

February 2015

PRIM Board Update



PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD

Massachusetts Pension Reserves Investment Management Board

Market Snapshot for February 2015

Economic data continues to be mixed. The Conference Board Leading Economic Index (LEI) for the U.S. increased, unemployment remained relatively low at 5.7% versus the five-year average of 8.0%, and real wages grew by 1.0%. U.S. Gross Domestic Product (GDP) expanded by 2.2%, a slower pace than previously reported, after an initial report of for 2.6% for 4Q14. Consumer confidence fell to 96.4 from 103.8 in January (a 7-year high), the first decrease since October 2014. Jobless claims in the U.S. jumped by the most since December 2013 to 313,000, up from a revised 282,000 in January. The U.S. Purchasing Managers Index (PMI) fell to a one-year low of 52.9. Equities exhibited a drop in volatility as the VIX fell to 13.3, well below the five-year average of 18.9.

On February 24th, the Federal Reserve (Fed) Chair Janet Yellen testified before the Senate Banking Committee stating that she "feels good about the economic outlook" for the U.S. economy. She added that spending, production, and employment have increased at a "solid rate." Chairwoman Yellen continued to use the word "patient", which she indicated meant that a rate hike was unlikely for at least the next two Fed meetings.

U.S. equities rallied in February on strong earnings from technology and retail companies, a stabilization in oil prices, and optimism around the Fed's timeline to raise interest rates. Oil prices rose to \$49.8 a barrel (up 3.2% in February), as data indicated a further reduction in U.S. drilling. The U.S. Dollar (USD) appreciated 1.9% in February versus Major Currencies. Large cap stocks rose 5.7%, while small caps rose 5.9%. International developed equities rose 6.0%. European equities gained 6.3% due to positive economic data ahead of the launch of the European Central Bank's (ECB) quantitative easing program, and diminished concern of a Greek exit ("Grexit") from the Eurozone after German lawmakers approved an extension of a revised loan program. Japanese equities rose 6.1% in February, as a weaker yen (down 1.7% for the month), boosted company earnings. Investors continued to shrug off mixed economic data on optimism that the Bank of Japan (BOJ) will have to provide additional stimulus.

Emerging markets (EM) equities rose 3.1% in February. Although up 2.8% for the month, Brazilian equities underperformed the EM benchmark, as the government tightened both monetary and fiscal policy. Inflation stood at 12%, and Brazil's budget deficit was the highest on record. The country also faced headwinds from low oil prices and the ongoing Petrobras scandal, made worse by Moody's Investors Service cutting the state-run oil producer's credit rating to junk. Russian equities rallied 22.8% in February, and the Ruble increased 13.8%, as oil prices stabilized and a cease-fire was sustained in eastern Ukraine. Greek shares rose 1.9% after a bailout extension was approved (Greece was downgraded to emerging market from developed markets status). Argentine equity markets gained 20.2% in February, driven by investor optimism surrounding the strong poll numbers for the market-friendly presidential candidate, Mauricio Macri, versus the Peronist candidate, who has only 20% support in the polls.

Long Treasury rates increased meaningfully in February: 30-year yields rose 36 bps (basis points) to 2.59%; 10-year yields rose 35 bps to 1.99%, and 2- and 5-year yields were 17 and 35 bps higher, respectively. (Price and yield move in the opposite direction.)

The 20+ Year STRIPS Index declined 8.5% in February, however, the index has gained 37.6% for the trailing twelve-month period, and are up 4.1% for the calendar year. Since PRIM's initial funding in April of 2014, the 20+ Year STRIPS portfolio is up 35.3% (the Barclays Capital Aggregate Bond Index returned 5.2% over the same period). Despite the weakness in February, investor demand for long Treasuries remained strong because of low inflation expectations, the strong U.S. dollar coupled with declining global growth, and continued geopolitical risk.

Credit spreads tightened in February, as investors became more comfortable taking on credit risk; however, both investment grade and high yield spreads remain wider than one year ago. High yield bonds rose 2.3% in February, while investment grade credit posted a -1.0% return.

U.S. Dollar denominated emerging market debt (EMD) gained 1.2% in February. EMD local currency did not keep up with other risk assets, however, returning -1.3% for the month. EM foreign currency exchange return detracted 0.6%, while the coupon added 0.5%. Russia was a top performer in February, as the Ruble rose 13.8%. Bottom performers were Nigeria, Turkey, and Brazil.

PRIT FUND ASSETS: \$61,917,617,000

PRIT Core Fund Recap – February 28, 2015

Portfolio	Month	CYTD	1-Year
PRIT Core Total	1.62%	2.34%	9.52%
U.S. Equity	5.86%	2.78%	13.18%
International Equity	6.08%	6.17%	0.49%
Emerging Markets Equity	2.33%	2.02%	3.58%
Core Fixed Income	-5.05%	2.87%	16.02%
Public Value Added FI*	0.92%	1.25%	0.10%
Total Value Added FI**	0.62%	0.67%	2.98%
Private Equity	-0.32%	-1.72%	18.25%
Core Real Estate	0.16%	1.67%	14.88%
Timber/Natural Resources	0.87%	-0.02%	4.78%
Hedge Funds (net)	1.88%	2.18%	5.56%
Portfolio Completion Strat. (net)	-1.54%	1.98%	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 – February 28, 2015

Global Equity Markets

U.S. Equities:

Index	Month	CYTD	1-Year
S&P 500	5.75%	2.57%	15.51%
Russell 2000 Growth	7.20%	4.75%	7.37%
Russell 2000 Value	4.64%	0.29%	3.96%
Russell 2500 Growth	7.36%	5.71%	9.62%
Russell 2500	5.96%	3.79%	8.24%

International Equities:

Index	Month	CYTD	1-Year
Custom World IMI Ex-US	5.98%	5.97%	-0.04%
MSCI Emerging Mkts. IMI	2.86%	3.67%	5.33%

Fixed Income

Index	Month	CYTD	1-Year
Barclays Aggregate	-0.94%	1.14%	5.05%
ML High Yield Master II	2.39%	3.09%	2.84%

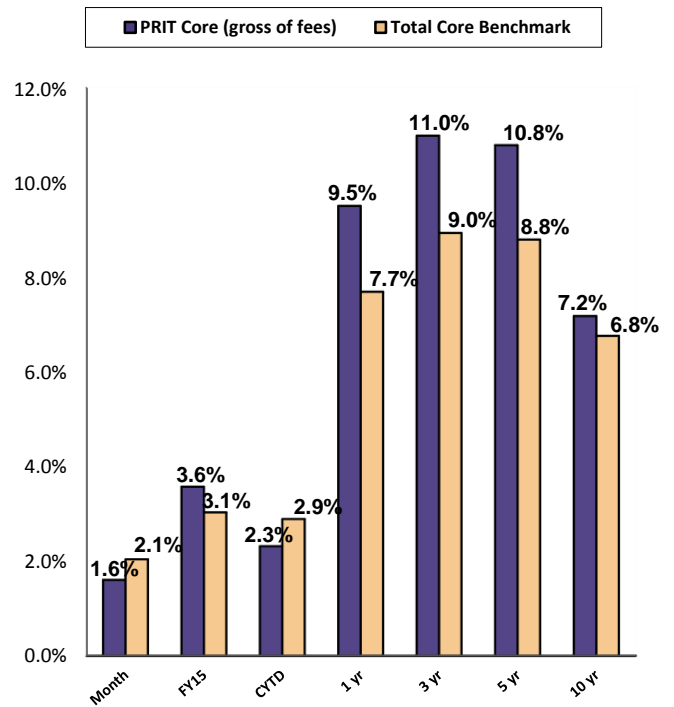
Real Estate

NCREIF 1-Qtr Lag Private	0.00%	0.00%	11.26%
FTSE EPRA NAREIT Global	-0.57%	4.34%	16.30%

Hedge Funds

Index	Month	CYTD	1-Year
HFRI Fund of Funds	1.73%	1.90%	4.07%

PRIT Core Fund as of 2/28/2015



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