



20 Years on
WATER STREET
NEW YORK, NEW YORK

2013 RSA Annual Report

THE RSA: 20 Years on Water Street, NY

The Boards of Control and the Retirement Systems of Alabama (RSA) staff are pleased to present the 37th Annual Report for the fiscal year ended September 30, 2013.

The RSA currently manages 23 funds with aggregate assets of approximately \$35.1 billion. For fiscal year 2013, the Teachers' Retirement System (TRS) assets totaled \$20.7 billion, the Employees' Retirement System (ERS) assets totaled \$10.0 billion, and the Judicial Retirement Fund (JRF) assets totaled \$255 million. The annualized return was 14.93% for the TRS, 14.60% for the ERS and 14.05% for the JRF.

Market performance during fiscal year 2013 was fairly stable, with equity markets performing well over the course of the year; domestic and international equities returned over 21% during this time period. Fixed income markets did not experience the significant gains of the past three years as interest rates were somewhat volatile. Returns within this sector were essentially flat for the fiscal year. Markets have continued to be somewhat reactionary around macroeconomic events as they have been the last few years, but we continue to see fundamentals influencing performance as well as the improvement of company earnings and balance sheets.

Last fiscal year, the Robert Trent Jones Golf Trail celebrated its 20th anniversary. Now, this year, 55 Water Street, New York City's largest office tower, will celebrate its 20th anniversary with the RSA. This anniversary is particularly meaningful as the effects of Hurricane Sandy and the flooding that ensued are still being felt throughout the area. The New York City staff worked tirelessly in the weeks after "Sandy" to get the building reopened.

Since 1993, 55 Water Street has been one of the RSA's strongest performing assets. This investment is currently valued at \$1.4 billion and generated roughly \$70 million in net profit during 2012 alone,

prior to "Sandy." There is no debt on the building and it is currently 93.3% leased. 55 Water Street is the second largest privately-owned office building in America.

Renovation continues on the historic Van Antwerp Building in Mobile, which the RSA purchased early in the fiscal year. This building is ten stories high and over 58,000 square feet. BBVA Compass will relocate its Mobile headquarters to the 105-year-old building in mid-2014, occupying three floors. The Van Antwerp Building is one of Mobile's oldest structures and joins RSA's stable of Port City holdings that include the RSA Battle House

Tower, the RSA Trustmark Building, the Renaissance Mobile River-view Plaza Hotel and The Battle House Renaissance Mobile Hotel & Spa.

Lastly, several of the RSA's properties were honored again this year by earning national recognition for guest satisfaction. Marriott International, *Travel + Leisure* magazine and *U.S. News & World Report* all ranked several of the RSA hotels and resorts at or near the top of the list in their respective annual surveys.

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 and the Montgomery Performing Arts Centre © Fouts Commercial Photography

David G. Bronner

 CHIEF EXECUTIVE OFFICER

THE RSA: 20 Years on Water Street, NY



2013 Annual Report

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55 WATER STREET, NEW YORK, NY



The Retirement Systems of Alabama Boards of Control



2013

Teachers' Retirement System Board of Control

Left to right: Mr. Russell J. Twilley, SUPPORT PERSONNEL POSITION / Mr. Luther P. Hallmark, SUPERINTENDENT POSITION / VICE CHAIR: Dr. Susan Williams Brown, POSTSECONDARY POSITION / Ms. Charlene McCoy, TEACHER POSITION / Mrs. Teresa Harbison Swindall, TEACHER POSITION / Mrs. Susan Lockridge, SUPPORT PERSONNEL POSITION / CHAIR: Mrs. Sarah S. Swindle, RETIRED POSITION / Mrs. Sallie B. Cook, RETIRED POSITION / Mr. John R. Whaley, TEACHER POSITION / Mr. Bill Newton, ACTING STATE FINANCE DIRECTOR, EX OFFICIO / Dr. Thomas R. Bice, STATE SUPERINTENDENT OF EDUCATION, EX OFFICIO / Mr. C. Ray Hayes, HIGHER EDUCATION POSITION / Dr. Victor Wilson, PRINCIPAL POSITION*

*Mr. Robbie Owen assumed this position on July 23, 2013

2013

Employees' Retirement System Board of Control

Left to right: ■ Hon. Young Boozer, STATE TREASURER, EX OFFICIO / Mr. Stephen C. Walkley, ACTIVE STATE EMPLOYEE POSITION / Mr. Ben Powell, ACTIVE LOCAL EMPLOYEE POSITION / VICE CHAIR: Mrs. Jackie B. Graham, STATE PERSONNEL DIRECTOR, EX OFFICIO / Mr. Steven W. Williams, ACTIVE LOCAL EMPLOYEE POSITION / Mr. James H. Rowell, RETIRED STATE EMPLOYEE POSITION / Ms. Wendy S. Hester, GOVERNOR APPOINTEE / Mr. James Fibbe, RETIRED LOCAL EMPLOYEE POSITION / Mr. David Bollie, ACTIVE STATE EMPLOYEE POSITION / Mr. Christopher Blankenship, GOVERNOR APPOINTEE / Mr. Curtis E. Stewart, GOVERNOR APPOINTEE / CHAIR: Hon. Robert Bentley, GOVERNOR, EX OFFICIO

■ SERVE ON BOTH THE TRS & ERS BOARDS OF CONTROL

RSA Boards of Control/MPAC
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55 WATER STREET,
NEW YORK, NY

CHIEF EXECUTIVE OFFICER
DAVID G. BRONNER, PH.D., J.D.

DEPUTY DIRECTOR
DONALD L. YANCEY, M.P.A., J.D.

ADMINISTRATIVE STAFF

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R. MARC GREEN, M.B.A., CFA

CHIEF ACCOUNTANT AND FISCAL OFFICER
DIANE E. SCOTT, B.S., CPA, CGMA

GENERAL COUNSEL
LEURA G. CANARY, J.D.

LEGISLATIVE COUNSEL
NEAH L. MITCHELL, 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
DONNA M. JOYNER, B.S., CPA

INFORMATION TECHNOLOGY SERVICES
MICHAEL T. BAKER, B.S.

MEMBER SERVICES
PENNY K. WILSON, B.S.

COMMUNICATIONS
MICHAEL E. PEGUES, M.A.

FIELD SERVICES
ROBERT J. CROWE, BBA

ADVISORS

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
CARR, RIGGS AND INGRAM, LLC

INVESTMENT CONSULTANT
REGIONS BANK N.A.,
MR. BRIAN SULLIVAN

INVESTMENT CUSTODIAN
STATE STREET BANK AND
TRUST COMPANY

CONSULTING ACTUARY
CAVANAUGH MACDONALD
CONSULTING, LLC,
MR. EDWARD A. MACDONALD

ATTORNEY GENERAL
HON. LUTHER STRANGE

CHIEF EXAMINER
MR. RONALD L. JONES

MEDICAL BOARD

CHAIR
GLENN YATES, M.D.

GREGORY BORG, M.D.
MALCOLM BROWN, M.D.

Legal and Legislation

LEGAL In fiscal year 2013, the RSA Legal Division addressed issues involving pension law, fiduciary and trust law, tax law, health insurance law, litigation, securities law, contract law, construction law, commercial real estate law and employment law, among others.

Litigation has been and continues to constitute a significant part of legal staff's duties. The RSA legal staff worked with and continues to work with the Attorney General's Office and other state agencies' legal counsel to defend the RSA's interests in several cases involving challenges to legislative changes to the pension benefit plans. In addition, the RSA legal staff successfully defended a variety of benefits and other miscellaneous cases, some of which raised novel theories of recovery. On the affirmative side, the legal staff has pursued recoveries to the funds experienced as a result of the BP oil spill. As in years past, the RSA also participated in securities fraud litigation, which can result in considerable recoveries.

Another important 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 Affordable Care Act and the administrative regulations issued pursuant to that law. Legal staff was frequently called upon to interpret and advise on the implementation of Health Insurance Portability and Accountability Act (HIPAA) and Health Information Technology for Economic and Clinical Health Act (HITECH) and their 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 legal staff also assisted the RSA's real estate holdings and other investments. This assistance included providing legal advice on general operational issues and on construction projects, including pursuing litigation when necessary.

To provide the RSA with assistance in the foregoing areas, the RSA legal staff dedicated its time, effort, and resources to legal research, litigating in the Alabama courts, and contract review, negotiations and drafting. The RSA legal staff stands ready to assist the RSA in meeting any new challenges that may arise for public pensions and health insurance programs and to maintain and enhance the RSA's service to its members.

LEGISLATION The 2013 Regular Legislative Session began on February 5, 2013, and ended on May 20, 2013. The Legislature passed the General Fund Budget (Act 2013-263) and the Education Trust Fund Budget (Act 2013-264). ERS, TRS, and PEEHIP were funded at the requested rates.

Act 2013-239 (SB303) altered the membership of the TRS Board of Control. The Act added two members to be filled from public four-year institutions of higher education and substituted one of those positions for the ex officio position of Executive Secretary of the Alabama Education Association. In addition, the Act amended the election procedures to provide that the elected members of the Board shall be elected only by members from the same category within TRS. Furthermore, the Act requires such elections to be conducted by a third party who is unaffiliated with TRS.





The Retirement Systems of Alabama 2013 Financial Highlights

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

MEMBERSHIP ACTIVITY FOR 2013

	TRS	ERS	JRF
NEW MEMBERS	10,455	9,086	47
WITHDRAWN MEMBERS	6,111	5,059	7
SERVICE RETIREMENTS	3,281	1,967	33
DISABILITY RETIREMENTS	395	302	0
NEW BENEFICIARIES	351	287	5

TOTAL MEMBERSHIP FOR 2013

(AS OF SEPTEMBER 30, 2013)

	TRS	ERS	JRF	TOTAL
ACTIVE	128,733	79,946	335	209,014
DROP	3,030	1,517	-	4,547
RETIRED	80,553	42,107	375	123,035
TOTAL	212,316	123,570	710	336,596

FUNDS UNDER MANAGEMENT

(AS OF SEPTEMBER 30, 2013; \$ in Thousands)

	TOTAL FUNDS MANAGED (1)
TEACHERS' RETIREMENT SYSTEM	\$ 20,692,977
EMPLOYEES' RETIREMENT SYSTEM	10,028,716
JUDICIAL RETIREMENT FUND	254,983
ALABAMA CULTURAL RESOURCES PRESERVATION TRUST FUNDS	11,100
ALABAMA EDUCATION FOUNDATION FOR K THROUGH 12	896
DIVISION OF WILDLIFE AND FRESHWATER FISHERIES	19,435
ALABAMA NONGAME WILDLIFE ENDOWMENT TRUST	16
ALABAMA UNDERGROUND & ABOVEGROUND STORAGE TANK TRUST FUNDS	31,660
CLERKS' & REGISTERS' SUPERNUMERARY FUND	11,222
ALABAMA SENIOR SERVICES TRUST FUND	29,696
ALABAMA STATE EMPLOYEES' HEALTH INSURANCE FUND	74,151
LOCAL GOVERNMENT HEALTH INSURANCE FUND	109,158
PEIRAF - DEFERRED COMPENSATION PLAN (RSA - 1)	1,654,264
PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND	171,951
ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST	1,073,575
PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND	84,579
ALABAMA MARINE RESOURCES ENDOWMENT TRUST FUND	1,250
ALABAMA TRUST FUND	293,995
ALABAMA TREASURY FUND	250,669
CHARLOTTE THORN TRUST FUND	8,229
COUNTY MUNICIPAL TRUST FUND	113,587
ALABAMA STATE EMPLOYEES' RETIRED HEALTH CARE TRUST FUND	141,999
STATE DOCKS PENSION PLANS	15,257
TOTAL ASSETS UNDER MANAGEMENT	\$ 35,073,365

(1) Includes investments at fair value, cash, buildings net of depreciation, and land

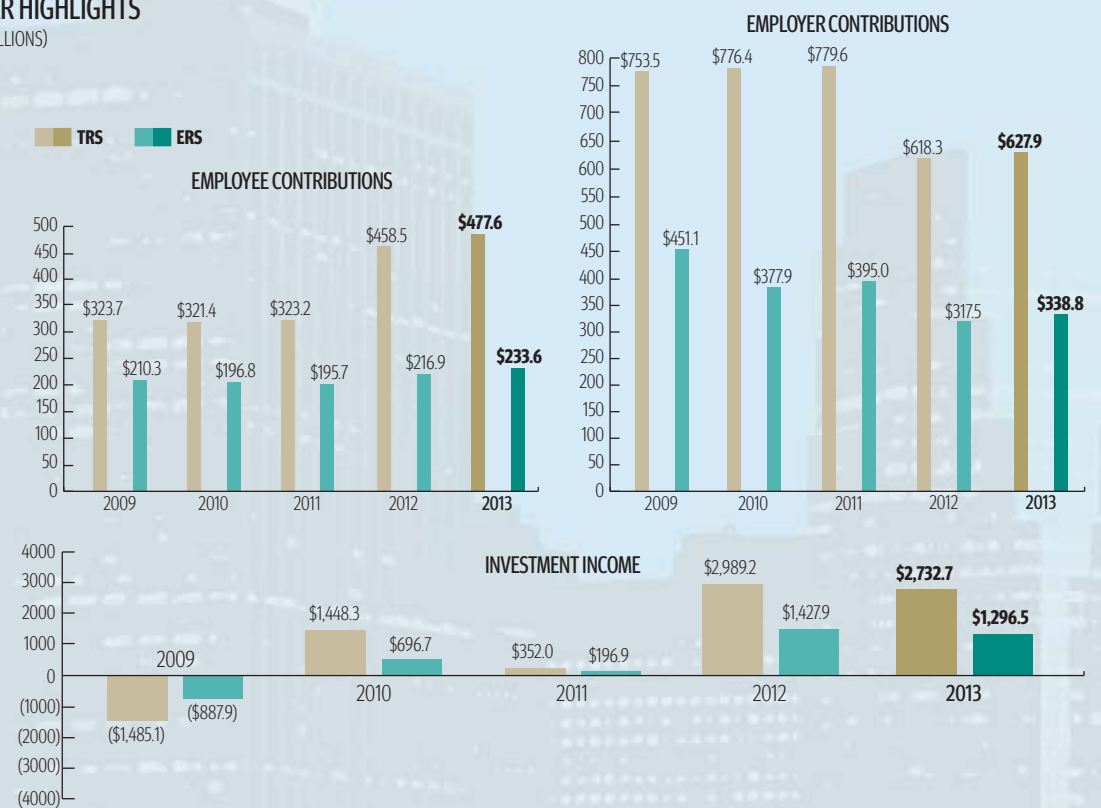
REVENUE SOURCES FOR TRS, ERS & JRF

(\$ IN MILLIONS)

	2013	2012
EMPLOYEE CONTRIBUTIONS	705.2	679.1
EMPLOYER CONTRIBUTIONS	980.6	946.6
INVESTMENT INCOME	4,061.4	4,456.0
TOTAL	\$5,747.2	\$6,081.7

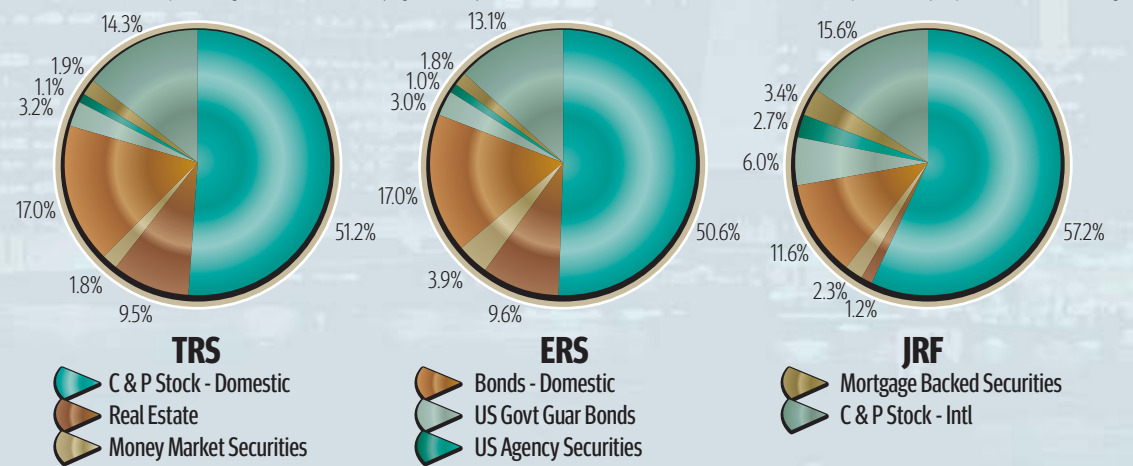
5-YEAR HIGHLIGHTS

(\$ IN MILLIONS)



ASSET ALLOCATION

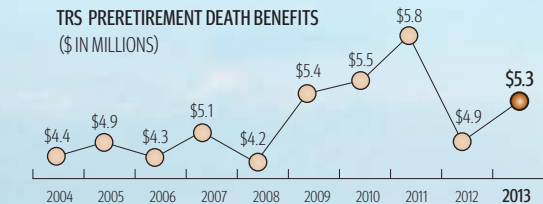
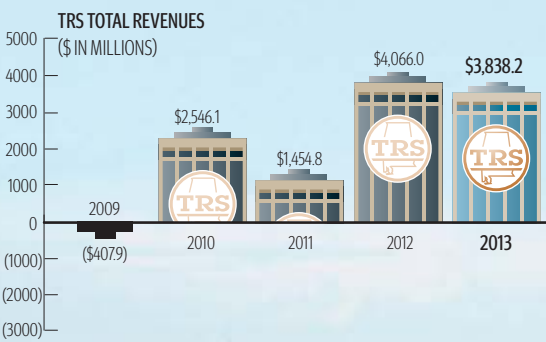
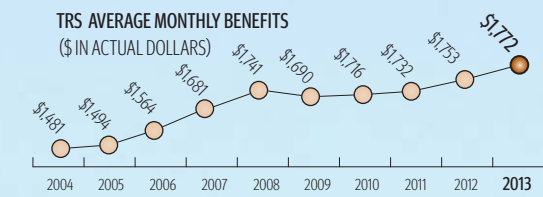
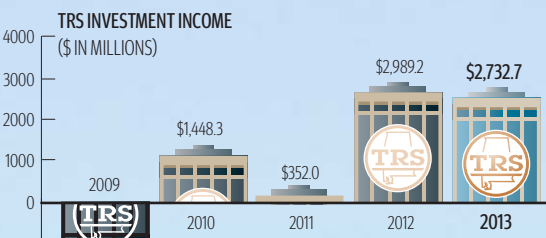
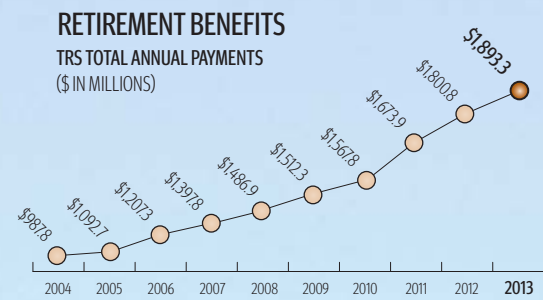
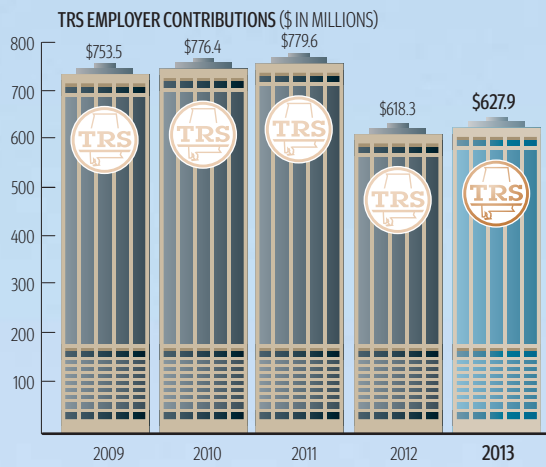
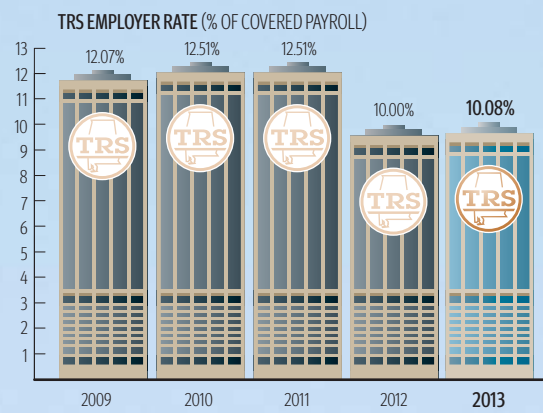
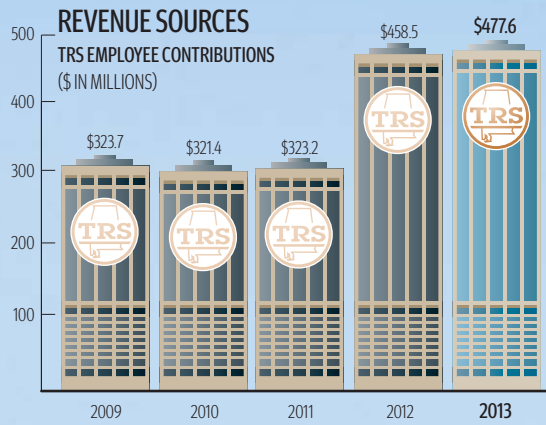
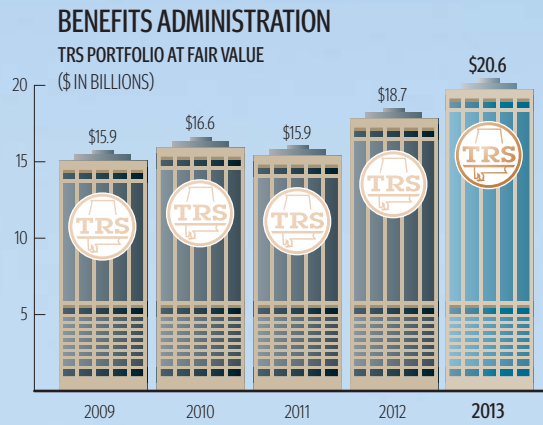
(AS OF SEPTEMBER 30, 2013) Asset allocation is a strategic long-term decision in the pension investment management process. The RSA is dedicated to preserving the sound financial position it has established over the years through a diversified investment program. The objective of the RSA is to allocate investments in the most effective way that reflects policy standards while maximizing returns.





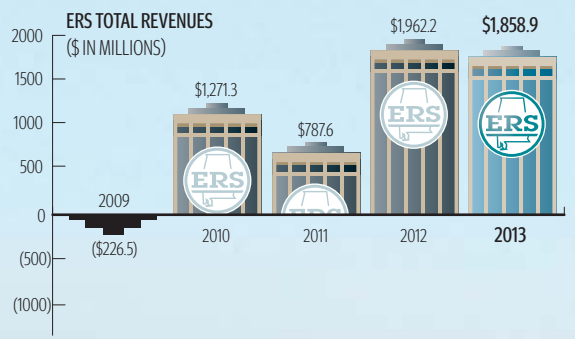
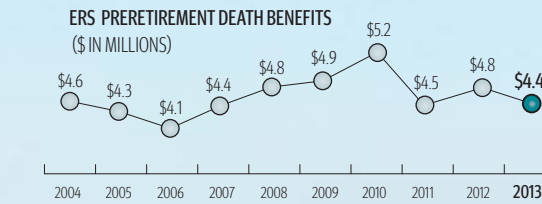
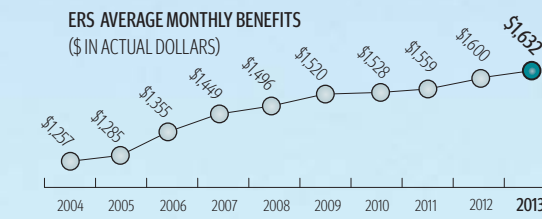
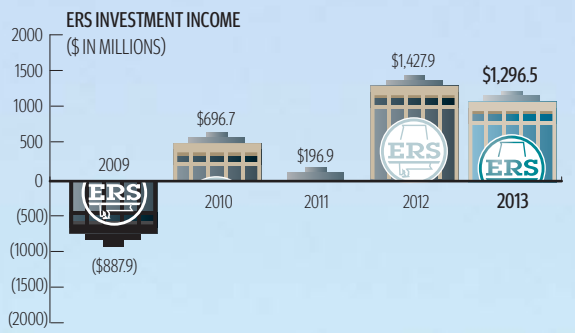
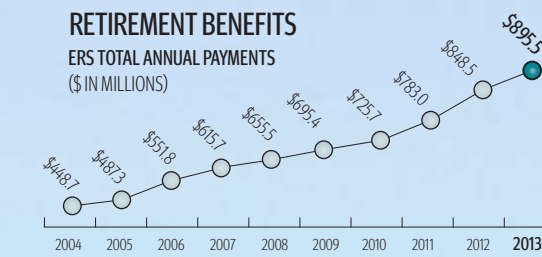
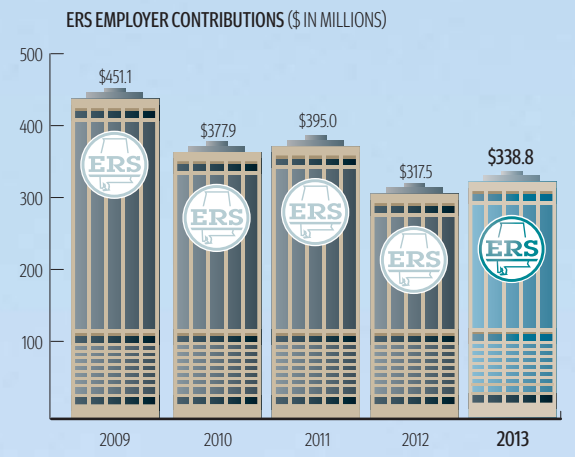
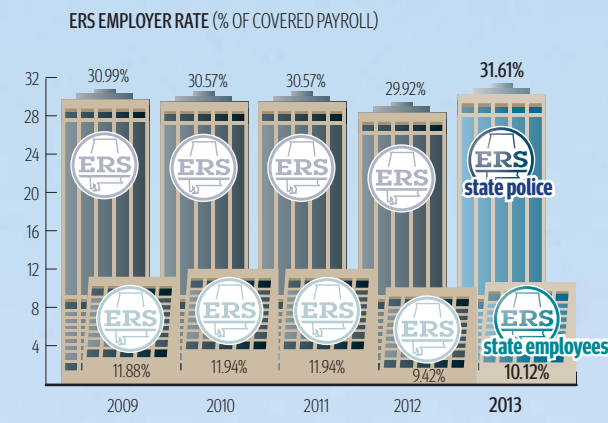
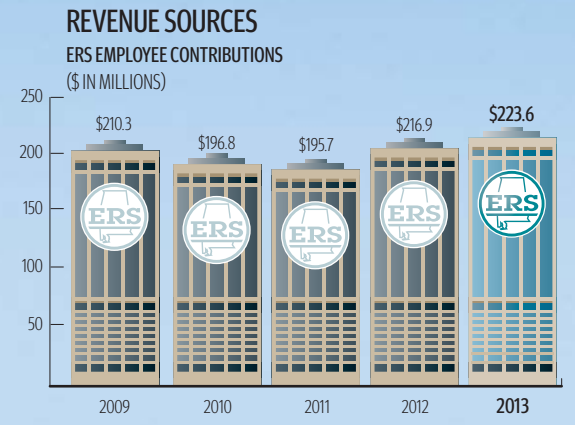
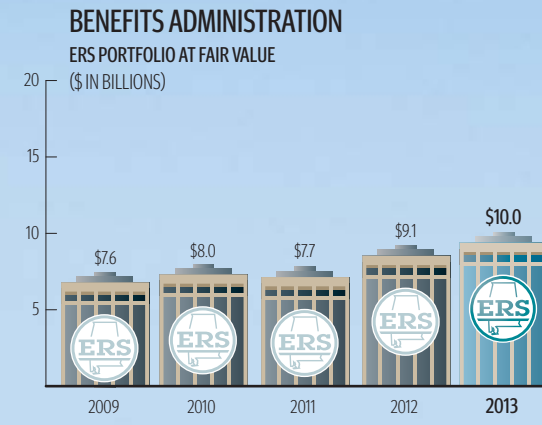
Teachers' Retirement System

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



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.

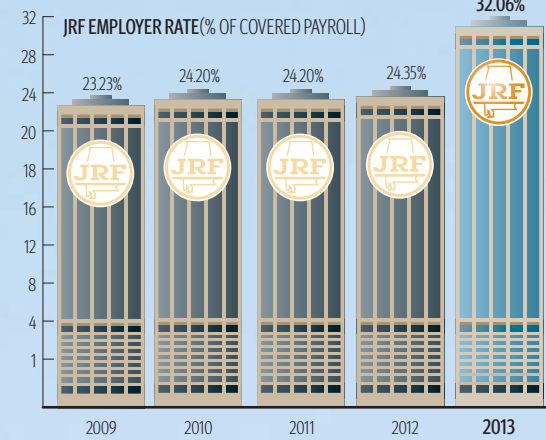
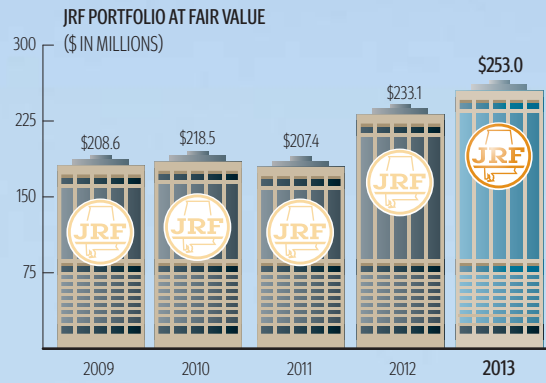




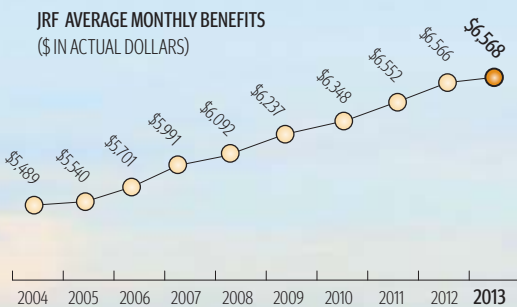
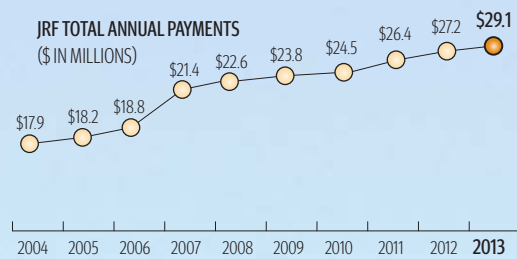
Judicial Retirement Fund

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

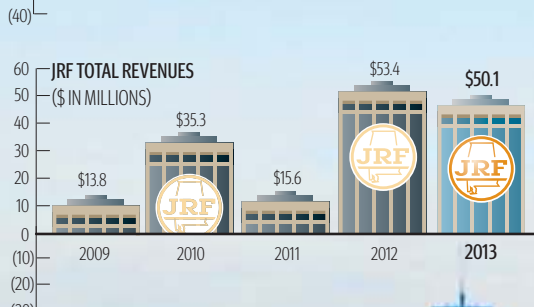
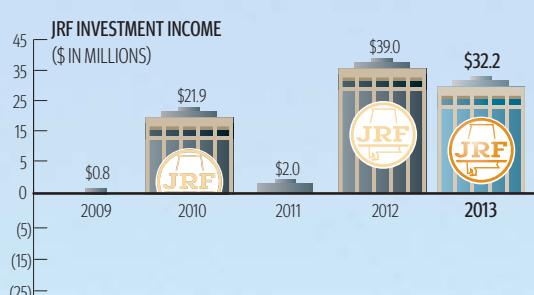
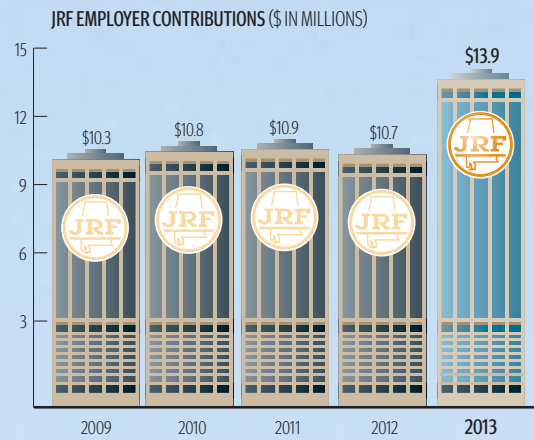
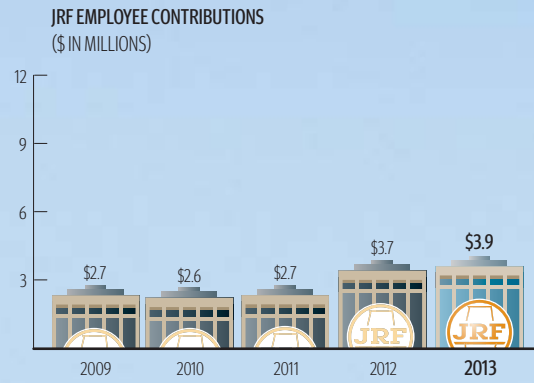
BENEFITS ADMINISTRATION



RETIREMENT BENEFITS



REVENUE SOURCES



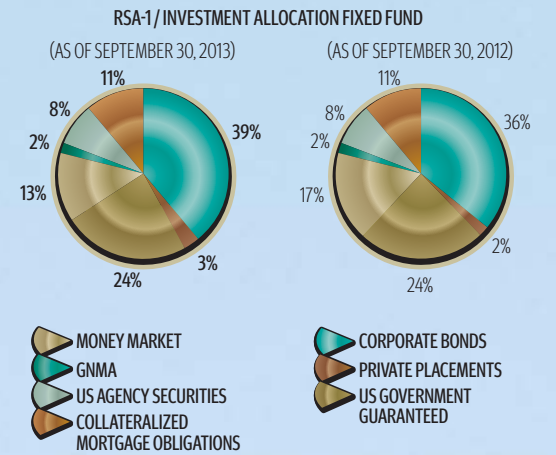
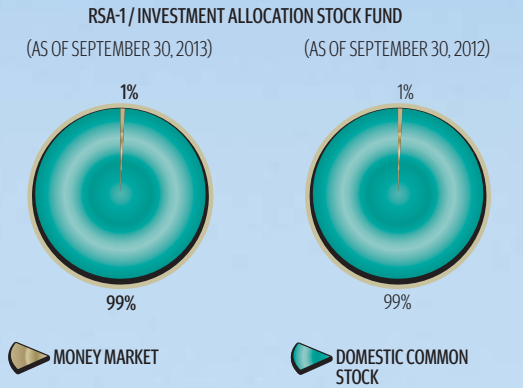
Public Employees' Individual Retirement Account Fund

RSA-1 DEFERRED COMPENSATION PLAN

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

RSA-1 HIGHLIGHTS

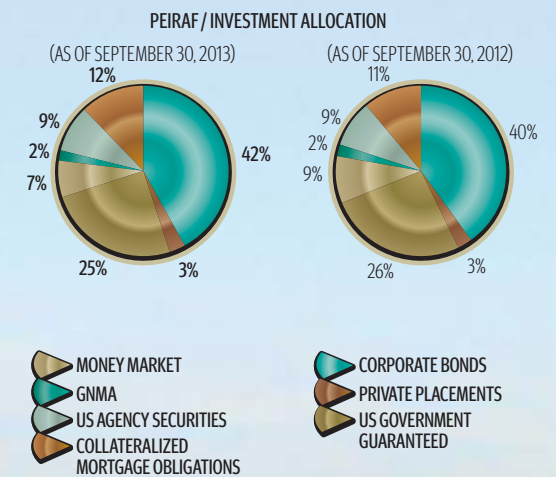
12-MONTH PERIOD ENDING	INCOME YIELD (IN %)	MARKET VALUE CHANGE (IN %)	TOTAL RETURN (IN %)	TOTAL NET ASSETS (\$ IN MILLIONS)	PARTICIPATING MEMBERS
SEPTEMBER 30, 2009 (FIXED INVESTMENT OPTION)	5.54	5.21	10.75	1,016.2	32,243
SEPTEMBER 30, 2009 (STOCK INVESTMENT OPTION)	2.79	-8.77	-5.98	172.8	14,739
SEPTEMBER 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
SEPTEMBER 30, 2012 (FIXED INVESTMENT OPTION)	3.79	1.67	5.46	1,301.2	34,039
SEPTEMBER 30, 2012 (STOCK INVESTMENT OPTION)	2.29	27.51	29.80	293.0	16,203
SEPTEMBER 30, 2013 (FIXED INVESTMENT OPTION)	3.57	-3.68	-0.11	1,294.4	34,199
SEPTEMBER 30, 2013 (STOCK INVESTMENT OPTION)	2.34	16.76	19.10	369.1	16,889



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.





The Retirement Systems of Alabama Investment Staff



Left to right:

FIXED INCOME ANALYST / PORTFOLIO MANAGER – Nicholas A. Prillaman, M.S., C.F.A.
 ASSISTANT DIRECTOR OF FIXED INCOME / PUBLIC SECURITIES – C. Lance Lachney, M.B.A., C.F.A.
 EQUITY ANALYST / PORTFOLIO MANAGER – G. Allan Carr, Jr., M.B.A., C.F.A.
 DIRECTOR OF INVESTMENTS – R. Marc Green, M.B.A., C.F.A.
 ASSISTANT DIRECTOR OF FIXED INCOME / PRIVATE PLACEMENTS – Taylor P. Fendley, J.D.
 DIRECTOR OF PRIVATE PLACEMENTS – M. Hunter Harrell, M.B.A., J.D., C.F.A.
 EQUITY ANALYST / PORTFOLIO MANAGER – Keith Buchanan, M.B.A., C.F.A.

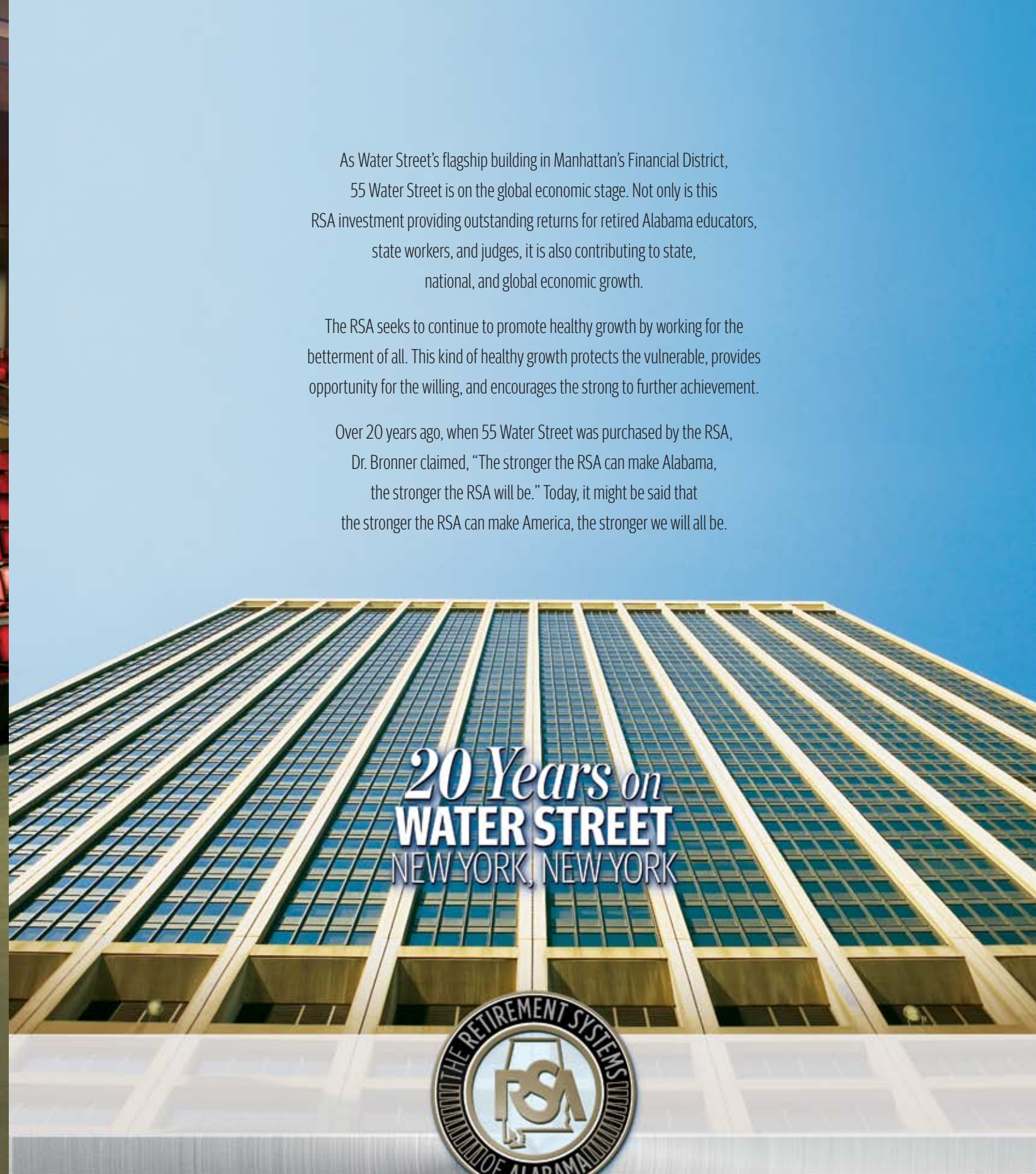
CASH MANAGEMENT & OPERATIONS – Catherine S. Ray, B.A.
 EQUITY ANALYST / PORTFOLIO MANAGER – Kevin W. Gamble, M.B.A., C.F.A.
 ASSISTANT DIRECTOR OF EQUITIES – Steve R. Lambdin, M.B.A., C.F.A.
 EQUITY ANALYST / PORTFOLIO MANAGER – Adam Rogers, M.A., C.F.A.
 DIRECTOR OF FIXED INCOME – Julie S. Barranco, M.B.A., C.F.A.
 EQUITY ANALYST – Hunter Bronson, M.S.
 EQUITY ANALYST – Michael McNair, M.B.A., C.F.A.
 EQUITY ANALYST / PORTFOLIO MANAGER – Bobby Long, M.B.A., C.F.A.

RSA Investment Staff / Montgomery Performing Arts Centre
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As Water Street's flagship building in Manhattan's Financial District, 55 Water Street is on the global economic stage. Not only is this RSA investment providing outstanding returns for retired Alabama educators, state workers, and judges, it is also contributing to state, national, and global economic growth.

The RSA seeks to continue to promote healthy growth by working for the betterment of all. This kind of healthy growth protects the vulnerable, provides opportunity for the willing, and encourages the strong to further achievement.

Over 20 years ago, when 55 Water Street was purchased by the RSA, Dr. Bronner claimed, "The stronger the RSA can make Alabama, the stronger the RSA will be." Today, it might be said that the stronger the RSA can make America, the stronger we will all be.



20 Years on WATER STREET NEW YORK, NEW YORK



In 1993, the RSA acquired 55 Water Street. Before Hurricane Sandy, the RSA had invested \$623 million in the building, with it earning the RSA over \$497 million in dividends. It generated \$70 million in net profit last year alone. The annualized return from 1993-2013 was 11.08%. There is no debt on the building.

However, at one time, many doubted that 55 Water Street would ever be an asset for the RSA. Before the purchase, the owner of 55 Water Street was not earning enough cash to make interest payments on the building, 55 Water Street had a negative reputation which was driving away tenants, and the building had asbestos contamination. On top of that, the RSA had invested \$100 million in the building.

Instead of seeing a loss, Dr. Bronner saw an opportunity and offered a debt-for-equity swap with the owner and the

promise to buy, for 29 cents on the dollar, all additional notes held by those not wishing to retain equity in the building. This offer included the guarantee that the RSA would provide \$21 million for asbestos removal and much-needed renovations.

When the hard work was done, the RSA had purchased a building for \$202 million that was valued, in 1993, at \$600 million. Today, 55 Water Street is currently appraised at \$1.4 billion and is one of the RSA's strongest performing assets.



Acquiring

*“When something is very bleak,
we’ve often had great success with it.”*

~ DAVID G. BRONNER



In the mid-1990s, Harry Bridgwood was a police detective, 55 Water Street was a new acquisition of the RSA, and Dr. Bronner and Manhattan's District Attorney Robert M. Morgenthau shared a problem: corruption in the city's garbage-hauling industry. Bridgwood was brought in undercover as manager of 55 Water Street with the goal of gathering information and evidence on mob activity in the commercial carting business. He gathered evidence for two-and-a-half years.

The cartel, which prosecutors say was led by well-known organized crime families, was overcharging clients \$500 million a year. The five-year investigation led to the indictment of 34 individuals, 34 companies, and 4 trade waste associations. New York City's biggest trash hauler went to jail.

After the trial, Dr. Bronner was so impressed with how Bridgwood handled the actual management of 55 Water Street, he offered him the job of Executive Vice President of New Water Street Corporation, the legal entity that owns and handles 55 Water Street on behalf of the RSA.

From 1996 until 2013, Harry Bridgwood managed 55 Water Street with skill, determination, and integrity saw her through various crises such as September 11, 2001, and Hurricane Sandy.

Defending

On October 29, 2012, Hurricane Sandy made landfall in New York. The 14-foot storm surge destroyed the electrical system of 55 Water Street, paralyzed the elevator system, and swamped below-grade levels with approximately 40 million gallons of corrosive seawater. Once the storm

passed, a team of over 400 tradespeople worked around the clock to repair the tower for tenants. During repairs, an electrical fire in the basement sent 27 workers and a fireman to the hospital to be treated for smoke inhalation. The tower was reopened for tenants less than two months after the storm.

Hurricane Sandy was the second costliest hurricane in United States history with damage estimated to be \$65 billion in the United States alone. The RSA has spent \$128 million in repairs and storm proofing since Sandy, with \$1 million coming from the federal flood program and \$50 million coming

from insurance coverage. Costs associated with storm proofing include moving key infrastructure to the building's third floor, and installing underground flood vaults which are built into the sidewalk and can be raised in advance of a storm.

Rebuilding

The Elevated Acre

Accessible via elevator or stairs from the sidewalk on Water Street, the Elevated Acre is one of the few privately-owned parks in New York City that is available for public use. Located approximately 40 feet in the air over the East River waterfront, the Elevated Acre consists of an outdoor lawn and garden, a seven-tiered amphitheater, a Brazilian hardwood boardwalk, and an illuminated rectangular glass beacon that is lit every evening and can be seen from Brooklyn Heights, the Brooklyn Bridge, and the Brooklyn Queens Expressway. The Elevated Acre is a popular lunch and break spot for New Yorkers and is utilized for local performances and events.



Enriching

The Vietnam Veterans Plaza

The Vietnam Veterans Memorial is dedicated to the New Yorkers who lost their lives in the Vietnam War. Marked by seven flag poles and a water element, the eastern entrance to the Vietnam Veterans Plaza showcases the memorial wall. Excerpts from letters, diaries, and poems written by Americans during the Vietnam Era have been etched into the green glass covering the granite memorial wall. Memorial panels dedicated

to specific individuals and a stainless steel map of Vietnam may be viewed before the entrance to the 125-foot-long, 10-foot wide Walk of Honor which guides visitors past 12 granite pylons bearing the names of the 1,741 New Yorkers who lost their lives during the war. As owners of 55 Water Street, the RSA is dedicated to the preservation of the Vietnam Veterans Plaza in honor of the sacrifice made by our veterans.



Honoring

When full, 55 Water Street holds between 17,000-18,000 people. The building is open 24 hours a day, seven days a week.



Multiple redundancies are in every major operating system from electric, HVAC, and telecom, to life safety and security.

The 80 elevators, which are equipped with security cameras and card readers, have emergency power supplies, enabling them to operate in a power outage.

The on-site garage offers access 24/7, has self or valet parking with access to the building through the garage, and has various payment options and rates. Car washing and detailing is available as is a locksmith service, battery charging, tire air pump and gas service for emergency situations.



The management of 55 Water Street is committed to promoting sustainability and conservation by undertaking and encouraging environmentally responsible best practices. Ninety percent of trash generated at 55 Water Street is fully recycled, while the remaining ten percent is converted to reusable energy, resulting in a zero percent landfill contribution. Renovations include an automated building management system which will allow building systems to run at maximum efficiency while minimizing consumption, and HVAC renovations which include the installation of variable frequency drive fans and pumps and high performance drive chillers. High efficiency fluorescent lighting is used to reduce the number of bulbs required and the energy expended by fifty percent; and window replacements are with energy-efficient glass.

Cafe' 55 is 55 Water Street's ground floor, 17,000-square-foot food court consisting of 7 independent food stations. They are open for breakfast and lunch.

Accommodating

Conserving

PERSPECTIVE

To put the size of 55 Water Street in perspective, the 23-story, 375 foot RSA Tower on 201 Monroe Street is the tallest building in Montgomery, Alabama. Standing 687.01 feet with a 54-story south tower and a 16-story north tower, 55 Water Street is the biggest and tallest building on the East River in New York.

The RSA Tower was built in 1997 by the RSA.

54 stories

687.01 feet tall

the second largest (3.8 million square feet) privately owned building in the U.S. (Chicago's Willis Tower, formerly the Sears Tower, is the largest)

3,812,963 square feet of rentable office space

the building is sited on a 3.7 acre double lot

a 6-story, 520-car underground parking garage

55 Water Street opened in 1972 and was purchased by the RSA in 1993.

RSA TOWER
Montgomery, Alabama

23 stories

375 feet tall

tallest building in Montgomery, Alabama

613,660 square feet of rentable office space

the building is sited on a 2.5 acre lot



55 WATER STREET
New York, New York



Relating

55 WATER STREET

Leasing History

Total Building
Rentable Square Footage: **3,812,963**



As of the Building Acquisition Date of March 5, 1996

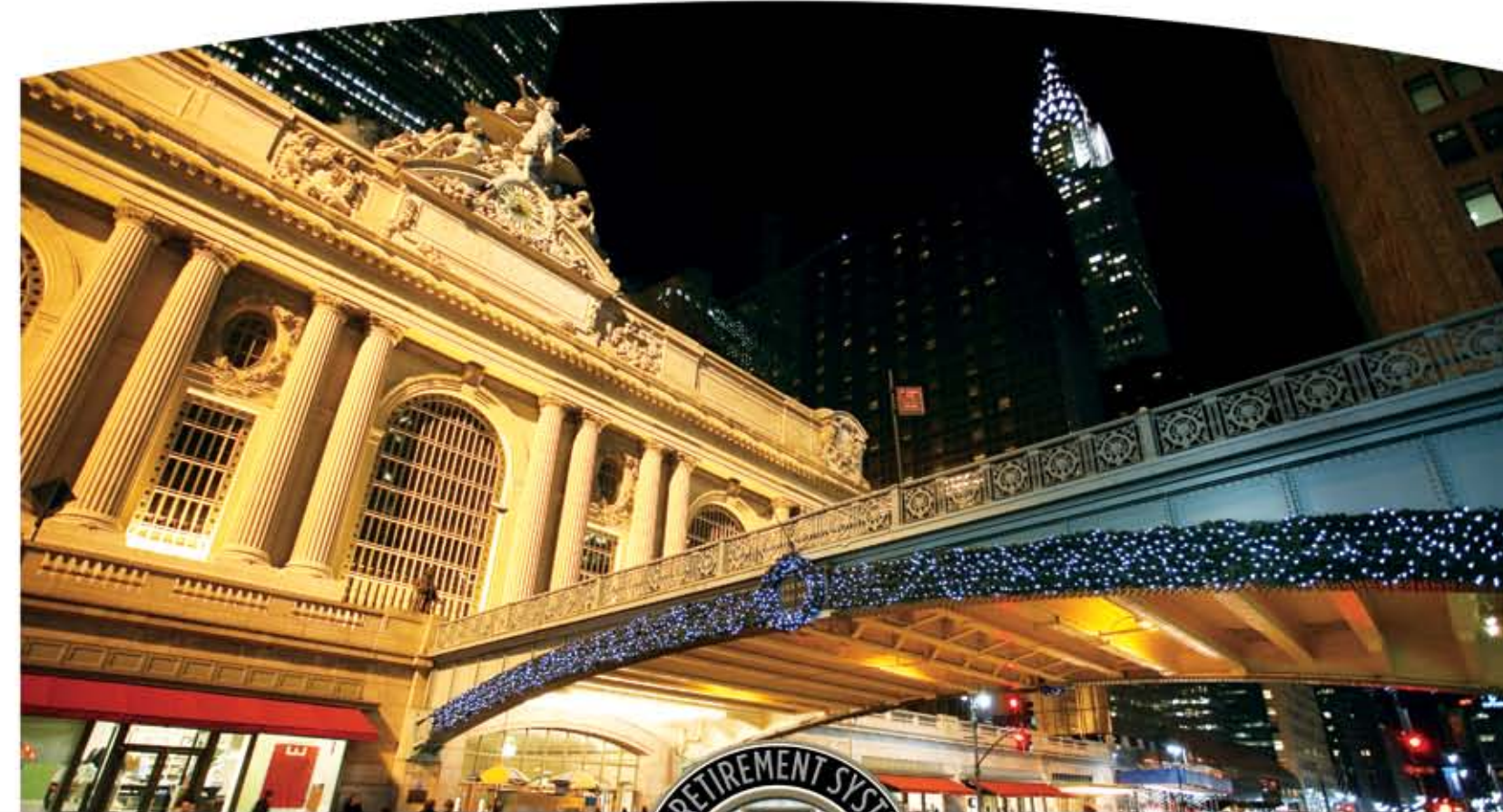
Tenant	RSF	Bldg %
Depository Trust	921,917	24.2%
Chase Bank	1,182,399	31.0%
SIAC	115,505	3.0%
Totals at Building Acquisition	2,219,821	58.2%

Leasing after Building Acquisition

Tenant	RSF	Bldg %	Date
Chubb Group	156,676	4.1%	1997
McGraw-Hill Companies	1,071,233	28.1%	1999
Liberty Mutual	62,852	1.6%	2002
Emblem Health	555,915	14.6%	2003
Teacher's Retirement Systems of NYC	157,702	4.1%	2003
Cafe' 55	20,658	.5%	2004
NY County District Attorney	25,031	0.7%	2004
RR Donnelley	142,428	3.7%	2006
GFI Group	88,747	2.3%	2007
Clearbridge Advisors	97,420	2.6%	2007
Sullivan & Cromwell	66,948	1.8%	2007
NYC Dept. of Transportation	430,456	11.3%	2008
Depository Trust	189,330	5.0%	2009
Liberty Mutual	130,449	3.4%	2013
NYC Health & Hospitals	221,180	5.8%	2013
Totals after Building Acquisition	3,417,025	89.6%	
Chase Bank Lease Expired in 2002	(1,169,619)	-30.7%	2002
SIAC Lease Expired in 2012	(115,505)	-3.0%	2012
DTCC Lease Expired in 2012	(793,289)	-20.8%	2012
Total Major Expired Leases since Acquisition	(2,078,413)	-54.5%	
Totals Leased at 12/31/13	3,558,433	93.3%	
Remaining to be Leased at 2013	254,530	6.7%	

“The average return for RSA’s funds for the last 25 years is about 8.2%. And, although the market went through the worst period of returns in its history during the last 10 years, that trend ended in 2009. The fiscal year 2012, the RSA’s returns were over 18%. In fact, RSA returns for the more than three-year period from October 1, 2009, through the end of February 2013, have averaged over 10% per year, well above RSA’s 8% benchmark.”

~ DAVID G. BRONNER



Leading



Economic Development in the Shoals

In 2013, FreightCar America, Inc. sub-leased approximately 25% of the Navistar, Inc. manufacturing plant in Cherokee, AL. The plant in the Barton Riverfront Industrial Park was built in 2007 by Canadian-based National Steel Car. The company struggled financially due to a downturn in the railcar industry, and the Retirement Systems of Alabama stepped in to take over operations at what became known as National Alabama. It was leased to Navistar in 2011 to manufacture medium and heavy buses, defense trucks, and mid-range diesel engines. Last year, Navistar announced that it would build a new truck at the facility, but plans have been put on hold.

Now, FreightCar plans to build up to 7,000 railcars annually at the plant. When fully operational, the FreightCar plant in Alabama will have 400-500 employees. FreightCar is responsible for 70 percent of the coal cars produced in the United States and plans to diversify its product, with the Barton plant at the center of that plan. FreightCar America CEO Ed Whalen commented, "We appreciate very much the support that we have received from the State of Alabama, the Retirement Systems of Alabama, the Shoals Economic Development Authority, and many others from the greater Shoals area as we begin operations here."

Advancing



Grand National and the Auburn-Opelika Economy

Since the Robert Trent Jones Golf Trail opened across Alabama in the 1980s, tourism in Auburn-Opelika has grown steadily, at an average of 10 percent a year. The Grand National golf course in Opelika hosts between 65,000 to 66,000 rounds of golf a year. With an average of \$42 per round, the golf alone generates \$2.75 million per year. Additional revenue is received by suppliers of lodging, food, and gas. "It really is a great benefit to bring in tourists. Bringing in their dollars impacts the tax base and keeps our residents' taxes low because we're able to have the tourists come in and spend money at our restaurants and hotels. That tax revenue goes back to the cities and counties, and therefore it lessens the tax burden on everyone else in the community," said

Jay Prater, general manager of the Auburn Marriott Opelika Hotel & Conference Center at Grand National.

According to the Auburn-Opelika Tourism Bureau, tourism generates \$256 million per year in Auburn-Opelika and provides 5,000 jobs. Robyn Bridges, Vice President of the Auburn-Opelika Tourism Bureau claims, "Tourism is a very clean business. If you have to go out and recruit an auto company to come and be in the city and bring jobs and bring money, then we have to pay for those people to go to school, we have to pay for those people to live here and we have to pay for the expense of having them as citizens. Whereas something like tourism, the people come, they spend money, they leave. We call it easy money."

Growing



Marriott Shoals Hotel & Spa:
 Received a 4 Diamond Award by AAA for both the hotel and the 360 Grille
 Received the 2013 Wine Spectator Award
 General Manager Larry Bowser selected Hotelier of the Year 2013 by the Alabama Department of Tourism
 "Twenty years ago before the Robert Trent Jones Golf Trail opened, people would have laughed if they heard Marriott's top golf was in Alabama. No one would have guessed Alabama had the top spa, dining and luxurious atmosphere within Marriott. Today, we remain number one for overall guest satisfaction of the 330 Marriott Hotels."
 Larry Bowser, general manager of the Marriott Shoals

Renaissance Birmingham Ross Bridge Golf Resort & Spa:
 Received a 4 Diamond Award by AAA
 Ranked No. 3 in Alabama by *U.S. News & World Report*
 Named a Top Spa of 2013 by *Conde' Nast Traveler*
 Named one of the top 25 golf resorts in the U.S. by *Golf Resort & Meeting Destinations*
 Ranked No. 3 as a U.S. Renaissance hotel for meetings

Renaissance Montgomery Hotel & Spa at the Convention Center:
 Received a 4 Diamond Award by AAA
 Ranked No. 5 in Alabama by *U.S. News & World Report*

Renaissance Mobile Riverview Plaza Hotel:
 Received a 4 Diamond Award by AAA
 Ranked as a Top 3 Renaissance hotel for guest satisfaction, meetings, and quality

Grand Hotel Marriott Resort, Golf Club & Spa:
 Received a 4 Diamond Award by AAA for both the hotel and the Grand Dining Room
 Ranked No. 1 in Alabama by *U.S. News & World Report*
 Named a Top Spa of 2013 and a Top Resort by *Conde' Nast Traveler*
 Received the 2013 Wine Spectator Award
 Named one of the Top 500 Hotels in the World for 2013 by *Travel + Leisure*
 Received the Historic Hotel of the Year Award by Historic Hotels of America

The Battle House Renaissance Mobile Hotel & Spa:
 Received a 4 Diamond Award by AAA for both the hotel and the Trellis Room
 Ranked No. 2 in Alabama by *U.S. News & World Report*
 Received the 2013 Reader's Choice Award by *Conde' Nast Traveler*
 Received the 2013 Wine Spectator Award
 Ranked as a Top 3 Renaissance hotel for guest satisfaction, meetings, and quality
 The Battle House historian, George Moore, selected Ambassador of the Year by Historic Hotels of America

"Southern hospitality, a caring staff and attention to detail may be the secret to our success. We have a great team, strong ownership and a commitment to excellence. These honors speak loudly on how the Retirement Systems of Alabama is improving the image of our state and our reputation in the hospitality industry."
 Margo Gilbert, general manager of The Battle House

RTJ Golf Trail:
 The No. 1 admission-charging attraction in Alabama for 2013
 Celebrated its 10 millionth round of golf since opening 21 years ago

Promoting



Equity Activity

Looking back at the stock market the past 12 months, one could conclude that investors have been pleasantly surprised by the returns. FY2013 was not dissimilar to the past couple of years where there were a handful of macro events that kept investor sentiment in check. Global growth has cooled, with noticeable slowdowns in some of the emerging market countries and continued sluggishness in Europe. We had geopolitical issues (Syria, Iran) and continued bipartisan feuding in Washington, not to mention the prospect of the Fed winding down QE3. Through all of this, the market continued to grind higher.

We had a couple of growth scares, one in the spring and another in late summer, yet corporate profitability has continued to grow. One of the noticeable aspects of this has been the somewhat dour tone that managements have displayed around the quarterly earnings reports. It has become somewhat systematic of managements to reset the bar on forward guidance and then slightly beat numbers. This has been good as it has tempered Wall Street expectations, as well as it has weighed on investor sentiment.

What lies ahead is especially interesting at this point. Inflation remains below most central bank targets, and on the whole, we are still experiencing global central bank easing. Most recessions are caused or coincide with Fed tightening, and the prospect of Fed tightening in the near future is pretty remote.

Valuations on stocks are not as attractive as this time last year, as P/E multiples have expanded a couple of points. But, on a relative basis, stocks are attractive vs. bonds. We have continued to be a net seller and maintain roughly the same equity weighting which is at the high end of our allocation range. We have also continued to put in place some hedges on parts of the portfolio to protect gains we have experienced. We have been underweight emerging markets for years, and that underweighting paid off this year as emerging markets on average severely lagged returns in developed markets.

Recently, we have seen less correlation in stocks, which bodes well for stock picking. The past few years have definitely benefited indexing strategies which we employ widely within the equity portfolio. Looking ahead, we look to shift some money from index to active strategies if correlations remain low.

For the year, the RSA domestic equity portfolios increased 21.46%, 21.38%, and 20.40% for TRS, ERS, and JRF funds, respectively. International equity returns were a mixed bag with developed markets doing very well and emerging markets lagging. Total international equity returns were positive with TRS up 21.54%, ERS up 21.33%, and JRF up 21.29%. The combined total return for the overall equity portfolios were 21.50%, 21.39%, and 20.61% for TRS, ERS, and JRF, respectively. Three-, five-, and ten-year annualized global equity returns were 14.21%, 9.36%, and 8.15% for TRS, 14.24%, 9.38%, and 8.15% for ERS, and 14.57%, 9.78%, and 7.72% for JRF, respectively. ■

Fixed Income Activity

At the beginning of fiscal year 2013, the Federal Open Market Committee had recently announced its third round of quantitative easing (QE3), an open-ended commitment to purchase agency mortgage-backed securities until economic conditions warrant otherwise. Spreads within the mortgage-backed sector tightened dramatically and risk assets in general performed very well during this time.

In October, the risk-taking trend continued with positive economic data and marked improvement within the housing sector. Mortgage investors did take some money off the table after the massive spread tightening in September, pushing MBS spreads 30bps wider in the month. It appears these profits were reinvested into corporate debt as the asset class outperformed by approximately 150bps during the month.

During the first few weeks of November, market sentiment shifted and risk aversion prevailed. Political uncertainty in regards to the election and fiscal cliff, coupled with third quarter revenue misses, encouraged investors to deploy capital into safer assets. The rally in government debt proved to be short-lived with the increasing probability of a fiscal cliff compromise.

Policymakers also enacted a \$45 billion treasury program to go along with the \$40 billion in mortgages being purchased on a monthly basis. Spread product

continued



Fixed Income Activity FISCAL YEAR 2013 (continued)

across all sectors outperformed treasuries during the month of December.

Interest rates continued to increase into the new calendar year, with the 10-year treasury hitting 2% for the first time since last April. This move came on the heels of better economic data and a favorable solution to the major parts of the fiscal cliff. This environment produced solid returns in equities and sizable outperformance within the high-yield market. Corporate supply in January was fairly robust, reaching \$115 billion in high-grade issuance. Financials, once again, outgained its industrial and utility counterparts within the corporate sector.

Rising political risks in Europe, magnified by the Italian election results, provided a brief pause in investor optimism in the following weeks. Investment grade debt marginally outperformed government securities during this period, but returns for the most part were rate-driven with little spread movement. Agency and mortgage-backed securities underperformed due to their smaller interest rate sensitivities.

In mid-March, after being downgraded by Moody's to junk status, the Cypriot Government agreed to deal with European policymakers and the International Monetary Fund. This agreement allowed the country to restructure its much-maligned banking sector and save it from a disorderly bankruptcy.

On the domestic front, a weak payroll report for the month of March and lower-than-expected growth for the first quarter provided a perfect storm for a dramatic drop in treasury yields. The intermediate and long-end of the curve rallied approximately 40bps in short order, resulting in April becoming the best performing month of the fiscal year.

During the month of May, the Chairman of the Federal Reserve, Ben Bernanke, caught investors by surprise stating, "the Fed could reduce bond purchases in the next few meetings if data supports it," in his testimony to Congress. This idea of tapering was interpreted as the first signal of a possible change in monetary policy. This action led to an abrupt increase in interest rates and a roughly 30bp backup in mortgage spreads as the largest player in the MBS market appeared to be stepping away from the table. The bearish trend continued in June as the head of the Federal Reserve reinforced this notion that if the

data is consistent with policymakers' forecasts then it "would be appropriate to moderate the monthly pace of purchases later this year."

Corporate supply volumes came to a halt as higher yields and elevated volatility kept issuers at bay. Agency and mortgage-backed investors fared better than corporate debt holders during this sell-off due to their lower duration profiles. Consensus had become that the 33-year bull market in fixed income that produced high single-digit returns annually was finally coming to an end.

By early September, the 10-year treasury yield had eclipsed 3% from the 1.6% area reached just four months earlier. It appears that the Federal Reserve took notice of the damage it had inflicted on the fixed income market over the last couple of months and opted to stay the course in its current easing program. The decision not to taper its purchases of treasury and mortgage-backed securities at the September meeting further confused economists and investors alike. The inaction by policymakers came in the midst of an uninspiring payroll report, coupled with uncertainties surrounding the debt ceiling and a potential government shutdown.

At the end of the day, these concerns and a still fragile housing recovery carried more weight at the Fed than the market had anticipated. The bond market received the news favorably, resulting in positive returns across all asset classes. The mortgage market benefited the most unsurprisingly, posting an excess return of 70bps.

In actuality, none of the things that have transpired over the course of this fiscal year should come as a total surprise. The unwinding of the Fed's multi-year quantitative easing programs will come to fruition at some point in time despite the delay. Regardless, short-term rates will remain low for an extended amount of time to ensure that economic growth stays on a positive trajectory. If there is any doubt, there shouldn't be, as one of the more dovish board members of the Federal Reserve, current Vice Chair Janet Yellen, is set to take the reigns early next year.

For the fiscal year, the total annual returns for the public domestic fixed income portfolios were (.62%) for the TRS and (.65%) for the ERS and (.33%) for the JRF. The five-year annualized returns were 7.09% for the TRS and 7.09% for the ERS and 7.19% for the JRF. The ten-year annualized returns were 5.89% for the TRS and 5.89% for the ERS and 5.77% 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 cash flow 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		
	2013	2012	2011	2013	2012	2011
0 TO <5	26.0	29.0	27.0	26.0	30.0	27.9
5 TO <10	19.0	20.0	22.9	18.0	19.0	21.7
10 TO <30	54.0	50.0	48.6	55.0	50.0	49.0
= OR >30	1.0	1.0	1.5	1.0	1.0	1.4

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		
	2013	2012	2011	2013	2012	2011
AAA	26	28	29	25	27	27
AA	1	2	4	1	2	4
A	9	8	8	8	8	8
BAA	13	15	14	13	14	14
BA	1	2	2	1	2	2
NOT RATED	50	45	43	52	47	45

Investment Returns / 2013

For the period ended September 30, 2013 (Percent)

	1-YEAR	3-YEARS	5-YEARS	10-YEARS
TOTAL DOMESTIC EQUITY				
TRIS	21.46	16.24	10.24	8.09
ERS	21.38	16.16	10.21	8.08
JRF	20.40	16.54	10.53	8.10
TOTAL INTERNATIONAL EQUITY				
TRIS	21.54	8.04	6.55	8.52
ERS	21.33	7.98	6.54	8.51
JRF	21.29	7.88	6.89	N/A
TOTAL FIXED INCOME AND ALTERNATIVES				
TRIS	5.63	7.72	3.19	4.08
ERS	5.82	7.88	2.41	3.68
JRF	0.52	3.74	6.12	5.61
TOTAL RSA RETURNS				
TRIS	14.93	11.45	6.68	6.29
ERS	14.60	11.40	6.17	5.97
JRF	14.05	10.89	8.74	7.06
BENCHMARKS				
S&P 500	19.34	16.27	10.02	7.57
DJIA	15.59	14.94	9.93	7.74
MIDCAP 400	27.68	17.45	13.08	10.84
SMALLCAP 600	31.51	20.68	12.40	11.14
MORGAN STANLEY EAFE	23.77	8.47	6.35	8.01
MSCI EMERGING MARKETS	0.98	-0.33	7.22	12.80
CITIGROUP BIG	-1.67	2.85	5.41	4.72
BARCLAYS	-1.68	2.86	5.41	4.59

"I have the perspective of over 40 years' experience as CEO of the RSA. I have seen incredible swings in market conditions, from the astronomical interest rates of the late 1970s and early 1980s to the dot com bust in the late 1990s to the more recent housing crisis. I understand that the RSA must be operated with an understanding of the past and a view towards the horizon, not based on panic arising from short-term and temporary conditions."

~ DAVID G. BRONNER



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



Broker Commissions Paid

For Fiscal Year Ended September 30, 2013

	COMMISSIONS STOCK TRANSACTIONS (\$ IN ACTUAL DOLLARS)	COMMISSIONS BOND TRANSACTIONS (\$ IN ACTUAL DOLLARS)
BANC OF AMERICA / MERRILL LYNCH	\$ 115,090	\$ 95,325
BARCLAYS	294,745	23,786
BERNSTEIN	293,240	
BNP PARIBAS		25,350
CANTOR FITZGERALD		18,686
CARIS	13,017	
CITIGROUP	479,309	74,806
CONVERGEX	329,375	
COWEN	52,531	
CREDIT SUISSE	90,011	118,186
DEUTSCHE BANK	262,822	4,292
EMPIRICAL RESEARCH	25,464	
FIRST DISCOUNT	13,000	
GOLDMAN SACHS	86,111	183,483
HARBOR FINANCIAL	12,750	
HOWARD WEIL	55,792	
IBERIA	40,453	
ISI	427,796	
ISSUER DESIGNATED		99,455
JEFFERIES	30,670	
JP MORGAN CHASE	216,501	115,942
KEYBANC CAPITAL MARKETS	59,525	26,106
LEERWINK SWANN	37,660	
MONTROSE	12,500	
MORGAN STANLEY	886,838	52,494
MYERS & ASSOCIATES	10,000	
NBC SECURITIES	51,283	
OPPENHEIMER	102,156	
RAYMOND JAMES	94,435	9,745
RBC BANK	28,709	
RENMAC	7,453	
SANDLER O'NEIL	55,050	
SECURITIES CAPITAL	12,500	
SOUTHCOAST	12,500	
SOUTHWEST SECURITIES	10,000	
STERNE, AGEE & LEACH	188,310	10,228
STIFEL NICOLAUS	110,320	115,459
STRATEGAS	204,994	
UBS WARBURG	19,880	
WELLS FARGO	263,743	98,363
TOTAL	\$ 5,006,533	\$ 1,071,706



STATEMENTS OF PLAN NET ASSETS
AS OF SEPTEMBER 30, 2013 AND 2012

	(\$ IN THOUSANDS)	
	2013	2012
ASSETS		
CASH	\$ 26,140	\$ 19,611
RECEIVABLES		
Employee contributions	37,717	36,553
Employer contributions	50,937	50,397
Investment sales	14,605	30,786
Real estate investment	1,038	1,072
Dividends and interest	69,232	75,943
TOTAL RECEIVABLES	173,529	194,751
INVESTMENTS, AT FAIR VALUE		
Domestic equities	10,514,970	8,784,801
Domestic fixed income	4,762,920	4,809,707
International equities	2,951,446	2,504,647
Real estate	1,963,274	1,919,222
Short-term	378,156	669,681
TOTAL INVESTMENTS	20,570,766	18,688,058
INVESTED SECURITIES LENDING COLLATERAL	1,166,230	1,211,112
PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION		
	96,071	99,848
TOTAL ASSETS	22,032,736	20,213,380
LIABILITIES		
Accounts payable and other liabilities	4,948	4,619
Investment purchases	38,095	45,064
Other postemployment benefit obligations	3,091	2,459
Securities lending collateral	1,166,230	1,211,112
TOTAL LIABILITIES	1,212,364	1,263,254
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
	\$ 20,820,372	\$ 18,950,126

STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	(\$ IN THOUSANDS)	
	2013	2012
ADDITIONS		
CONTRIBUTIONS		
Employee	\$ 474,241	\$ 456,518
Employer	627,892	618,306
Transfers from Employees' Retirement System	3,345	2,016
TOTAL CONTRIBUTIONS	1,105,478	1,076,840
INVESTMENT INCOME		
<i>From investing activities</i>		
Net increase in fair value of investments	2,090,646	2,349,955
Interest and dividends	638,766	634,695
Total investment income from investing activities	2,729,412	2,984,650
Less investment expenses:	5,712	5,260
Net investment income from investing activities	2,723,700	2,979,390
<i>From securities lending activities</i>		
Securities lending income	12,753	13,670
Less securities lending expenses:		
Borrower rebates	401	433
Management fees	3,346	3,465
Total securities lending expenses	3,747	3,898
Net income from securities lending activities	9,006	9,772
Total net investment income	2,732,706	2,989,162
TOTAL ADDITIONS	3,838,184	4,066,002
DEDUCTIONS		
Retirement allowance payments	1,893,321	1,800,805
Return of contributions and death benefits	55,891	49,453
Transfers to Employees' Retirement System	1,823	1,937
Administrative expenses	12,591	11,555
Depreciation	4,312	4,344
TOTAL DEDUCTIONS	1,967,938	1,868,094
NET INCREASE	1,870,246	2,197,908
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	18,950,126	16,752,218
END OF THE YEAR	\$ 20,820,372	\$ 18,950,126

Separately issued, audited financial statements are available upon request.



STATEMENTS OF PLAN NET ASSETS
AS OF SEPTEMBER 30, 2013 AND 2012

	(\$ IN THOUSANDS)	
	2013	2012
ASSETS		
CASH	\$ 4,461	\$ 3,320
RECEIVABLES		
Employee contributions	17,997	18,178
Employer contributions	29,798	27,392
Investment sales	7,612	15,341
Real estate investment	519	536
Dividends and interest	32,536	35,810
TOTAL RECEIVABLES	88,462	97,257
INVESTMENTS, AT FAIR VALUE		
Domestic equities	5,056,820	4,245,713
Domestic fixed income	2,266,097	2,306,928
International equities	1,309,366	1,112,997
Real estate	955,067	933,431
Short-term	389,145	467,012
TOTAL INVESTMENTS	9,976,495	9,066,081
INVESTED SECURITIES LENDING COLLATERAL	500,085	557,759
PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION		
	47,760	49,595
TOTAL ASSETS	10,617,263	9,774,012
LIABILITIES		
Accounts payable and other liabilities	2,875	2,999
Investment purchases	19,122	21,936
Other postemployment benefit obligations	3,241	2,622
Securities lending collateral	500,085	557,759
TOTAL LIABILITIES	525,323	585,316
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
	\$ 10,091,940	\$ 9,188,696

STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	(\$ IN THOUSANDS)	
	2013	2012
ADDITIONS		
CONTRIBUTIONS		
Employee	\$ 221,823	\$ 214,933
Employer	338,819	317,520
Transfers from Teachers' Retirement System	1,823	1,937
TOTAL CONTRIBUTIONS	562,465	534,390
INVESTMENT INCOME		
<i>From investing activities</i>		
Net increase in fair value of investments	984,714	1,114,737
Interest and dividends	310,220	310,748
Total investment income from investing activities	1,294,934	1,425,485
Less investment expenses:	2,549	2,256
Net investment income from investing activities	1,292,385	1,423,229
<i>From securities lending activities</i>		
Securities lending income	5,780	6,445
Less securities lending expenses:		
Borrower rebates	186	174
Management fees	1,519	1,642
Total securities lending expenses	1,705	1,816
Net income from securities lending activities	4,075	4,629
Total net investment income	1,296,460	1,427,858
TOTAL ADDITIONS	1,858,925	1,962,248
DEDUCTIONS		
Retirement allowance payments	895,475	848,464
Return of contributions and death benefits	44,837	40,746
Transfers to Teachers' Retirement System	3,345	2,016
Transfers to Judicial Retirement Fund	242	164
Administrative expenses	9,767	10,616
Depreciation	2,015	1,981
TOTAL DEDUCTIONS	955,681	903,987
NET INCREASE	903,244	1,058,261
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	9,188,696	8,130,435
END OF THE YEAR	\$ 10,091,940	\$ 9,188,696

Separately issued, audited financial statements are available upon request.



STATEMENTS OF PLAN NET ASSETS
AS OF SEPTEMBER 30, 2013 AND 2012

	(\$ IN THOUSANDS)	
	2013	2012
ASSETS		
CASH	\$ 1,981	\$ 1,712
RECEIVABLES		
Employee contributions	168	161
Employer contributions	481	369
Investment sales	1	228
Dividends and interest	965	1,025
TOTAL RECEIVABLES	1,615	1,783
INVESTMENTS, AT FAIR VALUE		
Domestic equities	144,746	122,145
Domestic fixed income	60,091	64,947
International equities	39,348	33,357
Real estate	3,062	3,016
Short-term	5,755	9,585
TOTAL INVESTMENTS	253,002	233,050
INVESTED SECURITIES LENDING COLLATERAL	25,187	24,470
TOTAL ASSETS	281,785	261,015
LIABILITIES		
Accounts payable and other liabilities	90	102
Investment purchases payable	116	535
Other postemployment benefit obligations	32	27
Securities lending collateral	25,187	24,470
TOTAL LIABILITIES	25,425	25,134
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 256,360	\$ 235,881

STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	(\$ IN THOUSANDS)	
	2013	2012
ADDITIONS		
CONTRIBUTIONS		
Employee	\$ 3,677	\$ 3,517
Employer	13,903	10,747
Transfers from Employees' Retirement System	242	164
Total contributions	17,822	14,428
INVESTMENT INCOME		
From investing activities		
Net increase in fair value of investments	25,207	32,112
Interest and dividends	6,912	6,748
Total investment income from investing activities	32,119	38,860
Net investment income from investing activities	32,119	38,860
From securities lending activities		
Securities lending income	184	215
Less securities lending expenses:		
Borrower rebates	10	12
Management fees	48	52
Total securities lending expenses	58	64
Net income from securities lending activities	126	151
Total net investment income	32,245	39,011
TOTAL ADDITIONS	50,067	53,439
DEDUCTIONS		
Retirement allowance payments	29,112	27,183
Return of contributions and death benefits	196	253
Administrative expenses	280	257
TOTAL DEDUCTIONS	29,588	27,693
NET INCREASE	20,479	25,746
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	235,881	210,135
END OF THE YEAR	\$ 256,360	\$ 235,881

Separately issued, audited financial statements are available upon request.



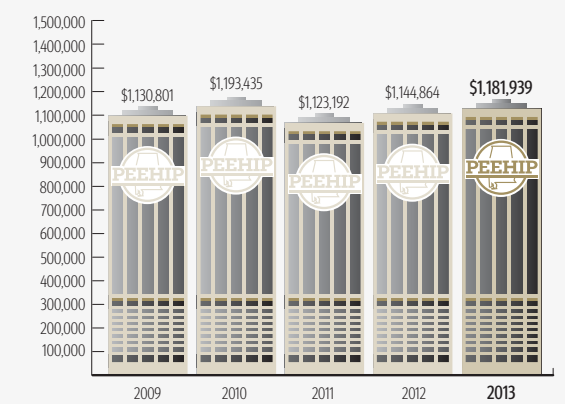
BALANCE SHEETS
AS OF SEPTEMBER 30, 2013 AND 2012

	(\$ IN THOUSANDS)	
	2013	2012
ASSETS		
CASH	\$ 7,326	\$ 6,800
RECEIVABLES		
Premiums	1,901	1,836
Prescription drug rebates	4,674	3,318
Interest	17	65
TOTAL RECEIVABLES	6,592	5,219
DEPOSIT WITH CLAIMS-PAYING AGENT	1,896	387
INVESTMENTS, AT FAIR VALUE	164,625	203,447
TOTAL ASSETS	\$ 180,439	\$ 215,853
LIABILITIES		
ACCOUNTS PAYABLE	\$ 249	\$ 254
EMPLOYEE BENEFITS PAYABLE	418	416
OTHER POSTEMPLOYMENT BENEFITS	627	494
REPORTED CLAIMS PAYABLE	23,662	26,117
CLAIMS INCURRED BUT NOT REPORTED	39,537	38,384
TOTAL LIABILITIES	64,493	65,665
FUND EQUITY-UNRESTRICTED		
TOTAL FUND EQUITY	115,946	150,188
TOTAL LIABILITIES AND FUND EQUITY	\$ 180,439	\$ 215,853

STATEMENTS OF REVENUES, EXPENSES, & CHANGES IN FUND EQUITY
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	(\$ IN THOUSANDS)	
	2013	2012
OPERATING REVENUES		
Premiums	\$ 742,514	\$ 742,224
TOTAL OPERATING REVENUE	742,514	742,224
OPERATING EXPENSES		
Claims	774,060	739,984
Administrative	3,203	2,779
TOTAL OPERATING EXPENSES	777,263	742,763
OPERATING (LOSS)	(34,749)	(539)
INVESTMENT REVENUES		
Interest income	507	778
TOTAL INVESTMENT REVENUES	507	778
TOTAL (LOSS) / INCOME	(34,242)	239
FUND EQUITY		
Beginning of the year	150,188	149,949
END OF THE YEAR	\$ 115,946	\$ 150,188

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



Separately issued, audited financial statements are available upon request.



STATEMENTS OF PLAN ASSETS
AS OF SEPTEMBER 30, 2013 AND 2012

	(\$ IN THOUSANDS)	
	2013	2012
ASSETS		
RECEIVABLES		
Prescription drug rebates	\$ 7,778	\$ 3,968
Medicare Part D subsidy	-	5,350
Interest and dividends	3,487	3,810
Investment sales receivable	3	1,343
Employer Group Waiver Plan (EGWP)	20,709	-
TOTAL RECEIVABLES	31,977	14,471
DEPOSIT WITH CLAIMS-PAYING AGENT	684	200
INVESTMENTS, AT FAIR VALUE		
Commercial paper	124,993	99,997
Money market funds	27,139	41,173
U.S. government guaranteed bonds	95,006	96,914
U.S. agency securities	33,904	33,382
Mortgage-backed securities	47,682	46,862
Corporate bonds	132,449	120,910
International securities	117,241	97,602
Common stocks	495,161	416,428
TOTAL INVESTMENTS	1,073,575	953,268
INVESTED SECURITIES LENDING COLLATERAL	71,200	65,311
TOTAL ASSETS	\$ 1,177,436	\$ 1,033,250
LIABILITIES		
REPORTED CLAIMS PAYABLE	\$ 9,625	\$ 14,679
INVESTMENTS PURCHASES PAYABLE	439	2,942
MEDICARE PART D SUBSIDY PAYABLE	255	-
CLAIMS INCURRED BUT NOT REPORTED	20,977	20,040
SECURITIES LENDING COLLATERAL	71,200	65,311
TOTAL LIABILITIES	102,496	102,972
NET ASSETS HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS	\$ 1,074,940	\$ 930,278

STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	(\$ IN THOUSANDS)	
	2013	2012
ADDITIONS		
CONTRIBUTIONS		
Employee	\$ 98,215	\$ 97,392
Employer	310,444	307,206
Employer Group Waiver Plan (EGWP)	28,340	-
Medicare Part D retiree drug subsidy	6,276	27,977
TOTAL CONTRIBUTIONS	443,275	432,575
INVESTMENT INCOME		
From investing activities		
Net increase in fair value of investments	83,994	101,185
Interest and dividends	24,739	22,882
Total investment income from investment activities	108,733	124,067
From securities lending activities		
Securities lending income	756	814
Less securities lending expenses:		
Borrower rebates	24	22
Management fees	199	209
Total security lending expenses	223	231
Income from securities lending activities	533	583
Total investment income	109,266	124,650
TOTAL ADDITIONS	552,541	557,225
BENEFITS	407,879	404,880
TOTAL DEDUCTIONS	407,879	404,880
NET INCREASE	144,662	152,345
NET ASSETS HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS		
Beginning of the year	930,278	777,933
END OF THE YEAR	\$ 1,074,940	\$ 930,278

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.

Separately issued, audited financial statements are available upon request.

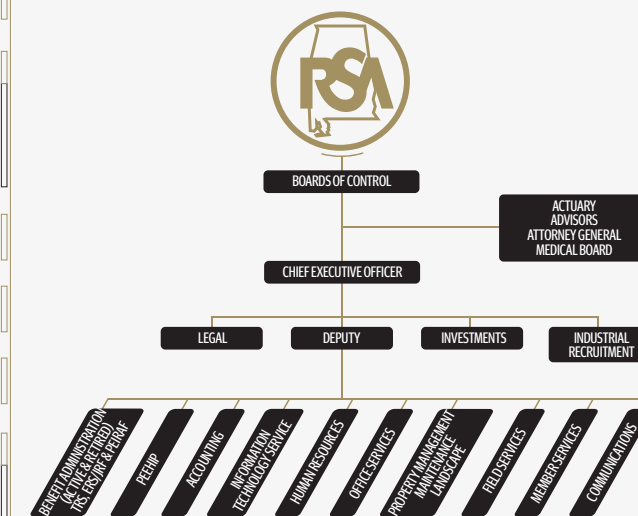
The Retirement Systems of Alabama
MISSION STATEMENT

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 website. 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.

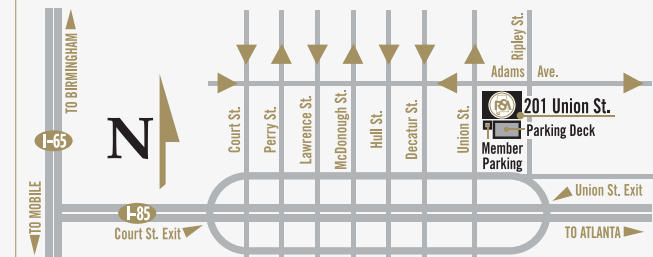
The Retirement Systems of Alabama
ORGANIZATIONAL CHART



The Retirement Systems of Alabama
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

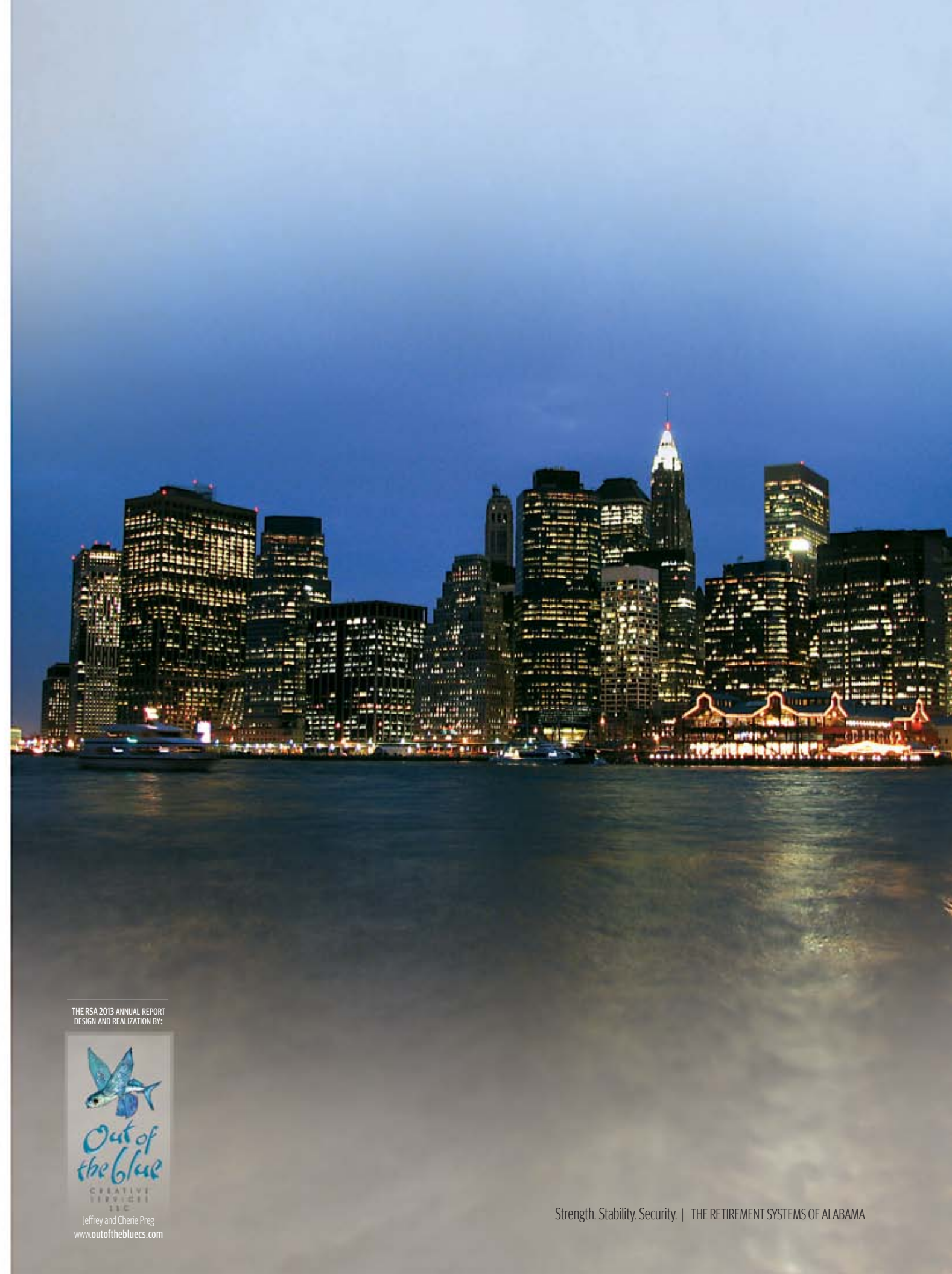
Follow I-85 South to downtown Montgomery and take the Union Street exit on the right. Take the first right on the service road onto Union Street. Continue on Union Street through one traffic light. The RSA Headquarters is on the right before Adams Avenue. Members may park in the open lot in front of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



THE RSA 2013 ANNUAL REPORT
DESIGN AND REALIZATION BY:





201 South Union Street • Montgomery, Alabama 36104
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