Regions Institutional Investment Management

Alabama Association of School Business Officials

Cash Management & Investment Strategy Overview

September 21, 2021

George R. McCurdy IV, CFA
Sr. Vice President & Portfolio Manager
Regions Investment Management
george.mccurdy@regions.com
205-264-7554

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Market Updates

- Economic & Financial Market Overview

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REGIONS

Economy

Overview & Outlook

Economy

Risks:

▪Input shortages and labor supply constraints are beginning to weigh on the supply side of the economy as business and household demand remains robust. This injects downside risks into the growth outlook while adding to the degree of inflation pressures.

Opportunities:

▪Further reopening of the economy, considerable levels of cash on household and corporate balance sheets, and highly accommodative monetary and fiscal policy will all be supportive of growth through year-end 2021.

Supply Side Issues Weigh On Growth, Feed Price Pressures

Growing Imbalance Between Demand Side And Supply Side Of U.S. Economy

▪The ISM Manufacturing Index rose to 61.2 percent in May, while the ISM Non-Manufacturing Index rose to 64.0 percent, indicating continued expansion in the broader economy.[1] Beneath the headline numbers, however, there are signs of increasing stress on the supply side of the economy. At the same time, the demand side of the economy is notably robust.

▪The details of the ISM's surveys point to shortages of labor and non-labor inputs and shipping bottlenecks as driving up costs to producers and acting as a drag on output growth. The ISM's May survey of the manufacturing sector showed the index of supplier delivery times rose to its highest level since April 1974, while the survey of the non-manufacturing sector also pointed to slower supplier delivery times. At the same time, respondents to both surveys pointed to labor shortages as an ongoing supply-side constraint .[1]

▪The pace of new home sales fell sharply in April, to an annual rate of 863,000 units.[2] Builders have for some time been constrained by shortages of labor and buildable lots but are now facing an additional headwind in the form of high and rapidly changing materials prices. Many have intentionally limited new orders and are not pricing homes until construction is well underway. At the same time, despite continued low mortgage interest rates, there are growing concerns that elevated home prices are weighing on demand.

▪Higher input costs, higher labor costs, higher shipping costs, and a weaker U.S. dollar are all combining to fuel inflation pressures. The Consumer Price Index rose by 0.8 percent in April, the largest monthly increase since June 2009, and on an over-the-year basis, the CPI is rising at a rate close to 5.0 percent.[3]

Supply Constraints Limiting Job Growth, Fueling Wage Pressures

▪Total nonfarm employment rose by 559,000 jobs in May, with the unemployment rate falling to 5.8 percent.[3] Though better than April's increase of 278,000 jobs, job growth in May was below expectations. It was expected that further reopening of the economy and increasing numbers of people being vaccinated would prompt much larger job gains in April and May than those that occurred, particularly with over eight million open jobs waiting to be filled.[3]

▪Against that backdrop, May's decline in the labor force participation rate was even more surprising, and means that there are now over 3.5 million fewer people in the labor force than was the case prior to the pandemic.[3]

▪While labor supply constraints should begin to ease over coming months, in the interim they are leading to more upward pressure on wages than would seem consistent with the remaining degree of labor market slack. After having risen by 0.7 percent in April, average hourly earnings rose by 0.5 percent, with increases across all broad industry groups.[3]

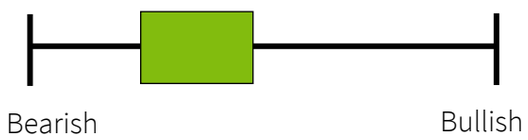
▪The FOMC continues to signal that they see supply chain disruptions and upward pressure on prices as being transitory. The June FOMC meeting is unlikely to bring any changes to either the Fed funds rate or the pace of the Fed's monthly asset purchases. The meeting will see the release of the FOMC's updated economic and financial projections. It will be interesting to see whether the Committee's forecast of inflation has changed, and do not be surprised if the updated "dot plot" pulls the timing of the initial Fed funds rate hike into 2023. In his post-meeting press conference, however, Chairman Powell is likely to reiterate that it is too soon to consider tapering the Fed's monthly asset purchases.

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

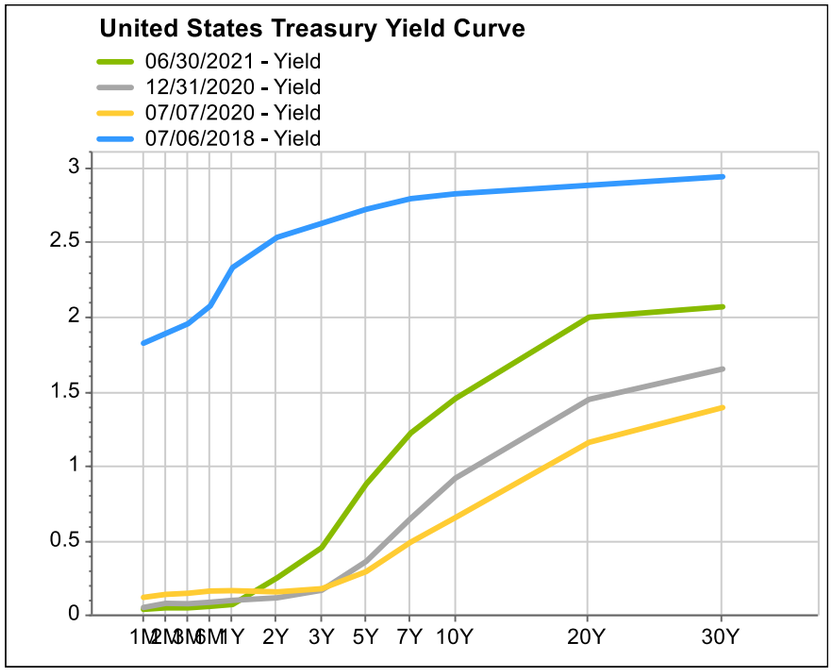
Fixed Income

Overview & Outlook

Fixed Income



Yields as of June 30, 2021	
US Treasuries	
3-month	0.04%
2-year	0.25%
5-year	0.89%
10-year	1.47%
30-year	2.09%



Summary View: Neutral

- Yields on long-term Treasuries have risen in 2021, leading to negative returns for core-investment grade bonds year-to-date. We expect a challenging backdrop to remain in place throughout much of this year, leading us to 'underweight' bonds relative to stocks.
- Upward pressure on the long end of the yield should persist as economic growth and inflation expectations remain in flux.
- Rising inflation expectations in the Eurozone could lead German bund yields higher, pulling U.S. yields along.
- The Federal Open Market Committee (FOMC) isn't expected to raise the Fed funds rate until early 2023 and continues to purchase Treasuries and mortgage-backed securities at a $120B per month clip, supporting credit markets and leading to balance sheet expansion/bloat. However, we expect the Fed to face pressure to curtail bond purchases later this year or perhaps early in 2022 as the U.S. and global economy recovers.
- We believe there remains relative value in select asset-backed securities, as well as dollar-denominated emerging market debt, while we are less positive on agency mortgage-backed securities, broadly speaking.
- While we remain constructive on emerging markets both from a fixed income and equity perspective, EM bonds tend to be longer duration assets, and as such carry significant sensitivity to U.S. Treasury yields and must be right-sized due to heightened volatility and larger potential drawdowns when outflows occur.

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.

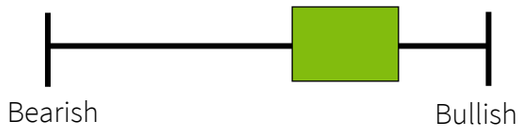
Total Return	YTD 6/30/2021	2020	2019	2018	2017	2016
Barclays US Agg Bond TR USD	-1.60%	7.51%	8.72%	0.01%	3.54%	2.65%
Barclays High Yield Corp TR USD	3.62%	7.11%	14.32%	-2.08%	7.50%	17.13%
Barclays Global Agg Ex USD TR	-4.42%	10.11%	5.09%	-2.15%	10.51%	1.49%
Barclays US Treasury US TIPS	1.73%	10.99%	8.43%	-1.26%	3.01%	4.68%
FTSE Treasury Bill 3 Month (Money Market)	0.03%	0.58%	2.25%	1.86%	0.86%	0.33%

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

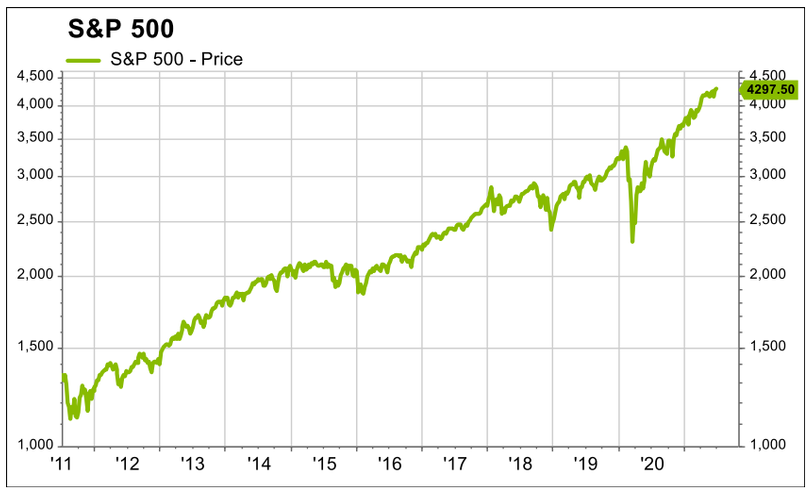
Equities

Overview & Outlook

Equities



S&P 500 Statistics as of June 30, 2021	
Fundamentals	
2020 Earnings	$137
2021 Earnings Estimates	$191
Forward P/E	22.8x
Dividend Yield	1.31%
Technicals	
% of Stocks Above 200ma	89%
VIX (CBOE Volatility Index)	15.83



Summary View: Neutral

- Diversified supply chains, pricing power, and fortress balance sheets make domestic large-cap stocks appealing, and this cohort would also be a relative beneficiary of the global economic recovery and a weakening U.S. dollar.
- While tight credit spreads remain supportive of small and mid-cap U.S. stocks, higher interest rates and rising costs tied to commodities, logistics, and wages could put near-term pressure these indices. 'Beta,' or market exposure to SMid proved beneficial post-election, but we expect security selection to be a bigger driver of returns and investor experience when allocating to smaller capitalization stocks going forward.
- International developed market stocks (MSCI EAFE) are attractively valued and unprecedented fiscal stimulus out of the Eurozone leads us to a more constructive stance on Europe, specifically. We enter June 'neutral' relative to our strategic target for international developed stocks for the first time in two-plus years as economic shutdowns to curtail the spread of COVID-19 are ending and tourism on the continent appears poised to pick up meaningfully, potentially boosting animal spirits and demand for exposure to European equities over coming months.
- U.S. dollar weakness would be a tailwind for developing economies, but we remain comfortable with a neutral allocation to emerging market equities relative to our strategic target. COVID-19 remains an issue for India and Brazil, specifically, and while a weaker dollar will make commodities more affordable, supply constraints should support prices over the near-term.

Risks: Sweeping changes at the industry level or to tax rates occurs; Interest rates rise rapidly as economic growth and/or inflation expectations surprise to the upside, providing an alternative for investors 'forced' into stocks due to low rates.

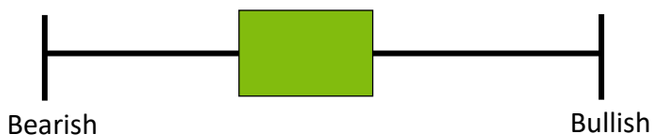
Total Return	YTD 6/30/2021	2020	2019	2018	2017	2016
S&P 500 Index (Large Cap)	15.25%	18.40%	31.49%	-4.38%	21.83%	11.96%
S&P 500 (Large Cap Growth)	14.31%	33.47%	31.13%	-0.01%	27.44%	6.89%
S&P 500 (Large Cap Value)	16.30%	1.36%	31.93%	-8.95%	15.36%	17.40%
Russell 2500 Index (Small to Mid Cap)	16.97%	19.99%	27.77%	-10.00%	16.81%	17.59%
Russell Mid Cap Index (Mid Cap)	16.25%	17.1%	30.54%	-9.06%	18.52%	13.80%
Russell 2000 Index (Small Cap)	17.54%	19.96%	25.52%	-11.01%	14.65%	21.31%
MSCI World Ex-US (Foreign Stocks, Net Return)	9.16%	10.65%	21.51%	-14.09%	24.21%	2.75%
MSCI EAFE Index (Foreign Stocks, Net Return)	8.83%	7.82%	22.01%	-13.79%	25.03%	1.00%
MSCI EM (Foreign Stocks, Net Return)	7.45%	18.31%	18.42%	-14.58%	37.28%	11.19%

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

Fixed Income - Municipal

Overview & Outlook

Municipals



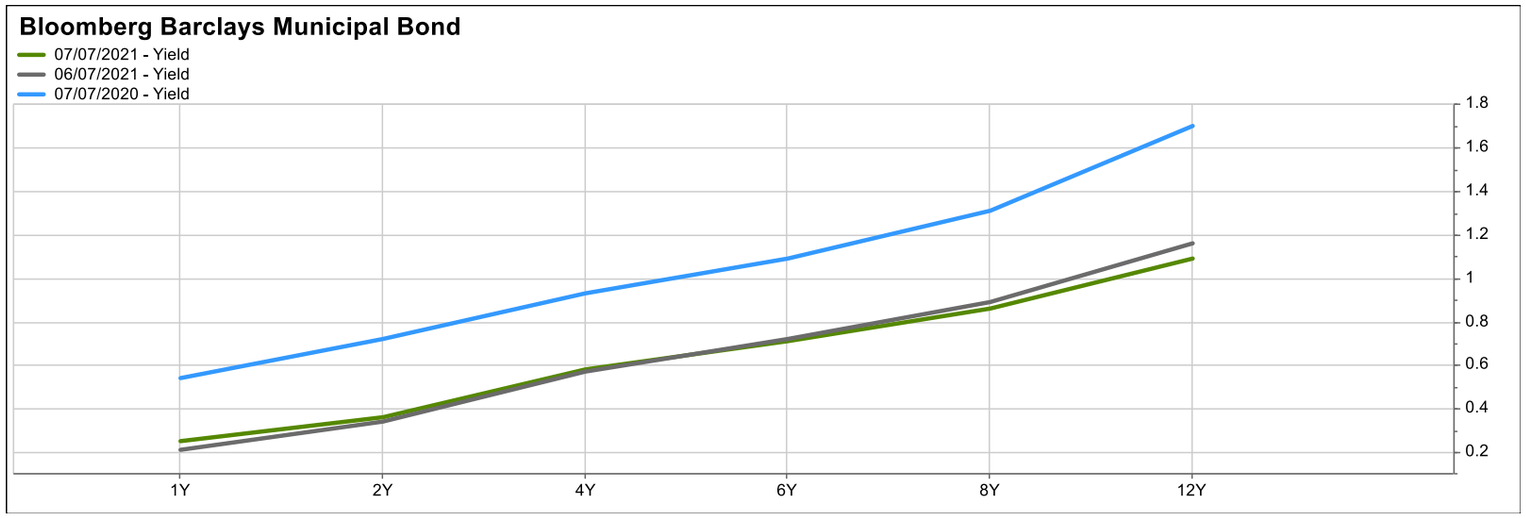
Summary View: Neutral

- Yields have diverged from Treasuries due to the strong technical environment that has persisted over recent months. Valuations are well below long-term norms but there is room for further spread compression in mid-quality credits that remain near pre-COVID levels. Potential price appreciation from credit spread tightening offers minimal upside and current tax-equivalent yields are pricing in higher taxes.
- High yield municipals have continued to appreciate in recent months as steady inflows persist. Valuations appear fairly rich but reasonable enough given the strong fundamental and technical environment.

Risks: The technical backdrop remains positive even though supply trended higher as of late, record-breaking demand has kept bond prices in check. The intermediate backdrop should remain supportive of municipals, and we are entering a seasonally strong period for municipal bonds, the primary risk is a buyer-strike as muni yields decline further while taxable yields rise.

Yields as of June 30, 2021	
US Muni Yields	
1-year	0.14%
5-year	0.51%
10-year	1.00%
30-year	1.57%
S&P National AMT-Free Municipal Bond Index	0.85%
Barclays Muni 5 Year	0.61%

Yields as of June 30, 2021	
US Treasuries	
3-month	0.04%
2-year	0.25%
5-year	0.89%
10-year	1.47%
30-year	2.09%



Total Return	YTD 6/30/2021	2020	2019	2018	2017	2016
S&P National AMT-Free Muni*	-0.41%	4.95%	7.42%	1.01%	5.09%	0.36%
Barclays Municipal	1.06%	5.21%	7. 54%	1.28%	5.45%	0.25%
Barclays High Yield Muni	6.13%	4.89%	10.68%	4.76%	9.69%	2.99%

Source: Prepared by Regions Asset Management using data from Morningstar, Bloomberg, and FactSet. * as of 3/31/2021.

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Market Returns

Equities	YTD As of 6/30/21	Trailing 3 Months 6/30/21	2020	2019	2018	2017	2016	2015
S&P 500 Index (Large Cap Stocks)	15.25%	8.55%	18.40%	31.49%	-4.38%	21.83%	11.96%	1.38%
S&P 500 (Large Cap Growth)	14.31%	11.93%	33.47%	31.13%	-0.01%	27.44%	6.89%	5.52%
S&P 500 (Large Cap Value)	16.30%	4.99%	1.36%	31.93%	-8.95%	15.36%	17.40%	-3.13%
Russell 2500 Index (Small to Mid Cap Stocks)	16.97%	5.44%	19.99%	27.77%	-10.00%	16.81%	17.59%	-2.90%
Russell Mid Cap TR USD	16.25%	7.50%	17.10%	30.54%	-9.06%	18.52%	13.80%	-2.44%
Russell 2000 Index (Small Cap Stocks)	17.54%	4.29%	19.96%	25.52%	-11.01%	14.65%	21.31%	-4.41%
MSCI ACWI Ex-US (Foreign Stocks, Net Return)	9.16%	5.48%	10.65%	21.51%	-14.20%	27.19%	4.50%	-5.66%
MSCI EAFE Index (Foreign Stocks, Net Return)	8.83%	5.17%	7.82%	22.01%	-13.79%	25.03%	1.00%	-0.81%
MSCI EM (Foreign Stocks, Net Return)	7.45%	5.05%	18.31%	18.42%	-14.58%	37.28%	11.19%	-14.92%
Fixed Income								
Barclays US Agg Bond TR USD	-1.60%	1.83%	7.51%	8.72%	0.01%	3.54%	2.65%	0.55%
S&P National AMT-Free Muni Bond*	-0.41%	-0.41%	4.95%	7.42%	1.01%	5.09%	0.36%	3.26%
Barclays Global Agg Ex USD TR	-4.42%	0.92%	10.11%	5.09%	-2.15%	10.51%	1.49%	-6.02%
Barclays High Yield Corp TR USD	3.62%	2.74%	7.11%	14.32%	-2.08%	7.50%	17.13%	-4.47%
Barclays US Treasury US TIPS	1.73%	3.25%	10.99%	8.43%	-1.26%	3.01%	4.68%	-1.44%
FTSE Treasury Bill 3 Month (Money Market)	0.03%	0.01%	0.58%	2.25%	1.86%	0.86%	0.33%	0.05%
Diversified Strategies								
HFRX Global Hedge Index	3.73%	2.41%	6.81%	8.62%	-6.72%	5.98%	2.50%	-3.64%

Source: Morningstar, * data as of 3/31/2021

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Overview of Investing

- Definitions
- Why Invest?
- Components of Investment Return

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Investment Definitions

Investing: *Investing is the current commitment of money or other resources in the expectation of reaping future benefits.*

- Investing can create an income stream, grow your principal, or both.
- Investing is usually a longer-term commitment as opposed to trading or speculation.
- Examples of "investment vehicles": real estate, stocks, bonds, mutual funds, exchange traded funds (ETFs), and certificate of deposit (CDs).

Source: Bodie, Z., Kane, A., & Marcus, A. J. (2010). Essentials of Investments. New York, NY: McGraw-Hill Education.

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Investment Definitions

Stock: *A stock is a type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings.*

- When you invest in, or buy a stock, you are becoming part owner of that corporation.
- Dividends are the return of a portion of the company's earnings to its owners or stockholders and are generally paid quarterly and paid on a per-share basis.
- Not all stocks pay dividends.
- Equity or stock returns are potentially higher than on bonds because there is increased risk of losing some or even all of your investment.

Source: Bodie, Z., Kane, A., & Marcus, A. J. (2010). Essentials of Investments. New York, NY: McGraw-Hill Education.

~ Note: Stocks are not allowed as investment with AL Treasury monies

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Investment Definitions

Bond: *A bond is a debt investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate.*

- When you invest in or buy a bond, you are lending money to that company or entity.
- The bond pays interest, generally semi-annually, at a stated rate for the life of the bond.
- At maturity, the issuer pays you back the "par value" or "face value", which may be more, less or equal to your cost basis.
- Bonds historically have been much less volatile than stocks, due to fixed interest and increased safety of principal. They also have had lower returns for the same reasons.

Source: Bodie, Z., Kane, A., & Marcus, A. J. (2010). Essentials of Investments. New York, NY: McGraw-Hill Education.

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Investment Definitions

Money Market Mutual Fund: *A subsector of the bond market; consists of very short-term debt securities, which are typically very marketable (or "liquid").*

- Liquidity is assessed by the time and cost it takes to exchange an investment into cash.
- Money market funds primarily allocate principal to U.S. Treasury bills & commercial paper
- Primary objectives are principal preservation, stability, and liquidity.
- Government money market funds only invest in U.S. government-issued or U.S. government-guaranteed securities.
- Lower risk profile equates to lower return potential

Source: Bodie, Z., Kane, A., & Marcus, A. J. (2010). Essentials of Investments. New York, NY: McGraw-Hill Education.

Why Do You Invest?

It is important to establish clearly defined investment objectives or goals so that you can track progress towards them and address any deficiencies along the way.

- Goals are investor-specific and an investor may have numerous.
- Preservation of principal, liquidity, and income are a few common goals.
- Time horizon of each goal is integral to determining the appropriate strategy to use to achieve the goal.
- Ability and willingness to take risk is important to ascertain. This enables investors to be comfortable with and stick to the investment strategy implemented.

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Components of Investment Return

Total Investment Return = Yield + Capital Appreciation/Depreciation

The ***yield*** is the income return on an investment, such as the ***interest or dividends received*** from holding a particular security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value or face value. Yields may be considered known or anticipated depending on the security in question as certain securities may experience fluctuations in value.

Capital appreciation is a rise in the value of an asset based on a rise in market price. It occurs when the asset invested commands a higher price in the market than an investor originally paid for the asset. The capital appreciation portion of the investment includes all of the market value exceeding the original investment or cost basis. *Depreciation* would be a decrease in the value of an asset over time.

Source: Bodie, Z., Kane, A., & Marcus, A. J. (2010). Essentials of Investments. New York, NY: McGraw-Hill Education.

Strategy Overview

- Liquidity Management
- Short Duration Management

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Liquidity Management

<u>Learning Objective</u>: Help illustrate how investment management is being incorporated as part of your overall liquidity management process.

How should investors view liquidity? Cash? Investment? Or Both?

- Prior to the financial crisis in 2008, liquidity management could merely mean having excess cash in a couple of money market funds while rolling a few U.S. Treasury bills.
- Once short-term interest rates fell to zero, investors and money managers had to adapt.
- Viewing daily cash, cash reserves, and short-term fixed-income as multiple buckets in a holistic liquidity management solution was a new philosophy for many.
- However, this provided a great opportunity for investment managers to educate and better serve their clients.

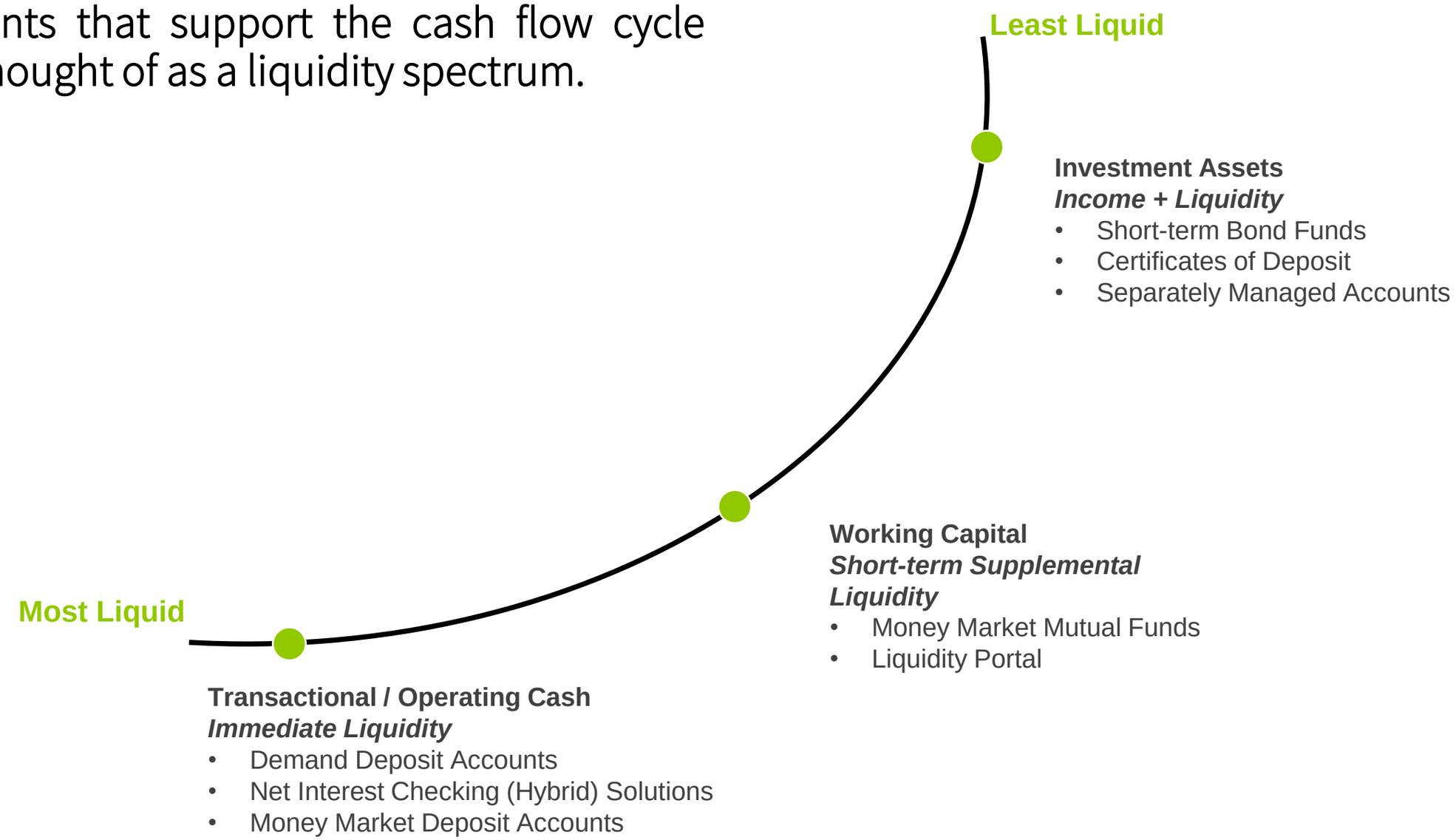
Overview of Short-Duration Fixed Income Strategies

Possible benefits of utilizing a conservative bond strategy:

- Potentially competitive risk-adjusted, total return versus cash alternatives
- Incorporates a long-term view, while focusing on liquidity.
- Primary objective is principal preservation with the secondary objective striving to generate stable, predictable cash flows as part of the total return.
- Example may be investing for a 1-3 year timeframe.

Liquidity Spectrum

- Instruments that support the cash flow cycle can be thought of as a liquidity spectrum.



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Liquidity Solution Example

- Agency has $200 million in cash

Cash Bank Deposit:	Money Market Mutual Fund:	Customized Portfolio:
$30 mm for operating expenses and reserves – 0-30 Days	$20mm additional reserves – 0-1 Year	$150mm – Short Duration Fixed Income Strategy – Typically Greater Than 1 year

- Considers cash needs from daily liquidity to an actively managed fixed income strategy
- Customization is key, as each bucket is part of an overall solution.
- Funds can flow between each bucket as investors' needs and liquidity profile changes.

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Regions Investment Management

Government Only Low Duration Strategy

Government Only Low Duration Management

Investment Objective

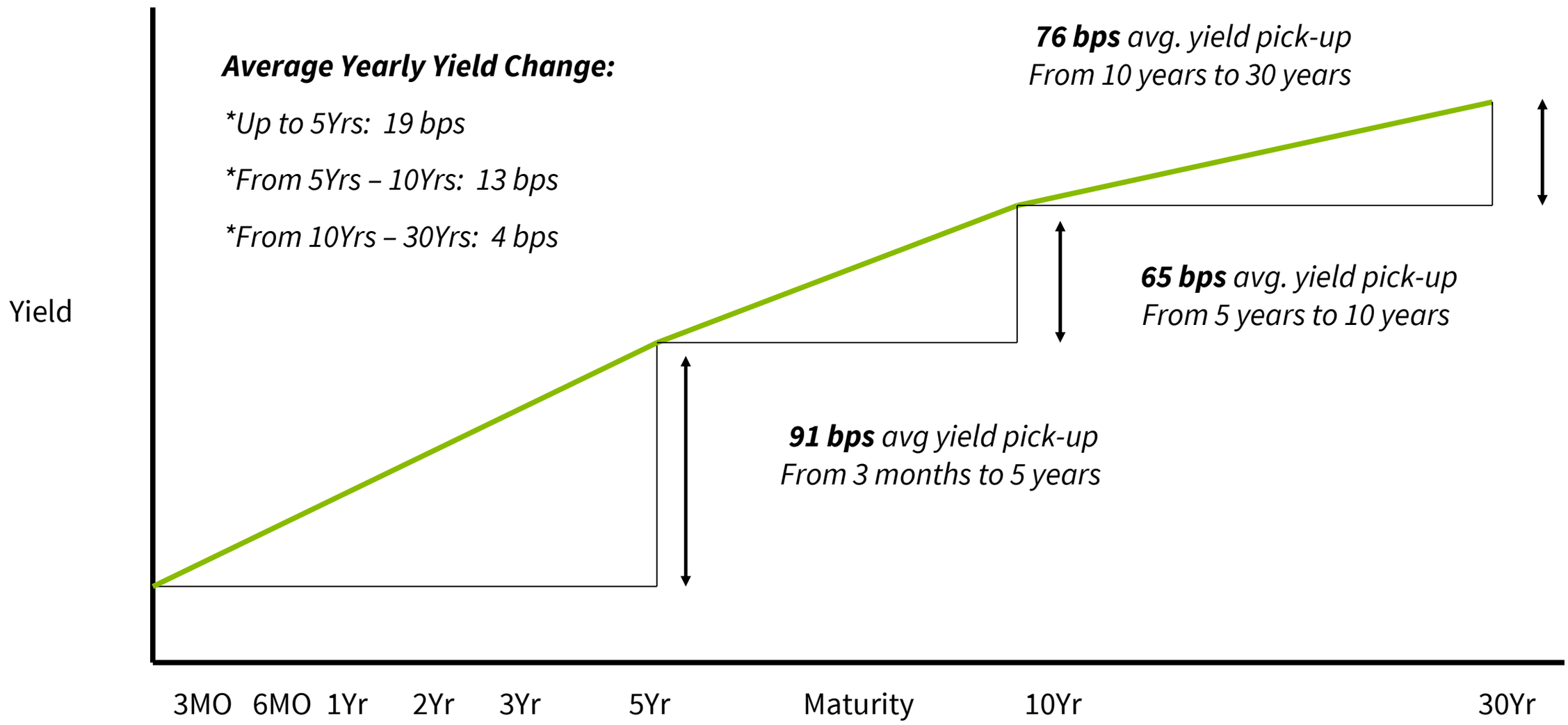
The primary objective of the Government Only Low Duration Management strategy is preservation of principal. The secondary objective is generating stable, predictable cash flows and a total return that exceeds standard money market funds.

Constraints

The Government Only Low Duration strategy incorporates a long-term investment view yet maintains a high degree of liquidity. The maximum effective maturity at the time of purchase for any issue is five years. To be eligible for purchase, securities must be issued by or backed by the U.S. Government or U.S. Government agency.

Is Govt Only Low Duration Management Portfolio Compelling from a Risk/Return Standpoint?

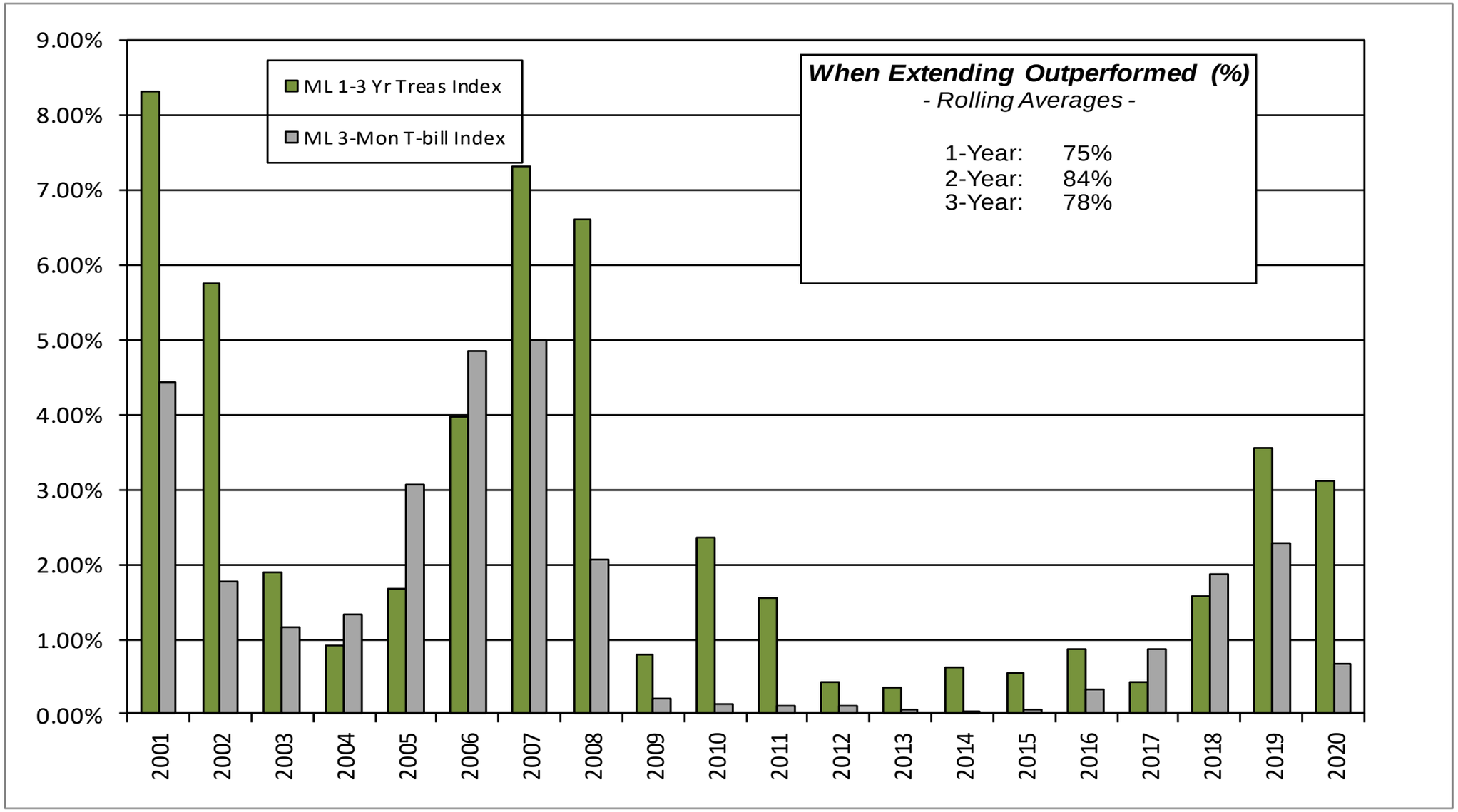
From 2010 to 2020, the yield spread between 3-month Treasury bills and 5-year Treasury notes averaged 91 basis points, compared with the 5-year to 10-year Treasury notes spread differential of 65 basis points and the 10-year to 30-year Treasury notes spread differential of 76 basis points. This illustrates that most of the incremental yield could have been obtained from pushing out on the short end of the yield curve. *Source: Bloomberg*



Source: Bloomberg

Extending in the Short End of the Curve has Rewarded Investors a Majority of the Time

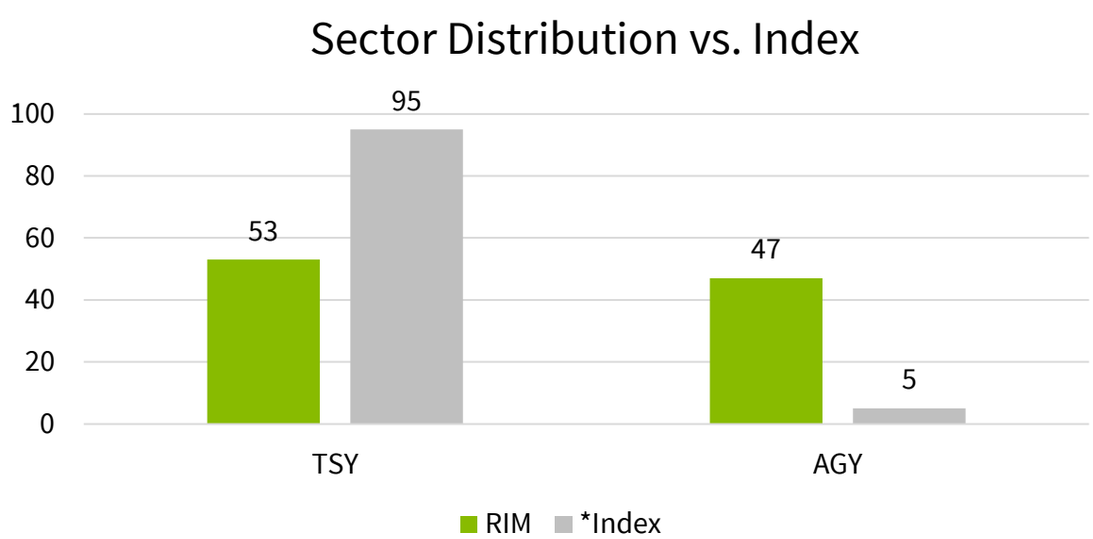
BofA Merrill Lynch 1-3 Year Treasury Index Total Returns Compared to the BofA Merrill Lynch 3-Month Treasury Bill Index

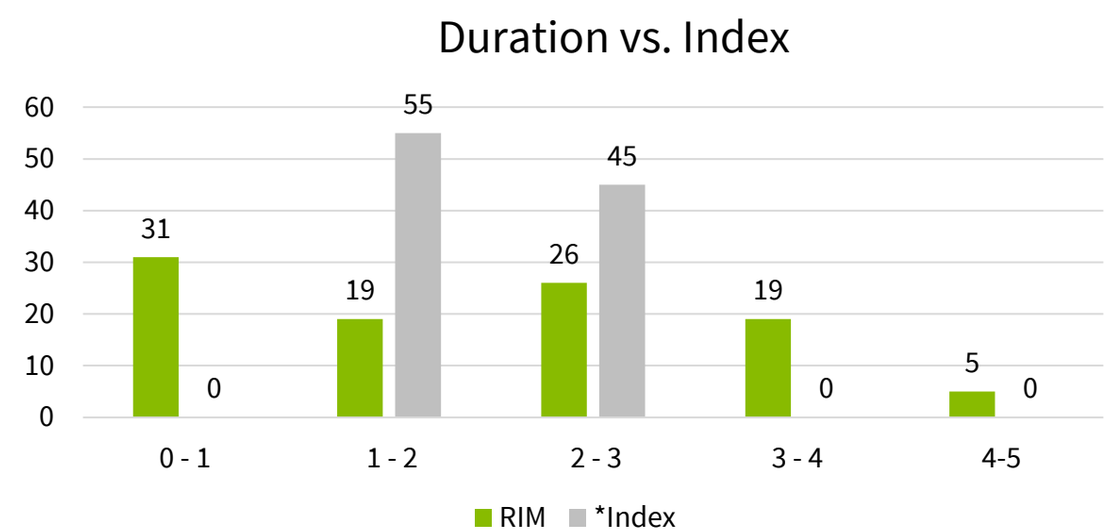


Source: Bloomberg

Government Only Low Duration Opportunity Portfolio Characteristics – 6.30.2021

	Characteristics	
	RIM	*Index
Effective Duration	1.87	1.96
Yield to Maturity	0.31%	0.27%
Maturity	2.04 years	2.00 years
Average Quality	Aaa	Aaa





*Index: Bloomberg 1-3 Year Gov't Index
Source: BondEdge

RIM Gov't Only Low Duration Opportunity Portfolio Performance: 6.30.2021

Total Returns Compared With A Benchmark
Bloomberg Barclays Capital 1-3 Yr. Gov't Index

	QTR	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
RIM	**0.05**	**-0.31**	**-0.01**	**2.88**	**1.78**	**1.62**	**1.38**	**2.34**
Bloomberg 1-3 Yr Gov't	-0.04	-0.09	0.06	2.72	1.61	1.47	1.23	2.23
Excess Return	*0.09*	*-0.22*	*-0.07*	*0.16*	*0.17*	*0.15*	*0.15*	*0.11*

Past performance is not a guarantee of future results. Returns for periods greater than one year are annualized. Returns are gross of fees. Inception Date: 12.31.05.
Data Source: eVestment Alliance

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RIM Gov't Only Low Duration Opportunity Portfolio Annual Performance – 12.31.20

Annual Returns Compared With a Benchmark
Bloomberg Barclays Capital 1-3 Yr. Gov't Index

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
RIM	**3.51**	**3.92**	**1.71**	**0.68**	**0.98**	**0.63**	**0.86**	**0.13**	**0.91**	**1.70**	**2.33**	**2.36**	**6.21**	**6.30**	**4.58**
Bloomberg 1-3 Yr Gov't	3.14	3.59	1.58	0.45	0.87	0.57	0.64	0.37	0.51	1.56	2.40	1.41	6.66	7.10	4.12
Excess Return	*0.37*	*0.33*	*0.13*	*0.23*	*0.11*	*0.06*	*0.22*	*-0.24*	*0.40*	*0.14*	*-0.07*	*0.95*	*-0.45*	*-0.80*	*0.46*

Past performance is not a guarantee of future results. Returns for periods greater than one year are annualized. Returns are gross of fees. Inception Date: 12.31.05. Data Source: eVestment Alliance

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Important Disclosure

The index performance benchmark is not intended as a direct comparison to the performance of the portfolio, but is intended to represent the performance of certain sectors of the overall securities market. The investment strategy and types of securities held by the comparison index may be substantially different from the investment strategy and the type of securities held within this strategy. Indices are unmanaged, and you cannot invest directly into an index. Index returns do not reflect the deduction of fees and/or expenses, which would have the effect of decreasing the historical performance results. The volatility of the index is materially different at times than the volatility experienced by clients using this model strategy.

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Starting on 7.01.19, performance results contained in this presentation are based on the performance of the accounts following the strategy. The returns are calculated using a third party vendor, SEI Performance Workstation. Accounts selected for inclusion in the performance calculation include only those accounts that have fully implemented the strategy with no material limitations imposed. Factors impacting client returns include individual client risk tolerance, restrictions a client may place on the account, investment objectives, choice of broker/dealers or custodians, as well as other factors. Any particular client's account performance may differ from the program results due to, among other things, commission, timing of order entry, or the manner in which the trades were executed. Material economic and market factors which may have impacted the management of actual client accounts in this strategy may differ in the future.

Performance presented is gross of fees. Performance figures include reinvestment of coupon payment and other earnings. Fees would reduce the actual performance results. For example, a portfolio which earned 7% per annum for ten years compounded quarterly would result in a cumulative return of 100.16% before investment management fees and 72.68% net of such fees, assuming a 37.5 basis point (0.375%) fee per quarter. The fee schedule is available upon request from Regions Trust. All indices used as performance benchmarks are not managed and do not incur fees and expenses. The fee schedule is described in Regions Investment Management Inc.'s ("RIM") Form ADV Part 2A. Economic factors, market conditions, and investment strategies will affect the performance of any portfolio, and will change over time. There are no assurances that model strategies will match or outperform any particular benchmark. Some strategies may involve above average turnover which could negatively impact any net after tax gain experienced within a taxable account. Clients are encouraged to seek the advice of a tax professional.

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