Financial Section

THE BOTTOM LINE

The retirement fund paid over $700 million in benefits.

Financial Section

Independent Auditors' Report

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The Board of Trustees
Missouri State Employees' Retirement System

We have audited the accompanying financial statements of the pension trust and internal service funds of the Missouri State Employees' Retirement System (MOSERS), a component unit of the State of Missouri, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the MOSERS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the pension trust and internal service funds of MOSERS as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the *Management's Discussion and Analysis* on pages 21-25 and the *Schedule of Changes in Employer Net Pension Liability*, *Schedule of Employer Contributions, Schedule of Annual Money-Weighted Rate of Return on Investments,* and the *Notes to the Schedules of Required Supplementary Information* on pages 49-54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise MOSERS' basic financial statements. The *Introductory*, *Investment*, *Actuarial* and *Statistical Sections* and the additional information presented on pages 55-62 are presented for purposes of additional analysis and are not a required part of the financial statements.

The additional information presented on pages 55-62 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the additional information presented on pages 55-62 is fairly stated in all material respects in relation to the basic financial statements as a whole.

The *Introductory*, *Investment*, *Actuarial* and *Statistical Sections* have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Williams-Keepers LLC

October 17, 2014

Management Discussion and Analysis

The management of the Missouri State Employees' Retirement System (MOSERS or the system) offers readers of the financial statements this narrative overview of the financial activities of MOSERS for the years ended June 30, 2014, and 2013. This narrative is intended to supplement the system's financial statements. Readers are encouraged to consider the information presented here in conjunction with the *Financial Statements* that begin on page 26.

The MOSERS 2014 *Financial Statements*, *Notes to the Financial Statements* and *Required Supplementary Information* (RSI) were prepared in conformity with GASB Statement 67, *Financial Reporting for Pension Plans*. GASB Statement 67 replaces GASB statements 25 and 50 as reporting standards for pension systems.

Highlights of the changes to these financial statements as a result of implementing GASB Statement 67 are as follows:

- GASB Statement 67 only affects reporting requirements and does not prescribe funding methods which could be different. MOSERS will continue to use a funding policy that follows a financing pattern which computes and requires contribution amounts (when expressed as a percentage of active member payroll) to remain approximately level from year to year and from one generation of citizens to the next generation. The actuary is required to use the entry age actuarial cost valuation method in determining the normal cost of system benefits, expressed as a percent of active member payroll for service retirement benefits, disability benefits, survivor benefits and administrative expenses (excluding expenses related to the investment of system assets, all of which are covered by investment return). The contribution amount required to amortize any unfunded accrued liability is expressed as a level percent of active member payroll over a stipulated number of years. The computed contribution rate determined by each annual actuarial valuation consists of the normal cost plus the amortization payment for the unfunded accrued liability, expressed in total as a percent of active member payroll. The required contribution amounts are to be determined by regular actuarial valuations, conducted by the board's actuary.
- *Statement of Net Assets* and *Statements of Changes in Net Assets* have now been retitled as *Statements of Fiduciary Net Position* and *Statements of Changes in Fiduciary Net Position*, respectively.
- GASB Statement 67 classifies MOSERS as a single-employer public pension plan for reporting purposes which includes the state of Missouri as the employer and related component units.
- The discount rate used to calculate the present value of future benefit payments for reporting purposes is based upon the projected plan net position (PNP) using actuarial assumptions about contributions, benefit payments and the long-term rate of return. If the projected PNP is not sufficient to cover projected benefit payments, a blended discount rate is required using both the weighted average of the long-term rate of return and the muni-bond rate for periods after the PNP is exhausted. MOSERS currently uses the long-term discount rate of 8% and expects assets will be sufficient to cover PNP.
- New footnote requirements include the *Target Asset Allocation* including long-term expected real rate of return (Note 3), investments representing 5% or more of MOSERS' fiduciary net position (Note 3), *Employers' Net Pension Liability* (Note 5), *Summary of Actuarial Assumptions* (Note 5), and *Sensitivity of Net Pension Liability to Changes in the Discount Rate* (Note 5).
- New *Required Supplementary Information* beginning on page 49 includes a *Schedule of Changes in Employer Net Pension Liability*, *Schedule of Employer Contributions*, and *Schedule of Annual Money-Weighted Rate of Return on Investments*. Notes to the RSI include significant methods and assumptions used in calculating the actuarially determined contributions.

The basic financial statements contained in this section of the comprehensive annual financial report consist of:

- The *Statements of Fiduciary Net Position* which report the pension trust funds' assets, liabilities, and resulting net position where Assets – Liabilities = Net Position held in trust for pension benefits available at the end of the fiscal year. It is a snapshot of the financial position of the pension trust funds at that specific point in time.
- The *Statements of Changes in Fiduciary Net Position* which summarize the pension trust funds' financial transactions that have occurred during the fiscal year where Additions – Deductions = Net Change in Net Position. It supports the change that has occurred to the prior year's net position on the *Statements of Fiduciary Net Position*.
- The *Statements of Net Position* of the internal service funds is similar to the *Statements of Fiduciary Net Position* in that it is also a snapshot of the financial position of the internal service funds where Net Position + Liabilities = Assets.

- The *Statements of Revenues, Expenses, and Changes in Net Position* of the internal service funds is similar to the *Statements of Changes in Fiduciary Net Position* in that it also reports a summary of the financial activity that occurred over the period of the fiscal year where Revenues – Expenses = Net Revenue and supports the change to the prior year's net position.
- The *Statements of Cash Flows* of the internal service funds report the financial transactions of the fiscal year of the internal service funds on a cash basis. It is similar to the *Statements of Revenues, Expenses and Changes in Net Position*; however, the focus of this statement is on the change to cash balances with accrued income and expense items eliminated.
- The *Notes to the Financial Statements* are an integral part of the above financial statements and include additional information not readily evident in the statements themselves.
- The required supplementary *Management Discussion and Analysis* information, the *Required Supplementary Information*, and *Additional Financial Information* following the *Notes to the Financial Statements* provide detailed historical information considered useful in evaluating the condition of the plans administered by MOSERS.

Financial Highlights

MOSERS' overall pension fund financial condition improved during the fiscal year ended June 30, 2014 (FY14). Pension fund net position increased by $1,164,386,375 during the fiscal year, primarily as result of an increase in investment values and their associated income. The investments of the pension trust funds generated a 19.2% return (net of fees) for the year, up from the prior year's return of 10.4%.

The MSEP experienced an increase in its funded status from 72.7% to 75.1% and the Judicial Plan experienced an increase in its funded status from 25.5% to 26.9%. The nominal investment return remained unchanged from FY13 at 8% and the assumptions for wage inflation and price inflation were 3% and 2.5%, respectively. In June 2013, the board approved a change to reduce the amortization period from an open 30 years to a closed 30 years beginning July 1, 2014, and will be reduced by one year for each subsequent annual valuation until the period reaches one year. This amortization period will be reexamined in conjunction with the 2030 actuarial valuation to determine if it should be reduced below 15 years or changed to an open 15 years. MOSERS uses a smoothing method to determine the actuarial value of assets using the investment gains or losses, relative to what would have been earned at the assumed rate on the actuarial value of assets, and combine that amount with any previously unrecognized investment gains or losses. One-third of that total amount would then be recognized in the current year with two-thirds deferred for future recognition. In no event would the actuarial value of assets as of the valuation date be more than 125% or less than 80% of the market value of assets. Contributions beginning July 2014, will be 16.97%, the rate determined by the June 30, 2013, actuarial valuation until the actuarial funding ratio of the MOSERS plan is at least 80%.

In FY14, the internal service fund's net position increased by $989,498. The goals of the internal service funds are to maintain the funds at a level that enables it to meet its obligations of contracting the premiums for the life and long-term disability insurance benefits for state employees; maintain the membership data necessary to track the premiums due from the state and its employees and payable to the insurance carrier; and manage the state employees deferred compensation program.

The following schedules present *Summary Comparative Financial Statements* of the pension trust funds and internal service funds for FY14 and FY13. For each schedule there is a brief summary of the significant changes noted in those schedules.

Pension Trust Funds

Summary Comparative Statements of Fiduciary Net Position

The largest components of the net position of the pension trust funds are the investments, cash and short-term investments, obligations under repo agreements, and securities lending collateral.

The increase in the fair value of investments is primarily attributable to the favorable market conditions experienced during FY14, as evidenced by an increase in MOSERS' total investment return from 10.4% last year to 19.2% this year. Detailed information regarding MOSERS' investment portfolio is included in the *Investment Section* of this report.

Investment income receivable and investment purchases payable increased as a result of the timing of investment purchases.

The decrease in securities lending collateral is primarily attributable to lower lendable assets in the lending portfolio at fiscal year-end. As of fiscal year-end, approximately 2% of the collateral received has been invested in asset-backed bonds, down slightly from 3% the prior year. The invested collateral went from $7 million above the liability at the end of last fiscal year to $1 million below the liability in FY14. The reduction in collateral from the prior fiscal year was the result of MOSERS withdrawing over $11 million in realized gains and income from the collateral account.

Cash and short-term investments increased due to multiple factors including the timing of investment funding and additional cash necessary to fund the derivative investments and obligations under repo agreements within the new investment strategy from a return-driven investment process towards a risk-driven process.

Summary Comparative Statements of Changes in Fiduciary Net Position

The slight increase in contributions received is primarily attributable to an increase in the contribution rate for the general employee group from 14.45% to 16.98% of payroll.

The increase in investment income in FY14 from FY13 is attributable to the generally favorable market conditions experienced by the investments of the fund. The decrease in securities lending income is primarily due to less lendable assets in the lending portfolio during the fiscal year. Margins were also lower than the previous fiscal year resulting in lower income generation. The *Investment Section* of this report contains additional information regarding investments and securities lending activity.

The total benefit payments increased as a result of an increase in the number of benefit recipients plus cost-of-living adjustments provided to existing benefit recipients. Detailed schedules of these changes can be viewed on pages 102-107 of the *Actuarial Section* of this report.

Service transfers are dependent on the number of members electing to transfer their service out of MOSERS. Refunds are dependent on the number of members of the MSEP 2011 tier who have terminated employment and are eligible to request a refund, and members prior to September 1, 1972 who have contributions remaining in the system. In FY14, service transfers and refunds increased due to terminated nonvested MSEP 2011 members choosing to receive a refund. In FY14, 77 members elected to transfer their service out of MOSERS.

Pension Trust Funds

Summary Comparative Statements of Fiduciary Net Position

	As of June 30, 2014	As of June 30, 2013	Amount of Change	Percentage Change
Cash and short-term investments	$ 2,781,208,806	$1,202,548,184	$1,578,660,622	131.28%
Receivables	92,320,761	46,416,125	45,904,636	98.90
Investments	9,208,420,646	6,922,334,141	2,286,086,505	33.02
Invested securities lending collateral	36,196,014	461,766,766	(425,570,752)	(92.16)
Capital assets	3,754,756	3,554,938	199,818	5.62
Other assets	47,564	105,201	(57,637)	(54.79)
Total assets	12,121,948,547	8,636,725,355	3,485,223,192	40.35
Administrative expense payables	1,443,657	2,337,560	(893,903)	(38.24)
Investment purchase payables	456,411,500	11,485,382	444,926,118	3,873.85
Investment income payable	0	49,527,001	(49,527,001)	(100.00)
Securities lending collateral	37,195,140	454,384,699	(417,189,559)	(91.81)
Other liabilities	14,780,144	11,934,319	2,845,825	23.85
Obligations under repo agreements	2,339,232,799	0	2,339,232,799	100.00
MOSERS investment portfolio liability (MIP)	3,457,824	2,015,286	1,442,538	71.58
Total liabilities	2,852,521,064	531,684,247	2,320,836,817	436.51
Net positions restricted for pensions	$ 9,269,427,483	$8,105,041,108	$1,164,386,375	14.37

Pension Trust Funds

Summary Comparative Statements of Changes in Fiduciary Net Position

	Year Ended June 30, 2014	Year Ended June 30, 2013	Amount of Change	Percentage Change
Contributions	$ 375,116,980	$ 318,818,502	$ 56,298,478	17.66%
Investment income - investing activities	1,505,566,826	787,712,220	717,854,606	91.13
Investment income - securities lending activities	530,974	1,020,380	(489,406)	(47.96)
Miscellaneous income	456,942	495,936	(38,994)	(7.86)
Total additions	1,881,671,722	1,108,047,038	773,624,684	69.82
Benefits	706,504,036	674,511,179	31,992,857	4.74
Service transfers and refunds	3,338,696	2,534,006	804,690	31.76
Administrative expenses	7,442,615	7,680,311	(237,696)	(3.09)
Total deductions	717,285,347	684,725,496	32,559,851	4.76
Net increase	1,164,386,375	423,321,542	741,064,833	175.06
Net position beginning of year	8,105,041,108	7,681,719,566	423,321,542	5.51
Net positions restricted for pensions	$9,269,427,483	$8,105,041,108	$1,164,386,375	14.37

Internal Service Funds

Summary Comparative Statements of Net Position Analysis

The increase in premiums receivable is attributable to normal fluctuations in the month-end balance of life and long-term disability insurance premiums receivable during the year, which are dependent on the number of members participating and amount of their coverage.

The increase in investments is attributable to normal fluctuations in the investment in overnight repurchase agreements of the funds held pending transmission to the life and long-term disability insurance company. MOSERS internal service fund received a $1,000,000 reimbursement from the State of Missouri Deferred Compensation Plan's third party record keeper to cover administrative expenses. These funds are also included in overnight repurchase agreements.

The increase in premiums payable is attributable to normal fluctuations in the month-end balances of premiums payable for the year, similar to the fluctuations of the premiums receivable.

Other liabilities decreased primarily as a result of the timing of reimbursements due to the pension trust funds for the internal service fund's portion of shared expenses which had not been transferred at year end.

Summary Comparative Statements of Revenues, Expenses, and Changes in Net Position Analysis

Premium receipts and premium disbursements increased slightly due to normal fluctuations in the amount of optional life insurance coverage selected by state employees.

The increase in deferred compensation receipts and disbursements is attributable to a $1,000,000 reimbursement to cover administrative expenses to the internal service fund at MOSERS from the State of Missouri Deferred Compensation Plan's third-party record keeper which collects deferred compensation contributions directly from employers. As of June 30, 2014, there were 58,782 participants (both active and terminated), which is an increase of 3,131 from FY13. The state of Missouri has not contributed an employer match since March 2010.

Administrative expenses decreased primarily as a result of the decrease in equipment maintenance allocated to Life and LTD *Internal Service Funds* and a decrease in attorney fees directly related to the Deferred Compensation *Internal Service Funds*.

Summary Comparative Statements of Cash Flows Analysis

The increase in cash flows from operating activities is primarily attributable to an increase in cash payments received from employers and members over that of FY13 of $962,300 and decreased payments of $296,832 for refunds to members and payments to suppliers for goods and services.

The decrease in cash flows from noncapital financing activities is primarily attributable to a decrease in the amount of life and long-term disability premium refund checks that remained outstanding at year end.

The decrease in cash flows from investing activities is attributable to several factors including the increase in outflows for net purchase and maturities of overnight repurchase agreements of $1,241,404, the decrease in cash received from investment income of $189 and the increase in the purchase of capital assets for the deferred compensation plan of $5,081.

Request for Information

This financial report is designed to provide a general overview of the system's finances for all those interested in the system. Questions concerning any of the information provided in this report or request for additional information should be addressed to MOSERS at P.O. Box 209, Jefferson City, MO 65102 or by email at *mosers@mosers.org*.

Internal Service Funds
Summary Comparative Statements of Net Position

	As of June 30, 2014	As of June 30, 2013	Amount of Change	Percentage Change
Premiums receivable	$ 986,177	$ 970,466	$ 15,711	1.62%
Investments	4,225,655	3,258,256	967,399	29.69
Fixed assets net of accumulated depreciation	6,125	3,617	2,508	69.34
Leasehold improvements	3,880	0	3,880	100.00
Total assets	5,221,837	4,232,339	989,498	23.29
Premiums payable	3,910,384	3,639,910	270,474	7.43
Other liabilities	97,990	115,029	(17,039)	(14.81)
Total liabilities	4,008,374	3,754,939	253,435	6.75
Unrestricted net position	1,213,463	477,400	736,063	154.18
Total liabilities and net position	$5,221,837	$4,232,339	$989,498	23.38

Internal Service Funds
Summary Comparative Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30, 2014	Year Ended June 30, 2013	Amount of Change	Percentage Change
Premium receipts	$29,563,054	$28,961,637	$ 601,417	2.08%
Deferred compensation receipts	1,000,000	0	1,000,000	100.00
Miscellaneous income	480,120	480,120	0	0.00
Total operating revenue	31,043,174	29,441,757	1,601,417	5.44
Premium disbursements	29,544,110	28,930,950	613,160	2.12
Premium refunds	18,942	30,687	(11,745)	(38.27)
Administrative expenses	755,945	805,457	(49,512)	(6.15)
Total operating expenses	30,318,997	29,767,094	551,903	1.85
Net operating income (loss)	724,177	(325,337)	1,049,514	322.59
Investment income	11,886	12,075	(189)	(1.57)
Net revenues over expenses	736,063	(313,262)	1,049,325	334.97
Net position beginning of year	477,400	790,662	(313,262)	(39.62)
Net position end of year	$ 1,213,463	$ 477,400	$ 736,063	154.18

Internal Service Funds
Summary Comparative Statements of Cash Flows

	Year Ended June 30, 2014	Year Ended June 30, 2013	Amount of Change	Percentage Change
Cash flows from operating activities	$ 969,760	$(289,369)	$ 1,259,129	435.13%
Cash flows from noncapital financing activities	(6,870)	5,585	(12,455)	(223.01)
Cash flows from investing activities	(962,890)	283,784	(1,246,674)	(439.30)
Net change in cash	0	0	0	
Cash balances beginning of year	0	0	0	
Cash balances end of year	$ 0	$ 0	$ 0	

BASIC FINANCIAL STATEMENTS

Pension Trust Funds

Statements of Fiduciary Net Position

As of June 30, 2014

	MSEP	Judicial Plan	Total
Assets			
Cash and short-term investments	$ 2,741,712,550	$ 39,496,256	$ 2,781,208,806
Receivables			
State contributions	14,295,941	1,229,973	15,525,914
Investment sales	952,018	13,714	965,732
Investment income receivable	74,662,781	1,075,569	75,738,350
Other	89,476	1,289	90,765
Total receivables	90,000,216	2,320,545	92,320,761
Investments at fair value			
U.S. treasury securities	2,630,155,349	37,889,197	2,668,044,546
Corporate bonds	957,634	13,795	971,429
Government bonds & gov't mortgage-backed securities	47,519,935	684,557	48,204,492
Common stock	439,429,856	6,330,289	445,760,145
Limited partnerships	5,109,035,751	73,599,175	5,182,634,926
Real estate investment trust	9,844	142	9,986
Collateralized mortgage obligations	1	0	1
Foreign currency	58,960	849	59,809
International equities	845,534,445	12,180,505	857,714,950
U.S. dollar-denominated international corporate bonds	4,949,067	71,295	5,020,362
Total investments	9,077,650,842	130,769,804	9,208,420,646
Invested securities lending collateral	35,681,990	514,024	36,196,014
Capital assets			
Land	263,490	3,796	267,286
Building and building improvements	4,471,514	64,415	4,535,929
Furniture, fixtures, and equipment	1,280,978	18,453	1,299,431
Software	262,292	3,779	266,071
Total capital assets	6,278,274	90,443	6,368,717
Accumulated depreciation	(2,576,840)	(37,121)	(2,613,961)
Net capital assets	3,701,434	53,322	3,754,756
Prepaid expenses and other	46,889	675	47,564
Total assets	11,948,793,921	173,154,626	12,121,948,547
Liabilities			
Administrative expense payable	1,423,155	20,502	1,443,657
Investment purchases payable	449,929,950	6,481,550	456,411,500
Securities lending collateral	36,666,928	528,212	37,195,140
Investment incentive fees payable	13,314,183	191,800	13,505,983
Employee vacation and overtime liability	1,256,066	18,095	1,274,161
Obligations under repo agreements	2,306,013,094	33,219,705	2,339,232,799
MOSERS investment portfolio liability (MIP)	3,408,719	49,105	3,457,824
Total liabilities	2,812,012,095	40,508,969	2,852,521,064
Net position			
Net position, investment in capital assets	3,701,434	53,322	3,754,756
Unrestricted net position	9,133,080,392	132,592,335	9,265,672,727
Net positions restricted for pensions	$ 9,136,781,826	$132,645,657	$ 9,269,427,483

See accompanying *Notes to the Financial Statements.*

Pension Trust Funds

Statements of Changes in Fiduciary Net Position

For Year Ended June 30, 2014

	MSEP	Judicial Plan	Total
Additions			
Contributions			
State contributions	$ 326,370,336	$ 29,264,877	$ 355,635,213
Employee contributions	14,025,328	294,810	14,320,138
Member purchases of service credit	2,909,423	0	2,909,423
Service transfer contributions	2,252,206	0	2,252,206
Total contributions	345,557,293	29,559,687	375,116,980
Investment income			
From investing activities			
Investing activity income:			
Net appreciation in fair value of investments	1,300,741,151	18,738,071	1,319,479,222
Interest	40,920,932	589,494	41,510,426
Dividends	7,855,708	113,167	7,968,875
Swap income (loss)	232,040,105	3,342,697	235,382,802
Other	58,193,879	838,323	59,032,202
Total investing activity income	1,639,751,775	23,621,752	1,663,373,527
Investing activity expenses:			
Management fees	(149,439,209)	(2,152,775)	(151,591,984)
Custody fees	(348,822)	(5,025)	(353,847)
Consultant fees	(1,037,854)	(14,951)	(1,052,805)
Performance measurement fees	(455,842)	(6,567)	(462,409)
Internal investment activity expenses	(4,283,943)	(61,713)	(4,345,656)
Total investing activity expenses	(155,565,670)	(2,241,031)	(157,806,701)
Net income from investing activities	1,484,186,105	21,380,721	1,505,566,826
From securities lending activities			
Securities lending income	430,556	6,202	436,758
Securities lending expenses:			
Borrower rebates	287,954	4,148	292,102
Management fees	(195,076)	(2,810)	(197,886)
Total securities lending activities expenses	92,878	1,338	94,216
Net income from securities lending activities	523,434	7,540	530,974
Total net investment income	1,484,709,539	21,388,261	1,506,097,800
Miscellaneous income	450,453	6,489	456,942
Total additions	1,830,717,285	50,954,437	1,881,671,722
Deductions			
Benefits	610,498,130	29,406,625	639,904,755
BackDROP & lump sum benefits	66,599,281	0	66,599,281
Service transfer payments	1,916,840	0	1,916,840
Contribution refunds	1,421,856	0	1,421,856
Administrative expenses	7,336,922	105,693	7,442,615
Total deductions	687,773,029	29,512,318	717,285,347
Net increase in net position	1,142,944,256	21,442,119	1,164,386,375
Net positions restricted for pensions:			
Beginning of year	7,993,837,570	111,203,538	8,105,041,108
End of year	$9,136,781,826	$132,645,657	$9,269,427,483

See accompanying *Notes to the Financial Statements.*

Internal Service Funds

Statements of Net Position

As of June 30, 2014

	Life & LTD	Deferred Compensation	Total
Assets			
Premiums receivable	$ 986,177	$ 0	$ 986,177
Due to (due from)	(186,969)	186,969	0
Investments at fair value	4,225,655	0	4,225,655
Fixed assets	0	11,269	11,269
Accumulated depreciation	0	(5,144)	(5,144)
Leasehold improvements	0	3,880	3,880
Total assets	$5,024,863	$196,974	$5,221,837
Liabilities and net position			
Liabilities			
Premiums payable	$3,910,384	$ 0	$3,910,384
Checks outstanding net of deposits	1,341	0	1,341
Other	96,649	0	96,649
Total liabilities	4,008,374	0	4,008,374
Unrestricted net position	1,016,489	196,974	1,213,463
Total liabilities and net position	$5,024,863	$196,974	$5,221,837

See accompanying *Notes to the Financial Statements.*

Internal Service Funds

Statements of Revenues, Expenses, and Changes in Net Position

For Year Ended June 30, 2014

	Life & LTD	Deferred Compensation	Total
Operating revenues			
Premium receipts	$29,563,054	$ 0	$29,563,054
Deferred compensation reimbursement	1,000,000	0	1,000,000
Miscellaneous income	480,120	0	480,120
Total operating revenues	31,043,174	0	31,043,174
Operating expenses			
Premium disbursements	29,544,110	0	29,544,110
Premium refunds	18,942	0	18,942
Administrative expenses	435,830	320,115	755,945
Total operating expenses	29,998,882	320,115	30,318,997
Operating revenues (under) over operating expenses	1,044,292	(320,115)	724,177
Nonoperating revenues			
Investment income	11,886	0	11,886
Net revenues (under) over expenses	1,056,178	(320,115)	736,063
Net position (deficit) July 1, 2013	(39,689)	517,089	477,400
Net position June 30, 2014	$ 1,016,489	$ 196,974	$ 1,213,463

See accompanying *Notes to the Financial Statements.*

Internal Service Funds

Statements of Cash Flows

Year Ended June 30, 2014

	Life & LTD	Deferred Compensation	Total
Cash flows from operating activities			
Cash received from employer and members	$ 31,028,990	$ 0	$ 31,028,990
Payments to outside carriers	(29,273,634)	0	(29,273,634)
Refunds of premiums to members	(18,942)	0	(18,942)
Cash payments to employees for services	(230,713)	(181,110)	(411,823)
Cash payments to other suppliers of goods and services	(543,318)	188,487	(354,831)
Net cash provided by operating activities	962,383	7,377	969,760
Cash flows from noncapital financing activities			
Implicit funding of checks outstanding net of deposits	1,341	0	1,341
Implicit repayment of prior years checks outstanding net of deposits	(8,211)	0	(8,211)
Net cash (used) by noncapital financing activities	(6,870)	0	(6,870)
Cash flows from investing activities			
Purchase of investment securities	(1,003,168,594)	0	(1,003,168,594)
Proceeds from sale and maturities of investment securities	1,002,201,195	0	1,002,201,195
Cash received from investment income	11,886	0	11,886
Purchase of capital assets	0	(7,377)	(7,377)
Net cash (used) by investing activities	(955,513)	(7,377)	(962,890)
Net increase (decrease) in cash	0	0	0
Cash balances June 30, 2013	0	0	0
Cash balances June 30, 2014	$ 0	$ 0	$ 0
Reconciliation of operating revenues under operating expenses to net cash provided by operating activities			
Operating revenues over (under) operating expenses	$ 1,044,292	$ (320,115)	$ 724,177
Adjustments to reconcile operating revenues over (under) operating expenses to net cash provided (used) by operating activities			
Depreciation expense	0	989	989
Change in assets and liabilities:			
Decrease (increase) in operational accounts receivable	(342,216)	326,503	(15,713)
Increase in operational accounts payable	260,307	0	260,307
Total adjustments	(81,909)	327,492	245,583
Net cash provided by operating activities	$ 962,383	$ 7,377	$ 969,760

See accompanying *Notes to the Financial Statements*.

Notes to the Financial Statements

Year Ended June 30, 2014

(1) Plan Descriptions and Contribution Information

Missouri State Employees' Plan (MSEP)

The MSEP is a single-employer, defined benefit public employee retirement plan with two benefit structures known as the MSEP (closed plan) and MSEP 2000, which are administered by the Missouri State Employees' Retirement System (MOSERS) in accordance with Sections 104.010 and 104.312 to 104.1215 of the Revised Statutes of Missouri (RSMo). As established under Section 104.320, RSMo, MOSERS is a body corporate and an instrumentality of the state. In the system are vested the powers and duties specified in Sections 104.010 and 104.312 to 104.1215, RSMo and such other powers as may be necessary or proper to enable it, its officers, employees, and agents to carry out fully and effectively all the purposes of Sections 104.010 and 104.312 to 104.1215, RSMo.

Responsibility for the operation and administration of the system is vested in the 11-member MOSERS Board of Trustees as defined by state law. Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the MSEP is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as a pension trust fund.

The board intends to follow a financing pattern which computes and requires contribution amounts which, expressed as a percent of active member payroll, will remain approximately level from year-to-year and from one generation of citizens to the next generation. For the year ended June 30, 2014, the employer contribution rate was 16.98% of covered payroll.

Complete recognition of the year-to-year swings in the market value of system assets would produce contribution rate changes that would run counter to the "approximately level" goal. A common actuarial practice referred to as asset smoothing is used to address that issue. As a result of smoothing, investment gains or losses, relative to what would have been earned at the assumed rate on the actuarial value of assets are added to any previously unrecognized gains or losses and one-third of that total amount was recognized beginning in FY14, with two-thirds deferred for future recognition. In no event may the actuarial value of assets as of the valuation date be more than 125% or less than 80% of the market value of assets on that date.

For the actuarial valuation, the nominal investment return assumption is 8% and wage inflation and price inflation are 3% and 2.5%, respectively. See the *Actuarial Section* for all actuarial assumptions used.

At any point in time, the ratio of actuarial to market value of assets will be more or less than the market value but, if the smoothing method is prudent and properly constructed, those values will converge over time. As of June 30, 2014, and 2013, the ratio of actuarial to market value of assets was 95% and 101%, respectively for the MSEP.

Generally, all full-time state employees hired before July 2000, who were not covered under another state-sponsored retirement plan, are eligible for membership in the MSEP (closed plan). Full-time state employees hired after July 2000, and before January 2011, are eligible for membership in the MSEP 2000. Employees hired for the first time on or after January 2011 are eligible for membership in the MSEP 2011 tier of the MSEP 2000. MOSERS participates as an employer in the MSEP and MSEP 2000. The MSEP provides retirement, survivor, and disability benefits.

As of the June 30, 2014 valuation, membership* in the MSEP consisted of the following:

Retirees and beneficiaries currently receiving benefits		41,000
Terminated employees entitled to, but not yet receiving benefits		18,933
Active		
Vested	34,905	
Nonvested	15,716	50,621
Total membership		110,554

* *Excludes 199 members on leave of absence and 997 members on long-term disability.*

MSEP (closed plan)

General state employees are fully vested for benefits upon receiving 5 years of credited service. Under the MSEP (closed plan), general employees may retire with full benefits upon the earliest of attaining:

- Age 65 and active with 4 years of service;
- Age 65 with 5 years of service;
- Age 60 with 15 years of service; or
- Age 48 with age and service equaling 80 or more - "Rule of 80."

General employees may retire early at age 55 with at least 10 years of service with reduced benefits. The base benefit in the general employee plan is equal to 1.6% multiplied by the final average pay multiplied by years of credited service.

For members hired prior to August 28, 1997, cost-of-living adjustments (COLAs) are provided annually based on 80% of the percentage increase in the average consumer price index (CPI) from one year to the next, with a minimum rate of 4% and maximum rate of 5% until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum rate is eliminated.

For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the percentage increase in the average CPI from one year to the next, up to a maximum rate of 5%.

Qualified, terminated-vested members may make a one-time election to receive the present value of their benefit in a lump sum payment. A member must have terminated with at least 5, but less than 10 years of service, be less than age 60 and with a benefit present value of less than $10,000.

Contributions are determined through annual actuarial valuations. Contributions beginning July 2014, will be 16.97%, the rate determined by the June 30, 2013, actuarial valuation until the actuarial funding ratio of the MOSERS plan is at least 80%. Administration of the MSEP is financed through contributions to this plan from the state of Missouri and investment earnings.

MSEP 2000

General state employees are fully vested for benefits upon receiving 5 years of credited service. Under the MSEP 2000, general employees may retire with full benefits upon the earliest of attaining:

- Age 62 with 5 years of service; or
- Age 48 with age and service equaling 80 or more - "Rule of 80."

General employees may retire early at age 57 with at least 5 years of service with reduced benefits. The base benefit in the general employee plan is equal to 1.7% multiplied by final average pay multiplied by years of credited service.

For those retiring under "Rule of 80," an additional temporary benefit equivalent to 0.8% multiplied by final average pay multiplied by years of credited service is payable until age 62.

COLAs are provided annually based on 80% of the percentage increase in the average CPI from one year to the next, up to a maximum rate of 5%.

Contributions are determined through annual actuarial valuations. Contributions beginning July 2014, will be 16.97%, the rate determined by the June 30, 2013, actuarial valuation until the actuarial funding ratio of the MOSERS plan is at least 80%. Administration of the MSEP 2000 is financed through contributions to this plan from the state of Missouri and investment earnings.

The state of Missouri is required to make all contributions to the MSEP. Prior to September 1, 1972, contributions by members were required. Accumulated employee contributions made prior to that time, plus interest through August 28, 1997, are refundable to the member or designated beneficiaries upon request.

MSEP 2011

On July 19, 2010, an additional tier of the MSEP 2000 defined benefit plan was signed into law for members of the Missouri State Employees' Retirement System (MOSERS). This tier (MSEP 2011) includes all new employees first hired on or after January 1, 2011.

Under the MSEP 2011, general employees may retire with full benefits upon the earliest of attaining:

- Age 67 with 10 years of service; or
- Age 55 with age and service equaling 90 or more - "Rule of 90."

General employees may retire early at age 62 with at least 10 years of service with reduced benefits. The base benefit in the general employee plan is equal to 1.7% multiplied by final average pay multiplied by years of credited service.

For those retiring under "Rule of 90," an additional temporary benefit equivalent to 0.8% multiplied by final average pay multiplied by years of credited service is payable until age 62.

COLAs are provided annually based on 80% of the percentage increase in the average CPI from one year to the next, up to a maximum rate of 5%.

Member contributions are 4% of pay. Employer contributions are determined through annual actuarial valuations. Contributions beginning July 2014, will be 16.97%, the rate determined by the June 30, 2013, actuarial valuation until the actuarial funding ratio of the MOSERS plan is at least 80%. Administration of the MSEP 2011 is financed through contributions to this plan from the member, state of Missouri, and investment earnings.

The MSEP 2011 does not impact employees employed by the state prior to January 1, 2011.

For a more detailed summary of benefits for general employees, legislators, and elected officials under the MSEP, MSEP 2000, and MSEP 2011 tier, refer to the *Summary of Plan Provisions* in the *Actuarial Section* of this report.

Judicial Plan

The Judicial Plan is a single-employer, public employee retirement plan administered in accordance with Sections 476.445 to 476.690, RSMo. Responsibility for the operation and administration of the Judicial Plan is vested in the MOSERS Board of Trustees. Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the Judicial Plan is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as a pension trust fund.

Judges and commissioners of the supreme court or the court of appeals, judges of the circuit court, probate court, magistrate court, court of common pleas, court of criminal corrections, justices of the peace, or commissioners or deputy commissioners of the circuit court appointed after February 29, 1972, commissioners of the juvenile division of the circuit court appointed pursuant to Section 211.023, RSMo, commissioners of the drug court pursuant to Section 478.466, RSMo, or commissioners of the family court are eligible for membership in the Judicial Plan. The Judicial Plan provides retirement, survivor, and disability benefits. Members are immediately eligible for benefits.

As of the June 30, 2014 valuation, membership* in the Judicial Plan consisted of the following:

Retirees and beneficiaries currently receiving benefits		511
Terminated employees entitled to, but not yet receiving benefits		24
Active		
Vested	405	
Nonvested	0	405
Total membership		940

* *Excludes 1 member on long-term disability.*

Under the Judicial Plan, members may retire with full benefits upon the earliest of attaining:

- Age 62 with 12 years of service;
- Age 60 with 15 years of service; or
- Age 55 with 20 years of service.

Employees may retire early at age 62 with less than 12 years of service or age 60 with less than 15 years of service with a reduced benefit that is based upon years of service relative to 12 or 15 years.

In the Judicial Plan, the base benefit for members with 12 or more years of service is equivalent to 50% of compensation on the highest court served.

For members hired prior to August 28, 1997, COLAs are provided annually based on 80% of the percentage increase in the average CPI from one year to the next, with a minimum rate of 4% and a maximum rate of 5% until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum rate is eliminated. For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the percentage increase in the average CPI from one year to the next, up to a maximum rate of 5%.

Qualified, terminated-vested members may make a one-time election to receive the present value of their benefit in a lump sum payment. A member must have terminated with at least 5, but less than 10 years of service, be less than age 60, with a benefit present value of less than $10,000.

Funding of the Judicial Plan on an actuarial basis began on July 1, 1998. Contributions are determined through annual actuarial valuations. Contributions beginning July 2014, will be 58.45%, the rate determined by the June 30, 2013, actuarial valuation until the actuarial funding ratio of the Judicial plan is at least 80%. The state of Missouri is required to make all contributions to the Judicial Plan. For the year ended June 30, 2014, the employer contribution rate was 59.69% of covered payroll. Administration of the Judicial Plan is financed through contributions to this plan from the state of Missouri and investment earnings.

Judicial 2011 Tier

On July 19, 2010, an additional tier of the MSEP 2000 defined benefit plan was signed into law for members of the Judicial Plan. This tier (Judicial Plan 2011) includes all new judicial members first hired on or after January 1, 2011.

Under the Judicial Plan 2011, members may retire with full benefits upon the earliest of attaining:

- Age 67 with 12 years of service; or
- Age 62 with 20 years of service; or

Judicial members may retire early at age 67 with less than 12 years of service with reduced benefits, or age 62 with less than 20 years of service with a reduced benefit based on years of service.

For the actuarial valuation of the Judicial Plan, the nominal investment return assumption is 8% and wage inflation and price inflation are 3% and 2.5%, respectively. See the *Actuarial Section* for all actuarial assumptions used.

In the Judicial Plan, the base benefit for members with 12 or more years of service is equivalent to 50% of compensation on the highest court served. For a more detailed summary of benefits for members of the Judicial Plan, refer to the *Summary of Plan Provisions* in the *Actuarial Section* of this report.

Missouri State Insured Defined Benefit Insurance Plan

The Missouri State Insured Defined Benefit Insurance Plan is accounted for as an internal service fund of the state of Missouri and is administered through The Standard, which is a third-party administrator with oversight by MOSERS. It provides basic life insurance in an amount equal to one times annual salary while actively employed (with a $15,000 minimum) to eligible members of the MSEP, MSEP 2000 (except employees of the Missouri Department of Conservation and certain state colleges and universities), MSEP 2011, Judicial Plan, and certain members of the Public School Retirement System.

The plan also provides duty-related death benefits, optional life insurance for active employees and retirees who are eligible for basic coverage, and a long-term disability plan for certain eligible members. For a more detailed description of insurance benefits, refer to page 119 in the *Actuarial Section* of this report.

Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the Missouri State Insured Defined Benefit Insurance Plan is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as an internal service fund. Administration of the Missouri State Insured Defined Benefit Insurance Plan is financed through contributions from the state of Missouri.

State of Missouri Deferred Compensation Plan

The State of Missouri Deferred Compensation Plan is accounted for as an internal service fund. MOSERS uses ICMA-RC as an external provider for record keeping.

Record keeping of individual accounts and management of investment options are paid from charges to the participants and investment option reimbursement arrangements. Participants in the plan manage individual accounts by choosing investment options from the available fund lineup. MOSERS' role is to oversee the plan, choose external providers and investment options, and develop communication to plan participants. The State of Missouri Deferred Compensation Plan receives reimbursements from the plan's investment option managers which are used to cover plan administration costs and a portion of participant fees. In FY14, a total of $2,538,184 was collected from a combination of $1,849,381 in investment option reimbursements and $688,803 in participant fees.

Effective July 1, 2012, new permanent full-time and part-time employees are automatically enrolled at 1% of pay into the State of Missouri Deferred Compensation Plan.

The State of Missouri Deferred Compensation Plan offers participants the ability to purchase units of MOSERS investments as an investment option. Participants who choose this investment option own units of MOSERS investments, but not specific assets. As of June 30, 2014, participants invested $3,457,824 in the MOSERS Investment Portfolio (MIP) fund investment option.

View audited financial statements for the State of Missouri Deferred Compensation Plan at *www.mosers.org*.

(2) Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

The financial statements of the MSEP, the Judicial Plan, the Missouri State Insured Defined Benefit Insurance Plan and State of Missouri Deferred Compensation Plan were prepared using the accrual basis of accounting. The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the U.S. that apply to governmental accounting for fiduciary funds including the Governmental Accounting Standards Board (GASB) Statements numbers 34, 37, 38, 40, 43, 44, 51, 53, 63 and 67.

GASB Statement 67 was adopted during the year ended June 30, 2014, addressing accounting and financial reporting requirements for pension plans. GASB Statement 67 requires changes in presentation of the financial statements, *Notes to the Financial Statements*, and *Required Supplementary Information*. Significant changes include an actuarial calculation of the total and net pension liability as defined in the accounting standard. Comprehensive footnote disclosures regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures are also included. The implementation of this standard did not significantly impact the accounting for accounts receivable and investment balances. The total employers net pension liability is presented in Note 5. Related GASB Statement 67 disclosures can be found in the *Required Supplementary Information* on page 49.

Contributions are recognized as revenues when due, pursuant to statutory requirements. Benefits and refunds are recognized when due and payable and expenses are recorded when the corresponding liabilities are incurred regardless of when contributions are received or payment is made. The direct method of reporting cash flows is used.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of net position held in trust for pension benefits at June 30, 2014. Actual results could differ from those estimates.

Method Used to Value Investments

Section 104.440, RSMo allows the board of trustees to invest the trust fund assets in accordance with the prudent person rule. Investments of the pension trust funds and the internal service funds are reported on the basis of fair market value. MOSERS utilizes investments for the purpose of allowing participants in the State of Missouri Deferred Compensation Plan the option to invest in units of MOSERS investment portfolio (MIP). For financial reporting purposes, investments throughout this CAFR are reported in whole and include .04% or $3,457,824 of the units invested in the MIP by Deferred Compensation participants. The schedule on page 44 provides a summary of the fair values of the investments as reported on the *Statements of Fiduciary Net Position* of the pension trust funds and *Statements of Net Position* of the internal service funds. Fair values for the equity real estate investments are based on appraisals. Fair values of the limited partnership investments are based on valuations of the underlying companies of the limited partnerships as reported by the general partner. Certain limited partnerships reflect values and related performance on a quarter lag basis due to the nature of those investments and the time it takes to value them. Fair value of the commingled funds is determined based on the underlying asset values. The remaining assets are primarily valued by the system's master custodian, BNY Mellon, using the last trade price information supplied by various pricing data vendors.

(3) Cash and Investments

Cash

Custodial credit risk for cash deposits and investments is the risk that, in the event of a bank failure, the system and plan deposits may not be returned to them. The board adopted the following policy on June 18, 2009:

The executive director shall require that banks managing demand deposit accounts for any retirement plan associated with MOSERS (MOSERS' defined benefit plan and the deferred compensation plan/state incentive compensation plan) to hold, at minimum, collateral security in either MOSERS' name or the State of Missouri Deferred Compensation Plan and in an amount equal to or more than the amount on deposit that exceeds the Federal Deposit Insurance Corporation (FDIC) insured amount. The types of collateral security shall be included on a list maintained by the State Treasurer's office in accordance with Section 30.270 RSMo, but in no case may a bank pledge collateral that does not specifically allow MOSERS to release the collateral or pledge collateral that represents securities of the pledging banks.

Cash balances represent both demand deposit accounts held at the bank and investment cash on deposit with the investment custodian. To maximize investment income, the float caused by outstanding checks is invested in an internally managed short-term investment account, thus causing a possible negative book balance. Negative book balances are reflected in the liabilities' section of the *Statements of Net Position* of the internal service funds and included in the cash and short-term investments on the *Statements of Fiduciary Net Position* of the pension trust funds.

The table below is a schedule of the aggregate book and bank balances of all cash accounts.

Aggregate Book and Bank Balances

	Cash Balances	
	Book	Bank/Investment Custodian
Pension trust funds - investment custodian	$534,344,597	$534,344,597
Pension trust funds - demand deposits	(10,593,294)	18,469
Internal service fund - insurance plan demand deposits	(1,341)	32

Under the repurchase agreement, the bank does not have the right to substitute other appropriate securities. Central Trust Bank pledged the following securities to MOSERS on June 30, 2014, as collateral for overnight repurchase agreements:

- $4,250,000 Federal Home Loan Mortgage Corp.
  Maturity date: 04/15/2031 | Fair value: $4,257,310
- $1,945,816 Small Business Association Pool
  Maturity date: 05/25/2036 | Fair value: $2,108,194
- $3,516,456 Small Business Association Pool
  Maturity date: 09/25/2038 | Fair value: $3,801,860
- $13,070,000 Federal National Mortgage Assoc.
  Maturity date: 12/25/2039 | Fair value: $13,188,166
- $439,338 Small Business Association Pool
  Maturity date: 10/25/2017 | Fair value: $454,687
- $348,359 Small Business Association Pool
  Maturity date: 09/25/2020 | Fair value: $373,361
- $6,500,000 Federal Home Loan Mortgage Corp.
  Maturity date: 10/15/2021 | Fair value: $6,600,100
- $2,961,510 Small Business Association Pool
  Maturity date: 11/25/2023 | Fair value: $3,090,217
- $1,494,012 Small Business Association Pool
  Maturity date: 07/25/2029 | Fair value: $1,577,154

Investments

Investment Policy

In 2013, MOSERS began transitioning to a portfolio that shifts from a return-driven process towards a risk-driven process using an allocation approach that focuses on fundamental economic factors such as growth and inflation as well as other factors with expected return values such as credit, carry, and illiquidity.

MOSERS' policy with respect to the allocation of invested assets is established and may be amended by the board of trustees majority vote. The board's guiding principles with respect to the investment of MOSERS' assets are to preserve the long-term corpus of the fund, maximize total return within prudent risk parameters, and act in the exclusive interest of the members of the system. The board has developed a risk-weighted policy allocation that is designed to achieve the long term required return objectives of the system, given certain risk constraints. The current asset allocation reflects a diversified portfolio, which will perform well in a variety of economic conditions and will help reduce the portfolio's overall volatility.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate rates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in MOSERS' target asset allocation as of June 30, 2014, are summarized in the table below.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single-issuer. Issuer concentration limits are established in individual portfolio guidelines that generally do not allow a single issuer to be greater than 5% of the portfolio's market value. As of fiscal year end, there is no single issuer exposure, exclusive of investments issued or explicitly guaranteed by the U.S. government, within MOSERS' portfolio that comprises 5% or more of the overall portfolio or MOSERS' fiduciary net position. Therefore, there is no concentration of credit risk to report.

Rate of Return

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 19.25% for the year ended June 30, 2014. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

Target Asset Allocation

	Policy Allocation	Long-Term Expected Real Rate of Return*	Weighted Average Long-Term Expected Real Rate of Return
Beta-balanced portfolio	76.6%	5.7%	4.4%
Illiquids portfolio**	19.2	7.3	1.4
Old portfolio***	4.2	6.0	0.2
	100.0%		6.0%

* *Represents best estimates of geometric rates of return for each major asset class included.*

** *Illiquid portfolio upper limit of 27.5% of capital, no new commitments past 23%.*

*** *As of June 30, 2014, MOSERS was in the final stages of transitioning from a portfolio allocation consisting of 45% public equities, 30% public debt, and 25% alternative investments (old portfolio) to a new target allocation of 80% beta-balanced and 20% illiquids.*

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to MOSERS. As of June 30, 2014, MOSERS' fixed income assets that are not government guaranteed represented 33.4% of the fixed income security. In preparing this report, credit risk associated with all fixed income holdings including collateral for repurchase agreements and securities lending collateral has been included. The tables below summarize MOSERS' fixed income security exposure levels and credit qualities.

As a matter of practice, there are no overarching limitations for credit risk exposures within the overall fixed income portfolio. Each individual portfolio within fixed income is managed in accordance with operational guidelines that are specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and average credit quality.

Credit risk for derivative instruments held by the system results from counterparty risk assumed by MOSERS. This is essentially the risk that the counterparty to a MOSERS' transaction will be unable to meet its obligation. Information regarding MOSERS' credit risk related to derivatives can be viewed in the derivatives disclosures on page 40 of these notes.

Policies related to credit risk pertaining to MOSERS' securities lending program are found under the securities lending disclosures found on page 40 of these notes.

Average Credit Quality and Exposure Levels of Nongovernment Guaranteed Securities

Fixed Income Security Type	Market Value June 30, 2014	Percent of all Fixed Income Assets	Weighted Average Credit Quality	Ratings Dispersion Requiring Further Disclosure
Collateralized mortgage obligations	$ 1,117,305	0.0%	Agency	See below
U.S. government agencies	457,264,425	9.1	Agency	See below
Non-U.S. sovereign	53,203,047	1.1	BBB+	See below
Asset-backed securities	11,322,873	0.2	AA+	See below
Corporate bonds	62,588,547	1.2	AA+	See below
Bank loans	215,524	0.0	Not rated	See below
Bank deposits	450,101,251	9.0	FDIC insured	None
Repurchase agreements	315,000,000	6.3	Not rated	None
Pooled investments	324,876,067	6.5	AAA	None
Total nongov't guaranteed securities	$1,675,689,039	33.4%		
Total fixed income securities	$5,012,238,001			

Ratings Dispersion Detail Market Value

Credit Rating Level	Collateralized Mortgage Obligations	Non-U.S. Sovereign	Asset-Backed Securities	Corporate Bonds	U.S. Agencies	Bank Loans
Agency	$1,117,305		$10,573,410	$50,768,804	$457,264,425	
AAA		$ 1,075,074				
A		20,503,930		10,435,042		
BBB		31,110,227		758,209		
BB		513,816				
B				626,492		
CC			749,463			
Not rated						$215,524
	$1,117,305	$53,203,047	$11,322,873	$62,588,547	$457,264,425	$215,524

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed by using the effective duration or option adjusted methodology. It is widely used in the management of fixed income assets by quantifying the risk of interest rate changes. This methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. Within the investment policy, operational guidelines specify the degree of interest rate risk taken within the system's fixed income portfolios, with the exception of some portfolios in which credit risk is the predominant factor and also controlled by specific guidelines. It is believed that the reporting of effective duration found in the tables below quantifies to the fullest extent possible the interest rate risk of the system's fixed income securities.

MOSERS invests in mortgage-backed securities, which are reported at fair value in the *Statement of Fiduciary Net Position* of the pension trust funds. Such securities have embedded within them the risk of being called, whereby the issuer has the option to keep the debt outstanding in rising interest rate environments or repay the debt in declining interest rate environments, a factor that advantages the issuer. MOSERS invests in these securities to diversify the portfolio with high quality and liquid investments, which capture a significant yield premium that is intended to compensate for the call risk. This risk is incorporated within the effective duration calculation used in the interest rate risk analysis.

Effective Duration of Fixed Income Assets by Security Type

Fixed Income Security Type	Market Value June 30, 2014	Percent of all Fixed Income Assets	Weighted Average Effective Duration (Years)	Interest Rate Risk Requiring Further Disclosure
U.S. treasuries	$2,977,250,641	59.4%	4.9	See below
U.S. government agencies	457,264,425	9.1	0.1	None
Collateralized mortgage obligations	1,117,305	0.0	0.1	None
Non-U.S. sovereign	53,203,047	1.1	4.9	None
Asset-backed securities	11,322,873	0.2	0.8	None
Corporate bonds	62,588,547	1.2	0.3	None
Bank loans	215,524	0.0	0.3	None
Bank deposits	450,101,251	9.0	0.0	None
Repurchase agreements	674,298,320	13.5	0.0	None
Pooled investments	324,876,067	6.5	0.0	None
	$5,012,238,001	100.0%	3.0	

Effective Duration Analysis of U.S. Treasuries

Maturity	Market Value June 30, 2014	Average Effective Duration of the Security Type	Contribution to Effective Duration
Less than 1 year to maturity	$ 212,217,310	0.5	0.0
1- to 10-year maturities	2,760,110,891	5.2	4.8
Long coupon treasuries	4,922,440	9.4	0.0
	$2,977,250,641		4.8

Repurchase Agreements

Tri-party repurchase agreements (repos) are a secured loan with the collateral held at a custodian bank. In a tri-party repo transaction, MOSERS transfers cash to a financial institution and the financial institution transfers securities to the custodian bank. Simultaneously, the financial institution promises to repay the loan in the future plus interest in exchange for the return of the securities.

Reverse repurchase agreements (reverse repos) are used to convert securities into cash. In a reverse repo transaction, MOSERS transfers securities that are owned in the portfolio to a financial institution and the financial institution transfers cash to MOSERS. Simultaneously, MOSERS promises to repay the loan in the future plus interest in exchange for the return of the securities.

Typical collateral for repos and reverse repos include treasury securities, agency securities, mortgage-backed securities, investment grade corporate bonds, commercial paper, and common stock. Repos and reverse repos are typically done for an overnight term; however, they can be done for a longer term. MOSERS enters into repo transactions to earn interest on short-term funds and enters into reverse repos to finance the purchase of additional securities.

The yield earned by MOSERS on the repo transactions ranged from 0.05% to 0.36% and had maturities of one day to 35 days. The yield earned by the counterparties on the reverse repo transactions ranged from 0.15% to 0.24% and had maturities of one month to one year. The maturities of the investments made with reverse repo proceeds generally have maturities of one to 10 years.

In repo transactions, MOSERS may have credit risk if the counterparty fails to repay the loan and the value of the securities held as collateral fall below the loan balance. To minimize this risk, MOSERS requires the financial institution to send collateral with a market value greater than the value of the loan and revalues the collateral on a daily basis. As of fiscal year end, MOSERS held approximately $32 million of counterparty collateral in excess to the repo balance.

In reverse repo transactions, MOSERS may be subject to credit risk if the counterparty fails to return the securities and the value of the securities held as collateral rise above the loan balance. To minimize this risk, MOSERS sends the minimum amount of collateral required by the financial institution and requires the financial institution to revalue the collateral and return excess collateral on a daily basis. As of fiscal year end, counterparties held approximately $17 million of MOSERS collateral in excess to the reverse repo balance.

The tables below summarize MOSERS' exposure for repo and reverse repo transactions.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. MOSERS' currency risk exposures, or exchange rate risk, primarily reside within MOSERS' international equity investment holdings. MOSERS' implementation policy allows external managers to decide what action to take regarding their respective portfolio's foreign currency exposures using currency forward contracts. MOSERS' exposure to foreign currency risk in U.S. dollars as of June 30, 2014, is highlighted in the table on the following page.

Repurchase Agreements by Collateral Type

Collateral Type	Market Value of Collateral June 30, 2014	Market Value of Repurchase Agreements June 30, 2014	Excess Collateral	Percent Over Collateralized
U.S. treasuries	$366,481,752	$359,295,835	$ 7,185,917	2.0%
Investment grade corporates	26,250,000	25,000,000	1,250,000	5.0
Common stock	313,200,000	290,000,000	23,200,000	8.0
Accrued interest	0	2,485	(2,485)	N/A
	$705,931,752	$674,298,320	$31,633,432	4.7%

Reverse Repurchase Agreements by Collateral Type

Collateral Type	Market Value of Collateral June 30, 2014	Market Value of Repurchase Agreements June 30, 2014	Excess Collateral	Percent Over Collateralized
U.S. treasuries	$2,357,753,494	$2,339,232,799	$18,520,695	0.8%
Accrued interest	0	1,487,909	(1,487,909)	N/A
	$2,357,753,494	$2,340,720,708	$17,032,786	0.8%

Currency Exposures by Asset Class

Currency	Cash & Cash Equivalents	Equities	Fixed Income	Alternatives	Total
Argentine Peso	$ 79	$ 3			$ 82
Brazilian Real	(5,461)	25,768,060	$ 4,770,696		30,533,295
Chilean Peso	42,340	2,927,014	52,200		3,021,554
Czech Koruna	9,741	622,805			632,546
Danish Krone		6,347,051			6,347,051
Egyptian Pound	27	515,892			515,919
Euro	920,938	210,593,718		$100,754,738	312,269,394
Hong Kong Dollar	142,842	99,398,604			99,541,446
Hungrian Forint	17,071	540,671	500,559		1,058,301
Indian Rupee	215,118	16,946,293			17,161,411
Indonesian Rupiah	105,293	6,805,722	5,837,604		12,748,619
Israeli Shekel	1	16			17
Japanese Yen		231,081,421			231,081,421
Malaysian Ringgit	141,474	11,235,157	5,814,824		17,191,455
Mexican Peso	(34,079)	15,447,317	7,736,117		23,149,355
Peruvian Nuevo Sol	6				6
Philippine Peso	22,863	2,442,112			2,464,975
Polish Zloty	(189)	4,292,359	7,029,085		11,321,255
Russian Ruble		460,168	4,687,152		5,147,320
Singapore Dollar		27,460,948			27,460,948
South African Rand	96,160	19,556,249	4,507,787		24,160,196
South Korean Won	415,301	52,468,316	2,070,078		54,953,695
Swedish Krona		7,633,413			7,633,413
Swiss Franc	24,328	97,665,501			97,689,829
Taiwanese New Dollar	52,330	39,839,413			39,891,743
Thai Baht		15,742,196	1,329,113		17,071,309
Turkish Lira	3,860	4,467,190	6,246,939		10,717,989
British Pound Sterling	227	139,049,981			139,050,208
Colombian Peso	68,110	1,857,800	3,941,584		5,867,494
Venezuelan Bolivar	21,726				21,726
Moroccan Dirham	794				794
Norwegian Krone		6,354,537			6,354,537
Romanian New Leu			1,196,353		1,196,353
Qatari Riyal	8,593	953,167			961,760
United Arab Emirates Dirham	13,172	1,016,061			1,029,233
	$2,282,665	$1,049,489,155	$55,720,091	$100,754,738	$1,208,246,649

Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. They include futures contracts, swap contracts, options contracts, and forward foreign currency exchange. The tables on the following page summarize the various contracts in the portfolio as of June 30, 2014.

While the board has no formal policy specific to derivatives, the MOSERS investment implementation program, through its external managers, holds investments in futures contracts, swap contracts, and forward foreign currency exchange. MOSERS enters into these certain derivative instruments as investments primarily to enhance the performance and reduce the volatility of its portfolio. It enters swaps and futures contracts to gain exposure to certain markets and to manage interest rate risk and enters into forward foreign exchange contracts primarily to hedge foreign currency exposure.

The notional values associated with these derivative instruments are generally not recorded in the financial statements; however, the amounts for the exposure on these instruments are recorded in the *Statements of Fiduciary Net Position* and the total changes in fair value for the year are included as investment income in the *Statements of Changes in Fiduciary Net Position*. For the year ended June 30, 2014, the change in fair value in the swap contracts resulted in $235.4 million of investment income. The change in fair value in the futures contracts resulted in $271.3 million of investment income and the change in fair value of the foreign exchange contracts resulted in a loss of $5.3 million of investment income. MOSERS does not anticipate additional significant market risk from the swap arrangements.

MOSERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. MOSERS' investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. MOSERS anticipates that the counterparties will be able to satisfy their obligations under the contracts. Investments in limited partnerships and commingled funds may include derivatives that are not shown in the derivative totals.

Limited Partnerships

Many of MOSERS' alternative investments are organized in the form of limited partnerships. In these partnerships, the manager is a general partner, and the limited partners are the investors. Investments in limited partnerships are accounted for using the equity method of accounting, and their earnings or losses for the period are included in investment income using the equity method.

As of June 30, 2014, MOSERS had contracts with over 101 limited partnerships across various types of alternative investments. These partnerships collectively represent 56% of the total fund. A *Schedule of Limited Partnerships* follows on pages 42-43.

Securities Lending Program

The board of trustees' investment policy permits the pension trust funds to participate in a securities lending program. Fixed income, international equity and domestic equity securities of the pension trust funds are loaned to participating brokers who provide collateral in the form of cash, U.S. Treasury or government agency securities, or letters of credit issued by approved banks. Collateral must be provided in the amount of 102% of market value for domestic loans and 105% of market value for international loans. MOSERS does not have the authority to pledge or sell collateral securities, without borrower default. Securities on loan at fiscal year end for cash collateral and on loan for noncash collateral are presented in the schedule on page 44. On June 30, 2014, MOSERS had no credit risk exposure to borrowers because the collateral amounts received exceeded amounts out on loan.

As of June 30, 2014, Deutsche Bank AG, New York branch, served as the agent for the fixed income, domestic equity and international equity securities lending programs. In this capacity, MOSERS reduces credit risk by allowing Deutsche Bank to lend these securities to a diverse group of dealers on behalf of MOSERS. Indemnification against dealer default is provided by Deutsche Bank AG, an "A-rated" bank. With each of MOSERS' securities lending programs, the majority of loans are open loans and can be terminated on demand by either MOSERS or the borrower. Net income from the three lending programs is split on a 90/10 basis between MOSERS and Deutsche Bank, respectively.

Daily monitoring of securities that are on loan ensures proper collateralization levels and mitigates counterparty risk. Cash collateral from all three programs is commingled and invested in a separately managed short-term investment account for MOSERS. This cash collateral account is managed by Deutsche Bank. On June 30, 2014, the cash collateral account had a market value of $37,195,140 and a weighted average maturity of one day. For all of the securities lending operational services, the custodian is paid an annual fee, which is netted out against MOSERS' earnings in the securities lending programs managed by Deutsche Bank.

Futures Contracts

Futures Contract	2014 Expiration Date	Long/Short	Notional/Fair Value	Exposure
Equity index futures	September	Long	$ 144,551,065	$ (783,196)
Fixed income futures	September	Long	2,694,877,000	9,828,477
Commodity futures	August	Long	41,907,400	63,400
Total			$2,881,335,465	$9,108,681

Foreign Currency Forward Contracts at June 30, 2014

Currency	Net Notional Long/(Short)	Exposure
Colombian Peso	$ 830,437	$ 14,361
Euro	(133,757,175)	(934,245)
Hungarian Forint	481,489	(3,866)
Indonesian Rupiah	290,100	(2,900)
Malaysian Ringgit	911,307	9,062
Mexican Peso	149,600	311
Nigerian Naira	603,849	6,475
Philippine Peso	598,096	1,689
Russian Ruble	0	(9,655)
Turkish Lira	(2,936)	(3)
U.S. Dollar	128,976,462	0
Foreign currency forward contract asset (liability)	$ (918,771)	$ (918,771)

Swap Contracts

Total Return Swaps - Equity

Counterparty Credit Rating	Notional Value	Exposure
A+	$ 195,367,117	$ 7,697,461
A	(38,093,177)	(1,767,368)
A-	31,640,285	1,158,418
Total	$ 188,914,225	$ 7,088,511

Total Return Swaps - Commodities

Counterparty Credit Rating	Notional Value	Exposure
A+	$ 914,201,957	$15,783,498
A-	358,253,131	7,233,908
Total	$1,272,455,088	$23,017,406

Total Return Swaps - Fixed Income

Counterparty Credit Rating	Notional Value	Exposure
A	$ 837,297,293	$ 0
A-	1,182,491,555	15,402,161
Total	$2,019,788,848	$15,402,161

Interest Rate Swaps

Counterparty Credit Rating	Notional Value	Exposure
A	$ (10,000,000)	$ (119,395)
Total	$ (10,000,000)	$ (119,395)

Schedule of Limited Partnerships

Partnership Name	Style	Investments at Fair Value as of June 30, 2014
Actis Emerging Markets III	Emerging markets	$ 43,518,282
Actis Global IV	Emerging markets	8,713,034
Aeolus Property Catastrophe Spire Fund, LP	Reinsurance	100,204,399
African Development Partners I, LLC	Emerging markets	46,300,004
African Development Partners II, LLC	Emerging markets	7,483,961
Alinda Infrastructure Fund I, LP	Infrastructure	32,600,599
American Industrial Partners Capital Fund V, LP	Corporate buyout	20,752,190
AQR Absolute Return Institutional Fund, LP	Multi-strategy	60,184,914
AQR DELTA Sapphire Fund, LP	Multi-strategy	270,075,944
AQR Global Risk Premium Fund IV, LP	Beta-balanced	443,824,249
Axiom Asia Private Capital Fund II, LP	Emerging markets	29,890,488
Axiom Asia Private Capital Fund III, LP	Emerging markets	10,436,559
Axxon Brazil Private Equity Fund II B, LP	Emerging markets	14,919,470
Bayview Opportunity Domestic, LP - high yield	Distressed real estate debt	14,834,343
Bayview Opportunity Domestic IIIb, LP - high yield	Distressed real estate debt	53,655,050
Blackstone Real Estate Partners IV	Active real estate	44,422,382
Blackstone Real Estate Partners V	Active real estate	102,606,925
Blackstone Real Estate Partners VI	Active real estate	113,028,702
Blackstone Real Estate Partners VII	Active real estate	62,675,829
Blackstone Topaz Fund, LP	Multi-strategy - fund-of-funds	409,311,076
Blakeney Onyx, LP	Emerging markets	77,713,850
Brevan Howard, LP	Global macro	85,118,296
Bridgepoint Europe III A, LP	Corporate buyout	17,601,012
Bridgepoint Europe IV B, LP	Corporate buyout	35,076,333
Bridgewater All Weather, LLC	Beta-balanced	489,238,333
Bridgewater Associates - Diamond Ridge Fund, LLC	Global macro	96,862,067
Campbell Timber Fund II A, LP	Timberland	48,405,522
CarVal Investors CVI Global Value Fund A, LP	Distressed real estate private debt	22,550,000
CarVal Investors CVI Global Value Fund A, LP	Distressed real estate debt	22,550,000
Castlelake Aviation II, LP	Special situations	32,708,298
Catalyst Fund Limited Partnership III	Canadian distressed debt	43,574,879
Catalyst Fund Limited Partnership IV	Canadian distressed debt	9,030,086
Catterton Partners V, LP	Corporate buyout	16,404,300
Catterton Partners VI, LP	Corporate buyout	23,230,571
Catterton Partners VII, LP	Corporate buyout	6,765,994
Claren Road Credit Partners, LP	Long/short - credit	112,468,500
Cornwall Domestic, LP	Multi-strategy	61,964,633
Davidson Kempner Institutional Partners, LP	Event driven	88,080,819
DDJ Capital Management - B IV Capital Partners, LP	Distressed debt	2,319,037
Diamondback Partners, LP	Long/short - equity	388,297
DRI Capital - LSRC	Intellectual property	24,062,415
DRI Capital - LSRC II	Intellectual property	5,455,624
EIG Energy Fund XIV, LP	Energy - mezzanine	27,208,151
EIG Energy Fund XV, LP	Energy - mezzanine	39,944,035
EIG Energy Fund XVI, LP	Energy - mezzanine	4,135,343
EIG Energy Co. - Investment I	Energy - infrastructure	5,674,699
Elliott International, Ltd.	Multi-strategy	105,301,809
Eminence Fund, Ltd.	Long/short - equity	97,699,667
Empyrean Capital Fund, LP	Event driven	61,594,643
Eton Park Fund, LP	Multi-strategy	22,776,415
Farallon Capital Institutional Partners, LP	Multi-strategy	4,766,703

Schedule of Limited Partnerships continued on page 43

Schedule of Limited Partnerships continued from page 42

Partnership Name	Style	Investments at Fair Value as of June 30, 2014
Garnet Sky Investors Company, Ltd.	Timberland	119,208,232
Gateway Energy & Resource Holdings, LLC	Energy - diversified	29,695,500
Glenview Institutional Partners, LP	Long/short - equity	672,996
Glenview Capital Opportunity Fund, LP	Long/short - equity	38,178,673
Global Forest Partners GTI7 Institutional Investors Company, Ltd.	Timberland	89,158,655
HBK Offshore Fund, Ltd.	Multi-strategy	100,106,488
JLL Partners Fund V, LP	Corporate buyout	15,518,024
JLL Partners Fund VI, LP	Corporate buyout	43,582,326
King Street Capital, LP	Credit driven	5,168,041
King Street Capital, Ltd.	Credit driven	918,162
Linden Capital Partners II, LP	Corporate buyout	13,580,412
Linden Capital Partners Co. - Investment, LP	Corporate buyout	4,411,765
MAST Credit Opportunities I, LP	Credit driven	81,127,373
Merit Energy Partners F - II, LP	Energy - oil & gas	8,717,679
MHR Institutional Partners IIA, LP	Distressed debt	50,154,662
MHR Institutional Partners III, LP	Distressed debt	56,272,374
MHR Institutional Partners IV, LP	Distressed debt	814,154
Millennium Technology Value Partners II, LP	Direct secondaries	11,773,747
Millennium Technology Value Partners Co. - Investment	Direct secondaries	3,792,771
Moon Capital Global Equity Offshore Fund, Ltd.	Long/short - equity	845,235
Nephila Triton Fund, LP	Reinsurance	55,171,205
New Mountain Partners III, LP	Corporate buyout	48,592,798
Oaktree European Credit Opportunities Fund, LP	European loans	1,777,389
OCM Opportunities Fund IVb, LP	Distressed debt	208,670
OCM Opportunities Fund VIIb, LP	Distressed debt	23,361,650
OCM Opportunities Fund VIIIb, LP	Distressed debt	31,119,277
OCM Real Estate Opportunities Fund III, LP	Active real estate	6,976,821
OCM/GFI Power Opportunities Fund II, LP	Corporate buyout	2,289,439
OCM Power Opportunities Fund III, LP	Corporate buyout	17,316,328
PAAMCO - Newport Pioneer, LLC	Multi-strategy - fund-of-funds	970,505
Perry Partners, LP	Multi-strategy	50,222
Pershing Square, LP	Long/short - equity	1,943,779
Pharo Macro Fund, Ltd.	Global macro	123,842,580
Resource Management Service - Wildwood Timberlands, LLC	Timberland	132,012,221
Silver Creek Special Opportunities Fund I, LP	Special situations - fund-of-funds	20,186,428
Silver Creek Special Opportunities Fund II, LP	Special situations - fund-of-funds	25,827,828
Silver Lake Partners II, LP	Corporate buyout	13,949,571
Silver Point Capital Fund, LP	Credit driven	1,756,845
SIRIS Partners II, LP	Corporate buyout	6,961,571
Standard Investment Research Hedged Equity Fund, LP	Equity market neutral	56,457,205
StepStone Capital Buyout Fund I, LP	Corporate buyout - fund-of-funds	13,960,197
StepStone Capital Buyout Fund II, LP	Corporate buyout - fund-of-funds	20,635,804
StepStone Opportunities Fund II, LP	Private equity co-investment	3,160,950
The Veritas Capital Fund III, LP	Corporate buyout	39,184,022
The Veritas Capital Fund IV, LP	Corporate buyout	38,688,382
TPG - Axon Partners (Offshore), Ltd.	Long/short - equity	1,993,733
Viking Global Equities III, Ltd.	Long/short - equity	142,384,682
Visium Balanced Fund, LP	Long/short - equity	96,846,651
Wellington Management - Spindrift Investors (Bermuda), LP	Long/short - equity	1,190,572
Other Miscellaneous	Miscellaneous	11,601
		$5,182,634,926

Investments as of June 30, 2014

	Pension Trust Funds		Internal Service Funds	
	Investments at Cost Value	Investments at Fair Value	Investments at Cost Value	Investments at Fair Value
Common stocks				
Out on loan	$ 22,143,212	$ 30,425,895		
Not on securities loan	334,946,896	415,334,250		
Total	357,090,108	445,760,145		
International equities				
Out on loan	3,070,677	6,097,703		
Not on securities loan	176,012,705	851,617,247		
Total	179,083,382	857,714,950		
Bank loans	555,750	0		
Collateralized mortgage obligations	1	1		
Corporate bonds	2,985,976	1,720,892		
Foreign currencies	1,031,891	59,809		
Government bonds and government mortgage-backed securities	50,888,241	48,204,492		
International corporate bonds	6,134,032	5,020,362		
Limited partnerships	3,558,269,153	5,182,634,926		
REITs	3,617	9,986		
Repurchase agreements	10,418,820	10,418,820	$4,225,655	$4,225,655
Short-term investment funds	2,282,460,256	2,282,460,256		
Treasury bonds, notes and bills	2,649,585,045	2,668,044,546		
Total investments				
Out on loan	25,213,889	36,523,598		
Not on securities loan	9,073,292,397	11,465,525,601	4,225,655	4,225,655
Total	$9,098,506,272	$11,502,049,185	$4,225,655	$4,225,655
Reconciliation of investments to *Statements of Fiduciary Net Position*				
Total from above		$11,502,049,185		
Less short-term investments:				
Repurchase agreements		(10,418,820)		
Short-term investment funds		(2,247,013,704)		
Less invested securities lending collateral:				
Short-term investment funds		(35,446,552)		
Corporate bonds		(749,463)		
Investments on *Statements of Fiduciary Net Position*		$ 9,208,420,646		

Due to space limitations and printing costs, a detailed listing of the investment holdings and transactions could not be provided in this annual report; however, the detailed reports are available for review as an appendix to this report at the MOSERS office.

(4) Capital Assets

Office building, furniture, fixtures, and equipment costing $1,000 or more when acquired are recorded at cost at the time of acquisition and are reported net of accumulated depreciation. Improvements, which increase the useful life of the property, are also capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the related assets according to the following guidelines:

- 5 years for furniture, fixtures, and equipment
- 40 years for building
- 5 years for software and licensing

Below are schedules of the capital asset account balances for the pension trust funds and the internal service funds – State of Missouri Deferred Compensation Plan as of June 30, 2013, and June 30, 2014, and changes to those account balances during the year ended June 30, 2014.

Pension Trust Funds

Capital Asset Account

	Land	Building and Building Improvements	Furniture Fixtures and Equipment	Software and Licensing	Total Capital Assets
Capital Assets					
Balances June 30, 2013	$267,286	$4,060,176	$1,700,615	$261,230	$6,289,307
Additions	0	475,753	30,582	4,841	511,176
Deletions	0	0	(431,766)	0	(431,766)
Balances June 30, 2014	267,286	4,535,929	1,299,431	266,071	6,368,717
Accumulated depreciation					
Balances June 30, 2013	0	1,279,371	1,409,449	45,550	2,734,370
Depreciation expense	0	146,298	103,123	52,246	301,667
Deletions	0	0	(422,076)	0	(422,076)
Balances June 30, 2014	0	1,425,669	1,090,496	97,796	2,613,961
Net capital assets June 30, 2014	$267,286	$3,110,260	$ 208,935	$168,275	$3,754,756

Internal Service Funds

Capital Asset Account

	Leasehold Improvements	Furniture Fixtures and Equipment	Software and Licensing	Total Capital Assets
Capital Assets				
Balances June 30, 2013	$ 0	$5,124	$2,648	$ 7,772
Additions	3,880	1,195	2,302	7,377
Deletions	0	0	0	0
Balances June 30, 2014	3,880	6,319	4,950	15,149
Accumulated depreciation				
Balances June 30, 2013	0	3,287	868	4,155
Depreciation expense	0	459	530	989
Deletions	0	0	0	0
Balances June 30, 2014	0	3,746	1,398	5,144
Net capital assets June 30, 2014	$3,880	$2,573	$3,552	$10,005

(5) Employers' Net Pension Liability

The components of the net pension liability (the retirement system's liability determined in accordance with GASB Statement 67 less the fiduciary net position) as of June 30, 2014, are shown in the *Schedule of Net Pension Liability* below.

Actuarial valuation of an ongoing plan involves estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The last experience study was performed in 2012. The *Schedule of Changes in Employers' Net Pension Liability* presents multi-year trend information about whether the plan fiduciary net positions are increasing or decreasing over time relative to the total pension liability. These schedules are presented in the *Required Supplementary Information* on page 49. The total pension liability as of June 30, 2014, is $11,494,571,835 for MSEP and $462,336,255 for the Judicial Plan based on an actuarial valuation performed as of June 30, 2014, and a measurement date of June 30, 2014 using generally accepted actuarial procedures.

Changes to Amortization Period

In June 2013, the board approved a change to the period over which unfunded actuarial accrued liabilities are amortized to reduce the amortization period from an open 30 years to a closed 30 years beginning July 1, 2014. This will continue to reduce by one year for each subsequent annual valuation until the period reaches one year. The board intends to reexamine the amortization period in connection with the 2030 actuarial valuation to determine whether or not it should be reduced below 15 years.

The *Summary of Actuarial Assumptions* below apply to all periods included in the measurement of the total pension liability.

Schedule of Net Pension Liability

	MSEP	Judicial Plan
Total pension liability	$11,494,571,835	$462,336,255
MOSERS fiduciary net position	9,136,781,826	132,645,657
Employers' net pension liability	$ 2,357,790,009	$329,690,598
Plan net position as a percentage of the total pension liability	79.49%	28.69%
Covered employee payroll	$ 1,902,719,928	$ 49,587,936
Employers' net pension liability as a percentage of employee covered payroll	123.92%	664.86%

Summary of Actuarial Assumptions

	MSEP	Judicial Plan
Valuation date	June 30, 2014	June 30, 2014
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percent	Level percent
Remaining amortization period	30 years closed	30 years closed
Asset valuation method	3-year rolling smoothed +25/-20% market corridor	3-year rolling smoothed +25/-20% market corridor
Actuarial assumptions:		
Investment rate of return	8.00%	8.00%
Projected salary increases	3.2-5.9%	3.0-5.2%
Rate of payroll growth	3.00%	3.00%
COLAs	4.00%*	4.00%
Price inflation	2.50%	2.50%
Remaining amortization period	The Unfunded Actuarial Liability (UAAL) payment is calculated such that the minimum employer contribution rate will be 16.97% of payroll and 58.45% for judges (the rate calculated in the June 30, 2013 valuation) until such a time as the plans are at least 80% funded. When the plans become at least 80% funded, the remaining closed amortization period will be used to calculate the employer contribution rate to be made.	

* *On a compound basis, 4% for the first 12 years, 3.06% for the 13th year, and 2.0% per year thereafter.*

Mortality rates are based on the RP2000 combined healthy mortality table, projected to 2016 with Scale AA. The pre-retirement mortality rates used were 100% of the post-retirement mortality rates for males and 80% of the post-retirement mortality rates for females.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

Employers' Net Pension Liability	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
MSEP	$3,657,023,580	$2,357,790,009	$1,261,901,551
Judicial Plan	373,545,085	329,690,598	291,802,104

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made using the actuarially determined rates based on the board's funding policy, which established the contractually required rates under Missouri state code. Based on those assumptions, MOSERS' fiduciary net position was projected to be available to make all the projected future benefit payments of the current plan members. As a result, the long-term expected rate of return on pension plan investments of 8% was applied to all periods of projected benefit payments to determine the total pension liability.

GASB 67 requires the disclosure of the sensitivity of the net pension liability to changes in the discount rate. The table above presents the net pension liability of the state of Missouri calculated using the discount rate of 8.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.0% lower (7.0%) or 1.0% higher (9.0%) than the current rate.

The funding status of the plans and *Employer Schedule of Funding Progress* can be found in the *Actuarial Section* on page 98.

(6) Contributions and Reserves

The MSEP and the Judicial Plan are pension plans covering substantially all state of Missouri employees and judges. The state of Missouri is obligated by state law to make required contributions to the plans. The required contributions are expressed as a level percentage of covered payroll and are actuarially determined using an individual entry-age normal actuarial cost method. Contributions beginning July 2014 will be the contribution rate determined by the June 30, 2013 actuarial valuation (16.97% and 58.45% for MSEP and Judicial Plan, respectively) until the actuarial funding of the plans are at least 80%. The unfunded accrued liabilities are amortized over a closed 30-year period for FY14. MSEP 2011 employees are required to contribute 4% of their pay. Costs of administering the plans are financed from the contributions to the pension trust funds and investment earnings.

(7) Other Post Employment Benefits (OPEB)

In addition to the retirement benefits provided through MOSERS, the state of Missouri also funds, either partially or in its entirety, OPEB for eligible retirees as follows:

Retiree Life Insurance

Members who retire on or after October 1, 1985, are eligible for $5,000 of state-sponsored basic life insurance coverage if they retire directly from active employment. As of June 30, 2014, 22,755 retirees were participating in the program. This insured defined benefit coverage is financed on a percentage of payroll (.115%) and is purchased as a group policy through competitive bids and is currently administered through The Standard insurance company. The cost for the year ended June 30, 2014, was $1,841,333. Premiums are contributed entirely by the state as provided for by Section 104.515, RSMo.

Retirees of the Department of Labor and Industrial Relations (DOLIR), who retired prior to January 1, 1996, are eligible for state-sponsored insured defined benefit insurance coverage in the same amount of coverage they were receiving through the DOLIR. As of June 30, 2014, 265 retirees were participating in the program. The coverage for this closed group is purchased as a group policy through competitive bids at a current cost of $2.07 per thousand dollars of coverage, per month, per eligible participant ($32,334 for the year ended June 30, 2014). Premiums are paid entirely by the DOLIR as provided for by Section 228.225, RSMo. Retirees of the DOLIR who retired on or after January 1, 1996, are eligible for $5,000 of state-sponsored life insurance coverage if they retire directly from active employment. They are included in the group described in the preceding paragraph.

Long-Term Disability Insurance (LTD)

MOSERS provides LTD coverage for eligible members and generally includes those active members of MOSERS' retirement plans who do not have other disability coverage and are not yet eligible to receive normal (unreduced) retirement benefits. There were 33,873 members covered under the program as of June 30, 2014. This insured defined benefit coverage is financed on a percentage of covered payroll (.55%). Purchased as group policy through competitive bids, LTD is administered by The Standard insurance company. The cost for the year ended June 30, 2014, was $7,978,032. Premiums are contributed by the state as provided for by Section 104.515, RSMo.

Post-employment Retiree Health Care

MOSERS participates in a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Missouri Consolidated Health Care Plan (MCHCP). The plan provides medical benefits to retirees of participating governmental entities. Retirees who had medical insurance coverage for six months immediately prior to termination or state-sponsored medical coverage since the effective date of the last enrollment period (or since first eligible), before they are eligible to retire, may continue coverage into retirement.

MCHCP issues a publicly available financial report that includes financial statements and required supplementary information for the post employment health care plan. The report may be obtained by calling (800) 487-0771 or writing to MCHCP, 832 Weathered Rock Court, P.O. Box 104355, Jefferson City, MO 65110-4355.

Plan funding requests are actuarially determined, approved by the MCHCP Board of Trustees and subject to appropriation by the Missouri General Assembly. MOSERS contributed $233,820 in FY12, $236,012 in FY13 and $257,003 in FY14 in accordance with the state's funding policy toward the annual required contributions for post-employment retiree health care, which equaled MOSERS' required contribution each year.

(8) Plan Termination

MOSERS and its related plans are administered in accordance with Missouri statutes. Plans can only be terminated by an amendment to these statutes by the Missouri legislature.

On April 26, 2005, Senate Bill 202 was enacted, which terminated the Administrative Law Judges and Legal Advisors' Plan (ALJLAP) for new hires only. Under this legislation, individuals who assume a position after April 26, 2005, who would have otherwise been covered by the ALJLAP, will instead participate in the MSEP or the MSEP 2000, depending on when they initially became state employees. For fiscal years 2005 and after, all liabilities and assets of the ALJLAP were transferred and combined with the MSEP. Membership totals for ALJLAP members are combined with the MSEP in all relevant sections of this report.

(9) Commitments

As of June 30, 2014, MOSERS has $525,526,092 and €7,714,715 unfunded commitments in the illiquids asset class.

(10) Contingencies

The Internal Revenue Service (IRS) audited the tax qualified status of MOSERS. In a discussion draft dated August 9, 2007, the IRS raised two qualification issues but no further action has been taken by the IRS on those matters. MOSERS does not anticipate material liability for any taxes or penalties.

Pension Trust Funds

Schedule of Changes in Employer Net Pension Liability

*As of June 30, 2014**

	MSEP	Judicial Plan
Total pension liability		
Service cost	$ 158,116,026	$ 8,990,293
Interest on the total pension liability	869,878,195	34,013,615
Difference between expected and actual experience	12,376,237	13,360,614
Benefit payments	(679,014,251)	(29,406,625)
Refunds	(1,421,856)	0
Net change in total pension liability	359,934,351	26,957,897
Total pension liability - beginning	11,134,637,484	435,378,358
Total pension liability - ending (a)	11,494,571,835	462,336,255
Plan fiduciary net position		
Employer contributions	326,370,336	29,264,877
Employee contributions	14,025,328	294,810
Pension plan net investment income	1,193,952,121	17,199,701
Benefit payments	(679,014,251)	(29,406,625)
Refunds	(1,421,856)	0
Pension plan administrative expense	(7,336,922)	(105,693)
Other	296,369,500	4,195,049
Net change in plan fiduciary net position	1,142,944,256	21,442,119
Plan fiduciary net position - beginning	7,993,837,570	111,203,538
Plan fiduciary net position - ending (b)	9,136,781,826	132,645,657
Net pension liability - ending (a)-(b)	$ 2,357,790,009	$329,690,598
Plan fiduciary net position as a percentage of total pension liability	79.49%	28.69%
Covered employee payroll	$ 1,902,719,928	$ 49,587,936
Net pension liability as a percentage of covered employee payroll	123.92%	664.86%

** Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Pension Trust Funds

Schedule of Employer Contributions

Last Ten Years

MSEP

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll*
2005	$194,524,059	$194,524,059	$0	$1,806,600,560	10.8%
2006	226,338,183	226,338,183	0	1,777,277,138	12.7
2007	239,488,751	239,488,751	0	1,846,643,330	13.0
2008	249,770,156	249,770,156	0	1,916,527,398	13.0
2009	252,105,008	252,105,008	0	2,002,402,087	12.6
2010	251,226,187	251,226,187	0	1,945,095,321	12.9
2011	263,418,048	263,418,048	0	1,875,569,816	14.0
2012	263,373,924	263,373,924	0	1,864,069,493	14.1
2013	274,655,284	274,655,284	0	1,880,212,950	14.6
2014	326,370,336	326,370,336	0	1,902,719,928	17.2

Judicial Plan

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll*
2005	$21,852,985	$21,852,985	$0	$40,016,098	54.6%
2006	22,401,569	22,401,569	0	40,270,535	55.6
2007	23,745,467	23,745,467	0	40,846,581	58.1
2008	26,215,309	26,215,309	0	44,542,530	58.9
2009	27,725,882	27,725,882	0	45,505,512	60.9
2010	27,029,198	27,029,198	0	46,112,730	58.6
2011	27,702,682	27,702,682	0	45,888,020	60.4
2012	26,324,526	26,324,526	0	45,835,501	57.4
2013	28,330,649	28,330,649	0	48,697,726	58.2
2014	29,264,877	29,264,877	0	49,587,936	59.0

** Actuarial contribution rate shown is the actual employer contribution made divided by payroll in force on May 31 reported for valuation. This rate as computed may vary from the boards' certified employer contribution rate due to the fluctuations in membership and pay during the year.*

Pension Trust Funds

Schedule of Annual Money-Weighted Rate of Return on Investments

*Year Ended June 30**

	2014
Annual money weighted rate of return, net of investment expense	19.25%

** Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Pension Trust Funds

Notes to the Schedules of Required Supplementary Information

Last Ten Years

Actuarial Methods and Assumptions for Valuations Performed June 30, 2014

The entry-age actuarial cost method of valuation is used in determining liabilities and normal cost. Regular actuarial valuations provide valuable information about the composite change in the unfunded actuarial accrued liabilities (whether or not the liabilities are increasing or decreasing, and by how much). Since the future cannot be predicted with precision, actual experience is expected to differ from assumed experience. Differences occurring in the past between assumed experience and actual experience (actuarial gains and losses) become part of actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are expressed as a percent of payroll. A closed 30-year amortization period was used for the June 30, 2014 valuations. The actuarial value of assets is based on a method that fully recognizes expected investment returns and averages unanticipated market returns over a 3-year period. The corridor limit is currently 80% to 125%.

The investment return rate assumption remained the same at 8.0% per year, compounded annually (net of investment expenses) for June 30, 2014. The price inflation assumption used was an approximate 2.5% per year. Projected salary assumptions were 3.2% to 5.9% for MSEP and 3.0% to 5.2% for the Judicial Plan. The assumption used for annual post-retirement benefit increases (COLA) is 4.0% (on a compound basis) when a minimum COLA is in effect. When no minimum COLA is in effect, price inflation is assumed to be 2.5% and the annual COLA is assumed to be (80% of 2.5%), on a compound basis.

2005

The actuarial valuations as of June 30, 2005, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2007.

	Amount	Percent of Payroll
MSEP		
Mark-to-market asset valuation method adjustment	$(10,116,963)	(.56)%
Recognition of state pay freeze on across-the-board increases for FY06	(3,793,861)	(.21)
Experience and nonrecurring items including the addition of the assets and liabilities from the ALJLAP	17,162,705	.95
Judicial Plan		
Mark-to-market asset valuation method adjustment	28,011	.07
Recognition of state pay freeze on across-the-board increases for FY06	(136,055)	(.34)
Change in amortization factor to reflect the state pay freeze for fiscal year ending June 30, 2006	556,224	1.39
Experience and nonrecurring items	640,258	1.60

2006

The actuarial valuations as of June 30, 2006, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2008.

	Amount	Percent of Payroll
MSEP		
Change to an open 30-year amortization period	$(1,244,094)	(0.07)%
Experience and nonrecurring items	2,310,460	.13
Judicial Plan		
Change to an open 30-year amortization period	(265,786)	(0.66)
Experience and nonrecurring items	334,245	.83

2007

The actuarial valuations as of June 30, 2007, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2009.

	Amount	Percent of Payroll
MSEP		
Change in benefit assumptions or methods	$ (369,329)	(0.02)%
Experience and nonrecurring items	(5,355,266)	(0.29)
Judicial Plan		
Change in benefit assumptions or methods	(273,672)	(0.67)
Experience and nonrecurring items	853,694	2.09

2008

The actuarial valuations as of June 30, 2008, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2010.

	Amount	Percent of Payroll
MSEP		
Change in benefit assumptions or methods	$4,791,318	0.25%
Experience and nonrecurring items	(574,958)	(0.03)
Judicial Plan		
Change in benefit assumptions or methods	(547,873)	(1.23)
Experience and nonrecurring items	(160,353)	(0.36)

2009

The actuarial valuations as of June 30, 2009, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2011.

	Amount	Percent of Payroll
MSEP		
State of Missouri general pay freeze	$ (4,405,285)	(0.22)%
Experience and nonrecurring items	55,466,538	2.77
Change in valuation asset corridor from +/- 20% to +/- 30%	(29,835,791)	(1.49)
Judicial Plan		
State of Missouri general pay freeze	350,392	0.77
Experience and nonrecurring items	496,010	1.09
Change in valuation asset corridor from +/- 20% to +/- 30%	(141,067)	(0.31)

2010

The actuarial valuations as of June 30, 2010, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2012.

	Amount	Percent of Payroll
MSEP		
State of Missouri general pay freeze	$ (2,528,624)	(0.13)%
Addition of new tier of benefits effective 1-1-2011	(17,311,348)	(0.89)
Experience and nonrecurring items	25,480,749	1.31
Change in timing of contributions	(2,528,624)	(0.13)
Judicial Plan		
State of Missouri general pay freeze	(308,955)	(0.67)
Addition of new tier of benefits effective 1-1-2011	(493,406)	(1.07)
Experience and nonrecurring items	438,071	0.95
Change in timing of contributions	(894,587)	(1.94)

2011

The actuarial valuations as of June 30, 2011, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2013.

	Amount	Percent of Payroll
MSEP		
State of Missouri general pay freeze	$(6,376,937)	(0.34)%
Experience and nonrecurring items	17,630,356	0.94
Change in normal cost due to increased participants in MSEP 2011	(2,250,684)	(0.12)
Judicial Plan		
State of Missouri general pay freeze	(293,683)	(0.64)
Experience and nonrecurring items	289,095	0.63
Change in normal cost due to increased participants in MSEP 2011	(169,786)	(0.37)

2012

The actuarial valuations as of June 30, 2012, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2014.

	Amount	Percent of Payroll
MSEP		
Change in assumptions or methods	$21,623,206	1.16%
Experience and nonrecurring items	25,537,752	1.37
Judicial Plan		
Change in assumptions or methods	948,795	2.07
Experience and nonrecurring items	320,849	0.70

2013

The actuarial valuations as of June 30, 2013, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2015.

	Amount	Percent of Payroll
MSEP		
Change in benefit assumptions or methods	$18,990,151	1.01%
Experience and nonrecurring items	(376,043)	(0.02)
Judicial Plan		
Change in benefit assumptions or methods	(603,852)	(1.24)

2014

The actuarial valuations as of June 30, 2014, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2016.

	Amount	Percent of Payroll
MSEP		
Recognition of asset gains	$1,617,311,939	0.85%
Experience and nonrecurring items	(114,163,196)	(0.06)
Judicial Plan		
Change in normal cost due to increased participants in MSEP 2011 and experience	(51,075,574)	(1.03)
Anticipated change in salary levels	(118,019,288)	(2.38)

Pension Trust Funds

Schedules of Investment Expenses

Year Ended June 30, 2014

Investing activity	MSEP	Judicial Plan	Total
Investment management and administrative fees			
Actis Emerging Markets III & IV - private equity	$1,511,799	$21,778	$1,533,577
Aeolus Property Catastrophe, LP - hedge funds	84,001	1,210	85,211
African Development Partners I & II, LLC - private equity	711,496	10,250	721,746
Alinda Infrastructure Fund I, LP - private equity	392,425	5,653	398,078
American Industrial Partners V - private equity	680,201	9,799	690,000
AQR Absolute Return Institutional Fund, LP - hedge funds	1,406,493	20,261	1,426,754
AQR DELTA Sapphire Fund, LP - hedge funds	2,518,808	36,285	2,555,093
AQR Global Risk Premium Fund, LP - beta balanced	1,961,043	28,250	1,989,293
Ashmore Investment Management, Ltd. - emerging markets	466,286	6,717	473,003
Axiom Asia Private Capital Fund II & III, LP - private equity	1,132,828	16,319	1,149,147
Axxon Brazil Private Equity Fund II - private equity	884,786	12,746	897,532
Bayview Opportunity Domestic, LP - high yield	1,460,872	21,045	1,481,917
Bayview Opportunity Domestic III, LP - real estate	2,680,797	38,619	2,719,416
BlackRock Financial Management Bank Loans - high yield	7,047	102	7,149
BlackRock Financial Management Mortgage Opportunity - high yield	69,302	998	70,300
Blackstone Real Estate Partners IV, V, VI, & VII - real estate	17,804,484	256,486	18,060,970
Blackstone Topaz Fund, LP - hedge funds	5,129,357	73,892	5,203,249
Blakeney Onyx, LP - emerging markets	1,771,555	25,520	1,797,075
Brevan Howard, LP - hedge funds	1,349,494	19,440	1,368,934
Brevan Howard Emerging Markets Strategies Fund, LP - hedge funds	1,055,234	15,201	1,070,435
Bridgewater Associates Diamond Ridge Fund, LLC - hedge funds	3,071,457	44,246	3,115,703
Bridgewater All Weather, LLC - beta balanced	1,722,804	24,818	1,747,622
Bridgepoint Europe III A & IV B, LP - private equity	493,284	7,106	500,390
Campbell Timber Fund II A, LP - timber	532,203	7,667	539,870
Castlelake Aviation II - private equity	1,854,537	26,716	1,881,253
Catalyst Fund Limited Partnership III & IV - private debt	3,468,038	49,959	3,517,997
Catterton Partners V, VI, & VII, LP - private equity	4,171,084	60,087	4,231,171
CarVal Investors CVI Global Value Fund A, LP - real estate	313,561	4,517	318,078
CarVal Investors CVI Global Value Fund A, LP - private debt	313,561	4,517	318,078
Claren Road Credit Partners, LP - hedge funds	2,077,473	29,927	2,107,400
COMAC Global Macro Fund, LP - hedge funds	261,009	3,760	264,769
Cornwall Domestic, LP - hedge funds	506,365	7,295	513,660
CQS ABS Feeder Fund, Ltd. - hedge funds	1,327,512	19,124	1,346,636
Davidson Kempner Institutional Partners, LP - hedge funds	3,625,094	52,222	3,677,316
DRI Capital LSRC & LSRC II - private equity	556,708	8,020	564,728
EIG Energy Fund XIV, LP - real estate	512,312	7,380	519,692
EIG Energy Fund XV, LP - private equity	475,039	6,843	481,882
Elliott International, Ltd. - hedge funds	4,169,915	60,070	4,229,985
Eminence Fund, Ltd. - hedge funds	3,126,917	45,045	3,171,962
Empyrean Capital Fund, LP - hedge funds	3,825,091	55,103	3,880,194
Eton Park Fund, LP - hedge funds	1,274,572	18,361	1,292,933
Farallon Capital Institutional Partners, LP - hedge funds	152,253	2,193	154,446
Garnet Sky Investors Company, Ltd. - timber	2,734,787	39,396	2,774,183
Gateway Energy & Resource Holdings, LLC - real estate	19,623	283	19,906
Glenview Institutional Partners & Glenview Capital Opportunity Fund, LP - hedge funds	4,046,384	58,291	4,104,675
Global Forest Partners GTI7 Institutional Investors Co. Ltd. - timber	587,944	8,470	596,414
Grantham, May and Van Otterloo & Co., LLC - emerging markets	320,769	4,621	325,390
Harvest Fund Advisors - real estate	1,128,597	16,258	1,144,855
HBK Offshore Fund, Ltd. - hedge funds	3,356,381	48,351	3,404,732
JLL Partners V & VI, LP - private equity	6,192,832	89,212	6,282,044
King Street Capital, LP - hedge funds	1,252,071	18,037	1,270,108

Schedule of Investment Expenses continued on page 56

Schedule of Investment Expenses continued from page 55

Investing activity	MSEP	Judicial Plan	Total
Linden Capital Partners II - private equity	228,384	3,290	231,674
MAST Credit Opportunities I, LP - hedge funds	1,176,029	16,941	1,192,970
Merit Energy Partners F-II, LP - real estate	169,971	2,449	172,420
MHR Institutional Partners IIA, III & IV LP - private debt	6,376,102	91,852	6,467,954
Millennium Technology Partners II, LP - private equity	559,391	8,058	567,449
Morant Wright Investment Management - int'l developed equity	208,778	3,008	211,786
MOSERS Inc. - hedge funds	154	2	156
Nephila Capital Triton Master Fund, Ltd. - hedge funds	1,488,563	21,444	1,510,007
New Mountain Partners III, LP - private equity	1,888,692	27,208	1,915,900
NISA Investment Advisors, LLC - beta balanced	3,694,065	53,216	3,747,281
OCM Real Estate Opportunities Fund III, LP - real estate	(211,732)	(3,050)	(214,782)
OCM Opportunities Fund IVb, VII & VIIIb, LP - private debt	1,219,500	17,568	1,237,068
OCM/GFI Power Opportunities Fund II & III, LP - private equity	(151,653)	(2,185)	(153,838)
Perry Capital - hedge funds	685	16	701
Pershing Square, LP - hedge funds	1,711,087	24,649	1,735,736
Pharo Macro Fund, Ltd. - hedge funds	5,857,679	84,384	5,942,063
Resource Management Service Wildwood Timberlands, LLC - timber	755,417	10,882	766,299
Silchester International Investors - int'l developed equity	3,463,140	49,889	3,513,029
Silver Lake Partners II, LP - private equity	579,360	8,346	587,706
Silver Point Capital Fund, LP - alpha pool	236,649	3,409	240,058
SIR Hedged Equity Fund, Ltd. - hedge funds	2,532,404	36,481	2,568,885
SIRIS Partners II, LP - private equity	612,775	8,827	621,602
State Street Global Advisors - emerging markets	182,975	2,636	185,611
StepStone Capital Buyout Fund I & II, LP - private equity	396,057	5,705	401,762
StepStone Opportunities Fund II, LP - private equity	(8,254)	(119)	(8,373)
Stone Harbor Investment Partners, LP - emerging markets	448,866	6,466	455,332
TPG - Axon Partners (Offshore), Ltd. - hedge funds	13,143	189	13,332
The Veritas Capital Fund III & IV, LP - private equity	4,018,552	57,890	4,076,442
Viking Global Equities III, Ltd. - domestic equity	8,210,450	118,277	8,328,727
Visium Balanced Fund, LP - hedge funds	3,233,495	46,581	3,280,076
Total investment management fees	149,439,209	2,152,775	151,591,984
Other investment fees			
Investment consultant fees			
Summit Strategies, Inc.	1,008,280	14,525	1,022,805
TimberLink Consulting, LLC	29,574	426	30,000
Investment custodial fees			
BNY Mellon	348,822	5,025	353,847
Performance and risk measurement fees			
Cost Effective Measurement Benchmarking, Inc.	24,645	355	25,000
BNY Mellon	224,855	3,239	228,094
Barra, LLC	206,342	2,973	209,315
Internal investment activity expenses	4,283,943	61,713	4,345,656
Total investing activity expenses	155,565,670	2,241,031	157,806,701
Securities lending activity			
Securities lending borrower rebates	(287,954)	(4,148)	(292,102)
Securities lending management fees			
BNY Mellon	123,225	1,775	125,000
Deutche Bank	71,851	1,035	72,886
Total securities lending activity expenses	(92,878)	(1,338)	(94,216)
Total investment expenses	$155,472,792	$2,239,693	$157,712,485

Pension Trust Funds

Schedules of Internal Investment Activity Expenses

Pension Trust Funds - Year Ended June 30, 2014

	MSEP	Judicial Plan	Total
Personnel services			
Salaries	$2,898,883	$41,760	$2,940,643
Fringe benefits	834,865	12,027	846,892
Total personnel services	3,733,748	53,787	3,787,535
Professional services			
Attorney services	95,334	1,373	96,707
Consulting services	3,786	55	3,841
Total professional services	99,120	1,428	100,548
Communications			
Telephone	17,767	256	18,023
Postage and mailing	185	3	188
Total communications	17,952	259	18,211
Facilities			
Utilities	2,063	30	2,093
Lease expense	51,395	740	52,135
Depreciation	34,239	493	34,732
Facility maintenance	8,915	128	9,043
Vehicle maintenance and operation	172	2	174
Total facilities	96,784	1,393	98,177
Software and equipment			
Computer supplies and software	1,633	24	1,657
Depreciation	8,638	124	8,762
Total software and equipment	10,271	148	10,419
Education, meetings and travel			
Professional development including travel	6,160	89	6,249
MOSERS sponsored seminars	945	14	959
Due diligence travel	81,266	1,171	82,437
Tuition reimbursement	(12,815)	(185)	(13,000)
Total travel and meetings	75,556	1,089	76,645
General administrative			
Research and information services	216,091	3,113	219,204
Membership dues	19,548	282	19,830
Office supplies	4,683	67	4,750
Periodicals and publications	10,190	147	10,337
Total general	250,512	3,609	254,121
Total administrative expenses	$4,283,943	$61,713	$4,345,656

Pension Trust Funds

Schedules of Administrative Expenses

Year Ended June 30, 2014

	MSEP	Judicial Plan	Total
Personnel services			
Salaries	$3,779,527	$ 54,447	$3,833,974
Fringe benefits	1,537,006	22,142	1,559,148
Total personnel services	5,316,533	76,589	5,393,122
Professional services			
Actuarial services	184,922	2,664	187,586
Attorney services	111,377	1,604	112,981
Auditing services	43,375	625	44,000
Banking services	33,803	487	34,290
Consulting services	13,183	190	13,373
Total professional services	386,660	5,570	392,230
Communications			
Video production	1,778	26	1,804
Telephone	53,847	776	54,623
Printing	47,353	682	48,035
Postage and mailing	159,116	2,292	161,408
Total communications	262,094	3,776	265,870
Facilities			
Depreciation	109,982	1,584	111,566
Utilities	68,566	988	69,554
Facility maintenance	70,467	1,015	71,482
Vehicle maintenance	9,077	131	9,208
Total facilities	258,092	3,718	261,810
Software and equipment			
Computer supplies and software	48,101	693	48,794
Depreciation	144,525	2,082	146,607
Maintenance agreements	209,840	3,023	212,863
Equipment rental	108,165	1,558	109,723
Loss on sale of equipment	2,254	32	2,286
Total software and equipment	512,885	7,388	520,273
Education, meetings and travel			
Board travel and meetings	18,720	270	18,990
Professional development including travel	65,498	944	66,442
MOSERS sponsored seminars	78,300	1,128	79,428
Due diligence travel	2,490	34	2,524
Tuition reimbursement	139	2	141
Total education, meetings and travel	165,147	2,378	167,525
General administrative			
Advertising	13,175	190	13,365
Research and information services	79,315	1,143	80,458
Insurance	139,753	2,013	141,766
Membership dues	41,057	591	41,648
Business continuity	78,455	1,130	79,585
Office supplies	13,850	200	14,050
Periodicals and publications	69,906	1,007	70,913
Total general	435,511	6,274	441,785
Total administrative expenses	$7,336,922	$105,693	$7,442,615

Internal Service Funds

Schedules of Administrative Expenses

Year Ended June 30, 2014

	Life and LTD	Deferred Compensation	Total
Personnel services			
Salaries	$241,074	$181,110	$422,184
Employee fringe benefits	97,591	70,951	168,542
Total personnel services	338,665	252,061	590,726
Professional services			
Attorney services	1,611	1,189	2,800
Auditing services	3,032	38,300	41,332
Banking services	726	0	726
Total professional services	5,369	39,489	44,858
Communications			
Telephone	3,794	712	4,506
Printing	0	64	64
Video production expense	124	38	162
Total communications	3,918	814	4,732
Facilities			
Utilities	4,706	0	4,706
Maintenance	5,503	0	5,503
Total facilities	10,209	0	10,209
Software and equipment			
Computer supplies and equipment	3,354	993	4,347
Depreciation	0	989	989
Equipment use charge	22,699	0	22,699
Equipment maintenance	13,909	0	13,909
Equipment rental	7,176	0	7,176
Total software and equipment	47,138	1,982	49,120
Education, meetings and travel			
Board travel and meetings	1,302	0	1,302
Professional development including travel	4,219	4,792	9,011
MOSERS sponsored seminars	5,240	0	5,240
Due diligence travel	0	4,886	4,886
Total education, meetings and travel	10,761	9,678	20,439
General administrative			
Advertising	778	1,325	2,103
Research and information services	0	10,826	10,826
Insurance	9,768	0	9,768
Membership dues	2,870	1,374	4,244
Office supplies	5,386	2,566	7,952
Periodicals and publications	968	0	968
Total general	19,770	16,091	35,861
Total administrative expenses	$435,830	$320,115	$755,945

Schedules Professional/Consultant Fees

Year Ended June 30, 2014

Professional/Consultant	Nature of Service	Pension Trust Funds MSEP	Pension Trust Funds Judicial Plan	Pension Trust Funds Total	Internal Service Funds Life and LTD	Internal Service Funds Deferred Compensation	Internal Service Funds Total
Operation administrative expenses							
Central Bank	Banking	$ 32,173	$ 463	$ 32,636	$ 568	$ 0	$ 568
Charlesworth & Associates	Risk management consulting	7,796	112	7,908	0	0	0
Collector Solutions, Inc.	Banking	1,631	23	1,654	158	0	158
Corporate Renaissance Group	Information technology consulting	122	2	124	0	0	0
Gabriel, Roeder, Smith & Co.	Actuarial	184,922	2,664	187,586	0	0	0
HyperGen, Inc.	Information technology consulting	2,110	30	2,140	0	0	0
Kramer & Frank, PC	Collection services	157	3	160	0	0	0
Shae Marie Eickhoff	Compilation services	39	1	40	0	0	0
Steptoe & Johnson	Legal counsel	3,259	47	3,306	0	0	0
Thompson Coburn, LLP	Legal counsel	107,960	1,555	109,515	1,611	1,189	2,800
University of Missouri	Strategic planning consulting	3,116	45	3,161	0	0	0
Williams-Keepers, LLC	Financial audit	43,375	625	44,000	3,032	38,300	41,332
Operation administrative expenses subtotal		386,660	5,570	392,230	5,369	39,489	44,858
Internal investment administrative expenses							
CT Corporation	Legal counsel	640	9	649	0	0	0
Gabriel, Roeder, Smith & Co.	Actuarial consultation	3,147	45	3,192	0	0	0
Purrington Moody Weil, LLP	Trading consultation	33,637	485	34,122	0	0	0
Thompson Coburn, LLP	Legal counsel	61,696	889	62,585	0	0	0
Internal investment administrative expenses subtotal		99,120	1,428	100,548	0	0	0
Total professional/consultant fees		$485,780	$6,998	$492,778	$5,369	$39,489	$44,858

Information on investment management and consulting fees can be found in the *Schedule of Investment Expenses* on pages 55-56.

Pension Trust Funds

Investment Summary

Year Ended June 30, 2014

Type of Investment	June 30, 2013 Cost Value	June 30, 2013 Fair Value	Purchases and Capital Additions at Cost	Sales and Redemptions at Cost	June 30, 2014 Cost Value	June 30, 2014 Fair Value	Percent of Total Fair Value
Fixed income							
Treasury bonds, notes, and bills	$ 597,164,730	$ 593,757,630	$2,698,658,661	$ (646,238,346)	$2,649,585,045	$ 2,668,044,546	29%
Gov. bonds and govt. mortgage-backed securities	78,249,453	70,007,740	503,164	(27,864,376)	50,888,241	48,204,492	1
Corporate bonds	35,189,603	34,574,802	189,592	(34,141,808)	1,237,387	971,429	0
Convertible bonds	439,637	654,456	0	(439,637)	0	0	0
Collateralized mortgage obligations	23,519,246	28,364,477	251	(23,519,496)	1	1	0
International corporate bonds	28,845,542	4,997,840	975,579	(23,687,089)	6,134,032	5,020,362	0
Bank loans	555,751	98	0	0	555,751	0	0
Total fixed income	763,963,962	732,357,043	2,700,327,247	(755,890,752)	2,708,400,457	2,722,240,830	30
Common stock	317,916,197	377,714,665	130,331,149	(91,157,238)	357,090,108	445,760,145	5
International investments							
International equities	388,343,789	933,430,550	3,371,015	(212,631,422)	179,083,382	857,714,950	9
Foreign currency	7,824,592	7,862,572	18,186,406	(24,979,107)	1,031,891	59,809	0
Total international investments	396,168,381	941,293,122	21,557,421	(237,610,529)	180,115,273	857,774,759	9
Real estate investment trust	0	0	3,617	0	3,617	9,986	0
Venture capital limited partnerships	3,769,012,779	4,870,969,314	472,649,023	(683,392,649)	3,558,269,153	5,182,634,926	56
Investments *(per Statement of Fiduciary Net Position page 26)*	5,247,061,319	6,922,334,141	3,324,868,457	(1,768,051,168)	6,803,878,608	9,208,420,646	100%
Short-term investments							
Short-term investment funds	1,192,337,766	1,192,337,766	2,108,872,996	(1,054,197,058)	2,247,013,704	2,247,013,705	
Repurchase agreements	10,411,396	10,411,397	2,330,582,532	(2,330,575,108)	10,418,820	10,418,820	
Total short-term investments	1,202,749,162	1,202,749,163	4,439,455,528	(3,384,772,166)	2,257,432,524	2,257,432,525	
Invested securities lending collateral							
Corporate bonds	6,512,004	13,894,071	0	(4,763,415)	1,748,588	749,463	
Short-term investment funds	447,872,695	447,872,695	1,934,202,478	(2,346,628,622)	35,446,552	35,446,551	
Total invested securities lending collateral	454,384,699	461,766,766	1,934,202,478	(2,351,392,037)	37,195,140	36,196,014	
Total investments	$6,904,195,180	$8,586,850,070	$9,698,526,463	$(7,504,215,371)	$9,098,506,272	$11,502,049,185	

Internal Service Funds

Investment Summary

Year Ended June 30, 2014

	June 30, 2013				June 30, 2014		
Type of Investment	Cost Value	Fair Value	Purchases and Capital Additions at Cost	Sales and Redemptions at Cost	Cost Value	Fair Value	Percent of Total Fair Value
Repurchase agreements	$3,258,256	$3,258,256	$1,003,168,594	$(1,002,201,195)	$4,225,655	$4,225,655	100%

Note: Due to space limitations and printing costs, a detailed listing of the investment holdings and transactions could not be provided in this annual report; however, the detailed reports are available for review as an appendix to this report at the MOSERS office.