

# ARE YOU READY...

**Missouri State Employees' Retirement System**

**A Component Unit of the State of Missouri**

**Comprehensive Annual Financial Report**

**Fiscal Year Ended June 30, 2001**



**Missouri State Employees' Retirement System**

**A Component Unit of the State of Missouri**

**Comprehensive Annual Financial Report**

**Fiscal Year Ended June 30, 2001**

# ...TO HAVE SOME FUN?

**Gary Findlay**  
**Executive Director**

**Gary Irwin**  
**Chief Finance Officer**

**907 Wildwood Drive, P.O. Box 209**

**Jefferson City, Missouri 65102**

**(573) 632-6100 or (800) 827-1063**



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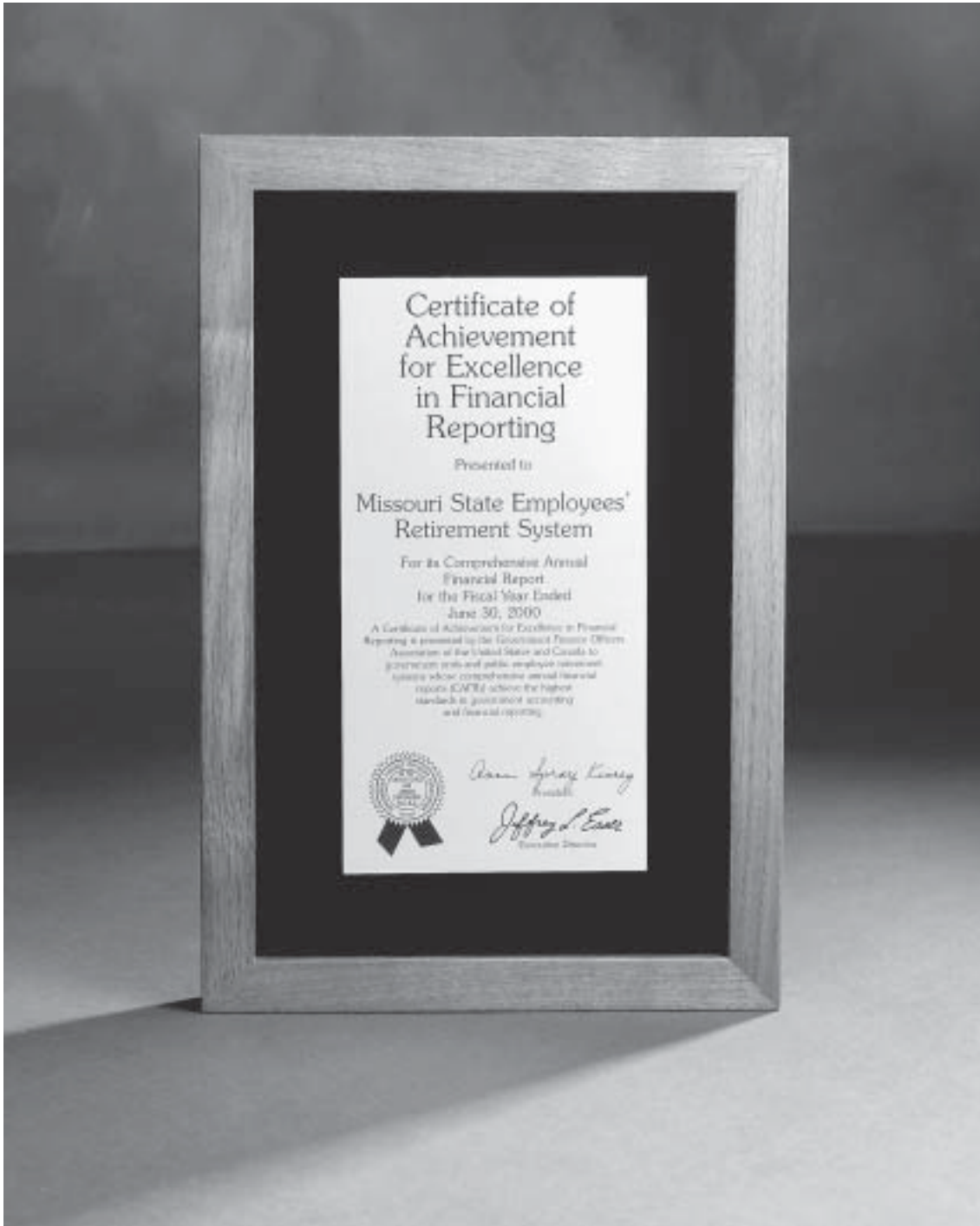
INTRODUCTORY SECTION



... TO PLAY?



# CERTIFICATE OF ACHIEVEMENT



# LETTER OF TRANSMITTAL



*Gary Findlay*  
*Executive Director*

September 7, 2001

The Board of Trustees  
Missouri State Employees' Retirement System  
907 Wildwood Drive  
Jefferson City, MO 65109

Dear Board Members:

It is again with great pleasure that I submit this year's annual report of the Missouri State Employees' Retirement System (MOSERS).

### ***Fiscal Year 2001 Highlights***

Last year, MOSERS' staff worked towards the successful implementation of the Missouri State Employees' Plan 2000 (MSEP 2000) and this year that effort continued as retired employees were given the option of staying in the Missouri State Employees' Plan (MSEP) or converting to the MSEP 2000. During the year, 6,316 retiree MSEP 2000 conversion elections were processed.

MOSERS' staff also began work on the implementation of legislation passed this year, which provides for a Deferred Retirement Option Provision (BackDROP) for general state employees. As of June 30, 2001, procedures were in place to provide benefit estimates to those who may want to consider utilizing the BackDROP option that will go into effect on January 1, 2002. Additional information regarding the BackDROP option is included in this annual report and on our web site.

During the year, the state of Missouri implemented the human resource/payroll portion of their new financial accounting and reporting system (SAMII). With the implementation of SAMII, the state of Missouri converted from monthly anticipatory payroll cycles to semi-monthly lag payroll cycles. MOSERS, in conjunction with this conversion, changed its collection of the premiums under the internal service fund life and LTD insurance plans, from in-advance to in-arrears, to realize efficiencies in the premium collection process. For the most part, the conversion has resulted in a faster and more efficient collection of payroll data and contributions from the state of Missouri. MOSERS' staff continues to work with those in the Office of Administration on the remaining conversion issues.

Also during the year, MOSERS bid out the investment custodian services and awarded the contract to Mellon Trust Company. The transition of the custody of pension trust investments to Mellon Trust Company was successfully completed during the months of May and June.

*Missouri State Employees' Retirement System*  
907 Wildwood Drive Jefferson City, Missouri 65109  
Phone: (573) 632-6100 (800) 827-1063  
MO Relay: (800) 735-2466 (Voice) (800) 735-2966 (TDD)  
[www.mosers.org](http://www.mosers.org)

### ***Report Contents and Structure***

MOSERS is considered a component unit of the state of Missouri for financial reporting purposes and, as such, the financial statements contained in this report are also included in the *State of Missouri Comprehensive Annual Financial Report*. The financial information presented in this report is the responsibility of the management of MOSERS, and sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements, supporting schedules, and statistical tables. The report is also designed to comply with the reporting requirements of Sections 104.480, 104.1006, and 105.661 of the Revised Statutes of Missouri (RSMo) as amended. The report is divided into the following five sections:

- ◆ The Introductory Section, which contains general information regarding the operations of MOSERS.
- ◆ The Financial Section, which contains the financial statements, schedules, and supplementary financial information regarding the funds administered by MOSERS.
- ◆ The Investment Section, which contains information pertaining to the management of the investments of the pension trust funds.
- ◆ The Actuarial Section, which contains information regarding the financial condition and financial position of the retirement plans administered by the system.
- ◆ The Statistical Section, which contains general statistical information regarding system participants and finances.

### ***Summary of Financial Information***

The following schedule is a summary of the pension trust funds' additions and deductions for the years ended June 30, 2001, and June 30, 2000.

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Additions	\$ 128,977,714	\$ 633,928,520
Deductions	<u>(239,464,885)</u>	<u>(199,270,551)</u>
Net Change	\$ (110,487,171)	\$ 434,657,969

Additions decreased by \$504,950,806, primarily due to a decrease in net investment income of \$525,879,118, offset by an increase in contributions of \$12,799,051 and an increase in security lending net income of \$8,340,905. Deductions increased by \$40,194,334, primarily due to an increase of \$39,910,789 in benefit payouts for the year.

The following schedule is a summary of the revenues and expenses of the Internal Service Fund (insurance activity) for the years ended June 30, 2001, and June 30, 2000.

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Operating revenues	\$ 23,649,880	\$ 20,556,272
Operating expenses	<u>(23,596,435)</u>	<u>(20,639,055)</u>
Nonoperating revenues	81,716	68,349
Net change	\$ 135,161	\$ (14,434)

Operating revenues increased by \$3,093,608, primarily as a result of an increase in basic life premiums due to the increase in coverage, effective January 1, 2001. The basic life coverage afforded active employees increased from \$15,000 per employee to one times annual salary subject to a floor of \$15,000 of coverage. Likewise, operating expenses increased by \$2,957,380 as a result of transmitting increased premiums to the insurance company. The increase in nonoperating revenues primarily resulted from increased interest earnings as the retained earnings of the fund increased, offset by a steady decline in interest rates during the last half of the fiscal year.

#### ***Plan Financial Condition***

The funding objective of MOSERS' pension trust funds is to meet long-term benefit promises through contributions, which remain approximately level as a percent of member payroll over decades of time. Historical information relating to progress in meeting this objective is presented on pages 36-40. During the year ended June 30, 2001, the funded ratio of the MSEP, which covers 90,418 participants, increased from 93.1% to 97.0%, primarily as the result of changes in actuarial assumptions. The funded ratio of the Administrative Law Judges and Legal Advisors' Plan (ALJLAP), which covers 100 participants, increased from 79.8% to 85.7%, primarily as the result of an increase in participants in the plan and changes in actuarial assumptions. Funding of the Judicial Plan, which covers 830 participants, began on July 1, 1998. During the year ended June 30, 2001, the funded ratio of the Judicial Plan increased from 5.7% to 9.1%, primarily as the result of an increase in participants in the plan and changes in actuarial assumptions. Additional information regarding the financial condition of the pension trust funds can be found in the actuarial section of this report.

#### ***Investment Activity***

MOSERS' investment portfolio produced a total return, net of expenses, of -2.2% for the year ended June 30, 2001. Even though the return was negative this year, we are pleased that MOSERS' investment policies have worked as intended. The policy benchmark return for the year was off by -10.6% which indicates MOSERS' policies have resulted in a +8.4% value added versus the markets. The fund has achieved its goal of adding value over its policy benchmark and, for the longer term, has exceeded the actuarial target rate of a 4.5% real return. Additional information regarding the investment results for the year are included in the investment section of this report.

#### ***Legislation Enacted During the 2001 Legislative Session***

On July 13, 2001, Governor Bob Holden signed into law Senate Bill 371 (SB 371). Most of the provisions contained in SB 371 consisted of minor modifications to and clarifications of the MSEP and the MSEP 2000. Two of the more substantive changes contained in the legislation, however, create a BackDROP option for general state employees (effective January 1, 2002), and establish a mandatory defined contribution plan for new hires only of the regional colleges and universities (effective July 1, 2002). Additional information regarding SB 371 can be found in the actuarial section of this report.

#### ***Certificate of Achievement for Excellence in Financial Reporting***

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MOSERS for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2000. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR conforming to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. MOSERS has received a Certificate of Achievement for the last twelve consecutive years (fiscal years ended 1989-2000). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA for evaluation.



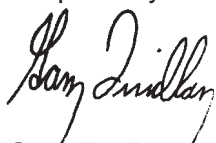
**Conclusion**

This report is a product of the combined efforts of the MOSERS' staff and advisors functioning under your leadership. It is intended to provide complete and reliable information, which will facilitate the management decision making process; serve as a means for determining compliance with legal requirements; and allow for the evaluation of responsible stewardship of the funds of the system. As in the past, MOSERS received an unqualified opinion from our independent auditors on the financial statements included in this report. The opinion of the independent auditor can be found on page 18.

Copies of this report are provided to the Governor, State Auditor, Joint Committee on Public Employee Retirement of the general assembly, and all state agencies. These agencies form the link between MOSERS and its members, and their cooperation contributes significantly to the success of MOSERS. We hope all recipients of this report find it informative and useful.

I would like to take this opportunity to express my gratitude to you, the staff, the advisors, the Governor's Task Force on Total Compensation, and other people who have worked so diligently to assure the continued successful operation of the system.

Respectfully submitted,



Gary Findlay  
Executive Director

# LETTER FROM THE CHAIRMAN



*Missouri State Employees'  
Retirement System*

*Board of Trustees*

*Thomas Hodges  
Chairman*

*Jacquelyn White  
Vice-Chairman*

*Nancy Farmer*

*Rep. Richard Franklin*

*Carol Gilstrap*

*Mike Hartmann*

*Stephen Price*

*Bryan Ornburn*

*Sen. John Russell*

*Sen. John Scott*

*Rep. Bill Skaggs*

*Gary Findlay  
Executive Director*

*907 Wildwood Drive,  
P.O. Box 209  
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(800) 735-2966 (TDD)*

*www.mosers.org*

*Thomas Hodges  
Board Chairman*

September 7, 2001

Dear Members:

On behalf of the board of trustees, I am pleased to present the *MOSERS' Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2001. This report provides information on the financial status of your retirement system while also highlighting significant changes that occurred during the year.

A review of the report confirms that, though faced with a difficult investment environment this year, the system remains well funded. The preservation and long-term growth of system assets remains the primary focus of the board to ensure that future benefit obligations will be met. MOSERS is strong and will, through the guidance of the board and the dedication of an outstanding staff, weather the uncertain times we are facing. We will be here for our members in the years to come.

With the election of Governor Bob Holden, and the subsequent change in administration, the board experienced some turnover this year. Ending their terms were Bob Holden (eight years), Richard Hanson (eight years), and Joe Bednar (three years). On behalf of the board, staff, and membership, I would like to express our collective thanks to these individuals for serving, and for their many valuable contributions to the system. Nancy Farmer (State Treasurer), Mike Hartmann (Commissioner of Administration), and Carol Gilstrap (Deputy Chief of Staff, Governor's Office) also joined the board this year, and we look forward to working and serving with them.

On a sadder note, I regret to inform you of the death of Ben Russell, our retiree-elected board member. Ben was a strong advocate for retirees, and a valuable member of the board. He will be missed. Bryan Ornburn has been appointed by the board to complete Ben's term. Bryan formerly served the retirees as their elected representative during 1992-1998, and we greatly appreciate his willingness to return to the board.

On a personal note, this is my last annual report letter to you, as I will not seek re-election as board chairman. I wish to thank the staff of MOSERS and my fellow trustees (current and former), who have made my term as chairman of the board so enjoyable these past seven years. It has been very rewarding to serve as chairman during a time when many positive changes have occurred. MOSERS is, without a doubt, an industry leader reflecting both the quality and commitment of the board and staff.

Sincerely,

A handwritten signature of Thomas Hodges in black ink.

Tom Hodges, Chairman  
Board of Trustees

## BOARD OF TRUSTEES



### *Seated left to right*

**Nancy Farmer**  
State Treasurer  
Ex-Officio Member

**Mike Hartmann**  
Commissioner of Administration  
Ex-Officio Member

**Carol Gilstrap**  
Deputy Chief of Staff  
Governor's Office  
Governor Appointed Member

**Senator John Scott**  
Senate Member

**Jacquelyn White**  
*Vice Chairman*  
Deputy Director  
Department of Mental Health  
Governor Appointed Member

### *Standing left to right*

**Representative Richard Franklin**  
House of Representatives' Member

**Steve Price**  
Staff Director  
House Appropriations Committee  
Elected Active Member

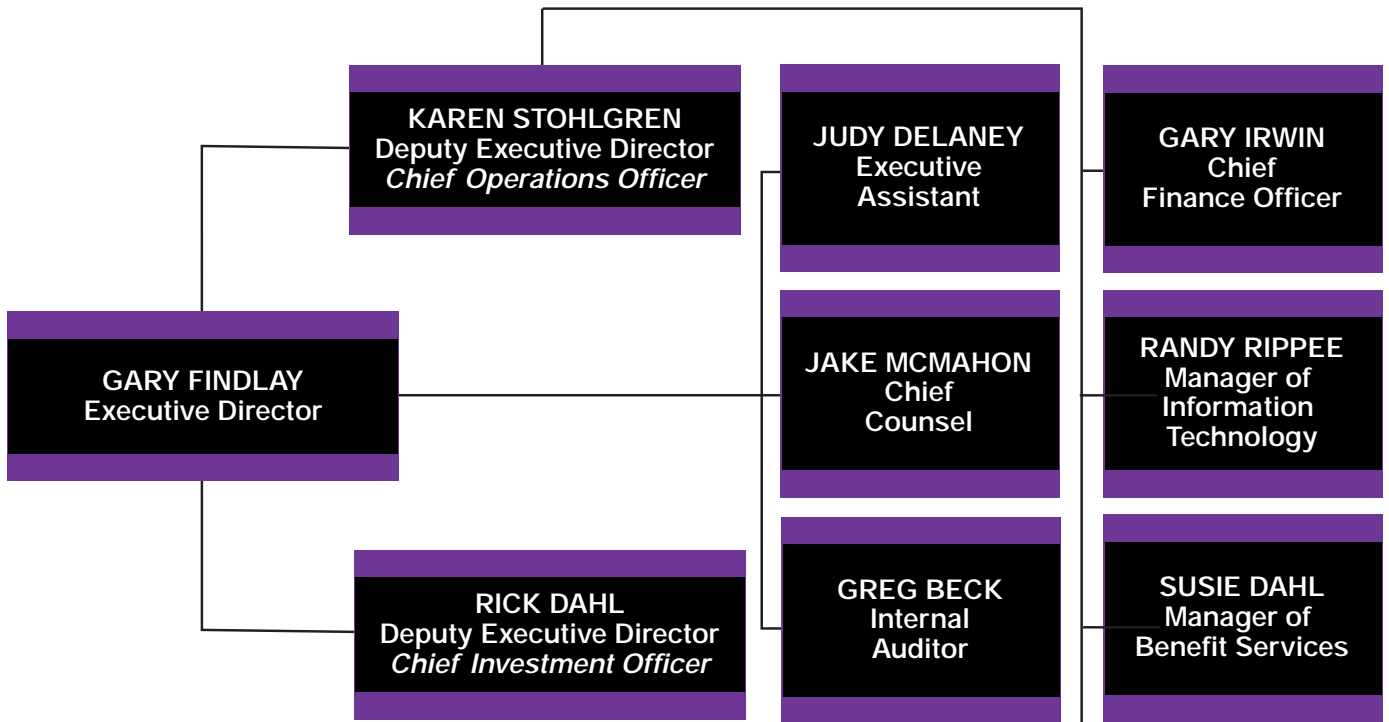
**Representative Bill Skaggs**  
House of Representatives' Member

**Thomas Hodges**  
*Chairman*  
District Administrator  
Board of Probation and Parole  
Department of Corrections  
Elected Active Member

**Senator John Russell**  
Senate Member

**Bryan Ornburn**  
Elected Retired Member

# ADMINISTRATIVE ORGANIZATION



## Management and Senior Support Staff



**Seated left to right**  
 Gary Irwin, Susie Dahl, Jake McMahon, Judy Delaney,  
 Diana Mosier, Randy Rippee

**Standing left to right**  
 Sherri Redmon, JoAnn Looten, Rick Dahl,  
 Gary Findlay, Karen Stohlgren, Sandi Marthers

**Not pictured**  
 Greg Beck

## MOSERS' STAFF



### Executive Services

Kneeling: Jake McMahon  
Seated: Judy Delaney, Karen Stohlgren  
Standing: Gary Findlay  
Not pictured: Greg Beck



### Accounting

Seated: Melissa Wadley,  
Michele Nix, Becky Harrison  
Standing: Martha Francis, Gary Irwin



### Information Technology

Kneeling: John Lipskoch, Randy Woods  
Seated: Kawajalyn Simmons,  
Michelle Shikles, Barbara Bosch  
Standing: Louise Bremer, Mark Howard,  
Karen Raithel, Randy Rippee  
Not pictured: Jennifer Scott



### Member Services

Kneeling: Ron Childs  
Seated: Christine Wilson, Sally Hager,  
Gina Kunz, Hazel Bledsoe,  
Wanda Verdot, Juanita Libbert  
Standing: Beverly Murphy, Lori Bentlage,  
JoAnn Looten, Cindy Barbarick, Dana Bernier

## MOSERS' STAFF



### Communications

Seated: Tracy Upschulte, Kendra Wood,  
Pam Henry, Betty Kinney  
Standing: Sandi Marthers,  
Barbara Beermann, Deb Benton  
Not pictured: Dearld Snider



### Staff Services

Seated: Amanda Reed,  
Jerry Hihn, Diana Mosier  
Standing: Sherri Redmon, Lori Leeper,  
Michael McNail, Maggie Rush  
Not pictured: Jeff Goins



### Benefit Services

Kneeling: Scott Simon  
Seated: Debbie Murphy, Susie Dahl,  
Jenny Bayne, Tricia Mingucci  
Standing: Bette Rovik, Sandy Wieberg,  
Gary Hollis, Kevin Bradley, Kim Sullens  
Not pictured: Anne Rapp, Jennifer Hanes



### Investments

Kneeling: Rick Dahl  
Seated: Meg Cline, Jessica Hjelvik,  
Tricia Scrivner, Cindy Rehmeier  
Standing: Pat Neylon, Karen Holterman,  
Shannon Davidson, Jim Mullen

# ABOUT MOSERS

The Missouri State Employees' Retirement System (MOSERS), established September 1, 1957, is governed by the statutes of the state of Missouri.

## Purpose

MOSERS provides retirement, survivor and disability benefits, and life insurance to its members.

MOSERS administers retirement benefits for most state employees, including members of the Missouri General Assembly, elected state officials, administrative law judges and legal advisors, and judges. MOSERS is responsible for administering the law in accordance with the expressed intent of the Missouri General Assembly and bears a fiduciary obligation to the state employees who are its members and beneficiaries.

## Mission

To play an integral role in the future financial security of plan participants by promptly and courteously delivering quality benefits and information which members value and trust through professional plan administration and prudent management of system assets.

## Administration

The statutes provide that responsibility for the administration of MOSERS is vested in an eleven member board of trustees. The board is comprised of:

- ◆ Two members of the Senate appointed by the President Pro Tem of the Senate.
- ◆ Two members of the House of Representatives appointed by the Speaker of the House.
- ◆ Two members appointed by the Governor.

- ◆ The State Treasurer.
- ◆ The Commissioner of Administration.
- ◆ Three other members of the system: two active members elected by the active and terminated-vested members, and one retiree elected by the retired members.

The day-to-day management of MOSERS is delegated to the executive director who is appointed by the board and serves at its pleasure. The executive director acts as advisor to the board on all matters pertaining to the system and, with the approval of the board, contracts for professional services and employs the remaining staff needed to operate the system.

## Organization

The executive director, deputy executive director – chief operations officer, and the deputy executive director – chief investment officer are responsible for planning, organizing, and administering the operations of the system under the broad policy guidance and direction of the board.

MOSERS' office is divided into eight administrative sections that perform specific functions for the system.

## Executive Services

The executive services team provides administrative support by assisting the executive director and chief operations officer in the major legal, operational, and oversight functions of the retirement, benefit, and communication programs.

## Accounting

This section is responsible for all financial records of the programs administered by MOSERS, including the preparation of financial and statistical reports. Accounting performs the purchasing functions for MOSERS and interfaces with the investment consultant, investment managers, Office of Administration accounting, various payroll/personnel departments, life insurance companies, actuaries, banks, and the IRS.

## Benefit Services

Benefit services is responsible for all contact with the membership regarding the benefit programs administered by MOSERS, which include retirement, life insurance, and long-term disability.

## Communications

Communications is responsible for providing clearly written and attractively designed publications and educational seminars needed to inform all members of benefit programs administered by MOSERS. Communications and the information technology section are jointly responsible for MOSERS' web site.

## Information Technology

Utilizing an IBM AS400 minicomputer and high-end workstations, information technology provides all computer and technical design support for MOSERS' data processing activities. This group is responsible for establishing and updating computer programs to implement plan changes and also maintains members' folder information on FileNet – an optical disk image system that allows information to be stored and processed using computer displayed images of original documents. Information technology is also responsible for administration of the personal computer network and the telephone system. Information technology and the communications section are jointly responsible for MOSERS' web site.

## Investments

The investments' staff provides internal investment management and consulting services to the board and the executive director. The primary functions of staff include analyzing and rebalancing the overall asset allocation and portfolio structure, managing portions of the portfolio, providing technical advice, serving as a liaison to the investment community, and informing and advising the board and executive director on financial, economic, and political developments which may affect the system. The investments' staff also works with the asset consultant and the executive director in selecting and monitoring external money managers.

## Member Services

Member services is responsible for establishing and maintaining all membership records – including maintenance of the data on the electronic imaging system, balancing payroll deductions for insurance, and entering the payroll, service, and leave data into the system's computerized database.

## Staff Services

Staff services provides clerical support, mail services, and general building maintenance for MOSERS' personnel. Human resources is also represented in this section.



## OUTSIDE PROFESSIONAL SERVICES

### Actuary

Gabriel, Roeder, Smith & Co.  
Actuaries and Consultants  
Norm Jones, Brad Armstrong  
Southfield, Michigan

### Auditors

KPMG LLP  
Certified Public Accountants  
Melissa Benton, Andrew J. Blossom  
Kansas City, Missouri

### Master Trustee/Custodian

Mellon Trust  
John Vanderpool, Irene Spridakos  
Boston, Massachusetts

### Equity Investment Advisors

AmeriCap Advisers  
Michael Gayed, Steve Shobin  
New York, New York

Capital Guardian Trust  
Mike Nyeholt, Andy Barth  
Los Angeles, California

Dimensional Fund Advisors  
Carol Wardlaw, Rex Sinquefield  
Santa Monica, California

Mastholm Asset Management  
Tom Garr, Ted Tyson  
Bellevue, Washington

Merrill Lynch Quantatative Advisors  
Asset Management Group  
Rick Vella, Lesley Hyatt  
New York, New York

Oak Associates, Ltd.  
Jim Oelschlager, Doug McKay  
Akron, Ohio

OakBrook Investments  
Michael Lorenzen, Janna Sampson  
Lisle, Illinois

### Equity Investment Advisors, Con't.

Silchester International Advisors  
Chris Cowie, Stephan Butt  
London, England

Zak Capital, Inc.  
Nick Heyer, Doug Platt  
Minneapolis, Minnesota

### Diversification Pool Investment Advisors

BlackRock Financial Management, Inc.  
Robert Capaldi, Andy Phillips  
New York, New York

Hoisington Investment Management Company  
Van Hoisington, Lacy Hunt  
Austin, Texas

NISA Investment Advisors  
Robert Krebs, Bill Marshall  
St. Louis, Missouri

### Securities Lending Advisors

Credit Suisse First Boston Corporation  
Dwight Skerritt  
New York, New York

Lehman Brothers  
Patty Summerman  
Chicago, Illinois

### Investment Management Consultant

Summit Strategies, Inc.  
Steve Holmes, Tom Pollihan  
St. Louis, Missouri

### Legal Counsel

Thompson Coburn  
Attorneys at Law  
Allen Allred  
St. Louis, Missouri

### Risk Management Consultant

Charlesworth & Associates, L.C.  
Art Charlesworth, Bob Charlesworth  
Overland Park, Kansas