January 2015

PRIM Board Update

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

Massachusetts Pension Reserves Investment Management Board

Market Snapshot for January 2015

A broad theme of risk aversion characterized the beginning of the New Year. Global investors looked to the U.S. as a "safe haven". Gold prices rose 8% in January, while Treasury yields fell meaningfully. Defensive sectors (Health Care, Utilities) outperformed, while cyclicals lagged. The Financials sector, which is sensitive to falling rates, fell 7%, potentially feeling the impact of energy company borrowers' increased default risk.

Economic data continued to be mixed. On the positive side, the Conference Board Leading Economic Index (LEI) for the U.S. continued to increase. Unemployment declined for the seventh consecutive month to 5.6%. On the negative side, real wage growth remained low in December, and U.S. Gross Domestic Product (GDP) came in well below expectations at 2.6% for 4Q14, after posting 5.0% for 3Q14 (its highest growth since 2003). The U.S. Purchasing Managers Index (PMI) fell to 53.5, an 11-month low.

On January 28th, the Federal Reserve (Fed) announced that economic activity was "expanding at a solid pace", indicating that the Fed would be patient in beginning to normalize the stance of monetary policy (raise interest rates). Equities exhibited moderate volatility as the VIX rose to 21.0, roughly in line with the 5-year average of 18.9. Oil prices fell to $48.2 a barrel (-9.4% in January), as OPEC's supply rose due to higher output in Saudi Arabia and other Gulf producers. The U.S. Dollar (USD) appreciated 3.8% in January versus Major Currencies.

U.S. equities retreated in January, as investor concern mounted over eroding earnings growth and the return of volatility to U.S. markets. Large caps equities declined 3.0%, and small caps fell 3.2%. Conversely, international equities rose 0.5% in January. European equities were flat amidst several competing economic factors: 1) the continued slide of oil prices has added volatility to the markets and hurt shares of global energy producers and companies with exposure to Russia; 2) on the day the Swiss National Bank removed ceiling on Swiss franc, the currency appreciated 30% versus Euro on that day alone, and 3) in the Greek elections, the victorious Syriza party challenged the economic reforms and fiscal austerity programs imposed on it by its Eurozone neighbors. On the positive side, the European Central Bank (ECB) announced a quantitative easing program where it would purchase 60 billion Euros of sovereign bonds, corporate bonds, and asset-backed securities (ABS). Japanese equities rose 2.3% in January, as investors shrugged off mixed economic data on optimism that the Bank of Japan (BOJ) will have to provide additional stimulus.

Emerging markets equities rose 0.6% in January. Indian shares rose 7.9%, as the Reserve Bank of India unexpectedly cut interest rates by 25 basis points (bps), and investor optimism rose on positive economic data and government leadership. In Brazil, equities returned -6.4%, as Moody's Investors Service cut the state-run oil producer's credit rating to one level above junk status. Brazil has also faced headwinds from a strengthening dollar, the Petrobras corruption scandal, and low oil prices. Russian equities fell 0.8%, with the Ruble declining 14.7%. In January, Russia was downgraded to below-investment grade status.

Long Treasury rates fell meaningfully in January: 30-year yields fell 52 bps to 2.23%; 10-year yields fell 53 bps to 1.64%, and 2 - and 5-year yields were 22 and 50 bps lower, respectively. (Price and yield move in the opposite direction.)

The 20+ Year STRIPS Index gained 13.8% in January, and was up an impressive 52.3% for the trailing twelve-month period. Since PRIM's initial funding in April of 2014, the 20+ Year STRIPS portfolio is up 49.8%, versus a 5.8% return for the Barclays Capital Aggregate Bond Index over the same period. Investor demand for long Treasuries were driven by: continued lowering of inflation expectations; the decline in oil prices, which further tempered inflation concerns; the relative attractiveness of U.S. Treasury (UST) yields compared to German Bunds and Japanese Government Bonds (JGBs), particularly in light of if the ECB and BOJ quantitative easing; and continued geopolitical risk.

Credit spreads continued to widen in January, indicative of a continuing shift in investor sentiment away from riskier assets. Both high yield and investment grade spreads are now wider than a year ago.

U.S. Dollar denominated emerging market debt (EMD) rose 0.3% in January, while EMD local currency also returned 0.3%. EM foreign currency exchange remained negative across the board, however, as the U.S. Dollar strengthened. Low oil prices, geopolitical risk, and Western sanctions on Russia prohibiting external borrowing continued to place downward pressure on non-U.S. currencies.

PRIT FUND ASSETS: $60,975,636,000

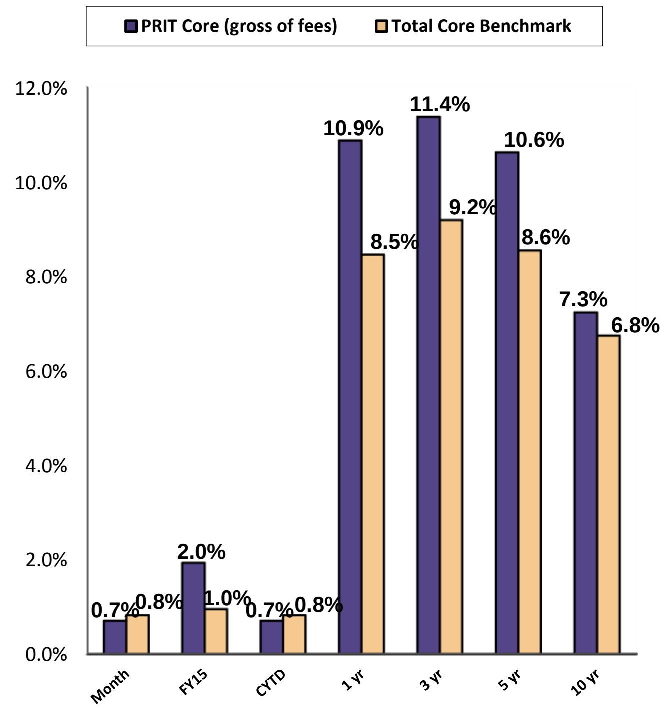
PRIT Core Fund Recap – January 31, 2015

Portfolio	Month	CYTD	1-Year
PRIT Core Total	**0.71%**	**0.71%**	**10.88%**
U.S. Equity	-2.91%	-2.91%	11.95%
International Equity	0.09%	0.09%	0.08%
Emerging Markets Equity	-0.31%	-0.31%	4.55%
Core Fixed Income	8.34%	8.34%	22.84%
Public Value Added FI*	0.33%	0.33%	1.56%
Total Value Added FI**	0.05%	0.05%	4.20%
Private Equity	-1.40%	-1.40%	19.11%
Core Real Estate	1.50%	1.50%	16.22%
Timber/Natural Resources	-0.88%	-0.88%	5.56%
Hedge Funds (net)	0.30%	0.30%	5.86%
Portfolio Completion Strat. (net)	3.57%	3.57%	N/A

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 – January 31, 2015			
Global Equity Markets			
U.S. Equities:			
Index	Month	CYTD	1-Year
S&P 500	-3.00%	-3.00%	14.23%
Russell 2000 Growth	-2.28%	-2.28%	5.01%
Russell 2000 Value	-4.16%	-4.16%	3.90%
Russell 2500 Growth	-1.54%	-1.54%	7.43%
Russell 2500	-2.05%	-2.05%	7.33%
International Equities:			
Index			
Custom World IMI Ex-US	-0.01%	-0.01%	-0.56%
MSCI Emerging Mkts. IMI	0.79%	0.79%	5.97%
Fixed Income			
Index			
Barclays Aggregate	2.10%	2.10%	6.61%
ML High Yield Master II	0.69%	0.69%	2.45%
Real Estate			
NCREIF 1-Qtr Lag Private	0.00%	0.00%	11.26%
FTSE EPRA NAREIT Global	4.94%	4.94%	21.78%
Hedge Funds			
Index			
HFRI Fund of Funds	-0.04%	-0.04%	3.71%

PRIT Core Fund as of 1/31/2015



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