

September 2016

PRIM Board Update



PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD

Massachusetts Pension Reserves Investment Management Board

September PRIT Performance

The PRIT Fund returned 1.1% in September, improving its calendar year-to-date (CYTD) return to 8.2%. For the third calendar quarter, the Fund was up 4.3%. *Please see the chart accompanying this piece showing the PRIT Fund vs. one month, quarter, CYTD, one-year, three-year, five-year and 10-year benchmarks.*

Market Snapshot for September 2016

U.S. Gross Domestic Product (GDP) was revised upward to 1.4% in 2Q16, an increase from the previous estimate of 1.1%, in the Commerce Department's final assessment. Unemployment rose to 5.0% from 4.9% in September in the most recent jobs report issued by the Bureau of Labor Statistics (BLS). Jobless claims fell 5,000 to 249,000, the second lowest level since 1973. The U.S. Institute for Supply Management (ISM) Purchasing Manufacturing Index (PMI) expanded in September to 51.5, higher than 49.4 in August and stronger 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 September meeting of the Federal Open Market Committee (FOMC). Three of the seven FOMC members favored raising rates at this meeting: Boston Fed President Eric Rosengren, Kansas City Fed President Esther George and the Cleveland Fed's Loretta Mester. The U.S. Dollar Index depreciated 0.6%, while the yen and the euro rose 2.1% and 0.9%, respectively. Oil prices rose to \$48.2 a barrel, a 7.9% increase from August's \$47.0 a barrel, after the Organization of the Petroleum Exporting Countries' ("OPEC") announcement of a preliminary deal to cut crude oil production.

In September, U.S. equities rose on the oil price rally and the Fed's decision to keep interest rates steady. Domestic small cap stocks returned 1.1%, outperforming large caps, which were flat in September.

Developed international equities rose 1.2% in September. European equities gained 0.9%, as investor fear over Deutsche Bank's financial health diminished following CEO John Cryan's positive statement. Japanese

equities rose 1.6% on FX (foreign currency) appreciation due to the 2.1% rise in the yen.

Emerging equities gained 1.3% in September. Chinese and Russian equities rose 2.5% and 3.9%, respectively, on higher energy prices. The Brazilian equity market was nearly flat at 0.3%, but has risen 63.2% so far in 2016. Frontier markets also rose 2.6% in September.

In fixed income markets, the 20+ Year STRIPS Index fell 2.8% in September, but remained strongly positive at 21.8% CYTD. The 20+ Year STRIPS Index returned 20.5% on a trailing 12-month basis ending September 30, 2016. The Barclays Capital U.S. Aggregate Bond Index lost 0.1% in September.

U.S. High Yield bonds gained 0.7%, as spreads tightened by 13 basis points (bps). Emerging markets debt U.S. dollar denominated (EMD\$) rose 0.3%, as spreads tightened by 1 bp. EMD local currency gained 2.0% for the month, as yields were 11 bps lower (the yield and price move in opposite directions). Bond prices rose 0.6%, while FX rose 0.89% and coupon added 0.5%. Emerging markets debt local performance was led by South Africa, Colombia, and Russia.

PRIT FUND ASSETS: \$63,264,006,000

PRIT Fund Recap – September 30, 2016

Portfolio	Month	CYTD	1-Year
PRIT Core Total	1.1%	8.2%	10.8%
U.S. Equity	0.2%	8.2%	14.8%
International Equity	1.3%	3.8%	9.1%
Emerging Markets Equity	1.6%	16.1%	18.3%
Core Fixed Income	-1.1%	13.1%	12.2%
Public Value Added FI	1.1%	13.3%	12.8%
Total Value Added FI	1.7%	10.0%	8.5%
Private Equity	4.6%	9.8%	10.8%
Core Real Estate	1.3%	8.3%	12.3%
Timberland	0.4%	3.6%	1.3%
Hedge Funds (net of fees)	0.7%	1.8%	2.0%
Portfolio Completion Strategies	1.6%	2.2%	3.5%

Returns are gross of fees unless otherwise noted.

Market Recap September 30, 2016

Global Equity Markets

U.S. Equities:

Index	Month	CYTD	1-Year
S&P 500	0.1%	8.0%	15.6%
Russell 2000 Growth	1.5%	7.6%	12.2%
Russell 2000 Value	0.8%	15.5%	18.8%
Russell 2500 Growth	0.3%	7.0%	11.1%
Russell 2500	0.5%	10.8%	14.5%

International Equities:

Index	Month	CYTD	1-Year
Custom World IMI Ex-US	1.4%	3.5%	7.8%
MSCI Emerging Mkts. IMI	1.3%	15.1%	16.4%

Fixed Income

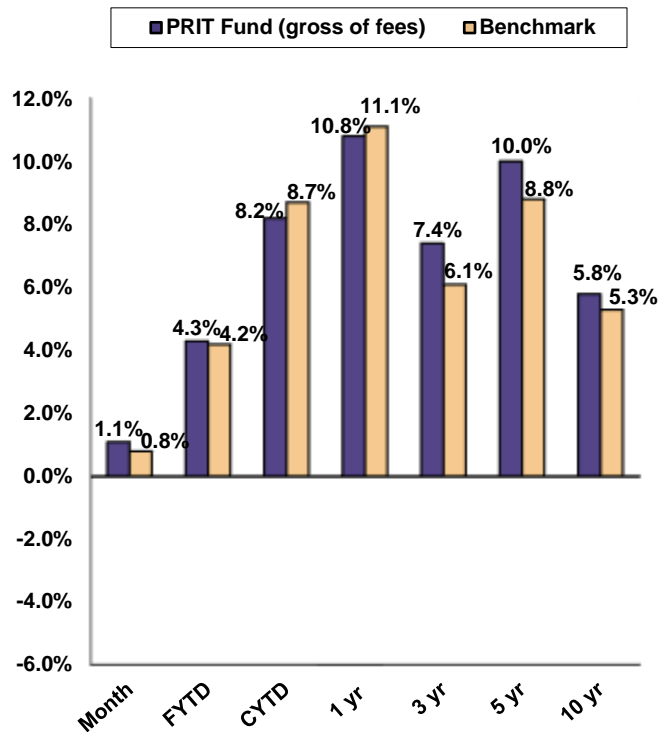
Index	Month	CYTD	1-Year
Barclays Capital Aggregate	-0.1%	5.8%	5.2%
BC US Treas 20+Yr STRIPS	-2.9%	21.8%	20.5%
ML High Yield Master II	0.7%	15.3%	12.8%
JPM EMBI Global	0.3%	15.0%	16.8%
JPM GBI EM Global Div.	2.0%	17.1%	17.1%

Real Estate

Index	Month	CYTD	1-Year
NCREIF 1-Qtr Lag Private	2.0%	7.3%	10.6%
FTSE EPRA NAREIT Global	-0.9%	10.8%	15.7%

Hedge Funds

Index	Month	CYTD	1-Year
HFRI Fund of Funds	0.5%	-0.3%	0.5%



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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.