

Regions Investment Management

State of Alabama Treasurer's Office

Prepaid Affordable College Tuition (PACT) Program

As of June 30, 2022

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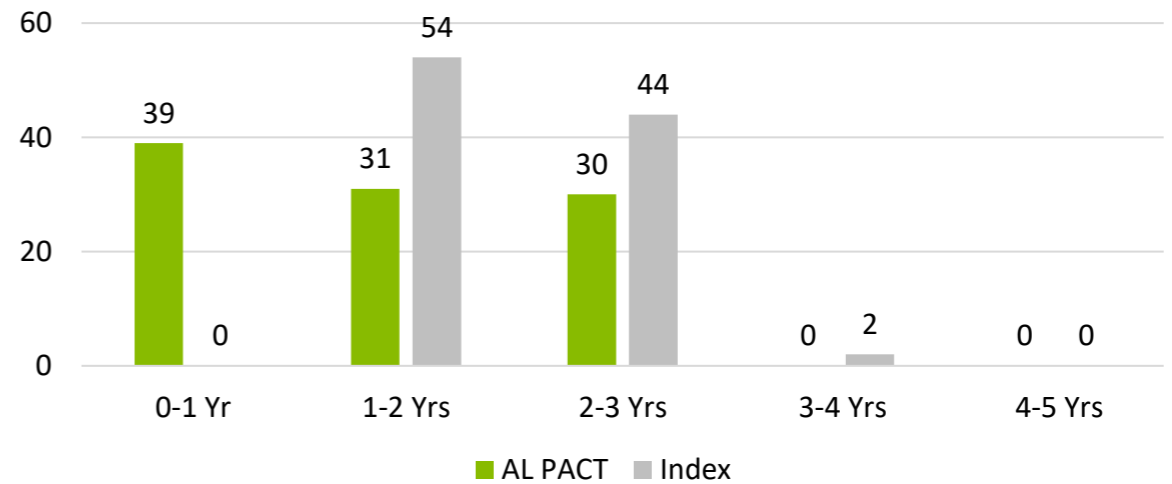
State of Alabama Treasurer's Office – PACT Program

Fixed Income Portfolio Characteristics as of 06.30.2022

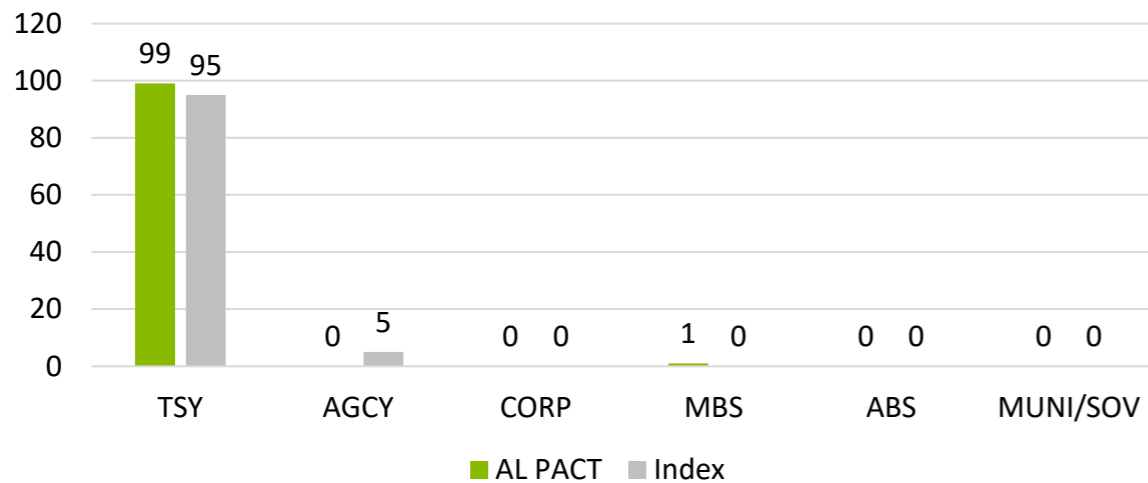
Portfolio Characteristics

	AL PACT	Index
Yield to Maturity	2.73%	2.96%
Average Coupon	1.21%	1.45%
Effective Duration	1.42 years	1.89 years
Average Life	1.48 years	1.96 years
Average Quality	Aaa	Aaa

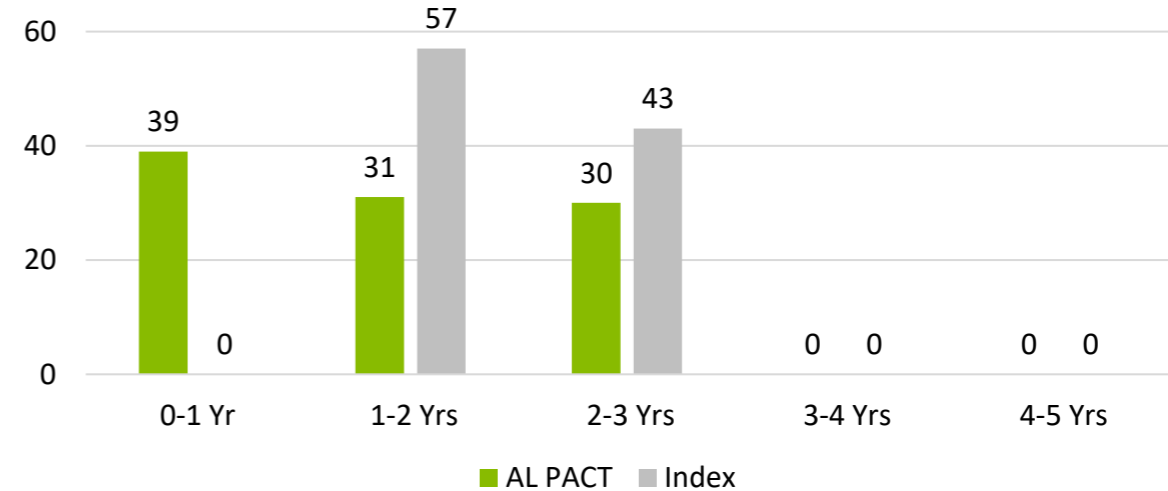
Maturity vs. Index



Sector vs. Index



Duration vs. Index



Index: Bloomberg Barclays 1-3 Year US Govt Index

Source: BondEdge & Bloomberg Barclays Capital; Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith."

State of Alabama Treasurer's Office – PACT Program

Performance as of 06.30.2022

	Qtr	YTD	1-Yr	3 Years *	5 Years *	Inception *
Consolidated Portfolio	-0.10%	-0.37%	-0.46%	1.10%	1.52%	1.53%
Money Market Fund	0.10%	0.12%	0.13%	0.48%	0.96%	0.88%
Fixed Income Portfolio	-0.15%	-1.65%	-1.88%	0.85%	1.48%	1.54%
1-3 YR Govt Only	-0.52%	-3.01%	-3.50%	0.18%	0.91%	0.90%
<i>Excess Return</i>	<i>0.37%</i>	<i>1.36%</i>	<i>1.62%</i>	<i>0.67%</i>	<i>0.57%</i>	<i>0.64%</i>

*** Market Values: Consolidated: \$249.3 mm / Money Market: \$14.6 mm / Fixed Income: \$234.7 mm***

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

Index: Bloomberg Barclays 1-3 Year US Govt Index

Source: SEI for client returns & Bloomberg Barclays Capital for index returns; Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith."

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Allocation Detail as of 06.30.2022

INVESTMENT RETURN SUMMARY - QUARTER ENDING JUNE 30, 2022

Name	Current Quarter Total Return	Prior Quarter Market Value	Net Cashflow	Investment Return	Current Quarter Market Value *
Fixed Income	-0.15%	\$11,979,215	\$226,917,427	(\$107,021)	\$238,789,621
Money Market Mutual Fund	0.10%	59,006,122	-49,543,827	137,691	\$9,599,986
Demand Deposit	0.00%	630,393	54,437	0	\$684,830
Total Portfolio	-0.10%	\$71,615,730	\$177,428,037	\$30,670	\$249,074,438

* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$7,905,819.53 that was in the Treasury Account on June 30, 2022.

MANAGER ALLOCATION SUMMARY - QUARTER ENDING JUNE 30, 2022

Prior Quarter Market Value	%	Fund Name	Style	Adj. for Portion of Fixed Income Account Instructed to Hold in Money Market	Current Quarter Market Value *	%
\$11,979,215	17%	Fixed Income	(STFX)	0	238,789,621	96%
\$59,006,122	82%	Money Market Mutual Fund	(CASH)	0	9,599,986	4%
\$630,393	1%	Demand Deposit	(CASH)	0	684,830	0%
\$71,615,730	100%		(TOTL)	\$0	249,074,438	100%

* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$7,905,819.53 that was in the Treasury Account on June 30, 2022.

Market Updates

- Market Returns
- Economic Update
- Fixed Income Markets

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Market Returns

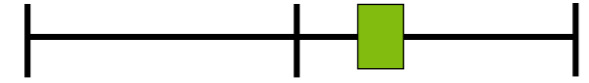
Equities	YTD as of 6/30/22	Trailing 3 Months 6/30/22	2021	2020	2019	2018	2017	2016
S&P 500 Index (Large Cap Stocks)	-19.96	-16.10%	28.71%	18.40%	31.49%	-4.38%	21.83%	11.96%
<i>S&P 500 (Large Cap Growth)</i>	-27.62%	-20.81%	32.01%	33.47%	31.13%	-0.01%	27.44%	6.89%
<i>S&P 500 (Large Cap Value)</i>	-11.41%	-11.27%	24.90%	1.36%	31.93%	-8.95%	15.36%	17.40%
Russell 2500 Index (Small to Mid Cap Stocks)	-21.81%	-16.98%	18.18%	19.99%	27.77%	-10.00%	16.81%	17.59%
<i>Russell Mid Cap TR USD</i>	-21.57%	-16.85%	22.58%	17.10%	30.54%	-9.06%	18.52%	13.80%
<i>Russell 2000 Index (Small Cap Stocks)</i>	-23.43%	-17.20%	14.82%	19.96%	25.52%	-11.01%	14.65%	21.31%
MSCI ACWI Ex-US (Foreign Stocks, Net Return)	-18.42%	-13.73%	7.82%	10.65%	21.51%	-14.20%	27.19%	4.50%
<i>MSCI EAFE Index (Foreign Stocks, Net Return)</i>	-19.57%	-14.51%	11.26%	7.82%	22.01%	-13.79%	25.03%	1.00%
<i>MSCI EM (Foreign Stocks, Net Return)</i>	-17.63%	-11.45%	-2.54%	18.31%	18.42%	-14.58%	37.28%	11.19%
Fixed Income								
Bloomberg US Agg Bond TR USD	-10.35%	-4.69%	-1.54%	7.51%	8.72%	0.01%	3.54%	2.65%
Bloomberg Global Agg Ex USD TR	-16.49%	-11.01%	-7.05%	10.11%	5.09%	-2.15%	10.51%	1.49%
S&P National AMT-Free Municipal Bond Index	-7.84%	-2.54%	1.02%	4.95%	7.42%	1.01%	5.09%	0.36%
Bloomberg High Yield Corp TR USD	-11.77%	-5.61%	5.28%	7.11%	14.32%	-2.08%	7.50%	17.13%
Bloomberg US Treasury US TIPS	-8.92%	-6.08%	5.96%	10.99%	8.43%	-1.26%	3.01%	4.68%
FTSE Treasury Bill 3 Month (Money Market)	0.17%	0.14%	0.05%	0.58%	2.25%	1.86%	0.86%	0.33%
Diversified Strategies								
HFRX Global Hedge Index	-5.05%	-1.09%	3.65%	6.81%	8.62%	-6.72%	5.98%	2.50%

Source: Morningstar

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Economy

Overview & Outlook

Economy		<p><u>Risks:</u></p> <ul style="list-style-type: none"> ▪ Persistently high inflation could lead to the FOMC going “too far too fast” as they raise the Fed funds rate. It is unclear how higher interest rates, including mortgage rates, will impact the broader economy, particularly as supply-side constraints have yet to fully clear. 	<p><u>Opportunities:</u></p> <ul style="list-style-type: none"> ▪ Should global supply-side constraints clear faster and labor force participation increase more than we expect, growth could be faster than expected in 2022. Relief on the supply side of the economy could mean a less aggressive course of Fed funds rate hikes than is now anticipated.
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Growth Slowing; Inflation, Not So Much . . .

- The BEA’s second estimate puts the contraction in real GDP in Q1 at an annual rate of 1.5 percent. There was some shuffling in the details, but the main contours remain the same – solid growth in private domestic demand negated by a sharply wider trade deficit and a smaller inventory build than that seen in Q4 2021.¹ Our view hasn’t changed, i.e., the Q1 data say more about the quirks in GDP accounting than about the underlying health of the U.S. economy.
- The ISM’s monthly surveys of the manufacturing and services sectors show continued expansion each of the broad sectors, but at a slower pace than seen earlier in the year. Both surveys, however, show non-labor input price pressures remain intense, while supply chain and labor supply constraints remain drags on the pace of growth.²
- New and existing home sales had been trending lower for months due to increasingly binding inventory constraints. The deceleration in home sales has become more pronounced in the wake of sharply higher mortgage interest rates.^{3,4} To the extent home sales continue to slow, so too will consumer spending associated with home purchases, such as home furnishings and appliances. Additionally, a slower pace of single family construction will act as a drag on real GDP growth.
- The May data are expected to show inflation as measured by the Consumer Price Index (CPI) topped 8.0 percent for a third straight month.⁵ Shifting patterns in consumer spending are contributing to retail inventories rising to undesirably high levels. This will lead to discounting that will take some of the pressure off goods price inflation. Further increases in food and energy prices and faster services price inflation, however, will keep overall inflation elevated.

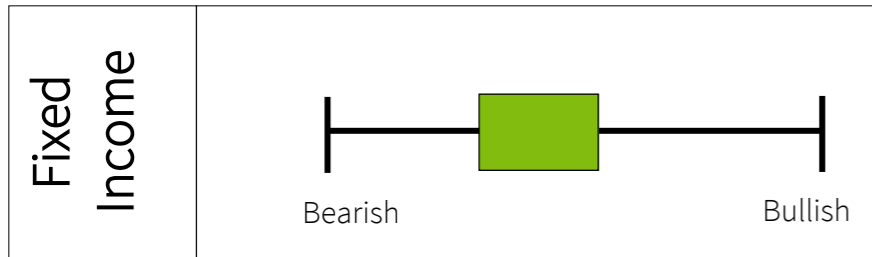
FOMC Facing A Tall Task

- Total nonfarm employment rose by 390,000 jobs in May with hiring remaining broad based across private sector industry groups. The unemployment rate was unchanged at 3.6 percent, as an increase in household employment absorbed an increase in labor force participation.⁵ One detail of the May employment report that largely escaped notice is that the broader U6 measure, which also accounts for underemployment, rose to 7.1 percent from 7.0 percent in April. The increase in the U6 rate was driven by an increase in the number of people reporting that they worked part-time due to slack business conditions.⁵ This is a sign of some deceleration in the pace of economic activity.
- While there are signs that economic growth is slowing, there are few signs that inflation is doing the same. This makes for a most interesting, if not a bit unsettling, backdrop for the June FOMC meeting. While 50-basis point increases in the Fed funds rate seem all but assured for the June and July FOMC meetings, the June meeting brings the release of the Committee’s updated economic and financial projections, including an updated “dot plot.” One criticism of the prior round of projections, released in March, was that they seemed curiously sanguine, implying a sharp and rapid deceleration in inflation with no change in the jobless rate, which would be the softest of all soft landings. With inflation having risen further and looking to be more persistent than the FOMC anticipated in March, the June projections will almost surely look less benign.
- The March dot plot implied a year-end 2022 Fed funds rate of 1.875 percent and a year-end 2023 rate of 2.75 percent, which was also the implied terminal funds rate for this cycle. These values will all almost surely be higher in the June dot plot, but by how much is the question market participants will be focused on.

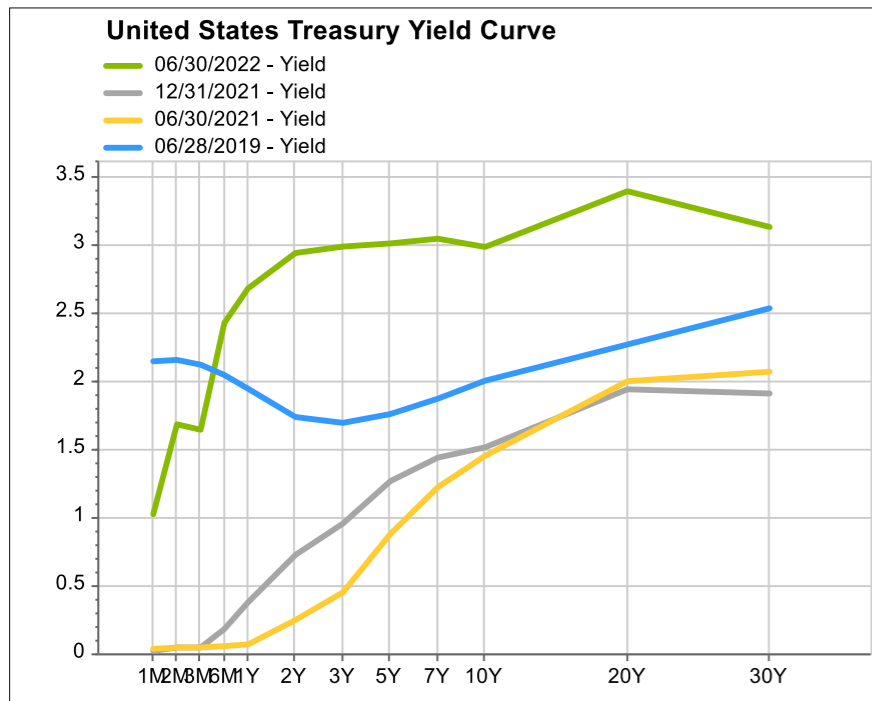
Source: 1) Bureau of Economic Analysis; (BEA); 2) Institute for Supply Management (ISM); 3) U.S. Census Bureau; 4) National Association of Realtors; 5) Bureau of Labor Statistics (BLS)
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Fixed Income

Overview & Outlook



Yields as of June 30, 2022	
US Treasuries	
3-month	1.71%
2-year	2.96%
5-year	3.04%
10-year	3.02%
30-year	3.19%



Summary View: Neutral

- Yields on investment-grade and high yield corporate bonds continued to climb throughout June and better compensate investors for taking credit risk but we expect continued volatility and additional spread widening in corporate bonds as persistent inflationary pressures spur the Federal Open Market Committee (FOMC) and central banks abroad to hike short-term interest rates further, despite weaker economic growth and geopolitical uncertainty. We eliminated a targeted exposure to mortgage-backed securities (MBS) during May and reallocated funds into a flexible core-plus mandate capable of taking advantage of dislocations as they materialize within the corporate credit space over coming quarters.
- The Fed began quantitative tightening, or balance sheet runoff on June 1 at a pace of \$47.5B per month which will increase to \$95B starting in September. This process will generate volatility and likely lead to wider credit spreads across both investment-grade and high yield corporate bonds as true price discovery has been absent for two-plus years.
- The Federal Open Market Committee (FOMC) hiked the fed funds rate by 75-basis points at the conclusion of its June meeting. The main question leading up to the Committee's meeting in late July will be whether falling commodity prices will lead the FOMC to increase the fed funds rate by 50-basis points instead of another more aggressive 75-basis point hike. Market participants were concerned that the Fed was moving too slowly to combat rising prices; however, after a 75-basis point hike at it's June meeting, market participants now fear the Fed is moving too aggressively and have begun to price in higher odds of a recession, forcing yields on long-dated U.S. Treasuries sharply lower.
- Emerging market debt hasn't fared so well year-to-date, the Emerging Market U.S. Dollar Aggregate Bond Index falling 17% through June. U.S. dollar strength has been a headwind for the asset class, but we have been encouraged by the recent performance out of emerging market corporate issues, specifically, and we continue to believe that income generation and diversification from the asset class could be beneficial to fixed income portfolios if sized appropriately over coming quarters.

Risks: The correlation between stocks and risk-free bonds remains high, reducing diversification benefits and leading to larger than expected drawdowns and higher volatility from multi-asset portfolios.

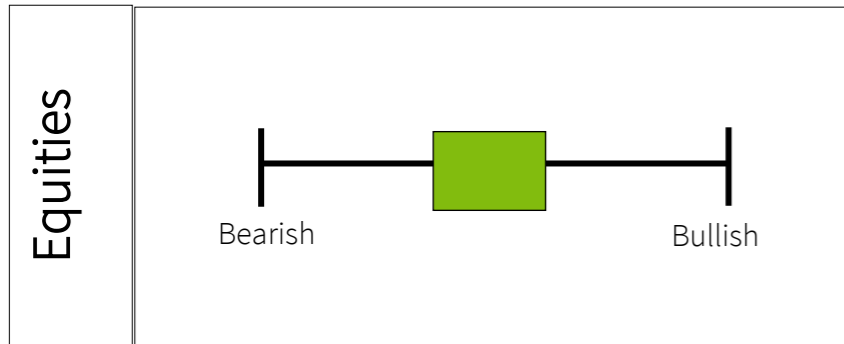
	YTD 6/30/2022	2021	2020	2019	2018	2017
Total Return						
Bloomberg US Agg Bond TR USD	-10.35%	-1.54%	7.51%	8.72%	0.01%	3.54%
Bloomberg High Yield Corp TR USD	-14.19%	5.28%	7.11%	14.32%	-2.08%	7.50%
Bloomberg Global Agg Ex USD TR	-16.49%	-7.05%	10.11%	5.09%	-2.15%	10.51%
Bloomberg US Treasury US TIPS	-8.92%	5.96%	10.99%	8.43%	-1.26%	3.01%
FTSE Treasury Bill 3 Month (Money Market)	0.17%	0.05%	0.58%	2.25%	1.86%	0.86%

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

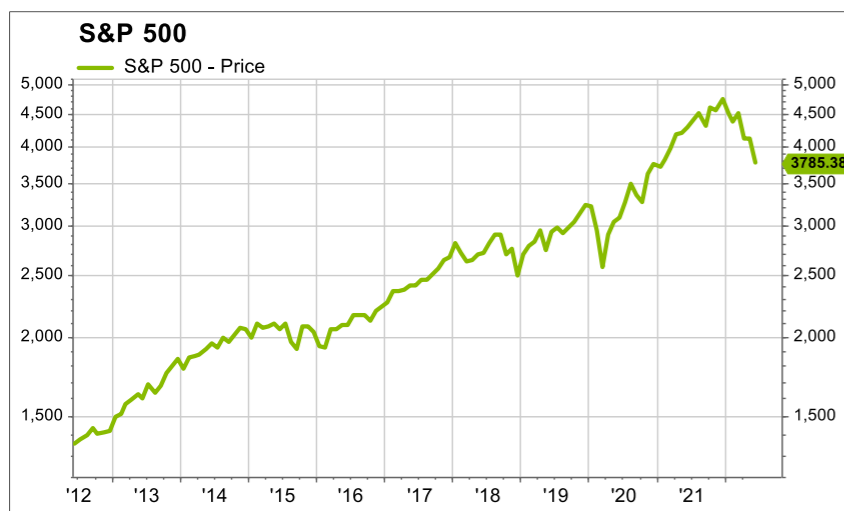
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Equities

Overview & Outlook



S&P 500 Statistics as of June 30, 2022	
Fundamentals	
2021 Earnings	\$206
2022 Earnings Estimates	\$229
Forward P/E	16.48x
Dividend Yield	1.61%
Technicals	
% of Stocks Above 200ma	20%
VIX (CBOE Volatility Index)	28.71



Summary View: Neutral

- Diversified supply chains, pricing power, and fortress balance sheets make domestic large-cap stocks relatively appealing, and the S&P 500 should benefit as investors focus on 'quality' and away from levered, less profitable companies.
- Rising interest rates and higher costs tied to commodities, logistics, and labor could weigh on profitability for small and mid-cap (Smid) U.S. stocks throughout 2022 but this cohort of stocks could benefit from its U.S.-centric focus as uncertainty surrounding growth in the Euro Area persists over coming quarters.
- International developed market stocks continue to be attractively valued but fears of stagflation due to rapidly rising prices are likely to weigh on the outlook for economic growth in Europe, specifically, generating relative underperformance out of equities domiciled there. The European Central Bank (ECB) is preparing to begin hiking key deposit rates later this month but remains behind the inflation curve and will likely be forced to do much more to curtail rising prices, stunting economic growth in the Euro Area for quarters to come.
- Emerging markets have been a relative outperformer year-to-date through June, with Chinese equities, specifically, garnering interest and inflows from investors throughout June as an easing of regulations surrounding technology companies based there, along with COVID lockdowns ending - albeit briefly, and continued easing of monetary policy, provided a tailwind. Emerging markets hold some appeal, but active security and country selection is crucial.

Risks: Global central banks are 'forced' to continue hiking rates and normalizing monetary policy into a weakening economic backdrop to stem the tide of rising prices; fears of waning economic growth amid persistently higher inflation spur a wave of lowered earnings revisions as margin fears build due to higher commodity and labor costs.

	YTD 6/30/2022	2021	2020	2019	2018	2017
Total Return						
S&P 500 Index (Large Cap)	-19.96%	28.71%	18.40%	31.49%	-4.38%	21.83%
S&P 500 (Large Cap Growth)	-27.62%	32.01%	33.47%	31.13%	-0.01%	27.44%
S&P 500 (Large Cap Value)	-11.41%	24.90%	1.36%	31.93%	-8.95%	15.36%
Russell 2500 Index (Small to Mid Cap)	-21.81%	18.18%	19.99%	27.77%	-10.00%	16.81%
Russell Mid Cap Index (Mid Cap)	-21.57%	22.58%	17.1%	30.54%	-9.06%	18.52%
Russell 2000 Index (Small Cap)	-23.43%	14.82%	19.96%	25.52%	-11.01%	14.65%
MSCI World Ex-US (Foreign Stocks, Net Return)	-18.42%	7.82%	10.65%	21.51%	-14.09%	24.21%
MSCI EAFE Index (Foreign Stocks, Net Return)	-19.57%	11.26%	7.82%	22.01%	-13.79%	25.03%
MSCI EM (Foreign Stocks, Net Return)	-17.63%	-2.54%	18.31%	18.42%	-14.58%	37.28%

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

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