

May 2015

PRIM Board Update



PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD

Massachusetts Pension Reserves Investment Management Board

Market Snapshot for May 2015

Economic data was mixed in May: U.S. Gross Domestic Product (GDP) was revised down to -0.7% from 0.2% in 1Q15, posting its weakest growth since 1Q14. Consumer spending remained flat, as consumers chose to deposit potential disposable income into savings. On the positive side, the Conference Board Leading Economic Index (LEI) for the U.S. continued to increase, and unemployment declined 0.1% to 5.4%. U.S. manufacturing expanded in May, as the U.S. Purchasing Managers Index (PMI) rebounded to 52.8 vs. 51.5 last month. In a speech about the state of the U.S. economy, Federal Reserve Chair Janet Yellen said that the recent weak economic data “just may be statistical noise”, and that she expected the data to strengthen.

U.S. Equities were mostly positive in May. Large capitalization stocks (large caps) rose 1.1% after the Fed suggested that June may be too early to raise interest rates. Small caps gained 2.3%, led by biotech stocks, which were up 9.4%. Oil prices rose 1.1% in May to \$60.3 a barrel on an unanticipated drop in U.S. drilling activity and a stall in the U.S. dollar (USD) rally.

Developed International Equities fell -0.5% in May. European equities were down 0.8% over concern that Greece will not reach an agreement with its creditors. The Euro depreciated 2.2% in May. In Asia, Japanese equities rose 1.3% as exporters benefited from a weaker yen, which were down 3.6%, and a rising PMI.

Emerging Markets (EM) Equities returned -4.0% in May. In a stunning reversal from last month, Brazilian equities tumbled 11.7%, and the nation’s currency (the Real) depreciated 16.7%. Russian equities reversed course in May, falling 5.8%, as markets responded to the government’s weak forecast of natural gas sales to Europe, further dampening the country’s overall economic outlook. Chinese shares sold off -3.7%, after China’s sovereign wealth fund slashed its stake in state-owned banks for the first time. As of May 31, 2015, however, Chinese equities were up 21.5% calendar year-to-date.

Long Treasury rates rose in May, driving prices down: 30-year yields rose 14 basis points (bps) to 2.88%; 10-year yields rose 9 bps to 2.13%, and 2- and 5-year yields were 4 and 6 bps higher, respectively. (Price and yield move in the opposite direction.)

The 20+ Year STRIPS Index, although up 16.3% over the trailing one-year period, returned -3.0% in May. Recent STRIPS performance may be due to some profit taking and a shift by investors into riskier assets.

High yield bonds rose 0.3% in May, while investment grade credit posted -0.6% for the month. U.S. Dollar denominated emerging market debt (EMD) fell 0.5% in May due to a combination of rising treasury yields and wider spreads. With a return of -2.6% for the month, EMD local currency was the second worst performing fixed income asset class in May after STRIPS.

PRIT FUND ASSETS: \$62,023,658,000

PRIT Core Fund Recap – May 31, 2015

Portfolio	Month	CYTD	1-Year
PRIT Core Total	-0.20%	3.53%	6.76%
U.S. Equity	1.49%	3.60%	11.34%
International Equity	-0.19%	9.28%	0.94%
Emerging Markets Equity	-2.62%	4.52%	-0.56%
Core Fixed Income	-1.68%	-0.70%	8.74%
Public Value Added FI*	-0.55%	2.10%	-2.71%
Total Value Added FI**	-0.45%	1.23%	-0.59%
Private Equity	-0.38%	3.60%	14.05%
Core Real Estate	0.07%	3.37%	12.16%
Timber/Natural Resources	-1.14%	-1.18%	0.37%
Hedge Funds (net)	1.03%	4.09%	6.54%
Portfolio Completion Strat. (net)	-0.53%	-2.76%	N/A

Returns are gross of fees unless otherwise noted. Timber/Natural Resources, Total Value-Added Fixed Income, and Portfolio Completion Strategies 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 – May 31, 2015

Global Equity Markets

U.S. Equities:

Index	Month	CYTD	1-Year
S&P 500	1.29%	3.23%	11.81%
Russell 2000 Growth	3.67%	7.30%	17.73%
Russell 2000 Value	0.83%	0.63%	5.10%
Russell 2500 Growth	3.08%	8.45%	17.55%
Russell 2500	2.14%	5.54%	11.76%

International Equities:

Index	Month	CYTD	1-Year
Custom World IMI Ex-US	-0.74%	7.62%	-1.08%
MSCI Emerging Mkts. IMI	-3.32%	6.68%	1.46%

Fixed Income

Index	Month	CYTD	1-Year
Barclays Aggregate	-0.24%	1.00%	3.03%
BC US Treas 20+Yr STRIPS	-3.01%	-3.37%	16.31%
ML High Yield Master II	0.29%	4.08%	1.86%
JPM EM Debt Global	-0.54%	3.51%	0.72%
JPM GBI EMI Global Div.	-2.58%	-3.71%	-13.49%

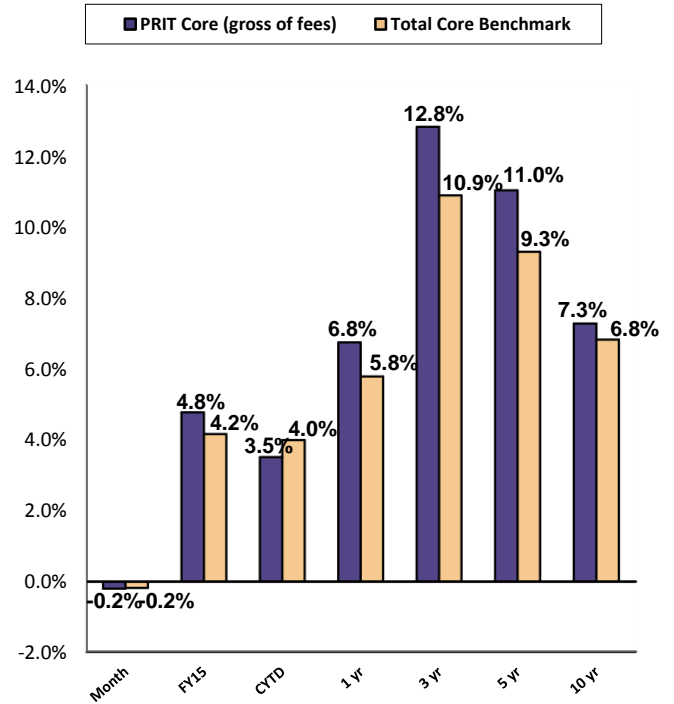
Real Estate

NCREIF 1-Qtr Lag Private	0.00%	3.04%	11.82%
FTSE EPRA NAREIT Global	-1.42%	1.07%	5.77%

Hedge Funds

Index	Month	CYTD	1-Year
HFRI Fund of Funds	1.01%	3.90%	6.22%

PRIT Core Fund as of 5/31/2015



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