

August 2016

PRIM Board Update



PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD

Massachusetts Pension Reserves Investment Management Board

August PRIT Performance

The PRIT Fund returned 0.4% in August improving its calendar year-to-date ("CYTD") return to 7.1%. Please see the chart accompanying this piece showing the PRIT Fund vs. one month, CYTD, one-year, three-year, five-year and 10-year benchmarks.

Market Snapshot for August 2016

U.S. Gross Domestic Product ("GDP") expanded 1.1% in 2Q16 in the Commerce Department's second assessment, down from the 1.2% pace reported last month. In August, unemployment remained level at 4.9%, as the total nonfarm payroll employment rose by 151,000, according to the Bureau of Labor Statistics ("BLS"), but weaker than the median forecast of 180,000. The U.S. Institute for Supply Management ("ISM") Purchasing Manufacturing Index ("PMI") contracted in August at 49.4, lower than 52.6 in July and weaker than market expectations. A reading above 50 indicates the manufacturing sector of the economy is growing. The Federal Reserve ("the Fed") left interest rates unchanged at the most recent meeting of the Federal Open Market Committee ("FOMC") meeting. At the central bank's annual Jackson Hole summit in Wyoming, Fed Chair Janet Yellen said the case for an increase in rates had strengthened in recent months. The U.S. Dollar Index appreciated 0.5%, while the yen and the euro fell 0.4% and 0.9%, respectively. Oil prices rose to \$47.00 a barrel, a 7.5% increase from July's \$41.60 a barrel, after Saudi Arabia's energy minister, Khalid al-Falih, commented that his country would work with other Organization of the Petroleum Exporting Countries ("OPEC") members to freeze production in a bid to stabilize prices.

In August, U.S. equities rose on higher oil prices, better-than-estimated corporate earnings, and speculation that the Fed will take a slower path to raising rates. Domestic small cap stocks gained 1.8%, outperforming large caps, which rose 0.1%.

Developed international equities rose 0.3% in August. European equity markets gained 0.3% as a weaker Euro boosted exporters and merger speculation among large banks.

Japanese equities rose 0.4% for the month as the yen weakened and the Bank of Japan ("BOJ") vowed to approve more quantitative easing or lower negative interest rates if needed.

Emerging equities gained 2.5% in August. Brazilian equities rose 0.9% ahead of former president Dilma Rousseff's impeachment decision. Chinese shares gained 7.4% ahead of a detailed announcement of a trading link between the Shenzhen and Hong Kong investors (Shenzhen is a major stock exchange in Southern China). Frontier markets fell 1.1% in August.

In fixed income markets, the 20+ Year STRIPS Index fell 1.1% in August, and was up 25.3% CYTD. The 20+ Year STRIPS Index returned 25.9% on a trailing 12-month basis ending August 31, 2016. The Barclays Capital U.S. Aggregate Bond Index fell 0.1% in August. U.S. High Yield bonds gained 2.2%, as spreads tightened by 51 basis points ("bps"). Emerging markets debt U.S. dollar denominated ("EMD\$") rose 1.8%, as spreads tightened by 31 bps. EMD Local was flat for the month, as yields were 4 bps higher (the yield and price move in opposite directions).

PRIT FUND ASSETS: \$62,872,076,000

PRIT Fund Recap – August 31, 2016

Portfolio	Month	CYTD	1-Year
PRIT Core Total	0.4%	7.1%	8.7%
U.S. Equity	0.4%	8.0%	11.3%
International Equity	0.0%	2.4%	2.8%
Emerging Markets Equity	2.8%	14.3%	14.2%
Core Fixed Income	-0.0%	14.3%	14.2%
Public Value Added FI	1.1%	12.1%	9.3%
Total Value Added FI	0.8%	8.2%	5.4%
Private Equity	-0.1%	5.0%	12.2%
Core Real Estate	-0.3%	6.8%	13.6%
Timberland	-0.1%	3.2%	1.9%
Hedge Funds (net of fees)	1.0%	1.1%	-1.2%
Portfolio Completion Strategies	-2.4%	0.6%	3.4%

Returns are gross of fees unless otherwise noted.

Market Recap August 31, 2016

Global Equity Markets

U.S. Equities:

Index	Month	CYTD	1-Year
S&P 500	0.2%	8.0%	12.7%
Russell 2000 Growth	1.1%	6.0%	3.6%
Russell 2000 Value	2.5%	14.6%	13.8%
Russell 2500 Growth	0.7%	6.7%	4.7%
Russell 2500	0.8%	10.3%	8.8%

International Equities:

Index	Month	CYTD	1-Year
Custom World IMI Ex-US	-0.1%	2.0%	1.1%
MSCI Emerging Mkts. IMI	2.4%	13.6%	12.0%

Fixed Income

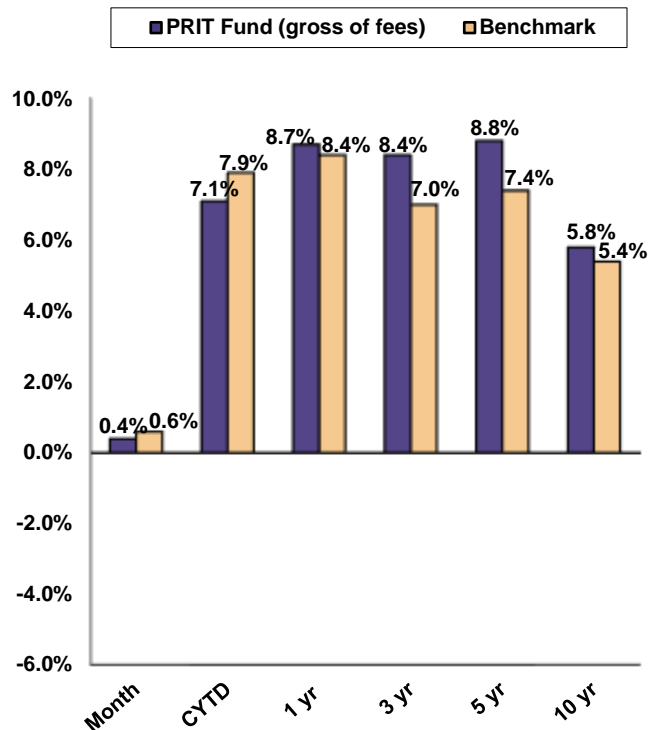
Index	Month	CYTD	1-Year
Barclays Capital Aggregate	-0.1%	5.9%	6.0%
BC US Treas 20+Yr STRIPS	-1.1%	25.3%	25.9%
ML High Yield Master II	2.2%	14.6%	9.2%
JPM EMBI Global	1.8%	14.7%	14.8%
JPM GBI EM Global Div.	0.0%	14.8%	11.3%

Real Estate

NCREIF 1-Qtr Lag Private	0.0%	5.2%	11.8%
FTSE EPRA NAREIT Global	-2.6%	11.8%	18.2%

Hedge Funds

Index	Month	CYTD	1-Year
HFRI Fund of Funds	0.5%	-0.6%	-1.7%



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Please note: As of 7/1/2016, all equity indices shown above are customized to exclude legislatively prohibited tobacco, Sudan, and Iran securities.