B. Cash

Cash consists of deposits held by the State Treasurer in the PEIRAF/DCP's name. Deposits are entirely insured by the Federal Deposit Insurance Corporation or protected under the Security for Alabama Funds Enhancement (SAFE) Program. The *Code of Alabama 1975,* as amended, requires all State organizations to participate in the SAFE Program. The SAFE Program is a multiple financial institution collateral pool. The SAFE Program requires all public funds to be deposited in a financial institution designated by the State Treasurer as a qualified public depository. Each qualified public depository is required to pledge collateral in accordance with the rules established by the SAFE Board of Directors. In the event that a qualified public depository defaults or becomes insolvent and the pledged collateral is insufficient to satisfy the claims of public depositors, the *Code of Alabama 1975, Section 41-14A-9(3)* authorizes the State Treasurer to make assessments against the other qualified public depositories in the pool so that there will be no loss of public funds. All cash on hand on September 30, 2023 were deposits held pending allocation to member accounts.

C. Basis of Accounting

The PEIRAF/DCP is a private purpose trust fund that operates under the accrual basis of accounting using the economic resources measurement focus. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the cash flows in accordance with standards of the GASB. Subsequent events were evaluated by management through the date the financial statements were issued.

D. Investments

The Board of Control has the authority and responsibility to invest and reinvest available funds, through the Secretary-Treasurer of the ERS, in bonds, mortgage-backed securities, common and preferred stocks, and other investment vehicles with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use.

All investments are carried at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price at current exchange rates. Mortgage-backed securities are reported based on estimated future principal and interest payments discounted at the prevailing interest rate for similar instruments. Generally, private placements are valued based on the selling price of similar investments sold in the open market. In those instances where there are no similar investments sold in the open market, an independent appraisal is performed to determine the fair value of the private placements.

E. Income Distribution

All investment income earned on the accrual basis is posted monthly to member accounts based on average daily balances. Income was posted to member accounts at an annual rate of 4.91% for the short-term investment option. Income was posted to member accounts at an annual rate of 2.26% for the fixed income investment option. Income was posted to member accounts at an annual rate of 21.59% for the S&P 500 Index Fund investment option.

F. Administrative Costs

Pursuant to the provisions of the *Code of Alabama 1975, Section 36-27A*-7 (Act 1061 of the Legislature of 2001), the administrative costs incurred directly for the operation of the PEIRAF/DCP are provided from the expense funds of the TRS and the ERS.

G. Distribution Policy

An employee may retire or terminate service and receive a lump-sum distribution, a partial distribution followed by equal monthly payments, or a monthly disbursement. The Internal Revenue Code and Regulations require that distributions to the member begin no later than April 1 of the calendar year following the calendar year in which the employee attains age 73 or retires, whichever is later. Generally, distributions may begin at any age following retirement or separation of service. Normal distributions include monthly benefit disbursements, lump-sum distributions upon retirement or separation of service, and rollovers to other qualified plans. Member withdrawals include emergency disbursements.

H. Comparative Statements

The basic financial statements include the prior fiscal year *Statement of Fiduciary Net Position* and the *Statement of Changes in Fiduciary Net Position* for comparative purposes only. Prior fiscal year note disclosures are not included. Therefore, the prior fiscal year basic financial statement presentation does not meet the minimum level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, the prior fiscal year statements should be read in conjunction with the PEIRAF/DCP's prior fiscal year financial report from which the prior fiscal year statements were derived.

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from these estimates.

2) Investments

A. Investment Risks

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, and concentration of credit risk. The following describes those risks:

Interest Rate Risk – The fair value of fixed maturity investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods.

Custodial Credit Risk – Custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. The PEIRAF/DCP's custodial credit risk policy requires the custodial agent to hold or direct its agents or subcustodians to hold, for the account of the PEIRAF/DCP, all securities and other non-cash property other than securities in the Federal Reserve book-entry system, in a clearing agency which acts as a securities depository, or in another book-entry system. The PEIRAF/DCP's safekeeping agent holds all investments of the PEIRAF/DCP in the PEIRAF/DCP's name except for securities in the securities lending program.

Credit Quality – Nationally recognized statistical rating organizations provide ratings of debt securities' quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. Domestic fixed maturity investments may consist of rated or non-rated securities. Short-term investments may consist of commercial paper rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. securities, and other money market investments.

Concentration of Credit Risk – The distribution of investments between fixed maturity investments and the S&P index fund is determined by member elections.

A. Investment Risks, Continued

The following table provides information as of September 30, 2023, concerning the fair value of investments and interest rate risk:

	Maturity in Years at Fair Value					
Type of Investment	**Less Than 1**	**1-5**	**6-10**	**More Than 10**	**Total Fair Value**	**Cost**
Fixed Maturity						
Domestic						
Money Market Funds	$ 232,274,138	$ -	$ -	$ -	$ 232,274,138	$ 232,274,138
U.S. Agency	2,822,671	24,795,889	4,604,970	768,908	32,992,438	36,390,280
U.S. Treasuries	95,840,701	120,788,864	24,613,256	59,622,853	300,865,674	341,800,115
Corporate Bonds	66,762,222	157,004,093	68,092,834	113,765,728	405,624,877	451,390,177
Private Placements	-	-	3,474,119	-	3,474,119	3,158,976
GNMAs	47	22,265	-	36,558,153	36,580,465	45,116,769
CMOs	-	3,069,357	5,183,690	141,422,896	149,675,943	181,544,242
Total Domestic Fixed Maturity	$ 397,699,779	$ 305,680,468	$ 105,968,869	$ 352,138,538	1,161,487,654	1,291,674,697
Equities						
Preferred					11,422,015	11,251,000
Common					1,208,262,929	535,714,850
Total Equities					**1,219,684,944**	**546,965,850**
Total Investments					**$ 2,381,172,598**	**$ 1,838,640,547**

A. Investment Risks, Continued

The following tables provide information as of September 30, 2023, concerning credit risk:

Moody's Ratings	Cost	Fair Value	Fair Value as a Percentage of Total Fair Value of Fixed Maturities
Aaa	$ 52,612,016	$ 48,463,113	4.17
Aa2	6,204,690	5,181,734	0.45
Aa3	5,042,111	4,787,285	0.41
A1	41,261,971	38,868,875	3.35
A2	17,184,090	15,397,291	1.32
A3	87,766,996	82,443,188	7.09
Baa1	90,477,699	76,422,471	6.58
Baa2	119,587,222	107,161,320	9.23
Baa3	15,745,870	13,442,376	1.16
Ba1	1,766,746	1,658,426	0.14
Ba2	431,800	419,440	0.04
Ba3	1,125,220	1,013,192	0.09
NR	284,007,140	279,106,861	24.03
Total Moody's Rated Fixed Maturities	**723,213,571**	**674,365,572**	**58.06**
U.S. Agency Mortgage-Backed Securities	181,544,242	149,675,943	12.89
U.S. Government Guaranteed	386,916,884	337,446,139	29.05
Total Fixed Maturities	**$ 1,291,674,697**	**$ 1,161,487,654**	**100.00**

A. Investment Risks, Continued

The following tables provide information as of September 30, 2023, concerning credit risk:

S&P Ratings	Cost	Fair Value	Fair Value as a Percentage of Total Fair Value of Fixed Maturities
AAA	$ 7,951,706	$ 7,000,941	0.60
AA+	43,882,758	40,769,467	3.51
AA	5,397,882	5,252,887	0.45
AA-	14,413,564	13,017,626	1.12
A+	6,047,157	5,461,710	0.47
A	24,969,140	22,937,128	1.97
A-	76,720,415	69,803,860	6.01
BBB+	120,610,234	109,211,240	9.41
BBB	118,148,424	102,537,207	8.83
BBB-	20,957,334	18,857,767	1.62
BB+	1,541,094	1,379,019	0.12
BB	1,125,220	1,013,192	0.09
NR	281,448,643	277,123,528	23.86
Total S&P Rated Fixed Maturities	**723,213,571**	**674,365,572**	**58.06**
U.S. Agency Mortgage-Backed Securities	181,544,242	149,675,943	12.89
U.S. Government Guaranteed	386,916,884	337,446,139	29.05
Total Fixed Maturities	**$ 1,291,674,697**	**$ 1,161,487,654**	**100.00**

B. Fair Value Measurement

The PEIRAF/DCP categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy prioritizes the inputs to valuation used to measure the fair value of the asset, giving the highest priority to quoted prices in an active market for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy are described as follows:

Level 1: Quoted (unadjusted) prices in an active market for identical assets or liabilities.

Level 2: Significant other inputs which are observable either directly or indirectly, including quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in a less active market, or other market-corroborated inputs.

Level 3: Valuations derived from valuation techniques using significant unobservable inputs for the asset or liabilities.

The categorization of investments within the hierarchy is based upon pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Investments in equity securities classified as Level 1 are valued using quoted prices in an active market for those securities.

Investments in securities classified as Level 2 are valued using non-proprietary information that is readily available to market participants from multiple independent sources, which are known to be actively involved in the market. Pricing inputs may include market quotation, yields, maturities, call features, and ratings.

Investments in private equity, debt, and direct investments in real estate are classified as Level 3 due to lack of observable pricing inputs and are valued using annual appraisals based on a combination of market data and projected cash flows.

B. Fair Value Measurement, Continued

The following table provides information as of September 30, 2023, concerning fair value measurement:

		Fair Value Measurement Using:		
	09/30/2023	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Domestic Fixed Maturity				
Money Market Funds	$ 232,274,138	$ -	$ 232,274,138	$ -
U.S. Agency	32,992,438	-	32,992,438	-
U.S. Treasuries	300,865,674	-	300,865,674	-
Corporate Bonds	405,624,877	38,540,775	367,084,102	-
Private Placements	3,474,119	-	-	3,474,119
GNMAs	36,580,465	-	36,580,465	-
CMOs	149,675,943	-	149,675,943	-
Total Domestic Fixed Maturity	1,161,487,654	38,540,775	1,119,472,760	3,474,119
Equities		-	-	-
Preferred	11,422,015	11,422,015	-	-
Domestic	1,208,262,929	1,208,262,929	-	-
International		-	-	-
Total Equities	1,219,684,944	1,219,684,944	-	-
Total Investments	**2,381,172,598**	**1,258,225,719**	**1,119,472,760**	**3,474,119**
Securities Lending Collateral	50,981,666	-	50,981,666	-
Total Fair Value	**$ 2,432,154,264**	**$ 1,258,225,719**	**$ 1,170,454,426**	**$ 3,474,119**

C. Concentration of Investments

As of September 30, 2023, the PEIRAF/DCP owned no debt or equity securities which represented greater than 5% of the total fair value of investments.

D. Securities Lending Program

The PEIRAF/DCP is authorized by the Board of Control to participate in a securities lending program. The PEIRAF/DCP's custodian, State Street Bank and Trust Company (State Street), administers the program. Certain securities from the PEIRAF/DCP are loaned to borrowers approved by the PEIRAF/DCP for collateral that will be returned for the same securities in the future. Approved borrowers provide acceptable collateral in the form of cash (U.S. dollar and foreign currency), U.S. and non-U.S. equities, assets permissible under Rule 15c3-3 of the Exchange Act of 1934, and other collateral as the parties may agree to in writing from time to time. All security loans are open loans and can be terminated on demand by the PEIRAF/DCP or borrower. The initial collateral received shall have (depending on the nature of the loaned securities and the collateral received), a value of 102% or 105% of the fair value of the loaned securities, or such other value, not less than 102% of the fair value of the loaned securities, as may be applicable in the jurisdiction in which such loaned securities are customarily traded. Pursuant to the terms of the applicable securities loan agreement, State Street shall, in accordance with State Street's reasonable and customary practices, mark loaned securities and collateral to their fair value each business day based upon the fair value of the collateral and the loaned securities at the close of business, employing the most recently available pricing information and shall receive and deliver collateral in order to maintain the value of the collateral at no less than 100% of the fair value of the loaned securities.

The PEIRAF/DCP cannot pledge or sell collateral securities received unless the borrower defaults. Cash collateral is invested in the State Street Compass Fund.

The following describes the guidelines for the Compass Fund: The Compass Fund's Investment Manager shall maintain the dollar-weighted average maturity of the Compass Fund in a manner that the Investment Manager believes is appropriate to the objective of the Compass Fund, provided, that (i) in no event shall any eligible security be acquired with a remaining legal final maturity (i.e., the date on which principal must be repaid) of greater than 18 months, (ii) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity of the Compass Fund not to exceed 75 calendar days, and (iii) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity to final of the Compass Fund not to exceed 180 calendar days. Additionally, at the time of purchase, all eligible securities with maturities of 13 months or less shall be rated at least A1, P1, or F1 by at least two of the following nationally recognized statistical rating organizations: Standard & Poor's Corp. ("S&P"), Moody's Investor Services, Inc. ("Moody's"), or Fitch, Inc. ("Fitch") respectively, or be determined by the Investment Manager to be of comparable quality. Additionally, all eligible securities with maturities in excess of 13 months shall be rated at least A-, A3, or A- respectively, by at least two of the following nationally recognized statistical rating organizations: S&P, Moody's, or Fitch or be determined by the Investment Manager to be of comparable quality. The Compass Fund may invest up to 10% of its assets at the time of purchase in commingled vehicles managed by State Street Global Advisors or its affiliates that conform to the Investment Policy Guidelines.

D. Securities Lending Program, Continued

As of September 30, 2023, the average loan term was 45 days. Cash collateral investments in the Compass Fund are matured as needed to fulfill loan obligations. There is no direct matching of the maturities of the loans with the investments made with cash collateral.

The fair value of the securities on loan was $339,971,399, and the fair value of the collateral pledged by the borrowers was $360,425,065 as of September 30, 2023. Since the amounts owed by the PEIRAF/DCP exceeded the amounts the borrowers owed to the PEIRAF/DCP, there was no credit risk exposure as of September 30, 2023. Additionally, there were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the fiscal year.

Investments purchased with cash collateral are held by the custodial agent, but not in the name of the PEIRAF/DCP. Securities pledged as collateral are held by the custodial agent, but not in the name of the PEIRAF/DCP. Letters of credit pledged as collateral are issued by the borrower's bank and are irrevocable. Tri-party collateral is held by a third-party bank in the name of the custodial agent. State Street, as custodial agent, is authorized to request a third-party bank to undertake certain custodial functions in connection with holding of the collateral provided by a borrower. State Street may instruct the third-party bank to establish and maintain a borrower's account and a State Street account wherein all collateral including cash shall be maintained by the third-party bank in accordance with the terms of the agreement.

D. Securities Lending Program, Continued

The following table provides information as of September 30, 2023, concerning securities lent:

Securities Lending - Investments Lent and Collateral Received
(at Fair Value)

Type of Investment Lent	**Amounts**
For Cash Collateral	
Domestic Fixed Maturities	$ 1,584,257
Domestic Equity - U.S. Dollar	35,869,782
Domestic Equity - Japanese Yen	12,007,642
Total Lent for Cash Collateral	49,461,681
For Non-Cash Collateral	
Domestic Fixed Maturities	258,239,272
Domestic Equity	32,270,446
Total Lent for Non-Cash Collateral	290,509,718
Total Securities Lent	**$ 339,971,399**
Type of Collateral Received	
Cash Collateral - Invested in State Street Compass Fund	$ 50,981,666
Non-Cash Collateral	
Domestic Fixed Securities	
USD	256,664,966
Domestic Equity Securities	
USD	35,678,499
International Fixed Maturities & Equity	
USD	17,099,934
Total Non-Cash Collateral	309,443,399
Total Collateral Received	**$ 360,425,065**

E. Mortgage-Backed Securities

As of September 30, 2023, the PEIRAF/DCP had investments in mortgage-backed securities. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments by the obligors of the underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligors tend to prepay the mortgages thus eliminating the stream of interest payments that would have been received under the original amortization schedule. The resulting reduction in cash flow diminishes the fair value of the mortgage-backed securities. Additionally, the prepayment activity associated with this type of security can lead to changes in the average life and duration of the security. Higher prepayments will effectively shorten the expected life of the security while slower prepayments can lengthen the expected life of the security.