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we believe

E HILLING

OUR MEMBERS ARE OUR MOST IMPORTANT ASSETS.



The Boards of Control and the Retirement Systems of Alabama (RSA) staff are pleased to present the 41st Annual Report for the fiscal year ended September 30, 2017.

The RSA currently manages 23 funds with aggregate assets of approximately \$41.5 billion. For fiscal year 2017, the Teachers' Retirement System (TRS) invested assets totaled \$24.4 billion, the Employees' Retirement System (ERS) invested assets totaled \$12.0 billion, and the Judicial Retirement Fund (JRF) invested assets totaled \$299.1 million. The annualized return was 11.77% for the TRS, 12.86% for the ERS, and 11.90% for the JRF.

Market performance during fiscal year 2017 was generally good, with global equity markets performing well over the course of the year. Like fiscal year 2016, the equity markets did not experience the seasonal weakness usually seen in August and September; therefore, levels closed at their highs for the year. Domestic equities across the market cap spectrum all produced returns in the high teens. Emerging market and international equities were even stronger performers for the fiscal year. Fixedincome markets also turned in positive returns, though not to the degree we have seen in recent years. Interest rates were a bit choppy during this time period for several reasons, including the Presidential election and results, fiscal policy expectations, and economic data, just to name a few.

Overall, low yields and stable credit spreads helped keep returns positive. 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 Robert Trent Jones Golf Trail celebrated its 25th anniversary during the fiscal year. With 26 golf courses in 11 locations, the Trail hosts more than 1,100 events each year. Roughly 12 million rounds of golf have been played on these courses. This includes players from all 50 states and an average of 20 foreign countries. When the Trail started, tourism in Alabama was a \$1.8 billion industry. Now tourism generates \$12.6 billion annually for our state.

Lastly, RSA-owned hotels ranked first, second, and third for guest satisfaction in a recent ranking of 363 full-service Marriott hotels in North and South America. The top finishers were the Auburn Marriott Opelika Hotel & Conference Center, Marriott Shoals Hotel & Spa, and the Grand Hotel Marriott Resort, Golf Club & Spa. They also ranked first and third of 90 Renaissance properties in North and South America. Renaissance Ross Bridge Golf Resort & Spa and The Battle House Renaissance Hotel & Spa were the winners here.

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.

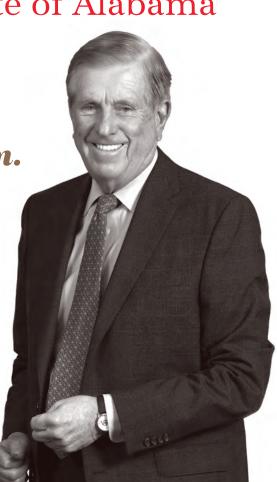
ve serve

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.

This is our Mission.

David G. Bronner



"We take our responsibilities very seriously. We enrich the state's economy through investments in projects that benefit all Alabama citizens."

> Don Yancey Deputy Director of RSA

RSA's staff of **351** proudly serves **354,012** active and retired members, providing financial security and stability with retirement and health insurance benefits.



staff, advisors, and medical board 2017

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

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 & INGRAM, LLC INVESTMENT CONSULTANT

REGIONS BANK N.A., MR. ALAN MCKNIGHT

INVESTMENT CUSTODIAN STATE STREET BANK AND TRUST COMPANY

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

ATTORNEY GENERAL HON. STEVE MARSHALL

CHIEF EXAMINER MR. RONALD L. JONES

MEDICAL BOARD

CHAIR GLENN YATES, M.D. GREGORY BORG, M.D. MALCOLM BROWN, M.D.



LEGAL

In fiscal year 2017, 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. Most recently, the RSA successfully defended a constitutional challenge to the Alabama Legislature's 2011 increase in the employee contribution rates of judges. After the RSA won the case in the trial court, the matter was resolved in RSA's favor when the Supreme Court dismissed the plaintiff's claims on appeal for jurisdictional reasons. The legal staff also continued to represent the RSA in employment-related matters, providing counsel in navigating various regulatory and compliance matters that arose during the year. The RSA continues to litigate matters as necessary to protect the interests of its members.

In addition, the RSA legal staff 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. The legal staff also obtained an Attorney General's Opinion which supported RSA's interpretation of the scope of authority of the state building commission over RSA real estate and construction projects, thereby definitively resolving a dispute arising from a different interpretation of the law by the state Finance Department.

Other important areas of practice for the RSA legal staff were litigating on behalf of and providing legal guidance related to

the administration of the Public Education Employees' Health Insurance Plan (PEEHIP), education employees' self-funded group health plan. In 2017, the legal staff continued to vigorously defend PEEHIP in litigation at the trial and appellate levels, as well as providing representation for the health plan in other matters, including regulatory and compliance issues and contractual negotiations and agreements. 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. 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 RSA legal staff provided support to RSA-1, the Section 457 deferred compensation plan administered by RSA staff. The legal staff 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, training, compliance, and legal advice on day-to-day operational issues. The legal staff successfully protected RSA's interests in the negotiation of a number of significant contracts in 2017, including contracts essential to RSA's accounting operations, investment activities, real estate valuations, and PEEHIP operations.

Legal staff also provides legal advice and assistance daily on issues which arise during the course of business, including 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.

LEGISLATIVE

The 2017 Regular Legislative Session ended on May 19, 2017. The Legislature fully funded both the Employees' Retirement System (ERS) and the Teachers' Retirement System (TRS) in the General Fund and Education Trust Fund budgets. In addition, the Legislature funded the Public Education Employees' Health Insurance Plan (PEEHIP) at \$800 per employee per month. The PEEHIP Board voted that no changes were necessary (including premium increases) if funded at this rate.

No major legislation to reform the pension system was enacted or even introduced this session. Only three general bills and one local bill affecting the RSA were enacted.

 HB284 (Act 2017-337), by Rep.
 Patterson, requires PEEHIP to cover certain autism therapies starting in 2019;

 HB342 (Act 2017-367), by Rep.
 McMillan, allows local ERS employers to grant one-time bonuses to their retirees;

 HB377 (Act 2017-360), by Rep.
 Treadaway, includes new troopers in the State Police Plan but would grant them Tier II FLC benefits instead of Tier II State Police benefits; and

— HB435 (Act 2017-193), by Rep. Hurst, proposes a constitutional amendment to allow the Clay County Sheriff to participate in the ERS. ■

"Working with members of the Alabama State Legislature, we ensure legislation enacted will have a positive impact on our members."

NOSTRA

Neah Scott Legislative Counsel DEFENDERE

ATE HOUSE

"As the first line of contact for our 15,000 annual visitors, I am fortunate to meet and help state and local employees and teachers from all over Alabama."

> Tonya Young Member Services Counseling Center



WHO UUC SERVE

354,012 Active and retired members from TRS, ERS, and JRF



ACTIVE		
TRS	131,118	
ERS	80,885	
JRF	348	
TOTAL	212,351	



RETIRED

JRF	405
ERS	48,289
TRS	92,967

Membership Activity

NEW	MEMBER	RS	
TRS	ERS	JRF	TOTAL
8,758	9,167	42	17,967

WITHDRAWN MEMBERS

TRS	ERS	JRF	TOTA
3.266	4.445	6	7.71

SERVICE RETIREMENTS

TRS	ERS	JRF	TOTAL
4,015	2,221	23	6,259

DISAB	ILITY	RETIREM	IENTS
TRS	ERS	JRF	TOTAL
296	215	_	511

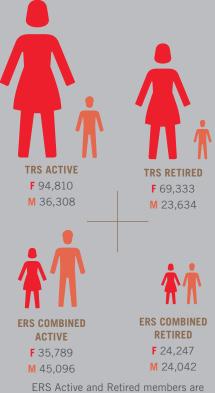
SURVIVING SPOUSES

ERS TRS JRF TOTAL 14 1 15 NEW BENEFICIARIES ERS JRF TRS TOTAL 4

76 362 4	842
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2017 Demographics

FEMALE AND MALE COMPARISON



comprised of state and local employees.



Member Services handles

an average of

261,400 phone calls,

processes 8,900 emails,

and receives 2,300 faxes annually.

Matt Hall Member Services Supervisor



counseled 6,400 members

individually on the retirement process

at RSA Headquarters.

Eleanor Thomas TRS Retirement Benefits Analyst

We serve statewide (and beyond)

Field Services conducted 68 Retirement Preparation Seminars, 23 Early to Mid-Career Seminars, and 337 agency visits for over



Sharon Massey Field Services Representative Benefits staff traveled

throughout the state

participating in



and counseling 1,080 members

in individual sessions.

Charles Mitchell ERS Retirement Executive COUNTY BY COUNTY (Dollars in Millions of Benefits Paid)

TOTAL BENEFITS PAID IN 2017 \$3.2 BILLION

TOTAL BENEFITS PAID IN ALABAMA IN 2017

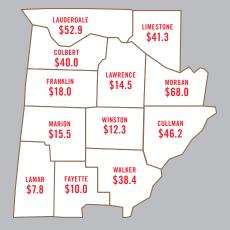




92% of trs

95% of ers

MEMBERS REMAIN IN ALABAMA AFTER RETIREMENT.

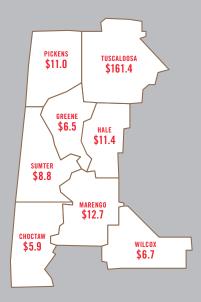


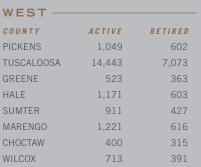
NORTHWEST			
COUNTY	ACTIVE	RETIRED	
LAUDERDALE	4,156	2,313	
LIMESTONE	4,275	1,816	
COLBERT	3,027	1,841	
FRANKLIN	1,658	842	
LAWRENCE	1,216	724	
MORGAN	5,514	3,153	
MARION	1,570	762	
WINSTON	1,279	638	
CULLMAN	4,059	2,133	
LAMAR	781	408	
FAYETTE	1,015	486	
WALKER	3,367	1,873	



NORTHEAST

COUNTY	ACTIVE	RETIRED
MADISON	15,800	7,227
JACKSON	2,598	1,409
MARSHALL	4,508	2,189
DEKALB	3,081	1,435
BLOUNT	2,051	1,056
ETOWAH	5,176	3,087
CHEROKEE	861	473
ST. CLAIR	3,647	1,663
CALHOUN	6,517	3,179
CLEBURNE	604	277

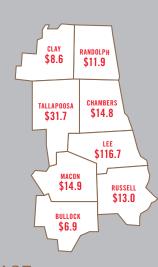




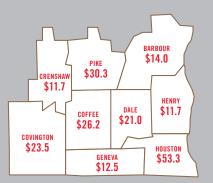


SOUTHWEST

COUNTY	ACTIVE	RETIRED
WASHINGTON	806	587
CLARKE	1,395	878
MONROE	1,092	612
CONECUH	715	395
BUTLER	999	547
MOBILE	19,614	10,963
BALDWIN	10,563	5,319
ESCAMBIA	1,801	1,116



EAST		
COUNTY	ACTIVE	RETIRED
CLAY	807	419
RANDOLPH	1,029	608
TALLAPOOSA	2,073	1,337
CHAMBERS	1,487	764
LEE	11,488	4,435
MACON	1,211	749
RUSSELL	1,734	726
BULLOCK	650	346



SOUTHEAST

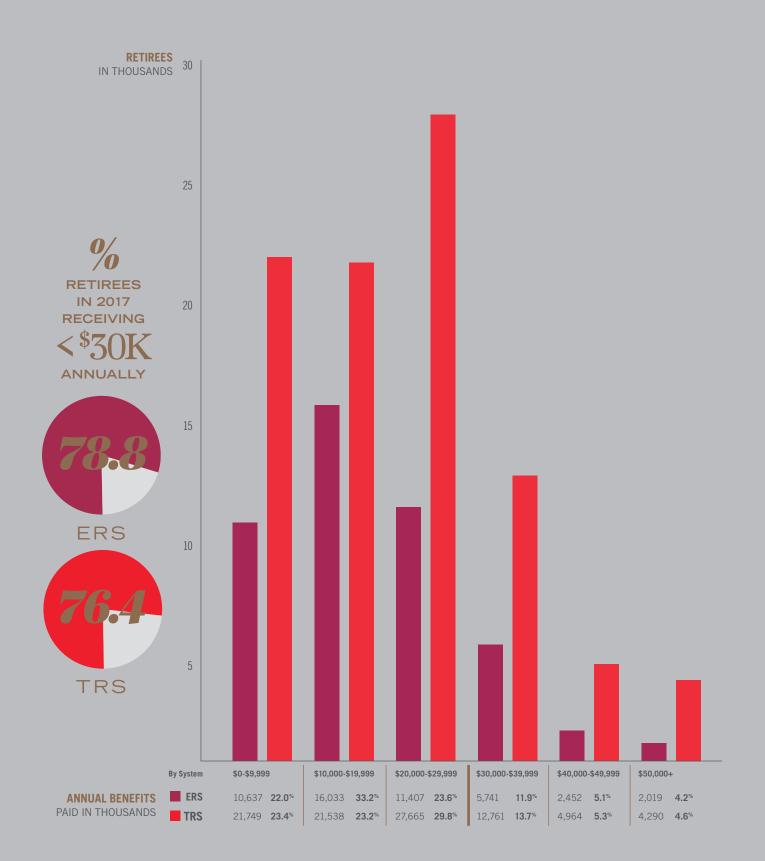
COUNTY	ACTIVE	RETIRED
CRENSHAW	943	563
PIKE	2,510	1,270
BARBOUR	1,205	738
COVINGTON	1,997	1,132
COFFEE	2,512	1,239
DALE	2,109	1,043
HENRY	1,062	571
GENEVA	1,357	633
HOUSTON	4,546	2,458



ACTIVE	RETIRED
33,395	16,530
11,218	4,219
3,957	2,274
1,078	522
2,156	1,109
572	343
549	306
2,279	1,183
3,649	1,651
6,129	3,259
607	416
15,745	8,516
	ACTIVE 33,395 11,218 3,957 1,078 2,156 572 549 2,279 3,649 6,129 607



RSA Retirees and Benefits Paid





RSA Active Members by Benefit Tier

	2017 ERS	2017 TRS TIER I AND II	
STATE 21,326 Tier I LOCAL 36,189	STATE AND LOCAL SYSTEMS ************************************	$ \begin{array}{c} \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot{\pi} \\ \dot{\pi} & \dot$	98,668 Tier I
STATE 7,271 Tier II LOCAL 16,099	* * * * * * * * * * * * * * * * * * * *	* * * * * * * * * * * * * * * * * * *	32,450 Tier II

In 2017, there were a total of **156,183 (73.7%) TIER I MEMBERS** & **55,820 (26.3%) TIER II MEMBERS** in the combined systems.

2017 TIER I MEMBERS COMPARED TO 2016



Our accounting staff helps the RSA shine.

Petrice Robinson

Staff Accountant, PEEHIP Revenue Accounting

March 2017 Employee of the Month

Katelen Allen Senior Accountant, Accounting Operations

2017 Employee of the Year

Matt Ward

Staff Accountant, Investment Accounting

January 2017 Employee of the Month











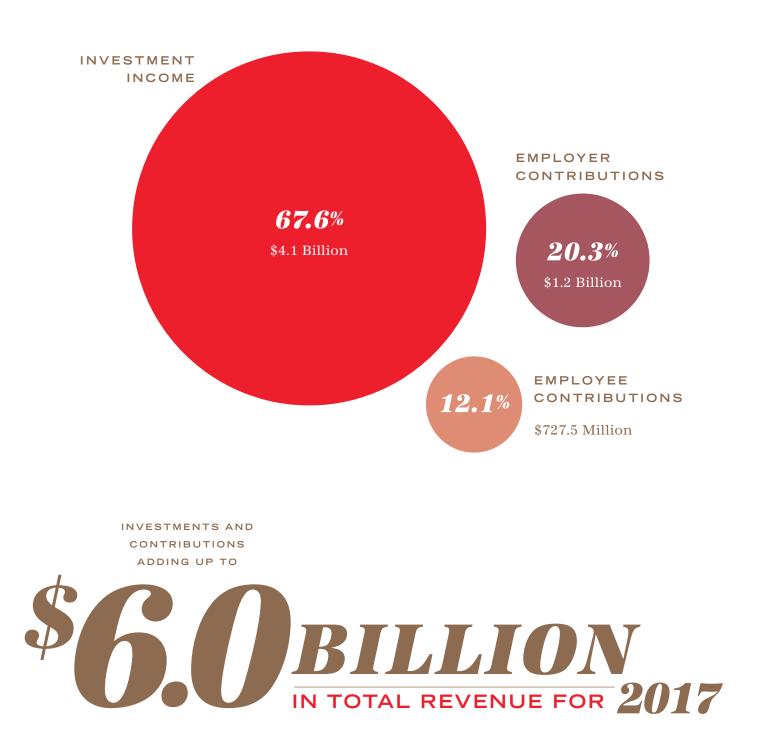


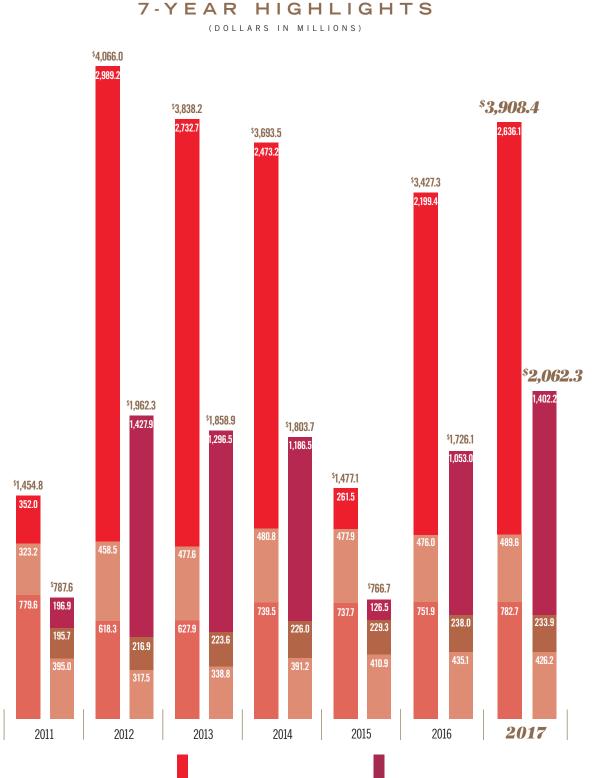






Revenue Sources for TRS, ERS, and JRF





INVESTMENT INCOME

ERS

EMPLOYEE CONTRIBUTIONS

TRS

EMPLOYER CONTRIBUTIONS



Funds Under Management

AS OF SEPTEMBER 30, 2017 (DOLLARS IN THOUSANDS)

TOTAL	INVESTED ASSETS	TOTAL	INVESTED ASSETS
Teachers' Retirement System	\$24,390,323	PEIRAF-Deferred Compensation Plan (RSA-1)	\$2,035,000
Employees' Retirement System	12,010,084	Public Education Employees' Health	100 700
Judicial Retirement Fund	299,091	Insurance Fund	192,792
Alabama Cultural Resources Preservation Trust Fu	und 13,535	Alabama Retired Education Employees' Health Care Trust	1,322,123
Alabama Firefighters Annuity and Benefit Fund	144	Public Employees' Individual Retirement	
Division of Wildlife and Freshwater Fisheries	23,259	Account Fund	79,377
Alabama Nongame Wildlife Endowment Trust	16	Alabama Marine Resources Endowment Trust Fund	1,974
Alabama Underground and Aboveground Storage Tank Trust Fund	24,746	Alabama Trust Fund	295,301
Clerks' and Registers' Supernumerary Fund	12,212	Alabama Treasury Fund	246,656
Alabama Senior Services Trust Fund	42,203	Charlotte Thorn Trust Fund	10,181
Alabama State Employees' Health		County Municipal Trust Fund	128,547
Insurance Fund	94,904	Alabama State Employees' Retired	
Local Government Health Insurance Fund	123,302	Health Care Trust Fund	167,508
		State Docks Pension Plans	18,486

TOTAL INVESTED ASSETS UNDER MANAGEMENT

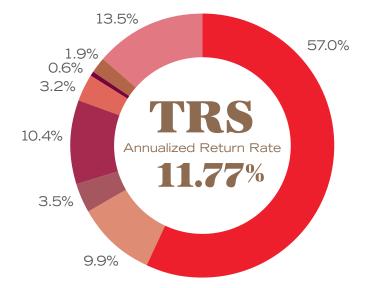
\$41,531,764

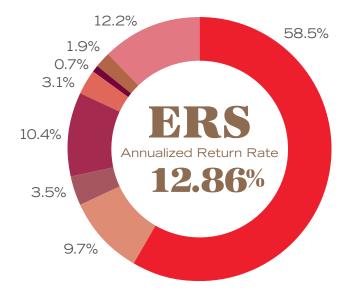


Investment Highlights

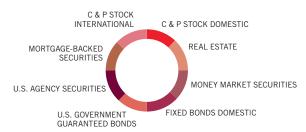
AS OF SEPTEMBER 30, 2017

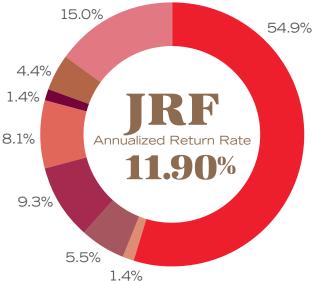
ASSET ALLOCATION is a strategic long-term decision in the pension investment management process. The RSA is dedicated to preserving the sound financial position it has established over the years through a diversified investment program. The objective of the RSA is to allocate investments in the most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





ASSET ALLOCATION





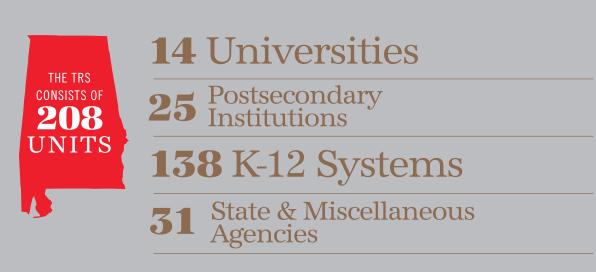
"Assisting members in the DROP program with distributions and helping beneficiaries of deceased retired members in their time of need is very rewarding."

> Ron Short TRS Retiree Death Benefit Supervisor

Q









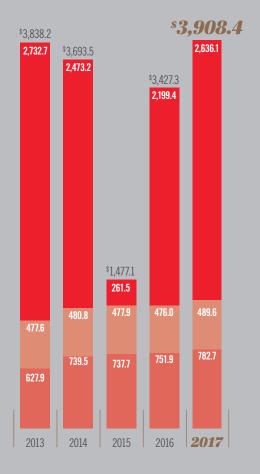
The Teachers' Retirement System of Alabama (TRS) provides retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions.



Benefits Administration

TRS REVENUE SOURCES

(DOLLARS IN MILLIONS)



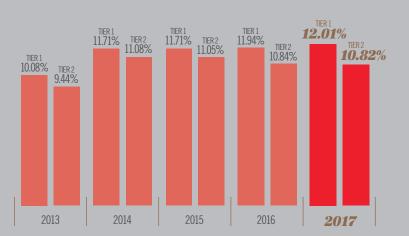
INVESTMENT INCOME EMPLOYEE CONTRIBUTIONS EMPLOYER CONTRIBUTIONS

PORTFOLIO AT FAIR VALUE





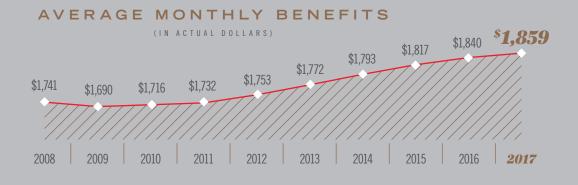
EMPLOYER RATE (% OF COVERED PAYROLL)

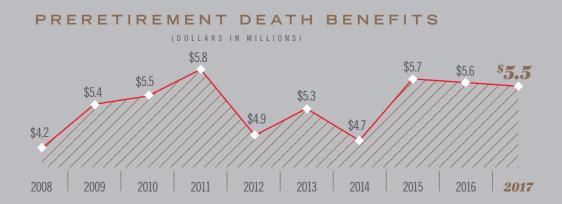




Retirement Benefits









TEACHERS' RETIREMENT SYSTEM

2017 Board of Control



Hon. Young Boozer STATE TREASURER EX OFFICIO



Mr. Richard Brown PRINCIPAL POSITION



Dr. Susan Williams Brown POSTSECONDARY POSITION



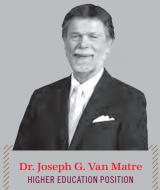
Mr. Clinton Carter STATE FINANCE DIRECTOR EX OFFICIO



Mr. Luther P. Hallmark SUPERINTENDENT POSITION CHAIR



Dr. Cathy McNeal TEACHER POSITION





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





Dr. Ed Richardson INTERIM STATE SUPERINTENDENT OF EDUCATION, EX OFFICIO



Mr. Russell J. Twilley SUPPORT PERSONNEL POSITION

Mr. Joe Ward **RETIRED POSITION**

Ms. Peggy Mobley RETIRED POSITION



Mr. John R. Whaley **TEACHER POSITION** VICE CHAIR





Statement of Fiduciary Net Position

AS OF SEPTEMBER 30, 2017, AND 2016

(\$	IN	THOUSANDS	;)

ASSETS	2017	2016	
CASH	\$ 57,413	\$ 56,079	
RECEIVABLES			
Employee Contributions	38,750	37,735	
Employer Contributions	63,362	61,167	
Investment Sales Receivable	52,290	667,019	
Real Estate Investment Receivable	866	913	
Dividends and Interest	72,031	70,611	
Miscellaneous Receivable		131	
TOTAL RECEIVABLES	227,299	837,576	
INVESTMENTS, AT FAIR VALU	E		
Domestic Equity	13,901,047	11,784,393	
Domestic Fixed Income	3,928,819	4,853,613	
International Equities	3,294,618	2,832,378	
Real Estate	2,401,236	2,331,076	
Short-Term	864,603	837,201	
TOTAL INVESTMENTS	24,390,323	22,638,661	
INVESTED SECURITIES LENDING COLLATERAL	1,189,852	1,072,246	
PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION	105,664	102,722	
TOTAL ASSETS	25,970,551	24,707,284	
DEFERRED OUTFLOWS OF RESOURCES	5,355	4,002	
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	25,975,906	24,711,286	
LIABILITIES			
Accounts Payable and Other Liabilities	6,732	8,374	
Federal Withholding Payable	23,498	22,501	
Investment Purchases Payable	76,787	647,585	
Other Postemployment Benefits	5,720	5,091	
Net Pension Liability	21,164	18,891	
Securities Lending Collateral	1,189,852	1,072,246	
TOTAL LIABILITIES	1,323,753	1,774,688	
DEFERRED INFLOWS OF RESOURCES	696	300	
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,324,449	1,774,988	
NET POSITION RESTRICTED FOR PENSION BENEFITS	\$ 24,651,457	\$ 22,936,298	

Statement of Changes in Fiduciary Net Position FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2017, AND 2016

(\$ IN THOUSANDS)

	(\$ 11 110034103)	
ADDITIONS	2017	2016
CONTRIBUTIONS		
Employee Contributions	\$ 486,542	\$ 472,390
Employer Contributions	782,695	751,902
Transfers from Employees' Retirement System	3,096	3,590
TOTAL CONTRIBUTIONS	1,272,333	1,227,882
INVESTMENT INCOME		
FROM INVESTING ACTIVITIES		
Net Increase in Fair Value of Investments	2,021,774	1,589,279
Interest and Dividends	613,353	607,795
Total Investment Income from Investing Activities	2,635,127	2,197,074
Less Investment Expenses, Net	8,685	7,731
Net Investment Income from Investing Activities	2,626,442	2,189,343
FROM SECURITIES LENDING ACTIVITIES		
Securities Lending Income	20,125	15,930
Less Securities Lending Expenses		
Borrower Rebates	7,350	2,825
Management Fees	3,112	3,044
Total Securities Lending Expenses	10,462	5,869
Net Income from Securities Lending Activities	9,663	10,061
TOTAL NET INVESTMENT INCOME	2,636,105	2,199,404
TOTAL ADDITIONS	3,908,438	3,427,288
DEDUCTIONS		
Retirement Allowance Payments	2,111,830	2,155,784
Return of Contributions and Death Benefits	55,634	57,130
Transfers to Employees' Retirement System	3,413	6,223
Administrative Expenses	16,390	14,873
Depreciation	6,012	4,709
TOTAL DEDUCTIONS	2,193,279	2,238,719

FOR PENSION BENEFITS

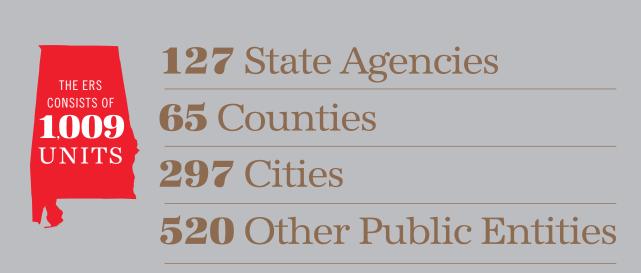
BEGINNING OF YEAR	22,936,298	21,747,731
END OF YEAR	\$ 24,651,457	\$ 22,936,298

"We take the stress out of retirement so that our members can enjoy a lifetime of benefits."

Wendy Hardman ERS Executive Assistant III



IN 2017, ERS SERVED A TOTAL OF 129,17,40 129,17,40 ACTIVE AND RETIRED MEMBERS.





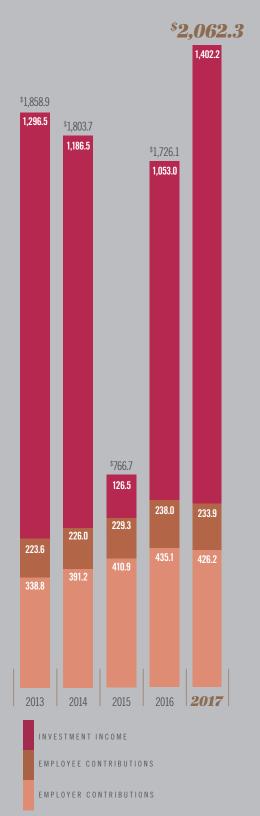
The Employees' Retirement System of Alabama (ERS) provides retirement allowances and other specified benefits for qualified state employees, state police, and, on an elective basis, employees of cities, counties, towns, and quasi-public organizations.



Benefits Administration

ERS REVENUE SOURCES

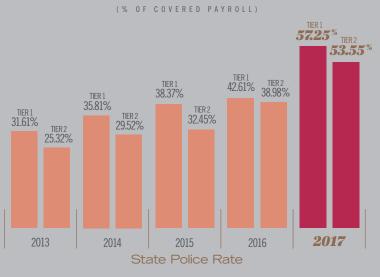
(DOLLARS IN MILLIONS)

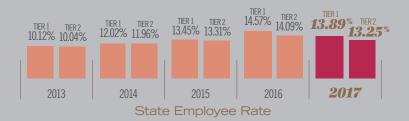


PORTFOLIO AT FAIR VALUE



EMPLOYER RATE

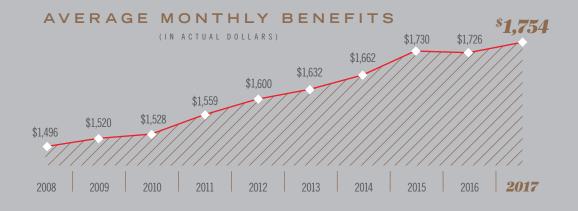


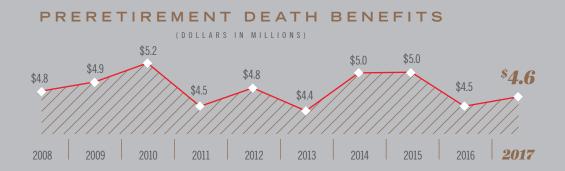




Retirement Benefits









2017 Board of Control



Mr. David Bollie ACTIVE STATE EMPLOYEE POSITION



Mr. Bill A. Flowers GOVERNOR APPOINTEE



Mr. Ben Powell ACTIVE LOCAL EMPLOYEE POSITION



Hon. Young Boozer STATE TREA. EX OFFICIO



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



Mr. James H. Rowell RETIRED STATE EMPLOYEE POSITION



Mr. Clinton Carter STATE FINANCE DIRECTOR **EX OFFICIO**



Hon. Kay Ivey GOVERNOR EX OFFICIO, CHAIR



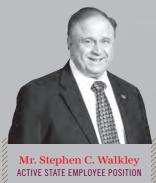
Mr. Curtis E. Stewart GOVERNOR APPOINTEE

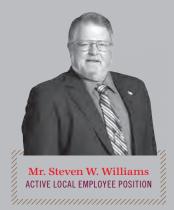


Mr. James Fibbe RETIRED LOCAL EMPLOYEE POSITION



Ms. Ellen Leonard **GOVERNOR APPOINTEE**







Statement of Fiduciary Net Position

AS OF SEPTEMBER 30, 2017, AND 2016

AS OF SEPTEMBER 30, 2017, AND 2016	(\$ IN THOUSANDS)	
ASSETS	2017	2016
CASH	\$ 9,140	\$ 6,823
	<u> </u>	
RECEIVABLES		
Employee Contributions	19,124	19,678
Employer Contributions	34,545	36,276
Investment Sales Receivable	28,075	326,474
Real Estate Investment Receivable	433	457
Dividends and Interest	33,903	33,153
Miscellaneous Receivable	-	133
TOTAL RECEIVABLES	116,080	416,171
INVESTMENTS, AT FAIR VALU	E	
Domestic Equity	7,025,435	5,850,539
Domestic Fixed Income	1,933,088	2,316,304
International Equities	1,467,563	1,260,074
Real Estate	1,163,825	1,129,763
Short-Term	420,173	487,223
TOTAL INVESTMENTS	12,010,084	11,043,903
INVESTED SECURITIES LENDING COLLATERAL	551,930	571,710
PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION	48,373	48,137
TOTAL ASSETS	12,735,607	12,086,744
DEFERRED OUTFLOWS OF RESOURCES	3,758	2,458
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	12,739,365	12,089,202
LIABILITIES		
Accounts Payable and Other Liabilities	3,630	4,140
Investment Purchases Payable	38,979	316,977
Other Postemployment Benefits	5,335	4,889
Net Pension Liability	16,850	14,146
Securities Lending Collateral	551,930	571,710
TOTAL LIABILITIES	616,724	911,862
DEFERRED INFLOWS OF RESOURCES	170	266
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	616,894	912,128
NET POSITION RESTRICTED FOR PENSION BENEFITS	\$ 12,122,471	\$ 11,177,074

Statement of Changes in Fiduciary Net Position FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2017, AND 2016

(\$ IN THOUSANDS)

(
ADDITIONS	2017	2016
CONTRIBUTIONS		
Employee Contributions	\$ 230,488	\$ 231,794
Employer Contributions	426,215	435,098
Transfers from Teachers' Retirement System	3,413	6,223
	660,116	673,115
INVESTMENT INCOME	,	,
FROM INVESTING ACTIVITIES		
Net Increase in Fair Value of Investments	1,098,859	753,836
Interest and Dividends	302,295	297,369
Total Investment Income from Investing Activities	1,401,154	1,051,205
Less Investment Expenses, Net	3,305	2,883
Net Investment Income from Investing Activities	1,397,849	1,048,322
FROM SECURITIES LENDING ACTIVITIES		
	0 1 2 7	7 4 0 1
Securities Lending Income Less Securities Lending Expenses	9,127	7,481
Borrower Rebates	3,424	1,356
Management Fees	1,389	1,330
Total Securities	1,309	1,410
Lending Expenses	4,813	2,772
Net Income from Securities Lending Activities	4,314	4,709
TOTAL NET INVESTMENT INCOME	1,402,163	1,053,031
TOTAL ADDITIONS	2,062,279	1,726,146
DEDUCTIONS Retirement Allowance Payments	1.050,340	1,038,517
Return of Contributions and		
Death Benefits	47,683	45,768
Unit Withdrawals	1,000	
Transfers to Teachers' Retirement System	3,096	3,590
Transfers to Judicial Retirement Fund	261	78
Administrative Expenses	11,982	11,002
Depreciation	2,520	2,021
TOTAL DEDUCTIONS	1,116,882	1,100,976
NET INCREASE	945,397	625,170
NET POSITION RESTRICTED FOR PENSION BENEFITS		
BEGINNING OF YEAR	11,177,074	10,551,904
END OF YEAR	\$ 12,122,471	\$ 11,177,074





ACTIVE AND RETIRED MEMBERS.

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.

The RSA honors Alabama's Retired Supreme Court Justices with a sculpture garden that is adjacent to RSA Dexter Avenue, a high-rise in downtown Montgomery built around the historic Alabama Judicial Building.

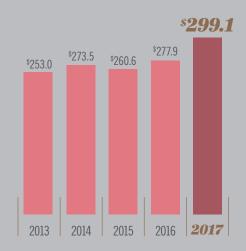




Benefits Administration

PORTFOLIO AT FAIR VALUE

(DOLLARS IN MILLIONS)



JRF REVENUE SOURCES (DOLLARS IN MILLIONS)

(DULLARS IN MILLIUNS



INVESTMENT INCOME EMPLOYEE CONTRIBUTIONS EMPLOYER CONTRIBUTIONS

EMPLOYER RATE

(% OF COVERED PAYROLL)









AVERAGE MONTHLY BENEFITS



(\$ IN THOUSANDS)



Statement of Fiduciary Net Position

AS OF SEPTEMBER 30, 2017, AND 2016

(\$	IN	THOUSANDS)

ASSETS	2017	2016
CASH	\$ 2,636	\$ 2,393
RECEIVABLES		
Employee Contributions	173	166
Employer Contributions	614	619
Investment Sales Receivable	14	8,050
Dividends and Interest	903	1,001
TOTAL RECEIVABLES	1,704	9,836
INVESTMENTS, AT FAIR VALUE		
Domestic Equity	164,278	146,359
Domestic Fixed Income	69,172	74,968
International Equities	45,067	38,660
Real Estate	4,101	4,009
Short-Term	16,473	13,924
TOTAL INVESTMENTS	299,091	277,920
INVESTED SECURITIES Lending Collateral	18,115	20,565
TOTAL ASSETS	321,546	310,714
DEFERRED OUTFLOWS OF RESOURCES	83	92
DEFERRED OUTFLOWS OF RESOURCES	05	52
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	321,629	310,806
LIABILITIES		
Accounts Payable and Other Liabilities	62	61
Investment Purchases Payable	503	7,772
Other Postemployment Benefits	47	44
Net Pension Liability	302	272
Securities Lending Collateral	18,115	20,565
TOTAL LIABILITIES	19,029	28,714
DEFERRED INFLOWS OF RESOURCES	22	50
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	19,051	28,764
NET POSITION RESTRICTED FOR PENSION BENEFITS	\$ 302,578	\$ 282,042

Statement of Changes in Fiduciary Net Position FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2017, AND 2016

(\$ IN THOUSANDS)		
2017	2016	
\$ 3,711	\$ 3,645	
17,373	17,529	
261	78	
21,345	21,252	
25,639	21,302	
6,910	6,865	
32,549	28,167	
32,549	28,167	
270	258	
90	58	
44	46	
134	104	
136	154	
32,685	28,321	
54,030	49,573	
32,807	30,893	
353	115	
334	397	
33,494	31,405	
20,536	18,168	
282,042	263,874	
\$ 302,578	\$ 282,042	
	2017 3,711 17,373 261 21,345 21,345 32,549 32,685 54,030 32,807 353 334 33,494 20,536 282,042 	

"Health insurance is important to our members, and we are happy to offer a plan that provides excellent benefits that meet and exceed their needs."

> Erica Collins-Thomas Medicare Retiree Benefits Manager

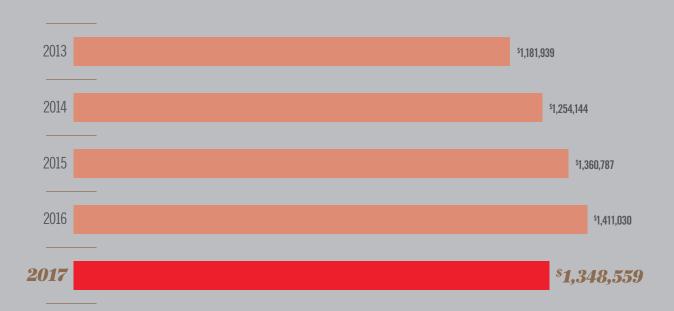




MEMBERS AND DEPENDENTS.

TOTAL CLAIMS EXPENSE ACTIVE AND RETIRED

(\$ IN THOUSANDS)





Statement of Net Position

AS OF SEPTEMBER 30, 2017, AND 2016

	(\$ IN THOUSANDS)	
ASSETS	2017	2016
CURRENT		
Cash	\$ 4,508	\$ 4,233
Premiums Receivable	1,144	1,133
Prescription Drug Rebates Receivable	17,821	4,765
Interest Receivable	139	20
Deposit with Claims-Paying Agent	1,559	2,229
TOTAL CURRENT ASSETS	25,171	12,380
NONCURRENT		
INVESTMENTS, AT FAIR VALUE		
Investments, Restricted	67,689	-
Investments, Unrestricted	125,103	111,824
Total Investments, At Fair Value	192,792	111,824
Total Assets	217,963	124,204
Deferred Outflows of Resources	874	783
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	218,837	124,987
CURRENT Accounts Payable	361	402
Accounts Payable	361	402
Due to Other Governments	335	5,918
Compensated Absences, Current	16	18
Reported Claims Payable	28,349	39,686
Claims Incurred But Not Reported	54,917	50,954
TOTAL CURRENT LIABILITIES	83,978	96,978
NONCURRENT		
Compensated Absences	430	419
Net Pension Liability	3,450	3,233
Other Postemployment Benefits	1,192	1,062
TOTAL NONCURRENT LIABILITIES	5,072	4,714
TOTAL LIABILITIES	89,050	101,692
DEFERRED INFLOWS OF RESOURCES	89	18
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	89,139	101,710
NET POSITION-RESTRICTED	67,689	-
NET POSITION-UNRESTRICTED	62,009	23,277
TOTAL NET POSITION	129,698	23,277
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES,		
AND NET POSITION	\$ 218,837	\$ 124,987

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

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2017, AND 2016

	(\$ IN THOUSANDS)		
OPERATING REVENUES	2017	2016	
PREMIUMS			
Unrestricted	\$ 951,717	\$ 875,242	
Restricted	67,430		
TOTAL PREMIUMS	1,019,147	875,242	
OPERATING EXPENSES			
Claims	910,527	893,420	
Fees and Assessments	445	4,355	
Administrative	3,170 3,		
TOTAL OPERATING EXPENSES	914,142	900,785	
OPERATING INCOME/(LOSS)	105,005	(25,543)	
INVESTMENT REVENUES			
Interest Income			
Interest Income–Unrestricted	1,157	569	
Interest Income-Restricted	259		
TOTAL INTEREST INCOME	1,416	569	
TOTAL INVESTMENT REVENUES	1,416	569	

NET POSITION

CHANGE IN NET POSITION

BEGINNING NET POSITION	23,277	48,251
ENDING NET POSITION RESTRICTED UNRESTRICTED	67,689 62,009	23,277
TOTAL NET POSITION	\$ 129,698	\$ 23,277

106,421

(24,974)

Separately issued, audited financial statements are available upon request.



Statement of Fiduciary Net Position

AS OF SEPTEMBER 30, 2017, AND 2016

	(\$ IN THOUSANDS)		
ASSETS	2017	2016	
RECEIVABLES			
Prescription Drug Rebates	\$ 4,416	\$ 13,763	
Interest and Dividends	4,003	4,337	
Investment Sales Receivable	112	29	
Employer Group Waiver Plan (EGWP)	41,307	78,828	
TOTAL RECEIVABLES	49,838	96,957	
DEPOSIT WITH CLAIMS-PAYING AGENT	712	2,491	
INVESTMENTS, AT FAIR VALUE			
Commercial Paper		5,000	
Money Market Funds	71,877	34,916	
U.S. Government Guaranteed Bonds	124,363	118,648	
U.S. Agency Securities	24,591	25,526	
Mortgage-Backed Securities	76,103	64,257	
Corporate Bonds	170,198	182,005	
International Securities	133,177	108,376	
Common Stocks	717,794	640,079	
Preferred Stocks	4,020	4,141	
TOTAL INVESTMENTS	1,322,123	1,182,948	
INVESTED SECURITIES Lending collateral	81,437	83,253	
TOTAL ASSETS	1,454,110	1,365,649	
LIABILITIES			
Reported Claims Payable	6,392	14,916	
Investment Purchases Payable	937	274	
Due to Other Governments	54	1,078	
Claims Incurred But Not Reported	16,727	25,928	
Securities Lending Collateral	81,437	83,253	
////// TOTAL LIABILITIES	105,547	125,449	
NET POSITION RESTRICTED FOR OTHER POSTEMPLOYMENT BENEFITS			

\$ 1,348,563 \$ 1,240,200

Statement of Changes in Fiduciary Net Position

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2017, AND 2016

	(\$ IN TH	IOUSANDS)
ADDITIONS	2017	2016
CONTRIBUTIONS		
Employee Contributions	\$ 143,091	\$ 119,840
Employer Contributions	243,146	305,865
Employer Group Waiver Plan (EGWP)	23,195	60,726
TOTAL CONTRIBUTIONS	409,432	486,431
INVESTMENT INCOME		
FROM INVESTING ACTIVITIES		
Net Increase in Fair Value of Investments	106,997	88,960
Interest and Dividends	30,645	29,742
Total Investment Income from Investing Activities	137,642	118,702
FROM SECURITIES LENDING ACTIVITIES		
Securities Lending Income	1,226	936
Less Securities Lending Expenses		
Borrower Rebates	408	143
Management Fees	199	178
Total Securities Lending Expenses	607	321
Income from Securities Lending Activities, Net	619	615
TOTAL INVESTMENT INCOME	138,261	119,317
TOTAL ADDITIONS	547,693	605,748
DEDUCTIONS		
BENEFITS	438,032	517,610
FEES AND ASSESSMENTS	(56)	712
ADMINISTRATIVE EXPENSES	1,354	1,618
TOTAL DEDUCTIONS	439,330	519,940
CHANGE IN NET POSITION	108,363	85,808
NET POSITION RESTRICTED FOR OTHER POSTEMPLOYMENT BENEFITS		

BEGINNING OF YEAR	1,240,200	1,154,392
END OF YEAR	\$ 1,348,563	\$ 1,240,200

"Every day PEEHIP is looking for ways to help improve the health and well-being of our membership."

> Jeremy Darabaris PEEHIP Wellness Program Coordinator

11

1



THE **PEEHIP** TEAM IS **PROACTIVE** AND **FORWARD-THINKING** WHEN IT COMES TO MEETING THE HEALTH NEEDS OF OUR MEMBERSHIP.

We are in constant contact with medical experts and health industry innovators. Our wellness initiatives create significant savings for our members and the Plan due to prevention and treatment of medical conditions. In addition, we are creating a culture of health for our members that is self-sustaining, which leads to feeling better, living longer, and enjoying life to its fullest.

97%

COMPLETED THEIR WELLNESS SCREENING, IN 2017,

COMPLETED THEIR HEALTH COACHING, AND



COMPLETED ALL OF THEIR REQUIRED ACTIVITIES.

RSA-1 staff is always ready to assist members as they start saving early for their retirement.

Courtney Fenn RSA-1 Retirement Counselor Kathy Woddail Administrative Assistant III



RSA-1 SERVES

OUR MEMBERS AS A POWERFUL

SAVINGS AND INVESTMENT TOOL,

HELPING THEM REACH THEIR

RETIREMENT DREAMS.

RSA-1 allows members to save and invest extra money, tax deferred.







IN ITS BOND INVESTMENT FUND AND



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, 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
SEPTEMBER 30, 2017 (FIXED INVESTMENT OPTION)	3.50	-2.68	0.82	1,303.1	33,826
SEPTEMBER 30, 2017 (STOCK INVESTMENT OPTION)	2.21	16.28	18.49	690.3	20,954
SEPTEMBER 30, 2017 (STIF INVESTMENT OPTION)	0.87	0.00	0.87	51.1	1,841

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.

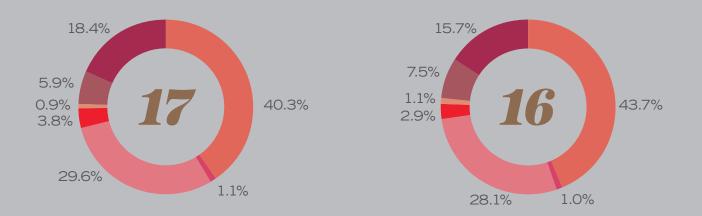
The Tax Reform Act of 1986 prohibited contributions to deductible voluntary employee contribution plans, such as PEIRAF, for years after 1986. Accordingly, the PEIRAF Board of Control discontinued receiving contributions to this plan after December 31, 1986. However, the PEIRAF continues to reinvest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



All numbers as of September 30, 2017, and September 30, 2016



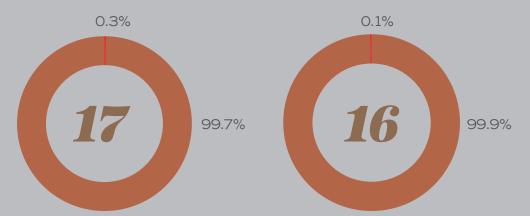
PEIRAF / Investment Allocation



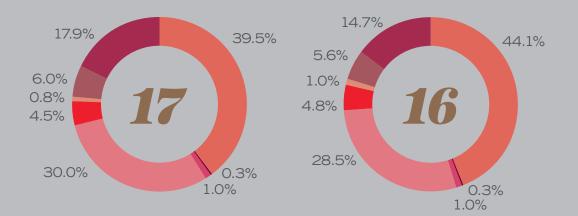
RSA-1 / Short-Term Investment



RSA-1 / Investment Allocation Stock Fund



RSA-1 / Investment Allocation Bond Fund





Statement of Fiduciary Net Position

AS OF SEPTEMBER 30, 2017, AND 2016

	IN ACTUAL DOLLARS		
ASSETS	2017	2016	
CASH	\$ 100	\$ 1,001	
INTEREST RECEIVABLE	597,875	713,037	
INVESTMENTS, AT FAIR VALU	JE		
Money Market and Mutual Funds	3,050,702	2,397,885	
U.S. Government Guaranteed Bonds	23,513,779	23,570,007	
U.S. Agency Securities	4,671,026	6,333,131	
Mortgage-Backed Securities	15,304,084	14,084,916	
Corporate Bonds	32,005,726	36,700,832	
Preferred Stock	831,452	856,473	
TOTAL INVESTMENTS	79,376,769	83,943,244	
INVESTED SECURITIES LENDING COLLATERAL	8,166,599	4,642,453	
TOTAL ASSETS	88,141,343	89,299,735	
LIABILITIES			
Securities Lending Collateral	8,166,599	4,642,453	
TOTAL LIABILITIES	8,166,599	4,642,453	
NET POSITION RESTRICTED FOR PEIRAF BENEFITS	\$ 79,974,744	\$ 84,657,282	

Statement of Changes in Fiduciary Net Position

AS OF SEPTEMBER 30, 2017, AND 2016

	IN ACTUAL DOLLARS	
ADDITIONS	2017	2016
INVESTMENT INCOME		
FROM INVESTING ACTIVITIES		
Interest and Dividends	\$ 2,872,774	\$ 2,987,735
Net (Decrease)/Increase in Fair Value of Investments	(2,227,834)	1,782,642
Total Investment Income from Investing Activities	644,940	4,770,377
FROM SECURITIES LENDING ACTIVITIES		
Securities Lending Income	99,332	84,288
Less Securities Lending Expenses		
Borrower Rebates	42,622	34,085
Management Fees	13,694	11,467
Total Securities Lending Expenses	56,316	45,552
Income from Securities Lending Activities, Net	43,016	38,736
NET INVESTMENT INCOME	687,956	4,809,113
TOTAL ADDITIONS	687,956	4,809,113
DEDUCTIONS		
Normal Distributions	5,370,494	3,603,433
TOTAL DEDUCTIONS	5,370,494	3,603,433
CHANGE IN NET POSITION	(4,682,538)	1,205,680

NET POSITION RESTRICTED FOR PEIRAF BENEFITS

BEGINNING OF YEAR	84,657,282	83,451,602
END OF YEAR	\$ 79,974,744	\$ 84,657,282



Statement of Fiduciary Net Position

AS OF SEPTEMBER 30, 2017, AND 2016

	IN A	CTUAL DOLLARS
ASSETS	2017	2016
CASH	\$ 208,125	\$ 207,915
INVESTMENT SALES RECEIVABLE	-	32,296
INTEREST AND DIVIDENDS RECEIVABLE	9,666,787	10,525,597
INVESTMENTS, AT FAIR VAL	UE	
Commercial Paper		15,999,727
Money Market Funds	111,829,998	90,824,477
U.S. Government Guaranteed Bonds	388,001,804	388,237,903
U.S. Agency Securities	77,196,950	76,051,455
Mortgage-Backed Securities	241,794,393	213,671,730
Corporate Bonds	511,340,714	601,134,535
Private Placements	4,447,334	4,564,648
Common and Preferred Stocks	700,388,682	574,055,233
TOTAL INVESTMENTS	2,034,999,875	1,964,539,708
INVESTED SECURITIES LENDING COLLATERAL	124,213,973	159,267,125
TOTAL ASSETS	2,169,088,760	2,134,572,641
LIABILITIES		
Investment Purchases Payable		46,826
Securities Lending Collateral	124,213,973	159,267,125
TOTAL LIABILITIES	124,213,973	159,313,951
NET POSITION RESTRICTED FOR DEFERRE COMPENSATION BENEFITS	D	

\$ 2,044,874,787 \$ 1,975,258,690

Statement of Changes in Fiduciary Net Position

AS OF SEPTEMBER 30, 2017, AND 2016

	IN ACTUAL DOLLARS		
ADDITIONS	2017 2016		
MEMBER CONTRIBUTIONS	\$ 91,174,965 \$ 131,841,11		
INVESTMENT INCOME			
FROM INVESTING ACTIVITIES			
Interest and Dividends	58,201,703	56,760,752	
Net Increase in Fair Value of Investments	56,578,557	96,630,403	
Total Investment Income from Investing Activities	114,780,260	153,391,155	
FROM SECURITIES LENDING ACTIVITIES			
Securities Lending Income	2,376,619	1,901,093	
Less Securities Lending Expenses			
Borrower Rebates	1,066,968	456,889	
Management Fees	316,125	340,340	
Total Securities Lending Expenses	1,383,093	797,229	
Income from Securities Lending Activities, Net	993,526	1,103,864	
NET INVESTMENT INCOME	115,773,786	154,495,019	
TOTAL ADDITIONS	206,948,751	286,336,134	
DEDUCTIONS			
Normal Distributions	136,786,025	144,751,596	
Emergency Withdrawals	546,629	562,308	
TOTAL DEDUCTIONS	137,332,654	145,313,904	
CHANGE IN NET POSITION	69,616,097	141,022,230	
NET POSITION			

RESTRICTED FOR DEFERRED

COMPENSATION BENEFITS

BEGINNING OF YEAR	1,975,258,690 1,834,236,460
END OF YEAR	\$ 2,044,874,787 \$1,975,258,690



RSA Office Services

processes over

1.5 million

pieces of incoming and outgoing

correspondence annually.

Kendall Duncan Administrative Assistant II There are over



www.rsa-al.gov

Deborah Kirk Assistant Director, Communications

UC SERVE OUR MEMBERS BOTH ONLINE AND ONE-ON-ONE.

RSA has



real estate properties in three cities: Montgomery, Mobile, and New York City.

Willie Arrington Building Manager, RSA Headquarters There are



Online portal.

https://mso.rsa-al.gov

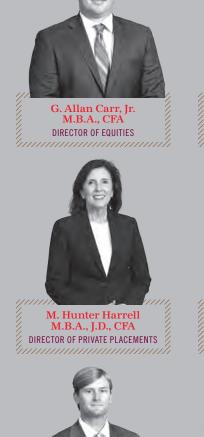
Edwin Watkins Assistant ITS Director BY PROVIDING OUTSTANDING RESULTS WITH ONE OF THE LOWEST INVESTMENT EXPENSES IN THE INDUSTRY.

WE



2017 Staff







Bobby Long M.B.A., CFA Equity Analyst/Portfolio Manager







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Michael McNair M.B.A., CFA Equity analyst



PORTFOLIO MANAGER



Equity Activity

After five years of lackluster earnings growth, 2017 is poised to break out and actually show an upside surprise relative to initial expectations. A somewhat synchronized global economic acceleration translated into good returns for most equity markets. Easy money conditions and improving investor sentiment also helped shape a good year. Political turmoil and a failure to accomplish some of the bigger goals as set out by the Trump Administration weren't the impediments one might have expected. Looking ahead, the market seems to be implying that some type of corporate tax reform is going to happen. Forward earnings expectations are widely dispersed, with one of the biggest variables being the undecided-upon corporate tax rate. Hopefully, the administration and legislators can put together a tax plan that the markets will support.

Within the equity portfolios, it was a risk-on year, with small caps and emerging markets having the best returns. Market breadth improved from the prior year, but market leadership remains narrow relative to history. The biggest repositioning within the portfolio was moving some money out of our S&P 500 index fund and into emerging markets. Emerging markets have been a laggard relative to both U.S. and developed international markets over the past 10 years. With the dollar having stalled out and energy prices remaining range bound, we believe from a reversion to the mean standpoint more exposure to emerging markets has merit.

Considering we are in one of the longer-running bull markets of all time, the RSA has continued to put some hedges in place to dampen downside volatility within the equity portfolio. We have tactically rolled out put-spread collars at various strikes and maturities that give 4-5% downside protection. There is a cost associated with these as protection isn't free, but we feel it prudent to have these trades on given our substantial equity market exposure.

For the year, the RSA domestic equity portfolios returned 17.83%, 17.81%, and 17.81% for the TRS, the ERS, and the JRF funds, respectively. Both developed and emerging international equities outperformed U.S. equities. Total international equity returns were 19.71% for the TRS, 19.75% for the ERS, and 19.76% for the JRF. The combined total returns for the overall equity portfolios were 18.27%, 18.23%, and 18.28% for the TRS, the ERS, and the JRF, respectively. Three-, five-, and ten-year annualized global equity returns were 9.67%, 12.88%, and 6.18% for the TRS, 9.65%, 12.89%, and 6.22% for the ERS, and 9.75%, 12.98%, and 6.63% for the JRF, respectively. ▶

Fixed Income Activity

At the beginning of fiscal year 2017, fixed-income markets had just experienced a slight uptick in volatility created by global monetary policymakers. Lack of discussion by the European Central Bank in regard to its asset-purchase program, yield-targeting by the Bank of Japan, and the lowering of projections for future interest rate increases by the Federal Open Market Committee left markets in a state of flux. The treasury yield curve steepened in October as the potential unwind of global quantitative easing and higher inflation expectations came into focus. Investment-grade credit spreads actually tightened during the month, while high-yield debt was able to squeak out a positive return due to its shorterduration profile.

In November, Donald Trump's presidential victory triggered an upward move in interest rates as expectations grew that his administration, coupled with Republican majorities in both houses of Congress, would enact policies enhancing economic growth. The Bloomberg Barclays' Aggregate Index, the benchmark for fixedincome securities, shed over 2.35% during the month with all coupon-paying assets posting negative returns. The post-election move also reflected stronger economic data and higher inflation expectations. As anticipated, the FOMC raised the federal funds rate 25bps at its December meeting. Treasury yields were able to rally during the latter half of December. The 10-year treasury ended the calendar year at 2.44%, 110 basis points higher than the lows experienced in July. High-yield debt was the best-performing asset class within fixed income, gaining approximately 2.00% in December and finishing calendar year 2016 with a 17.50% total return.

Treasury levels remained virtually unchanged in the first month of the calendar year, while corporate credit traded in a tight range. Corporations appeared to have frontloaded supply in expectation of higher rates in the future as \$175 billion of investment-grade debt was issued. The risk-on rally continued into February as corporate credit spreads tightened across the board, stretching their run to eight consecutive months. Treasury securities were able to rally as political risks in Europe began to pick up steam. French and Italian spreads widened to their highest levels since 2014, and short-term yields in Greece spiked as negotiations with creditors on its next round of funding broke down.

By mid-March, interest rates had settled back into the top end of its post-election range. This was achieved through effective communication by policymakers, strong employment numbers, and easing political risks in Europe. Fed Chair Janet Yellen and the FOMC did



raise short-term interest rates at their March meeting, but relayed that only two additional hikes were likely for the remainder of the year. This provided a little relief for fixed-income investors as they had feared a faster pace of tightening going forward.

During the spring, corporate credit continued to show its resiliency, despite a few economic and political disturbances. Treasury yields fell from peak levels after a weaker than expected payroll report and concerns about the outcome of the French election. These issues, coupled with falling inflation expectations, led to a dramatic flattening of the yield curve. While all sectors within fixed income were able to post positive returns, the lack of duration within agency and mortgage securities held them back from fully participating. By the time policymakers raised short-term interest rates near the end of June, the differential between two-year and ten-year treasury yields had fallen to 80bps. At this meeting, the Committee also laid the groundwork for reducing its balance sheet later in the year.

Interest rates moved briefly higher over the next couple of weeks on the heels of solid economic data and a jump in inflation expectations. This move proved to be short-lived as expectations for a September rate move began to diminish. Geopolitical tensions and a benign inflation outlook appeared to have squashed previous hawkish sentiment. Policymakers and investors alike have struggled to come to an agreement on the cyclical versus structural disinflation debate. The corporate sector actually fared worse than government debt in August, something that has not happened quite often this year outside the marginal underperformance in March.

The last month of the fiscal year started out on shaky ground with hurricanes and debt ceiling deadlines leaving investors looking for shelter. The search for safe assets sent treasury yields to their lows of the year. Once again, this bout of risk aversion was not to be, as Congress extended the debt ceiling decision for another day and a relief rally ensued. The Fed did meet toward the end of the month and, as expected, voted to leave rates at their current level. The Committee also finalized plans for the reduction in its balance sheet. These actions, coupled with hawkish statements thereafter, lifted rates higher through the end of the fiscal year. As expected, risk assets reacted favorably with high-yield debt posting its largest outperformance of the calendar year. In a year of pedestrian returns in fixed income, investors were rewarded for reaching down the quality spectrum and scooping up as many assets as they could find. However, the performance gap within corporate credit shrunk

considerably throughout the year and appears to be a trend going forward.

For the fiscal year, the total annual returns for the public domestic fixed-income portfolios were 1.03% for the TRS, 1.05% for the ERS, and 0.66% for the JRF. The five-year annualized returns were 2.74% for the TRS, 2.73% for the ERS, and 2.64% for the JRF. The ten-year annualized returns were 5.10% for the TRS, 5.10% for the ERS, and 4.99% for the JRF.

FOR 2017, THE RSA'S PEER GROUP RANKINGS (STATE STREET PUBLIC FUNDS UNIVERSE GREATER THAN \$1 BILLION)

WERE IN THE

62ND PERCENTILE FOR TRS AND 36TH PERCENTILE FOR ERS.

THE THREE-, FIVE-, AND

SEVEN-YEAR RANKINGS

REMAIN IN THE



FOR BOTH THE

TRS AND THE ERS.



RSA INVESTMENTS

Returns **2017**

For the period ended September 30, 2017 (In %)	Net Asset Value	1 Year	3 Years	5 Years	10 Years
TOTAL PORTFOLIO					
TRS	\$24,431,322,275	11.77	7.63	9.95	5.04
ERS	12,029,642,766	12.86	7.92	10.04	4.88
JRF	299,532,460	11.90	7.28	9.63	6.05
TOTAL DOMESTIC EQUITY					
TRS	12,640,376,201	17.83	10.67	14.05	7.46
ERS	6,210,847,775	17.81	10.59	13.99	7.42
JRF	163,209,117	17.81	10.83	14.19	7.68
DOMESTIC EQUITY BENCHMARKS					
S&P 500		18.61	10.81	14.22	7.44
Mid Cap 400		17.52	11.18	14.43	9.00
Small Cap 600		21.05	14.07	15.60	9.27
TOTAL INTERNATIONAL EQUITY					
TRS	3,311,481,092	19.71	5.64	8.49	1.94
ERS	1,474,565,604	19.75	5.65	8.46	1.95
JRF	45,271,139	19.76	5.66	8.46	2.36
INTERNATIONAL EQUITY BENCHMARKS					
Morgan Stanley EAFE		19.10	5.04	8.38	1.34
MSCI Emerging Markets		22.46	4.90	3.99	1.32
TOTAL FIXED INCOME AND ALTERNATIVES					
TRS	1,613,812,654	1.33	4.59	5.56	3.45
ERS	3,923,537,138	4.86	5.73	6.24	3.32
JRF	74,555,119	0.50	2.96	2.74	4.31
FIXED INCOME BENCHMARKS					
Barclays		0.07	2.71	2.06	4.27

Maturity Structure

he 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 %)

		TRS			ERS	
Years to Maturity	2017	2016	2015	2017	2016	2015
0 to <5	29	25	24	29	25	24
5 to <10	17	13	15	17	12	14
10 to <30	52	61	60	53	62	61
= or >30	2	1	1	1	1	1

Quality Evaluation

he 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 %)

		TRS			ERS	
Rating	2017	2016	2015	2017	2016	2015
AAA	36	27	26	36	26	25
AA	1	1	1	1	1	1
А	10	7	8	9	7	8
BAA	14	13	14	14	12	13
BA	2	2	1	2	2	1
В	0	1	0	1	1	0
Not Rated	37	49	50	37	51	52

2017 Broker Commissions Paid

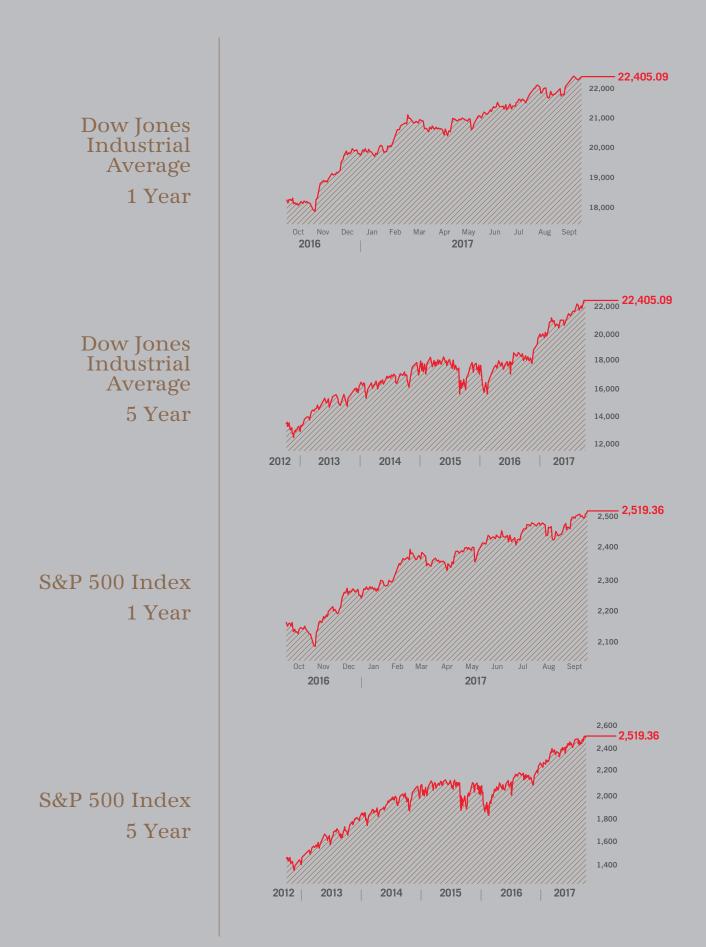
For Fiscal Year Ended September 30, 2017

	COMMISSIONS STOCK TRANSACTIONS (\$ IN THOUSANDS)	FIXED SECURITIES COMMISSIONS (\$ IN THOUSANDS)
BANK OF AMERICA / MERRILL LYNCH	274	83
BARCLAYS	125	19
BERNSTEIN	326	
BTIG	43	
CANTOR FITZGERALD		20
CITIGROUP	330	99
CONVERGEX	164	
CORNERSTONE	96	
COWEN	70	
CREDIT SUISSE	38	1
DEUTSCHE BANK	36	18
GOLDMAN SACHS	85	111
HARBOR FINANCIAL	23	
HOWARD WEIL	14	
<u>ISI</u>	392	
ISSUER DESIGNATED		70
JEFFERIES	124	
JP MORGAN CHASE	66	89
KEYBANC CAPITAL MARKETS	50	76
MORGAN KEEGAN	20	
MORGAN STANLEY	1,056	129
NBC SECURITIES	63	
RAYMOND JAMES	52	3
RENAISSANCE SECURITIES	260	
RBC BANK	308	27
SANDLER O'NEIL	13	
SECURITIES CAPITAL	23	
SOUTHWEST SECURITIES	23	
STIFEL NICOLAUS	492	20
STRATEGAS	311	
SUNTRUST		8
UBS WARBURG	65	
WELLS FARGO	401	101

Т	ota	1
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^{\$}5,343

^{\$}874





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 2016 vs. 2017



Terry Sanders Systems Design Engineer RSA Data Center

THE RSA DATA CENTER SERVES MORE THAN **20** INDUSTRIES IN **FOUR** SURROUNDING STATES.

Providing secure data storage within 37,000 square feet and featuring Alabama's only internet exchange, the RSA Data Center has recruited high-tech, high-paying jobs to Montgomery enhancing economic growth and adding valuable tax revenue.

THE RETIREMENT SYSTEMS OF ALABAMA

MEMBER SERVICES CONTACT CENTER

Take advantage of Member Services' personalized assistance concerning your retirement and healthcare 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.**

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.

TO VISIT MEMBER SERVICES

FROM THE NORTH

Follow I-65 South into Montgomery. Take the I-85 North exit to the right to Atlanta. Stay in the righthand 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.

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 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 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.



RSA Headquarters 201 South Union St. Montgomery, AL 36104

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