

Regions Institutional Investment Management

State of Alabama Treasurer's Office

Prepaid Affordable College Tuition (PACT) Program

As of June 30, 2020

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Bond Portfolio Review

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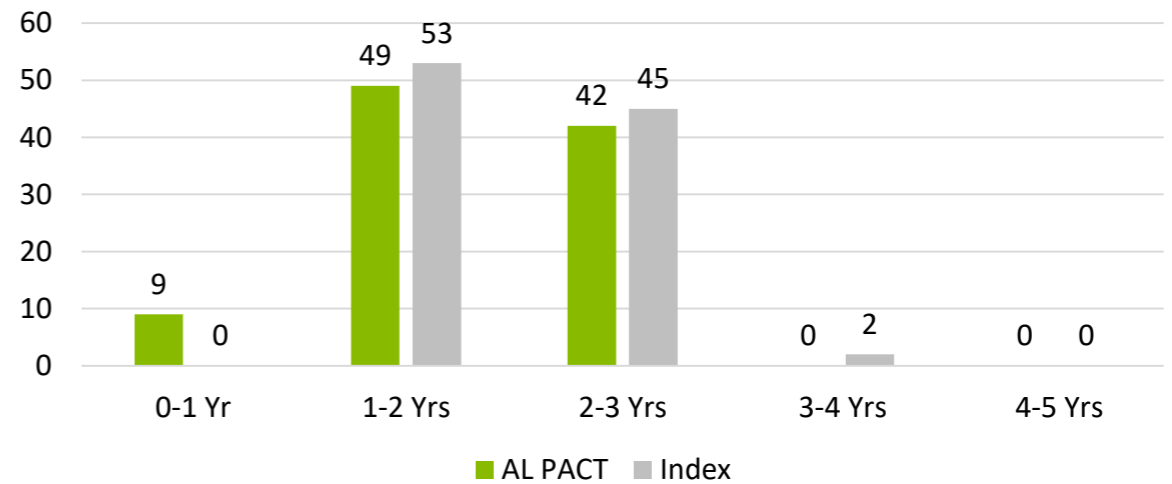
State of Alabama Treasurer's Office – PACT Program

Fixed Income Portfolio Characteristics as of 6.30.2020

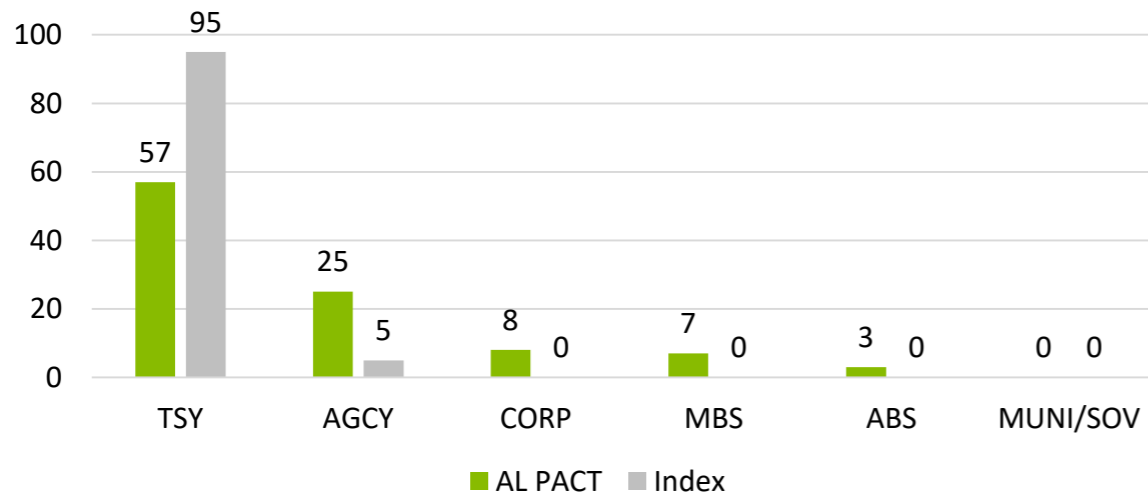
Portfolio Characteristics

	AL PACT	Index
Yield to Maturity	0.27%	0.19%
Average Coupon	1.86%	1.73%
Effective Duration	1.54 years	1.92 years
Average Life	1.75 years	1.97 years
Average Quality	Aaa	Aaa

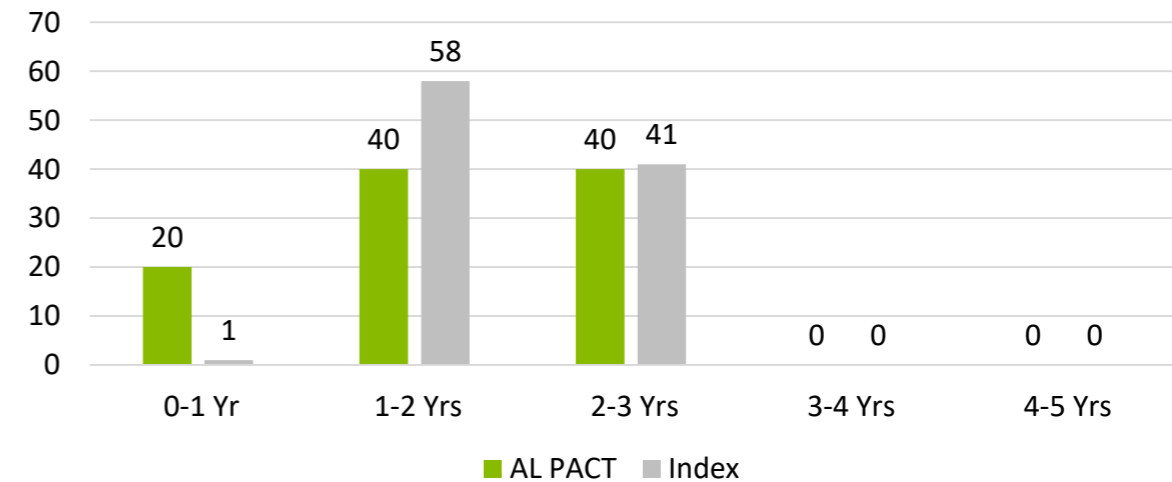
Maturity vs. Index



Sector vs. Index



Duration vs. Index



Source: BondEdge & Barclays Capital
 Index: Bloomberg Barclays 1-3 Year US Govt Index
 The information presented above is supplemental to the fully compliant GIPS® performance presentation.

*** Market Value for Fixed Income Portfolio: \$78.6 million ***



State of Alabama Treasurer's Office – PACT Program

Performance as of 6.30.2020

	Qtr	YTD	1-Yr	3 Years *	Inception *
Consolidated Portfolio	0.50%	2.63%	3.78%	2.68%	2.32%
Money Market Fund	0.02%	0.32%	1.36%	1.55%	1.07%
Fixed Income Portfolio	0.56%	2.86%	4.03%	2.91%	2.50%
1-3 YR Govt Only	0.26%	2.99%	4.12%	2.70%	2.10%
<i>Excess Return</i>	<i>0.30%</i>	<i>-0.13%</i>	<i>-0.09%</i>	<i>0.21%</i>	<i>0.40%</i>

Source: SEI for client returns; Bloomberg Barclays for index returns

Index: Bloomberg Barclays 1-3 Year US Govt Index

Returns are net of fees. Past performance does not guarantee future returns. *Figures for periods greater than one year are annualized.

Inception Date: 12/31/2015

State of Alabama Treasurer's Office – PACT Program

Allocation Detail as of 6.30.2020

INVESTMENT RETURN SUMMARY - QUARTER ENDING JUNE 30, 2020

Name	Current Quarter Total Return	Prior Quarter Market Value	Net Cashflow	Investment Return	Current Quarter Market Value *
Fixed Income	0.56%	\$79,344,161	\$0	\$395,876	\$79,740,037
Money Market Mutual Fund	0.02%	10,056,111	0	7,360	\$10,063,470
Demand Deposit	0.00%	600,554	194,961	0	\$795,515
Total Portfolio	0.50%	\$90,000,825	\$194,961	\$403,236	\$90,599,022

* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$12,809,940.38 that was in the Treasury Account on June 30, 2020.

MANAGER ALLOCATION SUMMARY - QUARTER ENDING JUNE 30, 2020

Prior Quarter Market Value	%	Fund Name	Style	Current Quarter Market Value *	%
\$0	0%	Residual	(CASH)	-	0%
\$79,344,161	88%	Fixed Income	(STFX)	79,740,037	88%
\$10,056,111	11%	Money Market Mutual Fund	(CASH)	10,063,470	11%
\$600,554	1%	Demand Deposit	(CASH)	795,515	1%
\$90,000,825	100%		(TOTL)	90,599,022	100%

* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$12,809,940.38 that was in the Treasury Account on June 30, 2020.

Market Updates

- Market Returns
- Economic Update
- Fixed Income Markets

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Market Returns

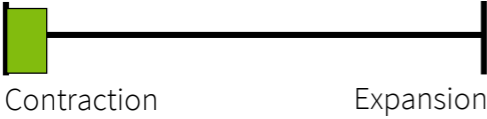
	YTD As of 6/30/20	Trailing 3 Months 6/30/20	2019	2018	2017	2016	2015	2014
Equities								
S&P 500 Index (Large Cap Stocks)	-3.08%	20.54%	31.49%	-4.38%	21.83%	11.96%	1.38%	13.69%
<i>S&P 500 (Large Cap Growth)</i>	7.93%	26.23%	31.13%	-0.01%	27.44%	6.89%	5.52%	14.89%
<i>S&P 500 (Large Cap Value)</i>	-15.52%	13.15%	31.93%	-8.95%	15.36%	17.40%	-3.13%	12.36%
Russell 2500 Index (Small to Mid Cap Stocks)	-11.05%	26.56%	27.77%	-10.00%	16.81%	17.59%	-2.90%	7.07%
<i>Russell Mid Cap TR USD</i>	-9.13%	24.61%	30.54%	-9.06%	18.52%	13.80%	-2.44%	13.22%
<i>Russell 2000 Index (Small Cap Stocks)</i>	-12.98%	25.42%	25.52%	-11.01%	14.65%	21.31%	-4.41%	4.89%
MSCI ACWI Ex-US (Foreign Stocks, Net Return)	-11.00%	16.12%	21.51%	-14.20%	27.19%	4.50%	-5.66%	-3.87%
<i>MSCI EAFE Index (Foreign Stocks, Net Return)</i>	-11.34%	14.88%	22.01%	-13.79%	25.03%	1.00%	-0.81%	-4.90%
<i>MSCI EM (Foreign Stocks, Net Return)</i>	-9.78%	18.08%	18.42%	-14.58%	37.28%	11.19%	-14.92%	-2.19%
Fixed Income								
Barclays US Agg Bond TR USD	6.14%	2.90%	8.72%	0.01%	3.54%	2.65%	0.55%	5.97%
BofA Merrill Lynch Muni 1-12 YR (Muni Bonds)	1.98%	2.64%	5.64%	1.62%	3.21%	0.02%	2.34%	4.27%
Barclays Global Agg Ex USD TR	0.61%	3.38%	5.09%	-2.15%	10.51%	1.49%	-6.02%	-3.08%
Barclays High Yield Corp TR USD	-3.80%	10.18%	14.32%	-2.08%	7.50%	17.13%	-4.47%	2.45%
Barclays US Treasury US TIPS	6.01%	4.24%	8.43%	-1.26%	3.01%	4.68%	-1.44%	3.64%
FTSE Treasury Bill 3 Month (Money Market)	0.52%	0.14%	2.25%	1.86%	0.86%	0.33%	0.05%	0.03%
Diversified Strategies								
HFRX Global Hedge Index	-1.09%	6.19%	8.62%	-6.72%	5.98%	2.50%	-3.64%	-0.58%

Source: Morningstar

Please see important disclosure at the end of this presentation

Economy

Overview & Outlook

Economy		<p><u>Risks:</u></p> <ul style="list-style-type: none"> ▪The COVID-19 virus and efforts to stem its spread have taken a significant toll on the U.S. economy and the global economy. Though the brief but violent recession associated with the COVID-19 virus seems to have run its course, it is far too soon to fully assess the economic costs, and there is little clarity around what the recovery will look like. 	<p><u>Opportunities:</u></p> <ul style="list-style-type: none"> ▪Currently we are leaving the Opportunities section blank and will reassess next month
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Moving Forward On Still-Shaky Ground

Increase In COVID-19 Cases Raises Questions

- On July 30, the BEA will release their initial estimate of Q2 GDP. Most analysts, us included, expect that real GDP contracted at an annualized rate of between 30 and 40 percent in Q2. Still, there were numerous signs that the economy had bottomed by the end of April, and much of the May data surprised to the upside. Since late-June, however, there has been a significant increase in the number of positive COVID-19 tests, which has raised questions as to how robust the economic recovery will be over 2H 2020 and into 2021.
- The ISM Manufacturing Index rose to 52.6 percent in June, and the ISM Non-Manufacturing Index rose to 57.1 percent.¹ In each case, there was a sharp increase in new orders, which in normal times would be an indicator of further growth in output and employment. What is unclear at present, however, is whether the growth in new orders in June simply reflects firms catching up as economic activity came back online, or whether it reflects the start of a sustained period of growth, even if at a modest pace. This will make the ISM's indexes even more important to watch in the coming months.
- Total personal income fell by 4.2 percent in May; despite a rebound in labor earnings, sharp decline in transfer payments dragged total personal income lower. Personal consumption expenditures – a measure of total consumer spending – rose by 8.2 percent in May. While consumer spending on goods has recaptured much of the ground lost in March and April, consumer spending on services remains far below “pre-virus” levels.² The scheduled expiration of the \$600 in weekly supplemental Unemployment Insurance benefits by the end of July poses a downside risk to consumer spending.

Source: 1)) Institute for Supply Management (ISM); 2) Bureau of Economic Analysis (BEA); 3) Bureau of Labor Statistics (BLS)

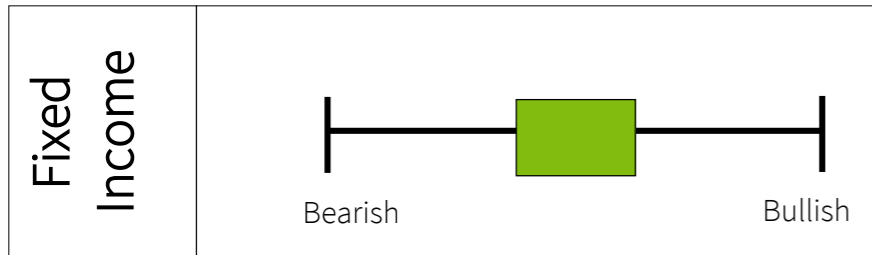
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Labor Market Improving, But Still Fragile

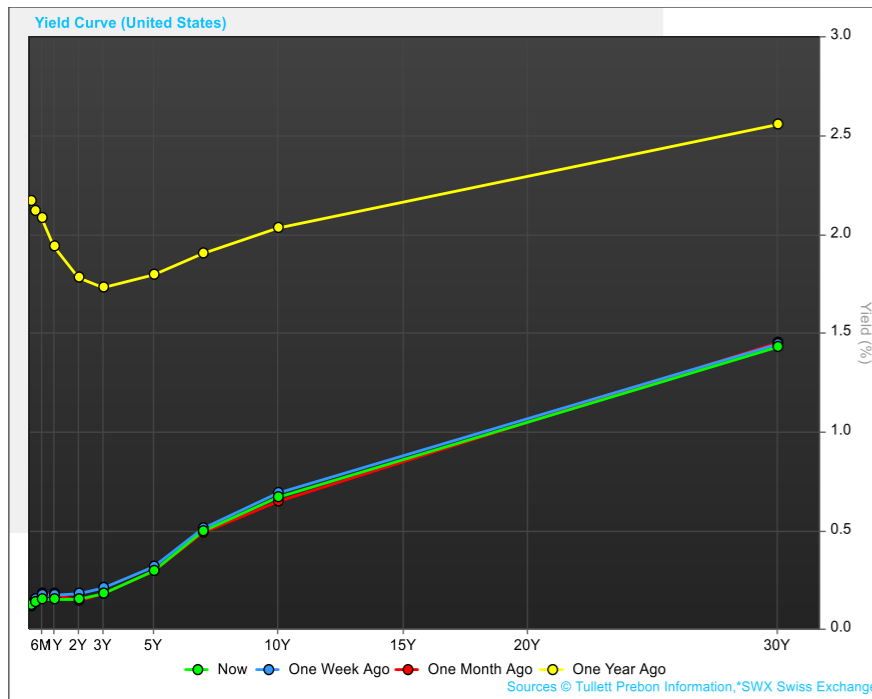
- Total nonfarm employment rose by 4.800 million jobs in June which, with an upward revision to the initial estimate for May, means the economy added back 7.499 million jobs over the two-month span.³ While this is a nice start in making up the 22.160 million jobs lost over March and April, there are reasons for concern.
- With the exception of mining/natural resources each of the broad private sector industry groups added jobs over the past two months, but job gains have been highly concentrated amongst retail trade, education and health services, and leisure and hospitality services, the latter of which accounted for 46.6 percent of all nonfarm jobs added over the past two months. The vast majority of these jobs came from hiring (re-hiring) amongst restaurants and bars, the segment most at risk from the recent upturn in COVID-19 cases, and the segment in which the Paycheck Protection Program (PPP) has likely had the biggest impact on measured job growth over the past two months.
- The unemployment rate fell to 11.1 percent in June, and BLS notes that while the reported jobless rate was again understated in June, the magnitude of the understatement was far less than was the case in each of the prior three months.³
- From the start of the pandemic, it has been clear that the path of the U.S. economy was contingent on the public health outcome, which itself was highly uncertain. Anyone who had lost sight of that point has been reminded, and rather rudely, over the past few weeks. Thus far, policy makers have responded to the spike in COVID-19 cases with targeted interventions, as opposed to the blanket shutdowns imposed in the early phases of the pandemic. If that remains the case, it will slow, but should not choke off, the budding economic recovery.

Fixed Income

Overview & Outlook



Yields as of June 30, 2020	
US Treasuries	
3-month	0.13%
2-year	0.15%
5-year	0.29%
10-year	0.66%
30-year	1.41%



Summary View: Neutral

- U.S. Treasuries, despite low yields on an absolute basis are appealing compared to negative yields on 'comparable' foreign sovereign bonds. Additionally, the Federal Open Market Committee (FOMC), has cut the fed funds rate to zero and announced purchases of Treasuries, investment-grade corporates, and municipal bonds, and even investment-grade and high yield bond ETFs leading to a rapid expansion of its balance sheet as the government steps in as a buyer of last resort.
- We want to own what the Fed/Treasury will be buying over coming quarters, specifically, agency mortgage-backed securities (MBS) and investment-grade corporate bonds. We prefer active management in corporate credit over the ETFs that the Fed/Treasury have started to buy.
- Diversification and a focus on quality remain crucial concepts for fixed income investors to remember as 2020 rolls along with a fluid U.S. economic, political, and geopolitical backdrop in place. We believe there is relative value in select asset-backed and mortgage-backed securities, as well as dollar-denominated emerging market debt, but right-sizing these exposures is of the utmost importance. We expect opportunities to arise in investment-grade corporate bonds over coming quarters, but windows of opportunity will likely remain narrow and selectivity remains crucial in the current environment.

Risks:

- Facing the prospect of falling short of required hurdle rates or expected inflation, investors increase allocations to riskier segments of the fixed income marketplace, and/or shift allocations out of bonds and into 'stocks that look like bonds,' taking on heightened volatility and larger potential drawdowns.

	YTD 6/30/2020	2019	2018	2017	2016	2015
Total Return						
Barclays US Agg Bond TR USD	6.14%	8.72%	0.01%	3.54%	2.65%	0.55%
Barclays High Yield Corp TR USD	-3.80%	14.32%	-2.08%	7.50%	17.13%	-4.47%
Barclays Global Agg Ex USD TR	0.61%	5.09%	-2.15%	10.51%	1.49%	-6.02%
Barclays US Treasury US TIPS	6.01%	8.43%	-1.26%	3.01%	4.68%	-1.44%
FTSE Treasury Bill 3 Month (Money Market)	0.52%	2.25%	1.86%	0.86%	0.33%	0.05%

Source: Prepared by Regions Asset Management using data from Morningstar and FactSet.

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