

Reporting Investment Management Fees

MARCH 28-29, 2019

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Authoritative Guidance

- Governmental Accounting, Auditing, and Financial Reporting (GAAFR) – Total investment expenses include:
 - Investment management fees;
 - Custodial fees; and
 - Other significant investment-related costs
- Pension and OPEB (Other Post-Employment Benefit) plans are not required to separately report investment-related costs that are not readily separable from investment income (ex. costs netted against investment income reported to the Plan).

TMRS Fee Reporting – 2017

- All investment fees (management fees, performance fees, and carried interest) are presented in the Investment Section of the CAFR, however the financial statement reporting may be different.
- Fees Paid From Trust – These are fees invoiced to TMRS and are reported as “investment expenses”.
- Fees Netted From Returns –
 - Management fees of monthly reported funds and disclosed monthly to TMRS were reported separately as “investment expenses”.
 - Other management fees and carried interest for alternatives were not reported separately as “investment expenses”, but were reflected in the investment’s Net Asset Value (“NAV”).

Current Issues

- No consistency in interpretation on how to report fees “netted from returns”.
- Inability to compare operating efficiency from system to system due to the lack of uniformity of investment fee reporting. Reader should refer to the Investment Section for more complete fee information.
- Inconsistent investment manager reporting
- For many investment funds, we do not receive fee information until after closing our books at year-end.

TMRS Comptroller Financials

Financials

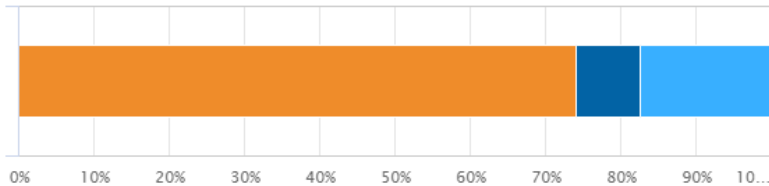
(Effective Date: 12/31/17)

Total Net Assets:

\$28,649,374,617

Total Assets (?): \$29,985,124,093

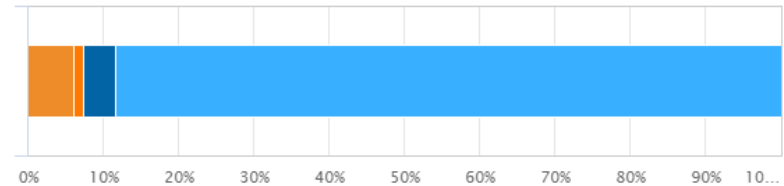
Total Additions (?): \$4,832,773,164



Employer Contributions:	\$838,363,116	17.35%
Employee Contributions:	\$410,527,770	8.49%
Other Contributions:	\$0	0.00%
Investment Income:	\$3,583,835,173	74.16%
Other Income:	\$47,105	0.00%

Total Liabilities (?): \$1,335,749,476

Total Deductions (?): \$1,416,604,320



Benefit Payments:	\$1,251,406,534	88.34%
Withdrawals:	\$59,405,912	4.19%
Administrative Expenses:	\$18,124,164	1.28%
Investment Expenses:	\$86,702,096	6.12%
Other Expenses:	\$965,614	0.07%

Total Contribution Rate: 19.72%
(Effective Date: 12/31/17)

Employer: 13.09%
Employee: 6.63%

Investment Expenses

The Pension Review Board used the “investment activities expense” amount from the TMRS 2017 CAFR (pg. 29) for their report.

Statements of Changes in Fiduciary Net Position

For the Years Ended December 31, 2017 and 2016	2017			2016		
	Pension Trust Fund	Supplemental Death Benefits Fund	Total	Pension Trust Fund	Supplemental Death Benefits Fund	Total
ADDITIONS						
Contributions						
Employer	\$ 838,363,116	\$ 7,286,154	\$ 845,649,270	\$ 768,252,338	\$ 6,983,501	\$ 775,235,839
Plan member	410,527,770	—	410,527,770	389,919,391	—	389,919,391
Total contributions	1,248,890,886	7,286,154	1,256,177,040	1,158,171,729	6,983,501	1,165,155,230
Net investment income						
From investing activities						
Net appreciation in fair value of investments	3,106,434,028	—	3,106,434,028	1,317,283,876	—	1,317,283,876
Interest and dividends	477,401,145	—	477,401,145	349,544,758	—	349,544,758
Total investing activities income	3,583,835,173	—	3,583,835,173	1,666,828,634	—	1,666,828,634
Less investment activities expense	(86,702,096)	—	(86,702,096)	(61,177,837)	—	(61,177,837)
Net income from investing activities	3,497,133,077	—	3,497,133,077	1,605,650,797	—	1,605,650,797

Investment Expenses

Investment Activities Expenses are presented in the TMRS 2017 CAFR:

➤ **FINANCIAL SECTION - Supplemental Schedules, "Schedule of Investment Expenses", pg. 58**

➤ **INVESTMENT SECTION – "Schedule of Investment Expenses", pg. 71**

For the Year ended December 31, 2017	
Internal operating expenses	
Staff salaries	\$ 2,539,698
Payroll taxes	152,255
Retirement contributions	421,136
Insurance	240,029
Electronic investment services	1,213,136
Travel	138,424
Dues, subscriptions, and training	52,284
Other administrative expenses	7,572
Total	4,764,534
Investment management and other external expenses	
Investment management	78,496,349
Custodial services	1,160,797
Consulting	1,738,664
Legal	541,752
Total	81,937,562
Total investment expenses	\$ 86,702,096

Comparative Reporting Method

- For comparison to other Texas Statewide Systems, the following schedules depict TMRS' investment expenses adjusted to include only those management fees that were paid directly from the Trust.
- This methodology will be used for the 2018 CAFR.

Comparative Reporting Method

TMRS Management Fees Using Revised Reporting Methodology

Investment Management Fees

For the Year Ended December 31, 2017

Asset Class	Fees Paid from Pension Trust		Fees Netted against Returns		Total Fees	Fair Value at Dec. 31, 2017
	Investment Management Fees	Performance Fees	Investment Management Fees	Performance Fees / Carried Interest		
Cash Equivalents						23,541,358
Core Fixed Income	4,524,132				4,524,132	4,936,041,217
Non-Core Fixed Income	3,331,161		14,805,482	14,499,722	32,636,365	4,631,812,769
Real Return	6,278,465		7,892,120	2,667,515	16,838,100	2,923,896,635
U.S. Equities	10,739,650				10,739,650	5,933,075,388
International Equities	10,527,516				10,527,516	5,074,206,528
Real Estate Funds			25,005,727	17,632,495	42,638,222	2,383,493,263
Absolute Return Funds			32,623,794	49,309,504	81,933,298	2,728,033,310
Private Equity Funds			9,346,493	4,939,271	14,285,764	286,928,118
Totals	\$35,400,924		\$89,673,616	\$89,048,507	\$214,123,047	\$28,921,028,586

Comparative Reporting Method

TMRS Investment Activities Expense Following Revised Methodology

Investment Activities Expense - New Methodology For the Year Ended December 31, 2017	
Internal Operating Expenses	
Staff Salaries	2,539,698
Payroll Taxes	152,255
Retirement Contributions	421,136
Insurance	240,029
Electronic Investment Services	1,213,136
Travel	138,424
Dues, Subscriptions and Training	52,284
Other Administrative Expenses	7,572
Total	4,764,534
Investment management and other external expenses	
Investment management	35,400,924
Custodial Services	1,160,797
Consulting	1,738,664
Legal	541,752
Total	38,842,137
Total Investment expenses	\$43,606,671

Comparative Reporting Method

Revised Methodology

Investment Activities Expense - New Methodology For the Year Ended December 31, 2017	
Internal Operating Expenses	
Staff Salaries	2,539,698
Payroll Taxes	152,255
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TMRS 2017 CAFR

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Total investment expenses	\$ 86,702,096

Results

Comparison of Comptroller with Revised Methodology

	Comptroller	Revised Methodology
Total Deductions	\$1,416,604,320	\$1,416,604,320
Investment Expenses	\$86,702,096	\$43,606,671
% of Total Deductions	6.12%	3.08%

TMRS Next Steps

For 2018, we are no longer reporting Fees Netted From Returns as a separate investment expense (reflected in the NAV), but the data will continue to be disclosed in the Investment Section of the CAFR.

TMRS will continue to:

- Analyze and monitor Texas statewide retirement systems' CAFRs to understand their reporting; and
- Discuss the issue with our auditors and other public pension plans.