- Board approved 3 real return managers totaling \$800 million in new real return investments. Managers selected include two diversified liquid real return strategies and an energy focused private investment mandate.

1H 2016

- Board approves 3 private real return managers totaling \$450 million in commitments. Managers selected include Global Infrastructure, Minerals and Mining, and Agricultural based mandates.

2H 2016

- Board approves Liquid Real Return Rebalancing transaction, increasing exposures to two existing liquid real return managers by \$775 million cumulatively, and a net increase in real return asset class exposure by \$450 million.
- Board approves 2017 pacing plan with up to \$1 billion in real return investments for 2017

Q1 2017

- Staff & Albourne recommend 2 mandates: i) Actis, an emerging markets power infrastructure focused manager; and ii) Sprott, a manger focused on senior lending to mining companies.

Real Assets

Common Opportunity Sets among Real Estate & Real Return

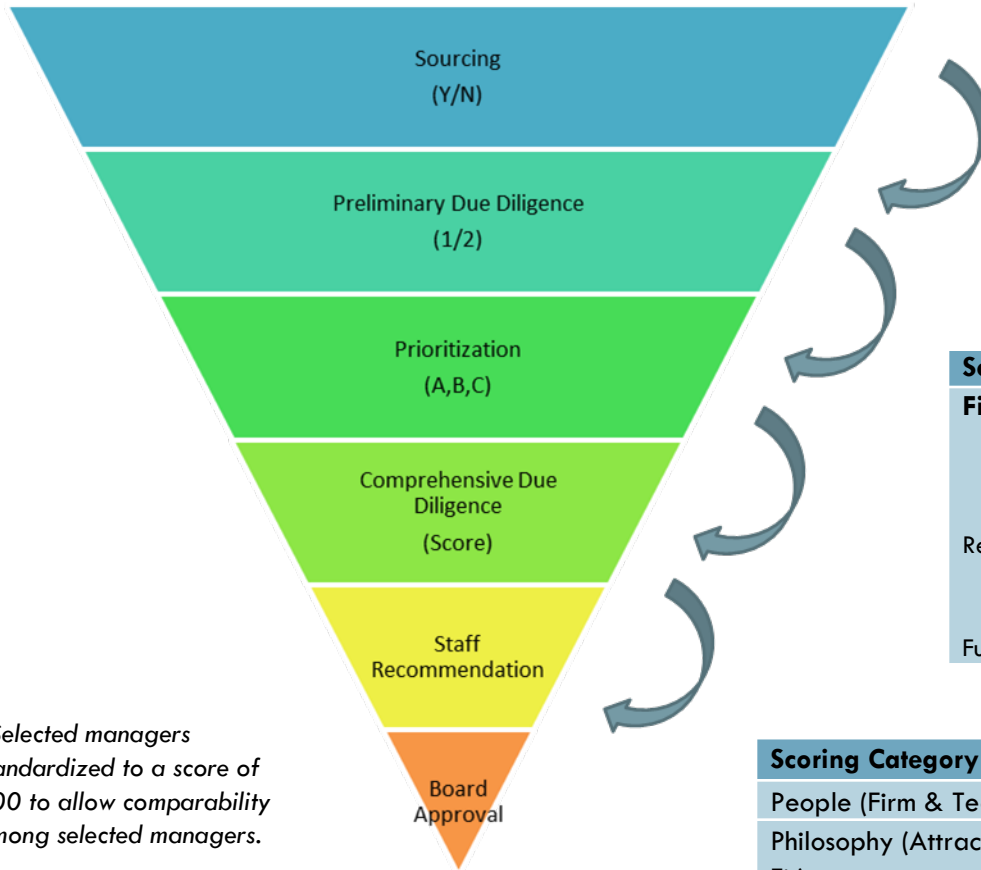
- ▶ Real Estate & Real Return share the commonality that they represent opportunities across the entire capital structure (i.e. senior debt to leveraged equity positions all exist as opportunities).
- ▶ Each Asset Class represents sectors of the economy – real estate may be considered its own sector but draws on the economic drivers of real estate utilizing businesses. Real return taps into a variety of sectors, including energy, agriculture, mining, infrastructure, timber, etc.
- ▶ The IPS includes both benchmarks and long term goals of “CPI plus” for each asset class (CPI + 500 for real estate; CPI + 400 for real return).

Real Assets require decisions at the institutional level regarding relative value of sectors and opportunity sets. Our investment processes are designed to make these relative value decisions.

Section II

MANAGER SEARCH PROCESS

Manager Search Process



† Selected managers standardized to a score of 100 to allow comparability among selected managers.

Manager Screen & Universe Analysis Scoring

Scoring Category	Score / Outcome
Manager Screen - Is vehicle consistent w/ TMRS' objectives?	Yes - Take Meeting; No - Don't Take Meeting
Manager Analysis - Does vehicle have adequate capacity and timeline? - PPPPT* Preliminary Review	1 - Advance; 2 - Stop Research

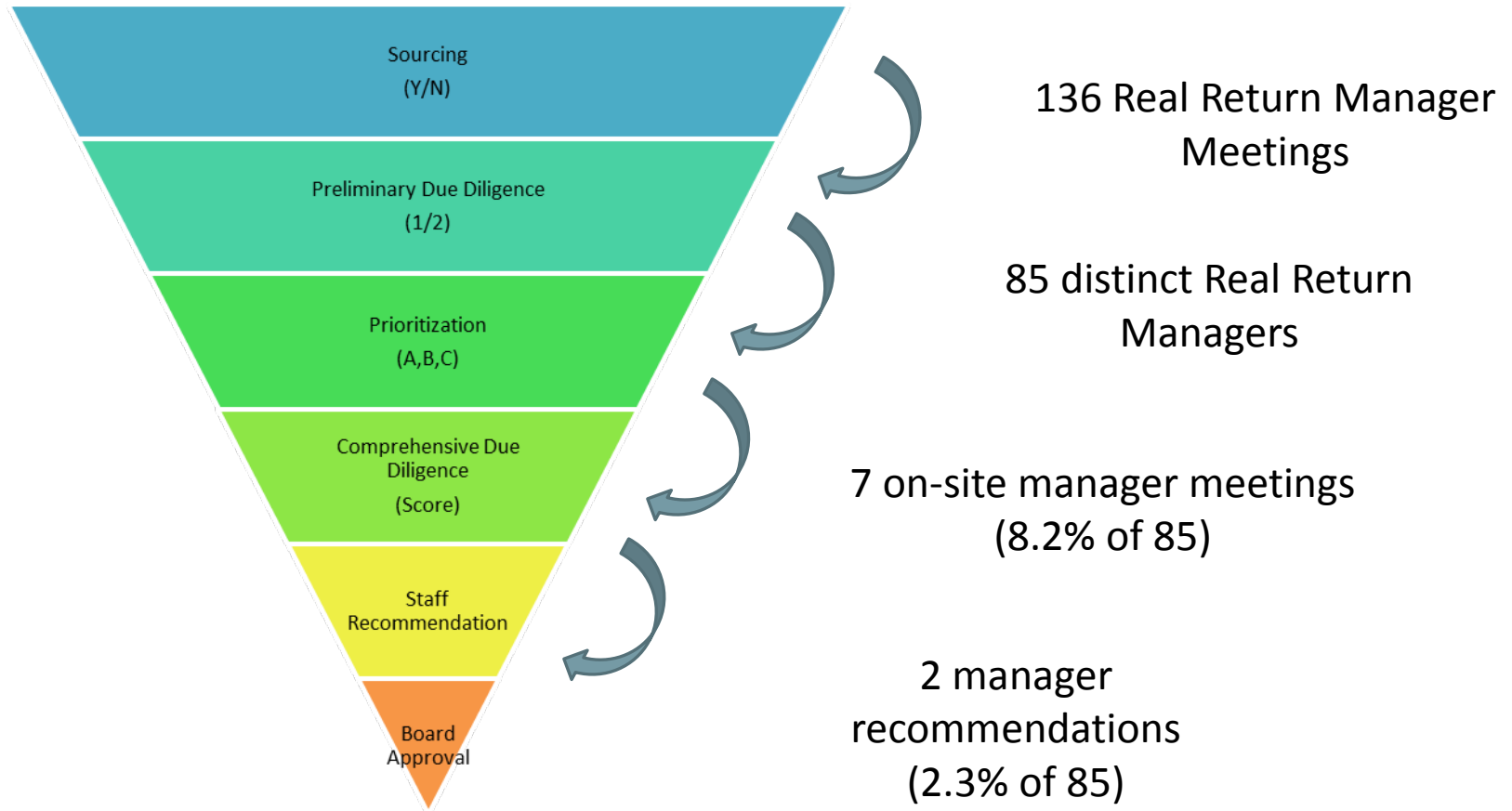
Semi-Finalist Scoring Matrix

Scoring Category	Score
Finalist Manager Review - Questionnaire Review - Detailed PPPPT* Review - In-depth Manager Qualifications Review - Compliance with TMRS IPS - Verification of Research, References, Further Market Research	A - Prioritize for Final Due Diligence B - Perform More Research C - Stop Research / Manager not Selected

Final Due Diligence Scoring Matrix*

Scoring Category	Possible Points
People (Firm & Team)	0 - 40 points
Philosophy (Attractiveness of Opportunity / Portfolio Fit)	0 - 40 points
Process (Sourcing, Underwriting and Managing)	0 - 40 points
Performance (Historical / Expected)	0 - 40 points
Terms (Fees, Liquidity, etc.)	0 - 20 points
Total	100†

Manager Search Process



Final Selected Managers Scoring Matrix

Final Due Diligence Scoring Matrix Aggregated Results				
Recommended Manager/Fund	Selected Manager	Comp 1	Comp 2	Comp 3
Actis	100.0	91.0	83	n/a
Sprott	96.0	100.0**	96.0	83.5

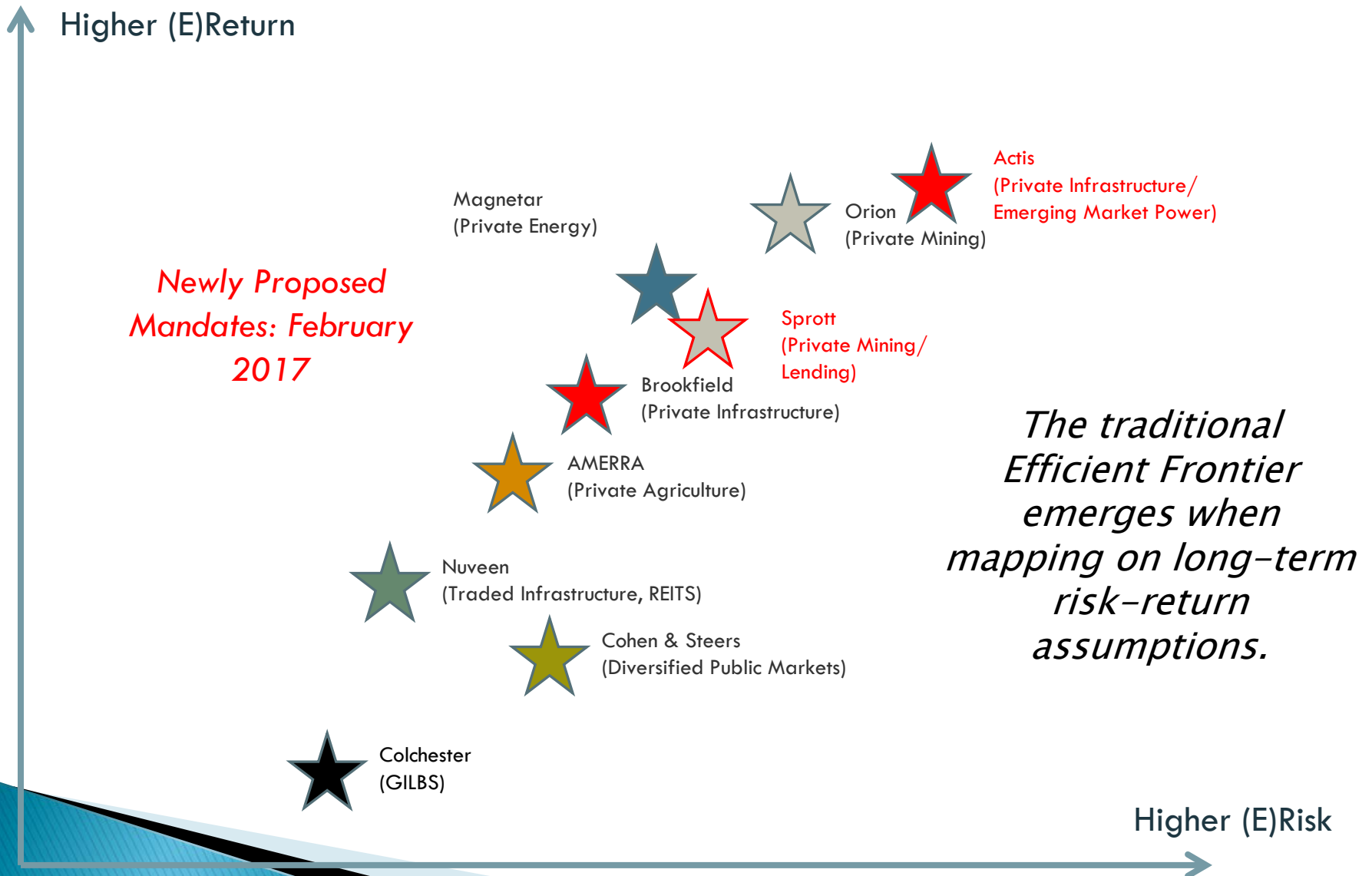
**Existing TMRS Manager

Section III

PORTFOLIO CONSTRUCTION

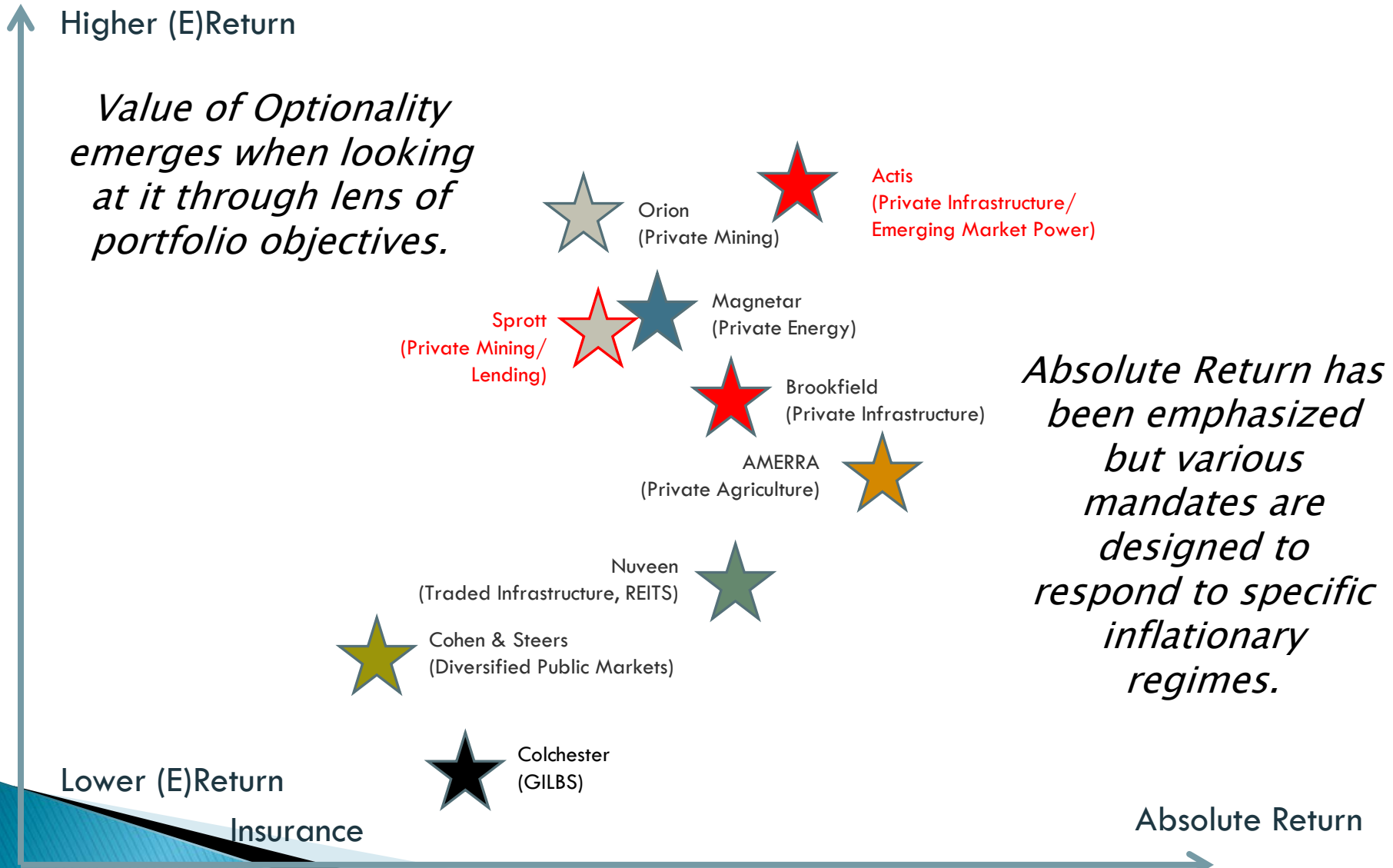
Manager Mapping

Ex-Ante Risk Return Expectations: The Traditional Model



Manager Mapping based on Portfolio Objectives

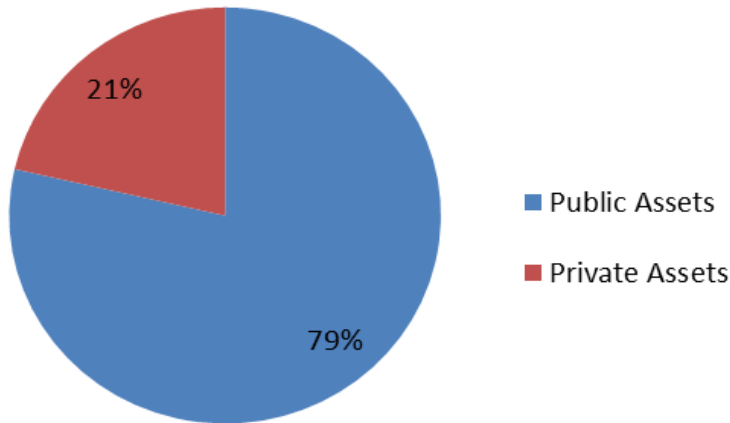
Absolute Return vs. Inflation Protection Expectations



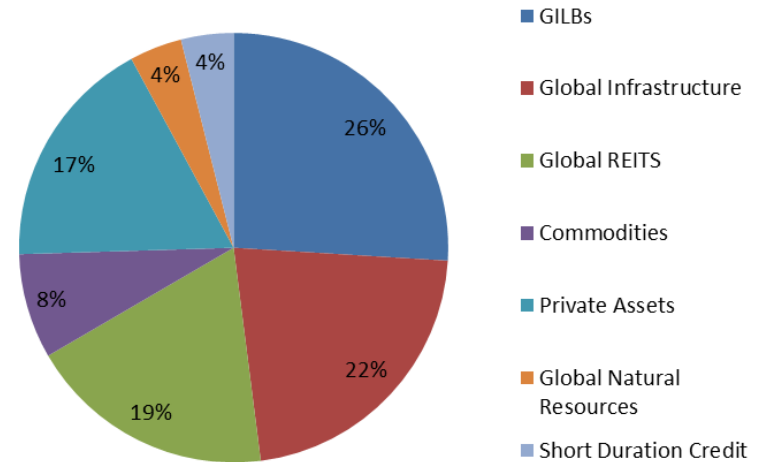
*This figure is substantially similar to what appeared in the 2016 annual asset class review as presented to the TMRS Board on June 23, 2016

Real Return Portfolio Statistics

**Post-Recommendation Portfolio -
Private vs. Public Assets**
(by Adj. Commitments)

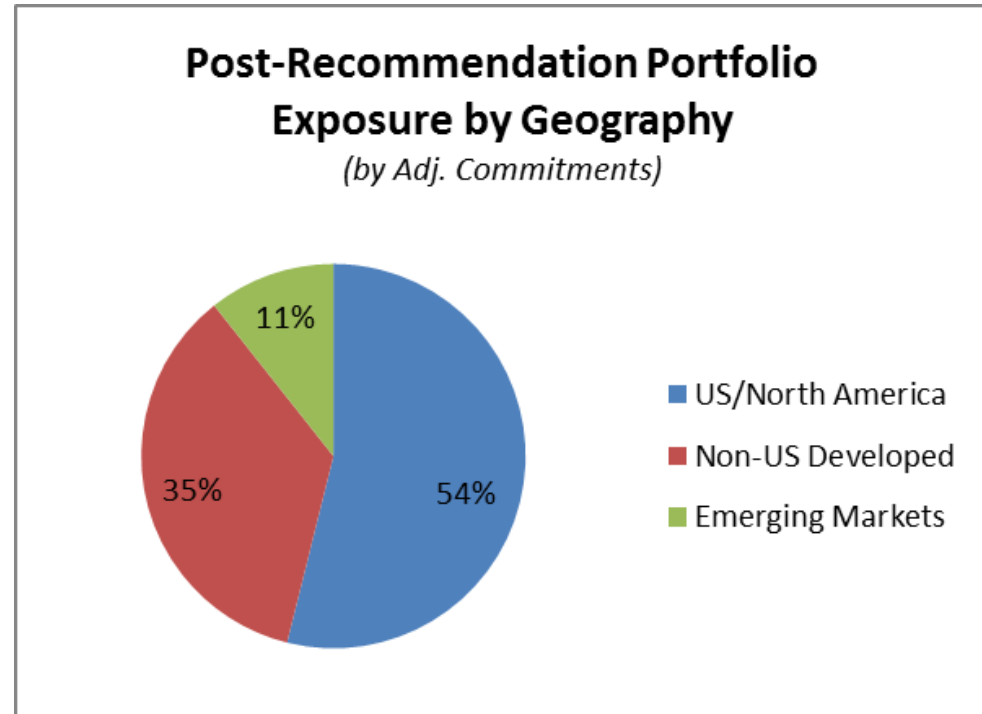
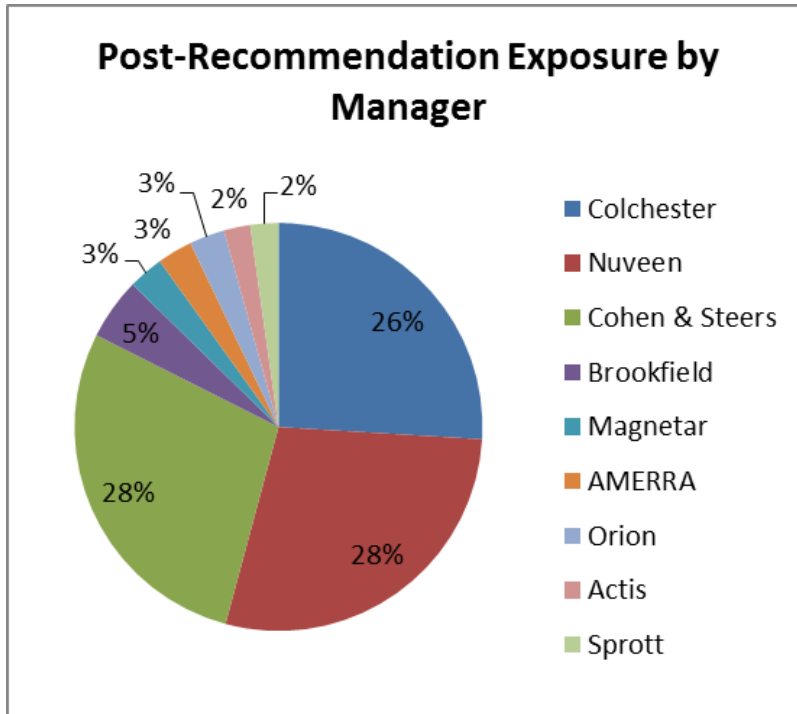


Exposure by Asset Type



Higher levels of implementation and more diversity has been introduced to the TMRS portfolio over the course of the last 15 months.

Real Return Portfolio Statistics



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Section IV

MANAGER SELECTION & RECOMMENDATION

Top Candidate Characteristics – Actis

\$75 million Recommendation

Category	Actis	Power Comp 1	Power Comp 2
People	24	20	21
Philosophy	25	24	20
Process	20	18	17
Performance	19	17	12
Terms	12	12	13
Total Points	100	91	83

*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.

Actis LLP is one of the leading pan-emerging market private equity firms with \$6.3 billion of funds under management across the private equity, real estate and energy sectors. In 2004, Actis LLP spun out of the CDC Group plc. The CDC Group was founded in 1948 by the UK government to invest in developing countries.

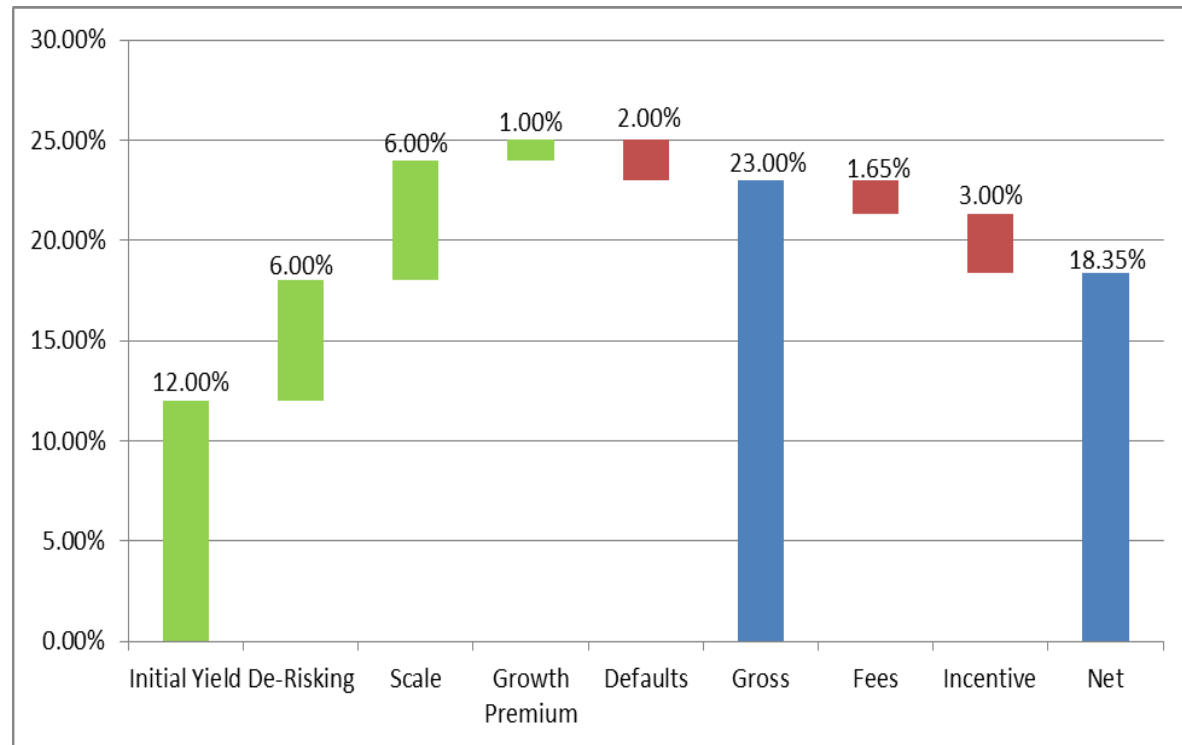
Actis will invest in power generation and distribution in growth markets across Latin America, Africa and Asia. Actis will use their expertise within international power markets and with regulators to create scalable platforms where power generation and distribution assets can be aggregated for sale into larger regional energy companies or on occasion sold through public offering.

Top Candidate Characteristics – Actis

\$75 million Recommendation

Investment Case

- *Longstanding presence and network in target markets.*
- *Focus on existing end user demand rather than having to underwrite growth.*
- *Heavy focus on risk mitigation through long term Power Purchase Agreements (PPA's), US dollar denominated exposures, and employing insurance where necessary.*
- *Seeded platform focus which mitigates operational risk.*



Issues to Consider

- *Time & Scale to exit*
- *Emerging market risk*
- *Environmental, Social, & Governance (“ESG”) Risk*

Top Candidate Characteristics – Sprott

\$80 million Recommendation

Category	Orion*	Sprott	Comp. Mgr. 2	Comp. Mgr. 3
People	25	22.5	20	22.5
Philosophy	25	22	23.5	21
Process	25	24	25	22.5
Performance	15	15	17.5	10
Terms	10	12.5	10	7.5
Total Points	100	96	96	83.5

*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.

Sprott Investment Corporation is a Toronto, Canada based publically traded company focused on resource investing in both public and private markets.

The Fund is seeking to lend at targeted gross IRRs in excess of 15% to: (a) companies with producing or near term production assets; (b) special situations and opportunities where there is the potential for the Fund to assist a borrower in advancing its development project to the next stage; and (c) companies requiring short- to mid-term project financing.

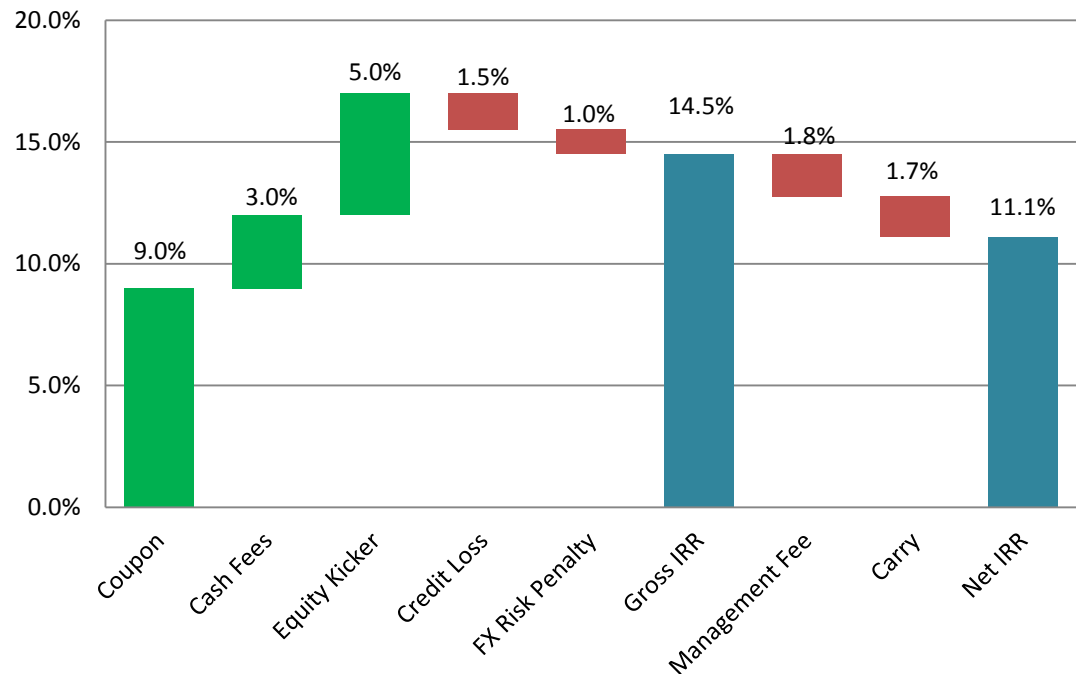
Top Candidate Characteristics – Sprott

\$80 million Recommendation

Investment Case

- Stable & Cohesive team with substantial technical resources available.
- Risk mitigated approach to lending with high levels of cash income and strong upside potential through equity participations.
- Active loan management, limited credit loss history, and senior approach to lending.
- Complementary to existing TMRS real return portfolio mining sector exposure.

Sprott RLF Return Bridge



Issues to Consider

- *First Institutional Fund*
- *Complicated Corporate Structure*
- *Canadian Dollar loan originations*

Section v

REQUESTED BOARD ACTION

Approval of Recommendation

- TMRS Staff and Albourne recommend that the Board of Trustees approve the selection of the following funds as detailed in the Board Communication Memo:

Recommendations:

- | | |
|-----------------------------------|--------------|
| • Actis Energy Fund IV LP | \$75 million |
| • Sprott Resource Lending Fund LP | \$80 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 general partner or other data provider to TMRS or a TMRS service provider, and contained in these materials, may have been independently produced or modified by TMRS or the TMRS service provider.