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# INVESTMENT SECTION

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## RETIREMENT SYSTEMS OF ALABAMA

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### *Investment Section*

#### Report on Investment Activity

For the Fiscal Year Ended September 30, 2009

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Dear Members,

I humbly present the following report on investment activity for the fiscal year ended September 30, 2009. The report provides investment highlights in general as well as specific information on the Retirement Systems' investment activity for the fiscal year. The custodian calculated rates of return based on the standards set forth by the Global Investment Performance Standards (GIPS®).

2009 definitely fits the bill as a year of extremes. The first half of the fiscal year made a valiant attempt at blowing up modern portfolio theory. Broad diversification and risk management meant very little as correlation across broad asset classes provided few places to hide. Cash and government securities were the safe harbors, as even a number of money market accounts "broke the buck" as the credit markets froze. The Federal Reserve Board continued to pull out all the stops, lowering the Fed Funds rate from 2% down to 0.25% in an effort to pump liquidity into the system. Numerous quantitative easing measures and stimulus packages put in place in the first quarter of 2009 finally started to stabilize the financial markets. Without a doubt, the U.S. had just experienced the worst financial crisis since the Great Depression.

By the end of February, after dealing with the Madoff scandal, sketchy deals at the largest financial institutions, compensation rip-offs, and bogus ratings from the ratings agencies, disdain for the financial markets was at the crescendo. Hopefully, that negative sentiment and extreme risk aversion are the ingredients for a major market bottom. In March, the equity markets turned as the news became "less bad". Credit spreads tightened, and the capital markets loosened up. Banks were able to raise equity to repay TARP funds, and some strategic merger and acquisition activity began to happen.

No doubt, we are not out of the woods yet. Unemployment and housing continue to deteriorate, with the unemployment rate rising from 6.1% at the beginning of the fiscal year and closing out at 9.8%. Foreclosures are still rising, and the consumer credit issue is going to linger for years, in all likelihood serving as an impediment to the prospect of above trend-line GDP growth.

Expectations for the future vary wildly, which is not surprising given what the economy and financial markets have just experienced. With all the gyrations of the 12 months, we more or less stayed the course, without making any monumental asset allocation decisions. After the considerable rally off of the March lows, we did begin a program to hedge a part of our passive indexes late in our fiscal year. We will continue to ladder into protection if the markets grind higher. We also are evaluating opportunities within the credit market, where there remains a considerable amount of dislocation and possible opportunity. We will continue to demand the best execution from all of our counterparts and will strive to produce results that strengthen the Retirement Systems of Alabama.

#### **RSA Performance Summary**

As of September 30, 2009, aggregate defined benefit assets under management totaled \$23.6 billion. During fiscal year 2009, annualized total returns of the Teachers' Retirement System, Employees' Retirement System, and Judicial Retirement Fund were (7.94)%, (10.03)%, and 0.69%, respectively.

#### **Equities**

2009 in terms of the equity market could aptly be described as Jekyll and Hyde. The market seemed to have a split personality, with Mr. Hyde ruling the first six months of the fiscal year, and Dr. Jekyll luckily taking over to finish out. The credit crises that began in earnest the prior year finally peaked in the December quarter as the bailout package was crafted and Wall Street as we knew it was dismantled. The flight to quality was extreme during the first two quarters of the fiscal year, and the flight to risk assets in the second half of the year was exceptional as well. As has been demonstrated through time, equity market sentiment was most dour at the bottom. Market pundits who paraded through the CNBC studios preached the end was nigh upon us, right at the bottom. Luckily, most of them have stuck to their guns. The market likes to climb a wall of worry, and the worries in the market are limitless at the moment. The inflection point in March could well have been that things got "less bad."

## RETIREMENT SYSTEMS OF ALABAMA

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### *Investment Section*

#### Report on Investment Activity (Continued)

For the Fiscal Year Ended September 30, 2009

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Not that “less bad” is a great investment theme, but you have to start somewhere. Surprisingly, quarterly earnings started coming in ahead of the ratcheted down expectations of the street. Corporate America, with all the transparency available in the internet age, cut costs to the core, which enabled what revenues that did come in to more easily drop to the bottom line. It is hard to say if earnings are a leading or coincidental indicator, but both the market and earnings revisions began to rise at a rapid clip. By the end of the fiscal year, the market as measured by the S & P 500 had rallied over 58% from the March low.

The RSA came into the fiscal year with a large quality, large cap tilt on the portfolio. On a relative basis, this strategy worked well. As the market rallied into late summer, we began to hedge part of the performance gains seen off the March lows. We will continue to look to hedge a portion of our index exposure, considering the macroeconomic situation is rather tenuous.

In review, the RSA equity allocation began the year at roughly 56%, and closed out fiscal year 2009 at 58% on average across the three funds. Domestic equities accounted for 43% of the fund, and international equities are now 15% of the total. In a reversal of last year’s performance order, international stocks as measured by the MSCI EAFE index led with a total return of 3.23%. Large cap again took over leadership vs. smallcap, with the S & P 500 index losing (6.91%) and the S & P Smallcap 600 down (10.62%). The S & P 400 Midcap index outperformed both large and small cap with a return of (3.11%).

For the year, the RSA domestic equity portfolios decreased (6.96%), (6.86%), and (6.43%) for the TRS, ERS, and JRF funds, respectively. International equity returns were in the black for the year, posting returns of 4.14% for TRS, 4.18% for ERS, and 5.07% for JRF. The combined total return for the overall equity portfolios were (4.29%), (4.33%), and (5.09%) for the TRS, ERS, and JRF, respectively. Three-, five-, and ten-year annualized global equity returns were (4.23%), 2.89%, and 2.47% for TRS, (4.21%), 2.89%, and 2.43% for ERS, and (4.41%), 1.80%, and 0.78% for JRF, respectively.

#### **Fixed Income**

At the beginning of fiscal year 2009, the nation’s financial system seemed to be on the brink of collapse. Treasury Secretary Hank Paulson was forced to step in on the behalf of Fannie Mae and Freddie Mac, a move that wiped out preferred and common shareholders. Lehman Brothers filed for bankruptcy as no deal could be struck between the Federal Reserve, the Treasury Department, and the financial community. In fearing the unknown, John Thain orchestrated the sale of his company Merrill Lynch to Bank of America. Within days, the government essentially nationalized AIG, one of the world’s largest insurers, as collateral calls on written default swaps threatened to end its existence. These issues caused corporate securities, financials in particular, to post their worst quarter on record.

In early October, policymakers around the globe lowered short-term interest rates by 50 basis points in a coordinated effort. Chairman Ben Bernanke and the Federal Reserve opted to lower the fed funds rate to 1.00% by the end of the month. At this time, investment grade corporate bonds were trading over 600 basis points versus comparable treasury securities. This marked a catastrophic discount to where they changed hands during the default era of 2002. In addition, high yields spreads eclipsed the 1600 basis point mark. Policymakers at home eventually cut short-term rates to a bare bones range of .25%. Outside of corporates, agency and mortgage-backed securities were not faring much better. Five-year agency spreads ballooned to 160 basis points, while mortgages traded as high as 200 basis points over the 10 year treasury. To the detriment of risk assets, the flight to safety trade produced over a 7% return for government securities over the last two months of the calendar year, driving 30 year treasury yields to approximately 2.50%.

At this point, the Federal Reserve decided to enact a quantitative easing approach in order to provide liquidity and calm investors’ nerves with regard to risk. One action taken was the guarantee of financial short-term debt by the Federal Deposit Insurance Corporation. The Federal Reserve also announced that it would purchase \$100 billion in GSE agency debt and \$500 billion in mortgages in the open market. These measures provided easier funding conditions which led to an improvement in credit technicals. With corporate spreads at historic wides, the appetite for new issuance emerged, albeit at huge concessions. As calendar year 2009 rolled in, there was plenty of

## RETIREMENT SYSTEMS OF ALABAMA

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### *Investment Section*

#### Report on Investment Activity (Continued) For the Fiscal Year Ended September 30, 2009

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discomfort for sure, but a sense that the government had provided a floor under the financial system. It may have placed a floor under treasury yields as well as a dramatic steepening of the curve began. Spread product finally started to perform ex-financials, which continued to be plagued with concerns regarding future write-downs and the ability to raise capital.

During the Federal Reserve's March meeting, policymakers increased its open market purchases of agency debt and mortgages to \$200 billion and \$1.25 trillion, respectively. In addition, they also announced that they would purchase up to \$300 billion in treasury securities, prompting a 50bp decline in 10 year yields. By the time the extension of these programs was announced, agency and mortgage spreads had collapsed 70 basis points and 125 basis points respectively. The culmination of the action taken by the government led to an appreciation in risk assets, whether it was corporate bonds, emerging markets, or commodities. With the help of upside surprises in second quarter earnings, investment grade securities were able to post an excess return of 14%.

The government bond market has been somewhat volatile over the last half of the fiscal year. Treasury securities have underperformed risk assets as the flight away from safety has hit full stride. The budget situation and the financing of the deficit have also weighed on the market. The government yield curve has reached historically steep levels. While the Fed is willing to say that "economic activity is leveling out", they have remained steadfast that rates will remain low for an "extended period". There is plenty of uncertainty concerning inflation in response to the amount of money being printed. Treasury Inflation Protected Securities are back to pre-Lehman levels after spreads were close to zero at the beginning of the year. And while foreigners have gobbled up approximately half of this year's supply of government securities, it remains to be seen how long they are willing to be a participant given that the country's budget deficit shows no signs of abating. Fiscal year 2010 should be interesting as one constituent (corporations) in the marketplace has met most of its capital needs through heavy issuance, while the other (government) is just getting started.

For fiscal year 2009, the RSA purchased approximately \$1.5 billion in additional securities for the fixed income portfolio. As of September 30, 2009, the RSA's fixed income portfolio had a market value of \$9.7 billion, of which 7.8% was in money market securities. For the fiscal year, the total annual returns for the public domestic fixed income portfolios were 14.12% for the TRS, 14.19%, for the ERS and 14.08% for the JRF. The five-year annualized returns were 6.27% for the TRS and 6.32% for the ERS and 5.78% for the JRF. The ten-year annualized returns were 6.66% for the TRS and 6.61% for the ERS and 4.90% for the JRF.

Sincerely,



Marc Green  
Director of Investments

## **I. Board Objectives**

The Boards of Control, as Trustees of the Teachers' Retirement System and Employees' Retirement System (Systems), have full power, through each System's secretary-treasurer, to invest and reinvest System funds in accordance with the Prudent Person Rule: "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." Other funds currently and hereafter under the management of the Systems will be governed by this Investment Policy Statement within each System's limitations and/or by other applicable legislated restrictions.

It is the objective of the Boards that funds be invested in such a manner as to maximize the total return of each System within prudent risk parameters. Also, the Systems recognize that a stronger Alabama equates to a stronger Retirement System, and as such, investments in Alabama businesses are encouraged to the extent the investment meets the criteria delineated by this policy statement.

The long term investment performance expectations of the Systems are to achieve a return on marketable securities in excess of the actuarial investment assumption and to exceed the rate of inflation (as measured by the CPI) by 3% through investments in a broadly diversified portfolio. The performance evaluation of each System will be submitted to the respective Board on a semi-annual basis.

## **II. Asset Allocation**

The most important aspect of any investment strategy is the decision regarding allocation of investments among the various asset classes. The purpose of formulating asset allocation guidelines is to maximize investment returns within the standards of prudence established for the whole portfolio. Accordingly, the asset allocation decisions will be predicated on the following factors:

1. The actuarial projected liability stream of benefits and their cost,
2. The perception of the prospective risks and returns of eligible asset classes, and
3. Judgments regarding future economic and financial conditions.

The maximum permissible allocation of assets in the Systems to each eligible asset class is expressed below:

### **A. Domestic Fixed Income**

The domestic fixed income portfolio of each System may consist of any rated or non-rated debt security including, but not limited to, the following: U.S. Treasury issues, agency issues, mortgage-backed securities, corporate bonds, and privately placed debt securities. This area of investments may not exceed 50% of the market value of the aggregate portfolio of each System.

### **B. International Fixed Income**

The international fixed income asset class may be used to provide diversification for each System and may consist of U.S. dollar denominated or foreign currency denominated fixed income obligations of sovereign countries with a rating of at least A by one of the principal rating agencies at the time of purchase or acquisition, except that up to 2 percent of the market value of each System's total portfolio may be invested in the obligations of sovereign countries with a rating of BBB or BAA by one of such agencies at the time of purchase. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international fixed income obligations when it is considered appropriate. The market value of this asset may not exceed 10% of the market value of each System's total portfolio.

*Investment Section*

Investment Policies and Procedures (Continued)  
For the Fiscal Year Ended September 30, 2009

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C. Domestic Equity

The domestic equity portfolio of each System may consist of both actively and passively managed equity securities. Also, covered call options may be utilized in order to add incremental value to each System's equity portfolio and may be written and repurchased as market conditions warrant. The asset class may not exceed 65% of the market value of each System's aggregate portfolio.

D. International Equity

The international equity asset class may be used to provide diversification for the Systems and may consist of both actively and passively managed international equity securities. In order to be eligible for purchase by the Systems, an international equity security must be issued by a company incorporated in a country whose debt securities are eligible for investment under Section B above, and the market value of the aggregate outstanding equity of the issuing company must be at least \$100 million. Furthermore, each System may not purchase or hold more than 5 percent of any class of the outstanding stock of a company. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international equity securities when it is considered appropriate. The aggregate market value of international equities may not exceed 25% of the aggregate market value of each System's total portfolio.

E. Real Estate

The real estate portfolio of each System may consist of office, retail, industrial, commercial, and residential housing projects. The suggested range may not exceed 15% of the book value of each System's aggregate portfolio.

F. Alternative Investments

Alternative investments may consist of, but are not limited to, mezzanine financing, LBO's, venture capital, limited partnerships, futures, commodities, and derivative investments. The asset class may not exceed 10% of the book value of each System's aggregate portfolio.

G. Short-term Investments

Short-term investments may consist of money allocated to commercial paper, rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. Treasury securities and other money market investments. The primary objective of short-term investments is to provide highly liquid, low risk methods of return on funds, which have not been committed to the other aforementioned asset classes. The asset class may not exceed 20% of the market value of each System's aggregate portfolio.

Asset allocation is a dynamic process, and as such, the allocation decision should be revisited as market conditions change. In order to recognize this dynamism, the allocation targets within the recommended ranges of each asset class for the prospective quarter should be included in the quarterly strategy report.

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### III. Procedures

1. The investment advisor will work with the staff to develop a quarterly strategy for investments, which will be disseminated to the Boards, as it is prepared each quarter.
2. The Investment Committee of each System shall approve all investments made within the prescribed investment policy. These Investment Committees, in their approval, are considered to be signing for the respective Board of Control. If any purchase or sale is questioned by a member of the respective Investment Committee as to whether it is within given Board policy, the Board shall decide and no purchase or sale shall take place until all parties are in clear agreement that said action is or is not covered by policy.
3. Each week the secretary-treasurer of each System will send to the investment advisor the list of actual activities for written confirmation, which will then be forwarded to the respective System's Board of Control members upon receipt.
4. The staff members of the investment advisor will meet at least quarterly with members of the RSA staff and interested Boards of Control members to cover subjects of mutual interest.
5. All investment security purchases will be documented with an individual worksheet setting out the reason for the purchase, rating, market history and other general data pertinent to the decision making process.
6. An annual survey will be made of all fixed income investments held with emphasis on credit quality. A holding that has been downgraded in rating will be examined as to the reason for the downgrade and a determination should be made as to whether the security should remain in the portfolio.
7. The rules of the Securities Exchange Commission, the general policies of the Boards of Control, and the Alabama Ethics Commission shall govern the ethical conduct of employees. The RSA staff will provide the Alabama Ethics Commission with a quarterly report of all purchases and sales of any and all securities for personal accounts occurring within each reported quarter. The staff will abide by the Alabama Ethics Commission Advisory Opinion No. 673.

RETIREMENT SYSTEMS OF ALABAMA

*Investment Section*

Schedule of Investment Performance

For the Fiscal Year Ended September 30, 2009

	<b>Annualized</b>			
	<b>1 Year</b>	<b>Last 3 Years</b>	<b>Last 5 Years</b>	<b>Last 10 Years</b>
<b>Total Portfolio</b>				
TRS	-7.94%	-2.91%	2.07%	3.09%
ERS	-10.03%	-3.47%	1.59%	2.67%
JRF	0.69%	-0.57%	3.34%	2.87%
<b>Total Domestic Equity</b>				
TRS	-6.96%	-4.85%	1.64%	1.04%
ERS	-6.86%	-4.82%	1.69%	1.06%
JRF	-6.43%	-4.84%	1.52%	0.65%
<i>Domestic Equity Benchmarks:</i>				
S&P 500	-6.91%	-5.43%	1.02%	-0.15%
Dow Jones Industrial Average	-7.37%	-3.33%	1.85%	1.63%
S&P MidCap 400	-3.11%	-1.39%	4.53%	7.48%
S & P 600 Smallcap	-10.62%	-3.98%	2.83%	7.07%
<b>Total International Equity</b>				
TRS	4.14%	-2.32%	6.98%	3.30%
ERS	4.18%	-2.25%	7.01%	3.31%
JRF	5.07%	n/a	n/a	n/a
<i>International Equity Benchmarks:</i>				
Morgan Stanley EAFE (Unhedged)	3.23%	-3.60%	6.07%	2.55%
<b>Total Fixed Income and Alternatives</b>				
TRS	-12.12%	-0.70%	1.20%	3.74%
ERS	-15.91%	-1.94%	0.43%	3.21%
JRF	10.42%	5.76%	5.92%	5.18%
<i>Fixed Income Benchmarks:</i>				
Citigroup Big	10.98%	6.86%	5.43%	6.45%
Barclays Aggregate	10.56%	6.41%	5.13%	6.30%

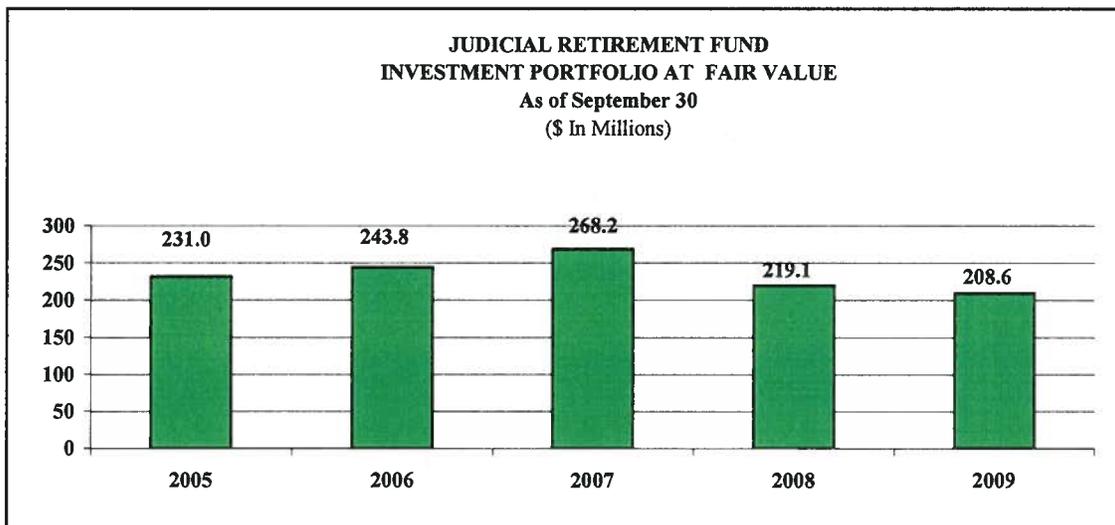
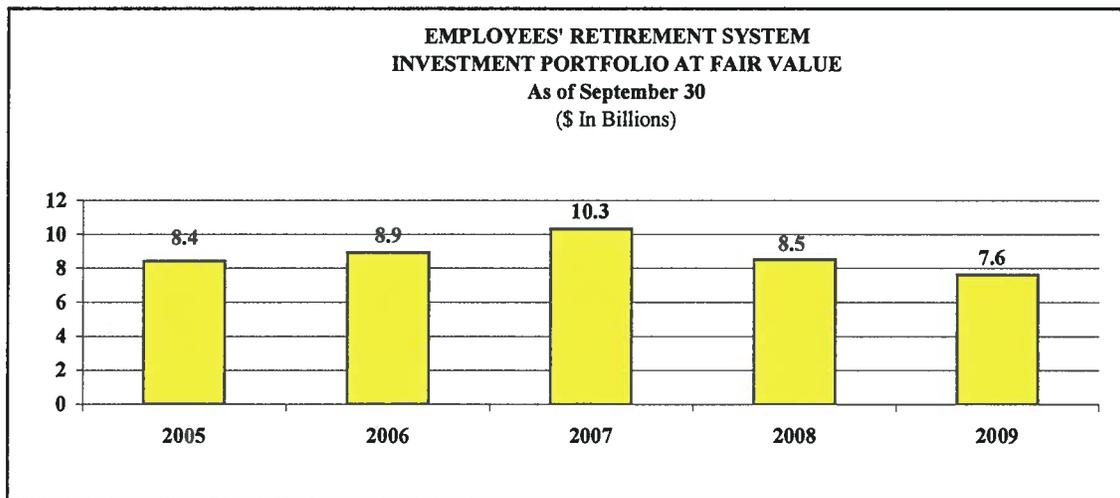
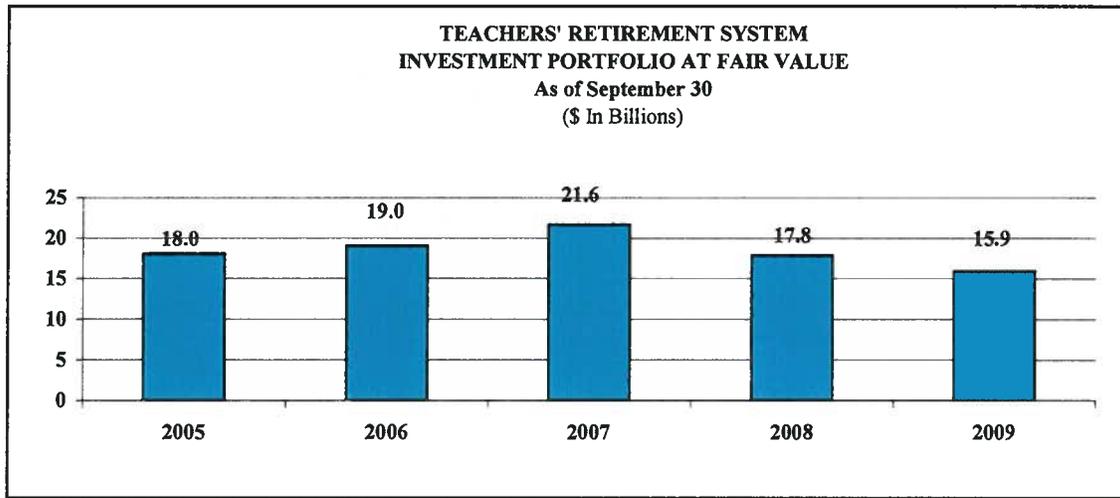
The custodian calculated rates of return based on the standards set forth by the Global Investment Performance Standards (GIPS®).

# RETIREMENT SYSTEMS OF ALABAMA

## Investment Section

### Investment Portfolio at Fair Value

#### Five-Year Comparison

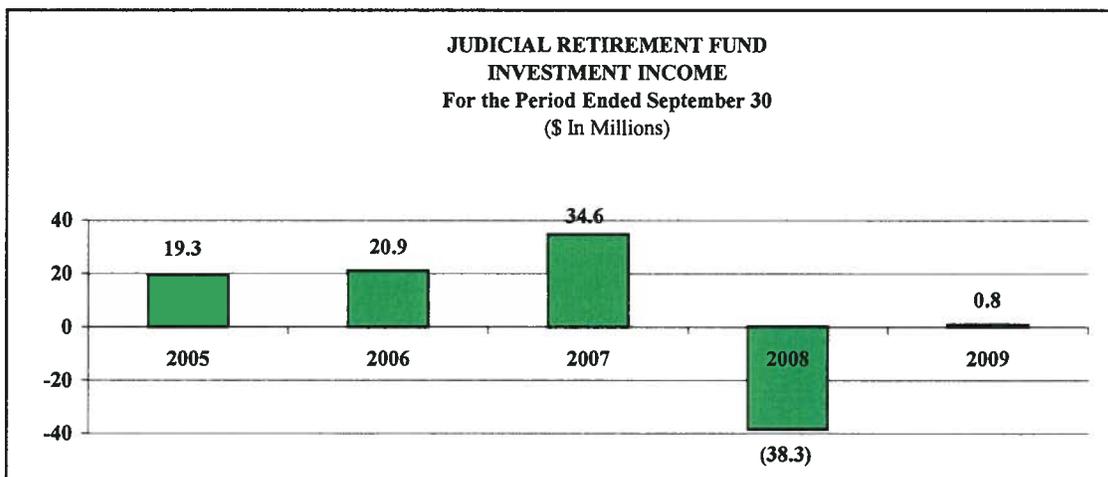
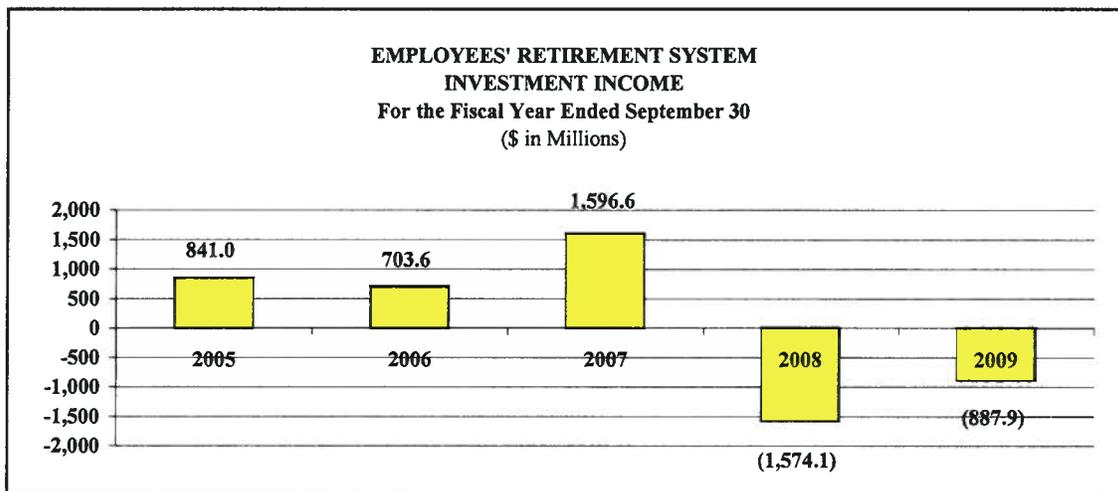
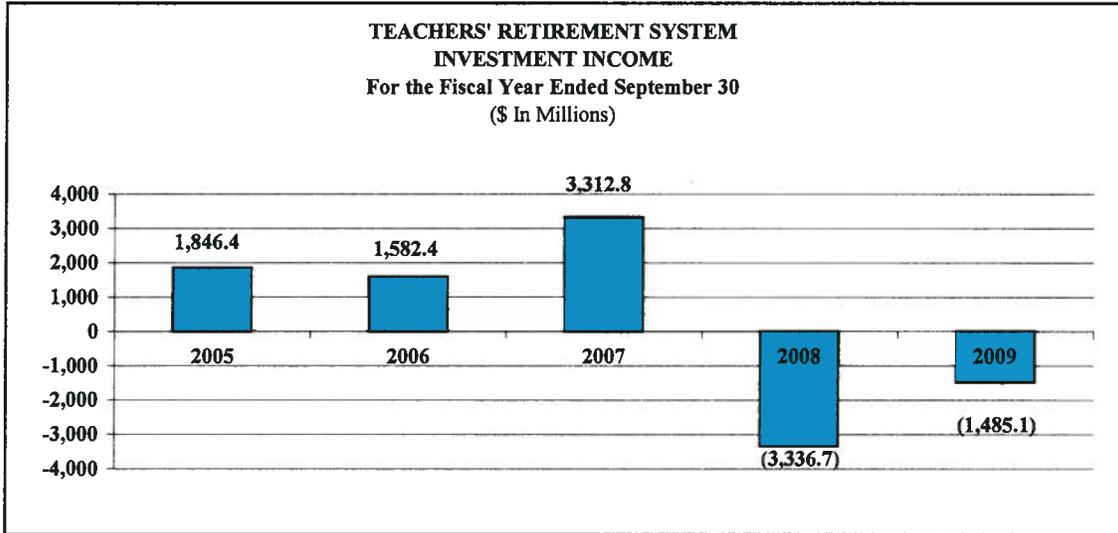


# RETIREMENT SYSTEMS OF ALABAMA

## Investment Section

### Investment Income

#### Five-Year Comparison

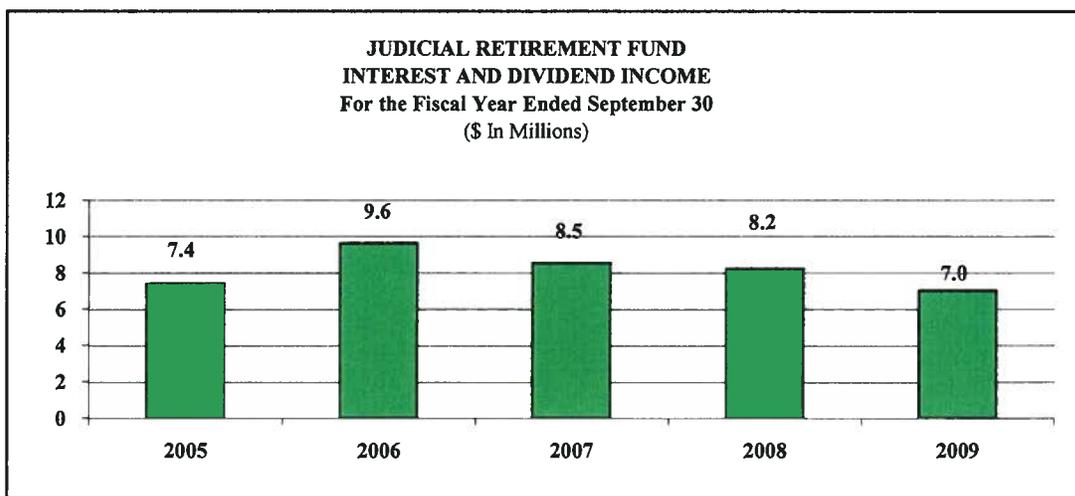
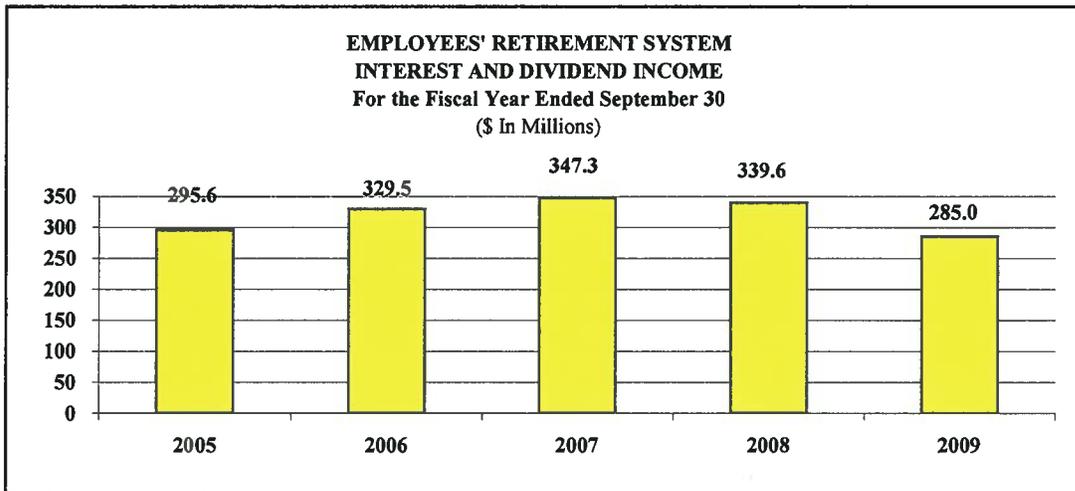
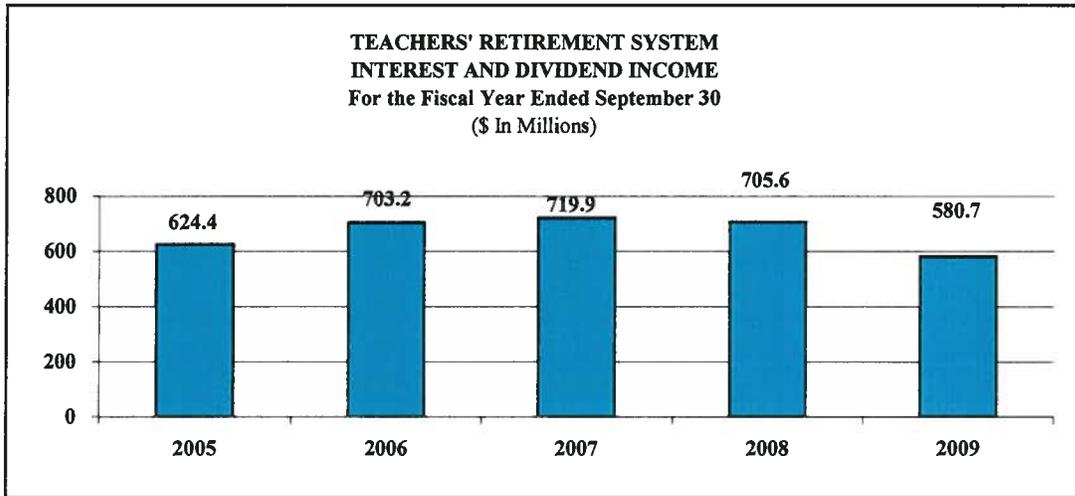


# RETIREMENT SYSTEMS OF ALABAMA

## Investment Section

### Interest and Dividends

#### Five-Year Comparison

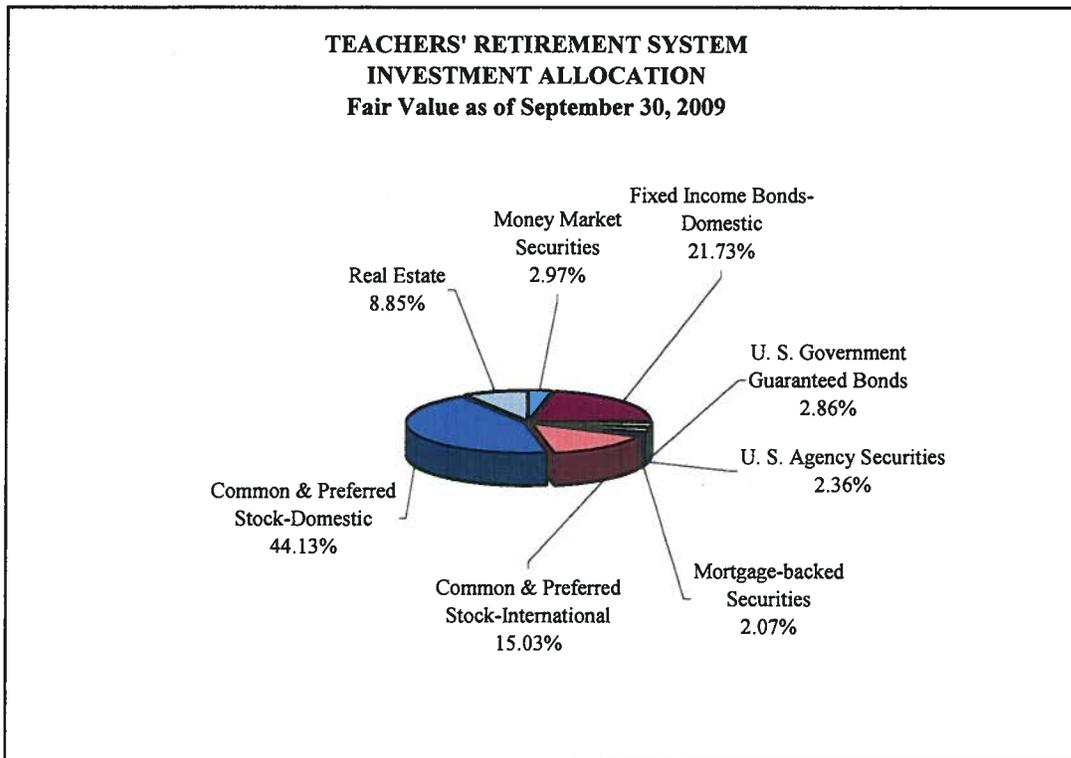


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Teachers' Retirement System

Investment Allocation and Summary



**TEACHERS' RETIREMENT SYTEM  
INVESTMENT SUMMARY AT FAIR VALUE  
As of September 30, 2009**

(\$ In Thousands)

	<u>Fair Value</u>	<u>% of Fair Value</u>
Money Market Securities and Mutual Funds	\$ 471,177	2.97
U.S. Government Guaranteed	453,319	2.86
U.S. Agency Securities	374,948	2.36
Mortgage-backed Securities	328,508	2.07
Fixed Income Bonds		
Domestic	3,447,264	21.73
Common and Preferred Stocks		
Domestic	7,002,023	44.13
International	2,383,873	15.03
Real Estate	1,404,652	8.85
<b>Total Investments</b>	<b>\$ 15,865,764</b>	<b>100.00</b>

## RETIREMENT SYSTEMS OF ALABAMA

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### Investment Section

#### Teachers' Retirement System

#### Largest Stock and Bond Holdings

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### TEACHERS' RETIREMENT SYSTEM LARGEST STOCK HOLDINGS

September 30, 2009

(Amounts In Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	391	Goldman Sachs Small Cap Equity Linked Notes	\$ 352,273
2)	2,835	Exxon Mobil	194,522
3)	136,000	Credit Suisse Equity S&P 500 Equity Linked Notes	154,414
4)	4,339	Microsoft	112,336
5)	2,336	JP Morgan Chase	102,362
6)	1,615	Johnson & Johnson	98,324
7)	5,845	General Electric	95,974
8)	1,646	Procter & Gamble	95,326
9)	784	IBM	93,797
10)	3,389	AT&T	91,524

### TEACHERS' RETIREMENT SYSTEM LARGEST BOND HOLDINGS

September 30, 2009

(\$ in Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$1,250,200	Raycom Media, 8% due 9/30/32	\$ 873,869
2)	367,889	National Alabama LP, 8.5% due 12/31/25	367,889
3)	322,320	Community News, 8% due 9/30/32	270,757
4)	104,450	US Treasury Notes, 4.25% due 8/15/15	113,769
5)	83,447	US Treasury Notes, 4% due 2/15/15	89,917
6)	65,042	US Treasury Notes, 4.125% due 5/15/15	70,441
7)	70,000	Alabama River Group, 8.6255 due 10/8/13	69,082
8)	59,259	US Treasury Notes, 4.75% due 5/31/12	64,681
9)	64,320	Wise Metals Tranche D, 10% due 5/5/10	64,320
10)	48,219	Community News SE Media, 8% due 9/30/32	40,505

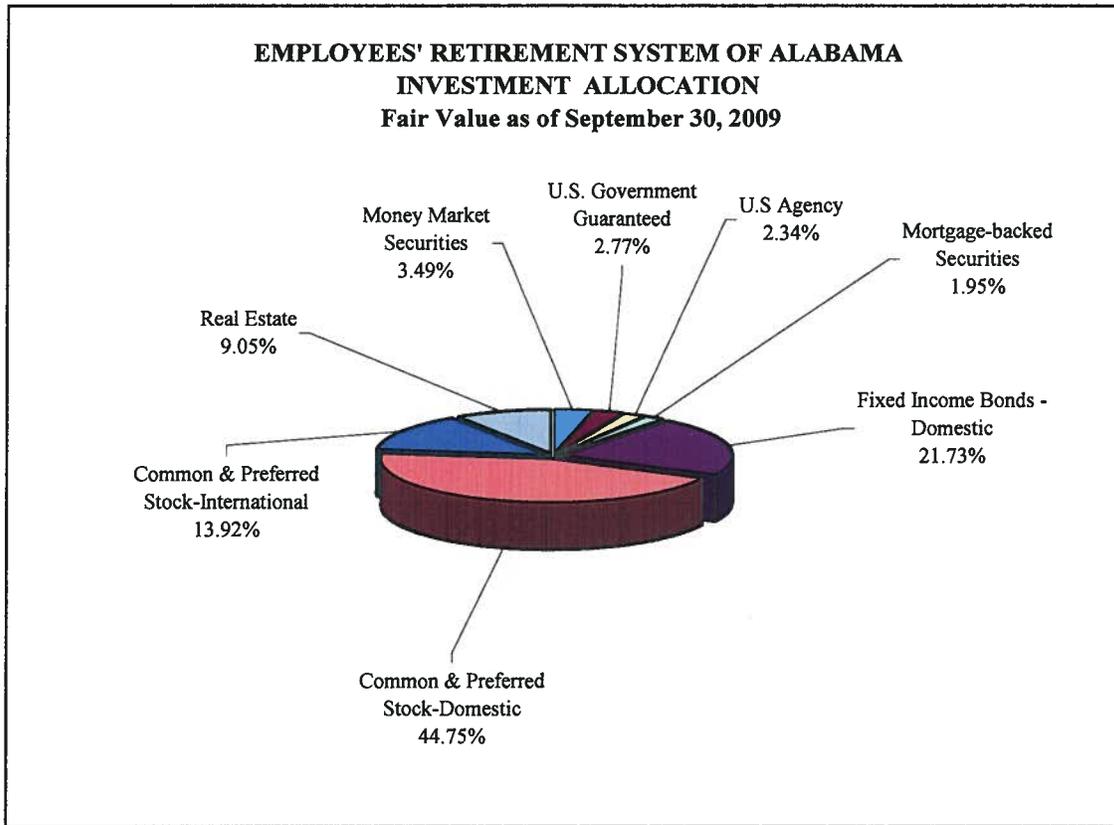
A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Employees' Retirement System

Investment Allocation and Summary



**EMPLOYEES' RETIREMENT SYSTEM  
INVESTMENT SUMMARY AT FAIR VALUE**

As of September 30, 2009

(\$ In Thousands)

	<u>Fair Value</u>	<u>% of Fair Value</u>
Money Market Securities and Mutual Funds	\$ 263,860	3.49
U.S. Government Guaranteed	209,110	2.77
U.S. Agency Securities	176,508	2.34
Mortgage-backed Securities	147,655	1.95
Fixed Income Bonds		
Domestic	1,640,555	21.73
Common and Preferred Stocks		
Domestic	3,378,526	44.75
International	1,050,599	13.92
Real Estate	683,221	9.05
<b>Total Investments</b>	<b>\$ 7,550,034</b>	<b>100.00</b>

# RETIREMENT SYSTEMS OF ALABAMA

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## *Investment Section*

### Employees' Retirement System Largest Stock and Bond Holdings

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#### EMPLOYEES' RETIREMENT SYSTEM LARGEST STOCK HOLDINGS

September 30, 2009

(Amounts in Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	161	Goldman Sachs Small Cap Equity Linked Notes	\$ 144,876
2)	1,352	Exxon Mobil	92,731
3)	64,000	Credit Suisse Equity S&P 500 Equity Linked Notes	72,666
4)	104	Raycom Media (10 noncumulative)	72,664
5)	2,062	Microsoft	53,392
6)	1,118	JP Morgan & Chase	48,991
7)	770	Johnson & Johnson	46,912
8)	2,769	General Electric	45,462
9)	781	Procter & Gamble	45,240
10)	375	IBM	44,839

#### EMPLOYEES' RETIREMENT SYSTEM LARGEST BOND HOLDINGS

September 30, 2009

(\$ In Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 621,030	Raycom Media, 8% due 9/30/32	\$ 434,090
2)	181,199	National Alabama LP, 8.5% due 12/31/25	181,199
3)	162,853	Community News, 8% due 9/30/32	136,800
4)	47,687	US Treasury Notes, 4.25% due 8/15/15	51,942
5)	38,279	US Treasury Notes, 4% due 2/15/15	41,247
6)	29,902	US Treasury Notes, 4.125 due 5/15/15	32,384
7)	31,680	Wise Metals Tranche D, 10% due 5/5/10	31,680
8)	27,220	US Treasury Notes, 4.75% due 5/31/12	29,710
9)	30,000	Alabama River Group, 8.625% due 10/8/13	29,607
10)	25,519	Community News SE Media, 8% due 9/30/32	21,437

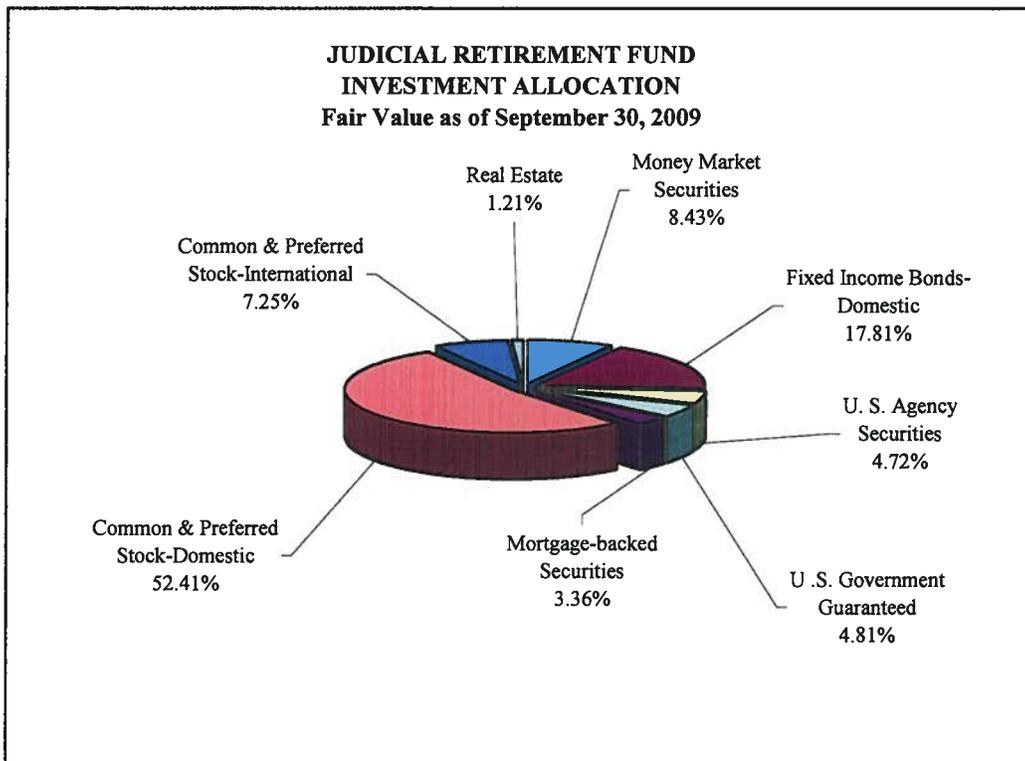
A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Judicial Retirement Fund

Investment Allocation and Summary



**JUDICIAL RETIREMENT FUND  
INVESTMENT SUMMARY AT FAIR VALUE  
As of September 30, 2009  
(\$ In Thousands)**

	<u>Fair Value</u>	<u>% of Fair Value</u>
Money Market Securities and Mutual Funds	\$ 17,592	8.43
U.S. Government Guaranteed	10,042	4.81
U.S. Agency Securities	9,836	4.72
Mortgage-backed Securities	7,013	3.36
Fixed Income Bonds, Domestic	37,135	17.81
Common and Preferred Stocks, Domestic	109,305	52.41
Common and Preferred Stocks, International	15,112	7.25
Real Estate	2,530	1.21
<b>Total Investments</b>	<b>\$ 208,565</b>	<b>100.00</b>

RETIREMENT SYSTEMS OF ALABAMA

*Investment Section*

Judicial Retirement Fund

Largest Stock and Bond Holdings

**JUDICIAL RETIREMENT FUND  
LARGEST STOCK HOLDINGS**

September 30, 2009

(Amounts in Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	51	Exxon Mobil	\$ 3,488
2)	4	Goldman Sachs Small Cap Equity Linked Notes	3,173
3)	80	Microsoft	2,063
4)	110	General Electric	1,807
5)	41	JP Morgan Chase & Company	1,781
6)	31	Proctor & Gamble	1,769
7)	29	Johnson & Johnson	1,755
8)	9	Apple	1,720
9)	61	AT&T	1,659
10)	14	IBM	1,647

**JUDICIAL RETIREMENT FUND  
LARGEST BOND HOLDINGS**

September 30, 2009

(\$ In Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 2,504	US Treasury Notes, 4.25% due 8/15/15	\$ 2,727
2)	2,158	US Treasury Notes, 4% due 2/15/15	2,325
3)	2,000	LMB Funding	2,228
4)	1,727	Farmers Mac Guaranteed Notes TR, 5.125% due 4/19/17	1,871
5)	2,044	Community News	1,717
6)	1,480	US Treasury Notes, 4.125% due 5/15/15	1,603
7)	1,588	General Electric Capital, 5.55% due 5/4/20	1,568
8)	1,360	US Treasury Notes, 4.75% due 5/31/12	1,484
9)	1,085	Farmers Mac Guaranteed Notes TR 2006, 5.5% due 7/15/11	1,158
10)	898	Torchmark, 6.375% due 6/15/16	852

A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Broker Commissions Paid

For the Fiscal Year Ended September 30, 2009

	Stock		Fixed		Total Commissions (000's)
	Commissions Per Share	# of Shares (000's)	Commissions (000's)	Securities Commissions (000's)	
Banc of America	\$ -	-	\$ -	\$ 220	220
Barclays	0.0425	6,393	\$ 272	\$ -	272
Bear Stearns & Co.	-	-	-	219	219
Benchmark	0.0800	125	10	-	10
Bernstein	0.0127	52,314	664	-	664
Cantor Fitzgerald	-	-	-	157	157
Centennial	0.0515	330	17	-	17
Citigroup	0.0337	19,727	664	129	793
Cowen	0.0251	5,574	140	-	140
Credit Suisse	0.0128	24,377	313	228	541
Deutsche Bank	-	-	-	179	179
Empirical Research	0.0444	2,655	118	-	118
First Discount	0.0494	263	13	-	13
Gardner Rich	0.0485	268	13	-	13
Goldman Sachs & Co.	0.0111	21,735	242	139	381
Howard Weil	0.0433	2,725	118	-	118
Issuer Designated	-	-	-	409	409
ISI	0.0482	12,241	590	-	590
Jeffries	0.0451	8,116	366	-	366
JP Morgan Chase	0.0368	26,574	977	-	977
Keefe Bruyette	0.0379	2,800	106	-	106
KeybanC Capital Markets	-	-	-	38	38
Lazard	0.0389	257	10	-	10
McDonald	0.0495	505	25	-	25
Merrill Lynch, Pierce, Fenner & Smith	0.0330	17,774	586	-	586
Morgan Keegan	0.0499	802	40	-	40
Morgan Stanley Dean Witter	0.0331	22,136	733	70	803
NBC-Falkenburg	0.0500	900	45	-	45
Oppenheimer	0.0419	11,035	462	-	462
Raymond James	0.0497	906	45	235	280
Register/Corts	0.0489	225	11	-	11
Sandler O'Neil	0.0500	3,901	195	-	195
Securities Capital	0.0504	258	13	-	13
Southcoast	0.0493	3,730	184	-	184
Southwest	0.0500	200	10	-	10
Sterne Agee	0.0421	4,468	188	-	188
Strategas	0.0441	2,608	115	-	115
UBS Warburg	0.0504	754	38	-	38
Wells Fargo	0.0426	6,338	270	-	270
<b>Totals</b>		<b>263,014</b>	<b>\$ 7,593</b>	<b>\$ 2,023</b>	<b>\$ 9,616</b>

Average Commission Per Share of Stock = \$ 0.0289