State of Alabama Treasurer's Office

Prepaid Affordable College Tuition (PACT) Program

As of September 30, 2022

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Bond Portfolio Review

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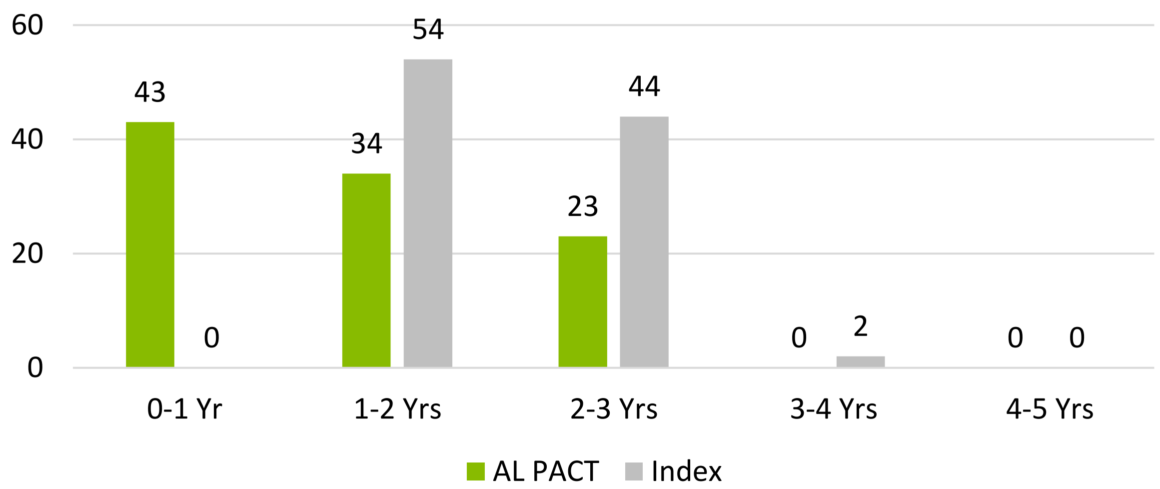
State of Alabama Treasurer’s Office – PACT Program
Fixed Income Portfolio Characteristics as of 09.30.2022

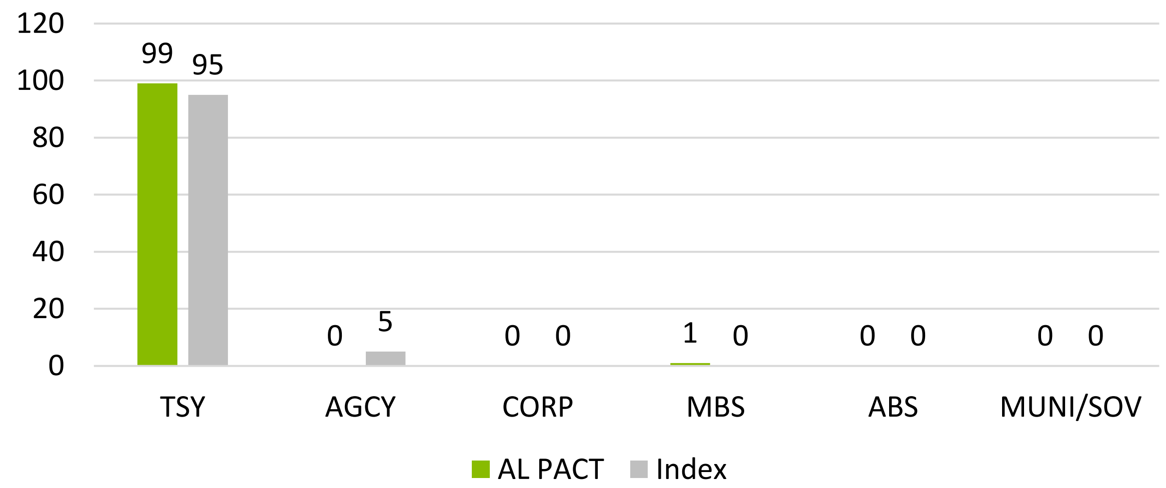
Portfolio Characteristics

	AL PACT	Index
Yield to Maturity	4.13%	4.28%
Average Coupon	1.36%	1.64%
Effective Duration	1.37 years	1.88 years
Average Life	1.43 years	1.95 years
Average Quality	Aaa	Aaa

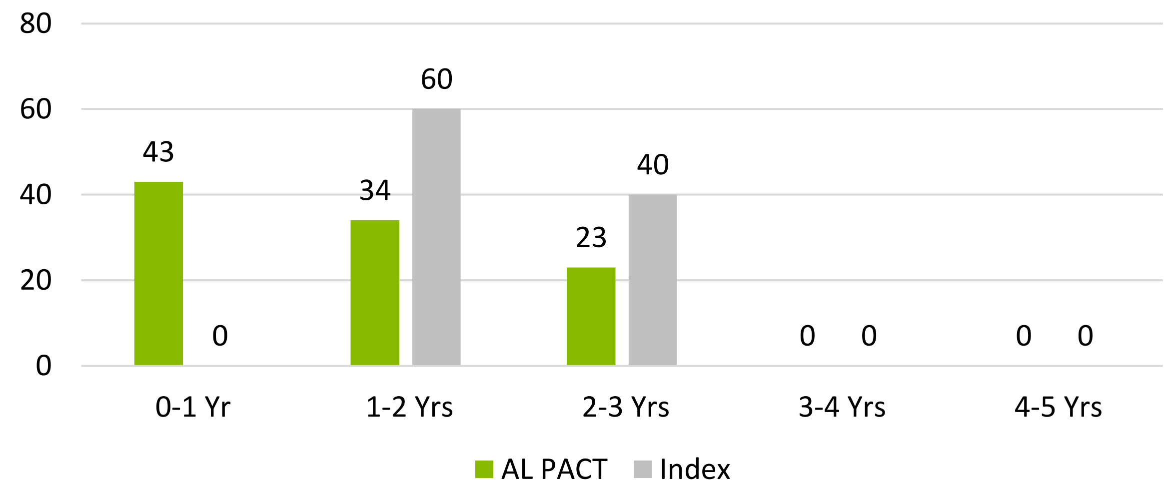
Maturity vs. Index



Sector vs. Index



Duration vs. Index



Index: Bloomberg Barclays 1-3 Year US Govt Index

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State of Alabama Treasurer's Office – PACT Program
Performance as of 09.30.2022

	Qtr	YTD	1-Yr	3 Years *	5 Years *	Inception *
Consolidated Portfolio	**-0.67%**	**-0.58%**	**-0.67%**	**0.83%**	**1.40%**	**1.44%**

Money Market Fund	**0.50%**	**0.60%**	**0.61%**	**0.46%**	**1.02%**	**0.92%**

Fixed Income Portfolio	**-0.93%**	**-2.57%**	**-2.90%**	**0.32%**	**1.20%**	**1.34%**
1-3 YR Govt Only	-1.54%	-4.51%	-5.06%	-0.53%	0.54%	0.64%
Excess Return	*0.61%*	*1.94%*	*2.16%*	*0.85%*	*0.66%*	*0.70%*

*** Market Values: Consolidated: $232.6 mm / Money Market: $31.5 mm / Fixed Income: $201.1 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

State of Alabama Treasurer's Office – PACT Program
Allocation Detail as of 09.30.2022

INVESTMENT RETURN SUMMARY - QUARTER ENDING SEPTEMBER 30, 2022

Name	Current Quarter Total Return	Prior Quarter Market Value	Net Cashflow	Investment Return	Current Quarter Market Value *
Fixed Income	-0.93%	$238,789,621	($28,000,000)	($1,620,391)	$209,169,230
Money Market Mutual Fund	0.50%	9,599,986	13,000,000	142,668	$22,742,654
Demand Deposit	0.00%	684,830	-540,847	0	$143,983
Total Portfolio	-0.67%	**$249,074,438**	**($15,540,847)**	**($1,477,723)**	**$232,055,867**

* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of $6,520,641.80 that was in the Treasury Account on September 30, 2022.

MANAGER ALLOCATION SUMMARY - QUARTER ENDING SEPTEMBER 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 *	%
$238,789,621	96%	Fixed Income	(STFX)	0	209,169,230	90%
$9,599,986	4%	Money Market Mutual Fund	(CASH)	0	22,742,654	10%
$684,830	0%	Demand Deposit	(CASH)	0	143,983	0%
$249,074,438	**100%**		**(TOTL)**	**$0**	**232,055,867**	**100%**

* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of $6,520,641.80 that was in the Treasury Account on September 30, 2022.

Source: SEI

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Market Updates

- Market Returns
- Economic Update
- Fixed Income Markets

Market Returns

Equities	YTD as of 9/30/22	Trailing 3 Months 9/30/22	2021	2020	2019	2018	2017	2016
S&P 500 Index (Large Cap Stocks)	-23.87%	-4.88%	28.71%	18.40%	31.49%	-4.38%	21.83%	11.96%
S&P 500 (Large Cap Growth)	-30.41%	-3.86%	32.01%	33.47%	31.13%	-0.01%	27.44%	6.89%
S&P 500 (Large Cap Value)	-16.56%	-5.82%	24.90%	1.36%	31.93%	-8.95%	15.36%	17.40%
Russell 2500 Index (Small to Mid Cap Stocks)	-24.01%	-2.82%	18.18%	19.99%	27.77%	-10.00%	16.81%	17.59%
Russell Mid Cap TR USD	-24.27%	-3.44%	22.58%	17.10%	30.54%	-9.06%	18.52%	13.80%
Russell 2000 Index (Small Cap Stocks)	-25.10%	-2.19%	14.82%	19.96%	25.52%	-11.01%	14.65%	21.31%
MSCI ACWI Ex-US (Foreign Stocks, Net Return)	-26.50%	-9.91%	7.82%	10.65%	21.51%	-14.20%	27.19%	4.50%
MSCI EAFE Index (Foreign Stocks, Net Return)	-27.09%	-9.36%	11.26%	7.82%	22.01%	-13.79%	25.03%	1.00%
MSCI EM (Foreign Stocks, Net Return)	-27.16%	-11.57%	-2.54%	18.31%	18.42%	-14.58%	37.28%	11.19%
Fixed Income								
Bloomberg US Agg Bond TR USD	-14.61%	-4.75%	-1.54%	7.51%	8.72%	0.01%	3.54%	2.65%
Bloomberg Global Agg Ex USD TR	-23.88%	-8.85%	-7.05%	10.11%	5.09%	-2.15%	10.51%	1.49%
S&P National AMT-Free Municipal Bond Index	-10.64%	-3.04%	1.02%	4.95%	7.42%	1.01%	5.09%	0.36%
Bloomberg High Yield Corp TR USD	-14.74%	-0.65%	5.28%	7.11%	14.32%	-2.08%	7.50%	17.13%
Bloomberg US Treasury US TIPS	-13.61%	-5.14%	5.96%	10.99%	8.43%	-1.26%	3.01%	4.68%
FTSE Treasury Bill 3 Month (Money Market)	0.62%	0.45%	0.05%	0.58%	2.25%	1.86%	0.86%	0.33%
Diversified Strategies								
HFRX Global Hedge Index	-4.56%	0.51%	3.65%	6.81%	8.62%	-6.72%	5.98%	2.50%

Source: Morningstar

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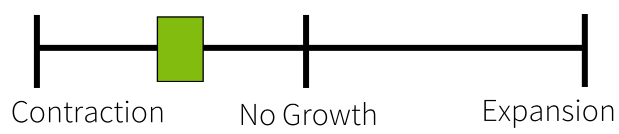
Economy

Overview & Outlook

Economy



Risks:

▪Persistently high inflation could lead to the FOMC going "too far too fast" as they raise the Fed funds rate. Elevated inflation and higher interest rates, particularly mortgage rates, have clearly led to a slowdown in economic growth, and though there have been signs of progress, supply-side constraints have yet to fully clear.

Opportunities:

▪Should global supply-side constraints clear faster and labor force participation increase more than we expect, growth could be faster than expected. Relief on the supply side of the economy could mean a less aggressive course of Fed funds rate hikes than is now anticipated.

Good (Bad) Data Are Bad (Good) News?

▪The ISM Manufacturing Index fell to 50.9 percent, still above the 50.0 percent break between contraction and expansion, but that margin has narrowed considerably over recent months, and the expansion in the factory sector has become increasingly less broad based, with only nine of the eighteen industry groups included in the survey reporting growth. At the same time, new orders declined for the third time in the past four months and backlogs of unfilled orders have been largely worked off.[1] This bodes poorly for manufacturing and employment in the months ahead.

▪The ISM Non-Manufacturing Index showed continued steady and broad based expansion in the services sector in September, with fifteen of the eighteen industry groups included in the survey reporting expansion. Growth in new orders remains steady, which should help sustain job growth in the broad services sector over coming months.[1]

▪The housing market continues to stumble under the weight of higher mortgage interest rates. Sales of new and existing homes have fallen further and the pace of new construction starts has slowed. Diminished demand has led to downward pressure on house prices. At the same time, the backlog of housing units under construction remains at an all-time high.[2,3] We continue to think that a better supply-demand balance is more likely than a repeat of the housing market collapse seen prior to the 2007-2009 recession.

▪The total Consumer Price Index (CPI) was up just 0.1 percent in August, but the core CPI rose by 0.6 percent.[4] Going forward, the drag from falling gasoline prices over the summer months is starting to reverse, and core inflation will likely be slow to recede over the next several months.

Slower Job Growth Still Leaves A Tight Labor Market

▪Total nonfarm employment rose by 263,000 jobs in September, with private sector payrolls up by 288,000 jobs and public sector payrolls down by 25,000 jobs. While the pace of job growth has slowed, job growth remains notably broad based across private sector industry groups.[4]

▪The unemployment rate fell to 3.5 percent in September from 3.7 percent in August, in part due to a decline in labor force participation.[5] That decline was simply a reversal of the spike reported in the August data that was little more than seasonal adjustment noise.

▪Data from the Job Openings and Labor Turnover Survey (JOLTS) show the number of open jobs across the U.S. economy declined from 11.170 million in July to 10.053 million in August. While a notably large decline, that still leaves the number of job openings over forty percent higher than pre-pandemic levels. The JOLTS data also show that people continue to voluntarily quit jobs at rates well above pre-pandemic rates.[4] Even with a slowing pace of job growth and fewer open jobs, the reality is that labor supply remains no match for labor demand.

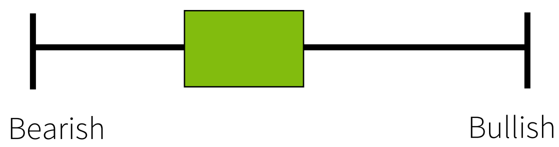
▪The FOMC raised the Fed funds rate by 75 basis points at their September meeting and the updated dot plot released in conjunction with that meeting was considerably more aggressive than had been anticipated, implying a "higher for longer" path of the Fed funds rate. We anticipate another 125 basis points of Fed funds rate hikes by year-end 2022, yet many market participants continue to expect a quick pivot from rate hikes to rate cuts. The bottom line is that the FOMC remains singularly focused on inflation, and inflation is now and will for some time be far too high for the FOMC to take their collective foot off the gas, even if that means they push the economy into recession.

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

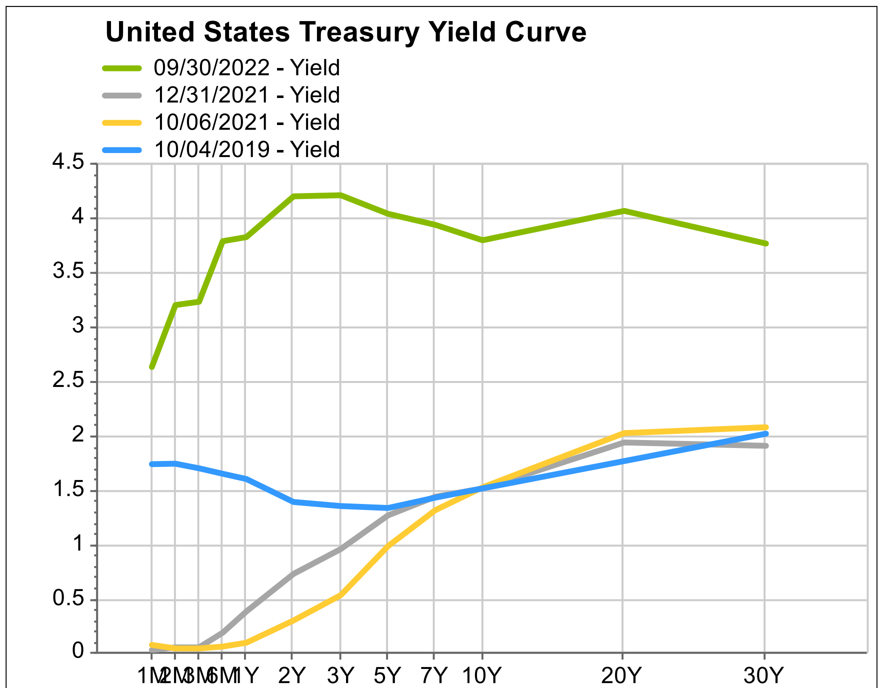
Fixed Income

Overview & Outlook

Fixed Income



Yields as of September 30, 2022	
US Treasuries	
3-month	3.29%
2-year	4.29%
5-year	4.09%
10-year	3.83%
30-year	3.78%



Summary View: Neutral

- Inflationary pressures are likely to remain sticky amid labor market strength, providing cover for the Federal Open Market Committee (FOMC) to hike short-term interest rates further, despite weaker economic growth and geopolitical uncertainty. The FOMC's own summary of economic projections point toward a fed funds rate in the 4.25% to 4.50% range by year-end 2022, and for the fed funds rate to peak between 4.5% and 4.75% and remain at that level.
- FOMC Chair Jerome Powell again dashed hopes of a dovish pivot in a pointed and carefully worded speech at Jackson Hole at the end of August, and the Committee followed through with another 75-basis point hike to the fed funds rate in September. If the FOMC's dot-plot is to be believed, the fed funds rate should rise another 125-basis points between now and year-end, but it is the path that remains uncertain. The FOMC wants to get policy to a restrictive level and hold rates there for a time, and with the unemployment rate at 3.5% at the end of September and with job openings trending lower but still north of 10 million, we see few reasons why the Fed would pause or pivot prior to year-end.
- Yields on investment-grade and high yield corporate bonds trended higher throughout September as credit took its cue from rising Treasury yields. Corporate bond valuations are roughly in-line with 20-year averages after the back-up in yields during September. Within investment-grade corporates we would prefer shorter duration bonds as interest rate risk and volatility will likely remain elevated. We are neutral on high yield corporates and expect defaults to remain low, but as the FOMC raises the fed funds rate, recession probabilities will likely rise, leading to wider credit spreads.
- The Emerging Market U.S. Dollar Aggregate Bond Index fell 20% year-to-date through September. U.S. dollar strength has been a headwind for the asset class, but income generation and diversification hold appeal if sized appropriately.

Risks: Correlations between stocks and bonds remain high, reducing diversification benefits and leading to larger than expected drawdowns and higher volatility in multi-asset portfolios; higher on short-term bonds lead investors to shorten portfolio durations, a move detrimental to total return should yields on long bonds move lower as recession odds rise.

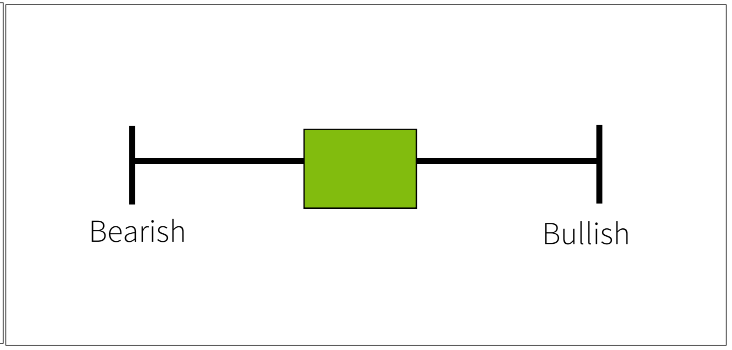
Total Return	YTD 9/30/2022	2021	2020	2019	2018	2017
Bloomberg US Agg Bond TR USD	-14.61%	-1.54%	7.51%	8.72%	0.01%	3.54%
Bloomberg High Yield Corp TR USD	-14.74%	5.28%	7.11%	14.32%	-2.08%	7.50%
Bloomberg Global Agg Ex USD TR	-23.88%	-7.05%	10.11%	5.09%	-2.15%	10.51%
Bloomberg US Treasury US TIPS	-13.61%	5.96%	10.99%	8.43%	-1.26%	3.01%
FTSE Treasury Bill 3 Month (Money Market)	0.62%	0.05%	0.58%	2.25%	1.86%	0.86%

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

Equities

Overview & Outlook

Equities



S&P 500 Statistics as of September 30, 2022	
Fundamentals	
2021 Earnings	$208
2022 Earnings Estimates	$224
Forward P/E	16.73x
Dividend Yield	1.75%
Technicals	
% of Stocks Above 200ma	19%
VIX (CBOE Volatility Index)	31.62

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. However, the S&P 500 derives over 30% of revenues from abroad and faces hurdles from an economic slowdown in Europe and emerging markets, as well as a stronger U.S. dollar which will weigh on sales.
- 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 but this cohort could benefit from its U.S.-centric focus as economic growth fears abroad persist.
- International developed market stocks continue to be attractively valued but rising energy and electricity prices are likely to weigh on the economic growth outlook for Europe, generating relative underperformance out of equities domiciled there.
- The Bank of England (BoE) was forced to step in to buy long-term gilts in late September as U.K. pension plans faced the prospect of margin calls, but the BoE plans to stop buying mid-month and will begin actively selling bonds in late October. Confidence in policymakers in the U.K. and across the euro area remains low while economic uncertainty and political dysfunction remain high, a recipe for rising sovereign bond yields and underperformance out of euro area equities.
- Emerging markets remain a mixed bag with Asia a source of underperformance as China, South Korea, and Taiwan were notably weak during the 3rd quarter, while Brazil and India have been bright spots within the index. Broadly speaking, emerging market central banks were quick to raise rates to combat inflation in the latter part of 2021 and may be poised to outperform in 2023 as inflationary pressures subside, allowing some to ease monetary policy and boost economic growth.

Risks: Global central banks are forced to continue hiking rates 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, labor, and borrowing costs.

Total Return	YTD 9/30/2022	2021	2020	2019	2018	2017
S&P 500 Index (Large Cap)	-23.87%	28.71%	18.40%	31.49%	-4.38%	21.83%
S&P 500 (Large Cap Growth)	-30.41%	32.01%	33.47%	31.13%	-0.01%	27.44%
S&P 500 (Large Cap Value)	-16.56%	24.90%	1.36%	31.93%	-8.95%	15.36%
Russell 2500 Index (Small to Mid Cap)	-24.01%	18.18%	19.99%	27.77%	-10.00%	16.81%
Russell Mid Cap Index (Mid Cap)	-24.27%	22.58%	17.1%	30.54%	-9.06%	18.52%
Russell 2000 Index (Small Cap)	-25.10%	14.82%	19.96%	25.52%	-11.01%	14.65%
MSCI World Ex-US (Foreign Stocks, Net Return)	-26.50%	7.82%	10.65%	21.51%	-14.09%	24.21%
MSCI EAFE Index (Foreign Stocks, Net Return)	-27.09%	11.26%	7.82%	22.01%	-13.79%	25.03%
MSCI EM (Foreign Stocks, Net Return)	-27.16%	-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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