PENSION RESERVES INVESTMENT TRUST FUND

(A Component Unit of the Commonwealth of Massachusetts)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2007

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, 2007

Prepared By

Pension Reserves Investment Management Board Staff

For More Information

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Introductory Section

Pension Reserves Investment Management Board

84 State Street, Suite 250
Boston, Massachusetts 02109

Timothy P. Cahill, Chairman
Michael Travaglini, Executive Director

December 6, 2007

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, 2007 (FY07). The document that follows is the third CAFR to be produced in the 23-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, 2007.

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 2007 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, 2007, the PRIT Fund had approximately $50.4 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 2007 was 19.92%, exceeding the actuarial expected return of 8.25% by 1167 basis points, while surpassing the PRIT Fund's policy benchmark by 52 basis points. The PRIT Fund's long-term track record remains strong, with a time-weighted ten-year return of 10.11% for the period ended June 30, 2007. 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 2007, the PRIM Board accomplished significant objectives it had established prior to the beginning of the year. First and most importantly, as mentioned above, the PRIT Fund's fiscal year performance was 19.92% beating both our actuarial return and the PRIT Fund's policy benchmark. 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% as well as its policy benchmark, and compares favorably to the performance of other public funds.

One of the keys to PRIM's success is the ability to retain or replace talented staff members and outside consultants. To that end, we replaced two departed analysts in the areas of public securities and alternative investments and added two new positions to staff in a Director of Information Technology and a Financial Reporting Supervisor. On the consulting side, after being informed that Pathway Advisors, our long time private equity consultant, was not going to re-bid on our business, staff quickly established a process to identify a successor. By the time the Pathway contract ended, we had conducted a search and identified

Hamilton Lane as a replacement. We spent the last 6 months of the fiscal year transitioning the account and making sure it did not disrupt PRIM's alternative investment portfolios in any meaningful way.

One of the largest and most important initiatives overseen at PRIM in recent years has been the program-wide Information Technology assessment with PA Consulting Group ("PA"), a technology consulting firm. Working closely with our Chief Operating Officer, Karen Gershman, we continue to improve PRIM's technological capabilities. PRIM staff and the PA are in the middle of Stage VI of the project PRIME technology revitalization program that we embarked on a year ago. The combined team has successfully implemented a centralized Stakeholder Management system, developed a robust centralized new manager fee calculation system, implemented an internal Portal for cross-PRIM collaboration and centralized knowledge sharing, and begun integrating with our custodian's systems to reduce the manual data entry of staff, increase analytical ability, and reduce the risk of errors. The program is scheduled to be completed in May 2008.

A significant area of focus at PRIM over this year involved managing three high profile legislative proposals that were put in front of the Massachusetts Legislature which, if not carefully planned, might have had a significant negative impact on the PRIM Board.

First, there was the issue of divesting in Sudan. We spent significant time over several months working with the Legislature and testifying before the legislative committees in an effort to promote and preserve PRIM's fiduciary interests ensuring that the bill that was passed ultimately was a much better result than what was originally filed as a result of our involvement. The second legislative initiative involved Governor Patrick's Municipal Partnership Act, which called for the transfer of assets from certain "underperforming" local pension systems to the PRIT Fund. Again, significant amounts of time were spent working with the Patrick Administration and the Legislature on crafting the appropriate language, specifically; we worked to ensure that PRIM retained discretion over the timing of any asset transfers to minimize any negative impact on the existing portfolios. Lastly, legislation was filed which identified PRIM as the manager of any OPEB funds appropriated by the Commonwealth as a result of GASB 45. The problem with this proposal was that it wasn't clear that PRIM could accept such assets without some clarification from the IRS. This uncertainty has the potential to jeopardize PRIM's tax-exempt status and prompted a visit to Washington, DC with PRIM's executive staff to meet with Senior Treasury officials to explain our dilemma, the result is that PRIM has filed for a private letter ruling with the IRS. We have informed the Secretary of A&F and legislative leaders that we cannot invest any OPEB assets until this issue is resolved.

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, 2006. This was the second consecutive 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

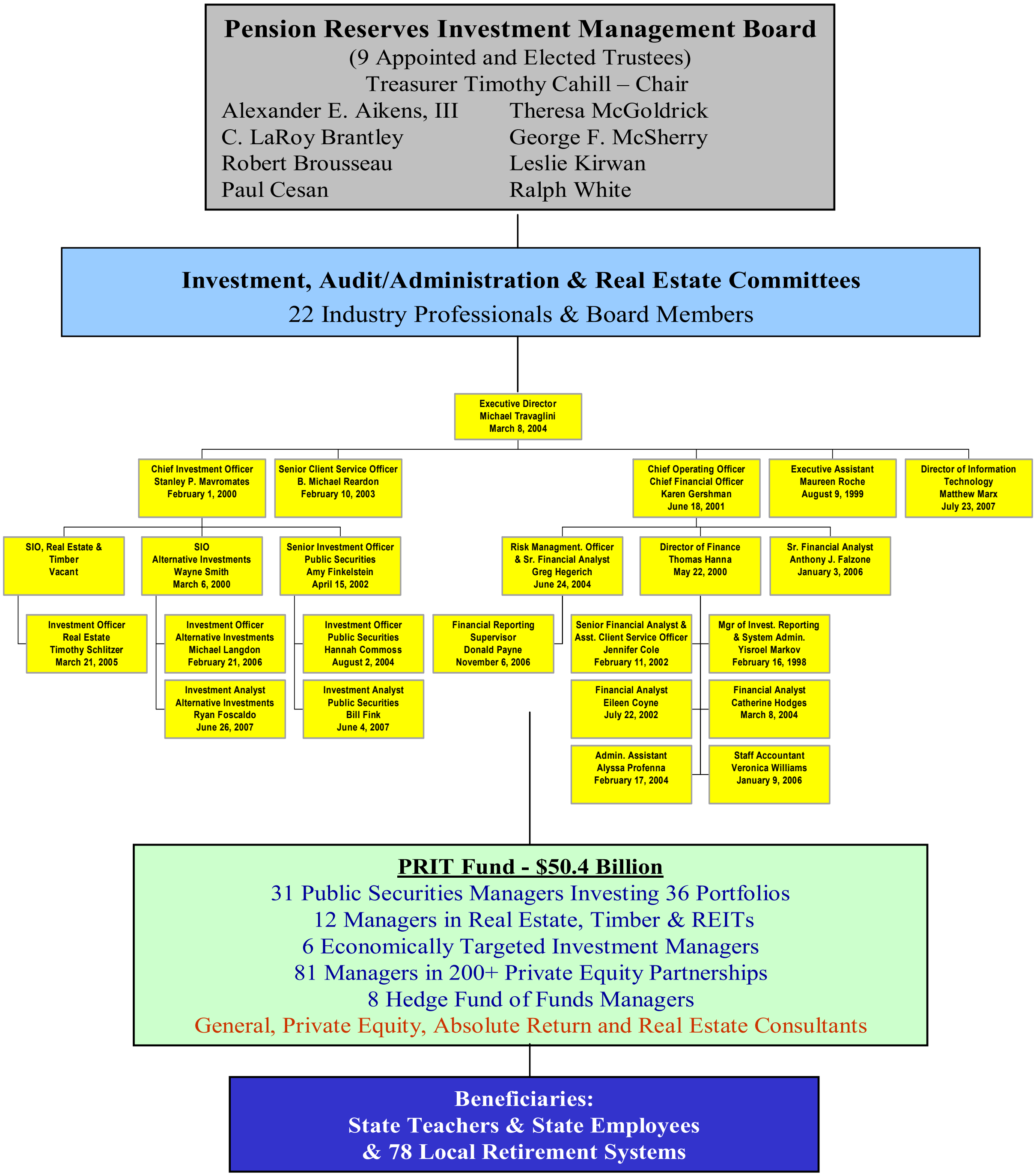
For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director


Pension Reserves Investment Management Board
(9 Appointed and Elected Trustees)
Treasurer Timothy Cahill – Chair
Alexander E. Aikens, III
C. LaRoy Brantley
Robert Brousseau
Paul Cesan
Theresa McGoldrick
George F. McSherry
Leslie Kirwan
Ralph White
Investment, Audit/Administration & Real Estate Committees
22 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
Director of Information Technology Matthew Marx July 23, 2007
SIO, Real Estate & Timber Vacant
SIO Alternative Investments Wayne Smith March 6, 2000
Senior Investment Officer Public Securities Amy Finkelstein April 15, 2002
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 Officer Real Estate Timothy Schlitzer March 21, 2005
Investment Officer Alternative Investments Michael Langdon February 21, 2006
Investment Officer Public Securities Hannah Commoss August 2, 2004
Financial Reporting Supervisor Donald Payne November 6, 2006
Senior Financial Analyst & Asst. Client Service Officer Jennifer Cole February 11, 2002
Mgr of Invest. Reporting & System Admin. Yisroel Markov February 16, 1998
Investment Analyst Alternative Investments Ryan Foscaldo June 26, 2007
Investment Analyst Public Securities Bill Fink June 4, 2007
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 - $50.4 Billion
31 Public Securities Managers Investing 36 Portfolios
12 Managers in Real Estate, Timber & REITs
6 Economically Targeted Investment Managers
81 Managers in 200+ Private Equity Partnerships
8 Hedge Fund of Funds Managers
General, Private Equity, Absolute Return and Real Estate Consultants
Beneficiaries:
State Teachers & State Employees
& 78 Local Retirement Systems

PRIM Board Trustees

Advisory Committees to the PRIM Board

Investment Committee

Dr. Jerrold Mitchell, Chair
Senior Advisor, Saltonstall & Company
C. LaRoy Brantley
Board Member
Ralph White
Board Member
Peter A. Brooke
Advent International
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
Gar Morse
Morris and Morse Company, Inc.
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

KPMG

KPMG LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 988 0800
Internet www.*us*.kpmg.com

Independent Auditors' Report

The Administrative and Audit Committee and Trustees
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, 2007 and 2006, 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 audit 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, 2007 and 2006, and the changes in its pooled net assets for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 2, 2007, 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 U.S. generally accepted accounting principles. 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.

KPMG LLP

October 2, 2007

Management's Discussion and Analysis

June 30, 2007 and 2006

This section presents management's discussion and analysis of PRIT's financial performance for the fiscal years ended June 30, 2007 and 2006 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, 2007 and 2006 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 and 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 U.S. generally accepted accounting principles.

Financial Highlights

Fiscal Year 2007

- The net assets of PRIT increased $8.5 billion during the year ended June 30, 2007. Total net assets were $50.4 billion at June 30, 2007, compared to $41.9 billion at June 30, 2006.
- Net investment income for fiscal year 2007 was approximately $8.2 billion, compared to net investment income of $5.5 billion for the prior fiscal year. The increase was primarily due to an improvement in investment performance in fiscal year 2007 compared to fiscal year 2006. PRIT returned 19.92% in fiscal year 2007, compared to 15.47% in fiscal year 2006.
- Contributions to PRIT totaled approximately $2.0 billion during fiscal year 2007, compared to $1.7 billion in 2006. Other participant contributions increased by $288 million in the fiscal year 2007. 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 $1.8 billion during the year ended June 30, 2007, compared to $1.6 billion during the year ended June 30, 2006.

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.

Management's Discussion and Analysis

June 30, 2007 and 2006

- 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, 2007 and 2006

Condensed Financial Information

Summary balances and activities of PRIT as of and for the years ended June 30, 2007, 2006 and 2005 are presented below.

		June 30		
		2007	**2006**	**2005**
		(Amounts in thousands)		
Summary of pooled net assets:				
Assets:				
Investments	$	51,360,925	42,813,676	37,702,829
Cash		167,761	132,429	78,637
Receivables and other assets		1,462,657	359,417	578,561
Total assets		52,991,343	43,305,522	38,360,027
Liabilities:				
Obligation under securities lending transactions		451,970	451,872	1,103,887
Management fees payable to PRIM		151,993	167,766	92,758
Other liabilities		1,989,246	760,833	843,175
Total liabilities		2,593,209	1,380,471	2,039,820
Net assets held in trust for pool participants	$	50,398,134	41,925,051	36,320,207
Summary of changes in pooled net assets:				
Additions:				
Contributions	$	2,015,713	1,696,423	984,530
Net investment income		8,228,782	5,466,443	4,212,098
Total additions		10,244,495	7,162,866	5,196,628
Deductions:				
Redemptions		1,771,412	1,558,022	1,516,421
Change in pooled net assets		8,473,083	5,604,844	3,680,207
Net assets held in trust for pool participants:				
Balance, beginning of year		41,925,051	36,320,207	32,640,000
Balance, end of year	$	50,398,134	41,925,051	36,320,207

Management's Discussion and Analysis

June 30, 2007 and 2006

PRIT Performance During the Year Ended June 30, 2007

PRIT began fiscal year 2007 with net assets of $41.9 billion and ended the fiscal year with net assets of $50.4 billion, representing a 20.2% increase. The increase was due primarily to overall investment performance. Net investment income for the year ended June 30, 2007 was approximately $8.2 billion. Net participant contributions of $244 million added to the increase in net assets of $8.5 billion. Approximately $1.7 billion of PRIT's $1.8 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, 2007, PRIT returned 19.92%, surpassing the interim policy benchmark of 19.40% by 52 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 79% of PRIT was actively managed, while the remaining 21% was indexed at June 30, 2007. All asset classes of PRIT had positive performance during the year ended June 30, 2007. The asset classes of PRIT and related investment returns for the year ended June 30, 2007 are as follows: Domestic Equity 20.77%; International Equity 26.46%; Emerging Markets 42.50%; Fixed Income 4.92%; High Yield Debt 15.52%; Alternative Investment 32.77%; Real Estate 16.78%, Timber 15.29% and Absolute Return 13.86%.

As of June 30, 2007, PRIT continues to outperform its benchmarks and has returned an average of 11.52% 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, 2007.

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 a 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.

Statements of Pooled Net Assets

June 30, 2007 and 2006

(Amounts in thousands)

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.

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, 2007 and 2006

(Amounts in thousands)

		2007	2006
Assets:			
Investments, at fair value:			
Short-term	$	1,540,446	987,933
Fixed income		11,730,829	10,953,340
Equity		23,828,318	19,459,607
Real estate		4,828,582	5,134,353
Timber		1,637,474	1,502,234
Alternative investments		3,199,521	2,662,094
Absolute return		4,595,755	2,114,115
Total investments		51,360,925	42,813,676
Cash		167,761	132,429
Interest and dividends receivable		136,695	132,871
Receivable for investments sold		367,723	177,557
Securities sold on a when-issued basis		948,947	25,575
Unrealized gains on foreign currency exchange contracts		6,050	5,046
Receivable from Health Care Security Trust		3,242	3,479
Margin variation receivable		—	14,889
Total assets		52,991,343	43,305,522
Liabilities:			
Payable for investments purchased		387,521	338,068
Securities purchased on a when-issued basis		1,591,779	413,308
Obligations under securities lending transactions		451,970	451,872
Unrealized losses on foreign currency exchange contracts		8,155	9,457
Margin variation payable		1,791	—
Management fees payable to PRIM		151,993	167,766
Total liabilities		2,593,209	1,380,471
Net assets held in trust for pool participants	$	50,398,134	41,925,051

See accompanying notes to financial statements.

Statements of Changes in Pooled Net Assets

Years ended June 30, 2007 and 2006

(Amounts in thousands)

		2007	2006
Additions:			
Contributions:			
State employees	$	420,199	409,515
State teachers		548,229	527,820
Other participants		1,047,285	759,088
Total contributions		2,015,713	1,696,423
Net investment income:			
From investment activities:			
Net realized gain on investments and foreign currency transactions		3,601,019	2,778,597
Net change in unrealized appreciation on investments and foreign currency translations		3,274,406	1,574,445
Interest income		590,102	543,717
Dividend income, net		542,471	443,324
Real estate income, net		241,045	221,538
Timber income, net		11,894	27,389
Alternative investment income, net		103,464	55,706
		8,364,401	5,644,716
Management fees		(124,488)	(165,737)
Net income from investment activities		8,239,913	5,478,979
From securities lending activities:			
Securities lending income		12,817	11,908
Securities lending expense		(23,948)	(24,444)
Net expense from securities lending activities		(11,131)	(12,536)
Total net investment income		8,228,782	5,466,443
Total additions		10,244,495	7,162,866

(Continued)

Notes to Financial Statements

June 30, 2007 and 2006

		2007	2006
Deductions:			
Redemptions:			
State employees	$	672,596	820,386
State teachers		969,973	629,059
Other participants		128,843	108,577
Total deductions		1,771,412	1,558,022
Net increase in pooled net assets		8,473,083	5,604,844
Net assets held in trust for pool participants:			
Balance, beginning of year		41,925,051	36,320,207
Balance, end of year	$	50,398,134	41,925,051

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2007 and 2006

(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 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

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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, 2007, there were 19 Participating Systems (including the State Teachers' and State Employees' Retirement Systems) and 57 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, 2007: 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; and Alternative Investments Vintage Years 2000 - 2007. (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 permits Massachusetts retirement boards' 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 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, 2007 and 2006, there were 46 and 42 segmented investors in PRIT, respectively.

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(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.

Money market funds 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 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.

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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.

Hedge fund-of-funds investments represent PRIT's ownership in hedge fund investments via a fund-of-fund structure. PRIT's hedge fund-of-funds investments are made through two investment strategies: Absolute Return or Portable Alpha. The investment in hedge fund-of-funds 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.

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, 2007 and 2006, foreign taxes withheld of $25,833 and $23,026, respectively, have been netted against dividend income in the statements of changes in pooled net

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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.

(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.

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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 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 2007	June 30 2006
Short-term:		
Money market investments	$ 1,540,446	987,933
Fixed income:		
U.S. Government obligations (1)	2,442,808	3,394,208
Domestic fixed income (2)	7,065,688	5,480,165
International fixed income (3)	1,873,443	1,819,490
Distressed debt	348,890	259,477
	11,730,829	10,953,340
Equity:		
Domestic equity securities	10,521,056	9,689,734
International equity securities	13,307,262	9,769,873
	23,828,318	19,459,607
Real estate:		
Core	4,828,580	5,134,317
Noncore	2	36
	4,828,582	5,134,353
Timber	1,637,474	1,502,234
Alternative investments:		
Venture capital	753,902	726,752
Special equity	2,445,619	1,935,342
	3,199,521	2,662,094
Hedge Fund-of-Funds investments:		
Absolute Return	2,569,016	2,114,115
Portable Alpha	2,026,739	—
	4,595,755	2,114,115
Total investments	$ 51,360,925	42,813,676

(1) Fiscal 2007 rates range from 0% to 12.5%, and maturities range from 2007 to 2037. Fiscal 2006 rates range from 0% to 14.0%, and maturities range from 2006 to 2036.

(2) Fiscal 2007 rates range from 0% to 14.88%, and maturities range from 2007 to 2066. Fiscal 2006 rates range from 0% to 14.2%, and maturities range from 2006 to 2066.

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(3) Fiscal 2007 rates range from 0% to 13.5%, and maturities range from 2007 to 2055. Fiscal 2006 rates range from 0% to 12.0%, and maturities range from 2006 to 2055.

(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, 2007 and 2006, all but $100 of PRIT's $167,761 and $132,429 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.

	2007		2006	
Investment	**Fair value**	**Effective weighted duration rate** (Amounts expressed in years)	**Fair value**	**Effective weighted duration rate** (Amounts expressed in years)
Asset backed securities	$ 548,549	0.47	$ 427,296	0.69
Commercial mortgage backed securities	409,315	4.54	240,956	3.63
Non-U.S. government backed C.M.O.s	312,453	1.95	192,230	2.81
Commercial paper and CDs	344,479	0.13	518,230	0.07
Repurchase Agreements	—	—	117,400	—
Corporate bonds and other credits	2,548,707	3.69	2,171,982	3.79
U.S. government bonds	1,159,641	6.35	1,823,088	1.98
U.S. government agencies	486,510	1.52	487,325	1.46
U.S. government TIPS	1,283,166	6.26	1,858,610	4.44
U.S. government mortgage backed securities	2,810,034	4.43	1,571,315	5.60
Global Inflation Linked Bonds	492,333	7.15	448,158	9.75
Municipal bonds	12,978	7.79	12,789	8.60
Pooled money market fund	1,540,446	0.08	987,933	0.08
Other pooled funds	1,322,664	NA	1,083,961	NA
Total fixed income and short-term investments	$ 13,271,275		$ 11,941,273	

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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, 2007 (AA- at June 30, 2006). The following presents the PRIT Fund's fixed-income securities credit ratings at June 30:

	2007											
Investment	**Total fair value**	**AAA**	**AA+**	**AA**	**AA-**	**A+**	**A**	**A-**	**BBB+**	**BBB**	**BBB-**	**BB+**
Asset backed securities	$ 548,549	546,184	—	1,482	—	—	—	—	305	—	—	—
Commercial mortgage backed securities	409,315	395,696	—	—	—	—	—	—	—	—	—	—
Non-U.S. government backed C.M.O.s	312,453	312,453	—	—	—	—	—	—	—	—	—	—
Commercial paper and CDs	344,479	197,757	10,898	39,085	—	—	—	—	—	—	—	—
Corporate bonds and other credits	2,548,707	175,823	52,667	127,761	175,317	179,822	153,286	85,834	152,904	172,568	150,862	46,126
U.S. government agencies	486,510	484,777	—	—	1,733	—	—	—	—	—	—	—
U.S. government mortgage backed securities	2,734,317	2,685,118	—	—	—	—	—	—	—	—	—	—
Global inflation linked bonds	492,333	447,980	—	26,041	—	18,259	—	—	—	—	—	—
Municipal bonds	12,978	835	—	1,183	6,593	—	—	—	—	—	3,917	—
Pooled money market fund	1,540,446	—	—	—	—	—	—	—	—	—	—	—
Other pooled funds	1,322,664	—	—	—	—	—	—	—	—	—	—	—
Total credit risk, fixed income and short-term investments	10,752,751	$ 5,246,623	63,565	195,552	183,643	198,081	153,286	85,834	153,209	172,568	154,779	46,126
Fixed income investments explicitly backed by the U.S. government	2,518,524											
Total fixed income and short-term investments	$ 13,271,275											

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Investment		BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC	C	Not rated
		2007										
Asset backed securities	$	—	—	—	—	—	567	—	—	—	—	11
Commercial mortgage backed securities		—	—	—	—	—	—	—	—	—	—	13,619
Non-U.S. government backed C.M.O.s												
Commercial paper and CDs		—	—	—	—	—	—	—	—	—	—	96,739
Corporate bonds and other credits		67,661	80,549	99,366	159,041	203,193	142,606	64,861	17,243	2,738	4,952	233,527
U.S. government agencies		—	—	—	—	—	—	—	—	—	—	—
U.S. government mortgage backed securities		—	—	—	—	—	—	—	—	—	—	49,199
Global inflation linked bonds		—	—	—	—	—	—	—	—	—	—	53
Municipal bonds		—	—	—	—	—	—	—	—	—	—	450
Pooled money market fund		—	—	—	—	—	—	—	—	—	—	1,540,446
Other pooled funds		—	—	—	—	—	—	—	—	—	—	1,322,664
Total credit risk, fixed income and short-term investments	$	67,661	80,549	99,366	159,041	203,193	143,173	64,861	17,243	2,738	4,952	3,256,708

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Investment	Total fair value	2006 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

Notes to Financial Statements

June 30, 2007 and 2006

(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:

	2007					
		Cash and short-term investments	Equity	Fixed income	Alternative investments	Total
Argentine Peso	$	14	1,030	—	—	1,044
Australian Dollar		2,540	488,524	1,176	—	492,240
Brazilian Real		1,006	177,952	13,012	—	191,970
British Pound		50,517	2,381,104	202,267	—	2,633,888
Canadian Dollar		421	19,642	23,081	—	43,144
Chilean Peso		59	4,336	—	—	4,395
Colombian Peso		—	3,480	2,417	—	5,897
Czech Koruna		—	3,393	—	—	3,393
Danish Krone		836	136,481	—	—	137,317
Egyptian Pound		—	10,989	—	—	10,989
Euro		45,704	3,405,704	231,279	—	3,682,687
Greek Drachma		4	—	—	—	4
Hong Kong Dollar		3,633	484,998	680	—	489,311
Hungarian Forint		10	8,427	—	—	8,437
Iceland Krona		—	—	15,618	—	15,618
Indian Rupee		39	40,425	—	—	40,464
Indonesian Rupiah		500	27,910	3,852	—	32,262
Israeli Shekel		56	13,828	—	—	13,884
Japanese Yen		24,283	2,199,599	60,682	—	2,284,564
Malaysian Ringgit		779	144,331	—	—	145,110
Mexican Peso		486	74,404	32,631	—	107,521
Taiwan Dollar		1,487	229,881	—	—	231,368
Turkish Lira		—	33,331	—	—	33,331
New Zealand Dollar		829	10,107	9,411	—	20,347
Norwegian Krone		877	92,244	—	—	93,121
Peruvian Nuevo Sol		—	690	—	—	690
Philippines Peso		53	41,786	—	—	41,839
Polish Zloty		—	33,698	—	—	33,698
Russian Ruble		—	41,422	—	—	41,422
South African Rand		105	114,552	2,691	—	117,348
Singapore Dollar		1,396	98,732	4,839	—	104,967
South Korean Won		—	487,922	4,749	—	492,671
Swedish Krona		6,060	329,647	41,196	—	376,903
Swiss Franc		10,650	678,813	—	—	689,463

Notes to Financial Statements

June 30, 2007 and 2006

		2007				
		Cash and short-term investments	**Equity**	**Fixed income**	**Alternative investments**	**Total**
Thailand Baht	$	366	69,731	—	—	70,097
Uruguayan Peso		—	—	3,260	—	3,260
Alternative investment funds denominated in foreign currencies (various currencies)		—	—	—	514,487	514,487
International equity pooled funds (various currencies)		—	381,742	—	—	381,742
International fixed-income pooled funds (various currencies)		—	—	76,784	—	76,784
Total securities subject to foreign currency risk		152,710	12,270,855	729,625	514,487	13,667,677
International investments denominated in United States Dollars		—	1,036,407	1,143,818	—	2,180,225
Total international investments and cash deposits	$	152,710	13,307,262	1,873,443	514,487	15,847,902

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	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 Rupiah	—	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

Notes to Financial Statements

June 30, 2007 and 2006

	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

(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.

PRIT has no investments, at fair value, that exceed 5% of PRIT's total investments as of June 30, 2007 and 2006, 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 $13,400 ($12,400 for the calendar year beginning January 1, 2006) 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, 2007 and 2006.

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

Notes to Financial Statements

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Agreements with PRIT's lending agents, Mellon Trust held all collateral for securities on loan at June 30, 2007 and 2006. 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, 2007 and 2006 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, 2007 and 2006, the fair value of the securities on loan was $1,323,365 and $1,065,865, respectively, and the fair value of the associated collateral amounted to approximately $1,386,023 and $1,112,007, respectively, of which $450,000 and $450,000, 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, 2007 and 2006, 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, 2007 and 2006, PRIT owes Goldman $1,970 and $1,872, 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 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 $2,842 and $3,027 and is included in Receivable from Health Care Security Trust in the accompanying statements of pooled net assets as of June 30, 2007 and 2006, respectively.

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June 30, 2007 and 2006

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, 2007.

As of June 30, 2007, the LLC had nine outstanding swap contracts in effect:

	2007				
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	$ 158
Bank of America	4.18	50,000	12/02/02	12/03/12	2,553
Citibank, N.A. New York	3.68	50,000	01/01/03	01/01/10	1,763
Mellon Bank	3.17	50,000	01/30/03	02/01/08	672
Mellon Bank	3.82	50,000	03/06/03	06/01/13	3,716
Bear Stearns Bank PLC	3.45	50,000	05/13/03	06/01/11	3,147
Bear Stearns Bank PLC	3.37	50,000	11/24/03	03/01/09	1,473
Citibank, N.A. New York	4.17	50,000	12/20/04	03/01/14	3,174
Citibank, N.A. New York	4.27	50,000	02/15/05	12/01/15	3,689
		$ 450,000			$ 20,345

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 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, 2007 and 2006, PRIT owned 99.37% and 99.33%, respectively, of the total net assets of the LLC. HCST owned 0.63% and 0.67%, 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.

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June 30, 2007 and 2006

(a) Foreign Currency Exchange Contracts

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

		2007					
		Fair value	Aggregate face value	Delivery date(s)		Unrealized gains	Unrealized losses
Foreign currency exchange contracts purchased:							
Australian Dollar	$	1,069	1,050	7/2/07-9/19/07	$	—	(19)
British Pound		305,974	302,183	7/18/07-9/19/07		—	(3,791)
Canadian Dollar		25,843	24,617	7/18/07-9/19/07		—	(1,226)
Chilean Peso		1	1	07/03/07		—	—
Chinese Yuan Renminbi		17,679	17,666	9/19/07-1/10/2008		—	(13)
Euro		332,203	331,237	7/2/07-9/19/07		—	(966)
Hong Kong Dollar		1,305	1,305	7/3/07-9/18/07		—	—
Iceland Krona		8,015	7,490	07/18/07		—	(525)
Indian Rupee		36	36	6/29-07-7/3/07		—	—
Indonesian Rupiah		200	198	07/03/07		—	(2)
Japanese Yen		104,793	107,128	7/2/07-9/19/07		2,335	—
Malaysian Ringgit		1,499	1,491	7/2/07-7/10/07		—	(8)
Mexican Peso		17,338	17,130	7/2/07-3/13/08		—	(208)
New Zealand Dollar		6,998	6,597	7/2/07-9/19/07		—	(401)
Pakistan Rupee		834	821	07/03/07		—	(13)
Philippines Peso		67	66	07/03/07		—	(1)
South African Rand		89	90	03/13/08		1	—
Singapore Dollar		563	565	7/2/07-7/30/07		2	—
South Korean Won		305	303	07/30/07		—	(2)
Swedish Krona		42,522	42,663	7/18/07-9/19/07		141	—
Swiss Franc		17,018	16,950	7/2/07-9/19/07		—	(68)
Thailand Baht		183	183	7/2/07-7/5/07		—	—
Foreign currency exchange contracts sold:							
Australian Dollar	$	70,621	71,320	7/3/07-9/19/07	$	699	—
Brazilian Real		2,289	2,354	7/2/07-3/4/08		65	—
British Pound		127,542	129,000	7/2/07-9/19/07		1,458	—
Canadian Dollar		15,999	16,248	7/18/07-9/19/07		249	—
Chilean Peso		402	410	11/5/07-3/13/08		8	—
Chinese Yuan Renminbi		34,532	34,685	9/19/07-3/19/08		153	—
Danish Krone		602	602	07/03/07		—	—
Euro		39,214	39,403	7/18/07-9/19/07		189	—
Hong Kong Dollar		791	790	07/03/07		—	(1)
Indian Rupee		296	298	8/9/07-10/3/07		2	—
Indonesian Rupiah		1,575	1,585	7/2/07-10/3/07		10	—
Japanese Yen		43,334	42,585	7/2/07-9/19/07		—	(749)
Malaysian Ringgit		1,981	1,979	6/29/07-10/17/07		—	(2)
Mexican Peso		17,103	17,157	7/18/07-3/13/08		54	—
New Zealand Dollar		22,699	23,286	9/18/07-9/19/07		587	—
Norwegian Krone		614	607	07/03/07		—	(7)
Philippines Peso		114	114	7/2/07-7/3/07		—	—
Polish Zloty		648	672	9/28/07-3/13/08		24	—
Russian Ruble		2,475	2,536	9/19/071/11/08		61	—
South African Rand		693	694	09/28/07		1	—
Singapore Dollar		2,621	2,595	7/3/07-10/3/07		—	(26)
South Korean Won		4,900	4,911	7/2/07-9/27/07		11	—
Swedish Krona		3,885	3,830	7/2/07-9/19/07		—	(55)
Swiss Franc		1,169	1,097	09/18/07		—	(72)
Thailand Baht		121	121	07/03/07		—	—
Total					$	6,050	(8,155)

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	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 Rupiah	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)
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 Rupiah	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 Ruble	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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(b) Futures Contracts

Futures contracts held at June 30 were as follows:

	2007				
Description	**Number of contracts**	**Expiration date**	**Notional amount**	**Fair value of notional amount**	**Unrealized appreciation (depreciation)**
Long cash and cash equivalents:					
90-Day Bank Acceptance	207	09/07-06/08	$ 43,675	46,281	2,606
90-Day Eurodollar	8,733	12/07-03/10	2,074,443	2,069,243	(5,200)
Short cash and cash equivalents:					
90-Day Australian Bk Bill	(172)	09/07-06/08	(40,156)	(40,086)	70
90-Day Eurodollar	(2,011)	09/07-06/08	(476,156)	(476,488)	(332)
Net total cash and cash equivalents futures			1,601,806	1,598,950	(2,856)
Long fixed income:					
Euro BOBL	2,046	09/07	293,990	293,094	(896)
Euro Bond	168	09/07	25,327	25,127	(200)
Euro BUXL	18	09/07	2,198	2,160	(38)
90-Day Sterling LIBOR	974	03/08-12/08	211,943	228,839	16,896
Japan 10-Yr Bond	45	09/07	49,745	48,105	(1,640)
3-Month EuroYen Tiff	115	03/08-06/08	23,690	23,001	(689)
Canada 10-Yr Bond	37	09/07	3,832	3,855	23
US Treasury Bond	1,765	09/07	193,617	190,178	(3,439)
US 10-Yr Treasury Notes	158	09/07	16,702	16,701	(1)
US 5-Yr Treasury Notes	417	09/07	43,408	43,401	(7)
Short fixed income:					
Australian 10-Yr Bond	(86)	09/07	(81)	(81)	—
Euro BOBL	(119)	09/07	(17,106)	(17,047)	59
Euro Bond	(149)	09/07	(22,530)	(22,286)	244
UK Long Gilt	(77)	09/07	(16,166)	(16,025)	141
90-Day Sterling LIBOR	(81)	09/07-12/07	(19,493)	(19,052)	441
3-Month EuroYen Tiff	(303)	09/07-12/07	(60,411)	(60,747)	(336)
Canada 10-Yr Bond	(52)	09/07	(5,431)	(5,417)	14
3-Month Euro Euribor	(337)	09/07-06/08	(107,001)	(108,588)	(1,587)
US Treasury Bond	(241)	09/07	(25,704)	(25,968)	(264)
US 10-Yr Treasury Notes	(1,863)	09/07	(198,093)	(196,925)	1,168
US 5-Yr Treasury Notes	(2,068)	09/07	(216,832)	(215,234)	1,598
US 2-Yr Treasury Notes	(557)	09/07	(113,187)	(113,506)	(319)
Net total fixed income futures			62,417	73,585	11,168

Notes to Financial Statements

June 30, 2007 and 2006

	2007					
Description	**Number of contracts**	**Expiration date**		**Notional amount**	**Fair value of notional amount**	**Unrealized appreciation (depreciation)**
Long equity:						
SPI 200 Index	35	09/07	$	4,681	4,660	(21)
DAX Index	27	09/07		7,090	7,365	275
IBEX 35	30	07/07		5,829	6,005	176
CAC 40 Index	133	09/07		10,482	10,981	499
S&P/MIB Index	18	09/07		5,019	5,149	130
FTSE 100 Index	131	09/07		17,115	17,447	332
Hang Seng Index	13	07/07		1,825	1,819	(6)
TOPIX Index	179	09/07		26,116	25,728	(388)
DJ Euro STOXX 50 Index	56	09/07		3,303	3,415	112
S&P 500 Index	4,720	09/07		1,799,422	1,788,172	(11,250)
S&P 500 EMINI Index	2,309	09/07		176,393	174,953	(1,440)
Net total equity futures				2,057,275	2,045,694	(11,581)
Long commodity and other:						
Copper	21	09/07		1,772	1,812	40
Soybean	1	11/07		37	44	7
Corn	2	12/07		35	35	—
Crude Oil	21	11/07		1,469	1,500	31
Sugar	2	09/07		23	21	(2)
Wheat	2	12/07		50	61	11
Gold 100 Oz	25	08/07		1,665	1,628	(37)
Zinc	4	09/07		349	335	(14)
Nickel	1	09/07		227	218	(9)
Aluminum	6	09/07-12/07		411	410	(1)
Net total commodity and other futures				6,038	6,064	26
Net total futures exposure			$	3,727,536	3,724,293	(3,243)

Notes to Financial Statements

June 30, 2007 and 2006

Description	Number of contracts	Expiration date	Notional amount	Fair value of notional amount	Unrealized appreciation (depreciation)
	2006				
Long cash and cash equivalents:					
90-Day Australian Bk Bill	110	09/06-06/07	$ 19,219	25,808	6,589
90-Day Sterling LIBOR	249	09/06-06/07	53,194	54,700	1,506
3-Month EuroYen Tiff	176	09/06-03/07	37,800	38,243	443
90-Day Bank Acceptance	93	09/06-03/07	19,679	19,923	244
90-Day Eurodollar	1,935	09/06-12/07	459,589	456,983	(2,606)
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	(805)	06/07-09/08	(190,615)	(190,182)	433
Net total cash and cash equivalents futures			392,964	399,621	6,657
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)

Notes to Financial Statements

June 30, 2007 and 2006

Description	Number of contracts	Expiration date	Notional amount	Fair value of notional amount	Unrealized appreciation (depreciation)
	2006				
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	1,751	07/06-09/06	103,781	111,366	7,585
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
Long commodity and other:					
3MO Euro Euribor	11	03/07	3,303	3,384	81
Live Cattle	2	08/06-10/06	70	70	—
Soybean	6	11/06-01/07	185	188	3
Corn	21	12/06-12/07	288	282	(6)
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	(331)	09/06-06/07	(100,460)	(102,007)	(1,547)
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			$ 2,800,511	2,851,251	50,740

Notes to Financial Statements

June 30, 2007 and 2006

(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.

Open swap contracts at June 30 were as follows:

2007

Description	PRIT pays	PRIT receives	Maturity date	Notional amount	Unrealized appreciation (depreciation)
Interest rate swaps fix pay:					
IRS EUR P 6ME	4.00%	6-Month Euro	12/11	$ 308,196	9,677
IRS GBP P 6M	4.00% – 6.00%	6-Month LIBOR	09/15-12/35	89,685	2,227
IRS JPY P 6ML	2.00%	6-Month LIBOR	12/13-06/17	62,416	216
IRS USD P 3ML	5.00%	3-Month LIBOR	06/14-12/17	246,100	9,455
IRS-BLRK BRS	1.51% – 1.82%	6-Month Yen LIBOR	12/13-01/15	2,000,000	219
IRS-BLRK BRS	5.06%	3-Month LIBOR	03/17	35,000	1,107
INF EUR R	2.23%	Inflation Protection	06/12	15,126	—
CMM USD P	6.50%	Constant Maturing Mortgage	12/07-06/08	$ 34,800	(730)
Total interest rate swaps fix pay				$ 2,791,323	22,171
Interest rate swaps variable pay:					
IRS AUD R 6MBB	6-Month Aussy Bank Bill	6.50%	06/09	$ 10,011	(64)
IRS GBP R 6ML	6-Month LIBOR	6.00%	12/12	46,547	(395)
IRS JPY R 6ML	6-Month LIBOR	2.00%	6/17/2012	108,749	170
IRS USD R 3ML	3-Month LIBOR	5.00%	12/09-12/22	253,100	(3,600)
IRS MX R TIIE	Mexican TIIE rate	8.72% – 9.92%	0815-09/16	11,574	561
IRS USD R 3ML	3-Month LIBOR	5.00%	12/08-12/26	454,900	(3,460)
IRS-BLRK BRS	6-Month Yen LIBOR	2.43% – 2.60%	12/36-01/38	617,000	(166)
IRS-BLRK BRS	3-Month LIBOR	4.91% – 5.73%	06/10-03/17	225,200	(1,659)
IRS-PIMCO OP	Option premium	Option payoff based on CMS spread	11/08	8,600	147
Total interest rate swaps variable pay				$ 1,735,681	(8,466)

Notes to Financial Statements

June 30, 2007 and 2006

2007

Description	PRIT pays	PRIT receives	Maturity date		Notional amount	Unrealized appreciation (depreciation)
edit default swaps:						
CDX IG8 10Y BP GST	0.60%	Credit default protection	06/17	$	6,700	59
CIT GROUP BP UAG	0.69%	Credit default protection	06/17		7,300	(41)
COUNTRYWIDE HOME LOANS	0.87% – 0.89%	Credit default protection	06/17		7,300	(7)
E.I. DUPONT BP DUB	0.21%	Credit default protection	12/16		10,000	64
ENTERGY BP MYC	0.18%	Credit default protection	09/08		8,600	(8)
GLITNIR BANKI HF BP	0.17% – 0.37%	Credit default protection	06/10-03/12		33,800	(77)
HOUSEHOLD BP	0.38% – 0.39%	Credit default protection	06/17		5,900	(7)
INTL LEASE FIN CORP BP	0.22%	Credit default protection	09/12		4,000	(6)
KAUPTHING BANK PRIV BP	1.20%	Credit default protection	06/16		4,300	(225)
MERCK & CO BP	0.17% – 0.26%	Credit default protection	03/15		10,200	(20)
MORGAN STANLEY BP	0.32%	Credit default protection	12/16		5,200	60
NEW CINGULAR WIRELESS BP	0.29%	Credit default protection	06/12		4,200	(31)
BRAZIL BP	0.15%	Credit default protection	07/07		27,000	—
CDX IG7& IG8 BP	0.60% – 0.65%	Credit default protection	12/16-06/17		30,200	177
CIT GROUP SP UAG	Credit default protection	0.48%	06/12		12,700	34
COUNTRYWIDE HOME LOAN SP	Credit default protection	0.65% – 0.68%	06/12		12,700	(6)
GAZPROM SP 10/18/06 MYC	Credit default protection	0.44%	10/07		1,200	1
HOUSEHOLD SP LSI	Credit default protection	0.25%	06/12		10,600	2
MORGAN STANLEY SP	Credit default protection	0.10%	12/07		3,800	(1)
BRAZIL SP	Credit default protection	1.60% – 1.96%	05/13-05/16		10,000	497
CDX EM6 SP	Credit default protection	1.40%	12/11		3,150	46
COLOMBIA SP	Credit default protection	0.92% – 1.64%	05/11-04/12		2,350	59
GAZPROM SP	Credit default protection	0.76% – 1.50%	07/11-05/16		11,500	255
INDONESIA SP	Credit default protection	2.29% – 2.39%	09/16-12/16		1,500	76
PEMEX SP	Credit default protection	1.22% – 1.40%	05/16-07/16		7,000	326
PERU SP	Credit default protection	1.22% – 1.96%	05/11-10/16		4,050	220
RSHB CAPITAL SP	Credit default protection	1.11% – 1.26%	11/11-01/12		14,700	311
RUSSIA SP	Credit default protection	0.20%	7/20/2007		29,000	1
UKRAINE SP	Credit default protection	1.45% – 1.95%	02/12-06/17		2,700	6
ANADARKO PETROLEUM SP GST	Credit default protection	0.15%	3/20/2008		900	—
MEXICO SP 05/18/07 HUS	Credit default protection	0.18%	5/20/2009		1,000	—
WPP FINANCE BP CBK	Credit default protection	0.51%	6/20/2014		4,500	(45)
TEXTRON BP BTI	Credit default protection	0.11%	6/20/2010		10,000	(17)
Total credit default swaps				$	308,050	1,703

Notes to Financial Statements

June 30, 2007 and 2006

2007					
Description	**PRIT pays**	**PRIT receives**	**Maturity date**	**Notional amount**	**Unrealized appreciation (depreciation)**
Equity index swaps (total return swaps):					
Russell Equity Index Total Return Swaps	(LIBOR - 1) – (LIBOR + 2.5)	S&P 500	09/07-12/07	$ 2,077,575	5,835
Total equity index swaps swaps (total return swaps)				$ 2,077,575	5,835
Commodity swaps (total return swaps):					
TRS DOW JONES AIG COMDTY INDX	0.25%-0.26%	AIG Excess Return Commodity	08/07-09/07	978,348	(17,473)
Total commodity swaps				$ 978,348	(17,473)

Exposures by counterparties

		2007					
		Interest rate swaps		**Credit default swaps**		**Total return swaps**	
Counterparty	**Credit rating**	**Gross notional**	**Fair value**	**Gross notional**	**Fair value**	**Gross notional**	**Fair value**
Goldman Sachs International	AA-	$ 1,346,584	1,347	57,800	498	522,768	(7,094)
Barclays Bank PLC	AA	1,606,912	485	43,000	551	—	—
AIG	AA	—	—	—	—	1,148,492	(8,565)
Deutsche Bank AG	AA	834,401	6,392	28,200	(195)	—	—
Merrill Lynch Capital Services Inc.	AA-	44,141	(552)	—	—	442,682	(10,665)
Morgan Stanley Capital Services Inc.	AA-	101,552	(1,068)	58,650	397	308,797	443
All others	Various	593,414	7,101	120,400	452	633,184	14,243
		$ 4,527,004	13,705	308,050	1,703	3,055,923	(11,638)

Notes to Financial Statements

June 30, 2007 and 2006

2006

Description	PRIT pays	PRIT receives	Maturity date	Notional amount	Unrealized appreciation (depreciation)
Interest rate swaps fix pay:					
IRS CAD P 3MCBK	5.00%	3-Month Canadian Bank	06/15	12,342	32
IRS EUR P 6ME	4.00%	6-Month Euro	12/11	160,128	1,078
IRS JPY P 6ML	1.50% - 2.00%	6-Month Libor	12/13-12/14	107,418	(365)
IRS GBP P 6ML	4.00%	6-Month Libor	12/25	30,185	678
IRS USD P 3ML	5.00% - 5.73%	3-Month Libor	12/13-12/16	216,100	6,699
Total interest rate swaps fix pay				$ 526,173	8,122
Interest rate swaps variable pay:					
IRS EUR R 6ME	6-Month Euro	6.00%	06/34	$ 34,102	3,584
IRS GBP R 6ML	6-Month Libor	5.00%	12/07	142,222	(155)
IRS MX R TIIE	Mexican TIIE rate	9.92%	08/15	709	11
IRS USD R 3ML/5.65	3-Month Libor	5.00% - 5.65%	12/07-12/36	1,100,100	(10,613)
Total interest rate swaps variable pay				$ 1,277,133	(7,173)
Credit default swaps:					
CENTEX BP	1.17%	Credit default protection	06/16	1,500	(18)
DJ CDX IG4 BP	0.65%	Dow Jones CDX Index	06/15	32,700	(12)
ENTERGY BP	0.18%	Credit default protection	09/08	8,600	18
KAUPTHING BANK PRIV BP	1.20%	Credit default protection	06/16	4,300	(125)
MERCK & CO BP	0.26%	Credit default protection	03/15	4,200	(12)
NEW CINGULAR WIRELESS BP	0.29%	Credit default protection	06/12	4,200	(7)
BRAZIL SP	Credit default protection	0.76% - 1.24%	05/11-05/16	10,000	(344)
COLOMBIA SP	Credit default protection	1.60% - 1.96%	09/08-06/10	2,350	(13)
DJ CDX EM3 SP	Dow Jones CDX Index	1.35% - 2.10%	06/11-04/16	11,300	(105)
GAZPROM SP	Credit default protection	1.31% - 1.50%	08/15-05/16	10,000	(280)
MEX SP	Credit default protection	1.28% - 1.68%	02/09-01/14	10,500	421
PEMEX SP	Credit default protection	1.22% - 1.40%	04/16-07/16	7,000	(80)
PERU SP	Credit default protection	1.68% - 1.84%	05/11-08/12	1,500	(2)
RUSSIA SP	Credit default protection	0.44% - 2.49%	05/07-07/15	11,050	659
Total credit default swaps				$ 119,200	100
Commodity swaps (Total Return Swaps):					
AIG Excess Return Commodity Index	0.31%	AIG Excess Return Commodity	09/06-10/06	893,802	(17,663)
Total commodity swaps (Total Return Swaps)				$ 893,802	(17,663)

Exposures by counterparties

		2006					
		Interest rate swaps		**Credit default swaps**		**Total return swaps**	
Counterparty	**Credit rating**	**Gross notional**	**Fair value**	**Gross notional**	**Fair value**	**Gross notional**	**Fair value**
AIG	AA	-	-	-	-	893,802	(17,663)
UBS AG	AA+	667,853	(4,514)	-	-	-	-
Deutsche Bank AG	AA-	321,404	500	6,100	(125)	-	-
Barclays Bank PLC	AA	303,085	(317)	12,000	(362)	-	-
Morgan Stanley Capital Services Inc.	A+	221,432	493	58,150	227	-	-
All others	Various	289,532	4,787	42,950	360	-	-
		$ 1,803,306	949	119,200	100	893,802	(17,663)

Notes to Financial Statements

June 30, 2007 and 2006

(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 $113,124 and $155,939 for the years ended June 30, 2007 and 2006, 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, some 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 hedge fund-of-funds 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.

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 hedge fund-of-funds, distressed debt, and commingled account 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.

Notes to Financial Statements

June 30, 2007 and 2006

Therefore, the fair value of these investments are reported net of "indirect" management fees. For the years ended June 30, 2007 and 2006, these indirect management fees charged to PRIT's real estate, timber, absolute return and alternative investments amounted to approximately $129,779 and $90,999, 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 Hamilton Lane 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, 2007 and 2006, as compensation for their services, investment advisors earned fees aggregating approximately $2,938 and $2,568, 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. BNY 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, 2007 and 2006, custodian fees amounted to $3,225 and $3,050, 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, 2007 and 2006, other administrative expenses of the PRIM Board, including employee compensation, professional fees and occupancy costs, charged to PRIT totaled approximately $5,201 and $4,180, respectively, and are included in management fees in the accompanying statements of changes in pooled net assets.

(9) Commitments

As of June 30, 2007, PRIT had outstanding commitments to invest approximately $2,954 in alternative investments and distressed debt.

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, 2007

(Amounts in thousands)

	Capital Fund	Cash Fund	Total
Assets:			
Investments, at fair value:			
Short-term	$ 1,487,298	53,148	1,540,446
Fixed income	11,730,829	—	11,730,829
Equity	23,828,318	—	23,828,318
Real estate	4,828,582	—	4,828,582
Timber	1,637,474	—	1,637,474
Alternative investments	3,199,521	—	3,199,521
Absolute return	4,595,755	—	4,595,755
Total investments	51,307,777	53,148	51,360,925
Cash	167,761	—	167,761
Interest and dividends receivable	136,339	356	136,695
Receivable for investments sold	367,723	—	367,723
Securities sold on a when-issued basis	948,947	—	948,947
Unrealized gains on foreign currency exchange contracts	6,050	—	6,050
Receivable from Health Care Security Trust	3,242	—	3,242
Total assets	52,937,839	53,504	52,991,343
Liabilities:			
Securities purchased on a when-issued basis	1,591,779	—	1,591,779
Payable for investments purchased	387,521	—	387,521
Obligations under securities lending transactions	451,970	—	451,970
Unrealized losses on foreign currency exchange contracts	8,155	—	8,155
Margin variation receivable	1,791		1,791
Management fees payable to PRIM	151,993	—	151,993
Total liabilities	2,593,209	—	2,593,209
Net assets held in trust for pool participants	$ 50,344,630	53,504	50,398,134

See accompanying independent auditors' report.

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

Year ended June 30, 2007

(Amounts in thousands)

	Capital Fund	Cash Fund	Total
Additions:			
Contributions:			
State employees	$ —	420,199	420,199
State teachers	—	548,229	548,229
Other participants	—	1,047,285	1,047,285
Total contributions	—	2,015,713	2,015,713
Net investment income:			
From investment activities:			
Net realized gain on investments and foreign currency transactions	3,600,976	43	3,601,019
Net change in unrealized appreciation on investments and foreign currency translations	3,274,406	—	3,274,406
Interest income	584,916	5,186	590,102
Dividend income, net	542,471	—	542,471
Real estate income, net	241,045	—	241,045
Timber income, net	11,894	—	11,894
Alternative investment income, net	103,464	—	103,464
	8,359,172	5,229	8,364,401
Management fees	(124,488)		(124,488)
Net income from investment activities	8,234,684	5,229	8,239,913
From securities lending activities:			
Securities lending income	12,817	—	12,817
Securities lending expense	(23,948)	—	(23,948)
Net expense from securities lending activities	(11,131)	—	(11,131)
Total net investment income	8,223,553	5,229	8,228,782
Total additions	8,223,553	2,020,942	10,244,495

(Continued)

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

Year ended June 30, 2007

(Amounts in thousands)

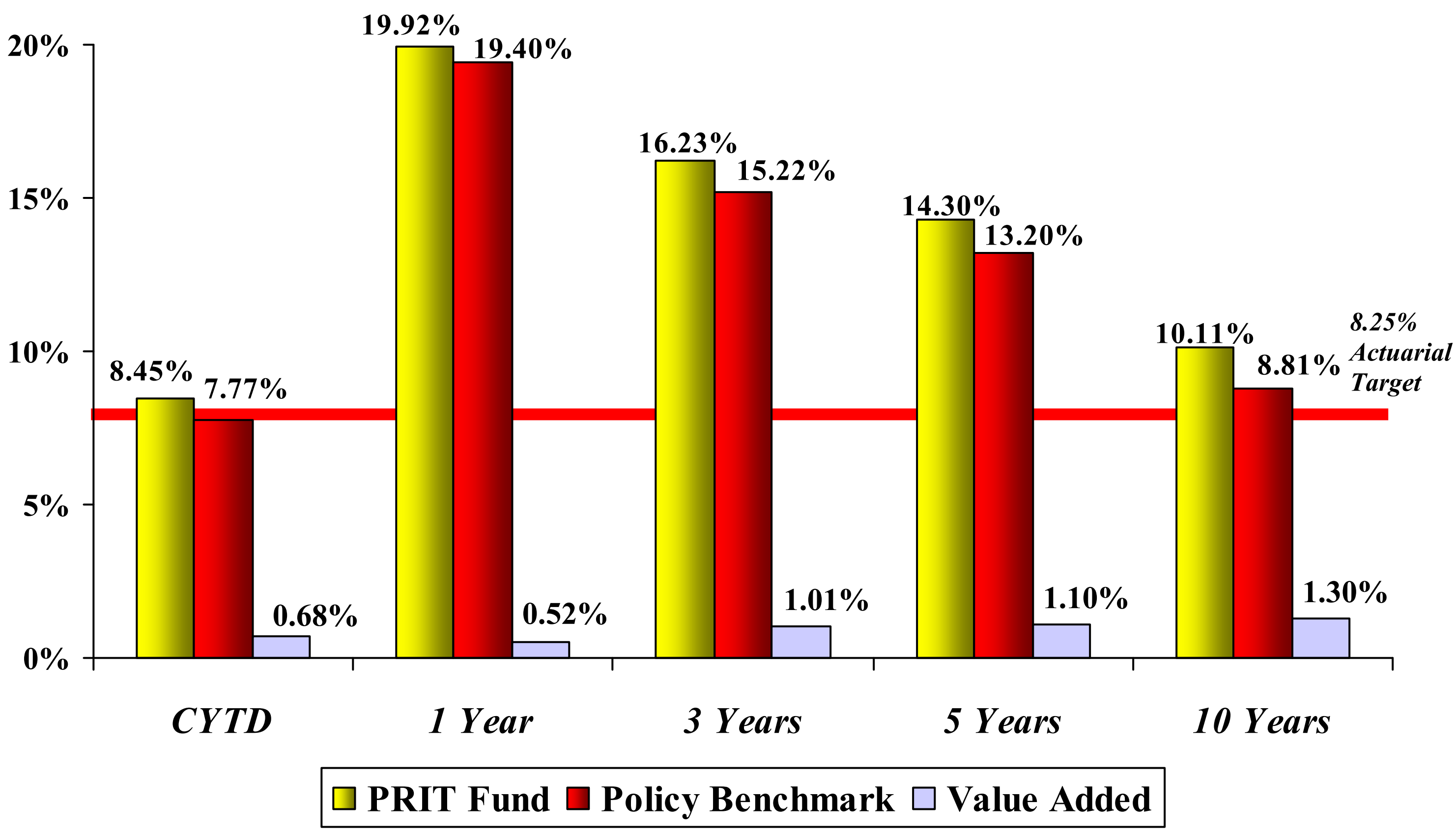
		Capital Fund	Cash Fund	Total
Deductions:				
Redemptions:				
State employees	$	—	672,596	672,596
State teachers		—	969,973	969,973
Other participants		—	128,843	128,843
Total deductions		—	1,771,412	1,771,412
Interfund transfers		(262,513)	262,513	—
Net increase in pooled net assets		8,486,066	(12,983)	8,473,083
Net assets held in trust for pool participants:				
Balance, beginning of year		41,858,564	66,487	41,925,051
Balance, end of year	$	50,344,630	53,504	50,398,134

See accompanying independent auditors' report.

Investment Section

Total PRIT Fund Performance Summary *

For the periods ended June 30, 2007



* 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, 2007, PRIM employed thirty-one public markets investment managers, eighty-one private equity markets managers, twelve real estate and timber managers, eight hedge fund-of-funds managers and three external investment consultants. The PRIT Fund had approximately $50.4 billion in assets under management at June 30, 2007.

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 PRIT 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 PRIT 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, 2007 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 3 years.

Asset Class	6/30/2007 Allocation %	2007 Long-Term Policy Target %
U.S. Equity	25.1	21
Portable Alpha	4.8	5
International Equity	21.0	20
Emerging Markets Equity	5.5	5
U.S. Bonds	10.9	10
TIPS	4.5	5
High Yield & Emerging Mkt Debt	4.6	5
Real Estate	8.6	10
Alternatives - Private Equity	6.7	10
Timber	3.2	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

2007 U.S. and World Markets Review

The fiscal 2007 year began in July as investors were weighing spectacular calendar Q2 earnings against the prospect of an impending economic downturn led by inflationary pressures and a possible housing correction. The US economy grew at a paltry 1.6% annual rate for the quarter, the slowest pace in three years. Despite slight gains in wages and some firmness in housing prices early in the quarter, there was some anxiety over the potential for the recent increases in the fed funds rate to strangle the economy, beginning with ever-slowing home sales in both the new and existing segments. Business was still in an expansionary mode, albeit at a slower rate than previous quarters, with only minor gains in both wages and productivity. Coming off what seemed to be a Goldilocks era in the prior fiscal year, traders, consumers and CFO's alike were looking for any sign that the economic climate was about to change one way or another. The first fiscal quarter, ending September 30, 2006 presented some hopeful symptoms of the soft landing that many wish for. The price of crude oil dropped 17.5% from $73.93 per barrel at the end of June to $62.91 per barrel by September. Gasoline followed with a 24% drop to $2.31 a gallon. It was later in the quarter when the markets began to rally in confidence that we would have both a stall in inflationary pressure and an end to the credit-tightening cycle without completely derailing corporate earnings. Even as the housing sector slowdown was in its infancy, the NAREIT Equity index up 9.26% for the quarter. After a cautionary start in July the Global equity markets roared through the finish line at quarter end. The S&P was up a solid 5.67% for the September quarter, in which there was a wide variety of domestic returns cut across the style, size and sector spectrums. The Russell 1000 Value led the pack with a gain of 6.21%. Russell 1000 Growth was a bit lower at 3.94%, followed by the Russell 2000 Value , up 2.55% and finally the Russell 2000 Growth which was down -1.75%. Within the S&P 500, Telecommunications and Health Care stocks returned 10.52% and 10.24% respectively while Energy stocks took up the rear, as might be expected, down -1.74%. Overseas, the MSCI EAFE was up 3.99% and the MSCI Emerging Markets Free (EMF) Index was up 5.01%. Domestic bonds had an impressive month as well with the Lehman Aggregate up 3.81% and the Merrill Lynch Master High Yield II up 4.05%.

The positive market momentum in September continued into the 2nd fiscal quarter. Stable business spending and small gains in payrolls supported the consumer in the face of a weakening housing market, supporting a year end rally. Consumer spending rose a robust 3.1%. Lower inflation and energy prices, with oil down to $61 per barrel at year end, paired with strength in the manufacturing sector helped grow the economy as a whole at an annual pace of about 3.5% and produced a bullish quarter to end the calendar year. Growing expectations that a rate cut could be imminent if inflation continued to steady or decline drove the Dollar to a 20 month low against the Euro, down 11.4% for calendar 2006. The global equity markets were strong across the board as investors speculated on strong corporate earnings, renewed economic growth and a potential drop in rates. U.S. small caps were generally the best with value stocks edging out growth. The Russell 2000 Value index was up 9.03% for the quarter ending December 31, 2006. At the other end of the spectrum the Russell 1000 Growth was up a respectable 5.93% for the same timeframe. In a total reversal from the previous quarter, Materials and Energy sectors performed the best, up 11.5% and 11.2% respectively, while Health Care trailed all sectors with a gain of only 1.28%. The weakness of the U.S. dollar boosted equities in the developed international and emerging markets, which faired much better, with the MSCI EAFE up 10.40% and the MSCI EMF index up a whopping 17.63%. A rate hike at the European Central Bank (ECB) to 3.5% and a small rise in the 10-year treasury bond (up to 4.71%) here at home contributed to a lack-luster quarter in the fixed income markets.

The Lehman Aggregate was up 1.24% and the Lehman Government Index was up just 0.83% for the quarter. High Yield continued to be the place for those seeking greater returns with the Merrill Lynch Master High Yield II up a solid 4.21%. Real Estate investors continued to reap rewards despite the deteriorating fundamentals on the consumer side as the NAREIT Equity Index surged 9.47% during the quarter and the NACREIF Property Index rose 3.51%.

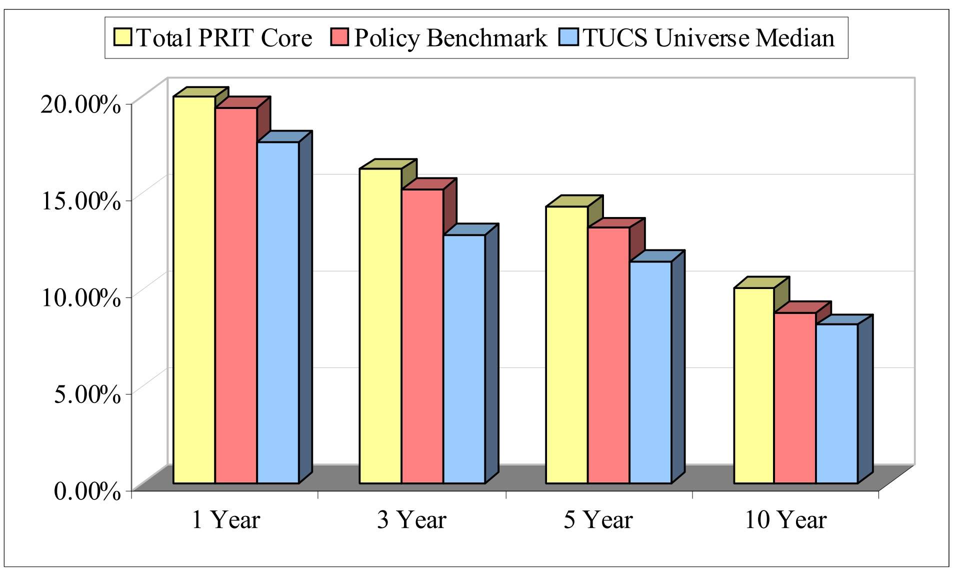
The robust performance from the 3rd fiscal quarter rolled in January of 2007. A fifth straight meeting with no action at the Fed based on a strong consumer, moderate inflation, and great economic data coming in from the last quarter of 2006. New highs were seen in the US and European markets in January fueled partly by a surge in M&A activity, a stronger dollar and tame inflation. Storm clouds were forming on the horizon however, volatility was on the rise everywhere and China began to sell-off in January on views that its growth was not sustainable. At the end of February, US markets would see their largest one-day selloff in 4 years. In addition, we began to see the first signs of credit quality anxiety in the housing market, particularly in the subprime sector. Total delinquency ran at a 5% rate of the total loans and by the end of 2006 subprime delinquency had jumped to 13.33%. Down the road we would come to know that this was just the tip of the iceberg. After a 4% drop in the S&P from late February thru early March, markets rebounded as the quarter closed, with oil back up to $65.87 per barrel, the 10 year bond down to 4.65%, unemployment at a low of 4.4% and the core PCE (personal consumption expenditure) just firm enough to keep the Fed from cutting rates once again. The Dollar lost ground on both the Euro and the Yen due to new tariffs and the ECB raised rates again to hit 3.75%. Growth stocks ruled in the small caps, Russell 2000 Growth up 2.47%, while Value slightly ahead in large caps, Russell 1000 Value up 1.25%. Overall midcap was the place to be for the quarter up 4.37%. Utilities and Materials outpaced all sectors up 9.39% and 8.51%, respectively and Financials suffered the most, down -2.89%. The MSCI EAFE, up 4.15% and EMF, up 2.35% did well for the quarter considering the enormity of the mid-quarter sell-off and returns benefitted from the weaker dollar for sure. Bonds once again had a moderate quarter after some intra-month fluctuation. The Lehman Aggregate, Government and Corporate indices were all up approximately 1.5% for the period. High yield bonds were once again the hot-spot in fixed income, up over 2.6% and REITS and properties indices were 3.5-4.5% as that sector continued to cool off.

Entering the final quarter of the fiscal year in April of 2007, there was a prevailing uneasiness about the growth prospects for the US in 2007. Energy prices were on the rise again, the economy had just seen the slowest growth rate in four years in the previous quarter, foreclosures were up and consumer spending was starting to wither. These fears were proven to be overblown, however, as corporate earnings kept rolling in better than expected, M&A activity continued to surge and traction was growing in business investment, jobs growth, manufacturing and durable goods orders, sending the markets on a torrid two month run through April and May. After the S&P hit an all-time high in early June the markets cooled off again as broad economic signals once again began to weaken with oil closing up at the end of June to $70.68 a barrel, home prices and sales falling with the largest inventory of homes for sale since 1992, and low unemployment and high resource demand keeping inflation fears alive.

The quarter as a whole was mostly good news, however, marking the 23rd straight positive growth quarter, rebounding from a soft period earlier in the year on the back of strong exports and business investment needed to replenish lean inventories that had run down over the past several months. In the U.S. equity markets the S&P had its best quarter of the fiscal year up 6.28% and up a stellar 20.59% for the trailing 12 months. Growth beat value once again, by a wider margin in the small cap space where the Russell 2000 Growth rose 6.69% versus the Russell 2000 Value gain of 2.23%. For the fiscal 2007 year, large cap value held the crown with gain of 21.85%, while small caps, as measured by the Russell 2000 rose a respectable 16.44%. Not surprisingly, Energy was the sector of choice up 11.63%, followed closely by Information Technology at plus 11.21%. The only down sector for the quarter was Utilities, which lost -1.59%. Rebounding on optimism that the global economy will maintain its current pace of growth and an increased appetite for risk drove overseas developed and especially emerging markets to surge in the June quarter, up 6.67% and 15.05%, respectively and up 27.53% and 45.44% for the fiscal year. Bonds, both domestically and internationally did not share the same success, with the 10-year treasury moving up to 5.03% and the ECB raising its rate a quarter to 4.00%. Two months of soft performance led to a down quarter for all bond indices with the exception of short treasuries and high yield. The Lehman Aggregate fell -0.52% for the quarter while the High Yield index gained just 0.30%. For the fiscal year, however, the indices were up 6.11% and 11.63%, respectively. Lastly, REITS posted another losing quarter, down -9.04%, but still managed a gain of 12.55% for the year.

PRIT CORE PERFORMANCE: FISCAL YEAR 2007

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



In the fiscal year 2007, the PRIT Core returned 19.95%, surpassing the policy benchmark return of 19.40%, by 55 basis points. The performance in fiscal 2007 has continued to escalate PRIM into the top 1% of all US Public Pension Funds over $1 billion in size for the longer term five and ten year periods 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 five and ten year periods. 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 2007 with a net asset value of $41.93 billion and ended with $50.40 billion. On a gross basis the fund was up approximately $8.47 billion, which is the result of $8.24 billion in investment income plus $244 million in net contributions from the State Employees, State-Teachers' and Participant accounts.

The returns for all four quarters of fiscal 2007 were positive with the final three fiscal quarters exceeding the policy benchmark return. The quarterly returns of the PRIT Core in fiscal year 2007 were as follows:

- 3.40 % for September 30, 2006 – versus a benchmark return of 4.16 %.
- 6.95 % for December 31, 2006 – versus a benchmark return of 6.37 %.
- 3.34 % for March 31, 2007 – versus a benchmark return of 3.14 %.
- 4.96 % for June 30, 2007 – versus a benchmark return of 4.49 %.

All of PRIT's asset classes had positive returns for the fiscal year. Leadership shifted this year to Emerging Markets with a hefty 42.50% return. Alternative Investments followed closely with another stellar year at 32.77%. International and Domestic Equities followed with gross returns of 26.46% and 20.77%, respectively. The remaining asset classes had positive returns in fiscal year 2007 as follows: Real Estate 16.78%, High Yield Debt 15.52%, Timber 15.29%, Absolute Return 13.86% and Fixed Income 4.92%.

During fiscal year 2007, 66% of PRIM's active public markets managers outperformed their individual benchmarks. Over the past three years, a 63% 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, 2007, PRIT Core had an annualized return of 16.25%, exceeding the interim policy benchmark by 103 basis points. During the five-year period ending June 30, 2007 the PRIT Core return of 14.32% outperformed the policy benchmark by 112 basis points per year and over ten years the PRIT Core returned 10.13%, 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 90.1% of PRIM's total budget for fiscal 2007 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 5.4% of PRIM's operating budget for fiscal year 2007 was allocated to fees for these professional services.

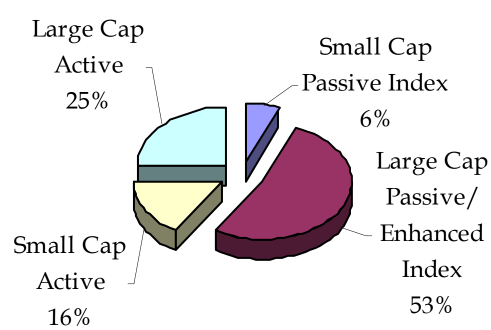
The PRIT Fund also incurs indirect management costs as a result of investing in alternative investments, hedge fund-of-funds, real estate, timber, and other commingled fund assets. Most investment management fees for alternative investments are charged by managing general partners to investment partnerships 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 hedge fund-of-funds and commingled fund assets 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 PRIT Fund.

The total cost of managing the PRIT Fund for fiscal year 2007, *inclusive* of all investment management (direct and indirect), consulting, custodial and overhead charges was 54 basis points of the average net asset value of the PRIT Fund compared to 63 basis points in fiscal year 2006. *Excluding* indirect management fees (as most public pension funds report), the cost of managing the PRIT Fund was 27 basis points compared to 41 basis points in fiscal year 2006. Overall fees can vary from year to year due to the nature of performance-based fees at PRIT. The decrease in the FY'07 fees over the prior years' fees can be traced to directly to the decrease in performance fees related to PRIT's real estate, timber and emerging markets investments. Managers continued to outperform their respective benchmark in most instances, but were not able to maintain some of the incredible outperformance in years past. The increases where offset slightly through asset growth. For information on expense ratios for each investment account, refer to the *Financial Highlights* ratios on pages 97-103 included in the Statistical Section of this report.

Domestic Equity Portfolio

As of June 30, 2007, the domestic equity portfolio had approximately $15.1 billion in net assets, which represented 29.9% of the PRIT Capital Fund. Approximately 78% of the domestic equity portfolio is invested utilizing a large capitalization stock ("large cap stocks") strategy and 22% 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.

Domestic Equity Portfolio
June 30, 2007

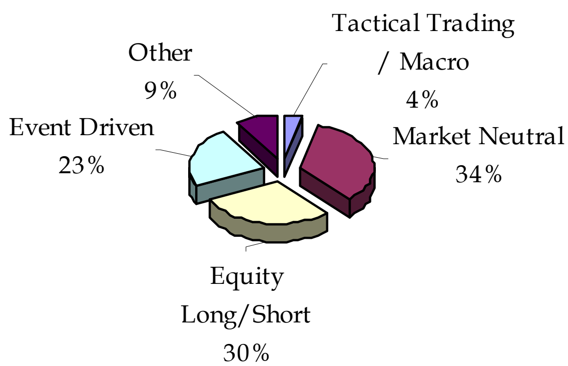


The large capitalization component of the Domestic Equity portfolio is 78% of the total Domestic Equity portfolio, and the small capitalization component represents the remaining 22%. While large cap is roughly 68% passively managed and the small cap portfolio is close to 26% passive, the portfolio as a whole is close to 59% 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 capitalization manager outperformed the index. Of the three enhanced index managers, one manager outperformed and two underperformed their benchmarks. Of the large cap active managers, all of the managers underperformed their benchmarks. The small cap passive manager underperformed its benchmark. Of the seven small cap active managers, five managers outperformed their benchmarks while two underperformed.

In February of 2006, the PRIM Board voted to allocate 5% of the total PRIT Capital Fund to the inception of a Portable Alpha program, housed within the large capitalization stock sleeve of the Fund's Domestic Equity portfolio. This 5% allocation to Portable Alpha resulted in a manager search, and the subsequent hiring of three active Hedge Fund-of-Funds alpha managers (Crestline, Grosvenor and Strategic Investment Group), and one beta overlay manager (Russell), during the fiscal year. The three Fund-of-Fund alpha managers are benchmarked against the US 3-Month LIBOR + 3%, and the beta manager is benchmarked to the S&P 500 minus LIBOR, with the entire program evaluated against the S&P 500. At June 30, 2007 the three Hedge Fund-of-Funds managers had investments in 100 underlying managers, with the following strategy allocations:

Portable Alpha Portfolio
Strategy Allocations
June 30, 2007



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 equity 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.

Risks surrounding PRIT's investment in Hedge Fund-of-Funds via the Domestic Equity Portable Alpha program are detailed in the Absolute Return portfolio section of the CAFR.

For the fiscal year, the portfolio produced a 20.77% return compared to 20.46% for the portfolio benchmark, the Dow Jones Wilshire 5000 index. PRIT's large cap managers returned 19.76% compared to the 20.40% return of the large cap benchmark S&P 500 index (ex-tobacco). The small cap managers returned 19.77% for the year versus 19.75% in the Dow Wilshire 4500 benchmark.

On a three- five- and ten-year basis through June 30, 2007, PRIT's Domestic Equity portfolio has returned 12.56%, 12.23%, and 8.40%, respectively, compared to the Dow Wilshire 5000 index, which returned 12.72%, 11.94%, and 7.67%, respectively.

The top ten holdings in the domestic equity portfolio at June 30, 2007 are illustrated below. A complete listing of holdings is available upon request.

#	Issue Name		Market Value ($000s)	% of Account Market Value
1	Commit to purchase FNMA Mtg.	$	257,495	1.71%
2	Exxon Mobil Corp.		209,339	1.39%
3	General Electric		188,649	1.25%
4	Citigroup Inc.		140,266	0.93%
5	Microsoft Corp.		131,007	0.87%
6	AT&T Inc.		128,185	0.85%
7	JPMorgan Chase & Co.		126,419	0.84%
8	Google Inc.		110,117	0.73%
9	Bank of America Corp.		103,479	0.69%
10	Pfizer Inc.		98,866	0.66%
	TOTAL	$	1,493,821	9.93%

The PRIT Fund's domestic equity managers at June 30, 2007 are highlighted in the following table:

Domestic Equity

Manager	Investment Mandate		Portfolio Market Value at June 30, 2007 ($000s)
State Street Global Advisors	S&P 500 Index	$	3,811,543
Goldman Sachs Asset Manaagement	S&P 500 Enhanced Index		1,252,098
Intech	S&P 500 Enhanced Index		1,235,870
PIMCO	S&P 500 Enhanced Index		1,253,992
Gardner Lewis	Large Cap Core/Growth		368,522
Legg Mason Capital Management, Inc,	Large Cap Value		976,138
NWQ	Large Cap Value		424,603
Crestline	US Equity Portable Alpha Hedge FoFs		678,165
Grosvenor	US Equity Portable Alpha Hedge FoFs		677,445
Strategic	US Equity Portable Alpha Hedge FoFs		671,129
Russell	S&P 500 Beta Overlay		389,094
State Street Global Advisors	Small Cap Index		857,470
Ariel Capital Management LLC	Small Cap Value		307,313
Numeric Investors, LP	Small Cap Growth		371,605
Mazama Capital Management	Small Cap Growth		338,535
AXA Rosenberg Investment Management	Small Cap Value		369,782
Wellington Management Company	Small Cap Core		355,131
Earnest Partners	Small Cap Value		336,315
Putnam Advisory Company	Small Cap Value		341,769
Other portfolio net assets			32,896
Total Portfolio Market Value June 30, 2007		**$**	**15,049,415**

International Equity Portfolio

As of June 30, 2007, the PRIM Board invested $10.6 billion in the International Equity Portfolio, representing 21.0% 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 (25% of the portfolio) and six actively managed accounts (75% 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 and the subsequent hiring of three active managers during the fiscal year: State Street Global Advisors, Axa Rosenberg, and Alliance Bernstein.

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, 2007, the International Equity portfolio returned 26.46% compared to the MSCI EAFE index return of 27.00%. Of the PRIT Capital Fund's four international equity managers that had a full fiscal year of performance, one active and one passive manager, 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, 2007, PRIT's international equity managers posted returns of 22.48%, 17.79%, and 10.71%, respectively, ahead of the MSCI EAFE index, which returned 22.24%, 17.73%, and 7.66% over the same periods.

The top ten holdings in the international equity portfolio at June 30, 2007 are illustrated below. A complete listing of holdings is available upon request.

#	Issue Name		Market Value ($000s)	% of Account Market Value
1	British Petroleum PLC	$	134,078	1.27%
2	Vodafone Group		119,150	1.13%
3	Glaxosmithkline		115,967	1.10%
4	Royal Bank of Scotland		109,508	1.04%
5	Total SA		103,957	0.98%
6	UBS		96,972	0.92%
7	Sanofi-Aventis		89,346	0.84%
8	Novartis		86,152	0.81%
9	Banco Santander		86,002	0.81%
10	Unicredito Italian		84,757	0.80%
	TOTAL	$	1,025,889	9.70%

The PRIT Fund's international equity managers at June 30, 2007 are highlighted in the following table:

Manager	Investment Mandate	Portfolio Market Value at June 30, 2007 ($000s)
Marathon Asset Management Ltd.	EAFE Benchmark	$2,701,196
State Street Global Advisors	EAFE Index	2,664,967
Ballie Gifford	EAFE Benchmark	1,314,382
The Boston Company	EAFE Benchmark	1,277,878
Alliance Bernstein	EAFE Benchmark	871,356
AXA Rosenberg Investment Management	EAFE Benchmark	873,664
State Street Global Advisors	EAFE Benchmark	870,227
Other portfolio net assets		891
Total Portfolio Market Value June 30, 2007		**$10,574,561**

Emerging Markets Portfolio

As of June 30, 2007, the PRIM Board invested approximately $2.8 billion in the Emerging Markets Equity Portfolio, representing 5.5% 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.

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.

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 42.50% compared to the MSCI Emerging Markets Net Dividends index return of 44.99%. Two of three current emerging markets equity managers exceeded the benchmark for the fiscal year. 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, 2007, PRIT's emerging markets equity managers posted returns of 38.87%, 31.23%, and 11.54%, respectively, ahead of the MSCI Emerging Markets Net Dividends index, which returned 38.20%, 30.39%, and 9.68% over the same periods.

The top ten holdings in the emerging markets portfolio at June 30, 2007 are illustrated below: A complete listing of holdings is available upon request.

#	Issue Name	Market Value ($000s)	% of Account Market Value
1	Samsung Electronics	$ 79,152	2.88%
2	Hon Hai Precision	57,220	2.08%
3	America Movil	49,765	1.81%
4	China Mobile LTD	47,493	1.73%
5	POSCO	45,871	1.67%
6	Companhia Vale Do Rio Doce	43,296	1.57%
7	EMM EMSAF-Mauritus Fund	42,462	1.54%
8	Sberbank Rossii	41,301	1.50%
9	Kookmin Bank	40,930	1.49%
10	Petroleo Brasileiro	40,656	1.48%
	TOTAL	$ 488,146	17.75%

The PRIT Fund's emerging markets equity managers at June 30, 2007 are highlighted in the following table:

Manager	Investment Mandate	Portfolio Market Value at June 30, 2007 ($000s)
Emerging Markets Management	Value/Frontier	$ 1,166,025
Grantham, Mayo, Van Otterloo & Co. LLC	Value	1,240,873
T. Rowe Price	Growth	342,447
Other portfolio net assets		1,286
Total Portfolio Market Value June 30, 2007		**$ 2,750,631**

Fixed Income Portfolio

The PRIM Board invested approximately $7.8 billion in the investment grade Fixed Income Portfolio, representing 15.5% of the PRIT Capital Fund as of June 30, 2007. The Fixed Income Portfolio is invested using the following strategies:

- 18% in a Lehman Brothers Aggregate passively managed index fund;
- 52% in actively managed Lehman Brothers Aggregate core portfolios;
- 17% in Treasury Inflation Protected Securities (TIPS);
- 12% 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 and Community Capital Management (CCM) under the PRIM Board's Economically Targeted Investment (ETI) program. The Access Capital portfolio is benchmarked against a customized 80% Merrill Lynch 30 Year Mortgages/20% Merrill Lynch 1-10 Year US Treasuries benchmark, while the CCM portfolio is benchmarked against the LB Agg. 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. The portfolio is also exposed to movements in commodity prices through its commodity investments in the fixed income account. Commodity price movements can adversely effect portfolio returns.

For the fiscal year 2007, the Fixed Income composite return of 4.92% lagged the benchmark (67% LB Agg/20% Lehman US TIPS/13% Custom Commodities index), which was 5.02%. The Total Core portfolio returned 5.99%, lagging the benchmark return of 6.12%. PRIT's TIPS manager, Barclays, achieved a 3.95% return versus the Lehman US TIPS benchmark return of 3.99%, with Commodities managers, Blackrock and Bridgewater, achieving a 0.70% return versus the Custom Commodities index of 0.27%, while the ETI managers, Access Capital and Community Capital Management, returned 6.47% and 5.33% versus their benchmark returns of 6.26% and 6.12%, respectively.

Five of the top ten holdings in the fixed income portfolio at June 30, 2007 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	FHLB Discount Note July 2007	$ 214,114	2.74%
2	TBA FNMA MTG 5.500% July 2037	119,775	1.54%
3	FNMA Pool #0745336 5.000% March 2036	118,911	1.52%
4	U.S. Treasury Notes 2.375% May 2014	117,341	1.50%
5	FHLMC Pool #G0-1994 5.000% December 2035	78,004	1.00%
6	TBA FNMA MTG 5.500% August 2037	67,466	0.86%
7	FNMA Pool #0735224 5.500% February 2035	45,535	0.58%
8	TBA FHLMC MTG 5.500% August 2037	44,282	0.57%
9	FNMA Pool #0357969 5.000% September 2035	41,426	0.53%
10	TBA FHLMC MTG 5.500% July 2037	40,504	0.52%
	TOTAL	$ 887,358	11.38%

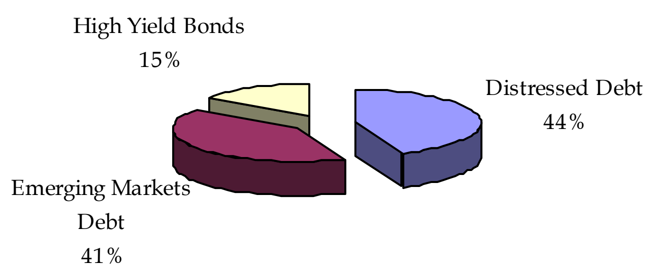
The PRIT Fund's fixed income portfolio managers at June 30, 2007 are highlighted in the following table:

Manager	Investment Mandate		Portfolio Market Value at June 30, 2007 ($000s)
Barclays Global Investors	Core Index	$	1,349,964
Barclays Global Investors	TIPS		1,333,378
PIMCO	Active Core		1,349,827
Blackrock Financial Management	Active Core		1,347,030
Loomis, Sayles & Co., LP	Active Core		1,350,021
Blackrock Financial Management	Inflation Link Bonds/Commodities		574,676
Bridgewater Associates	Inflation Link Bonds/Commodities		383,536
Access Capital	ETI		80,987
Community Capital Management	ETI		26,305
Other portfolio net assets			4,949
Total Portfolio Market Value June 30, 2007		**$**	**7,800,673**

High Yield Portfolio

The PRIM Board invested approximately $2.3 billion in the High Yield Portfolio, representing 4.6% of the PRIT Fund as of June 30, 2007. 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, 2007



High yield bonds, which represent 2.0% of the PRIT Capital Fund, are securities that are rated below Investment Grade by Standard & Poor's, Fitch 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 PRIT Capital 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, 2007 the PRIT Fund had approximately $349 million in distressed debt investments with five investment managers. This portfolio represents 0.7% 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 2007, the High Yield composite returned 15.52% compared to 11.14% for the asset class benchmark. The PRIT Capital Fund's three high yield bond managers, Shenkman, Fidelity and Loomis Sayles, returned 13.30%, while the Merrill Lynch High Yield Master II Constrained index returned 11.76%. In February 2007, the high yield bond portfolio's index was changed to the Merrill Lynch High Yield Master II Constrained index to better reflect the single issuer holding limitations that the PRIT Capital Fund's investment managers are bound by. Distressed debt investments are limited partnerships and PRIT Core has invested a total of $349 million with five different managers; Oaktree Capital Management, Angelo, Gordon & Co., Avenue Capital Group, Wayzata Investment Partners, and TCW Asset Management. In February 2007 the PRIT Capital Fund changed the benchmark for the Distressed Debt portfolio from Actual Performance to the Merrill Lynch High Yield Master II Constrained index, since distressed debt resides within the high yield portfolio and high yield bond investments are used as a substitute for the distressed debt when there are no good distressed debt opportunities. The Distressed Debt portfolio returned 17.24% compared to the index return of 7.15%. The Emerging Markets Debt portfolio, managed by Ashmore, GMO and PIMCO, returned 17.44% during the fiscal year, comfortably ahead of JP Morgan Emerging Markets Bond Index (JPM EMBI Global Index), which returned 11.68%, by 576 basis points.

The top ten holdings in the high yield portfolio at June 30, 2007, 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 request.

High Yield

#	Issue Name		Market Value ($000s)	% of Account Market Value
1	US Treasury Bonds 4.5000% February 2036	$	20,302	0.87%
2	Brazil Bonds 10.125% May 2027		19,001	0.82%
3	CCH I LLC 11.000% October 2015		12,978	0.56%
4	Elan Fin Corp 7.750% November 2011		10,713	0.46%
5	General Electric Corp 1.500% April 2012		10,111	0.43%
6	Toys R Us 7.375% October 2018		9,520	0.41%
7	Valeant Phar 4.000% November 2013		9,488	0.41%
8	KB Home 7.250% June 2018		9,016	0.39%
9	Lucent Technologies 6.45% March 2029		8,996	0.39%
10	Danske Corp September 2007		8,681	0.37%
	TOTAL	$	118,806	5.10%

The PRIT Fund's high yield portfolio managers at June 30, 2007 are highlighted in the following table:

Manager	Investment Mandate		Portfolio Market Value at June 30, 2007 ($000s)
Fidelity Management Trust	High Yield Bond	$	332,958
Shenkman Capital Management	High Yield Bond		350,367
Loomis, Sayles & Co., LP	High Yield Bond		338,860
Ashmore Investment Management	Emerging Markets Debt		434,964
Grantham, Mayo, Van Otterloo & Co. LLC	Emerging Markets Debt		331,218
PIMCO	Emerging Markets Debt		183,948
Various	Distressed Debt		348,891
Other portfolio net assets			8,187
Total Portfolio Market Value June 30, 2007		**$**	**2,329,393**

Real Estate Portfolio

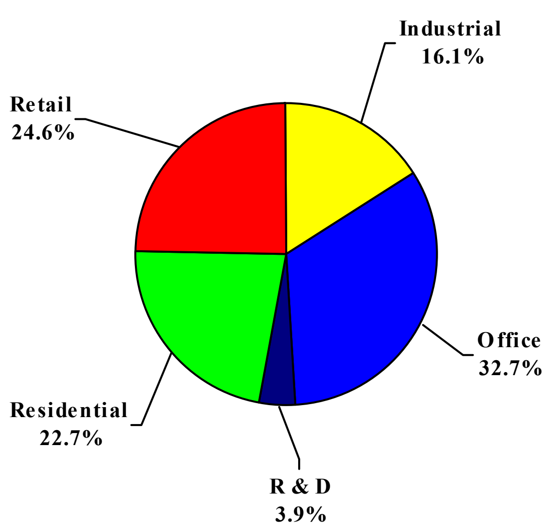
As of June 30, 2007, PRIM had $4.32 billion invested in real estate (net of $429 million in debt), representing 8.6% of the PRIT Capital Fund. Real estate holdings consist of directly-owned properties, REITs, and three ETI investments. The PRIT Fund invests in real estate because it provides the PRIT 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.

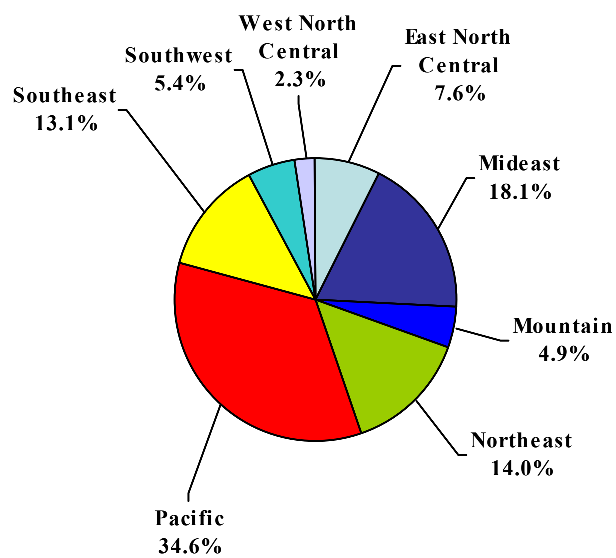
Currently, approximately 78% of the real estate allocation (net of borrowings) is dedicated to direct investments in real estate properties. These investments are subsequently broken down into Core and Value real estate investments. Currently, $3.8 billion of Core real estate investments and $6 million of Value real estate investments comprise PRIM's directly owned 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. Value investments offer higher potential returns at a higher risk profile managed by the investment advisor. PRIM's Value program targets opportunities associated with vacancy and tenant exposure or the potential to physically or financially reposition an investment.

REITs comprise the remainder of the investments in the PRIT real estate portfolio. As of June 30, 2007, PRIM had approximately $912 million allocated to REITs. Due to significant increases in REIT values during the year, the REIT portfolio increased to 3.2% of the total PRIT fund, outside the 1-3% target range. In accordance with rebalancing policy, PRIM sold approximately $530 million of its U.S. REIT portfolio during the first quarter of 2007 to return the portfolio to a target allocation of 2%.

During the fiscal year, three Core properties and one Value property were acquired at a total gross cost of $235 million. The PRIM Board approved the implementation of a Value mandate which was awarded to RREEF. The first investment in this program was made in May with the purchase of an industrial property located in Miami, FL. Eight properties were sold during the year, generating $478 million in proceeds. Included in this group was the sale of Warner Center for $308 million, a 15.4% internal rate of return on PRIM's cost of $264 million.

The following charts show the property type and location diversification of PRIM's directly owned real estate assets at June 30, 2007:





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. 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. As of June 30, 2007, the PRIT Fund had approximately $450 million in real estate borrowings through its security lending program. Due to decreasing spreads between real estate income returns and PRIM’s cost of borrowing, PRIM began to reduce its real estate borrowings subsequent to June 30, 2007 and has paid off the entire $450 million in borrowings and closed the related swap contracts. The associated borrowings were subsequently paid back through the securities lending program mentioned above. The portfolio also has additional property level debt of $207 million.

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.

Performance. Overall commercial real estate returns continued to be strong into 2007 as borrowing terms and rates remained low, property fundamentals improved and supply remained relatively flat. For the one-year period, the portfolio returned 16.78%, exceeding the asset class benchmark return of 16.30% (67% NCREIF Property Index/33% NAREIT Equity Index). The investments in direct property ownership returned 15.06% for the twelve months ending June 30, 2007, lagging the NCREIF Property Index (one quarter lag), which returned 16.60% over the same period. Leveraged portfolio returns for the same period were 16.33%, an underperformance of 27 basis points. REIT investments performed extremely well. For the one-year period the Fund’s five REIT managers returned 13.60%, beating the NAREIT Equity Index, which returned 12.57%.

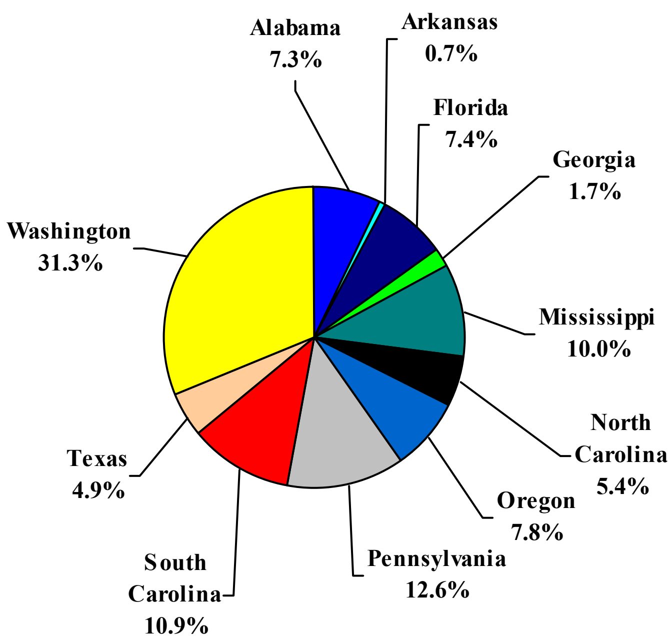
The real estate portfolio has returned 23.92% over the past three years versus the asset class benchmark of 18.99%. On a five-year basis, returns were 19.57 % compared to the benchmark return of 15.21%. On a ten-year basis, the real estate portfolio returned 15.41% compared to the benchmark return of 13.59%. The PRIT Fund's real estate investment managers at June 30, 2007 are highlighted in the following table:

Manager	Investment Mandate		Portfolio Market Value at June 30, 2007 ($000's)
Invesco Realty Advisors	Separate Accounts	$	564,069
Lasalle Investment Management	Separate Accounts		917,153
RREEF	Separate Accounts		985,127
J.P. Morgan Investment Management	Separate Accounts		373,544
TA Associates Realty	Separate Accounts		956,565
REEF Value	Separate Accounts		6,010
RREEF	REITs		263,454
Invesco Realty Advisors	REITs		100,423
Lasalle Investment Management	REITs		88,591
Urdang	REITs		78,353
Wellington	REITs		381,548
Canyon Johnson	ETI		7,642
Intercontinental	ETI		5,835
New Boston	ETI		2,372
Non-core real estate portfolio			2
Portfolio Debt			(428,911)
Other portfolio net assets			14,490
Total Portfolio Market Value June 30, 2007		**$**	**4,316,267**

Timber Portfolio

As of June 30, 2007, PRIM had $1.6 billion invested in timber representing 3.2% 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, 2007, FIA and the Campbell Group had approximately $993 and $594 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, 2007 is highlighted below.



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.

Performance. As of June 30, 2007, the one-year return was 15.29% as compared to the NCREIF Timber Index (one quarter lag) of 14.65%. Since its inception, in December of 2001, the Timber portfolio has produced an annualized return of 14.85% versus a benchmark return of 8.56%, an out-performance of 629 basis points.

With a 3.2% investment in timber at fiscal year-end, PRIM was 0.8% under its target allocation of 4%. Due to elevated timber pricing, PRIM and its managers did not complete any acquisitions during the year. However, both staff and its managers continue to evaluate new strategies and opportunities both domestically and abroad.

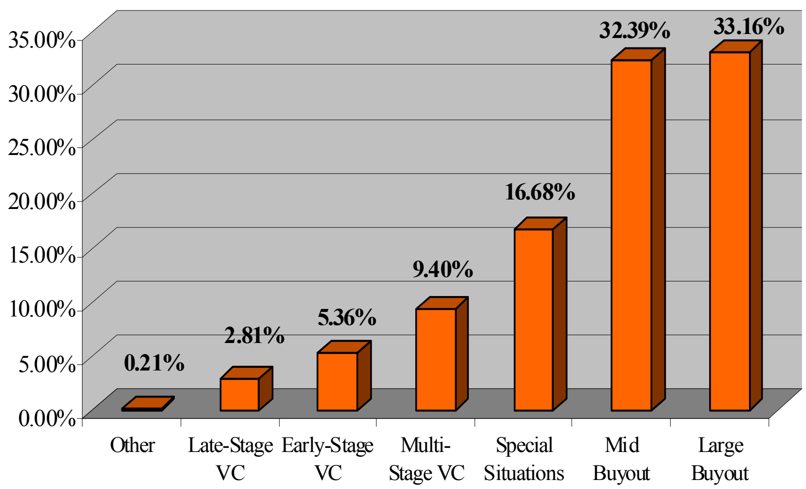
Subsequent to June 30, 2007, PRIT sold its entire Campbell Group portfolio, which represented approximately 37% of the June 30, 2007 balance. Currently, Forest Investment Associates (FIA) is PRIM's sole timber manager. The PRIM Board continues to work with FIA to manage PRIM's existing timber portfolio while assessing timber markets and PRIM's strategy in a maturing environment. Timber values remain high as a result of growing institutional interest in timberland investment and increasing international demand for U.S. lumber products. This has created significant competition for timber investments but also created opportunities for dispositions at favorable pricing. During the February 2008 asset allocation review PRIM will evaluate its investment in timber going forward, including whether to invest internationally, remain domestic, or to divest altogether.

Alternative Investments Portfolio

As of June 30, 2007 the market value of the Alternative Investment Portfolio was $3.4 billion or 6.7% 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 multi-stage) and special equity partnerships (large market buyout, middle market buyout, and special situations). 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, 2007 is highlighted below.

PRIT's Alternative Investments by Strategy ***(Market Value)***

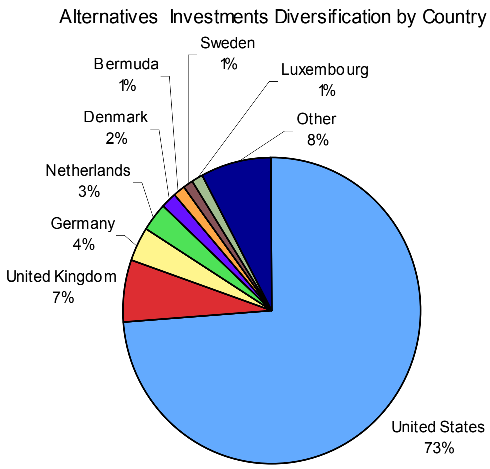
As of June 30, 2007

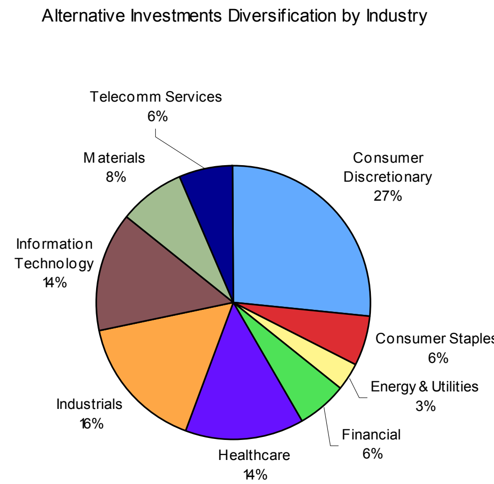


In addition to being diversified at the partnership level by strategy, the Alternative Investments Portfolio is highly diversified at the underlying portfolio company level. The portfolio's current country and industry allocations are presented below.

PRIM Industry and Geographic Exposure

As of March 31, 2007





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 32.77%. PRIT's alternative investments managers took advantage of a strong economic environment and healthy capital markets to sell assets generating $745 million in distributed proceeds during the first two quarters of 2007 and $1.3 billion for the twelve months ending June 30, 2007. The PRIT Fund's alternative investments managers also took advantage of the environment to invest $495 million and $1 billion over the trailing six and twelve month periods, respectively. 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 16.79% as of June 30, 2007, exceeding the S&P 500 index return of 7.13% by 966 basis points. On a five-year basis, the portfolio exceeded the S&P 500 by 1,144 basis points, 22.15% compared to 10.71%. For the three-year period ending June 30, 2007, the alternative investments portfolio returned 32.61%, exceeding the S&P 500 index return of 11.68% by 2,093 basis points. For the one year period ending June 30, 2007, the alternative investments portfolio returned 32.77%, outperforming the S&P 500 index return of 20.59% by 1,218 basis points. Specifically during this time, the special equity portfolio generated a return of 38.75% and the venture capital portfolio returned 19.91%.

As of June 30, 2007, PRIT has committed over $8.6 billion to 231 partnerships of which $5.9 billion has been invested. The program has generated $6.1 billion in distributions and has a remaining market value of $3.4 billion. The net IRR since inception for the program is 14.5%.

ALTERNATIVE INVESTMENTS EXTERNAL MANAGERS

As of June 30, 2007

	Partnership	Location		Partnership	Location
1	Advent International	Boston, MA	42	Kelso & Company	New York, NY
2	Alchemy Partners	London, UK	43	Kohlberg Kravis Roberts& Co.	New York, NY
3	Alta Communications	Boston, MA	44	Landmark Equity Partners	Simsbury, CT
4	APAX Partners & Co.	London, UK	45	Lexington Partners	New York, NY
5	Apollo Management Co.	New York, NY	46	Madison Dearborn Capital Partners	Chicago, IL
6	AustinVentures	Austin , TX	47	Menlo Ventures	Menlo Park, CA
7	Battery Ventures	Wellesley, MA	48	M/C Venture Partners	Boston, MA
8	Berkshire Partners, LLC	Boston, MA	49	Montagu Private Equity	London, UK
9	The Blackstone Group	New York, NY	50	Narragansett Capital, Inc.	Providence, RI
10	Boston Ventures	Boston, MA	51	Nautic Partners	Providence, RI
11	Brown Brothers Harriman & Co.	New York, NY	52	New Enterprise Associates	Baltimore, MD
12	Candover	Boston, MA	53	Nordic Capital	Stockholm , Sweden
13	Carlyle Partners	London, UK	54	Olympus Growth Fund	Stamford, CT
14	Castile Ventures	Waltham, MA	55	Onex Partners	Toronto, CA/NY, NY
15	Centerbridge Capital Partners	New York, NY	56	Permira Europe	London, UK
16	Charles River Ventures	Waltham, MA	57	Polaris Venture Partners	Waltham, MA
17	Charlesbank Capital Partners	Boston, MA	58	Providence Equity Partners	Providence, RI
18	Chequers Capital	Paris, France	59	Quad - C Management, Inc.	Charlottesville, VA
19	Code Hennessey & Simmons	Chicago, IL	60	Richland Ventures	Nashville, TN
20	Commonwealth Capital Ventures	Wellesley, MA	61	SCP Vitalife	Tel Aviv, Israel
21	CVC Capital (Europe)	London, UK	62	Sovereign Capital Limited	London, UK
22	Cypress Merchant Banking	New York, NY	63	Spark Capital	Boston, MA
23	DLJ Merchant Banking	New York, NY	64	Spectrum Equity Partners	Boston, MA
24	El Dorado Ventures	Menlo Park, CA	65	Summit Ventures	Boston, MA
25	Equitable Capital Management	New York, NY	66	TA Associates/Advent	Boston, MA
26	Essex Woodlands	Chicago, IL	67	TCV	Menlo Park, CA
27	Exponent Partners	London, UK	68	Texas Pacific Group	San Fran./Forth Worth
28	First Reserve Corporation	Greenwich, CT	69	Thoma Cressey Fund	Chicago, IL
29	Flagship Ventures	Cambridge, MA	70	Thomas H. Lee Equity Partners	Boston, MA
30	Forstmann, Little & Co.	New York, NY	71	Torquest	Toronto, CA
31	Freeman Spogli Equity Partners	Los Angeles, CA	72	Trident Capital	Palo Alto, CA
32	Genstar Capital Partners	San Francisco, CA	73	Union Square	New York, NY
33	The Gores Group	Los Angeles, CA	74	VantagePoint Partners	San Bruno, CA
34	GTCR Golder, Rauner	Chicago, IL	75	Venture Capital Fund of NE	Boston, MA
35	Harborvest Partners	Boston, MA	76	Vestar Capital Partners	New York, NY
36	Hellman & Friedman Capital Partners	Los Angeles, CA	77	Welsh CarsonAnderson & Stowe	New York, NY
37	H.I.G. Capital	Miami, Fla.	78	Weston Presidio Capital	Boston/San Francisco
38	Highland Capital Partners	Boston, MA	79	Whitney & Co.	Stamford, CT
39	Insight Venture Partners	New York, NY	80	William Blair Mezzanine Capital Fund	Chicago, IL
40	InterWest Partners	Menlo Park, CA/Dallas, TX	81	Willis Stein	Chicago, IL
41	Joseph Littlejohn & Levy	New York, NY			

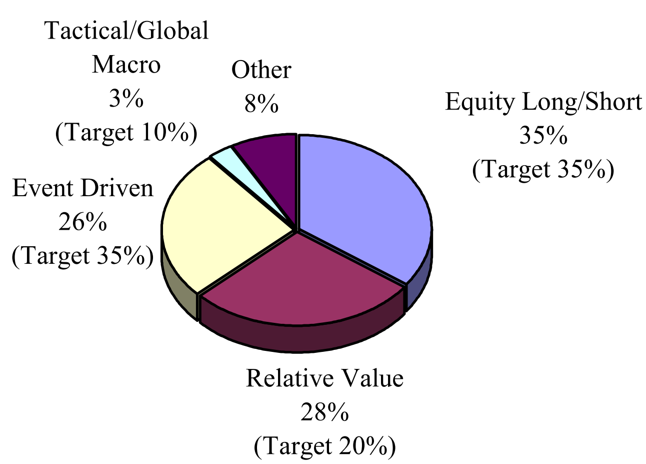
Absolute Return Portfolio

As of June 30, 2007 the Absolute Return Portfolio had approximately $2.6 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, 2007 were as follows:

Manager	Portfolio Market Value at June 30, 2007 ($000's)	
Arden Asset Management	$	556,328
Ivy Asset Management Corp.		531,965
K2 Advisors		530,269
PAAMCO		451,721
The Rock Creek Group		498,733
Other portfolio net liabilities		(15)
Total Portfolio Market Value June 30, 2007	**$**	**2,569,001**

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, 2007 are highlighted below.

Strategy Allocations
As of June, 2007



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 13.86% for the fiscal year versus a return of 9.21% for the benchmark of treasury bills plus 4%. The absolute return portfolio has returned 10.54% over the past three years versus the asset class benchmark of 7.77%. The outperformance compared to the benchmark was due to strong fiscal year performance by all five of the managers. All performance figures for this asset class are reported 'net of fees'.

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	**20.77%**	**12.56%**	**12.23%**	**8.40%**
Dow Jones Wilshire 5000	*20.46%*	*12.72%*	*11.94%*	*7.67%*
International Equity	**26.46%**	**22.48%**	**17.79%**	**10.71%**
MSCI EAFE	*27.00%*	*22.24%*	*17.73%*	*7.66%*
Emerging Markets	**42.50%**	**38.87%**	**31.23%**	**11.54%**
MSCI EMF Gross Div.	*44.99%*	*38.20%*	*30.39%*	*9.68%*
Fixed Income (1)	**4.92%**	**3.97%**	**5.19%**	**6.36%**
67% LB Agg/20%LB US TIPS/13% Custom Commodities	*5.02%*	*3.60%*	*4.63%*	*6.10%*
High Yield Debt (1)	**15.52%**	**12.24%**	**14.60%**	**na**
44% MLHYM,44% JPM EMBI Global & 12% Actual Distressed	*11.14%*	*10.10%*	*12.68%*	*na*
Real Estate	**16.78%**	**23.92%**	**19.57%**	**15.41%**
NCREIF Property Index (qtr. lagged)	*16.30%*	*18.99%*	*15.21%*	*13.59%*
Alternative Investments	**32.77%**	**32.61%**	**22.15%**	**16.79%**
No Benchmark	*na*	*na*	*na*	*na*
Timber (2)	**15.29%**	**16.26%**	**15.39%**	**na**
NCREIF Timber Index	*14.65%*	*14.94%*	*10.83%*	*na*
Absolute Return (3)	**13.86%**	**10.54%**	**na**	**na**
T-bills plus 4%	*9.21%*	*7.77%*	*na*	*na*

	1 Year	3 Year	5 Year	10 Year
Total PRIT Core	**19.95%**	**16.25%**	**14.32%**	**10.13%**
Policy Benchmark	*19.40%*	*15.22%*	*13.20%*	*8.81%*
TUCS Universe Median	*17.69%*	*12.84%*	*11.47%*	*8.19%*
TUCS Universe Ranking	*7th*	*2nd*	*1st*	*1st*

(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, 2007

		Fair Value ($000s)	% of Fair Value
Short-term:			
Money market investments	$	1,540,446	3.00%
Fixed income:			
U.S. Government obligations		2,442,808	4.76%
Domestic fixed income		7,065,688	13.76%
International fixed income		1,873,443	3.65%
Distressed debt		348,890	0.68%
Equity:			
Domestic equity securities		10,521,056	20.48%
International equity securities		13,307,262	25.91%
Real estate:			
Core		4,828,580	9.40%
Noncore		2	0.00%
Timber		1,637,474	3.19%
Alternative investments:			
Venture capital		753,902	1.47%
Special equity		2,445,619	4.76%
Hedge Fund-of-Funds investments:			
Absolute return		2,569,016	5.00%
Portable Alpha		2,026,739	3.95%
Total investments	$	51,360,925	100.00%

SUMMARY SCHEDULE OF BROKER COMMISSIONS

(Top 25 Brokers and Cumulative Fees Paid to Others)

Fiscal Year Ended June 30, 2007

Brokerage Firms	Fees Paid ($)	% total	Average per share
Merrill Lynch	$ 1,341,367	8.5%	$ 0.009
UBS	1,005,420	6.4%	0.003
State Street Brokerage Services	828,081	5.2%	0.011
Credit Suisse	770,279	4.9%	0.008
Deutsche Bank	690,431	4.4%	0.012
Goldman Sachs & Co.	688,180	4.3%	0.008
JP Morgan Securities Inc.	667,051	4.2%	0.006
Morgan Stanley & Co.	607,123	3.8%	0.013
Citigroup Global Markets	577,293	3.6%	0.013
Lehman Bros Inc.	413,485	2.6%	0.013
Instinet Corp	387,074	2.4%	0.008
BNP Paribas	375,084	2.4%	0.005
Bear Stearns & Co. Inc.	369,922	2.3%	0.002
Lynch, Jones, & Ryan	347,679	2.2%	0.037
ABN Amro Securities	264,008	1.7%	0.005
Dresdner, Kleinwort & Benson	218,719	1.4%	0.020
Weeden & Co.	196,248	1.2%	0.024
Liquidnet Inc.	179,538	1.1%	0.020
Pershing Securities Ltd.	177,613	1.1%	0.014
Calyon Securities	161,983	1.0%	0.009
Investment Technology Groups	155,728	1.0%	0.016
Union Bank of Switzerland	154,968	1.0%	0.010
Credit Lyonnais Securities	145,879	0.9%	0.005
Banco Santander	145,077	0.9%	0.002
Banc of America Securities	133,246	0.8%	0.025
Others	4,829,553	30.5%	0.004
Totals	$15,831,029	100%	$ 0.006

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, 2007 the PRIT Fund earned approximately $653 thousand from the commission recapture program.

SCHEDULE OF PRIT MANAGEMENT FEES

Fiscal Year Ended June 30, 2007

	2007 ($000s)	% total
Investment Management Fees by Asset Class:		
Domestic Equity	$ 19,962	16.0%
International Equity	23,377	18.8%
Fixed Income	7,585	6.1%
High Yield Debt	4,806	3.9%
Emerging Markets Equity	8,213	6.6%
Real Estate	35,664	28.6%
Timber	10,347	8.3%
Alternative Investments	3,170	2.5%
Total Investment Management Fees	113,124	90.9%
Investment Advisory (Consulting) Fees	2,938	2.4%
Custodian Fees	3,225	2.6%
Other Administrative Fees	5,201	4.2%
Total Management Fees charged to PRIT	$ 124,488	100%

SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT

Accounts Opened to Segmentation at June 30, 2007

Retirement System	Assets ($000s) 6/30/07	General Allocation	Domestic Equity	International Equity	Emerging Markets	Fixed Income	Real Estate	Alternative Investments	Absolute Return
Amesbury	$ 3,028							X	X
Andover	$ 16,061						X		X
Barnstable County	$ 208,883		X					X	X
Belmont	$ 9,017	X					X	X	X
Berkshire Regional	$ 140,634	X							
Beverly	$ 15,728	X							
Blue Hills	$ 7,051	X							
Braintree	$ 21,492	X					X		
Brookline	$ 34,652	X					X		X
Cambridge	$ 66,864						X		X
Chelsea	$ 69,149	X							
Chicopee	$ 11,255						X		
Concord	$ 32,361	X						X	
Danvers	$ 10,198		X						
Dedham	$ 92,627	X							
Dukes County	$ 45,377	X		X		X	X		
Easthampton	$ 29,714	X							
Essex	$ 36,681						X		X
Everett	$ 54,431	X							
Fairhaven	$ 38,011	X							
Fall River	$ 13,883						X		
Falmouth	$ 4,082								X
Fitchburg	$ 44,682	X							
Framingham	$ 208,062	X							
Franklin County	$ 45,859	X							
Gardner	$ 42,215	X							
Gloucester	$ 15,398	X					X		X
Greenfield	$ 2,902						X	X	
Hampden County	$ 24,124						X		X
Hampshire County	$ 24,877						X	X	X
Haverhill	$ 25,420				X		X	X	X
Hingham	$ 75,901	X							
Hull	$ 23,668	X							
Lawrence	$ 23,994	X						X	X
Leominster	$ 46,776	X				X			X
Lowell	$ 258,959	X							
Marblehead	$ 89,498	X							

SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT, cont.

Retirement System	Assets ($000s) 6/30/07	General Allocation	Domestic Equity	International Equity	Emerging Markets	Fixed Income	Real Estate	Alternative Investments	Absolute Return
Mass Turnpike	$ 51,723	X							X
MassPort	$ 33,521						X	X	
Medford	$ 2,459						X	X	
Melrose	$ 4,882								X
Methuen	$ 3,997								X
Middlesex	$ 659,286	X							
Milton	$ 86,656	X							
Minuteman Tech	$ 12,276	X							
Montague	$ 24,487	X							
MWRA	$ 13,535	X							X
Natick	$ 3,997								X
Needham	$ 118,823	X							
New Bedford	$ 12,037	X							X
Newburyport	$ 46,632	X							
Newton	$ 14,825							X	X
Norfolk	$ 20,172						X		X
Northbridge	$ 21,858	X							
Peabody	$ 113,907	X							
Plymouth	$ 16,601						X	X	X
Quincy	$ 7,379	X						X	
Reading	$ 96,761	X							
Revere	$ 96,509	X							
Salem	$ 10,238						X		X
Saugus	$ 64,246	X							
Shrewsbury	$ 5,490						X		
Springfield	$ 284,549	X							
State Employees’	$ 21,836,919	X							
State Teachers’	$ 24,492,639	X							
Stoneham	$ 63,285	X							
Wakefield	$ 96,618	X							
Waltham	$ 12,252								X
Webster	$ 2,132						X	X	X
Wellesley	$ 8,500						X	X	
West Springfield	$ 9,015	X							
Weymouth	$ 23,197						X		X
Winchester	$ 17,337					X			X
Winthrop	$ 36,565	X							
Woburn	$ 27,532			X	X		X		X
Worcester	$ 31,783						X		X
	$ 50,398,134								

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, 2006, which estimated a 71.5% funded ratio. The most recent PERAC valuation report (1/1/07) estimates a 75.2% 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	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
State Employees contributions	$ 420,199	$ 409,515	$ 366,262	$ 362,309	$ 350,705	$ 352,123	$ 323,571	$ 337,897
State teachers contribtuions	548,229	527,820	506,711	522,133	504,014	494,761	371,914	317,717
Other participants contributions	1,047,285	759,088	111,557	257,892	136,712	107,566	70,869	89,382
Net investment income	8,228,782	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	10,244,495	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	227,510	218,831	211,746	207,569	186,782	165,606	168,432	252,207
State teachers warrants	299,612	273,209	234,729	201,490	177,051	152,138	151,911	74,429
Participants redemptions	128,843	108,577	164,889	84,627	60,604	55,461	46,938	39,435
State appropriation funding	1,100,000	939,100	888,000	1,197,689	891,000	688,000	273,409	236,083
Operating expenses	15,447	18,305	17,057	14,107	13,888	14,560	11,810	8,904
Total deductions to pooled net assets	1,771,412	1,558,022	1,516,421	1,705,482	1,329,325	1,075,765	652,500	611,058
Changes in pooled net assets	$ 8,473,083	$ 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 eight fiscal years.

Financial Highlights and Financial Highlights Ratios

Pages 97-98 provide the financial highlights of the PRIT Capital Fund for the year ended June 30, 2007. In addition, pages 99-103 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 six fiscal year end periods.

Financial Highlights

For the year ended June 30, 2007

	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	Alternative Investments Vintage Year 2001 Account
Net asset value, beginning of year	$ 180.19	143.91	195.20	285.08	158.18	161.55	56.84	216.48	131.95	221.65
Investment operations:										
Net investment income (loss)(2)	5.79	2.97	6.00	9.18	8.16	10.47	(0.02)	6.65	3.65	18.04
Net realized and unrealized gain (loss) on investments and foreign currency	29.40	26.67	45.03	111.31	(0.60)	13.33	7.87	46.45	26.89	93.18
Total from investment operations	35.19	29.64	51.03	120.49	7.56	23.80	7.85	53.10	30.54	111.22
Net asset value, end of year	$ 215.38	173.55	246.23	405.57	165.74	185.35	64.69	269.58	162.49	332.87
Ratios and supplementary data:										
Total net return(3)	19.53%	20.60%	26.15%	42.26%	4.78%	14.73%	13.82%	24.53%	23.15%	50.18%
Net assets, end of year ($'000s)	$ 49,519,109	15,049,415	10,574,561	2,750,631	7,800,673	2,329,393	2,569,001	533,033	698,900	509,022
Units outstanding, end of year ('000s)	229,913	86,717	42,945	6,782	47,065	12,568	39,711	1,977	4,301	1,529
Ratios to average net assets:										
Ratio of expenses, including indirect management fees	0.54%	0.29%	0.27%	0.46%	0.13%	0.70%	1.26%	1.06%	1.61%	1.02%
Ratio of expenses, excluding indirect management fees	0.27%	0.16%	0.27%	0.33%	0.13%	0.24%	0.03%	0.19%	0.08%	0.09%
Ratio of net investment income (loss)	2.93%	1.87%	2.73%	2.76%	4.96%	5.95%	(0.03)%	2.89%	2.56%	6.96%

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, 2007

	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	Alternative Investments Vintage Year 2007 Account(4)	Core Real Estate Account	Noncore Real Estate Account	Timber Account
Net asset value, beginning of year	$ 82.98	120.69	25.63	53.88	77.51	100.00	283.77	196.64	177.00
Investment operations:									
Net investment income (loss)(2)	—	6.66	0.06	2.09	(0.70)	—	12.17	175.61	0.16
Net realized and unrealized gain (loss) on investments and foreign currency	22.16	69.50	5.66	4.92	(29.32)	—	32.25	450.92	25.81
Total from investment operations	22.16	76.16	5.72	7.01	(30.02)	—	44.42	626.53	25.97
Net asset value, end of year	$ 105.14	196.85	31.35	60.89	47.49	100.00	328.19	823.17	202.97
Ratios and supplementary data:									
Total net return(3)	26.70%	63.10%	22.32%	13.02%	(38.73)%	—%	15.65%	318.62%	14.67%
Net assets, end of year ($'000s)	$ 102,564	555,480	319,874	385,139	251,773	740	4,316,265	2	1,598,166
Units outstanding, end of year ('000s)	976	2,822	10,204	6,325	5,301	7	13,152	—	7,874
Ratios to average net assets:									
Ratio of expenses, including indirect management fees	1.55%	0.94%	1.49%	5.20%	10.88%	—%	1.13%	N/A	0.98%
Ratio of expenses, excluding indirect management fees	0.08%	0.08%	0.31%	0.22%	1.81%	—%	0.80%	N/A	0.72%
Ratio of net investment income (loss)	—%	4.57%	0.22%	3.70%	(1.47)%	—%	3.94%	N/A	0.09%

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 2007 Account commenced operations in May 2007. Total return and ratios are not annualized.

Financial Highlights Ratios

For the years ended June 30, 2006-2002

	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	Vintage Year 2001 Account
Ratios and supplementary data:										
2006										
Total net return(2)	14.87%	9.30%	27.01%	36.12%	(0.51)%	5.80%	11.18%	36.45%	34.70%	55.07%
Net assets, end of year ($'000s)	41,257,962	11,516,779	8,303,709	2,455,151	6,452,906	2,208,795	2,114,139	777,941	764,926	480,794
Units outstanding, end of year ('000s)	228,973	80,029	42,540	8,612	40,794	13,672	37,197	3,594	5,797	2,169
2005										
Total net return(2)	12.91%	7.64%	13.86%	36.85%	7.42%	15.07%	6.64%	16.39%	21.89%	56.20%
Net assets, end of year ($'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	407,768
Units outstanding, end of year ('000s)	229,491	89,680	36,812	9,810	36,898	17,732	33,767	5,559	6,608	2,853
2004										
Total net return(2)	19.04%	22.21%	32.39%	34.01%	1.50%	12.84%	N/A	26.57%	14.17%	22.29%
Net assets, end of year ($'000s)	32,377,022	12,713,310	5,317,983	1,797,300	5,860,782	2,269,751	N/A	979,350	553,076	268,337
Units outstanding, end of year ('000s)	233,057	103,940	39,398	11,745	39,595	17,105	N/A	7,185	6,881	2,932
2003										
Total net return(2)	0.53%	1.83%	(7.33)%	6.98%	12.62%	22.37%	N/A	(11.54)%	(2.70)%	(9.26)%
Net assets, end of year ($'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	152,357
Units outstanding, end of year ('000s)	250,376	116,992	45,898	9,258	40,013	8,342	N/A	9,428	5,707	2,036
2002										
Total net return(2)	(9.24)%	(16.39)%	(8.12)%	(2.85)%	8.40%	(3.90)%	N/A	(12.42)%	(14.01)%	(15.59)%
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	68,394
Units outstanding, end of year ('000s)	247,298	108,492	40,853	9,222	54,563	7,862	N/A	9,638	3,741	829,299
Ratios to average net assets:										
2006										
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%	1.31%
Ratio of expenses, excluding indirect management fee	0.41%	0.23%	0.23%	0.82%	0.14%	0.30%	0.03%	0.14%	0.08%	0.09%
Ratio of net investment income (loss)	2.78%	1.51%	2.66%	2.33%	5.13%	6.22%	(0.02)%	1.73%	1.84%	3.28%
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%	1.94%
Ratio of expenses, excluding indirect management fee	0.30%	0.16%	0.26%	0.68%	0.11%	0.32%	0.04%	0.11%	0.10%	0.09%
Ratio of net investment income (loss)	2.96%	1.60%	2.32%	2.39%	4.80%	6.31%	(0.04)%	2.64%	3.64%	6.39%
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%	3.84%
Ratio of expenses, excluding indirect management fee	0.23%	0.16%	0.21%	0.97%	0.13%	0.47%	N/A	0.15%	0.27%	0.31%
Ratio of net investment income (loss)	2.73%	1.41%	2.24%	1.90%	4.81%	4.97%	N/A	0.55%	0.68%	1.37%

Financial Highlights Ratios, cont.

For the years ended June 30, 2006-2002

	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	Vintage Year 2001 Account
2003										
Ratio of expenses, including indirect management fees	0.43%	0.19%	0.33%	0.57%	0.12%	0.59%	N/A	1.90%	N/A	N/A
Ratio of expenses, excluding indirect management fee	0.22%	0.19%	0.33%	0.57%	0.12%	0.38%	N/A	0.18%	N/A	N/A
Ratio of net investment income (loss)	2.98%	1.50%	2.42%	1.69%	5.18%	6.14%	N/A	0.37%	N/A	N/A
2002										
Ratio of expenses, including indirect management fees	0.43%	0.24%	0.51%	0.31%	0.11%	0.52%	N/A	1.75%	N/A	N/A
Ratio of expenses, excluding indirect management fee	0.25%	0.24%	0.51%	0.31%	0.11%	0.52%	N/A	0.29%	N/A	N/A
Ratio of net investment income (loss)	2.88%	1.10%	1.49%	1.29%	5.87%	6.63%	N/A	0.32%	N/A	N/A

(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, 2006-2002

Ratios and supplementary data:								
2006								
Total net return(2)	38.67%	32.12%	(4.55)% (4)	(32.12)% (4)	(22.49)% (4)	22.70%	106.43%	18.52%
Net assets, end of year ($'000s)	79,588	351,371	143,419	106,808	3,182	4,618,446	38	1,480,574
Units outstanding, end of year ('000s)	959	2,911	5,596	1,982	41	16,275	—	8,365
2005								
Total net return(2)	(3.28)%	12.58%	(73.15)% (4)	(20.63)% (4)	(20.63)% (4)	29.33%	(30.98)%	11.54%
Net assets, end of year ($'000s)	52,257	178,524	13,401	910	910	2,950,852	822	1,316,382
Units outstanding, end of year ('000s)	873	1,954	499	11	11	12,759	9	8,815
2004								
Total net return(2)	(29.93)%	(18.86)% (4)	N/A	N/A	N/A	19.15%	1.84%	12.15%
Net assets, end of year ($'000s)	13,470	46,335	N/A	N/A	N/A	1,828,679	7,635	931,432
Units outstanding, end of year ('000s)	218	571,059	N/A	N/A	N/A	10,226	55,325	6,957
2003								
Total net return(2)	(11.71)%	N/A	N/A	N/A	N/A	6.67%	(17.53)%	14.15% (4)
Net assets, end of year ($'000s)	4,167	N/A	N/A	N/A	N/A	1,481,271	8,168	505,632
Units outstanding, end of year ('000s)	47	N/A	N/A	N/A	N/A	9,870	60	4,236
2002								
Total net return(2)	N/A	N/A	N/A	N/A	N/A	8.87%	19.19%	4.58% (4)
Net assets, end of year ($'000s)	N/A	N/A	N/A	N/A	N/A	1,700,053	21,335	55,999
Units outstanding, end of year ('000s)	N/A	N/A	N/A	N/A	N/A	12,082	129,843	535
Ratios to average net assets:								
2006								
Ratio of expenses, including indirect management fees	2.43%	2.37%	6.73%	20.92%	19.76%	1.66%	1.00%	2.27%
Ratio of expenses, excluding indirect management fees	0.08%	0.08%	1.04%	2.03%	0.21%	1.29%	1.00%	2.00%
Ratio of net investment income (loss)	(0.07)%	0.66%	(0.97)%	(1.66)%	(0.22)%	3.57%	2.85%	(0.04)%
2005								
Ratio of expenses, including indirect management fees	4.28%	7.39%	53.44%	22.43%	22.43%	1.58%	1.79%	1.50%
Ratio of expenses, excluding indirect management fees	0.09%	0.09%	6.95%	—%	—%	1.10%	0.03%	1.26%
Ratio of net investment income (loss)	(0.09)%	0.70%	(6.95)%	—%	—%	6.49%	6.46%	1.29%
2004								
Ratio of expenses, including indirect management fees	32.06%	11.52% (4)	N/A	N/A	N/A	0.76%	0.46%	0.63%
Ratio of expenses, excluding indirect management fees	0.02%	0.01% (4)	N/A	N/A	N/A	0.22%	0.03%	0.36%
Ratio of net investment income (loss)	(0.10)%	(0.26)% (4)	N/A	N/A	N/A	7.69%	5.61%	0.95%

Financial Highlights Ratios, cont.

For the years ended June 30, 2006-2002

	Alternative Investments Vintage Year 2001 Account	Alternative Investments Vintage Year 2002 Account	Alternative Investments Vintage Year 2003 Account	Vintage Year 2004 Account	Vintage Year 2005 Account	Core Real Estate Account	Noncore Real Estate Account	Timber Account
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)
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.

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Domestic Equity	29.9%	27.5%	32.6%	39.0%	42.1%	39.1%	42.6%	44.1%	45.0%	47.0%
International Equity	21.0%	19.8%	15.6%	16.3%	16.7%	16.5%	16.5%	15.4%	16.0%	16.0%
Emerging Markets	5.5%	5.9%	5.7%	5.5%	3.8%	3.7%	3.4%	4.5%	4.0%	4.0%
Fixed Income	15.4%	15.4%	16.2%	18.0%	21.0%	25.8%	23.7%	24.8%	25.0%	25.0%
High Yield Debt	4.6%	5.3%	7.5%	7.0%	3.5%	2.9%	2.3%	0.0%	0.0%	0.0%
Alternative Investments	6.7%	6.5%	6.0%	5.7%	5.7%	5.5%	5.9%	6.1%	4.0%	4.0%
Real Estate	8.6%	11.0%	8.1%	5.6%	5.4%	6.3%	5.6%	5.1%	6.0%	4.0%
Timber	3.2%	3.5%	3.6%	2.9%	1.8%	0.2%	0.0%	0.0%	0.0%	0.0%
Absolute Return	5.1%	5.1%	4.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%