PENSION RESERVES INVESTMENT TRUST FUND

(A Component Unit of the Commonwealth of Massachusetts)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2012

Prepared By

Pension Reserves Investment Management Board Staff

For More Information

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Introductory Section

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84 State Street, Second Floor
Boston, Massachusetts 02109

Steven Grossman, Treasurer and Receiver General, Chair
Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer

December 4, 2012

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

I am pleased to transmit the *Comprehensive Annual Financial Report* (CAFR) of the Massachusetts Pension Reserves Investment Trust (PRIT) Fund for the fiscal year ending June 30, 2012. The document that follows is the eighth consecutive CAFR to be produced in the 28-year existence of the PRIM Board, Trustee of the PRIT Fund. We hope that you will find the PRIT Fund's CAFR to be useful in understanding the performance and financial position of the Fund at June 30, 2012.

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 CAFR and the basic financial statements are the responsibility of the PRIM Board. The 2012 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 Reporting, and outlines PRIM's organizational structure.

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, investment holdings, investment results, and supporting tables and schedules.

Statistical Section: This section contains information regarding financial ratios of the PRIT Fund.

Within the financial section, the MD&A follows the independent auditors' report and provides an overview of the PRIT Fund's financial statements and financial results. The MD&A complements this letter of transmittal and should be read in conjunction with this letter. Responsibility for both the accuracy and completeness of the data and the contents of this report rests with the PRIM Board. The PRIM Board has implemented a system of internal controls designed to provide reasonable assurance that the financial statements are free from material misstatements, that all assets will be properly safeguarded, and that transactions will be properly executed. Because of inherent limitations, internal controls over financial reporting cannot provide absolute assurance of achieving financial reporting objectives.

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. The PRIT Fund was created by the Legislature in 1983 (Chapter 661 of the Acts of 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 in 1997, in accordance with Chapter 315 of the Acts of 1996.

In October 2011, the Board of the Health Care Security Trust (HCST) voted to invest the assets of the State Retiree Benefits Trust (SRBT) Fund in the PRIT Fund in order to lower costs and gain access to the complete PRIT Fund core asset allocation. The SRBT Fund was established for the purpose of funding other post-employment benefits (OPEB), primarily the cost of providing post-employment health care benefits to retirees. The SRBT Fund is a vehicle for other governmental entities to invest their OPEB assets in the PRIT Fund.

The Massachusetts State Teachers', State Employees', and State-Boston/Teachers' Retirement Systems are mandated by statute to invest all of their assets in the PRIT Fund. Other retirement systems may voluntarily invest all or part of their assets in the PRIT Fund. Furthermore, Chapter 84 of the Acts of 1996 explicitly granted retirement boards the ability to invest only in individual asset classes of the PRIT Fund through a segmentation program. See Note 1 of the financial statements for more information on the profile and background of the PRIT Fund.

The most recent Public Employee Retirement Administration Commission (PERAC) valuation report, dated January 1, 2012, calculated the Commonwealth's unfunded actuarial pension liability at $23.6 billion. The PERAC valuation report estimates that, as of January 1, 2012, the pension liability is 65.1% funded using a target date of 2040. It should be noted that the unfunded actuarial pension liability is calculated on a calendar year basis.

PRIM seeks to maximize the return on the PRIT Fund investments within acceptable levels of risk by broadly diversifying its investment portfolio, capitalizing on economies of scale to achieve cost-effective operations, and gaining access to high quality, innovative investment management firms. As of June 30, 2012, the PRIT Fund had approximately $48.9 billion in net assets. The slight decline in net assets from $50.2 billion at the end of FY 2011 is mostly attributable to net withdrawals of approximately $1.1 billion in order to pay retirement benefits. The PRIM Board utilizes a custodian bank to safeguard investment holdings and to ensure the proper settlement and recording of investment and cash transactions.

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.

Investment Initiatives

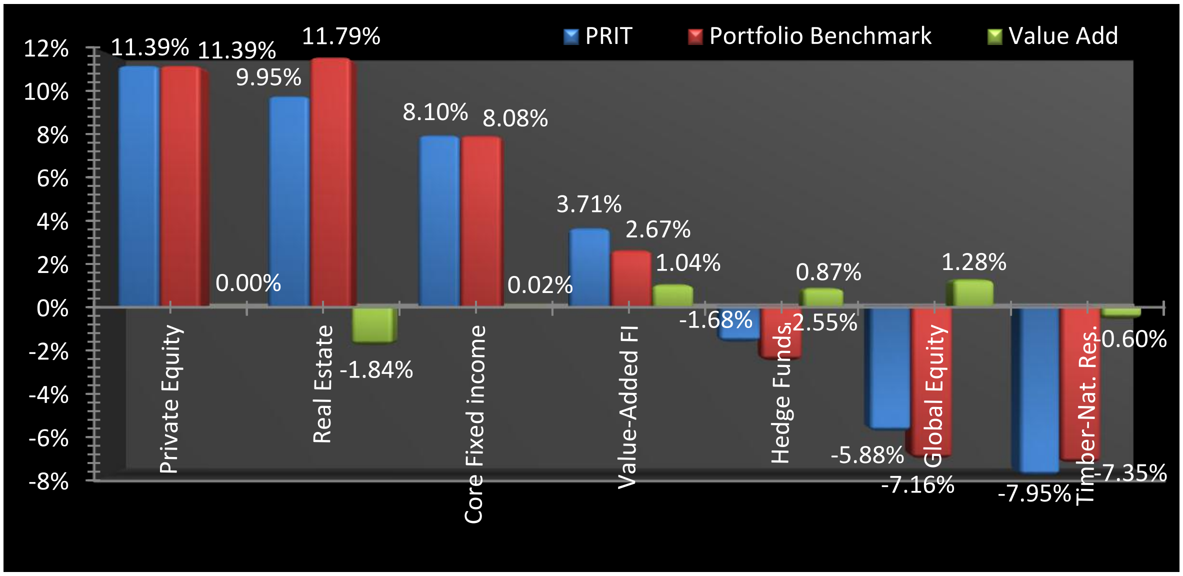
As Executive Director, my top priorities are to see that the PRIT Fund's asset allocation, risk profile, and return objectives are appropriate so that long-term PRIT performance meets or exceeds the legislatively-mandated 8.25% return, outperforms its policy benchmark, and compares favorably to the performance of other public funds. In stark contrast to FY2011, when global equity markets surged and the PRIT Fund recorded a return of 22.3% – its second strongest fiscal year return since inception – in FY2012 the PRIT Fund again substantially outperformed the benchmark but returned a flat -0.08%. The PRIT Fund's performance was influenced by two major equity market selloffs: the first occurring in August/September 2011 as a result of the US Treasury downgrade and debt ceiling debacle; the second during May 2012 when Eurozone breakup fears were coming to a head over the ongoing Greek sovereign debt crisis and concerns of a contagion effect on other weak European economies.

The PRIT Fund's FY2012 return is remarkable when put into perspective: emerging equity markets were down over 16% and international equities as a group fell over 14%. Relatively strong performance in the PRIT Fund's alternative asset classes, combined with continued strength in fixed income and domestic equities, offset weak international equity markets. For the fiscal year, private equity returned +11.4%, real estate +10%, core fixed income +8%, and U.S. stocks and value added-fixed income were each up approximately +4%.

FY2012 would have been worse for the PRIT Fund had it not been for the asset allocation changes made in August 2011 designed to reduce the overall risk level of the Fund. These changes reduced equity exposure from 49% to 43%, while maintaining or increasing exposure to alternative asset classes. Noteworthy was the 4% reduction in developed international equity exposure – primarily European equities.

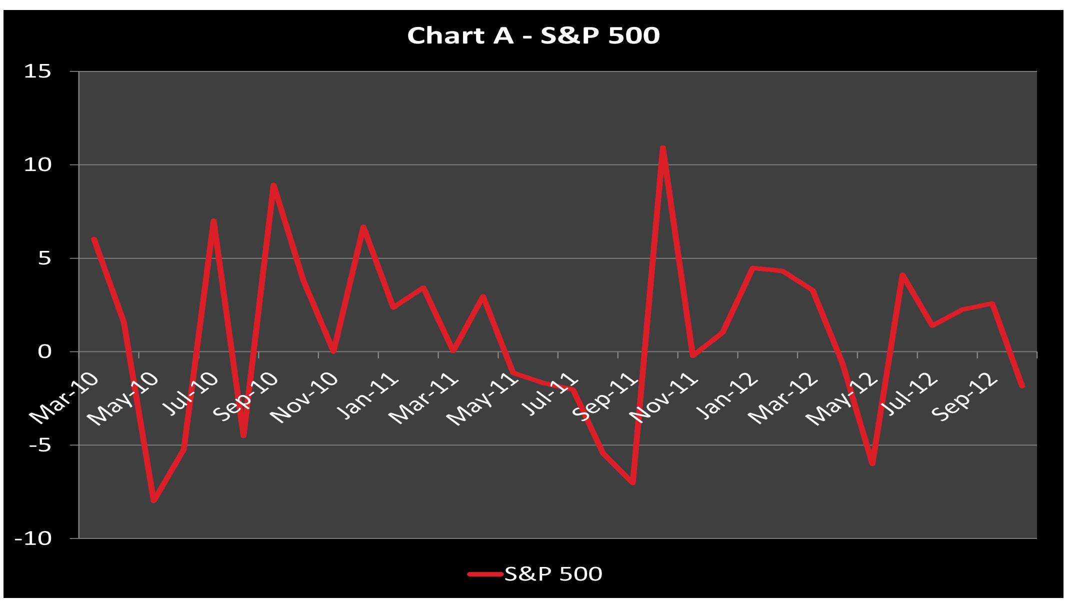
Our focus at PRIM is always to maximize the return of the PRIT Fund while minimizing risk (volatility). We are pleased that PRIM's risk management diligence resulted in asset allocation changes that minimized the effects on the PRIT Fund of last year's highly turbulent markets.

We are proud that over the past three fiscal years ending June 30, 2012, total PRIT Fund outperformed its Policy Benchmark by 118 basis points. That equates to nearly $2.6 billion - a significant outperformance considering that the entire unfunded liability is $23.6 billion. Since inception (1/31/1985) through June 30, 2012, total PRIT Fund has achieved an average annual return of 9.45%, significantly higher than the assumed 8.25% actuarial rate of return in the Commonwealth's pension funding schedule. The PRIT Fund's diversification benefited performance and mitigated the extreme volatility of the financial markets in 2012 as depicted in the following graphic.



"The New Normal" and the Importance of Downside Protection

"The New Normal" is one way to describe economic conditions in the post global financial crisis era – conditions of prolonged low Gross Domestic Product (GDP), lower household debt, higher personal savings, and lower consumption. At PRIM, we define a different "New Normal" as an era of extreme volatility in the global financial markets. Chart A depicts the monthly returns of the Standard and Poor's 500 stock index over the last 2 ½ years; Chart B depicts the EAFE monthly returns, a measure of international equity markets; and Chart C depicts the Barclays Aggregate monthly returns. Each chart depicts the extreme volatility in the global financial markets that we believe is likely to continue.



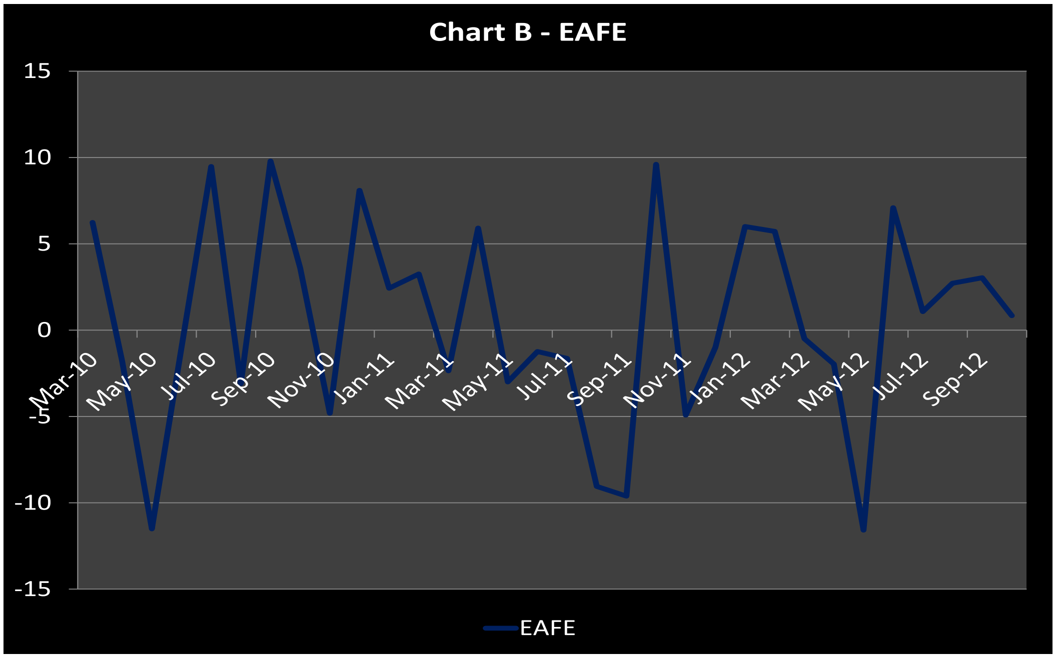


Chart B - EAFE
15
10
5
0
-5
-10
-15
Mar-10
May-10
Jul-10
Sep-10
Nov-10
Jan-11
Mar-11
May-11
Jul-11
Sep-11
Nov-11
Jan-12
Mar-12
May-12
Jul-12
Sep-12
EAFE

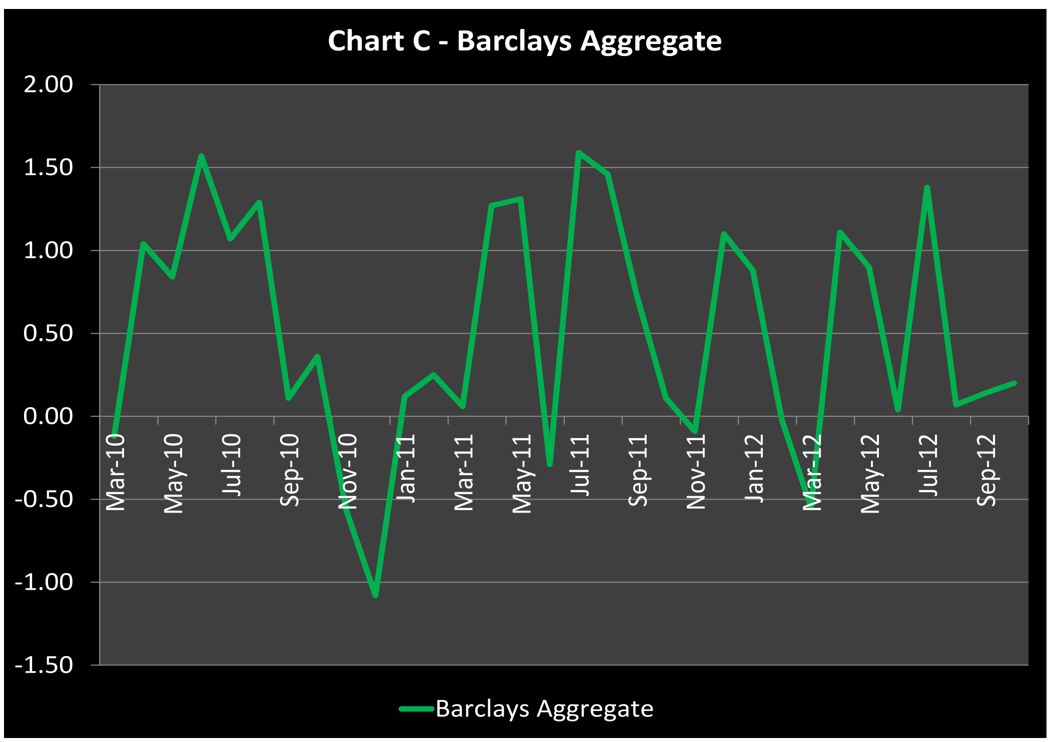
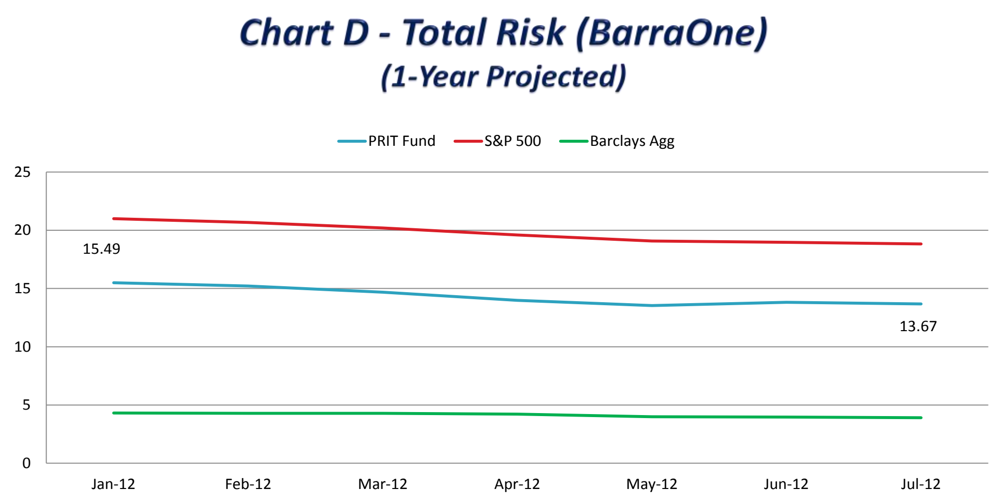


Chart C - Barclays Aggregate
2.00
1.50
1.00
0.50
0.00
-0.50
-1.00
-1.50
Mar-10
May-10
Jul-10
Sep-10
Nov-10
Jan-11
Mar-11
May-11
Jul-11
Sep-11
Nov-11
Jan-12
Mar-12
May-12
Jul-12
Sep-12
Barclays Aggregate

Outperformance in this "New Normal" environment of volatile markets required a shift in the way we invest at PRIM. Specifically, outperforming in volatile markets necessitates a focus on downside protection and an overall lowering of the PRIT Fund's risk profile as depicted in Chart D.



- Total risk has declined over the last 7 months.
- The PRIT Fund's total risk level is between stocks and bonds.

We believe that protecting the downside – protecting the fund from large negative performance in down markets - is critically important, and informs virtually every investment decision we make. The asset allocation changes that we implemented during fiscal 2012 (Chart E) lowered the expected volatility (risk) of the PRIT Fund while boosting our expected rate of return to 7.9% from 7.7%. Major risk reducing strategies implemented over the last year include:

1. Lowered global equity allocation from 49% to 43%.
2. Increased value added fixed income allocation from 6% to 10%.
3. Increased hedge fund allocation from 8% to 10%.

Chart E - PRIT Core Fund Asset Allocation Targets
February 7, 2012

	Former	Current
U.S. Large Cap	17%	15%
U.S. Small/Mid Cap	4%	4%
International	21%	17%
Emerging Markets	7%	7%
Total Global Equity	**49%**	**43%**
Core Bonds	10%	10%
TIPS	3%	3%
Total Core Fixed Income	**13%**	**13%**
High Yield/Bank Loans	2%	3%
EMD (Dollar Denominated)	1%	1%
EMD (Local Currency)	0%	2%
Private Debt	3%	4%
Total Value Added Fixed Income	**6%**	**10%**
Private Equity	**10%**	**10%**
Real Estate	**10%**	**10%**
Timber	**4%**	**4%**
Hedge Funds	**8%**	**10%**
5-7 Year Expected Return*	7.7%	7.9%
30 Year Expected Return*	9.1%	8.4%
Risk (Std. Deviation)	12.4%	12.1%
Sharpe Ratio	0.42	0.55

**Expected Return Amended February 7, 2012*

Fiscal Year 2012 Accomplishments

I am pleased to present a progress report on PRIM's strategic initiatives. In February 2012, PRIM conducted its annual asset allocation review, and reaffirmed the targets adopted in August 2011. As a result of the review, the short-term expected return forecast (5-7 year outlook) increased by 0.2% to 7.9%. However, the long-term expected return forecast (30 year outlook) decreased by 0.7% to 8.4%. Other strategic initiatives include the following:

1. The Direct Hedge Fund Program implementation is nearly complete. Four Hedge Fund of Funds investment managers were terminated and assets are being transferred to the 20 new Board-approved direct hedge fund managers. When this transition is complete, direct hedge funds will represent 85% of the hedge fund portfolio, and one hedge fund-of-funds manager (PAAMCO) will comprise the remaining 15%. PAAMCO focuses on emerging hedge funds. Investment management fee savings of approximately $36 million per year are expected as a result of this transition to direct hedge funds.
2. The Board approved the first emerging markets debt (local currency) investments, allocating $250 million to Investec, $400 million to Pictet, and $250 million to Stone Harbor.
3. The Board approved two emerging markets equity small capitalization investments, allocating $60 million to Acadian Asset Management LLC and $140 million to Wasatch Advisors, Inc.

4. The Board approved the first non-core real estate investments, allocating $47.5 million to Carlyle Realty Partners Fund VI and $50 million to DivcoWest Fund III.
5. The Board approved the engagement of Chatham Financial for Real Estate Loan Advisory services to assist PRIM staff and the Real Estate Committee in implementing a leverage program that seeks to lever approximately $1 billion for new acquisitions.
6. The Board approved the hiring of Russell Implementation Services, a leading foreign currency execution (FX) investment manager, to execute trades that were previously executed by our custodian bank; this change is expected to result in cost savings of $1.2 million per year.
7. The Board approved the hiring of Callan Associates as the "long only" public markets investment consultant, and The Townsend Group as the Real Estate/Timber consultant.
8. The Risk Management Dashboard, designed by staff utilizing the MSCI BarraOne tool, was launched in December 2011. This tool is now used to measure total portfolio risk, identify the riskiest investments, simulate portfolio performance under different stress scenarios, and more accurately monitor manager performance and strategy implementation.
9. The Board updated its emerging manager policy. This policy now states that PRIM may consider hiring investment managers with less than $2 billion of assets under management that have shorter track records, or are minority-owned or women-owned firms.
10. The PRIM Board adopted enhancements to its current proxy voting guidelines and policies as follows: 1) Where there is zero diversity, in terms of gender and race, on boards of directors, PRIM will vote against or withhold support from all non-diverse director candidates; 2) PRIM will support resolutions calling on companies to maintain a policy of political non-partisanship; and 3) PRIM will call for lobbying expenditure disclosure that supports a level of transparency parallel to that for political contributions.

Staffing

There were two departures and two new hires in FY 2012. In June, Stan Mavromates, PRIM's Chief Investment Officer, accepted a position in the private sector as Chief Investment Officer of a leading global investment services firm in Boston. Stan joined PRIM as an Investment Officer in 2000, and was promoted to Chief Investment Officer in 2005. Katherine O'Neil, hired in 2011 as Director of Finance, also left PRIM in June 2012 for an opportunity in the private sector with a local venture capital firm. Ellen M. Hennessy joined PRIM in April as Compliance Analyst. Ellen, with 20 years of experience in finance and administration positions at leading financial institutions, has a strong background in Investor Relations and Financial Services. In August, Deborah Coulter, CPA, joined PRIM as Director of Finance and Manager of Human Resources. Deborah held finance, human resources, and accounting positions at a prominent Boston investment firm for 17 years, and most recently served as Controller and Compliance Manager before accepting the position at PRIM.

I would like to recognize and thank Stan for his many contributions to PRIM over his 12-year tenure. He hired, trained, supervised and mentored many of PRIM's best performers and most valued colleagues, and was extraordinarily dedicated and skillful. I would also like to report that in October, the PRIM Board unanimously voted to appoint me to the position of Chief Investment Officer (CIO), a duty I have been performing on an interim basis since Stan's departure. The appointment brings immediate stability to the organization by filling the key position of CIO, which allows PRIM to more easily recruit for several open investment positions. I would like to thank PRIM Board Chair, Treasurer Steven Grossman, and all the PRIM Board trustees for placing their confidence in me.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded PRIM its *Certificate of Achievement for Excellence in Financial Reporting* for the fiscal year ended June 30, 2011. This was the seventh consecutive year that the PRIM Board has achieved this prestigious award. In order to be awarded a Certificate of Achievement for Excellence, an entity must publish an easily readable and efficiently organized financial report. This report must satisfy both U.S. generally accepted accounting principles and all applicable legal requirements.

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

Acknowledgements

Over the past year, there were two new appointments to the PRIM Board and several new appointees to our Advisory Committees. In December of 2011, PRIM trustee John A. M. "Jay" Dow, Jr., retired after serving four years on the PRIM Board as the Massachusetts Teachers' Retirement Board (MTRB) elected member representative, and, more notably, after 40 years as one of the two elected members of the MTRB. Jay served with distinction as a PRIM Board trustee and a member of the Real Estate and Timberland Committee and we thank him for his service to PRIM and to the Commonwealth. The MTRB appointed Dennis J. Naughton to replace Mr. Dow on the PRIM Board in August 2012. Dennis is a retired teacher and principal from the Millis Public Schools, with 33 years of service, and has already distinguished himself as a fully engaged PRIM trustee. The Governor appointed Anthony E. Hubbard to the PRIM Board for a four-year term beginning June 2012. Anthony, who is a Partner in the Corporate and Securities Section of the Boston law firm Mintz Levin, succeeds C. LaRoy Brantley, whose term expired earlier this year. Anthony has quickly demonstrated that he is a committed and thoughtful fiduciary. After serving on the PRIM Board for seven years, C. LaRoy Brantley, an investment consultant with Cambridge Associates, LLC, has notably agreed to continue his service to PRIM on the Investment Committee. We welcome his continued contributions to the PRIM investment program. The Chair also made several additional Committee appointments which were ratified by the Board: Jill S. Hatton, CRE, a retired executive at Blackrock, was appointed to the Real Estate and Timberland Committee; Michael Even, CFA, President and CEO of Numeric Investors, Gregory R. Mennis, CFA, the Assistant Secretary for Fiscal Policy, Executive Office of Administration and Finance, and Timothy L. Vaill, the retired Chairman and CEO of Boston Private Financial Holdings were appointed to the Investment Committee. The Treasurer also appointed Greg to the Compensation Committee. We are grateful to our committee

volunteers, a world-class group of experts who consistently provide expert guidance to the Board and to PRIM staff.

Very respectfully,

Michael G. Trotsky, CFA
Executive Director and Chief Investment Officer

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, 2011

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.

Christopher P Morrill

President

Jeffrey R. Emer

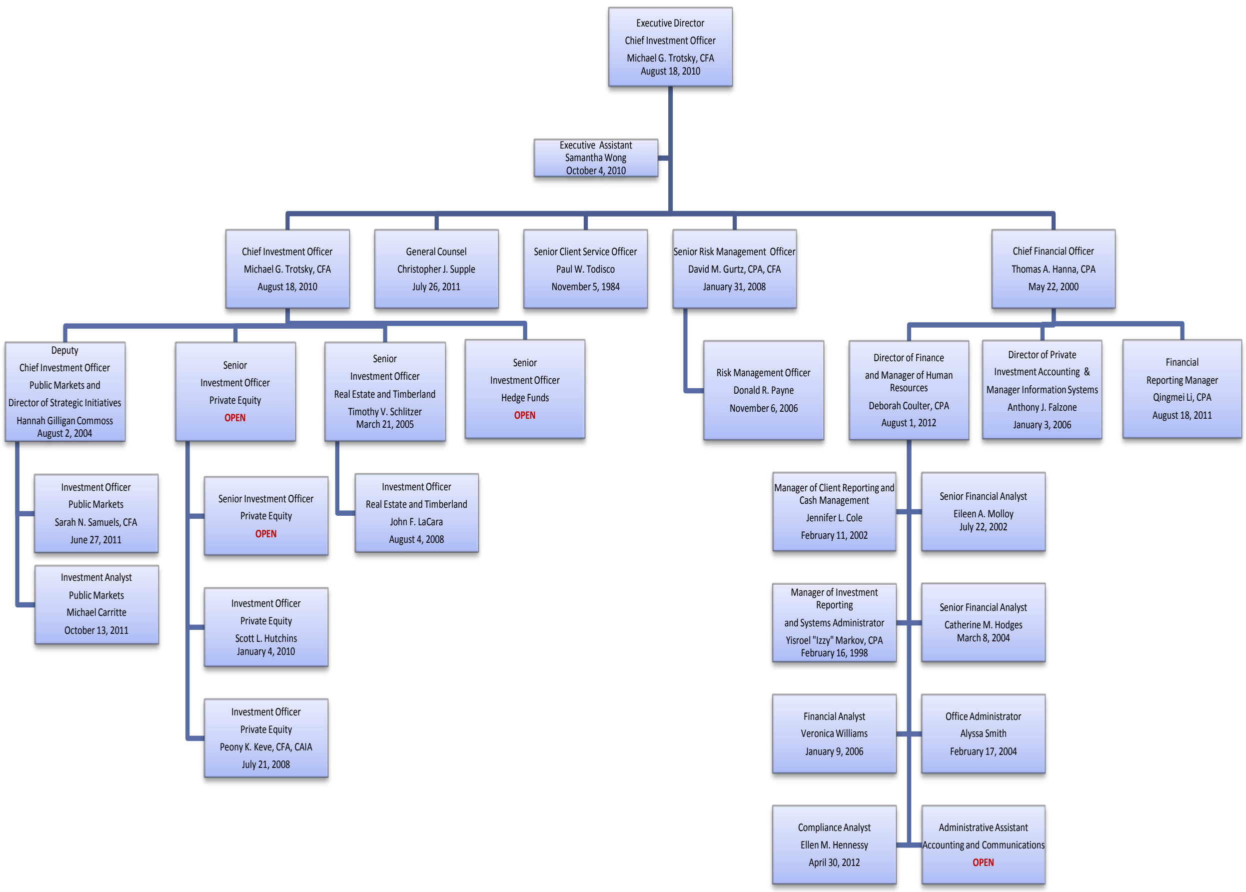
Executive Director

Pension Reserves Investment Management Board

(9 Appointed and Elected Trustees)

Audit/Administration, Compensation, Investment, & Real Estate Committees

24 PRIM Professional Staff



PRIT Fund as of 6/30/2012 - $48.9 Billion

21 Public Securities Managers Investing 29 Portfolios

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

8 Economically Targeted Investment (ETI) Managers

103 Managers in 200+ Private Equity Partnerships

3 Hedge Fund of Funds Managers

20 Direct Hedge Fund Managers

Beneficiaries:

State Teachers, State Employees, State Retiree Benefits Trust, & 91 Local Retirement Systems

PRIM Board Trustees

Advisory Committees to the PRIM Board

Investment Committee

Steven Grossman
Ex Officio Board Member
C. LaRoy Brantley
Investment Consultant, Cambridge Associates, LLC
Michael Even, CFA
President and CEO, Numeric Investors
Constance M. Everson, CFA
Managing Director, Capital Markets Outlook Group
Gregory R. Mennis
Board Member
Edward W. Kane
Senior Advisor, HarbourVest Partners, LLC
Paul E. Shanley
Board Member
Glenn P. Strehle
Treasurer Emeritus at MIT
Timothy L. Vaill
Special Advisor, Housing and Economic Development, Commonwealth of Massachusetts

Real Estate Committee

Alexander E. Aikens III, Chair
Chair and Board Member
Steven Grossman
Ex Officio Board Member
Jill S. Hatton, CRE
Real Estate Investment Professional
Dr. Jack Lutz
Forest Research Group
William F. McCall, Jr.
McCall & Almy, Inc.
Garlan Morse, Jr., CRE
Morris and Morse Company, Inc.
Peter F. O'Connell
Marina Bay Company

Advisory Committees to the PRIM Board, continued

Administration & Audit Committee
Robert L. Brousseau, Chair
Chair and Board Member
Steven Grossman
Ex Officio Board Member
Ted C. Alexiades
Hingham Town Administrator
Patrick E. Brock
Chairman, Hampshire County Retirement Board
Shanti A. Fry
Finance Professional
Karen E. Gershman, CPA
Chief Operating Officer, Health Advances
Renee M. Landers
Professor of Law, Suffolk University Law School
Theresa T. McGoldrick
Board Member
Michele A. Whitham, Esquire
Partner, Foley Hoag

Compensation Committee
Michele A. Whitham, Esquire, Chair
Partner, Foley Hoag
Steven Grossman
Ex Officio Board Member
Robert L. Brousseau
Board Member
Patrick E. Brock
Chairman, Hampshire County Retirement Board
Shanti A. Fry
Finance Professional
Ruthanne Fuller
Alderman at Large – Newton Ward 7
Gregory R. Mennis
Board Member

PRIM Board Investment Consultants

Callan Associates
Public Market Consultant Services

Cliffwater LLC
Direct Hedge Funds Consultant Services

Hamilton Lane
Private Equity Consultant Services

New England Pension Consultants (NEPC)
Asset Allocation Consultant Services

The Townsend Group (Townsend)
Real Estate and Timberland Consultant Services

Financial Section

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

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

We have audited the accompanying statements of pooled net assets of the Pension Reserves Investment Trust Fund (PRIT), a component unit of the Commonwealth of Massachusetts, as of June 30, 2012 and 2011, 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 the effectiveness of 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, 2012 and 2011, and the changes in its pooled net assets for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 2, 2012, 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.

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supporting schedules listed in the table of contents have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules listed in the table of contents are fairly stated in all material respects in relation to the financial statements as a whole. The Introductory, Investment, and Statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

October 2, 2012

Management's Discussion and Analysis

June 30, 2012 and 2011

This section presents management's discussion and analysis of the Pension Reserves Investment Trust Fund's (PRIT's) financial performance for the fiscal years ended June 30, 2012 and 2011 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, and the assets of county, authority, school district, and municipal retirement systems that choose to invest in PRIT, as well as the assets of the State Retiree Benefits Trust (SRBT) Fund.

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, 2012 and 2011 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 52 and 53 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 2012

- The net assets of PRIT decreased approximately $1.4 billion during the year ended June 30, 2012. Total net assets were approximately $48.9 billion at June 30, 2012, compared to $50.2 billion at June 30, 2011.
- Net investment loss for fiscal year 2012 was approximately $280.4 million, compared to net investment income of $9.2 billion for the prior fiscal year. PRIT returned -0.08% in fiscal year 2012, compared to 22.30% in fiscal year 2011.
- Contributions to PRIT totaled approximately $2.1 billion during fiscal year 2012, compared to $2.7 billion in 2011.
- Redemptions from PRIT totaled approximately $3.2 billion during the year ended June 30, 2012, compared to approximately $2.9 billion during the year ended June 30, 2011.

(Continued)

Management's Discussion and Analysis

June 30, 2012 and 2011

Fiscal Year 2011

- The net assets of PRIT increased approximately $9.0 billion during the year ended June 30, 2011. Total net assets were approximately $50.2 billion at June 30, 2011, compared to $41.3 billion at June 30, 2010.
- Net investment income for fiscal year 2011 was approximately $9.2 billion, compared to net investment income of $4.7 billion for the prior fiscal year. PRIT returned 22.30% in fiscal year 2011, compared to 12.82% in fiscal year 2010.
- Contributions to PRIT totaled approximately $2.7 billion during fiscal year 2011, compared to $1.7 billion in 2010. Other participant contributions increased by approximately $915 million in the fiscal year 2011.
- Redemptions from PRIT totaled approximately $2.9 billion during the year ended June 30, 2011, compared to approximately $2.8 billion during the year ended June 30, 2010.

Condensed Financial Information

Summary balances and activities of PRIT as of and for the years ended June 30, 2012, 2011, and 2010 are presented below:

		June 30		
		2012	**2011**	**2010**
		(Amounts in thousands)		
Summary of pooled net assets:				
Assets:				
Investments	$	48,699,048	50,139,509	41,203,940
Cash		165,454	76,926	179,650
Receivables and other assets		820,761	460,891	791,147
Total assets		49,685,263	50,677,326	42,174,737
Liabilities:				
Management fees payable to PRIM		21,702	19,345	14,606
Other liabilities		795,754	412,215	875,821
Total liabilities		817,456	431,560	890,427
Net assets held in trust for pool participants	$	48,867,807	50,245,766	41,284,310

(Continued)

Management's Discussion and Analysis

June 30, 2012 and 2011

		June 30		
		2012	2011	2010
		(Amounts in thousands)		
Summary of changes in pooled net assets:				
Additions:				
Contributions	$	2,083,059	2,691,112	1,689,603
Net investment income (loss)		(280,407)	9,169,664	4,676,706
Total additions		1,802,652	11,860,776	6,366,309
Deductions:				
Redemptions		3,180,611	2,899,320	2,771,248
Change in pooled net assets		(1,377,959)	8,961,456	3,595,061
Net assets held in trust for pool participants:				
Balance, beginning of year		50,245,766	41,284,310	37,689,249
Balance, end of year	$	48,867,807	50,245,766	41,284,310

PRIT Performance during the year ended June 30, 2012

PRIT began fiscal year 2012 with net assets of $50.2 billion and ended the fiscal year with net assets of $48.9 billion, representing a 2.74% decrease. Net investment loss for the year ended June 30, 2012 was approximately $280.4 million. Net participant redemptions (contributions less redemptions) of $1.1 billion, along with net investment loss of $280.4 million caused the overall decrease in net assets of approximately $1.4 billion.

For the year ended June 30, 2012, PRIT returned -0.08%, exceeding the policy benchmark of -0.15% by 7 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.

The asset classes of PRIT and related investment returns for the year ended June 30, 2012 are as follows: Domestic Equity 3.69%; International Equity -11.99%; Emerging Markets -16.49%; Core Fixed Income 8.10%; Value-Added Fixed Income 3.71%; Private Equity 11.39%; Real Estate 9.95%; Timber/Natural Resources -7.95%; and Hedge Funds -1.68%.

(Continued)

Management's Discussion and Analysis

June 30, 2012 and 2011

As of June 30, 2012, PRIT has outperformed its benchmark in the current year and continues to outperform its benchmarks longer term and has returned an average of 9.39% annually since 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 quartile of public pension plans with net assets in excess of $1 billion over the ten-year period ended June 30, 2012.

PRIT Performance during the year ended June 30, 2011

PRIT began fiscal year 2011 with net assets of $41.3 billion and ended the fiscal year with net assets of $50.2 billion, representing a 21.71% increase. Net investment income for the year ended June 30, 2011 was approximately $9.2 billion. Net participant redemptions (contributions less redemptions) of $208 million, along with net investment income of $9.2 billion caused the overall increase in net assets of $9.0 billion.

For the year ended June 30, 2011, PRIT returned 22.30%, exceeding the policy benchmark of 21.71% by 59 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 positive performance during the year ended June 30, 2011. The asset classes of PRIT and related investment returns for the year ended June 30, 2011 are as follows: Domestic Equity 32.18%; International Equity 30.93%; Emerging Markets 29.31%; Core Fixed Income 5.47%; Value-Added Fixed Income 17.34%; Private Equity 24.95%; Real Estate 20.79%; Timber/Natural Resources 20.17%; and Hedge Funds 7.51%.

As of June 30, 2011, 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 9.83% annually since 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 quartile of public pension plans with net assets in excess of $1 billion over the ten-year period ended June 30, 2011.

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, Boston, Massachusetts 02109.

Statements of Pooled Net Assets

June 30, 2012 and 2011

(Amounts in thousands)

		2012	2011
Assets:			
Investments, at fair value:			
Short-term	$	834,552	854,394
Fixed income		11,301,393	10,899,750
Equity		19,797,368	23,951,625
Real estate		4,727,227	4,106,088
Timber		1,197,298	1,029,512
Private equity		6,091,178	5,477,325
Hedge funds		4,750,032	3,820,815
Total investments		48,699,048	50,139,509
Cash		165,454	76,926
Interest and dividends receivable		123,359	126,445
Receivable for investments sold and other assets		315,112	149
Securities sold on a when-issued basis		360,610	326,022
Unrealized gains on foreign currency exchange contracts		21,680	8,275
Total assets		49,685,263	50,677,326
Liabilities:			
Payable for investments purchased and other liabilities		162,739	86
Securities purchased on a when-issued basis		625,582	405,988
Unrealized losses on foreign currency exchange contracts		7,433	6,141
Management fees payable to PRIM		21,702	19,345
Total liabilities		817,456	431,560
Net assets held in trust for pool participants	$	48,867,807	50,245,766

See accompanying notes to financial statements.

Statements of Changes in Pooled Net Assets

Fiscal years ended June 30, 2012 and 2011

(Amounts in thousands)

		2012	2011
Additions:			
Contributions:			
State employees	$	544,166	538,898
State teachers		640,056	616,533
Other participants		898,837	1,535,681
Total contributions		2,083,059	2,691,112
Net investment income:			
From investment activities:			
Net realized gain on investments and foreign currency transactions		1,184,401	1,696,996
Net change in unrealized appreciation/(depreciation) on investments and foreign currency translations		(2,693,795)	6,262,268
Interest income, net		342,620	352,183
Dividend income, net		668,260	624,830
Real estate income, net		211,969	202,663
Timber income/(loss), net		(4,730)	139
Private equity income, net		79,059	99,803
		(212,216)	9,238,882
Management fees		(68,191)	(69,218)
Total net investment income/(loss)		(280,407)	9,169,664
Total additions		1,802,652	11,860,776
Deductions:			
Redemptions:			
State employees		1,122,208	1,054,196
State teachers		1,525,530	1,336,545
Other participants		532,873	508,579
Total deductions		3,180,611	2,899,320
Net increase/(decrease) in pooled net assets		(1,377,959)	8,961,456
Net assets held in trust for pool participants:			
Balance, beginning of year		50,245,766	41,284,310
Balance, end of year	$	48,867,807	50,245,766

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2012 and 2011

(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 Employees 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 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 2040, 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%.

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

The State Teachers' and State Employees' Retirement Systems are mandated by statute to invest all of their assets in PRIT and are, therefore, considered involuntary participants. Other retirement systems have the option to become Participating or Purchasing System participants in PRIT. Participating Systems must transfer all of their assets to PRIT, commit to remain invested for five years, and are entitled to share in appropriations made to PRIT by the Commonwealth in accordance with Massachusetts General Laws, Chapter 32, Section 22B. The Commonwealth has made no such appropriation to PRIT on behalf of Participating Systems since fiscal year 2000.

Chapter 112 of the Acts of 2010 requires the assets of the State-Boston Retirement System (SBRS) that are attributable to teachers are invested in PRIT. Chapter 112 also characterizes SBRS as a Participating System; however, SBRS shall not receive a share of any appropriations made under Chapter 32, Section 22B, nor shall the board of SBRS be able to revoke this participation.

In October 2011, the assets of the State Retiree Benefits Trust (SRBT) Fund became invested in PRIT as a Purchasing System. The SRBT Fund was established for the purpose of funding other post-employment benefits (OPEB). The SRBT Fund is the vehicle for managing the OPEB assets of other governmental entities that elect to have their OPEB assets invested in PRIT.

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, 2012, there were 41 Participating Systems (including the State Teachers' and State Employees' Retirement Systems) and 52 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 1 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.

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

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, 2012: General Allocation (holds units of all other accounts), Domestic Equity, Core Fixed Income, Value-Added Fixed Income, International Equity, Emerging Markets, Real Estate, Timber/Natural Resources, Hedge Funds, Private Equity Investments, and Private Equity Investments Vintage Years 2000-2012. (Vintage Year refers to the fiscal year in which PRIT made a commitment to invest in a 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 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, 2012 and 2011, there were 38 and 39 segmented investors in PRIT, respectively.

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

(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 notes 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 markets, fixed income securities, high yield debt, real estate, timber, hedge funds, natural resources, private equity and, where appropriate, the various subasset classes of each asset class. 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, and Iran.

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 for more than one fiscal year and sold in the current year are included in net realized gain on investments in the accompanying statements of changes in pooled net assets.

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

The PRIM Board values investments in fixed income, money market funds, other short-term investments, and U.S. government agency obligations using independent pricing services. In determining the price, the services reflect 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 (OTC) 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 as determined by the investment managers as stipulated in the investment management agreements.

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, and updates of the independent appraisals are performed annually.

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

Hedge fund investments represent PRIT's ownership in both direct hedge funds and hedge fund-of-funds. The investment in hedge funds is recorded at fair value as estimated by PRIM. This estimated fair value is determined in good faith by the PRIM Board with guidance from PRIT's hedge fund 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, 2012 and 2011, foreign taxes withheld of $23,064 and $22,323, respectively, have been netted against dividend income in the statements of changes in pooled net assets. Real estate income 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 a 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.

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

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

In accordance with GASB Statement No. 53, *Accounting and Financial Reporting of Derivative Instruments*, 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.

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

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

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

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

(3) Investments

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

		June 30	
		2012	**2011**
Short-term:			
Money market investments	$	834,552	854,394
Fixed income:			
U.S. government obligations (1)		2,342,222	2,360,579
Domestic fixed income (2)		4,625,757	4,954,672
International fixed income (3)		2,990,789	2,257,323
Distressed debt		1,342,625	1,327,176
		11,301,393	10,899,750
Equity:			
Domestic equity securities		8,610,009	9,815,151
International equity securities		11,187,359	14,136,474
		19,797,368	23,951,625
Real estate		4,727,227	4,106,088
Timber		1,197,298	1,029,512
Private equity:			
Venture capital		1,235,005	1,068,468
Special equity		4,856,173	4,408,857
		6,091,178	5,477,325
Hedge funds investments:			
Hedge funds		4,641,078	3,610,249
Portable alpha		108,954	210,566
		4,750,032	3,820,815
Total investments	$	48,699,048	50,139,509

(1) Fiscal 2012 rates range from 0.00% to 11.25%, and maturities range from 2012 to 2042. Fiscal 2011 rates range from 0% to 11.25%, and maturities range from 2011 to 2041.

(2) Fiscal 2012 rates range from 0.00% to 13.50%, and maturities range from 2012 to 2067. Fiscal 2011 rates range from 0% to 13.50%, and maturities range from 2011 to 2067.

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

(3) Fiscal 2012 rates range from 0.00% to 12.75%, and maturities range from 2012 to 2062. Fiscal 2011 rates range from 0% to 12.75%, and maturities range from 2011 to 2055.

(4) Deposits and Investments Risks

(a) Custodial Credit Risk

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

Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk. As of June 30, 2012 and 2011, all but $250 of PRIT's $165,454 and $76,926 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.

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

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

	2012		2011	
Investment	**Fair value**	**Effective weighted duration rate**	**Fair value**	**Effective weighted duration rate**
		(Amounts expressed in years)		(Amounts expressed in years)
Asset backed securities	$ 134,720	2.42	$ 210,578	0.63
Commercial mortgage backed securities	255,476	2.02	350,566	2.88
Commercial paper and CDs	18,664	0.37	41,285	0.74
Corporate bonds and other credits	4,130,745	5.43	3,328,611	5.32
U.S. government bonds	1,368,672	4.32	1,402,085	5.12
U.S. government agencies	251,419	6.03	140,202	3.42
U.S. government TIPS	939,826	8.22	957,220	7.19
U.S. government mortgage backed securities	1,295,184	2.37	1,811,253	2.56
Global inflation linked bonds	340,713	6.26	320,421	7.06
Municipal bonds	82,855	10.37	75,436	9.69
Pooled money market fund	834,552	0.08	854,394	0.08
Other pooled funds	2,483,119	N.A.	2,262,093	N.A.
Total fixed income and short-term investments	$ 12,135,945		$ 11,754,144	

(c) Credit Risk

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

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

The PRIM Board does not have a formal investment policy governing credit risk; each fixed income securities investment managers is given specific set of guidelines to invest within based on the mandate for which it was hired. 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. For example, all securities held must generally be investment grade. The guidelines for the PRIT Fund's high yield, fixed income portfolio establish a market value range of securities to be held with a specific minimum credit rating and the overall weighted average credit rating of the portfolio.

Credit risk for derivative instruments held by PRIT results from counterparty risk. PRIT is exposed to credit risk resulting from counterparties being unable to meet their obligations under the terms of the derivative agreements. See note 6 for more information on PRIT's derivative instruments.

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

The weighted average quality rating (S&P equivalent rating) of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the U.S. government and other nonrated investments was A at June 30, 2012 (AA– at June 30, 2011). The following presents the PRIT Fund's fixed-income securities credit ratings at June 30:

		2012					
	Total	Investment grade			Noninvestment grade		
Investment	**fair value**	**AAA**	**AA+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**CCC+ to D**	**Not rated**
Asset backed securities	$ 134,720	6,252	125,911	1,974	223	360	—
Commercial mortgage backed securities	255,476	89,223	62,807	51,489	35,658	14,377	1,922
Commercial paper and CDs	18,664	—	3,703	—	—	—	14,961
Corporate bonds and other credits	4,130,745	338,525	1,011,441	1,429,799	791,717	158,388	400,875
U.S. government agencies	251,419	—	249,665	—	—	—	1,754
U.S. government mortgage backed securities	1,105,137	—	862,015	—	—	—	243,122
Global inflation linked bonds	340,713	234,831	96,713	8,042	1,127	—	—
Municipal bonds	82,855	804	76,196	829	5,026	—	—
Pooled money market fund	834,552	—	—	—	—	—	834,552
Other pooled funds	2,483,119	—	—	—	—	—	2,483,119
Total credit risk, fixed income, and short-term investments	9,637,400	669,635	2,488,451	1,492,133	833,751	173,125	3,980,305
Fixed income investments explicitly backed by the U.S. government	2,498,545						
Total fixed income and short-term investments	$ 12,135,945						

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

		2011					
		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	$ 210,578	182,737	7,447	20,000	359	4	31
Commercial mortgage backed securities	350,566	134,466	100,697	73,037	30,057	10,195	2,114
Commercial paper and CDs	41,285	—	6,100	—	—	—	35,185
Corporate bonds and other credits	3,328,611	489,941	939,267	788,712	594,471	155,248	360,972
U.S. government agencies	136,028	132,245	1,614	—	—	—	2,169
U.S. government mortgage backed securities	1,645,931	1,573,123	—	—	—	—	72,808
Global inflation linked bonds	320,421	163,885	153,724	—	2,760	52	—
Municipal bonds	75,436	571	69,076	908	4,881	—	—
Pooled money market fund	854,394	—	—	—	—	—	854,394
Other pooled funds	2,262,093	—	—	—	—	—	2,262,093
Total credit risk, fixed income, and short-term investments	9,225,343	2,676,968	1,277,925	882,657	632,528	165,499	3,589,766
Fixed income investments explicitly backed by the U.S. government	2,528,801						
Total fixed income and short-term investments	$ 11,754,144						

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

(d) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. Although the PRIM Board has no overall policy regarding foreign currency risk, PRIM does 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:

	2012				
	Cash and short-term investments	**Equity**	**Fixed income**	**Private equity investments**	**Total**
Australian Dollar	$ 16,154	521,619	13,319	—	551,092
Brazilian Real	1,388	198,648	109,975	—	310,011
British Pound	13,310	1,764,573	246,532	—	2,024,415
Canadian Dollar	4,388	438,961	52,841	—	496,190
Danish Krone	1,245	198,558	—	—	199,803
Euro	32,730	1,732,091	269,640	—	2,034,461
Hong Kong Dollar	6,585	727,877	—	—	734,462
Indian Rupee	292	143,047	—	—	143,339
Indonesian Rupiah	2,264	112,397	75,059	—	189,720
Japanese Yen	67,991	1,696,878	27,551	—	1,792,420
Malaysian Ringgit	338	91,037	79,722	—	171,097
Mexican Peso	1,677	108,027	118,501	—	228,205
New Taiwan Dollar	459	283,222	—	—	283,681
New Turkish Lira	1,159	94,142	102,722	—	198,023
S. African Comm Rand	861	222,400	91,216	—	314,477
Singapore Dollar	7,288	127,041	—	—	134,329
South Korean Won	2,750	417,414	—	—	420,164
Swedish Krona	9,442	263,239	18,159	—	290,840
Swiss Franc	20,208	562,458	—	—	582,666
Thailand Baht	587	108,431	59,913	—	168,931
Other foreign currencies	7,325	310,707	226,204	—	544,236
Private equity denominated in various foreign currencies	—	—	—	1,136,234	1,136,234
Total securities subject to foreign currency risk	198,441	10,122,767	1,491,354	1,136,234	12,948,796

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

	2012				
	Cash and short-term investments	Equity	Fixed income	Private equity investments	Total
International investments denominated in U.S. dollars	$ —	1,064,592	1,499,435	—	2,564,027
Total international investments and cash deposits	$ 198,441	11,187,359	2,990,789	1,136,234	15,512,823

	2011				
	Cash and short-term investments	Equity	Fixed income	Private equity investments	Total
Australian Dollar	$ 5,759	722,306	21,656	—	749,721
Brazilian Real	3,636	158,054	26,525	—	188,215
British Pound	9,777	2,209,593	230,715	—	2,450,085
Canadian Dollar	6,687	582,858	55,105	—	644,650
Danish Krone	1,442	265,238	—	—	266,680
Euro	70,865	2,659,010	296,925	—	3,026,800
Hong Kong Dollar	5,332	760,079	—	—	765,411
Indian Rupee	4,347	124,378	2,292	—	131,017
Indonesian Rupiah	780	101,772	7,394	—	109,946
Japanese Yen	70,740	2,232,636	26,370	—	2,329,746
Malaysian Ringgit	876	81,494	—	—	82,370
Mexican Peso	302	80,195	9,464	—	89,961
New Taiwan Dollar	884	216,266	—	—	217,150
New Turkish Lira	539	83,442	—	—	83,981
Norwegian Krone	1,115	111,692	—	—	112,807
S. African Comm Rand	7,299	143,315	—	—	150,614
Singapore Dollar	541	187,976	—	—	188,517
South Korean Won	1,791	443,966	4,813	—	450,570
Swedish Krona	1,956	317,218	18,837	—	338,011
Swiss Franc	15,070	770,974	—	—	786,044
Thailand Baht	863	86,925	—	—	87,788
Other foreign currencies	2,208	254,531	10,665	—	267,404
Private equity denominated in various foreign currencies	—	—	—	1,150,285	1,150,285
Total securities subject to foreign currency risk	212,809	12,593,918	710,761	1,150,285	14,667,773

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

		2011				
		Cash and short-term investments	Equity	Fixed income	Private equity investments	Total
International investments denominated in U.S. dollars	$	—	1,542,556	1,546,562	—	3,089,118
Total international investments and cash deposits	$	212,809	14,136,474	2,257,323	1,150,285	17,756,891

(e) Concentration of Credit Risk

The PRIM Board manages PRIT's exposure to concentration of credit risk by establishing guidelines with each investment manager that limit the percentage 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, 2012 and 2011, respectively.

(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. 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 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.

(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.

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

(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.

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

	2012				
	Fair value	Aggregate face value	Delivery date(s)	Unrealized gains	Unrealized losses
Foreign currency exchange contracts purchased:					
Australian Dollar	$ 60,852	60,231	7/3/12 – 7/31/12	$ —	(621)
Brazilian Real	30,380	30,673	7/2/12 – 8/2/12	293	—
British Pound	321,272	326,260	7/2/12 – 9/12/12	4,988	—
Canadian Dollar	55,094	55,651	7/5/12 – 9/20/12	557	
Colombian Peso	17,461	17,299	7/5/12 – 10/3/12	—	(162)
Euro	463,297	474,672	7/2/12 – 9/19/12	11,375	—
Japanese Yen	111,219	110,202	7/2/12 – 9/24/12	—	(1,017)
New Turkish Lira	33,329	33,025	7/3/12 – 9/19/12	—	(304)
Philippines Peso	17,611	17,409	7/5/12 – 10/31/12	—	(202)
Singapore Dollar	17,054	16,885	7/2/12 – 9/19/12	—	(169)
Swedish Krona	38,007	38,254	7/18/12 – 10/17/12	247	—
Other foreign currencies	148,034	148,024	6/27/12 – 4/25/14	972	(982)
Foreign currency exchange contracts sold:					
Brazilian Real	26,760	27,069	7/3/12 – 10/2/12	309	—
British Pound	63,496	63,029	7/3/12 – 9/12/12	—	(467)
Chinese Yuan Renminbi	41,067	39,879	11/21/12 – 9/8/15	—	(1,188)
Colombian Peso	21,876	22,104	7/5/12 – 9/28/12	228	—
Euro	164,514	164,941	7/3/12 – 9/14/12	427	—
Malaysian Ringgit	27,792	26,872	7/2/12 – 8/1/12	—	(920)
Polish Zloty	36,576	37,325	8/7/12 – 9/19/12	749	—
Russian Rubel	23,637	23,089	8/16/12 – 9/28/12	—	(548)
Swedish Krona	19,117	19,439	7/18/2012	322	—
Other foreign currencies	113,848	114,208	6/28/12 – 10/31/12	1,213	(853)
Total				$ 21,680	(7,433)

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

	2011				
	Fair value	**Aggregate face value**	**Delivery date(s)**	**Unrealized gains**	**Unrealized losses**
Foreign currency exchange contracts purchased:					
Australian Dollar	$ 63,005	61,739	7/1/11 – 10/7/1:	$ —	(1,266)
Brazilian Real	44,404	43,454	7/5/11 – 9/2/11	—	(950)
British Pound	459,452	463,119	7/1/11 – 10/7/11	3,667	—
Canadian Dollar	45,351	44,828	7/6/11 – 10/7/11	—	(523)
Euro	329,961	330,900	7/1/11 – 7/27/11	939	—
Japanese Yen	134,437	131,592	7/1/11 – 12/5/11	—	(2,845)
Swedish Krona	37,520	37,186	7/7/11 – 10/7/11	—	(334)
Swiss Franc	13,010	13,004	9/30/2011	—	(6)
Other foreign currencies	19,059	18,942	7/1/11 – 9/14/11	31	(148)
Foreign currency exchange contracts sold:					
Australian Dollar	20,841	21,347	7/7/11 – 7/29/11	506	—
Brazilian Real	31,947	32,543	8/2/11 – 9/2/11	596	—
British Pound	225,637	226,416	7/1/11 – 9/13/11	779	—
Canadian Dollar	15,211	15,493	7/7/2011	282	—
Chinese Yuan Renminbi	36,440	36,566	9/14/11 – 9/8/15	126	—
Japanese Yen	38,962	39,067	7/1/11 – 7/19/11	105	—
Singapore Dollar	10,590	10,890	9/9/2011	300	—
South Korean Won	10,884	11,228	7/1/11 – 8/12/11	344	—
Swedish Krona	18,706	18,810	7/7/2011	104	—
Other foreign currencies	32,450	32,874	7/1/11 – 3/15/12	496	(69)
Total				$ 8,275	(6,141)

For the years ended June 30, 2012 and 2011, the change in unrealized appreciation (depreciation) on foreign currency exchange contracts was $12,113 and $(8,179), respectively.

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Notes to Financial Statements

June 30, 2012 and 2011

(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:

	2012				
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	350	3/15 – 9/15	$ 86,515	86,667	152
Long fixed income:					
US 5-Yr Treasury Notes	996	9/12	123,280	123,473	193
US 10-Yr Treasury Notes	1,009	9/12	134,470	134,575	105
Other long fixed income	334	9/14	108,165	105,065	(3,100)
Short fixed income:					
US 2-Yr Treasury Notes	(138)	9/12	(30,397)	(30,386)	11
Euro- BUND	(255)	9/12	(45,831)	(45,596)	235
US Treasury Bond	(334)	9/12	(49,221)	(49,422)	(201)
Other short fixed income	(195)	9/12	(33,976)	(34,132)	(156)
Long equity and commodities:					
S&P Mid 500 EMINI Index	3,864	9/12	254,050	262,056	8,006
S&P 500 Index	1,686	9/12	547,573	571,723	24,150
Other long equity and commodities	2,773	7/12 – 9/12	208,438	218,005	9,567
Total futures exposure			$ 1,303,066	1,342,028	38,962

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

			2011		
Description	**Number of contracts**	**Expiration date**	**Gross notional amount**	**Fair value of notional amount**	**Unrealized appreciation (depreciation)**
Long cash and cash equivalents:					
90-Day Eurodollar	5,730	9/11 – 6/14	$ 1,419,512	1,422,160	2,648
Long fixed income:					
US 5-Yr Treasury Notes	172	9/11	20,651	20,502	(149)
US 2-Yr Treasury Notes	104	9/11	22,761	22,812	51
Euro-BOBL	131	9/11	21,987	22,142	155
Euro-BUND	176	9/11	32,097	32,019	(78)
Other long fixed income	39	9/11	4,747	4,771	24
Short fixed income:					
US 2-Yr Treasury Notes	(712)	9/11	(155,948)	(156,173)	(225)
US 10-Yr Treasury Notes	(148)	9/11	(18,231)	(18,105)	126
US Treasury Bond	(268)	9/11	(33,519)	(32,972)	547
Other short fixed income	(433)	9/11	(54,078)	(53,460)	618
Long equity and commodities:					
S&P Mid 500 EMINI Index	3,125	9/11	198,151	205,547	7,396
S&P 500 Index	3,050	9/11	965,527	1,003,069	37,542
Other long equity and commodities	1,703	9/11	144,308	148,078	3,770
Total futures exposure			$ 2,567,965	2,620,390	52,425

For the years ended June 30, 2012 and 2011, the change in unrealized appreciation (depreciation) on futures contracts was $(13,463) and $127,518, 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 statements 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.

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

Open swap contracts at June 30 were as follows:

2012

Description	PRIT pays/receives interest rate	PRIT pays/receives index/protection	Maturity date	Gross notional amount	Net unrealized appreciation (depreciation)
Interest rate swaps	1.14% – 10.58%	See note*	1/14 – 6/42	$ 210,675	(257)
Credit default swaps	0.18% – 5.00%	Credit default protection	9/12 – 7/45	385,713	2,768
Inflation swaps	1.84% – 2.66%	Inflation protection	10/15 – 6/21	23,310	469
Total swaps				$ 619,698	2,980

* PRIT pays/receives counterparty based on 3-Month LIBOR, 3-Month Canadian, Mexican TIIE rate, and BZDIOVRA Daily.

2011

Description	PRIT pays/receives interest rate	PRIT pays/receives index/protection	Maturity date	Gross notional amount	Net unrealized appreciation (depreciation)
Interest rate swaps	3.00% – 11.57%	See note*	9/11 – 12/41	$ 379,417	(7,973)
Credit default swaps	0.60% – 12.25%	Credit default protection	7/11 – 7/45	359,753	3,031
Total return swaps	Private equity	Russell 3000	various	90,542	(17,098)
Total swaps				$ 829,712	(22,040)

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

For the years ended June 30, 2012 and 2011, the change in unrealized appreciation (depreciation) on swap contracts was $25,020 and $(3,096), respectively.

Exposures to Counterparties

2012

		Interest rate swaps		Credit default swaps		Inflation swaps	
Counterparty	Credit rating	Gross notional	Fair value	Gross notional	Fair value	Gross notional	Fair value
Goldman Sachs International	A-	$ —	—	18,240	(216)	—	—
Chicago Mercantile Exchange Inc.	AA-	157,950	(564)	107,852	2,722	—	—
Deutsche Bank Securities Inc.	A+	41,900	(155)	47,394	669	23,310	469
Bank of America Corp	A-	—	—	19,108	(1,400)	—	—
Citibank	A-	—	—	42,920	482	—	—
Barclays Global Investors	A	6,480	61	36,788	563	—	—
Morgan Stanley Capital	A-	980	21	29,600	192	—	—
UBS Financial Services, Inc.	A	1,734	58	29,945	(136)	—	—
All others	Various	1,631	322	53,866	(108)	—	—
		$ 210,675	(257)	385,713	2,768	23,310	469

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

		2011						
		Interest rate swaps		Credit default swaps		Total return swaps		
Counterparty	**Credit rating**	**Gross notional**	**Fair value**	**Gross notional**	**Fair value**	**Gross notional**	**Fair value**
Goldman Sachs International	A+	$ 40,992	(788)	36,580	(320)	—	—
Credit Suisse	A	34,255	262	10,100	(59)	—	—
J.P. Morgan Securities Inc.	A+	39,136	416	11,700	69	—	—
Deutsche Bank Securities Inc.	A+	51,118	618	41,945	154	23,310	22
Bank of America Corp	A	51,900	(6,069)	21,000	(1,419)	69	4,968
Citibank	A	21,600	(607)	50,586	2,144	—	—
Barclays Global Investors	A+	29,700	207	30,338	174	—	—
Morgan Stanley Capital	A	19,319	(247)	87,075	1,717	—	—
UBS Financial Services, Inc.	A+	16,800	(551)	30,549	(22)	—	—
All others	Various	74,597	(1,214)	39,880	593	67,163	(22,088)
		$ 379,417	(7,973)	359,753	3,031	90,542	(17,098)

(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 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 amount to $53,808 and $57,422 for the years ended June 30, 2012 and 2011, respectively.

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

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

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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.

Fees for direct hedge fund investments generally range from 1% to 2% of net assets under management, plus performance fees of 20% – 25% of excess return, as defined in the partnership agreements.

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 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 values of these investments are reported net of "indirect" management fees. For the years ended June 30, 2012 and 2011, 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 $174,671 and $169,755, respectively, and are not included in management fees in the accompanying statements of changes in pooled net assets.

(Continued)

Notes to Financial Statements

June 30, 2012 and 2011

(b) Investment Advisory Fees

New England Pension Consultants (NEPC), Callan Associates, Cliffwater LLC, Hamilton Lane, and Townsend serve as the PRIM Board's principal investment advisors. NEPC serves as the asset allocation advisor, Callan Associates serves as the public markets advisor, Cliffwater LLC provides direct hedge fund advisory services, Hamilton Lane serves as the private equity advisor, and Townsend provides real estate and timberland advisory services. These investment advisors, among others, provide the PRIM Board with comprehensive investment advisory services, including recommendations on asset allocation, selection of investment managers, and the monitoring of performance of PRIT and its individual investment managers.

For the years ended June 30, 2012 and 2011, as compensation for their services, investment advisors earned fees aggregating approximately $3,624 and $2,989, 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, 2012 and 2011, custodian fees amounted to $2,700 and $2,700, 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, 2012 and 2011, other administrative expenses of the PRIM Board, including employee compensation, professional fees and occupancy costs, charged to PRIT totaled approximately $8,060 and $6,107, respectively, and are included in management fees in the accompanying statements of changes in pooled net assets.

(8) Commitments

As of June 30, 2012, PRIT had outstanding commitments to invest approximately $5.1 billion in private equity investments and distressed debt.

Schedules of Pooled Net Assets – Capital Fund and Cash Fund

June 30, 2012

(Amounts in thousands)

	Capital Fund	Cash Fund	Total
Assets:			
Investments, at fair value:			
Short-term	$ 777,509	57,043	834,552
Fixed income	11,301,393	—	11,301,393
Equity	19,797,368	—	19,797,368
Real estate	4,727,227	—	4,727,227
Timber	1,197,298	—	1,197,298
Private equity	6,091,178	—	6,091,178
Hedge funds	4,750,032	—	4,750,032
Total investments	48,642,005	57,043	48,699,048
Cash	165,454	—	165,454
Interest and dividends receivable	123,328	31	123,359
Receivable for investments sold and other assets	315,112	—	315,112
Securities sold on a when-issued basis	360,610	—	360,610
Unrealized gains on foreign currency exchange contracts	21,680	—	21,680
Total assets	49,628,189	57,074	49,685,263
Liabilities:			
Payable for investments purchased and other liabilities	162,739	—	162,739
Securities purchased on a when-issued basis	625,582	—	625,582
Unrealized losses on foreign currency exchange contracts	7,433	—	7,433
Management fees payable to PRIM	21,702	—	21,702
Total liabilities	817,456	—	817,456
Net assets held in trust for pool participants	$ 48,810,733	57,074	48,867,807

See accompanying independent auditors' report.

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

Fiscal year ended June 30, 2012

(Amounts in thousands)

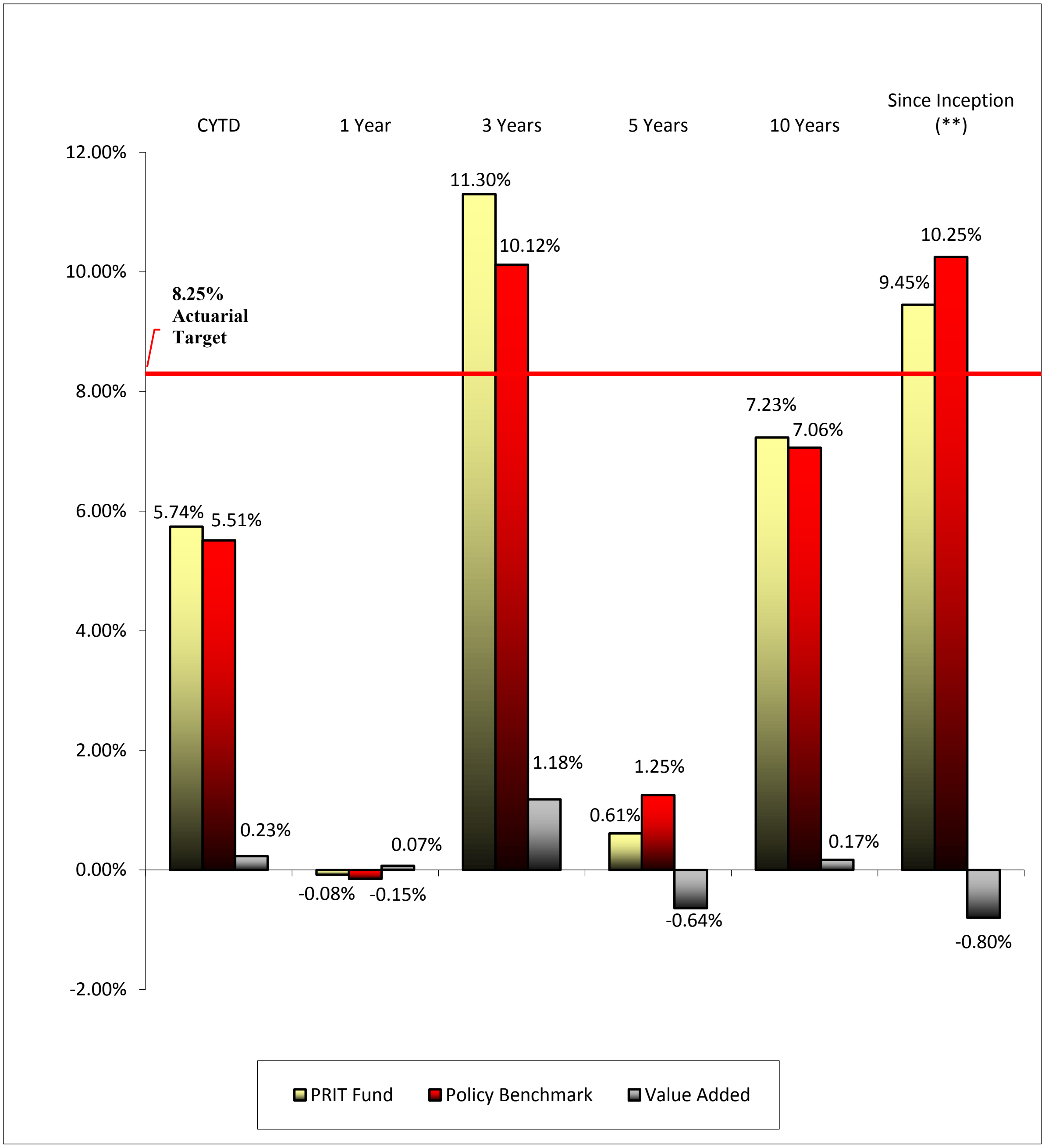
		Capital Fund	Cash Fund	Total
Additions:				
Contributions:				
State employees	$	—	544,166	544,166
State teachers		—	640,056	640,056
Other participants		—	898,837	898,837
Total contributions		—	2,083,059	2,083,059
Net investment income:				
From investment activities:				
Net realized income on investments and foreign currency transactions		1,184,401	—	1,184,401
Net change in unrealized appreciation/ (depreciation) on investments and foreign currency translations		(2,693,795)	—	(2,693,795)
Interest income, net		342,369	251	342,620
Dividend income, net		668,260	—	668,260
Real estate income, net		211,969	—	211,969
Timber income/(loss), net		(4,730)	—	(4,730)
Private equity income, net		79,059	—	79,059
		(212,467)	251	(212,216)
Management fees		(68,191)	—	(68,191)
Total investment income/(loss)		(280,658)	251	(280,407)
Total additions/(deductions)		(280,658)	2,083,310	1,802,652
Deductions:				
Redemptions:				
State employees		—	1,122,208	1,122,208
State teachers		—	1,525,530	1,525,530
Other participants		—	532,873	532,873
Total deductions		—	3,180,611	3,180,611
Interfund transfers in/(out)		(1,093,205)	1,093,205	—
Net decrease in pooled net assets		(1,373,863)	(4,096)	(1,377,959)
Net assets held in trust for pool participants:				
Balance, beginning of year		50,184,596	61,170	50,245,766
Balance, end of year	$	48,810,733	57,074	48,867,807

See accompanying independent auditors' report.

Investment Section

Total PRIT Fund Performance Summary (*)

For the periods ended June 30, 2012



(*) 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 accumulate 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 gaining 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.

As of June 30, 2012, PRIM employed twenty-one public markets investment managers, one hundred and three private equity markets managers, fourteen real estate, natural resources, and timber managers, three hedge fund-of-funds managers, twenty direct hedge fund managers, and five external investment consultants. The PRIT Fund had approximately $48.9 billion in assets under management at June 30, 2012. Each investment manager operates within guidelines that are established by PRIM and are delineated in a detailed investment management agreement.

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 and the Financial Highlights in the Statistical Section of this report. The values used in this section are the appropriate industry standard basis for investment return calculations and are net of all investment receivables and payables. Unless otherwise noted, all return information provided is gross of fees. 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.

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 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 2012 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 in the evaluation of existing and potential asset classes were thoroughly reviewed and formally agreed upon by the Board.

Asset Class	6/30/2012 Allocation %	2012 Long-Term Policy Target %
Global Equity (*)	42.6	43.0
Core Fixed Income	13.0	13.0
Value-Added Fixed Income	8.6	10.0
Real Estate	9.7	10.0
Private Equity	12.1	10.0
Timber / Natural Resources	3.9	4.0
Hedge Funds	9.9	10.0
Portable Alpha wind down	0.2	0.0

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

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 and investment managers are selected to achieve this end. 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 each individual retirement system's share of ownership in each investment account. Retirement systems may contribute and redeem units in individual PRIT Fund investment accounts on the first business day of each 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 are 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 asset class, except for general consultants, whose fees are allocated on a proportionate basis to all asset classes. 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 asset class.

The Year in Review – The World Markets

Fiscal Year 2012 Global Markets Overview

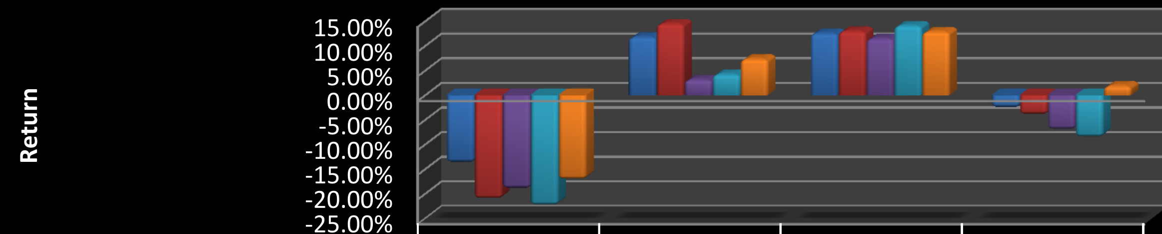
As Fiscal Year 2011 drew to a close, there were clear warning signs that increased volatility in the markets could be expected throughout Fiscal Year 2012, and that certainly came to fruition. The first fiscal quarter of 2012 (3Q11) saw steep losses in global equities: U.S. equities were off anywhere from 10% to 22%, and developed and international and emerging markets equities fared no better. Flight to quality was on, as long U.S. Treasury bonds soared almost 25% during the first fiscal quarter! Worries about the European sovereign debt crisis, combined with tepid economic reports from the world's second largest economy, China, rattled investors' nerves. All this occurred against the backdrop of federal lawmakers haggling over raising the debt ceiling or allowing the U.S. government to default on interest payments to its lenders. To add insult to injury, on August 5th, Standard & Poor's downgraded the U.S. government's credit rating to AA+ from AAA, which was a not-so-subtle shot across the bow of the ship of state to get the government's fiscal house in order, even as Congress passed, and the President signed on August 2nd, the Budget Control Act of 2011, which temporarily assuaged the debt ceiling crisis. Publicly-traded Global Real Estate Investment Trust securities (Global REITs) mirrored the tumult in the equity markets and were down over 17% in 3Q11. By quarter-end, there were signs that the U.S. economy was in modest expansion mode, however, as consumer confidence rose from its lowest level since November 2008 and the U.S. manufacturing sector showed some acceleration.

A reversal occurred in the second quarter of Fiscal Year 2012 (4Q11), although not without some rockiness. Investors took "risk off" as U.S. equities climbed 12% in 4Q11, while the broad investment grade bond market gained a mere 1%. Conversely, high yield bonds bounced back from a mid-quarter slump and finished the fiscal quarter up 6%. Although international developed and emerging markets equities lost ground during most of 4Q11, they still ended the fiscal quarter up 3% and 4%, respectively, as a result of substantial gains booked in October. Although there was optimism over the U.S. economic recovery, the soap opera that is the European debt crisis continued to cast a pall over the markets, as concerns grew over Greece's Southern European neighbor, Italy. Global REITs rebounded convincingly during the fiscal quarter, returning over 7%.

Global equities posted returns in the third fiscal quarter (1Q12) that resembled an entire year's worth of performance! U.S. equities gained over 12%, as unemployment fell, wages increased, and manufacturing expanded. In Europe, it appeared that finance ministers would do what was necessary to reign in budget deficits, but after two months of solid gains, international developed equities retreated at the end of March, finishing the quarter at 11.5%. Emerging markets equities were up over 14% during the fiscal quarter, but gave back about 3% in March. Global REITs posted attractive returns in the vicinity of 13% for the fiscal quarter.

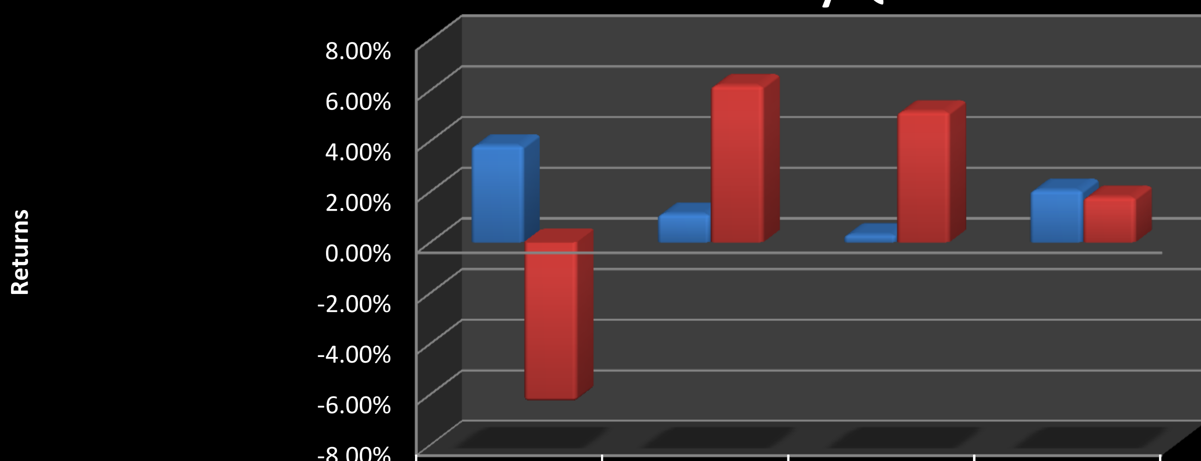
The fourth and final fiscal quarter (2Q12) ended the way the fiscal year began, on a down note. With the exception of the month of June, in which global equities rebounded, April was flat to negative, but May was downright ugly. U.S. equities fell 3% in 2Q12, while international developed and emerging markets equities shed 7% and 9% respectively. Investment grade bonds finished the fiscal quarter at 2%, and high yield bonds rose almost 2%. Among equities, Global REITs generated a positive return of almost 2% in 2Q12. For the full fiscal year, the broad U.S. equity market was up about 4%; while international equities returned -13% and emerging markets equities sank 16%. The rally in investment grade bonds continued as broad market rose a lofty 7.5% in Fiscal Year 2012. High yield bonds generated 7% in Fiscal Year 2012, and global REITs finished the year at 3%.

FY 2012 Equity Indices By Quarter



	1st Qtr (9/30/2011)	2nd Qtr (12/31/2011)	3rd Qtr (3/31/2012)	4th Qtr (6/30/2012)
S&P 500 (Large Cap)	-13.87%	11.82%	12.59%	-2.73%
Russell 2500 (Small/SMID Cap)	-21.22%	14.52%	12.99%	-4.14%
MSCI EAFE Standard Index Net Divs	-19.14%	3.18%	11.51%	-7.17%
MSCI EM Standard Index Net Divs (EMF)	-22.54%	4.27%	14.14%	-8.72%
FTSE EPRA NAREIT Developed REIT	-17.30%	7.36%	12.90%	1.88%

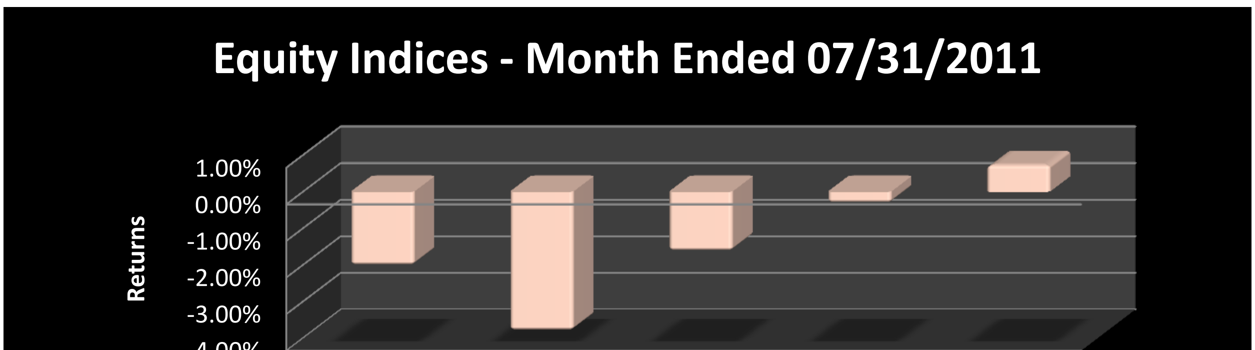
FY 2012 Fixed Income Indices by Quarter



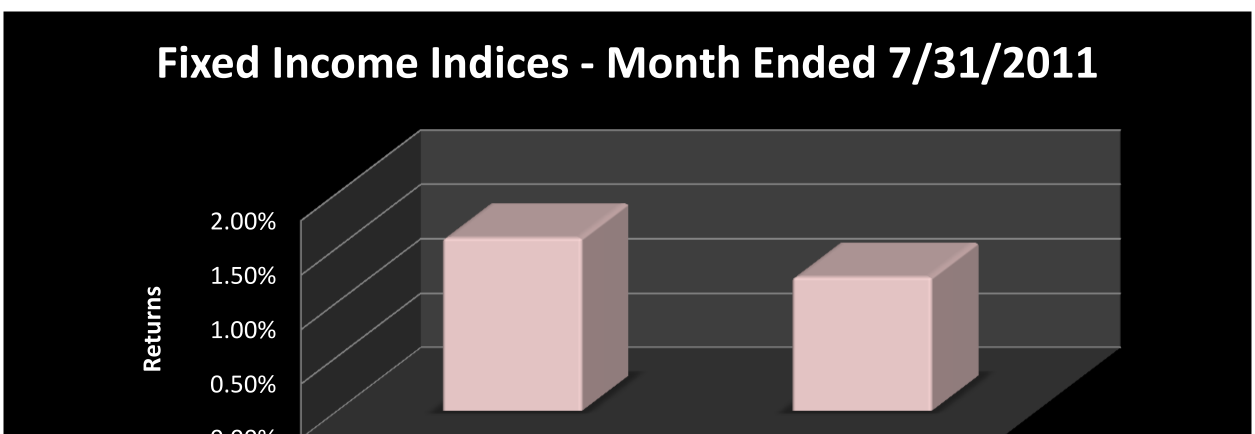
	1st Qtr (9/30/2011)	2nd Qtr (12/31/2011)	3rd Qtr (3/31/2012)	4th Qtr (6/30/2012)
Barclays Capital Aggregate	3.82%	1.12%	0.30%	2.06%
ML Master II HY Constrained Index	-6.33%	6.19%	5.16%	1.79%

Month-by-month Account of the Major Economic and Market Highlights of Fiscal Year 2012

July 2011 - Although U.S. equities were buoyed by better than expected earnings news at the outset of the month, the debt ceiling debacle in Washington served as a wet blanket, causing stocks to slide during the final trading week. Although consumer spending dropped in July for the first time in two years, the consumer confidence index actually rose slightly, as lower fuel prices alleviated some pressure. Foreign developed markets also saw early monthly gains erode during the final days of July, as both the European and U.S. debt concerns spooked the markets. Emerging markets equities fell on worries that the U.S. government would default if the Congress failed to act on raising the debt ceiling. Reports showing that the U.S. economy grew slower than expected in the second quarter resulted in higher U.S. Treasuries prices, as yields on the 10-year and 30-year bond fell (the yield moves inversely to the price). Investment grade corporate bond prices also rose in July as investors looked for sanctuary from the global sovereign debt crisis. Globally, publicly-traded real estate securities (REITs) saw gains in July.

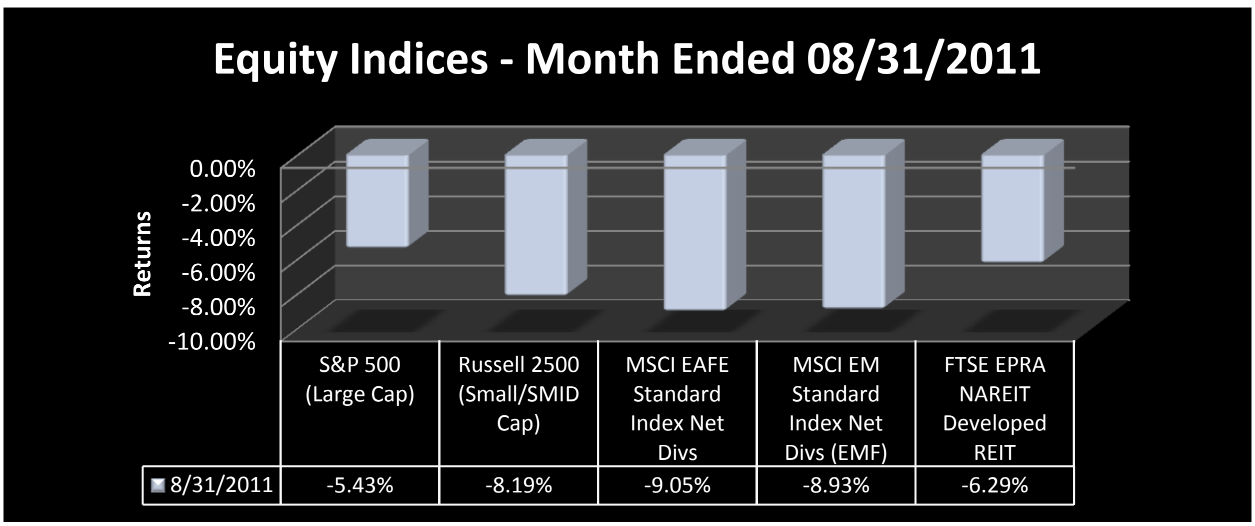


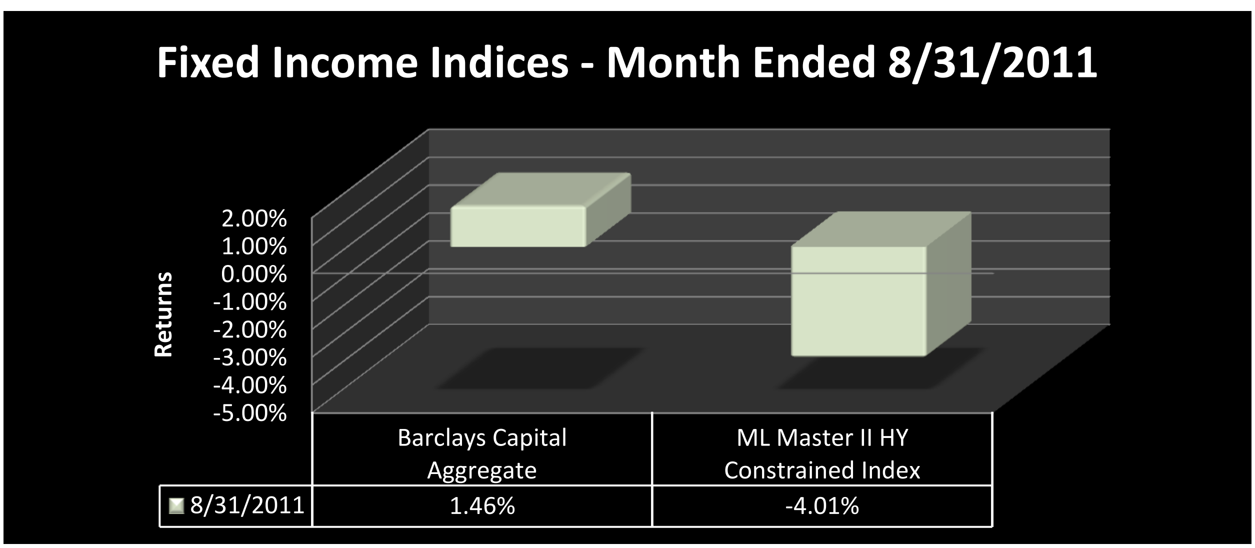
	S&P 500 (Large Cap)	Russell 2500 (Small/SMID Cap)	MSCI EAFE Standard Index Net Divs	MSCI EM Standard Index Net Divs (EMF)	FTSE EPRA NAREIT Developed REIT
7/31/2011	-2.03%	-3.81%	-1.64%	-0.33%	0.73%



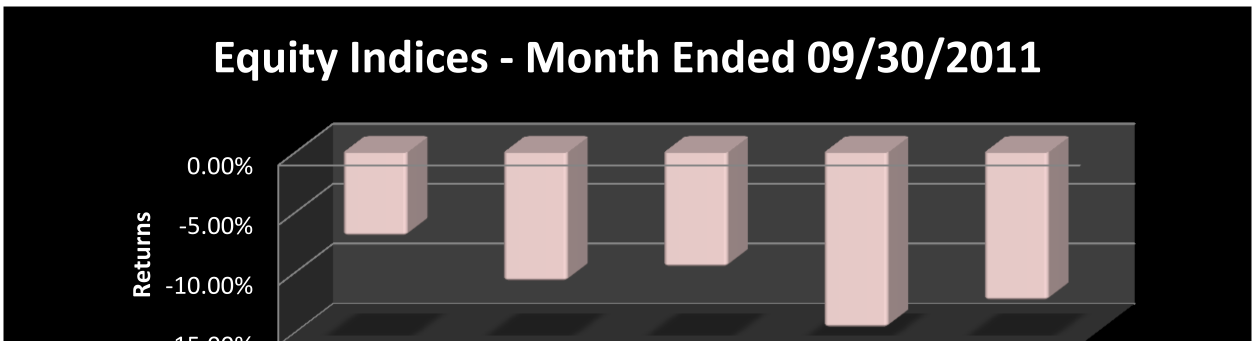
	Barclays Capital Aggregate	ML Master II HY Constrained Index
7/31/2011	1.59%	1.23%

August 2011 - Standard & Poor's downgrade of the U.S. government's credit rating to AA+ from AAA on August 5th, coupled with the ongoing sovereign debt crisis in Europe, drove investors away from riskier investments during August as all global equity indices sank. The irony was that the beneficiary of this flight was U.S. government bonds, issued by the very entity that had its credit rating lowered by one notch. Apparently, the rest of the world believed in the relative safety of U.S. government debt, the downgrade notwithstanding. Consumer spending, which represents approximately 70% of the U.S. economy, grew at a lower rate than expected; and although the manufacturing index fell in August, its decline was projected to be worse. The unemployment rate did not budge, remaining at 9.1%. Overseas, developed foreign equity markets plunged as investors feared the Greek debt crisis would spread to another of its Mediterranean neighbors, Italy, which is the world's third largest bond issuer. Emerging equity markets also fell for the fourth straight month, with Hungary, Turkey, and Russia posting losses. U.S. Treasuries prices rose as yields fell, although yields on longer duration bonds declined more (the yield moves inversely to the price). For example, the Barclays U.S. Aggregate Government-Treasury-Long index gained an astounding 8.81% in August. U.S. corporate bond prices fell in August as investors demanded higher yields as a risk premium. Globally, publicly-traded real estate securities (REITs) declined in August.

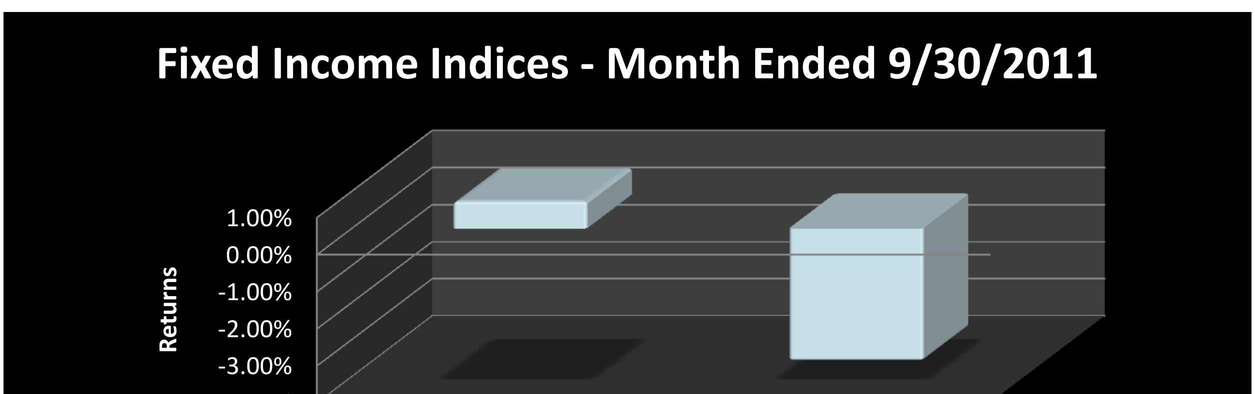




September 2011 – Fears that the ongoing European debt crisis and a Chinese economic slowdown could spark another global recession sent global equity markets tumbling in September. Large cap U.S. equities fell for the fifth straight month. Small cap U.S. equities performed the worst across the capitalization range. Value stocks performed better than growth, as investors shied away from what they perceived as riskier issues. All developed foreign equity markets contracted during September. German stocks felt the heat, as a decline in retail sales there renewed recessionary concerns. Emerging markets equities continued their slide, underperforming their developed counterparts significantly in September, with Hungary, Russia, and Poland performing the worst. Chinese stocks also fell for the third consecutive month on signs that economic growth is stalling. Conversely, investment grade fixed income markets rose, as pessimistic economic news and Euro sovereign debt woes led investors to seek relative safety in U.S. government debt. The Federal Reserve announced a bond-swap program called "Operation Twist", where the Fed would buy longer-term Treasuries and sell an equal amount of shorter duration notes in an attempt to reduce interest rates on a gamut of debt instruments, such as mortgages and business loans. High yield bonds fell for a second month over the bleak economic concerns. Publicly-traded global Real Estate Investment Trusts (REITs) fell precipitously during the month, as these markets are highly correlated to small cap stocks.

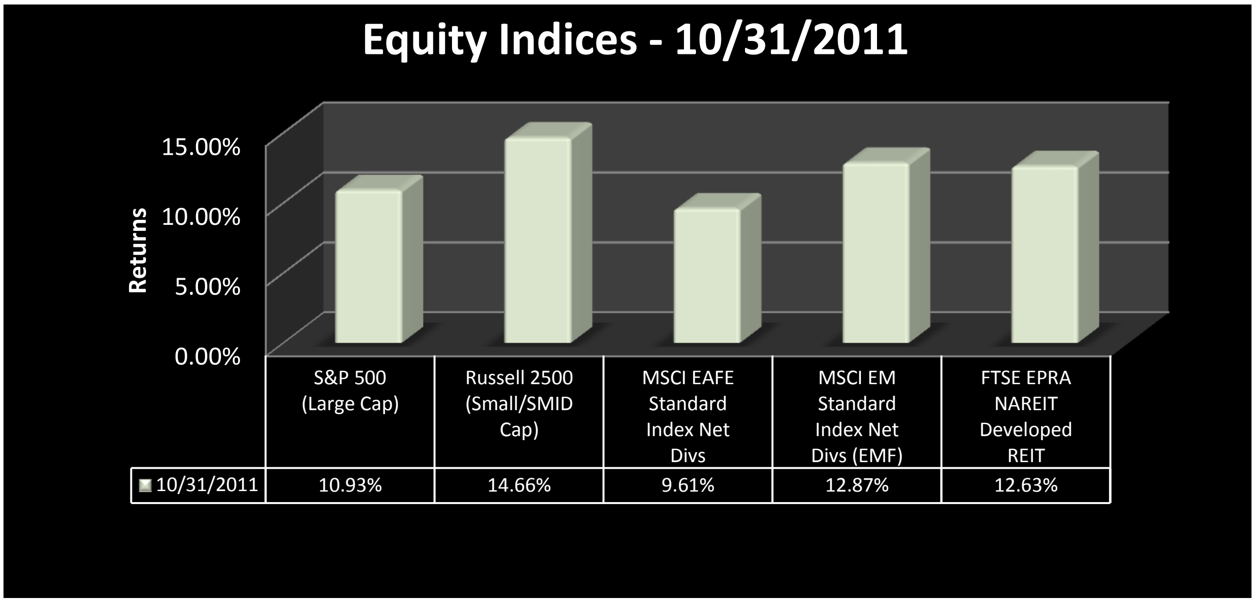


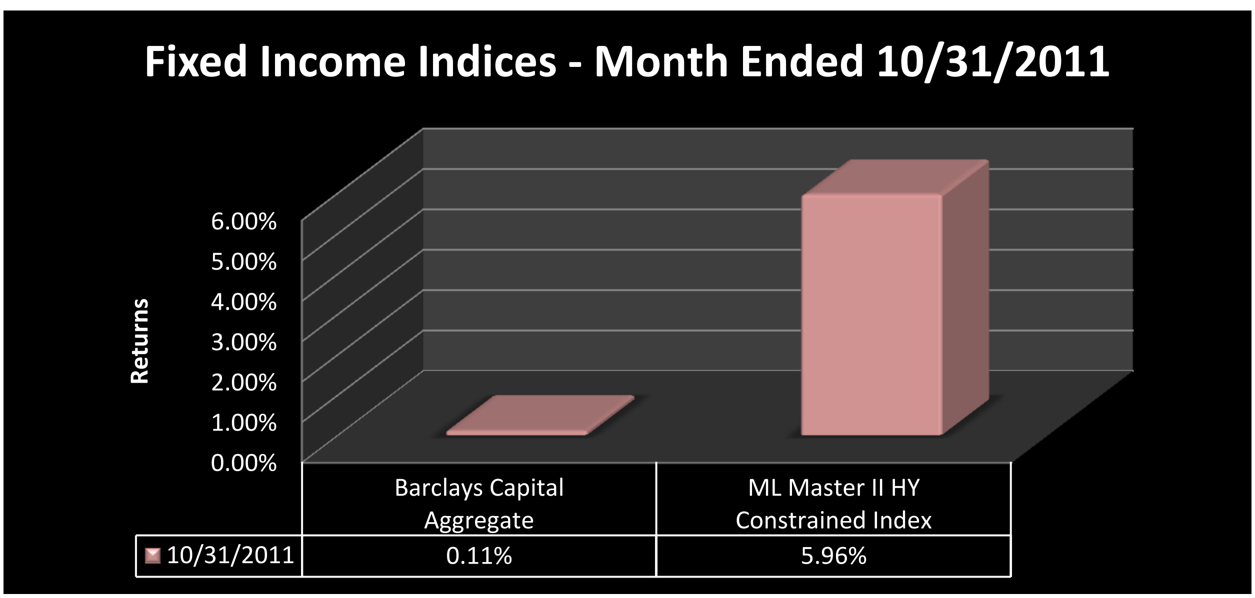
	S&P 500 (Large Cap)	Russell 2500 (Small/S MID Cap)	MSCI EAFE Standard Index Net Divs	MSCI EM Standard Index Net Divs (EMF)	FTSE EPRA NAREIT Develope d REIT
9/30/2011	-7.03%	-10.80%	-9.61%	-14.65%	-12.40%



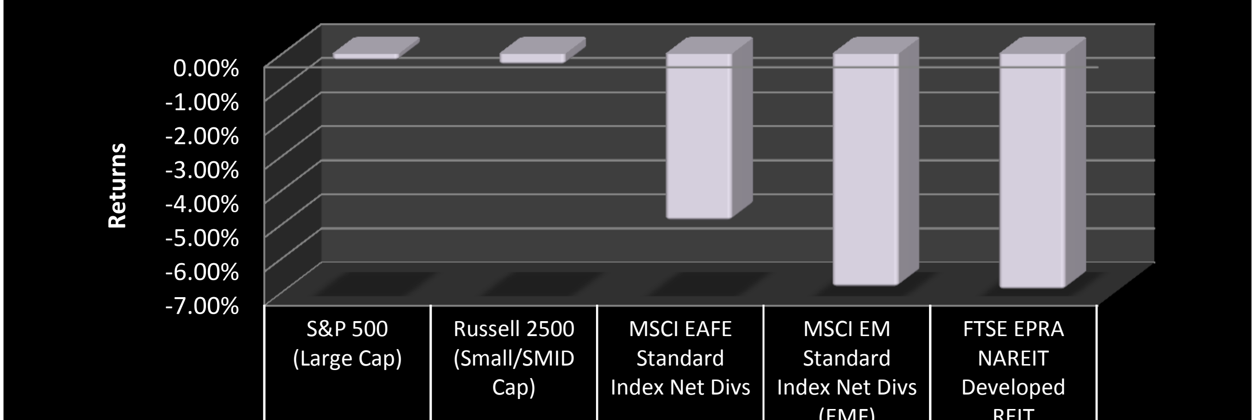
	Barclays Capital Aggregate	ML Master II HY Constrained Index
9/30/2011	0.73%	-3.60%

October 2011 - The month that investors fear most turned out to be their best friend, as October saw record gains for equities. The Dow Jones Industrial Average (DJIA) gained more than 1,000 points, its best month since October 2002, and the S&P 500 index experienced its best monthly performance since October 1992, rising almost 11% and bouncing back into positive territory for the calendar year. Even amid the backdrop of the European debt turmoil, investors seemed heartened that Europe's leaders were handling the crisis by rolling out a comprehensive plan. The markets were also spurred by rosier U.S. economic news. Those developments translated into huge gains in the foreign developed and emerging equity markets, although both markets remained underwater for the year. Investment grade fixed income was up slightly for the month, while the riskier high yield bonds posted impressive gains. Publicly-traded global Real Estate Investment Trusts (REITs) rose over 12% in October, essentially reversing the prior month's losses.

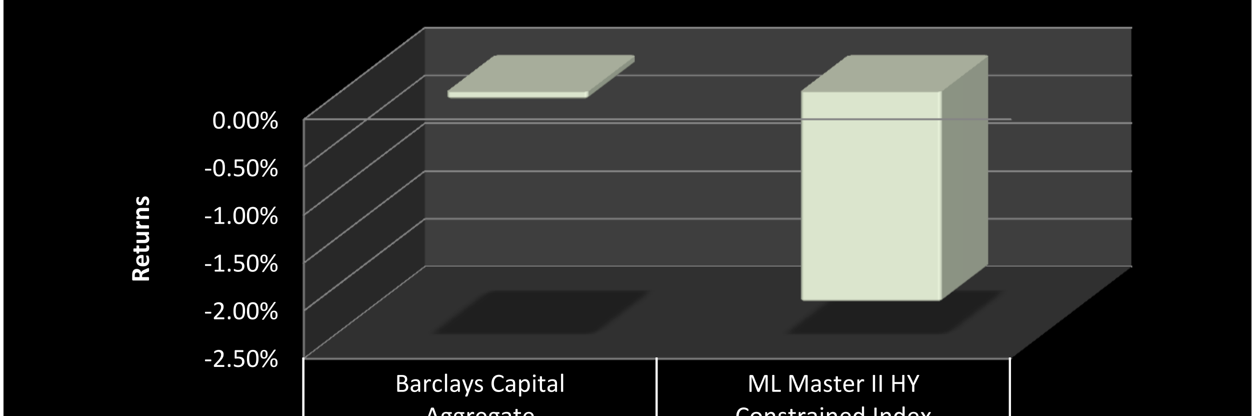




November 2011 - Paring losses experienced during the month, global equity markets rallied in the final trading days of November on news that six central banks, led by the Federal Reserve, had agreed on a plan designed to provide liquidity to the Eurozone. At home, a disappointing report from the Commerce Department on the gross domestic product revealed that the economy had grown less than estimated in the third quarter. At the outset of the fourth quarter, the Federal Reserve stated that the economy grew at a "slow to moderate pace," led by manufacturing and consumer spending. Developed foreign equity markets strengthened as November drew to a close over hopes that the proposed central bank intervention, along with an agreement among European leaders, would help stem the sovereign debt crisis. As a result of the ongoing turmoil in Europe, investors took refuge in U.S. government debt and Treasuries rose; however, the broad investment grade fixed income market was flat for the month. High yield bond prices fell during the month. In November, publicly-traded global Real Estate Investment Trusts (REITs) gave back about half the gains achieved in October.

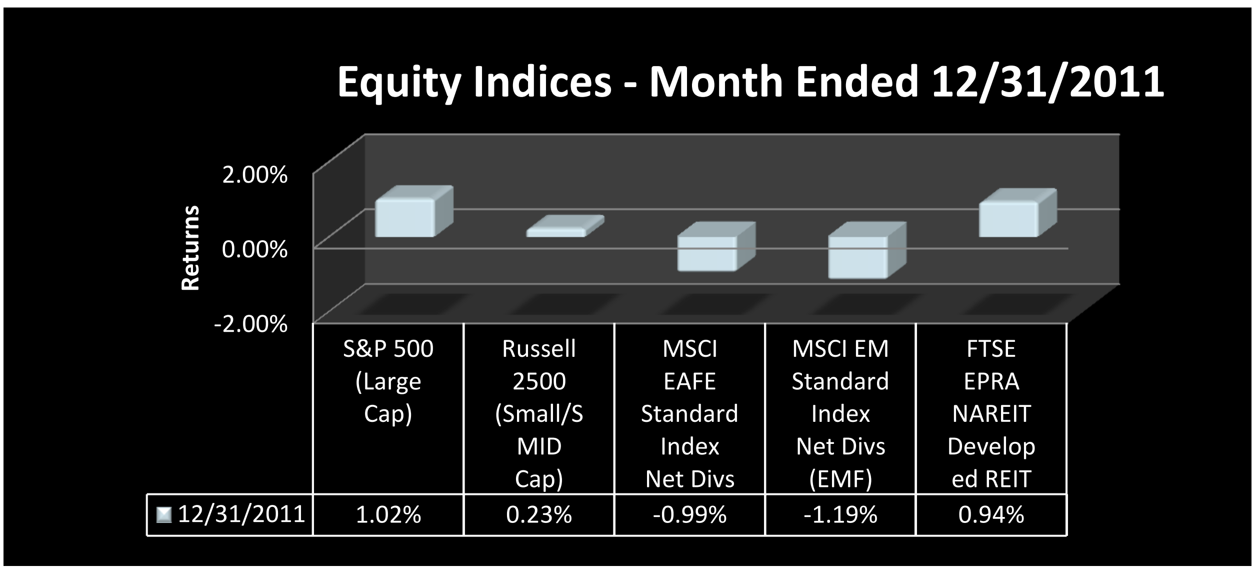


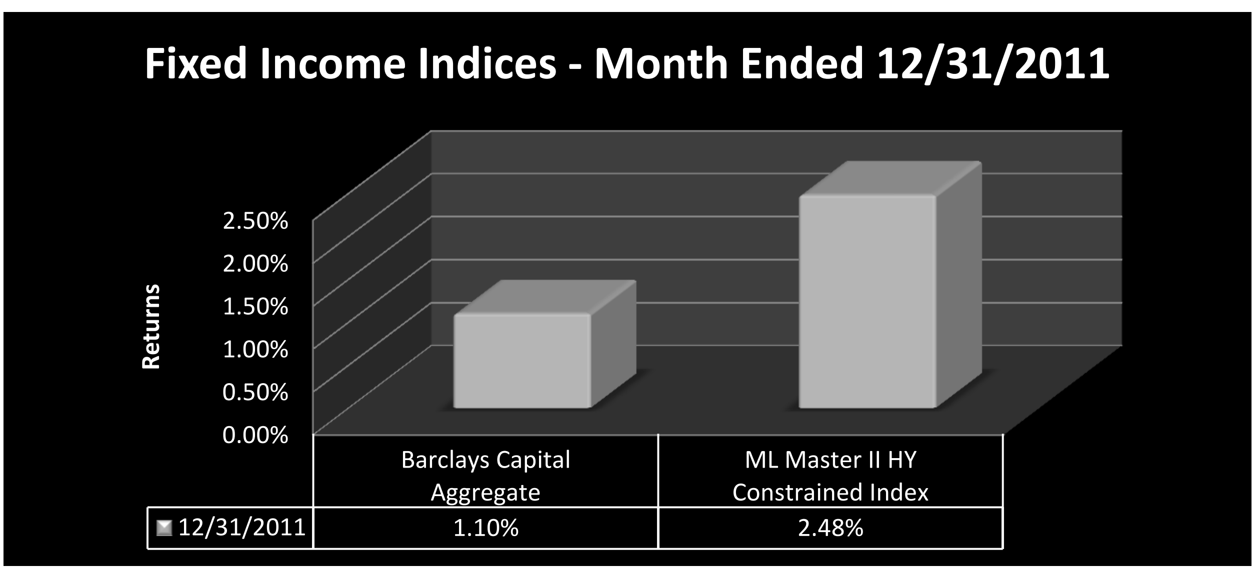
	S&P 500 (Large Cap)	Russell 2500 (Small/SMID Cap)	MSCI EAFE Standard Index Net Divs	MSCI EM Standard Index Net Divs (EMF)	FTSE EPRA NAREIT Developed REIT
11/30/2011	-0.22%	-0.35%	-4.92%	-6.87%	-6.95%



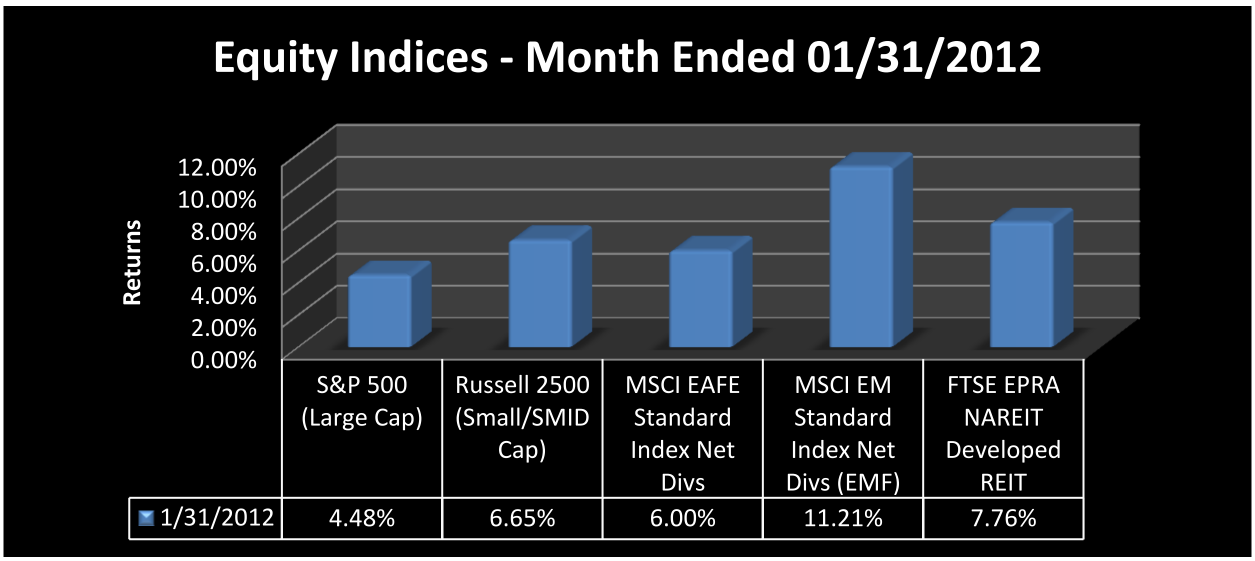
	Barclays Capital Aggregate	ML Master II HY Constrained Index
11/30/2011	-0.09%	-2.21%

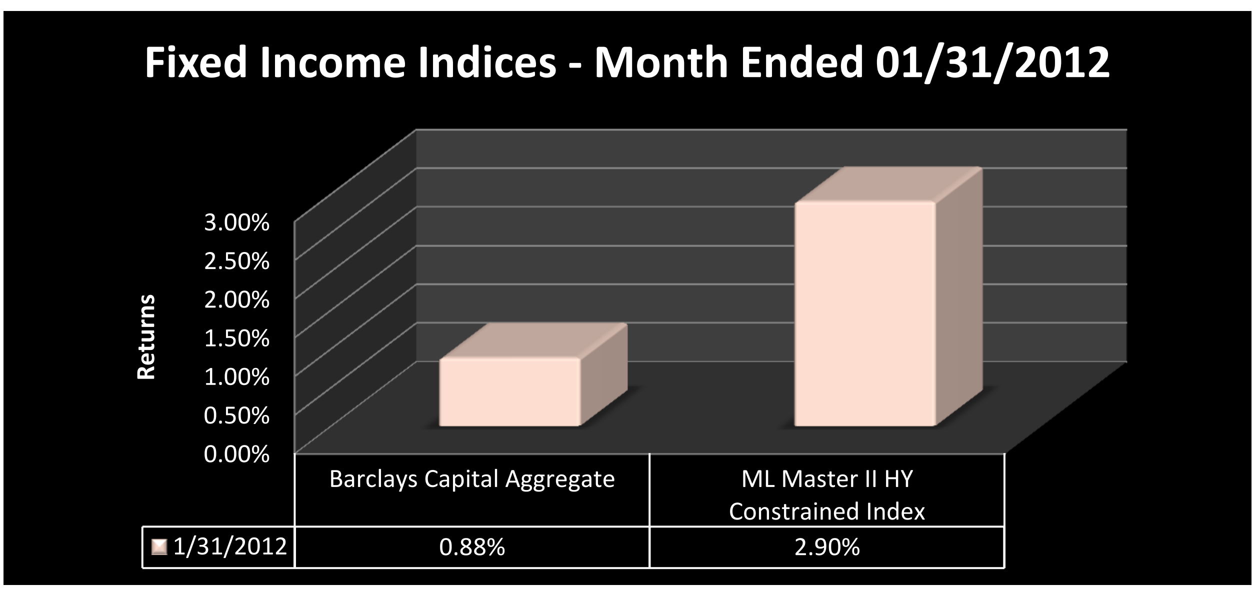
December 2011 - December was yet another volatile month in a turbulent year for global equity markets. The U.S. equity bellwether S&P 500 index finished calendar year 2011 up 2%, while the equities of foreign developed and emerging markets fell 13% and 20%, respectively. Although the economic picture at home brightened as 2011 faded into history, the lingering European debt crisis offset any elation over the direction of the U.S. economy. The second fiscal quarter of 2012, however, was an outstanding one for U.S. equities, as the S&P 500 returned almost 12%. The developed international equity markets rose 3% while emerging markets gained about 4%. And although the third quarter gross domestic product was revised downward to 1.8% from 2.0%, the U.S. unemployment rate fell to 8.5% in December, its lowest level since February 2009. The debt troubles in the Eurozone drove investors to seek haven in U.S. Treasuries. Yields fell on both 10-year and 30-year Treasury notes as prices rose for the second straight month (the yield moves inversely to the price). U.S. investment grade and high yield corporate bonds also saw gains in December, following a sell-off in November. Long Treasury bonds soared 29.9% in 2011, while the broad fixed income market rose 7.8%. Although U.S. publicly-traded Real Estate Investment Trusts (REITs) rebounded in December, returning 4.8% and ending the year at 8.3%, globally, international REITs struggled in 2011. The global REIT index fell 5.8% for the year.



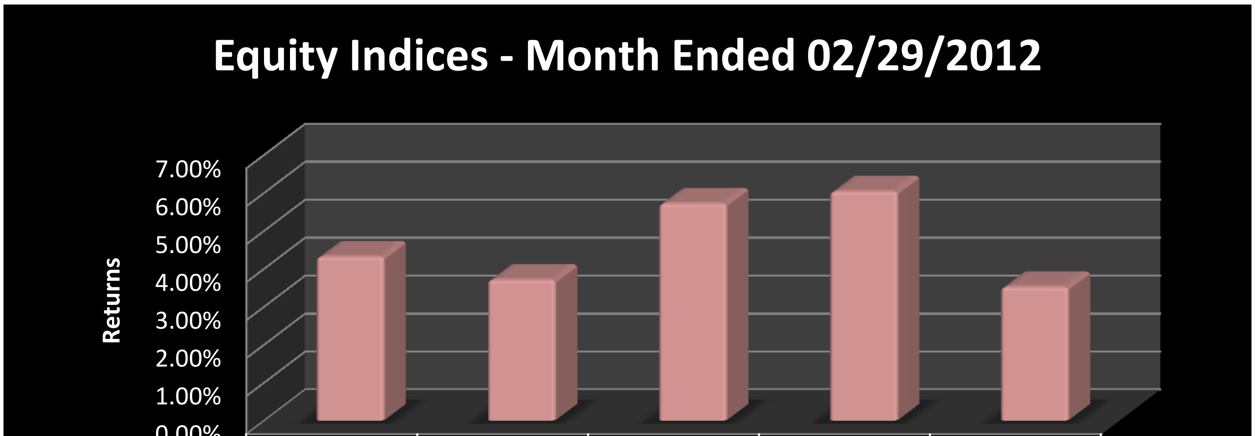


January 2012 - January ushered in optimistic domestic economic news, as more jobs were added during the month than expected, which also lifted consumer confidence. Existing homes sales rose for the third consecutive month, as of December 2011. The U.S. large cap equity bellwether, S&P 500, had its best January since 1997, returning 4.5%, and small cap equities turned in their best January in six years, as the Russell 2000 index climbed 7.1%. Internationally, developed equity markets had their best January since 1994, rising 5.8%, as 25 of 27 European Union countries supported tighter budget disciplines, and as an agreement with private investors to restructure Greek debt appeared imminent. The emerging market equity index recorded its best monthly return since October 2011, up 11%, as central banks from Brazil to Thailand looked to cut borrowing costs. The Federal Reserve's decision to keep interest rates near zero until late 2014 buoyed U.S. Treasury prices in January. The Fed's move is designed to stimulate the economy and the housing market. Globally, Greek default worries sent investors fleeing to the relative safety of German bonds, and yields on Indian sovereign debt fell as its central bank moved to loosen up restrictive monetary policy (the yield moves in the opposite direction of the price). Global REITs soared 7.8% in January, and hedge fund-of-funds returned 1.9%.

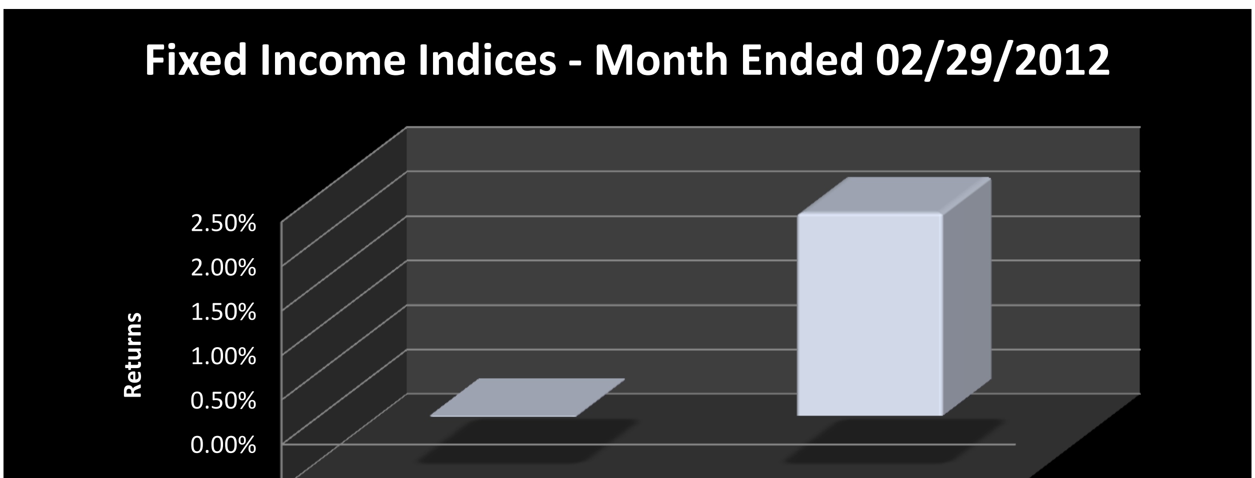




February 2012 - The month of February saw global equity markets rise amid optimism that the economic recovery was gaining momentum. For the first time since 2008 – the year of the global financial crisis – the S&P 500 index and the Dow Jones Industrials Average reached pre-crisis levels. U.S. small cap equities showed improvement in February, but trailed mid- and large cap issues. On a style basis, growth maintained its edge over value. Foreign equities, in both the developed and emerging markets, continued to improve in February, as the European Central Bank and China's central bank made moves to loosen liquidity restraints and support economic recovery in those regions. Investment grade fixed income markets stumbled in February, as U.S. Treasury prices fell over disappointment the Federal Reserve would not expand its economic stimulus efforts. As a result, there was greater demand for high yield bonds, which boosted returns in those markets. Globally, the publicly traded REIT markets posted a third consecutive month of positive returns.

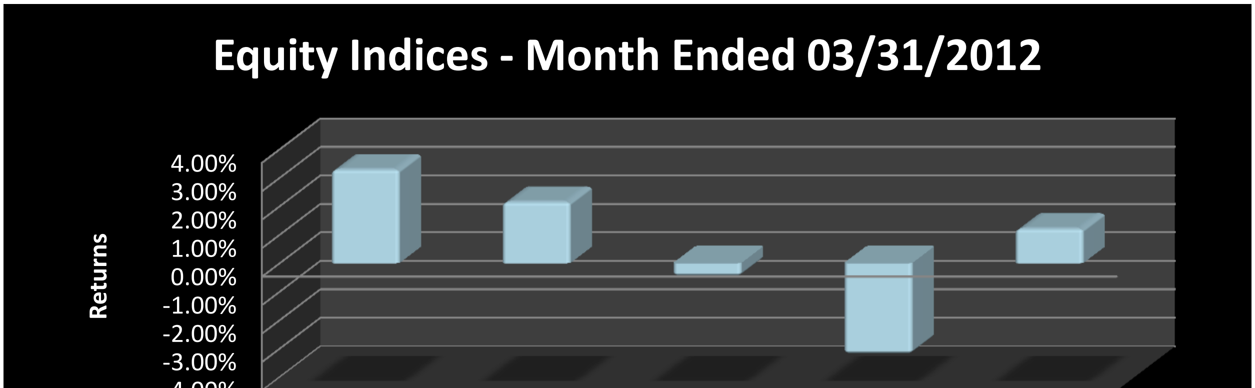


	S&P 500 (Large Cap)	Russell 2500 (Small/SMID Cap)	MSCI EAFE Standard Index Net Divs	MSCI EM Standard Index Net Divs (EMF)	FTSE EPRA NAREIT Developed REIT
2/29/2012	4.32%	3.71%	5.72%	6.04%	3.52%

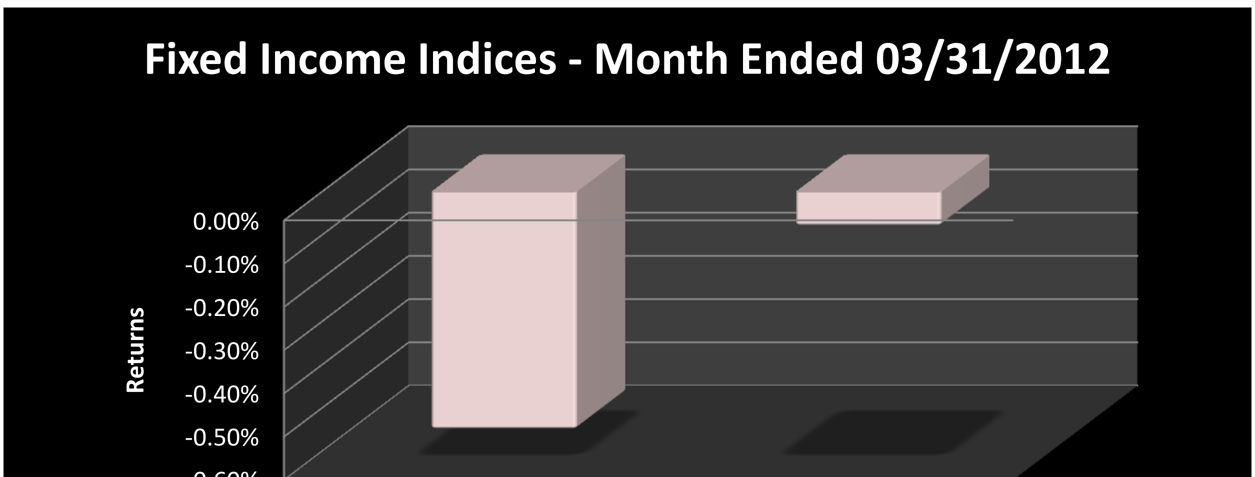


	Barclays Capital Aggregate	ML Master II HY Constrained Index
2/29/2012	-0.02%	2.28%

March 2012 - The first quarter of 2012 saw U.S. stocks reach their highest peak in four years, as the S&P 500 index – the large cap bellwether – enjoyed its fourth consecutive month of gains, fueled by financial and technology shares. Small cap U.S. stocks – as measured by the Russell 2000 index – also advanced for the fourth straight month, led by publicly traded Real Estate Investment Trusts (REITs) and financial services. Foreign shares, in both the developed and emerging markets, fell in March after a robust start to the year. In Europe, wariness over sluggish economic growth, coupled with renewed angst over sovereign debt stress in Greece, caused most bourses to lose ground in March, although German stocks rose 1.1%. Emerging markets equities posted their worst performance in five months, partially in response to a downgrade in China's economic growth forecast. In fixed income markets, U.S. Treasury prices declined in March, sending yields higher on news that the Federal Reserve would hold down short-term interest rates until late 2014 (yields move in the opposite direction of price). Investment grade corporate bonds and high yield bonds also saw yields rise in March as prices dipped.

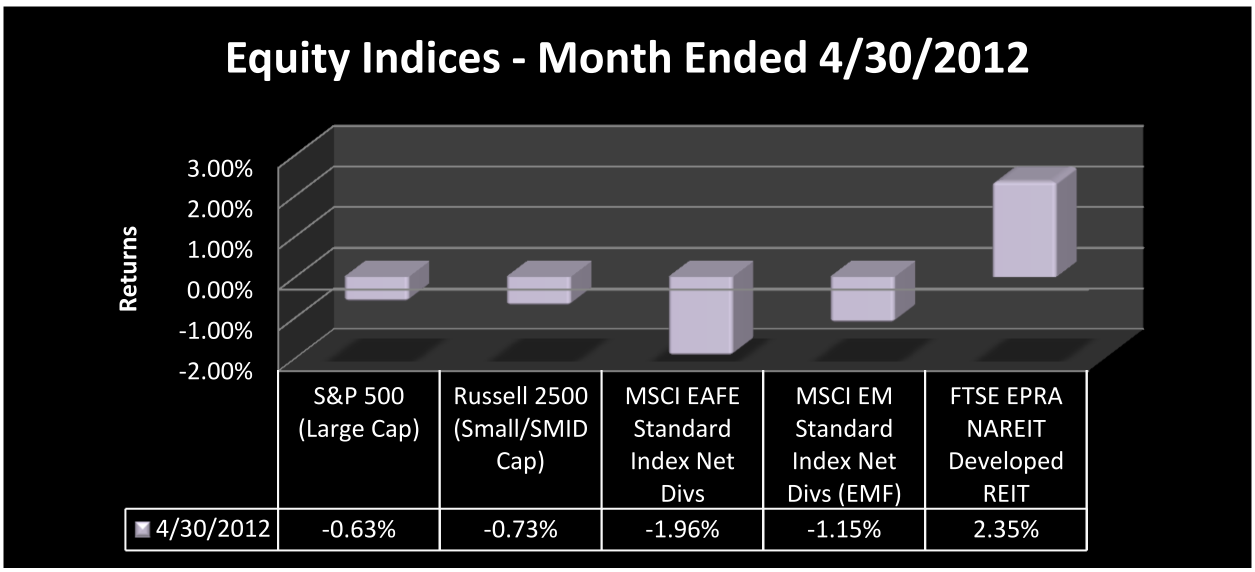


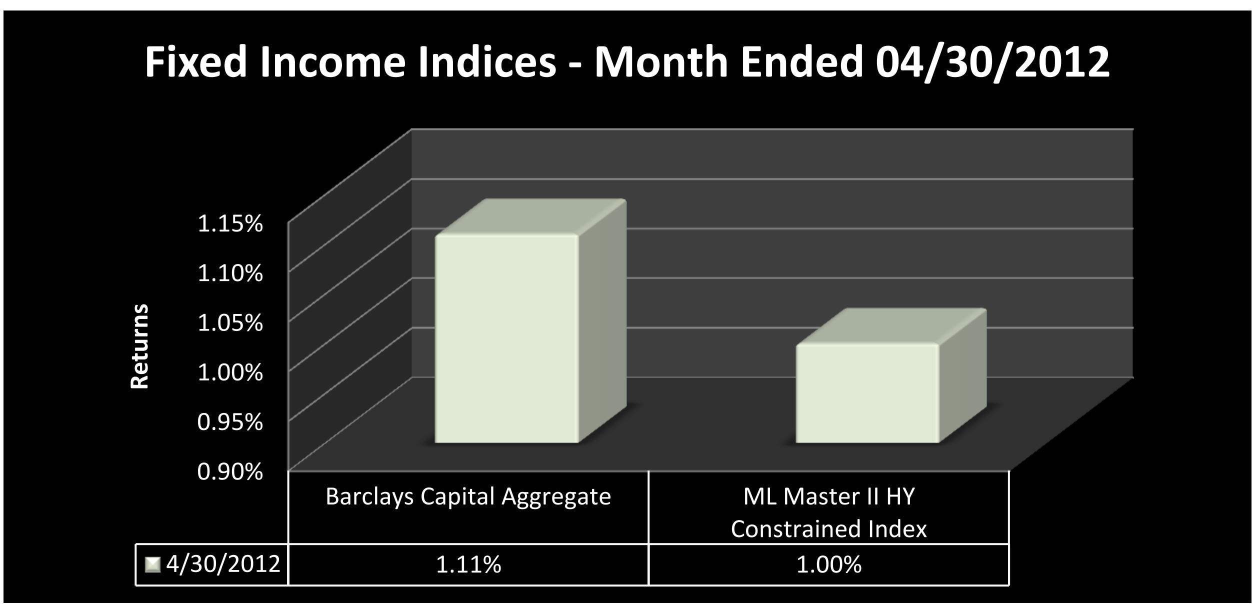
	S&P 500 (Large Cap)	Russell 2500 (Small/SMID Cap)	MSCI EAFE Standard Index Net Divs	MSCI EM Standard Index Net Divs (EMF)	FTSE EPRA NAREIT Developed REIT
3/31/2012	3.29%	2.15%	-0.49%	-3.22%	1.21%



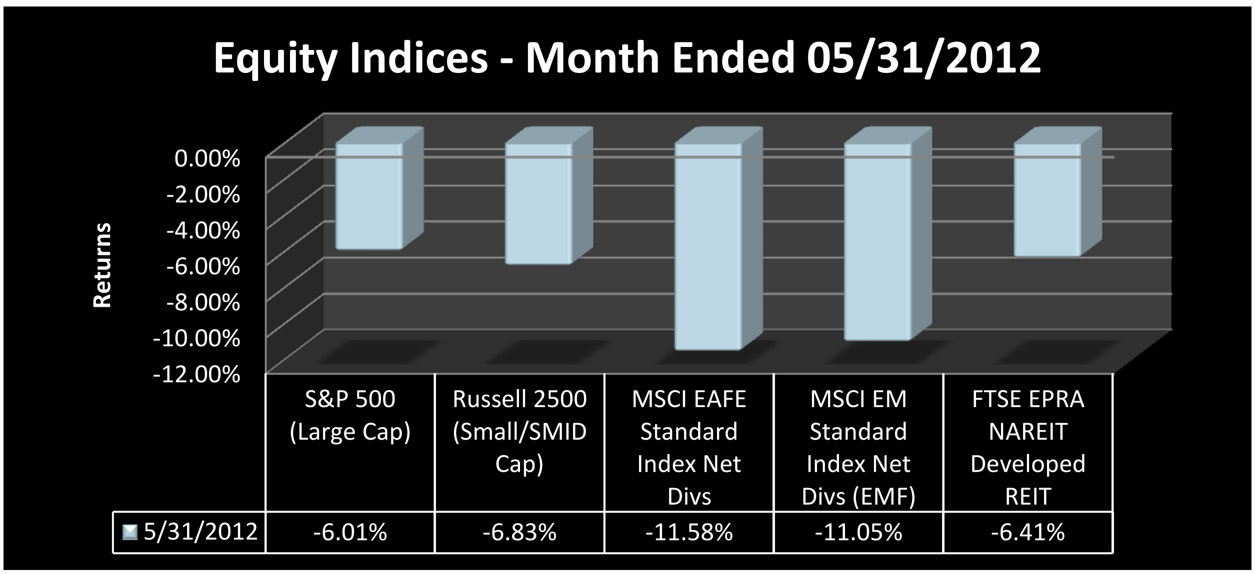
	Barclays Capital Aggregate	ML Master II HY Constrained Index
3/31/2012	-0.55%	-0.08%

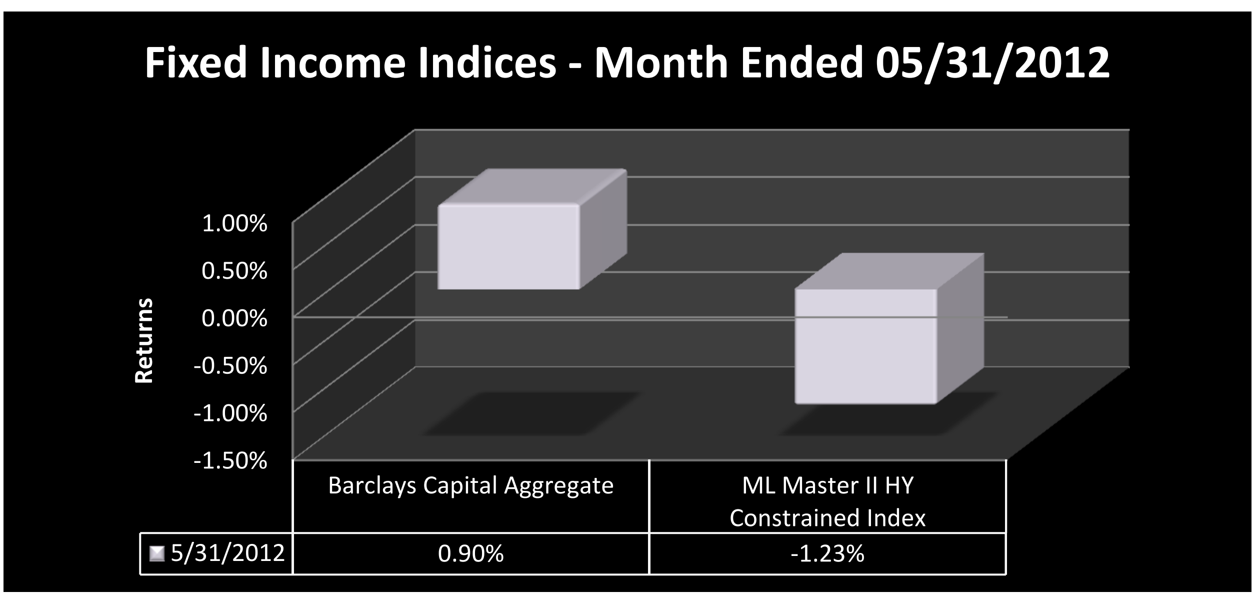
April 2012 - After a strong first quarter, U.S. stock markets took a pause in April, as investors wondered about the sustainability of U.S. economic growth, despite Federal Reserve pronouncements that the economy was growing, albeit slowly. An early month sell-off in U.S. stocks was somewhat mitigated by better than estimated corporate earnings reports released during April. The story that continued to dominate the headlines, however, was the European sovereign debt crisis, and whether the right prescription of austerity and growth measures could stave off a Lehman Brothers–type collapse in the Eurozone. In the emerging markets, China's economic growth showed signs of slowing, as authorities there tried to manage the economy through slight monetary easing. Emerging equity markets fell in April as many of those economies also cooled. In contrast, fixed income markets performed handsomely across the board as prices rose and yields fell (yields move in the opposite direction of price). The bond rally was seen not so much as a "flight-to-quality", but as a temporary concern over global economic growth. Globally, publicly-traded Real Estate Investment Trusts (REITs) bucked the April equity decline generating positive returns, especially in the U.S.



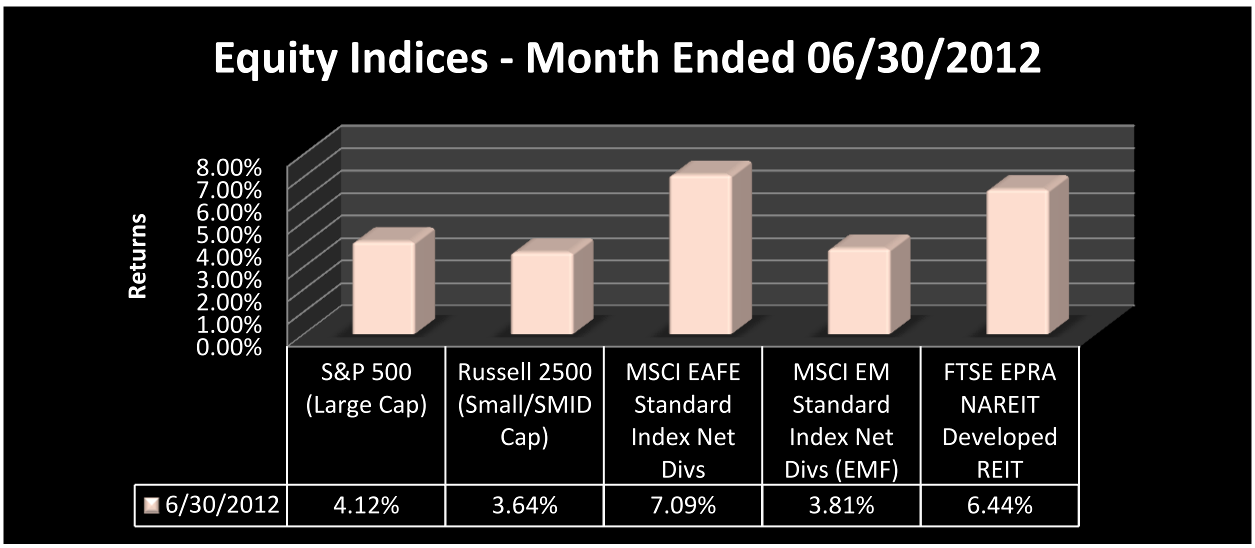


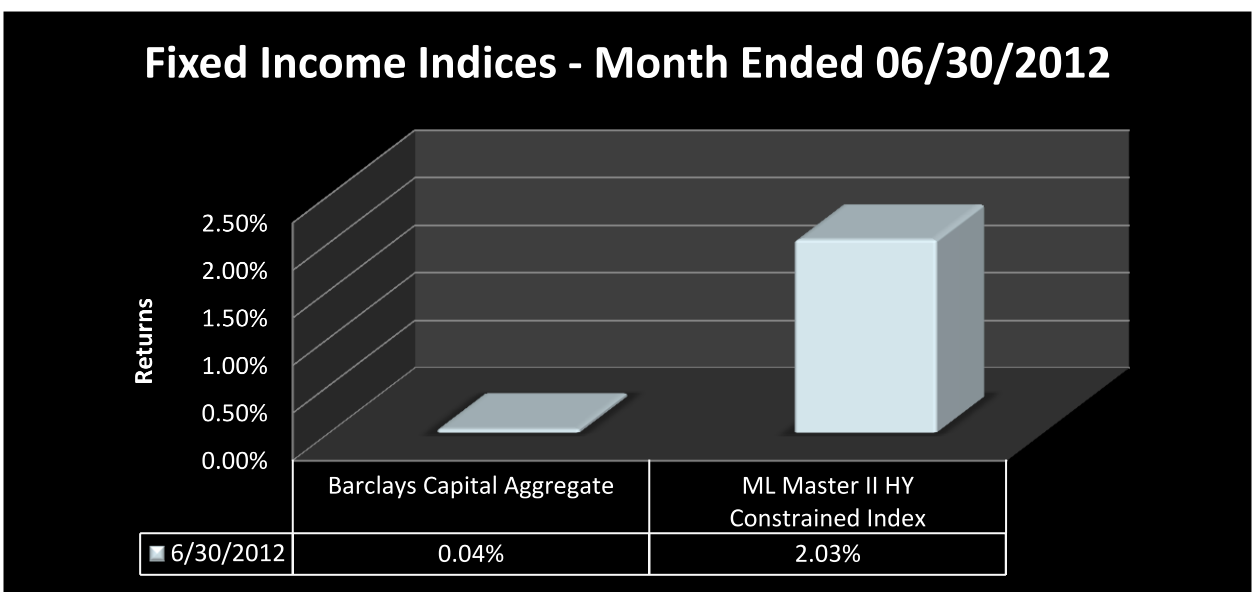
May 2012 - Stock markets around the world tumbled in May, as a global economic slowdown and uncertainty over whether Greece would remain in the euro rattled investors' nerves. Preliminary national elections in Greece failed to produce a single-party victory that could form a coalition government, and cast a giant shadow over the fate of Greece's compliance with the austerity measures contained in its bailout package. Concerns also spread to the Eurozone's fourth largest economy, Spain, where rising yields on its sovereign debt and bank deposit outflows added more stress to the already beleaguered region (bond yields move in the opposite direction of price). Events in Europe also adversely affected the emerging markets, as Europe is an important market for China. China is the economic engine that drives most of the world's growth, but recent signs of a slowdown in the Chinese economy made for uneasiness in those countries that export to China. For the second consecutive month, high quality investment grade U.S. bonds saw decent gains, as investors shed risker fixed income assets, such as high yield bonds. Globally, publicly-traded Real Estate Investment Trusts (REITs) declined in May. REITs are closely correlated to small cap stocks.





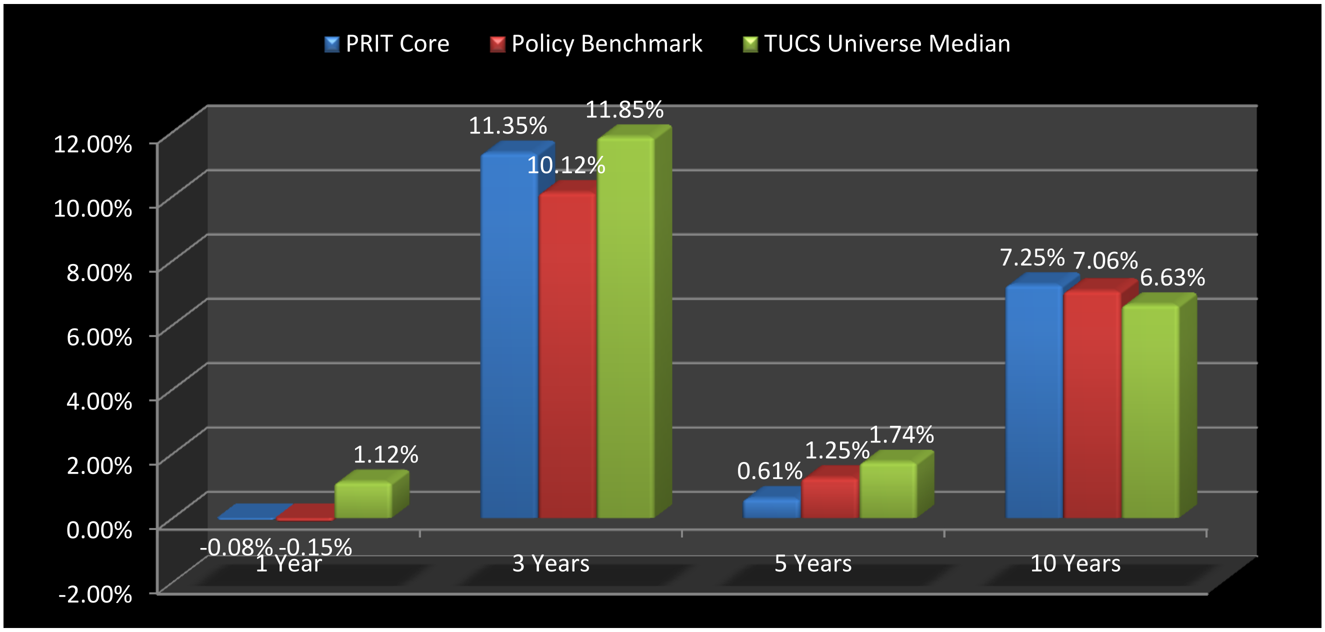
June 2012 - After a dismal May, the global equity markets recovered strongly in June. Following a two-day summit at the end of the month, European policy makers agreed to create a supervisory body that would recapitalize Eurozone banks directly instead of funneling bailout funds through the troubled region's governments. U.S. equities reacted favorably to the news, as the S&P 500 index enjoyed its best daily gain of the year on the last day of June. Small cap stocks also rebounded in June, led by the healthcare sector, which was buoyed when the U.S. Supreme Court upheld the Affordable Care Act. The U.S. Federal Reserve moved to extend "Operation Twist" through the end of the year (the Fed buys Treasuries with longer maturities and sells short-term securities, with the goal of keeping long-term interest rates low). Developed international and emerging markets equities also saw solid gains in June. Euro stocks rose on news of the bank recap plan and the election of the pro-bailout New Democracy party in Greece. Fixed income markets were mixed, as investors rotated away from the safety of U.S. Treasury bonds and purchased riskier high yield securities. Globally, publicly-traded Real Estate Investment Trusts (REITs) saw impressive gains in June.





PRIT CORE PERFORMANCE: FISCAL YEAR 2012

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, 2012:



In the fiscal year 2012, PRIT Core returned -0.08%, outperforming the policy benchmark return of -0.15% by 7 basis points. The performance in fiscal 2012 has placed PRIT into the last quartile of all U.S. Public Pension Funds over $1 billion in size for the fiscal year, whereas PRIT ranked in the second quartile in fiscal 2011, according to the TUCS rankings. PRIT ranked in the top 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 2012 with a net asset value of $50.2 billion and ended with $48.9 billion. On a gross basis the fund decreased approximately $1.3 billion, which is the result of $280 million in investment losses along with $1.1 billion in net redemptions from the State Employees, State Teachers' and Participant accounts.

The quarterly returns of the PRIT Core in fiscal year 2012 were as follows:

- -8.90% for September 30, 2011 – versus a benchmark return of -9.37%.
- 3.72% for December 31, 2011 – versus a benchmark return of 4.42%.
- 7.32% for March 31, 2012 – versus a benchmark return of 7.41%.
- -1.45% for June 30, 2012 – versus a benchmark return of -1.77%.

The past fiscal year was challenging, not only for PRIT, but for institutional investors in general. One of PRIT'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 PRIT has implemented its asset allocation; and 3) achieving top quartile rankings in the TUCS report, which measures PRIT's investment performance against its peers nationwide. For the fiscal year 2012, PRIT achieved only one of the three benchmark objectives; however, it remained strong over the long-term and achieved the top quartile in 10-year period. Through June 30, 2012, the PRIT Core fell short of the actuarial return over a 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 period, the PRIT Core returned -0.08%, and outperformed the policy benchmark by 7 basis points. PRIM's rankings in the TUCS report dropped in fiscal 2012 which carried into its three-year ranking as well. The longer-term five- and 10-year periods ended June 30, 2012, are in the last and top quartile, respectively. The PRIT Fund Core ranked in the 79th percentile (1st being the best, 100th being the worst) for the one-year period, 66th in three-year period, 91st in the five-year period and 19th in the ten-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 a management fee. These costs include investment management fees, consultant fees, custodian fees as well as the professional fees, salaries and administrative expenses of PRIM.

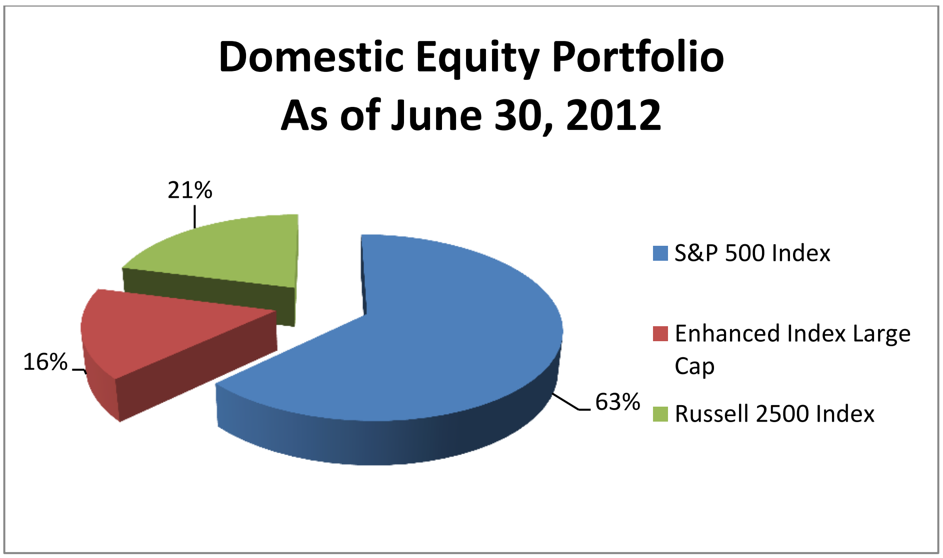
PRIM employs professional investment managers and provides them discretion, consistent with specified objectives and guidelines, to manage the PRIT Fund's assets. Investment managers operate under formal contracts that delineate their responsibilities and performance expectations. Investment management fees accounted for approximately 79.0% of PRIM's total direct expense for fiscal 2012. PRIM also employs an outside custodian and investment consultants in managing the PRIT Fund. Approximately 9.3% of PRIM's total expense for fiscal year 2012 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 funds, real estate, timber, and 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., PRIT) directly. Therefore, partnerships incur expenses and report income to the limited partners *net* of these fees. All investment management fees for hedge funds and commingled fund assets are charged to the underlying investment funds and 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 these indirect fees, as part of the cost of managing the PRIT Fund.

The total cost of managing the PRIT Fund for fiscal year 2012, *inclusive* of investment management (direct and indirect), consulting, custodial and overhead charges remained unchanged at 50 basis points of the average net asset value of the PRIT Fund compared to fiscal year 2011. *Excluding* indirect management fees, the cost of managing the PRIT Fund for fiscal year 2012 was 14 basis points. Overall fees can vary from year to year primarily due to the nature of performance-based fees at PRIT. Fiscal year 2012 fees decreased slightly mainly due to an overall decrease in assets under management along with an increase in passive asset allocation within the portfolio. For information on expense ratios for each investment account, refer to the *Financial Highlights* and the *Financial Highlights Ratios* on pages 107-113 included in the Statistical Section of this report.

Domestic Equity Portfolio

As of June 30, 2012, the Domestic Equity portfolio had approximately $9.4 billion in net assets, which represented 19.2% of the PRIT Core Fund. Approximately 79% of the domestic equity portfolio is invested utilizing a large capitalization equity strategy ("large cap stocks") with the remaining 21% invested in the Russell 2500 index strategy (small/mid cap stocks). 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 large cap investments, enhanced index large cap investments, and passively managed small/mid cap investments is highlighted below.



During the fiscal year, one of the two enhanced index large capitalization managers outperformed their benchmark. The Russell 2500 Index fund slightly outperformed its benchmark. As of fiscal year end, the weighting of Domestic Equity was 45.2% of the Global Equity portfolio.

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.

Portfolio Returns. For the fiscal year, the portfolio produced a 3.69% return compared to 3.85% for the portfolio benchmark. PRIT's large cap managers returned 11.96% compared to the 5.45% return of the large cap benchmark S&P 500 index.

On a three-, five-, and 10-year basis through June 30, 2012, PRIT's Domestic Equity portfolio has returned 16.24%, -2.06%, and 4.84%, respectively, compared to the benchmark, which returned 15.15%, -0.42%, and 5.58%, respectively.

The top ten holdings in the Domestic Equity portfolio at June 30, 2012 are illustrated below. A complete listing of holdings is available upon request.

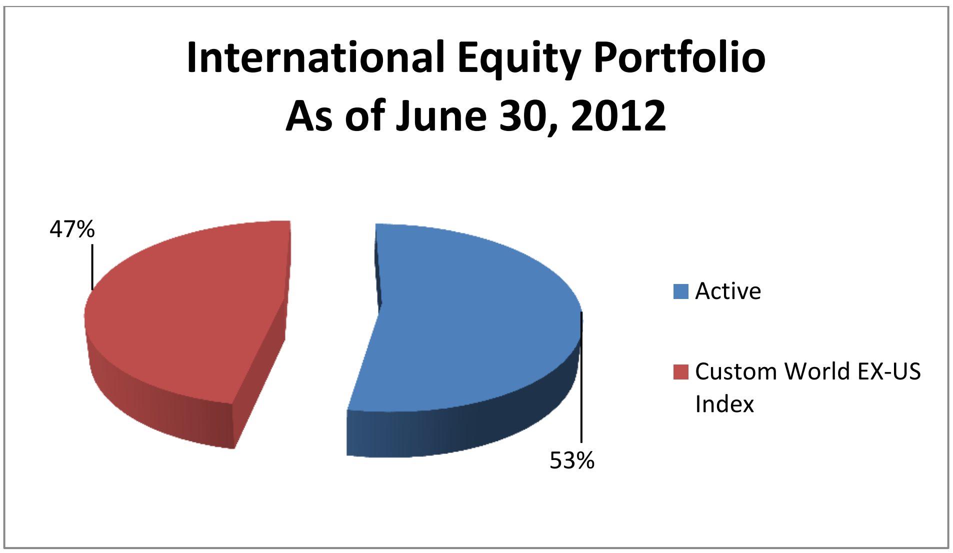
#	Issue Name	Fair Value ($000s)	% of Account Fair Value
1	Apple Inc.	$ 290,429	3.08%
2	Exxon Mobil Corp.	224,478	2.38%
3	International Business Machines	128,339	1.36%
4	Microsoft Corp.	120,998	1.29%
5	General Electric	117,529	1.25%
6	AT&T Inc.	117,014	1.24%
7	Chevron Corp.	116,529	1.24%
8	Johnson & Johnson	99,823	1.06%
9	Coca-Cola	91,751	0.97%
10	Pfizer Inc.	91,623	0.97%
	TOTAL	$ 1,398,513	14.84%

The PRIT Fund's Domestic Equity managers at June 30, 2012 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2012 ($000s)
State Street Global Advisors	S&P 500 Index	$ 5,899,240
State Street Global Advisors	Russell 2500 Index	1,987,804
INTECH	S&P 500 Enhanced Index	775,540
PIMCO	S&P 500 Enhanced Index	753,078
Other portfolio net assets		(455)
Total Portfolio Fair Value		**$ 9,415,207**

International Equity Portfolio

As of June 30, 2012, the International Equity portfolio had approximately $8.2 billion in net assets, representing 16.7% of the PRIT Core Fund. The active international equity managers are benchmarked against the Custom MSCI EAFE Net Dividends index ("Custom 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 47% of the portfolio) and three actively managed accounts (53% of the portfolio). The passive manager, and the asset class as a whole, are benchmarked against the Custom World ex-U.S. Investable Market Index – Net dividends ("Custom 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. As of fiscal year end, the weighting of International Equity was 39.1% 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.

Portfolio Returns. For the fiscal year ending June 30, 2012, the International Equity portfolio returned -11.99% compared to the Custom World ex-U.S. IMI index return of -14.57%. All of the PRIT Core Fund's three active international equity managers outperformed the Custom MSCI EAFE index for the fiscal year. The passive manager outperformed the Custom 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 Custom World ex-U.S IMI benchmark. On a three-, five-, and 10-year basis through June 30, 2012, PRIT's international equity managers posted returns of 8.14%, -4.72%, and 5.94%, respectively, ahead of the benchmark, which returned 6.31%, -5.87%, and 5.27%, respectively, over the same periods.

The top ten holdings in the International Equity portfolio at June 30, 2012 are illustrated below. A complete listing of holdings is available upon request.

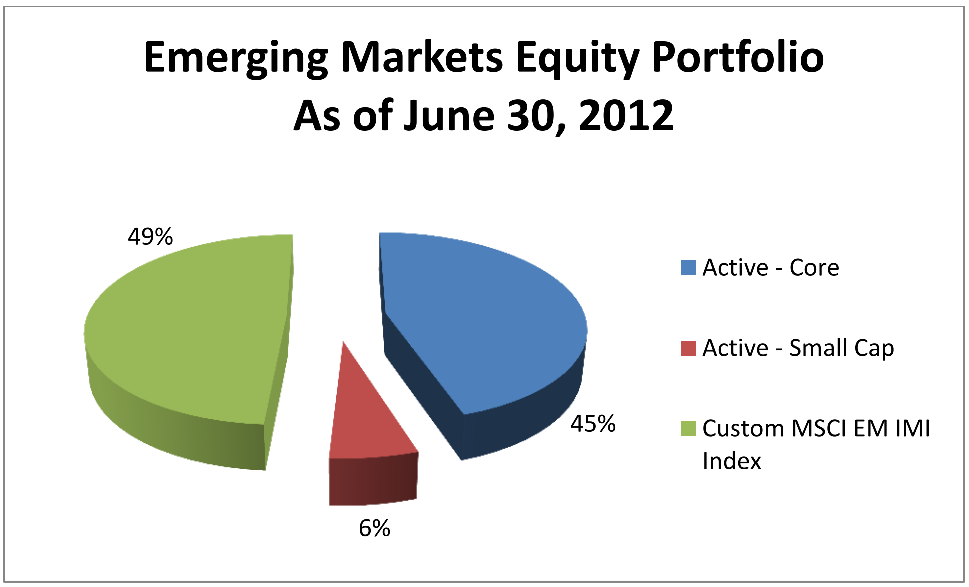
#	Issue Name	Fair Value ($000s)	% of Account Fair Value
1	Roche Hldg AG Genusscheine NPV	$ 109,702	1.35%
2	Nestle	103,957	1.27%
3	BP PLC	92,137	1.13%
4	Vodafone Group	91,350	1.12%
5	Toyota Motor Corp.	82,484	1.01%
6	Novartis AG	81,487	1.00%
7	Unilever PLC	80,166	0.98%
8	Total S.A.	70,917	0.87%
9	Kao Corp.	67,341	0.83%
10	Sanofi	66,709	0.82%
	TOTAL	$ 846,250	10.38%

The PRIT Fund's International Equity managers at June 30, 2012 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2012 ($000s)
State Street Global Advisors	Custom World ex-US IMI Index	$ 3,853,670
Marathon Asset Management Ltd.	Custom MSCI EAFE	2,149,816
Baillie Gifford	Custom MSCI EAFE	1,532,731
Mondrian Investment	Custom MSCI EAFE	618,681
Other portfolio net assets		926
Total Portfolio Fair Value		**$ 8,155,824**

Emerging Markets Portfolio

As of June 30, 2012, the Emerging Markets Equity portfolio had approximately $3.3 billion in net assets, representing 6.7% of the PRIT Core Fund. The active emerging markets core equity managers are benchmarked against the Custom MSCI Emerging Markets Net Dividends Index ("Custom MSCI Emerging Markets"). The active emerging markets small cap equity managers are benchmarked against the MSCI Emerging Markets Small Cap Net Dividends Index ("MSCI Emerging Markets Small Cap") while the passive account and Emerging Markets asset class as a whole are benchmarked against the Custom MSCI Emerging Markets Investable Market Index - Net Dividends ("Custom MSCI Emerging Markets IMI"). The emerging markets equity portfolio is allocated to three active core equity managers (which comprise about 45% of the emerging market portfolio), two active small cap equity managers (6% of the portfolio) and one passive manager (49% of the portfolio). The PRIM Board maintains a target weighting of 50% active and 50% passive for the Emerging Markets Equity portfolio.



The primary strategy for this portfolio is investing in companies in developing countries, including, but not limited to, 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. As of fiscal year end, the weighting of Emerging Markets Equity was 15.7% 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 U.S. and non-U.S. developed markets, and therefore, are more volatile. In addition to the added volatility, and those risks 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.

Portfolio Returns. For the fiscal year, the Emerging Markets Equity portfolio returned -16.49% compared to the Custom MSCI Emerging Markets IMI index return of -16.23%. Of the PRIT Core Fund's three active emerging markets core equity managers, one outperformed the Custom MSCI Emerging Markets index for the fiscal year. The passive manager outperformed the Custom MSCI Emerging Markets IMI index. The Emerging Markets Small Cap Equity portfolio, managed by two managers, Acadian and Wasatch, returned -7.11% since its inception in May 2012, underperforming the MSCI Emerging Markets Small Cap index return of -6.26%. On a three-, five-, and 10-year basis through June 30, 2012, PRIT's emerging markets equity managers posted returns of 10.22%, -1.71%, and 13.57%, respectively, compared to the Custom MSCI Emerging Markets IMI benchmark, which returned 9.43%, -0.15%, and 14.10% over the same periods.

The top ten holdings in the Emerging Markets Equity portfolio at June 30, 2012 are illustrated below. A complete listing of holdings is available upon request.

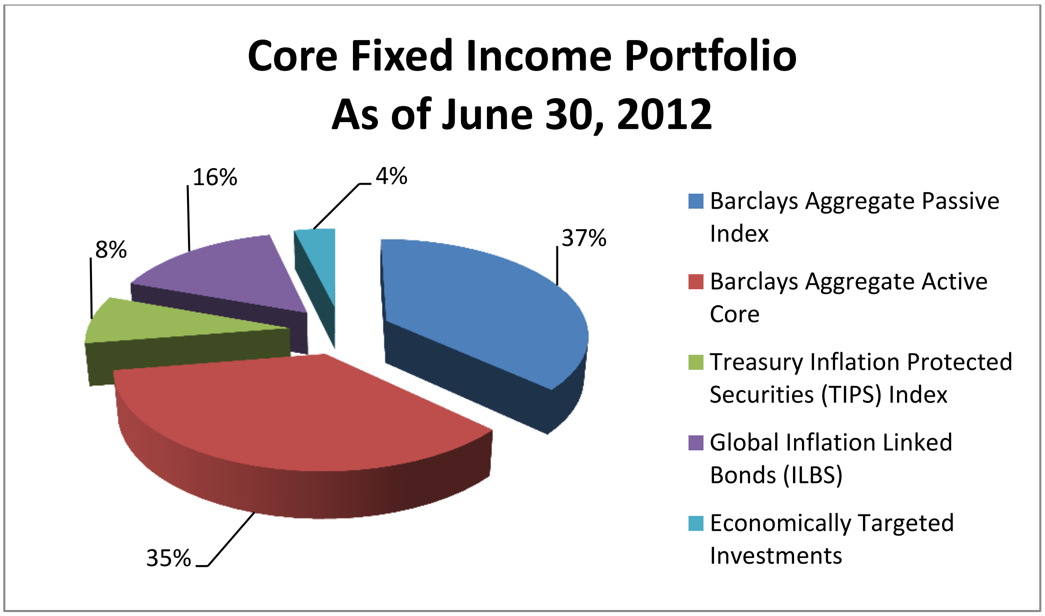
#	Issue Name	Market Value ($000s)	% of Account Market Value
1	Samsung Electronics	$ 105,264	3.23%
2	CNOOC	49,260	1.51%
3	China Mobile	45,821	1.41%
4	Tawain Semi Conductor	44,161	1.35%
5	Ind and Comm Bank of China	35,699	1.09%
6	LUKOIL	33,342	1.02%
7	Hyundai	30,781	0.94%
8	Sberbank	27,850	0.85%
9	Ping An Insurance	26,158	0.80%
10	Itau Unibanco Holding	24,134	0.74%
	TOTAL	$ 422,470	12.94%

The PRIT Fund's Emerging Markets Equity managers at June 30, 2012 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2012 ($000s)
State Street Global Advisors	Custom MSCI EM IMI Index	$ 1,612,804
T. Rowe Price	EM Growth	525,155
GMO LLC	EM Value	497,222
AshmoreEMM	EM Value/Frontier	439,364
Wasatch	EM Small Cap	129,178
Acadian	EM Small Cap	56,286
Other portfolio net assets		1,022
Total Portfolio Fair Value		**$ 3,261,031**

Fixed Income Portfolio

The PRIM Board had approximately $6.4 billion invested in the investment grade Core Fixed Income portfolio, representing 13.0% of the PRIT Core Fund as of June 30, 2012. 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 US 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 2012, the Fixed Income composite return of 8.10% outperformed the benchmark (77% Barclays Capital Aggregate/8% Barclays Capital US TIPS/15% Barclays Capital ILB US$ Hedged), which returned 8.08%. The Core mandates (BlackRock Passive, PIMCO Core and Loomis Sayles Core) returned 7.35%, lagging their benchmark (Barclays Capital Aggregate Index) by 12 basis points. The BlackRock passively managed TIPS mandate returned 11.76%, outperforming its benchmark (Barclays Capital US TIPS) by 10 basis points and the BlackRock actively managed ILB mandate returned 9.77%, outperforming its benchmark (Barclays Capital ILB US Hedged Index) by 49 basis points. The ETI Managers, Access Capital, AFL-CIO, and CCM returned 5.25%, 7.76%, and 6.36% versus their benchmark returns of 5.07%, 7.47%, and 7.47%, respectively.

The top ten Core Fixed Income holdings as of June 30 2012, excluding TIPS investments and certain pooled funds, are illustrated below. A complete listing of holdings is available upon request.

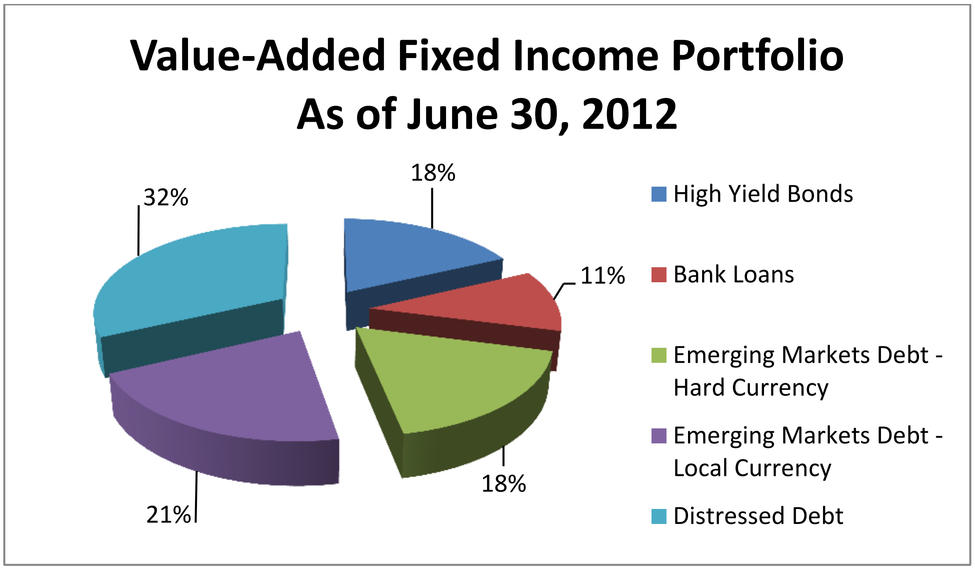
#	Issue Name	Fair Value ($000s)	% of Account Fair Value
1	Commit to Purchase FNMA 3.500% August 2042	$ 102,312	1.61%
2	U.S. Treasury Notes 0.250% October 2013	82,961	1.31%
3	France (Govt of) 2.250% July 2020	57,703	0.91%
4	SBA Gtd Dev 5.870% July 2028	47,777	0.75%
5	U.S. Treasury Notes 2.250% November 2017	43,443	0.68%
6	Germany (Federal Republic of) 1.500% April 2016	42,602	0.67%
7	U.S. Treasury Notes 1.375% November 2015	42,043	0.66%
8	U.S. Treasury Notes 0.375% September 2012	39,823	0.63%
9	U.S. Treasury Notes 0.625% April 2013	38,906	0.61%
10	United Kingdom Gilt 1.250% November 2027	37,888	0.60%
	TOTAL	$ 535,458	8.43%

The PRIT Fund's Core Fixed Income portfolio managers at June 30, 2012 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2012 ($000s)
Blackrock Financial Management	Core Index	$ 2,342,957
Loomis, Sayles & Co., LP	Active Core	1,144,150
PIMCO	Active Core	1,117,186
Blackrock Financial Management	Inflation Link Bonds	996,003
Blackrock Financial Management	TIPS Index	511,832
AFL - CIO Housing Investment	ETI	117,806
Access Capital	ETI	96,932
Community Capital Management	ETI	25,883
Other portfolio net assets		209
Total Portfolio Fair Value		**$ 6,352,958**

Value-Added Fixed Income Portfolio

The PRIM Board had approximately $4.2 billion invested in the Value-Added Fixed Income portfolio, representing 8.6% of the PRIT Core Fund as of June 30, 2012. The Value-Added Fixed Income portfolio is invested using the following strategies:



Distressed debt, 2.8% of the PRIT Core Fund, represents investments in private partnerships that invest directly in distressed debt investment opportunities. As at June 30, 2012 the PRIT Fund had approximately $1.3 billion in distressed debt investments with ten 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, 3.3% of the PRIT Core Fund, represents investments in debt issued within the emerging marketplace. There are five managers in the PRIT emerging debt program, representing both Hard Currency and Local Currency strategies; one is through a commingled emerging debt investment vehicle while the others are through separate accounts.

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.

Portfolio Returns: In fiscal year 2012, the Value-Added Fixed Income composite returned 3.71% compared to 2.67% for the asset class benchmark. The PRIT Core Fund's three high yield bond managers, Shenkman, Fidelity, and Loomis Sayles, returned 5.88%, while the Merrill Lynch High Yield Master II Constrained index returned 6.47%. The Emerging Markets Debt Hard Currency portfolio, managed by Ashmore and PIMCO, returned 6.47% during the fiscal year, underperforming the JP Morgan Emerging Markets Bond Index (JPM EMBI Global Index), which returned 10.90%. The Emerging Markets Debt Local Currency portfolio, managed by three managers, Investec, Pictet, and Stone Harbor, returned -3.29% since its inception in May 2012, underperforming the JP Morgan GBI Emerging Markets Global Diversified index return of -2.15%. The two bank loan managers, Eaton Vance and ING, returned 4.86%, outperforming the S&P LSTA Leveraged Loan index return of 3.43%. The Distressed Debt portfolio returned 3.29% compared to the index return of -3.23%. Distressed debt investments are limited partnerships, and PRIT Core has invested a total of $1.3 billion with ten different managers: Oaktree Capital Management; Angelo, Gordon & Co.; Avenue Capital Group; Wayzata Investment Partners; H.I.G. Capital; Providence Equity Partners; Centerbridge Capital; GSO Capital Partners; Summit Partners; and Trust Company of the West (TCW)/Crescent Capital. 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, 2012, 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	Notas Do Tesouro Nacional 10.000% January 2021	$ 54,083	1.29%
2	Russia Foreign Bond 7.850% March 2018	31,282	0.75%
3	Malaysia Government Bond 4.262% September 2016	25,785	0.62%
4	Russia Foreign Bond Variable Rate March 2030	20,770	0.50%
5	Notas Do Tesouro Nacional 10.000% January 2017	20,646	0.49%
6	Turkey Government Bond 10.000% December 2013	20,242	0.48%
7	Indonesia Government 7.000% May 2022	19,758	0.47%
8	South Africa Government Bond 7.250% January 2020	19,610	0.47%
9	South Africa Government Bond 6.750% March 2021	18,225	0.44%
10	Mex Bonos Desarr 6.500% June 2022	17,524	0.42%
	TOTAL	$ 247,925	5.93%

The PRIT Fund's Value-Added Fixed Income portfolio managers at June 30, 2012 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2012 ($000s)
Fidelity Management Trust	High Yield Bond	$ 257,236
Loomis, Sayles & Co., LP	High Yield Bond	254,894
Shenkman Capital Management	High Yield Bond	252,667
Ashmore Investment Management	Emerging Markets Debt Hard Currency	456,658
PIMCO	Emerging Markets Debt Hard Currency	280,236
Investec	Emerging Markets Debt Local Currency	241,458
Pictet	Emerging Markets Debt Local Currency	386,138
Stone Harbor	Emerging Markets Debt Local Currency	242,023
Eaton Vance	Bank Loans	234,772
ING	Bank Loans	235,094
Various partnerships	Distressed Debt	1,342,625
Other portfolio net assets		(3,559)
Total Portfolio Fair Value		**$ 4,180,242**

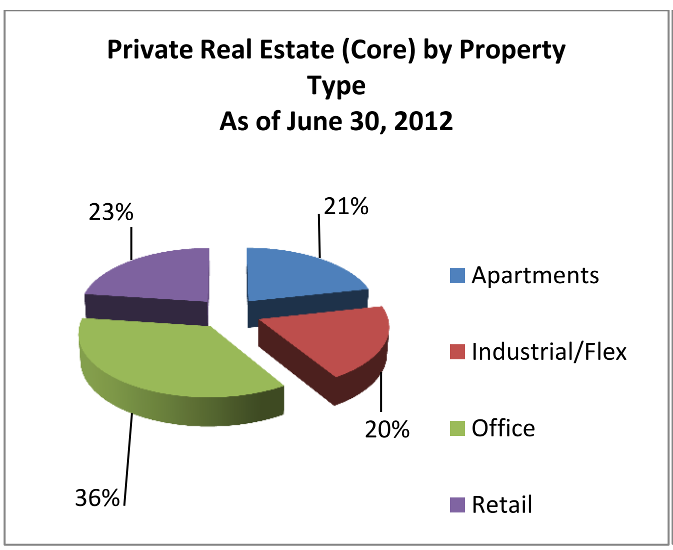
Real Estate Portfolio

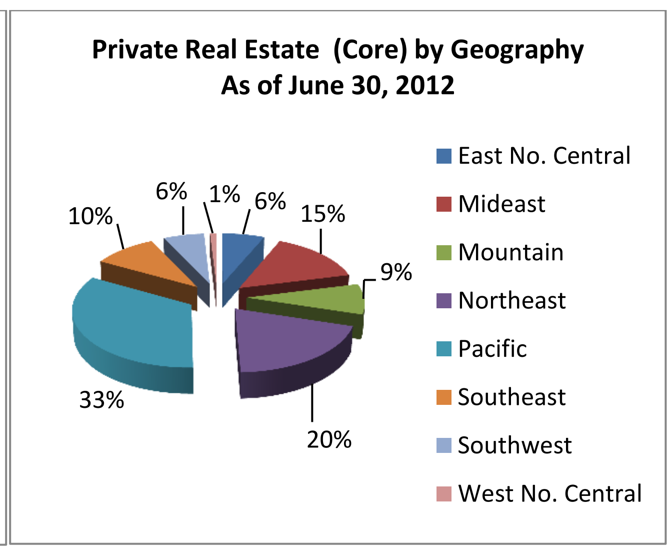
As of June 30, 2012 PRIM had $4.7 billion invested in real estate, representing 9.7% of the PRIT Core Fund. Real estate holdings consist of directly-owned properties, REITs, two non-core investments in private partnerships, and three ETI investments. The PRIT Fund invests in real estate because it provides the PRIT Fund with diversification and 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 as a portfolio of well-leased assets provides consistent cash flows from rental income.

Approximately 75% of the real estate allocation is dedicated to direct investments and private partnerships (the "Private Real Estate Investments"). The Private Real Estate Investments are subsequently broken down into Core and Non-Core real estate investments. As of June 30, 2012, $3.5 billion of Core real estate investments and $51 million of Non-Core real estate investments comprise PRIM's Private Real Estate Investments. Typically, Core investments are relatively low risk and substantially leased (80% or greater occupancy at the time of investment) institutional quality real estate. Non-Core investments offer higher potential returns at a higher risk profile, managed by the investment advisor. PRIM's Non-Core 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, 2012, PRIM had approximately $1.2 billion 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%. In April 2012, the Board voted to amend the 50% U.S. REIT / 50% international REIT (ex-U.S.) target allocation to a global weight linked to EPRA NAREIT and adopt the FTSE EPRA NAREIT Developed Net Total Return benchmark for the REIT program.

The REIT portfolio represents 2.4% of the total PRIT fund.

The following charts display the property type and geographic diversification of PRIM's directly owned Real Estate assets, at June 30, 2012:





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 2012 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 Portfolio Level Leverage Policy at its April 3, 2012 Board meeting. This policy permits portfolio level debt to be incurred subject to the following policy guidelines: (i)**Debt Service Coverage:** The amount of free cash flow to cover debt service should be no lower than 1.5x at the time debt is placed. In the event the debt service coverage ratio falls to 1.25x, leverage should be reduced to bring the ratio back into compliance with the 1.5x level. This ratio is to be calculated using a one-year trailing measure. (ii)**Spread of NOI over Borrowing Rate:** The spread of NOI over borrowing interest rate should be no lower than 200 basis points at the time debt is placed. In the event the spread is reduced to 100 basis points, leverage should be reduced until a 200 basis point spread can be achieved. This ratio is to be calculated using a one-year trailing measure. (iii)**Loan-to-Value Ratio:** The loan-to-value ratio should be no more than 40% of the total portfolio. This ratio would include any property-level financing (on separate account properties or funds, but exclusive of public securities debt) in place as well as the portfolio level facility. The calculation of the loan-to-value ratio will be: total debt/gross asset value of the private portfolio. (iv)**Fixed and Floating Interest Rates:** The facility may utilize fixed or floating interest rates and may utilize derivatives to achieve these rates. The decision to use fixed or floating rates will be determined at the time of borrowing and will be a function of availability, rate and risk. Fixed rate financing will be the preferred method. (v)**Allocation of Debt to Managers:** Managers will be allocated capital from the leverage facility at the discretion of staff with Board approval. The debt will be held at the portfolio level and will not affect the performance of the managers. New allocations of capital to the managers will essentially be considered as equity.

For the year ended June 30, 2012, PRIM did not utilize portfolio level third-party debt. The portfolio does have property level debt of $636.2 million.

Portfolio Risks Investments in real estate are subject to various risks, including adverse changes in economic conditions and in the capital markets, financial conditions of tenants, interest of buyers and sellers in real estate properties, environmental laws and regulations, zoning laws, 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-ups as the commercial real estate market recovered. REIT investments performed well in response to improved fundamentals.

For the fiscal year 2012, the real estate portfolio returned 9.95%, lagging the asset class benchmark (80% NCREIF Property Index/20% FTSE EPRA NAREIT Developed Net Total Return) by 1.84%. The direct real estate portfolio returned 13.41% for the year ended June 30, 2012, comparing to the NCREIF Property Index (one quarter lag), which returned 13.41% over the same period. REIT investments returned 1.85%, lagging its benchmark by 1.10%.

The Real Estate portfolio returned 10.97% over the past three-years versus the asset class benchmark return of 9.28%. On a five-year basis, returns were 1.79% compared to the benchmark return of 2.25%. On a 10-year basis, the real estate portfolio returned 10.32% compared to the benchmark return of 8.54%.

The PRIT Fund's real estate investment managers at June 30, 2012 are presented in the following table:

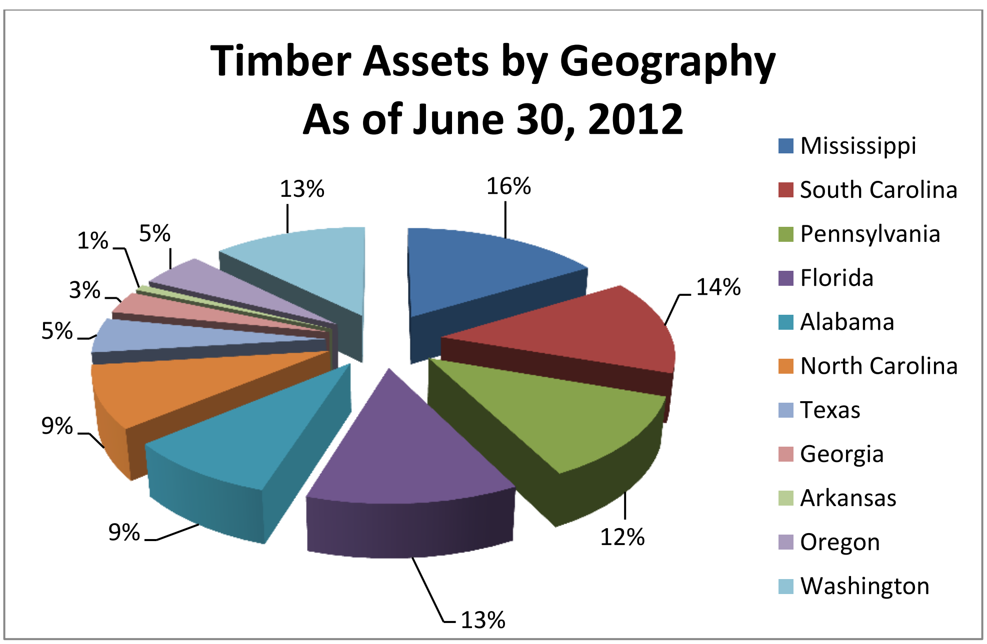
Manager	**Investment Mandate**	**Portfolio Fair Value at June 30, 2012 ($000s)**
Invesco Realty Advisors	Separate Accounts - Core	$ 509,647
LaSalle Investment Management	Separate Accounts - Core	1,123,712
AEW	Separate Accounts - Core	325,316
J.P. Morgan Investment Management	Separate Accounts - Core	607,736
TA Associates Realty	Separate Accounts - Core	924,368
Non-Core Partnerships	Non-Core	29,473
European Investors	Global REITs	395,512
Invesco Realty Advisors	Global REITs	198,603
Urdang	Global REITs	566,448
Canyon Johnson	ETI	10,679
Intercontinental	ETI	5,061
New Boston	ETI	6,262
Other portfolio net assets		21,640
Total Portfolio Fair Value		**$ 4,724,457**

Timber and Natural Resources Portfolio

As of June 30, 2012, the PRIM Board had $1.2 billion invested in timber, representing 2.5% of the PRIT Core Fund. The PRIT Fund's allocation to timber is through two external timber investment managers, Forest Investment Associates (FIA) and The Campbell Group (Campbell). 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, 2012, PRIM had $417.8 million invested with two Natural Resources managers, Jennison and T. Rowe Price, representing 0.9% of the PRIT Core Fund. These managers invest in publicly traded companies who focus on natural resource oriented companies (e.g. oil, mining, energy companies). An additional $282.4 million is invested in natural resources through PRIM's Private Equity program, representing 0.6% of the PRIT Core Fund.

The United States timberland markets are divided into three regions, each with distinct economic characteristics: the Pacific Northwest, the Northeast and the Southeast. The Pacific 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, 2012 is presented 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 infestation and 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, 2012, the one-year Timber return was -2.23% as compared to the NCREIF Timber Index (one quarter lag) of 1.18%. Since its inception, in January 2002, the Timber portfolio has produced an annualized return of 9.98%. With a 2.5% investment in timber at fiscal year-end, PRIM was slightly over its target of 2% for the year. However, both staff and its managers continue to evaluate new strategies and opportunities.

For the year ended June 30, 2012, the publicly traded Natural Resource portfolio returned -23.19%, outperforming the Lipper Natural Resources Global Fund index return of -23.28%, by 9 basis points. The private Natural Resources investments returned 15.46% for the fiscal year. As of June 30, 2012, the one-year combined Timber/Natural Resources return was -7.95% as compared to the blended NCREIF Timber / Lipper Natural Resources Global Fund / Actual Private Natural Resources Index of -7.35%. On a three-, five-, and 10-year basis through June 30, 2012, PRIT's combined Timber/Natural Resources portfolio has returned 1.54%, 2.24%, and 8.62%, respectively, compared to the benchmark return of 4.30%, 1.32%, and 5.97%, respectively.

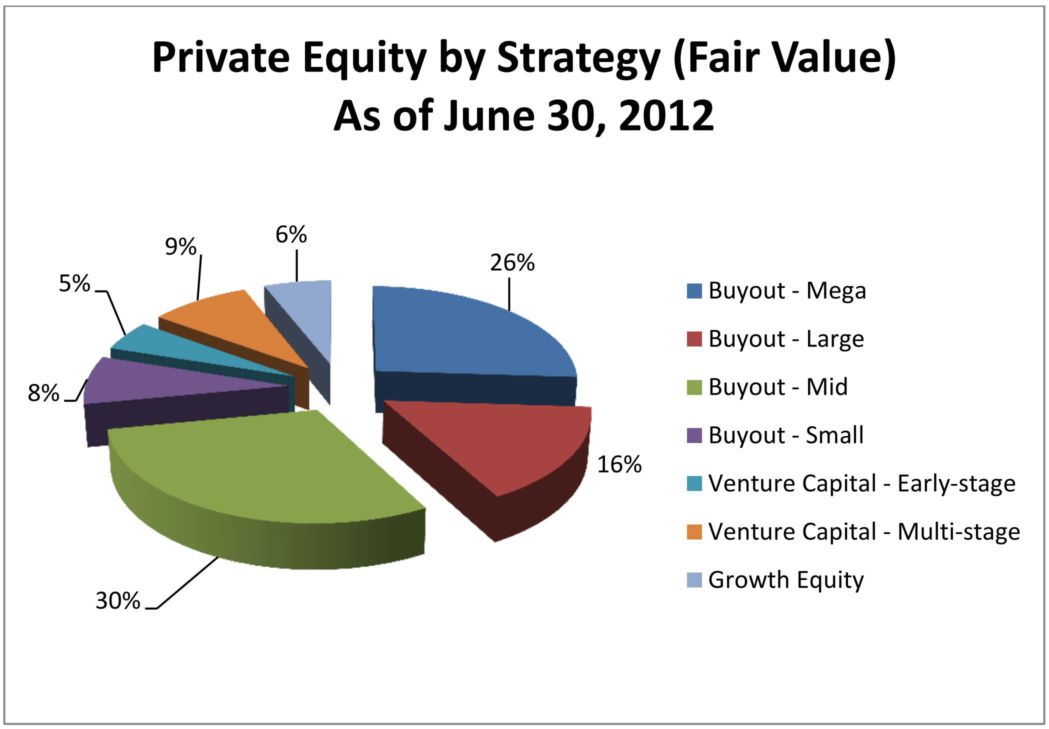
The PRIT Fund's Timber and Natural Resources investment managers at June 30, 2012 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2012 ($000s)
Forest Investments Associates	Separate Accounts - Timber	$ 985,887
The Campbell Group	Separate Accounts - Timber	211,411
Jennison	Global Natural Resources	223,476
T. Rowe Price	Global Natural Resources	193,943
Private Equity Investments	Natural Resources - Private	279,678
Other portfolio net assets		8,648
Total Portfolio Fair Value		**$ 1,903,043**

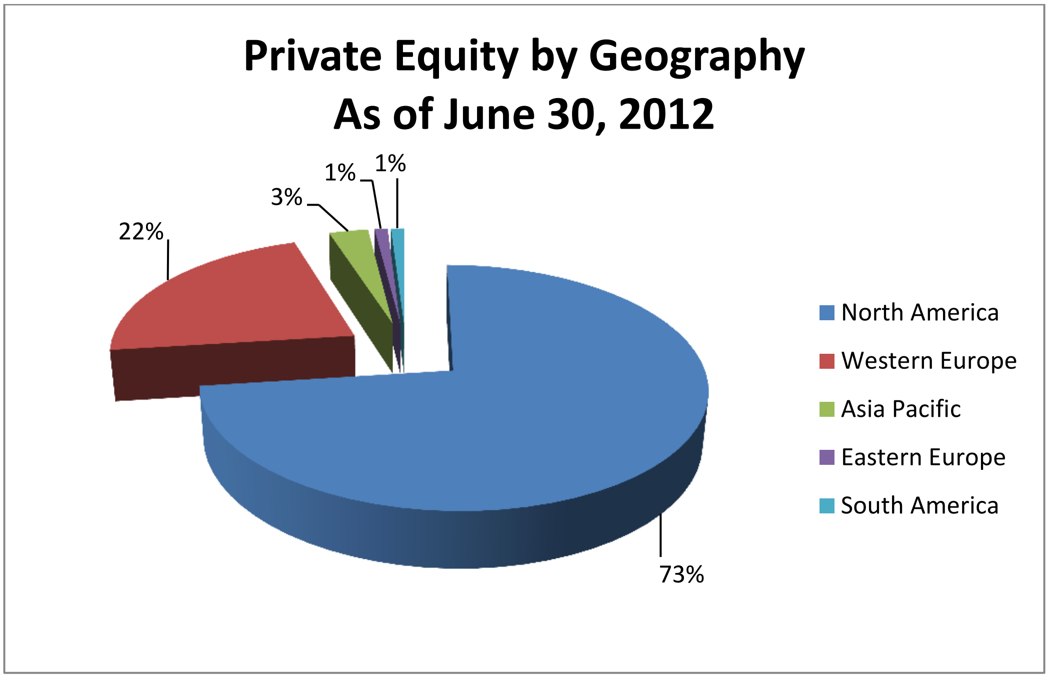
Private Equity Portfolio

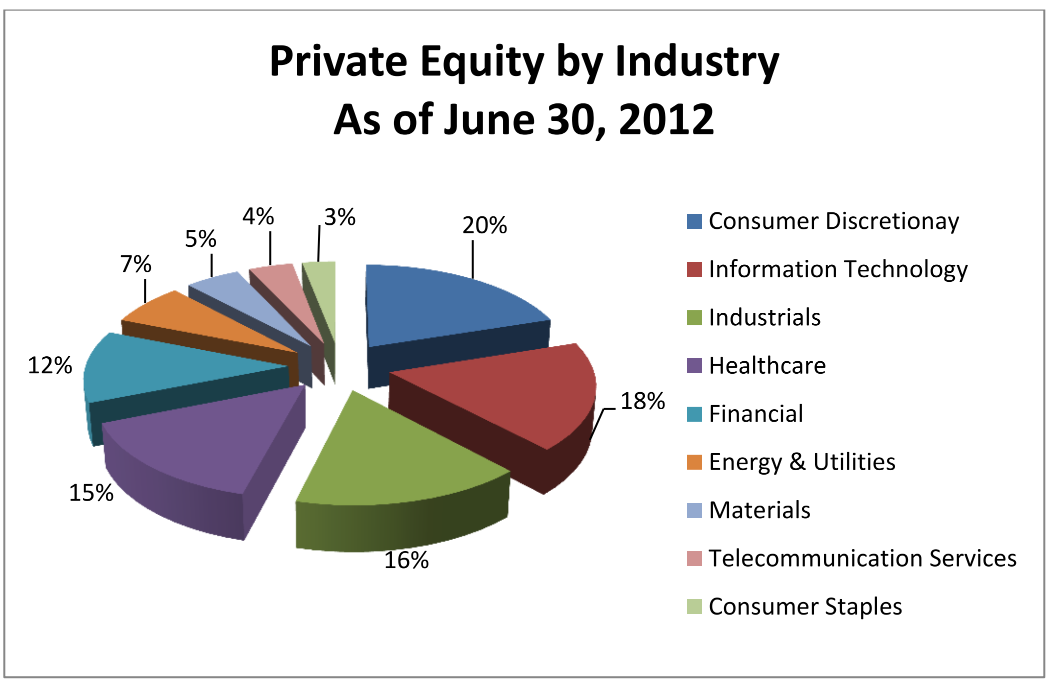
As of June 30, 2012 the market value of the Private Equity portfolio was $5.9 billion or 12.1% of the total PRIT Core Fund. The PRIT Fund's long-term target allocation to Private Equity investments is 10%. Two components comprise the PRIT Fund's Private Equity portfolio: venture capital (early-stage and multi-stage) and special equity partnerships (large market buyout, middle market buyout, and growth equity). 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, 2012 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 geographical 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 been used had a ready market for these securities existed.

- *General Partner Discretion*: Investors lack 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. (These rights may not prove practical except in extreme circumstances.)

- *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.

Performance. PRIT's Private Equity portfolio delivered a one-year return of 11.39% through June 30, 2012. The Fund's Private Equity managers have become more active in the year ending June 30, 2012 as a result of rebound in the broader financial markets and the increased availability of leverage. The Fund's managers called $1.1 billion of capital for additional investments, which is well ahead that of the prior fiscal year ($917.5

million). From a liquidity standpoint, the portfolio generated total distributions of $1.1 billion which compares to $1.1 billion for the 2011 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 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 15.42% as of June 30, 2012, exceeding the S&P 500 index return of 5.33% by 1,009 basis points. On a five-year basis, the portfolio exceeded the S&P 500 by 884 basis points, 9.06% compared to 0.22%. For the three-year period ending June 30, 2012, the Private Equity portfolio returned 17.93%, outperforming the S&P 500 index return of 16.40% by 153 basis points. For the one-year period ending June 30, 2012, the Private Equity portfolio returned 11.39%, outperforming the S&P 500 index return of 5.45% by 594 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, 2012 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, 2012, PRIT has committed over $12.9 billion to 240 current partnerships of which $9.7 billion has been invested. The program has generated $7.6 billion in distributions and has a remaining market value of $6.1 billion. The net IRR since inception for the program is 12.76%.

PRIVATE EQUITY EXTERNAL MANAGERS

As of June 30, 2012

	Partnership	Location		Partnership	Location
1	Advent International	Boston, MA	53	Keytone Ventures	Beijing, China
2	Alchemy Partners	London, UK	54	Kohlberg Kravis Roberts& Co.	New York, NY
3	Alta Communications	Boston, MA	55	KPS Capital Partners	New York, NY
4	American Securities	New York, NY	56	Madison Dearborn Capital Partners	Chicago, IL
5	APAX Partners & Co.	London, UK	57	M/C Venture Partners	Boston, MA
6	Apollo Management Co.	New York, NY	58	Menlo Ventures	Menlo Park, CA
7	AustinVentures	Austin , TX	59	Montagu Private Equity	London, UK
8	Ascent Ventures	Boston, MA	60	Montreux Equity Partners	Palo Alto, CA
9	Bain Capital	Boston, MA	61	Nautic Partners	Providence, RI
10	Battery Ventures	Wellesley, MA	62	New Enterprise Associates	Baltimore, MD
11	Berkshire Partners, LLC	Boston, MA	63	Nordic Capital	Stockholm , Sweden
12	The Blackstone Group	New York, NY	64	Odyssey Investment Partners	New York, NY
13	Boston Ventures	Boston, MA	65	Olympus Growth Fund	Stamford, CT
14	Bridgepoint	London, UK	66	Onex Partners	Toronto, CA
15	Candover	London, UK	67	PAI Partners	Paris, France
16	Carlyle Partners	Washington, DC	68	Permira Europe	London, UK
17	Castile Ventures	Waltham, MA	69	Polaris Venture Partners	Waltham, MA
18	Catalyst Investors	New York, NY	70	Providence Equity Partners	Providence, RI
19	Centerbridge Capital Partners	New York, NY	71	Quad - C Management, Inc.	Charlottesville, VA
20	Charles River Ventures	Waltham, MA	72	Quantum Energy Partners	Houston, TX
21	Charlesbank Capital Partners	Boston, MA	73	Rembrandt Venture Partners	Menlo Park, CA
22	Charterhouse Capital Partners	London, UK	74	Richland Ventures	Nashville, TN
23	Chequers Capital	Paris, France	75	SAIF Partners	Hong Kong, China
24	Code Hennessey & Simmons	Chicago, IL	76	SCP Vitalife	Tel Aviv, Israel
25	Commonwealth Capital Ventures	Wellesley, MA	77	Sherbrooke Capital	Newton, MA
26	CVC Capital (Europe)	London, UK	78	Sofinnova Venture Partners	Menlo Park, CA
27	Cypress Merchant Banking	New York, NY	79	Spark Capital	Boston, MA
28	Denham Capital Management	Boston, MA	80	Spectrum Equity Partners	Boston, MA
29	DLJ Merchant Banking	New York, NY	81	Summit Ventures	Boston, MA
30	El Dorado Ventures	Menlo Park, CA	82	SV Life Sciences	Boston, MA
31	Equitable Capital Management	New York, NY	83	TA Associates	Boston, MA
32	Essex Woodlands	Houston, TX	84	TCV	Menlo Park, CA
33	Ethos Private Equity	Johannesburg, South Africa	85	Tenaska Power Fund	Omaha, NE
34	Exponent Partners	London, UK	86	Texas Pacific Group	San Fran./Forth Worth
35	First Reserve Corporation	Greenwich, CT	87	Thoma Bravo	Chicago/San Francisco
36	Flagship Ventures	Cambridge, MA	88	Thoma Cressey	Chicago, IL
37	Forstmann, Little & Co.	New York, NY	89	Thomas H. Lee Equity Partners	Boston, MA
38	Freeman Spogli Equity Partners	Los Angeles, CA	90	Torquest Partners	Toronto, CA
39	Genstar Capital Partners	San Francisco, CA	91	Towerbrook Capital Partners	NewYork/London
40	Gilde Buy Out Partners	Utrecht, Netherlands	92	Trident Capital	Palo Alto, CA
41	The Gores Group	Los Angeles, CA	93	Union Square Ventures	New York, NY
42	GTCR Golder, Rauner	Chicago, IL	94	VantagePoint Partners	San Bruno, CA
43	Hellman & Friedman Capital Partners	San Francisco, CA	95	Vestar Capital Partners	New York, NY
44	H.I.G. Capital	Miami, Fla.	96	Vista Equity Partners	San Francisco, CA
45	Highland Capital Partners	Boston, MA	97	Welsh CarsonAnderson & Stowe	New York, NY
46	Hony Capital	Beijing, China	98	Weston Presidio Capital	Boston/San Francisco
47	Index Ventures	Geneva, Switzerland	99	Westview Capital Partners	Boston, MA
48	Insight Venture Partners	New York, NY	100	Whitney & Co.	Stamford, CT
49	Institutional Venture Partners	Menlo Park, CA	101	William Blair Mezzanine Capital Fund	Chicago, IL
50	InterWest Partners	Menlo Park, CA/Dallas, TX	102	Willis Stein	Chicago, IL
51	Kelso & Company	New York, NY	103	Xenon Private Equity	Milan, Italy
52	Kepha Partners	Waltham, MA			

Hedge Fund Portfolio

As of June 30, 2012 the Hedge Fund portfolio had approximately $4.8 billion in assets, which represented 9.9% of the PRIT Fund. PRIM has investments with twenty direct hedge fund managers, one active hedge fund of funds manager, and five residual liquidating fund of funds portfolios. Arden Asset Management is managing the liquidation of the following portfolios: Arden Asset Management, Grosvenor, K2 Advisors, and The Rock Creek Group. The Rock Creek Group is managing the liquidation of the Ivy Asset Management portfolio.

The PRIT Fund's Hedge Fund managers at June 30, 2012 are presented in the following table:

Manager	Strategy Focus		Portfolio Fair Value at June 30, 2012 ($000s)
PAAMCO	*Core - Emerging Managers*	$	713,995
Arden Asset Management - Liquidation	*Equity Market Neutral/Fundamental Credit*		434,198
Grosvenor - Liquidation	*Fundamental Credit*		657,606
Ivy Asset Management Corp. - Liquidation	*N/A*		16,215
K2 Advisors - Liquidation	*Core*		641,987
The Rock Creek Group - Liquidation	*Non-US Equity Long/Short and Event Driven*		598,667
Direct Hedge Funds	*Core*		1,651,263
Other portfolio net assets			95,626
Total Portfolio Fair Value		**$**	**4,809,557**

The Direct Hedge Funds will grow in proportion to the liquidation of the fund of funds portfolios.

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 -1.68% for the fiscal year versus a return of -2.55% for the benchmark HFRI Fund of Funds Composite Index. The Hedge Fund portfolio has returned 4.23% and -0.28% over the three and five year periods versus the asset class benchmark of 0.94% and 3.05%, 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, 2012, the Portable Alpha Wind Down portfolio had approximately $110.5 million in assets which represents 0.2% 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, 2012

Asset Class *Benchmark as of June 30, 2012*	**1 Year**	**3 Year**	**5 Year**	**10 Year**
Global Equity (1)	**-5.88%**	**12.19%**	**-2.42%**	**6.28%**
35% S&P 500/9% Russell 2500/40% Custom MSCI World EX-US NET DIVS IMI/16% Custom MSCI EM IMI NET DIVS	*-7.16%*	*10.75%*	*-2.72%*	*5.72%*
Domestic Equity	**3.69%**	**16.24%**	**-2.06%**	**4.84%**
80% S&P 500/20% Russell 2500 (2)	*3.85%*	*15.15%*	*-0.42%*	*5.58%*
International Equity	**-11.99%**	**8.14%**	**-4.72%**	**5.94%**
Custom World EX-US IMI NET DIVS	*-14.57%*	*6.31%*	*-5.87%*	*5.27%*
Emerging Markets	**-16.49%**	**10.22%**	**-1.71%**	**13.57%**
Custom MSCI EM IMI NET DIVS	*-16.23%*	*9.43%*	*-0.15%*	*14.10%*
Core Fixed Income (3)	**8.10%**	**8.41%**	**6.62%**	**5.90%**
77% BC Agg/8%BC US TIPS/15% BC ILB US$ HEDGED	*8.08%*	*7.50%*	*6.28%*	*5.45%*
Value-Added Fixed Income (3)	**3.71%**	**17.34%**	**8.20%**	**11.35%**
23.55% ML Master II HY Constrained Index/10.63% S&P LSTA Leveraged Loan Index/16.61% JPM EMBI Global/20.36% JPM GBI EM Global Diversified/28.85% Altman Index	*2.67%*	*13.25%*	*7.70%*	*10.16%*
Real Estate	**9.95%**	**10.97%**	**1.79%**	**10.32%**
80% NCREIF Property One Qtr. Lag/20% FTSE EPRA NAREIT DEVELOPED Net Total Return	*11.79%*	*9.28%*	*2.25%*	*8.54%*
Private Equity	**11.39%**	**17.93%**	**9.06%**	**15.42%**
No Benchmark	*na*	*na*	*na*	*na*
Timber/Natural Resources (4)	**-7.95%**	**1.54%**	**2.24%**	**8.62%**
53% NCREIF Timber/39% Lipper Natural Resources Global Fund Index/8% Actual Natural Resources - Private	*-7.35%*	*4.30%*	*1.32%*	*5.97%*
Hedge Funds (5)	**-1.68%**	**4.23%**	**-0.28%**	**na**
HFRI Fund of Funds Composite Index (7)	*-2.55%*	*0.94%*	*3.05%*	*na*
Portable Alpha Wind Down (6)	**-7.42%**	**5.14%**	**-12.20%**	**na**
HFRI Fund of Funds Composite Index (7)	*-2.55%*	*3.28%*	*-6.64%*	*na*

	1 Year	**3 Year**	**5 Year**	**10 Year**
Total PRIT Core	**-0.08%**	**11.35%**	**0.61%**	**7.25%**
Policy Benchmark	*-0.15%*	*10.12%*	*1.25%*	*7.06%*
TUCS Universe Median	*1.12%*	*11.85%*	*1.74%*	*6.63%*
TUCS Universe Ranking	*79th*	*66th*	*91st*	*19th*

(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 80% S&P 500/20% Russell 2500. It was Dow Jones Wilshire 5000 through 4/30/08; Russell 3000 through 6/30/09; 78% Russell 3000/22% 3 Month Libor + 3% through 12/31/09; Russell 3000 through 10/31/11.
(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, 2012

		Fair Value ($000s)	% of Fair Value
Short-term:			
Money market investments	$	834,552	1.71%
Fixed income:			
U.S. Government obligations		2,342,222	4.81%
Domestic fixed income		4,625,757	9.50%
International fixed income		2,990,789	6.14%
Distressed debt		1,342,625	2.76%
Equity:			
Domestic equity securities		8,610,009	17.68%
International equity securities		11,187,359	22.97%
Real estate		4,727,227	9.71%
Timber		1,197,298	2.46%
Private Equity:			
Venture capital		1,235,005	2.54%
Special equity		4,856,173	9.97%
Hedge Fund-of-Funds investments:			
Hedge Funds		4,641,078	9.53%
Portable Alpha Wind Down		108,954	0.22%
Total investments	$	48,699,048	100.00%

SUMMARY SCHEDULE OF BROKER COMMISSIONS

(Top 25 Brokers and Cumulative Fees Paid to Others)

Fiscal Year Ended June 30, 2012

Brokerage Firms	Fees Paid ($)	% Total	Average $ per share
State Street	1,208,981	13.1%	0.004
Credit Suisse	605,266	6.6%	0.005
JP Morgan Securities	604,223	6.6%	0.006
UBS	572,588	6.2%	0.003
Citigroup Global Markets	509,266	5.5%	0.001
Merrill Lynch	476,362	5.2%	0.006
Goldman Sachs	469,890	5.1%	0.006
Deutsche Bank	454,721	4.9%	0.004
Morgan Stanley & Co.	364,575	4.0%	0.004
Macquarie	335,255	3.6%	0.001
Royal Bank of Scotland	308,322	3.3%	0.194
Credit Lyonnais Securities	215,599	2.3%	0.004
Camara De Lequidacao E Custodia	165,613	1.8%	0.014
Knight Equity Markets, LP	154,785	1.7%	0.019
Nomura	140,069	1.5%	0.008
Instinet Corp	133,558	1.5%	0.005
Barclays	101,078	1.1%	0.012
Jefferies & Co Inc.	100,232	1.1%	0.020
Investment Technology Group	80,068	0.9%	0.002
Weeden & Co.	79,194	0.9%	0.018
Capital Institutional Services	76,224	0.8%	0.016
ITG	72,494	0.8%	0.004
S.G. Securities	72,065	0.8%	0.001
BNP Paribas	67,971	0.7%	0.002
Daiwa Securities	64,968	0.7%	0.003
Others	1,775,470	19.3%	0.004
Totals	$9,208,837	100%	0.004

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, 2012 the PRIT Fund earned approximately $307 thousand from the commission recapture program.

SCHEDULE OF DIRECT PRIT MANAGEMENT FEES

Fiscal Year Ended June 30, 2012

Investment Management Fees by Asset Class:		($000s)
Domestic Equity	$	5,167
International Equity		15,167
Core Fixed Income		7,319
Value-Added Fixed Income		5,073
Emerging Markets Equity		8,903
Real Estate		5,546
Timber/Natural Resources		3,058
Private Equity		3,575
Total Investment Management Fees		53,808
Investment Advisory (Consulting) Fees		3,624
Custodian Fees		2,700
Other Administrative Fees		8,059
Total Direct Management Fees charged to PRIT	$	68,191

SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT

Segmentation Accounts invested as of June 30, 2012

Retirement System	Net Asset Vaules ($000s) 6/30/12	General Allocation	Domestic Equity	International Equity	Emerging Markets	Core Fixed Income	Real Estate	Private Equity	Hedge Funds
Amesbury	$ 36,001	x							
Andover	$ 88,185	x							
Arlington	$ 101,773	x							
Athol	$ 16,034	x							
Attleboro	$ 4,528								x
Barnstable	$ 599,111	x							
Belmont	$ 12,751	x					x	x	x
Berkshire	$ 142,703	x							
Beverly	$ 74,626	x							
Blue Hills	$ 7,261	x							
State Boston/Teachers	$ 1,283,793	x							
Braintree	$ 33,754	x					x		x
Bristol County	$ 16,183								x
Brookline	$ 28,496	x					x		x
Cambridge	$ 51,613								x
Chelsea	$ 81,638	x							
Chicopee	$ 20,855						x		x
Clinton	$ 28,188	x			x	x	x	x	x
Concord	$ 40,416	x					x	x	
Danvers	$ 22,458			x	x			x	x
Dedham	$ 86,126	x							
Dukes County	$ 52,804	x		x		x	x		
Easthampton	$ 31,534	x							
Essex	$ 237,825	x							
Everett	$ 65,565	x							
Fairhaven	$ 37,717	x							
Fall River	$ 179,337	x							
Falmouth	$ 8,113								x
Fitchburg	$ 72,819	x							
Framingham	$ 194,669	x							
Franklin County	$ 52,827	x					x		
Gardner	$ 36,870	x							
Gloucester	$ 64,987	x							
Greenfield	$ 45,350	x							
Hampden County	$ 213,008	x							
Hampshire County	$ 49,145				x		x	x	x
Haverhill	$ 50,979				x	x	x	x	x
Hingham	$ 74,436	x	x	x	x	x	x	x	x
Holyoke	$ 1,955								x
Hull	$ 26,165	x							
Lawrence	$ 130,925	x							
Leominster	$ 59,421	x							x
Lowell	$ 232,486	x							
Lynn	$ 177,849	x							
Marblehead	$ 73,748	x							
Mass Turnpike	$ 177,409	x							
Massport	$ 46,942						x	x	

SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT, continued

Segmentation Accounts invested as of June 30, 2012

Retirement System	Net Asset Vaules ($000s) 6/30/12	General Allocation	Domestic Equity	International Equity	Emerging Markets	Core Fixed Income	Real Estate	Private Equity	Hedge Funds
Maynard	$ 12,435				X	X			
Medford	$ 25,765						X	X	X
Melrose	$ 50,941	X							
Methuen	$ 75,381	X							
Middlesex	$ 744,126	X							
Milford	$ 56,295	X							
Milton	$ 81,288	X							
Minuteman	$ 10,688	X							
Montague	$ 25,208	X							
MWRA	$ 21,332	X					X	X	X
Natick	$ 9,755						X	X	X
Needham	$ 104,147	X							
Newburyport	$ 48,595	X							
Newton	$ 221,603	X							
Norfolk	$ 25,805						X		X
North Adams	$ 1,096							X	X
Northbridge	$ 21,735	X							
Northampton	$ 1,241							X	X
Norwood	$ 16,561						X		X
Peabody	$ 101,913	X							
Pittsfield	$ 81,083	X							
Plymouth	$ 16,654						X	X	X
Quincy	$ 14,907	X						X	X
Reading	$ 90,394	X							
Revere	$ 92,551	X							
Salem	$ 89,742	X							
Saugus	$ 61,933	X							
Shrewsbury	$ 35,712	X					X		
Southbridge	$ 26,828	X							
Springfield	$ 223,794	X							
State Employees'	$ 19,156,590	X							
State Retiree Benefits Trust	$ 372,745	X							
State Teachers'	$ 20,830,399	X							
Stoneham	$ 56,715	X							
Swampscott	$ 23,576								X
Wakefield	$ 82,471	X							
Waltham	$ 129,598	X							
Watertown	$ 18,193	X	X				X	X	X
Webster	$ 4,724						X	X	X
Wellesley	$ 116,007	X							
Westfield	$ 12,598						X		
Weymouth	$ 20,994						X		X
Winchester	$ 22,165					X			X
Winthrop	$ 36,844	X							
Woburn	$ 28,603			X	X		X		X
Worcester	$ 22,773						X		
Worcester Regional	$ 371,926	X							
	$ 48,867,807								

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, 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 2011 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, 2010 and estimating the components of the valuation report as of January 1, 2011, which estimated a 67.5% and 71.2% funded ratio, respectively. The most recent PERAC valuation report (1/1/12) estimated a 65.1% funded ratio.

C. Commission Recapture Policy

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

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

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

D. Rebalancing Policy

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

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

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

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

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

E. Proxy Voting Policy

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

The purpose of this policy is to outline the general principles applied by the Board in voting proxies. The Board recognizes that in applying these general rules exceptions 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

Schedules of Changes in Net Assets

For Fiscal Years Ending June 30

Additions	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
State Employees contributions	$ 544,166	$ 538,898	$ 475,591	$ 462,471	$ 464,330	$ 420,199	$ 409,515	$ 366,262	$ 362,309	$ 350,705
State teachers contributions	640,056	616,533	593,147	599,410	573,984	548,229	527,820	506,711	522,133	504,014
Other participants contributions	898,837	1,535,681	620,865	991,362	2,347,537	1,047,285	759,088	111,557	257,892	136,712
Net investment income (loss)	(280,407)	9,169,664	4,676,706	(12,492,194)	(1,185,523)	8,228,782	5,466,443	4,212,098	5,309,069	947,540
Total additions to pooled net assets	1,802,652	11,860,776	6,366,309	(10,438,951)	2,200,328	10,244,495	7,162,866	5,196,628	6,451,403	1,938,971
Deductions										
State employees warrants	315,943	282,398	259,285	242,694	239,452	227,510	218,831	211,746	207,569	186,782
State teachers warrants	451,844	418,153	388,366	361,773	341,575	299,612	273,209	234,729	201,490	177,051
Participants redemptions	532,873	508,579	364,648	383,748	202,723	128,843	108,577	164,889	84,627	60,604
State appropriation funding	1,851,504	1,663,799	1,731,617	1,465,275	1,184,774	1,100,000	939,100	888,000	1,197,689	891,000
Operating expenses	28,447	26,391	27,332	24,954	23,294	15,447	18,305	17,057	14,107	13,888
Total deductions to pooled net assets	3,180,611	2,899,320	2,771,248	2,478,444	1,991,818	1,771,412	1,558,022	1,516,421	1,705,482	1,329,325
Changes in pooled net assets	$ (1,377,959)	$ 8,961,456	$ 3,595,061	$ (12,917,395)	$ 208,510	$ 8,473,083	$ 5,604,844	$ 3,680,207	$ 4,745,921	$ 609,646

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. 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 108-109 provide the financial highlights of the PRIT Core Fund for the year ended June 30, 2012. In addition, pages 110-113 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, 2012

	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	$ 218.19	150.18	217.58	439.19	209.95	256.84	64.81	108.82	343.89	203.81	441.34	135.82
Investment operations:												
Net investment income (loss)(1)	4.86	4.08	5.98	10.96	7.49	10.66	(0.05)	(0.02)	(0.58)	5.92	3.30	1.84
Net realized and unrealized gain (loss) on investments and foreign currency	(6.03)	1.39	(32.42)	(84.69)	9.22	(3.43)	(1.08)	(8.11)	(0.64)	4.73	(15.03)	34.50
Total from investment operations	(1.17)	5.47	(26.44)	(73.73)	16.71	7.23	(1.13)	(8.13)	(1.22)	10.65	(11.73)	36.34
Net asset value, end of year	$ 217.02	155.65	191.14	365.46	226.66	264.07	63.68	100.69	342.67	214.46	429.61	172.16
Ratios and supplementary data:												
Total net return(2)	(0.54)%	3.64%	(12.15)%	(16.79)%	7.96%	2.81%	(1.74)%	(7.47)%	(0.35)%	5.23%	(2.66)%	26.76%
Net assets, end of year ($'000s)	$ 48,101,609	9,415,207	8,155,824	3,261,031	6,352,958	4,180,242	4,809,557	110,458	177,159	278,587	242,301	66,969
Units outstanding, end of year ('000s)	221,647	60,491	42,670	8,923	28,029	15,830	75,522	1,097	517	1,299	564	389
Ratios to average net assets:												
Ratio of expenses, including indirect management fees	0.50%	0.09%	0.19%	0.32%	0.14%	0.89%	0.91%	0.09%	0.24%	0.54%	0.73%	0.81%
Ratio of expenses, excluding indirect management fees	0.14%	0.09%	0.19%	0.30%	0.13%	0.18%	0.04%	0.02%	0.04%	0.07%	0.08%	0.04%
Ratio of net investment income (loss)	2.55%	1.91%	3.37%	2.61%	3.41%	4.67%	(0.04)%	(0.02)%	0.38%	2.74%	0.96%	1.13%

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, continued

For the year ended June 30, 2012

	Equity Vintage Year 2003 Account	Equity Vintage Year 2004 Account	Equity Vintage Year 2005 Account	Equity Vintage Year 2006 Account	Equity Vintage Year 2007 Account	Equity Vintage Year 2008 Account	Equity Vintage Year 2009 Account	Equity Vintage Year 2010 Account	Equity Vintage Year 2011 Account	Equity Vintage Year 2012 Account	Core Real Estate Account	Timber/ Natural Resources Account
Net asset value, beginning of year	$ 273.68	52.22	76.37	53.25	16.42	50.52	49.80	66.78	94.16	100.00	320.75	234.00
Investment operations:												
Net investment income (loss)(1)	13.01	1.17	0.65	0.64	0.19	0.14	0.16	0.00	1.26	(63.78)	14.98	0.08
Net realized and unrealized gain (loss) on investments and foreign currency	(10.82)	3.56	11.67	6.39	1.67	7.01	0.15	(6.60)	(52.50)	(22.82)	15.19	(20.40)
Total from investment operations	2.19	4.73	12.32	7.03	1.86	7.15	0.31	(6.60)	(51.24)	(86.60)	30.17	(20.32)
Net asset value, end of year	$ 275.87	56.95	88.69	60.28	18.28	57.67	50.11	60.18	42.92	13.40	350.92	213.68
Ratios and supplementary data:												
Total net return(2)	0.80%	9.06%	16.13%	13.20%	11.33%	14.15%	0.62%	(9.88)%	(54.42)%	(86.60)% (3)	9.41%	(8.68)%
Net assets, end of year ($'000s)	$ 345,110	360,592	879,582	1,291,372	1,072,936	685,645	184,789	214,792	97,989	134	4,724,457	1,903,043
Units outstanding, end of year ('000s)	1,251	6,332	9,918	21,422	58,687	11,889	3,688	3,569	2,283	10	13,463	8,906
Ratios to average net assets:												
Ratio of expenses, including indirect management fees	0.83%	0.80%	1.02%	1.11%	2.12%	2.54%	5.61%	7.85%	16.15%	8.19% (3)	0.50%	0.78%
Ratio of expenses, excluding indirect management fees	0.04%	0.11%	0.08%	0.19%	0.04%	0.21%	0.04%	0.04%	0.04%	0.25% (3)	0.15%	0.19%
Ratio of net investment income (loss)	2.23%	2.08%	0.77%	1.14%	1.18%	0.28%	0.81%	—%	0.62%	(488.92)% (3)	4.59%	0.03%

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.

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

Financial Highlights Ratios

For the years ended June 30, 2011-2003

	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 (2)	Private Equity Account	Vintage Year 2000 Account	Vintage Year 2001 Account	Vintage Year 2002 Account
Ratios and supplementary data:												
2011												
Total net return (1)	21.97%	32.07%	30.69%	28.88%	5.31%	16.18%	7.48%	6.43%	20.27%	15.85%	23.12%	32.48%
Net assets, end of year ($'000s)	49,546,154	11,073,922	10,865,457	3,304,907	6,619,356	3,024,257	3,611,056	220,570	275,801	370,120	298,784	121,827
Units outstanding, end of year ('000s)	227,076	73,736	49,937	7,525	31,528	11,775	55,719	2,027	802	1,816	677	897
2010												
Total net return (1)	12.47%	14.50%	9.50%	23.57%	11.56%	32.22%	7.10%	2.25%	15.73%	14.13%	17.76%	12.96%
Net assets, end of year ($'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
2009												
Total net return (1)	(24.41)%	(32.13)%	(31.95)%	(31.98)%	(5.57)%	(11.60)%	(14.45)%	N/A	(23.13)%	(18.99)%	(22.76)%	(27.47)%
Net assets, end of year ($'000s)	37,113,501	9,164,719	7,146,289	1,887,971	4,897,346	2,883,436	2,135,634	N/A	343,288	483,606	317,591	86,586
Units outstanding, end of year ('000s)	233,338	92,280	47,004	6,846	27,405	17,245	37,934	N/A	1,390	3,137	1,043	954
2008												
Total net return (1)	(2.30)%	(15.69)%	(9.27)%	(0.03)%	14.18%	2.04%	1.73%	N/A	19.23%	17.10%	18.39%	19.01%
Net assets, end of year ($'000s)	49,845,944	13,180,182	10,119,936	2,761,180	8,510,469	2,511,813	2,614,238	N/A	457,054	642,580	417,740	114,619
Units outstanding, end of year ('000s)	236,891	90,077	45,297	6,810	44,973	13,280	39,723	N/A	1,422	3,377	1,060	916
2007												
Total net return (1)	19.53%	20.60%	26.15%	42.26%	4.78%	14.73%	13.82%	N/A	24.53%	23.15%	50.18%	26.70%
Net assets, end of year ($'000s)	49,519,109	15,049,415	10,574,561	2,750,631	7,800,673	2,329,393	2,569,001	N/A	533,033	698,900	509,022	102,564
Units outstanding, end of year ('000s)	229,913	86,717	42,945	6,782	47,065	12,568	39,711	N/A	1,977	4,301	1,529	976
2006												
Total net return (1)	14.87%	9.30%	27.01%	36.12%	(0.51)%	5.80%	11.18%	N/A	36.45%	34.70%	55.07%	38.67%
Net assets, end of year ($'000s)	41,257,962	11,516,779	8,303,709	2,455,151	6,452,906	2,208,795	2,114,139	N/A	777,941	764,926	480,794	79,588
Units outstanding, end of year ('000s)	228,973	80,029	42,540	8,612	40,794	13,672	37,197	N/A	3,594	5,797	2,169	959
2005												
Total net return (1)	12.91%	7.64%	13.86%	36.85%	7.42%	15.07%	6.64%	N/A	16.39%	21.89%	56.20%	(3.28)%
Net assets, end of year ($'000s)	35,997,752	11,807,278	5,657,388	2,054,560	5,866,994	2,707,704	1,726,208	N/A	881,979	647,335	407,768	52,257
Units outstanding, end of year ('000s)	229,491	89,680	36,812	9,810	36,898	17,732	33,767	N/A	5,559	6,608	2,853	873
2004												
Total net return (1)	19.04%	22.21%	32.39%	34.01%	1.50%	12.84%	N/A	N/A	26.57%	14.17%	22.29%	(29.93)%
Net assets, end of year ($'000s)	32,377,022	12,713,310	5,317,983	1,797,300	5,860,782	2,269,751	N/A	N/A	979,350	553,076	268,337	13,470
Units outstanding, end of year ('000s)	233,057	103,940	39,398	11,745	39,595	17,105	N/A	N/A	7,185	6,881	2,932	218
2003												
Total net return (1)	0.53%	1.83%	(7.33)%	6.98%	12.62%	22.37%	N/A	N/A	(11.54)%	(2.70)%	(9.26)%	(11.71)%
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	N/A	1,015,387	401,800	152,357	4,167
Units outstanding, end of year ('000s)	250,376	116,992	45,898	9,258	40,013	8,342	N/A	N/A	9,428	5,707	2,036	47
Ratios to average net assets:												
2011												
Ratio of expenses, including indirect management fees	0.50%	0.08%	0.19%	0.35%	0.15%	0.96%	0.81%	0.06%	0.32%	1.25%	1.49%	0.97%
Ratio of expenses, excluding indirect management fees	0.14%	0.08%	0.19%	0.32%	0.14%	0.15%	0.03%	0.02%	(0.01)%	0.06%	0.08%	0.06%
Ratio of net investment income (loss)	2.54%	1.76%	3.05%	2.34%	3.88%	3.67%	(0.03)%	(0.01)%	0.57%	2.34%	3.65%	(0.04)%
2010												
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)%
2009												
Ratio of expenses, including indirect management fees	0.51%	0.29%	0.29%	0.48%	0.14%	0.89%	0.85%	N/A	0.94%	1.39%	1.21%	1.19%
Ratio of expenses, excluding indirect management fees	0.10%	0.11%	0.29%	0.38%	0.12%	0.16%	0.04%	N/A	0.16%	0.06%	0.07%	0.06%
Ratio of net investment income (loss)	2.78%	1.72%	3.19%	2.19%	4.60%	5.97%	(0.03)%	N/A	0.04%	0.31%	1.18%	(0.02)%

Financial Highlights Ratios, continued

For the years ended June 30, 2011-2003

	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 (2)	Private Equity Account	Vintage Year 2000 Account	Vintage Year 2001 Account	Vintage Year 2002 Account
2008												
Ratio of expenses, including indirect management fees	0.52%	0.27%	0.26%	0.21%	0.17%	0.85%	0.76%	N/A	0.98%	1.43%	0.99%	1.13%
Ratio of expenses, excluding indirect management fees	0.25%	0.17%	0.26%	0.10%	0.16%	0.21%	0.04%	N/A	0.14%	0.02%	0.02%	0.02%
Ratio of net investment income (loss)	2.70%	1.49%	2.84%	2.23%	5.32%	5.41%	(0.02)%	N/A	1.85%	0.58%	1.63%	0.15%
2007												
Ratio of expenses, including indirect management fees	0.54%	0.29%	0.27%	0.46%	0.13%	0.70%	1.26%	N/A	1.06%	1.61%	1.02%	1.55%
Ratio of expenses, excluding indirect management fees	0.27%	0.16%	0.27%	0.33%	0.13%	0.24%	0.03%	N/A	0.19%	0.08%	0.09%	0.08%
Ratio of net investment income (loss)	2.93%	1.87%	2.73%	2.76%	4.96%	5.95%	(0.03)%	N/A	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%	N/A	1.16%	1.99%	1.31%	2.43%
Ratio of expenses, excluding indirect management fees	0.41%	0.23%	0.23%	0.82%	0.14%	0.30%	0.03%	N/A	0.14%	0.08%	0.09%	0.08%
Ratio of net investment income (loss)	2.78%	1.51%	2.66%	2.33%	5.13%	6.22%	(0.02)%	N/A	1.73%	1.84%	3.28%	(0.07)%
2005												
Ratio of expenses, including indirect management fees	0.52%	0.16%	0.26%	0.68%	0.11%	0.42%	1.06%	N/A	1.40%	2.61%	1.94%	4.28%
Ratio of expenses, excluding indirect management fees	0.30%	0.16%	0.26%	0.68%	0.11%	0.32%	0.04%	N/A	0.11%	0.10%	0.09%	0.09%
Ratio of net investment income (loss)	2.96%	1.60%	2.32%	2.39%	4.80%	6.31%	(0.04)%	N/A	2.64%	3.64%	6.39%	(0.09)%
2004												
Ratio of expenses, including indirect management fees	0.42%	0.16%	0.21%	0.97%	0.13%	0.65%	N/A	N/A	1.65%	3.58%	3.84%	32.06%
Ratio of expenses, excluding indirect management fees	0.23%	0.16%	0.21%	0.97%	0.13%	0.47%	N/A	N/A	0.15%	0.27%	0.31%	0.02%
Ratio of net investment income (loss)	2.73%	1.41%	2.24%	1.90%	4.81%	4.97%	N/A	N/A	0.55%	0.68%	1.37%	(0.10)%
2003												
Ratio of expenses, including indirect management fees	0.43%	0.19%	0.33%	0.57%	0.12%	0.59%	N/A	N/A	1.90%	5.75%	6.17%	14.44%
Ratio of expenses, excluding indirect management fees	0.22%	0.19%	0.33%	0.57%	0.12%	0.38%	N/A	N/A	0.18%	0.29%	0.56%	0.12%
Ratio of net investment income (loss)	2.98%	1.50%	2.42%	1.69%	5.18%	6.14%	N/A	N/A	0.37%	0.02%	(0.56)%	(14.43)%

(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.

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

Financial Highlights Ratios, continued

For the years ended June 30, 2011-2003

	Vintage Year 2003 Account	Vintage Year 2004 Account	Vintage Year 2005 Account	Vintage Year 2006 Account	Vintage Year 2007 Account	Vintage Year 2008 Account	Vintage Year 2009 Account	Vintage Year 2010 Account	Vintage Year 2011 Account	Core Real Estate Account	Noncore Real Estate Account	Timber / NR Account
Ratios and supplementary data:												
2011												
Total net return (1)	22.22%	50.10%	19.74%	23.61%	20.56%	20.34%	(7.45)%	(29.52)%	(5.84)% (2)	20.17%	N/A	19.20%
Net assets, end of year ($'000s)	416,819	415,720	872,773	1,208,620	804,057	439,750	86,944	44,610	1,789	4,103,735	N/A	2,003,721
Units outstanding, end of year ('000s)	1,523	7,961	11,428	22,699	48,975	8,704	1,746	668	19	12,794	N/A	8,563
2010												
Total net return (1)	24.05%	14.37%	15.50%	15.53%	11.18%	6.01%	(46.19)%	(5.25)% (2)	N/A	2.35%	N/A	(5.90)%
Net assets, end of year ($'000s)	411,075	365,651	750,824	913,119	467,426	203,969	18,978	7,080	N/A	3,767,749	N/A	1,671,981
Units outstanding, end of year ('000s)	1,826	10,458	11,670	20,982	33,927	4,786	349	74	N/A	13,815	N/A	8,517
2009												
Total net return (1)	(22.82)%	(19.91)%	(25.79)%	(23.62)%	(19.41)%	N/A	N/A	N/A	N/A	(23.90)%	(100.00)%	(14.84)%
Net assets, end of year ($'000s)	393,043	318,973	629,918	708,085	285,173	62,947	N/A	N/A	N/A	4,090,525	—	1,776,921
Units outstanding, end of year ('000s)	2,177	10,485	11,408	18,991	23,279	1,590	N/A	N/A	N/A	15,686	—	8,518
2008												
Total net return (1)	18.81%	21.15%	22.18%	2.80%	(84.80)%	N/A (2)	N/A	N/A	N/A	4.41%	N/A	20.69%
Net assets, end of year ($'000s)	531,381	388,181	748,612	783,796	163,835	8,038	N/A	N/A	N/A	5,520,030	2	1,065,586
Units outstanding, end of year ('000s)	2,272	10,222	10,060	16,056	10,778	91	N/A	N/A	N/A	16,109	—	4,350
2007												
Total net return (1)	63.10%	22.32%	13.02%	(38.73)%	—% (2)	N/A	N/A	N/A	N/A	15.65%	318.62%	14.67%
Net assets, end of year ($'000s)	555,480	319,874	385,139	251,773	740	N/A	N/A	N/A	N/A	4,316,265	2	1,598,166
Units outstanding, end of year ('000s)	2,822	10,204	6,325	5,301	7	N/A	N/A	N/A	N/A	13,152	—	7,874
2006												
Total net return (1)	32.12%	(4.55)%	(32.12)%	(22.49)% (2)	N/A	N/A	N/A	N/A	N/A	22.70%	106.43%	18.52%
Net assets, end of year ($'000s)	351,371	143,419	106,808	3,182	N/A	N/A	N/A	N/A	N/A	4,618,446	38	1,480,574
Units outstanding, end of year ('000s)	2,911	5,596	1,982	41	N/A	N/A	N/A	N/A	N/A	16,275	—	8,365
2005												
Total net return (1)	12.58%	(73.15)%	(20.63)% (2)	N/A	N/A	N/A	N/A	N/A	N/A	29.33%	(30.98)%	11.54%
Net assets, end of year ($'000s)	178,524	13,401	910	N/A	N/A	N/A	N/A	N/A	N/A	2,950,852	822	1,316,382
Units outstanding, end of year ('000s)	1,954	499	11	N/A	N/A	N/A	N/A	N/A	N/A	12,759	9	8,815
2004												
Total net return (1)	(18.86)%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	19.15%	1.84%	12.15%
Net assets, end of year ($'000s)	46,335	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,828,679	7,635	931,432
Units outstanding, end of year ('000s)	571,059	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	10,226	55,325	6,957
2003												
Total net return (1)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	6.67%	(17.53)%	14.15%
Net assets, end of year ($'000s)	N/A	N/A	N/A	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)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	9,870	60	4,236
Ratios to average net assets:												
2011												
Ratio of expenses, including indirect management fees	0.89%	1.05%	1.43%	1.45%	3.81%	3.98%	15.75%	13.44%	10.80%	0.53%	N/A	0.83%
Ratio of expenses, excluding indirect management fees	0.02%	0.09%	0.11%	0.20%	(0.01)%	0.22%	0.04%	0.05%	0.02%	0.16%	N/A	0.22%
Ratio of net investment income (loss)	2.12%	0.79%	2.14%	2.23%	0.53%	1.16%	0.66%	(0.04)%	(0.02)%	5.02%	N/A	0.26%
2010												
Ratio of expenses, including indirect management fees	0.89%	1.16%	1.93%	2.03%	5.66%	9.21%	51.16%	0.06%	N/A	0.53%	N/A	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%	N/A	0.15%	N/A	0.07%
Ratio of net investment income (loss)	2.94%	0.99%	0.15%	0.90%	0.46%	0.72%	0.15%	(32.74)%	N/A	4.80%	N/A	0.60%
2009												
Ratio of expenses, including indirect management fees	0.96%	1.67%	1.67%	2.20%	7.96%	23.91%	N/A	N/A	N/A	(0.26)%	N/A	1.00%
Ratio of expenses, excluding indirect management fees	0.06%	0.27%	0.18%	0.28%	0.05%	0.06%	N/A	N/A	N/A	(0.59)%	N/A	0.60%
Ratio of net investment income (loss)	0.37%	0.43%	0.12%	0.31%	0.37%	4.62%	N/A	N/A	N/A	5.53%	N/A	(0.90)%

Financial Highlights Ratios, continued

For the years ended June 30, 2011-2003

	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
2008									
Ratio of expenses, including indirect management fees	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%	0.27%	0.09%	0.18%	0.02%	—%	0.50%	N/A	2.10%
Ratio of net investment income (loss)	0.32%	0.62%	0.14%	—%	(0.11)%	—%	4.18%	N/A	(1.64)%
2007									
Ratio of expenses, including indirect management fees	0.94%	1.49%	5.20%	10.88%	—%	N/A	1.13%	N/A	0.98%
Ratio of expenses, excluding indirect management fees	0.08%	0.31%	0.22%	1.81%	—%	N/A	0.80%	N/A	0.72%
Ratio of net investment income (loss)	4.57%	0.22%	3.70%	(1.47)%	—%	N/A	3.94%	N/A	0.09%
2006									
Ratio of expenses, including indirect management fees	2.37%	6.73%	20.92%	19.76%	N/A	N/A	1.66%	1.00%	2.27%
Ratio of expenses, excluding indirect management fees	0.08%	1.04%	2.03%	0.21%	N/A	N/A	1.29%	1.00%	2.00%
Ratio of net investment income (loss)	0.66%	(0.97)%	(1.66)%	(0.22)%	N/A	N/A	3.57%	2.85%	(0.04)%
2005									
Ratio of expenses, including indirect management fees	7.39%	53.44%	22.43%	N/A	N/A	N/A	1.58%	1.79%	1.50%
Ratio of expenses, excluding indirect management fees	0.09%	6.95%	—%	N/A	N/A	N/A	1.10%	0.03%	1.26%
Ratio of net investment income (loss)	0.70%	(6.95)%	—%	N/A	N/A	N/A	6.49%	6.46%	1.29%
2004									
Ratio of expenses, including indirect management fees	11.52%	N/A	N/A	N/A	N/A	N/A	0.76%	0.46%	0.63%
Ratio of expenses, excluding indirect management fees	0.01%	N/A	N/A	N/A	N/A	N/A	0.22%	0.03%	0.36%
Ratio of net investment income (loss)	(0.26)%	N/A	N/A	N/A	N/A	N/A	7.69%	5.61%	0.95%
2003									
Ratio of expenses, including indirect management fees	N/A	N/A	N/A	N/A	N/A	N/A	0.55%	1.10%	1.81%
Ratio of expenses, excluding indirect management fees	N/A	N/A	N/A	N/A	N/A	N/A	0.04%	0.09%	1.53%
Ratio of net investment income (loss)	N/A	N/A	N/A	N/A	N/A	N/A	7.79%	(7.24)%	2.45%

(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.

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

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.

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Domestic Equity	19.2%	22.0%	19.9%	24.4%	26.1%	29.9%	27.5%	32.6%	39.0%	42.1%
International Equity	16.7%	21.7%	20.0%	19.0%	20.0%	21.0%	19.8%	15.6%	16.3%	16.7%
Emerging Markets	6.7%	6.6%	5.7%	5.0%	5.5%	5.5%	5.9%	5.7%	5.5%	3.8%
Fixed Income	13.0%	13.2%	14.0%	13.0%	16.8%	15.4%	15.4%	16.2%	18.0%	21.0%
Value-Added Fixed Income	8.6%	6.0%	7.0%	7.7%	5.0%	4.6%	5.3%	7.5%	7.0%	3.5%
Private Equity	12.1%	10.7%	10.6%	9.6%	8.4%	6.7%	6.5%	6.0%	5.7%	5.7%
Real Estate	9.7%	8.2%	9.1%	10.9%	10.9%	8.6%	11.0%	8.1%	5.6%	5.4%
Timber/Natural Resources	3.9%	4.0%	4.1%	4.7%	2.1%	3.2%	3.5%	3.6%	2.9%	1.8%
Hedge Funds	9.9%	7.2%	7.7%	5.7%	5.2%	5.1%	5.1%	4.8%	0.0%	0.0%
Portable Alpha Wind Down (1)	0.2%	0.4%	1.9%	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.