

July 2016

PRIM Board Update



PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD

Massachusetts Pension Reserves Investment Management Board

July PRIT Performance

The PRIT Fund began the new fiscal year strong with a 2.7% return, lifting the Fund's calendar year-to-date ("CYTD") return to 6.7%. A composite portfolio consisting of 60% global equities and 40% U.S. core bonds would have returned 5.8% CYTD. *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 July 2016

U.S. Gross Domestic Product ("GDP") expanded less than forecast in 2Q16 at a 1.2% annualized rate after a 1.1% advance the prior quarter, according to the Commerce Department. The Federal Reserve (the "Fed") had estimated that GDP would rise 2.6% in 2Q16. In July, unemployment remained unchanged from the prior month at 4.9%, as the total nonfarm payroll employment rose by 255,000, according to the Bureau of Labor Statistics ("BLS"). The U.S. Institute for Supply Management ("ISM") Purchasing Manufacturing Index ("PMI") was 52.6 in July, down from a reading of 53.2 in June. The July reading was weaker than the forecasted 53.0. A reading above 50 indicates the manufacturing sector of the economy is growing. The Fed left interest rates unchanged at July's Federal Open Market Committee ("FOMC") meeting. The Fed noted a stronger labor market, but stated that inflation is "expected to remain low in the near term." The U.S. Dollar Index depreciated 0.5%, while both the Yen and the Euro rose 0.1% and 0.7%, respectively. Oil prices continued to fall, with July prices closing at \$41.60 a barrel, a 14% decline from June's \$48.30 a barrel. Oversupply continues to be a concern.

U.S. equities rose post-Brexit on the expectation central banks will continue their easing policies. Domestic small cap stocks gained 6.0%, outperforming large caps, which returned 3.7%.

Developed international equities rose 5.1% in July. European equity markets rallied post-Brexit on stimulus hopes and mixed economic data, gaining

4.2% for the month. Japanese equities rose 6.5% for the month after monetary and fiscal stimulus measures were promised by Prime Minister Shinzo Abe and the Bank of Japan ("BOJ").

Emerging equities rose 5.0% in July on reduced bets of a U.S. rate hike and increased demand for higher yielding assets (risk on). Brazilian equities soared 10%, as expectations for a U.S. rate hike were delayed. Chinese shares gained 3.5% in July. Frontier markets rose 1.2%.

In fixed income markets, the 20+ Year STRIPS Index rose 3.9% in July, and was up 26.7% CYTD. The 20+ Year STRIPS Index returned 27.4% on a trailing 12-month basis ending July 31, 2016. The Barclays Capital U.S. Aggregate Bond Index returned 0.6% in July. U.S. High Yield bonds rose 2.5% in July, as spreads tightened by 60 bps. Emerging markets debt U.S. dollar denominated ("EMD\$") was up 1.6%, as spreads tightened by 15 bps. EMD Local rose 0.6% for the month. EMD Local returns were led by South Africa, Indonesia, and Hungary.

PRIT FUND ASSETS: \$62,543,660,000

PRIT Fund Recap – July 31, 2016

Portfolio	Month	CYTD	1-Year
PRIT Core Total	2.7%	6.7%	4.6%
U.S. Equity	4.1%	7.6%	4.2%
International Equity	5.4%	2.4%	-4.1%
Emerging Markets Equity	5.4%	11.2%	1.4%
Core Fixed Income	2.1%	14.3%	13.9%
Public Value Added FI	1.5%	10.9%	5.5%
Total Value Added FI	1.1%	7.3%	2.7%
Private Equity	-0.1%	5.1%	12.6%
Core Real Estate	1.6%	7.1%	12.9%
Timberland	0.8%	3.3%	1.7%
Hedge Funds (net of fees)	1.3%	0.2%	-4.6%
Portfolio Completion Strategies	-0.8%	3.1%	4.3%

Returns are gross of fees unless otherwise noted.

Market Recap July 31, 2016

Global Equity Markets

U.S. Equities:

Index

	Month	CYTD	1-Year
S&P 500	3.8%	7.8%	5.7%
Russell 2000 Growth	6.6%	4.9%	-5.3%
Russell 2000 Value	5.4%	11.8%	5.6%
Russell 2500 Growth	6.0%	5.9%	-3.4%
Russell 2500	5.2%	9.4%	1.6%

International Equities:

Index

Custom World IMI Ex-US	5.2%	2.1%	-5.8%
MSCI Emerging Mkts. IMI	5.1%	10.9%	-0.6%

Fixed Income

Index

Barclays Capital Aggregate	0.6%	6.0%	5.9%
BC US Treas 20+Yr STRIPS	3.9%	26.7%	27.5%
ML High Yield Master II	2.5%	12.1%	5.0%
JPM EMBI Global	1.6%	12.6%	11.6%
JPM GBI EM Global Div.	0.6%	14.7%	5.3%

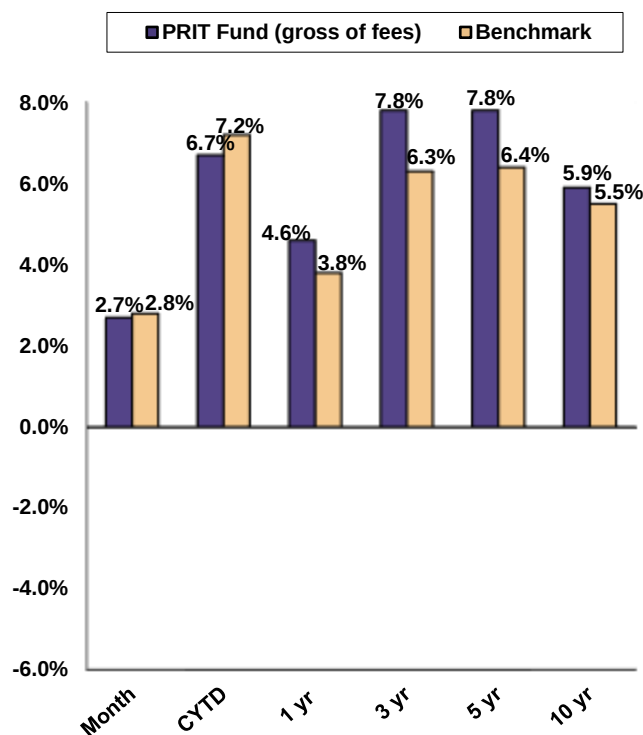
Real Estate

NCREIF 1-Qtr Lag Private	0.0%	5.2%	11.8%
FTSE EPRA NAREIT Global	5.1%	14.8%	14.1%

Hedge Funds

Index

HFRI Fund of Funds	1.5%	-1.2%	-4.3%
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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.