

2 0 0 8 R S A A N N U A L R E P O R T

ALABAMA

possesses abundant natural resources, a rich history, and hardworking, innovative people. As the Retirement Systems of Alabama invests in Alabama, economic growth is spurred, jobs are provided for Alabamians, tourism grows, and Alabama's image is improved.

As we look to the past and consider the future, we marvel at how far we have come as a people and state. Our natural resources, which are to be enjoyed and used wisely, continue to provide untold opportunities for Alabama's economic growth. The RSA will continue to play an important role in that growth for "The stronger the RSA can make Alabama, the stronger the RSA will be."



STRENGTH STABILITY SECURITY

The Boards of Control and the Retirement Systems of Alabama (RSA) staff are pleased to present the 33rd Annual Report for the fiscal year ended September 30, 2008.

The RSA manages 22 funds totaling approximately \$29.8 billion (see page 14) as of September 30, 2008. The funds under management for the Teachers' Retirement System (TRS) were \$17.9 billion. The Employees' Retirement System (ERS) funds under management were \$8.5 billion, and the Judicial Retirement Fund (JRF) totaled \$220 million.

Although the fiscal year 2007 annualized return for the fixed income portfolio and equity portfolio combined was great and positive at +17.46% for the TRS, +17.92% for the ERS, and +14.27% for the JRF, the 2008 annualized return was bleak and negative at -15.36% for the TRS, -15.21% for the ERS, and -14.58% for the JRF.

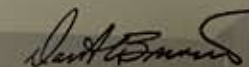
The bear market over the last year has been exceptionally difficult for investors and the American economy. In a bear market cash is king, but multi-billion dollar pension funds simply cannot take that risk. During the first stages of the downturn in the market, the RSA did well with no direct exposure to sub-prime mortgages, derivatives or related securities. However, the continued decline in the domestic and international equity markets as well as the credit crisis within the fixed income markets could not be totally avoided. The RSA has stressed to its members throughout the years that benefits are not jeopardized by short-term losses. The RSA has a diverse investment portfolio that helps to cushion the systems from the effect of losses from investments.

On a more positive note, The Renaissance Montgomery Hotel & Spa in downtown Montgomery opened its doors in March. This project included a 346-room hotel, a restaurant and bar, a European-style spa, a new performing arts theater, an upgrade and expansion of the Convention Center, and a 600-car parking deck. The new RSA Headquarters building was also completed during the fiscal year. The 8-story, 280,000 square foot office building houses the RSA and two other state agencies.

In other RSA real estate news, the renovation of the Riverview Plaza Hotel in Mobile was completed. Now named the Renaissance Riverview Plaza, this hotel along with the Battle House Hotel and the RSA Battle House Tower comprise

the Renaissance Center in Mobile. Additionally, the RSA will preserve the old Supreme Court Building in downtown Montgomery. This structure has been vacant for over 15 years. When completed, this renovation will be a 12-story, 345,000-square-foot office building.

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



David G. Bronner in the breezeway of RSA Headquarters.
© Fouts Commercial Photography

GOLF DIGEST CALLS ALABAMA'S ROBERT TRENT JONES GOLF TRAIL
 "#1 VALUE FOR GOLF IN THE U.S."

TABLE OF CONTENTS

ECONOMIC IMPACTS OF RSA-OWNED INVESTMENTS ON ALABAMA <i>December 2008 / Executive Summary</i> <i>Center for Business and Economic Research</i> <i>Culverhouse College of Commerce and Business Administration</i>	4
NORTH ALABAMA — THE RETIREMENT SYSTEMS OF ALABAMA INVESTS IN INDUSTRY <i>Investments mirror North Alabama history 7</i> <i>The RTJ Golf Trail in North Alabama 8</i> <i>Other investments in North Alabama 10</i>	6
RETIREMENT SYSTEMS OF ALABAMA <i>Year in Review</i> <i>Teachers' and Employees' Retirement Systems' Boards of Control 12 / RSA Highlights 14</i> <i>2008 RSA Staff 16 / Legal, Legislation, Communications, & Field Services 17</i>	12
CENTRAL ALABAMA — THE RETIREMENT SYSTEMS OF ALABAMA INVESTS IN INNOVATION <i>Investments mirror Central Alabama history 19</i> <i>The RSA provides first-class office space 20</i> <i>The RTJ Golf Trail in Central Alabama 22</i> <i>Other investments in Central Alabama 24</i>	18

RETIREMENT SYSTEMS OF ALABAMA <i>Year in Review continued</i> <i>Teachers' Retirement System (TRS) 26 / Employees' Retirement System (ERS) 27</i> <i>Judicial Retirement Fund (JRF) 28 / RSA-1 & PEIRAF-1 29</i> <i>Public Education Employees' Health Insurance Plan 30</i>	26
SOUTH ALABAMA — THE RETIREMENT SYSTEMS OF ALABAMA INVESTS IN INDIVIDUALS <i>Investments mirror South Alabama history 33</i> <i>The RSA investments in Mobile 34</i> <i>The RTJ Golf Trail in South Alabama 35</i> <i>Other investments in South Alabama 36</i> <i>Outside Alabama: 55 Water Street, New York, NY 37</i>	32
RETIREMENT SYSTEMS OF ALABAMA 2008 <i>Investment Staff</i>	38
2008 RETIREMENT SYSTEMS OF ALABAMA INVESTMENTS <i>The RSA Media Holdings: RAYCOM Media, CNHI 39 / Commissions Paid Report 40</i> <i>Fixed Income Activity, Maturity Structure, Quality Evaluation 41</i> <i>Equity Strategy, Investment Returns 42</i>	39
2008 FINANCIAL STATEMENTS TRS / ERS / JRF	44
RSA GENERAL INFORMATION	47

© Michael Clemmer - Golf Landscape Photography

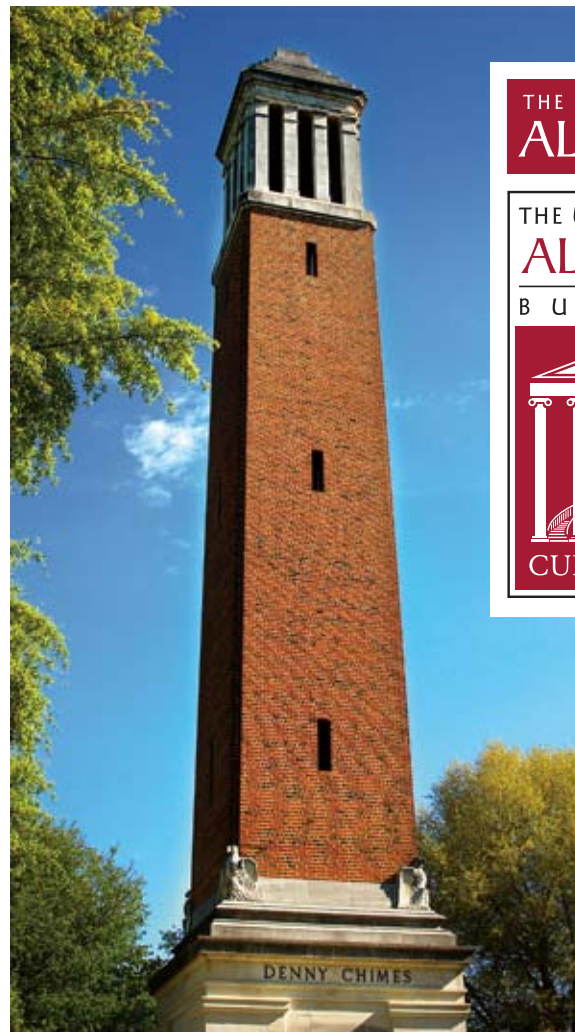


ECONOMIC IMPACTS OF RSA-OWNED INVESTMENTS ON ALABAMA

DECEMBER 2008

EXECUTIVE SUMMARY

Center for Business and Economic Research
Culverhouse College of Commerce
and Business Administration



Denny Chimes at The University of Alabama in Tuscaloosa is the focal point of this historic campus.
© University Relations Photography



This study presents the economic and fiscal impacts on the state of Alabama of the 2007 operating and 2002-2008 construction activities of The Retirement Systems of Alabama (RSA)-owned investments in the state. RSA provides pension benefits to retirees through the Employees' Retirement System (ERS), the Judicial Retirement Fund (JRF), and the Teachers' Retirement System (TRS). Contributions from the state and members are invested in various financial instruments and assets in order to provide benefits.

The economic impacts focus on output, earnings, and employment. Output refers to the gross domestic product (the value of goods and services produced in Alabama [ALGDP]) for the region of focus, the state of Alabama in this case. Fiscal impacts presented are conservative because they comprise income and sales taxes only; other taxes and fees (e.g., property, utilities, rental/leasing, alcoholic beverages, cigarette and tobacco, insurance premiums, lodgings, driver's license fees, and auto title and license fees, and other personal property taxes) are not covered.

The RSA-owned investments in Alabama are diverse, involving at least 14 primary recipient companies in various manufacturing and service sector industries, with activities in many different parts of the state for the period considered in this report. Capital expenditures over the 2002-2008 period totaled \$854.3

million. Operating expenditures in 2007 by the companies were nearly \$1.6 billion and included a \$245.4 million payroll for 5,836 workers.

The 2002-2008 \$854.3 million capital expenditures had statewide impacts of \$1.947 billion in output, \$620.9 million in earnings to Alabama households, 19,225 direct and indirect jobs, \$42.9 million in income and sales taxes; \$20.4 million in state income taxes, \$10 million in state sales taxes, and \$12.5 million in local (county and city) sales taxes.

The 2007 operating activities yielded statewide impacts of \$3.3 billion in output (2 percent of the \$165.8 billion 2007 Alabama GDP), \$578.1 million in earnings, and 14,056 jobs (0.7 percent of the state's 2007 nonagricultural employment). The associated fiscal impacts summed up to nearly \$40 million; \$19 million in state income taxes, \$9.3 million in state sales taxes, and \$11.6 million local sales tax receipts.

The economic and fiscal impacts presented in this report are statewide. All 67 Alabama counties, in one way or another, benefit from the above-mentioned RSA investments and other RSA economic development efforts. Impacts of benefit payments made by RSA are not considered in this report.

As part of its community and economic development activities, RSA has provided more than \$670 million in advertisement benefits that have contributed to growing Alabama tourism into a \$9.3 billion industry from \$1.8 billion. The ad benefits comprise \$30 million per year in TV for 13 years, \$25.4 million per year in print for 11 years, and \$362,400 per year in billboards for the last 3 or 4 years.

For the 2007 operating and 2002-2008 construction periods, RSA investments in the Alabama economy have been through diverse goods-producing and service-providing industries. Manufacturing industries represented include aircraft and motor vehicle parts, wood products, and metals production. Other direct RSA investment industries include newspaper publishing, radio and TV broadcasting, advertising, real estate, offshore oil and gas support services, computer and technology services, hotels and resorts, and recreational sports. Companies that are the primary recipients of the RSA investments for the periods of interest are shown in Table 1. They have activities in many different parts of the state. Not all the companies were operating in 2007 and not all of them reported capital expenditures for the 2002-2008 period.

Table 1. 2007 Primary RSA Investment Receiving Companies

Alabama River Group, Inc.	Navistar Diesel of Alabama, LLC
Bell Microproducts	Navistar Big Bore Diesels, LLC
Community Newspaper Holdings, Inc.	PCH Hotels and Resorts
Daniel Corporation	Raycom Media
GKN Aerospace Services Alabama	Sunbelt Golf Corporation
Magic Media	Signal International
National Alabama Corporation/National Steel Car	Wise Metals

There are many other companies and economic activities that RSA has been involved with in Alabama besides those listed in Table 1. These companies again are located in many different parts of the state. Some notable ones are listed on the right. If you would like to read the entire report, visit our Web site at www.rsa-al.gov.



CIBA-GEIGY
CHEMICAL COMPANY
DOLE FOODS
DRUMMOND COMPANY
DYNAMIT NOBEL
CHEMICAL COMPANY
EADS/AIRBUS
GULF COAST
EXPLORATION &
SCIENCE CENTER
& IMAX THEATRE
KVAERNER OILFIELD
PRODUCTS
MERCEDES BENZ U.S.
INTERNATIONAL
SOUTHWIRE COMPANY
SPACE BOOSTERS
SSAB STEEL
U.S. STEEL
WAL-MART
DISTRIBUTION



NORTH ALABAMA

THE RETIREMENT SYSTEMS OF ALABAMA
INVESTS IN INDUSTRY



© Alabama Department of Archives and History, Montgomery, Alabama circa 1930s

Birmingham was founded in 1871 as a mining town due to the abundant local resources of iron ore, coal, and limestone. With the completion of the railroad, Alabama became a major steel producer, rivaling Pittsburgh in production and economic growth.

Today, we see those same resources being invested in by the **Retirement Systems of Alabama**. The **National Alabama / National Steel Car** state-of-the-art railcar plant is due to begin production in 2009. It is a \$625 million plant and is located in the Shoals area.



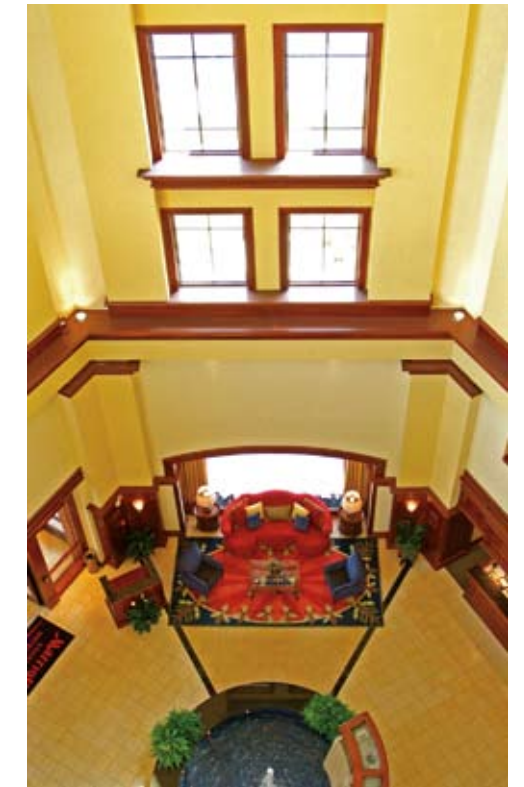
© Alabama Department of Archives and History, Montgomery, Alabama circa 1930s



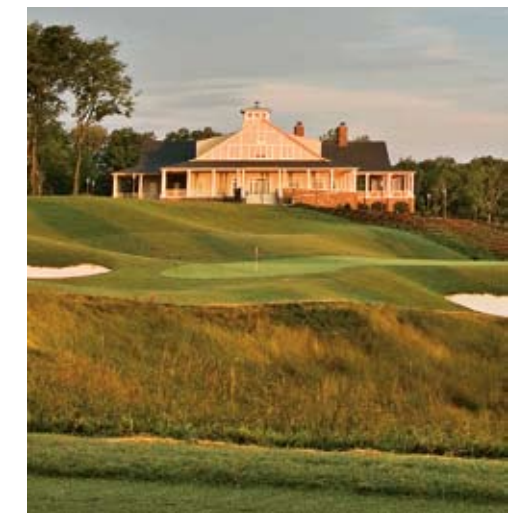
National Steel Car is North America's leading, and one of the largest railway car manufacturers. When in full operation, the Shoals plant's annual capacity is expected to be in the 8,000 to 10,000-unit range, providing new employment for 1,500 people. Chairman and CEO Gregory Aziz states, "We look forward to a long and beneficial partnership as a successful business and active community member in the Shoals region. We are making a very long-term commitment to work with these communities as a responsible employer, to train and develop a large number of new associates, and to actively participate in programs that enhance the quality of life and community in this region."

The Robert Trent Jones Golf Trail was built to provide the finest collection of public courses in the world and to run them as a successful business investment. The northern counties of Alabama are home to five Robert Trent Jones sites: Oxmoor Valley in Birmingham, Ross Bridge in Hoover, The Shoals in Muscle Shoals, Silver Lakes in Anniston/Gadsden, and Hampton Cove in Huntsville. With private residential housing communities being built around Silver Lakes and Hampton Cove, it is clear to see the economic growth that has resulted from the RSA's presence. The Trail has had not only a financial impact on Alabama, but has greatly improved the image of Alabama. Governor Bob Riley stated, "The Golf Trail has accomplished what the head of the Retirement Systems of Alabama set out to do; David Bronner has helped reshape the image of our state."

The Renaissance Ross Bridge Golf Resort & Spa is home to the Regions Charity Classic, the PGA Champions Tour Tournament, and is the host hotel for the Porsche Sport Driving School. Pictured right is Ross Bridge Number Six, and below is the Renaissance Ross Bridge Golf Resort & Spa. © Michael Clemmer - *Golf Landscape Photography*



The Marriott Shoals Hotel & Spa in Florence, which features the state's only revolving restaurant, is only a short distance from Fighting Joe and the Schoolmaster, two RTJ Golf Trail courses. Pictured left is Schoolmaster Number Eighteen, above is the Marriott Shoals Hotel & Spa lobby, and below is the Fighting Joe Clubhouse. © Michael Clemmer - *Golf Landscape Photography*





◀ **Navistar's International** plant in Huntsville is their newest engine facility and produces a new generation of technologically advanced clean diesel engines. This plant is designed to incorporate the most modern machine tool technologies and the latest manufacturing techniques in the production of industry leading products.

The RSA's industrial investments in North Alabama build upon a rich history of natural resources and manufacturing. U.S. Steel, a RSA investment, is based in Jefferson County. They produce sheet and tubular metal products for the automotive, appliance, and construction industries.

US Steel's Fairfield Works produces approximately 2.4 million tons of raw steel and 640,000 tons of seamless tubular products annually.



The RSA's investments in this region of the state include senior living facilities in the Birmingham and Huntsville areas as well as newspaper and television interests. Community Newspaper Holdings, Inc., is one of the leading publishers of local news and information in the United States and is headquartered in Jefferson County. It operates several newspapers in North Alabama: *The Cullman Times* in Cullman County, *The News Courier* in Limestone County, *The St. Claire News-Aegis* in St. Clair County, and *The North Jefferson News* and *Leeds News* in Jefferson County. Raycom Media is one of the nation's largest broadcasters. It operates WAFF-TV, the NBC affiliate in Huntsville.

Over the years, the RSA has been involved with: Space Boosters in Huntsville, Dole Foods in the Birmingham area, a Wal-Mart distribution center in Cullman, Southwire Company in Heflin, Mercedes in Tuscaloosa, and Drummond in Birmingham. ■

THE RETIREMENT SYSTEMS OF ALABAMA INVESTMENTS IN NORTH ALABAMA

"We're excited about Wise's future prospects as a strong and dynamic business under the leadership of controlling owner David D'Addario and his team. The potential in the aluminum industry is unlimited and Wise provides a vehicle to pursue these opportunities and bring more economic growth to Alabama." — *Dr. David Bronner*

◀ **Wise Metals Group** is the parent company of **Wise Alloys**, **Wise Recycling** and **Listerhill Total Maintenance Center**. **Wise Alloys** is the world's third-leading producer of aluminum can stock for the beverage and food industries. **Wise Recycling** is one of the largest, direct-from-the-public collectors of aluminum beverage containers in the United States. **Listerhill Maintenance Center** specializes in providing maintenance, repairs, and fabrication to manufacturing and industrial plants worldwide, ranging from small on-site repairs to complete turn-key maintenance.



RAYCOM MEDIA
WISE METALS GROUP
NATIONAL STEEL CAR
NAVISTAR
INTERNATIONAL
CORPORATION
SPACE BOOSTERS
US STEEL
DOLE FOODS
WAL-MART
SOUTHWIRE COMPANY
MERCEDES
DRUMMOND COMPANY
RTJ GOLF TRAIL
RENAISSANCE ROSS
BRIDGE GOLF RESORT &
SPA
MARRIOTT SHOALS
HOTEL & SPA
COMMUNITY NEWSPAPER
HOLDINGS, INC.

THE RETIREMENT SYSTEMS OF ALABAMA
2008 YEAR IN REVIEW

THE RSA BOARDS OF CONTROL



2008 TEACHERS' RETIREMENT SYSTEM BOARD OF CONTROL

- | | | | | | | | |
|---|---|---|--|--|--|--|--|
| Mr. Danny Stallings
PRINCIPAL POSITION | Mr. Luke Hallmark
SUPERINTENDENT POSITION | Dr. Joseph Morton
STATE SUPERINTENDENT
OF EDUCATION, EX OFFICIO | Mrs. Sallie Cook
RETIRED POSITION | Mr. John R. Whaley
TEACHER POSITION | Dr. Susan Williams Brown
POSTSECONDARY POSITION | Mr. Robert Smith
SUPPORT PERSONNEL POSITION | Mr. Jim Main
STATE FINANCE DIRECTOR
EX OFFICIO |
| Mrs. Teresa Harbison
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 | Ms. Judy Rigdon
TEACHER POSITION | | | |

© David Robertson, Jr. Photography
Pavillion Park

© Fouts Commercial Photography, RSA Boards of Control

2008 EMPLOYEES' RETIREMENT SYSTEM BOARD OF CONTROL

- | | | | | | | |
|---|--|---|---|---|---|--|
| Mr. Robert H. Pruitt
GOVERNOR APPOINTEE | Mr. Ronald Matthews
ACTIVE LOCAL EMPLOYEE | 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 | CHAIRMAN
Hon. Bob Riley
GOVERNOR
EX OFFICIO |
| ■ SERVE ON BOTH
THE TRS AND ERS
BOARDS OF CONTROL | ■ Hon. Kay Ivey
STATE TREASURER
EX OFFICIO | Mr. James Fibbe
RETIRED LOCAL EMPLOYEE | Ms. Alice Thornton
ACTIVE STATE EMPLOYEE | Ms. Mary Lou Foster
RETIRED STATE EMPLOYEE | Mr. Ben Powell
ACTIVE LOCAL EMPLOYEE | |

THE RETIREMENT SYSTEMS OF ALABAMA

TEACHERS' RETIREMENT SYSTEM

EMPLOYEES' RETIREMENT SYSTEM

JUDICIAL RETIREMENT FUND

2008 FINANCIAL HIGHLIGHTS

MEMBERSHIP ACTIVITY for 2008

	TRS	ERS	JRF
NEW MEMBERS	12,487	10,884	9
WITHDRAWN MEMBERS	5,085	5,205	3
SERVICE RETIREMENTS	3,786	1,982	10
DISABILITY RETIREMENTS	262	201	1
SURVIVING SPOUSES	7	3	1
NEW BENEFICIARIES	286	232	7

TOTAL MEMBERSHIP for 2008 (AS OF SEPTEMBER 30, 2008)

	TRS	ERS	JRF	Total
ACTIVE	134,652	84,065	333	219,050
DROP	5,076	2,185	-	7,261
RETIRED	65,788	34,432	310	100,530
TOTAL	205,516	120,682	643	326,841

FUNDS UNDER MANAGEMENT (AS OF SEPTEMBER 30, 2008, \$ in Thousands)

	TOTAL FUNDS MANAGED (1)
TEACHERS' RETIREMENT SYSTEM	\$ 17,866,092
EMPLOYEES' RETIREMENT SYSTEM	8,532,303
JUDICIAL RETIREMENT FUND	220,226
ALABAMA CULTURAL RESOURCES PRESERVATION TRUST FUNDS	7,520
ALABAMA EDUCATION FOUNDATION FOR K THROUGH 12	644
DIVISION OF WILDLIFE AND FRESHWATER FISHERIES	14,595
ALABAMA NONGAME WILDLIFE ENDOWMENT TRUST	16
ALABAMA UNDERGROUND & ABOVEGROUND STORAGE TANK TRUST FUNDS	3,026
CLERKS' & REGISTERS' SUPERNUMERARY FUND	8,302
ALABAMA SENIOR SERVICES TRUST FUND	15,292
ALABAMA STATE EMPLOYEES' HEALTH INSURANCE FUND	130,231
LOCAL GOVERNMENT HEALTH INSURANCE FUND	53,854
PEIRAF - DEFERRED COMPENSATION PLAN (RSA - 1)	1,067,584
PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND	76,900
ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST	598,906
PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND	76,837
ALABAMA MARINE RESOURCES ENDOWMENT TRUST FUND	591
ALABAMA TRUST FUND	797,148
ALABAMA TREASURY FUND	255,832
CHARLOTTE THORN TRUST FUND	5,882
ALABAMA STATE EMPLOYEES' RETIRED HEALTH CARE TRUST FUND	51,813
STATE DOCKS PENSION PLANS	9,381

TOTAL ASSETS UNDER MANAGEMENT

\$ 29,792,975

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

REVENUE SOURCES for TRS, ERS & JRF

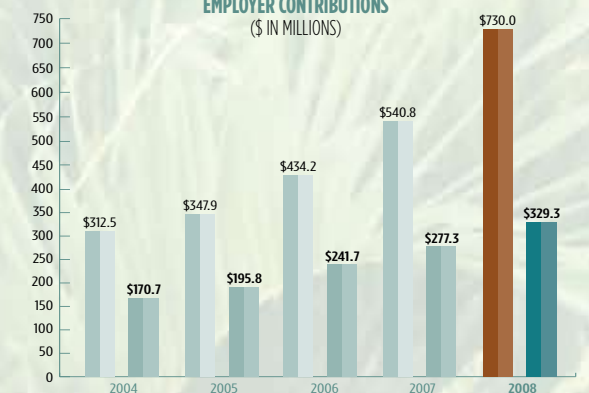
	(\$ IN MILLIONS)	
	2007	2008
MEMBER CONTRIBUTIONS	\$ 491.9	521.4
EMPLOYER CONTRIBUTIONS	827.4	1,069.2
INVESTMENT INCOME	4,944.0	(4,949.1)
TOTAL	\$ 6,263.3	(3,358.5)

MEMBER CONTRIBUTIONS (\$ IN MILLIONS)

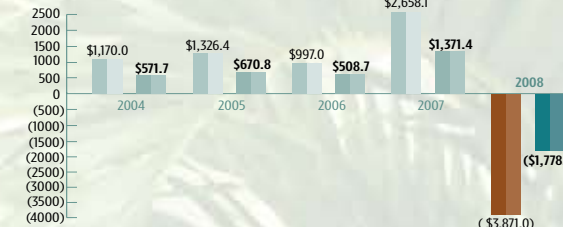


5-YEAR HIGHLIGHTS

EMPLOYER CONTRIBUTIONS (\$ IN MILLIONS)



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



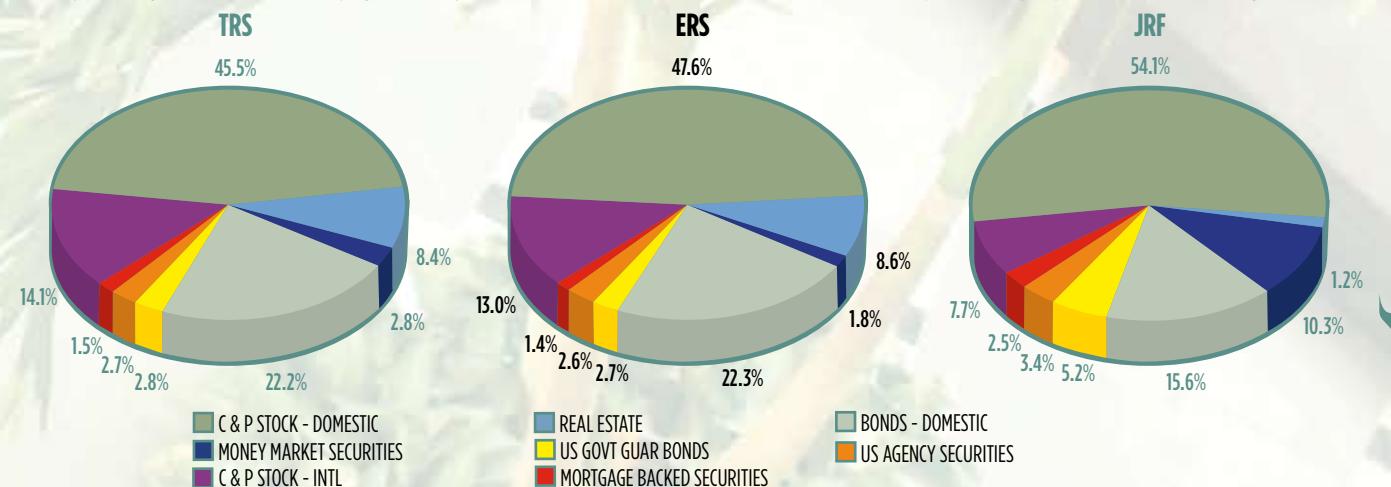
INTEREST and DIVIDEND INCOME (\$ IN MILLIONS)



TRS ERS

ASSET ALLOCATION (AS OF SEPTEMBER 30, 2008)

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.



© David Robertson, Jr. Photography

RSA 2008 STAFF, ADVISORS AND MEDICAL BOARD

CHIEF EXECUTIVE OFFICER
David G. Bronner, Ph.D., J.D.

DEPUTY DIRECTOR
Marcus H. Reynolds, Jr., J.D.

ADMINISTRATIVE STAFF

CHIEF INVESTMENT OFFICER
R. Marc Green
M.B.A., CFA

CHIEF ACCOUNTANT
AND FISCAL OFFICER
Diane E. Scott
B.S., CPA

DIRECTOR OF INFORMATION
TECHNOLOGY SERVICES
Michael T. Baker
B.S.

GENERAL COUNSEL
William T. Stephens
J.D.

GENERAL COUNSEL
William F. Kelley, Jr.
J.D.

LEGISLATIVE COUNSEL
Lindy J. Beale
J.D.

TEACHERS' RETIREMENT EXECUTIVE
Donald L. Yancey
M.P.A., J.D.

EMPLOYEES' & JUDICIAL
RETIREMENT EXECUTIVE
R. Donald Nelson
M.S.

DIRECTOR OF PUBLIC EDUCATION
EMPLOYEES' HEALTH INSURANCE PLAN
Lee M. Hayes
M.B.A.

DIRECTOR OF RSA-1
Teresa B. Pettus
B.S.

DIRECTOR OF MEMBER SERVICES
Penny K. Wilson
B.S.

DIRECTOR OF COMMUNICATIONS
Michael E. Pegues
M.A.

DIRECTOR OF FIELD SERVICES
Judy P. Utley
B.S.

ADVISORS

CERTIFIED PUBLIC ACCOUNTANTS
Carr, Riggs and Ingram, LLC

REGIONS BANK, N.A.
Mr. Brian Sullivan

CAVANAUGH MACDONALD
CONSULTING, LLC
Mr. Edward A. Macdonald

ATTORNEY GENERAL
Hon. Troy King

CHIEF EXAMINER
Mr. Ronald L. Jones

MEDICAL BOARD

CHAIRMAN
Neil Stronach, M.D.

Malcolm Brown, M.D.

Glenn Yates, M.D.

RSA LEGAL, LEGISLATION, COMMUNICATIONS AND FIELD SERVICES

LEGAL While changing economic conditions present new challenges to the RSA Legal staff as well as to the Investment staff, the most stable function of the Legal staff remains advising the various RSA divisions on compliance with state and federal laws and regulations. This helps avoid unnecessary litigation and ensures that our members receive the benefits to which they are entitled, while protecting against fraud and abuse. During the past year, the Legal staff has provided advice and guidance on numerous issues in the areas of benefits, administration, legislation, taxation, real estate, contracts, and personnel.

Significantly, the Legal staff has prepared and implemented a new code of conduct and compliance plan for the Investment Division and, as a part of that implementation, has held training sessions for members of the Investment Division. The Legal staff has also produced legal manuals to help various staff members in the performance of their duties.

The RSA again won significant decisions in litigation in both federal and state courts and in administrative proceedings to protect our members' funds. In addition to benefit cases, contract cases and other cases, to protect RSA's assets the RSA has continued to actively pursue the perpetrators, aiders and abettors of securities fraud.

While in 2008 the Legal staff assisted in the resolution of disputes with contractors allowing the closeout of our Mobile construction projects, RSA's newer investment projects in Mobile, Baldwin County, Montgomery and Opelika continue to present a myriad of legal issues and challenges, including some litigation. Additionally, the Legal staff continued to successfully address legal issues relating to RSA's mature investment development projects and issues relating to potential development projects. ■

LEGISLATION The Regular Session of the Alabama Legislature began on February 5, 2008, and ended at midnight on May 19, 2008. Both the House and the Senate passed the General Fund Budget with a provision that detailed how funds would be apportioned should revenues fall short. Specifically, the legislation sought to protect certain agencies, such as Medicaid, from budget cuts. Governor Riley returned the \$2 Billion Fiscal Year 2009 General Fund Budget just before 11:55 p.m. on the final night of the session, with a line-item veto that deleted the language used to protect the specific agencies. By returning the bill so late, he prevented the Legislature from re-passing the bill over his objections. The Governor's line-item veto was sustained (Act 2008-466). However, the Senate failed to pass the Education Trust Fund Budget. In fact, due to the Senate's filibuster of the budget, as well as delaying tactics

in the House, many high profile bills died. The Senate could never reach a compromise over the four-year universities' push for additional money.

The 2008 First Special Session began on May 27, 2008, and concluded on May 31, 2008. This five-day session resulted in the passage of The Education Trust Fund Budget (Act 2008-552). Both the Teachers' Retirement System (TRS) and the Public Education Employees' Health Insurance Plan (PEEHIP) were funded at the agreed upon rates. An Employees' Retirement System (ERS) funded retiree bonus bill was also passed (Act 2008-555). ERS members who retired from the state prior to October 1, 2008, will receive a one-time, lump sum bonus of \$1 per month of service (\$12 per year of service). Local units participating in the ERS have the option of approving and funding the bonus for their retirees. The bonus checks were paid in December 2008.

Bills passing in the 2008 Regular Session included several local constitutional amendments concerning certain elected county officials' participation in the ERS: Coffee County (Act 2008-124), Etowah County (Act 2008-283), Marshall County (Act 2008-291), and St. Clair County (Act 2008-286). All local amendments passed in the November General Election with the exception of Etowah County. Legislation also passed concerning the election of the ERS Board of Control (Act 2008-282). Active state employees who are candidates for the ERS Board of Control will now be elected in a statewide ballot conducted by the Secretary-Treasurer of the RSA. For the TRS, Act 2008-385 was passed allowing for the purchase of service credit in the TRS for employment at a Department of Defense School. The cost of the purchase must be the actuarial cost of the service. ■

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 and Mid-Career Seminars for the 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. ■

CENTRAL ALABAMA

THE RETIREMENT SYSTEMS OF ALABAMA
INVESTS IN INNOVATION



© Alabama Department of Archives and History, Montgomery, Alabama circa 1906

In 1886, Montgomery became the first city in the United States to have city-wide electric street cars. It was called the “Lightning Route.”

Today, Montgomery is the hub of a different kind of lightning fast progress. **Bell Micro**, located in the RSA Tower, provides a wide range of high-end, high-speed storage and computer peripherals and platforms. Bell Micro moved their Global Support System to Montgomery in 2001.



© David Robertson, Jr. Photography

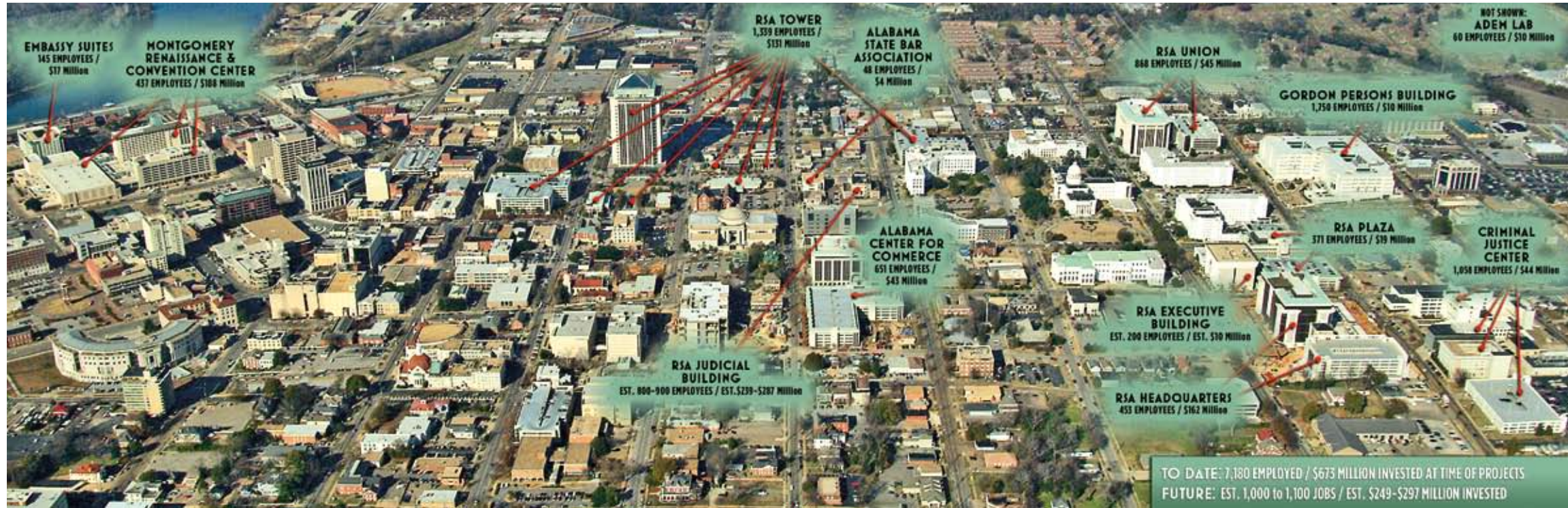


The Wright brothers flying over the Kohn plantation, future site of Maxwell Air Force Base.
© Alabama Department of Archives and History, Montgomery, Alabama circa 1910s



Montgomery became the winter home of the *Wright Flying School* in 1910. Today, the Retirement Systems of Alabama is partnering with **GKN Aerospace** in Tallassee. They manufacture assemblies for civil and military aircraft programs such as the Sikorsky Blackhawk, Airbus A330/340 and A380 jetliners, the F-22 and the GEnx engine for GE.

“**GKN Aerospace** has added more than 500 jobs to their Alabama operations since 2005. Their increase in new programs has demonstrated that the Alabama facility is capable of contributing to the best aerospace production programs in the world.” — *Eric Basinger*, EXECUTIVE DIRECTOR OF THE ELMORE COUNTY ECONOMIC DEVELOPMENT AUTHORITY



© 2WR Holmes Wilkens Architects



The RSA Executive Building and RSA Plaza / The Alabama Center for Commerce



Downtown Montgomery's growth over the past twenty years is a great example of the positive impact the Retirement Systems of Alabama's investments and member contributions have made. From the changed skyline to first-class office space, the capital city's image and growth have greatly improved. With seven office buildings and seven parking decks, one activity center, one park, one children's learning center, and another office building due for completion in 2010, the RSA has provided over 7,000 workers, many of whom are state employees, with greatly improved office space.

The RSA Activity Center



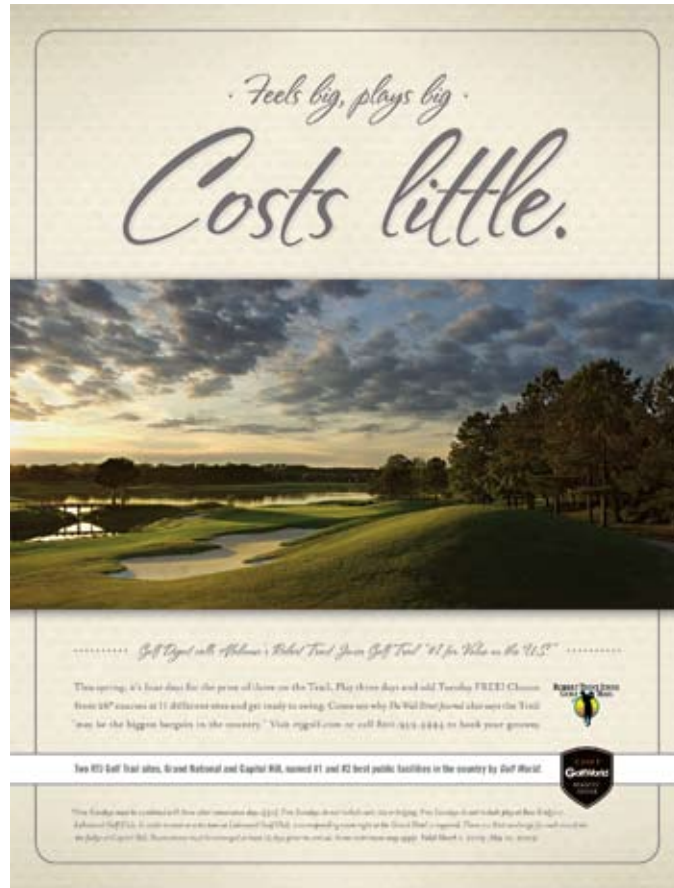
© David Robertson, Jr. Photography

The Helen Hunt Learning Center



© 2WR Holmes Wilkens Architects

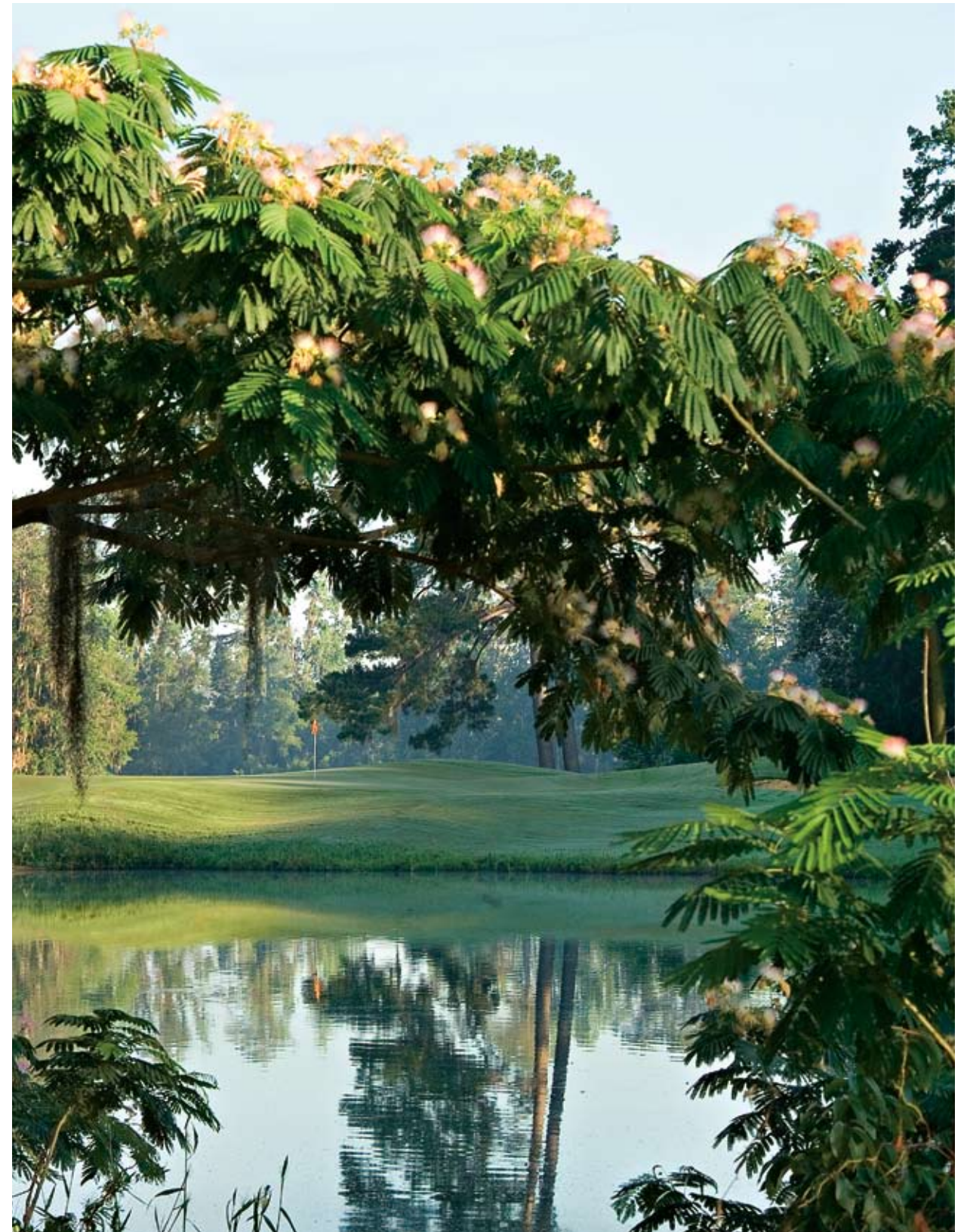




Central Alabama is home to three Robert Trent Jones Golf Trail sites, all of which have been voted among the top public courses in the country by *Golf World*, *Golf Magazine*, *Golf Digest*, and *Zagat Survey of America's Top Golf Courses*. Prattville is home to Capitol Hill, the site of the Navistar LPGA Classic presented by MaxxForce, which had an estimated tourism impact in 2008 of \$13 million. Greenville has Cambrian Ridge; and the Auburn/Opelika area is home to the Grand National.

The RSA is currently partnering with Conner Bros. Construction Company, Inc., in building National Village, a 700-acre resort community which will surround Grand National. This development is projected to include 1,200 to 1,500 residences, shops, a marina and lake, streams, and forested walking paths.

The Montgomery Marriott Prattville Hotel and Conference Center at Capitol Hill the Cottage Den
Opposite: **Cambrian Ridge**, Sherling Course, Number Five
© Michael Clemmer - Golf Landscape Photography





The RSA's resort hotels in central Alabama are the Auburn Marriott Opelika Hotel and Conference Center at Grand National, the Montgomery Marriott Prattville Hotel and Conference Center at Capitol Hill, and the Renaissance Montgomery Hotel & Spa at the Convention Center. All three provide excellent dining and meeting space and have the latest in technology. The Renaissance Montgomery Hotel & Spa at the Convention Center includes the 1,800 seat Montgomery Performing Arts Centre.

The Alabama Department of Environmental Management's laboratory received renovations financed by the RSA. ■

**THE RETIREMENT SYSTEMS OF ALABAMA
INVESTMENTS
IN CENTRAL ALABAMA**

© Donald Riddle Images



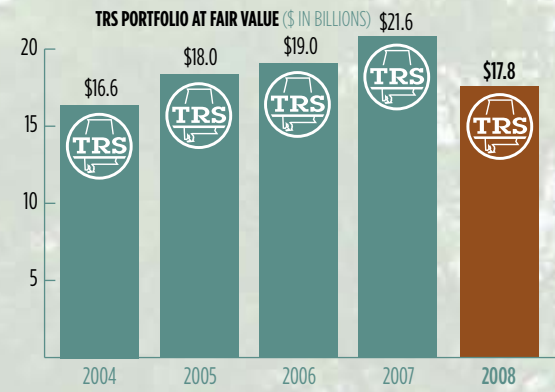
The central region of Alabama is home to two of **Raycom Media's** 43 TV stations, WSFA of Montgomery and WTVM in Lee County. Headquartered in the RSA Tower, Raycom Media provides free advertising for the Robert Trent Jones Golf Trail and for Alabama Tourism.

- RTJ GOLF TRAIL
- MONTGOMERY MARRIOTT PRATTVILLE HOTEL AND CONFERENCE CENTER AT CAPITOL HILL
- AUBURN MARRIOTT OPELIKA HOTEL AND CONFERENCE CENTER AT GRAND NATIONAL
- RENAISSANCE MONTGOMERY HOTEL & SPA AT THE CONVENTION CENTER
- MONTGOMERY PERFORMING ARTS CENTRE
- NATIONAL VILLAGE
- RAYCOM MEDIA
- BELL MICRO
- SEVEN DOWNTOWN MONTGOMERY OFFICE BUILDINGS AND SEVEN PARKING DECKS
- RSA ACTIVITY CENTER
- CHILDREN'S LEARNING CENTER
- RSA PAVILLION PARK
- GKN AEROSPACE
- ADEM LABORATORY

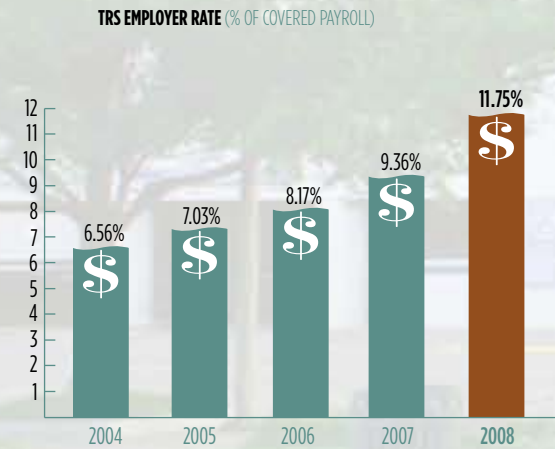
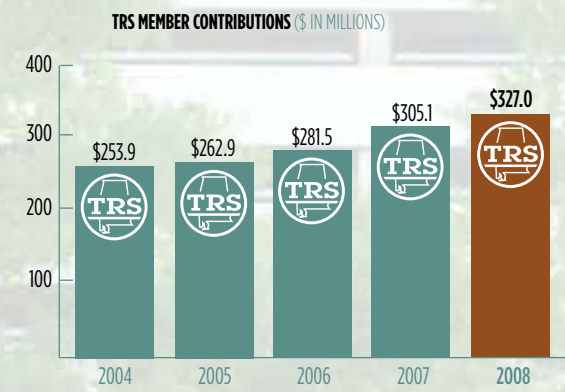
TEACHERS' RETIREMENT SYSTEM

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

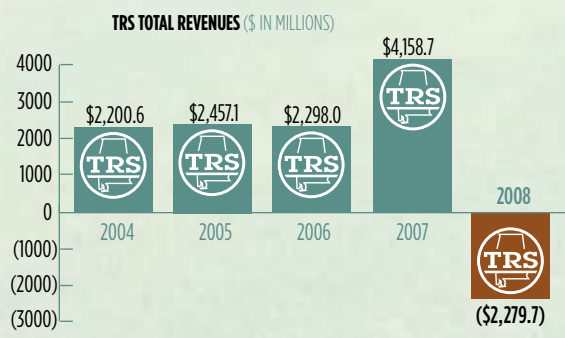
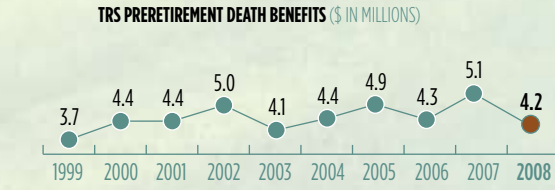
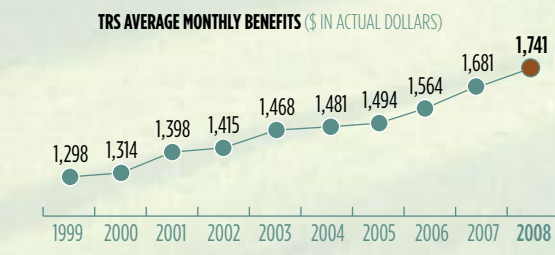
BENEFITS ADMINISTRATION



REVENUE SOURCES



RETIREMENT BENEFITS

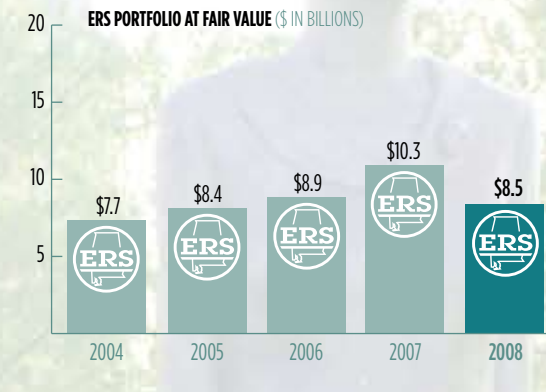


© David Robertson, Jr. Photography

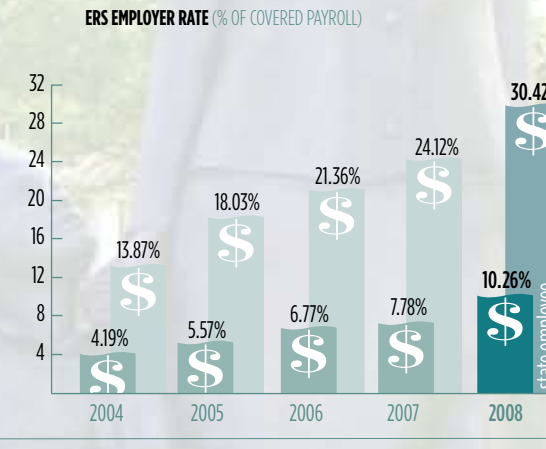
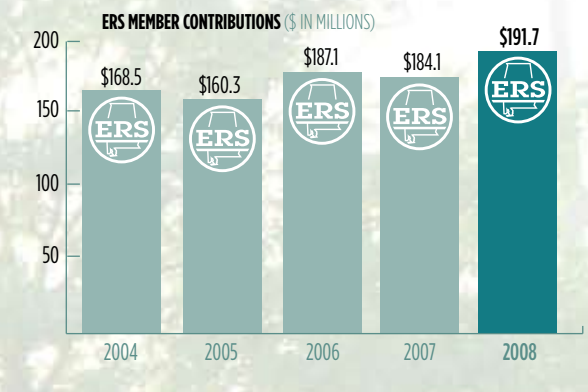
EMPLOYEES' RETIREMENT SYSTEM

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.

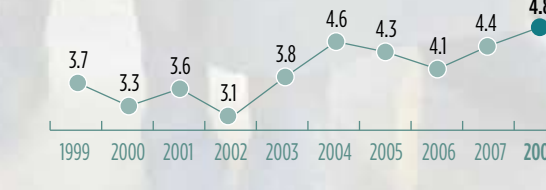
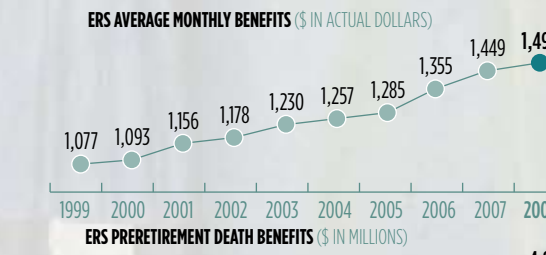
BENEFITS ADMINISTRATION



REVENUE SOURCES



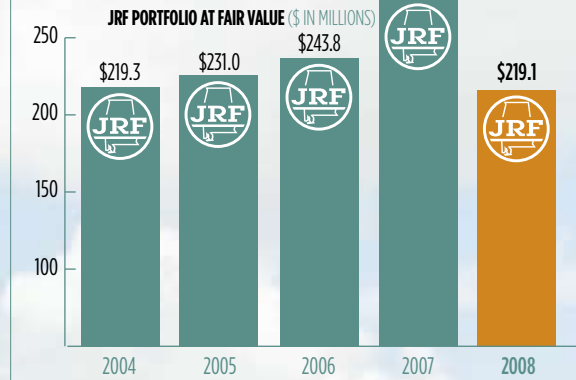
RETIREMENT BENEFITS



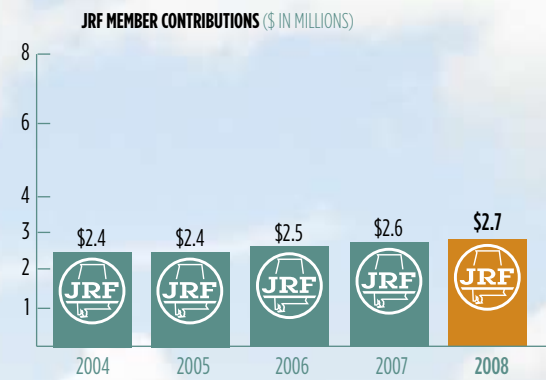
JUDICIAL RETIREMENT FUND

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.

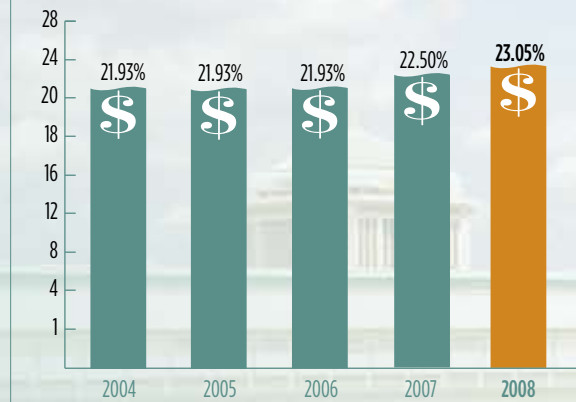
BENEFITS ADMINISTRATION



REVENUE SOURCES



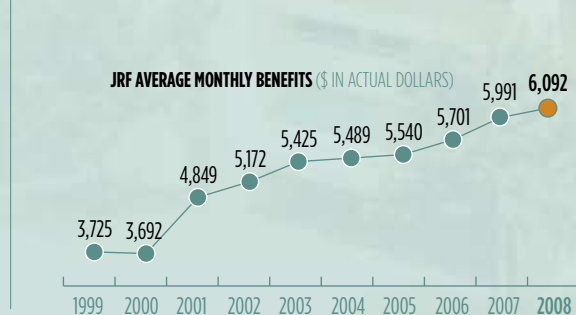
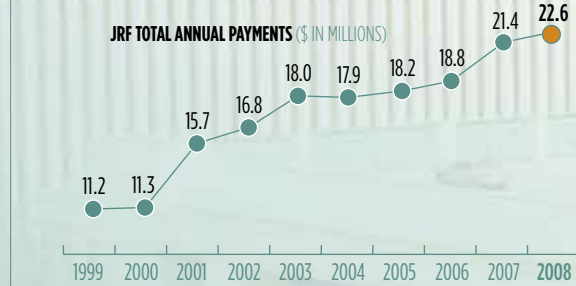
JRF EMPLOYER RATE (% OF COVERED PAYROLL)



JRF EMPLOYER CONTRIBUTIONS (\$ IN MILLIONS)



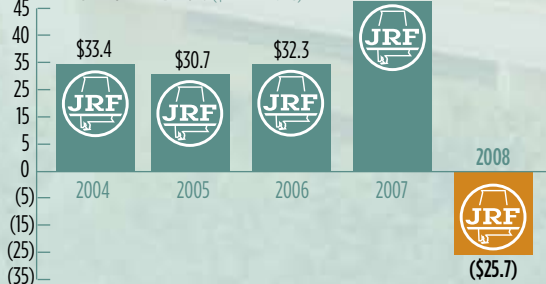
RETIREMENT BENEFITS



JRF INVESTMENT INCOME (\$ IN MILLIONS)



JRF TOTAL REVENUES (\$ IN MILLIONS)



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 NET ASSETS* (\$ IN MILLIONS)	PARTICIPATING MEMBERS
SEPTEMBER 30, 2002 (FIXED INVESTMENT OPTION)	7.39	-5.71	1.68	625.4	25,571
SEPTEMBER 30, 2002 (STOCK INVESTMENT OPTION)	1.42	-18.69	-17.27	47.2	5,599
SEPTEMBER 30, 2003 (FIXED INVESTMENT OPTION)	6.18	-1.36	4.82	676.9	25,793
SEPTEMBER 30, 2003 (STOCK INVESTMENT OPTION)	1.87	20.01	21.88	62.5	5,767
SEPTEMBER 30, 2004 (FIXED INVESTMENT OPTION)	5.63	0.36	5.99	709.6	26,057
SEPTEMBER 30, 2004 (STOCK INVESTMENT OPTION)	1.75	11.30	13.05	98.0	8,568
SEPTEMBER 30, 2005 (FIXED INVESTMENT OPTION)	6.92	-2.40	4.52	758.0	28,379
SEPTEMBER 30, 2005 (STOCK INVESTMENT OPTION)	2.57	9.84	12.41	122.7	10,201
SEPTEMBER 30, 2006 (FIXED INVESTMENT OPTION)	6.16	-1.66	4.50	777.9	29,520
SEPTEMBER 30, 2006 (STOCK INVESTMENT OPTION)	2.02	8.57	10.59	161.4	12,350
SEPTEMBER 30, 2007 (FIXED INVESTMENT OPTION)	6.07	1.89	7.96	866.4	31,476
SEPTEMBER 30, 2007 (STOCK INVESTMENT OPTION)	2.05	13.98	16.03	214.9	14,884
SEPTEMBER 30, 2008 (FIXED INVESTMENT OPTION)	5.65	-5.71	-0.06	896.2	32,738
SEPTEMBER 30, 2008 (STOCK INVESTMENT OPTION)	2.21	-23.64	-21.43	183.7	13,623

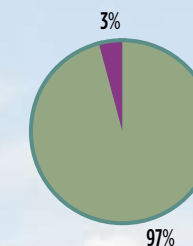
*ASSETS ARE VALUED AT COST THROUGH SEPTEMBER 30, 1998, AND AT MARKET THEREAFTER.

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.

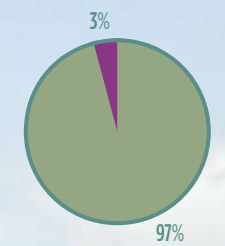
The Tax Reform Act of 1986 prohibited contributions to deductible voluntary employee contribution plans, such as PEIRAF, for years after 1986. Accordingly, the PEIRAF Board of Control discontinued receiving contributions to this plan after December 31, 1986. However, the PEIRAF continues to reinvest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

RSA-1 / INVESTMENT ALLOCATION STOCK FUND (AS OF SEPTEMBER 30, 2008)

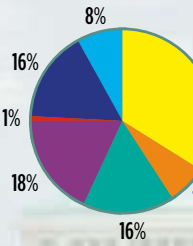


■ MONEY MARKET ■ DOMESTIC COMMON STOCK

(AS OF SEPTEMBER 30, 2007)

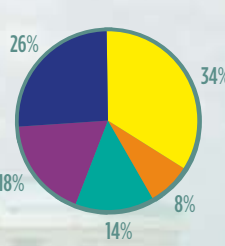


RSA-1 / INVESTMENT ALLOCATION FIXED FUND (AS OF SEPTEMBER 30, 2008)

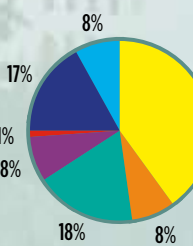


■ MONEY MARKET ■ US GOVERNMENT GUARANTEED ■ PRIVATE PLACEMENTS ■ US AGENCY SECURITIES ■ COLLATERALIZED MORTGAGE OBLIGATIONS ■ CORPORATE BONDS ■ GNMA

(AS OF SEPTEMBER 30, 2007)

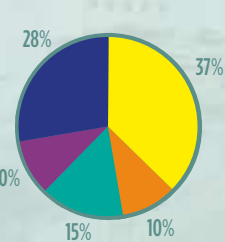


PEIRAF / INVESTMENT ALLOCATION (AS OF SEPTEMBER 30, 2008)



■ MONEY MARKET ■ US GOVERNMENT GUARANTEED ■ PRIVATE PLACEMENTS ■ US AGENCY SECURITIES ■ COLLATERALIZED MORTGAGE OBLIGATIONS ■ CORPORATE BONDS ■ GNMA

(AS OF SEPTEMBER 30, 2007)



PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE PLAN

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 plans and the Flexible Spending Account Plan; Southland National administers the optional plans; and Express Scripts, Inc. administers the prescription drug plan.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

BALANCE SHEET

AS OF SEPTEMBER 30, 2008
AND SEPTEMBER 30, 2007

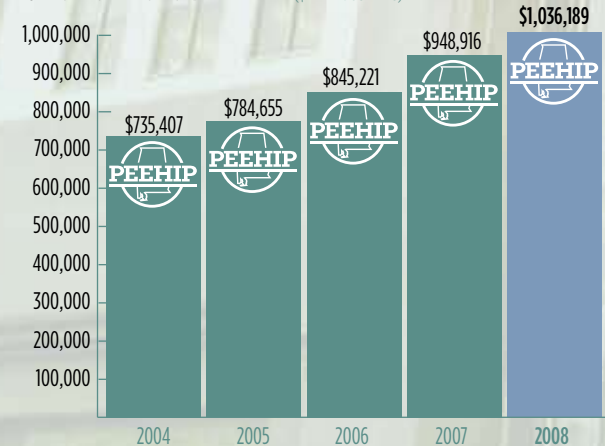
	(\$ IN THOUSANDS)	
	2008	2007 RESTATED
ASSETS		
CASH	\$ 3,184	\$ 2,208
RECEIVABLES		
PREMIUMS	2,162	1,815
REBATES-PRESCRIPTION DRUG	5,730	5,732
INTEREST	103	563
TOTAL RECEIVABLES	7,995	8,110
DEPOSIT WITH CLAIMS-PAYING AGENT	1,425	707
INVESTMENTS, AT FAIR VALUE	73,716	92,455
TOTAL ASSETS	\$ 86,320	\$ 103,480
LIABILITIES		
ACCOUNTS PAYABLE	\$ 170	\$ 16
EMPLOYEE BENEFITS PAYABLE	483	460
OTHER POSTEMPLOYMENT BENEFITS	193	-
REPORTED CLAIMS PAYABLE	21,975	15,392
CLAIMS INCURRED BUT NOT REPORTED	47,619	35,576
TOTAL LIABILITIES	70,440	51,444
FUND EQUITY-UNRESTRICTED		
EXPENSE FUND	2,326	1,723
INSURANCE FUND	13,554	50,313
TOTAL FUND EQUITY	15,880	52,036
TOTAL LIABILITIES AND FUND EQUITY	\$ 86,320	\$ 103,480

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2008
AND SEPTEMBER 30, 2007

	(\$ IN THOUSANDS)	
	2008	2007 RESTATED
OPENING REVENUES		
PREMIUMS	\$ 863,917	\$ 834,345
INTEREST INCOME	6,443	16,404
NET (DECREASE)/INCREASE IN FAIR VALUE OF INVESTMENTS	(30)	452
NET INCOME FROM SECURITIES LENDING ACTIVITIES	-	37
TOTAL OPERATING REVENUES	870,330	851,238
OPERATING EXPENSES		
CLAIMS	699,529	626,538
ADMINISTRATIVE	2,731	2,199
TOTAL OPERATING EXPENSES	702,260	628,737
OPERATING INCOME	168,070	222,501
TRANSFER TO RETIREE TRUST FUND	(204,226)	(417,000)
FUND EQUITY		
BEGINNING OF THE YEAR	52,036	246,535
END OF THE YEAR	\$ 15,880	\$ 52,036

TOTAL CLAIMS EXPENSE ACTIVE AND RETIRED (\$ IN THOUSANDS)



© David Robertson, Jr. Photography

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

BALANCE SHEET

AS OF SEPTEMBER 30, 2008
AND SEPTEMBER 30, 2007

	(\$ IN THOUSANDS)	
	2008	2007 RESTATED
ASSETS		
RECEIVABLES		
REBATES-PRESCRIPTION DRUG	\$ 6,343	\$ 6,092
MEDICARE PART D SUBSIDY	4,033	3,196
INTEREST AND DIVIDENDS	3,025	2,512
TOTAL RECEIVABLES	13,401	11,800
DEPOSIT WITH CLAIMS-PAYING AGENT	593	-
INVESTMENTS, AT FAIR VALUE		
DOMESTIC EQUITY SECURITIES	-	105,823
DOMESTIC FIXED INCOME SECURITIES	-	112,726
SHORT-TERM INVESTMENTS	-	186,466
COMMERCIAL PAPER	179,701	-
MONEY MARKET FUNDS	67,640	-
U.S. GOVERNMENT GUARANTEED BONDS	31,093	-
U.S. AGENCY SECURITIES	47,396	-
MORTGAGE-BACKED SECURITIES	15,677	-
CORPORATE BONDS	50,011	-
PRIVATE PLACEMENTS	1,054	-
INTERNATIONAL SECURITIES	50,354	20,512
COMMON STOCKS	155,980	-
TOTAL INVESTMENTS	598,906	425,527
INVESTED SECURITIES LENDING COLLATERAL	69,928	102,044
TOTAL ASSETS	\$ 682,828	\$ 539,371
LIABILITIES		
REPORTED CLAIMS PAYABLE	\$ 8,156	\$ 8,054
CLAIMS INCURRED BUT NOT REPORTED	24,931	19,202
SECURITIES LENDING COLLATERAL	69,928	102,044
TOTAL LIABILITIES	103,015	129,300
NET ASSETS HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS	\$ 579,813	\$ 410,071

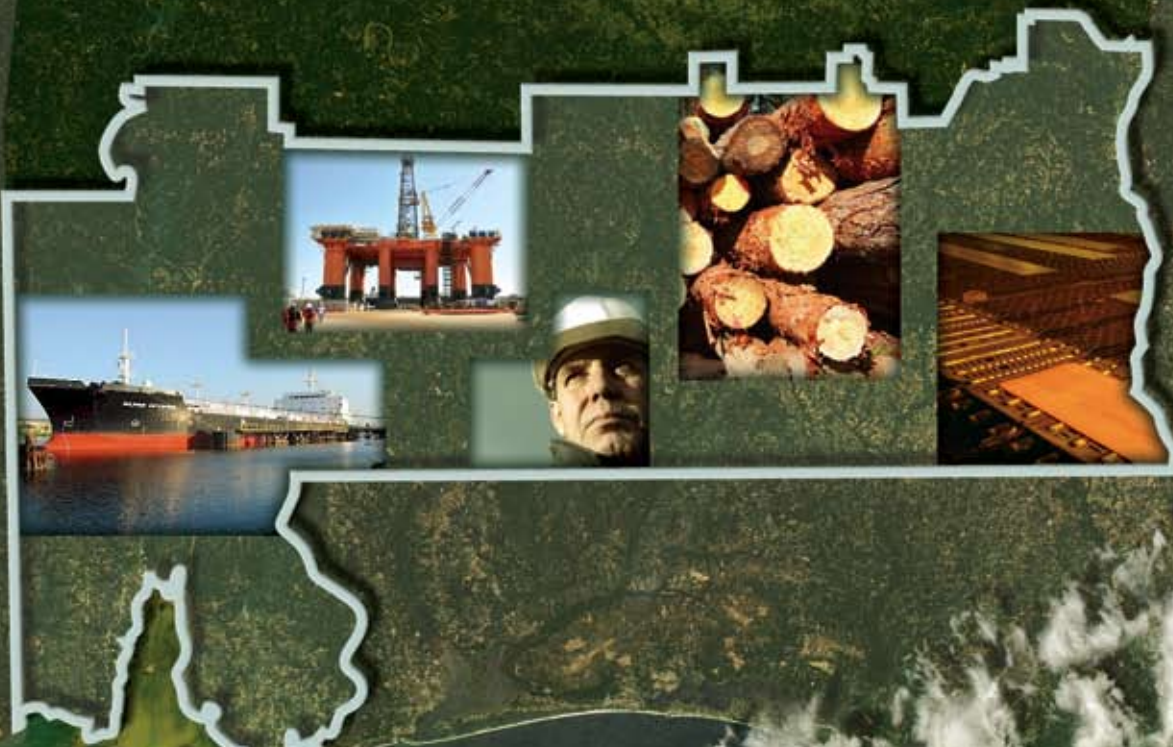
STATEMENT OF CHANGES IN PLAN NET ASSETS

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2008
AND SEPTEMBER 30, 2007

	(\$ IN THOUSANDS)	
	2008	2007 RESTATED
ADDITIONS		
CONTRIBUTIONS		
EMPLOYEE	\$ 63,327	\$ 56,782
EMPLOYER	274,975	221,064
TRANSFER FROM PEEHIF	204,226	417,000
MEDICARE PART D RETIREE DRUG SUBSIDY	23,742	26,564
TOTAL CONTRIBUTIONS	566,270	721,410
INVESTMENT INCOME (LOSS)		
FROM INVESTING ACTIVITIES		
NET (DECREASE) INCREASE IN FAIR VALUE OF INVESTMENTS	(75,608)	6,871
INTEREST AND DIVIDENDS	14,940	4,010
TOTAL INVESTMENT (LOSS) INCOME FROM INVESTMENT ACTIVITIES	(60,668)	10,881
FROM SECURITIES LENDING ACTIVITIES		
SECURITIES LENDING INCOME	3,571	2,796
LESS SECURITIES LENDING EXPENSES		
BORROWER REBATES	2,614	2,609
MANAGEMENT FEES	157	29
TOTAL SECURITY LENDING EXPENSES	2,771	2,638
INCOME FROM SECURITIES LENDING ACTIVITIES	800	158
TOTAL INVESTMENT (LOSS) INCOME	(59,868)	11,039
TOTAL ADDITIONS	506,402	732,449
DEDUCTIONS		
BENEFITS	336,660	322,378
NET INCREASE	169,742	410,071
NET ASSETS HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS		
BEGINNING OF THE YEAR	410,071	-
END OF THE YEAR	\$ 579,813	\$ 410,071

SOUTH ALABAMA

THE RETIREMENT SYSTEMS OF ALABAMA
INVESTS IN INDIVIDUALS



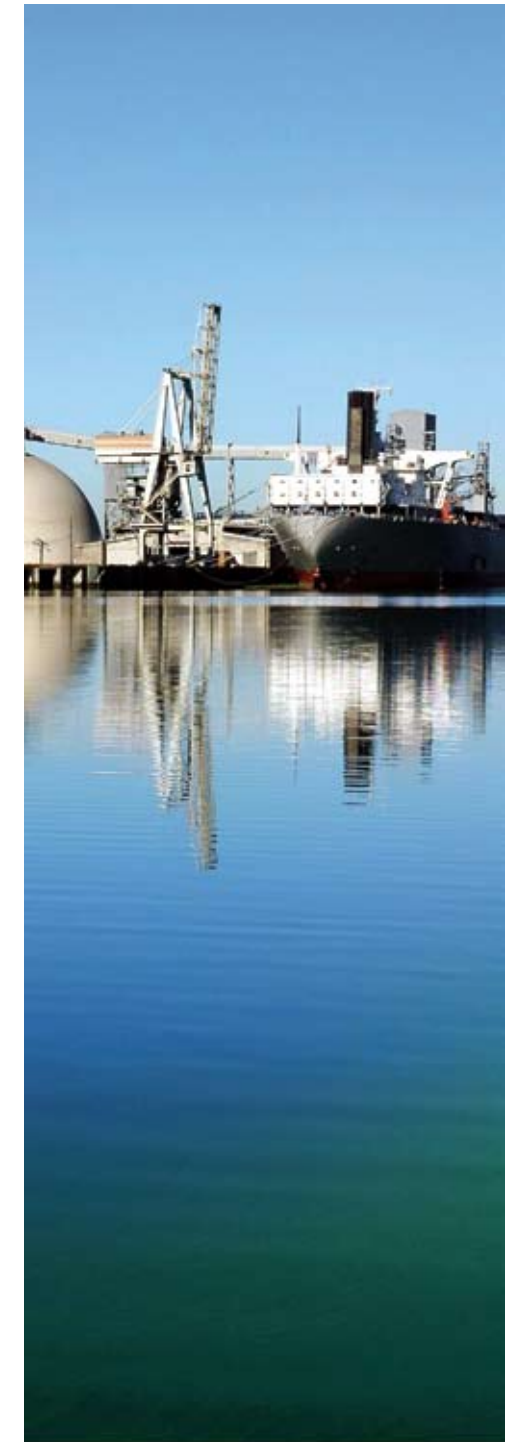
© Alabama Department of Archives and History, Montgomery, Alabama
circa 1937



Since the founding of Ft. Louis de la Mobile in 1702, the citizens of Alabama have depended on the navigable waterways in order to fully utilize the area's great natural resources. In no region of Alabama has this been as apparent than in the southern region.



Apart from Mobile Bay's great ecological resources, Mobile Bay has long been vital for the import and export of goods. Since Hurricane Katrina in 2005, **International Shipholding** has moved their headquarters from New Orleans to the RSA Battle House Tower. **Signal International, LLC**, a marine and fabrication company, has also recently moved its headquarters to the RSA Battle House Tower.



International Shipholding Corporation in Mobile is engaged in various types of waterborne freight transportation. They operate a fleet which includes 28 vessels and 720 barges, in addition to related shoreside handling facilities.

The RSA investments in the Mobile Bay region: The Battle House Tower, The Battle House Hotel and Spa, The Renaissance Riverview Hotel, The Gulf Coast Exploreum Science Center and IMAX Theatre, and the Alabama Cruise Terminal— home port for the Carnival Cruise Line’s *Holiday*— have breathed new life into this beautiful, historic city by attracting business and tourism.

The Renaissance Riverview Hotel / Carnival’s *Holiday* / Mobile’s historic downtown revitalization
© myshotz photography



Highland Oaks in Dothan, Highland Course, Number Three © Michael Clemmer - *Golf Landscape Photography*

The Robert Trent Jones Golf sites in the southern region of the state are: Highland Oaks in Dothan, Magnolia Grove in Mobile, and Lakewood Golf Club in Point Clear. The single event of the LPGA Bell Micro Classic Tournament at Magnolia Grove brought an estimated \$9 million for local businesses.

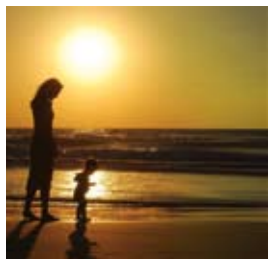


Lakewood Golf Club in Point Clear, Dogwood Course, Number Eighteen / Opposite: Azalea Course, Number Eight © Michael Clemmer - *Golf Landscape Photography*





© myshotz photography



The Grand Hotel Marriott Resort, Golf Club & Spa in Point Clear was named the top family resort by *Travel and Leisure* and *Zagat*. The

RSA is working with Point Clear Partners to construct a mixed-use development adjacent to The Grand consisting of approximately 638 single-family residential lots and condominiums with the purpose of providing a family-friendly vacation destination that will keep families returning year after year. Bayview, a 56-unit condominium in the plan, opened in 2008.



© myshotz photography

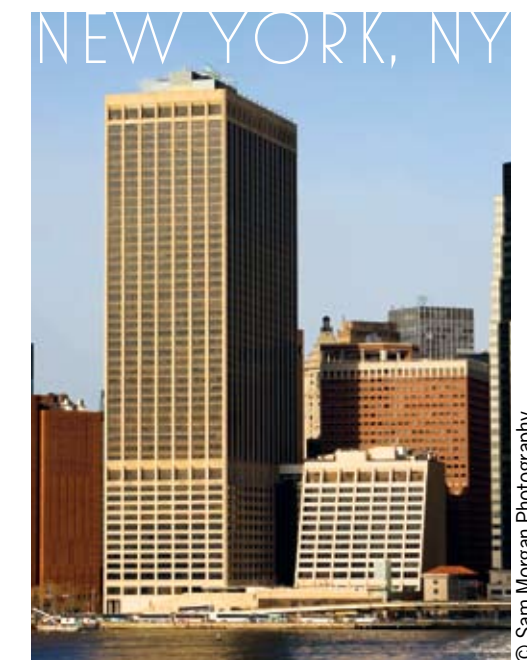
Alabama River Woodlands, Inc., procures fiber for two market pulp mills and one newsprint plant. By partnering with Auburn University's School of Forestry and Wildlife Sciences, they support the educational training of future forestry professionals. With a commitment to maintaining an environmental leadership position within their industry, facilities are operated to meet or exceed applicable environmental requirements as they strive to conserve and protect our natural resources. ■



THE RETIREMENT SYSTEMS OF ALABAMA INVESTMENTS IN SOUTH ALABAMA

- RTJ GOLF TRAIL
- RAYCOM MEDIA
- ALABAMA CRUISE TERMINAL
- SSAB STEEL
- INTERNATIONAL SHIPHOLDING CORPORATION
- SIGNAL INTERNATIONAL
- EADS/AIRBUS
- ALABAMA RIVER WOODLANDS, INC.
- THE GRAND HOTEL MARRIOTT RESORT GOLF CLUB & SPA
- THE BATTLE HOUSE HOTEL AND SPA
- THE BATTLE HOUSE TOWER RENAISSANCE
- RIVERVIEW HOTEL
- KVAERNER
- OIL FIELD PRODUCTS
- THE GULF COAST EXPLOREUM SCIENCE CENTER AND IMAX THEATRE
- BAYVIEW DEVELOPMENT
- DOMINION SENIOR LIVING

OUTSIDE ALABAMA
55 WATER STREET



© Sam Morgan Photography

Among the Retirement Systems of Alabama's out-of-state investments, **55 Water Street** remains its flagship, debt-free investment. As the largest office building in New York City, 55 Water Street sits on 3.7 acres of Lower Manhattan. With 3.8 million square feet, tenants include publishers, financial institutions, government offices, and insurance companies. ■

RSA 2008 INVESTMENT STAFF



BOARD ROOM

EQUITY ANALYST
Bobby Long
M.B.A., CFA

EQUITY ANALYST
G. Allan Carr, Jr.
M.B.A., CFA

FIXED INCOME ANALYST
C. Lance Lachney
M.B.A., CFA

ASSISTANT DIRECTOR OF EQUITIES
Steve Lambdin
M.B.A., CPA, CFA

EQUITY ANALYST
Adam Rogers
M.A., CFA

EQUITY ANALYST
J. Keith Buchanan
M.B.A., CFA

EQUITY ANALYST
Michael J. McNair
B.S.

FIXED INCOME ANALYST
Nicholas A. Prillaman
M.A.

CASH MANAGEMENT & OPERATIONS
Nancy H. Sprayberry

DIRECTOR OF PRIVATE PLACEMENTS
M. Hunter Harrell
M.B.A., CFA, I.D.

CHIEF INVESTMENT OFFICER
R. Marc Green
M.B.A., CFA

DIRECTOR OF FIXED INCOME
Julie S. Barranco
M.B.A., CFA

EQUITY ANALYST
Kevin W. Gamble
M.B.A., CFA

© David Robertson, Jr. Photography / RSA Headquarters
© Foutis Commercial Photography, RSA Investment Staff

INVESTMENTS

RAYCOM MEDIA

STATIONS
AFFILIATE LOCATION MARKET RANK

AFFILIATE	LOCATION	MARKET RANK
KCBD	LUBBOCK, TX	143
KHNL	HONOLULU, HI	72
KPLC	LAKE CHARLES, LA	176
WAFF	HUNTSVILLE, AL	82
WALB	ALBANY, GA	147
WAVE	LOUISVILLE, KY	50
WDAM	HATTIESBURG, MS	167
WECT	WILMINGTON, NC	134
WFIE	EVANSVILLE, IN	102
WIS	COLUMBIA, SC	79
WLBZ	JACKSON, MS	90
WMC	MEMPHIS, TN	48
WMBF	MYRTLE BEACH, SC	104
WSFA	MONTGOMERY, AL	118
WWBT	RICHMOND, VA	58

KFVS	CAPE GIRARDEAU, MO	78
KOLD	TUCSON, AZ	68
KSLA	SHREVEPORT, LA	84
WAFB	BATON ROUGE, LA	95
WBTV	CHARLOTTE, NC	24
WCSC	CHARLESTON, SC	99
WOIO	CLEVELAND, OH	17
WTOG	SAVANNAH, GA	96
WTOL	TOLEDO, OH	73
WTVR	RICHMOND, VA	58

KAIT	JONESBORO, AR	181
KLTV	TYLER, TX	110
KTRE	LUFKIN, TX	110
WLOX	BILOXI, MS	163
WTVM	COLUMBUS, GA	128

AFFILIATE	LOCATION	MARKET RANK
WDFX	DOTHAN, AL	172
WFLX	WEST PALM BEACH, FL	38
WPGX	PANAMA CITY, FL	151
WTHZ	KNOXVILLE, TN	59
WXIX	CINCINNATI, OH	34

KFVE	HONOLULU, HI	72
WBXH	BATON ROUGE, LA	95
WUAB	CLEVELAND, OH	17

WQWQ	CAPE GIRARDEAU, MO	78
-------------	--------------------	----

COMPANIES

HEADQUARTERS / MONTGOMERY, AL
 BROADVIEW MEDIA / MONTGOMERY, AL
 CABLEVANTAGE / COLUMBIA, SC
 RAYCOM POST PRODUCTION / BURBANK, CA
 RAYCOM SPORTS / CHARLOTTE, NC /
 MOBILE, AL / SACRAMENTO, CA

COMMUNITY NEWSPAPER HOLDINGS, INC.

ALABAMA

- The News-Courier, Athens, AL
- The Cullman Times, Cullman, AL

Non-daily & other publications:

- Classified Ad Network (CNHI-CAN), Birmingham, AL
- CNHI News Service, Birmingham, AL
- North Jefferson News, Gardendale, AL
- The Leeds News, Leeds, AL
- St. Clair News Aegis, Pell City, AL

FLORIDA

Non-daily & other publications:

- The Branford News, Branford, FL
- The Jasper News, Jasper, FL
- Suwannee Democrat, Live Oak, FL
- The Mayo Free Press, Mayo, FL

GEORGIA

- Americus Times Recorder, Americus, GA
- Cordele Dispatch, Cordele, GA
- The Daily Citizen, Dalton, GA
- The Union-Recorder, Milledgeville, GA
- The Moultrie Observer, Moultrie, GA
- Thomasville Times-Enterprise, Thomasville, GA
- The Tifton Gazette, Tifton, GA
- Valdosta Daily Times, Valdosta, GA

Non-daily & other publications:

- Lake Oconee Breeze, Milledgeville, GA
- Dalton Magazine, Dalton, GA
- El Informador, Dalton, GA
- Tifton Scene, Tifton, GA

IOWA

- Ad Express & Daily Iowegian, Centerville, IA
- Clinton Herald, Clinton, IA
- The Oskaloosa Herald, Oskaloosa, IA
- Ottumwa Daily Courier, Ottumwa, IA

Non-daily publications:

- Knoxville Journal Express, Knoxville, IA
- Pella Chronicle, Pella, IA

ILLINOIS

- Commercial News, Danville, IL
- Effingham Daily News, Effingham, IL
- Mt. Vernon Register News, Mt. Vernon, IL
- Shelbyville Daily Union, Shelbyville, IL

Non-daily publications:

- Times-Leader, McLeansboro, IL

INDIANA

- The Herald Bulletin, Anderson, IN
- Goshen News, Goshen, IN
- Greensburg Daily News, Greensburg, IN
- The Evening News, Jeffersonville, IN
- Kokomo Tribune, Kokomo, IN
- The Lebanon Reporter, Lebanon, IN
- The Pharos-Tribune, Logansport, IN
- The Tribune, New Albany, IN
- Rushville Republican, Rushville, IN
- The Tribune Star, Terre Haute, IN
- Washington Times Herald, Washington, IN

Non-daily publications and other businesses:

- Hendricks County Flyer, Avon, IN
- XL Marketing, Anderson, IN
- Batesville Herald-Tribune, Batesville, IN
- Highflyer, Carmel, IN
- The Zionsville Times Sentinel, Zionsville, IN

KANSAS

Non-daily publications:

- Farm Talk, Parsons, KS

KENTUCKY

- The Independent, Ashland, KY
- Times Tribune, Corbin, KY
- Glasgow Daily Times, Glasgow, KY
- Richmond Register, Richmond, KY
- Commonwealth Journal, Somerset, KY

Non-daily publications:

- Greenup News-Times, Greenup, KY
- Grayson Journal Enquirer, Grayson, KY
- The Sentinel Echo, London, KY

- Wayne County Outlook, Monticello, KY
- Morehead News, Morehead, KY
- Olive Hill Times, Olive Hill, KY
- McCreary County Record, Whitley City, KY

MASSACHUSETTS

- Gloucester Daily Times, Gloucester, MA
- The Daily News of Newburyport, Newburyport, MA
- The Eagle-Tribune, North Andover, MA
- The Salem News, Salem, MA

Non-daily publications:

- Andover Townsman, Andover, MA
- Town Crossings, Andover, MA
- The Haverhill Gazette, Haverhill, MA

MARYLAND

- Cumberland Times News, Cumberland, MD

Non-daily publications:

- Garrett County Weekender, Oakland, MD

MICHIGAN

- The Record-Eagle, Traverse City, MI
- Grand Traverse Herald, Traverse City, MI

MINNESOTA

- Mankato Free Press, Mankato, MN

Non-daily publications:

- The Land, Mankato, MN
- Home Magazine, Mankato, MN

MISSOURI

- The Joplin Globe, Joplin, MO

MISSISSIPPI

- Laurel Leader-Call, Laurel, MS
- The Meridian Star, Meridian, MS
- Picayune Item, Picayune, MS

Non-daily publications:

- The Star Herald, Kosciusko, MS
- The Poplarville Democrat, Poplarville, MS

NORTH CAROLINA

- The Daily Southerner, Tarboro, NC

Non-daily publications:

- Stanly News & Press, Albemarle, NC
- The Randolph Guide, Asheboro, NC

NEW HAMPSHIRE

- Carriage Towne News, Kingston, NH
- Derry News / Weekender, Derry, NH

NEW YORK

- Lockport Union-Sun & Journal, Lockport, NY
- The Journal-Register, Medina, NY
- Niagara Gazette, Niagara Falls, NY
- Tonawanda News, North Tonawanda, NY
- The Daily Star, Oneonta, NY
- The Press-Republican, Plattsburgh, NY

Non-daily publications & other businesses:

- TheAmherstRecord.com, Amherst, NY
- Albion Advertiser, Albion, NY
- Grand Island Record, Grand Island, NY
- Ken-Ton Record, Kenmore, NY

OHIO

- The Star Beacon, Ashtabula, OH

OKLAHOMA

- The Ada Evening News, Ada, OK
- Chickasha Express Star, Chickasha, OK
- Claremore Daily Progress, Claremore, OK
- The Duncan Banner, Duncan, OK
- Edmond Sun, Edmond, OK
- Enid News & Eagle, Enid, OK
- McAlester News-Capital, McAlester, OK
- The Muskogee Phoenix, Muskogee, OK
- The Norman Transcript, Norman, OK
- Pauls Valley Daily Democrat, Pauls Valley, OK
- Pryor Daily Times, Pryor, OK
- The Stillwater Newspress, Stillwater, OK
- Tahlequah Daily Press, Tahlequah, OK
- Woodward News, Woodward, OK

STATIONS	AFFILIATE	LOCATION	MARKET RANK
FOX	WFXG	AUGUSTA, GA	115
WFSX		WILMINGTON, NC	134
WXTX		COLUMBUS, GA	128
WUPV		RICHMOND, VA	58

COMPANY
 HEADQUARTERS / BIRMINGHAM, AL

COMMISSIONS PAID REPORT / FISCAL YEAR 2008

	VOLUME OF BUSINESS PRIVATE PLACEMENTS AGENCIES (\$ IN MILLIONS)	COMMISSIONS STOCK TRANSACTIONS (\$ IN ACTUAL DOLLARS)	COMMISSIONS BOND TRANSACTIONS (\$ IN ACTUAL DOLLARS)
ACON / SIGNAL	\$ 100	\$	\$
BANC OF AMERICA			185,872
BEAR STEARNS	118	245,182	117,155
BENCHMARK		5,085	
BERNSTEIN		954,909	
CENTENNIAL CAPITAL		20,000	
CITIGROUP	9	877,834	304,356
CREDIT SUISSE FIRST BOSTON	100	455,838	116,113
DEUTSCHE BANK	143		89,716
EMPIRICAL RESEARCH		184,768	
FIRST DISCOUNT		15,985	
GARDNER RICH		19,250	
GOLDMAN SACHS	49	253,646	140,891
ISSUER DESIGNATED	5		238,853
ISI		389,740	
JEFFRIES		255,101	
JP MORGAN CHASE		889,883	30,320
KEYBANC CAPITAL MARKETS	106	27,550	38,568
KEEFE BRUYETTE		142,424	
LAZARD CAPITAL		35,995	
LEHMAN BROTHERS, INC	244	799,141	445,752
MERRILL LYNCH, PIERCE, FENNER & SMITH, INC	108	836,433	309,002
MORGAN KEEGAN	3	58,500	1,500
MORGAN STANLEY	142	1,017,001	212,828
NATIONAL ALABAMA	266		
NBC SECURITIES, INC		60,000	
OPPENHEIMER		289,032	
RAYCOM MEDIA	583		
RAYMOND JAMES	717	57,500	236,559
REGISTER CORTS		15,000	
SANDLER O'NEIL		231,265	
SECURITIES CAPITAL		23,750	
SOUTHCOAST		163,064	
SOUTHWEST SECURITIES		15,000	
STERNE, AGEE & LEACH	3	122,550	1,500
UBS WARBURG	54	40,433	67,185
WACHOVIA	9	321,709	
WISE METALS	75		
TOTAL	\$ 2,834	\$ 8,820,768	\$ 2,536,170

FIXED INCOME ACTIVITY

At the beginning of fiscal year 2008, the Federal Reserve had just lowered the discount rate to 5.75% after two failed attempts to calm financial markets by pumping in liquidity. The discount window is a backup facility for banks and depository institutions in the overnight funds market provided by the Federal Reserve. The move was executed in response to a global credit crunch that had temporarily caused overnight lending rates to soar. At its scheduled September meeting, policymakers lowered the federal funds rate by 50 basis points, stating that the "tightening of credit conditions has the potential to intensify the housing correction and to restrain economic growth." With the economic climate getting worse and consumer confidence shaken, the Federal Reserve opted to lower short-term interest rates once again at the end of October bringing the bank lending rate to 4.50%. Thomas Hoenig, the Federal Reserve Bank of Kansas City President, cast the only dissenting vote.

During this time, the Treasury yield curve steepened dramatically as expectations began to rise regarding future rate cuts. While governing bodies felt the "expansion would likely slow in the near term," the housing recession had yet to filter down into the employment numbers. The "flight to quality" was quite evident in November with Treasuries posting over a 3% return. The Fed lowered rates at the December FOMC meeting as concerns about credit availability and the sizable losses at financial institutions took center stage. Many of the issues concerning bank balance sheets and counterparty risk were continuing evidence of the deterioration of mortgage-related assets. The one bright spot was the ability to raise capital through preferred equity offerings and the infusion of cash from sovereign wealth funds.

As the new calendar year rolled in, economic activity began to sharply decelerate with a noticeable deterioration in the labor market. Headline inflation numbers had also ramped up considerably due to the rapid rise in energy prices. Things finally came to a head in mid-January. Standard & Poor's placed Ambac, a municipal bond guarantor that also insures mortgage-related structured products, on negative watch. The prospect of downgrades and the deterioration in the condition of other municipal insurers shook the market as these actions could lead to massive write-downs at large financial institutions. Seeing international markets get bludgeoned and recognizing the crisis of confidence, the Federal Reserve lowered the federal funds rate by 75 basis points before the equity market opened. Policymakers wasted little time with a follow-up 50 basis point move at its scheduled January meeting one week later. Dallas Fed President Richard Fisher, the resident hawk of the committee, cast the only dissenting vote on concern that inflation expectations could become unanchored.

In March, the Federal Reserve announced an expansion to its securities lending program by

FIXED INCOME ACTIVITY (CONTINUED)

introducing a new Term Securities Lending Facility (TSLF). The program actually gives non-bank dealers access to the same kind of collateral awarded to banks under the Term Auction Facility (TAF). In order to "promote liquidity" and "foster the functioning" of financial markets, the Fed is essentially taking the opposite side of the prevailing market trade at the moment, which is to sell mortgage-backed securities and buy Treasuries. Unfortunately for Bear Stearns, the auctions for the facility did not come in time. The firm which had been labeled as the originator of the sub-prime crisis last summer had run into major funding problems. As many broker-dealers use the repo market to finance its inventory and positions, no partners were willing to accept the counterparty risk associated with the firm. Trading partners began making margin calls, resulting in a dramatic loss of cash reserves. With no options available, the firm agreed to be purchased by JP Morgan with funding assistance provided by the Federal Reserve. The Fed also established the Primary Dealer Credit Facility (PDCF), which would allow discount window borrowing for primary dealers. Policymakers actually invoked a clause within the Federal Reserve Act to waive the prohibition on loans to non-bank institutions. At the end of March, short-term interest rates were lowered by 75 basis points to 2.25%, a 300 basis point reversal from six months earlier.

In early spring, investors witnessed a gradual improvement in credit spreads, with the cost to insure a basket of investment-grade securities falling considerably. With the expectation that the Federal Reserve would be on hold after its 25 basis point cut in April, Treasury yields rose dramatically and the curve flattened. Fixed income investors began to focus on the prospect of higher inflation as oil and commodities touched new highs. However, sentiment quickly reversed course as the CRB (commodities index) fell approximately 13% in July, its worse showing in nearly three decades. This abrupt movement was in response to the slowdown in economic growth here and abroad.

September 2008 was one month that few will forget. In early September, Treasury Secretary Hank Paulson stepped in to prevent a collapse of Fannie Mae and Freddie Mac. The government seized control of the mortgage-finance companies wiping out preferred and common shareholders along the way. The two represent over 40% (\$5 trillion) of the mortgage market. Within a week, Lehman Brothers was forced to file for bankruptcy as a viable solution could not be reached to save the firm. The following day, the Federal Reserve left rates unchanged once again, however they did acknowledge that "strains in financial markets have increased significantly and labor markets have weakened further." The Fed was also forced to throw an \$85 billion lifeline to AIG, one of the world's largest insurers. As this all played out, global credit markets came to a halt. Corporate securities in the month of September underperformed their government-backed brethren by 700 basis points. Most of the decline in value came from the financial sector due to the situations involving Lehman and AIG. We feel that governing bodies will continue to create programs in order to free up liquidity to combat the hoarding of cash due to counterparty risks. We also believe that the Federal Reserve will likely continue down the path of reducing interest rates in the near term as consumer spending weakens and inflation fears subside.

For fiscal year 2008, the RSA purchased approximately \$2.1 billion in additional securities for the fixed income portfolio. As of September 30, 2008, the RSA's fixed income portfolio had a market value of \$10.6 billion, of which 6.3% was in money market securities. For the fiscal year, the total annual returns for the domestic fixed income portfolios were -1.84% for the TRS and -2.01% for the ERS and -1.39% for the JRF. The five-year annualized returns were 6.34% for the TRS and 6.33% for the ERS and 5.16% for the JRF. The ten-year annualized returns were 6.02% for the TRS and 5.96% for the ERS and 4.37% for the JRF. ■

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

MONTHS	TRS	ERS	JRF	TOTAL
OCTOBER THROUGH MARCH	\$ 753.2	359.6	8.1	1,120.9
APRIL THROUGH SEPTEMBER	669.6	318.2	8.9	996.7
TOTAL	\$ 1,422.8	677.8	17.0	2,117.6

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 STRUCTURE (IN %)

YEARS TO MATURITY	TRS			ERS		
	2008	2007	2006	2008	2007	2006
0 TO <5	26	22	23	26	20	21
5 TO <15	65	72	62	66	75	64
15 TO <20	2	2	1	2	1	1
20 TO <25	1	2	5	1	2	5
25 TO <30	6	2	9	6	2	9

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 EVALUATION (IN %)

RATING	TRS			ERS		
	2008	2007	2006	2008	2007	2006
AAA	25	25	25	24	24	23
AA	4	4	3	4	3	3
A	9	7	8	9	7	8
BAA	11	12	17	11	12	17
NOT RATED	50	50	47	51	52	49

EQUITY STRATEGY

As you would suspect, making a high nine days into the new year is not a good thing. Basically from the beginning, fiscal 2008 was on a slippery slope. The subprime debacle was beginning to manifest itself in ways even the bears had not foreseen. The ultimate result for the stock market was a slow bleed of negative earnings estimate revisions and multiple compression. In between we saw a rescue of Bear Stearns, Lehman filing for bankruptcy, and the government basically nationalizing the largest insurance company in the U.S. We also learned that the various central banks of the world were more or less asleep at the switch. The less volatile world that we had grown accustomed to also dissolved, as evidenced by the Vix index. The Vix, which is a measure of short term volatility, started the new year at 18 and closed out the year at 39. The volatility was not limited to just stocks, but nearly every other asset class, both hard and financial. In a nutshell, there was nowhere to hide, with the exception of cash and treasuries.

Throughout the year, various attempts were made to rejuvenate the economy. Tax rebates were distributed, but increasing gas prices sucked up whatever money that wasn't used to pay down credit card debt. The Federal Reserve and the Treasury enacted a consortium of acronyms to halt the credit crisis and to provide liquidity to a market that had for all intensive purposes shut down. A crisis of confidence is a suitable description of how investors and consumers finished out the year. No matter what actions were taken to rebuild confidence, the glass was seen as half empty.

The above was applicable for the Retirement Systems as well. There was very little change to the equity portfolio in the 12 months ended September 30. As the uncertainty in the economy and markets continued to grow, the RSA made no allocation shift towards equities. As a result, the weighting of stocks as a percent of the overall funds shrunk 7% during the fiscal year.

In review, the RSA equity allocation began the year at roughly 63%, and closed out fiscal 2008 at 56% on average across the three funds. Domestic equities account for 42% of the fund, and international equities are now 14% of the total. For the first time in three years, smallcap stocks outperformed largecaps, and by a wide margin. The S & P 500 index was down -21.98%, the S & P 400 Midcap index was down -16.68%, and the S & P Smallcap 600 index was down -13.83%. The MSCI EAFE index was the laggard, down -30.50% for the twelve month period.

For the year, the RSA domestic equity portfolios decreased -20.61%, -20.67%, and -21.20% for the TRS, ERS, and JRF funds, respectively. International equity returns fared worse, posting declines of -28.65% for TRS, -28.57% for ERS, and -26.84% for JRF. The combined total return for the overall equity portfolios were -22.77%, -22.69%, and -21.94% for the TRS, ERS, and JRF, respectively. Three-, five-, and ten-year annualized global equity returns were 1.04%, 6.96%, and 5.52% for TRS, 1.03%, 6.94%, and 5.49% for ERS, and 0.53%, 5.70%, and 3.78% for JRF, respectively. ■

INVESTMENT RETURNS

FOR THE PERIOD ENDED SEPTEMBER 30, 2008 (PERCENT)

	1-YEAR	3-YEARS	5-YEARS	10-YEARS
TOTAL EQUITY				
TRS	-22.77	1.04	6.96	5.52
ERS	-22.69	1.03	6.94	5.49
JRF	-21.94	0.53	5.70	3.78
TOTAL FIXED INCOME AND ALTERNATIVES				
TRS	-3.23	4.94	4.98	5.34
ERS	-3.74	5.07	4.96	5.28
JRF	-0.04	4.69	5.20	4.39
TOTAL RSA RETURNS				
TRS	-15.36	2.66	5.91	5.20
ERS	-15.21	2.71	5.76	5.02
JRF	-14.58	2.13	5.44	4.08
BENCHMARKS				
S&P 500	-21.98	0.22	5.17	3.06
DJIA	-19.84	3.33	5.60	5.46
MIDCAP 400	-16.68	1.78	8.65	10.30
SMALLCAP 600	-13.83	2.00	9.89	10.05
MSCI EAFE	-30.50	1.12	9.69	5.02
CITIGROUP BIG	4.48	4.48	4.03	5.32
LEHMAN BROTHERS AGGREGATE	3.65	4.15	3.78	5.20

US TREASURY 2-YEAR NOTE

(YIELD)

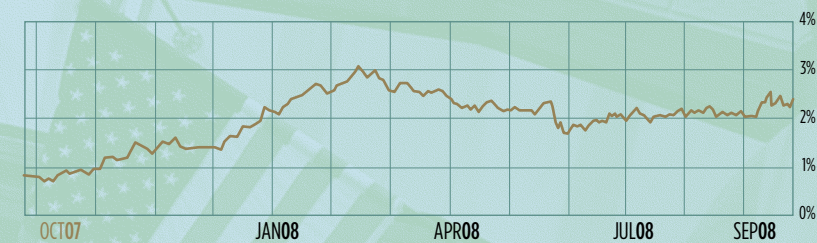


US TREASURY 30-YEAR BOND

(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, 2008 AND 2007

	(\$ IN THOUSANDS)	
	2008	2007
ASSETS		
CASH	\$ 6,454	\$ 8,102
RECEIVABLES		
EMPLOYEE CONTRIBUTIONS	25,796	25,508
EMPLOYER CONTRIBUTIONS	60,621	47,751
DIVIDENDS AND INTEREST	152,654	151,198
TOTAL RECEIVABLES	239,071	224,457
INVESTMENTS, AT FAIR VALUE		
DOMESTIC EQUITY	8,096,041	10,350,683
DOMESTIC FIXED INCOME	5,173,748	5,282,777
INTERNATIONAL EQUITIES	2,496,175	3,735,724
REAL ESTATE	1,494,190	1,480,737
SHORT-TERM	495,316	776,563
TOTAL INVESTMENTS	17,755,470	21,626,484
INVESTED SECURITIES LENDING COLLATERAL	1,581,944	2,717,017
PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION	104,168	62,798
TOTAL ASSETS	19,687,107	24,638,858
LIABILITIES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES	3,735	3,091
OTHER POSTEMPLOYMENT BENEFIT OBLIGATIONS	1,041	-
SECURITIES LENDING COLLATERAL	1,581,944	2,717,017
TOTAL LIABILITIES	1,586,720	2,720,108
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 18,100,387	\$ 21,918,750

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	(\$ IN THOUSANDS)	
	2008	2007
ADDITIONS		
CONTRIBUTIONS		
EMPLOYEE	\$ 323,822	\$ 302,272
EMPLOYER	729,995	540,847
TRANSFERS FROM EMPLOYEES' RETIREMENT SYSTEM	3,182	2,814
TOTAL CONTRIBUTIONS	1,056,999	845,933
INVESTMENT INCOME		
FROM INVESTMENT ACTIVITIES		
NET (DECREASE) INCREASE IN FAIR VALUE OF INVESTMENTS	(4,057,823)	2,589,858
INTEREST AND DIVIDENDS	705,555	719,910
TOTAL INVESTMENT INCOME FROM INVESTING ACTIVITIES	(3,352,268)	3,309,768
LESS: INVESTMENT EXPENSE	5,990	5,105
NET INVESTMENT INCOME FROM INVESTING ACTIVITIES	(3,358,258)	3,304,663
FROM SECURITIES LENDING ACTIVITIES		
SECURITIES LENDING INCOME	83,588	136,869
SECURITIES LENDING EXPENSES		
BORROWER REBATES	57,695	126,966
MANAGEMENT FEES	4,332	1,770
TOTAL SECURITIES LENDING EXPENSES	62,027	128,736
NET INCOME FROM SECURITIES LENDING ACTIVITIES	21,561	8,133
TOTAL INVESTMENT INCOME	(3,336,697)	3,312,796
TOTAL ADDITIONS	(2,279,698)	4,158,729
DEDUCTIONS		
RETIREMENT ALLOWANCE PAYMENTS	1,486,871	1,397,808
RETURN OF CONTRIBUTIONS AND DEATH BENEFITS	37,317	37,474
TRANSFERS TO EMPLOYEES' RETIREMENT SYSTEM	1,683	2,406
ADMINISTRATIVE EXPENSE	12,216	9,614
DEPRECIATION	578	480
TOTAL DEDUCTIONS	1,538,665	1,447,782
NET (DECREASE) INCREASE	(3,818,363)	2,710,947
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF THE YEAR	21,918,750	19,207,803
END OF THE YEAR	\$ 18,100,387	\$ 21,918,750

SEPARATELY ISSUED, AUDITED FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST.

FINANCIAL STATEMENTS

EMPLOYEES' RETIREMENT FUND

STATEMENT OF PLAN NET ASSETS AS OF SEPTEMBER 30, 2008 AND 2007

	(\$ IN THOUSANDS)	
	2008	2007
ASSETS		
CASH	\$ 6,667	\$ 7,190
RECEIVABLES		
EMPLOYEE CONTRIBUTIONS	15,406	14,600
EMPLOYER CONTRIBUTIONS	30,299	26,083
DIVIDENDS AND INTEREST	73,095	72,215
TOTAL RECEIVABLES	118,800	112,898
INVESTMENTS, AT FAIR VALUE		
DOMESTIC EQUITY	4,042,346	5,002,102
DOMESTIC FIXED INCOME	2,450,954	2,497,334
INTERNATIONAL EQUITIES	1,104,797	1,650,424
REAL ESTATE	726,105	720,752
SHORT-TERM	148,872	380,667
TOTAL INVESTMENTS	8,473,074	10,251,279
INVESTED SECURITIES LENDING COLLATERAL	731,431	1,317,633
PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION	52,562	32,044
TOTAL ASSETS	9,382,534	11,721,044
LIABILITIES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES	2,367	2,193
OTHER POSTEMPLOYMENT BENEFIT OBLIGATIONS	1,031	-
SECURITIES LENDING COLLATERAL	731,431	1,317,633
TOTAL LIABILITIES	734,829	1,319,826
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 8,647,705	\$ 10,401,218

SEPARATELY ISSUED, AUDITED FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST.

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	(\$ IN THOUSANDS)	
	2008	2007
ADDITIONS		
CONTRIBUTIONS		
EMPLOYEE	\$ 189,785	\$ 181,734
EMPLOYER	329,339	277,254
TRANSFERS FROM TEACHERS' RETIREMENT SYSTEM	1,683	2,406
TRANSFERS FROM JUDICIAL RETIREMENT FUND	186	-
TOTAL CONTRIBUTIONS	520,993	461,394
INVESTMENT INCOME		
FROM INVESTMENT ACTIVITIES		
NET (DECREASE) INCREASE IN FAIR VALUE OF INVESTMENTS	(1,919,746)	1,249,495
INTEREST AND DIVIDENDS	339,578	347,272
TOTAL INVESTMENT INCOME FROM INVESTING ACTIVITIES	(1,580,168)	1,596,767
LESS: INVESTMENT EXPENSE	3,747	3,725
NET INVESTMENT INCOME FROM INVESTING ACTIVITIES	(1,583,915)	1,593,042
FROM SECURITIES LENDING ACTIVITIES		
SECURITIES LENDING INCOME	38,458	58,925
SECURITIES LENDING EXPENSES		
BORROWER REBATES	26,649	54,648
MANAGEMENT FEES	1,988	727
TOTAL SECURITIES LENDING EXPENSES	28,637	55,375
NET INCOME FROM SECURITIES LENDING ACTIVITIES	9,821	3,550
TOTAL INVESTMENT INCOME	(1,574,094)	1,596,592
TOTAL ADDITIONS	(1,053,101)	2,057,986
DEDUCTIONS		
RETIREMENT ALLOWANCE PAYMENTS	655,467	615,661
RETURN OF CONTRIBUTIONS AND DEATH BENEFITS	31,387	31,829
TRANSFERS TO TEACHERS' RETIREMENT SYSTEM	3,182	2,814
TRANSFERS TO JUDICIAL RETIREMENT FUND	173	220
ADMINISTRATIVE EXPENSE	9,892	7,813
DEPRECIATION	311	298
TOTAL DEDUCTIONS	700,412	658,635
NET (DECREASE) INCREASE	(1,753,513)	1,399,351
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF THE YEAR	10,401,218	9,001,867
END OF THE YEAR	\$ 8,647,705	\$ 10,401,218

FINANCIAL STATEMENTS

JUDICIAL RETIREMENT FUND

STATEMENT OF PLAN NET ASSETS AS OF SEPTEMBER 30, 2008 AND 2007

	(\$ IN THOUSANDS)	
	2008	2007
ASSETS		
CASH	\$ 1,168	\$ 1,136
RECEIVABLES		
EMPLOYEE CONTRIBUTIONS	119	112
EMPLOYER CONTRIBUTIONS	334	316
DIVIDENDS AND INTEREST	1,349	1,364
TOTAL RECEIVABLES	1,802	1,792
INVESTMENTS, AT FAIR VALUE		
DOMESTIC EQUITY	118,731	152,778
DOMESTIC FIXED INCOME	58,304	64,232
INTERNATIONAL EQUITIES	16,761	24,752
REAL ESTATE	2,647	2,550
SHORT-TERM	22,615	23,880
TOTAL INVESTMENTS	219,058	268,192
INVESTED SECURITIES LENDING COLLATERAL	37,472	45,430
TOTAL ASSETS	259,500	316,550
LIABILITIES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES	197	187
OTHER POSTEMPLOYMENT BENEFIT OBLIGATIONS	15	-
SECURITIES LENDING COLLATERAL	37,472	45,430
TOTAL LIABILITIES	37,684	45,617
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 221,816	\$ 270,933

SEPARATELY ISSUED, AUDITED FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST.

STATEMENT OF CHANGES IN PLAN NET ASSETS FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	(\$ IN THOUSANDS)	
	2008	2007
ADDITIONS		
CONTRIBUTIONS		
EMPLOYEE	\$ 2,534	\$ 2,416
EMPLOYER	9,880	9,307
TRANSFERS FROM TEACHERS' RETIREMENT SYSTEM	-	-
TRANSFERS FROM EMPLOYEES' RETIREMENT SYSTEM	173	220
TOTAL CONTRIBUTIONS	12,587	11,943
INVESTMENT INCOME		
FROM INVESTMENT ACTIVITIES		
NET (DECREASE) INCREASE IN FAIR VALUE OF INVESTMENTS	(46,910)	25,988
INTEREST AND DIVIDENDS	8,206	8,500
TOTAL INVESTMENT INCOME FROM INVESTING ACTIVITIES	(38,704)	34,488
LESS: INVESTMENT EXPENSE	8	2
NET INVESTMENT INCOME FROM INVESTING ACTIVITIES	(38,712)	34,486
FROM SECURITIES LENDING ACTIVITIES		
SECURITIES LENDING INCOME	1,765	1,945
SECURITIES LENDING EXPENSES		
BORROWER REBATES	1,298	1,832
MANAGEMENT FEES	77	18
TOTAL SECURITIES LENDING EXPENSES	1,375	1,850
NET INCOME FROM SECURITIES LENDING ACTIVITIES	390	95
TOTAL INVESTMENT INCOME	(38,322)	34,581
TOTAL ADDITIONS	(25,735)	46,524
DEDUCTIONS		
RETIREMENT ALLOWANCE PAYMENTS	22,587	21,356
RETURN OF CONTRIBUTIONS AND DEATH BENEFITS	83	183
TRANSFERS TO EMPLOYEES' RETIREMENT SYSTEM	186	-
ADMINISTRATIVE EXPENSE	526	474
TOTAL DEDUCTIONS	23,382	22,013
NET (DECREASE) INCREASE	(49,117)	24,511
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF THE YEAR	270,933	246,422
END OF THE YEAR	\$ 221,816	\$ 270,933

GENERAL INFORMATION

THE RETIREMENT SYSTEMS OF ALABAMA

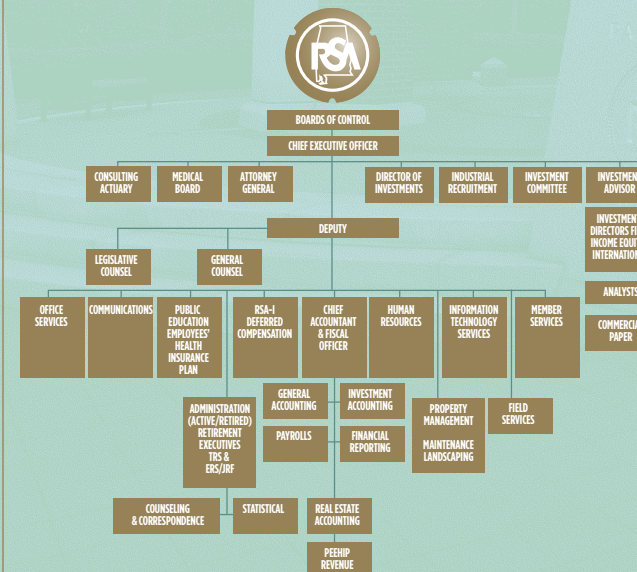
MISSION STATEMENT

The mission of the Retirement Systems of Alabama is to serve the interests of our members by preserving the excellent benefits and soundness of the Systems at the least expense to the state of Alabama and all Alabama taxpayers.

www.rsa-al.gov

Please visit us on the new RSA Web site. In addition to the new web address, this site contains the new and improved Member Online Services system. All RSA members can register and easily change their address online, and add or update their phone number and email address. In addition, PEEHIP members can view their current PEEHIP coverages, update their student dependent's status, change coverages, enroll in new coverages, and/or enroll or re-enroll in flexible spending accounts during Open Enrollment which begins July 1, 2009, and ends on midnight September 10, 2009. In the future ERS, TRS and RSA-1 members will be able to view their accounts and submit forms online.

Organizational Chart



Member Services Contact Center

Take advantage of Member Services' personalized assistance concerning your retirement and health care benefits by contacting the new Member Services Contact Center at 877-517-0020 or 334-517-7000. You may also send an email to member.services@rsa-al.gov.

Map and Directions

FROM THE WEST

Follow Highway 80 to I-65. Follow I-65 North to Montgomery. Approaching Montgomery, stay in the right-hand lane and exit onto I-85 North to Atlanta. Continue in the right-hand lane; then take the first exit, which is Court Street. Stay on the service road until you reach Union Street. Turn left on Union Street. Continue on Union Street through two traffic lights. The RSA Headquarters is on the right side of Union Street before Adams Avenue. Members may park in the open lot in front of the parking deck.

FROM THE EAST

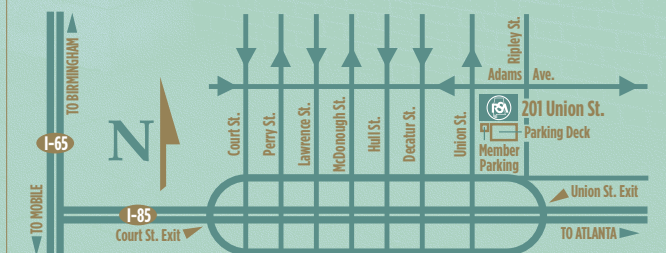
Follow I-85 South to downtown Montgomery and take the Union Street exit on the right. Take the first right on the service road onto Union Street. Continue on Union Street through one traffic light. The RSA Headquarters is on the right side of Union Street before Adams Avenue. Members may park in the open lot in front of the parking deck.

FROM THE SOUTH

Follow I-65 North to Montgomery. Approaching Montgomery, stay in the right-hand lane and exit onto I-85 North to Atlanta. Continue in the right-hand lane; then take the first exit, which is Court Street. Stay on the service road until you reach Union Street. Turn left on Union Street. Continue on Union Street through two traffic lights. The RSA Headquarters is on the right side of Union Street before Adams Avenue. Members may park in the open lot in front of the parking deck.

FROM THE NORTH

Follow I-65 South into Montgomery. Take the I-85 North exit to the right to Atlanta. Stay in the right-hand lane and take the first exit on I-85, which is the Court Street exit. Stay on the service road until you reach Union Street. Turn left on Union Street. Continue on Union Street through two traffic lights. The RSA Headquarters is on the right side of Union Street before Adams Avenue. Members may park in the open lot in front of the parking deck.



NOTES:



RSA annual report design
and realization by:



Out of
the blue

CREATIVE
SERVICES
LLC

Jeffrey and Cherie Preg
www.jeffpreg.com
MONTGOMERY, ALABAMA

Printed by:

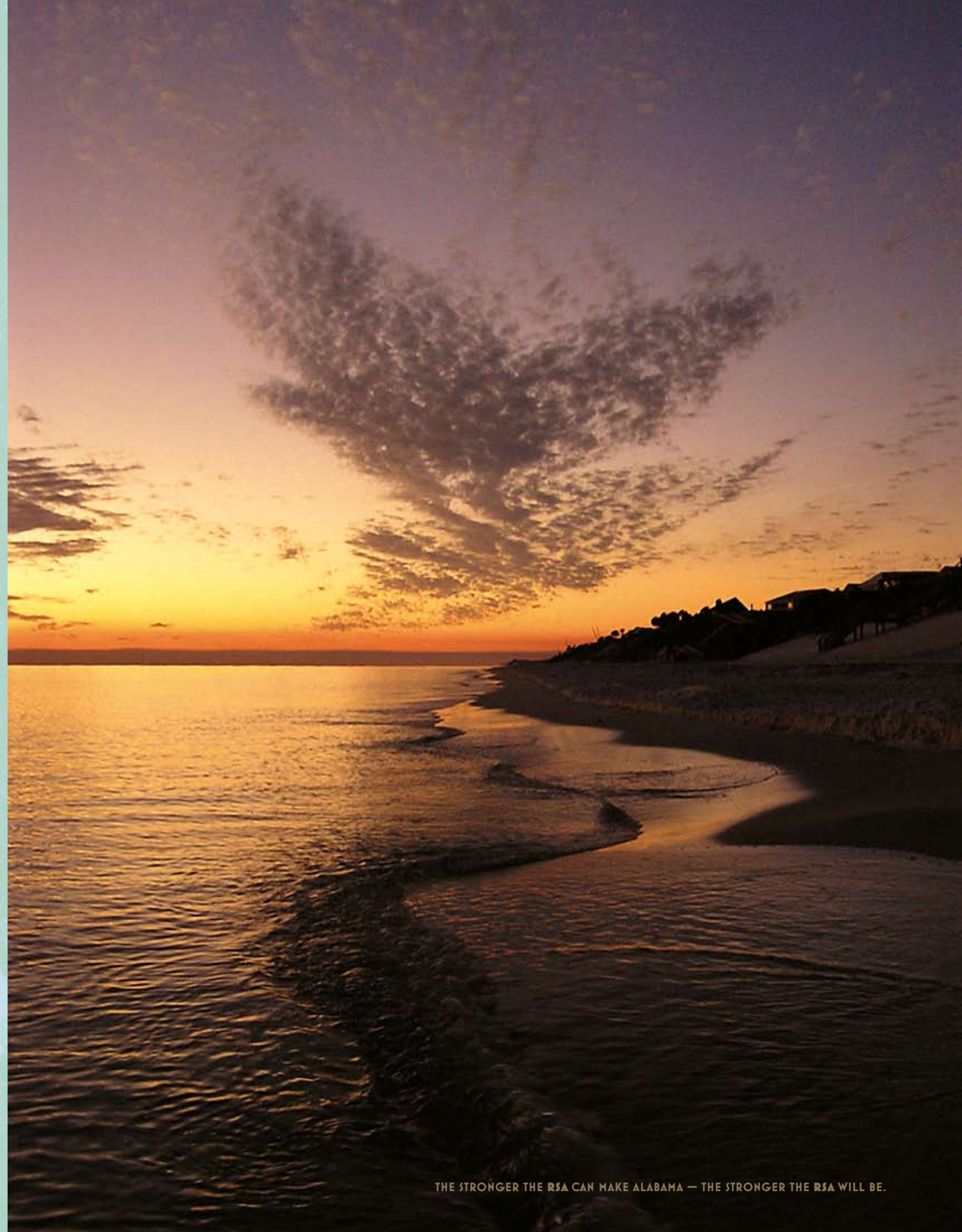


EBSCO MEDIA
www.ebscomedia.com
BIRMINGHAM, ALABAMA

Cover: **MODIS satellite imagery of Alabama** (9/29/03),
© Liam Gumley - *Space Science and Engineering Center,
University of Wisconsin-Madison*

Back cover: **RSA Tower lobby** in Montgomery,
© David Robertson, Jr. Photography

Inside front & inside back cover: © Summer E. Preg





201 South Union Street
Montgomery, Alabama 36104
877.517.0020
www.rsa-al.gov