Popular Annual Financial Report

as of June 30, 2018

A summary of Missouri LAGERS financial, investment and statistical information for our members

A LETTER FROM THE MISSOURI LAGERS DIRECTOR

Robert Wilson

It is with great pride I share the news of LAGERS' success, strength, and stability. Your system is truly hitting on all cylinders and growing stronger every day.

LAGERS continues to improve its pre-funded level, increasing to 95.6% in 2018. This strong funding ratio ranks LAGERS in the top 10% of public pension plans not only in Missouri, but across the nation.

System investment performance was stellar as well with LAGERS' portfolio returning 13.70% net of fees for the one year period ending June 30, 2018. The longer time periods of 5, 10, and 20 years provided returns of 9.11%, 7.83%, and 7.36%, respectively. LAGERS members' investment portfolio performance was in the top 1% in the country.

So what's the key to our success? Superior plan design, passion, commitment, and planning.

LAGERS exists to provide a secure retirement to Missouri's local government workers. Membership continues to increase with employers looking to LAGERS as the secure, efficient source for providing benefits that help stabilize Missouri communities. Last year alone, 20 new employers joined LAGERS, bringing our total membership to 715 employers. LAGERS continues to be a proven leader among public pension plans for doing things for the right reasons. Those reasons are the nearly 60,000 active members, retirees and beneficiaries of the system.

In order to further ensure the long-term success of the system, we implemented a formal three-year strategic plan. While we have always had an eye toward the future, the strategic plan documents objectives and actions that further our mission and bring us closer to our vision of a secure retirement for all. This plan isn't just a piece of paper; it is an actionable, living document that we will continually re-evaluate as new risks and opportunities for improvement arise.

Thank you for your continued interest and support of the system. Please know the LAGERS Board and staff will continue to strive to provide a quality retirement program while ensuring the financial integrity of the system. It is our honor to serve you.

Active Members
34,433

Retirees and Beneficiaries
23,330

715
Employers

95.6% Pre-funded

This Popular Annual Financial Report (PAFR) is a summary of Missouri LAGERS' audited financial statements and other information contained in Missouri LAGERS' Comprehensive Annual Financial Report (CAFR). The complete audited financial statements and pertinent notes can be found in Missouri LAGERS' 2018 CAFR. The PAFR provides summary financial information and does not conform to Generally Accepted Accounting Principles (GAAP); the CAFR conforms to GAAP and provides a comprehensive overview of the System's financial and operating results. Missouri LAGERS' CAFR is available at www.molagers.org/financial-reports.html.

WHAT DOES IT MEAN?

You may come across some unfamiliar financial terms as you read through the PAFR. Watch for the green boxes with the small LAGERS logo. We have provided brief definitions for some of those terms.

Financial

SUMMARY OF *Fiduciary Net Position*

AS OF JUNE 30, 2018

Expressed in Thousands

Assets		
	Cash	$ 6,000
	Receivables and accrued income	36,824
	Prepaid expenses	61
	Investments	7,717,549
	Invested securities lending collateral	453,305
	Capital assets	6,321
	Net OPEB asset	184
Total assets		$8,220,244
Deferred outflow of resources		
	Outflows related to pensions	$ 2,115
	Outflows related to OPEB	145
Total deferred outflow		$ 2,260
Liabilities		
	Payables and accrued expenses	$ 10,588
	Net pension liability	1,737
	Collateral for securities on loan	453,305
Total liabilities		$ 465,630
Deferred inflow of resources		
	Inflows related to pensions	$ 535
	Inflows related to OPEB	93
Total deferred inflow		$ 628
Net position restricted for pension benefits		$7,756,246

INVESTMENTS *At Fair Value*

AS OF JUNE 30, 2018

Expressed in Thousands

Short-term investments	$ 386,841
Government bonds	607,464
Corporate bonds	382,115
International bonds	694,521
Mortgage and asset-backed securities	207,632
Domestic stocks	773,974
International stocks	737,452
Real Estate	753,556
Partnerships	2,346,517
Absolute return	780,712
Other alternative investments	46,765
Ending Net Position	$ 7,717,549

WHAT DOES IT MEAN?

Fiduciary Net Position: This statement reflects the balance of the resources available to pay benefits to members, retirees and beneficiaries and administrative fees at the end of the fiscal year.

INVESTMENT *Expenses*

AS OF JUNE 30, 2018

Expressed in Thousands

Manager Fees

$106,822

Custodial Services

$417

Other Investment Expenses

$1,370

TOTAL INVESTMENT EXPENSES

$108,609

PENSION PLAN *Activity*

Expressed in Millions

SUMMARY OF *Changes in Fiduciary Net Position*

AS OF JUNE 30, 2018 *Expressed in Thousands*

Additons		
	Member contributions	$ 19,811
	Employer contributions	204,018
	Net investment income	858,318
	Net securities lending income	1,932
Total additions		$1,084,079
Deductions		
	Benefit payments	$ 307,740
	Refunds	1,919
	Annuities awarded	20
	Expenses	5,497
Total deductions		$ 315,176
Change in net position available for benefits		$ 768,903
Net position restricted for pension benefits at June 30, 2017		$6,987,343
Net position restricted for pension benefits at June 30, 2018		$7,756,246

WHAT DOES IT MEAN?

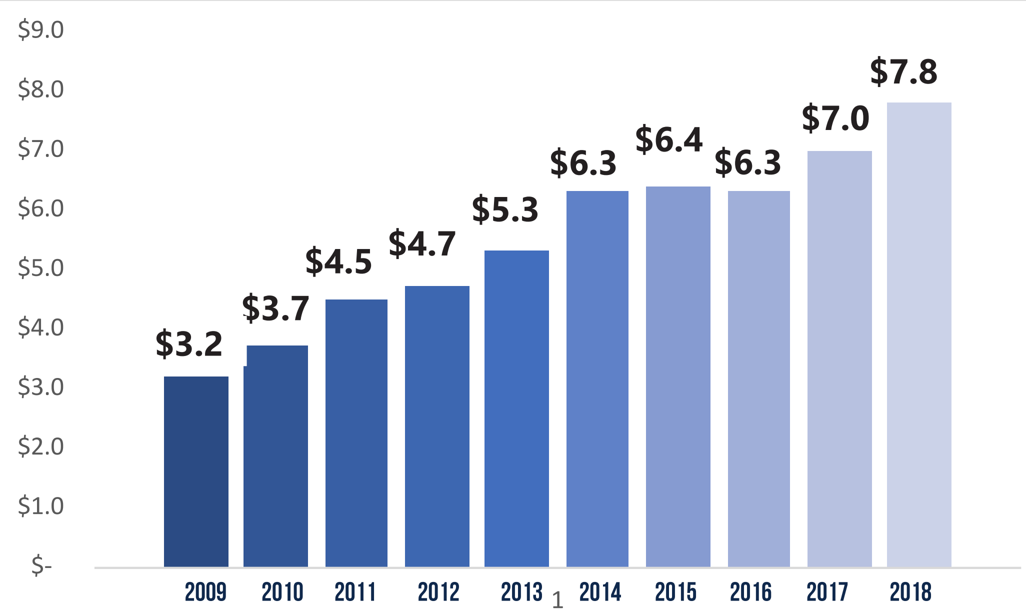
Changes in Fiduciary Net Position: This statement reflects the changes in the resources available to pay benefits to members, retirees and beneficiaries and administrative fees during the fiscal year.

FISCAL YEAR *Highlights*

- **$7.8 billion in total net position, up 11% from fiscal year 2017**
- **13.7% rate of return net of fees, 5.8% over LAGERS custom benchmark**
- **$447 million in investment income allocated to participating employers**

PLAN NET POSITION *Restricted for Benefits*

AS OF JUNE 30, 2018 *Expressed in Billions*



Investments

FROM THE CIO

Brian Collett

The fiscal year ending June 30, 2018 was a good year for the markets overall, but an even better year for the LAGERS' portfolio. The portfolio returned +13.70% net of fees for the year, a +5.77% outperformance relative to the Total Policy Benchmark return of +7.93%. The outperformance by the portfolio was broad based, with each category outperforming its respective benchmark. These returns drove the overall portfolio value to $7.7 billion, up from roughly $7.0 billion at the end of last fiscal year. This one-year outperformance feeds into the portfolio's long term returns below:

- *+8.33% net of fees annualized return over three years*
- *+9.11% net of fees annualized return over five years*
- *+7.83% net of fees annualized return over ten years*
- *+7.36% net of fees annualized return over twenty years*

These returns were calculated by LAGERS' custodian, Northern Trust.

All time frames exceeded LAGERS' assumed rate of return and Total Policy Benchmark return, with the 1, 3, 5, and 10 year returns all outperforming the benchmark by more than +2%. This continues to translate into downward pressure on employer contributions and a higher funding status, creating a more secure retirement for our members.

TOTAL Portfolio Returns

AS OF JUNE 30, 2018

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
LAGERS Return	13.70%	8.33%	9.11%	7.83%	8.65%	7.36%
Total Policy Benchmark	7.93%	6.23%	6.91%	5.44%	6.88%	5.49%
Assumed Rate of Return	7.25%	7.25%	7.25%	7.32%	7.38%	7.36%

Public equities continued to rise during the year as positive consumer spending, along with tax cuts, helped boost corporate earnings. LAGERS' private equity managers were the primary source of outperformance in equities, as they saw increased valuations for the companies they held, and sold, resulting in +14.18% return for the year.

The equity bucket overall returned +13.13% net of fees, a +2.06% outperformance over the Total Equity Benchmark.

LAGERS' Fixed Income portfolio returned +8.81% net of fees compared to LAGERS' Fixed Income Benchmark of +3.76%. As the Federal Reserve System continues to raise interest rates to keep pace with the improving economy, bonds are expected to underperform. As a result, the public fixed income allocation was essentially flat for the year, only returning +0.05%. The primary source of outperformance in fixed income came from the floating rate bonds held in the private fixed income allocation, specifically through LAGERS co-investment portfolio and fund investments.

WHAT DOES IT MEAN?

Benchmark: A standard by which something can be measured or judged. LAGERS custom benchmark is selected with the help of LAGERS' custodian.

Total Portfolio Returns: Return on investment over a specific period of time, which includes income, appreciation and depreciation. Returns are reported net of fees.

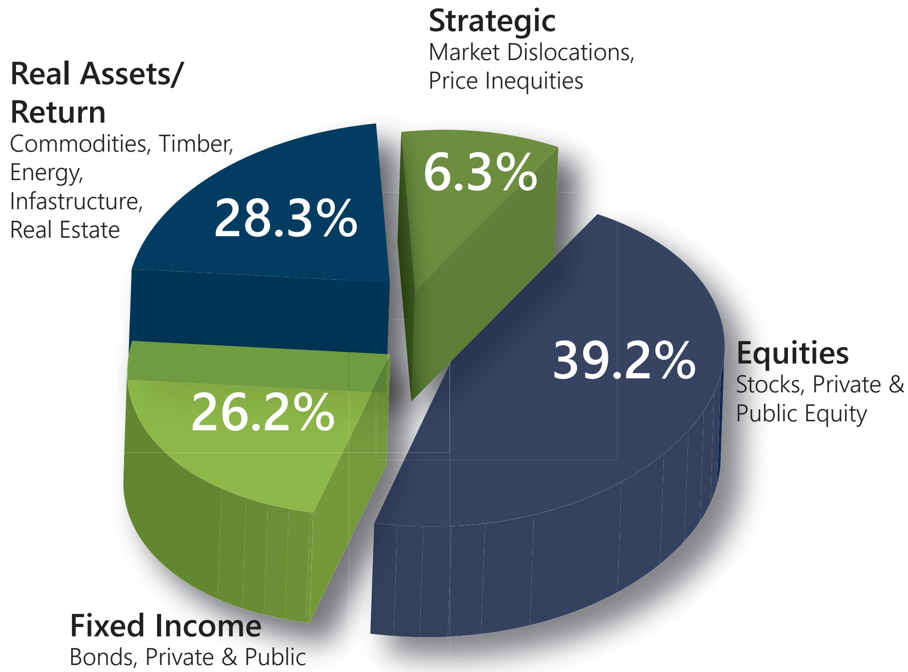
Investments

For these assets, as rates increased its corresponding coupons also increased, resulting in the rising rate environment actually contributing to the outperformance of these assets. Private Fixed Income returned +20.01% net of fees, contributing to the relative outperformance of +5.05% of the bucket as a whole.

LAGERS' Real Assets/Real Return portfolio returned +16.75% net of fees compared to LAGERS' Real Assets/ Real Return Benchmark of +6.40%, a relative outperformance of +10.35% for the year.

ASSET ALLOCATION - *Asset Class*

AS OF JUNE 30, 2018



Oil and infrastructure related to its production, processing, and distribution, made a rebound during the year which lifted the valuations of LAGERS' infrastructure and commodity investments. The Real Estate allocation also contributed to outperformance, as the value-add strategies succeeded in creating value for the portfolio.

LAGERS' Strategic portfolio returned +23.96% net of fees, the best absolute performance of any bucket, compared to LAGERS' Strategic Benchmark of +8.57%, an outperformance of +15.39%.

The outperformance was attributable to private royalty investments made by the fund, along with several opportunistic trades the LAGERS' investment team executed in energy, small-cap US equities, the Euro, and the British Pound.

The current allocation as of June 30, 2018 for the four main buckets is Total Equities 39.12%, Fixed Income 26.29%, Real Assets/Real Return 28.31% and Strategic Assets 6.27%.

Generating LAGERS' assumed rate of return of +7.25% in the current environment will involve implementing our risk-aware strategy. LAGERS' strategy takes full advantage of the illiquid nature of LAGERS' long-term, perpetual, investment portfolio by having the ability to invest in private strategies such as Private Equity, Infrastructure, Real Estate, Aviation, Mining, Shipping and other Natural Resources. These private strategies are expected to earn a premium to the public market returns, while diversifying the portfolio and decreasing overall risk. The asset allocation has been developed for the purpose of meeting this assumed rate of return in all environments, including the current environment. LAGERS' team is continuously looking for attractive opportunities to diversify the asset base to add to the return and reduce overall risk.

WHAT DOES IT MEAN?

Asset Allocation: Investing assets in different asset classes according to financial goals, risk tolerance and investment time horizon.
Asset Class: A group of investments that typically behaves similarly.

The asset allocation is based on short- and long-term goals, liquidity needs, risks and return characteristics of asset types, costs associated with available assets, and market conditions. You can have confidence that the risk-aware investment strategy that LAGERS continues to use will assure that long-term obligations to our members and retirees will be achieved.

MEMBERSHIP

309 Cities
18,743 Members

60 Counties
8,677 Members

68 Health Agencies
1,610 Members

40 Water Districts
209 Members

27 Road Districts
83 Members

58 Emergency Services
948 Members

47 Libraries
981 Members

57 Special Districts
2,283 Members

49 Fire Districts
899 Members

EMPLOYER *Funded Levels*

AS OF FEBRUARY 28, 2018

100%+	75%-99.9%	50%-74.9%	Below 50%
277	216	103	117*
39%	30%	15%	16%
Almost 7 out of 10 are 75% funded or better!		*64 of 117 employers under 50% have joined LAGERS within the last 10 years.	

AVERAGE MONTHLY BENEFIT PAYMENTS

Distribution by Years of Service

AS OF JUNE 30, 2018

	5-10 Years	11-15 Years	16-20 Years	21-25 Years	26-30 Years	31+
2018	$297	$743	$1,088	$1,545	$2,493	$3,101
2017	$295	$685	$1,061	$1,539	$2,153	$3,136
2016	$292	$668	$994	$1,506	$2,116	$2,905

GROWING *Pension System*

The Missouri Local Government Employees Retirement System (LAGERS) is the largest public pension system in the State of Missouri for local government political subdivisions. However, the system does not require all local government political subdivisions to participate. Instead, each political subdivision individually elects to partner with LAGERS to provide disability, survivor and retirement defined benefits. On average, LAGERS adds 10-15 new employers annually. In fiscal year 2018, LAGERS added 20 new employers increasing the total subdivisions covered by LAGERS to 715. This continued growth is further proof that LAGERS is a proven leader among public pensions for the right reasons. Vision, superior plan design, diligence, and execution has made LAGERS one of the most respected pension systems in America.

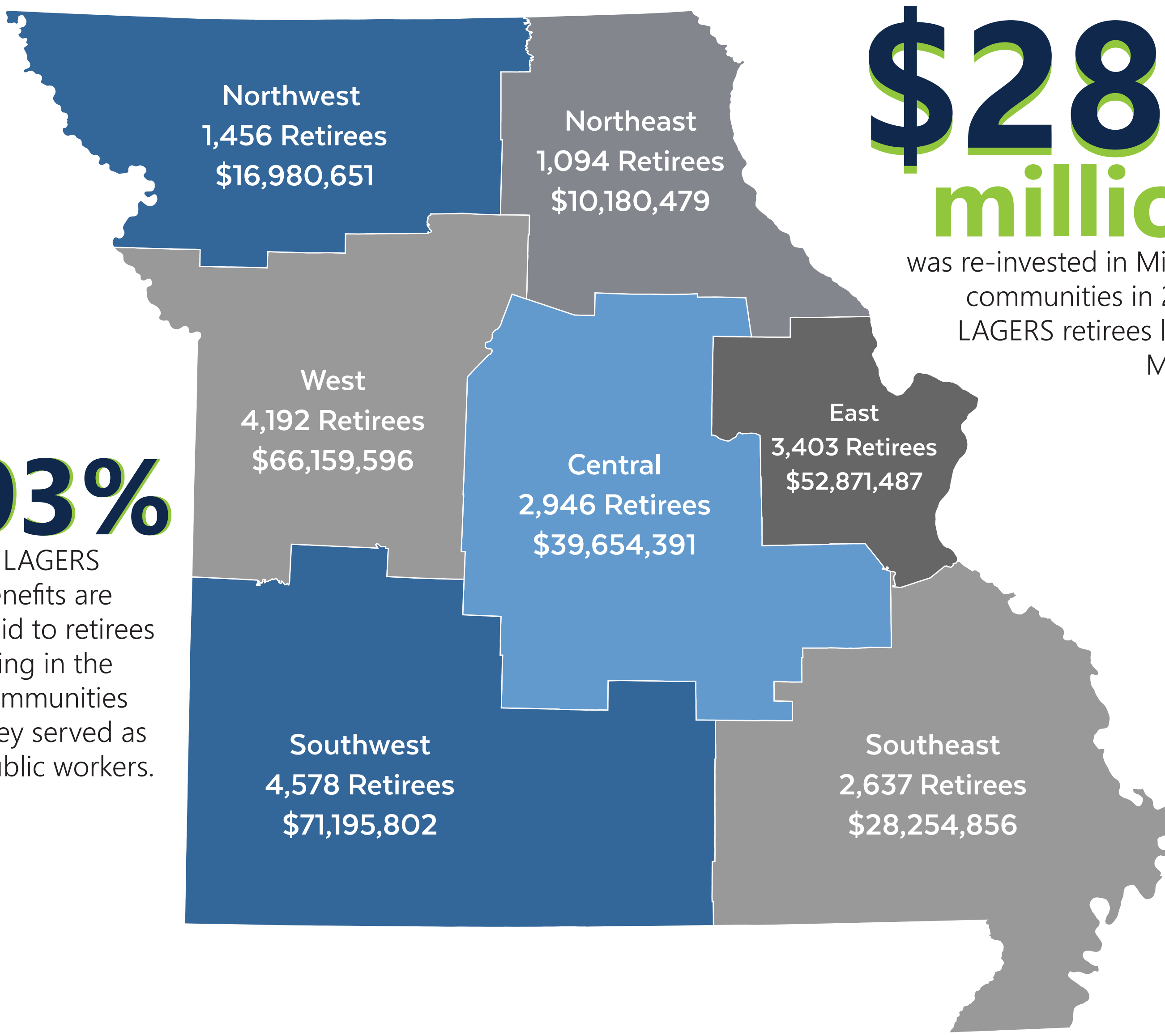
WHAT DOES IT MEAN?

Funded Level:
The funded level of a pension plan equals the value of assets in the plan divided by the plan's pension obligation or liability. For LAGERS, all 715 political subdivisions are valued individually, and each is responsible for its own pension obligation. The funded level is one of many measures used to gauge the financial stability of a pension plan.

Economic Impact

According to the National Institute on Retirement Security (NIRS), retiree spending of public pension benefits creates a ripple effect across local, state and national economies. Monthly income received by these retirees isn't stuffed under a mattress; it's spent on local goods and services. Since pension benefits provide steady monthly income, retirees don't have to adjust their spending based on economic concerns.

$287 million was re-invested in Missouri's communities in 2018 by LAGERS retirees living in Missouri.



93% of LAGERS benefits are paid to retirees living in the communities they served as public workers.

LAGERS PAID OUT $307 MILLION TO OVER 20,000 BENEFIT RECIPIENTS LAST YEAR, WITH 93% ($ 287 MILLION) STAYING IN MISSOURI.

MISSOURI

LAGERS