May 2016

PRIM Board Update

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

Massachusetts Pension Reserves Investment Management Board

May PRIT Performance

For the month of May, the PRIT Fund rose 0.1%. On a trailing one-year basis, the PRIT Fund was up 0.4%, versus the passive benchmark return of -0.9%, or 130 basis points ("bps") of excess return. *Please see the chart accompanying this piece showing the PRIT Fund vs. one month, fiscal 2016, calendar year, one-year, three-year, five-year and 10-year benchmarks.*

Market Snapshot for May 2016

U.S. Gross Domestic Product ("GDP") expanded at 0.8% in 1Q16, the slowest pace since 1Q15, according to the Commerce Department's second assessment. Unemployment fell to 4.7% in May from 5.0% last month; however, U.S. companies added only 38,000 jobs in May, the weakest since September 2015. The U.S. Institute for Supply Management ("ISM") Purchasing Manufacturing Index ("PMI") expanded in May to 51.3, up from a reading of 50.8 in April, but lower 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 May Federal Open Market Committee ("FOMC") meeting. Fed Chairwoman Janet Yellen maintained her position that a rate hike could be appropriate in months if economic data and the labor market continue to improve. The U.S. Dollar Index appreciated 2.9%, while the Yen and Euro fell 3.5% and 2.8%, respectively. Oil prices rose to $40.10 a barrel, up 6.9% in May. At the most recent Organization of the Petroleum Exporting Countries ("OPEC") summit, members chose to maintain production levels moving forward.

U.S. equities rose on higher oil prices, strong housing data, and speculation that the Fed will take a slower path to raising rates. Small cap stocks were up 2.4%, outperforming large cap stocks, which gained 1.8%.

Conversely, developed international equities fell 0.9% in May. European equities lost 0.6% as the European Central Bank ("ECB") maintained the status quo on its monetary policy. Japanese equities fell 1.0% after Prime Minster Shinzo Abe failed to detail stimulus plans.

Emerging markets lost 3.7% in May. Brazilian equities fell 13.6% and the Real depreciated 4.2%, as political drama continued in the region and lower metal prices hurt state-owned mining companies. Chinese shares were down 0.8%, as investor hopes for economic recovery weakened, and on fears that new regulation will hurt speculation. The news wasn't all negative for developing economies in May, as frontier markets gained 1.0%.

In fixed income markets, the 20+ Year STRIPS Index rose 1.5% in May, and was up 12.0% CYTD. The 20+ Year STRIPS Index returned 11.5% on a trailing one-year basis. The Barclays Capital U.S. Aggregate Bond Index ended flat in May. Yields were 5 bps higher on the month (yields move inversely to prices). U.S High Yield bonds rose 0.7% in May, as spreads tightened by 27 bps. Emerging markets debt US dollar denominated ("EMD$") fell 0.3% as spreads widened by 11 bps. EMD local returned -5.4% for the month, reversing the recent positive trend. Yields were 24 bps higher than in the prior month. Bond prices fell 1.1%, as did FX, which fell 4.9%; coupon added 0.5%. The Middle East, South Africa, and Colombia were the worst performers in local terms.

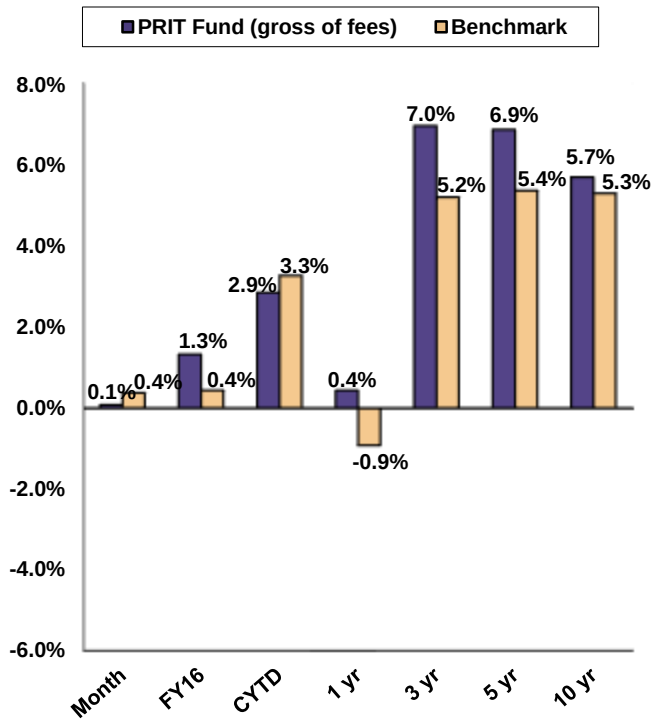
PRIT FUND ASSETS: $60,342,360,000

PRIT Fund Recap – May 31, 2016

Portfolio	Month	CYTD	1-Year
PRIT Core Total	**0.1%**	**2.9%**	**0.4%**
U.S. Equity	1.9%	3.3%	-0.0%
International Equity	-0.5%	0.5%	-6.9%
Emerging Markets Equity	-2.8%	2.0%	-14.9%
Core Fixed Income	0.6%	6.8%	5.4%
Public Value Added FI	-1.4%	6.4%	-0.7%
Total Value Added FI	-1.1%	3.9%	-1.7%
Private Equity	-0.5%	3.8%	16.7%
Core Real Estate	0.3%	3.3%	11.8%
Timberland	-0.4%	0.9%	0.5%
Hedge Funds (net of fees)	0.9%	-0.8%	-6.5%
Portfolio Completion Strategies	-1.7%	-0.1%	2.0%

Returns are gross of fees unless otherwise noted.

Market Recap May 31, 2016			
Global Equity Markets			
U.S. Equities:			
Index	Month	CYTD	1-Year
S&P 500	1.8%	3.6%	1.7%
Russell 2000 Growth	2.7%	-1.1%	-9.1%
Russell 2000 Value	1.8%	5.8%	-2.8%
Russell 2500 Growth	2.5%	0.7%	-7.3%
Russell 2500	2.1%	4.0%	-4.3%
International Equities:			
Index			
Custom World IMI Ex-US	-1.0%	0.4%	-8.7%
MSCI Emerging Mkts. IMI	-3.6%	1.6%	-17.8%
Fixed Income			
Index			
Barclays Capital Aggregate	0.0%	3.5%	3.0%
BC US Treas 20+Yr STRIPS	1.5%	12.0%	11.6%
ML High Yield Master II	0.7%	8.2%	-0.9%
JPM EMBI Global	-0.3%	6.9%	4.6%
JPM GBI EM Global Div.	-5.4%	7.7%	-4.9%
Real Estate			
NCREIF 1-Qtr Lag Private	0.0%	2.9%	13.3%
FTSE EPRA NAREIT Global	0.0%	5.3%	4.1%
Hedge Funds			
Index			
HFRI Fund of Funds	0.6%	-2.1%	-5.9%



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