

August 2015

PRIM Board Update



PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD

Massachusetts Pension Reserves Investment Management Board

Market Snapshot for August 2015

U.S. Gross Domestic Product (“GDP”) was revised to 3.7%, up from the previous estimate of 2.3% in 2Q15 Commerce Department’s second assessment. Unemployment remained level at 5.3%, while the labor market experienced historically low jobless claims throughout August. U.S. manufacturing expanded at a slower pace in August, as the US Purchasing Managers Index (“PMI”), fell to 51.1 from 52.7 in July. The U.S. Dollar Index depreciated 1.3%, as minutes from the last Federal Reserve Bank (“the Fed”) meeting showed a dovish tone from some officials. Analysts contend that the current selloff in U.S. equities will diminish any chance of a September rate hike (the Federal Reserve Open Market Committee chose to hold off on an interest rate hike at its September 17, 2015 meeting). Oil prices rallied in August, rising to \$49.2 a barrel (up 4.4%) after U.S. oil production showed output was falling, and OPEC announced it was ready to talk with other producers about low prices.

U.S. equities fell in August, as the Chinese slowdown increased concerns about global growth. Large cap stocks returned -6.0%, and small caps stocks fared no better, returning -6.3% in August.

International equities also fell, returning -7.4% in August. European equities declined 7.1% as China’s economic growth woes triggered a global markets selloff. Japanese equities were also down, returning -5.8%, after Toshiba announced new accounting issues.

Emerging markets equities were down 9.0% in August. Russian equities extended losses, returning -5.6% as the Ruble depreciated 8.5% and fighting resumed in Eastern Ukraine. Chinese shares plunged 11.7% in August, as manufacturing weakened and the People’s Bank of China lowered its benchmark interest rates and let the Yuan devalue. Brazil markets fell 14.2%, as the Real depreciated 6.3% and economic data showed that the region’s largest economy was in a deeper recession than previously thought. Frontier Markets declined 5.5% in August.

The 20+year STRIPS index rose 0.1% in August, and is up 6.3% for the trailing one-year period. 30-year yields were 5 basis points (“bps”) higher in August, at 2.96% versus 2.91% in July. STRIPS were the best performing asset class in the PRIM Fund during the month. Importantly, the correlation between STRIPS and the S&P 500 remains negative. The Barclays Aggregate Index fell 0.1% in August, as yields rose 7 bps on the month. (Prices and yields move inversely.) Credit spreads widened in August, as high yield bonds returned -1.8%.

Emerging markets debt (“EMD”) U.S. Dollar denominated fell 1.1% in August, and EMD local currency returned -5.4%. Bond prices fell 1.5%, while the EM FX (foreign currency exchange) returned -4.5%. Russia, Malaysia, Turkey, and Colombia were the worst performing countries.

2015 PRIM Investors’ Conference

We hope you will be able to join us on Thursday, November 5, 2015 at the College of the Holy Cross in Worcester, MA for the 2015 PRIM Investors’ Conference. The conference will be held in the Hogan Center Ballroom. Registration begins at 8:15 a.m.; the formal program will convene at 9:00 a.m. Among our speakers will be State Treasurer & Receiver-General, and PRIM Board Chair, Deborah B. Goldberg, and Stuart Schiff, Chief Executive Officer of DivcoWest Real Estate Investments. We will also feature PRIM’s highly talented investment and finance staff.

PRIT FUND ASSETS: \$59,509,393,000

PRIT Core Fund Recap – August 31, 2015

Portfolio	Month	CYTD	1-Year
PRIT Core Total	-3.48%	-0.47%	-0.07%
U.S. Equity	-6.00%	-2.72%	-0.03%
International Equity	-6.47%	0.84%	-6.35%
Emerging Markets Equity	-8.71%	-12.69%	-21.89%
Core Fixed Income	-0.29%	-1.87%	3.53%
Public Value Added FI*	-2.42%	-2.26%	-7.50%
Total Value Added FI**	-1.76%	-1.57%	-4.62%
Private Equity	0.18%	8.95%	16.34%
Core Real Estate	-0.88%	5.28%	10.69%
Timber/Natural Resources	-0.74%	-3.63%	-3.42%
Hedge Funds (net of fees)	-2.53%	0.45%	1.47%
Portfolio Completion Strategies	-1.57%	-3.37%	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 returns of Public Value-Added FI and Private Debt. Private Equity is available to Segmented Systems through the Vintage Year Program.

Market Recap – August 31, 2015

Global Equity Markets

U.S. Equities:

Index	Month	CYTD	1-Year
S&P 500	-6.03%	-2.88%	0.48%
Russell 2000 Growth	-7.58%	0.91%	5.11%
Russell 2000 Value	-4.91%	-6.83%	-4.95%
Russell 2500 Growth	-7.01%	1.71%	4.53%
Russell 2500	-5.92%	-1.58%	-0.32%

International Equities:

Index	Month	CYTD	1-Year
Custom World IMI Ex-US	-6.89%	-1.20%	-8.95%
MSCI Emerging Mkts. IMI	-9.10%	-12.50%	-22.15%

Fixed Income

Index	Month	CYTD	1-Year
Barclays Aggregate	-0.14%	0.45%	1.56%
BC US Treas 20+Yr STRIPS	0.12%	-4.16%	6.33%
ML High Yield Master II	-1.77%	0.06%	-3.08%
JPM EM Debt Global	-1.08%	1.08%	-2.98%
JPM GBI EMI Global Div.	-5.38%	-12.30%	-21.54%

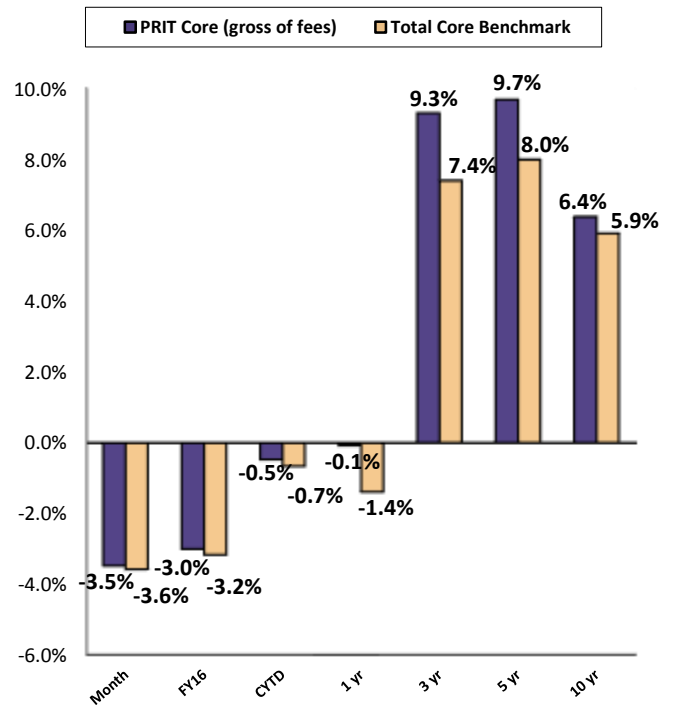
Real Estate

NCREIF 1-Qtr Lag Private	0.00%	6.72%	12.72%
FTSE EPRA NAREIT Global	-5.91%	-5.45%	-4.15%

Hedge Funds

Index	Month	CYTD	1-Year
HFRI Fund of Funds	-1.99%	0.87%	1.63%

PRIT Core Fund as of 8/31/2015



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