

**ALABAMA PACT**

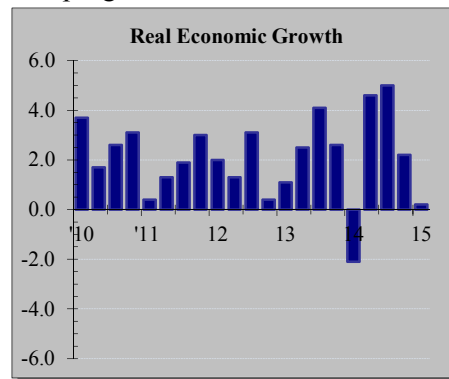
**PERFORMANCE REVIEW  
MARCH 2015**



## ECONOMIC ENVIRONMENT

### Despite a March Downturn the economy advances

In spite of severe winter weather, volatile oil prices, and concerns about possible Fed interest rate hikes, the economy continued to expand albeit slowly into its sixth year (0.2% GDP growth rate.) Overseas trends were largely improved compared to late 2014; the European and Japanese economies were in the black and China's gains continued at only a slightly lower rate. Two other global pluses were the easing of the Ukrainian crisis and progress in the Iranian nuclear negotiations. However, terrorism and



combat continued to destabilize several African and Middle Eastern countries.

The pluses and minuses, both domestically and globally, translated into a modest 0.2% expansion in the first quarter which followed the more typical fourth quarter GDP growth rate of 2.2%. The following are the highlights for jobs, housing,

manufacturing, consumer confidence, commodity moves, and Fed activity:

- March jobs gains fell dramatically to 126,000. The hiring rate had averaged well over 200,000 per month during the prior 12-month period. The good news was that the unemployment rate remained steady at 5.5%. Year-over-year, unemployment has fallen by 1.1% or 1.8 million workers. Still, 2.6 million job seekers had been unemployed for at least 27 weeks and represented nearly 30% of the total. One bright note was a 0.3% uptick in wages, indicating some labor market tightening. Many economists viewed the low March figure as an anomaly due to winter weather and the West Coast longshoremen's slowdown.
- Housing prices climbed 5.6% for the fiscal year ended February. For the latest three-months, the gains were 1.3%. CoreLogic reports that the low-end housing market has shown the fastest price growth for the year, as those prices were up 9.3% vs. 4.8% for the high-end market.

- The Institute of Supply Management (ISM) reported slowing, but still net positive gains in the manufacturing and service sectors. From February to March, the manufacturing index dropped slightly from 52.9% to 51.5%. While still in expansion mode, the ISM reflected continuing challenges from the West Coast goods backup; a mixed impact from falling energy prices; the harsh winter; and the strong US dollar's effect on higher imports. The most positive sectors were paper and wood products and transportation equipment. The weakest sectors were clothing and related products, and also energy. The ISM non-manufacturing (service) index performed better, posting 56.5% in March; this was down a bit from 56.9% in February. Service sector expansion has been steaming ahead for 67 consecutive months! The majority of companies in the ISM survey were optimistic for business.
- The Consumer Confidence Index gained ground from February when it stood at 98.8 to March when it advanced to 101.3. This gain represented an improved short-term outlook for both jobs and wages.
- The US dollar continued to rise against other currencies -- by another 8.8%.
- CPI inflation remained low, but has moved closer to the 2%/year threshold. Continuing slow wage growth and abundant and cheap import goods (in US \$) have kept price creep at bay. The March CPI increased slightly by 0.2% from the prior month. Economists expect a more significant bump in CPI should the Fed hike short-term interest rates.
- The Federal Reserve Board is in the enviable position of having successfully ended its QE3 program and is currently poised to raise the Fed Funds interest rate. The question on everyone's minds is when? Apparently, the Fed was enamored with healthy economic data through February, only to be surprised by March's economic numbers that revealed very low jobs growth and other sluggish economic indicators. Before any interest rate changes can be made, the Fed has a delicate balancing act. It must consider the economic effects of low gas prices and slow growth in consumer spending, with slowly rising housing prices and listless exports and weigh these against very strong jobs growth during the last fiscal year and currently very low inflation and the strong dollar.

## DOMESTIC EQUITIES

### Growth and Small-Cap Stocks Set the Pace

Most of the major indices continued climbing in Q1. The S&P 500 and DJIA gained 0.9% and 0.3%, respectively, while the NASDAQ added 3.8%. Small cap growth stocks were the best performers up 6.6%. Small caps in general did better than large caps with the Russell 1000 gaining 1.6% vs. 4.3% for the Russell 2000. One reason for the disparity is that smaller-sized companies have less overseas business in an expensive US dollar environment. There also was a marked difference between the performance of growth and value stocks. While the Russell 3000 Growth Index (comprising essentially all publicly-traded growth stocks) returned 4.0%, the Russell 3000 Value Index actually lost 0.5%. REITs continued to do well, as the MSCI US REIT Index climbed 4.8%.

S&P sector returns ranged from +8.6% (Consumer Service) to -6.7% (Transportation). Autos and other consumer durables gained 4.0%, as did tech companies. Consumer non-durables (e.g. food and drugs) followed closely with a 3.3% gain. The utilities, finance, and energy sectors were all in the red. In part, these declines represented recent investor moves from higher dividend to more growth-oriented companies.

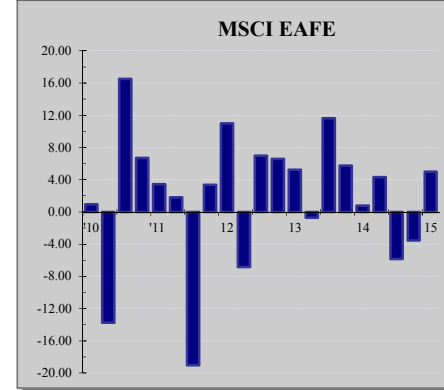
As of quarter-end, the S&P 500 dividend rate remained steady at 2.0%. Price/earnings ratios (using trailing 12-month earnings) moved up to 22.3, which is relatively high. Still, almost half of the companies have much lower P/Es, between 10 and 20.

## INTERNATIONAL EQUITIES

### EAFE Rebounds, but Not Emerging Markets

The MSCI EAFE Index rebounded by 5.0% in the first quarter, as Europe rallied and Japan's economy recovered from the imposition of a new personal tax. Euro country stock markets averaged a 5.3% advance, thanks

to the European Central Bank's quantitative easing program and increased exports spurred by the falling Euro. Germany, the largest European component, did particularly well (+8.4%), as Daimler, VW and BMW auto sales soared. Two of its drug stocks, Novo Nordisk and Beyer, also performed well. French and Italian shares also participated, gaining 4.8% and 6.8%. Shares in Spain fell 0.6%, partly attributable to internal political turmoil. Surprisingly, the UK market lost almost 1% despite a slowly improving economy.



Ongoing British national elections helped.

Australian shares rose 3.1%. This was mainly because investors drove up high-dividend Australian bank shares. In spite of the continued slide in most metals prices, manufacturer BHP Billiton also surged, after reporting a higher than anticipated profit. Japanese stock prices rose a healthy 10.3%, boosted by strong corporate earnings and in anticipation that companies there would begin to raise dividends. Another important factor was that Hong Kong was up 6%, based largely on insurance company gains.

Emerging markets as a whole returned 2.3%. The BRIC Index, combining just the four largest EM countries, moved up 3.6%. But the devil is in the details, as Brazil lost almost 15% for the second straight quarter. That country's dismal performance reflected: (1) further depreciation of the Brazilian real; (2) economic recession; (3) a downgrading of the country's sovereign debt by two rating agencies; and most critically; (4) whether newly re-elected President Rousseff was personally involved with the scandal involving oil giant Petrobras. These negative factors are no longer new, but remain punishing in the marketplace. Russian equities were the big surprise to the upside. Bouncing back from the abyss, that market gained 18.6%, in all likelihood because President Putin hasn't added any new threats toward his neighbors lately and oil prices have stabilized at current low levels.

The Indian stock market gained 5.4% based on moves by that country's reform-minded government. Investor confidence was bolstered by the

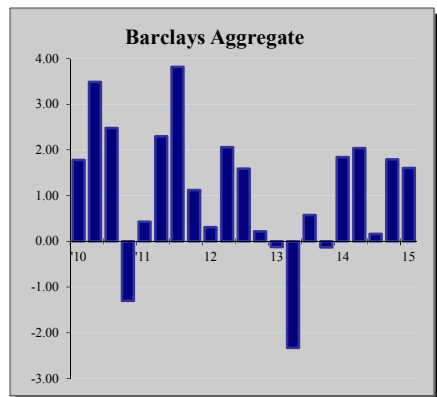
announcement of a modest budget, emphasizing needed infrastructure spending and new social welfare programs. China, the largest component of the EM Index, advanced 8.1% amid continued monetary easing, which tempered investor worries of a slowing economy.

Greek shares tumbled another 29.3% due to that country's precarious finances and its new left-wing government's renewed pleas for further relief from EU restrictions.

## BOND MARKET

### Tepid, but Still Positive

US Treasuries and investment grade bonds gained ground from both price appreciation (due to declining yields) and income. Combined, the Barclays



Aggregate returned 1.6%. During the quarter, however, yields were quite volatile. In February, alone, yields climbed 40 points on concerns that the Fed would raise rates sooner rather than later. Treasury bonds, comprising almost 36% of the index also earned 1.6%; corporates had a solid performance (+2.3%); mortgage-backed debt, suffering a bit from anticipated prepayments, gained a lower 1.1%.

Asset-backed securities (ABS) were up 0.9%, while commercial mortgage debt (CMBS) posted +1.8%, in sync with commercial real estate demand.

The long maturity Treasury sector was the sweet spot of the market, as Treasuries with maturities of 20-years and longer turned in a healthy 4.2%. Long-dated corporate bonds also performed well, earning 3.3%. Industrial, utility and financial bonds participated almost equally. On the flip side, holders of such long-dated securities were taking a risk that interest rates would not climb soon. When the Fed does begin to raise rates, long bonds should feel the biggest impact and will cease to be the sweet spot.

High yield/junk bonds performed better than their investment grade counterparts, advancing 2.5%. This sector is dominated by energy-related bonds, a sub-sector that has gained ground due to stabilizing oil prices. As

a result, energy debt earned 2.4% compared to a 10.6% loss in the prior quarter. There was no significant difference in returns from the highest to lowest rated junk bond credits. BA-rated names, the highest grade junk bonds, gained 2.7%; single B was right behind, adding 2.6%; and CAA earned 2.0%. However, the lowest-rated CAA-D issues dropped 2.8%.

## CASH EQUIVALENTS

### Zero Return until the Fed Moves

Parking assets temporarily in Treasury bills or money market funds is either a bet that interest rates will climb reasonably soon or that the equity market is at or near its high. T-bills out to one-year maturity earned essentially zero for the quarter.

**MARKET SUMMARY**

**ECONOMIC STATISTICS**

	CURRENT QTR	LAST QTR
GDP	0.2	2.2
Unemployment	5.5	5.6
CPI All Items Year/Year	-0.10	0.80
Fed Funds Rate	0.25	0.25
Industrial Capacity	79.1	79.5
US Dollars per Euro	1.07	1.21

**MAJOR INDEX QUARTER RETURNS**

INDEX	PERFORMANCE
Russell 3000	1.8
S&P 500	0.9
Russell Mid	4.0
Russell 2000	4.3
MSCI EAFE	5.0
MSCI Emg Mkts	2.3
NCREIF ODCE	3.4
Barclays Agg	1.6
90 Day Tbills	0.0

**EQUITY RETURN DISTRIBUTIONS**

	QUARTER			TRAILING YEAR		
	VAL	COR	GRO	VAL	COR	GRO
LC	-0.7	1.6	3.8	9.3	12.7	16.1
MC	2.4	4.0	5.4	11.7	13.7	15.6
SC	2.0	4.3	6.6	4.4	8.2	12.1

**MARKET SUMMARY**

- \* GDP grew at a rate of 0.2% in the first quarter.
- \* Unemployment ticked down to 5.5%, from 5.6% in Q4.
- \* Year over year, unadjusted CPI declined by 0.1%.
- \* Small cap domestic stocks tended to outperform their large and mid counterparts. Between growth and value styles, the former beat the latter across cap sizes.
- \* The US dollar strengthened significantly in Q1.

## **INVESTMENT RETURN**

On March 31st, 2015, the Alabama PACT's portfolio was valued at \$103,411,458, representing an increase of \$1,016,334 from the December quarter's ending value of \$102,395,124. Last quarter, the Fund posted net contributions equaling \$429,636 plus a net investment gain equaling \$586,698. Total net investment return was the result of income receipts, which totaled \$583,971 and net realized and unrealized capital gains of \$2,727.

For the cumulative period since December 2010, the fund has recorded net withdrawals totaling \$400.2 million and posted net investment gains of \$43.6 million. For the period since December 2010, if the total fund had returned a compounded nominal rate of 2.0% it would have been valued at \$81.7 million or \$21.7 million less than the actual value as of March 31st, 2015.

*As the portfolio wound down its transition process, residual cash and security balances from many of its former managers remained. These balances will dissipate over time as they are liquidated. Because these residual balances were no longer managed actively, and because a meaningful comparative was not possible, individual performance for these small pieces was not presented in this report.*

## **RELATIVE PERFORMANCE**

### **Total Fund**

In the first quarter, the portfolio gained 0.6%, which was equal to the Policy Index's return of 0.6% and ranked in the 78th percentile of the Short-Term Fixed Income universe. Over the trailing year, the portfolio returned 1.4%, which was 0.1% greater than the benchmark's 1.3% performance, and ranked in the 62nd percentile. Since December 2010, the portfolio returned 3.1% on an annualized basis and ranked in the 4th percentile. For comparison, the Policy Index returned an annualized 1.8% over the same period.

### **Fixed Income**

The fixed income portfolio returned 0.6% in the first quarter, 0.8% less than the Intermediate Gov/Credit Index's return of 1.4% and ranked in the 71st percentile of the Short-Term Fixed Income universe. Over the trailing twelve-month period, the fixed income portfolio returned 1.5%; that return was 2.1% less than the benchmark's 3.6% return, and ranked in the 49th percentile. Since December 2010, this component returned 3.2% per annum and ranked in the 4th percentile. The Intermediate Gov/Credit returned an annualized 3.1% over the same time frame.

## **ASSET ALLOCATION**

At the end of the first quarter, international equities comprised 0.1% of the total portfolio (\$59,941), while the portfolio's fixed income component totaled 92.1% (\$95.2 million) and cash & equivalent comprised the remaining 7.8% (\$8.1 million).

*The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$34,280,729 that was in the Treasury Account on March 31<sup>st</sup>.*

**EXECUTIVE SUMMARY****PERFORMANCE SUMMARY**

	Quarter	FYTD	-----Annualized-----		
			1 Year	3 Years	Since 12/10
<b>Total Gross/Fees</b>	0.6	0.7	1.4	2.1	3.1
<i>SHORT-TERM FIXED RANK</i>	(78)	(88)	(62)	(20)	(4)
<b>Total Net/Fees</b>	0.5	0.6	1.3	1.9	2.9
POLICY INDEX	0.6	0.8	1.3	1.4	1.8
SHADOW INDEX	1.3	2.2	3.4	2.2	3.1
<b>International Equity</b>	-9.7	-13.5	----	----	----
ACWI EX US	3.6	-0.3	-0.6	6.9	3.9
<b>Fixed Income</b>	0.6	0.7	1.5	2.1	3.2
<i>SHORT-TERM FIXED RANK</i>	(71)	(83)	(49)	(21)	(4)
INT GOV/CREDIT	1.4	2.3	3.6	2.3	3.1
1-3 YR GOV/CRED	0.6	0.8	1.1	1.0	1.1
BARCLAYS MBS	1.1	2.9	5.5	2.5	3.4
BARCLAYS AGG	1.6	3.4	5.7	3.1	4.1

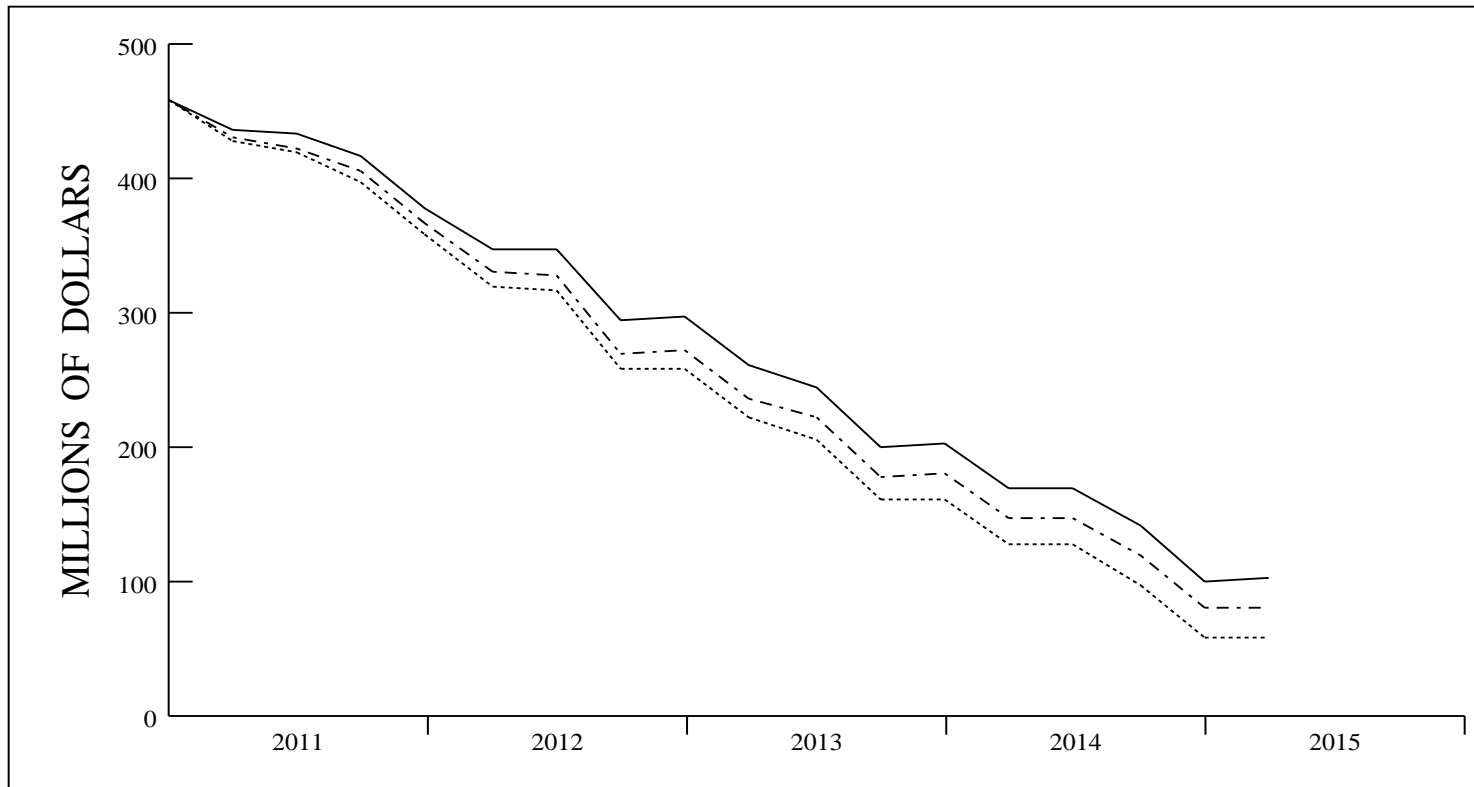
**ASSET ALLOCATION**

Int'l Equity	0.1%	\$ 59,941
Fixed Income	92.1%	95,247,319
Cash	7.8%	8,104,198
<b>Total Portfolio</b>	<b>100.0%</b>	<b>\$ 103,411,458</b>

**INVESTMENT RETURN**

Market Value 12/2014	\$ 102,395,124
Contribs / Withdrawals	429,636
Income	583,971
Capital Gains / Losses	2,727
Market Value 3/2015	\$ 103,411,458

**INVESTMENT GROWTH**



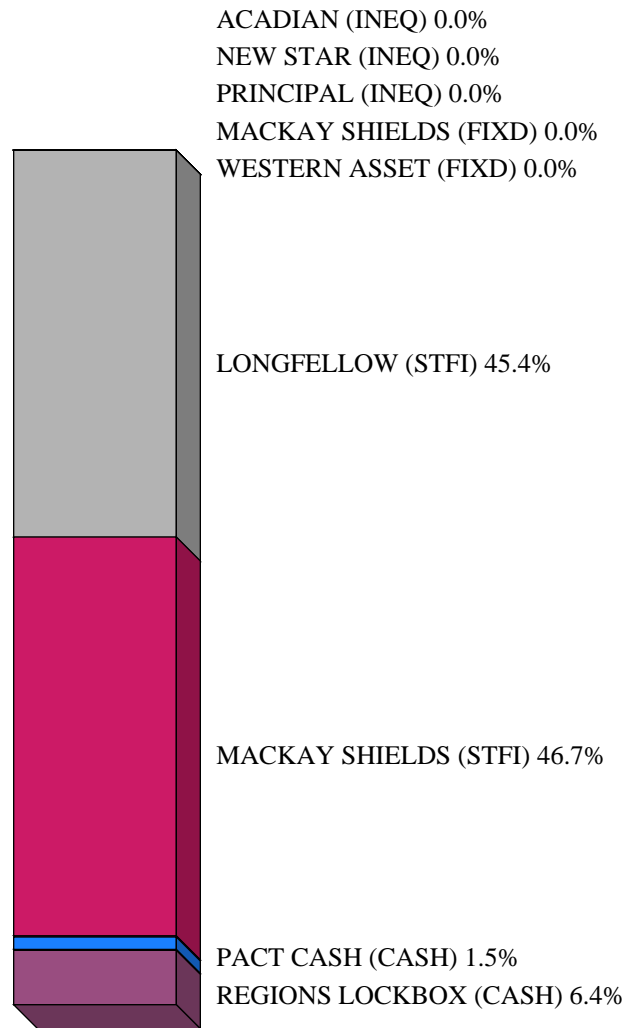
——— ACTUAL RETURN  
 - - - - - 2.0%  
 . . . . . 0.0%

**VALUE ASSUMING**  
 2.0% RETURN \$ 81,701,769

	LAST QUARTER	PERIOD 12/10 - 3/15
BEGINNING VALUE	\$ 102,395,124	\$ 459,991,904
NET CONTRIBUTIONS	429,636	-400,189,491
<u>INVESTMENT RETURN</u>	<u>586,698</u>	<u>43,609,056</u>
ENDING VALUE	\$ 103,411,458	\$ 103,411,458
INCOME	583,971	41,111,423
<u>CAPITAL GAINS (LOSSES)</u>	<u>2,727</u>	<u>2,497,634</u>
INVESTMENT RETURN	586,698	43,609,056



**MANAGER ALLOCATION SUMMARY**



Name	Market Value	Percent
Acadian (INEQ)	\$20,378	0.0
New Star (INEQ)	\$13,282	0.0
Principal (INEQ)	\$26,281	0.0
Mackay Shields (FIXD)	\$1,274	0.0
Western Asset (FIXD)	\$1,250	0.0
Longfellow (STFI)	\$46,910,183	45.4
Mackay Shields (STFI)	\$48,334,612	46.7
PACT Cash (CASH)	\$1,518,678	1.5
Regions Lockbox (CASH)	\$6,585,520	6.4
<b>Total</b>	<b>\$103,411,458</b>	<b>100.0</b>

## MANAGER PERFORMANCE SUMMARY


Name	(Universe)	Quarter	FYTD	1 Year	3 Years	5 Years
Total Portfolio	(ST Fixed)	0.6 (78)	0.7 (88)	1.4 (62)	2.1 (20)	---- ----
<i>Policy Index</i>		<i>0.6 ----</i>	<i>0.8 ----</i>	<i>1.3 ----</i>	<i>1.4 ----</i>	<i>2.7 ----</i>
Longfellow	(ST Fixed)	0.6 (84)	0.8 (64)	1.4 (70)	1.3 (63)	---- ----
Mackay Shields	(ST Fixed)	0.7 (57)	0.9 (54)	1.4 (68)	1.4 (53)	---- ----
<i>Barclays 1-3 Year Gov/Credit</i>		<i>0.6 ----</i>	<i>0.8 ----</i>	<i>1.1 ----</i>	<i>1.0 ----</i>	<i>1.3 ----</i>

## MANAGER ALLOCATION SUMMARY




Prior Quarter Market Value	%	Fund Name	Style	Current Quarter Market Value	%
\$22,734	0.0	Acadian	(INEQ)	\$20,378	0.0
\$14,964	0.0	New Star	(INEQ)	\$13,282	0.0
\$28,712	0.0	Principal	(INEQ)	\$26,281	0.0
\$50,951	0.0	Mackay Shields	(FIXD)	\$1,274	0.0
\$1,250	0.0	Western Asset	(FIXD)	\$1,250	0.0
\$46,652,670	45.6	Longfellow	(STFX)	\$46,910,183	45.4
\$47,952,323	46.8	Mackay Shields	(STFX)	\$48,334,612	46.7
\$1,591,361	1.6	PACT Cash	(CASH)	\$1,518,678	1.5
\$6,080,159	5.9	Regions Lockbox	(CASH)	\$6,585,520	6.4
<b>\$102,395,124</b>	<b>100.0</b>	<b>Composite</b>	<b>(TOTL)</b>	<b>\$103,411,458</b>	<b>100.0</b>

**MANAGER VALUE ADDED**

**Most Recent Quarter**

Manager	Benchmark	Value Added Vs. Benchmark
Longfellow	1-3 Yr Gov/Cred	0.0
Mackay Shields	1-3 Yr Gov/Cred	0.1 
<b>Total Portfolio</b>	<b>Policy Index</b>	0.0

**Trailing Twelve Months**

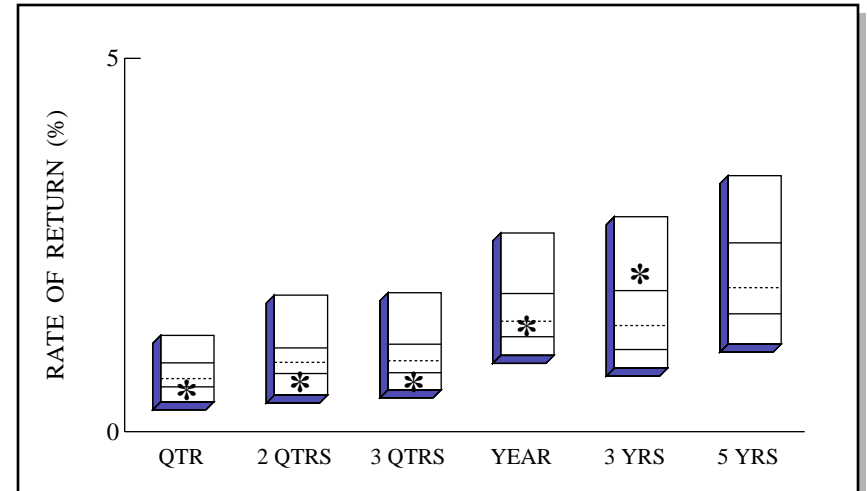
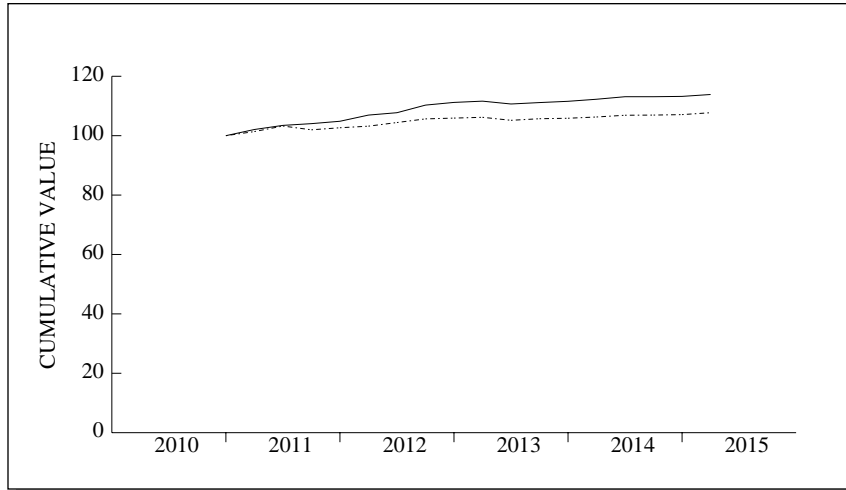
Manager	Benchmark	Value Added Vs. Benchmark
Longfellow	1-3 Yr Gov/Cred	0.3 
Mackay Shields	1-3 Yr Gov/Cred	0.3 
<b>Total Portfolio</b>	<b>Policy Index</b>	0.1 

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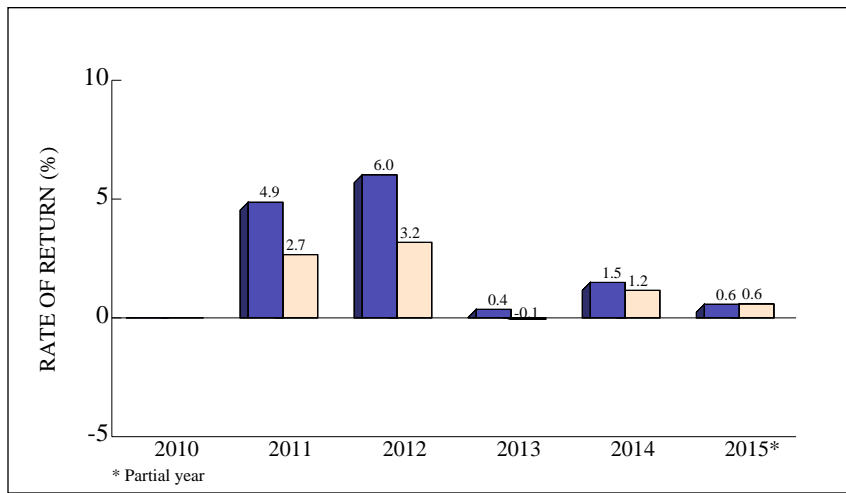
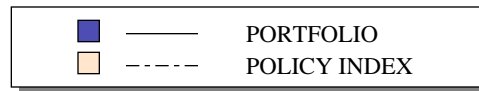
**INVESTMENT RETURN SUMMARY - ONE QUARTER**

Name	Quarter Total Return	Market Value December 31st, 2014	Net Cashflow	Net Investment Return	Market Value March 31st, 2015
Acadian (INEQ)	---	22,734	0	-2,356	20,378
New Star (INEQ)	---	14,964	0	-1,682	13,282
Principal (INEQ)	---	28,712	0	-2,431	26,281
Mackay Shields (FIXD)	---	50,951	-50,419	742	1,274
Western Asset (FIXD)	---	1,250	0	0	1,250
Longfellow (STFI)	0.6	46,652,670	0	257,513	46,910,183
Mackay Shields (STFI)	0.7	47,952,323	50,419	331,870	48,334,612
PACT Cash (CASH)	---	1,591,361	-75,725	3,042	1,518,678
Regions Lockbox (CASH)	---	6,080,159	505,361	0	6,585,520
<b>Total Fund</b>	<b>0.6</b>	<b>102,395,124</b>	<b>429,636</b>	<b>586,698</b>	<b>103,411,458</b>

**TOTAL RETURN COMPARISONS**



Short-Term Fixed Universe



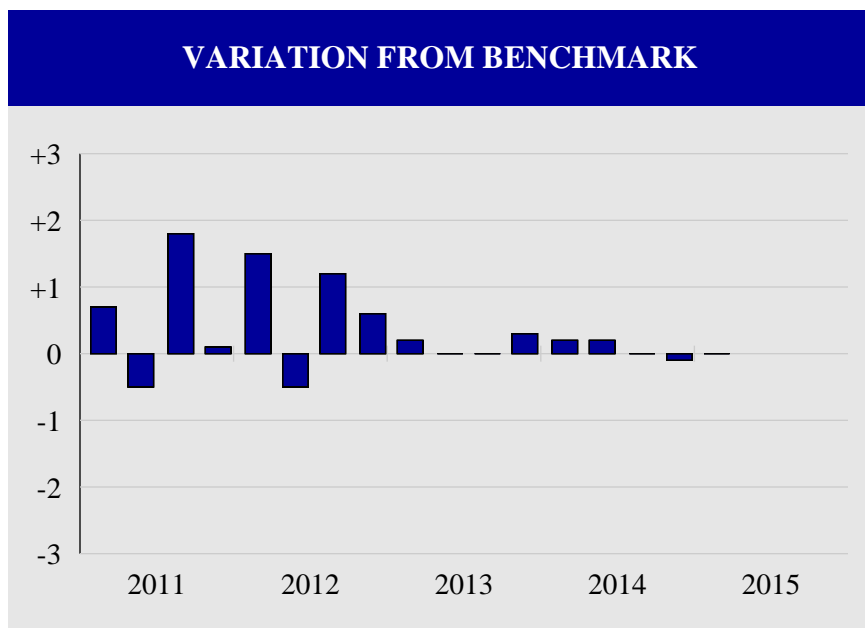
\* Partial year

	QTR	2QTRS	3QTRS	YEAR	-----ANNUALIZED-----	
					3 YRS	5 YRS
RETURN	0.6	0.7	0.7	1.4	2.1	---
(RANK)	(78)	(88)	(87)	(62)	(20)	---
5TH %ILE	1.3	1.8	1.9	2.7	2.9	3.4
25TH %ILE	0.9	1.1	1.2	1.9	1.9	2.5
MEDIAN	0.7	0.9	1.0	1.5	1.4	1.9
75TH %ILE	0.6	0.8	0.8	1.3	1.1	1.6
95TH %ILE	0.4	0.5	0.6	1.0	0.9	1.2
<b>Policy Index</b>	<b>0.6</b>	<b>0.8</b>	<b>0.8</b>	<b>1.3</b>	<b>1.4</b>	<b>2.7</b>

Short-Term Fixed Universe

**TOTAL PORTFOLIO QUARTERLY PERFORMANCE SUMMARY**

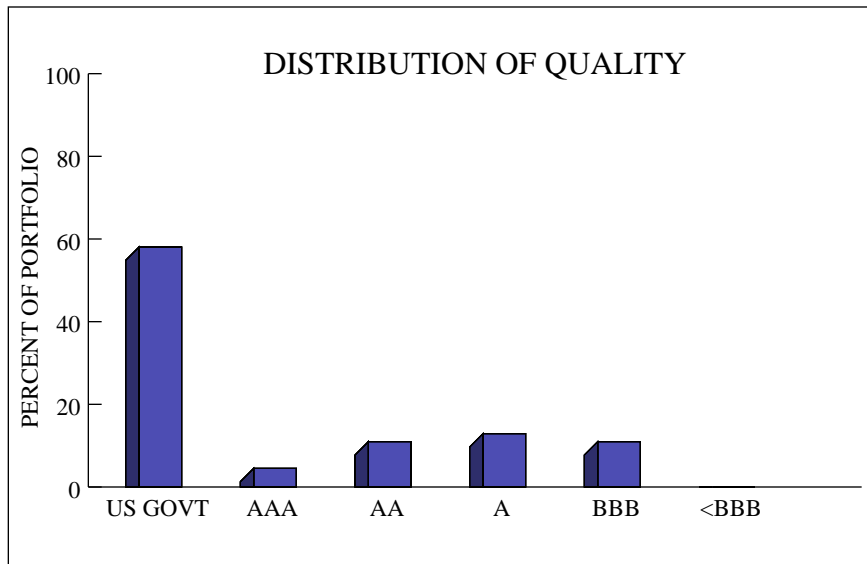
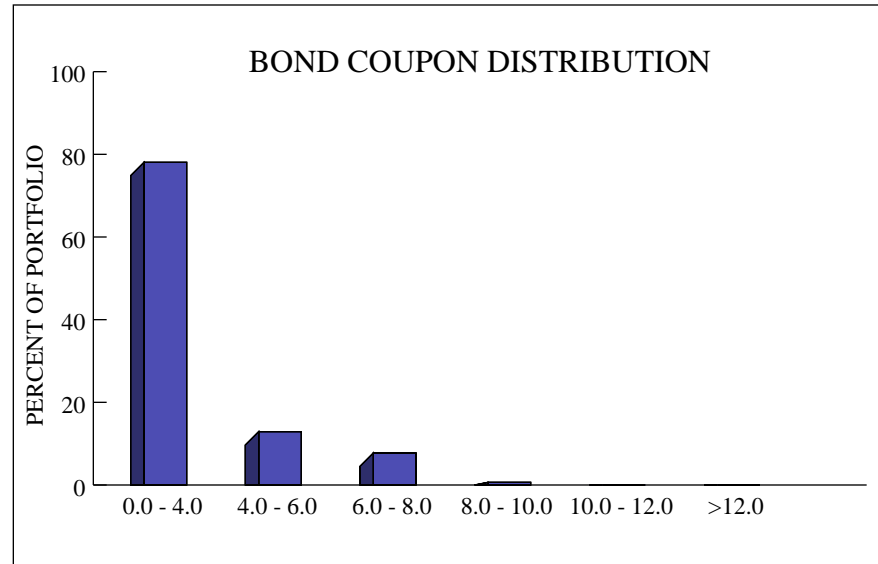
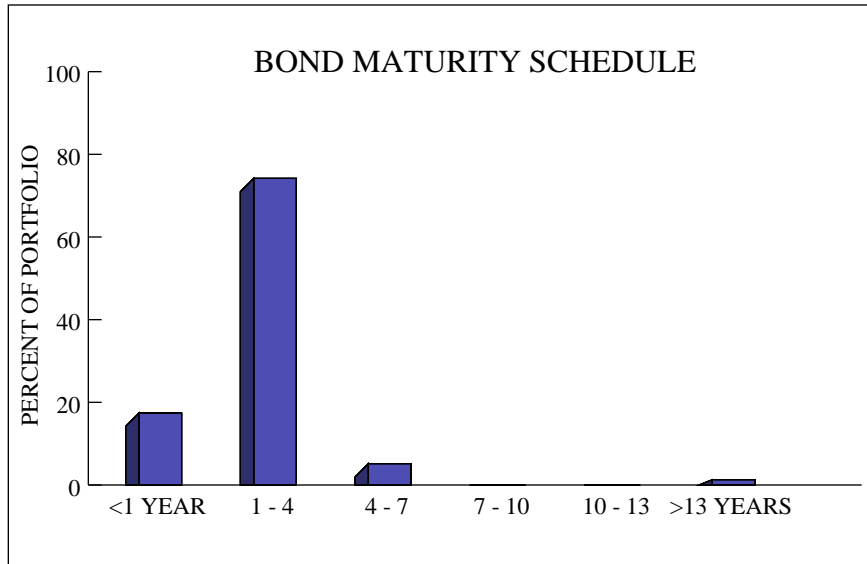
**COMPARATIVE BENCHMARK: POLICY INDEX**



<b>Total Quarters Observed</b>	<b>17</b>
<b>Quarters At or Above the Benchmark</b>	<b>14</b>
<b>Quarters Below the Benchmark</b>	<b>3</b>
<b>Batting Average</b>	<b>.824</b>

<b>RATES OF RETURN</b>						
Date	Portfolio	Bench	Diff	-----Cumulative-----		
				Portfolio	Bench	Diff
3/11	2.1	1.4	0.7	2.1	1.4	0.7
6/11	1.3	1.8	-0.5	3.4	3.2	0.2
9/11	0.6	-1.2	1.8	4.1	2.0	2.1
12/11	0.8	0.7	0.1	4.9	2.7	2.2
3/12	2.0	0.5	1.5	6.9	3.2	3.7
6/12	0.7	1.2	-0.5	7.7	4.4	3.3
9/12	2.4	1.2	1.2	10.3	5.7	4.6
12/12	0.8	0.2	0.6	11.2	5.9	5.3
3/13	0.4	0.2	0.2	11.6	6.2	5.4
6/13	-0.9	-0.9	0.0	10.6	5.2	5.4
9/13	0.5	0.5	0.0	11.2	5.7	5.5
12/13	0.4	0.1	0.3	11.6	5.9	5.7
3/14	0.6	0.4	0.2	12.3	6.3	6.0
6/14	0.7	0.5	0.2	13.1	6.9	6.2
9/14	0.0	0.0	0.0	13.1	6.9	6.2
12/14	0.1	0.2	-0.1	13.2	7.1	6.1
3/15	0.6	0.6	0.0	13.9	7.7	6.2

**BOND CHARACTERISTICS**



	<b>PORTFOLIO</b>	<b>INT GOV/CREDIT</b>
No. of Securities	190	4,979
Duration	1.70	3.94
YTM	1.14	1.49
Average Coupon	2.39	2.54
Avg Maturity / WAL	2.47	4.28
Average Quality	AAA	USG-AAA



## Alabama PACT Longfellow Short Term

Portfolio Value: \$46,910,183

<i>Guidelines</i>	<i>Limit</i>	<i>Portfolio</i>	<i>Compliance</i>
<i>Fixed:</i>			
Total market value invested in one issuer	5.0%	less than 5.0%	Yes
Holdings as a percentage of total issue outstanding	5.0%	less than 5.0%	Yes
Average duration must be within 20% of benc	80-120%	9.1%	Yes
All securities must be investment grade	100.0%	100.0%	Yes
Weighted Average Credit Quality	A	Aa2	Yes
Total market value percentage of MBS, CMBS, and CMO securities	20.0%	13.5%	Yes
ABS Security Limitation	10.0%	8.9%	Yes
Rule 144A security limitation	10.0%	7.6%	Yes
CBO Investments prohibited	0.0%	0.0%	Yes
Investments in Principal or Interest-Only CMOs prohibited	0.0%	0.0%	Yes
Investments in non US dollar denominated sec	0.0%	0.0%	Yes
Bullet Security maximum maturity limit (years)	5	less than 5.25	Yes

## MacKay Shields Short Term

1984

Portfolio Value: \$48,334,612

<i>Guidelines</i>	<i>Limit</i>	<i>Portfolio</i>	<i>Compliance</i>
<i>Fixed:</i>			
Total market value invested in one issuer	5.0%	1.9%	Yes
Holdings as percent of total issue outstanding	5.0%	0.2%	Yes
Average duration must be within 20% of benchmark duration	20.0%		Yes
All securities must be investment grade	100.0%	100.0%	Yes
Weighted Average Credit Quality	A	AA	Yes
Total market value percentage of MBS, CMBS, and CMO securities	20.0%	2.6%	Yes
ABS Security Limitation	10.0%	0.0%	Yes
Rule 144A security limitation	10.0%	3.5%	Yes
CBO Investments prohibited	0.0%	0.0%	Yes
Investments in Principal or Interest-Only CMOs prohibited	0.0%	0.0%	Yes
Investments in Foreign Securities prohibited	0.0%	0.0%	Yes
Bullet Security maximum maturity limit (years)	10	0	Yes

## APPENDIX - MAJOR MARKET INDEX RETURNS

<b>Equity</b>	<b>Style</b>	<b>QTR</b>	<b>FYTD</b>	<b>1 Year</b>	<b>3 years</b>	<b>5 Years</b>
Russell 3000	Broad Equity	1.8	7.1	12.4	16.4	14.7
S&P 500	Large Cap Core	0.9	5.9	12.7	16.1	14.5
Russell 1000	Large Cap Core	1.6	6.5	12.7	16.4	14.7
Russell 1000 Growth	Large Cap Growth	3.8	8.8	16.1	16.3	15.6
Russell 1000 Value	Large Cap Value	-0.7	4.2	9.3	16.4	13.8
Russell 2000	Small Cap	4.3	14.5	8.2	16.3	14.6
Russell 2000 Growth	Small Cap Growth	6.6	17.4	12.1	17.8	16.6
Russell 2000 Value	Small Cap Value	2.0	11.6	4.4	14.8	12.5
MSCI EAFE	Developed Markets	5.0	1.3	-0.5	9.5	6.6
MSCI EAFE Growth	Developed Markets Growth	6.0	3.6	1.5	9.4	7.4
MSCI EAFE Value	Developed Markets Value	4.0	-1.0	-2.4	9.6	5.9
MSCI Emerging Markets	Emerging Markets	2.3	-2.3	0.8	0.7	2.1
MSCI All Country World	Global Equity	2.4	3.0	6.0	11.3	9.6
MSCI All Country World Ex US	Global Equity (ex. US)	3.6	-0.3	-0.6	6.9	5.3
<b>Fixed Income</b>	<b>Style</b>	<b>QTR</b>	<b>FYTD</b>	<b>1 Year</b>	<b>3 years</b>	<b>5 Years</b>
Barclays Aggregate Index	Core Fixed Income	1.6	3.4	5.7	3.1	4.4
Barclays Gov/Credit	Gov/Credit	1.8	3.7	5.9	3.4	4.8
Barclays Capital Gov't Bond	Treasuries	1.6	3.5	5.2	2.3	3.8
Barclays Capital Credit Bond	Corporate Bonds	2.2	4.0	6.7	4.9	6.2
Intermediate Aggregate	Core Intermediate	1.3	2.5	4.3	2.4	3.6
Intermediate Gov/Credit	Gov / Credit Intermediate	1.4	2.3	3.6	2.3	3.5
ML/BoA 1-3 Year Treasury	Short Term Treasuries	0.5	0.7	1.0	0.5	0.9
CSFB High Yield	High Yield Bonds	2.6	1.0	1.4	7.1	8.3
Barclays Global Ex US	International Treasuries	-3.7	-6.7	-9.2	-3.4	-1.1
Citi World Gov't Bond Index	International Fixed Income	-2.5	-4.0	-5.5	-1.6	1.4
Barclays Global Aggregate	International Fixed Income	-1.9	-2.9	-3.7	-0.2	2.3
Barclays Global Aggregate Ex US	International Fixed Income	-4.6	-7.5	-10.1	-2.7	0.7
<b>Alternative Assets</b>	<b>Style</b>	<b>QTR</b>	<b>FYTD</b>	<b>1 Year</b>	<b>3 years</b>	<b>5 Years</b>
MSCI US REIT Index	REITs	4.8	19.8	24.2	14.2	15.9
NCREIF NFI-ODCE Index	Real Estate	3.4	6.8	13.4	12.6	14.5
NCREIF Timber Index	Timber	1.8	7.9	10.6	9.8	6.2
Bloomberg Commodity Index	Commodities	-5.9	-17.3	-27.0	-11.5	-5.7
HFRI FOF Composite	Hedge Funds	2.5	3.5	5.4	5.4	3.5



ALABAMA PACT  
LONGFELLOW - SHORT TERM  
PERFORMANCE REVIEW  
MARCH 2015

## **INVESTMENT RETURN**

On March 31st, 2015, the Alabama PACT's Longfellow Short Term portfolio was valued at \$46,910,183, representing an increase of \$257,513 from the December quarter's ending value of \$46,652,670. Last quarter, the Fund posted no net contributions or withdrawals, while posting \$257,513 in net investment returns. Net investment return was composed of income receipts totaling \$359,047 and \$101,534 in net realized and unrealized capital losses.

For the cumulative period since September 2011, the account has recorded net contributions totaling \$4.5 million, and has recorded net investment gains of \$2.5 million. Since September 2011, if the total account earned a compounded nominal rate of 2.0% it would have been worth \$48.1 million or \$1.2 million more than the actual value as of March 31st, 2015.

## **RELATIVE PERFORMANCE**

During the first quarter, the Longfellow Short Term portfolio gained 0.6%, which was equal to the Barclays 1-3 Year Gov/Credit's return of 0.6% and ranked in the 84th percentile of the Short-Term Fixed universe. Over the trailing year, the portfolio returned 1.4%, which was 0.3% above the benchmark's 1.1% performance, ranking in the 70th percentile. Since September 2011, the account returned 1.4% on an annualized basis and ranked in the 60th percentile. For comparison, the Barclays 1-3 Year Gov/Credit returned an annualized 1.0% over the same period.

## **BOND ANALYSIS**

At the end of the quarter, approximately 60% of the total bond portfolio was comprised of USG quality securities. Corporate securities, rated AAA through BBB made up the remainder, giving the portfolio an overall average quality rating of AAA. The average maturity of the portfolio was 2.67 years, longer than the Barclays 1-3 Year Gov/Credit Index's 1.97-year maturity. The average coupon was 2.99%.

**EXECUTIVE SUMMARY**

**PERFORMANCE SUMMARY**

		-----Annualized-----			
	Quarter	FYTD	1 Year	3 Years	Since 09/11
<b>Total Gross/Fees</b>	0.6	0.8	1.4	1.3	1.4
<i>SHORT-TERM FIXED RANK</i>	(84)	(64)	(70)	(63)	(60)
<b>Total Net/Fees</b>	0.5	0.7	1.2	1.1	1.2
1-3 YR GOV/CRED	0.6	0.8	1.1	1.0	1.0
<b>Fixed Income</b>	0.6	0.8	1.4	1.3	1.4
<i>SHORT-TERM FIXED RANK</i>	(84)	(64)	(70)	(63)	(60)
1-3 YR GOV/CRED	0.6	0.8	1.1	1.0	1.0

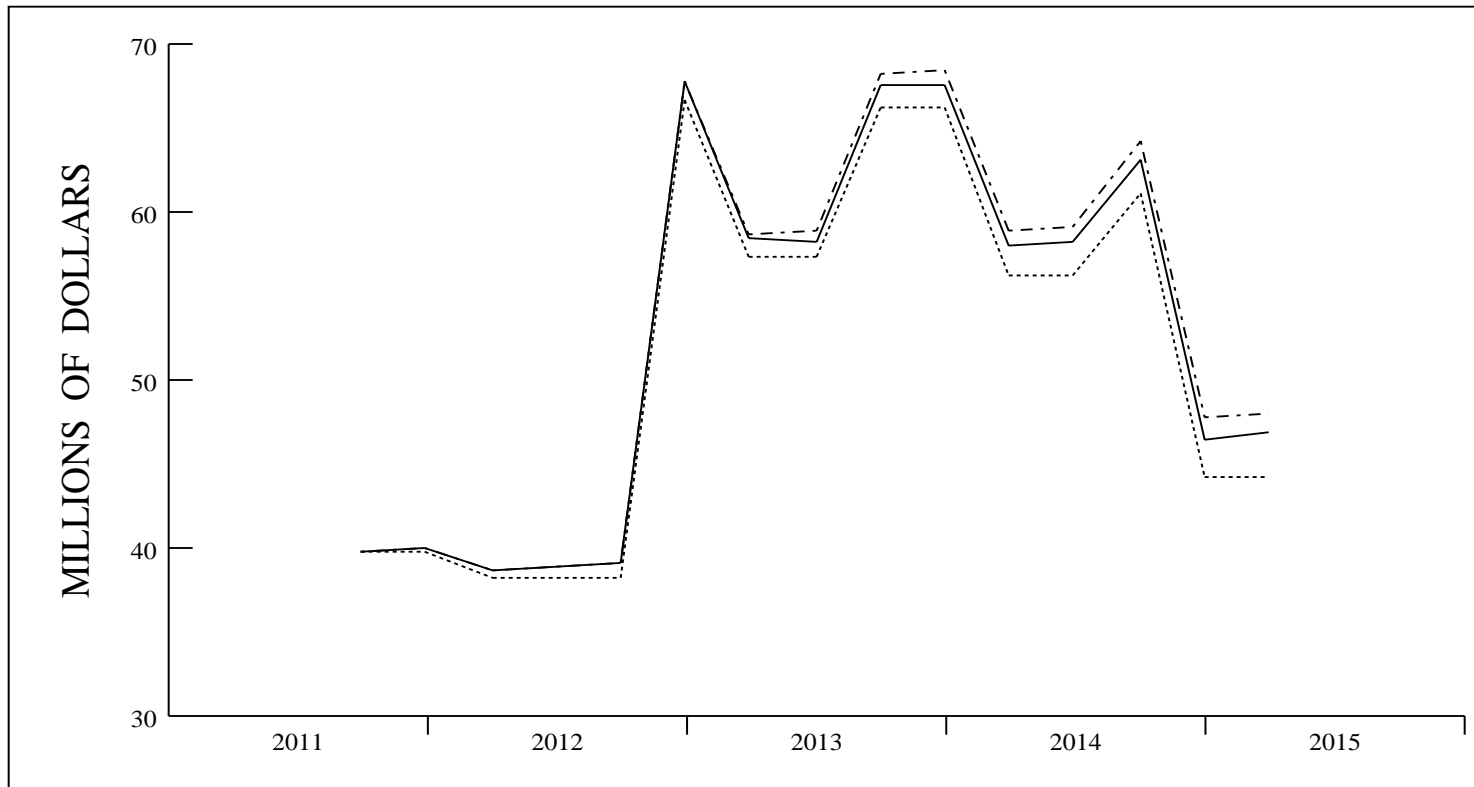
**ASSET ALLOCATION**

Fixed Income	100.0%	\$ 46,910,183
Total Portfolio	100.0%	\$ 46,910,183

**INVESTMENT RETURN**

Market Value 12/2014	\$ 46,652,670
Contribs / Withdrawals	0
Income	359,047
Capital Gains / Losses	-101,534
Market Value 3/2015	\$ 46,910,183

**INVESTMENT GROWTH**

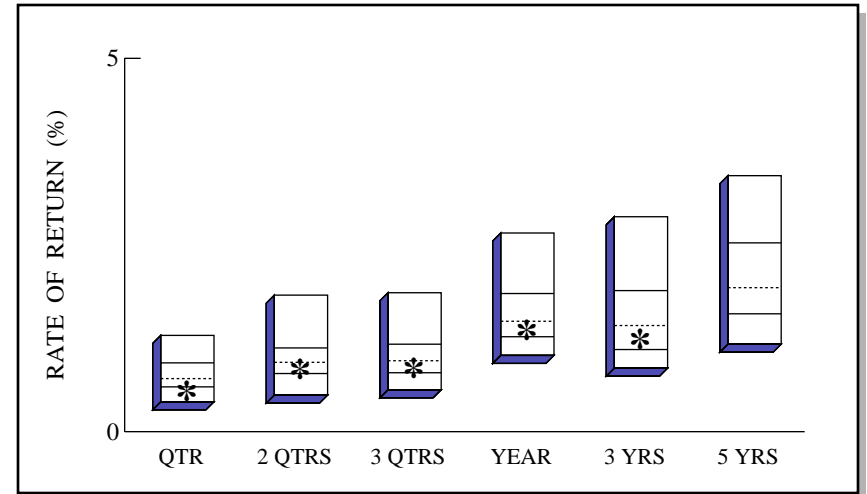
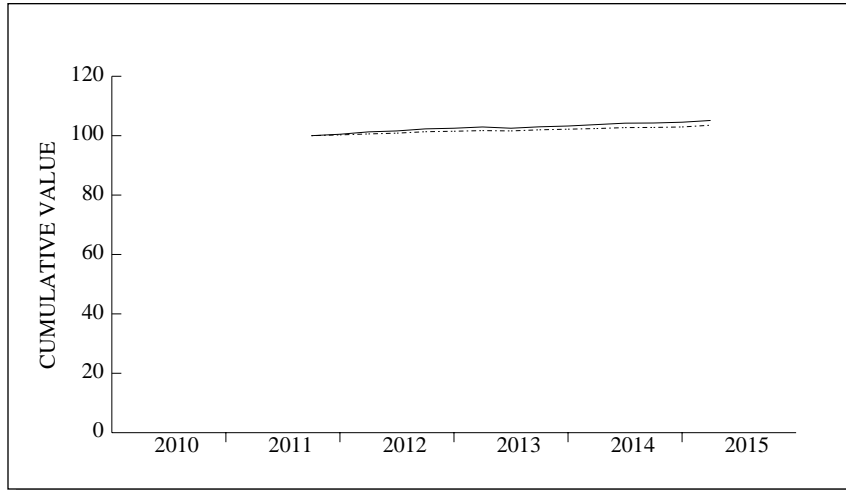


— ACTUAL RETURN  
 - - - 2.0%  
 . . . 0.0%

VALUE ASSUMING  
 2.0% RETURN  
 \$ 48,142,854

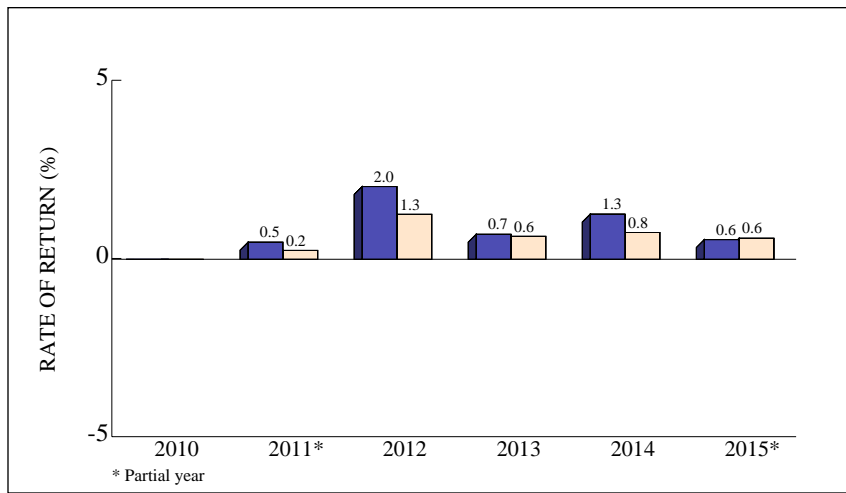
	LAST QUARTER	PERIOD 9/11 - 3/15
BEGINNING VALUE	\$ 46,652,670	\$ 39,896,277
NET CONTRIBUTIONS	0	4,548,042
INVESTMENT RETURN	257,513	2,465,863
ENDING VALUE	\$ 46,910,183	\$ 46,910,183
INCOME	359,047	5,625,853
CAPITAL GAINS (LOSSES)	-101,534	-3,159,990
INVESTMENT RETURN	257,513	2,465,863

**TOTAL RETURN COMPARISONS**



Short-Term Fixed Universe

	—	PORTFOLIO
	- - - -	1-3 YR GOV/CRED



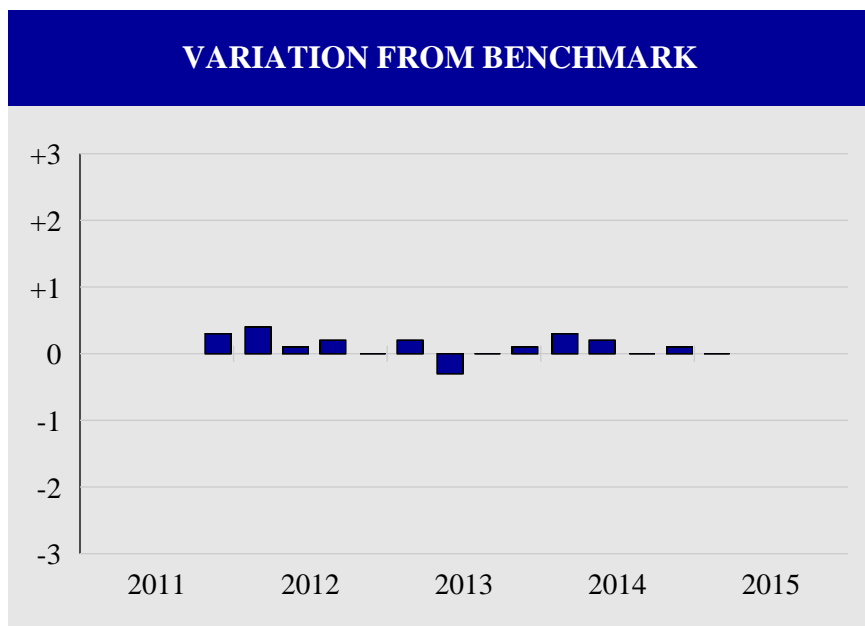
	QTR	2QTRS	3QTRS	YEAR	-----ANNUALIZED-----	
					3 YRS	5 YRS
RETURN	0.6	0.8	0.9	1.4	1.3	---
(RANK)	(84)	(64)	(66)	(70)	(63)	---
5TH %ILE	1.3	1.8	1.9	2.7	2.9	3.4
25TH %ILE	0.9	1.1	1.2	1.9	1.9	2.5
MEDIAN	0.7	0.9	1.0	1.5	1.4	1.9
75TH %ILE	0.6	0.8	0.8	1.3	1.1	1.6
95TH %ILE	0.4	0.5	0.6	1.0	0.9	1.2
<b>1-3 Yr G/C</b>	<b>0.6</b>	<b>0.8</b>	<b>0.8</b>	<b>1.1</b>	<b>1.0</b>	<b>1.3</b>

Short-Term Fixed Universe



**TOTAL PORTFOLIO QUARTERLY PERFORMANCE SUMMARY**

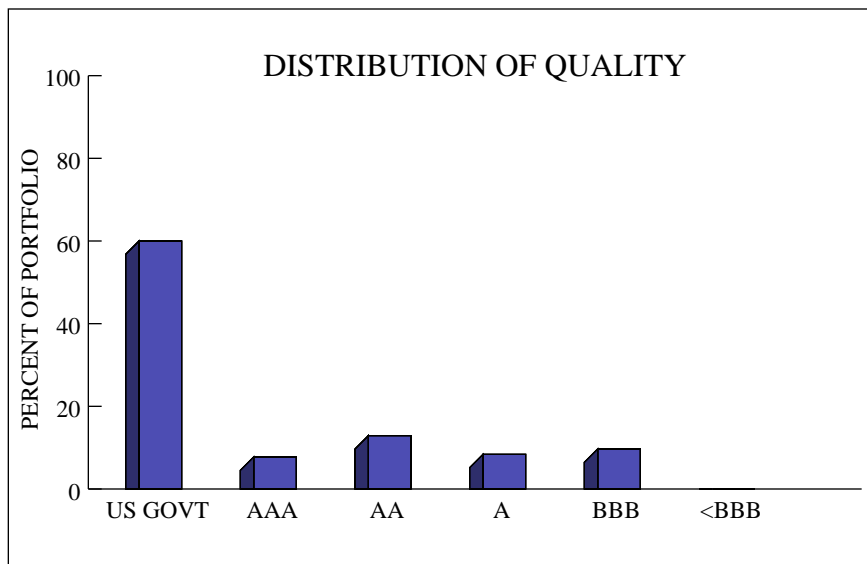
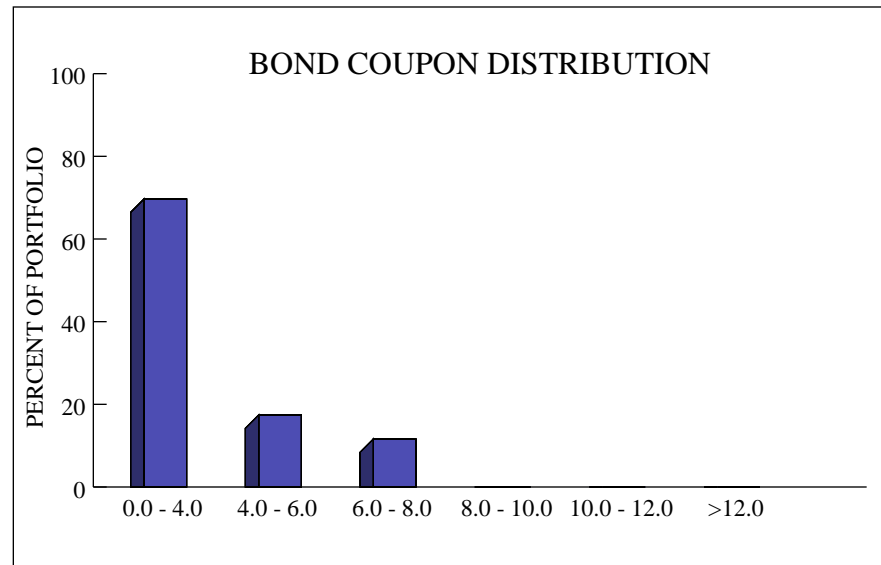
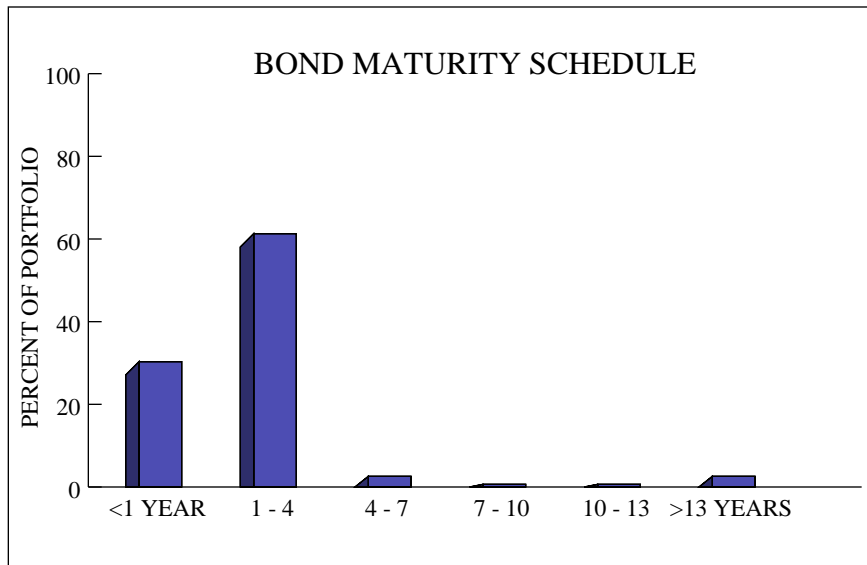
**COMPARATIVE BENCHMARK: BARCLAYS 1-3 YEAR GOV/CREDIT**



<b>Total Quarters Observed</b>	<b>14</b>
<b>Quarters At or Above the Benchmark</b>	<b>13</b>
<b>Quarters Below the Benchmark</b>	<b>1</b>
<b>Batting Average</b>	<b>.929</b>

RATES OF RETURN						
Date	Portfolio	Bench	Diff	-----Cumulative-----		
				Portfolio	Bench	Diff
12/11	0.5	0.2	0.3	0.5	0.2	0.3
3/12	0.8	0.4	0.4	1.3	0.6	0.7
6/12	0.3	0.2	0.1	1.6	0.8	0.8
9/12	0.7	0.5	0.2	2.3	1.4	0.9
12/12	0.2	0.2	0.0	2.5	1.5	1.0
3/13	0.4	0.2	0.2	2.9	1.7	1.2
6/13	-0.4	-0.1	-0.3	2.5	1.6	0.9
9/13	0.4	0.4	0.0	3.0	2.0	1.0
12/13	0.3	0.2	0.1	3.2	2.2	1.0
3/14	0.5	0.2	0.3	3.7	2.4	1.3
6/14	0.5	0.3	0.2	4.2	2.7	1.5
9/14	0.0	0.0	0.0	4.2	2.8	1.4
12/14	0.3	0.2	0.1	4.6	2.9	1.7
3/15	0.6	0.6	0.0	5.1	3.5	1.6

**BOND CHARACTERISTICS**



	<b>PORTFOLIO</b>	<b>BC 1-3 GC</b>
No. of Securities	112	1,656
Duration	1.55	1.91
YTM	1.45	0.79
Average Coupon	2.99	1.99
Avg Maturity / WAL	2.67	1.97
Average Quality	AAA	USG-AAA

ALABAMA PACT  
MACKAY SHIELDS - SHORT TERM FUND  
PERFORMANCE REVIEW  
MARCH 2015

## **INVESTMENT RETURN**

As of March 31st, 2015, the Alabama PACT's Mackay Shields Short Term Fund portfolio was valued at \$48,334,612, which represented an increase of \$382,289 from the December quarter's ending value of \$47,952,323. Last quarter, the portfolio recorded total net contributions equaling \$50,419 in addition to net investment gains of \$331,870. Income receipts totaling \$224,892 and net realized and unrealized capital gains of \$106,978 combined to produce the portfolio's net investment return figure.

For the cumulative period since September 2011, the portfolio has posted net withdrawals totaling \$4.5 million and \$3.3 million in net investment gains. For the period since September 2011, if the total portfolio earned a compounded nominal rate of 2.0% it would have been valued at \$49.0 million or \$618,791 more than its actual value as of March 31st, 2015.

## **RELATIVE PERFORMANCE**

During the first quarter, the Mackay Shields Short Term Fund portfolio gained 0.7%, which was 0.1% greater than the Barclays 1-3 Year Gov/Credit's return of 0.6% and ranked in the 57th percentile of the Short-Term Fixed universe. Over the trailing twelve-month period, the portfolio returned 1.4%, which was 0.3% greater than the benchmark's 1.1% performance, and ranked in the 68th percentile. Since September 2011, the portfolio returned 1.8% per annum and ranked in the 36th percentile. For comparison, the Barclays 1-3 Year Gov/Credit returned an annualized 1.0% over the same time frame..

## **BOND ANALYSIS**

At the end of the quarter, USG rated securities comprised approximately 55% of the bond portfolio, while corporate securities, rated AAA through BBB, made up the remainder, giving the bond portfolio an overall average quality rating of AAA-AA. The average maturity of the portfolio was 2.27 years, longer than the Barclays 1-3 Year Gov/Credit Index's 1.97-year maturity. The average coupon was 1.82%.

**EXECUTIVE SUMMARY**

**PERFORMANCE SUMMARY**

				-----Annualized-----	
	Quarter	FYTD	1 Year	3 Years	Since 09/11
<b>Total Gross/Fees</b>	0.7	0.9	1.4	1.4	1.8
<i>SHORT-TERM FIXED RANK</i>	(57)	(54)	(68)	(53)	(36)
<b>Total Net/Fees</b>	0.7	0.8	1.2	1.3	1.7
1-3 YR GOV/CRED	0.6	0.8	1.1	1.0	1.0
<b>Fixed Income</b>	0.7	0.9	1.4	1.4	1.8
<i>SHORT-TERM FIXED RANK</i>	(57)	(54)	(68)	(53)	(36)
1-3 YR GOV/CRED	0.6	0.8	1.1	1.0	1.0

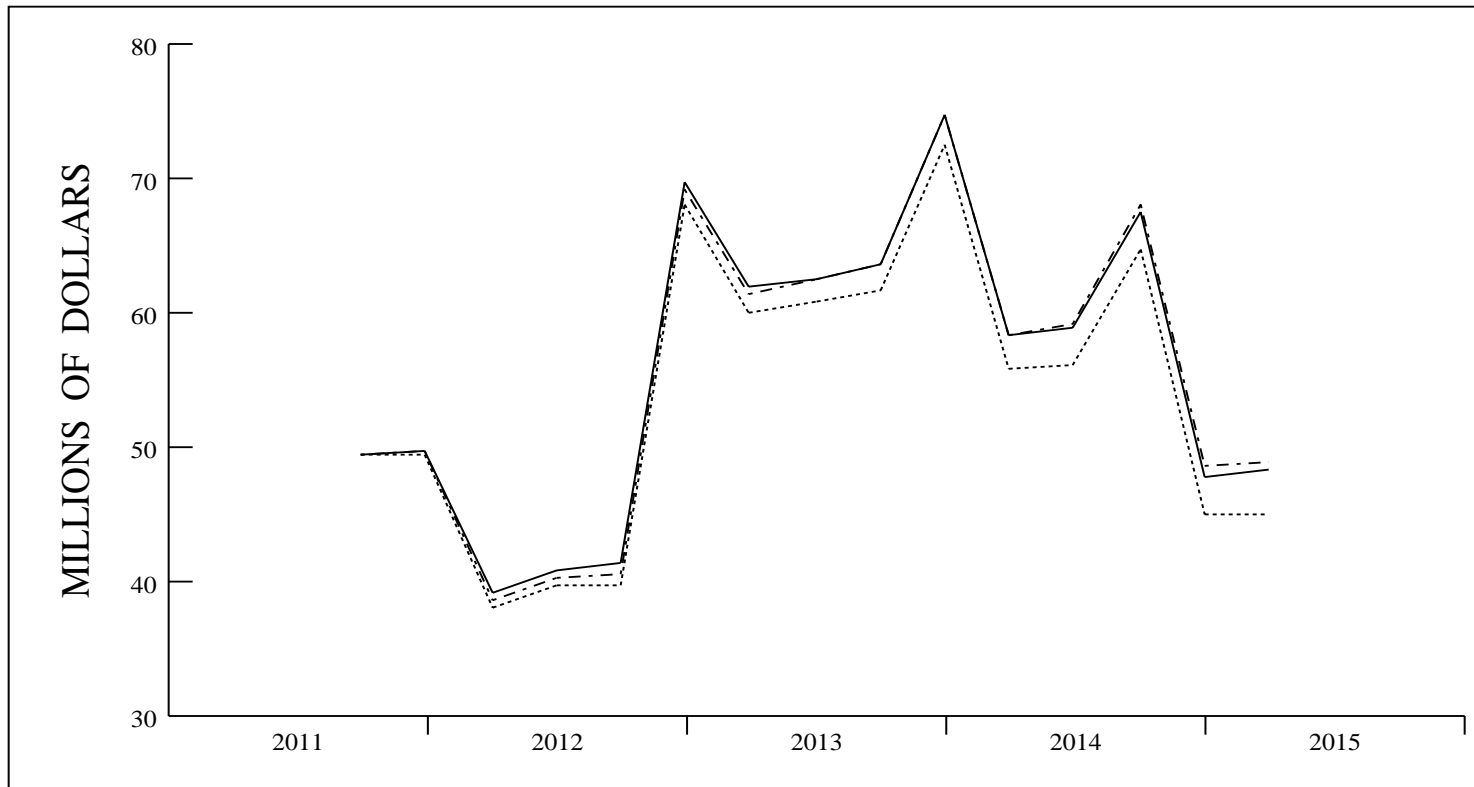
**ASSET ALLOCATION**

Fixed Income	100.0%	\$ 48,334,612
Total Portfolio	100.0%	\$ 48,334,612

**INVESTMENT RETURN**

Market Value 12/2014	\$ 47,952,323
Contribs / Withdrawals	50,419
Income	224,892
Capital Gains / Losses	106,978
Market Value 3/2015	\$ 48,334,612

**INVESTMENT GROWTH**

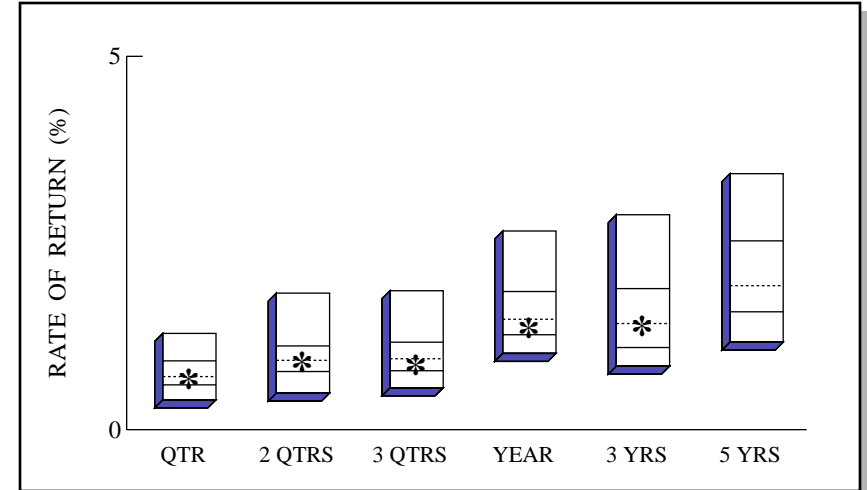
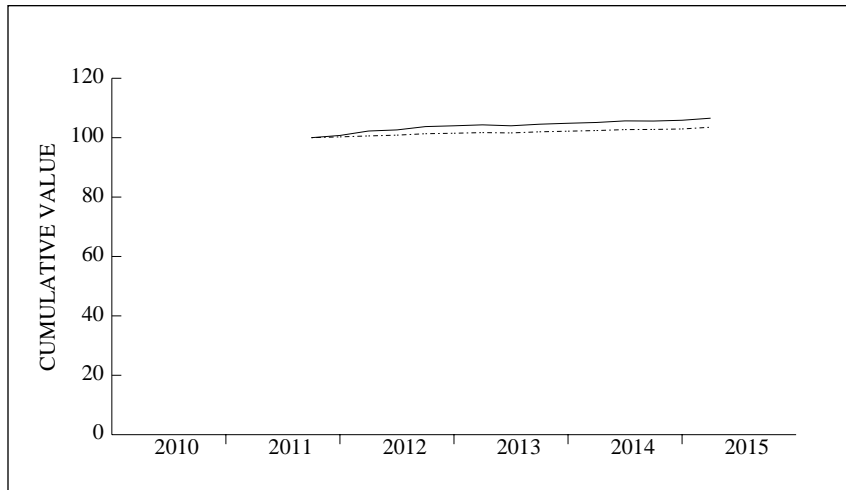


— ACTUAL RETURN  
 - - - 2.0%  
 . . . 0.0%

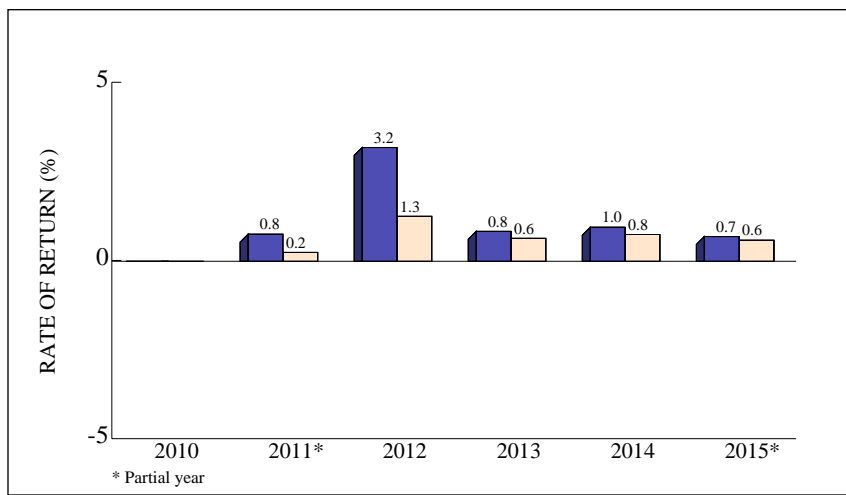
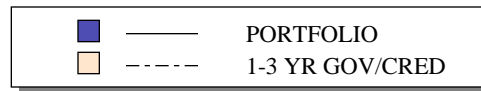
VALUE ASSUMING  
 2.0% RETURN  
 \$ 48,953,403

	LAST QUARTER	PERIOD 9/11 - 3/15
BEGINNING VALUE	\$ 47,952,323	\$ 49,587,366
NET CONTRIBUTIONS	50,419	- 4,507,762
<u>INVESTMENT RETURN</u>	<u>331,870</u>	<u>3,255,006</u>
ENDING VALUE	\$ 48,334,612	\$ 48,334,612
INCOME	224,892	4,897,964
CAPITAL GAINS (LOSSES)	<u>106,978</u>	<u>- 1,642,958</u>
INVESTMENT RETURN	331,870	3,255,006

**TOTAL RETURN COMPARISONS**



Short-Term Fixed Universe



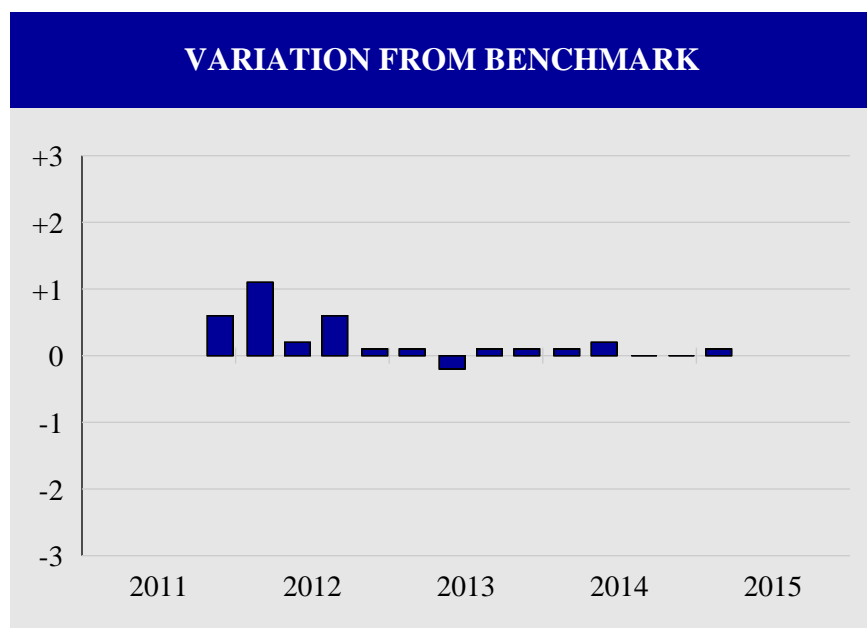
\* Partial year

	QTR	2QTRS	3QTRS	YEAR	-----ANNUALIZED-----	
					3 YRS	5 YRS
RETURN	0.7	0.9	0.9	1.4	1.4	---
(RANK)	(57)	(54)	(64)	(68)	(53)	---
5TH %ILE	1.3	1.8	1.9	2.7	2.9	3.4
25TH %ILE	0.9	1.1	1.2	1.9	1.9	2.5
MEDIAN	0.7	0.9	1.0	1.5	1.4	1.9
75TH %ILE	0.6	0.8	0.8	1.3	1.1	1.6
95TH %ILE	0.4	0.5	0.6	1.0	0.9	1.2
<b>1-3 Yr G/C</b>	<b>0.6</b>	<b>0.8</b>	<b>0.8</b>	<b>1.1</b>	<b>1.0</b>	<b>1.3</b>

Short-Term Fixed Universe

**TOTAL PORTFOLIO QUARTERLY PERFORMANCE SUMMARY**

**COMPARATIVE BENCHMARK: BARCLAYS 1-3 YEAR GOV/CREDIT**

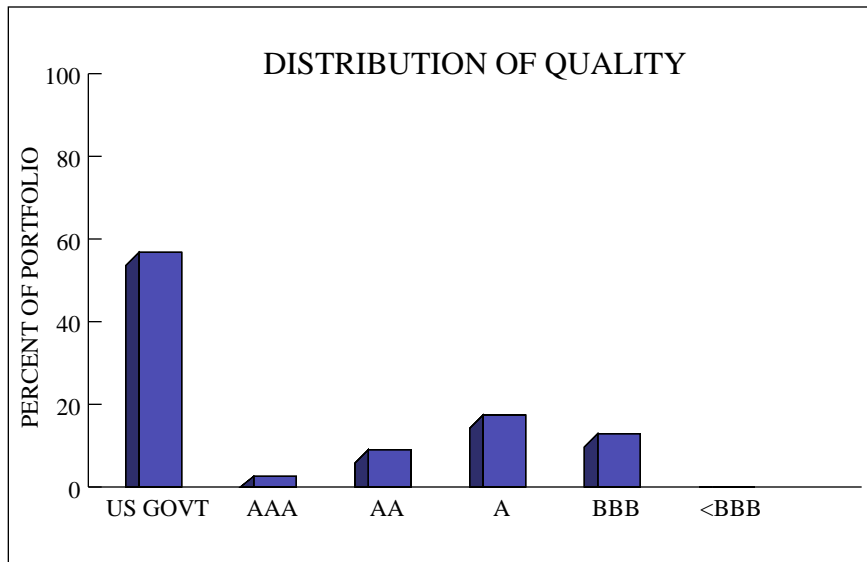
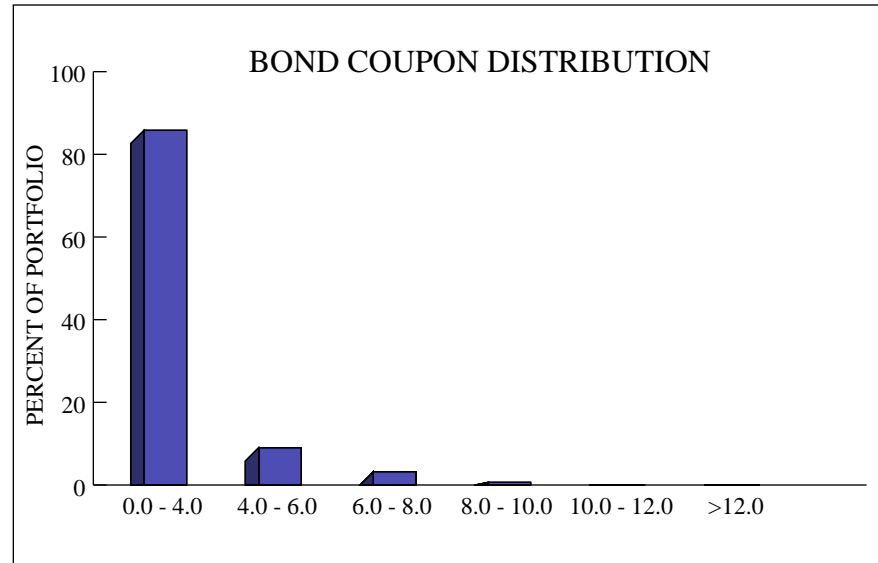
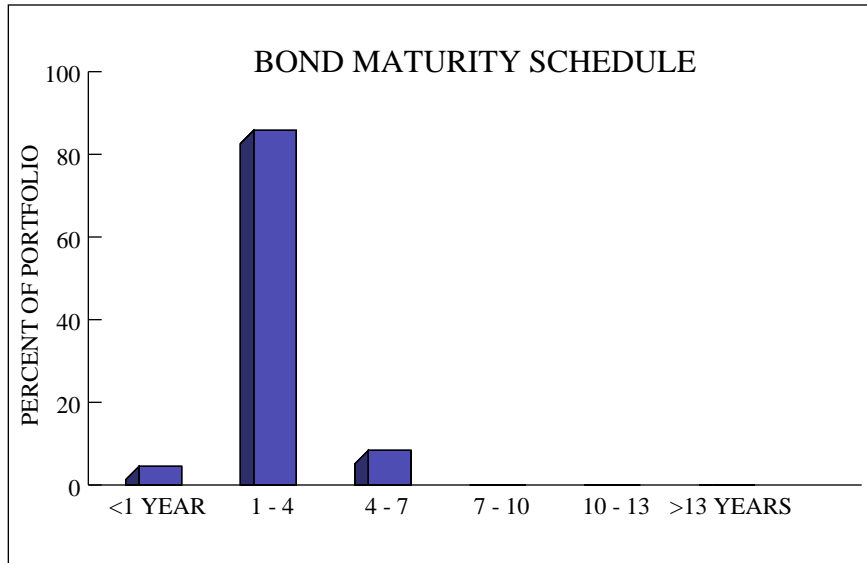


<b>Total Quarters Observed</b>	<b>14</b>
<b>Quarters At or Above the Benchmark</b>	<b>13</b>
<b>Quarters Below the Benchmark</b>	<b>1</b>
<b>Batting Average</b>	<b>.929</b>

RATES OF RETURN						
Date	Portfolio	Bench	Diff	-----Cumulative-----		
				Portfolio	Bench	Diff
12/11	0.8	0.2	0.6	0.8	0.2	0.6
3/12	1.5	0.4	1.1	2.2	0.6	1.6
6/12	0.4	0.2	0.2	2.6	0.8	1.8
9/12	1.1	0.5	0.6	3.7	1.4	2.3
12/12	0.3	0.2	0.1	4.0	1.5	2.5
3/13	0.3	0.2	0.1	4.3	1.7	2.6
6/13	-0.3	-0.1	-0.2	4.0	1.6	2.4
9/13	0.5	0.4	0.1	4.5	2.0	2.5
12/13	0.3	0.2	0.1	4.8	2.2	2.6
3/14	0.3	0.2	0.1	5.1	2.4	2.7
6/14	0.5	0.3	0.2	5.7	2.7	3.0
9/14	0.0	0.0	0.0	5.6	2.8	2.8
12/14	0.2	0.2	0.0	5.8	2.9	2.9
3/15	0.7	0.6	0.1	6.6	3.5	3.1



**BOND CHARACTERISTICS**



	<b>PORTFOLIO</b>	<b>BC 1-3 GC</b>
No. of Securities	78	1,656
Duration	1.83	1.91
YTM	0.86	0.79
Average Coupon	1.82	1.99
Avg Maturity / WAL	2.27	1.97
Average Quality	AAA-AA	USG-AAA