# PENSION RESERVES INVESTMENT TRUST FUND

(A Component Unit of the Commonwealth of Massachusetts)

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

**Fiscal Year Ended June 30, 2009**


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, 2009

**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 1, 2009

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, 2009 (FY09). The document that follows is the fifth CAFR to be produced in the 25-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, 2009.

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 2009 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 auditors 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, 2009, the PRIT Fund had approximately $37.7 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 Public Employee Retirement Administration Committee valuation report (1/1/09), the Commonwealth of Massachusetts is 62.7% 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. PRIM's internal control structure is designed to provide reasonable assurance that the financial statements will be free from material misstatement, that the assets will be properly safeguarded, and that transactions will be properly executed.

The PRIT Fund's time-weighted return for the fiscal year ended 2009 was -23.87%, trailing both the actuarial rate of return assumption of 8.25%, and the policy benchmark return of -19.76%. The PRIT Fund also lagged the public fund median return of -18.76%, according to the Trust Universe Comparison Service (TUCS) report for periods ended June 30, 2009. As always, my first priority is to see that PRIT's long-term performance exceeds the actuarial rate of return, beats its policy benchmark, and compares favorably to the performance of other public funds (specifically the top quartile of the TUCS universe). As a result of the market meltdown in 2008, PRIM was unable to achieve any of those milestones for calendar year 2008 or fiscal year 2009. And while the PRIT Fund's fiscal year investment return is disappointing on both an absolute and relative basis, the PRIT Fund still ranks in the top quartile of the TUCS universe over longer periods of time.

Because the unprecedented events of last year – the global credit crisis, the liquidity crunch, housing market collapse, the failure of financial behemoths such as Lehman Brothers and A.I.G. – were so unique in terms of their devastating impact on investment performance, it is important to take a moment and review why the PRIT Fund underperformed its benchmarks and peers in fiscal 2009. A major reason was that diversification, which has served the PRIT Fund well in past years, did not help during one of the worst periods in market history, as all asset classes seemed to correlate to 1.00, which simply means that they all behaved similarly. As a result, there was no real safe haven for the sophisticated institutional investor with a diversified portfolio. With regard to the TUCS rankings, public pension funds that performed better than PRIM in fiscal year 2009 generally had lower exposure to global equities and higher exposure to fixed income, especially those with higher U.S. Treasury allocations. Notwithstanding the affect of 2008, the PRIT Fund's average annual return of 9.23% since inception (01/01/1985) through June 30, 2009 still exceeded the actuarial rate of return by 98 basis points.

Unlike the months following last fiscal year, which saw years of investment gains wiped out and global economies in freefall, the PRIT Fund is in a much better place today. The rebound in global equities, which began in early March, and the return of the diversification benefit have resulted in double digit returns in 2009. Public funds that adhered to their investment policies and remained disciplined and unemotional during last year's tumult have seen their portfolios generate strong returns in 2009. We anticipate that the PRIT Fund will continue to perform well on both an absolute and relative basis as this year draws to a close, but we are still years away from returning to the asset levels we achieved prior to 2008. PRIM believes, however, that the most viable route to recovery is the road we have been travelling on for the past 25 years. PRIM will continue to focus on the long-term in terms of asset allocation decisions, and will resist any temptation to market time or deviate from its stated investment policies because of short-term volatility in the markets. Had we retreated from our policies last year in reaction to adverse market and economic conditions, it would have been a repudiation of a proven strategy and completely irresponsible from a fiduciary standpoint. We also would not have been positioned to capitalize on the strong performance we are experiencing this year. The PRIM Board has implemented a system of internal controls designed to ensure the reliability of reported investment information. Please refer to the Investment Section of this CAFR for more information on investment results.

**Major Initiatives and Achievements**

Despite fiscal 2009's challenging investment environment, there were many positive developments at the PRIM Board. Over the past year, PRIM hired a new consultant for the general consultant and hedge fund consultant mandates. That process involved a great deal of due diligence and I believe that the selection of Ennis, Knupp & Associates, Inc. (Ennis Knupp) will enable the PRIM Board and Staff to continue to operate at a very high level going forward.

Over the past year, I have continued to make every effort to ensure that PRIM remains fully staffed. I filled two critical investment positions, one on the public markets side and one in real estate. These individuals have done an excellent job of getting up to speed and establishing themselves as positive additions to the investment team. I also hired a senior client services officer, bringing back to PRIM an individual who was well known to many of PRIM's clients.

I am also very proud of the Information Technology enhancements that were brought to completion during the last year. As a result of the initial technology project, I can state confidently that we have:

1) Reduced operational risk by implementing manager reconciliation and fees systems;

2) Reduced the time lost of manual activity by implementing an automated data feed from PRIM's custodian; and

3) Enhanced PRIM's service to clients by implementing a comprehensive customer relationship management system.

I would like to acknowledge the service of Real Estate and Timber Committee member, Perry Hagenstein, a noted timberland consultant who, sadly, passed away earlier this year. Dr. Jack Lutz, Principal and Forest Economist of the Forest Research Group, was appointed to the Committee and brings his vast experience to PRIM. Shortly after the close of fiscal year 2009, Richard Foley, a current member of the Reading Retirement Board and former town accountant, retired from the Audit and Administration Committee after 20 years of voluntary service to PRIM, and we thank Richard for his dedication. He was replaced by Hampshire County Retirement Board Chairman Patrick E. Brock. The Governor's designee on the PRIM Board, Leslie A. Kirwan, left the Board when she resigned from her position as Secretary of Administration & Finance (A&F) in October 2009. The Governor designated Greg Mennis, who also serves in A&F, as his representative on the PRIM Board. We also thank Leslie for her contributions to PRIM.

As I noted earlier, in April 2009 the PRIM Board hired Ennis Knupp as the new general and hedge fund strategy consultant. In cooperation with PRIM staff, the team from Ennis Knupp immediately began work on a comprehensive asset/liability study, which served as the basis for revisions to the PRIT Fund's long-term asset allocation targets. Ennis Knupp reaffirmed that the PRIT Fund had the appropriate mix of equities and fixed income given the pension liabilities of the Commonwealth. However, Ennis Knupp and PRIM staff proposed some modifications to PRIT's asset allocation. Subsequent to June 30, 2009, the Board approved eliminating the Portable Alpha program, the termination of active small cap managers, small movements in target allocations, and changing the names of the Alternative Investment and Absolute Return asset classes to Private Equity and Hedge Funds, respectively.

We continue to monitor legislative matters, and during fiscal 2009 some noteworthy pieces of legislation were enacted. Chapter 377 of the Acts of 2008 increased the Commonwealths pension funding schedule to 2025 from 2023 in order to alleviate budget pressure resulting from the worsening recession. Chapter 21 of the Acts of 2009, An Act Providing Responsible Reforms in the Pension System, shored up several loopholes in Chapter 32 and provided some funding relief for local retirement systems in recognition of the investment losses experienced in 2008. Another significant measure that consolidated the various transportation agencies of the Commonwealth under a single Department of Transportation was Chapter 25 of the Acts of 2009. One of the major provisions of that Act was the abolition of the Massachusetts Turnpike Authority Employees' Retirement Board (MTAERB), which has jurisdiction over the assets of the Turnpike's employees and retirees. The pension assets managed by the MTAERB were ordered transferred to the custody of the State Treasurer effective November 1, 2009. PRIM Staff has been working with officials from the MTA and the State Retirement Board to ensure the smooth transition of those assets to the PRIT Fund. An Iran divestiture bill, H.4927, similar to the measure that did not pass last year, is proceeding through the Legislature and we are tracking its progress with great interest.

**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, 2008. This was the fourth 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

I would like to commend the PRIM Board and Staff for a job well done in fiscal year 2009. Despite fiscal 2009's challenging investment environment, I encouraged all PRIM staff to remain focused and fully engaged on the tasks at hand, and they have remained undaunted, acquitting themselves in a truly professional manner. Our mettle has been tested this past year as never before. It was, and remains, the most challenging period during my tenure as Executive Director of PRIM. The past year had a devastating effect on all of the Commonwealth's retirement systems, not just the PRIT Fund, and it will take years to recover from the deep losses. We will continue to do the best job possible in order to achieve our core mission, which is to reduce the Commonwealth's unfunded pension liability, by staying true to our long-term investment policies and remaining a disciplined investor, whether markets rise or fall.

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, 2008

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 | Greg Mennis |
| 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

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

Executive Assistant
Maureen Roche
August 9, 1999

SIO Real Estate & Timber
Timothy Schlitzer
March 21, 2005

SIO Private Equity
Wayne Smith
March 6, 2000

SIO Public Securities
Hannah Commoss
August 2, 2004

Risk Mgmt. Officer
David Gurtz
January 31, 2008

Director of Finance
Thomas Hanna
May 22, 2000

Director of Private Accounting
Anthony J. Falzone
January 3, 2006

Financial Reporting Manager
Donald Payne
November 6, 2006

Investment Officer Real Estate
John LaCara
August 4, 2008

Investment Officer Private Equity
Michael Langdon
February 21, 2006

Investment Officer Public Securities
Peony Keve
July 21, 2008

Sr. Fin. Analyst & Ast. Client Svc Ofc.
Jennifer Cole
February 11, 2002

Sr. Financial Analyst
Eileen Coyne
July 22, 2002

Investment Analyst Private Equity
Ryan Foscaldo
June 26, 2007

Investment Analyst Public Securities
Bill Fink
June 4, 2007

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

**PRIT Fund as of 6/30/2009 - $37.7 Billion**
27 Public Securities Managers Investing 34 Portfolios
14 Managers in Real Estate, Timber, Natural Resources & REITs
7 Economically Targeted Investment Managers
92 Managers in 200+ Private Equity Partnerships
10 Hedge Fund of Funds Managers
General / Hedge Fund, Private Equity and Real Estate Consultants

**Beneficiaries:**
**State Teachers & State Employees**
**& 90 Local Retirement Systems**

# PRIM Board Trustees

**Timothy P. Cahill, Chair, Ex Officio Member**
State Treasurer & Receiver-General, Commonwealth of Massachusetts

**Alexander E. Aikens, III, Appointee of the State Treasurer,**
**Private Citizen Experienced in the Field of Investment or Financial Management**
Professor, Brandeis University

**C. LaRoy Brantley, Appointee of the Governor, Non-State Employee or Official Member**
Investment Consultant, Cambridge Associates, LLC, Boston, MA

**Robert Brousseau, Elected Representative, State Teachers Retirement System**
Retired Teacher, Town of Wareham Public School System

**Paul Cesan, Appointee of the Governor**
Massachusetts State Police Officer

**Greg Mennis, Designee of the Governer, Ex Officio Member**
Administration and Finance, Commonwealth of Massachusetts

**Theresa McGoldrick, Esq., State Board of Retirement Member**
President, SEIU/NAGE Unit 6

**John "Jay" Dow, Teachers' Retirement Board Member**
Retired Teacher, Town of Marblehead School System

**Paul E. Shanley, Elected Representative, State Employees' Retirement System**
Director of Professional Liability, Amity Insurance, Quincy, MA

# PRIM Board Consultants

**Ennis Knupp & Associates**
General Consultant and Hedge Fund Consultant Services

**Callan Associates Inc.**
Real Estate and Timber Consultant Services

**Hamilton Lane**
Private Equity (Alternative Investments) Consultant Services

# 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.
**Dr. Jack Lutz**
Forest Research Group – 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
**Patrick Brock**
Chairman, Hampshire County Retirement Board
**Robert Foy**
Retired, City of Quincy City Auditor

# *Financial Section*

## 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, 2009 and 2008, 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, 2009 and 2008, 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 _______ ___, ____, 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.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information presented on pages 44 to 45 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Date

Management's Discussion and Analysis

June 30, 2009 and 2008

This section presents management's discussion and analysis of PRIT's financial performance for the fiscal years ended June 30, 2009 and 2008 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, 2009 and 2008 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 44 and 45 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 2009***

- The net assets of PRIT decreased approximately $12.9 billion during the year ended June 30, 2009. Total net assets were approximately $37.7 billion at June 30, 2009, compared to $50.6 billion at June 30, 2008.
- Net investment loss for fiscal year 2009 was approximately $12.5 billion, compared to net investment loss of $1.2 billion for the prior fiscal year. The decrease was due to a further decrease in investment performance in fiscal year 2009 compared to fiscal year 2008. PRIT returned a negative 23.87% in fiscal year 2009, compared to a negative 1.81% in fiscal year 2008.
- Contributions to PRIT totaled approximately $2.1 billion during fiscal year 2009, compared to $3.4 billion in 2008. Other participant contributions decreased by approximately $1.4 billion in the fiscal year 2009.
- Redemptions from PRIT totaled approximately $2.5 billion during the year ended June 30, 2009, compared to approximately $2.0 billion during the year ended June 30, 2008.

***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.

Management's Discussion and Analysis

June 30, 2009 and 2008

- 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.

**Condensed Financial Information**

Summary balances and activities of PRIT as of and for the years ended June 30, 2009, 2008, and 2007 are presented below.

| | June 30 | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| | (Amounts in thousands) | | |
| Summary of pooled net assets: | | | |
| Assets: | | | |
| Investments | $ 37,906,334 | 52,044,472 | 51,360,925 |
| Cash | 118,468 | 125,670 | 167,761 |
| Receivables and other assets | 922,949 | 874,634 | 1,462,657 |
| Total assets | 38,947,751 | 53,044,776 | 52,991,343 |
| Liabilities: | | | |
| Obligation under securities lending transactions | — | — | 451,970 |
| Management fees payable to PRIM | 16,942 | 103,826 | 151,993 |
| Other liabilities | 1,241,560 | 2,334,306 | 1,989,246 |
| Total liabilities | 1,258,502 | 2,438,132 | 2,593,209 |
| Net assets held in trust for pool participants | $ 37,689,249 | 50,606,644 | 50,398,134 |

Management's Discussion and Analysis

June 30, 2009 and 2008

| | | June 30 | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | | (Amounts in thousands) | |
| Summary of changes in pooled net assets: | | | |
| Additions: | | | |
| Contributions | $ 2,053,243 | 3,385,851 | 2,015,713 |
| Net investment income (loss) | (12,492,194) | (1,185,523) | 8,228,782 |
| Total additions | (10,438,951) | 2,200,328 | 10,244,495 |
| Deductions: | | | |
| Redemptions | 2,478,444 | 1,991,818 | 1,771,412 |
| Change in pooled net assets | (12,917,395) | 208,510 | 8,473,083 |
| Net assets held in trust for pool participants: | | | |
| Balance, beginning of year | 50,606,644 | 50,398,134 | 41,925,051 |
| Balance, end of year | $ 37,689,249 | 50,606,644 | 50,398,134 |

**PRIT Performance during the Year Ended June 30, 2009**

PRIT began fiscal year 2009 with net assets of $50.6 billion and ended the fiscal year with net assets of $37.7 billion, representing a 25.5% decrease. The decrease was due to reduced contributions, increased redemptions and negative investment performance. Net investment loss for the year ended June 30, 2009 was approximately $12.5 billion. Net participant redemptions (contributions less redemptions) of $425 million, along with net investment loss of $12.5 billion caused the overall decrease in net assets of $12.9 billion.

For the year ended June 30, 2009, PRIT returned a negative 23.87%, lagging the policy benchmark of a negative 19.76% by 411 basis points. The 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 target allocation and that all asset classes achieve index-like returns.

All asset classes of PRIT had negative performance during the year ended June 30, 2009. The asset classes of PRIT and related investment returns for the year ended June 30, 2009 are as follows: Domestic Equity -32.06%; International Equity -31.74%; Emerging Markets -31.60%; Fixed Income -5.43%; High Yield Debt -10.78%; Alternative Investment -21.03%; Real Estate -23.99%, Timber/Natural Resources -13.85% and Absolute Return -14.43%.

As of June 30, 2009, PRIT has underperformed its benchmark in the current year, but continues to outperform its benchmarks longer term and has returned an average of 9.23% 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 20% of pension plans with net assets in excess of $1 billion over the ten-year period ended June 30, 2009.

Management's Discussion and Analysis

June 30, 2009 and 2008

## 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 policy benchmark of a negative 1.42% by 39 basis points. The 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 target allocation and that all asset classes achieve index-like returns.

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%.

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.

## 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, 2009 and 2008

(Amounts in thousands)

| | | 2009 | 2008 |
|---|---|---|---|
| Assets: | | | |
| Investments, at fair value: | | | |
| Short-term | $ | 835,571 | 2,237,903 |
| Fixed income | | 8,753,985 | 12,111,036 |
| Equity | | 14,871,177 | 21,972,422 |
| Real estate | | 4,092,105 | 5,587,382 |
| Timber | | 1,209,204 | 1,066,018 |
| Alternative investments | | 3,626,982 | 4,194,137 |
| Hedge fund-of-funds | | 4,517,310 | 4,875,574 |
| Total investments | | 37,906,334 | 52,044,472 |
| Cash | | 118,468 | 125,670 |
| Interest and dividends receivable | | 95,143 | 139,152 |
| Receivable for investments sold | | 267,035 | 285,238 |
| Securities sold on a when-issued basis | | 517,704 | 438,778 |
| Unrealized gains on foreign currency exchange contracts | | 6,350 | 10,736 |
| Other receivables | | 36,717 | 730 |
| Total assets | | 38,947,751 | 53,044,776 |
| Liabilities: | | | |
| Payable for investments purchased | | 308,877 | 629,941 |
| Securities purchased on a when-issued basis | | 924,091 | 1,684,732 |
| Unrealized losses on foreign currency exchange contracts | | 8,592 | 19,633 |
| Management fees payable to PRIM | | 16,942 | 103,826 |
| Total liabilities | | 1,258,502 | 2,438,132 |
| Net assets held in trust for pool participants | $ | 37,689,249 | 50,606,644 |

See accompanying notes to financial statements.

Statements of Changes in Pooled Net Assets

Fiscal years ended June 30, 2009 and 2008

(Amounts in thousands)

| | | 2009 | 2008 |
|---|---|---|---|
| Additions: | | | |
| Contributions: | | | |
| State employees | $ | 462,471 | 464,330 |
| State teachers | | 599,410 | 573,984 |
| Other participants | | 991,362 | 2,347,537 |
| Total contributions | | 2,053,243 | 3,385,851 |
| Net investment income: | | | |
| From investment activities: | | | |
| Net realized gain (loss) on investments and foreign currency trans | | (5,871,123) | 2,692,175 |
| Net change in unrealized depreciation on investments and foreign currency translations | | (7,732,314) | (5,301,078) |
| Interest income, net | | 382,268 | 654,313 |
| Dividend income, net | | 519,922 | 603,553 |
| Real estate income, net | | 232,920 | 245,831 |
| Timber income, net | | (10,896) | 4,926 |
| Alternative investment income, net | | 24,968 | 32,817 |
| | | (12,454,255) | (1,067,463) |
| Management fees | | (37,939) | (127,174) |
| Net loss from investment activities | | (12,492,194) | (1,194,637) |
| From securities lending activities: | | | |
| Securities lending income | | — | 9,210 |
| Securities lending expense | | — | (96) |
| Net income from securities lending activities | | — | 9,114 |
| Total net investment loss | | (12,492,194) | (1,185,523) |
| Total additions | | (10,438,951) | 2,200,328 |
| Deductions: | | | |
| Redemptions: | | | |
| State employees | | 945,186 | 817,474 |
| State teachers | | 1,149,510 | 971,621 |
| Other participants | | 383,748 | 202,723 |
| Total deductions | | 2,478,444 | 1,991,818 |
| Net increase (decrease) in pooled net assets | | (12,917,395) | 208,510 |
| Net assets held in trust for pool participants: | | | |
| Balance, beginning of year | | 50,606,644 | 50,398,134 |
| Balance, end of year | $ | 37,689,249 | 50,606,644 |

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2009 and 2008

## (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 2025, 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.

Notes to Financial Statements

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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, 2009, there were 38 Participating Systems (including the State Teachers' and State Employees' Retirement Systems) and 54 Purchasing Systems invested in PRIT.

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, 21 retirement systems have transferred their assets to PRIT Fund under the provisions of this Act.

***(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, 2009: 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; Natural Resource; Bank Loans; Absolute Return; Alternative Investments; and Alternative Investments Vintage Years 2000 – 2009. (Vintage Year refers to the fiscal year in which PRIT made a commitment to invest in an alternative investment.)

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

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Chapter 84 of the Acts of 1996 permits Massachusetts retirement boards' to purchase units in the individual investment accounts of PRIT as an alternative to investing in its General Allocation Account. This investment option, also referred to as "segmentation," was established by an amendment to the PRIM Board's Operating Trust Agreement in 1994 in response to requests from retirement boards wishing to invest in certain asset classes of PRIT. Purchasing Systems, as "segmented investors," may invest in one or more of the following accounts of the Capital Fund: Domestic Equity, International Equity, Emerging Markets, Fixed Income, Core Real Estate, Absolute Return, and Alternative Investments "Vintage Year" accounts. At June 30, 2009 and 2008, there were 40 and 41 segmented investors in PRIT, respectively.

## (2) Summary of Significant Accounting Policies

### *(a) Basis of Accounting and Financial Statement Presentation*

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

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

### *(b) Investments*

The PRIM Board recognizes that over the long term, asset allocation is the single greatest contributor of return and risk to PRIT. The PRIM Board's asset allocation plan embodies its decisions to invest portions of the Capital Fund in domestic and international equity securities, emerging market and fixed income securities, high yield debt, real estate, timber, absolute return, 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 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.

Notes to Financial Statements

June 30, 2009 and 2008

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 with annual updates.

Hedge fund-of-funds investments represent PRIT's ownership in hedge fund investments via a fund-of-fund structure. PRIT's hedge fund-of-funds investments are made through two investment strategies: Absolute Return or Portable Alpha. The investment in hedge fund-of-funds is recorded at fair value as estimated by PRIM. This estimated fair value is determined in good faith by PRIT's hedge fund-of-funds investment managers and is based on the value of PRIT's ownership in the underlying hedge fund investments.

Alternative investments are typically made through limited partnerships that, in turn, invest in venture capital, leveraged buyouts, private placements and other investments where the structure,

Notes to Financial Statements

June 30, 2009 and 2008

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, 2009 and 2008, foreign taxes withheld of $19,676 and $25,965, 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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June 30, 2009 and 2008

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:

| | | 2009 | 2008 |
|---|---|---|---|
| Short-term: | | | |
| Money market investments | $ | 835,571 | 2,237,903 |
| Fixed income: | | | |
| U.S. government obligations (1) | | 1,145,339 | 1,837,274 |
| Domestic fixed income (2) | | 5,219,074 | 7,569,088 |
| International fixed income (3) | | 1,705,128 | 2,184,310 |
| Distressed debt | | 684,444 | 520,364 |
| | | 8,753,985 | 12,111,036 |
| Equity: | | | |
| Domestic equity securities | | 5,779,547 | 9,116,910 |
| International equity securities | | 9,091,630 | 12,855,512 |
| | | 14,871,177 | 21,972,422 |
| Real estate | | 4,092,105 | 5,587,382 |
| Timber | | 1,209,204 | 1,066,018 |
| Alternative investments: | | | |
| Venture capital | | 861,094 | 900,113 |
| Special equity | | 2,765,888 | 3,294,024 |
| | | 3,626,982 | 4,194,137 |
| Hedge Fund-of-Funds investments: | | | |
| Absolute return | | 2,135,647 | 2,614,264 |
| Portable Alpha | | 2,381,663 | 2,261,310 |
| | | 4,517,310 | 4,875,574 |
| Total investments | $ | 37,906,334 | 52,044,472 |

Notes to Financial Statements

June 30, 2009 and 2008

(1) Fiscal 2009 rates range from 0% to 11.25%, and maturities range from 2009 to 2039. Fiscal 2008 rates range from 0% to 12.5%, and maturities range from 2008 to 2038.

(2) Fiscal 2009 rates range from 0% to 13.13%, and maturities range from 2009 to 2068. Fiscal 2008 rates range from 0% to 14%, and maturities range from 2008 to 2067.

(3) Fiscal 2009 rates range from 0% to 11.63%, and maturities range from 2009 to 2055. Fiscal 2008 rates range from 0% to 13.5%, and maturities range from 2008 to 2056.

## (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, 2009 and 2008, all but $250 of PRIT's $118,468 and $100 of $125,670 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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June 30, 2009 and 2008

The PRIM Board's interest rate risk policy is to manage 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 Barclays Capital 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.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| **Investment** | **Fair value** | **Effective weighted duration rate** | **Fair value** | **Effective weighted duration rate** |
| | | (Amounts expressed in years) | | (Amounts expressed in years) |
| Asset backed securities | $ 315,679 | 2.19 | $ 484,140 | 0.77 |
| Commercial mortgage backed securities | 431,994 | 2.89 | 703,373 | 3.37 |
| Commercial paper and CDs | 700 | 0.25 | 216,814 | 0.12 |
| Corporate bonds and other credits | 2,448,757 | 4.65 | 3,311,962 | 5.82 |
| U.S. government bonds | 432,758 | 5.14 | 601,039 | 3.88 |
| U.S. government agencies | 250,689 | 5.52 | 177,817 | 3.40 |
| U.S. government TIPS | 712,581 | 4.03 | 1,236,235 | 7.95 |
| U.S. government mortgage backed securities | 1,760,493 | 2.17 | 3,341,886 | 4.40 |
| Global Inflation Linked Bonds | 204,214 | 5.44 | 434,561 | 8.40 |
| Municipal bonds | 37,923 | 8.58 | 30,847 | 9.42 |
| Pooled money market fund | 835,571 | 0.08 | 2,237,903 | 0.08 |
| Other pooled funds | 2,158,197 | NA | 1,572,362 | NA |
| Total fixed income and short-term investments | $ 9,589,556 | | $ 14,348,939 | |

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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's policy on credit risk is to establish 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, 2009 (AA- at June 30, 2008). The following presents the PRIT Fund's fixed-income securities credit ratings at June 30:

| | | 2009 | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | $ 315,679 | 264,772 | 5,972 | 40,343 | 515 | 4,077 | — |
| Commercial mortgage backed securities | 431,994 | 408,842 | 15,523 | 5,972 | 601 | 1,056 | — |
| Commercial paper and CDs | 700 | — | 700 | — | — | — | — |
| Corporate bonds and other credits | 2,448,757 | 268,550 | 851,277 | 549,007 | 490,427 | 180,900 | 108,596 |
| U.S. government agencies | 250,689 | 250,689 | — | — | — | — | — |
| U.S. government mortgage backed securities | 1,683,734 | 1,666,876 | — | — | — | — | 16,858 |
| Global inflation linked bonds | 204,214 | 115,346 | 86,371 | 2,497 | — | — | — |
| Municipal bonds | 37,923 | — | 25,156 | 12,767 | — | — | — |
| Pooled money market fund | 835,571 | 989 | 757,478 | — | — | — | 77,104 |
| Other pooled funds | 2,158,197 | 189,572 | — | — | 1,231,009 | — | 737,616 |
| Total credit risk, fixed income and short-term investments | 8,367,458 | $ 3,165,636 | 1,742,477 | 610,586 | 1,722,552 | 186,033 | 940,174 |
| Fixed income investments explicitly backed by the U.S. government | 1,222,098 | | | | | | |
| Total fixed income and short-term investments | $ 9,589,556 | | | | | | |

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| | | 2008 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Investment grade | | | Noninvestment grade | | |
| Investment | Total 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 | | | | | | |

Notes to Financial Statements

June 30, 2009 and 2008

### *(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's foreign currency risk policy is to manage 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:

Notes to Financial Statements

June 30, 2009 and 2008

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Cash and short-term investments | Equity | Fixed income | Alternative investments | Total |
| Australian Dollar | $ 3,443 | 462,509 | 1,741 | — | 467,693 |
| Brazilian Real | 2,222 | 77,744 | 14,519 | — | 94,485 |
| British Pound | 14,532 | 1,412,346 | 124,651 | — | 1,551,529 |
| Canadian Dollar | 1,216 | 70,401 | 19,890 | — | 91,507 |
| Danish Krone | 1,331 | 135,559 | — | — | 136,890 |
| Euro | 34,085 | 2,071,670 | 166,553 | — | 2,272,308 |
| Hong Kong Dollar | 6,064 | 509,509 | — | — | 515,573 |
| Indian Rupee | 106 | 77,411 | — | — | 77,517 |
| Indonesian Rupiah | 5 | 28,602 | 4,429 | — | 33,036 |
| Japanese Yen | 23,537 | 1,699,507 | 37,935 | — | 1,760,979 |
| Malaysian Ringgit | 164 | 30,817 | — | — | 30,981 |
| Mexican Peso | 89 | 26,432 | 9,015 | — | 35,536 |
| New Taiwan Dollar | 765 | 102,031 | — | — | 102,796 |
| New Turkish Lira | — | 61,901 | — | — | 61,901 |
| Norwegian Krone | 2,082 | 65,427 | — | — | 67,509 |
| Polish Zloty | 23 | 20,998 | — | — | 21,021 |
| S. African Comm Rand | 348 | 70,627 | — | — | 70,975 |
| Singapore Dollar | 1,249 | 112,182 | — | — | 113,431 |
| South Korean Won | 1,634 | 242,668 | — | — | 244,302 |
| Swedish Krona | 2,534 | 200,479 | 11,592 | — | 214,605 |
| Swiss Franc | 13,176 | 463,400 | — | — | 476,576 |
| Thailand Baht | 797 | 49,542 | — | — | 50,339 |
| Other foreign currencies | 1,211 | 58,589 | 14,702 | — | 74,502 |
| Alternative investment funds denominated in foreign currencies (various currencies) | — | — | — | 618,744 | 618,744 |
| International equity pooled funds (various currencies) | — | 137,788 | — | — | 137,788 |
| International fixed-income pooled funds (various currencies) | $ — | — | 42,262 | — | 42,262 |
| Total securities subject to foreign currency risk | 110,613 | 8,188,139 | 447,289 | 618,744 | 9,364,785 |
| International investments denominated in United States Dollars | — | 903,491 | 1,257,839 | — | 2,161,330 |
| Total international investments and cash deposits | $ 110,613 | 9,091,630 | 1,705,128 | 618,744 | 11,526,115 |

Notes to Financial Statements

June 30, 2009 and 2008

| | | 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, 2009 and 2008

### *(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, 2009 and 2008, respectively.

## (5) Securities Lending Programs

On January 1, 2008, the securities lending program was terminated. 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. There were no losses during the years ended June 30, 2009 and 2008 resulting from default by the lending agent.

## (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, 2009 and 2008, PRIT owned 99.63% and 99.62%, respectively, of the total net assets of the LLC. HCST owned 0.37% and 0.38%, respectively.

Notes to Financial Statements

June 30, 2009 and 2008

## (7) Derivative Investments

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

### (a) Foreign Currency Exchange Contracts

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

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Fair value | Aggregate face value | Delivery date(s) | Unrealized gains | Unrealized losses |
| Foreign currency exchange contracts purchased: | | | | | |
| Brazilian Real | $ 13,186 | 12,348 | 7/2/09 - 8/4/09 | $ — | (838) |
| British Pound | 190,942 | 189,927 | 7/1/09 - 9/15/09 | — | (1,015) |
| Canadian Dollar | 56,092 | 58,915 | 7/2/09 - 9/15/09 | 2,823 | — |
| Chinese Yuan Renminbi | 16,980 | 16,720 | 7/15/2009 | — | (260) |
| Euro | 200,251 | 195,617 | 7/1/09 - 9/15/09 | — | (4,634) |
| Japanese Yen | 62,836 | 63,316 | 7/1/09 - 8/26/09 | 480 | — |
| Swedish Krona | 27,746 | 27,940 | 8/26/09 - 9/15/09 | 194 | — |
| Swiss Franc | 28,394 | 28,503 | 7/2/09 - 9/15/09 | 109 | — |
| Other foreign currencies | 14,777 | 14,325 | 7/1/09 - 11/27/09 | — | (452) |
| Foreign currency exchange contracts sold: | | | | | |
| Australian Dollar | 37,664 | 38,821 | 7/1/09 - 9/15/09 | 1,157 | — |
| British Pound | 39,245 | 39,530 | 7/1/09 - 9/15/09 | 285 | — |
| Chinese Yuan Renminbi | 29,503 | 28,553 | 7/15/09 - 6/7/10 | — | (950) |
| Euro | 31,575 | 31,650 | 7/1/09 - 9/15/09 | 75 | — |
| Japanese Yen | 70,260 | 70,788 | 7/1/09 - 9/15/09 | 528 | — |
| New Zealand Dollar | 21,649 | 22,235 | 9/15/2009 | 586 | — |
| Norwegian Krone | 12,743 | 12,593 | 9/15/2009 | — | (150) |
| Other foreign currencies | 19,977 | 19,795 | 7/1/09 - 11/27/09 | 113 | (293) |
| Total | | | | $ 6,350 | (8,592) |

Notes to Financial Statements

June 30, 2009 and 2008

| | 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, 2009 and 2008

### *(b) Futures Contracts*

Futures contracts held at June 30 were as follows:

| | 2009 | | | | |
|---|---|---|---|---|---|
| **Description** | **Number of contracts** | **Expiration date** | **Gross notional amount** | **Fair value of notional amount** | **Unrealized appreciation (depreciation)** |
| Long cash and cash equivalents: | | | | | |
| 90-Day Sterling Libor | 104 | 3/10 - 12/10 | $ 52,000 | 59,373 | 7,373 |
| 90-Day Eurodollar | 2,262 | 12/09 - 9/10 | 2,262,000 | 2,273,591 | 11,591 |
| Other long cash and cash equivalents | 71 | 12/09 - 3/10 | 71,000 | 72,346 | 1,346 |
| Long fixed income: | | | | | |
| US 5-Yr Treasury Notes | 526 | 9/09 | 59,959 | 60,167 | 208 |
| US Treasury Bond | 387 | 9/09 | 45,805 | 46,892 | 1,087 |
| US 10-Yr Treasury Notes | 249 | 9/09 | 28,950 | 29,027 | 77 |
| Other long fixed income | 268 | 9/09 | 32,097 | 32,248 | 151 |
| Short fixed income: | | | | | |
| US 2-Yr Treasury Notes | (453) | 9/09 | (97,947) | (97,948) | (1) |
| US Treasury Bond | (139) | 9/09 | (16,452) | (16,647) | (195) |
| Other short fixed income | (40) | 9/09 | (4,627) | (4,646) | (19) |
| Long equity and commodities: | | | | | |
| S&P Mid 400 EMINI Index | 11,724 | 9/09 | 513,561 | 512,024 | (1,537) |
| S&P 500 Index | 3,599 | 9/09 | 89,835 | 84,930 | (4,905) |
| Russell 2000 MINI Index | 1,495 | 9/09 | 77,514 | 75,805 | (1,709) |
| S&P Mid 400 EMINI | 1,386 | 9/09 | 81,695 | 79,792 | (1,903) |
| Other long equity and commodities | 882 | 9/09 | 76,380 | 75,720 | (660) |
| Total futures exposure | | | $ 3,271,770 | 3,282,674 | 10,904 |

Notes to Financial Statements

June 30, 2009 and 2008

| Description | Number of contracts | Expiration date | 2008 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 M INI 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 M id 400 EM INI 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) |

### *(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, 2009 and 2008

Open swap contracts at June 30 were as follows:

| 2009 | | | | | |
|---|---|---|---|---|---|
| **Description** | **PRIT pays/receives interest rate** | **PRIT pays/receives index/protection** | **Maturity date** | **Gross Notional amount** | **Net unrealized appreciation (depreciation)** |
| Interest rate swaps | 1.27% - 8.95% | See note* | 09/09 - 12/28 | $ 1,059,260 | 5,044 |
| Credit default swaps | 0.08% - 5.00% | Credit default protection | 09/09 - 06/19 | 301,579 | 7,199 |
| Total return swaps | (Libor-5 to 15 bps) | Russell 3000 + S&P 500 | 06/09 - 02/10 | 1,760,743 | 155,639 |
| Commodity swaps | 0.16% - 0.18% | DJ UBS Commodity Index | 06/09 - 07/09 | 782,080 | (11,386) |
| Total swaps | | | | $ 3,903,662 | 156,496 |

* PRIT pays/receives counterparty based on 3-Month LIBOR, 6-Month Euro, 3-Month Canadian, Mexican TIIE rate, Inflation protection, Constant Maturing Mortgage, or Option payoff based on CMS spread

## Exposures by Counterparties

| | | 2009 | | | | | |
|---|---|---|---|---|---|---|---|
| | | **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 | A | $ 98,951 | 155 | 32,417 | 954 | 932,916 | 26,122 |
| Credit Suisse | A | 167,300 | (3,400) | 5,000 | 99 | 685,106 | 32,179 |
| J.P. Morgan Securities Inc. | A+ | 25,897 | 291 | 13,350 | 498 | 549,803 | 43,117 |
| Deutsche Bank Securities Inc. | A+ | 211,802 | 2,298 | 69,137 | 1,592 | — | — |
| Royal Bank of Scotland PLC | A | 271,736 | 5,356 | 8,000 | 507 | — | — |
| Barclays Global Investors | A+ | 216,669 | 697 | 43,477 | 368 | — | — |
| UBS Financial Services Inc. | A+ | — | — | 1,500 | (22) | 249,998 | 36,419 |
| Merrill Lynch Capital | A | 19,069 | 717 | 8,882 | 501 | 125,000 | 6,416 |
| Morgan Stanley Capital | A | 25,600 | (990) | 77,843 | 3,675 | — | — |
| All others | Various | 22,236 | (80) | 41,973 | (973) | — | — |
| | | $ 1,059,260 | 5,044 | 301,579 | 7,199 | 2,542,823 | 144,253 |

| 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 counterparty 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, 2009 and 2008

### Exposures by Counterparties

| | | 2008 | | | | | |
|---|---|---|---|---|---|---|---|
| | | 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 |
| 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) |

## (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 $26,089 and $115,230 for the years ended June 30, 2009 and 2008, 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, 2009 and 2008

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, 2009 and 2008, these indirect management fees charged to PRIT's real estate, timber, absolute return and alternative investments amounted to approximately $161,557 and $124,109, respectively, and are not included in management fees in the accompanying statements of changes in pooled net assets.

***(b) Investment Advisory Fees***

Ennis Knupp & Associates, Callan Associates 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, 2009 and 2008, as compensation for their services, investment advisors earned fees aggregating approximately $2,931 and $2,769, 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, 2009 and 2008, custodian fees amounted to $3,400 and $3,400, respectively, and are included in management fees in the accompanying statements of changes in pooled net assets.

Notes to Financial Statements

June 30, 2009 and 2008

### (d) Other Administrative Fees

For the years ended June 30, 2009 and 2008, other administrative expenses of the PRIM Board, including employee compensation, professional fees and occupancy costs, charged to PRIT totaled approximately $5,519 and $5,775, respectively, and are included in management fees in the accompanying statements of changes in pooled net assets.

## (9) Commitments

As of June 30, 2009, PRIT had outstanding commitments to invest approximately $3,828,312 in alternative investments and distressed debt.

Schedule of Pooled Net Assets – Capital Fund and Cash Fund

June 30, 2009

(Amounts in thousands)

| | Capital Fund | Cash Fund | Total |
|---|---|---|---|
| Assets: | | | |
| Investments, at fair value: | | | |
| Short-term | $ 758,467 | 77,104 | 835,571 |
| Fixed income | 8,753,985 | — | 8,753,985 |
| Equity | 14,871,177 | — | 14,871,177 |
| Real estate | 4,092,105 | — | 4,092,105 |
| Timber | 1,209,204 | — | 1,209,204 |
| Alternative investments | 3,626,982 | — | 3,626,982 |
| Hedge fund-of-funds | 4,517,310 | — | 4,517,310 |
| Total investments | 37,829,230 | 77,104 | 37,906,334 |
| Cash | 118,468 | — | 118,468 |
| Interest and dividends receivable | 95,050 | 93 | 95,143 |
| Receivable for investments sold | 267,035 | — | 267,035 |
| Securities sold on a when-issued basis | 517,704 | — | 517,704 |
| Unrealized gains on foreign currency exchange contracts | 6,350 | — | 6,350 |
| Other receivables | 36,717 | — | 36,717 |
| Total assets | 38,870,554 | 77,197 | 38,947,751 |
| Liabilities: | | | |
| Payable for investments purchased | 308,877 | — | 308,877 |
| Securities purchased on a when-issued basis | 924,091 | — | 924,091 |
| Unrealized losses on foreign currency exchange contracts | 8,592 | — | 8,592 |
| Management fees payable to PRIM | 16,942 | — | 16,942 |
| Total liabilities | 1,258,502 | — | 1,258,502 |
| Net assets held in trust for pool participants | $ 37,612,052 | 77,197 | 37,689,249 |

See accompanying independent auditors' report.

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

Fiscal year ended June 30, 2009

(Amounts in thousands)

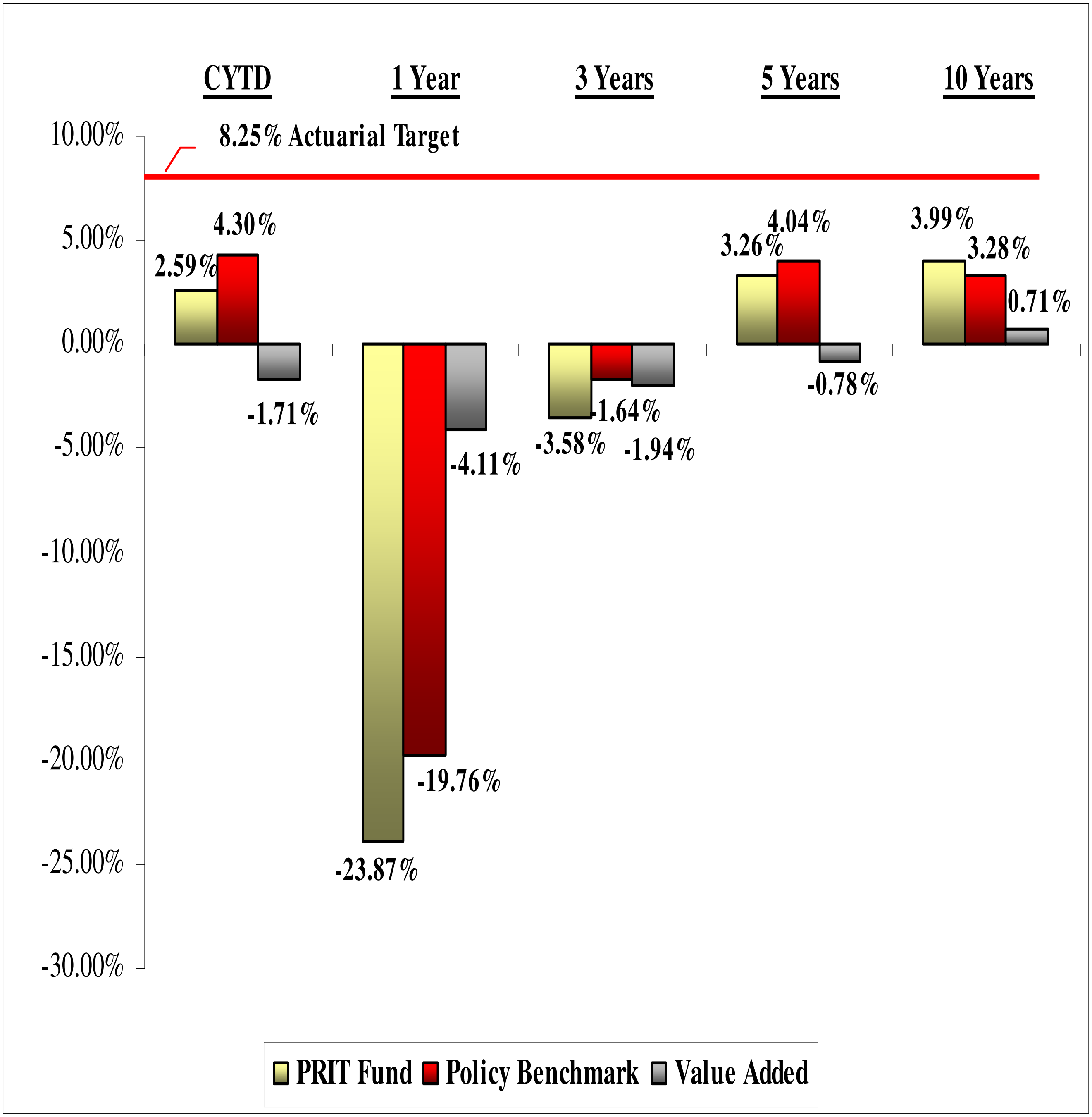
| | | Capital Fund | Cash Fund | Total |
|---|---|---|---|---|
| Additions: | | | | |
| Contributions: | | | | |
| State employees | $ | — | 462,471 | 462,471 |
| State teachers | | — | 599,410 | 599,410 |
| Other participants | | — | 991,362 | 991,362 |
| Total contributions | | — | 2,053,243 | 2,053,243 |
| Net investment income: | | | | |
| From investment activities: | | | | |
| Net realized loss on investments and foreign currency transactions | | (5,871,123) | — | (5,871,123) |
| Net change in unrealized depreciation on investments and foreign currency translations | | (7,732,314) | — | (7,732,314) |
| Interest income, net | | 381,079 | 1,189 | 382,268 |
| Dividend income, net | | 519,922 | — | 519,922 |
| Real estate income, net | | 232,920 | — | 232,920 |
| Timber income, net | | (10,896) | — | (10,896) |
| Alternative investment income, net | | 24,968 | — | 24,968 |
| | | (12,455,444) | 1,189 | (12,454,255) |
| Management fees | | (37,939) | — | (37,939) |
| Net loss from investment activities | | (12,493,383) | 1,189 | (12,492,194) |
| Total additions | | (12,493,383) | 2,054,432 | (10,438,951) |
| Deductions: | | | | |
| Redemptions: | | | | |
| State employees | | — | 945,186 | 945,186 |
| State teachers | | — | 1,149,510 | 1,149,510 |
| Other participants | | — | 383,748 | 383,748 |
| Total deductions | | — | 2,478,444 | 2,478,444 |
| Interfund transfers | | (434,383) | 434,383 | — |
| Net decrease in pooled net assets | | (12,927,766) | 10,371 | (12,917,395) |
| Net assets held in trust for pool participants: | | | | |
| Balance, beginning of year | | 50,539,818 | 66,826 | 50,606,644 |
| Balance, end of year | $ | 37,612,052 | 77,197 | 37,689,249 |

See accompanying independent auditors' report.

# Investment Section

# Total PRIT Fund Performance Summary *

**For the periods ended June 30, 2009**




* 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, 2009, PRIM employed twenty-seven public markets investment managers, ninety-two private equity markets managers, fourteen real estate, natural resources, and timber managers, ten hedge fund-of-funds managers and three external investment consultants. The PRIT Fund had approximately $37.7 billion in assets under management at June 30, 2009.

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 in the beginning of fiscal year 2010 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.

| Asset Class | 6/30/2009 Allocation % | 2009 Long-Term Policy Target % |
|---|---|---|
| U.S. Equity | 17.1 | 21 |
| Portable Alpha | 7.3 | 6 |
| International Equity | 19.0 | 20 |
| Emerging Markets Equity | 5.0 | 5 |
| U.S. Bonds | 10.3 | 10 |
| TIPS | 2.7 | 3 |
| High Yield & Emerging Mkt Debt | 7.7 | 6 |
| Real Estate | 10.9 | 11 |
| Alternatives - Private Equity | 9.6 | 9 |
| Timber / Natural Resources | 3.2 | 2 |
| Natural Resources | 1.5 | 2 |
| Absolute Return | 5.7 | 5 |

In addition to asset allocation, the PRIM Board seeks to diversify the PRIT Fund through a complementary diversification of investment styles within various asset classes. Investment managers are selected to achieve styles within each 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

### 2009 U.S. and World Markets Review

Although the beginning of fiscal 2009 could hardly be considered the calm before the storm – the financial markets had been unraveling in the wake of the subprime mortgage meltdown and ensuing credit crisis – almost no one was prepared for the catastrophic events that loomed on the horizon, which was the near total collapse of the global economic system. What was evident when the first quarter of fiscal 2009 (3Q08) began was that the unemployment rate was around 6% (modest by comparison today), consumers were still spending at a growing, yet slower, pace thanks to the tax rebates in the economic stimulus package, and the benchmark Federal Reserve (Fed) interest rate was at 2%. Concerns were fomenting, however, about the financial viability of the largest U.S. mortgage loan companies, Fannie Mae and Freddie Mac; nevertheless, the housing market, which had been a drag on the economy for the past two years or so, enjoyed a slight uptick, leading some observers to think that we were approaching the bottom. Another encouraging sign was that the gross domestic product (GDP) grew 3.3% in the previous quarter, which was better than estimated. Then came that fateful week in September.

To briefly summarize, the first sign that the wheels were coming off the bus occurred in March 2008 when, at the Fed's urging, JP Morgan rescued an overleveraged, cash-strapped Bear Stearns from bankruptcy. In July, the Department of the Treasury (Treasury) and the Fed guaranteed the debts of Fannie Mae and Freddie Mac, but on September 7th, the federal government seized control of both of those institutions. A week later, on September 14th, Bank of America was encouraged by the government to purchase a failing Merrill Lynch and, on the very same day, the government, faced with the "moral hazard" question, allowed financial giant Lehman Brothers to fail, which led to the company filing for bankruptcy. On September 15th the Dow fell 500 points in response. The next institution to implode was insurance behemoth America International Group (A.I.G.), but this time, having seen the ramifications of the decision to let Lehman collapse, the government loaned A.I.G. an unprecedented $80 billion on September 16th to keep it afloat, and, thereby, becoming its largest shareholder. The next shock came that same day when the oldest money market fund, Reserve Primary, "broke the buck", as that company's net asset value fell below $1 a share after writing off over three quarters of a billion dollars in bad debt issued by Lehman Brothers. On September 17th the Dow lopped off another 449 points and fell to 2005 levels. The following events occurred with lightning-like speed: on September 18th the Securities and Exchange Commission (SEC) restricted the short selling of financial stocks, which put a crimp in the hedge fund markets; on September 19th, the Treasury announced that it would takeover troubled mortgage assets and guaranty certain money market funds; on September 20th, Morgan Stanley and Goldman Sachs converted to being traditional banks from investment banks; on September 23rd, U.S. Treasury Secretary Henry Paulson and Fed Chairman Ben Bernanke announced a $700 billion Wall Street bailout, which was not warmly received by Congress. President George W. Bush warned Congress to act quickly to approve the measure, also known as the Troubled Assets Recovery Program (TARP), or the U.S. economy would go into freefall. Then, on September 26th, another shockwave hit both Wall Street and Main Street when Washington Mutual (WaMu) was taken over by bank regulators resulting in the biggest bank failure in history. JP Morgan soon stepped in and bought the assets of WaMu. On September 29th, the Paulson/Bernanke bailout bill was defeated in Congress and the Dow reacted with a 777-point drop, the biggest single day point-decline in its history. The Dow recovered the next day and climbed 485 points, its largest single day gain.

By the end of 3Q08, the global equity markets were left reeling from the storms of September, which was one of the most volatile months on record. Large capitalization stocks (large caps) shed 8.37% as measured by the S&P 500; small capitalization stocks (small caps) fared much better, as the Russell 2000 returned -1.11% for the quarter. The worst performing economic sectors in the S&P 500 index were Materials, which returned -17.24%, and Information Technology, which was down 12.75%. Large cap growth stocks severely underperformed their value counterparts during the quarter, as the Russell 1000 Growth index returned -12.32%, while the Russell

1000 Value index lost 6.11%. The only U.S. market segment that generated positive results in 3Q08 was small cap value stocks, which returned 4.96% according to the Russell 2000 Value index. By contrast the benchmark for the small cap growth stocks, the Russell 2000 Growth index, returned -6.98% in 3Q08. The broad U.S. stock market, as measured by the Russell 3000 index, fell 8.73% during the quarter. The credit markets crisis spread overseas, as the barometer for the developed international equity markets, the MSCI EAFE index, declined sharply, returning -20.56% during the quarter, and the Japanese stock market hit a three year low. The emerging markets equity benchmark declined a whopping 26.95%, as measured by the MSCI Emerging Markets Free (EMF) Index, as investors bailed out of those riskier markets for safer havens. The steep drop in commodity prices also adversely affected emerging markets. In the domestic fixed income markets, investors' "flight to quality" boosted demand for U.S Treasuries across all maturities and driving down yields (the yield moves in the opposite direction of price). The Lehman Brothers (LB) Aggregate Index (now called the Barclays Aggregate) lost only 0.49% in 3Q08, but the LB Government index was up 1.95% during the quarter. Conversely, the high yield bond market, as measured by the Merrill Lynch Master II High Yield Constrained index, declined 9.26% in 3Q08, as yields on corporate high yield bonds rose dramatically. Although the pace of transactions slowed during the quarter, the private real estate market did not experience the same steep drawdowns seen in the public markets. The National Council of Real Estate Investment Fiduciaries (NCREIF) Property index fell slightly during the quarter returning 0.17%, and in the U.S., the publicly traded Real Estate Investment Trust (REIT) markets actually gained ground, as the National Association of Real Estate Investment Trusts (NAREIT) Equity REIT index returned 5.55% in 3Q08. On the other side of the world, however, it was an entirely different story as international REITs crashed. The NAREIT International REIT index returned an abysmal -19.74% for the quarter.

Just when it seemed things couldn't get any worse, they did. October, traditionally one of the scariest months in the market calendar, lived up to its reputation and will be remembered as one of the most volatile and worst performing months for the U.S. stock market ever. The month began with the passage of the TARP, which allowed the Treasury to assume up to $700 billion of troubled mortgages. The Treasury decided to use $250 billion of the TARP to infuse banks with new capital and, thereby, took ownership positions in those banks, at least temporarily. On October 6th, the Dow fell below the 10,000 level for the first time in four years. The S&P 500 closed below the 1,000 mark for the first time in five years on October 7th, and the Dow dropped 500 points the same day. On October 9th, the Dow fell 679 points, recording its second worse one day point drop ever, closing below 9,000 for the first time since 2003. The S&P 500 experienced its worst monthly performance since 1926 as 94% of the index saw declines. Commodities were hit hard as crude oil hit a 13-month low. Then in November, to no one's surprise, the National Bureau of Economic Research announced that the U.S. economy was in a recession, and had been in decline since December 2007, the last month U.S. companies actually added jobs. The U.S. stock market reacted unfavorably to Treasury Secretary Paulson's reversal of the plan to use the TARP to buy mortgage assets from U.S. banks in favor of buying asset-backed securities of auto and consumer credit card loans. This about face caused the S&P 500 to sink to its worst low in 11 years. But when the Fed announced it was injecting $600 billion into the markets to unfreeze credit for homebuyers and consumers, the S&P soared over 12% in the final week of trading. As the second fiscal quarter (4Q08) drew to a close, the markets behaved positively in reaction to the concerted efforts of central bankers around the globe to contain the credit crisis and save the global economy. On December 16th the Fed cut the Fund funds rate to a range between zero and 0.25%, the lowest it had ever gone. The proposed economic stimulus plan was also warmly received by investors, as it brought some glimmer of hope that the deepening recession could be curbed. By December, however, the tally from the credit crunch had reached stratospheric proportions, as losses and writedowns in the U.S. reached $678 billion and exceeded $1 trillion globally. And despite a positive December in the global equity markets, the damage had been done.

For the second quarter of fiscal 2009, the S&P 500 returned -21.94% and plunged -37.00% for all of 2008, its worst performance since 1931 during the Great Depression. Financial stocks were the worst performers in that index, down 56.95% for the year. Small cap stocks also got hammered, as the Russell 2000 returned -26.12% in 4Q08; the benchmark's Energy component fell over 50% during the quarter and was off 53.32% for the entire year. In 2008, small caps fared slightly better than large caps, as the Russell 2000 returned -33.79%. Large cap value stocks continued their dominance over large cap growth stocks, but it was a Pyrrhic victory. The Russell 1000 Value index returned -22.17% in 4Q08, and was down 36.85% for all of calendar year 2008. The Russell 1000 Growth index declined 22.79% during the quarter and ended the year with a return of -38.43%. On the small cap side, value also outperformed growth stocks as the Russell 2000 Value index dropped 24.89% during the second fiscal quarter, and returned -28.92% in 2008. The Russell 2000 Growth index lost 27.44% in 4Q08 and ended the year down 38.53%, or 961 basis points worse than the small cap value index. The broad U.S. equity market, as measured by the Russell 3000 index, returned -22.78% for the quarter, and shed 37.32% in 2008. The only positive observation about the U.S. equity markets was that, on the whole, they performed better than foreign markets. The MSCI EAFE index returned -19.95% for the quarter, but was down 43.34% for the one-year. The emerging equity markets returned -27.60% in 4Q08 and sank 53.21% in all of 2008, as investors, wary of risk, left this asset class in droves in pursuit of safety in government debt. This led to another strong quarter for U.S. Treasuries, as the renamed Barclays Aggregate Government index returned 8.04%, and finished 2008 up 12.38% (the Lehman Brothers brand was retired when Barclays acquired Lehman's businesses and assets in September 2008 following the company's bankruptcy). The broad fixed income market, as measured by the Barclays Aggregate index, gained 4.58% in 4Q08, and returned 5.24% for the entire year. Although falling yields boosted the price of high yield corporate bonds in December, the Merrill Lynch Master II High Yield Constrained index could only muster a -17.69% return for the quarter; the index was down significantly for all of 2008, returning a disappointing -26.11%. The impact of the economic recession and market crash, which devastated the financial industry, began to take hold in the privately held commercial real estate market. The NCREIF Property index declined 8.29% in 4Q08 and returned -6.46% in 2008. The REIT markets, which are more akin to small cap stocks, plunged 38.80% during the quarter, and ended the year with a disastrous return of -37.73%, according to the NAREIT Equity REIT index. International REIT markets also suffered as the NAREIT International REIT index returned -26.38% in 4Q08 and fell 39.99% for the entire year.

To put calendar year 2008 and the first half of fiscal 2009 in perspective, in the last 183 years, only one other calendar year was worse in the U.S. stock market and that was in 1931 during the Depression Era when stocks returned -43.3%. The seeds for the "Risk Bubble Burst" of 2008 were sown in mid-2007 when the U.S. housing market began to decline, spurred by the subprime mortgage crisis, which led to the credit crunch. The contagion spread to the stock market as liquidity dried up and once mighty, but hugely overleveraged, financial institutions began to fail. Consumer spending, which had been the linchpin of the U.S. economy, also contracted. A spike in home foreclosures and job losses also added to the dismal economic outlook. Stock-selling panic and a deepening recession prompted Congress, the Fed, and the U.S. Treasury to take unprecedented actions to staunch the bleeding. Although the months of September, October, and November wiped out years of investment gains for the small and large investor alike, there was some light at the end of 2008. U.S., international, and emerging markets stocks all rallied in December, as the Fed lowered a key interest rate to near zero and hopes of new economic stimulus plan mitigated some of the despair. But there would still be more pain to come as the second half of fiscal 2009 began.

If the adage, "As January goes, so goes the market", held any sway on where 2009 was heading, we were looking at a repeat of 2008, if not worse. Even with a new Administration in the White House promising hope and change, the markets and the economy continued on a downward spiral. The recession deepened even further, as consumers drastically cut spending and unemployment rose. To top it off, the S&P 500 (large caps) and the Russell 2000 (small caps) had their worst month on record in January; but some hope was starting to take seed.

Diversification, which all but disappeared the previous year, began to matter again. Hedge funds and senior bank loans generated positive returns, and high yield corporate bonds extended their gains for the third consecutive month. Most of the financial markets, however, were struggling and that would carry over into February and the beginning of March. In February, the U.S. Treasury, now headed by Secretary Timothy Geithner, announced a set of measures to stimulate lending to businesses and households by pumping more cash into the largest of the country's financial institutions. Treasury also proposed creating a fund that would entice private investors (i.e., hedge funds and institutional investors) to buy banks' "bad assets", and creating a separate fund to encourage lending to consumers and businesses. The global equity markets continued to tank, however, and reached new lows on March 9$^{th}$. Then, amazingly, U.S. stocks rallied as investors reacted positively to signs that the economy was beginning to stabilize; despite the fact that another 663,000 jobs were lost, bringing the jobless count to 5 million. The much anticipated stimulus plan offered by the Obama Administration was a $1 trillion Public-Private Investment Program (PPIP) designed to remove toxic real estate assets from the nation's banks. In March, the S&P 500 Index enjoyed its best monthly return in almost six years. Developed foreign markets were also uplifted by some positive economic news, and rising commodity prices helped jumpstart the emerging markets as investors returned to that market segment looking for the risk/return premium. Still, the first three months of calendar 2009 were pretty bleak.

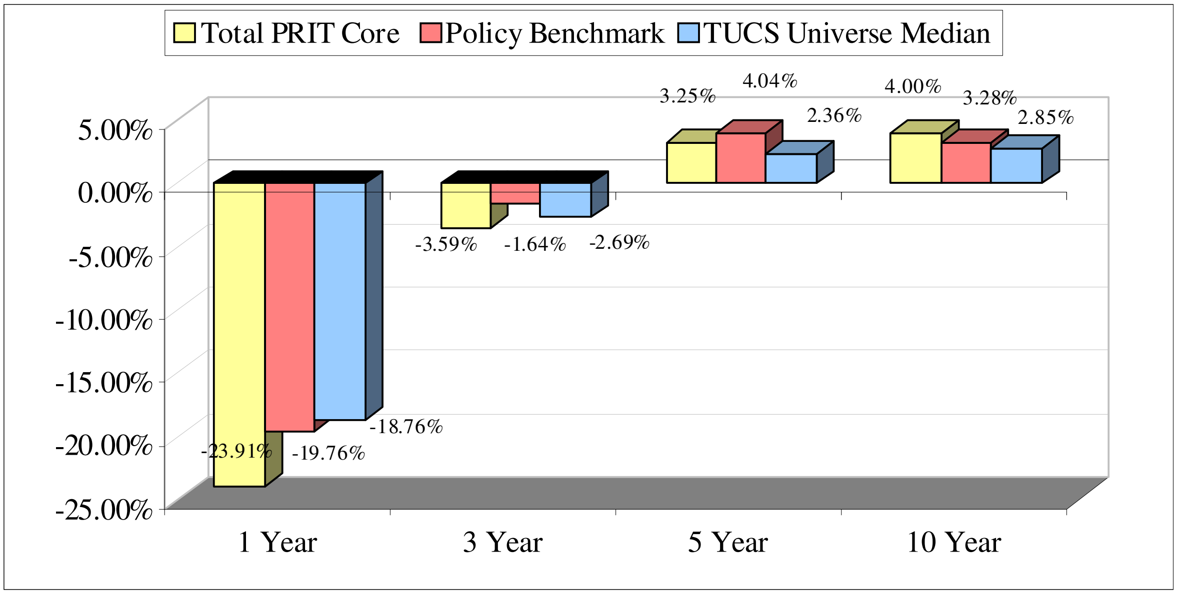
In the third quarter of fiscal 2009 (1Q09), the S&P 500 returned -11.01%, despite a strong return in March of almost 9%. The only sector within that index that had positive returns for the quarter was Information Technology. Although small cap stocks surged in March, the Russell 2000 returned -14.95% in 1Q09. Consumer Discretionary and Technology stocks were the top performers in the small cap universe during the quarter. In a reversal, large cap value stocks lagged large cap growth stocks in the third fiscal quarter, as the Russell 1000 Value index returned an ugly -16.77% while the Russell 1000 Growth index fell only 4.12% by comparison, a difference 1,265 basis points. The same was true of small cap value and growth stocks. The Russell 2000 Value index returned -19.64% in 1Q09, but the Russell 2000 Growth index lost 9.73% during the quarter. The broad Russell 3000 index was off 10.80% for the quarter. In the developed foreign equity markets, the MSCI EAFE index returned -13.94% in 1Q09, underperforming its U.S. counterpart; however, the emerging equity markets actually eked out a small positive return of 0.95% during the quarter as a result of strong double-digit returns in March. U.S. fixed income markets had mixed results as Barclays Aggregate Government index was down 0.98% for the quarter, while the broad fixed income market was essentially flat as the Barclays Aggregate returned a positive 0.12%. High yield bonds rebounded as investors decided that the potential returns on junk-rated bonds was worth the risk of possible debt payment defaults. The Merrill Lynch Master II High Yield Constrained index returned an attractive 5.51% in 1Q09. The carnage continued in both the private and publicly traded real estate markets. The NCREIF Property index returned -15.01% during the quarter. In the U.S. REIT market, the NAREIT Equity REIT index had a woeful quarterly return of -31.87, while the NAREIT International REIT performed better compared to U.S. REIT Markets, returning -14.90%.

If there were any redeeming aspect of the excruciatingly volatile 2009 fiscal year it could be found in the fourth fiscal quarter (2Q09). There were encouraging signs that the economy was in recovery mode, although that was hardly evident to the 9.5% of Americans without jobs. By quarter's end, however, the biggest increase in consumer confidence in six years and a rising demand in home purchases led some economists to speculate that the worst days of the recession were behind us. Even Fed Chairman Bernanke commented that the economy was beginning to strengthen, and some market commentators referred to the nascent recovery in botanical terms, referring to "green shoots" arising from the crisis. Amid this cautious optimism, stocks posted their best quarter since 2003 for the three-months ending June 30, 2009, as investors' expressed confidence that the economy was turning around. From the March 9$^{th}$ low to its peak on June 12$^{th}$, the S&P 500 index gained 40%! As the quarter drew to a close, investors decided to take some profits, so the month of June finished with a whimper. The S&P

500 Index rose 15.93% in 2Q09. Financials were the best performing stocks, followed by the Energy, Materials, and Technology sectors. Still on a full fiscal year basis, the index was down 26.21%. Small cap stocks soared during the quarter, as the Russell 2000 index gained 20.69%; however, the index stood at -25.01% for fiscal year 2009. Large cap value stocks ran just about even with large cap growth stocks during the quarter, as the Russell 1000 Value index returned 16.69% and the Russell 1000 Growth index climbed 16.32%. Both indices were down for the fiscal year, with the Russell 1000 Value returning -29.03%, and the Russell 1000 Growth losing 24.49%. For the second consecutive quarter, small cap growth stocks dominated their value counterparts. The Russell 2000 Growth Index rose a robust 23.37% in 2Q09, but returned -24.84% for fiscal year 2009. The Russell 2000 Value index returned a respectable 18.00% during the quarter, but fell 25.24% on a fiscal year-to-date basis. The broad U.S. equity market, as represented by the Russell 3000 index, rose 16.82% for the quarter, and returned -26.56% in the 2009 fiscal year. Foreign markets had an even more impressive quarter, as the MSCI EAFE Index soared 25.43%, but the index still posted a deep negative return of -31.35% for the one year ended June 30, 2009. Emerging markets were among the best performers, as the MSCI EMF Index climbed 34.73% during the quarter. For fiscal 2009, emerging markets returned -28.07%. In a reversal from 2008, the core fixed income markets experienced a "flight *from* quality" as investors took on more risk. In the quarter ended June 30, 2009, the Barclays Government index returned -2.21%, but still managed to protect its gains from the prior year, returning 6.63% for fiscal year 2009. The broader bond market performed somewhat better as the Barclays Aggregate index returned 1.78% for the quarter, and stood at a respectable 6.05% for the one year ended June 30, 2009. High yield bond investors were rewarded handsomely for taking more risk, as the Merrill Lynch Master II High Yield Constrained index returned a lofty 23.10% during the quarter as credit markets loosened up; however for the one year, the index was still in negative territory with a return of -2.99%. The private real estate markets continued to see more writedowns in 2Q09, as the NCREIF Property index returned -5.20%, and declined 19.56% for fiscal year 2009. The volatile U.S. REIT market jumped 28.85% in the fourth fiscal quarter, but remained deeply negative for the one year ended June 30, 2009, with a return of -43.29%. International REITs outpaced just about every market during the quarter, up 38.90%; however, similar to U.S. REIT markets, the index remained below water for fiscal year 2009, returning -30.15%.

**PRIT CORE PERFORMANCE: FISCAL YEAR 2009**

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




In the fiscal year 2009, the PRIT Core returned a negative 23.91%, lagging the policy benchmark return of negative 19.76%, by 415 basis points. The performance in fiscal 2009 has dropped PRIM into the bottom quartile of all US Public Pension Funds over $1 billion in size for the fiscal year, but the PRIT Fund maintains top quartile in longer term five and ten year periods, respectively, according to the Trust Universe Comparison Services (TUCS). The three, five, and ten year periods have all seen a drop-off in peer group ratings, 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 as well as quality manager selection and due diligence.

The PRIT Fund began fiscal year 2009 with a net asset value of $50.61 billion and ended with $37.69 billion. On a gross basis the fund was down approximately $12.92 billion, which is the result of $12.49 billion in investment loss along with $425 million in net redemptions to the State Employees, State-Teachers' and Participant accounts.

The returns continued on a downward slope for three quarters of fiscal 2009, with a partial rebound in the fourth quarter. The quarterly returns of the PRIT Core in fiscal year 2009 were as follows:

- Negative 11.38% for September 30, 2008 – versus a benchmark return of negative 9.85%.
- Negative 16.32% for December 31, 2008 – versus a benchmark return of negative 14.66%.
- Negative 8.08% for March 31, 2009 – versus a benchmark return of negative 7.88%.
- 11.62% for June 30, 2009 – versus a benchmark return of 13.22%.

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. For the fiscal year 2009, PRIM did not achieve any of the three benchmark objectives, however remained strong over the long-term. Through June 30, 2009, the PRIT "Core" fell short of the actuarial return over a three-, five-, and ten-year basis, while maintaining a 9.25% since inception return, 100 basis points above the actuarial rate of return of 8.25%. For the one-year, the PRIT "Core" returned -23.91%, and trailed the policy benchmark by 415 basis points. PRIM's rankings in the TUCS report dropped dramatically in the in fiscal 2009 which carried into its three-year rankings as well. The longer-term five and ten year periods ended June 30, 2009, continued to be top-quartile. The PRIT Fund Core ranked in the 99$^{th}$ percentile (1$^{st}$ being the best, 100$^{th}$ being the worst) for the one-year period, 82$^{nd}$ in three-year period, and ranked in the top 25$^{th}$ percentile for both the five-and ten-year periods.

**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.

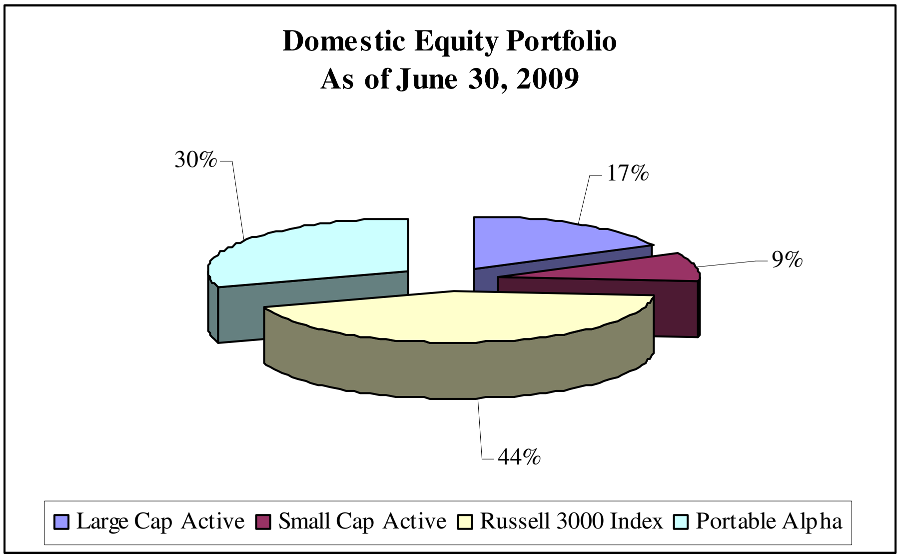
PRIM employs professional investment managers and provides them discretion, consistent with specified objectives and guidelines, to manage the PRIT Fund's assets. Investment managers operate under formal contracts that delineate their responsibilities and performance expectations. Approximately 68.7% of PRIM's total expense for fiscal 2009 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 18.3% of PRIM's total expense for fiscal year 2009 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 2009, *inclusive* of all investment management (direct and indirect), consulting, custodial and overhead charges was 51 basis points of the average net asset value of the PRIT Fund compared to 52 basis points in fiscal year 2008. *Excluding* indirect management fees (as most public pension funds report), the cost of managing the PRIT Fund was 10 basis points compared to 25 basis points in fiscal year 2008. Overall fees can vary from year to year due to the nature of performance-based fees at PRIT. The FY'09 direct fees fell drastically due to less active management in the public market portfolios, investment manager underperformance, and real estate performance fee claw-backs from prior periods while the overall fees remained consistent with the prior years' fees as the more expensive indirect fees continued to grow partly due to assets not suffering the same decline as public markets, but primarily due to the alternative investment asset class fees being paid based on committed capital and PRIM's continued commitment to the asset class. While a few 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 $12.92 billion decrease in the current fiscal year, primarily the result of investment performance. For information on expense ratios for each investment account, refer to the *Financial Highlights* ratios on pages 88-94 included in the Statistical Section of this report.

**Domestic Equity Portfolio**

As of June 30, 2009, the Domestic Equity portfolio had approximately $9.2 billion in net assets, which represented 24.4% of the PRIT Capital Fund. Approximately 61% of the domestic equity portfolio is invested utilizing a large capitalization stock ("large cap stocks") and a Russell 3000 index strategy while 9% 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.




The active large capitalization component of the Domestic Equity portfolio is 17% of the total Domestic Equity portfolio, and the active small capitalization component represents an additional 9%. The passive component, the Russell 3000 index, encompasses both large and small capitalization stocks, and makes up 44% of the Domestic Equity portfolio. The remaining 30% of the Domestic Equity portfolio is invested through 7 managers (6 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 fiscal year, all Domestic Equity strategies underperformed their respective benchmarks. Of the large capitalization managers, both underperformed their benchmark. In the small capitalization mandate, all four of the managers underperformed their benchmark. In the Portable Alpha program, the three active managers that had a full year of performance all underperformed their benchmark, while the beta overlay portion outperformed its benchmark by 91 basis points. Three active Hedge Fund-of-Funds alpha managers (EIM, Austin Capital, and Blackstone) were funded in October 2008, following a Board vote to increase the Portable Alpha allocation from 5% to 6% earlier in the year, and as such did not have a full year of performance. The Russell 3000 Index fund slightly outperformed its benchmark. 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, 2009 the six Hedge Fund-of-Funds managers had investments in over 140 underlying managers.

**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), as evidenced by the past year, 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 32.06% return compared to a negative 26.56% for the portfolio benchmark, the Russell 3000 index. PRIT's large cap managers returned a negative 26.58% compared to the negative 25.68% return of the large cap benchmark S&P 500 index (ex-tobacco). The small cap managers returned a negative 35.70% for the year versus a negative 27.54% in the Dow Jones U.S. Completion Total Stock Market Total Return Index benchmark.

On a three- five- and ten-year basis through June 30, 2009, PRIT's Domestic Equity portfolio has returned a negative 11.51%, negative 3.93%, and a negative 1.47%, respectively, compared to the Russell 3000 Index (Dow Jones Wilshire 5000 index through 4/30/08), which returned a negative 8.25%, negative 1.69%, and a negative 1.37%, respectively.

The top ten holdings in the domestic equity portfolio, excluding Portable Alpha, at June 30, 2009 are illustrated below. A complete listing of holdings is available upon request.

**Domestic Equity**

| # | Issue Name | Fair Value ($000s) | % of Account Fair Value |
|---|---|---|---|
| 1 | Exxon Mobil Corp. | $ 180,039 | 1.96% |
| 2 | Microsoft Corp. | 89,423 | 0.98% |
| 3 | Johnson & Johnson | 81,474 | 0.89% |
| 4 | AT&T Inc. | 79,455 | 0.87% |
| 5 | Proctor & Gamble Co. | 78,198 | 0.85% |
| 6 | IBM Corp. | 69,554 | 0.76% |
| 7 | General Electric | 69,143 | 0.75% |
| 8 | Chevron Corp. | 68,734 | 0.75% |
| 9 | Apple Inc. | 59,450 | 0.65% |
| 10 | JP Morgan Chase and Co. | 57,574 | 0.63% |
| | TOTAL | $ 833,044 | 9.09% |

The PRIT Fund's domestic equity managers at June 30, 2009 are highlighted in the following table:

| Manager | Investment Mandate | Portfolio Fair Value at June 30, 2009 ($000s) |
|---|---|---|
| *State Street Global Advisors* | Russell 3000 Index | $ 3,983,026 |
| *Intech* | S&P 500 Enhanced Index | 813,009 |
| *PIMCO* | S&P 500 Enhanced Index | 772,268 |
| *Austin Capital - Liquidation ** | US Equity Portable Alpha Hedge FoFs | 134,760 |
| *Blackstone Alternative Assets Mgmt* | US Equity Portable Alpha Hedge FoFs | 191,392 |
| *EIM Management USA* | US Equity Portable Alpha Hedge FoFs | 167,975 |
| *Crestline* | US Equity Portable Alpha Hedge FoFs | 650,472 |
| *Grosvenor* | US Equity Portable Alpha Hedge FoFs | 624,255 |
| *Strategic* | US Equity Portable Alpha Hedge FoFs | 612,809 |
| *Russell* | Russell 3000 Beta Overlay | 359,431 |
| *Numeric Investors, LP* | Small Cap Growth | 209,749 |
| *AXA Rosenberg Investment Management* | Small Cap Value | 216,855 |
| *Earnest Partners* | Small Cap Value | 212,559 |
| *Putnam Advisory Company* | Small Cap Value | 172,262 |
| *Other portfolio net assets* | | 43,897 |
| **Total Portfolio Fair Value June 30, 2009** | | **$ 9,164,719** |

** In February 2009, the PRIM Board voted to terminate Austin Capital*

## International Equity Portfolio

As of June 30, 2009, the PRIM Board invested $7.1 billion in the International Equity portfolio, representing 19.0% 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 24% of the portfolio) and six actively managed accounts (about 76% 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.

**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, 2009, the International Equity portfolio returned a negative 31.74% compared to the MSCI EAFE index return of a negative 31.35%. Of the PRIT Capital Fund's seven international equity managers, six active and the sole passive manager, four 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, 2009, PRIT's international equity managers posted returns of a negative 7.74%, 2.67%, and 3.36%, respectively, ahead of the MSCI EAFE index, which returned a negative 7.90%, 2.36%, and 1.20% over the same periods.

The top ten holdings in the international equity portfolio at June 30, 2009 are illustrated below. A complete listing of holdings is available upon request.

| # | Issue Name | Fair Value ($000s) | % of Account Fair Value |
|---|---|---|---|
| 1 | British Petroleum PLC | $ 100,290 | 1.40% |
| 2 | Vodafone Group | 98,148 | 1.37% |
| 3 | Sanofi-Aventis | 79,399 | 1.11% |
| 4 | Novartis | 77,852 | 1.09% |
| 5 | Telefonica | 76,537 | 1.07% |
| 6 | Royal Dutch Shell | 74,481 | 1.04% |
| 7 | Nestle | 74,086 | 1.04% |
| 8 | Glaxosmithkline | 70,774 | 0.99% |
| 9 | Toyota Motor Corp. | 65,496 | 0.92% |
| 10 | Banco Santander | 63,263 | 0.89% |
| | TOTAL | $ 780,326 | 10.92% |

The PRIT Fund's international equity managers at June 30, 2009 are highlighted in the following table:

| Manager | Investment Mandate | Portfolio Fair Value at June 30, 2009 ($000s) |
|---|---|---|
| *Marathon Asset Management Ltd.* | EAFE Benchmark | 1,893,737 |
| *State Street Global Advisors* | EAFE Index | 1,710,956 |
| *Ballie Gifford* | EAFE Benchmark | 963,169 |
| *Alliance Bernstein* | EAFE Benchmark | 774,113 |
| *AXA Rosenberg Investment Management* | EAFE Benchmark | 789,318 |
| *Pyramis Global Advisors* | EAFE Benchmark | 497,242 |
| *Mondrian Investment* | EAFE Benchmark | 518,289 |
| *Other portfolio net assets* | | (535) |
| **Total Portfolio Fair Value June 30, 2009** | | **$7,146,289** |

## Emerging Markets Portfolio

As of June 30, 2009, the PRIM Board invested approximately $1.9 billion in the Emerging Markets Equity portfolio, representing 5.0% 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 a negative 31.60% compared to the MSCI Emerging Markets Net Dividends index return of negative 28.07%. One of the three current emerging markets equity managers outperformed the benchmark for the fiscal year. PRIT's emerging markets equity managers now lag the benchmark in all time periods. On a three- five- and ten-year basis through June 30, 2009, PRIT's emerging markets equity managers posted returns of negative 0.80%, 12.91%, and 8.63%, respectively, lagging the MSCI Emerging Markets Net Dividends index, which returned 3.17%, 14.86%, and 8.91% over the same periods.

The top ten holdings in the emerging markets portfolio at June 30, 2009 are illustrated below: A complete listing of holdings is available upon request.

| # | Issue Name | | Market Value ($000s) | % of Account Market Value |
|---|---|---|---|---|
| 1 | Petroleo Brasileiro | $ | 60,865 | 3.22% |
| 2 | EMM EMSAF-Mauritus Fund | | 60,808 | 3.22% |
| 3 | Samsung Electronics | | 45,266 | 2.40% |
| 4 | China Mobile | | 35,534 | 1.88% |
| 5 | America Movil | | 32,235 | 1.71% |
| 6 | Ind and Comm Bank of China | | 26,225 | 1.39% |
| 7 | Gazprom OAO | | 24,300 | 1.29% |
| 8 | Teva Pharmaceutical | | 23,342 | 1.24% |
| 9 | ITAU Unibanco Holding | | 21,257 | 1.13% |
| 10 | Vale S A Adr Repstg Pfd | | 20,809 | 1.10% |
| | TOTAL | $ | 350,641 | 18.58% |

The PRIT Fund's emerging markets equity managers at June 30, 2009 are highlighted in the following table:

| Manager | Investment Mandate | | Portfolio Fair Value at June 30, 2009 ($000s) |
|---|---|---|---|
| *Emerging Markets Management* | Value/Frontier | $ | 741,894 |
| *Grantham, Mayo, Van Otterloo & Co. LLC* | Value | | 749,369 |
| *T. Rowe Price* | Growth | | 396,982 |
| *Other portfolio net assets* | | | (274) |
| **Total Portfolio Fair Value June 30, 2009** | | **$** | **1,887,971** |

## Fixed Income Portfolio

The PRIM Board invested approximately $4.9 billion in the investment grade Fixed Income portfolio, representing 13.0% of the PRIT Capital Fund as of June 30, 2009. The Fixed Income Portfolio is invested using the following strategies:

- 19% in a Barclays Aggregate passively managed index fund;
- 55% in actively managed Barclays Aggregate core portfolios;
- 9% in Treasury Inflation Protected Securities (TIPS) passively managed index fund;
- 12% in Global ILB/Commodities portfolio.
- 5% in an Economically-Targeted Fixed Income Portfolio

The fixed income portfolio is benchmarked to the Barclays Capital Aggregate Bond Index for core fixed income securities, the Barclays Capital U.S. TIPS Index for U.S. TIPS securities, and the Barclays World Index (USD Hedged) + the DJ-UBS Excess Return Index for the Global ILB/Commodities portfolio. The Barclays Capital 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 Barclays Capital Aggregate Bond 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 fixed income portfolio also contains investments 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 was benchmarked against a customized 80% Merrill Lynch 30 Year Mortgages/20% Merrill Lynch 1-10 Year US Treasuries benchmark through December 2008, after which time the benchmark was changed to the Barclays Capital US Securitized Index, to better reflect the investment strategy of the mandate. CCM and AFL-CIO portfolios are benchmarked against the Barclays Capital Aggregate. 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 affect portfolio returns.

For the fiscal year 2009, the Fixed Income composite return of negative 5.43% lagging the benchmark (77% Barclays Capital Aggregate/8% Barclays Capital US TIPS/15% Custom Commodities index), which returned a negative 4.37%. The Total Core portfolio returned 4.31%, 174 basis points behind the benchmark return of 6.05%. PRIT's TIPS manager, Barclays, achieved a negative 1.01% return versus the Barclays US TIPS benchmark return of negative 1.12%, with Commodities manager, Blackrock, achieving a negative 48.41% return versus the Custom Commodities index of negative 48.54%, while the ETI managers, Access Capital, AFL – CIO Housing Investment, and Community Capital Management, returned 8.49%, 6.08% and 8.05% versus their benchmark returns of 10.91%, 6.05% and 6.05%, respectively.

Six of the top ten holdings in the fixed income portfolio at June 30, 2009 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.

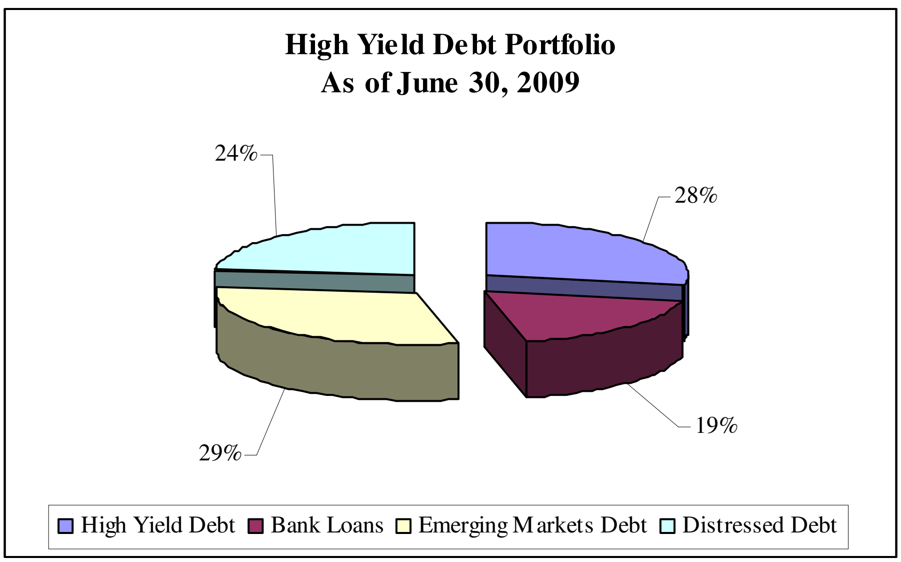
| # | Issue Name | Fair Value ($000s) | % of Account Fair Value |
|---|---|---|---|
| 1 | Commit to Purchase FNMA 6.000% July 2039 | $ 310,365 | 6.34% |
| 2 | SBA Gtd Dev 5.870% July 2028 | 63,129 | 1.29% |
| 3 | Commit to Purchase FHLMC 5.5% August 2039 | 38,052 | 0.78% |
| 4 | U.S. Treasury Notes 2.625% June 2014 | 35,005 | 0.71% |
| 5 | U.S. Treasury Notes 3.375% June 2013 | 33,006 | 0.67% |
| 6 | FNMA Pool #0745418 5.500% April 2036 | 31,791 | 0.65% |
| 7 | U.S. Treasury Notes 2.250% May 2014 | 30,406 | 0.62% |
| 8 | Commit to Purchase FNMA 5.000% July 2039 | 29,768 | 0.61% |
| 9 | HSBC Bank 6.000% August 2017 | 27,751 | 0.57% |
| 10 | FNMA Pool #0959476 5.500% December 2037 | 24,933 | 0.51% |
| | TOTAL | $ 624,206 | 12.75% |

The PRIT Fund's fixed income portfolio managers at June 30, 2009 are highlighted in the following table:

| Manager | Investment Mandate | Portfolio Fair Value at June 30, 2009 ($000s) |
|---|---|---|
| *Barclays Global Investors* | Core Index | $ 949,898 |
| *Barclays Global Investors* | TIPS Index | 426,335 |
| *PIMCO* | Active Core | 981,456 |
| *Blackrock Financial Management* | Active Core | 878,046 |
| *Loomis, Sayles & Co., LP* | Active Core | 843,791 |
| *Blackrock Financial Management* | Inflation Link Bonds/Commodities | 594,916 |
| *Access Capital* | ETI | 91,989 |
| *AFL - CIO Housing Investment* | ETI | 97,583 |
| *Community Capital Management* | ETI | 30,070 |
| *Other portfolio net assets* | | 3,262 |
| **Total Portfolio Fair Value June 30, 2009** | | **$ 4,897,346** |

### High Yield Portfolio

The PRIM Board invested approximately $2.9 billion in the High Yield portfolio, representing 7.7% of the PRIT Fund as of June 30, 2009. The High Yield Portfolio is invested using the following strategies:




**High yield bonds,** which represent 2.2% 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,** 2.3% of the PRIT Capital Fund, represents PRIM's investment in debt issued within the emerging marketplace. In April 2009 the PRIM Board voted to terminate GMO as an Emerging Market Debt manager due to concerns with their performance and liquidity management. Of the remaining two investments in the PRIT emerging debt program, one is through a commingled emerging debt investment vehicle.

**Distressed debt,** 1.8% of the PRIT Capital Fund, represents PRIM's investment in private partnerships that invest directly in distressed debt investment opportunities. As at June 30, 2009 the PRIT Fund had approximately $684 million in distressed debt investments with eight investment managers.

**Bank Loans,** 1.4% of the PRIT Capital Fund, represent PRIM's investment in senior secured bank loans. In June 2008 the PRIM Board voted to hire Eaton Vance and ING to each manage a bank loan mandate on behalf of the PRIT Fund.

**Portfolio Risks.** As 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 2009, the High Yield composite returned a negative 10.78% compared to a negative 1.39% for the asset class benchmark. The PRIT Capital Fund's three high yield bond managers, Shenkman, Fidelity and Loomis Sayles, returned a negative 3.57%, while the Merrill Lynch High Yield Master II Constrained index returned a negative 2.99%. Distressed debt investments are limited partnerships and PRIT Core has invested a total of $684 million with eight different managers; Oaktree Capital Management; Angelo, Gordon & Co.; Avenue Capital Group; Wayzata Investment Partners; TCW Asset Management; Providence Equity Partners; Centerbridge Capital; 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 a negative 21.58% compared to the index return of negative 2.99%. The Emerging Markets Debt portfolio, managed by Ashmore, GMO and PIMCO, returned a negative 10.93 during the fiscal year, lagging the JP Morgan Emerging Markets Bond Index (JPM EMBI Global Index), which returned 2.24%, by 1317 basis points. The Bank Loan portfolio returned a negative 1.26%, out performing the S&P LSTA Leveraged Loan index return of negative 5.26%, by 400 basis points.

The top ten holdings in the high yield portfolio at June 30, 2009, 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 | FHLMC Variable Rate February 2011 | $ 17,866 | 0.62% |
| 2 | Russian Federation Variable Rate March 2030 | 16,842 | 0.58% |
| 3 | Brazil Bonds 10.125% May 2027 | 10,883 | 0.38% |
| 4 | Valeant Phar 4.000% November 2013 | 10,626 | 0.37% |
| 5 | Nota Do Tesouro Nacional 10.000% January 2017 | 10,606 | 0.37% |
| 6 | Elan Fin Corp 7.750% November 2011 | 9,440 | 0.33% |
| 7 | KB Home 7.250% June 2018 | 8,428 | 0.29% |
| 8 | Toys R Us 7.375% October 2018 | 8,080 | 0.28% |
| 9 | Petroleos Mexicanos 8.000% May 2019 | 6,944 | 0.24% |
| 10 | Ford Motor Credit 8.000% June 2014 | 6,546 | 0.23% |
| | TOTAL | $ 106,261 | 3.69% |

The PRIT Fund's high yield portfolio managers at June 30, 2009 are highlighted in the following table:

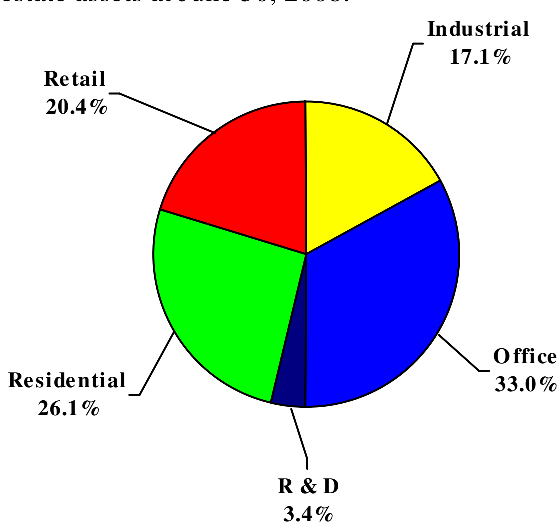
| **Manager** | **Investment Mandate** | **Portfolio Fair Value at June 30, 2009 ($000s)** |
|---|---|---|
| *Fidelity Management Trust* | High Yield Bond | $ 228,079 |
| *Shenkman Capital Management* | High Yield Bond | 300,610 |
| *Loomis, Sayles & Co., LP* | High Yield Bond | 265,962 |
| *Ashmore Investment Management* | Emerging Markets Debt | 433,021 |
| *Grantham, Mayo, Van Otterloo & Co. LLC* | Emerging Markets Debt | 229,852 |
| *PIMCO* | Emerging Markets Debt | 190,417 |
| *Eaton Vance* | Bank Loans | 267,112 |
| *ING* | Bank Loans | 265,572 |
| *Various partnerships* | Distressed Debt | 684,444 |
| *Other portfolio net assets* | | 18,367 |
| **Total Portfolio Fair Value June 30, 2009** | | **$ 2,883,436** |

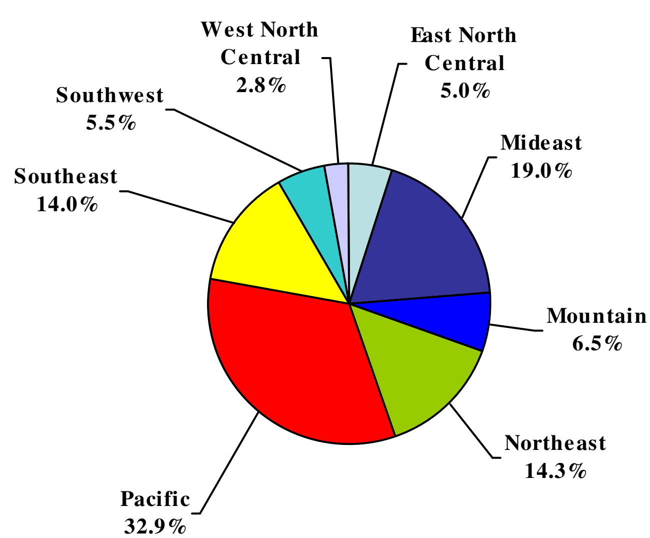
**Real Estate Portfolio**

As of June 30, 2009 PRIM had $4.1 billion invested in real estate, representing 10.9% of the PRIT Capital Fund. Real estate holdings consist of directly-owned properties, REITs, and three ETI investments. The PRIT Fund invests in real estate because it provides the PRIT Fund with (i) diversification and (ii) attractive returns. Real estate returns typically do not have a strong correlation with stock and bond returns, therefore offering an element of diversification to reduce volatility. Real estate can also offer attractive current returns. A portfolio of well-leased, operating properties provides steady monthly cash flow to the investor from property-level rents.

Currently, approximately 78% of the real estate allocation is dedicated to direct investments in real estate properties. These investments are subsequently broken down into Core and Value real estate investments. Currently, $3.2 billion of Core real estate investments and $11 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, 2009, PRIM had approximately $869 million allocated to REITs. In June 2009, the Board voted to reduce the target allocation to REITs from 3% of the PRIT Fund to 2% and increase the international (ex-U.S.) REIT allocation from 30% of total REITs to 50%. As a result of the Board’s actions, Wellington Management was terminated as a U.S. REIT advisor and their mandated assets were allocated to the remaining REIT advisors. The REIT portfolio represents 2.3% of the total PRIT fund.

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 fiscal 2009 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 Real Estate Leverage Policy at its February 5, 2002 Board meeting. This policy permits third party debt to be incurred subject to the following 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. For the year ended June 30, 2009, PRIM did not utilize any third-party debt. The portfolio does have property level debt of $263 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, PRIM's direct real estate portfolio experienced write-downs as the commercial real estate market began to feel the effects of the credit crunch and weakening economies in the U.S. and abroad. REIT investments experienced increased volatility as returns were driven by concerns of over-leveraged balance sheets.

For the one-year period, the real estate portfolio returned a negative 23.99%, underperforming the asset class benchmark return of negative 19.63% (73% NCREIF Property Index/17% NAREIT U.S. Equity Index/7.25% NAREIT Global/Ex U.S. Index/2.75% NAREIT INTL REIT). The direct real estate portfolio returned negative 19.58% for the year ended June 30, 2009, lagging the NCREIF Property Index (one quarter lag), which returned negative 14.67% over the same period. REIT investments returned negative 37.32%, outperforming PRIM's combined REIT benchmark of negative 39.57% by 225 basis points.

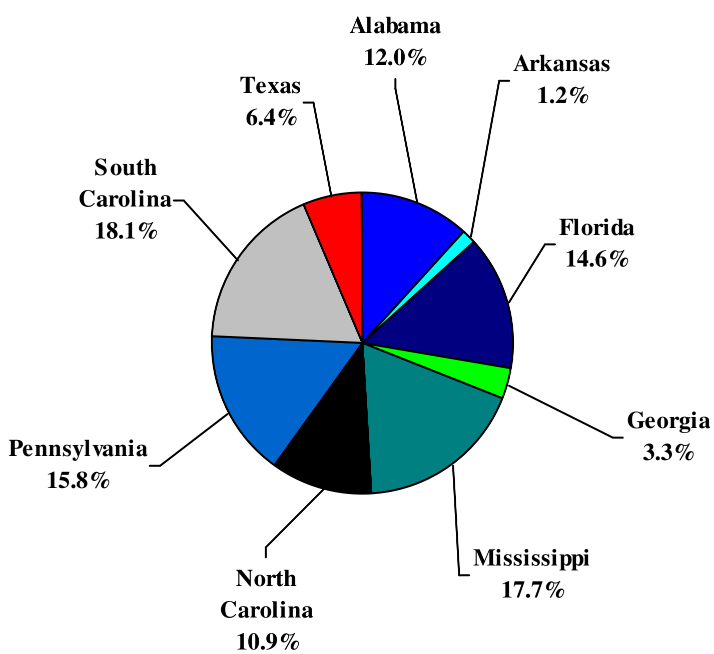
The Real Estate portfolio returned negative 2.26% over the past three years versus the asset class benchmark return of negative 0.13%. On a five-year basis, returns were 8.76 % compared to the benchmark return of 7.61%. On a ten-year basis, the real estate portfolio returned 10.10% compared to the benchmark return of 8.72%. The PRIT Fund's real estate investment managers at June 30, 2009 are highlighted in the following table:

| **Manager** | **Investment Mandate** | **Portfolio Fair Value at June 30, 2009 ($'000's)** |
|---|---|---|
| *Invesco Realty Advisors* | Separate Accounts - Core | $ 384,944 |
| *LaSalle Investment Management* | Separate Accounts - Core | 686,346 |
| *RREEF* | Separate Accounts - Core | 731,654 |
| *J.P. Morgan Investment Management* | Separate Accounts - Core | 459,825 |
| *TA Associates Realty* | Separate Accounts - Core | 913,578 |
| *RREEF* | Separate Accounts - Value | 11,119 |
| *RREEF* | Global REITs | 258,108 |
| *European Investors* | International REITs | 283,054 |
| *Invesco Realty Advisors* | Domestic REITs | 164,854 |
| *Urdang* | Domestic REITs | 160,421 |
| *Wellington* | Domestic REITs | 2,268 |
| *Canyon Johnson* | ETI | 13,104 |
| *Intercontinental* | ETI | 5,350 |
| *New Boston* | ETI | 2,033 |
| *Other portfolio net assets* | | 13,867 |
| **Total Portfolio Fair Value June 30, 2009** | | **$ 4,090,525** |

**Timber and Natural Resources Portfolio**

As of June 30, 2009, the PRIM Board had $1.2 billion invested in timber representing 3.2% 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% due to the limited availability of timber in the marketplace. An allocation of 2% was created for the newly created asset sleeve, Natural Resources, which is intended to provide a similar risk return profile as timber. As of June 30, 2009, PRIM had $478 million invested in two Natural Resources managers, Jennison and T. Rowe Price, representing 1.3% of the PRIT Fund. These managers invest in publicly traded companies who focus on Natural Resource orientated companies (i.e. oil, mining, energy companies). An additional $127 million allocation to Natural Resources is invested through PRIM's Alternative Investment program.

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, 2009 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.

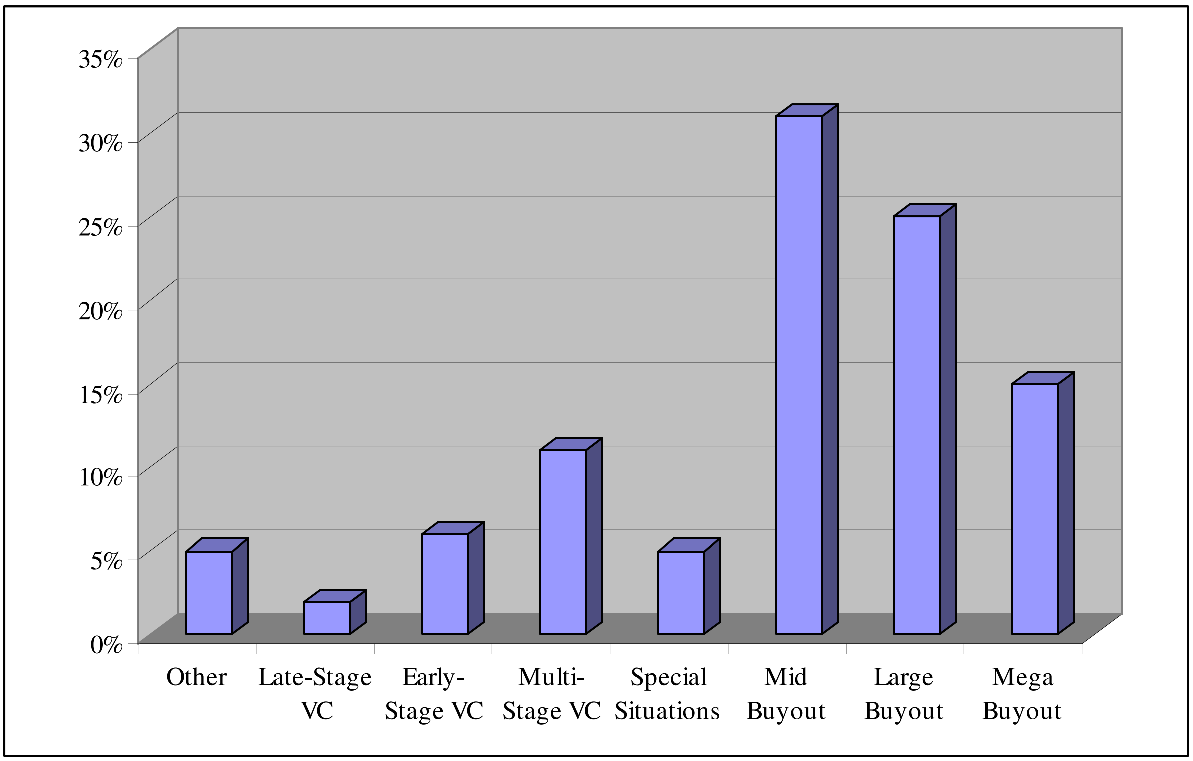
**Performance.** As of June 30, 2009, the one-year Timber return was 15.33% as compared to the NCREIF Timber Index (one quarter lag) of 6.25%. Since its inception, in December of 2001, the Timber portfolio has produced an annualized return of 16.08%. With a 3.2% investment in timber at fiscal year-end, 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. For the year ended June 30, 2009, the publicly traded Natural Resource portfolio returned a negative 46.81%, out performing the Lipper Natural Resources Global Fund index return of negative 51.06%, by 425 basis points. The private Natural Resources investments returned a negative 7.82% calendar year to date. As of June 30, 2009, the one-year combined Timber / Natural Resources return was a negative 13.85% as compared to the blended NCREIF Timber / Lipper Natural Resources Global Fund / Actual Private Natural Resources Index of negative 21.84%.

**Alternative Investments Portfolio**

As of June 30, 2009 the market value of the Alternative Investment Portfolio was $3.6 billion or 9.6% 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, 2009 is highlighted below.

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

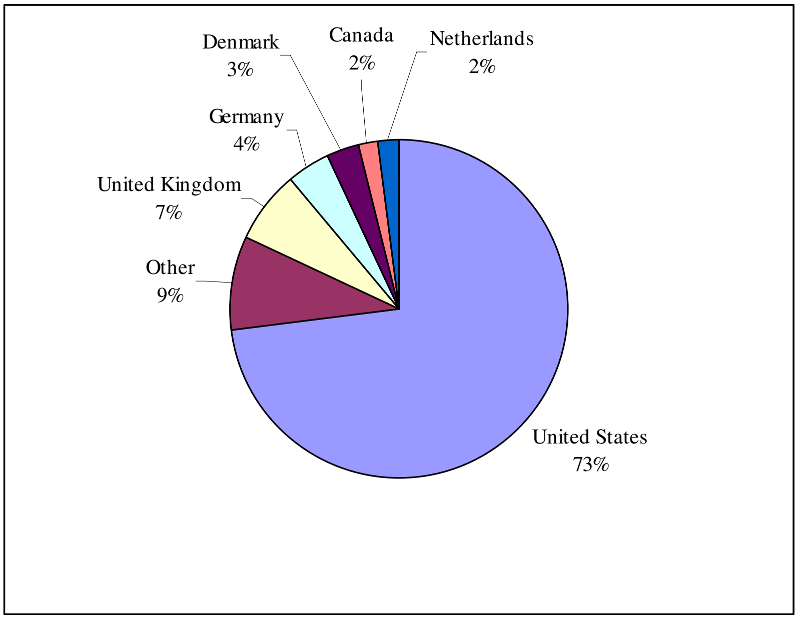
**As of June 30, 2009**

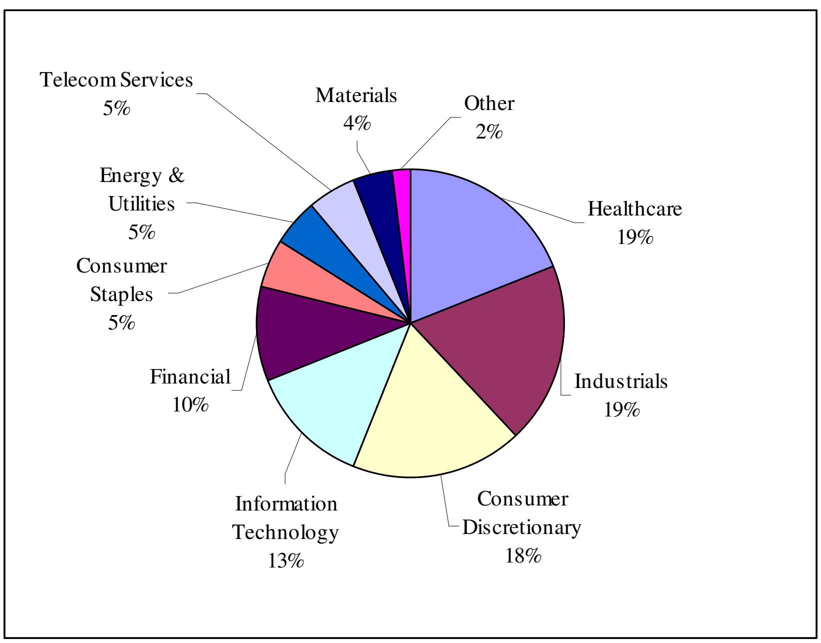


In addition to being diversified at the partnership level by strategy, the Alternative Investments Portfolio is highly diversified at the underlying portfolio company level. The portfolio's current country and industry allocations are presented below.

**PRIM Industry and Geographic Exposure**

**As of June 30, 2009**



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. Due to recent U.S. accounting rule changes (FAS 157) alternative investments are generally valued at fair value. However, because of the inherent uncertainty of the valuation of the portfolio companies, the estimated value may differ significantly from the value that would have used had a ready market for these securities existed.

- *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 a negative 21.03% through June 30, 2009. The Fund's Alternative Investments managers continue to be less active in the year ending June 30, 2009 as a result of the weakening economic environment and the significantly reduced availability of leverage. The Fund's managers called $493.3 million of capital for additional investments which is well behind that of the prior year ($1.2 billion). From a liquidity standpoint, the portfolio generated total distributions of $235.1 million which compares to $778.7 million for the 2008 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 11.79 % as of June 30, 2009, exceeding the S&P 500 index return of negative 2.22% by 1,401 basis points. On a five-year basis, the portfolio exceeded the S&P 500 by 1,925 basis points, 17.01% compared to a negative 2.24%. For the three-year period ending June 30, 2009, the Alternative Investments portfolio returned 7.69%, exceeding the S&P 500 index return of negative 8.22% by 1,591 basis points. For the one year period ending June 30, 2009, the Alternative Investments portfolio returned a negative 21.03%, outperforming the S&P 500 index return of negative 26.21% by 518 basis points. It is important to remember that there is a lagging nature to valuations in private equity. For this reason the June 30, 2009 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, 2009, PRIT has committed over $11.1 billion to 264 partnerships of which $7.8 billion has been invested. The program has generated $7.1 billion in distributions and has a remaining market value of $3.7 billion. The net IRR since inception for the program is 12.4%.

# ALTERNATIVE INVESTMENTS EXTERNAL MANAGERS

## As of June 30, 2009

| | Partnership | Location | | Partnership | Location |
|---|---|---|---|---|---|
| 1 | Advent International | Boston, MA | 47 | Kelso & Company | New York, NY |
| 2 | Alchemy Partners | London, UK | 48 | Kohlberg Kravis Roberts& Co. | New York, NY |
| 3 | Alta Communications | Boston, MA | 49 | Landmark Equity Partners | Simsbury, CT |
| 4 | American Securities | New York, NY | 50 | Lexington Partners | New York, NY |
| 5 | APAX Partners & Co. | London, UK | 51 | Madison Dearborn Capital Partners | Chicago, IL |
| 6 | Apollo Management Co. | New York, NY | 52 | Menlo Ventures | Menlo Park, CA |
| 7 | AustinVentures | Austin , TX | 53 | M/C Venture Partners | Boston, MA |
| 8 | Battery Ventures | Wellesley, MA | 54 | Montagu Private Equity | London, UK |
| 9 | Bain Capital | Boston, MA | 55 | Montreux Equity Partners | Palo Alto, CA |
| 10 | Berkshire Partners, LLC | Boston, MA | 56 | Narragansett Capital, Inc. | Providence, RI |
| 11 | The Blackstone Group | New York, NY | 57 | Nautic Partners | Providence, RI |
| 12 | Boston Ventures | Boston, MA | 58 | New Enterprise Associates | Baltimore, MD |
| 13 | Bridgepoint | London, UK | 59 | Nordic Capital | Stockholm , Sweden |
| 14 | Brown Brothers Harriman & Co. | New York, NY | 60 | Odyssey Investment Partners | New York, NY |
| 15 | Candover | Boston, MA | 61 | Olympus Growth Fund | Stamford, CT |
| 16 | Carlyle Partners | London, UK | 62 | Onex Partners | Toronto, CA/NY, NY |
| 17 | Castile Ventures | Waltham, MA | 63 | PAI Partners | Paris, FR |
| 18 | Centerbridge Capital Partners | New York, NY | 64 | Permira Europe | London, UK |
| 19 | Charles River Ventures | Waltham, MA | 65 | Polaris Venture Partners | Waltham, MA |
| 20 | Charlesbank Capital Partners | Boston, MA | 66 | Providence Equity Partners | Providence, RI |
| 21 | Charterhouse Capital Partners | London, UK | 67 | Quad - C Management, Inc. | Charlottesville, VA |
| 22 | Chequers Capital | Paris, France | 68 | Richland Ventures | Nashville, TN |
| 23 | Code Hennessey & Simmons | Chicago, IL | 69 | SCP Vitalife | Tel Aviv, Israel |
| 24 | Commonwealth Capital Ventures | Wellesley, MA | 70 | Sherbrooke Capital | Newton, MA |
| 25 | CVC Capital (Europe) | London, UK | 71 | Sovereign Capital Limited | London, UK |
| 26 | Cypress Merchant Banking | New York, NY | 72 | Spark Capital | Boston, MA |
| 27 | Denham Capital Management | Boston, MA | 73 | Spectrum Equity Partners | Boston, MA |
| 28 | DLJ Merchant Banking | New York, NY | 74 | Summit Ventures | Boston, MA |
| 29 | El Dorado Ventures | Menlo Park, CA | 75 | TA Associates/Advent | Boston, MA |
| 30 | Equitable Capital Management | New York, NY | 76 | TCV | Menlo Park, CA |
| 31 | Essex Woodlands | Chicago, IL | 77 | Texas Pacific Group | San Fran./Forth Worth |
| 32 | Exponent Partners | London, UK | 78 | Thoma Bravo | Chicago/San Francisco |
| 33 | First Reserve Corporation | Greenwich, CT | 79 | Thomas H. Lee Equity Partners | Boston, MA |
| 34 | Flagship Ventures | Cambridge, MA | 80 | Torquest | Toronto, CA |
| 35 | Forstmann, Little & Co. | New York, NY | 81 | Towerbrook | NewYork/London |
| 36 | Freeman Spogli Equity Partners | Los Angeles, CA | 82 | Trident Capital | Palo Alto, CA |
| 37 | Genstar Capital Partners | San Francisco, CA | 83 | Union Square | New York, NY |
| 38 | The Gores Group | Los Angeles, CA | 84 | VantagePoint Partners | San Bruno, CA |
| 39 | GTCR Golder, Rauner | Chicago, IL | 85 | Venture Capital Fund of NE | Boston, MA |
| 40 | Harborvest Partners | Boston, MA | 86 | Vestar Capital Partners | New York, NY |
| 41 | Hellman & Friedman Capital Partners | Los Angeles, CA | 87 | Vista Equity Partners | San Francisco, CA |
| 42 | H.I.G. Capital | Miami, Fla. | 88 | Welsh CarsonAnderson & Stowe | New York, NY |
| 43 | Highland Capital Partners | Boston, MA | 89 | Weston Presidio Capital | Boston/San Francisco |
| 44 | Insight Venture Partners | New York, NY | 90 | Whitney & Co. | Stamford, CT |
| 45 | InterWest Partners | Menlo Park, CA/Dallas, TX | 91 | William Blair Mezzanine Capital Fund | Chicago, IL |
| 46 | Joseph Littlejohn & Levy | New York, NY | 92 | Willis Stein | Chicago, IL |

**Absolute Return Portfolio**

As of June 30, 2009 the Absolute Return portfolio had approximately $2.1 billion in assets, which represented 5.7% of the PRIT Fund. PRIM has investments in four hedge funds of funds managers. In February 2009, PRIM Board voted to terminate Ivy Asset Management Corp. The Rock Creek Group is managing the liquidation of the Ivy Asset Management liquidation portfolio. PRIM's absolute return managers at June 30, 2009 were as follows:

| Manager | | Portfolio Fair Value at June 30, 2009 ($'000's) |
|---|---|---|
| *Arden Asset Management* | $ | 462,044 |
| *Ivy Asset Management Corp. - Liquidation* | | 246,167 |
| *K2 Advisors* | | 486,693 |
| *PAAMCO* | | 407,390 |
| *The Rock Creek Group* | | 533,352 |
| *Other portfolio net liabilities* | | (12) |
| **Total Portfolio Fair Value June 30, 2009** | **$** | **2,135,634** |

At June 30, 2009 the four remaining Absolute Return managers had investments in 146 underlying hedge funds.

**Portfolio Risks.** The Absolute Rveturn portfolio is subject to the various risks of 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 a negative 14.43% for the fiscal year versus a return of 4.95% for the benchmark of treasury bills plus 4%. The absolute return portfolio has returned a negative 0.29% and 3.30% over the three and five year periods versus the asset class benchmark of 7.25% and 7.17%, respectively. 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** | **-32.06%** | **-11.51%** | **-3.93%** | **-1.47%** |
| *Russell 3000* | *-26.56%* | *-8.25%* | *-1.69%* | *-1.37%* |
| **International Equity** | **-31.74%** | **-7.74%** | **2.67%** | **3.36%** |
| *MSCI EAFE* | *-31.35%* | *-7.90%* | *2.36%* | *1.20%* |
| **Emerging Markets** | **-31.60%** | **-0.80%** | **12.91%** | **8.63%** |
| *MSCI EMF Net Div.* | *-28.07%* | *3.17%* | *14.86%* | *8.91%* |
| **Fixed Income (1)** | **-5.43%** | **4.30%** | **3.98%** | **5.79%** |
| *77% BC Agg/8%BC US TIPS/15% Custom Commodities* | *-4.37%* | *4.66%* | *3.95%* | *5.64%* |
| **High Yield Debt (1)** | **-10.78%** | **1.98%** | **5.36%** | **na** |
| *50% MLHYM/33% JPM EMBI Global/17% S&P LSTA Leveraged Index* | *-1.39%* | *3.51%* | *5.89%* | *na* |
| **Real Estate** | **-23.99%** | **-2.26%** | **8.76%** | **10.10%** |
| *73% NCREIF Property One Qtr. Lag/17% NAREIT Equity REIT/7.25%NAREIT Global REIT/2.75% NAREIT INTL REIT* | *-19.63%* | *-0.13%* | *7.61%* | *8.72%* |
| **Alternative Investments** | **-21.03%** | **7.69%** | **17.01%** | **11.79%** |
| *No Benchmark* | *na* | *na* | *na* | *na* |
| **Timber (2) / Natural Resources** | **-13.85%** | **7.15%** | **10.89%** | **na** |
| *50% NCREIF Timber Index / 42% Lipper Natural Resources Global Fund Index / 8% Actual Natural Resources - Private* | *-21.84%* | *2.61%* | *7.43%* | *na* |
| **Absolute Return (3)** | **-14.43%** | **-0.29%** | **3.30%** | **na** |
| *T-bills plus 4%* | *4.95%* | *7.25%* | *7.17%* | *na* |

| | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|
| **Total PRIT Core** | **-23.91%** | **-3.59%** | **3.25%** | **4.00%** |
| *Policy Benchmark* | *-19.76%* | *-1.64%* | *4.04%* | *3.28%* |
| *TUCS Universe Median* | *-18.76%* | *-2.69%* | *2.36%* | *2.85%* |
| *TUCS Universe Ranking* | *99th* | *82nd* | *25th* | *17th* |

(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, 2009

| | | Fair Value ($000s) | % of Fair Value |
|---|---|---|---|
| Short-term: | | | |
| Money market investments | $ | 835,571 | 2.20% |
| Fixed income: | | | |
| U.S. Government obligations | | 1,145,339 | 3.02% |
| Domestic fixed income | | 5,219,074 | 13.77% |
| International fixed income | | 1,705,128 | 4.50% |
| Distressed debt | | 684,444 | 1.81% |
| Equity: | | | |
| Domestic equity securities | | 5,779,547 | 15.25% |
| International equity securities | | 9,091,630 | 23.98% |
| Real estate | | 4,092,105 | 10.80% |
| Timber | | 1,209,204 | 3.19% |
| Alternative investments: | | | |
| Venture capital | | 861,094 | 2.27% |
| Special equity | | 2,765,888 | 7.30% |
| Hedge Fund-of-Funds investments: | | | |
| Absolute return | | 2,135,647 | 5.63% |
| Portable Alpha | | 2,381,663 | 6.28% |
| **Total investments** | $ | 37,906,334 | 100.00% |

# SUMMARY SCHEDULE OF BROKER COMMISSIONS

(Top 25 Brokers and Cumulative Fees Paid to Others)

## Fiscal Year Ended June 30, 2009

| Brokerage Firms | Fees Paid ($) | % total | Average per share |
|---|---|---|---|
| Credit Suisse | $ 1,093,285 | 8.6% | 0.005 |
| Ridge Clearing & Outsourcing | 1,020,377 | 8.0% | 0.015 |
| Goldman Sachs & Co. | 866,981 | 6.8% | 0.007 |
| UBS | 740,279 | 5.8% | 0.006 |
| Merrill Lynch | 704,552 | 5.5% | 0.006 |
| Morgan Stanley & Co. | 691,715 | 5.4% | 0.006 |
| JP Morgan Securities | 657,027 | 5.1% | 0.005 |
| Deutsche Bank | 552,500 | 4.3% | 0.003 |
| Citigroup Global Markets | 522,552 | 4.1% | 0.006 |
| Instinet Corp | 316,321 | 2.5% | 0.003 |
| Macquarie Bank Ltd. | 208,608 | 1.6% | 0.001 |
| State Street Global | 204,741 | 1.6% | 0.029 |
| BNY Brokerage | 194,584 | 1.5% | 0.017 |
| Nomura International Ltd. | 179,444 | 1.4% | 0.006 |
| Pershing Securities Ltd. | 155,857 | 1.2% | 0.010 |
| Weeden & Company | 149,476 | 1.2% | 0.017 |
| HSBC Bank | 121,748 | 1.0% | 0.006 |
| Jefferies & Co Inc. | 114,251 | 0.9% | 0.013 |
| Credit Lyonnais | 112,907 | 0.9% | 0.003 |
| BNP Paribas Securities | 106,302 | 0.8% | 0.002 |
| Investment Technology Group | 105,534 | 0.8% | 0.012 |
| ING Barings Corp | 102,470 | 0.8% | 0.002 |
| ABN Amro Bank | 100,981 | 0.8% | 0.002 |
| Union Bank | 98,977 | 0.8% | 0.009 |
| Cantor Fitzgerald and Company | 97,859 | 0.8% | 0.005 |
| Others | 3,547,438 | 27.8% | 0.005 |
| **Totals** | $12,766,766 | 100% | 0.008 |

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, 2009 the PRIT Fund earned approximately $551 thousand from the commission recapture program.

## SCHEDULE OF PRIT MANAGEMENT FEES
## Fiscal Year Ended June 30, 2009

| **Investment Management Fees by Asset Class:** | | **2009** ($000s) |
|---|---|---|
| Domestic Equity | $ | 8,053 |
| International Equity | | 18,601 |
| Fixed Income | | 5,313 |
| High Yield Debt | | 3,853 |
| Emerging Markets Equity | | 6,094 |
| Real Estate (1) | | (29,165) |
| Timber / Natural Resources | | 9,671 |
| Alternative Investments | | 3,669 |
| **Total Investment Management Fees** | | 26,089 |
| **Investment Advisory (Consulting) Fees** | | 2,931 |
| **Custodian Fees** | | 3,400 |
| **Other Administrative Fees** | | 5,519 |
| **Total Management Fees charged to PRIT** | $ | 37,939 |

(1) Due to underperformance in fiscal 2009, claw back provisions allowed PRIM to recoup fees expensed in previous fiscal years.

# SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT

**Accounts Opened to Segmentation at June 30, 2009**

| Retirement System | Net Asset Vaules ($000s) 6/30/09 | General Allocation | International Equity | Emerging Markets | Fixed Income | Real Estate | Alternative Investments | Absolute Return |
|---|---|---|---|---|---|---|---|---|
| **Amesbury** | $ 26,896 | X | | | | | | |
| **Andover** | $ 67,423 | X | | | | | | |
| **Arlington** | $ 83,466 | X | | | | | | |
| **Athol** | $ 11,751 | X | | | | | | |
| **Attleboro** | $ 4,003 | | | | | | | X |
| **Barnstable** | $ 423,978 | X | | | | | | |
| **Belmont** | $ 7,049 | X | | | | | X | X |
| **Berkshire** | $ 103,855 | X | | | | | | |
| **Beverly** | $ 56,975 | X | | | | | | |
| **Blue Hills** | $ 4,879 | X | | | | | | |
| **Braintree** | $ 25,793 | X | | | | X | | X |
| **Bristol County** | $ 14,306 | | | | | | | X |
| **Brookline** | $ 17,774 | X | | | | X | | X |
| **Cambridge** | $ 57,096 | | | | | X | | X |
| **Chelsea** | $ 53,651 | X | | | | | | |
| **Chicopee** | $ 16,741 | | | | | X | | X |
| **Clinton** | $ 5,482 | | | | X | X | | X |
| **Concord** | $ 25,350 | X | | | | | X | |
| **Danvers** | $ 12,883 | | X | X | | | | X |
| **Dedham** | $ 66,640 | X | | | | | | |
| **Dukes County** | $ 36,603 | X | X | | X | X | | |
| **Easthampton** | $ 22,496 | X | | | | | | |
| **Essex** | $ 26,393 | | | | | X | | X |
| **Everett** | $ 40,859 | X | | | | | | |
| **Fairhaven** | $ 28,180 | X | | | | | | |
| **Fall River** | $ 149,884 | X | | | | | | |
| **Falmouth** | $ 7,172 | | | | | | | X |
| **Fitchburg** | $ 58,120 | X | | | | | | |
| **Framingham** | $ 148,530 | X | | | | | | |
| **Franklin County** | $ 34,799 | X | | | | | | |
| **Gardner** | $ 30,125 | X | | | | | | |
| **Gloucester** | $ 48,776 | X | | | | | | |
| **Greenfield** | $ 1,813 | | | | | X | X | |
| **Hampden County** | $ 162,617 | X | | | | | | |
| **Hampshire County** | $ 20,872 | | | | | X | X | X |
| **Haverhill** | $ 16,680 | | | X | | | X | X |
| **Hingham** | $ 55,722 | X | | | | | | |
| **Hull** | $ 17,749 | X | | | | | | |
| **Lawrence** | $ 98,426 | X | | | | | | |
| **Leominster** | $ 40,370 | X | | | X | | | X |
| **Lowell** | $ 183,738 | X | | | | | | |
| **Lynn** | $ 133,663 | X | | | | | | |
| **Marblehead** | $ 61,524 | X | | | | | | |
| **Mass Turnpike** | $ 82,270 | X | | | X | | | X |
| **Massport** | $ 25,721 | | | | | X | X | |
| **Maynard** | $ 9,794 | | | X | X | | | |

# SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT, cont.

**Accounts Opened to Segmentation at June 30, 2009**

| Retirement System | Net Asset Values ($000s) 6/30/09 | General Allocation | International Equity | Emerging Markets | Fixed Income | Real Estate | Alternative Investments | Absolute Return |
|---|---|---|---|---|---|---|---|---|
| **Medford** | $ 13,918 | | | | | X | X | X |
| **Melrose** | $ 40,721 | X | | | | | | |
| **Methuen** | $ 51,895 | X | | | | | | |
| **Middlesex** | $ 516,667 | X | | | | | | |
| **Milford** | $ 41,774 | X | | | | | | |
| **Milton** | $ 62,461 | X | | | | | | |
| **Minuteman** | $ 8,733 | X | | | | | | |
| **Montague** | $ 18,086 | X | | | | | | |
| **MWRA** | $ 21,307 | X | | | | | X | X |
| **Natick** | $ 4,765 | | | | | X | | X |
| **Needham** | $ 81,641 | X | | | | | | |
| **New Bedford** | $ 11,347 | | | | | | | X |
| **Newburyport** | $ 35,486 | X | | | | | | |
| **Newton** | $ 182,263 | X | | | | | | |
| **Norfolk** | $ 17,105 | | | | | X | | X |
| **North Adams** | $ 1,442 | | | | | | X | X |
| **Northbridge** | $ 15,816 | X | | | | | | |
| **Northampton** | $ 2,562 | | | | | | X | X |
| **Norwood** | $ 13,435 | | | | | X | | X |
| **Peabody** | $ 80,329 | X | | | | | | |
| **Pittsfield** | $ 62,519 | X | | | | | | |
| **Plymouth** | $ 11,627 | | | | | X | X | X |
| **Quincy** | $ 17,632 | X | | | | | X | X |
| **Reading** | $ 69,329 | X | | | | | | |
| **Revere** | $ 69,722 | X | | | | | | |
| **Salem** | $ 65,773 | X | | | | | | |
| **Saugus** | $ 46,973 | X | | | | | | |
| **Shrewsbury** | $ 24,881 | X | | | | | | |
| **Southbridge** | $ 16,485 | X | | | | | | |
| **Springfield** | $ 185,266 | X | | | | | | |
| **State Employees'** | $ 15,359,799 | X | | | | | | |
| **State Teachers'** | $ 17,226,358 | X | | | | | | |
| **Stoneham** | $ 45,124 | X | | | | | | |
| **Swampscott** | $ 1,392 | | | | | | | X |
| **Wakefield** | $ 67,380 | X | | | | | | |
| **Waltham** | $ 88,665 | X | | | | | | |
| **Watertown** | $ 28,307 | X | | | | | | |
| **Webster** | $ 3,529 | | | | | X | X | X |
| **Wellesley** | $ 95,434 | X | | | | | | |
| **West Springfield** | $ 6,657 | X | | | | | | |
| **Weymouth** | $ 16,952 | | | | | X | | X |
| **Winchester** | $ 17,855 | | | | X | | | X |
| **Winthrop** | $ 27,003 | X | | | | | | |
| **Woburn** | $ 17,531 | | X | X | | | | X |
| **Worcester** | $ 5,103 | | | | | | | X |
| **Worcester Regional** | $ 261,313 | X | | | | | | |
| | $ 37,689,249 | | | | | | | |

# 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 August 2009 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, 2009, which estimated a 62.7% 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 $20^{th}$ 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** | **2009** | **2008** | **2007** | **2006** | **2005** | **2004** | **2003** | **2002** | **2001** | **2000** |
| State Employees contributions | $ 462,471 | $ 464,330 | $ 420,199 | $ 409,515 | $ 366,262 | $ 362,309 | $ 350,705 | $ 352,123 | $ 323,571 | $ 337,897 |
| State teachers contributions | 599,410 | 573,984 | 548,229 | 527,820 | 506,711 | 522,133 | 504,014 | 494,761 | 371,914 | 317,717 |
| Other participants contributions | 991,362 | 2,347,537 | 1,047,285 | 759,088 | 111,557 | 257,892 | 136,712 | 107,566 | 70,869 | 89,382 |
| Net investment income (loss) | (12,492,194) | (1,185,523) | 8,228,782 | 5,466,443 | 4,212,098 | 5,309,069 | 947,540 | (2,021,891) | (2,219,384) | 4,314,803 |
| Total additions to pooled net assets | (10,438,951) | 2,200,328 | 10,244,495 | 7,162,866 | 5,196,628 | 6,451,403 | 1,938,971 | (1,067,441) | (1,453,030) | 5,059,799 |
| **Deductions** | | | | | | | | | | |
| State employees warrants | 242,694 | 239,452 | 227,510 | 218,831 | 211,746 | 207,569 | 186,782 | 165,606 | 168,432 | 252,207 |
| State teachers warrants | 361,773 | 341,575 | 299,612 | 273,209 | 234,729 | 201,490 | 177,051 | 152,138 | 151,911 | 74,429 |
| Participants redemptions | 383,748 | 202,723 | 128,843 | 108,577 | 164,889 | 84,627 | 60,604 | 55,461 | 46,938 | 39,435 |
| State appropriation funding | 1,465,275 | 1,184,774 | 1,100,000 | 939,100 | 888,000 | 1,197,689 | 891,000 | 688,000 | 273,409 | 236,083 |
| Operating expenses | 24,954 | 23,294 | 15,447 | 18,305 | 17,057 | 14,107 | 13,888 | 14,560 | 11,810 | 8,904 |
| Total deductions to pooled net assets | 2,478,444 | 1,991,818 | 1,771,412 | 1,558,022 | 1,516,421 | 1,705,482 | 1,329,325 | 1,075,765 | 652,500 | 611,058 |
| Changes in pooled net assets | $ (12,917,395) | $ 208,510 | $ 8,473,083 | $ 5,604,844 | $ 3,680,207 | $ 4,745,921 | $ 609,646 | $ (2,143,206) | $ (2,105,530) | $ 4,448,741 |

The above table provides additional information regarding changes in pooled net assets from that presented in the Statement of Changes in Pooled Net Assets in the *Financial Section* of the CAFR. Deductions represent redemptions from the PRIT fund by state employees, state teachers and other participant retirement systems. Deductions also include redemptions for state appropriation funding and 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.

# *Financial Highlights and Financial Highlights Ratios*

Pages 89-90 provide the financial highlights of the PRIT Capital Fund for the year ended June 30, 2009. In addition, pages 91-94 provide additional financial highlights ratios for the eight 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 eight fiscal year end periods.

# *Financial Highlights*

## For the year ended June 30, 2009

| | 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 | $ 210.42 | 146.32 | 223.41 | 405.46 | 189.24 | 189.14 | 65.81 | 321.42 | 190.28 | 394.09 |
| Investment operations: | | | | | | | | | | |
| Net investment income (loss)(2) | 4.56 | 1.87 | 5.36 | 5.75 | 9.38 | 18.42 | (0.02) | 0.12 | 0.55 | 4.36 |
| Net realized and unrealized gain (loss) on investments and foreign currency | (55.92) | (48.88) | (76.73) | (135.43) | (19.92) | (40.36) | (9.49) | (74.48) | (36.68) | (94.06) |
| Total from investment operations | (51.36) | (47.01) | (71.37) | (129.68) | (10.54) | (21.94) | (9.51) | (74.36) | (36.13) | (89.70) |
| Net asset value, end of year | $ 159.06 | 99.31 | 152.04 | 275.78 | 178.70 | 167.20 | 56.30 | 247.06 | 154.15 | 304.39 |
| Ratios and supplementary data: | | | | | | | | | | |
| Total net return(3) | (24.41)% | (32.13)% | (31.95)% | (31.98)% | (5.57)% | (11.60)% | (14.45)% | (23.13)% | (18.99)% | (22.76)% |
| Net assets, end of year ($'000s) | $ 37,113,501 | 9,164,719 | 7,146,289 | 1,887,971 | 4,897,346 | 2,883,436 | 2,135,634 | 343,288 | 483,606 | 317,591 |
| Units outstanding, end of year ('000s) | 233,338 | 92,280 | 92,280 | 6,846 | 27,405 | 17,245 | 37,934 | 1,390 | 3,137 | 1,043 |
| Ratios to average net assets: | | | | | | | | | | |
| Ratio of expenses, including indirect management fees | 0.51% | 0.29% | 0.29% | 0.48% | 0.14% | 0.89% | 0.85% | 0.94% | 1.39% | 1.21% |
| Ratio of expenses, excluding indirect management fees | 0.10% | 0.11% | 0.29% | 0.38% | 0.12% | 0.16% | 0.04% | 0.16% | 0.06% | 0.07% |
| Ratio of net investment income (loss) | 2.78% | 1.72% | 3.19% | 2.19% | 4.60% | 5.97% | (0.03)% | 0.04% | 0.31% | 1.18% |

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, 2009

| | 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 | Core Real Estate Account | Noncore Real Estate Account | Natural Resources / Timber Account (5) |
|---|---|---|---|---|---|---|---|---|---|---|
| Net asset value, beginning of year | $ 125.13 | 233.88 | 37.98 | 74.41 | 48.82 | 15.20 | 188.33 | 342.67 | 2,585.26 | 244.96 |
| Investment operations: | | | | | | | | | | |
| Net investment income (loss)(2) | (0.02) | 0.82 | 0.15 | 0.08 | 0.14 | 0.05 | 2.15 | 20.46 | 0.00 | (1.82) |
| Net realized and unrealized gain (loss) on investments and foreign currency | (34.35) | (54.18) | (7.71) | (19.27) | (11.67) | (3.00) | (150.88) | (102.35) | (2,585.26) | (34.52) |
| Total from investment operations | (34.37) | (53.36) | (7.56) | (19.19) | (11.53) | (2.95) | (148.73) | (81.89) | (2,585.26) | (36.34) |
| Net asset value, end of year | $ 90.76 | 180.52 | $ 30.42 | 55.22 | 37.29 | 12.25 | 39.60 | 260.78 | — | 208.62 |
| Ratios and supplementary data: | | | | | | | | | | |
| Total net return(3) | (27.47)% | (22.82)% | (19.91)% | (25.79)% | (23.62)% | (19.41)% | N/A | (23.90)% | (100.00)% | (14.84)% |
| Net assets, end of year ($'000s) | $ 86,586 | 393,043 | $ 318,973 | 629,918 | 708,085 | 285,173 | 62,947 | 4,090,525 | — | 1,776,921 |
| Units outstanding, end of year ('000s) | 954 | 2,177 | 10,485 | 11,408 | 18,991 | 23,279 | 1,590 | 15,686 | — | 8,518 |
| Ratios to average net assets: | | | | | | | | | | |
| Ratio of expenses, including indirect management fees | 1.19% | 0.96% | 1.67% | 1.67% | 2.20% | 7.96% | 23.91% | (0.26)% | N/A | 1.00% |
| Ratio of expenses, excluding indirect management fees | 0.06% | 0.06% | 0.27% | 0.18% | 0.28% | 0.05% | 0.06% | (0.59)% | N/A | 0.60% |
| Ratio of net investment income (loss) | (0.02)% | 0.37% | 0.43% | 0.12% | 0.31% | 0.37% | 4.62% | 5.53% | N/A | (0.90)% |

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 2009 Account had not commenced operations as of June 2009.

(5) In June 2008, the Board approved a 2% Natural Resource allocation to the Timber sleeve which was funded in July 2008.

# *Financial Highlights Ratios*

## For the years ended June 30, 2008-2001

| | 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:** | | | | | | | | | | |
| **2008** | | | | | | | | | | |
| Total net return(2) | (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 ($'000s) | 49,845,944 | 13,180,182 | 10,119,936 | 2,761,180 | 8,510,469 | 2,511,813 | 2,614,238 | 457,054 | 642,580 | 417,740 |
| Units outstanding, end of year ('000s) | 236,891 | 90,077 | 45,297 | 6,810 | 44,973 | 13,280 | 39,723 | 1,422 | 3,377 | 1,060 |
| **2007** | | | | | | | | | | |
| Total net return(2) | 19.53% | 20.60% | 26.15% | 42.26% | 4.78% | 14.73% | 13.82% | 24.53% | 23.15% | 50.18% |
| Net assets, end of year ($'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 ($'000s) | 27,171,701 | 10,662,494 | 4,494,421 | 984,437 | 7,065,345 | 755,508 | N/A | 1,173,413 | 270,656 | 68,394 |
| Units outstanding, end of year ('000s) | 247,298 | 108,492 | 40,853 | 9,222 | 54,563 | 7,862 | N/A | 9,638 | 3,741 | 829,299 |
| **2001** | | | | | | | | | | |
| Total net return(2) | (7.04)% | (10.93)% | (19.31)% | (28.53)% | 9.91% | N/A | N/A | (13.17)% | (15.62)% | (2.30)% |
| Net assets, end of year ($'000s) | 29,290,744 | 12,491,824 | 4,841,730 | 1,008,830 | 7,637,052 | N/A | N/A | 1,519,784 | 199,925 | 19,012 |
| Units outstanding, end of year ('000s) | 241,960 | 106,277 | 40,438 | 9,181 | 63,931 | N/A | N/A | 10,933 | 2,376,463 | 194,593 |
| **Ratios to average net assets:** | | | | | | | | | | |
| **2008** | | | | | | | | | | |
| 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 fee | 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% |
| **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% |

# *Financial Highlights Ratios, cont.*

## For the years ended June 30, 2008-2001

| | General Allocation | Domestic Equity | International Equity | Emerging Markets | Fixed Income | High Yield | Absolute Return | Alternative Investments | Vintage Year 2000 | Vintage Year 2001 |
|---|---|---|---|---|---|---|---|---|---|---|
| **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% |
| **2003** | | | | | | | | | | |
| Ratio of expenses, including indirect management fees | 0.43% | 0.19% | 0.33% | 0.57% | 0.12% | 0.59% | N/A | 1.90% | 5.75% | 6.17% |
| Ratio of expenses, excluding indirect management fee | 0.22% | 0.19% | 0.33% | 0.57% | 0.12% | 0.38% | N/A | 0.18% | 0.29% | 0.56% |
| Ratio of net investment income (loss) | 2.98% | 1.50% | 2.42% | 1.69% | 5.18% | 6.14% | N/A | 0.37% | 0.02% | (0.56)% |
| **2002** | | | | | | | | | | |
| Ratio of expenses, including indirect management fees | 0.43% | 0.24% | 0.51% | 0.31% | 0.11% | 0.52% | N/A | 1.75% | 8.18% | 12.96% |
| Ratio of expenses, excluding indirect management fee | 0.25% | 0.24% | 0.51% | 0.31% | 0.11% | 0.52% | N/A | 0.29% | 0.97% | 0.13% |
| Ratio of net investment income (loss) | 2.88% | 1.10% | 1.49% | 1.29% | 5.87% | 6.63% | N/A | 0.32% | (0.86)% | (0.07)% |
| **2001** | | | | | | | | | | |
| Ratio of expenses, including indirect management fees | 0.38% | 0.19% | 0.56% | 0.30% | 0.16% | N/A | N/A | 1.40% | 8.27% | 4.39% |
| Ratio of expenses, excluding indirect management fee | 0.24% | 0.19% | 0.56% | 0.30% | 0.16% | N/A | N/A | 0.22% | 0.13% | 0.05% |
| Ratio of net investment income (loss) | 2.88% | 0.95% | 1.49% | 0.69% | 6.64% | N/A | N/A | 0.23% | 0.11% | (0.05)% |

# Financial Highlights Ratios, cont.

## For the years ended June 30, 2008-2001

| | Vintage Year 2002 Account | Vintage Year 2003 Account | Vintage Year 2004 Account | Vintage Year 2005 Account | Vintage Year 2006 Account | Vintage Year 2007 Account | Vintage Year 2008 Account | Core Real Estate Account | Noncore Real Estate Account | Timber Account |
|---|---|---|---|---|---|---|---|---|---|---|
| **Ratios and supplementary data:** | | | | | | | | | | |
| **2008** | | | | | | | | | | |
| Total net return(2) | 19.01% | 18.81% | 21.15% | 22.18% | 2.80% | (84.80)% | N/A (4) | 4.41% | N/A | 20.69% |
| Net assets, end of year ($'000s) | 114,619 | 531,381 | 388,181 | 748,612 | 783,796 | 163,835 | 8,038 | 5,520,030 | 2 | 1,065,586 |
| Units outstanding, end of year ('000s) | 916 | 2,272 | 10,222 | 10,060 | 16,056 | 10,778 | 91 | 16,109 | — | 4,350 |
| **2007** | | | | | | | | | | |
| Total net return(2) | 26.70% | 63.10% | 22.32% | 13.02% | (38.73)% | —% (4) | N/A | 15.65% | 318.62% | 14.67% |
| Net assets, end of year ($'000s) | 102,564 | 555,480 | 319,874 | 385,139 | 251,773 | 740 | N/A | 4,316,265 | 2 | 1,598,166 |
| Units outstanding, end of year ('000s) | 976 | 2,822 | 10,204 | 6,325 | 5,301 | 7 | N/A | 13,152 | — | 7,874 |
| **2006** | | | | | | | | | | |
| Total net return(2) | 38.67% | 32.12% | (4.55)% | (32.12)% | (22.49)% (4) | N/A | N/A | 22.70% | 106.43% | 18.52% |
| Net assets, end of year ($'000s) | 79,588 | 351,371 | 143,419 | 106,808 | 3,182 | N/A | N/A | 4,618,446 | 38 | 1,480,574 |
| Units outstanding, end of year ('000s) | 959 | 2,911 | 5,596 | 1,982 | 41 | N/A | N/A | 16,275 | — | 8,365 |
| **2005** | | | | | | | | | | |
| Total net return(2) | (3.28)% | 12.58% | (73.15)% | (20.63)% (4) | N/A | N/A | N/A | 29.33% | (30.98)% | 11.54% |
| Net assets, end of year ($'000s) | 52,257 | 178,524 | 13,401 | 910 | N/A | N/A | N/A | 2,950,852 | 822 | 1,316,382 |
| Units outstanding, end of year ('000s) | 873 | 1,954 | 499 | 11 | N/A | 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 | N/A | 19.15% | 1.84% | 12.15% |
| Net assets, end of year ($'000s) | 13,470 | 46,335 | N/A | N/A | N/A | N/A | N/A | 1,828,679 | 7,635 | 931,432 |
| Units outstanding, end of year ('000s) | 218 | 571,059 | N/A | N/A | N/A | N/A | N/A | 10,226 | 55,325 | 6,957 |
| **2003** | | | | | | | | | | |
| Total net return(2) | (11.71)% | N/A | N/A | N/A | N/A | N/A | N/A | 6.67% | (17.53)% | 14.15% |
| Net assets, end of year ($'000s) | 4,167 | N/A | N/A | N/A | N/A | N/A | 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 | N/A | 9,870 | 60 | 4,236 |
| **2002** | | | | | | | | | | |
| Total net return(2) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 8.87% | 19.19% | 4.58% |
| Net assets, end of year ($'000s) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 1,700,053 | 21,335 | 55,999 |
| Units outstanding, end of year ('000s) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 12,082 | 130 | 535 |
| **2001** | | | | | | | | | | |
| Total net return(2) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 10.63% | 10.37% | N/A |
| Net assets, end of year ($'000s) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 1,618,384 | 32,633 | N/A |
| Units outstanding, end of year ('000s) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 12,522 | 236 | N/A |
| **Ratios to average net assets:** | | | | | | | | | | |
| **2008** | | | | | | | | | | |
| Ratio of expenses, including indirect management fees | 1.13% | 0.58% | 0.97% | 2.07% | 2.37% | 16.71% | —% | 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% | —% | 0.50% | N/A | 2.10% |
| Ratio of net investment income (loss) | 0.15% | 0.32% | 0.62% | 0.14% | —% | (0.11)% | —% | 4.18% | N/A | (1.64)% |
| **2007** | | | | | | | | | | |
| Ratio of expenses, including indirect management fees | 1.55% | 0.94% | 1.49% | 5.20% | 10.88% | —% | N/A | 1.13% | N/A | 0.98% |
| Ratio of expenses, excluding indirect management fees | 0.08% | 0.08% | 0.31% | 0.22% | 1.81% | —% | N/A | 0.80% | N/A | 0.72% |
| Ratio of net investment income (loss) | —% | 4.57% | 0.22% | 3.70% | (1.47)% | —% | N/A | 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 | 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 | 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 | N/A | 3.57% | 2.85% | (0.04)% |
| **2005** | | | | | | | | | | |
| Ratio of expenses, including indirect management fees | 4.28% | 7.39% | 53.44% | 22.43% | N/A | N/A | N/A | 1.58% | 1.79% | 1.50% |
| Ratio of expenses, excluding indirect management fees | 0.09% | 0.09% | 6.95% | —% | N/A | N/A | N/A | 1.10% | 0.03% | 1.26% |
| Ratio of net investment income (loss) | (0.09)% | 0.70% | (6.95)% | —% | N/A | N/A | N/A | 6.49% | 6.46% | 1.29% |

# *Financial Highlights Ratios, cont.*

## For the years ended June 30, 2008-2001

| | 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 |
|---|---|---|---|---|---|---|---|
| **2004** | | | | | | | |
| Ratio of expenses, including indirect management fees | 32.06% | 11.52% | 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 | 0.22% | 0.03% | 0.36% |
| Ratio of net investment income (loss) | (0.10)% | (0.26)% | N/A | N/A | 7.69% | 5.61% | 0.95% |
| **2003** | | | | | | | |
| Ratio of expenses, including indirect management fees | 14.44% | N/A | N/A | N/A | 0.55% | 1.10% | 1.81% |
| Ratio of expenses, excluding indirect management fees | 0.12% | N/A | N/A | N/A | 0.04% | 0.09% | 1.53% |
| Ratio of net investment income (loss) | (14.43)% | N/A | N/A | N/A | 7.79% | (7.24)% | 2.45% |
| **2002** | | | | | | | |
| Ratio of expenses, including indirect management fees | N/A | N/A | N/A | N/A | 0.43% | 0.93% | 0.24% (4) |
| Ratio of expenses, excluding indirect management fees | N/A | N/A | N/A | N/A | (0.03)% | 0.03% | 0.01% (4) |
| Ratio of net investment income (loss) | N/A | N/A | N/A | N/A | 7.85% | 3.55% | 0.25% (4) |
| **2001** | | | | | | | |
| Ratio of expenses, including indirect management fees | N/A | N/A | N/A | N/A | 0.75% | 1.00% | N/A |
| Ratio of expenses, excluding indirect management fees | N/A | N/A | N/A | N/A | 0.24% | 0.02% | N/A |
| Ratio of net investment income (loss) | N/A | N/A | N/A | N/A | 7.87% | 6.64% | 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.

(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 change in assets during this time period. This table should be read in conjunction with the discussion on asset allocation in the *Investment Section* of this CAFR.

| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Domestic Equity | 24.4% | 26.1% | 29.9% | 27.5% | 32.6% | 39.0% | 42.1% | 39.1% | 42.6% | 44.1% |
| International Equity | 19.0% | 20.0% | 21.0% | 19.8% | 15.6% | 16.3% | 16.7% | 16.5% | 16.5% | 15.4% |
| Emerging Markets | 5.0% | 5.5% | 5.5% | 5.9% | 5.7% | 5.5% | 3.8% | 3.7% | 3.4% | 4.5% |
| Fixed Income | 13.0% | 16.8% | 15.4% | 15.4% | 16.2% | 18.0% | 21.0% | 25.8% | 23.7% | 24.8% |
| High Yield Debt | 7.7% | 5.0% | 4.6% | 5.3% | 7.5% | 7.0% | 3.5% | 2.9% | 2.3% | 0.0% |
| Alternative Investments | 9.6% | 8.4% | 6.7% | 6.5% | 6.0% | 5.7% | 5.7% | 5.5% | 5.9% | 6.1% |
| Real Estate | 10.9% | 10.9% | 8.6% | 11.0% | 8.1% | 5.6% | 5.4% | 6.3% | 5.6% | 5.1% |
| Timber / Natural Resources | 4.7% | 2.1% | 3.2% | 3.5% | 3.6% | 2.9% | 1.8% | 0.2% | 0.0% | 0.0% |
| Absolute Return | 5.7% | 5.2% | 5.1% | 5.1% | 4.8% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |