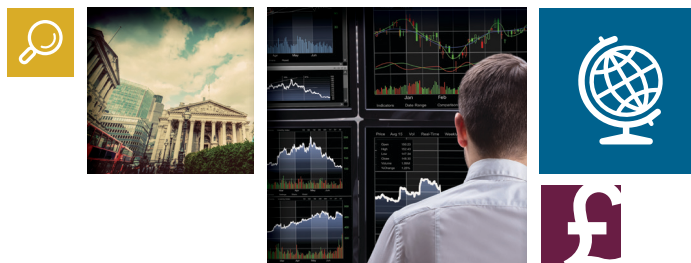


TRICOT 2018 • Annual Financial Report

Teacher Retirement Investment Company of Texas, Ltd.



A Component Unit of
the Teacher Retirement System of Texas

Fiscal Year Ended August 31, 2018





Teacher Retirement Investment Company of Texas Ltd.

Financial Statements
For the Period Ended August 31, 2018

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Report on the financial statements

We have audited the accompanying financial statements of the Teacher Retirement Investment Company of Texas, Ltd. ("TRICOT"), which comprise the statement of fiduciary net position as of August 31, 2018, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the basic financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to TRICOT's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TRICOT's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teacher Retirement Investment Company of Texas, Ltd. as of August 31, 2018, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Teacher Retirement Investment Company of Texas, Ltd. and do not purport to, and do not, present fairly the financial position of the Teacher Retirement System as of August 31, 2018, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other matters***Required supplementary information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Austin, Texas

November 5, 2018

***Teacher Retirement Investment Company of Texas Ltd.
Management's Discussion and Analysis (Unaudited)***

The following is Management's Discussion and Analysis (MD&A) of the Teacher Retirement Investment Company of Texas Ltd.'s (TRICOT) financial statements as of August 31, 2018 and for the year then ended. The information presented here should be considered in conjunction with other areas of the *TRICOT Annual Financial Report*.

Financial Highlights

Teacher Retirement Investment Company of Texas Ltd., (TRICOT), a private limited company incorporated in the United Kingdom (UK) began operations in fiscal year 2016. TRICOT, as a separate legal entity, is a wholly owned subsidiary and blended component unit of the Teacher Retirement System of Texas (TRS) Pension Trust Fund.

- TRICOT's primary purpose is to increase the size and number of investment opportunities for the TRS portfolio, especially in private equity funds, real assets funds, and co-investments for either of those investment types.
- TRICOT helps support the sourcing and portfolio management of TRS' \$10 billion in exposure to private investments in Europe through 80 investment vehicles and 30 manager relationships.
- Since inception, the TRICOT team has identified 189 potential deals totaling \$18.8 billion in equity, with 65 opportunities being identified for 2018. As of August 31, 2018, TRICOT-sourced deals had \$820 million in exposure to private investments in Europe through 8 investments vehicles under 8 manager relationships.
- TRICOT's net position was \$210,611 as of August 31, 2018.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to TRICOT's financial presentation, which consists of fund financial statements, notes to the financial statements, and required supplementary information.

Collectively, this information presents the net position restricted for fiduciary activities as of August 31, 2018, and summarizes any changes in net position for the year then ended. The information available in each of these sections is summarized as follows:

Fund Financial Statements

Fiduciary fund financial statements are presented as of August 31, 2018. These financial statements reflect the resources available to pay administrative expenses related to TRICOT's mission.

Teacher Retirement Investment Company of Texas Ltd.
Management's Discussion and Analysis (Unaudited) - Continued

Notes to the Financial Statements

The financial statement notes provide additional information that is essential to a full understanding of the data provided in the TRICOT financial statements. Information available in the notes to the financial statements is described below:

- Note 1 provides a general description of TRICOT and a summary of significant accounting policies, including the basis of accounting, budgets and appropriations, and explanations of major asset and liability classes.
- Note 2 provides information on capital assets.
- Note 3 describes cash, deposits and deposit risk factors.
- Note 4 provides information on operating leases.
- Note 5 presents tax disclosure information.

Required Supplementary Information

Required supplementary information for TRICOT consists of Management's Discussion and Analysis.

Financial Analysis of TRICOT

Net position restricted for fiduciary activities at August 31, 2018 was a \$210,611.

Additions from amounts paid on behalf of TRICOT and transfers in from Teacher Retirement System of Texas (TRS) totaled \$2,446,043.

Deductions from TRICOT's net position restricted for fiduciary activities are predominantly administrative expenses. During fiscal year 2018, administrative expenses and transfers out totaled \$2,440,149.

A condensed summary of TRICOT's financial statements are presented as of August 31, 2018 and for the year then ended. Comparative data in total as of August 31, 2017, and for the year then ended has also been presented.

Fiscal year 2018 decrease in cash and receivables is due to fewer expenditures reimbursements outstanding at year end. Prepaid and other increased due to the lease renegotiations which resulted in higher lease payments. Amounts paid on behalf of TRICOT decreased due to a reduced need for consulting services. Transfers in from TRS and administrative expenses increased due to an additional seconded employee and related expenses associated with that addition.

Teacher Retirement Investment Company of Texas Ltd.
Management's Discussion and Analysis (Unaudited) - Continued

Statement of Net Fiduciary Position (Condensed)

August 31, 2018

	Fiscal Year 2018	Fiscal Year 2017	Dollar Change	Percentage Change
Assets				
Cash and Receivables	\$ 124,856	\$ 163,094	\$ (38,238)	(23.4) %
Prepays and Other	193,822	131,981	61,841	46.9
Capital Assets	4,795	7,193	(2,398)	(33.3)
TOTAL ASSETS	\$ 323,473	\$ 302,268	\$ 21,205	7.0 %
Liabilities				
Accounts Payable and Other	\$ 112,862	\$ 96,734	\$ 16,128	16.7 %
Due to TRS		817	(817)	(100.0)
TOTAL LIABILITIES	\$ 112,862	\$ 97,551	\$ 15,311	15.7 %
Total Fiduciary Net Position	\$ 210,611	\$ 204,717	\$ 5,894	2.9 %

Changes in Fiduciary Net Position (Condensed)

For the Fiscal Year Ended August 31, 2018

	Fiscal Year 2018	Fiscal Year 2017	Dollar Change	Percentage Change
Additions				
Amounts Paid on Behalf of TRICOT	\$ 337,153	\$ 432,840	\$ (95,687)	(22.1) %
Transfers In from TRS - Cash	948,170	570,796	377,374	66.1
Transfers In from TRS - Expenditures	1,160,720	1,053,371	107,349	10.2
TOTAL ADDITIONS	\$2,446,043	\$2,057,007	\$ 389,036	18.9 %
Deductions				
Administrative Expenses	\$2,440,149	\$1,952,559	\$ 487,590	25.0 %
Transfer out to TRS		817	(817)	(100.0)
TOTAL DEDUCTIONS	\$2,440,149	\$1,953,376	\$ 486,773	24.9 %
Change in Fiduciary Net Position	\$ 5,894	\$ 103,631	\$ (97,737)	(94.3) %

***Teacher Retirement Investment Company of Texas Ltd.
Management's Discussion and Analysis (Unaudited) - Continued***

Request for Information

This financial report is designed to provide a general overview of the Teacher Retirement Investment Company of Texas Ltd. for those with an interest in TRICOT's finances.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Communications Department of the Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701.

Teacher Retirement Investment Company of Texas Ltd.

Statement of Fiduciary Net Position

AS OF AUGUST 31, 2018

ASSETS

Cash

Cash in Bank (Note 3)	\$	99,207
TOTAL CASH	\$	99,207

Receivables and Other Assets (Note 1E)

VAT (Value Added Tax) Receivable		23,162
Corporate Taxes Receivable		2,487
Prepaid Expenses		96,368
Deposits and Other Assets		97,454
TOTAL RECEIVABLES AND OTHER ASSETS	\$	219,471

Capital Assets (Note 2)

Depreciable Assets	\$	11,989
Less Accumulated Depreciation		(7,194)
TOTAL CAPITAL ASSETS	\$	4,795

TOTAL ASSETS	\$	323,473
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LIABILITIES (Note 1E)

Accounts Payable and Other	\$	48,412
Payroll Taxes Payable		40,608
Corporate Taxes Payable		23,842
TOTAL LIABILITIES	\$	112,862

NET POSITION

Net Investment in Capital Assets	\$	4,795
Restricted for Fiduciary Activities		205,816

NET POSITION RESTRICTED FOR FIDUCIARY ACTIVITIES	\$	210,611
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The accompanying Notes to the Financial Statements are an integral part of this financial statement.

Teacher Retirement Investment Company of Texas Ltd.

Statement of Changes in Fiduciary Net Position

FOR FISCAL YEAR ENDED AUGUST 31, 2018

ADDITIONS

Amounts Paid On Behalf of TRICOT	\$	337,153
Transfers In from Teacher Retirement System of Texas:		
of Cash		948,170
of Expense		1,160,720
TOTAL ADDITIONS	\$	2,446,043

DEDUCTIONS

Administrative Expenses		
Seconded Employees and Other Services	\$	1,116,677
Professional Fees and Services		387,403
Materials and Supplies		2,901
Communications and Utilities		3,482
Repairs and Maintenance		11,754
Travel		46,796
Rentals and Leases		456,497
Payroll Tax Expense		286,381
Corporate Tax Expense		22,229
Foreign Transaction (Gain)/Loss/Fees		4,436
Depreciation Expense		2,398
Other Expenses		57,605
Transfers Out To Teacher Retirement System of Texas		41,590
TOTAL DEDUCTIONS	\$	2,440,149

Net Change in Net Position	\$	5,894
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NET POSITION RESTRICTED FOR FIDUCIARY ACTIVITIES-BEGINNING OF YEAR	\$	204,717
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NET POSITION RESTRICTED FOR FIDUCIARY ACTIVITIES-END OF YEAR	\$	210,611
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The accompanying Notes to the Financial Statements are an integral part of this financial statement.

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The accompanying financial statements reflect the financial position of the Teacher Retirement Investment Company of Texas Ltd., (TRICOT), a private limited company incorporated in the United Kingdom (UK). TRICOT, as a separate legal entity, is a wholly owned subsidiary and blended component unit of the Teacher Retirement System of Texas (TRS) Pension Trust Fund. The primary purpose of TRICOT is to increase the size and number of investment opportunities for the TRS portfolio, especially in private equity funds, real assets funds, and co-investments for either of those investment types. TRICOT's Board of Directors is composed of one Managing Director. This Managing Director position is appointed by the Executive Director of TRS.

TRICOT provides investment advisory services exclusively to TRS pursuant to an intercompany agreement. TRICOT does not make investment decisions or enter into investment contracts and has no authority to legally bind TRS. All investment opportunities are referred to TRS for consideration, due diligence, decision-making, and authorization.

B. Measurement Focus, Basis of Presentation and Basis of Accounting

The financial statements present only the financial position and changes in financial position of TRICOT and include all activities for which TRICOT exercises fiscal control and responsibility. They are not intended to, and do not, present fairly the financial position or changes in financial position of TRS. The reporting period is for the fiscal year ended August 31, 2018.

As a blended component unit of the TRS Pension Trust Fund, TRICOT reports its accounts in the same manner, which is as a fiduciary fund. Fiduciary funds are used to report assets held in a trustee or agency capacity on behalf of others. TRICOT operations are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, additions and deductions. The fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Additions are recognized when earned, and deductions are recognized when the liability is incurred, regardless of the timing of related cash flows. All economic resources, including financial and capital assets, and related liabilities, both current and long-term, and the changes therein are reported in the fund financial statements.

TRICOT is not an employer under UK law and does not make contributions to any retirement plans. TRS employees are seconded from the Austin, Texas headquarters to TRICOT and remain employees and members of TRS for all purposes, including health insurance, pension contributions, benefits, and Social Security and Medicare taxes. The salary and benefit costs to TRS for seconded employees are allocated and transferred to TRICOT for transfer pricing and UK corporate income tax reporting purposes. Additionally, TRS employees provide legal, accounting and administrative services for TRICOT. When non-seconded TRS employees perform work on behalf of TRICOT, the proportionate cost of that labor is allocated to TRICOT. No allocation of the pension liabilities and expense for non-seconded TRS employees is necessary or required. TRS' risk management programs apply to TRICOT.

TRICOT's accounting records are maintained in United States (US) dollars. Purchases and receipts made in Great Britain Pounds (GBP) are translated into US dollars at the exchange rate on the dates of the transactions.

C. New Accounting Pronouncements

The accompanying financial statements were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, relates to governmental employers that provide postemployment benefits other than pensions and is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments and is effective for fiscal years beginning after December 15, 2018.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues related to blending component units, goodwill, fair value measurement and application of postemployment benefits that have been identified during the implementation and application of certain GASB Statements. It is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. It is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on the payment provisions of the contract. It is effective for fiscal years beginning after December 15, 2019.

GASB Statement No., 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* will improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. It is effective for fiscal years beginning after June 15, 2018.

D. Budgets and Appropriations

The administrative costs and capital asset outlay for TRICOT are controlled by annual budgets approved by TRS and the Managing Director of TRICOT.

E. Assets and Liabilities

Receivables

Receivables represent the amount of money owed to TRICOT for goods or services delivered or used for which payments have not been received at fiscal year-end. Value Added Tax (VAT) receivables represent amounts owed at fiscal year-end to TRICOT by the United Kingdom for the refund of value added taxes that will not be received until the next fiscal year. Corporate Taxes receivable represent a tax deferral based upon timing differences.

Prepaid and Other Assets

Prepaid expenses reflect payment for expenses related to rental and lease costs applicable to a future accounting period. Other Assets are deposits made to retain services and rental properties.

Capital Assets

Capital assets associated with the entity's activities are included in the statement of net position. Purchases of capital assets are reported at cost on the acquisition date. Depreciation of all exhaustible capital assets is charged as an expense against operations. Depreciation is calculated using the straight-line method over the asset's useful life.

Liabilities

Liabilities represent the amount of money owed by TRICOT for goods or services received at fiscal year-end for which payment has not been made as of the balance sheet date. Accounts Payable represents the liability for assets or services received at fiscal year-end for which payment has not been made. Taxes Payable represents amounts owed by TRICOT at fiscal year-end but not paid to the United Kingdom until the next fiscal year.

Related Party Transactions

As a blended component unit of TRS, TRICOT relies upon TRS for financial resources. Those resources are recognized through three basic types of revenue. Amounts paid on behalf of TRICOT represent amounts paid by TRS on behalf of TRICOT and recognized as revenue in accordance with GASB 24. The associated expenses are also recorded on an accrual basis at the same time in order to present the full costs of operations. Transfers in of cash from TRS represent cash contributions for operational expenses, net of any reimbursements from TRICOT back to TRS. The cash transfers are to TRICOT's bank account to provide operating funds to TRICOT. For fiscal year 2018, TRS contributed \$948,170 in cash. Transfers in of expense from TRS represent monies paid directly by TRS then allocated to TRICOT for reporting purposes. For fiscal year 2018, TRS contributed \$1,160,720 in transferred expenses.

Note 2: Capital Assets

Capital assets are presented at historical cost or, if not purchased, at fair value at the date of acquisition. To the extent assets are purchased by TRICOT for use in operations, appropriate straight-line depreciation has been charged over the estimated useful lives of the assets. Capitalization thresholds for applicable capital asset classes and useful lives for exhaustible assets are shown below:

Asset Class	Capitalization Threshold	Depreciable Life
Furniture and Equipment	\$5,000	5 years

The table below presents the composition of TRICOT's capital assets.

Asset Class	Balance 09/01/2017	Additions	Deletions	Balance 08/31/2018
Depreciable Assets				
Furniture and Equipment	\$ 11,989			\$ 11,989
Less Accumulated Depreciation				
Furniture and Equipment	(4,796)	(2,398)		(7,194)
Capital Assets, Net	\$ 7,193	\$ (2,398)	\$ -	\$ 4,795

Note 3: Deposits

A. Cash and Deposits

Cash and deposits of TRICOT are maintained in demand deposit accounts with J.P. Morgan Chase Bank, N.A. in the United States (US) and the United Kingdom (UK). As of August 31, 2018 the balance in these accounts and the carrying amount totaled \$99,207.

B. Deposit Risk Factors

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the system will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. TRICOT does not have a formal deposit policy for custodial credit risk.

Deposits in US bank accounts are covered by the Federal Deposit Insurance Corporation (FDIC) which insures bank balances less than \$250,000. Deposits in UK bank accounts are covered by the Financial Services Compensation Scheme (FSCS) which insures bank balances less than £75,000. Deposits in excess of these insured amounts are uninsured and uncollateralized. As of August 31, 2018, deposits in TRICOT US and UK bank accounts were not exposed to custodial credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit or an investment. TRICOT does not have a formal deposit policy for foreign currency risk. As of August 31, 2018, TRICOT held \$44,071 in GBP.

Note 4: Operating Leases

During fiscal year 2018, TRICOT renegotiated and extended the non-cancelable operating lease agreement for office building space until June 12, 2019. Rental expenses related to the lease for the fiscal year ended August 31, 2018 were \$328,064.

In fiscal year 2018, TRICOT maintained four operating lease agreements for apartments for the TRS seconded employees. The first lease expires August 14, 2018 and is currently being renegotiated for another year. The second lease expires November 15, 2018. The third lease expires December 2018. A fourth lease expired in December 2017 and was not renewed. Rental expenses related to the leases for the fiscal year ended August 31, 2018 totaled \$123,427. Future minimum lease payments for 2019 are \$338,901.

Note 5: Tax Disclosure

A. Tax on Ordinary Activities

For the period ended August 31, 2018, TRICOT had tax on profit on ordinary activities. The current income tax charge is presented below:

• Current tax	
UK corporation tax at 19.00%	<u>\$23,842</u>
Total current tax	\$23,842
• Deferred tax	
Origination and reversal of timing differences	\$ 327
Effect of changes in tax rate	<u>0</u>
Total deferred tax	<u>327</u>
Tax on profit on ordinary activities	<u>\$ 24,169</u>

B. Factors Affecting the 2018 Total Tax Charge

The tax assessed on profit/loss on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 19.00% (2017 19.58%). The differences are reconciled below:

Profit on ordinary activities before taxation	<u>\$127,202</u>
Profit on ordinary activities at standard United Kingdom corporation tax rate of 19.00%	24,168
Effects of;	
Effect of tax rate changes	<u>1</u>
Total tax expense	<u>\$ 24,169</u>

C. Factors That May Affect Future Tax Charges

The UK Government legislated in the Finance (No.2) Act 2016, which received Royal Assent on September 15, 2016, that the main rate of corporation tax statutory rate would be reduced from 19% to 17% effective from April 1, 2020. This will affect the rate at which future UK cash tax will be payable and has been taken into account in calculating deferred tax.

D. 2018 Deferred Tax

Deferred tax asset at September 1, 2017	\$ 2,814
Deferred tax credit/ (charge) to income statement	<u>(327)</u>
Deferred tax asset at August 31, 2018	<u>\$ 2,487</u>
Made up of:	
Depreciation in excess of capital allowances	\$2,487

E. Other Tax Expense

Tax expense also includes amounts paid to Her Majesty's Revenue and Customs office by TRS for seconded employees working in the UK. These costs were allocated to TRICOT per the intercompany agreement. Refer to Note 1.B for more information on seconded employees.





Teacher Retirement System of Texas

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