



The ADVISOR

TEACHERS, EMPLOYEES, and JUDICIAL



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SERVING OVER 339,000 MEMBERS

December 2015



2015 Investment Performance \$\$\$

BY R. MARC GREEN, CHIEF INVESTMENT OFFICER

	Annualized			
	1 Year	Last 3 Years	Last 5 Years	Last 10 Years
Total Portfolio				
TRS	1.04%	9.20%	9.42%	5.41%
ERS	1.05%	9.06%	9.37%	5.16%
JRF	-0.54%	8.45%	8.81%	6.10%

Although the total plan returns were meager, RSA investment results ranked in the top 12th percentile for the one-, three- and five-year periods in the State Street Public Funds Universe (70 funds over \$1 billion), outperforming the majority of our peer group in the ERS and TRS portfolios.

With fiscal 2015 in the books, broad diversification proved to be the winning strategy for the year. Global stock markets on average were down for the 12-month period ending September 30, 2015, while bonds were up in the low single digits. Other parts of the portfolio,

including real estate, private placements, and private equity were the sectors that raised the total plan return back in the black. JRF, because of its size, has limited exposure to these markets.

As bad as the equity markets finished the past fiscal year, the new fiscal year has gotten off to an equally hot start. We have used this rally to put on some partial hedges in the stock portfolio considering all the macro issues the markets continue to face. The ten-year numbers are weak due to 2008 and 2009, but our twenty-five year numbers put us right at our 8% goal. ●

Investment Results 2015

No Longer Top 13% - NOW IN TOP 12%

BY DAVID G. BRONNER

The 2015 investment performance was truly a “roller coaster ride” throughout the year with a good rally and a blow-off in September. Since fiscal year end, the stock market has performed well in October and early November, so hopefully that is a good start to 2016.

Having earned slightly over one percent does not sound great, but it sounds great when compared to a negative return. What it does give you is the picture of the difficult market conditions of 2015.

TO MY CRITICS, it is with great pleasure to point out that our best performing investments in 2015 came from the “private placements sector,” of which 75% was in Raycom Media that returned 16.4% for a total return of 12.5% for both ERS and TRS. Critics equally criticized the “real estate sector,” which returned over 7.0%. Half of that return is 55 Water Street in NYC and half across Alabama, RSA’s office buildings and hotels.

Both the private placements and real estate show the importance of diversification of a large investment portfolio. Just maybe, investing a small percentage of our assets in our state pays off in more ways than originally thought. ●

PROJECTED STATE COSTS FOR 2016-17

Projected Retirement Employer Cost

Retirement Systems of Alabama
(Amounts in millions)

Retirement	Actual	Estimated	Requested
	2014-2015	2015-2016	2016-2017
TRS (Teachers')	\$738	\$747	\$749*
ERS (Employees' Regular-State)	185	200	194*
JRF (Judicial)	15	18	18
Total Retirement Cost	\$938	\$965	\$961

FY2016 Increase in ERS primarily due to 2014 COLA funded in FY2016

Note: amounts from FY2017 Budget documents

* ERS funding from General Fund is estimated at 37% of cost. TRS funding from Education Trust Fund is estimated at 65% of cost.

PEEHIP funding from Education Trust Fund is estimated at 70% of cost. Remainder of costs comes from other sources such as federal, local and earmarked funds.

Projected Insurance Employer Cost

Retirement Systems of Alabama
(Amounts in millions)

Insurance	Actual	Estimated	Requested
	2014-2015	2015-2016	2016-2017
PEEHIP (Teachers)	\$973	\$974	\$1,004*
SEHIP (State Employees)	323	324	343
Total Insurance Cost	\$1,296	\$1,298	\$1,347

Note: PEEHIP numbers include amounts from Universities for retiree costs

Note: FY2017 estimated cost for PEEHIP totals \$1.62 billion



Update on the Joint Committee on Alabama Public Pensions

BY NEAH MITCHELL, LEGISLATIVE COUNSEL

On November 5, the third meeting of the Joint Committee on Alabama Public Pensions took place with the Pew Charitable Trusts presenting its analysis of the RSA. This analysis closely mirrored the information presented by RSA staff and experts at the last meeting of the Committee. Pew did not make any recommendations, but indicated it would make its recommendations for any reforms at a later meeting.

In addition, the Committee unanimously approved a resolution clarifying

the objective of the Committee. The resolution reiterates the Committee’s goal of providing recommendations to strengthen the RSA to ensure that future obligations to members and retirees will be met. Specifically, the resolution provided that: (1) it is not the role of the Legislature to manage the day-to-day operations of any particular retirement plan, nor be involved in the direct operations or investment strategies employed by RSA; (2) no findings or recommendations will be made stating that assets held in trust by RSA be diverted or

used for any purpose other than providing for the retirement needs of the employees covered by these plans; and (3) no findings or recommendations will be made to change the monthly retirement benefit provided for by law for any active or retired employee of the state.

The next Committee meeting will be held in December. It is likely that the subject of that meeting will be state and education retiree healthcare benefits. ●

Editorial: *Montgomery Advertiser*

Retired state employees and teachers understandably get nervous when legislators start poking around in the Retirement Systems of Alabama. For decades, RSA has reliably provided the pension benefits due these Alabamians and there is no reason to believe it will not continue to do so unless it is damaged by some shortsighted interference.

Therein lies the legitimate concern that this Legislature, which has demonstrated a penchant for overreaching, could meddle in some harmful way with RSA. The Legislature’s Joint Committee on Pensions is charged with developing “consensus recommendations concerning the benefits, investments, and funding of the state-administered retirement systems and any other measures that the committee believes would lead to the improved financial stability of the state-administered retirement systems.”

The committee must present its proposals by the fifth legislative day of the next regular session. Given the disastrous performance of the Legislature in 2015,

it is hard to have any confidence that it would offer anything that would be truly beneficial to RSA, the thousands of retirees it serves and the thousands of current employees and teachers enrolled in RSA.

There’s nothing wrong with examining RSA and developing an understanding of its current situation and its prospects for the future. Alabama taxpayers make a significant annual contribution to RSA. However, what must never be forgotten or glossed over is the undeniable reality that some of the concerns over unfunded liabilities were created by the Legislature.

On multiple occasions over the years, the Legislature has approved benefit increases without also providing any means of paying for them. That is the height of shortsightedness and irresponsibility. For all its financial success, the RSA does not miraculously create money. It cannot be expected to sustain repeated mandated increases in benefits without any corresponding revenue to cover them.

Legislators have never seemed to understand that, but instead have

appeared to assume that investment income would always rise to meet whatever obligation they impose on RSA.

RSA is certainly not without issues, but it has those fiscal issues to a considerably smaller extent than most public pension funds. Under the direction of CEO David Bronner, it has dramatically grown its investment portfolio while also making some solid investments in Alabama, such as the Robert Trent Jones Golf Trail. Not all of those at-home investments can be valued strictly on a balance sheet, but their contribution to a better quality of life in Alabama, enhanced tourism and added attractiveness to economic development projects is enormous.

We urge the committee to get a good grasp on what RSA really does and what it really means to Alabama. Our state has plenty of things that don’t work well, and we believe the Legislature’s time would be much better spent working to address them. ●

WANT TO HELP?



A FREE CAR TAG

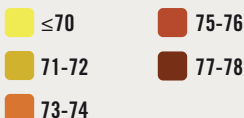
Tired of that worn-out dealer tag on the front of your car?

Would you like to help the RSA and our Alabama Tourist Department advertise “Alabama’s Robert Trent Jones Golf Trail” on your front bumper? If so, call to request a tag at 334.517.7000 or 877.517.0020, or write:

Tag, P.O. Box 302150, Montgomery, AL 36130-2150

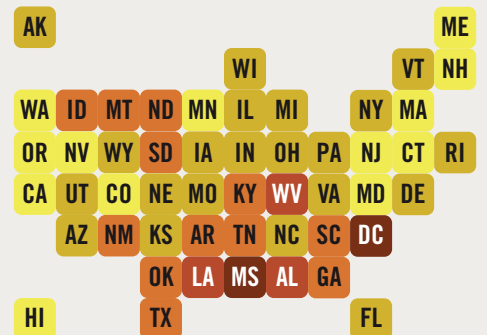
AN EYE OPENER

Military ineligibility* among Americans aged 17-24 2014, %



* Main causes include being overweight, inadequate education, a criminal record or drug use

Source: Mission: Readiness



A key to Alabama's future

BY TIMOTHY J. BARNETT, PROFESSOR AT JACKSONVILLE STATE UNIVERSITY
SPECIAL TO *THE ANNISTON STAR*

Experts sometimes err, especially when dealing with challenges they do not fully comprehend. The advisors from the Pew Charitable Trusts are mistaken in the advice they recently gave to the Alabama Legislature's Joint Committee on Public Pensions.

According to a story in *The Star* ("Analysts: RSA Investments Falling Short," Nov. 6), these East Coast analysts believe the Retirement Systems of Alabama should not put anything close to 16 percent (**Editor's note:** The actual number is 6-8 percent) of the state's pension fund money into the state of Alabama. They think the RSA's chief, David Bronner, should send the money to Wall Street instead.

I am a political scientist with research publications on the U.S. Congress, market morality and other matters. Over the years, I've witnessed many examples of legislative committees soliciting advice in hearings from ideologically aligned specialists they believe will give them public-relations cover for tax policy adjustments beneficial to their partisan support groups. This is a defective approach to policymaking. It has a pretense of democratic fact finding, but a reality of ideological agenda setting.

A farsighted evaluation of the RSA's approach to instate investment shows the pragmatism and wisdom of Bronner's approach. The Alabama Legislature would err greatly to enact a standard limiting the RSA's investments in Alabama. If Republican legislators take this step, some who normally vote Republican for instate offices may use primary races to vote out shortsighted legislators and replace them with persons who better understand the big picture in economic development.

Here is what the Pew Trust advisors miss. Bronner's instate RSA investments work to refurbish and polish Alabama's image nationwide. Bronner's world-class projects help keep Alabama in the hunt for respect, increased tourism and economic growth. Pew analysts have seemingly forgotten that Montgomery served as the capital of the Confederacy, Birmingham was widely perceived as a lightning rod

for civil-rights abuses, and Tuscaloosa was the place where Gov. George Wallace took his infamous 1963 "Stand in the Schoolhouse Door." I've lived in six states outside the Southeast and understand the public-image challenge Alabama faced until the RSA's instate investments began raising Alabama's national standing.

RSA investments in our home state give Alabama class and clout. They make us look progressive and prudent. They highlight our ingenuity and intelligence. These investments help restore our business pride and economic competitiveness. Now, East Coast advisors want us to send this power to New York City so that far-flung places get the benefit instead. Thinking Alabamians must refuse to give in to misdirection. The smart thing is to stand with the RSA, support our state's economic growth and tax revenue by building Alabama.

Here is a key to Alabama's future: Wages have risen so rapidly in China over the last several years that many American manufacturers are looking at bringing industry home to the states. Where is this recaptured industry going to land? Which states will get the new jobs? The RSA can play a central role in attracting new business here. Let's put on our thinking caps. The stock market is expensive at this time by many metrics, including price-to-earnings ratios. Corporate bonds carry a lot of price risk, as well, since the Federal Reserve is looking to glide toward normalized interest rates over the next several years. Instead of investing 16 percent instate, the RSA should be investing 25 percent here helping our economy and helping legislators hold onto their Montgomery jobs if they will wake up and smell the roses.

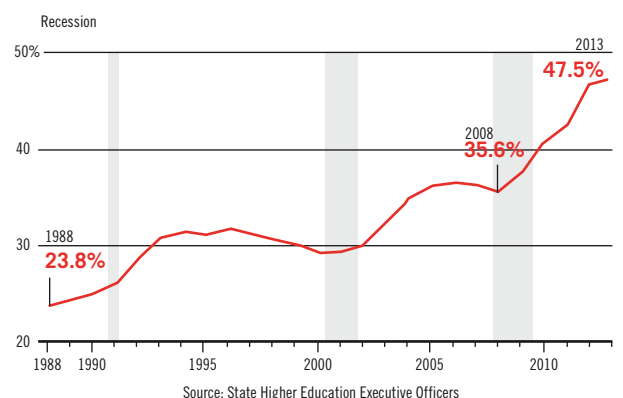
The RSA could establish preferred equity stakes in quality manufacturing firms that choose to relocate from China to Alabama. There are many excellent places in Alabama to site new business.

One such site is the 10,000-acre McClellan planned development near Jacksonville State University. With divided-highway access nearly complete, the former Army post has 3,000 acres of appealing land for sale. This land is zoned for uses such as industrial, commercial, retail, research and technology, educational and residential. If Alabama legislators are concerned about strained budgets at institutions of higher education like JSU, there is no better way to heal these budgets than to increase enrollments as Alabama becomes a national magnet for new jobs. The jobs will boost local economies, strengthen the real-estate market, enlarge tax revenues and give college students improved ways to support themselves while earning their degrees.

In sum, this is no time for misguided legislation that reduces the ability of RSA to invest in Alabama. Prudent instate investment will attract the businesses, jobs and skilled individuals that will help Alabama rise in state rankings. Success snowballs. Alabama's public pensions should be protected, not attacked. The steady payouts from pensions provide many benefits, including economic stability during recessionary periods. Legislators who don't understand how instate investment provides many financial advantages beyond what is narrowly calculated as return-on-investment might benefit from an enhanced political-science education. ●

Students Shoulder Greater Share of Tuition

Tuition accounted for about 48 percent of public higher-education revenue in 2013 – double what it was in 1988





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 • January 2, 7-12, 17-21
 • February 1-2, 10-16, 21-29

The Renaissance Riverview Plaza – Mobile – \$99
 • December 1-3, 6-18, 24-27
 • January 1-2, 6-7, 11-13, 17-18
 • February 3, 11-18, 21, 24, 28-29

Marriott Grand – \$109 plus a 15% resort fee
 • December 1-3, 6-9, 13-14, 20-22, 27-30
 • January 3-7, 10-14, 17-18, 24-26, 31
 • February 1-4, 9-11, 15-18, 22-25, 28-29

Marriott Grand – RSA Golf Package – \$179
plus a 15% resort fee – Promotional code – R2A
 Includes: Deluxe Room, One Round of Golf for Two People.
 Call for Tee Times after booking package
 • December 1-3, 6-9, 13-14, 20-22, 27-30
 • January 3-7, 10-14, 17-18, 24-26, 31
 • February 1-4, 9-11, 15-18, 22-25, 28-29

**Marriott Shoals – Florence – \$99;
 Breakfast Package \$124**
 • December 3, 5-7, 13-14, 17, 20-30
 • January 1-5, 7, 10-11, 21, 24-25, 28, 31
 • February 1-3, 15-17

Renaissance Ross Bridge – Hoover – \$109
 • December 1-2, 4-30 • January 1-31
 • February 1-3, 7-12, 14, 17-19, 24-25, 28-29

Opelika Marriott – \$99
 • December 1, 6-10, 13-18, 20-31
 • January 1, 3-8, 24-25, 31 • February 7-8, 21-22

Prattville Marriott – \$89
 • December 4-13, 15-31
 • January 1-4, 7, 9-11, 16-17, 19-23, 28-31
 • February 4-10, 15-16, 21-29

Renaissance Montgomery – \$109
 • December 8-9, 11-12, 20-27
 • January 2-9, 13, 18, 23-28, 31
 • February 6-7, 10, 13-14, 21
 RSA Spa Package – **\$189 – Promotional code – R2A**
 • December 8-9, 11-12, 22-26
 • January 2, 5-9, 13, 23, 26-28
 • February 6, 10, 13

*Specific room requests may require additional charge.
 Rates available the 1st of the month and
 are not applicable to groups.*

800-228-9290 Ask for RSA rate. **Promotional
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<p>Doxycycline Hyclate Common antibiotic</p> <p>4¢ per tablet in 2013</p> <p>\$3.70 per tablet in 2014</p> <p>+8,281%</p>	<p>Albuterol Sulfate Used to treat asthma</p> <p>11¢ per tablet in 2013</p> <p>\$4.34 per tablet in 2014</p> <p>+4,014%</p>
<p>Glycopyrrolate Used to treat irregular heartbeats during surgery</p> <p>\$6.50 per vial in 2013</p> <p>\$127.70 per vial in 2014</p> <p>+2,728%</p>	<p>Digoxin Used to treat irregular heartbeats and heart failure</p> <p>11¢ per tablet in 2012</p> <p>\$1.10 per tablet in 2014</p> <p>+884%</p>

Sources: U.S. Government; Healthcare Supply Chain Association

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