PENSION RESERVES INVESTMENT TRUST FUND

(A Component Unit of the Commonwealth of Massachusetts)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2008

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, 2008

Prepared By

Pension Reserves Investment Management Board Staff

For More Information

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Introductory Section

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Pension Reserves Investment Management Board

84 State Street, Suite 250
Boston, Massachusetts 02109

Timothy P, Cahill, Chair
Michael Travaglini, Executive Director

December 12, 2008

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, 2008 (FY08). The document that follows is the fourth CAFR to be produced in the 24-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. 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, 2008.

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 2008 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, 2008, the PRIT Fund had approximately $50.6 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. As of the most recent PERAC valuation report (1/1/08), MASTERS is 78.6% funded using a target date of 2025 (amended November 7, 2008 from 2023).

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 the fiscal year ended 2008 was -1.81%, trailing both the actuarial rate of return assumption of 8.25% by 1,006 basis points, and the policy benchmark by 39 basis points; however, the PRIT Fund surpassed the public fund median return by 255 basis points according to the Trust Universe Comparison Service (TUCS) report for periods ended June 30, 2008, which ranked the Fund in the top 19th percentile among public pension funds with assets greater than $1 billion. Although the PRIT Fund trailed its two key benchmarks, the Fund's average annual return of 10.92% since inception (12/31/1984 – 6/30/2008) exceeded the actuarial expected return by 267 basis points, which is our first priority in terms of benchmarks. Over the longer-term, the PRIT Fund's time-weighted 10-year return of 8.15% for the period ended June 30, 2008, earned it a 1st percentile ranking in the TUCS report. The PRIM Board has implemented a system of internal control designed to ensure the reliability of reported investment information. Please refer to the Investment Section of this CAFR for more information on investment results.

Subsequent to fiscal year end of June 30, 2008, the global investment markets have been experiencing unprecedented, adverse events. Such events include an expanded global credit crisis, liquidity constraints in the markets and the continued write down of mortgage related assets. These events resulted in the failure of several large domestic and foreign financial institutions. As a result of such events, PRIT's return for the period from July 1, 2008 to November 30, 2008 is down approximately 20%, with net assets dropping to approximately $37 billion. PRIM Staff believe that while the value of the PRIT fund has been affected by these market losses, the long-term nature of the plan and the investment allocation decisions PRIM has implemented will benefit PRIT in the long run.

Major Initiatives and Achievements

During the fiscal year ended 2008, the PRIM Board accomplished significant objectives it had established prior to the beginning of the year. As always, we continue to strive to maintain adequate staffing levels. This past fiscal year, we hired PRIM's first ever Director of Information Technology. With the Board's support, PRIM is nearing the end of its $3 million technology upgrade, and we are in the process of transitioning from our project manager (PA Consulting) to our ongoing service provider (Edgewater Technology) and PRIM staff is embarking on significant amounts of training with the new technology. This initiative will be discussed in more detail later in this letter.

During the last fiscal year, we saw the departures of four key staff members: two senior investment officers, a risk management officer, and a senior client services officer. All four of those positions have been filled to-date, and we are now fully staffed at 24 positions. On the consulting side, we hired a new real estate consulting firm, Callan Associates. Callan inherits an already well diversified Real Estate Portfolio, the bulk of which consists of high quality core property investments directly owned by PRIM.

There has also been turnover at the Board level. Massachusetts State Teacher's Retirement Board member, George McSherry retired from the Board in December 2007 and was replaced by John Dow. And there was a significant loss when founding member, Ralph White, who was directly elected to the Board by active and retired state employees, retired from the Board in June 2008 after 24 years of distinguished service. Ralph was replaced by Paul Shanley, who was elected to the position. George and Ralph are both great fiduciaries and their many contributions to PRIM's mission will never be forgotten. Robert Brousseau, the member elected directly by the active and retired members of the Massachusetts Teachers' Retirement System, ran unopposed for that position, and his new three-year term commenced in July 2008. As a reminder, PRIM staff is responsible for running theses elections to the Board, which is a very time consuming process. The addition of the new Trustees have allowed us to improve our Board orientation sessions, which are half-day meetings designed to provide new Board members with information necessary to contribute to the Board's deliberations.

As reported in last year's CAFR, one of the largest and most important initiatives overseen at PRIM has been the program-wide Information Technology assessment with PA Consulting, a technology consulting firm. Stage VII of Project PRIME commenced in January 2008 and ran through August 2008. The conclusion of Stage VII brings the consecutive stages of active development on the PRIME technology transformation program to a close.

PRIM Staff and PA Consulting worked hard to ensure the project's goals were delivered iteratively over the two year long project and that the systems and process changes the program brought to PRIM were focused on the areas of highest need. Since staff was highly involved in the project at each step, actively working to define new functionality and test it prior to its release, we were able to minimize the risk of design and development being out-of-step with the business. The systems delivered in the end were the systems that were needed.

The PRIME technology transformation program of work placed more emphasis on items such as our Manager Reconciliation and Fee calculation systems and associated controls than on anticipated areas like process automation; however the project did not waiver from the following drivers:

1) Better serving PRIM's stakeholders, by implementing a comprehensive Customer Relationship Management system that tracks Manager and Client details and communication history centrally and provides automated notification of new correspondence to appropriate management personnel as they are entered.

2) Reducing operational risk, by implementing comprehensive Manager Reconciliation and Fee systems to calculate fees and reconcile with the Custodian Bank in an automated exception-based manner, eliminating the risk of "spreadsheet error". By implementing stringent programmatic controls on top of the new systems to restrict and audit who can do what functions related to fees we further tightened the security of the systems and ensured data integrity.

3) Reducing the time cost of manual activities and increasing analytical ability**,** by implementing an automated data feed from PRIM's custodian's systems to reduce the manual re-entry of data, constructing a new Knowledge Management infrastructure in the PRIM Portal to centralize and organize document storage and increase collaboration, and providing key data about our managers in an automated manner updated more frequently than was possible in the old manually-compiled way. Daily and monthly dashboards were developed to allow easier analysis of the portfolio at a glance, and to keep all staff informed daily about fund performance.

We continue to spend a great deal of time on legislative matters. All of PRIM staff has done a great job administering the Municipal Partnership Act passed last year, Chapter 68 of the Acts of 2007. We also quickly moved to adhere to the tenets of the Sudan divestiture law, and we are now fully compliant with its provisions. We have testified and continue to have a dialogue with several legislators over Iran divestment. And we spent significant amounts of time serving on a commission to help the Commonwealth develop its approach to its OPEB liabilities (retiree health costs).

On the investment front, working in collaboration with PRIM's Chief Investment Officer, we have accomplished a great deal. We have further diversified the PRIT Fund by adding natural resources and bank loans in fiscal 2009; we have adjusted the benchmark for our domestic equity program to the Russell 3000 to help with ongoing monitoring; we completed our additions to our existing portable alpha program in September and October 2008; and we successfully transacted the sale of our timber portfolio held by the Campbell Group.

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, 2007. This was the third 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. As I write this letter, however, we are experiencing an unprecedented and uncertain period in the global financial markets. It has been an incredibly challenging year for PRIM and for all institutional investors as we navigate these volatile times. I am confident that the PRIM Board, in conjunction with staff, will continue to make decisions that will lead us out of the current situation successfully, as has been the case in past crises over the 24-year history of PRIM. By remaining disciplined investors and staying focused on our long-term objectives, we know that we will be rewarded when markets eventually and inevitably rebound. Finally, I would like to take this opportunity to formally thank the PRIM Board Staff for a job very well done, especially during this time when our discipline is being tested everyday.

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, 2007

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	Theresa McGoldrick
C. LaRoy Brantley	John "Jay" Dow
Robert Brousseau	Leslie Kirwan
Paul Cesan	Paul E. Shanley

Investment, Audit/Administration & Real Estate Committees

24 Industry Professionals & Board Members

- Executive Director, Michael Travaglini, March 8, 2004
  - CIO, Stanley P. Mavromates, February 1, 2000
    - SIO Real Estate & Timber, Timothy Schlitzer, March 21, 2005
      - Investment Officer Real Estate, John LaCara, August 4, 2008
    - SIO Alt. Investments, Wayne Smith, March 6, 2000
      - Investment Officer Alt. Investments, Michael Langdon, February 21, 2006
      - Investment Analyst Alt. Investments, Ryan Foscaldo, June 26, 2007
    - SIO Public Securities, Hannah Commoss, August 2, 2004
      - Investment Officer Public Securities, Peony Keve, July 21, 2008
      - Investment Analyst Public Securities, Bill Fink, June 4, 2007
  - Sr. Client Service Officer, Paul Todisco, September 15, 2008
  - Director of Information Tech., Matthew G. Marx, July 23, 2007
  - COO & CFO, Karen Gershman, June 18, 2001
    - Risk Mgmt. Officer, David Gurtz, January 31, 2008
    - Director of Finance, Thomas Hanna, May 22, 2000
      - Sr. Fin. Analyst & Ast. Client Svc Ofc., Jennifer Cole, February 11, 2002
      - Sr. Financial Analyst, Eileen Coyne, July 22, 2002
      - Admin. Assistant, Alyssa Profenna, February 17, 2004
      - Mgr. of Invest. Reporting & Sys. Admin., Yisroel Markov, February 16, 1998
      - Sr. Financial Analyst, Catherine Hodges, March 8, 2004
      - Staff Accountant, Veronica Williams, January 9, 2006
    - Sr. Financial Analyst, Anthony J. Falzone, January 3, 2006
    - Financial Reporting Supervisor, Donald Payne, November 6, 2006
  - Executive Assistant, Maureen Roche, August 9, 1999

PRIT Fund as of 6/30/2008 - $50.6 Billion

29 Public Securities Managers Investing 33 Portfolios

12 Managers in Real Estate, Timber & REITs

7 Economically Targeted Investment Managers

89 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
& 87 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
Paul E. Shanley
Board Member
Peter A. Brooke
Advent International
Glenn P. Strehle
Treasurer MIT (retired)

Real Estate Committee

Alexander E. Aikens III, Chair
Board Member
John "Jay" Dow
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 LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
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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, 2008 and 2007, 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, 2008 and 2007, 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 8, 2008, 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 14 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 therefore express no opinion on it.

KPMG

Our audit was 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 the purposes of additional analysis and are not a required part of the financial statements. The supporting schedules presented on pages 43 to 44 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 8, 2008

Management's Discussion and Analysis

June 30, 2008 and 2007

This section presents management's discussion and analysis of PRIT's financial performance for the fiscal years ended June 30, 2008 and 2007 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, 2008 and 2007 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 43 and 44 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 2008

- The net assets of PRIT increased approximately $209 million during the year ended June 30, 2008. Total net assets were $50.6 billion at June 30, 2008, compared to $50.4 billion at June 30, 2007.
- Net investment loss for fiscal year 2008 was approximately $1.2 billion, compared to net investment income of $8.2 billion for the prior fiscal year. The decrease was due to a decrease in investment performance in fiscal year 2008 compared to fiscal year 2007. PRIT returned a negative 1.81% in fiscal year 2008, compared to a positive 19.92% in fiscal year 2007.
- Contributions to PRIT totaled approximately $3.4 billion during fiscal year 2008, compared to $2.0 billion in 2007. Other participant contributions increased by $1.3 billion in the fiscal year 2008.
- Redemptions from PRIT totaled approximately $2.0 billion during the year ended June 30, 2008, compared to approximately $1.8 billion during the year ended June 30, 2007.

Fiscal Year 2007

- The net assets of PRIT increased approximately $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.

Management's Discussion and Analysis

June 30, 2008 and 2007

- 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.
- 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.

Condensed Financial Information

Summary balances and activities of PRIT as of and for the years ended June 30, 2008, 2007, and 2006 are presented below.

		June 30		
		2008	**2007**	**2006**
		(Amounts in thousands)		
Summary of pooled net assets:				
Assets:				
Investments	$	52,044,472	51,360,925	42,813,676
Cash		125,670	167,761	132,429
Receivables and other assets		874,634	1,462,657	359,417
Total assets		53,044,776	52,991,343	43,305,522
Liabilities:				
Obligation under securities lending transactions		—	451,970	451,872
Management fees payable to PRIM		103,826	151,993	167,766
Other liabilities		2,334,306	1,989,246	760,833
Total liabilities		2,438,132	2,593,209	1,380,471
Net assets held in trust for pool participants	$	50,606,644	50,398,134	41,925,051

Management's Discussion and Analysis

June 30, 2008 and 2007

	June 30 2008	2007	2006
	(Amounts in thousands)		
Summary of changes in pooled net assets:			
Additions:			
Contributions	$ 3,385,851	2,015,713	1,696,423
Net investment income (loss)	(1,185,523)	8,228,782	5,466,443
Total additions	2,200,328	10,244,495	7,162,866
Deductions:			
Redemptions	1,991,818	1,771,412	1,558,022
Change in pooled net assets	208,510	8,473,083	5,604,844
Net assets held in trust for pool participants:			
Balance, beginning of year	50,398,134	41,925,051	36,320,207
Balance, end of year	$ 50,606,644	50,398,134	41,925,051

PRIT Performance during the Year Ended June 30, 2008

PRIT began fiscal year 2008 with net assets of $50.4 billion and ended the fiscal year with net assets of $50.6 billion, representing a 0.4% increase. The increase was due to contributions which were almost fully offset by overall investment performance and redemptions. Net investment loss for the year ended June 30, 2008 was approximately $1.2 billion. Net participant contributions (contributions less redemptions) of $1.4 billion offset investment performance causing the overall increase in net assets of $209 million. Approximately $1.8 billion of PRIT's $2.0 billion in redemptions were withdrawn from the State Teachers' and State Employees' accounts.

For the year ended June 30, 2008, PRIT returned a negative 1.81%, lagging the interim policy benchmark of a negative 1.42% by 39 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 78% of PRIT was actively managed, while the remaining 22% was indexed at June 30, 2008. All asset classes of PRIT other than domestic equity and international equity had positive performance during the year ended June 30, 2008. The asset classes of PRIT and related investment returns for the year ended June 30, 2008 are as follows: Domestic Equity -15.54%; International Equity -9.03%; Emerging Markets 0.15%; Fixed Income 14.36%; High Yield Debt 2.91%; Alternative Investment 19.11%; Real Estate 5.19%, Timber 23.86% and Absolute Return 1.76%.

Management's Discussion and Analysis

June 30, 2008 and 2007

As of June 30, 2008, PRIT has underperformed its benchmark in the current year, but continues to outperform its benchmarks longer term and has returned an average of 10.92% 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, 2008.

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 (contributions less redemptions) of $244 million added to the increase in net assets of approximately $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.

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.

Other Information

This financial report is designed to provide a general overview of 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, 2008 and 2007

(Amounts in thousands)

	2008	2007
Assets:		
Investments, at fair value:		
Short-term	$ 2,237,903	1,540,446
Fixed income	12,111,036	11,730,829
Equity	21,972,422	23,828,318
Real estate	5,587,382	4,828,582
Timber	1,066,018	1,637,474
Alternative investments	4,194,137	3,199,521
Hedge fund-of-funds	4,875,574	4,595,755
Total investments	52,044,472	51,360,925
Cash	125,670	167,761
Interest and dividends receivable	139,152	136,695
Receivable for investments sold	285,238	367,723
Securities sold on a when-issued basis	438,778	948,947
Unrealized gains on foreign currency exchange contracts	10,736	6,050
Receivable from Health Care Security Trust	259	3,242
Margin variation receivable	471	—
Total assets	53,044,776	52,991,343
Liabilities:		
Payable for investments purchased	629,941	387,521
Securities purchased on a when-issued basis	1,684,732	1,591,779
Obligations under securities lending transactions	—	451,970
Unrealized losses on foreign currency exchange contracts	19,633	8,155
Margin variation payable	—	1,791
Management fees payable to PRIM	103,826	151,993
Total liabilities	2,438,132	2,593,209
Net assets held in trust for pool participants	$ 50,606,644	50,398,134

See accompanying notes to financial statements.

Statements of Changes in Pooled Net Assets

Fiscal years ended June 30, 2008 and 2007

(Amounts in thousands)

		2008	2007
Additions:			
Contributions:			
State employees	$	464,330	420,199
State teachers		573,984	548,229
Other participants		2,347,537	1,047,285
Total contributions		3,385,851	2,015,713
Net investment income:			
From investment activities:			
Net realized gain on investments and foreign currency transactions		2,692,175	3,601,019
Net change in unrealized appreciation on investments and foreign currency translations		(5,301,078)	3,274,406
Interest income, net		654,313	590,102
Dividend income, net		603,553	542,471
Real estate income, net		245,831	241,045
Timber income, net		4,926	11,894
Alternative investment income, net		32,817	103,464
		(1,067,463)	8,364,401
Management fees		(127,174)	(124,488)
Net income (loss) from investment activities		(1,194,637)	8,239,913
From securities lending activities:			
Securities lending income		9,210	12,817
Securities lending expense		(96)	(23,948)
Net expense from securities lending activities		9,114	(11,131)
Total net investment income (loss)		(1,185,523)	8,228,782
Total additions		2,200,328	10,244,495
Deductions:			
Redemptions:			
State employees		817,474	672,596
State teachers		971,621	969,973
Other participants		202,723	128,843
Total deductions		1,991,818	1,771,412
Net increase in pooled net assets		208,510	8,473,083
Net assets held in trust for pool participants:			
Balance, beginning of year		50,398,134	41,925,051
Balance, end of year	$	50,606,644	50,398,134

See accompanying notes to financial statements.

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(1) Description of the Pension Reserves Investment Trust Fund

(a) General

The Pension Reserves Investment Trust Fund (PRIT), a 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 in accordance with Massachusetts General Laws, Chapter 32, Section 22B. The Commonwealth has made no such appropriation to PRIT on behalf of Participating Systems since fiscal year 2000.

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Purchasing Systems may invest all or a portion of their assets in PRIT and retain the ability to contribute and withdraw funds at their discretion; however, they are not entitled to state appropriations. Participating and Purchasing Systems share in the investment earnings of PRIT based on their proportionate share of net assets. As of June 30, 2008, there were 35 Participating Systems (including the State Teachers' and State Employees' Retirement Systems) and 52 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, 2008: 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 – 2008. (Vintage Year refers to the fiscal year in which PRIT made a commitment to invest in an alternative investment.) At the June 2008 Board Meeting, allocations to Natural Resources and Bank Loans were approved and will be funded in fiscal year 2009.

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,

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Absolute Return, and Alternative Investments "Vintage Year" accounts. At June 30, 2008 and 2007, there were 41 and 46 segmented investors in PRIT, respectively.

On July 15, 2007, the Governor signed into law Chapter 68 of the Acts of 2007***, An Act to Reduce the Stress on Local Property Taxes through Enhanced Pension Fund Investment***, better known as the *Municipal Partnership Act*. Section 2 of Chapter 68 requires the Public Employee Retirement Administration Commission (PERAC) to assess the investment performance and funded ratio of retirement systems as of January 1st of each year. If a system is less than 65% funded and has trailed the performance of the PRIT Fund by 2% or more on an annualized basis over the previous 10-year period, then PERAC declares the system "underperforming" and requires it to transfer its assets to the PRIT Fund. Since its passage, 19 retirement systems have transferred their assets to PRIT Fund under the provisions of this Act.

(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, bank loans, natural resources, 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, concerning certain investments relating to South Africa, Northern Ireland, Sudan, 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

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year and sold in the current year are included in net change in unrealized appreciation on investments in the accompanying statements of changes in pooled net assets.

Investments in fixed income, money market funds, other short-term investments, 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.

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 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.

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

(c) Investment Income

Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned. For the years ended June 30, 2008 and 2007, foreign taxes withheld of $25,965 and $25,833, respectively, have been netted against dividend income in the statements of changes in pooled net assets. Real estate income includes noncore real estate income and PRIT's portion of the LLC's income, which includes dividends earned on REIT securities as well as cash distributions from investments in real estate properties. Timber income includes cash distributions from investments in timberland properties. Alternative investment income is recorded on the cash distribution basis.

(d) When-Issued Securities Transactions

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

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

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(e) Foreign Currency Translation and Transactions

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

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

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

(f) Derivative Instruments

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

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

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

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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.

(3) Investments

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

	June 30	
	2008	**2007**
Short-term:		
Money market investments	$ 2,237,903	1,540,446
Fixed income:		
U.S. Government obligations (1)	1,837,274	2,442,808
Domestic fixed income (2)	7,569,088	7,065,688
International fixed income (3)	2,184,310	1,873,443
Distressed debt	520,364	348,890
	12,111,036	11,730,829
Equity:		
Domestic equity securities	9,116,910	10,521,056
International equity securities	12,855,512	13,307,262
	21,972,422	23,828,318
Core real estate:	5,587,382	4,828,582
Timber	1,066,018	1,637,474
Alternative investments:		
Venture capital	900,113	753,902
Special equity	3,294,024	2,445,619
	4,194,137	3,199,521
Hedge Fund-of-Funds investments:		
Absolute return	2,614,264	2,569,016
Portable Alpha	2,261,310	2,026,739
	4,875,574	4,595,755
Total investments	$ 52,044,472	51,360,925

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(1) Fiscal 2008 rates range from 0% to 12.5%, and maturities range from 2008 to 2038. Fiscal 2007 rates range from 0% to 12.5%, and maturities range from 2007 to 2037.

(2) Fiscal 2008 rates range from 0% to 14%, and maturities range from 2008 to 2067. Fiscal 2007 rates range from 0% to 14.88%, and maturities range from 2007 to 2066.

(3) Fiscal 2008 rates range from 0% to 13.5%, and maturities range from 2008 to 2056. Fiscal 2007 rates range from 0% to 13.5%, and maturities range from 2007 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, 2008 and 2007, all but $100 of PRIT's $125,670 and $167,761 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.

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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.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.

	2008		2007	
Investment	**Fair value**	**Effective weighted duration rate**	**Fair value**	**Effective weighted duration rate**
		(Amounts expressed in years)		(Amounts expressed in years)
Asset backed securities	$ 484,140	0.77	$ 548,549	0.47
Commercial mortgage backed securities	703,373	3.37	721,768	3.42
Commercial paper and CDs	216,814	0.12	344,479	0.13
Corporate bonds and other credits	3,311,962	5.82	2,548,707	3.69
U.S. government bonds	601,039	3.88	1,159,642	6.35
U.S. government agencies	177,817	3.40	486,509	1.52
U.S. government TIPS	1,236,235	7.95	1,283,166	6.26
U.S. government mortgage backed securities	3,341,886	4.40	2,810,034	4.43
Global Inflation Linked Bonds	434,561	8.40	492,333	7.15
Municipal bonds	30,847	9.42	12,978	7.79
Pooled money market fund	2,237,903	0.08	1,540,446	0.08
Other pooled funds	1,572,362	NA	1,322,664	NA
Total fixed income and short-term investments	$ 14,348,939		$ 13,271,275	

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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, 2008 (AA- at June 30, 2007). The following presents the PRIT Fund's fixed-income securities credit ratings at June 30:

		2008					
	Total	Investment grade			Noninvestment grade		
Investment	fair value	AAA	AA+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C-	Not rated
Asset backed securities	$ 484,140	408,452	24,685	24,698	1,520	—	24,785
Commercial mortgage backed securities	703,373	690,661	960	—	112	—	11,640
Commercial paper and CDs	216,814	—	214,842	1,079	—	—	893
Corporate bonds and other credits	3,311,962	445,486	1,253,087	680,650	628,333	184,068	120,338
U.S. government agencies	177,817	176,500	1,317	—	—	—	—
U.S. government mortgage backed securities	3,209,263	3,142,781	—	—	—	—	66,482
Global inflation linked bonds	434,561	303,744	123,709	—	4,195	—	2,913
Municipal bonds	30,847	854	13,964	16,029	—	—	
Pooled money market fund	2,237,903	—	—	—	—	—	2,237,903
Other pooled funds	1,572,362	—	—	—	—	—	1,572,362
Total credit risk, fixed income and short-term investments	12,379,042	$ 5,168,478	1,632,564	722,456	634,160	184,068	4,037,316
Fixed income investments explicitly backed by the U.S. government	1,969,897						
Total fixed income and short-term investments	$ 14,348,939						

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		2007					
		Investment Grade			Noninvestment Gradae		
Investment	**Total fair value**	**AAA**	**AA+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**CCC+ to C-**	**Not rated**
Asset backed securities	$ 548,549	546,184	1,482	305	—	567	11
Commercial mortgage backed securities	721,768	708,149	—	—	—	—	13,619
Commercial paper and CDs	344,479	197,757	49,983	—	—	—	96,739
Corporate bonds and other credits	2,548,707	175,823	774,687	476,334	655,936	232,400	233,527
U.S. government agencies	486,509	484,776	1,733	—	—	—	—
U.S. government mortgage backed securities	2,734,317	2,685,118	—	—	—	—	49,199
Global inflation linked bonds	492,333	447,980	44,300	—	—	—	53
Municipal bonds	12,978	835	7,776	3,917	—	—	450
Pooled money market fund	1,540,446	—	—	—	—	—	1,540,446
Other pooled funds	1,322,664	—	—	—	—	—	1,322,664
Total credit risk, fixed income and short-term investments	10,752,750	$ 5,246,622	879,961	480,556	655,936	232,967	3,256,708
Fixed income investments explicitly backed by the U.S. government	2,518,525						
Total fixed income and short-term investments	$ 13,271,275						

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(d) Foreign Currency Risk

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

	2008				
	Cash and short-term investments	Equity	Fixed income	Alternative investments	Total
Australian Dollar	$ 2,833	570,126	587	—	573,546
Brazilian Real	1,125	93,895	18,868	—	113,888
British Pound	23,213	2,265,397	234,138	—	2,522,748
Canadian Dollar	1,873	58,774	49,937	—	110,584
Danish Krone	(9)	161,128	—	—	161,119
Euro	50,172	3,054,794	318,080	—	3,423,046
Hong Kong Dollar	2,679	476,944	542	—	480,165
Indian Rupee	1,340	55,892	—	—	57,232
Japanese Yen	13,045	2,077,571	77,270	—	2,167,886
Malaysian Ringgit	121	57,903	—	—	58,024
Mexican Peso	552	45,027	28,660	—	74,239
Norwegian Krone	25,811	188,403	—	—	214,214
Singapore Dollar	1,018	117,973	5,295	—	124,286
South African Rand	39	103,394	2,430	—	105,863
South Korean Won	—	346,140	4,382	—	350,522
Swedish Krona	5,889	261,151	49,644	—	316,684
Swiss Franc	6,385	704,351	—	—	710,736
Taiwan Dollar	2,684	161,874	—	—	164,558
Thailand Baht	46	80,573	—	—	80,619
Turkish Lira	—	65,977	—	—	65,977
Other foreign currencies	1,412	225,245	24,598	—	251,255
Alternative investment funds denominated in foreign currencies (various currencies)	—	—	—	710,777	710,777
International equity pooled funds (various currencies)	—	113,703	—	—	113,703
International fixed-income pooled funds (various currencies)	—	—	141,107	—	141,107
Total securities subject to foreign currency risk	140,228	11,286,235	955,538	710,777	13,092,778
International investments denominated in United States Dollars	—	1,569,277	1,228,772	—	2,798,049
Total international investments and cash deposits	$ 140,228	12,855,512	2,184,310	710,777	15,890,827

Notes to Financial Statements

June 30, 2008 and 2007

	2007				
	Cash and short-term investments	Equity	Fixed income	Alternative investments	Total
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
Danish Krone	836	136,481	—	—	137,317
Euro	45,704	3,405,704	231,279	—	3,682,687
Hong Kong Dollar	3,633	484,998	680	—	489,311
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
Norwegian Krone	877	92,244	—	—	93,121
Singapore Dollar	1,396	98,732	4,839	—	104,967
South African Rand	105	114,552	2,691	—	117,348
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
Taiwan Dollar	1,487	229,881	—	—	231,368
Thailand Baht	366	69,731	—	—	70,097
Other foreign currencies	1,985	294,494	57,639	—	354,118
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

(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, 2008 and 2007, respectively.

(5) Securities Lending Programs

Prior to December 31, 2007 PRIT participated in a third-party securities lending program with Goldman Sachs & Co. (Goldman). Under the agreement, PRIT received a fee equal to the greater of $13,400 or 80% of the notional gross revenue achieved annually for exclusive access to PRIT's domestic and international equity securities.

Notes to Financial Statements

June 30, 2008 and 2007

Securities on loan were secured with collateral equaling 102% of the fair value of the domestic securities borrowed and 105% on borrowings of international securities. Pursuant to the Operations Support Agreements with PRIT's lending agents, Mellon Trust held all collateral for securities on loan. The collateral securities could be pledged or sold by PRIT unless the lending agent defaulted. The lending agent was required to indemnify PRIT in the event that it failed to return the securities on loan (and if the collateral was inadequate to replace the securities on loan) or if the lending agent failed to perform its obligations as stipulated in the agreement. There were no losses during the years ended June 30, 2008 and 2007 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, the fair value of the securities on loan was $1,323,365 and the fair value of the associated collateral amounted to approximately $1,386,023, of which $450,000 was cash. The fair value of cash collateral received is reported as an obligation under securities lending transactions. During the year ended June 30 2007, the cash provided to PRIT as collateral was lent to the LLC to invest in core real estate assets (see note 6). PRIT paid 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, PRIT owed Goldman $1,970 in rebates, which was also reported as an obligation under securities lending transactions. On January 1, 2008, the securities lending program was terminated.

(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.

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.

As of June 30, 2008 and 2007, PRIT owned 99.62% and 99.37%, respectively, of the total net assets of the LLC. HCST owned 0.38% and 0.63%, 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.

Notes to Financial Statements

June 30, 2008 and 2007

(a) Foreign Currency Exchange Contracts

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

	2008				
	Fair value	**Aggregate face value**	**Delivery date(s)**	**Unrealized gains**	**Unrealized losses**
Foreign currency exchange contracts purchased:					
Brazilian Real	$ 25,015	22,725	7/1/08 – 12/2/08	$ —	(2,290)
British Pound	759,647	747,984	7/1/08 – 9/17/08	—	(11,663)
Canadian Dollar	48,026	48,037	7/3/08 – 9/17/08	11	—
Euro	504,638	501,428	7/1/08 – 9/17/08	—	(3,210)
Japanese Yen	86,075	88,438	7/1/08 – 9/17/08	2,363	—
Swedish Krona	49,049	49,383	9/9/08 – 9/16/08	334	—
Swiss Franc	26,287	26,152	7/1/08 – 7/3/08	—	(135)
Other foreign currencies	90,051	90,198	7/1/08 – 5/6/09	812	(665)
Foreign currency exchange contracts sold:					
Australian Dollar	29,578	29,247	7/3/08 – 9/17/08	331	—
British Pound	85,587	84,840	7/1/08 – 9/17/08	747	—
Chinese Yuan Renminbi	45,045	44,400	9/17/08 – 10/10/08	645	—
Euro	206,552	203,576	7/1/08 – 9/17/08	2,976	—
Japanese Yen	64,849	65,857	7/1/08 – 9/17/08	—	(1,008)
Norwegian Krone	26,478	26,196	8/6/08 – 9/16/08	282	—
Swedish Krona	43,086	42,910	7/23/08 – 9/17/08	176	—
Other foreign currencies	63,982	62,585	7/1/08 – 5/6/09	2,059	(662)
Total				$ 10,736	(19,633)

Notes to Financial Statements

June 30, 2008 and 2007

	2007				
	Fair value	**Aggregate face value**	**Delivery date(s)**	**Unrealized gains**	**Unrealized losses**
Foreign currency exchange contracts purchased:					
Euro	$ 332,203	331,237	7/2/07 – 9/19/07	$ —	(966)
British Pound	305,974	302,183	7/18/07 – 9/19/07	—	(3,791)
Japanese Yen	104,793	107,128	7/2/07 – 9/19/07	2,335	—
Swedish Krona	42,522	42,663	7/18/07 – 9/19/07	141	—
Canadian Dollar	25,843	24,617	7/18/07 – 9/19/07	—	(1,226)
Other foreign currencies	73,199	71,942	6/29/07-3/13/08	3	(1,260)
Foreign currency exchange contracts sold:					
British Pound	127,542	129,000	7/2/07 – 9/19/07	1,458	—
Australian Dollar	70,621	71,320	7/3/07 – 9/19/07	699	—
Japanese Yen	43,334	42,585	7/2/07 – 9/19/07	—	(749)
Euro	39,214	39,403	7/18/07 – 9/19/07	189	—
Chinese Yuan Renminbi	34,532	34,685	9/19/07 – 3/19/08	153	—
Other foreign currencies	80,977	81,886	7/2/07 – 3/13/08	1,072	(163)
Total				$ 6,050	(8,155)

Notes to Financial Statements

June 30, 2008 and 2007

(b) Futures Contracts

Futures contracts held at June 30 were as follows:

	2008				
Description	**Number of contracts**	**Expiration date**	**Gross notional amount**	**Fair value of notional amount**	**Unrealized appreciation (depreciation)**
Long cash and cash equivalents:					
90-Day Eurodollar	5,939	9/08 – 3/10	$ 5,149,945	5,163,029	13,084
Other long cash and cash equivalents	224	9/08 – 3/09	189,407	189,504	97
Other short cash and cash equivalents	(533)	9/08 – 6/10	(166,608)	(166,229)	379
Long fixed income:					
Euro BOBL	127	9/08	11,102	17,340	6,238
Euro Bond	175	9/08	17,860	30,487	12,627
Other long fixed income	2,230	9/08	280,477	282,335	1,858
Short fixed income:					
US 10-Yr Treasury Notes	(2,049)	9/08	(231,099)	(233,426)	(2,327)
Euro-Schatz	(2,108)	9/08	(337,754)	(339,848)	(2,094)
Other short fixed income	(3,122)	9/08-6/09	(603,173)	(605,330)	(2,157)
Long equity and commodities:					
Russell 2000 MINI Index	1,526	9/08	109,930	105,553	(4,377)
S&P 500 Index	4,012	9/08	1,377,280	1,284,944	(92,336)
S&P Mid 400 EMINI Index	2,497	9/08	214,759	205,054	(9,705)
Other long equity and commodities	1,272	9/08 – 11/09	127,409	124,459	(2,950)
Short equity and commodities	(6)	9/08	(286)	(289)	(3)
Total futures exposure			$ 6,139,249	6,057,583	(81,666)

Notes to Financial Statements

June 30, 2008 and 2007

	2007				
Description	**Number of contracts**	**Expiration date**	**Gross notional amount**	**Fair value of notional amount**	**Unrealized appreciation (depreciation**
Long cash and cash equivalents:					
90-Day Eurodollar	1,935	9/06 – 12/07	$ 459,589	456,983	(2,606)
90-Day Australian Bk Bill	110	9/06 – 6/07	19,219	25,808	6,589
Other long cash and cash equivalents	518	9/06 – 6/07	110,673	112,866	2,193
Other short cash and cash equivalents	(832)	6/07 – 9/08	(196,517)	(196,036)	481
Long fixed income:					
Euro BOBL	1,408	9/06	197,461	196,435	(1,026)
Other long fixed income	2,859	9/06	418,161	415,932	(2,229)
Other short fixed income	(4,287)	9/06	(512,468)	(511,115)	1,353
Long equity and commodities:					
FTSE 100 Index	2,534	9/06	263,259	273,004	9,745
DJ Euro STOXX 50 Index	3,085	9/06	134,743	144,452	9,709
CAC 40 Index	1,751	7/06 – 9/06	103,781	111,366	7,585
SPI 200 Index	727	9/06	64,392	68,596	4,204
TOPIX Index	1,955	9/06	267,801	271,835	4,034
Other long equity and commodities	10,688	7/6 – 9/6	1,574,374	1,586,507	12,133
Short equity and commodities	(357)	9/06	(103,957)	(105,382)	(1,425)
Total futures exposure			$ 2,800,511	2,851,251	50,740

(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 value as estimated by PRIM. These estimated fair values are determined in good faith by using information from PRIT's investment managers, including methods and assumptions considering market conditions and risks existing at the date of the statement of pooled net assets. Such methods and assumptions incorporate standard valuation conventions and techniques, such as discounted cash flow analysis and option pricing models. All methods utilized to estimate fair values result only in general approximations of value, and such values may or may not actually be realized. Unrealized gains or losses on open swap contracts are included in the pooled statement of net assets.

Notes to Financial Statements

June 30, 2008 and 2007

Open swap contracts at June 30 were as follows:

2008

Description	PRIT pays/receives interest rate	PRIT pays/receives index/protection	Maturity date	Gross Notional amount	Net unrealized appreciation (depreciation)
Interest rate swaps	4.00% – 7.00%	See note *	12/08 – 12/38	$ 4,627,541	(9,875)
Credit default swaps	0.08% – 7.65%	Credit default protection	07/08 – 12/49	823,031	10,422
Total return swaps	(LIBOR – 5 to 12.5bps)	S&P 500, S&P 400, Russell 2000	09/08 – 01/09	3,018,137	(76,516)
Commodity swaps	0.18%	AIG Excess Return Commodity	08/08	529,453	47,393
Total swaps				$ 8,998,162	(28,576)

* PRIT pays/receives counterpary based on 3-Month LIBOR, 6-Month LIBOR, 6-Month Euro, 6-Month Yen LIBOR, 6-Month Aussy Bank Bill, Mexican TIIE rate, Inflation protection, Constant Maturing Mortgage, or Option payoff based on CMS spread

Exposures by counterparties

2008

Counterparty	Credit rating	Interest rate swaps Gross notional	Interest rate swaps Fair value	Credit default swaps Gross notional	Credit default swaps Fair value	Total return and commodity swaps Gross notional	Total return and commodity swaps Fair value
Morgan Stanley Capital Svcs Inc.	A+	$ 1,330,147	(1,887)	223,300	2,044	99,804	(2,621)
AIG	AA-	—	—	—	—	1,373,805	112,975
Citibank	AA-	1,110,387	1,313	9,550	(203)	—	—
Merrill Lynch Capital Services Inc.	A+	235,090	53	74,000	2,673	639,474	(45,085)
Credit Suisse	A+	—	—	6,200	(10)	725,997	(50,366)
Deutsche Bank AG	AA	534,253	(8,181)	156,580	4,555	—	—
Barclays Bank PLC	AA	583,448	(1,859)	78,700	1,001	—	—
Bank of America	AA	586,900	209	13,620	77	—	—
Goldman Sachs International	AA-	25,084	102	87,690	(415)	450,268	(35,470)
All others	Various	222,232	375	173,391	700	258,242	(8,556)
		$ 4,627,541	(9,875)	823,031	10,422	3,547,590	(29,123)

2007

Description	PRIT pays/receives interest rate	PRIT pays/receives index/protection	Maturity date	Gross Notional amount	Net unrealized appreciation (depreciation)
Interest rate swaps	2% – 9.92%	See note *	12/07 – 01/38	$ 4,527,004	13,705
Credit default swaps	0.10% – 2.39%	Credit default protection	07/07 – 06/17	308,050	1,703
Total return swaps	(LIBOR -1) – (LIBOR +2)	S&P 500	09/07 – 12/07	2,077,575	5,835
Commodity swaps	0.25% – 0.26%	AIG Excess Return Commodity	08/07 – 09/07	978,348	(17,473)
Total swaps				$ 7,890,977	3,770

* PRIT pays/receives counterpary based on 3-Month LIBOR, 6-Month LIBOR, 6-Month Euro, 6-Month Yen LIBOR, 6-Month Aussy Bank Bill, Mexican TIIE rate, Inflation protection, Constant Maturing Mortgage, or Option payoff based on CMS spread

Notes to Financial Statements

June 30, 2008 and 2007

Exposures by counterparties

		2007					
		Interest rate swaps		Credit default swaps		Total return and commodity 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)

(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 $115,230 and $113,124 for the years ended June 30, 2008 and 2007, 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.

Notes to Financial Statements

June 30, 2008 and 2007

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. Therefore, the fair value of these investments are reported net of “indirect” management fees. For the years ended June 30, 2008 and 2007, these indirect management fees charged to PRIT’s real estate, timber, absolute return and alternative investments amounted to approximately $124,109 and $129,779, 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 (replaced by Callan Associates in fiscal year 2009) 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, 2008 and 2007, as compensation for their services, investment advisors earned fees aggregating approximately $2,769 and $2,938, respectively, and are included in management fees in the accompanying statements of changes in pooled net assets.

(c) Custodian Fees

BNY Mellon 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. BNY Mellon also provides portfolio performance analysis each month. For the years ended June 30, 2008 and 2007, custodian fees amounted to $3,400 and $3,225, respectively, and are included in management fees in the accompanying statements of changes in pooled net assets.

Notes to Financial Statements

June 30, 2008 and 2007

(d) Other Administrative Fees

For the years ended June 30, 2008 and 2007, other administrative expenses of the PRIM Board, including employee compensation, professional fees and occupancy costs, charged to PRIT totaled approximately $5,775 and $5,201, respectively, and are included in management fees in the accompanying statements of changes in pooled net assets.

(9) Commitments

As of June 30, 2008, PRIT had outstanding commitments to invest approximately $3,218,337 in alternative investments and distressed debt.

Schedule of Pooled Net Assets – Capital Fund and Cash Fund

June 30, 2008

(Amounts in thousands)

	Capital Fund	Cash Fund	Total
Assets:			
Investments, at fair value:			
Short-term	$ 2,171,397	66,506	2,237,903
Fixed income	12,111,036	—	12,111,036
Equity	21,972,422	—	21,972,422
Real estate	5,587,382	—	5,587,382
Timber	1,066,018	—	1,066,018
Alternative investments	4,194,137	—	4,194,137
Hedge fund-of-funds	4,875,574	—	4,875,574
Total investments	51,977,966	66,506	52,044,472
Cash	125,670	—	125,670
Interest and dividends receivable	138,832	320	139,152
Receivable for investments sold	285,238	—	285,238
Securities sold on a when-issued basis	438,778	—	438,778
Unrealized gains on foreign currency exchange contracts	10,736	—	10,736
Receivable from Health Care Security Trust	259	—	259
Margin variation receivable	471	—	471
Total assets	52,977,950	66,826	53,044,776
Liabilities:			
Securities purchased on a when-issued basis	1,684,732	—	1,684,732
Payable for investments purchased	629,941	—	629,941
Obligations under securities lending transactions	—	—	—
Unrealized losses on foreign currency exchange contracts	19,633	—	19,633
Management fees payable to PRIM	103,826	—	103,826
Total liabilities	2,438,132	—	2,438,132
Net assets held in trust for pool participants	$ 50,539,818	66,826	50,606,644

See accompanying independent auditors' report.

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

Fiscal year ended June 30, 2008

(Amounts in thousands)

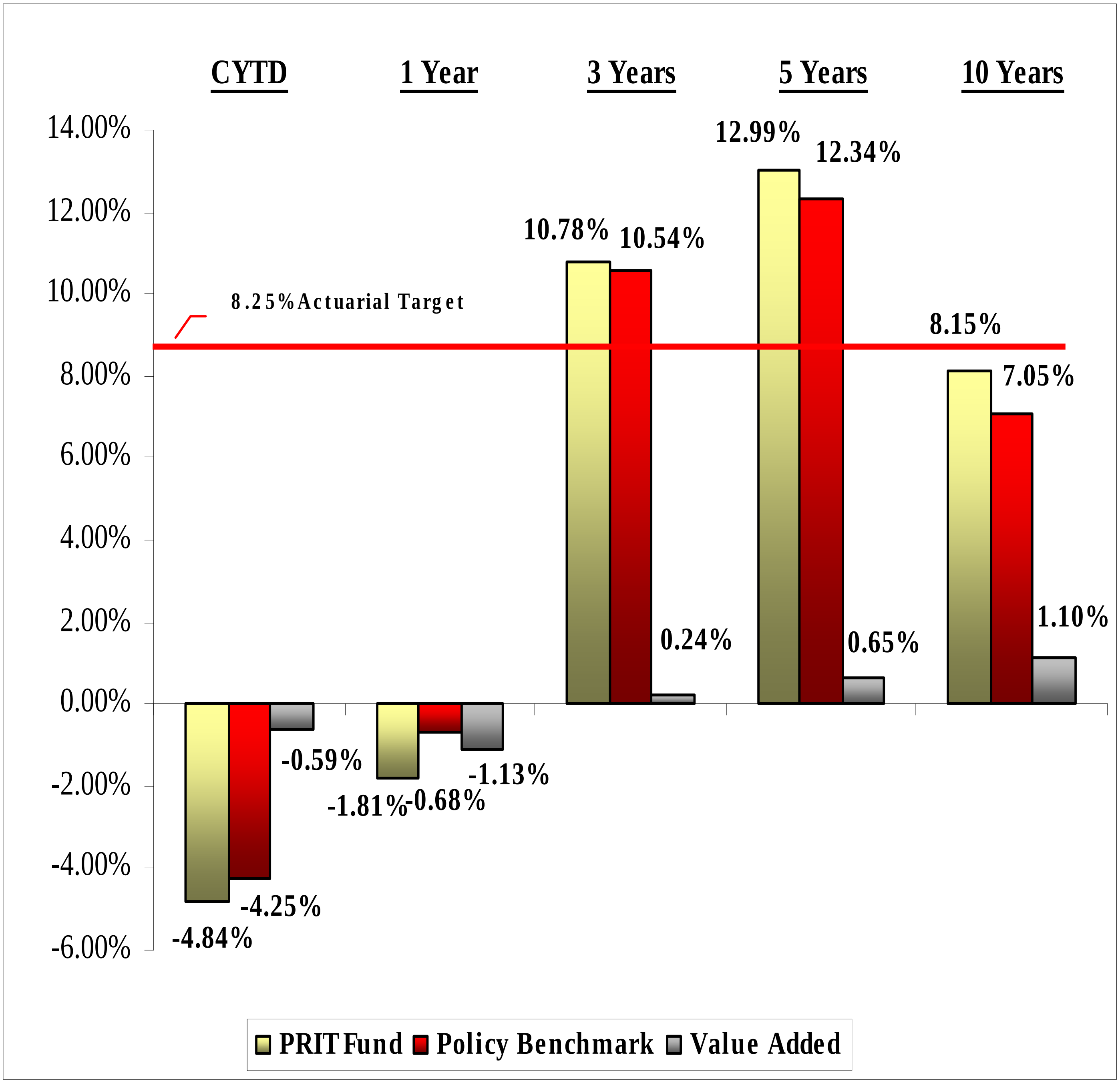
		Capital Fund	Cash Fund	Total
Additions:				
Contributions:				
State employees	$	—	464,330	464,330
State teachers		—	573,984	573,984
Other participants		—	2,347,537	2,347,537
Total contributions		—	3,385,851	3,385,851
Net investment income:				
From investment activities:				
Net realized gain on investments and foreign currency transactions		2,692,175	—	2,692,175
Net change in unrealized appreciation on investments and foreign currency translations		(5,301,078)	—	(5,301,078)
Interest income		652,262	2,051	654,313
Dividend income, net		603,553	—	603,553
Real estate income, net		245,831	—	245,831
Timber income, net		4,926	—	4,926
Alternative investment income, net		32,817	—	32,817
		(1,069,514)	2,051	(1,067,463)
Management fees		(127,174)		(127,174)
Net income from investment activities		(1,196,688)	2,051	(1,194,637)
From securities lending activities:				
Securities lending income		9,210	—	9,210
Securities lending expense		(96)	—	(96)
Net expense from securities lending activities		9,114	—	9,114
Total net investment income		(1,187,574)	2,051	(1,185,523)
Total additions		(1,187,574)	3,387,902	2,200,328
Deductions:				
Redemptions:				
State employees	$	—	817,474	817,474
State teachers		—	971,621	971,621
Other participants		—	202,723	202,723
Total deductions		—	1,991,818	1,991,818
Interfund transfers		1,382,762	(1,382,762)	—
Net increase in pooled net assets		195,188	13,322	208,510
Net assets held in trust for pool participants:				
Balance, beginning of year		50,344,630	53,504	50,398,134
Balance, end of year	$	50,539,818	66,826	50,606,644

See accompanying independent auditors' report.

Investment Section

Total PRIT Fund Performance Summary *

For the periods ended June 30, 2008



* 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, 2008, PRIM employed twenty-nine public markets investment managers, eighty-nine 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 $50.6 billion in assets under management at June 30, 2008.

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 2008, the Board agreed to add two new asset types and to make minor adjustments to the current portfolio allocation. Natural Resources was added and given a 2% recommended allocation target. This allocation, which was taken from the Timber sleeve, is meant to act as an inflation hedge, similar to timber, as it is not believed that under current market conditions, a 4% allocation to timber is reasonable. The reduction from the 2007 timber sleeve resulted from the sale of the entire Campbell portfolio, which comprised of 2% of the total PRIT fund. The second addition was Bank Loans, which was given a 1% target allocation, and included within the high yield bucket. The other allocation changes were due to new investment techniques and reaching realistic allocation targets. Accordingly, the Board voted to increase the current 5% Portable Alpha strategy within the domestic equity portfolio to 6%. Other notable changes included a reduction of private equity from 10% to 9%, a reduction in the TIPS portfolio from 3% to 1%, an increase in the high yield debt target from 5% to 6%, and an increase in the REITS target from 2% to 3%. The PRIT Fund's long-term asset allocation and actual asset allocation at June 30, 2008 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 8.39%, up from the expected 8.27% if no changes were made. These approved changes build upon the significant asset allocation changes approved in 2006 and implemented over the past 3 years.

Asset Class	6/30/2008 Allocation %	2008 Long-Term Policy Target %
U.S. Equity	21.2	21
Portable Alpha	4.9	6
International Equity	20.0	20
Emerging Markets Equity	5.5	5
U.S. Bonds	10.3	10
TIPS	6.5	3
High Yield & Emerging Mkt Debt	5.0	6
Real Estate	10.9	11
Alternatives - Private Equity	8.4	9
Timber	2.1	2
Natural Resources	0.0	2
Absolute Return	5.2	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

2008 U.S. and World Markets Review

By all accounts, the beginning of fiscal 2008 was the point at which the subprime mortgage sector began to unravel, spawning the current credit crisis that has roiled financial markets and disrupted global economies. At the outset of the fiscal year, delinquencies and defaults in U.S. subprime mortgages led to downgrading of bonds that were backed by subprime mortgage securities. It would take less than a year for the U.S. subprime contagion to contaminate credit markets worldwide, but, in retrospect, the first quarter of fiscal 2008 (3Q07) seemed relatively benign. Although home construction declined after having grown for seven straight quarters, the U.S. economy grew at an annual rate of 4.9% in the first fiscal quarter, its best period since 2003. Consumer spending, which accounts for more than two-thirds of the economy, was strong in 3Q07, and job creation was also robust, helping to boost wages. The weak dollar also raised exports. July was a very volatile month where the Dow Jones Industrials closed above 14,000 for the first time and the S&P 500 closed with a new high of 1553.08 on July 19th, but as the month ended, both the Dow and the S&P 500 declined 5.63% and 6.30%, respectively from their highs. Fear was beginning to rear its ugly head as financial shares fell on rising defaults on home loans, causing two Bear Stearns hedge funds to collapse and a 33% earnings decline for Countrywide Financial Corp., the nation's largest mortgage lender. As the quarter progressed, subprime mortgage defaults increased, which resulted in a sell-off in the credit markets. Investors fled to quality, buying up Treasury securities as the commercial paper market contracted, making it difficult for companies to borrow short-term to support daily operations. In recognition of this, the Federal Reserve poured $209 billion into the credit markets and lowered the discount rate on direct loans to banks by 50 basis points to 5.75% on August 15th. In a surprise move, the Fed lowered its key target Fed funds rate 50 basis points to 4.75% from 5.25% on September 18th in an attempt to mitigate the decline in the housing markets. The cut was a boom to financial markets as investors saw a Fed that was willing to take whatever steps necessary to abate the housing correction and prop up credit markets. In the meantime, consumer spending grew as retail sales exceeded forecasts. As the quarter ended, the economy was still in relatively good shape despite the credit crunch and housing slump; however, this was tempered by concern over whether consumer spending would be negatively impacted by the housing recession. The quarter showed mixed results in the global equity markets, as growth stocks beat value stocks, in some cases by wide margins. The S&P was rose 2.03% in the quarter, as the Energy sector gained a spectacular 27.21%, with Materials not far behind at 20.51%. The Financial sector was the hardest hit, declining 6.83% during the quarter. The Russell 1000 Growth was up 4.21% in contrast to the Russell 1000 Value, which produced a slight negative return of –0.38%. The biggest dispersion was between the Russell 2000 Growth and the Russell 2000 Value, which returned 0.03% and –6.26%, respectively. In the developed international equity markets, the MSCI EAFE returned 2.46% during the quarter, and emerging markets gained a whopping 14.52%, as measured by the MSCI Emerging Markets Free (EMF) Index, as investors continued to buy up the stocks of these developing economies. Domestic bonds enjoyed their largest quarterly increase since the third quarter of 2002 owing largely to the Fed interest rate cut, as the Lehman Aggregate jumped 2.85% in 3Q07. High yield bonds had a more modest quarter overall, as the Merrill Lynch Master High Yield index returned 0.35%; however high yield bonds gained 2.45% in September 2007, spurred by lower inflation data.

The jitters over the housing market recession continued into the second fiscal quarter (4Q07). The new record highs that the Dow Jones Industrials and the S&P 500 hit on October 9th, 14,165 and 1,565, respectively, would be short-lived as both indices would fall 6% from these all-time peaks by quarters' end. In a preemptive move to prevent the deepening housing market correction from spilling over into the general economy, the Fed reduced the fed funds rate by 25 basis points to 4.50% from 4.75% at its October 31st meeting. In announcing the rate cut, the Fed wrote in a statement that "the upside risks to inflation roughly balance the downside risks to growth", while warning that energy and commodity prices could add an "upward pressure on inflation." As a result of the rate cut, the U.S. dollar fell 1.55% against the euro, while crude oil jumped to $94.53 a barrel, a 16% increase. Signs that the economy was slowing became more evident in November, but consumer spending continued to rise and job growth was better than expected. New home sales fell 24% from the prior year, which led the Federal Reserve Chairman, Ben Bernanke, to say that the Fed needed to be "exceptionally alert and flexible", meaning that the Fed would be proactive in preventing an economic recession. In keeping with that promise, the Fed lowered the fed funds rate yet another 25 basis points on December 11th to 4.25% from 4.50%, however, that did not help to quell investor queasiness about the future economic picture. Job growth now started to sputter and the U.S. manufacturing industry show signs of slowing. Investors expecting a "Santa Claus" rally only received coal in their stockings as more dire economic data dampened the holiday spirit. The S&P 500 fell 3.33% as the subprime mess further exacerbated the credit crunch and croaked Financials, which were down 15.04% for the quarter and off 20.84% for calendar year 2007. Consumer Discretionary stocks were the second worse performer, declining 10.49% in 4Q07 and falling 14.32% for the calendar year. The rest of the S&P 500 enjoyed positive returns for the quarter and the year, led by Energy, up 4.07% for the quarter and 32.38% for the entire year. The total S&P 500 index was up 5.50% in calendar year 2007. Large caps and growth stocks dominated in 4Q07 and for the year. The Russell 1000 Growth fell 0.76% for the quarter compared to the Russell 1000 Value, which declined 5.80% in 4Q07. Both indices returned 11.82% and –0.17%, respectively, on a calendar year to date basis. Small cap stocks got pounded as the Russell 2000 dropped 4.57% in 4Q07 and finished the year at –1.55%. The U.S. dollar strengthened in December against the euro, pound and yen, causing a sell-off in international equities, but for the quarter and full year, international equities in both the developed and emerging markets produced better returns than their domestic counterparts. The MSCI EAFE index, although down 1.71% for the quarter, finished the year strong at 11.62%. The MSCI EMF index rose an impressive 3.66% during the quarter and was up an astronomical 39.79% percent in calendar year 2007. As the flight-to-quality continued in the U.S bond markets, U.S Treasuries enjoyed their best annual return since 2002. The Lehman Aggregate returned a healthy 3.00% in 4Q07 and concluded the year with a 6.96% gain, owed largely to the run up in relatively safe government debt. Lower quality bonds fell during the quarter, as the Merrill Lynch Master High Yield returned –1.15%, but the index finished the year up at 2.16%. The downturn in the real estate market made itself more evident in 4Q07, as the NAREIT Equity Index sank 12.68%, returning an abysmal –15.70% in calendar year 2007. Conversely, direct property investments fared better, as the NCREIF Property Index rose 1.39%, finishing the year at 15.58%.

Although the U.S. economy continued to grow in the third fiscal quarter (1Q08), concern heightened over a possible economic slowdown. As the housing market contraction continued and credit got tighter, so were there declines in payrolls, the services industries, and in the factory and construction sectors. In an effort to stave off a recession, the Federal Reserve in January cut the Fed funds rate for the fourth time in as many months, but this time a steep 125 basis points to 3.00% from 4.25%! Entering March, there were further omens of a worsening economy: unemployment rose to 5.15%, the highest it had been since September 2005; U.S. companies reduced production; and consumer confidence hit a five-year low. Again, in an attempt to buffer the slowdown and take pressure off the financials markets, on March 18th the Federal Reserve lowered the Fed funds rate 75 basis points to 2.25% from 3.00%, however, the markets did not respond favorably as the quarter drew to a close. The S&P 500 fell 9.45% during 1Q08, down 14.65% from its October 9, 2007 historic high. Volatility returned to the markets with a vengeance after being absent since the October 2002 recovery in the aftermath of the Internet bubble, 9/11 attacks, and accounting scandals (i.e., Enron). The deepest negative returns were felt in the Financial sector, which was down 14.67% for the quarter, and in Health Care stocks, which returned -11.94% in 1Q08. Value stocks outperformed growth, as the Russell 1000 Value index declined 8.72% and the Russell 1000 Growth sank 10.19% for the quarter. Small capitalization stocks returned -9.90% for the quarter, as measured by the Russell 2000 index, and as with large caps, value fared better than growth in that space. While the Fed was lowering interest rates at home, The European Central Bank (ECB) was in an anti-inflationary mode, keeping rates at a six-year high. As a result, the U.S. dollar fell 8.21% against the euro during the quarter, its largest quarterly decline since December 2004. International equity markets were hit almost as hard as U.S. markets as the MSCI EAFE returned 8.83% in 1Q08. Steep declines were also felt in the emerging markets as the EMF plunged 10.92%, led by losses in the Asian markets. As a result of the Fed's credit easing policy, investment grade bonds did well during the quarter, as the Lehman Aggregate index rose 2.17%. Government bonds performed the best as the Lehman Government index finished the quarter up 4.04%. Risk premiums on lower quality bonds increased as higher yields contributed to a disappointing quarterly return of -2.98% for the Merrill Lynch Master High Yield. In a stunning reversal from the prior quarter, REITS jumped 6.23% in March, as measured by the NAREIT Equity index, finishing up 1.39% for the quarter.

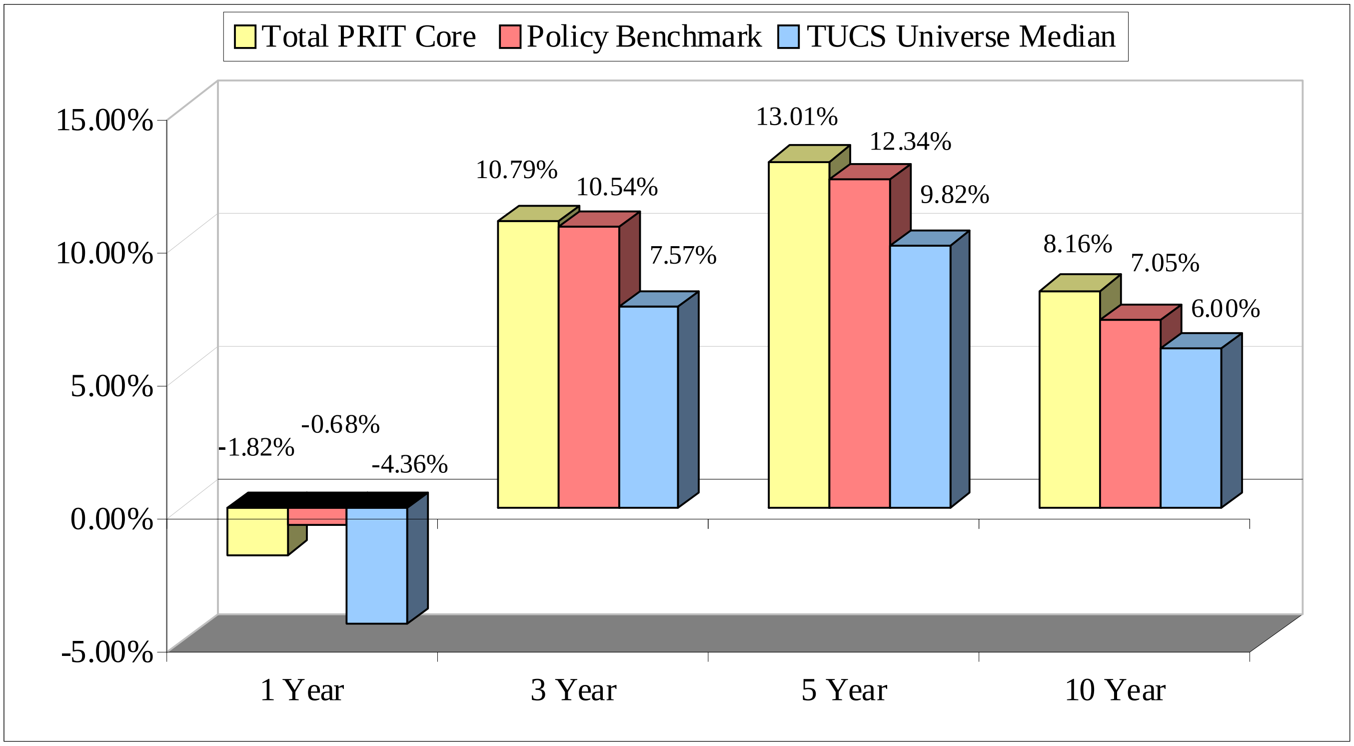
Treasury Secretary Henry Paulson's statement that the credit crisis, which by April 2008 was in its ninth month, was "probably more than half over," seems naive with what we know today, but such was the mood as the fourth fiscal quarter (2Q08) rolled around. The economy was still growing, modestly at best, but pressures were mounting on consumers and businesses. As negative job growth, higher energy costs, and the housing recession continued to plague consumers, the Fed cut the Fed funds rate by 25 basis points to 2.00% from 2.25% on April 30th, the sixth such reduction since September 2007. U.S stocks ended a five-month losing streak in April, and international stock markets in both the developed and emerging markets responded in kind. As the quarter wore on, economic indicators were still pointing to slow economic growth bordering on recession, however, the manufacturing and service sectors held their own, despite rising unemployment and the housing contraction. The month of May saw crude oil reaching $135 per barrel, more than double the price over the previous 12 months. As a result, food and gas prices climbed draining consumers' wallets.

Despite gains in most major indices in April and May, 2Q08 ended with a thud. Although it appeared the Fed's aggressive actions had averted a recession, there were still some trouble spots in the economy, such as job losses, the housing downturn, and higher prices. Consumer spending doubled from the beginning of the quarter, but nearly all of that was spent on nondurable goods and services, such as food and gasoline. In June, the Fed decided to keep interest rates at 2.00%, given the slump in the housing market and the financial sector, although it cautioned that rising energy prices could pose an inflationary threat. There was even talk of a possible rate increase if inflation were to erode consumer spending, especially in a weak employment environment, and deliver the economy into a recession. The U.S. equity markets went on a selling spree in June, as nervous investors fretted about higher energy prices and their affect on corporate profits. The S&P 500 returned -8.43% in June, its worse monthly decline since September 2002, and fell 2.72% for the quarter. The S&P 500 was down 13.11% for the trailing 12-month period ended June 30, 2008. In a reversal from last quarter, growth beat value, as the Russell 1000 Growth was up 1.26% for the quarter, and returned -5.96% for the one-year period. In contrast, the Russell 1000 Value returned -5.32% in 2Q08, and fell 18.79% for the trailing 12 months. Small caps produced somewhat better quarterly returns, especially in the growth space, as the Russell 2000 was up 0.58%, but the index was down 16.19% on a one-year basis. The Energy sector produced the strongest returns, up 16.405 for the quarter and soaring 23.60% for the fiscal year. Materials were the second best performer, returning 8.30% in 2Q08 and gaining 11.70% for the one-year ended June 30, 2008. The Financial sector was the hardest hit as investors feared that the subprime mortgage crisis could engender further losses. Financial stocks were down 18.30% for the quarter and plunged 41.90% for the trailing 12-month period. International equities in both the developed and emerging markets sold off in June due to inflationary fears. MSCI EAFE returned -1.93% for the quarter and fell 10.15% on a one-year basis. The EMF index was down slightly for the quarter, returning -0.81%, but still managed to eke out a positive return of 4.90% for the fiscal year. Anticipating that the Fed would increase interest rates in June, bonds moved lower as the spread between 10-year and two-year Treasury yields continued to flatten. The Lehman Aggregate returned -1.02% for the quarter, but was up a solid 7.13% for the one-year ended June 30, 2008. The demand for higher yields on riskier lower quality bonds depressed returns for the Merrill Lynch Master High Yield in June. Although the high yield index was up 1.80%

for the quarter, it fell 2.04% for the fiscal year. Publicly traded REITS suffered huge losses in June, resulting in a quarterly return of -4.93%. The NAREIT Equity index sank 13.65% for the fiscal year ended June 30, 2008.

PRIT CORE PERFORMANCE: FISCAL YEAR 2008

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



In the fiscal year 2008, the PRIT Core returned a negative 1.81%, lagging the policy benchmark return of negative 0.68%, by 113 basis points. The performance in fiscal 2008 has put PRIM into the top quartile of all US Public Pension Funds over $1 billion in size for the fiscal year while putting the PRIT Fund in the top 5th and 1st percentile in longer term five and ten year periods, respectively, according to the Trust Universe Comparison Services (TUCS). The ten year period is consistent with the previous fiscal year, while there was a drop-off from the 1st to the 5th in the 5 year period, due to current year's market environment, where bond heavy funds were able to make up ground on more diversified funds. The PRIT Fund's ten 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 2008 with a net asset value of $50.40 billion and ended with $50.61 billion. On a gross basis the fund was up approximately $209 million, which is the result of $1.19 billion in investment loss being offset by $1.40 billion in net contributions from the State Employees, State-Teachers' and Participant accounts.

The returns continued on a downward slope for all four quarters of fiscal 2008. The quarterly returns of the PRIT Core in fiscal year 2008 were as follows:

- 2.99% for September 30, 2007 – versus a benchmark return of 3.69%.

- 0.19% for December 31, 2007 – versus a benchmark return of 0.04%.
- Negative 4.37% for March 31, 2008 – versus a benchmark return of negative 3.71%.
- Negative 0.50% for June 30, 2008 – versus a benchmark return of negative 0.56%.

The past fiscal year presented a particularly challenging year, not only for PRIM, but for institutional investors in general. One of PRIM's hallmarks has been the ability to consistently outperform its three most important benchmarks in both up and down markets. In order of priority, these benchmarks are as follows: 1) beating the actuarial rate of return assumption of 8.25%; 2) exceeding the long-term Policy Benchmark, which measures how well PRIM has implemented its asset allocation; and 3) achieving top quartile rankings in the TUCS report, which measures PRIM's investment performance against its peers nationwide. Fiscal 2008 was one of those rare occasions when PRIM achieved only one of its three benchmark objectives. Through June 30, 2008, the PRIT "Core" outpaced the actuarial return over a three-, five-, and since inception basis, returning 10.80%, 13.01%, and 10.94%, respectively. For the one-year, the Fund returned -1.81%, and trailed the actuarial rate and the policy benchmark by 1006 basis points and 39 basis points, respectively. PRIM's rankings in the TUCS report, however, for periods ended June 30, 2008, continued to be strong. The PRIT Fund Core ranked in the top 19th percentile (1st being the best, 100th being the worst) for the one-year period, and ranked in the top 5th percentile for both the three-and five-year periods. Although PRIT Core's 10-year return of 8.16% trailed the actuarial rate of 8.25% by nine basis points at this snapshot in time, PRIM ranked in the top 1st percentile versus its peers in TUCS and beat its policy benchmark return by 119 basis points.

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 90.6% of PRIM's total budget for fiscal 2008 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 5.3% of PRIM's operating budget for fiscal year 2008 was allocated to fees for these professional services.

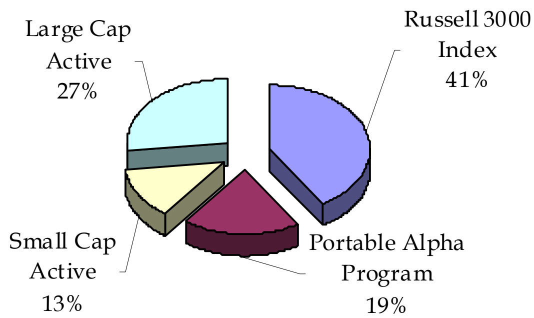
The PRIT Fund also incurs indirect management costs as a result of investing in alternative investments, hedge fund-of-funds, real estate, timber, and other commingled fund assets. Most investment management fees for alternative investments are charged by managing general partners to investment partnerships 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 2008, *inclusive* of all investment management (direct and indirect), consulting, custodial and overhead charges was 52 basis points of the average net asset value of the PRIT Fund compared to 54 basis points in fiscal year 2007. *Excluding* indirect management fees (as most public pension funds report), the cost of managing the PRIT Fund was 25 basis points compared to 27 basis points in fiscal year 2007. Overall fees can vary from year to year due to the nature of performance-based fees at PRIT. The FY'08 fees remained consistent with the prior years' fees as performance fees remained low in both fiscal years compared to prior years. While some managers continued to outperform their respective benchmark in the past two fiscal years, none were able to maintain some of the incredible outperformance in years past. Assets saw a minimal $200 million increase in the current fiscal year. For information on expense ratios for each investment account, refer to the *Financial Highlights* ratios on pages 86-92 included in the Statistical Section of this report.

Domestic Equity Portfolio

As of June 30, 2008, the domestic equity portfolio had approximately $13.2 billion in net assets, which represented 26.1% of the PRIT Capital Fund. Approximately 87% of the domestic equity portfolio is invested utilizing a large capitalization stock ("large cap stocks") and a Russell 3000 index strategy while 13% is invested 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, 2008

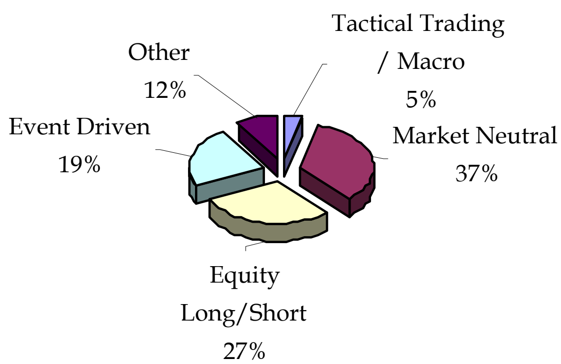


The active large capitalization component of the Domestic Equity portfolio is 27% of the total Domestic Equity portfolio, and the active small capitalization component represents an additional 13%. The passive component, the Russell 3000 index, encompasses both large and small capitalization stocks, and makes up 41% of the Domestic Equity portfolio. The remaining 19% of the Domestic Equity portfolio is invested through 4 managers (3 active, 1 passive) in the Portable Alpha program. The PRIT fund's investment strategy for Domestic Equity is to be neutral to the market with respect to capitalization weightings.

During the year, all Domestic Equity strategies underperformed their respective benchmarks. Of the large capitalization managers, three of the five managers outperformed their benchmark. In the small capitalization mandate, just two of the six managers outperformed their benchmark. In the Portable Alpha program, the three active managers all underperformed their benchmark while the beta overlay portion slightly outperformed it's benchmark. The Russell 3000 Index fund slightly underperformed its benchmark.

In February of 2008, the PRIM Board voted to increase the Portable Alpha allocation from 5% to 6% of the total PRIT Capital Fund which is housed within the Fund's Domestic Equity portfolio. This 1% allocation increase to Portable Alpha resulted in a manager search, and the subsequent hiring and funding (funded in September and October 2008) of three active Hedge Fund-of-Funds alpha managers (EIM, Austin Capital, and Blackstone) to complement our three existing active managers (Crestline, Grosvenor and Strategic Investment Group), and one beta overlay manager (Russell). The six Fund-of-Fund alpha managers are benchmarked against the US 3-Month LIBOR + 3%, and the beta manager is benchmarked to the Russell 3000 minus LIBOR, with the entire program evaluated against the Russell 3000 Index. At June 30, 2008 the three Hedge Fund-of-Funds managers had investments in over 100 underlying managers, with the following strategy allocations:

Portable Alpha Portfolio
Strategy Allocations
June 30, 2008



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 negative 15.54% return compared to a negative 12.67% for the portfolio benchmark, the Russell 3000 index. PRIT's large cap managers returned a negative 15.75% compared to the negative 13.29% return of the large cap benchmark S&P 500 index (ex-tobacco). The small cap managers returned a negative 15.79% for the year versus a negative 11.41% in the Dow Wilshire 4500 benchmark.

On a three- five- and ten-year basis through June 30, 2008, PRIT's Domestic Equity portfolio has returned 3.77%, 8.07%, and 4.07%, respectively, compared to the Russell 3000 Index (Dow Wilshire 5000 index through 4/30/08), which returned 4.96%, 8.67%, and 3.56%, respectively.

The top ten holdings in the domestic equity portfolio at June 30, 2008 are illustrated below. A complete listing of holdings is available upon request.

Domestic Equity

#	Issue Name	Fair Value ($000s)	% of Account Fair Value
1	Commit to purchase FNMA Mtg.	$ 495,109	3.76%
2	Exxon Mobil Corp.	232,240	1.76%
3	Commit to purchase FNMA Mtg.	224,224	1.70%
4	General Electric	166,754	1.27%
5	Microsoft Corp.	123,120	0.93%
6	AT&T Inc.	119,514	0.91%
7	IBM Corp.	99,459	0.75%
8	Google Inc.	98,605	0.75%
9	Chevron Corp.	96,800	0.73%
10	Proctor & Gamble Co.	92,620	0.70%
	TOTAL	$ 1,748,445	13.26%

The PRIT Fund's domestic equity managers at June 30, 2008 are highlighted in the following table:

Domestic Equity

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2008 ($000s)
State Street Global Advisors	Russell 3000 Index	$ 5,448,995
Intech	S&P 500 Enhanced Index	1,100,973
PIMCO	S&P 500 Enhanced Index	1,095,628
Gardner Lewis	Large Cap Core/Growth	347,610
Legg Mason Capital Management, Inc,	Large Cap Value	637,509
NWQ	Large Cap Value	347,632
Crestline	US Equity Portable Alpha Hedge FoFs	765,611
Grosvenor	US Equity Portable Alpha Hedge FoFs	762,620
Strategic	US Equity Portable Alpha Hedge FoFs	733,080
Russell	Russell 3000 Beta Overlay	190,854
Ariel Capital Management LLC	Small Cap Value	246,286
Numeric Investors, LP	Small Cap Growth	322,720
Mazama Capital Management	Small Cap Growth	241,543
AXA Rosenberg Investment Management	Small Cap Value	351,368
Earnest Partners	Small Cap Value	305,104
Putnam Advisory Company	Small Cap Value	241,834
Other portfolio net assets		40,815
Total Portfolio Fair Value June 30, 2008		**$ 13,180,182**

International Equity Portfolio

As of June 30, 2008, the PRIM Board invested $10.1 billion in the International Equity Portfolio, representing 20.0% 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 (about 25% of the portfolio) and six actively managed accounts (about 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. The PRIM Board has maintained the International Equity allocation of 20% of the Total PRIT Capital Fund since 2006, while limiting the passive exposure to 25% of the total International Equity portfolio. During fiscal 2008, two additional managers, Mondrian Investment and Pyramis Global advisors were hired to replace two terminated managers in the International Equity space.

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, 2008, the International Equity portfolio returned a negative 9.03% compared to the MSCI EAFE index return of a negative 10.38%. Of the PRIT Capital Fund's four international equity managers that had a full fiscal year of performance, three active and the sole passive manager, outperformed the MSCI index for the fiscal year. Over the longer-term, PRIT's international equity managers continue to add value over the benchmark. On a three- five- and ten-year basis through June 30, 2008, PRIT's international equity managers posted returns of 13.56%, 17.25%, and 8.76%, respectively, ahead of the MSCI EAFE index, which returned 12.94%, 16.73%, and 5.86% over the same periods.

The top ten holdings in the international equity portfolio at June 30, 2008 are illustrated below. A complete listing of holdings is available upon request.

#	Issue Name	Fair Value ($000s)	% of Account Fair Value
1	Nestle SA	$ 139,310	1.38%
2	British Petroleum PLC	135,431	1.34%
3	Royal Dutch Shell	118,183	1.17%
4	Vodafone Group	117,304	1.16%
5	Arcelor	110,929	1.10%
6	BG Group	102,069	1.01%
7	Banco Santander	98,681	0.98%
8	E. On AG	97,717	0.97%
9	Xstrata Com	93,378	0.92%
10	Novartis	92,357	0.91%
	TOTAL	$ 1,105,359	10.94%

The PRIT Fund's international equity managers at June 30, 2008 are highlighted in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2008 ($000s)
Marathon Asset Management Ltd.	EAFE Benchmark	$2,524,762
State Street Global Advisors	EAFE Index	2,464,134
Ballie Gifford	EAFE Benchmark	1,368,958
Alliance Bernstein	EAFE Benchmark	1,274,808
AXA Rosenberg Investment Management	EAFE Benchmark	1,312,220
Pyramis Global Advisors	EAFE Benchmark	592,719
Mondrian Investment	EAFE Benchmark	578,844
Other portfolio net assets		3,491
Total Portfolio Fair Value June 30, 2008		**$10,119,936**

Emerging Markets Portfolio

As of June 30, 2008, 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 0.15% compared to the MSCI Emerging Markets Net Dividends index return of 5.28%. All of the current emerging markets equity managers underperformed the benchmark for the fiscal year. Over the longer-term, PRIT's emerging markets equity managers now lag the benchmark due to the current year underperformance. On a three- five- and ten-year basis through June 30, 2008, PRIT's emerging markets equity managers posted returns of 24.99%, 29.37%, and 15.40%, respectively, lagging the MSCI Emerging Markets Net Dividends index, which returned 27.40%, 29.98%, and 15.77% over the same periods.

The top ten holdings in the emerging markets portfolio at June 30, 2008 are illustrated below: A complete listing of holdings is available upon request.

#	Issue Name	Market Value ($000s)	% of Account Market Value
1	Petroleo Brasileiro	$ 97,345	3.53%
2	Gazprom OAO	63,846	2.31%
3	Companhia Vale Do Rio Doce	57,505	2.08%
4	Gazprom ADR	57,408	2.08%
5	Samsung Electronics	56,510	2.05%
6	Petroleo Brasileiro ADR	49,281	1.78%
7	EMM EMSAF-Mauritus Fund	40,459	1.47%
8	China Mobile	40,459	1.47%
9	America Movil	36,294	1.31%
10	Sberbank Rossii	30,231	1.09%
	TOTAL	$ 529,338	19.17%

The PRIT Fund's emerging markets equity managers at June 30, 2008 are highlighted in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2008 ($000s)
Emerging Markets Management	Value/Frontier	$ 1,016,037
Grantham, Mayo, Van Otterloo & Co. LLC	Value	1,138,070
T. Rowe Price	Growth	607,031
Other portfolio net assets		42
Total Portfolio Fair Value June 30, 2008		**$ 2,761,180**

Fixed Income Portfolio

The PRIM Board invested approximately $8.5 billion in the investment grade Fixed Income Portfolio, representing 16.8% of the PRIT Capital Fund as of June 30, 2008. The Fixed Income Portfolio is invested using the following strategies:

- 15% in a Lehman Brothers Aggregate passively managed index fund;
- 44% in actively managed Lehman Brothers Aggregate core portfolios;
- 22% in Treasury Inflation Protected Securities (TIPS);
- 17% in Global ILB/Commodities portfolio.
- 2% 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, Community Capital Management (CCM), and AFL-CIO Housing Investment (AFL-CIO) 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 and AFL-CIO portfolios are 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 2008, the Fixed Income composite return of 14.36% surpassed the benchmark (67% LB Agg/20% Lehman US TIPS/13% Custom Commodities index), which was 14.16%. The Total Core portfolio returned 7.13%, just above the benchmark return of 7.12%. PRIT's TIPS manager, Barclays, achieved a 14.69% return versus the Lehman US TIPS benchmark return of 15.09%, with Commodities managers, Blackrock and Bridgewater, achieving a 53.71% return versus the Custom Commodities index of 53.38%, while the ETI managers, Access Capital, AFL – CIO Housing Investment, and Community Capital Management, returned 5.74%, 1.00% (not an entire fiscal year) and 7.76% versus their benchmark returns of 8.39%, 1.13% and 7.12%, respectively.

Four of the top ten holdings in the fixed income portfolio at June 30, 2008 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	Fair Value ($000s)	% of Account Fair Value
1	FNMA Pool #0745418 5.500% April 2036	$ 139,884	1.64%
2	Commit to Purchase FNMA 5.000% July 2038	111,466	1.31%
3	FNMA Pool #0745336 5.000% March 2036	111,102	1.31%
4	Commit to Purchase FNMA 6.500% July 2038	92,438	1.09%
5	U.S. Treasury Notes 4.875% June 2009	86,032	1.01%
6	TBA FHLB July 2008	79,296	0.93%
7	Commit to Purchase FNMA 5.500% July 2038	53,715	0.63%
8	Germany (Federal Republic) 2.250% April 2013	46,622	0.55%
9	U.S. Treasury Bill 0.000% July 2008	45,677	0.54%
10	FNMA Pool #0984832 5.500% April 2038	42,644	0.50%
	TOTAL	$ 808,876	9.51%

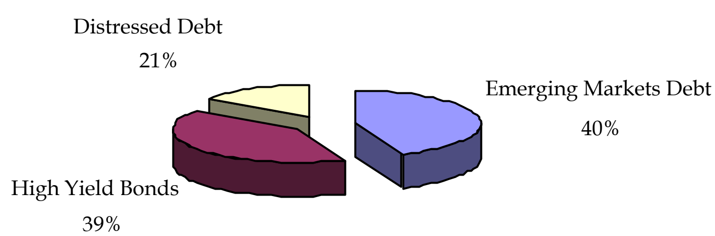
The PRIT Fund's fixed income portfolio managers at June 30, 2008 are highlighted in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2008 ($000s)	
Barclays Global Investors	Core Index	$	1,257,642
Barclays Global Investors	TIPS		1,853,282
PIMCO	Active Core		1,295,414
Blackrock Financial Management	Active Core		1,240,381
Loomis, Sayles & Co., LP	Active Core		1,220,008
Blackrock Financial Management	Inflation Link Bonds/Commodities		882,315
Bridgewater Associates	Inflation Link Bonds/Commodities		590,399
Access Capital	ETI		85,212
AFL - CIO Housing Investment	ETI		53,370
Community Capital Management	ETI		28,347
Other portfolio net assets			4,099
Total Portfolio Fair Value June 30, 2008		**$**	**8,510,469**

High Yield Portfolio

The PRIM Board invested approximately $2.5 billion in the High Yield Portfolio, representing 5.0% of the PRIT Fund as of June 30, 2008. 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, 2008



High yield bonds, which represent 1.9% 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, 2.0% 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, 2008 the PRIT Fund had approximately $520 million in distressed debt investments with five investment managers. This portfolio represents 1.0% 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 2008, the High Yield composite returned 2.91% compared to 1.19% for the asset class benchmark. The PRIT Capital Fund's three high yield bond managers, Shenkman, Fidelity and Loomis Sayles, returned a negative 1.26%, while the Merrill Lynch High Yield Master II Constrained index returned a negative 1.64%. 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 $520 million with seven different managers; Oaktree Capital Management, Angelo, Gordon & Co., Avenue Capital Group, Wayzata Investment Partners, TCW Asset Management, Providence Equity Partners and Summit Partners. The benchmark for the Distressed Debt portfolio is 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 3.59% compared to the index return of negative 1.64%. The Emerging Markets Debt portfolio, managed by Ashmore, GMO and PIMCO, returned 7.32% during the fiscal year, comfortably ahead of JP Morgan Emerging Markets Bond Index (JPM EMBI Global Index), which returned 5.09%, by 223 basis points.

The top ten holdings in the high yield portfolio at June 30, 2008, 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	Fair Value ($000s)	% of Account Fair Value
1	Brazil Bonds 10.125% May 2027	$ 11,329	0.45%
2	Elan Fin Corp 7.750% November 2011	9,375	0.37%
3	Intelsat Ltd 11.250% June 2016	9,183	0.37%
4	Valeant Phar 4.000% November 2013	8,772	0.35%
5	KB Home 7.250% June 2018	8,477	0.34%
6	Toys R Us 7.375% October 2018	8,362	0.33%
7	Bombardier In 7.450% May 2034	7,864	0.31%
8	Freeport McMoran Copper & Gold 8.375% April 2017	7,839	0.31%
9	CCH I LLC 11.000% October 2015	7,423	0.30%
10	DNB Nor Bank July 2008	7,272	0.29%
	TOTAL	$ 85,896	3.42%

The PRIT Fund's high yield portfolio managers at June 30, 2008 are highlighted in the following table:

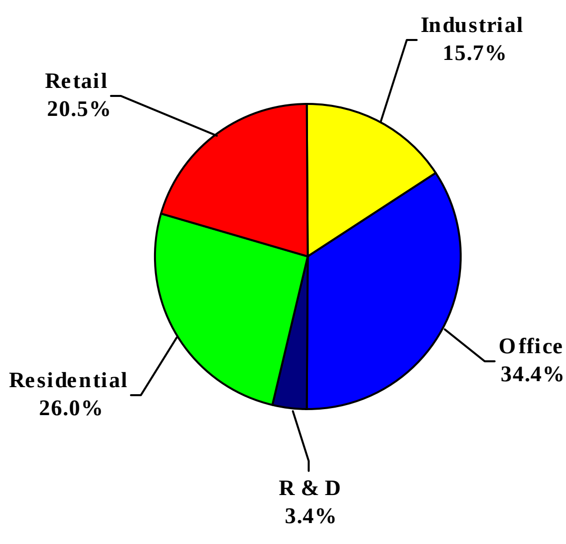
Manager	Investment Mandate	Portfolio Fair Value at June 30, 2008 ($000s)
Fidelity Management Trust	High Yield Bond	$ 305,352
Shenkman Capital Management	High Yield Bond	346,695
Loomis, Sayles & Co., LP	High Yield Bond	330,470
Ashmore Investment Management	Emerging Markets Debt	488,796
Grantham, Mayo, Van Otterloo & Co. LLC	Emerging Markets Debt	333,641
PIMCO	Emerging Markets Debt	191,355
Various	Distressed Debt	520,364
Other portfolio net assets		(4,860)
Total Portfolio Fair Value June 30, 2008		**$ 2,511,813**

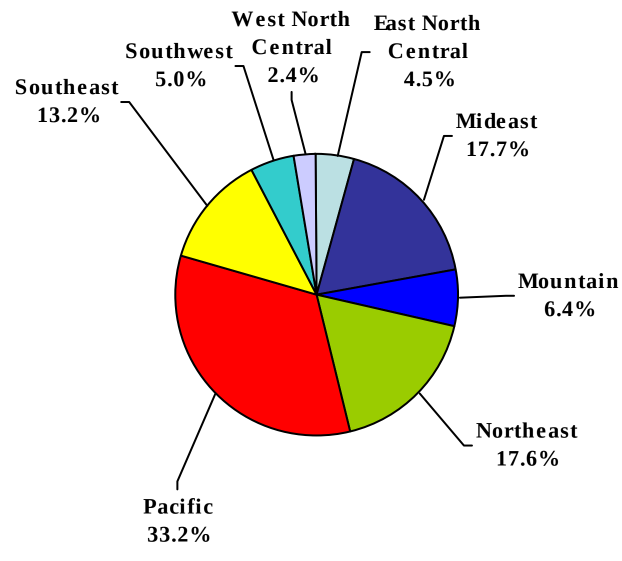
Real Estate Portfolio

As of June 30, 2008 PRIM had $5.5 billion invested in real estate, representing 10.9% of the PRIT Capital Fund. In February 2007, the Board voted to increase the target Real Estate allocation from 10% to 11%. 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 74% of the real estate allocation is dedicated to direct investments in real estate properties. These investments are subsequently broken down into Core and Value real estate investments. Currently, $4.0 billion of Core real estate investments and $43 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, 2008, PRIM had approximately $1.4 billion allocated to REITs. On February 1, 2008 the PRIM Board approved a $200 million investment in global REIT securities. RREEF, a current PRIM advisor whose U.S. account was converted to global and a new advisor, European Institutional Investors (EII), were hired to oversee this mandate. The REIT portfolio represents 2.7% of the total PRIT fund.

During the fiscal year, three Core properties and one Value property were acquired at a total gross cost of $257 million. Six properties were sold during the year, generating $310 million in proceeds. The following charts show the property type and location diversification of PRIM’s directly owned core real estate assets at June 30, 2008:





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 11% 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 had historically been provided by cash collateral obtained through the PRIT Fund’s securities lending program, and were included in obligations under securities lending transactions in the Fund’s Statement of Pooled Net Assets. 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 remaining $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 $229 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 both domestically and internationally since they are traded on public exchanges. They can experience corrections and price movements that are much more rapid than those experienced by private equity real estate portfolios.

Performance. During the fiscal year, commercial real estate began to feel the effects of the credit crunch as well as the weakening economy in the U.S. and around the world. While PRIM’s directly owned property valuations have not yet been significantly impacted due to an inherent appraisal lag and a lack of comparable transaction data, the fund’s REIT holdings have been impacted as the broader stock markets have fallen and underlying property assumptions have been tempered. For the one-year period, the portfolio returned 5.19%, lagging the asset class benchmark return of 6.57% (73% NCREIF Property Index/17% NAREIT U.S. Equity Index/7.25% NAREIT Global/Ex U.S. Index/2.75% NAREIT INTL REIT). The investments in direct property ownership returned 11.97% for the twelve months ending June 30, 2008, lagging the NCREIF Property Index (one quarter lag), which returned 13.58% over the same period. REIT investments returned -17.64%, underperforming PRIM’s combined REIT benchmark of -15.03% by 261 basis points.

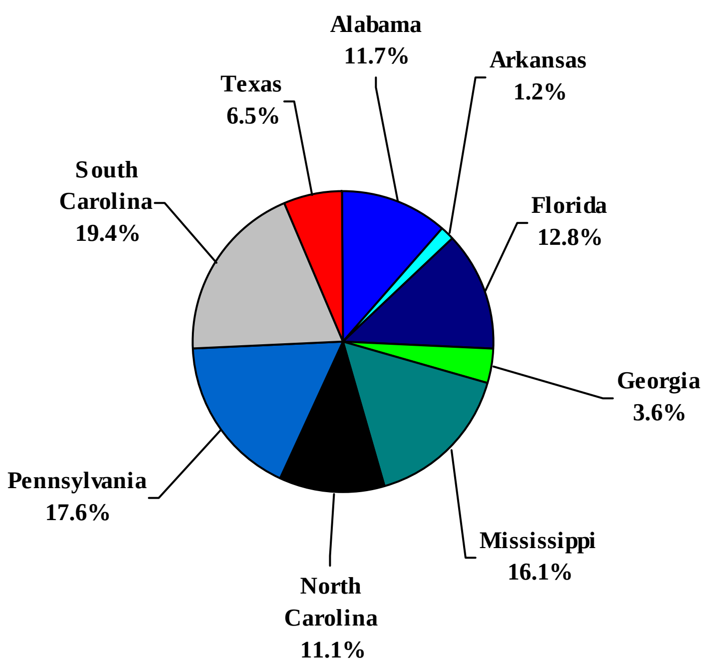
The real estate portfolio has returned 15.25% over the past three years versus the asset class benchmark of 14.10%. On a five-year basis, returns were 19.15 % compared to the benchmark return of 15.09%. On a ten-year basis, the real estate portfolio returned 14.09% compared to the benchmark return of 12.64%. The PRIT Fund's real estate investment managers at June 30, 2008 are highlighted in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2008 ($'000's)
Invesco Realty Advisors	Separate Accounts	$ 471,760
LaSalle Investment Management	Separate Accounts	931,744
RREEF	Separate Accounts	932,533
J.P. Morgan Investment Management	Separate Accounts	639,824
TA Associates Realty	Separate Accounts	1,053,320
RREEF Value	Separate Accounts	42,976
RREEF Global	Global REITs	388,788
European Investors	International REITs	146,170
Invesco Realty Advisors	Domestic REITs	270,488
Urdang	Domestic REITs	263,921
Wellington	Domestic REITs	316,118
Canyon Johnson	ETI	10,708
Intercontinental	ETI	8,112
New Boston	ETI	3,065
Portfolio Debt		-
Other portfolio net assets		40,505
Total Portfolio Fair Value June 30, 2008		**$ 5,520,032**

Timber Portfolio

As of June 30, 2008, PRIM had $1.1 billion invested in timber representing 2.1% of the PRIT Capital Fund. The PRIT Fund's allocation to timber is through one external timber investment manager, Forest Investment Associates (FIA), as the second externally managed portfolio was sold by the Campbell Group in September 2007. During the February 2008 Board meeting, the timber asset allocation was reduced from 4% to 2%.

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, 2008 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.

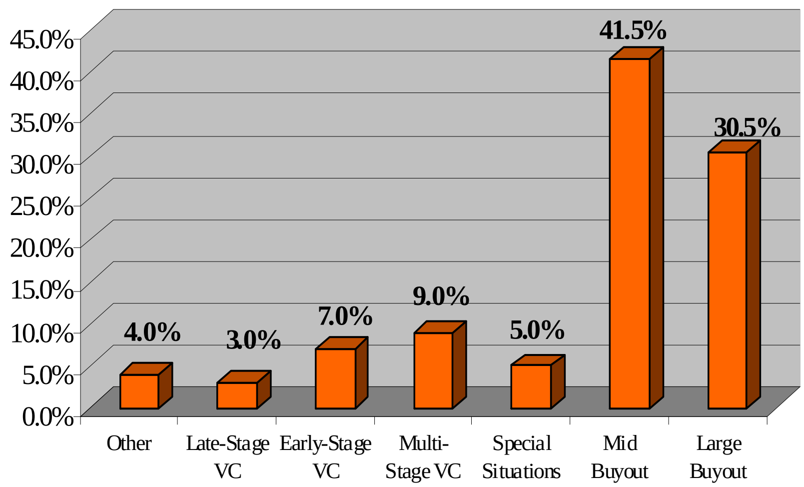
Performance. As of June 30, 2008, the one-year return was 23.86% as compared to the NCREIF Timber Index (one quarter lag) of 20.55%. Since its inception, in December of 2001, the Timber portfolio has produced an annualized return of 16.20%. With a 2.1% investment in timber at fiscal year-end, PRIM was slightly over its target of 2% for the year. Due to this allocation, PRIM's advisors 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.

Alternative Investments Portfolio

As of June 30, 2008 the market value of the Alternative Investment Portfolio was $4.2 billion or 8.4% 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 9%. 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, 2008 is highlighted below.

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

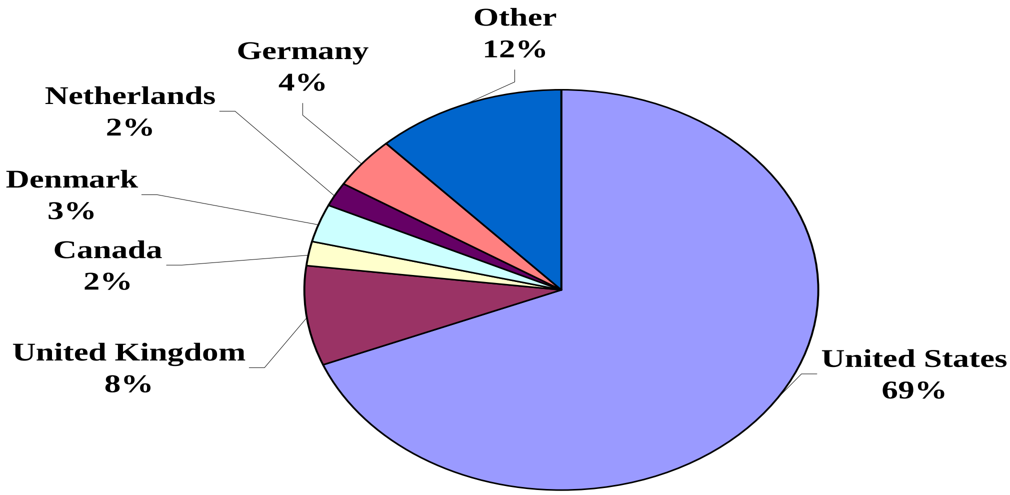
As of June 30, 2008

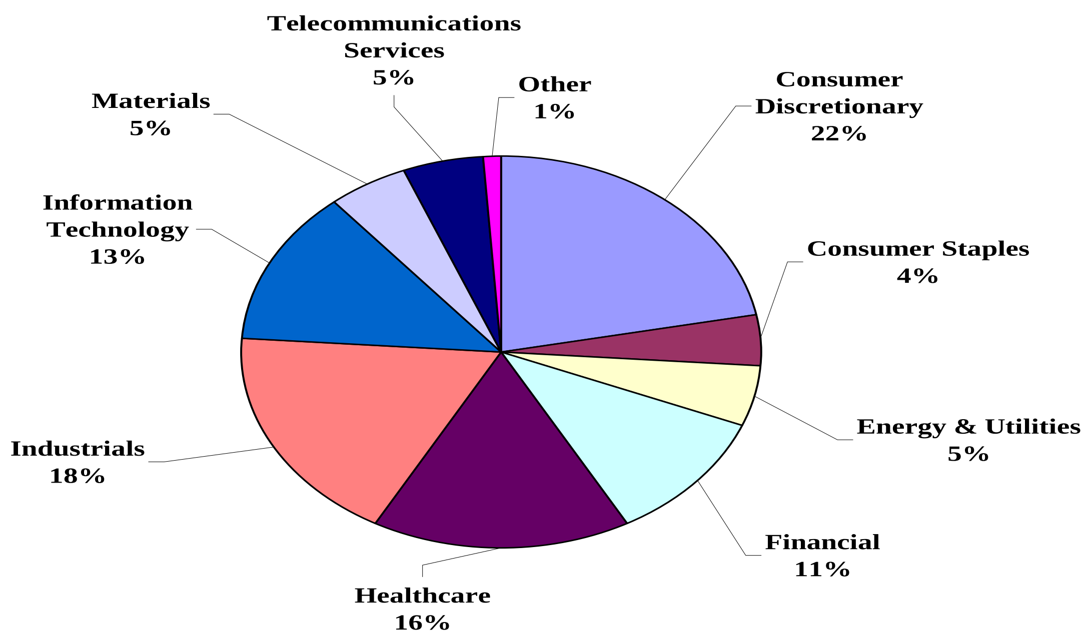


In addition to being diversified at the partnership level by strategy, the Alternative Investments Portfolio is highly diversified at the underlying portfolio company level. The portfolio's current country and industry allocations are presented below.

PRIM Industry and Geographic Exposure

As of June 30, 2008





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 a one-year return of 19.11% through June 30, 2008. The Fund's Alternative Investments managers were far less active in the year ending June 30, 2008 as a result of the weakening economic environment and the significantly reduced availability of leverage. The Fund's managers called $1.2 billion of capital for additional investments which is slightly ahead of the prior year ($1.0 billion). While the Fund's managers were less active, the portfolio maintained pace due to the Fund's increased commitment levels over the last three vintage years, as well as the addition of several new managers. From a liquidity standpoint, the portfolio generated total distributions of $778.7 million which compares to $1.3 billion for the 2007 fiscal year.

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 15.52% as of June 30, 2008, exceeding the S&P 500 index return of 2.88% by 1,264 basis points. On a five-year basis, the portfolio exceeded the S&P 500 by 2,068 basis points, 28.26% compared to 7.58%. For the three-year period ending June 30, 2008, the Alternative Investments portfolio returned 30.05%, exceeding the S&P 500 index return of 4.41% by 2,564 basis points. For the one year period ending June 30, 2008, the Alternative Investments portfolio returned 19.11%, outperforming the S&P 500 index return of -13.12% by 3,223 basis points. It is important to remember that there is a lagging nature to valuations in private equity. For this reason the June 30, 2008 results for the Alternative Investments portfolio do not reflect the same level of depreciation in asset values that are reflected in public market indices such as the S&P 500.

As of June 30, 2008, PRIT has committed over $10.5 billion to 253 partnerships of which $7.1 billion has been invested. The program has generated $6.8 billion in distributions and has a remaining market value of $4.2 billion. The net IRR since inception for the program is 14.4%.

ALTERNATIVE INVESTMENTS EXTERNAL MANAGERS

As of June 30, 2008

	Partnership	Location		Partnership	Location
1	Advent International	Boston, MA	46	Kohlberg Kravis Roberts& Co.	New York, NY
2	Alchemy Partners	London, UK	47	Landmark Equity Partners	Simsbury, CT
3	Alta Communications	Boston, MA	48	Lexington Partners	New York, NY
4	American Securities	New York, NY	49	Madison Dearborn Capital Partners	Chicago, IL
5	APAX Partners & Co.	London, UK	50	Menlo Ventures	Menlo Park, CA
6	Apollo Management Co.	New York, NY	51	M/C Venture Partners	Boston, MA
7	AustinVentures	Austin , TX	52	Montagu Private Equity	London, UK
8	Battery Ventures	Wellesley, MA	53	Montreux Equity Partners	Palo Alto, CA
9	Bain Capital	Boston, MA	54	Narragansett Capital, Inc.	Providence, RI
10	Berkshire Partners, LLC	Boston, MA	55	Nautic Partners	Providence, RI
11	The Blackstone Group	New York, NY	56	New Enterprise Associates	Baltimore, MD
12	Boston Ventures	Boston, MA	57	Nordic Capital	Stockholm , Sweden
13	Bridgepoint	London, UK	58	Olympus Growth Fund	Stamford, CT
14	Brown Brothers Harriman & Co.	New York, NY	59	Onex Partners	Toronto, CA/NY, NY
15	Candover	Boston, MA	60	PAI Partners	Paris, FR
16	Carlyle Partners	London, UK	61	Permira Europe	London, UK
17	Castile Ventures	Waltham, MA	62	Polaris Venture Partners	Waltham, MA
18	Centerbridge Capital Partners	New York, NY	63	Providence Equity Partners	Providence, RI
19	Charles River Ventures	Waltham, MA	64	Quad - C Management, Inc.	Charlottesville, VA
20	Charlesbank Capital Partners	Boston, MA	65	Richland Ventures	Nashville, TN
21	Chequers Capital	Paris, France	66	SCP Vitalife	Tel Aviv, Israel
22	Code Hennessey & Simmons	Chicago, IL	67	Sherbrooke Capital	Newton, MA
23	Commonwealth Capital Ventures	Wellesley, MA	68	Sovereign Capital Limited	London, UK
24	CVC Capital (Europe)	London, UK	69	Spark Capital	Boston, MA
25	Cypress Merchant Banking	New York, NY	70	Spectrum Equity Partners	Boston, MA
26	DLJ Merchant Banking	New York, NY	71	Summit Ventures	Boston, MA
27	El Dorado Ventures	Menlo Park, CA	72	TA Associates/Advent	Boston, MA
28	Equitable Capital Management	New York, NY	73	TCV	Menlo Park, CA
29	Essex Woodlands	Chicago, IL	74	Texas Pacific Group	San Fran./Forth Worth
30	Exponent Partners	London, UK	75	Thoma Bravo	Chicago/San Francisco
31	First Reserve Corporation	Greenwich, CT	76	Thomas H. Lee Equity Partners	Boston, MA
32	Flagship Ventures	Cambridge, MA	77	Torquest	Toronto, CA
33	Forstmann, Little & Co.	New York, NY	78	Towerbrook	NewYork/London
34	Freeman Spogli Equity Partners	Los Angeles, CA	79	Trident Capital	Palo Alto, CA
35	Genstar Capital Partners	San Francisco, CA	80	Union Square	New York, NY
36	The Gores Group	Los Angeles, CA	81	VantagePoint Partners	San Bruno, CA
37	GTCR Golder, Rauner	Chicago, IL	82	Venture Capital Fund of NE	Boston, MA
38	Harborvest Partners	Boston, MA	83	Vestar Capital Partners	New York, NY
39	Hellman & Friedman Capital Partners	Los Angeles, CA	84	Vista Equity Partners	San Francisco, CA
40	H.I.G. Capital	Miami, Fla.	85	Welsh CarsonAnderson & Stowe	New York, NY
41	Highland Capital Partners	Boston, MA	86	Weston Presidio Capital	Boston/San Francisco
42	Insight Venture Partners	New York, NY	87	Whitney & Co.	Stamford, CT
43	InterWest Partners	Menlo Park, CA/Dallas, TX	88	William Blair Mezzanine Capital Fund	Chicago, IL
44	Joseph Littlejohn & Levy	New York, NY	89	Willis Stein	Chicago, IL
45	Kelso & Company	New York, NY			

Absolute Return Portfolio

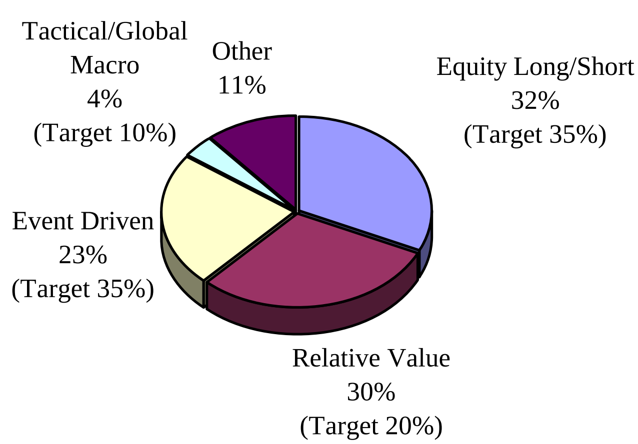
As of June 30, 2008 the Absolute Return Portfolio had approximately $2.6 billion in assets, which represented 5.2% of the PRIT Fund. PRIM has investment in five hedge funds of funds managers. PRIM's absolute return managers at June 30, 2008 were as follows:

Manager	Portfolio Fair Value at June 30, 2008 ($'000's)	
Arden Asset Management	$	531,331
Ivy Asset Management Corp.		536,500
K2 Advisors		543,232
PAAMCO		505,086
The Rock Creek Group		498,116
Other portfolio net liabilities		(27)
Total Portfolio Fair Value June 30, 2008	**$**	**2,614,238**

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, 2008 are highlighted below.

Strategy Allocations

As of June, 2008



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 1.76% for the fiscal year versus a return of 7.63% for the benchmark of treasury bills plus 4%. The absolute return portfolio has returned 8.82% over the past three years versus the asset class benchmark of 8.27%. 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	**-15.54%**	**3.77%**	**8.07%**	**4.07%**
Russell 3000	*-12.67%*	*4.96%*	*8.67%*	*3.56%*
International Equity	**-9.03%**	**13.56%**	**17.25%**	**8.76%**
MSCI EAFE	*-10.38%*	*12.94%*	*16.73%*	*5.86%*
Emerging Markets	**0.15%**	**24.99%**	**29.37%**	**15.40%**
MSCI EMF Net Div.	*5.28%*	*27.40%*	*29.98%*	*15.77%*
Fixed Income (1)	**14.36%**	**6.13%**	**5.49%**	**6.73%**
67% LB Agg/20%LB US TIPS/13% Custom Commodities	*14.16%*	*5.75%*	*5.12%*	*6.44%*
High Yield Debt (1)	**2.91%**	**8.05%**	**10.57%**	**na**
60% MLHYM/40% JPM EMBI Global	*1.19%*	*5.83%*	*9.00%*	*na*
Real Estate	**5.19%**	**15.25%**	**19.15%**	**14.09%**
73% NCREIF Property One Qtr. Lag/17% NAREIT Equity REIT/7.25%NAREIT Global REIT/2.75% NAREIT INTL REIT	*6.57%*	*14.10%*	*15.09%*	*12.64%*
Alternative Investments	**19.11%**	**30.05%**	**28.26%**	**15.52%**
No Benchmark	*na*	*na*	*na*	*na*
Timber (2)	**23.86%**	**19.91%**	**17.01%**	**na**
NCREIF Timber Index	*20.55%*	*18.01%*	*14.64%*	*na*
Absolute Return (3)	**1.76%**	**8.82%**	**na**	**na**
T-bills plus 4%	*7.63%*	*8.27%*	*na*	*na*

	1 Year	3 Year	5 Year	10 Year
Total PRIT Core	**-1.82%**	**10.80%**	**13.01%**	**8.16%**
Policy Benchmark	*-0.68%*	*10.54%*	*12.34%*	*7.05%*
TUCS Universe Median	*-4.36%*	*7.57%*	*9.82%*	*6.00%*
TUCS Universe Ranking	*19th*	*5th*	*5th*	*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, 2008

		Fair Value ($000s)	% of Fair Value
Short-term:			
Money market investments	$	2,237,903	4.30%
Fixed income:			
U.S. Government obligations		1,837,274	3.53%
Domestic fixed income		7,569,088	14.54%
International fixed income		2,184,310	4.20%
Distressed debt		520,364	1.00%
Equity:			
Domestic equity securities		9,116,910	17.52%
International equity securities		12,855,512	24.70%
Real estate		5,587,382	10.74%
Timber		1,066,018	2.05%
Alternative investments:			
Venture capital		900,113	1.73%
Special equity		3,294,024	6.33%
Hedge Fund-of-Funds investments:			
Absolute return		2,614,264	5.02%
Portable Alpha		2,261,310	4.34%
Total investments	$	52,044,472	100.00%

SUMMARY SCHEDULE OF BROKER COMMISSIONS

(Top 25 Brokers and Cumulative Fees Paid to Others)
Fiscal Year Ended June 30, 2008

Brokerage Firms	Fees Paid ($)	% total	Average per share
State Street Brokerage Services	$ 3,295,422	16.7%	$ 0.009
Merrill Lynch	1,067,144	5.4%	0.008
Credit Suisse	1,057,918	5.4%	0.007
UBS	1,018,619	5.2%	0.008
Goldman Sachs & Co.	856,908	4.3%	0.008
Morgan Stanley & Co.	840,483	4.3%	0.011
JP Morgan Securities	838,254	4.2%	0.006
Deutsche Bank	593,908	3.0%	0.009
Citigroup Global Markets	586,275	3.0%	0.008
BNY Brokerage	455,032	2.3%	0.033
Instinet Corp	432,511	2.2%	0.005
ABN Amro Securities	386,874	2.0%	0.002
Investment Technology Groups	375,627	1.9%	0.008
Ridge Clearing & Outsourcing	352,819	1.8%	0.019
Lehman Brothers	318,189	1.6%	0.008
Credit Lyonnais Securities	294,181	1.5%	0.013
Calyon Securities	241,884	1.2%	0.009
Dresdner, Kleinwort & Benson	237,102	1.2%	0.011
Pershing Securities Ltd.	226,308	1.1%	0.016
Bear Stearns	208,298	1.1%	0.012
Liquidnet Inc.	202,697	1.0%	0.018
Jefferies & Co Inc.	182,340	0.9%	0.027
Capital Institutional Services Inc.	174,411	0.9%	0.029
Nomura International Ltd.	154,125	0.8%	0.009
Macquarie Bank Ltd.	146,007	0.7%	0.003
Others	5,197,641	26.3%	0.011
Totals	$19,740,977	100%	$ 0.009

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, 2008 the PRIT Fund earned approximately $584 thousand from the commission recapture program.

SCHEDULE OF PRIT MANAGEMENT FEES
Fiscal Year Ended June 30, 2008

	2008 ($000s)	% total
Investment Management Fees by Asset Class:		
Domestic Equity	$ 21,583	17.0%
International Equity	24,156	19.0%
Fixed Income	12,197	9.6%
High Yield Debt	4,586	3.6%
Emerging Markets Equity	2,156	1.7%
Real Estate	23,945	18.8%
Timber	24,066	18.9%
Alternative Investments	2,765	2.2%
Total Investment Management Fees	115,454	90.8%
Investment Advisory (Consulting) Fees	2,769	2.2%
Custodian Fees	3,400	2.7%
Other Administrative Fees	5,551	4.3%
Total Management Fees charged to PRIT	$ 127,174	100%

SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT

Accounts Opened to Segmentation at June 30, 2008

Retirement System		Assets ($000s) 6/30/08	General Allocation	Domestic Equity	International Equity	Emerging Markets	Fixed Income	Real Estate	Alternative Investments	Absolute Return
Amesbury	$	35,581	X							
Andover	$	89,721	X							
Athol	$	15,546	X							
Attleboro	$	4,680								X
Barnstable County	$	547,659	X							
Belmont	$	10,742	X					X	X	X
Berkshire Regional	$	137,392	X							
Beverly	$	76,689	X							
Blue Hills	$	6,626	X							
Braintree	$	35,132	X					X		X
Brookline	$	44,799	X			X		X		X
Cambridge	$	68,409						X		X
Chelsea	$	69,542	X							
Chicopee	$	20,867						X		X
Clinton	$	5,569					X	X		X
Concord	$	31,667	X						X	
Danvers	$	8,597		X						
Dedham	$	89,810	X							
Dukes County	$	46,472	X		X		X	X		
Easthampton	$	29,525	X							
Essex	$	40,069						X		X
Everett	$	54,243	X							
Fairhaven	$	37,414	X							
Fall River	$	205,972	X							
Falmouth	$	8,385								X
Fitchburg	$	80,552	X							
Framingham	$	201,085	X							
Franklin County	$	44,832	X							
Gardner	$	40,692	X							
Gloucester	$	66,951	X							
Greenfield	$	3,304						X	X	
Hampden County	$	27,248						X		X
Hampshire County	$	28,943						X	X	X
Haverhill	$	26,299				X		X	X	X
Hingham	$	75,603	X							
Hull	$	23,622	X							
Lawrence	$	127,056	X						X	X
Leominster	$	48,478	X				X			X
Lowell	$	247,871	X							
Lynn	$	41,118	X							
Marblehead	$	85,221	X							
Mass Turnpike	$	104,306	X				X			X
MassPort	$	38,724						X	X	
Medford	$	16,234						X	X	X
Melrose	$	55,052	X							

SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT, cont.

Accounts Opened to Segmentation at June 30, 2008

Retirement System		Assets ($000s) 6/30/08	General Allocation	Domestic Equity	International Equity	Emerging Markets	Fixed Income	Real Estate	Alternative Investments	Absolute Return
Methuen	$	5,593								X
Middlesex	$	663,072	X							
Milton	$	83,289	X							
Minuteman Tech	$	11,848	X							
Montague	$	24,100	X							
MWRA	$	25,016	X						X	X
Natick	$	5,757						X		X
Needham	$	112,606	X							
New Bedford	$	13,265								X
Newburyport	$	45,557	X							
Newton	$	249,345	X							
Norfolk	$	20,681						X		X
North Adams	$	1,658							X	X
Northhampton	$	2,947							X	X
Northbridge	$	21,447	X							
Norwood	$	16,628						X		X
Peabody	$	108,756	X							
Pittsfield	$	9,209						X		X
Plymouth	$	18,106						X	X	X
Quincy	$	19,911	X						X	X
Reading	$	93,603	X							
Revere	$	96,020	X							
Salem	$	87,012	X							
Saugus	$	62,060	X							
Shrewsbury	$	5,732						X		
Springfield	$	266,114	X							
State Employees'	$	20,991,265	X							
State Teachers'	$	23,539,379	X							
Stoneham	$	61,709	X							
Swampscott	$	1,628								X
Wakefield	$	93,093	X							
Waltham	$	126,787	X							
Watertown	$	4,781								X
Webster	$	4,302						X	X	X
Wellesley	$	133,457	X							
West Springfield	$	8,807	X							
Weymouth	$	23,954						X		X
Winchester	$	19,293					X			X
Winthrop	$	35,723	X							
Woburn	$	27,833			X	X		X		X
Worcester	$	20,365						X		X
Worcester Regional	$	340,637	X							
	$	50,606,644								

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 (1/1/08) estimates a 78.6% 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	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
State Employees contributions	$ 464,330	$ 420,199	$ 409,515	$ 366,262	$ 362,309	$ 350,705	$ 352,123	$ 323,571
State teachers contribtuions	573,984	548,229	527,820	506,711	522,133	504,014	494,761	371,914
Other participants contributions	2,347,537	1,047,285	759,088	111,557	257,892	136,712	107,566	70,869
Net investment income (loss)	(1,185,523)	8,228,782	5,466,443	4,212,098	5,309,069	947,540	(2,021,891)	(2,219,384)
Total additions to pooled net assets	2,200,328	10,244,495	7,162,866	5,196,628	6,451,403	1,938,971	(1,067,441)	(1,453,030)
Deductions								
State employees warrants	239,452	227,510	218,831	211,746	207,569	186,782	165,606	168,432
State teachers warrants	341,575	299,612	273,209	234,729	201,490	177,051	152,138	151,911
Participants redemptions	202,723	128,843	108,577	164,889	84,627	60,604	55,461	46,938
State appropriation funding	1,184,774	1,100,000	939,100	888,000	1,197,689	891,000	688,000	273,409
Operating expenses	23,294	15,447	18,305	17,057	14,107	13,888	14,560	11,810
Total deductions to pooled net assets	1,991,818	1,771,412	1,558,022	1,516,421	1,705,482	1,329,325	1,075,765	652,500
Changes in pooled net assets	$ 208,510	$ 8,473,083	$ 5,604,844	$ 3,680,207	$ 4,745,921	$ 609,646	$ (2,143,206)	$ (2,105,530)

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 reimbursement of MASTERS 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 previous eight fiscal years.

Financial Highlights and Financial Highlights Ratios

Pages 87-88 provide the financial highlights of the PRIT Capital Fund for the year ended June 30, 2008. In addition, pages 89-92 provide additional financial highlights ratios for the six 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, 2008

	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	$ 215.38	173.55	246.23	405.57	165.74	185.35	64.69	269.58	162.49	332.87
Investment operations:										
Net investment income (loss)(2)	5.78	0.36	0.36	0.00	9.93	(1.70)	(0.03)	(0.35)	(1.31)	(1.63)
Net realized and unrealized gain (loss) on investments and foreign currency	(10.74)	(27.59)	(23.18)	(0.11)	13.57	5.49	1.15	52.19	29.10	62.85
Total from investment operations	(4.96)	(27.23)	(22.82)	(0.11)	23.50	3.79	1.12	51.84	27.79	61.22
Net asset value, end of year	$ 210.42	146.32	223.41	405.46	189.24	189.14	65.81	321.42	190.28	394.09
Ratios and supplementary data:										
Total net return(3)	(2.30)%	(15.69)%	(9.27)%	(0.03)%	14.18%	2.04%	1.73%	19.23%	17.10%	18.39%
Net assets, end of year ($'000s)	$ 49,845,944	13,180,182	10,119,936	2,761,180	8,510,469	2,511,813	2,614,238	457,054	642,580	417,740
Units outstanding, end of year ('000s)	236,891	90,077	45,297	6,810	44,973	13,280	39,723	1,422	3,377	1,060
Ratios to average net assets:										
Ratio of expenses, including indirect management fees	0.52%	0.27%	0.26%	0.21%	0.17%	0.85%	0.76%	0.98%	1.43%	0.99%
Ratio of expenses, excluding indirect management fees	0.25%	0.17%	0.26%	0.10%	0.16%	0.21%	0.04%	0.14%	0.02%	0.02%
Ratio of net investment income (loss)	2.70%	1.49%	2.84%	2.23%	5.32%	5.41%	(0.02)%	1.85%	0.58%	1.63%

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, 2008

	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	Alternative Investments Vintage Year 2008 Account(4)	Core Real Estate Account	Noncore Real Estate Account	Timber Account
Net asset value, beginning of year	$ 105.14	196.85	31.35	60.90	47.49	100.00	—	328.19	823.16	202.97
Investment operations:										
Net investment income (loss)(2)	(0.02)	0.01	0.23	(0.06)	(0.02)	0.52	0.88	(4.03)	1,762.10	1.30
Net realized and unrealized gain (loss) on investments and foreign currency	20.01	37.02	6.40	13.57	1.35	(85.32)	87.45	18.51	0.00	40.69
Total from investment operations	19.99	37.03	6.63	13.51	1.33	(84.80)	88.33	14.48	1,762.10	41.99
Net asset value, end of year	$ 125.13	233.88	$ 37.98	74.41	48.82	15.20	88.33	342.67	2,585.26	244.96
Ratios and supplementary data:										
Total net return(3)	19.01%	18.81%	21.15%	22.18%	2.80%	(84.80)%	N/A	4.41%	N/A	20.69%
Net assets, end of year ($'000s)	$ 114,619	531,381	$ 388,181	748,612	783,796	163,835	8,038	5,520,030	2	1,065,586
Units outstanding, end of year ('000s)	916	2,272	10,222	10,060	16,056	10,778	91	16,109	—	4,350
Ratios to average net assets:										
Ratio of expenses, including indirect management fees	1.13%	0.58%	0.97%	2.07%	2.37%	16.71%	N/A	0.79%	N/A	2.33%
Ratio of expenses, excluding indirect management fees	0.02%	0.02%	0.27%	0.09%	0.18%	0.02%	N/A	0.50%	N/A	2.10%
Ratio of net investment income (loss)	0.15%	0.32%	0.62%	0.14%	—%	(0.11)%	N/A	4.18%	N/A	(1.64)%

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.

(4) Alternative Investments Vintage Year 2008 Account commenced operations in May 2008. Total return and ratios are not annualized

Financial Highlights Ratios

For the years ended June 30, 2007-2002

	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:										
2007										
Total net return(2)	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 ($'000s)	49,519,109	15,049,415	10,574,561	2,750,631	7,800,673	2,329,393	2,569,001	533,033	698,900	509,022
Units outstanding, end of year ('000s)	229,913	86,717	42,945	6,782	47,065	12,568	39,711	1,977	4,301	1,529
2006										
Total net return(2)	14.87%	9.30%	27.01%	36.12%	(0.51)%	5.80%	11.18%	36.45%	34.70%	55.07%
Net assets, end of year ($'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:										
2007										
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 fee	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%
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, 2007-2002

	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, 2007-2002

	Vintage Year 2002 Account	Vintage Year 2003 Account	Vintage Year 2004 Account	Vintage Year 2005 Account	Vintage Year 2006 Account	Vintage Year 2007 Account	Core Real Estate Account	Noncore Real Estate Account	Timber Account
Ratios and supplementary data:									
2007									
Total net return(2)	26.70%	63.10%	22.32%	13.02%	(38.73)%	—% (4)	15.65%	318.62%	14.67%
Net assets, end of year ($'000s)	102,564	555,480	319,874	385,139	251,773	740	4,316,265	2	1,598,166
Units outstanding, end of year ('000s)	976	2,822	10,204	6,325	5,301	7	13,152	—	7,874
2006									
Total net return(2)	38.67%	32.12%	(4.55)%	(32.12)%	(22.49)% (4)	N/A	22.70%	106.43%	18.52%
Net assets, end of year ($'000s)	79,588	351,371	143,419	106,808	3,182	N/A	4,618,446	38	1,480,574
Units outstanding, end of year ('000s)	959	2,911	5,596	1,982	41	N/A	16,275	—	8,365
2005									
Total net return(2)	(3.28)%	12.58%	(73.15)%	(20.63)% (4)	N/A	N/A	29.33%	(30.98)%	11.54%
Net assets, end of year ($'000s)	52,257	178,524	13,401	910	N/A	N/A	2,950,852	822	1,316,382
Units outstanding, end of year ('000s)	873	1,954	499	11	N/A	N/A	12,759	9	8,815
2004									
Total net return(2)	(29.93)%	(18.86)%	N/A	N/A	N/A	N/A	19.15%	1.84%	12.15%
Net assets, end of year ($'000s)	13,470	46,335	N/A	N/A	N/A	N/A	1,828,679	7,635	931,432
Units outstanding, end of year ('000s)	218	571,059	N/A	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	N/A	6.67%	(17.53)%	14.15%
Net assets, end of year ($'000s)	4,167	N/A	N/A	N/A	N/A	N/A	1,481,271	8,168	505,632
Units outstanding, end of year ('000s)	47	N/A	N/A	N/A	N/A	N/A	9,870	60	4,236
2002									
Total net return(2)	N/A	N/A	N/A	N/A	N/A	N/A	8.87%	19.19%	4.58%
Net assets, end of year ($'000s)	N/A	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	N/A	12,082	129,843	535
Ratios to average net assets:									
2007									
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%
2006									
Ratio of expenses, including indirect management fees	2.43%	2.37%	6.73%	20.92%	19.76%	N/A	1.66%	1.00%	2.27%
Ratio of expenses, excluding indirect management fees	0.08%	0.08%	1.04%	2.03%	0.21%	N/A	1.29%	1.00%	2.00%
Ratio of net investment income (loss)	(0.07)%	0.66%	(0.97)%	(1.66)%	(0.22)%	N/A	3.57%	2.85%	(0.04)%
2005									
Ratio of expenses, including indirect management fees	4.28%	7.39%	53.44%	22.43%	22.43%	N/A	1.58%	1.79%	1.50%
Ratio of expenses, excluding indirect management fees	0.09%	0.09%	6.95%	—%	—%	N/A	1.10%	0.03%	1.26%
Ratio of net investment income (loss)	(0.09)%	0.70%	(6.95)%	—%	—%	N/A	6.49%	6.46%	1.29%
2004									
Ratio of expenses, including indirect management fees	32.06%	11.52%	N/A	N/A	N/A	N/A	0.76%	0.46%	0.63%
Ratio of expenses, excluding indirect management fees	0.02%	0.01%	N/A	N/A	N/A	N/A	0.22%	0.03%	0.36%
Ratio of net investment income (loss)	(0.10)%	(0.26)%	N/A	N/A	N/A	N/A	7.69%	5.61%	0.95%

Financial Highlights Ratios, cont.

For the years ended June 30, 2007-2002

	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%	N/A	N/A	N/A	0.55%	1.10%	1.81% (4)
Ratio of expenses, excluding indirect management fees	0.56%	0.12%	N/A	N/A	N/A	0.04%	0.09%	1.53% (4)
Ratio of net investment income (loss)	(0.56)%	(14.43)%	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.

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Domestic Equity	26.1%	29.9%	27.5%	32.6%	39.0%	42.1%	39.1%	42.6%	44.1%	45.0%
International Equity	20.0%	21.0%	19.8%	15.6%	16.3%	16.7%	16.5%	16.5%	15.4%	16.0%
Emerging Markets	5.5%	5.5%	5.9%	5.7%	5.5%	3.8%	3.7%	3.4%	4.5%	4.0%
Fixed Income	16.8%	15.4%	15.4%	16.2%	18.0%	21.0%	25.8%	23.7%	24.8%	25.0%
High Yield Debt	5.0%	4.6%	5.3%	7.5%	7.0%	3.5%	2.9%	2.3%	0.0%	0.0%
Alternative Investments	8.4%	6.7%	6.5%	6.0%	5.7%	5.7%	5.5%	5.9%	6.1%	4.0%
Real Estate	10.9%	8.6%	11.0%	8.1%	5.6%	5.4%	6.3%	5.6%	5.1%	6.0%
Timber	2.1%	3.2%	3.5%	3.6%	2.9%	1.8%	0.2%	0.0%	0.0%	0.0%
Absolute Return	5.2%	5.1%	5.1%	4.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%