
**EMPLOYEES RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS**

FINANCIAL REPORT

SEPTEMBER 30, 2013 AND 2012

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EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS
Management's Discussion and Analysis
Year Ended September 30, 2013

The following Management's Discussion and Analysis of the Employees Retirement System of the City of St. Louis (the System) provides an overview of the System's financial activities for the fiscal year ended September 30, 2013. This section should be read in conjunction with the System's financial statements and supplementary information.

Financial Highlights

The System's investments earned a strong 13.6% return for the fiscal year. This marked the second consecutive year of double-digit returns when coupled with last fiscal year's return of 17.5%. Net position now totals \$730.5 million, an increase of \$66.4 million from the previous year. All market sectors participated in the rally except for fixed income. Domestic and international equities showed returns in excess of 23 % and 19%, respectively. Real estate and hedge funds both had returns in the 11% to 13% range. Fixed income, a solid performer in recent years, realized a -1.3% return for the year as higher rates adversely impacted the valuation of bonds.

Pension and retirement benefits increased by \$4.0 million or 8.2% to \$53.5 million. The number of retirees and beneficiaries receiving a monthly benefit increased by 2.0% to 4,244. Administrative expenses increased to \$647,923 from \$614,517. Employer contributions increased by \$3.9 million from the prior year to \$34.3 million.

Financial Statements

The financial statements of the System consist of two financial statements: the Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position. The Statements of Fiduciary Net Position provide the detail of the System's assets and related liabilities other than benefit obligations. The fiduciary net position of the System reflects the resources available for future benefit payments. The Statements of Changes in Fiduciary Net Position provide the details of the System's activity during the year that lead to the change in fiduciary net position from the prior year.

In addition to the financial statements, the financial report contains the notes to the financial statements and supplementary information. These provide additional information for use in analyzing the financial statements and actuarial information related to the funded status of the System.

Financial Analysis

Total assets at September 30, 2013 of \$735.3 million were comprised of cash, investments, securities lending collateral, receivables, and currency exchange contracts. Investments increased by \$66.9 million or 10.1% to \$729.4 million. This increase was slightly offset by a small decrease in the other asset categories, specifically receivables and securities lending collateral. The System continues to work with its master custodian, State Street Bank and Trust, to exit the securities lending program in a manner to avoid or minimize losses. To date, the System has not incurred any losses in its exposure in securities lending and continues to receive income from the assets on loan. Securities lending income was \$50,521 for the fiscal year with assets on loan at the end of the year of \$3.6 million.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS
Management's Discussion and Analysis
Year Ended September 30, 2013

Financial Analysis (Continued)

Total liabilities at September 30, 2013 were \$4.8 million and consisted of accounts payable, securities lending collateral liability and currency exchange contracts. The decrease in liabilities of \$99,262 resulted from the previously discussed change in securities lending collateral and increases in currency exchange contractual liability and accounts payable.

Net position held in trust for pension benefits increased by \$66.4 million to \$730.5 million.

Condensed Statement of Fiduciary Net Position

	September 30,		Total Change	
	2013	2012	Amount	Percentage
Assets				
Investments	\$ 729,368,607	\$ 662,510,462	\$ 66,858,145	10.1%
Cash	287,520	166,098	121,422	73.1%
Receivables	2,031,281	2,097,425	(66,144)	-3.2%
Securities Lending	3,581,889	4,241,160	(659,271)	-15.5%
Currency Exchange	-	146,675	(146,675)	-100.0%
Total Assets and Deferred Outflows	735,269,297	669,015,145	66,254,152	10.0%
Liabilities				
Accounts Payable	697,410	536,042	161,368	30.1%
Securities Lending	3,581,889	4,241,160	(659,271)	-15.5%
Currency Exchange	499,786	247,820	251,966	101.7%
Total Liabilities and Deferred Inflows	4,779,085	5,025,022	(245,937)	-4.9%
Net Position Held in				
Trust for Pension Benefits	\$ 730,490,212	\$ 663,990,123	\$ 66,500,089	10.0%

Contributions and Investment Activity – Additions to Fiduciary Net Position

The assets needed to finance retirement benefits are accumulated through the receipt of employer contributions, member purchases of creditable service and earnings on investments. Employer contributions increased by \$3.9 million or 13% in FY 2013, largely from a similar percentage increase in the employer contribution rate. Member contributions were comprised entirely of purchases of creditable service by active members.

Net investment income was \$86.0 million for fiscal year. The strong investment environment continued for a second fiscal year, thus allowing the System to completely fund retirement benefits and administrative expenses from investment earnings. Net investment income included deductions of \$3.1 million and \$2.9 million for custodial and investment management fees for FY 2013 and FY 2012, respectively.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS
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Deductions from Fiduciary Net Position

The major deductions of the System include the payment of pension benefits to retirees and beneficiaries and administrative expenses. Other deductions within retirement benefits include refunds of member contributions and pension service transfer payments to other public plans within the State of Missouri which have a portability agreement with the System. Contribution refunds and service transfer payments were both zero in FY 2013. Administrative expenses increased by \$33,407 in FY 2013 to \$647,923.

Condensed Statements of Changes in Fiduciary Net Position

	<u>Years Ended September 30</u>		<u>Total Change</u>	
	<u>2013</u>	<u>2012</u>	<u>Amount</u>	<u>Percentage</u>
Additions				
Net Investment Income	\$86,012,607	\$98,258,690	\$ (12,246,083)	-12.5%
Employer contributions	34,348,002	30,396,034	3,951,968	13.0%
Member contributions	184,508	18,700	165,808	886.7%
Total Additions	120,545,117	128,673,424	(8,128,307)	-6.3%
Deductions				
Retirement benefits	53,543,780	49,508,837	4,034,943	8.1%
Administrative expenses	647,923	614,516	33,407	5.4%
Total Deductions	54,191,703	50,123,353	4,068,350	8.1%
Changes in Fiduciary Net Position	\$66,353,414	\$78,550,071	\$ (12,196,657)	-14.43%

Summary

The System's investments continued their growth with a second year of strong earnings. Investments returned 13.6% and 17.5% for FY 2013 and FY 2012, respectively. Investment income and employer contributions exceeded retirement benefits and administrative expenses by \$66 million and \$78 million for the same fiscal years. The required employer contribution rate recommended by the actuary increased from 14.27% to 15.56%.

The System remains in a position to meet its current pension obligations, as confirmed by the recent actuarial valuation. Investment assets have continued to increase, but at a slightly lower rate than has been experienced the previous two years.

The System is a qualified governmental plan under Section 401(a) of the Internal Revenue Code.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS
Management's Discussion and Analysis
Year Ended September 30, 2013

Requests for Information

This financial report is designed to provide the Board of Trustees, our members and other users of our financial report with a general overview of the System's finances and to demonstrate the System's accountability for its funds. If you have any questions about this report or need additional financial information, contact the Employees Retirement System of the City of St. Louis, 1114 Market Street, Suite 900, St. Louis, MO 63101.



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the **Employees Retirement System of the City of St. Louis**
St. Louis, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the **Employees Retirement System of the City of St. Louis** (the System), a component unit of the City of St. Louis, Missouri, which comprise the statements of fiduciary net position as of September 30, 2013 and 2012, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

System management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 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 statement.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the **Employees Retirement System of the City of St. Louis** as of September 30, 2013 and 2012, and the changes in fiduciary position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on Pages 1-4, and the supplementary schedules of funding progress and employer contributions, on Pages 19-20 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 the 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 auditing standards generally accepted in the United States of America, 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. Limited procedures were applied by other auditors to the required supplementary information for the years ended September 30, 2006 and prior years.

Kiefer Bonfanti & Co. LLP

St. Louis, Missouri
April 15, 2014

FINANCIAL STATEMENTS

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

STATEMENTS OF FIDUCIARY NET POSITION

	September 30,	
	2013	2012
Assets		
Cash	\$ 287,520	\$ 166,098
Receivables		
Accrued interest receivable	551,633	616,685
Accrued dividend receivable	157,924	214,034
Employers contribution receivable	1,321,724	1,266,706
Total Receivables	2,031,281	2,097,425
Investments at Fair Value		
Temporary cash investments	9,191,680	7,609,349
Fixed income securities	81,059,012	84,110,599
Common stocks	186,924,995	218,060,479
Managed master limited partnerships	51,377,984	-
Managed international equity funds	180,024,548	187,343,162
Real estate funds	73,539,904	65,497,924
Domestic bond funds	74,875,263	77,776,884
Managed hedge fund of funds	72,375,221	22,112,065
Total Investments	729,368,607	662,510,462
Securities Lending Collateral	3,581,889	4,241,160
Total Assets	735,269,297	669,015,145
Deferred Outflows of Resources		
Receivable under forward foreign currency exchange contracts	-	146,675
Total Deferred Outflows of Resources	-	146,675
Liabilities		
Accounts Payable	697,410	536,042
Securities Lending Collateral Liability	3,581,889	4,241,160
Total Liabilities	4,279,299	4,777,202
Deferred Inflows of Resources		
Payable under forward foreign currency exchange contracts	499,786	247,820
Total Deferred Inflows of Resources	499,786	247,820
Net Position Held in Trust for Pension Benefits	\$ 730,490,212	\$ 664,136,798

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	<u>Years Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>
Contributions		
Employer contributions	\$ 34,348,002	\$ 30,396,034
Member contributions	184,508	18,700
Total Contributions	34,532,510	30,414,734
Investment Activity		
Interest and dividends	8,404,746	7,976,300
Net appreciation in fair value of investments	80,661,423	93,135,684
	89,066,169	101,111,984
Less investment expenses	3,053,562	2,853,294
Net Investment Income	86,012,607	98,258,690
Deductions		
Retirement benefits	53,543,780	49,508,837
Administrative	647,923	614,516
Total Deductions	54,191,703	50,123,353
Net Increase in Net Position	66,353,414	78,550,071
Net Position Held in Trust For Pension Benefits		
Beginning of Year	664,136,798	585,586,727
End of Year	\$ 730,490,212	\$ 664,136,798

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

1. DESCRIPTION OF THE PLAN

General

The System is a cost-sharing, multiple-employer, defined benefit public employees' retirement system for all non-uniformed employees of the City of St. Louis and certain other public entities funded by or providing services to residents of the City of St. Louis. These additional employee groups covered by the System are the employees of the St. Louis Public Library, the Art Museum of St. Louis, the St. Louis Zoological Park, the City of St. Louis Water Division, the Airport Authority, the City Mental Health Board, the Metropolitan Taxicab Commission, Tower Grove Park, the System, and civilian employees of the police department and police and firemen's retirement systems. The System became operative April 1, 1960 by municipal ordinance establishing the System under the authority of Senate Bill No. 329 of the 70th General Assembly of the State of Missouri. Responsibility for operation and administration of the System is vested in its Board of Trustees. The Board of Trustees consists of the Comptroller of the City of St. Louis, two members appointed by the Mayor of the City of St. Louis, two members elected by the membership of the System, and one member elected by the retired members of the System.

Membership

At September 30, 2013 and 2012, membership consisted of the following:

	<u>2013</u>	<u>2012</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving benefits	6,677	6,572
Current employees		
Fully vested	3,859	3,832
Non-vested	1,579	1,509
Total Membership	12,115	11,913

Benefits

The System provides for defined benefit payments for retirement, death, or disability to eligible employees or their beneficiaries based upon creditable service, final average compensation, and a benefit compensation base. Benefits vest to employees covered by the System after the employee has attained five years of creditable service.

Notes to Financial Statements (Continued)

1. **DESCRIPTION OF THE PLAN (CONTINUED)**

Benefits (Continued)

Employees retire with full retirement benefits after the age of 65 or if an employee's age and creditable service combined equal or exceed 85 years. Employees may retire and receive a reduced benefit after age 60 with five years of creditable service, age 55 with at least 20 years of creditable service, or any age with 30 years of creditable service. The monthly pension benefits of all retirees or their beneficiaries are adjusted according to the changes in the Consumer Price Index of the U.S. Department of Labor. Increases are limited each year, with total increases to retirees or their beneficiaries limited to 25%.

Contributions

Employer contribution rates are established annually by the Board of Trustees based on an actuarial study. The Board of Trustees established the required employer contribution rates, based on active member payroll, of 15.56% effective July 1, 2013 and 14.27% effective July 1, 2012.

Employees who became members of the System prior to October 14, 1977 and continued to make contributions may make voluntary contributions to the System equal to 3% of their compensation until the compensation equals the maximum annual taxable earnings under the Federal Social Security Act. Thereafter, employees may contribute 6% of their compensation for the remainder of the calendar year.

Funding Policy

The System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. If contributions are necessary, level percentage of payroll employer contribution rates are determined using the projected unit credit actuarial cost method.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of system assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of additions and deductions to system net assets during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through April 15, 2014, the date which the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements were prepared using the accrual basis of accounting except that retirement benefits are recorded when due to the beneficiary. Employee contributions are recognized as additions in the period in which employer payroll is paid.

Administrative deductions are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America that apply to governmental accounting for the System including the Governmental Accounting Standards Board (GASB) Statements numbers 25, 28, 34, 37, 40, 43, 50, 53, 63, and 65.

Tax Status

The System has been determined to be exempt from federal income taxes under Section 115 of the Internal Revenue Code. In 2005, the System became a qualified retirement plan in accordance with Internal Revenue Service regulations.

Investments

A list of allowable investments is included in Note 3. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Security transactions and any resulting realized gains or losses are accounted for on a completed transaction basis. Commingled funds are valued at the unit value quoted by the investee entity based on the underlying asset values. Real estate funds and other managed funds are valued based on valuations of underlying investments as reported by fund managers.

The System participates in a securities lending program administered by State Street Bank and Trust, the custodian. Brokers who borrow the securities provide collateral equal to 102% for domestic securities loaned, resulting in no credit risk for the System. At September 30, 2013 and 2012, the term to maturity of the securities on loan is matched with the term to maturity of the investment of the cash collateral. These loans can be terminated on demand by either the lender or borrower. The System cannot pledge or sell non-cash collateral unless the borrower defaults.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

Notes to Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

As of September 30, 2013 and 2012, the System had the following securities on loan at market value:

	2013	2012
US Corporate Bond and Equity		
Corporate bond	\$ 119,777	\$ 209,715
Equity	3,117,693	3,783,594
Non-Cash	55,687	49,955
Total US Corporate Bond and Equity	3,293,157	4,043,264
US Government		
Agency	2,000	16,752
Treasury	208,081	31,094
Total US Government	210,081	47,846
Total Securities on Loan	\$ 3,503,238	\$ 4,091,110

Furniture and Equipment

Acquisitions of furniture and equipment are charged to administrative expense.

Derivatives

The System currently retains Payden & Rygel Investment Counsel as a global fixed income investment manager. The System permits Payden & Rygel to utilize financial derivative instruments such as forwards, futures, and options. The use of these financial derivatives is defensive in nature; that is, used only to manage duration and foreign currency exposure and bond exposure. The System's investment policy requires that open currency exposure shall not exceed 10 percent of the global fixed income portfolio.

At September 30, 2013 and 2012, the System had the following amounts under forward foreign currency exchange contracts:

	2013	2012
Receivable under forward foreign currency exchange contracts	\$ -	\$ 146,675
Payable under forward foreign currency exchange contracts	(499,786)	(247,820)
Net Receivable (Payable) Under Forward Foreign Currency Exchange Contracts	\$ (499,786)	\$ (101,145)

Notes to Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

The System utilizes forward contract hedging to reduce the volatility in foreign currencies. Hedging techniques are traditionally used to limit exposure to price fluctuations. Management recognizes that fluctuations in foreign currencies could have a negative effect on the System's financial statements. Accordingly, the System entered into forward contracts in order to hedge this exposure.

Effective October 1, 2009, the System adopted GASB Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments" (GASB 53) which requires the gain (loss) on the currency exchanges on forward contracts to be recorded in the Statement of Changes in Fiduciary Net Position. The change in fair value of the derivative is recorded as a deferred outflows/inflows of resources in the Statement of Fiduciary Net Position, as appropriate.

3. CASH AND INVESTMENTS

The System is authorized to invest in:

- Short-term securities with a maximum maturity of one year including institutional liquid assets, U.S. Treasury obligations, Federal Agency obligations, discount and interest-bearing notes from corporations, and certificates of deposit;
- Fixed income securities including:
 - U.S. government securities;
 - Non-U.S. fixed income securities; and
 - Publicly-issued corporate bonds, debentures, notes, or other evidences of indebtedness assumed or guaranteed by corporations organized under the laws of the United States with ratings of "A" or better by Moody's Investors Service;
- Common stocks of corporations organized under the laws of the United States;
- Managed master limited partnerships composed primarily of domestic midstream or energy infrastructure publicly traded on U.S. equity exchanges.
- Common stocks of foreign corporations through separate accounts as commingled vehicles;
- Real estate through discretionary commingled vehicles;
- Hedge funds through either separate or commingled fund of funds vehicles.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

Notes to Financial Statements (Continued)

3. CASH AND INVESTMENTS (CONTINUED)

The bank balances of the System at September 30, 2013 and 2012 were \$1,535,942 and \$918,090, respectively. These balances were insured by the Federal Deposit Insurance Corporation up to \$250,000. The remaining balances were collateralized by securities held by the pledging financial institution's trust department in the System's name.

The System has a significant amount of investments that are subject to market risk. Market risk is the possibility that future changes in market price may make a financial instrument less valuable.

All investments at September 30, 2013 and 2012 were held by the System's agent in the System's name.

At September 30, 2013 and 2012, the System has the following concentrations, defined as "investments (other than those issued or guaranteed by the U.S. government)" in any one organization, that represent five percent or more of total investments:

	<u>2013</u>	
Acadian Asset Management		
Emerging Markets Fund	<u>\$ 47,109,251</u>	<u>6.46%</u>
CastleArk Management		
U.S. Large Cap Growth Equity	<u>\$ 37,530,740</u>	<u>5.15%</u>
INTECH Investment Management		
U.S. Large Cap Core Equity	<u>\$ 71,649,115</u>	<u>9.82%</u>
LSV Asset Management		
U.S. Large Cap Value Equity	<u>\$ 37,647,613</u>	<u>5.16%</u>
PNC Capital Advisors		
U.S. Broad Market Core Fixed Income	<u>\$ 53,503,731</u>	<u>7.34%</u>
Principal Global Investors		
Real Estate Group Annuity Contract	<u>\$ 73,539,904</u>	<u>10.08%</u>
Silchester International Advisors		
International Value Equity Group Trust	<u>\$ 70,248,075</u>	<u>9.63%</u>
Walter Scott & Partners		
International Growth Equity Group Trust	<u>\$ 38,553,280</u>	<u>5.29%</u>

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

Notes to Financial Statements (Continued)

3. CASH AND INVESTMENTS (CONTINUED)

	2012	
Acadian Asset Management		
Emerging Markets Fund	\$ 46,561,522	7.03%
CastleArk Management		
U.S. Large Cap Growth Equity	\$ 42,596,284	6.43%
INTECH Investment Management		
U.S. Large Cap Core Equity	\$ 84,538,921	12.76%
LSV Asset Management		
U.S. Large Cap Value Equity	\$ 44,671,975	6.74%
PNC Capital Advisors		
U.S. Broad Market Core Fixed Income	\$ 54,704,264	8.26%
Principal Global Investors		
Real Estate Group Annuity Contract	\$ 65,497,924	9.89%
Silchester International Advisors		
International Value Equity Group Trust	\$ 70,734,210	10.68%
Walter Scott & Partners		
International Growth Equity Group Trust	\$ 49,940,099	7.54%

Foreign Currency Risk

The System does not have a formal policy to limit foreign currency risk. Risk of loss arises from changes in currency exchange rates. The System's exposure at September 30, 2013 to foreign currency risk is presented on the following table:

Currency	Short-Term	Debt	Equity	Total
British Pound	\$ 30,678	\$ 1,832,153	\$ -	\$ 1,862,831
Brazilian Real	15,719	328,505	-	344,224
Australian Dollar	26,334	1,234,434	-	1,260,768
Canadian Dollar	13,972	842,895	-	856,867
Euros	153,204	7,125,241	-	7,278,445
Japanese Yen	55,220	3,845,154	-	3,900,374
	\$ 295,127	\$ 15,208,382	\$ -	\$ 15,503,509

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

Notes to Financial Statements (Continued)

3. CASH AND INVESTMENTS (CONTINUED)

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligation to the System. Below is a list of fixed income credit quality ratings:

Quality Rating	Fair Value
Aaa/U.S. Governments	\$ 87,375,231
Aa	11,293,548
A	20,824,813
Baa	20,729,220
Below Baa	17,290,265
Not rated	723,820
Total Credit Risk Debt	\$ 158,236,897

Interest Rate Risk

The System does not have a formal policy to limit interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt instrument's exposure to a change in interest rates and the related sensitivity of market price to parallel shifts in the yield curve. It uses the present value of cash flows, weighted for those cash flows as a percentage of the instruments' full price.

Investment	Fair Value	Effective Duration
Payden and Rygel	\$ 29,857,902	5.71 years
Allegiant (PNC)	53,503,731	5.24 years
SSGA	31,712,432	5.49 years
Loomis	24,127,321	5.30 years
Vanguard	19,035,511	7.97 years
Total	\$ 158,236,897	

4. PLAN TERMINATION

The System is administered in accordance with the provisions of the Revised Code of the City of St. Louis. There are currently no plans to terminate the System.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

Notes to Financial Statements (Continued)

5. DEFERRED RETIREMENT OPTION PLAN

On June 8, 2000, the Mayor of the City of St. Louis approved an ordinance passed by the Board of Aldermen, authorizing a Deferred Retirement Option Plan (DROP), which became effective January 1, 2001. This plan allows for members to work for an additional 5 years after reaching retirement age, and defer receipt of their retirement allowance. The calculation of average salary for retirement benefits will not include the additional years of service after normal retirement age. The amount that would have been received as retirement benefit is put in a special DROP account monthly. Total DROP expense was \$8,520,980 and \$6,158,745 for the years ended September 30, 2013 and 2012, respectively. The DROP account will not be adjusted for cost of living increases.

The DROP account earns interest at the actuarial valuation rate of return and at the 10 year U.S. Treasury Bond yield as of each September 30, for DROP participants enrolling February 1, 2003 and thereafter.

After a member completely terminates employment, the member can withdraw amounts from the DROP account in a lump sum or according to a deferred retirement payment plan. At September 30, 2013 and 2012, approximately 818 and 809 members, respectively, have elected DROP participation and have DROP account balances of approximately \$55,000,000 and \$53,650,000, respectively.

6. FUNDED STATUS AND FUNDING PROGRESS

At September 30, 2013, the report of the System's actuary indicated that the System's funded status was as follows:

Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
\$ 685,397,323	\$ 889,448,579	\$ (204,051,256)	77.06%	\$ 224,623,445	90.84%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

Notes to Financial Statements (Continued)

7. ACTUARIAL METHODS AND SIGNIFICANT ASSUMPTIONS

VALUATION DATE	October 1, 2013
ACTUARIAL COST METHOD	Projected Unit Credit
AMORTIZATION METHOD	Level dollar open amortization period
REMAINING AMORTIZATION PERIOD FOR THE UAL	30 years
ASSET VALUATION METHOD	5 year smoothed market
ACTUARIAL ASSUMPTIONS	
Investment rate of return	8.00%
Projected salary increases	Varies by age from 3.50% to 7.017%.
Cost of living adjustments	3.125% simple with a 25% lifetime cap
Inflation	3.125%

8. COMMITMENTS AND CONTINGENCIES

The System has been served with a complaint filed by the unsecured creditor's committee of the bankrupt Tribune Company regarding the System's sale of Tribune Company securities during a leveraged takeover of the Tribune Company by an ESOP (Employee Stock Ownership Plan). The total proceeds of the sale were approximately \$306,000. The unsecured creditor's committee has filed a petition alleging the sale of the securities to the ESOP or its affiliates worked a fraud upon the creditors who lent the ESOP the funds to purchase the securities based upon fraudulent or misrepresented information from other parties to the litigation. Certain senior note-holders of the Tribune Company and certain Tribune Company retirees have joined the litigation and made claims substantially similar to the unsecured creditor's committee. These claims have been consolidated into a federal multi-jurisdictional case in the U. S. District Court for the Southern District of New York. The note-holder's claims have been dismissed by the Court and are currently on appeal in U. S. Second Circuit Court of Appeals. Should the appeal by the note holders be successful, the claims of the note-holders would be reinstated in the multi-jurisdictional case. The remaining bankruptcy claims remain stayed pending the creation of a protocol to hear Motions to Dismiss the complaint. The System has engaged Armstrong Teasdale, LLP to vigorously defend the System's interests. Any evaluation of the potential outcome of such litigation would be speculative. However, in the event of an unlikely outcome most favorable to the plaintiffs, the System expects that the plaintiff's damages would be limited to the proceeds of the sales plus interest from date of judgment.

REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Unfunded AAL as a % of Covered Payroll
10/1/2003	\$ 424,917,296	\$ 576,127,904	\$ (151,210,608)	73.75%	\$ 228,550,406	66.16%
10/1/2004	431,853,406	602,795,470	(170,942,064)	71.64%	221,768,791	77.08%
10/1/2005	527,733,171	666,182,075	(138,448,904)	79.22%	223,837,003	61.85%
10/1/2006	554,065,539	695,889,716	(141,824,177)	79.62%	224,120,314	63.28%
10/1/2007	646,569,478	732,576,024	(86,006,546)	88.26%	231,029,237	37.23%
10/1/2008	674,016,719	765,842,026	(91,825,307)	88.01%	238,701,628	38.47%
10/1/2009	667,667,205	794,686,379	(127,019,174)	84.02%	240,409,390	52.83%
10/1/2010	671,608,995	820,669,641	(149,060,646)	81.84%	232,451,661	64.13%
10/1/2011	661,932,240	841,763,321	(179,831,081)	78.64%	223,060,719	80.62%
10/1/2012	653,001,852	866,890,445	(213,888,593)	75.33%	224,822,252	95.14%
10/1/2013	\$ 685,397,323	\$ 889,448,579	\$ (204,051,256)	77.06%	\$ 224,623,445	90.84%

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

SCHEDULE OF EMPLOYER CONTRIBUTIONS

System Years Ended September 30,	Annual Required Contributions (ARC)	Actual Contributions	Percentage Contributed
2004	\$ 30,926,604	\$ 15,158,997	49.0%
2005	29,243,453	15,752,497	53.9%
2006	29,478,032	15,756,456	53.5%
2007	29,599,091	71,301,428	240.9%
2008	25,297,801	30,350,011	120.0%
2009	26,072,575	27,252,035	104.5%
2010	28,498,534	27,116,763	95.2%
2011	29,498,116	29,293,854	99.3%
2012	31,839,522	30,396,034	95.5%
2013	34,977,476	34,348,002	98.2%
2014	34,060,797	--	--