PENSION RESERVES INVESTMENT TRUST FUND

(A Component Unit of the Commonwealth of Massachusetts)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2006

Timothy P. Cahill, Chair

Michael Travaglini, Executive Director

PENSION RESERVES INVESTMENT TRUST FUND

(A Component Unit of the Commonwealth of Massachusetts)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2006

Prepared By

Pension Reserves Investment Management Board Staff

For More Information

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Introductory Section

December 6, 2006

To the Trustees of the Pension Reserves Investment Management (PRIM) Board, Participants and Beneficiaries:

I am pleased to transmit the Comprehensive Annual Financial Report (CAFR) of the Pension Reserves Investment Trust (PRIT) Fund for the fiscal year ending June 30, 2006 (FY06). The document that follows is the second CAFR to be produced in the 20-year existence of PRIT, a component unit of the Commonwealth of Massachusetts. The PRIM Board is charged with the general oversight of the PRIT Fund. I am delighted to confirm that the financial condition of the PRIT Fund remains strong and we trust that you will find PRIT's CAFR to be useful in understanding the performance and financial position of the Fund at June 30, 2006.

The CAFR contains the basic financial statements presented in accordance with generally accepted accounting principles (GAAP) and the standards applicable to financial audits contained in *Government Auditing Standards*. The 2006 audit was conducted by KPMG LLP, a firm of licensed certified public accountants.

The CAFR is divided into four major sections:

- **Introductory Section:** This section contains the table of contents, letter of transmittal and the organizational structure of the PRIM Board.
- **Financial Section:** This section contains the report of the independent auditors, Management's Discussion and Analysis (MD&A), the financial statements of the PRIT Fund, the notes to the financial statements and supporting schedules.
- **Investment Section:** This section contains a summary of the PRIT Fund's investment strategy, investment policies, a summary of the PRIT's investments, investment results, and supporting tables and schedules.
- **Statistical Section:** This section contains information regarding financial trends impacting the PRIT Fund.

Responsibility for both the accuracy of the data and the completeness and fairness of the contents in this report rests with the PRIM Board. The MD&A immediately follows the independent auditor's report and provides an overview of PRIT's financial statements and the financial results of the PRIT Fund. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the PRIT Fund

The PRIT Fund is a pooled investment trust established to invest the assets of the Massachusetts State Teachers' and Employees' Retirement Systems, as well as the assets of county, authority, district, and municipal retirement systems that choose to invest. As of June 30, 2006, the PRIT Fund had approximately $41.9 billion in net assets. The PRIM Board, as Trustee, seeks to maximize the return on investments within acceptable levels of risk by broadly diversifying its investment portfolio, capitalizing on economies of scale to achieve cost-effective operations, and providing access to high quality, innovative investment management firms, all under the management of a professional staff. The PRIT Fund was created by the Legislature in December 1983 (Chapter 661 of the Acts 1983) with a mandate to accumulate assets through investment earnings to reduce the Commonwealth's unfunded pension liability and, to assist local participating retirement systems in meeting their future pension obligations. The PRIT Fund merged with the Massachusetts State Teachers' and Employees' Retirement Systems (MASTERS) Trust on January 1, 1997, in accordance with Chapter 315 of the Acts of 1996. The Massachusetts State Teachers' and Employees' Retirement System are mandated by statute to invest all of their assets in the PRIT Fund. Chapter 84 of the Acts of 1996, signed into law on May 15, 1996, explicitly confirmed retirement boards' authority to invest in individual asset classes of the PRIT Fund. The program, called "*Segmentation*", gives local retirement boards the flexibility to select specific asset classes in whatever proportions they believe are best suited to their needs.

See note 1 of the financial statements for more information on the profile and background of the PRIT Fund.

Investment Results

The PRIT Fund's Investment Policy Statement establishes investment objectives and policies designed to provide a framework for implementing investment strategy, while providing a foundation from which to oversee the management of the Fund in a prudent manner. A summary of the Investment Policy Statement is included in the Investment Section. The PRIM Board uses a custodian bank to safeguard investment holdings and to ensure the proper settlement and recording of investment and cash transactions.

The PRIT Fund's time-weighted return for fiscal year 2006 was 15.47%, exceeding the actuarial expected return of 8.25% by 722 basis points, while surpassing the PRIT Fund's policy benchmark by 158 basis points. The PRIT Fund's long-term track record remains strong, with a time-weighted ten-year return of 10.24% for the period ended June 30, 2006. The PRIM Board has implemented a system of internal controls designed to ensure the reliability of reported investment information. Please refer to the Investment Section of this CAFR for more information on investment results.

Major Initiatives and Achievements

During the fiscal year ended 2006, the PRIM Board accomplished significant objectives it had established prior to the beginning of the year. First and most importantly, The PRIT Fund's fiscal year performance was 15.47% beating our actuarial return by 722 basis points and the PRIT Fund's policy benchmark by 158 basis points. We launched an RFP process for hedge fund consulting services, which led to the selection of Cliffwater Associates, the PRIM Board's long-standing general consultant. In conjunction with Cliffwater and PRIM staff, we coordinated the Board's annual asset allocation review which led to some recently approved changes designed to enhance the PRIM Board's overall risk/return profile. The most significant change was a shift of 4% of assets from high yield debt to international equity. Addtionally, an RFP was launched for the hiring of four managers to execute a new Portable Alpha strategy within the domestic equity portfolio. Overall there were two manager firings and 13 manager hirings over the year.

The fiduciary oversight of a $41.9 billion pension plan requires that the appropriate infrastructure be in place and the appropriate staff and resources be deployed. Working with our Chief Operating Officer, Karen Gershman, we continue to emphasize and develop enhancements to PRIM's risk control systems.

To this end, we initiated and monitored a program-wide Information Technology assessment, which had never been done at PRIM, resulting in the hiring of PA Associates, a technology consulting firm. In an effort to stay current, we will continue to implement PRIM's ongoing Board education policy. From a staff perspective, we selected a new Senior Investment Officer for Real Estate/Timber, Lourdes Canlas, who had previously run the real estate portfolio for the Ohio Police and Fire Pension System. We also added a new Investment Analyst position to the Alternative Investments team. In addition, there was a need to add resources to the Finance staff in order to better account for the growing volume and variety of assets. To meet those needs, two new positions were filled in fiscal 2006.

As we look ahead, as always, our first priority is to see that the PRIT Fund's long-term performance exceeds the actuarial rate of return of 8.25%, beats its policy benchmark, and compares favorably to the performance of other public funds. One of the keys to PRIM's success is its ability to recruit and retain talented staff members. To that end, we will continue to oversee the process for hiring and retaining quality, diligent individuals. Since the PRIM Board has completed the first CAFR in the PRIT Fund's history, and has obtained a certificate of achievement for excellence in financial reporting from the Government Finance Officers Association, we will strive to maintain that level of excellence each year. We will continue to promote and preserve the PRIM Board's interest before the State Legislature. As examples, PRIM is constantly following industry wide issues such as divesting from investments in Sudan, GASB 45 and the defined benefit/defined contribution discussion.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PRIT for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the first year that the PRIT Fund has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this CAFR involved significant effort of PRIM staff. The CAFR is intended to provide comprehensive information on the financial position and results of the PRIT Fund

Since its inception, the PRIM Board has successfully achieved its legislative mandate. I am confident that the PRIM Board, in conjunction with staff, will continue to make decisions that will lead to future success. I would like to take this opportunity to formally thank the PRIM Board Staff for a job very well done.

Very Respectfully,

Michael Travaglini

Executive Director, PRIM Board

Certificate of Achievement for Excellence in Financial Reporting

Presented to

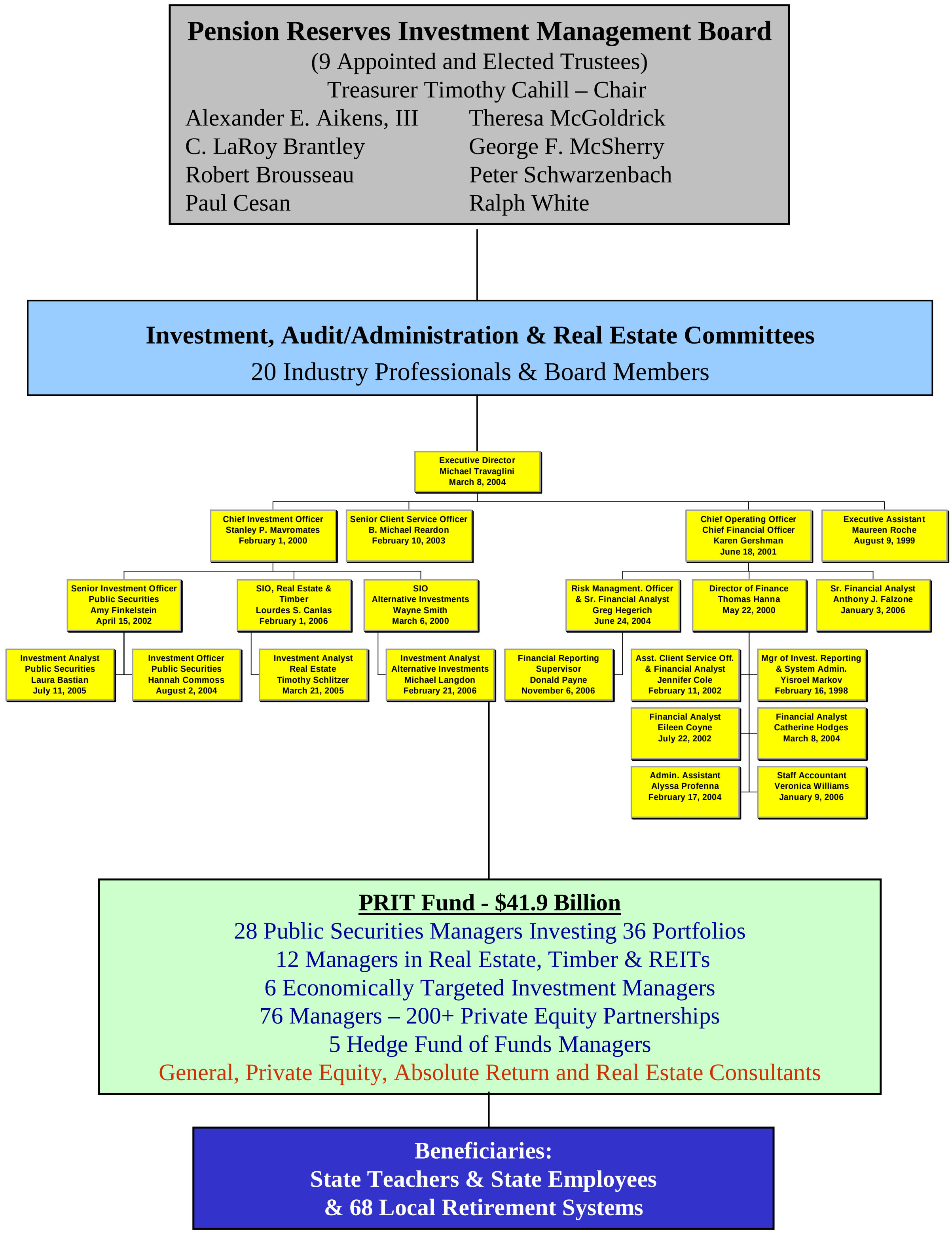
Pension Reserves Investment Trust Fund, Massachusetts

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director


Pension Reserves Investment Management Board
(9 Appointed and Elected Trustees)
Treasurer Timothy Cahill – Chair
Alexander E. Aikens, III
Theresa McGoldrick
C. LaRoy Brantley
George F. McSherry
Robert Brousseau
Peter Schwarzenbach
Paul Cesan
Ralph White
Investment, Audit/Administration & Real Estate Committees
20 Industry Professionals & Board Members
Executive Director Michael Travaglini March 8, 2004
Chief Investment Officer Stanley P. Mavromates February 1, 2000
Senior Client Service Officer B. Michael Reardon February 10, 2003
Chief Operating Officer Chief Financial Officer Karen Gershman June 18, 2001
Executive Assistant Maureen Roche August 9, 1999
Senior Investment Officer Public Securities Amy Finkelstein April 15, 2002
SIO, Real Estate & Timber Lourdes S. Canlas February 1, 2006
SIO Alternative Investments Wayne Smith March 6, 2000
Risk Managment. Officer & Sr. Financial Analyst Greg Hegerich June 24, 2004
Director of Finance Thomas Hanna May 22, 2000
Sr. Financial Analyst Anthony J. Falzone January 3, 2006
Investment Analyst Public Securities Laura Bastian July 11, 2005
Investment Officer Public Securities Hannah Commoss August 2, 2004
Investment Analyst Real Estate Timothy Schlitzer March 21, 2005
Investment Analyst Alternative Investments Michael Langdon February 21, 2006
Financial Reporting Supervisor Donald Payne November 6, 2006
Asst. Client Service Off. & Financial Analyst Jennifer Cole February 11, 2002
Mgr of Invest. Reporting & System Admin. Yisroel Markov February 16, 1998
Financial Analyst Eileen Coyne July 22, 2002
Financial Analyst Catherine Hodges March 8, 2004
Admin. Assistant Alyssa Profenna February 17, 2004
Staff Accountant Veronica Williams January 9, 2006
PRIT Fund - $41.9 Billion
28 Public Securities Managers Investing 36 Portfolios
12 Managers in Real Estate, Timber & REITs
6 Economically Targeted Investment Managers
76 Managers – 200+ Private Equity Partnerships
5 Hedge Fund of Funds Managers
General, Private Equity, Absolute Return and Real Estate Consultants
Beneficiaries:
State Teachers & State Employees
& 68 Local Retirement Systems

PRIM Board Trustees

Advisory Committees to the PRIM Board

Investment Committee

Dr. Jerrold Mitchell, Chair
CIO, The Boston Foundation
C. LaRoy Brantley
Board Member
Ralph White
Board Member
Peter A. Brooke
Retired Investment Professional
Glenn P. Strehle
Treasurer MIT (retired)

Real Estate Committee

Alexander E. Aikens III, Co-Chair
Board Member
Ralph White, Co-Chair
Board Member
George F. McSherry
Board Member
Peter Schwarzenbach
Board Member
Perry Hagenstein
Resource Issues, Inc. – Timber Expert
Peter O' Connell
Marina Bay Company
William F. McCall, Jr.
McCall & Almy, Inc.

Administration & Audit Committee
Robert Brousseau, Chair
Board Member
Paul Cesan
Board Member
Theresa McGoldrick
Board Member
Ted C. Alexiades
Finance Director & Chair, Hingham Retirement Board
Richard P. Foley
Retired, Town Accountant, Reading Retirement Board
Robert Foy
Retired, City of Quincy City Auditor

Financial Section

Independent Auditors' Report

The Administrative and Audit Committee and Trustees of the
Pension Reserves Investment Management Board and Participating and
Purchasing Systems of the Pension Reserves Investment Trust Fund:

We have audited the accompanying statements of pooled net assets of the Pension Reserves Investment Trust Fund (PRIT), a component unit of the Commonwealth of Massachusetts, as of June 30, 2006 and 2005, and the related statements of changes in pooled net assets for the years then ended. These financial statements are the responsibility of PRIT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on PRIT's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the pooled net assets of PRIT as of June 30, 2006 and 2005, and the changes in its pooled net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 13, 2006, on our consideration of PRIT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 13 through 17 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supporting schedules, introductory, investment, and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The supporting schedules presented on pages 54 to 56 have been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory, investment, and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

September 13, 2006

Management's Discussion and Analysis

June 30, 2006 and 2005

This section presents management's discussion and analysis of PRIT's financial performance for the fiscal years ended June 30, 2006 and 2005 and should be read in conjunction with the financial statements, which follow this section.

PRIT is a pooled investment fund, created in 1983 through Massachusetts legislation, that invests the assets of the State Teachers' and State Employees' Retirement Systems, as well as the assets of county, authority, school district and municipal retirement systems that choose to invest in PRIT.

The investment return percentages reported in management's discussion and analysis are presented gross of management fees.

Overview of the Financial Statements

The financial statements include the statements of pooled net assets and the statements of changes in pooled net assets. They present the financial position of PRIT as of June 30, 2006 and 2005 and its financial activities for the years then ended. The notes to the financial statements provide further information that is essential to a full understanding of the financial statements. The notes describe the significant accounting policies of PRIT and provide detailed disclosures on certain account balances. The supplementary schedules of pooled net assets and changes in pooled net assets on pages 54 through 56 separately display the balances and activities of the Capital Fund and Cash Fund of PRIT.

The financial statements of PRIT are reported using the economic resources measurement focus and the accrual basis of accounting. They are prepared in conformity with accounting principles generally accepted in the United States of America.

Financial Highlights

Fiscal Year 2006

- The net assets of PRIT increased $5.6 billion during the year ended June 30, 2006. Total net assets were $41.9 billion at June 30, 2006, compared to $36.3 billion at June 30, 2005.
- Net investment income for fiscal year 2006 was approximately $5.5 billion, compared to net investment income of $4.2 billion for the prior fiscal year. The increase was primarily due to an improvement in investment performance in fiscal year 2006 compared to fiscal year 2005. PRIT returned 15.47% in fiscal year 2006, compared to 13.39% in fiscal year 2005.
- Contributions to PRIT totaled approximately $1.7 billion during fiscal year 2006, compared to $984 million in 2005. Other participant contributions increased by $648 million in the fiscal year 2006. The increase is mainly attributable to an increase in contributions from the Pension Reserves Investment Management Board's (PRIM's) segmentation program.
- Redemptions from PRIT totaled approximately $1.6 billion during the year ended June 30, 2006, compared to $1.5 billion during the year ended June 30, 2005.

Management's Discussion and Analysis

June 30, 2006 and 2005

Fiscal Year 2005

- The net assets of PRIT increased $3.7 billion during the year ended June 30, 2005. Total net assets were $36.3 billion at June 30, 2005, compared to $32.6 billion at June 30, 2004.
- Net investment income for fiscal year 2005 was approximately $4.2 billion, compared to net investment income of $5.3 billion for the prior fiscal year. The decrease was primarily due to a decline in investment performance in fiscal year 2005 compared to fiscal year 2004. PRIT returned 13.39% in fiscal year 2005, compared to 19.43% in fiscal year 2004.
- Contributions to PRIT totaled approximately $984 million during fiscal year 2005, compared to $1.1 billion in 2004.
- Redemptions from PRIT totaled approximately $1.5 billion during the year ended June 30, 2005, compared to $1.7 billion during the year ended June 30, 2004. The decrease was primarily attributable to a decrease in teachers and employees withdrawals, due to an increase in state pension appropriations by the Commonwealth of Massachusetts.

Management's Discussion and Analysis

June 30, 2006 and 2005

Condensed Financial Information

Summary balances and activities of PRIT as of and for the years ended June 30, 2006 and 2005 are presented below.

	June 30		
	2006	**2005**	**2004**
	(Amounts in thousands)		
Summary of pooled net assets:			
Assets:			
Investments	$ 42,813,676	37,702,829	33,128,502
Cash	132,429	78,637	61,812
Receivables and other assets	359,417	578,561	821,826
Total assets	43,305,522	38,360,027	34,012,140
Liabilities:			
Obligation under securities lending transactions	451,872	1,103,887	943,772
Management fees payable to PRIM	167,766	92,758	52,140
Other liabilities	760,833	843,175	376,228
Total liabilities	1,380,471	2,039,820	1,372,140
Net assets held in trust for pool participants	$ 41,925,051	36,320,207	32,640,000
Summary of changes in pooled net assets:			
Additions:			
Contributions	$ 1,696,423	984,530	1,142,334
Net investment income	5,466,443	4,212,098	5,309,069
Total additions	7,162,866	5,196,628	6,451,403
Deductions:			
Redemptions	1,558,022	1,516,421	1,705,482
Change in pooled net assets	5,604,844	3,680,207	4,745,921
Net assets held in trust for pool participants:			
Balance, beginning of year	36,320,207	32,640,000	27,894,079
Balance, end of year	$ 41,925,051	36,320,207	32,640,000

Management's Discussion and Analysis

June 30, 2006 and 2005

PRIT Performance During the Year Ended June 30, 2006

PRIT began fiscal year 2006 with net assets of $36.3 billion and ended the fiscal year with net assets of $41.9 billion, representing an 15.4% increase. The increase was due primarily to overall investment performance. Net investment income for the year ended June 30, 2006 was approximately $5.5 billion. Net participant contributions of $138 million added to the increase in net assets of $5.6 billion. Approximately $1.5 billion of PRIT's $1.6 billion in redemptions were withdrawn from the State Teachers' and State Employees' accounts, in part to make up for a shortfall in the pension funding of Massachusetts. Since fiscal year 1998, the state appropriations have been insufficient to fund the Commonwealth's annual cost of pension benefits.

For the year ended June 30, 2006, PRIT returned 15.47%, surpassing the interim policy benchmark of 13.89% by 158 basis points. The interim policy benchmark provides a measure of how well PRIT has implemented its asset allocation plan. It assumes that PRIT's actual allocation is identical to its interim target allocation and that all asset classes achieve index-like returns.

Approximately 75% of PRIT was actively managed, while the remaining 25% was indexed at June 30, 2006. All asset classes of PRIT had positive performance during the year ended June 30, 2006, except for Fixed Income. The asset classes of PRIT and related investment returns for the year ended June 30, 2006 are as follows: Domestic Equity 9.54%; International Equity 27.29%; Emerging Markets 36.83%; Fixed Income -0.38%; High Yield Debt 6.10%; Alternative Investment 39.06%; Real Estate 24.61%, Timber 20.73% and Absolute Return 11.21%.

As of June 30, 2006, PRIT continues to outperform its benchmarks and has returned an average of 11.14% annually since its inception date, January 1, 1985. According to the Trust Universe Comparison Service (TUCS) for Public Pension Funds, the most widely accepted benchmark for the performance of institutional assets, PRIT ranked in the top 5% of pension plans with net assets in excess of $1 billion over the ten-year period ended June 30, 2006.

PRIT Performance During the Year Ended June 30, 2005

PRIT began fiscal year 2005 with net assets of $32.6 billion and ended the fiscal year with net assets of $36.3 billion, representing an 11.28% increase. The increase was due primarily to overall investment performance. Net investment income for the year ended June 30, 2005 was approximately $4.2 billion. However, net participant withdrawals of $532 million reduced the overall increase in net assets to $3.7 billion. Approximately $1.3 billion of PRIT's $1.5 billion in redemptions were withdrawn from the State Teachers' and State Employees' accounts, in part to make up for a shortfall in the pension funding of Massachusetts. Since fiscal year 1998, the state appropriations have been insufficient to fund the Commonwealth's annual cost of pension benefits.

For the year ended June 30, 2005, PRIT returned 13.39%, surpassing the interim policy benchmark of 12.49% by 90 basis points. The interim policy benchmark provides a measure of how well PRIT has implemented its asset allocation plan. It assumes that PRIT's actual allocation is identical to its interim target allocation and that all asset classes achieve index-like returns.

Management's Discussion and Analysis

June 30, 2006 and 2005

Approximately 65% of PRIT was actively managed, while the remaining 35% was indexed at June 30, 2005. All asset classes of PRIT had positive performance during the year ended June 30, 2005. The asset classes of PRIT and related investment returns for the year ended June 30, 2005 are as follows: Domestic Equity 7.81%; International Equity 14.14%; Emerging Markets 37.36%; Fixed Income 7.54%; High Yield Debt 15.38%; Alternative Investment 26.29%; Real Estate 30.78%, Timber 12.91% and Absolute Return 6.69%.

As of June 30, 2005, PRIT continues to outperform its benchmarks and has returned an average of 10.94% annually since its inception date, January 1, 1985. According to the Trust Universe Comparison Service (TUCS) for Public Pension Funds, the most widely accepted benchmark for the performance of institutional assets, PRIT ranked in the top 1% of pension plans with net assets in excess of $1 billion over the ten-year period ended June 30, 2005.

Other Information

This financial report is designed to provide a general overview of the PRIT's financials for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Pension Reserves Investment Management Board, 84 State Street in Boston, Massachusetts 02109.

Statements of Pooled Net Assets

June 30, 2006 and 2005

(Amounts in thousands)

		2006	2005
Assets:			
Investments, at fair value:			
Short-term	$	987,933	908,415
Fixed income		10,953,340	8,720,414
Equity		19,459,607	18,842,512
Real estate		5,134,353	4,068,141
Timber		1,502,234	1,330,179
Alternative investments		2,662,094	2,106,913
Absolute return		2,114,115	1,726,255
Total investments		42,813,676	37,702,829
Cash		132,429	78,637
Interest and dividends receivable		132,871	124,527
Receivable for investments sold		177,557	180,944
Securities sold on a when-issued basis		25,575	241,004
Unrealized gains on foreign currency exchange contracts		5,046	20,712
Receivable from Health Care Security Trust		3,479	11,374
Margin variation receivable		14,889	—
Total assets		43,305,522	38,360,027
Liabilities:			
Payable for investments purchased		338,068	258,879
Securities purchased on a when-issued basis		413,308	579,751
Obligations under securities lending transactions		451,872	1,103,887
Unrealized losses on foreign currency exchange contracts		9,457	2,944
Margin variation payable		—	1,601
Management fees payable to PRIM		167,766	92,758
Total liabilities		1,380,471	2,039,820
Net assets held in trust for pool participants	$	41,925,051	36,320,207

See accompanying notes to financial statements.

Statements of Changes in Pooled Net Assets

June 30, 2006 and 2005

(Amounts in thousands)

		2006	2005
Additions:			
Contributions:			
State employees	$	409,515	366,262
State teachers		527,820	506,711
Other participants		759,088	111,557
Total contributions		1,696,423	984,530
Net investment income:			
From investment activities:			
Net realized gain on investments and foreign currency transactions		2,778,597	1,781,162
Net change in unrealized appreciation on investments and foreign currency translations		1,574,445	1,412,165
Interest income		543,717	444,754
Dividend income, net		443,324	416,864
Real estate income, net		221,538	196,989
Timber income, net		27,389	9,996
Alternative investment income, net		55,706	69,401
		5,644,716	4,331,331
Management fees		(165,737)	(103,425)
Net income from investment activities		5,478,979	4,227,906
From securities lending activities:			
Securities lending income		11,908	7,620
Securities lending expense		(24,444)	(23,428)
Net expense from securities lending activities		(12,536)	(15,808)
Total net investment income		5,466,443	4,212,098
Total additions		7,162,866	5,196,628

(Continued)

Statements of Changes in Pooled Net Assets, continued

June 30, 2006 and 2005

(Amounts in thousands)

		2006	2005
Deductions:			
Redemptions:			
State employees	$	820,386	751,018
State teachers		629,059	600,514
Other participants		108,577	164,889
Total deductions		1,558,022	1,516,421
Net increase in pooled net assets		5,604,844	3,680,207
Net assets held in trust for pool participants:			
Balance, beginning of year		36,320,207	32,640,000
Balance, end of year	$	41,925,051	36,320,207

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2006 and 2005

(1) Description of the Pension Reserves Investment Trust Fund

(a) General

The Pension Reserves Investment Trust Fund (PRIT), a blended component unit of the Commonwealth of Massachusetts, was created in 1983 through legislation (Chapter 661 of the Acts of 1983, as amended by Chapter 315 of the Acts of 1996). PRIT is a pooled investment fund that invests the assets of the State Teachers' and State Employees' Retirement Systems of Massachusetts and the assets of county, authority, school district and municipal retirement systems that choose to invest in PRIT. PRIT is not registered with the Securities and Exchange Commission, but is subject to oversight provided by the Pension Reserves Investment Management Board (the PRIM Board). The PRIM Board was created by legislation to provide general supervision of the investments and management of PRIT. The PRIM Board is a separate legal entity that issues its own financial statements, which are not included in the accompanying financial statements of PRIT.

A nine-member board of trustees governs the PRIM Board. The trustees include: (1) the Governor, ex officio, or his designee; (2) the State Treasurer, ex officio, or his designee who shall serve as Chair of the PRIM Board; (3) a private citizen experienced in the field of financial management appointed by the State Treasurer; (4) an employee or retiree, who is a member of the State Teachers' Retirement System, elected by the members of such system for a term of three years; (5) an employee or retiree, who is a member of the State Retirement System, elected by the members of such system for a term of three years; (6) the elected member of the State Retirement Board; (7) one of the elected members of the Teachers' Retirement Board chosen by the members of the Teachers' Retirement Board; (8) a person who is not an employee or official of the Commonwealth appointed by the Governor; and (9) a representative of a public safety union appointed by the Governor. Appointed members serve for a term of four years. The board of trustees, as fiduciary for each retirement system that invests in PRIT, has the authority to employ an Executive Director, outside investment managers, custodians, consultants, and others as it deems necessary; to formulate policies and procedures; and to take such other actions as necessary and appropriate to manage the assets of PRIT.

The mission of PRIT is to ensure that current and future pension benefit obligations are adequately funded in a cost-effective manner. The PRIM Board therefore seeks to maximize the total return on investments within acceptable levels of risk for a public pension fund. Under current law, by the year 2023, PRIT will have grown, through annual payments in accordance with a legislatively approved funding schedule and through total return of PRIT, to an amount sufficient to meet the then-existing pension obligations of the Commonwealth. The Commonwealth has adopted a schedule of state pension appropriations that assumes a long-term actuarial rate of return for PRIT of 8.25%.

The State Teachers' and State Employees' Retirement Systems are mandated by statute to invest all of their assets in PRIT and are therefore considered involuntary participants. Other retirement systems have the option to become Participating or Purchasing System participants in PRIT. Participating Systems must transfer all of their assets to PRIT, commit to remain invested for five

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years, and are entitled to share in appropriations made to PRIT by the Commonwealth. Purchasing Systems may invest all or a portion of their assets in PRIT and retain the ability to contribute and withdraw funds at their discretion; however, they are not entitled to state appropriations. Participating and Purchasing Systems share in the investment earnings of PRIT based on their proportionate share of net assets. As of June 30, 2006, there were 19 Participating Systems (including the State Teachers' and State Employees' Retirement Systems) and 51 Purchasing Systems invested in PRIT.

(b) Investment Funds

PRIT consists of two investment funds, the Capital Fund and the Cash Fund. Each of these funds is managed, accounted for, and held separately by PRIT's custodian.

The Cash Fund consists of short-term investments, which are used to meet the liquidity requirements of Participating and Purchasing Systems. All Cash Fund earnings are reinvested. The State Teachers' Retirement System and the State Employees' Retirement System make daily deposits into the Cash Fund, which is their source of funds for benefit payments and operating expenses. The price of Cash Fund units is determined daily by dividing the value of the net assets by the number of units outstanding. The Cash Fund maintains a stable net asset value of $1.00 per unit.

Assets contributed by retirement systems are initially deposited in the Cash Fund and then transferred to the Capital Fund, at their discretion. Funds transferred into the Capital Fund are generally invested in the General Allocation Account, which invests in all asset classes of PRIT in accordance with the PRIM Board's asset allocation plan and investment policy guidelines. The Capital Fund serves as the investment portfolio of PRIT and consists of the following accounts at June 30, 2006: General Allocation (holds units of all other accounts); Domestic Equity; Fixed Income; High Yield Debt; International Equity; Emerging Markets; Core Real Estate; Noncore Real Estate; Timber; Absolute Return; Alternative Investments; Alternative Investments Vintage Year 2000; Alternative Investments Vintage Year 2001; Alternative Investments Vintage Year 2002; Alternative Investments Vintage Year 2003; Alternative Investment Vintage Year 2004; Alternative Investments Vintage Year 2005; and Alternative Investments Vintage Year 2006. (Vintage Year refers to the fiscal year in which PRIT made a commitment to invest in an alternative investment.)

Upon deposit by a Participating or Purchasing System into the accounts of the Capital Fund, units of participation equal to the total value of the contribution are issued. The value of a unit of each account is determined monthly by dividing the value of the net assets of the account by the number of units outstanding at each month-end valuation date. The unit price fluctuates with the performance of the Capital Fund. The number of units generally changes only when a retirement system makes a contribution or redemption.

Chapter 84 of the Acts of 1996 explicitly confirms Massachusetts retirement boards' authority to purchase units in the individual investment accounts of PRIT as an alternative to investing in its General Allocation Account. This investment option, also referred to as "segmentation," was

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established by an amendment to the PRIM Board's Operating Trust Agreement in 1994 in response to requests from retirement boards wishing to invest in certain asset classes of PRIT. Purchasing Systems, as "segmented investors," may invest in one or more of the following accounts of the Capital Fund: Domestic Equity, International Equity, Emerging Markets, Fixed Income, Core Real Estate, Absolute Return, and Alternative Investments "Vintage Year" accounts. At June 30, 2006 and 2005, there were 42 and 25 segmented investors in PRIT, respectively.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting and Financial Statement Presentation

The financial statements of PRIT are reported using the economic resources measurement focus and the accrual basis of accounting. They are prepared in conformity with U.S. generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

PRIT follows Governmental Accounting Standards Board (GASB) guidance as applicable to external investment pools. Except where noted, all dollar amounts in the footnotes and other sections of these financial statements are in thousands.

(b) Investments

The PRIM Board recognizes that over the long term, asset allocation is the single greatest contributor of return and risk to PRIT. The PRIM Board's asset allocation plan embodies its decisions to invest portions of the Capital Fund in domestic and international equity securities, emerging market and fixed income securities, high yield debt, real estate, timber, absolute return, alternative investments and, where appropriate, the various subasset classes of each. Statutes prohibit PRIT from investing in certain securities. The PRIM Board ensures that investment managers adhere to the requirements of Massachusetts General Laws, Chapter 32, Section 23, concerning certain investments relating to South Africa and Northern Ireland and tobacco and tobacco-related products.

Security transactions are recorded on the trade date the securities are purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a Participating or Purchasing System, the fair value of the securities on the transfer date. The calculation of realized gains and losses is independent of the calculation of the net change in unrealized appreciation on investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year are included in net change in unrealized appreciation on investments in the accompanying statements of changes in pooled net assets.

Investments are valued on a monthly basis. Money market and other short-term investments are recorded at amortized cost, which approximates fair value. Investments in fixed income and United States (U.S.) Government agency obligations are valued by an independent pricing service. In

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determining the price, the service reflects such factors as security prices, yields, maturities, and ratings, supplemented by dealer quotations. Investments in equity securities traded on national securities exchanges are valued at the last daily sale price or, if no sale price is available, at the closing bid price. Securities traded on any other exchange are valued in the same manner or, if not so traded, on the basis of closing over-the-counter bid prices. If no bid price exists, valuation is determined by the custodian bank either by establishing the mean between the most recent published bid and asked prices or averaging quotations obtained from dealers, brokers, or investment bankers. Securities for which such valuations are unavailable are reported at their fair value as estimated in good faith by PRIM based on information provided by the investment managers responsible for such investments.

PRIT invests a portion of its assets in emerging capital markets. These investments may involve greater risks than investments in more developed markets, and the prices of such investments may be volatile. The consequences of political, social, or economic changes in these markets may have disruptive effects on the market prices of these investments and the income they generate, as well as PRIT's ability to repatriate such amounts.

Investments in core real estate represent PRIT's ownership interest in PRIT Core Realty Holdings LLC (the LLC) (see note 6). The LLC holds investments in real estate properties and Real Estate Investment Trust (REIT) securities. Investments in real estate properties are stated at fair value based on appraisals prepared by independent real estate appraisers or on estimated valuations determined by PRIM. These estimated valuations are based on valuations prepared by the real estate investment managers under the general supervision of the PRIM Board. Generally, third-party appraisals are performed on each real estate property within 18 months of the date of acquisition and at least annually thereafter. Determination of fair value involves judgment because the actual fair value of a real estate investment can be determined only by negotiation between parties in a sales transaction. Due to the inherent uncertainty of valuation, fair values used may differ significantly from values that would have been determined had a ready market for the investments existed, and the differences could be material. REIT securities are publicly traded securities and are valued in the same manner as PRIT's traded equity securities.

Investments in noncore real estate consist of commingled real estate funds stated at fair values estimated by PRIM based on information provided by PRIT's fund managers on a monthly basis.

Investments in timber are valued similarly to investments made by the LLC in real estate properties; however, independent appraisals of timber investments are performed every three years.

Absolute return investments represent PRIT's ownership in hedge fund of funds investments. PRIT's hedge fund of funds investment managers, in turn, make investments in underlying hedge funds. The investment in absolute return is recorded at fair value as estimated by PRIM. This estimated fair value is determined in good faith by PRIT's hedge fund of funds investment managers and is based on the value of PRIT's ownership in the underlying hedge fund investments.

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Alternative investments are typically made through limited partnerships that, in turn, invest in venture capital, leveraged buyouts, private placements and other investments where the structure, risk profile, and return potential differ from traditional equity and fixed income investments. These investments are recorded at fair values estimated by PRIM. This estimated fair value is determined in good faith by investment managers or general partners using consistently applied procedures with input from investment advisors.

(c) Investment Income

Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned. For the years ended June 30, 2006 and 2005, foreign taxes withheld of $23,026 and $17,713, respectively, have been netted against dividend income in the statements of changes in pooled net assets. Real estate income includes noncore real estate income and PRIT's portion of the LLC's income, which includes dividends earned on REIT securities as well as cash distributions from investments in real estate properties. Timber income includes cash distributions from investments in timberland properties. Alternative investment income is recorded on the cash distribution basis.

(d) When-Issued Securities Transactions

PRIT may purchase or sell securities on a "when-issued" or delayed-delivery basis. Delivery and payment for such securities may take place a month or more after the trade date. Normally, settlement occurs within three months. The price of the underlying securities and the date when the securities will be delivered and paid for are fixed at trade date. During the time a delayed delivery sell transaction is outstanding, the contract is marked to market daily and substantially equivalent deliverable securities are held by PRIT for the transaction to the extent available. For delayed delivery purchase transactions, PRIT maintains segregated assets with a fair value equal to or greater than the amount of its purchase commitments. The receivables and payables associated with the sale and purchase of delayed delivery securities are reflected in the accompanying statements of pooled net assets as securities sold and purchased on a when-issued basis. Losses may arise due to changes in the value of the underlying securities, if the counterparty does not perform under the contract, or if the issuer does not issue the securities due to political, economic, or other factors.

PRIT may also enter into mortgage dollar-roll and reverse mortgage dollar-roll agreements on a when-issued basis. A mortgage dollar-roll is an agreement in which PRIT sells securities on a when-issued basis and simultaneously contracts with the same counterparty to repurchase similar (same type, coupon and maturity) but not identical securities on a specified future date. During the roll period, principal and interest on these securities are not received. PRIT is compensated by the difference between the current sales price and the forward price for the future purchase. A reverse mortgage dollar-roll is an agreement to buy securities and to sell substantially similar securities on a specified future date. During the roll period, PRIT receives the principal and interest on the securities purchased. The receivables and payables associated with mortgage dollar-rolls and reverse mortgage dollar-rolls are reflected in the accompanying statements of pooled net assets as securities sold and purchased on a when-issued basis.

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(e) Foreign Currency Translation and Transactions

The accounting records of PRIT are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing rates of exchange at month-end. Purchases and sales of securities, income receipts, and expense payments are translated into U.S. dollars at the prevailing exchange rate on the respective dates of the transactions.

Unrealized net currency gains and losses from valuing foreign currency-denominated assets and liabilities at month-end exchange rates are reflected as a component of net unrealized appreciation on investments. For financial reporting purposes, it is not practicable to isolate that portion of the results of operations arising as a result of changes in foreign exchange rates from the fluctuations arising from changes in the market price of securities during the period.

Net realized gains and losses on foreign currency transactions represent principally gains and losses from sales and maturities of forward foreign currency contracts, disposition of foreign currencies, and currency gains and losses realized between the trade and settlement dates on securities transactions.

(f) Derivative Instruments

PRIT regularly trades derivative financial instruments with off-balance-sheet risk in the normal course of its investing activities to manage exposure to certain risks within the fund. PRIT also enters into derivative transactions to gain exposure to currencies and markets where derivatives are the most effective instrument. PRIT’s derivative financial instruments include foreign currency exchange contracts, financial and commodity futures contracts, and customized swap agreements (see note 7 for more detail). These derivative instruments can be exchanged-traded or over-the-counter (“OTC”) contracts. The primary difference in risk associated with OTC contracts and exchange-traded contracts is credit and liquidity risks. For exchange traded contracts, credit risk is limited to the role of the exchange or clearing corporation. OTC contracts contain credit risk for unrealized gains from various counterparties for the duration of the contract.

A foreign currency exchange contract is an agreement between two parties to buy or sell a fixed quantity of currency at a set price on a future date. PRIT may enter into foreign currency exchange contracts to hedge its exposure to the effect of changes in foreign currency exchange rates upon its non-U.S. dollar-denominated investments. The fair value of such contracts will fluctuate with changes in currency exchange rates. The contracts are valued daily, and the changes in fair value are recorded by PRIT as unrealized gains or losses. When the contract is closed, PRIT records a realized gain or loss equal to the difference between the cost of the contract at the time it was opened and the value at the time it was closed.

PRIT enters into financial and commodity futures on various exchanges. A futures contract is an agreement between two parties to buy or sell units of a particular index, security or commodity at a set price on a future date. Upon entering into financial and commodity futures contracts, PRIT is

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required to pledge to the broker an amount of cash or securities equal to a certain percentage of the contract amount (initial margin deposit). Pursuant to the contract, PRIT agrees to receive from, or pay to, the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as "variation margin" and are recorded by PRIT as unrealized gains or losses. When the contract is closed, PRIT records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The potential risk to PRIT is that the change in value of futures contracts primarily corresponds with the value of underlying instruments, which may not correspond to the change in value of the hedged instruments. PRIT is also subject to credit risk should its clearing brokers be unable to meet their obligations to PRIT.

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(3) Investments

A summary of investments, at fair value, is as follows:

	June 30	
	2006	**2005**
Short-term:		
Money market investments	$ 987,933	908,415
Fixed income:		
U.S. Government obligations (1)	3,394,208	2,507,494
Domestic fixed income (2)	5,480,165	4,793,166
International fixed income (3)	1,819,490	1,257,473
Distressed debt	259,477	162,281
	10,953,340	8,720,414
Equity:		
Domestic equity securities	9,689,734	10,991,106
International equity securities	9,769,873	7,851,406
	19,459,607	18,842,512
Real estate:		
Core	5,134,317	4,067,394
Noncore	36	747
	5,134,353	4,068,141
Timber	1,502,234	1,330,179
Alternative investments:		
Venture capital	726,752	606,486
Special equity	1,935,342	1,500,427
	2,662,094	2,106,913
Absolute return	2,114,115	1,726,255
Total investments	$ 42,813,676	37,702,829

(1) Fiscal 2006 rates range from 0% to 14.0%, and maturities range from 2006 to 2036. Fiscal 2005 rates range from 0% to 14%, and maturities range from 2005 to 2032.

(2) Fiscal 2006 rates range from 0% to 14.2%, and maturities range from 2006 to 2066. Fiscal 2005 rates range from 0% to 14.9%, and maturities range from 2005 to 2049.

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(3) Fiscal 2006 rates range from 0% to 12.0%, and maturities range from 2006 to 2055. Fiscal 2005 rates range from 0% to 11.6%, and maturities range from 2005 to 2049.

(4) Deposits and Investments Risks

(a) Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, PRIT’s deposits and investments may not be returned to it. The PRIM Board manages PRIT’s exposure to custodial credit risk by requiring all relevant investment managers to hold investments in separate accounts with the PRIM Board’s custodian. The PRIM Board has not adopted a formal custodial credit risk policy.

Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk. As of June 30, 2006 and 2005, all but $100 of PRIT’s $132,429 and $78,637 cash balances, respectively, was uninsured and uncollateralized and therefore exposed to custodial credit risk.

(b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of fixed income investments will adversely affect the fair value of an investment.

The PRIM Board manages PRIT’s exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its fixed income investment managers. The guidelines with each individual manager require that the effective duration of the domestic fixed income investment portfolio be within a specified percentage or number of years of the effective duration band of the appropriate benchmark index. For emerging markets fixed income investments, the portfolio must have duration with a band ranging from three to eight years.

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Effective duration is a measure of a fixed income investment's exposure to fair value changes arising from changes in interest rates. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes, including callable options, prepayments and other factors. These factors are reflected in the effective duration numbers provided in the following table. The PRIM Board compares the effective duration of a manager's portfolio to the Lehman Brothers Aggregate Index for domestic core "fixed income" securities and the Merrill Lynch High Yield Master II Index for domestic high yield, fixed income securities. The following table shows the debt investments by investment type, fair value and effective weighted duration rate at June 30.

	2006		2005	
Investment	**Fair value**	**Effective weighted duration rate**	**Fair value**	**Effective weighted duration rate**
		(Amounts expressed in years)		(Amounts expressed in years)
Asset backed securities	$ 427,296	0.69	198,820	2.08
Commercial mortgage backed securities	240,956	3.63	142,051	3.66
Non-U.S. government backed C.M.O.s	192,230	2.81	56,128	3.92
Commercial paper and CDs	518,230	0.07	62,960	0.11
Repurchase Agreements	117,400	—	—	—
Corporate bonds and other credits	2,171,982	3.79	2,945,971	3.83
U.S. government bonds	1,823,088	1.98	774,531	5.73
U.S. government agencies	487,325	1.46	336,781	2.27
U.S. government TIPS	1,858,610	4.44	1,743,098	6.15
U.S. government mortgage backed securities	1,571,315	5.60	1,652,586	2.35
Global Inflation Linked Bonds	448,158	9.75	—	—
Municipal bonds	12,789	8.60	16,706	9.72
Pooled money market fund	987,933	0.08	908,415	0.08
Other pooled funds	1,083,961	NA	790,782	NA
Total fixed income and short-term investments	$ 11,941,273		9,628,829	

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(c) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will fail to meet its debt obligations.

The PRIM Board establishes credit investment guidelines with each of its fixed income securities investment managers in establishing a diversified portfolio. These guidelines vary depending on the manager's strategy and the role of its portfolio to the overall diversification of the PRIT fund. The guidelines for the PRIT Fund's core fixed income portfolio establish the minimum credit rating for any security in the portfolio and the overall weighted average credit rating of the portfolio. The guidelines for the PRIT Fund's high yield, fixed income portfolio establish a market value range of securities to be held with a specific minimum credit rating and the overall weighted average credit rating of the portfolio.

Credit risk for derivative instruments held by PRIT results from counterparty risk. PRIT is exposed to credit risk resulting from counterparties being unable to meet their obligations under the terms of the derivative agreements. See note 7 for more information on PRIT's derivative instruments.

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The weighted average quality rating (S&P equivalent rating) of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States government and other nonrated investments was AA- at June 30, 2006 (A- at June 30, 2005). The following presents the PRIT Fund's fixed-income securities credit ratings at June 30:

	2006											
Investment	**Total fair value**	**AAA**	**AA+**	**AA**	**AA-**	**A+**	**A**	**A-**	**BBB+**	**BBB**	**BBB-**	**BB+**
Asset backed securities	$ 427,296	424,193	—	—	—	—	—	—	—	—	308	—
Commercial mortgage backed securities	240,956	235,698	—	—	5,258	—	—	—	—	—	—	—
Non-U.S. government backed C.M.O.s	192,230	184,730	—	—	—	—	—	—	—	—	—	—
Commercial paper and CDs	518,230	246,507	—	—	—	—	—	—	—	—	—	—
Corporate bonds and other credits	2,171,982	143,184	43,023	23,028	76,490	79,913	78,353	72,948	94,006	211,880	135,570	52,674
U.S. government agencies	487,325	484,990	—	—	2,335	—	—	—	—	—	—	—
U.S. government mortgage backed securities	1,801,371	1,790,402	—	—	—	—	—	—	—	—	—	—
Global Inflation Linked Bonds	448,158	423,111	3,866	—	3,299	1,354	13,307	3,221	—	—	—	—
Municipal bonds	12,789	—	476	2,428	—	425	—	—	—	—	9,460	—
Pooled money market fund	987,933	—	—	—	—	—	—	—	—	—	—	—
Other pooled funds	1,083,961	—	—	—	—	—	—	—	—	—	—	—
Total credit risk, fixed income and short-term investments	8,372,231	3,932,815	47,365	25,456	87,382	81,692	91,660	76,169	94,006	211,880	145,338	52,674
Fixed income investments explicitly backed by the U.S. government	3,569,042											
Total fixed income and short-term investments	$ 11,941,273											

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	2006											
Investment	**BB**	**BB-**	**B+**	**B**	**B-**	**CCC+**	**CCC**	**CCC-**	**CC**	**C**	**D**	**Not rated**
Asset backed securities $	—	496	—	1,721	—	565	—	—	—	—	—	13
Commercial mortgage												—
backed securities	—	—	—	—	—	—	—	—	—	—	—	—
Non-U.S. government backed C.M.O.s	—	—	—	—	—	—	—	—	—	—	—	7,500
Commercial paper and CDs	—	—	—	—	—	—	—	—	—	—	—	271,723
Corporate bonds and other credits	65,058	90,856	139,452	208,195	236,469	127,502	83,280	5,425	3,902	7,873	235	192,666
U.S. government agencies	—	—	—	—	—	—	—	—	—	—	—	—
U.S. government mortgage backed securities	—	—	—	—	—	—	—	—	—	—	—	10,969
Global Inflation Linked Bonds	—	—	—	—	—	—	—	—	—	—	—	—
Municipal bonds	—	—	—	—	—	—	—	—	—	—	—	—
Pooled money market fund	—	—	—	—	—	—	—	—	—	—	—	987,933
Other pooled funds	—	—	—	—	—	—	—	—	—	—	—	1,083,961
Total credit risk, fixed income and short-term investments $	65,058	91,352	139,452	209,916	236,469	128,067	83,280	5,425	3,902	7,873	235	2,554,765

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Investment	Total fair value	2005 AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+
Asset backed securities	$ 188,287	188,287	—	—	—	—	—	—	—	—	—	—
Commercial mortgage backed securities	135,474	134,446	—	—	1,028	—	—	—	—	—	—	—
Non-U.S. government backed C.M.O.s	50,324	50,324	—	—	—	—	—	—	—	—	—	—
Commercial paper	60,678	60,678	—	—	—	—	—	—	—	—	—	—
Corporate bonds and other credits	1,167,308	163,083	9,892	30,653	106,429	115,836	71,796	66,907	136,568	244,946	155,951	65,247
U.S. government agencies	336,781	335,301	—	—	1,480	—	—	—	—	—	—	—
U.S. government mortgage backed securities	1,502,868	1,502,868	—	—	—	—	—	—	—	—	—	—
Municipal bonds	16,706	3,286	1,259	2,788	—	—	—	—	—	—	9,373	—
Pooled money market fund	908,415	—	—	908,415	—	—	—	—	—	—	—	—
Other pooled funds	—	—	—	—	—	—	—	—	—	—	—	—
Total credit risk, fixed income and short-term investments	4,366,841	$ 2,438,273	11,151	941,856	108,937	115,836	71,796	66,907	136,568	244,946	165,324	65,247
Fixed income investments explicitly backed by the U.S. government	2,603,444											
Total fixed income and short-term investments	$ 6,970,285											

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	2005											
Investment		**BB**	**BB-**	**B+**	**B**	**B-**	**CCC+**	**CCC**	**CCC-**	**CC**	**C**	**Not rated**
Asset backed securities	$	—	1,832	4,395	2,184	1,457	—	393	—	257	—	15
Commercial mortgage backed securities		—	—	—	—	—	—	—	—	—	—	6,577
Non-U.S. government backed C.M.O.s		—	—	—	—	—	—	—	—	—	—	5,804
Commercial paper		—	—	—	—	—	—	—	—	—	—	2,282
Corporate bonds and other credits		123,487	338,109	270,525	346,374	323,546	139,625	78,892	29,535	16,589	5,318	106,663
U.S. government agencies		—	—	—	—	—	—	—	—	—	—	—
U.S. government mortgage backed securities		—	—	—	—	—	—	—	—	—	—	63,903
Municipal bonds		—	—	—	—	—	—	—	—	—	—	—
Pooled money market fund		—	—	—	—	—	—	—	—	—	—	—
Other pooled funds		—	—	—	—	—	—	—	—	—	—	790,782
Total credit risk, fixed income and short-term investments	$	123,487	339,941	274,920	348,558	325,003	139,625	79,285	29,535	16,846	5,318	976,026

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(d) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. The PRIM Board manages PRIT's exposure to foreign currencies by establishing investment guidelines with each of its international managers. These guidelines set maximum investment balances for any currency and/or country holdings must be within a certain percentage of predefined benchmarks. In addition, PRIM's investment managers may actively manage PRIT's exposure to foreign currencies through the use of forward foreign currency contracts. The following tables represent PRIT's foreign currency exposure at June 30:

	2006					
		Cash and short-term investments	Equity	Fixed income	Alternative investments	Total
Argentine Peso	$	59	578	3,397	—	4,034
Australian Dollar		2,509	289,801	29,542	—	321,852
Brazilian Real		3,346	185,228	—	—	188,574
British Pound		40,790	1,659,968	168,505	—	1,869,263
Canadian Dollar		5,541	—	18,651	—	24,192
Chilean Peso		—	9,514	—	—	9,514
Colombian Peso		1	4,004	—	—	4,005
Czech Koruna		—	4,198	—	—	4,198
Danish Krone		1,888	91,802	—	—	93,690
Egyptian Pound		62	8,213	—	—	8,275
Euro		42,515	2,158,422	209,152	—	2,410,089
Hong Kong Dollar		595	335,245	618	—	336,458
Hungarian Forint		1	3,608	—	—	3,609
Indian Rupee		543	16,664	—	—	17,207
Indonesian Rupian		—	19,730	—	—	19,730
Israeli Shekel		116	12,586	—	—	12,702
Japanese Yen		16,598	1,776,099	50,015	—	1,842,712
Malaysian Ringgit		276	65,594	—	—	65,870
Mexican Peso		446	54,519	8,218	—	63,183
Taiwan Dollar		6,441	207,832	—	—	214,273
Turkish Lira		—	30,147	—	—	30,147
New Zealand Dollar		756	10,159	5,923	—	16,838
Norwegian Krone		350	34,171	—	—	34,521
Pakistan Rupee		—	640	—	—	640
Peruvian Nuevo Sol		—	1,853	—	—	1,853
Philippines Peso		6	8,182	—	—	8,188
Polish Zloty		148	12,462	3,221	—	15,831
South African Rand		44	202,031	—	—	202,075
Singapore Dollar		1,072	78,008	—	—	79,080
South Korean Won		283	516,652	—	—	516,935
Swedish Krona		2,904	216,124	27,880	—	246,908
Swiss Franc		5,339	393,965	—	—	399,304

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	2006				
	Cash and short-term investments	**Equity**	**Fixed income**	**Alternative investments**	**Total**
Thailand Baht	$ 12	40,419	—	—	40,431
Alternative investment funds denominated in foreign currencies (various currencies)	—	—	—	355,581	355,581
International equity pooled funds (various currencies)	—	140,485	—	—	140,485
International fixed-income pooled funds (various currencies)	—	—	370,144	—	370,144
Total securities subject to foreign currency risk	132,641	8,588,903	895,266	355,581	9,972,391
International investments denominated in United States Dollars	—	1,180,970	924,224	—	2,105,194
Total international investments and cash deposits	$ 132,641	9,769,873	1,819,490	355,581	12,077,585

	2005				
	Cash and Short-Term Investments	**Equity**	**Fixed Income**	**Alternative Investments**	**Total**
Argentine Peso	$ 54	326	—	—	380
Australian Dollar	8,827	221,406	776	—	231,009
Brazilian Real	1,236	159,214	—	—	160,450
British Pound	14,448	1,300,740	4,568	—	1,319,756
Canadian Dollar	3	—	1,338	—	1,341
Chilean Peso	168	8,778	—	—	8,946
Colombian Peso	27	4,088	—	—	4,115
Czech Koruna	16	2,833	—	—	2,849
Danish Krone	528	59,084	—	—	59,612
Egyptian Pound	1,470	11,247	—	—	12,717
Euro	26,676	1,742,675	50,635	—	1,819,986
Greek Drachma	4	—	—	—	4
Hong Kong Dollar	1,656	270,597	400	—	272,653
Hungarian Forint	106	10,424	—	—	10,530
Indian Rupee	—	375	—	—	375
Indonesian Rupian	26	43,940	—	—	43,966
Israeli Shekel	98	17,711	—	—	17,809
Japanese Yen	10,297	1,268,502	1,487	—	1,280,286

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	2005				
	Cash and Short-Term Investments	**Equity**	**Fixed Income**	**Alternative Investments**	**Total**
Malaysian Ringgit	$ 896	89,023	—	—	89,919
Mexican Peso	29	49,905	—	—	49,934
Taiwan Dollar	4,128	174,257	—	—	178,385
Turkish Lira	77	42,772	—	—	42,849
New Zealand Dollar	538	18,499	—	—	19,037
Norwegian Krone	611	27,096	—	—	27,707
Pakistan Rupee	—	2,438	—	—	2,438
Peruvian Nuevo Sol	—	1,411	—	—	1,411
Philippines Peso	104	11,738	—	—	11,842
Polish Zloty	102	24,023	—	—	24,125
Russian Rubel	—	918	—	—	918
South African Rand	500	188,415	14	—	188,929
Singapore Dollar	873	75,057	—	—	75,930
South Korean Won	1,083	432,351	—	—	433,434
Swedish Krona	2,562	170,633	—	—	173,195
Swiss Franc	4,186	274,105	—	—	278,291
Thailand Baht	78	43,436	—	—	43,514
Alternative investment funds denominated in foreign currencies (various currencies)	—	—	—	284,155	284,155
International equity pooled funds (various currencies)	—	295,173	—	—	295,173
International fixed-income pooled funds (various currencies)	—	—	58,424	—	58,424
Total Securities subject to foreign currency risk	81,407	7,043,190	117,642	284,155	7,526,394
International investments denominated in United States Dollars	—	808,216	1,139,831	—	1,948,047
Total international investments and deposits	81,407	7,851,406	1,257,473	284,155	9,474,441
Total investments and cash deposits	$ 81,407	7,851,406	1,257,473	284,155	9,474,441

(e) Concentration of Credit Risk

The PRIM Board manages PRIT's exposure to concentration of credit risk by establishing guidelines with each investment manager, that limit the percent of investment in any single issue or issuer.

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PRIT has no investments, at fair value, that exceed 5% of PRIT's total investments as of June 30, 2006 and 2005, respectively.

(5) Securities Lending Programs

PRIT participates in a third-party securities lending program with Goldman Sachs & Co. (Goldman). Under the agreement, PRIT receives a fee equal to the greater of $12,400 ($12,400 for the calendar year beginning January 1, 2005) or 80% of the notional gross revenue achieved annually for exclusive access to PRIT's domestic and international equity securities.

Either PRIT or the lending agent can terminate securities loans on demand. There were no term loans as of June 30, 2006 and 2005.

Securities on loan are secured with collateral equaling 102% of the fair value of the domestic securities borrowed and 105% on borrowings of international securities. Pursuant to the Operations Support Agreements with PRIT's lending agents, Mellon Trust held all collateral for securities on loan at June 30, 2006 and 2005. The collateral securities cannot be pledged or sold by PRIT unless the lending agent defaults. The lending agent is required to indemnify PRIT in the event that it fails to return the securities on loan (and if the collateral is inadequate to replace the securities on loan) or if the lending agent fails to perform its obligations as stipulated in the agreement. There were no losses during the years ended June 30, 2006 and 2005 resulting from default by the lending agent.

Securities on loan are included in investments at fair value in the accompanying statements of pooled net assets. As of June 30, 2006 and 2005, the fair value of the securities on loan was $1,065,865 and $1,877,595, respectively, and the fair value of the associated collateral amounted to approximately $1,112,007 and $1,953,412, respectively, of which $450,000 and $1,101,100, respectively, was cash. The fair value of cash collateral received is reported as an obligation under securities lending transactions. During the years ended June 30, 2006 and 2005, the cash provided to PRIT as collateral was lent to the LLC to invest in core real estate assets (see note 6). PRIT pays its lending agent a rebate monthly for all cash collateral posted. The rebate is computed daily in an amount equal to the daily Fed Funds Effective rate and is paid monthly and reported as securities lending expense. As of June 30, 2006 and 2005, PRIT owes Goldman $1,872 and $2,787, respectively, in rebates, which is also reported as an obligation under securities lending transactions.

(6) Investment in the LLC

On October 19, 2001, the LLC was formed and was governed by an operating agreement entered into by the PRIM Board, as trustee of PRIT, as the sole member. On November 1, 2001, the operating agreement was amended and restated by the PRIM Board and the Health Care Security Trust (HCST) Board, as trustee of HCST, to include the admission of HCST as a member of the LLC and establish the PRIM Board as managing member. The principal purpose of the LLC is to conduct the investment activities of the core real estate program in a manner consistent with the PRIM Board's Operating Trust Agreement and any business or activities incidental to or in support of such investment activities.

Pursuant to the contribution agreement dated November 1, 2001, in exchange for the contributions by PRIT and HCST, the LLC issued a number of units equal to each party's contribution. The fair market

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value of each unit was $1.00 on November 1, 2001, on which date, PRIT and HCST contributed $1,675,901, in kind (representing a 99.55% interest), and $7,551 in cash (representing a 0.45% interest), respectively, to the LLC. According to the amended and restated operating agreement, as of any valuation date, the net assets of the LLC shall be the fair value of investments, less the amount of debt and accrued expenses. The unit net asset value of the LLC shall be the net asset value of the LLC divided by the number of units outstanding on such date.

The LLC holds core and value real estate assets consisting of real property and REIT securities. To the extent the LLC requires cash for investment activity, PRIT requests Goldman to provide cash collateral in lieu of Treasury securities under its securities lending program. In turn, PRIT loans this cash (collateral) to the LLC in amounts and terms substantially the same as those between PRIT and Goldman. The portion of the debt service allocated to HCST, as a member of the LLC, amounted to $3,027 and $11,134 and is included in Receivable from Health Care Security Trust in the accompanying statements of pooled net assets as of June 30, 2006 and 2005, respectively.

The LLC has entered into interest rate swap contracts for the purpose of hedging its floating-rate interest exposure. The swap contracts are reported at fair value, which represents their estimated liquidation values (costs) to the LLC. The LLC either receives cash from the swap counterparties or pays the swap counterparties monthly depending on whether the fixed-rate interest is lower or higher than the variable-rate interest. The variable rate interest received on each of the swaps identified in the below table is the Federal Funds Effective rate. Changes in the fair value of the swap contracts are included in net change in unrealized appreciation on investments and foreign currency transactions, and the income or expense related to settlements of interest under the contracts is included in real estate income, net in the accompanying statement of changes in pooled net assets for the year ended June 30, 2006.

As of June 30, 2006, the LLC had nine outstanding swap contracts in effect:

	2006				
Counterparty	**Fixed rate paid**	**Notional amount**	**Effective date**	**Maturity date**	**Fair value**
Bear Stearns Bank PLC	3.95	50,000	08/19/02	09/01/07	863
Bank of America	4.18	50,000	12/02/02	12/03/12	3,312
Citibank, N.A. New York	3.68	50,000	01/01/03	01/01/10	2,730
Mellon Bank	3.17	50,000	01/30/03	02/01/08	1,765
Mellon Bank	3.82	50,000	03/06/03	06/01/13	4,581
Bear Stearns Bank PLC	3.45	50,000	05/13/03	06/01/11	4,218
Bear Stearns Bank PLC	3.37	50,000	11/24/03	03/01/09	2,533
Citibank, N.A. New York	4.17	50,000	12/20/04	03/01/14	3,896
Citibank, N.A. New York	4.27	50,000	02/15/05	12/01/15	4,282
		$ 450,000			$ 28,180

To determine the fair values of its swap agreements, the LLC uses methods and assumptions considering market conditions and risks existing at the date of the statement of pooled net assets. Such methods and assumptions incorporate standard valuation conventions and techniques, such as discounted cash flow analysis and option pricing models. All methods utilized to estimate fair values result only in general

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approximations of value, and such values may or may not actually be realized. Fair value estimates are closely correlated with changes in market interest rates and the passage of time. For example, rising market interest rates will generally increase the swaps' termination values to the LLC, whereas termination values are generally reduced as the swaps approach their maturity dates and fewer interest settlements remain under the contracts.

As of June 30, 2006 and 2005, PRIT owned 99.33% and 98.99%, respectively, of the total net assets of the LLC. HCST owned 0.67% and 1.01%, respectively.

(7) Derivative Investments

PRIT regularly trades financial instruments with off-balance-sheet risk in the normal course of its investing activities to assist in managing exposure to market risks. These financial instruments include foreign currency exchange contracts, futures contracts and swap contracts.

(a) Foreign Currency Exchange Contracts

Foreign currency exchange contracts open at June 30 were as follows:

	2006				
	Fair value	**Aggregate face value**	**Delivery date(s)**	**Unrealized gains**	**Unrealized losses**
Foreign currency exchange contracts purchased:					
Australian Dollar	$ 32,135	32,144	7/20/06-9/20/06	$ —	(9)
Brazilian Real	826	836	7/3/06-7/5/06	—	(10)
British Pound	168,921	168,569	7/20/06-9/20/06	352	—
Canadian Dollar	26,354	26,329	7/20/06-9/20/06	25	—
Chilean Peso	51	52	07/31/06	—	(1)
Chinese Yuan Renminbi	13,522	13,440	09/20/06	82	—
Egyptian Pound	61	61	07/05/06	—	—
Euro	302,677	303,761	09/20/06	—	(1,084)
Hong Kong Dollar	120	120	07/03/06	—	—
Indonesian Rupian	330	317	08/31/06	13	—
Japanese Yen	40,667	40,482	7/3/06-9/20/06	185	—
Malaysian Ringgit	717	719	7/3/06-7/5/06	—	(2)
New Zealand Dollar	5,869	5,754	7/20/06-9/20/06	115	—
Peruvian Nuevo Sol	177	182	08/07/06	—	(5)
Polish Zloty	3,448	3,464	07/20/06	—	(16)
Russian Rubel	829	840	7/31/06-8/7/06	—	(11)
South African Rand	3,715	3,708	7/5/06-8/7/06	7	—
Singapore Dollar	175	177	07/26/06	—	(2)
Slovak Koruna	495	487	09/05/06	8	—
South Korean Won	1,304	1,301	7/3/06-9/21/06	3	—
Swedish Krona	29,185	29,491	7/20/06-9/20/06	—	(306)
Swiss Franc	1,989	1,986	09/20/06	3	—
Thailand Baht	1,133	1,139	07/05/06	—	(6)
Turkish Lira	841	851	07/05/06	—	(10)

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	2006				
	Fair value	**Aggregate face value**	**Delivery date(s)**	**Unrealized gains**	**Unrealized losses**
Foreign currency exchange contracts sold:					
Australian Dollar	$ 59,370	58,066	7/3/06-9/20/06	$ —	(1,304)
Brazilian Real	393	408	08/07/06	15	—
British Pound	278,560	279,823	7/3/06-9/20/06	1,263	—
Canadian Dollar	8,900	8,875	7/27/06-9/20/06	—	(25)
Chilean Peso	457	452	7/31/06-9/29/06	—	(5)
Chinese Yuan Renminbi	30,621	30,327	9/20/06-3/21/07	—	(294)
Czeck Koruna	1,687	1,685	07/03/06	—	(2)
Danish Krone	6,319	6,369	09/01/06	50	—
Euro	368,266	370,723	7/20/06-9/20/06	2,457	—
Hong Kong Dollar	14,771	14,745	7/3/06-9/01/06	—	(26)
Indian Rupee	270	264	9/20/06-11/9/06	—	(6)
Indonesian Rupian	721	746	7/3/06-8/31/06	25	—
Japanese Yen	288,817	282,956	7/3/06-9/20/06	—	(5,861)
Malaysian Ringgit	156	156	7/3/06-7/5/06	—	—
Mexican Peso	465	438	8/7/06-9/20/06	—	(27)
New Zealand Dollar	3,562	3,451	9/1/06-9/20/06	—	(111)
Norwegian Krone	7,679	7,566	09/01/06	—	(113)
Peruvian Nuevo Sol	179	182	08/07/06	3	—
Polish Zloty	545	535	8/10/06-11/24/06	—	(10)
Russian Rubel	1,294	1,351	7/31/06-9/29/06	57	—
South African Rand	4,944	4,868	7/3/06-8/7/06	—	(76)
Singapore Dollar	8,702	8,673	7/26/06-9/26/06	—	(29)
Slovaki Koruna	966	992	8/7/06-9/5/06	26	—
South Korean Won	2,654	2,696	7/3/06-9/26/06	42	—
Swedish Krona	24,583	24,898	09/01/06	315	—
Swiss Franc	83,635	83,535	7/3/06-9/1/06	—	(100)
Taiwan Dollar	1,585	1,579	7/3/06-8/24/06	—	(6)
Thailand Baht	14	14	07/03/06	—	—
Total				$ 5,046	(9,457)

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	2005				
	Fair value	**Aggregate face value**	**Delivery date(s)**	**Unrealized gains**	**Unrealized losses**
Foreign currency exchange contracts purchased:					
Australian Dollar	$ 23,794	23,687	07/01/05-11/14/05	$ 107	—
Brazilian Real	1,293	1,396	08/02/05	—	(103)
British Pound	137,475	133,430	11/14/05	4,045	—
Canadian Dollar	1,233	1,252	07/19/05	—	(19)
Chilean Peso	166	167	07/01/05	—	(1)
Egyptian Pound	1,180	1,182	05/11/05-06/16/05	—	(2)
Euro	314,683	306,316	07/05/05-11/14/05	8,367	—
Indian Rupee	338	339	06/21/05	—	(1)
Japanese Yen	266,834	259,999	07/01/05-11/14/05	6,835	—
New Zealand Dollar	755	755	07/01/05-07/05/05	—	—
South Korean Won	3,621	3,655	06/28/05-07/05/05	—	(34)
Swiss Franc	28,913	27,784	11/14/05	1,129	—
Foreign currency exchange contracts sold:					
Australian Dollar	12,352	12,180	11/14/05	—	(172)
Brazilian Real	1,559	1,772	07/20/05-08/10/05	213	—
Chilean Peso	624	623	07/01/05-08/16/05	—	(1)
Chinese Yuan Renminbi	520	512	09/23/05	—	(8)
Euro	316	318	07/01/05	2	—
Indian Rupee	481	482	06/21/05-11/09/05	1	—
Japanese Yen	45,384	42,839	07/01/05-11/14/05	—	(2,545)
Malaysian Ringgit	308	307	07/01/05-07/05/05	—	(1)
Mexican Peso	446	455	08/09/05-09/23/05	9	—
Peruvian Nuevo Sol	182	182	08/09/05	—	—
Polish Zloty	960	959	07/01/05-08/24/05	—	(1)
Russian Rubel	474	460	07/29/05-08/23/05	—	(14)
South African Rand	641	644	08/10/05	3	—
Singapore Dollar	618	607	07/01/05-08/24/05	—	(11)
Slovakia Koruna	949	939	08/10/05-08/31/05	—	(10)
South Korean Won	409	396	07/27/05-08/31/05	—	(13)
Swiss Franc	249	250	07/01/05	1	—
Taiwan Dollar	366	359	08/17/05-08/24/05	—	(7)
Thailand Baht	672	671	07/05/05	—	(1)
Total				$ 20,712	(2,944)

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(b) Futures Contracts

Futures contracts held at June 30 were as follows:

	2006					
Description	**Number of contracts**	**Expiration date**		**Notional amount**	**Fair value of notional amount**	**Unrealized appreciation (depreciation)**
Long cash and cash equivalents:						
90-Day Australian Bk Bill	45	03/07	$	7,846	10,557	2,711
90-Day Australian Bk Bill	32	06/07		5,608	7,507	1,899
90-Day Australian Bk Bill	26	12/06		4,533	6,100	1,567
90-Day Australian Bk Bill	7	09/06		1,232	1,644	412
90-Day Sterling LIBOR	89	03/07		19,100	19,533	433
90-Day Sterling LIBOR	18	06/07		3,939	3,947	8
90-Day Sterling LIBOR	35	09/06		7,429	7,704	275
90-Day Sterling LIBOR	107	12/06		22,726	23,516	790
3-Month EuroYen Tiff	8	03/07		1,717	1,734	17
3-Month EuroYen Tiff	56	09/06		12,050	12,183	133
3-Month EuroYen Tiff	112	12/06		24,033	24,326	293
90-Day Bank Acceptance	36	03/07		7,673	7,711	38
90-Day Bank Acceptance	14	09/06		2,924	3,002	78
90-Day Bank Acceptance	43	12/06		9,082	9,210	128
90-Day Eurodollar	825	03/07		196,362	194,782	(1,580)
90-Day Eurodollar	910	06/07		215,739	214,965	(774)
90-Day Eurodollar	22	09/06		5,222	5,193	(29)
90-Day Eurodollar	63	09/07		14,991	14,888	(103)
90-Day Eurodollar	76	12/06		18,007	17,937	(70)
90-Day Eurodollar	39	12/07		9,268	9,218	(50)
Short cash and cash equivalents:						
90-Day Sterling LIBOR	(4)	06/07		(877)	(877)	—
3-Month EuroYen Tiff	(23)	06/07		(5,025)	(4,977)	48
90-Day Eurodollar	(84)	06/07		(19,899)	(19,843)	56
90-Day Eurodollar	(660)	09/08		(156,222)	(155,942)	280
90-Day Eurodollar	(61)	12/06		(14,494)	(14,397)	97
Net total cash and cash equivalents futures				392,964	399,621	6,657

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	2006				
Description	**Number of contracts**	**Expiration date**	**Notional amount**	**Fair value of notional amount**	**Unrealized appreciation (depreciation)**
Long fixed income:					
Euro BOBL	1,408	09/06	$ 197,461	196,435	(1,026)
Japan 10-Yr Bond	110	09/06	127,082	126,681	(401)
Canada 10-Yr Bond	27	09/06	2,712	2,679	(33)
US Treasury Bond	825	09/06	88,904	87,991	(913)
US 10-Yr Treasury Notes	1,665	09/06	175,323	174,591	(732)
US 5-Yr Treasury Notes	232	09/06	24,140	23,990	(150)
Short fixed income:					
Australian 10-Yr Bond	(21)	09/06	(15)	(20)	(5)
Euro BOBL	(606)	09/06	(84,492)	(84,545)	(53)
Euro Bond	(637)	09/06	(94,214)	(93,928)	286
UK Long Gilt	(19)	09/06	(3,841)	(3,827)	14
Japan 10-Yr Bond	(15)	09/06	(17,424)	(17,275)	149
US Treasury Bond	(382)	09/06	(40,981)	(40,743)	238
US 10-Yr Treasury Notes	(824)	09/06	(86,537)	(86,404)	133
US 5-Yr Treasury Notes	(1,783)	09/06	(184,964)	(184,373)	591
Net total fixed income futures			103,154	101,252	(1,902)
Long equity:					
SPI 200 Index	727	09/06	64,392	68,596	4,204
DAX Index	441	09/06	76,884	80,727	3,843
IBEX 35	316	07/06	43,549	46,541	2,992
CAC 40 Index	1,699	07/06	100,692	108,046	7,354
CAC 40 Index	52	09/06	3,089	3,320	231
S&P/MIB Index	194	09/06	43,157	45,482	2,325
Amsterdam Index	333	07/06	35,375	37,529	2,154
FTSE 100 Index	2,534	09/06	263,259	273,004	9,745
Hang Seng Index	12	07/06	1,219	1,260	41
TOPIX Index	1,955	09/06	267,801	271,835	4,034
OMXS 30 Index	1,913	07/06	24,275	25,435	1,160
DJ Euro STOXX 50 Index	3,085	09/06	134,743	144,452	9,709
S&P 500 Index	3,404	09/06	1,090,118	1,088,770	(1,348)
S&P 500 EMINI Index	3,844	09/06	244,539	245,920	1,381
Net total equity futures			2,393,092	2,440,917	47,825

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	2006				
Description	**Number of contracts**	**Expiration date**	**Notional amount**	**Fair value of notional amount**	**Unrealized appreciation (depreciation)**
Long commodity and other:					
3MO Euro Euribor	11	03/07	$ 3,303	3,384	81
Live Cattle	1	08/06	34	34	—
Live Cattle	1	10/06	36	36	—
Soybean	4	11/06	122	125	3
Soybean	2	01/07	63	63	—
Corn	16	12/06	211	208	(3)
Corn	5	12/07	77	74	(3)
Crude Oil	17	12/06	1,266	1,294	28
Sugar	15	10/06	289	275	(14)
Wheat	13	12/06	258	269	11
Gold 100 Oz	126	08/06	8,234	7,762	(472)
Natural Gas	3	10/06	232	202	(30)
Aluminum	17	09/06	1,133	1,117	(16)
Short commodity and other:					
3MO Euro Euribor	(16)	06/07	(4,907)	(4,919)	(12)
3MO Euro Euribor	(27)	09/06	(8,034)	(8,344)	(310)
3MO Euro Euribor	(288)	12/06	(87,519)	(88,744)	(1,225)
Copper	(26)	09/06	(3,497)	(3,375)	122
Net total commodity and other futures			(88,699)	(90,539)	(1,840)
Net total futures exposure			$ 2,800,408	2,851,251	50,843

Notes to Financial Statements

June 30, 2006 and 2005

Description	Number of contracts	Expiration date	Notional amount	Fair value of notional amount		Unrealized appreciation (depreciation)
	2005					
Long fixed income:						
U.S. Treasury Bond Future	626	09/05	74,097	74,338		241
Euro BOBL Future	44	09/05	6,112	6,160		48
Short fixed income:						
U.S. Treasury Bond Future	331	09/05	(38,696)	(39,306)		610
U.S. Treasury 10-Year Notes Future	149	09/05	(16,934)	(16,907)		(27)
U.S. Treasury 5-Year Notes Future	373	09/05	(40,600)	(40,616)		16
Euro BOBL Future	239	09/05	(33,304)	(33,460)		156
Net total fixed income futures			(49,325)	(49,791)	$	1,044
Long equity:						
SPI 200 Index Future	48	09/05	3,868	3,909		41
DAX Index Future	32	09/05	4,478	4,477		(1)
IBX 35 Index Future	31	07/05	3,597	3,657		60
CAC 40 Index Future	76	09/05	3,892	3,910		18
S&P/MIB Index Future	13	09/05	2,554	2,551		(3)
Hang Seng Index Future	19	07/05	1,741	1,736		(5)
Topix Index Future	139	09/05	14,363	14,733		370
S&P 500 Index Future	907	09/05	272,773	271,080		(1,693)
FTSE 100 Index Future	154	09/05	13,976	14,137		161
MSCI Taiwan Index Fund	228	07/05	5,942	5,898		(44)
All Shares Index Future	12	09/05	233	232		(1)
Net total equity futures			327,417	326,320	$	(1,097)
Long cash and cash equivalents futures:						
90-Day Eurodollar Future	941	03/06	225,394	225,864		470
90-Day Eurodollar Future	105	09/06	25,149	25,195		46
Short cash and cash equivalents futures:						
90-Day Eurodollar Future	50	03/06	(12,013)	(12,001)		(12)
90-Day Eurodollar Future	50	06/06	(12,010)	(11,999)		(11)
90-Day Eurodollar Future	50	09/05	(12,033)	(12,019)		(14)
90-Day Eurodollar Future	50	12/05	(12,018)	(12,004)		(14)
Net total cash and cash equivalents futures			202,469	203,036	$	465
Net total futures exposure			480,561	479,565	$	412

Notes to Financial Statements

June 30, 2006 and 2005

(c) Swaps

PRIT enters into swap agreements to gain exposure to certain markets and actively hedge other exposures to market and credit risks. PRIT utilizes interest rate, credit default, and total return swaps within the portfolio. PRIT's OTC swap agreements are recorded at fair values as estimated by PRIM. These estimated fair values are determined in good faith by PRIT's investment managers, using methods and assumptions considering market conditions and risks existing at the date of the statement of pooled net assets. Such methods and assumptions incorporate standard valuation conventions and techniques, such as discounted cash flow analysis and option pricing models. All methods utilized to estimate fair values result only in general approximations of value, and such values may or may not actually be realized. Unrealized gains or losses on open swap contracts are included in the pooled statement of net assets.

Notes to Financial Statements

June 30, 2006 and 2005

Open swap contracts at June 30 2006 were as follows:

Description	PRIT pays	PRIT receives	Maturity date	Notional amount	Unrealized appreciation (depreciation)	Counterparty	Counterparty Credit Rating
Interest rate swaps fix pay:							
IRS CAD P 5.0/3MCBK	5.00%	3-Month Canadian Bank	6/15/2015	$ 12,342	32	Merrill Lynch Capital Services	A+
IRS EUR P 4.0/6ME	4.00%	6-Month Euro	12/15/2011	131,282	884	Deutsche Bank AG	AA-
IRS EUR P 4.0/6ME	4.00%	6-Month Euro	12/15/2011	28,846	194	Morgan Stanley Capital Services Inc.	A+
IRS JPY P 1.5/6ML	1.50%	6-Month LIBOR	12/15/2014	6,211	249	Goldman Sachs Capital Markets, L.P.	A+
IRS JPY P 2.0/6ML	2.00%	6-Month LIBOR	12/20/2013	26,854	(163)	Goldman Sachs Capital Markets, L.P.	A+
IRS JPY P 2.0/6ML	2.00%	6-Month LIBOR	12/20/2013	74,353	(451)	UBS AG	AA+
IRS GBP P 4.0/6ML	4.00%	6-Month LIBOR	12/15/2025	30,185	678	Barclays Bank PLC	AA
IRS USD P 5.73/3ML	5.73%	3-Month LIBOR	6/22/2016	46,800	—	Barclays Bank PLC	AA
IRS USD P 5.0/3ML	5.00%	3-Month LIBOR	12/20/2013	30,100	1,170	Deutsche Bank AG	AA-
IRS USD P 5.0/3ML	5.00%	3-Month LIBOR	12/20/2013	131,800	5,124	Goldman Sachs Capital Markets, L.P.	A+
IRS USD P 5.0/3ML	5.00%	3-Month LIBOR	12/20/2016	5,900	323	Goldman Sachs Capital Markets, L.P.	A+
IRS USD P 5.0/3ML	5.00%	3-Month LIBOR	12/20/2016	1,500	82	Lehman Brothers Special Financing Inc.	A+
Total interest rate swaps fix pay				$ 526,173	8,122		
Interest rate swaps variable pay:							
IRS EUR R 6ME/6.0	6-Month Euro	6.00%	6/18/2034	$ 21,025	2,210	Merrill Lynch Capital Services	A+
IRS EUR R 6ME/6.0	6-Month Euro	5.00%	6/18/2034	13,077	1,374	Morgan Stanley Capital Services Inc.	A+
IRS GBP R 6ML/5.0	6-Month LIBOR	5.00%	12/15/2007	142,222	(155)	Deutsche Bank AG	AA-
IRS MX R TIIE/9.92	Mexican TIIE rate	9.92%	8/12/2015	709	11	Morgan Stanley Capital Services Inc.	A+
IRS USD R 3ML/5.65	3-Month LIBOR	5.65%	6/22/2010	100,000	—	Barclays Bank PLC	AA
IRS USD R 3ML/5.0	3-Month LIBOR	5.00%	6/21/2021	17,800	(1,399)	Deutsche Bank AG	AA-
IRS USD R 3ML/5.0	3-Month LIBOR	5.00%	12/15/2007	100,000	(607)	Barclays Bank PLC	AA
IRS USD R 3ML/5.0	3-Month LIBOR	5.00%	12/15/2007	178,800	(1,086)	Morgan Stanley Capital Services Inc.	A+
IRS USD R 3ML/5.0	3-Month LIBOR	5.00%	12/15/2007	503,500	(3,058)	UBS AG	AA+
IRS USD R 3ML/5.0	3-Month LIBOR	5.00%	12/20/2036	8,800	(985)	Goldman Sachs Capital Markets, L.P.	A+
IRS USD R 3ML/5.0	3-Month LIBOR	5.00%	12/20/2011	41,600	(1,155)	Royal Bank of Scotland PLC	AA
IRS USD R 3ML/5.0	3-Month LIBOR	5.00%	12/20/2008	20,300	(227)	Barclays Bank PLC	AA
IRS USD R 3ML/5.0	3-Month LIBOR	5.00%	12/20/2011	5,800	(161)	Barclays Bank PLC	AA
IRS USD R 3ML/5.0	3-Month LIBOR	5.00%	12/20/2011	2,300	(64)	JP Morgan Chase Bank	A+
IRS USD R 3ML/5.0	3-Month LIBOR	5.00%	12/20/2011	31,200	(866)	Lehman Brothers Special Financing Inc.	A+
IRS USD R 3ML/5.0	3-Month LIBOR	5.00%	12/20/2008	90,000	(1,005)	UBS AG	AA+
Total interest rate swaps variable pay				$ 1,277,133	(7,173)		

Notes to Financial Statements

June 30, 2006 and 2005

Description	PRIT pays	PRIT receives	Maturity date	Notional amount	Unrealized appreciation (depreciation)	Counterparty	Counterparty Credit Rating
Credit default swaps:							
CENTEX BP	1.17%	Credit default protection	6/20/2016	$ 1,500	(18)	Goldman Sachs International	A+
DJ CDX IG4 BP	0.65%	Dow Jones CDX Index	6/20/2015	15,600	(6)	Morgan Stanley Capital Services Inc.	A+
DJ CDX IG4 BP	0.65%	Dow Jones CDX Index	6/20/2015	17,100	(6)	Morgan Stanley Capital Services Inc.	A+
ENTERGY BP	0.18%	Credit default protection	9/20/2008	8,600	18	Morgan Stanley Capital Services Inc.	A+
KAUPTHING BANK PRIV BP	1.20%	Credit default protection	6/20/2016	4,300	(125)	Deutsche Bank AG	AA-
MERCK & CO BP	0.26%	Credit default protection	3/20/2015	4,200	(12)	Goldman Sachs International	A+
NEW CINGULAR WIRELESS BP	0.29%	Credit default protection	6/20/2012	4,200	(7)	Citibank NA	AA
BRAZIL SP	Credit default protection	1.60%	5/20/2013	5,000	(149)	Barclays Bank PLC	AA
BRAZIL SP	Credit default protection	1.96%	5/20/2016	5,000	(195)	Barclays Bank PLC	AA
COLOMBIA SP	Credit default protection	1.24%	5/20/2011	1,000	(19)	Barclays Bank PLC	AA
COLOMBIA SP	Credit default protection	1.76%	3/20/2010	250	(5)	Morgan Stanley Capital Services Inc.	A+
COLOMBIA SP	Credit default protection	1.20%	9/20/2008	1,100	11	Morgan Stanley Capital Services Inc.	A+
DJ CDX EM3 SP	Dow Jones CDX Index	2.10%	6/20/2010	2,300	75	Goldman Sachs International	A+
DJ CDX EM5 SP	Dow Jones CDX Index	1.35%	6/20/2011	8,000	(160)	Merrill Lynch Capital Services	A+
DJ CDX EM5 SP	Dow Jones CDX Index	1.35%	6/20/2011	1,000	(20)	Morgan Stanley Capital Services Inc.	A+
GAZPROM SP	Credit default protection	1.50%	4/20/2016	1,000	(21)	JP Morgan Chase Bank	A+
GAZPROM SP	Credit default protection	1.31%	5/20/2016	5,000	(171)	Morgan Stanley Capital Services Inc.	A+
GAZPROM SP	Credit default protection	1.48%	4/20/2016	4,000	(88)	Morgan Stanley Capital Services Inc.	A+
MEX SP	Credit default protection	1.68%	1/20/2014	10,000	411	Lehman Brothers Special Financing Inc.	A+
MEX SP	Credit default protection	1.28%	2/20/2009	500	10	Morgan Stanley Capital Services Inc.	A+
PEMEX SP	Credit default protection	1.22%	4/20/2016	3,500	(56)	Lehman Brothers Special Financing Inc.	A+
PEMEX SP	Credit default protection	1.30%	5/20/2016	1,500	(16)	Lehman Brothers Special Financing Inc.	A+
PEMEX SP	Credit default protection	1.40%	7/20/2016	2,000	(8)	Lehman Brothers Special Financing Inc.	A+
PERU SP	Credit default protection	1.68%	5/20/2011	1,000	1	Barclays Bank PLC	AA
PERU SP	Credit default protection	1.84%	8/20/2012	500	(3)	Lehman Brothers Special Financing Inc.	A+
RUSSIA SP	Credit default protection	0.44%	6/20/2007	1,800	—	Deutsche Bank AG	AA-
RUSSIA SP	Credit default protection	0.77%	5/20/2007	50	—	JP Morgan Chase Bank	A+
RUSSIA SP	Credit default protection	1.30%	7/20/2015	3,000	72	JP Morgan Chase Bank	A+
RUSSIA SP	Credit default protection	2.31%	1/21/2014	1,200	103	Merrill Lynch International	A+
RUSSIA SP	Credit default protection	2.49%	1/6/2014	5,000	484	Morgan Stanley Capital Services Inc.	A+
Total credit default swaps				$ 119,200	100		
Commodity swaps (Total return swaps):							
AIG Excess Return Commodity Index	0.31%	AIG Excess Return Commod	10/31/2006	503,950	(9,952)	AIG	AA
AIG Excess Return Commodity Index	0.31%	AIG Excess Return Commod	9/29/2006	389,852	(7,711)	AIG	AA
Total commodity swaps (Total return swaps)				$ 893,802	(17,663)		

Notes to Financial Statements

June 30, 2006 and 2005

(8) Management Fees

In accordance with the PRIM Board's Operating Trust Agreement, expenses incurred by the PRIM Board in managing PRIT are charged to PRIT in the form of management fees. These expenses consist of investment management fees, investment advisory fees, custodian fees and professional fees, as well as a portion of staff salaries and other administrative expenses of the PRIM Board.

(a) Investment Management Fees

Investment management fees are paid to discretionary managers pursuant to executed contracts. Total investment management fees amounts to $155,939 and $93,863 for the years ended June 30, 2006 and 2005, respectively.

All domestic and international equity managers and emerging market managers are paid a base fee calculated as a percentage of either current net assets under management or an agreed-upon funded amount, typically equal to the amount of original and subsequent funding. In certain cases this is subject to periodic revision. Base fees are paid quarterly. In addition, most active (nonindexed) equity managers are eligible to receive a performance fee. Such fees are earned annually by those managers whose annualized three-year performance exceeds the contractual benchmark by a specified minimum amount.

Fixed income managers are generally paid an asset-based fee.

Fees for alternative investments are typically a percentage of committed capital with the fee percentage decreasing over time. In addition, the general partners (investment managers) of alternative investment limited partnerships are entitled to 20-30% of net gains on the realization of partnership investments.

The LLC's investment management fees generally consist of a base fee and a performance fee component. Base fees are calculated and paid monthly. Performance fees are paid every two years to managers whose since-inception performance exceeds a pre-established hurdle, as defined in the investment management contracts.

Timber investment management fees consist of a base fee and a performance fee component and are calculated and paid similar to the LLC's investment management fees.

All absolute return investment managers are paid base fees, which are calculated and paid quarterly. Certain managers are entitled to performance fees. Performance fees are calculated and paid annually if the managers' performance exceeds a pre-established benchmark, as defined in the investment management contracts.

Notes to Financial Statements

June 30, 2006 and 2005

The majority of investment management fees for alternative investments are charged by the general partners to the investment partnerships and not to the limited partner investors directly. All investment management fees for absolute return investments are charged to the respective investments. Base investment management fees for investments in real estate properties and timber are charged against the respective investments. Therefore, the fair value of these investments are reported net of "indirect" management fees. For the years ended June 30, 2006 and 2005, these indirect management fees charged to PRIT's real estate, timber, absolute return and alternative investments amounted to approximately $90,999 and $77,034, respectively, and are not included in management fees in the accompanying statements of changes in pooled net assets.

(b) Investment Advisory Fees

Cliffwater LLC, The Townsend Group and Pathway Capital Management, LLC serve as the PRIM Board's principal investment advisors. These investment advisors, among others, provide the PRIM Board with comprehensive investment advisory services, including recommendations on asset allocations, selection of investment managers, and the measurement of performance of PRIT and the individual investment managers.

For the years ended June 30, 2006 and 2005, as compensation for their services, investment advisors earned fees aggregating approximately $2,568 and $2,815, respectively, and are included in management fees in the accompanying statements of changes in pooled net assets.

(c) Custodian Fees

Mellon Trust is the investment custodian and record keeper for PRIT. Mellon Trust records all daily transactions, including investment sales and purchases, investment income, expenses, and all participant activity for PRIT. Mellon Trust also provides portfolio performance analysis each month. For the years ended June 30, 2006 and 2005, custodian fees amounted to $3,050 and $2,800, respectively, and are included in management fees in the accompanying statements of changes in pooled net assets.

(d) Other Administrative Fees

For the years ended June 30, 2006 and 2005, other administrative expenses of the PRIM Board, including employee compensation, professional fees and occupancy costs, charged to PRIT totaled approximately $4,180 and $3,947, respectively, and are included in management fees in the accompanying statements of changes in pooled net assets.

(9) Commitments

As of June 30, 2006, PRIT had outstanding commitments to invest approximately $2,530,617 and $150,421 in alternative investments and distressed debt, respectively.

Notes to Financial Statements

June 30, 2006 and 2005

(10) State Appropriations

In accordance with Massachusetts General Laws, Chapter 32, Section 22B, in each fiscal year, the governor shall recommend to the Commonwealth an appropriation to be set aside in PRIT to reduce the unfunded pension liability of Participating Systems. The Commonwealth has made no such appropriation to PRIT on behalf of Participating Systems since fiscal year 2000.

Schedule of Pooled Net Assets – Capital Fund and Cash Fund

June 30, 2006

(Amounts in thousands)

		Capital Fund	Cash Fund	Total
Assets:				
Investments, at fair value:				
Short-term	$	922,017	65,916	987,933
Fixed income		10,953,340	—	10,953,340
Equity		19,459,607	—	19,459,607
Real estate		5,134,353	—	5,134,353
Timber		1,502,234	—	1,502,234
Alternative investments		2,662,094	—	2,662,094
Absolute return		2,114,115	—	2,114,115
Total investments		42,747,760	65,916	42,813,676
Cash		132,429	—	132,429
Interest and dividends receivable		132,300	571	132,871
Receivable for investments sold		177,557	—	177,557
Securities sold on a when-issued basis		25,575	—	25,575
Unrealized gains on foreign currency exchange contracts		5,046	—	5,046
Receivable from Health Care Security Trust		3,479	—	3,479
Margin variation receivable		14,889	—	14,889
Total assets		43,239,035	66,487	43,305,522
Liabilities:				
Securities purchased on a when-issued basis		413,308	—	413,308
Payable for investments purchased		338,068	—	338,068
Obligations under securities lending transactions		451,872	—	451,872
Unrealized losses on foreign currency exchange contracts		9,457	—	9,457
Management fees payable to PRIM		167,766	—	167,766
Total liabilities		1,380,471	—	1,380,471
Net assets held in trust for pool participants	$	41,858,564	66,487	41,925,051

See accompanying independent auditors’ report.

Schedule of Changes in Pooled Net Assets – Capital Fund and Cash Fund

June 30, 2006

(Amounts in thousands)

		Capital Fund	Cash Fund	Total
Additions:				
Contributions:				
State employees	$	—	409,515	409,515
State teachers		—	527,820	527,820
Other participants		—	759,088	759,088
Total contributions		—	1,696,423	1,696,423
Net investment income:				
From investment activities:				
Net realized gain on investments and foreign currency transactions		2,778,722	(125)	2,778,597
Net change in unrealized appreciation on investments and foreign currency translations		1,574,445	—	1,574,445
Interest income		539,550	4,167	543,717
Dividend income, net		443,324	—	443,324
Real estate income, net		221,538	—	221,538
Timber income, net		27,389	—	27,389
Alternative investment income, net		55,706	—	55,706
		5,640,674	4,042	5,644,716
Management fees		(165,737)		(165,737)
Net income from investment activities		5,474,937	4,042	5,478,979
From securities lending activities:				
Securities lending income		11,908	—	11,908
Securities lending expense		(24,444)	—	(24,444)
Net expense from securities lending activities		(12,536)	—	(12,536)
Total net investment income		5,462,401	4,042	5,466,443
Total additions		5,462,401	1,700,465	7,162,866

(Continued)

Schedule of Changes in Pooled Net Assets – Capital Fund and Cash Fund, continued

June 30, 2006

(Amounts in thousands)

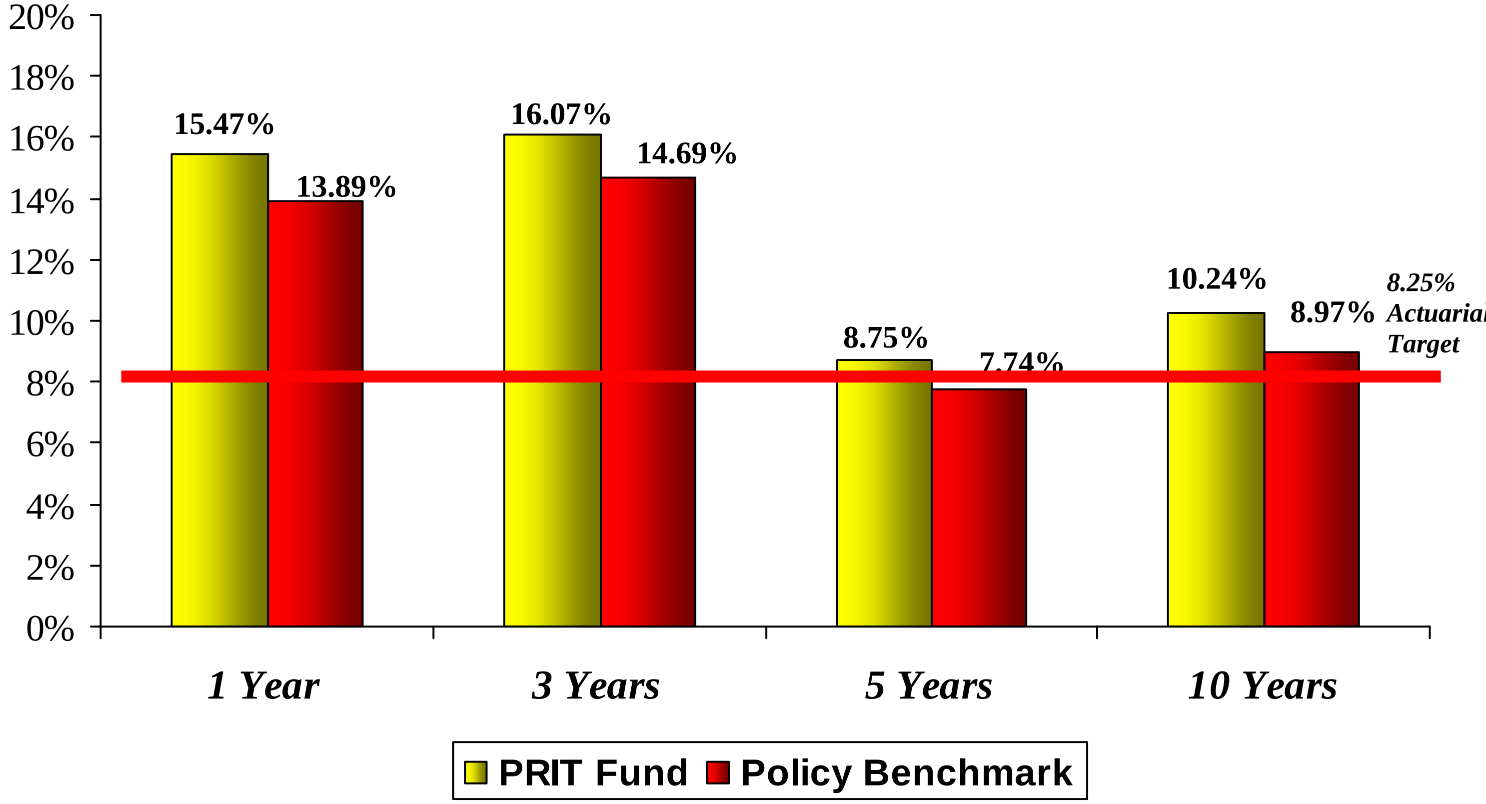
		Capital Fund	Cash Fund	Total
Deductions:				
Redemptions:				
State employees	$	—	820,386	820,386
State teachers		—	629,059	629,059
Other participants		—	108,577	108,577
Total deductions		—	1,558,022	1,558,022
Interfund transfers		125,801	(125,801)	—
Net increase in pooled net assets		5,588,202	16,642	5,604,844
Net assets held in trust for pool participants:				
Balance, beginning of year		36,270,362	49,845	36,320,207
Balance, end of year	$	41,858,564	66,487	41,925,051

See accompanying independent auditors’ report.

Investment Section

Total PRIT Fund Performance Summary *

For the periods ended June 30, 2006



* Gross of Fees. Total PRIT Fund includes Capital Fund and Cash Fund.

Investment Strategy Overview

The PRIT Fund was formed in December 1983 with a mandate to build up assets through investment earnings to reduce the Commonwealth of Massachusetts' unfunded pension liability and, further on, to assist local participating retirement systems in meeting their future pension obligations. The PRIM Board is charged with the general oversight of the PRIT Fund. PRIM seeks to maximize the return on investments within acceptable levels of risk by broadly diversifying its investment portfolio, capitalizing on economies of scale to achieve cost-effective operations, and providing access to high quality, innovative investment management firms, all under the management of a professional staff and members of the Board. The PRIM Board's overall investment performance goal is to achieve an annual rate of return that exceeds the targeted actuarial rate of return used in determining the Commonwealth of Massachusetts' pension obligations (currently 8.25%). A summary of other investment objectives is provided in the Investment Policy Statement at the end of this section.

Professional investment managers selected by the PRIM Board manage the PRIT Fund's investments. Each manager has a detailed investment management agreement with investment guidelines and policies. As of June 30, 2006, PRIM employed twenty-eight public markets investment managers, approximately eighty private equity markets managers, ten real estate and timber managers, five absolute return managers, and four external investment consultants. The PRIT Fund had approximately $41.9 billion in assets under management at June 30, 2006.

The PRIT Fund's net investment portfolio fair values reported in this section and used as a basis for calculating investment returns differ from those shown in the Financial Section of this report. The values used in this section are the appropriate industry standard basis for investment return calculation, and are net of all investment receivables and payables. In addition, "PRIT Core" return information refers to returns for the PRIT Capital Fund. PRIT Core return information excludes the impact of the Cash Fund on the total PRIT Fund return. Unless otherwise noted, all return information provided is gross of fees.

Asset Allocation and Diversification Discussion

The Investment Policy statement adopted by the PRIM Board in September 1998 requires that the Trustees undertake a comprehensive review of the PRIM Board's Asset Allocation Plan and its underlying assumptions at reasonable intervals of not more than three to five years. In addition, the Investment Policy statement requires that the Trustees conduct an annual evaluation of the PRIT Fund's asset allocation. The purpose is to determine whether adjustments to the Fund's structure are necessary due to any changes in the capital market assumptions, the plan's liability assumptions, the Board's risk tolerances, or in the Fund's investment objectives. The PRIM Board's last comprehensive review of the PRIT Fund asset allocation was conducted during the middle of fiscal year 2006 with the following objectives: first, the Board sought to achieve a return equal to or better than the actuarial rate of return set forth by the State Legislature; and second, to decrease the portfolio risk by reducing volatility through greater diversification. The expected return, standard deviation, and correlation numbers used for existing and potential asset classes in the optimization process were thoroughly reviewed and formally agreed upon.

In February of 2006, the Board agreed to not add any new asset classes to the PRIT Fund, but instead agreed to add new investment techniques. Accordingly, the Board voted to implement a 5% Portable Alpha strategy within the domestic equity portfolio. Other notable changes included a reduction of high yield debt from 9% to 5%, a reduction in the timber target from 5% to 4% and an increase in the international equity target from 15% to 20% reflecting the world equity market capitalization weighting. The PRIT Fund's long-term asset allocation and actual asset allocation at June 30, 2006 is highlighted in the following table. The long-term expected rate of return of the PRIT Fund from this asset allocation review was revised to 8.30%, up from the expected 8.14% if no changes were made. These approved changes build upon the significant asset allocation changes approved in 2003 and implemented over the past 2 years. The expected risk of the PRIT Fund, as measured by standard deviation, is 11.65% down significantly from an expected risk of 12.75% in 2003.

Asset Class	6/30/2006 Allocation %	2006 Long-Term Policy Target %
U.S. Equity	27.5	26
International Equity	19.8	20
Emerging Markets Equity	5.9	5
U.S. Bonds	10.3	10
TIPS	5.1	5
High Yield & Emerging Mkt Debt	5.3	5
Real Estate	11.0	10
Alternatives - Private Equity	6.5	10
Timber	3.5	4
Absolute Return	5.1	5

In addition to asset class allocation, the PRIM Board seeks to diversify the PRIT Fund through a diversification of investment styles in various asset classes. Investment managers are selected to achieve appropriate style diversification within the asset class. The PRIM Board also develops detailed investment guidelines with each investment manager to ensure portfolios are diversified at the individual manager level ensuring limits are placed on concentrations in any one security or sector. Further discussion on diversification within each asset class is provided in the detailed discussions on each portfolio provided in this section.

Income and Expense Allocation

Income earned and expenses incurred in each investment account are allocated to retirement systems based upon the individual retirement system's percentage of unit ownership in each account. Retirement systems may purchase and withdraw units in PRIT Fund investment accounts. Any retirement system that wishes to purchase units within available investment accounts must do so on the first business day of the month. Expenses are classified into three categories for purposes of allocation to retirement systems: 1) investment management fees, 2) targeted consultant fees and 3) operational fees. Investment management fees shall be those directly associated with the investment management of a certain account. Targeted consultant fees are those fees that are directly associated with a consultant for a certain account, except for the general consultant, whose fee is assessed on a proportionate basis across each separate account. Operational fees are the administrative, custodian and other operational expenses incurred by the PRIM Board in managing the PRIT Fund and are allocated pro-rata based on net asset values of each investment account.

The Year in Review – The World Markets

Looking back at the fiscal 2006 year as a whole, you might get the impression that the double-digit year in the global equity markets was a walk in the park. Upon closer inspection of the monthly and quarterly data, however, it is clear that there were periods of significant stress on both the U.S. economy as well as the global markets. Hurricanes, energy inflation, rising interest rates and continued uncertainty around the war in Iraq were all potential barriers to a successful year and yet, in the end, were more like speed bumps to the powerful U.S. economy driven by both a confident corporate sector and strong consumer demand. As fiscal 2005 drew to an end, the markets began to surge on increasing optimism in both corporate and consumer America. Despite some profit taking at the end of fiscal 2005, there was some significant positive economic data that carried over into fiscal 2006.

The fiscal 2006 year burst onto the scene as July set a strong tone with Q2 earnings, jobs and manufacturing data all pointing to a stronger economic picture than most of us realized. The only flies in the ointment at this point seemed to be robust energy prices and a Fed in the midst of a tightening cycle. Oil had closed out in June of 2005 at $56.50, a recent high which would turn out to be the low for the coming fiscal year and gasoline had surged to just over $2.18 per gallon while the FOMC raised the fed funds rate 25 basis points to 3.50%. With the dollar at six-month lows, global markets boomed. Developed international equity markets were up over 3% in the opening month and emerging markets up over 7%. Everything appeared to be firing on all cylinders when the U.S. economy ran into a buzz saw named "Katrina". Gasoline was already up about 40 cents a gallon when the devastating hurricane hit the Gulf Coast and its refineries. Beyond any economic impact was the obvious human toll with thousands dead and missing and hundreds of thousands fleeing to surrounding areas. The chaotic weeks to follow put a temporary damper on the economy as well as the optimism of Americans everywhere. But, just as the storm clouds disappeared and the waters receded, America again showed its compassion and resilience by coming to the aid of our neighbors to the south. By the end of September and the first fiscal quarter of fiscal 2006 the markets had shaken off any short-term setbacks dealt by Katrina and a second weaker storm named Rita. The U.S. economy was gaining momentum that would not be shaken by even one of the worst natural disasters in the nation's history. Americans seemed to be ignoring $69 oil and wage growth was chugging along at 6.6% year over year, GDP on a 3.8% annual pace and consumer and business spending up 3.9% and 6.2% respectively. All this with continued stronger than expected job growth and a whopping $4 trillion in capital gains over the trailing year (55% from real estate) prompted a booming September quarter both home and abroad. Growth and small caps generally dominated the U.S. equity markets for the quarter. Although calendar YTD, value and mid-caps held a decisive advantage. Energy led all S&P sectors up 17.8% for the quarter while Telecomm lagged the pack at -1.96%. On the back of a weaker dollar the MSCI EAFE and MSCI Emerging Markets Free indices were extremely strong with returns of 10.42% and 17.94% respectively. The 10-year Treasury bond soared 35 points to 4.34% over the quarter which kept bonds in reverse with the Lehman Aggregate down -0.67%. Tips were flat and the Merrill Lynch High Yield Master II was up just 92 basis points.

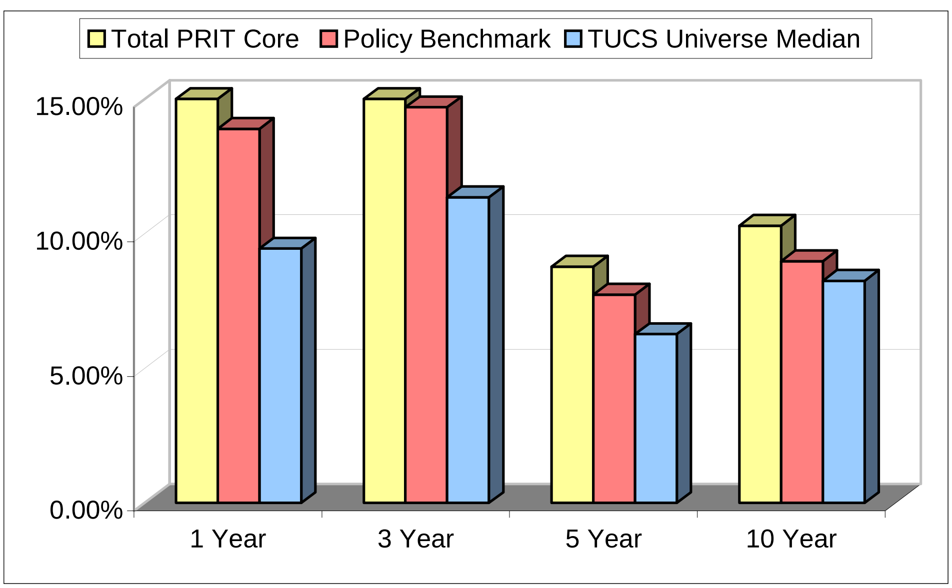
In October of 2005, the 2nd fiscal quarter began with less optimism than the prior quarter as the Gulf-states were still reeling from Katrina and some of its aftershocks in the energy markets. The expectation of further rate hikes amidst continued climbing energy costs and the daunting task of rebuilding the Gulf-states were all factors in consumer confidence slumping to a 13 year low. The dollar strengthened and the yield curve flattened as the 10-year Treasury surged another 20 basis points in October, and profit-taking was the prevailing trend globally. Despite 14% growth in U.S. earnings versus the prior year and oil pulling back below $60 per barrel, the domestic equity markets also suffered. The dark clouds cleared quickly in November and markets boomed once again. Drops in energy prices, inflation and corporate inventories pointed to good times ahead and the robust corporate expansion resumed, fueling a rebound in consumer sentiment as well as investor optimism. Bonds rose slightly on a small drop in the 10 year treasury and equities rose across board an average of 4% during November. Although the backdrop continued to brighten as the quarter and 2005 came to a close, December had lackluster results domestically due to a drop in the last week, while overseas markets continued to soar. The FOMC's hike in rates to 4.25% caused the first inverted yield curve since 2000 and came with hints of an end to the tightening cycle. Performance of the markets in December was flat and modest domestically for the quarter due to mixed economic signals. Payrolls and productivity rose yet again to close out the calendar year but consumer spending slowed significantly in the December quarter down to 1.1% growth from 4.1% and corporate spending also slowed from 8.5% growth to 2.8%. On the flip side, inventories and factory orders surged indicating some firmness beneath the surface. In general, large caps and growth were slightly stronger for the quarter, although small and mid-caps as well as value dominated the calendar year 2005. Materials and financials led the S&P sectors, up 10.6% and 7.5%, respectively, while energy (-7.7%) and utilities (-6.3%) lagged the group. There was strong global demand for U.S. Treasuries due to higher U.S. rates and an abundance of petro-dollars to invest, finally giving bonds a positive month, quarter and year in December, with high yield bonds doing only slightly better. Internationally, Japan and Europe continued to show improvement in productivity and employment while weaker currencies propelled exports from the regions. The MSCI EAFE was up a solid 4.12% for the quarter, outpacing the U.S. indices and the MSCI Emerging Markets Free Index had a stellar 7.16% return for the quarter.

January 2006 opened what would be a very strong third fiscal quarter with a bang. Even as data of a December quarter slowdown trickled in, the economic expansion would continue into the quarter. Strong corporate earnings, a moderate but choppy rise in energy prices, a five-year low in the unemployment rate (4.7%) and the 14^{th} & 15^{th} consecutive increases in the fed funds rate all provided a backdrop to a terrific quarter in the capital markets. The U.S. economy grew at an annual rate of 5.3% in the first calendar quarter. Personal income and a robust job market with 590,000 new jobs in quarter drove consumer spending and confidence to recent highs and demand that maintained the brisk cycle of production and re-investment from U.S. corporations. The FOMC's new chairman, Bernanke, hinted the end of the tightening cycle even as rates went to 4.75% in an effort to stave off inflation driven by high energy and labor costs. Many pundits began to proclaim a "Goldilocks" economy, with inflation, growth and interest rates being "just right". The equity markets were torrid in January, flat in February and solid in March to round out great quarter. Overall, small caps ruled the day, more so in growth stocks, while the weaker large caps were clearly dominated by value. Most small caps produced double digit returns such as the Russell 2500 up 11.14% and the Russell 2000 up 13.94%, while the S&P was up a mere 4.2% for the quarter. Only the S&P REIT index was better at 15.04%. Telecomm and Energy led the S&P sectors up 13.4% and 8.6%. On the down side, Utilities were the only negative group, down -2.05%. Internationally, the Nikkei hit a 5-year high with the Japanese economy firing on all cylinders and unemployment down to 4.1%. Europe's recovery was also making great strides despite an 8% unemployment rate and the ECB raising rates to a whopping 2.5%. The MSCI EAFE had stellar performance up 9.47% for the quarter. Meanwhile, in the emerging markets, you have China growing at a 10% clip and other developing nations booming on global demand for commodities. Consumers continued to feel the pinch at the pumps with gas around the $2.50 mark and crude oil closed out the March quarter at $66.63, up from December, but barely above the September 30^{th} level. Fixed income suffered again for the quarter as the 10 year treasury moved to a two-year high of 4.86% and the Lehman Aggregate was down 65 basis points, yet the Merrill Lynch High Yield Index was up 2.65% for the quarter.

The fourth and final fiscal quarter beginning in April of 2006 began on a positive note with strong jobs and wages data, up 138,000 and 3.8% respectively and the 10 year Treasury bond rose to 5.05%. The domestic markets were mostly up in April with the S&P 500 up 1.34%, although some growth indices were actually down, at trend in growth that would continue through the April quarter and into July. Emerging markets and developed international markets soared as the dollar fell against the Euro and Yen. In May, with the housing market showing more signs of a slowdown, mortgage rates rising, the Fed raised short-term rates to 5%. New jobs had slowed down but unemployment was still at a recent low of 4.6% and the CPI was at an annual clip of 5%, which is not surprising with oil over the $70 mark. The markets, both domestic and foreign gave back all the gains from April and then some. Bonds posted losses for the month, quarter and year to date with the 10 year rising to 5.13%. New Fed chairman Bernanke now faced the quandary of raising rates at the risk of a further slowdown. By the end of June it was apparent that growth and consumer spending were slowing as were home prices, jobs and corporate expansion. Despite mounting evidence of a broad slowdown, the FOMC voted to raise rates a 17th time, up .25% to 5.25%. The June quarter and fiscal year closed with unemployment at 4.6%, oil at $73.93, gasoline at a $2.87 average, the 10 year treasury at 5.15% leaving the yield curve inverted. June's flat and negative returns left the markets down for the quarter with the exception of the Dow, which was up 1.27%. The 1 year trailing numbers were very strong and in many cases, up double digits. Value and Large cap stocks led growth and small caps by a wide margin for the quarter, but for the fiscal year ending June 30th small caps still had the advantage with the Russell 2000 up 14.54% versus the S&P 500 up 8.64%. Utilities and energy led the S&P sectors for the quarter up 4.73% and 3.85% respectively, while information technology and healthcare lagged the group at -9.78% and -5.39%. Not surprisingly, energy also led for the year up 12.78%. Internationally, the dollar had dropped against the Euro and the Yen for both the quarter and year to date. Despite losing -4.31% for the quarter the MSCI Emerging Markets Free index was up 35.76% for the year. The MSCI EAFE had a flat quarter and was up 27.04% for the fiscal year ending June 30th. Bonds obviously struggled mightily with losses for the quarter and the year. The Lehman Aggregate was down -0.81% for the fiscal year and the Lehman Government Index was down -1.16%. The riskier high yield market faired much better as the Merrill Lynch High Yield Index was up 4.63%.

PRIT CORE PERFORMANCE: FISCAL YEAR 2006

PRIT Core Returns (gross of fees) and benchmarks for the periods ended June 30:



In the fiscal year 2006, the PRIT Core returned 15.49%, surpassing the policy benchmark return of 13.89%, by 160 basis points. The performance in fiscal 2006 has vaulted PRIM into the top 1% of all US Public Pension Funds over $1 billion in size for the past year according to the Trust Universe Comparison Services (TUCS).

This is an improvement over the previous fiscal year when the PRIT Fund was in the top 5% for the one year period. Over the long-term span of ten-years the PRIT Core Fund placed in the Top 2% of its peers nationwide with an annualized return of 10.29%. The PRIT Fund's fiscal year return is evidence of the importance of a long-term investment policy that builds on a foundation of diversification and as well as quality manager selection and due diligence.

The PRIT Fund began fiscal year 2006 with a net asset value of $36.32 billion and ended with $41.93 billion. On a gross basis the fund was up approximately $5.61 billion, which is the result of $5.47 billion in investment income plus $138 million in net contributions from the State Employees, State-Teachers' and Participant accounts.

The returns for the first three quarters of fiscal 2006 were positive with the fourth fiscal quarter posting a very small loss in the face of some larger losses in the major markets worldwide. The quarterly returns of the PRIT Core in fiscal year 2006 were as follows:

- 5.53 % for September 30, 2005 – versus a benchmark return of 5.06 %.
- 3.67 % for December 31, 2005 – versus a benchmark return of 2.75 %.
- 5.66 % for March 31, 2006 – versus a benchmark return of 5.47 %.
- -0.10 % for June 30, 2006 – versus a benchmark return of 0.03 %.

All of PRIT's asset classes had positive returns for the fiscal year with the exception of Fixed Income (-0.38%) which had negative contributions from the investment grade portfolio as well as from the TIPS and commodities portions of the portfolio. Leadership shifted this year to Alternative Investments - Private Equity with a hefty 39.06% return. Emerging Markets followed closely with another stellar year at 36.83%. International Equity and Real Estate followed with gross returns of 27.29% and 24.61%, respectively. The remaining asset classes had positive returns in fiscal year 2006 as follows: Timber 20.73%, Absolute Return 11.21%, Domestic Equity 9.54% and High Yield Debt 6.10%.

During fiscal year 2006, 69% of PRIM's active public markets managers outperformed their individual benchmarks. Over the past three years, a whopping 88% of PRIM's active public markets managers outperformed their benchmarks. A trademark of a successful pension fund is its ability to select managers that outperform their benchmarks in both bull and bear markets. PRIM Board and staff are proud to point out that over both short and long periods of time, the PRIT Fund's relative performance continues to compare favorably to the policy benchmark. It is also important to note that the PRIT Fund has outperformed its benchmark with incredible consistency. For the three-year period ending June 30, 2006, PRIT Core had an annualized return of 16.10%, exceeding the interim policy benchmark by 141 basis points. During the five-year period ending June 30, 2006 the PRIT Core return of 8.77% outperformed the policy benchmark by 103 basis points per year and over ten years the PRIT Core returned 10.29%, 132 basis points above the benchmark.

Management Costs

Expenses incurred by the PRIM Board in overseeing the management of the PRIT Fund are charged to the PRIT Fund in the form of management fees. These costs include investment management fees, consultant fees, custodian fees as well as the professional fees, salaries and administrative expenses of PRIM.

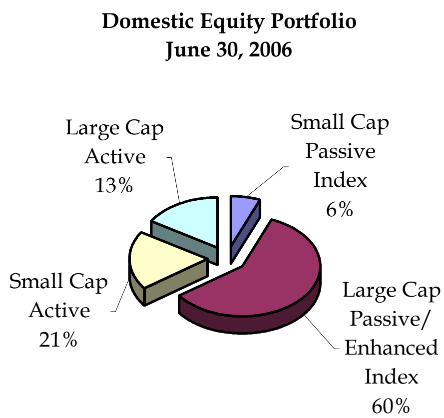
PRIM employs professional investment managers and provides them discretion, consistent with specified objectives and guidelines, to manage the PRIT Fund's assets. Investment managers operate under formal contracts that delineate their responsibilities and performance expectations. Approximately 94.1% of PRIM's total budget for fiscal 2006 was allocated to investment management fees. PRIM also employs an outside custodian, investment consultants, and other professional services providers in managing the PRIT Fund. Approximately 3.4% of PRIM's operating budget for fiscal year 2006 was allocated to fees for these professional services.

The PRIT Fund also incurs indirect management costs as a result of investing in alternative investments, absolute return, real estate and timber assets. Most investment management fees for alternative investments are charged by managing general partners to investment partnerships and not to the limited partner investors (e.g., PRIM) directly. Therefore, partnerships incur expenses and report income to the limited partners *net* of these fees. All investment management fees for absolute return are charged to the underlying investment funds. The majority of management fees for real estate and timber investments are charged in a similar manner, not to investors directly. Most pension funds do not disclose these indirect management fees as part of their overall costs. PRIM continues to disclose all investment management fees, including those charged at the partnership level, as part of the cost of managing the Fund.

The total cost of managing the PRIT Fund for fiscal year 2006, *inclusive* of all investment management (direct and indirect), consulting, custodial and overhead charges was 63 basis points of the average net asset value of the PRIT Fund compared to 52 basis points in fiscal year 2005. *Excluding* indirect management fees (as most public pension funds report), the cost of managing the PRIT Fund was 41 basis points compared to 30 basis points in fiscal year 2005. While fees can vary from year to year due to the nature of performance-based fees at PRIT, the increase in the FY'06 fees over the prior years' fees can be traced to two significant factors. The first and most pervasive reason that fees have risen is due to an increase in performance fees related to the PRIT's real estate and timber investments. The good news is that these higher fees are the direct result of strong performance. The second factor is an increase in asset allocation to more active investment strategies. In FY '06, PRIT allocated approximately $3.0 billion to enhanced equity index strategies away from a traditional passively managed S&P 500 EX Tobacco account and approximately $720 million to actively managed Global Inflation Linked Bonds and Commodities strategies away passively managed TIPS investments. For information on expense ratios for each investment account, refer to the *Financial Highlights* ratios on pages 98-103 included in the Statistical Section of this report.

Domestic Equity Portfolio

As of June 30, 2006, the domestic equity portfolio had approximately $11.5 billion in net assets, which represented 27.5% of the PRIT Capital Fund. Approximately 75% of the domestic equity portfolio is invested utilizing a large capitalization stock ("large cap stocks") strategy and 25% utilizing a small capitalization stock ("small cap stocks") strategy, reflecting the composition of the total domestic equities market. In the view of the PRIM Board and its advisors, the overall domestic equity portfolio is highly diversified and balanced. The portfolio is allocated into passively managed accounts and actively managed accounts. The allocation between passively managed investments and actively managed investments is highlighted below.



Style Neutrality. Because different styles (i.e. growth oriented versus value oriented stocks) of investment management are favored in different economic and market environments, and because of the Board's long-term perspective, the Board seeks to maintain a style neutral portfolio

Portfolio Risks. Although historically long-term returns in equities investments have exceeded all other public market asset classes (i.e., fixed income and cash), there is no guarantee that this trend will continue or that investment in the short-term or long-term will produce positive results. Prices may fluctuate based on changes in a company's financial condition and on overall market and economic conditions. Smaller companies are especially sensitive to these factors. There is a significant risk of loss of principal due to market and economic conditions.

For the fiscal year, the portfolio produced a 9.54% return compared to 9.92% for the portfolio benchmark, the Dow Jones Wilshire 5000 index. PRIT's large cap managers returned 8.22% compared to the 8.53% return of the large cap benchmark S&P 500 index (ex-tobacco). The small cap managers returned 13.07% for the year versus 14.04% in the Dow Wilshire 4500 benchmark.

The large cap component of the Domestic Equity portfolio is 75% of the total Domestic Equity portfolio, and the small capitalization component represents the remaining 25%. While large cap is roughly 80% passively managed and the small cap portfolio is close to 25% passive, the portfolio as a whole is close to 65% passively managed. The PRIT fund's investment strategy for Domestic Equity is to be neutral to the market with respect to capitalization weightings.

During the year, the passive large cap manager outperformed the index. In addition, three enhanced index managers were added to the portfolio. Of the large cap active managers, one manager outperformed and two underperformed their benchmarks. The one small cap passive manager underperformed its benchmark. Of the eight small cap active managers, five managers outperformed their benchmarks while three underperformed.

On a three- five- and ten-year basis through June 30, 2006, PRIT's Domestic Equity portfolio has beaten its benchmarks, returning 13.06%, 4.33%, and 9.11%, respectively, compared to the Dow Wilshire 5000 index, which returned 12.94%, 4.00%, and 8.44%, respectively.

The top ten holdings in the domestic equity portfolio at June 30, 2006 are illustrated below. A complete listing of holdings is available upon request.

#	Issue Name		Market Value ($'000s)	% of Account Market Value
1	Exxon Mobil Corp.	$	167,749	1.46%
2	General Electric		163,707	1.42%
3	Citigroup Inc.		138,398	1.20%
4	JPMorgan Chase & Co.		113,848	0.99%
5	Bank of America Corp.		109,657	0.95%
6	Microsoft Corp.		107,083	0.93%
7	Proctor & Gamble Co.		98,925	0.86%
8	Pfizer Inc.		97,255	0.84%
9	Google Inc.		94,753	0.82%
10	Johnson & Johnson Co.		85,357	0.74%
	TOTAL:	$	1,176,732	10.22%

The PRIT Fund's domestic equity managers at June 30, 2006 are highlighted in the following table:

Domestic Equity

Manager	Investment Mandate		Portfolio Market Value at June 30, 2006 ($000's)
State Street Global Advisors	S&P 500 Index	$	3,555,484
State Street Global Advisors	Small Cap Index		717,045
Legg Mason Capital Management, Inc,	Large Cap Value		817,716
Gardner Lewis	Large Cap Core/Growth		308,465
NWQ	Large Cap Value		354,364
Goldman Sachs Asset Manaagement	S&P 500 Enhanced Index		1,054,397
Intech	S&P 500 Enhanced Index		1,046,375
PIMCO	S&P 500 Enhanced Index		1,039,260
AXA Rosenberg Investment Management	Small Cap Value		320,118
Numeric Investors, LP	Small Cap Growth		298,686
Wellington Management Company	Small Cap Core		301,017
Lazard Asset Management	Small Cap Value		303,140
Ariel Capital Management LLC	Small Cap Value		247,955
Earnest Partners	Small Cap Value		280,913
Mazama Capital Management	Small Cap Growth		282,024
Putnam Advisory Company	Small Cap Value		286,697
*Other portfolio net assets **			303,123
Total Portfolio Market Value June 30, 2006		**$**	**11,516,779**

* Other portfolio net assets include $217 million in investments managed by State Street Global Advisors in a transition account.

International Equity Portfolio

As of June 30, 2006, the PRIM Board invested $8.3 billion in the International Equity Portfolio, representing 19.8% of the PRIT Capital Fund. This portfolio is benchmarked against the MSCI EAFE index, whose name is derived from the geographical areas of inclusion – Europe, Australia and the Far East. The EAFE portfolio is allocated to one passively managed account (32% of the portfolio) and three actively managed accounts (68% of the portfolio).

The primary strategy for this portfolio is investing in companies in developed market, industrialized nations outside of the United States, including, but not limited to Japan, Germany, the United Kingdom, France, Italy, Switzerland, Hong Kong, Canada, and Australia. In February of 2006, the PRIM Board voted to increase the International Equity allocation from 15% to 20% of the Total PRIT Capital Fund, and to reduce the passive exposure to 25%. This additional 5% allocation to international equity resulted in a manager search that commenced during the fiscal year. During the search period PRIM gained EAFE exposure via futures contracts overseen by PRIT Capital Fund's Transition Manager, State Street Global Markets.

Portfolio Risks. Investing in developed markets outside of the United States carries additional risks as compared to U.S. domestic investments. The added risks are primarily associated with currency; higher trading and settlement cost; and less stringent investor protections and disclosure standards.

For the fiscal year ending June 30, 2006, the International Equity portfolio returned 27.29% compared to the MSCI EAFE index return of 26.56%. All of the PRIT Capital Fund's international equity managers, both active and passive, outperformed the MSCI index for the fiscal year. Over the longer-term, PRIT's international equity managers continue to add significant value over the benchmark. On a three- five- and ten-year basis through June 30, 2006, PRIT's international equity managers posted returns of 24.43%, 10.62%, and 9.75%, respectively, ahead of the MSCI EAFE index, which returned 23.94%, 10.02%, and 6.39% over the same periods.

The top ten holdings in the international equity portfolio at June 30, 2006 are illustrated below. A complete listing of holdings is available upon request.

#	Issue Name	Market Value ($'000s)	% of Account Market Value
1	Glaxosmithkline	$ 101,612	1.22%
2	Total SA	91,649	1.10%
3	British Petroleum PLC	88,970	1.07%
4	Royal Bank of Scotland	69,753	0.84%
5	UBS	68,762	0.83%
6	Novartis	66,257	0.80%
7	Royal Dutch Petroleum	65,826	0.79%
8	Mitsubishi UFJ Financial	63,124	0.76%
9	Sanofi-Aventis	61,651	0.74%
10	HSBC	57,415	0.70%
	TOTAL:	$ 735,019	8.85%

The PRIT Fund's international equity managers at June 30, 2006 are highlighted in the following table:

Manager	Investment Mandate	Portfolio Market Value at June 30, 2006 ($000's)
Marathon Asset Management Ltd.	EAFE Benchmark	$2,476,095
State Street Global Advisors	EAFE Index	2,638,016
Ballie Gifford	EAFE Benchmark	1,062,010
The Boston Company	EAFE Benchmark	1,054,651
State Street Global Advisors	EAFE Transition	1,070,069
Other portfolio net assets		2,868
Total Portfolio Market Value June 30, 2006		**$8,303,709**

Emerging Markets Portfolio

As of June 30, 2006, the PRIM Board invested approximately $2.5 billion in the Emerging Markets Equity Portfolio, representing 5.9% of the PRIT Capital Fund. This portfolio is benchmarked against the MSCI Emerging Markets Net Dividends index, which broadly covers the developing world. The emerging markets equity portfolio is allocated to three active managers, one of whom was hired during the fiscal year.

The primary strategy for this portfolio is investing in companies in developing countries, which include China, Brazil, Russia, South Korea, Taiwan, India and Egypt. These countries typically have less efficient securities markets, and thus there is opportunity for substantial returns. In February 2006, the PRIM Board terminated a temporary passive mandate with SSGA, and hired T Rowe Price to manage Emerging Markets Equity assets. These moves were as a result of a PRIM Board decision to be 100% active in the asset class.

Portfolio Risks. Investing in emerging markets carries risks above and beyond those inherent to domestic and developed international equity markets. Emerging markets tend to be less efficient than both US and non-US developed markets, and therefore, are more volatile. In addition to the added volatility, and those risk mentioned in association with investments in developed international equity markets, emerging market investments are subject to economic and political risks; exchange control regulation; expropriation; confiscatory taxation; and social instability.

For the fiscal year, the emerging markets equity portfolio returned 36.83% compared to the MSCI Emerging Markets Net Dividends index return of 35.47%. Two of three current emerging markets equity managers have a full fiscal year of performance, and both exceeded the benchmark for the time period. T Rowe Price was hired in February 2006, and thus does not have a full fiscal year of performance to report on. Over the longer-term, PRIT's emerging markets equity managers continue to add significant value over the benchmark. On a three- five- and ten-year basis through June 30, 2006, PRIT's emerging markets equity managers posted returns of 36.43%, 21.62%, and 10.10%, respectively, ahead of the MSCI Emerging Markets Net Dividends index, which returned 34.45%, 21.37%, and 6.81% over the same periods.

The top ten holdings in the emerging markets portfolio at June 30, 2006 are illustrated below: A complete listing of holdings is available upon request.

#	Issue Name	Market Value ($'000s)	% of Account Market Value
1	Samsung Electronics	$ 108,591	4.42%
2	Kookmin Bank	74,323	3.03%
3	Lukoil	72,501	2.95%
4	Petroleo Brasileiro	70,216	2.86%
5	EMM EMSAF-Mauritus Fund	68,079	2.77%
6	Hon Hai Precision	46,896	1.91%
7	Taiwan Semiconductor	45,110	1.84%
8	Sasol LTD	41,321	1.68%
9	China Mobile LTD	39,740	1.62%
10	Petroleo Brasileiro Preferred	37,789	1.54%
	TOTAL:	$ 604,566	24.62%

The PRIT Fund's emerging markets equity managers at June 30, 2006 are highlighted in the following table:

Manager	Investment Mandate	Portfolio Market Value at June 30, 2006 ($000's)
Emerging Markets Management	Value/Frontier	$ 1,113,773
Grantham, Mayo, Van Otterloo & Co. LLC	Value	1,109,708
T. Rowe Price	Growth	224,714
Other portfolio net liabilities		6,956
Total Portfolio Market Value June 30, 2006		**$ 2,455,151**

Fixed Income Portfolio

The PRIM Board invested approximately $6.5 billion in the investment grade Fixed Income Portfolio, representing 15.4% of the PRIT Capital Fund as of June 30, 2006. The Fixed Income Portfolio is invested using the following strategies:

- 16% in a Lehman Brothers Aggregate passively managed index fund;
- 49% in actively managed Lehman Brothers Aggregate core portfolios;
- 20% in Treasury Inflation Protected Securities (TIPS);
- 14% in Global ILB/Commodities portfolio.
- 1% in an Economically-Targeted Fixed Income Portfolio

The fixed income portfolio is benchmarked to the Lehman Brothers Aggregate Bond Index (LB Agg) for core fixed income securities, the Lehman Brothers U.S. TIPS Index for U.S. TIPS securities, and the Barclays World Index (USD Hedged) + the DJ-AIG Excess Return Index for the Global ILB/Commodities portfolio. The Lehman Aggregate replicates the investment grade bond market. The index is comprised of corporate, government, and mortgage-backed securities. The index fund is designed to approximate the performance of the LB Agg Index, while the active managers' mandate is to exceed the index return. The core strategy is designed to reduce the long-term volatility of the overall portfolio. The core portfolio also contains an investment with Access Capital under the PRIM Board's Economically Targeted Investment (ETI) program. This portfolio is benchmarked against a customized 80% Merrill Lynch 30 Year Mortgages/20% Merrill Lynch 1-10 Year US Treasuries benchmark. Further discussion on the PRIT Fund's ETI investment program is included in the Investment Policy Statement at the end of this section. The allocations to TIPS and to the ILBs + Commodities strategy are designed to provide hedges against rises in inflation.

Portfolio Risks. As in the case of equities, the prices of fixed income securities increase and decrease in value. Price fluctuations in bonds result from rising and falling interest rates, changes in market conditions, and other economic and political developments. The portfolio is subject to credit risk through defaults on bonds and other fixed income securities. Although investment in the core fixed income portfolio is perceived as a "conservative" investment, erosion in principal value can result from credit risk and price fluctuations, and can adversely affect portfolio returns.

For the fiscal year 2006, the Fixed Income composite return of -0.38% beat the benchmark (67% LB Agg/20% Lehman US TIPS/13% Custom Commodities index), which was -1.37%. The Total Core portfolio returned -0.34%, beating the benchmark return of -0.81%. PRIT's TIPS manager, Barclays, achieved a -1.51% return versus the Lehman US TIPS benchmark return of -1.64%, while the ETI manager, Access Capital, returned -0.90% versus the benchmark return of 0.21%.

Seven of the top ten holdings in the fixed income portfolio at June 30, 2006 were all TIPS issues. The top ten holdings, excluding TIPS investments and certain pooled funds, are illustrated below. A complete listing of holdings is available upon request.

#	Issue Name		Market Value ($'000s)	% of Account Market Value
1	U.S. Treasury Notes 4.000% March 2010	$	139,356	2.16%
2	TBA FNMA MTG 5.000% July 2036		131,793	2.04%
3	FHLMC Pool #G0-1994 5.000% December 2035		84,212	1.31%
4	CS FOB CAT 1 REPO		63,200	0.98%
5	TBA FNMA MTG 5.000% July 2021		61,831	0.96%
6	U.S. Treasury Notes 3.375% February 2007		61,319	0.95%
7	FNMA Pool #0735224 5.500% February 2035		52,492	0.81%
8	FHLB Discount Note July 2006		49,780	0.77%
9	U.K. Treasury Index-Linked 2.500% July 2016		43,873	0.68%
10	U.S. Treasury Notes 4.500% February 2011		39,309	0.61%
	TOTAL:	$	727,165	11.27%

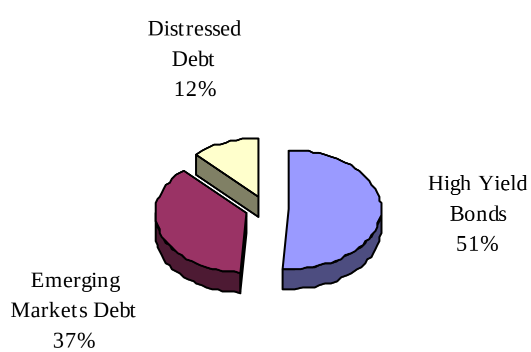
The PRIT Fund's fixed income portfolio managers at June 30, 2006 are highlighted in the following table:

Manager	Investment Mandate	Portfolio Market Value at June 30, 2006 ($000's)	
Barclays Global Investors	Core Index	$	1,011,226
Barclays Global Investors	TIPS		1,282,720
PIMCO	Active Core		1,086,484
Blackrock Financial Management	Active Core		1,037,732
Loomis, Sayles & Co., LP	Active Core		1,075,206
Blackrock Financial Management	Inflation Link Bonds/Commodities		496,837
Bridgewater Associates	Inflation Link Bonds/Commodities		381,045
Access Capital	ETI		76,442
Other portfolio net assets			5,214
Total Portfolio Market Value June 30, 2006		**$**	**6,452,906**

High Yield Portfolio

The PRIM Board invested approximately $2.2 billion in the High Yield Portfolio, representing 5.3% of the PRIT Fund as of June 30, 2006. In February 2006, the Board voted to decrease the target High Yield allocation from 9% to 5%. The High Yield Portfolio is invested using the following strategies:

High Yield Portfolio
June 30, 2006



High yield bonds, which represent 2.7% of the fund, are securities that are rated below Investment Grade by Standard & Poor's and Moody's. These bonds are issued by companies without long track records of sales or earnings, or by those with questionable credit strength. This strategy also includes bonds that were Investment Grade at time of issue but have since declined in quality to below Investment Grade, referred to as "Fallen Angels". Despite the below Investment Grade rating, PRIM's managers have successfully constructed portfolios and selected securities to generate substantial returns due to the equity-like characteristics of high yield bonds and to mitigate risk by lowering the expected default rate.

Emerging markets debt, 1.9% of the fund, represents PRIM's investment in debt issued within the emerging marketplace. The PRIT Fund's investment with two of the three emerging debt investment managers is through a commingled emerging debt investment vehicle.

Distressed debt represents PRIM's investment in private partnerships that invest directly in distressed debt investment opportunities. As at June 30, 2006 the PRIT Fund had approximately $260 million in distressed debt investments with three investment managers. This portfolio represents 0.6% of the total fund.

Portfolio Risks. As in the in the core fixed income portfolio, the prices of high yield securities increase and decrease in value. Price fluctuations in bonds result from rising and falling interest rates, changes in market conditions, and other economic and political developments. Lower-quality securities typically offer higher yields, but also carry more credit risk. The allocation of high yield investments to emerging markets and distressed debt expose the portfolio to additional risks. Investments in emerging markets are subject to higher settlement, trading and management costs and greater economic, regulatory and political risk, as well as currency risk. Investments in private distressed debt funds subject the portfolio to liquidity, valuation and other risks associated with private investments.

In fiscal year 2006, the High Yield composite returned 6.10% compared to 5.40% for the asset class benchmark. PRIT Core's three high yield bond managers returned 3.81%, while the ML HY Master II index returned 4.70%. Distressed debt investments are limited partnerships and PRIT Core has invested a total of $260 million with three different managers; Oaktree Capital Management, Angelo, Gordon & Co. and TCW Asset Management. In fiscal year 2006, the Distressed Debt portfolio returned 14.88%. As there are no readily available, relevant indices for this class of assets, the benchmark for Distressed Debt is the actual performance of that portion of the portfolio. This portfolio is managed by Ashmore, GMO and PIMCO and returned 8.77% during the fiscal year, comfortably ahead of JP Morgan Emerging Markets Bond Index (JPM EMBI Global Index), which returned 4.62%, by 415 basis points.

The top ten holdings in the high yield portfolio at June 30, 2006, excluding investments in emerging debt pooled funds, distressed debt partnerships and other pooled funds, are illustrated below. A complete listing of holdings is available upon

#	Issue Name	Market Value	% of Account Market Value
1	Brazil Bonds 10.125% May 2027	$ 16,714	0.76%
2	Elan Fin Corp 7.75% November 2011	10,219	0.46%
3	General Motors Corp 8.375% July 2033	10,014	0.45%
4	Lucent Technologies 6.450% March 2029	9,427	0.44%
5	Bowater CDA Finance Corp 7.950% November 2011	9,153	0.41%
6	KB Home 7.250% June 2018	9,142	0.41%
7	Valeant Phar 4.000% November 2013	8,849	0.40%
8	Mexican Bonds 8.000% December 2023	8,208	0.38%
9	Toys R Us 7.375% October 2018	8,009	0.36%
10	Svenska Hdlsbk Disc Note July 2006	7,801	0.35%
	TOTAL:	$ 97,536	4.42%

The PRIT Fund's high yield portfolio managers at June 30, 2006 are highlighted in the following table:

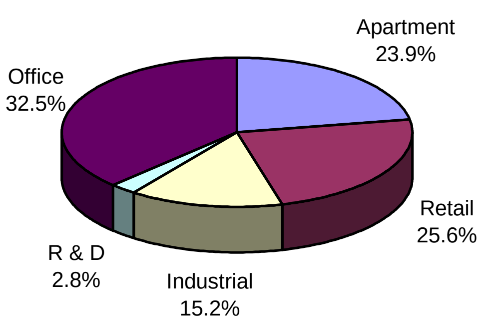
Manager	**Investment Mandate**		**Portfolio Market Value at June 30, 2006 ($000's)**
Fidelity Management Trust	High Yield Bond	$	320,764
Shenkman Capital Management	High Yield Bond		476,055
Loomis, Sayles & Co., LP	High Yield Bond		332,986
Ashmore Investment Management	Emerging Markets Debt		370,885
Grantham, Mayo, Van Otterloo & Co. LLC	Emerging Markets Debt		281,132
PIMCO	Emerging Markets Debt		161,016
Various	Distressed Debt		259,477
Other portfolio net liabilities			6,480
Total Portfolio Market Value June 30, 2006		**$**	**2,208,795**

Real Estate Portfolio

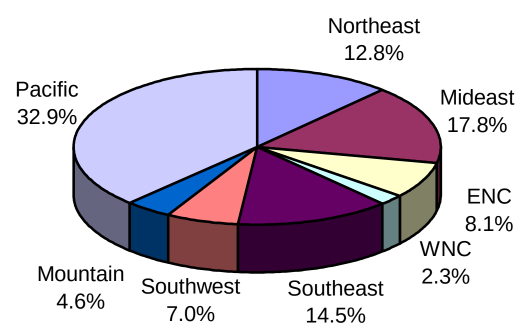
As of June 30, 2006, PRIM had $4.62 billion invested in real estate (net of $450 million in debt), representing 11% of the PRIT Capital Fund. Real estate holdings consist of directly-owned properties, REITs, and two ETI investments. The PRIT Fund invests in real estate because it provides the PRIT Fund with (i) diversification and (ii) attractive returns. Real estate returns do not have a strong correlation with stock and bond returns, therefore offering an element of diversification to reduce volatility. Real estate can also offer attractive current returns. A portfolio of well-leased, operating properties provides steady monthly cash flow to the investor from property-level rents.

Currently, approximately 73% of the real estate allocation (net of borrowings) is dedicated to direct investments in real estate properties. These investments are subsequently broken down into Core and Value real estate investments. Currently, $3.8 billion of Core real estate investments and $10 million of Value real estate investments comprise PRIM's directly owned real estate assets on a leveraged basis. Typically, core investments are relatively low risk, operating and substantially leased (80% or greater occupancy at the time of investment) institutional quality real estate. The following charts show the property type and location diversification of PRIM’s directly owned real estate assets at June 30, 2006:

Real Estate Portfolio
Property Type Diversification



Real Estate Portfolio
Geographic Diversification



REITs comprise the remainder of the investments in the PRIT core real estate portfolio. Currently, PRIM has allocated approximately $1.2 billion to REITs.

PRIM's strategies utilize a disciplined portfolio approach to real estate investing that is focused on investments in equity interests in institutional quality real estate. PRIM's current long-term allocation to real estate is 10% of total plan assets, which allows PRIM to establish separate accounts with capable real estate investment managers under terms that are beneficial to PRIM. Because PRIM is the sole owner of the real estate in each such account, the managers operate under clear policies and guidelines most appropriate to PRIM's investment needs.

Leverage. The PRIM Board approved the revision of its Real Estate Leverage Policy at its February 5, 2002 Board meeting. This policy was approved in order to enhance the yield of PRIT's real estate investments through the use of low cost debt. This policy permits third party debt to be incurred subject to the following new real estate debt policies: (i) total outstanding debt may not exceed 50% of the overall gross real estate portfolio, (ii) all leverage must be positive, (iii) no more than the greater of $200 million or 30% of the debt outstanding should mature in one year, (iv) floating rate debt without caps should not exceed the greater of $200 million or 50% of the outstanding debt, and (v) the debt term should not exceed ten years. As of June 30, 2006, the PRIT Fund had approximately $450 million in borrowings. Most of these borrowings are provided by cash collateral obtained through the PRIT Fund's securities lending program, and are included in obligations under securities lending transactions in the Fund's Statement of Pooled Net Assets. The portfolio has a very small portion of property level debt.

Portfolio Risks. Investments in real estate are subject to various risks, including adverse changes in the economic conditions at the national as well as local markets adverse changes in the capital markets, financial conditions of tenants, interest of buyers and sellers in real estate properties, environmental laws and regulations, zoning laws, and other governmental rules, uninsurable losses and other factors beyond the control of the property owner. In addition, while diversification is an important tool used by PRIM for mitigating risk, there is no assurance that diversification, either by geographic region or asset type, will consistently be maintained in the Core Real Estate Portfolio because of the illiquid nature of real estate. In addition, the portfolio is subject to valuation risk, as the valuation of the assets in this portfolio is based on estimates made by PRIM in coordination with external appraisers and the investment managers. Furthermore, there can be no assurance that the fair value of the portfolio will ultimately correspond to the realized value of the underlying properties. REITs face risks similar to the risks of public equities since they are traded on a public exchange. They can experience corrections and price movements that are much more rapid than those experienced by private equity real estate portfolios.

For the one-year period, the portfolio returned 24.61%, exceeding the asset class benchmark return of 19.86% (74% NCREIF Property Index/26% NAREIT Equity Index). Due to decreasing spreads between real estate income returns and PRIM's cost of borrowing, PRIM eliminated $650 million in interest rate swap contracts in September of 2005. The associated borrowings were subsequently paid back through the securities lending program mentioned above. This decrease in portfolio leverage increased PRIM's real estate allocation to 11% of the total PRIT Fund, exceeding the real estate target by 1%.In an effort to bring the portfolio closer to target and in response to a strong demand for real estate, 10 properties were sold in fiscal year 2006, generating $275 million in proceeds. Despite the completion of sales, the real estate allocation ended the year unchanged at 11% of the total PRIT Fund. This was due to appraisal and valuation increases and strong performance in the REIT portfolio,

Despite the significant decrease in the portfolio's leverage, returns remained strong, supported by the positive impact of existing borrowings, continued strength in the real estate capital markets and improving property fundamentals. The investments in direct property ownership returned 20.25% for the twelve months ending June 30, 2006, slightly beating the NCREIF Property Index (one quarter lag), which returned 20.19% over the same period. However, leveraged portfolio returns for the same period were 25.99, an increase of 580 basis points over the benchmark. REIT investments also performed extremely well. For the one-year period the Fund's five REIT managers returned 23.46%, beating the NAREIT Equity Index, which returned 19.05%.

The real estate portfolio has returned 25.03% over the past three years versus the asset class benchmark of 17.66%. On a five-year basis, returns were 18.05 % compared to the benchmark return of 13.18%. On a ten-year basis, the real estate portfolio returned 15.00% compared to the benchmark return of 12.98%.

The PRIT Fund's real estate investment managers at June 30, 2006 are highlighted in the following table:

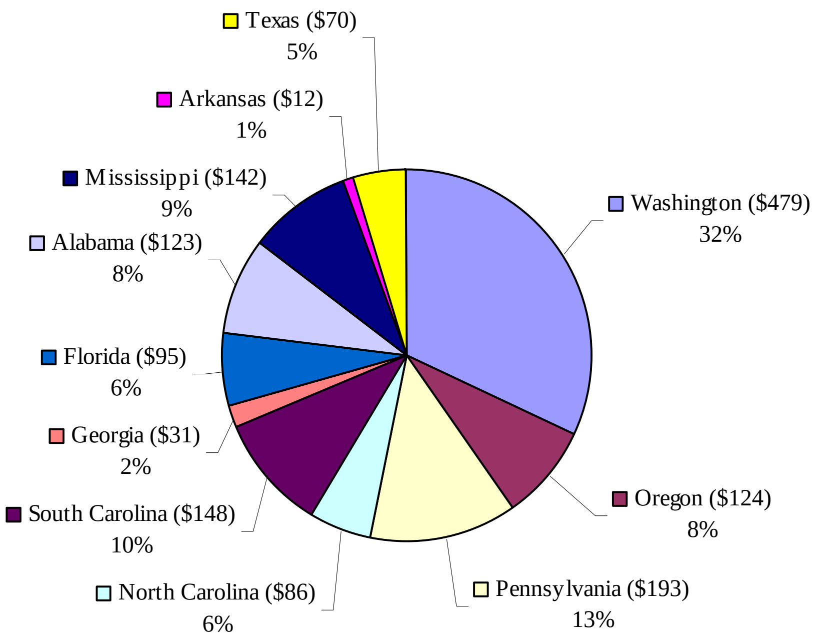
Manager	**Investment Mandate**		**Portfolio Market Value at June 30, 2006 ($000's)**
Invesco Realty Advisors	Separate Accounts	$	566,660
Lasalle Investment Management	Separate Accounts		868,328
RREEF	Separate Accounts		1,174,155
J.P. Morgan Investment Management	Separate Accounts		342,346
TA Associates Realty	Separate Accounts		837,103
RREEF	REITs		329,533
Invesco Realty Advisors	REITs		137,027
Lasalle Investment Management	REITs		114,883
Urdang	REITs		120,253
Wellington	REITs		519,214
Canyon Johnson	ETI		3,016
Intercontinental	ETI		2,735
Non-core real estate portfolio			38
Portfolio Debt			(420,853)
Other portfolio net assets			24,046
Total Portfolio Market Value June 30, 2006		**$**	**4,618,484**

Timber Portfolio

As of June 30, 2006, PRIM had $1.5 billion invested in timber representing 3.5% of the PRIT Capital Fund. The PRIT Fund's allocation to timber is through two external timber investment managers: Forest Investment Associates (FIA) and the Campbell Group. As at June 30, 2006, FIA and the Campbell Group had approximately $899 and $564 million, respectively, in assets under management for the PRIT Fund.

The United States timberland markets are divided into three regions, each with distinct economic characteristics: the Pacific Northwest, the Northeast and the Southeast. The Northwest is a high value softwood market, in which the growing cycle to produce a mature tree is forty to fifty years. The high value tree in this region is Douglas Fir, which is used primarily to produce high quality dimensional and structural lumber. The timber growing cycle in the Southeast is much shorter, in the range of twenty-five years. Southern pine is the dominant species and it is used typically to make pulp for the paper industry or lower quality-framing lumber. The Northeast market is much smaller than the other two markets and consists of a wider range of trees including high value specialty woods such as cherry and oak. The geographical diversification of the PRIT Fund's timber portfolio at June 30, 2006 is highlighted below.

Timber Portfolio Holdings Geographic Diversification
June 30, 2006
($ Millions)



Investment returns from timberland investments are derived from the net cash flow generated from the sale of trees (referred to as stumpage sales) combined with capital appreciation from the biological growth of the trees. Both of these return factors depend to some degree upon the direction of forest product commodity prices (paper goods and lumber products). There can also be gains from the timely sale of timberland and from the conversion of timberland into higher and better uses, such as vacation property sales.

Portfolio Risks. Investments in timber assets are subject to various risks, including adverse changes in general economic conditions, fluctuations in the market price of timber, damage to timber properties due to weather related events, changes in regulatory conditions and other governmental rules. In addition, the portfolio is subject to valuation risk, as the valuation of the assets in this segment are based on estimates made by PRIM through coordination with external appraisers and PRIM's timber investment managers. Accordingly, there can be no assurance that the fair value of investments will correspond to the ultimate realized value of the properties.

As of June 30, 2006, the one-year return was 20.73% as compared to the NCREIF Timber Index (one quarter lag) of 18.92%. Since its inception, in December of 2001, the Timber portfolio has produced an annualized return of 14.76% versus a benchmark return of 7.25%, an out-performance of 751 basis points.

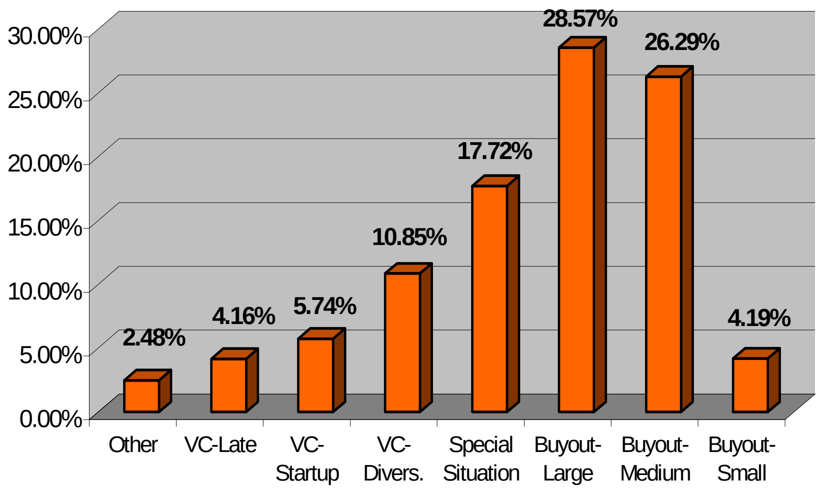
The PRIM Board continues to work with its two timber managers to maintain a diversified strategy. Competition remains significant for timber producing properties and there is strong liquidity in the timberland markets. However, recent capitalization rate compression has lead PRIM's managers to curb acquisition activity and focus more on current asset management. With a 3.5% investment in timber, PRIM is 0.5% under its target allocation of 4%. This has allowed PRIM to maintain significant exposure to the asset class while limiting pricing risk in what many believe to be a fully valued market. PRIM's timber managers also continue to evaluate the portfolio for possible dispositions as they have done since the beginning of the timber program.

Alternative Investments Portfolio

As of June 30, 2006 the market value of the Alternative Investment Portfolio was $2.7 billion or 6.5% of the total PRIT Capital Fund. This includes all vintage year alternative investment accounts opened to segmentation for participating systems. The PRIT Fund's long-term target allocation to alternative investments is 10%. Two components comprise the PRIT Fund's Alternative Investments Portfolio: venture capital (early-stage, later-stage, and diversified-stage) and special equity partnerships (buy-outs, special situations, mezzanine funds, secondary funds). Unlike public markets, where the investor has the ability to "cash out" of positions at any time, these private market investments are illiquid. Therefore, an investment in this category is a long-term commitment. The Alternative Investments Portfolio by strategy allocation at June 30, 2006 is highlighted below.

PRIT's Alternative Investments by Strategy ***(Cost Basis)***

As of June 30, 2006



Capital invested in private equity partnerships is subject to a relatively high degree of risk as compared to other potential investments, with the assumption that the investor will be rewarded with higher returns for that assumption of risk, i.e. the "risk/return trade-off". This risk/return trade-off is the key consideration in determining if this asset is appropriate for a particular portfolio. These risks are highlighted below.

Portfolio Risks. Risks associated with investing in private equity limited partnerships include, but are not limited to:

- *Illiquidity*: Limited partnership vehicles typically have 10-15 year life cycles during which limited partners are unable to liquidate their entire positions, but instead, will receive the cash flow from successful investments. A defined secondary market such as the New York Stock Exchange does not exist for private equity.

- *Volatility*: Volatility, as measured by standard deviation from a mean return, has historically been greater for private equity investing than many other assets. It is generally recognized that standard deviations for private equity should be estimated at approximately 25%, versus 17% for domestic public equity.

- *Management Fee Effect*: Typically, general partners' fees range from 150 to 250 basis points annually. This is usually drawn down against committed capital, although it may not be invested, and may result in negative returns until investments are realized successfully.

- *Valuation of investments*: Investment valuation at any time may not be reflective of fair market value. Investments may or may not be held at their cost basis. If held at cost basis, then an investment's value may be understated. If investments recognize "unrealized gains", then the potential for overstatement exists. Although the private equity industry is moving towards carrying investments at fair market value, general partners make subjective valuations of private equity holdings until an exit is achieved, and there is no formal, objective vehicle to confirm valuation prior to the liquidation of the investment.

- *General Partner Discretion*: Investors have a lack of control over the general partner's investment decisions. The general partner is provided capital to manage at its discretion and investors are provided limited rights, such as termination of the partnership in certain instances. (These rights may not prove practical except in extreme circumstances.)

- *Binding Commitments*: There is limited ability to reduce or terminate investments. Under the contractual terms of the partnership, investment may be terminated in some cases by super-majority vote of the investors and after the occurrence of certain events.

- *Risk of Loss*: There is risk of losing 100% of the investment. Investments in partnerships are usually equity and the risk nature of these investments could result in loss of the entire investment.

PRIT's alternative investments portfolio delivered strong returns over the past year, generating a one-year return of 39.06%. PRIT's alternative investments managers took advantage of the improved economic environment and healthy capital markets to sell assets generating $483 million in realized proceeds during the first two quarters of 2006. While this short-term performance is encouraging, investors should remember that alterative investments are a long-term asset class. The recent short-term performance is a general indicator of the direction of the alternative investments market to date. However, short-term performance is not always indicative of long term potential of the asset class.

While there is not currently a widely used or conventional benchmark in this asset class, the PRIM staff has generally targeted, over five to ten year periods, a 500 basis point margin over the S&P 500. PRIT's alternative investments program has achieved this goal over the one-year, three-year, five-year, and ten-year periods outperforming the S&P 500 by a minimum of 500 basis points. Over the long term PRIT's alternative investments portfolio has performed well with a 10-year average annual return of 16.89% as of June 30, 2006, exceeding the S&P 500 index return of 8.32% by 857 basis points. On a five-year basis, the portfolio exceeded the S&P 500 by 1,049 basis points, 12.98% compared to 2.49%. For the three-year period ending June 30, 2006, the alternative investments portfolio returned 29.96%, exceeding the S&P 500 index return of 11.22% by 1,874 basis points. For the one year period ending June 30, 2006, the alternative investments portfolio returned 39.06%, outperforming the S&P 500 index return of 8.63% by 3,043 basis points. Specifically during this time, the special equity portfolio generated a return of 44.05% and the venture capital portfolio returned 29.80%.

As of June 30, 2006, PRIT has committed over $6.9 billion to over 200 partnerships of which $4.7 billion has been invested. The program has generated $4.5 billion in distributions and has a remaining market value of $2.7 billion.

ALTERNATIVE INVESTMENTS EXTERNAL MANAGERS

As of June 30, 2006

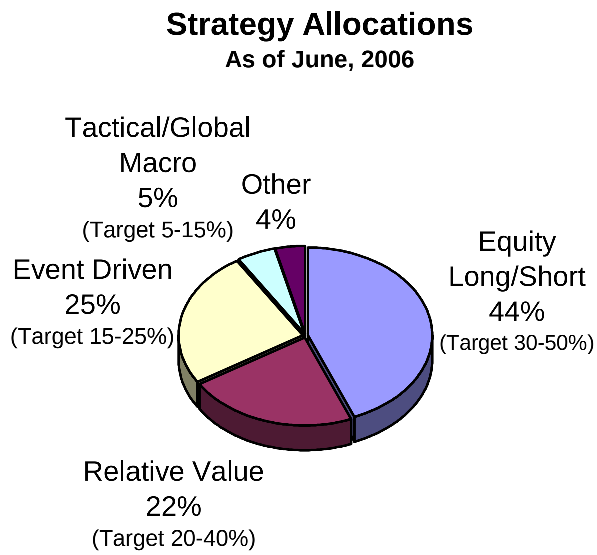
	Partnership	Location		Partnership	Location
1	Advent International	Boston, MA	38	Kelso & Company	New York, NY
2	Alchemy Partners	London, UK	39	Kohlberg Kravis Roberts& Co.	New York, NY
3	Alta Communications	Boston, MA	40	Landmark Equity Partners	Simsbury, CT
4	APAX Partners & Co.	London, UK	41	Lexington Partners	New York, NY
5	Apollo Management Co.	New York, NY	42	Madison Dearborn Capital Partners	Chicago, IL
6	AustinVentures	Austin , TX	43	Menlo Ventures	Menlo Park, CA
7	Battery Ventures	Wellesley, MA	44	M/C Venture Partners	Boston, MA
8	Berkshire Partners, LLC	Boston, MA	45	Montagu Private Equity	London, UK
9	The Blackstone Group	New York, NY	46	Narragansett Capital, Inc.	Providence, RI
10	Boston Ventures	Boston, MA	47	Nautic Partners	Providence, RI
11	Brown Brothers Harriman & Co.	New York, NY	48	New Enterprise Associates	Baltimore, MD
12	Candover	Boston, MA	49	Nordic Capital	Stockholm , Sweden
13	Carlyle Partners	London, UK	50	Olympus Growth Fund	Stamford, CT
14	Castile Ventures	Waltham, MA	51	Onex Partners	Toronto, CA/NY, NY
15	Charles River Ventures	Waltham, MA	52	Permira Europe	London, UK
16	Charlesbank Capital Partners	Boston, MA	53	Polaris Venture Partners	Waltham, MA
17	Chequers Capital	Paris, France	54	Providence Equity Partners	Providence, RI
18	Code Hennessey & Simmons	Chicago, IL	55	Quad - C Management, Inc.	Charlottesville, VA
19	Commonwealth Capital Ventures	Wellesley, MA	56	Richland Ventures	Nashville, TN
20	CVC Capital (Europe)	London, UK	57	Sovereign Capital Limited	London, UK
21	Cypress Merchant Banking	New York, NY	58	Spark Capital	Boston, MA
22	DLJ Merchant Banking	New York, NY	59	Spectrum Equity Partners	Boston, MA
23	El Dorado Ventures	Menlo Park, CA	60	Summit Ventures	Boston, MA
24	Equitable Capital Management	New York, NY	61	TA Associates/Advent	Boston, MA
25	Essex Woodlands	Chicago, IL	62	TCV	Menlo Park, CA
26	Exponent Partners	London, UK	63	Texas Pacific Group	San Fran./Forth Worth
27	First Reserve Corporation	Greenwich, CT	64	Thoma Cressey Fund	Chicago, IL
28	Flagship Ventures	Cambridge, MA	65	Thomas H. Lee Equity Partners	Boston, MA
29	Forstmann, Little & Co.	New York, NY	66	Torquest	Toronto, CA
30	Freeman Spogli Equity Partners	Los Angeles, CA	67	Trident Capital	Palo Alto, CA
31	Genstar Capital Partners	San Francisco, CA	68	Union Square	New York, NY
32	GTCR Golder, Rauner	Chicago, IL	69	VantagePoint Partners	San Bruno, CA
33	Harborvest Partners	Boston, MA	70	Venture Capital Fund of NE	Boston, MA
34	Hellman & Friedman Capital Partners	Los Angeles, CA	71	Vestar Capital Partners	New York, NY
35	H.I.G. Capital	Miami, Fla.	72	Welsh CarsonAnderson & Stowe	New York, NY
36	Highland Capital Partners	Boston, MA	73	Weston Presidio Capital	Boston/San Francisco
37	Insight Venture Partners	New York, NY	74	Whitney & Co.	Stamford, CT
38	InterWest Partners	Menlo Park, CA/Dallas, TX	75	William Blair Mezzanine Capital Fund	Chicago, IL
39	Joseph Littlejohn & Levy	New York, NY	76	Willis Stein	Chicago, IL

Absolute Return Portfolio

As of June 30, 2006 the Absolute Return Portfolio had approximately $2.1 billion in assets, which represented 5.1% of the PRIT Fund. PRIM has investment in five hedge funds of funds managers. PRIM's absolute return managers at June 30, 2006 were as follows:

Manager	Portfolio Market Value at June 30, 2006 ($000's)	
Arden Asset Management	$	438,756
Ivy Asset Management Corp.		475,009
K2 Advisors		425,029
PAAMCO		370,703
The Rock Creek Group		404,618
Other portfolio net liabilities		23
Total Portfolio Market Value June 30, 2006	**$**	**2,114,138**

PRIM has established strategic guideline ranges for the Absolute Return Portfolio. These ranges are meant to provide top-down investment guidelines while still allowing for flexibility with respect to manager selection and market conditions. Implementation of these allocation goals occurs by taking an active management approach, whereby high-quality, experienced manager selection are a key fundamental to building the portfolio. Target and actual absolute return strategy allocations as of June 30, 2006 are highlighted below.



Portfolio Risks. The absolute return portfolio is subject to the various risks underlying investments in hedge funds. The portfolio is subject to market risk through a general downturn in market conditions, credit risk inherent in fixed income hedge fund strategies. The portfolio is also exposed to liquidity risk in unwinding underlying hedge fund investment positions. In addition, the hedge fund space is exposed to operational risks in executing investment strategies, and valuing investment positions. The PRIM Board has developed a detailed absolute return investment plan to manage these risks and ensure appropriate diversification within the asset class.

PRIT's absolute return portfolio managers returned 11.21% for the fiscal year versus a return of 7.99% for the benchmark of treasury bills plus 4%. The portfolio also outperformed the S&P 500 (ex-tobacco) by 286 basis points. All performance figures for this assets class are reported 'net of fees'. The out-performance compared to the benchmark was due to the strong performance of 4 of the 5 managers..

SCHEDULE OF TIME-WEIGHTED RETURNS BY ASSET CLASS*
For the Periods Ended June 30

Asset Class *Benchmark*	**1 Year**	**3 Year**	**5 Year**	**10 Year**
Domestic Equity	**9.54%**	**13.06%**	**4.33%**	**9.11%**
Dow Jones Wilshire 5000	*9.92%*	*12.94%*	*4.00%*	*8.44%*
International Equity	**27.29%**	**24.43%**	**10.62%**	**9.75%**
MSCI EAFE	*26.56%*	*23.94%*	*10.02%*	*6.39%*
Emerging Markets	**36.83%**	**36.43%**	**21.62%**	**10.10%**
MSCI EMF Gross Div.	*35.47%*	*34.45%*	*21.37%*	*6.81%*
Fixed Income (1)	**-0.38%**	**2.88%**	**5.90%**	**6.99%**
67% LB Agg/20%LB US TIPS/13% Custom Commodities	*-1.37%*	*2.30%*	*5.35%*	*6.41%*
High Yield Debt (1)	**6.10%**	**11.61%**	**10.57%**	**na**
44% MLHYM,44% JPM EMBI Global & 12% Actual Distressed	*5.40%*	*11.01%*	*11.34%*	*na*
Real Estate	**24.61%**	**25.03%**	**18.05%**	**15.00%**
NCREIF Property Index (qtr. lagged)	*19.86%*	*17.66%*	*13.18%*	*12.98%*
Alternative Investments	**39.06%**	**29.96%**	**12.98%**	**16.89%**
No Benchmark	*na*	*na*	*na*	*na*
Timber (2)	**20.73%**	**15.38%**	**na**	**na**
NCREIF Timber Index	*18.92%*	*12.73%*	*na*	*na*
Absolute Return (3)	**11.21%**	**na**	**na**	**na**
T-bills plus 4%	*7.99%*	*na*	*na*	*na*

	1 Year	**3 Year**	**5 Year**	**10 Year**
Total PRIT Core	**15.49%**	**16.10%**	**8.77%**	**10.29%**
Policy Benchmark	*13.89%*	*14.69%*	*7.74%*	*8.97%*
TUCS Universe Median	*9.44%*	*12.24%*	*6.57%*	*8.42%*
TUCS Universe Ranking	*2nd*	*2nd*	*5th*	*5th*

(1) In July 2001, the Fixed Income Account was split into two portfolios: Fixed Income and High Yield. Prior to July 2001, all high yield returns are reflected in the Fixed Income Account.

(2) The Timber Account's inception date was January 1, 2002,

(3) The Absolute Return Account's inception date was July 1, 2004

*** All return information is gross of fees, except Absolute Return, which is net of fees. Returns are calculated based on a time-weighted rate of return methodology except for Alternative Investments return information which is based on a dollar-weighted rate of return methodology.**

Investment Summary at Fair Value
As of June 30, 2006

		Fair Value ($000s)	% of Fair Value
Short-term:			
Money market investments	$	987,933	2.31%
Fixed income:			
U.S. Government obligations		3,394,208	7.93%
Domestic fixed income		5,480,165	12.80%
International fixed income		1,819,490	4.25%
Distressed debt		259,477	0.60%
Equity:			
Domestic equity securities		9,689,734	22.63%
International equity securities		9,769,873	22.82%
Real estate:			
Core		5,134,317	11.99%
Noncore		36	0.00%
Timber		1,502,234	3.51%
Alternative investments:			
Venture capital		726,752	1.70%
Special equity		1,935,342	4.52%
Absolute return		2,114,115	4.94%
Total investments	$	42,813,676	100.00%

SUMMARY SCHEDULE OF BROKER COMMISSIONS

(Top 25 Brokers and Cumulative Fees Paid to Others)
Fiscal Year Ended June 30, 2006

Brokerage Firms	Fees Paid ($)	% total	Average per share
Merrill Lynch	$1,095,073	7.2%	$ 0.009
UBS	845,504	5.6%	0.017
Bear Stearns & Co. Inc.	806,288	5.3%	0.018
Credit Suisse	690,035	4.6%	0.002
JP Morgan Securities Inc.	683,832	4.5%	0.002
Morgan Stanley & Co.	616,734	4.1%	0.001
Deutsche Bank	594,835	3.9%	0.018
State Street Brokerage Services	585,449	3.9%	0.002
Goldman Sachs & Co.	568,583	3.8%	0.026
Lynch, Jones & Ryan Inc.	443,128	2.9%	0.003
Citigroup Global Markets	423,956	2.8%	0.130
Investment Technology Groups	359,684	2.4%	0.001
Lehman Bros Inc.	293,899	1.9%	0.005
Union Bank Switzerland Securities	291,590	1.9%	0.048
Salomon Brothers International Ltd.	278,606	1.8%	0.001
Instinet Corp	248,489	1.6%	0.002
ABN Amro Securities	230,173	1.5%	0.010
Dresdner, Kleinwort & Benson	190,884	1.3%	0.012
Pershing Securities Ltd.	188,359	1.2%	0.003
Calyon Securities	182,488	1.2%	0.030
Banco Satander	170,695	1.1%	0.005
Jefferies & Co. Inc.	164,906	1.1%	0.002
Liquidnet Inc.	158,876	1.0%	0.001
Credit Lyonnais Securities	151,857	1.0%	0.273
Banc of America Securities	149,147	1.0%	0.003
Others	4,732,018	31.2%	0.075
Totals	$15,145,088	100%	$ 0.003

The PRIM Board has commission recapture agreements with several brokers. A summary of the commission recapture program is included in the Investment Policy Statement included at the end of the Investment Section. For the fiscal year ended June 30, 2006, the PRIT Fund earned approximately $1.5 million from the commission recapture program.

SCHEDULE OF PRIT MANAGEMENT FEES
Fiscal Year Ended June 30, 2006

		2006	% total
Investment Management Fees by Asset Class:		($000s)	
Domestic Equity	$	24,170	14.6%
International Equity		14,307	8.6%
Fixed Income		7,291	4.4%
High Yield Debt		8,654	5.2%
Emerging Markets Equity		20,135	12.1%
Real Estate		51,360	31.0%
Timber		27,812	16.8%
Alternative Investments		2,210	1.3%
Total Investment Management Fees		155,939	94.1%
Investment Advisory (Consulting) Fees		2,568	1.5%
Custodian Fees		3,050	1.8%
Other Administrative Fees		4,180	2.5%
Total Management Fees charged to PRIT	$	165,737	100%

SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT

Accounts Opened to Segmentation at June 30, 2006

Retirement System	Assets ($000s) 6/30/06	General Allocation	Domestic Equity	International Equity	Emerging Markets	Fixed Income	Real Estate	Alternative Investments	Absolute Return
Amesbury	$ 60							X	
Andover	$ 9,641						X		
Barnstable County	$ 142,297		X					X	
Belmont	$ 7,584						X	X	X
Berkshire Regional	$ 116,520	X							
Blue Hills	$ 6,092	X							
Braintree	$ 18,173	X					X		
Brookline	$ 21,115	X							
Camrbidge	$ 12,480						X		
Chelsea	$ 56,388	X							
Chicopee	$ 7,558						X		
Concord	$ 27,107	X						X	
Dedham	$ 78,305	X							
Dukes County	$ 37,925	X		X		X	X		
Easthampton	$ 24,360	X							
Essex	$ 24,685						X		X
Everett	$ 46,071	X							
Fairhaven	$ 32,040	X							
Fall River	$ 12,004						X		
Falmouth	$ 3,586								X
Fitchburg	$ 7,581						X		X
Framingham	$ 175,357	X							
Franklin County	$ 10,759			X			X		
Gardner	$ 36,039	X							
Gloucester	$ 5,639						X		X
Greenfield	$ 2,937						X	X	
Hampden County	$ 13,453						X		
Hampshire County	$ 10,919						X	X	X
Haverhill	$ 17,749				X		X		X
Hingham	$ 64,221	X							
Hull	$ 18,989	X							
Lawrence	$ 17,495	X						X	
Leominster	$ 25,548					X			X

SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT, cont.

Retirement System	Assets ($000s) 6/30/06	General Allocation	Domestic Equity	International Equity	Emerging Markets	Fixed Income	Real Estate	Alternative Investments	Absolute Return
Lowell	$ 217,678	X							
Marblehead	$ 76,856	X							
Mass Turnpike	$ 30,627	X							
MassPort	$ 26,548						X	X	
Medford	$ 6,898						X	X	
Melrose	$ 2,637								X
Middlesex	$ 10,815						X		
Milton	$ 74,425	X							
Minuteman Tech	$ 10,354	X							
Montague	$ 20,191	X							
MWRA	$ 1,769	X							
Needham	$ 101,636	X							
New Bedford	$ 2,065	X							
Newburyport	$ 39,012	X							
Newton	$ 12,662							X	X
Norfolk	$ 5,140						X		
Northbridge	$ 17,990	X							
Peabody	$ 75,714		X		X	X	X		X
Plymouth	$ 9,129						X	X	
Quincy	$ 5,758	X						X	
Reading	$ 82,030	X							
Revere	$ 83,247	X							
Saugus	$ 54,524	X							
Shrewsbury	$ 4,747						X		
Springfield	$ 254,374	X							
State Employees'	$ 18,497,207	X							
State Teachers'	$ 20,849,639	X							
Stoneham	$ 53,505	X							
Wakefield	$ 81,675	X							
Waltham	$ 7,754								X
Webster	$ 2,020						X	X	X
Wellesley	$ 1,194						X	X	
Weymouth	$ 14,520						X		
Winchester	$ 16,240					X			
Winthrop	$ 30,322	X							
Woburn	$ 21,426			X	X		X		X
Worcester	$ 32,046						X		X
	$ 41,925,051								

INVESTMENT POLICY STATEMENT

The following are significant elements and related excerpts from the PRIM Board's investment policy statement approved September 22, 1998. The purpose of the statement is to delineate the investment policy and guidelines and to establish the overall investment strategies and discipline of the PRIM Board. This policy is intended to allow for sufficient flexibility to capture investment opportunities, yet provide parameters that ensure prudence and care in the execution of the investment program. This policy is issued for the guidance of fiduciaries, including Trustees, staff professionals, investment mangers, custodians, and investment consultants, for managing the assets of the PRIT Fund. The policy is intended to provide a foundation from which to oversee the management of the Fund in a prudent manner.

A. Investment Objectives

PRIM's overall objective is to achieve the highest level of investment performance that is compatible with its risk tolerance and prudent investment practices. Because of the long-term nature of the Commonwealth's pension liabilities, PRIM maintains a long-term perspective in formulating and implementing its investment policies, and in evaluating its investment performance. Investment performance is measured by three integrated long-term objectives: 1) the actuarial target rate of return, 2) the investment policy benchmark, and 3) peer universe comparisons.

The *actuarial target rate of return* is the key actuarial assumption affecting future Commonwealth funding rates and pension liabilities. Investment performance that exceeds or underperforms the target rate may materially impact future funding rates and liabilities. The PRIM Board seeks to have a long term investment performance that will reasonably exceed its actuarial target rate of return of 8.25%.

The *investment policy benchmark* is calculated by applying the investment performance of the asset class benchmarks to the Fund's asset allocation targets. The investment policy benchmark permits the Board to compare the Fund's actual performance to a passively managed proxy, and to measure the contribution of active investment management and policy implementation.

PRIM also compares its total fund performance to appropriate public plan sponsor *comparison universes*. A universe comparison permits PRIM to compare its performance to large statewide public and other pension plans. (While PRIM seeks to rank consistently in the top half of comparable public pension funds, the Board recognizes that other funds may have investment objectives and risk tolerances that differ substantially from PRIM's.)

PRIM expects to meet or exceed these objectives over its long-term investment horizon. Over shorter periods, the expected volatility of markets and unique objectives of PRIM relative to other pension plans may not favor PRIT's strategic investment policies.

B. Asset Allocation Plan

The PRIM Board recognizes that over the long-term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. The Asset Allocation Plan embodies the Board's decisions about what proportions of the Fund shall be invested in domestic and international equity and fixed income securities, real estate, timber, absolute return, alternative investments, and, where appropriate the various sub-asset classes of each. At reasonable intervals of not more than three to five years, the Board will undertake a comprehensive review of its Asset Allocation Plan and its underlying assumptions, including: the Commonwealth's current and projected pension assets and liabilities; long-term capital markets rate of return assumptions; and the Board's risk tolerances. The comprehensive review will identify: a reasonable time horizon and investment strategy for matching assets and liabilities; a fund level total return target; and an optimal allocation among available asset classes and sub-asset classes. The Board shall examine the Asset Allocation Plan annually, and shall consider adjustments to the Plan as may be appropriate given the Plan's long-term nature and objectives.

The PRIM Board conducted an asset/liability study in February 2006 to determine the optimum long-term asset allocation for the PRIT Fund, using the most recent Massachusetts Public Employee Retirement Administration Commission (PERAC) valuation report as of January 1, 2005, which estimated a 72.3% funded ratio. The most recent PERAC valuation report (1/1/06) estimates a 71.5% funded ratio.

C. Commission Recapture Policy

In order to minimize the net costs of trading, PRIM will encourage its investment managers, on a "best efforts" basis, to execute 20% of total trades annually through brokers who have a commission recapture program. Should managers exceed the 20% suggested, the PRIT Fund will participate in those trades as well.

PRIM's investment managers may select two or three brokers to take part in this program. Any credits earned under the program should be remitted monthly or quarterly to the PRIT Fund.

PRIM's policies require managers to seek the best price and execution on all trades; this means that commission recapture trades should only be executed when such trades meet this standard. This program should not interfere with or reduce an investment manager's incentive to reduce trading costs.

D. Rebalancing Policy

Rebalancing is not time-based (e.g., every twelve months), but is triggered when an asset class exceeds or falls below its target allocation range. Staff will review the PRIT Fund's asset allocation on the 20th day after the end of each quarter. The benefit of this timing is that the asset allocation of the PRIT Fund will reflect the most recent valuations for alternatives, real estate, distressed debt, and timber.

During this review, if a public securities asset class exceeds or falls below its target allocation range, staff will take action after considering the cash flow of the PRIT Fund. This review should include cash in-flow from employee contributions, cash out-flow from paying benefits, capital calls or return of capital from alternatives, real estate, timber, and distressed debt, and other investment funding needs or proceeds such as the hiring or termination of investment managers.

In the circumstance that a rebalancing is warranted, staff shall have the discretion to instruct public securities managers to use futures as a "temporary" solution to rebalance back, as closely as practical, to the precise interim target allocation. During this time, staff will take steps to reduce the futures positions and replace such positions with physical securities as soon as is practical.

The Board has mandated that rebalancing not be performed at calendar quarter ends (March, June, September or December month-end) to avoid the market volatility that may arise at those dates due to the activity of other investors.

The illiquid nature of PRIM's Alternative Investments, Distressed Debt and Real Estate portfolios requires different rebalancing methods for these asset classes.

E. Proxy Voting Policy

Under the contractual arrangements between the Pension Reserves Investment Management Board (the "Board") and its domestic and international separate account investment managers, the responsibility for voting proxies on the corporate shares owned is retained by the Board. Further, the Board may retain a consultant to assist staff in evaluating shareholder proposals, communicating its vote to the corporation, and keeping account records of these votes.

The purpose of this policy is to outline the general principles applied by the Board in voting proxies. The Board recognizes that in applying these general rules exception will apply. The Executive Director and staff will vote in accordance with their best judgment in each circumstance.

The PRIM Board periodically reviews the PRIM Board Proxy Voting Policy to ensure that it contains appropriate guidance for staff in determining how votes will be cast on a variety of matters and the underlying rationale for such determination.

The main goal in voting any proxy question is to enhance the value of the security. PRIM staff will not vote the proxies in a manner that would reduce the value of shares owned by PRIT.

F. Economically Targeted Investment Program

PRIM recognizes its obligations under Massachusetts law include a responsibility to seek out investment opportunities that will benefit the economic climate of the Commonwealth as a whole, provided that such investments are consistent with the Board's obligations to the members and beneficiaries of its participating retirement systems. (See M.G.L. ch. 32, sec. 23(2A)(h)) Accordingly, in cases where investment characteristics, including returns, risk, liquidity, compliance with allocation policy, and others, are equal, PRIM will favor those investments that have a substantial, direct and measurable benefit to the economy of the Commonwealth.

Such Economically Targeted Investments ("ETI's") must meet the following criteria:

1. Investments must target risk-adjusted, market-rate returns and provide net returns equivalent to or higher than other available investments, at commensurate levels of risk. Economic or social benefits will not justify a lower return on any PRIM investment. When evaluating ETI opportunities, PRIM will discount projected returns for any subsidies, deferral of income, higher risk levels, and other concessions to reach a real rate of return for comparison with other ETI and non-ETI investment alternatives. Similarly, ETI benefits will not justify higher investment risk. However, where appropriate, the PRIM staff, its managers, and its consultants will actively seek out and develop guarantees, third party recourse, hedging, and other acceptable and customary risk management vehicles to reduce or eliminate risk in ETI investments.

2. Investments must not exceed a reasonable weighting in the portfolio, including tracking the degree of exposure to the Massachusetts economy and ensuring appropriate geographic diversification. Investments should maintain the overall portfolio's compliance with its asset allocation strategy. ETI benefits will not justify deviation from the Asset Allocation Plan adopted by the PRIM Board.

3. Investments should be placed with an experienced and capable manager through an objective and transparent process. Investments should be managed by qualified discretionary investment managers. PRIM will not make any direct investments.

4. Investments should target a "capital gap" where there are likely to be underserved markets.

5. Investments must be tracked (both investment performance and collateral benefits) and managed with the same rigor and discipline imposed on other investments. Investments should be reviewed and monitored by PRIM staff and consultants without disproportionate expenditure of time and resources.

Statistical Section

Schedule of Changes in Net Assets

For Fiscal Years Ending June 30

	Fiscal Year Ended						
Additions	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
State Employees contributions	$ 409,515	$ 366,262	$ 362,309	$ 350,705	$ 352,123	$ 323,571	$ 337,897
State teachers contribtuions	527,820	506,711	522,133	504,014	494,761	371,914	317,717
Other participants contributions	759,088	111,557	257,892	136,712	107,566	70,869	89,382
Net investment income	5,466,443	4,212,098	5,309,069	947,540	(2,021,891)	(2,219,384)	4,314,803
Total additions to pooled net assets	7,162,866	5,196,628	6,451,403	1,938,971	(1,067,441)	(1,453,030)	5,059,799
Deductions							
State employees warrants	218,831	211,746	207,569	186,782	165,606	168,432	252,207
State teachers warrants	273,209	234,729	201,490	177,051	152,138	151,911	74,429
Participants redemptions	108,577	164,889	84,627	60,604	55,461	46,938	39,435
State appropriation funding	939,100	888,000	1,197,689	891,000	688,000	273,409	236,083
Operating expenses	18,305	17,057	14,107	13,888	14,560	11,810	8,904
Total deductions to pooled net assets	1,558,022	1,516,421	1,705,482	1,329,325	1,075,765	652,500	611,058
Changes in pooled net assets	$ 5,604,844	$ 3,680,207	$ 4,745,921	$ 609,646	$ (2,143,206)	$ (2,105,530)	$ 4,448,741

The above table provides additional information regarding changes in pooled net assets from that presented in the Statement of Changes in Pooled Net Assets in the *Financial Section* of the CAFR. Deductions represent redemptions from the PRIT fund by state employees, state teachers and other participant retirement systems. Deductions also include redemptions for state appropriation funding and operating expenses. State appropriation funding represents funds withdrawn to cover the shortfall in the pension appropriation of the Commonwealth of Massachusetts. Operating expenses represent redemptions made by state employees and state teachers for certain operating expenses. The source of this information is derived from the same information used for the basic financial statements. Current fiscal year end information should be read in conjunction with the Schedule of Changes in Pooled Net Assets-Capital Fund provided in the Financial Section. Information is only available for the past seven fiscal years.

Financial Highlights and Financial Highlights Ratios

Pages 98-99 provide the financial highlights of the PRIT Capital Fund for the year ended June 30, 2006. In addition, pages 100-103 provide additional financial highlights ratios for the four previous fiscal year end. Together, these tables provide additional information regarding important ratios to assist the reader of the CAFR in understanding the financial position of the PRIT Capital Fund. This information includes important return and expense ratios for the entire PRIT Fund as well as the various accounts that comprise the PRIT Capital Fund. This information should be read in conjunction with the description of the investment program highlighted in the *Investment Section* of the CAFR. Information is only provided for the previous five fiscal year end periods.

Financial Highlights

For the year ended June 30, 2006

	General Allocation Account	Domestic Equity Account	International Equity Account	Emerging Markets Account(1)	Fixed Income Account	High Yield Account	Absolute Return Account	Alternative Investments Account	Alternative Investments Vintage Year 2000 Account
Net asset value, beginning of year	$ 156.86	131.66	153.69	209.43	159.00	152.70	51.12	158.66	97.96
Investment operations:									
Net investment income (loss)(2)	4.75	2.13	4.74	6.16	8.11	9.84	(0.01)	3.15	2.06
Net realized and unrealized gain (loss) on investments and foreign currency	18.58	10.12	36.77	69.49	(8.93)	(0.99)	5.73	54.67	31.93
Total from investment operations	23.33	12.25	41.51	75.65	(0.82)	8.85	5.72	57.82	33.99
Net asset value, end of year	$ 180.19	143.91	195.20	285.08	158.18	161.55	56.84	216.48	131.95
Ratios and supplementary data:									
Total net return(3)	14.87%	9.30%	27.01%	36.12%	(0.51)%	5.80%	11.18%	36.45%	34.70%
Net assets, end of year ($'000s)	$ 41,257,962	11,516,779	8,303,709	2,455,151	6,452,906	2,208,795	2,114,139	777,941	764,926
Units outstanding, end of year ('000s)	228,973	80,029	42,540	8,612	40,794	13,672	37,197	3,594	5,797
Ratios to average net assets:									
Ratio of expenses, including indirect management fees	0.63%	0.23%	0.23%	0.82%	0.14%	0.31%	1.09%	1.16%	1.99%
Ratio of expenses, excluding indirect management fees	0.41%	0.23%	0.23%	0.82%	0.14%	0.30%	0.03%	0.14%	0.08%
Ratio of net investment income (loss)	2.78%	1.51%	2.66%	2.33%	5.13%	6.22%	(0.02)%	1.73%	1.84%

Note: Financial Highlights include only the Capital Fund and does not include the Cash Fund which maintains a stable net asset value of $1.00 per unit.

(1) Net investment income for the Emerging Markets Account includes all distributions from mutual funds, unit trusts, and other commingled investments. Expense ratios do not reflect expenses charged to underlying investments.

(2) Based on weighted average units outstanding.

(3) Total net return calculation is based on the value of a single unit of participation outstanding throughout the year. It represents the percentage change in the net asset value per unit between the beginning and end of the year.

Financial Highlights , cont.

For the year ended June 30, 2006

	Alternative Investments Vintage Year 2001 Account	Alternative Investments Vintage Year 2002 Account	Alternative Investments Vintage Year 2003 Account	Alternative Investments Vintage Year 2004 Account	Alternative Investments Vintage Year 2005 Account	Alternative Investments Vintage Year 2006 Account(4)	Core Real Estate Account	Noncore Real Estate Account	Timber Account
Net asset value, beginning of year	$ 142.94	59.84	91.35	26.85	79.37	100.00	231.27	95.26	149.34
Investment operations:									
Net investment income (loss)(2)	6.03	(0.04)	0.71	(0.25)	(0.92)	(0.17)	9.19	2.79	(0.06)
Net realized and unrealized gain (loss) on investments and foreign currency	72.68	23.18	28.63	(0.97)	(24.57)	(22.32)	43.31	98.59	27.72
Total from investment operations	78.71	23.14	29.34	(1.22)	(25.49)	(22.49)	52.50	101.38	27.66
Net asset value, end of year	$ 221.65	82.98	120.69	$ 25.63	53.88	77.51	283.77	196.64	177.00
Ratios and supplementary data:									
Total net return(3)	55.07%	38.67%	32.12%	(4.55)%	(32.12)%	(22.49)%	22.70%	106.43%	18.52%
Net assets, end of year ($'000s)	$ 480,794	79,588	351,371	143,419	106,808	3,182	4,618,446	38	1,480,574
Units outstanding, end of year ('000s)	2,169	959	2,911	5,596	1,982	41	16,275	—	8,365
Ratios to average net assets:									
Ratio of expenses, including indirect management fees	1.31%	2.43%	2.37%	6.73%	20.92%	19.76%	1.66%	1.00%	2.27%
Ratio of expenses, excluding indirect management fees	0.09%	0.08%	0.08%	1.04%	2.03%	0.21%	1.29%	1.00%	2.00%
Ratio of net investment income (loss)	3.28%	(0.07)%	0.66%	(0.97)%	(1.66)%	(0.22)%	3.57%	2.85%	(0.04)%

Note: Financial Highlights include only the Capital Fund and does not include the Cash Fund which maintains a stable net asset value of $1.00 per unit.

(2) Based on weighted average units outstanding.

(3) Total net return calculation is based on the value of a single unit of participation outstanding throughout the year. It represents the percentage change in the net asset value per unit between the beginning and end of the year.

(4) Alternative Investments Vintage Year 2006 Account commenced operations in May 2006. Total return and ratios not annualized.

Financial Highlights Ratios

For the years ended June 30, 2005-2002

	General Allocation Account	Domestic Equity Account	International Equity Account	Emerging Markets Account(1)	Fixed Income Account	High Yield Account	Absolute Return Account	Alternative Investments Account	Vintage Year 2000 Account
Ratios and supplementary data:									
2005									
Total net return(2)	12.91%	7.64%	13.86%	36.85%	7.42%	15.07%	6.64%	16.39%	21.89%
Net assets, end of year ($'000s)	35,997,752	11,807,278	5,657,388	2,054,560	5,866,994	2,707,704	1,726,208	881,979	647,335
Units outstanding, end of year ('000s)	229,491	89,680	36,812	9,810	36,898	17,732	33,767	5,559	6,608
2004									
Total net return(2)	19.04%	22.21%	32.39%	34.01%	1.50%	12.84%	N/A	26.57%	14.17%
Net assets, end of year ($'000s)	32,377,022	12,713,310	5,317,983	1,797,300	5,860,782	2,269,751	N/A	979,350	553,076
Units outstanding, end of year ('000s)	233,057	103,940	39,398	11,745	39,595	17,105	N/A	7,185	6,881
2003									
Total net return(2)	0.53%	1.83%	(7.33)%	6.98%	12.62%	22.37%	N/A	(11.54)%	(2.70)%
Net assets, end of year ($'000s)	27,653,710	11,709,050	4,679,366	1,057,285	5,835,043	980,991	N/A	1,015,387	401,800
Units outstanding, end of year ('000s)	250,376	116,992	45,898	9,258	40,013	8,342	N/A	9,428	5,707
2002									
Total net return(2)	(9.24)%	(16.39)%	(8.12)%	(2.85)%	8.40%	(3.90)%	N/A	(12.42)%	(14.01)%
Net assets, end of year ($'000s)	27,171,701	10,662,494	4,494,421	984,437	7,065,345	755,508	N/A	1,173,413	270,656
Units outstanding, end of year ('000s)	247,298	108,492	40,853	9,222	54,563	7,862	N/A	9,638	3,741
Ratios to average net assets:									
2005									
Ratio of expenses, including indirect management fees	0.52%	0.16%	0.26%	0.68%	0.11%	0.42%	1.06%	1.40%	2.61%
Ratio of expenses, excluding indirect management fees	0.30%	0.16%	0.26%	0.68%	0.11%	0.32%	0.04%	0.11%	0.10%
Ratio of net investment income (loss)	2.96%	1.60%	2.32%	2.39%	4.80%	6.31%	(0.04)%	2.64%	3.64%
2004									
Ratio of expenses, including indirect management fees	0.42%	0.16%	0.21%	0.97%	0.13%	0.65%	N/A	1.65%	3.58%
Ratio of expenses, excluding indirect management fees	0.23%	0.16%	0.21%	0.97%	0.13%	0.47%	N/A	0.15%	0.27%
Ratio of net investment income (loss)	2.73%	1.41%	2.24%	1.90%	4.81%	4.97%	N/A	0.55%	0.68%
2003									
Ratio of expenses, including indirect management fees	0.43%	0.19%	0.33%	0.57%	0.12%	0.59%	N/A	1.90%	5.75%
Ratio of expenses, excluding indirect management fees	0.22%	0.19%	0.33%	0.57%	0.12%	0.38%	N/A	0.18%	0.29%
Ratio of net investment income (loss)	2.98%	1.50%	2.42%	1.69%	5.18%	6.14%	N/A	0.37%	0.02%

Financial Highlights Ratios, cont.

For the years ended June 30, 2005-2002

	General Allocation Account	Domestic Equity Account	International Equity Account	Emerging Markets Account(1)	Fixed Income Account	High Yield Account	Absolute Return Account	Alternative Investments Account	Vintage Year 2000 Account
2002									
Ratio of expenses, including indirect management fees	0.43%	0.24%	0.51%	0.31%	0.11%	0.52%	N/A	1.75%	8.18%
Ratio of expenses, excluding indirect management fees	0.25%	0.24%	0.51%	0.31%	0.11%	0.52%	N/A	0.29%	0.97%
Ratio of net investment income (loss)	2.88%	1.10%	1.49%	1.29%	5.87%	6.63%	N/A	0.32%	(0.86)%

(1) Net investment income for the Emerging Markets Account includes all distributions from mutual funds, unit trusts, and other commingled investments. Expense ratios do not reflect expenses charged to underlying investments.

(2) Based on weighted average units outstanding.

Financial Highlights Ratios, cont.

For the years ended June 30, 2005-2002

	Vintage Year 2001 Account	Vintage Year 2002 Account	Vintage Year 2003 Account	Vintage Year 2004 Account	Vintage Year 2005 Account	Core Real Estate Account	Noncore Real Estate Account	Timber Account
Ratios and supplementary data:								
2005								
Total net return(2)	56.20%	(3.28)%	12.58%	(73.15)% (4)	(20.63)% (4)	29.33%	(30.98)%	11.54%
Net assets, end of year ($'000s)	407,768	$ 52,257	178,524	$ 13,401	910	2,950,852	822	1,316,382
Units outstanding, end of year ('000s)	2,853	873	1,954	499	11	12,759	9	8,815
2004								
Total net return(2)	22.29%	(29.93)%	(18.86)% (4)	N/A	N/A	19.15%	1.84%	12.15%
Net assets, end of year ($'000s)	268,337	13,470	46,335	N/A	N/A	1,828,679	7,635	931,432
Units outstanding, end of year ('000s)	2,932	218	571,059	N/A	N/A	10,226	55,325	6,957
2003								
Total net return(2)	(9.26)%	(11.71)%	N/A	N/A	N/A	6.67%	(17.53)%	14.15% (4)
Net assets, end of year ($'000s)	152,357	4,167	N/A	N/A	N/A	1,481,271	8,168	505,632
Units outstanding, end of year ('000s)	2,036	47	N/A	N/A	N/A	9,870	60	4,236
2002								
Total net return(2)	(15.59)%	N/A	N/A	N/A	N/A	8.87%	19.19%	4.58% (4)
Net assets, end of year ($'000s)	68,394	N/A	N/A	N/A	N/A	1,700,053	21,335	55,999
Units outstanding, end of year ('000s)	829,299	N/A	N/A	N/A	N/A	12,082	129,843	535
Ratios to average net assets:								
2005								
Ratio of expenses, including indirect management fees	1.94%	4.28%	7.39%	53.44%	22.43%	1.58%	1.79%	1.50%
Ratio of expenses, excluding indirect management fees	0.09%	0.09%	0.09%	6.95%	—%	1.10%	0.03%	1.26%
Ratio of net investment income (loss)	6.39%	(0.09)%	0.70%	(6.95)%	—%	6.49%	6.46%	1.29%
2004								
Ratio of expenses, including indirect management fees	3.84%	32.06%	11.52% (4)	N/A	N/A	0.76%	0.46%	0.63%
Ratio of expenses, excluding indirect management fees	0.31%	0.02%	0.01% (4)	N/A	N/A	0.22%	0.03%	0.36%
Ratio of net investment income (loss)	1.37%	(0.10)%	(0.26)% (4)	N/A	N/A	7.69%	5.61%	0.95%
2003								
Ratio of expenses, including indirect management fees	6.17%	14.44% (4)	N/A	N/A	N/A	0.55%	1.10%	1.81% (4)
Ratio of expenses, excluding indirect management fees	0.56%	0.12% (4)	N/A	N/A	N/A	0.04%	0.09%	1.53% (4)
Ratio of net investment income (loss)	(0.56)%	(14.43)% (4)	N/A	N/A	N/A	7.79%	(7.24)%	2.45% (4)

Financial Highlights Ratios, cont.

For the years ended June 30, 2005-2002

	Vintage Year 2001 Account	Vintage Year 2002 Account	Vintage Year 2003 Account	Vintage Year 2004 Account	Vintage Year 2005 Account	Core Real Estate Account	Noncore Real Estate Account	Timber Account	
2002									
Ratio of expenses, including indirect management fees	12.96%	N/A	N/A	N/A	N/A	0.43%	0.93%	0.24%	(4)
Ratio of expenses, excluding indirect management fees	0.13%	N/A	N/A	N/A	N/A	(0.03)%	0.03%	0.01%	(4)
Ratio of net investment income (loss)	(0.07)%	N/A	N/A	N/A	N/A	7.85%	3.55%	0.25%	(4)

(1) Net investment income for the Emerging Markets Account includes all distributions from mutual funds, unit trusts, and other commingled investments. Expense ratios do not reflect expenses charged to underlying investments.

(2) Based on weighted average units outstanding.

(3) Total return calculation is based on the value of a single unit of participation outstanding throughout the year. It represents the percentage change in the net asset value per unit between the beginning and end of the year.

(4) Denotes account commenced operations subsequent to the beginning of the fiscal year. Total return and ratios not annualized.

PRIT Capital Fund Asset Allocation

As at June 30

The following table is intended to provide readers of this CAFR with further information regarding the financial position of the PRIT Capital Fund over the past ten years. This table provides the changes in asset allocation during this time period. This table should be read in conjunction with the discussion on asset allocation in the *Investment Section* of this CAFR.

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Domestic Equity	27.5%	32.6%	39.0%	42.1%	39.1%	42.6%	44.1%	45.0%	47.0%	48.0%
International Equity	19.8%	15.6%	16.3%	16.7%	16.5%	16.5%	15.4%	16.0%	16.0%	19.0%
Emerging Markets	5.9%	5.7%	5.5%	3.8%	3.7%	3.4%	4.5%	4.0%	4.0%	0.0%
Fixed Income	15.4%	16.2%	18.0%	21.0%	25.8%	23.7%	24.8%	25.0%	25.0%	25.0%
High Yield Debt	5.3%	7.5%	7.0%	3.5%	2.9%	2.3%	0.0%	0.0%	0.0%	0.0%
Alternative Investments	6.5%	6.0%	5.7%	5.7%	5.5%	5.9%	6.1%	4.0%	4.0%	4.0%
Real Estate	11.0%	8.1%	5.6%	5.4%	6.3%	5.6%	5.1%	6.0%	4.0%	4.0%
Timber	3.5%	3.6%	2.9%	1.8%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Absolute Return	5.1%	4.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%