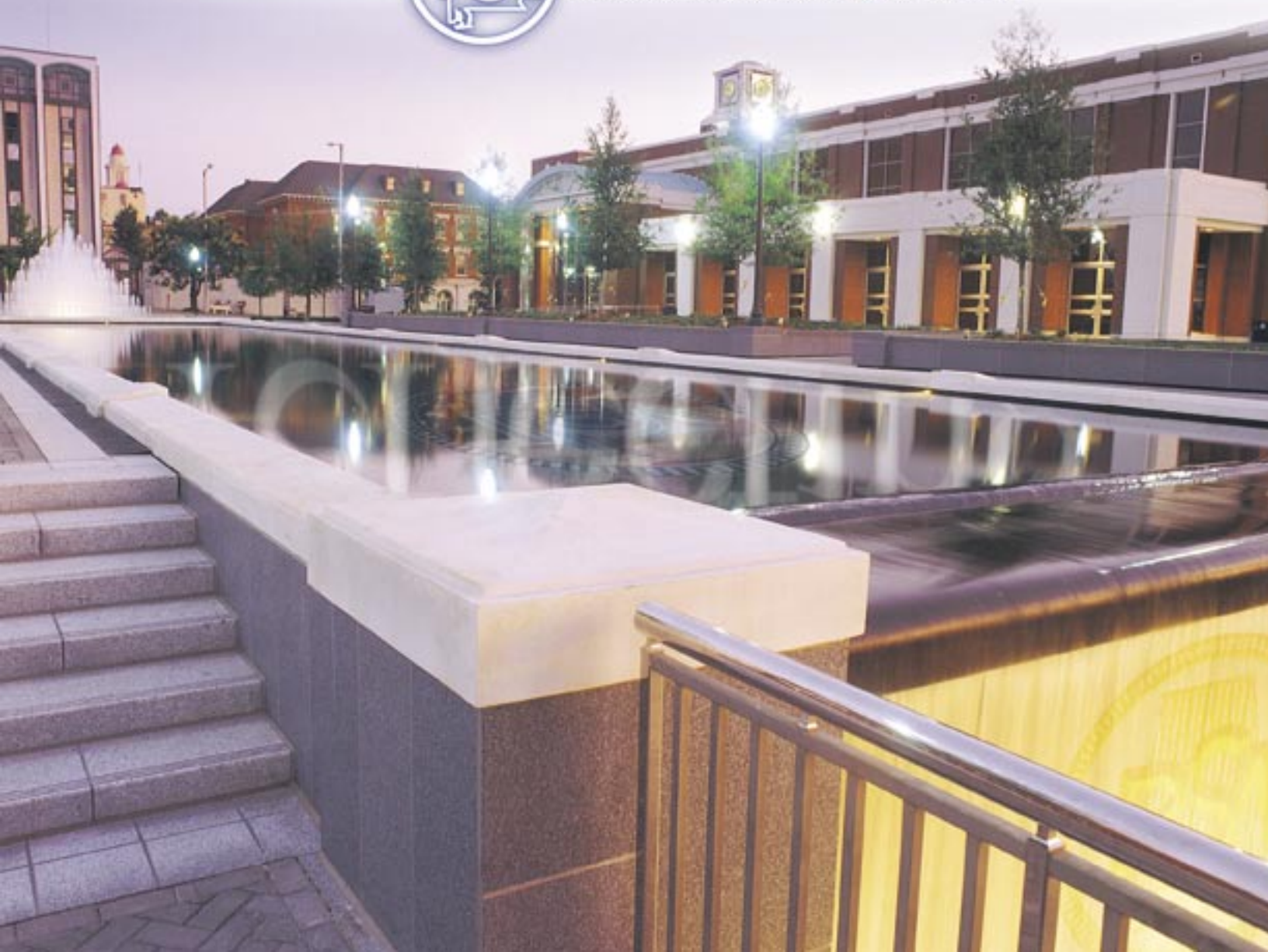


# reflecting...



*The Retirement Systems of Alabama* ~ 2003 ANNUAL REPORT





Reflecting  
on over  
*60 Years*  
of Strength  
& Growth  
in Alabama



The Boards of Control and the RSA staff are pleased to present the Twenty-eighth Annual Report of the Retirement Systems of Alabama (RSA) for the fiscal year ended September 30, 2003. Fiscal years 2001 and 2002 were brutal bear markets, but we are pleased to have positive returns for this fiscal year. In 2004, Alabama will face a budget crisis not seen in Alabama since the Great Depression. This report presents what the RSA and its members have given back to the state of Alabama, not only financially, but representing a positive image of this great state.

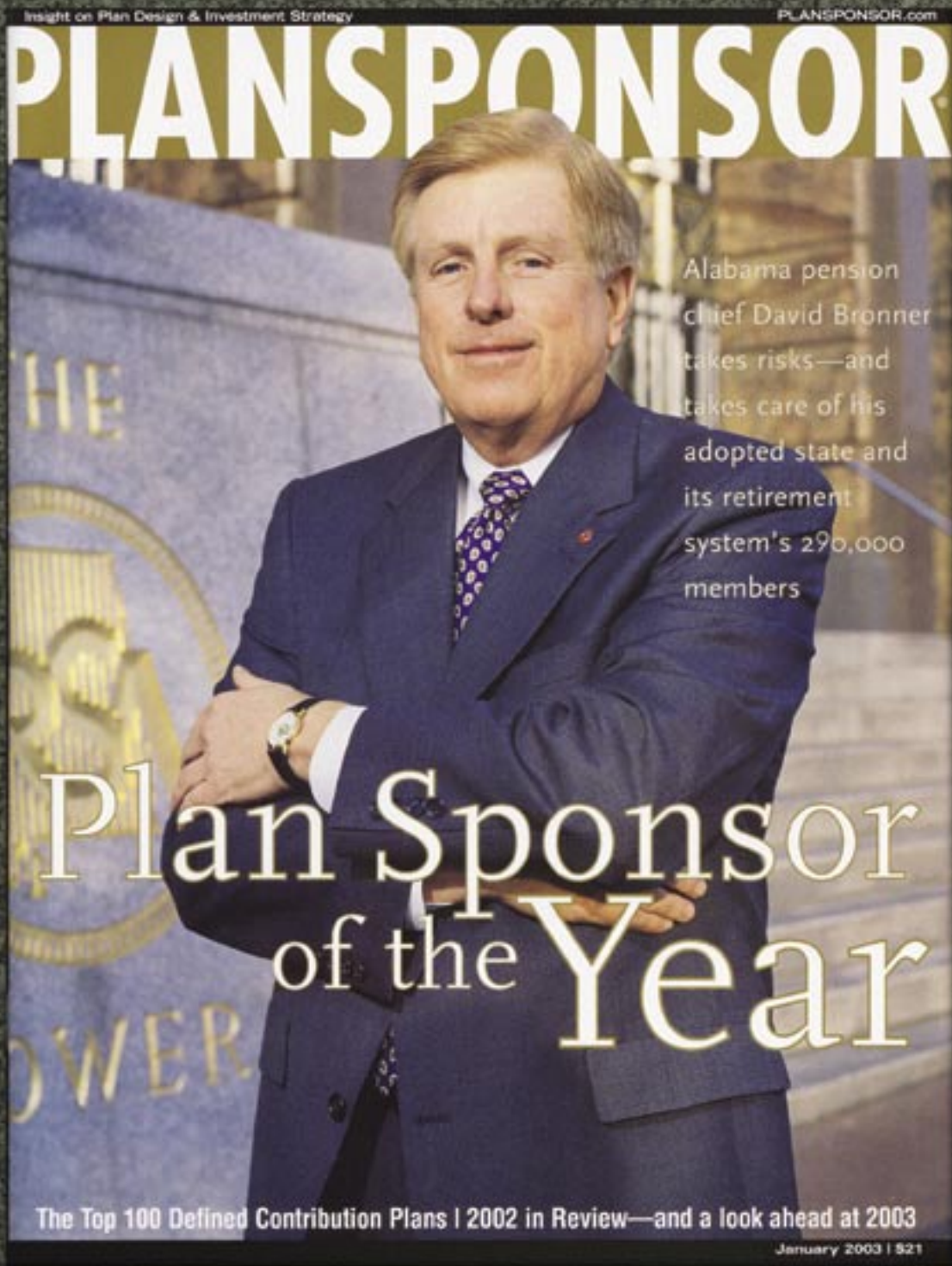
The RSA currently manages 19 funds with aggregate assets of approximately \$24.8 billion. During fiscal year 2003, the annualized return for the fixed income portfolio and equity portfolio combined was 15.98% for the Teachers' Retirement System (TRS), 16.48% for the Employees' Retirement System (ERS), and 11.70% for the Judicial Retirement Fund (JRF). **Of the total revenue of \$3.8 billion, only 10.5% came from taxpayers.** The employees contributed 11.0%, while the remaining 78.5% of revenues derived from investment income. TRS assets total \$15.7 billion, while ERS assets total \$7.2 billion, and JRF assets total \$206.7 million. The TRS is funded at 97.4% and the ERS is funded at 95.4%.

Real estate continued to be an active area for the RSA during the fiscal year. The RSA Battle House Hotel and office complex in Mobile is under construction, which will last for nearly 3 years and assist in the revitalization of downtown Mobile. A new Robert Trent Jones 18-hole championship course in Hoover is being built approximately 2 miles from the existing course at Oxmoor Valley and will include a 250 room hotel and spa complex. In the Shoals, a 36-hole Robert Trent Jones golf complex is being built in conjunction with a new hotel to be located next to the new Florence Conference Center and Renaissance Tower. These investments will help to further diversify the RSA's real estate portfolio with the added benefit of investing further in Alabama.

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

David G. Bronner  
CHIEF EXECUTIVE OFFICER





◀ **COVER:** The RSA Activity Center in Montgomery.

■ During the fiscal year, the RSA was honored as “Plan Sponsor of the Year” for 2002 by *Plan Sponsor* magazine. The magazine reviewed the history of the RSA, and its insistence on helping the state’s economy as well as the Systems’ recent direct investment of US Airways, where the RSA invested \$315 million. To put this in perspective, one-percent change in interest rates will cause the RSA to make or lose \$1 billion on the fixed income portfolio, and a 500 point move in the Dow Jones Industrial Average means a gain or loss of \$500 million.

*“There’s no reason for the capital city not to be impressive.  
This city represents the whole state when visitors come here.”*

*~DR. DAVID G. BRONNER*



■ **The RSA Tower** shines bright in the Montgomery skyline.  
(Photo by Mark Wright)





RSA  
PAVILLION  
PARK

RSA TOWER

RSA HELEN HUNT  
LEARNING CENTER

ALABAMA  
COMMERCE CENTER

ACC  
PARKING DECK

RSA ACTIVITY CENTER

RSA TOWER PARKING DECK

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# U.S AIRWAYS

The Official Airline of Alabama Tourism



It's not only, as *The New York Times* called it, some of the best public golf on earth. But the Robert Trent Jones Golf Trail is also the only place on the planet where you can play world-class golf starting at just \$40. FOR MORE INFORMATION, CALL OR LOG ON TO 800ALABAMA.COM.

Official Airline  U.S AIRWAYS [usairways.com](http://usairways.com)

*Alabama*  
WONDER FULL

Fares vary by site and season. Plus taxes and port fees.



# 60 Years of Strength in Alabama

“I’ve always said I can put \$200 million in Iowa and get a decent return on my investment. But if I put it in Alabama, that money turns over five or six times within the state. And besides, if I don’t invest at home, who will?”

“When I came in, I had one dollar for every four dollars I owed. Today, the state doesn’t owe us a nickel. If there’s a legacy, that’s it— and it’s because of the investments we made with the pension fund.”



▲ **INSET:** Grand National Golf Course in Auburn / Opelika

“The stronger I can make Alabama, the stronger I can make the pension fund.”

~DR. DAVID G. BRONNER

---

◀ **LEAD PAGE:** Alabama Tourism was bolstered by the addition of **US Airways** as the official airline.

■ Rendering of the **RSA Tower** in Montgomery (by Muir Stewart)



▲ The Clubhouse at **Capitol Hill** in Prattville.  
▲ **Grand National** in Auburn/Opelika.



NORTH ELEVATION



▲ **ABOVE and INSET: River Heritage Hotel** in the Shoals will be completed in 2005.





# 60 Years of Growth in Alabama

“With real leadership, failure is not a crime— but aiming low is.”

“We gave Alabama a new image.

The image of Alabama in Europe or

Japan right now is not hoses and dogs; it’s the Robert Trent Jones

Golf Trail.”

—DR. DAVID G. BRONNER



▲ **INSET:** The Judge at Capitol Hill in Prattville.



■ **The Robert Trent Jones Golf Trail and the Grand Hotel and Spa in Point Clear.**



# TEACHERS' RETIREMENT SYSTEM BOARD OF CONTROL

## EX OFFICIO MEMBERS



Hon. Kay Ivey  
STATE TREASURER



CHAIRMAN  
Dr. Paul R. Hubbert  
EXECUTIVE SECRETARY  
AEA



Hon. Drayton Nabers, Jr.  
STATE FINANCE  
DIRECTOR



Dr. Edward R. Richardson  
STATE SUPERINTENDENT  
OF EDUCATION

## ELECTED MEMBERS



Dr. Susan Williams Brown  
POSTSECONDARY POSITION



Mrs. Martha Black Handshumacher  
TEACHER POSITION



Ms. Judy Rigdon  
TEACHER POSITION



Dr. J. Terry Jenkins  
SUPERINTENDENT POSITION



Mrs. Peggy K. Lamb  
TEACHER POSITION



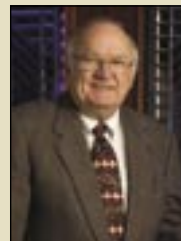
Dr. John Landers  
PRINCIPAL POSITION



Mrs. Sharon P. Saxon  
SUPPORT PERSONNEL POSITION



VICE CHAIRMAN  
Mrs. Sarah S. Swindle  
RETIRED POSITION



Dr. Wayne Teague  
RETIRED POSITION



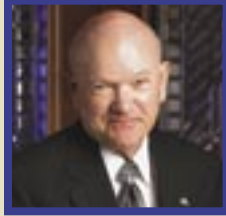
Mr. Russell J. Twilley  
SUPPORT PERSONNEL POSITION

# EMPLOYEES' RETIREMENT SYSTEM BOARD OF CONTROL

## EX OFFICIO MEMBERS



Hon. Kay Ivey  
STATE TREASURER



Hon. Thomas G. Flowers  
STATE PERSONNEL DIRECTOR



Hon. Drayton Nabers, Jr.  
STATE FINANCE  
DIRECTOR



CHAIRMAN  
Hon. Bob Riley  
GOVERNOR

## ELECTED MEMBERS



Ms. Mary Lou Foster  
RETIRED STATE EMPLOYEE



Mrs. Ann Gant  
ACTIVE LOCAL EMPLOYEE



Mr. T. M. "Sonny" Jones  
ACTIVE LOCAL EMPLOYEE



Mr. Clyde A. Sellers  
RETIRED LOCAL EMPLOYEE



Ms. Alice Thornton  
ACTIVE STATE EMPLOYEE



Mr. Stephen C. Walkley  
ACTIVE STATE EMPLOYEE

## APPOINTED MEMBERS



Mr. Robert H. Fruit



Mr. Robert S. Miller



VICE CHAIRMAN  
Mr. John H. Wilkerson, Jr.



▲ **INSET: WAFF-48**, the NBC affiliate in Huntsville, covers the news for North Alabama and South Tennessee. RAYCOM also owns **WDFX** in Dothan and **RAYCOM Sports** in Mobile.

## THE RETIREMENT SYSTEMS OF ALABAMA 2003 STAFF, ADVISORS and MEDICAL BOARD

CHIEF EXECUTIVE OFFICER  
David G. Bronner, Ph.D., J.D.

DEPUTY DIRECTOR  
Marcus H. Reynolds, Jr., J.D.

### ADMINISTRATIVE STAFF

DIRECTOR OF INFORMATION  
TECHNOLOGY SERVICES  
Peggi L. Douglass  
M.B.A.

CHIEF ACCOUNTANT  
AND FISCAL OFFICER  
Norman D. Turnipseed  
M.B.A., C.P.A.

LEGISLATIVE  
COUNSEL  
Lindy J. Beale  
J.D.

GENERAL COUNSEL  
William F. Kelley, Jr.  
J.D.

GENERAL COUNSEL  
William T. Stephens  
J.D.

DIRECTOR OF COMMUNICATIONS  
Michael E. Pegues  
M.A.

TEACHERS' RETIREMENT EXECUTIVE  
Donald L. Yancey  
M.P.A., J.D.

EMPLOYEES' & JUDICIAL  
RETIREMENT EXECUTIVE  
R. Donald Nelson  
M.S.

DIRECTOR OF PUBLIC EDUCATION  
EMPLOYEES' HEALTH INSURANCE PLAN  
Lee M. Hayes  
M.B.A.

DIRECTOR  
OF RSA-1  
Teresa B. Pettus  
B.S.

### ADVISORS

CERTIFIED PUBLIC ACCOUNTANTS  
KPMG

AMSOUTH BANK, N.A.  
Mr. Brian Sullivan

GEORGE B. BUCK  
CONSULTING ACTUARIES  
Mr. Edward A. MacDonald

ATTORNEY GENERAL  
Honorable Bill Pryor

CHIEF EXAMINER  
Mr. Ronald L. Jones

### MEDICAL BOARD



Glen Yates, M.D.



CHAIRMAN  
Neil Stronach, M.D.



A.S. Zdanis, M.D.



# Legal

RSA's legal work continues to grow and diversify as RSA's investments continue to do the same. During the past year, the legal staff has been deeply involved first, in the US Airways bankruptcy proceedings and then, in the governance of US Airways following its emergence from bankruptcy. RSA's in-house legal staff worked closely with outside financial advisors and counsel, actively overseeing RSA's participation in the bankruptcy proceeding and the negotiation and documentation of the RSA investment in US Airways. Subsequently, US Airways' emergence from bankruptcy with RSA as its largest shareholder has presented a host of additional legal issues.

Several of RSA's other investments, particularly its developments in Mobile, Hoover, and the Shoals, have created a myriad of other legal issues and challenges, including some litigation. All of these have been resolved satisfactorily to facilitate RSA's investment and development. In addition, legal issues continue to arise on RSA's mature investment development projects and those continue to be addressed successfully.

To protect its assets and the integrity of the market place, RSA has continued to actively pursue securities fraud litigation against the perpetrators, aiders and abettors. The RSA is an individual plaintiff in state court in the Enron and WorldCom scandals and as lead plaintiff in national class action securities fraud cases in federal court relating to HealthSouth, ICG Communications, and Providian Financial Corporation.

While the RSA also continues to be successful in benefits litigation in state courts, the RSA legal staff spends a considerable amount of time advising the various RSA divisions on compliance with state and federal laws and regulations to avoid unnecessary litigation and to assure that our members get the benefits to which they are entitled while protecting against fraud and abuse. During the past year, the RSA legal staff has provided advice and guidance on numerous issues in the areas of benefits administration, taxation, real estate, contracts, privacy rights, personnel, etc.

# Legislation

The Alabama Legislature began a new quadrennium with its Organization Session beginning January 14, 2003. The Regular Session began in March and ended in June, but was interrupted for a Special Session where legislation was passed that attempted to address the budget shortfalls. Amendment One, as the package of tax reform bills was known, went before the voters on September 9, but failed to pass. As a result, the Governor called a Second Special Session to pass a General Fund Budget and an Educational Trust Fund Budget for the 2004-2005 fiscal year.

In an unprecedented time of budget cutbacks, the RSA members fared extremely well in 2003. Both the Teachers' Retirement System and the Employees' Retirement System were funded at the actuarial recommended rates, and PEEHIP was funded at the requested rate. Further, the Legislature passed constitutional amendments for Mobile, Hale and Tuscaloosa counties that will allow the voters to decide if their county officials can participate in the Employees' Retirement System.

Finally, the Legislature passed Act 2003-473, which requires universities that do not participate in PEEHIP to pay the health insurance costs for their university's retirees.



▲ Downtown New York City



**PAGES 10 through 12: RAYCOM Media**, headquartered in Montgomery, owns 36 television stations in 19 states and Puerto Rico while **Community Newspaper Holdings, Inc. (CNHI)**, located in Birmingham, publishes daily, weekly, and semi-weekly newspapers in more than 200 communities across the U.S. Communities in Alabama with **CNHI** newspapers are Athens, Cullman, Gardendale, Leeds, and Pell City.

# **RAYCOM** *Media*



- *CNHI Weeklies*
- *CNHI Dailies*
- ▲ *RAYCOM Properties*



# Communications

In an effort to better inform and improve overall access to benefit information, fiscal year 2003 continued to be as active as the previous year for the RSA's Communications Division. The highlights show a wide array of avenues the RSA used to communicate with members, agencies and the general public.

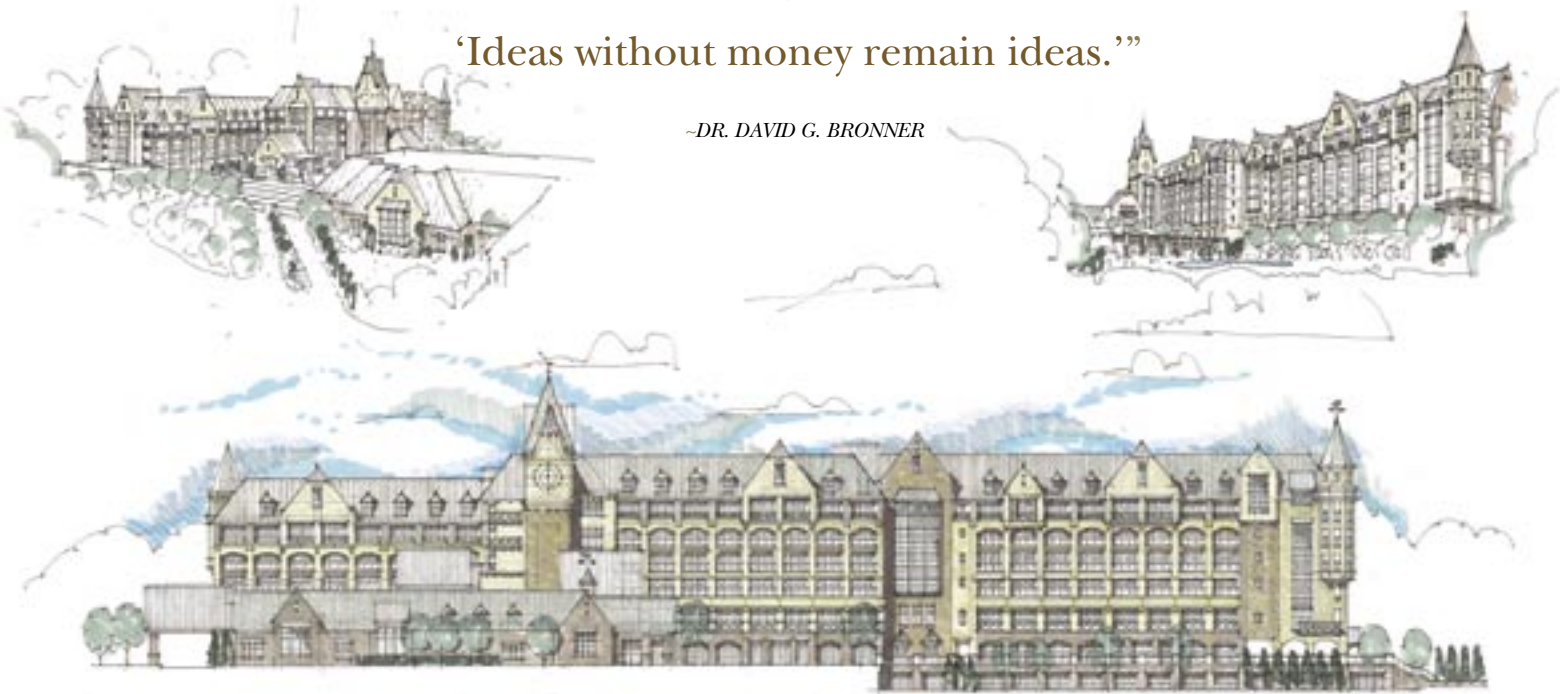
- **The RSA Web site** *was upgraded to include a DROP calculator and more forms for downloading.*
- **Retirement Preparation Seminars** *continued to be a great success with 936 members attending 15 ERS seminars and 970 attending 17 TRS seminars.*
- **Agency Seminars for payroll and personnel officers** *were also well attended in 2003 with 459 officers at 8 ERS seminars and 260 officers at 7 TRS and PEEHIP seminars.*
- **Individual Counseling Sessions** *were conducted around the state with 12 ERS counseling days for 87 members and 145 TRS counseling days for 1,053 members.*

---

“One of the key ideas to top management of any organization is to remember one of the favorite sayings of my father:

‘Ideas without money remain ideas.’”

~DR. DAVID G. BRONNER



▲ **ABOVE: Rossbridge Renaissance Hotel** in Hoover will be completed in 2005.



# RETIREMENT SYSTEMS OF ALABAMA

## TEACHERS' RETIREMENT SYSTEM

## EMPLOYEES' RETIREMENT SYSTEM

## JUDICIAL RETIREMENT FUND



### MEMBERSHIP ACTIVITY for 2003

	TRS	ERS	JRF
NEW MEMBERS .....	12,018	10,016	28
WITHDRAWN MEMBERS .....	5,093	5,311	2
SERVICE RETIREMENTS .....	4,996	2,388	14
DISABILITY RETIREMENTS .....	352	225	0
SURVIVING SPOUSES .....	9	8	0
NEW BENEFICIARIES .....	218	201	6

### TOTAL MEMBERSHIP for 2003

(AS OF SEPTEMBER 30, 2003)

	TRS	ERS	JRF	Total
ACTIVE .....	131,356	80,834	342	212,532
RETIRED .....	54,410	28,920	276	83,606
TOTAL .....	185,766	109,754	618	296,138

### FUNDS UNDER MANAGEMENT

(AS OF SEPTEMBER 30, 2003; \$ in Thousands)

Total Assets (1)

TEACHERS' RETIREMENT SYSTEM .....	\$ 15,493,006
EMPLOYEES' RETIREMENT SYSTEM .....	7,133,707
JUDICIAL RETIREMENT FUND .....	204,655
ALABAMA CULTURAL RESOURCES PRESERVATION TRUST FUNDS .....	7,867
ALABAMA EDUCATION FOUNDATION FOR K THROUGH 12 .....	541
DIVISION OF WILDLIFE AND FRESHWATER FISHERIES .....	9,820
ALABAMA NONGAME WILDLIFE ENDOWMENT TRUST .....	13
ALABAMA UNDERGROUND & ABOVEGROUND STORAGE TANK TRUST FUNDS .....	4,809
CLERKS' & REGISTERS' SUPERNUMERARY FUND .....	6,526
ALABAMA SENIOR SERVICES TRUST FUND .....	3,510
ALABAMA STATE EMPLOYEES' HEALTH INSURANCE FUND .....	71,893
LOCAL GOVERNMENT HEALTH INSURANCE FUND .....	18,580
PEIRAF - DEFERRED COMPENSATION PLAN (RSA - 1) .....	727,923
PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE PLAN .....	55,189
PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND .....	69,991
ALABAMA MARINE RESOURCES ENDOWMENT TRUST FUND .....	152
ALABAMA TRUST FUND .....	982,113
CHARLOTTE THORN TRUST FUND .....	5,541
STATE DOCKS PENSION PLANS .....	5,224

#### TOTAL ASSETS UNDER MANAGEMENT

**\$ 24,801,060**

(1): INCLUDES INVESTMENTS AT FAIR VALUE, CASH, BUILDINGS NET OF DEPRECIATION, AND LAND.

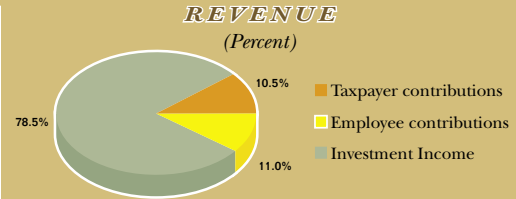




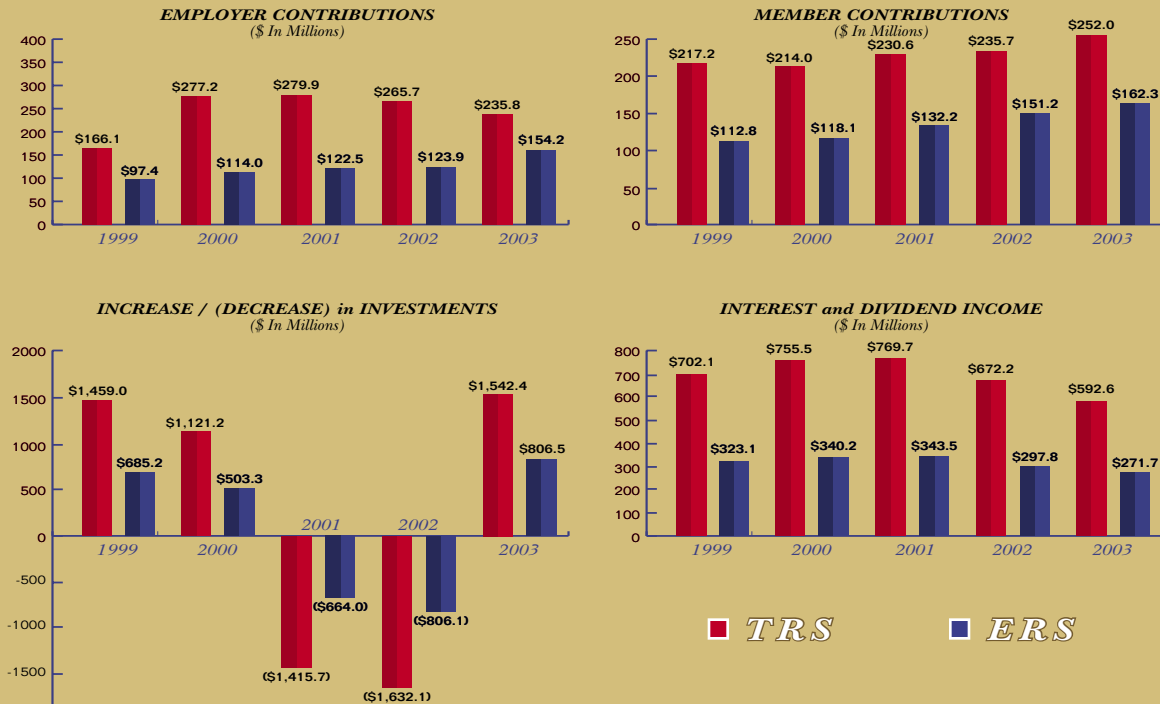
## REVENUE SOURCES for TRS, ERS & JRF

(\$ in Millions)

	2002	2003
MEMBER CONTRIBUTIONS .....	\$ 389.3	416.7
EMPLOYER CONTRIBUTIONS .....	397.8	398.6
INVESTMENT INCOME .....	(1,924.5)	2,964.2
<b>TOTAL .....</b>	<b>\$ (1,137.4)</b>	<b>3,779.5</b>



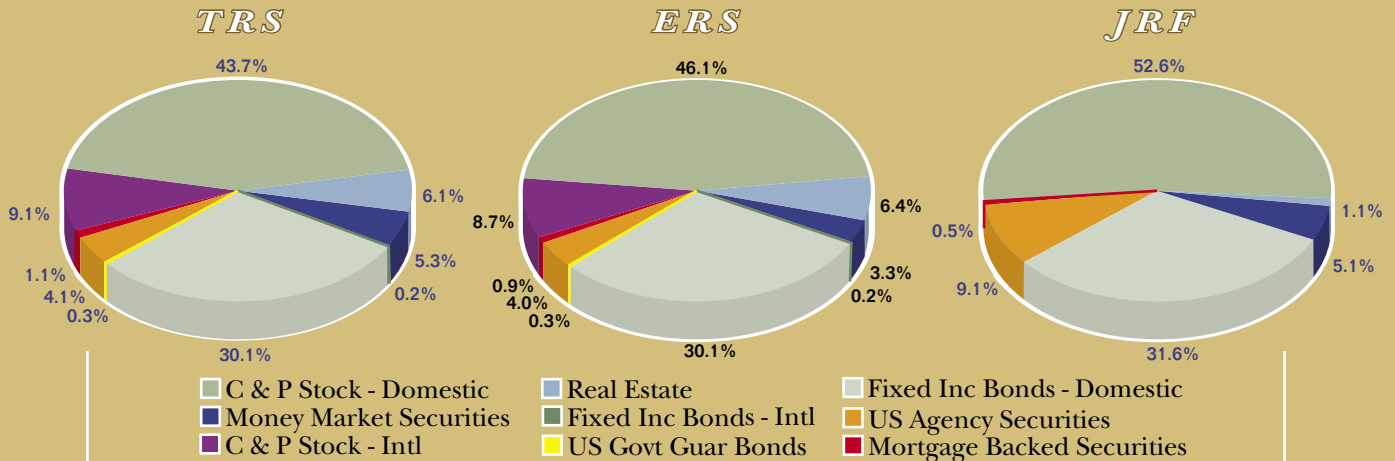
## 5-YEAR HIGHLIGHTS



## ASSET ALLOCATION

(AS OF SEPTEMBER 30, 2003)

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.



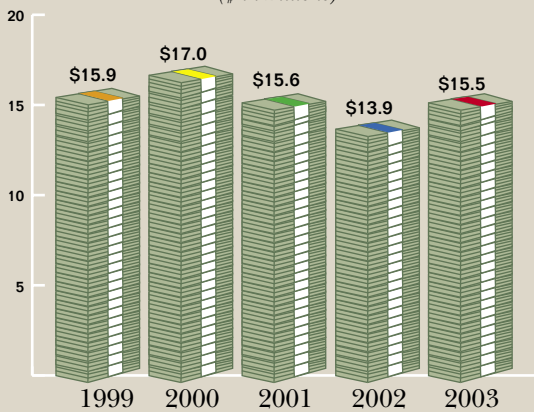
## TRS Benefits Administration

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

- **Established in 1941**
- **1975** Employer rate for TRS hit all-time high of 15.5%
- **1977** TRS named best retirement system in the nation by the National Education Association
- **1986** TRS Board of Control reached its current level of 14 members
- **1987** TRS active membership exceeded 100,000 for the first time
- **1992** TRS retired membership reached 30,000
- **1999** Employer rate for the TRS hit an all-time low of 4.03%
- **2000** Assets hit an all-time high of \$17.3 billion
- **As of September 30, 2003**, approximately 3,000 TRS members had entered DROP
- During this fiscal year, over 5,300 retirement applications were processed with the annual retirement payroll totaled at approximately \$930 million
- **2003** Taxpayer contributions to the TRS are only 9.4% of total TRS revenue

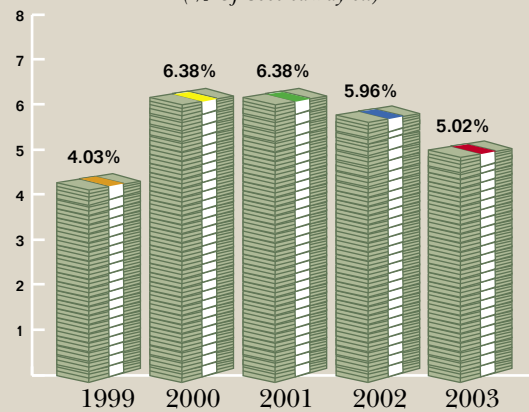
### TRS PORTFOLIO GROWTH

(\$ in Billions)



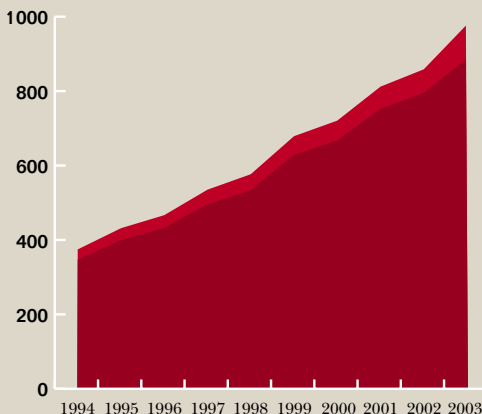
### TRS EMPLOYER RATE

(% Of Covered Payroll)

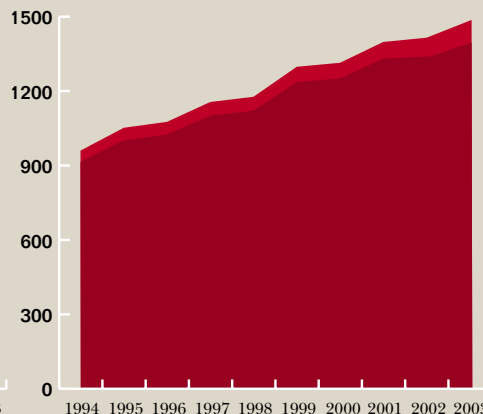


## TRS Retirement Benefits

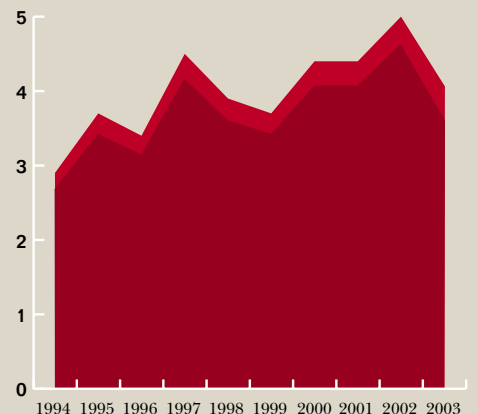
**TRS TOTAL ANNUAL PAYMENTS**  
(\$ in Millions)



**TRS AVERAGE MONTHLY BENEFITS**  
(\$ in Actual Dollars)

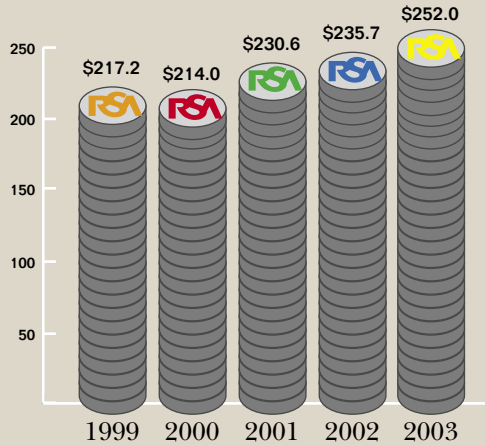


**TRS PRERETIREMENT DEATH BENEFITS**  
(\$ in Millions)



**TRS Revenue Sources**

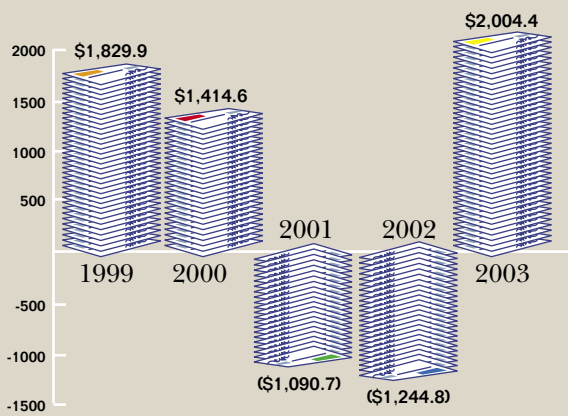
*TRS  
MEMBER  
CONTRIBUTIONS*  
(\$ in Millions)



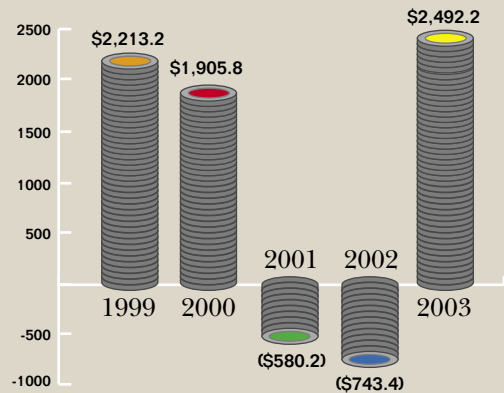
*TRS  
EMPLOYER  
CONTRIBUTIONS*  
(\$ in Millions)



*TRS  
INVESTMENT INCOME*  
(\$ in Millions)



*TRS  
TOTAL REVENUES*  
(\$ in Millions)



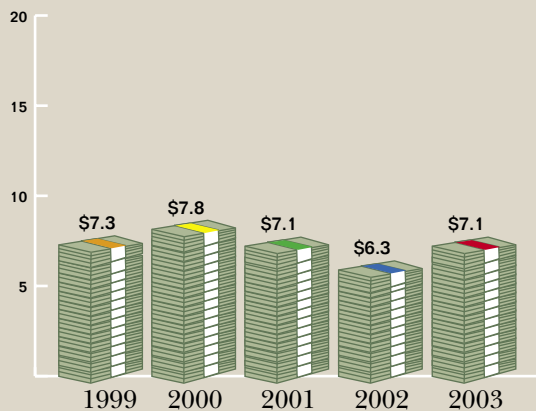
## ERS Benefits Administration

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.

- **Established in 1945**
- **1945** Employees of cities, towns, counties and quasi-public agencies became eligible for membership in the ERS
- **1975** Retirement factor increased to current level of 2.0125% for regular employees and to 2.875% for State Police
- **1979** Employer Rate for ERS hit an all-time high of 10.33%; Employer Rate for State Troopers hit all-time high of 21.02%
- **1987** 25-year retirement established for state employees and State Troopers
- **1988** The first Cost-of-Living Adjustment (COLA) passed on to beneficiaries
- **1991** The ERS Board of Control reached its current level of 13 members
- **1994** ERS retirees totaled over 20,000
- **1999** Employer rate for the ERS hit an all-time low of 3.11% and for State Troopers of 6.85%
- **2000** ERS Total Assets hit all-time high of \$7.8 billion
- **2003** Taxpayers contributed only 12.3% of total revenue of the ERS
- **2003** DROP participants totaled 915

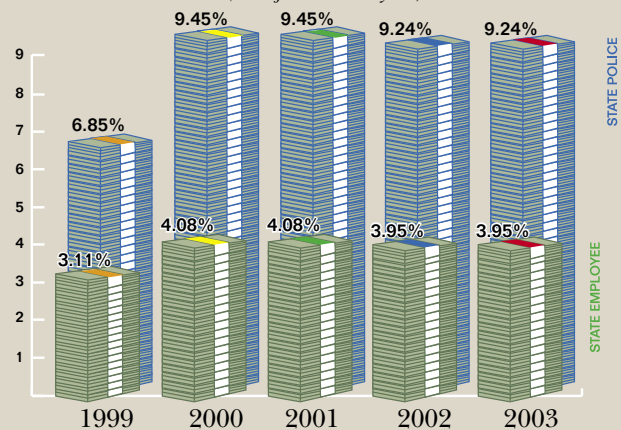
### ERS PORTFOLIO GROWTH

(\$ in Billions)



### ERS EMPLOYER RATE

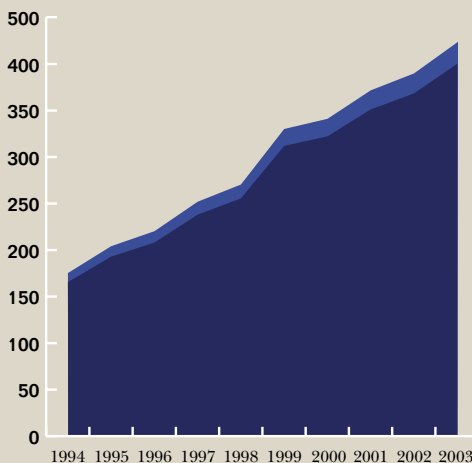
(% Of Covered Payroll)



## ERS Retirement Benefits

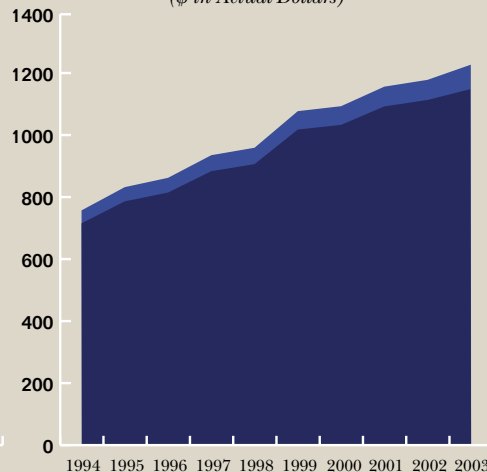
### ERS TOTAL ANNUAL PAYMENTS

(\$ in Millions)



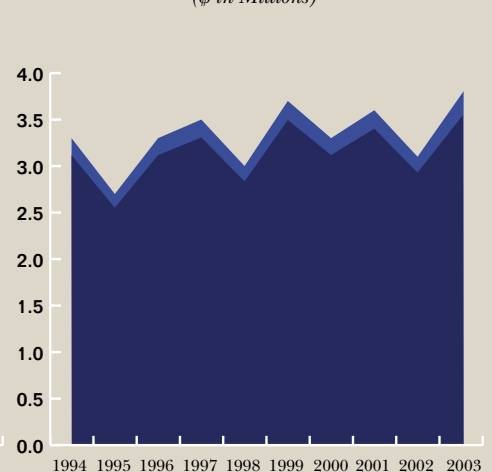
### ERS AVERAGE MONTHLY BENEFITS

(\$ in Actual Dollars)



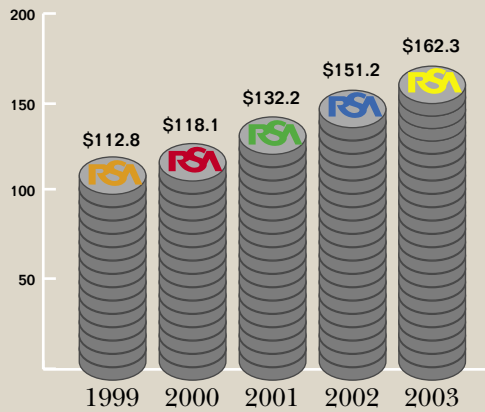
### ERS PRERETIREMENT DEATH BENEFITS

(\$ in Millions)

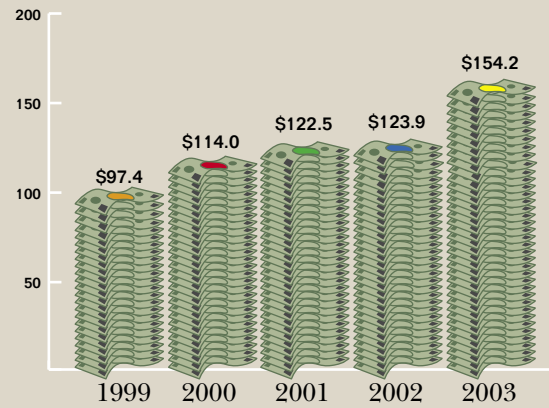


**ERS Revenue Sources**

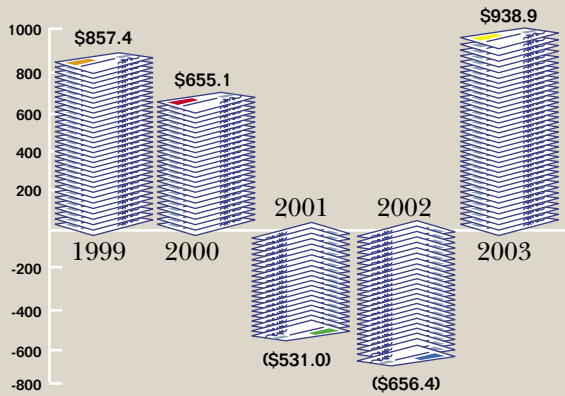
*ERS  
MEMBER  
CONTRIBUTIONS*  
(\$ in Millions)



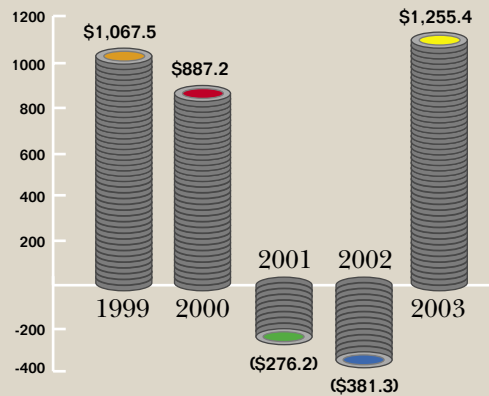
*ERS  
EMPLOYER  
CONTRIBUTIONS*  
(\$ in Millions)



*ERS  
INVESTMENT INCOME*  
(\$ in Millions)



*ERS  
TOTAL REVENUES*  
(\$ in Millions)

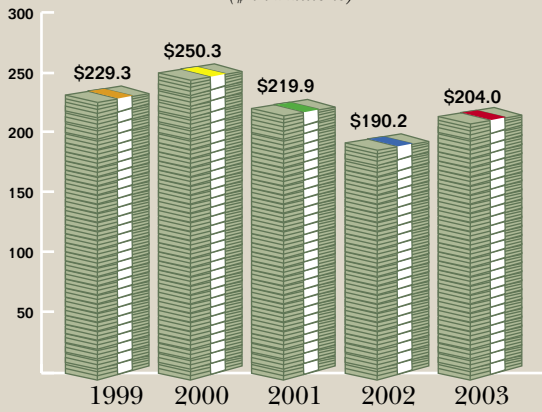


## JRF Benefits Administration

- **Established in 1973** for Supreme Court Justices, Court of Appeals Judges and Circuit Court Judges
- **1977** Probate Judges and District Court Judges joined the JRF
- **1981-1983** Reached highest employer rate of 44.0%
- **1998** Total annual benefits reached \$10.0 million
- **1999** Employer rate at all-time low of 9.16%
- **2002** Average monthly benefit payment over \$5,000

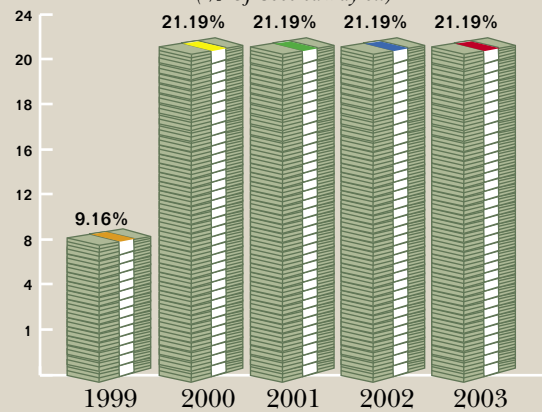
### JRF PORTFOLIO GROWTH

(\$ in Millions)



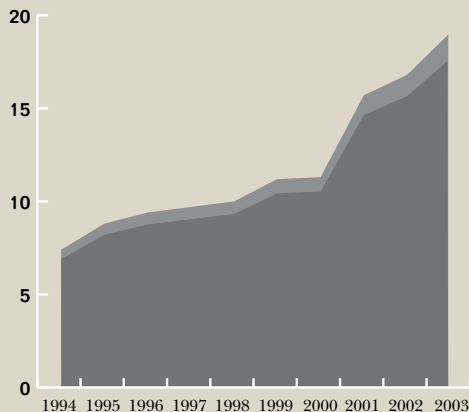
### JRF EMPLOYER RATE

(% Of Covered Payroll)

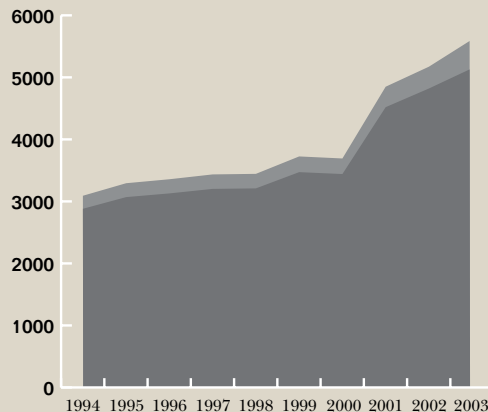


## JRF Retirement Benefits

**JRF TOTAL ANNUAL PAYMENTS**  
(\$ in Millions)

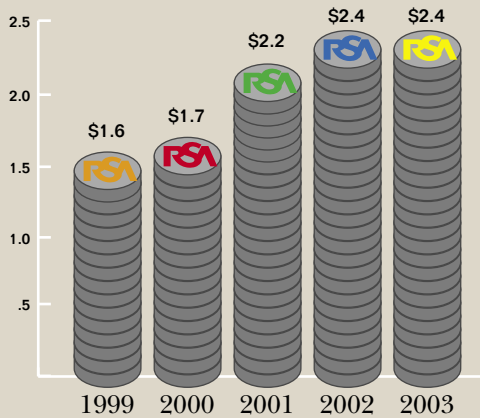


**JRF AVERAGE MONTHLY BENEFITS**  
(\$ in Actual Dollars)

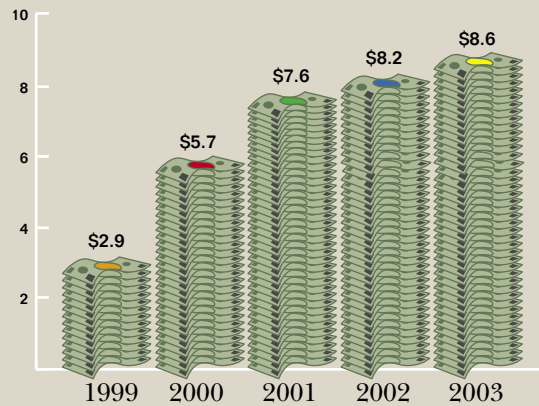


**JRF Revenue Sources**

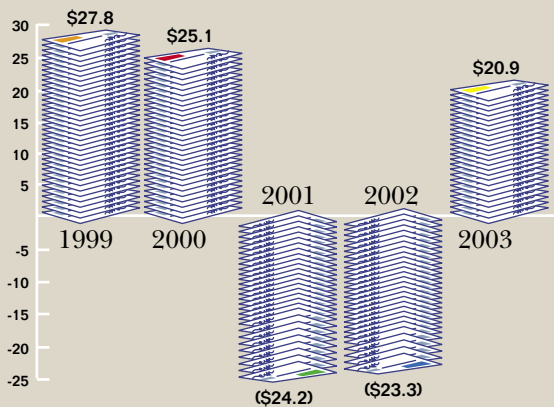
*JRF  
MEMBER  
CONTRIBUTIONS*  
(\$ in Millions)



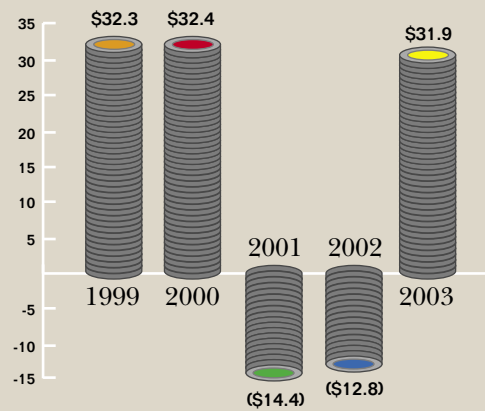
*JRF  
EMPLOYER  
CONTRIBUTIONS*  
(\$ in Millions)



*JRF  
INVESTMENT INCOME*  
(\$ in Millions)



*JRF  
TOTAL REVENUES*  
(\$ in Millions)



**RSA - 1 / Deferred Compensation Plan**

■ **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 ASSETS* (in \$)	PARTICIPATING MEMBERS
SEPTEMBER 30, 1989.....	13.29 .....			27,006,789 .....	4,404
SEPTEMBER 30, 1990.....	12.44 .....			46,225,862 .....	5,702
SEPTEMBER 30, 1991.....	11.68 .....			72,976,574 .....	7,471
SEPTEMBER 30, 1992.....	11.41 .....			106,992,250 .....	9,269
SEPTEMBER 30, 1993.....	10.68 .....			146,812,159 .....	10,945
SEPTEMBER 30, 1994.....	9.86 .....			192,710,264 .....	12,680
SEPTEMBER 30, 1995.....	9.35 .....			247,264,015 .....	15,054
SEPTEMBER 30, 1996.....	8.96 .....			308,584,100 .....	17,089
SEPTEMBER 30, 1997.....	8.93 .....			376,357,423 .....	19,293
SEPTEMBER 30, 1998.....	8.90 .....			451,813,800 .....	21,166
SEPTEMBER 30, 1999.....	8.84 .....	1.55 .....	10.39 .....	536,609,859 .....	23,490
SEPTEMBER 30, 2000.....	8.43 .....	-3.24 .....	5.19 .....	586,876,397 .....	24,336
SEPTEMBER 30, 2001 (FIXED INVESTMENT OPTION) .....	8.34 .....	3.41 .....	11.75 .....	614,039,965 .....	24,938
SEPTEMBER 30, 2001 (STOCK INVESTMENT OPTION) ....	1.10 .....	-21.09 .....	-19.99 .....	51,080,583 .....	5,291
SEPTEMBER 30, 2002 (FIXED INVESTMENT OPTION) .....	7.39 .....	-5.71 .....	1.68 .....	625,407,137 .....	25,571
SEPTEMBER 30, 2002 (STOCK INVESTMENT OPTION) ....	1.42 .....	-18.69 .....	-17.27 .....	47,197,854 .....	5,599
SEPTEMBER 30, 2003 (FIXED INVESTMENT OPTION) .....	6.18 .....	-1.36 .....	4.82 .....	676,945,292 .....	25,793
SEPTEMBER 30, 2003 (STOCK INVESTMENT OPTION) ....	1.87 .....	20.01 .....	21.88 .....	62,452,172 .....	5,767

\* ASSETS ARE VALUED AT COST THROUGH SEPTEMBER 30, 1998, AND AT MARKET THEREAFTER.

**PEIRAF / Deductible Employee Contribution Plan**

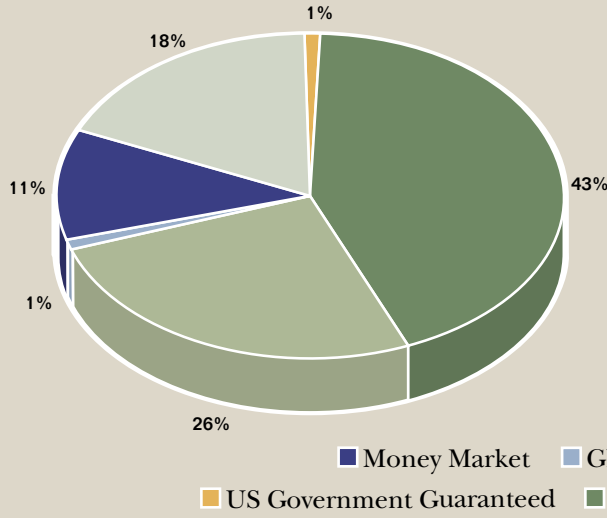
The Public Employees' Individual Retirement Account Fund (PEIRAF) was established to allow public employees to conveniently and economically receive the fullest benefits offered by the Economic Recovery Tax Act (ERTA) of 1981 as it relates to individual retirement accounts. PEIRAF has operated as a fixed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

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

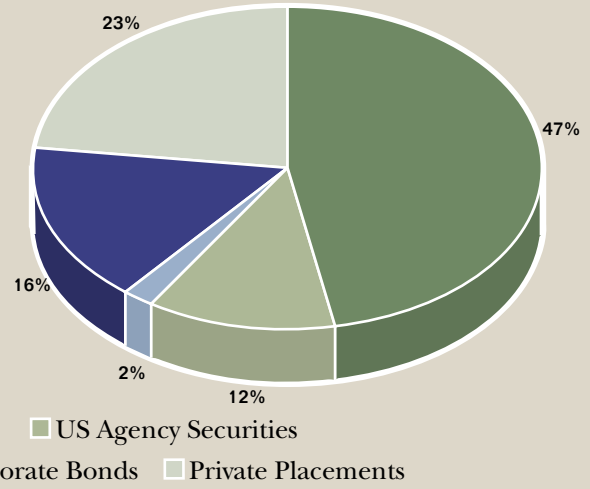




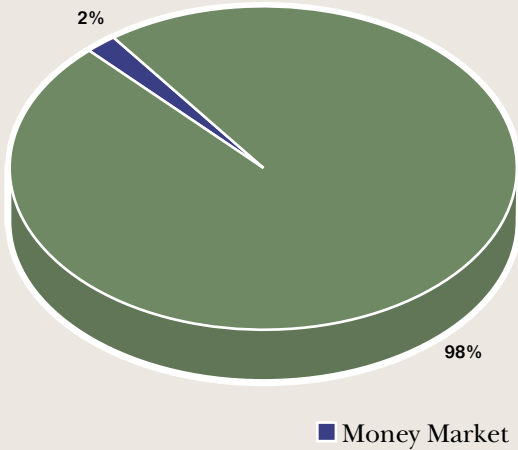
**RSA - 1**  
**INVESTMENT ALLOCATION FIXED FUND**  
 (MARKET VALUE AS OF SEPTEMBER 30, 2003)



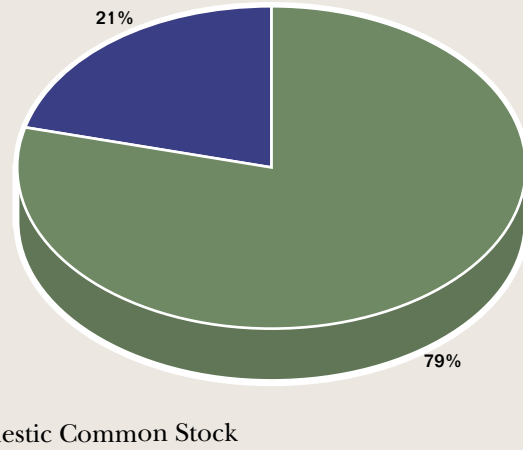
**RSA - 1**  
**INVESTMENT ALLOCATION FIXED FUND**  
 (MARKET VALUE AS OF SEPTEMBER 30, 2002)



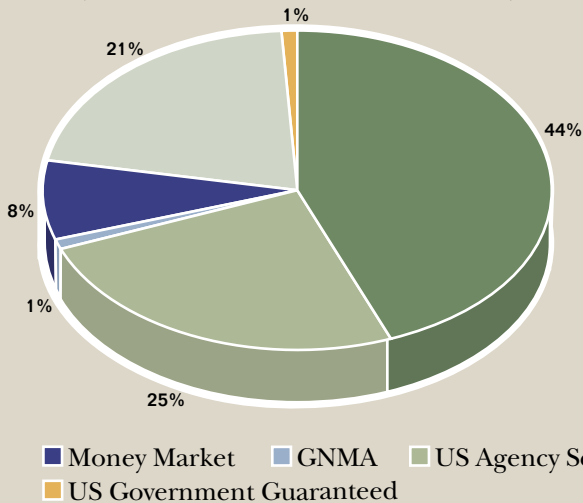
**RSA - 1**  
**INVESTMENT ALLOCATION STOCK FUND**  
 (MARKET VALUE AS OF SEPTEMBER 30, 2003)



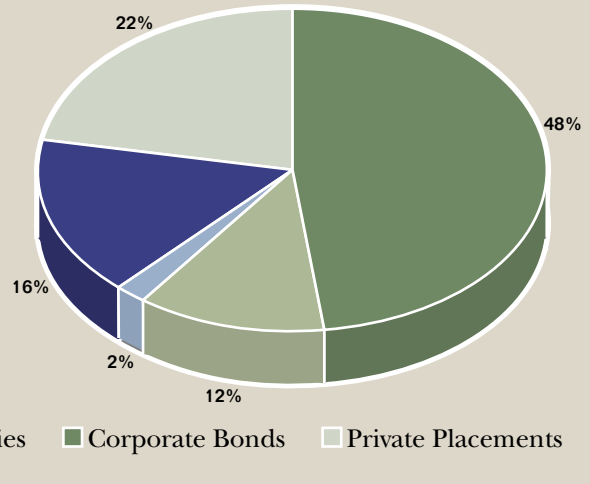
**RSA - 1**  
**INVESTMENT ALLOCATION STOCK FUND**  
 (MARKET VALUE AS OF SEPTEMBER 30, 2002)



**PEIRAF**  
**INVESTMENT ALLOCATION**  
 (MARKET VALUE AS OF SEPTEMBER 30, 2003)



**PEIRAF**  
**INVESTMENT ALLOCATION**  
 (MARKET VALUE AS OF SEPTEMBER 30, 2002)



## P E E H I P

The RSA administers the Public Education Employees' Health Insurance Plan (PEEHIP) for approximately 98,000 active and 47,000 retired public education employees. PEEHIP covers K-12 active employees, one state university's employees, and all retirees from K through the university level. Over the years, PEEHIP has implemented various cost containment measures such as case management, bill audits, co-payments, deductibles, prescription drug utilization review, second pre-approved hospital admissions, second surgical opinion, discharge and wellness planning, health maintenance organizations and preferred provider organizations. In addition, many benefit changes have been made over the years to slow the growth in rising costs.

- **Established in 1983.** *Southland National Corporation named administrator for supplemental coverages. Blue Cross and Blue Shield named administrator for hospital/medical plan.*
- **1987** *The first Health Maintenance Organization offered to PEEHIP members. Added \$75.00 co-pay for outpatient surgery and \$25.00 co-pay for Urgi-care clinic at an annual savings of \$20 million.*
- **1988** *Saved \$15 million annually by hiring the Alabama Quality Assurance Fund to perform Concurrent Utilization Review.*
- **1990** *Because of Precertification and Utilization review, hospital days per thousand decreased for a savings of \$20 million over 2 years.*
- **1991** *Eliminated coverage for Radial Keratomy eye procedure saving \$2 million annually.*
- **1992** *Instituted benefit changes at an annual savings of over \$19 million.*
- **1993** *Family Medical Leave Act began.*
- **1994** *Implemented new drug formulary which resulted in annual savings of \$1.7 million.*
- **1995** *PEEHIP implemented HIPPA.*
- **1996** *PEEHIP Board lowered reserve level from 20% to 15%, reducing employer premium requirements by \$11 million annually.*
- **1997** *Reserve level lowered to 12%, reducing employer premium requirements by another \$7 million annually.*
- **1998** *Discontinued coverage for Viagra medication at an annual savings of \$4.5 million.*
- **1999** *Reduced reimbursement to participating pharmacies saving \$7 million annually.*
- **2000** *Increased out-of-pocket premium for active and retired members saving \$7 million annually. Added \$50 deductible per year for prescription drugs saving \$15.6 million annually.*
- **2001** *Drug formulary and dental and vision network created savings of \$1.0 million annually.*
- **2002** *Passage of generic drug bill increased generic utilization.*
- **2003** *Increased drug co-payments and added \$20 office visit co-pay for Medicare eligible retirees saving \$20 million annually. Required university systems to pay for their own retirees which saved \$25 million in the K-12 education budget.*



# THE RETIREMENT SYSTEMS OF ALABAMA

## 2003 INVESTMENT STAFF

ACTING DIRECTOR  
OF INVESTMENTS  
Darren J. Schulz  
M.B.A., C.F.A.

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FIXED INCOME  
Julie S. Barranco  
M.B.A., C.F.A.

DIRECTOR OF  
ALTERNATIVE INVESTMENTS  
M. Hunter Harrell  
M.B.A., C.F.A., J.D.

DIRECTOR  
OF EQUITIES  
R. Marc Green  
M.B.A., C.F.A.

ASSISTANT DIRECTOR  
OF EQUITIES  
Steven R. Lambdin  
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C. Lance Lachney  
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ANALYST  
Joseph G. Walker  
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ANALYST  
G. Allan Carr, Jr.  
M.B.A.

CASH MANAGEMENT & OPERATIONS  
Nancy H. Sprayberry  
Ann Roth  
B.S.

EQUITY  
ANALYST  
John R. Givens  
M.B.A., C.F.A.



**BACK ROW:** Lance Lachney, Joseph Walker, Steve Lambdin, Darren Schulz, John Givens, Alan Carr  
**FRONT ROW:** Eric Fox, Ann Roth, Julie Barranco, Nancy Sprayberry, Hunter Harrell, Marc Green

# INVESTMENTS

## FIXED INCOME ACTIVITY

Fiscal year 2003 began with very little optimism regarding financial markets. Towards the end of fiscal year 2002, equities encountered another sizable pullback, while interest rates continued to tumble. The theme throughout 2002 seemed to be investors' inherent risk aversion. While large, stable names continued to outperform within the corporate bond market, higher yielding credits with liquidity concerns were shut out of the capital markets quickly. During this time, economic numbers were weak, consumer confidence was eroding, and the employment picture did not look good. However, Alan Greenspan and the Federal Reserve left short-term interest rates steady at 1.75% near the end of September.

As the new fiscal year began, third-quarter GDP was released showing growth at a rate of 3.1%. And while there were few surprises in companies' 3Q02 numbers, information regarding future prospects was well received. During the first weeks of the new calendar year, the January effect helped stocks recoup nearly all of December's losses. However, these gains were once again taken away as investors began to focus on the administration's next battle in the "war against terrorism". As we have stated earlier, investors are inherently risk averse, meaning they prefer less risk given a stated level of return. So as the showdown with Iraq became inevitable, market participants sought refuge in government securities, sending yields lower. At the time, government securities had outperformed all other asset classes for three years in a row, as real yields fell 250 basis points. Even though the success of the Iraqi invasion can be debated for years to come, once the long-standing Hussein regime was ousted, stocks and high yield bonds have taken off and not looked back.

As late spring and early summer rolled in, rates continued to be depressed with the Fed's main concern being deflation. In its June meeting, the Federal Reserve lowered the fed funds rate by a quarter-point, its 13th move in a little more than two years. However, in the following months, we saw tremendous selling within the fixed income market, with corporates and treasuries posting their worst returns in two decades. The two main culprits for this fixed income sell-off were better expectations for an economic recovery and volatility within the mortgage market.

At the end of our fiscal year, with jobless claims reports considerably weaker than expected, the Fed announced no change was needed in monetary policy. However, they did cite that "the risk of inflation becoming undesirably low" is still a lingering concern. This news sent government yields across the maturity curve lower by 60bps. Currently the yield curve is steep from a historical perspective, with the spread between the 2yr and 30yr hovering around 350 basis points. Going forward, we think the curve has plenty of room to flatten, although expectations for a rate hike have been pushed back to late 1H04 at the earliest. We also believe that the heavy issuance, especially from high yield names, that we have witnessed throughout 2003 will decline substantially as rates drift higher over the next year. Finally, we feel that any moves made by the Federal Reserve will not be aggressive, but rather a slow and steady process given the outlook for both employment and inflation.

In fiscal year 2003, the RSA purchased approximately \$1.35 billion in additional securities for the fixed income portfolio. As of September 30, 2003, the RSA's fixed income portfolio had a book value of \$8.13 billion, of which 13.3% is in money market securities. For the fiscal year, the total annual returns for the fixed income portfolios were 10.01% for the TRS and 10.47% for the ERS and .60% for the JRF versus 5.49% for the Salomon Brothers Broad Investment Grade Index (SBBIG). The five-year annualized returns were 5.76% for the TRS and 5.65% for the ERS and 3.59% for the JRF, versus 6.63% for the SBBIG Index. The ten-year annualized returns were 6.92% for the TRS and 6.84% for the ERS and 5.95% for the JRF versus 6.92% for the SBBIG Index. ■

### Long-Term Fixed Securities Purchased

(\$ In Millions)

MONTHS	TRS	ERS	JRF	TOTAL
OCTOBER THROUGH MARCH	\$ 413.1	183.8	9.8	606.7
APRIL THROUGH SEPTEMBER	510.0	219.8	9.5	739.3
<b>TOTAL</b>	<b>\$ 923.1</b>	<b>403.6</b>	<b>19.3</b>	<b>1,346.0</b>



## MATURITY STRUCTURE

The management of maturities for the bond portfolio continued to be an integral part of the RSA's objective of providing a stable cashflow 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 Distribution

(In %)

Years to Maturity	TRS			ERS		
	2003	2002	2001	2003	2002	2001
0 TO <5	8	14	17	7	11	14
5 TO <10	26	20	13	25	19	12
10 TO <15	43	39	10	46	43	10
15 TO <20	5	3	35	4	2	38
20 TO <25	12	17	17	10	17	17
25 TO <30	5	6	4	7	7	4
≥30	1	4	4	1	5	5

## QUALITY EVALUATION

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

### Quality Distribution

(In %)

Rating	TRS			ERS		
	2003	2002	2001	2003	2002	2001
AAA	14	16	18	14	14	15
AA	2	4	4	3	3	4
A	9	9	14	9	9	13
BAA	14	26	25	14	27	26
NOT RATED	61	45	39	60	47	42

## EQUITY STRATEGY

The economy continued to pick up momentum throughout the course of 2003, which resulted in strong corporate earnings growth. The lean years of 2001 and 2002 which caused a slimming down of corporate fat resulted in huge leverage to the bottom line. Throughout most of 2003, earnings revisions were in an upward trend, resulting in strong equity returns.

After climbing a wall of worry the first two quarters of fiscal year 2003, fundamentals finally outweighed the memory of the past two years. The accounting scandals which had plagued the market took a back seat in the mind of investors. The tax cuts which had passed started to put cash back in consumer's pockets. Mortgage rates stayed at extremely low levels, allowing for the continuation of the refinancing boom. Terrorist activity subsided, and the war in Iraq for the most part went favorably for the United States.

Inflation stayed at low levels, even in the face of higher energy prices. Companies began jumping on the dividend bandwagon, with 33% of S&P 500 companies raising their dividend by an average of 24% this year. A weakening dollar allowed for some leverage in earnings of U.S. multinational companies. Productivity gains from both better technology and continued headcount reductions allowed for significant margin expansion. Basically, several factors converged which overwhelmed the bear that had a grip on the U.S. stock market.

In review, the RSA equity allocation began the year at 40.5%, and there were two separate series of additions to equities. In January and February, roughly 2.5% was added to equities, and later in July and August another 4% was added. The year end equity weighting for equities was roughly 50%. The difference between the numbers is the appreciation in the equity holdings. Much the same as 2002: The smaller the market capitalization, the better the performance. The S&P 500 was up 24.38%, the S&P Midcap 400 was up 26.76%, and the S&P Smallcap 600 was up 26.76%. The International equity markets followed suit in whole, with the EAFE index up 26.01%, with quite a wide range of returns within the index. In dollar terms, Japan had the largest negative impact on the portfolio, up 18.3%. But the prospects there have improved dramatically the past couple of quarters.

For the year, the RSA domestic equity portfolios increased 25.59%, 25.66%, and 24.59% for the TRS, ERS, and JRF funds, respectively. International equity returns fared slightly better, returning 26.67% and 26.73% for TRS and ERS, respectively. The combined total return for the overall equity portfolios were 25.68%, 25.77%, and 24.55% for the TRS, ERS, and JRF, respectively. Three-, five-, and ten-year annualized returns were -8.26%, 2.31%, and 8.74% for TRS, -8.25%, 2.39%, and 8.75% for ERS, and -9.15%, 1.89%, and 10.53% for JRF, respectively. ■



## Investment Returns

FOR THE PERIOD ENDED SEPTEMBER 30, 2003  
(Percent)

	1-YEAR	3-YEARS	5-YEARS	10-YEARS
<b>EQUITY RETURNS</b>				
<b>TRS</b>	25.68	(8.26)	2.31	8.74
<b>ERS</b>	25.77	(8.25)	2.39	8.75
<b>JRF</b>	24.55	(9.15)	1.89	10.53
<b>FIXED INCOME RETURNS</b>				
<b>TRS</b>	10.01	6.83	5.76	6.92
<b>ERS</b>	10.47	6.49	5.65	6.84
<b>JRF</b>	0.60	2.85	3.59	5.95
<b>TOTAL RSA RETURNS</b>				
<b>TRS</b>	15.98	0.15	4.36	7.65
<b>ERS</b>	16.48	(0.35)	4.12	7.55
<b>JRF</b>	11.70	(3.24)	2.72	7.37
<b>BENCHMARKS</b>				
<b>S&amp;P 500</b>	24.38	(10.14)	0.98	10.04
<b>RUSSELL 2000</b>	36.48	(0.82)	7.46	8.28
<b>DJIA</b>	25.14	(2.59)	5.27	12.45
<b>MIDCAP 400</b>	26.76	(0.74)	11.96	12.80
<b>MSCI EAFE</b>	26.01	(8.71)	0.55	
<b>SALOMON BROTHERS BROAD INDEX</b>	5.49	8.93	6.63	6.92
<b>LEHMAN BROTHERS AGGREGATE INDEX</b>	5.41	8.94	6.63	6.92

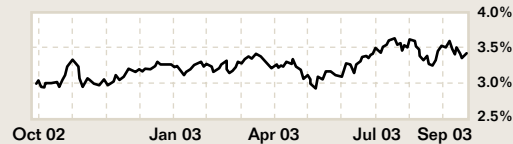
■ US Treasury 2-Year Note (yield)



■ US Treasury 30-Year Bond (yield)



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



■ Dow Jones Industrial Average



■ S&P 500 Index



# FINANCIAL STATEMENTS

## TEACHERS' RETIREMENT SYSTEM OF ALABAMA

### Statement of Plan Net Assets

AS OF SEPTEMBER 30, 2003 AND 2002

	2003	(\$ In Thousands)	2002
<b>ASSETS</b>			
CASH - RESTRICTED FOR ADMINISTRATIVE EXPENSES	\$ 15,325		\$ 15,393
<b>RECEIVABLES</b>			
EMPLOYEE CONTRIBUTIONS	19,362		18,775
EMPLOYER CONTRIBUTIONS	19,541		22,480
DIVIDENDS AND INTEREST	156,398		178,606
<b>TOTAL RECEIVABLES</b>	<u>195,301</u>		<u>219,861</u>
<b>INVESTMENTS, AT FAIR VALUE</b>			
DOMESTIC EQUITY SECURITIES	6,762,794		4,839,313
DOMESTIC FIXED INCOME SECURITIES	5,509,848		5,901,680
INTERNATIONAL SECURITIES	1,429,102		1,108,812
REAL ESTATE	940,122		900,686
SHORT-TERM INVESTMENTS	833,052		1,182,036
<b>TOTAL INVESTMENTS</b>	<u>15,474,918</u>		<u>13,932,527</u>
INVESTED SECURITIES LENDING COLLATERAL	2,505		944,077
<b>PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION</b>	<u>2,763</u>		<u>2,917</u>
<b>TOTAL ASSETS</b>	<u>15,690,812</u>		<u>15,114,775</u>
<b>LIABILITIES</b>			
ACCOUNTS PAYABLE AND OTHER LIABILITIES	2,687		2,746
SECURITIES LENDING COLLATERAL	2,505		944,077
<b>TOTAL LIABILITIES</b>	<u>5,192</u>		<u>946,823</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 15,685,620</u>		<u>\$ 14,167,952</u>

SEPARATELY ISSUED, AUDITED FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST.





# TEACHERS' RETIREMENT SYSTEM OF ALABAMA

## Statement of Changes in Plan Net Assets

FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	2003	(\$ In Thousands)	2002
<b>ADDITIONS</b>			
<b>CONTRIBUTIONS</b>			
EMPLOYEE	\$ 249,996		\$ 233,789
EMPLOYER	235,786		265,670
TRANSFERS FROM EMPLOYEES' RETIREMENT SYSTEM	2,022		1,937
<b>TOTAL CONTRIBUTIONS</b>	<u>487,804</u>		<u>501,396</u>
<b>INVESTMENT INCOME</b>			
<i>FROM INVESTMENT ACTIVITIES</i>			
NET INCREASE/(DECREASE) IN FAIR VALUE OF INVESTMENTS	1,412,887		(1,915,592)
INTEREST AND DIVIDENDS	592,645		672,200
<b>TOTAL INVESTMENT INCOME/(LOSS) FROM INVESTING ACTIVITIES</b>	<u>2,005,532</u>		<u>(1,243,392)</u>
LESS: INVESTMENT EXPENSE	4,432		4,592
<b>NET INVESTMENT INCOME/(LOSS) FROM INVESTING ACTIVITIES</b>	<u>2,001,100</u>		<u>(1,247,984)</u>
<i>FROM SECURITIES LENDING ACTIVITIES</i>			
SECURITIES LENDING INCOME	14,215		16,473
<b>SECURITIES LENDING EXPENSES</b>			
BORROWER REBATES	10,052		12,462
MANAGEMENT FEES	832		784
<b>TOTAL SECURITIES LENDING EXPENSES</b>	<u>10,884</u>		<u>13,246</u>
<b>NET INCOME FROM SECURITIES LENDING ACTIVITIES</b>	<u>3,331</u>		<u>3,227</u>
<b>TOTAL INVESTMENT INCOME/(LOSS)</b>	<u>2,004,431</u>		<u>(1,244,757)</u>
<b>TOTAL ADDITIONS</b>	<u>2,492,235</u>		<u>(743,361)</u>
<b>DEDUCTIONS</b>			
RETIREMENT ALLOWANCE PAYMENTS	932,687		858,383
RETURN OF CONTRIBUTIONS AND DEATH BENEFITS	32,084		35,510
TRANSFERS TO EMPLOYEES' RETIREMENT SYSTEM	2,418		2,091
ADMINISTRATIVE EXPENSE	7,011		6,845
DEPRECIATION	367		391
<b>TOTAL DEDUCTIONS</b>	<u>974,567</u>		<u>903,220</u>
<b>NET INCREASE/ (DECREASE)</b>	1,517,668		(1,646,581)
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>			
BEGINNING OF THE YEAR	14,167,952		15,814,533
<b>END OF THE YEAR</b>	<u>\$ 15,685,620</u>		<u>\$ 14,167,952</u>

# FINANCIAL STATEMENTS

## EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA

### Statement of Plan Net Assets

AS OF SEPTEMBER 30, 2003 AND 2002

	2003	(\$ In Thousands)	2002
<b>ASSETS</b>			
<b>CASH - RESTRICTED FOR ADMINISTRATIVE EXPENSES</b>	\$ 2,917		\$ 5,379
<b>RECEIVABLES</b>			
EMPLOYEE CONTRIBUTIONS	8,989		8,498
EMPLOYER CONTRIBUTIONS	8,337		7,259
DIVIDENDS AND INTEREST	73,249		80,647
<b>TOTAL RECEIVABLES</b>	<u>90,575</u>		<u>96,404</u>
<b>INVESTMENTS, AT FAIR VALUE</b>			
DOMESTIC EQUITY SECURITIES	3,285,094		2,472,136
DOMESTIC FIXED INCOME SECURITIES	2,514,000		2,618,983
INTERNATIONAL SECURITIES	635,563		504,038
REAL ESTATE	454,569		432,015
SHORT-TERM INVESTMENTS	239,446		295,011
<b>TOTAL INVESTMENTS</b>	<u>7,128,672</u>		<u>6,322,183</u>
<b>INVESTED SECURITIES LENDING COLLATERAL</b>	0		236,328
<b>PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION</b>	<u>2,117</u>		<u>2,239</u>
<b>TOTAL ASSETS</b>	<u>7,224,281</u>		<u>6,662,533</u>
<b>LIABILITIES</b>			
<b>ACCOUNTS PAYABLE AND OTHER LIABILITIES</b>	1,469		1,770
<b>SECURITIES LENDING COLLATERAL</b>	<u>0</u>		<u>236,328</u>
<b>TOTAL LIABILITIES</b>	<u>1,469</u>		<u>238,098</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 7,222,812</u>		<u>\$ 6,424,435</u>

SEPARATELY ISSUED, AUDITED FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST.



## EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA

### Statement of Changes in Plan Net Assets

FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	2003	(\$ In Thousands)	2002
<b>ADDITIONS</b>			
<b>CONTRIBUTIONS</b>			
EMPLOYEE	\$ 159,763		\$ 149,130
EMPLOYER	154,218		123,887
TRANSFERS FROM TEACHERS' RETIREMENT SYSTEM	2,418		2,091
TRANSFERS FROM JUDICIAL RETIREMENT FUND	103		0
<b>TOTAL CONTRIBUTIONS</b>	<u>316,502</u>		<u>275,108</u>
<b>INVESTMENT INCOME</b>			
<i>FROM INVESTMENT ACTIVITIES</i>			
NET INCREASE/(DECREASE) IN FAIR VALUE OF INVESTMENTS	668,539		(953,188)
INTEREST AND DIVIDENDS	271,698		297,845
<b>TOTAL INVESTMENT INCOME/(LOSS) FROM INVESTING ACTIVITIES</b>	<u>940,237</u>		<u>(655,343)</u>
LESS: INVESTMENT EXPENSE	2,380		2,331
<b>NET INVESTMENT INCOME/(LOSS) FROM INVESTING ACTIVITIES</b>	<u>937,857</u>		<u>(657,674)</u>
<i>FROM SECURITIES LENDING ACTIVITIES</i>			
SECURITIES LENDING INCOME	3,461		5,741
SECURITIES LENDING EXPENSES			
BORROWER REBATES	2,131		4,094
MANAGEMENT FEES	266		333
<b>TOTAL SECURITIES LENDING EXPENSES</b>	<u>2,397</u>		<u>4,427</u>
<b>NET INCOME FROM SECURITIES LENDING ACTIVITIES</b>	<u>1,064</u>		<u>1,314</u>
<b>TOTAL INVESTMENT INCOME/(LOSS)</b>	<u>938,921</u>		<u>(656,360)</u>
<b>TOTAL ADDITIONS</b>	<u>1,255,423</u>		<u>(381,252)</u>
<b>DEDUCTIONS</b>			
RETIREMENT ALLOWANCE PAYMENTS	423,027		389,856
RETURN OF CONTRIBUTIONS AND DEATH BENEFITS	25,056		24,965
UNIT WITHDRAWALS	820		8,388
TRANSFERS TO TEACHERS' RETIREMENT SYSTEM	2,022		1,937
TRANSFERS TO JUDICIAL RETIREMENT FUND	0		85
ADMINISTRATIVE EXPENSE	5,843		5,582
DEPRECIATION	278		235
<b>TOTAL DEDUCTIONS</b>	<u>457,046</u>		<u>431,048</u>
<b>NET INCREASE/ (DECREASE)</b>	798,377		(812,300)
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>			
BEGINNING OF THE YEAR	6,424,435		7,236,735
<b>END OF THE YEAR</b>	<u>\$ 7,222,812</u>		<u>\$ 6,424,435</u>

# FINANCIAL STATEMENTS

## JUDICIAL RETIREMENT FUND

### Statement of Plan Net Assets

AS OF SEPTEMBER 30, 2003 AND 2002

	2003	(\$ In Thousands)	2002
<b>ASSETS</b>			
<b>CASH - RESTRICTED FOR ADMINISTRATIVE EXPENSES</b>	\$ 647		\$ 647
<b>RECEIVABLES</b>			
EMPLOYEE CONTRIBUTIONS	111		109
EMPLOYER CONTRIBUTIONS	296		286
DIVIDENDS AND INTEREST	1,712		2,167
<b>TOTAL RECEIVABLES</b>	<u>2,119</u>		<u>2,562</u>
<b>INVESTMENTS, AT FAIR VALUE</b>			
DOMESTIC EQUITY SECURITIES	107,209		85,963
DOMESTIC FIXED INCOME SECURITIES	84,089		92,961
REAL ESTATE	2,227		2,363
SHORT-TERM INVESTMENTS	10,483		8,913
<b>TOTAL INVESTMENTS</b>	<u>204,008</u>		<u>190,200</u>
<b>INVESTED SECURITIES LENDING COLLATERAL</b>	<u>0</u>		<u>2,364</u>
<b>TOTAL ASSETS</b>	<u>206,774</u>		<u>195,773</u>
<b>LIABILITIES</b>			
<b>ACCOUNTS PAYABLE AND OTHER LIABILITIES</b>	103		100
<b>SECURITIES LENDING COLLATERAL</b>	<u>0</u>		<u>2,364</u>
<b>TOTAL LIABILITIES</b>	<u>103</u>		<u>2,464</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 206,671</u>		<u>\$ 193,309</u>

SEPARATELY ISSUED, AUDITED FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST.



## JUDICIAL RETIREMENT FUND

### Statement of Changes in Plan Net Assets

FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	2003	(\$ In Thousands)	2002
<b>ADDITIONS</b>			
<b>CONTRIBUTIONS</b>			
EMPLOYEE	\$ 2,342		\$ 2,271
EMPLOYER	8,637		8,222
TRANSFERS FROM EMPLOYEES' RETIREMENT SYSTEM	0		85
<b>TOTAL CONTRIBUTIONS</b>	<u>10,979</u>		<u>10,578</u>
<b>INVESTMENT INCOME</b>			
<i>FROM INVESTMENT ACTIVITIES</i>			
NET INCREASE/(DECREASE) IN FAIR VALUE OF INVESTMENTS	12,905		(33,036)
INTEREST AND DIVIDENDS	<u>7,969</u>		<u>9,777</u>
TOTAL INVESTMENT INCOME/(LOSS) FROM INVESTING ACTIVITIES	20,874		(23,259)
LESS: INVESTMENT EXPENSE	28		85
NET INVESTMENT INCOME/(LOSS) FROM INVESTING ACTIVITIES	<u>20,846</u>		<u>(23,344)</u>
<i>FROM SECURITIES LENDING ACTIVITIES</i>			
SECURITIES LENDING INCOME	61		88
SECURITIES LENDING EXPENSES			
BORROWER REBATES	50		75
MANAGEMENT FEES	<u>2</u>		<u>2</u>
TOTAL SECURITIES LENDING EXPENSES	52		77
NET INCOME FROM SECURITIES LENDING ACTIVITIES	<u>9</u>		<u>11</u>
TOTAL INVESTMENT INCOME/(LOSS)	<u>20,855</u>		<u>(23,333)</u>
<b>TOTAL ADDITIONS</b>	<u>31,834</u>		<u>(12,755)</u>
<b>DEDUCTIONS</b>			
RETIREMENT ALLOWANCE PAYMENTS	17,964		16,770
RETURN OF CONTRIBUTIONS AND DEATH BENEFITS	83		29
TRANSFERS TO EMPLOYEES' RETIREMENT SYSTEM	103		0
ADMINISTRATIVE EXPENSE	<u>322</u>		<u>306</u>
<b>TOTAL DEDUCTIONS</b>	<u>18,472</u>		<u>17,105</u>
<b>NET INCREASE/ (DECREASE)</b>	13,362		(29,860)
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>			
BEGINNING OF THE YEAR	193,309		223,169
<b>END OF THE YEAR</b>	<u>\$ 206,671</u>		<u>\$ 193,309</u>

# INVESTMENTS

## COMMISSIONS PAID REPORT / FISCAL YEAR 2003

	Volume of Business Private Placements Agencies (\$ In Millions)	Commissions Stock Transactions	Commissions Bond Transactions
A. G. EDWARDS	\$ 2	\$ 22,450	\$ 5,000
BANC OF AMERICA			6,250
BEAR STEARNS	222	241,208	443,235
BERNSTEIN		509,096	
CENTENNIAL		11,945	
CHAPMAN		13,750	
CITIGROUP	235	475,633	533,919
CITIGROUP - MONTGOMERY	7	35,015	16,500
COLLINS ASSET		1,250	
CONCORD		8,750	
CS FIRST BOSTON		432,770	237,188
DEUTSCHE BANK	20	315,241	46,250
GARDNER RICH		15,115	
GOLDMAN SACHS	27	164,412	121,344
HOWARD WEIL		43,683	
ISI		114,205	
JANNEY MONTGOMERY SCOTT		16,260	
JP MORGAN CHASE		224,067	22,500
LAZARD FRERES & CO.	125		39,063
LEHMAN BROTHERS, INC.		371,727	117,500
MCDONALD & COMPANY	152	15,000	159,526
MERRILL LYNCH, PIERCE, FENNER & SMITH, INC.	351	332,291	717,239
MORGAN KEEGAN	4	34,205	9,000
MORGAN STANLEY DEAN WITTER	68	398,182	179,250
MORGAN STANLEY DEAN WITTER - INTERNATIONAL		147,702	
MORGAN STANLEY DEAN WITTER - MONTGOMERY	4	34,995	9,000
NBC SECURITIES, INC.	16	42,500	39,000
NBC CAPITAL MARKETS	507		399,934
QUINTUS SECURITIES		6,250	
PRUDENTIAL SECURITIES		68,804	
RAYMOND JAMES	76	37,585	57,750
ROBERT THOMAS		11,250	
SECURITIES CORP.		17,359	
SIMMONS - SAVOIE		36,001	
SOUTHWEST		11,200	
STERNE AGEE - MOBILE	14	24,885	34,000
STERNE AGEE - MONTGOMERY	4	19,705	9,000
UBS WARBURG	44	175,170	268,073
UBS WARBURG - BIRMINGHAM		16,200	
UBS WARBURG - MONTGOMERY		8,750	
WACHOVIA	4	32,430	9,000
<b>TOTAL</b>	<b>\$ 1,882</b>	<b>\$ 4,487,039</b>	<b>\$ 3,479,521</b>





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▲ **LEAD and END PAGE:** The **RSA Tower** in Montgomery, Alabama, with the reflection of the **RSA Battle House Tower** in Mobile, currently under construction.

(Photo by Tim Phillips)



**THE RETIREMENT SYSTEMS OF ALABAMA**

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