

September 2014

# PRIM Board Update



PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD

Massachusetts Pension Reserves Investment Management Board

## Market Snapshot for September 2014

Equities sold off in September. Small capitalization stocks slid 6.0%, however, large capitalization stocks fared better, falling 1.4%. Second quarter 2014 Gross Domestic Product (GDP) growth was revised to a +4.6% annualized rate, up from a previous August estimate of +4.2%. Markets were volatile following continued geopolitical turmoil. The VIX closed at 16.3 vs. 12.0 last month and a 5-year average of 19.5. High-profile merger and acquisition deals and shareholder activism headlines continued to flood the market; 2014 is on pace to record the greatest volume of M&A activity ever.

European equity markets returned -3.8% due to weak earnings reports, new sanctions on Russia, 0% Eurozone GDP growth in 2Q14, and continued weak inflation. In the wake of economic stagnation, the European Central Bank (ECB) announced a plan to buy hundreds of billions of asset-backed securities to boost growth and inflation.

In Brazil (-19.2%) pre-election sentiment continued to sour among investors as President Dilma Rousseff surged ahead of Marina Silva in the latest poll. The Brazilian real depreciated 8.7%, its lowest level in nearly six years. China shares plunged 6.4% amid massive protests in Hong Kong.

Investors showed renewed concerns that the Federal Reserve may raise interest rates sooner than expected, and rates rose across the curve. Treasury notes sold off in September: 30-year yields rose 12 basis points (bps) to 3.20%, and 10-year yields rose 15 bps to 2.49%. The yield curve steepened across the curve in September, with the exception of 10-and 30-years flattening by 3 bps. Yield curve has still flattened calendar year-to-date (CYTD) with long end falling and the short end rising: 30-year yields are 78 bps lower than 12/31/13, and 10-year yields are 54 bps lower than 12/31/13. Two-year yields are 18 bps **higher** than 12/31/13, as market price in a Fed rate hike.

The 20+ Year STRIPS Index was up 27.7% CYTD, but returned -3.2% in September. Since PRIM's initial funding in April 2014, 20+ Year STRIPS has gained 14.2%

(The Barclays Aggregate Index returned 1.8% over same period). Lower inflation expectations, continued geopolitical risk in Ukraine, the Middle East, and now Hong Kong, lowered sensitivity in the long end to central bank policy, and liability-driven investing by corporate pension plans all led to increased demand for long Treasuries.

Credit spreads widened in September, but remained tighter than year-end and one year ago. High Yield (HY) Credit sold off 2.1% in September, while Investment Grade (IG) Credit posted a -1.4% total return. The spread between HY and IG widened to 333 bps, up from 283 bps last month. IG credit was 107 bps over UST, 10 bps wider for the month, but below 135 bps one year ago, and 186 bps on a 10-year average. HY credit was 440 bps over UST, 60 bps wider in September, but below 483 bps one year ago, and 562 bps on a 10-year average.

External Emerging Markets Debt (EMD \$) fell -2.4%, largely in line with other risk assets. Spreads widened in September (334 bps vs 306 bps). EMD Local posted a -5.1% return for the month. The yield was 21 bps higher than last month (6.74% vs. 6.53%).

**PRIT FUND ASSETS: \$59,970,171,000**

## PRIT Core Fund Recap – September 30, 2014

Portfolio	Month	CYTD	1-Year
<b>PRIT Core Total</b>	<b>-1.64%</b>	<b>5.95%</b>	<b>11.04%</b>
U.S. Equity	-2.28%	6.23%	16.96%
International Equity	-4.42%	-0.74%	5.21%
Emerging Markets Equity	-7.01%	1.95%	4.31%
Core Fixed Income	-1.89%	7.16%	6.76%
Public Value Added FI*	-2.77%	2.54%	3.47%
Total Value Added FI**	-1.13%	5.10%	6.69%
Private Equity	4.75%	17.77%	24.93%
Core Real Estate	-0.50%	8.42%	11.10%
Timber/Natural Resources	0.20%	5.51%	10.15%
Hedge Funds (net of fees)	-0.16%	4.40%	8.66%

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 – September 30, 2014

### Global Equity Markets

#### U.S. Equities:

Index	Month	CYTD	1-Year
S&P 500	-1.40%	8.34%	19.73%
Dow Jones Industrials	-0.23%	4.60%	15.29%
NASDAQ (Price Change)	-1.90%	7.59%	19.14%
Russell 2500	-5.14%	0.28%	8.97%

#### International Equities:

Index	Month	CYTD	1-Year
Custom World IMI Ex-US	-4.36%	-0.93%	4.67%
MSCI Emerging Mkts. IMI	-7.08%	3.15%	5.07%

### Fixed Income

Index	Month	CYTD	1-Year
Barclays Aggregate	-0.68%	4.10%	3.96%
ML High Yield Master II	-2.10%	3.61%	7.23%

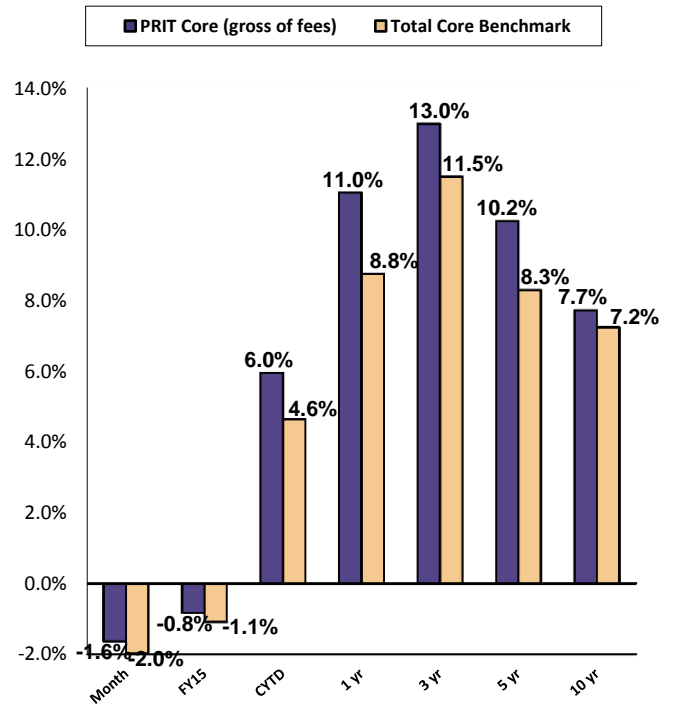
### Real Estate

NCREIF 1-Qtr Lag Private	2.91%	8.40%	11.21%
FTSE EPRA NAREIT Global	-6.19%	7.13%	6.59%

### Hedge Funds

Index	Month	CYTD	1-Year
HFRI Fund of Funds	-0.22%	2.38%	6.14%

## PRIT Core Fund as of 9/30/2014



Senior Client Service Officer  
 Paul Todisco - (617) 946-8423  
 ptodisco@mapension.com