
INVESTMENT SECTION

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Report on Investment Activity

For the Fiscal Year Ended September 30, 2007

Dear Members,

I am pleased to present the following report on investment activity for the fiscal year ended September 30, 2007. The report provides highlights on investments in general as well as specific information on the Retirement System's investment activity for the fiscal year. The custodian calculated rates of return based on the standards set forth by the Global Investment Performance Standards (GIPS®).

After four years of decline, volatility in the financial markets has made a strong comeback. The VIX index, a widely used measure of short term volatility, has made a strong upside breakout from the lows posted at the end of 2006. Both the stock and bond markets had wild swings to the upside and downside in the fiscal year. Much of this was due to the commodity inflation that has been driven largely by strong growth in the developing economies. Oil, metals, and most agricultural commodities mounted strong rallies throughout the year. This in turn led to increased fear that the Federal Reserve was behind the curve in containing inflation. At the same time, the housing market continued to unravel, and the subprime mortgage crisis began to unfold at a rapid pace. Almost overnight, the new fear was that the Federal Reserve was not cutting rates fast enough to ward off a credit markets meltdown.

The Federal Reserve did cut rates late in the fiscal year, and this led to a strong rally in the stock and Treasury bond markets. Expectations are for continued short term rate cuts as housing data, credit issues, and profit growth have continued to head in the wrong direction. Hopefully employment growth will continue to hold steady, as the home equity piece of the consumer's balance sheet looks quite shaky. With consumption accounting for 70% of GDP, the financial markets can ill afford a major retrenchment by the consumer.

With GDP growth probably slowing from the 2.6% pace posted last year, we are continuing with our strategy of overweighting large capitalization stocks over mid and small caps. Again, we expect returns next year to be on par with historical patterns. After five years of a bull market, it would not be surprising to see the markets consolidate, or correct, at some point in the year. With profit margins at multiyear highs, earnings growth this year will probably move much closer to GDP growth. Adding in stock repurchases, earnings growth should come in the mid to high single digit range. After having added to equities the past few years, we do not foresee any major asset allocation shifts on the horizon. We will continue to demand the best execution from all our financial counterparts, and will strive to produce results that strengthen the Retirement Systems of Alabama.

RSA Performance Summary

As of September 30, 2007, aggregate defined benefit assets under management totaled \$32.2 billion. During fiscal year 2007, annualized total returns of the Teachers' Retirement System, Employees' Retirement System, and Judicial Retirement Fund were 17.46%, 17.92%, and 14.27%, respectively. International equities were again one of the best performing asset classes within the portfolio.

Equities

After the dust settled, 2007 proved to be quite a good year for the global stock markets. In the same fashion as the three prior years, the first quarter of the new fiscal year proved to be the most linear in terms of returns. The fireworks started going off in late February, mostly in reaction to news that the Chinese authorities were tightening down on the liquidity in their markets through various measures. After that settled down, the markets were again off to the races. The LBO and private equity craze that had been ongoing for 3 or 4 years continued unabated. Almost on queue, private equity firms began to file IPO's to go public. This more or less marked the top in the merger mania that had been driven by the private equity shops.

At the same time, the housing market continued to unravel, as more and more evidence of loose lending policies evidenced itself. By the middle of August, the subprime lending issues that had been "contained" per the Fed's view earlier in the year, had turned into a full blown crisis. The Fed had to reverse course and immediately cut the discount rate, followed closely by a cut in the Fed Funds rate. After nearly a 10% correction in a matter of weeks,

the markets reversed course and closed out the year near the highs set in early July. The one takeaway that really stood out for 2007 was how quickly investor sentiment could change from exuberant to pessimistic. Volatility looks like it is back in play for some time to come.

There was very little change within the equity portfolio in the 12 months ended September 30. We did add a roughly 1% exposure to emerging markets when those markets became dislocated in February and August. We have continued to favor the larger capitalization stocks, and that strategy again worked as large caps outperformed small caps for the second straight year.

In review, the RSA equity allocation began the year at roughly 62%, and closed out fiscal 2007 at 63% on average across the three funds. Domestic equities account for 48% of the fund, and international equities are now 17% of the total. For the second year in a row, the large capitalization indices beat the smaller caps. The S & P 500 index was up 16.44%, the S & P 400 Midcap index was up 18.76%, and the S & P Smallcap 600 index was up 14.93%. The MSCI EAFE index was up 24.86%, again outperforming the broad domestic equity indices.

For the year, the RSA domestic equity portfolios increased 16.60%, 16.68%, and 16.89% for the TRS, ERS, and JRF funds, respectively. International equity returns fared better, posting 25.43% for TRS and 25.50% for ERS. The combined total return for the overall equity portfolios were 18.44%, 18.84%, and 17.89% for the TRS, ERS, and JRF, respectively. Three-, five-, and ten-year annualized global equity returns were 15.98%, 17.92%, and 7.99% for TRS, 15.95%, 17.89%, and 7.95% for ERS, and 13.84%, 16.06%, and 7.25% for JRF, respectively.

Fixed Income

At the beginning of fiscal year 2007, the Federal Reserve had just ended a tightening cycle that had been active for two years. Prior to this pause, policymakers had lifted the federal funds rate 17 consecutive times with each action constituting 25 basis points. During this time, the Fed's preferred price gauge (core PCE) clocked in at 2.4%, slightly higher than their comfort level of 1-2%. Fed officials subscribe to the notion that as the economy gradually slows, inflation will also drift lower. In the last couple of months of calendar 2006, unemployment was sitting at a five-year low with the ten-year treasury yielding 4.60%. At the October meeting, Chairman Ben Bernanke and the Fed left short-term rates unchanged citing that additional tightening may be necessary and that the risk of inflation was greater than the risk of a slowing economy.

As the end of 2006 drew near, treasury yields rose significantly as any prospect of a near-term rate cut had ceased. In examining the fixed income market, spread product performed very well during this period due to stable credit fundamentals, favorable technicals, and a decline in equity volatility. The Federal Reserve left short-term financing rates steady at both the December and January meetings, marking the fifth consecutive time they had passed on policy change. In late February, investors started to witness what would become commonplace headlines involving sub prime lending. This led to a brief panic within credit markets as volatility showed signs of life and global equity markets fell significantly. This pushed treasury yields lower as risk-averse investors sought safety within government securities. The investment grade and high yield sectors also weakened during this period as growing concerns about mortgage lending began to mount.

At the March meeting, the Federal Open Market Committee (FOMC) made significant changes in the wording of its policy statement. After previously stating that there had been signs of stabilization within the housing market, they concluded that the "adjustment in the housing sector was ongoing". The committee also abandoned the reference to additional firming. This was in response to signs of slower economic and employment growth. While the U.S. economy had clearly slowed and the tightening bias had been removed, we felt that the Federal Reserve would be reluctant to ease in the near-term on concerns that "inflation would fail to moderate as expected". We were correct in our assessment as Chairman Ben Bernanke and the Fed left monetary policy unchanged at both the June and August meetings. However, there were significant developments during this time that would ultimately lead to action.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Report on Investment Activity (Continued) For the Fiscal Year Ended September 30, 2007

In mid-June, Bear Stearns announced the collapse of two hedge funds under management due to mortgage defaults of homeowners with poor credit. This in turn, triggered the “flight to quality” trade into the marketplace leading to a dramatic steepening of the yield curve. In its August 7th FOMC statement, policymakers did acknowledge tighter credit conditions for “some households and businesses”, but left the current short-term lending rate intact. A few days later, France’s largest bank was forced to halt withdrawals from three of its managed funds. This development caused overnight lending rates to soar. In response, the European Central Bank pumped cash into the financial system in order to stabilize the situation. Policy-making bodies around the globe followed suit, including the Federal Reserve. The following week, the nation’s largest home lender, Countrywide Financial, had its solvency called into question. The institution was forced to draw down its entire bank credit facility as it and others were unable to raise capital in the unsecured and asset-backed commercial paper market. The lack of liquidity and accessibility within short-term markets produced the best quarterly performance for Treasuries in five years. After failing in its two attempts to calm the market by pumping in liquidity, the Federal Reserve lowered the discount rate 50 basis points to 5.75%. This essentially was a precursor that policymakers would lower the federal funds rate no later than the September meeting. At that meeting the Federal Reserve lowered short-term interest rates by 50 basis points, somewhat of a surprise to the capital markets which for the most part were forecasting only a 25 basis point ease. In the statement, the committee stated its concern that current conditions could ultimately produce an economic downturn. Since the Fed’s September action, the economic climate has gotten worse. Equity markets have stumbled, interest rates have fallen, commodity prices have soared, and most importantly, the confidence of the consumer, which is such an integral part of the economy, has dropped. Going forward, we feel that the Federal Reserve will be poised to lower rates further in order to regain confidence within the financial system. Until this occurs, we expect that equities will continue to weaken, spread product will underperform government debt, and that the yield curve will likely steepen further.

For fiscal year 2007, the RSA purchased approximately \$1.516 billion in additional securities for the fixed income portfolio. As of September 30, 2007, the RSA’s fixed income portfolio had a market value of \$11.2 billion, of which 10.3% was in money market securities. For the fiscal year, the total annual returns for the fixed income portfolios were 17.66% for the TRS, 18.34% for the ERS and 7.59% for the JRF. The five-year annualized returns were 8.79% for the TRS, 8.90% for the ERS and 5.58% for the JRF. The ten-year annualized returns were 7.16% for the TRS, 7.15% for the ERS and 5.63% for the JRF.

Sincerely,



Marc Green
Director of Investments

I. Board Objectives

The Boards of Control, as Trustees of the Teachers' Retirement System and Employees' Retirement System (Systems), have full power, through each System's secretary-treasurer, to invest and reinvest System funds in accordance with the Prudent Man Rule: "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." Other funds currently and hereafter under the management of the Systems will be governed by this Investment Policy Statement within each System's limitations and/or by other applicable legislated restrictions.

It is the objective of the Boards that funds be invested in such a manner as to maximize the total return of each System within prudent risk parameters. Also, the Systems recognize that a stronger Alabama equates to a stronger Retirement System, and as such, investments in Alabama businesses are encouraged to the extent the investment meets the criteria delineated by this policy statement.

The long term investment performance expectations of the Systems are to achieve a return on marketable securities in excess of the actuarial investment assumption and to exceed the rate of inflation (as measured by the CPI) by 3% through investments in a broadly diversified portfolio. The performance evaluation of each System will be submitted to the respective Board on a semi-annual basis.

II. Asset Allocation

The most important aspect of any investment strategy is the decision regarding allocation of investments among the various asset classes. The purpose of formulating asset allocation guidelines is to maximize investment returns within the standards of prudence established for the whole portfolio. Accordingly, the asset allocation decisions will be predicated on the following factors:

1. The actuarial projected liability stream of benefits and their cost,
2. The perception of the prospective risks and returns of eligible asset classes, and
3. Judgments regarding future economic and financial conditions.

The maximum permissible allocation of assets in the Systems to each eligible asset class is expressed below:

A. Domestic Fixed Income

The domestic fixed income portfolio of each System may consist of any rated or non-rated debt security including, but not limited to, the following: U.S. Treasury issues, agency issues, mortgage-backed securities, corporate bonds, and privately placed debt securities. This area of investments may not exceed 50% of the market value of the aggregate portfolio of each System.

B. International Fixed Income

The international fixed income asset class may be used to provide diversification for each System and may consist of U.S. dollar denominated or foreign currency denominated fixed income obligations of sovereign countries with a rating of at least A by one of the principal rating agencies at the time of purchase or acquisition, except that up to 2 percent of the market value of each System's total portfolio may be invested in the obligations of sovereign countries with a rating of BBB or BAA by one of such agencies at the time of purchase. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international fixed income obligations when it is considered appropriate. The market value of this asset may not exceed 10% of the market value of each System's total portfolio.

C. Domestic Equity

The domestic equity portfolio of each System may consist of both actively and passively managed equity securities. Also, covered call options may be utilized in order to add incremental value to each System's equity portfolio and may be written and repurchased as market conditions warrant. The asset class may not exceed 65% of the market value of each System's aggregate portfolio.

D. International Equity

The international equity asset class may be used to provide diversification for the Systems and may consist of both actively and passively managed international equity securities. In order to be eligible for purchase by the Systems, an international equity security must be issued by a company incorporated in a country whose debt securities are eligible for investment under Section B above, and the market value of the aggregate outstanding equity of the issuing company must be at least \$100 million. Furthermore, each System may not purchase or hold more than 5 percent of any class of the outstanding stock of a company. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international equity securities when it is considered appropriate. The aggregate market value of international equities may not exceed 25% of the aggregate market value of each System's total portfolio.

E. Real Estate

The real estate portfolio of each System may consist of office, retail, industrial, commercial, and residential housing projects. The suggested range may not exceed 15% of the book value of each System's aggregate portfolio.

F. Alternative Investments

Alternative investments may consist of, but are not limited to, mezzanine financing, LBO's, venture capital, limited partnerships, futures, commodities, and derivative investments. The asset class may not exceed 10% of the book value of each System's aggregate portfolio.

G. Short-term Investments

Short-term investments may consist of money allocated to commercial paper, rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. Treasury securities and other money market investments. The primary objective of short-term investments is to provide highly liquid, low risk methods of return on funds, which have not been committed to the other aforementioned asset classes. The asset class may not exceed 20% of the market value of each System's aggregate portfolio.

Asset allocation is a dynamic process, and as such, the allocation decision should be revisited as market conditions change. In order to recognize this dynamism, the allocation targets within the recommended ranges of each asset class for the prospective quarter should be included in the quarterly strategy report.

III. Procedures

1. The investment advisor will work with the staff to develop a quarterly strategy for investments, which will be disseminated to the Boards, as it is prepared each quarter.
2. The Investment Committee of each System shall approve all investments made within the prescribed investment policy. These Investment Committees, in their approval, are considered to be signing for the respective Board of Control. If any purchase or sale is questioned by a member of the respective Investment Committee as to whether it is within given Board policy, the Board shall decide and no purchase or sale shall take place until all parties are in clear agreement that said action is or is not covered by policy.
3. Each week the secretary-treasurer of each System will send to the investment advisor the list of actual activities for written confirmation, which will then be forwarded to the respective System's Board of Control members upon receipt.
4. The staff members of the investment advisor will meet at least quarterly with members of the RSA staff and interested Boards of Control members to cover subjects of mutual interest.
5. All investment security purchases will be documented with an individual worksheet setting out the reason for the purchase, rating, market history and other general data pertinent to the decision making process.
6. An annual survey will be made of all fixed income investments held with emphasis on credit quality. A holding that has been downgraded in rating will be examined as to the reason for the downgrade and a determination should be made as to whether the security should remain in the portfolio.
7. The rules of the Securities Exchange Commission, the general policies of the Boards of Control, and the Alabama Ethics Commission shall govern the ethical conduct of employees. The RSA staff will provide the Alabama Ethics Commission with a quarterly report of all purchases and sales of any and all securities for personal accounts occurring within each reported quarter. The staff will abide by the Alabama Ethics Commission Advisory Opinion No. 673.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Schedule of Investment Performance

For the Fiscal Year Ended September 30, 2007

	Annualized			
	1 Year	Last 3 Years	Last 5 Years	Last 10 Years
Total Portfolio				
TRS	17.46%	12.46%	12.94%	7.42%
ERS	17.92%	12.35%	12.86%	7.27%
JRF	14.27%	11.08%	11.26%	6.73%
Total Domestic Equity				
TRS	16.60%	13.66%	16.16%	6.42%
ERS	16.68%	13.74%	16.20%	6.45%
JRF	16.89%	13.52%	15.86%	7.16%
<i>Domestic Equity Benchmarks:</i>				
S&P 500	16.44%	13.14%	15.45%	6.57%
Dow Jones Industrial Average	21.67%	13.85%	15.42%	7.87%
S&P MidCap 400	18.76%	15.63%	18.17%	11.60%
S & P 600 Smallcap	14.93%	14.29%	18.73%	9.41%
Total International Equity				
TRS	25.43%	23.55%	23.97%	8.54%
ERS	25.50%	23.54%	23.95%	8.56%
<i>International Equity Benchmarks:</i>				
Morgan Stanley EAFE (Unhedged)	24.86%	23.24%	23.55%	7.97%
Total Fixed Income and Alternatives				
TRS	15.15%	7.66%	7.71%	6.63%
ERS	16.48%	8.07%	7.89%	6.65%
JRF	7.16%	6.49%	5.34%	5.51%
<i>Fixed Income Benchmarks:</i>				
Citigroup Big	5.25%	3.95%	4.23%	6.01%
Lehman Bros. Aggregate	5.14%	3.86%	4.13%	5.97%

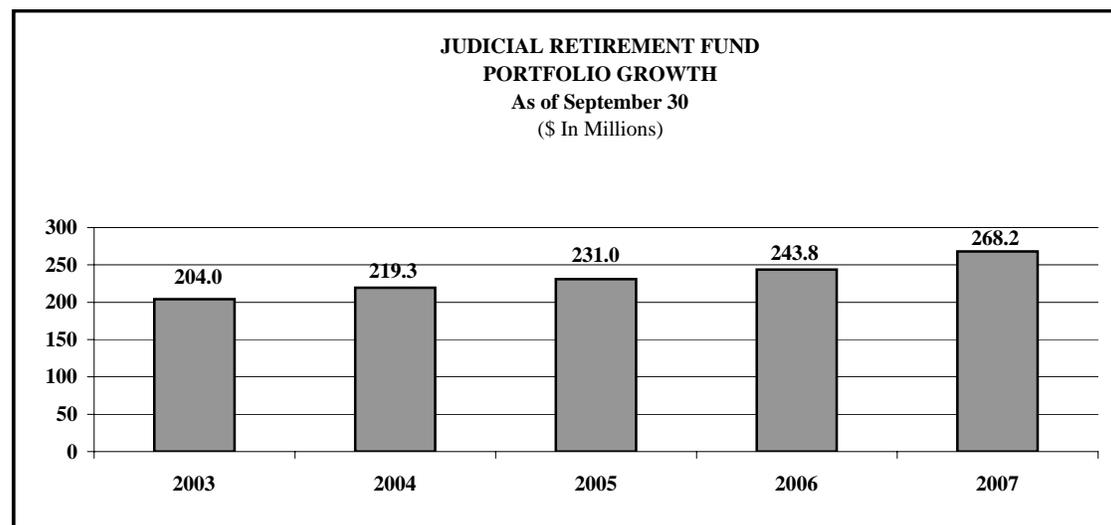
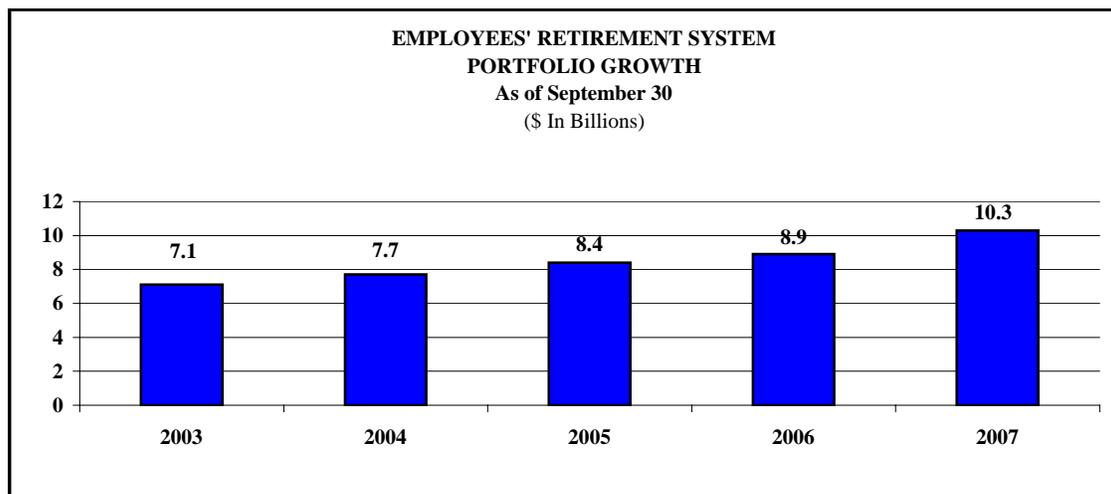
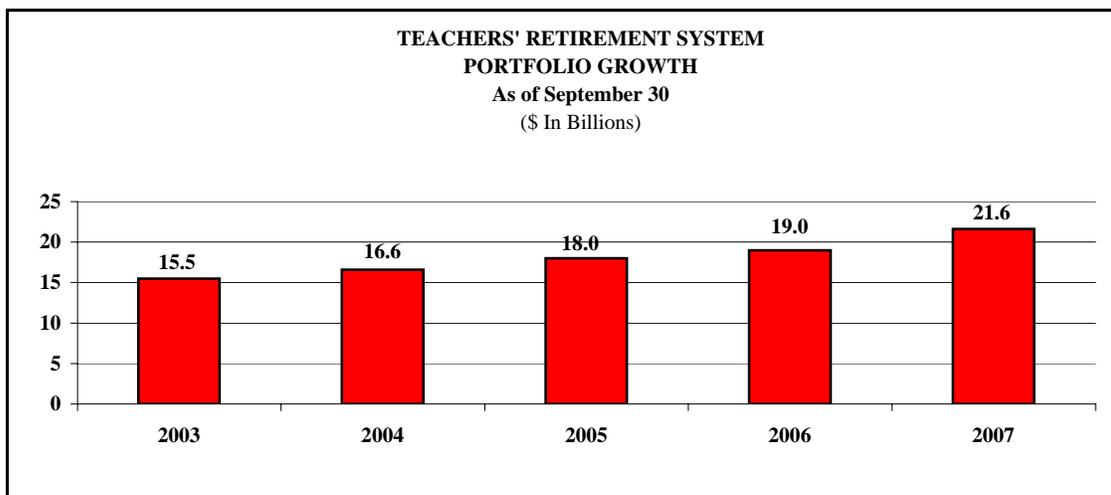
Investment return calculations were prepared using a time-weighted return based on the Global Investment Performance Standards (GIPS ®).

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Portfolio Growth

Five-Year Comparison

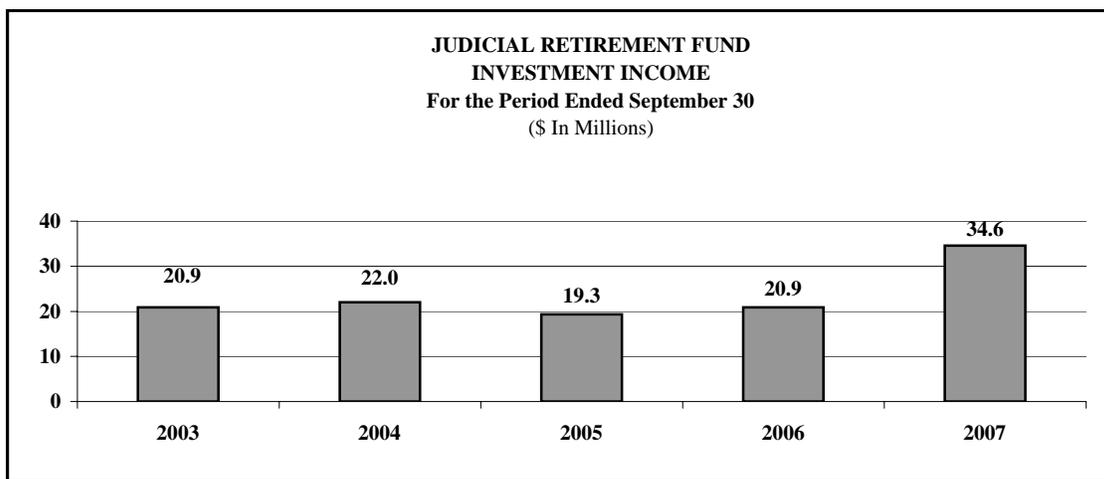
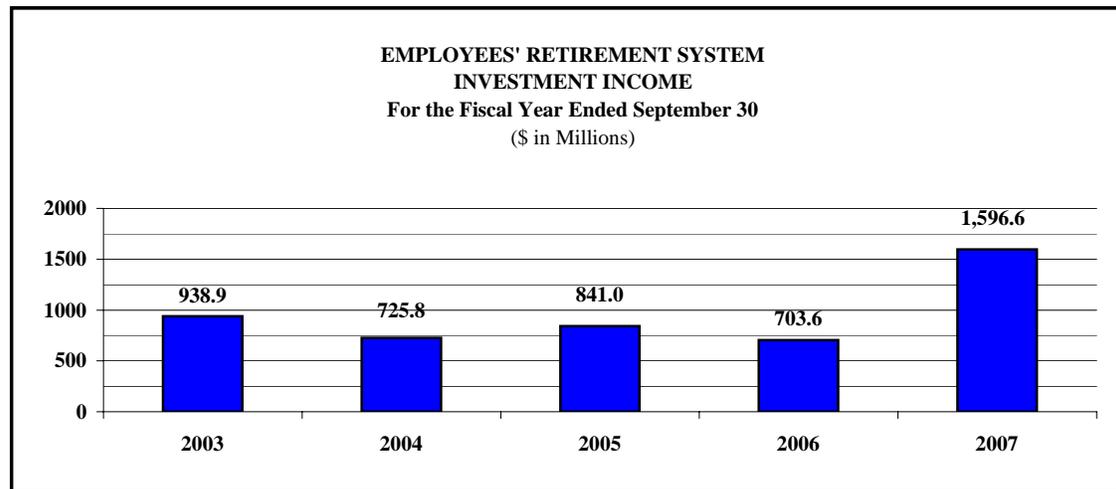
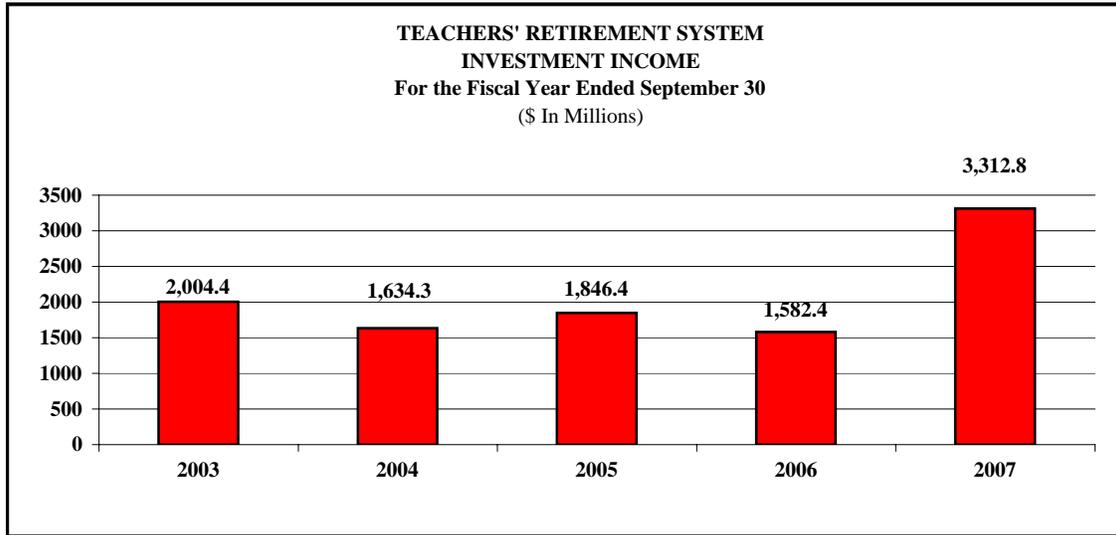


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Investment Income

Five-Year Comparison

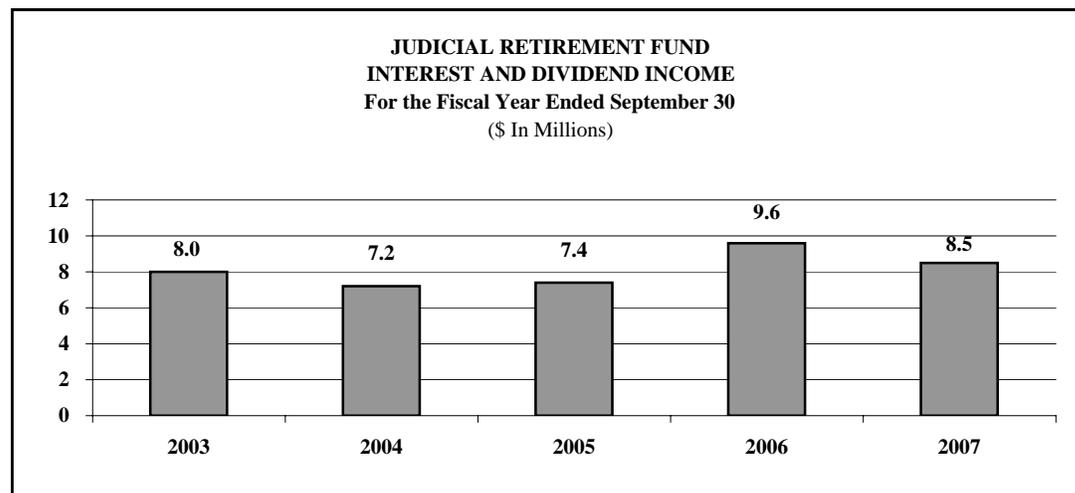
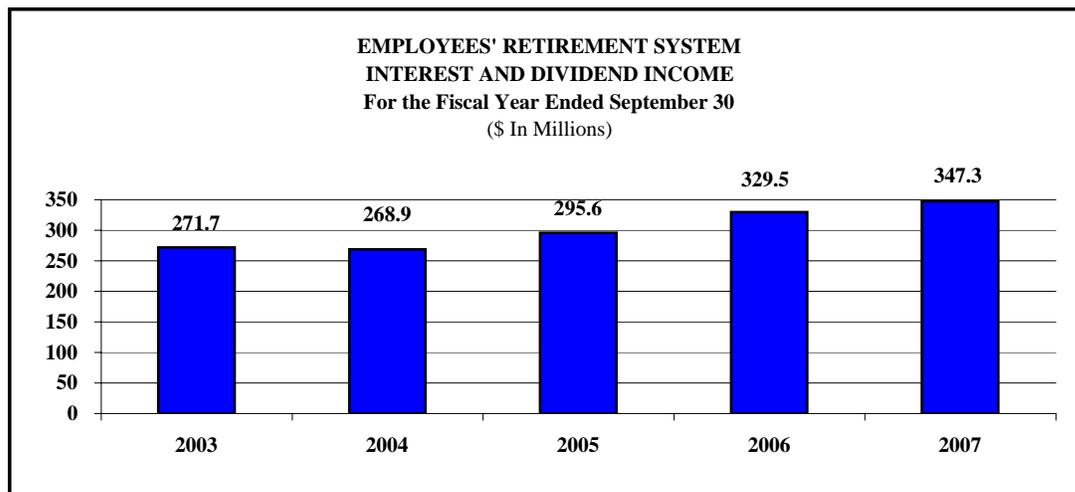
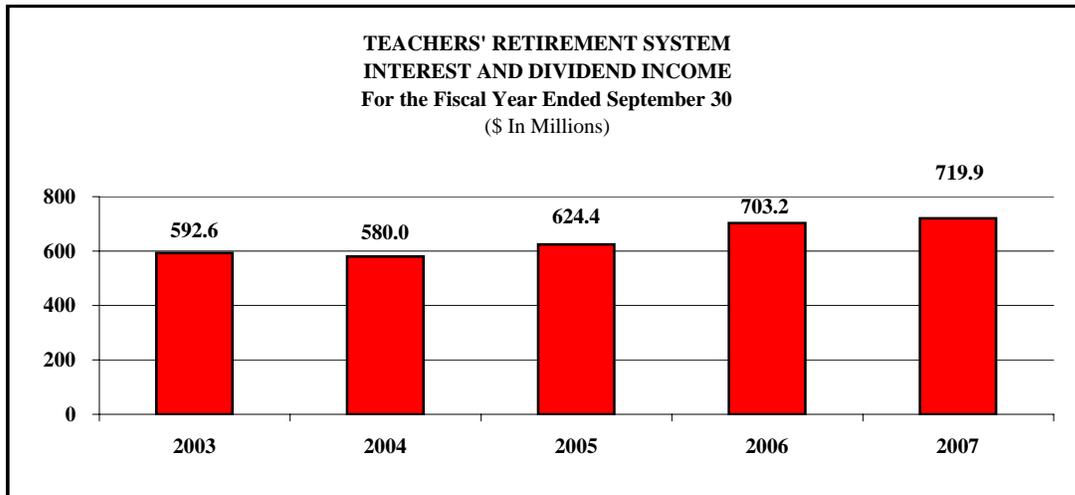


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Interest and Dividends

Five-Year Comparison

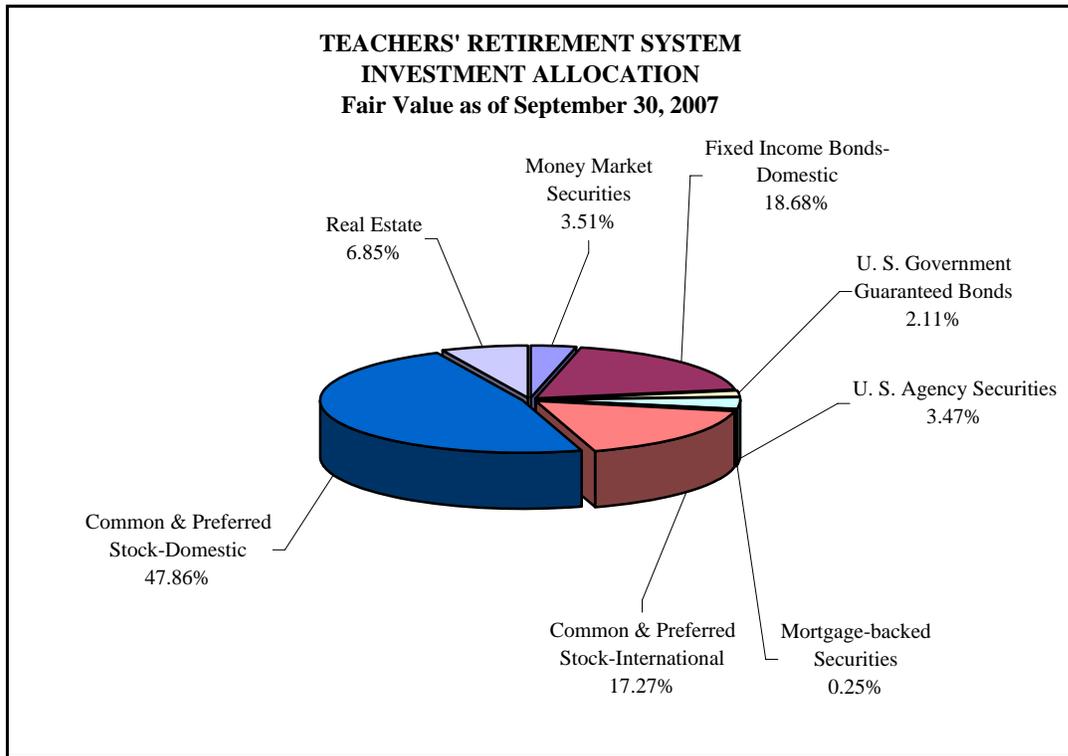


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Teachers' Retirement System

Investment Allocation and Summary



**TEACHERS' RETIREMENT SYTEM
INVESTMENT SUMMARY AT FAIR VALUE**

As of September 30, 2007

(\$ In Thousands)

	Fair Value	% of Fair Value
Money Market Securities and Mutual Funds	\$ 760,169	3.51
U.S. Government Guaranteed (1)	456,103	2.11
U.S. Agency Securities	749,302	3.47
Mortgage-backed Securities	54,760	0.25
Fixed Income Bonds		
Domestic	4,039,006	18.68
Common and Preferred Stocks		
Domestic	10,350,683	47.86
International	3,735,724	17.27
Real Estate	1,480,737	6.85
Total Investments	\$ 21,626,484	100.00

(1) Includes \$16,394 in short-term treasuries presented as short-term investments on the Statement of Plan Net Assets.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Teachers' Retirement System

Largest Stock and Bond Holdings

TEACHERS' RETIREMENT SYSTEM LARGEST STOCK HOLDINGS

September 30, 2007

(Amounts In Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	517	Goldman Sachs Equity Linked Notes	\$ 584,749
2)	2,997	Exxon Mobil Corp	277,388
3)	5,931	General Electric	245,527
4)	223	Raycom Media	241,071
5)	4,782	Microsoft	140,866
6)	3,010	Citigroup	140,494
7)	2,682	Bank of America	134,812
8)	1,872	Proctor & Gamble	131,696
9)	1,336	Chevron	125,007
10)	1,864	Johnson & Johnson	122,466

TEACHERS' RETIREMENT SYSTEM LARGEST BOND HOLDINGS

September 30, 2007

(\$ in Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$1,308,886	Raycom Media 6.75% due 12/15/16	\$ 1,416,546
2)	1,060,823	Community News Tranche D 6.75% due 1/31/17	862,143
3)	137,900	Alabama River Group 8.625% due 10/8/13	137,958
4)	124,894	U.S. Treasury 4.25% due 8/15/15	123,089
5)	83,366	U.S. Treasury 4.00% due 2/15/15	81,113
6)	75,823	U.S Treasury 4.75% due 1/31/12	77,529
7)	64,456	U.S Treasury 4.125% due 5/15/15	63,106
8)	30,000	Acuity Brands 8.375% due 8/1/10	32,332
9)	25,000	IBM 8.375% due 1/31/09	30,468
10)	30,000	U.S Treasury 4.875% due 1/31/09	30,340

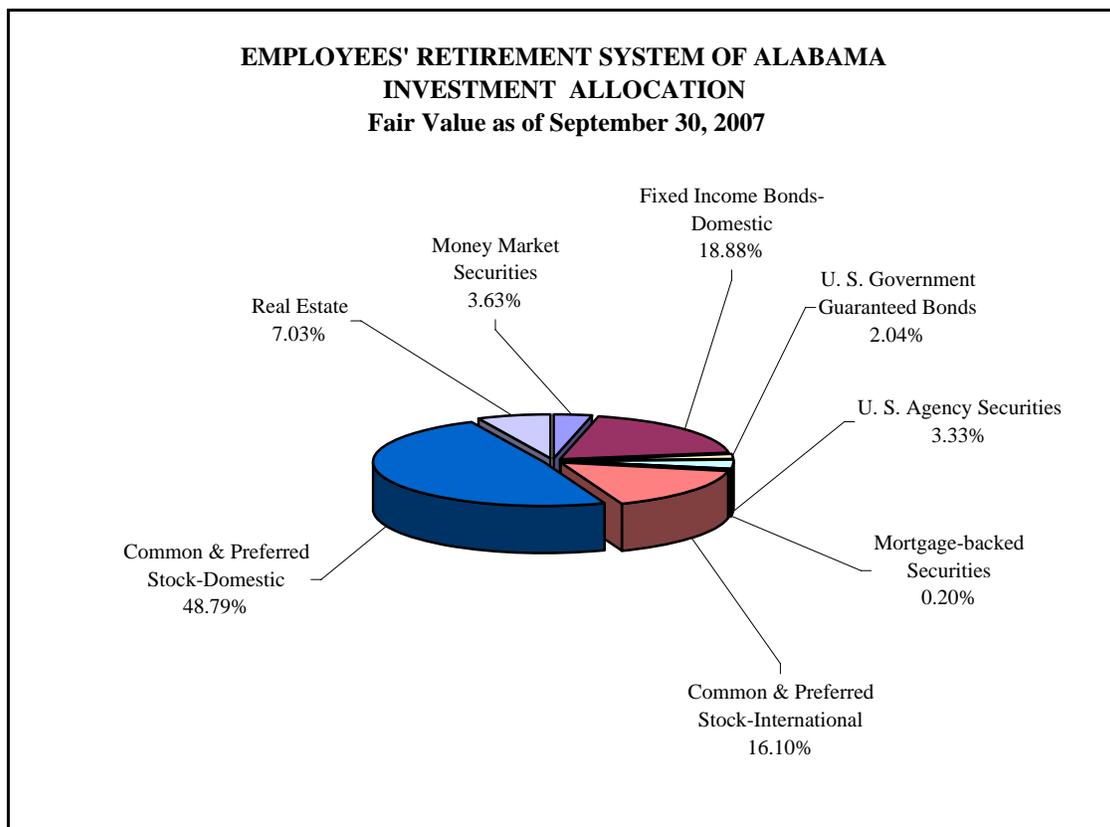
A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Employees' Retirement System

Investment Allocation and Summary



**EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT SUMMARY AT FAIR VALUE**

As of September 30, 2007

(\$ In Thousands)

	Fair Value	% of Fair Value
Money Market Securities and Mutual Funds	\$ 371,839	3.63
U.S. Government Guaranteed (1)	209,150	2.04
U.S. Agency Securities	341,313	3.33
Mortgage-backed Securities	20,371	0.20
Fixed Income Bonds		
Domestic	1,935,328	18.88
International	-	-
Common and Preferred Stocks		
Domestic	5,002,102	48.79
International	1,650,424	16.10
Real Estate	720,752	7.03
Total Investments	\$ 10,251,279	100.00

(1) Includes \$8,828 in short-term treasuries presented as short-term investments on the Statement of Plan Net Assets.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Employees' Retirement System Largest Stock and Bond Holdings

EMPLOYEES' RETIREMENT SYSTEM LARGEST STOCK HOLDINGS

September 30, 2007

(Amounts in Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	233	Goldman Sachs Equity Linked Notes	\$ 263,653
2)	223	Raycom Media	241,071
3)	1,358	Exxon Mobil	125,681
4)	2,697	General Electric	111,644
5)	98	Community News Tranche D	79,897
6)	2,307	Microsoft	67,979
7)	1,392	Citigroup	64,959
8)	1,231	Bank of America	61,870
9)	859	Proctor & Gamble	60,690
10)	899	Johnson & Johnson	59,086

EMPLOYEES' RETIREMENT SYSTEM LARGEST BOND HOLDINGS

September 30, 2007

(\$ In Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 651,755	Raycom Media 6.75% due 12/15/16	\$ 705,364
2)	532,530	Community News Tranche D 6.75% due 1/31/17	432,793
3)	59,100	Alabama River Group 8.625% due 10/8/13	59,125
4)	59,729	U.S. Treasury 4.25% due 8/15/15	58,866
5)	37,054	U.S. Treasury 4.75% due 1/31/12	37,888
6)	36,594	U.S Treasury 4.00% due 2/15/15	35,605
7)	29,702	U.S. Treasury 4.125% due 5/15/15	29,080
8)	15,000	IBM 8.375% due 11/1/19	18,281
9)	16,500	Farmer Mac GTD NTS Tr 2006 5.50% due 7/15/11	16,983
10)	13,709	General Electric Capital Corp 5.55% due 5/4/20	13,515

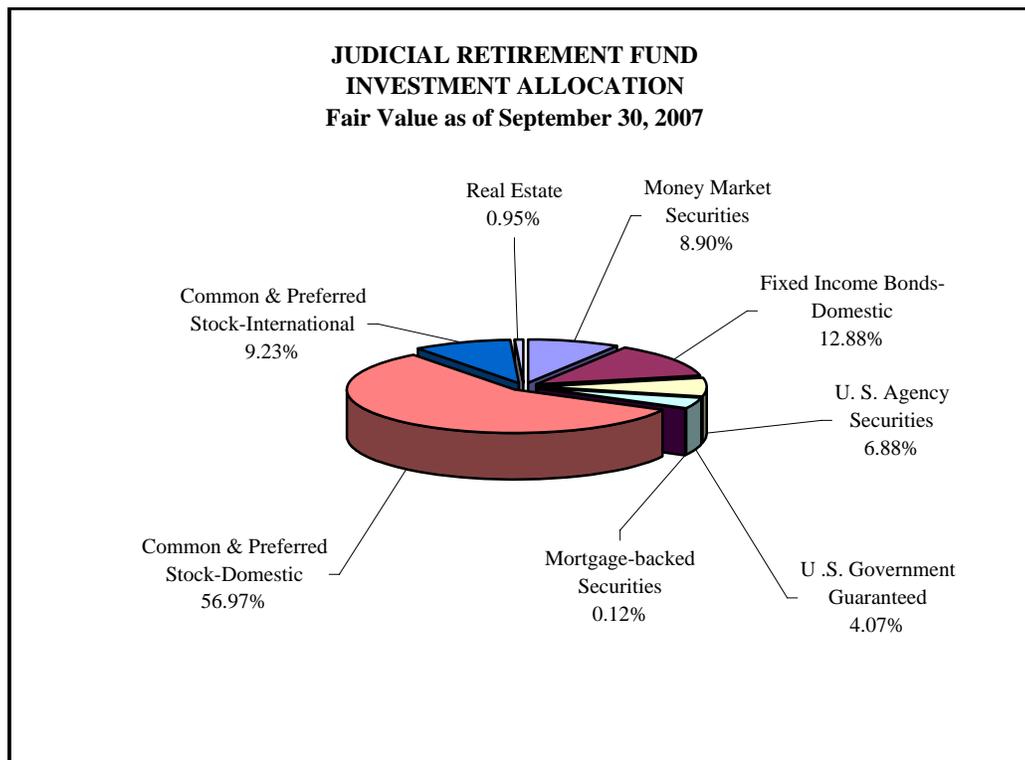
A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Judicial Retirement Fund

Investment Allocation and Summary



**JUDICIAL RETIREMENT FUND
INVESTMENT SUMMARY AT FAIR VALUE
As of September 30, 2007**

(\$ In Thousands)

	<u>Fair Value</u>	<u>% of Fair Value</u>
Money Market Securities and Mutual Funds	\$ 23,880	8.90
U.S. Government Guaranteed	10,905	4.07
U.S. Agency Securities	18,450	6.88
Mortgage-backed Securities	322	0.12
Fixed Income Bonds, Domestic	34,555	12.88
Common and Preferred Stocks, Domestic	152,778	56.97
Common and Preferred Stocks, International	24,752	9.23
Real Estate	2,550	0.95
Total Investments	\$ 268,192	100.00

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Judicial Retirement Fund

Largest Stock and Bond Holdings

**JUDICIAL RETIREMENT FUND
LARGEST STOCK HOLDINGS**

September 30, 2007

(Amounts in Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	56	Exxon Mobil	\$ 5,204
2)	104	General Electric	4,300
3)	62	AT&T	2,616
4)	82	Microsoft	2,408
5)	50	Citigroup	2,353
6)	45	Bank of America	2,261
7)	32	Proctor & Gamble	2,225
8)	62	Cisco	2,044
9)	22	Chevron	2,022
10)	29	Johnson & Johnson	1,928

**JUDICIAL RETIREMENT FUND
LARGEST BOND HOLDINGS**

September 30, 2007

(\$ In Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 4,999	Community News Tranche D 6.75% due 1/31/17	\$ 4,063
2)	2,000	LMB Funding (PPL Energy) 8.05% 12/21/13	2,214
3)	2,000	Federal National Mortgage Association 5.25% due 12/26/12	1,993
4)	2,000	Federal Home Loan Bank 5.20% due 1/28/13	1,989
5)	1,588	General Electric Capital Corp 5.55% due 5/4/20	1,566
6)	1,438	American Airlines 11% due 5/7/13	1,457
7)	1,412	Federal National Mortgage Association 5.625% due 5/19/11	1,424
8)	1,043	Federal Home Loan Mortgage 4.25% due 3/10/10	1,034
9)	1,000	Allied Capital Corp	1,005
10)	1,000	Federal National Mortgage Association 5.00% due 4/15/13	992

A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Broker Commissions Paid

For the Fiscal Year Ended September 30, 2007

	Stock		Fixed		Total
	Commissions Per Share	# of Shares (000's)	Commissions (000's)	Securities Commissions (000's)	
AG Edwards	\$ 0.0499	5,106	\$ 255	\$ -	\$ 255
Banc of America	-	-	-	189	189
Bear Stearns & Co.	0.0306	17,243	527	85	612
Bernstein	0.0495	16,534	818	-	818
Centennial	0.0500	300	15	-	15
CIBC	0.0769	13	1	-	1
Citigroup	0.0412	19,747	813	427	1,240
Credit Suisse First Boston Corp.	0.0415	12,445	516	160	676
Deutsche Bank	0.0170	5,404	92	82	174
Empirical Research	0.0495	2,647	131	-	131
First Discount	0.0489	225	11	-	11
Gardner Rich	0.0500	300	15	-	15
Goldman Sachs & Co.	0.0181	7,733	140	176	316
Howard Weil & Co.	0.0502	2,510	126	-	126
Issuer Designated	-	-	-	175	175
ISI	0.0491	6,320	310	-	310
J. P. Morgan Chase	0.0373	18,116	676	239	915
Keefe Bruyette	0.0501	2,694	135	-	135
Keybane Capital Markets	-	-	-	109	109
Lazard Capital	0.0497	725	36	-	36
Lehman Brothers, Inc.	0.0404	17,559	709	334	1,043
Matrix	0.0500	960	48	-	48
Maxim	0.0533	75	4	-	4
McDonald & Company	0.0514	350	18	-	18
Merrill Lynch, Pierce, Fenner & Smith	0.0234	23,959	560	274	834
Morgan Keegan	0.0500	1,200	60	2	62
Morgan Stanley Dean Witter	0.0208	30,315	630	275	905
NBC	0.0500	1,100	55	-	55
Ned Davis	0.0390	743	29	-	29
Oppenheimer	0.0500	4,678	234	-	234
Raymond James	0.0500	1,099	55	209	264
Register/Corts-Register	0.0489	225	11	-	11
Sandler O'Neil	0.0500	4,639	232	-	232
Securities Capital	0.0495	303	15	-	15
Southcoast	0.0501	2,157	108	-	108
Southwest	0.0500	260	13	-	13
Sterne Agee	0.0499	2,105	105	4	109
UBS Warburg	0.0503	775	39	162	201
Wachovia	0.0500	1,500	75	2	77
Totals		212,064	\$ 7,617	\$ 2,904	\$ 10,521

Average Commission Per Share of Stock = \$ 0.0359