PENSION RESERVES INVESTMENT TRUST FUND

(A Component Unit of the Commonwealth of Massachusetts)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2010

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 G. Trotsky, CFA, Executive Director

December 7, 2010

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, 2010. The document that follows is the sixth CAFR to be produced in the 26-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 hope that you will find PRIT's CAFR to be useful in understanding the performance and financial position of the Fund at June 30, 2010.

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 2010 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 letter of transmittal, the Certificate of Achievement for Excellence in Financial Report 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 PRIM Board has implemented a system of internal controls designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatements, that all assets will be properly safeguarded, and that transactions will be properly executed. The MD&A immediately follows the independent auditor's report and provides an overview of PRIT's financial statements and the financial results of the PRIT Fund. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the PRIT Fund

The PRIT Fund is a pooled investment trust established to invest the assets of the Massachusetts State Teachers' and Employees' Retirement Systems, as well as the assets of county, authority, district, and municipal retirement systems. As of June 30, 2010, the PRIT Fund had approximately $41.3 billion in net assets. The most recent Public Employee Retirement Administration Commission (PERAC) valuation report, dated January 1, 2010, calculated the Commonwealth of Massachusetts' unfunded actuarial liability at approximately $20 billion. The liability is 67.5% funded using a target date of 2025.

The PRIM Board and staff seek 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. 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 Systems are mandated by statute to invest all of their assets in the PRIT Fund while other retirement systems may invest all or part of their assets in the PRIT Fund. Chapter 84 of the Acts of 1996 explicitly confirmed retirement boards' authority to invest in individual asset classes of the PRIT Fund through the program called *"Segmentation"*. Segmentation provides local retirement boards with the flexibility to choose specific PRIT Fund investment options to best suit their needs. See Note 1 of the financial statements for more information on the profile and background of the PRIT Fund.

Investment Results

The PRIT Fund's Investment Policy Statement establishes investment objectives and policies designed to provide a framework for implementing investment strategy and oversight. A summary of the Investment Policy Statement is included in the Investment Section. The PRIM Board utilizes a custodian bank to safeguard investment holdings and to ensure the proper settlement and recording of investment and cash transactions.

As Executive Director, 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 Trust Universe Comparison Service "TUCS" universe). I am pleased to report that PRIM was able to outperform two of those benchmarks, and while the TUCS ranking is in the median return range because of a challenging 2008, the PRIT Fund is beginning to, once again, rise through the ranks of performance. The PRIT Fund's return for the fiscal year ended 2010 was 12.82%, exceeding the actuarial rate of return assumption of 8.25% by 4.57% (457 basis points) and the policy benchmark return of 9.77% by 3.05% (305 basis points). The PRIT Fund ranked in the 55th percentile of the TUCS report for the period ended June 30, 2010, a significant improvement over the last fiscal year end following the 2008 global financial crisis. Fiscal year 2010 saw a return of strong, double digit performance for the PRIT Fund. The rebound in global equities that began in March of 2009, contributed significantly to the PRIT Fund's gains throughout most of the fiscal year, and diversification buffered the PRIT Fund from volatility when the global equities retreated in the spring due to fallout from the Greek debt crisis. Exposure to hedge funds, private equity, real estate, and value-added fixed income not only added alpha (increased return), but protected the PRIT Fund. Fiscal year 2010 was a period in which we saw a return to the benefits of diversification, a departure from the previous year when correlations between asset classes were high.

Because PRIM is a disciplined, long-term investor governed by a written investment policy statement, we were amply rewarded in fiscal year 2010 by remaining steadfast to our guiding principles. However, we did take away some important lessons from the global financial crisis. After careful consideration the PRIM Board made some strategic and tactical decisions, described below, that will protect the PRIT Fund in turbulent markets while simultaneously allowing us to take advantage of investment opportunities when they arise.

Major Initiatives and Achievements

Investments

Perhaps the single most important initiative undertaken by the PRIM Board in fiscal year 2010 was the adoption of a more streamlined asset allocation plan. After consultation with staff and with the general fund consultant, the Board made several strategic and tactical decisions: (1) the adoption of a global approach to equity investing, (2) a reduction in the number of total investment managers, (3) the elimination of the Portable Alpha program, (4) the consolidation of the Hedge Fund program from eleven managers to five, (5) the reclassification of the fixed income components into one conservative "Core" portfolio and one return-seeking "Value Added" portfolio, and (6) within Value Added Fixed Income a tactical allocation to certain credit opportunities, such as distressed debt and bank loans. As part of this process, the Board eliminated nearly all active management in the Domestic Equity portfolio and increased passive management in both the developed International Equity and Emerging Markets Equity portfolios.

Procurements

The PRIM Board conducted several open competitive searches during fiscal year 2010. Requests for Proposals (RFPs) were issued for Economically Targeted Investment (ETI) opportunities, real estate appraisal services, proxy services, world ex-US equity index investment services, emerging markets equity index investment services, private equity consulting services, and core separate account real estate audit and tax services. Each of these searches yielded positive results.

Staffing

Over the past year there were several staff departures including the Executive Director, the Director of Information Technology, and an Investment Analyst. I would like to thank PRIM's Chief Operating Officer and Chief Financial Officer, Karen Gershman, for her steady hand in guiding PRIM until my appointment on August 18, 2010. During the past three months we have filled three vacant positions in addition to the Executive Director. We have added an Investment Analyst, Ken Anadu, in the public markets group, a new Chief Technology Officer, David Landy, and a new Executive Assistant, Samantha Wong. Today, PRIM is staffed with 25 full-time, dedicated and hard-working professionals.

Technology

We completed enhancements to our Private Equity systems and process with our technology consultant, PA Consulting Group. The results of this project culminated in workflow automation and electronic transmissions for our Private Equity capital call approval process that is integrated with our new participant cash statement automation system, our fee calculation and reporting systems, and our Portal document management system. This provides an end-to-end streamlining of our capital call and Private Equity distribution process, reducing workloads and risk. I am proud to report that the project was completed on time and on budget. Looking forward, we will begin planned projects to refresh our external website with an enhanced look and usability, to increase our disaster recovery and business continuity capability, to increase our security with the mandatory use of secure key fobs, and to automate more executive-level reports. In order to provide PRIM clients with wider access to their monthly PRIT reports, BNY Mellon, PRIM's custodian bank, customized its web-based product called Workbench, thereby allowing PRIM's clients to view their monthly reports via the Internet.

Legislative Matters

We continue to closely monitor legislative matters, and during fiscal 2010 some noteworthy legislation was enacted. Chapter 61 of the Acts of 2009 transferred county sheriffs in Barnstable, Bristol, Dukes, Norfolk, Plymouth, and Suffolk Counties to the Commonwealth. The implementation of this statute has been ongoing throughout the fiscal year, as the sheriffs' annuity funds are received by the State Employees' Retirement System from those counties. Chapter 112 of the Acts of 2010, a fiscal 2010 supplemental budget bill, separated the assets of the State-Boston Retirement System (SBRS) into two categories: "SBRS/Teachers" and "SBRS All Other". The statute requires the SBRS/Teachers assets be invested in the PRIT Fund. As fiscal year 2010 drew to a close, two major pieces of legislation were approved by the legislature and subsequently approved by the governor: Chapter 232 of the Acts of 2010, which requires PRIM to divest from certain companies that invest in the Republic of Iran, and Chapter 240 of the Acts of 2010, the economic development reorganization Act, which amends PRIM's enabling statute by requiring PRIM to establish guidelines for investing in Massachusetts-based small businesses, and require the PRIM Board to invest between $25 million to $50 million in banks or financial institutions that would make loans to small businesses in the Commonwealth, as long as such investment is consistent with sound investment policy. Both of these statutes are in the process of being implemented by the PRIM Board and staff.

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, 2009. This was the fifth 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 acknowledge the past service of Paul Cesan, the governor's public safety union appointee to the PRIM Board, whose term expired in June, and I would like to welcome Dana Pullman who succeeded

Paul on the Board. We also had two "retirements" from our Investment Committee this past fiscal year, Jerrold Mitchell and Peter Brooke; their wisdom and counsel will be missed. Maureen Roche, a long-serving PRIM employee who held the position of Executive Assistant, retired in October 2010 and I would like to thank Maureen for her many years of service to PRIM and the Commonwealth. And I would especially like to thank the outgoing Chairman of the PRIM Board, State Treasurer and Receiver-General Timothy P. Cahill, for his unwavering leadership over the past eight years. I would like to commend the PRIM Board and Staff for a job well done in fiscal year 2010, and we will continue to do the best job possible in order to achieve our core mission to reduce the Commonwealth's unfunded pension liability through sound, principled, and prudent investing.

Very Respectfully,

Michael G. Trotsky, CFA

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, 2009

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

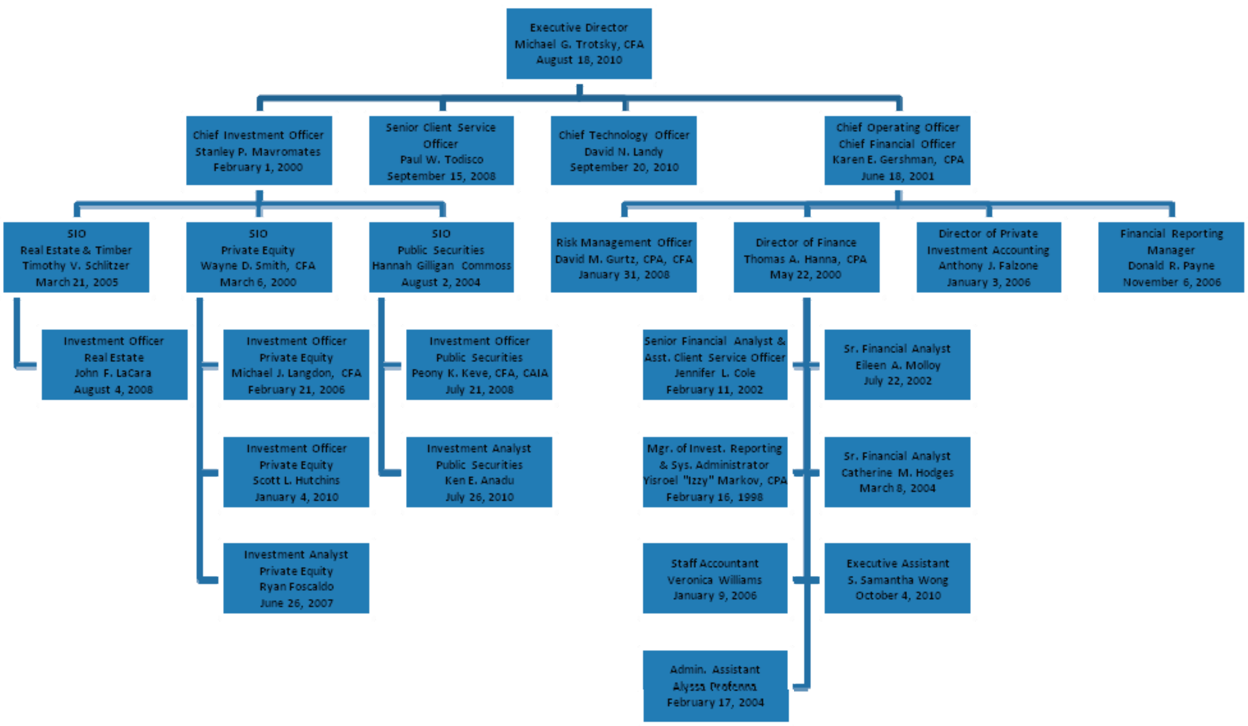
(9 Appointed and Elected Trustees)

Treasurer Timothy Cahill – Chair

Alexander E. Aikens, III	Theresa McGoldrick
C. LaRoy Brantley	John "Jay" Dow
Robert Brousseau	Greg Mennis
Dana Pullman	Paul E. Shanley

Investment, Audit/Administration & Real Estate Committees

25 PRIM Professional Staff



<u>PRIT Fund as of 6/30/2010- $41.3 Billion</u>

17 Public Securities Managers Investing 25 Portfolios

12 Managers in Real Estate, Timber, Natural Resources & REITs

8 Economically Targeted Investment Managers

98 Managers in 200+ Private Equity Partnerships

5 Hedge Fund of Funds Managers

General / Hedge Fund, Private Equity and Real Estate / Timber Consultants

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

PRIM Board Trustees

PRIM Board Consultants

Hewitt EnnisKnupp
General Consultant and Hedge Fund Consultant Services

Callan Associates Inc.
Real Estate and Timber Consultant Services

Hamilton Lane
Private Equity Consultant Services

Advisory Committees to the PRIM Board

Investment Committee

Timothy P. Cahill
Ex Officio Board Member
C. LaRoy Brantley
Board Member
Paul E. Shanley
Board Member
Glenn P. Strehle
Treasurer Emeritus at MIT

Real Estate Committee

Alexander E. Aikens III, Chair
Chair and Board Member
Timothy P. Cahill
Ex Officio Board Member
John "Jay" Dow
Board Member
Gar Morse
Morris and Morse Company, Inc.
Dr. Jack Lutz
Forest Research Group
Peter O' Connell
Marina Bay Company
William F. McCall, Jr.
McCall & Almy, Inc.

Administration & Audit Committee
Robert Brousseau, Chair
Chair and Board Member
Timothy P. Cahill
Ex Officio Board Member
Theresa McGoldrick
Board Member
Theodore C. Alexiades
Finance Director & Chair, Hingham Retirement Board
Patrick Brock
Chairman, Hampshire County Retirement Board
Robert Foy
Retired City Auditor, City of Quincy

Financial Section

KPMG

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Boston, MA 02111

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Fax +1 617 507 8321
Internet www.us.kpmg.com

Independent Auditors' Report

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

We have audited the accompanying statements of pooled net assets of the Pension Reserves Investment Trust Fund (PRIT), a component unit of the Commonwealth of Massachusetts, as of June 30, 2010 and 2009, and the related statements of changes in pooled net assets for the years then ended. These financial statements are the responsibility of PRIT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the pooled net assets of PRIT as of June 30, 2010 and 2009, and the changes in its pooled net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 12, 2010, 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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supporting schedules, introductory, investment, and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The supporting schedules presented on pages 42 to 43 have been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory, investment, and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

KPMG LLP

October 12, 2010

Management's Discussion and Analysis

June 30, 2010 and 2009

This section presents management's discussion and analysis of PRIT's financial performance for the fiscal years ended June 30, 2010 and 2009 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, 2010 and 2009 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 42 and 43 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 2010

- The net assets of PRIT increased approximately $3.6 billion during the year ended June 30, 2010. Total net assets were approximately $41.3 billion at June 30, 2010, compared to $37.7 billion at June 30, 2009.
- Net investment income for fiscal year 2010 was approximately $4.7 billion, compared to net investment loss of $12.5 billion for the prior fiscal year. The increase was due to positive investment performance in fiscal year 2010 compared to negative returns in fiscal year 2009. PRIT returned 12.82% in fiscal year 2010, compared to a negative 23.87% in fiscal year 2009.
- Contributions to PRIT totaled approximately $1.7 billion during fiscal year 2010, compared to $2.1 billion in 2009. Other participant contributions decreased by approximately $370 million in the fiscal year 2010.
- Redemptions from PRIT totaled approximately $2.8 billion during the year ended June 30, 2010, compared to approximately $2.5 billion during the year ended June 30, 2009.

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.

Management's Discussion and Analysis

June 30, 2010 and 2009

- 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.

Condensed Financial Information

Summary balances and activities of PRIT as of and for the years ended June 30, 2010, 2009, and 2008 are presented below.

		June 30	
	2010	**2009**	**2008**
		(Amounts in thousands)	
Summary of pooled net assets:			
Assets:			
Investments	$ 41,007,605	37,499,947	50,798,518
Cash	179,650	118,468	125,670
Receivables and other assets	122,545	405,245	435,856
Total assets	41,309,800	38,023,660	51,360,044
Liabilities:			
Management fees payable to PRIM	14,606	16,942	103,826
Other liabilities	10,884	317,469	649,574
Total liabilities	25,490	334,411	753,400
Net assets held in trust for pool participants	$ 41,284,310	37,689,249	50,606,644

Management's Discussion and Analysis

June 30, 2010 and 2009

		June 30		
		2010	2009	2008
			(Amounts in thousands)	
Summary of changes in pooled net assets:				
Additions:				
Contributions	$	1,689,603	2,053,243	3,385,851
Net investment income (loss)		4,676,706	(12,492,194)	(1,185,523)
Total additions		6,366,309	(10,438,951)	2,200,328
Deductions:				
Redemptions		2,771,248	2,478,444	1,991,818
Change in pooled net assets		3,595,061	(12,917,395)	208,510
Net assets held in trust for pool participants:				
Balance, beginning of year		37,689,249	50,606,644	50,398,134
Balance, end of year	$	41,284,310	37,689,249	50,606,644

PRIT Performance during the Year Ended June 30, 2010

PRIT began fiscal year 2010 with net assets of $37.7 billion and ended the fiscal year with net assets of $41.3 billion, representing a 9.5% increase. The increase was due to investment performance. Net investment income for the year ended June 30, 2010 was approximately $4.7 billion. Net participant redemptions (contributions less redemptions) of $1.1 billion, along with net investment income of $4.7 billion caused the overall increase in net assets of $3.6 billion.

For the year ended June 30, 2010, PRIT returned 12.82%, exceeding the policy benchmark of 9.77% by 305 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 Timber / Natural Resources, had positive performance during the year ended June 30, 2010. The asset classes of PRIT and related investment returns for the year ended June 30, 2010 are as follows: Domestic Equity 14.59%; International Equity 9.74%; Emerging Markets 24.01%; Core Fixed Income 11.74%; Value-Added Fixed Income 32.75%; Private Equity 17.84%; Real Estate 2.89%, Timber/Natural Resources – 5.35% and Hedge Funds 7.13%.

As of June 30, 2010, PRIT has outperformed its benchmark in the current year, rebounding from the underperforming three and five-year periods, while continuing to outperform its benchmarks longer term and has returned an average of 9.36% 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 third of pension plans with net assets in excess of $1 billion over the ten-year period ended June 30, 2010.

Management's Discussion and Analysis

June 30, 2010 and 2009

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%; Core Fixed Income – 5.43%; Value-Added Fixed Income – 10.78%; Private Equity – 21.03%; Real Estate – 23.99%, Timber/Natural Resources – 13.85% and Hedge Funds – 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.

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, 2010 and 2009

(Amounts in thousands)

		2010	2009
Assets:			
Investments, at fair value:			
Short-term	$	680,084	835,571
Fixed income		9,493,436	8,347,598
Equity		17,621,884	14,827,426
Real estate		3,769,358	4,092,105
Timber		1,002,875	1,209,204
Private equity		4,525,250	3,670,733
Hedge fund-of-funds		3,914,718	4,517,310
Total investments		41,007,605	37,499,947
Cash		179,650	118,468
Interest and dividends receivable		106,589	95,143
Receivable for investments sold		1,846	267,035
Unrealized gains on foreign currency exchange contracts		14,103	6,350
Other receivables		7	36,717
Total assets		41,309,800	38,023,660
Liabilities:			
Payable for investments purchased		7,094	308,877
Unrealized losses on foreign currency exchange contracts		3,790	8,592
Management fees payable to PRIM		14,606	16,942
Total liabilities		25,490	334,411
Net assets held in trust for pool participants	$	41,284,310	37,689,249

See accompanying notes to financial statements.

Statements of Changes in Pooled Net Assets

Fiscal years ended June 30, 2010 and 2009

(Amounts in thousands)

		2010	2009
Additions:			
Contributions:			
State employees	$	475,591	462,471
State teachers		593,147	599,410
Other participants		620,865	991,362
Total contributions		1,689,603	2,053,243
Net investment income:			
From investment activities:			
Net realized gain (loss) on investments and foreign currency transactions		1,153,911	(5,871,123)
Net change in unrealized appreciation (depreciation) on investments and foreign currency translations		2,533,232	(7,732,314)
Interest income, net		316,768	382,268
Dividend income, net		469,125	519,922
Real estate income, net		202,239	232,920
Timber income (loss), net		4,865	(10,896)
Private equity income, net		58,129	24,968
		4,738,269	(12,454,255)
Management fees		(61,563)	(37,939)
Total net investment income (loss)		4,676,706	(12,492,194)
Total additions		6,366,309	(10,438,951)
Deductions:			
Redemptions:			
State employees		1,006,950	945,186
State teachers		1,399,650	1,149,510
Other participants		364,648	383,748
Total deductions		2,771,248	2,478,444
Net increase (decrease) in pooled net assets		3,595,061	(12,917,395)
Net assets held in trust for pool participants:			
Balance, beginning of year		37,689,249	50,606,644
Balance, end of year	$	41,284,310	37,689,249

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2010 and 2009

(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

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made no such appropriation to PRIT on behalf of Participating Systems since fiscal year 2000. 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, 2010, there were 39 Participating Systems (including the State Teachers' and State Employees' Retirement Systems) and 53 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, 20 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, 2010: General Allocation (holds units of all other accounts); Domestic Equity; Core Fixed Income; Value-Added Fixed Income; International Equity; Emerging Markets; Core Real Estate; Timber / Natural Resources; Hedge Funds; Private Equity Investments; and Private Equity Investments Vintage Years 2000 – 2010. (Vintage Year refers to the fiscal year in which PRIT made a commitment to invest in an private equity 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

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of the Capital Fund. The number of units generally changes only when a retirement system makes a contribution or redemption.

Chapter 84 of the Acts of 1996 permits Massachusetts retirement boards' to purchase units in the individual investment accounts of PRIT as an alternative to investing in its General Allocation Account. This investment option, also referred to as "segmentation," was established by an amendment to the PRIM Board's Operating Trust Agreement in 1994 in response to requests from retirement boards wishing to invest in certain asset classes of PRIT. Purchasing Systems, as "segmented investors," may invest in one or more of the following accounts of the Capital Fund: Domestic Equity, International Equity, Emerging Markets, Core Fixed Income, Core Real Estate, Hedge Funds, and Private Equity "Vintage Year" accounts. At June 30, 2010 and 2009, there were 37 and 40 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, hedge funds, bank loans, natural resources, private equity and, where appropriate, the various subasset classes of each. Statutes prohibit PRIT from investing in certain securities. The PRIM Board ensures that investment managers adhere to the requirements of Massachusetts General Laws, concerning certain investments relating to South Africa, Northern Ireland, Sudan, tobacco, and tobacco-related products.

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

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

Investments in fixed income, money market funds, other short-term investments, and United States (U.S.) government agency obligations are valued by an independent pricing service. In determining the price, the service reflects such factors as security prices, yields, maturities, and ratings, supplemented by dealer quotations. Investments in equity securities traded on national securities exchanges are valued at the last daily sale price or, if no sale price is available, at the closing bid price. Securities traded on any other exchange are valued in the same manner or, if not so traded, on the basis of closing over-the-counter bid prices. If no bid price exists, valuation is determined by the custodian bank either by establishing the mean between the most recent published bid and asked prices or averaging quotations obtained from dealers, brokers, or investment bankers. Securities for which such valuations are unavailable are reported at their fair value as estimated in good faith by PRIM based on information provided by the investment managers responsible for such investments. Investments in pooled investment vehicles (commingled funds) are fair valued based on the commingled fund's net asset value.

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 5). 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. 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

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investment managers and is based on the value of PRIT's ownership in the underlying hedge fund investments.

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

(c) Investment Income

Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned. For the years ended June 30, 2010 and 2009, foreign taxes withheld of $19,095 and $19,676, respectively, have been netted against dividend income in the statements of changes in pooled net assets. Real estate income includes 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. Private Equity investment income is recorded on the cash distribution basis.

(d) 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.

(e) Derivative Instruments

During fiscal 2010, PRIT adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting of Derivative Instruments*. In accordance with the standard, PRIT has recorded all of its derivative activity at fair value as investment instruments and the related change in such instruments within the net change in unrealized appreciation (depreciation) on investments and foreign currency translations in the accompanying financial statements.

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The adoption of GASB Statement No. 53 resulted in enhanced disclosure and certain reclassifications of amounts previously reported on the statement of pooled net assets. It had no effect on net assets held in trust for pool participants as all current year and prior year derivative instruments have been classified as investment derivatives.

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 6 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.

(f) When-Issued Securities Transactions

PRIT may purchase or sell securities on a "when-issued" or delayed-delivery basis. For these investment derivative instruments, 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. 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. As of June 30, 2010 and 2009, the notional amount of securities sold on a when-issued basis was $668,602 and $517,704, respectively, and the notional amount of securities purchased on a when-issued basis was $864,937 and $924,091, respectively. As of June 30, 2010 and 2009, the fair value of these when-issued securities was $11,774 and $(37,442), respectively, and the change in fair value was $49,216 and $(14,453), respectively.

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 notional amount and related changes in fair value associated with mortgage dollar-rolls and reverse mortgage dollar-rolls are also accounted for as investment derivatives.

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(3) Investments

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

		June 30 2010	June 30 2009
Short-term:			
Money market investments	$	680,084	835,571
Fixed income:			
U.S. government obligations (1)		1,938,458	1,145,339
Domestic fixed income (2)		4,623,511	4,812,687
International fixed income (3)		1,695,717	1,705,128
Distressed debt		1,235,750	684,444
		9,493,436	8,347,598
Equity:			
Domestic equity securities		7,110,625	5,735,796
International equity securities		10,511,259	9,091,630
		17,621,884	14,827,426
Real estate		3,769,358	4,092,105
Timber		1,002,875	1,209,204
Private equity:			
Venture capital		863,851	861,094
Special equity		3,661,399	2,809,639
		4,525,250	3,670,733
Hedge Fund-of-Funds investments:			
Hedge Funds		3,153,578	2,135,647
Portable Alpha		761,140	2,381,663
		3,914,718	4,517,310
Total investments	$	41,007,605	37,499,947

(1) Fiscal 2010 rates range from 0% to 11.50%, and maturities range from 2010 to 2040. Fiscal 2009 rates range from 0% to 11.25%, and maturities range from 2009 to 2039.

(2) Fiscal 2010 rates range from 0% to 15.00%, and maturities range from 2010 to 2067. Fiscal 2009 rates range from 0% to 13.13%, and maturities range from 2009 to 2068.

(3) Fiscal 2010 rates range from 0% to 11.63%, and maturities range from 2010 to 2055. Fiscal 2009 rates range from 0% to 11.63%, and maturities range from 2009 to 2055.

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(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, 2010 and 2009, all but $250 of PRIT's $179,650 and $118,468 cash balances, respectively, were uninsured and uncollateralized and therefore exposed to custodial credit risk.

(b) Interest Rate Risk

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

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The following table shows the debt investments by investment type, fair value and effective weighted duration rate at June 30.

	2010		2009	
Investment	**Fair value**	**Effective weighted duration rate**	**Fair value**	**Effective weighted duration rate**
		(Amounts expressed in years)		(Amounts expressed in years)
Asset backed securities	$ 338,905	0.43	$ 315,679	2.19
Commercial mortgage backed securities	364,517	3.38	431,994	2.89
Commercial paper and CDs	2,399	1.58	700	0.25
Corporate bonds and other credits	2,658,785	4.51	2,448,757	4.65
U.S. government bonds	1,221,837	5.67	432,758	5.14
U.S. government agencies	128,255	3.85	250,689	5.52
U.S. government TIPS	792,901	5.28	712,581	4.03
U.S. government mortgage backed securities	1,330,109	1.44	1,354,106	2.17
Global Inflation Linked Bonds	225,367	6.36	204,214	5.44
Municipal bonds	84,190	11.60	37,923	8.58
Pooled money market fund	680,084	0.08	835,571	0.08
Other pooled funds	2,346,171	N.A.	2,158,197	N.A.
Total fixed income and short-term investments	$ 10,173,520		$ 9,183,169	

(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.

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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 6 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, 2010 (AA – at June 30, 2009). The following presents the PRIT Fund's fixed-income securities credit ratings at June 30:

		2010					
		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	$ 338,905	277,312	22,796	37,164	436	1,163	34
Commercial mortgage backed securities	364,517	203,932	104,972	51,205	1,715	2,693	—
Commercial paper and CDs	2,399	—	2,399	—	—	—	—
Corporate bonds and other credits	2,658,785	362,957	878,592	702,868	433,098	168,693	112,577
U.S. government agencies	128,255	114,433	13,822	—	—	—	—
U.S. government mortgage backed securities	1,255,102	1,046,993	—	—	—	—	208,109
Global inflation linked bonds	225,367	125,802	97,323	—	2,242	—	—
Municipal bonds	84,190	578	68,548	15,064	—	—	—
Pooled money market fund	680,084	—	—	—	—	—	680,084
Other pooled funds	2,346,171	—	—	—	—	—	2,346,171
Total credit risk, fixed income and short-term investments	8,083,775	$ 2,132,007	1,188,452	806,301	437,491	172,549	3,346,975
Fixed income investments explicitly backed by the U.S. government	2,089,745						
Total fixed income and short-term investment	$ 10,173,520						

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		2009					
		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	$ 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	1,277,347	1,260,489	—	—	—	—	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	—	—	—	—	—	835,571
Other pooled funds	2,158,197	—	—	—	—	—	2,158,197
Total credit risk, fixed income and short-term investments	7,961,071	$ 2,568,688	984,999	610,586	491,543	186,033	3,119,222
Fixed income investments explicitly backed by the U.S. government	1,222,098						
Total fixed income and short-term investments	$ 9,183,169						

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(a) 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:

	2010				
	Cash and short-term investments	**Equity**	**Fixed income**	**Private equity investments**	**Total**
Australian Dollar	$ 4,679	503,078	7,154	—	514,911
Brazilian Real	4,483	107,941	19,407	—	131,831
British Pound	29,411	1,675,944	157,315	—	1,862,670
Canadian Dollar	4,588	426,449	13,349	—	444,386
Danish Kroner	916	210,010	—	—	210,926
Euro	13,789	1,921,684	181,732	—	2,117,205
Hong Kong Dollar	9,397	589,711	—	—	599,108
Indian Rupee	1,958	85,174	—	—	87,132
Indonesian Rupiah	406	58,300	5,708	—	64,414
Japanese Yen	11,383	1,922,185	34,594	—	1,968,162
Mexican Peso	910	68,706	13,416	—	83,032
New Taiwan Dollar	552	152,413	—	—	152,965
New Turkish Lira	173	78,188	—	—	78,361
Norwegian Krone	2,853	66,573	—	—	69,426
S. African Comm Rand	144	91,947	—	—	92,091
Singapore Dollar	1,981	161,740	—	—	163,721
South Korean Won	2,536	317,673	2,240	—	322,449
Swedish Krona	4,169	266,271	12,161	—	282,601
Swiss Franc	13,668	555,322	—	—	568,990
Thailand Baht	206	64,880		—	65,086
Other foreign currencies	3,208	209,830	4,623	—	217,661
Private equity denominated in various foreign currencies	—	—	—	1,992,992	1,992,992
Total securities subject to foreign currency risk	111,410	9,534,019	451,699	1,992,992	12,090,120
International investments denominated in United States Dollars	—	977,240	1,244,018	—	2,221,258
Total international investments and cash deposits	$ 111,410	10,511,259	1,695,717	1,992,992	14,311,378

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	2009				
	Cash and short-term investments	**Equity**	**Fixed income**	**Private equity 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
Private equity denominated in various foreign currencies	—	—	—	618,744	618,744
Total securities subject to foreign currency risk	110,613	8,050,351	405,027	618,744	9,184,735
International investments denominated in United States Dollars	—	1,041,279	1,300,101	—	2,341,380
Total international investments and cash deposits	$ 110,613	9,091,630	1,705,128	618,744	11,526,115

(b) 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, 2010 and 2009, respectively.

Notes to Financial Statements

June 30, 2010 and 2009

(5) 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, 2010 and 2009, PRIT owned 99.59% and 99.63%, respectively, of the total net assets of the LLC. HCST owned 0.41% and 0.37%, respectively.

(6) 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

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.

Notes to Financial Statements

June 30, 2010 and 2009

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

	2010				
	Fair value	**Aggregate face value**	**Delivery date(s)**	**Unrealized gains**	**Unrealized losses**
Foreign currency exchange contracts purchased:					
Brazilian Real	$ 14,583	14,511	8/3/2010	$ —	(72)
British Pound	174,165	178,723	7/1/10 – 9/23/10	4,558	0
Canadian Dollar	10,875	11,533	7/7/10 – 7/28/10	658	0
Euro	215,204	222,498	7/1/10 – 7/26/10	7,294	0
Japanese Yen	45,749	43,674	7/2/10 – 7/28/10	—	(2,075)
Swedish Krona	12,183	13,165	7/28/2010	982	0
Other foreign currencies	24,004	24,380	7/1/10 – 11/12/10	496	(120)
Foreign currency exchange contracts sold:					
Chinese Yuan Renminbi	27,086	26,677	11/17/10 – 6/15/11	—	(409)
Euro	15,637	15,560	7/1/10 – 8/24/10	—	(77)
South Korean Won	10,107	9,602	7/1/10 – 11/12/10	—	(505)
Other foreign currencies	35,319	34,902	7/1/10 – 9/24/10	115	(532)
Total				$ 14,103	(3,790)

	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	0
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	0
Swedish Krona	27,746	27,940	8/26/09 – 9/15/09	194	0
Swiss Franc	28,394	28,503	7/2/09 – 9/15/09	109	0
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	0
British Pound	39,245	39,530	7/1/09 – 9/15/09	285	0
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	0
Japanese Yen	70,260	70,788	7/1/09 – 9/15/09	528	0
New Zealand Dollar	21,649	22,235	9/15/2009	586	0
Norwegian Kroner	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, 2010 and 2009

For the years ended June 30, 2010 and 2009, the change in unrealized appreciation on foreign currency exchange contracts was $12,555 and $6,655, respectively.

(b) Futures Contracts

PRIT enters into financial and commodity futures on various exchanges. A futures contract is an agreement between two parties to buy or sell units of a particular index, security or commodity at a set price on a future date. Upon entering into financial and commodity futures contracts, PRIT is required to pledge to the broker an amount of cash or securities equal to a certain percentage of the contract amount (initial margin deposit). Pursuant to the contract, PRIT agrees to receive from, or pay to, the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as "variation margin" and are recorded by PRIT as unrealized gains or losses. When the contract is closed, PRIT records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The potential risk to PRIT is that the change in value of futures contracts primarily corresponds with the value of underlying instruments, which may not correspond to the change in value of the hedged instruments. PRIT is also subject to credit risk should its clearing brokers be unable to meet their obligations to PRIT.

Futures contracts held at June 30 were as follows:

	2010				
Description	**Number of contracts**	**Expiration date**	**Gross notional amount**	**Fair value of notional amount**	**Unrealized appreciation (depreciation)**
Long cash and cash equivalents:					
90-Day Eurodollar	1,840	12/10 – 3/11	$ 454,656	456,691	2,035
Long fixed income:					
US 5-Yr Treasury Notes	366	9/10	42,714	43,317	603
US 2-Yr Treasury Notes	613	9/10	133,611	134,142	531
US 10-Yr Treasury Notes	1,126	9/10	135,854	137,988	2,134
Other long fixed income	80	9/10	12,166	12,233	67
Short fixed income:					
US 5-Yr Treasury Notes	(392)	9/10	(45,863)	(46,394)	(531)
US 10-Yr Treasury Notes	(771)	9/10	(92,092)	(94,484)	(2,392)
US Treasury Bond	(92)	9/10	(11,420)	(11,730)	(310)
Other short fixed income	(45)	9/10	(3,997)	(4,065)	(68)
Long equity and commodities:					
S&P Mid 500 EMINI Index	3,112	9/10	167,160	159,739	(7,421)
S&P 500 Index	3,618	9/10	994,721	928,560	(66,161)
Other long equity and commodities	2,951	9/10	136,625	133,045	(3,580)
Total futures exposure			$ 1,924,135	1,849,042	(75,093)

Notes to Financial Statements

June 30, 2010 and 2009

	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

For the years ended June 30, 2010 and 2009, the change in unrealized appreciation (depreciation) on futures contracts was $(85,997) and $92,570, respectively.

(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.

Notes to Financial Statements

June 30, 2010 and 2009

Open swap contracts at June 30 were as follows:

2010

Description	**PRIT pays/receives interest rate**	**PRIT pays/receives index/protection**	**Maturity date**	**Gross notional amount**	**Net unrealized appreciation (depreciation)**
Interest rate swaps	2.00% – 11.57%	See note*	12/10 – 12/28	$ 555,748	(8,349)
Credit default swaps	0.25% – 12.25%	Credit default protection	9/10 – 7/45	263,426	4,222
Total return swaps	Private equity	Russell 3000	various	56,783	(14,817)
Total swaps				$ 875,957	(18,944)

* PRIT pays/receives counterparty based on 3-Month LIBOR, 6-Month Euro, 3-Month Canadian, Mexican TIIE rate, Inflation protection, and Bzdiovra Daily.

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) + Private Equity	Russell 3000 + S&P 500	Various	1,807,373	165,002
Commodity swaps	0.16% – 0.18%	DJ UBS Commodity Index	06/09 – 07/09	782,080	(11,386)
Total swaps				$ 3,950,292	165,859

* 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.

For the years ended June 30, 2010 and 2009, the change in unrealized appreciation (depreciation) on swap contracts was $(184,803) and $182,192, respectively.

Notes to Financial Statements

June 30, 2010 and 2009

Exposures by Counterparties

Counterparty	Credit rating	2010 Interest rate swaps Gross notional	Interest rate swaps Fair value	Credit default swaps Gross notional	Credit default swaps Fair value	Total return swaps Gross notional	Total return swaps Fair value
Goldman Sachs International	A	$ 39,119	(1,725)	33,190	(640)	—	—
Credit Suisse	A	47,000	(4,375)	3,700	49	—	—
J.P. Morgan Securities Inc.	A+	41,717	524	9,200	172	—	—
Deutsche Bank Securities Inc.	A+	243,778	3,620	33,295	418	—	—
Bank of America Corp	A	67,200	(7,505)	10,800	(577)	—	—
Barclays Global Investors	A+	22,693	651	34,138	3	—	—
Morgan Stanley Capital	A	41,149	615	71,475	2,610	—	—
All others	Various	53,092	(154)	67,628	2,187	56,783	(14,817)
		$ 555,748	(8,349)	263,426	4,222	56,783	(14,817)

Counterparty	Credit rating	2009 Interest rate swaps Gross notional	Interest rate swaps Fair value	Credit default swaps Gross notional	Credit default swaps Fair value	Total return and commodity swaps Gross notional	Total return and commodity swaps Fair value
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)	46,630	9,363
		$ 1,059,260	5,044	301,579	7,199	2,589,453	153,616

(7) 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 $50,358 and $26,089 for the years ended June 30, 2010 and 2009, respectively.

Notes to Financial Statements

June 30, 2010 and 2009

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

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

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

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

The majority of investment management fees for private equity and value-added fixed income 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, 2010 and 2009, these indirect management fees charged to PRIT's real estate, timber, hedge funds, value-added fixed income, commingled and private equity investments amounted to approximately $166,439 and $161,557, 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,

Notes to Financial Statements

June 30, 2010 and 2009

selection of investment managers, and the measurement of performance of PRIT and the individual investment managers.

For the years ended June 30, 2010 and 2009, as compensation for their services, investment advisors earned fees aggregating approximately $2,849 and $2,931, 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, 2010 and 2009, custodian fees amounted to $2,700 and $3,400, respectively, and are included in management fees in the accompanying statements of changes in pooled net assets.

(d) Other Administrative Fees

For the years ended June 30, 2010 and 2009, other administrative expenses of the PRIM Board, including employee compensation, professional fees and occupancy costs, charged to PRIT totaled approximately $5,656 and $5,519, respectively, and are included in management fees in the accompanying statements of changes in pooled net assets.

(8) Commitments

As of June 30, 2010, PRIT had outstanding commitments to invest approximately $4,520,000 in private equity investments and distressed debt.

Schedule of Pooled Net Assets – Capital Fund and Cash Fund

June 30, 2010

(Amounts in thousands)

	Capital Fund	Cash Fund	Total
Assets:			
Investments, at fair value:			
Short-term	$ 612,946	67,138	680,084
Fixed income	9,493,436	—	9,493,436
Equity	17,621,884	—	17,621,884
Real estate	3,769,358	—	3,769,358
Timber	1,002,875	—	1,002,875
Private equity	4,525,250	—	4,525,250
Hedge fund-of-funds	3,914,718	—	3,914,718
Total investments	40,940,467	67,138	41,007,605
Cash	179,650	—	179,650
Interest and dividends receivable	106,555	34	106,589
Receivable for investments sold	1,846	—	1,846
Unrealized gains on foreign currency exchange contracts	14,103	—	14,103
Other receivables	7	—	7
Total assets	41,242,628	67,172	41,309,800
Liabilities:			
Payable for investments purchased	7,094	—	7,094
Unrealized losses on foreign currency exchange contracts	3,790	—	3,790
Management fees payable to PRIM	14,606	—	14,606
Total liabilities	25,490	—	25,490
Net assets held in trust for pool participants	$ 41,217,138	67,172	41,284,310

See accompanying independent auditors' report.

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

Fiscal year ended June 30, 2010

(Amounts in thousands)

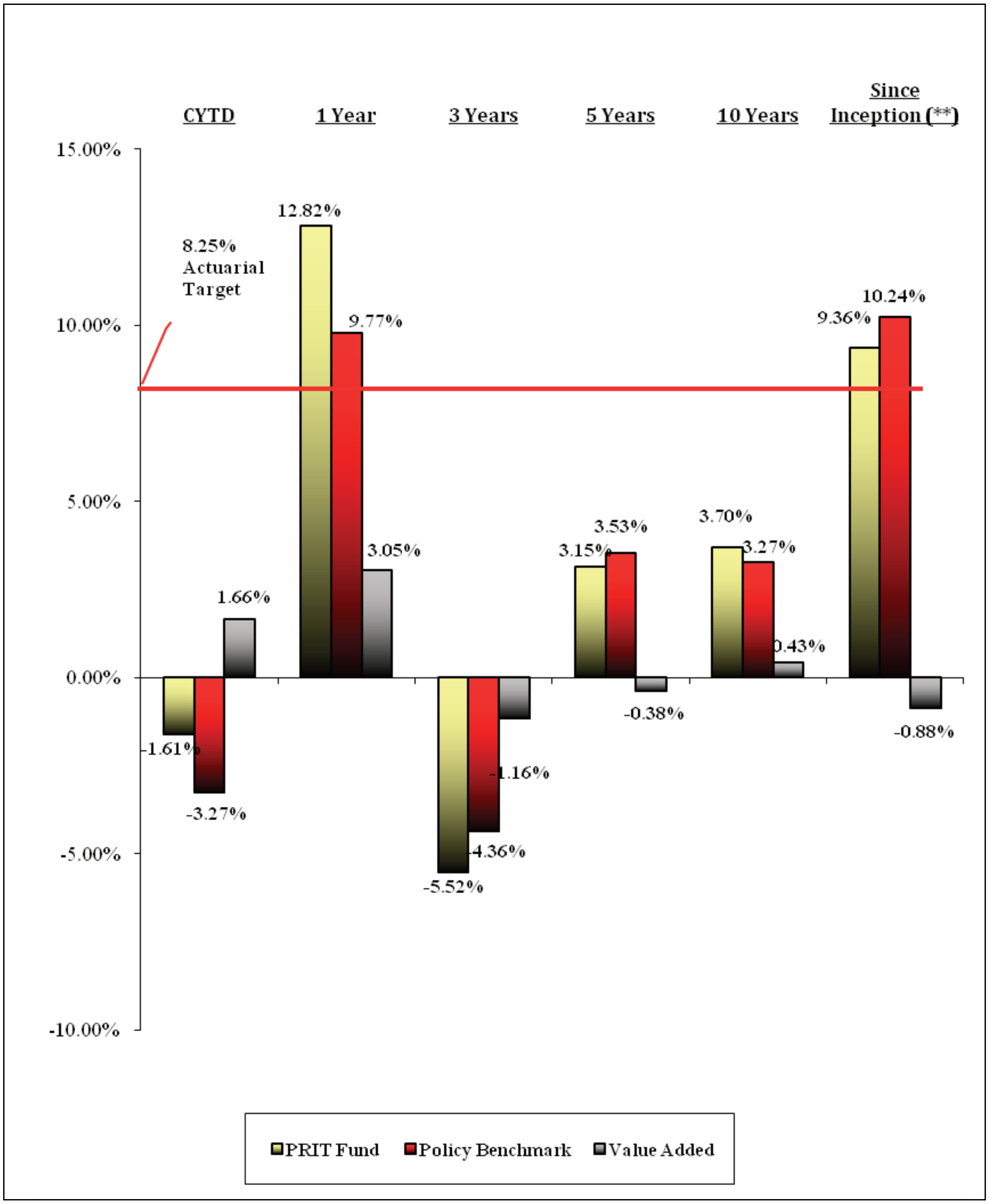
		Capital Fund	Cash Fund	Total
Additions:				
Contributions:				
State employees	$	—	475,591	475,591
State teachers		—	593,147	593,147
Other participants		—	620,865	620,865
Total contributions		—	1,689,603	1,689,603
Net investment income:				
From investment activities:				
Net realized income on investments and foreign currency transactions		1,151,327	2,584	1,153,911
Net change in unrealized appreciation on investments and foreign currency translations		2,533,232	—	2,533,232
Interest income, net		316,315	453	316,768
Dividend income, net		469,125	—	469,125
Real estate income, net		202,239	—	202,239
Timber income, net		4,865	—	4,865
Private Equity income, net		58,129	—	58,129
		4,735,232	3,037	4,738,269
Management fees		(61,563)	—	(61,563)
Net gain from investment activities		4,673,669	3,037	4,676,706
Total additions		4,673,669	1,692,640	6,366,309
Deductions:				
Redemptions:				
State employees		—	1,006,950	1,006,950
State teachers		—	1,399,650	1,399,650
Other participants		—	364,648	364,648
Total deductions		—	2,771,248	2,771,248
Interfund transfers		(1,068,583)	1,068,583	—
Net decrease in pooled net assets		3,605,086	(10,025)	3,595,061
Net assets held in trust for pool participants:				
Balance, beginning of year		37,612,052	77,197	37,689,249
Balance, end of year	$	41,217,138	67,172	41,284,310

See accompanying independent auditors' report.

Investment Section

Total PRIT Fund Performance Summary (*)

For the periods ended June 30, 2010



(*) Gross of Fees. Total PRIT Fund includes Core Fund and Cash Fund. Returns are calculated based on a time-weighted rate of return methodology.

(**) Performance inception date of January 1, 1985

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, 2010, PRIM employed seventeen public markets investment managers, ninety-eight private equity markets managers, twelve real estate, natural resources, and timber managers, five hedge fund-of-funds managers and three external investment consultants. The PRIT Fund had approximately $41.3 billion in assets under management at June 30, 2010.

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	6/30/2010 Allocation %	2010 Long-Term Policy Target %
Global Equity (*)	45.6	49
Core Fixed Income	14.0	13
Value-Added Fixed Income	7.0	6
Real Estate	9.1	10
Private Equity	10.6	10
Timber / Natural Resources	4.1	4
Hedge Funds	7.7	8
Portable Alpha wind down	1.9	0

(*) Global Equity includes PRIT's investments in domestic, international, and emerging markets equities.

During the most recent asset allocation study, the Board made the decision to broaden the asset classes and reduce the number of active managers. The Board took a global approach to the equity markets by weighting its equity investments consistent with a global equity index. The Board eliminated nearly all active management in the Domestic Equity portfolio while adding passive exposure in both International Equity and Emerging Markets portfolios. Additionally, the Board voted to eliminate the Portable Alpha program and reduced the number of Hedge Fund managers from eleven to five. The fixed income portfolio was separated into one conservative "Core" portfolio and one return-seeking "Value Added" portfolio.

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

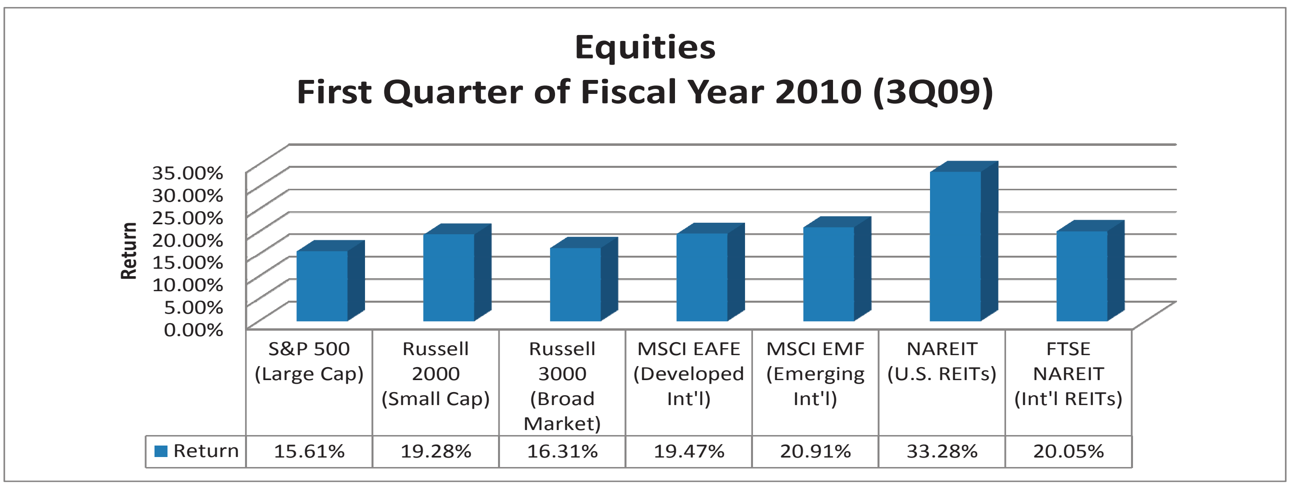
Income earned and expenses incurred in each investment account are allocated to retirement systems based upon the individual retirement system's percentage of unit ownership in each account. Retirement systems may purchase and withdraw units in PRIT Fund investment accounts. Any retirement system that 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.

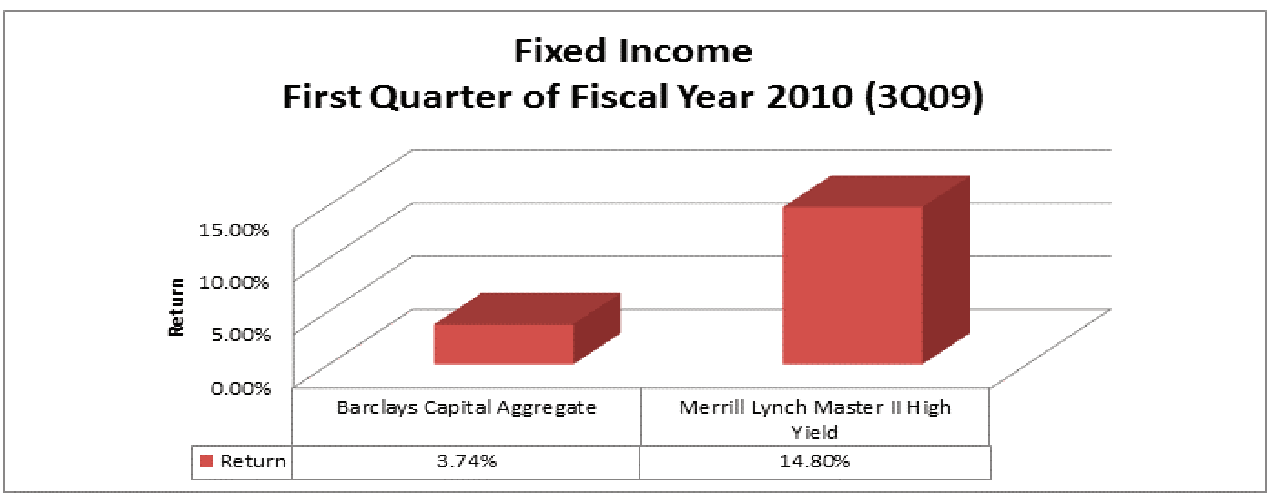
The Year in Review – The World Markets

2010 U.S. and World Markets Review

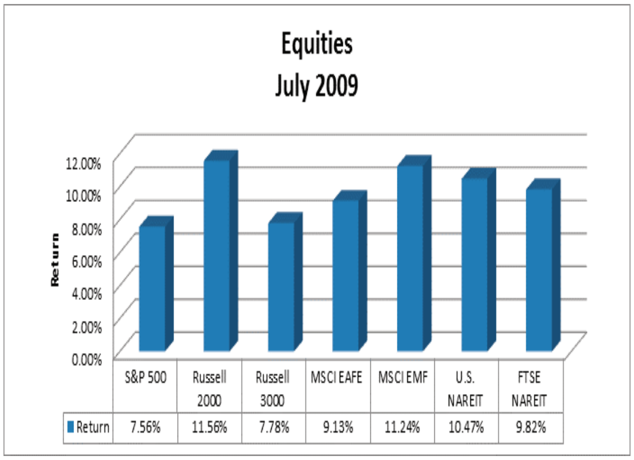
First Quarter of Fiscal Year 2010 (3Q09)

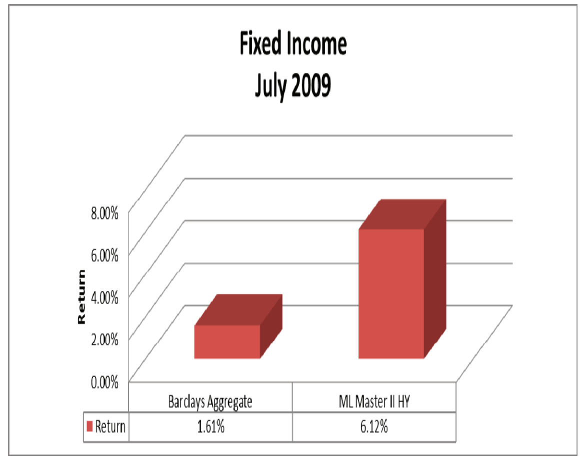
What a difference a year makes! The equity market was in free-fall for most of fiscal year 2009, but by the end of 3Q09, U.S. equities were in the midst of a dramatic turnaround with seven consecutive months of gains. Although unemployment continued to rise – up 9.8%, the highest it had been in 26 years – and the economy remained a bit sluggish, investors shrugged off concerns the rally was unsustainable. A large part of this optimism was fueled by the decision of the Federal Reserve Open Markets Committee (FOMC) in August and September to maintain the target federal funds rate at a range of 0% - 0.25%. Perhaps the most compelling reason was the infusion of trillions of dollars into the global economic system by world governments in the form of economic stimulus programs. Consumer spending, which comprises about 70% of the U.S. economy, picked up and home prices stabilized during 3Q09. On August 3rd, the large capitalization stock index, the S&P 500, crossed the psychological barrier of 1,000 for the first time in nine months. What follows is a month-by-month account of the major economic and market highlights of 3Q09.



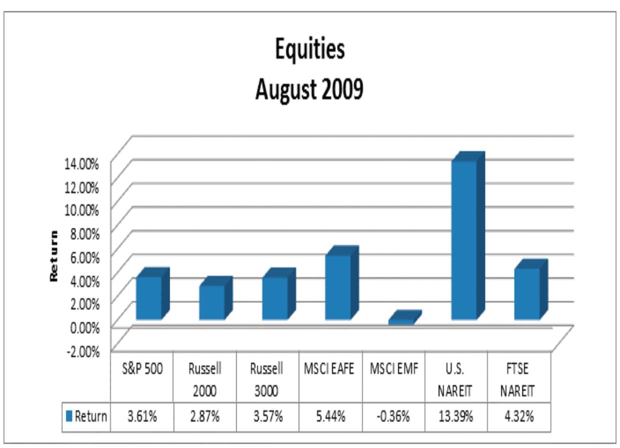


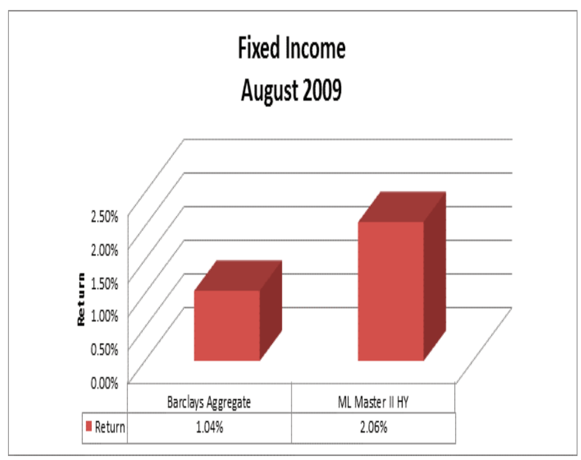
July 2009 - Signs that the U.S. economy was recovering from the deep recession helped boost investor confidence in July. The Gross Domestic Product (GDP), which measures the level of U.S. economic activity, shrank by 1% in the fourth quarter of fiscal year 2009 (2Q09), which was better than expected, and compared very well to the 6.4% decline in 1Q09. The housing market continued to be weak, however, as foreclosures rose; but job losses slowed, as the unemployment rate dropped to 9.4% in July (still way above normal).



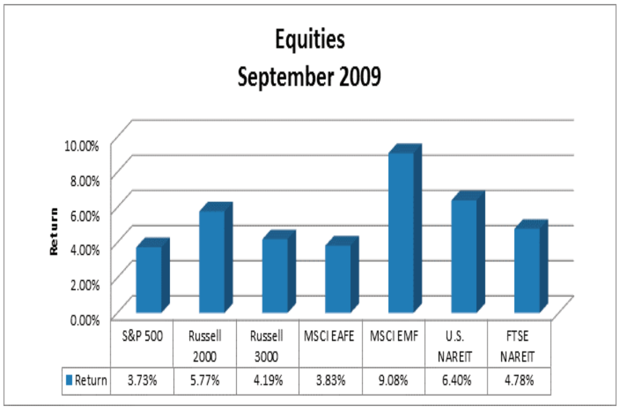


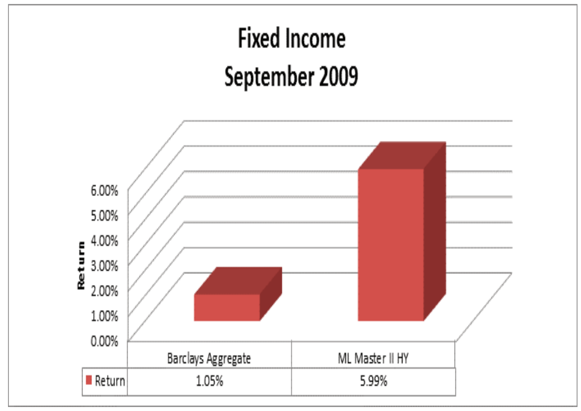
August 2009 - Most world stock markets rose in August as a leading economic indicator signaled that the U.S. economy was picking up and the recession was bottoming out. The Federal Reserve also held interest rates at current levels (0% - 0.25%) and fewer jobs were lost in August, but unemployment was still at a 26-year high. Low prices and low borrowing costs spurred home sales, signaling that perhaps the two-year housing slump may be over.





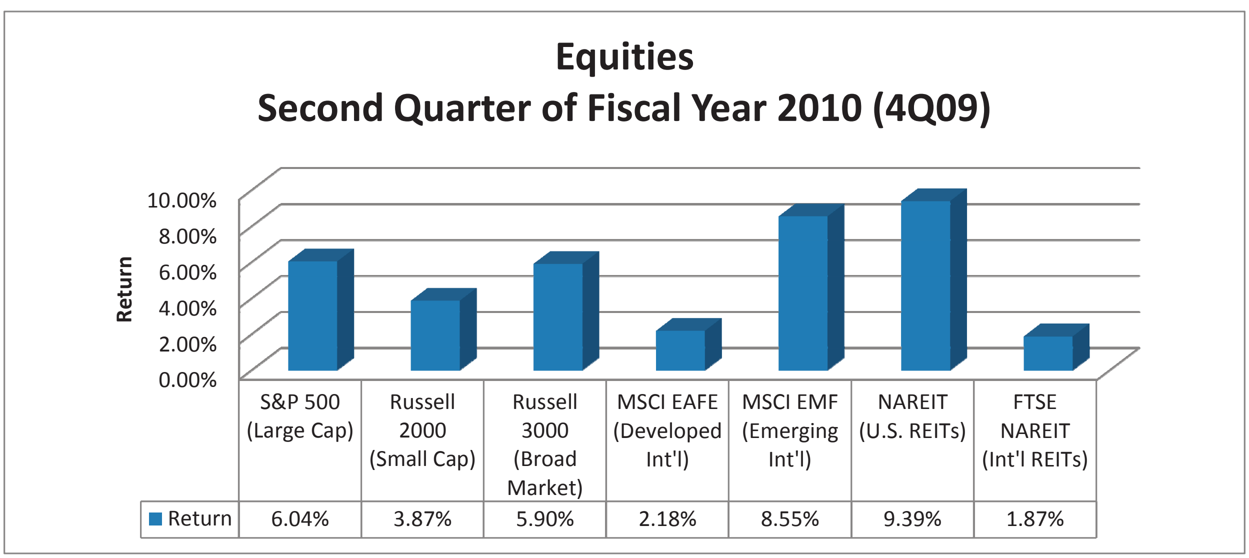
September 2009 - Shrugging off concerns that the six-month rally in stocks was unsustainable given the sluggish economy and rising unemployment, investors continued their bullish ways in September.

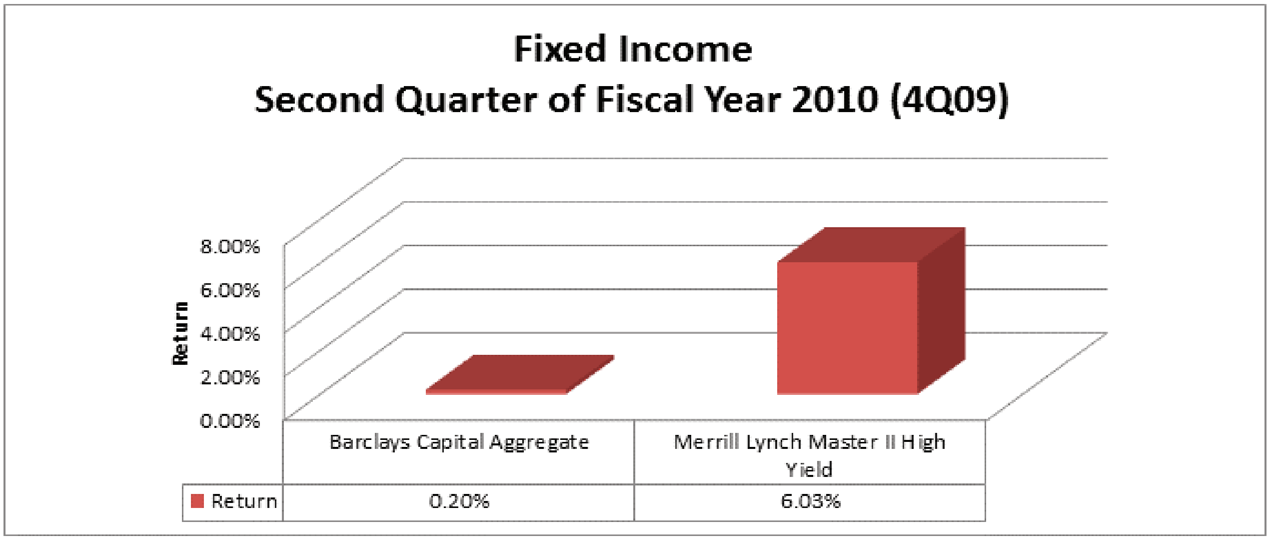




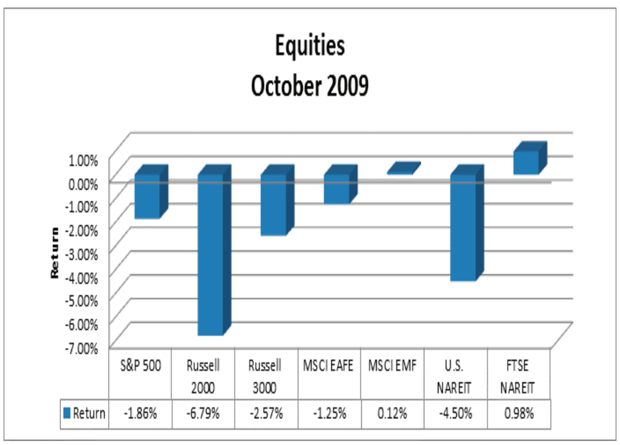
Second Quarter of Fiscal Year 2010 (4Q09)

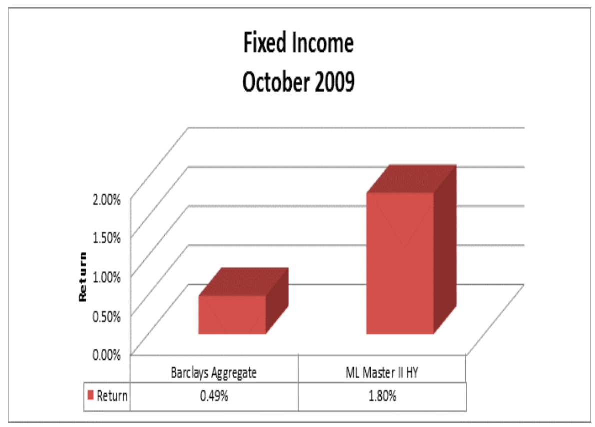
During 4Q09 global capital markets ended the quarter up. The FOMC again maintained the target federal funds rate at a range of 0% - 0.25% when it met in November and December. The Fed also said it would make good on its plan to purchase $1.25 trillion in agency securities and $175 billion of agency debt by the end of 1Q10. International equity markets lagged their U.S. counterparts during the quarter, but outpaced them for the calendar year. Emerging Markets equity led the developed foreign markets considerably, with Latin America contributing the highest return for the quarter and the calendar year. Japan was the worst performing region. Despite the gains achieved in the U.S. equity markets during the year, the 10-years ended December 31, 2009 was dubbed the "Lost Decade", as the bellwether S&P 500 returned -0.95%, or a decline of 24%, during that period. The following is a month-by-month account of the major economic and market highlights of 4Q09.



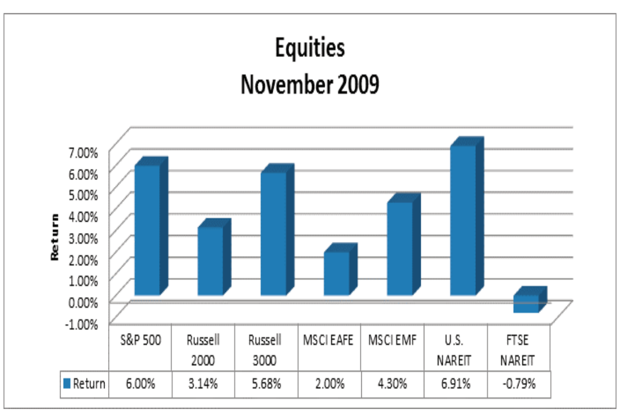


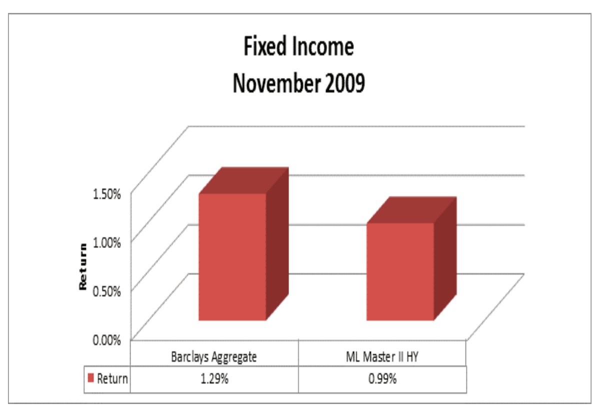
October 2009 - Despite good news about third quarter U.S. GDP growth of 3.5%, both U.S. and foreign stock markets shed some of their 2009 gains in October.



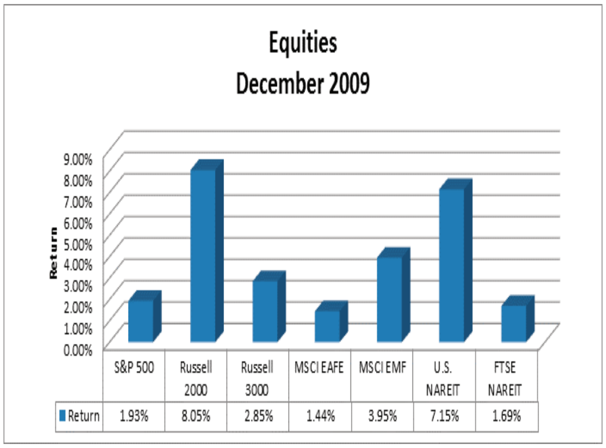


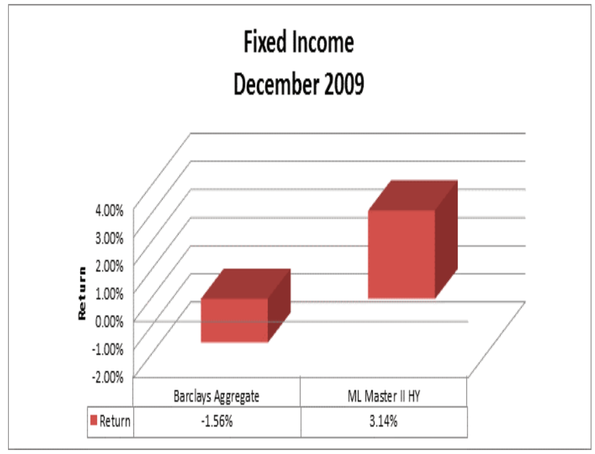
November 2009 - U.S. equities bounced back from the prior month's sell-off on renewed hopes of a sustained economic recovery and signs that the housing market was turning the corner.





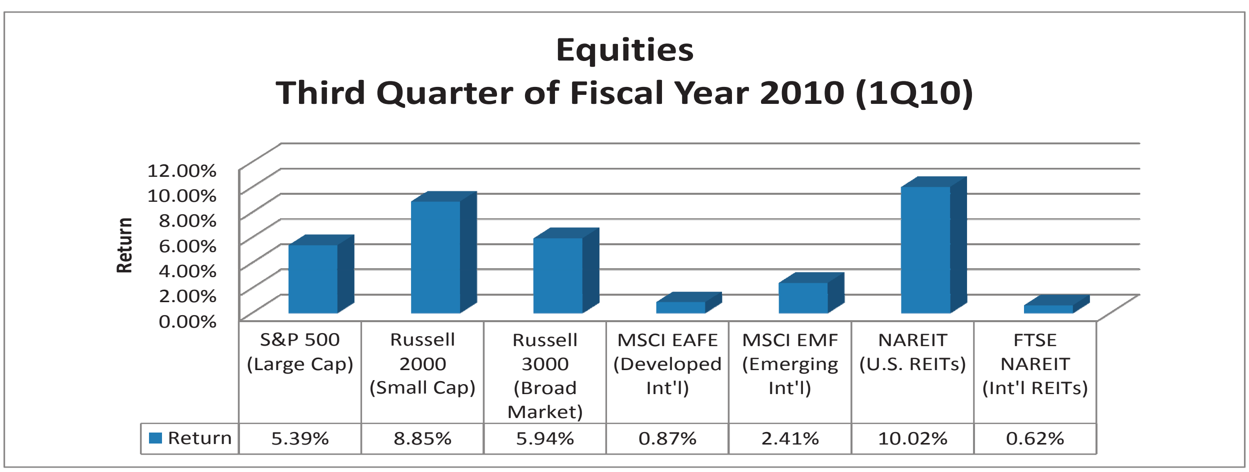
December 2009 - It may have been too soon to break out into "Happy Days Are Here Again", but investors were certainly whistling a happier tune at the end of calendar year 2009, in contrast to the mood at the end of calendar year 2008. Although the bleakness spilled over into the first calendar quarter of 2009, since bottoming out on March 9th, the equity markets had staged an impressive rally with only minor interruptions. Still, as the first decade of the 21st century drew to a close, it was the worst 10-year period for stocks in history, even worse than the 1930's. The large cap S&P 500 index made up a portion of its 37% loss in 2008 by gaining 26% in 2009.

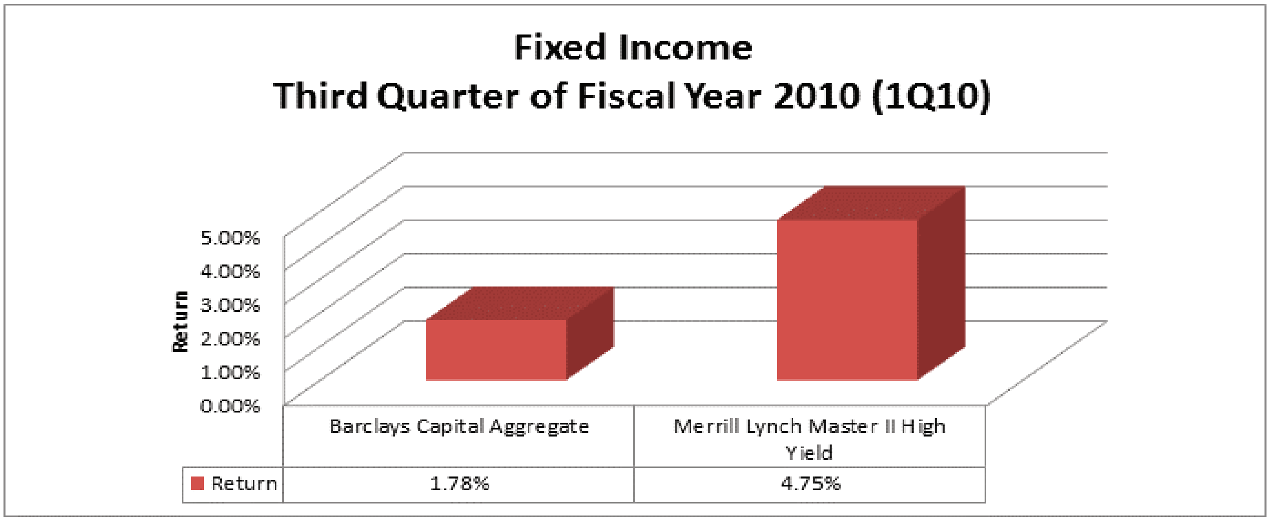




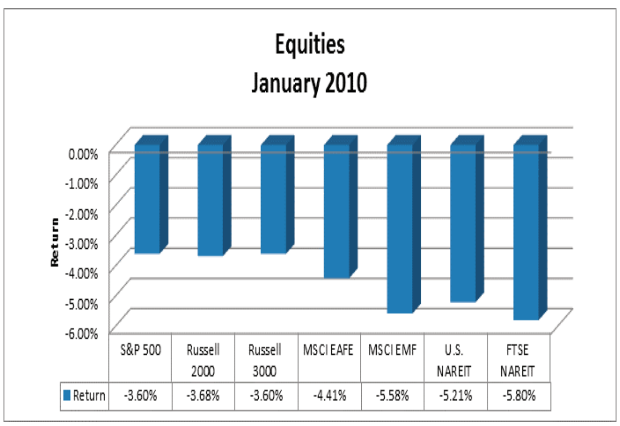
Third Quarter of Fiscal Year 2010 (1Q10)

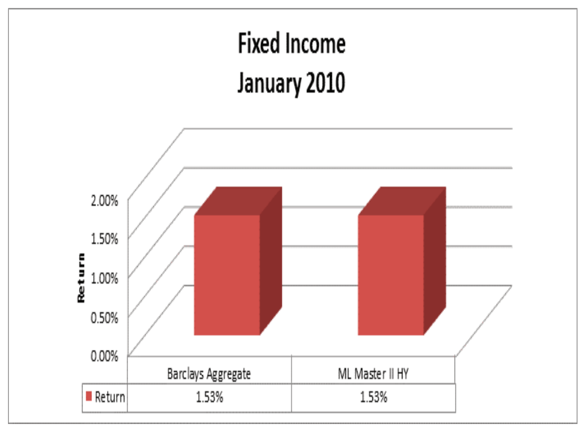
Feeling a bit hung-over from the heady 2009 rally, equities cooled down as the first year of the new decade began, but when the dust settled by the end of 1Q10 (most of it kicked up by sovereign debt concerns in the euro region) global capital markets all showed modest gains, as most economic indicators were viewed positively. Foreign markets, both developed and emerging, underperformed U.S. equity markets during the quarter. Once again, the FOMC left the target federal funds rate alone, although there was one dissenter, Thomas Hoenig, the president of the Kansas City Fed, who voted against the decision over concerns that the easy monetary policy was "no longer warranted because it could lead to the buildup of financial imbalances and increase risk to longer-run macroeconomic and financial stability." The Fed also announced that the $1.25 trillion Agency Mortgage Back Security (MBS) Program would be completed at the end of the quarter, which was its stated goal. What follows is a month-by-month account of the major economic and market highlights of 1Q10.



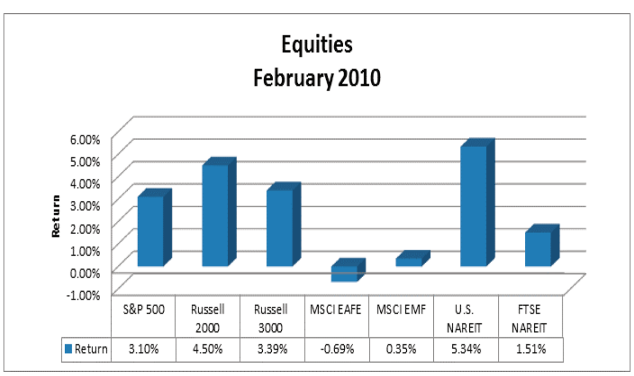


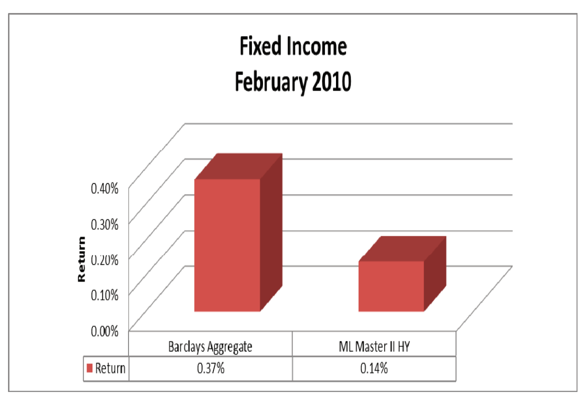
January 2010 - The market rally that began on March 9, 2009 came to an abrupt, but not totally unexpected, halt in January. Concern was beginning to grow about the Greek budget deficit – the largest such gap of all the euro region countries – and potential default on its debt.



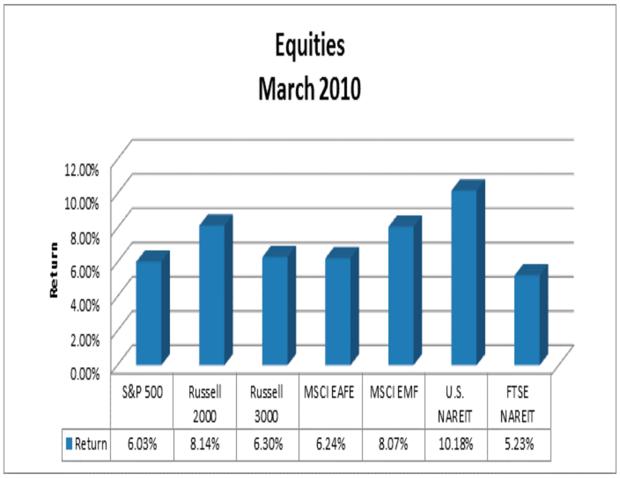


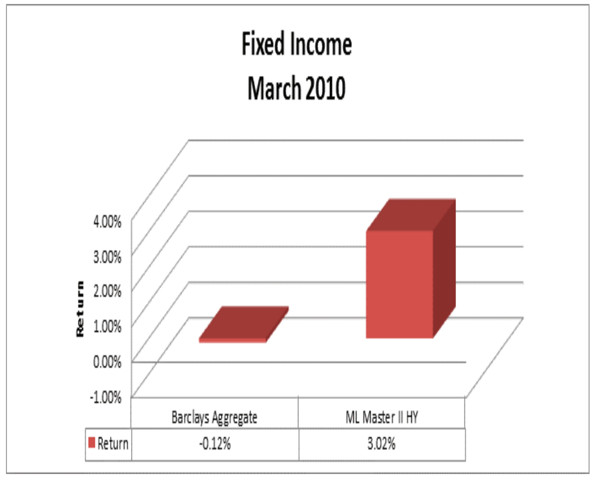
February 2010 - After Germany and France announced their intentions to assist Greece, the markets rebounded in February.





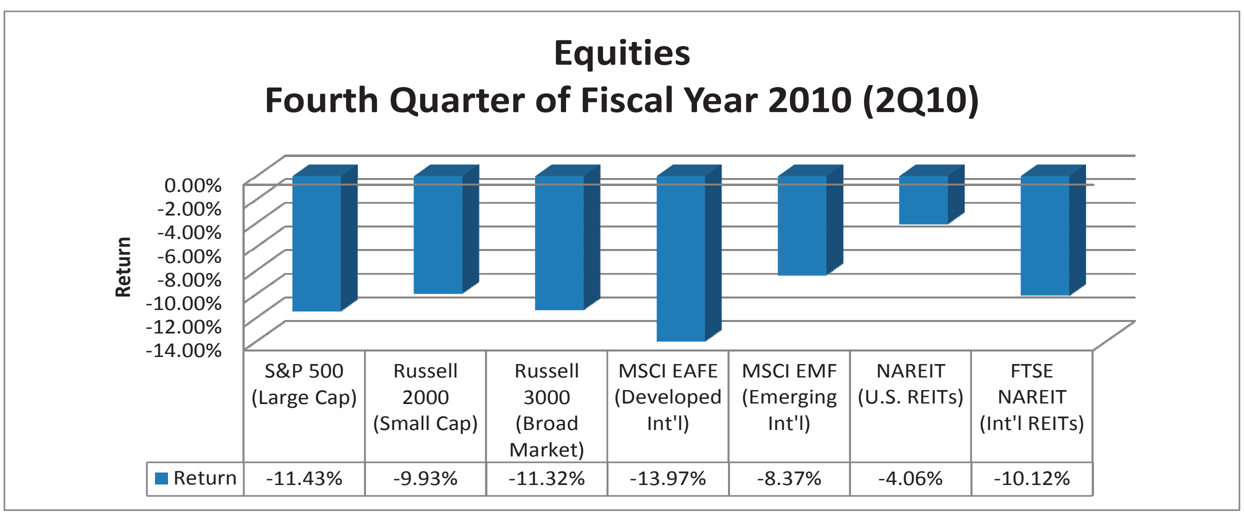
March 2010 - The S&P 500 stood at its highest peak since September 2008 by month's end.

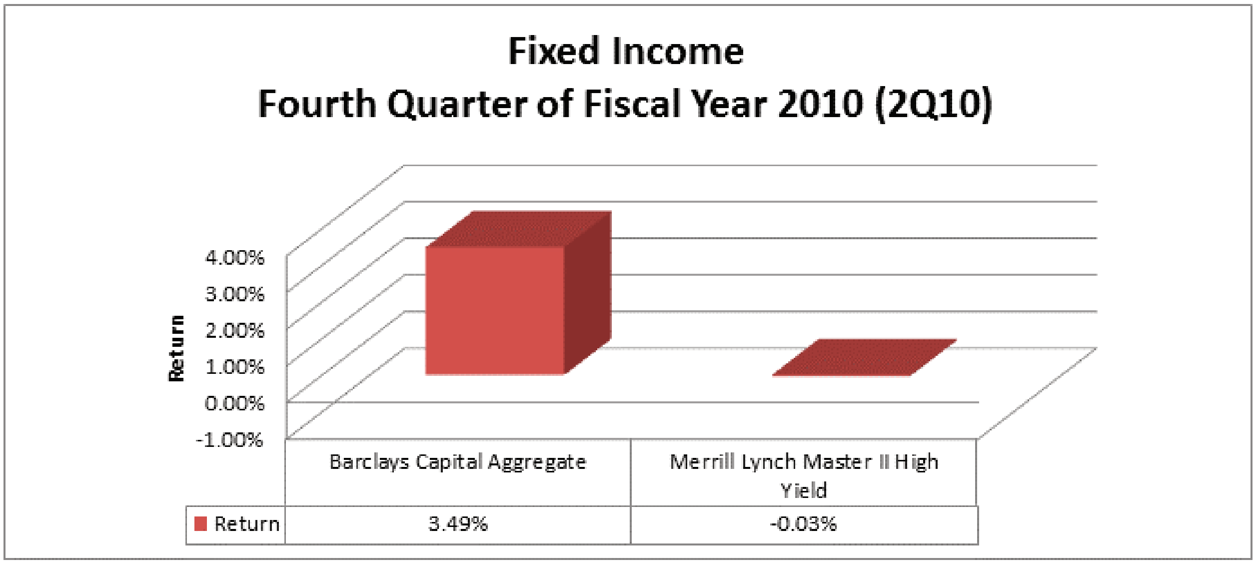




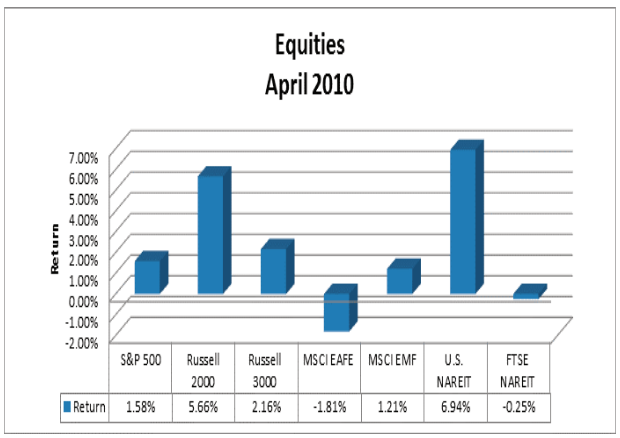
Fourth Quarter of Fiscal Year 2010 (2Q10)

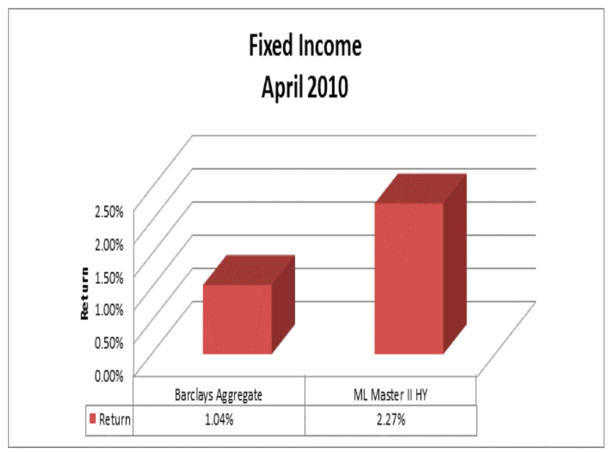
The fourth and final quarter of fiscal year 2010 was the most volatile, as the global equity markets gave back some of the gains experienced during the fiscal year, beginning with the last week of April and continuing into May and June. Fixed income was the strongest performer among the global capital markets in 2Q10, but with the exception of the developed international equity markets, fixed income trailed the U.S. and emerging equity markets by fiscal year-end. Following a year of declining values, the private real estate markets experienced their best quarter since 2007. At its April meeting, the FOMC kept the target federal funds rate at 0% - 0.25%, with the Kansas City Fed president, once again, casting the lone dissenting vote. Probably more troubling to investors was when the FOMC downgraded its outlook for the U.S. economy following its June 23rd meeting. Abroad, the European debt crisis negatively impacted liquidity conditions with the downgrading of Greece and Spain. To help stabilize the European banking system, the European Union (EU) and the International Monetary Fund (IMF) announced in May that it would provide €750 billion to bail out trouble sovereigns. What follows is a month-by-month account of the major economic and market highlights of 2Q10, and a wrap up of the fiscal year 2010.



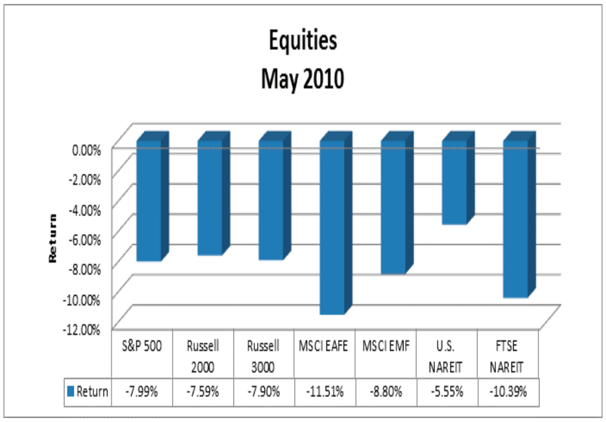


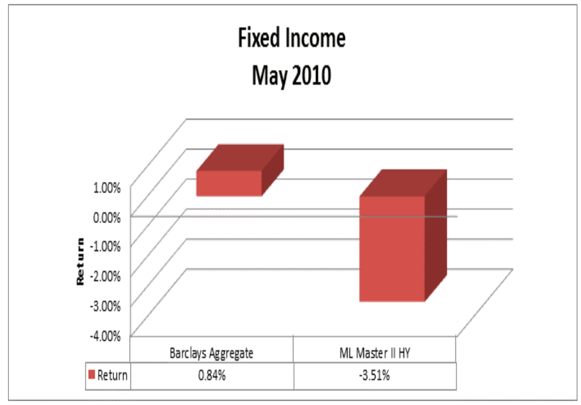
April 2010 - Although U.S. Stocks finished up for the month of April, the S&P 500 lost 2.5% during the final week of trading, as big gains seen during the month evaporated over worries about European Union (EU) sovereign debt.



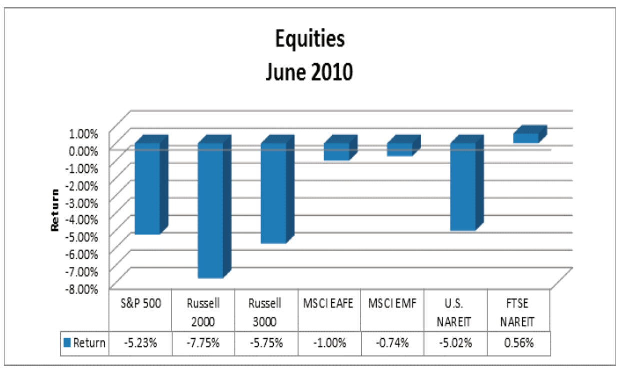


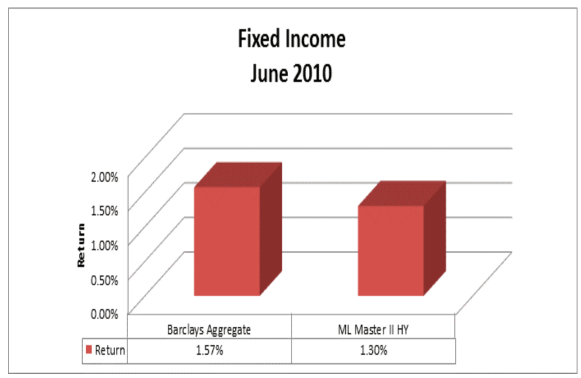
May 2010 - Mounting concern about the ongoing European Union (EU) sovereign debt crisis caused U.S. equity markets to decline dramatically in May. The large cap S&P 500 index plunged 7.99%. Contributing to the already volatile environment was the unexplained "mini crash" that took place on May 6th when the market declined 9% in mere minutes.

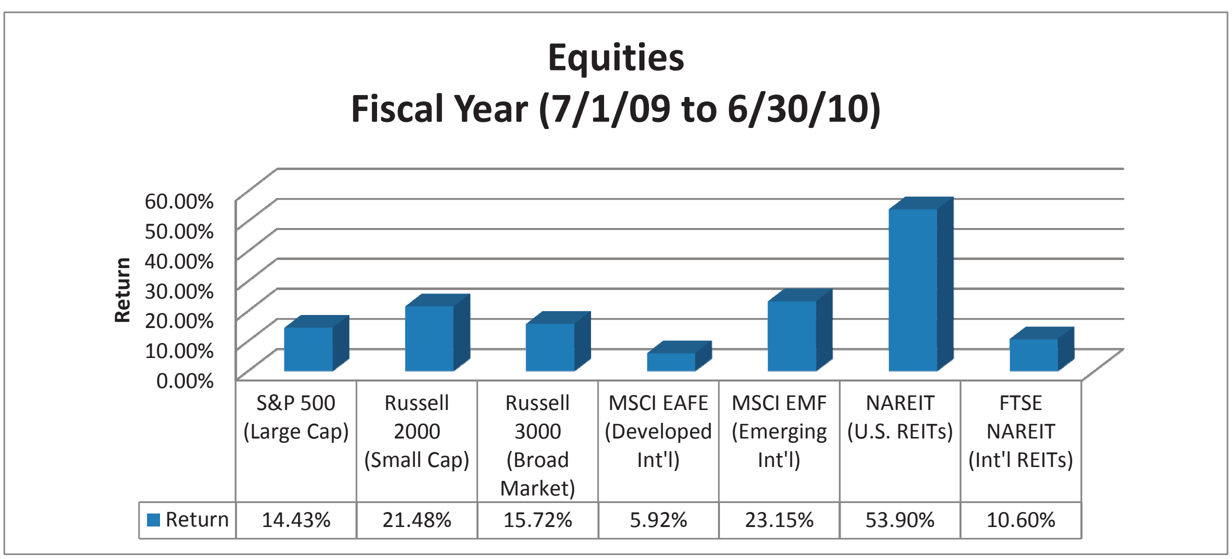


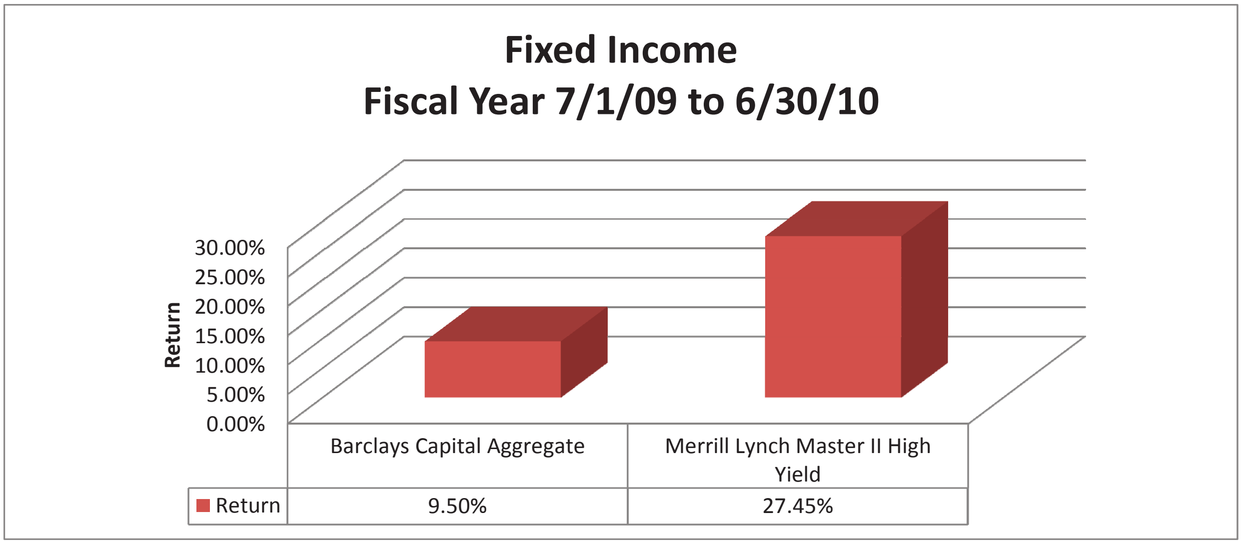


June 2010 - As economic indicators continued to fall short of projections (i.e., employment, housing, manufacturing), investor confidence plunged, which resulted in declines for equities in June. The large cap S&P 500 index added to May's losses, returning -5.23% in June, which resulted in a quarterly return of -11.43%, in what was a disappointing close to an otherwise tremendous year of gains.



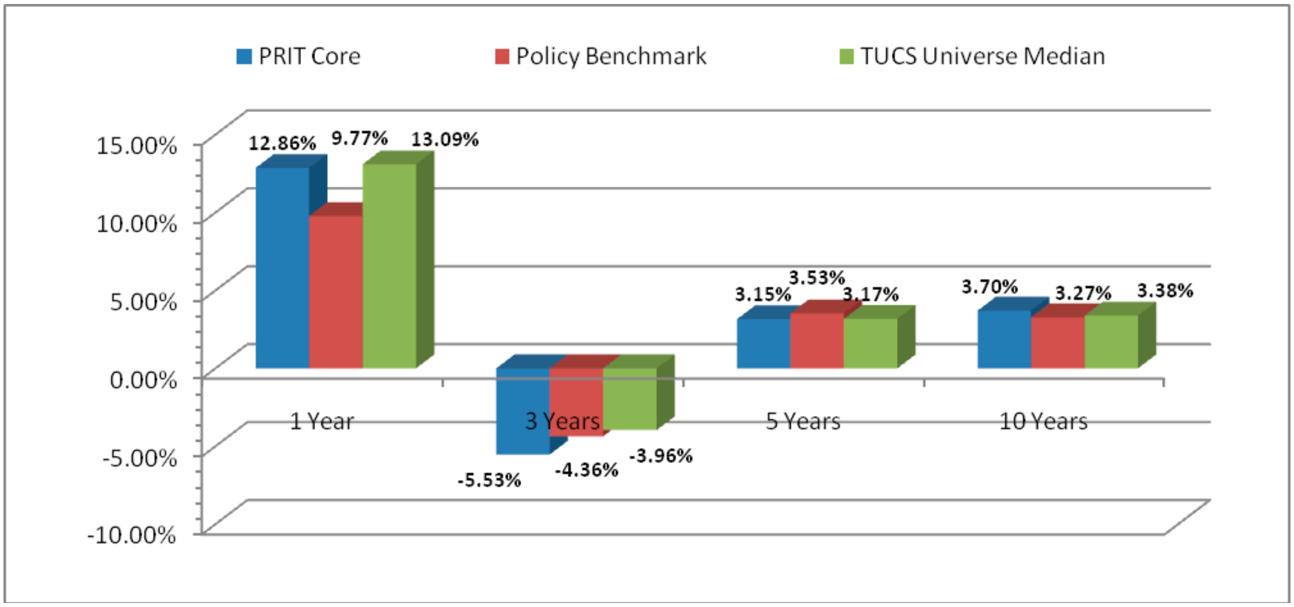





Fixed Income
Fiscal Year 7/1/09 to 6/30/10
Return
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
Barclays Capital Aggregate
Merrill Lynch Master II High Yield
Return
9.50%
27.45%

PRIT CORE PERFORMANCE: FISCAL YEAR 2010

Returns are calculated based on a time-weighted rate of return methodology. PRIT Core Returns (gross of fees) and benchmarks for the periods ended June 30, 2010:



In the fiscal year 2010, the PRIT Core returned 12.86%, outperforming the policy benchmark return of 9.77%, by 309 basis points. The performance in fiscal 2010 has placed PRIT into the third quartile of all US Public Pension Funds over $1 billion in size for the fiscal year, whereas PRIT ranked in the bottom quartile in fiscal 2009, according to the Trust Universe Comparison Services (TUCS). PRIT ranked in the second quartile for the trailing 10-year period. The three and five year periods have seen a drop-off in peer group rankings, due to the prior year's market environment, where bond heavy funds were ranked higher than more diversified funds.

The PRIT Fund began fiscal year 2010 with a net asset value of $37.69 billion and ended with $41.28 billion. On a gross basis the fund increased approximately $3.59 billion, which is the result of $4.68 billion in investment gains along with $1.09 billion in net redemptions to the State Employees, State Teachers' and Participant accounts.

The returns were positive for three quarters of fiscal year 2010, with a partial down slope in the fourth quarter. The quarterly returns of the PRIT Core in fiscal year 2010 were as follows:

- 11.46% for September 30, 2009 – versus a benchmark return of 10.18%.
- 2.91% for December 31, 2009 – versus a benchmark return of 2.99%.
- 3.52% for March 31, 2010 – versus a benchmark return of 2.78%.
- Negative 4.96% for June 30, 2010 – versus a benchmark return of negative 5.88%.

The past fiscal year was successful, 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 2010, PRIM was able to achieve two of the three benchmark objectives, falling short of the TUCS rankings by finishing in the third quartile in the current year and second quartile in longer term 10-year period. Through June 30, 2010, the PRIT Core fell short of the actuarial return over a three-, five-, and 10-year basis, while maintaining a 9.39% since inception return, 114 basis points above the actuarial rate of return of 8.25%. For the one-year, the PRIT Core returned 12.86%, and outperformed the policy benchmark by 309 basis points. PRIM's rankings in the TUCS report improved to third quartile in fiscal 2010, but a poor fiscal year 2009 continues to hurt its three-year ranking. The longer-term five and 10-year periods ended June 30, 2010, are in the third and second quartile, respectively. The PRIT Fund Core ranked in the 55th percentile (1st being the best, 100th being the worst) for the one-year period, 90th in three-year period, 51st in the five-year period and 33rd in the 10-year period.

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.

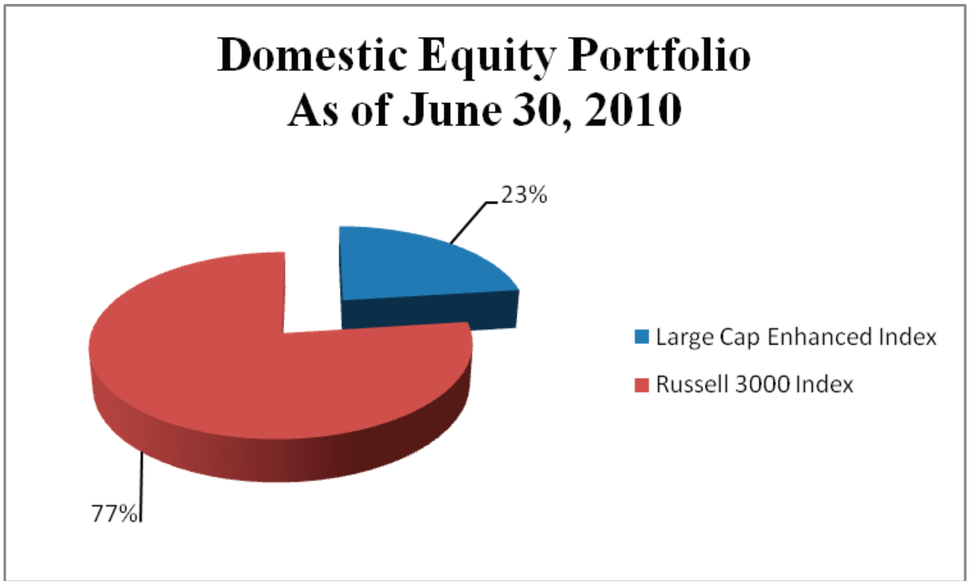
PRIM employs professional investment managers and provides them discretion, consistent with specified objectives and guidelines, to manage the PRIT Fund's assets. Investment managers operate under formal contracts that delineate their responsibilities and performance expectations. Approximately 81.8% of PRIM's total expense for fiscal 2010 was allocated to investment management fees. PRIM also employs an outside custodian and investment consultants in managing the PRIT Fund. Approximately 9.0% of PRIM's total expense for fiscal year 2010 was allocated to fees for these professional services.

The PRIT Fund also incurs indirect management costs as a result of investing in private equity, hedge fund-of-funds, real estate, timber, and other commingled fund assets. Most investment management fees for private equity 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. Not all pension funds disclose these indirect management fees as part of their overall costs. PRIM continues to disclose investment management fees, including those indirect fees, as part of the cost of managing the PRIT Fund.

The total cost of managing the PRIT Fund for fiscal year 2010, *inclusive* of investment management (direct and indirect), consulting, custodial and overhead charges was 54 basis points of the average net asset value of the PRIT Fund compared to 51 basis points in fiscal year 2009. *Excluding* indirect management fees, the cost of managing the PRIT Fund was 15 basis points compared to 10 basis points in fiscal year 2009. Overall fees can vary from year to year primarily due to the nature of performance-based fees at PRIT. The fiscal year 2010 fees increased slightly mainly due to asset growth in the more expensive asset classes and real estate claw-back (negative fees) in the prior year. For information on expense ratios for each investment account, refer to the *Financial Highlights* ratios on pages 93-99 included in the Statistical Section of this report.

Domestic Equity Portfolio

As of June 30, 2010, the Domestic Equity portfolio had approximately $8.2 billion in net assets, which represented 19.9% of the PRIT Core Fund. Approximately 23% of the domestic equity portfolio is invested utilizing a large capitalization stock ("large cap stocks") strategy with the remaining 77% invested in the Russell 3000 index strategy. In the view of the PRIM Board and its advisors, the overall domestic equity portfolio is highly diversified and balanced. The allocation between passively managed investments and large cap enhanced index investments is highlighted below.



During the fiscal year, all Domestic Equity strategies outperformed their respective benchmarks. Of the large capitalization managers, both outperformed their benchmark. The Russell 3000 Index fund slightly outperformed its benchmark. As of January 1, 2010, the PRIM Board maintains the PRIT Core Fund's Domestic Equity weighting to reflect the regional weightings of the MSCI All Country World Index, a global index. As of fiscal year end, the weighting of Domestic Equity was 43.7% of the Global Equity portfolio.

In the current fiscal year, the PRIM Board voted to terminate the Portable Alpha program, which continues to be wound down and all swaps have been terminated.

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 recent years, there is no guarantee that this trend will continue or that investment in the short-term or long-term will produce positive results. Prices may fluctuate based on changes in a company's financial condition and on overall market and economic conditions. Smaller companies are especially sensitive to these factors. There is a significant risk of loss of principal due to market and economic conditions.

For the fiscal year, the portfolio produced a 14.59% return compared to 11.07% for the portfolio benchmark. PRIT's large cap managers returned 18.21% compared to the 14.43% return of the large cap benchmark S&P 500 index.

On a three- five- and 10-year basis through June 30, 2010, PRIT's Domestic Equity portfolio has returned a negative 13.04%, negative 2.75%, and a negative 1.31%, respectively, compared to the Russell 3000 Index (Dow Jones Wilshire 5000 index through 4/30/08), which returned a negative 10.69%, negative 1.16%, and a negative 1.23%, respectively.

The top ten holdings in the Domestic Equity portfolio at June 30, 2010 are illustrated below. A complete listing of holdings is available upon request.

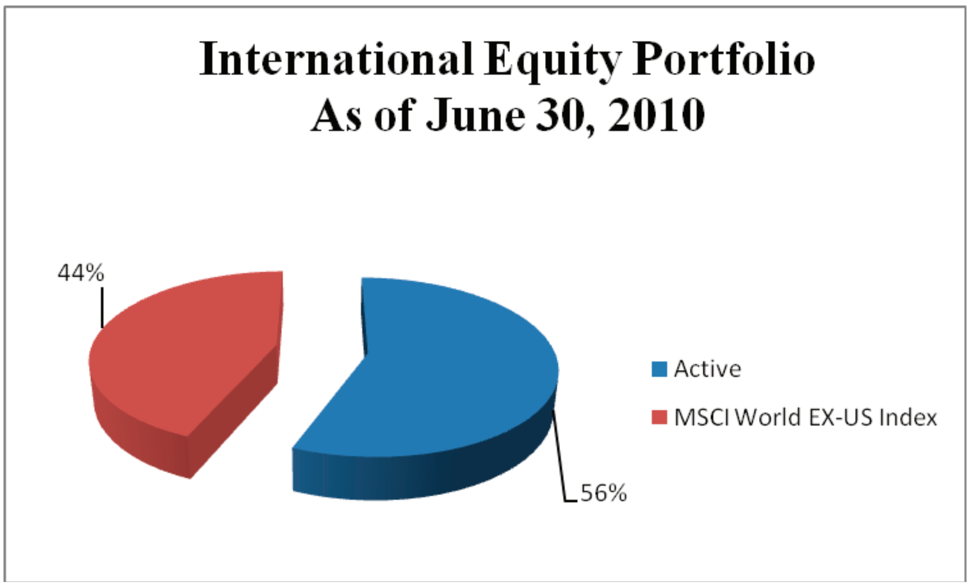
#	Issue Name	Fair Value ($000s)	% of Account Fair Value
1	Exxon Mobil Corp.	$ 191,705	2.34%
2	Apple Inc.	143,221	1.75%
3	Microsoft Corp.	115,745	1.41%
4	Proctor & Gamble Co.	107,874	1.32%
5	Johnson & Johnson	105,286	1.29%
6	International Business Machine	103,785	1.27%
7	General Electric	99,573	1.22%
8	AT&T Inc.	97,398	1.19%
9	Chevron Corp.	88,374	1.08%
10	JP Morgan Chase and Co.	87,051	1.06%
	TOTAL	$ 1,140,012	13.93%

The PRIT Fund's Domestic Equity managers at June 30, 2010 are highlighted in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2010 ($000s)
State Street Global Advisors	Russell 3000 Index	$ 6,274,274
INTECH	S&P 500 Enhanced Index	936,190
PIMCO	S&P 500 Enhanced Index	934,559
Other portfolio net assets		43,171
Total Portfolio Fair Value June 30, 2010		**$ 8,188,194**

International Equity Portfolio

As of June 30, 2010, the PRIM Board invested $8.3 billion in the International Equity portfolio, representing 20.0% of the PRIT Core Fund. The active international equity managers are benchmarked against the MSCI EAFE Net Dividends index ("MSCI EAFE"), whose name is derived from the geographical areas of inclusion – Europe, Australia and the Far East. The International Equity portfolio is allocated to one passively managed account (which comprises 44% of the portfolio) and four actively managed accounts (56% of the portfolio). The passive manager, and the asset class as a whole, are benchmarked against the MSCI World ex-U.S. Investable Market Index – Net dividends ("MSCI World ex-U.S. IMI"). The PRIM Board maintains a target weighting of 50% passive and 50% active for the International Equity 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 maintains the PRIT Core Fund's International equity weighting to reflect the regional weightings of the MSCI All Country World Index, a global index. As of fiscal year end, the weighting of International Equity was 43.1% of the Global 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, 2010, the International Equity portfolio returned 9.74% compared to the MSCI World ex-U.S. IMI index return of 7.43%. Of the PRIT Core Fund's four active international equity managers, two outperformed the MSCI EAFE index for the fiscal year. The passive manager outperformed the MSCI World ex-U.S.IMI index for the fiscal year. Over the longer-term, PRIT's international equity managers continue to add value over the MSCI World ex-U.S IMI benchmark. On a three- five- and 10-year basis through June 30, 2010, PRIT's international equity managers posted returns of a negative 12.00%, positive 1.87%, and positive 1.50%, respectively, ahead of the benchmark, which returned a negative 12.89%, positive 1.22%, and positive 0.33% over the same periods.

The top ten holdings in the International Equity portfolio at June 30, 2010 are illustrated below. A complete listing of holdings is available upon request.

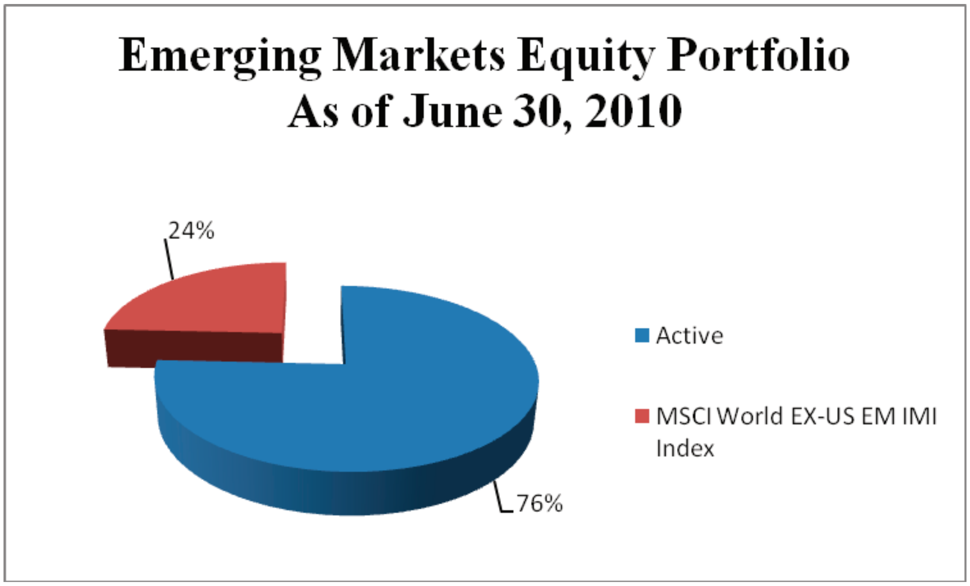
#	Issue Name		Fair Value ($000s)	% of Account Fair Value
1	Nestle	$	113,784	1.38%
2	Vodafone Group		102,985	1.25%
3	Roche Hldg AG Genusscheine NPV		80,153	0.97%
4	Novartis		78,559	0.95%
5	BP PLC		73,501	0.89%
6	Glaxosmithkline		68,523	0.83%
7	Toyota Motor Corp.		67,534	0.82%
8	Canon		66,905	0.81%
9	Sanofi-Aventis		64,941	0.78%
10	HSBC		63,470	0.76%
	TOTAL	$	780,355	9.44%

The PRIT Fund's International Equity managers at June 30, 2010 are highlighted in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2010 ($000s)
Marathon Asset Management Ltd.	MSCI EAFE	2,118,906
State Street Global Advisors	MSCI Wolrd ex-US IMI Index	3,618,159
Ballie Gifford	MSCI EAFE	1,458,028
Pyramis Global Advisors	MSCI EAFE	526,935
Mondrian Investment	MSCI EAFE	540,019
Other portfolio net assets		1,980
Total Portfolio Fair Value June 30, 2010		**$8,264,027**

Emerging Markets Portfolio

As of June 30, 2010, the PRIM Board invested approximately $2.3 billion in the Emerging Markets Equity portfolio, representing 5.7% of the PRIT Core Fund. The active managers are benchmarked against the MSCI Emerging Markets Net Dividends Index ("MSCI Emerging Markets") while the passive account and Emerging Markets asset class as a whole, are benchmarked against the MSCI Emerging Markets Investable Market Index - Net Dividends ("MSCI Emerging Markets IMI"). The emerging markets equity portfolio is allocated to three active managers (which comprise about 76% of the emerging market portfolio) and one passive manager (24%). Since May of 2010, when State Street Global Advisors was hired to manage a passive Emerging Markets equity account, the PRIM Board has targeted a weighting of 75% active and 25% passive for the Emerging Markets Equity portfolio.



The primary strategy for this portfolio is investing in companies in developing countries, which include China, Brazil, Russia, South Korea, Taiwan, India and Turkey. These countries typically have less efficient securities markets, and thus there is opportunity for substantial returns. The PRIM Board maintains the PRIT Core Fund's Emerging Markets Equity weighting to reflect the regional weightings of the MSCI All Country World Index, a global index. As of fiscal year end, the weighting of Emerging Markets Equity was 13.2% of the Global Equity portfolio.

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 24.01% compared to the MSCI Emerging Markets IMI index return of 23.22%. Of the PRIT Core Fund's three active emerging markets equity managers, two outperformed the MSCI Emerging Markets index for the fiscal year. The passive manager outperformed the MSCI World ex-U.S.IMI index since its inception in May 2010. Although they outperformed in the current year, PRIT's emerging markets equity managers lag the benchmark in longer term time periods. On a three- five- and 10-year basis through June 30, 2010, PRIT's emerging markets equity managers posted returns of negative 5.29%, positive 10.62%, and positive 8.74%, respectively, lagging the MSCI Emerging Markets IMI benchmark, which returned a negative 2.28%, positive 12.88%, and positive 10.21% over the same periods.

The top ten holdings in the Emerging Markets Equity portfolio at June 30, 2010 are illustrated below: A complete listing of holdings is available upon request.

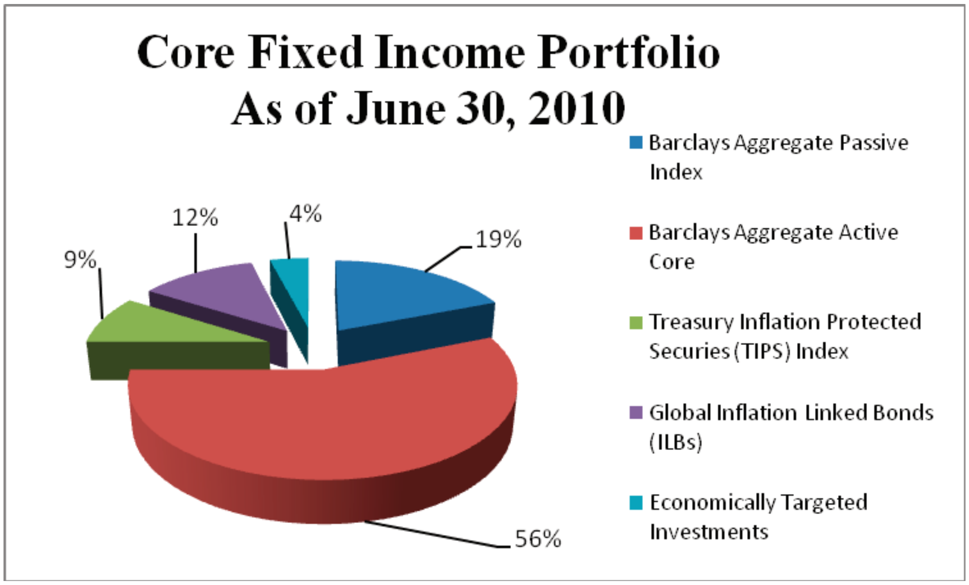
#	Issue Name	Market Value ($000s)	% of Account Market Value
1	Samsung Electronics	$ 71,164	3.04%
2	Petroleo Brasileiro	41,770	1.79%
3	EMM EMSAF-Mauritus Fund	41,555	1.78%
4	Gazprom OAO	38,890	1.66%
5	Vale S A Adr Repstg Pfd	37,004	1.58%
6	China Mobile	36,943	1.58%
7	CNOOC	30,448	1.30%
8	America Movil	29,336	1.25%
9	Ind and Comm Bank of China	29,251	1.25%
10	Tawain Semi Conductor	23,988	1.03%
	TOTAL	$ 380,349	16.26%

The PRIT Fund's Emerging Markets Equity managers at June 30, 2010 are highlighted in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2010 ($000s)
State Street Global Advisors	MSCI EM IMI Index	$ 567,800
Emerging Markets Management	Value/Frontier	$ 641,380
GMO LLC	Value	629,450
T. Rowe Price	Growth	499,430
Other portfolio net assets		886
Total Portfolio Fair Value June 30, 2010		**$ 2,338,946**

Core Fixed Income Portfolio

The PRIM Board invested approximately $5.77 billion in the investment grade Core Fixed Income portfolio, representing 14.0% of the PRIT Core Fund as of June 30, 2010. The Core Fixed Income Portfolio is invested using the following strategies:



The Core 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 Capital Inflation Linked Bond US Hedged Index for the Global ILB.

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 Core 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 is benchmarked to the Barclays Capital US Securitized Index. 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 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.

Portfolio Returns. For the fiscal year 2010, the Fixed Income composite return of 11.74% outperformed the benchmark (77% Barclays Capital Aggregate/8% Barclays Capital US TIPS/15% Barclays Capital ILB US$ Hedged), which returned 9.89%. The Core mandates (BlackRock Core and Passive, PIMCO Core and Loomis Sayles Core) returned 12.06% outperforming their benchmark (Barclays Capital Aggregate Index) by 256 basis points. The BlackRock passively managed TIPS mandate underperformed its benchmark (Barclays Capital US TIPS) by 12 basis points and the BlackRock actively managed ILB mandate outperformed its benchmark (Barclays Capital ILB US Hedged Index) by 64 basis points. The ETI Managers, Access Capital, AFL-CIO, and CCM returned 8.47%, 7.78%, and 8.97% versus their benchmark returns of 9.25%, 9.50%, and 9.50%, respectively.

The top ten Core Fixed Income holdings as of June 30 2010, excluding TIPS investments and certain pooled funds, are illustrated below. A complete listing of holdings is available upon request.

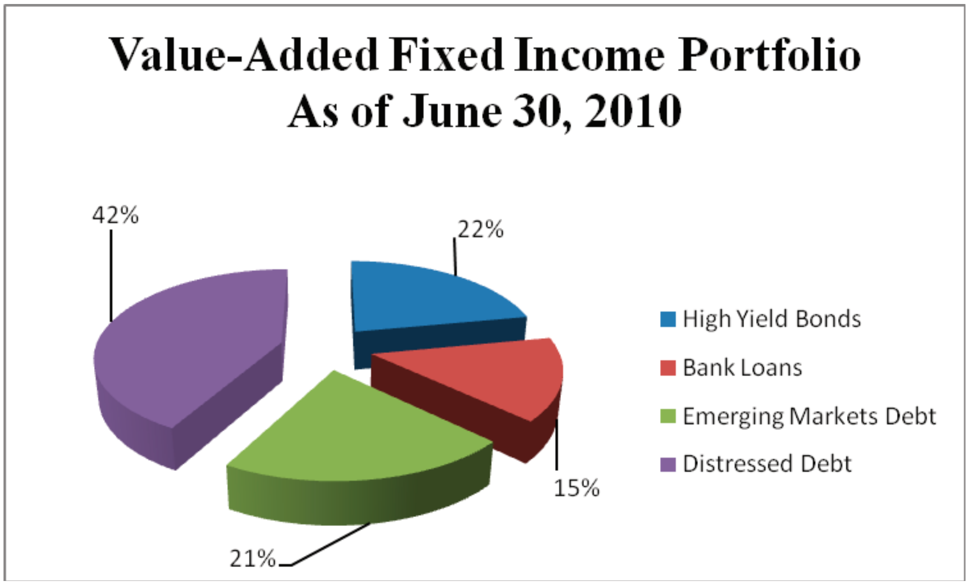
#	Issue Name		Fair Value ($000s)	% of Account Fair Value
1	U.S. Treasury Notes 3.5% May 2020	$	78,361	1.36%
2	U.S. Treasury Notes 1.125% December 2011		69,037	1.20%
3	U.S. Treasury Notes 3.625% February 2020		68,919	1.19%
4	FHLB August 2010		66,171	1.15%
5	SBA Gtd Dev 5.870% July 2028		60,735	1.05%
6	FHLB July 2010		53,876	0.93%
7	U.S. Treasury Bonds 4.625% December 2040		53,821	0.93%
8	Commit to Purchase FNMA 5.000% August 2040		52,500	0.91%
9	U.S. Treasury Notes 1.375% September 2012		50,579	0.88%
10	Commit to Purchase FNMA 4.500% August 2040		42,752	0.73%
	TOTAL	$	596,751	10.33%

The PRIT Fund's Core Fixed Income portfolio managers at June 30, 2010 are highlighted in the following table:

Manager	Investment Mandate		Portfolio Fair Value at June 30, 2010 ($000s)
Blackrock Financial Management	Core Index	$	1,095,498
Blackrock Financial Management	TIPS Index		547,774
PIMCO	Active Core		1,169,618
Blackrock Financial Management	Active Core		1,030,911
Loomis, Sayles & Co., LP	Active Core		1,019,457
Blackrock Financial Management	Inflation Link Bonds		669,983
Access Capital	ETI		99,260
AFL - CIO Housing Investment	ETI		105,019
Community Capital Management	ETI		32,768
Other portfolio net assets			4,084
Total Portfolio Fair Value June 30, 2010		**$**	**5,774,372**

Value-Added Fixed Income Portfolio

The PRIM Board invested approximately $2.9 billion in the Value-Added Fixed Income portfolio, representing 7.0% of the PRIT Core Fund as of June 30, 2010. The Value-Added Fixed Income portfolio is invested using the following strategies:



Distressed debt, 3.0% of the PRIT Core Fund, represents investments in private partnerships that invest directly in distressed debt investment opportunities. As at June 30, 2010 the PRIT Fund had approximately $1.2 billion in distressed debt investments with eight active investment managers.

High yield bonds, which represent 1.6% of the PRIT Core 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. There are three managers in the PRIT high yield bond program, all through separate accounts.

Emerging markets debt, 1.5% of the PRIT Core Fund, represents investments in debt issued within the emerging marketplace. There are two managers in the PRIT emerging debt program; one is through a commingled emerging debt investment vehicle while the other is through a separate account.

Bank Loans, 1.0% of the PRIT Core Fund, represents investments in senior secured bank loans. There are two managers in the PRIT bank loan program; both invest through commingled funds.

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 2010, the Value-Added Fixed Income composite returned 32.75% compared to 25.73% for the asset class benchmark. The PRIT Core Fund's three high yield bond managers, Shenkman, Fidelity and Loomis Sayles, returned 23.68%, while the Merrill Lynch High Yield Master II Constrained index returned 27.45%. The Emerging Markets Debt portfolio, managed by Ashmore and PIMCO, returned 21.69% during the fiscal year, beating the JP Morgan Emerging Markets Bond Index (JPM EMBI Global Index), which returned 17.90%. The two bank loan managers, Eaton Vance and ING, returned 13.51%, lagging the S&P LSTA Leveraged Loan index return of 18.54%.The Distressed Debt portfolio returned 56.76% compared to the index return of 34.25%. Distressed debt investments are limited partnerships and PRIT Core has invested a total of $1.2 billion with eight different managers; Oaktree Capital Management; Angelo, Gordon & Co.; Avenue Capital Group; Wayzata Investment Partners; Providence Equity Partners; Centerbridge Capital; Summit Partners; and Trust Company of the Wests. The benchmark for the Distressed Debt portfolio is the Altman NYU Salomon Center Combined Defaulted Public Bond & Bank Loan Index, since distressed debt resides within the Value-Added Fixed Income portfolio and high yield bond investments are used as a substitute for the distressed debt when there are no good distressed debt opportunities.

The top ten holdings in the Value-Added Fixed Income portfolio at June 30, 2010, excluding investments in emerging debt pooled funds, bank loan funds, distressed debt partnerships and other pooled funds, are illustrated below. A complete listing of holdings is available upon request.

#	Issue Name	Fair Value ($000s)	% of Account Fair Value
1	Russian Federation Variable Rate March 2030	$ 17,206	0.59%
2	Nota Do Tesouro Nacional 10.000% January 2017	12,256	0.42%
3	Columbia NTS	9,164	0.32%
4	Nextel	8,446	0.29%
5	Valeant Phar 4.000% November 2013	8,427	0.29%
6	Republic of Turkey	6,878	0.24%
7	KB Home 7.250% June 2018	6,031	0.21%
8	Qwest	5,943	0.21%
9	Indonesia	5,894	0.20%
10	Aramark Corp	5,651	0.20%
	TOTAL	$ 85,896	2.97%

The PRIT Fund's Value-Added Fixed Income portfolio managers at June 30, 2010 are highlighted in the following table:

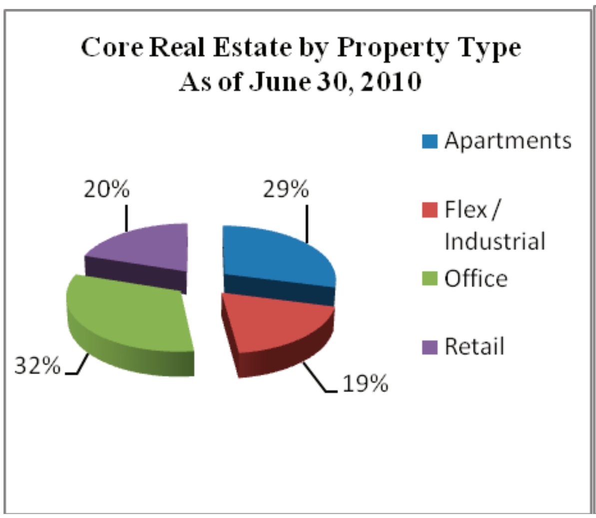
Manager	Investment Mandate		Portfolio Fair Value at June 30, 2010 ($000s)
Fidelity Management Trust	High Yield Bond	$	220,217
Shenkman Capital Management	High Yield Bond		209,948
Loomis, Sayles & Co., LP	High Yield Bond		225,713
Ashmore Investment Management	Emerging Markets Debt		369,829
PIMCO	Emerging Markets Debt		228,543
Eaton Vance	Bank Loans		210,626
ING	Bank Loans		212,364
Various partnerships	Distressed Debt		1,235,750
Other portfolio net liabilities			(15,329)
Total Portfolio Fair Value June 30, 2010		**$**	**2,897,661**

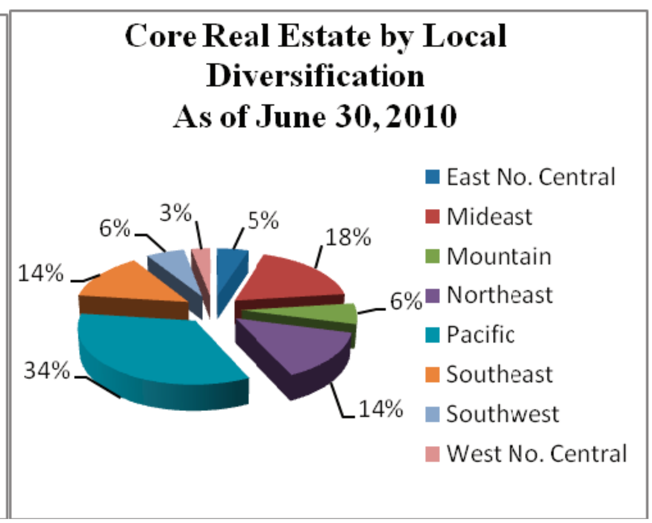
Real Estate Portfolio

As of June 30, 2010 PRIM had $3.8 billion invested in real estate, representing 9.1% of the PRIT Core 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.

Approximately 76% 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. As of June 30, 2010, $2.9 billion of Core real estate investments and $6.7 million of Value real estate investments comprise PRIM's directly owned assets. 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, 2010, PRIM had approximately $864 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%. The REIT portfolio represents 2.1% 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, 2010:





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 2010 allocation to real estate is 10% of total plan assets, which allows PRIM to establish separate accounts with capable real estate investment managers under terms that are beneficial to PRIM. Because PRIM is typically 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, 2010, PRIM did not utilize portfolio level third-party debt. The portfolio does have property level debt of $227.5 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 continued to feel the effects of a weak economy. REIT investments rebounded in response to improved credit conditions and signs of improving fundamentals.

For the fiscal year 2010, the real estate portfolio returned a positive 2.89%, outperforming the asset class benchmark return of negative 4.52% (80% NCREIF Property Index/10% NAREIT Equity REIT/10% FTSE EPRA NAREIT Developed Ex. U.S. REIT). The direct real estate portfolio returned negative 4.37% for the year ended June 30, 2010, outperforming the NCREIF Property Index (one quarter lag), which returned negative 9.59% over the same period. REIT investments returned 29.45%, underperforming its benchmark of 31.01%.

The Real Estate portfolio returned negative 6.30% over the past three-years versus the asset class benchmark return of negative 6.49%. On a five-year basis, returns were 3.67% compared to the benchmark return of 2.65%. On a 10-year basis, the real estate portfolio returned 9.39% compared to the benchmark return of 7.08%.

The PRIT Fund's real estate investment managers at June 30, 2010 are highlighted in the following table:

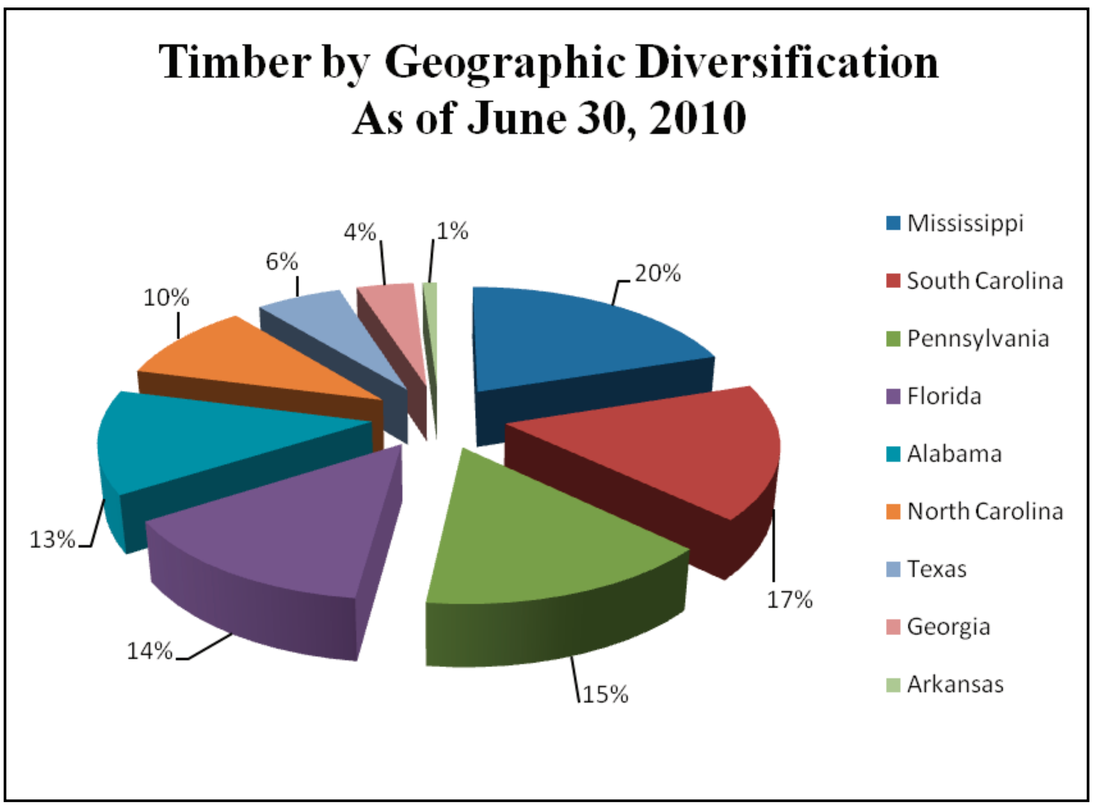
Manager	Investment Mandate	Portfolio Fair Value at June 30, 2010 ($'000's)	
Invesco Realty Advisors	Separate Accounts - Core	$	334,252
LaSalle Investment Management	Separate Accounts - Core		675,800
RREEF	Separate Accounts - Core		684,743
J.P. Morgan Investment Management	Separate Accounts - Core		424,754
TA Associates Realty	Separate Accounts - Core		750,801
RREEF	Separate Accounts - Value		6,651
RREEF	Global REITs		254,055
European Investors	International REITs		246,521
Invesco Realty Advisors	Domestic REITs		179,027
Urdang	Domestic REITs		184,033
Canyon Johnson	ETI		11,668
Intercontinental	ETI		4,539
New Boston	ETI		3,363
Other portfolio net assets			7,542
Total Portfolio Fair Value June 30, 2010		**$**	**3,767,749**

Timber and Natural Resources Portfolio

As of June 30, 2010, the PRIM Board had $1.0 billion invested in timber representing 2.5% of the PRIT Core Fund. The PRIT Fund's allocation to timber is through one external timber investment manager, Forest Investment Associates (FIA). 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, 2010, PRIM had $522 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 $140 million allocation to Natural Resources is invested through PRIM's Private Equity 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, 2010 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.

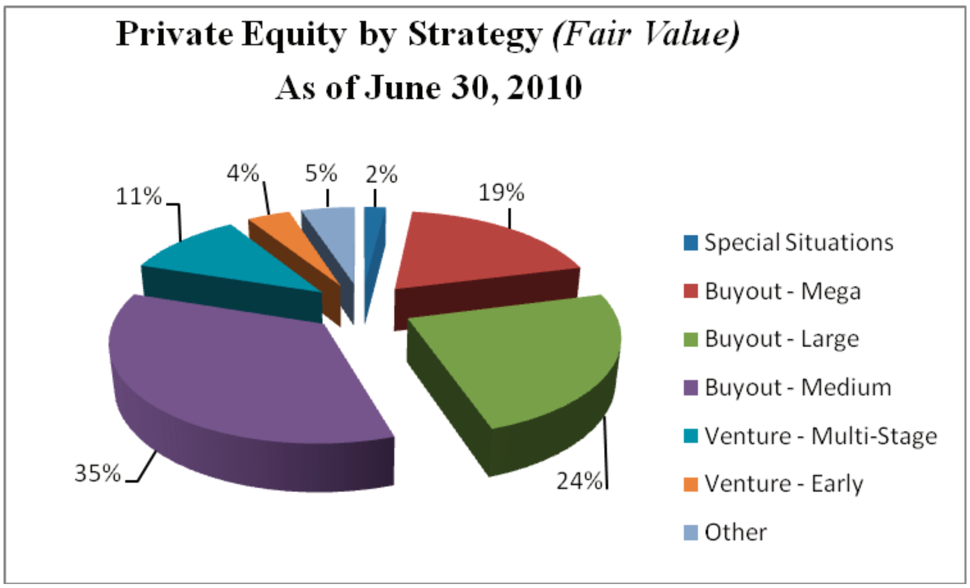
Performance. As of June 30, 2010, the one-year Timber return was a negative 15.25% as compared to the NCREIF Timber Index (one quarter lag) of negative 3.25%. Since its inception, in January 2002, the Timber portfolio has produced an annualized return of 11.86%. With a 2.5% investment in timber at fiscal year-end, PRIM was under its target of 4% for the year. However, both staff and its managers continue to evaluate new strategies and opportunities.

For the year ended June 30, 2010, the publicly traded Natural Resource portfolio returned 17.15%, outperforming the Lipper Natural Resources Global Fund index return of 11.06%, by 609 basis points. The private Natural Resources investments returned 0.63% for the fiscal year. As of June 30, 2010, the one-year combined Timber / Natural Resources return was a negative 5.35% as compared to the blended NCREIF Timber / Lipper Natural Resources Global Fund / Actual Private Natural Resources Index of 3.64%.

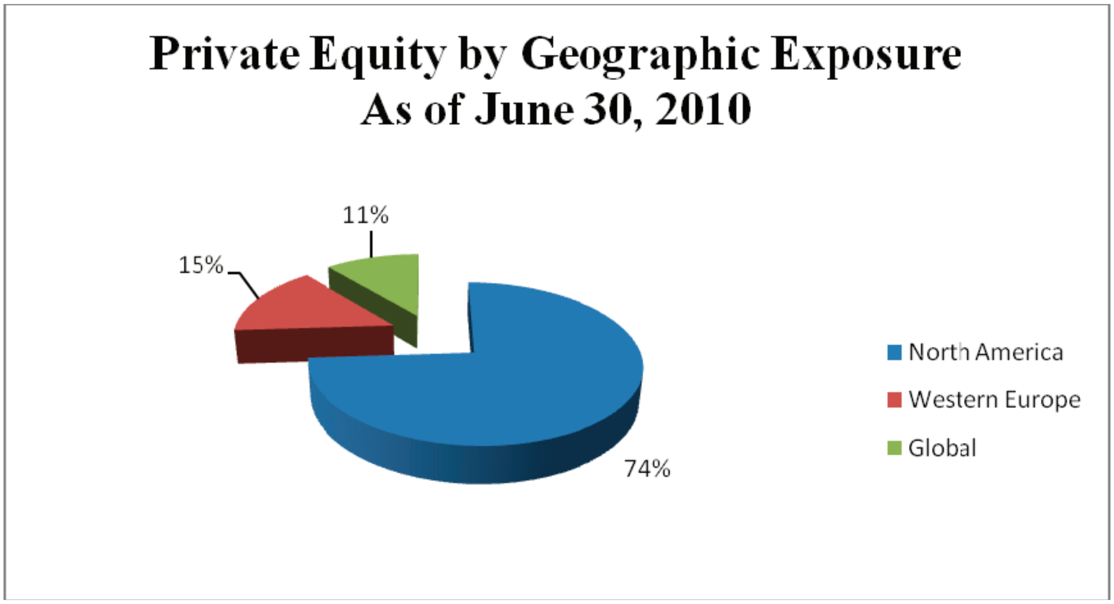
Private Equity Portfolio

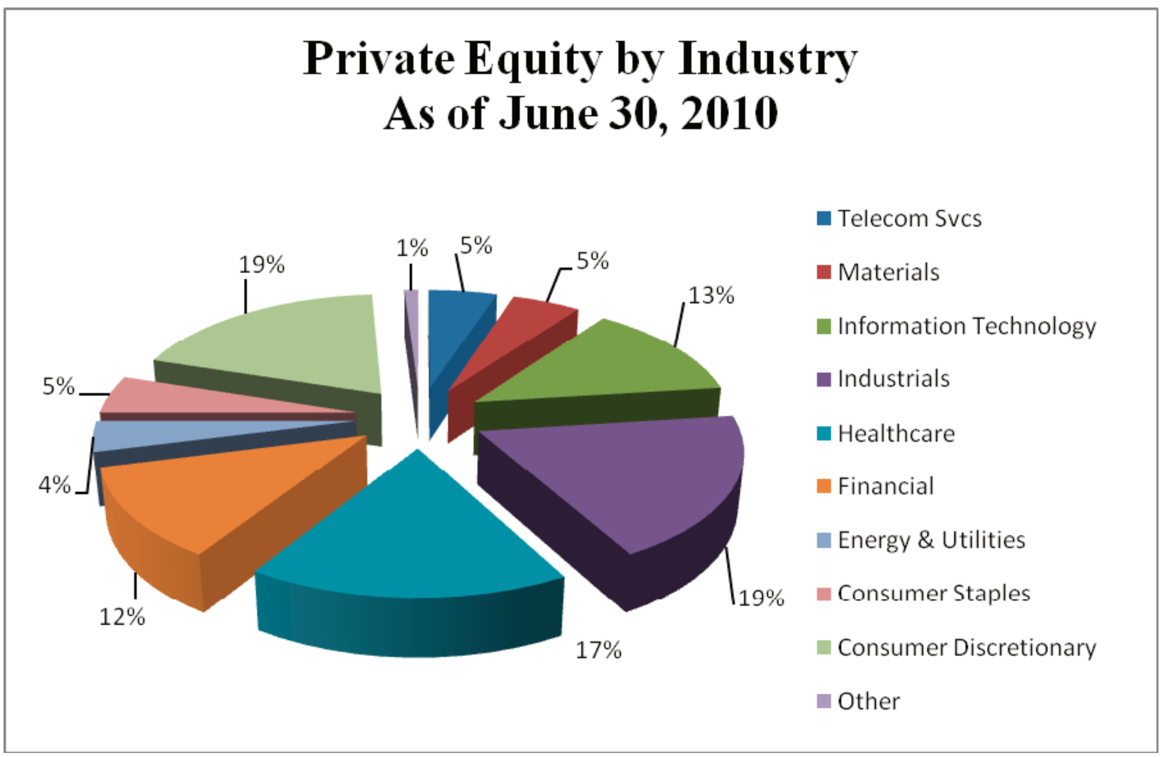
As of June 30, 2010 the market value of the Private Equity portfolio was $4.4 billion or 10.6% of the total PRIT Core Fund. This includes all vintage year Private Equity accounts opened to segmentation for participating systems. The PRIT Fund's long-term target allocation to Private Equity investments is 10%. Two components comprise the PRIT Fund's Private Equity 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 Private Equity portfolio is well-diversified by strategy and the allocation as of June 30, 2010 is highlighted below.



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





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) Private Equity 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 Private Equity portfolio delivered a one-year return of 17.84% through June 30, 2010. The Fund's Private Equity managers have become more active in the year ending June 30, 2010 as a result of rebound in the broader financial markets and the increased availability of leverage. The Fund's managers called $664.5 million of capital for additional investments which is well ahead that of the prior year ($493.3 million). From a liquidity standpoint, the portfolio generated total distributions of $445.7 million which compares to $235.1 million for the 2009 fiscal year.

While there is not currently a widely used or conventional benchmark in this asset class, PRIM staff targets investment opportunities with the ability to generate top quartile returns and aims to provide returns of 300 basis points to 500 basis points over the S&P 500. PRIT's Private Equity program has achieved this goal over the one-year, three-year, five-year, and 10-year periods outperforming the S&P 500 by a minimum of 300 basis points. Over the long term PRIT's Private Equity portfolio has performed well with a 10-year annual return of 9.24 % as of June 30, 2010, exceeding the S&P 500 index return of negative 1.59% by 1,083 basis points. On a five-year basis, the portfolio exceeded the S&P 500 by 1,619 basis points, 15.40% compared to a negative 0.79%. For the three-year period ending June 30, 2010, the Private Equity portfolio returned 3.49%, exceeding the S&P 500 index return of negative 9.81% by 1,330 basis points. For the one year period ending June 30, 2010, the Private Equity portfolio returned 17.84%, outperforming the S&P 500 index return of 14.43% by 341 basis points. It is important to remember that there is a one quarter lag inherent in private equity valuations. For this reason the June 30, 2010 results for the Private Equity portfolio do not reflect the same level of appreciation in asset values that are reflected in public market indices such as the S&P 500.

As of June 30, 2010, PRIT has committed over $11.5 billion to 218 partnerships of which $8.4 billion has been invested. The program has generated $7.5 billion in distributions and has a remaining market value of $4.4 billion. The net IRR since inception for the program is 12.5%.

PRIVATE EQUITY EXTERNAL MANAGERS

As of June 30, 2010

	Partnership	Location		Partnership	Location
1	Advent International	Boston, MA	50	Kohlberg Kravis Roberts& Co.	New York, NY
2	Alchemy Partners	London, UK	51	KPS Capital Partners	New York, NY
3	Alta Communications	Boston, MA	52	Madison Dearborn Capital Partners	Chicago, IL
4	American Securities	New York, NY	53	M/C Venture Partners	Boston, MA
5	APAX Partners & Co.	London, UK	54	Menlo Ventures	Menlo Park, CA
6	Apollo Management Co.	New York, NY	55	Montagu Private Equity	London, UK
7	AustinVentures	Austin , TX	56	Montreux Equity Partners	Palo Alto, CA
8	Bain Capital	Boston, MA	57	Narragansett Capital, Inc.	Providence, RI
9	Battery Ventures	Wellesley, MA	58	Nautic Partners	Providence, RI
10	Berkshire Partners, LLC	Boston, MA	59	New Enterprise Associates	Baltimore, MD
11	The Blackstone Group	New York, NY	60	Nordic Capital	Stockholm , Sweden
12	Boston Ventures	Boston, MA	61	Odyssey Investment Partners	New York, NY
13	Bridgepoint	London, UK	62	Olympus Growth Fund	Stamford, CT
14	Brown Brothers Harriman & Co.	New York, NY	63	Onex Partners	Toronto, CA
15	Candover	London, UK	64	PAI Partners	Paris, France
16	Carlyle Partners	Washington, DC	65	Permira Europe	London, UK
17	Castile Ventures	Waltham, MA	66	Polaris Venture Partners	Waltham, MA
18	Centerbridge Capital Partners	New York, NY	67	Providence Equity Partners	Providence, RI
19	Charles River Ventures	Waltham, MA	68	Quad - C Management, Inc.	Charlottesville, VA
20	Charlesbank Capital Partners	Boston, MA	69	Rembrandt Venture Partners	Menlo Park, CA
21	Charterhouse Capital Partners	London, UK	70	Richland Ventures	Nashville, TN
22	Chequers Capital	Paris, France	71	SAIF Partners	Hong Kong, China
23	Code Hennessey & Simmons	Chicago, IL	72	SCP Vitalife	Tel Aviv, Israel
24	Commonwealth Capital Ventures	Wellesley, MA	73	Sherbrooke Capital	Newton, MA
25	CVC Capital (Europe)	London, UK	74	Sovereign Capital Limited	London, UK
26	Cypress Merchant Banking	New York, NY	75	Spark Capital	Boston, MA
27	Denham Capital Management	Boston, MA	76	Spectrum Equity Partners	Boston, MA
28	DLJ Merchant Banking	New York, NY	77	Summit Ventures	Boston, MA
29	El Dorado Ventures	Menlo Park, CA	78	SV Life Sciences	Boston, MA
30	Equitable Capital Management	New York, NY	79	TA Associates	Boston, MA
31	Essex Woodlands	Houston, TX	80	TCV	Menlo Park, CA
32	Ethos Private Equity	Johannesburg, South Africa	81	Texas Pacific Group	San Fran./Forth Worth
33	Exponent Partners	London, UK	82	Thoma Bravo	Chicago/San Francisco
34	First Reserve Corporation	Greenwich, CT	83	Thomas H. Lee Equity Partners	Boston, MA
35	Flagship Ventures	Cambridge, MA	84	Torquest	Toronto, CA
36	Forstmann, Little & Co.	New York, NY	85	Towerbrook Capital Partners	NewYork/London
37	Freeman Spogli Equity Partners	Los Angeles, CA	86	Trident Capital	Palo Alto, CA
38	Genstar Capital Partners	San Francisco, CA	87	Union Square Ventures	New York, NY
39	Gilde Buy Out Partners	Utrecht, Netherlands	88	VantagePoint Partners	San Bruno, CA
40	The Gores Group	Los Angeles, CA	89	Venture Capital Fund of NE	Boston, MA
41	GTCR Golder, Rauner	Chicago, IL	90	Vestar Capital Partners	New York, NY
42	Hellman & Friedman Capital Partners	San Francisco, CA	91	Vista Equity Partners	San Francisco, CA
43	H.I.G. Capital	Miami, Fla.	92	Welsh CarsonAnderson & Stowe	New York, NY
44	Highland Capital Partners	Boston, MA	93	Weston Presidio Capital	Boston/San Francisco
45	Insight Venture Partners	New York, NY	94	Westview Capital Partners	Boston, MA
46	Institutional Venture Partners	Menlo Park, CA	95	Whitney & Co.	Stamford, CT
47	InterWest Partners	Menlo Park, CA/Dallas, TX	96	William Blair Mezzanine Capital Fund	Chicago, IL
48	Joseph Littlejohn & Levy	New York, NY	97	Willis Stein	Chicago, IL
49	Kelso & Company	New York, NY	98	Xenon Private Equity	Milan, Italy

Hedge Fund Portfolio

As of June 30, 2010 the Hedge Fund portfolio had approximately $3.2 billion in assets, which represented 7.7% of the PRIT Fund. PRIM has investments in five active hedge funds of funds managers, and one residual liquidating portfolio. The Rock Creek Group is managing the liquidation of the Ivy Asset Management liquidation portfolio.

The PRIT Fund's Hedge Fund managers at June 30, 2010 are highlighted in the following table:

Manager	Strategy Focus		Portfolio Fair Value at June 30, 2010 ($'000's)
The Rock Creek Group	*Non-US Equity Long/Short and Event Driven*		697,081
PAAMCO	*Core - Emerging Managers*		689,925
Grosvenor	*Fundamental Credit*		661,194
K2 Advisors	*Core*		536,375
Arden Asset Management	*Equity Market Neutral/Fundamental Credit*	$	518,752
Ivy Asset Management Corp. - Liquidation	*N/A*		50,250
Other portfolio net assets			1,010
Total Portfolio Fair Value June 30, 2010		**$**	**3,154,587**

At June 30, 2010 the five Hedge Fund managers had investments in 238 underlying hedge funds.

Portfolio Risks. The Hedge Fund 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 hedge fund investment plan to manage these risks and ensure appropriate diversification within the asset class.

PRIT's Hedge Fund portfolio managers returned 7.13% for the fiscal year versus a return of 0.56% for the benchmark HFRI Fund of Funds Composite Index. The hedge fund portfolio has returned a negative 2.29% and a positive 3.39% over the three and five year periods versus the asset class benchmark of 4.34% and 6.02%, respectively. All performance figures for this asset class are reported 'net of fees'.

Portable Alpha wind down

In October 2009, the PRIM Board voted to terminate the Portable Alpha program. Beginning January 1, 2010, the Rock Creek Group began managing the liquidation and wind down of the portfolios. As of June 30, 2010, the Portable Alpha Wind Down portfolio had approximately $777 million in assets which represents 1.9% of the PRIT Fund. Prior to January 1, 2010, the returns of the Portable Alpha program are included in the Domestic Equity portfolio.

SCHEDULE OF TIME-WEIGHTED RETURNS BY ASSET CLASS*

For the Periods Ended June 30, 2010

Asset Class *Benchmark as of June 30, 2010*	1 Year	3 Year	5 Year	10 Year
Global Equity (1)	**14.28%**	**-10.54%**	**1.08%**	**na**
MSCI All Country World IMI NET DVS	*11.60%*	*-10.55%*	*1.13%*	*na*
Domestic Equity	**14.59%**	**-13.04%**	**-2.75%**	**-1.31%**
Russell 3000 (2)	*11.07%*	*-10.69%*	*-1.16%*	*-1.23%*
International Equity	**9.74%**	**-12.00%**	**1.87%**	**1.50%**
MSCI EAFE	*7.43%*	*-12.89%*	*1.22%*	*0.33%*
Emerging Markets	**24.01%**	**-5.29%**	**10.62%**	**8.74%**
MSCI EMF Net Div.	*23.22%*	*-2.28%*	*12.88%*	*10.21%*
Core Fixed Income (3)	**11.74%**	**6.51%**	**4.78%**	**6.40%**
77% BC Agg/8%BC US TIPS/15% BC ILB US$ HEDGED	*9.89%*	*6.25%*	*4.44%*	*6.16%*
Value-Added Fixed Income (3)	**32.75%**	**6.82%**	**8.36%**	**na**
24.2% MLHYM/19.43% JPM EMBI Global/16.56% S&P LSTA Leveraged Index/39.81% Altman Index	*25.73%*	*7.85%*	*8.00%*	*na*
Real Estate	**2.89%**	**-6.30%**	**3.67%**	**9.39%**
80% NCREIF Property One Qtr. Lag/10% NAREIT Equity REIT/10% FTSE EPRA NAREIT DEVELOPED EX US REIT	*-4.52%*	*-6.49%*	*2.65%*	*7.08%*
Private Equity	**17.84%**	**3.49%**	**15.40%**	**9.24%**
No Benchmark	*na*	*na*	*na*	*na*
Timber / Natural Resources (4)	**-5.35%**	**0.33%**	**7.05%**	**na**
50% NCREIF Timber Index / 42% Lipper Natural Resources Global Fund Index / 8% Actual Natural Resources - Private	*3.64%*	*-0.83%*	*5.87%*	*na*
Hedge Funds (5)	**7.13%**	**-2.29%**	**3.39%**	**na**
HFRI Fund of Funds Composite Index (7)	*0.56%*	*4.34%*	*6.02%*	*na*
Portable Alpha Wind Down (6)	**17.96%**	**-19.10%**	**na**	**na**
HFRI Fund of Funds Composite Index (7)	*7.70%*	*-11.48%*	*na*	*na*
	1 Year	**3 Year**	**5 Year**	**10 Year**
Total PRIT Core	**12.86%**	**-5.53%**	**3.15%**	**3.70%**
Policy Benchmark	*9.77%*	*-4.36%*	*3.53%*	*3.27%*
TUCS Universe Median	*13.09%*	*-3.96%*	*3.17%*	*3.38%*
TUCS Universe Ranking	*55th*	*90th*	*51st*	*33rd*

(1) The Global Equity composite inception date coincides with the establishment of the MSCI All Country World Index on January 1, 2001.
(2) Current Domestic Equity benchmark is Russell 3000. Prior to January 1, 2010, the Domestic Equity benchmark was a blended composite.
(3) Prior to July 2001, all high yield returns are reflected in the Fixed Income Account.
(4) The Timber Account's inception date was January 1, 2002; Natural Resources Account's inception was August 1, 2008.
(5) The Hedge Fund Account's inception date was July 1, 2004.
(6) Prior to January 1, 2010, Portable Alpha returns are reflected in the Domestic Equity Account.
(7) The HFRI index benchmark commenced on January 1, 2010. Prior, the Hedge Fund index consisted of the ML 90-Day T-Bill plus 4%, while the Portable Alpha Index was tied to the Domestic Equity Index +3%.

*** All return information is gross of fees, except Hedge Fund fees, which is net of fees. Returns are calculated based on a time-weighted rate of return methodology.**

Investment Summary at Fair Value

As of June 30, 2010

		Fair Value ($000s)	% of Fair Value
Short-term:			
Money market investments	$	680,084	1.66%
Fixed income:			
U.S. Government obligations		1,938,458	4.73%
Domestic fixed income		4,623,511	11.27%
International fixed income		1,695,717	4.14%
Distressed debt		1,235,750	3.01%
Equity:			
Domestic equity securities		7,110,625	17.34%
International equity securities		10,511,259	25.63%
Real estate		3,769,358	9.19%
Timber		1,002,875	2.45%
Private Equity:			
Venture capital		863,851	2.11%
Special equity		3,661,399	8.93%
Hedge Fund-of-Funds investments:			
Hedge Funds		3,153,578	7.69%
Portable Alpha Wind Down		761,140	1.85%
Total investments	$	41,007,605	100.00%

SUMMARY SCHEDULE OF BROKER COMMISSIONS

(Top 25 Brokers and Cumulative Fees Paid to Others)
Fiscal Year Ended June 30, 2010

Brokerage Firms	Fees Paid ($)	% total	Average per share
State Street Global	2,089,044	18.3%	0.008
Credit Suisse	876,839	7.7%	0.005
UBS	754,797	6.6%	0.007
Goldman Sachs	661,098	5.8%	0.005
Merrill Lynch	652,353	5.7%	0.007
JP Morgan Securities	565,100	4.9%	0.007
Morgan Stanley & Co.	519,629	4.5%	0.006
Citigroup Global Markets	481,731	4.2%	0.008
Macquarie Bank Ltd.	456,925	4.0%	0.002
Deutsche Bank	409,441	3.6%	0.004
Pershing Securities Ltd.	239,304	2.1%	0.012
ING Barings Corp	211,582	1.9%	0.008
ING Bank	194,688	1.7%	0.005
Instinet Corp	153,791	1.3%	0.003
ICAP DO Brasil	135,216	1.2%	0.020
Royal Bank of Scotland	130,214	1.1%	0.007
Calyon Securites	127,513	1.1%	0.001
Weeden & Co.	116,670	1.0%	0.013
HSBC	104,138	0.9%	0.015
BNP Paribas	96,539	0.8%	0.002
Jefferies & Co Inc.	96,340	0.8%	0.013
Investment Technology Group	79,499	0.7%	0.003
Bankco Santander	75,819	0.7%	0.016
Credit Agricole	73,251	0.6%	0.026
Banco Itau, Sao Paulo	71,079	0.6%	0.019
Others	2,057,165	18.2%	0.004
Totals	$11,429,765	100%	0.008

* Total Commissions Paid in U.S. dollars

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, 2010 the PRIT Fund earned approximately $417 thousand from the commission recapture program.

SCHEDULE OF PRIT MANAGEMENT FEES

Fiscal Year Ended June 30, 2010

Investment Management Fees by Asset Class:	($000s)
Domestic Equity	$ 5,437
International Equity	18,091
Core Fixed Income	7,266
Value-Added Fixed Income	3,537
Emerging Markets Equity	6,511
Real Estate	4,838
Timber / Natural Resources	878
Alternative Investments	3,800
Total Investment Management Fees	50,358
Investment Advisory (Consulting) Fees	2,849
Custodian Fees	2,700
Other Administrative Fees	5,656
Total Management Fees charged to PRIT	$ 61,563

SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT

Segmentation Accounts invested as of June 30, 2010

Retirement System	Net Asset Vaules ($000s) 6/30/10	General Allocation	International Equity	Emerging Markets	Core Fixed Income	Real Estate	Private Equity	Hedge Funds
Amesbury	$ 30,001	X						
Andover	$ 75,115	X						
Arlington	$ 92,524	X						
Athol	$ 13,216	X						
Attleboro	$ 4,287							X
Barnstable	$ 476,953	X						
Belmont	$ 7,847	X					X	X
Berkshire	$ 116,806	X						
Beverly	$ 63,087	X						
Blue Hills	$ 5,326	X						
Braintree	$ 28,293	X				X		X
Bristol County	$ 15,322							X
Brookline	$ 23,883	X				X		X
Cambridge	$ 48,867							X
Chelsea	$ 63,338	X						
Chicopee	$ 17,505					X		X
Clinton	$ 8,479	X		X	X	X		X
Concord	$ 29,301	X					X	
Danvers	$ 15,362		X	X			X	X
Dedham	$ 73,871	X						
Dukes County	$ 40,833	X	X		X	X		
Easthampton	$ 25,738	X						
Essex	$ 205,072	X						
Everett	$ 49,751	X						
Fairhaven	$ 31,034	X						
Fall River	$ 154,347	X						
Falmouth	$ 7,682							X
Fitchburg	$ 63,603	X						
Framingham	$ 165,298	X						
Franklin County	$ 41,969	X						
Gardner	$ 32,841	X						
Gloucester	$ 54,492	X						
Greenfield	$ 38,574	X				X	X	
Hampden County	$ 182,610	X						
Hampshire County	$ 30,671			X		X	X	X
Haverhill	$ 19,061			X		X	X	X
Hingham	$ 62,395	X						
Hull	$ 20,402	X						
Lawrence	$ 108,835	X						
Leominster	$ 47,146	X			X			X
Lowell	$ 200,126	X						
Lynn	$ 149,774	X						
Marblehead	$ 66,412	X						
Mass Turnpike	$ 176,478	X						
Massport	$ 33,034					X	X	
Maynard	$ 11,042			X	X			

SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT, cont.

Segmentation Accounts invested as of June 30, 2010

Retirement System	Net Asset Vaules ($000s) 6/30/10	General Allocation	International Equity	Emerging Markets	Core Fixed Income	Real Estate	Private Equity	Hedge Funds
Medford	$ 14,540					X	X	X
Melrose	$ 43,964	X						
Methuen	$ 58,751	X						
Middlesex	$ 589,013	X						
Milford	$ 46,482	X						
Milton	$ 69,096	X						
Minuteman	$ 9,619	X						
Montague	$ 20,666	X						
MWRA	$ 23,196	X					X	X
Natick	$ 5,050					X	X	X
Needham	$ 89,187	X						
New Bedford	$ 12,153							X
Newburyport	$ 40,002	X						
Newton	$ 196,688	X						
Norfolk	$ 18,096					X		X
North Adams	$ 1,603						X	X
Northbridge	$ 17,905	X						
Northampton	$ 2,853						X	X
Norwood	$ 14,088					X		X
Peabody	$ 88,450	X						
Pittsfield	$ 69,353	X						
Plymouth	$ 12,141					X	X	X
Quincy	$ 13,670	X					X	X
Reading	$ 76,705	X						
Revere	$ 76,290	X						
Salem	$ 73,974	X						
Saugus	$ 52,241	X						
Shrewsbury	$ 27,983	X						
Southbridge	$ 18,504	X						
Springfield	$ 200,589	X						
State Employees'	$ 16,735,566	X						
State Teachers'	$ 18,562,128	X						
Stoneham	$ 49,579	X						
Swampscott	$ 1,491							X
Wakefield	$ 73,141	X						
Waltham	$ 105,532	X						
Watertown	$ 28,951	X						
Webster	$ 3,823					X	X	X
Wellesley	$ 102,114	X						
West Springfield	$ 7,487	X						
Weymouth	$ 16,581					X		X
Winchester	$ 19,762				X			X
Winthrop	$ 30,370	X						
Woburn	$ 19,397		X	X		X		X
Worcester	$ 14,943					X		X
Worcester Regional	$ 301,990	X						
	$41,284,310							

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 managers, 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 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 20th day after the end of each quarter. The benefit of this timing is that the asset allocation of the PRIT Fund will reflect the most recent valuations for private equity, 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 Private Equity, 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	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
State Employees contributions	$ 475,591	$ 462,471	$ 464,330	$ 420,199	$ 409,515	$ 366,262	$ 362,309	$ 350,705	$ 352,123	$ 323,571
State teachers contributions	593,147	599,410	573,984	548,229	527,820	506,711	522,133	504,014	494,761	371,914
Other participants contributions	620,865	991,362	2,347,537	1,047,285	759,088	111,557	257,892	136,712	107,566	70,869
Net investment income (loss)	4,676,706	(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)
Total additions to pooled net assets	6,366,309	(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)
Deductions										
State employees warrants	259,285	242,694	239,452	227,510	218,831	211,746	207,569	186,782	165,606	168,432
State teachers warrants	388,366	361,773	341,575	299,612	273,209	234,729	201,490	177,051	152,138	151,911
Participants redemptions	364,648	383,748	202,723	128,843	108,577	164,889	84,627	60,604	55,461	46,938
State appropriation funding	1,731,617	1,465,275	1,184,774	1,100,000	939,100	888,000	1,197,689	891,000	688,000	273,409
Operating expenses	27,332	24,954	23,294	15,447	18,305	17,057	14,107	13,888	14,560	11,810
Total deductions to pooled net assets	2,771,248	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
Changes in pooled net assets	$ 3,595,061	$ (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)

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 94-95 provide the financial highlights of the PRIT Core Fund for the year ended June 30, 2010. In addition, pages 96-99 provide additional financial highlights ratios for the nine 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 Core Fund. This information includes important return and expense ratios for the entire PRIT Fund as well as the various accounts that comprise the PRIT Core Fund. This information should be read in conjunction with the description of the investment program highlighted in the *Investment Section* of the CAFR.

Financial Highlights

For the year ended June 30, 2010

	General Allocation Account	Domestic Equity Account	International Equity Account	Emerging Markets Account	Core Fixed Income Account	Value-Added Fixed Income Account	Hedge Funds Account	Portable Alpha Wind Down Account	Private Equity Account	Private Equity Vintage Year 2000 Account	Private Equity Vintage Year 2001 Account	Private Equity Vintage Year 2002 Account
Net asset value, beginning of year	$ 159.06	99.31	152.04	275.78	178.70	167.20	56.30	100.00	247.06	154.15	304.39	90.76
Investment operations:												
Net investment income (loss)(1)	4.20	1.40	5.20	5.47	7.47	7.99	(0.02)	(0.01)	1.93	3.49	4.92	(0.05)
Net realized and unrealized gain (loss) on investments and foreign currency	15.63	13.00	9.24	59.52	13.19	45.89	4.02	2.26	36.94	18.29	49.15	11.81
Total from investment operations	19.83	14.40	14.44	64.99	20.66	53.88	4.00	2.25	38.87	21.78	54.07	11.76
Net asset value, end of year	$ 178.89	113.71	166.48	340.77	199.36	221.08	60.30	102.25	285.93	175.93	358.46	102.52
Ratios and supplementary data:												
Total net return(2)	12.47%	14.50%	9.50%	23.57%	11.56%	32.22%	7.10%	2.25%	15.73%	14.13%	17.76%	12.96%
Net assets, end of year ($'000s)	$ 40,753,645	8,188,194	8,264,027	2,338,946	5,774,372	2,897,661	3,154,587	776,629	339,078	480,643	324,708	100,441
Units outstanding, end of year ('000s)	227,816	72,008	49,641	6,864	28,965	13,107	52,318	7,595	1,186	2,732	906	980
Ratios to average net assets:												
Ratio of expenses, including indirect management fees	0.54%	0.20%	0.23%	0.25%	0.16%	1.08%	0.82%	0.14%	0.79%	1.57%	1.07%	1.13%
Ratio of expenses, excluding indirect management fees	0.15%	0.08%	0.23%	0.17%	0.14%	0.28%	0.03%	0.02%	0.16%	0.08%	0.08%	0.06%
Ratio of net investment income (loss)	2.34%	1.49%	2.69%	1.59%	3.85%	4.07%	(0.02)%	(0.01)%	0.75%	2.11%	1.47%	(0.05)%

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

(1) Based on weighted average units outstanding.
(2) 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, 2010

	Private Equity Vintage Year 2003 Account	Private Equity Vintage Year 2004 Account	Private Equity Vintage Year 2005 Account	Private Equity Vintage Year 2006 Account	Private Equity Vintage Year 2007 Account	Private Equity Vintage Year 2008 Account	Private Equity Vintage Year 2009 Account	Private Equity Vintage Year 2010 Account	Core Real Estate Account	Timber/ Natural Resources Account
Net asset value, beginning of year	$ 180.52	30.42	55.22	37.29	12.25	39.60	100.00	100.00	260.78	208.62
Investment operations:										
Net investment income (loss)(1)	5.99	0.32	0.09	0.35	0.05	0.27	0.11	(5.25)	12.95	1.27
Net realized and unrealized gain (loss) on investments and foreign currency	37.42	4.05	8.47	5.44	1.32	2.11	(46.30)	0.00	(6.82)	(13.58)
Total from investment operations	43.41	4.37	8.56	5.79	1.37	2.38	(46.19)	(5.25)	6.13	(12.31)
Net asset value, end of year	$ 223.93	34.79	63.78	43.08	13.62	41.98	53.81	94.75	266.91	196.31
Ratios and supplementary data:										
Total net return(2)	24.05%	14.37%	15.50%	15.53%	11.18%	6.01%	(46.19)%	(5.25)%	2.35%	(5.90)%
Net assets, end of year ($'000s)	$ 411,075	365,651	750,824	913,119	467,426	203,969	18,978	7,080	3,767,749	1,671,981
Units outstanding, end of year ('000s)	1,826	10,458	11,670	20,982	33,927	4,786	349	74	13,815	8,517
Ratios to average net assets:										
Ratio of expenses, including indirect management fees	0.89%	1.16%	1.93%	2.03%	5.66%	9.21%	51.16%	0.06%	0.53%	0.57%
Ratio of expenses, excluding indirect management fees	0.06%	0.18%	0.19%	0.30%	0.06%	0.06%	0.06%	0.06%	0.15%	0.07%
Ratio of net investment income (loss)	2.94%	0.99%	0.15%	0.90%	0.46%	0.72%	0.15%	(32.74)%	4.80%	0.60%

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

(1) Based on weighted average units outstanding.

(2) 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 Ratios

For the years ended June 30, 2009-2001

	General Allocation Account	Domestic Equity Account	International Equity Account	Emerging Markets Account	Core Fixed Income Account	Value-Added Fixed Income Account	Hedge Funds Account	Private Equity Account	Vintage Year 2000 Account	Vintage Year 2001 Account
Ratios and supplementary data:										
2009										
Total net return (1)	(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 ($'000s)	37,113,501	9,164,719	7,146,289	1,887,971	4,897,346	2,883,436	2,135,634	343,288	483,606	317,591
Units outstanding, end of year ('000s)	233,338	92,280	47,004	6,846	27,405	17,245	37,934	1,390	3,137	1,043
2008										
Total net return (1)	(2.30)%	(15.69)%	(9.27)%	(0.03)%	14.18%	2.04%	1.73%	19.23%	17.10%	18.39%
Net assets, end of year ($'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 (1)	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 ($'000s)	49,519,109	15,049,415	10,574,561	2,750,631	7,800,673	2,329,393	2,569,001	533,033	698,900	509,022
Units outstanding, end of year ('000s)	229,913	86,717	42,945	6,782	47,065	12,568	39,711	1,977	4,301	1,529
2006										
Total net return (1)	14.87%	9.30%	27.01%	36.12%	(0.51)%	5.80%	11.18%	36.45%	34.70%	55.07%
Net assets, end of year ($'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 (1)	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 ($'000s)	35,997,752	11,807,278	5,657,388	2,054,560	5,866,994	2,707,704	1,726,208	881,979	647,335	407,768
Units outstanding, end of year ('000s)	229,491	89,680	36,812	9,810	36,898	17,732	33,767	5,559	6,608	2,853
2004										
Total net return (1)	19.04%	22.21%	32.39%	34.01%	1.50%	12.84%	N/A	26.57%	14.17%	22.29%
Net assets, end of year ($'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 (1)	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 ($'000s)	27,653,710	11,709,050	4,679,366	1,057,285	5,835,043	980,991	N/A	1,015,387	401,800	152,357
Units outstanding, end of year ('000s)	250,376	116,992	45,898	9,258	40,013	8,342	N/A	9,428	5,707	2,036
2002										
Total net return (1)	(9.24)%	(16.39)%	(8.12)%	(2.85)%	8.40%	(3.90)%	N/A	(12.42)%	(14.01)%	(15.59)%
Net assets, end of year ($'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 (1)	(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:										
2009										
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%
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 fees	0.25%	0.17%	0.26%	0.10%	0.16%	0.21%	0.04%	0.14%	0.02%	0.02%
Ratio of net investment income (loss)	2.70%	1.49%	2.84%	2.23%	5.32%	5.41%	(0.02)%	1.85%	0.58%	1.63%

Financial Highlights Ratios, cont.

For the years ended June 30, 2009-2001

	General Allocation Account	Domestic Equity Account	International Equity Account	Emerging Markets Account	Core Fixed Income Account	Value-Added Fixed Income Account	Hedge Funds Account	Private Equity Account	Vintage Year 2000 Account	Vintage Year 2001 Account
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 fees	0.27%	0.16%	0.27%	0.33%	0.13%	0.24%	0.03%	0.19%	0.08%	0.09%
Ratio of net investment income (loss)	2.93%	1.87%	2.73%	2.76%	4.96%	5.95%	(0.03)%	2.89%	2.56%	6.96%
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 fees	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 fees	0.30%	0.16%	0.26%	0.68%	0.11%	0.32%	0.04%	0.11%	0.10%	0.09%
Ratio of net investment income (loss)	2.96%	1.60%	2.32%	2.39%	4.80%	6.31%	(0.04)%	2.64%	3.64%	6.39%
2004										
Ratio of expenses, including indirect management fees	0.42%	0.16%	0.21%	0.97%	0.13%	0.65%	N/A	1.65%	3.58%	3.84%
Ratio of expenses, excluding indirect management fees	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 fees	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 fees	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 fees	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)%

(1) 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 Ratios, cont.

For the years ended June 30, 2009-2001

	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 / NR Account
Ratios and supplementary data:										
2009										
Total net return (1)	(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 ($'000s)	86,586	393,043	318,973	629,918	708,085	285,173	62,947	4,090,525	—	1,776,921
Units outstanding, end of year ('000s)	954	2,177	10,485	11,408	18,991	23,279	1,590	15,686	—	8,518
2008										
Total net return (1)	19.01%	18.81%	21.15%	22.18%	2.80%	(84.80)%	N/A	4.41%	N/A	20.69%
Net assets, end of year ($'000s)	114,619	531,381	388,181	748,612	783,796	163,835	8,038	5,520,030	2	1,065,586
Units outstanding, end of year ('000s)	916	2,272	10,222	10,060	16,056	10,778	91	16,109	—	4,350
2007										
Total net return (1)	26.70%	63.10%	22.32%	13.02%	(38.73)%	—%	N/A	15.65%	318.62%	14.67%
Net assets, end of year ($'000s)	102,564	555,480	319,874	385,139	251,773	740	N/A	4,316,265	2	1,598,166
Units outstanding, end of year ('000s)	976	2,822	10,204	6,325	5,301	7	N/A	13,152	—	7,874
2006										
Total net return (1)	38.67%	32.12%	(4.55)%	(32.12)%	(22.49)%	N/A	N/A	22.70%	106.43%	18.52%
Net assets, end of year ($'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 (1)	(3.28)%	12.58%	(73.15)%	(20.63)%	N/A	N/A	N/A	29.33%	(30.98)%	11.54%
Net assets, end of year ($'000s)	52,257	178,524	13,401	910	N/A	N/A	N/A	2,950,852	822	1,316,382
Units outstanding, end of year ('000s)	873	1,954	499	11	N/A	N/A	N/A	12,759	9	8,815
2004										
Total net return (1)	(29.93)%	(18.86)%	N/A	N/A	N/A	N/A	N/A	19.15%	1.84%	12.15%
Net assets, end of year ($'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 (1)	(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 ($'000s)	4,167	N/A	N/A	N/A	N/A	N/A	N/A	1,481,271	8,168	505,632
Units outstanding, end of year ('000s)	47	N/A	N/A	N/A	N/A	N/A	N/A	9,870	60	4,236
2002										
Total net return (1)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8.87%	19.19%	4.58%
Net assets, end of year ($'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 (1)	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:										
2009										
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)%
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)%

Financial Highlights Ratios, cont.

For the years ended June 30, 2009-2001

	Vintage Year 2002 Account	Vintage Year 2003 Account	Vintage Year 2004 Account	Vintage Year 2005 Account	Vintage Year 2006 Account	Core Real Estate Account	Noncore Real Estate Account	Timber / NR Account
2007								
Ratio of expenses, including indirect management fees	1.55%	0.94%	1.49%	5.20%	10.88%	1.13%	N/A	0.98%
Ratio of expenses, excluding indirect management fees	0.08%	0.08%	0.31%	0.22%	1.81%	0.80%	N/A	0.72%
Ratio of net investment income (loss)	—%	4.57%	0.22%	3.70%	(1.47)%	3.94%	N/A	0.09%
2006								
Ratio of expenses, including indirect management fees	2.43%	2.37%	6.73%	20.92%	19.76%	1.66%	1.00%	2.27%
Ratio of expenses, excluding indirect management fees	0.08%	0.08%	1.04%	2.03%	0.21%	1.29%	1.00%	2.00%
Ratio of net investment income (loss)	(0.07)%	0.66%	(0.97)%	(1.66)%	(0.22)%	3.57%	2.85%	(0.04)%
2005								
Ratio of expenses, including indirect management fees	4.28%	7.39%	53.44%	22.43%	N/A	1.58%	1.79%	1.50%
Ratio of expenses, excluding indirect management fees	0.09%	0.09%	6.95%	—%	N/A	1.10%	0.03%	1.26%
Ratio of net investment income (loss)	(0.09)%	0.70%	(6.95)%	—%	N/A	6.49%	6.46%	1.29%
2004								
Ratio of expenses, including indirect management fees	32.06%	11.52%	N/A	N/A	N/A	0.76%	0.46%	0.63%
Ratio of expenses, excluding indirect management fees	0.02%	0.01%	N/A	N/A	N/A	0.22%	0.03%	0.36%
Ratio of net investment income (loss)	(0.10)%	(0.26)%	N/A	N/A	N/A	7.69%	5.61%	0.95%
2003								
Ratio of expenses, including indirect management fees	14.44%	N/A	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	N/A	0.04%	0.09%	1.53%
Ratio of net investment income (loss)	(14.43)%	N/A	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	N/A	0.43%	0.93%	0.24%
Ratio of expenses, excluding indirect management fees	N/A	N/A	N/A	N/A	N/A	(0.03)%	0.03%	0.01%
Ratio of net investment income (loss)	N/A	N/A	N/A	N/A	N/A	7.85%	3.55%	0.25%
2001								
Ratio of expenses, including indirect management fees	N/A	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	N/A	0.24%	0.02%	N/A
Ratio of net investment income (loss)	N/A	N/A	N/A	N/A	N/A	7.87%	6.64%	N/A

(1) 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.

PRIT Core Fund Asset Allocation

As of June 30:

The following table is intended to provide readers of this CAFR with further information regarding the financial position of the PRIT Core 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.

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Domestic Equity	19.9%	24.4%	26.1%	29.9%	27.5%	32.6%	39.0%	42.1%	39.1%	42.6%
International Equity	20.0%	19.0%	20.0%	21.0%	19.8%	15.6%	16.3%	16.7%	16.5%	16.5%
Emerging Markets	5.7%	5.0%	5.5%	5.5%	5.9%	5.7%	5.5%	3.8%	3.7%	3.4%
Fixed Income	14.0%	13.0%	16.8%	15.4%	15.4%	16.2%	18.0%	21.0%	25.8%	23.7%
Value-Added Fixed Income	7.0%	7.7%	5.0%	4.6%	5.3%	7.5%	7.0%	3.5%	2.9%	2.3%
Private Equity	10.6%	9.6%	8.4%	6.7%	6.5%	6.0%	5.7%	5.7%	5.5%	5.9%
Real Estate	9.1%	10.9%	10.9%	8.6%	11.0%	8.1%	5.6%	5.4%	6.3%	5.6%
Timber / Natural Resources	4.1%	4.7%	2.1%	3.2%	3.5%	3.6%	2.9%	1.8%	0.2%	0.0%
Hedge Funds	7.7%	5.7%	5.2%	5.1%	5.1%	4.8%	0.0%	0.0%	0.0%	0.0%
Portable Alpha Wind Down (1)	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

(1) Prior to January 1, 2010, Portable Alpha assets were reflected in the Domestic Equity portfolio.