

October 2014

PRIM Board Update



PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD

Massachusetts Pension Reserves Investment Management Board

Market Snapshot for October 2014

Monetary policy divergence continued in October; the Federal Reserve (Fed) announced the final tapering of QE3, as the Bank of Japan (BOJ) and the European Central Bank (ECB) increased their QE programs. Gross Domestic Product (GDP) grew at 3.5% in 3Q14 after a 4.6% gain in 2Q14. Equities remained volatile as the VIX, which measures market volatility, climbed to a three-year high of 31.1 on Oct. 15th. Analysts continued to slash earnings estimates for key energy companies, as the price of oil fell 12% in October to \$81 a barrel. Lower gasoline prices have pushed consumer confidence to 94.5, its highest level since October 2007. The U.S. Dollar (USD) has appreciated vs. other major currencies (9% vs. EUR YTD).

U.S. Equities rallied as some economic data surpassed expectations fueling speculation the economy can tolerate higher interest rates. Small cap equities soared in October, returning 6.6%, rebounding after a huge selloff in September (-6%). Large cap equities rose 2.4% on positive earnings reports. On the last day in October, U.S. equities surged in response to news that the BOJ unexpectedly increased its stimulus package by 30 trillion yen to 80 trillion yen (\$725 billion), annually.

European equities fell 3.3% due to weak earnings reports, continued low inflation, and increased concern the ECB stimulus plan isn't strong enough to drive growth. Japanese equities returned -1.3% due to a slowdown in inflation and generally mixed economic data.

In Brazil, policy makers increased interest rates by 25 basis points (bps) to 11.25% to fight inflation. Equities fell after incumbent Dilma Rousseff was re-elected. China shares climbed 4.3% after the nation's largest insurers and utilities reported positive earnings, which boosted investor confidence. Russia (-21.1% YTD) raised rates more than expected to 9.5% to defend a falling ruble (-23% YTD). On October 31st, Ukraine and Russia reached a deal that will help avert the threat of gas shortages in Europe this winter.

Treasury rates rallied in October: 30-year yields fell 13 bps to 3.07%. Ten-year yields fell 16 bps to 2.34%.

The 20+ Year STRIPS Index returned 4.2% in October, and has risen 33.1% CYTD. Since PRIM's initial funding in April, the 20+ Year STRIPS have returned 19.1% (The Barclays Aggregate Index has returned 3.0% over same period). Strong STRIPS returns were driven by investor demand for long Treasuries, lower inflation expectations, continued geopolitical risk, lower sensitivity in the long end of the curve to central bank policy, and the relative attractiveness of U.S. sovereign yields relative to other sovereign bonds.

Credit spreads were mixed in October. Investment grade (IG) and High Yield (HY) spreads remained tighter than one year ago. HY and IG Credit posted 1.1% total return in October.

Emerging Markets Debt (EMD) USD Denominated rose 1.6% largely due to movement in Treasury rates. EMD Local Currency posted a 1.6% return for the month. Russia was the primary underperformer in the month of October, down 9.5%. The Ruble fell 8% in October. Rising interest rates and western sanctions prohibiting external borrowing have placed downward pressure on Russian currency.

PRIT FUND ASSETS: \$60,252,906,000

PRIT Core Fund Recap – October 31, 2014

Portfolio	Month	CYTD	1-Year
PRIT Core Total	0.85%	6.85%	9.38%
U.S. Equity	2.81%	9.22%	15.28%
International Equity	-1.26%	-1.99%	0.36%
Emerging Markets Equity	1.14%	3.12%	0.66%
Core Fixed Income	2.30%	9.62%	8.27%
Public Value Added FI*	1.05%	3.61%	2.31%
Total Value Added FI**	0.72%	5.86%	5.77%
Private Equity	-0.24%	17.48%	24.68%
Core Real Estate	2.02%	10.61%	12.08%
Timber/Natural Resources	-1.50%	3.93%	7.48%
Hedge Funds (net of fees)	-0.72%	3.65%	6.27%

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 – October 31, 2014

Global Equity Markets

U.S. Equities:

Index	Month	CYTD	1-Year
S&P 500	2.44%	10.99%	17.27%
Dow Jones Industrials	2.16%	6.86%	14.48%
NASDAQ (Price Change)	3.06%	10.87%	18.14%
Russell 2500	4.43%	4.72%	10.23%

International Equities:

Index	Month	CYTD	1-Year
Custom World IMI Ex-US	-1.75%	-2.67%	-0.49%
MSCI Emerging Mkts. IMI	0.93%	4.10%	1.23%

Fixed Income

Index	Month	CYTD	1-Year
Barclays Aggregate	0.98%	5.12%	4.14%
ML High Yield Master II	1.14%	4.78%	5.85%

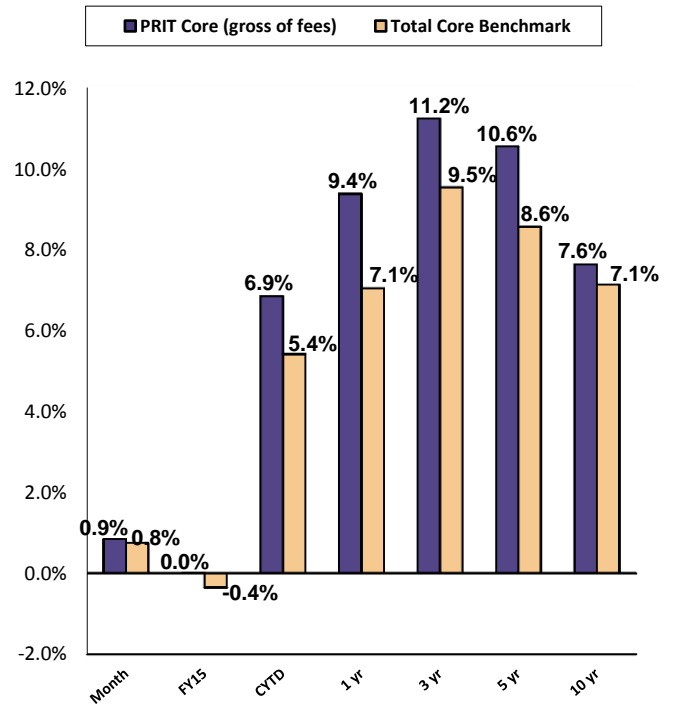
Real Estate

NCREIF 1-Qtr Lag Private	0.00%	8.40%	11.21%
FTSE EPRA NAREIT Global	6.65%	14.25%	10.53%

Hedge Funds

Index	Month	CYTD	1-Year
HFRI Fund of Funds	-0.55%	1.87%	4.29%

PRIT Core Fund as of 10/31/2014



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