



THE FUTURE OF ALABAMA



2011 RSA Annual Report

THE RSA INVESTS IN THE FUTURE OF ALABAMA

The Boards of Control and the Retirement Systems of Alabama (RSA) staff are pleased to present the 36th Annual Report for the fiscal year that ended September 30, 2011.

The RSA currently manages 21 funds with aggregate assets of approximately \$27.9 billion. For fiscal year 2011, the Teachers' Retirement System (TRS) net assets totaled \$16.8 billion, the Employees' Retirement System (ERS) net assets totaled \$8.1 billion, and the Judicial Retirement Fund (JRF) net assets totaled \$210 million.

Fiscal year 2011 was a volatile year for returns, with markets performing well during the first several months of the fiscal year but then weakening in the closing months. The annualized return was 1.81% for the TRS, 2.21% for the ERS, and 0.45% for the JRF. Weak U.S. economic data, coupled with continuing issues associated with European sovereign debt, caused equity and fixed markets to perform in a reactionary manner. Market fundamentals have not really played a large role in returns, which made the year much more challenging.

Despite the lagging overall market, the RSA staff worked diligently to maximize its investment returns. As of September 30, 2011, RSA equities (U.S. common stocks) outperformed the Russell 3000, RSA bond investments outperformed the Barclay's Aggregate, and RSA international equities outperformed the MSCI EAFE for the last 3-, 5-, 7- and 10-year periods. Moreover, the RSA's strategy of investing 10-12% of its portfolio in Alabama projects strengthens earnings and the state's ability to pay its employer contributions. The invest-in-Alabama strategy has served as an effective hedge against recent low market returns and helped improve the adverse market conditions we have faced over the last ten years.

An example of this strategy is the railcar plant in North Alabama. This project was started just before the "Great Recession of 2008" by a Canadian railcar builder with what was originally to be only a bridge loan from the RSA. When the global economy changed and new railcar sales declined dramatically, the Canadian company abandoned the project and left the RSA with a significant investment in the facility. The RSA faced a big challenge in how to best utilize the special purpose real estate project in part because of the cyclical nature of the railcar industry. We are happy to report that Navistar has taken over the plant and will become a major employer in North Alabama in the coming months. Their lease with the RSA has a 10-year term. After the lease expires, Navistar can purchase the plant or renew their lease for an additional 10 years. Navistar is expected to quickly expand the 700-acre site

with new capital and create thousands of additional jobs in the near future.

Another major project completed in the past year is the RSA Dexter Avenue Building, formerly Alabama's Judicial Building. The building has already welcomed its first two tenants, Community Newspaper Holdings, Inc. and BB&T Corporation. The RSA acquired the building in 2007 with the intent of restoring and preserving part of our state's judicial past, while also providing executive office space for tenants. The building grounds include the Honor Court, a representational work of landscape art which highlights Alabama's judicial history, and includes life-size statues and personal histories of each chief justice who served in the building.

Several of the RSA's properties were honored again this year by earning the prestigious Four Diamond Award from AAA. In fact, the RSA was again awarded the largest number of diamonds given to one group by AAA Alabama. The eight Four Diamond Awards were presented to six hotels and two restaurants owned by the RSA.

Finally, the last decade of record low-market returns and interest rates, the increase in average life expectancies, and the shrinking ratio of public employees to retirees have combined to make pension reform necessary to more accurately reflect the realities of modern life and keep the RSA financially sound. In recognition of these conditions, the RSA staff has been providing assistance and advice to the governor and the leadership of the Legislature in crafting legislation to reform Alabama's teachers' and public employees' pension laws. We are working to ensure that any proposed changes will be fair, will apply only to new hires and, most importantly, will result in a more secure and financially viable RSA for generations to come.

The RSA will continue to meet the challenges of public pension management in an increasingly complex environment. It is the RSA's duty and honor to serve the interests of our members by preserving the soundness of the Systems while providing excellent benefits at the least expense to the state of Alabama and Alabama taxpayers. With the continued cooperative efforts of the Boards of Control, the RSA staff, and the Legislature, the RSA will continue to achieve this goal.



DAVID G. BRONNER
CHIEF EXECUTIVE OFFICER



RSA Dexter Avenue Building + Dr. David G. Bronner's portrait © Fouts Commercial Photography

The Future of Alabama



2011 ANNUAL REPORT

“...the state’s 252 golf facilities, spearheaded by the ROBERT TRENT JONES GOLF TRAIL, helped create a \$1.5 billion impact on our economy. The figure considers tournaments, real estate and operations.”

- THE ALABAMA TOURISM DEPARTMENT

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RTJ SILVER LAKES Short Course, Hole 4 © Michael Clemmer



**2011
TEACHERS' RETIREMENT SYSTEM BOARD OF CONTROL**

Front row left to right: CHAIRMAN: **Dr. Paul R. Hubbert**, EXECUTIVE SECRETARY AEA, EX OFFICIO / **Ms. LaDonna Macon**, TEACHER POSITION / **Mr. John R. Whaley**, TEACHER POSITION / VICE CHAIRMAN: **Mrs. Sarah S. Swindle**, RETIRED POSITION / **Mr. Luke Hallmark**, SUPERINTENDENT POSITION / **Mr. Victor Wilson**, PRINCIPAL POSITION / **Mr. David Perry**, STATE FINANCE DIRECTOR, EX OFFICIO
On the stairway left to right: **Mr. Russell Twilley**, SUPPORT PERSONNEL POSITION / **Mr. Robert Smith**, SUPPORT PERSONNEL POSITION / **Mrs. Sallie Cook**, RETIRED POSITION / **Dr. Susan Williams Brown**, POSTSECONDARY POSITION / **Dr. Joseph Morton**, STATE SUPERINTENDENT OF EDUCATION, EX OFFICIO / **Mrs. Teresa Swindall**, TEACHER POSITION

■ SERVE ON BOTH THE TRS AND ERS BOARDS OF CONTROL

RSA Boards of Control © Fouts Commercial Photography



**2011
EMPLOYEES' RETIREMENT SYSTEM BOARD OF CONTROL**

Front row left to right: CHAIRMAN: **Hon. Robert Bentley**, GOVERNOR, EX OFFICIO / **Hon. Young Boozer**, STATE TREASURER, EX OFFICIO / **Mr. James Fibbe**, RETIRED LOCAL EMPLOYEE / **Mrs. Jackie B. Graham**, STATE PERSONNEL DIRECTOR, EX OFFICIO / **Mr. Stephen C. Walkley**, ACTIVE STATE EMPLOYEE / **Mr. Steven W. Williams**, ACTIVE LOCAL EMPLOYEE
On the stairway left to right: **Mr. Ben Powell**, ACTIVE LOCAL EMPLOYEE / **Mr. Robert H. Pruitt**, GOVERNOR APPOINTEE / **Mr. James H. Rowell**, RETIRED STATE EMPLOYEE / **Ms. Alice Thornton**, ACTIVE STATE EMPLOYEE / **Mr. Robert S. Miller**, GOVERNOR APPOINTEE / VICE CHAIRMAN: **Mr. John H. Wilkerson, Jr.**, GOVERNOR APPOINTEE

■ SERVE ON BOTH THE TRS AND ERS BOARDS OF CONTROL



LEGAL, LEGISLATION, COMMUNICATIONS AND FIELD SERVICES



RSA Dexter Avenue Building, Montgomery © Fouts Commercial Photography

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

GENERAL COUNSEL
WILLIAM T. STEPHENS, J.D.

LEGISLATIVE COUNSEL
LINDY J. BEALE, J.D.

TEACHERS' RETIREMENT EXECUTIVE
CHRISTOPHER P. TOWNES, M.B.A.

EMPLOYEES' & JUDICIAL RETIREMENT EXECUTIVE
WILLIAM F. KELLEY, JR., J.D.

DIRECTOR OF PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE PLAN
LEE M. HAYES, M.B.A.

DIRECTOR OF INFORMATION TECHNOLOGY SERVICES
MICHAEL T. BAKER, 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. LUTHER STRANGE

CHIEF EXAMINER
MR. RONALD L. JONES

MEDICAL BOARD

CHAIRMAN
NEIL STRONACH, M.D.

MALCOLM BROWN, M.D.

GLENN YATES, M.D.

LEGAL In fiscal year 2011, the RSA Legal Division addressed issues involving employee benefits law, fiduciary and trust law, health insurance law, bankruptcy law, statutory interpretation and implementation, tax law, securities law, contract law, construction law, commercial real estate law and personnel law, among others.

Litigation has been and continues to constitute a substantial part of the legal staff's duties. After the legal staff successfully resolved all pending benefits litigation last year, legislative and administrative changes to benefits resulted in a burst of new lawsuits against the RSA challenging the changes and their implementation. These lawsuits include a first-of-its-kind challenge to the RSA's investment policies that is pending in state court. As in years past, the RSA also participated in securities fraud litigation which resulted in considerable recoveries.

Another significant area of practice for the RSA legal staff was addressing issues central to the administration of the Public Education Employees' Health Insurance Program (PEEHIP). The legal staff assisted in reviewing and implementing the new federal health insurance law and the administrative regulations issued pursuant to that law. The legal staff was frequently called upon to interpret and advise on the implementation of HIPAA and HITECH regulations relating to the privacy and security of PEEHIP members' and their dependents' health information. Moreover, in these difficult economic times, cost-cutting measures implemented in PEEHIP have resulted in litigation as vendors compete for health care dollars.

The RSA's real estate holdings and other investments were a continuous source of work for the legal staff. In addition to pending issues involving old construction projects, operational issues relating to the RSA's buildings often require the legal staff's input.

Finally, the RSA legal staff worked collaboratively with other public pension systems to encourage Congress to provide comprehensive protection against fraudulent securities sales and marketing and address other issues of mutual interest in the realm of public pension law. In addition, the legal staff shared information and worked with other systems to monitor and prepare a response to proposed legislation and proposed Internal Revenue Service regulations that will affect the RSA.

Last year was an era of change for public pensions and health insurance programs. These changes will be the source of much of the RSA's legal work in the coming year. It is the RSA legal staff's duty to assist the RSA in meeting the challenges posed by these changes and to make sure that the RSA continues to serve its members as effectively as possible. ■

LEGISLATION The 2011 Organization Session of the Alabama Legislature was January 11 through January 18, 2011. The Regular Session began on March 1, 2011, and ended on June 9, 2011. The General Fund Budget (Act 2011-679) and the Education Trust Fund Budget (Act 2011-3) both passed. The TRS and PEEHIP were funded at the agreed upon rate.

The Deferred Retirement Option Plan (DROP) was repealed in the Regular Session (Act 2011-27), and the RSA stopped accepting applications for DROP March 24, 2011. There was no change for those already participating in DROP. However, members who do not withdraw from service upon completion of DROP will experience a change in how interest is credited to their accounts. The interest will be the lesser of either 4% or what the RSA earned the previous year on its investments.

Act 2011-676 increased the member contribution rate by an additional 2.5% in October 2012. Regular state employees and public education employees will pay 7.25% in retirement contributions beginning October 1, 2011, and 7.5% beginning October 1, 2012.

Law enforcement officers, correctional officers and firefighters, as well as judges, will pay 8.25% in retirement contributions beginning October 1, 2011, and 8.5% beginning October 1, 2012. State Police contributions will not increase. Also, local agencies participating in the ERS are not mandated to increase member contributions, but may elect to do so.

Act 2011-704 affects members covered by PEEHIP. Members who retire after December 1, 2011, will be paying more for health insurance, based on their age and years of 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. The Field Services employees are on constant standby for making presentations, as well as attending and addressing conferences and seminars. ■

TEACHERS' RETIREMENT SYSTEM | EMPLOYEES' RETIREMENT SYSTEM | JUDICIAL RETIREMENT FUND

MEMBERSHIP ACTIVITY FOR 2011

	TRS	ERS	JRF
NEW MEMBERS	8,899	7,587	30
WITHDRAWN MEMBERS	4,947	4,990	1
SERVICE RETIREMENTS	4,130	2,488	29
DISABILITY RETIREMENTS	333	267	0
NEW BENEFICIARIES	319	241	0

TOTAL MEMBERSHIP FOR 2011
(AS OF SEPTEMBER 30, 2011)

	TRS	ERS	JRF	TOTAL
ACTIVE	128,032	81,920	329	210,281
DROP	5,574	2,687	-	8,261
RETIRED	73,384	38,582	343	112,309
TOTAL	206,990	123,189	672	330,851

FUNDS UNDER MANAGEMENT
(AS OF SEPTEMBER 30, 2011; \$ in Thousands)

	TOTAL FUNDS MANAGED (1)
TEACHERS' RETIREMENT SYSTEM	\$ 16,013,764
EMPLOYEES' RETIREMENT SYSTEM	7,793,480
JUDICIAL RETIREMENT FUND	208,996
ALABAMA CULTURAL RESOURCES PRESERVATION TRUST FUNDS	9,131
ALABAMA EDUCATION FOUNDATION FOR K THROUGH 12	850
DIVISION OF WILDLIFE AND FRESHWATER FISHERIES	18,368
ALABAMA NONGAME WILDLIFE ENDOWMENT TRUST	16
ALABAMA UNDERGROUND & ABOVEGROUND STORAGE TANK TRUST FUNDS	22,587
CLERKS' & REGISTERS' SUPERNUMERARY FUND	10,853
ALABAMA SENIOR SERVICES TRUST FUND	24,802
ALABAMA STATE EMPLOYEES' HEALTH INSURANCE FUND	126,928
LOCAL GOVERNMENT HEALTH INSURANCE FUND	94,116
PEIRAF - DEFERRED COMPENSATION PLAN (RSA - 1)	1,414,256
PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND	198,624
ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST	802,688
PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND	88,053
ALABAMA MARINE RESOURCES ENDOWMENT TRUST FUND	1,001
ALABAMA TRUST FUND	657,433
ALABAMA TREASURY FUND	255,077
CHARLOTTE THORN TRUST FUND	6,840
ALABAMA STATE EMPLOYEES' RETIRED HEALTH CARE TRUST FUND	108,246
STATE DOCKS PENSION PLANS	13,529
TOTAL ASSETS UNDER MANAGEMENT	\$ 27,869,638

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

REVENUE SOURCES for TRS, ERS & JRF (\$ IN MILLIONS)

	2011	2010
EMPLOYEE CONTRIBUTIONS	521.6	520.8
EMPLOYER CONTRIBUTIONS	1,185.5	1,165.1
INVESTMENT INCOME	550.9	2,166.9
TOTAL	\$ 2,258.0	\$ 3,852.8

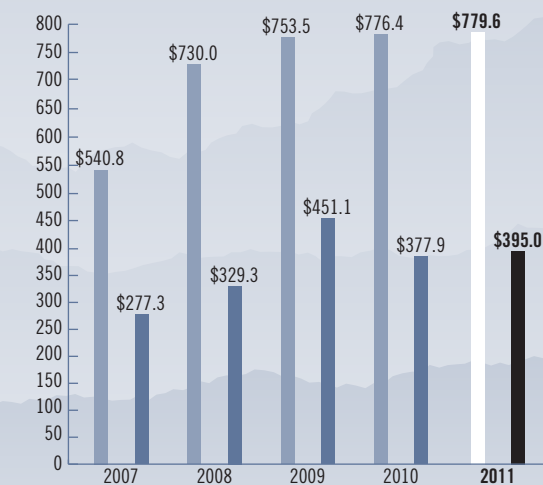
5-YEAR HIGHLIGHTS (\$ IN MILLIONS)

■ TRS ■ ERS

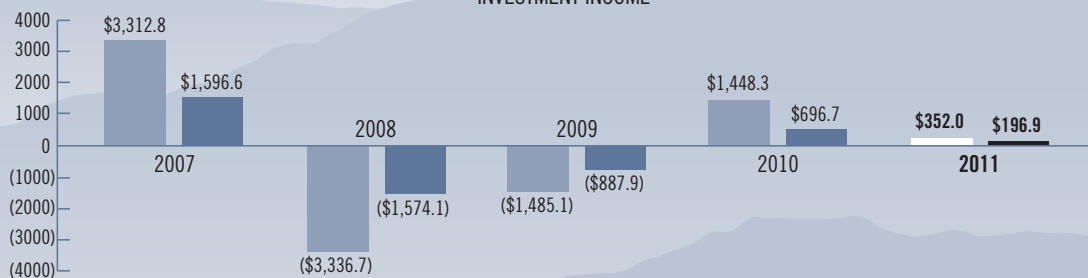
EMPLOYEE CONTRIBUTIONS



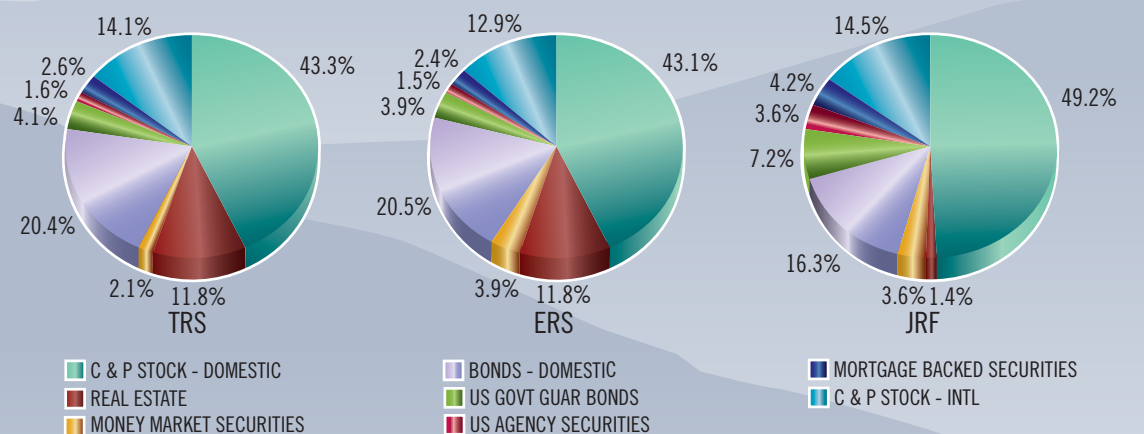
EMPLOYER CONTRIBUTIONS



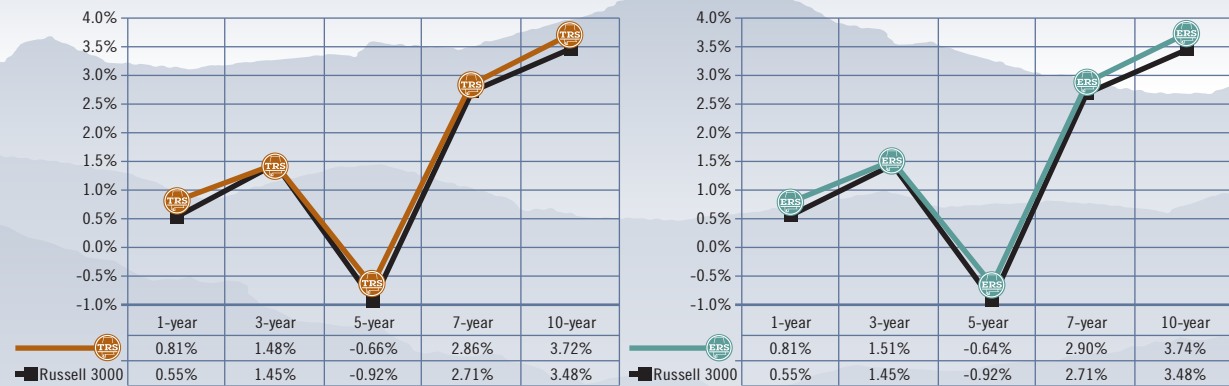
INVESTMENT INCOME



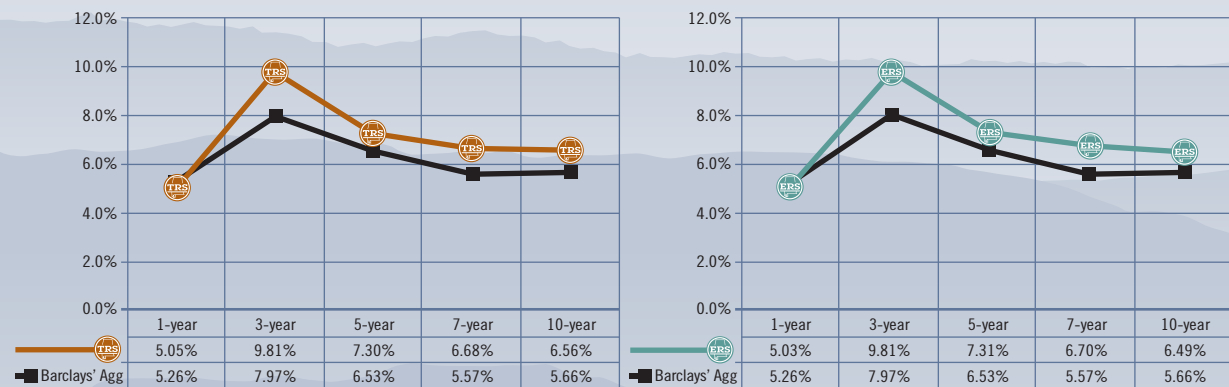
ASSET ALLOCATION (AS OF SEPTEMBER 30, 2011) Asset allocation is a strategic long-term decision in the pension investment management process. The RSA is dedicated to preserving the sound financial position it has established over the years through a diversified investment program. The objective of the RSA is to allocate investments in the most effective way that reflects policy standards while maximizing returns.



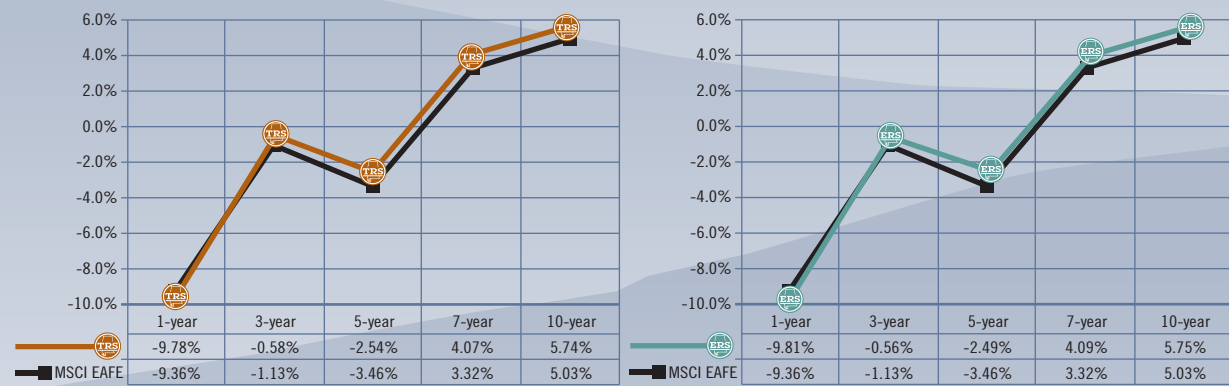
TRS / ERS vs. RUSSELL 3000 (DOMESTIC EQUITIES INDEX)



TRS / ERS vs. BARCLAYS' AGGREGATE (BOND MARKET INDEX)



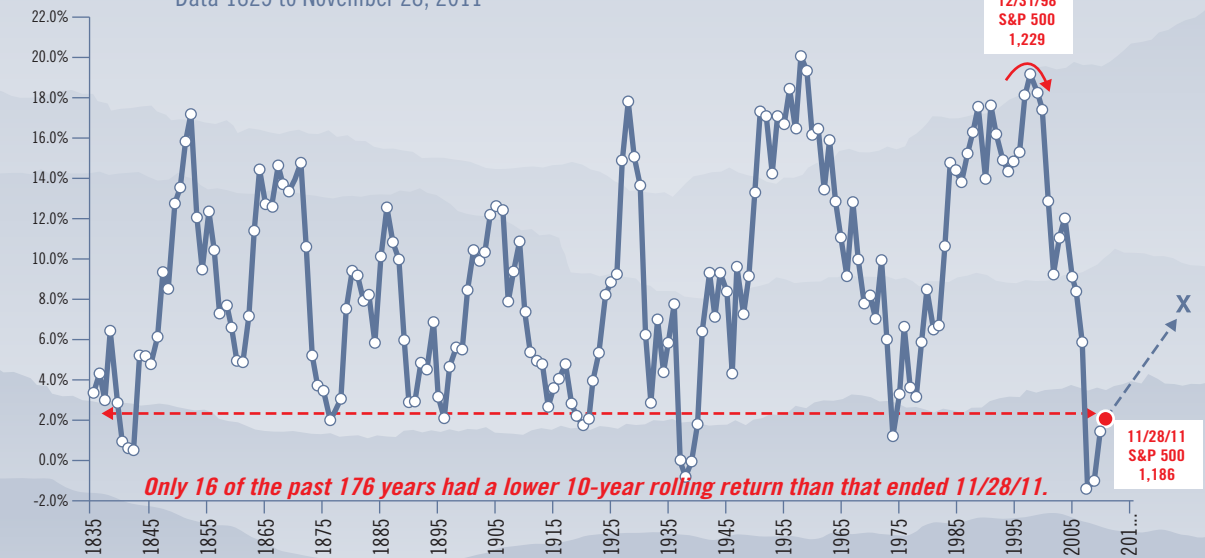
TRS / ERS vs. MSCI EAFE (NET INTERNATIONAL EQUITY)



HISTORICAL RATE OF RETURNS

It is too late for bearish epiphanies. 91% of all 10-year periods for the S&P 500 total return the past 176 years were higher than the 10 years ended November 28, 2011.

S&P Stock Market Composite Trailing 10-Year Composite Annual Total Return (Includes Reinvested Dividends), Data 1825 to November 28, 2011



Source: "A New Historical Database for the NYSE 1815 to 1925: Performance and Predictability." Yale School of Management, used with permission. Post-1925 data for stocks are Ibbotson/Morningstar and Standard & Poor's for large-cap equity. Note that the stock market return includes dividends. Chart format and annotations are Stifel Nicolaus & Co.

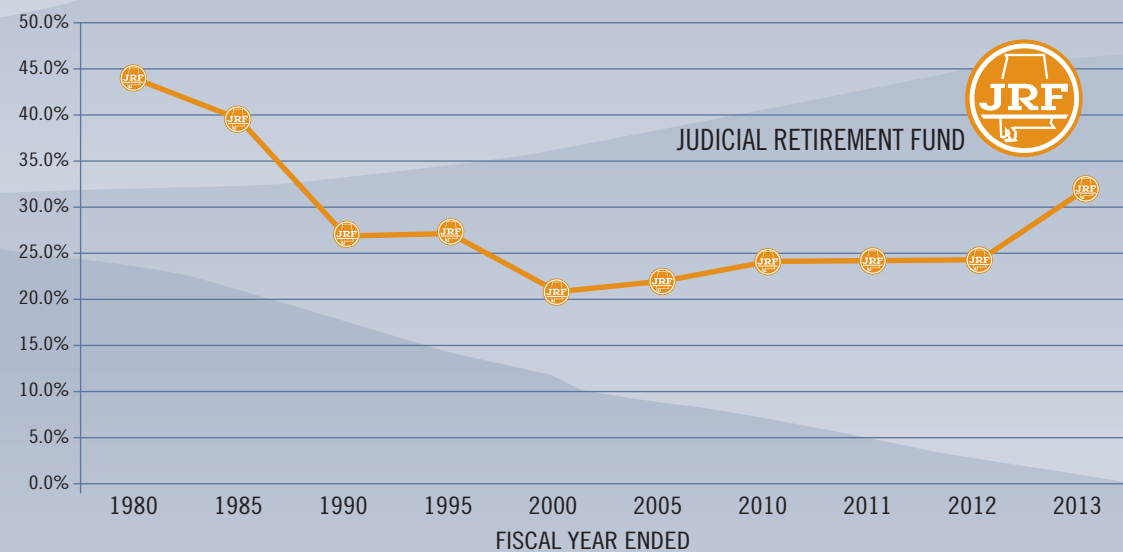
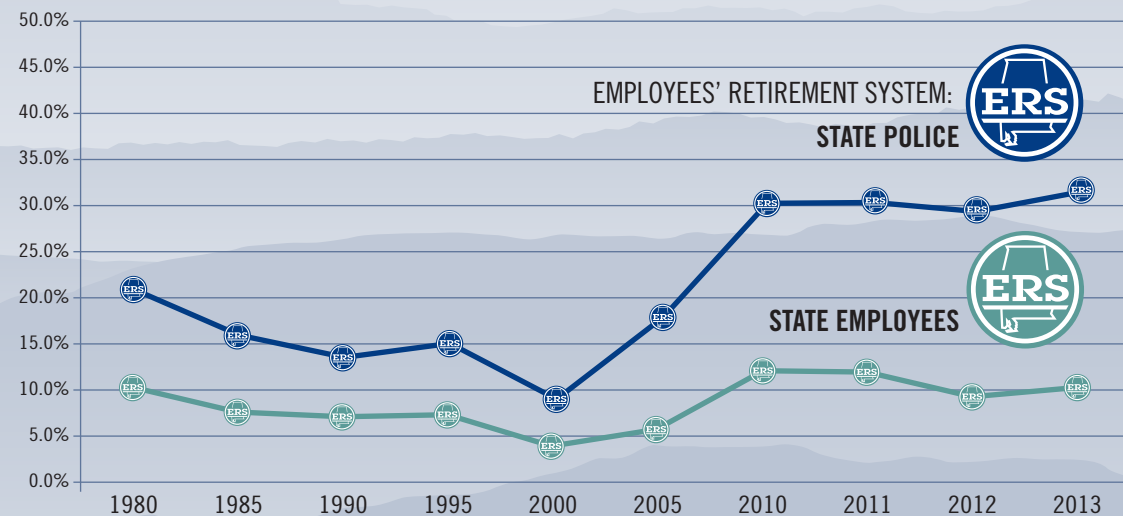
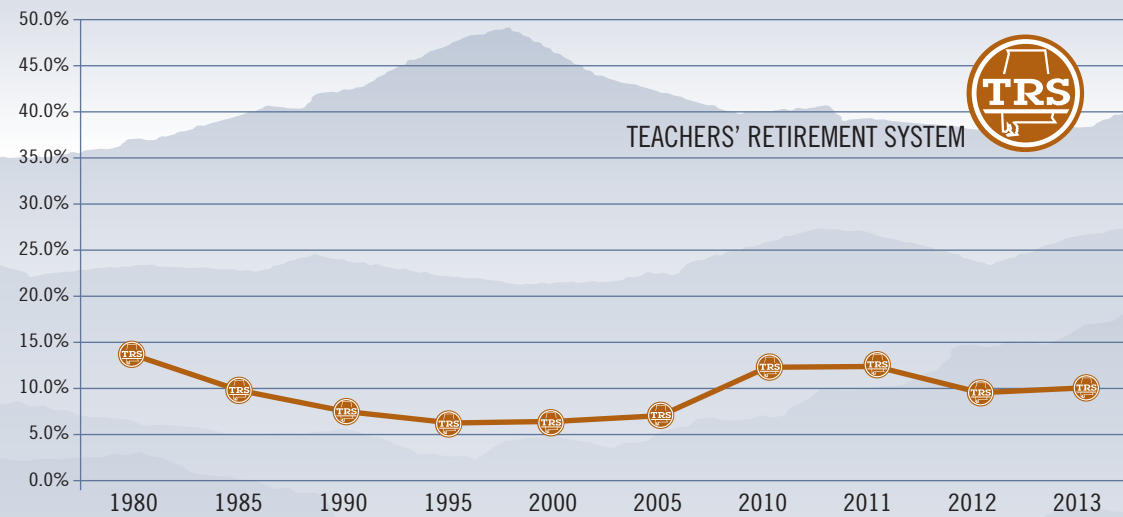
LONG-TERM RETURNS

Historical Stock Market Compound Annual Growth Rates

	10-Year Treasury Total Return	S&P 500 Total Return
20th Century	4.68%	10.44%
Roaring 20s	5.41%	14.93%
1950-1965	2.12%	16.07%
1983-1994 bull market	9.67%	14.34%
1995-1999 tech bulge	6.98%	28.56%
2000-2009	5.74%	-0.95%

Note: Using Reported EPS
 Source: Haver Analytics and CIRA - U.S. Equity Strategy

RSA EMPLOYER RATES



RSA EMPLOYER RATE TRENDS

FY Ended	TRS	ERS State	ERS State Police	JRF
2008	11.75%	10.26%	30.42%	23.05%
2009	12.07%	11.88%	30.99%	23.23%
2010	12.51%	11.94%	30.57%	24.20%
2011	12.51%	11.94%	30.57%	24.20%
2012	10.00%	9.42%	29.92%	24.35%
2013*	10.08%	10.12%	31.61%	32.06%

*FY13 employer rates per 5-year study approved by Boards of Control in January 2012.

RSA EMPLOYER COSTS

FY Ended (amounts in millions)	TRS	ERS - State & State Police	JRF	TOTAL
2008	\$717	\$161	\$10	\$888
2009	\$753	\$193	\$10	\$956
2010	\$773	\$191	\$11	\$975
2011	\$780	\$187	\$11	\$978
2012 estimated	\$621	\$153	\$11	\$785
2013* estimated	\$626	\$160	\$14	\$800

*FY13 employer contribution per 5-year experience study approved by Boards of Control in January 2012.

RSA UNFUNDED LIABILITY

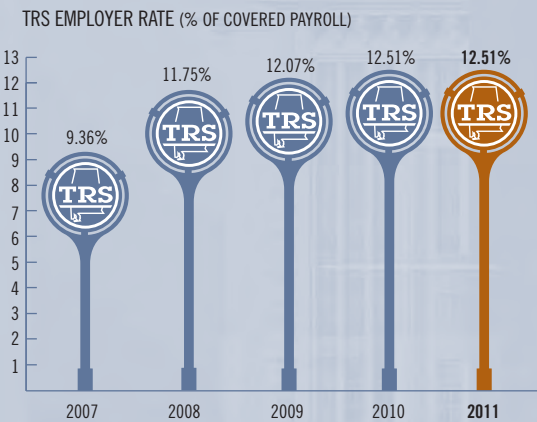
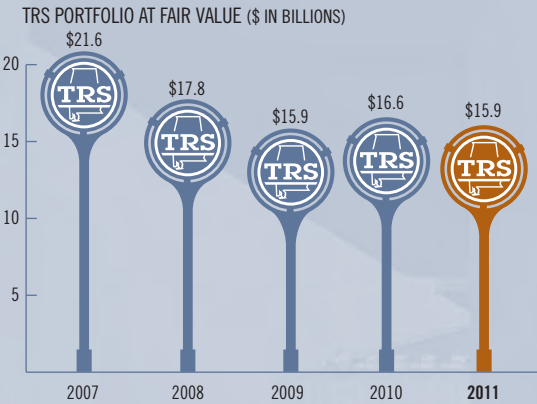
Valuation Year (amounts in billions)	TRS	ERS*	JRF	TOTAL State Only*
2008	\$6.0	\$1.8	\$0.06	\$7.86
2009	\$7.0	\$2.1	\$0.09	\$9.19
2010	\$7.8	\$2.3	\$0.13	\$10.23

*Does not include local units.

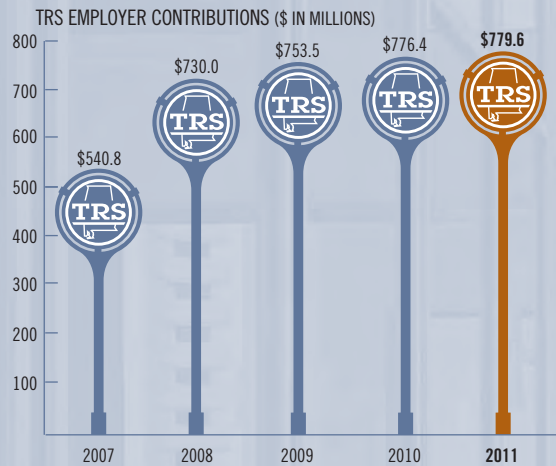
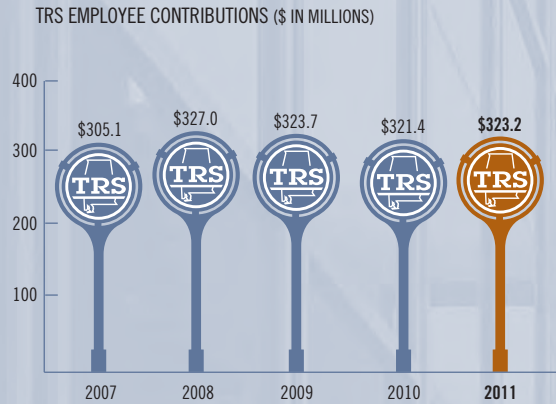
TEACHERS' RETIREMENT SYSTEM

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

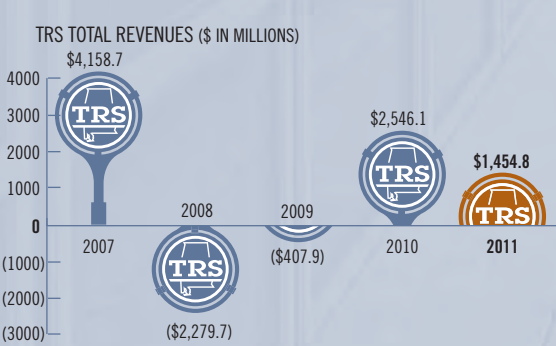
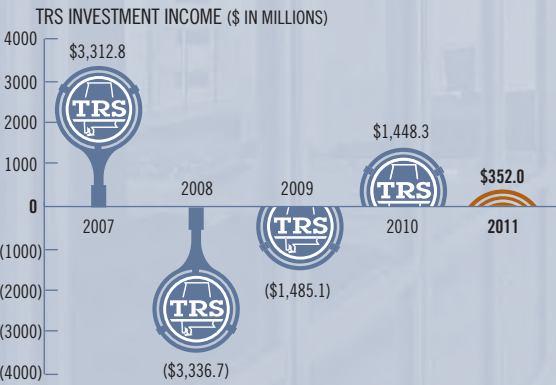
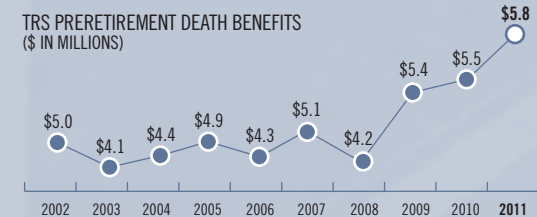
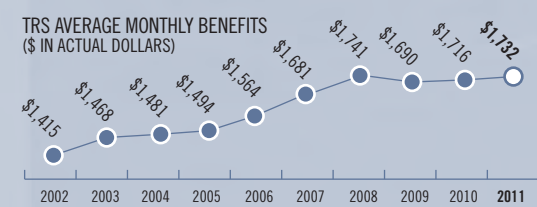
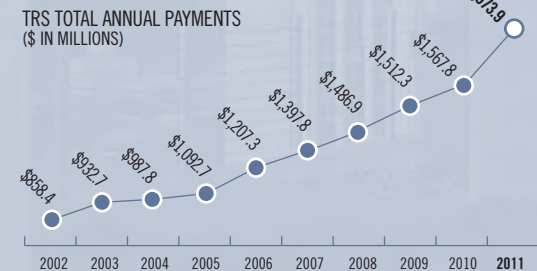
BENEFITS ADMINISTRATION



REVENUE SOURCES



RETIREMENT BENEFITS

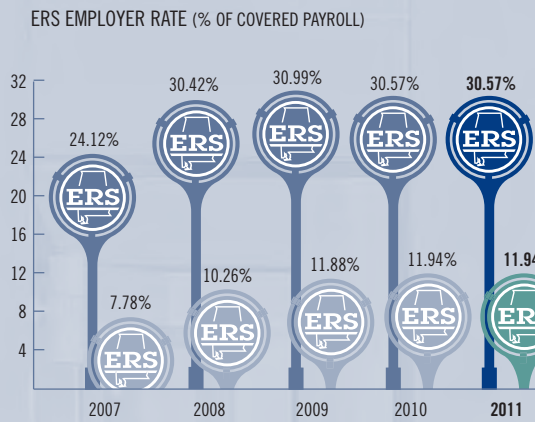
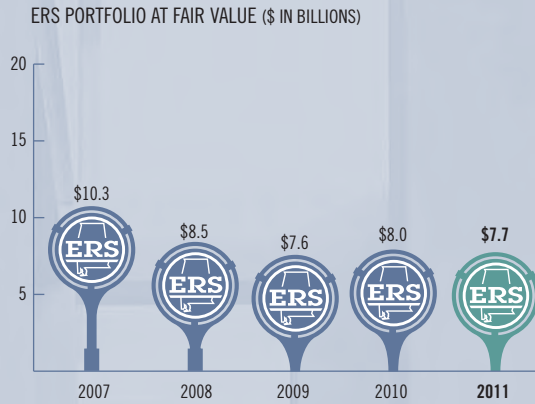


EMPLOYEES' RETIREMENT SYSTEM

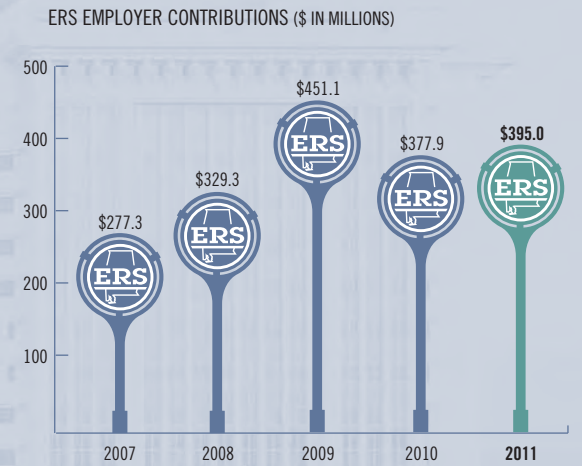
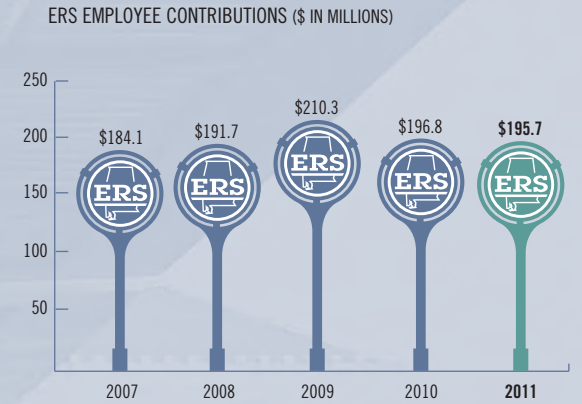
2011 YEAR IN REVIEW

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.

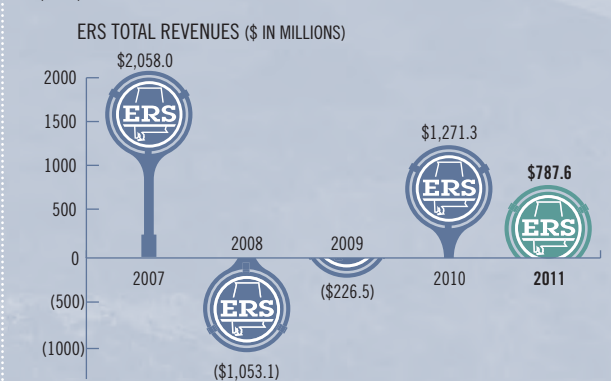
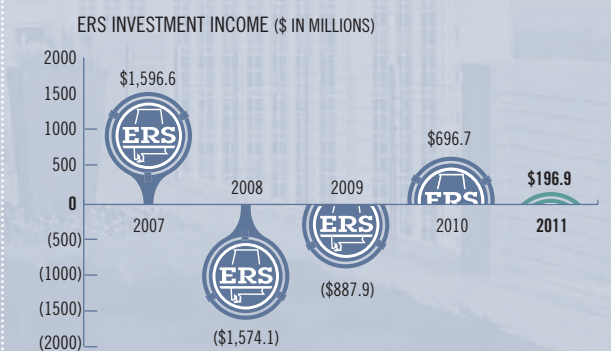
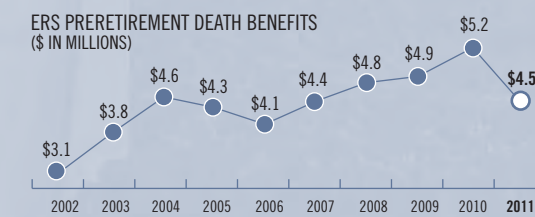
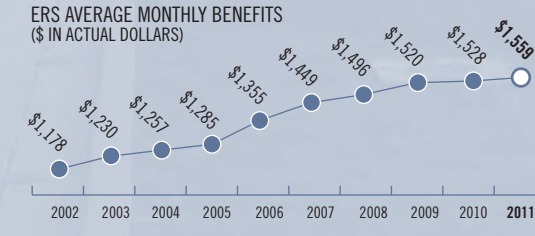
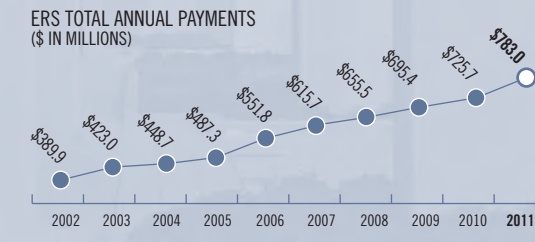
BENEFITS ADMINISTRATION



REVENUE SOURCES



RETIREMENT BENEFITS

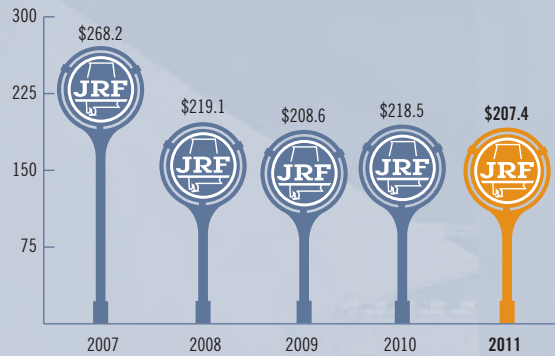


JUDICIAL RETIREMENT FUND

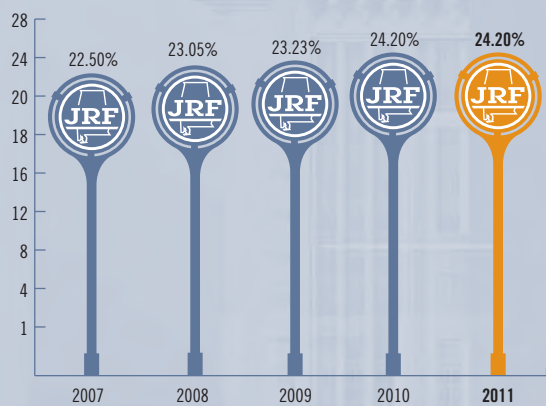
The Judicial Retirement Fund of Alabama (JRF) provides retirement allowances and other specified benefits for supreme court justices, court of appeals judges, circuit court judges, district court judges, and probate judges.

BENEFITS ADMINISTRATION

JRF PORTFOLIO AT FAIR VALUE (\$ IN MILLIONS)

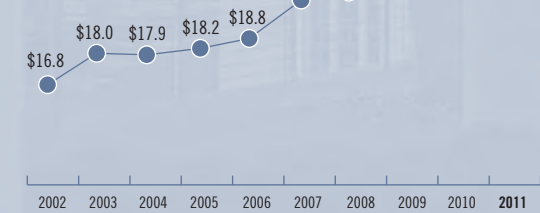


JRF EMPLOYER RATE (% OF COVERED PAYROLL)

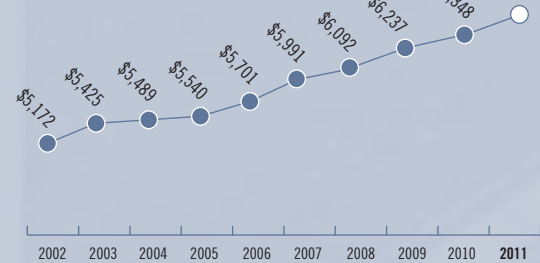


RETIREMENT BENEFITS

JRF TOTAL ANNUAL PAYMENTS (\$ IN MILLIONS)

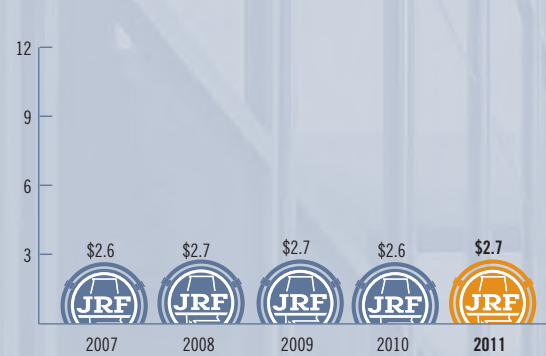


JRF AVERAGE MONTHLY BENEFITS (\$ IN ACTUAL DOLLARS)

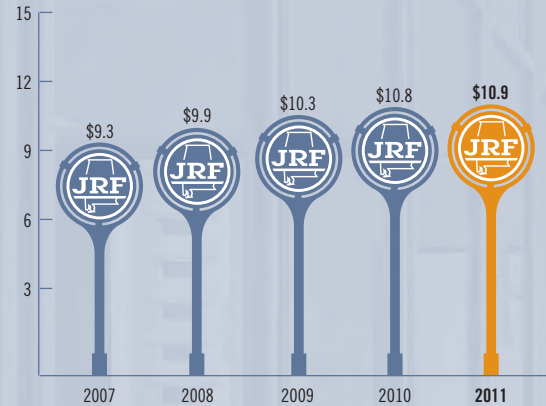


REVENUE SOURCES

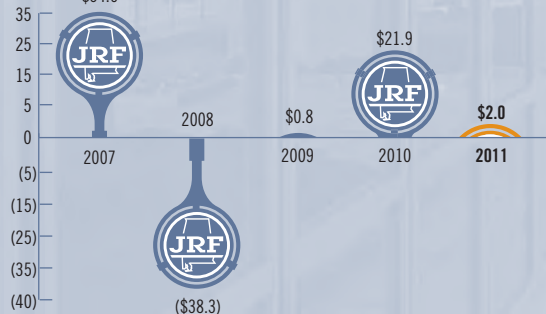
JRF EMPLOYEE CONTRIBUTIONS (\$ IN MILLIONS)



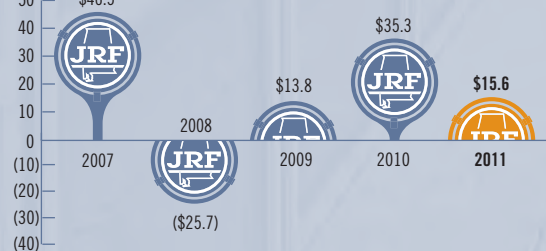
JRF EMPLOYER CONTRIBUTIONS (\$ IN MILLIONS)



JRF INVESTMENT INCOME (\$ IN MILLIONS)



JRF TOTAL REVENUES (\$ IN MILLIONS)



PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND

2011 YEAR IN REVIEW



RSA-1 DEFERRED COMPENSATION PLAN

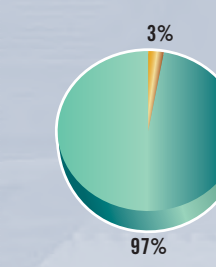
Established in 1986 to allow members of the RSA and certain other eligible public employees to defer receipt of a percentage of their salary, thereby deferring payment of taxes on that income.

RSA-1 HIGHLIGHTS

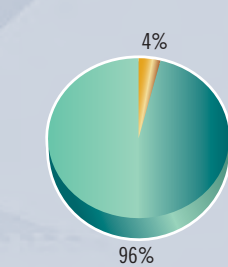
12-MONTH PERIOD ENDING	INCOME YIELD (IN %)	MARKET VALUE CHANGE (IN %)	TOTAL RETURN (IN %)	TOTAL NET ASSETS (\$ IN MILLIONS)	PARTICIPATING MEMBERS
SEPTEMBER 30, 2007 (FIXED INVESTMENT OPTION)	6.07	1.89	7.96	866.4	31,476
SEPTEMBER 30, 2007 (STOCK INVESTMENT OPTION)	2.05	13.98	16.03	214.9	14,884
SEPTEMBER 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
SEPTEMBER 30, 2009 (FIXED INVESTMENT OPTION)	5.54	5.21	10.75	1,016.2	32,243
SEPTEMBER 30, 2009 (STOCK INVESTMENT OPTION)	2.79	-8.77	-5.98	172.8	14,739
SEPTEMBER 30, 2010 (FIXED INVESTMENT OPTION)	4.32	3.69	8.01	1,125.9	33,162
SEPTEMBER 30, 2010 (STOCK INVESTMENT OPTION)	2.21	7.71	9.92	206.6	15,520
SEPTEMBER 30, 2011 (FIXED INVESTMENT OPTION)	4.01	0.38	4.39	1,196.4	33,624
SEPTEMBER 30, 2011 (STOCK INVESTMENT OPTION)	2.02	-0.98	1.04	223.1	16,170

RSA-1/INVESTMENT ALLOCATION STOCK FUND

(AS OF SEPTEMBER 30, 2011)



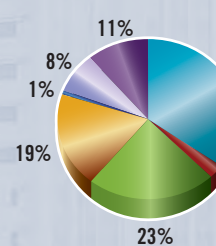
(AS OF SEPTEMBER 30, 2010)



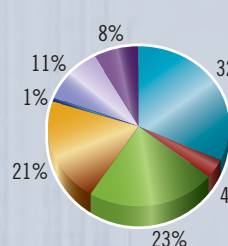
■ MONEY MARKET ■ DOMESTIC COMMON STOCK

RSA-1/INVESTMENT ALLOCATION FIXED FUND

(AS OF SEPTEMBER 30, 2011)



(AS OF SEPTEMBER 30, 2010)



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

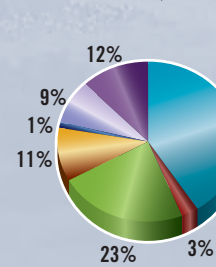
PEIRAF DEDUCTIBLE EMPLOYEE CONTRIBUTION PLAN

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.

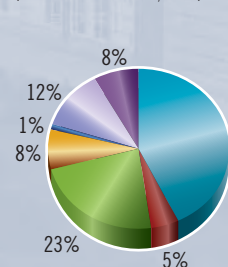
The Tax Reform Act of 1986 prohibited contributions to deductible voluntary employee contribution plans, such as PEIRAF, for years after 1986. Accordingly, the PEIRAF Board of Control discontinued receiving contributions to this plan after December 31, 1986. However, the PEIRAF continues to reinvest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

PEIRAF/INVESTMENT ALLOCATION

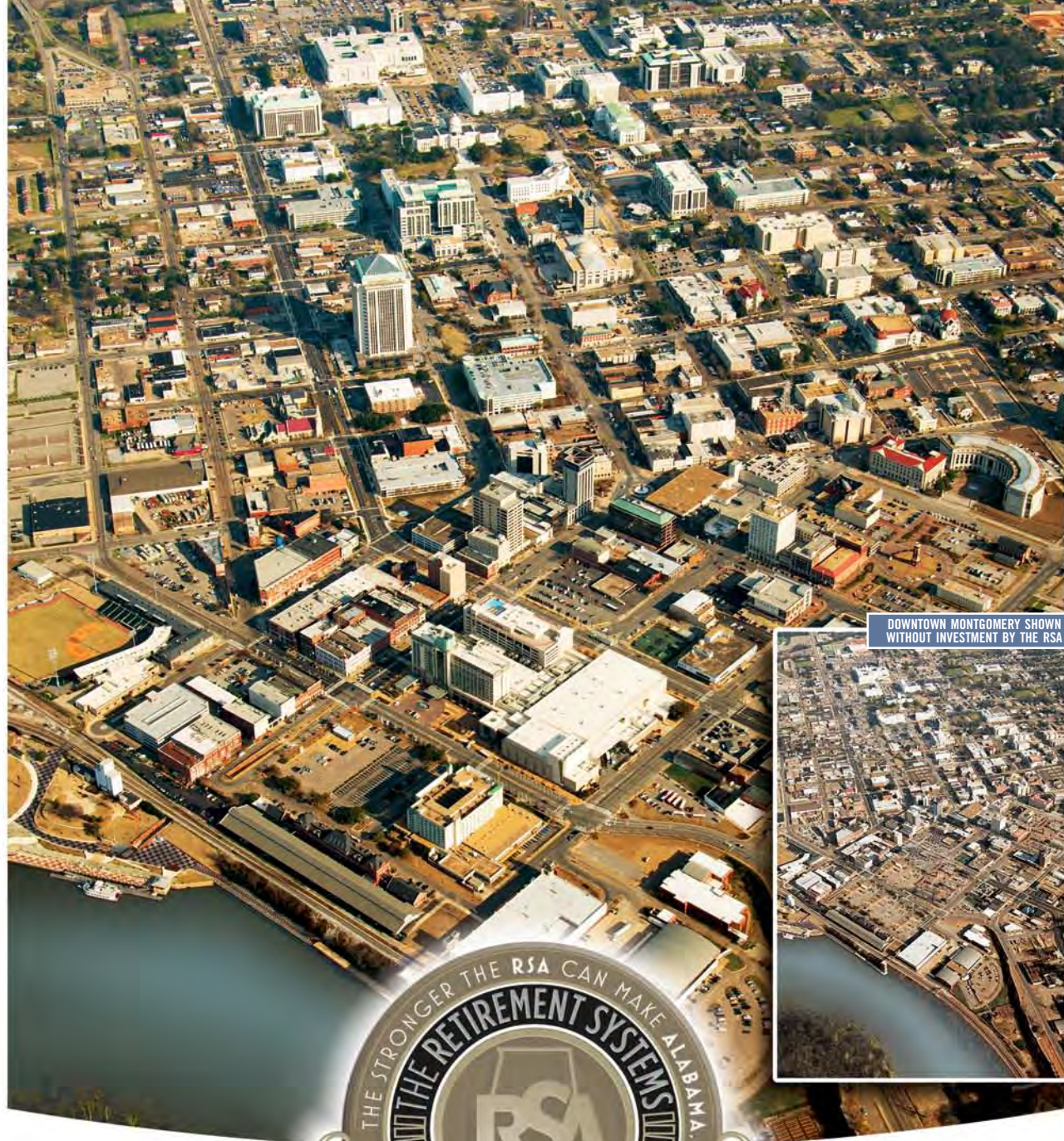
(AS OF SEPTEMBER 30, 2011)



(AS OF SEPTEMBER 30, 2010)



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



DOWNTOWN MONTGOMERY SHOWN WITHOUT INVESTMENT BY THE RSA



THE FUTURE OF ALABAMA

*We are Alabama- the rich, the poor, the Republicans, the Democrats.
If Alabama is going to repeat the success of the last 15 years, we must work together
and not be so divided as to hurt ourselves, our children, and the state's image.
Never forget that we must compete every day not just with other states, but the world."*

- DAVID G. BRONNER

Downtown Montgomery © Fouts Commercial Photography; Pilot: Hillis M. Cunliffe

Why did the RSA choose to invest about 10 percent of the pension fund in the future of Alabama? The reason is simple: It is extremely difficult to convince companies to invest in Alabama if we do not invest in ourselves first. The RSA began doing just that as you can see by the companies and projects listed in this annual report.

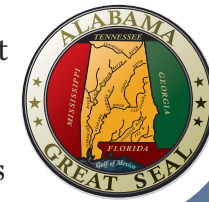
Not only do these investments help bring industry and jobs to Alabama, they also benefit the pension funds and the state through returns, by generating additional tax revenues and creating billions of payroll dollars over the decades.

By investing a small percentage of the funds in the state, Alabama made as much progress in the last twenty years as any state by adding quality jobs and an improved image – thanks to Governors Folsom, Siegelman, Riley, and, I'm sure, Bentley.

Other valuable benefits of investing in Alabama include being a catalyst for additional economic development, downstream spending and resulting jobs and tax revenue, increased tourism spending, an enhanced national reputation, and an improved quality of life for all Alabamians. ■

"Bronner is indeed the state's best economic development resource."

- MIKE GOENS, TIMES DAILY



INVESTING IN ALABAMA:

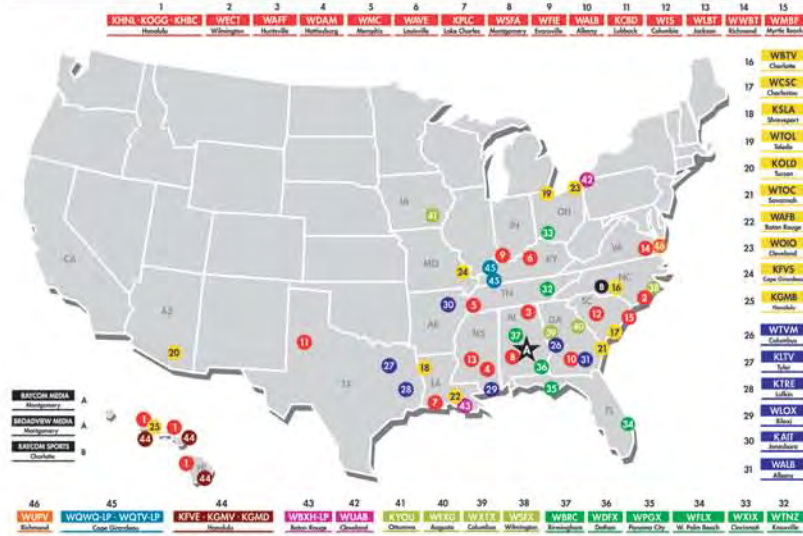
MONTGOMERY

- ADEM Laboratory ◆
- Bell Microproducts ◆
- Embassy Suites ◆
- Gordon Persons Building ◆
- RSA Tower Complex ○
- RSA Plaza ○
- RSA Union ○
- Alabama Center for Commerce ○
- Alabama Center for Postsecondary Education ○
- RSA Criminal Justice Center ○
- RSA Headquarters ○
- RSA Dexter Avenue Building ○
- Alabama State Bar Building ◆
- Raycom Media
- Community Newspaper Holdings, Inc.
- Renaissance Montgomery Hotel & Spa at the Convention Center ○
- Montgomery Coliseum ◆
- First Alabama Bancshares ◆
- fully repaid ◆ RSA owned ○



The Honor Court at the RSA Dexter Avenue Building is a representational work of landscape art which highlights Alabama's judicial history. Shaped like the state of Alabama, the court's boundaries begin with the entry steps and flag pole which represent Mobile Bay, and end with the water wall which represents the boundary of the Chattahoochee River. Low walls are used to define the Tennessee and Mississippi borders. Montgomery County, "the seat of the Alabama Supreme Court," is shown as a ground element.

RSA Dexter Avenue Building: HONOR COURT © Fouts Commercial Photography



RAYCOM now owns and/or operates 46 television stations in 37 markets and 18 states. Also, Raycom stations cover 12.7% of U.S. television households and employs nearly 3,500 individuals in full and part-time positions.

“The RSA has been a great supporter from CNHI’s very beginning. This latest headquarters move is another example of the positive relationship between us.”

- DONNA BARRETT, PRESIDENT AND CEO OF CNHI

CNHI, now headquartered in the RSA Dexter Avenue Building in Montgomery, is one of the leading publishers of local news and information in the United States. Its newspapers, websites, and niche publications serve more than 150 communities in 24 states. The CNHI headquarters is comprised of 70 employees.



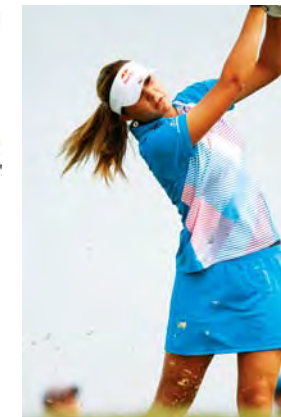
RTI Grand National, Lakes Course, Hole 15 © Michael Clemmer | INSET: National Village resident, Mike Preg, on the approach © Nate Preg

The Robert Trent Jones Golf trail will celebrate its 20th anniversary in 2012. According to Bill Marriott Jr., CEO of Marriott International, “We are very proud to have Robert Trent Jones courses among our resort portfolio. As one of the legendary and most respected names in the sport, golfers come from all over the world to play golf courses along the Trail.” This year, Marriott’s top golf location award went to the Montgomery Marriott Prattville Hotel & Conference Center at Capitol Hill. Marriott’s Top 10 for customer satisfaction awards include: Muscle Shoals, Auburn/Opelika, and Point Clear.

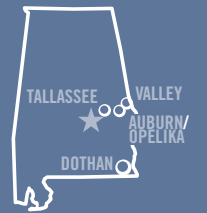
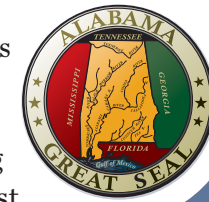
“When major corporations look at Alabama, they see that we are willing to invest in ourselves, which makes a big impact on their decision to invest in us,” said Dr. Bronner.



Each fall, NAVISTAR sponsors the LPGA event at Prattville’s Robert Trent Jones Golf Trail at Capitol Hill.



The water park at the Auburn Marriott Opelika Hotel & Conference Center at Grand National will be a welcome summer addition for area visitors and residents of National Village. **Phase I is sold out and Phase II of the Golf Cottages are now selling.** The new 3 bedroom Double Eagle Cottages at Eagle Bend are wonderfully designed and feature Hardi-Plank siding, vented gas fireplaces, and granite countertops in the kitchens and bathrooms.



INVESTING IN ALABAMA:

VALLEY/TALLASSEE

GKN Aerospace

AUBURN/OPELIKA

- National Village
- Auburn Marriott Opelika Hotel & Conference Center at Grand National
- Robert Trent Jones Golf Trail at Grand National

DOTHAN:

- Robert Trent Jones Golf Trail at Highland Oaks

PRATTVILLE:

- Montgomery Marriott Prattville Hotel & Conference Center at Capitol Hill
- Robert Trent Jones Golf Trail at Capitol Hill

fully repaid ♦ RSA owned ○



MOBILE

INVESTING IN ALABAMA:

MOBILE



- Alabama Cruise Terminal ◆
- CIBA-GEIGY Chemical Company ◆
- Dominion Senior Living of West Mobile
- Dynamit Nobel Chemical Company ◆
- Gulf Coast Explorem Science Center and IMAX Theatre ◆
- IPSCO Saskatchewan, Inc. ◆
- Kvaerner Oilfield Products ◆
- Mobile Parking Garage
- RSA Battle House Tower ○
- RSA BankTrust Building ○
- Signal International
- Springhill Medical Center ◆
- Renaissance Mobile Riverview Plaza Hotel ○
- Robert Trent Jones Golf Trail at Magnolia Grove ○
- The Battle House Renaissance Mobile Hotel & Spa ○

fully repaid ◆ RSA owned ○

AAA Awards has awarded the largest number of diamonds in Alabama ever to one group—The Retirement Systems of Alabama. Eight Four Diamond Awards were presented to executives from the Resort Collection on the RTJ Trail.

- Four Diamond Ratings for RSA hotels:**
- Renaissance Mobile Riverview Plaza Hotel
 - The Battle House Renaissance Mobile Hotel & Spa
(Only two hotels in Mobile that are Four Diamond)
 - Renaissance Montgomery Hotel & Spa at the Convention Center
(Only Four Diamond hotel in Montgomery)
 - Marriott Shoals Hotel & Spa
 - Renaissance Ross Bridge Golf Resort & Spa
(6th consecutive year and only Four Diamond hotel in Birmingham)
 - Grand Hotel Marriott Resort, Golf Club & Spa
(A Four Diamond hotel for 32 years)

- Four Diamond Ratings for RSA restaurants:**
- Grand Dining Room in Point Clear
 - The Trellis Room in Mobile

Downtown Mobile and Point Clear © Fouts Commercial Photography; Pilot: Hillis M. Cunliffe

THE RSA INVESTS IN THE FUTURE OF ALABAMA



The Spa at the Grand Hotel received the top Marriott spa globally for 2009 and 2010.

In January of 2011, Marriott listed the customer satisfaction rating with the Grand Hotel in Point Clear as an 89.6, placing it above The Plaza in New York City, The Greenbrier in West Virginia, and Bellagio in Las Vegas.

Travel + Leisure magazine named the Grand Hotel “One of the 500 Top Hotels in the World” and highlighted it as a great value.

For the second year in a row, Conde Nast Traveler’s Reader’s Choice Awards named the Grand Hotel Marriott Resort, Golf Club & Spa as one of the top resorts in the world. ■

“From the Grand Hotel, a long-time recipient of the Four Diamond Award, to Renaissance Riverview Plaza in Mobile receiving the honor for the first time, RSA has done a great deal to improve the hospitality level in our state and for our AAA members.”

- CLAY INGRAM, AAA ALABAMA SPOKESPERSON



INVESTING IN ALABAMA:

FOLEY

Rohr Goodrich Aerostructures ◆

ORANGE BEACH

Perdido Beach Hilton ◆

POINT CLEAR

- Point Clear Partners, LLC ○
- Lakewood Golf Club ○
- Grand Hotel Marriott Resort, Golf Club & Spa ○
- The Colony at the Grand ○
- fully repaid ◆ RSA owned ○



Ross Bridge: The National Association of Home Builders named the Ross Bridge community the “Best Community in America.” With 900 homes and 1,500 more single and multi-family homes expected to be built, the Ross Bridge community has as its centerpiece the Renaissance Ross Bridge Golf Resort & Spa. Amenities such as pools, playgrounds, movie nights, farmers markets, and other community events make this truly a great American neighborhood.

When naming the “75 Best Golf Resorts in North America” for its November 2011 issue, Golf Digest magazine had 1,000 course-ranking panelists evaluate each golf resort’s overall quality, not strictly its golf course or courses. Pebble Beach, The Cloister, Greenbrier, Broadmoor, Pinehurst, and countless Ritz-Carltons and Four Seasons all made the list, as expected. So did the Renaissance Ross Bridge Golf Resort & Spa. When you look at the average room rates each resort provided, however, the value of Ross Bridge becomes apparent:



<i>Pebble Beach Resort/ Inn at Spanish Bay-</i>	<i>\$615 per night</i>
<i>Sea Island Resorts, The Cloister & The Lodge-</i>	<i>\$525 per night</i>
<i>The Greenbrier-</i>	<i>\$359 per night</i>
<i>The Broadmoor-</i>	<i>\$360 per night</i>
<i>Pinehurst Resort-</i>	<i>\$340 per night</i>
<i>Ritz-Carlton, Half Moon Bay-</i>	<i>\$545 per night</i>
<i>Four Seasons Resort Jackson Hole-</i>	<i>\$625 per night</i>

**Renaissance Ross Bridge
Golf Resort & Spa-**
\$189 per night!



Renaissance Ross Bridge Golf Resort & Spa © Michael Clemmer | Coils of coated Steel © Courtesy of US Steel

RTI Ross Bridge Course, Hole 14 © Michael Clemmer | Food Court © Courtesy of The Shops of Grand River

THE OUTLET
SHOPS
OF GRAND RIVER



The Shops of Grand River is a 330,000 square-foot retail shopping venue in Leeds with 68 stores. Expected to generate over \$700 million in incremental revenues over the next 30 years, 650 full-time jobs have already been created.

The Shops of Grand River in Leeds has officially been designated as a Certified Gold Audubon International Signature Sanctuary. Grand River is the first certified Signature Sanctuary in Alabama. The award was presented to Grand River for giving protection to the natural resources of the State of Alabama by successfully integrating an ecosystem approach to design, construction, and management of the development. Grand River joins Audubon International’s family of environmentally sensitive properties around the world in demonstrating a commitment to sustainable development. ■

The editorial staff at ConventionSouth selected Renaissance Ross Bridge Golf Resort & Spa as a best meeting site based on reader nomination.



INVESTING IN ALABAMA:

BIRMINGHAM

- Danberry at Inverness
- Daniel Senior Living, LLC. ◆
- Dole Foods ◆
- Drummond Company ◆
- SunBelt Golf Corporation ○
- Robert Trent Jones Golf Trail at Oxmoor ○

FAIRFIELD

- US Steel ◆

LEEDS

- The Shops of Grand River

HOOVER

- Renaissance Birmingham
- Ross Bridge Golf Resort & Spa ○
- Robert Trent Jones Golf Trail at Ross Bridge ○

fully repaid ◆ RSA owned ○



“We have a good business plan. Our 11 beautiful golf properties handle 500,000 to 600,000 rounds per year. And last summer, we cut 1,003 paychecks every two weeks. My advice to golfers is to forgo the interstates and travel our back highways as you hop from course to course. When driving through Alabama’s small towns, you will see how we are a cross section of America.”

- JOHN CANNON, PRESIDENT OF THE ROBERT TRENT JONES GOLF TRAIL



INVESTING IN ALABAMA:

MONROEVILLE

- Alabama River Group, Inc. ◆
- Alabama River Chip Mill ◆
- Alabama River Recycling ◆

GREENVILLE

- Robert Trent Jones Golf Trail at Cambrian Ridge ●

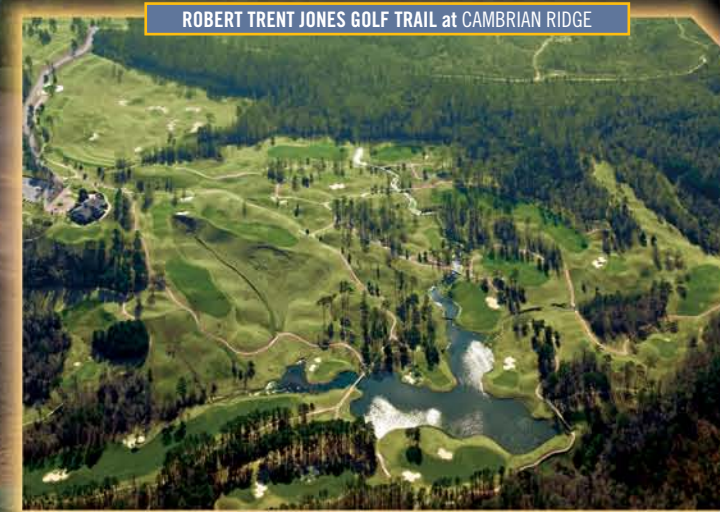
SELMA

- Circle S Industries ◆
- fully repaid ◆ RSA owned ●



RTJ Cambrian Ridge © Fouts Commercial Photography, Pilot Hillis M. Culliffe

ROBERT TRENT JONES GOLF TRAIL at CAMBRIAN RIDGE



RTJ Cambrian Ridge, Short Course, Hole 4 © Michael Clemmer

According to the Alabama Department of Tourism, an economic report performed by the Stanford Research Institute found that the tourism segment of the golf industry has a payroll of \$55 million. State Tourism Director Lee Sentell claims, “Most people know about golf in Alabama because of the Robert Trent Jones Golf Trail...We’ve been selling what works. What works for Alabama is beaches, golf, great food, mountains, nice people, and great tourist attractions. One of the fastest growing parts of our industry is the golf industry. Golf in Alabama is a 1.5 billion dollar industry.” ■



NAVISTAR

“This is really exciting for the entire northwest Alabama area. It’s up to 2,200 jobs, but not only are we talking about creation of jobs, we’re talking about spinoffs. There’s no telling how many jobs all together.”

- GOVERNOR ROBERT BENTLEY

The Alabama Development Office (ADO) says that 1,800 direct jobs will create 8,857 indirect jobs for a total job count of 10,657 jobs with total earnings from these jobs totaling \$270 million in annual payroll earnings for the Shoals region. In the first ten years of the lease, the payroll in the Shoals will exceed \$2.7 billion, many times more than the RSA’s investment.



Marriott Shoals Hotel and Spa

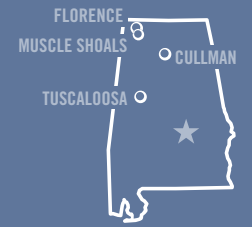
“Navistar is not a normal large company. During the ‘Great Recession’ of 2008-09, they received national honors for keeping their Alabama employees employed in Huntsville with public service jobs during the period when other companies were sending employees home,” said Dr. Bronner.

INTERNATIONAL LoneStar © Courtesy of NAVISTAR

2012 M-Class SUV © Courtesy of Mercedes-Benz USA



THE RSA INVESTS IN THE FUTURE OF ALABAMA



INVESTING IN ALABAMA:

TUSCALOOSA

- Alabama Energy
- Mercedes Benz U.S. ◆

FLORENCE

- National Alabama Corporation ○
- Wise Metals Group ◆
- Marriott Shoals Hotel & Spa ○

MUSCLE SHOALS

- Robert Trent Jones Golf Trail at The Shoals ○

CULLMAN

- Wal-Mart Distribution Center ◆
- fully repaid ◆ RSA owned ○

“During my lifetime, Alabama has been near the bottom on most everything other than university sports. The RSA has tried during the past twenty years to make Alabama something better. Without the RSA, there would be no auto industry in Alabama and no renaissance of Montgomery, Mobile, or the Shoals. In addition, the RSA has had for nearly 40 years no hint of corruption like numerous pension funds or Jefferson County.”

- DAVID G. BRONNER

The Alabama Tourism Department reports that Alabama’s 252 golf facilities, spearheaded by the Robert Trent Jones Golf Trail, contribute \$437.5 million annually to the state’s tourism and hospitality industries and help create a \$1.5 billion impact on Alabama’s economy. To help put this in perspective, the combined annual revenue of University of Alabama and Auburn University football and basketball programs totaled \$158 million in 2009-2010. ■



20

ROBERT TRENT JONES GOLF TRAIL

The 26-course RTJ Golf Trail and the U.S. Space and Rocket Center each report about 500,000 in attendance annually, ranking the RTJ Golf Trail first in 2010 and second in 2011 as Alabama tourist destinations.



RTJ Hampton Cove, Highlands Course, Hole 10 © Michael Clemmer | Saturn V Rocket © Courtesy of NASA



Navistar International was awarded the U.S. Chamber of Commerce's "Community Service Award" in Washington, D.C., for the Huntsville engine plant's program that paid employees to work in the community rather than be laid off during a drop in production. Navistar employees worked on Habitat for Humanity houses, built wheelchair ramps for the Care Assurance Systems for the Aging and Homebound, and more. The program was highlighted in People magazine and received national attention.



MaxxForce DT Engine © Courtesy of NAVISTAR



INVESTING IN ALABAMA:

HUNTSVILLE

- Navistar Diesel of Alabama, LLC
- Navistar Big Bore Diesels, LLC
- Daniel Senior Living, LLC ♦
- United Technology ♦
- Robert Trent Jones Golf Trail at Hampton Cove ●

ANNISTON

- Williamson Commerce Center ♦

ANNISTON/GADSDEN

- Robert Trent Jones Golf Trail at Silver Lakes ●

HEFLIN

- IDB Southwire Medium Volt Cable Company ♦

STATEWIDE

- Conventional Mortgages ♦
- Fairway Outdoor Advertising
- PCH Hotels and Resorts ●

fully repaid ♦ RSA owned ●

The RETIREMENT SYSTEMS of ALABAMA
2011 INVESTMENT STAFF



Front row left to right: FIXED INCOME ANALYST / PORTFOLIO MANAGER – Nicholas A. Prillaman, M.S., CFA; CASH MANAGEMENT & OPERATIONS – Nancy H. Blair
CHIEF INVESTMENT OFFICER – R. Marc Green, M.B.A., CFA; DIRECTOR OF PRIVATE PLACEMENTS – M. Hunter Harrell, M.B.A., CFA, J.D.

Middle row left to right: DIRECTOR OF FIXED INCOME – Julie S. Barranco, M.B.A., CFA; EQUITY ANALYST / PORTFOLIO MANAGER – Kevin W. Gamble, M.B.A., CFA
FIXED INCOME ANALYST / PORTFOLIO MANAGER – C. Lance Lachney, M.B.A., CFA; EQUITY ANALYST – Michael J. McNair, M.B.A.

Back row left to right: EQUITY ANALYST / PORTFOLIO MANAGER – Bobby Long, M.B.A., CFA; EQUITY ANALYST / PORTFOLIO MANAGER – J. Keith Buchanan, M.B.A., CFA
EQUITY ANALYST – Amy M. Hendrickson, M.S.; ASSISTANT DIRECTOR OF EQUITIES – Steve Lambdin, M.B.A., CFA
EQUITY ANALYST / PORTFOLIO MANAGER – Adam Rogers, M.A., CFA, EQUITY ANALYST / PORTFOLIO MANAGER – G. Allan Carr, Jr., M.B.A., CFA

RSA Investment Staff © Foulis Commercial Photography

INVESTMENTS 

EQUITY ACTIVITY

Risk On/Risk Off best describes the equity investing environment for 2011. As economic news improved early in the year, investors bid up risk assets, with lower quality stocks and small and mid-capitalization stocks outperforming large caps. During late summer, the Risk Off trade dominated and volatility ramped up as equity investors abandoned ship. Investors pulled over \$70 billion from equity mutual funds in the September quarter alone. Another seemingly “perfect storm” was brewing as the sovereign debt issues in Europe approached a full-blown crisis. Yields continued to blow out, and politicians there had trouble laying out a feasible game plan. This led to a continued collapse in investor sentiment and consumer confidence. This was reinforced by the antics continuing to come out of Washington, not to mention an S&P downgrade of U.S. government debt. This ultimately led to closing the fiscal year close to the lows in August. The S&P 500 was down (13.9%) for the quarter, and the total return for the twelve months ending September 30 was 1.14%. Midcap and Smallcap fared a little worse, with the S&P Midcap 400 down (1.28%) and the S&P Smallcap 600 up 0.21%. International equities were again the laggard, with the MSCI EAFE index down (9.36%) for the year.

The RSA has continued to favor large cap stocks, and domestic over international. Near the end of the year, we added to our small position in emerging market stocks, as those markets were especially weak. We have continued to use hedges in portions of our equity portfolios as opportunities have presented themselves. The RSA plans to continue this strategy as long as volatility remains high. Given all the uncertainty in the markets, the variable that continues to stick out is how cheap the market remains. Strong margins and resilient revenues have resulted in good earnings growth for large companies. We plan to remain overweight in these large cap companies, as we feel they will outperform given the laundry list of uncertainties that abound.

For the year, the RSA domestic equity portfolios increased 0.81%, 0.81%, and 0.85% for TRS, ERS, and JRF funds, respectively. International equity returns lagged domestic returns for the year, with TRS down (9.78)%, ERS down (9.81)%, and JRF down (9.89)%. The combined total return for the overall equity portfolios were (1.89)%, (1.78)%, and

(1.73)% for TRS, ERS, and JRF, respectively. Three-, five-, and ten-year annualized global equity returns were 0.99%, (1.12)%, and 4.13% for TRS, 1.04%, (1.07)%, and 4.15% for ERS, and 1.38%, (0.84)%, and 3.38% for JRF. ■

FIXED INCOME ACTIVITY

At the beginning of fiscal year 2011, Federal Reserve Chairman Ben Bernanke delivered a keynote speech in Jackson Hole, Wyoming, stating that the, “Committee is prepared to provide additional monetary accommodation through unconventional measures if it proves necessary.” Policymakers were hoping that easier financial conditions would help promote economic growth, which in turn would increase consumer confidence and spending. If the trickle-down theory holds true, this would ultimately lead to higher incomes, profits, and employment. Chairman Bernanke’s comments, as well as statements from the Fed’s late September meeting, created a surge in most risk assets as they conveyed an openness to another round of quantitative easing. High-yield bonds outperformed safer investment grade securities as the appetite for junk-rated debt allowed these companies to issue approximately \$33 billion during the month of October. Government-backed mortgages also outgained treasuries by its largest amount in ten years. However, these actions sparked an increase in inflation expectations with breakevens exploding over 65 basis points during this time. With the Fed’s stated intention of reflating the economy, the yield curve steepened dramatically with the long end leading the way.

In its statement on November 3, the Fed admitted that its progress towards higher employment, inflation, and economic output had been “disappointingly slow.” The Committee announced that in conjunction with the reinvestment of mortgage principal payments, it would accumulate an additional \$600 billion of treasury securities by the end of the second quarter of 2011. And with that, QE2 was officially underway.

continued

FIXED INCOME ACTIVITY Fiscal Year 2011 (continued)

There were plenty of objections from economists and Republican lawmakers, who had recently taken back control of the House of Representatives with a monumental pickup of legislative seats. The announcement provided a lift in treasury yields, which were sitting near record lows. The long end was hit especially hard as inflation expectations continued to rise as well as the fact that 75% of the Fed's purchases would fall within the 4-10 year bucket. The rise in interest rates resulted in negative returns for fixed income assets during the month of November, their first hiccup since March.

Treasury yields marched higher throughout the end of the calendar year as expectations of higher inflation and economic growth continued. Credit remained relatively stable during the first few months of the year despite several conflicts arising in the Middle East and the catastrophic earthquake in Japan. While these events provided brief flight-to-quality trades, corporate bond performance held tight due to strong balance sheets and low default probabilities.

During April and May, treasury securities began to move lower in yield as some economic data came in weaker than expected. Sovereign credit problems in Europe also started to resurface, which added to the broad risk aversion already taking place. Uncertainty about the conclusion of QE2 at the end of June and measures taken by emerging market economies to combat inflation continued to feed the safety trade. By June end, markets stabilized somewhat after Greece was able to secure short-term funding by passing an austerity package. Manufacturing data in the U.S. also surprised to the upside, alleviating investors' concern over an economic slowdown.

This sigh of relief was short-lived as European sovereign problems grabbed the headlines once again. Portugal was downgraded four notches to junk despite receiving financial aid a few months earlier. This in turn drove yields on Spanish and Italian government bonds substantially higher. At home, the showdown in Washington commenced over the need to raise the government's \$14.2 trillion debt limit by early August. In the end, an agreement was made to cut approximately \$1 trillion and lift the debt ceiling by roughly the same amount. A bipartisan commission was formed to discuss and recommend further spending cuts. Making good on a July warning, Standard & Poor's lowered the

long-term sovereign credit rating on the United States of America to AA+ from AAA. The ratings of Fannie Mae and Freddie Mac were also lowered due to their "direct reliance" on the U.S. government. This created more uncertainty in an already murky environment. With the economy growing less than 1% during the first half of the year and the unemployment rate hovering around 9%, a perfect storm ensued. The European Central Bank was also forced to reimplement its bond repurchase program in order to keep rising yields in Spain and Italy in check. Treasury securities performed extremely well during this time as investors typically seek shelter in times of market stress. Corporate bonds underperformed their risk-free counterparts with high-yield securities and financials leading this underperformance.

The flight-to-quality trade continued through the end of the fiscal year. Investors shunned corporate debt in favor of government securities, which accumulated gains over 6% for the quarter. Within investment grade debt, low-risk utilities outperformed financials by approximately 500 basis points during the months of August and September. Financials were unable to shake off the risks associated with the European debt crisis, as well as its own capital and regulatory concerns. At the end of September, the Federal Open Market Committee decided to extend the average maturity of its treasury holdings in a maneuver referred to as "Operation Twist." It also opted to reinvest its principal payments back into agency mortgage-backed securities. This action was enacted due to the Committee's view that there were "significant downside risks to the economic outlook, including strains in global financial markets." Going forward, the sovereign debt crisis in Europe is unlikely to be remedied in the immediate future. Any solution will involve sacrifice from investors and taxpayers alike, and is certain to be a drag on economic growth for an extended period.

For the fiscal year, the total annual returns for the public domestic fixed income portfolios were 5.05% for the TRS and 5.03% for the ERS and 5.17% for the JRF. The five-year annualized returns were 7.29% for the TRS and 7.30% for the ERS and 7.33% for the JRF. The ten-year annualized returns were 6.56% for the TRS and 6.49% for the ERS and 4.78% for the JRF. ■

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		
	2011	2010	2009	2011	2010	2009
0 TO <5	27.0	30.2	24.1	27.9	30.9	23.4
5 TO <10	22.9	26.1	24.3	21.7	25.2	23.6
10 TO <30	48.6	42.7	50.9	49.0	42.9	52.3
= OR >30	1.5	1.0	0.7	1.4	1.0	0.7

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		
	2011	2010	2009	2011	2010	2009
AAA	29	32	25	27	31	25
AA	4	4	3	4	3	3
A	8	13	13	8	12	13
BAA	14	13	14	14	13	14
BA	2	3	-	2	3	-
NOT RATED	43	35	42	45	38	43

INVESTMENT RETURNS / 2011

For the period ended September 30, 2011 (Percent)

	1-YEAR	3-YEARS	5-YEARS	10-YEARS
TOTAL EQUITY				
TRS	-1.89	0.99	-1.12	4.13
ERS	-1.78	1.04	-1.07	4.15
JRF	-1.73	1.38	-0.84	3.38
TOTAL FIXED INCOME AND ALTERNATIVES				
TRS	7.47	0.19	2.31	3.49
ERS	7.71	-1.14	1.61	2.98
JRF	5.26	8.26	6.23	4.81
TOTAL RSA RETURNS				
TRS	1.81	0.53	0.20	3.83
ERS	2.21	-0.09	-0.06	3.46
JRF	0.45	3.85	1.77	3.87
BENCHMARKS				
S&P 500	1.14	1.23	-1.18	2.82
DJIA	3.83	3.16	1.37	4.66
MIDCAP 400	-1.28	4.05	2.20	7.50
SMALLCAP 600	0.21	0.76	0.26	7.40
MSCI EAFE	-9.36	-1.13	-3.46	5.03
CITIGROUP BIG	5.25	7.97	6.72	5.78
BARCLAYS	5.26	7.97	6.53	5.66

"It may not always show up on a spreadsheet as a profit, but when the Shoals, the Wiregrass or any other area of the state improves, Alabama improves."

- MIKE GOENS, TIMES DAILY

INVESTMENTS

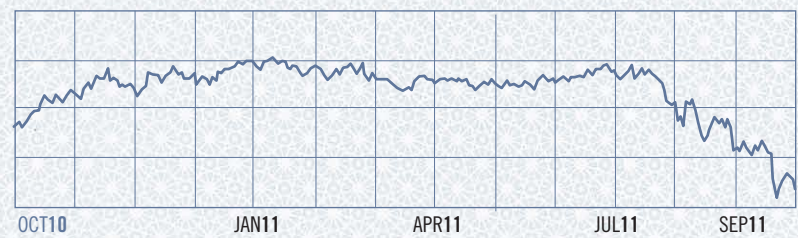
US TREASURY 2-YEAR NOTE (Yield)



US TREASURY 30-YEAR BOND (Yield)



SPREAD DIFFERENCE BETWEEN 2-YEAR & 30-YEAR TREASURIES



DOW JONES INDUSTRIAL AVERAGE



S&P 500 INDEX



INVESTMENTS

BROKER COMMISSIONS PAID
For Fiscal Year Ended September 30, 2011

	COMMISSIONS STOCK TRANSACTIONS (\$ IN ACTUAL DOLLARS)	COMMISSIONS BOND TRANSACTIONS (\$ IN ACTUAL DOLLARS)
BANC OF AMERICA	\$	\$ 141,915
BARCLAYS	442,415	
BERNSTEIN	528,288	
CANTOR FITZGERALD		138,116
CARIS	30,276	
CITIGROUP	810,876	189,936
COWEN	93,022	
CREDIT SUISSE	296,301	287,387
DAVENPORT	15,800	
DEUTSCHE BANK	340,694	44,028
EMPIRICAL RESEARCH	99,257	
FIRST DISCOUNT	17,500	
GARDNER RICH	14,405	
GOLDMAN SACHS	146,892	236,261
HARBOR FINANCIAL	11,250	
HOWARD WEIL	71,979	
ISI	807,736	
ISSUER DESIGNATED		182,303
JEFFRIES	178,642	
JP MORGAN CHASE	484,359	257,826
KEEFE BRUYETTE	71,060	
KEYBANC CAPITAL MARKETS	142,559	53,617
KNIGHT	9,000	
MERRILL LYNCH, PIERCE, FENNER & SMITH, INC	381,398	
MONTROSE-SINE	7,500	
MORGAN KEEGAN	50,000	
MORGAN STANLEY	944,771	16,700
MYERS & ASSOCIATES	13,035	
NBC SECURITIES, INC	70,000	
OPPENHEIMER	186,994	
RAYMOND JAMES	50,000	248,834
SANDLER O'NEIL	50,230	
SECURITIES CAPITAL	14,000	
SOUTHCOAST	65,711	
SOUTHWEST SECURITIES	14,020	
STERNE, AGEE & LEACH	141,734	
STIFEL NICHOLAS	110,750	
STRATEGAS	290,118	
UBS WARBURG	18,750	
WELLS FARGO	329,949	
TOTAL	\$ 7,351,271	\$ 1,796,923



FINANCIAL STATEMENTS

TEACHERS' RETIREMENT FUND

Statements of Plan Net Assets
As of September 30, 2011 and 2010

	(\$ IN THOUSANDS)	
	2011	2010
ASSETS		
Cash	\$ 10,066	\$ 4,843
Receivables		
Employee contributions	25,890	25,796
Employer contributions	63,928	64,509
Investment sales	707,221	923,111
Real estate investment	1,106	1,135
Dividends and interest	57,446	54,922
Total receivables	855,591	1,069,473
Investments, at fair value		
Domestic equities	6,878,428	7,426,861
Domestic fixed income	4,572,492	4,318,947
International equities	2,251,886	2,488,588
Real estate	1,870,629	1,893,380
Short-term	327,094	485,804
Total investments	15,900,529	16,613,580
Invested securities lending collateral	1,191,109	1,942,174
Property and equipment less accumulated depreciation	103,169	105,810
Total assets	18,060,464	19,735,880
LIABILITIES		
Accounts payable and other liabilities	4,475	4,517
Investment purchases	110,860	750,027
Other postemployment benefit obligations	1,802	1,489
Securities lending collateral	1,191,109	1,942,174
Total liabilities	1,308,246	2,698,207
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 16,752,218	\$ 17,037,673

Separately issued, audited financial statements are available upon request.

Statements of Changes in Plan Net Assets
For the fiscal years ended September 30, 2011 and 2010

	(\$ IN THOUSANDS)	
	2011	2010
ADDITIONS		
Contributions		
Employee	\$ 321,137	\$ 319,770
Employer	779,644	776,421
Transfers from Employees' Retirement System	2,059	1,633
Total contributions	1,102,840	1,097,824
Investment Income		
<i>From investing activities</i>		
Net increase/(decrease) in fair value of investments	(278,407)	886,997
Interest and dividends	624,546	559,941
Total investment income from investing activities	346,139	1,446,938
Less investment expenses:	5,305	5,415
Net investment income from investing activities	340,834	1,441,523
<i>From securities lending activities</i>		
Securities lending income	15,643	12,519
Less securities lending expenses:		
Borrower rebates	1,261	2,820
Management fees	3,251	2,910
Total securities lending expenses	4,512	5,730
Net income from securities lending activities	11,131	6,789
Total net investment income	351,965	1,448,312
Total additions	1,454,805	2,546,136
DEDUCTIONS		
Retirement allowance payments	1,673,881	1,567,790
Return of contributions and death benefits	49,304	43,628
Transfers to Employees' Retirement System	2,012	1,790
Administrative expenses	10,820	11,979
Depreciation	4,243	4,264
Total deductions	1,740,260	1,629,451
NET INCREASE/(DECREASE)	(285,455)	916,685
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	17,037,673	16,120,988
End of the year	\$ 16,752,218	\$ 17,037,673



FINANCIAL STATEMENTS

EMPLOYEES' RETIREMENT FUND

Statements of Plan Net Assets
As of September 30, 2011 and 2010

	(\$ IN THOUSANDS)	
	2011	2010
ASSETS		
Cash	\$ 2,608	\$ 3,262
Receivables		
Employee contributions	17,988	15,197
Employer contributions	28,397	30,329
Investment sales	326,653	425,256
Real estate investment	553	567
Dividends and interest	26,480	25,280
Total receivables	400,071	496,629
Investments, at fair value		
Domestic equities	3,335,278	3,573,333
Domestic fixed income	2,192,171	2,065,758
International equities	999,317	1,101,393
Real estate	909,719	923,235
Short-term	303,210	308,581
Total investments	7,739,695	7,972,300
Invested securities lending collateral	530,094	854,386
Property and equipment less accumulated depreciation	51,177	52,813
Total assets	8,723,645	9,379,390
LIABILITIES		
Accounts payable and other liabilities	2,860	2,790
Investment purchases	58,336	343,876
Other postemployment benefit obligations	1,920	1,606
Securities lending collateral	530,094	854,386
Total liabilities	593,210	1,202,658
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 8,130,435	\$ 8,176,732

Separately issued, audited financial statements are available upon request.

Statements of Changes in Plan Net Assets
For the fiscal years ended September 30, 2011 and 2010

	(\$ IN THOUSANDS)	
	2011	2010
ADDITIONS		
Contributions		
Employee	\$ 193,697	\$ 194,968
Employer	394,998	377,898
Transfers from Teachers' Retirement System	2,012	1,790
Total contributions	590,707	574,656
Investment Income		
<i>From investing activities</i>		
Net increase/(decrease) in fair value of investments	(112,758)	427,365
Interest and dividends	307,152	268,667
Total investment income from investing activities	194,394	696,032
Less investment expenses:	2,308	2,398
Net investment income from investing activities	192,086	693,634
<i>From securities lending activities</i>		
Securities lending income	6,891	5,619
Less securities lending expenses:		
Borrower rebates	517	1,271
Management fees	1,521	1,305
Total securities lending expenses	2,038	2,576
Net income from securities lending activities	4,853	3,043
Total net investment income	196,939	696,677
Total additions	787,646	1,271,333
DEDUCTIONS		
Retirement allowance payments	782,957	725,660
Return of contributions and death benefits	36,798	33,868
Transfers to Teachers' Retirement System	2,059	1,633
Transfers to Judicial Retirement Fund	98	-
Administrative expenses	10,002	10,334
Depreciation	2,029	2,111
Total deductions	833,943	773,606
NET INCREASE/(DECREASE)	(46,297)	497,727
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	8,176,732	7,679,005
End of the year	\$ 8,130,435	\$ 8,176,732

FINANCIAL STATEMENTS

JUDICIAL RETIREMENT FUND

Statements of Plan Net Assets
As of September 30, 2011 and 2010

	(\$ IN THOUSANDS)	
	2011	2010
ASSETS		
Cash	\$ 1,548	\$ 1,261
Receivables		
Employee contributions	116	114
Employer contributions	360	369
Investment sales	2	17
Dividends and interest	1,077	1,093
Total receivables	1,555	1,593
Investments, at fair value		
Domestic equities	101,922	106,307
Domestic fixed income	64,957	68,050
International equities	30,075	33,219
Real estate	2,946	2,686
Short-term	7,548	8,253
Total investments	207,448	218,515
Invested securities lending collateral	33,262	29,362
Total assets	243,813	250,731
LIABILITIES		
Accounts payable and other liabilities	106	85
Investment purchases payable	288	22
Other postemployment benefit obligations	22	20
Securities lending collateral	33,262	29,362
Total liabilities	33,678	29,489
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 210,135	\$ 221,242

Separately issued, audited financial statements are available upon request.

Statements of Changes in Plan Net Assets

For the fiscal years ended September 30, 2011 and 2010

	(\$ IN THOUSANDS)	
	2011	2010
ADDITIONS		
Contributions		
Employee	\$ 2,556	\$ 2,566
Employer	10,906	10,814
Transfers from Employees' Retirement System	98	-
Total contributions	13,560	13,380
Investment Income		
<i>From investing activities</i>		
Net increase/(decrease) in fair value of investments	(4,961)	15,287
Interest and dividends	6,853	6,551
Total investment income from investing activities	1,892	21,838
<i>Net investment income from investing activities</i>		
1,892	21,838	
<i>From securities lending activities</i>		
Securities lending income	201	169
<i>Less securities lending expenses:</i>		
Borrower rebates	22	45
Management fees	49	37
Total securities lending expenses	71	82
Net income from securities lending activities	130	87
Total net investment income	2,022	21,925
Total additions	15,582	35,305
DEDUCTIONS		
Retirement allowance payments	26,379	24,526
Return of contributions and death benefits	34	235
Administrative expenses	276	317
Total deductions	26,689	25,078
NET INCREASE/(DECREASE)	(11,107)	10,227
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	221,242	211,015
End of the year	\$ 210,135	\$ 221,242

FINANCIAL STATEMENTS

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Balance Sheets
As of September 30, 2011 and 2010

	(\$ IN THOUSANDS)	
	2011	2010
ASSETS		
Cash	\$ 5,843	\$ 4,889
Receivables		
Premiums	1,290	1,876
Prescription drug rebates	3,029	6,071
Early Retiree Reinsurance Program	19,029	-
Interest	23	13
Total receivables	23,371	7,960
Deposit with claims-paying agent	1,403	3,411
Investments, at fair value	192,781	80,723
Total assets	\$ 223,398	\$ 96,983
LIABILITIES		
Accounts payable	\$ 197	\$ 312
Employee benefits payable	467	489
Other postemployment benefits	364	318
Reported claims payable	36,969	34,784
Claims incurred but not reported	35,452	42,009
Total liabilities	73,449	77,912
FUND EQUITY-UNRESTRICTED		
Total fund equity	149,949	19,071
Total liabilities and fund equity	\$ 223,398	\$ 96,983

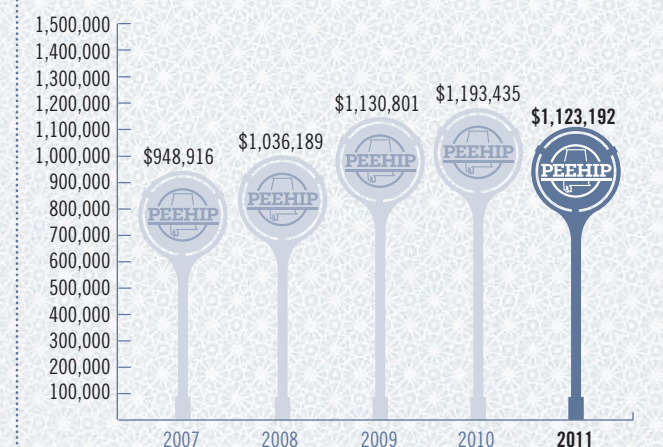
Separately issued, audited financial statements are available upon request.

Statements of Revenues, Expenses, & Changes in Fund Equity
For the fiscal years ended September 30, 2011 and 2010

	(\$ IN THOUSANDS)	
	2011	2010
OPERATING REVENUES		
Premiums	\$ 862,764	\$ 764,313
Early Retiree Reinsurance Program	21,196	-
Total operating revenue	883,960	764,313
OPERATING EXPENSES		
Claims	750,951	787,216
Administrative	2,587	3,160
Total operating expenses	753,538	790,376
Operating income/(loss)	130,422	(26,063)
INVESTMENT REVENUES		
Interest income	456	295
Total investment revenues	456	295
Total income/(loss)	130,878	(25,768)
FUND EQUITY		
Beginning of the year	19,071	44,839
End of the year	\$ 149,949	\$ 19,071

Total claims expense active and retired

(\$ IN THOUSANDS)



FINANCIAL STATEMENTS

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

Statements of Plan Assets
As of September 30, 2011 and 2010

	(\$ IN THOUSANDS)	
	2011	2010
ASSETS		
Receivables		
Prescription drug rebates	\$ 3,474	\$ 6,867
Medicare Part D subsidy	3,429	4,529
Interest and dividends	3,644	3,093
Investment sales receivable	8	57
Total receivables	10,555	14,546
Deposit with claims-paying agent	667	3,231
Investments, at fair value		
Commercial paper	112,996	114,326
Money market funds	35,339	46,923
U.S. government guaranteed bonds	87,124	59,930
U.S. agency securities	31,077	35,191
Mortgage-backed securities	37,762	23,492
Corporate bonds	103,426	78,802
Private placements	-	1,729
International securities	89,275	101,970
Common stocks	305,689	305,705
Total investments	802,688	768,068
Invested securities lending collateral	70,207	54,194
Total assets	\$ 884,117	\$ 840,039
LIABILITIES		
Reported claims payable	\$ 16,148	\$ 12,055
Investments purchases payable	1,567	78
Claims incurred but not reported	18,262	23,328
Securities lending collateral	70,207	54,194
Total liabilities	106,184	89,655
Net assets held in trust for other postemployment benefits	\$ 777,933	\$ 750,384

Separately issued, audited financial statements are available upon request.

Statements of Changes in Plan Net Assets
For the fiscal years ended September 30, 2011 and 2010

	(\$ IN THOUSANDS)	
	2011	2010
ADDITIONS		
Contributions		
Employee	\$ 91,351	\$ 69,136
Employer	265,062	331,531
Early Retiree Reinsurance Program	10,844	-
Medicare Part D retiree drug subsidy	25,075	27,959
Total contributions	392,332	428,626
Investment income/(loss)		
<i>From investing activities</i>		
Net (decrease)/increase in fair value of investments	(12,814)	39,820
Interest and dividends	19,739	17,937
Total investment income	6,925	57,757
<i>From securities lending activities</i>		
Securities lending income	743	434
Less securities lending expenses:		
Borrower rebates	36	125
Management fees	174	93
Total security lending expenses	210	218
Income from securities lending activities	533	216
Total investment income	7,458	57,973
Total additions	399,790	486,599
DEDUCTIONS		
Benefits	372,241	406,219
NET INCREASE	27,549	80,380
Net assets held in trust for other postemployment benefits		
Beginning of the year	750,384	670,004
End of the year	\$ 777,933	\$ 750,384

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 and the Flexible Spending Account Plan; Southland National administers the Optional Plans; and MedImpact administers the Prescription Drug Plan.

GENERAL INFORMATION

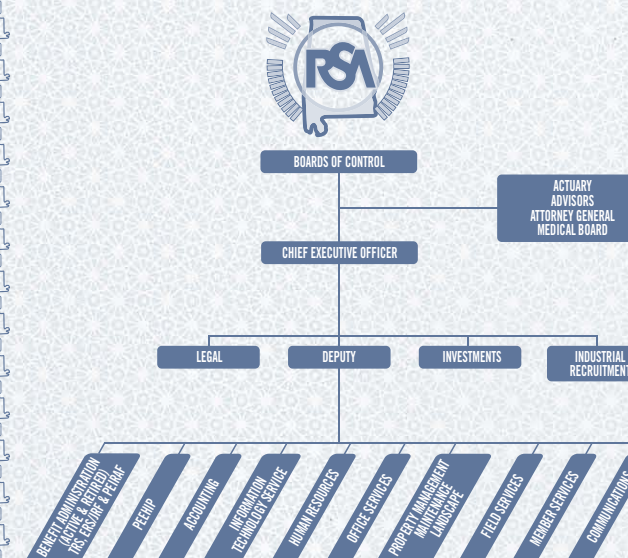
THE RETIREMENT SYSTEMS OF ALABAMA MISSION STATEMENT

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 the Retirement Systems of Alabama Web site. All RSA members can register and easily change their address online, and add or update their phone number and email address. In addition, TRS, ERS, JRF and RSA-1 members can view their account information online. PEEHIP members can also view their current PEEHIP coverages, change coverages, enroll in new coverages, and/or enroll or re-enroll in flexible spending accounts during Open Enrollment.

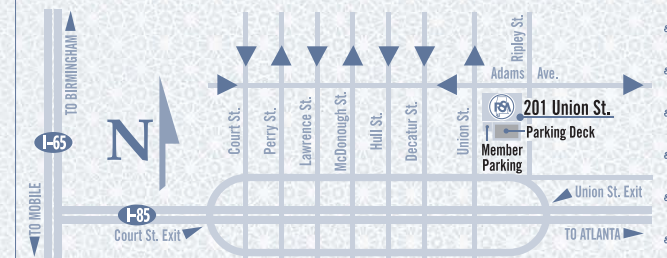
THE RETIREMENT SYSTEMS OF ALABAMA ORGANIZATIONAL CHART



MEMBER SERVICES CONTACT CENTER

Take advantage of Member Services' personalized assistance concerning your retirement and health care benefits by contacting the 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 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 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 before Adams Avenue. Members may park in the open lot in front of the parking deck.

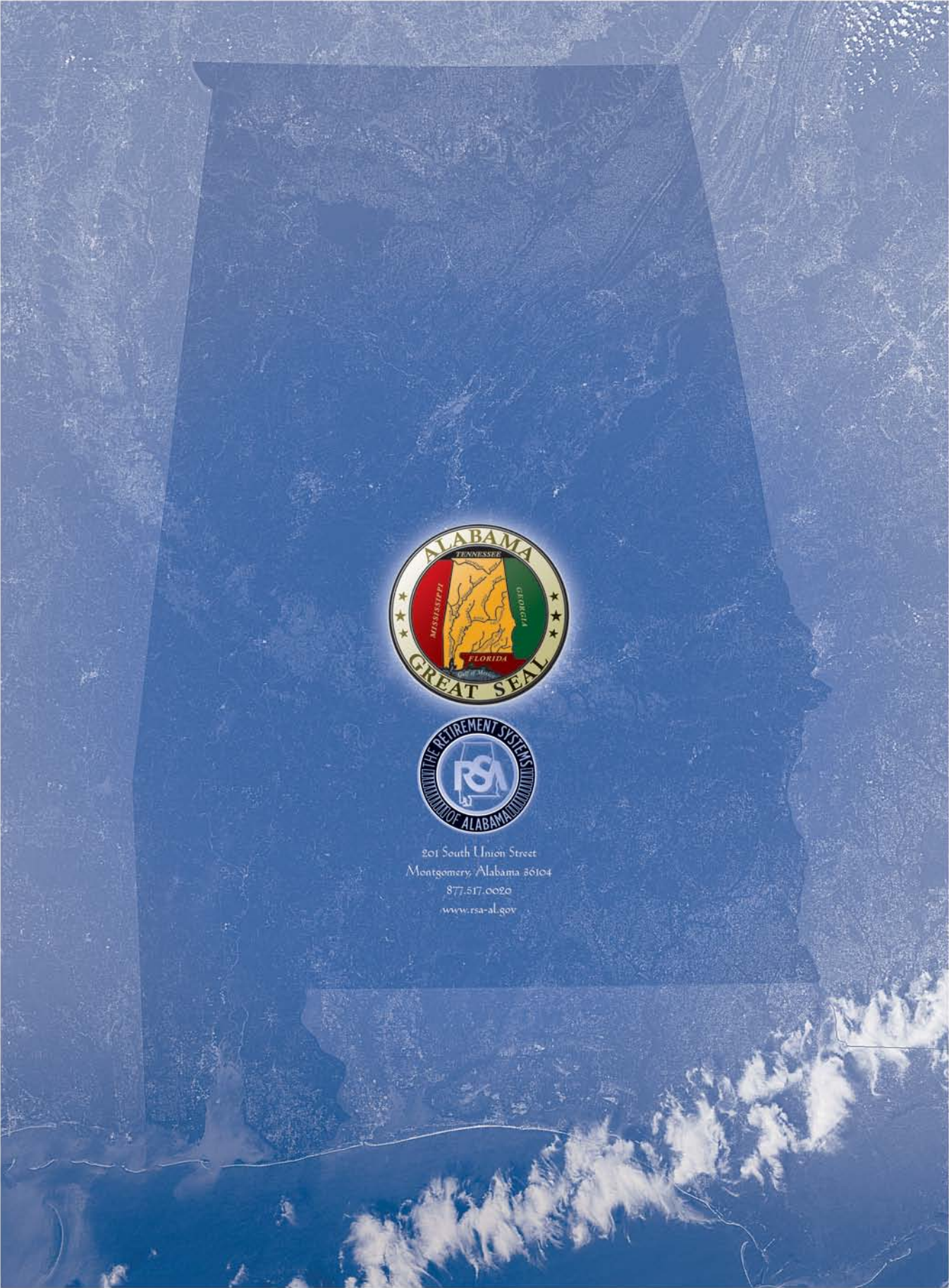
FROM THE NORTH

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 before Adams Avenue. Members may park in the open lot in front of the parking deck.

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Jeffrey and Cherie Preg | www.outoftheblues.com

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