Public Employees' Individual Retirement Account Fund

(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Control
Public Employees' Individual Retirement
Account Fund

We have audited the accompanying financial statements of the Public Employees' Individual Retirement Account Fund (a component unit of the State of Alabama), as of September 30, 2017, and the related statement of changes in fiduciary net position for the year then ended and the related notes to the financial statements, which comprise the Public Employees' Individual Retirement Account Fund's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Public Employees' Individual Retirement Account Fund, as of September 30, 2017, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Public Employees' Individual Retirement Account Fund's financial statements for the year ended September 30, 2016, from which such partial information was derived. We have previously audited the Public Employees' Individual Retirement Account Fund's financial statements and we expressed and unmodified opinion on the respective financial statements in our report dated January 31, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Carr, Riggs & Ingram, L.L.C.

March 15, 2018
Montgomery, Alabama

Public Employees' Individual Retirement Account Fund (PEIRAF)
Management's Discussion and Analysis
September 30, 2017

The Public Employees' Individual Retirement Account Fund (PEIRAF) was established in 1982 to provide public employees of the State of Alabama with an opportunity to invest in an employee contribution plan. The Tax Reform Act of 1986 prohibited contributions to employee contribution plans for years after 1986. Accordingly, on November 26, 1986, the Board elected to discontinue receiving contributions to the PEIRAF after December 31, 1986. Existing PEIRAF member accounts continue to be invested and available for distribution. The following discussion provides an overview of the financial position and results of operation for the PEIRAF as of and for the year ended September 30, 2017. For more detailed information, please refer to the financial statements, including the *Notes to the Financial Statements*.

Overview of the Financial Statements

The financial statements of the PEIRAF include the *Statement of Fiduciary Net Position* and the *Statement of Changes in Fiduciary Net Position*. The *Notes to the Financial Statements* are considered an integral part of the financial statements and should be read in conjunction with the financial statements.

The financial statements are prepared 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 when cash is received or expended. Investments are reported at fair value.

The *Statement of Fiduciary Net Position* includes all assets and liabilities of the PEIRAF and provides a snapshot of the financial position of the PEIRAF as of the end of the fiscal year. Assets are reduced by liabilities resulting in the fiduciary net position restricted for PEIRAF's members as of the fiscal year-end.

The *Statement of Changes in Fiduciary Net Position* reports all of the additions and deductions in the fiscal year for the PEIRAF plan. Additions are primarily comprised of investment income. Deductions primarily consist of distributions made to members during the fiscal year. The change in fiduciary net position plus the beginning fiduciary net position results in the fiduciary net position restricted for members at fiscal year-end.

The *Notes to the Financial Statements* include a description of the PEIRAF, a summary of significant accounting policies, and notes and disclosures regarding the PEIRAF's investments.

Comparative financial statements for the fiscal years ended September 30, 2017 and September 30, 2016 have been included below.

Summary Comparative Statement of Fiduciary Net Position
As of September 30, 2017 and 2016

	2017	2016	Variance	% Increase/ (Decrease)
Assets				
Cash	$ 100	$ 1,001	$ (901)	(90.01)
Interest Receivable	597,875	713,037	(115,162)	(16.15)
Investments	79,376,769	83,943,244	(4,566,475)	(5.44)
Invested Securities Lending Collateral	8,166,599	4,642,453	3,524,146	75.91
Total Assets	**88,141,343**	**89,299,735**	**(1,158,392)**	**(1.30)**
Liabilities				
Securities Lending Collateral	8,166,599	4,642,453	3,524,146	75.91
Total Liabilities	**8,166,599**	**4,642,453**	**3,524,146**	**75.91**
Net Position Restricted for PEIRAF Benefits	**$ 79,974,744**	**$ 84,657,282**	**$ (4,682,538)**	**(5.53)**

Summary Comparative Statement of Changes in Fiduciary Net Position
For the Fiscal Years Ended September 30, 2017 and 2016

	2017	2016	Variance	% Increase/ (Decrease)
Additions				
Interest and Dividend Income	$ 2,872,774	$ 2,987,735	$ (114,961)	(3.85)
Net Increase/(Decrease) in Fair Value of Investments	(2,227,834)	1,782,642	(4,010,476)	(224.97)
Net Income from Securities Lending Activities	43,016	38,736	4,280	11.05
Total Additions	**687,956**	**4,809,113**	**(4,121,157)**	**(85.69)**
Deductions				
Normal Distributions	5,370,494	3,603,433	1,767,061	49.04
Total Deductions	**5,370,494**	**3,603,433**	**1,767,061**	**49.04**
Change in Net Position	**(4,682,538)**	**1,205,680**	**(5,888,218)**	**(488.37)**
Net Position Restricted for PEIRAF Benefits at Beginning of Year	84,657,282	83,451,602	1,205,680	1.44
Net Position Restricted for PEIRAF Benefits at End of Year	**$ 79,974,744**	**$ 84,657,282**	**$ (4,682,538)**	**(5.53)**

Financial Highlights

- The number of participants in PEIRAF decreases each year as the plan is closed to new participants.

- The PEIRAF invests in domestic fixed maturity securities. The PEIRAF's annual rate of return on these investments as calculated by State Street Bank and Trust Company, the PEIRAF's investment custodian, was 0.88% for fiscal year 2017 which resulted in a significant decrease in net position.

PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
Statement of Fiduciary Net Position
September 30, 2017 with comparative amounts at September 30, 2016

		2017		2016
Assets				
Cash	**$**	**100**	$	1,001
Interest Receivable		**597,875**		713,037
Investments, at Fair Value (Note 2)				
Money Market and Mutual Funds		**3,050,702**		2,397,885
U.S. Government Guaranteed Bonds		**23,513,779**		23,570,007
U.S. Agency Securities		**4,671,026**		6,333,131
Mortgage-backed Securities		**15,304,084**		14,084,916
Corporate Bonds		**32,005,726**		36,700,832
Preferred Stocks		**831,452**		856,473
Total Investments		**79,376,769**		83,943,244
Invested Securities Lending Collateral		**8,166,599**		4,642,453
Total Assets		**88,141,343**		89,299,735
Liabilities				
Securities Lending Collateral		**8,166,599**		4,642,453
Total Liabilities		**8,166,599**		4,642,453
Net Position Restricted for PEIRAF Benefits	**$**	**79,974,744**	$	84,657,282

See accompanying Notes to the Financial Statements.

PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended September 30, 2017 with comparative amounts shown for 2016

	2017	2016
Additions		
Investment Income (Note 2)		
From Investing Activities		
Interest and Dividends	**$ 2,872,774**	$ 2,987,735
Net (Decrease)/Increase in Fair Value of Investments	**(2,227,834)**	1,782,642
Total Investment Income from Investing Activities	**644,940**	4,770,377
From Securities Lending Activities		
Securities Lending Income	**99,332**	84,288
Less Securities Lending Expenses:		
Borrower Rebates	**42,622**	34,085
Management Fees	**13,694**	11,467
Total Securities Lending Expenses	**56,316**	45,552
Income from Securities Lending Activities, Net	**43,016**	38,736
Net Investment Income	**687,956**	4,809,113
Total Additions	**687,956**	4,809,113
Deductions		
Normal Distributions	**5,370,494**	3,603,433
Total Deductions	**5,370,494**	3,603,433
Change in Net Position	**(4,682,538)**	1,205,680
Net Position Restricted for PEIRAF Benefits:		
Beginning of Year	**84,657,282**	83,451,602
End of Year	**$ 79,974,744**	$ 84,657,282

See accompanying Notes to the Financial Statements.

Public Employees' Individual Retirement Account Fund
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2017

1) Organization and Summary of Significant Accounting Policies

A. Plan Description

The Public Employees' Individual Retirement Account Fund (PEIRAF) was established on July 8, 1982, under the provisions of the *Code of Alabama 1975, Title 36, Chapter 27A* (Act 776 of the 1982 Alabama Legislature) for the purpose of providing State of Alabama public employees an opportunity to receive benefits offered by the Economic Recovery Act of 1981 as it relates to individual retirement accounts for public employees covered by a mandatory public retirement plan.

The PEIRAF operates as a deductible employee contribution plan and began receiving deductible employee contributions on November 1, 1982. The responsibility for the general administration and operation of the PEIRAF is vested with its Board of Control. In accordance with the Governmental Accounting Standards Board (GASB), the PEIRAF is considered a component unit of the State of Alabama (State) and is included in the State's Comprehensive Annual Financial Report.

All members of the Teachers' Retirement System of Alabama (TRS), the Employees' Retirement System of Alabama (ERS), the Judicial Retirement Fund (JRF), and other eligible employees pursuant to the provisions of the *Code of Alabama 1975, Section 36-27-6* are members of the PEIRAF and were eligible to make voluntary contributions. At September 30, 2017, there were 1,475 participants.

The Tax Reform Act of 1986 prohibited contributions to deductible employee contribution plans for years after 1986. Accordingly, on November 26, 1986, the PEIRAF Board of Control elected to discontinue receiving contributions to the PEIRAF after December 31, 1986. Existing PEIRAF member accounts continue to be invested and reinvested and available for distribution.

B. Cash

Cash consists of deposits held by the State Treasurer in the PEIRAF'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.

C. Basis of Accounting

The PEIRAF 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. The accompanying financial statements are prepared in accordance with the requirements of the Governmental Accounting Standards Board (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 stock, 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 future principal and interest payments discounted at the prevailing interest rate for similar instruments.

E. Income Distribution

All investment income earned on the accrual basis is posted monthly to member accounts based on average daily balances. The income posted to member accounts was at an annual rate of 0.93% for the fiscal year.

F. Administrative Costs

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

G. Distribution Policy

Distributions to members can be in the form of a lump-sum distribution, a partial distribution, monthly distributions, or a rollover distribution. Upon attaining the age of 59 ½, a member may receive monthly distributions without penalty. There is no required age at which distributions must begin under this plan.

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 generally accepted accounting principles. Accordingly, the prior fiscal year statements should be read in conjunction with the PEIRAF'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 U.S. generally accepted accounting principles 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, and credit quality 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 the 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's custodial credit risk policy requires the custodial agent to hold or direct its agents or sub-custodians to hold, for the account of the PEIRAF 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's safekeeping agent holds all investments of the PEIRAF in the PEIRAF's name with the exception of securities purchased with securities lending cash collateral.

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. The PEIRAF invests in domestic fixed maturity and equity securities.

The following table provides information as of September 30, 2017, 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	$3,050,701	$ -	$ -	$ -	$ 3,050,702	$ 3,050,702
U.S. Agency	561,231	2,561,121	1,548,674	-	4,671,026	4,676,218
U.S. Govt Guaranteed	-	10,616,030	9,536,703	3,361,046	23,513,779	23,481,024
Corporate Bonds	3,777,109	10,224,503	8,212,330	9,791,784	32,005,726	30,630,648
GNMAs	-	-	4,826	675,441	680,267	688,030
CMOs	226,183	-	869,886	13,527,748	14,623,817	14,602,581
Total Domestic Fixed Maturity	$7,615,224	$23,401,654	$20,172,419	$27,356,019	78,545,317	77,129,203
Equities						
Preferred					831,452	719,000
Total Investments					**$ 79,376,769**	**$ 77,848,203**

A. Investment Risks, Continued

The following table provides information as of September 30, 2017, concerning credit risk:

RATINGS OF FIXED MATURITIES

Moody's	Cost	Fair Value	Fair Value as a Percentage of Total
Aaa	$19,835,899	$19,885,326	36.58
Aa1	561,574	586,147	1.08
Aa2	263,152	297,758	0.55
Aa3	98,975	101,335	0.19
A1	3,707,113	3,866,652	7.11
A2	1,356,693	1,297,056	2.39
A3	4,221,207	4,549,116	8.37
Baa1	7,891,506	8,303,263	15.28
Baa2	5,988,712	6,292,767	11.58
Baa3	2,381,703	2,480,841	4.56
Ba1	1,179,503	1,180,071	2.17
Ba2	532,104	592,773	1.09
Ba3	598,001	593,613	1.09
B1	304,244	303,161	0.56
B2	28,938	29,247	0.05
B3	339,390	347,072	0.64
Caa1	240,429	194,830	0.36
Not Rated	3,431,006	3,450,243	6.35
Total Fixed Maturities	$52,960,149	$54,351,271	100.00

Standard & Poor's	Cost	Fair Value	Fair Value as a Percentage of Total
AAA	$ 495,302	$ 522,413	0.96
AA+	19,840,372	19,880,990	36.58
AA	263,152	297,758	0.55
AA-	2,557,596	2,646,073	4.87
A+	1,219,888	1,306,877	2.40
A	3,097,466	3,207,186	5.90
A-	4,279,979	4,652,461	8.56
BBB+	7,256,989	7,576,024	13.94
BBB	6,128,986	6,325,886	11.64
BBB-	3,002,862	3,102,032	5.71
BB+	401,373	431,069	0.79
BB-	585,227	583,266	1.07
B	579,820	541,902	1.00
Not Rated	3,251,137	3,277,334	6.03
Total Fixed Maturities	$52,960,149	$54,351,271	100.00

Note: Excludes obligations of the U.S. government and obligations explicitly guaranteed by the U.S. government

B. Fair Value Measurement

The PEIRAF categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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, 2017, concerning fair value measurement:

		Fair Value Measurements Using		
	9/30/2017	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed Maturity				
Domestic				
Money Market Funds	$ 3,050,702	$ -	$ 3,050,702	$ -
U.S. Agency	4,671,026	-	4,671,026	-
U.S. Government Guaranteed	23,513,779	-	23,513,779	-
Corporate Bonds	32,005,726	-	32,005,726	-
GNMAs	680,267	-	680,267	-
CMOs	14,623,817	-	14,623,817	-
Total Domestic Fixed Maturity	78,545,317	-	78,545,317	-
Equities				
Preferred	831,452	831,452	-	-
Total Investments	**79,376,769**	**831,452**	**78,545,317**	**-**
Securities Lending Collateral	8,166,599	-	8,166,599	-
Total Fair Value	**$ 87,543,368**	**$ 831,452**	**$ 86,711,916**	**$ -**

C. Concentration of Investments

As of September 30, 2017, the PEIRAF owned debt securities of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Mortgage Corporation (Freddie Mac), which represented approximately, 15.99% and 5.47%, respectively, of the total fair value of investments.

D. Securities Lending Program

The PEIRAF is authorized by the Board of Control to participate in a securities lending program. The PEIRAF's custodian, State Street Bank and Trust Company (State Street), administers the program. Certain securities from the PEIRAF are loaned to borrowers approved by the PEIRAF for collateral that will be returned for the same security in the future. Approved borrowers of securities provide acceptable collateral in the form of cash (U.S. and foreign currency), U.S. and non U.S. equities, assets permissible under Rule 15c3-3 under 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 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.

D. Securities Lending Program, Continued

The PEIRAF cannot pledge or sell collateral securities received unless the borrower defaults. Cash collateral is invested in the State Street Quality D Short-Term Investments Fund (QDF). The collateral fund is separated into two pools, a liquidity pool and a duration pool. This split allows greater flexibility in managing the available liquidity in the investment in the fund and the outstanding balance of securities on loan.

The following describes the QDF guidelines for the liquidity pool: The QDF's Investment Manager shall maintain the dollar-weighted average maturity of the QDF in a manner that the Investment Manager believes is appropriate to the objective of the QDF; 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 QDF not to exceed 75 calendar days, and (iii) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity to final of QDF not to exceed 180 calendar days. 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"), 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- 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 QDF may invest up to 10% of its assets at the time of purchase in commingled vehicles managed by the Trustee or its affiliates that conform to the Investment Policy Guidelines.

The following describes the QDF guidelines for the duration pool: The QDF duration pool includes all asset-backed securities (regardless of maturity) and securities of any type with a remaining maturity of 91 days or greater. Each QDF investor owns a specified percentage interest in the duration pool which is redeemable only in kind, not in cash. The QDF duration pool will not make additional investments.

As of September 30, 2017, the average term of the loans was 19 days. Cash collateral investments in the QDF 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.

At September 30, 2017, the fair value of the securities on loan was $17,510,528. The fair value of the collateral pledged by the borrowers was $17,889,462. Since the amounts owed by the PEIRAF exceeded the amounts the borrowers owed to the PEIRAF, there was no credit risk exposure as of September 30, 2017. 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. Securities pledged as collateral are held by the custodial agent, but not in the name of the PEIRAF. 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.

D. Securities Lending Program, Continued

The following table provides information as of September 30, 2017, concerning securities lent:

SECURITIES LENDING - INVESTMENTS LENT AND COLLATERAL RECEIVED
(at Fair Value)

Type of Investment Lent	Amounts
For Cash Collateral	
Domestic Fixed Maturities	$ 7,996,988
Total Lent for Cash Collateral	7,996,988
For Non-cash Collateral	
Domestic Fixed Maturities	9,513,540
Total Lent for Non-cash Collateral	9,513,540
Total Securities Lent	**$ 17,510,528**
Type of Collateral Received	
Cash Collateral - Invested in State Street Quality D Fund	$ 8,166,599
Non-cash Collateral	
Domestic Fixed Securities	
EURO	416,067
GBP	1,122,711
U.S. Dollar	129,040
Domestic Equity Securities	162,378
International Fixed Maturities & Equity	
U.S. Dollar	7,892,667
Total Non-Cash Collateral	9,722,863
Total Collateral Received	**$ 17,889,462**

E. Mortgage-backed Securities

As of September 30, 2017, the PEIRAF had investments in mortgaged-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.