

Real Return Recommendations

October 25–26, 2018



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Agenda

- I. Executive Summary
- II. Portfolio Construction
- III. Manager Selection & Recommendations
- 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 Recommendations			
Recommended Manager/Fund	Strategy Classification	Target Return	Recommended Amount
Sprott Private Resource Lending II (Sprott)	Private Real Return	11-15% net IRR	Up to \$100mm
InstarAGF Essential Infrastructure II (Fund) & Co-Invest (Co-Invest) (Collectively 'Instar')	Private Real Return	10-14% net IRR	Up to: \$100mm (Fund) \$50mm (Co-Invest)
NGP Natural Resources XII (NGP)	Private Real Return	15-20% Net IRR	Up to \$125mm
GIP Spectrum Fund (Spectrum), GIP Capital Solutions (CAPS), & GIP CAPS Co-Invest (Co-Invest) (Collectively 'GIP')	Private Real Return	7%+ Net IRR (Spectrum) 9%+ Net IRR (CAPS)	Up to: \$75mm (Spectrum) \$75mm (CAPS) \$50mm (Co-Invest)
Total Approximate Recommended Investments/Commitments		Up to \$575 million	

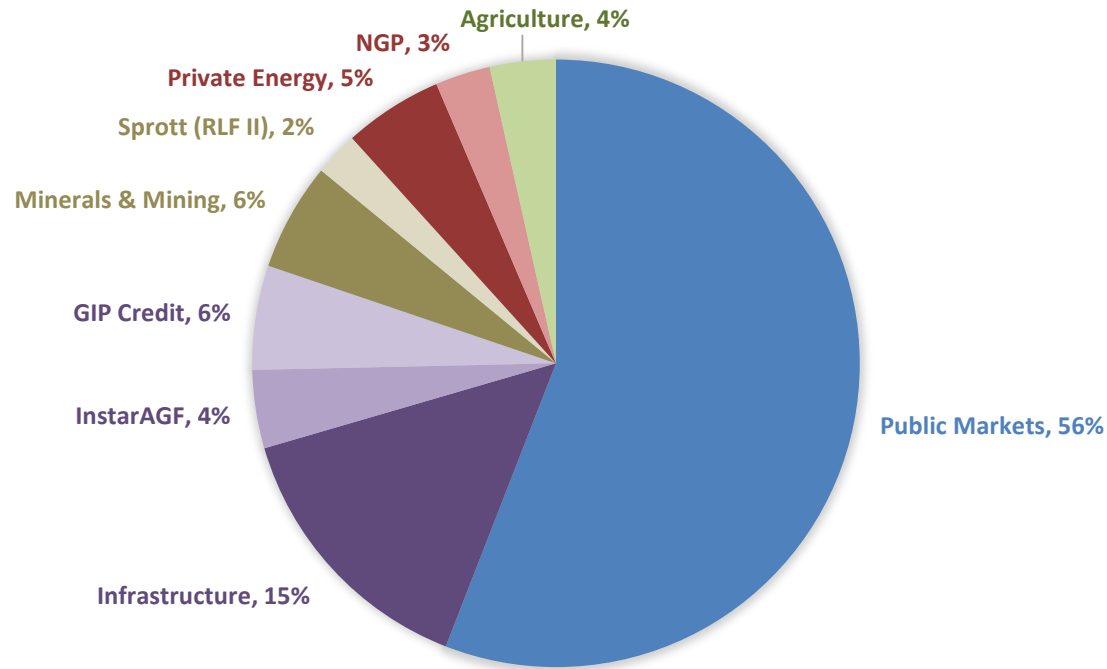
Inclusive of the recommendations noted above, total real return allocation activity for 2018 is \$650 million, on pace to be within the approved range of targeted pacing of \$400 – \$800 million.

Section II

PORTFOLIO CONSTRUCTION

Real Return Portfolio Statistics

OCTOBER 2018 PORTFOLIO & ALLOCATION ACTIVITY
BY ADJUSTED COMMITMENTS



Private investment strategy commitments will begin to draw down real return public markets exposure going forward.

Section III

MANAGER SELECTION & RECOMMENDATIONS

Top Candidate Characteristics – Sprott

\$100 million Recommendation

Sprott Investment Corporation is a \$9.0B Toronto, Ontario based publically traded company focused on public and private markets resource investing. Sprott Resource Lending Fund II (Sprott RLF II) focuses on making debt and related investments to lower to middle market portfolio companies and their projects principally in minable natural resources. 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) opportunities where there is the potential for the Fund to assist a borrower in advancing its development project to the next stage; (c) companies requiring short- to mid-term project financing; and (d) on a selective basis, distressed debt opportunities. The strategy is led by Messrs. Jim Grosdanis and Narinder Nagra, two long term Sprott employees and mining capital markets participants.

Sprott Resource Lending

SRLF II
(\$100mm)

Date of First TMRS Meeting

2/24/16

Dates of Subsequent Meetings*

9/28/17

4/6/18

8/07/18

*Fund II DD only

Dates of Diligence Advancement

'A' Rating – 8/14/18

Date of Consultant Report

September 8, 2018

Legal Negotiation Initiated

September 17, 2018

Comparable Strategies Reviewed

Private Natural Resource Credit (33)

Mining Credit (6)

Top Candidate Characteristics – InstarAGF

\$150 million Recommendation

InstarAGF Essential Infrastructure II is a North American focused infrastructure fund investing in middle market assets that have \$100 million to \$1 billion in enterprise value. The portfolio will consist of three primary categories of infrastructure: Energy, Utilities, and Civil. These broad categories will encompass a large number of sub-groups ranging from renewable and district energy to airports and digital infrastructure. The team underwrites downside protection through asset level characteristics (i.e. barriers to entry, contractual cash flows, etc.) but provides value add through operational improvements and growth opportunities.

Instar was founded in 2014 by Gregory Smith, a long-standing authority on North American infrastructure. Prior to founding Instar, Mr. Smith was Managing Partner and head of Brookfield's Financial Global Infrastructure Advisory Group.

InstarAGF

InstarAGF Essential Infrastructure Fund II
(up to \$100 million; \$50 million co-invest)

Date of First TMRS Meeting

8/25/2015 (Austin)

Dates of Subsequent Meetings

12/8/2015 (Austin)

3/30/2016 (Toronto)

8/4/2016 (Austin)

3/21/2018 (Conference)

8/7/2018 (Toronto)

Dates of Diligence Advancement

'B' Rating – 7/6/2018

'A' Rating – 8/28/2018

Date of Consultant Report

October 2018

Legal Negotiation Initiated

9/20/2018

Comparable Strategies Reviewed

17 (Global MM Infra)

14 (North American MM Infra)

Top Candidate Characteristics – NGP

\$125 million Recommendation

NGP's investment strategy targets companies that operate in lower risk segments of the energy industry, principally focusing on acquiring and operating assets in the core areas of key US oil and gas basins. NGP has a systematic and active process for sourcing management teams, frequently working with repeat teams but also taking an industry leading approach with employing 'under 40' teams. NGP employs low leverage buy and build strategies; a belief in not micromanaging its portfolio companies; not having competing teams in the same basins; marrying upstream and midstream businesses together and utilizing roughly 70% of capital to 'feed the winners'. NGP has a quality track record that has performed at a meaningful spread to public markets and has never lost money in a fund.

Natural Gas Partners

NGP XII
(\$125mm)
Date of First TMRS Meeting
4/17/17 (Austin)

Dates of Subsequent Meetings*
5/3/17 (Eagle Ford Site Tour)
6/5/18 (Austin)
8/16/18 (Austin)
8/29/18 (Dallas)

Dates of Diligence Advancement
'B' Rating – 8/16/18
'A' Rating – 9/26/18

Date of Consultant Report
August 13, 2018

Legal Negotiation Initiated
October 2018

Comparable Strategies Reviewed
Private Equity Energy (73)
Directly Comparable (11)

Top Candidate Characteristics – GIP Credit

\$200 million Recommendation

Global Infrastructure Management, Inc (“GIP”) is an infrastructure specialist asset manager focused on energy, transport, water, and waste industries. GIP has two credit strategies utilizing their in-house operating and origination expertise to generate more value through structured financings with sub-investment grade companies. The Capital Solutions fund pursues higher returning opportunities with B rated firms looking for highly structured capital to fund growth and/or greenfield expansion. The Spectrum fund pursues slightly lower cost opportunities with BB rated firms looking for more senior level debt to finance acquisitions or refinance other debt. The firm was founded in 2006 by a group led by Adebayo Ogunlesi, the former head of Investment Banking and Global Energy for Credit Suisse. GIP in many respects pioneered the current private equity oriented infrastructure model, bringing financial professionals and experienced operating professionals together.

GIP Credit

GIP Spectrum, GIP CAPS,
CAPS Co-Investment
(up to \$200 million total)

Date of First TMRS Meeting
4/26/2018 (Austin)

Dates of Subsequent Meetings
7/19/2018 (Austin)
9/7/2018 (Conference Call)
9/26/2018 (New York City)

Dates of Diligence Advancement
'B' Rating – 8/9/2018
'A' Rating – 9/27/2018

Date of Consultant Report
Spectrum: Sept 2018
CAPS: Oct 2018

Legal Negotiation Initiated
TBD

Comparable Strategies Reviewed
10 (Multi-Sector Infra Credit)

Section IV

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:

Recommendation:

- | | |
|---|---------------------|
| • Sprott Private Resource Lending II | Up to \$100 million |
| • Instar AGF Essential Infrastructure Fund II | Up to \$100 million |
| • InstarAGF EIF II Co-Invest | Up to \$50 million |
| • NGP Natural Resources XII | Up to \$125 million |
| • GIP Spectrum Fund | Up to \$75 million |
| • GIP Capital Solutions | Up to \$75 million |
| • GIP Capital Solutions Co-Invest | Up to \$50 million |

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