

MORE THAN

350,000

MEMBERS



ONE

MISSION



THE BOARDS OF CONTROL AND
THE RETIREMENT SYSTEMS OF ALABAMA STAFF
ARE PLEASED TO PRESENT

ANNUAL REPORT

2016



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A LETTER FROM DR. BRONNER

The Boards of Control and the Retirement Systems of Alabama (RSA) staff are pleased to present the 40th Annual Report for the fiscal year ended September 30, 2016.

The RSA currently manages 23 funds with invested assets of approximately \$38.4 billion. For fiscal year 2016, the Teachers' Retirement System (TRS) assets totaled \$22.6 billion, the Employees' Retirement System (ERS) assets totaled \$11.0 billion, and the Judicial Retirement Fund (JRF) assets totaled \$277.9 million. The annualized return was 10.41% for the TRS, 10.22% for the ERS and 10.94% for the JRF. These results ranked the RSA funds in the top 36th percentile or better among the State Street Public Funds Universe (greater than \$1 billion) for the one-year period, and the top 12th or better percentile for the three- and five-year period.

Market performance during fiscal year 2016 was generally good, with equity markets performing well over most of the year with the exception of two periods of notable underperformance in the second- and third-fiscal quarters. Unlike fiscal 2015, equity markets were stable during August and September and closed the fiscal year near their highs. Domestic large-cap, mid-cap, and small-cap equities all turned in double-digit positive returns, while emerging market and international equities also performed well. Fixed income markets also experienced a solid positive return as interest rates were in a downtrend for most of the fiscal year before reversing and moving a bit higher in September. Returns within this sector were over 6.0% for the fiscal year as lower yields and stable credit spreads led to strong

performance. Markets have continued to be reactionary around macroeconomic and global events as they have been the last few years, but we continue to see fundamentals influencing performance as well as company earnings and strong balance sheets.

The RSA's office building in New York City, 55 Water Street, announced important lease renewals during the fiscal year. McGraw Hill Financial renewed its lease for over 900,000 square feet of space. This is a multi-year renewal for the entire 34th–46th floors along with a portion of the concourse and 52nd floor. McGraw Hill Financial, which owns Standard and Poor's, is the largest tenant in the building. The Teachers' Retirement System of the City of New York also renewed its lease in the building. The fund signed a 20-year lease for 200,000 square feet, adding 40,000 square feet of additional space. Other tenants include Hugo Boss, Emblem Health, and Liberty Mutual.

Montgomery has become the first city in Alabama with an Internet Exchange, known as Montgomery Cyber Connection. According to city, county, and military leaders, this Internet Exchange will connect every person, business and device to the rest of the world at very high speeds and help attract tech companies and high paying jobs. The Internet Exchange is located in the RSA Data Center in the RSA Dexter Avenue Building. Having the Exchange in our facility has now provided Alabama the bandwidth that businesses are looking for to run their businesses.

Lastly, several of the RSA hotel and restaurant properties were honored with AAA Four Diamond awards during the fiscal year. The Battle House Renaissance Mobile Hotel, Marriott Shoals Hotel, Renaissance Ross Bridge Resort, Renaissance Mobile

Riverview Plaza, and Renaissance Montgomery Hotel and Spa, as well as the Grand Steakhouse, The Trellis Room, and the 360 Grille all received this prestigious award. Only 5.4 percent of hotels and 2.3 percent of restaurants get a AAA Four Diamond Award.

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

David G. Bronner
CHIEF EXECUTIVE OFFICER

OUR MISSION

▶ 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.





STANDING READY TO ASSIST IN MEETING NEW CHALLENGES. PROTECTING AND ENHANCING THE RSA'S SERVICE TO ITS MEMBERS.

LEGAL

In fiscal year 2016, the RSA Legal Division handled a wide variety of matters involving the many areas of law that pertain to the RSA's operations, including pension law, fiduciary and trust law, constitutional law, tax law, health insurance law, securities law, contract law, construction law, commercial real estate law, and employment law.

Litigation matters have continued to comprise a significant portion of the RSA legal staff's responsibilities. The legal staff has worked to defend the RSA's interests in cases involving challenges to legislative changes to the pension benefit plans and has obtained favorable rulings upholding those changes. In *Southern States Police Benevolent Association, Inc., et al. v. Bentley, et al.*, the Alabama Supreme Court upheld the Montgomery County Circuit Court's holding in favor of the ERS Board for implementing a statutory amendment to the definition of "earnable compensation" to include overtime pay up to 120% of base pay, and an Attorney General opinion before the statute was amended (the case involved ERS, but the issue is applicable to TRS and its governing statute as well). Legal staff has also defended cases involving challenges to the authority of the ERS, TRS, and PEEHIP Boards of Control, and the legal staff successfully defended and resolved a lawsuit challenging a bid award in a golf cart purchase for the Robert Trent Jones Golf Trail. The RSA continues to litigate matters as necessary to protect the interests of its members.

In addition, the legal staff has pursued affirmative litigation to recover funds for the system when appropriate. The RSA has resolved claims and received compensation for losses experienced as a result of the BP oil spill, and has also participated in securities fraud litigation to seek recovery of

investment losses due to fraud. The RSA legal staff also assisted with issues pertaining to the RSA's real estate holdings and other investments, providing legal advice on general operational issues and construction projects and pursuing litigation which resulted in the recovery of certain construction costs.

Other important areas of practice for the RSA legal staff were providing legal guidance related to the administration of the PEEHIP, the education employees' self-funded group health plan, and RSA-1, the Section 457 deferred compensation plan administered by RSA staff. The legal staff assisted PEEHIP in reviewing and implementing policies and plan design features to ensure consistency with the Affordable Care Act and other applicable laws and regulations. The legal staff also worked to ensure that PEEHIP met applicable privacy and security requirements under the Health Insurance Portability and Accountability Act (HIPAA) and Health Information Technology for Economic and Clinical Health Act (HITECH), which govern the privacy and security of PEEHIP members' and their dependents' health information. The legal staff also assisted RSA-1 in administering its plan document, complying with appropriate IRS and other applicable rules and regulations, and resolving legal questions involving plan participants.

Other major areas of practice for the RSA Legal Division include the review and negotiation of contracts for the RSA and PEEHIP. The legal staff also provides legal advice and assistance daily and training as needed on all other aspects of the operations of the RSA, PEEHIP, and their Boards of Control.

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 2016 Regular Legislative Session ended on May 4, 2016. The Legislature fully funded both the Employees' Retirement System and the Teachers' Retirement System in the General Fund and Education Trust Fund budgets. In addition, the Legislature fully funded the budget request for the Public Education Employees' Health Insurance Plan for \$800 per employee per month for a total increase of \$23M.

No major legislation impacting the RSA was enacted this session. Only one general bill, Senate Bill (SB) 366 (Act 2015-398), and two local bills, House Bill (HB) 14 (Act 2016-84) and HB449 (Act 2016-148), which affect the RSA were enacted. SB366 allows garnishment of TRS and ERS retirement benefits in limited circumstances where a retiree has been convicted of a crime and restitution in excess of \$1,000 has been ordered. HB14 allows the Choctaw County Revenue Commissioner to receive supernumerary benefits and TRS retirement benefits and HB449 proposes a constitutional amendment to allow Fayette County elected officials to participate in ERS.

In addition, the Joint Committee on Alabama Public Pensions, formed by joint resolution during the 2015 Regular Legislative Session, was dissolved after making its recommendations to the Legislature during the 2016 Regular Legislative Session. These recommendations included implementing a cash balance plan, requiring additional investment reporting and stress-testing, applying state uniform trust law to the RSA board members, and implementing auto-enrollment in RSA-1. However, no legislation stemming from these recommendations was ultimately enacted by the Legislature. ■

2016

STAFF, ADVISORS, AND MEDICAL BOARD

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

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

ADMINISTRATIVE STAFF

CHIEF INVESTMENT OFFICER
R. MARC GREEN, M.B.A., CFA

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

GENERAL COUNSEL
LEURA G. CANARY, J.D.

LEGISLATIVE COUNSEL
NEAH M. SCOTT, 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, CGBA

DIRECTOR OF RSA-1
RHONDA H. PETERS, B.S.

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

MEMBER SERVICES
PENNY K. WILSON, B.S.

COMMUNICATIONS
MICHAEL E. PEGUES, M.A.

FIELD SERVICES
CHRISTOPHER C. GALLUP, B.S.

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.



Strength. Stability. Security.

Since the Great Recession of 2008-2009 (last 7 years),
RSA investment earnings were

\$18.6

BILLION,

assets increased \$10.4 Billion or 43.7%, while paying

\$19.6

BILLION

in benefits to ERS, TRS, and JRF retirees.



**ECONOMIC
IMPACT***

Retirees' expenditures from state and local pension fund benefits supported a total of **\$4.0 billion in total economic output in the state** and **\$2.2 billion in value added to the state.**

**ECONOMIC
IMPACT ON
TAX REVENUE***

State and local pension payments made to Alabama residents supported a total of **\$703.2 million in revenue to federal, state, and local governments** (\$383.4 million in federal tax and \$319.8 million in state/local tax).

**ECONOMIC
IMPACT ON
JOBS AND
INCOMES***

Retiree expenditures stemming from state and local pension plan benefits supported **27,814 jobs in the state that paid \$1.2 billion in wages and salaries.**

*(from "Pensionomics 2016: Measuring the Economic Impact of DB Pension Expenditures" based on most current data from 2014) National Institute on Retirement Security



RSA Membership 2016

To say we've grown is an understatement.

TODAY THE RSA PAYS BENEFITS TO

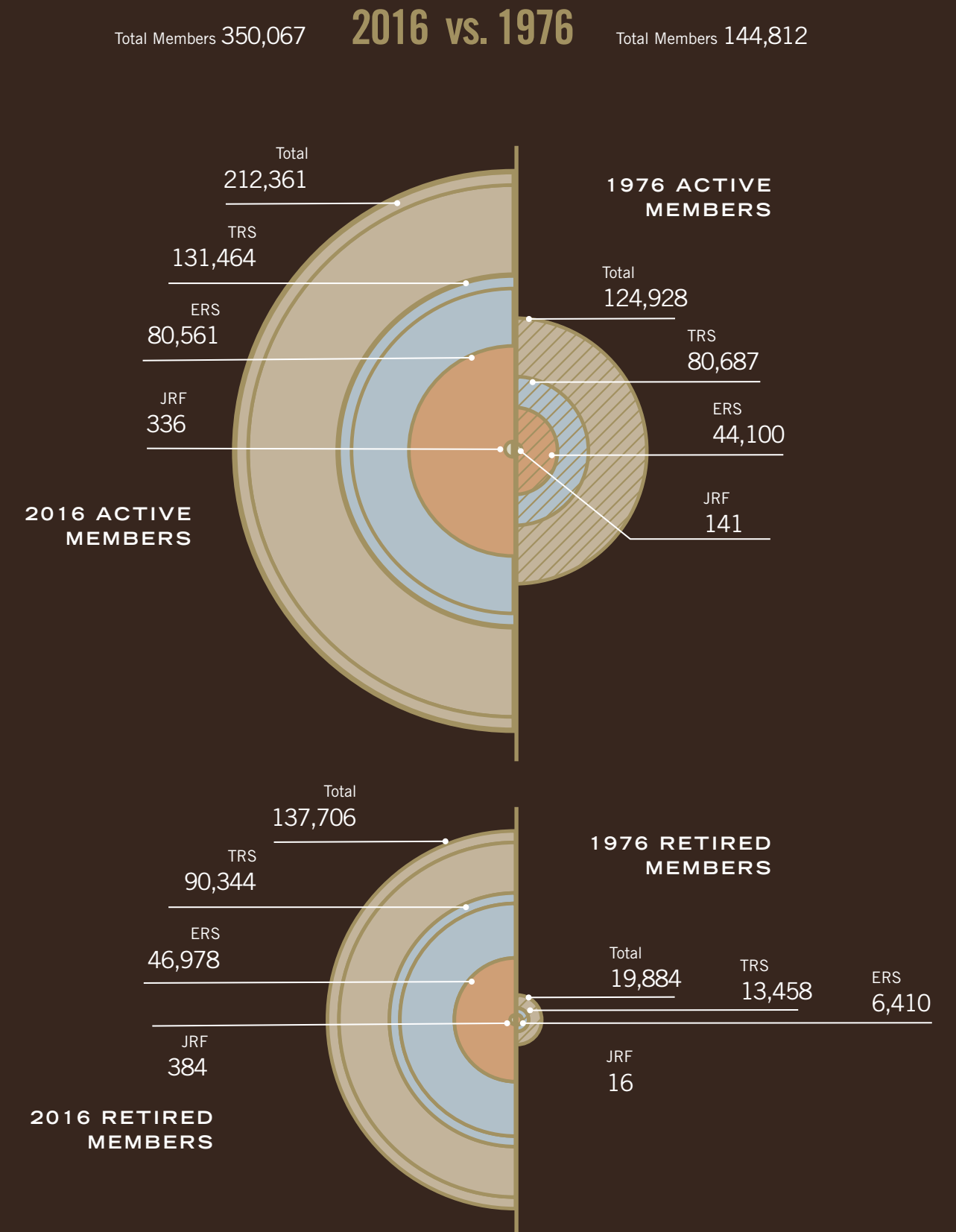
7X

MORE RETIREES
 THAN IN 1976 – PROVIDING
 ALABAMA'S PUBLIC EMPLOYEES
 A FINANCIALLY SECURE FUTURE.



- TEACHERS' RETIREMENT SYSTEM
- EMPLOYEES' RETIREMENT SYSTEM
- JUDICIAL RETIREMENT FUND

ACTIVE & RETIRED MEMBERS





2016 RSA Membership by Status & System

IN 2016, ACTIVE AND RETIRED MEMBERSHIP
FROM TRS, ERS, AND JRF TOTALED

350,067

2016 MEMBERS BY STATUS



ACTIVE

TRS	131,464
ERS	80,561
JRF	336
TOTAL	212,361



RETIRED

TRS	90,344
ERS	46,978
JRF	384
TOTAL	137,706

MEMBERSHIP ACTIVITY

NEW MEMBERS

TRS	ERS	JRF	TOTAL
11,614	9,993	10	21,617

WITHDRAWN MEMBERS

TRS	ERS	JRF	TOTAL
4,121	4,997	3	9,121

SERVICE RETIREMENTS

TRS	ERS	JRF	TOTAL
3,858	2,263	11	6,132

DISABILITY RETIREMENTS

TRS	ERS	JRF	TOTAL
356	255	-	611

SURVIVING SPOUSES

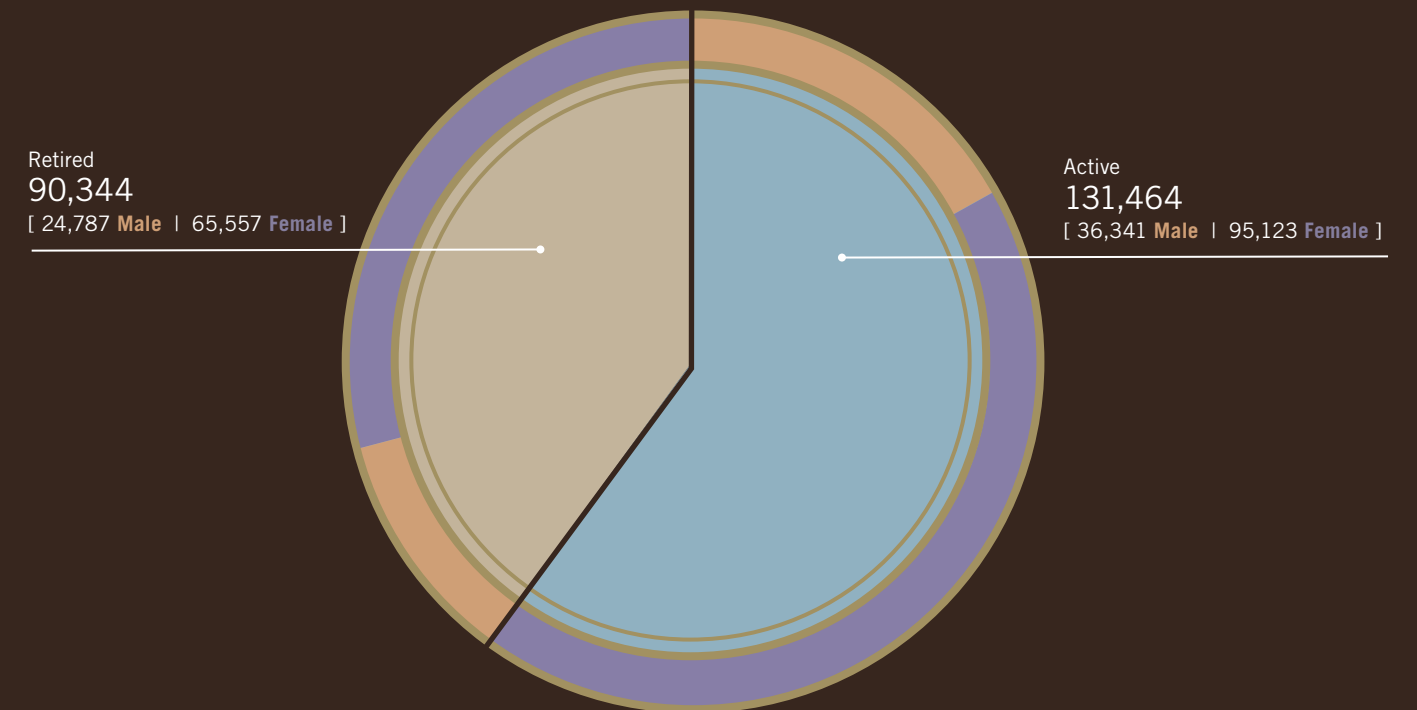
TRS	ERS	JRF	TOTAL
3	3	-	6

NEW BENEFICIARIES

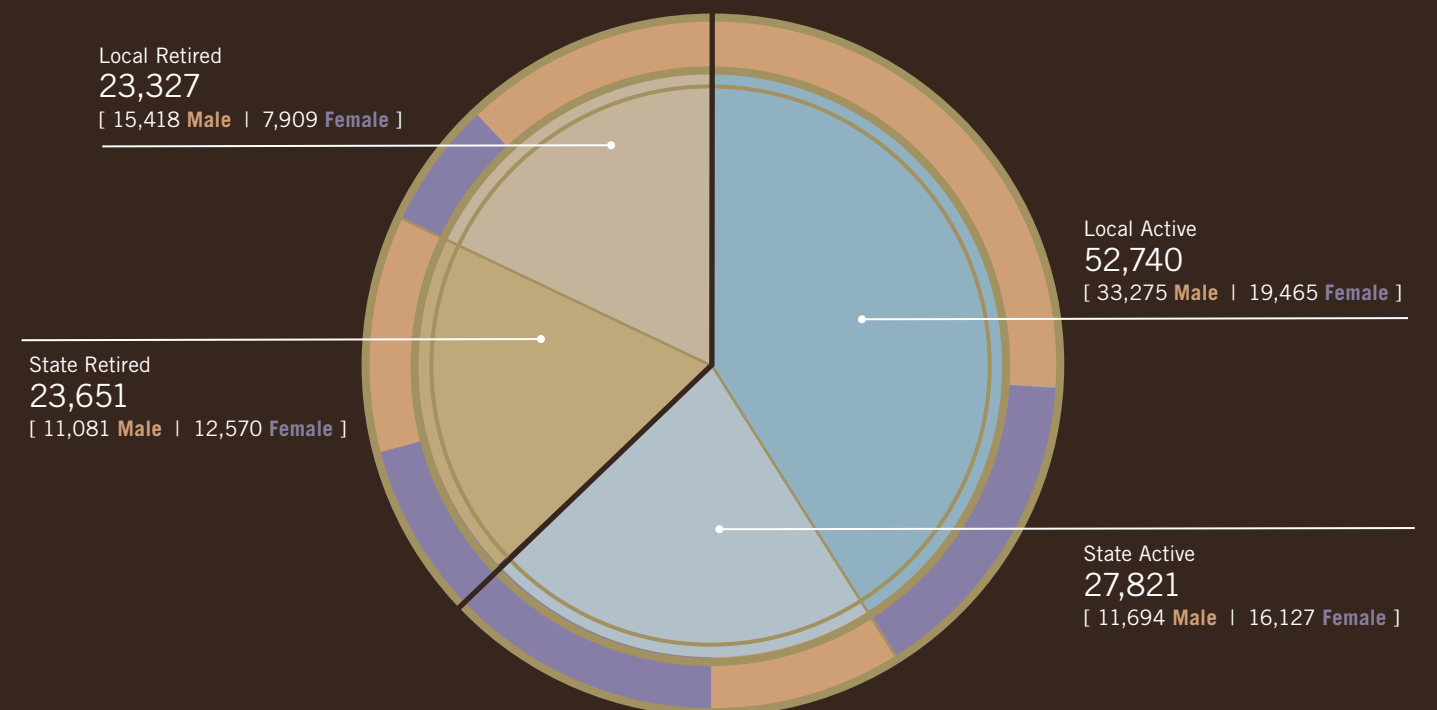
TRS	ERS	JRF	TOTAL
379	256	6	641

MEMBER DEMOGRAPHICS

TRS



ERS



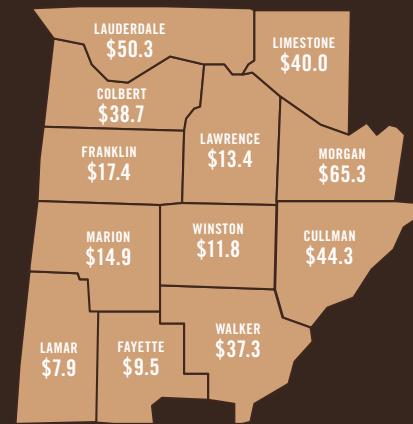


2016 RSA Members & Benefits Paid by Location

COUNTY BY COUNTY (Dollars in Millions of Benefits Paid)

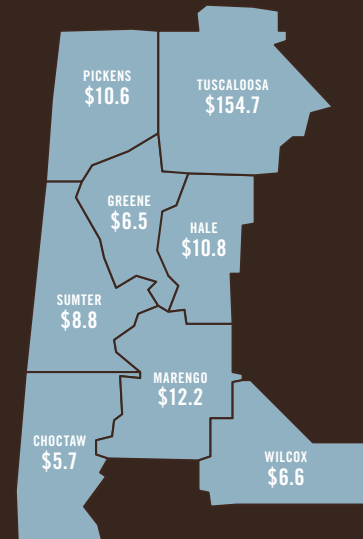
TOTAL BENEFITS PAID IN 2016
\$3.2 BILLION

TOTAL BENEFITS PAID IN ALABAMA IN 2016
\$2.8 BILLION



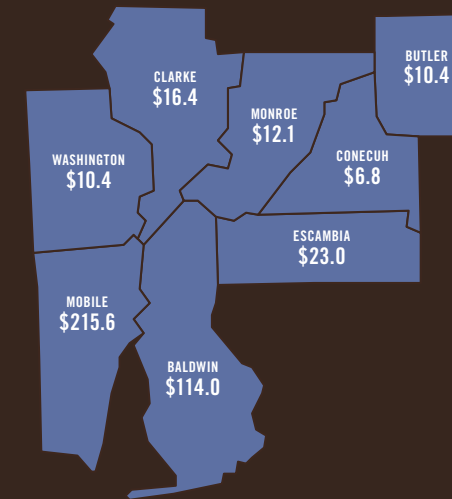
NORTHWEST

COUNTY	ACTIVE	RETIRED
LAUDERDALE	4,144	2,246
LIMESTONE	4,157	1,785
COLBERT	2,998	1,813
FRANKLIN	1,643	831
LAWRENCE	1,215	695
MORGAN	5,567	3,079
MARION	1,557	746
WINSTON	1,256	616
CULLMAN	3,986	2,074
LAMAR	751	410
FAYETTE	964	475
WALKER	3,296	1,850



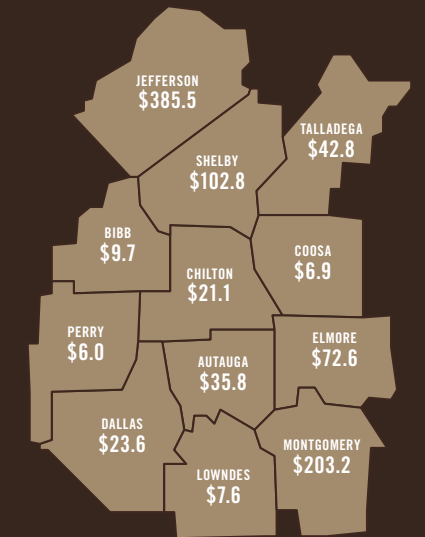
WEST

COUNTY	ACTIVE	RETIRED
PICKENS	1,043	582
TUSCALOOSA	14,278	6,934
GREENE	499	365
HALE	1,133	585
SUMTER	886	430
MARENGO	1,218	606
CHOCTAW	396	314
WILCOX	711	386



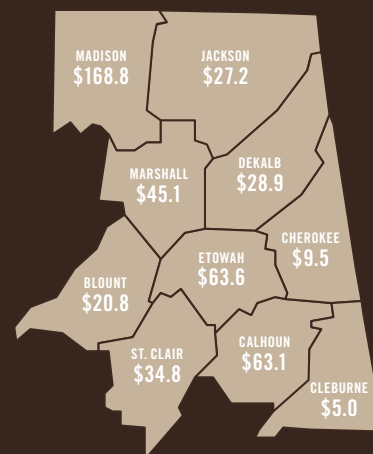
SOUTHWEST

COUNTY	ACTIVE	RETIRED
WASHINGTON	811	567
CLARKE	1,405	856
MONROE	1,094	606
CONECUH	708	386
BUTLER	1,007	531
MOBILE	19,782	10,726
BALDWIN	10,347	5,088
ESCAMBIA	1,800	1,107



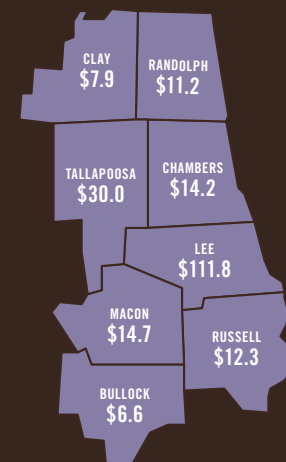
CENTRAL

COUNTY	ACTIVE	RETIRED
JEFFERSON	33,238	16,153
SHELBY	11,076	4,048
TALLADEGA	3,998	2,231
BIBB	1,080	496
CHILTON	2,155	1,065
COOSA	565	341
PERRY	543	303
DALLAS	2,317	1,152
AUTAUGA	3,609	1,605
ELMORE	6,097	3,165
LOWNDES	620	409
MONTGOMERY	15,708	8,419



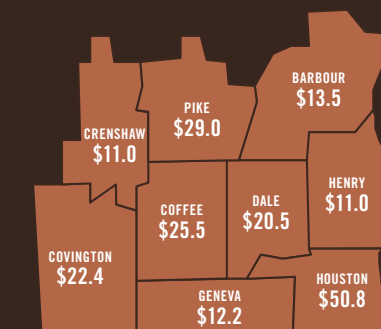
NORTHEAST

COUNTY	ACTIVE	RETIRED
MADISON	15,493	7,018
JACKSON	2,562	1,380
MARSHALL	4,381	2,102
DEKALB	3,037	1,407
BLOUNT	2,013	1,023
ETOWAH	5,143	3,006
CHEROKEE	845	464
ST. CLAIR	3,585	1,613
CALHOUN	6,422	3,086
CLEBURNE	600	257



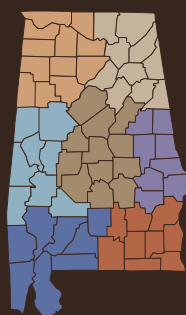
EAST

COUNTY	ACTIVE	RETIRED
CLAY	803	405
RANDOLPH	1,020	589
TALLAPOOSA	2,055	1,291
CHAMBERS	1,482	740
LEE	11,229	4,304
MACON	1,195	742
RUSSELL	1,696	704
BULLOCK	635	337



SOUTHEAST

COUNTY	ACTIVE	RETIRED
CRENSHAW	912	547
PIKE	2,504	1,248
BARBOUR	1,169	721
COVINGTON	1,994	1,114
COFFEE	2,466	1,218
DALE	2,057	1,034
HENRY	1,072	550
GENEVA	1,334	621
HOUSTON	4,453	2,386



92% TRS & 95% ERS MEMBERS REMAIN IN ALABAMA AFTER RETIREMENT.

EACH DOLLAR PAID OUT IN PENSION BENEFITS SUPPORTED \$1.27 IN TOTAL ECONOMIC ACTIVITY IN ALABAMA.*



*from "Pensionomics 2016: Measuring the Economic Impact of DB Pension Expenditures" based on most current data from 2014



2016 RSA Retirees and Benefits Paid

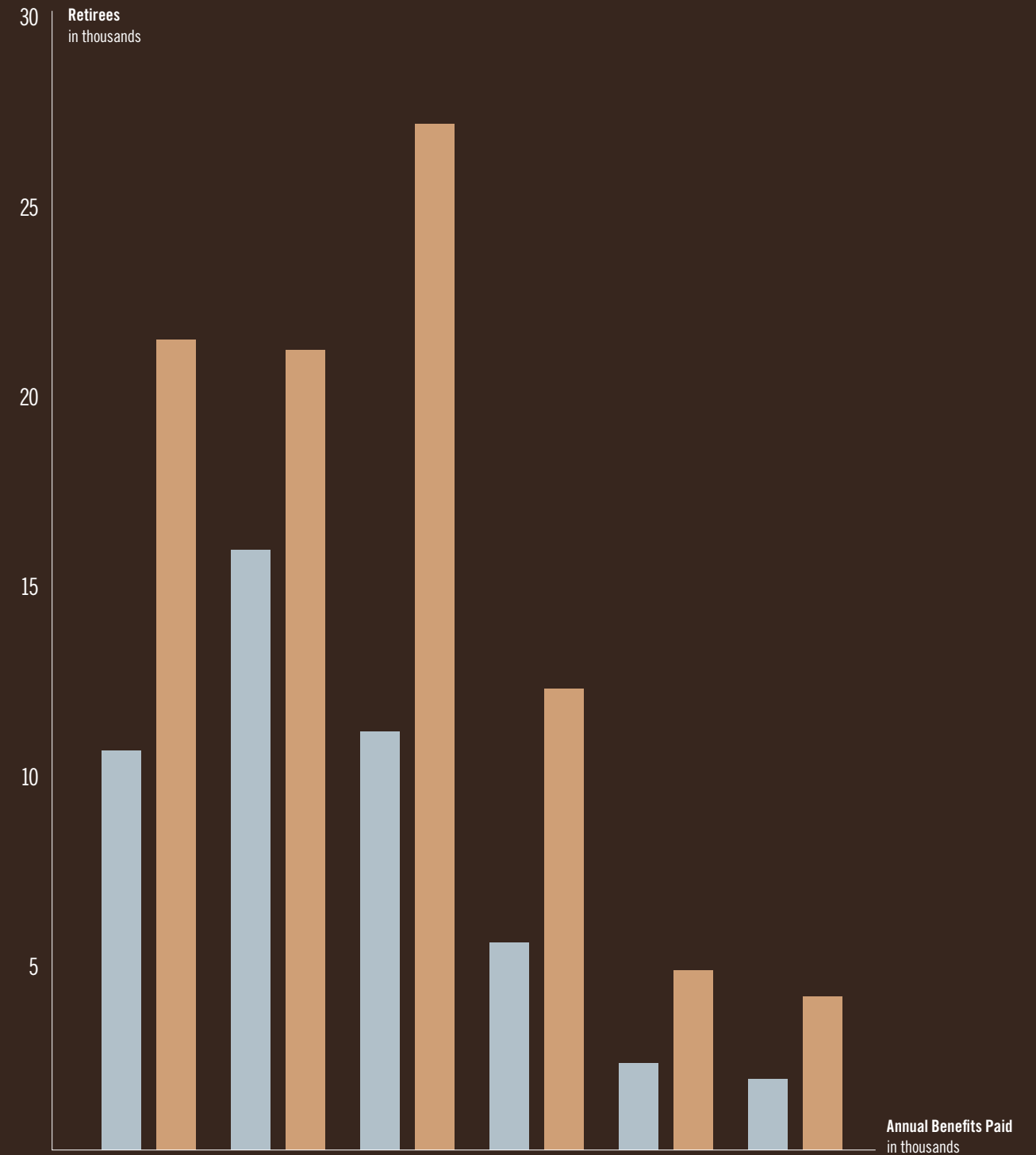
RETIRES RECEIVING \ll \$30K ANNUALLY

79.5%

ERS

76.8%

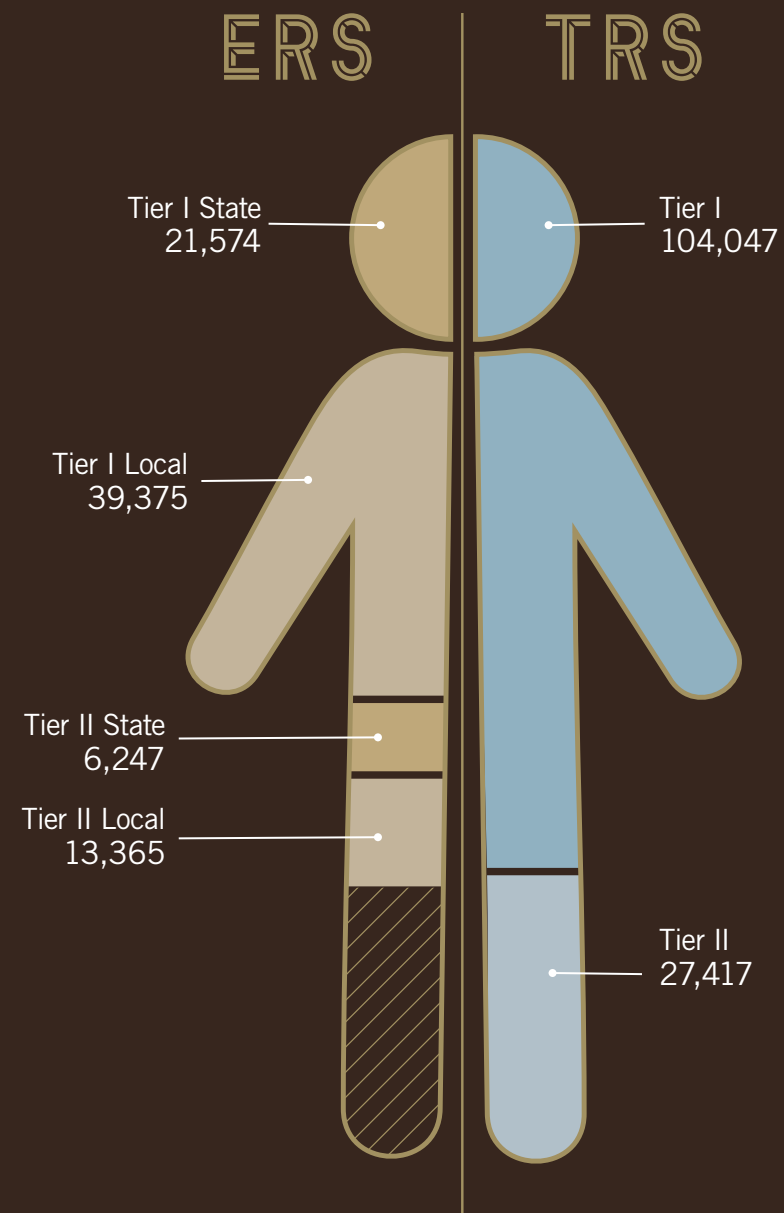
TRS



Annual Benefits	\$0-\$9,999		\$10,000-\$19,999		\$20,000-\$29,999		\$30,000-\$39,999		\$40,000-\$49,999		\$50,000+	
ERS	10,519	22.4%	15,802	33.6%	11,029	23.5%	5,470	11.6%	2,297	4.9%	1,861	4.0%
TRS	21,347	23.6%	21,061	23.3%	27,013	29.9%	12,153	13.5%	4,730	5.2%	4,040	4.5%



2016 RSA Active Members by Tier



In 2016, there were a total of
164,996 (78%) TIER I members
 &
47,029 (22%) TIER II members
 in the combined systems.



2016 Financial Highlights

TRS
 INVESTED
 ASSETS
 TOTALED **\$22.6**
 BILLION

ERS
 INVESTED
 ASSETS
 TOTALED **\$11.0**
 BILLION

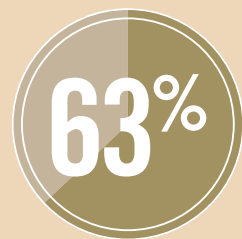
JRF
 INVESTED
 ASSETS
 TOTALED **\$277.9**
 MILLION



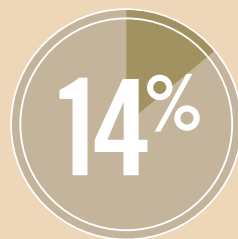
Revenue Sources for TRS, ERS, and JRF

TOTAL REVENUE 2016

\$5.2 BILLION



INVESTMENT
INCOME



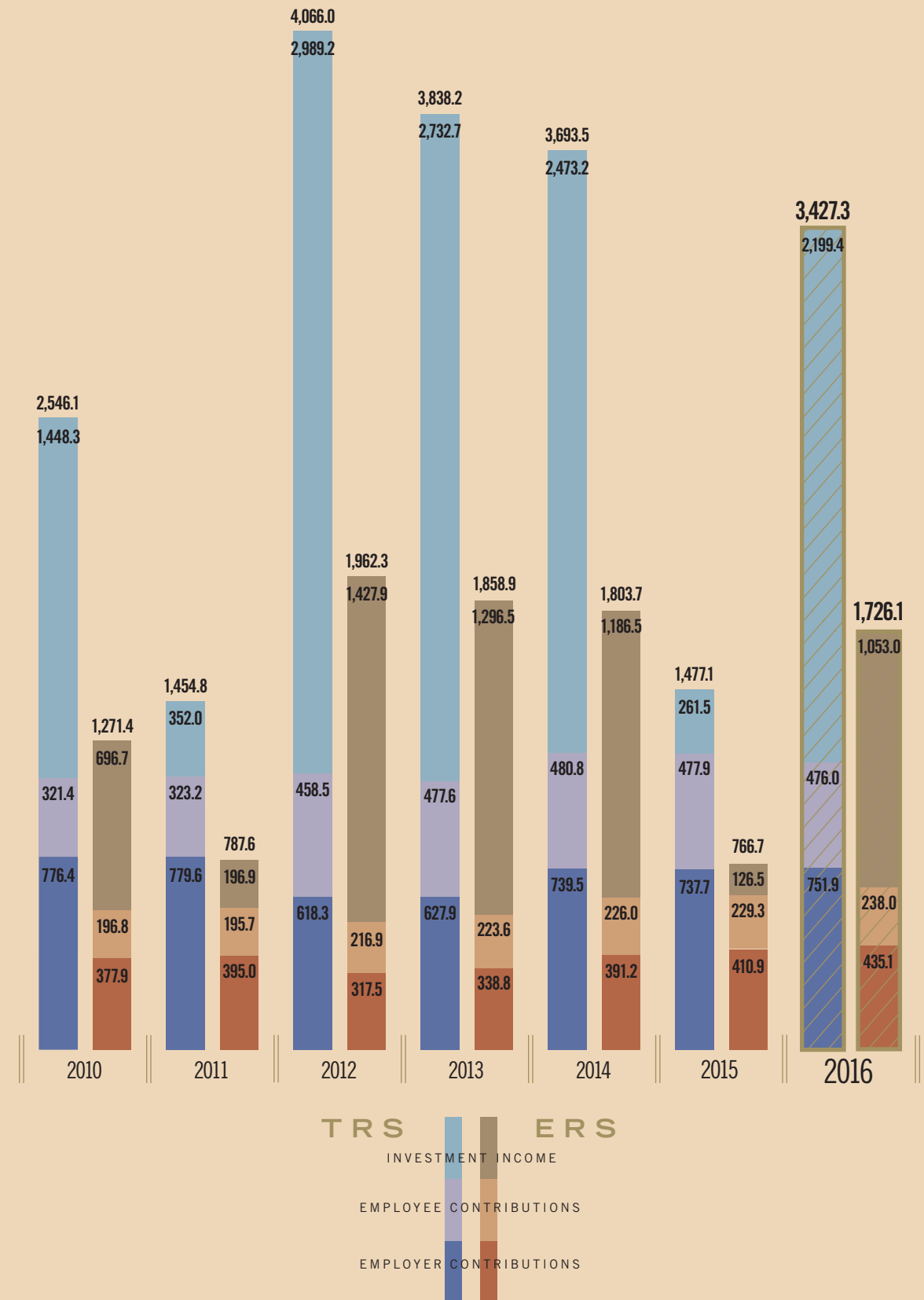
EMPLOYEE
CONTRIBUTIONS



EMPLOYER
CONTRIBUTIONS

7-YEAR HIGHLIGHTS

(DOLLARS IN MILLIONS)





2016 Funds Under Management

AS OF SEPTEMBER 30, 2016 (DOLLARS IN THOUSANDS)

	TOTAL INVESTED ASSETS
Teachers' Retirement System	\$22,638,661
Employees' Retirement System	11,043,903
Judicial Retirement Fund	277,920
Alabama Cultural Resources Preservation Trust Fund	12,566
Alabama Firefighters Annuity and Benefit Fund	134
Division of Wildlife and Freshwater Fisheries	22,500
Alabama Nongame Wildlife Endowment Trust	16
Alabama Underground and Aboveground Storage Tank Trust Fund	29,662
Clerks' and Registrars' Supernumerary Fund	12,281
Alabama Senior Services Trust Fund	40,147
Alabama State Employees' Health Insurance Fund	63,964
Local Government Health Insurance Fund	120,771
PEIRAF-Deferred Compensation Plan (RSA-1)	1,964,540
Public Education Employees' Health Insurance Fund	111,824
Alabama Retired Education Employees' Health Care Trust	1,182,948
Public Employees' Individual Retirement Account Fund	83,943
Alabama Marine Resources Endowment Trust Fund	1,729
Alabama Trust Fund	239,639
Alabama Treasury Fund	251,656
Charlotte Thorn Trust Fund	9,425
County Municipal Trust Fund	120,320
Alabama State Employees' Retired Health Care Trust Fund	149,603
State Docks Pension Plans	17,830

TOTAL INVESTED ASSETS UNDER MANAGEMENT **\$ 38,395,982**

23 FUNDS **==**
\$38.4 BILLION

2016 Investment Highlights

AS OF SEPTEMBER 30, 2016 (DOLLARS IN THOUSANDS)

ASSET ALLOCATION

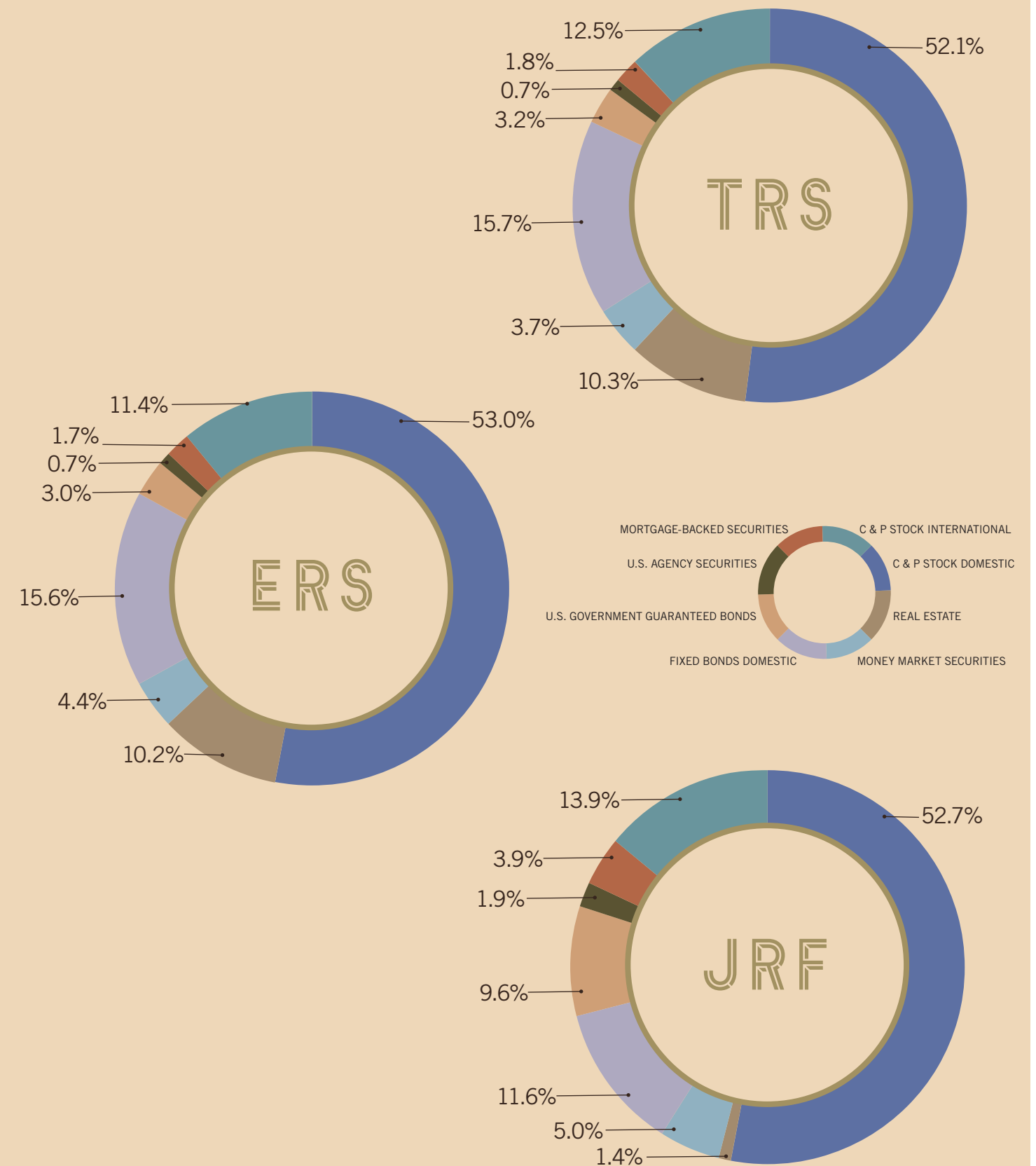


Asset allocation is a strategic long-term decision in the pension investment management process. The RSA is dedicated to preserving the sound financial position it has established over the years through a diversified investment program. The objective of the RSA is to allocate investments in the most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

ANNUALIZED RETURNS



The annualized return was **10.41% for the TRS, 10.22% for the ERS, and 10.94% for the JRF.** These results ranked the RSA funds in the top 36th percentile or better among the State Street Public Funds Universe (greater than \$1 billion) for the one-year period and the top 12th or better percentile for the three- and five-year period.





Teachers' Retirement System

IN 2016, ACTIVE AND RETIRED MEMBERSHIP FROM TRS TOTALED

221,808

The TRS consists of

- 14 UNIVERSITIES**
- 27 POSTSECONDARY INSTITUTIONS**
- 138 K-12 SYSTEMS**
- 30 STATE & MISCELLANEOUS AGENCIES**

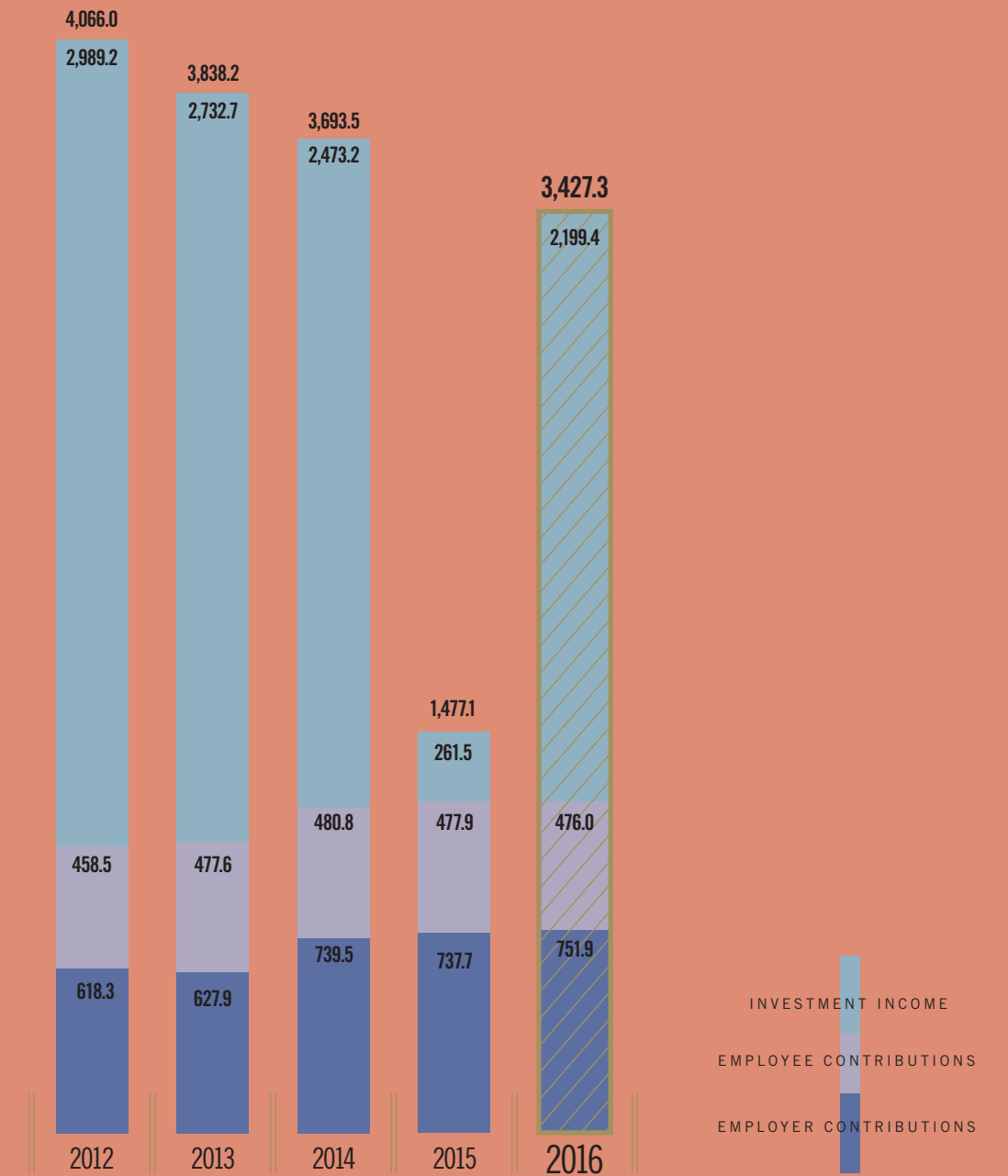
209 UNITS

MEMBERSHIP INCREASED BY **3,593** ↑ IN 2016

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

TRS REVENUE SOURCES

(DOLLARS IN MILLIONS)

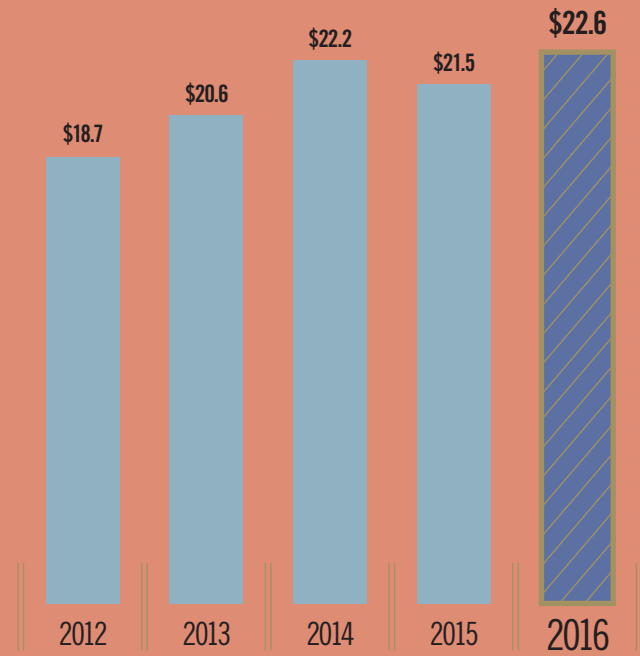


2016



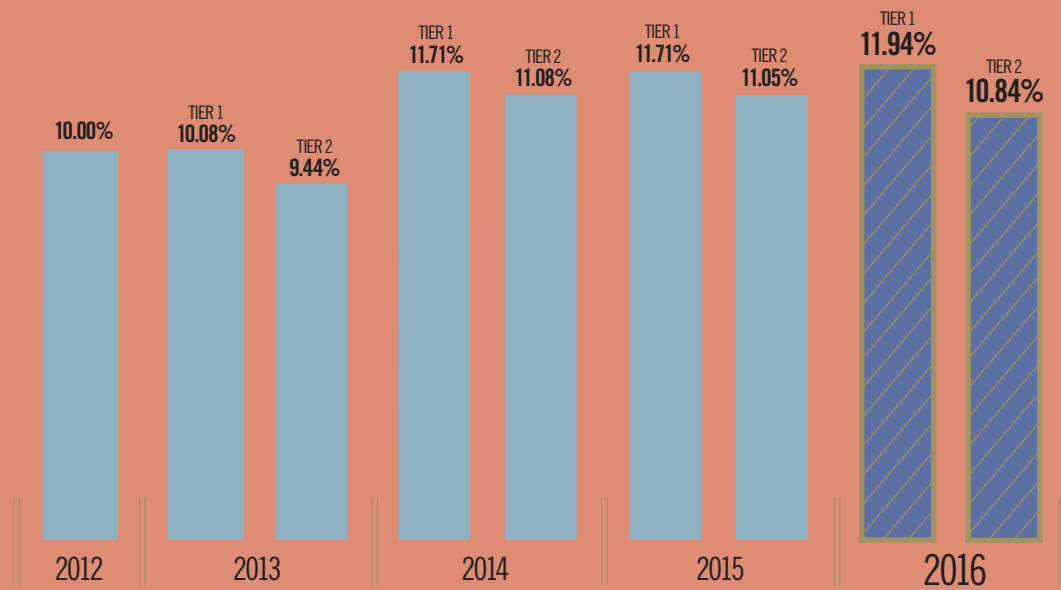
TRS PORTFOLIO AT FAIR VALUE

(DOLLARS IN BILLIONS)



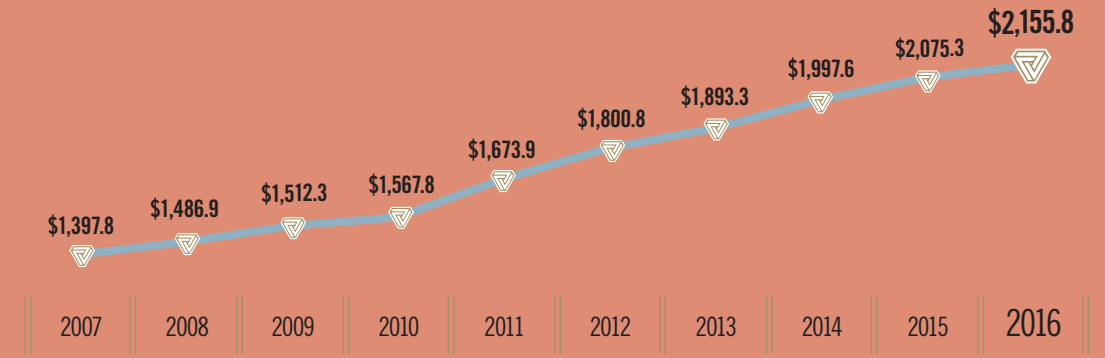
TRS EMPLOYER RATE

(% OF COVERED PAYROLL)



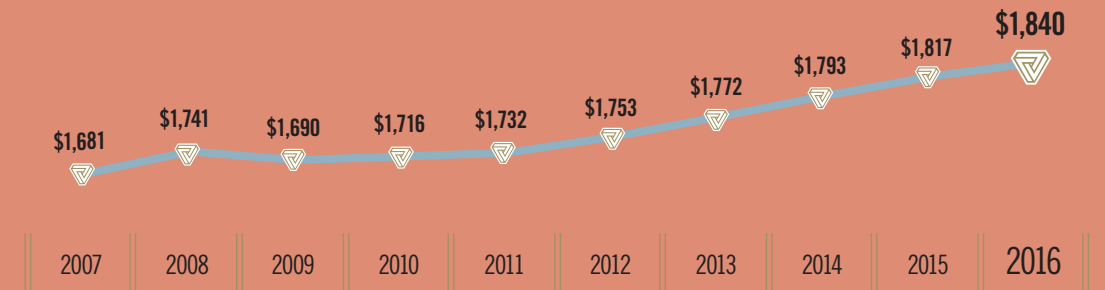
TOTAL ANNUAL PAYMENTS

(DOLLARS IN MILLIONS)



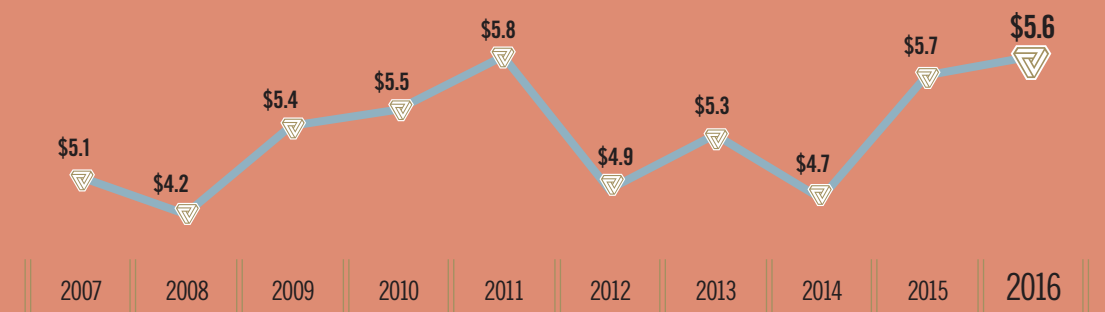
AVERAGE MONTHLY BENEFITS

(IN ACTUAL DOLLARS)



PRERETIREMENT DEATH BENEFITS

(DOLLARS IN MILLIONS)





2016 Teachers' Retirement System Board of Control



Hon. Young Boozer
STATE TREASURER
EX OFFICIO



Mr. Richard Brown
PRINCIPAL POSITION



Dr. Susan Williams Brown
POSTSECONDARY POSITION



Mr. Luther P. Hallmark
SUPERINTENDENT POSITION
CHAIR



Dr. Donald L. Large, Jr.
HIGHER EDUCATION POSITION



Mrs. Susan Lockridge
SUPPORT PERSONNEL POSITION



Dr. Joseph G. Van Matre
HIGHER EDUCATION POSITION



Ms. Charlene McCoy
TEACHER POSITION



Dr. Cathy McNeal
TEACHER POSITION



Ms. Peggy Mobley
RETIRED POSITION



Mr. Bill Newton
ACTING STATE FINANCE DIRECTOR
EX OFFICIO



Mr. Michael Sentance
STATE SUPERINTENDENT OF EDUCATION
EX OFFICIO



Mr. Russell J. Twilley
SUPPORT PERSONNEL POSITION



Mr. Joe Ward
RETIRED POSITION



Mr. John R. Whaley
TEACHER POSITION
VICE CHAIR



Statement of Fiduciary Net Position

AS OF SEPTEMBER 30, 2016, AND 2015

(\$ IN THOUSANDS)

	2016	2015
ASSETS		
CASH	\$ 56,079	\$ 28,969
RECEIVABLES		
Employee Contributions	37,735	38,581
Employer Contributions	61,167	61,317
Investment Sales Receivable	667,019	62,797
Real Estate Investment Receivable	913	957
Dividends and Interest	70,611	68,900
Miscellaneous Receivable	131	115
TOTAL RECEIVABLES	837,576	232,667
INVESTMENTS, AT FAIR VALUE		
Domestic Equity	11,784,393	11,102,304
Domestic Fixed Income	4,853,613	4,888,919
International Equities	2,832,378	2,688,554
Real Estate	2,331,076	2,209,180
Short-Term	837,201	595,981
TOTAL INVESTMENTS	22,638,661	21,484,938
INVESTED SECURITIES LENDING COLLATERAL	1,072,246	1,742,858
PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION	102,722	95,068
TOTAL ASSETS	24,707,284	23,584,500
DEFERRED OUTFLOWS OF RESOURCES	4,002	2,981
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	24,711,286	23,587,481
LIABILITIES		
Accounts Payable and Other Liabilities	8,374	5,302
Federal Withholding Payable	22,501	-
Investment Purchases Payable	647,585	69,309
Other Postemployment Benefits	5,091	4,408
Net Pension Liability	18,891	16,626
Securities Lending Collateral	1,072,246	1,742,858
TOTAL LIABILITIES	1,774,688	1,838,503
DEFERRED INFLOWS OF RESOURCES	300	1,247
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,774,988	1,839,750
NET POSITION RESTRICTED FOR PENSION BENEFITS	\$ 22,936,298	\$ 21,747,731

Statement of Changes in Fiduciary Net Position

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2016, AND 2015

(\$ IN THOUSANDS)

	2016	2015
ADDITIONS		
CONTRIBUTIONS		
Employee	\$ 472,390	\$ 473,903
Employer	751,902	737,671
Transfers from Employees' Retirement System	3,590	4,015
TOTAL CONTRIBUTIONS	1,227,882	1,215,589
INVESTMENT INCOME		
FROM INVESTING ACTIVITIES		
Net Increase/(Decrease) in Fair Value of Investments	1,589,279	(381,400)
Interest and Dividends	607,795	640,910
Total Investment Income from Investing Activities	2,197,074	259,510
Less Investment Expenses, Net	7,731	6,407
Net Investment Income from Investing Activities	2,189,343	253,103
FROM SECURITIES LENDING ACTIVITIES		
Securities Lending Income	15,930	11,512
Less Securities Lending Expenses		
Borrower Rebates	2,825	365
Management Fees	3,044	2,782
Total Securities Lending Expenses	5,869	3,147
Net Income from Securities Lending Activities	10,061	8,365
TOTAL NET INVESTMENT INCOME	2,199,404	261,468
TOTAL ADDITIONS	3,427,286	1,477,057
DEDUCTIONS		
Retirement Allowance Payments	2,155,784	2,075,302
Return of Contributions and Death Benefits	57,130	58,060
Transfers to Employees' Retirement System	6,223	3,432
Administrative Expenses	14,873	15,074
Depreciation	4,709	4,258
TOTAL DEDUCTIONS	2,238,719	2,156,126
NET INCREASE/(DECREASE)	1,188,567	(679,069)
NET POSITION RESTRICTED FOR PENSION BENEFITS		
BEGINNING OF YEAR	21,747,731	22,441,307
ADJUSTMENT FOR APPLICATION OF GASB 68	-	(14,507)
END OF YEAR	\$ 22,936,298	\$ 21,747,731



Employees' Retirement System

IN 2016, ACTIVE AND RETIRED MEMBERSHIP FROM ERS TOTALED

127,539

The ERS consists of

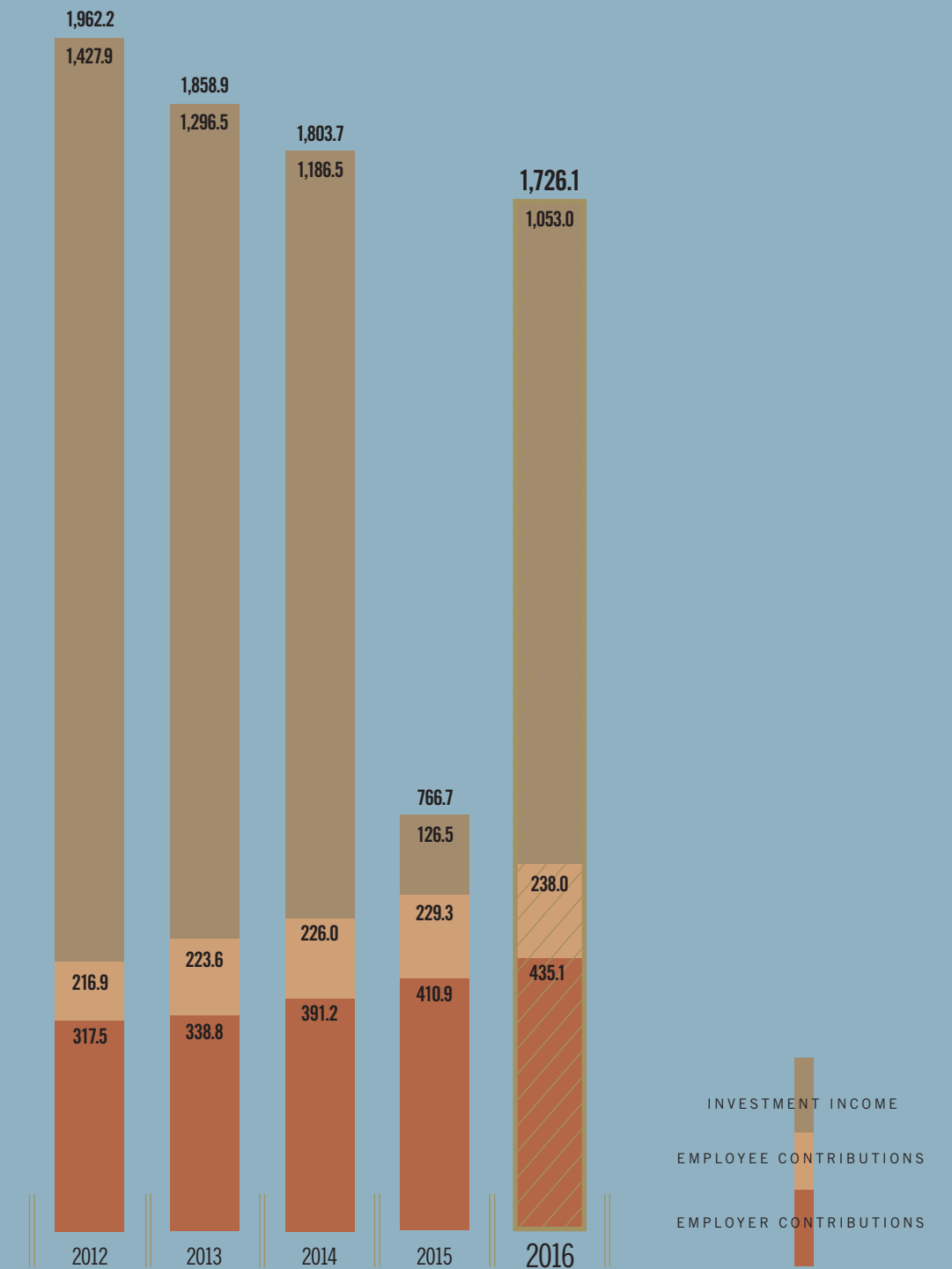
- 127 STATE AGENCIES
- 1,008 65 COUNTIES
- UNITS 296 CITIES
- 520 OTHER PUBLIC ENTITIES

MEMBERSHIP INCREASED BY 1,487 ↑ IN 2016

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.

ERS REVENUE SOURCES

(DOLLARS IN MILLIONS)



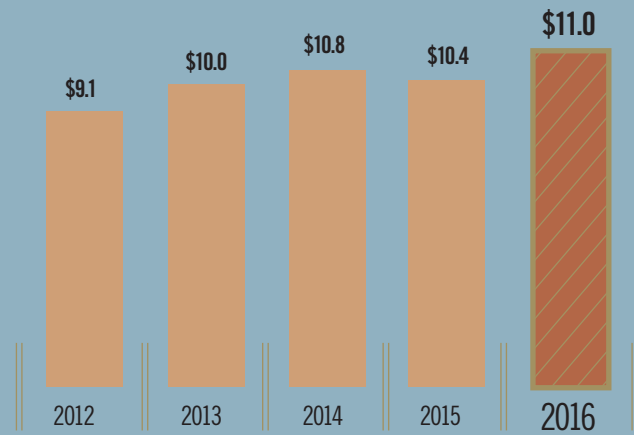
2016



Benefits Administration

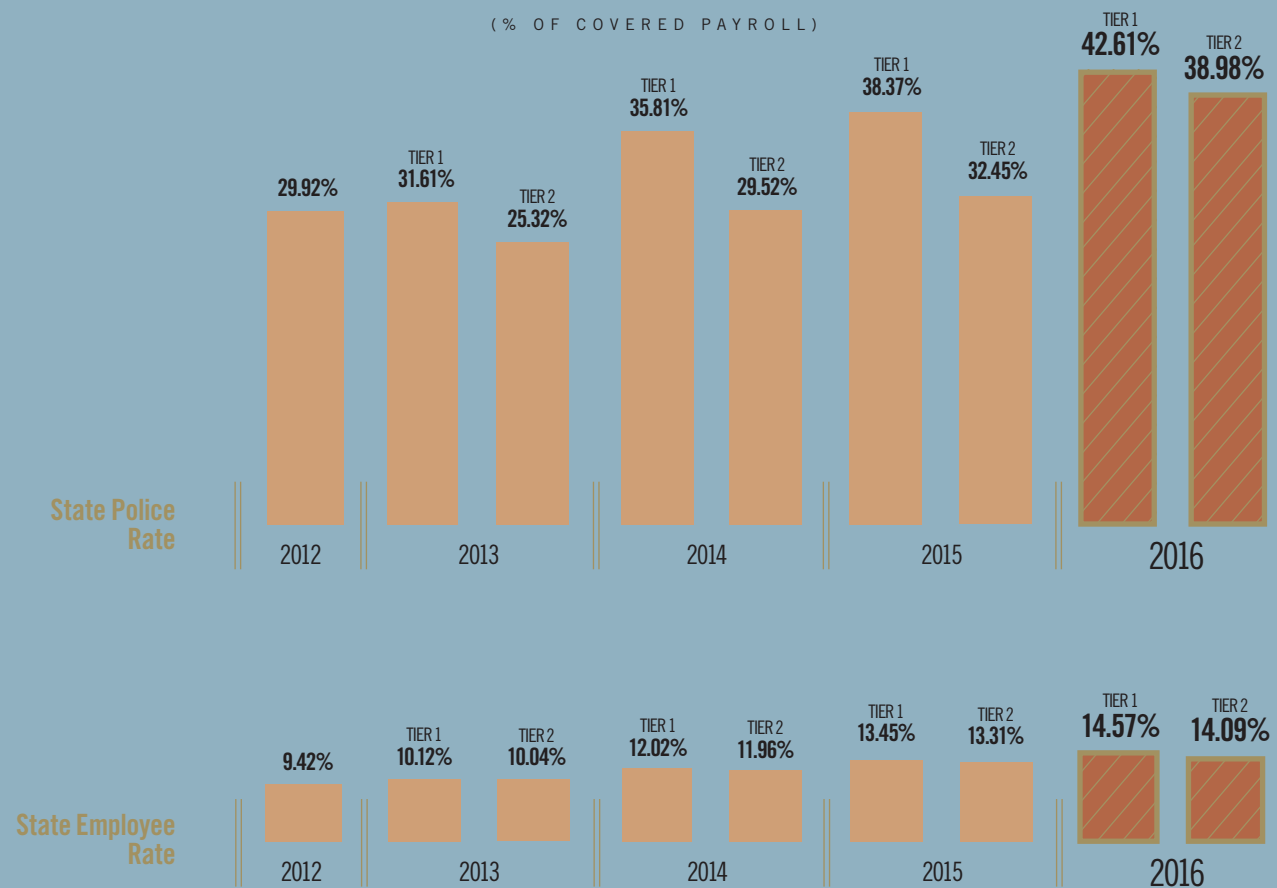
ERS PORTFOLIO AT FAIR VALUE

(DOLLARS IN BILLIONS)



ERS EMPLOYER RATE

(% OF COVERED PAYROLL)



Retirement Benefits



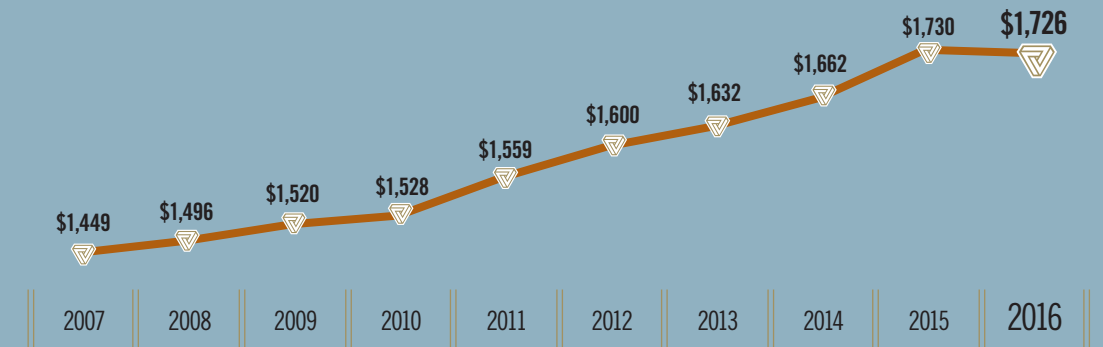
TOTAL ANNUAL PAYMENTS

(DOLLARS IN MILLIONS)



AVERAGE MONTHLY BENEFITS

(IN ACTUAL DOLLARS)



PRERETIREMENT DEATH BENEFITS

(DOLLARS IN MILLIONS)





2016 Employees' Retirement System Board of Control



Hon. Robert Bentley
GOVERNOR
EX OFFICIO, CHAIR



Mr. Christopher Blankenship
GOVERNOR APPOINTEE



Mr. David Bollie
ACTIVE STATE EMPLOYEE POSITION



Hon. Young Boozer
STATE TREASURER
EX OFFICIO



Mr. James Fibbe
RETIRED LOCAL EMPLOYEE POSITION



Mrs. Jackie B. Graham
STATE PERSONNEL DIRECTOR,
EX OFFICIO, VICE CHAIR



Ms. Wendy S. Hester
GOVERNOR APPOINTEE



Mr. Bill Newton
ACTING STATE FINANCE DIRECTOR
EX OFFICIO



Mr. Ben Powell
ACTIVE LOCAL EMPLOYEE POSITION



Mr. James H. Rowell
RETIRED STATE EMPLOYEE POSITION



Mr. Curtis E. Stewart
GOVERNOR APPOINTEE



Mr. Stephen C. Walkley
ACTIVE STATE EMPLOYEE POSITION



Mr. Steven W. Williams
ACTIVE LOCAL EMPLOYEE POSITION



Statement of Fiduciary Net Position

AS OF SEPTEMBER 30, 2016, AND 2015

(\$ IN THOUSANDS)

ASSETS	2016	2015
CASH	\$ 6,823	\$ 3,786
RECEIVABLES		
Employee Contributions	19,678	17,745
Employer Contributions	36,276	33,650
Investment Sales Receivable	326,474	33,822
Real Estate Investment Receivable	457	479
Dividends and Interest	33,153	32,630
Miscellaneous Receivable	133	126
TOTAL RECEIVABLES	416,171	118,452
INVESTMENTS, AT FAIR VALUE		
Domestic Equity	5,850,539	5,405,737
Domestic Fixed Income	2,316,304	2,340,213
International Equities	1,260,074	1,194,073
Real Estate	1,129,763	1,072,930
Short-Term	487,223	426,257
TOTAL INVESTMENTS	11,043,903	10,439,210
INVESTED SECURITIES LENDING COLLATERAL	571,710	754,437
PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION	48,137	46,056
TOTAL ASSETS	12,086,744	11,361,941
DEFERRED OUTFLOWS OF RESOURCES	2,458	896
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	12,089,202	11,362,837
LIABILITIES		
Accounts Payable and Other Liabilities	4,140	2,959
Investment Purchases Payable	316,977	36,413
Other Postemployment Benefits	4,889	4,374
Net Pension Liability	14,146	11,991
Securities Lending Collateral	571,710	754,437
TOTAL LIABILITIES	911,862	810,174
DEFERRED INFLOWS OF RESOURCES	266	759
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	912,128	810,933
NET POSITION RESTRICTED FOR PENSION BENEFITS	\$ 11,177,074	\$ 10,551,904

Statement of Changes in Fiduciary Net Position

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2016, AND 2015

(\$ IN THOUSANDS)

ADDITIONS	2016	2015
CONTRIBUTIONS		
Employee	\$ 231,794	\$ 225,767
Employer	435,098	410,932
Transfers from Teachers' Retirement System	6,223	3,432
Transfers from Judicial Retirement Fund	-	55
TOTAL CONTRIBUTIONS	673,115	640,186
INVESTMENT INCOME		
<i>FROM INVESTING ACTIVITIES</i>		
Net Increase/(Decrease) in Fair Value of Investments	753,836	(186,154)
Interest and Dividends	297,369	311,516
Total Investment Income from Investing Activities	1,051,205	125,362
Less Investment Expenses, Net	2,883	2,771
Net Investment Income from Investing Activities	1,048,322	122,591
<i>FROM SECURITIES LENDING ACTIVITIES</i>		
Securities Lending Income	7,481	5,353
Less Securities Lending Expenses		
Borrower Rebates	1,356	164
Management Fees	1,416	1,290
Total Securities Lending Expenses	2,772	1,454
Net Income from Securities Lending Activities	4,709	3,899
TOTAL NET INVESTMENT INCOME	1,053,031	126,490
TOTAL ADDITIONS	1,726,146	766,676
DEDUCTIONS		
Retirement Allowance Payments	1,038,517	1,018,515
Return of Contributions and Death Benefits	45,768	51,024
Transfers to Teachers' Retirement System	3,590	4,015
Transfers to Judicial Retirement Fund	78	44
Administrative Expenses	11,002	11,136
Depreciation	2,021	2,046
TOTAL DEDUCTIONS	1,100,976	1,086,780
NET INCREASE/(DECREASE)	625,170	(320,104)
NET POSITION RESTRICTED FOR PENSION BENEFITS		
BEGINNING OF YEAR	10,551,904	10,883,952
ADJUSTMENT FOR APPLICATION OF GASB 68	-	(11,944)
END OF YEAR	\$ 11,177,074	\$ 10,551,904



IN 2016, ACTIVE AND RETIRED MEMBERSHIP FROM JRF TOTALED

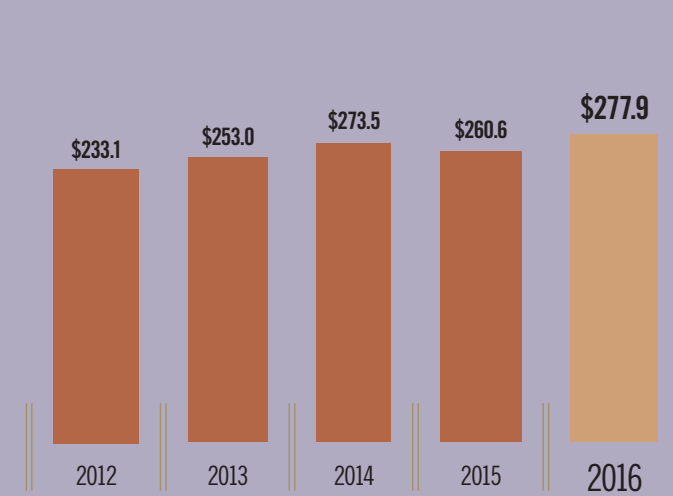
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The Judicial Retirement Fund of Alabama (JRF) provides retirement allowances and other specified benefits for supreme court justices, court of appeals judges, circuit court judges, district court judges, and probate judges.



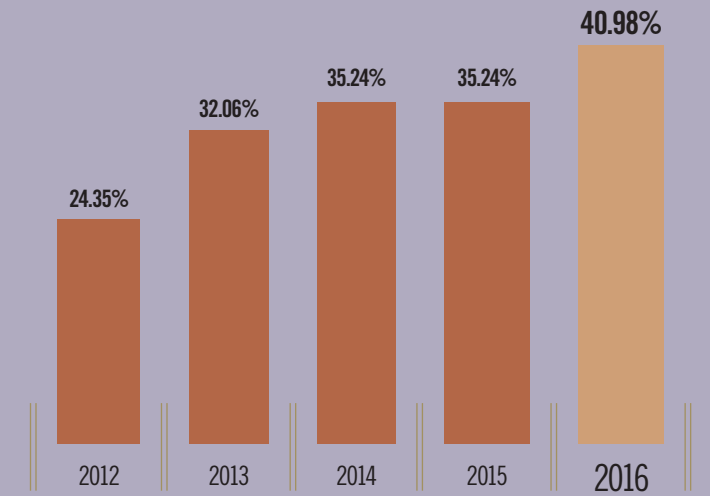
JRF PORTFOLIO AT FAIR VALUE

(DOLLARS IN MILLIONS)



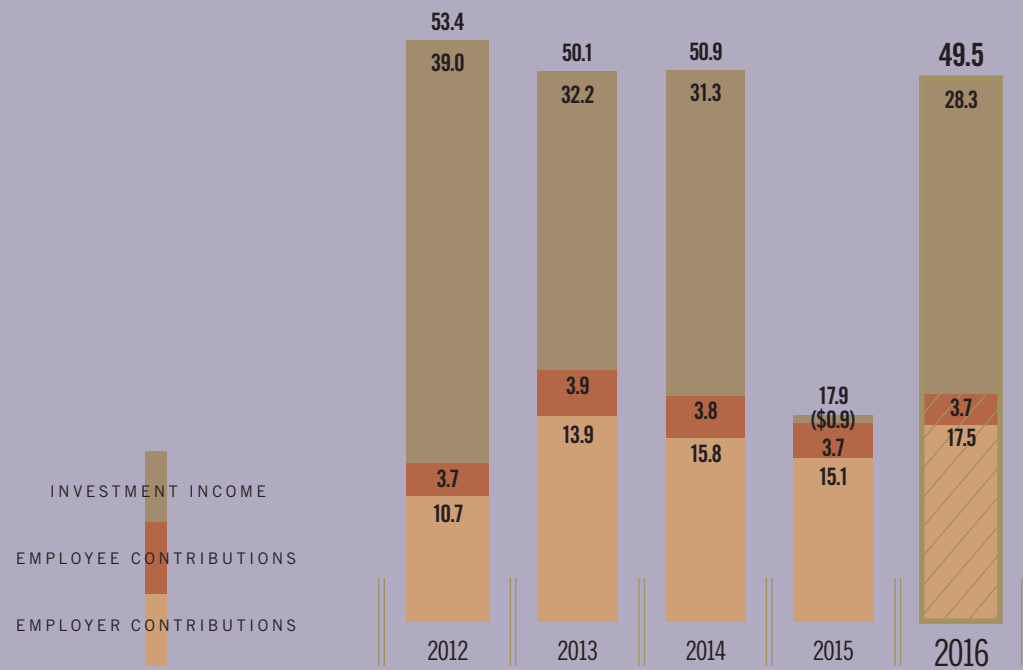
JRF EMPLOYER RATE

(% OF COVERED PAYROLL)



JRF REVENUE SOURCES

(DOLLARS IN MILLIONS)



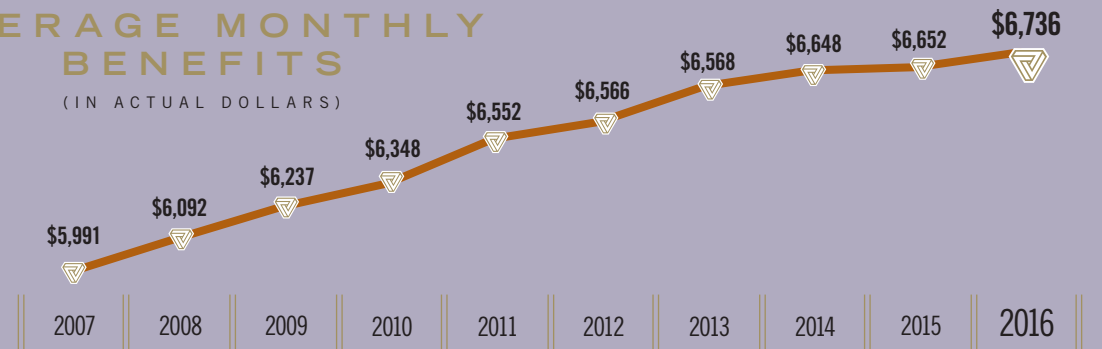
TOTAL ANNUAL PAYMENTS

(DOLLARS IN MILLIONS)



AVERAGE MONTHLY BENEFITS

(IN ACTUAL DOLLARS)





Statement of Fiduciary Net Position

AS OF SEPTEMBER 30, 2016, AND 2015

(\$ IN THOUSANDS)

ASSETS	2016	2015
CASH	\$ 2,393	\$ 2,197
RECEIVABLES		
Employee Contributions	166	169
Employer Contributions	619	532
Investment Sales Receivable	8,050	-
Dividends and Interest	1,001	1,006
TOTAL RECEIVABLES	9,836	1,707
INVESTMENTS, AT FAIR VALUE		
Domestic Equity	146,359	134,526
Domestic Fixed Income	74,968	74,039
International Equities	38,660	36,551
Real Estate	4,009	3,622
Short-Term	13,924	11,909
TOTAL INVESTMENTS	277,920	260,647
INVESTED SECURITIES LENDING COLLATERAL	20,565	32,092
TOTAL ASSETS	310,714	296,643
DEFERRED OUTFLOWS OF RESOURCES	92	17
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	310,806	296,660
LIABILITIES		
Accounts Payable and Other Liabilities	61	25
Investment Purchases Payable	7,772	378
Other Postemployment Benefits	44	39
Net Pension Liability	272	170
Securities Lending Collateral	20,565	32,092
TOTAL LIABILITIES	28,714	32,704
DEFERRED INFLOWS OF RESOURCES	50	82
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	28,764	32,786
NET POSITION RESTRICTED FOR PENSION BENEFITS	\$ 282,042	\$ 263,874

Statement of Changes in Fiduciary Net Position

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2016, AND 2015

(\$ IN THOUSANDS)

ADDITIONS	2016	2015
CONTRIBUTIONS		
Employee	\$ 3,645	\$ 3,639
Employer	17,529	15,077
Transfers from Employees' Retirement System	78	44
TOTAL CONTRIBUTIONS	21,252	18,760
INVESTMENT INCOME		
<i>FROM INVESTING ACTIVITIES</i>		
Net Increase/(Decrease) in Fair Value of Investments	21,302	(7,695)
Interest and Dividends	6,865	6,698
Total Investment Income from Investing Activities	28,167	(997)
Less Investment Expenses, Net	-	-
Net Investment Income from Investing Activities	28,167	(997)
<i>FROM SECURITIES LENDING ACTIVITIES</i>		
Securities Lending Income	258	195
Less Securities Lending Expenses		
Borrower Rebates	58	7
Management Fees	46	47
Total Securities Lending Expenses	104	54
Net Income from Securities Lending Activities	154	141
TOTAL NET INVESTMENT INCOME	28,321	(856)
TOTAL ADDITIONS	49,573	17,904
DEDUCTIONS		
Retirement Allowance Payments	30,893	30,348
Return of Contributions and Death Benefits	115	100
Transfers to Employees' Retirement System	-	55
Administrative Expenses	397	356
TOTAL DEDUCTIONS	31,405	30,859
NET INCREASE/(DECREASE)	18,168	(12,955)
NET POSITION RESTRICTED FOR PENSION BENEFITS		
BEGINNING OF YEAR	263,874	277,096
ADJUSTMENT FOR APPLICATION OF GASB 68	-	(267)
END OF YEAR	\$ 282,042	\$ 263,874

Public Education Employees' Health Insurance Fund

In 2016, PEEHIP total claims expense for active and retired members was

\$1.41

B I L L I O N ,

COVERING 313,432 PEOPLE WITH HOSPITAL/MEDICAL HEALTHCARE BENEFITS.



Statement of Net Position

AS OF SEPTEMBER 30, 2016, AND 2015

	(\$ IN THOUSANDS)	
ASSETS	2016	2015
CURRENT		
Cash	\$ 4,233	\$ 7,848
Premiums Receivable	1,133	1,674
Prescription Drug Rebates Receivable	4,765	6,813
Interest Receivable	20	20
Deposit with Claims-Paying Agent	2,229	9,702
TOTAL CURRENT ASSETS	12,380	26,057
NONCURRENT		
INVESTMENTS, AT FAIR VALUE	111,824	113,276
TOTAL ASSETS	124,204	139,333
DEFERRED OUTFLOWS OF RESOURCES	783	275
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	124,987	139,608
LIABILITIES		
CURRENT		
Accounts Payable	402	386
Due to Other Governments	5,918	8,302
Compensated Absences, Current	18	41
Reported Claims Payable	39,686	27,674
Claims Incurred But Not Reported	50,954	50,943
TOTAL CURRENT LIABILITIES	96,978	87,346
NONCURRENT		
Compensated Absences	419	441
Net Pension Liability	3,233	2,468
Other Postemployment Benefits	1,062	917
TOTAL NONCURRENT LIABILITIES	4,714	3,826
TOTAL LIABILITIES	101,692	91,172
DEFERRED INFLOWS OF RESOURCES	18	185
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	101,710	91,357
NET POSITION-UNRESTRICTED	23,277	48,251
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 124,987	\$ 139,608

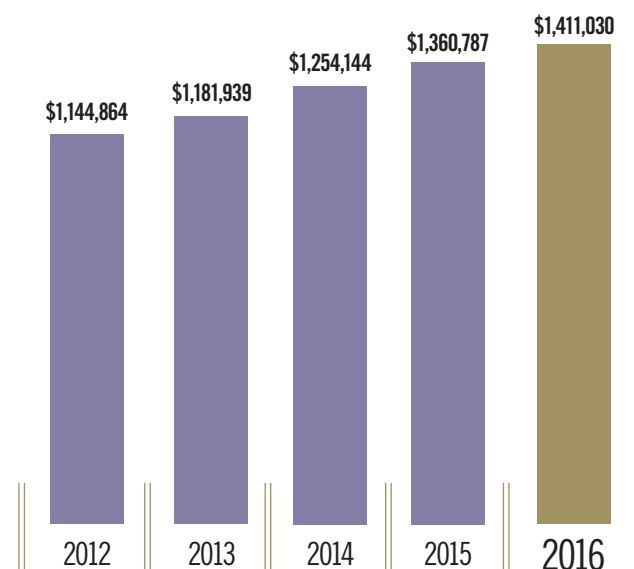
Statement of Revenues, Expenses, & Changes in Fund Net Position

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2016, AND 2015

	(\$ IN THOUSANDS)	
OPERATING REVENUES	2016	2015
Premiums	\$ 875,242	\$ 880,915
TOTAL OPERATING REVENUES	875,242	880,915
OPERATING EXPENSES		
Claims	893,420	871,040
Fees and Assessments	4,355	6,753
Administrative	3,010	2,419
TOTAL OPERATING EXPENSES	900,785	880,212
OPERATING (LOSS)/INCOME	(25,543)	703
INVESTMENT REVENUES		
Interest Income	569	202
TOTAL INVESTMENT REVENUES	569	202
CHANGE IN NET POSITION	(24,974)	905
NET POSITION-UNRESTRICTED		
BEGINNING OF YEAR <i>(as previously reported)</i>	48,251	49,748
ADJUSTMENT FOR APPLICATION OF GASB 68	-	(2,402)
BEGINNING OF YEAR <i>(as adjusted)</i>	48,251	47,346
END OF YEAR	\$ 23,277	\$ 48,251

Total Claims Expense Active and Retired

(\$ IN THOUSANDS)



Separately issued, audited financial statements are available upon request.



Statement of Plan Net Position

AS OF SEPTEMBER 30, 2016, AND 2015

	(\$ IN THOUSANDS)	
ASSETS	2016	2015
RECEIVABLES		
Prescription Drug Rebates	\$ 13,763	\$ 14,479
Interest and Dividends	4,337	4,157
Investment Sales Receivable	29	3
Employer Group Waiver Plan (EGWP)	78,828	67,506
TOTAL RECEIVABLES	96,957	86,145
DEPOSIT WITH CLAIMS-PAYING AGENT	2,491	11,116
INVESTMENTS, AT FAIR VALUE		
Commercial Paper	5,000	22,997
Money Market Funds	34,916	17,456
U.S. Government Guaranteed Bonds	118,648	115,062
U.S. Agency Securities	25,526	29,064
Mortgage-Backed Securities	64,257	60,716
Corporate Bonds	182,005	168,384
International Securities	108,376	105,250
Common Stocks	640,079	574,813
Preferred Stocks	4,141	3,803
TOTAL INVESTMENTS	1,182,948	1,097,545
INVESTED SECURITIES LENDING COLLATERAL	83,253	78,299
TOTAL ASSETS	1,365,649	1,273,105
LIABILITIES		
Reported Claims Payable	14,916	10,526
Investment Purchases Payable	274	1,982
Due to Other Governments	1,078	1,594
Claims Incurred But Not Reported	25,928	26,312
Securities Lending Collateral	83,253	78,299
TOTAL LIABILITIES	125,449	118,713
NET POSITION RESTRICTED FOR OTHER POSTEMPLOYMENT BENEFITS	\$ 1,240,200	\$ 1,154,392

Statement of Changes in Plan Net Position

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2016, AND 2015

	(\$ IN THOUSANDS)	
ADDITIONS	2016	2015
CONTRIBUTIONS		
Employee	\$ 119,840	\$ 106,776
Employer	305,865	271,634
Employer Group Waiver Plan (EGWP)	60,726	55,848
TOTAL CONTRIBUTIONS	486,431	434,258
INVESTMENT INCOME		
FROM INVESTING ACTIVITIES		
Net Increase/(Decrease) in Fair Value of Investments	88,960	(25,372)
Interest and Dividends	29,742	28,736
Total Investment Income from Investing Activities	118,702	3,364
FROM SECURITIES LENDING ACTIVITIES		
Securities Lending Income	936	883
Less Securities Lending Expenses		
Borrower Rebates	143	15
Management Fees	178	221
Total Securities Lending Expenses	321	236
Income from Securities Lending Activities, Net	615	647
TOTAL INVESTMENT INCOME	119,317	4,011
TOTAL ADDITIONS	605,748	438,269
DEDUCTIONS		
BENEFITS	517,610	489,747
FEES AND ASSESSMENTS	712	1,268
ADMINISTRATIVE EXPENSES	1,618	1,263
TOTAL DEDUCTIONS	519,940	492,278
CHANGE IN NET POSITION	85,808	(54,009)
NET POSITION RESTRICTED FOR OTHER POSTEMPLOYMENT BENEFITS		
BEGINNING OF YEAR	1,154,392	1,208,401
END OF YEAR	\$ 1,240,200	\$ 1,154,392



Public Employees' Individual Retirement Account Fund

RSA-1 has net asset value of

\$1.4
BILLION

in its bond investment fund and

\$561.7
MILLION

in its stock investment fund.

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.

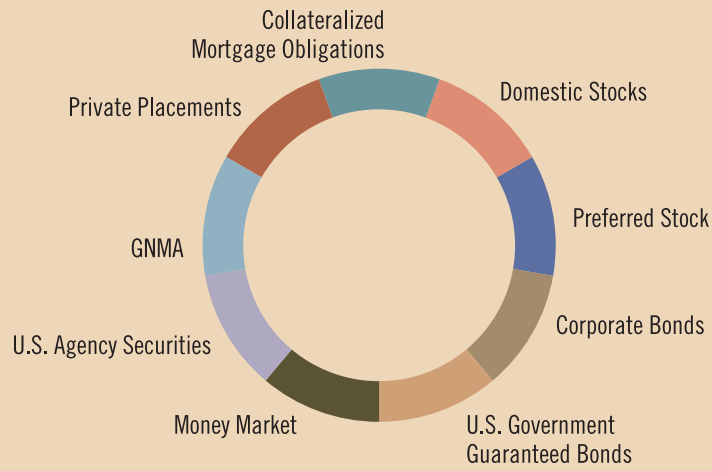
RSA-1 HIGHLIGHTS

12-MONTH PERIOD ENDING	INCOME YIELD (IN %)	MARKET VALUE CHANGE (IN %)	TOTAL RETURN (IN %)	TOTAL NET ASSET VALUE (\$ IN MILLIONS)	PARTICIPATING MEMBERS
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
SEPTEMBER 30, 2014 (FIXED INVESTMENT OPTION)	3.60	0.56	4.17	1,313.6	34,059
SEPTEMBER 30, 2014 (STOCK INVESTMENT OPTION)	2.14	17.53	19.67	476.6	18,068
SEPTEMBER 30, 2015 (FIXED INVESTMENT OPTION)	3.42	-0.50	2.91	1,328.7	34,226
SEPTEMBER 30, 2015 (STOCK INVESTMENT OPTION)	2.14	-2.76	-0.61	491.4	19,188
SEPTEMBER 30, 2015 (STIF INVESTMENT OPTION)	0.07	0.00	0.07	13.9	383
SEPTEMBER 30, 2016 (FIXED INVESTMENT OPTION)	3.48	2.61	6.09	1,372.5	34,095
SEPTEMBER 30, 2016 (STOCK INVESTMENT OPTION)	2.30	13.09	15.39	561.7	19,708
SEPTEMBER 30, 2016 (STIF INVESTMENT OPTION)	0.41	0.00	0.41	40.8	1,127

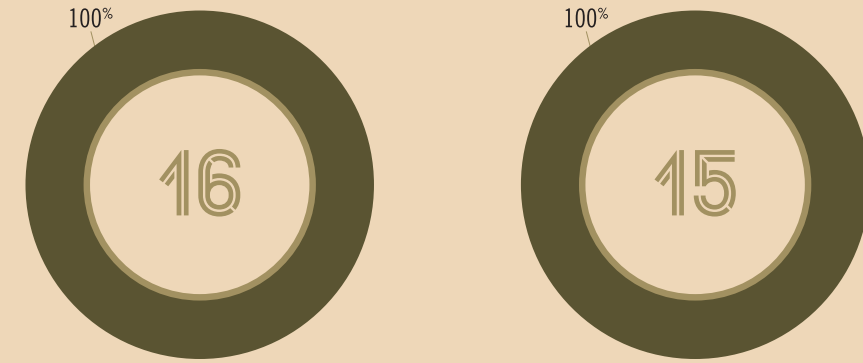
PEIRAF DEDUCTIBLE EMPLOYEE CONTRIBUTION PLAN

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

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



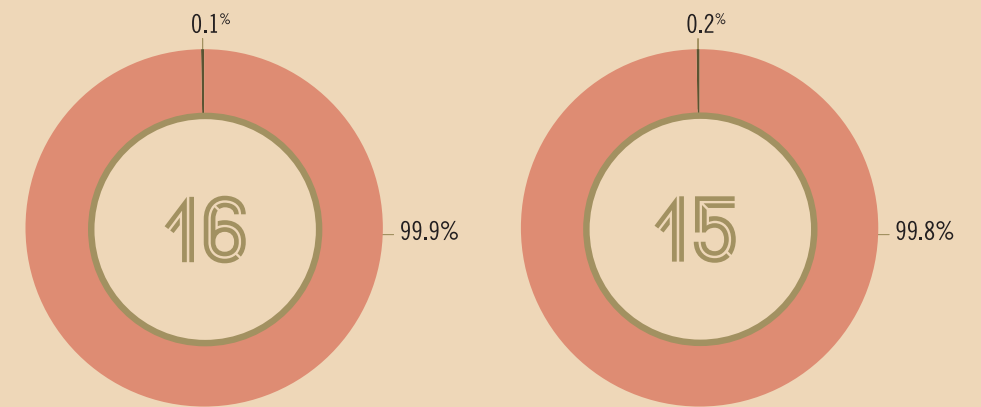
RSA-1 / SHORT-TERM INVESTMENT



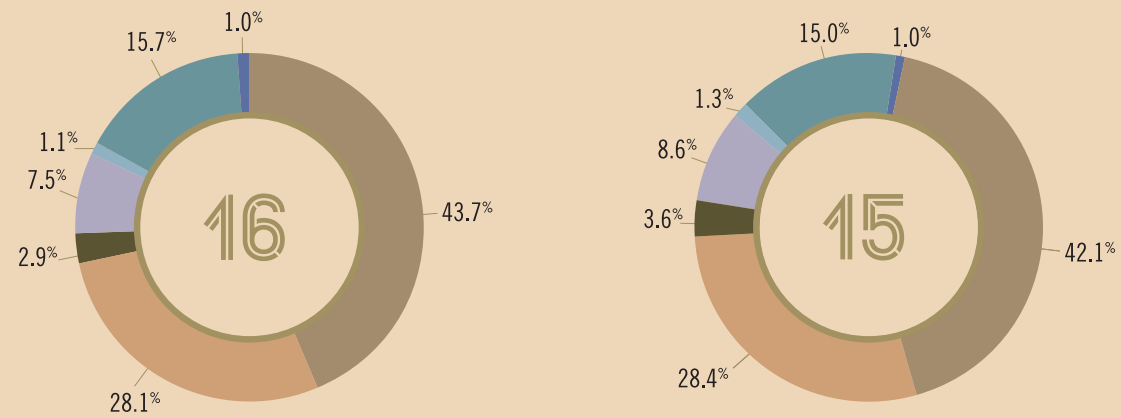
RSA-1 and PEIRAF ALLOCATIONS

All numbers as of September 30, 2016, and September 30, 2015

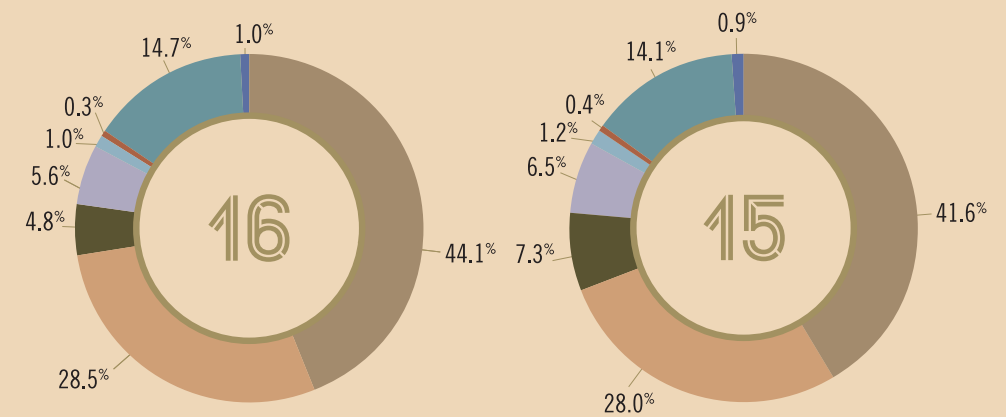
RSA-1 / INVESTMENT ALLOCATION STOCK FUND



PEIRAF / INVESTMENT ALLOCATION



RSA-1 / INVESTMENT ALLOCATION BOND FUND




Statement of Fiduciary Net Position

AS OF SEPTEMBER 30, 2016, AND 2015

	IN ACTUAL DOLLARS	
ASSETS	2016	2015
CASH	\$ 1,001	\$ 1
INTEREST RECEIVABLE	713,037	723,230
INVESTMENTS, AT FAIR VALUE		
Commercial Paper	–	999,383
Money Market and Mutual Funds	2,397,885	1,976,999
U.S. Government Guaranteed Bonds	23,570,007	23,636,937
U.S. Agency Securities	6,333,131	7,168,064
Mortgage-Backed Securities	14,084,916	13,614,274
Corporate Bonds	36,700,832	34,973,580
Preferred Stock	856,473	786,586
TOTAL INVESTMENTS	83,943,244	83,155,823
INVESTED SECURITIES LENDING COLLATERAL	4,642,453	3,358,214
TOTAL ASSETS	89,299,735	87,237,268
LIABILITIES		
Investment Purchases Payable	–	427,452
Securities Lending Collateral	4,642,453	3,358,214
TOTAL LIABILITIES	4,642,453	3,785,666
NET POSITION RESTRICTED FOR PEIRAF BENEFITS	\$ 84,657,282	\$ 83,451,602

Statement of Changes in Fiduciary Net Position

AS OF SEPTEMBER 30, 2016, AND 2015

	IN ACTUAL DOLLARS	
ADDITIONS	2016	2015
INVESTMENT INCOME		
<i>FROM INVESTING ACTIVITIES</i>		
Interest and Dividends	\$2,987,735	\$2,991,788
Net Increase/(Decrease) in Fair Value of Investments	1,782,642	(569,735)
Total Investment Income from Investing Activities	4,770,377	2,422,053
<i>FROM SECURITIES LENDING ACTIVITIES</i>		
Securities Lending Income	84,288	67,277
Less Securities Lending Expenses		
Borrower Rebates	34,085	8,261
Management Fees	11,467	15,110
Total Securities Lending Expenses	45,552	23,371
Income from Securities Lending Activities, Net	38,736	43,906
NET INVESTMENT INCOME	4,809,113	2,465,959
TOTAL ADDITIONS	4,809,113	2,465,959
DEDUCTIONS		
Normal Distributions	3,603,433	3,975,269
TOTAL DEDUCTIONS	3,603,433	3,975,269
CHANGE IN NET POSITION	1,205,680	(1,509,310)
NET POSITION RESTRICTED FOR PEIRAF BENEFITS		
BEGINNING OF YEAR	83,451,602	84,960,912
END OF YEAR	\$ 84,657,282	\$ 83,451,602


Statement of Fiduciary Net Position

AS OF SEPTEMBER 30, 2016, AND 2015

	IN ACTUAL DOLLARS	
ASSETS	2016	2015
CASH	\$ 207,915	\$ 5
INVESTMENT SALES RECEIVABLE	32,296	–
INTEREST AND DIVIDENDS RECEIVABLE	10,525,597	10,491,464
INVESTMENTS, AT FAIR VALUE		
Commercial Paper	15,999,727	36,994,033
Money Market Funds	90,824,477	74,265,930
U.S. Government Guaranteed Bonds	388,237,903	370,702,254
U.S. Agency Securities	76,051,455	86,754,968
Mortgage-Backed Securities	213,671,730	202,917,463
Corporate Bonds	601,134,535	551,892,527
Private Placements	4,564,648	4,672,272
Common and Preferred Stocks	574,055,233	502,364,025
TOTAL INVESTMENTS	1,964,539,708	1,830,563,472
INVESTED SECURITIES LENDING COLLATERAL	159,267,125	124,828,997
TOTAL ASSETS	2,134,572,641	1,965,883,938
LIABILITIES		
Accounts Payable	–	220
Investment Purchases Payable	46,826	6,818,261
Securities Lending Collateral	159,267,125	124,828,997
TOTAL LIABILITIES	159,313,951	131,647,478
NET POSITION RESTRICTED FOR DEFERRED COMPENSATION BENEFITS	\$ 1,975,258,690	\$ 1,834,236,460

Statement of Changes in Fiduciary Net Position

AS OF SEPTEMBER 30, 2016, AND 2015

	IN ACTUAL DOLLARS	
ADDITIONS	2016	2015
MEMBER CONTRIBUTIONS	\$131,841,115	\$142,674,343
INVESTMENT INCOME		
<i>FROM INVESTING ACTIVITIES</i>		
Interest and Dividends	56,760,752	54,321,044
Net Increase/(Decrease) in Fair Value of Investments	96,630,403	(21,288,721)
Total Investment Income from Investing Activities	153,391,155	33,032,323
<i>FROM SECURITIES LENDING ACTIVITIES</i>		
Securities Lending Income	1,901,093	1,712,237
Less Securities Lending Expenses		
Borrower Rebates	456,889	64,647
Management Fees	340,340	419,971
Total Securities Lending Expenses	797,229	484,618
Income from Securities Lending Activities, Net	1,103,864	1,227,619
NET INVESTMENT INCOME	154,495,019	34,259,942
TOTAL ADDITIONS	286,336,134	176,934,285
DEDUCTIONS		
Normal Distributions	144,751,596	132,548,655
Emergency Withdrawals	562,308	430,311
TOTAL DEDUCTIONS	145,313,904	132,978,966
CHANGE IN NET POSITION	141,022,230	43,955,319
NET POSITION RESTRICTED FOR DEFERRED COMPENSATION BENEFITS		
BEGINNING OF YEAR	1,834,236,460	1,790,281,141
END OF YEAR	\$ 1,975,258,690	\$ 1,834,236,460



INVESTMENTS 2016

THIS YEAR'S ANNUALIZED RETURN WAS

10.41% FOR THE TRS

10.22% FOR THE ERS

10.94% FOR THE JRF



The RSA funds ranked in the top 36th percentile or better among the State Street Public Funds Universe (greater than \$1 billion) for the one-year period and the top 12th or better percentile for the three- and five-year periods.

RSA INVESTMENT STAFF



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CASH MANAGEMENT / OPERATIONS



Adam Rogers, M.A., CFA
SENIOR EQUITY ANALYST

EQUITY ACTIVITY

Looking at equity returns at the end of the year would give you the sense that all is well in the capital markets. As we all know, it was a very bumpy ride to get to where we are now. The economy has continued to expand in fits and starts and at a slower run rate than the longer-term trend line would suggest. Earnings expectations were continuously reined in as companies struggled with the slower growth trajectory that has lingered post the “Great Recession.” After a market multiple decline late last fiscal year following the Chinese yuan devaluation, price-to-earnings multiples expanded roughly two points over the course of the current fiscal year, accounting for a large part of domestic equity market returns.

Stock picking in this environment has been an arduous task. When it seemed that the run for the go-go growth stocks was over early in the calendar year, they were able to mount a sizable comeback. And when it seemed that the energy patch was pretty much left for dead, the lowest-quality companies in the sector that did not go out of business were the best performers. Having a value bias in this market has been quite trying. There has been a fair amount of merger and acquisition activity, as companies are looking for growth by whatever means necessary. Companies have also continued to use share buybacks as a tool to propel earnings growth and their shares higher.

Investor sentiment is still fairly dour, which has been a theme for several years. Looking at fund flows, the exodus from stocks has continued unabated. As of this writing, investors have withdrawn nearly \$150 billion from equity mutual funds and ETFs over the past year. The continuous barrage of macroevents has kept investors on edge since the close brush with economic death in 2008 and 2009. This year, we dealt with the prospect of a big China slowdown, then Brexit, and finally great consternation around the national election cycle. It is a certainty that we will have new worries to deal with this year, but at least investors have been well conditioned from recent events.

With that said, the RSA has continued to put some hedges in place to dampen downside volatility in equity markets. We have systematically rolled out put-spread collars at various strikes and maturities that give 5% downside protection. There is a cost associated with these, as protection is not free, but we feel it prudent to have these trades given our substantial equity market exposure.

For the year, the RSA domestic equity portfolios returned 15.13%, 14.98%, and 15.56% for TRS, ERS, and JRF funds, respectively. Developed international equity returns were moderate compared to domestic equity returns, while emerging markets nicely outperformed both. Total international equity returns were 8.93% for TRS, 9.03% for ERS, and 9.22% for JRF. The combined total returns for the overall equity portfolios were 13.88%, 13.85%, and 14.19% for TRS, ERS, and JRF, respectively. Three-, five-, and 10-year annualized global equity returns were 8.45%, 14.14%, and 6.23% for TRS, 8.51%, 14.16%, and 6.27% for ERS, and 8.87%, 14.58%, and 6.59% for JRF, respectively. ■

FIXED INCOME ACTIVITY

At the beginning of fiscal year 2016, risk assets were in retreat, as the Federal Open Market Committee had recently pushed out its initial rate hike once again, citing its concerns about global weakness. Policymakers also stated that these developments were likely to put further downward pressure on inflation in the near term. Treasury securities performed well in this environment, while investment-grade and high-yield spreads expanded to their widest levels since the summer of 2012. Risk appetite returned during the month of October as weak economic data provided cover for the continued accommodative policies of global central banks. The European Central Bank also relayed that it would extend its purchases of securities until a sustained increase in the inflation outlook was achieved. Within credit, higher beta sectors outperformed treasury returns by over 300 basis points during this time.

This phenomenon proved to be short-lived as hawkish FOMC statements and a stronger-than-expected jobs report resulted in a short-term increase in interest rates. While treasury securities were able to recover some of their losses during the latter part of November, the stage was clearly being set for the Federal Reserve to slowly move on from the ultralow interest rate policy of the last several years. By the end of the month, the probability of an interest rate move at the December meeting had risen to 75%. Spread product returns were a mixed bag during this period as agency spreads surged higher from a historically low starting point, while cash flow-producing sectors like telecom and cable tightened. The trend in energy and materials was quite the opposite, as spreads trended higher as oil prices were unable to find a bottom.

The Fed did in fact pull the trigger and raise rates by 25bps in December, its first increase in nearly 10 years. At the time, Fed Chair Janet Yellen and other FOMC members forecast that an additional four interest rate moves were possible in the coming year. This notion was quickly dismissed by investors as further declines in commodity prices reminded them of the fragile state of the global economy. Market conditions improved somewhat by the end of January as the ECB backstop was reinforced and the Bank of Japan lowered rates into negative territory. Risk assets performed poorly, with high-yield debt beholden to the troubles within the energy and mining sectors. Investment-grade credit was somehow able to post a slightly positive return, as the large drop in treasury yields helped offset spread widening. Despite the significant volatility experienced during January, corporations were able to print approximately \$125 billion of new supply as the hunt for yield in a low-rate environment continued.

Credit markets and risk assets began to stabilize in mid-February as it became evident that oil had bottomed and accommodative policies employed by global central banks would continue for the foreseeable future. The dividend cuts and reduction in capital expenditures taken by the energy-related and mining names soothed credit investors' liquidity fears. These actions, coupled with the inclusion of corporate debt into the ECB's asset-purchase program, resulted in a reduction of credit risk

FIXED INCOME ACTIVITY FISCAL YEAR 2016, CONT.

across the globe. Investment grade corporate spreads tightened approximately 40bps across the curve during March, providing the asset class with its strongest relative performance since 2011. High-yield debt fared even better and this rally in corporate credit continued into April, leaving high grade spread levels 70bps off the wides of mid-February. Primary market activity surged in May with approximately \$175 billion of investment-grade supply as issuers exited the earnings blackout period. This funneled through to high-yield companies as well, with smaller names regaining access to the new issue market.

One of the underlying themes of the fiscal year has been global central banks' attempt to boost growth and inflation by purchasing financial assets, intervening in currency markets, and setting negative interest rates. The effect of these policies during the spring and early summer was a substantial increase in the value and the elimination of yield in global fixed income assets. At one point, there was north of \$8 trillion in sovereign debt carrying negative yields. The lack of growth and pricing power particularly in Europe and Japan put a lid on any upward momentum in rates. Safe-haven assets received another boost during this period as volatility picked up around Britain's exit from the European Union. At home, softer-than-expected growth in the first quarter coupled with a disastrous May employment report squashed the potential for a June rate hike. As expected, the FOMC left short-term interest rates unchanged and forecasted that the federal funds rate longer term will likely be materially lower.

While the Brexit referendum provided significant volatility in late June, a positive tone for risk assets returned the following month. A better-than-expected jobs number and a more confident economic outlook provided by the Fed in its July meeting, moved capital flows back into corporate debt. High-beta sectors outperformed as investors continued to reach for yield down the quality spectrum. Over the next several weeks, risk assets slowly moved higher and the case for an increase in the federal funds rate began to strengthen once again.

Unsurprisingly, the last month of the fiscal year experienced heightened volatility created by global monetary policymakers. In early September, traders were caught off guard by the lack of discussion surrounding the extension of the European Central Bank's asset-purchase plan. This omission during a period of tepid growth led to a multi-day selloff in government-related assets. Furthering the move was speculation that fiscal stimulus will ultimately be needed as the monetary decision-makers were running short of options. The Bank of Japan quickly extinguished that fire by targeting a zero-returning 10-year JGB. The FOMC also lowered its projections for future interest rate increases meaningfully at its September meeting. Fixed income returns were relatively muted despite the various actions of global central banks. Quality and safety were the key factors in determining performance in the previous fiscal year. Investors' never-ending quest for yield and their reliance on policymakers to add risk during turbulent times paid huge dividends this year.

For the fiscal year, the total annual returns for the public domestic fixed income portfolios were 6.13% for the TRS, 6.10% for the ERS and 5.73% for the JRF. The five-year annualized returns were 3.93% for the TRS, 3.92% for the ERS and 3.76% for the JRF. The ten-year annualized returns were 5.60% for the TRS, 5.60% for the ERS and 5.53% for the JRF. ■

INVESTMENT RETURNS / 2016

For the period ended September 30, 2016 (In %)

	Net Asset Value	1-Year	3-Years	5-Years	10-Years
TOTAL PORTFOLIO					
TRS	22,727,913,124	10.41	7.75	11.21	5.56
ERS	11,086,172,551	10.22	7.65	11.03	5.34
JRF	279,186,683	10.94	7.46	10.99	6.28

TOTAL DOMESTIC EQUITY

TRS	11,358,368,492	15.13	10.47	16.00	7.35
ERS	5,577,495,209	14.98	10.41	15.91	7.32
JRF	146,148,927	15.56	11.02	16.52	7.60

DOMESTIC EQUITY BENCHMARKS

S&P 500		15.43	11.16	16.37	7.24
Midcap 400		15.33	9.35	16.50	9.11
Smallcap 600		18.12	9.04	17.86	8.71

TOTAL INTERNATIONAL EQUITY

TRS	2,848,472,717	8.93	1.09	7.62	2.42
ERS	1,266,987,740	9.03	1.09	7.59	2.43
JRF	38,865,874	9.22	1.09	7.56	N/A

INTERNATIONAL EQUITY BENCHMARKS

Morgan Stanley EAFE		6.52	0.48	7.39	1.82
MSCI Emerging Markets		16.78	-0.56	3.03	3.94

TOTAL FIXED INCOME AND ALTERNATIVES

TRS	7,684,456,491	5.21	6.98	7.33	4.79
ERS	3,754,682,232	5.07	6.84	7.29	4.41
JRF	80,249,364	6.18	4.61	3.96	5.09

FIXED INCOME BENCHMARKS

Barclays		5.19	4.03	3.08	4.79
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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		
	2016	2015	2014	2016	2015	2014
0 TO <5	25	24	24	25	24	22
5 TO <10	13	15	17	12	14	17
10 TO <30	61	60	58	62	61	60
= OR >30	1	1	1	1	1	1

QUALITY EVALUATION

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

QUALITY EVALUATION (IN %)

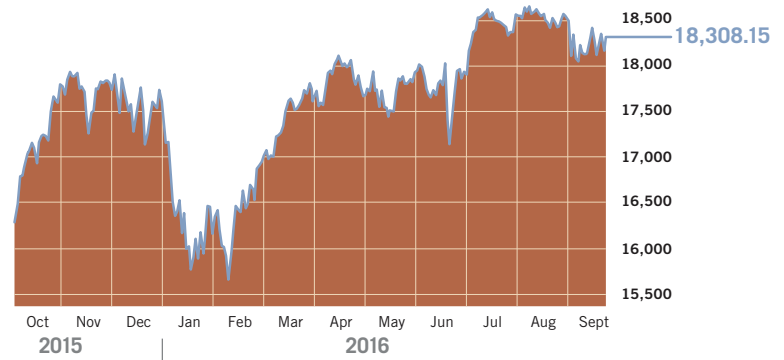
Rating	TRS			ERS		
	2016	2015	2014	2016	2015	2014
AAA	27	26	26	26	25	25
AA	1	1	2	1	1	1
A	7	8	8	7	8	8
BAA	13	14	15	12	13	14
BA	2	1	1	2	1	1
B	1	0	0	1	0	0
NOT RATED	49	50	48	51	52	51

2016 BROKER COMMISSIONS PAID

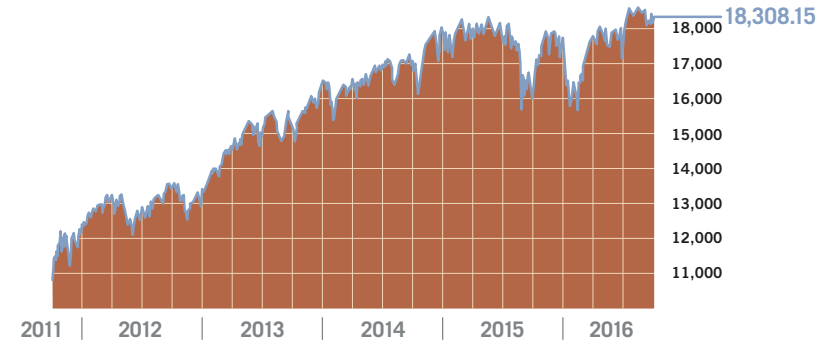
For Fiscal Year Ended September 30, 2016

	COMMISSIONS STOCK TRANSACTIONS (\$ IN THOUSANDS)	FIXED SECURITIES COMMISSIONS (\$ IN THOUSANDS)
BANK OF AMERICA / MERRILL LYNCH	272	133
BARCLAYS	322	46
BERNSTEIN	306	
BTIG	62	
CANTOR FITZGERALD		2
CITIGROUP	473	124
CONVERGEX	344	
CORNERSTONE	64	
COWEN	71	
CREDIT SUISSE	36	9
DEUTSCHE BANK	306	30
GOLDMAN SACHS	42	102
HARBOR FINANCIAL	20	
HOWARD WEIL	49	
IBERIA	7	
ISI	446	
ISSUER DESIGNATED		245
JEFFERIES	142	
JP MORGAN CHASE	75	131
KEYBANC CAPITAL MARKETS	57	19
LEERINK SWANN	26	
MORGAN KEEGAN	20	
MORGAN STANLEY	698	105
NBC SECURITIES	85	
RAYMOND JAMES	51	5
RENMAC	102	
RBC BANK	274	
SANDLER O'NEIL	50	
SECURITIES CAPITAL	21	
SOUTHWEST SECURITIES	19	
STERNE, AGEE & LEACH	41	
STIFEL NICOLAUS	574	25
STRATEGAS	359	
SUNTRUST		53
UBS WARBURG	49	
WELLS FARGO	493	130
TOTAL	\$ 5,956	\$ 1,159

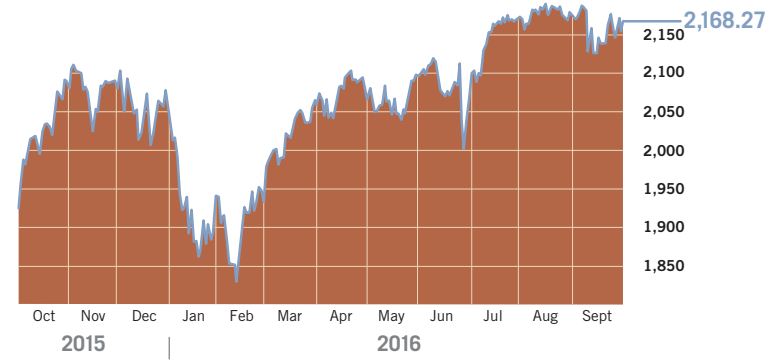
**Dow Jones Industrial Average
1-Year**



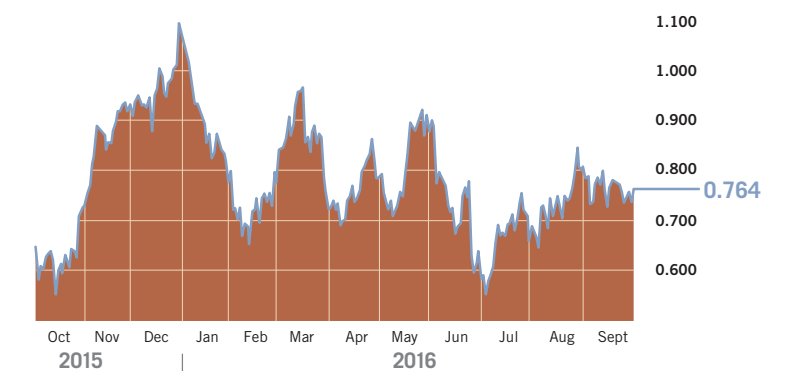
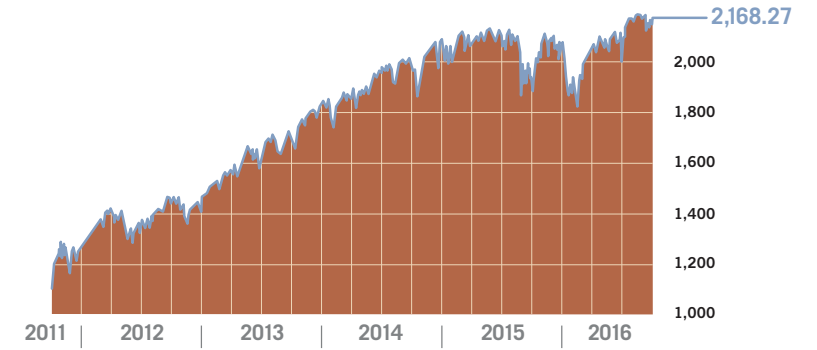
**Dow Jones Industrial Average
5-Year**



**S&P 500 Index
1-Year**

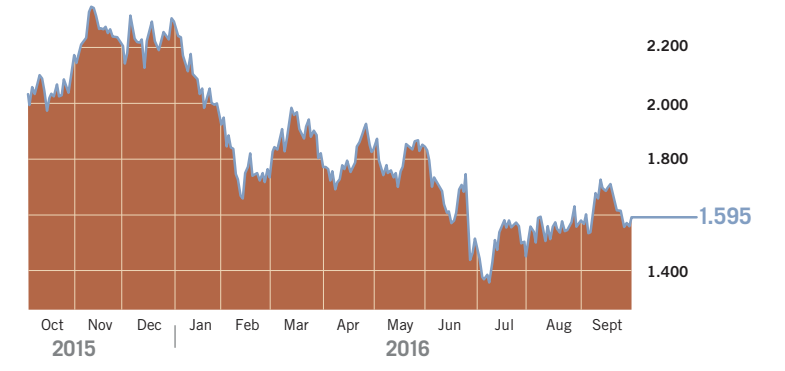


**S&P 500 Index
5-Year**



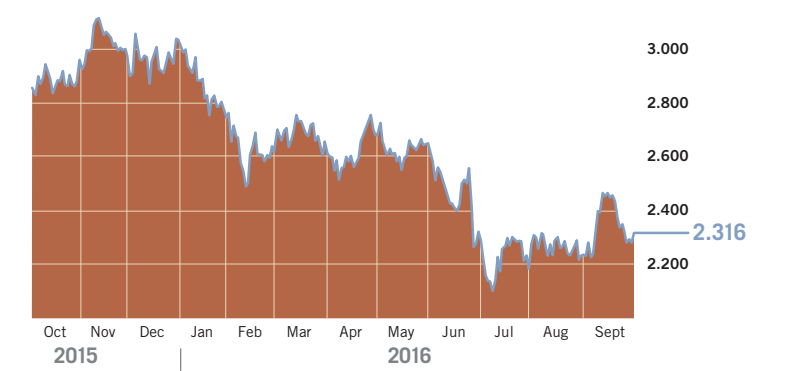
**U.S. Treasury
2-Year Note**

(Yield)



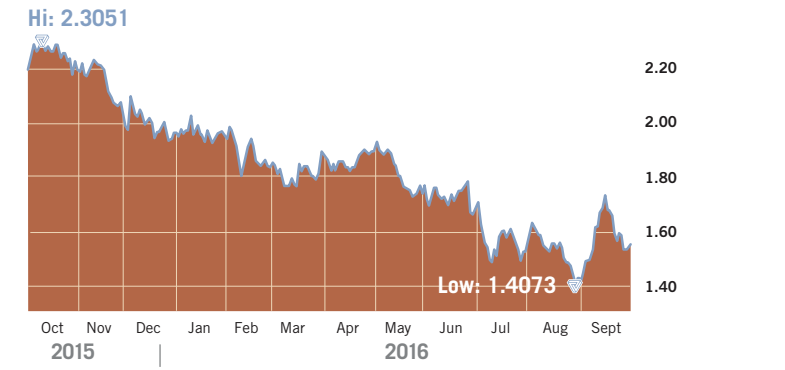
**U.S. Treasury
10-Year Bond**

(Yield)

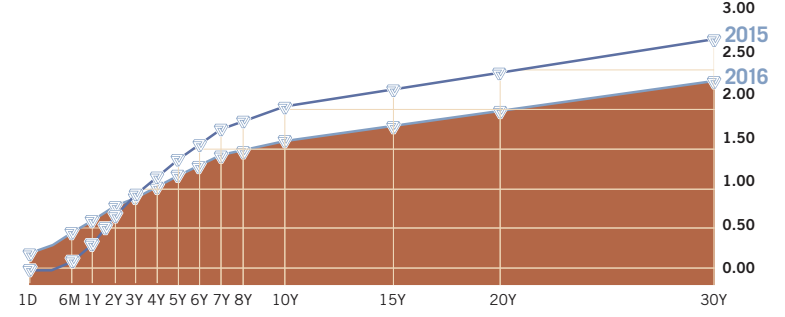


**U.S. Treasury
30-Year Bond**

(Yield)



**Spread Difference
Between 2-Year &
30-Year Treasuries**



**U.S. Treasury
Yield Curve**

2015 vs. 2016

RSA Investments in Alabama



- ACON Alabama Energy Investors II Tuscaloosa
- ADEM Laboratory* II Montgomery
- Alabama Cruise Terminal* II Mobile
- Alabama River Group, Inc.* II Monroeville
- Alabama River Chip Mill* II Monroeville
- Alabama River Recycling* II Monroeville
- Bell Microproducts* II Montgomery
- CIBA-GEIGY Chemical Company* II Mobile
- Circle S Industries* II Selma
- Community Newspaper Holdings, Inc. II Montgomery
- Conventional Mortgages* II Alabama Loans, Residential Funding, MGIC, FBS — were the servicers
- Danberry at Inverness II Birmingham (sold 2014)
- Daniel Senior Living, LLC* II Assisted Living Facilities in Huntsville and Birmingham
- Dole Foods* II Birmingham
- Dominion Senior Living of West Mobile II Mobile
- Drummond Company* II Birmingham
- Dynamit Nobel Chemical Company* II Mobile
- Embassy Suites* II Montgomery
- Fairway Outdoor Advertising II Statewide
- First Alabama Bancshares* II Birmingham
- GKN Aerospace II Tallassee
- Gordon Persons Building* II Montgomery
- Gulf Coast Exploration & Science Theatre* II Mobile
- IDB Southwire Med. Volt Cable Company* II Heflin
- IPSCO Saskatchewan, Inc.* II Mobile
- Kay Fairs, Inc.* II Theodore
- Kvaerner Oilfields Products* II Mobile
- Mercedes Benz U.S.* II Tuscaloosa
- National Alabama Corporation II Florence
- National Village II Auburn/Opelika
- Navistar Diesel of Alabama, LLC* II Huntsville
- Navistar Big Bore Diesels, LLC* II Huntsville
- Office Buildings and Parking Decks:
 - > Alabama Center for Commerce II Montgomery
 - > Alabama Center for Postsecondary Education II Montgomery
 - > Alabama State Bar Building* II Montgomery
 - > RSA Criminal Justice Center II Montgomery
 - > RSA Dexter Avenue II Montgomery
 - > RSA Headquarters II Montgomery
 - > RSA Plaza II Montgomery
 - > RSA Tower Complex II Montgomery
 - > RSA Union II Montgomery
 - > Mobile Parking Garage II Mobile
 - > RSA Battle House Tower II Mobile
 - > RSA North Royal Street II Mobile
 - > RSA Trustmark Building II Mobile
 - > RSA Van Antwerp Building II Mobile
- PCH Hotels and Resorts/ Alabama Real Estate Holdings II Hotels, Statewide
- Perdido Beach Hilton* II Gulf Beach Hotel
- Point Clear Partners, LLC II Point Clear, Real Estate and Condo Development
- PPG Industries* II Huntsville
- Raycom Media II Montgomery
- Rohr* II (IDB City of Foley)
- Signal International II Mobile
- SiO2 Medical Products II Auburn
- Springhill Medical Center* II Mobile
- SunBelt Golf Corporation II Golf Courses, Statewide
- The Explore Center, Inc.* II Mobile
- The Shops of Grand River II Leeds
- USB-IDB United Technology* II Huntsville
- US Steel* II Fairfield
- Walmart Distribution Center* II Cullman
- Williamson Commerce Center* II Anniston
- Wise Metals* II Florence

*FULLY PAID

2016 ACCOLADES

RSA Hotel & Restaurants honored with AAA Four Diamond Awards in 2016:

The Battle House Renaissance Mobile Hotel & Spa

Renaissance Ross Bridge Golf Resort & Spa

Marriott Shoals Hotel & Spa

Renaissance Mobile Riverview Plaza Hotel

Renaissance Montgomery Hotel & Spa at the Convention Center

Grand Steakhouse at The Grand Hotel Point Clear Resort & Spa

The Trellis Room at The Battle House Renaissance Mobile Hotel & Spa

360 Grille at Marriott Shoals Hotel & Spa

Editor's Choice Golf Resort — Golf Digest

Auburn Marriott Opelika Hotel & Conference Center at Grand National

Renaissance Birmingham

Ross Bridge Golf Resort & Spa

The South's Best Hotels & Inns — Southern Living

The Grand Hotel Point Clear Resort & Spa

ConventionSouth Readers Choice Awards

The Battle House Renaissance Mobile Hotel & Spa

The Grand Hotel Point Clear Resort & Spa

Renaissance Ross Bridge Golf Resort & Spa

Marriot Shoals Hotel & Spa

ConventionSouth Readers Renovation Award

Auburn Marriott Opelika Hotel & Conference Center at Grand National

Birmingham Magazine Reader's Choice — Best Hotel, Best Spa, Best Golf, Best Staycation

Renaissance Ross Bridge Golf Resort & Spa

Lagniappe Weekly — Best Hotel, Best Spa, Best Event Location, Best Martini, Best Bartender

The Battle House Renaissance Mobile Hotel & Spa

The Montgomery Advertiser — Reader's Choice Award

Renaissance Montgomery Hotel & Spa at the Convention Center

The National Sales & Marketing Awards THE NATIONALS — Honoring Imagination & Innovation

Best Architectural Design — Single-Family Detached Home \$350,000-\$500,000

The Colony at the Grand, Point Clear

Women's Council of REALTORS — Grand Prize Showcase Home

Best Kitchen, Best Bathroom, Best Interior, Best Exterior

National Village, Auburn/Opelika



GENERAL INFORMATION

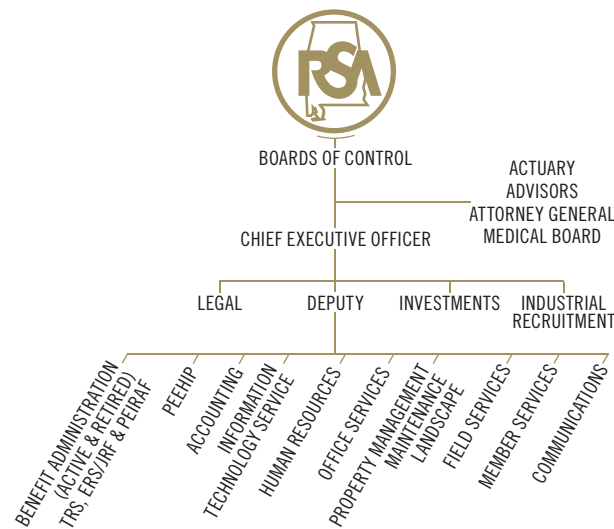
WWW.RSA-AL.GOV

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.

RSA Headquarters
201 South Union St.
Montgomery, AL 36104



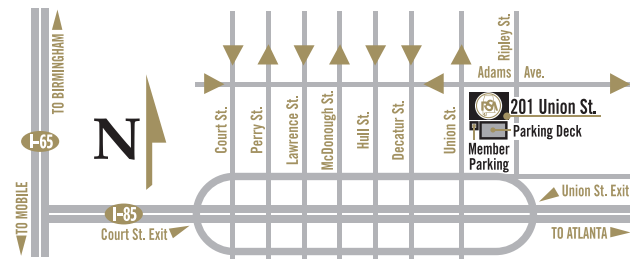
THE RETIREMENT SYSTEMS OF ALABAMA ORGANIZATIONAL CHART



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-hand 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.

