



Memorandum

To Wyoming State Loan and Investment Board
From RVK, Inc.
Subject Investment Performance Analysis Commentary
Date March 31, 2016

Outlined below please find a summary of significant observations regarding performance of the State's Funds for the period ended March 31, 2016. We hope this summary will facilitate your review of our Investment Performance Analysis Report.

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The Total Fund returned 2.1% during the first quarter as investor concerns over weak global growth led to a sharp uptick in volatility during the quarter. Global equity markets experienced significant declines during the first two months of 2016, but ended the quarter with marginal gains following renewed optimism in March. Long-term performance for the Total Fund remains strong, with the State earning returns of 7.0% and 5.1% per annum over the trailing seven- and ten-year periods.

The Total Fund outperformed its custom benchmark over the quarter, as most of the State's active investment managers outperformed their respective benchmarks. Fixed income assets generally outperformed public equity markets as investors gravitated towards the relative safety of bonds during a period of increased volatility. The State has higher strategic exposure to fixed income relative to the All Master Trust Universe and subsequently outperformed the peer group in the first quarter. Relative to the Universe, the State continues to generate more return for each unit of risk exposure, with risk-adjusted returns ranking in the top 20% and 10% of all Plans over the trailing five- and ten-year time periods, respectively.

Absolute results were positive for the State's nine investment pools, with each outperforming their respective benchmarks during the first quarter. The State's permanent funds with larger strategic allocations to equities and alternative investments generated lower absolute returns than the State's non-permanent funds, but generated slightly higher returns on a relative basis.

After raising the Federal Funds target rate by 25 basis points during its December meeting, the Federal Reserve Open Market Committee ("FOMC") communicated a more dovish policy stance following its meeting in March. Meeting minutes indicated that the FOMC factored in weakening non-US financial conditions in its expectations for domestic growth and inflation to a greater degree than it had previously. The Bank of Japan and European



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Central Bank announced additional stimulus measures in response to similar concerns as economic growth continues to disappoint in these respective regions. The Barclays US Aggregate Bond Index finished the quarter and calendar year with a return of 3.0%. The State's total fixed income portfolio (excluding convertibles) outperformed the broad market index, returning 3.2%. The State's Credit composite detracted from absolute performance, returning 2.7%, however outperformed its custom index by 30 bps. Convertibles posted the weakest absolute and relative returns within the fixed income portfolio, returning -3.0% and underperforming its benchmark by 1.6%. Emerging Markets Debt earned strong absolute returns during the quarter due to the weakening of the US Dollar and recovery of energy prices, returning 9.9%.

Despite a sharp uptick in volatility, the US equity market finished the quarter in positive territory, as strong March gains erased heavy losses incurred during January's market sell-off. The Russell 3000 Index returned 1.0%, led by defensive sectors which benefitted from expectations of a continued low interest rate environment and general economic uncertainty. The State's US equity composite returned 1.5% during the first quarter, outperforming the broad market index by 0.6%. Lazard posted the strongest absolute and relative performance within the asset class, returning 4.2% and outperforming the broad market index by 3.3%. Epoch returned -1.1%, trailing the broad market index by 2.1%. RBC outperformed the Russell 2000 Index due to favorable stock selection and significant underweight to the health care sector, returning 0.9% versus -1.5% for the benchmark.

Developed international markets had a strong rebound in March, but remained negative for the quarter. Disappointing economic growth in Japan and Europe led to losses in developed international equity markets, while emerging markets rebounded significantly in March and generated positive returns for the quarter. The MSCI Emerging Markets Index returned 5.7% versus -3.0% earned by the MSCI EAFE Index, reversing a trend of significantly better returns from developed markets over the past year. The State's International Equity portfolio returned -0.1% during the quarter, outperforming its custom index by 0.3%. Fisher Investments underperformed its custom index by 1.7% as stock selection and an overweight to the health care sector detracted from relative performance. Manning & Napier outperformed the MSCI ACW Ex US Index by 4.3% due to positive stock selection and an underweight allocation to the financials sector. In January the State funded the Internal International Equity Portfolio, a passively managed broad market strategy, using proceeds from the liquidation of The Boston Company.

Core real estate delivered positive absolute and relative performance during the quarter, returning 2.7%, with both income and capital appreciation contributing to returns. The State's two core real estate managers, Clarion and UBS, returned 3.3% and 2.0% respectively versus 2.2% for the NCREIF ODCE Index. Overall real estate fundamentals remain strong, but muted capital appreciation returns experienced during the quarter suggest that the unsustainable appreciation levels experienced in recent years may finally be reverting closer to long-term levels. The PAAMCO - Jackalope Fund (currently the State's single absolute return manager) returned -3.0% during the quarter, modestly outperforming the -3.2% earned by the HFN FOF Multi-Strat Index.