



The Retirement Systems of Alabama
2006 Annual Report
55WATERSTREET
Strong. Stable. Secure.





Strong.
Stable.
Secure.



The Boards of Control and the RSA staff are pleased to present the 31st Annual Report of the Retirement Systems of Alabama (RSA) for the fiscal year ended September 30, 2006.

The RSA currently manages 20 funds with aggregate assets of approximately \$30.9 billion. During fiscal year 2006, the annualized return for the fixed income portfolio and equity portfolio combined was 8.82% for the Teachers' Retirement System (TRS), 8.37% for the Employees' Retirement System (ERS), and 9.12% for the Judicial Retirement Fund (JRF), which had the highest equity weighting. TRS assets total \$19.0 billion, while ERS assets total \$8.9 billion, and JRF assets total \$245 million.

55 Water Street, the RSA-owned office building in the Financial District of Lower Manhattan, was honored with two awards within two months during the fiscal year. The Municipal Art Society of New York recognized "The Elevated Acre" plaza as the "best privately owned public space" in New York. The multi-level park provides recreational space for Lower Manhattan residents and commuters and houses a 25 foot by 25 foot glass beacon which is lit every evening as a welcoming lantern. The Friends of the Vietnam Veterans Plaza awarded the RSA with the "Honoree of the Year Award" for the rehabilitation of the official New York City Vietnam Veterans Memorial at 55 Water Street's other plaza.

In other RSA real estate news, construction continues on the Battle House Tower in Mobile. When completed in early 2007, the 35-story office tower will be the tallest building in the state of Alabama. The project in downtown Montgomery that includes a 12-story, 347-room hotel, spa and performing arts theater as well as the expansion of the Montgomery Civic Center and a 600-car parking deck is progressing; the project is expected to be completed by early 2008. The hotel will feature similar characteristics of the Plaza Hotel in New York City. Finally, a new eight-story office building will be added to the State Capitol Complex. The 280,000 square foot structure is expected to be completed in early 2008. The RSA will occupy part of this new building.

During the fiscal year, RSA's holdings in the media sector grew once again. Community Newspaper Holdings, Inc., one of the nation's largest newspaper companies by number of papers, expanded during the year by purchasing six daily newspapers from Dow Jones & Company. With this acquisition, CNHI now owns and operates 94 daily newspapers as well as 49 non-daily newspapers and numerous specialty publications across 24 states. Raycom Media owns and operates 37 stations in 17 states, covering 10.2% of U.S. television households.

The staff will continue to purchase and develop investments that will facilitate the mission of the RSA. Our aim is to serve the interests of our members by preserving the excellent benefits and soundness of the Systems while providing these at the least expense to the state of Alabama and all Alabama taxpayers. With the continued cooperative efforts of the Boards of Control, the RSA staff, and the Legislature, this goal will be achieved.

David G. Bronner
CHIEF EXECUTIVE OFFICER

Bottom Photo: David G. Bronner and the RSA logo, located in the lobby of 55 Water Street.
© SAM MORGAN PHOTOGRAPHY / © TIM L. PHILLIPS, CCP




Top Photo: Aerial view of downtown Montgomery. New York City is not the only city with RSA-owned office buildings. In Montgomery, the RSA owns 6 office buildings, 6 parking decks, a park, a learning center, and an activity center. The RSA is currently building a new hotel and performing arts center and office building in Montgomery.
© JAY TAFFET / AFFORDABLE AERIALS









*“Real strength never impairs beauty
or harmony, but it often bestows it; and in
everything imposingly beautiful, strength
has much to do with the magic.”*

Herman Melville
1819-1891 NEW YORK CITY, NY

Cover and Fly Sheet: View of 55 Water Street from across the East River in Brooklyn. The Vietnam Veterans Plaza is south of the building and The Elevated Acre with the Beacon of Light is north of the building.
© SAM MORGAN PHOTOGRAPHY



I  NY

Lower Manhattan: View of 55 Water Street from the air.
© JOSEPH R. MELANSON, AERO PHOTO - AERIALS ONLY GALLERY

30 years
I  NY





NYC
Vietnam
Veterans
Plaza

The
Elevated Acre

Amidst the canyons of the world's commerce center, 55 Water Street is New York City's largest office structure.

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55 WATER STREET

COMBINING FINANCIAL PROWESS WITH LONG-TERM VISION, 55 WATER STREET WITHOUT PEER IS THE FLAGSHIP, DEBT-FREE INVESTMENT OF THE RETIREMENT SYSTEMS OF ALABAMA—THE 14TH LARGEST INTERNALLY-MANAGED PUBLIC PENSION PLAN IN THE WORLD.

The RSA acquired 55 Water Street in 1993 at the purchase price of \$202 million. Including capital contributions, the current value of RSA's investment in 55 Water is \$1.13 billion. The annualized return on this investment is 9.52%.

When built in 1970, 55 Water Street was the largest office building in the world (3.8 million square feet). Today, it is the largest office building in New York City and the second largest in the country – only the Sears Tower in Chicago is larger, with 50,000 additional square feet.

The building, which is sited on a 3.7 acre double lot, consists of a 54-story south tower with 60,000 square foot floor plates and a 16-story north annex with 30,000 square foot floor plates. Also included is a 6-story, 520-car, underground parking garage. With the addition of the new antennae farm, the building stands 750 feet tall.

55 Water is open 24 hours a day, seven days a week. At any given time, there may be between 12,000 – 15,000 people occupying the building. ■

Photos, upper right: 55 Water Street maintains two plazas as part of its office complex. The top photo is of The Elevated Acre and the bottom photo and facing page photo are of the New York City Vietnam Veterans Plaza.
© SAM MORGAN PHOTOGRAPHY



Harry Bridgwood

EXECUTIVE VICE PRESIDENT OF NEW WATER STREET CORPORATION

Harry Bridgwood, a native of New York, has been associated with 55 Water Street and the RSA since October 1993, when the RSA purchased 55 Water Street. The New Water Street Corporation is responsible for managing, leasing and operations of 55 Water Street. ■



The NYC VIETNAM VETERANS MEMORIAL

The New York City Vietnam Veterans Memorial was dedicated on the night of May 6, 1985. Millions of New Yorkers celebrated this long-awaited recognition of sacrifice and public gratitude with a ticker tape parade, reunions and gala event. However, in the years that followed, The New York City Vietnam Veterans Commission that built the Memorial went dormant; the adjacent property owner (not the RSA at that time), responsible for maintaining the Plaza, went bankrupt; and the NYC Department of Parks and Recreation curtailed its maintenance of the Plaza. Within a decade, the expressive memorial to the sacrifice and valor of Vietnam Veterans was neglected, vandalized and deteriorating.

(continued on page 8)

Dr. David G. Bronner

FRIENDS OF THE VIETNAM VETERANS PLAZA
HONOREE OF THE YEAR

The Friends of the Vietnam Veterans Plaza presented Dr. David G. Bronner with The Phelps Award on May 25, 2006, as Honoree of the Year for his support in the creation and the preservation of the New York Vietnam Veterans Plaza. As owners of 55 Water Street, the RSA ensures the continued preservation of the Plaza. Dr. Bronner has shown his commitment to the servicemen and women of the United States and his dedication to the restoration. Dr. Bronner is only the second recipient of this prestigious award. The first honoree was Mayor Rudi Giuliani. ■



The NYC VIETNAM VETERANS MEMORIAL

In 1998, the Manhattan Chapter 126 of the Vietnam Veterans of America (VVA 126) formed a Memorial Committee to address the issue. VVA 126 approached Harry Bridgwood, a Vietnam-era veteran who is the executive vice president of the New Water Street Corporation, for support. On a visit to the building,

Plaques in Memory of Honored Servicemen IN 2006

AWARDED BY THE FRIENDS OF THE VIETNAM VETERANS PLAZA

FATHER VINCENT R. CAPODANNO:

MEDAL OF HONOR RECIPIENT

FATHER CAPODANNO WAS BORN ON FEBRUARY 13, 1929, IN STATEN ISLAND, NEW YORK. IN 1965, HE ENLISTED IN THE UNITED STATES NAVY AS CHAPLAIN. HE WAS ASSIGNED TO THE 3RD BATTALION, 5TH MARINES IN QUANG TIN PROVINCE, REPUBLIC OF VIETNAM IN 1966. ON SEPTEMBER 4, 1967, FATHER CAPODANNO WAS KILLED AFTER HE REFUSED ALL MEDICAL AID IN ORDER TO CONTINUE TO ADMINISTER LAST RITES AND MEDICAL TREATMENT TO THE WOUNDED MARINES BEING OVERRUN BY A STRONG ENEMY FORCE. FATHER CAPODANNO WAS POSTHUMOUSLY AWARDED THE CONGRESSIONAL MEDAL OF HONOR IN JANUARY 1969.

DAN BULLOCK

DAN BULLOCK WAS BORN IN GOLDSBORO, NORTH CAROLINA, ON DECEMBER 21, 1953. AFTER HIS MOTHER'S DEATH, DAN'S FAMILY MOVED TO BROOKLYN, NEW YORK. AT THE AGE OF FOURTEEN, DAN ALTERED HIS BIRTH CERTIFICATE IN ORDER TO ENLIST IN THE UNITED STATES MARINE CORPS. PRIVATE FIRST CLASS DAN BULLOCK WAS SENT TO VIETNAM WHEN HE WAS 15-YEARS-OLD. LESS THAN A MONTH AFTER HIS ARRIVAL, DAN WAS KILLED IN ACTION UNDER HEAVY MORTAR FIRE AT AN HOA COMBAT BASE IN SOUTH VIETNAM. HE WAS THE YOUNGEST MEMBER OF THE MILITARY TO SERVE AND DIE IN THE VIETNAM WAR.



Top Photo and Facing Page Photos: New York City Vietnam Veterans Memorial. The excerpts etched into the Memorial were chosen from letters, diary entries, and poems written by Americans during the Vietnam Era, which were submitted to the New York Vietnam Veterans Memorial Commission. These quotes are supplemented by news dispatches and public statements about the war. © SAM MORGAN PHOTOGRAPHY



Dr. David Bronner, CEO of the RSA, which now owned the building, said the plaza was “not a fitting tribute to our veterans.”

The Friends of the Vietnam Veterans Plaza was established in 1999 to redesign, fund, and rebuild the 90,000 square foot plaza. In November of 2001, the “Friends” completed the renovation phase by raising \$7.1 million from both public and private sectors and the RSA. This Plaza was the first public space dedicated and reopened after the attacks on New York City on September 11, 2001.

The Plaza contains seven flag poles; a ceremonial entrance at the eastern end of the Plaza; a water element to help mitigate traffic



noise; and a map of Vietnam. The main feature is the “Walk of Honor” lined by 12 pylons listing the 1,741 New Yorkers who lost their lives in the Vietnam War.

The RSA thanks the “Friends” for providing this information. For more information, please visit their Web site at www.nyvietnamveteransmemorial.org. ■





THE PHELPS AWARD

DR. DAVID G. BRONNER, HONOREE

The Phelps Award was designed by artist, John Phelps, a Navy veteran who served during the Vietnam War. In 2003, John Phelps began working with the Friends of the Vietnam Veterans Plaza on this award resulting in the creation of a sculpted replica of a Vietnam era battle helmet. The battle helmet is mounted on a handcrafted, green glass block, inscribed with excerpts of “letters home.” These letters are replicas of those engraved on the Memorial. The “Friends” named their Honoree of the Year Award to recognize the service of John Phelps and his son, Marine Corps Lance CPL. Chance Russell Phelps. Chance was killed in action while conducting combat operations west of Baghdad on April 9, 2004. He was 19 years old. ■

Photo: New Water Street Corporation is responsible for maintaining the New York City Vietnam Veterans Memorial.
© SAM MORGAN PHOTOGRAPHY



CANADY, ROY B. age 19

CANNATA, GEORGE A. JR. age 18

CANNIZZARO, VINCENT J. age 20

CANNON, SHAWN G. age 23

CAPERS, LEE M. age 20

CAPODANNO, VINCENT R. age 38

CAPOZZI, ANTHONY L. age 20

CAPRIGLIONE, ANTHONY age 20

CAPUTO, JAMES W. age 20

Photos: NYC Vietnam Veterans Memorial Walk of Honor with names and ages of the 1,741 individuals who entered military service in the City of New York and were lost to the Vietnam War.
© SAM MORGAN PHOTOGRAPHY





Photos: Music, dance and theatre performances as well as movie nights take place during the year at The Elevated Acre.
© SAM MORGAN PHOTOGRAPHY

The Elevated Acre

The second plaza located at 55 Water Street is The Elevated Acre. New Water Street Corp., in collaboration with the Municipal Art Society, held a design competition in 2002 to revitalize the space. Rogers Marvel Architects and Ken Smith Landscape Architecture were selected to perform the \$7 million renovation.

The Elevated Acre is a unique outdoor privately-owned, public park. As the name implies, it is approximately one acre in size. The primary entrance to the plaza is a multilevel ascent of escalators, stairs and overlooks rising from street level. Above, the park unfurls as a broad events lawn of artificial grass surrounded by a stepped amphitheater, and a gently sloping landscaped

“Dune” inspired by regional topography. With a boardwalk at its crest more than 30 feet in the air over the East River waterfront, the plaza offers breathtaking views of Hudson River, Ellis Island, Brooklyn Bridge, South Street Seaport and Brooklyn Heights.

In April 2006, The Elevated Acre was named Best Privately-Owned Public Space in New York City by the Municipal Art Society of New York at its Masterwork Awards Ceremony. ■





The Beacon of Light

Marking the plaza in the cityscape is a Beacon of Light, a 50-foot high lantern of translucent glass bands illuminated from within by light-emitting diodes (LED's) making it visible from Brooklyn Heights, the Brooklyn Bridge and Brooklyn Queens Expressway. The beacon is programmed for eight different color schemes, but can be programmed for any number of schemes. Currently the schemes are for seasons and holidays:

- SUMMER INTO FALL**— First changing of leaves, yellow/gold green with red and orange
- FALL INTO WINTER**— Late fall, darker sky, deeper evergreen with white and gold and a touch of orange
- HALLOWEEN**— Bright Orange
- THANKSGIVING**— Gold and Yellow
- HANUKKAH**— Blue and White
- CHRISTMAS**— Red and Green
- VETERAN'S DAY**— Red, White, and Blue
- NEW YEAR'S**— White



The Peregrine Falcon Story

In 1999 a pair of Peregrine Falcons “Jack & Diane” ventured from the Bank of New York Building on Wall Street to the 14th floor of 55 Water Street.

Peregrine Falcons mate for life and Jack & Diane had been joined in falcon matrimony since 1993, producing 19 young over the time span of the relationship. The male “Jack” was hatched and banded on the Verrazano-Narrows Bridge in 1990 and the female “Diane” was found and banded by Chris Nadeski of the Department of Environmental Protection (DEP) after flying into a building on Wall Street and suffering a wing fracture in 1998. The two love-birds nested and produced 3 young in 1998, 4 young in 1999 and 5 young in 2001. Unfortunately, Diane who is

estimated to be 13 years of age, was found in lower Manhattan with a severely arthritic wing in late 2001 and is now in retirement at Cornell University. Jack, left behind with a heavy heart, has had to seek out companionship to weather the cold and blustery days of the Big Apple. Jack has since been joined by Jill. Jill, a new falcon on the scene, has been identified by staff at 55 Water Street and traced to a hacked bird (taught to fly with human aid) from Iowa (Carpenter Nature Center, banded July 25, 1992).

For more information on the Peregrine Falcons visit the 55 Water Street Web site at www.55water.com. ■



Above photo: The regal Peregrine Falcon.
© PGC PHOTO / JOE KOSAK

Bottom Photo: View of the Brooklyn Bridge from The Elevated Acre.
© SAM MORGAN PHOTOGRAPHY





Interior Space:

RSA RENOVATES TO IMPECCABLE STANDARDS

Throughout its history, 55 Water Street has benefited from the attention of thoughtful architectural innovators. Originally designed by Emery Roth & Sons in 1970, the building recently received a \$156 million renovation led by the architectural firm of Kohn Pedersen Fox.

An imaginative mix of materials from granite and wood to terrazzo and aluminum was employed throughout the public areas to create the attractive and inviting presence worthy of its esteemed tenants. ■



Office Accommodations:

TECHNICALLY SAVVY, VERSATILE FLOORS

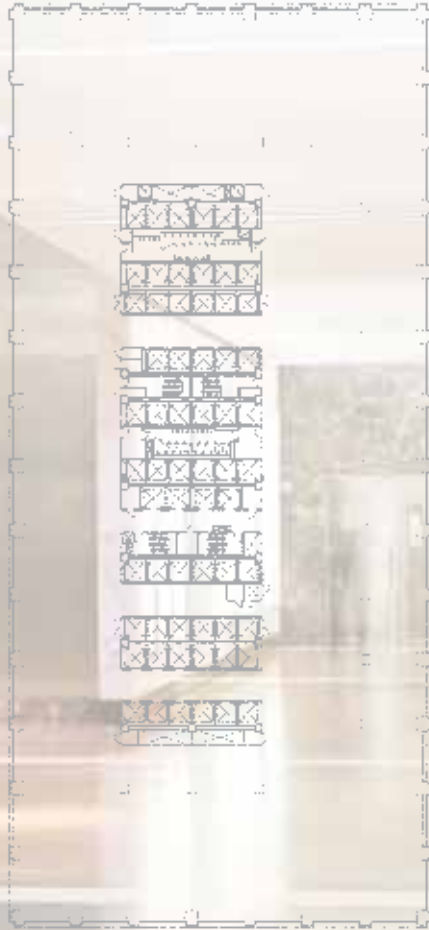
Whether it is an executive, administrative or trading installation, full floors of up to 90,000 rentable square feet allow companies to configure space for maximum efficiency. Large, column-free areas encourage flexible layouts and permit significant office population density.

Expansion is also easily accommodated either vertically or horizontally since the 60,000 rentable square feet of the south building readily connect with the 30,000 rentable square feet floors of the north building.

The world's most widely recognized financial institutions are among an impressive array of building tenants. Trading operations are easily supported by multiple telecom points of entry, roof space for satellite and microwave dishes, and cable and direct TV hookups. ■



Bottom Photo: 55 Water Street has 71 passenger elevators modernized for speed response time.
© SAM MORGAN PHOTOGRAPHY



55WATERSTREET Tenants (100% Occupancy)

- New York City Department of Transportation
- Eastern Newsstand Corporation
- The Depository Trust & Clearing Corporation
- City of New York District Attorney
- Health Insurance Plan of New York
- J. P. Morgan Chase Bank
- The McGraw-Hill Companies, Inc. (Standard & Poors)
- Chubb Federal Insurance
- Bowne & Co.
- ADP
- Teachers' Retirement System of the City of New York
- Liberty Insurance Underwriters
- Securities Industry Automation Corporation
- Sullivan & Cromwell



55WATERSTREET

Dimensions:

54 STORIES SOUTH TOWER

16 STORIES NORTH TOWER

3.8 MILLION SQUARE FEET

SET ON 3.7 ACRES

1 ACRE OF WATERFRONT



55WATERSTREET

Urban Oasis:

ENHANCING DAILY LIFE

55 Water Street is sited on 3.7 acres and boasts multiple open spaces that enhance the quality of life in Lower Manhattan. Both plazas attract lunchtime workers and tourists alike. ■



Photo Above: Steps and escalator leading to The Elevated Acre.
© SAM MORGAN PHOTOGRAPHY

55WATERSTREET Strong. Stable. Secure.

Facilities:

A variety of onsite and neighborhood amenities contribute to the pleasing environment at 55 Water Street. On a daily basis, building workers can grab a quick bite at the food court, drop off a car at the 520-space indoor garage, or stroll to the South Street Seaport for shopping or lunch.

Employees appreciate the variety and convenience of the high-quality food court. ■

Photo Above: 55 Water Street food court.
© SAM MORGAN PHOTOGRAPHY



Security: A BUILDING THAT NEVER SLEEPS

A virtual city unto itself, 55 Water Street provides a fail safe operating environment. Powerful systems support massive capacities instilling confidence that any crisis can be readily addressed.

The fourteen building-owned 1750 KW generators along with five tenant-owned generators are fed by four 20,000 gallon fuel tanks. These generators can power the building at full capacity for 36 hours. There are multiple redundancies in every major building operating system - electric, HVAC and telecom to life safety and security.

The building is ConEdison's largest consumer of electricity. During the New York City power outage of 2004, 55 Water was the only building on the island that remained at

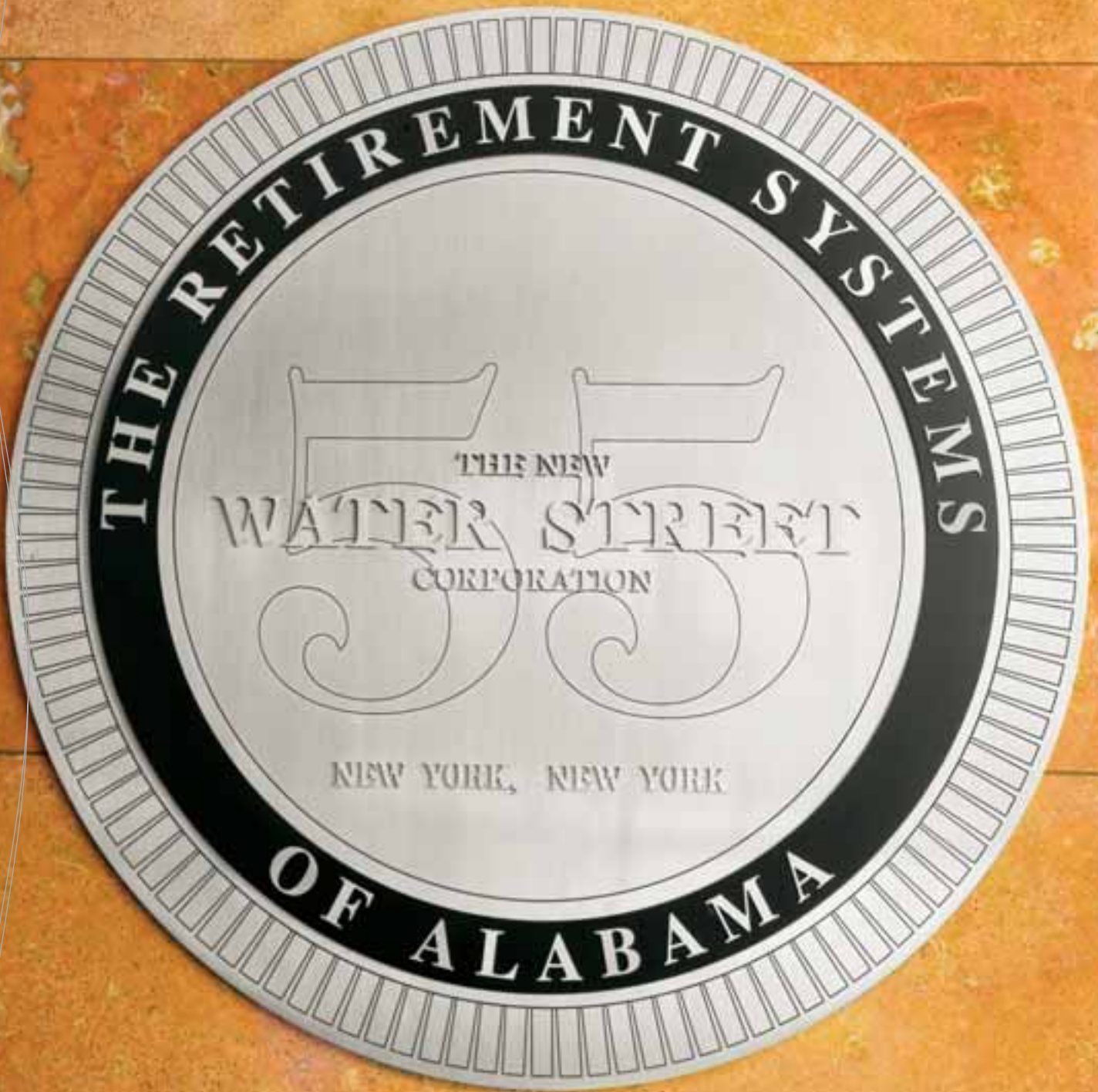


full power. The building even supplied additional power to ConEdison and fuel to the NYSE during the outage.

- THREE MAIN MECHANICAL ROOMS TOTALING 150,000 SQUARE FEET.
- FIVE COOLING TOWERS THROUGHOUT THE BUILDING PROVIDE FOR COMFORT AND EQUIPMENT COOLING.
- 100 VENTILATION FANS THROUGHOUT THE BUILDING THAT RANGE ANYWHERE FROM 10 TO 350 HORSEPOWER.
- THREE 4,100-TON CHILLERS FOR COMFORT COOLING AND THREE 2,000-TON CHILLERS FOR COOLING DURING POWER OUTAGES.



Photo Above: System generators.
© SAM MORGAN PHOTOGRAPHY



STRONG. STABLE. SECURE.





The RETIREMENT SYSTEMS of ALABAMA

2006

Year in Review





The RSA BOARDS OF CONTROL

Photo: The entrance to the Vietnam Veterans Memorial.
© SAM MORGAN PHOTOGRAPHY

Board Member Photos: Annual Meeting photos of the TRS and ERS Boards of Control Members.
© TIM L. PHILLIPS, CCP



2006 TEACHERS' RETIREMENT SYSTEM BOARD OF CONTROL

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SUPERINTENDENT POSITION

Dr. Carl Ponder
PRINCIPAL POSITION

Dr. Joseph Morton
STATE SUPERINTENDENT
OF EDUCATION; EX OFFICIO

Ms. Judy Rigdon
TEACHER POSITION

Mr. Russell J. Twilley
SUPPORT PERSONNEL POSITION

Mrs. Peggy K. Lamb
TEACHER POSITION

Dr. Susan Williams Brown
POSTSECONDARY POSITION

Mr. Jim Main
STATE FINANCE DIRECTOR
EX OFFICIO

Mrs. Judy Bell
TEACHER POSITION

CHAIRMAN
Dr. Paul R. Hubbert
EXECUTIVE SECRETARY
AEA; EX OFFICIO

Mrs. Sharon P. Saxon
SUPPORT PERSONNEL POSITION

VICE CHAIRMAN
Mrs. Sarah S. Swindle
RETIRED POSITION

Mrs. Sallie Cook
RETIRED POSITION





VIETNAM VETERANS PLAZA



2006 EMPLOYEES' RETIREMENT SYSTEM BOARD OF CONTROL

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GOVERNOR APPOINTEE

CHAIRMAN
Hon. Bob Riley
GOVERNOR
EX OFFICIO

Mr. Stephen C. Walkley
ACTIVE STATE EMPLOYEE

VICE CHAIRMAN
Mr. John H. Wilkerson, Jr.
GOVERNOR APPOINTEE

Mr. Robert S. Miller
GOVERNOR APPOINTEE

Mrs. Jackie B. Graham
STATE PERSONNEL DIRECTOR
EX OFFICIO

Mr. Ronald Matthews
ACTIVE LOCAL EMPLOYEE

■ SERVE ON BOTH
THE TRS AND ERS
BOARDS OF CONTROL

■ **Hon. Kay Ivey**
STATE TREASURER
EX OFFICIO

Mr. Clyde A. Sellers
RETIRED LOCAL EMPLOYEE

Ms. Alice Thornton
ACTIVE STATE EMPLOYEE

Ms. Mary Lou Foster
RETIRED STATE EMPLOYEE

Mrs. Ann Gant
ACTIVE LOCAL EMPLOYEE

The Retirement Systems of Alabama Strong. Stable. Secure.



The RETIREMENT SYSTEMS of ALABAMA

TEACHERS' RETIREMENT SYSTEM

EMPLOYEES' RETIREMENT SYSTEM

JUDICIAL RETIREMENT FUND

2006 FINANCIAL HIGHLIGHTS

MEMBERSHIP ACTIVITY for 2006

	TRS	ERS	JRF
NEW MEMBERS	14,697	11,447	8
WITHDRAWN MEMBERS	5,374	5,793	3
SERVICE RETIREMENTS	3,614	2,028	7
DISABILITY RETIREMENTS	312	221	0
SURVIVING SPOUSES	4	8	1
NEW BENEFICIARIES	241	228	2

TOTAL MEMBERSHIP for 2006

(AS OF SEPTEMBER 30, 2006)

	TRS	ERS	JRF	Total
ACTIVE	132,034	80,301	331	212,666
DROP	5,258	1,885	-	7,143
RETIRED	61,706	32,629	274	94,609
TOTAL	198,998	114,815	605	314,418

FUNDS UNDER MANAGEMENT

(AS OF SEPTEMBER 30, 2006; \$ in Thousands)

	TOTAL ASSETS (1)
TEACHERS' RETIREMENT SYSTEM	\$ 18,993,880
EMPLOYEES' RETIREMENT SYSTEM	8,893,558
JUDICIAL RETIREMENT FUND	244,847
ALABAMA CULTURAL RESOURCES PRESERVATION TRUST FUNDS	7,998
ALABAMA EDUCATION FOUNDATION FOR K THROUGH 12	602
DIVISION OF WILDLIFE AND FRESHWATER FISHERIES	12,630
ALABAMA NONGAME WILDLIFE ENDOWMENT TRUST	14
ALABAMA UNDERGROUND & ABOVEGROUND STORAGE TANK TRUST FUNDS	10,305
CLERKS' & REGISTERS' SUPERNUMERARY FUND	7,706
ALABAMA SENIOR SERVICES TRUST FUND	12,029
ALABAMA STATE EMPLOYEES' HEALTH INSURANCE FUND	121,200
LOCAL GOVERNMENT HEALTH INSURANCE FUND	29,465
PEIRAF - DEFERRED COMPENSATION PLAN (RSA - 1)	928,278
PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE PLAN	293,337
PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND	77,093
ALABAMA MARINE RESOURCES ENDOWMENT TRUST FUND	366
ALABAMA TRUST FUND	1,078,790
ALABAMA TREASURY FUND	150,179
CHARLOTTE THORN TRUST FUND	6,045
STATE DOCKS PENSION PLANS	7,956

TOTAL ASSETS UNDER MANAGEMENT

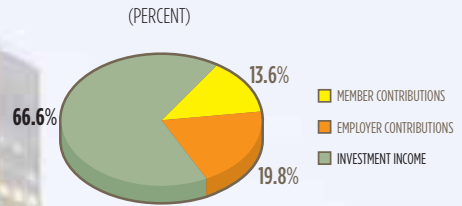
\$ 30,876,278

(1): INCLUDES INVESTMENTS AT FAIR VALUE, CASH, BUILDINGS NET OF DEPRECIATION, AND LAND.

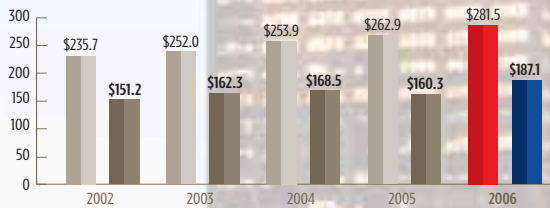


REVENUE SOURCES for TRS, ERS & JRF

	(\$ IN MILLIONS)	
	2005	2006
MEMBER CONTRIBUTIONS	\$ 425.5	471.1
EMPLOYER CONTRIBUTIONS	552.7	684.9
INVESTMENT INCOME	2,706.8	2,306.8
TOTAL	\$ 3,685.0	3,462.8

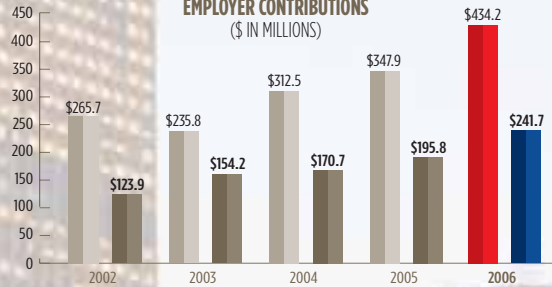


MEMBER CONTRIBUTIONS (\$ IN MILLIONS)



5-YEAR HIGHLIGHTS

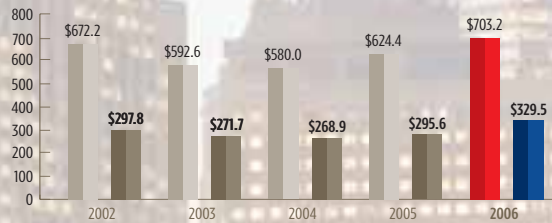
EMPLOYER CONTRIBUTIONS (\$ IN MILLIONS)



INCREASE / (DECREASE) in INVESTMENTS (\$ IN MILLIONS)

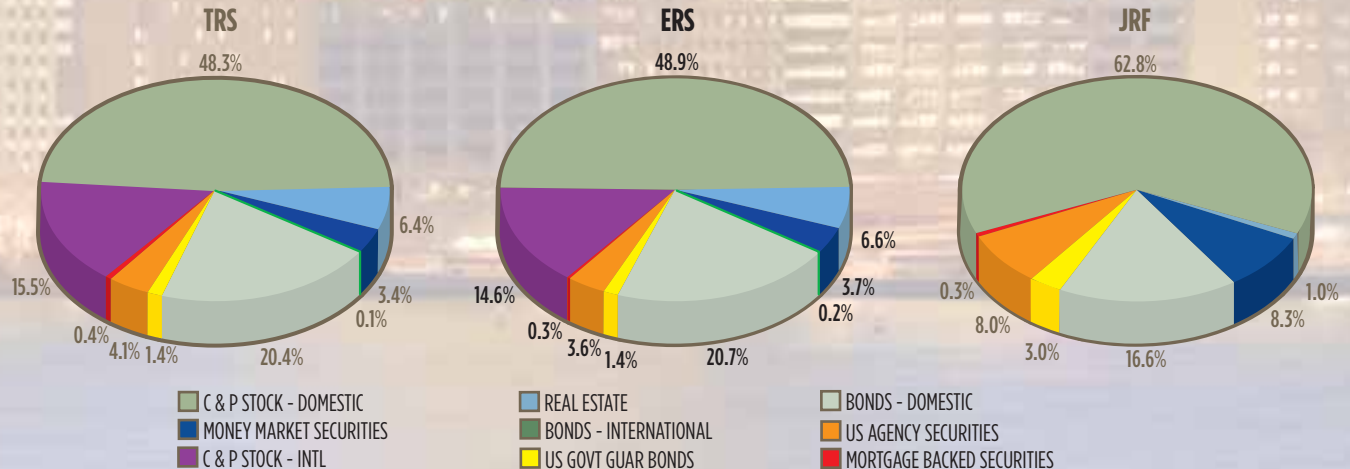


INTEREST and DIVIDEND INCOME (\$ IN MILLIONS)



ASSET ALLOCATION (AS OF SEPTEMBER 30, 2006)

Asset allocation is a strategic long-term decision in the pension investment management process. The RSA is dedicated to preserving the sound financial position it has established over the years through a diversified investment program. The objective of the RSA is to allocate investments in the most effective way that reflects policy standards while maximizing returns.





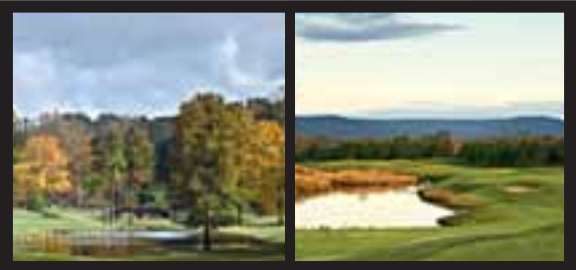
RSA HOLDINGS



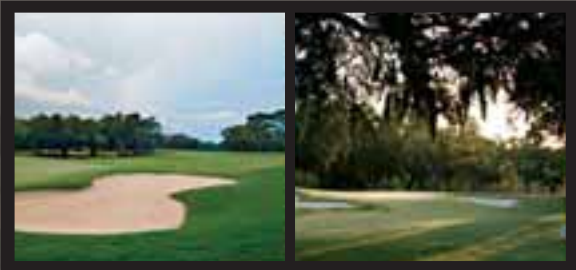
RENAISSANCE ROSS BRIDGE GOLF RESORT & SPA / ROBERT TRENT JONES GOLF TRAIL, ROSS BRIDGE, Hoover © MICHAEL CLEMMER



MONTGOMERY MARRIOTT PRATTVILLE HOTEL AND CONFERENCE CENTER AT CAPITOL HILL / ROBERT TRENT JONES GOLF TRAIL, CAPITOL HILL, Prattville © MICHAEL CLEMMER



ROBERT TRENT JONES GOLF TRAIL, OXMOOR VALLEY, Birmingham / ROBERT TRENT JONES GOLF TRAIL, HAMPTON COVE, Huntsville © MICHAEL CLEMMER



ROBERT TRENT JONES GOLF TRAIL, LAKEWOOD GOLF CLUB, Point Clear © MICHAEL CLEMMER



55 WATER STREET / THE BEACON OF LIGHT, New York City © SAM MORGAN PHOTOGRAPHY



DOWNTOWN MONTGOMERY RSA EMPLOYEE PHOTO CONTEST WINNER © BRENT SPEER



RSA HELEN HUNT LEARNING CENTER / RSA UNION, Montgomery

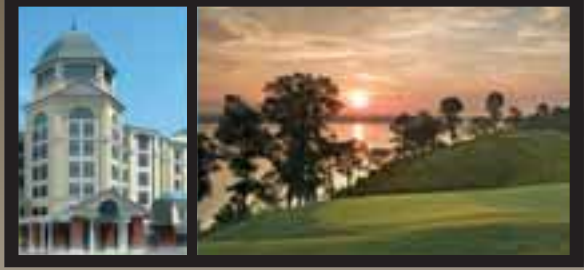


RSA CRIMINAL JUSTICE CENTER / RSA EXECUTIVE BUILDING, Montgomery





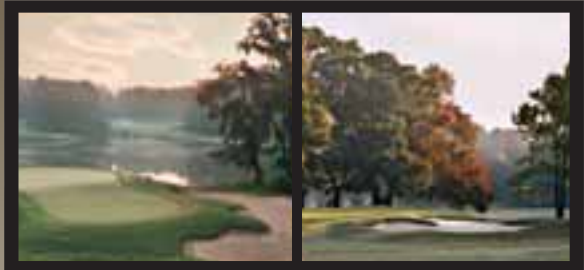
AUBURN MARRIOTT OPELIKA HOTEL AND CONFERENCE CENTER AT GRAND NATIONAL / ROBERT TRENT JONES GOLF TRAIL, GRAND NATIONAL, Auburn/Opelika © MICHAEL CLEMMER



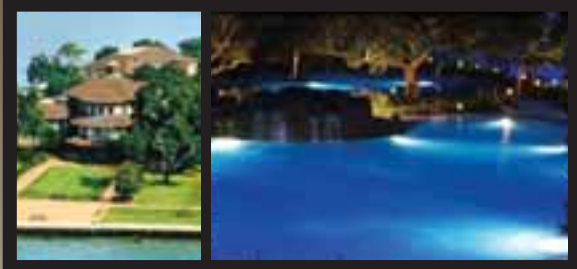
MARRIOTT SHOALS HOTEL AND SPA, Florence / ROBERT TRENT JONES GOLF TRAIL, THE SHOALS, Muscle Shoals © MICHAEL CLEMMER



ROBERT TRENT JONES GOLF TRAIL, SILVER LAKES, Anniston/Gadsden / ROBERT TRENT JONES GOLF TRAIL, MAGNOLIA GROVE, Mobile © MICHAEL CLEMMER



ROBERT TRENT JONES GOLF TRAIL, CAMBRIAN RIDGE, Greenville / ROBERT TRENT JONES GOLF TRAIL, HIGHLAND OAKS, Dothan © MICHAEL CLEMMER



GRAND HOTEL MARRIOTT RESORT, GOLF CLUB AND SPA, Point Clear



RENAISSANCE RIVERVIEW PLAZA HOTEL / ALABAMA CRUISE TERMINAL, Mobile



RSA TOWER / RSA PLAZA, Montgomery



ALABAMA CENTER FOR COMMERCE / RSA ACTIVITY CENTER, Montgomery



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LEGAL, LEGISLATION, AND COMMUNICATIONS / FIELD SERVICES

LEGAL

As RSA's investments continue to grow and diversify so does RSA's legal work. While the RSA again won significant court decisions in benefits litigation in state courts, perhaps the most important function of the legal staff is advising the various RSA divisions on compliance with state and federal laws and regulations. This helps avoid unnecessary litigation and ensures that our members get the benefits to which they are entitled while protecting against fraud and abuse. During the past year, the RSA legal staff has provided advice and guidance on numerous issues in the areas of benefits, administration, taxation, real estate, contracts, privacy rights, personnel, etc.

To protect RSA's assets and the integrity of the market place, the RSA has continued to actively pursue the perpetrators, aiders and abettors of securities fraud. RSA is currently the lead plaintiff for bondholders in the HealthSouth securities fraud class action, and during the past year, negotiated a settlement on behalf of all ICG Communications securities holders.

Several of RSA's other investments, particularly its developments in Mobile, Opelika, and Montgomery, continue to involve a myriad of legal issues and challenges, including some litigation. Additionally, the legal staff continued to successfully address legal issues which arise on RSA's mature investment development projects and issues relating to potential development projects. ■

LEGISLATION

The 2006 Regular Legislative Session ended April 18, with the passage of both the General Fund and Education Trust Fund Budgets. The Teachers' Retirement System (TRS) and Employees' Retirement System (ERS) were funded at their actuarial recommended rates. Likewise, PEEHIP was funded at the requested rate. Additionally, the TRS (Act 2006-310) and the ERS (Act 2006-510) retirees were granted a seven percent

Cost-of-Living Adjustment (COLA). Effective October 1, 2006, state and education retirees who retired prior to October 1, 2005, will receive a seven percent COLA. All local units participating in ERS will have the option of granting this COLA by resolution and shall bear the cost of the increase.

As pertains to the ERS, several constitutional amendments were passed that, if approved by the voters, will allow certain elected officials to participate in the ERS. These include Cleburne County (Act 2006-304), Cherokee County (Act 2006-308), Lawrence County (Act 2006-305), Butler County (Act 2006-457), DeKalb County (Act 2006-111), and Escambia County (Act 2006-232). As pertains to the TRS, Marion Military Institute was placed under the Chancellor of the Postsecondary Education Department and will therefore participate in the TRS (Act 2006-230).

The RSA members fared well. No legislation was passed that will have any detrimental impact on our members as concerns retirement or health care benefits. ■

COMMUNICATIONS / FIELD SERVICES

The Communications Division is responsible for the design, layout, and printing of RSA publications. All division member handbooks, brochures, agency manuals and forms are prepared by the Communications staff. In addition, Communications designs and updates the RSA Web site and oversees the election process for the Board of Control elections.

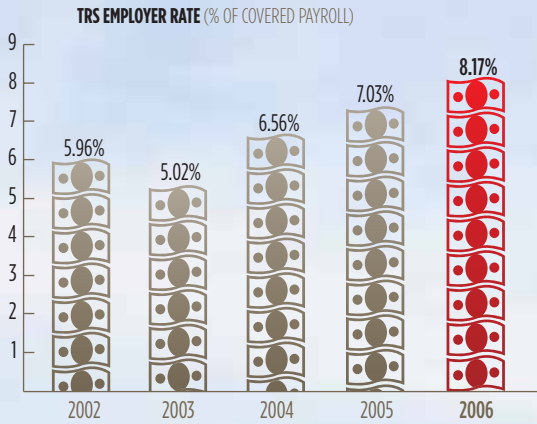
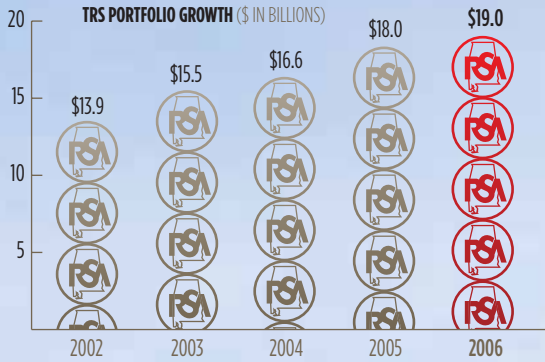
The RSA Field Services Division is responsible for all educational opportunities offered throughout the state. These responsibilities include scheduling and presenting the Retirement Preparation Seminars for ERS and TRS as well as scheduling the ERS and TRS one-on-one appointments throughout the state. The Field Services employees are on constant standby for making presentations, as well as attending and addressing conferences and seminars. ■



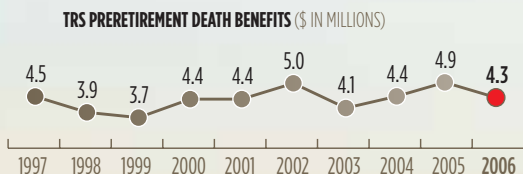
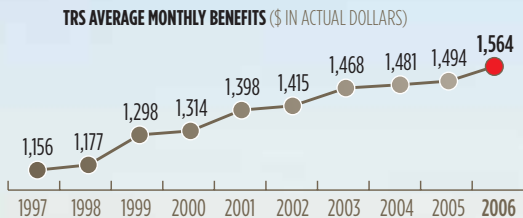
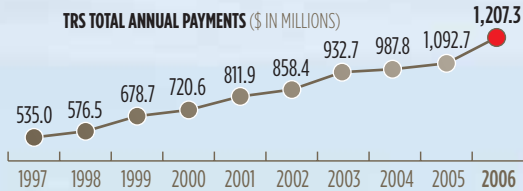
TEACHERS' RETIREMENT SYSTEM

The Teachers' Retirement System of Alabama (TRS) provides retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions.

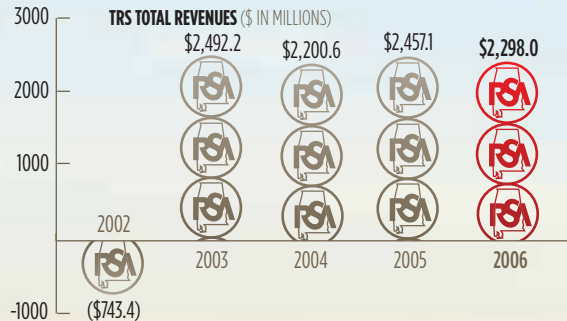
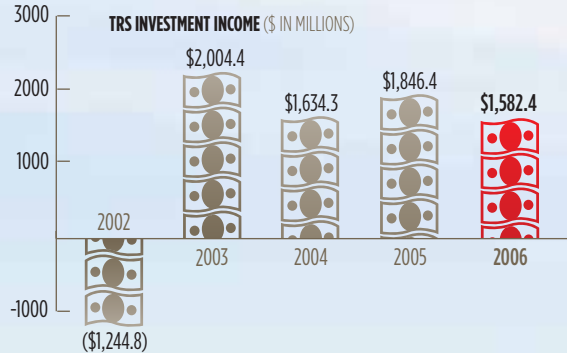
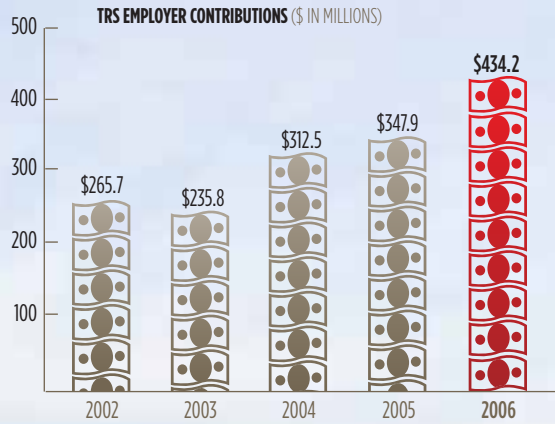
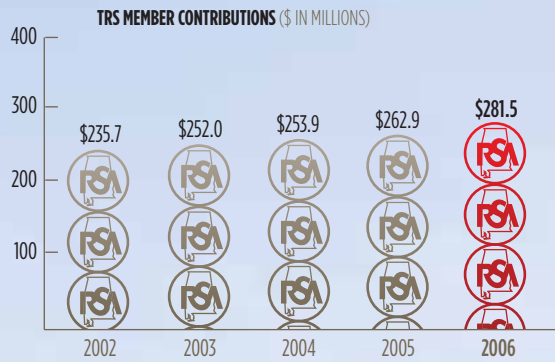
BENEFITS ADMINISTRATION



RETIREMENT BENEFITS



REVENUE SOURCES

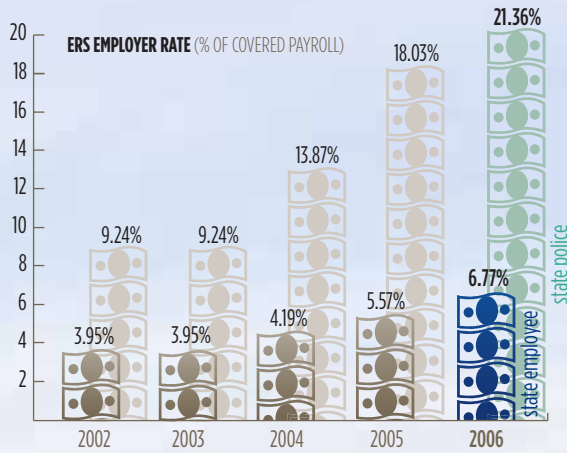
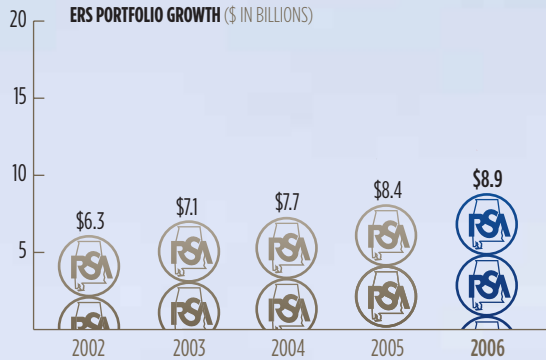




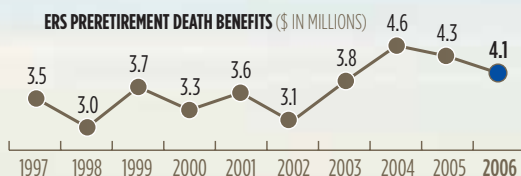
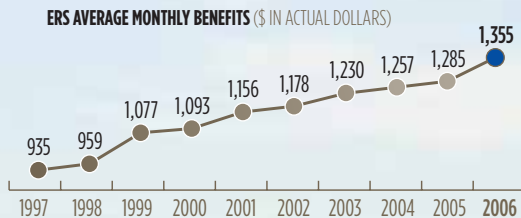
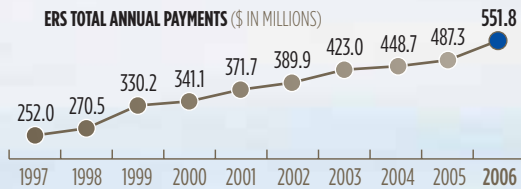
EMPLOYEES' RETIREMENT SYSTEM

The Employees' Retirement System of Alabama (ERS) provides retirement allowances and other specified benefits for qualified state employees, State Police and on an elective basis, employees of cities, counties, towns and quasi-public organizations.

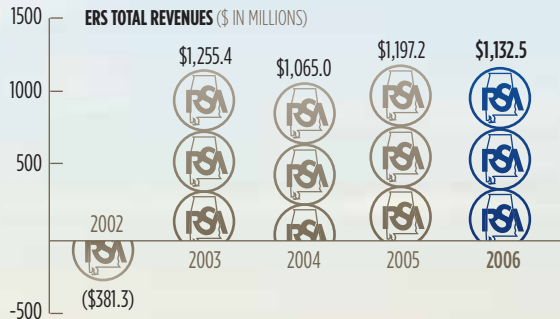
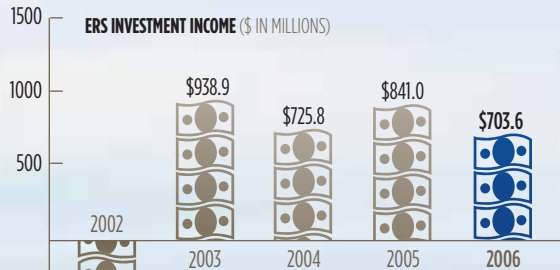
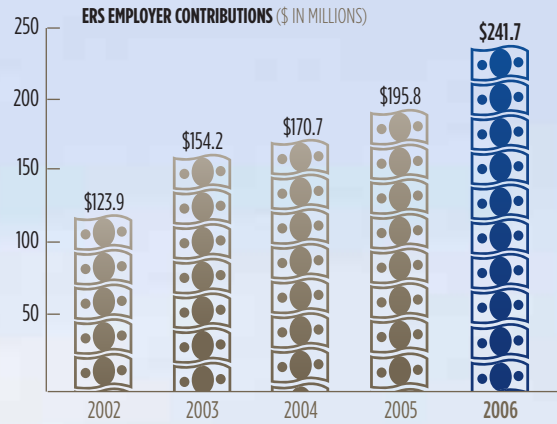
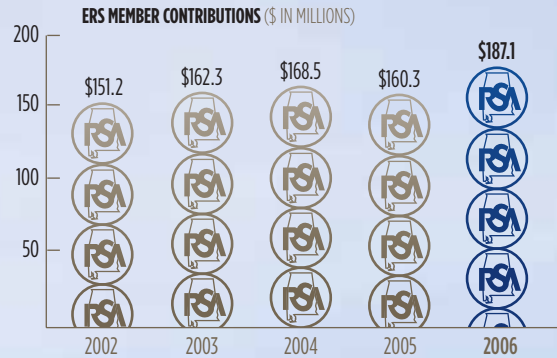
BENEFITS ADMINISTRATION



RETIREMENT BENEFITS



REVENUE SOURCES

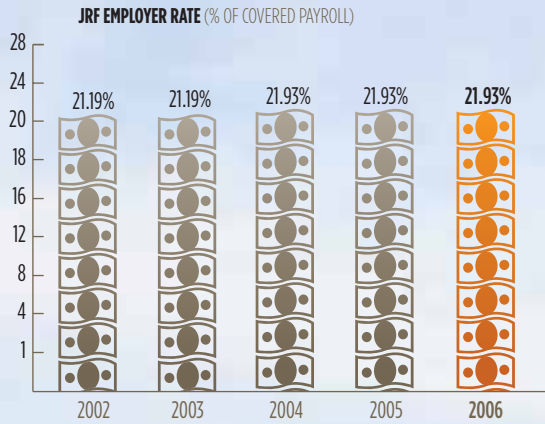
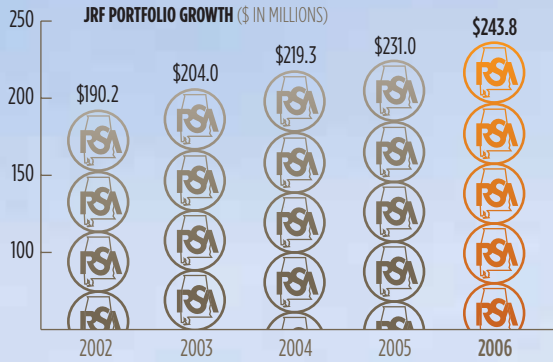




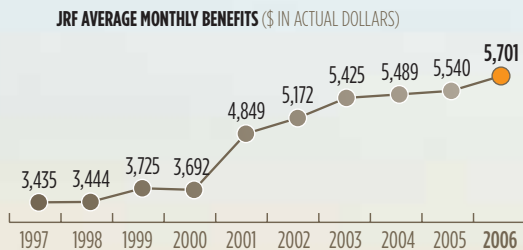
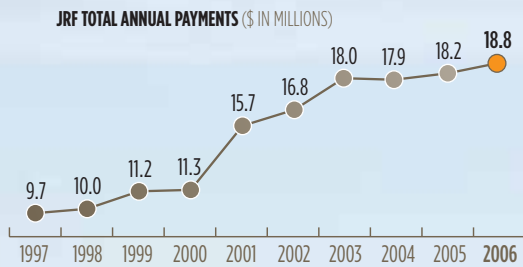
JUDICIAL RETIREMENT FUND

The Judicial Retirement Fund of Alabama (JRF) provides retirement allowances and other specified benefits for Supreme Court Justices, Court of Appeals Judges, Circuit Court Judges, District Court Judges, and Probate Judges.

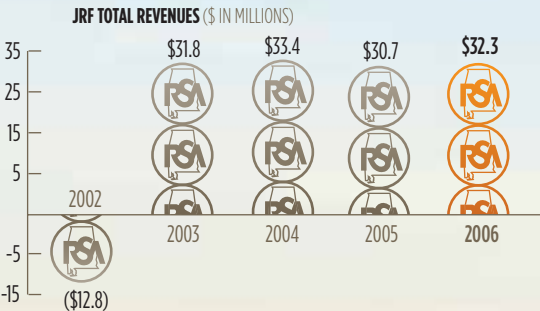
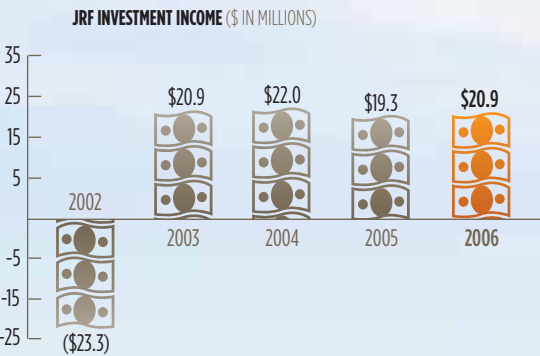
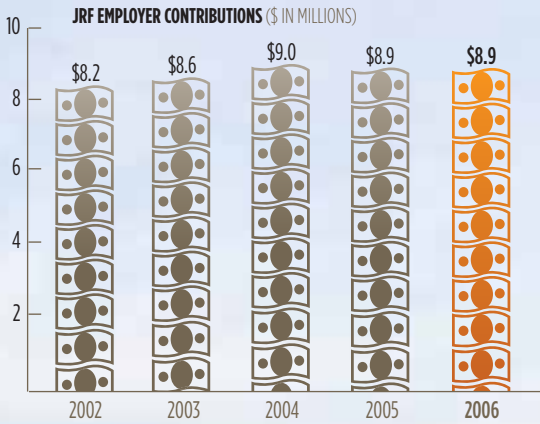
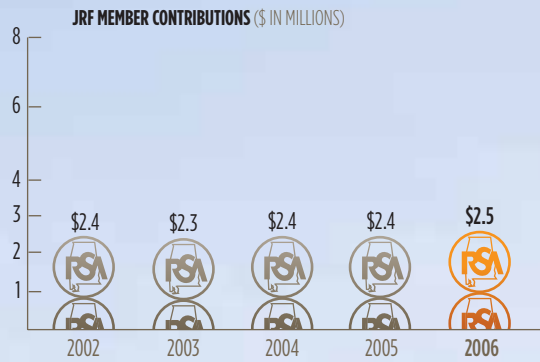
BENEFITS ADMINISTRATION



RETIREMENT BENEFITS



REVENUE SOURCES





PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND

RSA-1 / DEFERRED COMPENSATION PLAN

Established in 1986 to allow members of the RSA and certain other eligible public employees to defer receipt of a percentage of their salary, thereby deferring payment of taxes on that income.

RSA-1 HIGHLIGHTS

12-MONTH PERIOD ENDING	INCOME YIELD* (IN %)	MARKET VALUE CHANGE* (IN %)	TOTAL RETURN* (IN %)	TOTAL ASSETS* (IN \$)	PARTICIPATING MEMBERS
SEPTEMBER 30, 1996	8.96			308,584,100	17,089
SEPTEMBER 30, 1997	8.93			376,357,423	19,293
SEPTEMBER 30, 1998	8.90			451,813,800	21,166
SEPTEMBER 30, 1999	8.84	1.55	10.39	536,609,859	23,490
SEPTEMBER 30, 2000	8.43	-3.24	5.19	586,876,397	24,336
SEPTEMBER 30, 2001 (FIXED INVESTMENT OPTION)	8.34	3.41	11.75	614,039,965	24,938
SEPTEMBER 30, 2001 (STOCK INVESTMENT OPTION)	1.10	-21.09	-19.99	51,080,583	5,291
SEPTEMBER 30, 2002 (FIXED INVESTMENT OPTION)	7.39	-5.71	1.68	625,407,137	25,571
SEPTEMBER 30, 2002 (STOCK INVESTMENT OPTION)	1.42	-18.69	-17.27	47,197,854	5,599
SEPTEMBER 30, 2003 (FIXED INVESTMENT OPTION)	6.18	-1.36	4.82	676,945,292	25,793
SEPTEMBER 30, 2003 (STOCK INVESTMENT OPTION)	1.87	20.01	21.88	62,452,172	5,767
SEPTEMBER 30, 2004 (FIXED INVESTMENT OPTION)	5.63	0.36	5.99	709,604,675	26,057
SEPTEMBER 30, 2004 (STOCK INVESTMENT OPTION)	1.75	11.30	13.05	98,038,346	8,568
SEPTEMBER 30, 2005 (FIXED INVESTMENT OPTION)	6.92	-2.40	4.52	758,012,066	28,379
SEPTEMBER 30, 2005 (STOCK INVESTMENT OPTION)	2.57	9.84	12.41	122,690,568	10,201
SEPTEMBER 30, 2006 (FIXED INVESTMENT OPTION)	6.16	-1.66	4.50	777,937,103	29,520
SEPTEMBER 30, 2006 (STOCK INVESTMENT OPTION)	2.02	8.57	10.59	161,389,754	12,350

*ASSETS ARE VALUED AT COST THROUGH SEPTEMBER 30, 1998, AND AT MARKET THEREAFTER.

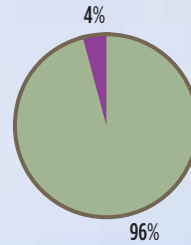
PEIRAF / DEDUCTIBLE EMPLOYEE CONTRIBUTION PLAN

The Public Employees' Individual Retirement Account Fund (PEIRAF) was established to allow public employees to conveniently and economically receive the fullest benefits offered by the Economic Recovery Tax Act (ERTA) of 1981 as it relates to individual retirement accounts. PEIRAF has operated as a fixed income portfolio since its creation in 1982. Funds are invested in fixed income investments such as corporate bonds, U.S. agency obligations, government national mortgage association securities, and commercial paper.

The Tax Reform Act of 1986 prohibited contributions to deductible voluntary employee contribution plans, such as PEIRAF, for years after 1986. Accordingly, the PEIRAF Board of Control discontinued receiving contributions to this plan after December 31, 1986. However, the PEIRAF continues to reinvest the interest earnings of existing PEIRAF member accounts.

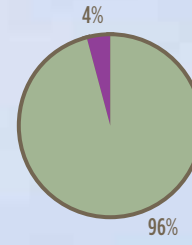
RSA-1 / INVESTMENT ALLOCATION STOCK FUND

(AS OF SEPTEMBER 30, 2006)



MONEY MARKET

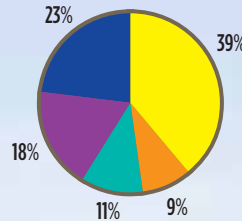
(AS OF SEPTEMBER 30, 2005)



DOMESTIC COMMON STOCK

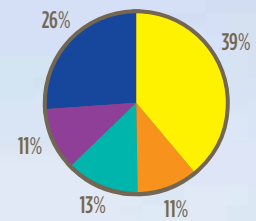
RSA-1 / INVESTMENT ALLOCATION FIXED FUND

(AS OF SEPTEMBER 30, 2006)



MONEY MARKET
PRIVATE PLACEMENTS
US AGENCY SECURITIES

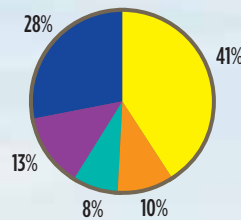
(AS OF SEPTEMBER 30, 2005)



US GOVERNMENT GUARANTEED
CORPORATE BONDS

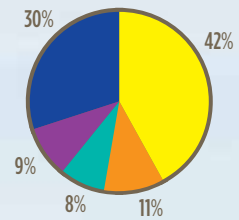
PEIRAF / INVESTMENT ALLOCATION

(AS OF SEPTEMBER 30, 2006)



MONEY MARKET
PRIVATE PLACEMENTS
US AGENCY SECURITIES

(AS OF SEPTEMBER 30, 2005)



US GOVERNMENT GUARANTEED
CORPORATE BONDS



PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

The Public Education Employees' Health Insurance Plan (PEEHIP) provides health care for active and retired public education employees. Blue Cross and Blue Shield administers the hospital/medical plan; Southland National administers the supplemental plans; and Express Scripts, Inc. administers the prescription drug plan.

BALANCE SHEET

AS OF SEPTEMBER 30, 2006
AND SEPTEMBER 30, 2005

	(\$ IN ACTUAL DOLLARS)	
	2006	2005
ASSETS		
CASH	\$ 1,080,198	\$ 247,687
RECEIVABLES		
PREMIUMS	2,026,017	698,944
INTEREST	1,429,985	432,035
TOTAL RECEIVABLES	3,456,002	1,130,979
DEPOSIT WITH CLAIMS-PAYING AGENT	20,393,366	1,804,138
INVESTMENTS, AT FAIR VALUE	292,256,941	136,229,270
TOTAL ASSETS	\$ 317,186,507	\$ 139,412,074
LIABILITIES		
ACCOUNTS PAYABLE	\$ 12,148	\$ 4,124
EMPLOYEE BENEFITS PAYABLE	440,240	301,757
REPORTS CLAIMS PAYABLE	17,844,440	21,862,868
CLAIMS INCURRED BUT NOT REPORTED	52,355,000	56,041,000
TOTAL LIABILITIES	70,651,828	78,209,749
FUND EQUITY		
EXPENSE	620,510	(70,962)
INSURANCE	245,914,169	61,273,287
TOTAL FUND EQUITY	246,534,679	61,202,325
TOTAL LIABILITIES AND FUND EQUITY	\$ 317,186,507	\$ 139,412,074

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

FOR THE YEAR ENDED SEPTEMBER 30, 2006
AND SEPTEMBER 30, 2005

	(\$ IN ACTUAL DOLLARS)	
	2006	2005
OPENING REVENUES		
PREMIUMS	\$ 1,011,949,735	\$ 868,149,703
MEDICARE PART D REIMBURSEMENT	10,127,643	-
INTEREST INCOME	11,142,597	3,314,974
NET (DECREASE)/INCREASE IN FAIR VALUE OF INVESTMENTS	(57,716)	1,908,739
TOTAL OPERATING REVENUES	1,033,162,259	873,373,416
OPERATING EXPENSES		
CLAIMS	845,221,339	784,654,834
ADMINISTRATIVE	2,608,566	3,343,107
TOTAL OPERATING EXPENSES	847,829,905	787,997,941
OPERATING INCOME	185,332,354	85,375,475
FUND EQUITY		
BEGINNING OF THE YEAR	61,202,325	(24,173,150)
END OF THE YEAR	\$ 246,534,679	\$ 61,202,325

TOTAL CLAIMS EXPENSE (\$ IN ACTUAL DOLLARS)



Standard & Poor's

A Division of The McGraw-Hill Companies



RSA 2006 INVESTMENT STAFF



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M.B.A., C.F.A.

FIXED INCOME ANALYST
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M.B.A., C.F.A.

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Steve Lambdin
M.B.A., CPA., C.F.A.

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M.B.A., C.F.A.

CASH MANAGEMENT & OPERATIONS
Nancy H. Sprayberry

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DIRECTOR OF PRIVATE PLACEMENTS
M. Hunter Harrell
M.B.A., C.F.A., J.D.

EQUITY ANALYST
Zachary P. Turnage
M.B.A., C.F.A.

The Retirement Systems of Alabama Strong. Stable. Secure.



RSA FUTURE PROJECTS



THE BATTLE HOUSE TOWER - MOBILE / THE BATTLE HOUSE, A RENAISSANCE HOTEL - MOBILE
Completion Date: May 2007



THE BATTLE HOUSE, A RENAISSANCE HOTEL - MOBILE
Completion Date: May 2007 © TAD DENSON



RENAISSANCE MONTGOMERY HOTEL & SPA AT THE CONVENTION CENTER - MONTGOMERY
Completion Date: Early 2008



THE PERFORMING ARTS CENTER - MONTGOMERY
Completion Date: Early 2008



THE RETIREMENT SYSTEMS OF ALABAMA ADMINISTRATION BUILDING - MONTGOMERY
elevations / Completion Date: Early 2008



THE RETIREMENT SYSTEMS OF ALABAMA ADMINISTRATION BUILDING - MONTGOMERY
under construction / Completion Date: Early 2008



COMMISSIONS PAID REPORT / FISCAL YEAR 2006

	VOLUME OF BUSINESS PRIVATE PLACEMENTS AGENCIES (\$ IN MILLIONS)	COMMISSIONS STOCK TRANSACTIONS	COMMISSIONS BOND TRANSACTIONS
A G EDWARDS	\$	\$ 74,811	\$
BANC OF AMERICA	221		425,235
BEAR STEARNS	162	614,898	202,500
BERNSTEIN		873,920	
CENTENNIAL CAPITAL		32,480	
CIBC		141,069	
CITIGROUP	152	791,777	578,329
CNHI	25		
CONCORD EQUITY		1,250	
CREDIT SUISSE FIRST BOSTON		255,062	532,172
DEUTSCHE BANK	33	75,145	55,675
EMPIRICAL RESEARCH		103,506	
FIRST DISCOUNT		12,450	
GARDNER RICH		30,360	
GOLDMAN SACHS	40	143,327	243,977
HOWARD WEIL		94,718	
ISSUER DESIGNATED	1		263,477
ISI		269,780	
JANNEY MONTGOMERY SCOTT		17,500	
JP MORGAN CHASE		257,987	310,401
KEEFE BRUYETTE		151,536	
LAZARD CAPITAL		7,500	
LEHMAN BROTHERS, INC	168	427,857	196,807
MATRIX		48,000	
MCDONALD & COMPANY	231	23,750	71,002
MERRILL LYNCH, PIERCE, FENNER & SMITH, INC	190	645,546	216,035
MORGAN KEEGAN	6	65,350	8,500
MORGAN STANLEY DEAN WITTER	278	793,268	251,320
NBC SECURITIES, INC	6	63,775	8,250
NED DAVIS		67,682	
OPPENHEIMER		129,921	
PRINCETON SECURITIES		17,500	
RAYCOM MEDIA	987		
RAYMOND JAMES	80	65,700	47,166
REGISTER		12,500	
SANDLER O'NEIL		246,311	
SECURITIES CAPITAL		27,455	
SIMMONS		60,956	
SOUTHWEST SECURITIES		15,300	
SUN TRUST CAPITAL	641		312,146
STERNE, AGEE & LEACH	10	85,280	14,500
SUSQUEHANNA		36,165	
UBS WARBURG	501	115,040	354,743
WACHOVIA SECURITIES	6	89,965	8,500
TOTAL	\$ 3,738	\$ 6,986,397	\$ 4,100,735

FIXED INCOME ACTIVITY

At the beginning of fiscal year 2006, the federal funds rate was yielding 3.75%, following the 11th consecutive hike by the Federal Reserve. This tightening cycle began in June of 2004, bringing an end to the lowest interest rates seen in over 40 years. With the spread differential between the 2yr and the 10yr treasury around 15 basis points and expectations for additional rate hikes through the end of the year, we felt it was only a matter of time before the yield curve would invert. As expected, the Fed raised the short-term lending rate by 25 bps at the November and December meetings. The yield curve, at this point, did invert, where it would remain for the first three months of the calendar year.

The beginning of the calendar year also brought about change in leadership at the Federal Reserve. Ben Bernanke was sworn in as Chairman and a member of the Board of Governors on February 1. He replaced Chairman Alan Greenspan, who served in this capacity since August 1987. During this time, the economy was growing at a healthy pace, forcing the Fed to systematically lift short-term interest rates. Policymakers in the U.S. were not alone in their tightening stance. Central banks from around the globe were also being firm with monetary policy. Even the Bank of Japan ultimately decided to raise rates after keeping its benchmark rate at zero percent for the last five years.

As spring rolled in, we started to see a shift in mentality that led to a re-steepening of the yield curve. We believe that changes in inflation expectations were the driving force behind the move. The 2s/10s curve drifted as wide as 20bps, in stark contrast to the 17bp inversion experienced in February. Inflation numbers, at the time, were trending near or above the upper end of the Fed's comfort zone. Further evidence of this argument was the widening gap between the 10yr and inflation-protected securities (TIPS). The upward movement in rates continued throughout June with the 10yr peaking at 5.25%. At the end of the month, the Federal Reserve raised short-term rates by 25bps, in what would be its 17th and final move.

Since that time, yields across the curve have fallen approximately 60bps on the heels of a weaker economic environment. Policymakers opted not to raise rates at its September meeting, reinforcing its assessment of the August pause. This pause ended what had been two years of restrictive actions. The corporate market has continued to grind over this time period. Corporate spreads are at historically tight levels, while default levels have experienced all-time lows. High-yield securities outpaced investment-grade credits once again as investors continued to seek risk in a low volatility environment. The only hiccup during the year came in the summer months due to an emerging market scare and a correction within commodities. We continue to favor large, quality names that are less suspect to LBO risk and will outperform in a down market.

Going forward, we feel Chairman Bernanke and the Fed will have their work cut out for them in producing "sustainable non-inflationary growth". The current reading for the Fed's preferred price gauge (core PCE) is 2.4%. Its stated comfort level for this measure is anywhere between 1 and 2%. According to officials, they believe as the economy gradually slows, that inflation will also delicately drift back to a comfortable level. While the economy has definitely decelerated, investors have become concerned with the effects of a tight labor market. However, the markets have priced in a 50% chance that the Fed will now ease by the end of March in response to slower growth. Despite this train of thought, Bernanke and other members have repeated their warning that the risk of rising inflation is greater than the risk of a slowing economy.

In fiscal year 2006, the RSA purchased approximately \$2.51 billion in additional securities for the fixed income portfolio. As of September 30, 2006, the RSA's fixed income portfolio had a market value of \$10.2 billion, of which 9.8% was in money market securities. For the fiscal year, the total annual returns for the fixed income portfolios were 4.00% for the TRS and 3.93% for the ERS and 7.45% for the JRF versus 3.67% for the Lehman Aggregate Index. The five-year annualized returns were 5.28% for the TRS and 5.02% for the ERS and 3.55% for the JRF, versus 4.81% for the Lehman Aggregate Index. The ten-year annualized returns were 6.48% for the TRS and 6.31% for the ERS and 5.81% for the JRF versus 6.42% for the Lehman Aggregate Index. ■

LONG-TERM FIXED SECURITIES PURCHASED (\$ IN MILLIONS)

MONTHS	TRS	ERS	JRF	TOTAL
OCTOBER THROUGH MARCH	\$ 1,216.3	573.4	15.2	1,804.9
APRIL THROUGH SEPTEMBER	474.0	219.6	9.5	703.1
TOTAL	\$ 1,690.3	793.0	24.7	2,508.0

MATURITY STRUCTURE

The management of maturities for the bond portfolio is an integral part of the RSA's objective of providing a stable cashflow to meet retirement benefit needs. The RSA has historically structured its purchases in longer-term securities with intermediate call protection or average lives in order to meet its retirement obligations. ■

MATURITY DISTRIBUTION (IN %)

YEARS TO MATURITY	TRS			ERS		
	2006	2005	2004	2006	2005	2004
0 TO <5	23	28	17	21	27	17
5 TO <10	27	25	33	26	24	32
10 TO <15	35	32	32	38	34	34
15 TO <20	1	1	4	1	1	3
20 TO <25	5	5	7	5	5	6
25 TO <30	9	9	6	9	9	7
>=30	0	0	1	0	0	1

QUALITY EVALUATION

The RSA continued its long-standing policy of investing in high quality fixed income products. Bond ratings, however, provide only a starting point in the evaluation of the relative investment qualities of a bond. Times have changed dramatically over the past decade and few companies today have a rating of AAA to A. Many companies are now rated BAA or lower. ■

QUALITY DISTRIBUTION (IN %)

RATING	TRS			ERS		
	2006	2005	2004	2006	2005	2004
AAA	25	26	21	23	25	21
AA	3	2	3	3	2	3
A	8	8	8	8	8	8
BAA	17	16	18	17	17	17
NOT RATED	47	48	50	49	48	51

EQUITY STRATEGY

Fiscal 2006 proved to be another good year in the stock market. With much lamentation, the markets again climbed the proverbial wall of worry. The year began with high oil prices, the Fed continuing to hike short term rates, and the ongoing struggle in Iraq. However, strong corporate earnings growth, declining energy prices, and the Fed finally going on hold allowed the markets to move higher. Over half the move in the S & P 500 occurred in the final quarter of the fiscal year.

As we were long hoping, large capitalization stocks finally took over the reins to lead the rally. The large differential in earnings growth between large and small capitalization companies narrowed considerably over the course of the year. We believe this is a trend that should continue for some time. Further supporting the sustainability of the market is the large cash reserves held at companies, which bodes well for continued stock repurchases and further dividend boosts. As we have seen, if the companies are not willing to take the steps to improve their balance sheets, private investors are willing to accommodate. Leveraged buyouts boomed this year, and will likely continue if companies continue to sit on their cash rather than redeploy it in a proper manner. Another reason for continued gains in equities is valuation support. The market is now trading in line with its historical average P/E post World War II. The multiple compression phase we have witnessed the past few years may finally be abating, allowing stocks to grow commensurate with earnings growth.

As far as activity throughout the year, new money was added to international equities early in the fiscal year. We also continue to shift money to the active management funds from the index funds, especially in the mid and small cap areas. We believe that with the capitalization leadership change, additional performance can be added in the mid and small cap funds through active management.

In review, the RSA equity allocation began the year at roughly 57.5%, and closed out fiscal 2006 at 62% on average across the three funds. Domestic equities account for over 46.5% of the fund, and international equities are now over 15% of the total. After five years of lagging, the large capitalization indices finally beat the smaller caps. The S & P 500 index was up 10.79%, the S & P 400 Midcap index was up 6.56%, and the S & P Smallcap 600 index was up 7.16%. The MSCI EAFE index was up 19.16%, again outperforming the broad domestic equity indices.

For the year, the RSA domestic equity portfolios increased 10.27%, 10.25%, and 10.41% for the TRS, ERS, and JRF funds, respectively. International equity returns fared better, posting 19.35% for TRS and 19.26% for ERS. The combined total return for the overall equity portfolios were 12.41%, 12.25%, and 10.41% for the TRS, ERS, and JRF, respectively. Three-, five-, and ten-year annualized global equity returns were 15.11%, 9.67%, and 9.24% for TRS, 15.04%, 9.64%, and 9.18% for ERS, and 12.76%, 7.78%, and 9.14% for JRF, respectively. ■

INVESTMENT RETURNS

FOR THE PERIOD ENDED SEPTEMBER 30, 2006 (PERCENT)

	1-YEAR	3-YEARS	5-YEARS	10-YEARS
EQUITY RETURNS				
TRS	12.41	15.11	9.67	9.24
ERS	12.25	15.04	9.64	9.18
JRF	10.41	12.76	7.78	9.14
FIXED INCOME RETURNS				
TRS	3.72	4.60	4.69	6.12
ERS	3.45	4.35	4.38	5.99
JRF	7.11	6.35	3.40	5.73
TOTAL RSA RETURNS				
TRS	8.82	10.26	7.60	7.77
ERS	8.37	9.80	7.10	7.58
JRF	9.12	10.12	6.01	7.41
BENCHMARKS				
S&P 500	10.79	12.30	6.97	8.59
DJIA	13.13	10.42	8.06	9.21
MIDCAP 400	6.56	15.23	13.09	13.37
SMALLCAP 600	6.56	17.40	15.06	11.35
MSCI EAFE	19.16	22.32	14.26	6.82
CITIGROUP BIG	3.71	3.48	4.85	6.45
LEHMAN BROTHERS AGGREGATE	3.67	3.38	4.81	6.42

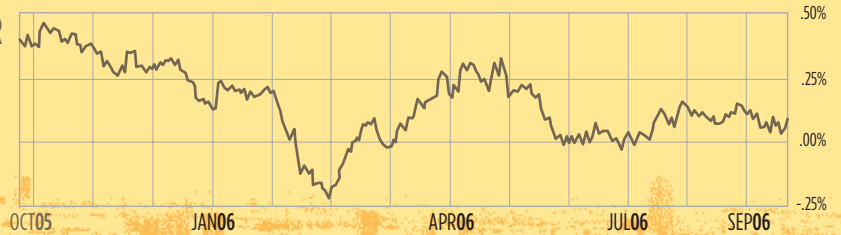
US TREASURY 2-YEAR NOTE (YIELD)



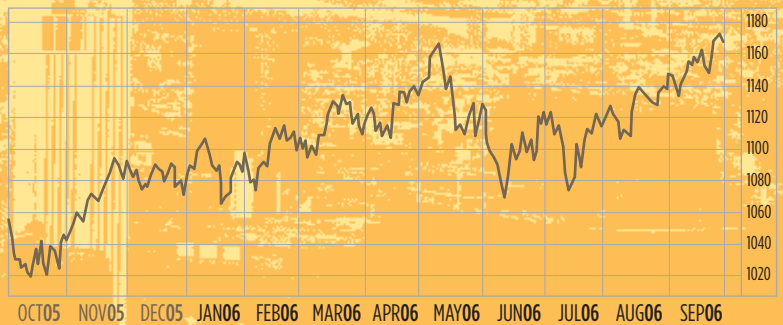
US TREASURY 30-YEAR BOND (YIELD)



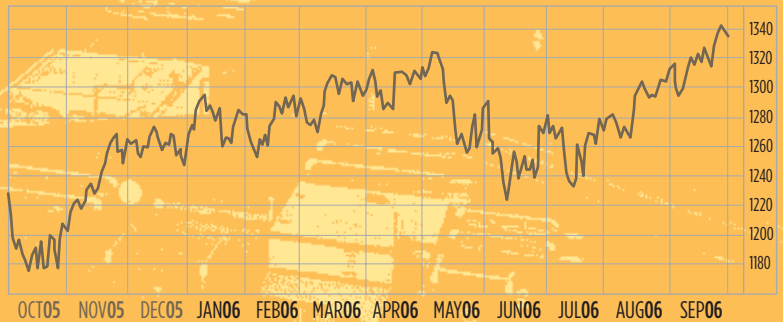
SPREAD DIFFERENCE BETWEEN 2-YEAR & 30-YEAR TREASURIES



DOW JONES INDUSTRIAL AVERAGE



S&P 500 INDEX



Financial Statements

TEACHERS' RETIREMENT FUND

STATEMENT OF PLAN NET ASSETS AS OF SEPTEMBER 30, 2006 AND 2005

	(\$ IN THOUSANDS)	
	2006	2005
ASSETS		
CASH	\$ 9,653	\$ 12,508
RECEIVABLES		
EMPLOYEE CONTRIBUTIONS	23,814	21,478
EMPLOYER CONTRIBUTIONS	38,912	30,264
DIVIDENDS AND INTEREST	154,800	134,163
TOTAL RECEIVABLES	<u>217,526</u>	<u>185,905</u>
INVESTMENTS, AT FAIR VALUE		
DOMESTIC EQUITY SECURITIES	9,157,003	8,329,184
DOMESTIC FIXED INCOME SECURITIES	4,990,746	5,030,232
INTERNATIONAL SECURITIES	2,967,620	2,523,056
REAL ESTATE	1,206,840	1,147,347
SHORT-TERM INVESTMENTS	646,143	941,540
TOTAL INVESTMENTS	<u>18,968,352</u>	<u>17,971,359</u>
INVESTED SECURITIES LENDING COLLATERAL	1,922,021	1,460,243
PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION	15,875	2,873
TOTAL ASSETS	<u>21,133,427</u>	<u>19,632,888</u>
LIABILITIES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES	3,603	4,122
SECURITIES LENDING COLLATERAL	1,922,021	1,460,243
TOTAL LIABILITIES	<u>1,925,624</u>	<u>1,464,365</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 19,207,803</u>	<u>\$ 18,168,523</u>

SEPARATELY ISSUED, AUDITED FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST.

STATEMENT OF CHANGES IN PLAN NET ASSETS AS OF SEPTEMBER 30, 2006 AND 2005

	(\$ IN THOUSANDS)	
	2006	2005
ADDITIONS		
CONTRIBUTIONS		
EMPLOYEE	\$ 278,220	\$ 260,149
EMPLOYER	434,195	347,862
TRANSFERS FROM EMPLOYEES' RETIREMENT SYSTEM	3,235	2,707
TOTAL CONTRIBUTIONS	<u>715,650</u>	<u>610,718</u>
INVESTMENT INCOME		
FROM INVESTMENT ACTIVITIES		
NET INCREASE IN FAIR VALUE OF INVESTMENTS	878,743	1,221,059
INTEREST AND DIVIDENDS	703,189	624,397
TOTAL INVESTMENT INCOME FROM INVESTING ACTIVITIES	<u>1,581,932</u>	<u>1,845,456</u>
LESS: INVESTMENT EXPENSE	4,947	4,278
NET INVESTMENT INCOME FROM INVESTING ACTIVITIES	<u>1,576,985</u>	<u>1,841,178</u>
FROM SECURITIES LENDING ACTIVITIES		
SECURITIES LENDING INCOME	84,052	40,399
SECURITIES LENDING EXPENSES		
BORROWER REBATES	77,407	33,559
MANAGEMENT FEES	1,271	1,620
TOTAL SECURITIES LENDING EXPENSES	<u>78,678</u>	<u>35,179</u>
NET INCOME FROM SECURITIES LENDING ACTIVITIES	<u>5,374</u>	<u>5,220</u>
TOTAL INVESTMENT INCOME	<u>1,582,359</u>	<u>1,846,398</u>
TOTAL ADDITIONS	<u>2,298,009</u>	<u>2,457,116</u>
DEDUCTIONS		
RETIREMENT ALLOWANCE PAYMENTS	1,207,251	1,092,723
RETURN OF CONTRIBUTIONS AND DEATH BENEFITS	36,683	36,350
TRANSFERS TO EMPLOYEES' RETIREMENT SYSTEM	2,982	1,829
TRANSFERS TO JUDICIAL RETIREMENT FUND	26	-
ADMINISTRATIVE EXPENSE	11,325	10,372
DEPRECIATION	462	468
TOTAL DEDUCTIONS	<u>1,258,729</u>	<u>1,141,742</u>
NET INCREASE	<u>1,039,280</u>	<u>1,315,374</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF THE YEAR	18,168,523	16,853,149
END OF THE YEAR	<u>\$ 19,207,803</u>	<u>\$ 18,168,523</u>

Financial Statements

EMPLOYEES' RETIREMENT FUND

STATEMENT OF PLAN NET ASSETS AS OF SEPTEMBER 30, 2006 AND 2005

	(\$ IN THOUSANDS)	
	2006	2005
ASSETS		
CASH	\$ 5,074	\$ 3,696
RECEIVABLES		
EMPLOYEE CONTRIBUTIONS	14,553	10,624
EMPLOYER CONTRIBUTIONS	22,281	15,042
DIVIDENDS AND INTEREST	73,728	64,084
TOTAL RECEIVABLES	110,562	89,750
INVESTMENTS, AT FAIR VALUE		
DOMESTIC EQUITY SECURITIES	4,345,437	3,861,335
DOMESTIC FIXED INCOME SECURITIES	2,314,148	2,327,077
INTERNATIONAL SECURITIES	1,307,815	1,068,022
REAL ESTATE	583,690	553,441
SHORT-TERM INVESTMENTS	328,769	561,290
TOTAL INVESTMENTS	8,879,859	8,371,165
INVESTED SECURITIES LENDING COLLATERAL	864,409	644,950
PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION	8,625	2,229
TOTAL ASSETS	9,868,529	9,111,790
LIABILITIES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES	2,253	2,325
SECURITIES LENDING COLLATERAL	864,409	644,950
TOTAL LIABILITIES	866,662	647,275
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 9,001,867	\$ 8,464,515

SEPARATELY ISSUED, AUDITED FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST.

STATEMENT OF CHANGES IN PLAN NET ASSETS AS OF SEPTEMBER 30, 2006 AND 2005

	(\$ IN THOUSANDS)	
	2006	2005
ADDITIONS		
CONTRIBUTIONS		
EMPLOYEE	\$ 184,144	\$ 158,128
EMPLOYER	241,750	195,846
TRANSFERS FROM TEACHERS' RETIREMENT SYSTEM	2,982	1,829
TRANSFERS FROM JUDICIAL RETIREMENT FUND	-	356
TOTAL CONTRIBUTIONS	428,876	356,159
INVESTMENT INCOME		
FROM INVESTMENT ACTIVITIES		
NET INCREASE IN FAIR VALUE OF INVESTMENTS	375,025	545,826
INTEREST AND DIVIDENDS	329,459	295,631
TOTAL INVESTMENT INCOME	704,484	841,457
FROM INVESTING ACTIVITIES		
LESS: INVESTMENT EXPENSE	3,216	2,652
NET INVESTMENT INCOME FROM INVESTING ACTIVITIES	701,268	838,805
FROM SECURITIES LENDING ACTIVITIES		
SECURITIES LENDING INCOME	35,407	17,604
SECURITIES LENDING EXPENSES		
BORROWER REBATES	32,567	14,948
MANAGEMENT FEES	504	448
TOTAL SECURITIES LENDING EXPENSES	33,071	15,396
NET INCOME FROM SECURITIES LENDING ACTIVITIES	2,336	2,208
TOTAL INVESTMENT INCOME	703,604	841,013
TOTAL ADDITIONS	1,132,480	1,197,172
DEDUCTIONS		
RETIREMENT ALLOWANCE PAYMENTS	551,793	487,348
RETURN OF CONTRIBUTIONS AND DEATH BENEFITS	31,780	30,960
TRANSFERS TO TEACHERS' RETIREMENT SYSTEM	3,235	2,707
TRANSFERS TO JUDICIAL RETIREMENT FUND	133	48
ADMINISTRATIVE EXPENSE	7,850	6,898
DEPRECIATION	337	294
TOTAL DEDUCTIONS	595,128	528,255
NET INCREASE	537,352	668,917
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF THE YEAR	8,464,515	7,795,598
END OF THE YEAR	\$ 9,001,867	\$ 8,464,515

Financial Statements

JUDICIAL RETIREMENT FUND

STATEMENT OF PLAN NET ASSETS AS OF SEPTEMBER 30, 2006 AND 2005

	(\$ IN THOUSANDS)	
	2006	2005
ASSETS		
CASH	\$ 1,077	\$ 910
RECEIVABLES		
EMPLOYEE CONTRIBUTIONS	112	114
EMPLOYER CONTRIBUTIONS	303	304
DIVIDENDS AND INTEREST	1,320	1,216
TOTAL RECEIVABLES	<u>1,735</u>	<u>1,634</u>
INVESTMENTS, AT FAIR VALUE		
DOMESTIC EQUITY SECURITIES	153,064	140,393
DOMESTIC FIXED INCOME SECURITIES	68,108	71,211
REAL ESTATE	2,494	2,473
SHORT-TERM INVESTMENTS	20,104	16,923
TOTAL INVESTMENTS	<u>243,770</u>	<u>231,000</u>
INVESTED SECURITIES LENDING COLLATERAL	<u>25,393</u>	<u>19,058</u>
TOTAL ASSETS	<u>271,975</u>	<u>252,602</u>
LIABILITIES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES	160	132
SECURITIES LENDING COLLATERAL	<u>25,393</u>	<u>19,058</u>
TOTAL LIABILITIES	<u>25,553</u>	<u>19,190</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 246,422</u>	<u>\$ 233,412</u>

SEPARATELY ISSUED, AUDITED FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST.

STATEMENT OF CHANGES IN PLAN NET ASSETS AS OF SEPTEMBER 30, 2006 AND 2005

	(\$ IN THOUSANDS)	
	2006	2005
ADDITIONS		
CONTRIBUTIONS		
EMPLOYEE	\$ 2,338	\$ 2,350
EMPLOYER	8,916	8,943
TRANSFERS FROM TEACHERS' RETIREMENT SYSTEM	26	-
TRANSFERS FROM EMPLOYEES' RETIREMENT SYSTEM	133	48
TOTAL CONTRIBUTIONS	<u>11,413</u>	<u>11,341</u>
INVESTMENT INCOME		
FROM INVESTMENT ACTIVITIES		
NET INCREASE IN FAIR VALUE OF INVESTMENTS	11,215	11,877
INTEREST AND DIVIDENDS	9,598	7,420
TOTAL INVESTMENT INCOME FROM INVESTING ACTIVITIES	20,813	19,297
LESS: INVESTMENT EXPENSE	2	2
NET INVESTMENT INCOME FROM INVESTING ACTIVITIES	<u>20,811</u>	<u>19,295</u>
FROM SECURITIES LENDING ACTIVITIES		
SECURITIES LENDING INCOME	908	422
SECURITIES LENDING EXPENSES		
BORROWER REBATES	861	362
MANAGEMENT FEES	7	8
TOTAL SECURITIES LENDING EXPENSES	<u>868</u>	<u>370</u>
NET INCOME FROM SECURITIES LENDING ACTIVITIES	<u>40</u>	<u>52</u>
TOTAL INVESTMENT INCOME	<u>20,851</u>	<u>19,347</u>
TOTAL ADDITIONS	<u>32,264</u>	<u>30,688</u>
DEDUCTIONS		
RETIREMENT ALLOWANCE PAYMENTS	18,777	18,201
RETURN OF CONTRIBUTIONS AND DEATH BENEFITS	45	51
TRANSFERS TO EMPLOYEES' RETIREMENT SYSTEM	-	356
ADMINISTRATIVE EXPENSE	432	381
TOTAL DEDUCTIONS	<u>19,254</u>	<u>18,989</u>
NET INCREASE	<u>13,010</u>	<u>11,699</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF THE YEAR	233,412	221,713
END OF THE YEAR	<u>\$ 246,422</u>	<u>\$ 233,412</u>

55 WATER STREET

A View from the Top...

USA 2006 ANNUAL REPORT DESIGN & REALIZATION BY



JEFFREY A. REIS
ART DIRECTOR



Photo: A view from the roof of 55 Water Street, overlooking the Brooklyn and Manhattan Bridges spanning the East River.
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