PENSION RESERVES INVESTMENT TRUST FUND

(A Component Unit of the Commonwealth of Massachusetts)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2013

(With Basic Financial Statements for the Fiscal Years Ended June 30, 2013 and 2012)

Steven Grossman, Treasurer and Receiver General, Chair

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

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Prepared By

Pension Reserves Investment Management Board Staff

For More Information

All correspondence may be directed to:

Paul Todisco

Senior Client Service Officer

Pension Reserves Investment Management Board

84 State Street

Boston, MA 02109

Telephone: 617-946-8423 (Direct)

Facsimile: 617-946-8475

Website: www.mapension.com

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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 3, 2013

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, 2013. The document that follows is the ninth consecutive CAFR to be produced in the 29-year existence of the PRIM Board as Trustee of the PRIT Fund. We hope that you will find the PRIT Fund's CAFR useful in understanding the performance and financial position of the Fund as of June 30, 2013.

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 fiscal year 2013 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 fund 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.

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 September 25, 2013, calculated the Commonwealth's unfunded actuarial pension liability at $28.3 billion. The PERAC valuation report estimates that, as of January 1, 2013, the pension liability is 60.6% funded using a target date of 2040. It should be noted that the unfunded actuarial pension liability is calculated on a calendar year basis.

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) for retirees. The SRBT Fund is a vehicle for other governmental entities to invest their OPEB assets in the PRIT Fund. Chapter 36 of the Acts of 2013 mandates that the HCST Board employ the PRIM Board to invest the SRBT Fund's assets.

PRIM seeks to maximize the return on 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. 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.

As of June 30, 2013, the PRIT Fund had approximately $53.2 billion in net assets compared to $48.9 billion at the end of FY 2012, which is an increase of $4.3 billion in net assets. The PRIM Board contracts with a custodian bank to safeguard investment holdings and to ensure the proper settlement and recording of investment and cash transactions.

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, 2012. This was the eighth 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 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.

Major Accomplishments in Fiscal Year 2013

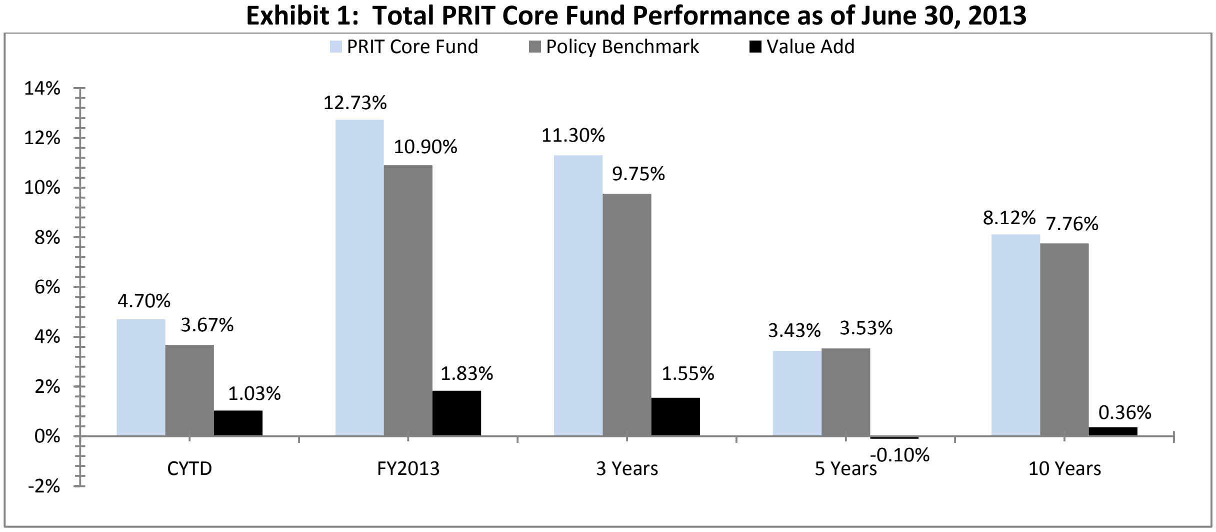
Performance

1. PRIT Fund Performance is Strong.

For the one year period ended June 30, 2013, the PRIT Core Fund returned 12.73%, 183 basis points above the Total PRIT Core Benchmark. This represents a gain of approximately $6 billion, $900 million above benchmark. For the three year period, the PRIT Core Fund returned 11.30%, 155 basis points above benchmark, a gain of $16 billion and $2.2 billion above benchmark. (**Exhibit 1**) *(Note: Calculations are gross of net outflows to pay benefits.)*

Importantly, these strong returns exceed the Commonwealth's actuarial rate of return (AROR). Effective January 1, 2013, the Commonwealth reduced the AROR to 8.00% from 8.25%.

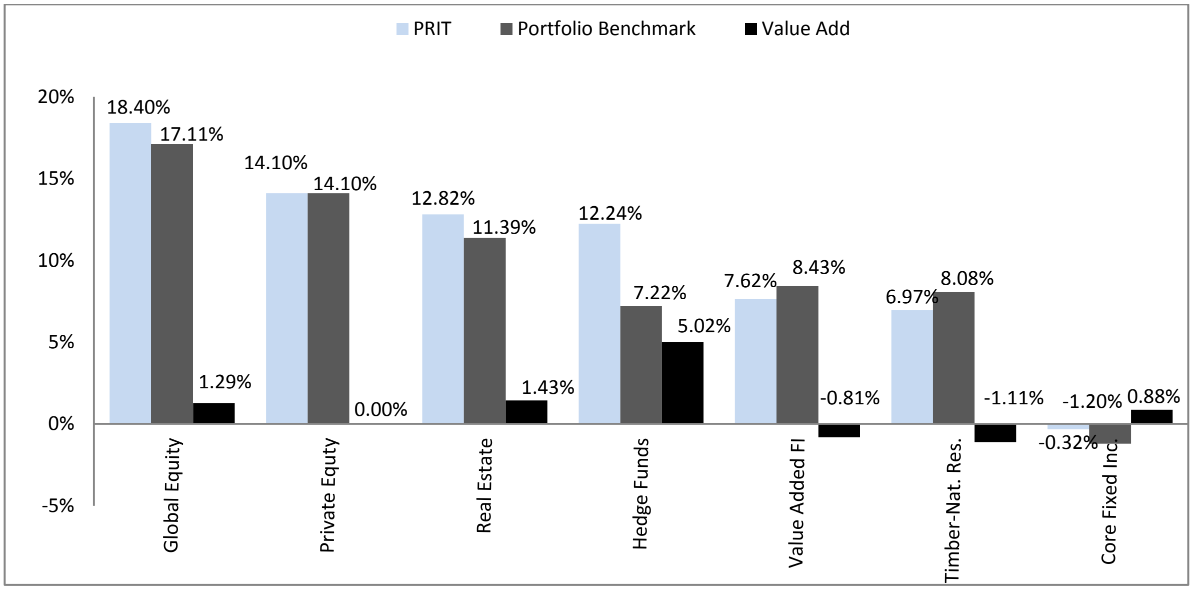
Exhibit 1: Total PRIT Core Fund Performance as of June 30, 2013



2. Asset Allocation.

The PRIT Fund's diversification across seven major asset classes enhanced performance and mitigated risk as volatility in financial markets continued during fiscal year 2013. Five of PRIM's seven major asset classes exceeded their benchmarks in fiscal year 2013, an indication that PRIM's managers are adding value. (**Exhibit 2**)

Exhibit 2: Fiscal Year 2013 Asset Class Performance



The PRIM Board believes that asset allocation is the most important investment decision we make. PRIM's current asset allocation policy (Exhibit 3), adopted on August 2, 2011, was reaffirmed by the PRIM Board in fiscal year 2013. This policy was the result of lessons learned in 2008, specifically the need to balance the need for high returns with the need to remain within acceptable levels of risk. As such, PRIM reduced its allocation to global equities by 6% and redeployed 4% of those assets to Value-Added Fixed Income and 2% to Hedge Funds. These changes maintained the PRIT Fund's long-term expected return of 8.2% while reducing risk. (**Exhibit 3**)

Exhibit 3

Asset Class	Target Allocation
U.S. Large Cap	15%
U.S. Small/Mid Cap	4%
International	17%
Emerging Markets	7%
Total Global Equity	**43%**
Core Bonds	10%
TIPS	3%
Total Core Fixed Income	**13%**
High Yield/Bank Loans	3%
EMD (Dollar Denominated)	1%
EMD (Local Currency)	2%
Private Debt	4%
Total Value Added Fixed Income	**10%**
Private Equity	**10%**
Real Estate	**10%**
Timber	**4%**
Hedge Funds	**10%**
5-7 Year Expected Return	7.40%
30 Year Expected Return	8.20%
Risk (Std. Deviation)	12.80%
Sharpe Ratio	0.52

Organizational

1. Filled key senior level vacancies.
   - Reduced staff turnover.
   - Hired Senior Investment Officer – Hedge Funds and Low Volatility Strategies (Eric R. Nierenberg, Ph.D., December 2012).
   - Hired Senior Investment Officer – Director of Private Equity (Michael R. Bailey, January 2013).
   - Hired Director of Investment Operations (Matthew Liposky, September 2013).
   - Hired Director of Finance and Administration (Daniel C. Eckman, CPA, October 2013).
   - Promoted Sarah N. Samuels, CFA to Senior Investment Officer - Director of Public Markets and Investment Research.
2. Completed PRIM Compensation Philosophy and Plan review.
3. Completed Board Governance Policy Review (Charters).
4. Launched Project SAVE initiative – “Strategic Analysis for Value Enhancement”.
   - Formed internal workgroup to identify and recommend programs to enhance value at PRIM.
   - Identified major opportunities for value enhancement totaling over $100 million in annual savings when fully implemented.

5. Conducted 16 internal education sessions in approximately two fiscal years. (**Exhibit 4**)

Exhibit 4: Education

Topic	Presenters	Date
PRIT Fund Positioning, Manager Outlook & Eurozone Stress Test	PRIM Staff	August 10, 2012
Current Economic Conditions	PRIM Staff	August 10, 2012
Why has our risk gone down?	PRIM Staff	October 2, 2012
Current Economic Conditions	PRIM Staff	October 2, 2012
The Fiscal Cliff	PRIM Staff	December 4, 2012
Current Economic Conditions	PRIM Staff	December 4, 2012
Claritas® Investment Certificate Pilot Program	CFA Institute	October 4, 2012
Changing Dynamics in Fixed Income	PRIM Staff	February 5, 2013
Current Economic Conditions	PRIM Staff	February 5, 2013
Boston Security Analyst Society (BSAS) Claritas Education Series	BSAS	March/April 2013
Inflation and Asset Class Sensitivity	PRIM Staff	April 2, 2013
Current Economic Conditions	PRIM Staff	April 2, 2013
Derivatives: Futures, Options and Swaps (Day 1)	Eric R. Nierenberg, Ph.D.	April 10, 2013
Derivatives: Futures, Options and Swaps (Day 2)	Eric R. Nierenberg, Ph.D.	April 11, 2013

6. PRIM became a pilot partner with the CFA Institute in launching the Claritas® Investment Certificate program.
   - PRIM enrolled 32 participants in the program, including Advisory Committee members, PRIM employees, and Treasury employees.
   - The Claritas® Investment Certificate is a new global self-study education program focused on the essentials of finance, ethics, and investment roles. The program requires approximately 100 hours of study and generally can be completed within six months. Upon completion of the study, participants sit down for an exam, and 18 PRIM participants passed the exam and thereby, earned and were awarded the Claritas® Investment Certificate.

Investment Program

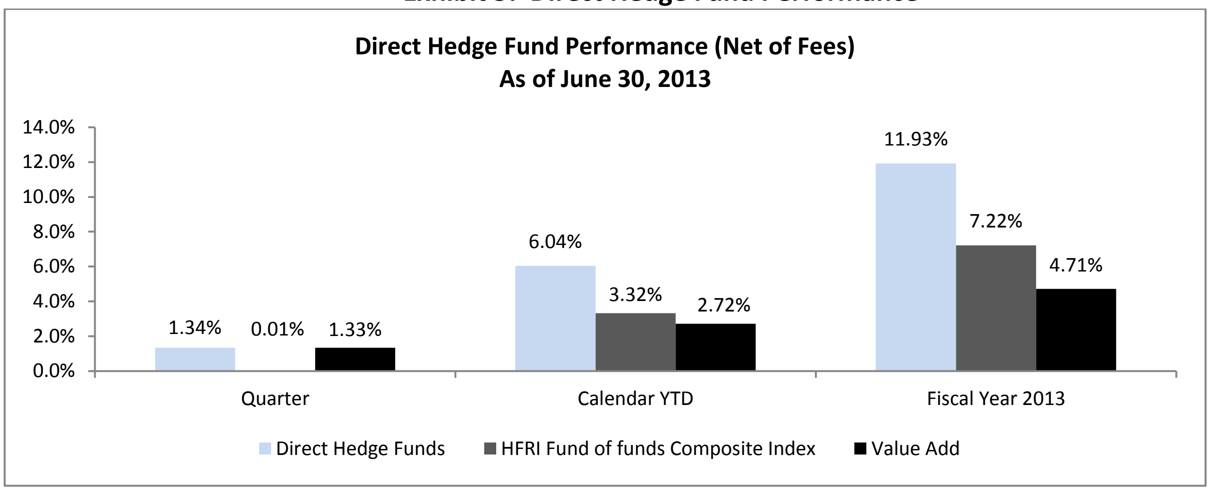
1. Implementation of public markets asset allocation changes.
   - Reallocated $8 billion of Domestic Equity assets.
   - Developed a new, highly active, proprietary manager screening, monitoring, and evaluation tool. Utilizing two investment manager databases, PRIM staff has developed algorithms to screen and evaluate managers based on PRIM's unique requirements.
   - Used risk management tools for additional portfolio construction input for new allocations.
   - Completed Emerging Market Equity Small Cap search: $200 million allocation, two managers funded.
   - Completed Emerging Market Debt - Local Currency search: $900 million allocation, three managers funded.
   - Completed U.S. Equity Small Cap search: $800 million allocation, five managers funded.

- Completed Long-only Investment Consulting Services search.
- Completed Transition Management Investment Services search: Eight managers were approved as "Qualified List of Providers".

2. Hedge Funds.

- Transition to direct hedge fund program from hedge fund-of fund program saved $29 million in annual fee savings in fiscal 2013 while delivering strong returns. (**Exhibit 5**)
- 21 managers funded in the Direct Hedge Fund program, totaling $3.75 billion in assets.

Exhibit 5: Direct Hedge Fund Performance



3. Private Equity and Private Debt. (**Exhibit 6)**

- Allocated $549M in Private Equity in FY 2013.

Exhibit 6: FY 2013 Private Equity Commitments

Approved	Investment	Investment Focus	Commitment (millions)
October 22, 2012	Technology Crossover Ventures VIII	Late Stage VC - Information Technology	$ 100
December 4, 2012	TowerBrook Investors IV	U.S. and Europe Middle Market Buyout	$ 75
December 27, 2012	Insight Venture Partners Fund VIII	Late Stage VC - Info Tech & New Media	$ 94
February 5, 2013	Battery Ventures X	Multi-State Venture Capital	$ 30
February 5, 2013	Battery Ventures X Side Fund	Multi-State Venture Capital	$ 14
February 5, 2013	Spark Capital IV	Early Stage VC - Info Tech & New Media	$ 25
February 11, 2013	HIG Capital Partners V	Middle Market Buyout - U.S.	$ 30
April 2, 2013	ACON Equity Partners III	Middle Market Buyout - U.S.	$ 50
April 2, 2013	KPS Special Situations Fund IV	Special Situations - Turnarounds	$ 50
April 22, 2013	WestView Capital Partners III	Growth Equity	$ 30
April 22, 2013	Thoma Bravo Special Opportunities Fund I	Middle Market Buyout - Sector Focused	$ 25
June 27, 2013	HIG Europe Capital Partners II	Large Buyout - Europe	$ 26
Total Private Equity Commitments			**$ 549**

4. Real Estate and Timberland.
   - Completed $1B in portfolio-level debt program closing private placement and bank loans for an average term of 7.3 years and an interest rate of 2.91%. Projected to add $400M in added returns over the period.
   - Real Estate Acquisitions – 10, total cost - $418 million.
   - Real Estate Dispositions – 14, total proceeds - $362 million.
   - Completed PRIM's first international timberland acquisition – 260,000 acres in South Australia, $113 million investment in partnership with the Future Fund (Australia sovereign wealth fund) – October 2012.
   - Completed two non-core transactions totaling $250 million in new equity commitments.

<u>*Finance, Operations, and Technology*</u>

1. New Accounting and Reporting.
   - Supported Commonwealth's Treasury/Administration *Open Checkbook Initiative*.
   - Developed accounting, reconciliation, and reporting processes for the new investment initiatives including Direct Hedge Funds, International Timberland, Non-US REITS, Non-core real estate, small cap domestic equities, small cap emerging equities and emerging markets debt.
   - Developed an accounting and reporting process for complying with real estate leverage covenants.
   - Developed accounting, reconciliation, and reporting processes for the introduction of SRBT clients.
   - Established procedures to support third party foreign currency trading.

2. Operations/Audit/Technology Initiatives.
   - Developed Agreed-Upon Procedures (AUP) protocol for a new annual SASE 16 review of PRIM's custom benchmark calculations by external auditors.
   - Developed, deployed, and tested the business continuity (BC) and disaster recovery (DR) plan.
   - Developed 3 to 5 year technology plan.
   - Developed, configured and deployed an updated electronic data backup process and policy.
   - Re-engineered the Real Estate and Timber reporting system to facilitate multi-currency investing.

Acknowledgements

Since joining PRIM in August 2010, I have worked cooperatively with the PRIM Board Chair, State Treasurer & Receiver-General, Steven Grossman, to recruit 12 new Advisory Committee members. Together with our existing members, we have created the strongest Committees in years. I must acknowledge the tireless work of Investment Committee member and retired Chairman and CEO of

Boston Private Financial Holdings, Timothy L. Vaill, who has volunteered his time and energy to spearhead PRIM's Project SAVE initiative. I would also like to thank former Board Member, Gregory R. Mennis, CFA, for his service and contributions to PRIM during his tenure as the Governor's designee. And I would like to welcome his successor, Glen Shor, the Secretary of the Executive Office for Administration and Finance. The Treasurer appointed Secretary Shor to the Investment and Administration and Audit Committees, and he is already proving to be a highly engaged and effective Trustee.

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. In particular, I would like to single out Michele Whitham, who chaired the Compensation Committee, as well as the members of the compensation workgroup: PRIM Trustee Bob Brousseau, Newton Alderman Ruthanne Fuller, and Chairman of the Hampshire County Retirement Board, Patrick Brock, for their extraordinary efforts in bringing the compensation philosophy issue to a resolution during fiscal year 2013.

I am proud of the accomplishments and progress that we have made at PRIM and I thank our volunteer Board and Committee members for their continued support and dedication. The PRIT Fund's performance is strong, both on a relative and an absolute basis, and we are excited about our numerous strategic initiatives.

I am confident that our talented and dedicated staff, Board, and committee members will strengthen PRIM's legacy of innovation and strong performance in the months and years to come. I can speak on behalf of the entire team here at PRIM in saying that we have never been more excited about our future and the possibilities that lie ahead.

Very respectfully,

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

Government Finance Officers Association

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, 2012

Executive Director/CEO

Pension Reserves Investment Management Board

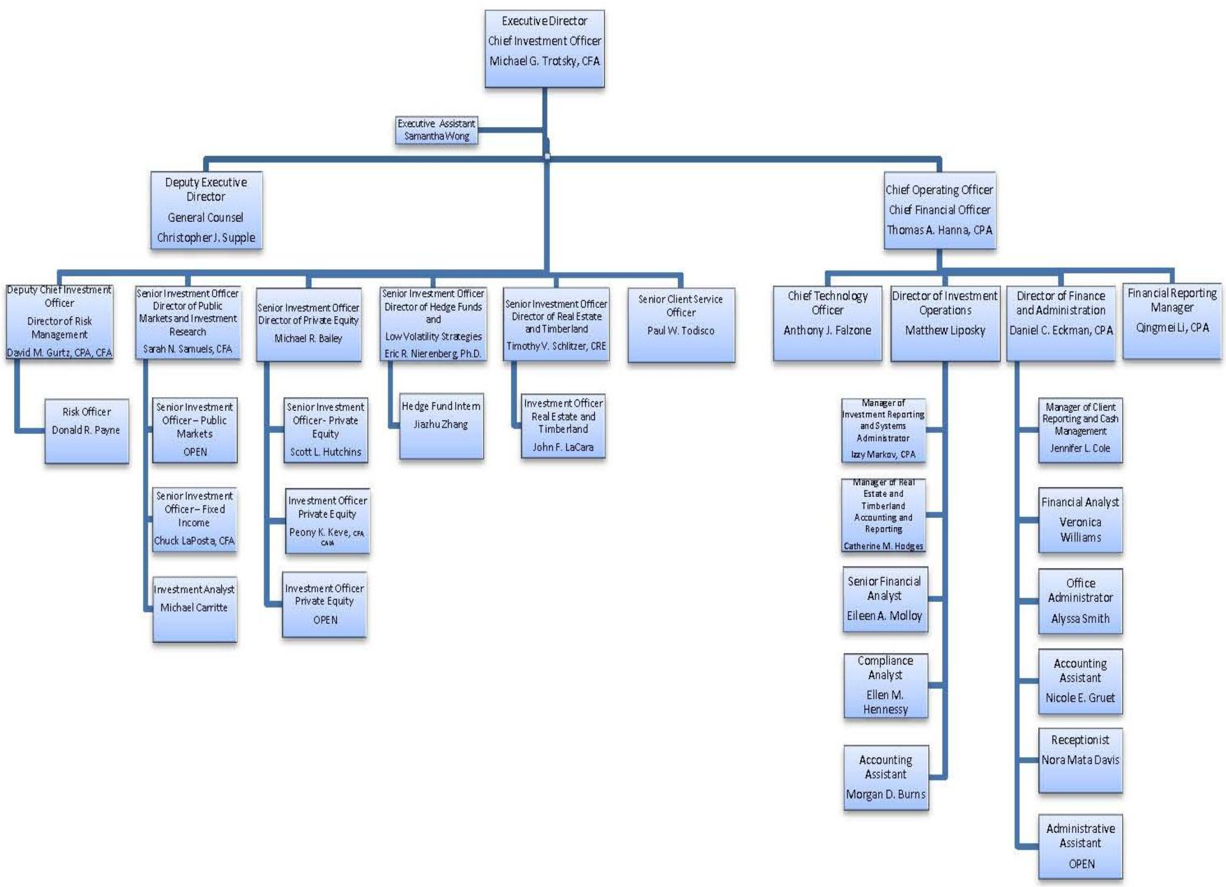
(9 Appointed and Elected Trustees)

Treasurer Steven Grossman – Chair

Alexander E. Aikens, III	Dennis J. Naughton
Robert L. Brousseau	Dana A. Pullman
Anthony E. Hubbard	Paul E. Shanley
Theresa F. McGoldrick	Glen Shor

Administration and Audit, Compensation, Investment, and Real Estate Committees

31 PRIM Professional Staff



<u>PRIT Fund as of 6/30/2013 - $53.2 Billion</u>

26 Public Securities Managers Investing 34 Portfolios

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

8 Economically Targeted Investment (ETI) Managers

104 Managers in 200+ Private Equity Partnerships

1 Hedge Fund of Funds Manager

21 Direct Hedge Fund Managers

Beneficiaries:

State Teachers, State Employees, State Retiree Benefits Trust,

& 90 Local Retirement Systems

PRIM Board Trustees

Advisory Committees to the PRIM Board

Investment Committee

Steven Grossman, Chair
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
Edward W. Kane
Senior Advisor, HarbourVest Partners, LLC
Paul E. Shanley
Board Member
Glen Shor
Secretary, Executive Office for Administration and Finance
Glenn P. Strehle, CFA
Treasurer Emeritus, MIT
Timothy L. Vaill
Special Advisor, Housing and Economic Development, Commonwealth of Massachusetts

Real Estate Committee

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Board Member
Steven Grossman
Ex Officio Board Member
Jill S. Hatton, CRE
Real Estate Investment Professional
Anthony E. Hubbard, Esq.
Board Member
Dr. Jack Lutz, PhD.
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 and Audit Committee
Robert L. Brousseau, Chair
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, Esq.
Professor, Suffolk University Law School
Theresa T. McGoldrick, Esq.
Board Member
Dennis J. Naughton
Board Member
Glen Shor
Secretary, Executive Office for Administration and Finance
Michele A. Whitham, Esq.
Partner, Foley Hoag

Compensation Committee
Michele A. Whitham, Esq., 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

PRIM Board Investment Consultants

Callan Associates
Public Market Consultant Services

Cliffwater LLC
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:

Report on the Financial Statements

We have audited the accompanying financial statements of the Pension Reserves Investment Trust Fund (PRIT), a component unit of the Commonwealth of Massachusetts, as of June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise PRIT's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the pooled net position of the Pension Reserves Investment Trust Fund as of June 30, 2013 and 2012, and the changes in its pooled net position for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 21 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on PRIT's basic financial statements. The Schedules of Pooled Net Position – Capital Fund and Cash Fund and Schedules of Changes in Pooled Net Position – Capital Fund and Cash Fund (collectively, the Schedules) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

The Introductory, Investment and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PRIT's internal control over financial reporting and compliance.

KPMG LLP

October 18, 2013

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

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, 2013 and 2012 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 position and the statements of changes in pooled net position. They present the financial position of PRIT as of June 30, 2013 and 2012 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 position and changes in pooled net position on pages 55 and 56 separately display the balances and activities of the Capital Fund and Cash Fund of PRIT.

The financial statements of PRIT are reported using the economic resources measurement focus and the accrual basis of accounting. They are prepared in conformity with U.S. generally accepted accounting principles, as promulgated by the Governmental Accounting Standards Board (GASB).

In fiscal year 2013, PRIT adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), which is effective for all state and local entities for periods beginning after December 15, 2011. GASB 63 defines deferred outflows and inflows of resources as the consumption or acquisition, respectively, of net assets applicable to a future reporting period, as distinguished from assets and liabilities. GASB 63 also amends previous net asset reporting requirements by incorporating deferred outflows and inflows of resources into the definitions of the required components of the residual measure and renames that measure as net position, rather than net assets. The adoption of GASB 63 resulted in the renaming of PRIT's statements of pooled net assets and changes in pooled net assets, respectively, to the statements of pooled net position and changes in pooled net position.

(Continued)

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

Financial Highlights

Fiscal Year 2013

- The net position of PRIT increased $4.4 billion during the year ended June 30, 2013. Total net position was $53.2 billion at June 30, 2013, compared to $48.9 billion at June 30, 2012.
- Net investment income for fiscal year 2013 was $5.9 billion, compared to a net investment loss of $280.4 million for the prior fiscal year. PRIT returned 12.69% in fiscal year 2013, compared to -0.08% in fiscal year 2012.
- Contributions to PRIT totaled $1.8 billion during fiscal year 2013, compared to $2.1 billion in 2012.
- Redemptions from PRIT totaled $3.4 billion during the year ended June 30, 2013, compared to $3.2 billion during the year ended June 30, 2012.

Fiscal Year 2012

- The net position of PRIT decreased $1.4 billion during the year ended June 30, 2012. Total net position was $48.9 billion at June 30, 2012, compared to $50.2 billion at June 30, 2011.
- Net investment loss for fiscal year 2012 was $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 $2.1 billion during fiscal year 2012, compared to $2.7 billion in 2011.
- Redemptions from PRIT totaled $3.2 billion during the year ended June 30, 2012, compared to $2.9 billion during the year ended June 30, 2011.

(Continued)

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

Condensed Financial Information

Summary balances and activities of PRIT as of and for the years ended June 30, 2013, 2012, and 2011 are presented below:

	June 30 2013	June 30 2012	June 30 2011
	(Dollars in thousands)		
Summary of pooled net position:			
Assets:			
Investments	$ 54,619,445	49,223,244	50,520,361
Cash	140,375	165,454	76,926
Receivables and other assets	1,155,290	820,761	460,891
Total assets	55,915,110	50,209,459	51,058,178
Liabilities:			
Management fees payable to PRIM	23,902	21,702	19,345
Other liabilities	2,661,583	1,319,950	793,067
Total liabilities	2,685,485	1,341,652	812,412
Net position held in trust for pool participants	$ 53,229,625	48,867,807	50,245,766

	June 30 2013	June 30 2012	June 30 2011
	(Dollars in thousands)		
Summary of changes in pooled net position:			
Additions:			
Contributions	$ 1,812,191	2,083,059	2,691,112
Net investment income (loss)	5,922,932	(280,407)	9,169,664
Total additions	7,735,123	1,802,652	11,860,776
Deductions:			
Redemptions	3,373,305	3,180,611	2,899,320
Change in pooled net position	4,361,818	(1,377,959)	8,961,456
Net position held in trust for pool participants:			
Balance, beginning of year	48,867,807	50,245,766	41,284,310
Balance, end of year	$ 53,229,625	48,867,807	50,245,766

(Continued)

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

PRIT Performance during the year ended June 30, 2013

PRIT began fiscal year 2013 with net position of $48.9 billion and ended the fiscal year with net position of $53.2 billion, representing a 8.93% increase. Net investment income for the year ended June 30, 2013 was $5.9 billion, which when added to net participant redemptions (contributions less redemptions) of $1.6 billion, resulted in an overall increase in net position of $4.4 billion.

For the year ended June 30, 2013, PRIT returned 12.69%, exceeding the policy benchmark of 10.90% by 179 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, 2013 are as follows: Domestic Equity 22.08%; International Equity 19.55%; Emerging Markets 5.44%; Core Fixed Income -0.32%; Value-Added Fixed Income 7.62%; Private Equity 14.10%; Real Estate 12.82%; Timber/Natural Resources 6.97%; and Hedge Funds 12.24%.

PRIT outperformed its benchmark for the fiscal year ended June 30, 2013 and continues to outperform its longer term benchmarks and has returned an average of 9.56% 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 position in excess of $1 billion over the ten-year period ended June 30, 2013.

PRIT Performance during the year ended June 30, 2012

PRIT began fiscal year 2012 with net position of $50.2 billion and ended the fiscal year with net position 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 position of $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 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, 2013 and 2012

(Unaudited)

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 Position

June 30, 2013 and 2012

(Dollars in thousands)

		2013	2012
Assets:			
Investments, at fair value:			
Short-term	$	929,693	834,552
Fixed income		12,472,026	11,301,393
Equity		22,629,728	19,797,368
Real estate		5,883,427	5,251,423
Timber		1,368,309	1,197,298
Private equity		6,360,596	6,091,178
Hedge funds		4,975,666	4,750,032
Total investments		54,619,445	49,223,244
Cash		140,375	165,454
Interest and dividends receivable		137,178	123,359
Receivable for investments sold and other assets		468,780	315,112
Securities sold on a when-issued basis		524,981	360,610
Unrealized gains on foreign currency exchange contracts		24,351	21,680
Total assets		55,915,110	50,209,459
Liabilities:			
Payable for investments purchased and other liabilities		289,983	162,739
Real estate debt		1,458,221	524,196
Securities purchased on a when-issued basis		896,563	625,582
Unrealized losses on foreign currency exchange contracts		16,816	7,433
Management fees payable to PRIM		23,902	21,702
Total liabilities		2,685,485	1,341,652
Net position held in trust for pool participants	$	53,229,625	48,867,807

See accompanying notes to financial statements.

Statements of Changes in Pooled Net Position

Years ended June 30, 2013 and 2012

(Dollars in thousands)

		2013	2012
Additions:			
Contributions:			
State employees	$	529,031	544,166
State teachers		669,815	640,056
Other participants		613,345	898,837
Total contributions		1,812,191	2,083,059
Net investment income (loss):			
From investment activities:			
Net realized gain on investments and foreign currency transactions		1,728,668	1,184,401
Net change in unrealized appreciation (depreciation) on investments and foreign currency translations		2,882,344	(2,693,795)
Interest income, net		357,277	342,620
Dividend income, net		641,126	668,260
Real estate income, net		221,963	211,969
Timber loss, net		(1,843)	(4,730)
Private equity income, net		166,768	79,059
		5,996,303	(212,216)
Management fees		(73,371)	(68,191)
Total net investment income (loss)		5,922,932	(280,407)
Total additions		7,735,123	1,802,652
Deductions:			
Redemptions:			
State employees		1,160,706	1,122,208
State teachers		1,529,320	1,525,530
Other participants		683,279	532,873
Total deductions		3,373,305	3,180,611
Net increase (decrease) in pooled net position		4,361,818	(1,377,959)
Net position held in trust for pool participants:			
Balance, beginning of year		48,867,807	50,245,766
Balance, end of year	$	53,229,625	48,867,807

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

(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 under 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 or PRIM). 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 8.0%.

(Continued)

Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

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 Boston 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, 2013, 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 as a participating system. Since its passage, 20 retirement systems have transferred their assets to PRIT Fund under the provisions of this Act.

(Continued)

Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

(b) Investment Funds

PRIT consists of two investment funds, the Capital Fund and the Cash Fund. Each of these funds is managed, accounted for, and held separately by PRIT's custodian.

The Cash Fund consists of short-term investments, which are used to meet the liquidity requirements of Participating and Purchasing Systems. All Cash Fund earnings are reinvested. The State Teachers' Retirement System and the State Employees' Retirement System make daily deposits into the Cash Fund, which is their source of funds for benefit payments and operating expenses. The 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. 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, 2013: 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 2000-2013. (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, Value Added Fixed Income, Real Estate, Hedge Funds, and Private Equity Vintage Year accounts. At June 30, 2013 and 2012, there were 38 segmented investors in PRIT.

(Continued)

Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

(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 dates of the financial statements and the reported amounts of additions and deductions during the reporting periods. Actual results could differ from those estimates.

PRIT follows Governmental Accounting Standards Board (GASB) guidance as applicable to external investment pools.

Certain reclassifications to 2012 information have been made to conform with the 2013 presentation.

In fiscal year 2013, PRIT adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), which is effective for all state and local entities for periods beginning after December 15, 2011. GASB 63 defines deferred outflows and inflows of resources as the consumption or acquisition, respectively, of net assets applicable to a future reporting period, as distinguished from assets and liabilities. GASB 63 also amends previous net asset reporting requirements by incorporating deferred outflows and inflows of resources into the definitions of the required components of the residual measure and renames that measure as net position, rather than net assets. The adoption of GASB 63 resulted in the renaming of PRIT’s statements of pooled net assets and changes in pooled net assets, respectively, to the statements of pooled net position and changes in pooled net position.

(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, value added fixed income, real estate, timber, hedge funds, natural resources, private equity and, where appropriate, the various sub asset 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.

(Continued)

Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

Security transactions are recorded on the 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 (losses) is independent of the calculation of the net change in unrealized appreciation (depreciation) on investments. Realized gains and losses on investments sold in the current year are included in net realized gain on investments in the accompanying statements of changes in pooled net position.

The PRIM Board values investments in fixed income, money market, other short-term investments, and U.S. government agency obligations using independent pricing services. In determining the price, the services may reflect such factors as market 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. Fair values for investments in pooled investment vehicles (commingled funds) are based on the commingled fund's net asset value as determined by the investment managers.

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 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, real estate private equity fund investments, 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

(Continued)

Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

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. Real estate private equity fund investments are invested through limited partnerships and are recorded at fair value estimated by PRIM in the same manner as PRIT's private equity investments. 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 by management.

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, generally using the net asset value as a practical expedient. These estimated fair values are 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, generally using the net asset value of the underlying fund as a practical expedient. These estimated fair values are determined in good faith by investment managers or general partners using consistently applied procedures.

(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, 2013 and 2012, foreign taxes withheld of $23,581 and $23,064, respectively, have been netted against dividend income in the statements of changes in pooled net position. Real estate income includes dividends earned on REIT securities as well as cash distributions of operating income from investments in real estate properties. Timber income includes cash distributions of operating income from investments in timberland properties. Private equity investment income is recorded on a cash distribution basis.

(Continued)

Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

(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 (depreciation) on investments. For financial reporting purposes, it is not practicable to isolate that portion of the results of operations arising as a result of changes in foreign exchange rates from the fluctuations arising from changes in the market price of securities during the period.

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

(e) Derivative Instruments

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 7 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.

(Continued)

Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

(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 position as securities sold and purchased on a when-issued basis. Losses may arise due to changes in the value of the underlying securities, if the counterparty does not perform under the contract, or if the issuer does not issue the securities due to political, economic, or other factors.

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

(Continued)

Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

(3) Investments

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

	June 30 2013	June 30 2012
Short-term:		
Money market investments	$ 929,693	834,552
Fixed income:		
U.S. government obligations (1)	2,766,668	2,342,222
Domestic fixed income (2)	5,371,997	4,625,757
International fixed income (3)	3,081,168	2,990,789
Distressed debt	1,252,193	1,342,625
	12,472,026	11,301,393
Equity:		
Domestic equity securities	9,812,019	8,610,009
International equity securities	12,817,709	11,187,359
	22,629,728	19,797,368
Real estate	5,883,427	5,251,423
Timber	1,368,309	1,197,298
Private equity:		
Venture capital	1,230,407	1,235,005
Special equity	5,130,189	4,856,173
	6,360,596	6,091,178
Hedge funds:		
Hedge funds	4,903,393	4,641,078
Portable alpha	72,273	108,954
	4,975,666	4,750,032
Total investments	$ 54,619,445	49,223,244

(1) Fiscal 2013 rates range from 0.00% to 11.25%, and maturities range from 2013 to 2043. Fiscal 2012 rates range from 0.00% to 11.25%, and maturities range from 2012 to 2042.

(2) Fiscal 2013 rates range from 0.00% to 13.68%, and maturities range from 2013 to 2087. Fiscal 2012 rates range from 0.00% to 13.50%, and maturities range from 2012 to 2067.

(Continued)

Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

(3) Fiscal 2013 rates range from 0.00% to 16.39%, and maturities range from 2013 to 2062. Fiscal 2012 rates range from 0.00% to 12.75%, and maturities range from 2012 to 2062.

(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. 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 (see note 8). 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, 2013 and 2012, all but $250 of PRIT's $140,375 and $165,454 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, 2013 and 2012

(Dollars in thousands)

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

Investment	2013 Fair value	2013 Effective weighted duration rate (Years)	2012 Fair value	2012 Effective weighted duration rate (Years)
Asset-backed securities	$ 202,280	2.08	$ 134,720	2.42
Commercial mortgage-backed securities	324,453	2.32	255,476	2.02
Commercial paper and CDs	36,991	0.25	18,664	0.37
Corporate bonds and other credits	4,316,622	5.99	4,130,745	5.43
U.S. government bonds	1,725,202	4.79	1,368,672	4.32
U.S. government agencies	160,447	4.63	251,419	6.03
U.S. government TIPS	1,040,022	9.43	939,826	8.22
U.S. government mortgage-backed securities	1,496,116	3.96	1,295,184	2.37
Global inflation linked bonds	320,158	6.99	340,713	6.26
Municipal bonds	61,407	10.78	82,855	10.37
Pooled money market fund	929,693	—	834,552	0.08
Other pooled funds	2,788,328	N.A.	2,483,119	N.A.
Total fixed income and short-term investments	$ 13,401,719		$ 12,135,945	

(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)

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(Dollars in thousands)

The PRIM Board does not have a formal investment policy governing credit risk; each fixed income securities investment managers is given a 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 7 for more information on PRIT's derivative instruments.

(Continued)

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(Dollars in thousands)

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 BBB+ at June 30, 2013 (A at June 30, 2012). The following tables present the PRIT Fund's fixed-income securities credit ratings at June 30:

		2013					
		Investment grade			Noninvestment grade		
Investment	Total fair value	AAA	AA+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Not rated
Asset-backed securities	$ 202,280	92,269	104,455	1,399	259	3,898	—
Commercial mortgage-backed securities	324,453	84,233	76,573	93,037	41,336	27,643	1,631
Commercial paper and CDs	36,991	—	27,468	9,523	—	—	—
Corporate bonds and other credits	4,316,622	119,513	1,213,372	1,563,323	715,902	175,214	529,298
U.S. government agencies	160,447	—	160,421	—	—	—	26
U.S. government mortgage-backed securities	1,219,984	—	864,079	—	—	—	355,905
Global inflation linked bonds	320,158	116,925	118,219	85,014	—	—	—
Municipal bonds	61,407	1,015	56,270	892	3,230	—	—
Pooled money market fund	929,693	—	—	—	—	—	929,693
Other pooled funds	2,788,328	—	—	—	—	—	2,788,328
Total credit risk, fixed income, and short-term investments	10,360,363	413,955	2,620,857	1,753,188	760,727	206,755	4,604,881
Fixed income investments explicitly backed by the U.S. government	3,041,356						
Total fixed income and short-term investments	$ 13,401,719						

(Continued)

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(Dollars in thousands)

			2012					
			Investment grade			Noninvestment grade		
Investment		Total 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

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(d) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. 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 present PRIT's foreign currency exposures at June 30 (stated in U.S. dollars):

	2013				
	Cash and short-term investments	Equity	Fixed income	Private equity investments	Total
Australian Dollar	$ 4,773	539,501	15,643	—	559,917
Brazilian Real	2,406	174,957	115,587	—	292,950
British Pound	6,898	2,007,838	289,635	—	2,304,371
Canadian Dollar	3,089	440,788	48,760	—	492,637
Danish Krone	—	229,750	—	—	229,750
Euro	30,999	2,038,374	225,187	—	2,294,560
Hong Kong Dollar	3,931	845,511	—	—	849,442
Indian Rupee	200	152,889	—	—	153,089
Indonesian Rupiah	2,750	121,201	80,957	—	204,908
Japanese Yen	29,643	2,034,083	22,168	—	2,085,894
Malaysian Ringgit	1,097	112,238	102,859	—	216,194
Mexican Peso	600	122,883	117,335	—	240,818
New Taiwan Dollar	2,148	340,212	—	—	342,360
New Turkish Lira	164	91,976	99,189	—	191,329
S. African Comm Rand	2,365	211,855	96,562	—	310,782
South Korean Won	468	479,862	—	—	480,330
Swedish Krona	3,492	345,818	17,281	—	366,591
Swiss Franc	5,061	734,204	—	—	739,265
Thailand Baht	754	122,605	59,737	—	183,096
Other foreign currencies	21,576	466,160	312,612	—	800,348
Private equity denominated in various foreign currencies	—	—	—	1,283,931	1,283,931
Total securities subject to foreign currency risk	122,414	11,612,705	1,603,512	1,283,931	14,622,562
International investments denominated in U.S. dollars	—	1,205,004	1,477,654	—	2,682,658
Total international investments and cash deposits	$ 122,414	12,817,709	3,081,166	1,283,931	17,305,220

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(Dollars in thousands)

	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
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

(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, 2013 and 2012.

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Notes to Financial Statements

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(Dollars in thousands)

(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 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 estate properties, real estate private equity investments, and REIT securities.

(6) Real Estate Debt

Real estate debt includes the LLC's debt obligations at both portfolio level and property level.

The LLC's portfolio–level debt obligations consisted of the following as of June 30:

	Face value 2013	Face value 2012
Senior unsecured term loan	$ 500,000	—
Senior unsecured notes	500,000	—
Total debt	$ 1,000,000	—

Scheduled long-term maturities of existing indebtedness at June 30, 2013 in each of the next five years and in the aggregate thereafter are as follows:

	Amount
Year ending June 30:	
2014	$ —
2015	—
2016	—
2017	—
2018	500,000
2019–2023	350,000
2024–2028	150,000
	$ 1,000,000

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(a) Senior Unsecured Term Loan

On February 12, 2013, the LLC issued a Senior Unsecured Term Loan in the aggregate principal amount of $500,000, maturing February 12, 2018. Interest is payable monthly at a variable rate of LIBOR plus an applicable rate based upon the range into which the Total Leverage Ratio falls as outlined in the Term Loan agreement. As of June 30, 2013, the applicable rate is 1.15%.

(b) Senior Unsecured Notes

On February 14, 2013, the LLC issued 3.25% Series A Senior Notes in the aggregate principal amount of $175,000 maturing February 14, 2020; 3.85% Series B Senior Notes in the aggregate principal amount of $175,000 maturing February 14, 2023; 4.00% Series C Senior Notes in the aggregate principal amount of $150,000 maturing February 14, 2025. Interest on the notes is payable semi-annually.

The Senior Unsecured Term Loan and Senior Unsecured Notes contain certain financial covenants as outlined in the agreements. The LLC was in compliance with such covenants at June 30, 2013.

The LLC had 22 property-level mortgage loans payable as of June 30, 2013 and 26 property-level mortgage loans payable as of June 30, 2012. The mortgages have a weighted average interest rate of 3.74% and a weighted average maturity of 6.1 years. The following table presents the face value of mortgage loans payable at June 30:

		2013	2012
Mortage loans payable	$	458,221	524,196
Total	$	458,221	524,196

(7) Derivative Investments

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

(a) Foreign Currency Exchange Contracts

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

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(Dollars in thousands)

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 (in U.S. dollars) were as follows:

	2013				
	Fair value	Aggregate face value	Delivery date(s)	Unrealized gains	Unrealized losses
Foreign currency exchange contracts purchased:					
Australian Dollar	$ 61,094	66,803	7/1/13 – 8/20/13	$ 5,709	—
Brazilian Real	43,314	45,054	6/11/13 – 9/4/13	1,740	—
British Pound	331,559	334,726	7/1/13-9/12/13	3,167	—
Canadian Dollar	50,778	52,546	7/17/13 – 9/23/13	1,768	—
Chilean Peso	27,682	29,253	7/3/13 – 9/26/13	1,571	—
Chinese Yuan Renminbi	33,348	33,241	8/5/13-9/8/15	—	(107)
Euro	346,273	347,058	7/1/13 – 8/1/14	785	—
Israeli Shekel	25,632	25,891	7/2/13-9/8/13	259	—
Japanese Yen	56,535	56,932	7/1/13 – 8/20/13	397	—
Malaysian Ringgit	26,618	27,572	7/12/13-10/11/13	954	—
Mexican New Peso	52,337	53,947	7/5/13-9/18/13	1,610	—
Russian Rubel	46,644	48,386	7/5/13-10/7/13	1,742	—
Singapore Dollar	36,515	37,061	7/2/13-9/18/13	546	—
Other foreign currencies	193,346	197,216	7/1/13-11/8/13	4,021	(149)
Foreign currency exchange contracts sold:					
Brazilian Real	59,172	62,757	7/1/13-8/2/13	—	(3,585)
British Pound	40,530	41,090	7/1/13-9/12/13	—	(560)
Euro	96,644	98,128	7/1/13-9/18/13	—	(1,484)
Hungarian Forint	26,433	26,926	8/21/13-9/18/13	—	(493)
Japanese Yen	30,667	31,589	7/8/13-7/19/13	—	(922)
Mexican New Peso	76,568	78,411	7/2/13-9/18/13	—	(1,843)
Polish Zloty	37,105	38,237	9/9/13-9/18/13	—	(1,132)
Russian Rubel	35,533	36,243	7/15/13-10/7/13	—	(710)
South African Comm Rand	30,397	30,315	7/1/13-10/1/13	82	—
Other foreign currencies	259,164	264,995	7/1/13-10/29/13	—	(5,831)
Total				$ 24,351	(16,816)

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(Dollars in thousands)

	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)

For the years ended June 30, 2013 and 2012, the change in unrealized appreciation (depreciation) on foreign currency exchange contracts was $(6,712) and $12,113, respectively.

(b) Futures Contracts

PRIT enters into financial and commodity futures on various exchanges. A futures contract is an agreement between two parties to buy or sell units of a particular index, security, or commodity at a set price on a future date. Upon entering into financial and commodity futures contracts, PRIT is required to pledge to the broker an amount of cash or securities equal to a certain percentage of the contract amount (initial margin deposit). Pursuant to the contract, PRIT agrees to receive from,

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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:

	2013				
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	2,345	12/13 – 12/15	$ 581,523	579,965	(1,558)
Long fixed income:					
US 5-Yr Treasury Notes	103	9/13	12,638	12,468	(170)
US 10-Yr Treasury Notes	599	9/13	77,564	75,811	(1,753)
Other long fixed income	1,828	8/13 – 6/15	15,496	16,785	1,289
Short fixed income:					
US 2-Yr Treasury Notes	(103)	9/13	(22,704)	(22,660)	44
Euro-BUND	(23)	9/13	(4,305)	(4,231)	74
US Treasury Bond	(213)	9/13	(30,024)	(28,935)	1,089
Other short fixed income	(275)	9/13	(48,087)	(46,883)	1,204
Long equity and commodities:					
S&P 500 E-mini Index	6,239	9/13	503,726	498,902	(4,824)
S&P 500 Index	1,549	9/13	631,356	619,329	(12,027)
Other long equity and commodities	3,057	7/13 – 9/13	272,959	268,416	(4,543)
Total futures exposure			$ 1,990,142	1,968,967	(21,175)

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	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 500 E-mini 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

For the years ended June 30, 2013 and 2012, the change in unrealized appreciation (depreciation) on futures contracts was $(60,137) and $(13,463), 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 position. 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.

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(Dollars in thousands)

Open swap contracts at June 30 were as follows:

2013

Description	PRIT pays/receives interest rate	PRIT pays/receives index/protection	Maturity date		Gross notional amount	Net unrealized appreciation (depreciation)
Interest rate swaps	0.99% – 10.92%	See note*	3/15 – 6/43	$	912,824	20,924
Credit default swaps	0.18% – 5.00%	Credit default protection	9/13 – 7/45		245,711	(912)
Total swaps				$	1,158,535	20,012

* PRIT pays/receives counterparty based on 3-Month LIBOR, 3-Month Canadian, 3-Month JIBA, Mexican TIIE rate, Fed Funds Rate, 6-Month Yen LIBOR, and BZDIOVRA Daily.

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.

For the years ended June 30, 2013 and 2012, the change in unrealized appreciation (depreciation) on swap contracts was $17,032 and $25,020, respectively.

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(Dollars in thousands)

PRIT's exposures in the event of nonperformance by counterparties at June 30 were as follows:

		2013			
		Interest rate swaps		Credit default swaps	
Counterparty	Credit rating	Gross notional	Fair value	Gross notional	Fair value
Goldman Sachs International	A	$ —	—	17,300	(247)
Chicago Mercantile Exchange Inc.	AA-	362,939	12,003	84,761	(714)
Deutsche Bank Securities Inc.	A	26,344	959	23,260	128
HSBC Securities Inc	A+	2,457	(74)	32,050	(346)
Barclays Global Investors	A-	14,468	(38)	10,800	122
Morgan Stanley Capital	A-	4,936	(38)	15,700	77
U.S. Bank National Association	AA-	500,000	7,856	—	—
UBS Financial Services, Inc.	A			27,199	(133)
All others	Various	1,680	256	34,641	201
		$ 912,824	20,924	245,711	(912)

		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, 2013 and 2012

(Dollars in thousands)

(8) Management Fees

In accordance with the PRIM Board's Operating Trust Agreement, expenses incurred by the PRIM Board in managing PRIT are charged to PRIT in the form of management fees. These expenses consist of investment management fees, investment advisory fees, custodian fees and professional fees, as well as 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 $57,536 and $53,808 for the years ended June 30, 2013 and 2012, respectively.

All domestic, international, and emerging market equity 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 a quarterly asset-based fee. Certain managers are eligible for a performance fee which is calculated and paid similar to the equity managers performance fees.

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.

(Continued)

Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

All hedge fund-of-funds investment managers are paid base fees, which are calculated and paid quarterly. Certain managers are entitled to performance fees.

Fees for direct hedge fund investments generally range from 1% to 2% of net assets under management, plus performance fees of 17.5% – 25% of excess return, as defined in the partnership agreements.

The majority of investment management fees for private equity and distressed debt 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 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, 2013 and 2012, these indirect management fees charged to PRIT’s real estate, timber, hedge funds, distressed debt, commingled, and private equity investments amounted to approximately $213,142 and $174,671, respectively, and are not included in management fees in the accompanying statements of changes in pooled net position.

(b) Investment Advisory Fees

NEPC, LLC, Callan Associates, Cliffwater LLC, Hamilton Lane, and The Townsend Group serve as the PRIM Board’s principal investment advisors. NEPC, LLC serves as the asset allocation advisor, Callan Associates serves as the public markets advisor, Cliffwater LLC provides hedge fund advisory services, Hamilton Lane serves as the private equity advisor, and The Townsend Group 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, 2013 and 2012, as compensation for their services, investment advisors earned fees aggregating approximately $4,529 and $3,624, respectively, and are included in management fees in the accompanying statements of changes in pooled net position.

(Continued)

Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

(c) Custodian Fees

BNY Mellon is the investment custodian and record keeper for PRIT. BNY Mellon records all daily transactions, including investment purchases and sales, investment income, expenses, and all participant activity for PRIT. BNY Mellon also provides portfolio performance analysis each month for PRIT. For each of the years ended June 30, 2013 and 2012, custodian fees amounted to $2,700, and are included in management fees in the accompanying statements of changes in pooled net position.

(d) Other Administrative Fees

For the years ended June 30, 2013 and 2012, other administrative expenses of the PRIM Board, including employee compensation, professional fees and occupancy costs, charged to PRIT totaled approximately $8,606 and $8,060, respectively, and are included in management fees in the accompanying statements of changes in pooled net position.

(9) Commitments

As of June 30, 2013, PRIT had outstanding commitments to invest approximately $4.9 billion in private equity, venture capital and distressed debt investments.

Schedules of Pooled Net Position – Capital Fund and Cash Fund

June 30, 2013

(Dollars in thousands)

	Capital Fund	Cash Fund	Total
Assets:			
Investments, at fair value:			
Short-term	$ 851,660	78,033	929,693
Fixed income	12,472,026	—	12,472,026
Equity	22,629,728	—	22,629,728
Real estate	5,883,427	—	5,883,427
Timber	1,368,309	—	1,368,309
Private equity	6,360,596	—	6,360,596
Hedge funds	4,975,666	—	4,975,666
Total investments	54,541,412	78,033	54,619,445
Cash	140,375	—	140,375
Interest and dividends receivable	137,158	20	137,178
Receivable for investments sold and other assets	468,780	—	468,780
Securities sold on a when-issued basis	524,981	—	524,981
Unrealized gains on foreign currency exchange contracts	24,351	—	24,351
Total assets	55,837,057	78,053	55,915,110
Liabilities:			
Payable for investments purchased and other liabilities	289,983	—	289,983
Real estate debt	1,458,221	—	1,458,221
Securities purchased on a when-issued basis	896,563	—	896,563
Unrealized losses on foreign currency exchange contracts	16,816	—	16,816
Management fees payable to PRIM	23,902	—	23,902
Total liabilities	2,685,485	—	2,685,485
Net position held in trust for pool participants	$ 53,151,572	78,053	53,229,625

See accompanying independent auditors' report.

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

Year ended June 30, 2013

(Dollars in thousands)

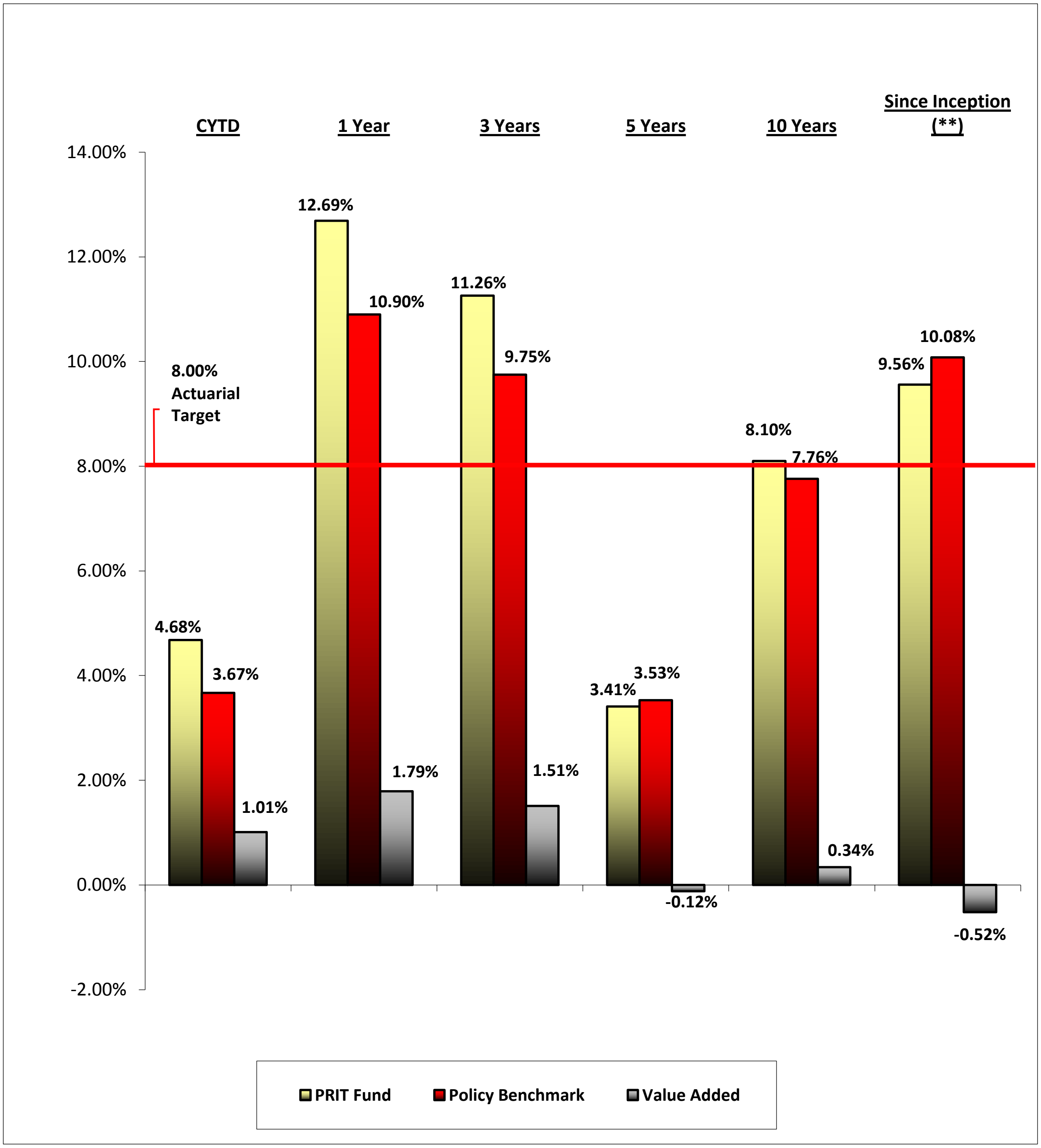
		Capital Fund	Cash Fund	Total
Additions:				
Contributions:				
State employees	$	—	529,031	529,031
State teachers		—	669,815	669,815
Other participants		—	613,345	613,345
Total contributions		—	1,812,191	1,812,191
Net investment income:				
From investment activities:				
Net realized income on investments and foreign currency transactions		1,728,668	—	1,728,668
Net change in unrealized appreciation (depreciation) on investments and foreign currency translations		2,882,344	—	2,882,344
Interest income, net		356,967	310	357,277
Dividend income, net		641,126	—	641,126
Real estate income, net		221,963	—	221,963
Timber income (loss), net		(1,843)	—	(1,843)
Private equity income, net		166,768	—	166,768
		5,995,993	310	5,996,303
Management fees		(73,371)	—	(73,371)
Total investment income		5,922,622	310	5,922,932
Total additions		5,922,622	1,812,501	7,735,123
Deductions:				
Redemptions:				
State employees		—	1,160,706	1,160,706
State teachers		—	1,529,320	1,529,320
Other participants		—	683,279	683,279
Total deductions		—	3,373,305	3,373,305
Interfund transfers in (out)		(1,581,783)	1,581,783	—
Net decrease in pooled net position		4,340,839	20,979	4,361,818
Net position held in trust for pool participants:				
Balance, beginning of year		48,810,733	57,074	48,867,807
Balance, end of year	$	53,151,572	78,053	53,229,625

See accompanying independent auditors' report.

Investment Section

Total PRIT Fund Performance Summary (*)

For the periods ended June 30, 2013



(*) Gross of Fees. Total PRIT Fund includes Core Fund and Cash Fund. Returns are annualized and 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 8.00%). A summary of other investment objectives is provided in the Investment Policy Statement at the end of this section.

As of June 30, 2013, PRIM employed twenty-six public markets investment managers, one hundred and four private equity markets managers, fourteen real estate, natural resources, and timber managers, one active hedge fund-of-funds manager, twenty-one direct hedge fund managers, and five external investment consultants. The PRIT Fund had approximately $53.2 billion in assets under management at June 30, 2013. 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	6/30/2013 Allocation %	2013 Long-Term Policy Target %
Global Equity (*)	45.3	43.0
Core Fixed Income	12.6	13.0
Value-Added Fixed Income	8.9	10.0
Real Estate	8.2	10.0
Private Equity	11.7	10.0
Timber / Natural Resources	4.0	4.0
Hedge Funds	9.2	10.0
Portable Alpha wind down	0.1	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 2013 Global Markets Overview

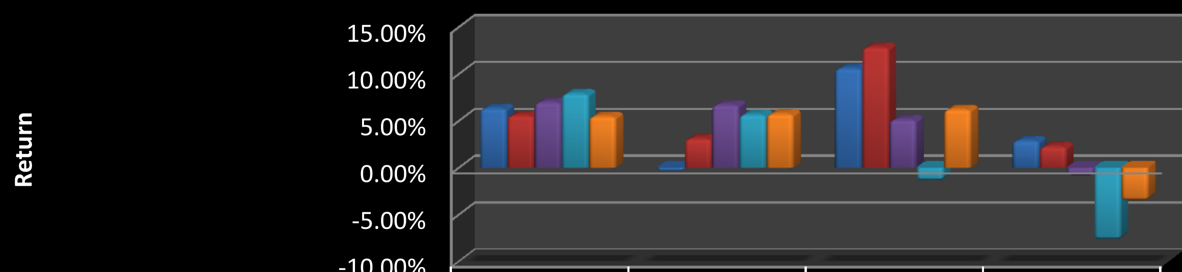
As the curtain fell on Fiscal Year 2012, anxiety was in the air for equity investors. Bonds continued to rally, but global equities plunged during the last fiscal quarter, especially the international developed and emerging markets. Following a rebound in June 2012, global equities rose mightily in the first quarter of Fiscal Year 2013 (3Q12), largely due to economic stimulus measures implemented by the world's central banks: the U.S. Federal Reserve (Fed), the European Central bank (ECB) and China's central bank. The easing of monetary policies, along with better than expected economic growth indicators in the U.S., led investors to take on more risk. Although economic data was mixed in both Europe and China, global equity markets soared, most notably in the commodity-driven emerging markets. Fixed income markets also saw healthy gains, as the 30-year bull market in bonds continued. High yield bond investors were rewarded for taking on more risk, and publicly-traded global Real Estate Investment Trusts (REITs) generated solid positive returns.

The second quarter of Fiscal Year 2013 (4Q12), was a tumultuous one: Hurricane Sandy, the U.S. Presidential election, the Eurozone recession and ongoing sovereign debt crisis, the fiscal cliff. This convergence of macro-economic, political, and meteorological events influenced the markets. The Fed upped the ante in its quantitative easing efforts by committing to purchase $85 billion a month in U.S. Treasuries and mortgage-backed securities to lower borrowing costs and promote spending and investment. The ECB pledged to purchase the sovereign debt of countries in the direst financial straits. Large cap US stocks ended the quarter off slightly, although smaller caps fared better. International developed and emerging markets generated strong quarterly returns, besting their U.S. counterparts, even as the Eurozone's Gross Domestic Product (GDP) contracted. China's economic slowdown show signs of stabilizing. And the reelection of President Barack Obama wasn't the only significant political event. In December, Japanese voters elected a new Prime Minister, Shinzo Abe, who pledged to devalue the Yen in order to counter what he called currency manipulation by the Fed and the ECB. After being battered during the US recession, the housing market rebounded very convincingly in the second fiscal quarter.

The third fiscal quarter (1Q13) was practically a mirror reflection of the third fiscal quarter of 2012, with U.S. markets generating what seemed like an entire year's worth of gains in just three months. With the fiscal cliff crisis resolved – at least for the time being – consumers opened their wallets and businesses helped to spur economic activity. The resurgent housing market continued to make strides. Japanese equity markets also locked in impressive returns, owed to what pundits dubbed "Abeconomics", Prime Minister Abe's policy to devalue the Yen in order to stimulate Japan's flagging economy. As the quarter ended, however, there was concern about a possible US economic slowdown and renewed uncertainty in Europe, which was brought to the fore by the unresolved Italian elections and the Cypriot banking crisis. The global REITs market continued its winning streak.

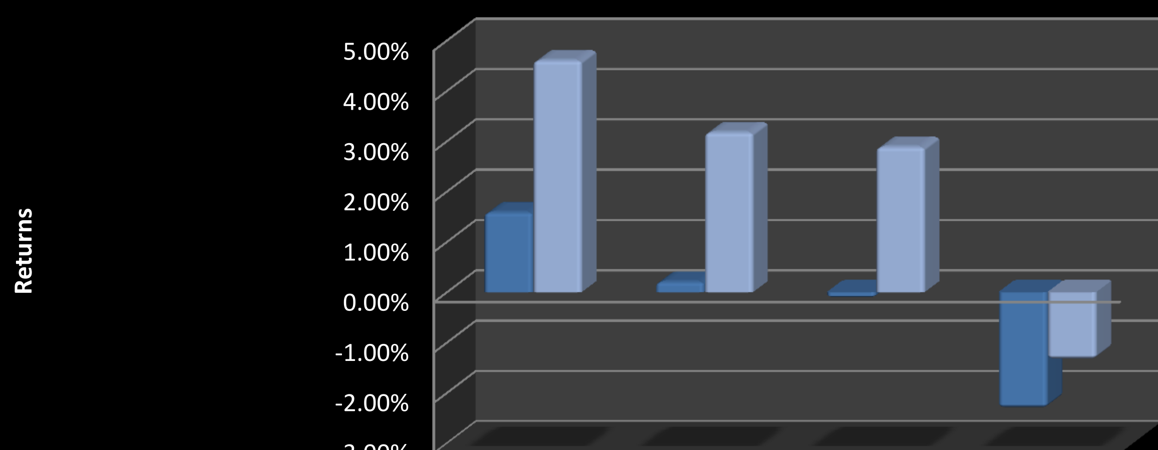
The fourth and final fiscal quarter (2Q13) ended on a subdued note, as global equity markets corrected on what appeared to be good news about the U.S. economy from the Fed, which led investors to worry if the central bank was thinking about tapering its bond purchasing policy. The quarter also signaled what appeared to be the beginning of end of the 30-year bull market in bonds, as longer-term interest rates rose. Rising rates also adversely affected global REIT performance. Emerging markets stocks plunged during the quarter, as economic growth sagged in China. This had a contagion effect on other emerging economies that are dependent on exports to China and developed countries. Still, when taken all together, Fiscal Year 2013 was an outstanding 12-month ride for financial markets.

FY 2013 Equity Indices By Quarter



	1st Qtr (9/30/12)	2nd Qtr (12/31/12)	3rd Qtr (3/31/13)	4th Qtr (6/30/13)
S&P 500 (Large Cap)	6.35%	-0.38%	10.61%	2.91%
Russell 2500 (Small/SMID Cap)	5.57%	3.10%	12.85%	2.27%
MSCI EAFE Standard Index Net Divs	6.99%	6.73%	5.14%	-0.98%
MSCI EM Standard Index Net Divs (EMF)	7.91%	5.68%	-1.54%	-7.82%
FTSE EPRA NAREIT Developed Net Total Return	5.49%	5.75%	6.24%	-3.66%

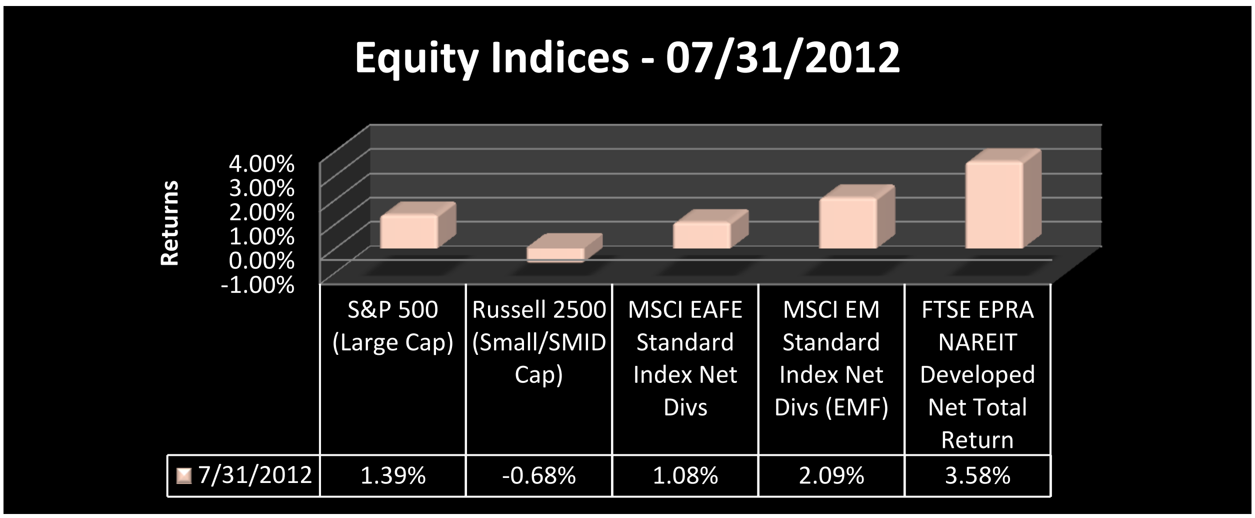
FY 2013 Fixed Income Indices by Quarter

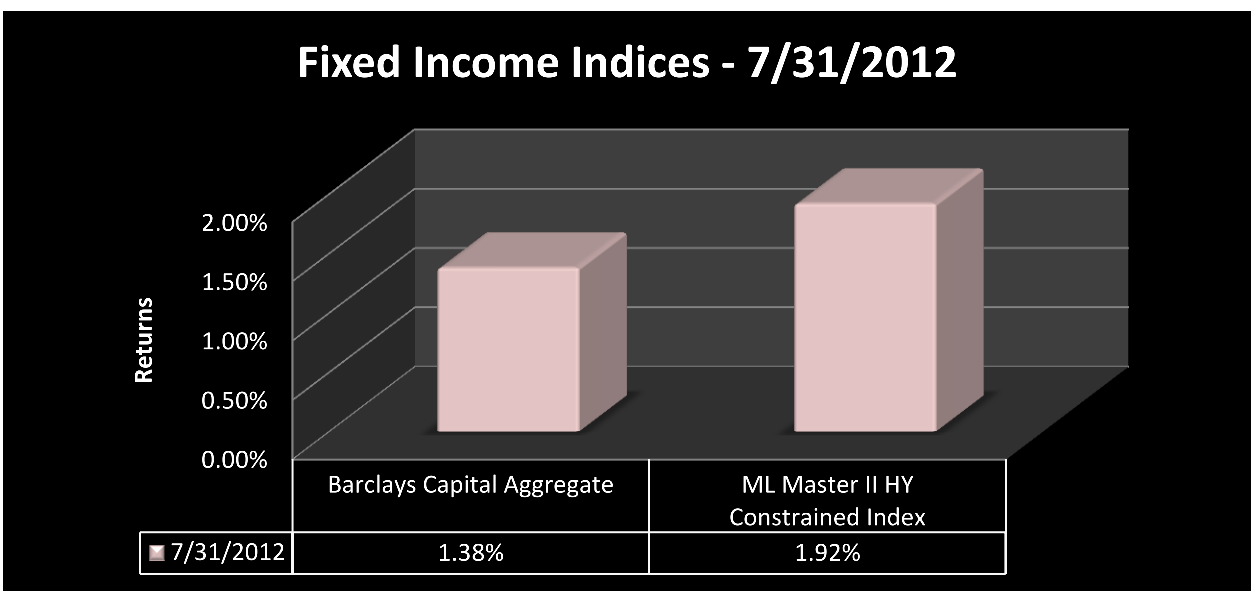


	1st Qtr (9/30/12)	2nd Qtr (12/31/12)	3rd Qtr (3/31/13)	4th Qtr (6/30/13)
Barclays Capital Aggregate	1.59%	0.21%	-0.12%	-2.32%
ML Master II HY Constrained Index	4.61%	3.18%	2.89%	-1.35%

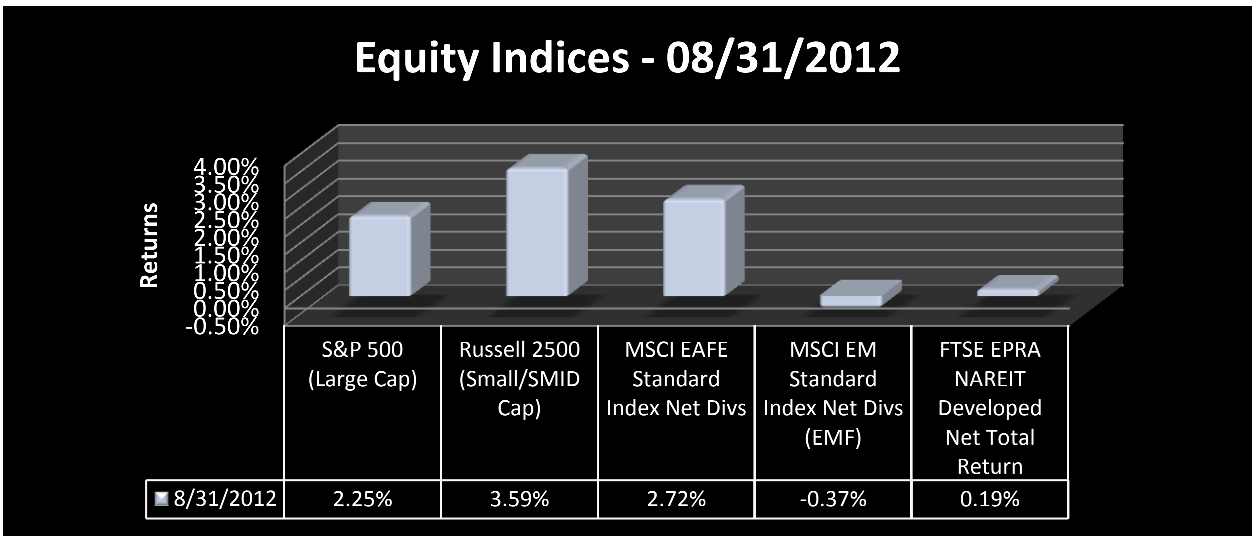
Month-by-month Account of the Major Economic and Market Highlights of Fiscal Year 2013

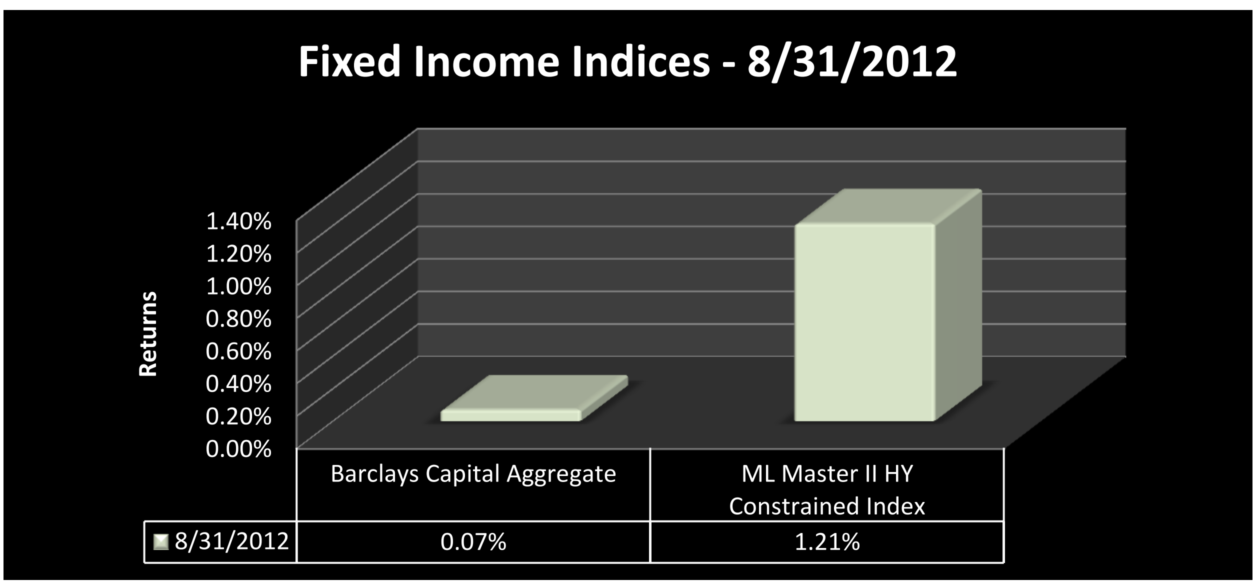
July 2012 - Following a strong rebound in June, which was preceded by a dismal May, the global equity markets added to gains, as U.S. and European central banks telegraphed that they may take further measures to support economic expansion. Large cap U.S. equities reacted favorably to better than expected second quarter corporate earnings reports, but small cap stocks, which are more closely correlated to economic activity, fell in July as the economy slowed (the second quarter gross domestic product did not grow as much as hoped). Inflation remained in check as energy prices fell, but overall consumer prices inched up. Foreign developed markets rose on optimism that the ECB was committed to preserving the euro no matter what it took. Asian markets gained on speculation that central banks would ease monetary policy; but Japanese markets fell over concerns that a sluggish Chinese economy would dampen Japanese exports. The “risk on/risk off” button was turned on in July, as emerging equity markets advanced, while demand for U.S. Treasuries tapered off. Corporate and high yield bonds saw gains. Globally, publicly-traded REITs had another strong month.



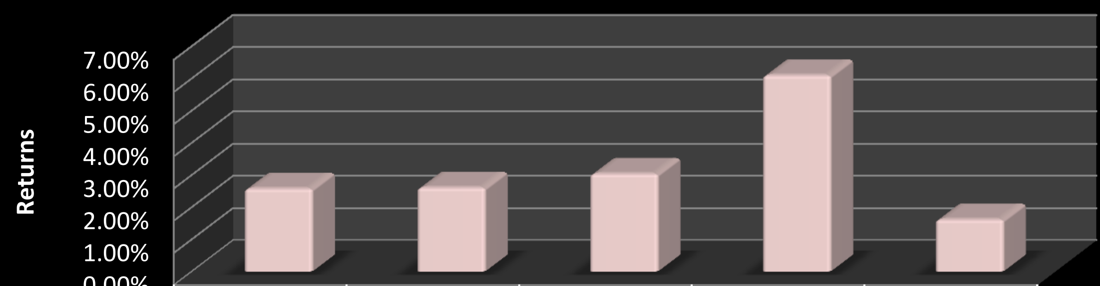


August 2012 - When Federal Reserve Chairman Ben Bernanke hinted at another round of Quantitative Easing (QE3) to boost the economy at a Fed conference in Jackson Hole, Wyoming, US, equity markets reacted positively. The Fed announced it will likely make large scale asset purchases, such as Treasuries or mortgage-backed securities, in order to drive down long-term interest rates and increase stock prices. With unemployment currently stuck at 8.1%, Chairman Bernanke stated that the jobless rate would not drop without faster economic growth. President of the ECB, Mario Draghi, also indicated that the ECB may be ready to unveil a bond buying program of its own. U.S. equity markets rose in August, with small cap stocks leading the pack. Developed foreign equities also gained, despite the continued economic slowdown in both the Euro and Asia/Pacific regions. Emerging markets equities were flat in August, as economic growth slowed; however, small caps were up over 2%. Investment grade bonds rose slightly in August in reaction to the Fed's statements, after yields spiked earlier in the month. Risk was rewarded in August, as high yield bonds saw gains. Globally, publicly traded Real Estate Investment Trusts (REITs) were up marginally for the month.

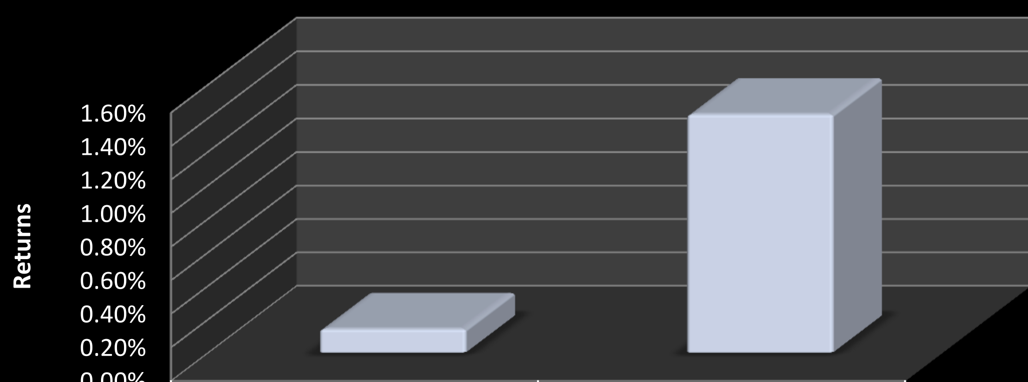




September 2012 – U.S. and developed international equities rose over 2.5% in September, while emerging markets equities surged 6%. Nearly every asset class saw gains, except for long Treasuries, as the long end of the yield curve steepened. For the trailing twelve-months, U.S. equities rose over 30%, as negative returns during the August/September 2011 timeframe fell off the one year number when equities lost 5% and 7%, respectively. During the third calendar quarter, global equities were up close to 7%, while the broad bond market was at 1.6%.

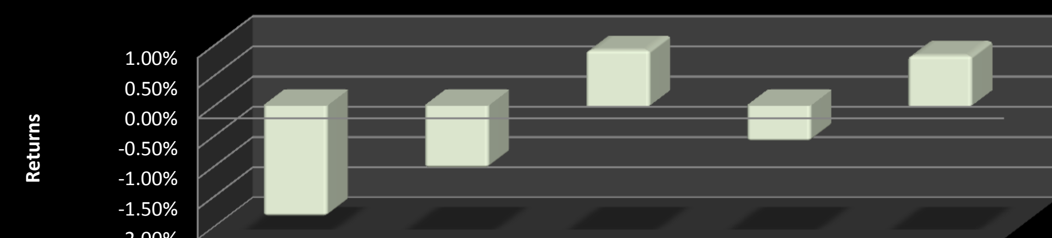


	S&P 500 (Large Cap)	Russell 2500 (Small/SMID Cap)	MSCI EAFE Standard Index Net Divs	MSCI EM Standard Index Net Divs (EMF)	FTSE EPRA NAREIT Developed Net Total Return
9/30/2012	2.58%	2.61%	3.04%	6.10%	1.62%

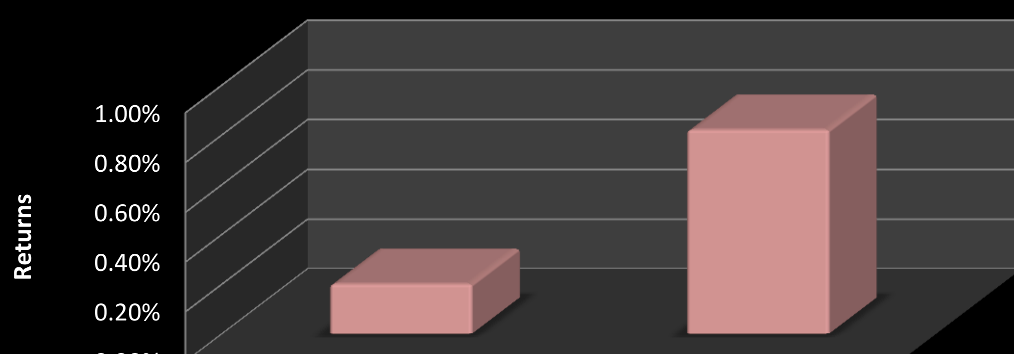


	Barclays Capital Aggregate	ML Master II HY Constrained Index
9/30/2012	0.14%	1.42%

October 2012 - Disappointing corporate earnings, political uncertainty, and fiscal cliff concerns were all factors as U.S. equity markets stalled in October. Super storm Sandy also interrupted trading on Wall Street, as the New York Stock Exchange and the NASDAQ were both closed on October 29th and 30th. Large capitalization stocks outperformed small, and value beat growth. U.S. equities were up 15% for the trailing twelve-month period ending October 31, 2012, versus being up 30% for the one-year through September 30th. That's because October 2011, when U.S. equities soared 11%, rolled off the one-year calculation. Developed international equity markets rose on better than expected economic reports. There also appeared to be progress toward resolving the euro sovereign debt crisis. Emerging markets equities were off slightly in response to global economic uncertainty. Investment grade corporate bonds, Treasury bonds, and mortgage-backed securities saw modest gains. High yield bonds continued to reward fixed income investors willing to take on more risk.

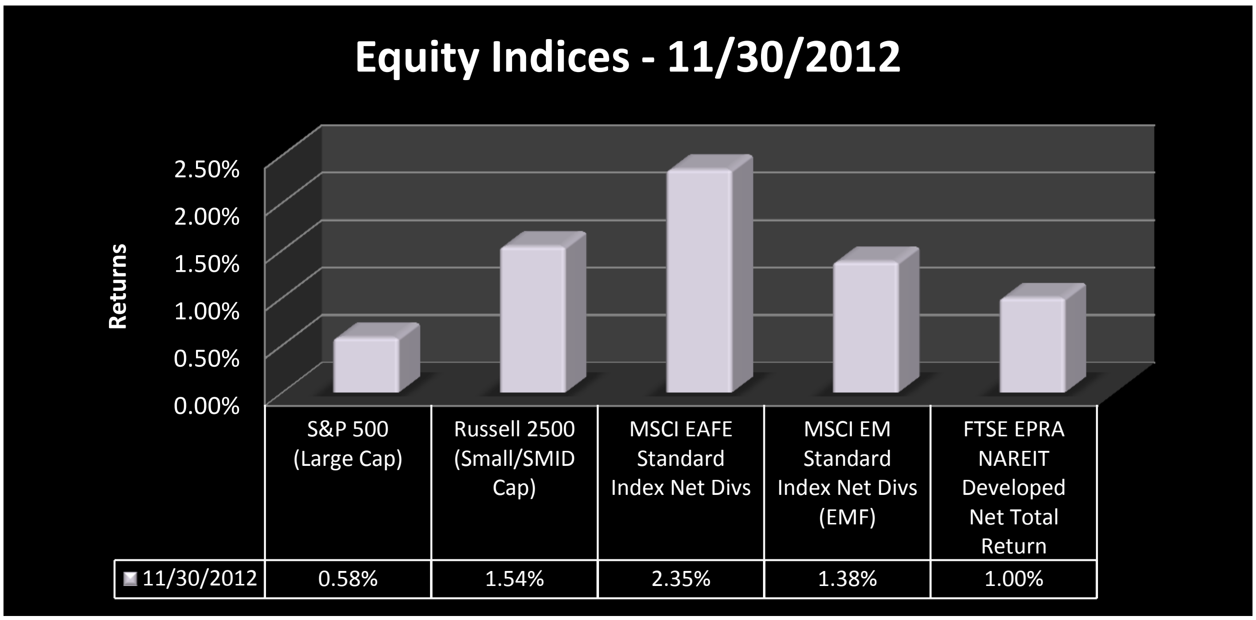


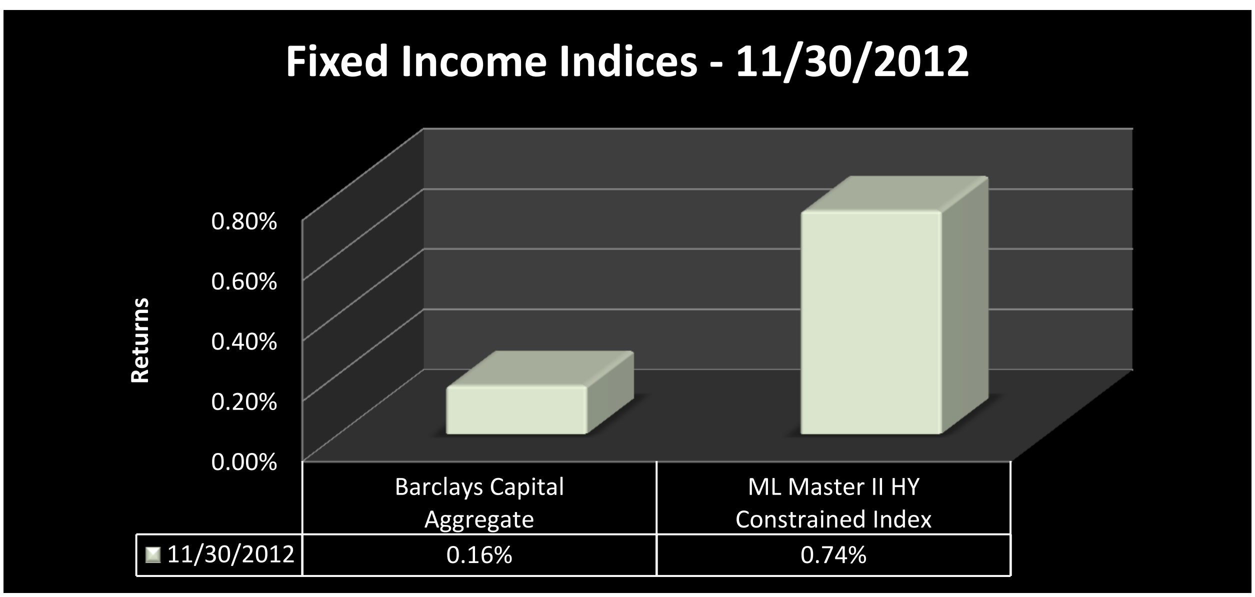
	S&P 500 (Large Cap)	Russell 2500 (Small/SMID Cap)	MSCI EAFE Standard Index Net Divs	MSCI EM Standard Index Net Divs (EMF)	FTSE EPRA NAREIT Developed Net Total Return
10/31/2012	-1.85%	-1.05%	0.92%	-0.61%	0.83%



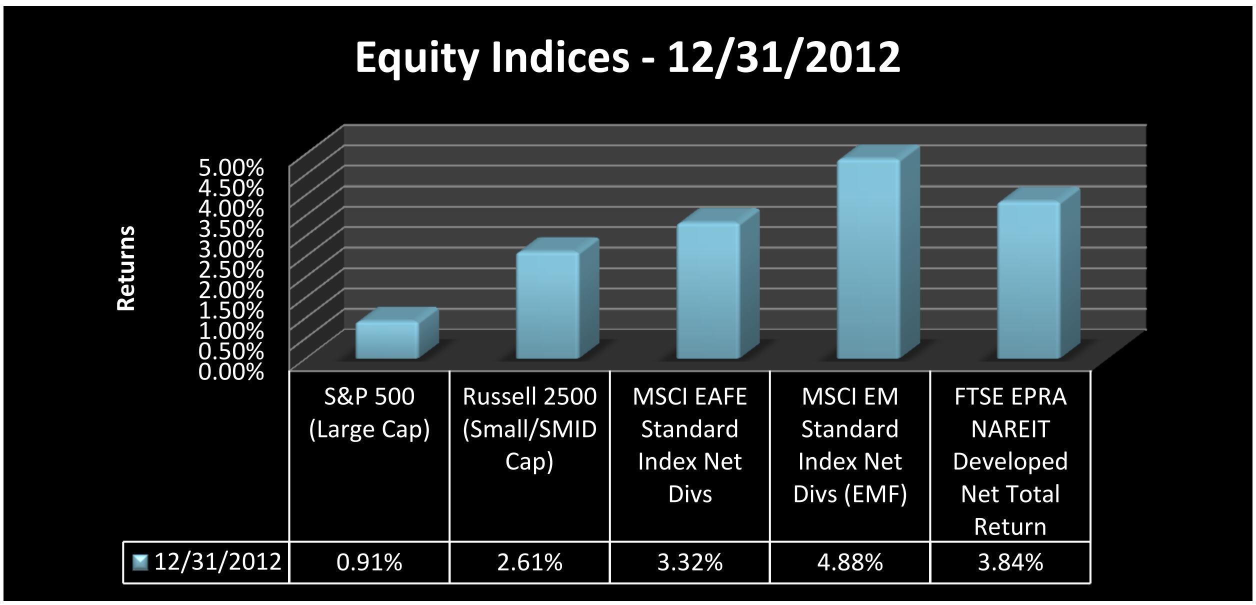
	Barclays Capital Aggregate	ML Master II HY Constrained Index
10/31/2012	0.20%	0.82%

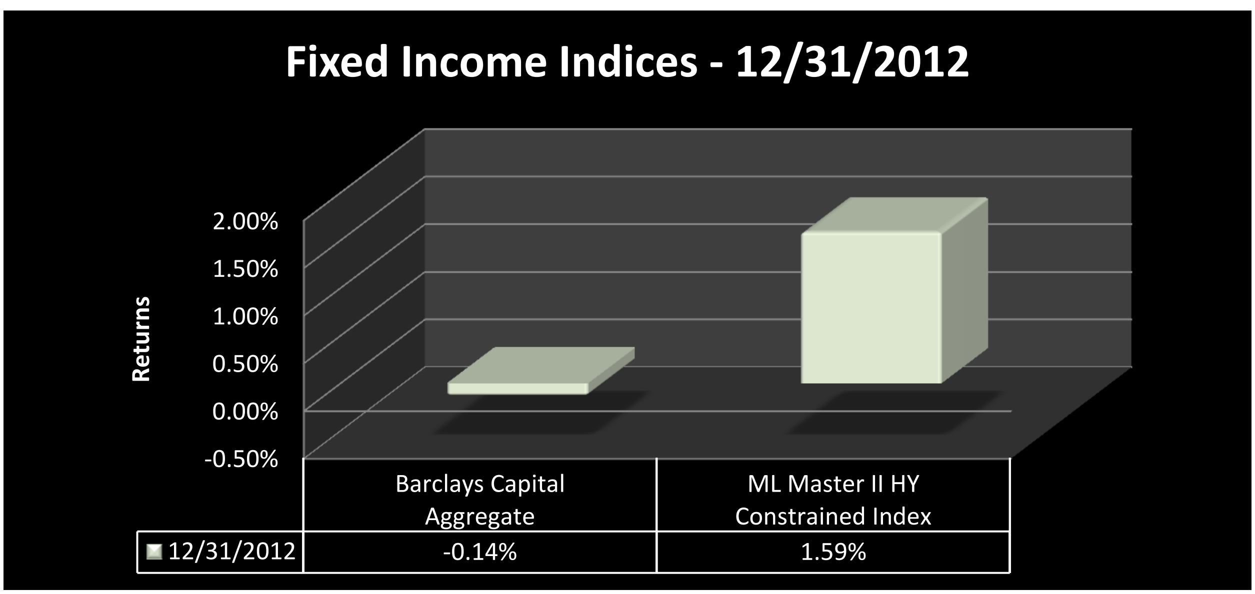
November 2012 - After taking a dip following the November 6th National Elections, U.S. equity markets turned upward on positive economic news and hopes that the President and Congress would prevent the country from falling off the "fiscal cliff". International equities, in both the developed and emerging markets, handily outperformed their U.S. counterparts in November, but those markets also fell post-Election Day, as the European Commission forecast weak European Union GDP growth for 2012 and 2013. International markets also recovered, thereafter, on some encouraging signs that the European political picture was improving. Broad investment grade fixed income markets generated slight positive returns in November, and there continued to be high demand for U.S. Treasuries. High yield bonds were also among the better performing areas of the bond market. Publicly-traded Global REITs were up modestly in November.



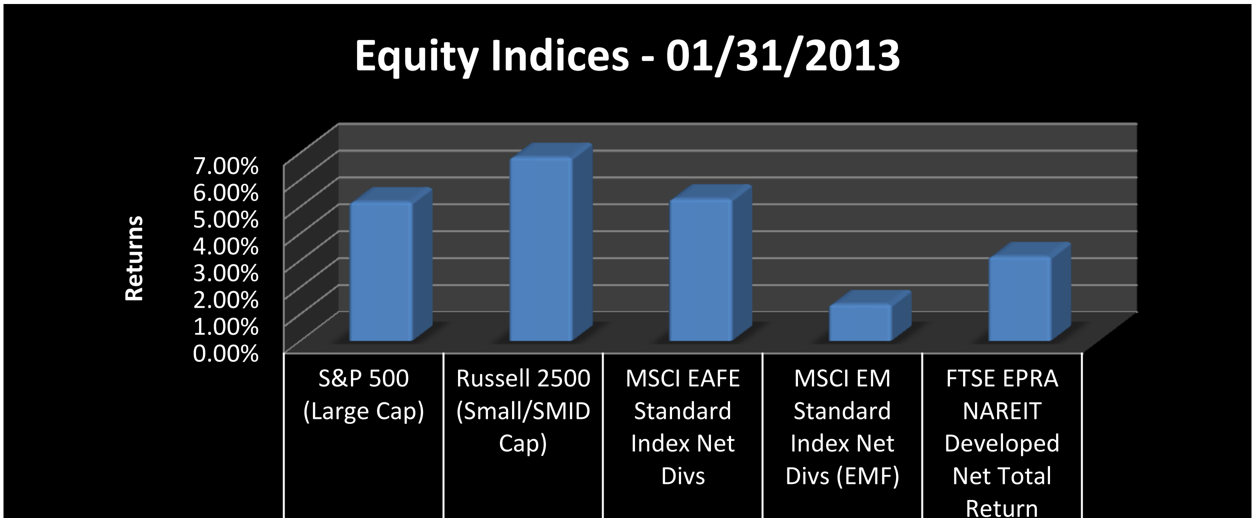


December 2012 - With the November elections in the rear view mirror, attention turned to the imminent "fiscal cliff" – a combination of tax hikes and budget cuts that were scheduled to go into effect on January 1, 2013. In reaction, the markets were weak in the early part of December, but when the Congress passed the American Taxpayer Relief Act of 2012 in the waning hours of 2012, the crisis was temporarily averted and the nation, and the markets, breathed a collective sigh of relief. Global equity markets saw gains in late November and in December and posted solid double digit positive returns for the year. Emerging markets equities were the strongest performers, followed by developed international equities. In the U.S., small-mid (SMID) cap stocks outperformed large caps in December and for the year. Fixed income markets rewarded risk takers as high yield bonds outperformed investment grade issues by a wide margin in 2012. Globally, publicly-traded REITs posted returns of nearly 30% for the year.

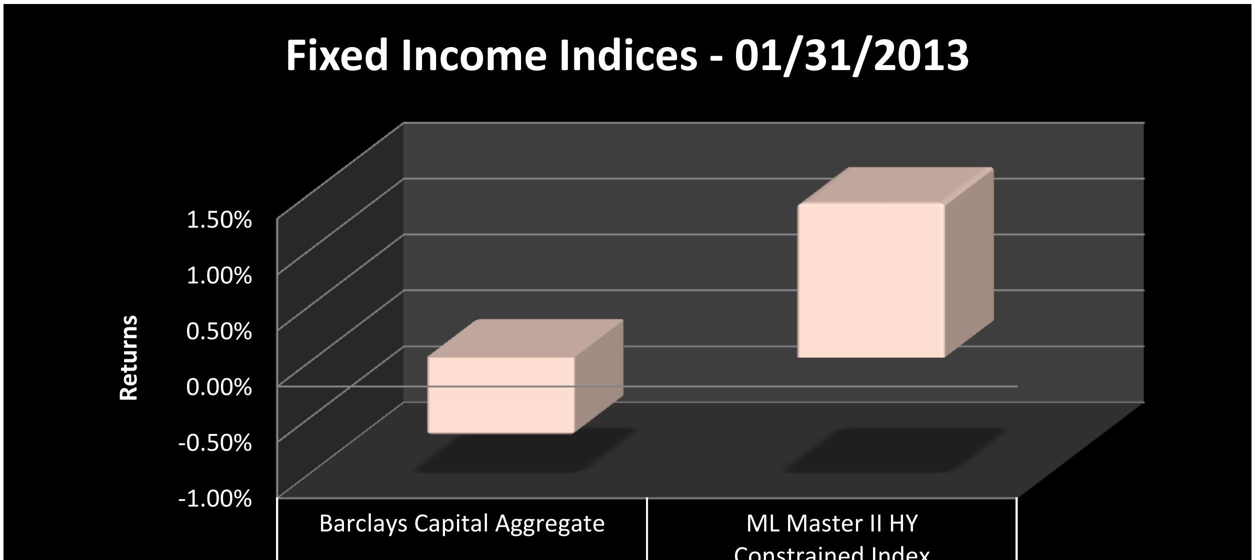




January 2013 - Global equity markets soared 4% to 7% in January, except for emerging markets, which gained 1% to 3%. Investors were rewarded for higher risk, as small capitalization stocks outperformed their large capitalization counterparts. The month got off to a strong start immediately following the "fiscal cliff" deal; equities advanced further during the month when Congress delayed action on the debt ceiling extension until March. High yield bond markets, with yields in the vicinity of almost 7%, rose more than 1% in January. In contrast, investment grade bonds ended the month slightly negative; only municipals bonds saw modest gains due to their tax-exempt nature, especially in light of the tax rate increase Congress approved at the end of December 2012. Globally, publicly-traded REITs were up 3% in January.

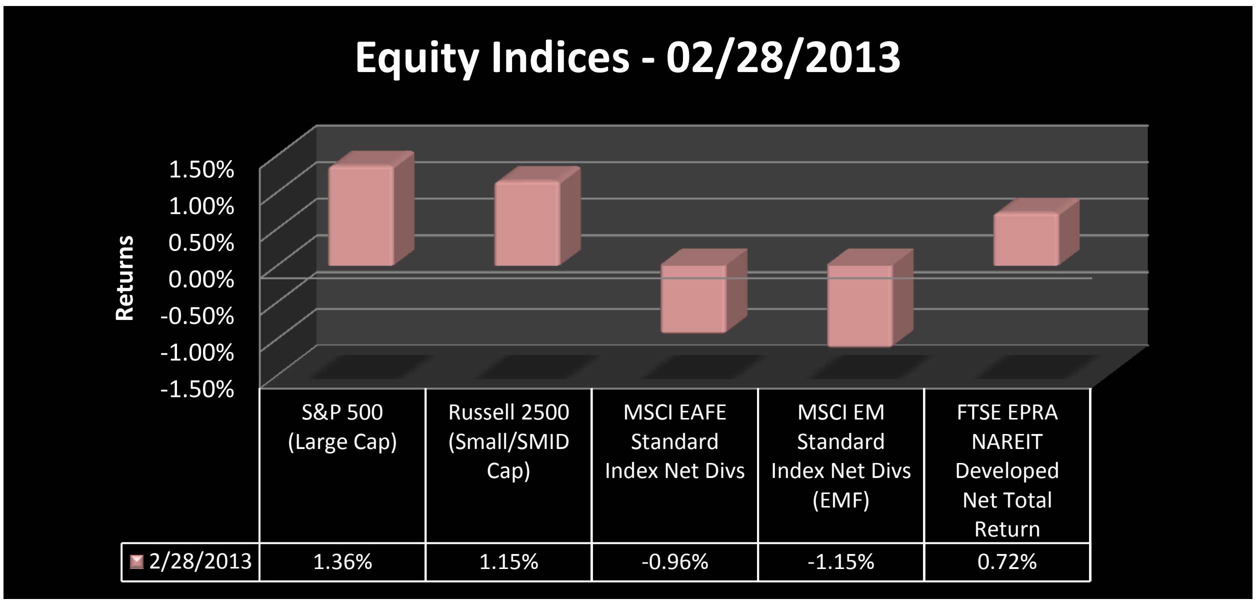


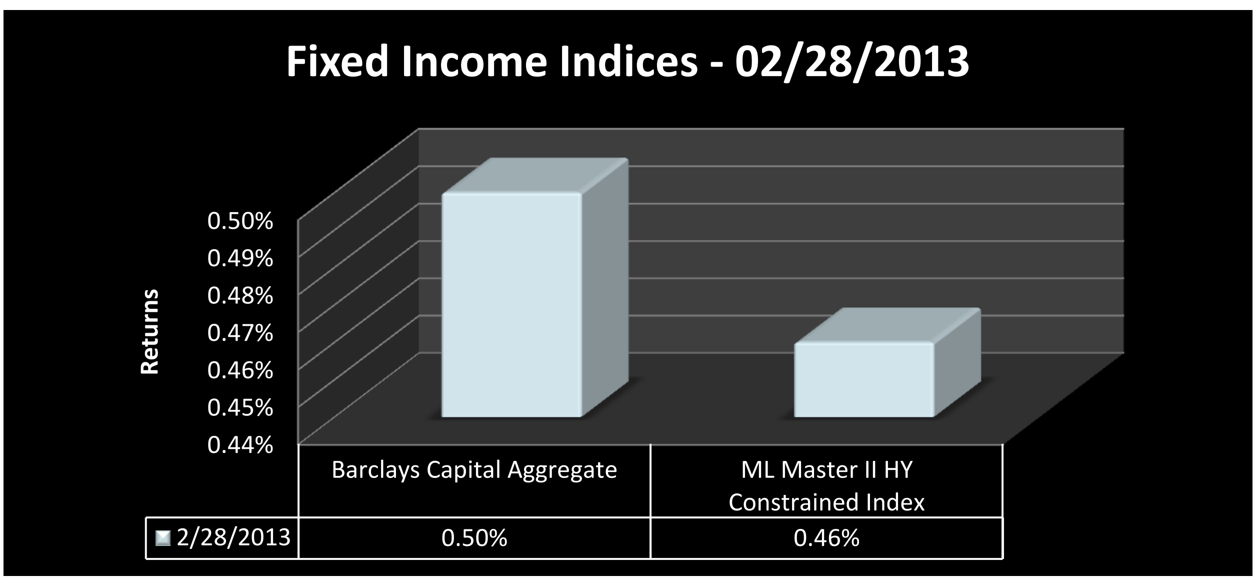
	S&P 500 (Large Cap)	Russell 2500 (Small/SMID Cap)	MSCI EAFE Standard Index Net Divs	MSCI EM Standard Index Net Divs (EMF)	FTSE EPRA NAREIT Developed Net Total Return
1/31/2013	5.18%	6.84%	5.29%	1.37%	3.15%



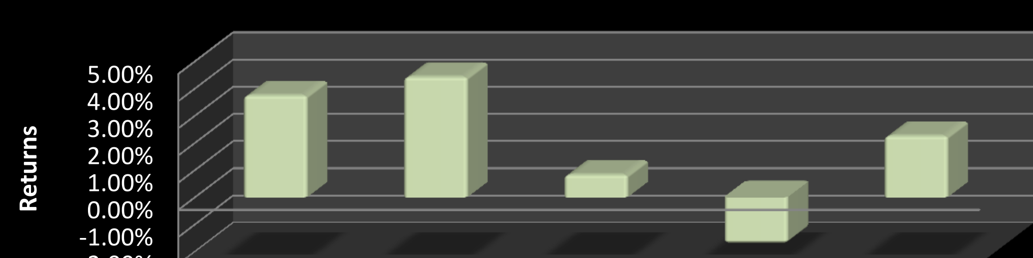
	Barclays Capital Aggregate	ML Master II HY Constrained Index
1/31/2013	-0.70%	1.38%

February 2013 - U.S. equities rose in February, while both developed foreign and emerging markets equities faltered. Domestically, equity investors reacted favorably to positive economic news and strong corporate earnings. Small cap stocks have kept their edge over large cap, as investors sought growth. In the non-U.S. developed markets, uncertainty over the outcome of the Italian elections caused instability in the Eurozone; but in Japan, equity markets extended a seven-month winning streak, owed largely to the Bank of Japan's ongoing monetary stimulus policy, which was implemented last year to tackle deflation. Declining commodity prices, and potential slower growth in the U.S. following sequestration, dampened emerging markets equity returns. U.S. Treasuries gained in February, as the Federal Reserve reaffirmed its commitment to purchase government debt. Other credit markets, such as corporate investment grade and high yield, also saw gains in February. Globally, publicly-traded REITs returned just shy of 1% for the month.

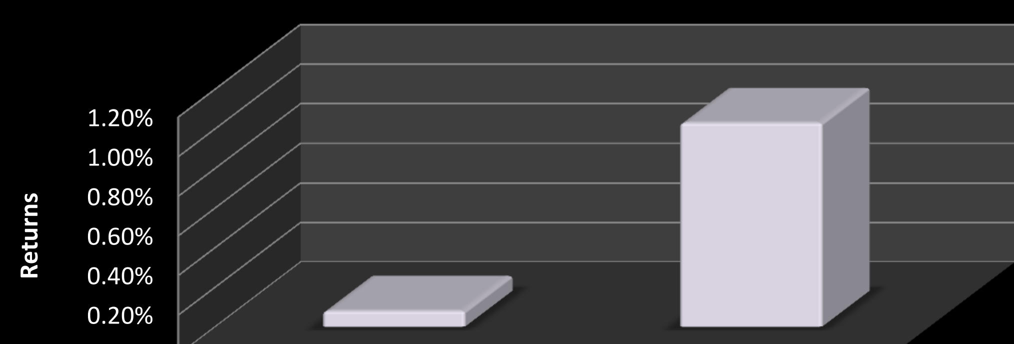




March 2013 - U.S. equities rose again in March, with major indices exceeding levels not seen since October 2007. Both small and large capitalization stocks generated gains, up 4.6% and 3.8%, respectively. The U.S. economy continued to show incremental improvement, as evidenced by an uptick in the housing market and a drop in unemployment. The Federal Reserve said it would continue to purchase $80 billion in bonds each month until the job market demonstrated more sustainable growth. Internationally, the developed markets produced a small gain in March, aided by Japan's ongoing effort to "reflate" its economy and positive economic news from Germany. Conversely, emerging markets equities faltered over the Cypriot banking crisis, falling commodity prices, and slowing economic growth. Most fixed income indices, both investment grade and high yield, advanced in March. U.S. Treasury prices rose, supported by the Fed's quantitative easing program and the reappearance of debt woes in the Eurozone. High yield bonds have been especially strong over a trailing one-year basis, up 13%. Globally, publicly-traded REITs saw solid gains during the month, and are up almost 21% for the twelve-month period ending March 31, 2013.

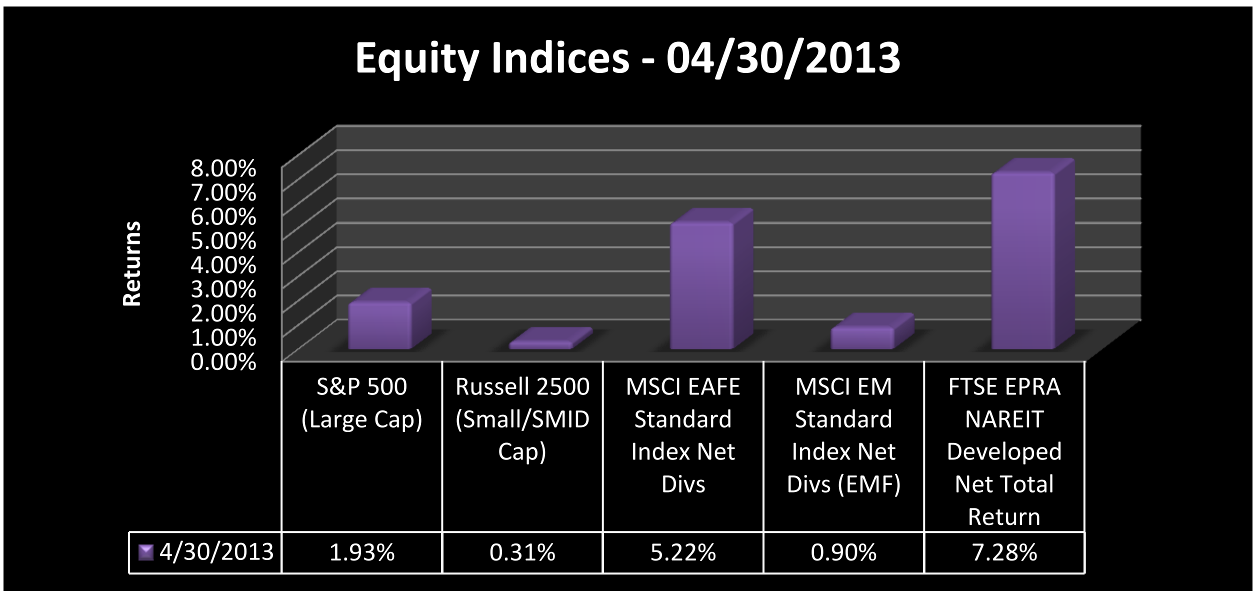


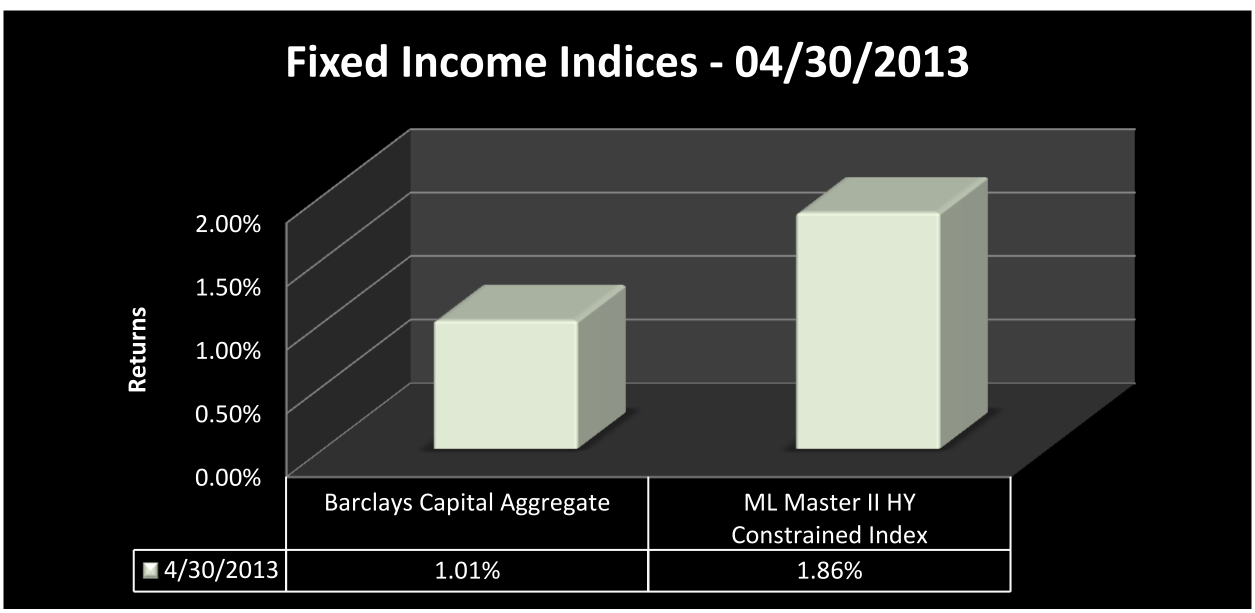
	S&P 500 (Large Cap)	Russell 2500 (Small/SMID Cap)	MSCI EAFE Standard Index Net Divs	MSCI EM Standard Index Net Divs (EMF)	FTSE EPRA NAREIT Developed Net Total Return
3/31/2013	3.75%	4.43%	0.83%	-1.74%	2.26%



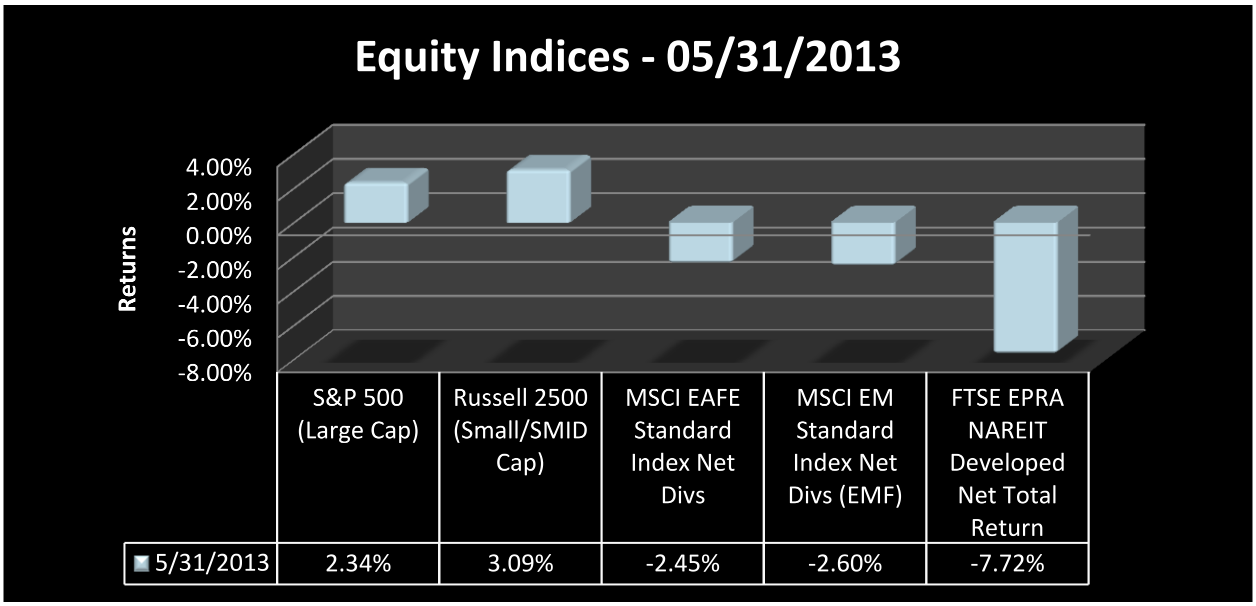
	Barclays Capital Aggregate	ML Master II HY Constrained Index
3/31/2013	0.08%	1.03%

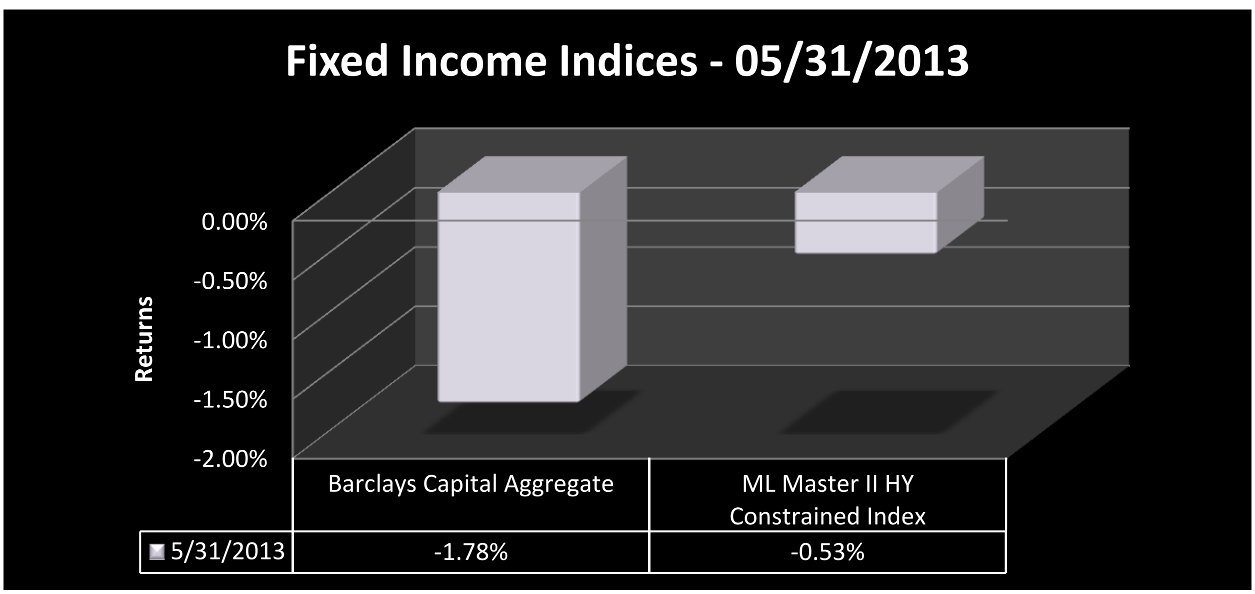
April 2013 - April was a volatile month for U.S. equities, as the market reacted to a mixed bag of economic reports. On the positive side, there was continued improvement in the housing market and unemployment fell to 7.5% from 7.8% at the outset of 2013; however, lower than expected first quarter GDP growth and a disappointing job growth report caused two major downturns during the month. Large cap stocks recovered before month-end returning almost 2%, but small caps ended slightly negative. The best performing equity market was non-U.S. developed (Europe, Japan, Pacific Rim) which was up over 5% in April. Emerging markets equities eked out a small positive return for the month, but have struggled year-to-date because of a general slowdown in global economic growth and weakening commodity prices. In terms of growth, however, the outlook for developing economies remains positive versus their developed counterparts. The disappointing economic news and the continued low inflationary environment bolstered fixed income markets in April, as investment grade bonds rose about 1%. Capital inflows from investors seeking higher yielding instruments boosted high yield bond prices. Global REITs soared 7% in April.



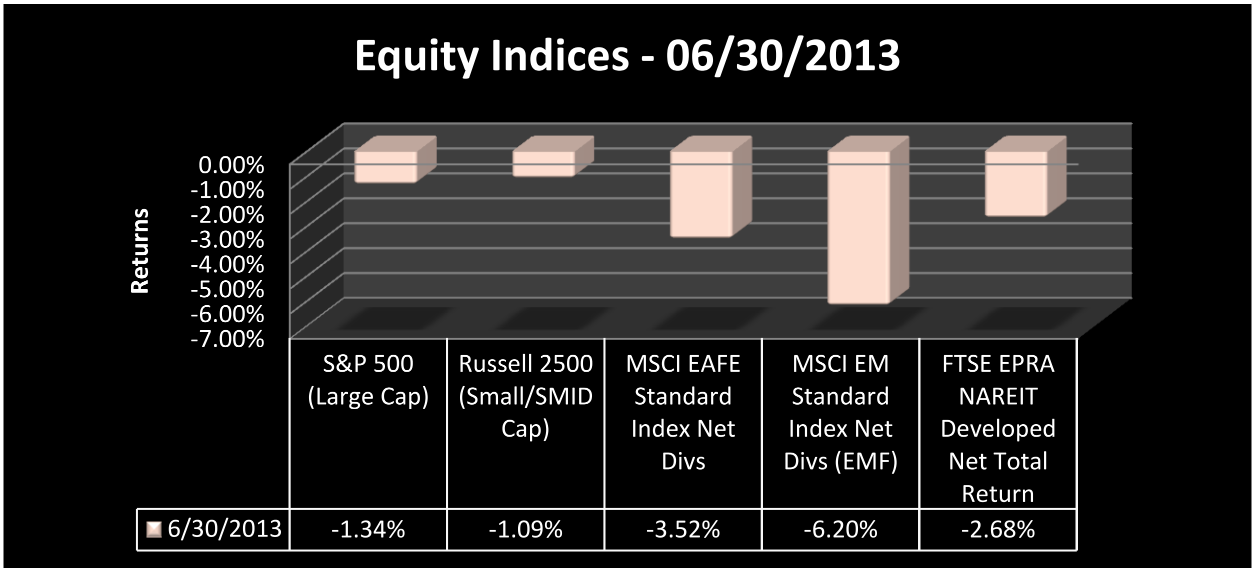


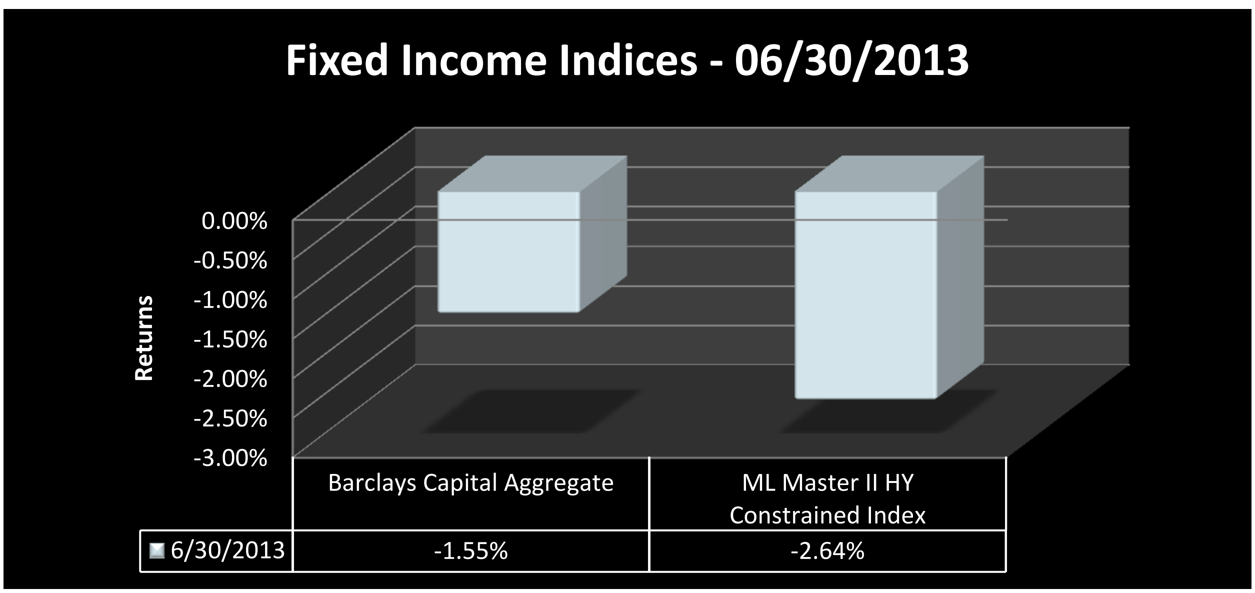
May 2013 - Anxiety over Federal Reserve and European central banks stimulus measures resulted in volatile markets in May. Domestic equities survived a bumpy month, as large cap stocks advanced more than 2% and smaller cap stocks gained 4%; however, developed international and emerging equity markets fell 2% and 2.5%, respectively. Emerging markets equities were in negative territory through the calendar year. Fixed income markets, both U.S. government and investment grade corporate bonds, lost ground in May over worries that the Fed might taper its $85 billion monthly bond purchase program. The government bond selloff extended to riskier high yield bonds, as prices declined and yields rose in May for the first time in 12 months (the yield moves inversely to the price). Global REITs shed almost 8% in May over the threat of rising interest rates.





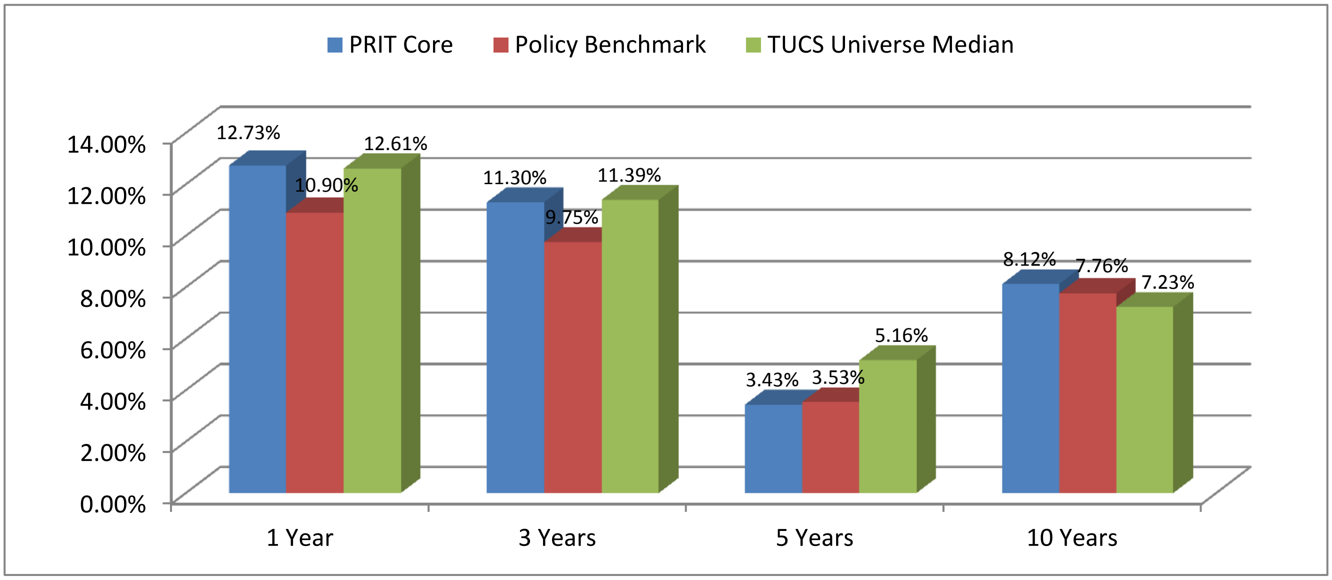
June 2013 - Citing an improving economy, the Fed indicated that it may taper its $85 billion monthly bond purchasing strategy over the course of its next few meetings, sending both equity and fixed income markets reeling in June. The seven-month winning streak for large cap U.S. stocks snapped, and small cap U.S stocks – which hit record highs during the month – closed down, albeit slightly. The Fed's statements had a ripple effect globally, as non-U.S. developed equity markets traded lower, down 3.5%, and emerging equity markets lost 6.3% during the month, compounded by concerns over a slowing Chinese economy. Fixed income markets were no haven, as the potential wind down of the Fed's quantitative-easing stimulus policy drove yields up and prices down on both investment grade and high yield bonds. Global REITs lost ground for the second consecutive month.





PRIT CORE PERFORMANCE: FISCAL YEAR 2013

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, 2013:



In the fiscal year 2013, PRIT Core returned 12.73%, outperforming the policy benchmark return of 10.90% by 183 basis points. According to the TUCS rankings, PRIT's fiscal 2013 performance ranked in the second quartile of all U.S. Public Pension Funds over $1 billion in size for the fiscal year, whereas PRIT ranked in the last quartile in fiscal 2012. PRIT ranked in the third and last quartile in the three and five year periods, respectively, due to prior market environment where bond heavy funds outperformed more diversified funds. PRIT maintained top quartile for the trailing 10-year period.

The PRIT Fund began fiscal year 2013 with a net asset value of $48.9 billion and ended with $53.2 billion. On a gross basis the fund increased approximately $4.3 billion, which is the result of $5.9 billion in investment income along with $1.6 billion in net redemptions from the State Employees, State Teachers' and Participant accounts.

The quarterly returns of the PRIT Core in fiscal year 2013 were as follows:

- 4.44% for September 30, 2012 – versus a benchmark return of 4.41%.
- 3.10% for December 31, 2012 – versus a benchmark return of 2.46%.
- 4.53% for March 31, 2013 – versus a benchmark return of 4.37%.
- 0.16% for June 30, 2013 – versus a benchmark return of -0.67%.

The past fiscal year was successful, 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 8.00%; 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. PRIT outperformed two of the three benchmarks in fiscal year 2013 and outperformed all three benchmarks over the long-term in 10-year period. Through June 30, 2013, PRIT Core returned 9.50% since inception, outperforming the actuarial rate of return of 8.00% by 150 basis points. PRIT Core's rankings in the TUCS report improved in fiscal 2013 and ranked in the second quartile. The longer-term three-, five-, and 10-year periods ended June 30, 2013, are in the third, last and top quartile, respectively. PRIT Core ranked in the 46th percentile (1st being the best, 100th being the worst) for the one-year period, 57th in three-year period, 93rd in the five-year period and 15th 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.

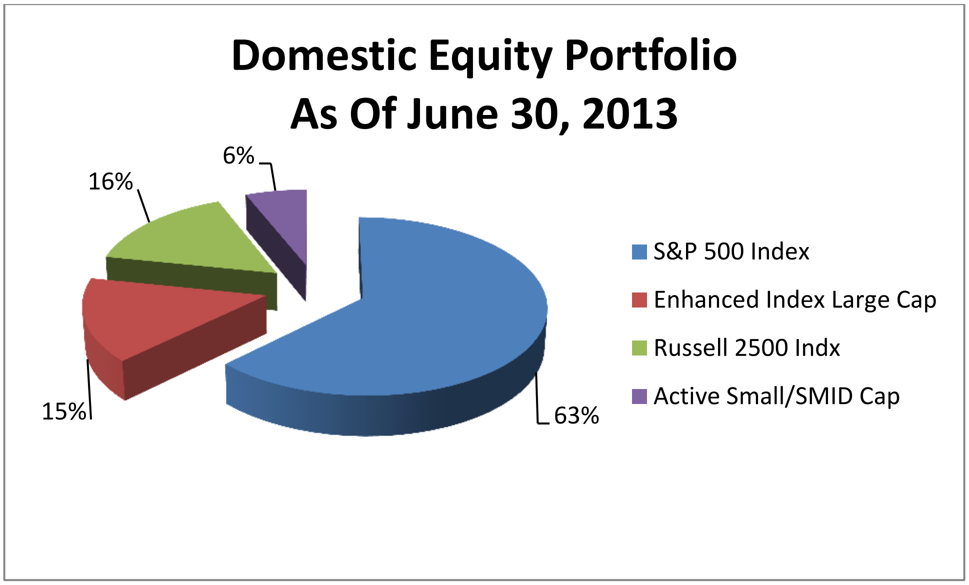
PRIM employs professional investment managers and provides them discretion, consistent with specified objectives and guidelines, to manage the PRIT Fund's assets. Investment managers operate under formal contracts that delineate their responsibilities and performance expectations. Investment management fees accounted for approximately 78.4% of PRIM's total direct expense for fiscal 2013. PRIM also employs an outside custodian and investment consultants in managing the PRIT Fund. Approximately 9.8% of PRIM's total expense for fiscal year 2013 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 2013, *inclusive* of investment management (direct and indirect), consulting, custodial and overhead charges was 55 basis points of the average net asset value of the PRIT Fund compared to 50 basis points in fiscal year 2012 primarily due to an increased allocation to direct hedge funds. *Excluding* indirect management fees, the cost of managing the PRIT Fund for fiscal year 2013 remained unchanged at 14 basis points compared to fiscal year 2012. Overall fees can vary from year to year primarily due to the nature of performance-based fees at PRIT. Fiscal year 2013 fees increased mainly due to an overall increase in assets under management. For information on expense ratios for each investment account, refer to the *Financial Highlights* and the *Financial Highlights Ratios* on pages 110-116 included in the Statistical Section of this report.

Domestic Equity Portfolio

As of June 30, 2013, the Domestic Equity portfolio had approximately $11.1 billion in net assets, which represented 20.8% of the PRIT Core Fund. Approximately 78% of the domestic equity portfolio is invested utilizing a large capitalization equity strategy ("large cap stocks") with the remaining 22% invested in small/smid 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, passively managed small/smid cap investments, and actively managed small/smid cap investments is highlighted below.



During the fiscal year, the S&P 500 Index fund and one of the two enhanced index large capitalization managers outperformed their benchmark. The Russell 2500 Index fund underperformed its benchmark. Since their inceptions in May 2013, four of the five active small/smid capitalization managers outperformed their respective benchmarks. As of fiscal year end, the weighting of Domestic Equity was 46.0% 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 22.08% return compared to 21.60% for the portfolio benchmark. PRIT's large cap managers returned 21.09% compared to the 20.60% return of the large cap benchmark S&P 500 index. PRIT's small/smid cap managers returned 25.76% compared to the 25.61% return of the small/smid cap benchmark Russell 2500 index.

On a three-, five-, and 10-year basis through June 30, 2013, PRIT's Domestic Equity portfolio has returned 18.72%, 5.43%, and 6.74%, respectively, compared to the benchmark, which returned 18.68%, 6.40%, and 7.53%, respectively.

The top ten holdings in the Domestic Equity portfolio at June 30, 2013 are illustrated below. A complete listing of holdings is available upon request.

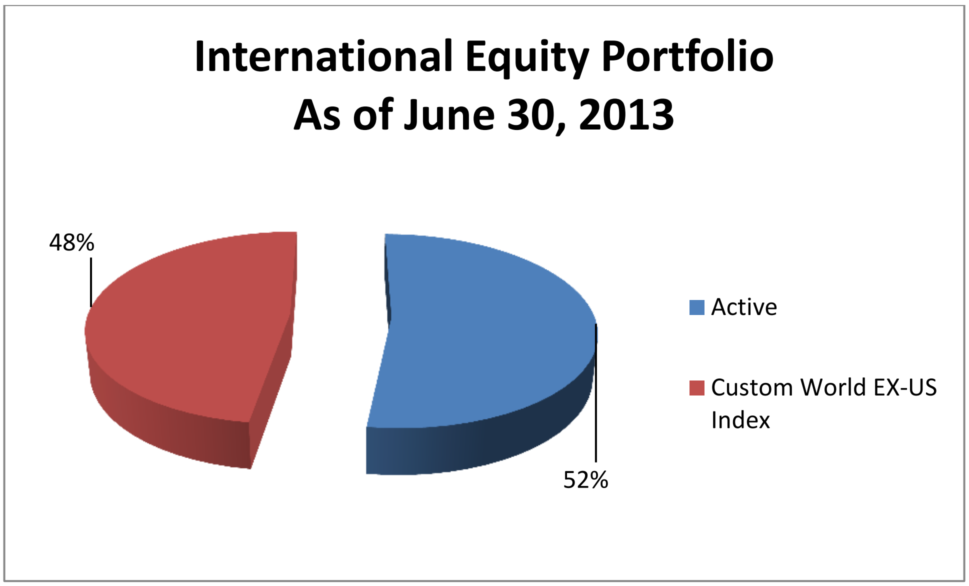
#	Issue Name	Fair Value ($000s)	% of Account Fair Value
1	Exxon Mobil Corp.	$ 221,522	2.00%
2	Apple Inc.	196,921	1.78%
3	Microsoft Corp.	129,899	1.17%
4	General Electric	125,360	1.13%
5	Johnson & Johnson	124,896	1.13%
6	Google Inc.	123,639	1.12%
7	Chevron Corp.	122,901	1.11%
8	Procter & Gamble Co.	108,648	0.98%
9	International Business Machines	108,092	0.98%
10	AT&T Inc.	108,065	0.98%
	TOTAL	$ 1,369,943	12.38%

The PRIT Fund's Domestic Equity managers at June 30, 2013 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2013 ($000s)
State Street Global Advisors	S&P 500 Index	$ 6,942,906
State Street Global Advisors	Russell 2500 Index	1,740,460
INTECH	S&P 500 Enhanced Index	874,690
PIMCO	S&P 500 Enhanced Index	835,178
Frontier Capital Management	Small Cap Value	153,615
Huber Capital	Small Cap Value	100,043
Riverbridge Partners	SMID Cap Growth	129,742
SouthernSun Asset Management	SMID Cap Core	131,330
Summit Creek Advisors	Small Cap Growth	159,917
Other portfolio net assets		(1,468)
Total Portfolio Fair Value		**$ 11,066,413**

International Equity Portfolio

As of June 30, 2013, the International Equity portfolio had approximately $9.5 billion in net assets, representing 18.0% 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 48% of the portfolio) and three actively managed accounts (52% of the portfolio). The passive manager, and the asset class as a whole, is 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 markets, 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 39.7% 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, 2013, the International Equity portfolio returned 19.55% compared to the Custom World ex-U.S. IMI index return of 17.34%. Two 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, 2013, PRIT's international equity managers posted returns of 11.27%, 0.63%, and 8.63%, respectively, ahead of the benchmark, which returned 9.48%, -0.65%, and 7.69%, respectively, over the same periods.

The top ten holdings in the International Equity portfolio at June 30, 2013 are illustrated below. A complete listing of holdings is available upon request.

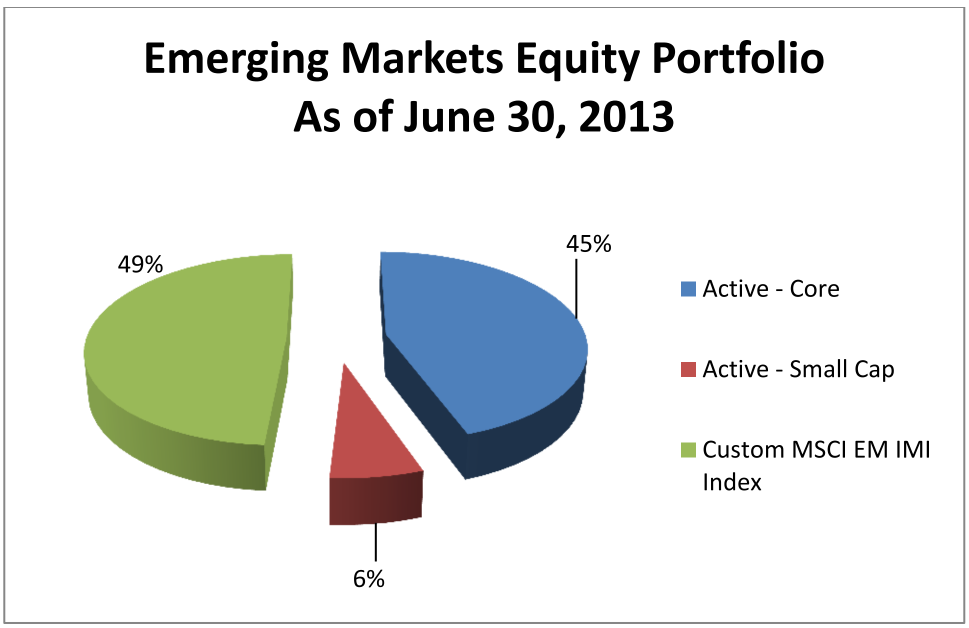
#	Issue Name	Fair Value ($000s)	% of Account Fair Value
1	Roche Hldg AG Genusscheine NPV	$ 152,538	1.60%
2	Toyota Motor Corp.	111,233	1.17%
3	Nestle	109,369	1.15%
4	Novartis AG	102,546	1.08%
5	BP PLC	95,556	1.00%
6	Unilever PLC	91,522	0.96%
7	Sanofi	86,757	0.91%
8	Vodafone Group	79,248	0.83%
9	Total S.A.	77,329	0.81%
10	Kao Corp.	76,589	0.80%
	TOTAL	$ 982,687	10.31%

The PRIT Fund's International Equity managers at June 30, 2013 are presented in the following table:

Manager	**Investment Mandate**	**Portfolio Fair Value at June 30, 2013 ($000s)**
State Street Global Advisors	Custom World ex-US IMI Index	$ 4,551,787
Marathon Asset Management Ltd.	Custom MSCI EAFE	2,512,445
Baillie Gifford	Custom MSCI EAFE	1,745,727
Mondrian Investment	Custom MSCI EAFE	721,431
Other portfolio net assets		167
Total Portfolio Fair Value		**$ 9,531,557**

Emerging Markets Portfolio

As of June 30, 2013, the Emerging Markets Equity portfolio had approximately $3.4 billion in net assets, representing 6.5% of the PRIT Core Fund. The active emerging markets core equity managers are benchmarked against the Custom MSCI Emerging Markets Standard Index – Net Dividends ("Custom MSCI Emerging Markets Standard"). 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 14.3% 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 5.44% compared to the Custom MSCI Emerging Markets IMI index return of 4.27%. Of the PRIT Core Fund's three active emerging markets core equity managers, two outperformed the Custom MSCI Emerging Markets Standard 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 19.47% outperforming the MSCI Emerging Markets Small Cap index return of 9.86%. On a three-, five-, and 10-year basis through June 30, 2013, PRIT's emerging markets equity managers posted returns of 4.42%, -0.69%, and 13.35%, respectively, compared to the Custom MSCI Emerging Markets IMI benchmark, which returned 3.51%, -0.34%, and 13.81% over the same periods.

The top ten holdings in the Emerging Markets Equity portfolio at June 30, 2013 are illustrated below. A complete listing of holdings is available upon request.

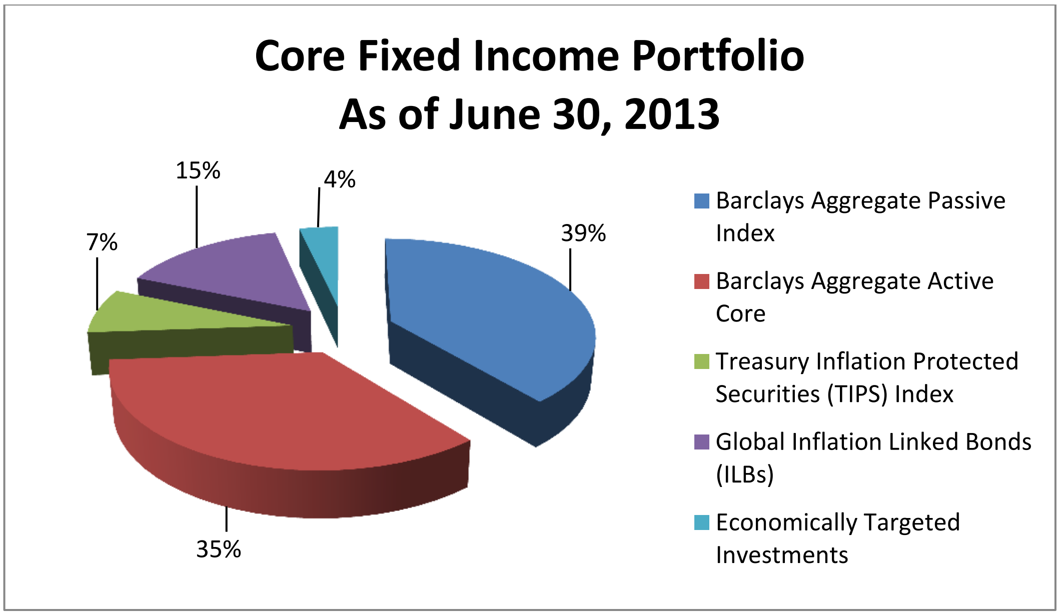
#	Issue Name	Market Value ($000s)	% of Account Market Value
1	Samsung Electronics	$ 100,841	2.93%
2	Tawain Semi Conductor	73,618	2.14%
3	Ind and Comm Bank of China	48,820	1.42%
4	Hyundai	48,800	1.42%
5	Sberbank	45,155	1.31%
6	LUKOIL	44,996	1.31%
7	China Mobile	44,924	1.31%
8	CNOOC	36,687	1.07%
9	China Construction Bank	35,891	1.04%
10	Bank of China	32,031	0.93%
	TOTAL	$ 511,763	14.88%

The PRIT Fund's Emerging Markets Equity managers at June 30, 2013 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2013 ($000s)
State Street Global Advisors	Custom MSCI EM IMI Index	$ 1,683,354
T. Rowe Price	EM Growth	561,772
GMO LLC	EM Value	506,261
AshmoreEMM	EM Value/Frontier	465,758
Wasatch	EM Small Cap	143,502
Acadian	EM Small Cap	77,457
Other portfolio net assets		21
Total Portfolio Fair Value		**$ 3,438,125**

Fixed Income Portfolio

The PRIM Board had approximately $6.7 billion invested in the investment grade Core Fixed Income portfolio, representing 12.6% of the PRIT Core Fund as of June 30, 2013. 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 Inflation Linked Bonds (ILBs).

The Barclays Capital Aggregate Passive Index 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 total PRIT Fund.

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 2013, the Fixed Income composite return of -0.32% outperformed the benchmark (77% Barclays Capital Aggregate/8% Barclays Capital US TIPS/15% Barclays Capital ILB US$ Hedged), which returned -1.20%. The Core mandates (BlackRock Passive, PIMCO Core and Loomis Sayles Core) returned 0.24%, outperforming their benchmark (Barclays Capital Aggregate Index) by 93 basis points. The BlackRock passively managed TIPS mandate returned -4.82%, lagging its benchmark (Barclays Capital US TIPS) by 4 basis points and the BlackRock actively managed ILBs mandate returned -0.72%, outperforming its benchmark (Barclays Capital ILB US Hedged Index) by 126 basis points. The ETI Managers, Access Capital, AFL-CIO, and CCM returned 0.01%, -0.91%, and 0.25% versus their benchmark returns of -0.81%, -0.69%, and -0.69%, respectively.

The top ten Core Fixed Income holdings as of June 30 2013, excluding TIPS investments and certain pooled funds, are illustrated below. A complete listing of holdings is available upon request.

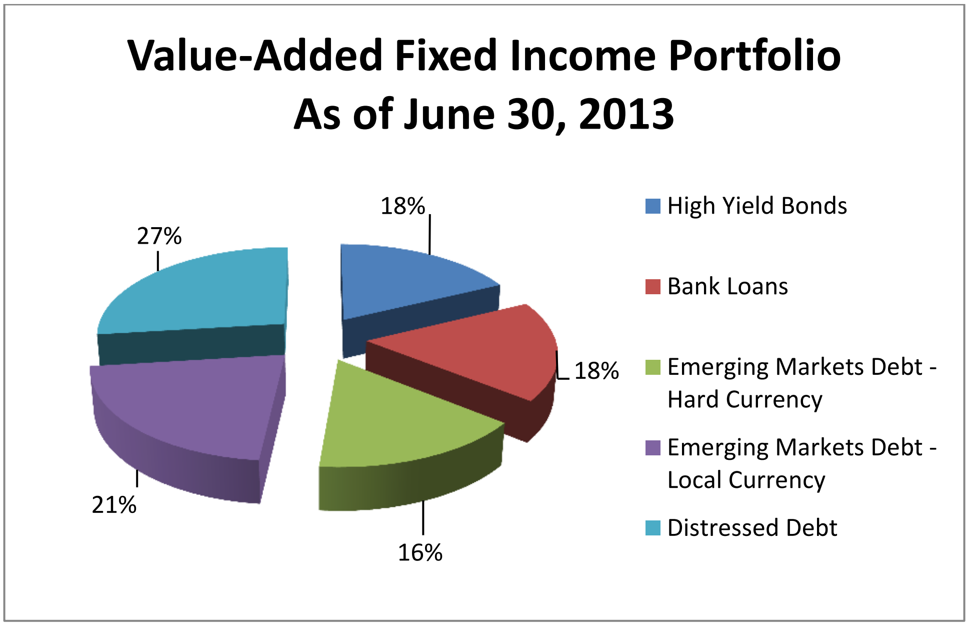
#	Issue Name	Fair Value ($000s)	% of Account Fair Value
1	Commit to Purchase FNMA 4.000% July 2043	$ 83,341	1.24%
2	Commit to Purchase FNMA 4.000% August 2043	68,612	1.02%
3	U.S. Treasury Notes 0.250% April 2016	62,593	0.93%
4	U.S. Treasury Notes 2.000% February 2023	49,276	0.73%
5	U.S. Treasury Notes 0.250% October 2014	45,018	0.67%
6	U.S. Treasury Notes 2.375% October 2014	42,169	0.63%
7	SBA Gtd Dev 5.870% July 2028	41,148	0.61%
8	U.S. Treasury Notes 0.250% September 2014	40,014	0.60%
9	U.S. Treasury Notes 0.875% January 2018	37,814	0.56%
10	U.S. Treasury Notes 2.250% November 2017	37,002	0.55%
	TOTAL	$ 506,987	7.55%

The PRIT Fund's Core Fixed Income portfolio managers at June 30, 2013 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2013 ($000s)
Blackrock Financial Management	Core Index	$ 2,618,856
Loomis, Sayles & Co., LP	Active Core	1,171,726
PIMCO	Active Core	1,167,343
Blackrock Financial Management	Inflation Link Bonds	1,016,346
Blackrock Financial Management	TIPS Index	498,866
AFL - CIO Housing Investment	ETI	116,556
Access Capital	ETI	96,339
Community Capital Management	ETI	25,949
Other portfolio net assets		720
Total Portfolio Fair Value		**$ 6,712,701**

Value-Added Fixed Income Portfolio

The PRIM Board had approximately $4.7 billion invested in the Value-Added Fixed Income portfolio, representing 8.9% of the PRIT Core Fund as of June 30, 2013. The Value-Added Fixed Income portfolio is invested using the following strategies:



Distressed debt, 2.4% of the PRIT Core Fund, represents investments in private partnerships that invest directly in distressed debt investment opportunities. As at June 30, 2013 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 typically rated below Investment Grade by Standard & Poor’s, Fitch or 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 of high yield bonds to generate substantial returns and to mitigate risk by managing 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, 1.6% 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 these 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 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 2013, the Value-Added Fixed Income composite returned 7.62% compared to 8.43% for the asset class benchmark. The PRIT Core Fund's three high yield bond managers, Shenkman, Fidelity, and Loomis Sayles, returned 10.01%, while the Merrill Lynch High Yield Master II Constrained index returned 9.57%. The Emerging Markets Debt Hard Currency portfolio, managed by Ashmore and PIMCO, returned 2.11% during the fiscal year, outperforming the JP Morgan Emerging Markets Bond Index (JPM EMBI Global Index), which returned 1.24%. The Emerging Markets Debt Local Currency portfolio, managed by three managers, Investec, Pictet, and Stone Harbor, returned 0.69%, underperforming the JP Morgan GBI Emerging Markets Global Diversified index return of 1.32%. The two bank loan managers, Eaton Vance and ING, returned 7.48%, outperforming the S&P LSTA Leveraged Loan index return of 7.32%. The Distressed Debt portfolio returned 15.89% compared to the index return of 18.64%. 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, 2013, 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	$ 37,995	0.81%
2	Notas Do Tesouro Nacional 10.000% January 2017	31,290	0.66%
3	Russia Foreign Bond 7.850% March 2018	27,311	0.58%
4	Malaysia Government Bond 4.262% September 2016	24,774	0.53%
5	Turkey Government Bond 9.500% January 2022	22,321	0.47%
6	South Africa Government Bond 10.500% December 2026	19,623	0.42%
7	Notas Do Tesouro Nacional 10.000% January 2023	19,064	0.40%
8	Indonesia Treasury Bond 7.000% May 2022	17,817	0.38%
9	Mexican Bonos 6.500% June 2022	16,985	0.36%
10	Turkey Government Bond 9.000% March 2017	16,297	0.35%
	TOTAL	$ 233,477	4.96%

The PRIT Fund's Value-Added Fixed Income portfolio managers at June 30, 2013 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2013 ($000s)
Fidelity Management Trust	High Yield Bond	$ 286,735
Loomis, Sayles & Co., LP	High Yield Bond	285,485
Shenkman Capital Management	High Yield Bond	268,993
Ashmore Investment Management	Emerging Markets Debt Hard Currency	462,596
PIMCO	Emerging Markets Debt Hard Currency	286,171
Investec	Emerging Markets Debt Local Currency	285,460
Pictet	Emerging Markets Debt Local Currency	447,966
Stone Harbor	Emerging Markets Debt Local Currency	280,551
Eaton Vance	Bank Loans	425,082
ING	Bank Loans	415,203
Various partnerships	Distressed Debt	1,252,194
Other portfolio net assets		17,375
Total Portfolio Fair Value		**$ 4,713,811**

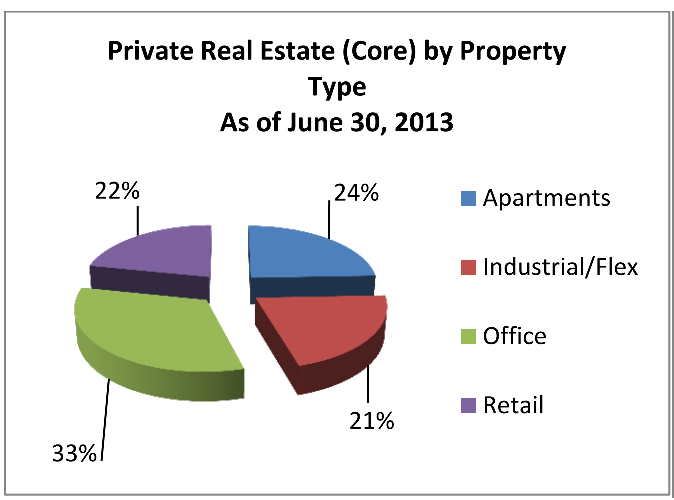
Real Estate Portfolio

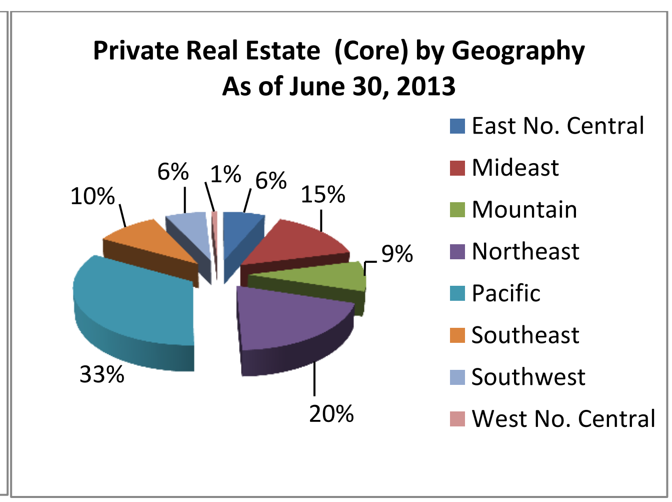
As of June 30, 2013 PRIM had $4.4 billion invested in real estate through the PRIT fund's ownership interest in PRIT Core Realty Holdings LLC (the LLC), representing 8.2% of the PRIT Core Fund. Real estate holdings consist of directly-owned properties, REITs, investments in two private partnerships that invest directly in real estate investment opportunities, 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 70% 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, 2013, $3.8 billion of Core real estate investments and $235 million of Non-Core real estate investments comprise PRIT'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. Public REITs comprise the remainder of the investments in the PRIT real estate portfolio. As of June 30, 2013, PRIM had approximately $1.3 billion allocated to public REITs. In June 2009, the Board voted to reduce the target allocation to public 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 public REIT portfolio represents 2.5% 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, 2013:





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 2013 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.

In February 2013, the LLC completed a $1.0 billion portfolio level real estate financing through the issuances of a senior unsecured term loan and senior unsecured notes. At June 30, 2013, the LLC had portfolio level debt of $1.0 billion and property level debt of $458.2 million. The LLC was in compliance with the debt covenants at June 30, 2013.

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. Public 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 real estate portfolios and the share price can vary significantly from underlying NAV.

Performance. During the fiscal year, PRIM's direct real estate portfolio experienced write-ups as the commercial real estate market continued to recover. REIT investments performed well in response to improved fundamentals and strong capital flows.

For the fiscal year 2013, the real estate portfolio returned 12.82%, outperforming the asset class benchmark (80% NCREIF Property Index (one quarter lag)/20% FTSE EPRA NAREIT Developed Net Total Return) by 1.43%. The private real estate portfolio returned 13.52% for the year ended June 30, 2013, comparing to the NCREIF Property Index (one quarter lag), which returned 10.52% over the same period. REIT investments returned 13.41%, lagging its benchmark by 0.77%.

The Real Estate portfolio returned 14.43% over the past three-years versus the asset class benchmark return of 14.19%. On a five-year basis, returns were 3.22% compared to the benchmark return of 3.16%. On a 10-year basis, the real estate portfolio returned 10.90% compared to the benchmark return of 8.96%.

The PRIT Fund's real estate investment managers at June 30, 2013 are presented in the following table:

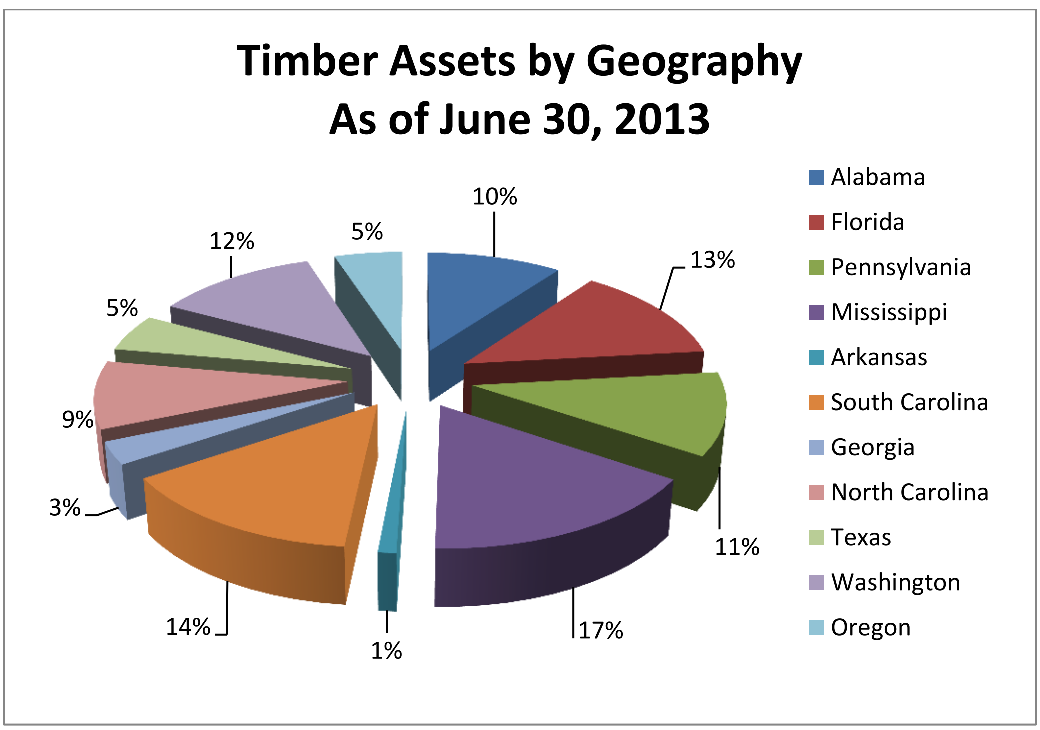
Manager	**Investment Mandate**	**Portfolio Fair Value at June 30, 2013 ($000s)**
Invesco Realty Advisors	Separate Accounts - Core	$ 573,116
LaSalle Investment Management	Separate Accounts - Core	1,126,714
AEW	Separate Accounts - Core	458,150
J.P. Morgan Investment Management	Separate Accounts - Core	560,092
TA Associates Realty	Separate Accounts - Core	1,084,887
Non-Core Partnerships	Non-Core	213,438
European Investors	Global REITs	444,917
Invesco Realty Advisors	Global REITs	227,322
Urdang	Global REITs	643,060
Canyon Johnson	ETI	9,715
Intercontinental	ETI	3,847
New Boston	ETI	8,376
Other portfolio net assets (portfolio debt included)		(971,582)
Total Portfolio Fair Value		**$ 4,382,052**

Timber and Natural Resources Portfolio

As of June 30, 2013, the PRIM Board had $1.4 billion invested in timber, representing 2.6% 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 accretive timber opportunities 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, 2013, PRIM had $424.2 million invested with two Natural Resources managers, Jennison and T. Rowe Price, representing 0.8% 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 $332.5 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, 2013 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, 2013, the one-year Timber return was 6.86% as compared to the NCREIF Timber Index (one quarter lag) of 9.01%. Since its inception, in January 2002, the Timber portfolio has produced an annualized return of 9.70%. With a 2.6% 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, 2013, the publicly traded Natural Resource portfolio returned 9.34%, outperforming the Lipper Natural Resources Global Fund index return of 7.71%, by 163 basis points. The private Natural Resources investments returned 1.69% for the fiscal year. As of June 30, 2013, the one-year combined Timber/Natural Resources return was 6.97% as compared to the blended NCREIF Timber / Lipper Natural Resources Global Fund / Actual Private Natural Resources Index of 8.08%. On a three-, five-, and 10-year basis through June 30, 2013, PRIT's combined Timber/Natural Resources portfolio has returned 5.77%, -0.71%, and 7.79%, respectively, compared to the benchmark return of 5.76%, -0.87%, and 6.60%, respectively.

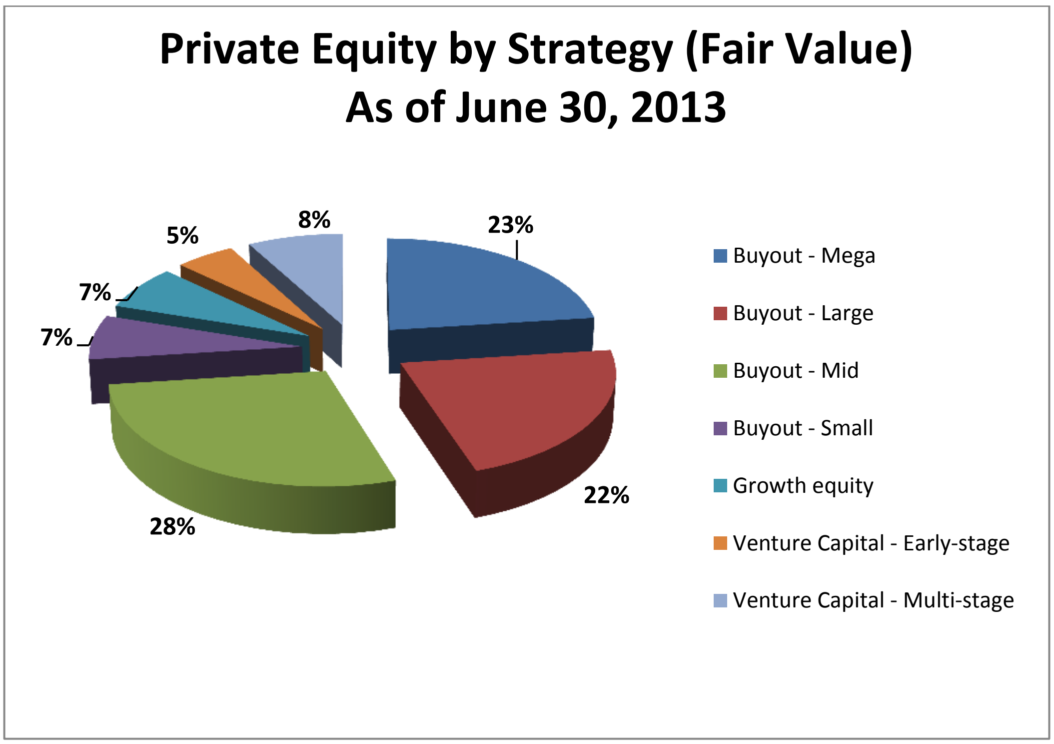
The PRIT Fund's Timber and Natural Resources investment managers at June 30, 2013 are presented in the following table:

Manager	**Investment Mandate**	**Portfolio Fair Value at June 30, 2013 ($000s)**
Forest Investments Associates	Separate Accounts - Timber	$ 1,047,719
The Campbell Group	Separate Accounts - Timber	320,589
Jennison	Global Natural Resources	224,457
T. Rowe Price	Global Natural Resources	199,776
Private Equity Investments	Natural Resources - Private	334,646
Other portfolio net assets		2,507
Total Portfolio Fair Value		**$ 2,129,694**

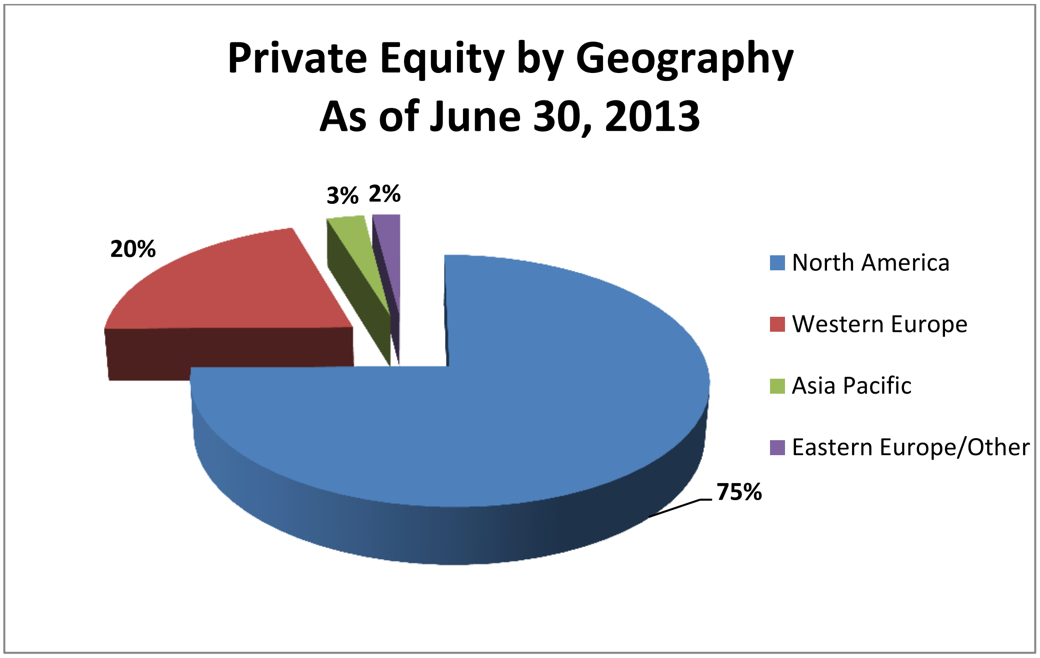
Private Equity Portfolio

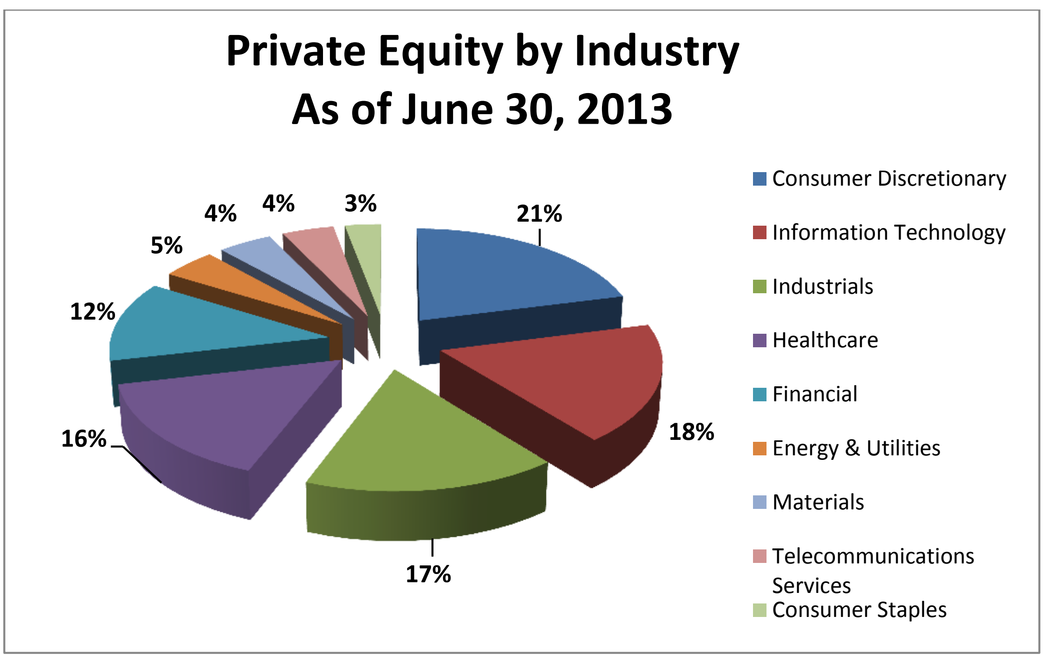
As of June 30, 2013 the market value of the Private Equity portfolio was $6.2 billion or 11.7% of the total PRIT Core Fund. The PRIT Fund's long-term target allocation to Private Equity investments is 10%. Two components comprise the PRIT Fund's Private Equity portfolio: venture capital (early-stage 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, 2013 is highlighted below.



The Private Equity portfolio is diversified at the partnership level by strategy as well as at the underlying portfolio company level by industry and geography. 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 (ASC 820) 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, investments 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 14.10% through June 30, 2013. The Fund's Private Equity managers were active in making new investments as well as in generating liquidity in the year ending June 30, 2013. The Fund's managers called $985 million of capital for additional investments, which is lower than the $1.1 billion called during the prior fiscal year. From a liquidity standpoint, the portfolio generated total distributions of $1.5 billion which is well ahead of the $1.1 billion distributed in the 2012 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 10-year period, 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 17.76% as of June 30, 2013, exceeding the S&P 500 index return of 7.30% by 1,046 basis points. On a five-year basis, the portfolio exceeded the S&P 500 by 111 basis points, 8.12% compared to 7.01%. For the three-year period ending June 30, 2013, the Private Equity portfolio returned 16.67%, underperforming the S&P 500 index return of 18.45% by 178 basis points. For the one-year period ending June 30, 2013, the Private Equity portfolio returned 14.10%, underperforming the S&P 500 index return of 20.60% by 650 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, 2013 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.

Since inception to June 30, 2013, PRIT has committed over $14.1 billion to 313 partnerships (244 active) of which $11.6 billion has been invested. The program has generated $11.2 billion in distributions. The net IRR since inception for the program is 12.71%.

PRIVATE EQUITY EXTERNAL MANAGERS

As of June 30, 2013

	Partnership	Location		Partnership	Location
1	ACON Investments	Washington, DC	53	Kepha Partners	Waltham, MA
2	Advent International	Boston, MA	54	Keytone Ventures	Beijing, China
3	Alchemy Partners	London, UK	55	Kohlberg Kravis Roberts & Co.	New York, NY
4	Alta Communications	Boston, MA	56	KPS Capital Partners	New York, NY
5	American Securities	New York, NY	57	Madison Dearborn Capital Partners	Chicago, IL
6	APAX Partners & Co.	London, UK	58	M/C Venture Partners	Boston, MA
7	Apollo Management Co.	New York, NY	59	Menlo Ventures	Menlo Park, CA
8	Austin Ventures	Austin, TX	60	Montagu Private Equity	London, UK
9	Ascent Ventures	Boston, MA	61	Montreux Equity Partners	Palo Alto, CA
10	Bain Capital	Boston, MA	62	Nautic Partners	Providence, RI
11	Battery Ventures	Wellesley, MA	63	New Enterprise Associates	Baltimore, MD
12	Berkshire Partners, LLC	Boston, MA	64	Nordic Capital	Stockholm, Sweden
13	The Blackstone Group	New York, NY	65	Odyssey Investment Partners	New York, NY
14	Boston Ventures	Boston, MA	66	Olympus Growth Fund	Stamford, CT
15	Bridgepoint	London, UK	67	Onex Partners	Toronto, CA
16	Candover	London, UK	68	PAI Partners	Paris, France
17	Carlyle Partners	Washington, DC	69	Permira Europe	London, UK
18	Castile Ventures	Waltham, MA	70	Polaris Venture Partners	Waltham, MA
19	Catalyst Investors	New York, NY	71	Providence Equity Partners	Providence, RI
20	Centerbridge Capital Partners	New York, NY	72	Quad - C Management, Inc.	Charlottesville, VA
21	Charles River Ventures	Waltham, MA	73	Quantum Energy Partners	Houston, TX
22	Charlesbank Capital Partners	Boston, MA	74	Rembrandt Venture Partners	Menlo Park, CA
23	Charterhouse Capital Partners	London, UK	75	Richland Ventures	Nashville, TN
24	Chequers Capital	Paris, France	76	SAIF Partners	Hong Kong, China
25	Code Hennessey & Simmons	Chicago, IL	77	SCP Vitalife	Tel Aviv, Israel
26	Commonwealth Capital Ventures	Wellesley, MA	78	Sherbrooke Capital	Newton, MA
27	CVC Capital (Europe)	London, UK	79	Sofinnova Venture Partners	Menlo Park, CA
28	Cypress Merchant Banking	New York, NY	80	Spark Capital	Boston, MA
29	Denham Capital Management	Boston, MA	81	Spectrum Equity Partners	Boston, MA
30	DLJ Merchant Banking	New York, NY	82	Summit Ventures	Boston, MA
31	El Dorado Ventures	Menlo Park, CA	83	SV Life Sciences	Boston, MA
32	Equitable Capital Management	New York, NY	84	TA Associates	Boston, MA
33	Essex Woodlands	Houston, TX	85	TCV	Menlo Park, CA
34	Ethos Private Equity	Johannesburg, South Africa	86	Tenaska Power Fund	Omaha, NE
35	Exponent Partners	London, UK	87	Texas Pacific Group	San Fran./Fort Worth
36	First Reserve Corporation	Greenwich, CT	88	Thoma Bravo	Chicago/San Francisco
37	Flagship Ventures	Cambridge, MA	89	Thoma Cressey	Chicago, IL
38	Forstmann, Little & Co.	New York, NY	90	Thomas H. Lee Equity Partners	Boston, MA
39	Freeman Spogli Equity Partners	Los Angeles, CA	91	Torquest Partners	Toronto, CA
40	Genstar Capital Partners	San Francisco, CA	92	Towerbrook Capital Partners	New York/London
41	Guilde Buy Out Partners	Utrecht, Netherlands	93	Trident Capital	Palo Alto, CA
42	The Gores Group	Los Angeles, CA	94	Union Square Ventures	New York, NY
43	GTCR Golder, Rauner	Chicago, IL	95	VantagePoint Partners	San Bruno, CA
44	Hellman & Friedman Capital Partners	San Francisco, CA	96	Vestar Capital Partners	New York, NY
45	H.I.G. Capital	Maimi, Fla.	97	Vista Equity Partners	San Francisco, CA
46	Highland Capital Partners	Boston, MA	98	Welsh CarsonAnderson & Stowe	New York, NY
47	Hony Capital	Beijing, China	99	Weston Presidio Capital	Boston/San Francisco
48	Index Ventures	Geneva, Switzerland	100	Westview Capital Partners	Boston, MA
49	Insight Venture Partners	New York, NY	101	Whitney & Co.	Stamford, CT
50	Institutional Venture Partners	Menlo Park, CA	102	William Blair Mezzanine Capital Fund	Chicago, IL
51	InterWest Partners	Menlo Park, CA/Dallas, TX	103	Willis Stein	Chicago, IL
52	Kelso & Company	New York, NY	104	Xenon Private Equity	Milan, Italy

Hedge Fund Portfolio

As of June 30, 2013 the Hedge Fund portfolio had approximately $4.9 billion in assets, which represented 9.2% of the PRIT Fund. PRIM has investments with twenty-one direct hedge fund managers, one active hedge fund of funds manager, and two residual liquidating fund of funds portfolios. The Rock Creek Group is managing the liquidation of the Ivy Asset Management portfolio.

The PRIT Fund's Hedge Fund managers at June 30, 2013 are presented in the following table:

Manager	Strategy Focus		Portfolio Fair Value at June 30, 2013 ($000s)
PAAMCO	*Core - Emerging Managers*	$	809,703
Arden Asset Management - Liquidation	*Equity Market Neutral/Fundamental Credit*		328,732
Ivy Asset Management Corp. - Liquidation	*N/A*		13,070
Direct Hedge Funds	*Core*		3,751,658
Other portfolio net assets			15
Total Portfolio Fair Value		**$**	**4,903,178**

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 12.24% for the fiscal year versus a return of 7.22% for the benchmark HFRI Fund of Funds Composite Index. The Hedge Fund portfolio has returned 5.87% and 1.70% over the three and five year periods versus the asset class benchmark of 3.09% and 2.94%, 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, 2013, the Portable Alpha Wind Down portfolio had approximately $72.3 million in assets which represents 0.1% 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, 2013

Asset Class	1 Year	3 Year	5 Year	10 Year
Benchmark as of June 30, 2013				
Global Equity (1)	**18.40%**	**13.52%**	**3.34%**	**8.10%**
35% S&P 500/9% Russell 2500/40% Custom MSCI World EX-US NET DIVS IMI/16% Custom MSCI EM IMI NET DIVS	*17.11%*	*12.55%*	*2.37%*	*7.62%*
Domestic Equity	**22.08%**	**18.72%**	**5.43%**	**6.74%**
80% S&P 500/20% Russell 2500 (2)	*21.60%*	*18.68%*	*6.40%*	*7.53%*
International Equity	**19.55%**	**11.27%**	**0.63%**	**8.63%**
Custom World EX-US IMI NET DIVS	*17.34%*	*9.48%*	*-0.65%*	*7.69%*
Emerging Markets	**5.44%**	**4.42%**	**-0.69%**	**13.35%**
Custom MSCI EM IMI NET DIVS	*4.27%*	*3.51%*	*-0.34%*	*13.81%*
Core Fixed Income (3)	**-0.32%**	**4.36%**	**3.73%**	**4.61%**
77% BC Agg/8%BC US TIPS/15% BC ILB US$ HEDGED	*-1.20%*	*3.76%*	*3.26%*	*4.18%*
Value-Added Fixed Income (3)	**7.62%**	**9.41%**	**9.18%**	**9.87%**
23.95% ML Master II HY Constrained Index/9.21% S&P LSTA Leveraged Loan Index/22.96% JPM EMBI Global/43.88% Altman Index	*8.43%*	*7.80%*	*9.21%*	*9.10%*
Real Estate	**12.82%**	**14.43%**	**3.22%**	**10.90%**
80% NCREIF Property One Qtr. Lag/20% FTSE EPRA NAREIT DEVELOPED Net Total Return	*11.39%*	*14.19%*	*3.16%*	*8.96%*
Private Equity	**14.10%**	**16.67%**	**8.12%**	**17.76%**
No Benchmark	*na*	*na*	*na*	*na*
Timber/Natural Resources (4)	**6.97%**	**5.77%**	**-0.71%**	**7.79%**
53% NCREIF Timber/39% Lipper Natural Resources Global Fund Index/8% Actual Natural Resources - Private	*8.08%*	*5.76%*	*-0.87%*	*6.60%*
Hedge Funds (5)	**12.24%**	**5.87%**	**1.70%**	**na**
HFRI Fund of Funds Composite Index (7)	*7.22%*	*3.09%*	*2.94%*	*na*
Portable Alpha Wind Down (6)	**2.36%**	**0.29%**	**-8.55%**	**na**
HFRI Fund of Funds Composite Index (7)	*7.22%*	*3.09%*	*-2.83%*	*na*
	1 Year	**3 Year**	**5 Year**	**10 Year**
Total PRIT Core	**12.73%**	**11.30%**	**3.43%**	**8.12%**
Policy Benchmark	*10.90%*	*9.75%*	*3.53%*	*7.76%*
TUCS Universe Median	*12.61%*	*11.39%*	*5.16%*	*7.23%*
TUCS Universe Ranking	*46th*	*57th*	*93rd*	*15th*

(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, 2013

	Fair Value ($000s)	% of Fair Value
Short-term:		
Money market investments	$ 929,693	1.70%
Fixed income:		
U.S. Government obligations	2,766,668	5.07%
Domestic fixed income	5,371,997	9.84%
International fixed income	3,081,168	5.64%
Distressed debt	1,252,193	2.29%
Equity:		
Domestic equity securities	9,812,019	17.96%
International equity securities	12,817,709	23.47%
Real estate	5,883,427	10.77%
Timber	1,368,309	2.51%
Private Equity:		
Venture capital	1,230,407	2.25%
Special equity	5,130,189	9.39%
Hedge Funds:		
Hedge Funds	4,903,393	8.98%
Portable Alpha Wind Down	72,273	0.13%
Total investments	$ 54,619,445	100.00%

SUMMARY SCHEDULE OF BROKER COMMISSIONS

(Top 25 Brokers and Cumulative Fees Paid to Others)
Fiscal Year Ended June 30, 2013

Brokerage Firms	Fees Paid ($)	% Total	Average $ per share
UBS	$ 618,307	10.6%	0.002
Credit Suisse	495,517	8.5%	0.003
Merrill Lynch	480,134	8.3%	0.006
JP Morgan Securities	354,496	6.1%	0.005
Citigroup Global Markets	352,940	6.1%	0.003
Deutsche Bank	317,328	5.5%	0.003
Goldman Sachs	275,056	4.7%	0.003
Credit Lyonnais Securities	215,186	3.7%	0.004
Morgan Stanley & Co.	181,536	3.1%	0.003
Macquarie	155,767	2.7%	0.002
HSBC	132,168	2.3%	0.004
Instinet Corp	106,549	1.8%	0.005
Jefferies & Co Inc.	96,943	1.7%	0.008
BNP Paribas	83,098	1.4%	0.001
Capital Institutional Services	69,839	1.2%	0.022
Weeden & Co.	65,349	1.1%	0.017
BNY ConvergEx	64,853	1.1%	0.022
Barclays	61,945	1.1%	0.011
Investment Technology Group	56,773	1.0%	0.002
William Blair & Company	52,771	0.9%	0.037
Sanford C. Bernstein & Co.	52,322	0.9%	0.002
UOB Kay Hian Private Ltd.	51,917	0.9%	0.004
Nomura	51,219	0.9%	0.002
Banco BTG Pactual SA	50,774	0.9%	0.011
Robert W. Baird & Co.	44,878	0.8%	0.038
Other	1,327,022	22.8%	0.006
Totals	$ 5,814,687	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, 2013 the PRIT Fund earned approximately $19 thousand from the commission recapture program.

SCHEDULE OF DIRECT PRIT MANAGEMENT FEES

Fiscal Year Ended June 30, 2013

Investment Management Fees by Asset Class:	($000s)
Domestic Equity	$ 5,625
International Equity	15,211
Core Fixed Income	6,737
Value-Added Fixed Income	9,719
Emerging Markets Equity	10,747
Real Estate	4,662
Timber/Natural Resources	2,411
Private Equity	2,424
Total Investment Management Fees	57,536
Investment Advisory (Consulting) Fees	4,529
Custodian Fees	2,700
Other Administrative Fees	8,606
Total Direct Management Fees charged to PRIT	$ 73,371

SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT

Segmentation Accounts invested as of June 30, 2013

Retirement System	Net Asset Vaules ($000s) 6/30/13	General Allocation	Domestic Equity	International Equity	Emerging Markets	Core Fixed Income	Real Estate	Private Equity	Hedge Funds	Value Added Fixed Income
Amesbury	$ 39,926	x								
Andover	$ 97,025	x								
Arlington	$ 108,662	x								
Athol	$ 18,002	x								
Attleboro	$ 5,080								x	
Barnstable	$ 686,414	x								
Belmont	$ 21,494	x		x			x	x	x	
Berkshire	$ 160,220	x								
Beverly	$ 82,997	x								
Blue Hills	$ 8,070	x								
State Boston/Teachers	$ 1,309,383	x								
Braintree	$ 37,892	x					x		x	
Bristol County	$ 22,219								x	
Brookline	$ 43,106	x			x		x		x	
Cambridge	$ 57,904								x	
Chelsea	$ 95,331	x								
Chicopee	$ 23,409						x		x	
Clinton	$ 32,001	x	x		x		x	x		
Concord	$ 45,404	x					x	x		
Danvers	$ 27,261			x	x			x	x	
Dedham	$ 94,597	x								
Dukes County	$ 47,256	x		x			x			
Easthampton	$ 35,473	x								
Essex	$ 269,447	x								
Everett	$ 77,566	x								
Fairhaven	$ 42,159	x								
Fall River	$ 197,485	x								
Falmouth	$ 9,102								x	
Fitchburg	$ 80,625	x								
Framingham	$ 217,399	x								
Franklin County	$ 59,303	x					x			
Gardner	$ 39,927	x								
Gloucester	$ 72,164	x								
Greenfield	$ 50,082	x								
Hampden County	$ 236,893	x								
Hampshire County	$ 59,362				x		x	x	x	
Haverhill	$ 56,084				x	x	x	x	x	x
Hingham	$ 81,740	x	x	x	x	x	x	x	x	x
Holyoke	$ 7,803								x	
Hull	$ 29,751	x								
Lawrence	$ 146,896	x								
Leominster	$ 69,042	x							x	
Lowell	$ 254,384	x								
Lynn	$ 201,587	x								
Marblehead	$ 79,847	x								
Mass Turnpike	$ 180,713	x								
Massport	$ 61,067						x	x		

SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT, continued

Segmentation Accounts invested as of June 30, 2013

Retirement System	Net Asset Vaules ($000s) 6/30/13	General Allocation	Domestic Equity	International Equity	Emerging Markets	Core Fixed Income	Real Estate	Private Equity	Hedge Funds	Value Added Fixed Income
Maynard	$ 12,050				x	x	x			
Medford	$ 29,486						x	x	x	
Melrose	$ 57,092	x								
Methuen	$ 85,702	x								
Middlesex	$ 829,278	x								
Milford	$ 63,148	x								
Milton	$ 90,353	x								
Minuteman	$ 11,350	x								
Montague	$ 28,445	x								
MWRA	$ 30,664	x					x	x	x	
Natick	$ 12,353	x					x	x	x	
Needham	$ 114,935	x								
Newburyport	$ 54,543	x								
Newton	$ 246,538	x								
Norfolk	$ 28,962						x		x	
North Adams	$ 1,285							x	x	
Northbridge	$ 24,014	x								
Northampton	$ 1,499							x	x	
Norwood	$ 18,588						x		x	
Peabody	$ 110,736	x								
Pittsfield	$ 89,561	x								
Plymouth	$ 20,570	x					x	x	x	
Quincy	$ 13,514	x						x	x	
Reading	$ 100,101	x								
Revere	$ 104,022	x								
Salem	$ 100,758	x								
Saugus	$ 68,919	x								
Shrewsbury	$ 76,819	x	x	x		x	x			
Southbridge	$ 30,002	x								
Springfield	$ 240,312	x								
State Employees'	$ 20,840,409	x								
State Retiree Benefits Trust	$ 454,388	x								
State Teachers'	$ 22,480,319	x								
Stoneham	$ 61,777	x								
Swampscott	$ 25,781	x								
Wakefield	$ 89,733	x								
Waltham	$ 144,632	x								
Watertown	$ 23,583		x				x	x	x	
Webster	$ 5,232						x	x	x	
Wellesley	$ 126,273	x								
Westfield	$ 19,541						x		x	
Weymouth	$ 23,565						x		x	
Winchester	$ 22,566					x			x	
Winthrop	$ 44,398	x								
Woburn	$ 36,223			x	x		x		x	x
Worcester	$ 35,320						x			
Worcester Regional	$ 420,732	x								
	$ 53,229,625									

INVESTMENT POLICY STATEMENT

The following are significant elements and related excerpts from the PRIM Board's investment policy statement. 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 8.00% (previously 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 (1/1/13) estimated a 60.6% funded ratio.

C. Commission Recapture Policy

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

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

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

D. Rebalancing Policy

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

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

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

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

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

E. Proxy Voting Policy

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

The purpose of this policy is to outline the general principles applied by the Board in voting proxies. The Board recognizes that in applying these general rules 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 ("ETIs") 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 Position

For Fiscal Years Ending June 30

Additions	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
State Employees contributions	$ 529,031	$ 544,166	$ 538,898	$ 475,591	$ 462,471	$ 464,330	$ 420,199	$ 409,515	$ 366,262	$ 362,309
State teachers contributions	669,815	640,056	616,533	593,147	599,410	573,984	548,229	527,820	506,711	522,133
Other participants contributions	613,345	898,837	1,535,681	620,865	991,362	2,347,537	1,047,285	759,088	111,557	257,892
Net investment income (loss)	5,922,932	(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
Total additions to pooled net position	7,735,123	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
Deductions										
State employees warrants	347,330	315,943	282,398	259,285	242,694	239,452	227,510	218,831	211,746	207,569
State teachers warrants	496,987	451,844	418,153	388,366	361,773	341,575	299,612	273,209	234,729	201,490
Participants redemptions	683,279	532,873	508,579	364,648	383,748	202,723	128,843	108,577	164,889	84,627
State appropriation funding	1,815,315	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
Operating expenses	30,394	28,447	26,391	27,332	24,954	23,294	15,447	18,305	17,057	14,107
Total deductions to pooled net position	3,373,305	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
Changes in pooled net position	$ 4,361,818	$ (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

The above table provides additional information regarding changes in pooled net position from that presented in the Statement of Changes in Pooled Net Position 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 Schedules of Changes in Pooled Net Position - Capital Fund and Cash Fund provided in the Financial Section.

Financial Highlights and Financial Highlights Ratios

Pages 111-112 provide the financial highlights of the PRIT Core Fund for the year ended June 30, 2013. In addition, pages 113-116 provide additional financial highlights ratios for the nine previous fiscal year ends. 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, 2013

	General Allocation Account	Domestic Equity Account	International Equity Account	Emerging Markets Account	Core Fixed Income Account	Value-Added Fixed Income Account	Distressed Debt Account (4)		Hedge Funds Account	Portable Alpha Wind Down Account	Private Equity Account	Private Equity Vintage Year 2000 Account	Private Equity Vintage Year 2001 Account
Net asset value, beginning of year	$ 217.02	155.65	191.14	365.46	226.66	264.07	100.00		63.68	100.69	342.67	214.46	429.61
Investment operations:													
Net investment income (loss)(1)	5.90	3.52	6.37	10.49	4.32	9.84	2.59		(0.03)	(0.03)	17.14	9.65	12.17
Net realized and unrealized gain (loss) on investments and foreign currency	20.74	30.69	30.59	8.16	(5.35)	(1.74)	6.57		7.80	2.44	(5.89)	8.96	31.57
Total from investment operations	26.64	34.21	36.96	18.65	(1.03)	8.10	9.16		7.77	2.41	11.25	18.61	43.74
Net asset value, end of year	$ 243.66	189.86	228.10	384.11	225.63	272.17	109.16		71.45	103.10	353.92	233.07	473.35
Ratios and supplementary data:													
Total net return(2)	12.28%	21.98%	19.34%	5.10%	(0.45)%	3.07%	9.16%	(3)	12.20%	2.39%	3.28%	8.68%	10.18%
Net assets, end of year ($'000s)	$ 52,274,725	11,066,413	9,531,557	3,438,125	6,712,701	3,444,265	1,269,546		4,903,178	72,275	160,679	173,402	189,340
Units outstanding, end of year ('000s)	214,541	58,286	41,787	8,951	29,751	12,655	11,630		68,628	701	454	744	400
Ratios to average net assets:													
Ratio of expenses, including indirect management fees	0.55%	0.08%	0.19%	0.33%	0.14%	0.85%	0.92%	(3)	1.33%	0.13%	—%	0.39%	0.59%
Ratio of expenses, excluding indirect management fees	0.14%	0.08%	0.19%	0.32%	0.12%	0.34%	0.01%	(3)	0.05%	0.02%	(0.03)%	0.07%	0.09%
Ratio of net investment income (loss)	2.53%	2.02%	2.93%	2.59%	2.87%	6.27%	2.37%	(3)	(0.05)%	(0.02)%	3.86%	4.02%	2.53%

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.
(4) Prior to April 1, 2013, Distressed Debt assets were reflected in the Value-Added Fixed Income Account.

Financial Highlights, continued

For the year ended June 30, 2013

	Private Equity Vintage Year 2002 Account	Private Equity Vintage Year 2003 Account	Private Equity Vintage Year 2004 Account	Private Equity Vintage Year 2005 Account	Private Equity Vintage Year 2006 Account	Private Equity Vintage Year 2007 Account	Private Equity Vintage Year 2008 Account	Private Equity Vintage Year 2009 Account	Private Equity Vintage Year 2010 Account	Private Equity Vintage Year 2011 Account	Private Equity Vintage Year 2012 Account	Real Estate Account	Timber/ Natural Resources Account
Net asset value, beginning of year	$ 172.16	275.87	56.95	88.69	60.28	18.28	57.67	50.11	60.18	42.92	13.40	350.92	213.68
Investment operations:													
Net investment income (loss)(1)	2.01	6.65	1.12	2.41	1.22	0.31	0.64	0.42	0.22	(1.01)	(4.94)	16.89	0.29
Net realized and unrealized gain (loss) on investments and foreign currency	18.29	5.83	3.93	9.18	6.79	2.32	9.72	7.42	8.45	0.16	2.01	26.22	13.10
Total from investment operations	20.30	12.48	5.05	11.59	8.01	2.63	10.36	7.84	8.67	(0.85)	(2.93)	43.11	13.39
Net asset value, end of year	$ 192.46	288.35	62.00	100.28	68.29	20.91	68.03	57.95	68.85	42.07	10.47	394.03	227.07
Ratios and supplementary data:													
Total net return(2)	11.79%	4.52%	8.87%	13.07%	13.29%	14.39%	17.96%	15.65%	14.41%	(1.98)%	(21.87)%	12.28%	6.27%
Net assets, end of year ($'000s)	$ 58,316	270,764	265,784	801,538	1,217,424	1,212,620	895,341	301,492	391,799	201,700	61,569	4,382,052	2,129,694
Units outstanding, end of year ('000s)	303	939	4,287	7,993	17,827	57,995	13,161	5,203	5,691	4,794	5,879	11,121	9,379
Ratios to average net assets:													
Ratio of expenses, including indirect management fees	0.77%	0.90%	0.94%	1.01%	0.97%	1.70%	1.88%	3.26%	3.69%	7.38%	14.26%	0.49%	0.67%
Ratio of expenses, excluding indirect management fees	0.05%	0.05%	0.12%	0.09%	0.10%	0.04%	0.16%	0.04%	0.04%	0.17%	0.08%	0.13%	0.15%
Ratio of net investment income (loss)	1.19%	2.11%	1.60%	2.49%	1.84%	1.58%	1.03%	0.79%	0.36%	(0.13)%	(0.22)%	4.56%	0.13%

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 Ratios

For the years ended June 30, 2012-2004

	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:												
2012												
Total net return (1)	(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 ($'000s)	48,101,609	9,415,207	8,155,824	3,261,031	6,352,958	4,180,242	4,809,557	110,458	177,159	278,587	242,301	66,969
Units outstanding, end of year ('000s)	221,647	60,491	42,670	8,923	28,029	15,830	75,522	1,097	517	1,299	564	389
2011												
Total net return (1)	21.97%	32.07%	30.69%	28.88%	5.31%	16.18%	7.48%	6.43%	20.27%	15.85%	23.12%	32.48%
Net assets, end of year ($'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
Ratios to average net assets:												
2012												
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%
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)%

Financial Highlights Ratios, continued

For the years ended June 30, 2012-2004

	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
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)%
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)%

(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, 2012-2004

	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	Vintage Year 2012 Account	Core Real Estate Account	Noncore Real Estate Account	Timber / NR Account
Ratios and supplementary data:													
2012													
Total net return (1)	0.80%	9.06%	16.13%	13.20%	11.33%	14.15%	0.62%	(9.88)%	(54.42)%	(86.60)% (2)	9.41%	N/A	(8.68)%
Net assets, end of year ($'000s)	345,110	360,592	879,582	1,291,372	1,072,936	685,645	184,789	214,792	97,989	134	4,724,457	N/A	1,903,043
Units outstanding, end of year ('000s)	1,251	6,332	9,918	21,422	58,687	11,889	3,688	3,569	2,283	10	13,463	N/A	8,906
2011													
Total net return (1)	22.22%	50.10%	19.74%	23.61%	20.56%	20.34%	(7.45)%	(29.52)%	(5.84)% (2)	N/A	20.17%	N/A	19.20%
Net assets, end of year ($'000s)	416,819	415,720	872,773	1,208,620	804,057	439,750	86,944	44,610	1,789	N/A	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	N/A	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	N/A	2.35%	N/A	(5.90)%
Net assets, end of year ($'000s)	411,075	365,651	750,824	913,119	467,426	203,969	18,978	7,080	N/A	N/A	3,767,749	N/A	1,671,981
Units outstanding, end of year ('000s)	1,826	10,458	11,670	20,982	33,927	4,786	349	74	N/A	N/A	13,815	N/A	8,517
2009													
Total net return (1)	(22.82)%	(19.91)%	(25.79)%	(23.62)%	(19.41)%	N/A	N/A	N/A	N/A	N/A	(23.90)%	(100.00)%	(14.84)%
Net assets, end of year ($'000s)	393,043	318,973	629,918	708,085	285,173	62,947	N/A	N/A	N/A	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	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	N/A	4.41%	N/A	20.69%
Net assets, end of year ($'000s)	531,381	388,181	748,612	783,796	163,835	8,038	N/A	N/A	N/A	N/A	5,520,030	2	1,065,586
Units outstanding, end of year ('000s)	2,272	10,222	10,060	16,056	10,778	91	N/A	N/A	N/A	N/A	16,109	—	4,350
2007													
Total net return (1)	63.10%	22.32%	13.02%	(38.73)%	—% (2)	N/A	N/A	N/A	N/A	N/A	15.65%	318.62%	14.67%
Net assets, end of year ($'000s)	555,480	319,874	385,139	251,773	740	N/A	N/A	N/A	N/A	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	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	N/A	22.70%	106.43%	18.52%
Net assets, end of year ($'000s)	351,371	143,419	106,808	3,182	N/A	N/A	N/A	N/A	N/A	N/A	4,618,446	38	1,480,574
Units outstanding, end of year ('000s)	2,911	5,596	1,982	41	N/A	N/A	N/A	N/A	N/A	N/A	16,275	—	8,365
2005													
Total net return (1)	12.58%	(73.15)%	(20.63)% (2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	29.33%	(30.98)%	11.54%
Net assets, end of year ($'000s)	178,524	13,401	910	N/A	N/A	N/A	N/A	N/A	N/A	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	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	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	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	N/A	10,226	55,325	6,957
Ratios to average net assets:													
2012													
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% (2)	0.50%	N/A	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% (2)	0.15%	N/A	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)% (2)	4.59%	N/A	0.03%
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%	N/A	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%	N/A	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)%	N/A	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	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	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	N/A	4.80%	N/A	0.60%

Financial Highlights Ratios, continued

For the years ended June 30, 2012-2004

	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
2009									
Ratio of expenses, including indirect management fees	0.96%	1.67%	1.67%	2.20%	7.96%	23.91%	(0.26)%	N/A	1.00%
Ratio of expenses, excluding indirect management fees	0.06%	0.27%	0.18%	0.28%	0.05%	0.06%	(0.59)%	N/A	0.60%
Ratio of net investment income (loss)	0.37%	0.43%	0.12%	0.31%	0.37%	4.62%	5.53%	N/A	(0.90)%
2008									
Ratio of expenses, including indirect management fees	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%

(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.

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Domestic Equity	20.8%	19.2%	22.0%	19.9%	24.4%	26.1%	29.9%	27.5%	32.6%	39.0%
International Equity	18.0%	16.7%	21.7%	20.0%	19.0%	20.0%	21.0%	19.8%	15.6%	16.3%
Emerging Markets	6.5%	6.7%	6.6%	5.7%	5.0%	5.5%	5.5%	5.9%	5.7%	5.5%
Fixed Income	12.6%	13.0%	13.2%	14.0%	13.0%	16.8%	15.4%	15.4%	16.2%	18.0%
Value-Added Fixed Income	8.9%	8.6%	6.0%	7.0%	7.7%	5.0%	4.6%	5.3%	7.5%	7.0%
Private Equity	11.7%	12.1%	10.7%	10.6%	9.6%	8.4%	6.7%	6.5%	6.0%	5.7%
Real Estate	8.2%	9.7%	8.2%	9.1%	10.9%	10.9%	8.6%	11.0%	8.1%	5.6%
Timber/Natural Resources	4.0%	3.9%	4.0%	4.1%	4.7%	2.1%	3.2%	3.5%	3.6%	2.9%
Hedge Funds	9.2%	9.9%	7.2%	7.7%	5.7%	5.2%	5.1%	5.1%	4.8%	0.0%
Portable Alpha Wind Down (1)	0.1%	0.2%	0.4%	1.9%	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.

Massachusetts Pension Reserves Investement Trust Fund

84 State St. Boston, MA 02109

www.mapension.com