Missouri Local Government Employees Retirement System Popular Annual Financial Report

as of June 30, 2019

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

A LETTER FROM THE MISSOURI LAGERS EXECUTIVE 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 its rock solid pre-funded level of 94.9% in 2019. 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 continues strong as well with LAGERS' portfolio returning 7.1% net of fees for the one year period ending June 30, 2019. The longer time periods of 5, 10, and 20 years provided returns of 6.8%, 10.8%, and 7.2%, respectively. LAGERS members' investment portfolio performance was in the top 11% in the country for the last 10 years.

So what's the key to our success? Superior plan design, passion, commitment, and planning. We never lose sight of our purpose – to be the best, most efficient tool employers and communities can have to attract and retain skilled, motivated workers to make our communities the safest and best communities possible for our citizens.

LAGERS exists to provide a secure retirement to Missouri's local government workers. Membership continues to increase – now even more than ever - with employers looking to LAGERS as the secure, efficient source for providing benefits that help stabilize Missouri communities. Last year alone, 43 new employers joined LAGERS, bringing our total membership to 758 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.

94.9% Pre-funded

Active **MEMBERS** 35,130

Retirees and **BENEFICIARIES** 24,627

758 **EMPLOYERS**

WHAT DOES IT MEAN?

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

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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' 2019 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.

FINANCIAL

SUMMARY OF *Fiduciary Net Position*

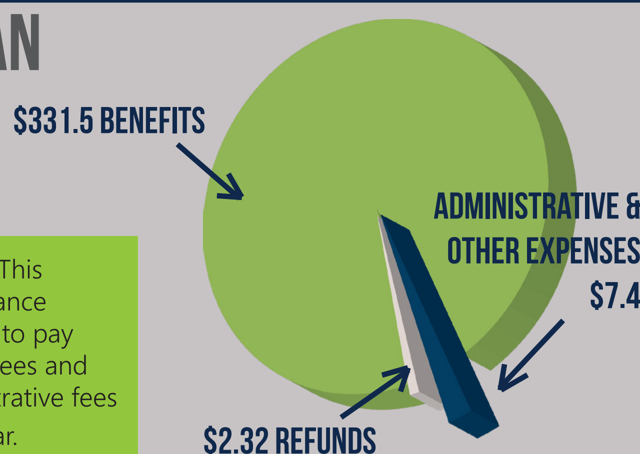
AS OF JUNE 30, 2019

Expressed in Thousands

Assets		
	Cash	$ 13,303
	Receivables and accrued income	35,648
	Prepaid expenses	160
	Investments	8,330,010
	Invested securities lending collateral	468,803
	Capital assets	5,770
Total assets		$8,853,694
Deferred outflow of resources		
	Outflows related to pensions	$ 5,770
	Outflows related to OPEB	690
Total deferred outflow		$ 6,460
Liabilities		
	Payables and accrued expenses	$ 1,921
	Accrued investment expenses	7,387
	Collateral for securities on loan	468,802
	Line of credit	200,000
	Net pension liability	4,818
	Net OPEB liability	449
Total liabilities		$ 683,377
Deferred inflow of resources		
	Inflows related to pensions	$ 380
	Inflows related to OPEB	80
Total deferred inflow		$ 460
Net position restricted for pension benefits		$8,176,317

PENSION PLAN *Activity*

Expressed in Millions



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.

INVESTMENTS *At Fair Value*

AS OF JUNE 30, 2019

Expressed in Thousands

Short-term investments	$ 252,461
Government bonds	826,076
Corporate bonds	286,403
International bonds	599,759
Mortgage and asset-backed securities	217,440
Domestic stocks	623,222
International stocks	707,968
Real Estate	846,134
Partnerships	3,088,564
Absolute return	832,182
Other alternative investments	49,801
Ending Net Position	$ 8,330,010

INVESTMENT *Expenses*

AS OF JUNE 30, 2019

Expressed in Thousands

1.5% OF TOTAL ASSETS

Manager Fees

$120,359

Custodial Services

$467

Other Investment Expenses

$1,582

TOTAL INVESTMENT EXPENSES

$122,408

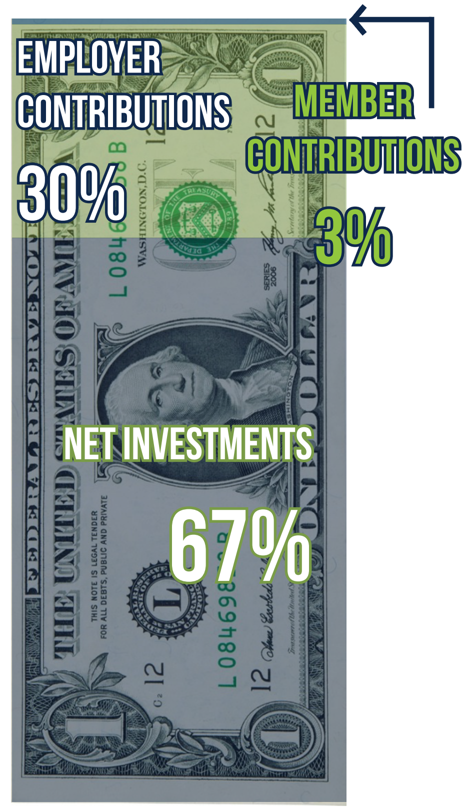
FINANCIAL

SUMMARY OF *Changes in Fiduciary Net Position*

AS OF JUNE 30, 2019 *Expressed in Thousands*

Additions		
	Member contributions	$ 25,341
	Employer contributions	226,206
	Net investment income	509,105
	Net securities lending income	629
Total additions		$761,281
Deductions		
	Benefit payments	$ 331,493
	Refunds	2,321
	Expenses	8,129
	Pension expense (gain)	(572)
	OPEB expense (gain)	(161)
Total deductions		$ 341,210
Change in net position available for benefits		$ 420,071
Net position restricted for pension benefits at June 30, 2018		$7,756,246
Net position restricted for pension benefits at June 30, 2019		$8,176,317

FUNDING *Sources*

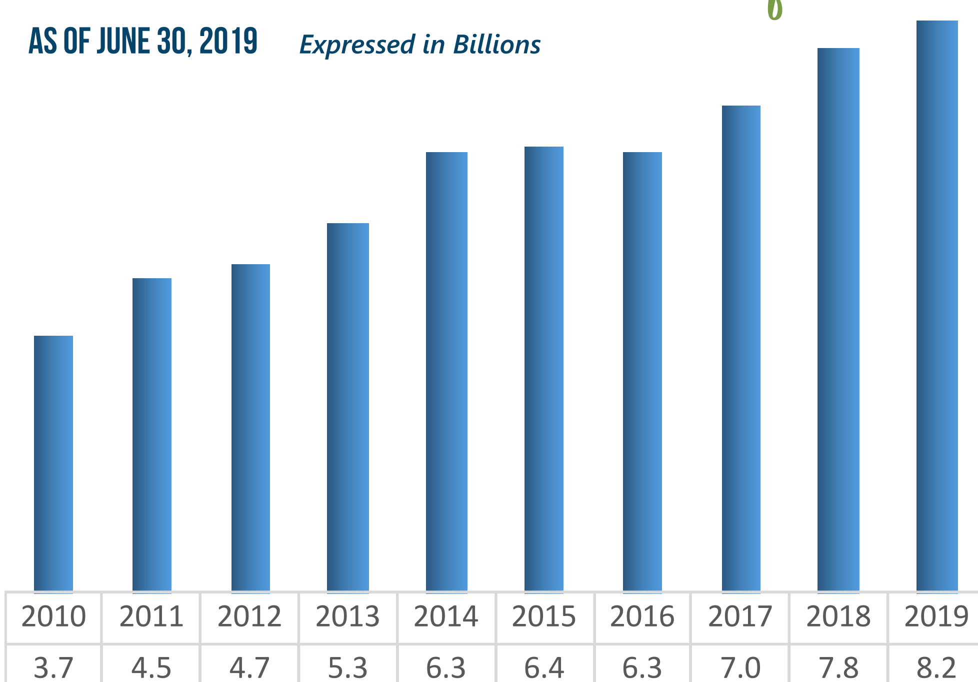


FISCAL YEAR *Highlights*

- **$8.2 billion in total net position, up 5% from fiscal year 2018**
- **7.1% rate of return net of fees**
- **$257 million in investment income allocated to participating employers**

PLAN NET POSITION *Restricted for Benefits*

AS OF JUNE 30, 2019 *Expressed in Billions*



INVESTMENTS

FROM THE CIO

Brian Collett

You can have confidence that the risk-aware investment strategy that LAGERS is using will assure that long-term obligations to our members and retirees will be achieved. The fiscal year ending June 30, 2019 was a volatile year for the markets overall. Despite that, the portfolio returned a robust performance of +7.1% net of fees relative to the Total Policy Benchmark return of +7.4%. The performance by the portfolio was broad based, with most categories outperforming its respective benchmark. These returns drove the overall portfolio value to $8.1 billion, up from $7.7 billion at the end of last fiscal year. This one-year performance feeds into the portfolio's long term returns below:

- *+10.9% net of fees annualized return over three years*
- *+ 6.8% net of fees annualized return over five years*
- *+10.9% net of fees annualized return over ten years*
- *+ 7.2% net of fees annualized return over twenty years*

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

The portfolio returns exceeded LAGERS' Total Policy Benchmark return over the 3, 5, 10 and 20 year periods and over the long term has outperformed the assumed rate of return over 3 and 10 year periods. This continues to translate into downward pressure on employer contributions and a higher funding status due to the five year asset smoothing policy, creating a more secure retirement for our members.

TOTAL Portfolio Returns

AS OF JUNE 30, 2019

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
LAGERS Return	7.12%	10.92%	6.83%	10.85%	8.05%	7.15%
Total Policy Benchmark	7.44%	7.96%	5.52%	8.32%	6.35%	5.39%
Assumed Rate of Return	7.25%	7.25%	7.25%	7.30%	7.37%	7.37%

Over the last year, LAGERS has transitioned to a new levered asset allocation and focuses on utilizing cash efficiently while maintaining the current risk level and gaining diversification and return. The new allocation includes a new category, Alpha, which has been built over the last year. It is comprised of investments that target a beta of zero and protect against systematic risk.

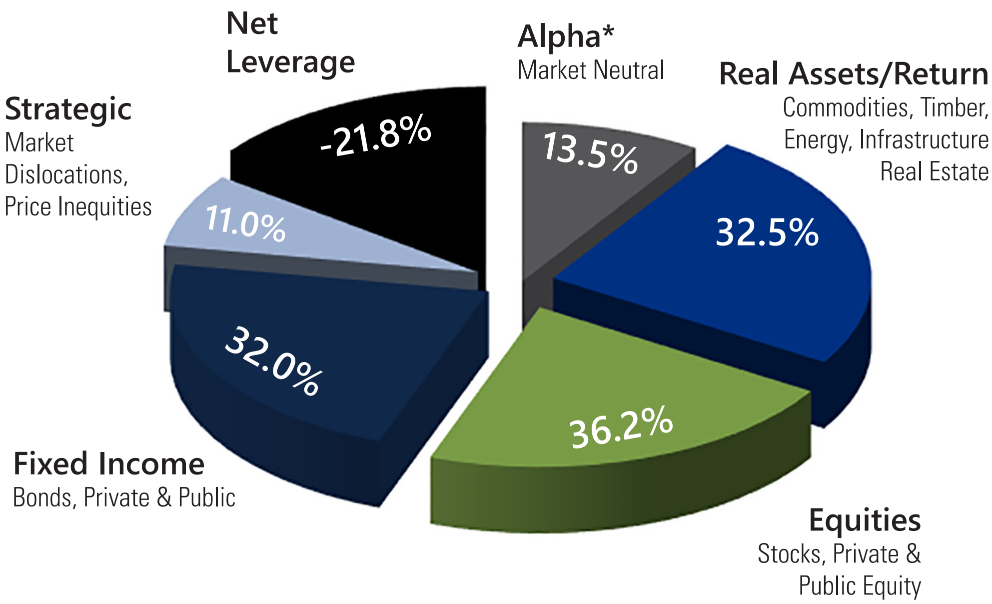
Public equities were hit hard in the fourth quarter of 2018 and strongly bounced back in the first two quarters of 2019. US-China trade disputes, political turmoil in Europe and the Middle East, mixed signals in macro-economic data, and the Fed's pivot to easing policy are some of the big headlines that contributed to last year's volatility. LAGERS' Private Equity managers continued to provide strong returns in equities, as they saw increased valuations for the companies they held, and sold, resulting in +10.6% return for the year. This was largely offset by the Public Equity portfolio which had a large value bias in a growth performing market. The Equity bucket overall returned +4.0% net of fees.

Real Assets/Real Return: an investment which its value is primarily based on the ownership or utilization of a tangible asset or cash flows derived from an agreed upon measure of tangible assets. These may also include financial assets that derive their value from a contractual claim on an underlying asset that is linked to a real or variable return component, such as a price index.

Strategic Assets: an investment in which its value is primarily based on its ability to create value beyond traditional asset classes, capitalizing on market dislocations, market timing, and/or unique situations.

ASSET ALLOCATION - *Asset Class*

AS OF JUNE 30, 2019



**Alpha allocation adjusted by 3.4% to achieve a volatility adjusted risk target of 8%.*
Alpha portfolio: Investments that target zero market exposure and seeks to profit in both up and down markets.

LAGERS' Fixed Income portfolio returned +9.9% net of fees compared to LAGERS' Fixed Income benchmark of +7.4%. Since the Fed's January 2019 meeting, the Fed, for a long time, has started to tone down its rate hike projection and become more dovish in the conditions of the economy. That theme has been carried out in 2019 and resulted in a rate cut for the first time (in July 2019) since the 2008 financial crisis. This put upward pressure on bond prices which further was supported by softer economic data. As a result, the Public Fixed Income allocation returned strongly for the year, returning +10.5% vs 0.1% last year. The primary source of outperformance in fixed income came from US Long Duration, returning 15.5% vs 12.3% benchmark return. Private Fixed Income returned +8.5% net of fees, contributing to the relative outperformance of +2.6% of the bucket as a whole.

LAGERS' Real Assets/Real Return portfolio was a major contributor to performance for the year. The Real Assets/Real Return bucket returned +6.4% net of fees compared to LAGERS' Real Assets/Real Return Benchmark of +3.5%, a relative outperformance of +2.9% for the year. The Private Infrastructure allocation was a major source of outperformance in this bucket, returning +12.6% vs 5.7% benchmark return. The Real Estate allocation also contributed to outperformance, as the value-add strategies succeeded in creating value for the portfolio.

LAGERS' Strategic portfolio returned +9.2% net of fees compared to LAGERS' Strategic Benchmark of +7.3%, an outperformance of +1.9%. The outperformance was attributable to private royalty investments made by the fund, along with investments in private communication and data centers.

The current allocation as of June 30, 2019 for the five main buckets is Alpha 13.5%, Equities 36.2%, Fixed Income 32.0%, Real Assets/Real Return 32.5%, and Strategic Assets 11.0%.

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. LAGERS' team is continuously looking for attractive opportunities to diversify the asset base to add to the return and reducing overall risk.

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. Again, 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

314 Cities
19,063 Members

60 Counties
8,711 Members

68 Health Agencies
1,637 Members

41 Water Districts
216 Members

28 Road Districts
79 Members

62 Emergency Services
1,027 Members

48 Libraries
1,089 Members

58 Special Districts
2,293 Members

51 Fire Districts
946 Members

28 Soil & Water Districts
69 Members

EMPLOYER *Funded Levels*

AS OF FEBRUARY 28, 2019

100%+	75%-99.9%	50%-74.9%	Below 50%
263	232	111	147*
35%	31%	15%	20%
6.6 out of 10 are 75% funded or better!		*90 of the employers under 50% joined LAGERS within the last 10 years.	

AVERAGE MONTHLY BENEFIT PAYMENTS

Distribution by Years of Service

AS OF JUNE 30, 2019

	5-10 Years	11-15 Years	16-20 Years	21-25 Years	26-30 Years	31+ Years
2019	$321	$726	$1,167	$1,496	$2,310	$3,126
2018	$298	$746	$1,087	$1,545	$2,474	$3,101
2017	$295	$685	$1,060	$1,541	$2,154	$3,136

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 2019, LAGERS added 43 new employers increasing the total subdivisions covered by LAGERS to 758. 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.

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 758 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.

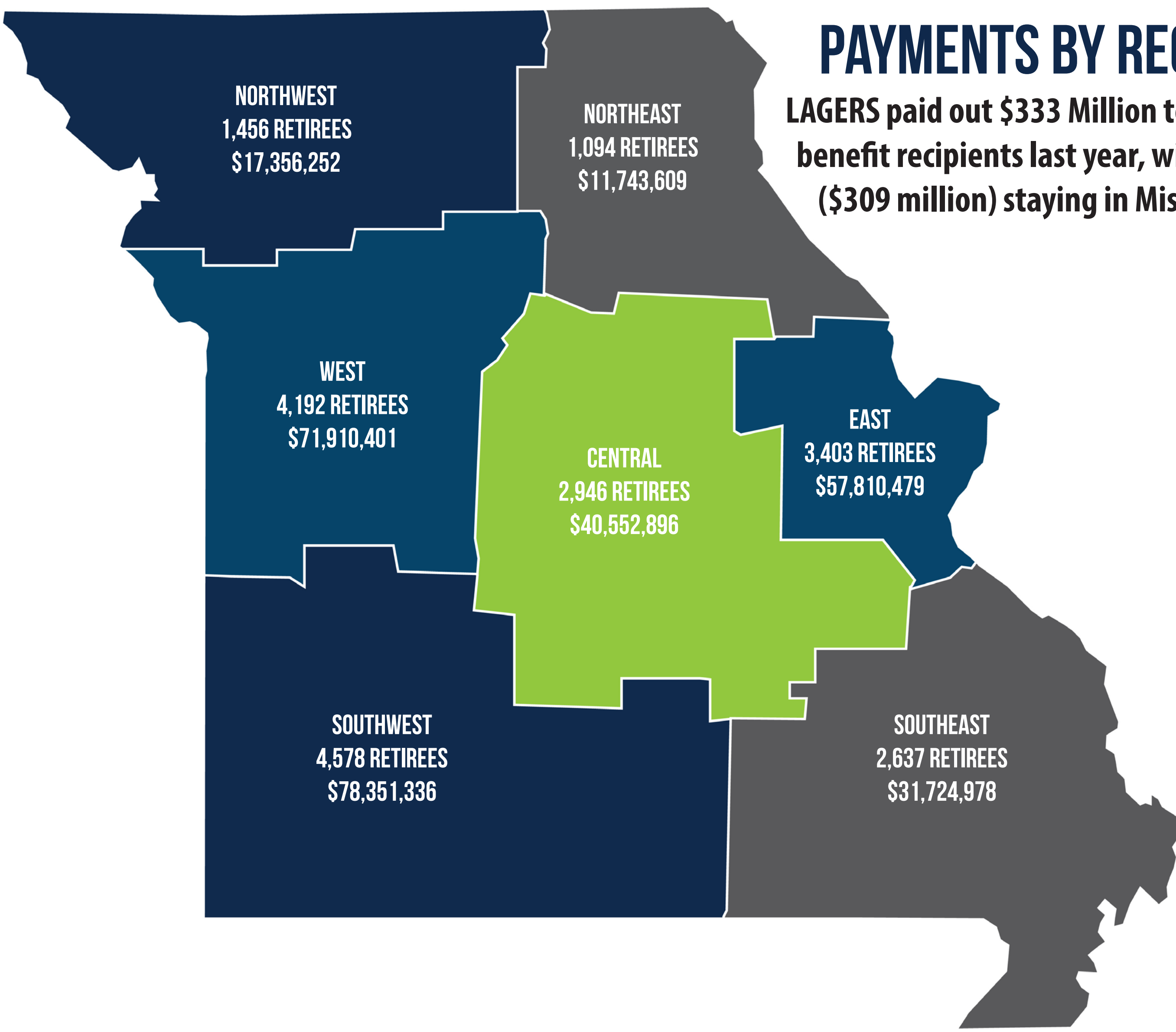
Economic Impact

LAGERS is a defined benefit pension plan. Defined benefit plans pay a retiree a modest, predetermined amount each month. The amount of the benefit is based on a formula, not an account balance, and is driven by the employee's years of service and salary. Defined Benefit plans remain the most economical and effective retirement plans not only for employees, but for employers and taxpayers as well. They provide a clear and secure path to retirement for employees and help employers recruit and retain a strong, loyal workforce.

Defined benefit plans return value to the communities as well. Approximately 93% of the benefits are paid to retirees living in the communities they served as public workers. The steady monthly retirement benefits received by these pensioners are not stuffed under a mattress, but reinvested in their hometowns.

LAGERS ANNUAL BENEFIT PAYMENTS BY REGION

LAGERS paid out $333 Million to 23,257 benefit recipients last year, with 93% ($309 million) staying in Missouri.



MISSOURI LAGERS