

Small-Cap Growth Strategy



2nd Quarter 2018

Firm Profile

Founded in 2004

2 employees

5 outsourced marketing/client service employees (Genesis)

\$40.2 million in total assets under management firm wide

Management team with over 50 years combined experience

Investment Philosophy

“We believe a “good company” can be identified through fundamental research while a “good stock” can be identified through technical research. The solid application of both disciplines should uncover “good investments” that should deliver superior returns.”

Investment Team Experience

Eric M. Efron, CFA

Co-Portfolio Manager, 25+ years

Stephen P. Arnold

Co-Portfolio Manager, 25+ years

Investment Process

STEP 1 Idea Generation

*“MOA” (Maker of Alpha)
Proprietary stock screen run weekly*

Developed utilizing research dating back to 1935

- Identifies common characteristics of stocks in the early stage of a significant and steady price appreciation trend

Identifies acceleration and improvement in:

- Free cash flow
- Revenue
- Earnings
- Profit margins
- Relative strength and momentum

The MOA screen reduces roughly 7,500 potential candidates down to an average of 10 to 20 candidates for further analysis.

STEP 2 Quantitative Ranking

Proprietary “Competitive Scoring System”

Stocks are ranked from most attractive to least attractive

Compares 144 variables to the industry, sector, and S&P 500

Provides overall score and sub-category weightings:

- Risk
- Return
- Margins
- Growth
- Turnover
- Valuation
- Balance Sheet
- Liquidity
- Industry Outlook

Setting the priorities for further review.

STEP 3 Grunt Work

Exhaustive research money managers are paid to perform

Fundamental Research: Focuses on cash flow, earnings quality, earnings estimate revisions, and debt exposure

Technical Research: Explores trend lines, pricing patterns, Gann angles and Fibonacci retracement lines - “Where we make the difference”

STEP 4 Portfolio Construction

Target 30-40 companies that are positioned for internally funded sustainable growth, have superior technical characteristics, and are identifiably undervalued relative to their appreciation potential

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Investment Performance*

Texas IIM Small-Cap Growth Composite Returns through Q2 2018 (%)			
	Before Fees	After Fees	Russell 2000 Growth
2018 Returns:			
MRQ	4.12	4.12	7.23
YTD	5.75	5.75	9.70
Annualized Returns:			
1 year	19.50	19.48	21.86
3 years	5.88	5.46	10.60
5 years	7.46	7.04	13.65

Texas IIM Small-Cap Growth Composite Quarterly Gross Returns (%) Since Inception					
	Q1	Q2	Q3	Q4	Year
2018	1.56	4.12			5.75
2017	5.27	4.76	6.41	6.20	24.62
2016	-2.64	1.12	-0.01	3.17	1.57
2015	3.12	-1.12	-11.82	0.57	-9.58
2014	-3.33	-0.99	-2.30	4.51	-2.27
2013	9.51	-2.18	9.71	10.43	29.78
2012	12.92	-3.79	5.54	1.23	16.07
2011	13.25	2.08	-17.60	15.26	9.80
2010	7.32	-5.08	11.75	15.94	31.98
2009	-8.71	6.83	9.84	3.68	11.06
2008	-7.52	14.47	-16.25	-22.69	-31.46
2007	5.71	8.81	-0.86	-3.61	9.92
2006	11.98	2.17	-4.83	3.58	12.78
2005	-4.54	2.42	9.38	-0.97	5.90
2004			-0.91	12.31	-

Performance Statistics Since Inception		
	Small-Cap Growth Composite	Russell 2000 Growth
Return	7.83%	9.61%
Standard Deviation	16.26%	18.96%
Alpha vs. Market	0.52	0.00
Beta vs. Market	0.76	1.00
Sharpe Ratio	0.41	0.44
Sortino Ratio (MAR = Cash Eq.)	0.62	0.68
Up Capture vs. Market	76.57	100.00
Down Capture vs. Market	79.62	100.00
R-Squared vs. Market	0.78	1.00
Correlation vs. Market	0.88	1.00
Information Ratio vs. Market	-0.20	---

Effective Investment Management

- Identifies and captures opportunities in disciplined, consistent ways
- Is risk aware and vigilant
- Faithfully observes the investor's mandate and seeks to achieve its full potential
- Aligns with market trends when appropriate but breaks step with the Street when discipline and analysis dictate a contrarian approach
- Answers to the investor alone

Sell Discipline

Texas Institutional follows strict sell criteria:

- When fundamentals have deteriorated
- The company announces a dilutive event
- The "process" uncovers more attractive opportunities

*Source: eVestment. As of Q3 2015, the performance numbers shown are calculated using eVestment rather than Zephyr StyleAdvisor. Results may differ from previous versions due to rounding.

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PERFORMANCE DISCLOSURES

TEXIIM Small-Cap Growth Composite – This composite is made up of portfolios invested in 30 to 40 small-cap growth equity securities, defined as being in the Russell 2000 index or an equivalent, nationally recognized small-cap index.

TEXIIM claims compliance with the Global Investment Performance Standards (GIPS). TEXIIM's performance results have been verified for the periods of May 1, 2004 to December 31, 2017 by Dabney Investment Consulting Associates, Inc. To obtain a copy of the verification report, please contact Eric M. Efron, CFA by telephone (210-490-2200) or email (eme@texiim.com).

TEXAS INSTITUTIONAL INVESTMENT MANAGEMENT LLC (TEXIIM) is an investment adviser based in San Antonio, Texas, that is registered with the Texas State Securities Board and provides separate account Small-Cap growth equity, Mid/Large-Cap growth equity, an All-Cap growth equity portfolio management to both individuals and institutions.

- A complete list and description of all the TEXIIM composites is available upon request.
- TEXIIM composite performance results are expressed in U.S. dollars and shown gross of investment management fees.
- TEXIIM does not use leverage, short positions or derivatives, other than index ETFs, in its normal investment style.
- TEXIIM composites do not include non-fee-paying portfolios.
- The Russell 2000 Growth Index measures, on a market capitalization weighted basis, the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth rates. This index is reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics. The performance of an index is not an exact representation of any particular investment as you cannot invest directly in an index.
- Past performance is not a guarantee of future results.
- Texas Institutional's Form ADV and Form ADV Part 2 ("the Brochure") are available online at www.adviserinfo.sec.gov. Please use the following instructions to access them:
 - 1) Go to www.adviserinfo.sec.gov
 - 2) Click on the "Investment Advisor Search" on the left hand side of the page
 - 3) Scroll to the bottom of the page, and select "Firm"
 - 4) Scroll to the bottom of the page, and enter "131300" in the "Firm Name or CRD# or SEC" box
 - 5) Click on "Start Search" button
 - 6) "Texas Institutional Investment Management, LLC" will be displayed at bottom of new page
 - 7) Click "Investment Adviser Firm"
 - 8) Click "Texas", and Form ADV will be displayed
 - 9) You can select individual sections of the Form ADV by going to left hand side of the page and clicking the appropriate menu items

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