



NEPC, LLC

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## Office of the State Treasurer & Cash Management Policy Board

Investment Performance Summary  
Month Ending December 31, 2015

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## Market Environment

Global equities ended 2015 with a whimper as investors stayed on the sidelines while central banks in Europe and the US provided guidance on monetary policy. At home, the Federal Reserve raised rates, putting its target rate from 25-to-50 basis points. The anticipated move was well received by US markets which received a modest mid-month boost. That said, the S&P 500 fell 1.6% as a strong US dollar cut into profit margins and triggered a slowdown in manufacturing. Small-cap stocks bore the brunt, with the Russell 2000 declining 5.0% amid risk aversion. In Europe, losses were largely driven by the European Central Bank's decision last month to extend its bond-buying program by six months and cut its deposit rate by 10 basis points. Despite the seemingly accommodative action most investors expected more and the MSCI EAFE fell 1.3%. Emerging market equities continued to struggle amid growth and currency concerns as the MSCI EM declined 2.2%.

In fixed-income markets, a modest increase in the 10-year Treasury rate spurred moderate losses in high-quality issues with the Barclays US Aggregate Bond Index falling 0.3%. US high-yield markets remained strained by low energy prices and declined another 2.5% in December. Emerging market debt struggled as the JPM GBI-EM Global Diversified Index fell 2.2% partly due to continued currency weakness. Commodity prices, especially oil, stayed low with the Bloomberg Commodity Index losing 3.1%; future roll yields remain largely negative too.

## Equity Market Results

As noted above, US equity market results were negative during December. Blue chip stocks, represented by the S&P 500 Index, posted the best results during a dismal month, declining 1.58%. Small cap stocks, as represented by the Russell 2000 Index, fared worse falling 5.02%. For the entire calendar year, the broad market saw marginally positive results, with the Russell 3000 Index increasing 0.48%. Large cap stocks, buoyed by their dividends, were up nearly 1%, while their smaller brethren declined 4.4%.

International equity markets continued their sell off during the last month of the year. Developed international markets, represented by the MSCI EAFE Index, declined 1.35, while their less established counterparts, represented by the MSCI Emerging Markets Index, fell 2.23%. Calendar year 2015 provided international equity market investors with little to show for their efforts, with both developed and emerging markets generating negative results. Developed international market stocks fell 0.81%, declined nearly 15% for the year.

## Bond Market Results

Most intermediate and long-dated bonds also disappointed in December. Core US bonds and other non-risky segments of the markets were flat to negative, while the riskier segments such as high yield saw declines in excess of 2%. The broad US bond market, represented by the Barclays Capital Aggregate Index, fell 0.32% during the month. International bonds, as represented by the Citigroup World Government Bond Index (WGBI) hedged, declined 0.24%. High yield and emerging market bonds were negative, falling 2.58% and 1.28%, respectively. For the entire calendar year, the broad US bond market rose 0.55%, leaving investors only slightly better off from where they began the year.

Cash-like instruments saw an increase as the Federal Reserve increased its targeted discount rate by 25 basis points at their December FOMC meeting. As a result, the BofA ML 3-month T-bill and LIBOR each returned 0.03% during the month. While those results remain miniscule, they are noticeably higher than the 0.01% monthly return, which had held fairly steady over the past several years.

## Market Outlook

Coming off a year in which few traditional assets met their return expectations—and many disappointed—we recommend investors reaffirm commitments to suit their long-term goals. Within equities, we still recommend an overweight to non-US developed markets, where monetary easing provides a backdrop for recovery and earnings growth. Though we are positive on emerging market equities, we recognize a number of near-term risks and believe investors are well served by moving down the capitalization spectrum and into dynamic active managers. Lastly, we believe patient capital will reap the benefits of distress in the energy market and, in the interim, recommend a focus on segments of the public markets offering a positive yield when seeking inflation protection.

## Index Performance Summary as of 12/31/2015

	2008	2009	2010	2011	2012	2013	2014	Q1	Q2	Q3	OCT	NOV	DEC	Q4	1 YR
<b>Barclays Municipal</b>	-2.5%	12.9%	2.4%	10.7%	6.8%	-2.6%	9.1%	1.0%	-0.9%	1.7%	0.4%	0.4%	0.7%	1.5%	3.3%
<b>FTSE NAREIT Eqty REITs</b>	-37.7%	28.0%	28.0%	8.3%	18.1%	2.5%	30.1%	4.8%	-10.0%	2.0%	5.9%	-0.5%	1.8%	7.3%	3.2%
<b>S&amp;P 500</b>	-37.0%	26.5%	15.1%	2.1%	16.0%	32.4%	13.7%	1.0%	0.3%	-6.4%	8.4%	0.3%	-1.6%	7.0%	1.4%
<b>Barclays US Agg Interm</b>	4.9%	6.5%	6.1%	6.0%	3.6%	-1.0%	4.1%	1.3%	-0.7%	1.1%	0.0%	-0.2%	-0.2%	-0.5%	1.2%
<b>JPM EMBI Global Div</b>	-12.0%	29.8%	12.2%	7.3%	17.4%	-5.3%	7.4%	2.0%	-0.3%	-1.7%	2.7%	-0.1%	-1.4%	1.3%	1.2%
<b>Russell 1000</b>	-37.6%	28.4%	16.1%	1.5%	16.4%	33.1%	13.2%	1.6%	0.1%	-6.8%	8.1%	0.3%	-1.8%	6.5%	0.9%
<b>Barc US Gov/Cred 1-3 Y</b>	5.0%	3.8%	2.8%	1.6%	1.3%	0.6%	0.8%	0.6%	0.1%	0.3%	0.0%	-0.2%	-0.1%	-0.4%	0.7%
<b>Barclays US Agg Bond</b>	5.2%	5.9%	6.5%	7.8%	4.2%	-2.0%	6.0%	1.6%	-1.7%	1.2%	0.0%	-0.3%	-0.3%	-0.6%	0.5%
<b>Credit Suisse Hedge Fnd</b>	-19.1%	18.6%	10.9%	-2.5%	7.7%	9.7%	4.1%	2.5%	-0.5%	-2.5%	0.5%	0.2%	N/A	-2.5%	0.1%
<b>Credit Suisse Lev Loan</b>	-28.8%	44.9%	10.0%	1.8%	9.4%	6.2%	2.1%	2.1%	0.8%	-1.2%	-0.1%	-0.9%	-0.9%	-2.0%	-0.4%
<b>MSCI EAFE</b>	-43.4%	31.8%	7.8%	-12.1%	17.3%	22.8%	-4.9%	4.9%	0.6%	-10.2%	7.8%	-1.6%	-1.3%	4.7%	-0.8%
<b>MSCI ACWI</b>	-42.2%	34.6%	12.7%	-7.3%	16.1%	22.8%	4.2%	2.3%	0.3%	-9.4%	7.8%	-0.8%	-1.8%	5.0%	-2.4%
<b>Russell 2500</b>	-36.8%	34.4%	26.7%	-2.5%	17.9%	36.8%	7.1%	5.2%	-0.3%	-10.3%	5.6%	2.0%	-4.1%	3.3%	-2.9%
<b>Barc US Gov/Cred Long</b>	8.4%	1.9%	10.2%	22.5%	8.8%	-8.8%	19.3%	3.4%	-7.6%	2.2%	0.4%	-0.6%	-0.8%	-0.9%	-3.3%
<b>Citi WGBI</b>	10.9%	2.6%	5.2%	6.4%	1.6%	-4.0%	-0.5%	-2.5%	-1.5%	1.7%	0.0%	-2.1%	0.9%	-1.2%	-3.6%
<b>Barc US Strips 20+ Yr</b>	59.5%	-36.0%	10.9%	58.5%	3.0%	-21.0%	46.4%	5.5%	-14.3%	7.6%	-0.3%	-1.1%	0.4%	-1.1%	-3.7%
<b>Russell 2000</b>	-33.8%	27.2%	26.9%	-4.2%	16.3%	38.8%	4.9%	4.3%	0.4%	-11.9%	5.6%	3.3%	-5.0%	3.6%	-4.4%
<b>Barclays US Corp HY</b>	-26.2%	58.2%	15.1%	5.0%	15.8%	7.4%	2.5%	2.5%	0.0%	-4.9%	2.7%	-2.2%	-2.5%	-2.1%	-4.5%
<b>Barclays US Long Credit</b>	-3.9%	16.8%	10.7%	17.1%	12.7%	-6.6%	16.4%	3.1%	-7.3%	0.5%	1.0%	-0.4%	-1.2%	-0.7%	-4.6%
<b>MSCI EM</b>	-53.3%	78.5%	18.9%	-18.4%	18.2%	-2.6%	-2.2%	2.2%	0.7%	-17.9%	7.1%	-3.9%	-2.2%	0.7%	-14.9%
<b>JPM GBI-EM Global Div</b>	-5.2%	22.0%	15.7%	-1.8%	16.8%	-9.0%	-5.7%	-4.0%	-1.0%	-10.5%	4.5%	-2.2%	-2.2%	0.0%	-14.9%
<b>Bloomberg Commodity</b>	-35.6%	18.9%	16.8%	-13.3%	-1.1%	-9.5%	-17.0%	-5.9%	4.7%	-14.5%	-0.4%	-7.3%	-3.1%	-10.5%	-24.7%
<b>Alerian MLP</b>	-36.9%	76.4%	35.9%	13.9%	4.8%	27.6%	4.8%	-5.2%	-6.1%	-22.1%	9.7%	-8.1%	-3.6%	-2.8%	-32.6%

Source: Morningstar Direct



## Liquidity & Reserve Pool

### Total Fund Performance Detail - Net of Fees

	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	YTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>Delaware Total Consolidation</b>	<b>1,788,978,085</b>	<b>100.00</b>	<b>-0.14</b>	<b>-0.03</b>	<b>0.47</b>	<b>0.02</b>	<b>0.47</b>	<b>0.42</b>	<b>0.67</b>	<b>1.93</b>	<b>2.00</b>	<b>Jan-05</b>
<b>Liquidity and Reserve Composite (New)</b>	<b>1,728,473,880</b>	<b>96.62</b>	<b>-0.10</b>	<b>-0.12</b>	<b>--</b>	<b>0.17</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>0.17</b>	<b>Jul-15</b>
<b>Total Liquidity</b>	<b>912,346,074</b>	<b>51.00</b>	<b>-0.05</b>	<b>-0.05</b>	<b>0.42</b>	<b>0.10</b>	<b>0.42</b>	<b>0.36</b>	<b>0.46</b>	<b>1.76</b>	<b>1.86</b>	<b>Jan-05</b>
<i>Liquidity Custom Index</i>			<i>0.00</i>	<i>-0.09</i>	<i>0.33</i>	<i>0.07</i>	<i>0.33</i>	<i>0.29</i>	<i>0.38</i>	<i>1.83</i>	<i>1.92</i>	<i>Jan-05</i>
Over/Under			-0.05	0.04	0.09	0.03	0.09	0.07	0.08	-0.07	-0.06	
Cutwater Asset Management	226,960,368	12.69	-0.03	-0.03	0.36	0.09	0.36	--	--	--	0.31	Jun-13
PFM Asset Management	229,508,934	12.83	-0.03	0.01	0.52	0.20	0.52	--	--	--	0.51	Jun-13
Wells Capital Inv. Liquidity	228,072,376	12.75	-0.06	-0.09	0.28	0.02	0.28	0.34	0.43	1.69	4.42	Jan-85
Wilmington Liquidity	227,804,396	12.73	-0.07	-0.08	0.50	0.11	0.50	0.33	0.47	1.98	4.49	Jan-85
<b>Total Reserve &amp; Operating</b>	<b>816,127,806</b>	<b>45.62</b>	<b>-0.15</b>	<b>-0.20</b>	<b>0.79</b>	<b>0.24</b>	<b>0.79</b>	<b>0.57</b>	<b>1.06</b>	<b>2.41</b>	<b>2.40</b>	<b>Jan-05</b>
<i>Reserve Custom Index</i>			<i>-0.12</i>	<i>-0.42</i>	<i>0.86</i>	<i>0.12</i>	<i>0.86</i>	<i>0.69</i>	<i>1.19</i>	<i>2.78</i>	<i>2.70</i>	<i>Jan-05</i>
Over/Under			-0.03	0.22	-0.07	0.12	-0.07	-0.12	-0.13	-0.37	-0.30	
Chandler Asset Management	95,545,259	5.34	-0.13	-0.30	0.83	0.28	0.83	--	--	--	0.87	Jun-13
Federated Investors	142,129,468	7.94	-0.14	0.03	1.14	0.59	1.14	--	--	--	0.81	Jun-13
JPM Intermediate	223,985,297	12.52	-0.13	-0.24	0.89	0.16	0.89	--	--	--	0.81	Jun-13
Morgan Stanley	153,168,758	8.56	-0.13	-0.19	0.81	0.30	0.81	--	--	--	0.78	Jun-13
Schroder Intermediate	145,043,402	8.11	-0.20	-0.28	0.48	0.04	0.48	0.58	1.02	2.34	3.61	Jul-95
HFE- Schroder	56,255,622	3.14	-0.22	-0.29	0.39	0.01	0.39	0.34	1.15	--	2.44	Sep-06

Notes: Net of Fees. Results for periods longer than one year are annualized.

Performance history through 12/2015 is from BNY Mellon. NEPC performance start date is January, 2016. Fiscal Year end is June 30.

Liquidity Custom Index is comprised of 25% BofA Merrill Lynch 1-3 Year Govt/Corporate A+ or Better/ 75% 6 Month Treasury Bill.

Reserve Custom index is comprised of 75% BofA Merrill Lynch 1-5 Year Govt/Corporate A+ or better/ 25% 6 Month Treasury Bill.



NEPC, LLC

December 31, 2015

## Land & Water Endowment

### Total Fund Performance Detail - Net of Fees

	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	YTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	Return (%)	Since
<b>Total Land &amp; Water Endowment</b>	<b>60,504,206</b>	<b>100.00</b>	<b>-1.43</b>	<b>2.41</b>	<b>--</b>	<b>-4.15</b>	<b>--</b>	<b>--</b>	<b>-4.15</b>	<b>Jul-15</b>
<i>L&amp;W Endowment Custom Index</i>			<u>-1.18</u>	<u>3.10</u>	--	<u>-1.66</u>	--	--	<u>-1.66</u>	<i>Jul-15</i>
Over/Under			-0.25	-0.69		-2.49			-2.49	
SEI Funds	19,367,408	32.01	-1.43	2.19	--	-3.16	--	--	-3.16	Jul-15
MSIFT Global Strategist	18,975,213	31.36	-1.48	1.96	--	-5.13	--	--	-5.13	Jul-15
JP Morgan Diversified	19,159,718	31.67	-1.61	3.05	--	-4.21	--	--	-4.21	Jul-15
Cash Account	3,001,867	4.96	0.01	0.01	--	-1.52	--	--	-1.52	Jul-15

Notes: Net of Fees. Returns for period greater than one year are annualized. Performance history through 12/2015 is from BNY Mellon. NEPC performance start date is January 2016. Fiscal Year end is June 30. L&W Endowment Custom Index is comprised of 60% MSCI World Index/40% Barclays Capital Aggregate.

# Information Disclaimer and Reporting Methodology

## Information Disclaimer

- Past performance is no guarantee of future results.
- All investments carry some level of risk. Diversification and other asset allocation techniques are not guaranteed to ensure profit or protect against losses.
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## Reporting Methodology

- The client's custodian bank is NEPC's preferred data source unless otherwise directed. NEPC generally reconciles custodian data to manager data. If the custodian cannot provide accurate data, manager data may be used.
- Trailing time period returns are determined by geometrically linking the holding period returns, from the first full month after inception to the report date. Rates of return are annualized when the time period is longer than a year. Performance is presented gross and/or net of manager fees as indicated on each page.
- For managers funded in the middle of a month, the "since inception" return will start with the first full month, although actual inception dates and cash flows are taken into account in all Composite calculations.
- This report may contain forward-looking statements that are based on NEPC's estimates, opinions and beliefs, but NEPC cannot guarantee that any plan will achieve its targeted return or meet other goals.