

November 2014

# PRIM Board Update



PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD

Massachusetts Pension Reserves Investment Management Board

## Market Snapshot for November 2014

Republicans gained majority control of the Senate in the November midterm elections, bringing a fresh set of eyes on Janet Yellen and monetary policy. China's central bank ceased selling repurchase agreements for the first time since July, loosening monetary policy further after cutting interest rates for the first time since 2012. Elsewhere in emerging markets, India's low inflation reading left room for monetary easing. U.S. Gross Domestic Product (GDP) grew at 3.9% in 3Q14 after a 4.6% gain in 2Q14, an upward revision to the Bureau of Economic Analysis' 3.5% estimate in October. Equities exhibited continued low volatility as the VIX, which measures market volatility, fell to 13.33 in late November. Shares of global energy producers fell after oil prices plummeted to \$66 a barrel on OPEC's decision not to lower the production ceiling.

U.S. equities performed well in November, as low gas prices bolstered consumer confidence and consumer spending. Jobs numbers were strong, and 3Q14 corporate earnings surpassed expectations. Small caps stocks were up 0.1%, while large caps rose 2.7%.

European equities rose 2.7% in November due to optimism around the European Central Bank's (ECB) expanded quantitative easing (QE) program (in response to weak growth and inflation data), and speculation that exporters will benefit from a weaker Euro. Japanese equities rose 0.3% due to The Bank of Japan's (BOJ) unexpected increase in QE (in response to weak growth and inflation data), and higher corporate profits.

Emerging markets equities fell -1.1% in November. In Brazil, equities returned -4.7% on the heels of weak corporate profits and OPEC's decision not to ease oil supply. Chinese stocks continue to climb, up 1.6%, on monetary policy easing. Russian equities fell meaningfully during the month, -10.8%, roughly in line with the Ruble (-13.1%) as investor sentiment weakened amidst falling oil prices and increased geopolitical tensions as Russian troops moved into Ukraine.

Treasury rates rallied in November for the second consecutive month. Thirty-year yields fell 15 basis points (bps) to 2.89%, while 10-year yields fell 14 bps to 2.17%. Thirty-year yields are 108 bps lower than 12/31/13, and 10-year yields are 87 bps lower than 12/31/13. (Price and yield move in the opposite direction.)

The 20+ Year STRIPS Index returned 38.8% calendar year-to-date (CYTD), and was up 4.3% in November. Since PRIM's initial funding in April, the Long Duration U.S. Strips portfolio gained 23.2%, while the Barclays Aggregate Index

(core bonds) returned 3.6% over same period. The strong STRIPS return was driven by: investor demand for long Treasuries, as a result of lower inflation expectations; continued geopolitical risk; lower sensitivity in the long end of the curve to central bank policy; the relative attractiveness of U.S. Treasury yields; and liability-driven investing by corporate pension plans.

Credit spreads widened in November. Both Investment grade (IG) and high yield (HY) spreads were wider than year end. HY returned -0.8% in November, while IG credit posted a 0.6% total return. The HY – IG spread widened to 346 bps from 323 bps. IG credit was 118 bps over U.S. Treasuries (UST), while HY credit was 464 bps over UST (34 bps wider in November).

Emerging market debt (EMD), U.S. Dollar denominated, fell 0.4%, where spread widening offset the benefit of the rally in Treasury yields. EMD local currency posted a -1.3% return for the month. EM foreign currency exchange was negative across the board. Russia was a primary underperformer in the month of November, declining 10.4%. The Ruble fell 13.1%. Low oil prices, geopolitical risk, and Western sanctions prohibiting external borrowing have placed downward pressure on Russian currency.

**PRIT FUND ASSETS: \$60,715,346,000**

## PRIT Core Fund Recap – November 30, 2014

Portfolio	Month	CYTD	1-Year
<b>PRIT Core Total</b>	<b>0.98%</b>	<b>7.90%</b>	<b>9.83%</b>
U.S. Equity	2.20%	11.62%	14.38%
International Equity	1.03%	-0.99%	0.52%
Emerging Markets Equity	-0.63%	2.47%	1.44%
Core Fixed Income	2.40%	12.26%	11.29%
Public Value Added FI*	-0.52%	3.07%	3.31%
Total Value Added FI**	-0.40%	5.44%	6.51%
Private Equity	-0.15%	17.30%	24.44%
Core Real Estate	0.47%	11.13%	13.36%
Timber/Natural Resources	-1.98%	1.87%	6.39%
Hedge Funds (net of fees)	1.58%	5.92%	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 – November 30, 2014

### Global Equity Markets

#### U.S. Equities:

Index	Month	CYTD	1-Year
S&P 500	2.69%	13.98%	16.86%
Russell 2000 Growth	0.65%	2.56%	4.66%
Russell 2000 Value	-0.46%	1.45%	3.36%
Russell 2500 Growth	1.66%	5.71%	8.54%
Russell 2500	0.87%	5.63%	8.31%

#### International Equities:

Index	Month	CYTD	1-Year
Custom World IMI Ex-US	1.03%	-1.66%	-0.05%
MSCI Emerging Mkts. IMI	-0.95%	3.12%	1.80%

### Fixed Income

Index	Month	CYTD	1-Year
Barclays Aggregate	0.71%	5.87%	5.27%
ML High Yield Master II	-0.71%	4.04%	4.61%

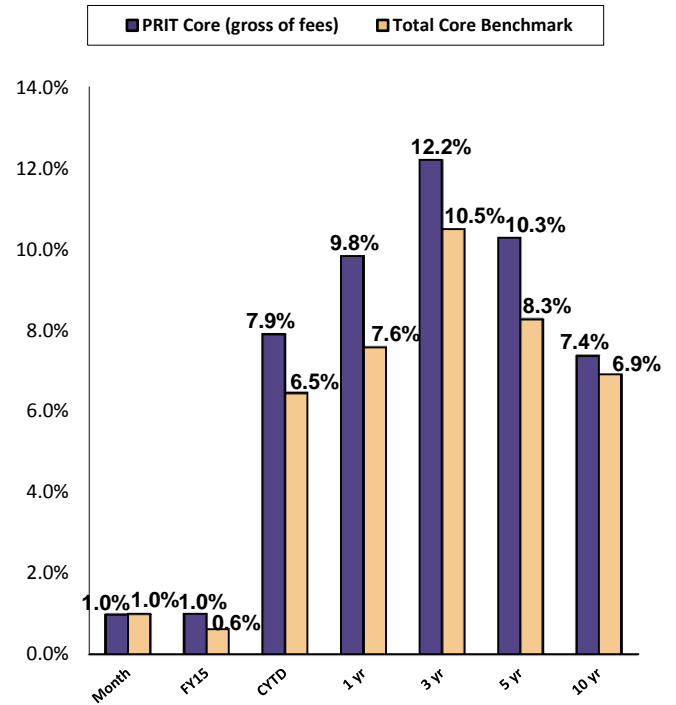
### Real Estate

NCREIF 1-Qtr Lag Private	0.00%	8.40%	11.21%
FTSE EPRA NAREIT Global	0.86%	15.24%	15.46%

### Hedge Funds

Index	Month	CYTD	1-Year
HFRI Fund of Funds	1.19%	2.97%	4.31%

## PRIT Core Fund as of 11/30/2014



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