

August 2014

# PRIM Board Update



PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD

Massachusetts Pension Reserves Investment Management Board

## Market Snapshot for August 2014

Equities rebounded strongly in August after softness in July. U.S. equities rallied on positive economic data: Gross Domestic Product (GDP) was revised to 4.2% for the second quarter, existing home sales strengthened for the fourth consecutive month, and labor market conditions continued to tighten. The S&P 500 Index rose 4% in August and broke through 2000 to hit a new record high. Higher-dividend sectors (Utilities, Health Care) have outperformed calendar year-to-date (CYTD), as a fall in interest rates supported investors' search for yield. At the 2014 Economic Policy Symposium in Jackson Hole, Wyoming, Federal Reserve (Fed) Chair Janet Yellen had no surprises during her opening remarks, but European Central Bank (ECB) President Mario Draghi's comments on declining Eurozone inflation boosted expectations of further monetary policy action at the ECB's September 4<sup>th</sup> meeting.

Developed International Equities trailed U.S. and Emerging Markets Equities (EME) in August, as the Eurozone reported 0% GDP growth in the second quarter of 2014, declining inflation, and falling German manufacturing output. Russia tensions continued on fears that Russia's aid convoy to Ukraine could be a pretext for invasion. The European Union (EU) also considered expanding sanctions against Russia. Russia's economy has contracted in annual terms for two consecutive months. Russian equities returned -1.5% in August and -14.5% CYTD; the Russian ruble depreciated -4% in August and -11% CYTD. Brazil rose 11% in August, as the outlook for President Rousseff's re-election worsened. Rousseff has been criticized for intervening too heavily in the economy and forcing Petrobras, a state-controlled oil company, to sell gas below cost. Petrobras led the EME Index higher.

In fixed income markets, Treasuries continued to rally in August, as 30-year yields fell 24 basis points (bps) to 3.08%, and 10-year yields fell 22 bps to 2.34%. The yield curve flattened further in August with 30-year yields 90 bps lower CYTD, and 10-Year yields 70 bps lower CYTD. Two-year yields were 10 bps **higher** than on

December 31, 2013, as the market priced in a Fed rate hike. The 20+ Year STRIPS Index has returned 31.9% CYTD, and was up 7.1% in August. Since PRIM's initial funding in April 2014, 20+ Year STRIPS gained 17.0%. Investor demand for long Treasuries was driven by lower inflation expectations, continued geopolitical risk, lower sensitivity in the long end to central bank policy, liability-driven investing by corporate pension plans, and slower Eurozone GDP growth coupled with anemic inflation. German Bunds rallied to yield below 1% for the first time ever, which further increased the appeal of 30-year U.S. Treasuries.

High Yield (HY) Credit recovered in August to post a 1.5% total return, while Investment Grade (IG) Credit posted a similar total return of 1.4%. The spread between HY and IG tightened to 283 bps from 309 bps (below the last twelve month average of 290 bps). HY Credit was 380 bps over U.S. Treasuries (24 bps tighter in August; 474 bps one year ago, and 562 bps on a 10-year average).

**PRIT FUND ASSETS: \$61,204,172,000**

## PRIT Core Fund Recap – August 31, 2014

Portfolio	Month	CYTD	1-Year
<b>PRIT Core Total</b>	<b>1.61%</b>	<b>7.72%</b>	<b>17.31%</b>
U.S. Equity	4.10%	8.71%	24.17%
International Equity	0.14%	3.84%	17.80%
Emerging Markets Equity	2.17%	9.63%	19.56%
Core Fixed Income	3.31%	9.23%	10.02%
Public Value Added FI*	0.55%	5.46%	8.65%
Total Value Added FI**	0.35%	6.30%	10.75%
Private Equity	-0.34%	12.43%	25.59%
Core Real Estate	0.85%	8.96%	15.13%
Timber/Natural Resources	0.58%	5.30%	11.51%
Hedge Funds (net of fees)	0.57%	4.56%	10.34%

Returns are gross of fees unless otherwise noted. Timber/Natural Resources and Total Value-Added Fixed Income sleeves are currently not available through Segmentation; however, the \*Public Value Added Fixed Income sleeve is available as of April 1, 2013. \*\*Total Value-Added FI includes return of Public Value-Added FI. Private Equity is available to Segmented Systems through the Vintage Year Program.

## Market Recap – August 31, 2014

### Global Equity Markets

#### U.S. Equities:

Index	Month	CYTD	1-Year
S&P 500	4.00%	9.89%	25.25%
Dow Jones Industrials	3.60%	4.84%	18.18%
NASDAQ (Price Change)	4.82%	9.67%	27.59%
Russell 2500	4.94%	5.71%	21.45%

#### International Equities:

Index	Month	CYTD	1-Year
Custom World IMI Ex-US	0.10%	3.58%	17.34%
MSCI Emerging Mkts. IMI	2.33%	11.00%	20.25%

### Fixed Income

Index	Month	CYTD	1-Year
Barclays Aggregate	1.10%	4.81%	5.66%
ML High Yield Master II	1.52%	5.83%	10.61%

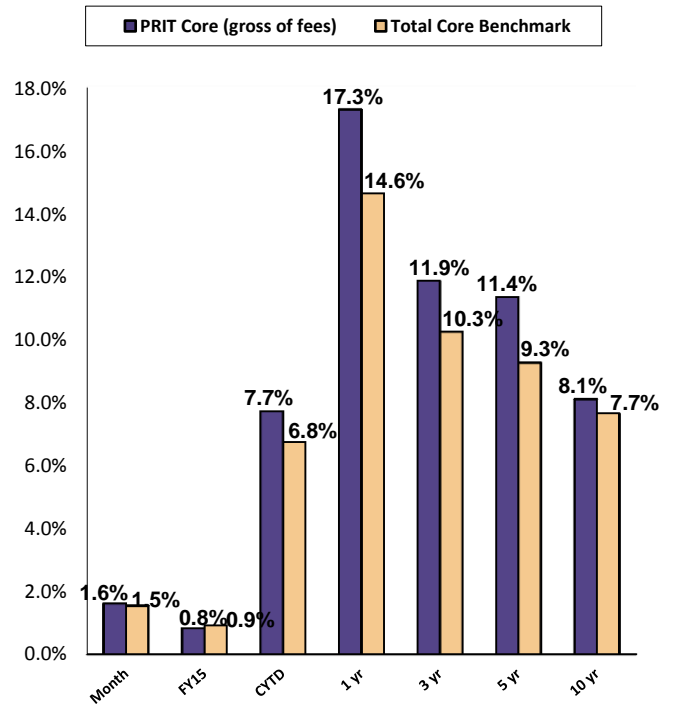
### Real Estate

NCREIF 1-Qtr Lag Private	0.00%	5.34%	11.18%
FTSE EPRA NAREIT Global	1.52%	14.19%	20.16%

### Hedge Funds

Index	Month	CYTD	1-Year
HFRI Fund of Funds	0.93%	2.67%	7.90%

## PRIT Core Fund as of 8/31/2014



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