



ROBERT TRENT JONES
GOLF TRAIL



2012 RSA Annual Report



RTJ CAPITOL HILL PRATTVILLE

THE RSA: On The Championship Course

The Boards of Control and the Retirement Systems of Alabama (RSA) staff are pleased to present the 37th Annual Report for the fiscal year ended September 30, 2012.

The RSA currently manages 22 funds with aggregate assets of approximately \$32.3 billion. For fiscal year 2012, the Teachers' Retirement System (TRS) assets totaled \$18.8 billion, the Employees' Retirement System (ERS) assets totaled \$9.1 billion, and the Judicial Retirement Fund (JRF) assets totaled \$235 million. The annualized return was 18.3% for the TRS, 18.0% for the ERS and 19.0% for the JRF.

Fiscal year 2012 was a less volatile year for returns versus the past three fiscal years, with markets generally performing well over the course of the year. U.S. economic data has been improving slowly and there has been progress, albeit marginal, with the European sovereign debt crisis. While equity and fixed income markets have continued to be somewhat reactionary around these macroeconomic events, fundamentals are once again playing a role in the markets' performance as companies' earnings and balance sheets have continued to improve.

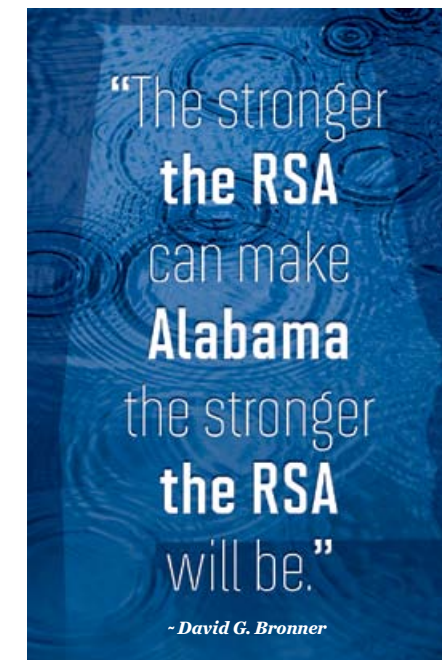
This year the Robert Trent Jones Golf Trail is celebrating its 20th anniversary. The Trail features 468 holes of championship golf on 26 courses at 11 different sites across Alabama. Over the years it has given us the ability to recruit companies such as Mercedes, Hyundai, and Navistar and has truly brightened the image of our state. The RTJ Trail, along with hotels, resorts and other investments in our state by the RSA, has had a significant positive economic impact. According to two independent reports commissioned by the RSA, the policy of investing roughly 10% of the RSA's portfolio in Alabama projects has returned an estimated \$1.5 billion in state and local

tax revenues over a 22-year period. These investments also generated \$28 billion in GDP, \$14.3 billion in payroll, and more than 282,000 full-time jobs over this time period.

The RSA is partnering with CV Holdings in a new \$90 million facility in Auburn. SiO2 Medical Products will provide up to 300 new high paying, high tech jobs for Lee County with significant growth potential. The facility will utilize innovative technology developed by the company for the biological drugs industry and will revolutionize the delivery of certain medicines to patients by glass injection moldings. This patented product is a major breakthrough in health-care and is one that will be recognized worldwide.

Lastly, several of the RSA's properties were honored again this year by earning the prestigious Four Diamond Award from AAA. In fact, the RSA was again awarded the largest number of diamonds given to one group by AAA Alabama. The nine Four Diamond Awards were presented to six hotels and three restaurants across the state.

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
 David G. Bronner
 CHIEF EXECUTIVE OFFICER

RTJ Capitol Hill, Prattville © Fouts Commercial Photography



2012 Annual Report



THE RSA: On The Championship Course

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2012
Teachers' Retirement
System Board of Control

2012
Employees' Retirement
System Board of Control



Left to right:
 ■ Dr. Marquita Davis, STATE FINANCE DIRECTOR, EX OFFICIO /
 Mr. Russell Twilley, SUPPORT PERSONNEL POSITION / VICE CHAIRMAN: Dr. Susan Williams Brown, POSTSECONDARY POSITION /
 Mr. Luke Hallmark, SUPERINTENDENT POSITION / Mrs. Susan Lockridge, SUPPORT PERSONNEL POSITION /
 Mrs. Teresa Harbison Swindall, TEACHER POSITION / Mr. John R. Whaley, TEACHER POSITION /
 Dr. Victor Wilson, PRINCIPAL POSITION / Ms. Charlene McCoy, TEACHER POSITION / Dr. Tommy Bice, STATE SUPERINTENDENT OF EDUCATION, EX OFFICIO /
 Mrs. Sallie Cook, RETIRED POSITION / CHAIRMAN: Mrs. Sarah S. Swindle, RETIRED POSITION / Dr. Henry Mabry, EXECUTIVE SECRETARY AEA, EX OFFICIO

■ SERVE ON
BOTH THE
TRS & ERS
BOARDS OF
CONTROL

Left to right:
 CHAIRMAN: Hon. Robert Bentley, GOVERNOR, EX OFFICIO /
 ■ Hon. Young Boozer, STATE TREASURER, EX OFFICIO / Mr. David Bollie, ACTIVE STATE EMPLOYEE POSITION /
 Mr. Stephen C. Walkley, ACTIVE STATE EMPLOYEE POSITION / Mr. Steven W. Williams, ACTIVE LOCAL EMPLOYEE POSITION /
 Mr. James H. Rowell, RETIRED STATE EMPLOYEE POSITION / Mr. Robert S. Miller, GOVERNOR APPOINTEE /
 Mrs. Jackie B. Graham, STATE PERSONNEL DIRECTOR, EX OFFICIO / Mr. James Fibbe, RETIRED LOCAL EMPLOYEE POSITION /
 Mr. Ben Powell, ACTIVE LOCAL EMPLOYEE POSITION / VICE CHAIRMAN: Mr. John H. Wilkerson, Jr., GOVERNOR APPOINTEE

RSA Boards of Control
 © Fouts Commercial Photography



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

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

ADMINISTRATIVE STAFF

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R. MARC GREEN, M.B.A., CFA

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

GENERAL COUNSEL
LEURA G. CANARY, J.D.

LEGISLATIVE COUNSEL
LINDY J. BEALE, 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

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

DIRECTOR OF MEMBER SERVICES
PENNY K. WILSON, B.S.

DIRECTOR OF COMMUNICATIONS
MICHAEL E. PEGUES, M.A.

DIRECTOR OF FIELD SERVICES
JUDY P. UTLEY, B.S.

ADVISORS

CERTIFIED PUBLIC ACCOUNTANTS
CARR, RIGGS AND INGRAM, LLC

REGIONS BANK, N.A.
MR. BRIAN SULLIVAN

CAVANAUGH MACDONALD CONSULTING, LLC
MR. EDWARD A. MACDONALD

ATTORNEY GENERAL
HON. LUTHER STRANGE

CHIEF EXAMINER
MR. RONALD L. JONES

MEDICAL BOARD

CHAIRMAN
GLENN YATES, M.D.

MALCOLM BROWN, M.D.

GREGORY BORG, M.D.

Legal, Legislation, Communications and Field Services

LEGAL In fiscal year 2012, the RSA Legal Division addressed issues involving litigation, employee benefits law, fiduciary and trust law, health insurance law, bankruptcy law, statutory interpretation and implementation, tax law, securities law, contract law, construction law, commercial real estate law and personnel law, among others.

Litigation has been and continues to constitute a substantial part of the legal staff's duties. The RSA legal staff is working with the Attorney General's Office and other state agencies' legal counsel to defend the RSA's interests in several cases involving challenges to legislative changes to the benefit plans. In addition, the RSA legal staff successfully defended a variety of benefits and miscellaneous cases, some of which raised novel theories of recovery. On the affirmative side, the RSA legal staff has pursued recoveries to the funds experienced as a result of the BP oil spill. As in years past, the RSA also participated in securities fraud litigation which resulted in considerable recoveries.

Another significant area of practice for the RSA legal staff was addressing issues central to the administration of the Public Education Employees' Health Insurance Program (PEEHIP). The legal staff continued to assist in reviewing and implementing the new federal health insurance law and the administrative regulations issued pursuant to that law. Legal staff was frequently called upon to interpret and advise on the implementation of HIPAA and HITECH regulations relating to the privacy and security of PEEHIP members' and their dependents' health information. Moreover, in these difficult economic times, cost-cutting measures implemented in PEEHIP have resulted in litigation as vendors compete for health care dollars.

The RSA's real estate holdings and other investments were a continuous source of work for the legal staff. In addition to pending issues involving completed construction projects, operational issues relating to the RSA's buildings often require the legal staff's input.

As always, the RSA legal staff spent significant amounts of time and resources drafting, reviewing and negotiating contracts for the RSA. For example, this year saw the implementation of significant programmatic changes to the prescription drug plan for Medicare-eligible PEEHIP members, which required a complex contract among several parties. The process of finalizing this contract took several months.

Finally, last year continued to see many changes for public pensions and health insurance programs in Alabama and elsewhere. These changes will be the source of much of the RSA's legal work in the coming year. It is the RSA legal staff's duty to assist the RSA in meeting the challenges posed by these changes and to make sure that the RSA continues to serve its members as effectively as possible.

LEGISLATION The 2012 Regular Legislative Session (February 7, 2012 through May 16, 2012) was immediately followed with the 2012 First Special Session (May 17 through May 24, 2012). The General Fund Budget (Act 2012-568) and the Education Trust Fund Budget (ACT 2012-569) passed. Both the TRS and PEEHIP were funded at the agreed upon rates.

Act 2012-377 creates a Tier 2 Defined Benefit plan for workers hired after January 1, 2013. New state employees and teachers will pay lower contribution rates, but will not be able to draw a retirement benefit until they reach age 62. State police, law enforcement, firefighters, and correctional officers will be able to draw a benefit at age 56. Local agencies that did not increase employee contributions under Act 2011-676 will not see a reduction in employee contributions.

- Benefit factors: 1.65% (2.375% for state police)
- Member contribution: 6% for state employees and teachers, 7% for FLC, and 10% for state police
- 5 year Average Final Salary
- No bonus years
- No sick leave conversion
- Benefit cap of 80%
- Overtime cap of 125% of base pay

Act 2012-302 allows retirement contributions on overtime pay with a cap of 120% of base pay for all members of the TRS and the ERS (including local units).

Act 2012-412 requires teachers and state employees convicted of a felony offense related to their public position to forfeit their right to lifetime retirement benefits. However, the employee would receive a refund of his or her retirement contributions. This legislation is not retroactive and does not affect any member that has already been found guilty of an offense.

Act 2012-282 allows the Bullock County sheriff to participate in the Employees' Retirement System. Act 2012-184 allows certain Etowah County officials to participate in the Employees' Retirement System.

Act 2012-558 allows a member of the Oxford Emergency Medical Services to purchase certain prior non-qualified service credit as permitted by the IRC Section 415(n)(3)(B). This act also allows a vested member of the TRS or the ERS to purchase prior service credit with the United States Department of Agriculture Farm Service Agency at the full actuarially determined cost.

Act 2012-478 provides that the Third Party Prescription Program Act does not apply to the Public Education Employees' Health Insurance Plan (PEEHIP).

COMMUNICATIONS / FIELD SERVICES

The Communications Division is responsible for the design, layout, and printing of RSA publications. All division member handbooks, brochures, agency manuals and forms are prepared by the Communications staff. In addition, Communications designs and updates the RSA website and oversees the election process for the Board of Control elections.

The RSA Field Services Division is responsible for all educational opportunities offered throughout the state. These responsibilities include scheduling and presenting the Retirement Preparation Seminars and Mid-Career Seminars for the ERS and TRS. The Field Services employees are on constant standby for making presentations, as well as attending and addressing conferences and seminars.

RTJ Highland Oaks, Dothan © Fouts Commercial Photography



TEACHERS' RETIREMENT SYSTEM | EMPLOYEES' RETIREMENT SYSTEM | JUDICIAL RETIREMENT FUND

MEMBERSHIP ACTIVITY FOR 2012

	TRS	ERS	JRF
NEW MEMBERS	10,973	7,887	8
WITHDRAWN MEMBERS	4,949	5,241	2
SERVICE RETIREMENTS	3,762	2,168	6
DISABILITY RETIREMENTS	400	306	0
NEW BENEFICIARIES	309	247	0

TOTAL MEMBERSHIP FOR 2012

(AS OF SEPTEMBER 30, 2012)

	TRS	ERS	JRF	TOTAL
ACTIVE	128,355	80,207	337	208,899
DROP	4,354	2,106	-	6,460
RETIRED	77,295	40,451	346	118,092
TOTAL	210,004	122,764	683	333,451

FUNDS UNDER MANAGEMENT

(AS OF SEPTEMBER 30, 2012; \$ in Thousands)

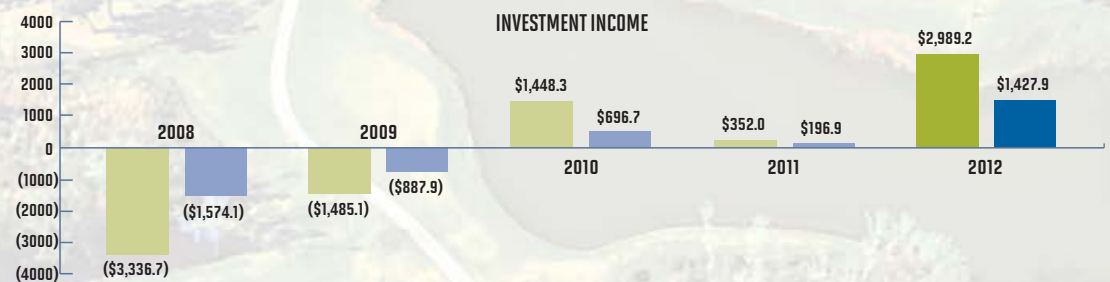
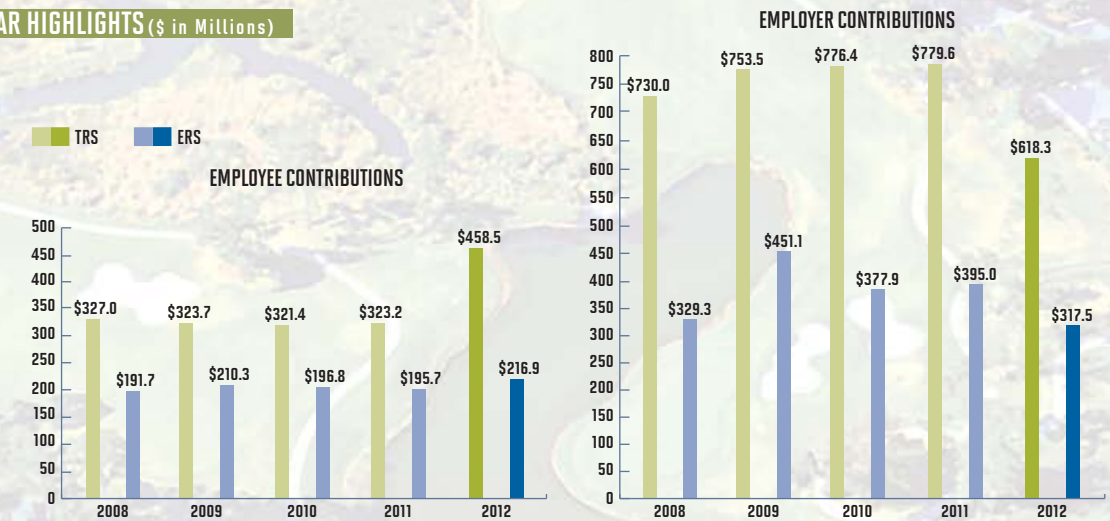
	TOTAL FUNDS MANAGED (1)
TEACHERS' RETIREMENT SYSTEM	\$ 18,807,517
EMPLOYEES' RETIREMENT SYSTEM	9,118,996
JUDICIAL RETIREMENT FUND	234,762
ALABAMA CULTURAL RESOURCES PRESERVATION TRUST FUNDS	10,380
ALABAMA EDUCATION FOUNDATION FOR K THROUGH 12	903
DIVISION OF WILDLIFE AND FRESHWATER FISHERIES	19,493
ALABAMA NONGAME WILDLIFE ENDOWMENT TRUST	16
ALABAMA UNDERGROUND & ABOVEGROUND STORAGE TANK TRUST FUNDS	32,212
CLERKS' & REGISTERS' SUPERNUMERARY FUND	11,445
ALABAMA SENIOR SERVICES TRUST FUND	27,777
ALABAMA STATE EMPLOYEES' HEALTH INSURANCE FUND	105,354
LOCAL GOVERNMENT HEALTH INSURANCE FUND	108,671
PEIRAF - DEFERRED COMPENSATION PLAN (RSA - 1)	1,589,310
PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND	210,247
ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST	953,268
PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND	89,490
ALABAMA MARINE RESOURCES ENDOWMENT TRUST FUND	1,140
ALABAMA TRUST FUND	594,821
ALABAMA TREASURY FUND	252,750
CHARLOTTE THORN TRUST FUND	7,717
ALABAMA STATE EMPLOYEES' RETIRED HEALTH CARE TRUST FUND	126,145
STATE DOCKS PENSION PLANS	14,978
TOTAL ASSETS UNDER MANAGEMENT	\$ 32,317,392

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

REVENUE SOURCES for TRS, ERS & JRF (\$ in Millions)

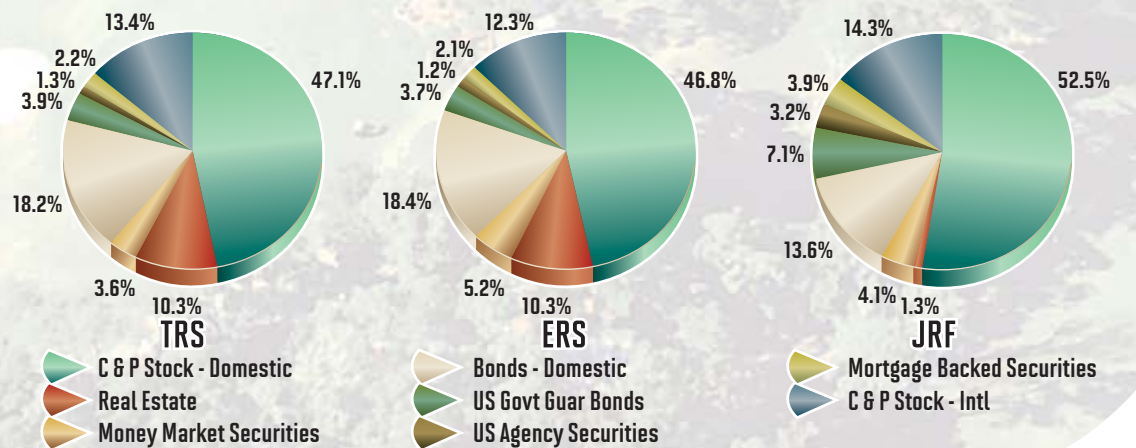
	2012	2011
EMPLOYEE CONTRIBUTIONS	679.1	521.6
EMPLOYER CONTRIBUTIONS	946.6	1,185.5
INVESTMENT INCOME	4,456.0	550.9
TOTAL	\$ 6,081.7	\$ 2,258.0

5-YEAR HIGHLIGHTS (\$ in Millions)



ASSET ALLOCATION (as of September 30, 2012)

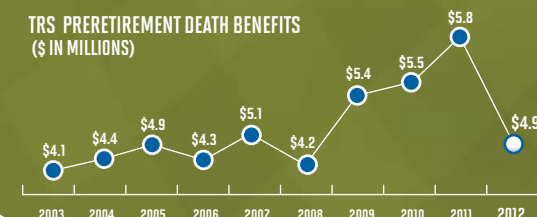
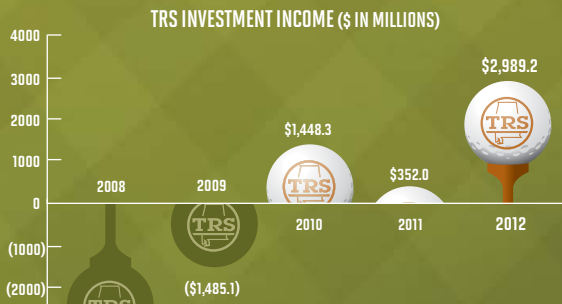
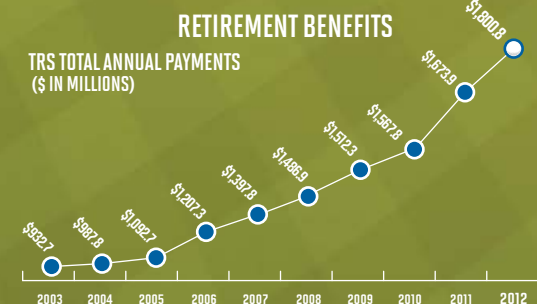
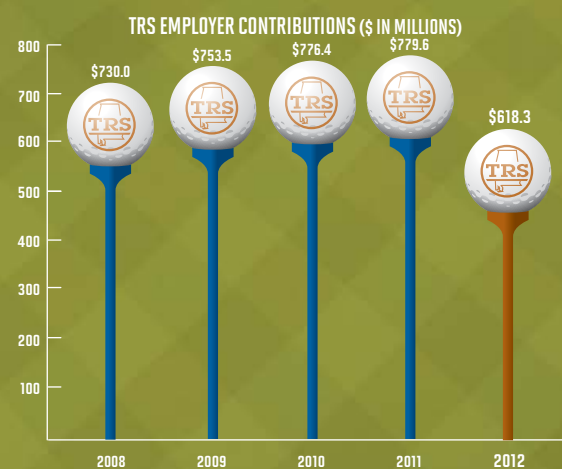
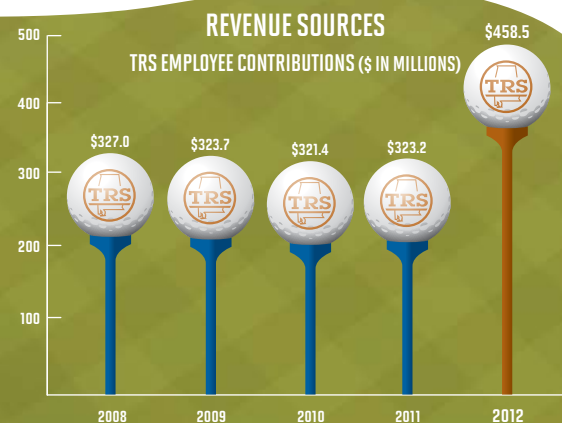
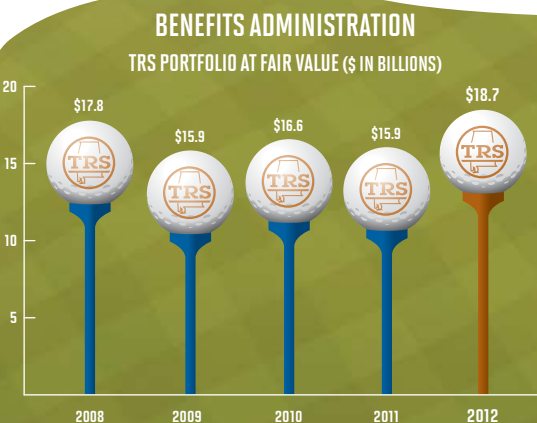
Asset allocation is a strategic long-term decision in the pension investment management process. The RSA is dedicated to preserving the sound financial position it has established over the years through a diversified investment program. The objective of the RSA is to allocate investments in the most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





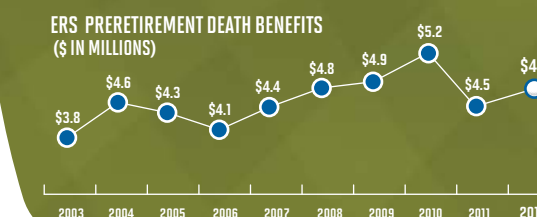
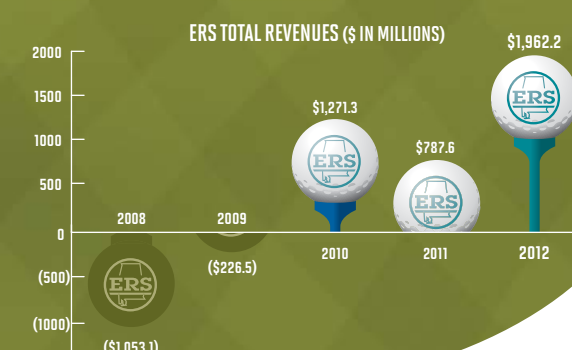
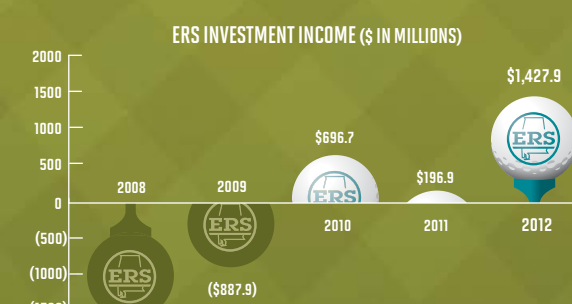
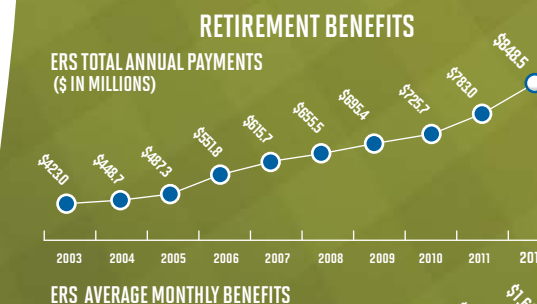
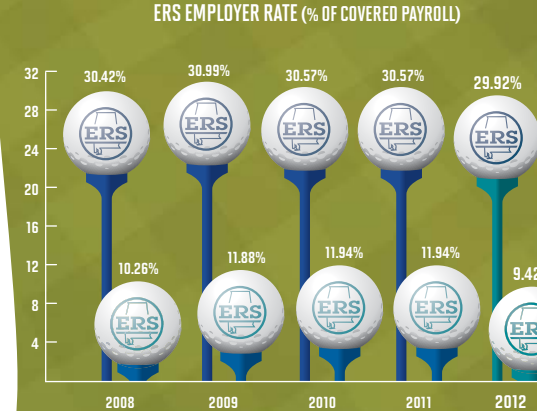
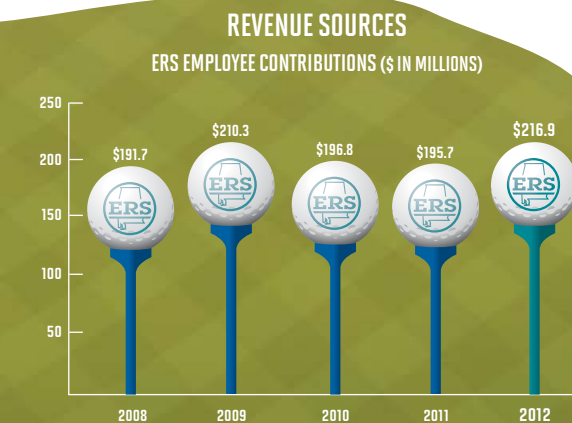
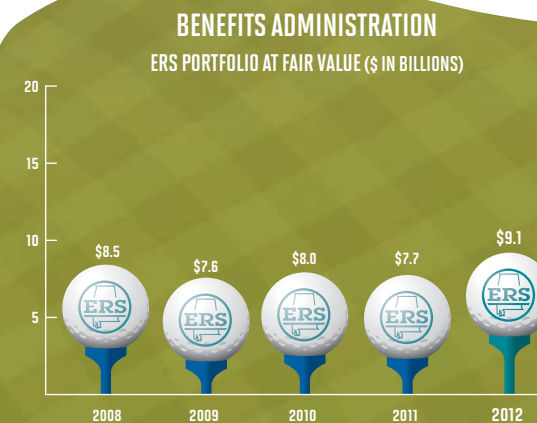
Teachers' Retirement System

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



Employees' Retirement System

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.





Judicial Retirement Fund

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.

BENEFITS ADMINISTRATION

JRF PORTFOLIO AT FAIR VALUE (\$ IN MILLIONS)



REVENUE SOURCES

JRF EMPLOYEE CONTRIBUTIONS (\$ IN MILLIONS)



JRF EMPLOYER RATE (% OF COVERED PAYROLL)



JRF EMPLOYER CONTRIBUTIONS (\$ IN MILLIONS)



RETIREMENT BENEFITS

JRF TOTAL ANNUAL PAYMENTS (\$ IN MILLIONS)



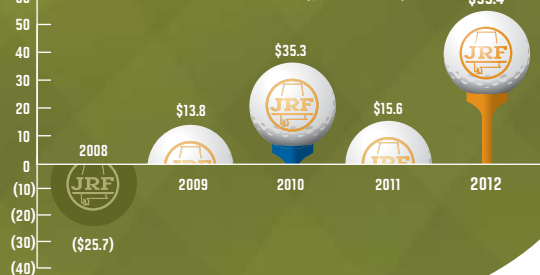
JRF AVERAGE MONTHLY BENEFITS (\$ IN ACTUAL DOLLARS)



JRF INVESTMENT INCOME (\$ IN MILLIONS)



JRF TOTAL REVENUES (\$ IN MILLIONS)



Public Employees' Individual Retirement Account Fund

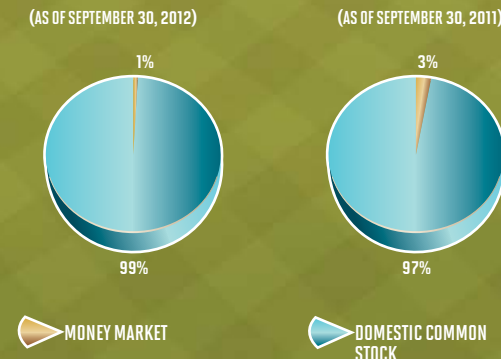
RSA-1 DEFERRED COMPENSATION PLAN

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.

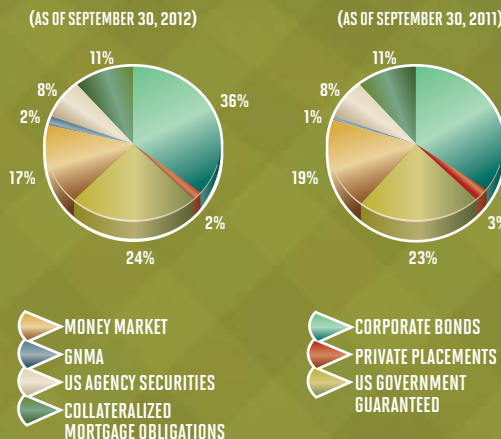
RSA-1 HIGHLIGHTS

12-MONTH PERIOD ENDING	INCOME YIELD (IN %)	MARKET VALUE CHANGE (IN %)	TOTAL RETURN (IN %)	TOTAL NET ASSETS (\$ IN MILLIONS)	PARTICIPATING MEMBERS
SEPTEMBER 30, 2008 (FIXED INVESTMENT OPTION)	5.65	-5.71	-0.06	896.2	32,738
SEPTEMBER 30, 2008 (STOCK INVESTMENT OPTION)	2.21	-23.64	-21.43	183.7	13,623
SEPTEMBER 30, 2009 (FIXED INVESTMENT OPTION)	5.54	5.21	10.75	1,016.2	32,243
SEPTEMBER 30, 2009 (STOCK INVESTMENT OPTION)	2.79	-8.77	-5.98	172.8	14,739
SEPTEMBER 30, 2010 (FIXED INVESTMENT OPTION)	4.32	3.69	8.01	1,125.9	33,162
SEPTEMBER 30, 2010 (STOCK INVESTMENT OPTION)	2.21	7.71	9.92	206.6	15,520
SEPTEMBER 30, 2011 (FIXED INVESTMENT OPTION)	4.01	0.38	4.39	1,196.4	33,624
SEPTEMBER 30, 2011 (STOCK INVESTMENT OPTION)	2.02	-0.98	1.04	223.1	16,170
SEPTEMBER 30, 2012 (FIXED INVESTMENT OPTION)	3.79	1.67	5.46	1,301.2	34,039
SEPTEMBER 30, 2012 (STOCK INVESTMENT OPTION)	2.29	27.51	29.80	293.0	16,203

RSA-1 / INVESTMENT ALLOCATION STOCK FUND



RSA-1 / INVESTMENT ALLOCATION FIXED FUND

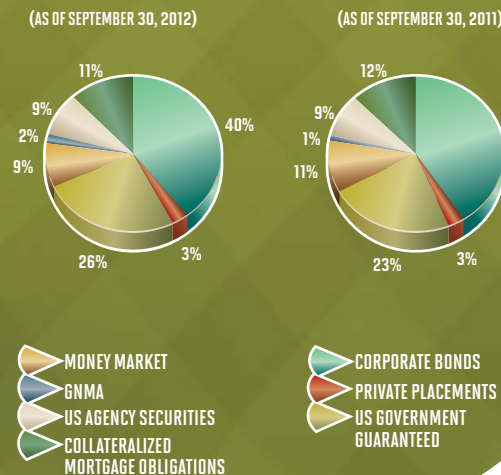


PEIRAF DEDUCTIBLE EMPLOYEE CONTRIBUTION PLAN

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.

PEIRAF / INVESTMENT ALLOCATION



"All of us with all of our community partners and business partners, have consistently been able to show travelers from all over the world that Alabama has so much to offer—the beauty of the state, the quality of the golf we provide, the hospitality and the business environment. All those things combine to make companies from all over the world want to make Alabama their home."

- JOHN CANNON
President and CEO of Sunbelt Golf,
which operates the Trail



**ROBERT TRENT JONES
GOLF TRAIL**

11 sites
(each within 30 minutes of the interstate and
no more than a 2 hour drive between sites)

26 courses
468 holes
8 resorts

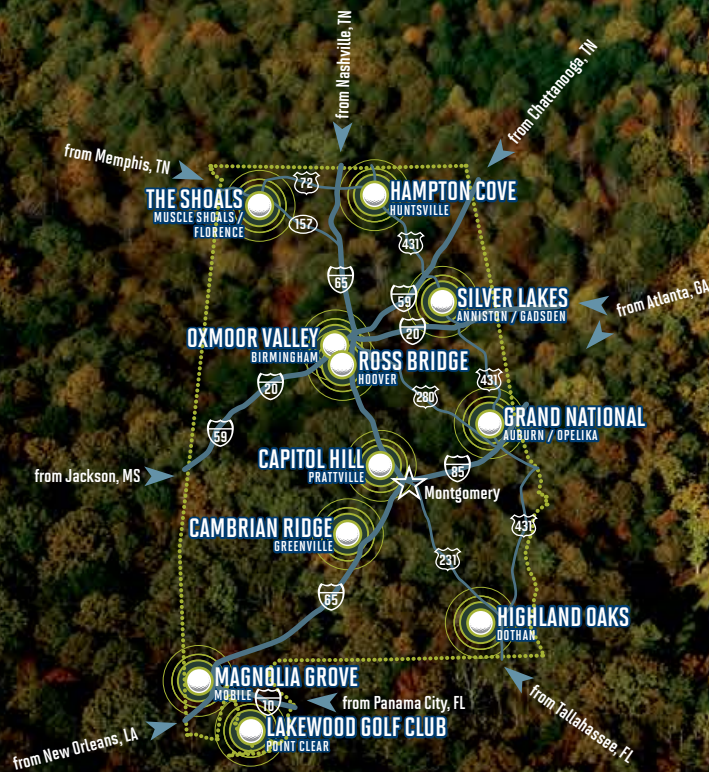
**THE RSA: On The
Championship Course**

The Trail has averaged 500,000 golfers per year for the last 20 years, and will reach its 10 millionth golfer in early 2013.

Last year, the Trail booked golf packages from all 50 states and several countries with Canada and England being the top two countries whose golfers play the Trail from outside the United States. Visitor counts from South America and Asia are increasing as well.

*"Play at a different location on our Trail every time you visit Alabama.
Each course is specifically designed to create a diverse experience."*

- DAVID G. BRONNER



RTJ Ross Bridge, Hoover © Fouts Commercial Photography



RTJ ROSS BRIDGE HOOVER

18 holes

COURSE: Ross Bridge

HIGHLIGHT: Played from the tips, Ross Bridge is one of the longest courses in the world at 8,191 yards.

11 suites and 259 guest rooms with balconies overlooking the 4th longest golf course in the world

12,000 square foot European-style spa

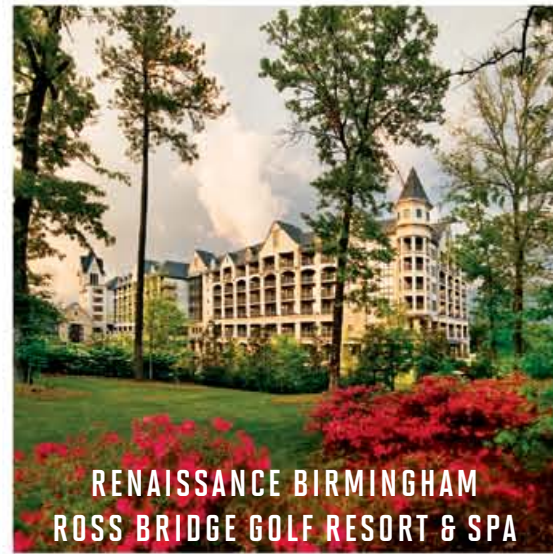
20,000 square feet of event space including a large ballroom and a boardroom

Host hotel for the Porsche Sport Driving School

AAA Four Diamond Award

One of the Top 25 golf resorts in the U.S.

- *Golf Resort & Meeting Destinations* magazine



RENAISSANCE BIRMINGHAM
ROSS BRIDGE GOLF RESORT & SPA



RTJ OXMOOR VALLEY BIRMINGHAM

54 holes

COURSES: Ridge, Valley, and Short

HIGHLIGHT: The green on No. 3 of the Ridge is buttressed by a shelf of exposed shale rock.

The Ross Bridge and Oxmoor Valley courses offer 72 holes combined and are a five minute drive from each other.

Oxmoor Valley is built on former mining land and has significant elevation changes and other natural challenges.



The Shoals area is known for its musical heritage and for bass fishing.



RTJ HAMPTON COVE HUNTSVILLE



"Our courses play through a magnificent mixture of terrain. The Shoals and Hampton Cove, in the northern part of the state set at the foothills of the Allegheny Mountains, are surprisingly flat. Our Capitol Hill and Cambrian Ridge courses feature dramatic elevation changes and bluffs. It is a roller coaster ride all the way." - JOHN CANNON, president and CEO of Sunbelt Golf, which operates the Trail

54 holes

COURSES: River, Highlands, and Short

HIGHLIGHT: The Highlands No. 5 is the only hole on the Trail with a barn on the hole.

200 guest rooms, 7 suites, and balconies with riverfront views

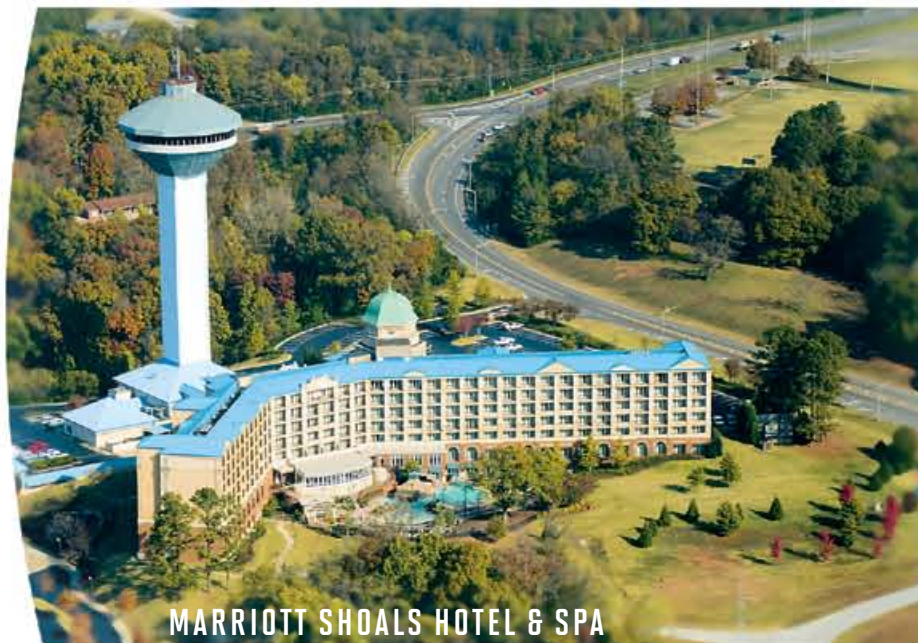
30,000 square feet of meeting space

Has the only revolving restaurant in Alabama

6,000 square foot European-style spa and salon

AAA Four Diamond Award

Ranked first among 300 Marriott properties in North America for providing the best guest satisfaction



MARRIOTT SHOALS HOTEL & SPA

36 holes

COURSES: Fighting Joe and Schoolmaster

HIGHLIGHT: Fighting Joe is a long links-style course (more than 8,000 yards from the tips) and the 18th is a beautiful finishing hole with the Tennessee River framed to the right of the hole.

Fighting Joe is named for General Joseph "Fighting Joe" Wheeler, the only Confederate general to attain the same rank later in the U.S. Army. The Schoolmaster is named for President Woodrow Wilson, who was responsible for getting the Wilson Dam built. He was known as the "schoolmaster in politics."



RTJ THE SHOALS MUSCLE SHOALS / FLORENCE



36 holes

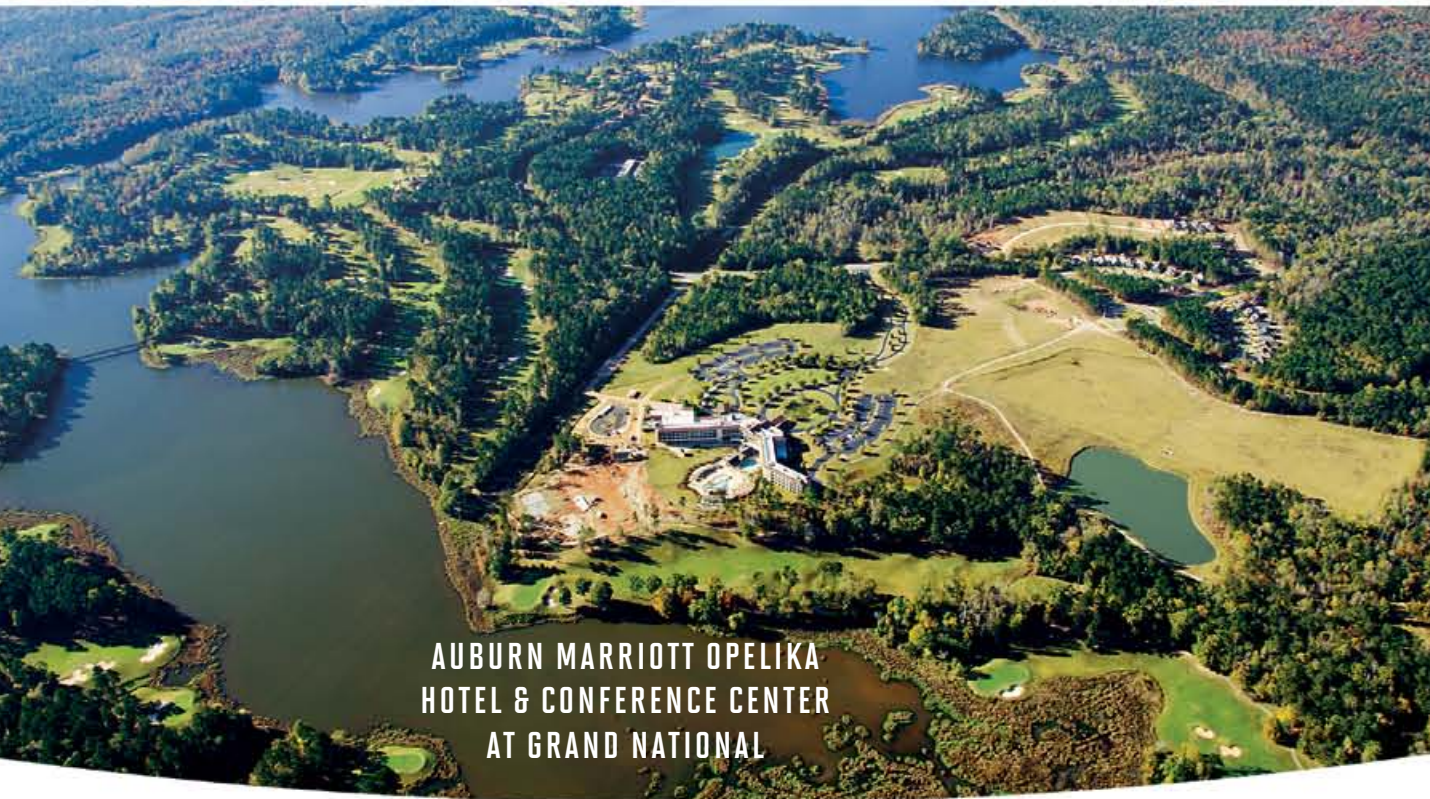
COURSES: Backbreaker, Heartbreaker, Mindbreaker, and Short

HIGHLIGHT: Heartbreaker No. 7 and No. 9 are among the top 18 holes on the Trail, with No. 9 being the course's most difficult par four and one of the best finishing holes on the Trail.

The EF-4 tornado of April 27, 2011 caused extensive damage to Silver Lakes. Set on rolling terrain at the edge of the Talladega National Forest between Anniston and Gadsden, the course lost over 40,000 trees. Since then, over \$5 million has been invested in repairs.

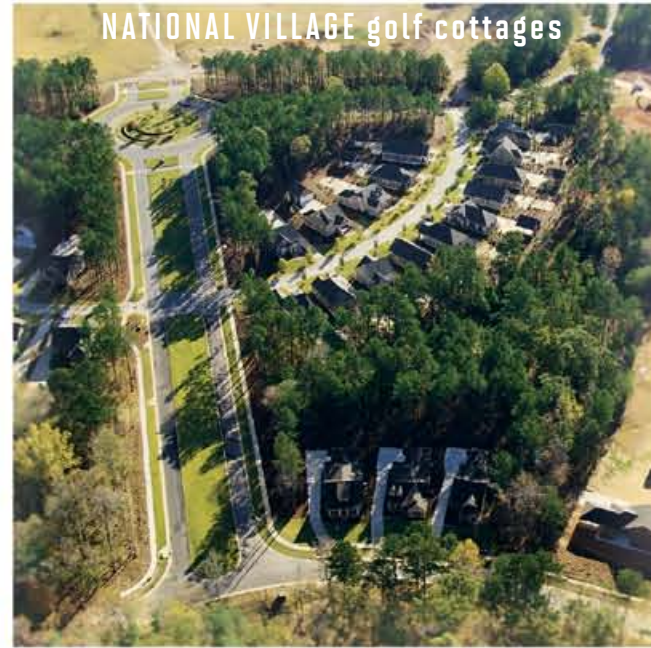
"I think about the people who lost lives and family members. I saw it here; it humbles you... I hope that people who lost something in this storm...have been able to rebuild like we have. That's what I hope for. I will never forget it."

- JASON CALLAN, Silver Lakes Director of Golf



AUBURN MARRIOTT OPELIKA
HOTEL & CONFERENCE CENTER
AT GRAND NATIONAL

114 guest rooms and 15 suites
15,000 square feet of technology-equipped event space, a business center, and a 96-seat amphitheater
2012 saw the addition of a new 4,200 square foot pool complex featuring 3 saltwater pools, a splash pad for kids, a splash pool bar for adults, 5 private cabanas, whirlpools, 2 waterfalls, fire pits, and a nightly fog and light show.



NATIONAL VILLAGE golf cottages

◀ National Village offers upscale homes and cottages and is adjacent to Grand National. Since opening in 2006, 60 homes have been sold and 2 new phases are under development: Quail Ridge and Eagle Bend. The hotel amenities, such as pools and fitness center, are available to residents.

54 holes

COURSES: Lake, Links, and Short

HIGHLIGHT: The 230-yard 15th hole on the Lake course has an island green. Golfers often see deer, fox, turkey, and even eagles.

Built on 600-acre Lake Saughatchee, 32 of the 54 holes of Grand National run along the shore.



RTJ GRAND NATIONAL AUBURN / OPELIKA



RENAISSANCE MONTGOMERY HOTEL & SPA
at the CONVENTION CENTER

290 guest rooms and 52 suites ▲
Several restaurants and bars and a European-style spa
142,000 square feet of meeting space with state-of-the-art technology
An 1,800 seat performing art center for concerts, plays, and events
AAA Four Diamond Award

54 holes ►

COURSES: Judge, Legislator, and Senator

HIGHLIGHT: The first tee on the Judge sits 200 feet above the fairway, and 14 holes of the course border the Alabama River backwaters.

"The Judge golf course in Prattville ripped my handicap to pieces, and I loved every minute of it."

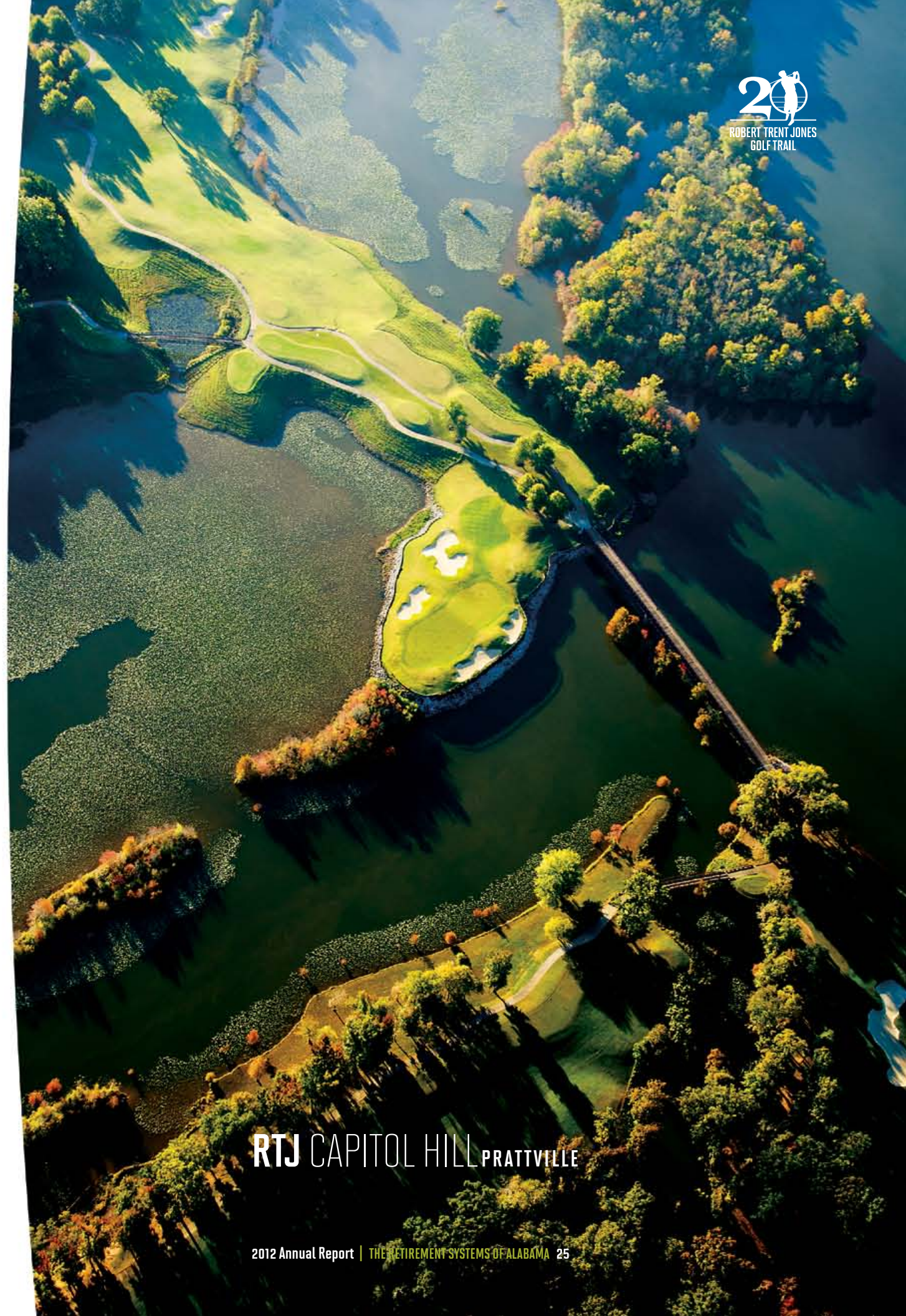
- ALICE COOPER, rock legend



MONTGOMERY MARRIOTT PRATTVILLE HOTEL & CONFERENCE CENTER at CAPITOL HILL

95 guest rooms: 74 in the main lodge, two 8-room villas, and a 10,000 square foot Presidential Suite consisting of 5 executive suites including balconies, a garden, and a private heliport
15,000 square feet of event space, including 13 venues and a ballroom

© Courtesy of Marriott



RTJ CAPITOL HILL PRATTVILLE



RTJ CAMBRIAN RIDGE GREENVILLE

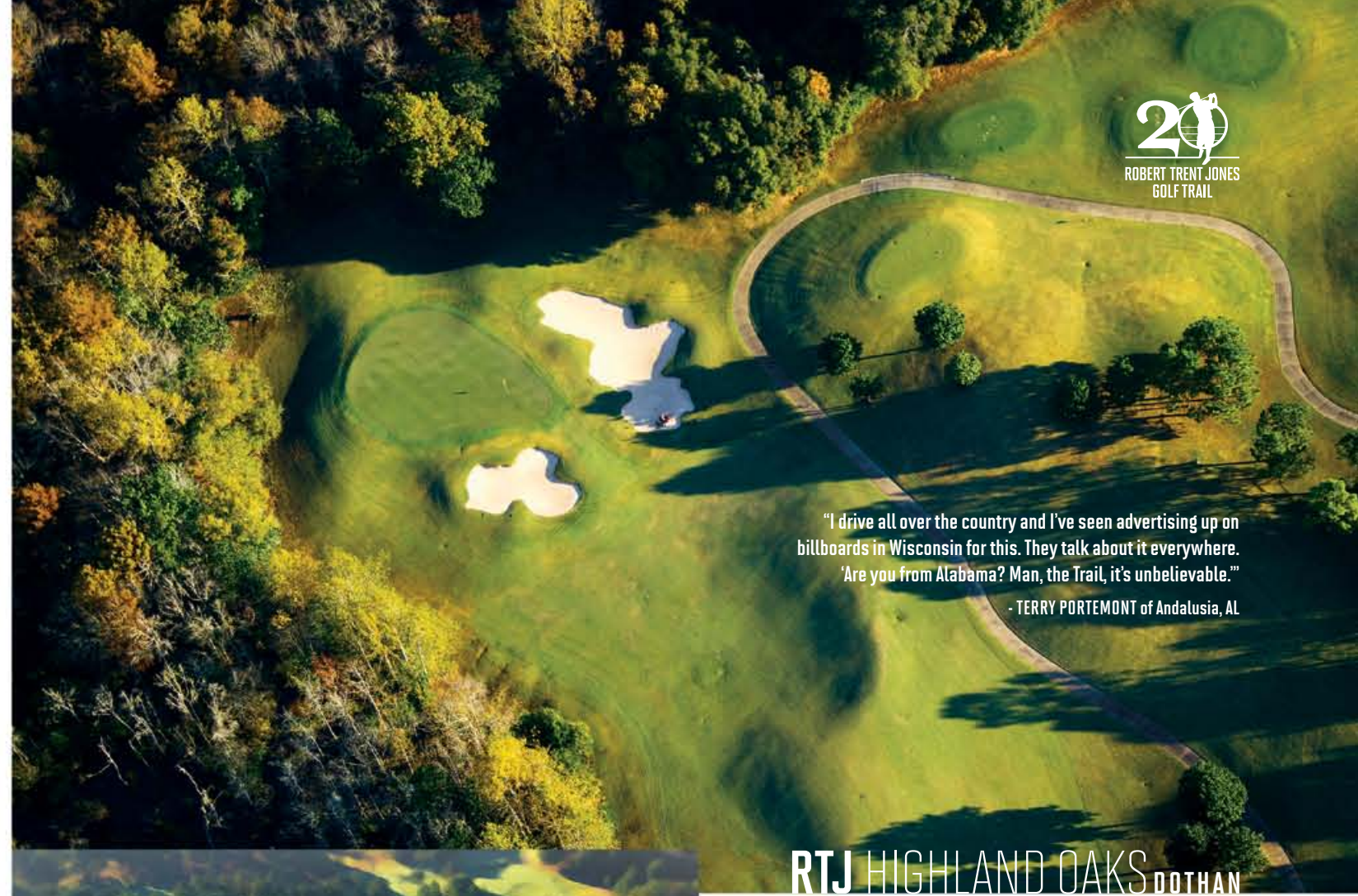
36 holes

COURSES: Canyon, Loblolly, Sherling, and Short

HIGHLIGHT: No. 1 of the Canyon is a 501-yard par 4 that drops roughly 200 feet from tee to fairway.

“The Robert Trent Jones Golf Trail has put Greenville on the map. Bringing the Trail to Greenville has generated millions and millions of dollars in Greenville. Over the past 20 years, the Trail has brought new hotels, restaurants and more sales tax to Greenville. Most important, the Trail has generated new jobs. The world now knows where Greenville is and that would not be possible without Dr. Bronner and his vision behind the Robert Trent Jones Golf Trail.”

- DEXTER MCLENDON,
mayor of Greenville



“I drive all over the country and I’ve seen advertising up on billboards in Wisconsin for this. They talk about it everywhere. ‘Are you from Alabama? Man, the Trail, it’s unbelievable.’”
- TERRY PORTEMONT of Andalusia, AL

RTJ HIGHLAND OAKS DOTHAN

36 holes

COURSES: Highlands, Magnolia, Marshwood, and Short

HIGHLIGHT: Magnolia’s 416-yard No. 5 has a split-level fairway offering golfers an option.

When Highland Oaks was first built there were only two homes around the golf course. Today, there are 1,291 homes and a nearby retail center is soon to open.

“The economic impact that Highland Oaks has had on the west side of Dothan is incredible. The commercial growth as well as the residential growth over the past 10 to 15 years is largely the result of our Robert Trent Jones Golf Trail site.”

- MIKE SCHMITZ,
mayor of Dothan





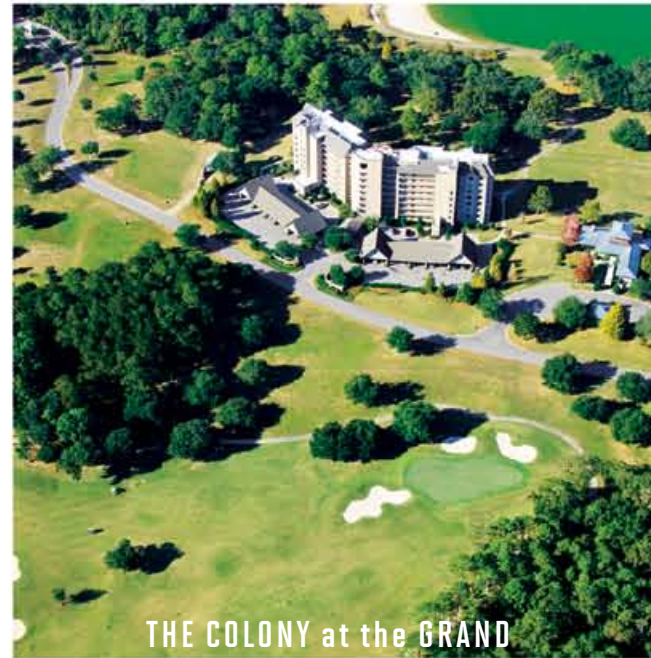
THE GRAND HOTEL MARRIOTT
RESORT, GOLF CLUB & SPA

- ▲ Built in 1847 | 371 guest rooms, 34 suites | 37,000 square feet of meeting space
550 acres of live oak trees, beaches, and landscaping | 20,000 square foot spa
- ▼ 8 tennis courts, a croquet lawn, horseshoes, kayaks, bicycles, sailboats and other watercraft



The Colony at the Grand is an upscale residential complex with condominiums overlooking Mobile Bay and the Azalea golf course.

Recent renovations include the Colony Pool complex which offers waterslides and splash pad, a lazy river, and a central fountain featuring a computer automated light and jet display.



THE COLONY at the GRAND



RTJ LAKEWOOD GOLF CLUB POINT CLEAR

36 holes

COURSES:
Azalea and
Dogwood

HIGHLIGHT:
No. 14 on the
Azalea course
has an
island green
surrounded by a
four-acre lake.



Every day at The Grand at 4:00 p.m. there is a military salute and cannon firing, followed by tea in the lobby.

The Grand Dining Room and the Grand Hotel were awarded AAA Four Diamond Awards.

Chosen as a "Top 100 Spa" by readers of *Conde Nast Traveler*

Named one of the "Top 500 Hotels in the World" by *Travel + Leisure*

THE RSA: On The Championship Course

Originally built in 1852

207 guest rooms, 31 suites

Historic lobby, restaurant,
ballrooms and spa

35,000 square feet
of meeting space

Connected to the
RSA Battle House Tower

The Battle House was awarded a
AAA Four Diamond Award.

The Trellis Room was awarded a
AAA Four Diamond Award.



© Courtesy of Marriott

**RENAISSANCE MOBILE
RIVERVIEW PLAZA HOTEL**

363 guest rooms, 11 suites

32,000 square feet of meeting,
banquet, and exhibit space

Walking distance to the
Mobile Convention Center, Carnival
Museum, Museum of Mobile, and the
Gulf Coast Exploreum Science Center

AAA Four Diamond Award



**THE BATTLE HOUSE
RENAISSANCE MOBILE
HOTEL & SPA**



RTJ MAGNOLIA GROVE MOBILE

54 holes

COURSES:

Crossings, Falls, and Short

HIGHLIGHT: The Fall's 10th
hole, a 570-yard par five,
features a waterfall that
cascades just beneath a
contoured green that falls
eight feet from front to back.

*The 2012 Mobile Bay
LPGA Classic
golf tournament had an
estimated economic impact
of \$9,450,000, based on
accommodations, food,
retail, fuel, and
miscellaneous spending,
with an average per person
expenditure of \$250.*

*Stacy Lewis won the
2012 Mobile Bay LPGA
Classic in April and
Prattville's 2012 Navistar
LPGA Classic in September.*



2012

Retirement
Systems of
Alabama
Investment
Staff

Left to right: DIRECTOR OF PRIVATE PLACEMENTS – M. Hunter Harrell, M.B.A., CFA, J.D.; EQUITY ANALYST / PORTFOLIO MANAGER – G. Allan Carr, Jr., M.B.A., CFA;
EQUITY ANALYST / PORTFOLIO MANAGER – Adam Rogers, M.A., CFA; CHIEF INVESTMENT OFFICER – R. Marc Green, M.B.A., CFA; FIXED INCOME ANALYST / PORTFOLIO MANAGER – C. Lance Lachney, M.B.A., CFA;
DIRECTOR OF FIXED INCOME – Julie S. Barranco, M.B.A., CFA; EQUITY ANALYST / PORTFOLIO MANAGER – J. Keith Buchanan, M.B.A., CFA; EQUITY ANALYST / PORTFOLIO MANAGER – Kevin W. Gamble, M.B.A., CFA;
CASH MANAGEMENT & OPERATIONS – Nancy H. Blair; ASSISTANT DIRECTOR OF EQUITIES – Steve Lambdin, M.B.A., CFA; EQUITY ANALYST / PORTFOLIO MANAGER – Bobby Long, M.B.A., CFA;
FIXED INCOME ANALYST / PORTFOLIO MANAGER – Nicholas A. Prillaman, M.S., CFA; EQUITY ANALYST – Hunter Bronson, M.S.; EQUITY ANALYST – Michael J. McNair, M.B.A., CFA

RSA Investment Staff
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Equity Activity

Although economic growth moved at a sluggish pace in fiscal 2012, the old saying of “Don’t fight the Fed” was in play this year. After starting off from depressed levels in the first fiscal quarter, the markets had a nice move as corporate profits did not deteriorate as much as investors were expecting. As we moved into late spring, it became evident that the markets and the global economy were facing significant headwinds with China continuing to slow, the fiscal cliff growing nearer, uncertainty about leadership in Washington, and continued Euro area issues. This caused a 10% correction in the third quarter of the fiscal year as investors went into “risk off” mode. After June earnings proved to be not so bad, the market began to rally in fits and starts. Finally, the year culminated with a sharp rally as the Federal Reserve announced another round of quantitative easing (QE3). The lower for longer rhetoric by the Fed definitely had its intended effect for this twelve month period as low yields across the curve forced investors into risk assets, in spite of continued money flows out of stock funds (especially domestically) and into bonds.

As for the markets, valuations still remain reasonable, trading at roughly 13.5 times expected earnings. There is obvious angst both at the consumer and corporate level, as uncertainty around policy direction is a big factor in delaying or committing to capital allocation decisions. A lot of this will obviously be resolved by the election. With that said, we started the year with a sizeable overweighting in large capitalization domestic stocks, and this was a good place to be. We were a net seller of stocks throughout the year as they continued higher, and have roughly maintained our same weighting versus one year ago. We also placed some protection around a portion of our equity portfolio going into year-end to protect the nice gains we had seen. We also continue to use volatility in emerging markets to generate additional option income around our small core position in that area. With general sentiment towards equities still relatively negative, we feel comfortable with maintaining our current exposure, especially relative to bonds.

For the year, the RSA domestic equity portfolios increased 28.27%, 28.08%, and 30.36% for TRS, ERS, and JRF funds, respectively. International equity returns lagged domestic returns but were positive with TRS up 14.99%, ERS up 15.05%, and JRF up 14.88%. The combined total return for the overall equity portfolios were 24.99%, 25.03%, and 26.88% for TRS, ERS, and JRF, respectively. Three-, five-, and ten-year annualized global equity returns were 10.38%, (0.12)%, and 8.53% for TRS, 10.47%, (0.06)%, and 8.54% for ERS, and 11.68%, 0.63%, and 8.07% for JRF, respectively. ■

Fixed Income Activity

At the beginning of fiscal year 2012, the Federal Open Market Committee (FOMC) had recently decided to extend the average maturity of its treasury holdings in a maneuver referred to as “Operation Twist.” This move, along with the reinvestment of principal into agency mortgage-backed securities, was enacted to offset downside risks in the global economy. Treasury yields for short and intermediate maturities were sitting at record lows with longer term yields at levels not seen since the first few months of the financial crisis. However, better economic data and a possible long term solution to the Greek sovereign debt situation enabled the credit market to stage a quick rebound. Financials significantly outperformed treasuries during the month of October, only to be outdone by the 625 basis points of excess return in the high yield sector. The euphoria, however, was short-lived as yields on European sovereign debt continued to rise despite the European Central Bank lowering short-term rates and implementing purchases of Spanish and Italian debt.

In December, macroeconomic news at home exhibited strength in the midst of European weakness with the unemployment rate dropping to a multi-year low of 8.6%. Later in the month, the European Central Bank announced a bank refunding program called Long Term Refinancing Operation, or casually referred to as LTRO. This allowed financial institutions to receive three-

continued



Fixed Income Activity

FISCAL YEAR 2012 (continued)

year funding at a nominal rate by pledging the appropriate collateral. This announcement allowed monetary conditions to dramatically loosen and a risk rally in most asset classes ensued. With the value of European sovereign debt rising substantially, the credit sector in the U.S. was able to post stellar returns heading into the new calendar year.

Risk assets continued to perform relatively well through February as the second tranche of the LTRO was launched. Mortgage and agency spreads tightened as investors sought out incremental yield within the fixed income market. By the middle of March, ten-year treasury yields had surged to approximately 2.40% with U.S. equity markets reaching pre-crisis highs. However, a disappointing jobs report and European rebuke of further austerity measures sent investors looking for safety once again. April was a month in which risk assets faded, with the high grade market underperforming treasuries for the first time since November. Several political headlines in Europe, such as France electing the socialist-leaning Francois Hollande and the inability of the Greek government to secure a majority in parliament, sent investors scurrying out of Spanish and Italian debt and into German Bunds and U.S. Treasuries.

Many of the uncertainties weighing on capital markets in previous months began to notably subside during June. Policy responses from central banks were enacted to offset weakness in the global economy. In addition to the lengthening of Operation Twist until the end of the calendar year by the Federal Reserve, emerging markets, including China, began to lower benchmark rates as insurance against a hard landing. In the Eurozone, the tone was fairly positive following the results of the European Summit and the additional rate cut administered by the European Central Bank. While global growth concerns kept investors interested in the market for government guaranteed debt during July, risk assets were still able to match or beat

treasury performance as European contagion risk continued to diminish. Investor appetite remained strong during this time as new issuance in the high grade sector hit record highs.

After a steady increase in asset prices during the month of August, September was marked by the FOMC announcement of a third round of quantitative easing (QE3). The Fed stated its intention to purchase \$40 billion of agency mortgage-backed securities per month until macroeconomic conditions warrant otherwise. It is indeed an open-ended commitment. Policy-makers also renewed their commitment to keep the target fed funds rate at zero to 25 basis points through mid-2015. Corporate spreads continued to tighten throughout the end of the fiscal year, coupled with price increases from agency and mortgage-backed securities. The fiscal year can be best described as one of brief risk-off treasury rallies and long risk-on credit outperformance. The high grade universe, which was topped by high yield returns, still managed to pick up an additional 775 basis points of excess performance versus treasury securities. Financials got the best of the industrial and utility sectors by approximately 450 basis points. Going forward, the picture is as murky as ever. The Eurozone situation is far from resolved, the election is right around the corner, and the dreaded fiscal cliff is closing in. This low rate environment leaves very few alternatives for fixed income investors. Their options include unattractive yields within the treasury market and only marginally better dynamics in the credit sector. With global growth currently moving in the wrong direction and the ramifications from excessive monetary stimulus far from certain, the most viable option at this juncture is to play it as close to the vest as possible.

For the fiscal year, the total annual returns for the public domestic fixed income portfolios were 7.02% for the TRS and 7.04% for the ERS and 6.25% for the JRF. The five-year annualized returns were 7.52% for the TRS and 7.53% for the ERS and 7.39% for the JRF. The ten-year annualized returns were 7.06% for the TRS and 7.14% for the ERS and 5.67% for the JRF.

Maturity Structure

The management of maturities for the bond portfolio is 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 STRUCTURE (IN %)

YEARS TO MATURITY	TRS			ERS		
	2012	2011	2010	2012	2011	2010
0 to <5	29.0	27.0	30.2	30.0	27.9	30.9
5 to <10	20.0	22.9	26.1	19.0	21.7	25.2
10 to <30	50.0	48.6	42.7	50.0	49.0	42.9
= or >30	1.0	1.5	1.0	1.0	1.4	1.0

Quality Evaluation

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

QUALITY EVALUATION (IN %)

RATING	TRS			ERS		
	2012	2011	2010	2012	2011	2010
AAA	28	29	32	27	27	31
AA	2	4	4	2	4	3
A	8	8	13	8	8	12
BAA	15	14	13	14	14	13
BA	2	2	3	2	2	3
NOT RATED	45	43	35	47	45	38

Investment Returns / 2012

For the period ended September 30, 2012 (Percent)

	1-YEAR	3-YEARS	5-YEARS	10-YEARS
TOTAL DOMESTIC EQUITY				
TRIS	28.27	12.95	1.26	8.45
ERS	28.08	12.88	1.23	8.46
JRF	30.36	13.57	1.55	8.47

	1-YEAR	3-YEARS	5-YEARS	10-YEARS
TOTAL INTERNATIONAL EQUITY				
TRIS	14.99	2.76	-4.22	8.97
ERS	15.05	2.78	-4.17	8.98
JRF	14.88	3.07	-3.39	n/a

	1-YEAR	3-YEARS	5-YEARS	10-YEARS
TOTAL FIXED INCOME AND ALTERNATIVES				
TRIS	10.11	8.02	1.40	4.51
ERS	10.16	8.17	0.48	4.12
JRF	5.53	6.64	5.91	5.62

	1-YEAR	3-YEARS	5-YEARS	10-YEARS
TOTAL RSA RETURNS				
TRIS	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

BENCHMARKS	1-YEAR	3-YEARS	5-YEARS	10-YEARS
S&P 500	30.20	13.20	1.05	8.01
DJIA	26.52	14.45	2.17	8.59
MIDCAP 400	28.54	14.33	3.83	10.77
SMALLCAP 600	33.35	15.14	3.29	10.74
MSCI EAFE	13.75	2.12	-5.24	8.20
CITIGROUP BIG	5.12	6.04	6.69	5.46
BARCLAYS	5.16	6.19	6.53	5.33

"...the policy of investing roughly 10% of the RSA's portfolio in Alabama projects has returned an estimated \$1.5 billion in state and local tax revenues over a 22-year period."

- DAVID G. BRONNER





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



Broker Commissions Paid
For Fiscal Year Ended September 30, 2012

	COMMISSIONS STOCK TRANSACTIONS (\$ IN ACTUAL DOLLARS)	COMMISSIONS BOND TRANSACTIONS (\$ IN ACTUAL DOLLARS)
BANC OF AMERICA	\$ 139,229	\$ 25,278
BARCLAYS	333,076	69,594
BERNSTEIN	343,692	
CANTOR FITZGERALD		139,005
CARIS	32,486	
CITIGROUP	786,892	117,465
CONVERG EX	77,673	
COWEN	74,211	
CREDIT SUISSE	199,340	197,893
DEUTSCHE BANK	478,873	4,981
EMPIRICAL RESEARCH	100,777	
FIRST DISCOUNT	17,000	
GARDNER RICH	15,000	
GOLDMAN SACHS	145,224	186,598
HARBOR FINANCIAL	7,750	
HOWARD WEIL	101,532	
ISI	676,324	
ISSUER DESIGNATED		119,998
JEFFRIES	179,649	
JP MORGAN CHASE	362,883	185,249
KEEFE BRUYETTE	60,551	
KEYBANC CAPITAL MARKETS	133,151	42,123
LEERWINK SWANN	51,908	
MONTROSE-SINE	16,250	
MORGAN KEEGAN	47,500	
MORGAN STANLEY	1,230,598	39,900
MYERS & ASSOCIATES	19,250	
NBC SECURITIES	60,480	
OPPENHEIMER	225,904	
RAYMOND JAMES	50,000	145,529
RBC BANK	33,234	
RENMAC	42,585	
SANDLER O'NEIL	116,417	
SECURITIES CAPITAL	16,250	
SOUTHCOAST	74,644	
SOUTHWEST SECURITIES	13,750	
STERNE, AGEE & LEACH	172,478	69,011
STIFEL NICOLAUS	161,545	64,450
STRATEGAS	420,030	
UBS WARBURG	27,000	
WELLS FARGO	314,908	91,559
WOLFE TRAHAN	33,088	
TOTAL	\$ 7,393,132	\$ 1,498,633



Statements of Plan Net Assets

As of September 30, 2012 and 2011

	(\$ IN THOUSANDS)	
	2012	2011
ASSETS		
CASH	\$ 19,611	\$ 10,066
RECEIVABLES		
Employee contributions	36,553	25,890
Employer contributions	50,397	63,928
Investment sales	30,786	707,221
Real estate investment	1,072	1,106
Dividends and interest	75,943	57,446
TOTAL RECEIVABLES	194,751	855,591
INVESTMENTS, AT FAIR VALUE		
Domestic equities	8,784,801	6,878,428
Domestic fixed income	4,809,707	4,572,492
International equities	2,504,647	2,251,886
Real estate	1,919,222	1,870,629
Short-term	669,681	327,094
TOTAL INVESTMENTS	18,688,058	15,900,529
INVESTED SECURITIES LENDING COLLATERAL	1,211,112	1,191,109
PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION	99,848	103,169
TOTAL ASSETS	20,213,380	18,060,464
LIABILITIES		
Accounts payable and other liabilities	4,619	4,475
Investment purchases	45,064	110,860
Other postemployment benefit obligations	2,459	1,802
Securities lending collateral	1,211,112	1,191,109
TOTAL LIABILITIES	1,263,254	1,308,246
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 18,950,126	\$ 16,752,218

Separately issued, audited financial statements are available upon request.

Statements of Changes in Plan Net Assets

For the fiscal years ended September 30, 2012 and 2011

	(\$ IN THOUSANDS)	
	2012	2011
ADDITIONS		
CONTRIBUTIONS		
Employee	\$ 456,518	\$ 321,137
Employer	618,306	779,644
Transfers from Employees' Retirement System	2,016	2,059
TOTAL CONTRIBUTIONS	1,076,840	1,102,840
INVESTMENT INCOME		
<i>From investing activities</i>		
Net increase/(decrease) in fair value of investments	2,349,955	(278,407)
Interest and dividends	634,695	624,546
Total investment income from investing activities	2,984,650	346,139
Less investment expenses:	5,260	5,305
Net investment income from investing activities	2,979,390	340,834
<i>From securities lending activities</i>		
Securities lending income	13,670	15,643
Less securities lending expenses:		
Borrower rebates	433	1,261
Management fees	3,465	3,251
Total securities lending expenses	3,898	4,512
Net income from securities lending activities	9,772	11,131
Total net investment income	2,989,162	351,965
TOTAL ADDITIONS	4,066,002	1,454,805
DEDUCTIONS		
Retirement allowance payments	1,800,805	1,673,881
Return of contributions and death benefits	49,453	49,304
Transfers to Employees' Retirement System	1,937	2,012
Administrative expenses	11,555	10,820
Depreciation	4,344	4,243
TOTAL DEDUCTIONS	1,868,094	1,740,260
NET INCREASE/(DECREASE)	2,197,908	(285,455)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	16,752,218	17,037,673
END OF THE YEAR	\$ 18,950,126	\$ 16,752,218

Statements of Plan Net Assets

As of September 30, 2012 and 2011

	(\$ IN THOUSANDS)	
	2012	2011
ASSETS		
CASH	\$ 3,320	\$ 2,608
RECEIVABLES		
Employee contributions	18,178	17,988
Employer contributions	27,392	28,397
Investment sales	15,341	326,653
Real estate investment	536	553
Dividends and interest	35,810	26,480
TOTAL RECEIVABLES	97,257	400,071
INVESTMENTS, AT FAIR VALUE		
Domestic equities	4,245,713	3,335,278
Domestic fixed income	2,306,928	2,192,171
International equities	1,112,997	999,317
Real estate	933,431	909,719
Short-term	467,012	303,210
TOTAL INVESTMENTS	9,066,081	7,739,695
INVESTED SECURITIES LENDING COLLATERAL	557,759	530,094
PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION	49,595	51,117
TOTAL ASSETS	9,774,012	8,723,645
LIABILITIES		
Accounts payable and other liabilities	2,999	2,860
Investment purchases	21,936	58,336
Other postemployment benefit obligations	2,622	1,920
Securities lending collateral	557,759	530,094
TOTAL LIABILITIES	585,316	593,210
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 9,188,696	\$ 8,130,435

Separately issued, audited financial statements are available upon request.

Statements of Changes in Plan Net Assets

For the fiscal years ended September 30, 2012 and 2011

	(\$ IN THOUSANDS)	
	2012	2011
ADDITIONS		
CONTRIBUTIONS		
Employee	\$ 214,933	\$ 193,697
Employer	317,520	394,998
Transfers from Teachers' Retirement System	1,937	2,012
TOTAL CONTRIBUTIONS	534,390	590,707
INVESTMENT INCOME		
<i>From investing activities</i>		
Net increase/(decrease) in fair value of investments	1,114,737	(112,758)
Interest and dividends	310,748	307,152
Total investment income from investing activities	1,425,485	194,394
Less investment expenses:	2,256	2,308
Net investment income from investing activities	1,423,229	192,086
<i>From securities lending activities</i>		
Securities lending income	6,445	6,891
Less securities lending expenses:		
Borrower rebates	174	517
Management fees	1,642	1,521
Total securities lending expenses	1,816	2,038
Net income from securities lending activities	4,629	4,853
Total net investment income	1,427,858	196,939
TOTAL ADDITIONS	1,962,248	787,646
DEDUCTIONS		
Retirement allowance payments	848,464	782,957
Return of contributions and death benefits	40,746	36,798
Transfers to Teachers' Retirement System	2,016	2,059
Transfers to Judicial Retirement Fund	164	98
Administrative expenses	10,616	10,002
Depreciation	1,981	2,029
Total deductions	903,987	833,943
NET INCREASE/(DECREASE)	1,058,261	(46,297)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	8,130,435	8,176,732
END OF THE YEAR	\$ 9,188,696	\$ 8,130,435



Statements of Plan Net Assets

As of September 30, 2012 and 2011

	(\$ IN THOUSANDS)	
	2012	2011
ASSETS		
CASH	\$ 1,712	\$ 1,548
RECEIVABLES		
Employee contributions	161	116
Employer contributions	369	360
Investment sales	228	2
Dividends and interest	1,025	1,077
TOTAL RECEIVABLES	1,783	1,555
INVESTMENTS, AT FAIR VALUE		
Domestic equities	122,145	101,922
Domestic fixed income	64,947	64,957
International equities	33,357	30,075
Real estate	3,016	2,946
Short-term	9,585	7,548
TOTAL INVESTMENTS	233,050	207,448
INVESTED SECURITIES LENDING COLLATERAL	24,470	33,262
TOTAL ASSETS	261,015	243,813
LIABILITIES		
Accounts payable and other liabilities	102	106
Investment purchases payable	535	288
Other postemployment benefit obligations	27	22
Securities lending collateral	24,470	33,262
TOTAL LIABILITIES	25,134	33,678
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 235,881	\$ 210,135

Statements of Changes in Plan Net Assets

For the fiscal years ended September 30, 2012 and 2011

	(\$ IN THOUSANDS)	
	2012	2011
ADDITIONS		
CONTRIBUTIONS		
Employee	\$ 3,517	\$ 2,556
Employer	10,747	10,906
Transfers from Employees' Retirement System	164	98
Total contributions	14,428	13,560
INVESTMENT INCOME		
From investing activities		
Net increase/(decrease) in fair value of investments	32,112	(4,961)
Interest and dividends	6,748	6,853
Total investment income from investing activities	38,860	1,892
Net investment income from investing activities	38,860	1,892
From securities lending activities		
Securities lending income	215	201
Less securities lending expenses:		
Borrower rebates	12	22
Management fees	52	49
Total securities lending expenses	64	71
Net income from securities lending activities	151	130
Total net investment income	39,011	2,022
TOTAL ADDITIONS	53,439	15,582
DEDUCTIONS		
Retirement allowance payments	27,183	26,379
Return of contributions and death benefits	253	34
Administrative expenses	257	276
TOTAL DEDUCTIONS	27,693	26,689
NET INCREASE/(DECREASE)	25,746	(11,107)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	210,135	221,242
END OF THE YEAR	\$ 235,881	\$ 210,135

Separately issued, audited financial statements are available upon request.

Balance Sheets

As of September 30, 2012 and 2011

	(\$ IN THOUSANDS)	
	2012	2011
ASSETS		
CASH	\$ 6,800	\$ 5,843
RECEIVABLES		
Premiums	1,836	1,290
Prescription drug rebates	3,318	3,029
Early Retiree Reinsurance Program	-	19,029
Interest	65	23
TOTAL RECEIVABLES	5,219	23,371
DEPOSIT WITH CLAIMS-PAYING AGENT	387	1,403
INVESTMENTS, AT FAIR VALUE	203,447	192,781
TOTAL ASSETS	\$ 215,853	\$ 223,398
LIABILITIES		
ACCOUNTS PAYABLE	\$ 254	\$ 197
EMPLOYEE BENEFITS PAYABLE	416	467
OTHER POSTEMPLOYMENT BENEFITS	494	364
REPORTED CLAIMS PAYABLE	26,117	36,969
CLAIMS INCURRED BUT NOT REPORTED	38,384	35,452
TOTAL LIABILITIES	65,665	73,449
FUND EQUITY-UNRESTRICTED		
TOTAL FUND EQUITY	150,188	149,949
TOTAL LIABILITIES AND FUND EQUITY	\$ 215,853	\$ 223,398

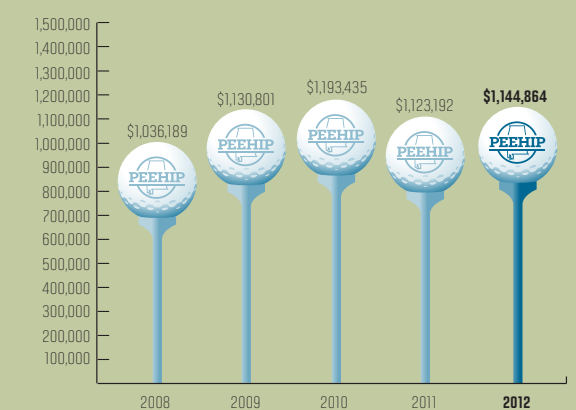
Separately issued, audited financial statements are available upon request.

Statements of Revenues, Expenses, & Changes in Fund Equity

For the fiscal years ended September 30, 2012 and 2011

	(\$ IN THOUSANDS)	
	2012	2011
OPERATING REVENUES		
Premiums	\$ 742,224	\$ 862,764
Early Retiree Reinsurance Program	-	21,196
TOTAL OPERATING REVENUE	742,224	883,960
OPERATING EXPENSES		
Claims	739,984	750,951
Administrative	2,779	2,587
TOTAL OPERATING EXPENSES	742,763	753,538
OPERATING INCOME/(LOSS)	(539)	130,422
INVESTMENT REVENUES		
Interest income	778	456
TOTAL INVESTMENT REVENUES	778	456
TOTAL INCOME/(LOSS)	239	130,878
FUND EQUITY		
Beginning of the year	149,949	19,071
END OF THE YEAR	\$ 150,188	\$ 149,949

Total claims expense active and retired
(\$ IN THOUSANDS)





Statements of Plan Assets
As of September 30, 2012 and 2011

	(\$ IN THOUSANDS)	
	2012	2011
ASSETS		
RECEIVABLES		
Prescription drug rebates	\$ 3,968	\$ 3,474
Medicare Part D subsidy	5,350	3,429
Interest and dividends	3,810	3,644
Investment sales receivable	1,343	8
TOTAL RECEIVABLES	14,471	10,555
DEPOSIT WITH CLAIMS-PAYING AGENT	200	667
INVESTMENTS, AT FAIR VALUE		
Commercial paper	99,997	112,996
Money market funds	41,173	35,339
U.S. government guaranteed bonds	96,914	87,124
U.S. agency securities	33,382	31,077
Mortgage-backed securities	46,862	37,762
Corporate bonds	120,910	103,426
International securities	97,602	89,275
Common stocks	416,428	305,689
TOTAL INVESTMENTS	953,268	802,688
INVESTED SECURITIES LENDING COLLATERAL	65,311	70,207
TOTAL ASSETS	\$ 1,033,250	\$ 884,117
LIABILITIES		
REPORTED CLAIMS PAYABLE	\$ 14,679	\$ 16,148
INVESTMENTS PURCHASES PAYABLE	2,942	1,567
CLAIMS INCURRED BUT NOT REPORTED	20,040	18,262
SECURITIES LENDING COLLATERAL	65,311	70,207
TOTAL LIABILITIES	102,972	106,184
NET ASSETS HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS	\$ 930,278	\$ 777,933

Statements of Changes in Plan Net Assets
For the fiscal years ended September 30, 2012 and 2011

	(\$ IN THOUSANDS)	
	2012	2011
ADDITIONS		
CONTRIBUTIONS		
Employee	\$ 97,392	\$ 91,351
Employer	307,206	265,062
Early Retiree Reinsurance Program	-	10,844
Medicare Part D retiree drug subsidy	27,977	25,075
TOTAL CONTRIBUTIONS	432,575	392,332
INVESTMENT INCOME/(LOSS)		
<i>From investing activities</i>		
Net (decrease)/increase in fair value of investments	101,185	(12,814)
Interest and dividends	22,882	19,739
Total investment income from investment activities	124,067	6,925
<i>From securities lending activities</i>		
Securities lending income	814	743
Less securities lending expenses:		
Borrower rebates	22	36
Management fees	209	174
Total security lending expenses	231	210
Income from securities lending activities	583	533
Total investment income	124,650	7,458
TOTAL ADDITIONS	557,225	399,790
DEDUCTIONS		
BENEFITS	404,880	372,241
TOTAL DEDUCTIONS	404,880	372,241
NET INCREASE	152,345	27,549
<i>Net assets held in trust for other postemployment benefits</i>		
Beginning of the year	777,933	750,384
END OF THE YEAR	\$ 930,278	\$ 777,933

The Public Education Employees' Health Insurance Plan (PEEHIP) provides health care for active and retired public education employees. Blue Cross and Blue Shield administers the Hospital Medical Plan and the Flexible Spending Account Plan; Southland National administers the Optional Plans; and MedImpact administers the Prescription Drug Plan.

Separately issued, audited financial statements are available upon request.

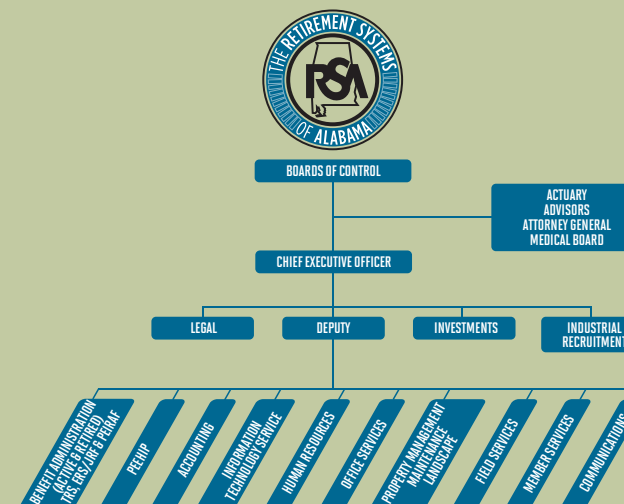
The Retirement Systems of Alabama
MISSION STATEMENT

The mission of the Retirement Systems of Alabama is to serve the interests of our members by preserving the excellent benefits and soundness of the Systems at the least expense to the state of Alabama and all Alabama taxpayers.

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.

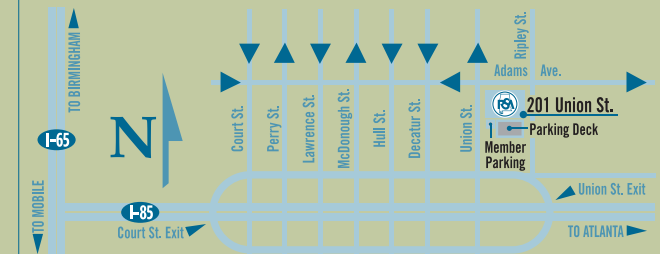
The Retirement Systems of Alabama
ORGANIZATIONAL CHART



The Retirement Systems of Alabama
MEMBER SERVICES CONTACT CENTER

Take advantage of Member Services' personalized assistance concerning your retirement and health care benefits by contacting the Member Services Contact Center at 877.517.0020 or 334.517.7000. You may also send an email to member.services@rsa-al.gov.

MAP AND DIRECTIONS



FROM THE WEST

Follow Highway 80 to I-65. Follow I-65 North to Montgomery. Approaching Montgomery, stay in the right-hand lane and exit onto I-85 North to Atlanta. Continue in the right-hand lane; then take the first exit, which is Court Street. Stay on the service road until you reach Union Street. Turn left on Union Street. Continue on Union Street through two traffic lights. The RSA Headquarters is on the right side before Adams Avenue. Members may park in the open lot in front of the parking deck.

FROM THE EAST

Follow I-85 South to downtown Montgomery and take the Union Street exit on the right. Take the first right on the service road onto Union Street. Continue on Union Street through one traffic light. The RSA Headquarters is on the right before Adams Avenue. Members may park in the open lot in front of the parking deck.

FROM THE SOUTH

Follow I-65 North to Montgomery. Approaching Montgomery, stay in the right-hand lane and exit onto I-85 North to Atlanta. Continue in the right-hand lane; then take the first exit, which is Court Street. Stay on the service road until you reach Union Street. Turn left on Union Street. Continue on Union Street through two traffic lights. The RSA Headquarters is on the right before Adams Avenue. Members may park in the open lot in front of the parking deck.

FROM THE NORTH

Follow I-65 South into Montgomery. Take the I-85 North exit to the right to Atlanta. Stay in the right-hand lane and take the first exit on I-85, which is the Court Street exit. Stay on the service road until you reach Union Street. Turn left on Union Street. Continue on Union Street through two traffic lights. The RSA Headquarters is on the right before Adams Avenue. Members may park in the open lot in front of the parking deck.



Notes

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