

# Regions Investment Management

## Quarterly Overview

### State of Alabama Treasurer's Office

### Prepaid Affordable College Tuition (PACT) Program

As of December 31, 2017

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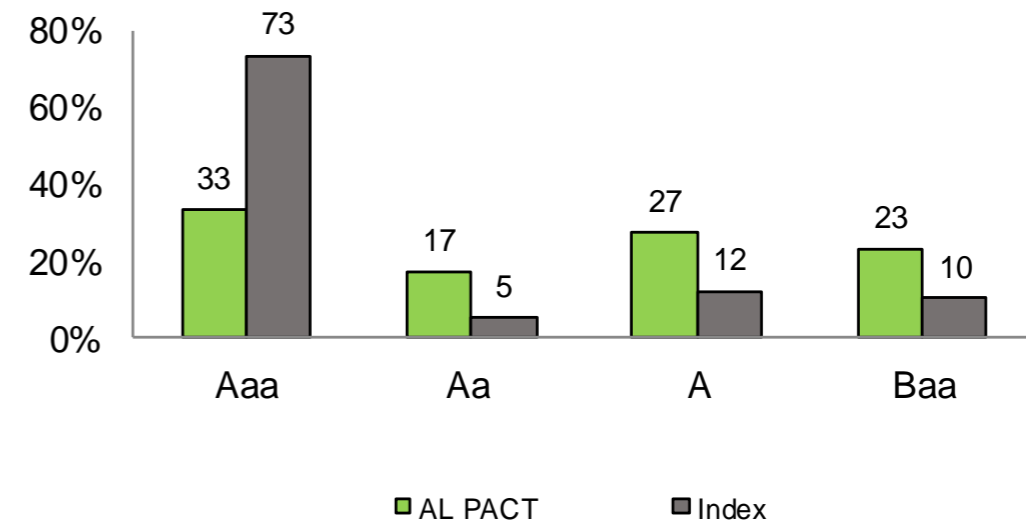
# Bond Portfolio Overview

- Characteristics
- Performance
- Manager Universe
- Allocation Detail

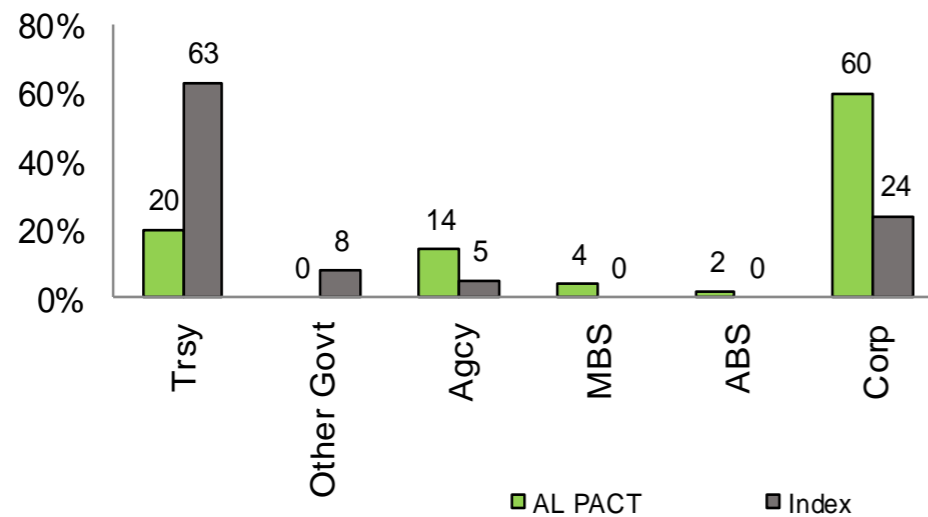
# 4Q17 Fixed Income Portfolio Characteristics vs. Index

	<b>AL PACT</b>	<b>Index</b>
Yield to Maturity	2.15%	2.03%
Effective Duration	1.96 Yrs	1.91 Yrs
Maturity	2.69 Yrs	1.98 Yrs
Average Coupon	2.11%	2.10%
Average Quality	Aa3	Aa1

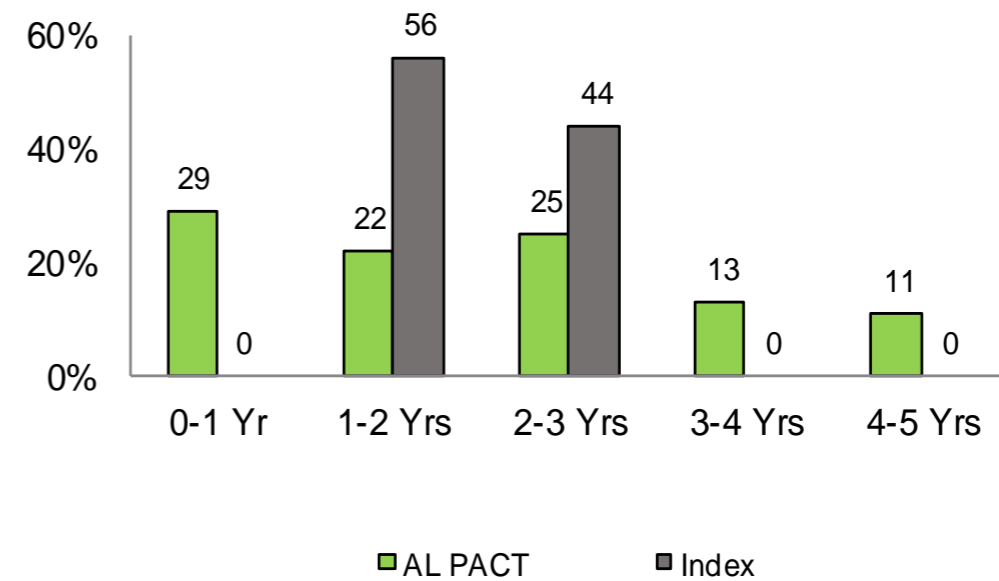
### Quality vs. Index



### Sector Distribution vs. Index



### Duration Distribution vs. Index



Source: Portfolio: Bondedge & APX; Index: Bloomberg Barclay's 1-3 Year Govt / Credit

# State of Alabama Treasurer's Office - Prepaid Affordable College Tuition (PACT) Program

## Total Returns Compared with the Benchmark

As of 12/31/2017

	Qtr	YTD	1-Yr	Inception *
<b>AL PACT</b>	<b>0.01%</b>	<b>1.50%</b>	<b>1.50%</b>	<b>1.49%</b>
Benchmark	-0.21%	0.84%	0.84%	1.06%
<i>Excess Return</i>	<i>0.22%</i>	<i>0.66%</i>	<i>0.66%</i>	<i>0.43%</i>

Returns are shown **net of fees**;

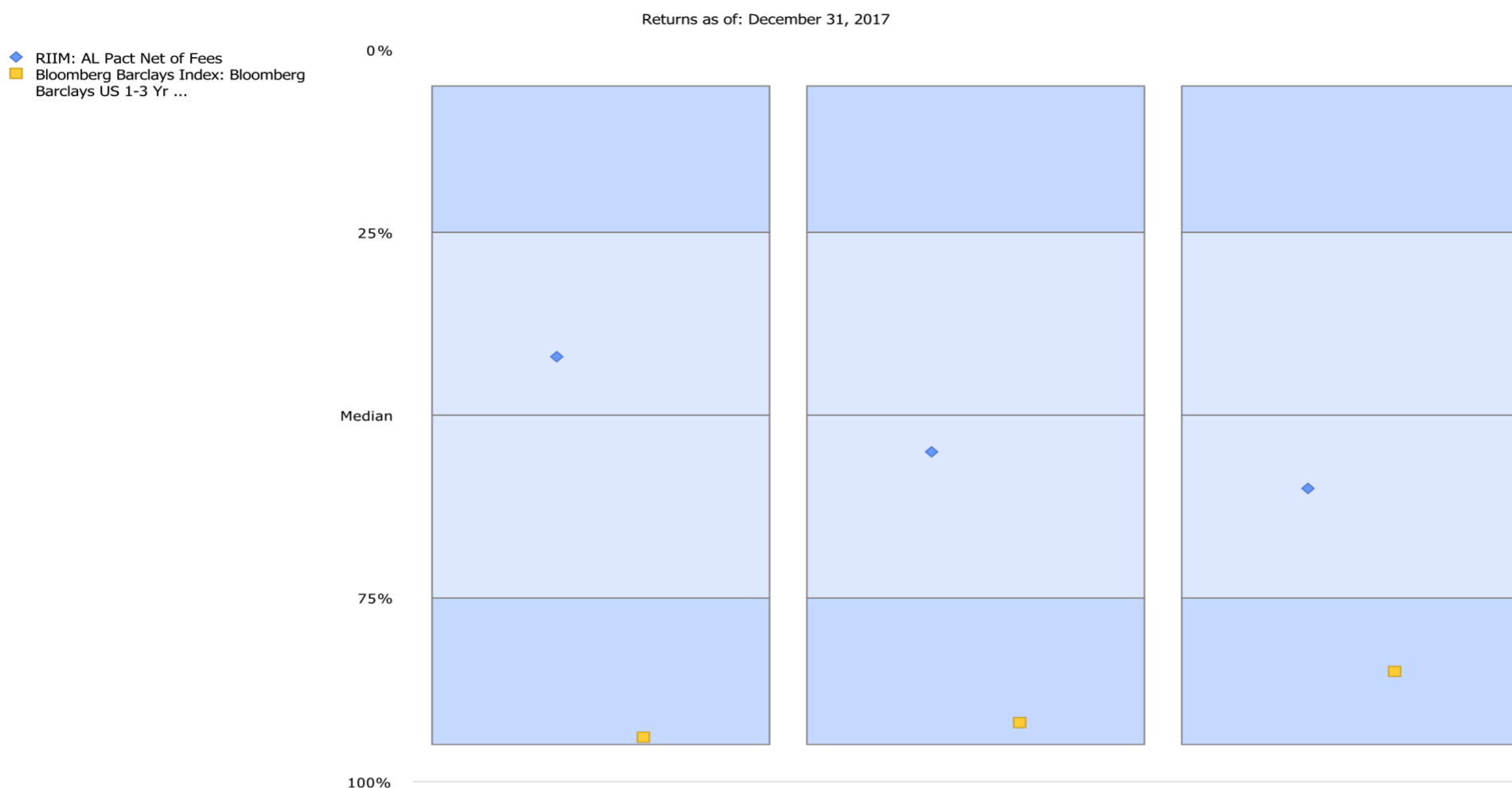
Past performance does not guarantee future returns; \*Periods greater than one year are annualized; Inception Date as of 12/31/2015

Source: SEI & Bloomberg Barclays

Index: Bloomberg Barclays 1-3 Year Gov/Credit

# State of Alabama Treasurer's Office - Prepaid Affordable College Tuition (PACT) Program

## Manager Universe Rankings



Universe: eVestment US Short Duration Fixed Income

	MRQ		1 Year		Since Inception 2 Years <sup>1</sup>	
		Rk		Rk		Rk
5th percentile	0.34		3.08		3.29	
25th percentile	0.09		2.03		2.12	
Median	-0.03		1.58		1.65	
75th percentile	-0.11		1.18		1.27	
95th percentile	-0.21		0.68		0.84	
# of Observations	216		216		215	
RIIM	0.01	42	1.50	55	1.49	60
Bloomberg Barclays Index	-0.21	94	0.84	92	1.06	85

Results displayed in USD.

<sup>1</sup>01/2016 - 12/2017

Returns are net of fees; Since Inception: 12.31.2015; Returns past 1 year are annualized

Source: eVestment Alliance

Please see important disclosure that accompanies this document

# State of Alabama Treasurer's Office - Prepaid Affordable College Tuition (PACT) Program

## Allocation Detail

### INVESTMENT RETURN SUMMARY - QUARTER ENDING DECEMBER 31, 2017

Name	Current Quarter Total Return	Prior Quarter Market Value	Net Cashflow	Investment Return	Current Quarter Market Value *
Regions (STFI)	-0.06%	62,379,347.17	(\$7,762)	(\$35,071)	62,336,513.60
Regions Cash (CASH)	0.25%	\$17,054,017	(\$2,130)	\$43,220	\$17,095,107
Regions Lockbox (CASH)	0.00%	\$1,330,606	\$270,191	\$0	\$1,600,797
<b>Total Portfolio</b>		<b>\$80,763,970</b>	<b>\$260,299</b>	<b>\$8,149</b>	<b>\$81,032,418</b>

\* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$6,141,700.10 that was in the Treasury Account on December 31, 2017.

### MANAGER ALLOCATION SUMMARY - QUARTER ENDING DECEMBER 31, 2017

Prior Quarter Market Value	%	Fund Name	Style	Current Quarter Market Value *	%
\$227	0%	Residuals	(FIXD)	227.90	0%
\$62,379,347	77%	Regions	(STFX)	62,334,342.79	77%
\$17,054,017	21%	Regions Cash	(CASH)	17,095,106.76	21%
\$1,330,606	2%	Regions Lockbox	(CASH)	1,600,797.25	2%
<b>\$80,764,198</b>	<b>100%</b>	<b>Composite</b>	<b>(TOTL)</b>	<b>\$81,030,475</b>	<b>100%</b>

\* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$6,141,700.10 that was in the Treasury Account on December 31, 2017.

# Economic & Financial Market Update

# Economy

## Overview & Outlook

<b>Economy</b>		<p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>▪ Inflation could surprise to the upside, prompting the FOMC to do the same</li> <li>▪ Heightened geopolitical tensions</li> <li>▪ Potential financial instability in China</li> <li>▪ Moves to limit imports into U.S spark global trade spats, weighing on global growth</li> </ul>	<p><b>Opportunities:</b></p> <ul style="list-style-type: none"> <li>▪ Labor market conditions continue to improve</li> <li>▪ Rising real incomes</li> <li>▪ Solid rate of house price appreciation</li> <li>▪ Healthy household balance sheets</li> <li>▪ Regulatory relief and expansive fiscal policy pose upside risks for U.S. growth</li> </ul>
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### *U.S. Economy Heads Into 2018 With A Head Of Steam*

#### Businesses Contributing More To Growth

- The BEA’s third estimate puts annualized Q3 real GDP growth at 3.2 percent. The first estimate of Q4 growth will be published on January 26; if Q4 growth comes in between 2.5 and 3.0 percent, as expected, real GDP growth for 2017 as a whole will be 2.3 percent.<sup>1</sup>
- The revised data put Q3 growth in real business investment in equipment and machinery at an annualized rate of 10.8 percent.<sup>1</sup> Monthly data on orders for and shipments of core capital goods remain strong, suggesting capital spending would have continued to make meaningful contributions to real GDP growth over coming quarters even without the incentives included in the tax bill signed into law in mid-December.
- The provision in the bill allowing for immediate expensing of capital investment is expected to give a meaningful boost to business investment. This in turn should help spark faster growth in labor productivity, one important implication of which is that it would result in a greater capacity for the economy to grow without sparking inflation pressures.
- The ISM Manufacturing Index rose to 59.7 percent in December, running to 16 its string of readings above the 50.0 percent break between contraction and expansion in the factory sector. The forward looking details on new orders and backlogs of unfilled orders suggest continued increases in factory output and employment over the months ahead.<sup>2</sup>
- Still, consumers aren’t letting businesses do all the work. Retail sales were notably strong in Q4<sup>3</sup>, reflecting ongoing improvement in labor market conditions, rising net worth, and elevated consumer confidence.

#### A Noisy End To Another Solid Year Of Job Growth

- Total nonfarm employment rose by a smaller than expected 148,000 jobs in December, with private sector payrolls up by 146,000 jobs. Average hourly earnings rose by 0.3 percent, leaving them up 2.5 percent year-on-year. The unemployment rate held at 4.1 percent for a third consecutive month.<sup>4</sup>
- The seasonally adjusted data, from which the headline job growth number is derived, show job losses in retail trade and delivery services in December, which look out of place with numerous reports of a strong holiday shopping season. An early Thanksgiving in 2017 no doubt pulled hiring in these areas ahead into November, and the reported declines for December reflect seasonal adjustment noise which weighed on reported job growth for December.
- The not seasonally adjusted data show the economy added 2.188 million jobs in 2017, with private sector payrolls up by 2.132 million jobs.<sup>4</sup>
- In addition to its duration – December was the 87<sup>th</sup> consecutive month in which nonfarm employment increased, far and away a record run – the current cycle is also noteworthy for how broad based job growth has been. The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups (and our favorite beneath the headlines metric) stood at 64.2 percent in December.<sup>4</sup> It has been more than two decades since we have seen hiring this broad based for this long of a period.
- As expected, the FOMC shifted the Fed funds rate target range higher by 25 basis points at their December 2017 meeting, leaving the mid-point of the range at 1.375 percent. The FOMC’s updated “dot plot” implied three 25-basis point hikes in the target range in 2018 based on the current economic outlook.

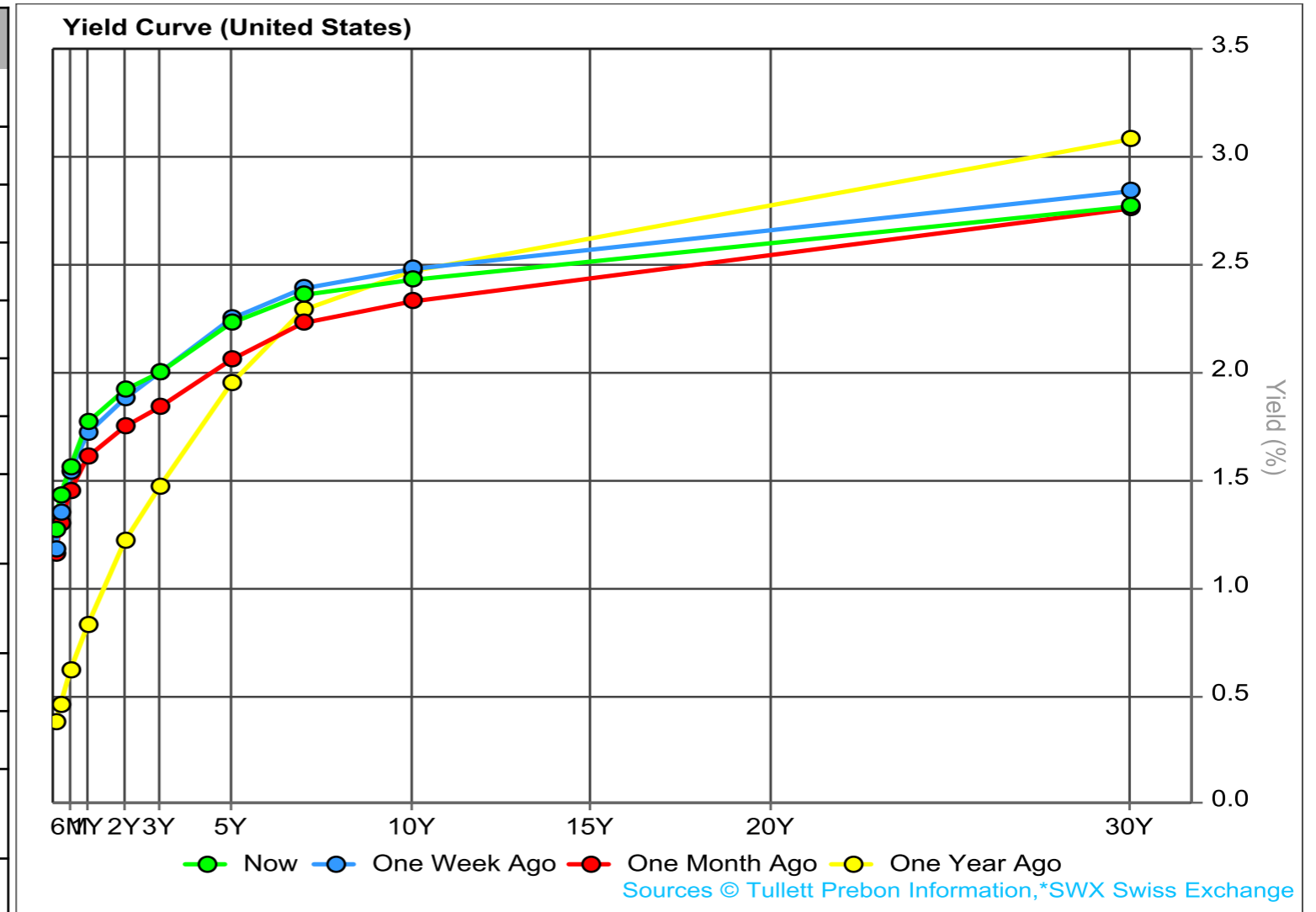
Source: Bureau of Economic Analysis (BEA)<sup>1</sup>; Institute for Supply Management (ISM)<sup>2</sup>, U.S. Census Bureau<sup>3</sup>, Bureau of Labor Statistics (BLS)<sup>4</sup>

# Fixed Income

## Overview & Outlook

Fixed Income		<p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>▪ Uncertainty over global central bank policies lead to heightened volatility in the financial markets</li> <li>▪ Inflation expectations rise significantly on improved U.S. growth outlook</li> <li>▪ Larger U.S. government budget deficits mean substantial increase in issuance of Treasury debt, putting upward pressure on interest rates</li> </ul>	<p><b>Opportunities:</b></p> <ul style="list-style-type: none"> <li>▪ A macro event sustains a flight to safety, pushing yields lower</li> <li>▪ Less lift to growth and inflation from changes to regulatory and fiscal policy results in less upward pressure on long-term interest rates than anticipated</li> <li>▪ Absence of significant increase in inflation pressures enables FOMC to continue normalizing Fed funds rate at a gradual pace</li> </ul>
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Yields as of December 31, 2017	
US Treasuries	
3-month	1.43%
2-year	1.92%
5-year	2.24%
10-year	2.43%
30-year	2.78%
CPI All Items (12-Month % Change)	2.2%
Barclays US Agg Option-Adjusted Spread	0.35bps
BofA Merrill Lynch US High Yield Master II Option-Adjusted Spread	358bps
Barclays US Aggregate	2.72%
Barclays Global Agg ex USD	0.78%
BofA Merrill Lynch US High Yield Master II	5.22%
Barclays US Tsy US TIPS	1.93%



Source: FactSet, Bureau of Labor Statistics

Source: FactSet

# Equities

## Overview & Outlook

Equities		<p><u>Risks:</u></p> <ul style="list-style-type: none"> <li>▪ Geopolitical risks</li> <li>▪ Mixed international growth picture</li> <li>▪ Stock market run getting "long-in-the-tooth"</li> <li>▪ Federal Reserve timeline for raising interest rates unsettles markets</li> <li>▪ Rising dollar impact on earnings of large multinationals</li> <li>▪ Oil and commodity prices face renewed selling pressure</li> </ul>	<p><u>Opportunities:</u></p> <ul style="list-style-type: none"> <li>▪ Growth in private domestic demand in U.S. remains solid</li> <li>▪ Eurozone economy begins to respond to policy accommodation</li> <li>▪ Large domestic market looked at as a safe haven</li> <li>▪ Emerging markets benefit from firming global growth</li> <li>▪ Strengthening dollar and economy positive for SMID</li> </ul>
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Sector Total Return	2017	2016	2015	2014	2013
Materials	23.84%	15.90%	-8.38%	6.91%	25.60%
Financials	22.18%	21.67%	-1.56%	15.18%	35.59%
Energy	-1.11%	27.25%	-21.12%	-7.79%	25.05%
Industrials	21.17%	18.42%	-2.56%	9.80%	40.64%
Information Technology	38.70%	13.85%	5.92%	20.11%	28.43%
Consumer Discretionary	22.97%	6.10%	10.06%	9.68%	43.08%
Health Care	21.93%	-2.51%	6.89%	25.34%	41.46%
Telecommunications	-1.25%	23.49%	3.40%	2.99%	11.47%
Consumer Staples	13.46%	5.39%	6.60%	15.98%	26.14%
Utilities	11.84%	16.37%	-4.88%	28.98%	13.21%
Real Estate	10.85%	3.67%	N/A	N/A	N/A

Source: FactSet

# Market Returns

Equities	Trailing 3 Months 12/31/17	2017	2016	2015	2014	2013	2012	2011
S&P 500 Index (Large Cap Stocks)	6.64%	21.83%	11.96%	1.38%	13.69%	32.39%	16.00%	2.11%
S&P 500 (Large Cap Growth)	6.80%	27.44%	6.89%	5.52%	14.89%	32.75%	14.61%	4.69%
S&P 500 (Large Cap Value)	6.33%	15.36%	17.40%	-3.13%	12.36%	31.99%	17.68%	-0.48%
Russell 2000 Index (Small Cap Stocks)	3.34%	14.65%	21.31%	-4.41%	4.89%	38.82%	16.35%	-4.17%
Russell 2500 Index (Small to Mid Cap Stocks)	5.24%	16.81%	17.59%	-2.90%	7.07%	36.80%	17.88%	-2.75%
Russell Mid Cap TR USD	6.07%	18.52%	13.80%	-2.44%	13.22%	34.76%	17.28%	-1.55%
MSCI EAFE Index (Foreign Stocks, Net Return)	4.23%	25.03%	1.00%	-0.81%	-4.90%	22.78%	17.32%	-12.14%
MSCI ACWI Ex-US (Foreign Stocks, Net Return)	5.00%	27.19%	4.50%	-5.66%	-3.87%	15.29%	16.83%	-13.10%
MSCI EM (Foreign Stocks, Net Return)	7.44%	37.28%	11.19%	-14.92%	-2.19%	-2.60%	18.22%	-18.42%
Fixed Income								
Barclays US Agg Bond TR USD (Bonds)	0.39%	3.54%	2.65%	0.55%	5.97%	-2.02%	4.22%	7.84%
BofA Merrill Lynch Muni 1-12 YR (Muni Bonds)	-0.32%	3.21%	0.02%	2.34%	4.27%	-0.12%	3.40%	6.76%
91 Day T-Bill Index (Money Market)	0.28%	0.86%	0.33%	0.05%	0.03%	0.05%	0.11%	0.11%
Barclays Global Agg Ex USD TR	1.63%	10.51%	1.49%	0.36%	-3.08%	-3.08%	4.09%	4.36%
Barclays High Yield Corp TR USD	0.47%	7.50%	17.13%	-8.30%	2.45%	7.44%	15.81%	4.98%
Barclays US Treasury US TIPS	1.26%	3.01%	4.68%	-1.44%	3.64%	-8.61%	6.98%	13.56%
Diversified Strategies								
HFRX Global Hedge Index	1.50%	5.98%	2.50%	-3.64%	-0.58%	6.72%	3.51%	-8.87%

Source: Morningstar

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