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

FINANCIAL REPORT

SEPTEMBER 30, 2015 AND 2014

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OF THE CITY OF ST. LOUIS**

FINANCIAL REPORT

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EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS
Management's Discussion and Analysis
Year Ended September 30, 2015

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, 2015. This section should be read in conjunction with the System's financial statements and supplementary information.

Financial Highlights

The System experienced a (-3.1%) return on investments for the fiscal year. The fourth quarter return of (-6.7%) erased the small but positive return of 3.7% for the first nine months. All market classes except real estate struggled in the fiscal year. Real estate, the only positive sector in the fourth quarter, ended the fiscal year with a 16.3% return. Fixed income and domestic equity showed small positive returns of about 1%. Energy master limited partnerships gave back their strong 33.4% return in FY 2014 by losing that percentage in FY 2015. Fiscal year losses were incurred by international equity (-8.9%) and hedge funds (-1.8%). Net assets decreased \$52.5 million to \$728.0 million.

Pension and retirement benefits increased 4.9% or \$2.7 million to \$59.1 million. The number of retirees and beneficiaries receiving a monthly benefit increased 2.2% to 4,417. Administrative expenses increased to \$722,762 from \$670,957. Two new expense items (member retirement education and City administrative expense allocation) along with the five-year actuarial experience study accounted for \$43,000 of the increase.

Financial Statements

The financial report of the System consists of two financial statements: the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position. The Statement of Fiduciary Net Position provides the detail of the System's assets and related liabilities other than benefit obligations. The net assets of the System reflect the resources available for future benefit payments. The Statement of Changes in Fiduciary Net Position provides the details of the System's activity during the year that lead to the change in plan net assets 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, 2015 of \$728.0 million were comprised of cash, investments, securities lending collateral and receivables. Investments decreased \$51.9 million or 6.7% to \$727.4 million. The decrease in receivables resulted from the timing in the receipt of employer contributions. Currency exchange contracts ended FY 2015 as a net liability when compared to the net receivable for FY 2014. 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.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS
Management's Discussion and Analysis
Year Ended September 30, 2015

Financial Analysis (Continued)

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 \$73,532 for the fiscal year with assets on loan ending the year at \$2.2 million.

Total liabilities at September 30, 2015 were \$2.9 million and consisted of accounts payable, securities lending collateral and a net liability of \$32,693 in currency exchange contracts. The net decrease in liabilities of \$1.4 million resulted from the decrease in the securities lending collateral balance previously discussed.

	September 30,		Total Change	
	2015	2014	Amount	Percentage
Assets				
Investments	\$ 727,399,504	\$ 779,325,458	\$ (51,925,954)	-6.7%
Cash	410,999	216,667	194,332	89.7%
Receivables	881,423	988,427	(107,004)	-10.8%
Securities lending collateral	2,198,427	3,609,555	(1,411,128)	-39.1%
Currency exchange	-	678,359	(678,359)	-
Total Assets and Deferred Outflows	730,890,353	784,818,466	(53,928,113)	-6.8%
Liabilities				
Accounts payable	662,100	713,277	(51,177)	-7.2%
Securities lending collateral liability	2,198,427	3,609,555	(1,411,128)	-39.1%
Currency exchange	32,693	-	32,693	-
Total Liabilities and Deferred Inflows	2,893,220	4,322,832	(1,429,612)	-33.1%
Net Position Held in				
Trust for Pension Benefits	\$ 727,997,133	\$ 780,495,634	\$ (52,498,501)	-6.7%

Revenues – Additions to Plan Net Assets

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 decreased \$1.4 million or 3.7% in FY 2015 resulting from a decrease in the employer contribution rate which was partially offset by a higher pension payroll. Member contributions were comprised entirely of purchases of creditable service by active members.

The strong investment environment which ran for three fiscal years ended in FY 2015 with a net investment loss of \$28.4 million. Net investment income included deductions of \$3.5 million for custodial and investment management fees for both FY 2015 and FY 2014.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS
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Expenses – Deductions from Plan Net Assets

The major expenses of the System include the payment of pension benefits to retirees and beneficiaries and administrative expenses. Other expenses 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. Service transfer payments were \$62,691 with no contribution refunds in FY 2015. Administrative expenses increased \$51,805 in FY 2015 to \$722,762.

	Years Ended September 30,		Total Change	
	2015	2014	Amount	Percentage
Additions				
Net Investment Income	\$ (28,435,879)	\$ 70,076,027	\$ (98,511,906)	-140.6%
Employer contributions	35,493,615	36,868,089	(1,374,474)	-3.7%
Member contributions	232,337	49,335	183,002	370.9%
Total Additions	7,290,073	106,993,451	(99,703,378)	-93.2%
Deductions				
Retirement benefits	59,065,812	56,317,072	2,748,740	4.9%
Administrative expenses	722,762	670,957	51,805	7.7%
Total Deductions	59,788,574	56,988,029	2,800,545	4.9%
Changes in Fiduciary Net Position	\$ (52,498,501)	\$ 50,005,422	\$ (102,503,923)	-98.10%

Summary

The System experienced extreme fluctuations in the investment markets during the fiscal year. The first nine months saw a continuation of the growth which began in FY 2012 with a small 3.7% return. However, in the final three months investments declined 6.7% as fears of a global economic slowdown, especially in China, pushed the equity and energy markets downward. Net assets declined \$52.5 million as investment income and employer contributions failed to match retirement benefits and administrative expenses for the first time since FY 2011 and gave back the gain earned in the previous fiscal year. The required employer contribution rate recommended by the actuary is currently 13.93% for the City of St. Louis, and 13.86% for the other participating employers for the period July 2015 through June 2016. Previously the contribution rates were 15.17% and 15.12% for July 2014 through June 2015 and 15.56% and 15.54% for July 2013 through June 2014. The dual contribution rates are a result of a legal settlement involving the Retirement System, the City of St. Louis and the other participating employers.

The System remains in a position to meet its current pension obligations, as confirmed by the recent actuarial valuation.

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, 2015

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:

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, 2015 and 2014, 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 auditors consider 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 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 opinions.

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, 2015 and 2014, 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 Schedule of Changes in Employer Net Pension Liability, Schedule of Employer Contributions, Schedule of Annual-Weighted Rate of Return on Investments, and the Notes to the Schedule of Required Supplementary Information, on Pages 20-25 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Additional Financial Information on Pages 26-28 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the System's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Kiefer Bonfanti & Co. LLP

St. Louis, Missouri
February 29, 2016

FINANCIAL STATEMENTS

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

STATEMENTS OF FIDUCIARY NET POSITION

	September 30,	
	2015	2014
Assets		
Cash	\$ 410,999	\$ 216,667
Receivables		
Accrued interest receivable	569,487	575,781
Accrued dividend receivable	178,420	173,991
Employers contribution receivable	133,516	238,655
Total Receivables	881,423	988,427
Investments at Fair Value		
Temporary cash investments	5,582,279	8,854,826
Fixed income securities	87,580,105	85,989,482
Common stocks	157,597,241	210,702,260
Managed master limited partnerships	67,542,856	51,377,984
Managed international equity funds	169,246,224	186,792,357
Real estate funds	86,803,989	79,852,588
Domestic bond funds	78,529,736	78,424,355
Managed hedge fund of funds	74,517,074	77,331,606
Total Investments	727,399,504	779,325,458
Securities Lending Collateral	2,198,427	3,609,555
Total Assets	730,890,353	784,140,107
Deferred Outflows of Resources		
Receivable under forward foreign currency exchange contracts	-	678,359
Total Deferred Outflows of Resources	-	678,359
Liabilities		
Accounts payable	662,100	713,277
Securities lending collateral liability	2,198,427	3,609,555
Total Liabilities	2,860,527	4,322,832
Deferred Inflows of Resources		
Payable under forward foreign currency exchange contracts	32,693	-
Total Deferred Inflows of Resources	32,693	-
Net Position Held in Trust for Pension Benefits	\$ 727,997,133	\$ 780,495,634

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	Years Ended September 30,	
	2015	2014
Additions		
Contributions		
Employer contributions	\$ 35,493,615	\$ 36,868,089
Member contributions	232,337	49,335
Total Contributions	35,725,952	36,917,424
Investment Activity		
Interest and dividends	9,513,963	9,058,597
Net appreciation in fair value of investments	(34,462,709)	64,483,131
	(24,948,746)	73,541,728
Less investment expenses	3,487,133	3,465,701
Net Investment Income	(28,435,879)	70,076,027
Total Additions	7,290,073	106,993,451
Deductions		
Retirement benefits	59,065,812	56,317,072
Administrative	722,762	670,957
Total Deductions	59,788,574	56,988,029
Net Increase (Decrease) in Net Position	(52,498,501)	50,005,422
Net Position Held in Trust For Pension Benefits		
Beginning of Year	780,495,634	730,490,212
End of Year	\$ 727,997,133	\$ 780,495,634

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014**

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, 2015 and 2014, membership consisted of the following:

	<u>2015</u>	<u>2014</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving benefits	6,888	6,754
Current employees		
Fully vested	3,585	3,786
Non-vested	1,774	1,650
Total Membership	12,247	12,190

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.

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.

Notes to Financial Statements (Continued)

1. DESCRIPTION OF THE PLAN (CONTINUED)

Benefits (Continued)

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 required employer contribution rate recommended by the actuary is currently 13.93% for the City of St. Louis and 13.86% for the other participating employers for the period July 2015 through June 2016. Previously the contribution rates were 15.17% and 15.12% for July 2014 through June 2015 and 15.56% and 15.54% for July 2013 through June 2014. The dual contribution rates are a result of a legal settlement involving the Retirement System, the City of St. Louis and the other participating employers.

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 February 29, 2016, the date which the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Notes to Financial Statements (Continued)

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, 38, 40, 43, 50, 53, 63, 65 and 67.

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, 2015 and 2014, 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, 2015 and 2014, the System had the following securities on loan at market value:

	<u>2015</u>	<u>2014</u>
US Corporate Bond and Equity		
Corporate bonds and equity	\$ 1,744,610	\$ 3,300,670
Non-cash	434,363	38,817
Total US Corporate Bond and Equity	2,178,973	3,339,487
US Government		
Treasury	5,137	122,457
Total US Government	5,137	122,457
Total Securities on Loan	\$ 2,184,110	\$ 3,461,944

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, 2015 and 2014, the System had the following amounts under forward foreign currency exchange contracts:

	<u>2015</u>	<u>2014</u>
Receivable under forward foreign currency exchange contracts	\$ -	\$ 678,359
Payable under forward foreign currency exchange contracts	(32,693)	-
Net Receivable (Payable) Under Forward Foreign Currency Exchange Contracts	\$ (32,693)	\$ 678,359

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.

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.

The bank balances of the System at September 30, 2015 and 2014 were \$1,692,241 and \$1,123,973, 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.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

Notes to Financial Statements (Continued)

3. CASH AND INVESTMENTS (CONTINUED)

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, 2015 and 2014 were held by the System's agent in the System's name.

At September 30, 2015 and 2014, 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>2015</u>	
Acadian Asset Management - Emerging Markets Fund	<u>\$ 40,060,865</u>	<u>5.51%</u>
INTECH Investment Management - U.S. Large Cap Core Equity	<u>\$ 67,248,491</u>	<u>9.25%</u>
LSV Asset Management - U.S. Large Cap Value Equity	<u>\$ 36,157,718</u>	<u>4.97%</u>
PNC Capital Advisors - U.S. Broad Market Core Fixed Income	<u>\$ 56,802,875</u>	<u>7.81%</u>
Principal Global Investors - Real Estate Group Annuity Contract	<u>\$ 86,803,989</u>	<u>11.93%</u>
Silchester International Advisors - International Value Equity Group Trust	<u>\$ 69,696,175</u>	<u>9.58%</u>
Evanston Weatherlow Offshore - Hedge Fund	<u>\$ 39,150,986</u>	<u>5.38%</u>
	<u>2014</u>	
Acadian Asset Management - Emerging Markets Fund	<u>\$ 49,576,576</u>	<u>6.36%</u>
INTECH Investment Management - U.S. Large Cap Core Equity	<u>\$ 78,112,476</u>	<u>10.02%</u>
LSV Asset Management - U.S. Large Cap Value Equity	<u>\$ 42,409,845</u>	<u>5.44%</u>
PNC Capital Advisors - U.S. Broad Market Core Fixed Income	<u>\$ 55,612,662</u>	<u>7.14%</u>
Principal Global Investors - Real Estate Group Annuity Contract	<u>\$ 79,852,588</u>	<u>10.25%</u>
Silchester International Advisors - International Value Equity Group Trust	<u>\$ 73,726,464</u>	<u>9.46%</u>
Walter Scott & Partners - International Growth Equity Group Trust	<u>\$ 39,147,692</u>	<u>5.02%</u>

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

Notes to Financial Statements (Continued)

3. CASH AND INVESTMENTS (CONTINUED)

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, 2015 to foreign currency risk is presented on the following table:

Currency	Short-Term	Debt	Total
Polish Zloty	\$ 261	\$ 59,697	\$ 59,957
British Pound	29,288	2,024,705	2,053,993
Australian Dollar	41,130	510,903	552,033
Canadian Dollar	15,838	677,199	693,037
Euros	63,506	7,461,630	7,525,136
Japanese Yen	32,808	4,815,951	4,848,759
Mexican Peso	2,098	123,579	125,677
Danish Krone	1,797	64,819	66,617
	\$ 186,726	\$ 15,738,483	\$ 15,925,209

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	\$ 83,092,737
Aa	8,824,954
A	28,905,736
Baa	25,964,624
Below Baa	20,404,713
Not rated	507,838
Total Credit Risk Debt	\$ 167,700,602

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.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

Notes to Financial Statements (Continued)

3. CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk (Continued)

<u>Investment</u>	<u>Fair Value</u>	<u>Effective Duration</u>
Payden and Rygel	32,367,991	6.16 years
Allegiant (PNC)	56,802,875	5.48 years
SSGA	33,950,872	8.00 years
Loomis	25,391,885	4.52 years
Vanguard	19,186,979	5.44 years
Total	\$ 167,700,602	

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.

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 \$9,109,924 and \$8,520,980 for the years ended September 30, 2015 and 2014, 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, 2015 and 2014, approximately 817 and 830 members, respectively, have elected DROP participation and have DROP account balances of approximately 55,116,000 and \$56,575,000, respectively.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

Notes to Financial Statements (Continued)

6. FUNDED STATUS AND FUNDING PROGRESS

At September 30, 2015, the report of the System's actuary indicated that the System's funded status was as follows:

Actuarial Value of Assets	Actuarial Liability	Unfunded Actuarial Liability	Funded Ratio	Covered Pension Payroll	Percentage of Covered Pension Payroll
\$ 770,006,025	\$ 955,120,641	\$ (185,114,616)	80.62%	\$ 228,422,585	81.04%

The schedule of funding progress, presented as other supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Liabilities for benefits.

7. ACTUARIAL METHODS AND SIGNIFICANT ASSUMPTIONS

VALUATION DATE	October 1, 2015
TIMING	Actuarially determined contribution rates are calculated based on the actuarial valuation at the beginning of the year.
ACTUARIAL COST METHOD	Entry Age Normal
ASSET VALUATION METHOD	5 year smoothing
AMORTIZATION METHOD	Layered 20-year amortization of unfunded liability
DISCOUNT RATE	8.00%
INFLATION	3.00%
SALARY INCREASES	Varies by age from 3.00% to 4.25%.
MORTALITY	Healthy: RP-2000 Healthy Mortality 3-year set-forward with generational projections using Scale AA Disabled: RP-2000 Disabled Mortality 3-year set-forward with generational projections using Scale AA

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

Notes to Financial Statements (Continued)

7. ACTUARIAL METHODS AND SIGNIFICANT ASSUMPTIONS (CONTINUED)

GASB 67 requires the disclosure of the sensitivity of the net pension liability to changes in the discount rate. For calculations of Total Pension Liability the actuary has used an assumed long-term expected rate of return of 7.50%. The table below presents the net pension liability if the discount rate were 1% lower or 1% higher than the current rate.

	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
Total Pension Liability	\$ 1,051,971,910	\$ 955,120,641	\$ 872,320,479
Plan Fiduciary Net Position	727,997,133	727,997,133	727,997,133
Net Pension Liability	\$ 323,974,777	\$ 227,123,508	\$ 144,323,346
 System Fiduciary Net Position as a Percentage of Total Pension Liability	 69.20%	 76.22%	 83.46%

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 represent 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 CHANGES IN EMPLOYER NET PENSION LIABILITY

	*September 30,	
	2015	2014
Total Pension Liability		
Service cost	\$ 13,067,553	\$ 10,591,910
Interest	73,825,307	72,012,146
Change in benefit actual experience	-	-
	(2,701,109)	(3,664,735)
Change of assumptions	(5,107,330)	-
Benefit payments	(59,065,812)	(56,317,073)
Net Change in Total Pension Liability	20,018,609	22,622,248
Total Pension Liability - Beginning	935,102,032	912,479,784
Total Pension Liability - Ending (a)	\$ 955,120,641	\$ 935,102,032
Plan Fiduciary Net Position		
Contributions - employers	\$ 35,436,141	\$ 36,788,260
Contributions - member	289,810	129,164
Net investment income (loss)	(28,435,882)	70,076,027
Benefit payments	(59,065,812)	(56,317,073)
Administrative expenses	(722,758)	(670,957)
Net Change in Plan Fiduciary Net Position	(52,498,501)	50,005,421
Plan Fiduciary Net Position - Beginning	780,495,634	730,490,213
Plan Fiduciary Net Position - Ending (b)	727,997,133	780,495,634
Net Pension Liability - Ending (a)-(b)	\$ 227,123,508	\$ 154,606,397
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	76.22%	83.47%
Covered Employee Payroll	\$ 255,100,936	\$ 253,501,719
Net Pension Liability as a Percentage of Covered Employee Payroll	89.03%	60.99%

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

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

SCHEDULE OF NET PENSION LIABILITY

	September 30,	
	2015 *	2014
Total pension liability	\$ 955,120,641	\$ 935,102,032
Plan fiduciary net position	727,997,133	780,495,634
Net Pension Liability	\$ 227,123,508	\$ 154,606,398
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	76.22%	83.47%
Covered Employee Payroll	\$ 255,100,936	\$ 253,501,719
Net Pension Liability as a Percentage of Covered Employee Payroll	89.03%	60.99%

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

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

SCHEDULE OF EMPLOYER CONTRIBUTIONS

* System Year Ended September 30,	Actuarially Determined Contribution	Contribution in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contribution as a Percentage of Covered Payroll
2014	\$ 31,605,493	\$ 36,788,260	\$ (5,182,767)	\$ 253,501,719	14.51%
2015	28,534,042	35,436,141	(6,902,099)	228,422,585	15.51%

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

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

SCHEDULE OF ANNUAL MONEY-WEIGHTED RATE OF RETURN ON INVESTMENTS

* System Year Ended September 30,	Annual Money Weighted Rate of Return, Net of Investment Expense
2014	9.71%
2015	-3.79%

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

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

NOTES TO THE SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015 AND 2014

1. METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF
ACTUARIALLY DETERMINED CONTRIBUTIONS

Actuarial Methods and Assumptions

The actuarially determined contribution rates in the schedule of the System's contributions are calculated based on the actuarial valuation at the beginning of the plan year. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule.

	<u>September 30, 2015</u>
Actuarial cost method	Entry Age Normal
Asset valuation method	5 year smoothing
Amortization method	Layered 20-year amortization of unfunded liability
Discount rate	8.00%
Inflation	3.00%
Salary increases	Varies by age from 3.00% to 4.25%.
Mortality	Healthy: RP-2000 Healthy Mortality 3-year set-forward with generational projections using Scale AA Disabled: RP-2000 Disabled Mortality 3-year set-forward with generational projections using Scale AA
	<u>September 30, 2014</u>
Actuarial cost method	Projected Unit Credit Cost Method
Asset valuation method	5 year smoothing
Amortization method	Rolling 30-year level dollar amortization of unfunded liability
Discount rate	8.00%
Inflation	3.125%
Salary increases	Varies by age from 3.50% to 7.017%.
Mortality	Healthy: 1994 Group Annuity Mortality Table Disabled: 1983 Railroad Retirement Board Disabled Life Mortality Table

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

NOTES TO THE SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

1. METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS (CONTINUED)

	<u>September 30, 2013, 2012, 2011</u>
Actuarial cost method	Projected Unit Credit Cost Method
Asset valuation method	5 year smoothing
Remaining amortization period for the UAL	30 years
Amortization method	Level Dollar Open Amortization Period
Investment rate of return	8.00%
Inflation	3.125%
Salary increases	Varies by age from 3.50% to 7.017%.
Cost of living adjustments	3.125 simple with a 25% lifetime cap
Mortality	Healthy: 1994 Group Annuity Mortality Table Disabled: 1983 Railroad Retirement Board Disabled Life Mortality Table
	<u>September 30, 2010</u>
Actuarial cost method	Projected Unit Credit Cost Method
Asset valuation method	Expected Value Method
Remaining amortization period for the UAL	30 years
Amortization method	Level Dollar Open Amortization Period
Investment rate of return	8.00%
Inflation	3.125%
Salary increases	Varies by age from 3.50% to 7.017%.
Cost of living adjustments	3.125 simple with a 25% lifetime cap
Mortality	Healthy: 1994 Group Annuity Mortality Table Disabled: 1983 Railroad Retirement Board Disabled Life Mortality Table
	<u>September 30, 2009, 2008, 2007, 2006, 2005</u>
Actuarial cost method	Projected Unit Credit Cost Method
Asset valuation method	The market value of assets less unrecognized returns in each of the last five years, but no earlier than October 1, 2005. Unrecognized return is equal to the difference between the actual market return and the expected market return, and is recognized over a five year period. The actuarial value is further adjusted, if necessary, to be within 20% of market value. The actuarial asset value was initialized at market value as of October 1, 2005.
Remaining amortization period for the UAL	30 years
Amortization method	Level Dollar Open Amortization Period
Investment rate of return	8.00%
Salary increases	Varies by age from 3.825% to 7.226%
Cost of living adjustments	5% per year; maximum cumulative increase of 25%
Mortality	Healthy: 1994 Group Annuity Mortality Table Disabled: 1983 Railroad Retirement Board Disabled Life Mortality Table

Periods prior to September 30, 2007 were audited by other auditors and this information from these actuary reports were not obtained.

OTHER SUPPLEMENTARY INFORMATION

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

ANALYSIS OF FINANCIAL EXPERIENCE

Gain and Loss in Unfunded Actuarial Liability during Years Ended September 30 Resulting from Differences between Assumed Experience and Actual Experience

	Year Ending September 30,					
	2015	2014	2013	2012	2011	2010
Investment experience	\$ (2,743,842)	\$ 17,899,526	\$ (87,586)	\$ (42,041,794)	\$ (44,736,952)	\$ (30,170,089)
Combined liability experience	6,114,189	7,265,891	8,391,763	7,779,666	12,671,467	12,023,759
Gain (loss) during year from financial experience	3,370,347	25,165,417	8,304,177	(34,262,128)	(32,065,485)	(18,146,330)
Non-recurring gain (loss) items	20,389,054	-	-	-	-	(3,960,992)
Composite Gain (Loss) During Year	\$ 23,759,401	\$ 25,165,417	\$ 8,304,177	\$ (34,262,128)	\$ (32,065,485)	\$ (22,107,322)

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

SOLVENCY TEST

Aggregate Actuarial Liabilites for:

*Valuation Date October 1	Active Member Contributions (1)	Retirees & Beneficiaries (2)	Active Member Employer Financed Contributions (3)	Actuarial Value of Reported Assets	Portion of Actuarial Liabilities Covered by Reported Assets		
					(1)	(2)	(3)
2015	-	\$ 501,123,197	\$ 453,997,444	\$ 770,006,025	100%	100%	59%
2014	-	494,664,459	417,314,687	737,967,928	100%	100%	58%
2013	-	475,937,321	413,511,258	685,397,323	100%	100%	51%
2012	-	460,581,077	406,310,985	653,001,852	100%	100%	47%
2011	-	441,520,555	400,242,766	661,932,240	100%	100%	55%
2010	-	419,717,802	400,951,838	671,608,995	100%	100%	63%

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

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability	Unfunded Actuarial Liability	Funded Ratio	Covered Pension Payroll	Percentage of Covered Pension Payroll
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%
10/1/2014	737,967,928	911,979,146	(174,011,218)	80.92%	227,039,143	76.64%
10/1/2015	\$ 770,006,025	\$ 955,120,641	\$ (185,114,616)	80.62%	\$ 228,422,585	81.04%