

# Private Equity Recommendation

December 5–6, 2019



## Presenters:

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StepStone Group

# Agenda

- I. Executive Summary
- II. Due Diligence Process Review
- III. Portfolio Construction
- IV. Manager Selection & Recommendation
- V. Requested Board Action

Names used in this presentation may be a shortened version of the full legal name 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 Recommendation

## *Executive Summary*

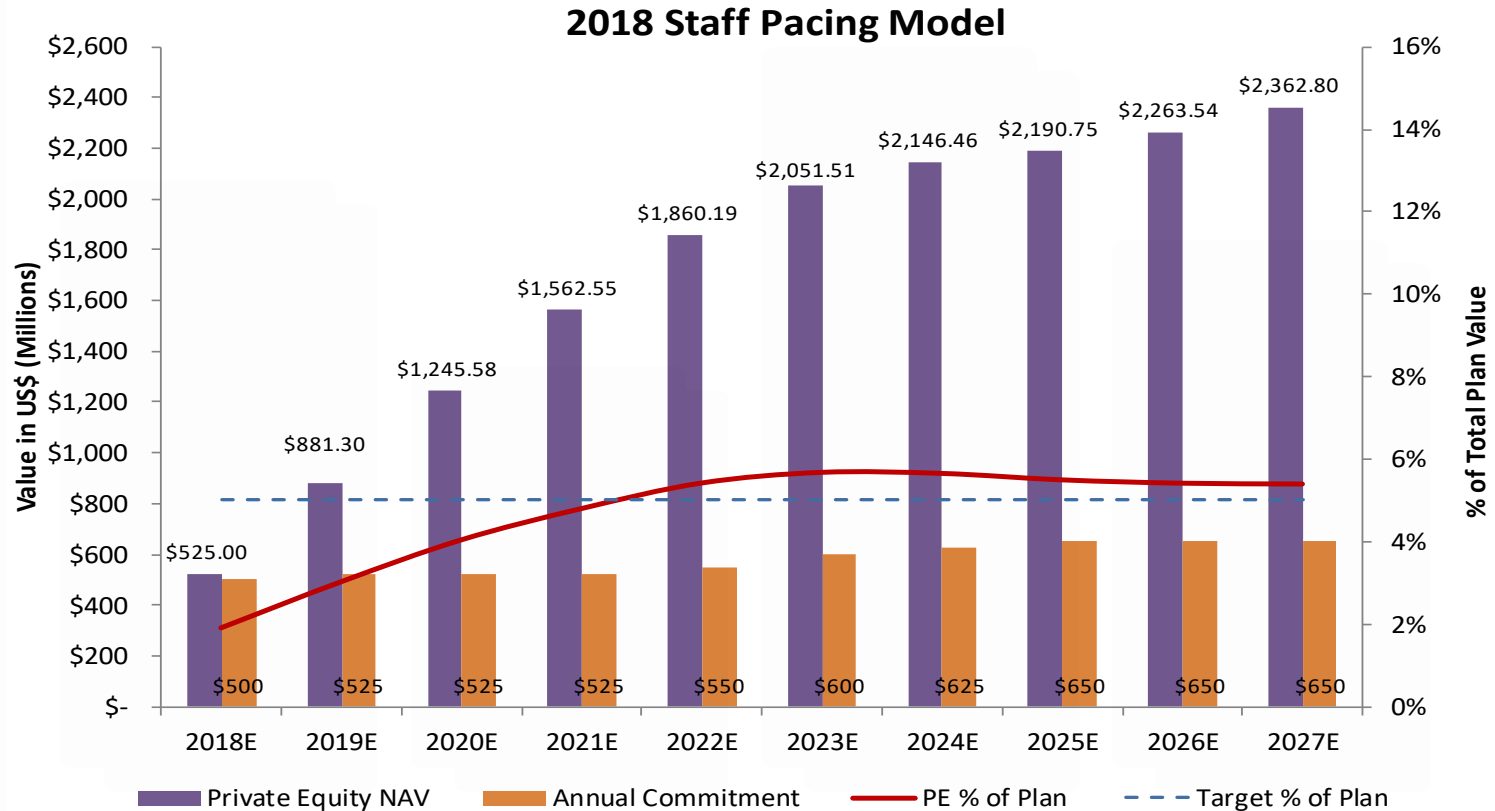
Summary of Recommendations			
Recommended Manager/Fund	Strategy Classification	Target Return	Recommended Amount
Parthenon Investors VI, L.P. ("Parthenon VI")	Buy-out	20% Net IRR	\$50 million
Total Approximate Recommended Investments/Commitments			\$50 million

Section II

# **DUE DILIGENCE PROCESS REVIEW**

# Due Diligence Processes

As part of Multi-year time periods

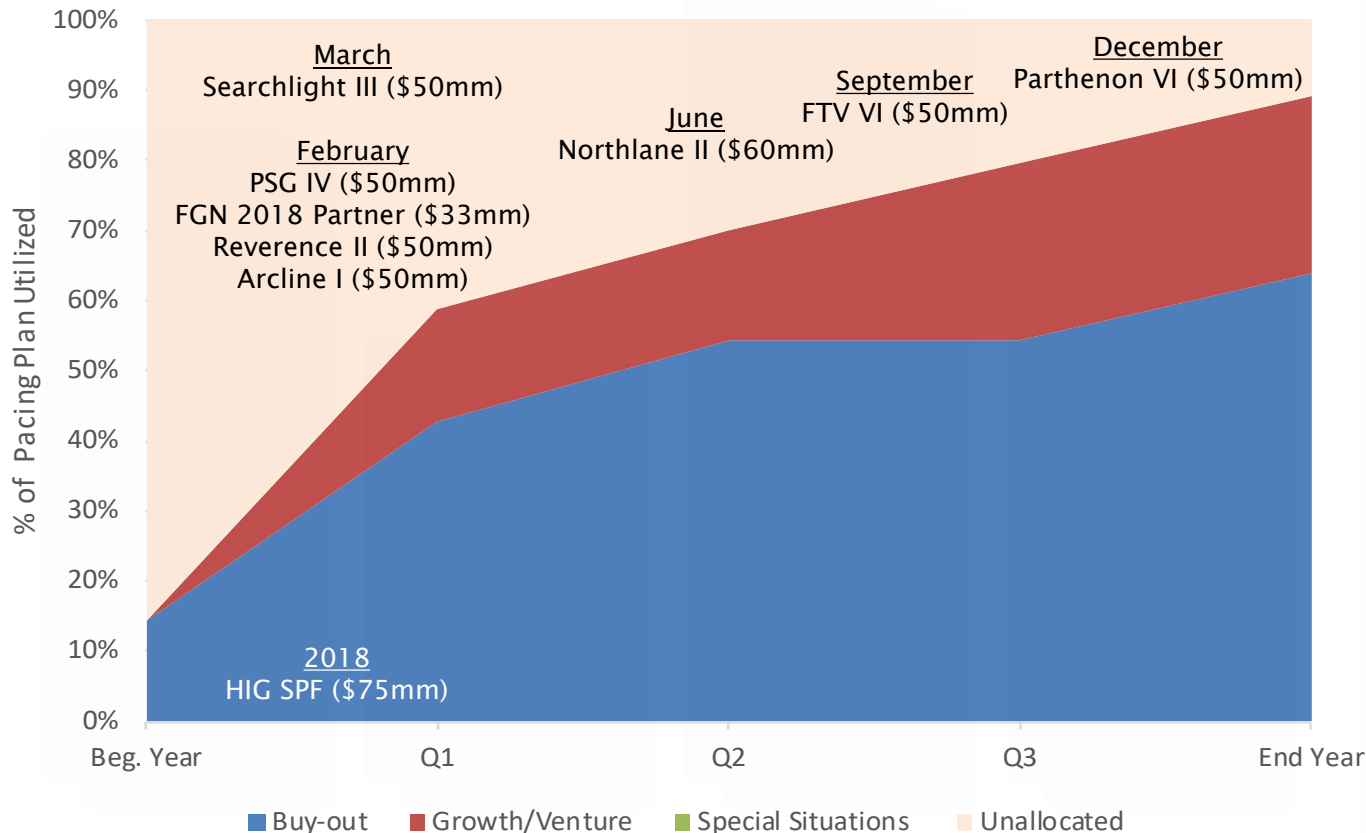


Annual pacing plans are developed in the context of multiple year investment horizons. This is necessary because private capital investments deploy and return capital over time rather than all at once.

# Due Diligence Processes

As part of Annual Search Processes

## 2019 Private Equity Pacing Plan Progress



The 2019 Private Equity search process has culminated in ~\$468 million of closed and/or recommended investments, which is slightly behind the \$525 mm primary pacing model goal for the year.

Search processes are approved in annual amounts. Progress will be made throughout the year as opposed to all at once.

Section III

# PORTFOLIO CONSTRUCTION



# Private Equity Portfolio Statistics

## Strategy Diversification

### Strategy considerations:

*2015: Overweight special situations early for J-Curve mitigation, efficiency of capital deployment, and tactical opportunities.*

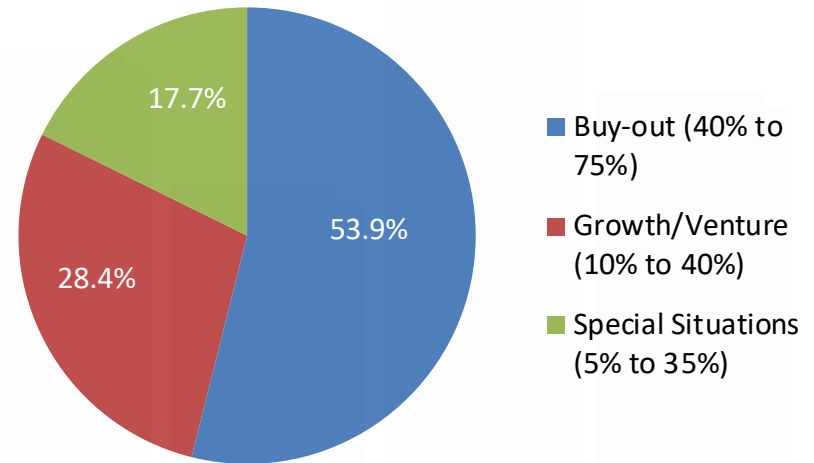
*2016: Focus on growth opportunity set and continue to add buy-out exposure.*

*2017: Round out buy-out portfolio, and opportunistically add to growth and credit.*

*2018: Steady state on pacing, selectively adding new relationships and European exposure*

*2019: Steady state on pacing, selectively added new relationships and Venture and European exposure.*

**Private Equity Strategy Diversification by Commitment**



# Private Equity Portfolio Statistics

## Manager Implementation

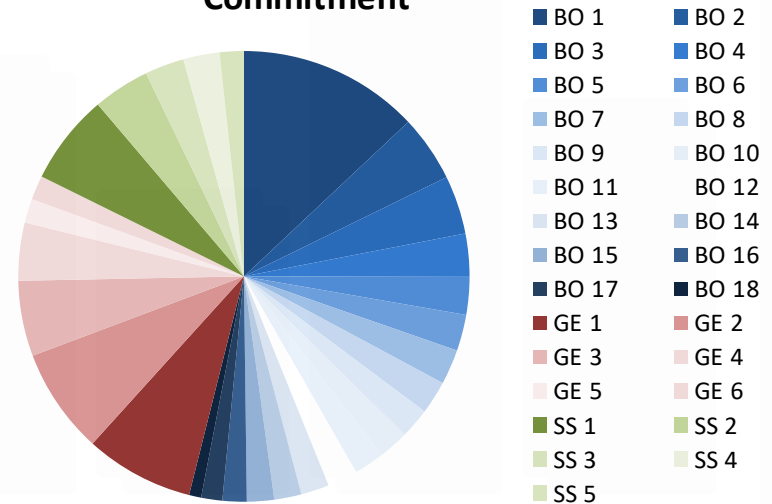
*The overall goal remains identifying top quartile performers to partner with.*

*Position sizing considerations:*

*Continue to reduce the unallocated portion of the private equity portfolio while sensibly balancing the trade-off between diversification and concentration.*

*Areas of focus are enhancing manager diversification, and building strategic relationships where possible/appropriate.*

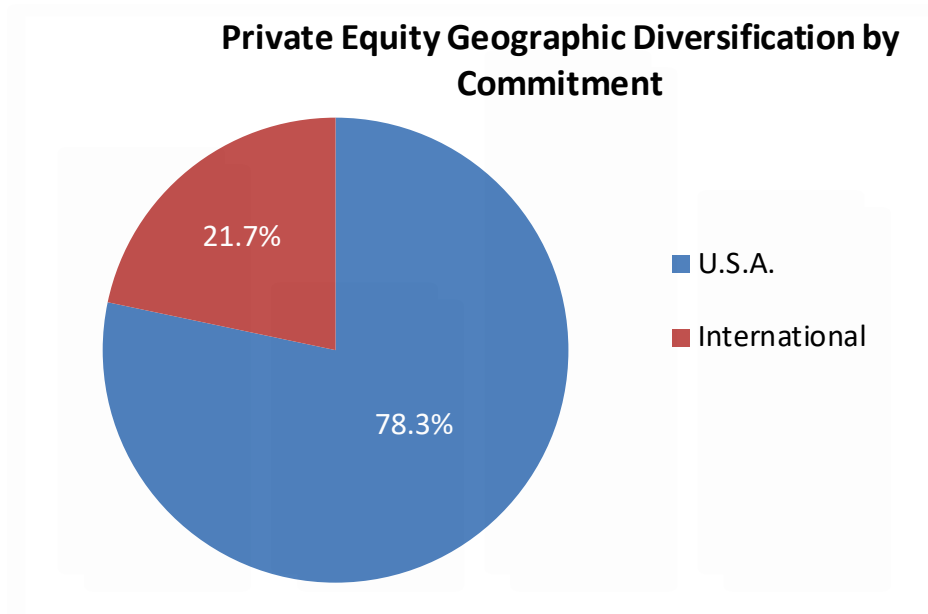
Private Equity Manager Diversification by Commitment



# Private Equity Portfolio Statistics

## Geographic Diversification

*TMRS is focused on taking a measured approach to global geographic diversification.*



**The Target Portfolio keeps a conservative stance on international exposure.**

Section IV

# MANAGER SELECTION AND RECOMMENDATION

# Top Candidate Characteristics – Parthenon VI

## *\$50 million Recommendation*

Parthenon Capital Partners (“Parthenon” or the “Firm”) is a private equity firm founded in 1998 that makes growth-oriented buy-out investments in the financial services, healthcare, and business services sectors across the United States. Parthenon Investors VI, L.P. is targeting \$1.5 billion to make up to 15 investments; the Fund will seek opportunities where they can invest \$40 million to \$125 million into profitable companies with enterprise values ranging from \$50 million to \$500 million. Post-investment, the Parthenon team will typically recruit new executives to their portfolio companies, while conducting several add-on acquisitions and improving their technology infrastructures. Parthenon will continue to execute the same strategy employed since Fund III, when the current team took over the Firm’s management.

### **Parthenon VI**

Date of First TMRS Meeting

6/25/2019

Dates of Subsequent Meetings

9/6/2019

9/23/2019

10/17/2019

Dates of Diligence Advancement

‘B’ Rating – 6/25/2019

‘A’ Rating – 9/6/2019

Reference Checks

Yes

Date of Consultant IDD Report

July 29, 2019

Date of Consultant Board Memo

November, 2019

Legal Negotiation Initiated

October 16, 2019

Comparable Strategies Reviewed

Financial Services focused: 17

Healthcare focused: 19

Section V

# REQUESTED BOARD ACTION

# Recommendation

- TMRS Staff and StepStone Group recommend that the Board of Trustees approve the following fund:

## Recommendation:

- Parthenon Investors VI, L.P. \$50 million

## **DISCLOSURES**

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