Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2012

Strength

PSRS/PEERS AND MISSOURI'S PUBLIC SCHOOLS

A Strong Partnership for Secure Retirement

PSRS/PEERS

PUBLIC SCHOOL & EDUCATION EMPLOYEE RETIREMENT SYSTEMS OF MISSOURI

Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2012

Strength

PSRS/PEERS AND MISSOURI'S PUBLIC SCHOOLS

A Strong Partnership for Secure Retirement

M. Steve Yoakum
Executive Director

Prepared by:
PSRS/PEERS Staff
PO Box 268
3210 W. Truman Blvd.
Jefferson City, MO
65102-0268
(573) 634-5290 or
(800) 392-6848

www.psrs-peers.org

PSRS/PEERS
PUBLIC SCHOOL & EDUCATION EMPLOYEE RETIREMENT SYSTEMS OF MISSOURI

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ACTUARIAL SECTION

STATISTICAL SECTION

MISSION STATEMENT

The Public School Retirement System of Missouri and the Public Education Employee Retirement System of Missouri (PSRS and PEERS) work in partnership with the member school districts of this state to provide eligible employees and their beneficiaries with a significant source of income based on the employee's length of service and compensation in order to enhance retirement, disability and death benefits received from other sources.

It is the fiduciary responsibility of those charged with administration of PSRS and PEERS to:

- Effectively collect contributions,
- Prudently invest the assets to obtain optimum returns,
- Equitably provide benefits, and
- Impartially and in accordance with applicable law administer the benefit programs.

The PSRS/PEERS Board of Trustees and staff are committed to providing services to the members and beneficiaries professionally, promptly, courteously, and efficiently.

Mission Statement Principles

- We will conduct the business of the Retirement Systems in accordance with the mission statement.
- We will act as fiduciaries in the management of all funds for the exclusive benefit of our members.
- We will adhere to our investment policy to ensure the highest possible investment return consistent with the prudent investment of plan assets.
- We will have as our goal the replacement of 80% of a member's final average salary after a 30-year career through the combination of income from public pensions and, when applicable, the federal Social Security system.
- We will have as our goal the retention of purchasing power of the initial retirement benefit through the retirement years.
- We will maintain an independent retirement system that retains the power of the trustees to set actuarial assumptions, appoint consultants, employ staff, establish a budget and conduct all business of the Retirement Systems.
- We will prepare and distribute an annual financial report that adheres to U.S. generally accepted accounting principles.
- We will provide prompt, courteous and accurate service to our members.
- We will provide clear and complete information to the members and the districts through the use of a summary plan document, newsletters, an annual member account statement and any other documents deemed necessary.
- We will adhere to the highest standards of ethical conduct.

PSRS/PEERS and Missouri's Public Schools – A Strong Partnership for Secure Retirement

The Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS) ***work in partnership*** with the member school districts of this state to provide eligible employees and their beneficiaries with a significant source of income based on the employee's length of service and compensation in order to enhance retirement, disability and death benefits received from other sources.

– From the PSRS/PEERS Mission Statement

At PSRS/PEERS, we don't work alone in our mission to provide members with financial security in retirement. We rely on the hard work and dedication of the many public school districts that employ those members.

These school districts truly are our partners in providing the best possible retirement benefits for PSRS/PEERS members. Not only do they contribute financially to the Retirement Systems on behalf of their employees' retirement, but they also provide the all-important payroll and employment data we need to pay retirement benefits accurately and on time.

The strength displayed by these school districts every day goes well beyond what they demonstrate through contributions to their employees' retirement security. It helps them to achieve great things for Missouri's students, families and communities.

In this report, we are proud to feature just a few stories of this strength. These are stories of districts that have faced extraordinary challenges, such as rebuilding after disaster, as well as accounts of districts that have adopted proactive and innovative ways to maintain growing facilities, and ensure the safety of students and staff.

We hope you are as inspired by their dedication, perseverance and achievement as we are.

INTRODUCTORY SECTION

BOARD OF TRUSTEES

TRANSMITTAL LETTER

PSRS/PEERS

PUBLIC SCHOOL & EDUCATION EMPLOYEE
RETIREMENT SYSTEMS OF MISSOURI

December 12, 2012

TO: Board of Trustees and Members of the Retirement Systems:

We are pleased to present the ***Comprehensive Annual Financial Report*** *(CAFR)* of the Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System of Missouri (PEERS) for the fiscal year ended June 30, 2012.

In addition to providing information to our Board of Trustees and members concerning the financial condition of the Systems, this report also meets our reporting requirements under Sections 169.020.16 and 169.610.3 of the Revised Statutes of Missouri (RSMo). Printed copies are available to the public upon request and the complete report is also posted on our website, **www.psrs-peers.org**.

This letter provides a brief overview of the contents of the CAFR. We encourage you to read the Management's Discussion and Analysis on pages 14 to 18 for a more detailed analysis of our financial position for the fiscal year.

Report Contents and Structure

Responsibility for the preparation, accuracy and completeness of this report, including all disclosures, rests with the management staff of PSRS/PEERS (the Systems). The Systems' financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) within the guidelines established by the Governmental Accounting Standards Board (GASB). To the best of our knowledge, the enclosed data is accurate in all material respects and fairly presents our financial position and operating results.

The management of the Systems is responsible for internal accounting controls, which are designed to provide reasonable but not absolute assurance for the safeguarding of assets and the reliability of financial records. The Systems employ two internal auditors who perform operational reviews to ensure that the internal controls are functioning effectively. We believe the internal controls in place are adequate to meet the purpose for which they were intended.

Our independent external auditors selected by the Board of Trustees have conducted an audit of the basic financial statements in accordance with U.S. generally accepted auditing standards. This audit and the financial statements are presented on pages 13 to 44 of this report.

Overview of the Retirement Systems

The Public School Retirement System of Missouri (PSRS), a cost-sharing multiple employer retirement system, was established in 1946 by an act of the Missouri legislature to provide certificated public school employees and their families with a significant and stable source of retirement income, disability and survivor benefits. The majority of PSRS members do not contribute to Social Security.

Location 3210 W. Truman Blvd. / Jefferson City, MO 65109 **Mail** P.O. Box 268 / Jefferson City, MO 65102 **Phone** (573) 634-5290
Toll Free (800) 392-6848 **Email** psrspeers@psrspeers.org **Member Services FAX** (573) 634-7934 **Employer Services FAX** (573) 634-7911

The Non-Teacher School Employee Retirement System of Missouri (NTRS), also a cost-sharing multiple employer retirement system, was established in 1965 by an act of the Missouri legislature to build a plan similar to PSRS, but for non-certificated public school personnel. The name of the non-teacher system was changed to the Public Education Employee Retirement System of Missouri (PEERS) in August 2005 to more positively represent the members of the System. Members of PEERS contribute to Social Security.

PSRS and PEERS are governed jointly by a seven-member Board of Trustees, composed of three elected PSRS members, one elected PEERS member and three members appointed by the governor.

Unlike most public pension systems, the members of PSRS and PEERS share equally in funding to the Retirement Systems. This funding mechanism has kept the employer contributions lower than many public plans while still providing a very good benefit package to members.

The combined Systems serve over 225,000 total members in 538 school districts and other employers. Approximately $184 million is paid monthly to over 72,000 service retirees and beneficiary recipients. At June 30, 2012, PSRS/PEERS had combined net assets of $30.8 billion, making it larger than all other retirement systems in the state of Missouri combined.

Investment Activities

The Systems' three-year annualized fund performance ended June 30, 2012 was 11.9% for PSRS and 11.6% for PEERS. The investment returns of the last two fiscal years reflect the volatility and complexity in global markets. PSRS and PEERS total investment returns for the current fiscal year are 1.9% and 1.6%, respectively, compared to the prior fiscal year returns of 21.8% for PSRS and 21.4% for PEERS.

The Board of Trustees has embraced a philosophy to institute a disciplined and diversified investment portfolio. The Systems have developed a portfolio that is invested across a broad array of assets within a prudent level of risk. Additional detailed information regarding the PSRS and PEERS investments can be found in the Investment Section of this report beginning on page 45.

Funding Status and Valuation Results

As of June 30, 2012, PSRS was 81.5% funded, while PEERS was 82.5% funded. Both Systems showed a slight decrease in funding from the June 30, 2011 funded percentages of 85.5% for PSRS and 85.3% for PEERS.

In 2011, the Board of Trustees enacted its Funding Stabilization Policy which limits Cost-of-Living Adjustments (COLAs) to 2% in most years. Various groups representing active and retired members supported this proposal demonstrating the commitment of our members to ensuring a sound retirement system for future generations of educators.

Based upon the June 30, 2012 valuation, the Board of Trustees set the fiscal year 2014 contribution rates for both PSRS and PEERS above the Annual Required Contribution (ARC) rate determined by the actuary. This did not require an increase in rates paid by the members or employers. This will mark the second year that the Systems have collected actual contributions in excess of the ARC rate. Prior to this, the Systems were unable to fully collect the ARC due to limitations established in Missouri law.

TRANSMITTAL LETTER (continued)

Legislative Changes During 2011-2012

There was no legislation approved in 2011-2012 that directly affected PSRS or PEERS.

Awards

Public Pension Coordinating Council (PPCC), Public Pension Standards Award

PSRS and PEERS each received the Public Pension Standards Awards in 2012 in recognition of meeting professional standards for plan administration and plan funding as set forth in the Public Pension Standards of the PPCC. These awards are presented by the PPCC, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PSRS and PEERS for the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. To be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR whose contents meet or exceed program standards. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for only one year. We believe our current report continues to meet the Certificate of Achievement program requirements and are submitting it to GFOA for consideration again this year.

Professional Services

Certain professional services are provided to the Systems by retained consultants. The required opinion letters from two of those consultants, PricewaterhouseCoopers, LLC, actuaries, and Williams Keepers LLC, independent certified public accountants, are contained elsewhere in this report.

Investment consulting services, as well as investment manager search assistance and investment performance analysis, have been provided by Towers Watson.

Acknowledgements

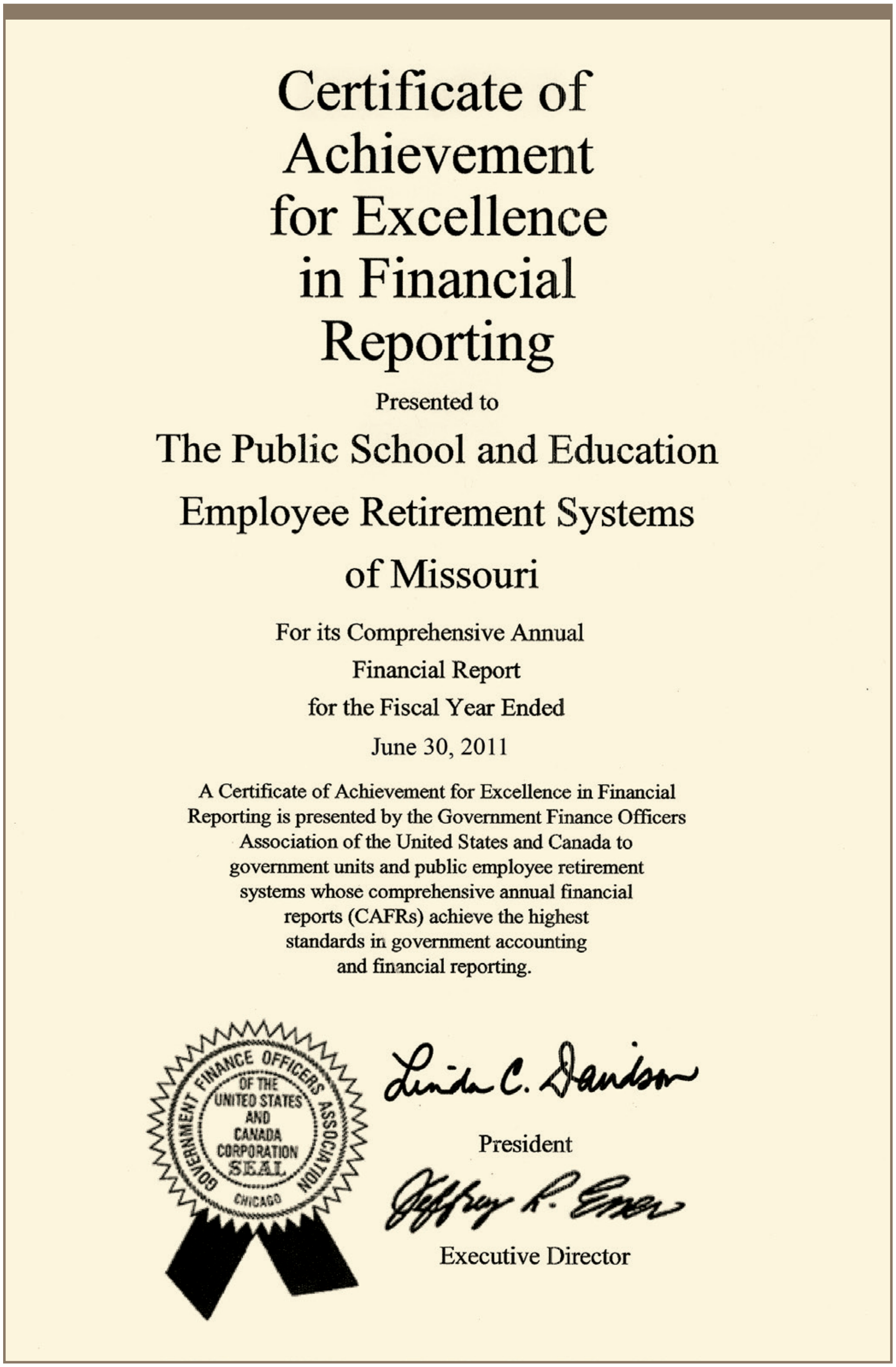
We would like to express our thanks and gratitude to the Board of Trustees, staff, and consultants who have worked diligently to produce this report and to ensure the successful operation of the Systems.

Respectfully submitted,

M. Steve Yoakum
Executive Director

Lori Woratzeck, CPA
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting



Certificate of Achievement for Excellence in Financial Reporting

Presented to

The Public School and Education Employee Retirement Systems of Missouri

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Public Pension Coordinating Council (PPCC), Public Pension Standards Awards

PPCC

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2012

Presented to

Public School Retirement System of Missouri

In recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Alan H. Winkle
Program Administrator

PPCC

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2012

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Public Education Employee Retirement System of Missouri

In recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

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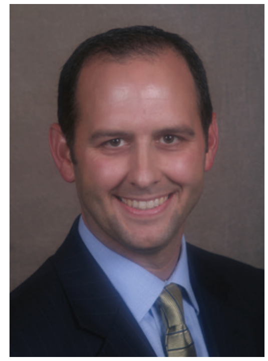
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Alan H. Winkle
Program Administrator

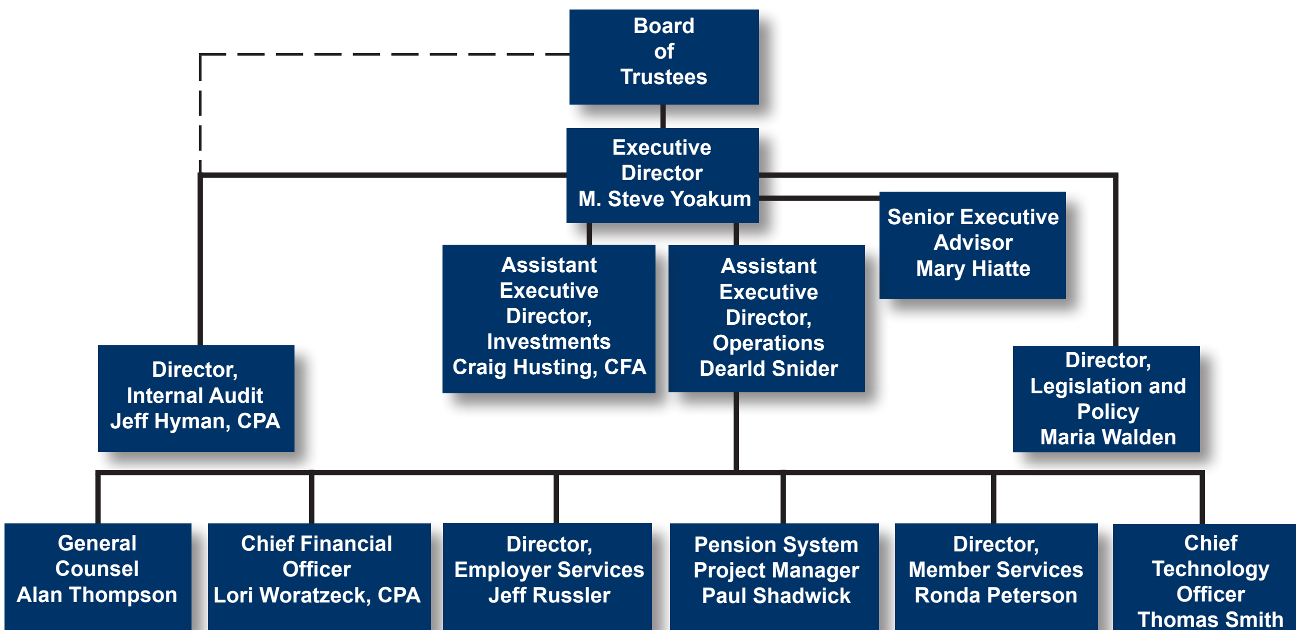
ADMINISTRATIVE ORGANIZATION

M. Steve Yoakum
Executive Director

Craig Husting, CFA
Assistant Executive Director, Investments



Dearld Snider
Assistant Executive Director, Operations



PROFESSIONAL SERVICES

June 30, 2012

ACTUARIES

PricewaterhouseCoopers, LLC
Actuaries and Consultants
Sheldon Gamzon, FSA, EA, MAAA
Brandon Robertson, ASA, EA, MAAA
Chicago, Illinois

AUDITOR

Williams Keepers, LLC
Heidi A. Chick, CPA
Amanda Pinkerton, CPA
Columbia, Missouri

TECHNOLOGY CONSULTANTS

Aspect Software, Inc.
Jim McPherson
St. Charles, MO

CherryRoad Technologies
Ron Small
Morris Plains, NJ

Huber & Associates
James Huber
Jefferson City, Missouri

L.R. Wechsler, Ltd.
Ben Lott
William Morrow
Fairfax, Virginia

Sagitec Solutions, LLC
Rod Sheppard
Jeff Freeman
Roseville, Minnesota

TowerWall, Inc.
Michelle Drolet
Holliston, Massachusetts

Towner Communication Systems
Mark Towner
Jefferson City, Missouri

INSURANCE CONSULTANTS

Charlesworth & Associates
Bob Charlesworth
Overland Park, Kansas

Wallstreet Insurance Group
Lee Wilbers
Jefferson City, Missouri

OTHER CONSULTANTS

Cortex
Dr. John Por
Toronto, Ontario

LEGAL COUNSEL

Groom Law Group
David Levine
Washington, D.C.

Pillsbury, Winthrop, Shaw, Pittman, LLP
Dulcie Brand
Los Angeles, California

Thompson Coburn, LLP
Allen Allred
St. Louis, Missouri

LEGISLATIVE CONSULTANT

James R. Moody & Associates
James "Jim" Moody
Jefferson City, Missouri

MEDICAL ADVISOR

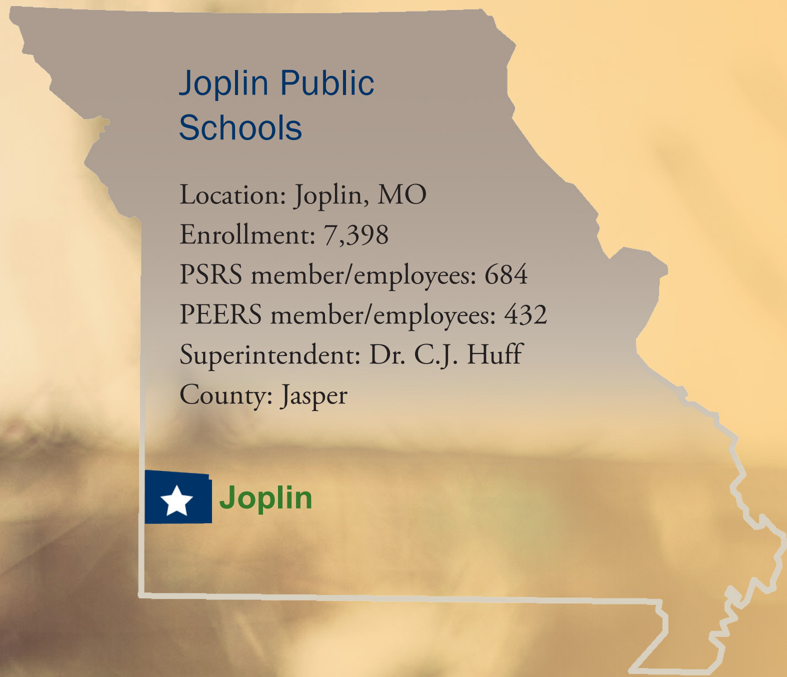
Andrew Matera, M.D.
Columbia, Missouri

Investment Management, Custodial and Consulting fees can be found in the Schedule of Investment Expenses on page 86. Additional information on Investment Managers can also be found in the Investment Section of this report.

Photo: Aaron Durall

Joplin Public Schools

Location: Joplin, MO
Enrollment: 7,398
PSRS member/employees: 684
PEERS member/employees: 432
Superintendent: Dr. C.J. Huff
County: Jasper



Triumph Over Unthinkable Disaster

On Sunday evening, May 22, 2011, the evening of their high school graduation ceremony, Joplin was struck by an EF-5 tornado. The Joplin school district lost seven students and one staff member, with many others injured. The storm destroyed more than half the district's classroom space – six district buildings were demolished and four others damaged.

The district pledged to do everything in its power to help the community rise up after the incredible devastation, and to get their students back to school on time the following school year.

In a demonstration of amazing strength and dedication, and with unparalleled community support, they did just that. Students returned to school on time on August 17, 2011, attending class in temporary facilities set up in locations around the city.

The districts' ultimate goal is to raise funds, rebuild destroyed schools and return students to permanent facilities by August 2014, as well as to provide safe rooms for existing facilities.

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

WILLIAMS KEEPERS LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

2005 West Broadway, Ste. 100, Columbia, MO 65203
OFFICE (573) 442-6171 FAX (573) 777-7800

3220 West Edgewood, Ste. E, Jefferson City, MO 65109
OFFICE (573) 635-6196 FAX (573) 644-7240

www.williamskeepers.com

The Board of Trustees of the Public School and
Public Education Employee Retirement Systems of Missouri

We have audited the accompanying statements of plan net assets of the Public School Retirement System of Missouri and the Public Education Employee Retirement System of Missouri (the Systems) as of June 30, 2012, and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Systems' management. Our responsibility is to express opinions on these financial statements based on our audits. The prior year combined total information has been derived from the Systems' 2011 financial statements and, in our report dated October 21, 2011, we expressed unqualified opinions on the respective financial statements of the Systems' net assets.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Public School Retirement System of Missouri and the Public Education Employee Retirement System of Missouri at June 30, 2012, and the changes in plan net assets for the year then ended, in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedules of funding progress and employer contributions on pages 14-18 and 40-42 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 audits 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.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public School Retirement System of Missouri and the Public Education Employee Retirement System of Missouri (the Systems') financial statements as a whole. The additional financial information on pages 43-44 are presented for purposes of additional analysis and are not a required part of the financial statements. The additional information on pages 43-44 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. The information has been subjected to the auditing procedures applied in the audits 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 U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Williams Keepers LLC

October 24, 2012

American Institute of Certified Public Accountants
Missouri Society of Certified Public Accountants
PKF North American Network

Superior service. Creative solutions. Exceptional clients.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the financial position of the Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System of Missouri (PEERS), collectively referred to as the Systems, provides an overview of the Systems' financial activities for the fiscal year ended June 30, 2012. We encourage you to consider the information presented here in conjunction with additional information presented in the financial statements and required supplementary information.

Financial Highlights

The following highlights are explained in more detail for each System later in this discussion.

The combined net assets of the Systems decreased by \$237.6 million. The net assets of PSRS decreased by \$283.4 million while the net assets of PEERS increased by \$45.8 million.

Financial markets experienced high volatility during fiscal year 2012, with most global markets being unsettled. The overall investment returns were 1.9% for PSRS and 1.6% for PEERS. Both Systems outperformed the median return of large institutional pension funds during these difficult markets. Due to the long-term nature of defined benefit pension plans, it is important to look at the financial performance of the Systems over a period of years and not just at this single point in time. Our one-year investment earnings are below the 8% rate of return assumption. However, the long-term returns of the Systems remain above the 8% assumed rate of return. The current 25-year return of the Systems is 8.2%.

As of June 30, 2012, the funded ratios were 81.5% for PSRS and 82.5% for PEERS. As of June 30, 2011, the funded ratios were 85.5% for PSRS and 85.3% for PEERS. To arrive at the actuarial value of assets as of June 30, 2012 and 2011, the Systems used an asset smoothing method by which investment returns above or below 8% are recognized over a five-year period. During fiscal year 2011, the Systems conducted an actuarial experience study, which resulted in revisions to some of the actuarial assumptions. The actuarial assumptions are detailed in the notes to the financial statements.

The Systems' funding objective is to meet long-term benefit obligations through the accumulation of contributions and investment income. This funding is to be carried out in such a way to ensure that the burden of paying retirement costs shall be shared equitably by present and succeeding generations of members and taxpayers. The Systems continue their dedication to providing a stable and secure retirement to their members.

Total revenues for fiscal year 2012 were comprised of contribution revenue of \$1.5 billion and investment gains of \$489.6 million, compared to contribution revenue of \$1.4 billion and investment gains of \$5.5 billion for fiscal year 2011.

Expenses increased 5.8% over the prior year from \$2.1 billion to \$2.2 billion. Retirement benefits and member refunds increased by \$121.3 million from the prior year, while administrative expenses decreased by \$0.7 million during the same time period.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial report of the Systems. The financial report consists of: The basic financial statements, comprised of the Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets; the notes to the basic financial statements; and the required and other supplementary information.

The Statements of Plan Net Assets (page 20) present information on the assets and liabilities of the Systems, with the difference between the two reported as net assets. The net assets of the Systems reflect the resources available to pay benefits to members when due. Over time, increases and decreases in net assets measure whether the Systems' financial position is improving or deteriorating.

The Statements of Changes in Plan Net Assets (page 21) present information detailing the changes in net assets that occurred during the current fiscal year. All changes in net assets are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. For example, contributions due from an employer, even though not yet paid by year end, will be reflected as revenue. Earned vacation accruals will be reflected as an expense, even though they have not been paid to employees.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found on pages 22 through 39. The report also contains required supplementary information in addition to the basic financial statements themselves.

The Schedules of Funding Progress (page 40) include historical trend information about the actuarially funded status of each System from a long-term, ongoing perspective and the progress made in accumulating assets to pay benefits when due.

The Schedules of Employer Contributions (page 41) present historical trend information about the annual required contributions of employers and the actual contributions made by employers.

The Schedule of Funding Progress (page 42) includes historical trend information about the actuarially funded status of the defined benefit other post-employment benefit (OPEB) plan from a long-term, ongoing perspective and the progress made in accumulating assets to pay benefits when due.

The Schedule of Employer Contributions (page 42) presents historical trend information about the annual required contributions of the employer and the actual employer contributions made for the defined benefit OPEB plan.

The Schedule of Percentage of Other Post-Employment Benefit (OPEB) Cost Contributed (page 42) presents historical trend information about the annual OPEB costs and the actual contributions made for the defined benefit OPEB plan.

Other supplementary schedules are also included. The Schedules of Administrative Expenses (page 43) present the overall cost of administering the Systems. The Schedules of Professional Services (page 44) further detail this category of administrative expense.

The Schedules of Investment Expenses (page 44) show the costs associated with investing the assets of the Systems. These expenses are shown as a reduction of revenue on the Statements of Changes in Plan Net Assets.

Financial Analysis of the Public School Retirement System of Missouri (PSRS)

PSRS is a mandatory cost-sharing multiple employer retirement system for full-time certificated employees and certain part-time employees of participating employers. PSRS members were required to contribute 14.5% of their annual covered salary during fiscal year 2012. The employer was required to match that amount. Most PSRS members do not contribute to Social Security, except for employees hired after 1986 who contribute to Medicare only.

Public School Retirement System of Missouri
Plan Net Assets (000's)

	2012	2011	Change
Cash & investments	$ 31,015,849	$ 30,821,804	$ 194,045
Receivables	1,862,705	2,151,259	(288,554)
Other	17,517	15,497	2,020
Total assets	32,896,071	32,988,560	(92,489)
Total liabilities	5,079,298	4,888,379	190,919
Plan net assets	$ 27,816,773	$ 28,100,181	$ (283,408)

Assets

Total assets of PSRS as of June 30, 2012 were $32.9 billion and were mostly comprised of cash, investments, investment sales receivables and contributions due from employers. Investment sales receivables decreased significantly from the prior year, which is reflected in a higher cash and investments balance. Total assets decreased by $92.5 million or 0.3% from the prior year due to benefit payments exceeding contribution revenue and investment earnings during the year.

Liabilities

Total liabilities as of June 30, 2012, were $5.1 billion and were mostly comprised of payables from the purchase of investments and obligations under security lending arrangements. Total liabilities increased by $190.9 million from the prior year. This increase was due to a $559.5 million increase in investment purchase liabilities that was offset by a significant decrease in obligations under security lending arrangements.

Net Assets

PSRS assets exceeded liabilities at June 30, 2012, by $27.8 billion. This was a decrease of $283.4 million from 2011 net assets. This decrease was a result of investment earnings that totaled $449.8 million for the year offset by benefit payments and other expenses which exceeded contribution revenue by $733.7 million. This trend is a natural progression in a mature defined benefit plan.

Public School Retirement System of Missouri
Changes in Plan Net Assets (000's)

	2012	2011	Change
Additions			
Member contributions	$ 658,936	$ 638,357	$ 20,579
Employer contributions	620,214	594,732	25,482
Investment income	449,822	5,018,518	(4,568,696)
Other	441	930	(489)
Total additions	1,729,413	6,252,537	(4,523,124)
Deductions			
Monthly benefits	1,950,231	1,845,620	104,611
Refunds of contributions	54,456	53,639	817
Administrative expenses	8,134	8,836	(702)
Other	-	2	(2)
Total deductions	2,012,821	1,908,097	104,724
Change in plan net assets	$ (283,408)	$ 4,344,440	$(4,627,848)

Revenues – Additions to Plan Net Assets

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through investment earnings. Total contribution revenue for the year increased by $46.1 million to $1.3 billion. This was a 3.7% increase over the prior year. Retirement contributions were calculated at 14.5% of retirement salary for each member during fiscal year 2012. The employer matched this amount. Contribution rates increased by 3.6% compared to the prior year (14.5% of retirement salary during 2012 compared to 14.0% during fiscal year 2011). In addition to contributions on salary, members may also pay contributions to reinstate previously refunded service or to purchase various types of elective service. Such contributions for the year decreased by $5.4 million.

The net investment gain was $449.8 million as compared to a net investment gain of $5.0 billion in 2011. The investment gain is directly related to the current net year investment return of 1.9% compared to the prior year return of 21.8%. All investment related expenses, such as fees paid to investment managers, are reflected as a reduction in revenue and are accounted for in this net figure.

Expenses – Deductions from Plan Net Assets

The primary expenses of PSRS include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members, and the cost of administering the System. Total expenses for fiscal year 2012 were $2.0 billion, an increase of 5.5% over fiscal year 2011.

Benefit expenses increased by $104.6 million. This was a result of the addition of 2,996 new service and disability retirees. There were no changes to the benefit formula during 2012. Refunds of contributions increased by $0.8 million to $54.5 million.

Administrative expenses decreased by $0.7 million to $8.1 million. This was a 7.9% decrease, which is attributable to a significant reduction in depreciation and legal fee expenses. The cost of these items was charged 61% to PSRS and 39% to PEERS, unless the expense was determined to be of direct benefit to only one System. In such instance, the allocation of expense was 100% to the benefited System. As always, we will continue to look for ways to streamline costs when prudent.

Financial Analysis of the Public Education Employee Retirement System of Missouri (PEERS)

PEERS is a mandatory cost-sharing multiple employer retirement system for non-certificated employees and certain part-time certificated employees of participating employers. PEERS members were required to contribute 6.86% of their annual covered salary during 2012. The employer was required to match that amount. PEERS members also contribute to Social Security.

Public Education Employee Retirement System of Missouri
Plan Net Assets (000's)

	2012	2011	Change
Cash & investments	$3,317,935	$ 3,200,113	$ 117,822
Receivables	184,894	232,745	(47,851)
Other	-	41	(41)
Total assets	3,502,829	3,432,899	69,930
Total liabilities	538,272	514,135	(24,137)
Plan net assets	$ 2,964,557	$ 2,918,764	$ 45,793

Assets

Total assets of PEERS as of June 30, 2012 were $3.5 billion and were mostly comprised of cash, investments, investment sales receivables and contributions due from employers. Investment sales receivables decreased significantly from the prior year, which is reflected in a higher cash and investments balance. Total assets increased by $69.9 million or 2.0% from the prior year due to investment gains and contribution revenue exceeding benefit payments and other expenses.

Liabilities

Total liabilities as of June 30, 2012 were $0.5 billion and were mostly comprised of payables from the purchase of investments and obligations under security lending arrangements. Total liabilities increased by $24.1 million. This increase was due to an $82.6 million increase in investment purchase liabilities that was offset by a significant decrease in obligations under security lending arrangements.

Net Assets

PEERS assets exceeded liabilities at the close of fiscal year 2012 by $2.96 billion. This was up from 2011 net assets of $2.92 billion by $45.8 million. This increase was a result of investment earnings that totaled $39.8 million during the year. Because PEERS is a much younger plan than PSRS, contribution revenues exceeded benefit payments and other expenses by $6.0 million.

Public Education Employee Retirement System of Missouri
Changes in Plan Net Assets (000's)

	2012	2011	Change
Additions			
Member contributions	$101,931	$ 95,792	$ 6,139
Employer contributions	95,094	90,816	4,278
Investment income	39,774	502,934	(463,160)
Total additions	236,799	689,542	(452,743)
Deductions			
Monthly benefits	166,945	150,769	16,176
Refunds of contributions	18,470	18,823	(353)
Administrative expenses	5,591	5,608	(17)
Other	-	3	3
Total deductions	191,006	175,203	15,803
Change in plan net assets	$ 45,793	$514,339	$(468,546)

Revenues – Additions to Plan Net Assets

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through investment earnings. Total contribution revenue for the year increased by $10.4 million to $197.0 million. Retirement contributions were calculated at 6.86% of retirement salary for each member during fiscal year 2012. The employer matched this amount. Contribution rates increased by 3.5% compared to the prior year (6.86% of retirement salary during 2012 compared to 6.63% during fiscal year 2011). Overall contribution revenue increased by 5.6%. In addition to contributions on salary, members may also pay contributions to reinstate previously refunded service or to purchase various types of elective service. Such contributions for the year increased by $1.9 million or 36.7%.

The net investment gain was $39.8 million as compared to a net investment gain of $502.9 million in 2011. The investment gain is directly related to the current year investment return of 1.6% compared to the prior year return of 21.4%. All investment related expenses, such as fees paid to investment managers, are reflected as a reduction in revenue and are accounted for in this net figure.

Expenses – Deductions from Plan Net Assets

The primary expenses of PEERS include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members, and the cost of administering the System. Total expenses for fiscal year 2012 were $191.0 million, an increase of 9.0% over fiscal year 2011.

Benefit expenses increased by $16.2 million. This was a result of the addition of 1,781 new service and disability retirees. There were no changes to the benefit formula during 2012. Refunds of contributions decreased by $0.4 million to $18.5 million.

Administrative expenses marginally decreased to $5.59 million. This was a 0.3% decrease. This decrease is attributable to a reduction in legal fee expenses. PEERS reimburses PSRS for the use of capital assets used by the two Systems on a proportional basis. Administrative costs were charged 61% to PSRS and 39% to PEERS, unless the expense was determined to be of direct benefit to only one System. In such instance, the allocation of expense was 100% to the benefited System. As always, we will continue to look for ways to streamline costs when prudent.

Summary

Due to the long-term nature of defined benefit pension plans, it is important to look at the financial performance of the Systems over a period of years and not just at this single point in time. Our one year investment returns are below the 8% rate of return assumption, however the long term return of the Systems remains above the 8% assumed rate of return. The current 25-year return of the Systems is 8.2%.

The recommended fiscal year 2014 contribution rates for both PSRS and PEERS are unchanged from fiscal years 2013 and 2012. The recommended fiscal year 2014 contribution rate for PSRS remains 29.0%.

The recommended rate is above the annual required contribution rate of 28.20%. The recommended fiscal year 2014 contribution rate for PEERS remains 13.72%. The recommended rate is above the annual required contribution rate of 13.57%. The recommended fiscal year 2014 contribution rates for both PSRS and PEERS represent a stabilization of the rates with no increase over fiscal years 2013 and 2012. These contribution rate levels adhere to the PSRS/PEERS' Board of Trustees' Funding Stabilization Policy which has taken into consideration the probable rise in the annual required contribution in future fiscal years. Fiscal year 2014 contribution rates were approved by the PSRS/PEERS Board of Trustees at their December 2012 board meeting.

The Board of Trustees, management and staff continually strive to improve the financial position of the Systems through a prudent investment program and long-term strategic planning.

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 Systems' finances and to demonstrate the Systems' accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS), P.O. Box 268, Jefferson City, MO 65102.

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Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri Statements of Plan Net Assets

as of June 30, 2012
with comparative totals for June 30, 2011

	PSRS	PEERS	Combined Totals June 30, 2012	Combined Totals June 30, 2011
ASSETS				
Cash	$ 90,553,538	$ 13,481,385	$ 104,034,923	$ 80,263,667
Receivables				
Contributions	162,148,530	17,250,538	179,399,068	174,665,941
Accrued interest and dividends	126,642,508	9,425,579	136,068,087	71,458,093
Investment sales	1,573,449,536	158,184,669	1,731,634,205	2,137,250,511
Due from PEERS	348,642	-	348,642	506,898
Other	115,754	32,783	148,537	122,621
Total receivables	1,862,704,970	184,893,569	2,047,598,539	2,384,004,064
Investments, at fair value				
U.S. Treasuries and TIPS	4,177,031,256	473,783,581	4,650,814,837	5,170,653,120
U.S. public equities	10,458,109,496	1,109,816,543	11,567,926,039	10,336,216,850
Global public equities	4,230,694,103	487,548,871	4,718,242,974	5,280,590,664
Short-term investments	417,784,266	66,643,970	484,428,236	1,379,546,681
Public debt	2,559,373,302	279,136,465	2,838,509,767	2,677,408,890
Private equity	1,943,852,119	160,829,045	2,104,681,164	1,900,923,730
Private credit	392,944,813	31,953,154	424,897,967	308,094,895
Private real estate	2,048,406,187	212,704,627	2,261,110,814	1,781,712,155
Hedged assets	4,173,430,894	433,143,909	4,606,574,803	4,112,989,335
Total investments	30,401,626,436	3,255,560,165	33,657,186,601	32,948,136,320
Invested securities lending collateral	523,668,569	48,893,553	572,562,122	993,516,994
Prepaid expenses	125,353	-	125,353	772,708
Capital assets, net of accumulated depreciation	17,391,271	-	17,391,271	14,765,165
Total assets	32,896,070,137	3,502,828,672	36,398,898,809	36,421,458,918
LIABILITIES				
Accounts payable	13,747,422	1,719,009	15,466,431	18,043,107
Interest payable	271,912	55,051	326,963	1,247,061
Securities lending collateral	548,097,925	50,985,860	599,083,785	1,022,559,283
Investment purchases	4,515,652,935	484,229,148	4,999,882,083	4,358,002,670
Due to PSRS	-	348,642	348,642	506,898
Net other post-employment benefit obligation	573,551	375,649	949,200	752,900
Compensated absences	953,831	558,276	1,512,107	1,401,885
Total liabilities	5,079,297,576	538,271,635	5,617,569,211	5,402,513,804
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 27,816,772,561	$ 2,964,557,037	$ 30,781,329,598	$ 31,018,945,114

Note: See accompanying Notes to the Financial Statements.

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri Statements of Changes in Plan Net Assets

for the year ended June 30, 2012
with comparative totals for the year ended June 30, 2011

			Combined Totals Year Ended	
	PSRS	PEERS	June 30, 2012	June 30, 2011
ADDITIONS				
Contributions				
Employer	$ 620,214,231	$ 95,094,785	$ 715,309,016	$ 685,548,292
Member	658,935,738	101,930,717	760,866,455	734,148,848
Total contributions	1,279,149,969	197,025,502	1,476,175,471	1,419,697,140
Investment income				
From investing activities:				
Net appreciation in fair value of investments	325,706,142	24,926,204	350,632,346	5,421,950,392
Interest from investments	187,267,270	20,721,439	207,988,709	231,100,022
Interest from bank deposits	39,213	1,464	40,677	57,997
Dividends	159,270,504	16,788,336	176,058,840	185,195,179
Total investment income	672,283,129	62,437,443	734,720,572	5,838,303,590
Less investment expenses	232,346,116	23,611,800	255,957,916	359,573,665
Net income from investing activities	439,937,013	38,825,643	478,762,656	5,478,729,925
From security lending activities:				
Security lending gross income	2,554,549	265,484	2,820,033	3,600,319
Net appreciation in fair value of security lending collateral	2,322,698	197,928	2,520,626	36,569,702
Less security lending activity expenses:				
Agent fees	1,372,774	140,256	1,513,030	1,266,460
Broker rebates paid (received)	(6,380,024)	(624,995)	(7,005,019)	(3,818,634)
Total security lending expenses	(5,007,250)	(484,739)	(5,491,989)	(2,552,174)
Net income from security lending activities	9,884,497	948,151	10,832,648	42,722,195
Total net investment income	449,821,510	39,773,794	489,595,304	5,521,452,120
Other income				
PEERS capital asset charge	433,323	-	433,323	915,699
Miscellaneous income	7,711	-	7,711	14,366
Total other income	441,034	-	441,034	930,065
Total additions	1,729,412,513	236,799,296	1,966,211,809	6,942,079,325
DEDUCTIONS				
Monthly benefits	1,950,231,251	166,945,359	2,117,176,610	1,996,388,891
Refunds of contributions	54,456,051	18,469,530	72,925,581	72,461,629
Administrative expenses	8,133,833	5,590,986	13,724,819	14,443,612
Other expenses	315	-	315	6,179
Total deductions	2,012,821,450	191,005,875	2,203,827,325	2,083,300,311
Net (decrease) increase	(283,408,937)	45,793,421	(237,615,516)	4,858,779,014
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of year	28,100,181,498	2,918,763,616	31,018,945,114	26,160,166,100
End of year	$ 27,816,772,561	$ 2,964,557,037	$ 30,781,329,598	$ 31,018,945,114

Note: See accompanying Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 (with comparative information for June 30, 2011)

Note 1–Plan Descriptions

The Board of Trustees of the Public School Retirement System of Missouri administers two separate retirement systems, the Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System of Missouri (PEERS). The Board of Trustees consists of seven members, three of whom are elected PSRS active members, one an elected active member of PEERS and three persons appointed by the governor, one of whom must be a retired member of either PSRS or PEERS.

The funds of the two Systems are managed simultaneously, but each System retains title to its own investments. Each System's assets may be used only for the payment of benefits to the members of the separate System in accordance with the statutes governing that System as well as expenses required to administer the System.

The Public School Retirement System of Missouri

PSRS is a mandatory cost-sharing multiple employer retirement system for all full-time certificated employees and certain part-time certificated employees of all public school districts in Missouri (except the school districts of St. Louis and Kansas City) and all public two-year colleges. The System also includes certificated employees of PSRS, Missouri State Teachers' Association, Missouri State High School Activities Association, and certain employees of the state of Missouri who elected to remain covered by PSRS under legislation enacted in 1986, 1987 and 1989. The majority of PSRS members are exempt from Social Security contributions. In some instances, positions may be determined not to be exempt from Social Security contributions. Any PSRS member who is required to contribute to Social Security comes under the requirements of Section 169.070 (9) RSMo, known as the "2/3's statute." PSRS members required to contribute to Social Security are required to contribute two-thirds of the approved PSRS contribution rate and their employer is required to match the contribution. The members' benefits are further calculated at two-thirds the normal benefit amount.

PSRS was established as an independent trust fund by an Act of the Missouri General Assembly effective August 1, 1945. Statutes governing the System are found in Sections 169.010-169.141 and Sections 169.560-169.595 RSMo. It is a defined benefit plan providing service retirement, death and disability benefits to its members. Members are vested for service retirement benefits after accruing five years of service. Individuals who (a) are at least age 60 and have a minimum of five years of service, (b) have 30 years of service, or (c) qualify for benefits under the "Rule of 80" (service and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 2.5% benefit factor. Beginning July 1, 2001, and ending July 1, 2013, a 2.55% benefit factor is used to calculate benefits for members who have 31 or more years of service. Actuarially age-reduced benefits are available for members with five to 24.9 years of service at age 55 or with 25 years of service (if not yet age 55). Members who are younger than age 55 and who do not qualify under the "Rule of 80" but have between 25 and 29.9 years of service may retire with a lesser benefit factor during a window that will close July 1, 2013. Members who are three years beyond normal retirement can elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time Partial Lump Sum Option (PLSO) payment at retirement equal to 12, 24, or 36 times the Single Life benefit amount. Annual cost-of-living adjustments (COLAs) are provided for eligible service and disability retirees and for surviving beneficiaries receiving payments under optional benefit plans, up to a lifetime maximum of 80% of the original benefit amount.

Contributions – PSRS members were required to contribute 14.5% of their annual covered salary during fiscal year 2012 and 14.0% during fiscal year 2011. Employers were required to match the contributions made by employees. The contribution rate is set each year by the PSRS/PEERS Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions set in Section 169.030 RSMo. The annual statutory increase in the total contribution rate may not exceed 1% of pay. Administrative costs are financed through investment earnings. Contributions for employees of the state of Missouri were made by the state in accordance with the actuarially determined contribution rate needed to fund current costs and prior service costs of state employees as authorized in Section 104.342.8 RSMo.

Members – The number of PSRS members and benefit recipients served by the System at June 30 was:

		2012		2011
Retirees and beneficiaries receiving benefits		50,344		48,065
Inactive members entitled to but not yet receiving benefits		6,891		6,645
Active members: Vested	58,943		58,258	
Non-vested	18,586		19,450	
Total active members		77,529		77,708
Other inactive members		4,632		4,935
Total		139,396		137,353

Employers – PSRS had 538 contributing employers during fiscal years 2012 and 2011.

The Public Education Employee Retirement System of Missouri

PEERS is a mandatory cost-sharing multiple employer retirement system for all public school district employees (except the school districts of St. Louis and Kansas City), employees of the Missouri Association of School Administrators, and public two-year college employees (except the Community College of St. Louis). Employees of covered districts who work 20 or more hours per week on a regular basis and who are not contributing members of the Public School Retirement System of Missouri (PSRS) must contribute to PEERS. Employees of PSRS who do not hold Missouri educator certificates also contribute to PEERS.

PEERS was established as a trust fund by an Act of the Missouri General Assembly effective October 13, 1965. Statutes governing the System are found in Sections 169.600 - 169.715 and Sections 169.560-169.595 RSMo. The statutes place responsibility for the operation of PEERS on the Board of Trustees of the Public School Retirement System of Missouri.

PEERS is a defined benefit plan providing service retirement and disability benefits to its members. Members are vested for service retirement benefits after accruing five years of service. Individuals who (a) are at least age 60 and have a minimum of five years of service, (b) have 30 years of service, or (c) qualify for benefits under the "Rule of 80" (service and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 1.61% benefit factor. Members qualifying for "Rule of 80" or "30-and-Out" are entitled to an additional temporary .8% benefit factor until reaching minimum Social Security age (currently age 62). Actuarially age-reduced retirement benefits are available with five years of service at age 55. Members who are younger than age 55 and who do not qualify under the "Rule of 80" but have between 25 and 29.9 years of service may retire with a lesser benefit factor during a window that will close July 1, 2013. Members who are three years beyond normal retirement can elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time Partial Lump Sum Option (PLSO) payment at retirement equal to 12, 24, or 36 times the Single Life benefit amount. Annual cost-of-living adjustments (COLAs) are provided for eligible service and disability retirees and for surviving beneficiaries receiving payments under optional benefit plans, up to a lifetime maximum of 80% of the original benefit amount.

Contributions – PEERS members were required to contribute 6.86% of their annual covered salary during fiscal year 2012 and 6.63% during fiscal year 2011. Employers were required to match the contributions made by their employees. The contribution rate is set each year by the PSRS/PEERS Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions in Section 169.620 RSMo. The annual statutory increase in the total contribution rate may not exceed .5% of pay. Administrative costs proportional to its membership size are reimbursed by PEERS to the Public School Retirement System of Missouri (PSRS) and are financed through investment earnings.

Members - The number of PEERS members and benefit recipients served by the System at June 30 was:

		2012		2011
Retirees and beneficiaries receiving benefits		22,562		21,328
Inactive members entitled to but not yet receiving benefits		4,940		4,790
Active members: Vested	29,199		28,624	
Non-Vested	19,406		20,176	
Total active members		48,605		48,800
Other inactive members		9,612		10,612
Total		85,719		85,530

Employers – PEERS had 534 contributing employers during fiscal years 2012 and 2011.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting – The financial statements of both Systems were prepared using the accrual basis of accounting. For both Systems, member and employer contributions are recognized when due, pursuant to formal commitments and statutory requirements. Benefits and refunds are recognized when due and payable in accordance with the statutes governing the Systems. Expenses are recognized when the liability is incurred, regardless of when payment is made. Administrative expenses are funded through investment earnings.

Cash – Cash includes cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables – Receivables consist primarily of contributions owed and yet to be remitted by employers, pending investment trades and interest and dividends payable to the Systems as of the end of each fiscal year.

Method Used to Value Investments – Investments are reported at fair value on a trade date basis. Securities traded on national and international exchanges are valued at the last reported sales price at current exchange rates. Fixed income securities not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The value of real estate investments are based on estimated current values and independent appraisals. The value of private equity investments that do not have an established market are determined based upon the most current net asset values and activities through year end. When not readily available, alternative investments are valued based on a good faith determination by the General Partner.

Capital Assets – The building and other capital assets are owned by PSRS and are stated at cost less depreciation accumulated since acquisition. The stated value does not purport to represent replacement or realized value. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is calculated using the straight-line method, with estimated lives ranging from three to 40 years in the following major classes: computers and software, three years; vehicles, five years; equipment, five years; building and land improvements, 15 years; building, 40 years.

PEERS reimburses PSRS for the use of capital assets used by the two Systems on a proportional basis. The amount of this reimbursement was $433,323 in 2012 and $915,699 in 2011.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at June 30, 2012. Actual results could differ from those estimates.

Total Columns*:* The financial statements include total column information for the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with both Systems' financial statements for the year ended June 30, 2011, from which the information was derived.

Reclassification – Certain reclassifications have been made to the 2011 totals to conform with the classifications for 2012.

Note 3 – Designations of Net Assets Held in Trust for Pension Benefits

The Systems designate the net assets held in trust for pension benefits for the following specific purposes:

Public School Retirement System of Missouri

	2012	2011
Designated for Members' Contributions (Member Reserves) – *Accumulation of active and terminated member contributions plus interest.*	$ 6,687,357,639	$ 6,571,916,082
Designated for the Payment of Benefits to Present Retirees – *Transfers from Member Reserves at retirement and an actuarially determined transfer from Operating Reserves to fund the System's obligation for benefit payments and cost-of-living adjustments to current retirees and beneficiary recipients.*	21,190,467,861	20,023,082,295
Designated for Additional Deposit Annuities – *Accumulation of the additional deposits over and above the contributions required by law. Defined contribution annuity payments are made to current retirees from this reserve.*	564,439	618,704
Designated for Operating Expenses/Benefits to Future Retirees (Operating Reserves/Deficit) – *Accumulation of employer contributions and investment income used to fund future benefit payments, interest on member accounts and administration and maintenance expenses of the System.*	(61,617,378)	1,504,564,417
Net Assets Held In Trust For Pension Benefits	$ 27,816,772,561	$ 28,100,181,498

Public Education Employee Retirement System of Missouri

	2012	2011
Designated for Members' Contributions (Member Reserves) – *Accumulation of active and terminated member contributions plus interest.*	$ 822,485,225	$ 783,112,501
Designated for the Payment of Benefits to Present Retirees – *Transfers from Member Reserves at retirement and an actuarially determined transfer from Operating Reserves to fund the System's obligation for benefit payments and cost-of-living adjustments to current retirees and beneficiary recipients.*	1,541,541,277	1,398,620,374
Designated for Operating Expenses/Benefits to Future Retirees (Operating Reserves) – *Accumulation of employer contributions and investment income used to fund future benefit payments, interest on member accounts and administration and maintenance expenses of the System.*	600,530,535	737,030,741
Net Assets Held In Trust For Pension Benefits	$ 2,964,557,037	$ 2,918,763,616

Note 4 – Deposits, Investments and Securities Lending Program

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Systems will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Systems would not be able to recover the value of investment or collateral securities that are in the possession of an outside party. To mitigate custodial credit risk, the Systems require that all deposits be 100% collateralized with securities held in the Systems' name and held by a third-party agent.

Deposits – Cash balances include short-term securities held by the custodial bank in a pooled short-term investment fund and operating balances held by the depository banks.

At June 30, 2012, the PSRS carrying amount of deposits at the depository bank was $11,893,340 and the bank balance was $13,186,992. Of the bank balance, $13,186,992 was covered by federal depository insurance. In addition the deposits were over collateralized with U.S. agency securities held by a third-party institution in the System's name, totaling $1,680,991. An additional $5,466,396 was held in overnight repurchase agreements with a book value of $5,466,396. The overnight repurchase agreements were collateralized with U.S. agency securities held by a third-party institution in the System's name totaling $5,466,396.

At June 30, 2012, the PEERS carrying amount of deposits at the depository bank was ($698,633) and the bank balance was $0. Since the bank balance was $0, no amount was required to be collateralized. To maximize investment income, the float caused by outstanding checks was invested in overnight repurchase agreements, thus causing the negative book balance. The overnight repurchase agreement balance at June 30, 2012 was $2,272,040 with a book value of $2,272,040. The overnight repurchase agreements were collateralized with U.S. agency securities held by a third-party institution in the System's name totaling $2,272,040.

Investments – Funds for both Systems that are in excess of a safe operating balance are invested by the investment agents under policies and procedures established by the Board of Trustees. Chapter 169.040 RSMo as amended effective August 13, 1984, authorizes any investment which a prudent person acting in a like capacity and familiar with similar matters would use in the conduct of an enterprise of a like character and with like aims. Any person with fiduciary responsibility with respect to the Systems is covered by this "prudent person" rule.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Systems' investment in a single issue. To mitigate this risk, the Systems' investment policy prohibits investing more than 5% of the total investment portfolio into any single financial institution or issuer, excluding U.S. government securities. At June 30, 2012, the Systems did not have more than 5% of total investments in a single issue except for U.S. government securities.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Systems do not have a single investment policy that restricts duration as a means of managing its exposure to fair value losses arising from increased interest rates. However, each manager must follow guidelines established relative to the duration of its benchmark. The portfolios are continually monitored to ensure compliance with these guidelines. The following tables include collateral pledged for deposits and repurchase agreements and securities lending collateral. The maturities of all debt securities are presented on the following page.

Public School Retirement System of Missouri

Security Type	Fair Value at June 30, 2012	Less than 1 year to maturity	1 to 5 years to maturity	6 to 10 years to maturity	over 10 years to maturity
U.S. Treasuries	$6,333,673,571	$2,026,708,370	$ 2,424,240,069	$1,218,385,373	$ 664,339,759
Government guaranteed mortgages	7,147,385	-	-	-	7,147,385
Agencies	75,155,994	9,088,917	6,960,327	14,120,120	44,986,630
Collateralized mortgage obligations	28,977,954	-	-	-	28,977,954
Commercial mortgage-backed securities	40,775,953	-	-	8,615,573	32,160,380
Asset-backed securities	253,297,355	-	7,586,435	24,428,762	221,282,158
Corporate bonds	1,412,078,714	84,722,286	321,982,886	908,998,620	96,374,922
Sovereign	114,293,906	57,383,422	14,563,618	24,330,162	18,016,704
Repurchase agreements	80,427,152	80,427,152	-	-	-
Commercial paper	27,580,912	27,580,912	-	-	-
Certificate of deposit	85,825,040	85,825,040	-	-	-
Derivatives	(3,416,908)	1,146,803	(986,960)	(2,908,580)	(668,171)
Municipals	39,788,086	-	-	-	39,788,086
Commingled Funds (see note)					
JPM STIF	214,815,658	214,815,658	-	-	-
Bridgewater STIF II	57,344,740	57,344,740	-	-	-
PIMCO Real Return	15,794,711	-	-	15,794,711	-
PIMCO Developing Markets	178,247,348	178,247,348	-	-	-
PIMCO Short Term Folating NAV II	96,062,990	96,062,990	-	-	-
Currency	54,506,218	54,506,218	-	-	-
Total	$9,112,376,779	$2,973,859,856	$ 2,774,346,375	$2,211,764,741	$1,152,405,807
Percentage of Total Fixed Income	**100%**	**33%**	**30%**	**24%**	**13%**

Public Education Employee Retirement System of Missouri

Security Type	Fair Value at June 30, 2012	Less than 1 year to maturity	1 to 5 years to maturity	6 to 10 years to maturity	over 10 years to maturity
U.S. Treasuries	$ 718,169,920	$ 221,108,061	$ 279,099,375	$ 140,930,935	$ 77,031,549
Agencies	16,604,854	910,610	3,793,524	3,063,029	8,837,691
Collateralized mortgage obligations	6,198,002	-	-	-	6,198,002
Commercial mortgage-backed securities	1,872,111	-	-	-	1,872,111
Asset-backed securities	22,725,480	-	813,617	2,928,354	18,983,509
Corporate bonds	148,747,835	9,155,224	32,656,694	94,988,680	11,947,237
Sovereign	10,717,690	4,542,136	1,213,886	3,171,312	1,790,356
Repurchase agreements	8,057,924	8,057,924	-	-	-
Commercial paper	2,763,307	2,763,307	-	-	-
Certificate of deposit	8,168,904	8,168,904	-	-	-
Derivatives	(570,138)	81,853	(199,973)	(331,011)	(121,007)
Municipals	6,910,140	100,096	-	416,618	6,393,426
Commingled Funds (see note)					
JPM STIF	30,191,619	30,191,619	-	-	-
Bridgewater STIF II	6,383,738	6,383,738	-	-	-
PIMCO Real Return	2,233,780	-	-	2,233,780	-
PIMCO International Sector Fund	616,890	-	-	616,890	-
PIMCO Developing Markets	19,805,261	19,805,261	-	-	-
PIMCO Short Term Folating NAV II	7,177,989	7,177,989	-	-	-
Currency	6,187,009	6,187,009	-	-	-
Total	$1,022,962,315	$ 324,633,731	$ 317,377,123	$ 248,018,587	$ 132,932,874
Percentage of Total Fixed Income	**100%**	**32%**	**31%**	**24%**	**13%**

Note: *Commingled Funds are presented at the weighted average maturity. These funds do not have a single maturity date; however, the underlying securities have maturity dates. To more accurately reflect the interest rate risk of the Systems, these weighted averages are displayed.*

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Systems do not have a single investment policy designating the minimum allowable credit rating. However, each manager must follow guidelines established specifically for its managed portfolio. The portfolios are continually monitored to ensure compliance with these guidelines. The following tables include collateral pledged for deposits and repurchase agreements and securities lending collateral. The Systems' debt investments by credit rating category as of June 30, 2012 are presented in the following tables.

Public School Retirement System of Missouri

Security Type	Fair Value at June 30, 2012	%	AAA	AA	A	BBB	BB	B	CCC	Not Rated
U.S. Treasuries	$6,333,673,571	71%	$6,333,673,571	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Government guaranteed mortgages	7,147,385	0%	7,147,385	-	-	-	-	-	-	-
Agencies	75,155,994	1%	75,155,994	-	-	-	-	-	-	-
Collateralized mortgage obligations	28,977,954	0%	14,563,317	1,139,966	1,026,108	389,972	1,013,757	2,260,064	8,099,878	484,892
Commercial mortgage-backed securities	40,775,953	0%	34,979,025	653,303	5,143,625	-	-	-	-	-
Asset backed securities	253,297,355	3%	74,922,321	96,229,264	64,843,209	9,497,974	5,155,326	6,639	2,642,622	-
Corporate bonds	1,412,078,714	15%	65,052,902	68,444,736	379,787,984	545,430,109	187,307,700	121,845,036	1,399,788	42,810,459
Sovereign	114,293,906	1%	12,934,084	58,354,426	14,669,803	21,094,830	6,947,263	293,500	-	-
Repurchase agreements	80,427,152	1%	12,257,053	68,170,099	-	-	-	-	-	-
Commercial paper	27,580,912	0%	-	12,710,320	14,870,592	-	-	-	-	-
Certificates of deposit	85,825,040	1%	6,108,285	31,807,148	43,852,276	4,057,331	-	-	-	-
Derivatives	(3,416,908)	0%	-	-	-	-	-	-	-	(3,416,908)
Municipals	39,788,086	0%	3,954,865	14,020,341	19,042,949	212,932	125,089	2,431,910	-	-
Commingled Funds (see note)										
JPM STIF	214,815,658	2%	214,815,658	-	-	-	-	-	-	-
Bridgewater STIF II	57,344,740	1%	-	-	57,344,740	-	-	-	-	-
PIMCO Real Return	15,794,711	0%	15,794,711	-	-	-	-	-	-	-
PIMCO Developing Markets	178,247,348	2%	-	178,247,348	-	-	-	-	-	-
PIMCO Short Term Floating NAV II	96,062,990	1%	96,062,990	-	-	-	-	-	-	-
Currency	54,506,218	1%	-	-	-	-	-	-	-	54,506,218
Total	$9,112,376,779	100%	$6,967,422,161	$529,776,951	$600,581,286	$580,683,148	$200,549,135	$126,837,149	$12,142,288	$94,384,661
Percentage of Total Fixed Income	**100%**		**76%**	**6%**	**7%**	**6%**	**2%**	**2%**	**0%**	**1%**

Note: Commingled Funds are presented at the weighted average credit quality. These funds do not carry a rating in and of themselves. However, the underlying securities are all rated. To more accurately reflect the credit risk of the Systems, these weighted averages are displayed. Government backed securities are not required to be disclosed. However, we feel it shows a truer picture of our fixed income holdings.

Public Education Employee Retirement System of Missouri

Security Type	Fair Value at June 30, 2012	%	AAA	AA	A	BBB	BB	B	CCC	Not Rated
U.S. treasuries	$ 718,169,920	69%	$718,169,920	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Agencies	16,604,854	2%	2,386,359	14,218,495	-	-	-	-	-	-
Collateralized mortgage obligations	6,198,002	1%	3,919,402	94,997	136,334	-	534,790	488,728	1,022,254	1,497
Commercial mortgage-backed securities	1,872,111	0%	1,262,856	-	496,278	112,977	-	-	-	-
Asset backed securities	22,725,480	2%	6,252,146	8,235,431	6,744,934	918,757	439,263	632	134,317	-
Corporate bonds	148,747,835	14%	1,571,222	13,426,699	42,101,164	60,862,584	18,299,479	9,624,479	651,150	2,211,058
Sovereign	10,717,690	1%	738,776	5,533,147	1,233,116	1,996,924	1,138,977	76,750	-	-
Repurchase agreements	8,057,924	1%	1,228,023	6,829,901	-	-	-	-	-	-
Commercial paper	2,763,307	0%	-	1,273,436	1,489,871	-	-	-	-	-
Certificates of deposit	8,168,904	1%	588,654	3,186,730	4,393,520	-	-	-	-	-
Derivatives	(570,138)	0%	-	-	-	-	-	-	-	(570,138)
Municipals	6,910,140	1%	491,388	4,422,438	1,703,131	-	-	293,183	-	-
Commingled Funds (see note)										
JPM STIF	30,191,619	3%	30,191,619	-	-	-	-	-	-	-
Bridgewater STIF II	6,383,738	1%	-	-	6,383,738	-	-	-	-	-
PIMCO Real Return	2,233,780	0%	2,233,780	-	-	-	-	-	-	-
PIMCO International Sector Fund	616,890	0%	-	616,890	-	-	-	-	-	-
PIMCO Developing Markets	19,805,261	2%	-	19,805,261	-	-	-	-	-	-
PIMCO Short Term Floating NAV II	7,177,989	1%	7,177,989	-	-	-	-	-	-	-
Currency	6,187,009	1%	-	-	-	-	-	-	-	6,187,009
Total	$1,022,962,315	100%	$776,212,134	$ 77,643,425	$ 64,682,086	$63,891,242	$ 20,412,509	$10,483,772	$ 1,807,721	$ 7,829,426
Percentage of Total Fixed Income	**100%**		**76%**	**8%**	**6%**	**6%**	**2%**	**1%**	**0%**	**1%**

Note: Commingled Funds are presented at the weighted average credit quality. These funds do not carry a rating in and of themselves. However, the underlying securities are all rated. To more accurately reflect the credit risk of the Systems, these weighted averages are displayed. Government backed securities are not required to be disclosed. However, we feel it shows a truer picture of our fixed income holdings.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Systems do not have a single investment policy designating the allowable exposure to foreign currency. However, each manager must follow guidelines established specifically for its managed portfolio. The portfolios are continually monitored to ensure compliance with these guidelines. The Systems' exposure to foreign currency risk as of June 30, 2012 is presented on the following tables.

Public School Retirement System of Missouri

Currency	Debt	Equity	Currency/Short Term	Total
Australian Dollar	$ 5,240,015	$ 122,509,900	$(1,056,637)	$ 126,693,278
Brazilian Real	8,912,723	48,870,382	637,246	58,420,351
British Pound Sterling	32,765,634	343,411,972	1,145,615	377,323,221
Bulgarian Lev	-	737,426	-	737,426
Canadian Dollar	12,857,945	115,787,039	(269,597)	128,375,387
Chilean Peso	-	7,728,305	41,461	7,769,766
Colombian Peso	2,920,467	-	(4,114)	2,916,353
Czech Koruna	-	4,686,862	12,885	4,699,747
Danish Krone	-	27,525,287	104,552	27,629,839
Egyptian Pound	-	64,558	6,796	71,354
Euro Currency	79,023,760	674,273,643	691,732	753,989,135
Hong Kong Dollar	-	137,760,358	395,020	138,155,378
Hungarian Forint	-	422,151	23,004	445,155
Indian Rupee	-	20,708,053	1,198,716	21,906,769
Indonesian Rupiah	2,304,546	11,598,692	256,041	14,159,279
Israeli Shekel	-	-	18,347	18,347
Japanese Yen	54,760,855	441,426,957	3,146,568	499,334,380
Malaysian Ringgit	-	15,536,497	236,874	15,773,371
Mexican Peso	3,527,883	14,810,069	421,037	18,758,989
Moroccan Dirham	-	377,922	6,909	384,831
New Taiwan Dollar	-	40,554,042	944,341	41,498,383
New Turkish Lira	-	5,708,163	152,235	5,860,398
New Zealand Dollar	-	6,314,956	143,219	6,458,175
Norwegian Krone	-	17,052,107	802,918	17,855,025
Pakistan Rupee	-	1,507,803	30,958	1,538,761
Peruvian Nuevo Sol	-	-	60	60
Philippine Peso	-	2,842,388	82,208	2,924,596
Polish Zloty	-	7,627,372	246,228	7,873,600
Russian Ruble	-	234,825	34,120	268,945
Singapore Dollar	-	14,395,899	145,142	14,541,041
South African Rand	4,080,448	46,356,813	314,191	50,751,452
South Korean Won	-	87,014,646	386,798	87,401,444
Swedish Krona	172,231	22,260,796	1,249,057	23,682,084
Swiss Franc	1,280,616	118,011,422	(3,709,621)	115,582,417
Thailand Baht	-	21,284,810	165,132	21,449,942
Ukraine Hryvnia	-	103,714	-	103,714
Yuan Renminbi	-	62,577	(39,393)	23,184
Total	**$ 207,847,123**	**$ 2,379,568,406**	**$ 7,960,048**	**$ 2,595,375,577**

Public Education Employee Retirement System of Missouri

Currency	Debt	Equity	Currency/Short Term	Total
Australian Dollar	$ 751,699	$ 13,619,619	$ (84,558)	$ 14,286,760
Brazilian Real	777,598	4,892,014	66,483	5,736,095
British Pound Sterling	1,082,144	38,356,510	108,080	39,546,734
Bulgarian Lev	-	68,957	-	68,957
Canadian Dollar	1,698,099	14,229,825	(21,886)	15,906,038
Chilean Peso	-	812,788	6,445	819,233
Chinese Yuan	-	-	-	-
Colombian Peso	247,768	-	(467)	247,301
Czech Koruna	-	489,204	642	489,846
Danish Krone	-	3,245,997	10,200	3,256,197
Egyptian Pound	-	3,103	-	3,103
Euro Currency	3,751,151	68,457,712	(1,124,874)	71,083,989
Hong Kong Dollar	-	15,385,660	44,835	15,430,495
Hungarian Forint	-	17,651	1,348	18,999
Indian Rupee	-	2,331,980	51,104	2,383,084
Indonesian Rupiah	272,511	1,120,237	30,107	1,422,855
Israeli Shekel	-	-	730	730
Japanese Yen	4,009,740	49,389,199	421,051	53,819,990
Malaysian Ringgit	-	2,035,437	23,150	2,058,587
Mexican Peso	330,384	1,791,705	50,309	2,172,398
Moroccan Dirham	-	44,220	228	44,448
New Taiwan Dollar	-	4,403,138	95,129	4,498,267
New Turkish Lira	-	668,332	24,018	692,350
New Zealand Dollar	-	626,385	9,950	636,335
Norwegian Krone	-	1,987,698	92,288	2,079,986
Pakistan Rupee	-	104,949	2,290	107,239
Peruvian Nuevo Sol	-	-	(237)	(237)
Philippine Peso	-	305,293	7,385	312,678
Polish Zloty	-	1,012,309	30,012	1,042,321
Russian Ruble	-	24,487	(2,211)	22,276
Singapore Dollar	-	1,747,332	26,535	1,773,867
South African Rand	441,810	5,011,226	47,149	5,500,185
South Korean Won	-	9,365,559	42,071	9,407,630
Swedish Krona	-	2,257,370	137,789	2,395,159
Swiss Franc	-	12,765,389	(522,353)	12,243,036
Thailand Baht	-	2,420,525	30,982	2,451,507
Ukraine Hryvnia	-	5,300	9	5,309
Yuan Renminbi	-	-	1,349	1,349
Total	**$ 13,362,904**	**$258,997,110**	**$(394,918)**	**$271,965,096**

Derivatives – Derivatives are generally defined as investment instruments whose cash flows or fair values are derived from the value of some other asset or index. The Systems are parties to derivatives which have off-balance sheet risk. These derivative instruments are used in the normal course of business to generate earnings and reduce exposure to fluctuations in market conditions. The Systems are exposed to various types of credit, market and legal risk related to these investments. Investment staff monitors these types of investments with extreme care and is not aware of any undue risks at this time. All derivatives are considered investments. Derivatives are reported at fair value on the Statements of Plan Net Assets based on quoted market prices when available. In the instances that quoted market prices are unavailable, pricing is obtained via independent pricing sources.

The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2012, classified by type are as follows:

Public School Retirement System of Missouri

	Fair Value at June 30, 2012		
Investment Derivatives	**Classification**	**Amount**	**Notional**
Swaps			
Receive-fixed interest rate swap	Investments, at fair value	$ 1,692,867	$ 226,800,000
Pay-fixed interest rate swap	Investments, at fair value	(4,993,416)	158,800,000
Credit default swaps	Investments, at fair value	(12,364,255)	432,674,388
Total return swaps - equity	Investments, at fair value	14,344,912	2,432,445,989
Total swaps		**(1,319,892)**	**3,250,720,377**
Futures			
Equity futures long	Investments, at fair value	-	67,498,738
Equity futures short	Investments, at fair value	-	46,738,731
Treasury futures long	Investments, at fair value	-	760,237,500
Fixed income futures short	Investments, at fair value	-	53,642,743
Currency futures long	Investments, at fair value	-	107,961,500
Commodity futures long	Investments, at fair value	-	109,438,840
Total futures		**-**	**1,145,518,052**
Options			
Equity purchased call options	Investments, at fair value	204,985	467,400
Equity written put options	Investments, at fair value	(55,682)	155,800
Equity purchased put options	Investments, at fair value	184,760	155,800
Treasury futures written call options	Investments, at fair value	(7,313)	3,900,000
Treasury futures written put options	Investments, at fair value	(10,969)	3,900,000
Fixed income written call options	Investments, at fair value	(139,693)	18,700,000
Fixed income purchased call options	Investments, at fair value	2,042	700,000
Fixed income written put options	Investments, at fair value	(90,175)	204,800,000
Swaptions	Investments, at fair value	(287,389)	38,600,000
Total options		**(199,434)**	**271,379,000**
Foreign currency forwards net receivable/payable	Investment Sales and Purchases	**(834,901)**	-
Total Investment Derivatives		**$ (2,354,227)**	**$ 4,667,617,429**

Public Education Employee Retirement System of Missouri

Investment Derivatives	Fair Value at June 30, 2012 Classification	Amount	Notional
Swaps			
Receive-fixed interest rate swap	Investments, at fair value	$ 212,285	$ 28,300,000
Pay-fixed interest rate swap	Investments, at fair value	(638,494)	21,800,000
Credit default swaps	Investments, at fair value	(326,432)	43,350,063
Total return swaps - equity	Investments, at fair value	352,173	274,153,102
Total swaps		**(400,468)**	**367,603,165**
Futures			
Equity futures long	Investments, at fair value	-	7,437,589
Equity futures short	Investments, at fair value	-	5,115,941
Treasury futures long	Investments, at fair value	-	53,350,000
Fixed income futures long	Investments, at fair value	-	15,976,070
Fixed income futures short	Investments, at fair value	-	17,880,914
Currency futures long	Investments, at fair value	-	5,943,750
Commodity futures long	Investments, at fair value	-	12,038,250
Total futures		**-**	**117,742,514**
Options			
Equity purchased call options	Investments, at fair value	28,115	41,200
Equity written put options	Investments, at fair value	(6,148)	17,200
Equity purchased put options	Investments, at fair value	20,400	17,200
Treasury futures written call options	Investments, at fair value	(5,750)	1,600,000
Treasury futures written put options	Investments, at fair value	(1,406)	500,000
Fixed income written call options	Investments, at fair value	(13,929)	3,350,000
Fixed income written put options	Investments, at fair value	(9,314)	27,200,000
Swaptions	Investments, at fair value	(32,067)	4,100,000
Total options		**(20,099)**	**36,825,600**
Foreign currency forwards net receivable/payable	Investment Sales and Purchases	60,378	-
Total Investment Derivatives		**$(360,189)**	**$ 522,171,279**

Swaps - The Systems' investment managers have entered into various swaps including interest rate swaps, credit default swaps and equity and total return swaps. Swaps represent an agreement between two parties to exchange sequences of cash flows over a period in the future. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. A credit default swap is a contract whereby the credit risk associated with an investment is transferred by entering into an agreement with another party, who in exchange for periodic fees, agrees to make payments in the event of a default or other predetermined credit event. A total return swap is a contract in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of the underlying asset. The underlying asset is typically an index, bond, etc. Gains and losses on swaps are determined based on market values and are recorded in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Plan Net Assets. Net losses on swaps of $17.3 million for PSRS and $1.5 million for PEERS were recognized for the fiscal year ended June 30, 2012.

Futures - Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the Systems' credit risk. The net change in the value of futures contracts is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Plan Net Assets. PSRS and PEERS recognized net losses on futures contracts of $11.2 million and $1.3 million, respectively, during the fiscal year ended June 30, 2012.

Options - Options represent or give buyers the right, but not the obligation, to buy (call) or sell (put) an asset at a preset price over a specified period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, the Systems' investment managers receive a premium at the outset of the agreement and bear the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the Systems' investment managers pay a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Net gains or losses resulting from such obligations are included in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Plan Net Assets. PSRS and PEERS recognized net losses on option contracts of $48,600 and $102,000, respectively, during the fiscal year ended June 30, 2012.

Currency forwards - Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency rate on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Plan Net Assets. PSRS recognized net gains on such contracts of $5.4 million and PEERS recognized net losses of $52,000, during the fiscal year ended June 30, 2012.

Derivative Risk - Derivatives that are exchange traded are not subject to credit risk. No derivatives held are subject to custodial credit risk.

At June 30, 2012 the counterparties' credit ratings for currency forwards, options and swaps are subject to credit risk as shown in the chart below.

The Systems are exposed to interest rate risk on their interest rate swaps. As the variable portion of the swaps move in the market, the Systems' exposure increases and decreases. The Systems are exposed to termination risk. The Systems' investment managers or their counterparties may terminate a derivative if either party fails to perform under the terms of the contract.

The Systems' derivatives are governed by ISDA Master Agreements between the Systems and the Counterparties. These agreements set forth collateral requirements and applicable netting arrangements. Foreign currency risks are reflected on pages 30 and 31.

The Systems could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Systems' investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. The Systems anticipate that the counterparties will be able to satisfy their obligations under the contracts.

Derivative Counterparty Credit Ratings

Public School Retirement System of Missouri

Quality Rating	Swaps	Options	Forwards	Total
AA	$ 355,758	$ (19,799)	$ (429,061)	$ (93,102)
A	(1,675,650)	(179,635)	(396,061)	(2,251,346)
Total subject to credit risk	**$(1,319,892)**	**$(199,434)**	**$(825,122)**	**$(2,344,448)**

Public Education Employee Retirement System of Missouri

Quality Rating	Swaps	Options	Forwards	Total
AA	$ (30,403)	$ (7,337)	$ -	$ (37,740)
A	(370,065)	(12,762)	61,226	(321,601)
Total subject to credit risk	**$ (400,468)**	**$ (20,099)**	**$ 61,226**	**$ (359,341)**

The derivative financial instruments discussed involve, to varying degrees, elements of market risk to the extent of future market movements in excess of the amounts recognized in the Statements of Plan Net Assets. Market risk arises from the potential unfavorable change in the value of the underlying instruments. The contract or notional amounts of these instruments reflect the extent of the Systems' involvement in each class of financial instrument; however, these amounts do not represent the exposure to market loss. Additional derivatives may be held in limited partnerships and commingled funds that are not reflected in this disclosure.

Security Lending Activity - Under the "prudent person" authority of the governing statutes and in accordance with the policies set by the Board of Trustees, the Systems lend securities to broker-dealers and banks pursuant to a form of loan agreement. The Systems' custodial bank is authorized to act as the Systems' agent to lend available securities to approved broker-dealers and banks subject to the receipt of acceptable collateral.

During the fiscal year, the Systems' custodial bank lent, on behalf of the Systems, securities to participating broker-dealers. The broker-dealers must provide collateral in the form of cash. The Systems did not impose restrictions during the fiscal year on the amount of loans that the custodial bank made on their behalf.

Borrowers were required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in U.S. dollars or whose primary trading market was located in the United States, or sovereign debt issued by foreign governments, 102% of the fair value of the loaned securities and (2) in the case of loaned securities not denominated in U.S. dollars or whose primary trading market was not located in the United States, 105% of the fair value of the loaned securities.

Pursuant to the lending agreement, the custodial bank has an obligation to provide a form of indemnification to the Systems in the event of default by a borrower. There were no violations of the contractual provisions nor were there any borrower or lending agent default losses during the fiscal year.

The market value of securities on loan as of June 30, 2012 was $547,695,523 for PSRS and $50,945,084 for PEERS. On June 30, 2012 the Systems had no credit risk exposure to borrowers as the cash and securities collateral amounts received exceeded amounts on loan. Loans are generally terminable on demand. However, with the prior approval of the Systems, loans may be made on the basis of a specified termination date, with or without providing for the right of the Systems to terminate or substitute equivalent securities. As of June 30, 2012, there were no term loans for either PSRS or PEERS.

PSRS and PEERS maintain investment portfolios that were novated to JPMorgan Chase, NA from the Systems' previous agent lender and custodial bank. These assets are referred to as the Legacy Portfolio. As of June 30, 2012, PSRS' Legacy Portfolio had a cost basis of $270,811,698 and an estimated market value of $246,376,190, with an unrealized loss of $24,435,508. PEERS' Legacy Portfolio had a cost basis of $23,204,803 and an estimated market value of $21,111,879, with an unrealized loss of $2,092,924.

New cash collateral is invested in separately managed accounts in accordance with the investment guidelines approved by the Systems. Assets purchased with new cash collateral are referred to as the J.P. Morgan Portfolio. The primary investment objective of the J.P. Morgan Portfolio is the preservation of principal. As of June 30, 2012, the cost basis of the J.P. Morgan Portfolio totaled $277,286,227 for PSRS and $27,781,057 for PEERS. The estimated market value of the J.P. Morgan Portfolio totaled $277,292,379 for PSRS and $27,781,674 for PEERS. The unrealized gain for PSRS was $6,152 and $617 for PEERS.

PSRS recognized net appreciation of $2,322,698 and PEERS recognized net appreciation of $197,928 for the year ended June 30, 2012 on the invested collateral accounts. Such is reported as net appreciation in fair value of security lending collateral on the Statements of Changes in Plan Net Assets.

The weighted average duration of invested collateral as of June 30, 2012 was 22 days and an average final maturity of approximately 16 years for PSRS and 21 days and an average final maturity of approximately 14 years for PEERS. Because the loans were terminable at will, their duration did not match the duration of the investments made with cash collateral. In addition, there is the possibility that a portion of the Legacy investment portfolios will be held to maturity.

Note 5 – Additional Deposits Program

Section 169.035, RSMo provides for an additional deposits program for PSRS members. Members may make payments above the required defined benefit contribution amount to the System in order to provide a monthly annuity at retirement based on the total of the deposits and interest.

This annuity is in addition to the defined benefit allowance provided by the System. Contributions to the program are tax-sheltered. As of September 1, 1996 new deposits to the program were limited to members currently with deposits in the program. No additional deposits were made during fiscal year 2012.

The deposits to the program are included in the investment program of the PSRS defined benefit plan. The additional deposits program's basis of accounting and the asset valuation are identical to the defined benefit plan.

Note 6 – Schedule of Funded Status and Funding Progress

The funded status of the Systems as of June 30, 2012, the most recent actuarial valuation date, is as follows:

(Dollar amounts in thousands)

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)– Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
PSRS	6/30/2012	$ 29,013,002	$ 35,588,030	$ 6,575,028	81.5%	$ 4,379,060	150.1%
PEERS	6/30/2012	$ 3,090,880	$ 3,746,347	$ 655,467	82.5%	$ 1,437,310	45.6%

The Schedule of Funding Progress, presented as required supplementary information (RSI) following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the latest valuations is as follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	
PSRS (1)	Closed, level percent for 30 years. Effective amortization period of 24.8 years.
PEERS (2)	Closed, level percent for 30 years. Effective amortization period of 26.3 years.
Asset valuation method	Five-year smoothing of actual returns less expected returns Marked to market June 30, 2003
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	
PSRS	4.0 - 10.0%
PEERS	5.0 - 12.0%
*Includes inflation at	2.5%
Cost-of-living adjustments	2.0%

(1) 30-year amortization assumes an ARC rate of 28.20% for fiscal year 2014. The annual statutory increase in the total contribution rate may not exceed 1% of pay. Contribution rates will be established in accordance with the Board of Trustees' Funding Stabilization Policy and the recommendation of the independent actuary. The recommended contribution rate for fiscal year 2014 is 29.0%, which results in an effective amortization period of 24.8 years.

(2) 30-year amortization assumes an ARC rate of 13.57% for fiscal year 2014. The annual statutory increase in the total contribution rate may not exceed 0.5% of pay. Contribution rates will be established in accordance with the Board of Trustees' Funding Stabilization Policy and the recommendation of the independent actuary. The recommended contribution rate for fiscal year 2014 is 13.72%, which results in an effective amortization period of 26.3 years.

Note 7 – Retirement Plans

Section 401(a) Defined Benefit Plan

All full-time System employees holding valid Missouri educator certificates are covered by PSRS. All other eligible employees are members of PEERS. Both Systems provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 169 RSMo contains the statutory provisions of both Systems.

PSRS members were required to contribute 14.5% of their annual covered salary during fiscal year 2012, 14.0% during fiscal year 2011 and 13.5% during fiscal year 2010. PSRS, as the employer, was required to match that amount. The contribution rate is set each year by the Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions set in Section 169.030 RSMo. Employer contributions to PSRS totaled $34,722 for the 2012 fiscal year, $31,319 for the 2011 fiscal year and $18,215 for the 2010 fiscal year. The amounts for these years are equal to the required contributions.

PEERS members were required to contribute 6.86% of their annual covered salary during fiscal year 2012, 6.63% during fiscal year 2011 and 6.5% during fiscal year 2010. PSRS, as the employer, was required to match that amount. The contribution rate is set each year by the Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions in Section 169.620 RSMo. Employer contributions to PEERS totaled $555,144 for the 2012 fiscal year, $519,055 for the 2011 fiscal year and $480,626 for the 2010 fiscal year. The amounts for these years are equal to the required contributions.

Section 457 Deferred Compensation Plan

A voluntary Section 457 deferred compensation plan is administered to provide additional retirement benefits for employees. The plan provides for employer-matching contributions up to a set maximum. The total contributions are subject to the limitations established in IRC Section 457. The Board of Trustees has authority to establish the employer contribution levels. For most employees, the System will match $50 plus 0.52% of salary per month. For certain employees, the System will make employer-paid contributions of $15,500 per year plus $5,000 in catch up contributions, if eligible. This is governed by individual employment contracts as approved by the Board of Trustees.

All employees immediately vest in the employer-matching and employer-paid contributions. Employer-matching contributions totaled $93,829 for the 2012 fiscal year and $91,941 for the 2011 fiscal year. Employer-paid contributions totaled $51,500 for both fiscal years 2012 and 2011. Employee contributions totaled $235,887 for the 2012 fiscal year and $226,721 for the 2011 fiscal year.

Maintenance of individual member accounts and custody of assets have been contracted to a third-party administrator and investment custodian. Total contributions are sent directly to the third-party administrator by the employer. Employees can self-direct investments of their contributions and their respective share of matching contributions in a number of investment options. Because the System does not hold the plan's assets and does not have significant administrative responsibilities, the plan's assets and changes in net assets are not reported in the Systems' financial statements.

Note 8 – Other Post-Employment Benefit Plans

Post-Employment Staff Retiree Healthcare Plan

Plan Description and Funding Policy – The Public School Retirement System of Missouri Staff Retiree Healthcare Program (SRHP) is a single-employer defined benefit other post-employment benefit (OPEB) plan administered by PSRS. SRHP provides a healthcare premium implicit rate subsidy to eligible staff retirees and their dependents provided they pay 100% of the blended healthcare premium. The blended healthcare premium is based on all active and retired employees. Retiree healthcare benefits are funded on a pay-as-you-go basis, with premiums determined annually. The PSRS/PEERS Board of Trustees determines the funding of benefits and any benefit amendments. There is no continuing obligation to provide benefits beyond each calendar year. SRHP does not issue a stand-alone public financial report.

Annual OPEB Cost and Net OPEB Obligation – PSRS' annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

PSRS' annual OPEB cost, the amount actually contributed to the plan and changes in the net OPEB obligation are as follows:

Annual required contribution	$ 246,800
Interest on net OPEB obligation	24,800
Amortization of net OPEB obligation	(24,400)
Annual OPEB cost	247,200
Contributions made	50,900
Increase in net OPEB obligation	196,300
Net OPEB obligation - beginning of year	752,900
Net OPEB obligation - end of year	$ 949,200

PSRS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost (AOC)	% of AOC Contributed	Net OPEB Obligation
6/30/2010	$ 223,200	18.0%	$ 546,100
6/30/2011	$ 245,400	15.7%	$ 752,900
6/30/2012	$ 247,200	20.6%	$ 949,200

Funded Status and Funding Progress - SRHP's funded status and funding progress are summarized below:

SRHP Funded Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)– Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/2012	$ -	$2,532,800	$ 2,532,800	0.0%	$7,825,200	32.4%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Method and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the efforts of short–term volatility in actuarially accrued liabilities and the actuarial value of assets, consistent with the long-term perspectives of the calculations.

In the June 30, 2012 actuarial valuation, the following assumptions and methods were used:

Actuarial cost method	Entry Age Normal
Actuarial value of assets	No Assets (pay-as-you-go)
Amortization method	Level Percent Open
Remaining amortization period	30 Years
Actuarial assumptions:	
Investment rate of return	3.3% per year, 4.5% per year for fiscal years 2010 and 2011
Wage inflation	3.5% per year, 5.0% per year for fiscal years 2010 and 2011
Healthcare trend	8.0% in fiscal year 2012, decreasing by one-half percentage point per year to an ultimate of 4.5% in fiscal year 2019 and after

Post-Employment Health Plan

PSRS maintains a Post-Employment Health Plan ("PEHP") for employees. Upon termination, an employee will receive payment at the rate of one day of pay for each two days of accrued sick leave up to 100 days of accrued sick leave (50 days paid). Any days above 100 will be forfeited. All payments under the PEHP in excess of $1,000 will be transferred into a PEHP account which can be used to pay health insurance premiums for the employee or dependent at any time in the future. If an employee is retiring, the payments can be transferred back to PSRS on a monthly basis to cover the cost of health insurance for the retiree. The amount paid into the PEHP was $25,653 for three employees (one retiree and two terminations) during 2012 and $24,641 for five employees (four retirees and one termination) during 2011. The cost was charged 61% to PSRS and 39% to PEERS.

Note 9 – Risk Management

The Systems are exposed to various risks of loss related to natural disasters, errors and omissions, loss of assets, torts, etc. The Systems have chosen to cover such losses through the purchase of commercial insurance. There have been no material insurance claims filed or paid during the past three years.

The Systems have a disaster recovery plan that provides for continued computer operations at a remote location should the retirement office be unavailable for normal operations.

Note 10 – Commitments and Contingencies

PSRS was committed to the future purchase of investments at a cost of $4,515,652,935 on June 30, 2012 and PEERS had investment purchase commitments of $484,229,148 on June 30, 2012.

PSRS had total unfunded capital commitments to real estate, private equity and other alternative investments of $2.0 billion as of June 30, 2012. PEERS had total unfunded capital commitments to real estate, private equity and other alternative investments of $193.8 million as of June 30, 2012. The unfunded commitments are not recorded in the Statements of Plan Net Assets.

During fiscal year 2010, PSRS entered into a contract with a consultant to provide and implement the software and training of an automated pension administration system at a cost of approximately $16,000,000. As of June 30, 2012, $9,140,104 had been paid pursuant to this contract.

As discussed in Note 4 – Deposits, Investments and Securities Lending Program, the Systems' custodial bank is authorized to act as the Systems' agent regarding security lending transactions. The required collateral is then invested in collective investment pools, which are governed by Trust Agreements. The Systems and their previous custodial bank are in dispute regarding the terms of the Trust Agreement for the Quality D Short-Term Investment Fund (Quality D Fund). The previous custodial bank believes the Trust Agreement provides them the ability to re-value the Systems' investments in the Quality D Fund based on a series of prior, System authorized, custodial bank approved, redemptions. The Systems strongly contest such action. On October 14, 2009, the custodial bank revalued the Systems' investments in the Quality D Fund by reducing the value by approximately $96 million. The Systems were then provided their revalued portion of the Quality D Fund as an in-kind distribution. The in-kind distribution was utilized to fund a customized collective investment pool to facilitate securities lending activity. The revaluation was based on net asset values as of October 13, 2009. The Systems strongly oppose such action and anticipate recovery of such amounts. The Systems filed a lawsuit in Cole County, Missouri Circuit Court against the custodial bank on September 18, 2009 in an attempt to prevent the custodial bank from taking such action. The Systems are proceeding with litigation to recover any amounts lost as a result of the custodial bank's action. The Systems terminated their custodial relationship with the previous custodian on October 1, 2010.

Certain other legal proceedings are pending with PSRS and PEERS arising from normal activities. Although unable to predict the outcome of these matters, the Systems believe the final outcome of these actions will not have a material adverse effect on the Systems' financial statements.

Public School Retirement System of Missouri and
Public Education Employee Retirement System of Missouri

Required Supplementary Information

Schedules of Funding Progress

Public School Retirement System of Missouri

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)– Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/2007	$ 27,049,004	$ 32,396,723 [2]	$ 5,347,719	83.5%	$3,980,698	134.3%
6/30/2008	28,751,241	34,490,452 [1]	5,739,211	83.4%	4,209,417	136.3%
6/30/2009	28,826,075	36,060,121 [1]	7,234,046	79.9%	4,439,381	163.0%
6/30/2010	28,931,331	37,233,602 [1]	8,302,271	77.7%	4,493,865	184.7%
6/30/2011	29,387,486	34,383,430 [3]	4,995,944	85.5%	4,338,976	115.1%
6/30/2012	29,013,002	35,588,030 [1]	6,575,028	81.5%	4,379,060	150.1%

[1] There were no legislative changes in fiscal years 2008, 2009, 2010 and 2012.

[2] The extension of the 25-and-out and 2.55% provisions to 2013 are included in the AAL for 2007.

[3] There were no legislative changes in fiscal year 2011, however actuarial assumptions were revised.

Public Education Employee Retirement System of Missouri

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)– Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/2007	$ 2,481,562	$ 2,982,813 [2]	$ 501,251	83.2%	$1,275,199	39.3%
6/30/2008	2,703,762	3,278,602 [1]	574,840	82.5%	1,377,506	41.7%
6/30/2009	2,792,182	3,458,044 [1]	665,862	80.7%	1,417,485	47.0%
6/30/2010	2,892,411	3,658,713 [1]	766,302	79.1%	1,433,691	53.4%
6/30/2011	3,028,757	3,549,348 [3]	520,591	85.3%	1,414,442	36.8%
6/30/2012	3,090,880	3,746,347 [1]	655,467	82.5%	1,437,310	45.6%

[1] There were no legislative changes in fiscal years 2008, 2009, 2010 and 2012.

[2] The extension of the 25-and-Out provision to 2013 is included in the AAL for 2007.

[3] There were no legislative changes in fiscal year 2011, however actuarial assumptions were revised.

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Required Supplementary Information

Schedules of Employer Contributions

Public School Retirement System of Missouri

Year Ended June 30	Employer Contribution	Annual Required Contribution (ARC) per GASB Statement #25	Percentage Contributed	Maximum Contribution per State Statute	Percentage Contributed
2007	$ 472,216,630	$ 644,969,214	73.2%	$ 472,216,630	100.0%
2008	521,241,501	656,347,298	79.4%	521,241,501	100.0%
2009	563,454,487	669,643,988	84.1%	563,454,487	100.0%
2010	594,326,122	737,381,187	80.6%	594,326,122	100.0%
2011	594,732,137	684,366,766	86.9%	594,732,137	100.0%
2012	620,214,231	670,259,103	92.5%	620,214,231	100.0%

Public Education Employee Retirement System of Missouri

Year Ended June 30	Employer Contribution	Annual Required Contribution (ARC) per GASB Statement #25	Percentage Contributed	Maximum Contribution per State Statute	Percentage Contributed
2007	$ 69,235,160	$ 89,945,503	77.0%	$ 69,235,160	100.0%
2008	77,988,839	90,727,016	86.0%	77,988,839	100.0%
2009	85,915,562	96,775,289	88.8%	85,915,562	100.0%
2010	91,478,725	95,821,957	95.5%	91,478,725	100.0%
2011	90,816,155	90,816,155	100.0%	90,816,155	100.0%
2012	95,094,785	95,094,785	100.0%	95,094,785	100.0%

Notes to the Schedules of Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	
PSRS (1)	Closed, level percent for 30 years, effective June 30, 2011 Open, level percent for 30 years, prior to June 30, 2011 Effective amortization period of 24.8 years as of June 30, 2012
PEERS (2)	Closed, level percent for 30 years, effective June 30, 2011 Open, level percent for 30 years, prior to June 30, 2011 Effective amortization period of 26.3 years as of June 30, 2012
Asset valuation method	Five-year smoothing of actual returns less expected returns Marked to market June 30, 2003
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	
PSRS	4.0 - 10.0%, effective June 30, 2011 5.0 - 10.25%, prior to June 30, 2011
PEERS	5.0 - 12.0%, effective June 30, 2011 5.0 - 10.0%, prior to June 30, 2011
*Includes inflation at	2.5%, effective June 30, 2011 3.25%, prior to June 30, 2011
Cost-of-living adjustments	2.0%, effective June 30, 2011 3.25%, prior to June 30, 2011

(1) 30-year amortization assumes an ARC rate of 28.20% for fiscal year 2014. The annual statutory increase in the total contribution rate may not exceed 1% of pay. Contribution rates will be established in accordance with the Board of Trustees' Funding Stabilization Policy and the recommendation of the independent actuary. The recommended contribution rate for fiscal year 2014 is 29.0%, which results in an effective amortization period of 24.8 years.

(2) 30-year amortization assumes an ARC rate of 13.57% for fiscal year 2014. The annual statutory increase in the total contribution ate may not exceed 0.5% of pay. Contribution rates will be established in accordance with the Board of Trustees' Funding Stabilization Policy and the recommendation of the independent actuary. The recommended contribution rate for fiscal year 2014 is 13.72%, which results in an effective amortization period of 26.3 years.

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Required Supplementary Information

Staff Retiree Health Plan – Defined Benefit OPEB Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)– Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/2010	$ -	$ 2,173,600	$ 2,173,600	0.0%	$ 7,016,300	31.0%
6/30/2011	$ -	$ 2,463,400	$ 2,463,400	0.0%	$ 7,582,300	32.5%
6/30/2012	$ -	$ 2,532,800	$ 2,532,800	0.0%	$ 7,825,200	32.4%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution (ARC)	Employer Contributions	Percentage Contributed
6/30/2010	$ 218,100	$ 40,100	18.4%
6/30/2011	$ 237,800	$ 38,600	16.2%
6/30/2012	$ 246,800	$ 50,900	20.6%

Schedule of Percentage of OPEB Cost Contributed

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	$ 223,200	18.0%	$ 546,100
6/30/2011	$ 245,400	15.7%	$ 752,900
6/30/2012	$ 247,200	20.6%	$ 949,200

Notes to the Schedules of Required Supplementary Information

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Entry Age Normal
Actuarial value of assets	No Assets (pay-as-you-go)
Amortization method	Level Percent Open
Remaining amortization period	30 Years
Actuarial assumptions:	
Investment rate of return	3.3% per year, 4.5% per year for fiscal years 2010 and 2011
Wage inflation	3.5% per year, 5.0% per year for fiscal years 2010 and 2011
Healthcare trend	8.0% in fiscal year 2012, decreasing by one-half percentage point per year to an ultimate of 4.5% in fiscal year 2019 and after

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Schedules of Administrative Expenses

for the year ended June 30, 2012

	PSRS	PEERS	Combined Totals
Personnel services	$5,190,073	$ 3,316,843	$ 8,506,916
Professional services			
Actuarial services	206,656	159,372	366,028
Financial audit services	42,733	27,321	70,054
Technology consulting	132,257	84,558	216,815
Insurance consulting	3,660	2,340	6,000
Legislative consulting	27,450	17,550	45,000
Other consultants	24,091	15,402	39,493
Legal services	137,611	34,306	171,917
Total professional services	574,458	340,849	915,307
Communications			
Information and publicity	141,811	96,928	238,739
Postage	321,323	216,456	537,779
Member education	27,964	15,815	43,779
Telephone	49,853	31,874	81,727
Total communications	540,951	361,073	902,024
Miscellaneous			
Building and utilities	128,179	81,951	210,130
Insurance	87,183	55,740	142,923
Office	570,337	364,495	934,832
Staff development	111,730	74,147	185,877
Miscellaneous	126,814	48,463	175,277
Total miscellaneous	1,024,243	624,796	1,649,039
Charge for use of capital assets	-	947,425	947,425
Depreciation expense	804,108	-	804,108
Total administrative expenses	$8,133,833	$ 5,590,986	$13,724,819

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Schedules of Investment Expenses

for the year ended June 30, 2012

	PSRS	PEERS	Combined Totals
Investment management expenses			
U.S. Treasuries and TIPS	$ 3,319,165	$ 370,007	$ 3,689,172
U.S. public equities	44,949,274	4,327,743	49,277,017
Global public equities	15,155,107	1,709,869	16,864,976
Public debt	5,586,224	654,381	6,240,605
Private equity	57,986,173	5,104,151	63,090,324
Private credit	11,938,442	1,020,071	12,958,513
Private real estate	29,298,522	2,701,019	31,999,541
Hedged assets	58,889,402	5,997,709	64,887,111
Total investment management expenses	227,122,309	21,884,950	249,007,259
Investment consultant fees	2,923,640	267,110	3,190,750
Custodial bank fees	381,557	37,736	419,293
Investment staff expenses	2,283,985	1,456,683	3,740,668
Commission Recapture Income	(365,375)	(34,679)	(400,054)
Total investment expenses	$232,346,116	$23,611,800	$255,957,916
Security lending expenses			
Agent fees	$ 1,372,774	$ 140,256	$ 1,513,030
Broker rebates paid (received)	(6,380,024)	(624,995)	(7,005,019)
Total security lending expenses	$ (5,007,250)	$ (484,739)	$ (5,491,989)

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Schedules of Professional Services

for the year ended June 30, 2012

	PSRS	PEERS	Combined Totals
Legal expenses	$ 137,611	$ 34,306	$ 171,917
Technology consulting	132,257	84,558	216,815
Actuarial services	206,656	159,372	366,028
Other consulting	24,091	15,402	39,493
Financial audit services	42,733	27,321	70,054
Legislative consulting	27,450	17,550	45,000
Insurance consulting	3,660	2,340	6,000
Total fees	$ 574,458	$ 340,849	$ 915,307

(Latham) Moniteau County R-V Schools

Location: Latham, MO
Enrollment: 64

Latham

PSRS member/employees: 7
PEERS member/employees: 5
Principal: Tanya Brown
County: Moniteau

Rising Up from the Ashes

The elementary school in the small central Missouri community of Latham was severely damaged by fire on December 15, 2010, just before the winter break. It was a strange twist of fate – the school had been built in the 1920's on the site of an even older schoolhouse that was also destroyed by fire.

The main school building was a total loss. But as they had in the past, the community rallied around the school. After the fire, the question was raised whether the small elementary school of around 60 students should take the opportunity to consolidate into the neighboring California, MO school district. The resounding answer was no. They would rebuild.

Students returned to school on time the following January 3, holding class and operating out of two local churches until March when mobile classrooms were put in place. Equipment and school supplies were donated by many in the local and surrounding communities.

Initially, the goal was to have the school rebuilt and in use by the beginning of the 2011-2012 school year, but negotiations with the district's insurance company delayed that goal. Their perseverance eventually paid off, and the district broke ground December 5, 2011 on a new building, which was completed and ready for students and staff at the start of the 2012-2013 school year.

INVESTMENT SECTION

LETTER FROM TOWERS WATSON

TOWERS WATSON

1191 Second Avenue
Suite 1400
Seattle, WA 98101-2933

T +1 206 343 6000

towerswatson.com

November 15, 2012

To the Members of the Board:

Fiscal year 2012 was marked by continued volatility in the markets and a divergence in performance between domestic and foreign stocks. In the U.S., negative news such as the debt ceiling debate, the MF Global bankruptcy, mixed job growth data, and decelerating GDP growth caused market declines. However, further quantitative easing and a lower unemployment rate led U.S. stocks into positive territory for the year. In Europe, an adverse employment picture, declining GDP growth, and further risk of contagion from Greece and Spain outweighed the ECB's efforts to inject capital into the system as international equity stocks ended the year considerably negative. What has been a hindrance to the equity markets has been a boon to the fixed income world. Most fixed income sectors outperformed equities as investors underwent a flight to safety. Longer dated U.S. government bonds returned over 30%. Looking forward to the coming year, all eyes are on the looming "fiscal cliff" in the U.S. and the uncertain resolution of the Eurozone crisis.

The total fund return for the fiscal year ended June 30, 2012 was 1.9% for PSRS and 1.6% for PEERS, trailing the policy benchmark return of 3.1%. The PSRS fiscal year returns for Public Credit and Safe Assets were strong at 8.5% and 7.2%, respectively (8.1% and 7.2% for PEERS). PSRS Private Risk assets returned 8.9% vs. 7.6% for its benchmark (9.0% vs. 7.6% for PEERS). The total fund performance was hurt by an overweight allocation to Public Equity assets and an underweight allocation to Safe Assets.

Towers Watson is continuing to work with the Public School Retirement System of Missouri and the Public Education Employee Retirement System of Missouri in evaluating the overall structure and individual managers in the U.S. and non-U.S. public equity spaces. We are looking to evaluate potential public equity managers that can add alpha.

We at Towers Watson have enjoyed our relationship with the Public School Retirement System of Missouri and the Public Education Employee Retirement System of Missouri and are looking forward to the coming year.

Regards,

Michael M. Hall, ASA, CFA
West Division Investment Leader

LETTER FROM THE CHIEF INVESTMENT OFFICER

PSRS/PEERS

PUBLIC SCHOOL & EDUCATION EMPLOYEE
RETIREMENT SYSTEMS OF MISSOURI

November 26, 2012

To the Members of the Systems:

On behalf of the PSRS/PEERS Board of Trustees and the internal investment staff, I present the following report on the Systems' investments for the fiscal year ended June 30, 2012.

The end of this fiscal year marks just over three years since the market lows experienced during the financial crisis of 2007-2009. The strength in the investment markets since that time has helped generate substantial gains for the Systems as the three-year annualized fund performance ended June 30, 2012 was 11.9% for PSRS and 11.6% for PEERS. The investment data within this year's financial report highlights the results since the market recovery (that is, performance over the last three years).

Key Points

As you review the financial information in this report, we believe it is important to be aware of the following points for the period ended June 30, 2012:

- The fiscal year 2012 total fund performance was 1.9% for PSRS and 1.6% for PEERS;
- The PSRS and PEERS investment returns for fiscal year 2012 were above the public fund median, finishing in the 35th percentile (better performance than 65% of the public fund universe). The Systems generated the investment returns while taking less risk than 70% of comparable public funds;
- Total PSRS/PEERS investment expenses (including accrued performance based fees) for fiscal year 2012 were 0.81%, or 81 cents for every $100 managed. The investment returns reported throughout this publication are partially net of these fees. The investment returns net of all fees and expenses were 1.7% for PSRS and 1.4% for PEERS;
- Total Systems' assets have increased through investment earnings by $8.7 billion over the last three years;
- The majority of the Systems' primary asset categories (U.S. Public Equity, Credit Bonds, Global Public Equity, Hedged Assets, Safe Assets, and Private Risk Assets) generated returns in excess of established policy benchmarks for the three-year period;
- The PSRS/PEERS investment staff and external investment managers added value of over $260 million above the policy benchmark over the last three years, net of all fees and expenses;
- The Systems have taken less risk than the policy benchmark (as measured by standard deviation) and less risk than the majority of comparable public funds over all time periods;
- Investment performance throughout this report is calculated using a time-weighted rate of return based on market values; and

Location 3210 W. Truman Blvd. / Jefferson City, MO 65109 **Mail** P.O. Box 268 / Jefferson City, MO 65102 **Phone** (573) 634-5290
Toll Free (800) 392-6848 **Email** psrspeers@psrspeers.org **Member Services FAX** (573) 634-7934 **Employer Services FAX** (573) 634-7911

- The total invested assets of both PSRS and PEERS were approximately $30.6 billion on June 30, 2012, making the combined entity larger than all other public retirement plans in the state of Missouri combined, and the 45th largest defined benefit plan in the United States.

Fiscal Year 2012: In Review

The PSRS/PEERS Board of Trustees has embraced a philosophy to institute a disciplined and diversified investment portfolio. This approach has been implemented over the past several years by the PSRS/PEERS investment staff as the portfolio has expanded into multiple asset classes in addition to stocks and bonds. In this fiscal year, the PSRS/PEERS stock portfolios suffered below average returns while allocations to Safe Assets (U.S. Treasuries) and Private Risk Assets (real estate and private equity) were additive to the total fund investment returns.

U.S. stocks ended the fiscal year with modest returns as the broad U.S. equity market (as measured by the Russell 3000 Index) increased 3.8%. In contrast, international equity markets (as represented by the MSCI ACWI ex-U.S. Index) sustained double digit losses of -14.6%, weighed down by heightened risks of Greek and Spanish debt insolvency. The marked divergence between U.S. and international equity markets was most pronounced for several reasons: first, much of Europe fell into recession, while the U.S. posted moderate economic growth for most of the year. Second, investors remained concerned that policy actions in Europe have not been sufficient to reduce government debts and restore economic growth. Finally, interest rates in the most troubled European countries remained high, causing investors to worry about whether governments could service their debts. The PSRS/PEERS investment returns in fiscal year 2012 were diminished due to international stock exposure. However, the Systems maintained a significant overweight to U.S. stocks (relative to non-U.S. stocks) for the entire fiscal year, which provided meaningful value to the overall PSRS/PEERS returns.

The diversification benefits of the Systems' allocation to Safe Assets proved desirable in fiscal year 2012 as investors seeking safety from the sovereign debt crisis in Europe poured money into bonds, including U.S. Treasuries. The Safe Assets class provided solid returns for the fiscal year as the category moved 7.2% higher for both PSRS and PEERS. Similarly, the Systems' diversification into Private Risk Assets provided substantial return benefits in fiscal year 2012. The Systems began building private investment portfolios (including private equity, private credit and private real estate) in 2003 in order to generate long-term returns superior to the public markets, take advantage of market inefficiencies, and increase diversification. The nature of private investing requires a process of portfolio construction that takes years to develop. This is particularly true for a plan with the substantial assets of PSRS/PEERS. Over the years, the Systems have continued to build on this successful investment platform that serves as an alternative to traditional public markets. Today, the Systems have invested almost $4.8 billion in Private Risk Assets. In total, the Private Risk Assets portfolios moved 8.9% and 9.0% higher, respectively, for PSRS and PEERS versus the benchmark of 7.6% for fiscal year 2012.

Fiscal Year 2013: An Uncertain Landscape

The Systems achieved strong investment returns over the last three years due, in part, to a significant market recovery and a diversified asset allocation across global financial markets. Looking forward as we move through fiscal year 2013, the investment landscape is more uncertain throughout the world. In the near term, as discussed previously, the Eurozone debt crisis remains a headwind to international growth. Closer to home, the U.S. also has pressing financial problems. Specifically, the 'fiscal cliff' could reduce U.S. growth immediately due to mandated tax increases and spending cuts. Additionally, the U.S. will be dealing with a trillion-dollar deficit, declining savings rates and continued high unemployment levels for the foreseeable future.

LETTER FROM THE CHIEF INVESTMENT OFFICER (continued)

These uncertainties reinforce the Systems' application of the fundamental principles in the management of the investment portfolio:

- Focus on the long-term investment horizon which requires discipline and patience,
- Balance the long-term investment strategy of PSRS/PEERS with shorter term views as market dynamics change, and
- Manage risk by maintaining adequate liquidity and balancing the portfolio for the heightened possibility of market inflection points.

The PSRS/PEERS investment portfolio remains grounded in three primary categories: Safe Assets, Public Risk Assets and Private Risk Assets. As the markets dictate, the composition of each category has shifted over time. The Safe Assets composite ensures that adequate liquidity is available to meet all PSRS and PEERS benefit payments and cash needs for an extended period of time, regardless of the economic environment. As we have reached historically low interest rates, the Systems have reduced the allocation to Safe Assets in fiscal year 2013. PSRS and PEERS continue to maintain adequate liquidity but a portion of the Safe Assets portfolio has been re-allocated to higher return seeking investments.

The Systems will advance the plan to build portfolios within the Private Risk composite with the belief that private equity and private credit can produce returns in excess of the expected public market returns. Furthermore, the PSRS and PEERS allocation to private real estate is expected to provide consistent income that offers a premium over traditional fixed income investments. Finally, the Systems maintain a substantial allocation to Public Risk Assets. The point of emphasis in this category most recently has been to reduce the overall volatility while also searching for higher growth opportunities. Thus, the portfolio is balanced between an emphasis on stable U.S. equities and lower volatility hedge funds with an overweight allocation to emerging market equities. We continue to expect outsized growth in emerging market economies, particularly relative to the U.S. and other developed markets.

Under the support and guidance of the Board of Trustees, I am confident that the investment program at PSRS/PEERS will provide the Systems with an excellent opportunity to achieve solid investment returns over future economic and capital market environments. Most importantly, I believe the portfolio is well-positioned to ensure that all members receive the financial security they have earned through their hard work and dedication.

Respectfully,

Craig A. Husting, CFA
Chief Investment Officer

INVESTMENT POLICY SUMMARY

The Board of Trustees of the Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri (PSRS and PEERS, also referred to as the Systems) is charged with the responsibility for investing the assets of the Systems in a manner consistent with the fiduciary standards set forth in the 'prudent person' rule. To that end, the Board has adopted the following principles to guide all investment-related decisions:

(1) Act in the exclusive interest of the members of the Systems,

(2) Maximize total return within prudent risk parameters, and

(3) Preserve the long-term purchasing power of the Fund.

The investment portfolios of PSRS and PEERS represent all contributions to the plans, from members and their employers, as well as all net earnings on these assets. These funds are held in support of both current and future liabilities. In total, approximately 60% of every dollar used to pay retirees is generated from investment earnings[1].

Investment Objective

Based on the general beliefs about the long-term investment returns available from a well-diversified, prudently invested portfolio, the Board has adopted an objective to achieve a total nominal investment return of 8.0% with a real rate of return of at least 5.5% per annum over time.[2]

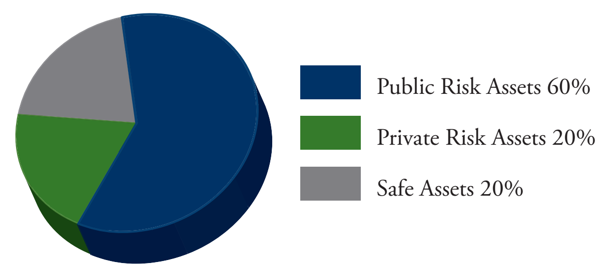
In order to achieve this rate of return, the Systems have developed a portfolio that is prudently invested across a broad array of assets that reflects the long-term nature of the Systems' pension obligations. The principles of diversification, risk control, and competitive rates of return provide the framework for selecting an asset allocation that is expected, over longer periods of time and in the aggregate, to give the Systems the most competitive long-term return within a prudent level of risk.

Understanding Risk

Selection of an appropriate asset allocation is one of the most important decisions made by a retirement plan. Within that asset allocation, it has always been important to not only consider the expected investment return, but also to understand the risks. The importance of risk consideration has never been as significant as in the current global market environment. To that end, the Systems continue to employ an effective and intuitive risk-based approach to setting and reporting the asset allocation decision. The Systems developed a risk-based asset allocation to clearly define the prudent risks taken within its investment portfolios. The Systems consider a variety of risks including, but not limited to, liquidity risk, volatility, tail risk (the possibility that an investment will move much more than expected) and the ability to meet the Systems' assumed rate of return when structuring the portfolio.

This analysis results in an asset allocation to Public Risk Assets, Safe Assets and Private Risk Assets. Within each risk allocation, the Systems' investment portfolio includes strategic, long-term commitments to specific asset programs.

Target Risk-Based Asset Allocation



[1] Based on a twenty-year average for fiscal years 1992-2012.

[2] The real rate of return is the rate by which the long-term total return exceeds the long-term inflation rate. The Board of Trustees shall employ an actuarial consultant for purposes of determining the inflation rate to be used in calculating the PSRS and PEERS pension obligations. The assumed inflation rate as of June 30, 2012 was 2.5% per annum.

Roles and Responsibilities

Board of Trustees

It is the responsibility of the PSRS/PEERS Board of Trustees to establish and maintain policies and objectives for all aspects of the Systems' investment program including the determination of long-term policies for risk tolerance and asset allocation.

In keeping with its obligation to serve as the governing fiduciary, any changes to the investment policy or investment implementation manuals require the Board's approval.

As one of the largest public pension funds in the United States, the Systems' operational requirements are complex. In order to properly administer the Systems and carry out investment strategies, the Board relies heavily on both internal staff and external service providers. Due to the number of parties involved, their roles as fiduciaries are clearly identified to ensure that distinct lines of responsibility and proper controls exist, while providing increased operational efficiency and elimination of duplication of effort.

Executive Director

The Executive Director (Director) is appointed by, and serves at the pleasure of the Board. The Director is responsible for planning, organizing and administering all operations of the Systems under the broad policy guidance and direction of the Board. The Director, with the assistance of the investment staff, monitors the performance of the investment portfolio; ensures that funds are invested in accordance with Board policies; and ensures that proper internal controls are developed to safeguard the assets of the Systems. In fulfilling these responsibilities, the Director relies heavily on the Chief Investment Officer and consultants.

Chief Investment Officer

The Chief Investment Officer (CIO) serves at the pleasure of the Director, yet has a direct, but limited, link to the Board on investment-related issues. The CIO's sole access to the Board is for submission of investment reports, information or communications required by the investment policy and any other information or opinions specifically requested by the Board with regard to the investment program. The CIO is the individual primarily responsible for providing direction for the investment program. It is the CIO's responsibility to work with the Director, the general consultant, specialty consultants, and other external service providers with the assistance of the internal staff in advising the Board on policies related to the investment program. The CIO has responsibilities related to hiring and terminating service providers.

A main function of the CIO is to recommend implementation decisions related to the investment plan. Another primary responsibility of the CIO is to recommend the strategic allocation of the portfolio within broad ranges approved by the Board.

External Asset Consultants

The Systems employ Towers Watson as a general consultant and Albourne America, LLC (Albourne), Pathway Capital Management (Pathway) and The Townsend Group (Townsend) as specialty consultants. Towers Watson's primary duty is to work with the Board and staff to manage the investment process. This includes regular meetings with the Board to provide an independent perspective on the Systems' goals, structure, performance and external service providers. Additionally, Towers Watson is involved with the strategic allocation shifts for the portfolio. While strategic changes are the responsibility of the CIO, good checks and balances dictate that the CIO must discuss material desired strategic changes with the general consultant and Director.

The specialty consultants work on specific programs within the overall investment program. Albourne is utilized for the Hedged Assets and Alpha Overlay programs, Pathway is the consultant for the Private Equity and Private Credit programs, and Townsend consults on the Real Estate program.

External Investment Managers

The Systems employ external investment managers that include external money managers which may be structured as public or private entities in the form of a partnership, limited liability company, trust, separately managed account, commingled account or some other form of operational structure in which assets may be held by an external custodian selected and monitored by the external manager.

Managers are given explicit written directions detailing their particular assignments or they follow the investment program outlined in their offering documents or Limited Partnership Agreements, and will construct and manage investment portfolios that are consistent with the investment philosophy and disciplines for which they were hired. Discretion is delegated to the managers to carry out investment actions as directed by the Systems.

Master Custodian

JP Morgan Chase Bank, NA (JP Morgan) serves as the master custodian for the Systems. The master custodian holds all cash and securities for PSRS and PEERS, except in cases where investment in a partnership, commingled account, or unique asset class makes it impossible to do so. The Systems thoroughly evaluate the structure of all investments and their custody arrangements prior to investing. JP Morgan is responsible for providing the official book of records for performance reporting and accounting, and serves as an additional layer of risk control in safekeeping the Systems' assets.

Asset Allocation

The asset allocation decision is generally regarded as the most important decision in the investment management process since it is crucial to achieving the long-term objectives established by the Board. In that light, it is the Board's responsibility to determine the appropriate policy asset allocation based upon several criteria with input and guidance from internal staff and Towers Watson. These criteria are as follows:

1. The expected rate of return for each asset classification,
2. The expected risk of each asset classification (expressed as the standard deviation of the rate of return),
3. The correlation of returns between asset types,
4. The investment objectives and risk constraints of the Systems (including but not limited to liquidity needs and the expected time horizon),
5. The funded ratio and cash flow requirements for PSRS and PEERS, and
6. The impact of the Systems' return volatility on contribution rates.

The long-term policy allocation as of June 30, 2012 is illustrated in the following table. The allocation to each investment program considers both the risk tolerance of the Systems and the long-term return objective.

Asset Allocation

Investment Type	Long-Term Target	Policy Ranges
Public Risk Asset Programs		
U.S. Equity	27.00%	16% - 48%
Public Credit	12.00%	0% - 20%
Hedged Assets	6.00%	0% - 25%
Global Equity	15.00%	8% - 28%
Total Public Risk Assets	**60.00%**	**35% - 75%**
Safe Assets		
U.S. Treasuries	16.00%	0% - 40%
U.S. TIPS	4.00%	0% - 40%
Total Safe Assets	**20.00%**	**10% - 40%**
Private Risk Asset Programs		
Private Equity	10.50%	4% - 14%
Private Real Estate	7.50%	4% - 10%
Private Credit	2.00%	0% - 7%
Total Private Risk Assets	**20.00%**	**5% - 25%**
Total Fund	**100.0%**	

The Board recognizes the cyclical nature of the investment markets and it has allowed the internal staff to capitalize upon opportunities by changing the allocation of each asset class or sub-asset class within broad strategic bands or policy ranges (as indicated in the table above). The flexibility given to the internal staff in establishing the strategic mix provides opportunities for the Systems to take advantage of changing market conditions. To ensure appropriate controls, the Director, CIO and Towers Watson must unanimously agree upon all material desired strategic changes prior to implementation.

Performance Objectives and Monitoring Process

Generating a total nominal rate of return net of expenses of at least 8% and a real rate of return net of expenses of at least 5.5% per annum is an important consideration in the asset allocation decision and the primary performance objective for the Systems over long periods of time. The need for a long-term focus is necessary to preclude the temptation to overreact to events in the financial markets that have no relevance to long-term asset/liability management of the Systems. The resulting dilemma is the conflicting need to evaluate investment policy implementation over shorter time periods while maintaining a longer-term focus on meeting the return objectives. In order to determine if the Systems' shorter-term and long-term objectives are being achieved, the Board evaluates performance relative to policy and strategic benchmarks. The policy benchmarks allow the Systems to be judged by performance relative to a defined set of broad market indices (i.e., the Systems' long-term asset allocation objective). The strategic benchmarks allow the Board to consider the additional value generated from the latitude given to the internal staff to alter the asset class or sub-asset class allocations.

Policy Decisions

The value added through policy decisions is measured by the difference between the Policy Benchmark return and the actuarial required rate of return objective (defined as Real Return Objective + Inflation). A policy benchmark return greater than the actuarial required rate of return reflects value added. A policy benchmark return less than the actuarial required rate of return reflects losses or shortfalls in performance in funding the liabilities of the Systems. These policy decisions are measured over long periods of time.

Strategy Decisions

Strategy decisions are asset class or sub-asset class asset allocation choices made by the internal staff to deviate from the policy benchmark weights, with approval from the general consultant and the Director that the proposed material deviation is in compliance with the Board's investment policy. The value added through these decisions to overweight and/or underweight these sub-asset classes is measured by the difference between the strategic benchmark return and the policy benchmark return. This difference captures the value added by internal staff through sub-asset class strategic decisions relative to the Board's broad policy allocation decisions. A strategic benchmark return greater than the policy benchmark return reflects value added through the allocation decisions. A strategic benchmark return less than the policy benchmark return reflects losses to the fund's performance based upon strategy decisions.

Implementation Decisions

Implementation decisions are manager selection choices made by the internal staff with the approval of a consultant(s) and the Director. The value added through these manager selection decisions is measured by the difference between the actual portfolio return and the strategic benchmark return. An actual portfolio return greater than the strategic benchmark return reflects value added through these manager selection decisions. An actual portfolio return less than the strategic benchmark return reflects losses to the fund's performance based upon implementation decisions.

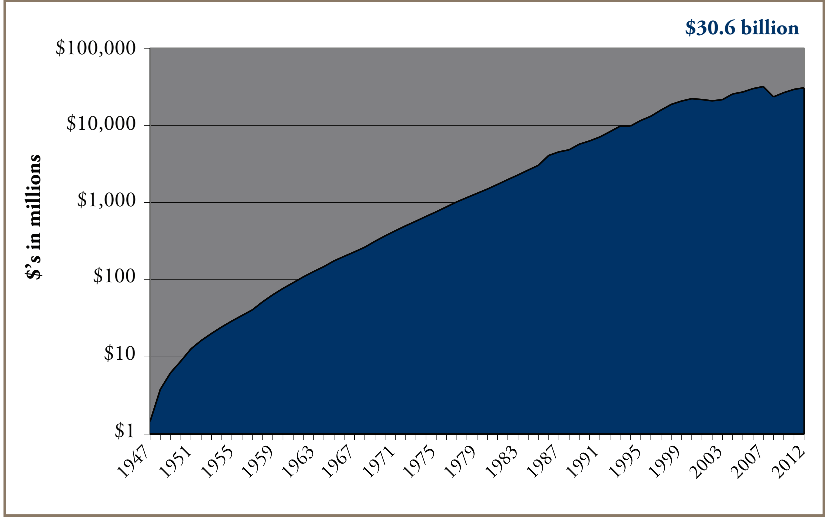
Risk Controls

The Board recognizes that even though the Systems' investments are subject to short-term volatility, it is critical that a long-term investment focus be maintained. Given the importance of the broad asset allocation decision to the Systems' long-term investment success, internal staff is required to conduct an asset allocation/liability study at least every five years and to report the results of that study to the Board. In addition, the CIO must annually evaluate the asset allocation mix and any strategic allocation of the portfolio and provide a report to the Board on the results of that evaluation. This ongoing review of the asset allocation process helps to ensure the asset allocation is being monitored and modified as needed to meet the financial obligations of the Systems.

TOTAL FUND REVIEW

The Systems' total invested assets were $30.6 billion as of June 30, 2012. There has been a consistent and long-term growth in assets since the inception of PSRS in 1946 and PEERS in 1965, as shown in the graph.

65 Years of Asset Growth



Investment Performance[1]

PSRS and PEERS earned returns of 1.9% and 1.6%, respectively, for fiscal year July 1, 2011 through June 30, 2012. The PSRS and PEERS returns net of all fees and expenses were 1.7% and 1.4%, respectively.

As illustrated in the tables below, within the respective PSRS and PEERS investment portfolios, Public Credit returned strong absolute returns of 8.5% and 8.1%, Private Risk Assets provided diversification to the portfolio with returns of 8.9% and 9.0%, and Safe Assets provided substantial liquidity and returned 7.2% for each fund. Each of these asset classes strongly contributed to the total fund returns for PSRS and PEERS and provided diversification from global public equities. Global equity markets experienced a turbulent year due to European credit concerns and fears of a slowing global economy.

PSRS Total Fund Performance

Assets	Total Return	Weighted Contribution*
U.S. Public Equity	3.2%	0.9%
Public Credit	8.5%	0.7%
Hedged Assets	-0.1%	0.0%
Global Public Equity	-12.5%	-2.2%
Public Risk Assets	**-0.9%**	**-0.6%**
U.S. Treasuries	7.2%	1.0%
U.S. TIPS	7.6%	0.1%
Safe Assets	**7.2%**	**1.1%**
Private Equity	8.2%	0.6%
Private Real Estate	10.3%	0.7%
Private Credit	4.8%	0.1%
Private Risk Assets	**8.9%**	**1.4%**
Total PSRS	**1.9%**	**1.9%**

PEERS Total Fund Performance

Assets	Total Return	Weighted Contribution*
U.S. Public Equity	3.4%	1.0%
Public Credit	8.1%	0.7%
Hedged Assets	-0.8%	-0.1%
Global Public Equity	-12.4%	-2.3%
Public Risk Assets	**-1.0%**	**-0.7%**
U.S. Treasuries	7.2%	1.0%
U.S. TIPS	7.6%	0.1%
Safe Assets	**7.2%**	**1.1%**
Private Equity	8.2%	0.4%
Private Real Estate	10.5%	0.7%
Private Credit	5.1%	0.1%
Private Risk Assets	**9.0%**	**1.2%**
Total PEERS	**1.6%**	**1.6%**

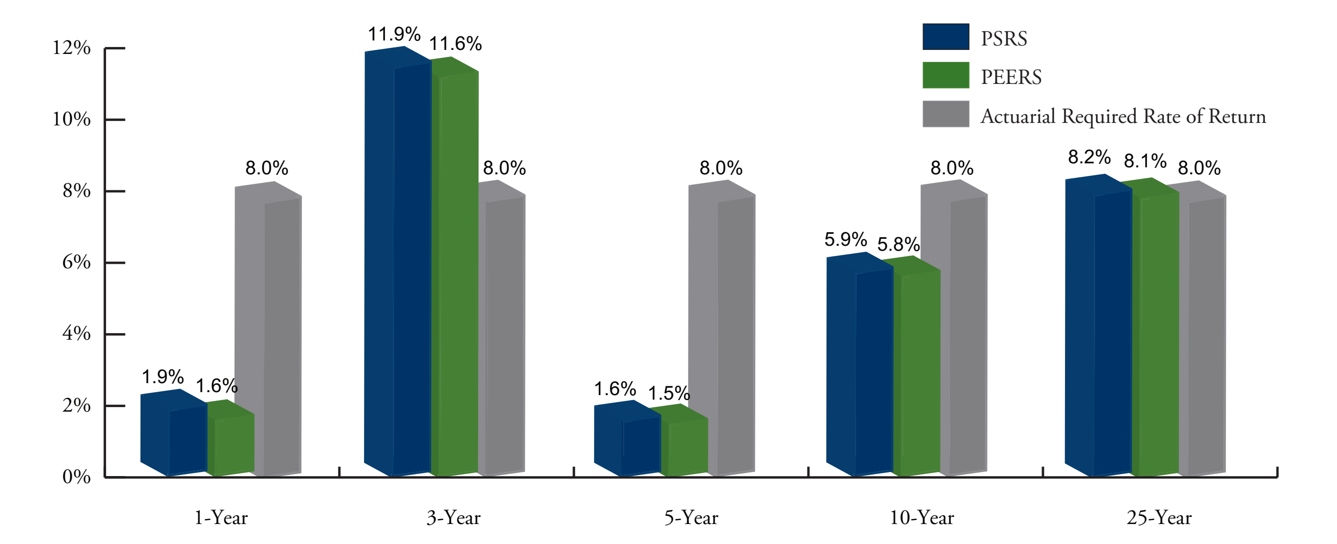
**Percentages have been adjusted to reflect compounding effects and changes in asset weights.*

[1] *Investment returns were prepared using a time-weighted rate of return based on market values.*

Investment Performance Relative to Benchmarks

The Board has established a long-term goal to achieve a total investment return of at least 8.0% per year and a real rate of return of at least 5.5% per year. The investment returns of the last two fiscal years reflect the volatility and complexity in global markets. The PSRS and PEERS total investment returns for the current fiscal year are 1.9% and 1.6%, respectively, compared to the prior fiscal year returns of 21.8% for PSRS and 21.4% for PEERS. The global markets bottomed during the severe credit crisis of the late 2000's in March 2009. In the three-year time period since the global equity crisis, investment earnings have exceeded $8.7 billion with three-year returns significantly exceeding our long-term investment objective. Additionally, as the table indicates, the 25-year annualized total returns of 8.2% for PSRS and 8.1% for PEERS exceed the long-term return objective of 8.0%.

Total Fund Returns

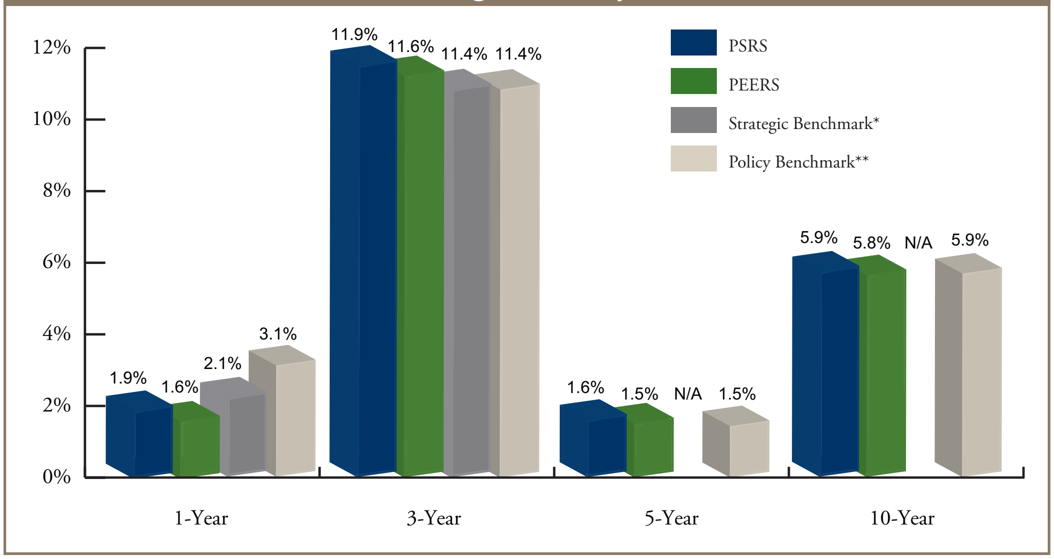


In order to determine if the Systems' shorter-term and long-term objectives are being achieved, the Board also utilizes three benchmarks by which the Systems' progress may be judged: (1) performance relative to a **policy benchmark** (defined set of broad market indices that reflects the Systems' long-term asset allocation, or market beta), (2) performance relative to a **strategic benchmark** which indicates value added by the internal staff, and, to a lesser extent, (3) performance relative to other public pension systems and their investment managers as a reference point of oversight.

The internal staff presents to the Board a detailed attribution of the total fund performance at the end of each fiscal year. Value is added over and above the expected market returns if the strategic benchmark exceeds the policy benchmark (i.e., the internal staff made positive strategic decisions) and/or if the actual total fund return exceeds the strategic benchmark. Internal staff and investment implementation decisions have created excess performance of approximately $260 million (net of all fees and expenses) for the Systems since the global market bottom in 2009.

The PSRS and PEERS total fund returns have exceeded the policy benchmark in five of the last seven fiscal years, an indication that internal staff and active investment management have added value to the Systems. It is important to note that during that timeframe, internal staff navigated some of the most volatile market conditions in history.

Actual Returns vs. Strategic and Policy Benchmark Returns



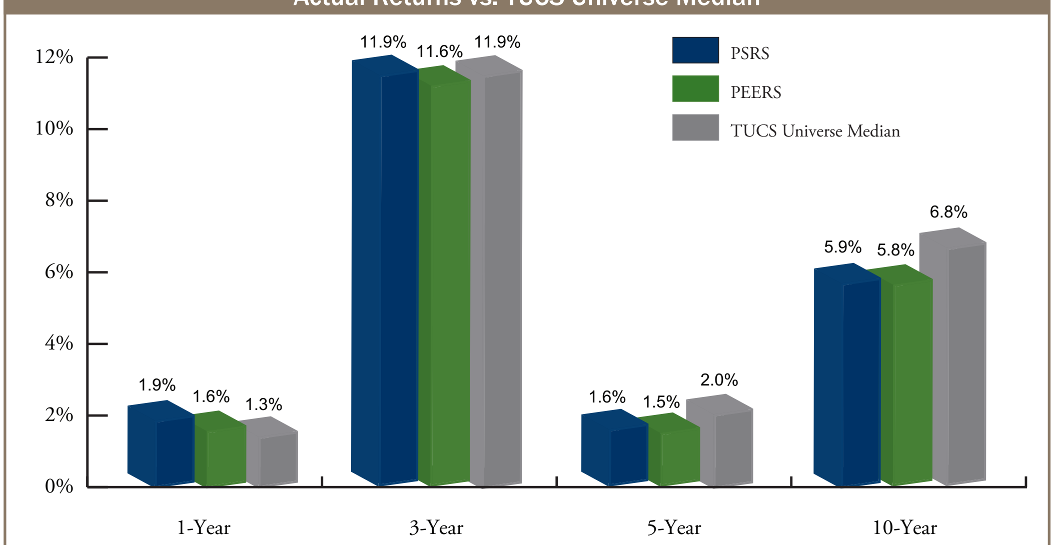
**As of June 30, 2012: 42.9% Russell 3000 Index, 15.8% MSCI All Country World ex-U.S. Free Index, 16.5% Barclays Capital Credit Intermediate Index, 14.3% Barclays Capital Treasury Blend, 7.4% NCREIF Property Index, 1.7% Barclays Capital U.S. TIPS 1-10 Year Index, and 1.4% Bank of America Merrill Lynch High Yield Master II Index. Strategic Benchmark data is not available for periods dating back five years or more.*

***As of June 30, 2012: 40.5% Russell 3000 Index, 16% Barclays Capital Treasury Blend, 15% MSCI All Country World ex-U.S. Free Index, 15% Barclays Capital Intermediate Credit Index, 7.5% NCREIF Property Index, 4% Barclays Capital U.S. TIPS 1-10 Year Index, and 2% Bank of America Merrill Lynch High Yield Master II Index.*

The Systems utilize the Trust Universe Comparison Services (TUCS) to compare the total return and risk levels of PSRS and PEERS relative to other public pension funds with assets in excess of $1 billion.

As the chart below indicates, the total PSRS and PEERS returns for the one-year time period exceeded the median return of other large public funds. PSRS' and PEERS' total returns for the three-, five- and 10-year time periods were at or marginally below the public fund median return primarily due to asset allocation and risk tolerance differences. The 2012 TUCS universe data indicates that PSRS and PEERS have taken less risk than 70% of other comparable public funds over the last five years.

Actual Returns vs. TUCS Universe Median

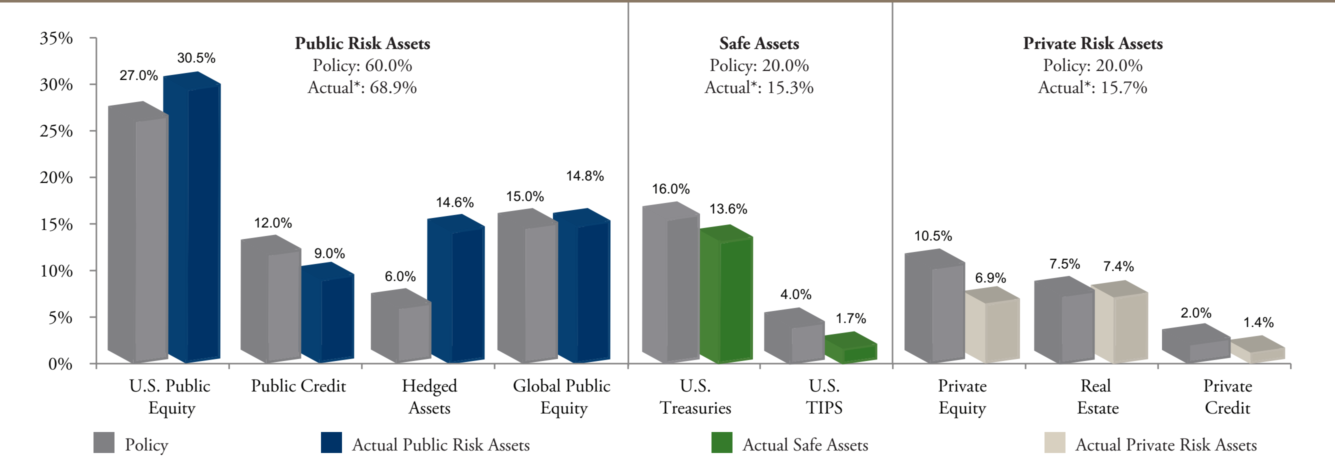


Asset Allocation: Actual Versus Target

The Board's broad policy allocation target as of June 30, 2012 was 60% Public Risk Assets, 20% Safe Assets and 20% Private Risk Assets. Within each broad policy target, the Board has established sub-asset class targets. For example, as the chart below indicates, the target allocation to U.S. Public Equity was 27% as of June 30, 2012. The Board made no changes to the policy targets during fiscal year 2012.

As illustrated in the chart, internal staff utilized the flexibility built into the investment policy to strategically overweight or underweight certain investment asset classes throughout the year.

Total Fund Asset Allocation: Actual* vs. Target



**Actual assets include 0.1% invested in cash and cash equivalents and securities lending collateral that is not reflected in the chart above.*

Statistical Performance

One of the primary investment objectives of the Systems is to achieve returns similar to the market but at lower risk or volatility levels. To that end, internal staff monitors a number of quantitative risk statistics related to the total investment portfolio as well as individual composites. The table below indicates that the Systems have taken less risk than the policy benchmark (as measured by standard deviation) over all time periods, while achieving higher returns over longer time periods, thereby indicating strong risk-adjusted performance.

Beta measures the volatility, or systematic risk, of a security or portfolio in comparison to the market as a whole. If a portfolio has a beta of 1.0, it indicates that the portfolio moves in unison with the market. The Systems' portfolios have a beta of less than 1.0 relative to the policy benchmark, indicating less market volatility. The Systems' beta relative to the world stock index (ACWI World Index) is approximately 0.50. This signifies that the Systems' portfolios move up or down approximately half as much as the world stock index.

Total Plan Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year	10-Year
Annualized PSRS Return	1.9%	11.9%	1.6%	5.9%
Annualized PEERS Return	1.6%	11.6%	1.5%	5.8%
Annualized Policy Benchmark Return*	3.1%	11.4%	1.5%	5.9%
Annualized Strategic Benchmark Return**	2.1%	11.4%	N/A	N/A
Excess return†	-1.2%	0.5%	0.1%	0.0%
Annualized Standard Deviation of Composite***	10.3%	9.1%	11.5%	9.3%
Annualized Standard Deviation of Policy Benchmark***	11.4%	9.7%	13.1%	10.3%
Beta to Policy Benchmark***	0.90	0.93	0.87	0.89
Beta to MSCI All Country World Index***	0.47	0.49	0.52	0.51

**The total plan policy benchmark is composed as follows: 16.0% Barclays Capital U.S. Treasury Blend, 4.0% Barclays Capital U.S. TIPS 1-10 Year Index, 40.5% Russell 3000 Index, 15.0% MSCI All Country World Free Ex-U.S. (Net) Index, 15.0% Barclays Capital Intermediate Credit Index, 7.5% NCREIF Property Index, and 2.0% Merrill Lynch High Yield Master II Index.*

***The Total Plan Strategic Benchmark changes monthly based on the actual asset allocation at the end of the previous month. It was established more recently so five- and 10-year returns are not available.*

**** Risk statistics are calculated on the PSRS portfolio but are indictive of the PEERS portfolio.*

†PSRS excess return relative to the total plan policy benchmark.

PUBLIC RISK ASSETS CLASS SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Public Risk assets had a market value of approximately $21.0 billion, representing 68.9% of total assets.

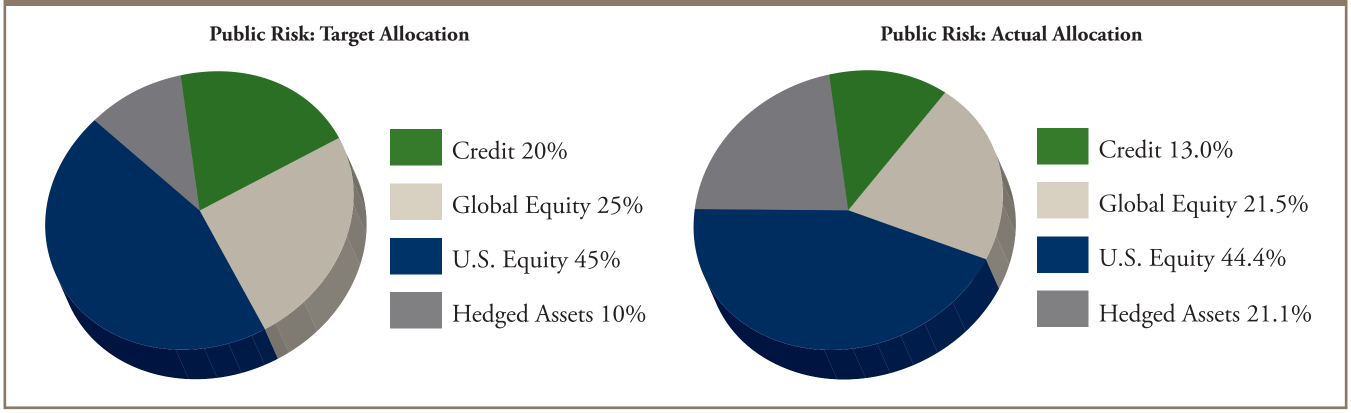
Investment Program Description

The Board adopted an asset allocation policy at the June 8, 2009 Board of Trustees' meeting that includes a broad allocation to Public Risk Assets. The four programs within the Public Risk Asset composite are U.S. Public Equity, Public Credit, Hedged Assets and Global Public Equity. Each program within the Public Risk allocation is a separate multi-manager composite that is treated generally as a single portfolio. Each program serves a specific and distinct role within the overall Public Risk composite and also within the overall total plan allocation. Over time, the Public Risk composite and its sub-components serve as an effective and efficient vehicle to supply the underlying beta exposure to a portfolio of global risk assets required by the Systems' asset allocation policy, while providing the opportunity to achieve excess returns above that of a passive equity benchmark[1] through the prudent combination of passive investment vehicles and a wide range of active investment strategies.

Structure

As of June 30, 2012, 44.4% of the Systems' Public Risk assets were invested in the U.S. Public Equity program, 21.5% in the Global Public Equity program, 13.0% in the Public Credit program and 21.1% in the Hedged Assets program. Each of these programs are discussed in more detail on the following pages.

Public Risk Assets Allocation



Market Overview

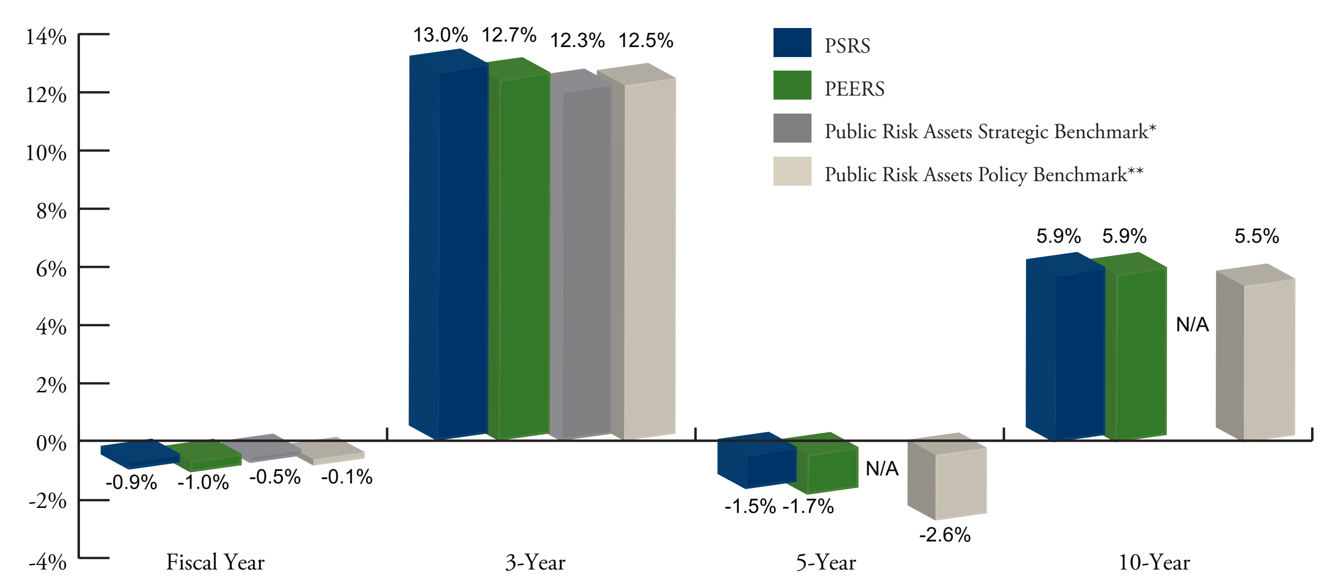
The global markets provided overwhelming evidence that the complexity and volatility seen during the financial crisis of 2008 and 2009 are still present in some capacity. Global stocks struggled during the fiscal year due to the Eurozone sovereign debt crisis, escalating fears of slowing global growth and U.S. debt ceiling debates. The Russell 3000 Index (broad measure of the U.S. stock market) was up 3.8% for the year and the MSCI All Country World ex-U.S. Index (broad measure of the international stock markets) declined 14.6%. Bond market yields and credit spreads decreased during the fiscal year, leading to stable returns for the Public Credit benchmark (Barclays Capital Intermediate Credit Index) of 6.2%.

[1]The customized public risk policy benchmark is comprised of 50.0% Russell 3000 Index, 25.0% MSCI All Country World Free Ex-U.S. (Net) Index and 25.0% Barclays Capital Intermediate Credit Index.

Performance

The total returns for the PSRS and PEERS Public Risk portfolios were -0.9% and -1.0%, respectively, compared to the benchmark return of -0.1% for the fiscal year ended June 30, 2012. For the three-, five- and 10-year time periods, both PSRS and PEERS significantly outperformed the benchmark as noted below.

Public Risk Assets Performance



The table indicates that the Systems have taken less risk than the policy benchmark (as measured by standard deviation) while achieving higher returns over longer time periods, thereby indicating strong risk-adjusted performance. Additionally, the Systems' portfolios have a beta of less than 1.0 relative to the policy benchmark over all time periods shown, indicating less market risk.

Public Risk Assets Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year	10-Year
Annualized PSRS Return	-0.9%	13.0%	-1.5%	5.9%
Annualized PEERS Return	-1.0%	12.7%	-1.7%	5.9%
Annualized Policy Benchmark Return*	-0.1%	12.5%	-2.6%	5.5%
Annualized Strategic Benchmark Return**	-0.5%	12.3%	N/A	N/A
Excess return†	-0.8%	0.5%	1.1%	0.5%
Annualized Standard Deviation of Composite	15.5%	13.4%	17.8%	15.3%
Annualized Standard Deviation of Policy Benchmark*	16.1%	13.6%	18.6%	15.7%
Beta to Policy Benchmark*	0.96	0.99	0.96	0.97
Beta to ACWI World Index	0.71	0.73	0.81	0.85

**The Public Risk Assets strategic benchmark changes monthly based on the actual asset allocation at the end of the previous month. It was established more recently so five- and 10-year returns are not available.*

***The public risk assets policy benchmark is composed as follows: 50% Russell 3000 Index, 25% MSCI ACWI ex-U.S. (Net), 25% Barclays Credit Intermediate.*

†PSRS excess return relative to the Public Risk Assets policy benchmark.

U.S. PUBLIC EQUITY PROGRAM SUMMARY

As of June 30, 2012, the combined PSRS/PEERS U.S. Public Equity assets had a market value of approximately $9.3 billion, representing 30.5% of total assets.

Investment Program Description

U.S. Public Equity is comprised of the Large-Cap and Small-Cap programs which seek to provide long-term capital appreciation and dividend income in excess of inflation through the investment in domestic equity securities. Returns above a purely passive investment benchmark are targeted through the use of a wide variety of active investment strategies that may employ exposure to both equity securities and other types of investments. The primary ***beta*** exposure is achieved through investments in passive investment vehicles (including derivatives), traditional long-only active domestic equity management, and active long/short approaches. ***Alpha*** (or, excess returns above a passive alternative) is expected to be achieved through traditional long-only active domestic equity management, active long/short approaches and alpha overlay strategies (described in greater detail at the end of this section).

Structure

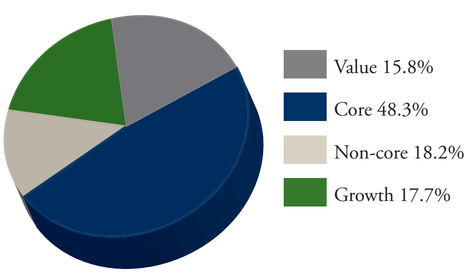
As of June 30, 2012, 33.5% of the PSRS/PEERS U.S. Public Equity composite was passively managed. The remainder of the portfolio was actively managed and diversified across a broad array of capitalization ranges and investment styles, including the Small Cap Alpha Pool (S-CAP) and the Alpha Overlay program. Both programs represent multi-manager pools of assets managed within the overall PSRS/PEERS U.S. Public Equity structure. The S-CAP Program encompasses all small capitalization assets. The Alpha Overlay composite focuses on the separation of returns into alpha and beta, and encompasses alternative equity mandates including hedge fund portfolios.

Exposure to the various segments of the domestic equity market (i.e., growth-oriented, value-oriented, and core) and to the approved investment strategy types are achieved through the identification, selection and on-going management of SEC-registered investment advisors qualified to serve as fiduciaries to the Systems.

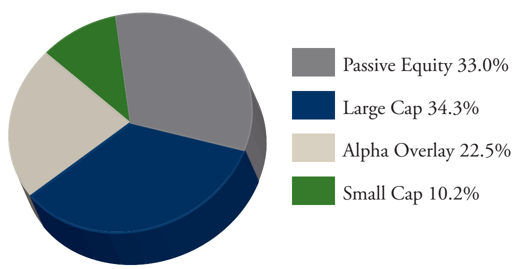
The pie charts depict the U.S. Public Equity portfolio by presenting the current style structure of the portfolio as well as the allocation by composite and market sector.

U.S. Public Equity Allocations: Style and Composite

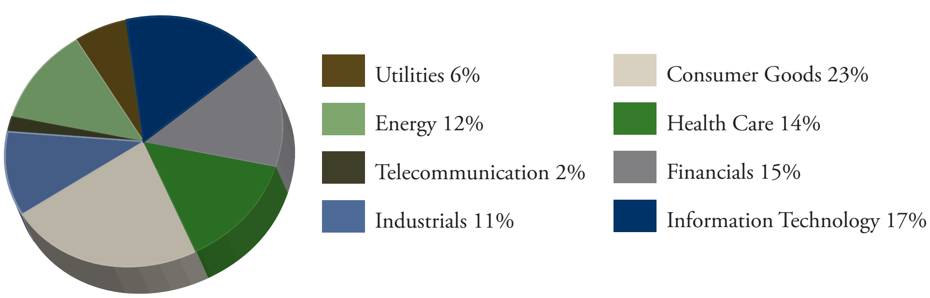
Style Allocation
June 30, 2012



Composite Allocation
June 30, 2012



U.S. Public Equity Market Sectors



Market Overview

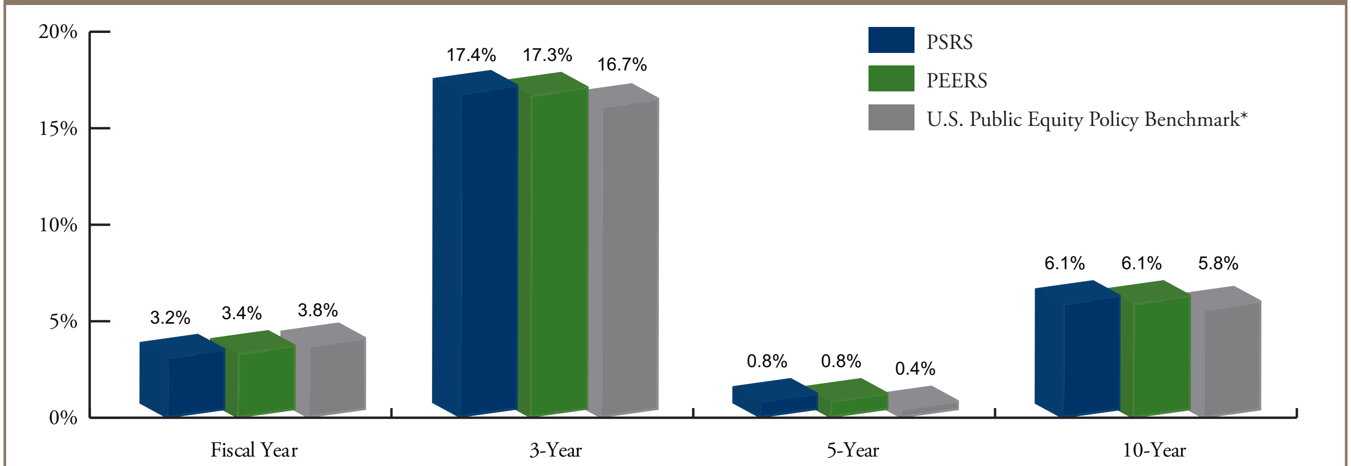
The U.S. stock markets had a difficult year across both market capitalization and styles as the broad measure of the U.S. stock market (Russell 3000 Index) only increased by 3.8%. Small-cap stocks (Russell 2000 Index) decreased by 2.1% for the year with large-cap growth stocks (Russell 1000 Growth Index) outperforming large-cap value stocks (Russell 1000 Value Index) with a return of 5.8% compared to 3.0%.

The fiscal year provided overwhelming evidence that the complexity and volatility seen during the financial crisis of 2008 and 2009 are not gone. Stocks in the U.S. struggled during the year due to U.S. debt ceiling debates, fears of historically high unemployment, a continued slow housing market and developments in the Eurozone.

Performance

The total returns for the PSRS and PEERS U.S. Public Equity programs were 3.2% and 3.4%, respectively, compared to the benchmark return of 3.8% for the fiscal year ended June 30, 2012. Active management strategies detracted from performance for the year. PSRS' and PEERS' U.S. Public Equity composites underperformed their benchmark by 60 and 40 basis points, respectively. Over longer periods of time, the Systems' U.S. Public Equity portfolio is designed to deliver approximately 50-100 basis points of excess return through a combination of active and passive investment strategies. For the three-year time period, both PSRS and PEERS have outperformed the benchmark in excess of 60 basis points.

U.S. Public Equity Performance



U.S. Public Equity Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year	10-Year
Annualized PSRS Return	3.2%	17.4%	0.8%	6.1%
Annualized PEERS Return	3.4%	17.3%	0.8%	6.1%
Annualized Policy Benchmark Return*	3.8%	16.7%	0.4%	5.8%
Excess Return†	-0.6%	0.7%	0.4%	0.3%

**The U.S. Public Equity policy benchmark is the Russell 3000 Index.*

†PSRS excess return relative to the U.S. Public Equity policy benchmark.

Statistics

The table displays the statistical characteristics of the PSRS/PEERS U.S. Public Equity program as of June 30, 2012 with comparisons shown to the portfolio's policy benchmark (Russell 3000 Index).

U.S. Public Equity Characteristics

Characteristics	June 30, 2012 Combined Systems**	June 30, 2012 Russell 3000 Index
Number of Securities	1,509	2,993
Dividend Yield	2.1%	2.1%
Price-to-Earnings Ratio	16.2	15.2
Avg. Market Capitalization	$78.7 bil.	$90.5 bil.
Price-to-Book Ratio	2.4	2.1

***Includes only actively managed separate accounts.*

U.S. Public Equity - Top 10 Holdings		
Top 10 Largest Holdings* June 30, 2012	**Combined Market Value**	**% of Total U.S. Public Equity**
Apple, Inc.	$85,437,448	0.9%
Exxon Mobil Corp.	65,015,401	0.7%
Chevron Corp.	58,647,239	0.6%
JP Morgan Chase and Co.	58,283,348	0.6%
Pfizer, Inc.	47,141,421	0.5%
Philip Morris International, Inc.	45,906,439	0.5%
Amgen, Inc.	45,220,379	0.5%
Lorillard, Inc.	41,378,332	0.5%
Wells Fargo and Co.	39,322,698	0.4%
Microsoft Corporation	38,050,472	0.4%
TOTAL	**$524,403,177**	**5.6%**

** Includes only actively managed separate accounts.*

A complete list of portfolio holdings is available upon request.

Investment Advisors

As of June 30, 2012, PSRS and PEERS had contracts with 13 external investment advisors who manage 22 portfolios that comprise 77.6% of the U.S. Public Equity portfolio. The remaining 22.4% of the portfolio is in the Alpha Overlay program described in the next section.

In fiscal year 2012, passive index assignments were moved to BlackRock Investment Management and a diversified beta assignment was added with NISA Investment Advisors. AllianceBernstein Institutional Management was terminated from a Large-Cap Growth assignment.

U.S. Public Equity Investment Advisors			
Investment Advisor	**Investment Style**	**Combined Portfolio Market Value* As of June 30, 2012**	**% of Total Market Value**
Analytic Investors	Structured Large Cap Value	$ 289,670,112	0.9%
Analytic Investors	U.S. Low Volatility Equity	738,613,118	2.4%
AQR Capital Management	Large Cap 140/40 Core	333,415,751	1.1%
Aronson + Johnson + Ortiz	Active Large Cap 130/30 Value	237,998,395	0.8%
Aronson + Johnson + Ortiz	Active Large Cap Value	409,500,456	1.3%
Blackrock - Russell 1000 Index Fund	Passive Russell 1000 Index	1,767,510,403	5.8%
Blackrock - Russell 1000 Growth Index Fund	Passive Russell 1000 Growth Index	424,703,972	1.4%
Blackrock - S&P 500 Index Fund	Passive S&P 500 Index	461,188,831	1.5%
Martingale Asset Management	Active Large Cap 130/30 Growth	194,594,183	0.6%
NISA Investment Advisors	Diversified Beta	430,868,374	1.4%
Westwood Management	Active Large Cap Value	378,771,523	1.2%
Westwood Management	Master Limited Partnerships	210,799,572	0.7%
Zevenbergen Capital	Active All Cap Growth	408,499,666	1.3%
S-CAP: Allianz	Active Micro Cap Growth	87,072,344	0.3%
S-CAP: AQR Capital Management	Active Small Cap Value	148,483,133	0.5%
S-CAP: Chartwell Investment Partners	Active Small Cap Value	155,430,068	0.5%
S-CAP: Columbus Circle	Active Small Cap Growth	133,645,151	0.4%
S-CAP: Next Century Growth Investors	Active Small Cap Growth	93,066,590	0.4%
S-CAP: Next Century Growth Investors	Active Micro Cap Growth	12,450,312	0.0%
S-CAP: NISA Investment Advisors	Russell 2000 Exposure	121,449,905	0.5%
S-CAP: Thomson, Horstmann & Bryant	Active Small Cap Core	145,890,679	0.5%
S-CAP: Thomson, Horstmann & Bryant	Active Micro Cap Core	54,947,842	0.2%
Small Cap Alpha Pool (S-CAP) Subtotal		**952,436,024**	**3.3%**
Total		**$ 7,238,570,380**	**23.7%**

**Includes manager cash.*

ALPHA OVERLAY PROGRAM SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Alpha Overlay allocation had a market value of approximately $2.1 billion, representing 6.8% of total assets..

Investment Program Description

The Alpha Overlay portfolio resides within the U.S. Large-Cap Equity program. The Alpha Overlay portfolio has been constructed to assist in meeting the long-term goals established for the overall U.S. Large-Cap Equity allocation. Specifically, Alpha Overlay provides broad exposure to large-cap U.S. stocks using S&P 500 total return swaps, while the returns of a select portfolio of hedge fund strategies provides the opportunity to earn excess returns above the passive S&P 500 Index. By combining the market exposure obtained through the S&P 500 total return swaps with the diversified exposures to investment strategies focused on alpha generation, the combined portfolio is constructed and managed to produce a return stream with volatility and beta characteristics similar to the passive S&P 500 Index, while generating excess returns (or alpha) of approximately 200-250 basis points over longer periods of time.

Structure

As of June 30, 2012, 25.1% of the PSRS/PEERS Alpha Overlay composite assets were passively managed by NISA Investment Advisors using S&P 500 total return swaps to attain equitization. An additional 71.1% of the portfolio was actively managed across a diversified range of multi-strategy and market neutral hedge fund mandates. The remaining 3.8% of the portfolio was actively managed by Zevenbergen Capital in a long-only mandate. During the fiscal year ended June 30, 2012, two additional assignments were added with existing advisor Och-Ziff Capital Management. Two additional assignments were also added with Stark Investments and Renaissance Institutional Management. No managers were eliminated. The chart below displays the specific investment advisor exposure within the composite as of June 30, 2012.

Alpha Overlay Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2012	% of Total Value
Algert Coldiron Investors	Multi-Strategy Market Neutral	$ 121,494,184	0.4%
Analytic Investors	Japan Market Neutral	33,939,876	0.1%
AQR Capital Management	Multi-Strategy	102,794,725	0.3%
Bridgewater Associates	Multi-Strategy	218,640,927	0.7%
Carlson Capital Management	Multi-Strategy	155,656,441	0.5%
Davidson Kempner	Multi-Strategy	232,459,152	0.8%
NISA Investment Advisors	S&P 500 Exposure	526,235,045	1.7%
Och-Ziff	Multi-Strategy	116,274,874	0.4%
Och-Ziff Asia	Multi-Strategy	14,891,931	0.0%
Och-Ziff Europe	Multi-Strategy	17,422,506	0.0%
Renaissance	Equity Long/short	150,503,094	0.5%
Stark Investments	Equity Long/short	31,035,711	0.1%
UBS O'Connor	Global Market Neutral	138,284,262	0.5%
UBS O'Connor	Multi-Strategy	155,922,791	0.5%
Zevenbergen Capital	Active All-Cap Growth	79,307,381	0.3%
Total		**$ 2,094,862,900**	**6.8%**

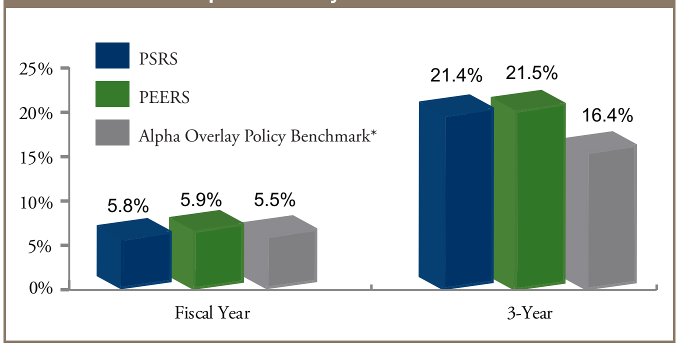
** Includes manager cash.*

Performance

The total returns for PSRS' and PEERS' Alpha Overlay programs were 5.8% and 5.9%, respectively, compared to the benchmark return of 5.5% for the fiscal year ended June 30, 2012. As shown in the table and graph below, the PSRS and PEERS annualized Alpha Overlay composite returns substantially exceeded the benchmark while maintaining a risk profile (standard deviation and beta) similar to that of the benchmark over longer periods of time.

For the three-year time period, PSRS and PEERS outperformed the benchmark by 500 basis points and 510 basis points, respectively.

Alpha Overlay Performance



Alpha Overlay Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year
Annualized PSRS Return	5.8%	21.4%
Annualized PEERS Return	5.9%	21.5%
Annualized Policy Benchmark Return*	5.5%	16.4%
Excess return†	0.3%	5.0%
Annualized Standard Deviation of Composite	16.8%	16.0%
Annualized Standard Deviation of Policy Benchmark*	18.2%	16.1%
Beta to Benchmark*	0.92	0.99

**The Alpha Overlay policy benchmark is the S&P 500 Index. Five- and 10-year returns are not available due to the age of the asset class.*

†PSRS excess return relative to the Alpha Overlay policy benchmark.

GLOBAL PUBLIC EQUITY PROGRAM SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Global Public Equity assets had a market value of approximately $4.5 billion, representing 14.8% of total assets.

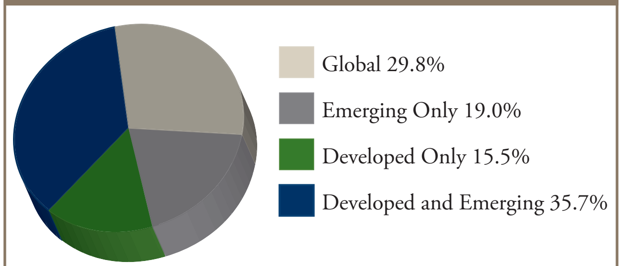
Investment Program Description

The Global Public Equity program provides long-term capital appreciation in excess of inflation and dividends through exposure to public equity securities on a global basis. Specific investment strategies approved for the Global Public Equity program include passive investment vehicles, traditional long-only active equity management and active long/short approaches. Exposure to the various segments of the global equity market (i.e., U.S., developed non-U.S., emerging, growth-oriented, value-oriented and core) and to the approved investment strategy types are achieved through the identification, selection and on-going management of SEC-registered investment advisors qualified to serve as fiduciaries to the Systems. The global portfolios provide an element of diversification relative to the domestic equity portfolios. Currency is another aspect of international investing that can impact the performance and volatility of the asset class over the short-term, however, over the long-term the effect from currency is expected to be neutral.

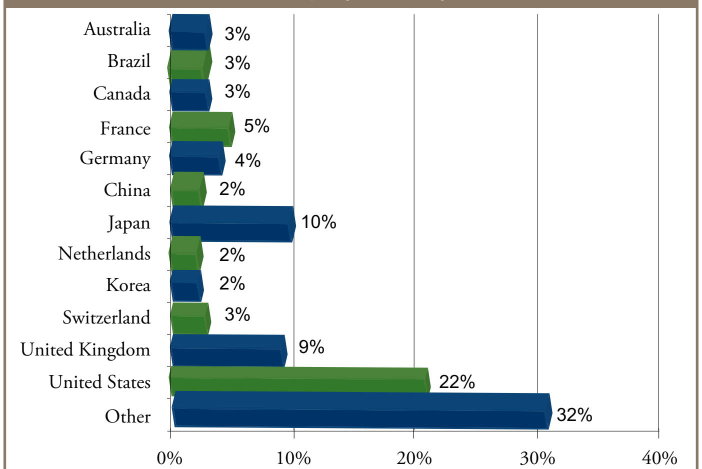
Structure

As of June 30, 2012, 16.5% of the PSRS/PEERS Global Public Equity composite was passively managed. The remainder of the portfolio was actively managed and diversified across capitalization ranges, styles and a number of developed and emerging market countries. The pie chart indicates broader exposure by investment mandate while the bar graph displays the specific country exposure within the composite.

Global Public Equity Allocation



Global Public Equity Country Allocation



Global Public Equity - Top 10 Holdings

Top 10 Largest Holdings* June 30, 2011	Combined Market Value	% of Total Global Public Equity
Samsung Electronics Co. Ltd.	$ 36,401,724	0.8%
AstraZeneca PLC	29,661,981	0.7%
Roche Holdings AG	23,588,475	0.5%
HSBC Holdings	22,976,219	0.5%
GlaxoSmithKline	22,759,949	0.5%
Nestle SA	21,764,491	0.5%
Rio Tinto PLC	21,425,561	0.5%
WPP Plc	21,224,093	0.5%
Linde AG	20,483,873	0.4%
Bayer AG	19,735,382	0.4%
TOTAL	**$240,021,748**	**5.3%**

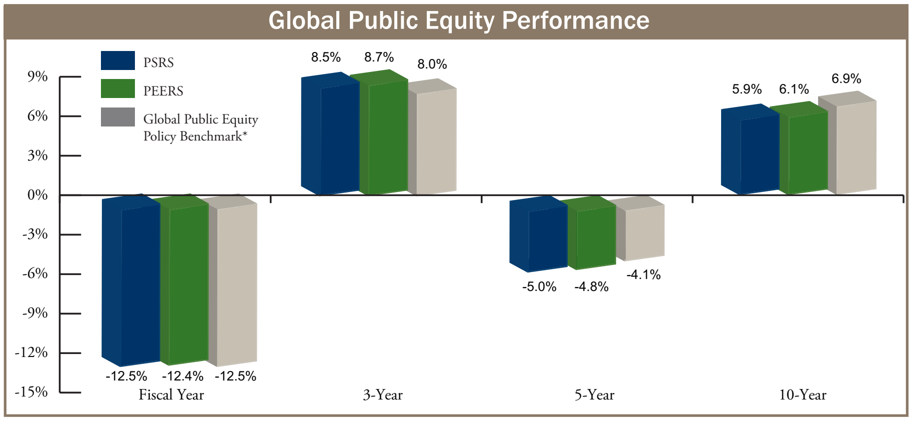
** Includes only actively managed separate accounts.*

A complete list of portfolio holdings is available upon request.

Market Overview

The global stock markets had a turbulent year across market capitalization ranges and in both developed and emerging countries. The broad measure for developed global markets (MSCI EAFE Index) decreased 13.8%, emerging markets (MSCI EM Index) decreased 16.0% and global stocks (MSCI World) declined 5.0%.

The sovereign debt crisis in the Eurozone and escalating fears of slowing global growth, particularly in China, proved to be very challenging for both global stocks and emerging markets during the fiscal year.



Performance

The total returns for the PSRS and PEERS Global Public Equity programs were -12.5% and -12.4%, respectively, compared to the benchmark return of -12.5% for the fiscal year ended June 30, 2012. As shown in the graph and table, the PSRS and PEERS annualized Global Public Equity composite returns were in-line with the benchmark. Global low volatility mandates provided strong absolute and relative returns for the fiscal year.

For the three-year time period, PSRS and PEERS outperformed the benchmark by 50 basis points and 70 basis points, respectively. The Systems' five- and 10-year returns slightly underperformed the benchmark.

Global Public Equity Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year	10-Year
Annualized PSRS Return	-12.5%	8.5%	-5.0%	5.9%
Annualized PEERS Return	-12.4%	8.7%	-4.8%	6.1%
Annualized Policy Benchmark Return*	-12.5%	8.0%	-4.1%	6.9%
Excess Return†	0.0%	0.5%	-0.9%	-1.0%

**The Global Equity policy benchmark is composed as follows: 74.0% MSCI All Country World ex-U.S. Free Index and 26.0% MSCI All Country World Free Index.*

†PSRS excess return relative to the Global Equity policy benchmark.

Investment Advisors

As of June 30, 2012, PSRS and PEERS had contracts with 15 external investment advisors who manage 17 portfolios within the Global Public Equity portfolio. In fiscal year 2012, a new emerging market assignment was added with Acadian Asset Management and the passive assignment was moved to BlackRock Investment Management. An active global manager and two active international managers were terminated.

Global Public Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2012	% of Total Market Value
Acadian Asset Management	Active Emerging Markets	$ 109,757,132	0.4%
AllianceBernstein Institutional Mgmt.	Active Intl. Value	298,952,004	1.0%
Analytic Investors	Active Global	442,032,409	1.4%
AQR Capital Management	Active Intl. Core	355,759,488	1.2%
Arrowstreet Capital	Active Emerging Markets	129,839,000	0.4%
Arrowstreet Capital	Active Global	517,023,870	1.7%
Blackrock - MSCI ACWI ex-US Index	Passive Intl. Core	418,916,651	1.4%
Esemplia Emerging Markets	Active Emerging Markets	253,539,420	0.8%
INVESCO Global Asset Management	Active Intl. Value	369,499,698	1.2%
MFS Investment Management	Active Intl. Core	540,474,971	1.8%
Neon Capital Management	Active Emerging Markets	49,948,575	0.2%
NISA Investment Advisors	EAFE Swaps	328,491,367	1.1%
Rock Creek Group	Active Emerging Markets	314,618,300	1.0%
T. Rowe Price Associates	Active Global Growth	374,037,790	1.2%
Transition Accounts	Transition Accounts	13,692,748	0.0%
Total		**$4,516,583,423**	**14.8%**

** Includes manager cash.*

PUBLIC CREDIT PROGRAM SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Public Credit assets had a market value of approximately $2.7 billion, representing 9.0% of total assets.

Investment Program Description

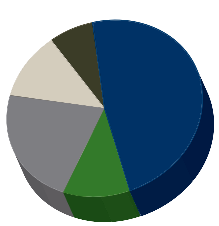
The Public Credit program is designed to provide a source of income and capital appreciation for PSRS and PEERS while creating substantial diversification to the total plan with a low correlation to other asset classes. Most securities in this program exhibit high liquidity. Specific investments can include investment grade corporate securities, below investment grade debt instruments, distressed debt securities, convertible bonds, bank loans, agencies, mortgage-backed securities, asset-backed securities and interest rate sensitive securities (including those issued or guaranteed by the U.S. government or its agencies). Investments in this program may include debt of both U.S. and non-U.S. issuers.

The performance objective for the Public Credit program is to exceed the returns of the investment grade credit markets through the use of a wide variety of active management approaches while incurring a level of risk that is generally consistent with the policy benchmark (Barclays Capital Intermediate Credit Index).

Structure

As of June 30, 2012, the Public Credit composite was actively managed and diversified across high quality corporate bonds, bank loans and non-dollar currencies of both developed and emerging countries. The Systems' internal staff eliminated the allocation to mortgage backed securities during the current fiscal year, in favor of increasing non-dollar bonds and emerging currencies. The pie chart below presents the strategy allocation of the Systems' Public Credit assets as of June 30, 2012.

Public Credit Strategy Allocation



The target allocation for the Public Credit program is 12.0% and the Systems' allocation at the end of the fiscal year was just under 9.0%. Within the Public Credit composite, the Systems' internal staff has built a diversified portfolio with a base of 48% in high quality, shorter duration corporate bonds. The most significant position outside of the core bond allocation was to non-dollar bonds (and currencies) due to an expectation that the U.S. dollar would decline over the medium term.

Market Overview

Bond returns were positively impacted by a sharp decline in Treasury yields during the fiscal year as investors fled risky assets. A weakening economic recovery helped fuel a flight to quality favoring U.S. government bonds. Specifically, the yield on the 10-year Treasury decreased from 3.16% on June 30, 2011 to 1.65% on June 30, 2012.

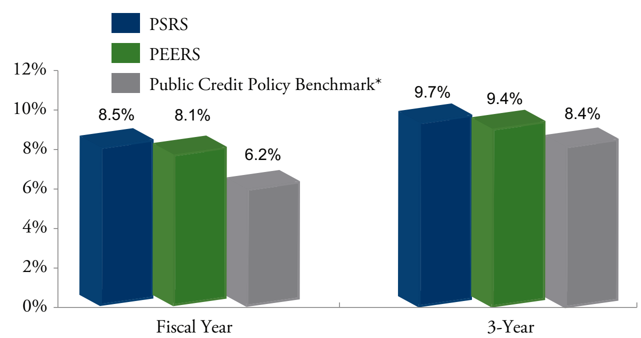
Investment grade credit corporate bonds (Barclays Capital Intermediate Credit Index) increased 6.2% for the year while a broader measure of the U.S. bond market (Barclays Capital Aggregate Index) increased 7.5%. High yield, or lower quality, bonds (Citigroup High Yield Index) increased 7.7% for the year with global bonds (Barclays Capital Global Bond Index) increasing 2.7%, while emerging market bonds (JP Morgan Emerging Market Bond Index) decreased 3.7%.

Performance

The total returns for the PSRS and PEERS Public Credit programs were 8.5% and 8.1%, respectively, compared to the benchmark return of 6.2% for the fiscal year ended June 30, 2012. As indicated in the table and graph on page 67, both PSRS and PEERS also significantly outperformed the benchmark for the three-year time period.

Active management strategies (manager selection decisions) contributed significantly to the positive performance of the Public Credit portfolio. The NISA Corporate Credit accounts benefited from a longer duration strategy due to declining interest rates over the fiscal year. The NISA Corporate Credit accounts provided strong absolute and relative returns for the fiscal year, moving 16.7% higher, relative to the benchmark of 6.2%. However, the investment manager alpha within the composite was reduced by declining emerging market currencies during the year.

Public Credit Performance



Public Credit Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year
Annualized PSRS Return	8.5%	9.7%
Annualized PEERS Return	8.1%	9.4%
Annualized Policy Benchmark Return*	6.2%	8.4%
Excess Return†	2.3%	1.3%

**The Public Credit policy benchmark is the Barclays Capital Intermediate Index.*

†PSRS excess return relative to the Credit policy benchmark.

The Public Credit program was established in December 2008, so five- and 10- year returns are not available.

Top 10 Holdings

The following table displays the top 10 Public Credit holdings as of June 30, 2012.

Public Credit - Top 10 Holdings

Top 10 Largest Holdings* June 30, 2012	Combined Market Value	% of Total Public Credit
PIMCO Developing Local Markets Fund	$ 198,052,609	7.2%
PIMCO Short Term Floating NAV II Fund	103,240,979	3.8%
United States Treasury Strip, 0.0% 8/15/40	88,576,680	3.2%
United States Treasury Note, 1.75%, 5/15/22	80,368,124	2.9%
United States Treasury Strip, 0.0% 5/15/40	66,951,189	2.4%
United States Treasury Note, 0.875%, 4/30/17	52,620,866	1.9%
United States Treasury Bill, 0.0% ,9/20/12	47,992,320	1.8%
Fannie Mae TBA, 4.0%, 8/13/2042	46,636,726	1.7%
Fannie Mae TBA, 4.0%, 7/12/2042	45,761,460	1.7%
Petrobras International Finance Note, 5.375%, 1/27/21	35,625,687	1.3%
Total	**$ 765,826,640**	**27.9%**

**Includes only actively managed accounts. A complete list of portfolio holdings is available upon request.*

Investment Advisors

As of June 30, 2012, PSRS and PEERS had contracts with three external investment advisors who manage five portfolios in the Public Credit portfolio. In fiscal year 2012, an actively managed mortgage assignment with BlackRock Financial Management was terminated. No manager assignments were added.

Public Credit Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2012	% of Total Market Value
NISA Investment Advisors	Corporate Credit	$ 1,318,458,099	4.3%
Oaktree Bank Loans	Senior Bank Loans	298,145,429	1.0%
Pacific Investment Management Co.	Core Plus	614,613,838	2.0%
Pacific Investment Management Co.	LIBOR Plus	314,880,374	1.0%
Pacific Investment Management Co.	Developing Local Markets	198,052,609	0.7%
Total		**$ 2,744,150,349**	**9.0%**

**Includes manager cash.*

HEDGED ASSETS PROGRAM SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Hedged Assets portfolio had a market value of approximately $4.5 billion, representing 14.6% of total assets.

Investment Program Description

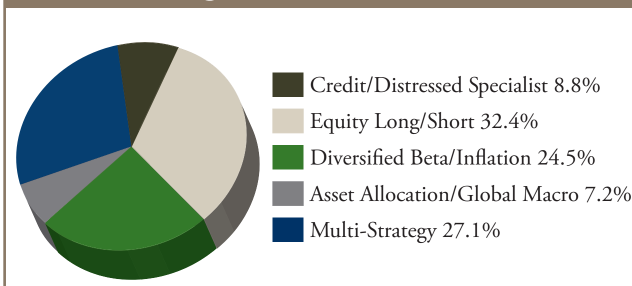
The Hedged Assets program's objective is to provide diversification to the total portfolio and reduce volatility within the Public Risk composite. The purpose of this program is to enhance the overall risk/return profile of the Public Risk composite through the inclusion of specialized investment strategies that typically generate returns in a different fashion (i.e., absent a high correlation to equities or bonds). These strategies may utilize leverage as allowed within their governing documents. The returns from these strategies have historically had a low to moderate correlation with the traditional equity markets, thus providing diversification benefits in addition to portfolio return enhancement. These strategies seek to control risks and maintain a focus on absolute returns. The inherent nature of these vehicles to serve as a "hedge" provides for the expectation that the program will lag the equity market during times when equities are performing above the long-term averages. However, when equities are performing below the long-term averages, the program would be expected to outperform the equity market. In addition, managers within this asset class have historically possessed significantly lower volatility relative to traditional equity managers.

Structure

In December 2005, the Systems hired Albourne America, LLC (Albourne) as its hedge fund consultant. Albourne is an independent global advisory firm focused mainly on hedge funds. As the Systems ramped-up investments in alternatives, it was determined that direct investments into hedge funds would be utilized, as opposed to incorporating fund-of-funds. The Systems' internal staff believes that the benefits of direct investments, including lower fees, customized portfolio exposures, direct access to manager knowledge, and higher levels of transparency, outweigh the benefit of quicker implementation offered by fund-of-funds. Using this approach, the Systems hired their first hedge fund manager in January 2007.

As the chart below indicates, the Hedged Assets program is diversified into Multi-Strategy Managers, Asset Allocation/Global Macro, Diversified Beta/Inflation, Credit/Distressed Specialists and Equity Long/Short. Multi-Strategy managers include those focused on event-driven, credit and relative value. The Systems manage the Hedged Assets portfolio to a blended benchmark of 25% Russell 3000 Index, 25% MSCI All County World Free Ex-U.S. Index, and 50% Barclays Capital Intermediate Credit Index.

Hedged Assets Diversification

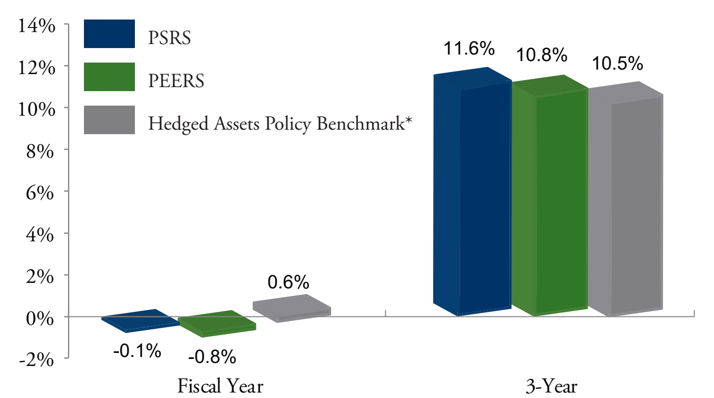


Performance

The total annualized returns on the PSRS and PEERS Hedged Assets portfolios for the fiscal year were -0.1% and -0.8%, respectively. As the table indicates, the Hedged Assets program continued to assume less than one-half of the volatility of the world stock index (MSCI All Country World Index) and achieved a beta of approximately .39 to the index, signifying that the Systems' portfolios move up or down less than half as much as the world stock index.

For the three-year time period, PSRS and PEERS outperformed the benchmark by 110 basis points and 30 basis points, respectively. The longer term performance was accomplished with a volatility of 7.7% versus the volatility of the MSCI All Country World Index at 18.3% (a volatility level of approximately 40% of that of the equity index). The beta of the portfolio over this time period was only .39.

Hedged Assets Performance



Hedged Assets Fiscal Year Statistical Performance	Fiscal Year Return	Standard Deviation	Beta
Annualized PSRS Return	-0.1%	8.9%	0.38
Annualized PEERS Return	-0.8%	9.1%	0.39
Annualized Policy Benchmark Return*	0.6%	11.9%	0.55
Annualized S&P 500 Return	5.5%	18.2%	0.82
Annualized MSCI AC World Index Return	-6.5%	21.7%	1.00

Hedged Assets 3-Year Statistical Performance	3-Year Return	Standard Deviation	Beta
Annualized PSRS Return	11.6%	7.7%	0.39
Annualized PEERS Return	10.8%	7.7%	0.39
Annualized Policy Benchmark Return*	10.5%	9.9%	0.54
Annualized S&P 500 Return	16.4%	16.1%	0.86
Annualized MSCI AC World Index Return	10.8%	18.3%	1.00

**The Hedged Assets policy benchmark is composed as follows: 50% Barclays Credit Intermediate, 25% MSCI ACWI ex U.S. (Net), and 25% Russell 3000 Index.*

The first investment in the Hedged Asset composite was funded in January 2007, so five- and 10-year returns are not available.

Investment Advisors

As of June 30, 2012, PSRS and PEERS had contracts with 19 external investment advisors who manage 29 portfolios.

PSRS and PEERS added one investment mandate with Nisa Investment Advisors to the portfolio during fiscal year 2012.

Hedged Assets Investment Advisors			
Investment Advisor	**Investment Style**	**Combined Portfolio Market Value* As of June 30, 2012**	**% of Total Market Value**
AQR Absolute Return Fund	Multi-Strategy	$ 102,794,725	0.3%
AQR Diversified Beta Fund	Diversified Beta/Inflation	280,583,685	0.9%
AQR Real Asset Fund	Multi-Strategy	99,782,030	0.3%
Bridgewater All Weather	Equity Long/Short	285,391,486	0.9%
Bridgewater Inflation Pool	Diversified Beta/Inflation	173,686,744	0.6%
Bridgewater Pure Alpha II	Asset Allocation/Global Macro	54,261,449	0.2%
Bridgewater Pure Alpha Major Markets	Asset Allocation/Global Macro	264,516,595	0.9%
Brookside Capital	Equity Long/short	3,668,214	0.0%
Carlson Black Diamond	Multi-Strategy	112,716,733	0.4%
Davidson Kempner	Multi-Strategy	113,918,175	0.4%
Davidson Kempner	Distressed Debt/Credit	112,910,249	0.4%
GoldenTree Asset Management	Distressed Debt/Credit	278,239,319	0.9%
Highbridge Asia	Multi-Strategy	614,248	0.0%
Indus Capital Partners	Equity Long/Short	174,793,843	0.6%
Karsch Capital Management	Equity Long/Short	140,902,557	0.5%
Karsch Capital Management	Equity Long/Short	200,912,896	0.7%
Maverick Capital	Equity Long/Short	145,460,970	0.5%
NISA Investment Advisors	Diversified Beta/Inflation	302,300,391	1.0%
NISA Investment Advisors	Diversified Beta	250,970,566	0.8%
Och-Ziff Domestic Partners	Multi-Strategy	116,274,874	0.4%
Och-Ziff Europe	Multi-Strategy	32,356,082	0.1%
Och-Ziff Asia	Multi-Strategy	134,027,381	0.4%
Owl Creek Overseas Fund	Multi-Strategy	114,616,158	0.4%
Paulson and Company	Multi-Strategy	44,314,007	0.1%
Pershing Square	Equity Long/Short	196,348,218	0.6%
Renaissance	Equity Long/Short	279,505,747	0.9%
Stark Investments	Equity Long/Short	57,637,749	0.2%
UBS O'Connor	Multi-Strategy	112,909,541	0.3%
York Capital	Multi-Strategy	264,321,290	0.9%
Total		**$ 4,450,735,922**	**14.6%**

Includes manager cash.

SAFE ASSETS CLASS SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Safe Assets had a market value of approximately $4.7 billion, representing 15.3% of total assets.

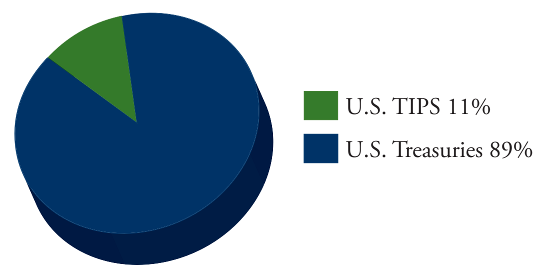
Investment Program Description

The Safe Assets program is intended to act as a source of safety and income for PSRS and PEERS. The program is designed to create substantial diversification to the total portfolio and reduce volatility through low correlation to other asset classes. Specifically, the Safe Assets portfolio should provide asset protection at the total fund level in periods of economic stress. The policy benchmark for the Safe Assets allocation is 80% Barclays Capital U.S. Treasury Blended Index (a combination of the Barclays Capital Treasury Intermediate Index and the Barclays Capital Treasury Long Index) and 20% Barclays Capital U.S. TIPS 1-10 Year Index.

Structure

As of June 30, 2012, the Systems' entire Safe Assets Program was actively managed by NISA Investment Advisors. The assets held within the program exhibit high liquidity and safety. The pie chart below depicts the PSRS and PEERS Safe Assets program by showing the sector and composite allocations as of June 30, 2012.

Safe Assets Sector and Composite Allocations



Market Overview

The Systems' Treasury and TIPS allocation provided strong absolute returns during the year. Strong performance was attributed to downward pressure on yields and a flight to quality due to growing uncertainty over global economic recovery. The yield on the 10-year Treasury note decreased from 3.16% on June 30, 2011 to 1.65% on June 30, 2012.

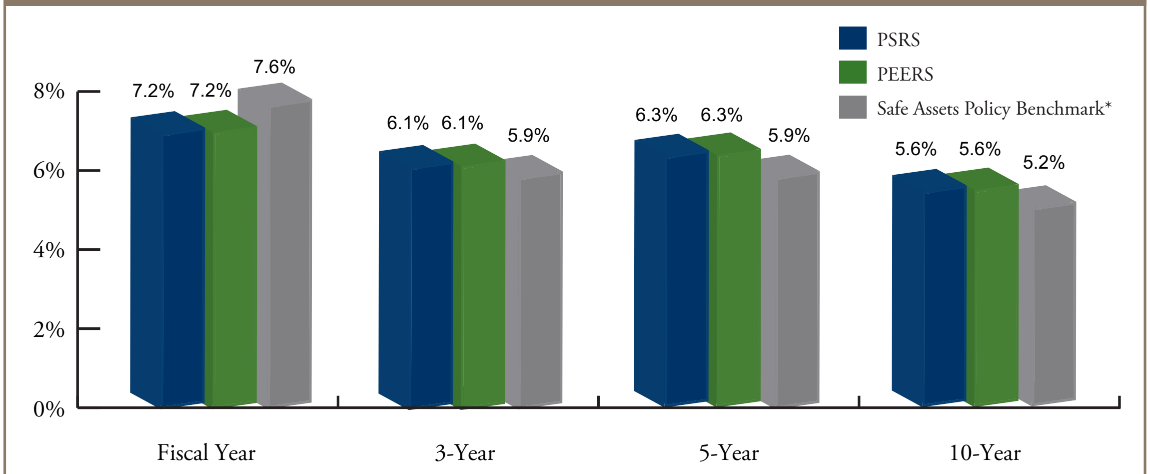
Performance

The total returns for the PSRS and PEERS Safe Asset portfolios were 7.2% for both Systems, compared to the benchmark return of 7.6% for the fiscal year ended June 30, 2012. The Safe Assets portfolio provided safety and strong absolute returns to the Systems in a year of global volatility.

For the three-year time period, both PSRS and PEERS outperformed the Safe Assets benchmark by 20 basis points. Both Systems also outperformed the Safe Assets benchmark by 40 basis points for the five- and 10-year time periods.

The absolute return of the Safe Assets portfolio is relatively modest over longer time periods. However, the Safe Assets portfolio continues to provide asset protection at the total fund level in periods of economic stress and ultimate liquidity to PSRS and PEERS. An allocation to truly Safe Assets allows the Systems to accept market risk in other portions of the total fund portfolio. The Systems' internal staff continues to maintain an underweight to Safe Assets due in part to historically low yields on both U.S. Treasuries and TIPS and due to better expected risk-adjusted returns going forward within the Public Risk program.

Safe Assets Performance



Safe Assets Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year	10-Year
Annualized PSRS Return	7.2%	6.1%	6.3%	5.6%
Annualized PEERS Return	7.2%	6.1%	6.3%	5.6%
Annualized Policy Benchmark Return*	7.6%	5.9%	5.9%	5.2%
Excess return†	-0.4%	0.2%	0.4%	0.4%
Annualized Standard Deviation of Composite	3.2%	3.1%	3.8%	3.7%
Annualized Standard Deviation of Policy Benchmark*	3.1%	3.3%	3.9%	3.8%
Beta to Policy Benchmark*	1.02	0.95	0.96	0.98
Beta to ACWI World Index	-0.09	-0.08	-0.01	-0.02

**The Safe Assets policy benchmark is composed as follows: 80% Barclays Capital Treasury Blend and 20% Barclays Capital U.S. TIPS 1-10 Yrs. Index as of June 30, 2012.*

†PSRS excess return relative to the Safe Assets policy benchmark.

The table indicates that the Systems have taken less risk than the Policy benchmark (as measured by standard deviation) over longer time periods, while achieving higher returns; indicating strong risk-adjusted performance. Additionally, the Systems' portfolios have a beta of less than 1.0 relative to the Policy benchmark over longer time periods, indicating less market volatility. Most importantly, the Safe Asset portfolio exhibits a beta of approximately zero relative to the world stock index (MSCI All Country World Index), indicating no correlation to risk assets. This statistic supports one of the primary objectives of Safe Assets: diversification for other risk assets in the total fund.

Top 10 Holdings and Characteristics

The following table displays the statistical characteristics of the Systems' Safe Assets program as of June 30, 2012 with comparisons shown to the Barclays Capital Intermediate U.S. Treasury Index. Additionally, the top 10 Safe Assets holdings as of June 30, 2012 are shown in the table below the characteristics.

Safe Assets Characteristics

Characteristics	June 30, 2012 Combined Systems*	June 30, 2012 Barclays Capital Intermediate U.S. Treasury Index
Number of Securities	75	180
Average Coupon	2.4%	2.1%
Yield to Maturity	0.7%	0.7%
Average Maturity (Years)	5.8	4.1
Duration (Years)	5.1	3.9

Safe Assets - Top 10 Holdings

Top 10 Largest Holdings* June 30, 2012	Combined Market Value	% of Total Safe Assets
United States Treasury Note, 1.25% , 10/31/15	$ 240,767,032	5.1%
United States Treasury Note, 0.0%, 7/12/12	236,895,262	5.0%
United States Treasury Note, 3.50%, 05/15/20	227,810,747	4.9%
United States Treasury Note, 0.25%, 02/28/14	216,179,272	4.6%
United States Treasury Note, 2.75%, 10/31/13	211,329,962	4.5%
United States Treasury Note, 2.375%, 10/31/14	209,264,905	4.5%
United States Treasury Note, 2.0%, 04/30/16	167,352,936	3.6%
United States Treasury Note, 3.0%, 09/30/16	159,451,625	3.4%
United States Treasury Note, 2.125%, 05/31/15	148,284,631	3.2%
United States Treasury Note, 0.75%, 12/15/13	142,099,264	3.0%
TOTAL	**$1,959,435,636**	**41.8%**

**Includes only actively managed separate accounts.*

A complete list of portfolio holdings is available upon request.

Investment Advisors

NISA Investment Advisors managed the Safe Assets program as of June 30, 2012. The following table lists the firm's management by investment style.

Safe Assets Investment Advisor

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2012	% of Total Market Value
NISA Investment Advisors	U.S. Treasuries	$ 4,164,943,022	13.6%
NISA Investment Advisors	U.S. TIPS	523,557,957	1.7%
Total		**$4,688,500,979**	**15.3%**

**Includes manager cash.*

PRIVATE RISK ASSETS CLASS SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Private Risk assets had a market value of approximately $4.8 billion, representing 15.7% of total assets.

Investment Program Description

The allocation to Private Risk investments is viewed as a separate asset class for inclusion in the Systems' overall investment portfolios. The process of building the Systems' Private Risk program and fully funding the target allocation is expected to occur over a period of several years. Additional new investments will be necessary beyond the initial start-up period in order to maintain the long-term 20.0% target allocation. The three programs within the Private Risk Assets composite are Private Equity, Private Real Estate and Private Credit. Each program within the Private Risk allocation is a separate multi-manager composite that is treated generally as a single portfolio. Each program serves a specific and distinct role within the overall Private Risk composite and also within the overall total plan allocation. Over time, the Private Risk composite serves as a long-term vehicle to supply the underlying beta exposure to a portfolio of private assets.

Investments in Private Risk Assets differ substantially from the Systems' public markets asset classes (Public Risk Assets and Safe Assets) in part because they are typically very long-term in nature, not publicly traded, relatively illiquid, and offer the potential for substantially higher returns (along with a commensurate level of risk). The illiquid nature of Private Risk Assets can result from the form of the asset or security itself, or it can be a function of the investment structure being utilized (e.g., a limited partnership).

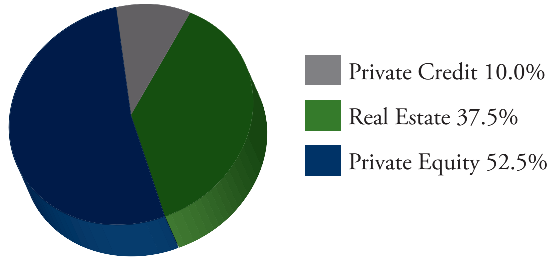
Due to the fact that Private Risk Assets are not publicly traded, pricing and performance measurements prior to realization of gains are less reliable than in the traditional publicly traded asset classes. The Systems continually monitor the valuation policies and procedures utilized for such investments.

Structure

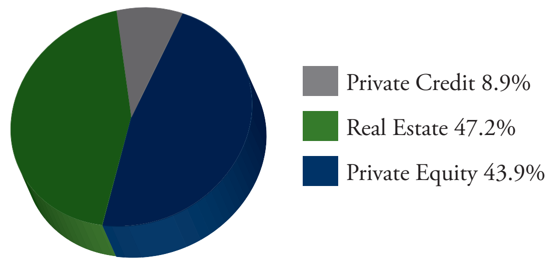
As of June 30, 2012, 43.9% of the PSRS/PEERS Private Risk assets were invested in the Private Equity program, 47.2% in the Private Real Estate program, and 8.9% in the Private Credit program. Each of these programs is discussed in more detail on the following pages.

Private Risk Assets Allocation

Private Risk: Target Allocation



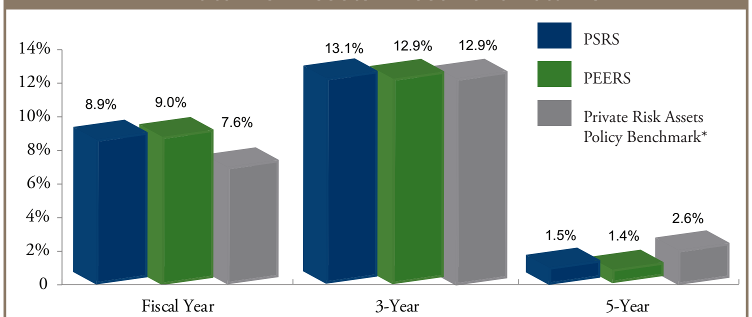
Private Risk: Actual Allocation



Performance

The total returns for the PSRS and PEERS private risk portfolios were 8.9% and 9.0%, respectively, compared to the benchmark return of 7.6% for the fiscal year ended June 30, 2012. For the three-year time period, PSRS outperformed the benchmark by 20 basis points while PEERS' performance equaled the benchmark. For the five-year time period, both PSRS and PEERS underperformed the benchmark as noted below. The longer-term underperformance relative to the benchmark was due primarily to the private real estate portfolio. The Systems' Real Estate assets experienced significant downward pressure during the credit crisis of 2008 and 2009.

Private Risk Assets Investment Returns



Private Risk Assets Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year
Annualized PSRS Return	8.9%	13.1%	1.5%
Annualized PEERS Return	9.0%	12.9%	1.4%
Annualized Policy Benchmark Return*	7.6%	12.9%	2.6%
Excess Return†	1.3%	0.2%	-1.1%

**The Private Risk Assets policy benchmark is composed as follows: 52.5% Russell 3000 Index, 37.5% NCREIF Property Index and 10.0% Merrill Lynch High Yield Master II Index.*

†PSRS excess return relative to the Private Risk Assets policy benchmark.

The Private Risk Assets composite was established more recently, so 10-year returns are not available.

PRIVATE EQUITY PROGRAM SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Private Equity assets had a market value of approximately $2.1 billion, representing 6.9% of total assets.

Investment Program Description

The Private Equity asset class is comprised of investment opportunities not typically included within the public equity and fixed income markets. Private Equity investments provide financing for start-up companies, private middle market companies, firms in financial distress and public and non-public firms seeking buyout financing. Private Equity investments can be classified into three basic sub-asset class categories:

- Venture capital,
- Buyouts, and
- Debt-related.

Investments in the sub-asset classes can be made in the U.S. or foreign countries. In total, the allocation to Non-U.S. Private Equity investments will not exceed 40.0% of the overall Private Equity target allocation. The risks associated with Private Equity will be viewed both in isolation and within the context of the entire fund.

Structure

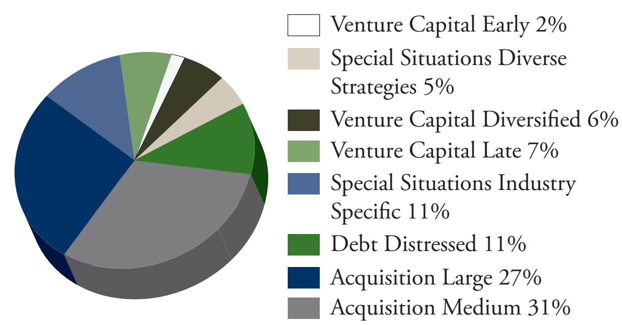
As of June 30, 2012, the combined PSRS and PEERS Private Equity assets committed* for investment were $3.8 billion. The market value of funds that had been drawn down and actually invested as of June 30, 2012 was approximately $2.1 billion, representing 6.9% of total assets. The Systems private equity investment commitments that had not yet been funded were approximately $1.4 billion as of June 30, 2012.

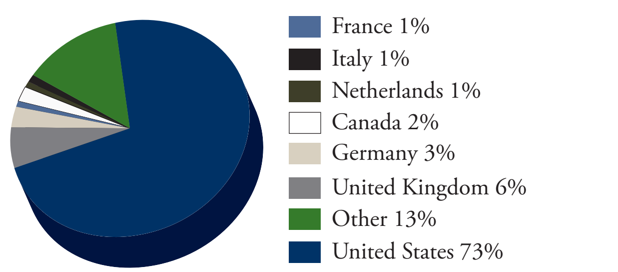
The objective for the Systems' allocation to Private Equity is to achieve returns that are higher than those attainable in the public equity markets with the added benefit of diversification. The PSRS/PEERS target allocation to Private Equity is 10.5%. However, as of June 30, 2012, the actual allocation for the Systems was just 6.9% because the long-term and illiquid nature of the private equity asset class dictates that capital must be invested at a measured pace. Pathway Capital Management has been retained by the Systems to provide private equity investment management services through two structures; a discretionary fund-of-funds relationship and an advisory relationship. Additionally, the Systems have invested in private equity secondary funds.

** Committed capital reflects the total amount of capital that the Systems are legally obligated to supply to the partnerships and funds as the capital is needed to invest in underlying holdings. Market value reflects capital that has actually been drawn and invested by the partnerships and funds.*

The pie charts below show the diversification (utilizing the market value of the assets that have been invested) of the Systems' private equity holdings as of June 30, 2012 from both strategy and country perspectives.

Private Equity Asset Class and Geographic Diversification





Market Overview

Most private equity funds produced strong returns in fiscal year 2012, due to a continued favorable 'exit' market for private equity-backed companies. Robust private equity-backed merger and acquisition exits resulted in record-high distributions for many private equity investors during the year and helped underpin the industry's continued strong performance. Opportunistic private equity investments made during the 2008 and 2009 crisis continued to generate liquidity during the year.

The U.S. private equity markets generated high levels of overall investment activity during fiscal year 2012. However, global private equity markets noted a decrease in overall investment activity over the same time period. Private equity-backed merger and acquisition (M&A) exits remained at high levels, particularly through sales to strategic acquirers, despite the dampening effect that volatility and uncertainty have had on buyer confidence.

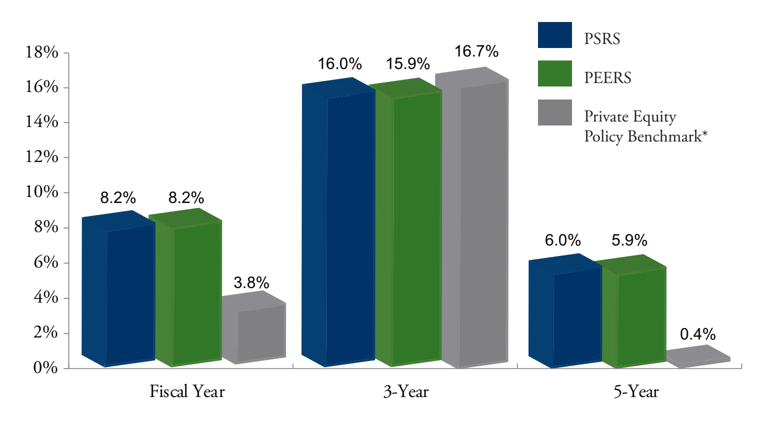
Performance

The total return for both the PSRS and PEERS Private Equity programs was 8.2% compared to the benchmark return of 3.8% for the fiscal year ended June 30, 2012.

Due to the long term nature of the asset class, the performance of a private equity portfolio can be more appropriately judged over a longer timeframe. The Systems utilize a liquid benchmark (Russell 3000 Index) to measure an illiquid (private equity) asset class. Thus, there will be significant performance differences over short time periods in volatile markets.

As the table below indicates, the PSRS and PEERS Private Equity portfolio has produced strong absolute returns over the last five years. Additionally, as expected, the Private Equity asset class has provided a significant premium over public markets as the PSRS and PEERS Private Equity portfolios outperformed the benchmark by 560 and 550 basis points, respectively, for the five-year timeframe ended June 30, 2012.

Private Equity Investment Returns



Private Equity Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year
Annualized PSRS Return	8.2%	16.0%	6.0%
Annualized PEERS Return	8.2%	15.9%	5.9%
Annualized Policy Benchmark Return*	3.8%	16.7%	0.4%
Excess Return†	4.4%	-0.7%	5.6%

**The Private Equity policy benchmark is the Russell 3000 Index.*

†PSRS excess return relative to the Private Equity policy benchmark.

The Private Equity program was established in March 2003, therefore 10-year returns are not available.

Investment Advisors

As of June 30, 2012, PSRS and PEERS had committed to 62 separate partnerships with 39 firms within the Private Equity asset class. In fiscal year 2012, PSRS and PEERS committed to seven new partnerships for $230 million. Additionally, the Systems received total distributions from the private equity partnerships in excess of $386 million in fiscal year 2012.

Private Equity Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2012	% of Total Market Value
BC European IX	Acquisition - Medium	$ 4,757,084	0.0%
Blackstone Capital Partners V and VI	Acquisition - Large	20,119,794	0.1%
Canaan Partners IX	Venture Capital	1,168,594	0.0%
Carlyle Europe Partners III	Acquisition - Medium	27,873,231	0.1%
Carlyle Partners IV and V	Acquisition - Large	44,573,637	0.1%
Centerbridge Capital Partners I and II	Acquisition & Debt	35,923,552	0.1%
Centerbridge Capital Special Credit Partners II	Debt - Distressed	4,000,000	0.0%
CVC European Equity Partners IV and V	Acquisition - Large	32,435,544	0.1%
CVC European Equity Tandem Fund	Acquisition - Large	10,806,509	0.0%
Encap VIII Co-Investors	Acquisition - Energy	3,361,690	0.0%
Exponent Partners II	Acquisition - Medium	12,076,208	0.0%
First Reserve Fund XI and XII	Acquisition - Energy	47,556,773	0.2%
Genstar Capital Partners V	Acquisition - Medium	8,616,925	0.0%
GTCR Fund IX and X	Acquisition - Medium	48,806,167	0.2%
Hellman & Friedman Capital Partners VI and VII	Acquisition - Large	33,846,828	0.1%
Kelso Investment Associates VIII	Acquisition - Medium	15,862,354	0.1%
KKR 2006 Fund	Acquisition - Large	31,959,678	0.1%
KRG Fund IV	Acquisition - Medium	14,966,212	0.0%
Lexington Capital Partners VI-B and VII	Secondary Fund	159,636,074	0.5%
Madison Dearborn VI	Acquisition - Large	7,454,236	0.0%
Montagu III and IV	Acquisition - Medium	20,937,773	0.1%
Nordic VII	Acquisition - Medium	20,288,440	0.1%
New Enterprise Associates 13 and 14	Venture Capital	28,641,585	0.1%
Oak Investment Partners XIII	Venture Capital	11,609,820	0.0%
OCM Principal Opportunities Fund IV, VII and VIIb	Debt - Distressed	56,526,548	0.2%
Odyssey Investment Partners IV	Acquisition - Medium	15,991,387	0.1%
Onex Partners II and III	Acquisition - Medium	28,773,720	0.0%
Pantheon Global Secondary Fund III and IV	Secondary Fund	118,871,763	0.4%
Pathway Capital Management	Fund-of-Funds	908,380,546	3.0%
Paul Capital Partners IX	Secondary Fund	52,663,975	0.2%
Permira IV	Acquisition - Large	21,662,359	0.1%
Providence Equity Partners VI	Acquisition - Media	31,995,924	0.1%
Quantum Energy Partners V	Acquisition - Energy	2,212,673	0.0%
The Resolute Fund II	Acquisition - Medium	17,421,498	0.1%
Silver Lake Partners III	Acquisition - Technology	16,980,116	0.1%
Spectrum Equity Investors VI	Acquisition - Medium	4,022,502	0.0%
TA XI	Acquisition - Large	9,837,082	0.0%
TCV VI and VII	Venture Capital	38,507,384	0.1%
Thoma Cressey Fund VIII	Acquisition - Medium	23,922,480	0.1%
TPG Partners V and VI	Acquisition - Large	32,465,557	0.1%
Wayzata Opportunities Fund I and II	Debt - Distressed	52,206,182	0.2%
Wind Point Partners VI and VII	Acquisition - Medium	24,960,784	0.1%
Total		**$ 2,104,681,188**	**6.9%**

**Market values are reported by the Systems' Private Equity advisors. Market values reflect the most current net asset values. In instances where the most current net asset values were not as of June 30, 2012, the net asset values utilized were cash flow adjusted through June 30, 2012.*

PRIVATE CREDIT PROGRAM SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Private Credit assets had a market value of approximately $425 million, representing 1.4% of total assets.

Investment Program Description

Investments in Private Credit are similar to Private Equity investments in that they are typically very long-term in nature, not publicly traded, relatively illiquid, and offer the potential for substantially higher returns (along with a commensurate level of risk). The Private Credit portfolio also differs from the Private Equity portfolio, and is a separate and distinct composite within Private Risk Assets. The Private Credit asset class is comprised primarily of debt-related investments that provide a current yield along with equity participation (usually warrants) referred to as an 'equity kicker.' Primary strategies are distressed debt, bankruptcy restructurings, mezzanine debt, bank loans, and other credit-driven or debt-related investment strategies. Investments can be made in the U.S. or foreign countries. In total, the allocation to Non-U.S. Private Credit investments will not exceed 40.0% of the overall Private Credit target allocation. The risks associated with Private Credit will be viewed both in isolation and within the context of the entire fund.

Structure

As of June 30, 2012, the combined PSRS/PEERS Private Credit assets committed* for investment were $727.4 million. The market value of funds that had been drawn down and actually invested as of June 30, 2012 was approximately $425 million, representing 1.4% of total assets. PSRS/PEERS' Private Credit investment commitments that had not yet been funded were approximately $198.7 million as of June 30, 2012.

The objective for the Systems' allocation to Private Credit is to achieve returns that are higher than those attainable in the public markets with the added benefit of diversification. In December 2009, the PSRS/PEERS Board of Trustees approved 2.0% for the target allocation to the Private Credit asset class. The long-term and illiquid nature of the Private Equity asset class dictates that capital must be invested at a measured pace. Pathway Capital Management has been retained by the Systems to provide Private Credit investment management services through two structures; a discretionary fund-of-funds relationship and an advisory relationship.

** Committed capital reflects the total amount of capital that the Systems are legally obligated to supply to the partnerships and funds as the capital is needed to invest in underlying holdings. Market value reflects capital that has actually been drawn and invested by the partnerships and funds.*

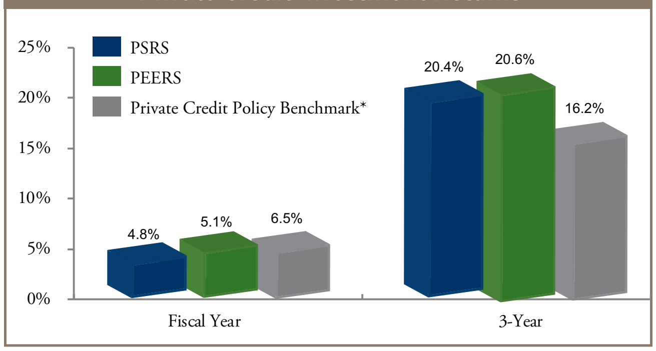
Market Overview

The prior fiscal year drove strong absolute performance for Private Credit funds due to a rally in the prices of leveraged loans and high-yield. Specifically, many of the partnerships that were funded at the peak of the financial crisis in 2008 and 2009 experienced exceptional performance. However, the Private Credit partnerships were not immune to the fiscal year 2012 volatility of global markets and risk aversion sentiment.

Performance

The total returns for the PSRS and PEERS Private Credit programs were 4.8% and 5.1%, respectively, compared to the benchmark return of 6.5% for the fiscal year ended June 30, 2012. For the three-year time period, PSRS and PEERS outperformed the benchmark by 420 basis points and 440 basis points, respectively. As discussed previously, private assets are more appropriately evaluated over longer timeframes.

Private Credit Investment Returns



Private Credit Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year
Annualized PSRS Return	4.8%	20.4%
Annualized PEERS Return	5.1%	20.6%
Annualized Policy Benchmark Return*	6.5%	16.2%
Excess Return†	-1.7%	4.2%

**The Private Credit policy benchmark is composed as follows: 100% Merrill Lynch High Yield Master II Index.*

†PSRS excess return relative to the Private Credit policy benchmark.

The Private Credit program was established in December 2007, so five- and 10-year returns are not available.

Investment Advisors

As of June 30, 2012, PSRS and PEERS had committed to 11 separate partnerships with nine firms within the Private Credit asset class. No new commitments were made to the Private Credit asset class during fiscal year 2012.

Private Credit Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2012	% of Total Market Value
Avenue Capital Group Fund V	Debt - Distressed	$ 7,360,711	0.0%
Caltius IV	Debt - Mezzanine	3,528,110	0.0%
Centerbridge Special Capital Partners	Debt - Distressed	53,381,888	0.2%
Encap Fund VII	Acquisition - Energy	24,406,033	0.1%
Encap Fund VIII	Acquisition - Energy	14,221,931	0.0%
Indigo Capital V	Debt - Mezzanine	17,613,942	0.1%
Lone Star Real Estate Fund II	Debt - Distressed	19,749,329	0.1%
OCM Opportunities Fund VIII	Debt - Distressed	33,670,817	0.1%
OCM Opportunities Fund VIII b	Debt - Distressed	12,391,723	0.0%
Pathway Capital Management	Funds-of-Funds	222,974,083	0.7%
TA Subordianted Debt Fund III	Debt - Mezzanine	15,599,400	0.1%
Total		**$ 424,897,967**	**1.4%**

**Market values are reported by the Systems' Private Credit advisors. Market values reflect the most current net asset values. In instances where the most current net asset values were not as of June 30, 2012, the net asset values utilized were cash flow adjusted through June 30, 2012.*

PRIVATE REAL ESTATE PROGRAM SUMMARY

As of June 30, 2012, the combined PSRS/PEERS Private Real Estate assets had a market value of approximately $2.3 billion, representing 7.4% of total assets..

Investment Program Description

The Real Estate allocation is intended to provide exposure to a diversified portfolio of institutional quality private real estate investments that will provide meaningful, consistent returns, and act as a hedge against inflation and as a diversifier to the overall PSRS and PEERS investment portfolios. The specific objectives of the real estate allocation will be to optimize yield and return, preserve capital and enhance portfolio value across market cycles. The risks associated with Private Real Estate will be viewed both in isolation and within the context of the entire fund.

Structure

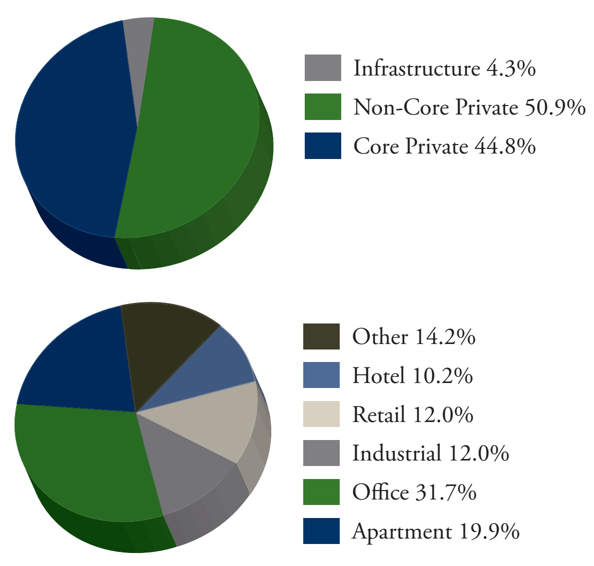
As of June 30, 2012, the combined PSRS/PEERS Real Estate assets committed* for investment were $2.9 billion. The market value of funds that had been drawn down and actually invested as of June 30, 2012 was approximately $2.3 billion, representing 7.4% of total assets. PSRS/PEERS' Real Estate investment commitments that had not yet been funded were approximately $555 million as of June 30, 2012.

Within the overall Real Estate allocation, the Systems have established a 55% target allocation to Non-Core Real Estate and a 45% allocation to Core Private Real Estate. Non-Core investments represent those properties and/or investment strategies that require specialized acquisition and management expertise or skill to mitigate the business and leasing risk that may be associated with individual investments. Non-Core investments have greater associated volatility compared to Core investments. Core investments include existing, substantially leased income-producing properties located mainly in metropolitan areas that exhibit reasonable economic diversification and growth.

The following pie charts indicate the current allocation to Real Estate investment strategies utilizing the market value of the Systems' invested real estate assets and the diversification within the real estate composite by property type.

** Committed capital reflects the total amount of capital that the Systems are legally obligated to supply to the partnerships and funds as the capital is needed to invest in underlying holdings. Market value reflects capital that has actually been drawn and invested by the partnerships and funds.*

Private Real Estate Diversification



Market Overview

Real estate values declined significantly in the United States in 2008 and 2009 as a result of the global financial crisis. Since that time, Real Estate markets have improved, suggesting a market recovery is underway. As such, the Private Real Estate benchmark, the NCREIF Property Index ("NPI"), increased 12.0% in fiscal year 2012.

The Real Estate recovery continues to be driven by strong capital flows and the stabilization of Real Estate fundamentals, rather than absolute improvements in net operating income. Net operating income has improved, however, the recovery appears to be coming increasingly fragile due to downward pressure on some lease renewal rates. Apartments and hotels are leaders in terms of improved demand and pricing power. Job growth combined with historically low supply should produce a moderate improvement in commercial real estate fundamentals in the coming quarters.

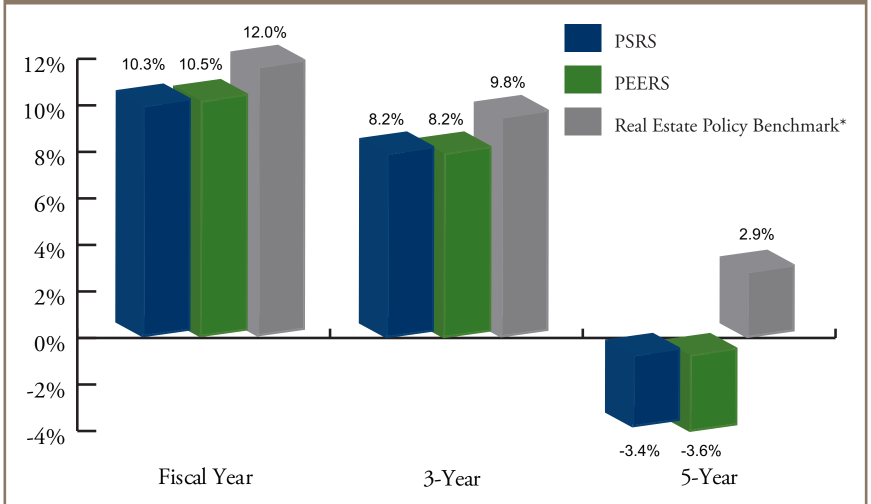
PSRS and PEERS maintain a sizable allocation to high-quality, stabilized Real Estate assets (Core) held in primary markets due to the secure income return. Additionally, the Systems have an allocation to Non-Core assets to participate in the distressed sector of the Real Estate market. PSRS and PEERS will continue to focus real estate efforts going forward on primary markets, which offer better entry pricing, and avoid most activity in secondary or tertiary markets where underlying fundamentals, and employment, remain weak.

Performance

The total returns for the PSRS and PEERS Private Real Estate program were 10.3% and 10.5%, respectively, compared to the benchmark return of 12.0% for the fiscal year ended June 30, 2012.

For the three- and five-year time periods, both PSRS and PEERS underperformed the benchmark as noted below. This was due to significant downward pressure on real estate valuations during the credit crisis of 2008 and 2009.

Real Estate Investment Returns



Real Estate Statistical Performance

Portfolio Characteristics	Fiscal Year	3-Year	5-Year
Annualized PSRS Return	10.3%	8.2%	-3.4%
Annualized PEERS Return	10.5%	8.2%	-3.6%
Annualized Policy Benchmark Return*	12.0%	9.8%	2.9%
Excess Return†	-1.7%	-1.6%	-6.3%

**The Real Estate policy benchmark is the NCREIF Property Index.*

†PSRS excess return relative to the Real Estate policy benchmark.

The Real Estate Program was established in April 2004, so a 10-year return is not available.

Investment Advisors

As of June 30, 2012, PSRS and PEERS had committed to 45 separate partnerships with 27 firms within the Private Real Estate asset class. In fiscal year 2012, PSRS and PEERS committed to four new partnerships totaling $400 million. Additionally, the Systems received total distributions from the real estate partnerships in excess of $165 million in fiscal year 2012.

Real Estate Investment Advisors

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2012	% of Total Market Value
Alinda Infrastructure Fund I	Infrastructure	$ 45,720,582	0.2%
AMB Alliance III	Non-Core - Private	43,799,151	0.2%
AMB Japan Fund I	Non-Core - Private	35,346,622	0.1%
AEW Core Property Fund	Core - Private	75,675,976	0.2%
Blackstone R.E. Partners V, VI and VII	Non-Core - Private	146,265,198	0.5%
Brockton Capital II	Non-Core - Private	9,291,423	0.0%
Carlyle Europe Real Estate Partners III	Non-Core - Private	50,035,479	0.2%
Carlyle Realty V and VI	Non-Core - Private	68,760,253	0.2%
CBRE Fund IV and US Value 5	Non-Core - Private	72,114,722	0.0%
CIM Fund III	Non-Core - Private	50,559,060	0.2%
CIM Urban REIT	Non-Core - Private	37,084,129	0.1%
Colony Investors VIII	Non-Core - Private	21,573,614	0.1%
CPI Capital Partners Europe	Non-Core - Private	11,683,830	0.0%
Dune Real Estate Fund I	Non-Core - Private	13,765,984	0.0%
Forum Asian Realty Income II	Non-Core - Private	40,055,452	0.1%
Guggenheim Structured R.E. III	Non-Core - Private	17,952,467	0.1%
Heitman Value Partners I and II	Non-Core - Private	71,553,024	0.2%
JPMorgan Strategic Property Fund	Core - Private	241,680,532	0.8%
LaSalle Asia Opportunity Fund II and III	Non-Core - Private	42,731,603	0.2%
LaSalle Income & Growth IV and V	Non-Core - Private	81,164,931	0.3%
LaSalle Japan Logistics Fund II	Non-Core - Private	16,825,054	0.1%
LaSalle Property Fund	Core - Private	61,803,039	0.2%
Lone Star V and VI	Non-Core - Private	52,378,577	0.2%
Lone Star Real Estate Fund	Non-Core - Private	10,216,978	0.0%
Macquarie Infrastructure Partners	Infrastructure	51,269,485	0.2%
MSREF V International	Non-Core - Private	6,885,740	0.0%
Morgan Stanley Prime Property Fund	Core - Private	259,570,258	0.8%
NREP Real Estate Debet Fund	Non-Core - Private	6,282,202	0.0%
Noble Hospitality Fund	Non-Core - Private	56,080,909	0.2%
Principal Enhanced Property Fund	Core - Private	32,955,013	0.1%
Prudential PRISA Fund	Core - Private	130,010,498	0.4%
Prudential PRISA II Fund	Non-Core - Private	64,592,858	0.2%
RREEF America REIT III	Non-Core - Private	26,358,225	0.1%
Starwood Hospitality Fund	Non-Core - Private	23,863,864	0.1%
UBS Trumbull Property Fund	Core - Private	212,071,233	0.7%
Westbrook R.E. Fund VII and VIII	Non-Core - Private	73,132,850	0.2%
Total		**$ 2,261,110,815**	**7.2%**

**Market values are reported by the Systems' Real Estate advisors. Market values reflect the most current net asset values. In instances where the most current net asset values were not as of June 30, 2012, the net asset values utilized were cash flow adjusted through June 30, 2012.*

U.S. Public Equity Broker Commissions Report

PSRS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost Per Share
Credit Suisse Securities, LLC	22,536,109	$ 842,187,336	$ 564,528	$ 0.03
Jefferies and Company, Inc.	15,887,187	957,567,418	445,995	0.03
Capital Institutional Services, Inc.	12,459,499	380,779,293	443,874	0.04
Goldman Sachs and Company	18,104,591	776,339,184	400,809	0.02
Morgan Stanley Co. Incorporated	24,715,583	811,540,772	353,479	0.01
Pershing	12,538,727	398,701,800	297,557	0.02
Citigroup Global Markets, Inc.	22,898,238	697,829,481	291,317	0.01
Deutsche Bank	36,016,095	925,010,028	270,486	0.01
JP Morgan Chase	18,398,237	533,128,664	249,031	0.01
Merrill Lynch, Pierce, Fenner and Smith, Inc.	27,301,092	672,614,819	231,287	0.01
Weeden and Co.	20,234,950	689,057,830	205,863	0.01
Instinet, LLC	12,723,133	330,124,904	201,797	0.02
Barclays Capital Inc.	10,289,266	347,947,398	184,132	0.02
Liquidnet, Inc.	14,432,120	424,073,344	166,812	0.01
SG Securities	18,889,218	532,466,413	150,835	0.01
Investment Technology Group, Inc.	14,604,736	468,112,278	150,812	0.01
UBS Securities, LLC	4,706,566	165,792,267	136,333	0.03
Other (<$120,000)	105,838,408	2,940,934,917	2,429,317	0.02
Total	**412,573,755**	**$ 12,894,208,146**	**$ 7,174,264**	**$ 0.02**

PEERS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost Per Share
Credit Suisse Securities, LLC	2,397,297	$ 91,321,686	$ 62,093	$ 0.03
Capital Institutional Services, Inc.	1,437,719	42,437,519	51,476	0.04
Jefferies and Company, Inc.	1,757,864	106,416,707	48,633	0.03
Goldman Sachs and Company	2,023,714	83,452,468	42,926	0.02
Morgan Stanley Co. Incorporated	2,427,090	79,995,376	41,916	0.02
Pershing	1,402,937	44,444,168	33,239	0.02
Citigroup Global Markets, Inc.	2,268,231	70,545,131	29,883	0.01
JP Morgan Chase	1,939,057	55,579,817	27,168	0.01
Deutsche Bank	3,611,830	88,994,164	26,610	0.01
Merrill Lynch, Pierce, Fenner and Smith, Inc.	3,143,521	70,864,848	25,712	0.01
Instinet, LLC	1,408,140	36,237,921	22,913	0.02
Weeden and Co.	2,017,736	70,473,490	20,819	0.01
Barclays Capital Inc.	979,697	31,727,757	19,635	0.02
Investment Technology Group, Inc.	1,507,826	49,010,975	16,143	0.01
UBS Securities, LLC	522,364	18,453,865	15,087	0.03
Liquidnet, Inc.	1,284,797	37,465,066	14,351	0.01
SG Securities	1,580,089	45,296,451	13,401	0.01
Sanford C. Berstein and Company	638,838	24,395,032	12,286	0.02
Other (<$12,000)	10,531,073	288,558,829	234,302	0.02
Total	**42,879,820**	**$ 1,335,671,270**	**$ 758,593**	**$ 0.02**

Global Public Equity Broker Commissions Report

PSRS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost (Basis Points)
JP Morgan Chase	49,585,279	$ 281,642,472	$ 327,039	11.6
Instinet, LLC	68,496,419	549,790,985	293,458	5.3
Goldman Sachs and Company	42,230,598	263,483,808	276,904	10.5
Credit Suisse Securities, LLC	50,904,857	221,351,584	254,316	11.5
Merrill Lynch, Pierce, Fenner and Smith, Inc.	87,481,105	308,393,939	252,418	8.2
Deutsche Bank	65,097,980	405,573,679	250,690	6.2
Morgan Stanley Co. Incorporated	66,112,858	337,855,219	243,737	7.2
UBS Securities, LLC	26,611,104	163,119,310	242,998	14.9
Citigroup Global Markets, Inc.	17,556,821	144,777,139	150,227	10.4
Macquarie Securites Limited	25,562,102	65,377,529	110,068	16.8
Other (<$100,000)	179,880,350	1,135,239,686	1,105,502	9.7
Total	**679,519,473**	**$3,876,605,350**	**$ 3,507,357**	**9.1**

PEERS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost (Basis Points)
Instinet, LLC	9,466,004	$ 71,095,097	$ 38,649	5.4
JP Morgan Chase	5,540,817	28,120,080	35,127	12.5
Goldman Sachs and Company	4,822,765	27,171,517	30,054	11.1
Merrill Lynch, Pierce, Fenner and Smith, Inc.	10,567,764	36,145,680	30,015	8.3
Deutsche Bank	7,771,882	50,026,549	29,642	5.9
Credit Suisse Securities, LLC	5,229,849	25,862,312	29,249	11.3
UBS Securities, LLC	2,985,478	18,481,235	27,133	14.7
Morgan Stanley Co. Incorporated	7,364,996	34,376,536	25,066	7.3
Citigroup Global Markets, Inc.	2,189,407	15,613,197	17,003	10.9
Macquarie Securites Limited	2,859,513	7,662,737	12,481	16.3
Pershing	836,745	6,731,973	10,521	15.6
Other (<$10,000)	18,202,521	116,611,429	114,024	9.8
Total	**77,837,741**	**$ 437,898,342**	**$ 398,964**	**9.1**

Investment Summary as of June 30, 2012

Asset Type	PSRS Fair Value	PEERS Fair Value	Combined Funds	Percent of Total Fair Value FY 2012	Percent of Total Fair Value FY 2011
Public Risk Assets					
U.S. Public Equity	$ 8,431,381,514	$ 902,051,766	$ 9,333,433,280	30.5%	30.2%
Global Public Equity	4,057,087,611	459,495,812	4,516,583,423	14.8%	17.5%
Public Credit	2,469,285,778	274,864,571	2,744,150,349	9.0%	8.6%
Hedged Assets	4,031,545,826	419,190,096	4,450,735,922	14.6%	13.8%
Total Public Risk Assets	**18,989,300,729**	**2,055,602,245**	**21,044,902,974**	**68.9%**	**70.1%**
Safe Assets					
U.S. Treasuries	3,740,174,961	424,768,061	4,164,943,022	13.6%	13.7%
U.S. TIPS	470,577,145	52,980,812	523,557,957	1.7%	3.2%
Total Safe Assets	**4,210,752,106**	**477,748,873**	**4,688,500,979**	**15.3%**	**16.9%**
Private Risk Assets					
Private Real Estate	2,048,406,188	212,704,627	2,261,110,815	7.4%	5.8%
Private Equity	1,943,852,120	160,829,068	2,104,681,188	6.9%	6.2%
Private Credit	392,944,813	31,953,154	424,897,967	1.4%	1.0%
Total Private Risk Assets	**4,385,203,121**	**405,486,849**	**4,790,689,970**	**15.7%**	**13.0%**
Securities Lending Collateral	(24,429,356)	(2,092,307)	(26,521,663)	-0.1%	-0.1%
Cash & Equivalents*	74,830,583	10,306,063	85,136,646	0.2%	0.1%
Total Investments*	**$ 27,635,657,183**	**$2,947,051,723**	**$30,582,708,906**	**100.0%**	**100.0%**
Reconciliation with financial statements					
Total from above	$ 27,635,657,183	2,947,051,723	$30,582,708,906		
Accrued payable for investments purchased	4,515,652,935	484,229,148	4,999,882,083		
Accrued income payable	271,912	55,051	326,963		
Accrued receivable for investments sold	(1,573,449,536)	(158,184,669)	(1,731,634,205)		
Accrued income receivable	(126,151,204)	(9,397,060)	(135,548,264)		
Securities lending collateral	24,429,356	2,092,307	26,521,663		
Short-term investments designated for benefits	(74,784,210)	(10,286,335)	(85,070,545)		
Statement of Plan Net Assets	**$30,401,626,436**	**$3,255,560,165**	**$33,657,186,601**		

**Managers may hold cash or cash equivalents as part of an active management strategy. Cash or cash equivalents held as part of an active management strategy are not separately listed.*

*** Total Investments includes accrued income and securities lending collateral as of June 30, 2012.*

Investment Expenses for the Fiscal Year Ended June 30, 2012

Investment Managers	PSRS	PEERS	Total
Investment Management Fees			
NISA Investment Advisors - Core	$ 2,935,495	$ 327,439	$ 3,262,934
NISA Investment Advisors - TIPS	383,670	42,568	426,238
Safe Assets Fees	3,319,165	370,007	3,689,172
BlackRock Financial Management - Mortgages	88,994	12,891	101,885
NISA Investment Advisors - Corporate	813,557	88,295	901,852
Oaktree Bank Loans	1,302,167	89,511	1,391,678
Pacific Investment Management Company	3,381,506	463,684	3,845,190
Public Credit Fees	5,586,224	654,381	6,240,605
Alliance Capital Management	354,057	47,677	401,734
Analytic Investors, LLC	1,040,619	105,522	1,146,141
AQR Capital Management -140/40	1,046,518	95,574	1,142,092
Aronson & Johnson & Ortiz	1,199,423	104,434	1,303,857
BlackRock Investment Management	125,884	17,344	143,228
Martingale Asset Management	784,775	34,564	819,339
NISA Investment Advisors	25,007	3,018	28,025
State Street Global Advisors	153,434	17,528	170,962
Westwood Management	2,603,912	236,616	2,840,528
Zevenbergen Capital	916,245	90,427	1,006,672
U.S. Public Equity Fees	8,249,874	752,704	9,002,578
Acadian Asset Management	137,517	15,354	152,871
Alliance Bernstein Institutional Management	1,155,090	135,832	1,290,922
Analytic Investors, LLC - Global Low Vol	763,439	89,598	853,037
AQR Capital Management	1,231,876	140,317	1,372,193
Arrowstreet Capital	2,434,105	269,712	2,703,817
Artio Investment Management	677,081	84,698	761,779
BlackRock - ACWI EX US	163,356	15,670	179,026
Esemplia	1,334,161	140,513	1,474,674
INVESCO Global Asset Management	928,587	108,133	1,036,720
McKinley Capital Management	614,682	81,544	696,226
MFS Institutional Advisors	1,723,868	176,335	1,900,203
Neon Capital Management	358,140	39,516	397,656
NISA Investment Advisors	16,782	2,414	19,196
State Street Global Advisors-ACWI EX. US GIMI PROV	119,456	10,406	129,862
The Rock Creek Group	2,015,824	223,977	2,239,801
T. Rowe Price International, Inc.	1,481,143	175,850	1,656,993
Global Public Equity Fees	15,155,107	1,709,869	16,864,976
Allianz	601,456	48,216	649,672
AQR Capital Management	622,831	70,635	693,466
Chartwell Investment Partners	532,315	57,390	589,705
Columbus Circle	779,245	61,864	841,109
NISA Investment Advisors	107,257	6,001	113,258
Next Century Growth Investors	882,168	89,673	971,841
Thomson, Horstmann & Bryant	1,089,955	114,584	1,204,539
S-Cap Fees	4,615,227	448,363	5,063,590
Alpha Overlay Fees	32,084,173	3,126,676	35,210,849
Hedged Assets Fees	58,889,402	5,997,709	64,887,111
Private Real Estate Fees	29,298,522	2,701,019	31,999,541
Private Credit Fees	11,938,442	1,020,071	12,958,513
Private Equity Fees	57,986,173	5,104,151	63,090,324
Commission Recapture Income	(365,375)	(34,679)	(400,054)
Investment Management Expense	226,756,934	21,850,271	248,607,205
Custodial Services			
State Street Bank & Trust Co.	29,666	2,934	32,600
JP Morgan Chase, NA	351,891	34,802	386,693
Custodial Fees	381,557	37,736	419,293
Investment Consultants			
Albourne America, LLC	364,000	36,000	400,000
Pathway Consulting	1,845,290	160,460	2,005,750
Risk Metrics - ISS	40,950	4,050	45,000
R.V. Kuhns and Associates, Inc.	13,650	1,350	15,000
Towers Watson	341,250	33,750	375,000
Townsend	318,500	31,500	350,000
Investment Consultant Fees	2,923,640	267,110	3,190,750
Staff Investment Expenses	2,283,985	1,456,683	3,740,668
Total Investment Expenses	$ 232,346,116	$ 23,611,800	$ 255,957,916

Independence Public Schools

Location: Independence, MO
Enrollment: 14,764
PSRS member/employees: 1,129
PEERS member/employees: 1,075
Superintendent: Dr. Jim Hinson
County: Jackson

A Shining Example

Each July, volunteers from the Independence area and beyond gather to put a shiny new face on five of the school district's buildings. They paint, clean and landscape. And they do it with a smile. All the work is done by volunteers, with local corporate sponsors, donated supplies and a lot of good old-fashioned hard work.

Since the annexation of seven schools from the Kansas City School District in 2008, about 1,000 volunteers come together each summer to celebrate the strength of their community and demonstrate dedication to their schools by joining the Project Shine Initiative.

Originally called Extreme School Makeover, the program began as a way to provide some much needed TLC to the schools new to the Independence district. Project Shine has been such a success that the work has continued each year since, with five district buildings receiving improvements each year. The Independence school district, which serves almost 15,000 students, includes 28 different buildings.

By providing students with a clean, bright and cheerful environment in which to learn, and providing staff with a better working environment, Project Shine is a textbook example of how the strength of a community can improve public schools.

ACTUARIAL SECTION

CERTIFICATION OF ACTUARIAL RESULTS

pwc

November 7, 2012

Board of Trustees
Public School Retirement System of Missouri
Public Education Employee Retirement System of Missouri
3210 West Truman Boulevard
Jefferson City, MO 65109

Re: Certification of Actuarial Results

Dear Members of the Board:

At your request, we have performed actuarial valuations of the Public School Retirement System and the Public Education Employee Retirement System of Missouri as of June 30, 2012. An actuarial valuation of each System is performed annually.

The actuarial valuation is based upon:

a. *Data Relative to the Members of the Systems* - Data for all members of each System was provided by the staff. Such data is tested for reasonableness by the actuary but is used unaudited.

b. *Assets of the Fund* - The values of the trust fund assets for each System are provided by the staff. An actuarial value of assets, with gains and losses recognized over five years, is used to develop actuarial results.

c. *Actuarial Method* - The actuarial method utilized by each System is the Entry Age Normal Cost Method. The objective of this method is to finance the benefits of the Systems as a level percentage of pay over the entire career of each member. Any Unfunded Actuarial Accrued Liability ("UAAL") under this method is separately financed as a level percentage of payroll over a fixed 30-year period, where a new 30-year gain or loss amortization base is established each year.

d. *Actuarial Assumptions* - An experience study was completed for each System as of June 30, 2011. Based on those studies, the Board adopted several assumption changes effective for the actuarial valuations as of June 30, 2011. Minor updates were made for the June 30, 2012 valuations.

The actuarial assumption and methods used are in accordance with paragraph 36 of GASB Statement Number 25.

The trend data in the Financial Section and the schedules and other data in this Section are prepared by the staff with our guidance.

The Board's statement of funding policy provides that:

1. The Board of Trustees shall adopt actuarial assumptions, each of which individually represents a reasonable long-term estimate of anticipated experience under the System, derived from experience studies conducted every fifth year.

PricewaterhouseCoopers LLP, One North Wacker Drive Chicago, IL,60606
T: (312)298 2000, F: (312) 298 2001, www.pwc.com/us

CERTIFICATION OF ACTUARIAL RESULTS (continued)

pwc

2. The actuarial funding method used shall be the Entry Age Normal Method with normal costs allocated as a percentage of payroll.

3. It shall be the general objective to maintain a fixed amortization period of 30 years or less in the funding of the UAAL. Effective with the 2007 Legislative session, any changes in the UAAL due to such changes in benefit structure shall be amortized over a fixed 20-year period.

4. If an escalation in future payroll is assumed in determining the amortization payments toward the Unfunded Actuarial Accrued Liability, then the annual rate of such escalation shall not exceed the expected rate of expansion in total System payroll based upon the actuarial assumptions.

5. Assets used in the actuarial valuation shall be valued by smoothing investment gains and losses over a period of five years.

6. Annual actuarial valuations shall be made of the System's assets and liabilities. The contribution rate shall be established based on the results of these valuations.

It is the Board's intent to maintain the current contribution rates until the unfunded actuarial accrued liability of each System is fully amortized, to the extent the current contribution rates are sufficient to do so.

The results of the valuations are based on the data and actuarial techniques described above and based on the provisions of each System at the valuation date. Based on these items, we certify these results to be true and correct.

Sincerely,

Sheldon A. Gamzon

Sheldon Gamzon, FSA, EA, MAAA
Principal

Brandon G. Robertson

Brandon Robertson, ASA, EA, MAAA
Director

Calculation of Unfunded Actuarial Accrued Liability

Public School Retirement System of Missouri
As of June 30, 2012

		Amount
(1) Present value of future benefits for:		
	Active members	$ 21,736,301,320
	State members	11,959,220
	Service retirees	20,167,561,766
	Disability retirees	189,519,113
	Tax-sheltered annuitants	564,439
	Beneficiaries and survivors	758,656,924
	Death benefits	74,730,058
	Inactive members	520,903,729
	Total	43,460,196,569
(2) Present value of future normal costs		7,872,165,930
(3) Actuarial accrued liability ((1)-(2))		35,588,030,639
(4) Actuarial value of assets		29,013,002,242
(5) Unfunded actuarial accrued liability ((3)-(4))		$ 6,575,028,397

Calculation of Unfunded Actuarial Accrued Liability

Public Education Employee Retirement System of Missouri
As of June 30, 2012

		Amount
(1) Present value of future benefits for:		
	Active members	$ 3,296,489,574
	Service retirees	1,452,845,692
	Disability retirees	30,103,316
	Beneficiaries and survivors	58,592,269
	Inactive members	128,720,349
	Total	4,966,751,200
(2) Present value of future normal costs		1,220,403,894
(3) Actuarial accrued liability ((1)-(2))		3,746,347,306
(4) Actuarial value of assets		3,090,879,968
(5) Unfunded actuarial accrued liability ((3)-(4))		$ 655,467,338

Required Contribution Rate & Amortization of Unfunded Liability	
Public School Retirement System of Missouri *For the fiscal year ending June 30, 2014*	
	Percentage of Payroll
(1) Total contribution rate, member plus employer	29.00%
(2) Normal cost rate	19.03%
(3) Approximate rate available for unfunded actuarial accrued liability ((1) - (2))	9.97%
(4) Rate needed to fund UAAL	9.17%
(5) Benchmark contribution rate - normal cost plus a rate to fund the UAAL over 30 years*	28.20%
(6) Recommended rate for Fiscal Year 2014	29.00%

Required Contribution Rate & Amortization of Unfunded Liability	
Public Education Employee Retirement System of Missouri *For the fiscal year ending June 30, 2014*	
	Percentage of Payroll
(1) Total contribution rate, member plus employer	13.72%
(2) Normal cost rate	10.79%
(3) Approximate rate available for unfunded actuarial accrued liability ((1) - (2))	2.93%
(4) Rate needed to fund UAAL	2.78%
(5) Benchmark contribution rate - normal cost plus a rate to fund the UAAL over 30 years**	13.57%
(6) Recommended rate for Fiscal Year 2014	13.72%

**Effective amortization period is 24.8 years.*

***Effective amortization period is 26.3 years.*

Analysis of Actuarial Gains and Losses		
Public School Retirement System of Missouri *As of June 30, 2012* *(Dollar amounts in thousands)*		
(1) Unfunded actuarial liability as of July 1, 2011		$ 4,995,944
(2) Normal cost for 2012 plan year (mid-year)		831,201
(3) Contribution expected to be received during year		(1,132,473)
(4) Interest to year end at 8.00% on (1), (2) and (3)		387,625
(5) Expected unfunded actuarial liability as of June 30, 2012		5,082,297
(6) Contribution shortfall		(107,956)
(7) Actuarial (gain)/loss during the year		
a. From investment	$ 1,962,465	
b. From actuarial liabilities	(361,778)	
c. From assumption changes	-	
d. Total		1,600,687
(8) Actual unfunded actuarial liability as of June 30, 2012		$ 6,575,028

Analysis of Actuarial Gains and Losses		
Public Education Employee Retirement System of Missouri *As of June 30, 2012* *(Dollar amounts in thousands)*		
(1) Unfunded actuarial liability as of July 1, 2011		$ 520,591
(2) Normal cost for 2012 plan year (mid-year)		152,694
(3) Contribution expected to be received during year		(184,019)
(4) Interest to year end at 8.00% on (1), (2) and (3)		40,394
(5) Expected unfunded actuarial liability as of June 30, 2012		529,660
(6) Contribution shortfall		(6,171)
(7) Actuarial (gain)/loss during the year		
a. From investment	$ 186,438	
b. From actuarial liabilities	(54,460)	
c. From assumption changes	-	
d. Total		131,978
(8) Actual unfunded actuarial liability as of June 30, 2012		$ 655,467

Schedule of PSRS Active Member Valuation Data

Actuarial Valuation Date	Number of Members	Covered Annual Payroll (000's)	Average Annual Salary	% Increase in Average Salary	Average Attained Age	Average Years of Service
6/30/2003	74,347	$ 3,373,058	$ 45,369	4.0 %	42.4	11.3
6/30/2004	73,797	3,408,230	46,184	1.8	42.5	11.4
6/30/2005	73,850	3,540,649	47,944	3.8	42.5	11.4
6/30/2006	75,540	3,775,752	49,983	4.3	42.4	11.2
6/30/2007	77,121	3,980,698	51,616	3.3	42.3	11.1
6/30/2008	78,436	4,209,417	53,667	4.0	42.2	11.1
6/30/2009	79,335	4,439,381	55,957	4.3	42.2	11.1
6/30/2010	79,256	4,493,865	56,701	1.3	42.3	11.3
6/30/2011	77,708	4,338,976	55,837	-1.5	42.3	11.5
6/30/2012	77,529	4,379,060	56,483	1.2	42.2	11.4

Schedule of PEERS Active Member Valuation Data

Actuarial Valuation Date	Number of Members	Covered Annual Payroll (000's)	Average Annual Salary	% Increase in Average Salary	Average Attained Age	Average Years of Service
6/30/2003	46,863	$ 971,177	$ 20,724	8.2 %	45.3	6.6
6/30/2004	45,880	984,866	21,466	3.6	46.2	7.0
6/30/2005	46,598	1,055,204	22,645	5.5	46.6	7.1
6/30/2006	48,188	1,190,994	24,716	9.1	46.4	7.1
6/30/2007	49,281	1,275,199	25,876	4.7	46.6	7.2
6/30/2008	50,865	1,377,506	27,082	4.7	46.8	7.3
6/30/2009	51,234	1,417,485	27,667	2.2	47.1	7.5
6/30/2010	50,363	1,433,691	28,467	2.9	47.5	8.0
6/30/2011	48,800	1,414,442	28,984	1.8	47.9	8.3
6/30/2012	48,605	1,437,310	29,571	2.0	48.1	8.4

Solvency Test

Public School Retirement System of Missouri
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Accrued Liability for: Member Contributions (1)	Current Retirees & Beneficiaries (2)	Active & Inactive Members Employer Financed Portion (3)	Net Assets Available for Benefits	Percentage of Actuarial Liabilities Covered by Net Assets for: (1)	(2)	(3)
6/30/2003	$ 4,687,227	$ 11,387,543	$ 8,644,680	$ 20,047,982	100.00 %	100.00 %	46.00%
6/30/2004	4,954,080	12,625,925	8,645,254	21,501,572	100.00	100.00	45.40
6/30/2005	5,119,055	13,976,901	8,785,557	23,049,441	100.00	100.00	45.00
6/30/2006	5,453,906	15,371,279	9,211,945	24,801,644	100.00	100.00	43.20
6/30/2007	5,787,667	17,059,613	9,549,443	27,049,004	100.00	100.00	44.00
6/30/2008	6,174,718	18,548,552	9,767,182	28,751,241	100.00	100.00	41.20
6/30/2009	6,299,067	19,745,129	10,015,925	28,826,075	100.00	100.00	27.80
6/30/2010	6,506,803	20,532,011	10,194,788	28,931,331	100.00	100.00	18.60
6/30/2011	6,571,916	20,023,701	7,787,813	29,387,486	100.00	100.00	35.80
6/30/2012	6,687,358	21,191,032	7,709,641	29,013,002	100.00	100.00	14.70

Solvency Test

Public Education Employee Retirement System of Missouri
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Accrued Liability for: Member Contributions (1)	Current Retirees & Beneficiaries (2)	Active & Inactive Members Employer Financed Portion (3)	Net Assets Available for Benefits	Percentage of Actuarial Liabilities Covered by Net Assets for: (1)	(2)	(3)
6/30/2003	$ 394,925	$ 731,059	$ 923,732	$ 1,677,770	100.00%	100.00 %	59.7 %
6/30/2004	444,318	804,864	972,028	1,837,308	100.00	100.00	60.5
6/30/2005	466,259	904,292	1,043,943	2,011,566	100.00	100.00	61.4
6/30/2006	524,014	1,020,486	1,212,333	2,218,638	100.00	100.00	55.6
6/30/2007	580,853	1,093,650	1,308,310	2,481,562	100.00	100.00	61.7
6/30/2008	650,970	1,215,036	1,412,596	2,703,762	100.00	100.00	59.3
6/30/2009	693,962	1,305,025	1,459,057	2,792,182	100.00	100.00	54.4
6/30/2010	743,146	1,392,753	1,522,813	2,892,411	100.00	100.00	49.7
6/30/2011	783,112	1,398,620	1,367,616	3,028,757	100.00	100.00	61.9
6/30/2012	822,485	1,541,541	1,382,321	3,090,880	100.00	100.00	52.6

PSRS Schedule of Retirees and Beneficiaries Added to and Removed from Retirement Rolls

	Added to Rolls		Removed from Rolls		Rolls End of Year			% Increase	
	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	Average Annual Allowances	in Annual Allowance	in Average Annual Allowance
2011-2012									
Service Retirees	2,946	$ 108,593,761	822	$ 25,293,380	45,842	$ 1,783,144,601	$ 38,898	6.92 %	1.97 %
Disability Retirees	70	1,628,482	30	618,063	801	19,867,641	24,804	7.17	1.82
Beneficiaries	310	11,791,505	181	3,489,331	3,564	88,623,659	24,866	7.27	3.39
Note: 55 retirees and 82 beneficiaries had their benefit on hold at June 30, 2012 and are not included in the payment rolls at the end of the year.									
2010-2011									
Service Retirees	3,145	$ 115,976,129	891	$ 25,543,283	43,718	$ 1,667,760,851	$ 38,148	5.77 %	0.31 %
Disability Retirees	76	2,095,095	36	885,453	761	18,538,146	24,360	6.98	1.36
Beneficiaries	347	7,794,495	194	3,208,289	3,435	82,616,257	24,051	5.86	1.14
Note: 63 retirees and 88 beneficiaries had their benefit on hold at June 30, 2011 and were not included in the payment rolls at the end of the year.									
2009-2010									
Service Retirees	2,392	$ 84,290,821	825	$ 23,896,894	41,464	$ 1,576,834,116	$ 38,029	4.02 %	0.09 %
Disability Retirees	54	1,337,647	29	646,445	721	17,328,504	24,034	4.18	0.57
Beneficiaries	290	7,127,771	161	2,596,246	3,282	78,045,764	23,780	6.18	2.00
2008-2009									
Service Retirees	2,629	$ 98,725,164	777	$ 21,507,072	39,897	$ 1,515,913,812	$ 37,996	10.30 %	5.18 %
Disability Retirees	37	924,132	32	621,480	696	16,632,852	23,898	5.89	5.13
Beneficiaries	287	7,160,304	136	2,206,056	3,153	73,504,884	23,313	10.68	5.38
2007-2008									
Service Retirees	2,596	$ 91,611,816	808	$ 21,214,344	38,045	$ 1,374,367,260	$ 36,125	8.08 %	3.01 %
Disability Retirees	45	1,122,528	37	855,696	691	15,707,856	22,732	3.95	2.74
Beneficiaries	289	6,258,996	175	2,635,176	3,002	66,412,560	22,123	8.06	3.96
2006-2007									
Service Retirees	2,396	$ 85,977,276	770	$ 20,772,324	36,257	$ 1,271,565,084	$ 35,071	9.66 %	4.75 %
Disability Retirees	41	868,872	29	646,560	683	15,111,252	22,125	5.17	3.32
Beneficiaries	241	5,318,208	161	1,972,128	2,888	61,457,496	21,280	8.95	5.93

PEERS Schedule of Retirees and Beneficiaries Added to and Removed from Retirement Rolls

	Added to Rolls		Removed from Rolls		Rolls End of Year			% Increase	
	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	Average Annual Allowances	in Annual Allowance	in Average Annual Allowance
2011-2012									
Service Retirees	1,747	$ 17,066,211	647	$ 3,356,576	20,454	$ 151,802,237	$ 7,422	10.26 %	4.33 %
Disability Retirees	69	405,024	21	86,830	665	3,199,134	4,811	12.69	4.56
Beneficiaries	151	800,248	58	254,077	1,356	6,586,250	4,857	10.13	2.58
Note: 86 retirees and 1 beneficiaries had their benefit on hold at June 30, 2012 and are not included in the payment rolls at the end of the year.									
2010-2011									
Service Retirees	1,675	$ 16,740,804	595	$ 2,955,819	19,354	$ 137,682,745	$ 7,114	9.86 %	3.73 %
Disability Retirees	73	411,908	31	165,052	617	2,838,986	4,601	9.53	2.06
Beneficiaries	114	672,098	73	276,872	1,263	5,980,471	4,735	7.08	3.61
Note: 93 retirees and 1 beneficiaries had their benefit on hold at June 30, 2011 and were not included in the payment rolls at the end of the year.									
2009-2010									
Service Retirees	1,426	$ 12,130,367	613	$ 3,074,132	18,274	$ 125,327,880	$ 6,858	6.14 %	1.42 %
Disability Retirees	51	250,591	16	62,887	575	2,592,012	4,508	7.81	1.26
Beneficiaries	139	832,603	67	315,936	1,222	5,585,100	4,570	9.82	3.32
2008-2009									
Service Retirees	1,325	$ 12,276,828	560	$ 2,464,452	17,461	$ 118,079,604	$ 6,762	11.55 %	6.66 %
Disability Retirees	44	233,556	18	92,412	540	2,404,284	4,452	10.46	5.12
Beneficiaries	112	556,872	40	176,184	1,150	5,085,876	4,423	10.89	3.95
2007-2008									
Service Retirees	1,256	$ 11,273,184	569	$ 2,322,624	16,696	$ 105,856,860	$ 6,340	10.49 %	5.93 %
Disability Retirees	46	214,596	21	91,332	514	2,176,536	4,235	8.26	3.02
Beneficiaries	99	423,360	62	211,236	1,078	4,586,436	4,255	6.91	3.25
2006-2007									
Service Retirees	1,250	$ 10,608,864	563	$ 2,140,032	16,009	$ 95,809,332	$ 5,985	11.70 %	6.91 %
Disability Retirees	29	134,592	18	56,736	489	2,010,516	4,111	7.35	4.93
Beneficiaries	120	537,792	39	108,804	1,041	4,290,168	4,121	14.55	5.64

PSRS SUMMARY PLAN DESCRIPTION

The Public School Retirement System of Missouri (PSRS) became operative July 1, 1946. It was established by an Act of the Missouri Legislature and is governed by Chapter 169 of the Revised Statutes of Missouri. Its purpose is to provide benefits to members and their dependents at retirement or in the event of death or disability prior to retirement.

PSRS is a defined benefit plan funded on an actuarial reserve basis, which guarantees availability of funds to pay benefits as prescribed by law. The System is established as an independent trust fund and is not subject to direction by any state agency. Administrative expenses are paid entirely out of investment earnings.

Administration – The administration of PSRS is vested in a seven-member Board of Trustees, composed of three elected PSRS members, one elected Public Education Employee Retirement System of Missouri (PEERS) member, and three appointed trustees. The four elected trustees are selected by vote of the members and retirees of both Systems. Two are elected each even-numbered calendar year to serve four-year terms. The three appointed trustees, one of whom must be a PSRS or a PEERS retiree, are named by the governor to serve four-year terms. The appointed trustees must be residents of school districts included in the Retirement System but not employees of such districts nor state employees nor state elected officials.

The Board appoints an executive director who is responsible for employment of the retirement office staff, routine operation of the System, and acts as an advisor to the Board on all matters pertaining to the System.

Member Participation – PSRS membership is automatic for certificated, full-time employees of public school districts in Missouri (except the St. Louis city and the Kansas City school districts), public two-year colleges in Missouri, PSRS, and certain statewide non-profit educational associations that have elected to join. Certificated, part-time employees whose services would qualify them for membership in PEERS are contributing members of PSRS unless PEERS membership is elected. The vast majority of PSRS members are not covered by Social Security. However, there are a few exceptions due to specific guidance from the Social Security Administration. Those members who are also covered by Social Security contribute to PSRS at two-thirds the rate of other members and receive two-thirds benefits.

Members working in covered employment are considered active members. Such members contribute 14.5% of total compensation to PSRS. The contributions are deducted and remitted by the employer and are credited by PSRS to individual member accounts. Since July 1, 1989, member contributions have been tax-deferred for federal and state income tax purposes under IRS 414(h)(2). Contributions are not considered income for such purposes until they are paid as a lump-sum refund or monthly benefits.

Interest at a rate set each year by the Board of Trustees is credited to individual member accounts each June 30 on the previous June 30 balance. The rate credited on June 30, 2012 was 1%. Since PSRS is a defined benefit plan, benefits are based upon the member's final average salary and years of service. The amount of interest credited to a member's account has no bearing on the monthly benefit amount payable at retirement.

In addition to service earned for covered employment, members may purchase service in various categories including several types of leave, out-of-state school service, other public and private employment, active U.S. military duty, and service under the federal Uniformed Services Employment and Re-Employment Rights Act of 1994 (USERRA).

Members who have contributions on deposit with PSRS but are not working in covered employment are considered inactive members.

Employer Participation – The employers served by PSRS withhold members' contributions from salary payments and match those contributions at a current rate of 14.5% of payroll. Employer contributions and investment earnings on those funds are placed by PSRS in a general reserve account to pay monthly benefits to retirees and to beneficiaries of deceased members. Employers are responsible for remitting contributions promptly and for furnishing contribution information and new membership records to PSRS. Employers also provide needed data when members apply for monthly benefits or for refunds upon termination of employment.

Survivor Benefits – The designated beneficiary of a member who dies before retirement is eligible for a lump-sum refund of the member's contributions and interest. If the beneficiary is an eligible dependent and the member dies while in covered employment with at least two years of service, or while eligible for disability retirement benefits, monthly survivor benefits based on a percentage of the member's salary for the last full year of covered service can be elected instead of the contribution refund. Monthly survivor benefits may also be payable to qualified dependents of an inactive member who has at least five years of service.

In lieu of a lump-sum refund or monthly survivor benefits, survivors with an insurable interest and beneficiaries of disability retirees may elect to receive monthly benefits under the Joint-and-Survivor 100% benefit plan. Such benefits are payable when the member would have been eligible for early or normal service retirement.

Refund of Contributions – Member contributions and interest are fully refundable upon termination of covered employment or death. All service and benefit rights are forfeited upon voluntary refund or automatic termination of membership.

A member may, upon returning to covered employment, reinstate the service forfeited through termination of a previous membership by repaying the money refunded plus interest.

Membership Termination – Membership is terminated by death, retirement, refund of contributions, or absence from covered employment by a non-vested member for five consecutive school years.

Disability Retirement Benefits – Disability retirement benefits are payable to eligible members who have met service and eligibility requirements and who because of permanent disability, are unable to earn a livelihood in any occupation. In most instances, the disability retirement benefit is calculated at 50% of the member's salary for the last full year of service.

Service Retirement Benefits – Service retirement benefits are payable to members who have terminated covered employment and have met certain eligibility requirements.

Benefit Formula – All service retirement benefits are based on a formula which multiplies final average salary by the applicable benefit factor, by the years of service and, in the case of early retirement, by an age-reduction factor. Final average salary is obtained by dividing the total salaries for the three highest consecutive years of service by 36 months to arrive at a monthly average; the applicable factor is determined by the type of retirement eligibility; total service is the amount accumulated at retirement for covered employment and purchased service; and the age-reduction factor, when applicable, is determined by the age at retirement.

Normal Retirement – A member may retire with benefits calculated under the standard (2.5%) benefit factor at age 60 with five years of service, at any age with 30 years of service, or when a combination of age and service equals 80 or more. Between 7/1/2001 and 7/1/2013, a member may retire with a 2.55% benefit factor with 31 or more years of service.

Early Retirement – A member may retire with benefits calculated under the standard (2.5%) formula with an age-reduction factor applied, at age 55 with five years of service or at any age with 25 years of service, as long as he or she does not qualify for Rule of 80.

A special provision in effect until July 1, 2013 allows members under age 55 with 25.0 to 29.9 years of service to retire with benefits calculated under a modified benefit factor ranging from 2.2% to 2.4% with no age-reduction factor applied.

Payment Options – A retiring member may choose to receive the maximum benefits payable under the Single Life benefit plan, or may elect to receive a reduced benefit under one of three Joint-and-Survivor benefit plans or under one of two Term-Certain benefit plans, to provide survivor benefit coverage in varying degrees after the retiree's death.

Certain benefit minimums apply to normal or early retirement with 15 or more years of service. The minimums for 15 but fewer than 25 years of service are reduced if a Joint-and-Survivor or a Term-Certain benefit plan is elected and/or if an age-reduction factor is applicable because of early retirement. The minimums for 25 or more years of service are reduced only if a Joint-and-Survivor or a Term-Certain benefit plan is selected.

The Partial Lump Sum Option (PLSO) is available to qualified members. This option allows qualified members to choose to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time, lump-sum payment at retirement.

Cost-of-Living Adjustments – Cost-of-living adjustments (COLAs) are provided beginning the second January after retirement to service and disability retirees, and to Joint-and-Survivor and Term-Certain beneficiaries of deceased retirees. Lifetime COLAs are limited to 80% of the original retirement benefit.

The Department of Labor Consumer Price Index for Urban Consumers (CPI-U) for the previous fiscal year is used as a guideline for the annual COLA which is set by the Board of Trustees. By law, if the change in CPI-U is 2% or more, the COLA must be at least 2%, but no more than 5%. If the change in CPI-U is between 0% and 2%, the Board may grant a COLA of 0% to 5%. If the change in CPI-U is less than 0%, no increase can be given. If it is more than 5%, the Board is required to give a 5% increase. Under the Funding Stabilization Policy adopted by the Board in August 2011, a 2% COLA will be given whenever the change in CPI-U for the previous year is between 0% and 5%.

Member Handbook – A ***Member Handbook*** containing detailed information concerning the retirement program is available on our website or can be obtained from the retirement office upon request.

PEERS SUMMARY PLAN DESCRIPTION

The Public Education Employee Retirement System of Missouri (PEERS) was established by an Act of the Missouri Legislature effective November 1, 1965, and is governed by Chapter 169 of the Revised Statutes of Missouri. Its purpose is to provide benefits to members and their dependents at retirement or in the event of death or disability prior to retirement.

PEERS is a defined benefit plan funded on an actuarial reserve basis, which guarantees availability of funds to pay benefits as prescribed by law. The System is established as an independent trust fund and is not subject to direction by any state agency. Administrative expenses are paid entirely out of investment earnings.

Administration – The law provides that the responsibility for the operation and administration of the retirement system is vested in the Public School Retirement System of Missouri (PSRS) Board of Trustees sitting as the Board of Trustees for PEERS. The Board is comprised of three elected PSRS members, one elected Public Education Employee Retirement System (PEERS) member and three appointed trustees. The four elected trustees are selected by vote of the members and retirees of both Systems. Two are elected each even-numbered calendar year to serve four-year terms. The three appointed trustees, one of whom must be a PSRS or a PEERS retiree, are named by the governor to serve four-year terms. The appointed trustees must be residents of school districts included in the Retirement System but not employees of such districts nor state employees nor state elected officials.

The Board appoints an executive director who is responsible for employment of the retirement office staff, routine operation of the System, and acts as an advisor to the Board on all matters pertaining to the System.

Member Participation – PEERS membership is automatic, regardless of position, for all persons not covered by PSRS who are employed for 20 or more hours a week on a regular basis in a position that normally requires at least 600 hours during the school term by the public school districts in Missouri (except the St. Louis city and the Kansas City school districts), public two-year colleges in Missouri (except St. Louis Community College) and statewide non-profit educational associations that have elected to join.

Members working in covered employment are considered active members. Such members contribute 6.86% of their total compensation to PEERS. These amounts are deducted by the employing district and then forwarded to PEERS by the payroll officer and applied to the member's account in PEERS. PEERS members are also covered by Social Security.

PEERS membership can be elected by employees with Missouri educator certificates who work in any position for 17 or more hours weekly but less than full time; however, PSRS membership is automatic if a PEERS election is not made. The election to join PEERS must be filed with the Board of Trustees within 90 days after entering first time, part-time employment.

Since July 1, 1989, member contributions have been tax-deferred for federal and state income tax purposes under IRC 414(h)(2). Contributions are not considered as income for federal or state income tax purposes until they are paid in a lump-sum refund or in monthly benefits.

Individual accounts are maintained for all PEERS members. Interest is credited each June 30 on the previous June 30 balance. The interest rate, set annually by the Board of Trustees, was 1% on June 30, 2012. Since PEERS is a defined benefit plan, benefits are based upon the member's final average salary and years of service. The amount of interest credited to a member's account has no bearing on the monthly benefit amount payable at retirement.

In addition to credit earned for covered employment, members may purchase service in various categories including several types of leave, out-of-state school service, other public and private employment, active U.S. military duty, and service under the federal Uniformed Services Employment and Re-employment Rights Act of 1994 (USERRA).

Members who have contributions on deposit with PEERS but are not currently working in covered employment are considered inactive members.

Employer Participation – The employers served by PEERS withhold members' contributions from salary payments and match employee contributions at a current rate of 6.68% of payroll. Employer contributions and investment earnings on those funds are placed in a general reserve account to pay monthly benefits to retirees and to beneficiaries of deceased members. It is the responsibility of the employers to remit contributions to the Retirement System promptly and to supply PEERS with new membership records and members' contribution information. Employers also provide needed data when members apply for benefits or refund of contributions upon termination of employment.

Survivor Benefits – When a member dies before retirement, the designated beneficiary becomes eligible for a lump-sum refund of the employee's contributions and interest. In lieu of a lump-sum refund, survivors with an insurable interest and beneficiaries of disability retirees may elect to receive monthly benefits under the Joint-and-Survivor 100% benefit plan. Such benefits are payable when the member would have been eligible for early or normal service retirement.

Refund of Contributions – Member contributions and interest are fully refundable upon termination of covered employment or death. All service and benefit rights are forfeited upon voluntary refund or automatic termination of membership.

A member may, upon returning to covered employment, reinstate the service forfeited through termination of a previous membership by repaying the money refunded plus interest.

Membership Termination – Membership is terminated by death, retirement, refund of contributions, or absence from covered employment by a non-vested member for five consecutive school years.

Disability Retirement Benefits – Disability retirement benefits are payable to members who have met service and eligibility requirements and who, because of permanent disability, are unable to earn a livelihood in any occupation. The disability retirement benefit is calculated at 90% of the normal service retirement benefit.

Service Retirement Benefits – Service retirement benefits are payable to members who have terminated covered employment and who have met certain eligibility requirements.

Benefit Formula – All service retirement benefits are based on a formula which multiplies final average salary by the applicable benefit factor, by the years of service and, in the case of early retirement, by an age-reduction factor. Final average salary is obtained by dividing the total salaries for the three highest consecutive years of service by 36 months to arrive at a monthly average; the applicable factor is determined by the type of retirement eligibility; total service is the amount accumulated at retirement for covered employment and purchased service; and the age-reduction factor, when applicable, is determined by the age at retirement.

Because of the conversion of the System from a formula integrated with Social Security to the present basis, a special "frozen benefit" is in effect for certain members for service prior to July 1, 1973.

Normal Retirement – A member may retire with benefits calculated under the standard (1.61%) formula at age 60 with five years of service, at any age with at least 30 years of service, and at the point where the member's age plus service equals 80 or more (Rule of 80). A member may retire under the standard (1.61%) formula when the member qualifies for Rule of 80 or 30-and-Out and will receive an additional .8% multiplier until reaching minimum eligibility age for Social Security benefits (currently age 62).

Early Retirement – A member may retire with benefits calculated under the standard (1.61%) formula with an age-reduction factor applied at age 55 with five but fewer than 25 years of service, or at any age with 25 years of credit, as long as they do not qualify for Rule of 80.

A special provision in effect until July 1, 2013 allows members under age 55 with 25.0 to 29.9 years of service to retire with benefits calculated under a modified benefit factor ranging from 1.51% to 1.59% with no age-reduction factor applied.

Payment Options – A retiring member may choose to receive the maximum benefits payable under the Single Life benefit plan, or may choose to receive a reduced benefit under one of three Joint-and-Survivor benefit plans or under one of two Term-Certain benefit plans, to provide survivor benefit coverage in varying degrees after the retiree's death.

Another option, the Accelerated Payment Plan (APP), allows members to receive a higher PEERS benefit prior to minimum Social Security eligibility age (currently age 62). When the minimum Social Security eligibility age is attained, the member's PEERS benefit is reduced and remains at a reduced level for the remainder of their retirement.

The Partial Lump Sum Option (PLSO) is available to qualified members. This option allows qualified members to choose to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time, lump-sum payment at retirement.

Cost-of-Living Adjustments – Cost-of-living adjustments (COLAs) are provided starting the fourth January after retirement to service and disability retirees, and to Joint-and-Survivor and Term-Certain beneficiaries of deceased retirees. Lifetime COLAs are limited to 80% of the original retirement benefit.

The Department of Labor Consumer Price Index for Urban Consumers (CPI-U) for the previous fiscal year is used as a guideline for the annual COLA which is set by the Board of Trustees. By law, if the change in CPI-U is 2% or more, the COLA must be at least 2%, but no more than 5%. If the change in CPI-U is between 0% and 2%, the Board may grant a COLA of 0% to 5%. If the change in CPI-U is less than 0%, no increase can be given. If it is more than 5%, the Board is required to give a 5% increase. Under the Funding Stabilization Policy adopted by the Board in August 2011, a 2% COLA will be given whenever the change in CPI-U for the previous year is between 0% and 5%.

Member Handbook – A ***Member Handbook*** containing detailed information concerning the retirement program is available on our website or can be obtained from the retirement office upon request.

PSRS AND PEERS SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Inflation

Inflation is assumed to be 2.50% per year (effective 6/30/11).

Payroll Growth

Total payroll growth for PSRS is assumed to be 3.50% per year, consisting of 2.50% inflation, 0.50% additional inflation due to the inclusion of healthcare costs in pension earnings, and 0.50% of real wage growth (effective 6/30/11).

Total payroll growth for PEERS is assumed to be 3.75% per year, consisting of 2.50% inflation, 0.75% additional inflation due to the inclusion of healthcare costs in pension earnings, and 0.50% of real wage growth (effective 6/30/11).

Individual Salary Growth

Salaries are assumed to increase each year with general inflation of 2.50%, plus healthcare inflation of 0.50% for PSRS and 0.75% for PEERS (since healthcare costs are included in pension earnings), plus a longevity adjustment that accounts for merit, promotion, and other real wage growth (effective 6/30/11).

PSRS – Individual Salary Growth

Service	General Inflation	Healthcare Inflation	Longevity	Total Increase
0	2.50%	0.50%	7.00%	10.00%
1-4	2.50%	0.50%	4.00%	7.00%
5	2.50%	0.50%	3.80%	6.80%
6	2.50%	0.50%	3.60%	6.60%
7	2.50%	0.50%	3.40%	6.40%
8	2.50%	0.50%	3.20%	6.20%
9	2.50%	0.50%	3.00%	6.00%
10	2.50%	0.50%	2.80%	5.80%
11	2.50%	0.50%	2.60%	5.60%
12	2.50%	0.50%	2.40%	5.40%
13	2.50%	0.50%	2.20%	5.20%
14	2.50%	0.50%	2.00%	5.00%
15	2.50%	0.50%	2.00%	5.00%
16	2.50%	0.50%	1.90%	4.90%
17	2.50%	0.50%	1.90%	4.90%
18	2.50%	0.50%	1.80%	4.80%
19	2.50%	0.50%	1.80%	4.80%
20	2.50%	0.50%	1.70%	4.70%
21	2.50%	0.50%	1.70%	4.70%
22	2.50%	0.50%	1.60%	4.60%
23	2.50%	0.50%	1.60%	4.60%
24	2.50%	0.50%	1.50%	4.50%
25	2.50%	0.50%	1.50%	4.50%
26	2.50%	0.50%	1.40%	4.40%
27	2.50%	0.50%	1.30%	4.30%
28	2.50%	0.50%	1.20%	4.20%
29	2.50%	0.50%	1.10%	4.10%
30+	2.50%	0.50%	1.00%	4.00%

PEERS – Individual Salary Growth

Service	General Inflation	Healthcare Inflation	Longevity	Total Increase
0	2.50%	0.75%	8.75%	12.00%
1	2.50%	0.75%	4.00%	7.25%
2	2.50%	0.75%	3.50%	6.75%
3	2.50%	0.75%	3.25%	6.50%
4	2.50%	0.75%	3.00%	6.25%
5	2.50%	0.75%	2.90%	6.15%
6	2.50%	0.75%	2.80%	6.05%
7	2.50%	0.75%	2.70%	5.95%
8	2.50%	0.75%	2.60%	5.85%
9	2.50%	0.75%	2.50%	5.75%
10	2.50%	0.75%	2.40%	5.65%
11	2.50%	0.75%	2.30%	5.55%
12	2.50%	0.75%	2.20%	5.45%
13	2.50%	0.75%	2.10%	5.35%
14	2.50%	0.75%	2.00%	5.25%
15	2.50%	0.75%	1.95%	5.20%
16	2.50%	0.75%	1.90%	5.15%
17	2.50%	0.75%	1.85%	5.10%
18	2.50%	0.75%	1.80%	5.05%
19	2.50%	0.75%	1.75%	5.00%
20+	2.50%	0.75%	1.75%	5.00%

Investment Return

It is assumed that investments of the System will return a yield of 8.0% per year, net of System expenses (investment and administrative) (effective 1980).

Cost-of-Living Adjustments

The cost of living adjustment assumed in the valuation is 2.0% per year, based on the current policy of the Board to grant a 2.0% COLA whenever annual inflation, as measured by the CPI-U index for a fiscal year, increases between 0.00% and 5.0%. The COLA applies to service retirements and beneficiary annuities. The COLA does not apply to the benefits for in-service death payable to spouses (where the spouse is over age 60), and does not apply to the spouse with children pre-retirement death benefit, the dependent children pre-retirement death benefit, or the dependent parent death benefit. The total lifetime COLA cannot exceed 80% of the original benefit. Future COLAs for current benefit recipients reflect actual cumulative adjustments granted at the time of valuation (effective 6/30/11).

Mortality Rates

Mortality rates for active members are based on the RP 2000 Mortality Table, set back one year for males and six years for females, then projected to 2016 using Scale AA. Illustrative rates per 1,000 members at various ages are as follows (effective 6/30/11):

PSRS and PEERS Active Member Mortality

Age	Male	Female
20	0.244	0.131
30	0.380	0.171
40	0.898	0.342
50	1.492	0.782
60	4.593	2.237
70	15.549	7.955
80	49.322	22.752
90	156.083	66.254
100	324.963	179.896
110	400.000	279.055

Mortality rates for non-disabled retirees and beneficiaries are based on the RP 2000 Mortality Table, set back one year for both male and female members of PSRS and one year for male members of PEERS, then projected to 2016 using Scale AA. Illustrative rates per 1,000 members at various ages are as follows (effective 6/30/11):

PSRS Service Retiree, Beneficiary and Survivor Mortality

Age	Male	Female
40	0.898	0.509
50	1.492	1.178
60	4.593	4.099
70	15.549	13.715
80	49.322	37.094
90	156.083	113.562
100	324.963	227.712
110	400.000	351.544

PEERS Service Retiree, Beneficiary and Survivor Mortality

Age	Male	Female
20	0.263	0.148
30	0.461	0.225
40	1.004	0.554
50	1.831	1.274
60	5.930	4.665
70	19.292	15.452
80	61.340	41.002
90	187.360	125.502
100	352.933	233.696
110	400.000	364.617

Mortality rates for disabled retirees are based on the RP 2000 Disabled Retiree Mortality Table. Illustrative rates per 1,000 members at various ages are as follows (effective 6/30/11):

PSRS and PEERS Disability Retiree Mortality

Age	Male	Female
40	22.571	7.450
50	28.975	11.535
60	42.042	21.839
70	62.583	37.635
80	109.372	72.312
90	183.408	140.049
100	344.556	237.467
110	400.000	364.617

Retirement Rates

Prior to July 1, 2013, retirement is assumed in accordance with the following rates per 1,000 eligible PSRS members (effective 6/30/11):

PSRS Active Member Retirement Prior to July 1, 2013

	Years of Service											
Age	<=20	21	22	23	24	25	26	27	28	29	30	>=31
<50	0	0	0	0	0	50	50	50	50	50	200	400
50	0	0	0	0	0	50	50	50	50	50	200	400
51	0	0	0	0	0	50	50	50	50	200	200	400
52	0	0	0	0	0	50	50	50	200	200	200	400
53	0	0	0	0	0	50	50	300	200	200	200	400
54	0	0	0	0	0	50	300	200	200	200	200	400
55	50	50	50	50	50	400	200	200	200	200	200	400
56	50	50	50	50	400	200	200	200	200	200	200	400
57	50	50	50	400	200	200	200	200	200	200	200	400
58	50	50	400	200	200	200	200	200	200	200	200	400
59	50	400	200	200	200	200	200	200	200	200	200	400
60	150	150	150	150	150	200	200	200	200	200	200	400
61	150	150	150	150	150	200	200	200	200	200	200	400
62	150	150	150	150	150	200	200	200	200	200	200	400
63	150	150	150	150	150	200	200	200	200	200	200	400
64	150	150	150	150	150	200	200	200	200	200	200	400
65	250	250	250	250	250	400	400	400	400	400	400	400
66	250	250	250	250	250	300	300	300	300	300	300	400
67	250	250	250	250	250	300	300	300	300	300	300	400
68	250	250	250	250	250	300	300	300	300	300	300	400
69	250	250	250	250	250	300	300	300	300	300	300	400
>70	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000

After June 30, 2013, retirement is assumed in accordance with the following rates per 1,000 PSRS eligible members (effective 6/30/11):

PSRS Active Member Retirement After June 30, 2013

	Years of Service											
Age	<=20	21	22	23	24	25	26	27	28	29	30	>=31
<50	0	0	0	0	0	0	0	0	0	0	450	450
50	0	0	0	0	0	0	0	0	0	0	450	450
51	0	0	0	0	0	0	0	0	0	200	450	450
52	0	0	0	0	0	0	0	0	200	200	450	450
53	0	0	0	0	0	0	0	300	200	200	450	450
54	0	0	0	0	0	0	300	200	200	200	450	450
55	50	50	50	50	50	400	200	200	200	200	450	450
56	50	50	50	50	400	200	200	200	200	200	450	450
57	50	50	50	400	200	200	200	200	200	200	450	450
58	50	50	400	200	200	200	200	200	200	200	450	450
59	50	400	200	200	200	200	200	200	200	200	450	450
60	150	150	150	150	150	200	200	200	200	200	450	450
61	150	150	150	150	150	200	200	200	200	200	450	450
62	150	150	150	150	150	200	200	200	200	200	450	450
63	150	150	150	150	150	200	200	200	200	200	450	450
64	150	150	150	150	150	200	200	200	200	200	450	450
65	250	250	250	250	250	400	400	400	400	400	450	450
66	250	250	250	250	250	300	300	300	300	300	450	450
67	250	250	250	250	250	300	300	300	300	300	450	450
68	250	250	250	250	250	300	300	300	300	300	450	450
69	250	250	250	250	250	300	300	300	300	300	450	450
70	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000

PEERS retirement is assumed in accordance with the following rates per 1,000 eligible members (effective 6/30/11):

PEERS Retirement Rates

	Years of Service						
Age	<=25	25	26	27	28	29	30+
<50	0	50	50	50	50	50	150
50	0	50	50	50	50	50	250
51	0	50	50	50	50	250	150
52	0	50	50	50	250	150	150
53	0	50	50	250	150	150	150
54	0	50	250	150	150	150	150
55	30	270	170	170	170	170	170
56	30	170	170	170	170	170	170
57	30	170	170	170	170	170	170
58	30	170	170	170	170	170	170
59	30	170	170	170	170	170	170
60	160	160	160	160	160	160	160
61	100	100	100	100	100	100	100
62	240	240	240	240	240	240	240
63	200	200	200	200	200	200	200
64	140	140	140	140	140	140	140
65	260	260	260	260	260	260	260
66	200	200	200	200	200	200	200
67	200	200	200	200	200	200	200
68	200	200	200	200	200	200	200
69	200	200	200	200	200	200	200
70	200	200	200	200	200	200	200
71	200	200	200	200	200	200	200
72	200	200	200	200	200	200	200
73	200	200	200	200	200	200	200
74	200	200	200	200	200	200	200
75+	1000	1000	1000	1000	1000	1000	1000

Refund Rates

Termination of membership prior to eligibility for retirement from all causes other than death, disability or retirement, whether resulting in a refund or a deferred benefit, is assumed in accordance with the following illustrative rates per 1,000 members (2006).

PSRS

Years of Service	Rate
0	190.0
1	105.0
2	85.0
3	73.0
4	62.0
5	52.0
10	23.0
15	12.0
20	5.0
25+	0.0

PEERS

Years of Service	Rate
0	300.0
1	220.0
2	150.0
3	120.0
4	100.0
5	81.0
10	48.0
15	33.0
20	18.0
25+	0.0

Refund of Contributions

It is assumed that 88% of those leaving after earning five years of service with PSRS leave their contributions in the fund and receive a vested benefit. The remaining 12% are assumed to take an immediate refund of their contributions, thus forfeiting their vested retirement benefit. If the present value of the deferred benefit is less than the member account balance, the member's account balance is valued (effective 6/30/11).

It is assumed that 80% of those leaving after earning five years of service with PEERS leave their contributions in the fund and receive a vested benefit. The remaining 20% are assumed to take an immediate refund of their contributions, thus forfeiting their vested retirement benefit. If the present value of the deferred benefit is less than the member account balance, the member's account balance is valued (effective 6/30/11).

It is assumed that 100% of those leaving prior to earning five years of service will take an immediate refund of their contributions.

Disability Rates

Retirement for disability prior to age 60 is assumed in accordance with the following illustrative rates per 1,000 eligible members (effective 6/30/11):

PSRS

Age	Rates
25	0.017
30	0.080
35	0.160
40	0.320
45	0.610
50	0.960
55	1.310

PEERS

Age	Rates
30	0.080
35	0.160
40	0.320
45	0.640
50	1.040
55	1.680
	0.000

Interest on Member Accounts

1.00% per annum (6/30/10).

Service Purchases

A 2.0% load is added to the normal cost to account for anticipated losses resulting from service purchases and reinstatements (effective 6/30/11).

Provisions for Expenses

There is no specific provision for expenses. The implicit assumption is that administrative expenses are paid from investment income in excess of 8.0% per year (effective 1980).

Dependent Assumptions

(Effective 6/30/11)

- 80% of male members and 70% of female members are assumed to be married.
- Beneficiaries are assumed to be of the opposite sex from the member.
- Male and female members are assumed to be four years older than their beneficiary.

Joint-and-Survivor Election

To recognize the subsidy present in the Joint-and-Survivor reduction factors calculated without provision for cost-of-living adjustments, the active member costs resulting from all decrements except disability and refunds were loaded by 0.4%.

Survivor Benefits (PSRS only)

All active members under age 50 are assumed to have two dependent children. Each child is assumed to receive payments of $860 per month for 18 years if the member is under age 32, and grading down to 0 years if the member is age 50 (effective 6/30/11).

Return of Unused Member Account Balance

Under the Single Life benefit plan, any unused balance of contributions and interest in the member account balance at the time of death is paid in a lump sum to a designated beneficiary. This benefit is approximated with a five-year certain benefit.

Actuarial Cost Method

The actuarial cost method is Entry Age Normal-Level Percent of Payroll.

The normal cost is calculated separately for each active member and is equal to the level percentage of payroll needed as an annual contribution from entry age to retirement age to fund projected benefits. The actuarial accrued liability on any valuation date is the accumulated value of such normal costs from entry age to the valuation date (effective 1947).

Asset Valuation Method

The actuarial value of assets is a smoothed value of assets. The actuarial value for a year is computed by taking the actuarial value at June 30 of the prior year, subtracting all expenses (including benefit payments), and adding contributions and expected investment return at 8% of actuarial value of assets. The difference between the actual returns at market value for the year and expected returns is determined. Twenty percent of that difference is added to the actuarial value along with corresponding amounts from each of the prior four years. The actuarial value of assets was reset to market value at June 30, 2003 (effective 1994).

Amortization of Unfunded Actuarial Accrued Liability

Gains and losses occurring from census experience different than assumed and assumption changes are amortized over a 30-year period as a level percent of payroll. A new gain or loss base is established each year based on the additional gain or loss during that year and that base is amortized over a new 30-year period. The purpose of the method is to give a smooth progression of the costs from year to year and, at the same time, provide for an orderly funding of the unfunded liabilities. Increases or decreases in the actuarial accrued liability caused by changes in the benefit provisions are amortized over 20 years, as determined in the 2007 session of the Legislature.

The method for amortizing the unfunded actuarial accrued liability was changed from a rolling 30-year method to the closed 30-year method described above effective June 30, 2011.

Note: Dates reflect the effective date as adopted by the Board of Trustees. The most recent assumption analysis was performed as of June 30, 2011. The revised assumptions were used beginning with the June 30, 2011 valuation.

Rockwood R-VI School District

Location: St. Louis (metro), MO (district office in Eureka)
Enrollment: 22,507
PSRS member/employees: 1,912
PEERS member/employees: 1,224
Superintendent: Dr. Bruce Borchers
County: St. Louis

Planning to Stay Safe

It is a given that schools today have plans for dealing with crisis or natural disaster. Thankfully, most have not had to put those plans into action.

Among those is the Rockwood School District, located in the St. Louis metro area. The third largest school district in Missouri, Rockwood serves more than 22,000 students and covers roughly 150 square miles. Their mission – "We do whatever it takes to ensure all students realize their potential" – is evident. The district includes 10 National Blue Ribbon Schools, 14 Missouri Gold Star Schools of Excellence, ranks among the top on Missouri Assessment Program (MAP) tests, and among the top in both state and national ACT scores.

But their "whatever it takes" attitude goes beyond academics. It is also evident in the district's strong commitment and high level of achievement in crisis planning and emergency preparedness to ensure the safety of students and staff.

The district and all school facilities have emergency preparedness, crisis and safety plans designed with the assistance of staff, local law enforcement, emergency management and public health officials. Plans are regularly reviewed, updated and practiced through drills. Workshops are held every two years to allow parents, emergency officials and district administrators to discuss crisis preparedness, prevention and response.

The strength of Rockwood's commitment to both academics and emergency preparedness goes a long way to achieving its goal of ensuring students have every opportunity to realize their potential.

STATISTICAL SECTION

STATISTICAL SUMMARY

Benefit Recipients

The largest percentage of the Systems' benefit recipients are service retirees. Service retirement benefits are payable to members who have met age and service requirements. The number of PSRS service retirees on the payment rolls increased by 2,124 from 43,718 at June 30, 2011 to 45,842 at June 30, 2012. The number of PEERS service retirees on the payment rolls increased by 1,100 from 19,354 at June 30, 2011 to 20,454 at June 30, 2012. An additional 53 PSRS service retirees and 83 PEERS service retirees had their benefit on hold at June 30, 2012.

Disability benefits in PSRS and PEERS are paid to members who are unable to earn a livelihood due to permanent disability and who have met certain eligibility requirements. The number of PSRS disability retirees on the payment rolls increased by 40 from 761 at June 30, 2011 to 801 at June 30, 2012. An additional two disability retirees had their benefit on hold. The number of PEERS disability retirees on the payment rolls increased by 48 from 617 at June 30, 2011 to 665 at June 30, 2012. An additional three disability retirees had their benefit on hold.

In both PSRS and PEERS, beneficiary payments are available to survivors if the retiree elected this option. Three Joint-and-Survivor benefit plans and two Term-Certain benefit plans are available. In PSRS, survivor benefits are also available to designated beneficiaries of members who die before retirement.

The charts on page 108 detail the number of benefit recipients by type and monthly benefit amount for each System.

Pension Funding

An unfunded actuarial accrued liability (UAAL) for pension benefits generally represents the difference between the present value of all benefits estimated to be payable to plan members as a result of their age, salary, and service through the valuation date and the actuarial value of plan assets available to pay those benefits. This amount changes over time as a result of changes in accrued benefits, pay levels, rates of return on investments, changes in actuarial assumptions, and changes in the demographics of the employee base. Each year an outside actuary performs a valuation to determine the present value of the benefits payable (actuarial accrued liability) and compares this to the assets available to arrive at the funded status of the Systems.

The charts on page 116 show a comparison of the assets and liabilities of the Systems over time. At June 30, 2012, PSRS was 81.5% pre-funded and PEERS was 82.5% pre-funded. These percentages have decreased from the June 30, 2011 pre-funded percentages of 85.5% for PSRS and 85.3% for PEERS.

Changes in Net Assets

The charts on page 109 detail a 10-year history of the additions (revenue) and deductions (expenses) of the Systems.

Other charts in this section detail demographic information concerning our members and employers.

The data in this section was derived from internal sources and the annual actuarial valuation reports.

PSRS Summary of Benefit Recipients By Type

Amount of Monthly Benefit	Service Retirement	Disability Retirement	Beneficiary Recipients: Disability	Beneficiary Recipients: Survivors	Beneficiary Recipients: Beneficiary	Beneficiary Recipients: Term-Certain	Total
<$1,000	3,921	41	111	733	375	2	5,183
$1,000 - $1,999	6,019	372	60	3	755	4	7,213
$2,000 - $2,999	10,545	301	12	-	685	5	11,548
$3,000 - $3,999	11,888	78	2	-	472	6	12,446
$4,000 - $4,999	7,933	9	1	-	250	6	8,199
$5,000 - $5,999	3,550	2	-	-	116	1	3,669
$6,000+	2,039	-	-	-	47	-	2,086
Total	45,895	803	186	736	2,700	24	50,344

PEERS Summary of Benefit Recipients By Type

Amount of Monthly Benefit	Service Retirement	Disability Retirement	Beneficiary Recipients: Disability	Beneficiary Recipients: Survivors*	Beneficiary Recipients: Beneficiary	Beneficiary Recipients: Term-Certain	Total
<$500	11,989	484	145	-	840	16	13,474
$500 - $999	4,830	158	17	-	233	8	5,246
$1,000 - $1,999	2,866	26	2	-	84	2	2,980
$2,000 - $2,999	589	-	-	-	7	1	597
$3,000 - $3,999	167	-	-	-	2	-	169
$4,000+	96	-	-	-	-	-	96
Total	20,537	668	164	-	1,166	27	22,562

** Benefit not available in PEERS.*

PSRS Schedule of Changes in Plan Net Assets, Last 10 Fiscal Years

(Dollar amounts in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Additions by source										
Member contributions	$ 378,434	$ 405,614	$ 432,500	$ 502,980	$ 514,163	$ 572,810	$ 599,582	$ 636,633	$ 638,357	$ 620,214
Employer contributions	355,979	359,763	389,416	429,579	472,217	521,242	563,454	594,326	594,732	658,936
Investment income	873,340	2,402,566	1,958,622	2,235,836	4,125,164	(1,385,701)	(5,301,374)	2,723,032	5,018,519	449,822
Other income	351	488	476	264	280	370	627	867	930	441
Total additions by source	1,608,104	3,168,431	2,781,014	3,168,659	5,111,824	(291,279)	(4,137,711)	3,954,858	6,252,538	1,729,413
Deductions by type										
Monthly benefits										
Service retirement	877,538	958,181	1,057,430	1,152,217	1,254,164	1,363,571	1,490,693	1,584,382	1,674,931	1,775,305
Service retirement -PLSO	-	9,176	32,479	40,177	52,122	59,793	74,042	52,117	69,956	69,392
Disability	11,901	12,720	13,613	14,297	14,982	15,599	16,355	17,284	18,406	19,640
Beneficiary	41,011	44,663	49,056	54,148	59,295	64,011	70,518	75,922	82,327	85,894
Lump-sum refunds										
Death	6,781	7,173	6,131	7,188	6,801	7,058	7,274	7,075	7,763	9,295
Refund/transfers	21,693	28,845	28,215	29,206	37,209	39,243	39,134	41,084	45,876	45,161
Administrative expenses/other	4,675	5,274	5,614	6,754	7,113	8,074	10,135	10,430	8,839	8,135
Total deductions by type	963,599	1,066,032	1,192,538	1,303,987	1,431,686	1,557,349	1,708,151	1,788,294	1,908,098	2,012,822
Changes in plan net assets	$ 644,505	$2,102,399	$1,588,476	$1,864,672	$ 3,680,138	$(1,848,628)	$(5,845,862)	$ 2,166,564	$4,344,440	$ (283,409)

PEERS Schedule of Changes in Plan Net Assets, Last 10 Fiscal Years

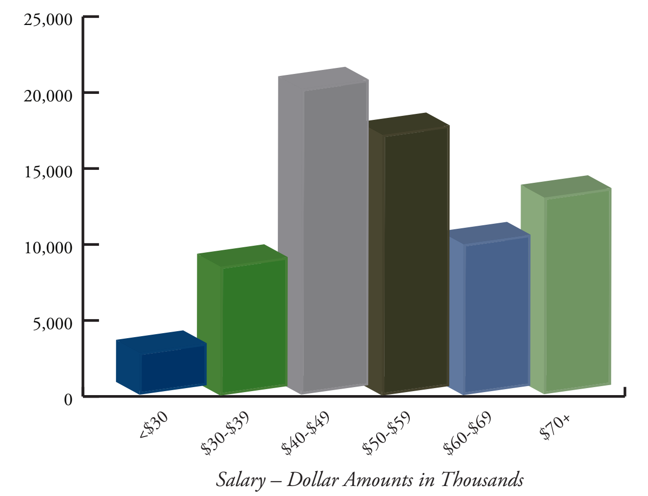
(Dollar amounts in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Additions by source										
Member contributions	$ 48,994	$ 50,625	$ 55,699	$ 68,018	$ 73,071	$ 81,370	$ 89,427	$ 95,924	$ 95,792	$ 95,095
Employer contributions	48,933	49,977	53,110	61,746	69,235	77,989	85,916	91,479	90,816	101,930
Investment income	73,188	198,389	170,921	197,629	373,198	(130,619)	(489,552)	261,135	502,934	39,774
Other income	16	10	9	3	-	-	1	-	-	-
Total additions by source	171,131	299,001	279,739	327,396	515,504	28,740	(314,208)	448,538	689,542	236,799
Deductions by type										
Monthly benefits										
Service retirement	63,333	69,899	77,333	84,664	93,716	104,352	115,757	124,928	136,912	150,334
Service retirement -PLSO		520	1,527	2,487	3,454	3,133	3,676	2,972	5,178	7,191
Disability	1,448	1,503	1,686	1,840	1,968	2,125	2,353	2,514	2,798	3,057
Beneficiary	2,618	2,949	3,360	3,670	4,044	4,454	4,881	5,382	5,881	6,363
Lump-sum refunds										
Death	475	593	647	542	816	675	765	790	1,047	1,113
Refund/transfers	7,559	9,827	11,245	11,502	12,883	14,833	14,908	15,921	17,776	17,357
Administrative expenses/other	2,946	3,210	3,564	4,358	4,427	4,682	5,440	5,280	5,611	5,591
Total deductions by type	78,379	88,501	99,362	109,063	121,308	134,254	147,780	157,787	175,203	191,006
Changes in plan net assets	$ 92,752	$ 210,500	$ 180,377	$ 218,333	$ 394,196	$ (105,514)	$ (461,988)	$ 290,751	$ 514,339	$ 45,793

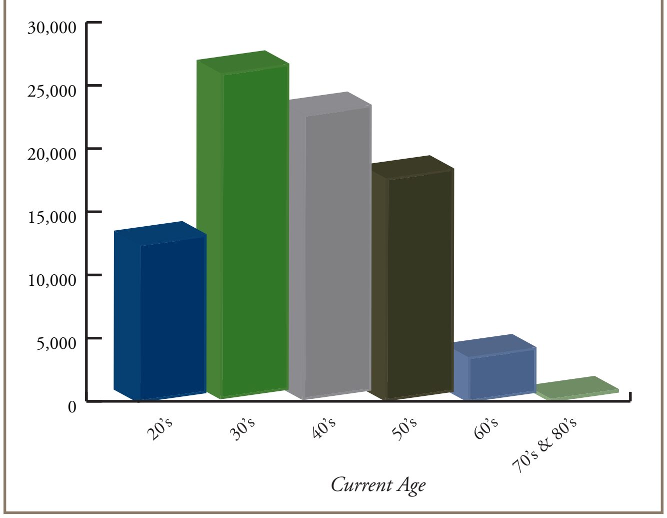
PSRS Summary of Changes in Membership During 2011-2012

		Male	Female	Total
Membership July 1, 2011		19,646	69,642	89,288
New members added		1,257	3,890	5,147
Less:	Service retirements	599	2,327	2,926
	Disability retirements	12	58	70
	Refunds	415	1,336	1,751
	Deaths	15	31	46
	Memberships terminated	95	459	554
	Other	11	25	36
	Total removed	1,147	4,236	5,383
Net change in membership 2011-2012		110	(346)	(236)
Membership June 30, 2012		19,756	69,296	89,052

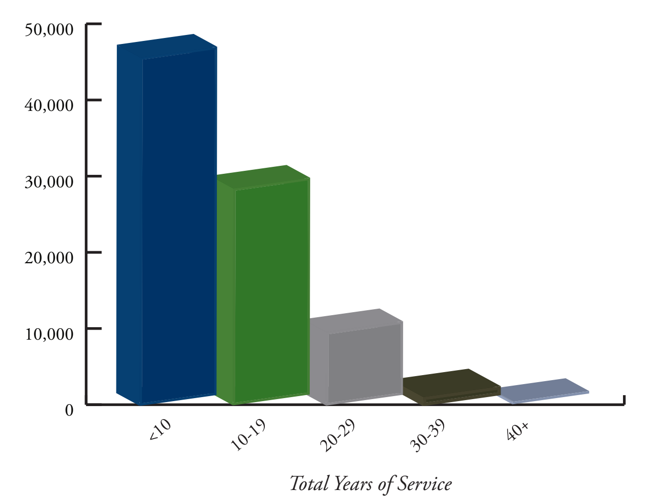
2011-2012 PSRS Members by Annual Salary



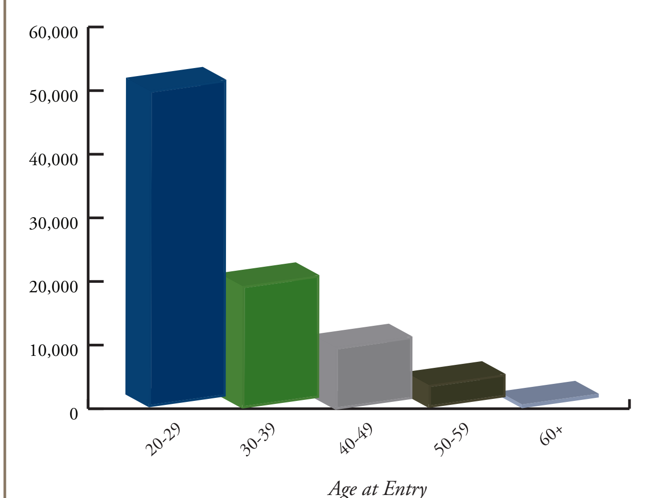
2011-2012 PSRS Members by Current Age



2011-2012 PSRS Members by Total Years of Service



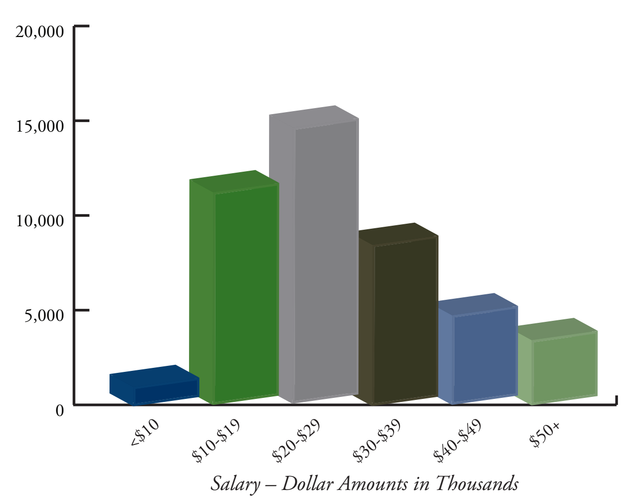
2011-2012 PSRS Member Age at Entry Into System



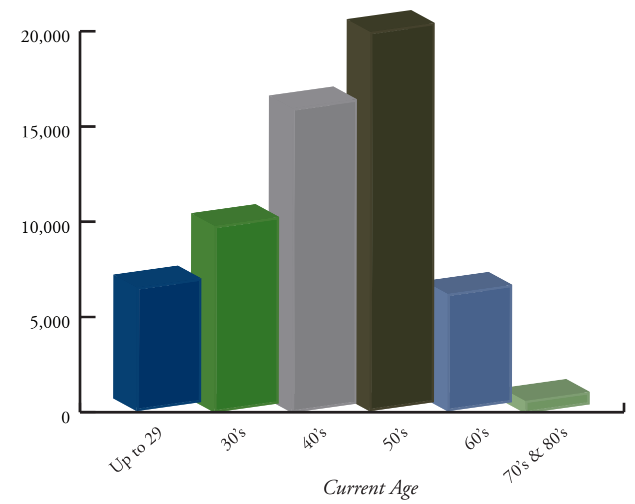
PEERS Summary of Changes in Membership During 2011-2012

		Male	Female	Total
Membership July 1, 2011		15,772	48,430	64,202
New members added		1,959	4,104	6,063
Less:	Service retirements	464	1,250	1,714
	Disability retirements	23	44	67
	Refunds	1,012	2,431	3,443
	Deaths	47	53	100
	Memberships terminated	439	1,257	1,696
	Other	26	62	88
	Total removed	2,011	5,097	7,108
Net change in membership 2011-2012		(52)	(993)	(1,045)
Membership June 30, 2012		15,720	47,437	63,157

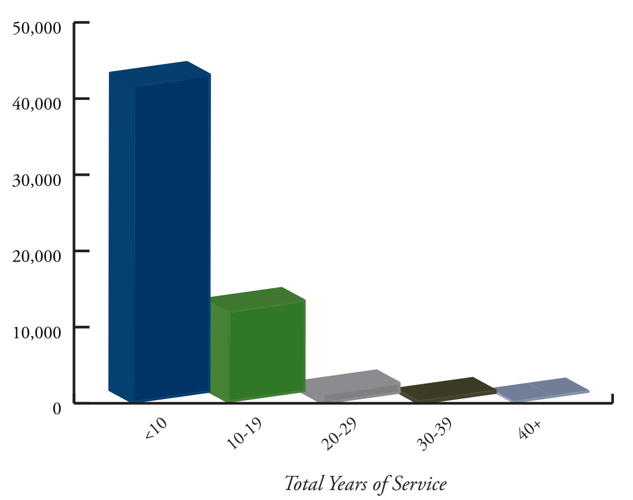
2011-2012 PEERS Members by Annual Salary



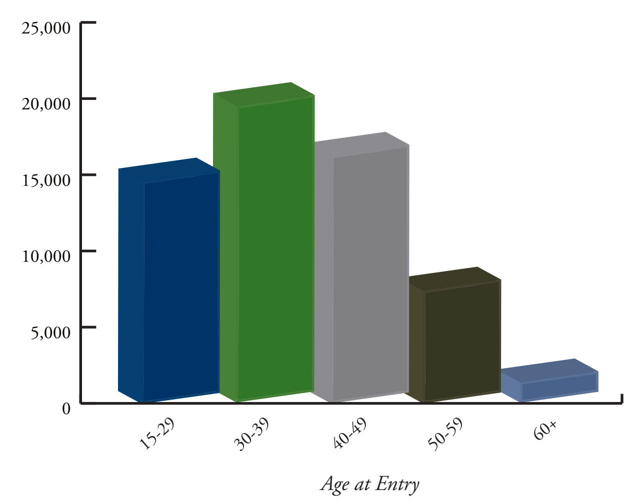
2011-2012 PEERS Members by Current Age



2011-2012 PEERS Members by Total Years of Service



2011-2012 PEERS Member Age at Entry Into System

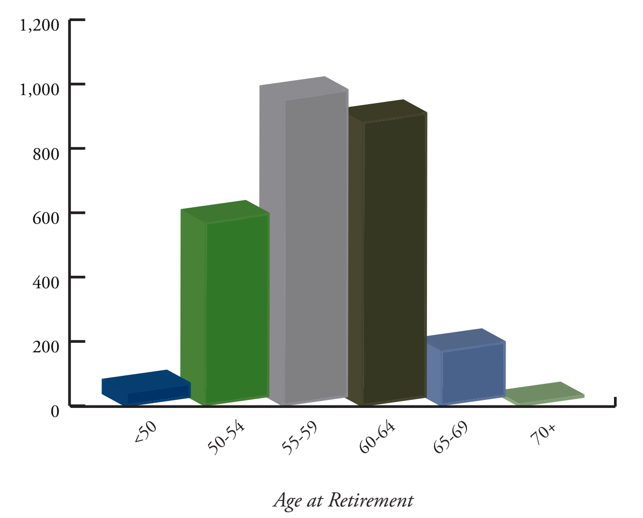


PSRS 2011-2012 New Service Retirees

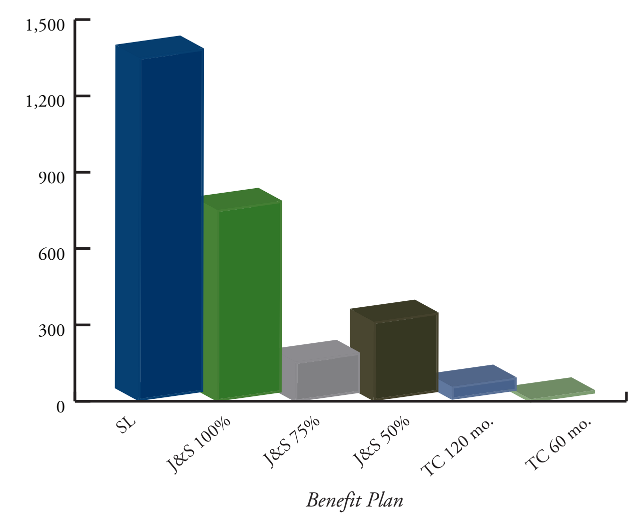
	Service Retirees	Disability Retirees	Beneficiaries
Retirees July 1, 2011	43,718	761	3,435
Added during the year	2,926	70	304
Died during the Year	(810)	(28)	(138)
Other	8	(2)	(37)
Retirees June 30, 2012	45,842	801	3,564

Totals do not include 137 retirees and beneficiaries whose benefits were on hold at June 30, 2012.

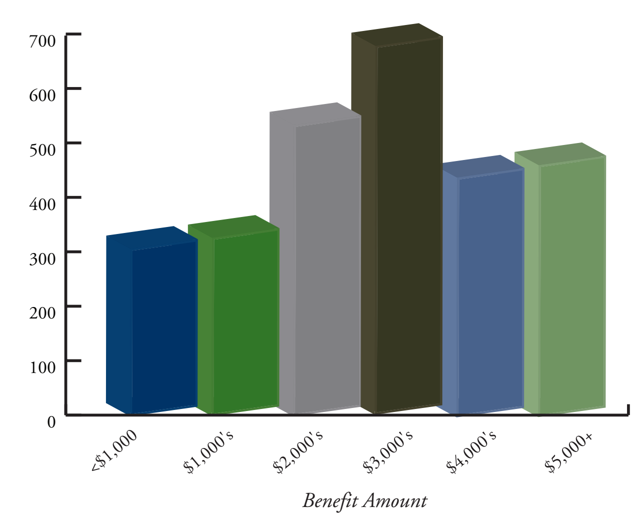
2011-2012 PSRS New Service Retirees by Age at Retirement



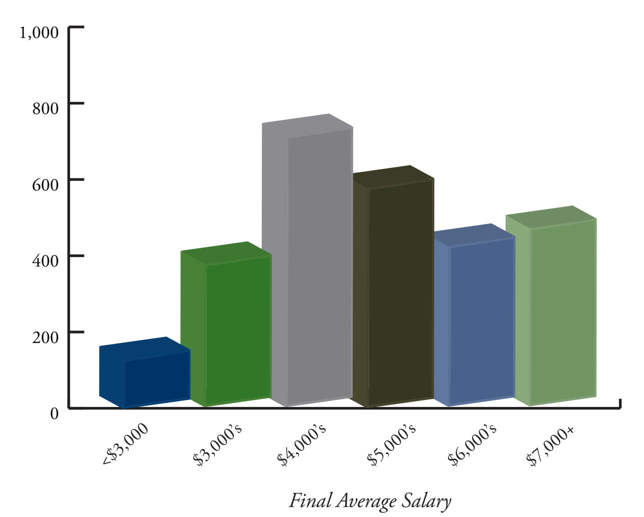
2011-2012 PSRS New Service Retirees by Benefit Plan



2011-2012 PSRS New Service Retirees by Single Life Benefit Amount



2011-2012 PSRS New Service Retirees by Final Average Salary

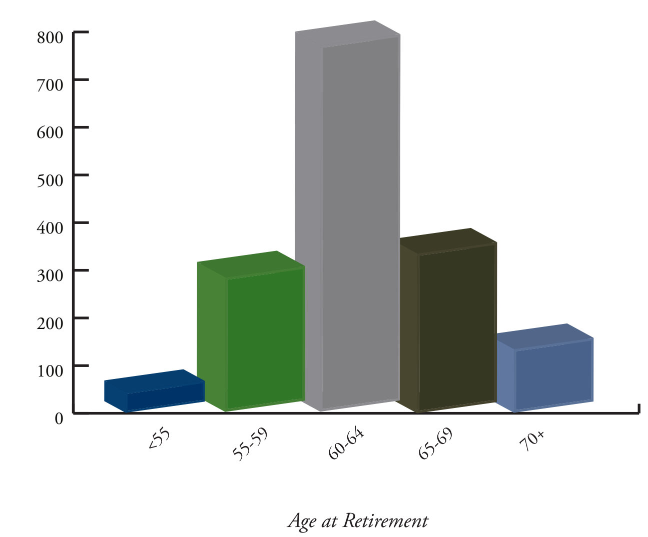


PEERS 2011-2012 New Service Retirees

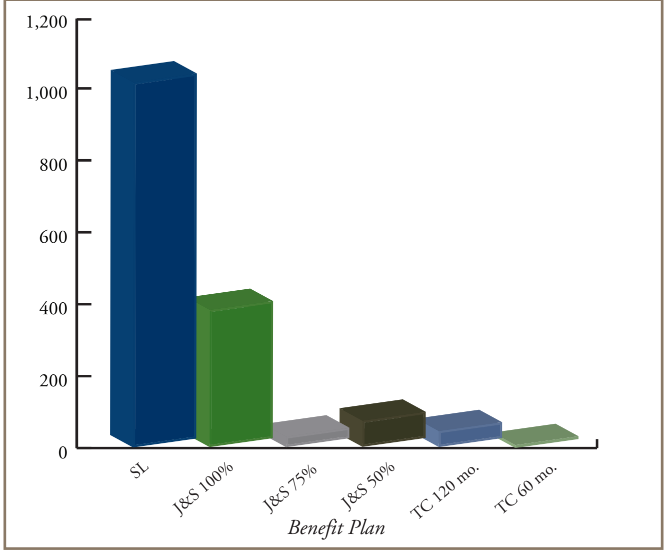
	Service Retirees	Disability Retirees	Beneficiaries
Retirees July 1, 2011	19,354	617	1,263
Added during the Year	1,714	67	151
Died during the Year	(621)	(19)	(51)
Other	7	0	(7)
Retirees June 30, 2012	20,454	665	1,356

Totals do not include 87 retirees and beneficiaries whose benefits were on hold at June 30, 2012.

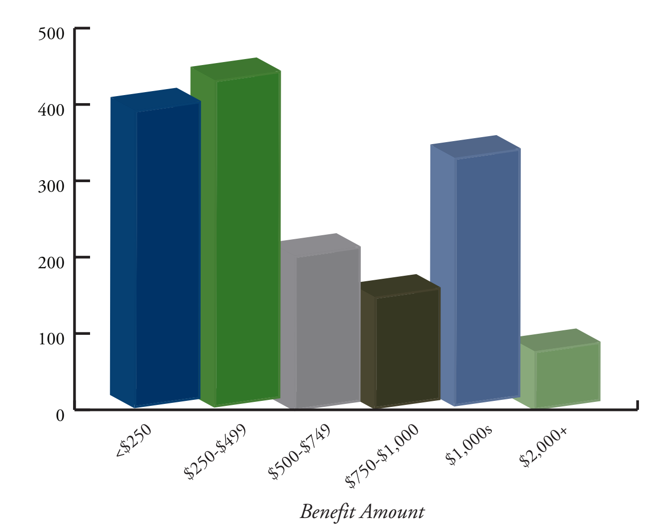
2011-2012 PEERS New Service Retirees by Age at Retirement



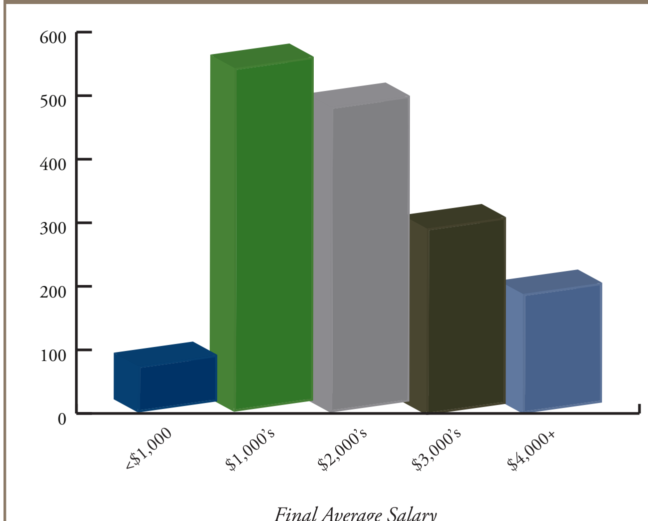
2011-2012 PEERS New Service Retirees by Benefit Plan



2011-2012 PEERS New Service Retirees by Single Life Benefit Amount



2011-2012 PEERS New Service Retirees by Final Average Salary



PSRS Schedule of Average Benefit Payments to New Service Retirees

	Years of Service							
	5 - 9.9	10 - 14.9	15 - 19.9	20 - 24.9	25 - 29.9	30 - 34.9	35 - 39.9	40+
2011-2012								
Average monthly benefit	$ 607	$ 1,261	$ 1,995	$ 2,980	$ 3,824	$ 4,893	$ 6,071	$ 5,262
Average final average salary	3,946	4,305	4,795	5,317	5,713	6,070	6,506	5,262
Number of retirees	248	265	293	531	723	767	81	18
2010-2011								
Average monthly benefit	$ 661	$ 1,262	$ 1,969	$ 3,010	$ 3,792	$ 4,815	$ 6,231	$ 6,595
Average final average salary	4,074	4,298	4,754	5,366	5,642	5,974	6,662	6,595
Number of retirees	267	322	289	540	733	832	126	13
2009-2010								
Average monthly benefit	$ 556	$ 1,123	$ 1,915	$ 2,865	$ 3,660	$ 4,836	$ 6,133	$ 5,639
Average final average salary	3,396	3,840	4,566	5,110	5,469	6,007	6,559	5,678
Number of retirees	271	243	207	412	477	653	97	19
2008-2009								
Average monthly benefit	$ 627	$ 1,178	$ 2,035	$ 2,861	$ 3,590	$ 4,598	$ 6,028	$ 5,749
Average final average salary	3,901	4,057	4,801	5,136	5,343	5,697	6,436	5,749
Number of retirees	198	186	198	411	617	892	116	11
2007-2008								
Average monthly benefit	$ 612	$ 1,079	$ 1,876	$ 2,765	$ 3,453	$ 4,410	$ 6,124	$ 6,515
Average final average salary	3,741	3,792	4,548	4,935	5,159	5,494	6,607	6,515
Number of retirees	226	197	200	406	646	798	105	12
2006-2007								
Average monthly benefit	$ 614	$ 1,014	$ 1,772	$ 2,748	$ 3,283	$ 4,322	$ 6,145	$ 5,826
Average final average salary	3,848	3,499	4,319	4,889	4,934	5,380	6,576	5,826
Number of retirees	162	160	159	338	653	783	115	6
2005-2006								
Average monthly benefit	$ 572	$ 1,021	$ 1,709	$ 2,558	$ 3,263	$ 4,299	$ 5,555	$ 5,833
Average final average salary	3,659	3,628	4,214	4,580	4,854	5,346	5,985	5,833
Number of retirees	177	137	137	358	778	744	96	6
2004-2005								
Average monthly benefit	$ 579	$ 1,314	(1)	$ 2,977	(2)	$ 4,240	(3)	$ 5,751
Average final average salary	3,630	3,783	(1)	4,652	(2)	5,216	(3)	5,751
Number of retirees	158	323	(1)	1,165	(2)	973	(3)	11
2003-2004								
Average monthly benefit	$ 510	$ 1,363	(1)	$ 2,944	(2)	$ 4,205	(3)	$ 4,042
Average final average salary	3,243	3,849	(1)	4,582	(2)	5,155	(3)	4,042
Number of retirees	158	269	(1)	1,097	(2)	927	(3)	12
2002-2003								
Average monthly benefit	$ 493	$ 1,295	(1)	$ 2,832	(2)	$ 4,005	(3)	$ 4,241
Average final average salary	3,210	3,591	(1)	4,418	(2)	4,936	(3)	4,241
Number of retirees	111	247	(1)	930	(2)	752	(3)	17

Prior year data is not available in five-year service increments. Chart will be updated as data is available.

(1) Column to the left covers those with 10 to 19.9 years of service.

(2) Column to the left covers those with 20 to 29.9 years of service.

(3) Column to the left covers those with 30 to 39.9 years of service.

PEERS Schedule of Average Benefit Payments to New Service Retirees

	Years of Service					
	5 - 9.9	10 - 14.9	15 - 19.9	20 - 24.9	25 - 29.9	30+
2011-2012						
Average monthly benefit	$ 227	$ 433	$ 705	$ 1,063	$ 1,508	$ 1,957
Average final average salary	2,010	2,257	2,597	2,954	3,502	3,637
Number of retirees	516	371	246	250	184	147
2010-2011						
Average monthly benefit	$ 221	$ 410	$ 707	$ 1,052	$ 1,389	$ 1,947
Average final average salary	1,965	2,176	2,628	2,920	3,195	3,611
Number of retirees	487	345	231	244	185	164
2009-2010						
Average monthly benefit	$ 196	$ 384	$ 635	$ 979	$ 1,330	$ 1,885
Average final average salary	1,769	2,034	2,339	2,723	3,060	3,582
Number of retirees	503	316	162	180	122	117
2008-2009						
Average monthly benefit	$ 206	$ 374	$ 637	$ 1,021	$ 1,365	$ 1,727
Average final average salary	1,821	2,011	2,349	2,847	3,104	3,240
Number of retirees	417	264	152	216	164	112
2007-2008						
Average monthly benefit	$ 187	$ 382	$ 655	$ 966	$ 1,274	$ 1,605
Average final average salary	1,741	2,070	2,451	2,724	2,930	2,969
Number of retirees	363	262	142	229	155	94
2006-2007						
Average monthly benefit	$ 174	$ 363	$ 637	$ 861	$ 1,240	$ 1,611
Average final average salary	1,607	1,918	2,368	2,423	2,838	3,038
Number of retirees	370	214	166	224	158	88
2005-2006						
Average monthly benefit	$ 178	$ 370	$ 586	$ 822	$ 1,111	$ 1,451
Average final average salary	1,611	1,971	2,134	2,306	2,564	2,708
Number of retirees	310	184	165	177	156	77
2004-2005						
Average monthly benefit	$ 159	$ 401	(1)	$ 952	(2)	$ 1,468
Average final average salary	1,454	1,788	(1)	2,427	(2)	2,771
Number of retirees	306	366	(1)	322	(2)	97
2003-2004						
Average monthly benefit	$ 167	$ 402	(1)	$ 906	(2)	$ 1,250
Average final average salary	1,519	1,737	(1)	2,305	(2)	2,397
Number of retirees	222	338	(1)	306	(2)	71
2002-2003						
Average monthly benefit	$ 167	$ 373	(1)	$ 836	(2)	$ 1,335
Average final average salary	1,519	1,644	(1)	2,115	(2)	2,530
Number of retirees	222	324	(1)	335	(2)	58

Prior year data is not available in five-year service increments. Chart will be updated as data is available.

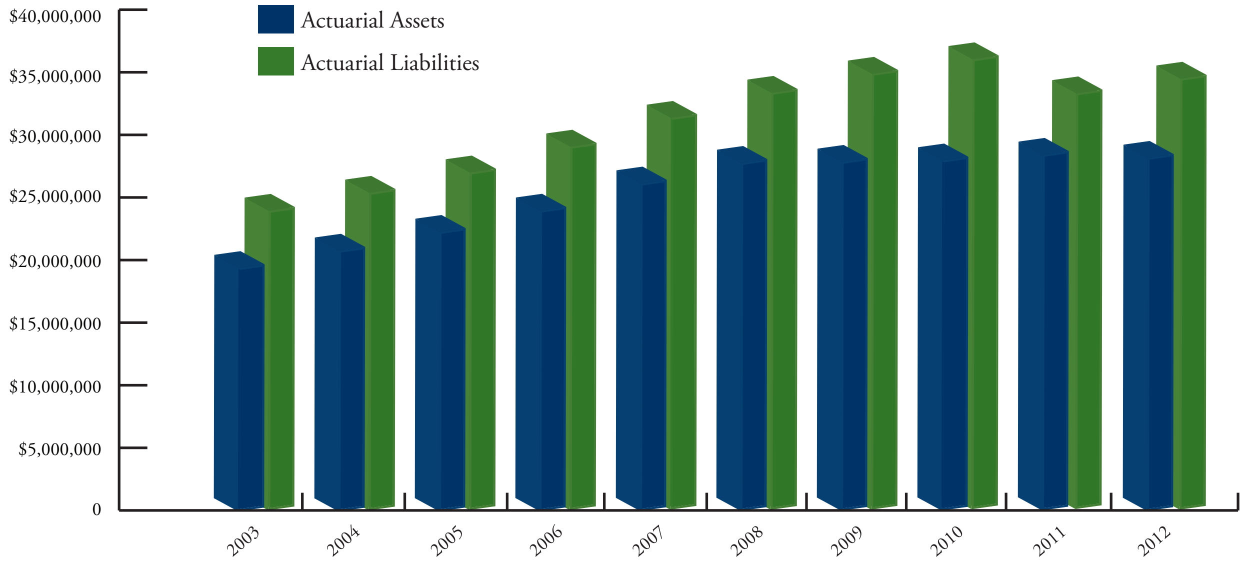
(1) Column to the left covers those with 10 to 19.9 years of service.

(2) Column to the left covers those with 20 to 29.9 years of service.

Comparisons of Actuarial Assets and Total Actuarial Liabilities

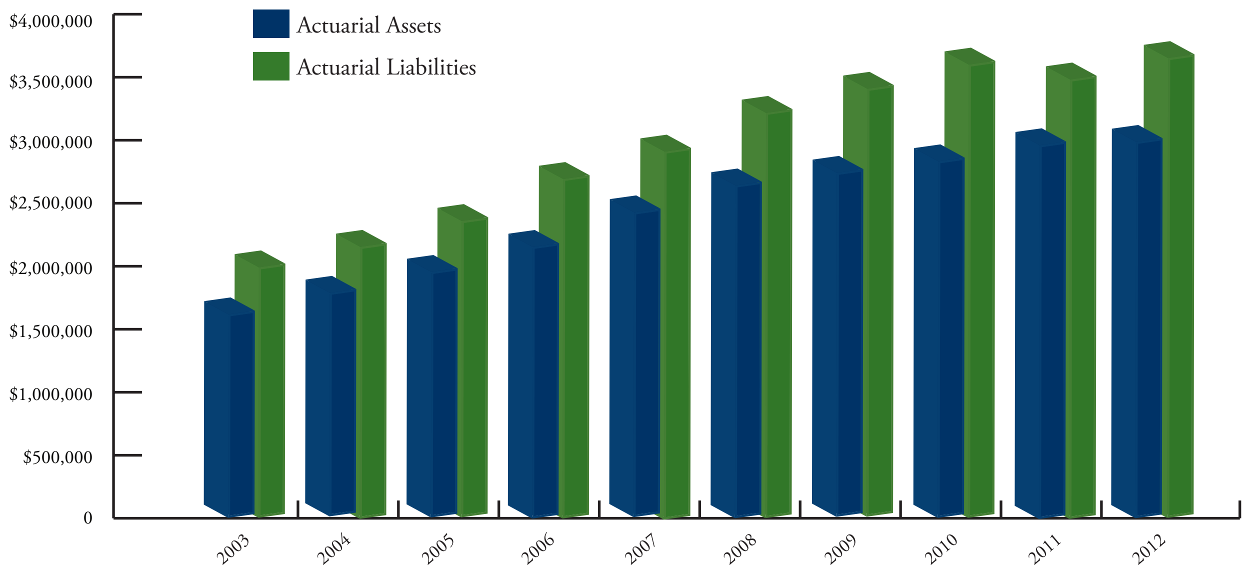
Public School Retirement System of Missouri

Dollar Amounts in Thousands



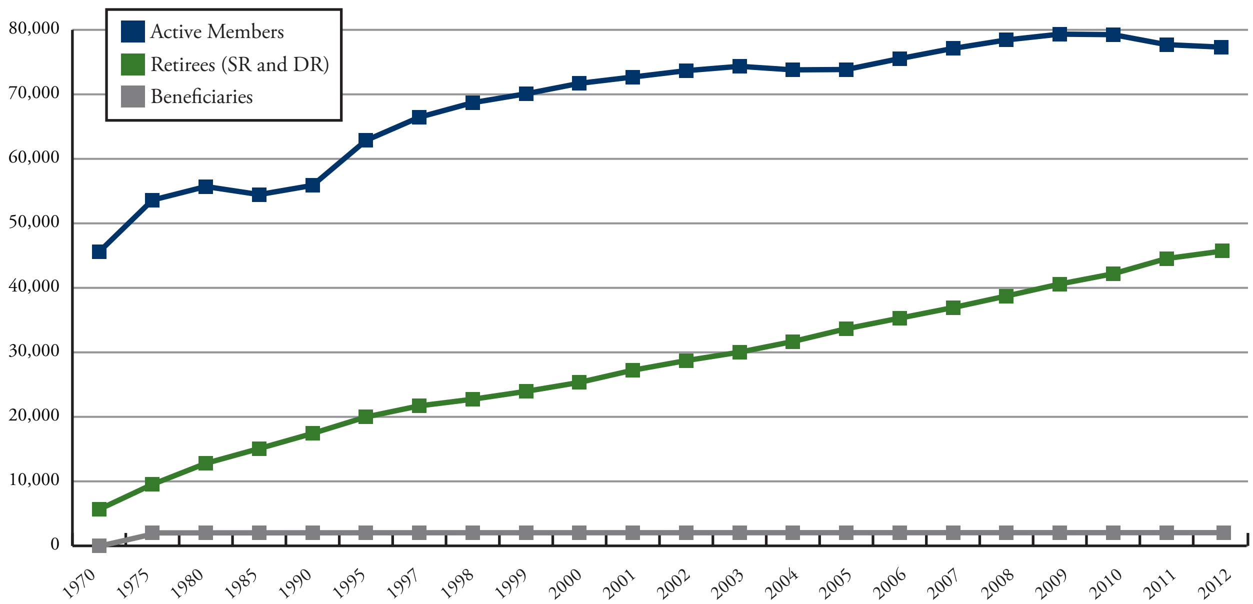
Public Education Employee Retirement System of Missouri

Dollar Amounts in Thousands

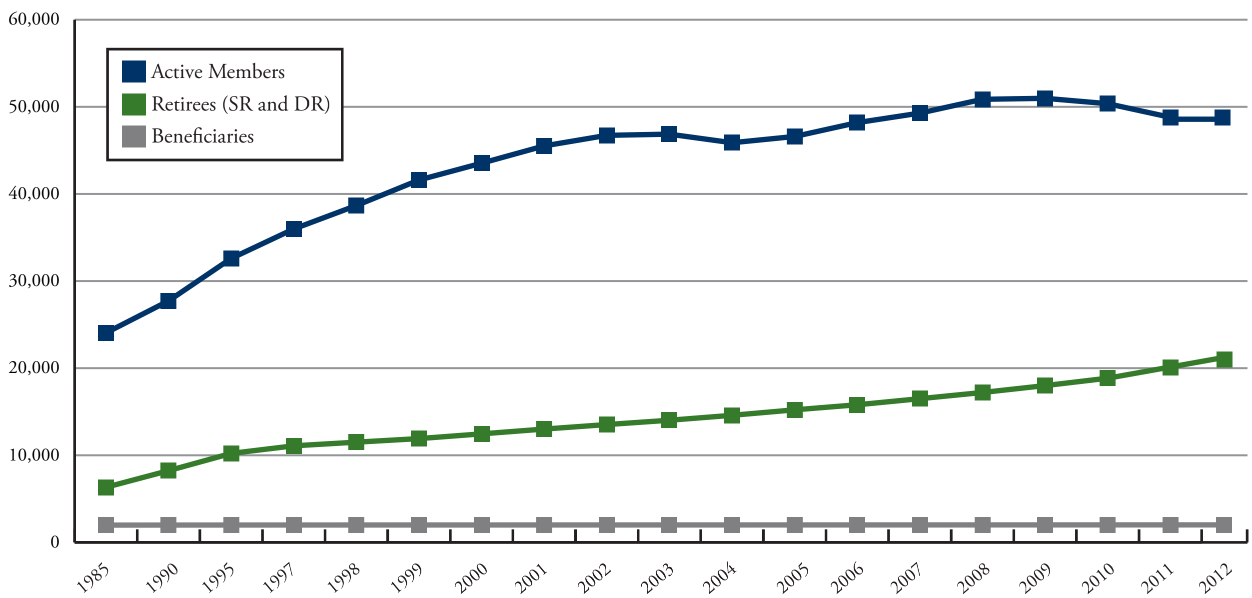


Growth in Membership

Public School Retirement System of Missouri



Public Education Employee Retirement System of Missouri



PSRS Schedule of Covered Employees in the Top 10 Employers for the 10 Years Ended June 30, 2012

Employer	2012 Covered Employees	2012 Percentage of Total	2011 Covered Employees	2011 Percentage of Total
Special School District - St. Louis	3,039	4%	3,020	4%
Springfield R-XII Schools	2,096	3%	2,116	3%
Rockwood R-VI Schools	1,910	2%	1,936	2%
Parkway C-2 Schools	1,794	2%	1,789	2%
North Kansas City Schools	1,699	2%	1,663	2%
Columbia Public Schools	1,640	2%	1,592	2%
Hazelwood R-I Schools	1,589	2%	1,510	2%
Ft. Zumwalt R-II Schools	1,508	2%	1,525	2%
Francis Howell R-III Schools	1,494	2%	1,559	2%
Lee's Summit R-VII Schools	1,341	2%	1,412	2%
All Others	62,775	77%	62,525	77%
Total - 538 Employers	80,885	100%	80,647	100%

Employer	2010 Covered Employees	2010 Percentage of Total	2009 Covered Employees	2009 Percentage of Total
Special School District - St. Louis	3,021	4%	2,931	4%
Springfield R-XII Schools	2,132	3%	2,089	3%
Rockwood R-VI Schools	1,990	2%	1,893	2%
Parkway C-2 Schools	1,745	2%	1,656	2%
North Kansas City Schools	1,630	2%	1,497	2%
Columbia Public Schools	1,612	2%	1,594	2%
Francis Howell R-III Schools	1,573	2%	1,462	2%
Hazelwood R-I Schools	1,549	2%	1,578	2%
Ft. Zumwalt R-II Schools	1,493	2%	1,441	2%
Lee's Summit R-VII Schools	1,435	2%	1,358	2%
All Others	63,994	77%	63,490	77%
Total - 539 Employers during 2010 and 541 during 2009	82,174	102%	80,989	100%

Employer	2008 Covered Employees	2008 Percentage of Total	2007 Covered Employees	2007 Percentage of Total
Special School District - St. Louis	2,913	4%	2,861	4%
Springfield R-XII Schools	2,037	2%	2,031	3%
Rockwood R-VI Schools	1,773	2%	1,751	2%
Hazelwood R-I Schools	1,639	2%	1,481	2%
Columbia Public Schools	1,626	2%	1,560	2%
Parkway C-2 Schools	1,589	2%	1,520	2%
North Kansas City Schools	1,517	2%	1,483	2%
Francis Howell R-III Schools	1,468	2%	1,459	2%
Ft. Zumwalt R-II Schools	1,395	2%	1,351	2%
Lee's Summit R-VII Schools	1,337	2%	1,285	2%
All Others	62,964	77%	61,939	77%
Total - 543 Employers during 2008 and 544 during 2007	80,258	98%	78,721	100%

PSRS Schedule of Covered Employees in the Top 10 Employers for the 10 Years Ended June 30, 2012 (continued)

Employer	2006 Covered Employees	2006 Percentage of Total	2005 Covered Employees	2005 Percentage of Total
Special School District - St. Louis	2,809	3%	2,771	4%
Springfield R-XII Schools	1,983	2%	1,914	3%
Rockwood R-VI Schools	1,724	2%	1,690	2%
Columbia Public Schools	1,533	2%	1,490	2%
Parkway C-2 Schools	1,522	2%	1,575	2%
Hazelwood R-I Schools	1,461	2%	1,486	2%
North Kansas City Schools	1,450	2%	1,430	2%
Francis Howell R-III Schools	1,444	2%	1,397	2%
Ft. Zumwalt R-II Schools	1,340	2%	1,270	2%
Lee's Summit R-VII Schools	1,262	2%	1,179	2%
All Others	60,766	74%	59,427	77%
Total - 545 Employers	77,294	96%	75,629	100%

Employer	2004 Covered Employees	2004 Percentage of Total	2003 Covered Employees	2003 Percentage of Total
Special School District - St. Louis	2,799	4%	2,647	3%
Springfield R-XII Schools	1,902	2%	1,957	3%
Rockwood R-VI Schools	1,768	2%	1,679	2%
Parkway C-2 Schools	1,700	2%	1,706	2%
Columbia Public Schools	1,500	2%	1,510	2%
North Kansas City Schools	1,494	2%	1,489	2%
Francis Howell R-III Schools	1,464	2%	1,461	2%
Hazelwood R-I Schools	1,451	2%	1,536	2%
Ft. Zumwalt R-II Schools	1,259	2%	1,264	2%
Lee's Summit R-VII Schools	1,178	2%	1,186	2%
All Others	60,407	77%	60,817	78%
Total - 545 Employers	76,922	100%	77,252	100%

PEERS Schedule of Covered Employees in the Top 10 Employers for the 10 Years Ended June 30, 2012

Employer	2012 Covered Employees	2012 Percentage of Total	2011 Covered Employees	2011 Percentage of Total
Special School District - St. Louis	2,481	5%	2,532	5%
Springfield R-XII Schools	1,478	3%	1,502	3%
Rockwood R-VI Schools	1,222	2%	1,206	2%
North Kansas City Schools	1,216	2%	1,203	2%
Lee's Summit R-VII Schools	1,171	2%	1,174	2%
Ft. Zumwalt R-II Schools	1,131	2%	1,128	2%
Parkway C-2 Schools	1,085	2%	1,106	2%
Independence Public Schools	1,071	2%	1,082	2%
Hazelwood R-I Schools	964	2%	977	2%
Columbia Public Schools	945	2%	906	2%
All Others	38,222	76%	38,146	76%
Total - 534 Employers	50,986	100%	50,962	100%

Employer	2010 Covered Employees	2010 Percentage of Total	2009 Covered Employees	2009 Percentage of Total
Special School District - St. Louis	2,584	5%	2,685	5%
Springfield R-XII Schools	1,473	3%	1,463	3%
Rockwood R-VI Schools	1,251	2%	1,248	2%
North Kansas City Schools	1,229	2%	1,266	2%
Lee's Summit R-VII Schools	1,198	2%	1,203	2%
Ft. Zumwalt R-II Schools	1,131	2%	1,129	2%
Parkway C-2 Schools	1,091	2%	1,102	2%
Independence Public Schools	1,149	2%	1,167	2%
Hazelwood R-I Schools	1,015	2%	995	2%
Columbia Public Schools	932	2%	950	2%
All Others	39,295	76%	39,754	76%
Total - 535 Employers	52,348	103%	52,962	100%

Employer	2008 Covered Employees	2008 Percentage of Total	2007 Covered Employees	2007 Percentage of Total
Special School District - St. Louis	2,619	5%	2,514	5%
Springfield R-XII Schools	1,464	3%	1,418	3%
Rockwood R-VI Schools	1,241	2%	1,200	2%
North Kansas City Schools	1,213	2%	1,158	2%
Lee's Summit R-VII Schools	1,203	2%	1,167	2%
Ft. Zumwalt R-II Schools	1,131	2%	1,051	2%
Parkway C-2 Schools	1,106	2%	1,101	2%
Independence Public Schools	1,058	2%	978	2%
Hazelwood R-I Schools	1,017	2%	931	2%
Columbia Public Schools	1,026	2%	1,008	2%
All Others	39,715	76%	38,903	76%
Total - 535 Employers during 2008 and 536 during 2007	52,793	101%	51,429	100%

PEERS Schedule of Covered Employees in the Top 10 Employers for the 10 Years Ended June 30, 2012 (continued)

	2006		2005	
Employer	Covered Employees	Percentage of Total	Covered Employees	Percentage of Total
Special School District - St. Louis	2,483	5%	2,467	5%
Springfield R-XII Schools	1,374	3%	1,328	3%
Rockwood R-VI Schools	1,177	2%	1,213	2%
North Kansas City Schools	1,144	2%	1,117	2%
Lee's Summit R-VII Schools	1,138	2%	1,072	2%
Ft. Zumwalt R-II Schools	1,023	2%	968	2%
Parkway C-2 Schools	1,120	2%	1,070	2%
Independence Public Schools	920	2%	910	2%
Hazelwood R-I Schools	914	2%	912	2%
Columbia Public Schools	992	2%	957	2%
All Others	37,874	72%	36,634	76%
Total - 536 Employers	50,159	95%	48,648	100%

	2004		2003	
Employer	Covered Employees	Percentage of Total	Covered Employees	Percentage of Total
Special School District - St. Louis	2,129	4%	2,044	4%
Springfield R-XII Schools	1,333	3%	1,326	3%
Rockwood R-VI Schools	1,230	2%	1,244	3%
North Kansas City Schools	1,132	2%	1,163	2%
Lee's Summit R-VII Schools	984	2%	983	2%
Ft. Zumwalt R-II Schools	952	2%	955	2%
Parkway C-2 Schools	1,145	2%	1,199	2%
Independence Public Schools	939	2%	899	2%
Hazelwood R-I Schools	907	2%	963	2%
Columbia Public Schools	942	2%	954	2%
All Others	36,473	73%	37,371	76%
Total - 536 Employers	48,166	96%	49,101	100%

PO Box 268
3210 W. Truman Blvd.
Jefferson City, MO 65102-0268

(573) 634-5290 or (800) 392-6848

Email: psrspeers@psrspeers.org

Website: www.psrs-peers.org

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