

March 2016

PRIM Board Update



PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD

Massachusetts Pension Reserves Investment Management Board

March PRIT Performance

The rebound in global equities that began in mid-February continued into March reversing January's losses by the end of the first quarter. The PRIT Core Fund returned 4.46% in March, resulting in a 1.91% return calendar year-to-date. *Please see the chart accompanying this piece showing the PRIT Core Fund vs. one month, fiscal 2016, calendar year, one-year, three-year, five-year and 10-year benchmarks.*

Market Snapshot for March 2016

U.S. Gross Domestic Product ("GDP") was revised to 1.4% for 4Q15, up from the previous estimate of 1.0% in the Commerce Department's final assessment. Unemployment rose to 5.0% from 4.9%, the first month-over-month increase since May 2015. Jobless claims, a proxy for layoffs, increased to 276,000 at the end of the month. A reading below 300,000 indicates healthy labor market conditions. U.S. jobless claims have remained below this threshold for 55 weeks, the longest stretch since 1973. The U.S. Institute for Supply Management ("ISM") Purchasing Manufacturing Index ("PMI") expanded for the first time in six months in March to 51.8, higher than February's 49.5 and above market expectations of 50.7. A reading above 50 indicates the manufacturing sector of the economy is expanding. In her comments to the Economic Club of New York, Federal Reserve (the "Fed") Chair Janet Yellen expressed that the Federal Open Market Committee ("FOMC") will proceed cautiously in adjusting rates when it meets in April. The U.S. Dollar Index depreciated 3.6%, while the Euro rose 4.9% after dovish statements from key members of the FOMC. Oil prices rose to \$38.30 a barrel (up 13.6% in March), as foreign buyers took advantage of a weakening dollar.

U.S. equities rose on positive economic data and speculation the Fed will take a slower path to raising rates. Small Caps were up 8.0%, outperforming Large Caps, which rose 6.8%.

International equities returned 6.5%. European equities rose 6.3% on investor expectations that central bankers will maintain policies supportive of equity markets. Japanese equities gained 4.7%, as machine orders grew more than expected.

Emerging markets equities soared 13.2%. Brazilian equities rose 30.5%, and the Real appreciated 12.3% after the Brazilian Democratic Movements Party's ("OMDB") decision to abandon President Dilma Rousseff and support impeachment proceedings. Brazilian markets were also boosted by rising

commodities. Chinese shares rose 11.9%, as the national People's Congress ("NPC") announced plans for economic growth and the Chinese Securities Finance Corp ("CSF") published lowering borrowing costs for brokerages. Frontier markets rose 2.7% in March.

In fixed income markets, the 20+ Year STRIPS Index fell 0.3%, but remained up 11.4% calendar year-to-date ("CYTD"), and returned 1.6% on a trailing one-year basis. The Barclays Aggregate rose 0.9% in March. Yields were lower by 9 basis points ("bps") on the month (2.17% vs. 2.26% in February), is largely due to improvement in credit spreads (price and yield move in opposite directions). U.S. High Yield bonds gained 4.4%, as spreads tightened by 70 bps. Emerging markets debt US dollar denominated ("EMD\$") rose 3.3%, as spreads tightened. EMD local surged 9.1% for the month erasing much of the losses from the previous 12 months. Yields were 34 bps lower (6.51% vs. 6.85%). Bond prices rose 2.0% while FX rose by 6.5% and coupon added 0.5% EMD local returns were positive across the board for the month. Performance was led by Brazil, Colombia, and Russia.

PRIT FUND ASSETS: \$60,224,456,000

PRIT Core Fund Recap – March 31, 2016

Portfolio	Month	CYTD	1-Year
PRIT Core Total	4.46%	1.91%	0.33%
U.S. Equity	7.03%	0.89%	-0.68%
International Equity	6.74%	-1.64%	-5.21%
Emerging Markets Equity	11.80%	4.08%	-9.57%
Core Fixed Income	0.71%	6.33%	0.36%
Public Value Added FI*	5.13%	5.13%	-0.35%
Total Value Added FI**	3.19%	3.15%	-1.13%
Private Equity	4.63%	4.34%	17.69%
Core Real Estate	2.97%	2.64%	11.17%
Timberland	1.50%	1.35%	1.00%
Hedge Funds (net of fees)	-0.05%	-2.55%	-7.21%
Portfolio Completion Strategies	-0.04%	1.83%	-2.90%

Returns are gross of fees unless otherwise noted. Timberland, 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 March 31, 2016

Global Equity Markets

U.S. Equities:

Index	Month	CYTD	1-Year
S&P 500	6.78%	1.35%	1.78%
Russell 2000 Growth	7.66%	-4.68%	-11.84%
Russell 2000 Value	8.29%	1.70%	-7.72%
Russell 2500 Growth	7.70%	-2.66%	-9.57%
Russell 2500	8.33%	0.39%	-7.31%

International Equities:

Index	Month	CYTD	1-Year
Custom World IMI Ex-US	6.98%	-1.79%	-7.47%
MSCI Emerging Mkts. IMI	12.79%	4.96%	-11.68%

Fixed Income

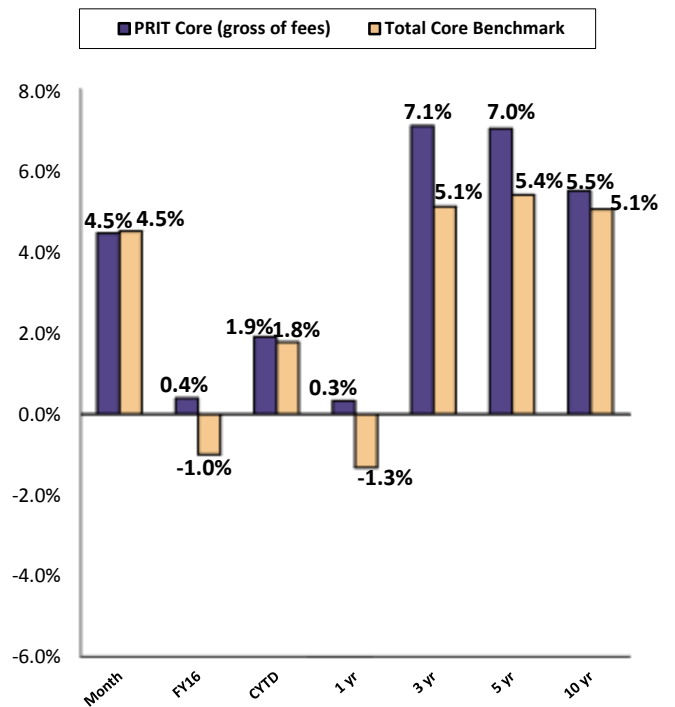
Index	Month	CYTD	1-Year
Barclays Aggregate	0.92%	3.03%	1.96%
BC US Treas 20+Yr STRIPS	-0.33%	11.38%	1.59%
ML High Yield Master II	4.42%	3.25%	-3.96%
JPM EMBI Global	3.34%	5.22%	4.36%
JPM GBI EM Global Div.	9.06%	11.02%	-1.65%

Real Estate

NCREIF 1-Qtr Lag Private	2.91%	2.91%	13.33%
FTSE EPRA NAREIT Global	9.56%	5.39%	1.11%

Hedge Funds

Index	Month	CYTD	1-Year
HFRI Fund of Funds	0.74%	-2.83%	-5.41%



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