



The ADVISOR

TEACHERS, EMPLOYEES, and JUDICIAL



RSA's 2012 Investment Performance

By Marc Green, CIO

Fiscal year 2012 ended on a strong note with stocks moving substantially higher throughout the year. The total returns for the TRS, ERS, and JRF were 18.30%, 18.01%, and 19.01% respectively. These results ranked the funds in the top quartile of the State Street Public Funds Universe.

Over the last two years, the ten-year annualized return for the plans have more than doubled from approximately 3% to nearly 6.5%. This was an exceptional year considering the near financial meltdown and close brush in 2008-2009 with our first depression since the 1930s. ■

	ANNUALIZED			
	1 Year	Last 3 Years	Last 5 Years	Last 10 Years
Total Portfolio				
TRS	18.30%	9.30%	0.35%	6.46%
ERS	18.01%	9.37%	-0.04%	6.22%
JRF	19.01%	9.80%	2.60%	6.84%

To RSA Naysayers – A Second “Thank You”

By David G. Bronner

In the July 2012 *Advisor*, I sincerely thanked those who have been critical of the RSA's Alabama investments. Without them, the RSA would have never asked the University of Alabama and Auburn University to study the economic impact of these investments. A summary of their studies showed that: RSA's approximate 10-12% allocation to investing (roughly \$5.5 billion) in Alabama since the 1987 stock market crash added \$28 billion to Alabama's Gross Domestic Product, increased tax revenue \$1.5 billion, generated \$14.3 billion in payroll earnings for Alabamians, and created 282,564 FTE jobs! This illustrates that the RSA has done more to improve our state than any pension fund in America.

A second thanks goes to a former reporter, who wrote for years comparing RSA investment performance to the pension fund universe. Recently, it came to RSA's

attention that this was an apples to oranges comparison because the rate of return used to compare public pension funds is calculated on gross returns and does not take into account investment and management fees. Shockingly, this is a practice recommended by the CFA Institute under the Global Investment Performance Standards (Rule 5.B.1).

Keep in mind that pension funds over \$1 billion in assets have very similar investments. The top quarter and bottom quarter are usually separated by a small margin sometimes less than one half of one percent!

A survey of 48 different public pension plans with assets over \$1 billion showed that their managed fees averaged 54.3 basis points (slightly above one half of one percent). For example, a public pension plan in one of the western states similar in size to the RSA had annual management

fees of \$128.3 million (45 basis points). They received almost a half percent less in returns than their gross performance showed.

Last year, the RSA spent only \$7.6 million in investment fees, which is less than 3 basis points of its asset value. The RSA fees are consistently the lowest of any public pension fund in the country so that RSA's investment return is virtually the same before and after fees. Other pension funds lose, on average, 0.54% of their gross return each year to investment fees. Thus, the RSA's internally managed assets allow the RSA to keep fees at a low level so more dollars go to pay its beneficiaries.

Again, we thank our naysayers for making the RSA demonstrate that the RSA is one of the stewards that others should emulate, and that our investment performance is more than acceptable when comparing apples to apples. ■

Alabama Ranks 45th in Child Well-Being, Despite Some Gains

By Alex Walsh, AL.com

Alabama's fourth graders are better at reading, its eighth graders are better at math, and more of its high school students are graduating on time. But 28 percent of the state's children live in poverty—a share that has increased 3 percentage points from 2005 to 2010, according to the latest Kids Count Data Book for Alabama.

Overall, Alabama is the 45th-best state in the nation for the children's well-being, when all of data tracked by the Kids Count research directive is considered cumulatively. In Alabama, Kids Count is distributed and administered by Voices for Alabama's Children, a group that has been advocating for young people since 1992, when the Annie E. Casey Foundation published the first Kids Count

study. That foundation continues to promote the research program at the national level.

Linda Tilly, executive director of Voices for Alabama's Children, laments Alabama's continued lack of competitiveness with other states, but notes bright spots in the latest report. "While ranking 45th in child well-being is not cause for celebration when viewed alone, the fact that the state is making progress is encouraging," Tilly said. "This report, coming on the heels of the Southern Regional Education Board report, ranks Alabama as the leader in the nation for improvements in reading scores. This indicated that the work of child advocates, community programs, and policymakers, who can make children a priority, is paying off."

In addition to the gains made at the K-12 level, more of Alabama's children are attending preschool—up from 41 percent to 43 percent, according to the latest estimate. And beyond education, the health of Alabama's children is improving in some key ways. Fewer babies arrive at low birth weights, the study says, and the death rate for children under the age of 18 is down from 43 per 100,000 to 37. But Alabama continues to struggle in what the study classifies as family and community criteria. More children are living in single-parent families; more teens are giving birth to children of their own; and a higher percentage of all Alabama children are living in high-poverty areas. ■

Cash Has Been Piling Up on Companies' Balance-Sheets

Source: *BusinessWeek*

Monetary stimulus gets you only so far. In America, third-quarter profits and revenues for companies in the S&P 500 index appear to have fallen year on year for the first time since 2009, according to Thompson Reuters. Profits for roughly half the firms in the European Stoxx 600 have fallen short of expectations so far.

Companies in search of a culprit may want to glance in the mirror. Firms are trimming their budgets for everything from technology-consulting services to semiconductor equipment in the face of what Sir Martin Sorrell of WPP, a British advertising and marketing giant, calls four "grey swans" (unlike black swans, people know about grey ones). The four worries unnerving business are: the euro-zone crisis; upheaval in the Middle East; a possible recession in China; and America's economic health and "fiscal cliff" — the combination of tax increases and spending cuts scheduled to occur at the end of this year.

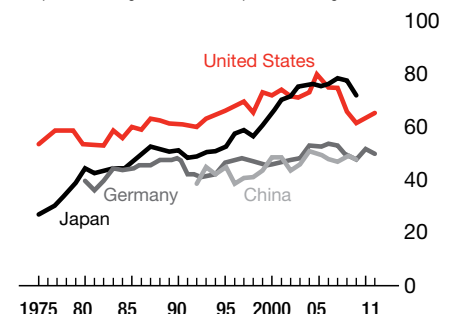
This is not a new problem. Investment has steadily risen since the recession ended, but not as vigorously as profits. In America, for example, nominal capital expenditure this year (on an annualized basis) has risen by 6% compared with 2007; internal cash flow is up by 32%. Companies have been net suppliers, instead of users, of funds to the rest of the economy since 2008. Firms in the S&P 500 held roughly \$900 billion of cash at the end of June, according to Thompson Reuters, down a bit from a year earlier but still 40% up on 2008.

Business leaders and conservative critics cite that cash mountain as proof that meddling federal regulations and America's high corporate-tax rate is locking up cash and depressing investment. But that cannot explain why the same phenomenon prevails worldwide. Japanese companies' liquid assets have soared by around 75% since 2007, to \$2.8 trillion, according to ISI Group, a broker. Cash stockpiles have continued to grow in

Britain and Canada, too, to the immense frustration of policymakers there. "Dead money" is how Mark Carney, the Bank of Canada's governor, has described the nearly \$300 billion in cash Canadian companies now hold, 25% more than in 2008. Mr. Carney admonished them to "put money to work and if they can't think of what to do with it, they should give it back to their shareholders...."

Hoard instinct

Corporate savings as % of total private saving



Source: Loukas Karabarounis and Brent Neiman, University of Chicago Booth School of Business

55 Water Street Hit by Hurricane Sandy

By David G. Bronner

Over its history, New York City had never experienced a storm like “Sandy,” flooding lower Manhattan. The first floor of 55 Water Street had approximately seven feet of water in the lobby, which was quickly removed. There are three levels below ground and a below ground parking deck that were also flooded. Major damage was done to the electrical switchboards of Con Ed and to 78 of 80 elevators. It took almost five days using five pumper trucks from Ohio and Washington, DC, to drain 50+ million gallons of water.

Half of the building elevators must be operational in order to open the building. We believe we can get floors 19-54 reopened in about two weeks because 100 elevator technicians from the flooded NYC Trade Towers project, which has been delayed due to the storm, are now available to

work at 55 Water Street. Floors 1-18 will take longer, maybe up to 10 weeks due to damage to the electrical switchboard.



Under the Federal Flood program, the maximum coverage for any building is \$1 million (half building and half contents). Thankfully, the RSA had purchased an additional \$50 million in coverage from Lloyd’s of London. However, we may lose that flood coverage in the future at 55 Water Street as we did on the Grand Hotel after Hurricane Katrina, when the cost went from \$250,000 with a \$100,000 deductible to \$5 million and a \$25 million deductible. Time will tell.

Our tenants cannot break their leases unless it takes 12 months to do the necessary repairs. That will not happen. Your New York City staff has simply been outstanding in dealing with this major disaster. ■

The Cost of Tax Deductions

Source: Brookings Institution and the Tax Policy Center

The government gives up more in deductions (about \$1.1 trillion) than it collects (\$1 trillion). The

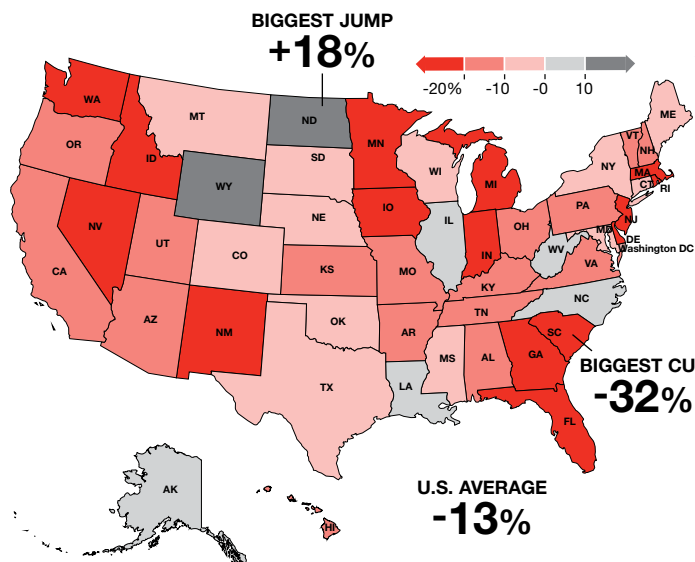
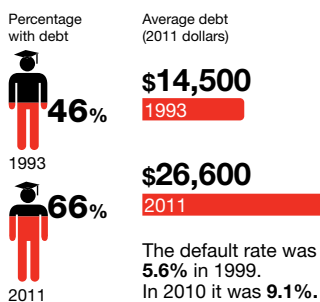
costliest ones are also the most popular with the middle class: charitable giving (\$47 billion), mortgage interest (\$89 bil-

lion), retirement savings (\$118 billion), and employer-provided health insurance (\$131 billion). ■

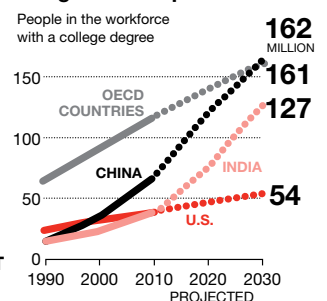
States are reducing per-student funding to colleges

Change in state spending on public colleges and universities, 2006–11

Student debt loads are increasing



Having fewer degrees threatens our global competitiveness



Source: Time Magazine

It is Time To Have Fun and Enjoy the Family Plan Your Holidays for Our Hotels, Spa, and Golf

RETIREMENT SYSTEMS OF ALABAMA
201 SOUTH UNION STREET
P.O. BOX 302150
MONTGOMERY, ALABAMA 36130-2150

PRSRT STD
U.S. POSTAGE
PAID
MONTGOMERY, AL
PERMIT NO. 402



ENJOY YOUR WINTER
A Special Deal
FOR RSA MEMBERS

**The Battle House,
A Renaissance Hotel – Mobile – \$99**
• December 1-30 • January 1-3, 8-12, 27-31
• February 3-6, 12-14, 17-27

The Renaissance Riverview Plaza – Mobile – \$89
• December 1-30 • January 1-3, 8-12, 27-31
• February 3-6, 12-14, 17-27

Marriott Grand – \$99 plus a 15% resort fee
• December 1-9, 14-22, 27-30
• January 1-8, 12-21, 25-28
• February 2-4, 11, 17-20, 24-26

Marriott Grand – RSA Golf Package – \$169
NEW! Enter code – RSPRSPA
Includes: Deluxe Room, One Round of Golf for Two People.
Call for Tee Times after booking package
• December 1-9, 14-22, 27-30
• January 1-8, 12-21, 25-28
• February 2-4, 11, 17-20, 24-26

Marriott Shoals – Florence – \$89
• December 2-9, 16-30
• January 1-6, 13-15, 20-21, 24-27
• February 10-12, 17-19, 22-28

Renaissance Ross Bridge – Hoover – \$99
• December 1-3, 5-6, 9-10, 13-31
• January 1-8, 11-14, 16-22, 26-31
• February 3-5, 10-13, 17, 24, 27-28

Opelika Marriott – \$89
• December 2-5, 9-18, 21-31 • January 1-31
• February 1-28

Prattville Marriott – \$89
• December 1-4, 7, 9, 12-31
• January 1-3, 6, 8-12, 17-22, 25-27
• February 10-11, 13, 16-18, 24, 28

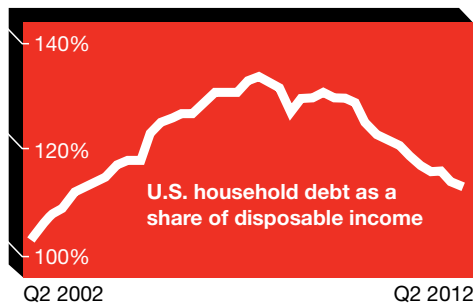
Renaissance Montgomery – \$99
• December 8, 15, 19-30 • January 1-8, 12, 27, 31
• February 3, 8-10, 14-18, 21

RSA Spa Package – \$179
NEW! Enter code – RSPRSPA Includes Deluxe Room
• December 19-20 • January 8, 31
• February 21

Rates available the 1st of the month
and are not applicable to groups.
800-228-9290 Ask for RSA rate.
NEW! Internet Group Code: RSARSAA
on marriott.com

Book Online and Save RSA \$4.

Consumers Shed Debt



Data: Federal Reserve, U.S. Department of Commerce

Top Alabama Exports

- Autos
- Coal
- Industrial machinery
- Plastics
- Organic chemicals
- Iron and steel
- Miscellaneous chemical products
- Aircraft, spacecraft and parts
- Optic and surgical instruments
- Electric machinery

Top Alabama Export Markets

- Canada
- China
- Germany
- Mexico
- United Kingdom
- Japan
- Brazil
- Republic of Korea
- France
- Netherlands

Source: Birmingham News

The ADVISOR

CEO
David G. Bronner

Deputy Director
Donald L. Yancey

Executives

Communications
Michael E. Pegues

Chief Accountant & Financial Officer
Diane E. Scott

Employees' and Judicial Retirement
William F. Kelley, Jr.

Field Services
Judy P. Utlej

Information Technology Services
Michael T. Baker

Investments
R. Marc Green

General Counsel
Leura G. Canary

Legislative Counsel
Lindy J. Beale

Member Services
Penny K. Wilson

PEEHIP
Donna M. Joyner

Teachers' Retirement
Christopher P. Townes

The Retirement Systems of Alabama
201 South Union Street
P.O. Box 302150
Montgomery, Alabama 36130-2150
Phone: 334.517.7000
877.517.0020
RSA Website
www.rsa-al.gov