

June 2016



PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD

PRIM Board Update

Massachusetts Pension Reserves Investment Management Board

June PRIT Performance

For the month of June, the PRIT Fund returned 1.0%, bringing the calendar year-to-date (“CYTD”) return to 3.8%. In fiscal year 2016, the PRIT Fund returned 2.3%, exceeding the benchmark return of 1.5% by 80 basis points (“bps”). *Please see the chart accompanying this piece showing the PRIT Fund vs. one month, fiscal 2016, CYTD, one-year, three-year, five-year and 10-year benchmarks.*

Market Snapshot for June 2016

U.S. Gross Domestic Product (“GDP”) levels were adjusted up to 1.1% for 1Q16, higher than last month’s 0.8% and an earlier revision estimate of 1.0%, according to the Commerce Department’s final assessment. The Federal Reserve (the “Fed”) estimated that 2Q16 GDP will rise 2.6% in 2Q16. Unemployment ticked up to 4.9% in June from 4.7% last month, and the economy added 287,000 jobs, according to the Bureau of Labor Statistics (“BLS”). The U.S. Institute for Supply Management (“ISM”) Purchasing Manufacturing Index (“PMI”) increased to 53.2 in June, up from a reading of 51.3 in May. This was the highest reading since February 2015 and was stronger than expectations. A reading above 50 indicates the manufacturing sector of the economy is growing. The Fed left interest rates unchanged at the June Federal Open Market Committee (“FOMC”) meeting amid worries about slowing job growth. The U.S. Dollar Index and the Yen rose 0.2% and 8.1%, respectively, while the Euro depreciated 0.2%. Oil prices fell 1.6% in June to \$48.30 a barrel. Oversupply is a growing concern as production by the Organization of the Petroleum Exporting Countries (“OPEC”) reached a record high in June. (Correction: Oil closed at \$49.10 a barrel in May not \$40.10, as reported in last month’s *Update*.)

Although it was a bumpy month, U.S. equities ended June mostly positive because of the largest three-day rally since February 2016 after the “Brexit” vote nearly wiped out earlier gains. Markets rallied after signs that central bankers would loosen monetary policy to ease the impact of the United Kingdom’s exit from the European Union (“EU”). Domestic large cap stocks were up 0.3% versus small caps, which fell 0.1%.

International equities fell 3.4%, with Europe down 4.4% as the UK voted to leave the EU. Japanese equities also fell 2.5% for the month after slipping 7.9% the day after the Brexit vote. Conversely, emerging equities markets gained 4.0% in June. Brazilian equities rallied after deep losses in May, returning 19.5% in June; and the Real appreciated 12.4%, as expectation of a U.S. rate hike was delayed and President Rousseff was suspended from office. Chinese shares rose 1.1% as investors felt Asia was relatively stable compared to Europe. Frontier markets lost 3.5% in June.

In fixed income markets, the 20+ Year STRIPS Index gained 9.0% in June, and was up 22.0% CYTD. The 20+ Year STRIPS Index returned 29.6% on a trailing one-year basis. The Barclays Capital U.S. Aggregate Bond Index returned 1.8% in June. Yields were lower by 28 bps on the month (yields move inversely to prices). U.S. High Yield bonds rose 1.1% in June, as spreads widened by 24 bps. Emerging markets debt U.S. dollar denominated (“EMD\$”) was up 3.7%, as spreads tightened by 14 bps. EMD local gained 6.2% for the month. Yields were 30 bps lower than in May. Bond prices rose 2.1%, while FX rose 3.5% and coupon added 0.5%. Performance was led by Brazil, Mid-East Africa, and South Africa.

PRIT FUND ASSETS: \$60,692,805,000

PRIT Fund Recap – June 30, 2016

Portfolio	Month	CYTD	1-Year
PRIT Core Total	1.0%	3.8%	2.3%
U.S. Equity	0.0%	3.4%	1.6%
International Equity	-3.3%	-2.8%	-7.7%
Emerging Markets Equity	3.4%	5.5%	-9.5%
Core Fixed Income	4.8%	12.0%	14.7%
Public Value Added FI	2.8%	9.3%	3.3%
Total Value Added FI	2.3%	6.2%	1.0%
Private Equity	1.3%	5.2%	12.2%
Core Real Estate	2.1%	5.5%	12.2%
Timberland	1.6%	2.5%	0.4%
Hedge Funds (net of fees)	-0.3%	-1.1%	-5.4%
Portfolio Completion Strategies	4.0%	3.9%	8.7%

Returns are gross of fees unless otherwise noted.

Market Recap June 30, 2016

Global Equity Markets

U.S. Equities:

Index	Month	CYTD	1-Year
S&P 500	0.3%	3.8%	4.0%
Russell 2000 Growth	-0.5%	-1.6%	-10.8%
Russell 2000 Value	0.3%	6.1%	-2.6%
Russell 2500 Growth	-0.7%	-0.0%	-7.7%
Russell 2500	-0.0%	4.0%	-3.7%

International Equities:

Index	Month	CYTD	1-Year
Custom World IMI Ex-US	-3.3%	-2.9%	-9.3%
MSCI Emerging Mkts. IMI	3.8%	5.5%	-12.2%

Fixed Income

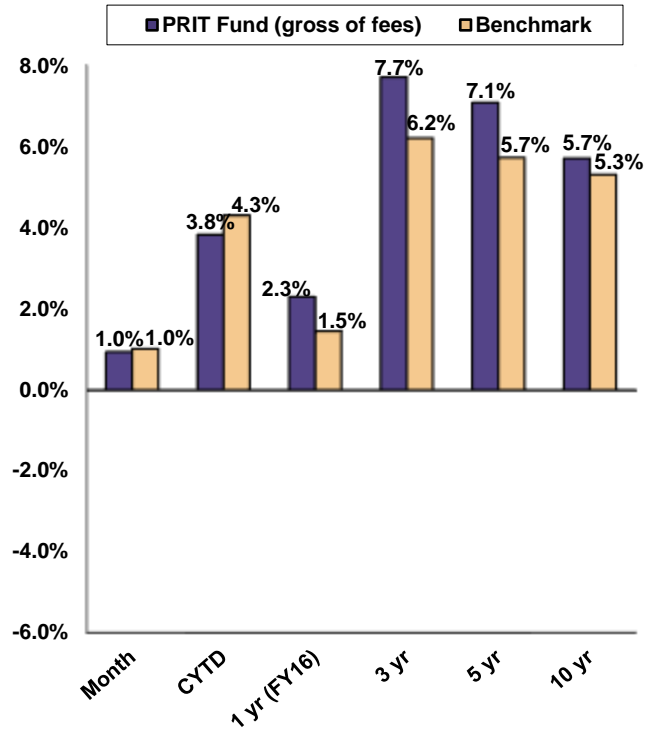
Index	Month	CYTD	1-Year
Barclays Capital Aggregate	1.8%	5.3%	6.0%
BC US Treas 20+Yr STRIPS	9.0%	22.0%	29.9%
ML High Yield Master II	1.1%	9.3%	1.7%
JPM EMBI Global	3.7%	10.9%	10.3%
JPM GBI EM Global Div.	5.9%	14.0%	2.0%

Real Estate

Index	Month	CYTD	1-Year
NCREIF 1-Qtr Lag Private	2.2%	5.2%	11.8%
FTSE EPRA NAREIT Global	3.7%	9.3%	12.4%

Hedge Funds

Index	Month	CYTD	1-Year
HFRI Fund of Funds	-0.4%	-2.6%	-5.4%



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