

Growing Strong

2020 ANNUAL FINANCIAL REPORT

A Component Unit of the Teacher Retirement System of Texas
Fiscal Year Ended August 31, 2020





TRICOT

Teacher
Retirement
Investment
Company of
Texas Ltd.

Teacher Retirement Investment Company of Texas Ltd.

Financial Statements
For the Period Ended August 31, 2020

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Teacher Retirement Investment Company of Texas, Ltd.

Report on the Financial Statements

We have audited the accompanying financial statements of the Teacher Retirement Investment Company of Texas, Ltd. ("TRICOT"), a blended component unit of the Teacher Retirement System of Texas, which is a component unit of the State of Texas, which comprise the statement of fiduciary net position as of August 31, 2020, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the 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 the entity'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 the entity'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, 2020 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

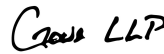
Emphasis of a Matter

As discussed in Note 1, the financial statements present only TRICOT and do not purport to, and do not, present fairly the financial position of Teacher Retirement System of Texas or the State of Texas as of August 31, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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.



Crowe LLP

Dallas, Texas
November 12, 2020

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, 2020 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, real estate, and energy, natural resources, and infrastructure investments.
- TRICOT helps support the sourcing and portfolio management of TRS' \$12.1 billion in exposure to private investments in Europe through 90 investment vehicles and 32 manager relationships.
- Since inception, the TRICOT team has identified 307 potential deals totaling \$26.5 billion in equity, with 48 opportunities being identified for 2020. As of August 31, 2020, TRICOT - sourced deals had \$2.4 billion in exposure to private investments in Europe through 24 investments vehicles under 18 manager relationships.

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, 2020 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, 2020. These financial statements reflect the resources available to pay administrative expenses related to TRICOT's mission.

Notes to the Financial Statements

The notes to the financial statements 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, 2020 was a \$551,170.

Additions from amounts paid on behalf of TRICOT and transfers in from Teacher Retirement System of Texas (TRS) totaled \$2,934,388.

Deductions from TRICOT's net position restricted for fiduciary activities are predominantly administrative

expenses. During fiscal year 2020, administrative expenses and transfers out totaled \$2,800,799.

A condensed summary of TRICOT's financial statements are presented as of August 31, 2020 and for the year then ended. Comparative data in total as of August 31, 2019, and for the year then ended has also been presented.

Fiscal year 2020 increase in cash and receivables is due to amounts received from Teacher Retirement System to prefund the office lease and related

expenditures. Capital Assets increased due to purchasing additional servers for the office. Accounts payable increased due to corporate taxes, payroll salaries with associated taxes, and property taxes. Amounts paid on behalf of TRICOT increased due to an increased need for consulting services. Transfers in from TRS Expenditures decreased as a result one less seconded employee and related expenditures associated with that departure.

Statement of Fiduciary Net Position

As of August 31

	2020	2019	Dollar Change	Percentage Change
Assets				
Cash and Receivables	\$ 533,257	\$ 427,753	\$ 105,504	24.7 %
Prepays and Other	168,327	163,218	5,109	3.1
Capital Assets	28,920	2,397	26,523	1,106.5
Total Assets	\$ 730,504	\$ 593,368	\$ 137,136	23.1 %
Liabilities				
Accounts Payable and Other	\$ 179,334	\$ 175,787	\$ 3,547	2.0 %
Total Liabilities	\$ 179,334	\$ 175,787	\$ 3,547	2.0 %
Total Fiduciary Net Position	\$ 551,170	\$ 417,581	\$ 133,589	32.0 %

Statement of Changes in Fiduciary Net Position

For the Fiscal Years Ended August 31

	2020	2019	Dollar Change	Percentage Change
Additions				
Amount Paid on Behalf of TRICOT	\$ 164,286	\$ 126,814	\$ 37,472	29.5 %
Transfers In from TRS - Cash	1,315,878	1,307,601	8,277	0.6
Transfers In from TRS - Expenditures	1,454,224	1,564,140	(109,916)	(7.0)
Total Additions	\$ 2,934,388	\$ 2,998,555	\$ (64,167)	(2.1)%
Deductions				
Administrative Expenses	\$ 2,800,799	\$ 2,791,585	\$ 9,214	0.3 %
Total Deductions	\$ 2,800,799	\$ 2,791,585	\$ 9,214	0.3 %
Change in Fiduciary Net Position	\$ 133,589	\$ 206,970	\$ (73,381)	(35.5)%

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, 2020

	2020
Assets	
Cash (Note 3)	
Cash in Bank	\$ 479,730
Total Cash	\$ 479,730
Receivables and Other Assets (Note 1E)	
VAT (Value Added Tax) Receivable	\$ 53,527
Prepaid Expenses	58,935
Deposits and Other Assets	109,392
Total Receivables and Other Assets	\$ 221,854
Capital Assets (Note 2)	
Depreciable Assets	\$ 48,140
Less Accumulated Depreciation	(19,220)
Total Capital Assets, Net	\$ 28,920
Total Assets	\$ 730,504
Liabilities (Note 1E)	
Accounts Payable and Other	\$ 36,642
Property Taxes Payable	45,446
Payroll Taxes Payable	71,344
Corporate Taxes Payable	25,902
Total Liabilities	\$ 179,334
Net Position	
Net Investment in Capital Assets	\$ 28,920
Restricted for Fiduciary Activities	522,250
Net Position Restricted for Fiduciary Activities	\$ 551,170

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 the Fiscal Year Ended August 31, 2020

	2020
Additions	
Amounts Paid on Behalf of TRICOT	\$ 164,286
Transfers In from Teacher Retirement System of Texas:	
of Cash	1,315,878
of Expense	1,454,224
Total Additions	\$ 2,934,388
Deductions	
Administrative Expenses	
Seconded Employees and Other Services	\$ 1,363,551
Professional Fees and Services	215,004
Materials and Supplies	16,002
Communications and Utilities	20,428
Repairs and Maintenance	25,420
Travel	78,391
Rentals and Leases	438,758
Property Tax Expense	110,863
Payroll Tax Expense	285,654
Corporate Tax Expense	28,156
Foreign Transaction (Gain)/Loss/Fees	3,663
Depreciation Expense	9,628
Other Expenses	177,189
Transfers Out To Teacher Retirement System of Texas	28,092
Total Deductions	\$ 2,800,799
Net Change in Net Position	\$ 133,589
Net Position Restricted for Fiduciary Activities - Beginning of Year	\$ 417,581
Net Position Restricted for Fiduciary Activities - End of Year	\$ 551,170

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 comprised of one Managing Director. The 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. These statements 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, 2020.

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 UK 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). There were no new GASB pronouncements which had a material effect on TRICOT during fiscal year 2020.

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 (if applicable) represents 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 fiduciary 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.
- Corporate, Payroll, and Property 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 *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*. 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 2020, TRS contributed \$1,315,878 in cash.

- Transfers in of expense from TRS represent monies paid directly by TRS then allocated to TRICOT for reporting purposes. For fiscal year 2020, TRS contributed \$1,454,224 in transferred expenses.

Note 2: Capital Assets

Capital assets are presented at historical cost or, if not purchased, at acquisition 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:

Table 2.1: Capitalization of Assets		
Asset Class	Capitalization Threshold	Depreciable Life
Furniture and Equipment	\$ 5,000	5 years

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

Table 2.2: Capital Asset Activity					
Asset Class	Balance 9/1/2019	Additions	Deletions	Balance 8/31/2020	(Exhibit I)
Depreciable Assets					
Furniture and Equipment	\$ 11,989	\$ 36,151	\$ —	\$ 48,140	
Less Accumulated Depreciation					
Furniture and Equipment	(9,592)	(9,628)	—	(19,220)	
Capital Assets, Net	\$ 2,397	\$ 26,523	\$ —	\$ 28,920	

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, 2020, the balance in these accounts totaled \$479,730 and the carrying amount totaled \$479,730.

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 more than these insured amounts are uninsured and uncollateralized. As of August 31, 2020, deposits in TRICOT's US bank account were exposed to custodial credit risk of \$209,522. As of August 31, 2020, deposits in TRICOT's 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, 2020, TRICOT held \$15,141 in GBP.

Note 4: Operating Leases

During fiscal year 2020, TRICOT negotiated a non-cancelable operating lease agreement for office building space until September 5, 2029. This lease has a break out clause beginning fiscal year 2025. Rental expenses related to this office lease for the fiscal year ended August 31, 2020 were \$274,048.

In fiscal year 2020, TRICOT maintained five operating lease agreements for apartments for the TRS seconded employees. The leases expire November 15, 2020, November 25, 2020, December 7, 2020, and January 1, 2020. One lease expired and was not renewed. Rental expenses related to the leases for the fiscal year ended August 31, 2020 totaled \$162,932.

The future minimum lease payments for the next ten years are listed in the following table.

Table 4.1: Operating Lease Obligations		
Fiscal Year		Amount
2021	\$	257,922
2022		195,148
2023		195,148
2024		195,148
2025		195,148
2026-2029		780,591
Total	\$	1,819,105

Note 5: Tax Disclosure

A. Tax on Ordinary Activities

For the period ended August 31, 2020, TRICOT had tax on profit on ordinary activities. The current income tax charge is presented below:

Table 5.A: Tax on Ordinary Activities		Amount
Current Tax		
UK Corporation Tax	\$	20,579
Total Current Tax	\$	20,579
Deferred Tax		
Origination and reversal of timing differences	\$	5,565
Effect of changes in tax rate		(242)
Total Deferred Tax	\$	5,323
Tax on profit on ordinary activities	\$	25,902

B. Factors Affecting the 2020 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% (2019 19.00%). The differences are reconciled below:

Table 5.B: Factors Affecting the Total Tax Charge		Amount
Profit on ordinary activities before taxation	\$	116,971
Profit on ordinary activities at standard united kingdom corporation tax rate	\$	22,224
Effects of:		
Effect of expenses not deductible		3,920
Effect of tax rate changes		(242)
Total Tax Expense	\$	25,902

C. Factors That May Affect Future Tax Charges

The UK Government announced in its Spring Budget on March 11, 2020 the intention to cancel the reduction in UK corporation tax rates from 19% to 17% from April 1, 2020. The 19% rate was subsequently enacted on July 22, 2020 and deferred tax is calculated based on this rate.

D. 2020 Deferred Tax (Assets)/Liabilities

Table 5.D: Deferred Tax		Amount
Deferred tax asset at September 1, 2019	\$	2,059
Deferred tax credit / (change) to Income Statement		(5,323)
Deferred tax liability at August 31, 2020	\$	(3,264)
Made up of:		
Depreciation in excess of capital allowances	\$	(3,264)

E. Other Tax Expense

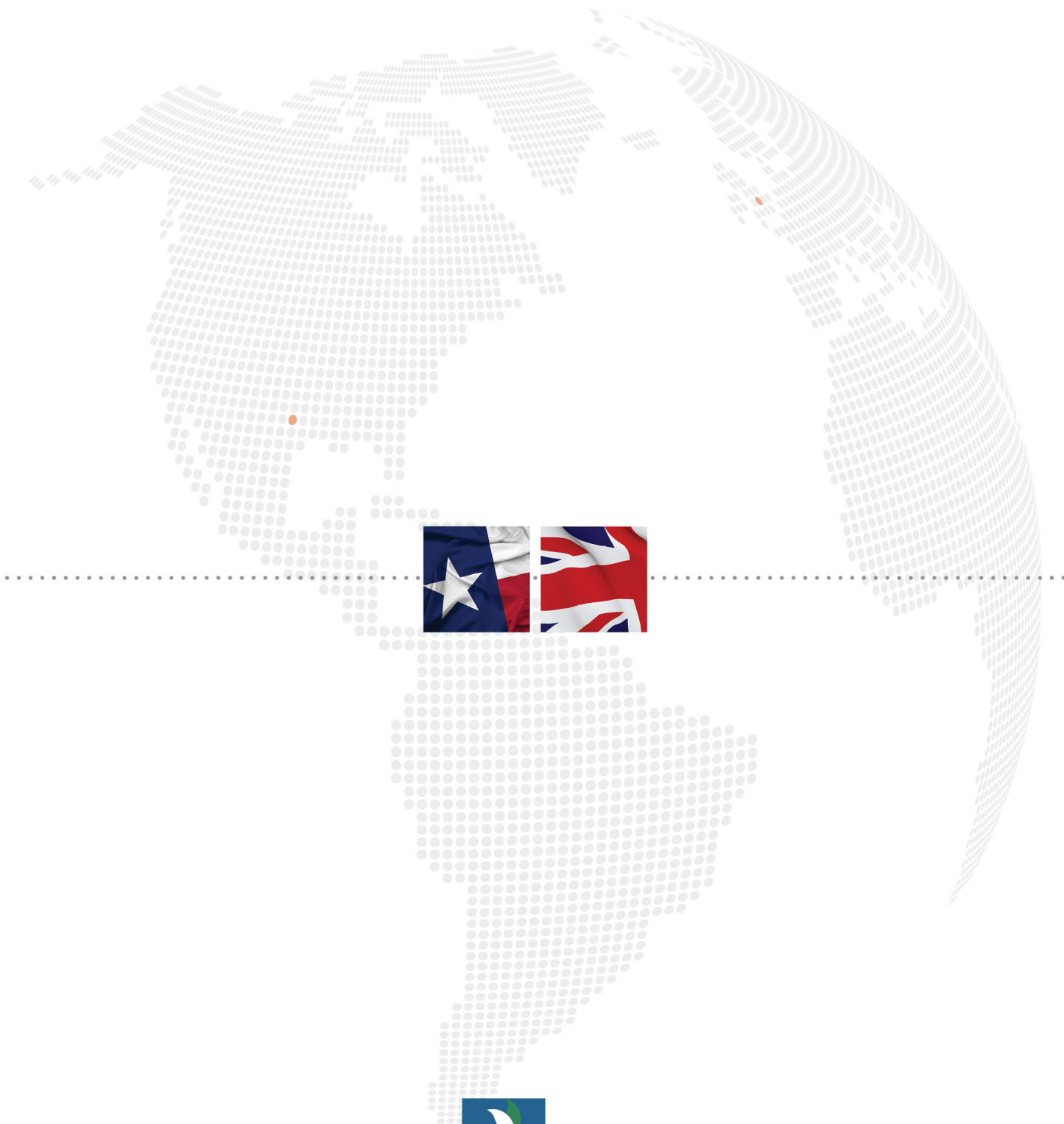
Tax expense also includes amounts paid to Her Majesty's Revenue and Customs office by TRS for seconded employees working in the UK. These costs were allocated to TRICOT per the intercompany agreement. Refer to Note 1.B for more information on seconded employees.

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TRICOT

Teacher
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Teacher Retirement System of Texas

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