

Real Estate Recommendations

October 25, 2017



Presenters: Tom Masthay, Eddie Schultz, Rachel Cleak, Mike Murphy (Courtland)

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 recommendations to the Board on the last page of this presentation reflect the full legal names of the investments.

Section I

EXECUTIVE SUMMARY

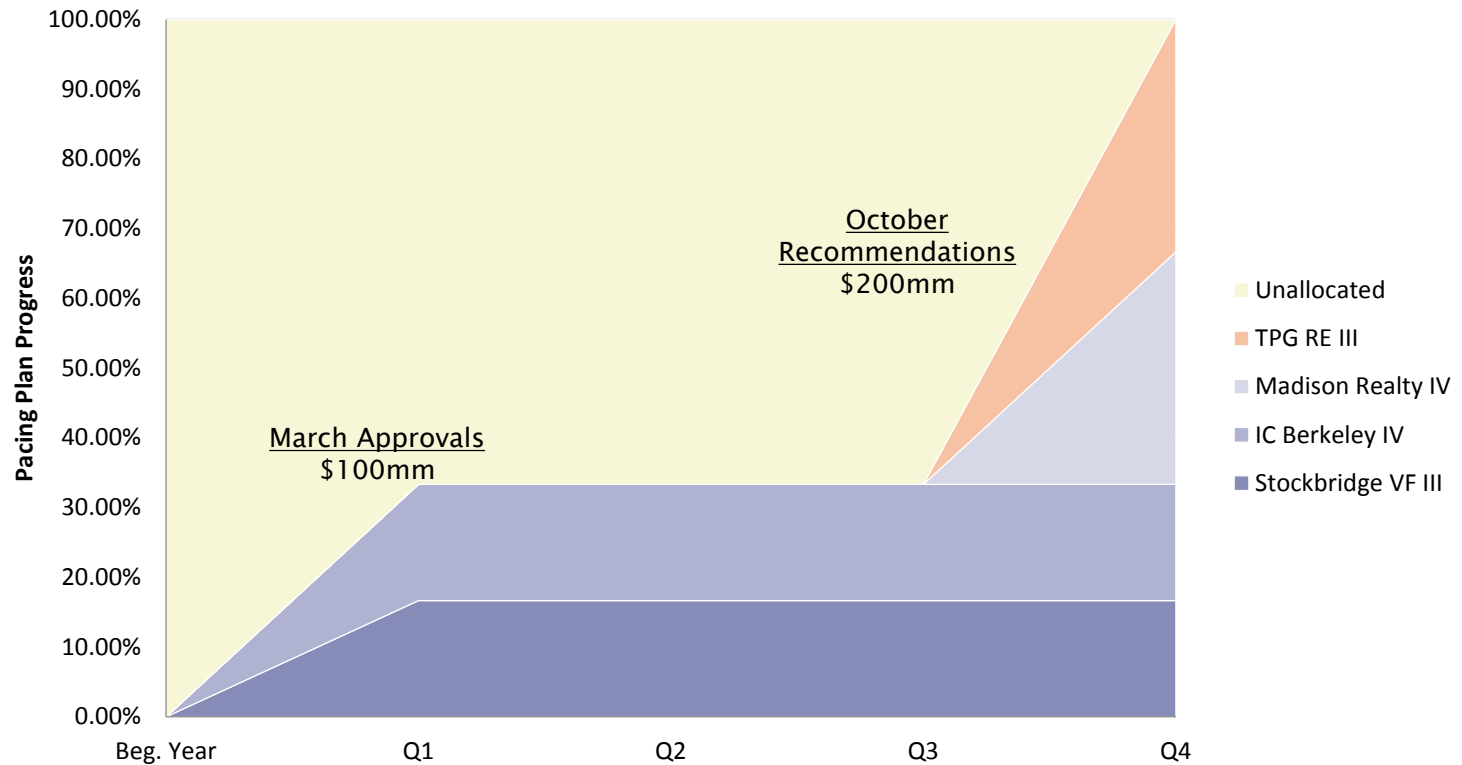
Manager Recommendations

Executive Summary

Summary of Recommendations			
Recommended Manager/Fund	Strategy Classification	Target Return	Recommended Amount
TPG	Opportunistic Real Estate	15%+ Net IRR	Up to \$100 million
Madison	Value-Add Real Estate	11-14% Net IRR	Up to \$100 million
Total Approximate Recommended Investments/Commitments			Up to \$200 million

Annual Pacing Model

2017 Real Estate Pacing Plan Progress



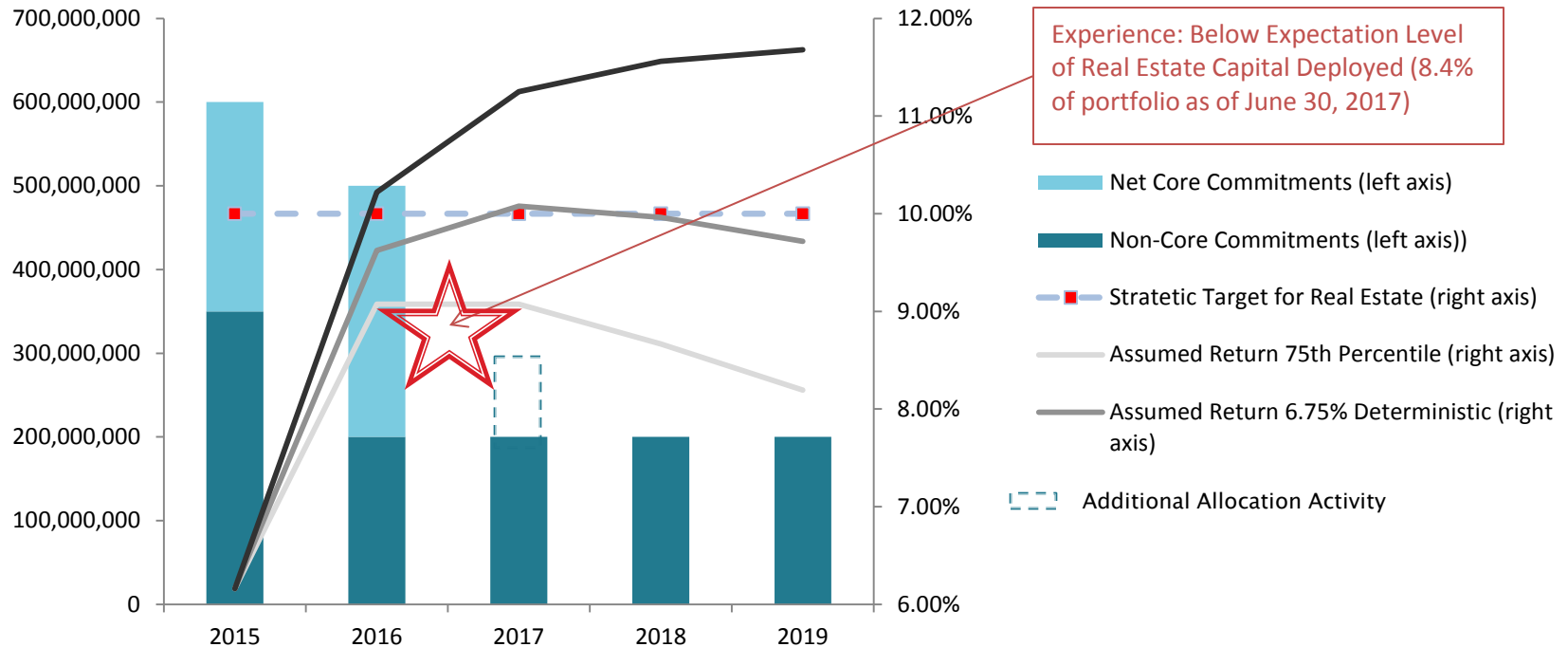
2017 YTD Real Estate Search Processes have cumulated \$300 million of closed or recommended investments, in line with the \$200-400 million pacing model goal for the year.

Multi-Year Pacing Model

Expectations vs. Experience

Pacing Model: Expected Real Estate Market Value

(By Dollar Value [left axis]; by % of Total Portfolio [right axis])



*Chart originally appeared in March 2016 Board Materials

Explanations for Shortfall

- Strong Public Equity Returns
- Slower than Expected Capital Deployment
- High Levels of Capital Returned
- Credit/Subscription Facility Usage

Actions Taken

- Pacing Model Reassessment
- Credit/Subscription Facility Research
- Increased Allocation Activity

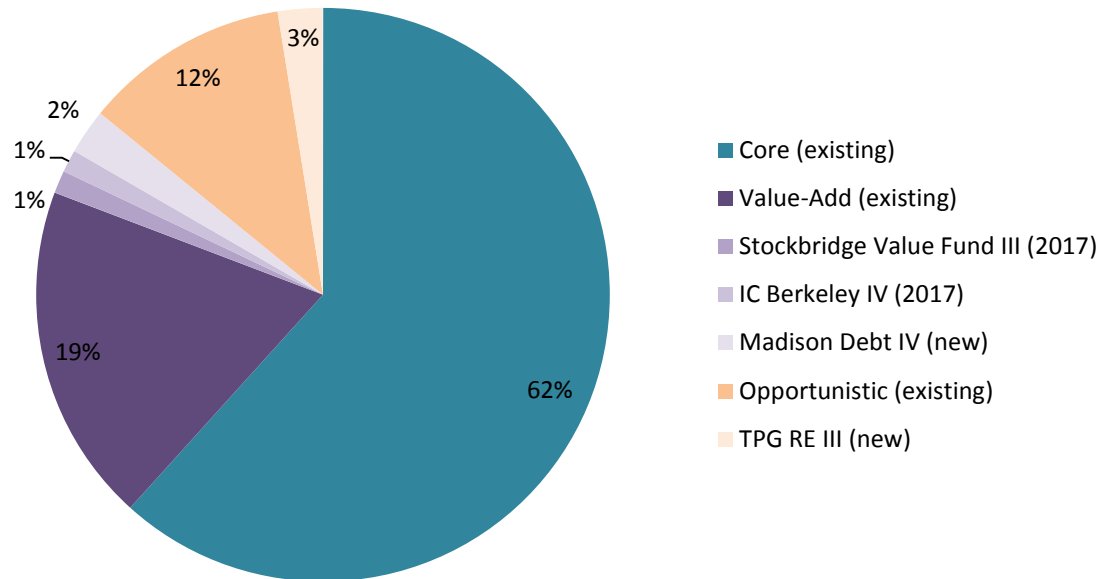
Section II

PORTFOLIO CONSTRUCTION

Real Estate Portfolio Statistics

TMRS Real Estate Portfolio

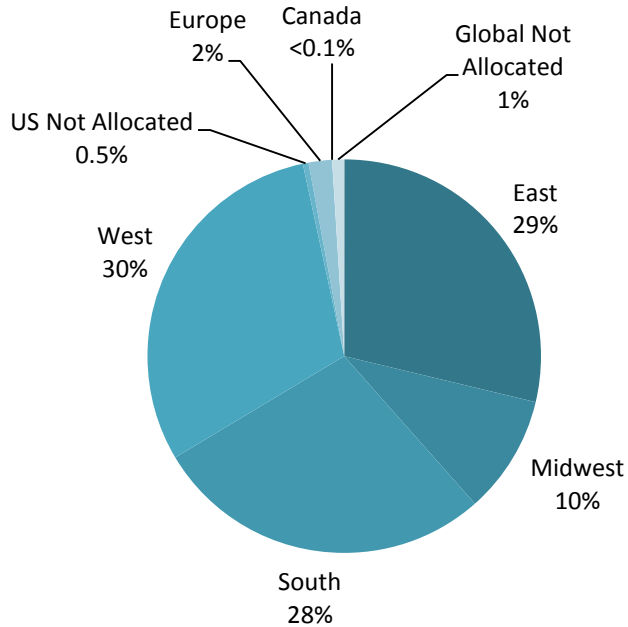
2017 Recommendation Detail by Adjusted Commitments



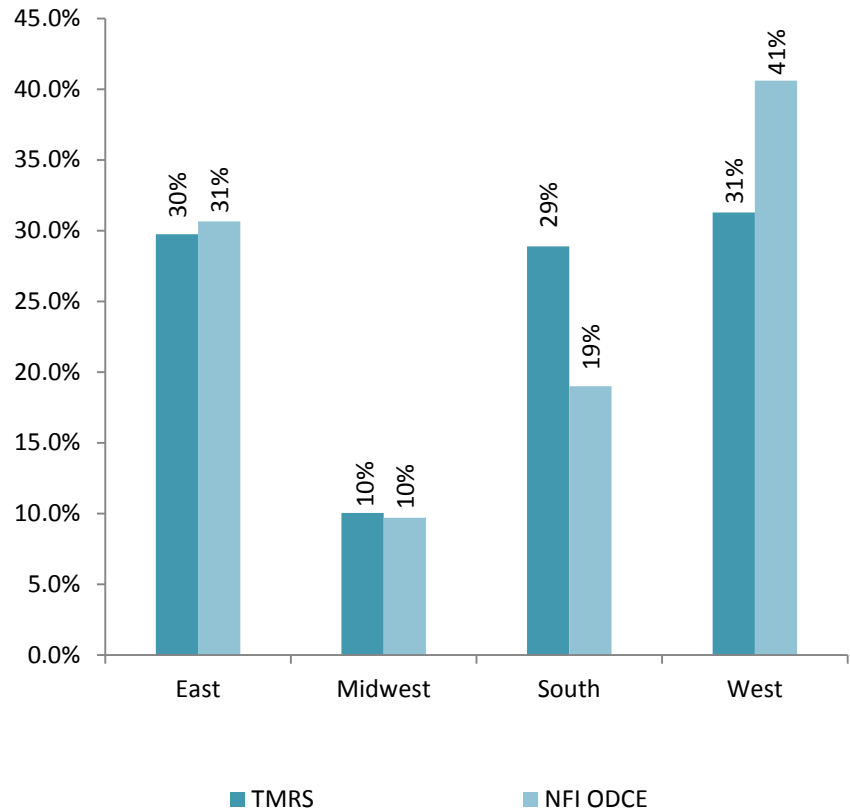
The TMRS portfolio is tracking within policy statement goals for strategy allocation levels.

2017 activity levels represent roughly 20% of TMRS' total non-core real estate allocation, in-line with pacing model goals.

Geographic Diversification

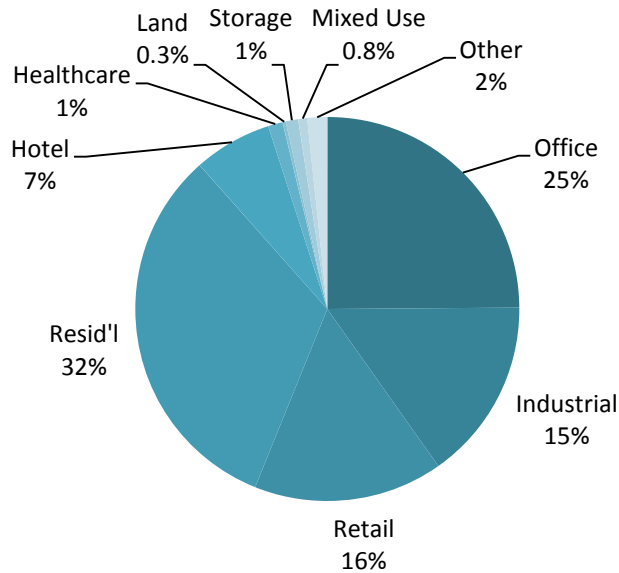


**Source: Courtland Partners; as of Dec. 31, 2016*

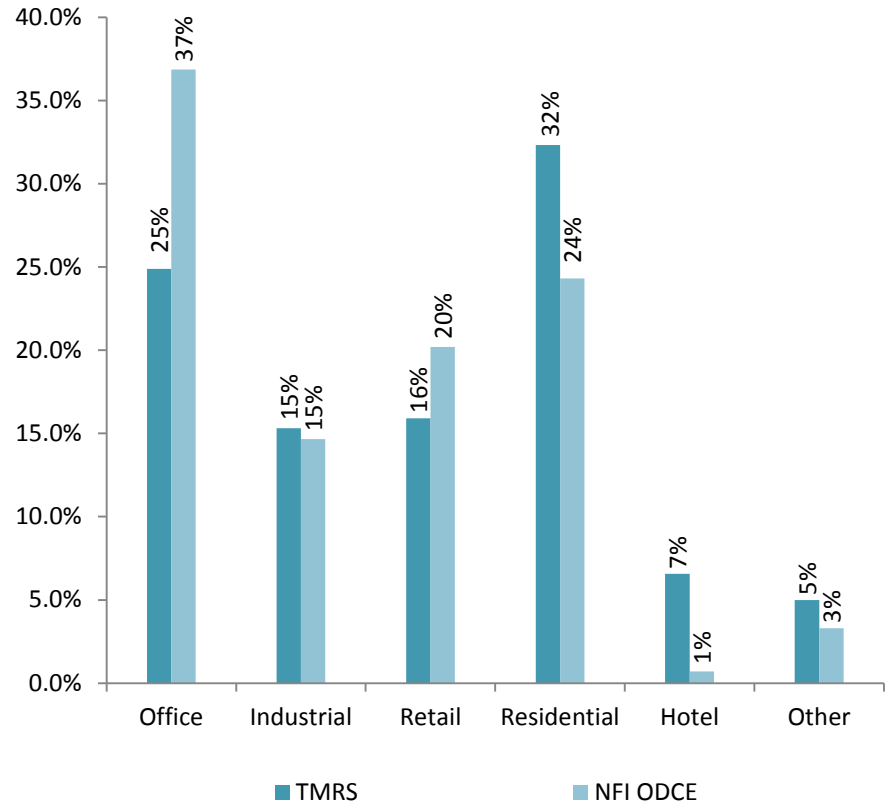


Proposed investments are expected to increase east coast exposure and European Exposure.

Property Type Diversification



**Source: Courtland Partners; as of Dec. 31, 2016*



Proposed investments are not expected to meaningfully shift property type weightings.

Section III

MANAGER SELECTION & RECOMMENDATION

Top Candidate Characteristics – TPG

\$100 million Recommendation (re-up)

TPG Real Estate Fund III is focused on opportunistic platform real estate investments in the United States and Europe. The team leverages their private equity expertise as well as real estate knowledge to source companies and real estate portfolios that are either a value investment or have some operational turnaround opportunity. The fund will implement a buy and build strategy, acquiring assets in inefficient and fragmented markets, while utilizing its deeply experienced team to improve operations at the company level.

TPG is targeting a \$3 billion fundraise to pursue opportunistic returns in the 15%+ net IRR 1.7x net MOIC (multiple of invested capital) range.

TPG Process Summary

Date of First TMRS Meeting
3/03/15 (call)

Dates of Subsequent Meetings
4 additional 2015 meetings
3 2016 Meetings (Austin)
1/16/17 (London)
10/6/17 (NYC)

Dates of Diligence Advancement
'B' Rating – 3/08/17
'A' Rating – 8/04/17

Date of Consultant Report
October 2016

Legal Negotiation Initiated
Not yet started.

Comparable Strategies Reviewed
53 (Opportunistic RE)
32 (European RE)
4 (Platform Strategies)

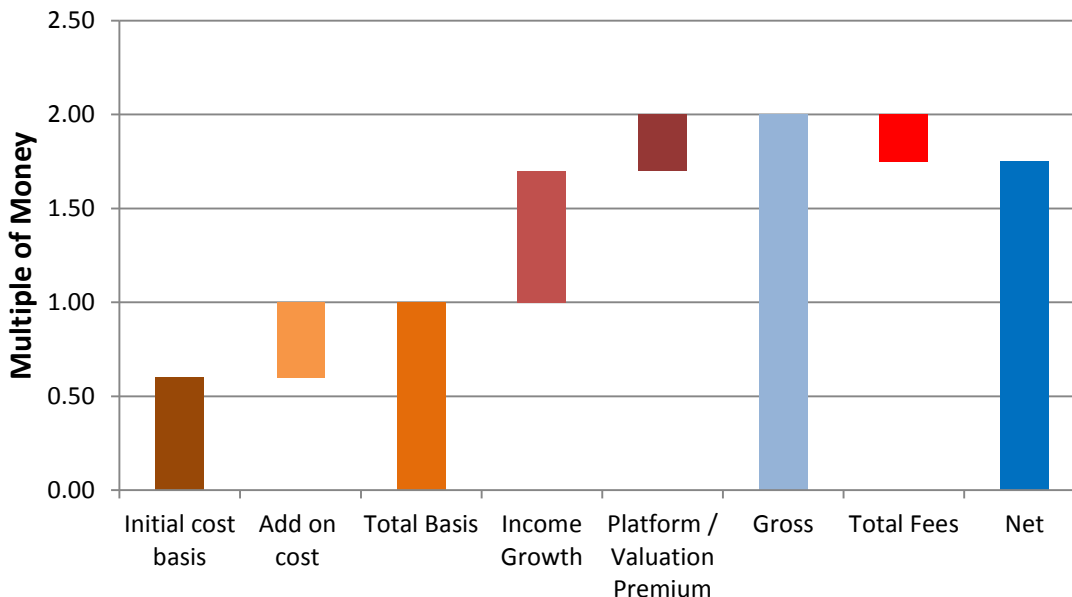
Top Candidate Characteristics – TPG

\$100 million Recommendation (re-up)

Investment Case

- *Platform/Bi-Continental Approach* – Invests at scale and creates opportunity to add value through buy and build method. It is also among only a few products that invests in both the US and Europe.
- *Experienced & Background Diverse Team* – The key partners have history in building businesses and also have deep industry experience in real estate investment.
- *Exceptional performance* – Fund II is performing in the top quartile amongst its peers and returned substantial capital to date.

TPG Pro-Forma Return Bridge



Issues to Consider

- Scalable Acquisition Model Dependent Strategy
- Terms
- Global Macro Environment Uncertainty

Top Candidate Characteristics – Madison

\$100 million Recommendation

Madison Realty Capital is a vertically integrated real estate debt investment firm with in-house property management, leasing and design, development and construction expertise. Madison Realty Debt Fund IV intends to originate and acquire commercial real estate loans, real estate mezzanine loans, preferred equity investments and acquire liens that are mostly backed by real estate located in the tri-state New York City area.

Madison is currently raising a \$1 billion private real estate fund that targets 11–14% net IRR returns and a 1.4–1.7x MOIC.

Madison Realty Process Summary

Date of First TMRS Meeting

1H 2014

Dates of Subsequent Meetings

1/17/2014 (Call)

7/28/14 (Austin)

7/28/15 (Austin)

8/11/16 (Austin)

12/12/16 (Austin)

2/21/17 (NYC)

7/20/17 (NYC)

Dates of Diligence Advancement

'B' Rating – 12/16/16

'A' Rating – 8/04/17

Date of Consultant Report

October, 2017

Legal Negotiation Initiated

Not yet started. October 2017 (est.)

Comparable Strategies Reviewed

56 (Real Estate Debt)

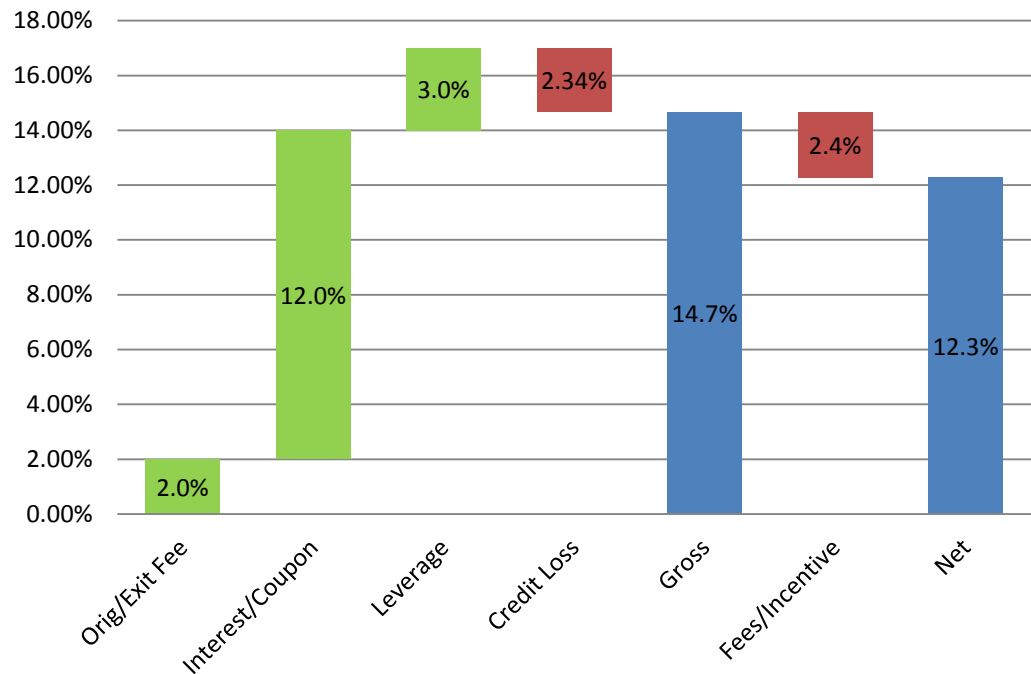
Top Candidate Characteristics – Madison

\$100 million Recommendation

Investment Case

- *Sourcing and performance are cycle robust* – The Manager sources through both loan origination and acquisition which has created a consistent return profile over time.
- *Fund structure encourages recycling of capital* – Madison employs a fund structure which helps them fully utilize the fund investment period by recycling capital.
- *Background of Investment Team* – The team is both vertically integrated and entrepreneurial.

Madison Realty Debt Pro-Forma Return Bridge



Issues to Consider

- Concentrated Geographic Footprint
- Manager Ambition
- Contract Intensive Business Model/Use of Leverage

Section IV

REQUESTED BOARD ACTION

Approval of Recommendation

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

Recommendations:

- | | |
|---|---------------|
| • TPG Real Estate Partners III, LP | \$100 million |
| • Madison Realty Capital Debt Fund IV, LP | \$100 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.