

Regions Investment Management

Quarterly Overview

State of Alabama Treasurer's Office

Prepaid Affordable College Tuition (PACT) Program

As of March 31, 2018

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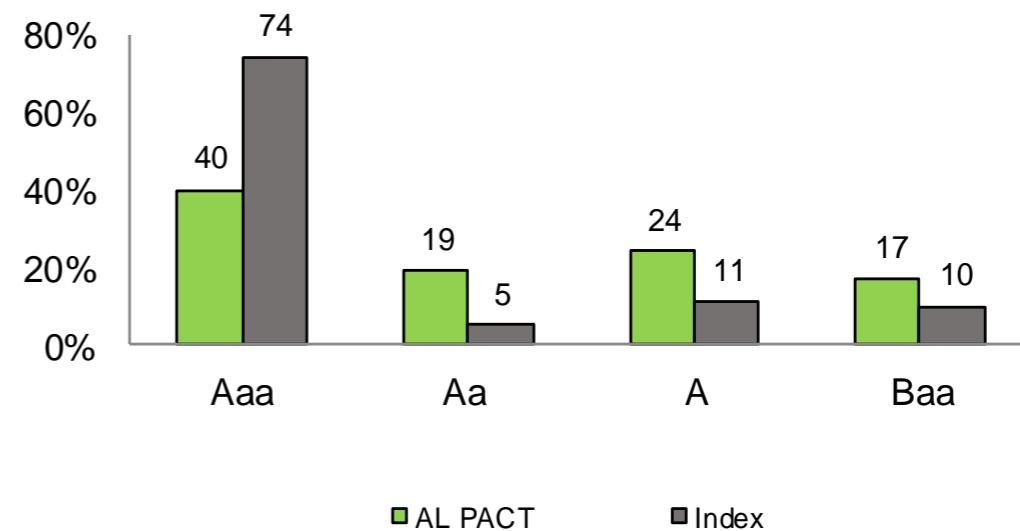
Bond Portfolio Overview

- Characteristics
- Performance
- Manager Universe
- Allocation Detail

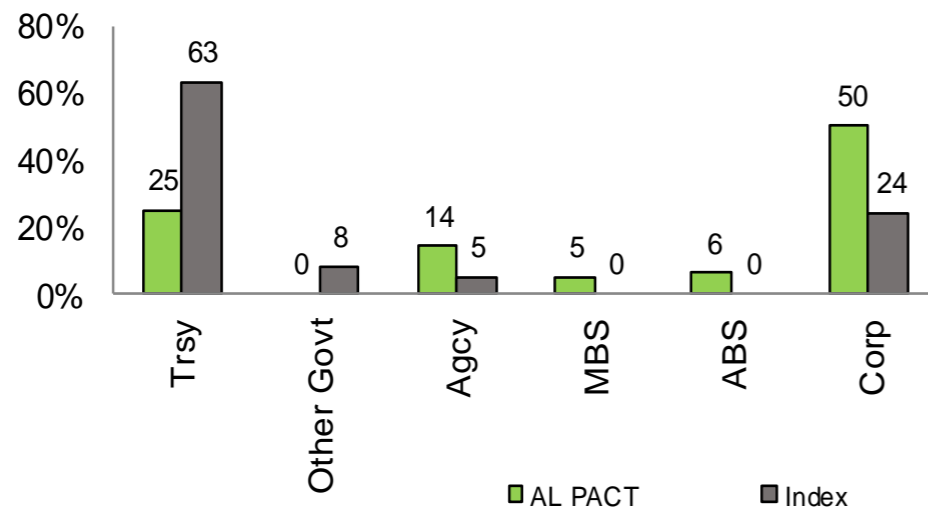
1Q18 Fixed Income Portfolio Characteristics vs. Index

	AL PACT	Index
Yield to Maturity	2.62%	2.48%
Effective Duration	1.81 Yrs	1.94 Yrs
Maturity	2.63 Yrs	2.01 Yrs
Average Coupon	2.00%	2.03%
Average Quality	Aa3	Aa1

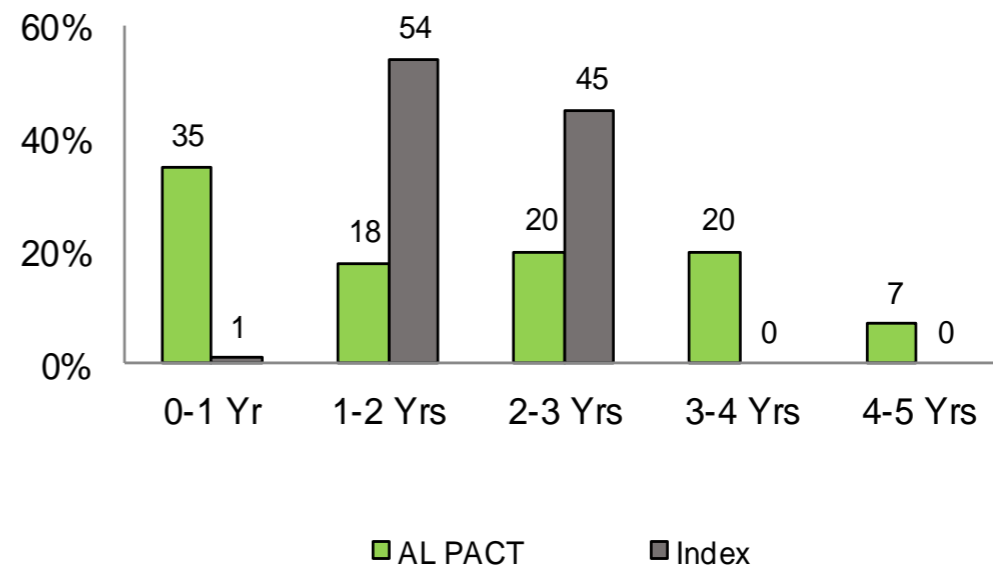
Quality vs. Index



Sector Distribution vs. Index



Duration Distribution vs. Index



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

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Total Returns Compared with the Benchmark

As of 03/31/2018

	Qtr	YTD	1-Yr	Inception *
AL PACT	-0.26%	-0.26%	0.70%	1.20%
Benchmark	-0.20%	-0.20%	0.24%	0.86%
<i>Excess Return</i>	<i>-0.06%</i>	<i>-0.06%</i>	<i>0.46%</i>	<i>0.34%</i>

Returns are shown **net of fees**;

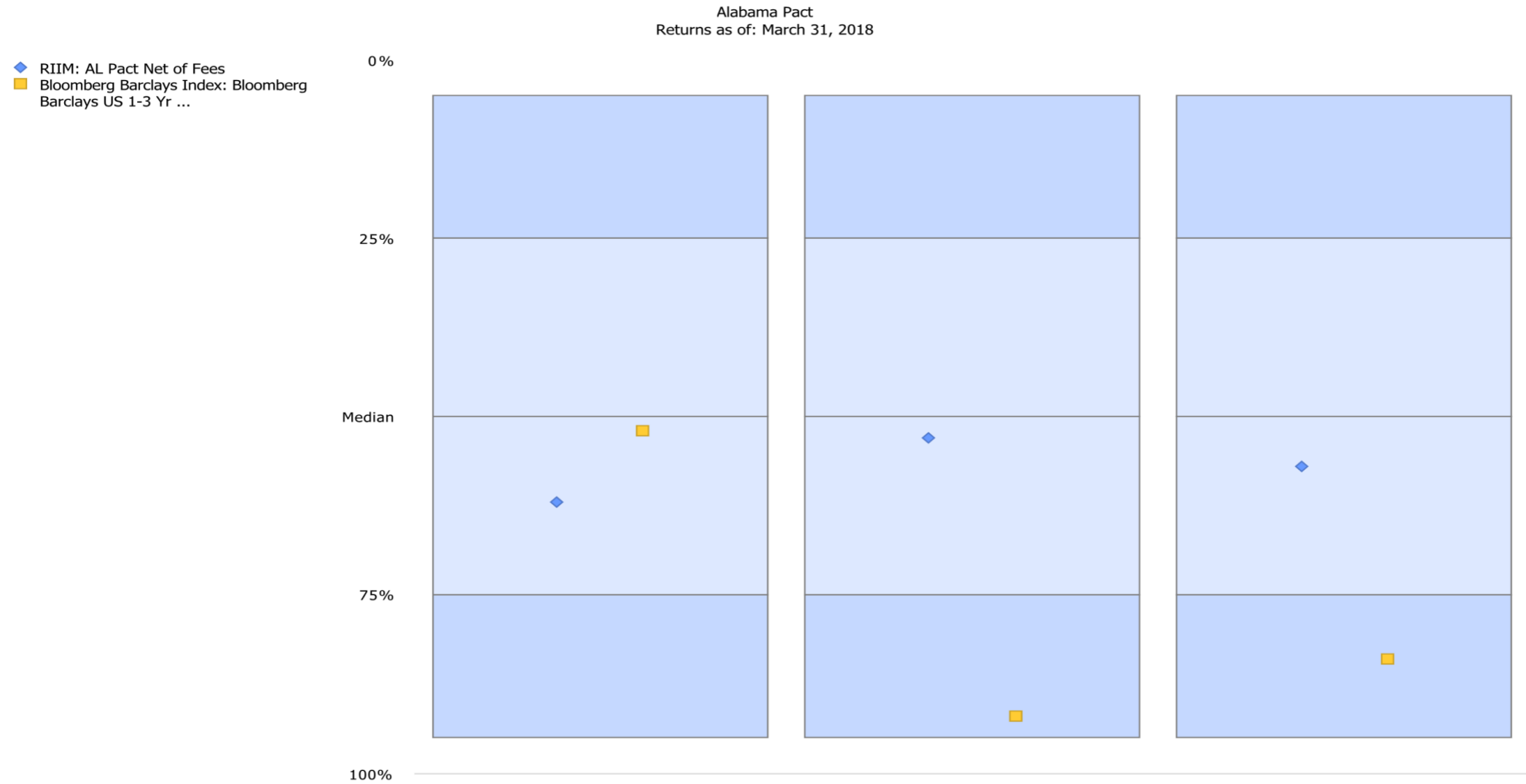
Past performance does not guarantee future returns; *Periods greater than one year are annualized; Inception Date as of 12/31/2015

Source: SEI & Bloomberg Barclays

Index: Bloomberg Barclays 1-3 Year Gov/Credit

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Manager Universe Rankings



Universe: eVestment US Short Duration Fixed Income

	MRQ		1 Year		Since Inception 2.25 Years ¹	
		Rk		Rk		Rk
5th percentile	0.23		2.17		2.92	
25th percentile	-0.06		1.12		1.82	
Median	-0.19		0.75		1.34	
75th percentile	-0.34		0.46		0.99	
95th percentile	-0.57		0.18		0.65	
# of Observations	192		192		191	
◆ RIIM	-0.25	62	0.70	53	1.21	57
■ Bloomberg Barclays Index	-0.20	52	0.24	92	0.85	84

Results displayed in USD.

¹01/2016 - 03/2018

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Allocation Detail

INVESTMENT RETURN SUMMARY - QUARTER ENDING MARCH 31, 2018

Name	Current Quarter Total Return	Prior Quarter Market Value	Net Cashflow	Investment Return	Current Quarter Market Value *
Regions (STFI)	-0.23%	62,334,342.79	(\$7,757)	(\$142,265)	62,184,321.05
Regions Cash (CASH)	0.41%	\$17,095,107	(\$5,002,135)	\$49,074	\$12,142,046
Regions Lockbox (CASH)	0.00%	\$1,600,797	\$302,736	\$0	\$1,903,533
Total Portfolio		\$81,030,247	(\$4,707,156)	(\$93,191)	\$76,229,900

* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$3,630,576.19 that was in the Treasury Account on March 31, 2018.

MANAGER ALLOCATION SUMMARY - QUARTER ENDING MARCH 31, 2018

Prior Quarter Market Value	%	Fund Name	Style	Current Quarter Market Value *	%
\$228	0%	Residuals	(FIXD)	4,362.63	0%
\$62,334,343	77%	Regions	(STFX)	62,184,321.05	82%
\$17,095,107	21%	Regions Cash	(CASH)	12,142,045.89	16%
\$1,600,797	2%	Regions Lockbox	(CASH)	1,903,533.05	2%
\$81,030,475	100%	Composite	(TOTL)	\$76,234,263	100%

* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$3,630,576.19 that was in the Treasury Account on March 31, 2018.

Economic & Financial Market Update

Economy

Overview & Outlook

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

Manufacturing Remains On A Nice Roll . . . At Least For Now

- Between the tax bill enacted in late-2017 and the federal government spending bill enacted last month, our baseline forecast anticipates that, on net, fiscal stimulus will add roughly six-tenths of a point to top-line real GDP growth this year and next. We look for real GDP growth of around 3.0 percent in 2018 and 2.5 percent in 2019.
- It is far too soon to assess the effects of U.S. tariffs on imported aluminum and steel. In and of themselves, these tariffs would have minimal impacts on U.S. growth, inflation, and interest rates. These impacts, however, will become increasingly pronounced if: 1) additional domestic industries seek similar protection; and 2) foreign nations impose retaliatory measures.
- The manufacturing sector remains on a nice roll. The ISM Manufacturing Index rose to 60.8 percent in February, the highest since May 2004.¹ The indexes that measure new orders, current production, and employment all remain at high levels. Other components offer a more telling indication of the pace of activity in the factory sector. Backlogs of unfilled orders continue to grow, despite rising orders and production, and supplier delivery times continue to slow. Trade policy, however, looms as a downside risk.
- Injecting significant fiscal stimulus into an economy closing in on full employment raises concerns over inflation. At present, the FOMC's preferred gauge of inflation, the PCE deflator, continues to show inflation below the FOMC's 2.0 percent target rate.² While the FOMC and most private sector analysts look for some pick up in inflation this year, the risks to the inflation outlook seem tilted to the upside.

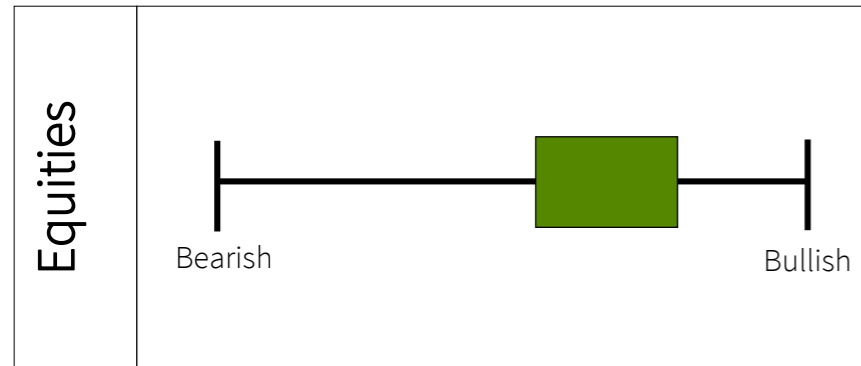
Much To Like In The February Employment Report

- Total nonfarm employment rose by 313,000 jobs in February, trouncing even the most optimistic of forecasts. Additionally, prior estimates of job growth in December and January were revised higher by a net 54,000 jobs for the two-month period. Even allowing for some degree of seasonal adjustment noise stemming from milder than normal winter weather in February, hiring remained strong and broad based. The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, rose to 68.6 percent in February, matching the highest reading since January 2012.³
- The unemployment rate held at 4.1 percent for a fifth consecutive month, but this masks a jump in the labor force participation rate, which rose to 63.0 percent in February from 62.7 percent in January. In addition to the by now normal inflow of millions of people each month, February saw the lowest number of people exit the labor force since November 2008.³
- One knock on the February employment report is the 0.1 percent increase in average hourly earnings, which comes on top of a downward revision to the initial estimates for January. Still, aggregate wage and salary earnings, which account for the number of people working, how many hours they work, and what they earn for each hour worked, were up a strong 0.7 percent in February, leaving them up 4.8 percent year-on-year.³
- A 25-basis point increase in the Fed funds rate is a virtual lock at the March FOMC meeting. The uncertainty surrounding this month's meeting is whether the FOMC's revised "dot plot" will imply a total of three or four such hikes for 2018. We think three, but it is a closer call than was the case in December 2017.

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

Equities

Overview & Outlook



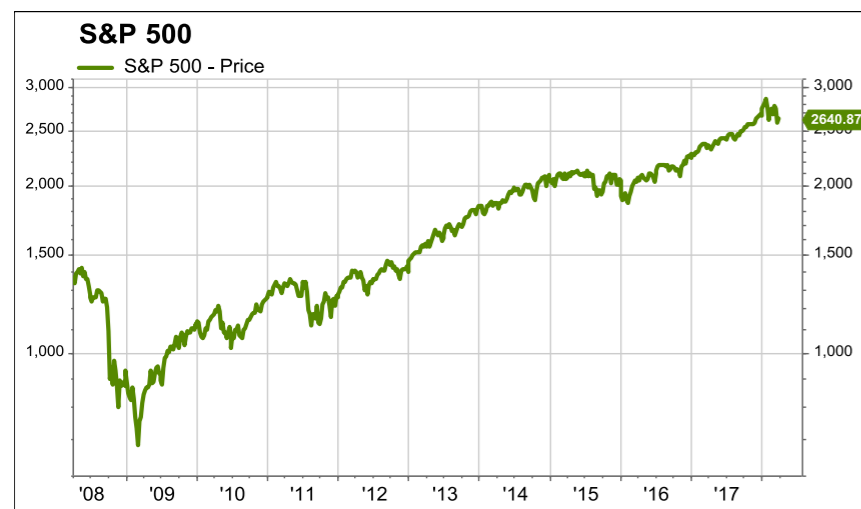
Summary View: Cautiously Bullish

- Global growth is reaccelerating and the probability of a recession remains low
- Valuations have become more attractive with recent sell-off. However, stock market run getting "long-in-the-tooth".
- Fundamental data remains attractive (ex: earnings, employment, ISM)
- Long-term return expectations remain favorable vs. other asset classes especially international stocks as lower valuations and favorable monetary policies should provide a relative benefit over time

Risks:

- The potential for letdowns on the monetary and fiscal policy front remain
- Geopolitical risks always remain a threat
- Oil and commodity prices face renewed selling pressure

S&P 500 Statistics as of March 31, 2018	
Fundamentals	
2017 Earnings	\$133
2018 Earnings Estimates	\$158
Forward P/E	16.6x
Dividend Yield	1.84%
Technicals	
% of Stocks Above 200ma	51%
VIX (CBOE Volatility Index)	19.97

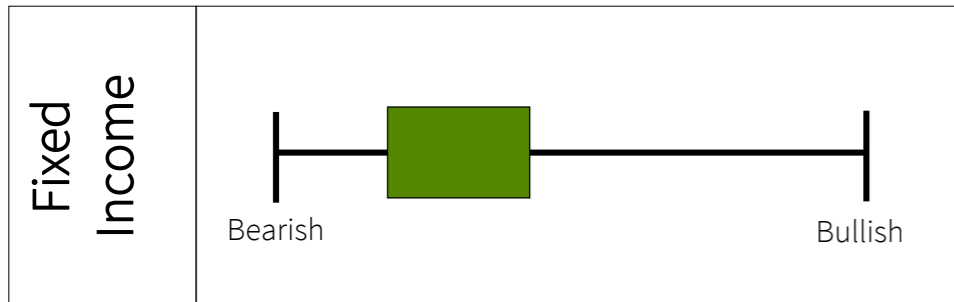


	YTD 3/31/2018	2017	2016	2015	2014	2013
Total Return						
S&P 500 Index (Large Cap)	-0.76%	21.83%	11.96%	1.38%	13.69%	32.39%
S&P 500 (Large Cap Growth)	1.93%	27.44%	6.89%	5.52%	14.89%	32.75%
S&P 500 (Large Cap Value)	-3.57%	15.36%	17.40%	-3.13%	12.36%	31.99%
Russell 2000 Index (Small Cap)	-0.08%	14.65%	21.31%	-4.41%	4.89%	38.82%
Russell 2500 Index (Small to Mid Cap)	-0.24%	16.81%	17.59%	-2.90%	7.07%	36.80%
MSCI EAFE Index (Foreign Stocks, Net Return)	-1.53%	25.03%	1.00%	-0.81%	-4.90%	22.78%
MSCI ACWI Ex-US (Foreign Stocks, Net Return)	-1.18%	27.19%	4.50%	-5.66%	-3.87%	15.29%
MSCI EM (Foreign Stocks, Net Return)	1.42%	37.28%	11.19%	-14.92%	-2.19%	-2.60%

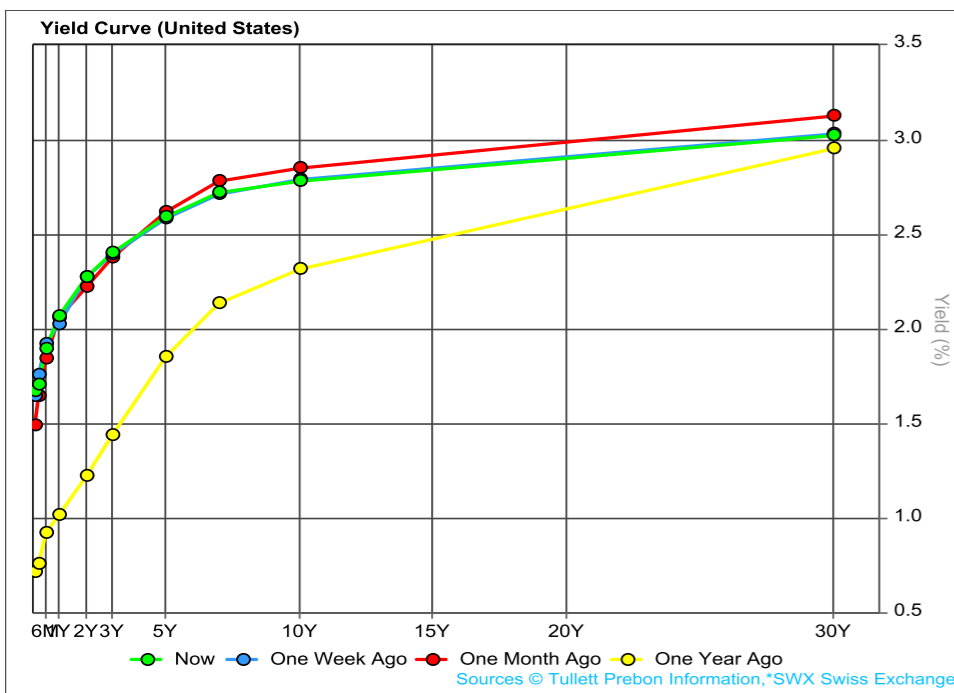
Source: FactSet, Morningstar

Fixed Income

Overview & Outlook



Yields as of March 31, 2018	
US Treasuries	
3-month	1.70%
2-year	2.28%
5-year	2.60%
10-year	2.78%
30-year	3.02%



Summary View: Bearish

- Valuations are very expensive and better relative opportunities are available in other asset classes
- Global developed sovereign markets remain unattractive relative to domestic. Currency effects greatly benefitted int'l bonds in 2017. However, EM debt is attractive from a risk/reward perspective.
- We expect yields to rise in 2018 as positive steps on the policy front combined with continued global growth leads to greater than expected inflation pushing yields higher.

Risks:

- Less lift to growth and inflation from changes to regulatory and fiscal policy results in less upward pressure on long-term interest rates
- Flight to safety causes a rally in bonds and other safe haven assets.
- State and local governments make significant progress in pension funding and gain funding for infrastructure projects, firming their credit profiles

	YTD 3/31/18	2017	2016	2015	2014	2013
Total Return						
Barclays US Agg Bond TR USD (Bonds)	-1.46%	3.54%	2.65%	0.55%	5.97%	-2.02%
Barclays Global Agg Ex USD TR	3.62%	10.51%	1.49%	0.36%	-3.08%	-3.08%
Barclays High Yield Corp TR USD	-0.86%	7.50%	17.13%	-8.30%	2.45%	7.44%
Barclays US Treasury US TIPS	-0.79%	3.01%	4.68%	-1.44%	3.64%	-8.61%
91 Day T-Bill Index (Money Market)	0.35%	0.86%	0.33%	0.05%	0.03%	0.05%

Source: FactSet

Market Returns

Equities	YTD As of 3/31/18	Trailing 3 Months 3/31/18	2017	2016	2015	2014	2013	2012
S&P 500 Index (Large Cap Stocks)	-0.76%	-0.76%	21.83%	11.96%	1.38%	13.69%	32.39%	16.00%
S&P 500 (Large Cap Growth)	1.93%	1.93%	27.44%	6.89%	5.52%	14.89%	32.75%	14.61%
S&P 500 (Large Cap Value)	-3.57%	-3.57%	15.36%	17.40%	-3.13%	12.36%	31.99%	17.68%
Russell 2000 Index (Small Cap Stocks)	-0.08%	-0.08%	14.65%	21.31%	-4.41%	4.89%	38.82%	16.35%
Russell 2500 Index (Small to Mid Cap Stocks)	-0.24%	-0.24%	16.81%	17.59%	-2.90%	7.07%	36.80%	17.88%
Russell Mid Cap TR USD	-0.46%	-0.46%	18.52%	13.80%	-2.44%	13.22%	34.76%	17.28%
MSCI EAFE Index (Foreign Stocks, Net Return)	-1.53%	-1.53%	25.03%	1.00%	-0.81%	-4.90%	22.78%	17.32%
MSCI ACWI Ex-US (Foreign Stocks, Net Return)	-1.18%	-1.18%	27.19%	4.50%	-5.66%	-3.87%	15.29%	16.83%
MSCI EM (Foreign Stocks, Net Return)	1.42%	1.42%	37.28%	11.19%	-14.92%	-2.19%	-2.60%	18.22%
Fixed Income								
Barclays US Agg Bond TR USD (Bonds)	-1.46%	-1.46%	3.54%	2.65%	0.55%	5.97%	-2.02%	4.22%
BofA Merrill Lynch Muni 1-12 YR (Muni Bonds)	-0.70%	-0.70%	3.21%	0.02%	2.34%	4.27%	-0.12%	3.40%
91 Day T-Bill Index (Money Market)	0.35%	0.35%	0.86%	0.33%	0.05%	0.03%	0.05%	0.11%
Barclays Global Agg Ex USD TR	3.62%	3.62%	10.51%	1.49%	0.36%	-3.08%	-3.08%	4.09%
Barclays High Yield Corp TR USD	-0.86%	-0.86%	7.50%	17.13%	-8.30%	2.45%	7.44%	15.81%
Barclays US Treasury US TIPS	-0.79%	-0.79%	3.01%	4.68%	-1.44%	3.64%	-8.61%	6.98%
Diversified Strategies								
HFRX Global Hedge Index	-0.03%	-0.03%	5.98%	2.50%	-3.64%	-0.58%	6.72%	3.51%

Source: Morningstar

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