



November 4, 2016

The State Investment Commission (SIC) and Office of the General Treasurer are pleased to publish the Employees' Retirement System of Rhode Island (ERSRI) Investment Expense Analysis for Fiscal Year 2016.

Under Treasurer Magaziner's *Transparent Treasury* initiative, Rhode Island maintains one of the most comprehensive expense disclosure policies in the nation. As of last year, Rhode Island only invests with fund managers who agree to have their performance and expenses published regularly, a policy that has since become leading practice replicated by other states.

Investment related fees and expenses in FY 2016 decreased by more than \$12 million compared to the previous fiscal year, with \$69.7 million in FY 2016 expenses, versus \$82.0 million in the previous fiscal year. These fees represent an effective expense rate of 0.90% across the portfolio, down from 1% in the previous year.

Shortly after the close of the 2016 Fiscal year, Treasurer Magaziner and the SIC announced a new asset allocation strategy which includes a significant reduction in the system's exposure to hedge funds. The new strategy is expected to improve performance and further reduce the management fees paid to hedge fund managers in the coming years.

As of September 30, 2016, the RI pension fund has earned more than \$400 million net of fees in investment gains since Treasurer Magaziner took office in January 2015.

Additional details on investment performance, asset allocation, and expenses can be found at: <http://investments.treasury.ri.gov>

Under Treasurer Magaziner's administration, Rhode Island has enacted a first-of-its-kind policy to invest only with fund managers that agree to full reporting of their performance, fees, expenses and liquidity. All funds new to the ERSRI portfolio after June of 2015 are required to permit public reporting of their fees and expenses.

While funds that received investment from the SIC before June of 2015 are grandfathered from the individualized reporting requirement, Treasury staff has requested that they voluntarily allow disclosure. We are pleased that a majority of these funds have agreed and we hope that others will follow suit in the future.

In addition to displaying the fees and expenses charged by each fund individually, this report includes a comprehensive total of all manager fees and expenses paid out of the pension system by asset class.



These totals reflect fees and expenses paid to every fund, including those grandfathered funds that declined to allow individualized disclosure.

Since Treasurer Magaziner took office in January, Rhode Island has successfully renegotiated lower fees with several fund managers. Treasurer Magaziner has taken a leadership role nationally on the topic of pension transparency, lobbying for tougher federal regulation and recruiting other states to take action.

Rhode Islanders deserve to know where their funds are invested and how they are performing. The Treasurer's Office remains firmly committed to improving the transparency of the ERSRI pension investments.

Employees' Retirement System of Rhode Island Investment Expense Analysis

FY 2016
in \$000's

Asset Class / Type	Direct Management Fees	Indirect Management	Subtotal Management	Indirect Fund Expense	Indirect Performance	Total Investment Expense	Expense Ratio
Global Equity Indexes	\$1,030		\$1,030	\$350		1,380	0.02%
Equity Hedge Funds		9,276	9,276	1,848	2,642	13,766	0.18%
Private Equity	5,290	3,028	8,318	2,981	15,497	26,795	0.35%
Subtotal Equity/Growth	6,320	12,304	18,624	5,178	18,138	41,941	0.54%
Subtotal Fixed Income	1,287		1,287			1,287	0.02%
Real Estate	595	4,714	5,310	976	366	6,652	0.09%
Infrastructure	941	1,035	1,977	351		2,328	0.03%
Subtotal Real Assets	1,537	5,749	7,286	1,327	366	8,979	0.12%
Bank Loans/High Yield	1,069		1,069			1,069	0.01%
Inflation Linked Bonds	333		333			333	0.00%
Absolute Return Hedge Funds		9,810	9,810	1,240	2,036	13,086	0.17%
Subtotal Real Return	1,403	9,810	11,213	1,240	2,036	14,489	0.19%
Beta Overlay	195		195	59		254	0.00%
Cash		224	224			224	0.00%
Subtotal Other Managers	195	224	419	59		478	0.01%
Subtotal Manager Expense	\$10,742	\$28,088	\$38,830	\$7,805	\$20,540	\$67,174	0.87%
Expense Ratio	0.14%	0.36%	0.50%	0.10%	0.27%	0.87%	
Consulting	\$894		\$894			\$894	0.01%
Custody	363		363			363	0.00%
Legal & Other	107		107			107	0.00%
Research	116		116			116	0.00%
Personnel / Operating	1,055		1,055			1,055	0.01%
Subtotal Other Expenses	\$2,536		\$2,536			\$2,536	0.03%
Total Investment Expense	\$13,277	\$28,088	\$41,365	\$7,805	\$20,540	\$69,710	0.90%
Expense Ratio	0.17%	0.36%	0.53%	0.10%	0.27%	0.90%	

Note: The additional disclosure of indirect management and indirect performance fees included in this document exceeds GASB reporting requirements and is not common practice for public pension plans. As such, care should be taken when comparing these expenses relative to expense data included in the financial statements of other plans. Because indirect expenses are not readily separable from net investment income, the expenses disclosed here are provided on a best-efforts basis, intended to be used for illustrative purposes only.

Employees' Retirement System of Rhode Island Investment Expense Analysis

FY 2016 Publicly Traded Investment Managers

Investment Manager	Asset Class	Inception Year	Year-End Assets	Abridged Fee Terms*		Fees Paid (\$)*		
				Management	Performance	Management	Fund Expense	Performance
State Street Global Advisors	Public Equities	2012	3,277,938,373	0.03%	0.0%	1,030,305	349,615	-
Mackay Shields	Fixed Income	2012	550,389,224	0.14%	0.0%	758,114	-	-
Pyramis	Fixed Income	2012	561,574,750	0.13%	0.0%	529,322	-	-
Brown Brothers Harriman	Inflation-Linked Bonds	2012	284,535,634	0.12%	0.0%	333,197	-	-
Pacific Investment Management Company	Credit	2013	211,778,614	0.25%	25.0%	517,845	-	-
Western Asset Management Company	Credit	2013	204,870,022	0.25%	20.0%	551,595	-	-
Harvest Fund Advisors	MLP	2015	171,210,851	0.73%	0.0%	831,460	57,839	-
Russell Investments	Overlay	2008	14,498,005	0.10%	0.0%	194,708	59,089	-
Fidelity	Cash	2012	5,425,540	0.14%	0.0%	7,472	-	-
Bank of New York Mellon	Cash	2012	31,427,865	0.15%	0.0%	216,637	-	-
Total			\$ 5,313,648,878			\$ 4,970,654	\$ 466,544	\$ -

*Shown are abridged terms and fees incurred in the current fiscal year. Actual fee calculations include additional considerations and reductions that space and conditions of access do not permit. Since certain funds were added to or removed from the portfolio at different times throughout the fiscal year, line items are not readily comparable. Fees are audited annually by a third-party auditor. All fee terms are reviewed by the SIC and its consultants as part of any investment decision. The additional disclosure of indirect management and indirect performance fees included in this document exceeds GASB reporting requirements and is not common practice for public pension plans. As such, care should be taken when comparing these expenses relative to expense data included in the financial statements of other plans. Because indirect expenses are not readily separable from net investment income, the expenses disclosed here are provided on a best-efforts basis, intended to be used for illustrative purposes only. Finally, please note that dollar amounts of management, expense, and performance fees paid were not prepared, reviewed or approved by the Investment Managers.

Employees' Retirement System of Rhode Island Investment Expense Analysis

FY 2016 Hedge Fund Managers
in \$000's

Partnership	Date of Initial Investment	Year-End Assets	Fee Terms		Fees Paid*		
			Management	Performance	Management	Fund Expense	Performance
Global Equity Funds							
Ascend Partners Fund II	Nov-11	68,104	1.5%	20.0%	1,076	189	398
Davidson Kempner Institutional Partners LP	Nov-11	77,548	1.5%	20.0%	1,136	153	523
Elliott Associates LP	Nov-11	89,344	1.5%	20.0%	1,315	<i>grandfathered</i>	634
ESG Cross Border Equity Fund LP	Jun-14	41,110	1.5%	20.0%	651	186	0
Luxor Capital Partners LP	May-14	5,681	1.5%	17.5%	589	121	0
PFM Diversified Offshore Fund LP	Mar-12	75,000	1.5%	17.5%	1,179	128	782
Samlyn LP	Jan-12	102,040	1.7%	18.0%	1,840	145	-1,663
Viking Global Equities LP	Dec-11	96,349	1.5%	20.0%	1,491	<i>grandfathered</i>	1,968
Subtotal		\$555,175			\$9,276	\$1,848	\$2,642
Absolute Return Funds							
Brevan Howard LP	Nov-11	77,465	2.0%	22.5%	1,584	396	0
Brigade Leveraged Capital Structures Fund LP	Mar-12	56,456	1.5%	20.0%	799	174	-425
Capula Global Relative Value Fund Ltd	Dec-11	64,627	2.0%	20.0%	1,275	151	957
Claren Road Credit Master Fund Ltd	Apr-13	6,194	1.5%	20.0%	470	70	0
DE Shaw Composite International Fund	Nov-11	92,213	2.5%	25.0%	2,257	150	2,569
Graham Discretionary 6V Fund	Jan-12	55,719	1.8%	20.0%	1,013	33	0
OZ Domestic Fund II LP	Nov-11	99,755	2.0%	20.0%	2,043	201	-1,065
Winton Futures Fund Ltd	Dec-11	36,825	1.0%	20.0%	369	65	0
Subtotal		\$489,254			\$9,810	\$1,240	\$2,036
Total		\$1,044,429			\$19,087	\$3,088	\$4,678

Note: The term *grandfathered* is shown in cases where the limited partnership agreement, entered into between ERSRI and the investment manager at the time of initial investment, prohibits the disclosure of such information.

*Shown are fees incurred for the current fiscal year. Since certain funds were added to or removed from the portfolio at different times throughout the fiscal year, line items may represent partial year expenses over different time frames and are not readily comparable. Fees are generally assessed on a quarterly basis and are audited annually by a third-party auditor. All fee terms are governed by funds' limited partnership agreements and are reviewed by the SIC and its consultants as part of any investment decision. The additional disclosure of indirect management and indirect performance fees included in this document exceeds GASB reporting requirements and is not common practice for public pension plans. As such, care should be taken when comparing these expenses relative to expense data included in the financial statements of other plans. Because indirect expenses are not readily separable from net investment income, the expenses disclosed here are provided on a best-efforts basis, intended to be used for illustrative purposes only. Finally, please note that dollar amounts of management and performance fees paid and the abridged fee terms were not prepared, reviewed or approved by the Investment Managers.

Employees' Retirement System of Rhode Island Investment Expense Analysis

FY 2016 Private Equity Managers

Partnership	Vintage Year	Commitment Amount (in \$ unless otherwise noted)	Abridged Fee Terms*		Fees Paid (\$)*		
			Management	Performance	Management	Fund Expense	Performance
Advent International GPE VII	2012	20,000,000	1.50%	20%	287,444	101,878	-
Alta BioPharma Partners III	2003	15,000,000	grandfathered	grandfathered	grandfathered	grandfathered	grandfathered
Alta Partners VIII	2006	15,000,000	grandfathered	grandfathered	grandfathered	grandfathered	grandfathered
Aurora Equity Partners III	2004	15,000,000	0.00%	20%	-	1,786	-
Avenue Special Situations Fund IV	2006	20,000,000	0.00%	20%	-	2,020	-
Avenue Special Situations Fund V	2007	20,000,000	0.00%	20%	-	585	-
Bain Capital Fund X	2008	25,000,000	2.00%	30%	297,653	5,304	9,959
Baring Asia Fund VI	2015	15,000,000	1.80%	20%	405,000	107,630	-
Birch Hill Equity Partners III	2005	CAD 18,000,000	1.00%	20%	45,998	17,414	3,037,762
Braemar Energy Ventures III	2011	10,000,000	grandfathered	grandfathered	grandfathered	grandfathered	grandfathered
Carlyle Asia Partners IV	2014	30,000,000	1.50%	20%	447,568	139,479	-
Castile Ventures III	2006	5,000,000	1.00%	20%	49,985	5,771	-
Centerbridge Capital Partners	2006	15,000,000	1.40%	20%	27,988	13,602	331,997
Centerbridge Capital Partners III	2015	25,000,000	1.50%	20%	277,668	132,749	20,251
Centerbridge Special Credit Partners II	2012	25,000,000	1.25%	20%	241,657	158,372	-
Charterhouse Capital Partners VIII	2006	€ 15,000,000	1.00%	20%	15,815	17,823	-
Coller International Partners IV	2002	15,000,000	grandfathered	grandfathered	grandfathered	grandfathered	grandfathered
Coller International Partners V	2006	15,000,000	grandfathered	grandfathered	grandfathered	grandfathered	grandfathered
Constellation Ventures III	2007	15,000,000	grandfathered	grandfathered	grandfathered	grandfathered	grandfathered
CVC European Equity Partners III	2001	20,000,000	0.00%	20%	-	4,809	-
CVC European Equity Partners IV	2005	€ 16,500,000	0.75%	20%	-	3,698	124,108
CVC European Equity Partners V	2008	€ 20,000,000	1.00%	20%	47,950	8,616	899,197
CVC European Equity Partners VI	2014	€ 15,000,000	1.50%	20%	243,857	84,923	-
EnCap Energy Capital Fund IX	2013	18,000,000	1.50%	20%	143,375	2,699	-
EnCap Energy Capital Fund X	2015	25,000,000	1.50%	20%	375,000	2,386	-
Fenway Partners Capital Fund II	1998	15,000,000	0.00%	20%	-	22,369	-
Fenway Partners Capital Fund III	2006	15,000,000	1.00%	20%	13,920	49,031	-
First Reserve Fund X	2004	20,000,000	0.00%	20%	57	4,793	-
First Reserve Fund XI	2006	20,000,000	1.00%	20%	75,330	14,606	-
Focus Ventures III	2006	15,000,000	2.50%	20%	169,518	grandfathered	-
Garrison Opportunity Fund IV	2014	30,000,000	1.75%	20%	201,844	211,667	-
Granite Global Ventures II	2004	15,000,000	grandfathered	grandfathered	grandfathered	grandfathered	grandfathered
Granite Global Ventures III	2006	15,000,000	grandfathered	grandfathered	grandfathered	grandfathered	grandfathered
Green Equity Investors V	2007	20,000,000	0.75%	20%	14,053	475	180,665
Industry Ventures Partnership Holdings III	2014	25,000,000	1.00%	10%	196,751	43,527	-
Industry Ventures Partnership Holdings III-C	2015	15,000,000	0.50%	5%	5,426	23,152	-
Industry Ventures Partnership Holdings IV	2016	10,000,000	1.00%	10%	6,944	12,902	-
Kayne Anderson Energy Fund III	2005	15,000,000	0.00%	20%	-	11,929	-
Kayne Anderson Energy Fund IV	2007	15,000,000	0.00%	20%	-	4,793	-
Leapfrog Ventures II	2005	10,000,000	1.25%	20%	38,247	5,971	-
Leeds Weld Equity Partners IV	2003	10,000,000	1.00%	20%	-	2,834	-
Lighthouse Capital Partners V	2003	11,250,000	0.00%	20%	-	-	46,391
Lighthouse Capital Partners VI	2007	15,000,000	1.17%	20%	170,586	10,574	522,554
LNK Partners	2006	12,500,000	2.00%	20%	62,151	grandfathered	147,602
MHR Institutional Partners III	2006	20,000,000	1.75%	20%	95,747	10,290	-
Nautic Partners V	2000	20,000,000	0.00%	20%	(13,287)	2,597	69,947
Nautic Partners VI	2007	20,000,000	1.65%	20%	135,085	3,440	3,986,849
Nautic Partners VII	2014	20,000,000	2.00%	20%	92,514	24,158	276,818
Nordic Capital Fund V	2003	€ 14,615,550	0.00%	20%	-	-	80,284
Nordic Capital Fund VI	2006	€ 15,000,000	0.30%	20%	7,552	13,732	557,246
Nordic Capital Fund VII	2008	€ 15,000,000	1.50%	20%	203,825	2,530	-
Nordic Capital Fund VIII	2013	€ 15,000,000	1.50%	20%	215,881	78,324	-
Oaktree European Principal Fund III	2011	20,000,000	1.75%	20%	312,558	270,535	-
Paine & Partners Fund IV	2015	30,000,000	2.00%	20%	341,344	183,290	-
Paladin III	2008	10,000,000	1.75%	20%	151,750	22,852	11,333
Parthenon Investors II	2001	23,960,000	0.00%	20%	-	7,920	44,552
Point 406 Ventures	2006	10,000,000	grandfathered	grandfathered	grandfathered	grandfathered	grandfathered
Point Judith Venture Fund II	2006	5,000,000	1.00%	15%	48,495	11,963	-
Providence Equity Partners III	1999	15,000,000	0.00%	20%	-	392	-
Providence Equity Partners IV	2000	25,000,000	1.50%	20%	-	3,472	-
Providence Equity Partners V	2005	25,000,000	1.00%	20%	26,088	16,438	-
Providence Equity Partners VI	2007	25,000,000	1.00%	20%	54,070	27,940	-
Providence Equity Partners VII	2012	25,000,000	1.50%	20%	257,940	128,108	-
Riverside Capital Appreciation Fund VI	2013	20,000,000	2.00%	20%	285,342	140,000	-
Riverside Micro-Cap Fund III	2014	20,000,000	2.00%	20%	247,121	97,143	-
Sorenson Capital Partners III	2014	30,000,000	2.00%	20%	131,576	152,521	-
Southwest Fund VII	2016	30,000,000	2.00%	20%	308,232	151,535	-
Summit Partners Credit Fund	2011	20,000,000	grandfathered	grandfathered	grandfathered	grandfathered	grandfathered
Summit Partners Credit Fund II	2014	25,000,000	grandfathered	grandfathered	grandfathered	grandfathered	grandfathered
Tenex Capital Partners II	2016	25,000,000	2.00%	20%	182,393	39,658	-
Thomas, McNamey & Partners	2002	15,000,000	0.00%	20%	-	4,875	-
Thomas, McNamey & Partners II	2006	15,000,000	2.00%	20%	98,592	6,805	454,500
TPG Partners IV	2003	15,000,000	0.00%	20%	-	1,328	371,471
TPG Partners V	2006	20,000,000	0.75%	20%	42,227	6,739	-
TPG Partners VI	2008	10,000,000	0.75%	20%	31,169	9,345	249,417
Trilantic Capital Partners IV	2007	11,098,351	1.00%	20%	30,620	9,923	296,272
W Capital Partners	2004	15,000,000	0.00%	20%	-	14,130	-
W Capital Partners II	2007	15,000,000	2.00%	20%	61,125	12,047	-
Wellspring Capital Partners III	2002	20,000,000	grandfathered	grandfathered	grandfathered	grandfathered	grandfathered
WLR Recovery Fund IV	2007	8,000,000	1.00%	20%	42,216	2,092	34,257
Total		\$ 1,428,745,728			\$ 8,317,584	\$ 2,980,910	\$ 15,496,635

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Employees' Retirement System of Rhode Island Investment Expense Analysis

FY 2016 Real Estate Managers

Partnership	Vintage Year	Commitment Amount (\$)	Abridged Fee Terms*		Fees Paid (\$)*		
			Management	Performance	Management	Fund Expense	Performance
AEW Core Property Trust	Open-End	60,000,000	0.68%	0.0%	566,879	86,346	-
Heitman HART	Open-End	60,000,000	0.92%	0.0%	651,012	115,108	-
JP Morgan Strategic Property Fund	Open-End	75,000,000	1.00%	0.0%	946,140	14,715	-
Morgan Stanley Prime Property Fund	Open-End	35,000,000	0.85%	0.3%	475,623	55,942	200,333
Prudential Real Estate Investors (PRISA)	Open-End	50,000,000	0.52%	0.2%	362,209	55,674	165,397
Crow Retail Fund	2015	24,000,000	1.50%	20.0%	360,000	46,412	-
Exeter Industrial Value Fund III	2014	30,000,000	1.50%	20.0%	428,160	51,522	-
Fillmore East Fund	2006	10,000,000	1.25%	20.0%	876	15,483	-
GEM Realty Fund V	2013	50,000,000	1.25%	20.0%	562,500	156,033	-
IC Berkeley Partners III	2013	18,000,000	1.50%	20.0%	319,837	129,017	-
IC Berkeley Partners IV	2016	30,000,000	1.38%	19.0%	42,945	60,418	-
JP Morgan Alternative Property Fund	2006	20,000,000	0.00%	20.0%	-	23,393	-
Lone Star Real Estate Fund IV	2015	24,260,817	1.10%	20.0%	224,249	88,214	-
Magna Hotel Fund III	2008	4,000,000	1.50%	20.0%	23,481	14,318	-
Tri Continental Capital VII	2005	15,000,000	0.00%	20.0%	-	1,158	-
Waterton Venture XII	2014	35,000,000	1.25%	20.0%	345,727	62,492	-
Total		\$ 540,260,817			\$ 5,309,638	\$ 976,244	\$ 365,730

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Employees' Retirement System of Rhode Island Investment Expense Analysis

FY 2016 Infrastructure Managers

Partnership	Vintage Year	Commitment Amount (\$)	Abridged Fee Terms*		Fees Paid (\$)*		
			Management	Performance	Management	Fund Expense	Performance
IFM Global Infrastructure, LP	Open-End	50,000,000	0.97%	20.0%	501,580	1,381	-
ISQ Global Infrastructure Fund, LP	2015	50,000,000	1.50%	20.0%	533,685	228,832	-
Stonepeak Infrastructure Fund II, LP	2016	43,000,000	1.38%	15.0%	110,038	62,841	-
Total		\$ 143,000,000			\$ 1,145,303	\$ 293,054	\$ -

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