# PENSION RESERVES INVESTMENT TRUST FUND

(A Component Unit of the Commonwealth of Massachusetts)

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2015

(With Basic Financial Statements for the Fiscal Years Ended June 30, 2015 and 2014)

Deborah B. Goldberg, Treasurer and Receiver General, Chair

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

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(With Basic Financial Statements for the Fiscal Years Ended June 30, 2015 and 2014)

#### **Prepared By**

**Pension Reserves Investment Management Board Staff** 

#### For More Information

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# **Introductory Section**



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84 State Street, Second Floor Boston, Massachusetts 02109 Deborah B. Goldberg, Treasurer and Receiver General, Chair Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer

December 1, 2015

To Chairman Goldberg, the Trustees of the Pension Reserves Investment Management Board (the 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 Fund (the PRIT Fund) for the fiscal year ending June 30, 2015. The document that follows is the 11<sup>th</sup> consecutive CAFR to be produced in the 31-year existence of the PRIM Board as Trustee of the PRIT Fund. We hope that you will find the CAFR useful in understanding the performance and financial position of the PRIT Fund as of June 30, 2015.

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 2015 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 the PRIM Board'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. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements.

#### 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 August 28, 2015, calculated the Commonwealth's unfunded actuarial pension liability at \$33.4 billion. The PERAC valuation report estimates that, as of January 1, 2015, the pension liability is 59.0% funded using a target date of 2036. It should be noted that the unfunded actuarial pension liability is calculated on a calendar year basis.

The PRIM Board seeks to maximize the return on the PRIT Fund investments within acceptable levels of risk by broadly diversifying its investment portfolio, capitalizing on economies of scale to achieve cost-effective operations, and gaining access to high quality, innovative investment management firms. 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, 2015, the PRIT Fund had approximately \$61.2 billion in net position compared to \$60.7 billion at the end of fiscal year 2014, which is an increase of \$567.0 million in net position. 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.

#### Executive Director/ Chief Investment Officer Discussion

Fiscal 2015 was a transition year for PRIM as we welcomed a new Chair, Treasurer Deborah B. Goldberg, two new Board members, and seven new committee members. As anticipated, financial markets transitioned to a lower return environment and the PRIT Fund returned 3.9% in the fiscal year, 113 basis points above benchmark, and in the top one-third of our peer group. It is noteworthy that this performance followed two exceptionally strong years in fiscal 2013 and fiscal 2014, in which the PRIT fund was up 12.7% (183 basis points above benchmark) and 17.6% (268 basis points above benchmark), respectively.

Furthermore, the PRIT Fund return of 11% per year annualized over the past five years, the period marking the economic recovery since the world financial crisis, is gratifying because this high performance was achieved while we prepared for a slower growth, lower return environment by reducing the Fund's exposure to riskier investments. As a reminder, the asset allocation changes over the past five years included reducing the Global Equity target allocation from 49% to 40%, adding long-duration Treasury bond exposure, and adding low volatility Portfolio Completion Strategies. Given the volatility in the markets since the end of June, these changes have proven to be very well-timed.

Organizationally, fiscal 2015 was an outstanding year. Only one senior-level employee departed this year for personal reasons, and I am happy to report that we are nearly fully-staffed with exceptional investment and finance professionals. Our team continues to be recognized around the nation for the success and innovation of our investment program and for the transparency and completeness of our financial reporting. We have never been stronger, but retention of key employees remains my primary concern. The employment environment in the nation and in the region is strong, there are opportunities for our employees outside of PRIM, and I have spent a considerable amount of time and effort on retention strategies for key PRIM employees. We must all be vigilant to ensure that we provide a challenging and rewarding opportunity for all of our employees.

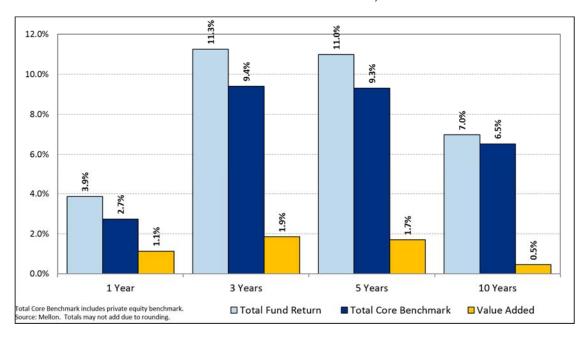
#### **PRIT Fund Performance**

As of June 30, 2015, the PRIT Fund net position stood at \$61.2 billion. The PRIT Fund's trailing 1, 3, 5, and 10-year returns remain strong both on an absolute and on a relative basis.

- The PRIT Fund was up 3.9% for FY2015, outperforming its benchmark by 113 basis points.
- The return equates to an investment gain of \$2.4 billion.
- The outperformance equates to added value of \$684 million above the benchmark return.
- Net total outflows to pay benefits for the fiscal year were approximately \$1.5 billion.
- At \$61.2 billion, the PRIT Fund ended the fiscal year with its highest net position since inception in 1984.

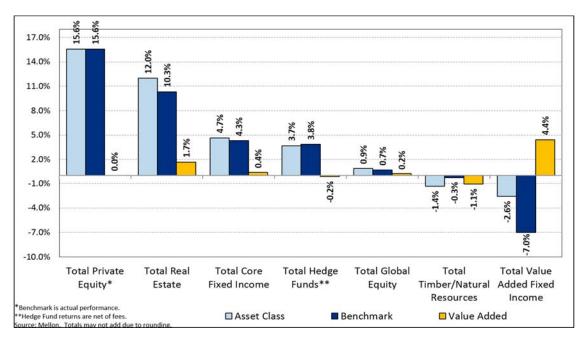
#### PRIT Total Core Fund Returns (Gross of Fees)

Annualized Returns as of June 30, 2015



#### PRIT Asset Class Performance (Gross of Fees)





#### PRIT Asset Class Performance (Gross of Fees) Annualized Return as of June 30, 2015

1 Year	3 Year	5 Year	10 Year
Private Equity 15.6%	Private Equity 18.7%	Private Equity 18.4%	Private Equity 16.9%
Real Estate 12.0%	Global Equity 13.7%	Real Estate 13.8%	Real Estate 8.6%
Core Fixed Income 4.7%	Real Estate 12.8%	Global Equity 12.7%	Value-Added Fixed Income 7.7%
Hedge Funds 3.7%	Hedge Funds 8.8%	Value-Added Fixed Income 7.0%	Global Equity 6.7%
Global Equity 0.9%	Timber / Natural Resources 6.2%	Hedge Funds 6.4%	Timber / Natural Resources 6.4%
Timber / Natural Resources (1.4%)	Value-Added Fixed Income 4.9%	Timber / Natural Resources 5.8%	Hedge Funds 4.9%
Value-Added Fixed Income (2.6%)	Core Fixed Income 3.3%	Core Fixed Income 4.7%	Core Fixed Income 4.7%

# PRIT Core Fund Performance Summary Gross of Fees Performance Trailing 1-Year Performance as of June 30, 2015

Trailing 1-Year Performance: June 30, 2015	Return	Benchmark Return	Over/(Under) Benchmark (bps)	\$Value (millions)	% of PRIT Fund **
Total PRIT Fund	3.9%	2.7%	113	61,174	100%
Total Global Equity	0.9%	0.7%	19	26,098	42.7%
Domestic Equity	6.8%	7.1%	(37)	11,745	19.2%
International Developed	-2.8%	-4.5%	178	10,341	16.9%
Emerging Markets	-5.9%	-3.9%	(193)	4,011	6.6%
Private Equity	15.6%	*	*	6,936	11.3%
Real Estate	12.0%	10.3%	167	6,093	10.0%
Timberland/Natural Resources	-1.4%	-0.3%	(107)	2,347	3.8%
Hedge Funds	3.7%	3.8%	(16)	5,575	9.1%
Value Added Fixed Income	-2.6%	-7.0%	441	5,053	8.3%
Core Fixed Income	4.7%	4.3%	38	8,378	13.7%

<sup>\*</sup>Private Equity, a long-term asset class, does not have a relevant 1-year benchmark.

<sup>\*\*</sup>Total does not add to 100% due to small allocations such as Portfolio Completion Strategies not included in this chart.

#### **Summary of Fiscal Year 2015 Key Accomplishments**

#### A. Organizational.

#### 1. Maintained low employee turnover

Only one senior member of team departed in fiscal year 2015 (for personal reasons).

#### 2. Implemented PRIM Professional Development Program

- Launched a cross-training and career development program.
- Designed to develop employee interdisciplinary skills and to reduce organizational silos.
- Allows high-performing employees to grow their expertise beyond their core responsibilities.
- Participants will rotate through private equity, real estate, hedge funds and risk management for four month intervals to learn more about them, to contribute to their work, and to encourage cross fertilization of ideas and initiatives.

#### 3. Initiated diversity staffing initiatives

- Met with local industry leaders to learn about their diversity recruiting initiatives.
- Expanded pool of applicants by building relationships with affinity groups including: National Association of Black Accountants (NABA), Robert Toigo Foundation, 17 local university and college affinity groups, 100 Women in Hedge Funds, and the Boston Club.
- Joined Boston Securities Analysts Society Women's Initiative.
- Joined Invest in Girls.
- PRIM representative attended the AI—CIO: "The Missing Women of Asset Management Conference".
- PRIM representative attended the CFA/AIF Women Investors Conference.
- Worked cooperatively with Treasurer Goldberg and the Office of Economic Empowerment to supplement state-wide efforts.

#### 4. Maintained an organizational culture that is innovative, professional, and productive.

- Maintained sense of collegiality and camaraderie among PRIM Board, committee, and staff members.
- Built a reputation among other large public pension funds, and other state agencies, for being a very effective, well-run organization.

# 5. Successfully completed the first phase of Project SAVE ("Strategic Analysis for Value Enhancement").

 Launched in January 2013, the project realized over \$120 million in value enhancement initiatives.

- The Project SAVE philosophy is now firmly a part of PRIM's culture and processes an integral and important part of every decision we make.
- Project SAVE has been nationally recognized for its innovation and success.
- The following is a summary of the progress-to-date on Project SAVE:

Project SAVE Initiative	Annualized Value Target	Annualized Value Realized	% of Target Achieved
Hedge Fund-of-Funds Unwind	\$40 mm	\$38.2 mm	96
Cash Overlay Program	\$20 mm	\$42.3 mm	100
Public Markets Fee Negotiations	\$1.5 mm	\$1.94 mm	100
Private Equity Co-Investment	\$25 mm	\$820,000	3
Hedge Fund Replication	\$7 mm	\$7.4 mm	100
Securities Litigation	\$700,000	\$576,000	82
Security Lending	\$15 mm	\$10 mm	67
Hedge Fund Fee Negotiations & Managed Accounts	\$10.9 mm	\$20.6 mm	100
Private Equity Stock Distribution	\$250,000	\$132,000	53
Real Estate Co/Direct Investing	\$2 mm	\$0	0
Totals	\$122,350,000	\$121,968,000	99.7%

#### Encouraged professional and continuing education to all PRIM Board, committee and staff members.

- PRIM staff frequently participates in educational courses, conferences and functions with financial services trade and peer organizations to discuss industry issues and share ideas with peers.
- Our staff credentials: 2 Ph.D.s, 10 Master's Degrees, 1 J.D., 6 CFAs, 5 CPAs, and 18 CFA Claritas.

#### 7. Implemented an enhanced, proactive communications program.

Streamlined media response protocol. Created an efficient media response protocol for handling a high volume of industry related media inquiries, ensuring that they are handled promptly and carefully, keeping in mind the interests of the PRIT Fund and its constituents, as well as relationships with media members.

- 8. Continued to support the Commonwealth's State Retiree Benefits Trust Fund (SRBTF) clients and onboard their Other Post-Employment Benefits (OPEB) assets to PRIM.
  - Supported 43 OPEB accounts (up from 25 last year) with \$850 million in assets invested in the PRIT Fund.
  - Developed accounting system to track PRIM costs associated with supporting SRBTF activities and implemented an interagency cost reimbursement system. The SRBTF reimburses PRIM to support this initiative.
  - Developed an accounting system with our custodian to enable the SRBTF Board to accept and invest OPEB assets from other Commonwealth municipalities and agencies.
  - Supported appropriate legislative initiatives to enable and streamline the SRBTF/PRIM relationship.

#### B. Investments, Legal, Finance, Operations and Technology.

#### 1. Asset Allocation Changes.

- Implemented the asset allocation recommendations approved by the PRIM Board on February 11, 2015 to lower the risk profile of the PRIT Fund.
- Developed proprietary asset allocation tools to help identify factors that drive performance of individual asset classes. Tools are used to inform our asset allocation decisions and to challenge the recommendations of our asset allocation consultant.

Approved Asset Allocation (	Changes
-----------------------------	---------

	2014	2015	Change
U.S. Large Cap	14.5%	14.5%	
U.S. Small/Mid Cap	3.5%	3.5%	
International	16%	16%	
Emerging Markets	6%	6%	
Total Global Equity	40%	40%	
Core Bonds	0%	3%	+3%
20+ Year Treasury Strips*	10%	7%	-3%
TIPS	3%	3%	
Total Core Fixed Income	13%	13%	
High Yield	1.5%	1.5%	
Bank Loans	1.5%	1.5%	
EMD (Dollar Denominated)	1.0%	1.0%	
EMD (Local Currency)	2.0%	2.0%	
Private Debt	4%	4%	
Total Value Added Fixed Income	10%	10%	
Private Equity	10%	10%	
Real Estate	10%	10%	
Timber	4%	4%	
Hedge Funds	9%	9%	
Portfolio Completion Strategies	4%	4%	
5-7 Year Expected Return	6.8%	6.8%	
30 Year Expected Return	7.9%	7.9%	
Risk (Std. Deviation)	12.5%	12.6%	+0.1%
Sharpe Ratio	0.41	0.40	-0.01

<sup>\*</sup> Subsequently reduced to 5% target (June 4, 2015)

#### 2. Risk Management.

- Updated the Investment Policy Statement to reflect new initiatives of the PRIT Fund.
- Implemented the Securities Lending Program in January 2015, which will add approximately \$10-\$15 million in annual returns to the PRIT Fund.
- Continued to utilize PRIM's risk tools by working with all asset class teams on various investment projects including asset allocation, investment manager RFP searches, and hedge fund monitoring.

#### 3. Public Markets.

- Completed foreign exchange hedging research.
- Concluded emerging markets equity Request for Proposal utilizing PRIM-developed proprietary screening tools. Seven new portfolios were funded with a total of \$3 billion.

#### 4. Private Equity.

- Completed 18 new investments totaling \$2.2 billion in new commitments.
- Declined new investments with 14 existing managers.
- Launched a new private-equity co-investment program which, when fully-implemented, will significantly reduce the cost of private equity investing.
- Implemented enhanced stock distribution process at lower cost; projected annual savings of \$250,000.
- Completed research on buyouts space to supplement proprietary sourcing process.
- Increased M.G.L. Chapter 240-compliant investments (Economic Development Reorganization Act of 2010) by 50%, raising PRIM's total investment in Chapter 240 compliant vehicles to \$77 million as of June 2015.

#### 5. Hedge Funds and Low Volatility Strategies.

- Successfully negotiated all new hedge fund investments in Managed Account format with significant fee discounts. Over \$1 billion are invested in managed accounts across hedge funds and Portfolio Completion Strategies (PCS).
- Internally-developed, low cost, Hedge Fund Replication strategy achieved success in its first year. PRIM replication returned 12.3% versus 6.3% for S&P 500 Index and 10.8% for underlying funds. 1.3 information ratio since inception (6/30/2015).
- Identified multiple areas of investment for PCS, including alternative risk premia, unconstrained fixed-income, and real asset investing.

#### 6. Real Estate and Timberland.

• FY 2015 Transaction Activity – approximately: \$1 billion in real estate acquired (core / non-core real estate), \$600 million in dispositions, \$81 million timberland acquired.

 Direct Real Estate Investment Strategy – Staff underwrote and bid on PRIM's first ever direct real estate acquisition. Came in second in bid process losing to a strategic buyer who paid a premium for synergies related to its other holdings. Developed a framework for future investments (and fee savings).

#### 7. Legal.

- Successfully negotiated the settlement of the last of the three pending securities litigation class action lawsuits (Fannie Mae, Massey, and Schering Plough) in which PRIM serves as lead plaintiff:
  - Schering after extensive litigation, and on the eve of trial, achieved an all-cash \$473 million settlement, ranked among the 25 largest securities litigation settlements ever, and the largest securities litigation settlement ever against a pharmaceutical company.
  - o Massey/Alpha after extensive litigation and a multi-phase mediation proceeding, first arrived at a \$265 million total consideration settlement in phase 1 of mediation, followed by a phase 2 mediation regarding the appropriate mix of cash and stock, in which PRIM successfully avoided any non-cash component, and instead received an all-cash payment of the entire \$265 million (and Alpha subsequently filed for bankruptcy in August 2015.)
  - Fannie Mae after extensive litigation and mediation, reached an initial global \$170 million settlement, followed by a negotiated 73%-27% allocation between the common share class (which PRIM represents) and the preferred share class; the court granted approval of the settlement in March 2015.
- PRIM received more than \$35,000 to reimburse its costs as lead plaintiff in Schering, more than \$38,000 for its efforts as lead plaintiff in Massey, more than \$42,000 in Fannie Mae, in addition to \$100,000 for legal expenses in the BNY Mellon settlement, for a total of nearly \$215,000 in reimbursed legal expenses.
- Passive class member domestic securities class action litigation: continue to study and improve PRIM's litigation claims and monitoring systems, and continue to increase settlement recoveries through improved claims-filing procedures, to ensure that no opportunities are missed and maximum recovery and participation in settlements is achieved; adopted new and innovative claims-filing method projected to result in a 10% increase annually in PRIM passive class member securities litigation settlement recoveries.
- Offensive litigation: prepared to file litigation, negotiated settlement, and/or filed litigation, including foreign securities litigation, in Australia, Belgium, France, Italy, Japan, the Netherlands, the United Kingdom, the federal court of claims in Washington DC, and federal district court in Texas.

#### 8. Finance, Operations and Technology.

- Implemented custom proxy voting guidelines which enhanced PRIM's strong stance on issues such as board diversity, labor and human rights standards, recycling, renewable energy, and tobacco advertising.
- Enhanced Private Equity Stock Distribution liquidation process.

 Developed and implemented a client service system for automating and reporting client transactions.

#### C. Recognition.

- 1. Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer, was nominated as one of five finalists for *Chief Investment Officer Magazine 2015 "CIO Industry Innovations Award."* 
  - From the editor: "The central questions of these awards: What is innovation, and who is executing it? To the CIO editorial team and the board of asset owners—the Class of 2015 winners—who advise our judgments, innovation means more than re-labeling old strategies. It means more than producing sub-par returns for above-par prices. At its core, innovation means matching new challenges with new ideas—ridding the asset management world of its sacred cows and failed strategies. And it means results."
- Michael R. Bailey, Senior Investment Officer Director of Private Equity, was nominated for the Investor Intelligence Award for Excellence in Private Equity by Investor Intelligence Network (January 7, 2015).
  - Sponsored by Institutional Investor, the Investor Intelligence Awards recognize the most outstanding and innovative public plan sponsors in North America.
- 3. Sarah N. Samuels, CFA, Deputy Chief Investment Officer, was named to <u>Chief Investment Officer</u> <u>Magazine's 2015 "40 Under 40"</u> list.
  - A worldwide award which recognizes up-and-coming asset owners who have made meaningful investment contributions to their organizations.
  - The "40 under 40" list includes asset owners from public and corporate pension plans, endowments and foundations, health care funds, and insurance funds across the globe.
- 4. Chris Supple, Deputy Executive Director and General Counsel, was awarded the <u>Commonwealth's</u> <u>Citation for Outstanding Performance</u> on September 24, 2015.
  - \$473 million recovered from Schering Plough. One of top 25 securities fraud settlements ever and the largest ever from a pharmaceutical company.
  - \$265 million recovered from Massey Energy.
  - \$170 million recovered from Fannie Mae.
  - Chris was also re-appointed to a second term as co-chair of the Securities Litigation Committee
    of the National Association of Public Pension Attorneys (NAPPA).
- 5. Buyouts Magazine in February 2015 named PRIM as the best-performing private equity portfolio of the 22 largest pensions it evaluates for the 1-year, 3-year, 5-year, and 10-year time periods.
- 6. The *Private Equity Growth Capital Council* in October 2014 named PRIM #2 best performing private equity investment portfolio of 153 U.S. public pensions it considered.

#### **Acknowledgements**

The public recognition PRIM has received could not have been achieved without the support of the PRIM Board trustees and an outstanding staff. I would like to take this opportunity to thank the Board and the PRIM team for your contributions to PRIM's many successes over the years. In particular, I would like to thank former PRIM Board trustee, Alex Aikens, who left the Board earlier this year after 15 years of service to the Commonwealth. Alex was among the most thoughtful fiduciaries to ever serve on the Board.

I am also very pleased to report that the transition to new Board leadership under Chair Goldberg has been very smooth, enjoyable and productive. It has been a pleasure to work with Chair Goldberg, her outstanding Treasury staff, and the new appointments to the Board and committees. Each member of the new team has invested a significant amount of time and effort learning about PRIM and that has enabled each member to quickly begin to contribute to PRIM's mission and success. We are all rowing in the same direction with a sense of camaraderie and purpose that I am confident will enable us to continue our high achievement.

Very respectfully,

Michael G. Trotsky, CFA

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**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, 2014

Executive Director/CEO

#### Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the PRIM Board for its comprehensive annual financial report for the fiscal year ended June 30, 2014. This was the tenth consecutive year that the PRIM Board has achieved this prestigious award. In order to be awarded a Certificate of Achievement, an entity must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

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

## **PRIM Board Trustees**

Deborah B. Goldberg, Chair, Ex Officio Member

State Treasurer & Receiver General, Commonwealth of Massachusetts

Robert L. Brousseau, Elected Representative, State Teachers Retirement System

Retired Teacher, Town of Wareham Public School System

Ruth Ellen Fitch, Appointee of the State Treasurer

Michael Heffernan, Appointee of the Governor

Anthony E. Hubbard, Esq., Appointee of the Governor, Non-State Employee or Official Member Partner, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, MA

Theresa F. McGoldrick, Esq., Elected Member, State Employees' Retirement Board President, SEIU/NAGE Unit 6

Dennis J. Naughton, Elected Member, State Teachers' Retirement Board
Retired Educator, Millis Public Schools

Dana A. Pullman, Appointee of the Governor

Treasurer, State Police Association of Massachusetts

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

## **Advisory Committees to the PRIM Board**

**Investment Committee** 

Deborah B. Goldberg, Chair

Ex Officio Board Member

Joseph C. Bonfiglio

Massachusetts & Northern New England Laborers' District Council

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

**Ruth Ellen Fitch** 

**Board Member** 

Michael Heffernan

**Board Member** 

Edward W. Kane

Senior Advisor, HarbourVest Partners, LLC

Paul E. Shanley

**Board Member** 

Glenn P. Strehle, CFA

Treasurer Emeritus, MIT

Timothy L. Vaill

Former Chairman & CEO, Boston Private Financial Current CFO, Anbaric Energy

**Real Estate Committee** 

Jill S. Hatton, CRE, Chair

Real Estate Investment Professional

Deborah B. Goldberg

Ex Officio Board Member

Anthony E. Hubbard, Esq.

**Board Member** 

**Dennis Kanin** 

**New Boston Ventures** 

Dr. Jack Lutz, PhD.

Forest Research Group

William F. McCall, Jr., CRE

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** 

Deborah B. Goldberg

Ex Officio Board Member

Ted C. Alexiades, CPFO

Hingham Town Administrator

Patrick E. Brock

Chairman, Hampshire County Retirement Board

**Joseph Connolly** 

Norfolk County Treasurer

Karen E. Gershman, CPA

Chief Operating Officer, Health Advances

**Eileen Glovsky** 

**Treasurer Appointee** 

Michael Heffernan

**Board Member** 

Theresa F. McGoldrick, Esq.

**Board Member** 

Dennis J. Naughton

**Board Member** 

Michele A. Whitham, Esq.

Partner, Foley Hoag

#### **Compensation Committee**

Michele A. Whitham, Esq., Chair

Partner, Foley Hoag

Deborah B. Goldberg

Ex Officio Board Member

Robert L. Brousseau

**Board Member** 

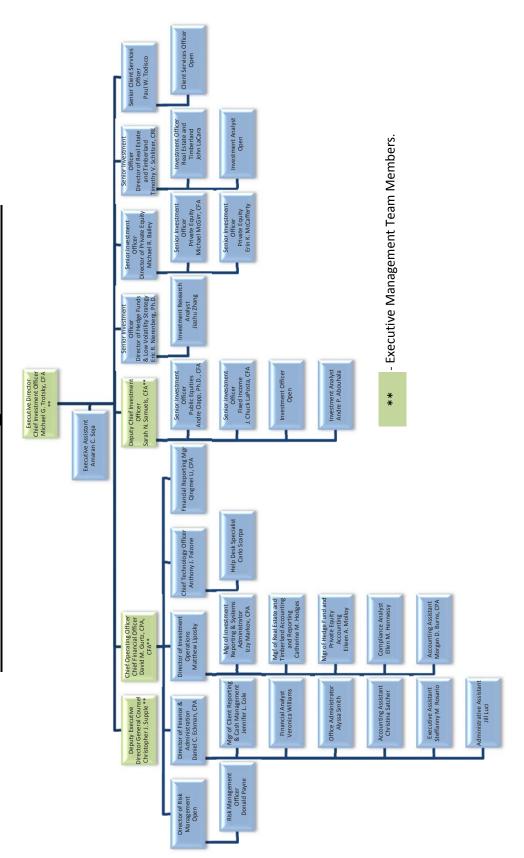
Patrick E. Brock

Chairman, Hampshire County Retirement Board

**Joseph Connolly** 

Norfolk County Treasurer

# **PRIM Board Staff Organizational Chart**



**FISCAL YEAR 2015** 

# **PRIM Board Investment Advisors**

#### **Callan Associates**

**Public Market Advisory Services** 

#### **Arden Asset Management, LLC**

**Hedge Funds Advisory Services** 

#### **Hamilton Lane**

**Private Equity Advisory Services** 

#### NEPC, LLC

**Asset Allocation Advisory Services** 

#### **The Townsend Group**

Real Estate and Timberland Advisory Services

# **Financial Section**



#### KPMG LLP

Two Financial Center 60 South Street Boston, MA 02111

#### **Independent Auditors' Report**

The Administration 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 (the PRIT Fund), a component unit of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the PRIT Fund'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, 2015 and 2014, 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 24-27 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.

#### Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the PRIT Fund's basic financial statements. The Schedule of Pooled Net Position – Capital Fund and Cash Fund and Schedule 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 on pages 58-59 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 subject 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 16, 2015 on our consideration of the PRIT Fund'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 the PRIT Fund's internal control over financial reporting and compliance.



October 16, 2015

June 30, 2015 and 2014 (Unaudited)

This section presents management's discussion and analysis of the Pension Reserves Investment Trust Fund's (the PRIT Fund's) financial performance for the fiscal years ended June 30, 2015 and 2014 and should be read in conjunction with the financial statements, which follow this section.

The PRIT Fund 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 the PRIT Fund, 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 the PRIT Fund as of June 30, 2015 and 2014 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 the PRIT Fund and provide detailed disclosures on certain account balances. The supplementary schedules of pooled net position and changes in pooled net position on pages 58 and 59 separately display the balances and activities of the Capital Fund and Cash Fund of the PRIT Fund.

The financial statements of the PRIT Fund 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).

#### **Financial Highlights**

#### Fiscal Year 2015

- The net position of the PRIT Fund increased \$567.0 million during the year ended June 30, 2015. Total net position was \$61.2 billion at June 30, 2015, compared to \$60.7 billion at June 30, 2014.
- Net investment income for fiscal year 2015 was \$2.1 billion, compared to net investment income of \$9.0 billion for the prior fiscal year. The PRIT Fund returned 3.86% in fiscal year 2015, compared to 17.53% in fiscal year 2014.
- Contributions to the PRIT Fund totaled \$2.2 billion during fiscal year 2015, compared to \$2.1 billion in 2014.

June 30, 2015 and 2014 (Unaudited)

• Redemptions from the PRIT Fund totaled \$3.7 billion during the year ended June 30, 2015, compared to \$3.6 billion during the year ended June 30, 2014.

#### Fiscal Year 2014

- The net position of the PRIT Fund increased \$7.4 billion during the year ended June 30, 2014. Total net position was \$60.7 billion at June 30, 2014, compared to \$53.2 billion at June 30, 2013.
- Net investment income for fiscal year 2014 was \$9.0 billion, compared to net investment income of \$5.9 billion for the prior fiscal year. The PRIT Fund returned 17.53% in fiscal year 2014, compared to 12.69% in fiscal year 2013.
- Contributions to the PRIT Fund totaled \$2.1 billion during fiscal year 2014, compared to \$1.8 billion in 2013.
- Redemptions from the PRIT Fund totaled \$3.6 billion during the year ended June 30, 2014, compared to \$3.4 billion during the year ended June 30, 2013.

#### **Condensed Financial Information**

Summary balances and activities of the PRIT Fund as of and for the years ended June 30, 2015, 2014, and 2013 are presented below:

		June 30		
		2015	2014	2013
			(Dollars in thousands)	_
Summary of pooled net position:				
Assets:				
Investments	\$	62,536,105	62,501,717	54,619,445
Cash		282,624	189,947	140,375
Securities lending collateral		557,158	_	_
Receivables and other assets		1,658,706	1,045,399	1,155,290
Total assets		65,034,593	63,737,063	55,915,110
Liabilities:				
Other liabilities		3,193,890	3,035,697	2,661,583
Securities lending obligations		557,135	_	_
Management fees payable to PRIM		39,823	24,592	23,902
Total liabilities		3,790,848	3,060,289	2,685,485
Net position held in trust for				
pool participants	\$	61,243,745	60,676,774	53,229,625
	==		· <del></del> -	

#### June 30, 2015 and 2014

(Unaudited)

		June 30		
	_	2015	2014	2013
			(Dollars in thousands)	
Summary of changes in pooled net position: Additions:				
Contributions	\$	2,178,927	2,050,248	1,812,191
Net investment income	_	2,073,376	8,991,375	5,922,932
Total additions		4,252,303	11,041,623	7,735,123
Deductions:				
Redemptions	_	3,685,332	3,594,474	3,373,305
Change in pooled net position		566,971	7,447,149	4,361,818
Net position held in trust for pool participants:				
Balance, beginning of year		60,676,774	53,229,625	48,867,807
Balance, end of year	\$_	61,243,745	60,676,774	53,229,625

#### The PRIT Fund Performance during the year ended June 30, 2015

The PRIT Fund began fiscal year 2015 with net position of \$60.7 billion and ended the fiscal year with a net position of \$61.2 billion, representing a 0.93% increase. Net investment income for the year ended June 30, 2015 was \$2.1 billion, which when added to net participant redemptions (contributions less redemptions) of \$1.5 billion, resulted in an overall increase in net position of \$567.0 million.

For the year ended June 30, 2015, the PRIT Fund returned 3.86%, exceeding its benchmark of 2.74% by 112 basis points. The benchmark provides a measure of how well the PRIT Fund has implemented its asset allocation plan. It assumes that the PRIT Fund's actual allocation is identical to its target allocation and that all asset classes achieve index-like returns.

The asset classes of the PRIT Fund and related investment returns for the year ended June 30, 2015 are as follows: Domestic Equity 6.75%; International Equity -2.76%; Emerging Markets -5.85%; Core Fixed Income 4.68%; Value-Added Fixed Income -2.60%; Private Equity 15.57%; Real Estate 11.99%; Timber/Natural Resources -1.35%; Hedge Funds 3.68%; Portfolio Completion Strategies -5.09%; and Overlay 2.09%.

The PRIT Fund outperformed its benchmark for the fiscal year ended June 30, 2015 and has returned an average of 9.62% 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, the PRIT Fund

June 30, 2015 and 2014 (Unaudited)

ranked in the second quartile of public pension plans with net position in excess of \$1 billion over the ten-year period ended June 30, 2015.

#### The PRIT Fund Performance during the year ended June 30, 2014

The PRIT Fund began fiscal year 2014 with net position of \$53.2 billion and ended the fiscal year with a net position of \$60.7 billion, representing a 13.99% increase. Net investment income for the year ended June 30, 2014 was \$9.0 billion, which when added to net participant redemptions (contributions less redemptions) of \$1.5 billion, resulted in an overall increase in net position of \$7.4 billion.

For the year ended June 30, 2014, the PRIT Fund returned 17.53%, exceeding its benchmark of 14.92% by 261 basis points. The benchmark provides a measure of how well the PRIT Fund has implemented its asset allocation plan. It assumes that the PRIT Fund's actual allocation is identical to its target allocation and that all asset classes achieve index-like returns.

The asset classes of the PRIT Fund and related investment returns for the year ended June 30, 2014 are as follows: Domestic Equity 24.93%; International Equity 24.44%; Emerging Markets 14.07%; Core Fixed Income 5.77%; Value-Added Fixed Income 9.98%; Private Equity 26.75%; Real Estate 13.52%; Timber/Natural Resources 13.43%; Hedge Funds 10.78%; and Overlay 9.52%.

#### Other Information

This financial report is designed to provide a general overview of the PRIT Fund's financial results. Additional information can be found on the PRIM Board's website at <a href="https://www.mapension.com">www.mapension.com</a>. 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, 2015 and 2014 (Dollars in thousands)

_	2015	2014
Assets:		
Investments, at fair value (note 3):		
Short-term \$	1,733,529	1,152,040
Fixed income	14,389,277	14,942,944
Equity	24,642,955	25,123,614
Real estate (note 6)	7,678,800	6,964,718
Timberland	1,664,581	1,510,688
Private equity	6,980,423	6,912,243
Hedge funds	5,351,631	5,895,470
Other	94,909	
Total investments	62,536,105	62,501,717
Cash	282,624	189,947
Securities lending collateral (notes 3 and 5)	557,158	· <u> </u>
Interest and dividends receivable	139,679	142,634
Receivable for investments sold and other assets	1,281,902	791,846
Securities sold on a when-issued basis	223,685	103,776
Unrealized gains on foreign currency exchange contracts	13,440	7,143
Total assets	65,034,593	63,737,063
Liabilities:		
Payable for investments purchased and other liabilities	1,007,366	1,198,048
Real estate debt (note 7)	1,511,769	1,548,854
Securities lending obligations (note 5)	557,135	_
Securities purchased on a when-issued basis	648,945	273,711
Unrealized losses on foreign currency exchange contracts	25,810	15,084
Management fees payable to PRIM (note 9)	39,823	24,592
Total liabilities	3,790,848	3,060,289
Net position held in trust for pool participants \$	61,243,745	60,676,774

See accompanying notes to financial statements.

# Statements of Changes in Pooled Net Position Years ended June 30, 2015 and 2014 (Dollars in thousands)

	2015	2014
Additions:		
Contributions:		
State employees	\$ 580,527	547,627
State teachers	721,148	709,114
Other participants	877,252	793,507
Total contributions	2,178,927	2,050,248
Net investment income:	2,170,327	2,030,240
From investment activities:		
Net realized gain on investments and foreign currency		
transactions	2,552,747	2,948,549
Net change in unrealized (depreciation) appreciation on	2,332,717	2,5 10,5 15
investments and foreign currency translations	(1,730,479)	4,646,758
Interest income	270,131	358,677
Dividend income	650,996	699,442
Real estate income	260,366	241,202
Timberland income	11,854	8,724
Private equity income	151,001	172,187
• •	2,166,616	9,075,539
Management fees (note 9)	(98,166)	(84,164)
Net income from investment activities	2,068,450	8,991,375
From securities lending activities:	, ,	-,,-
Securities lending income	5,624	_
Securities lending expenses	(698)	_
Net income from securities lending activities	4,926	
Total net investment income	2,073,376	8,991,375
Total additions	4,252,303	11,041,623
Deductions:		
Redemptions:		
State employees	1,266,799	1,220,075
State teachers	1,650,026	1,635,224
Other participants	768,507	739,175
Total deductions	3,685,332	3,594,474
Net increase in pooled net position	566,971	7,447,149
Net position held in trust for pool participants:		
Balance, beginning of year	60,676,774	53,229,625
Balance, end of year	\$ 61,243,745	60,676,774

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

#### (1) Description of the Pension Reserves Investment Trust Fund

#### (a) General

The Pension Reserves Investment Trust Fund (the PRIT Fund), 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. The PRIT Fund 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 the PRIT Fund. The PRIT Fund is not registered with the Securities and Exchange Commission, but is subject to oversight provided by the Pension Reserves Investment Management Board (the PRIM Board). The PRIM Board was created by legislation to provide general supervision of the investments and management of the PRIT Fund. The PRIM Board is a separate legal entity that issues its own financial statements, which are not included in the accompanying financial statements of the PRIT Fund.

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 chosen by 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 the PRIT Fund.

The PRIM Board 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, the PRIT Fund will have grown, through annual payments in accordance with a legislatively approved funding schedule and through total return of the PRIT Fund, 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 the PRIT Fund of 7.75%.

Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

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

Purchasing Systems may invest all or a portion of their assets in the PRIT Fund 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 the PRIT Fund based on their proportionate share of net assets. As of June 30, 2015, there were 41 Participating Systems and 54 Purchasing Systems invested in the PRIT Fund.

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. For the years ended June 30, 2015 and 2014, no retirement systems were required to transfer their assets to the PRIT Fund under the provisions of this Act.

#### (b) Investment Funds

The PRIT Fund consists of two investment funds, the Capital Fund and the Cash Fund. Each of these funds is managed, accounted for, and held separately by the PRIT Fund'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 the PRIT Fund in accordance with the (Continued)

PRIM Board's asset allocation plan and investment policy guidelines. The Capital Fund serves as the investment portfolio of the PRIT Fund and consists of the following accounts at June 30, 2015: 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, Distressed Debt, Overlay, Portfolio Completion Strategies, Private Equity Investments, and Private Equity Investments Vintage Years 2000-2015. Vintage Year refers to the fiscal year in which the PRIT Fund made a commitment to invest in a private equity investment.

The Capital Fund consists of the following accounts at June 30, 2014: 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, Distressed Debt, Overlay, Private Equity Investments, and Private Equity Investments Vintage Years 2000-2014.

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 the PRIT Fund 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 the PRIT Fund. 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, Public Value Added Fixed Income, Real Estate, Hedge Funds, and Private Equity Vintage Year accounts. At June 30, 2015 and 2014, there were 39 segmented investors in the PRIT Fund. The remaining Purchasing Systems invested in the General Allocation Account.

### (2) Summary of Significant Accounting Policies

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

The financial statements of the PRIT Fund 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.

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

### (b) Investments

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 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, timberland, hedge funds, natural resources, private equity and, where appropriate, the various sub asset classes of each asset class. Statutes prohibit the PRIT Fund from investing in certain securities. The PRIM Board ensures that investment managers adhere to the requirements of Massachusetts General Laws.

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 the PRIT Fund 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 include previously recorded unrealized amounts and 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 the PRIM Board 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.

The PRIT Fund 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 the PRIT Fund's ability to repatriate such amounts.

Investments in real estate represent the PRIT Fund's ownership interest in PRIT Core Realty Holdings LLC (the LLC) (see note 6). 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 the PRIM Board. These estimated valuations are based on valuations prepared by the real estate investment managers under the general supervision of the PRIM Board. Generally, third-party appraisals are performed on each real estate property within 18 months of the date of acquisition and at least annually thereafter. Determination of fair value involves judgment because the actual fair value of a real estate investment can be determined only by negotiation between parties in a sales transaction. Due to the inherent uncertainty of valuation, fair values used may differ significantly from values that would have been determined had a ready market for the investments existed, and the differences could be material. Real estate private equity fund investments are invested through limited partnerships and are recorded at fair value estimated by the PRIM Board in the same manner as the PRIT Fund's private equity investments. REIT securities are publicly traded securities and are valued in the same manner as the PRIT Fund's traded equity securities.

Investments in timberland are valued similarly to investments made by the LLC in real estate properties; however, independent appraisals of timberland investments are required to be performed every three years, but management has had independent appraisals performed annually.

Hedge fund investments represent the PRIT Fund's ownership in both direct hedge funds including managed accounts and hedge fund-of-funds. The investment in hedge funds is recorded at fair value as estimated by the PRIM Board, 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 the PRIT Fund's hedge fund investment managers and is based on the value of the PRIT Fund'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 the PRIM Board, 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.

Portfolio completion strategies investments are recorded at fair value as estimated in good faith by the PRIM Board based on information provided by the investment managers responsible for the investments.

### (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, 2015 and 2014, foreign taxes withheld of \$25,167 and \$24,519, 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 less interest expenses on real estate debt. Timberland income includes cash distributions of operating income from investments in timberland properties. Private equity investment income is recorded on a cash distribution basis.

### (d) Foreign Currency Translation and Transactions

The accounting records of the PRIT Fund 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, the PRIT Fund has recorded all of its derivative activity at fair value as investment

instruments within the equity, fixed income, and real estate investments 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.

The PRIT Fund 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. The PRIT Fund also enters into derivative transactions to gain exposure to currencies and markets where derivatives are the most effective instrument. The PRIT Fund's derivative financial instruments include foreign currency exchange contracts, financial and commodity futures contracts, and customized swap agreements (see note 8 for more detail). These derivative instruments can be exchange-traded or OTC contracts. The primary difference in risk associated with OTC contracts and exchange-traded contracts is credit and liquidity risks. For exchange-traded contracts, credit risk is limited to the role of the exchange or clearing corporation. OTC contracts contain credit risk for unrealized gains from various counterparties for the duration of the contract.

### (f) When-Issued Securities Transactions

The PRIT Fund 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 the PRIT Fund for the transaction to the extent available. For delayed delivery purchase transactions, the PRIT Fund 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.

The PRIT Fund 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 the PRIT Fund 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. The PRIT Fund 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, the PRIT Fund 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.

### (3) Investments and Securities Lending Collateral Investments

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

		June :	
		2015	2014
Short-term:			
Money market investments	\$	1,733,529	1,152,040
Fixed income:			
U.S. government obligations (1)		5,225,621	4,463,870
Domestic fixed income (2)		4,660,555	5,545,436
International fixed income (3)		3,152,349	3,604,539
Distressed debt	_	1,350,752	1,329,099
	_	14,389,277	14,942,944
Equity:			
Domestic equity securities		10,353,626	10,409,415
International equity securities	_	14,289,329	14,714,199
	_	24,642,955	25,123,614
Real estate		7,678,800	6,964,718
Timberland		1,664,581	1,510,688
Private equity:			
Venture capital		1,579,463	1,389,868
Special equity	_	5,400,960	5,522,375
		6,980,423	6,912,243
Hedge funds:			
Direct hedge funds and hedge fund of funds		5,323,426	5,845,788
Liquidating hedge fund of funds		28,205	49,682
		5,351,631	5,895,470
Other:			
Portfolio completion strategies investment funds	_	94,909	
Total investments excluding securities lending collateral		62,536,105	62,501,717
Securities lending collateral investments:			
Repurchase agreements		200,000	_
Money market investments		147,978	_
Domestic fixed income (4)		209,180	_
Total securities lending collateral investments		557,158	
Total investments including securities lending collateral	\$	63,093,263	62,501,717

- (1) Fiscal 2015 rates range from 0.00% to 9.13%, and maturities range from 2015 to 2045. Fiscal 2014 rates range from 0.00% to 10.63%, and maturities range from 2014 to 2044.
- (2) Fiscal 2015 rates range from 0.00% to 12.64%, and maturities range from 2015 to 2115. Fiscal 2014 rates range from 0.00% to 13.79%, and maturities range from 2014 to 2114.
- (3) Fiscal 2015 rates range from 0.00% to 16.39%, and maturities range from 2015 to 2115. Fiscal 2014 rates range from 0.00% to 16.00%, and maturities range from 2014 to 2073.
- (4) U.S. government agency securities with maturities of less than three months.

### (4) Deposits and Investments Risks

### (a) Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the PRIT Fund's deposits and investments may not be returned. The PRIM Board manages the PRIT Fund'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 9). 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, 2015 and 2014, all but \$250 of the PRIT Fund's \$282,624 and \$189,947 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. While the PRIM Board does not have a formal policy relating to interest rate risk, the PRIM Board manages the PRIT Fund'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 their relevant benchmark including Barclays Capital Aggregate index, US Treasury STRIPS 20+ Year index, Barclays Capital US TIPS index, Barclays Capital Inflation Linked Bonds index, S&P LSTA Leveraged Loan index, JPMorgan Global Emerging Markets Bond index, JPMorgan Global Diversified Emerging Markets Bond index, and the Merrill Lynch High Yield Master II index.

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

		201	15		201	.4
	_		Effective weighted duration			Effective weighted duration
Investment		Fair value	rate		Fair value	rate
			(Years)		_	(Years)
Asset-backed securities	\$	154,740	2.19	\$	238,794	1.83
Commercial mortgage-						
backed securities		235,583	2.18		395,208	2.89
Commercial paper and CDs		51,922	0.14		48,875	1.33
Corporate bonds and other						
credits		4,018,855	13.01		5,124,760	5.21
U.S. government bonds		3,988,370	24.23		3,271,542	21.81
U.S. government agencies		55,097	3.91		93,468	3.97
U.S. government TIPS		1,237,251	8.04		1,192,328	8.37
U.S. government mortgage-						
backed securities		1,179,408	1.99		1,193,603	2.80
Global inflation linked bonds		378,121	9.61		376,534	7.32
Municipal bonds		40,134	10.35		54,426	10.54
Pooled money market fund		1,733,529	_		1,152,040	_
Other pooled funds	_	3,049,796	_	_	2,953,406	_
Total fixed income						
and short-term						
investments	\$_	16,122,806		\$_	16,094,984	
Convities landing colleteral investor and				_		
Securities lending collateral investments:	<u>,</u>	200 400		<u>,</u>		
U.S. government agencies	\$	209,180	_	\$	_	_
Pooled money market fund		147,978	_		_	_
Repurchase agreements	_	200,000	_	_		_
Total securities lending collateral investments	\$	557,158		\$	_	
	· =			· =		

### (c) Credit Risk

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

The PRIM Board 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 the PRIT Fund results from counterparty risk. The PRIT Fund is exposed to credit risk resulting from counterparties being unable to meet their obligations under the terms of the derivative agreements. See note 8 for more information on the PRIT Fund's derivative instruments.

# Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

The weighted average quality rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the U.S. government and other nonrated investments was A- at June 30, 2015 and BBB+ at June 30, 2014. The following tables present the

Noninvestment grade   Noninvestment grade   Noninvestment grade   Noninvestment grade	Total   AA	tites						72	2015		
fair value         AAA         AA+to A- A- AA+to A- AA+to A- AA+to B- BB+ to BB- AA+ BB- A- BB+ to BB- AA+to B- AA+to B- AA+to B- AA+to B- AB- AA+to B- AB- AB- AB- AB- AB- AB- AB- AB- AB-	Fair value   AAA   AA+ to A-   BBB+ to BBB-   BB+ to BB-   CCC+ to D   Not all a	Secretor			Total		Investment grade		Noninvest	ment grade	
State	titles   \$ 154,740   69,846   76,967   779   6,905   243   243   23,553   243   243,702   235,583   64,170   57,091   52,448   37,610   23,050   23,050   23,050   23,050   23,050   23,097   4,018,855   127,408   1,271,634   1,318,177   889,931   141,220   25,097   -	titles 5 154,740 69,846 76,967 779 6,905 243  235,583 64,170 57,091 52,448 37,610 23,050  51,922 40,170 5,944 1,318,177 889,931 141,220  55,097 55,097 6,369,931 141,220  55,097 10,765,941 10,287 1,27,55 95,079 6,905  378,121 110,287 172,755 95,079 6 6,905,799 6 6,905  3,049,796 6 6,905	Investment	fa	ir value	AAA	AA+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Not rated
1,000	tities	1,000	Asset-backed securities	φ.	154,740	69,846	76,967	779	906'9	243	I
tities 4,1922 — 3,097 48,825 — 3,097 55,097 — 55,097 — 55,097 — 55,097 — 636,999 — — — — — — — — — — — — — — — — — —	tites 4,018,855 127,408 1,271,634 1,318,177 889,931 141,220 55,097	tites 4,01922	Commercial mortgage-backed securities		235,583	64,170	57,091	52,448	37,610	23,050	1,214
tites 4,018,855 127,408 1,271,634 1,318,177 889,931 141,220 5,5097 — 55,097 — 55,097 — 55,097 — 55,097 — 55,097 — 55,097 — 5,098,121 110,287 172,755 95,079 — — — — — — — — — — — — — — — — — — —	tites 4,018,855 127,408 1,271,634 1,318,177 889,931 141,220 55,097 — 55,097 — 55,097 — 55,097 — 55,097 — 55,097 — 55,097 — 55,097 — 55,097 — 6,0134 593 34,475 11,948 3,118 — 6 — 6 — 6 — 6 — 6 — 6 — 6 — 6 — 6 —	titles 9,018,855 127,408 1,271,634 1,318,177 889,931 141,220   55,097	Commercial paper and CDs		51,922	1	3,097	48,825	1	ı	1
titles 988,164 105 686,993 — — — — — — — — — — — — — — — — — —	titles 55,097 — 55,097 — — — — — — — — — — — — — — — — — — —	titles 55,097 — 55,097 — — — — — — — — — — — — — — — — — — —	Corporate bonds and other credits		4,018,855	127,408	1,271,634	1,318,177	889,931	141,220	270,485
titles 988,164 105 636,993 — — — — — — — — — — — — — — — — — —	titles 988,164 105 636,993 — — — — — — — — — — — — — — — — — —	titles 988,164 105 636,993 — — — — — — — — — — — — — — — — — —	U.S. government agencies		55,097	I	55,097	I	I	I	I
come, and short-term     10,705,941     110,287     172,755     95,079     - <td>s78,121     110,287     172,755     95,079     —</td> <td>  378,121   110,287   172,755   95,079      </td> <td>U.S. government mortgage-backed securities</td> <td></td> <td>988,164</td> <td>105</td> <td>636,983</td> <td>I</td> <td>ı</td> <td>I</td> <td>351,066</td>	s78,121     110,287     172,755     95,079     —	378,121   110,287   172,755   95,079	U.S. government mortgage-backed securities		988,164	105	636,983	I	ı	I	351,066
come, and short-term     40,134     593     34,475     1,948     3,118     —     —     1,733,529     —<	come, and short-term     1,733,529     -     -     -     1,948     3,118     -     1,733,529     -     -     1,33,529     -     -     -     -     3,049,796     -     -     -     -     3,318     -     -     -     3,34,475     -     -     -     -     -     -     -     3,318     -     -     -     -     3,34,475     -     -     -     -     -     -     -     -     -     3,318     -	come, and short-term     1,733,529     -	Global inflation linked bonds		378,121	110,287	172,755	92,079	I	I	I
come, and short-term       1,733,529       —       —       —       —       —       —       —       1,733,529       —	come, and short-term         1,733,529         —         —         —         —         —         1,733,529         —	come, and short-term       1,733,529       — <td< td=""><td>Municipal bonds</td><td></td><td>40,134</td><td>593</td><td>34,475</td><td>1,948</td><td>3,118</td><td>ı</td><td>ı</td></td<>	Municipal bonds		40,134	593	34,475	1,948	3,118	ı	ı
come, and short-term       10,705,941       372,409       2,308,109       1,517,256       937,564       164,513       5,416,813         short-term investments       \$ 209,180       —       —       —       —       —       37,409       —       —       —       37,564       164,513       5,5416,813	come, and short-term       3,049,796       —       —       —       —       37,409       2,308,109       1,517,256       937,564       164,513       5,416,813       5,416,865         short-term investments       \$ 16,122,806       —       —       —       —       —       —       5,416,865       —       —       —       5,416,865       —       —       —       5,416,865       —       —       —       —       —       —       —       —       5,416,865       — </td <td>come, and short-term       3,049,796       —       <th< td=""><td>Pooled money market fund</td><td></td><td>1,733,529</td><td>I</td><td>1</td><td>ı</td><td>ı</td><td>ı</td><td>1,733,529</td></th<></td>	come, and short-term       3,049,796       — <th< td=""><td>Pooled money market fund</td><td></td><td>1,733,529</td><td>I</td><td>1</td><td>ı</td><td>ı</td><td>ı</td><td>1,733,529</td></th<>	Pooled money market fund		1,733,529	I	1	ı	ı	ı	1,733,529
come, and short-term         10,705,941         372,409         2,308,109         1,517,256         937,564         164,513         5,64           short-term investments         \$ 209,180         —         200,000         — <td>come, and short-term         10,705,941         372,409         2,308,109         1,517,256         937,564         164,513         5,4           short-term investments         \$ 16,122,806         —         —         209,180         —&lt;</td> <td>come, and short-term       10,705,941       372,409       2,308,109       1,517,256       937,564       164,513         5,416,865         short-term investments       \$ 16,122,806         short-term investments       \$ 209,180       -       -       -         collateral investments       \$ 557,158       -       -       -       -</td> <td>Other pooled funds</td> <td></td> <td>3,049,796</td> <td>ı</td> <td>ı</td> <td>ı</td> <td>1</td> <td>ı</td> <td>3,049,796</td>	come, and short-term         10,705,941         372,409         2,308,109         1,517,256         937,564         164,513         5,4           short-term investments         \$ 16,122,806         —         —         209,180         —<	come, and short-term       10,705,941       372,409       2,308,109       1,517,256       937,564       164,513         5,416,865         short-term investments       \$ 16,122,806         short-term investments       \$ 209,180       -       -       -         collateral investments       \$ 557,158       -       -       -       -	Other pooled funds		3,049,796	ı	ı	ı	1	ı	3,049,796
10,705,941 372,409 2,308,109 1,517,256 937,564 164,513 5,7 1,517,256 1937,564 164,513 5,7 1,517,256 1937,564 164,513 5,7 1,517,256 1937,564 164,513 5,7 1,517,256 1937,564 164,513 5,7 1,517,256 1,5	10,705,941 372,409 2,308,109 1,517,256 937,564 164,513 5,416,865 ahort-term investments \$ 209,180	10,705,941 372,409 2,308,109 1,517,256 937,564 164,513	Total cradit rick fixed income and short-term								
\$ 209,180	\$ 209,180	\$ 209,180	investments	Ţ	0.705.941	372,409	2.308.109	1.517.256	937.564	164.513	5.406.090
\$ 209,180	\$ 209,180	\$ 209,180		•		501 (2.10	001/000/1	0011111111			
s)-416,805 thort-term investments \$ 16,122,806 \$ 209,180	s)-416,805 thort-term investments \$ 16,122,806 \$ 209,180	\$ 16,122,806 \$ 209,180	Fixed income investments explicitly		7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7						
short-term investments \$ 16,122,806	thort-term investments \$ 16,122,806	thort-term investments \$ 16,122,806  \$ 209,180	backed by the U.S. government		5,416,865						
\$ 209,180	\$ 209,180	\$ 209,180	Total fixed income and short-term investments		6,122,806						
\$ 209,180	\$ 209,180	\$ 209,180	Securities lending collateral investments:								
147,978 — — — — — — — — — — — — — — — — — — —	147,978 — — — — — — — — — — — — — — — — — — —	s lending collateral investments \$\frac{147,978}{200,000} \frac{-}{-} \frac{-}	U.S. government agencies	φ.	209,180	I	209,180	I	I	I	I
200,000 — — 200,000 — — — — — — — — — — — — — — — — —	200,000	tries lending collateral investments \$ 557,158	Pooled money market fund		147,978	I	I	1	I	I	147,978
\$ 557,158 - 209,180 200,000	\$ 557,158 - 209,180 200,000	\$ 557,158 — 209,180 200,000 — — — — — — — — — — — — — — — — —	Repurchase agreements		200,000	I	1	200,000	I	1	I
			Total securities lending collateral investments	\$	557,158	I	209,180	200,000	1	ı	147,978

**FISCAL YEAR 2015** 

Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

				2014	14		
	Total		Investment grade		Noninvestment grade	nent grade	
Investment	fair value	AAA	AA+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Not rated
Asset-backed securities	\$ 238,794	96,734	125,689	686	6,714	8,373	295
Commercial mortgage-backed securities	395,208	158,394	70,098	91,866	46,563	26,879	1,408
Commercial paper and CDs	48,875	1	13,694	2,286	1	1	32,895
Corporate bonds and other credits	5,124,760	239,913	1,196,204	1,670,820	698,436	209,665	1,109,722
U.S. government agencies	93,468	I	93,364	I	I	ı	104
U.S. government mortgage-backed securities	974,362	I	817,444	I	ı	ı	156,918
Global inflation linked bonds	376,534	191,512	152,644	32,378	ı	ı	1
Municipal bonds	54,426	1,673	47,652	1,921	3,180	ı	ı
Pooled money market fund	1,152,040	I	I	I	ı	ı	1,152,040
Other pooled funds	2,953,406	١	1	1	1	I	2,953,406
Total credit risk, fixed income, and short-term investments	11,411,873	688,226	2,516,789	1,800,260	754,893	244,917	5,406,788
Fixed income investments explicitly backed by the U.S. government	4,683,111						
Total fixed income and short-term investments	\$ 16,094,984						

(Continued)

FISCAL YEAR 2015

### (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, the PRIM Board does manage the PRIT Fund'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, the PRIM Board's investment managers may actively manage the PRIT Fund's exposure to foreign currencies through the use of forward foreign currency contracts. The following tables present the PRIT Fund's foreign currency exposures at June 30 (stated in U.S. dollars):

			2	015		
	Cash and short-term investments	Equity	Fixed income	Private equity investments	Timber investments	Total
Australian Dollar	\$ 4,699	452,827	12,549	_	172,588	642,663
Brazilian Real	918	108,213	197,872	_	_	307,003
British Pound	29,184	2,276,111	362,371	91,237	_	2,758,903
Canadian Dollar	23,085	462,151	31,505	18,364	_	535,105
Danish Krone	351	303,635	3,947	_	_	307,933
Euro	9,530	2,340,962	293,225	1,188,043	_	3,831,760
Hong Kong Dollar	9,336	1,077,867	_	_	_	1,087,203
Japanese Yen	116,886	2,240,071	47,659	_	_	2,404,616
Mexican Peso	13,091	103,000	129,819	_	_	245,910
New Taiwan Dollar	16,188	449,513	_	_	_	465,701
S. African Comm Rand	1,729	286,470	91,292	_	_	379,491
South Korean Won	2,614	514,806	27,665	_	_	545,085
Swedish Krona	808	366,189	16,956	_	_	383,953
Swiss Franc	11,318	789,138	_	_	_	800,456
Other foreign currencies	13,614	1,002,358	681,368			1,697,340
Total securities subject to foreign						
currency risk	253,351	12,773,311	1,896,228	1,297,644	172,588	16,393,122
International investments						
denominated in U.S. dollar	rs	1,516,018	1,256,121			2,772,139
Total international investments and cash	A 252.254	44 200 222	2.452.246	4 207 644	472.500	40.465.264
deposits	\$ 253,351	14,289,329	3,152,349	1,297,644	172,588	19,165,261

			20	014		
	Cash and short-term investments	Equity	Fixed income	Private equity investments	Timber investments	Total
Australian Dollar	\$ 5,629	567,019	134,282	_	172,373	879,303
Brazilian Real	3,662	236,552	295,874	_	´ —	536,088
British Pound	37,611	2,180,933	340,590	112,710	_	2,671,844
Canadian Dollar	11,437	532,480	37,880	15,192	_	596,989
Danish Krone	64	326,814	2,757	· <del>-</del>	_	329,635
Euro	58,882	2,457,268	428,037	1,327,484	_	4,271,671
Hong Kong Dollar	6,216	971,845	· —	· · · -	_	978,061
Indian Rupee	3,783	234,396	2,830	_	_	241,009
Indonesian Rupiah	700	104,435	96,780	_	_	201,915
Japanese Yen	42,637	1,963,600	38,037	_	_	2,044,274
Malaysian Ringgit	601	106,236	119,357	_	_	226,194
Mexican Peso	1,223	145,564	122,637	_	_	269,424
New Taiwan Dollar	2,198	432,813	· —	_	_	435,011
New Turkish Lira	824	113,709	107,661	_	_	222,194
S. African Comm Rand	1,133	280,808	107,698	_	_	389,639
South Korean Won	1,857	661,188	20,660	_	_	683,705
Swedish Krona	3,239	380,903	19,668	_	_	403,810
Swiss Franc	172	807,726	_	_	_	807,898
Other foreign currencies	9,563	649,630	422,700			1,081,893
Total securities subject to foreign currency risk	191,431	13,153,919	2,297,448	1,455,386	172,373	17,270,557
International investments denominated in U.S. dollar	-s	1,560,280	1,307,091			2,867,371
Total international investments and cash	ć 101 424	14.714.100	2 (04 520	1 455 200	172 272	20 127 029
deposits	\$ <u>191,431</u>	14,714,199	3,604,539	1,455,386	172,373	20,137,928

### (e) Concentration of Credit Risk

The PRIM Board manages the PRIT Fund'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. The PRIT Fund has no investments, at fair value, that exceed 5% of the PRIT Fund's total investments as of June 30, 2015 and 2014.

### (f) Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the PRIT Fund enters into financial instrument transactions with off-balance-sheet risk. These financial instruments involve varying degrees and type of risks,

including credit and market risks, which may be in excess of the amounts recognized in the Statements of Pooled Net Position. Futures and foreign currency exchange contracts represent commitments to purchase or sell foreign currencies at a future date and at a specified price. The PRIT Fund could be exposed to risks if the counterparties to the contracts are unable to meet the terms of their contracts or if the value of the foreign currency changes unfavorably.

### (5) Securities Lending Program

In October 2014, the PRIM Board hired a third-party securities lending agent to launch a securities lending program on January 2, 2015. The program loans domestic and international equity, REIT, and fixed income securities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Securities on loan are secured with collateral ranging from 102% to 105% determined by the type of securities lent. Securities on loan are valued daily to maintain the collateral requirement and, where applicable, additional collateral is delivered. At June 30, 2015, PRIT has no credit risk exposure to borrowers because the borrowers provided collateralization greater than 100% of the fair value of the securities on loan. PRIT cannot pledge or sell the collateral securities unless the lending agent defaults. The lending agent is required to indemnify PRIT in the event that it fails to return the securities on loan (and if the collateral is inadequate to replace the securities on loan) or if the lending agent fails to perform its obligations as stipulated in the agreement. There was no loss during the year ended June 30, 2015 resulting from default by the lending agent.

Securities loans are terminable on demand therefore maturities of the securities loans do not generally match the maturities of investments made with cash collateral. Investments made with cash collateral are primarily in short-term investments with maximum maturity of three months from the date of purchase.

Securities on loan are included in investments at fair value in the accompanying statements of pooled net position. As of June 30, 2015, the fair value of securities on loan was \$534,843 and the associated cash collateral was \$557,135. The cash collateral received is reported as securities lending obligations in the accompanying statements of pooled net position. There was no security collateral or noncash collateral at June 30, 2015. The fair value of reinvested cash collateral was \$557,158 at June 30, 2015 and is reported as securities lending collateral in the accompanying statements of pooled net position. There were no securities on loan in 2014.

### (6) Real Estate – 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 the PRIT Fund, 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 PRIT Fund Declaration of Trust 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.

### (7) Real Estate Debt

### (a) Notes Payable

The LLC's notes payable obligations consisted of the following as of June 30:

		Face v	<i>r</i> alue
	_	2015	2014
Senior unsecured term loan Senior unsecured notes	\$	500,000 500,000	500,000 500,000
Total	\$	1,000,000	1,000,000

Scheduled long-term maturities of existing indebtedness at June 30, 2015 in each of the next five years and in the aggregate thereafter are as follows:

	_	Amount
Year ending June 30:		
2016	\$	_
2017		_
2018		500,000
2019		_
2020		175,000
2021–2025	_	325,000
	\$	1,000,000

### (i) 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 based on 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, 2015 and 2014, the applicable rate is 1.15%.

### (ii) 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.

Both the Senior Unsecured Term Loan and Senior Unsecured Notes contain certain financial covenants as outlined in the respective agreements. The LLC was in compliance with such covenants at June 30, 2015 and 2014.

### (b) Mortgage Loans Payable

The LLC had 21 and 19 property-level mortgage loans payable as of June 30, 2015 and 2014, respectively. The mortgages have a weighted average interest rate of 3.86% and 3.76% and a weighted average maturity of 2.9 and 3.5 years at June 30, 2015 and 2014, respectively. The following table presents the face value of mortgage loans payable at June 30:

	 2015	2014
Mortgage loans payable	\$ 511,769	548,854
Total	\$ 511,769	548,854

### (8) Derivative Investments

The PRIT Fund 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. The PRIT Fund may enter into foreign currency exchange contracts to hedge its exposure to the effect of changes in foreign currency exchange rates upon its non-U.S. dollar-denominated investments. The fair value of such contracts will fluctuate with

changes in currency exchange rates. The contracts are valued daily, and the changes in fair value are recorded by the PRIT Fund as unrealized gains or losses. When the contract is closed, the PRIT Fund 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:

			2015		
	Fair value	Aggregate face value	Delivery date(s)	Unrealized gains	Unrealized losses
Foreign currency exchange					
contracts purchased:					
Australian Dollar	\$ 34,988	34,852	7/2/15-8/17/15 \$	_	(136)
Brazilian Real	167,092	167,462	7/1/15-10/4/16	370	_
British Pound	749,982	740,541	7/2/15-8/5/15	_	(9,441)
Canadian Dollar	51,671	52,682	7/2/15-7/21/15	1,011	_
Chinese Yuan Renminbi	49,068	48,222	7/23/15-9/16/15	_	(846)
Euro	603,573	601,815	7/2/15-8/18/15	_	(1,758)
Japanese Yen	279,827	277,681	7/2/15-9/24/15	_	(2,146)
Mexican New Peso	159,721	163,325	7/7/15-9/30/15	3,604	_
New Turkish Lira	80,305	78,889	7/15/15-9/16/15	_	(1,416)
Polish Zloty	36,427	36,939	7/2/15-9/16/15	512	_
Singapore Dollar	57,915	57,712	7/2/15-9/16/15	_	(203)
South African Comm Rand	48,899	48,356	7/3/15-9/16/15	_	(543)
South Korean Won	38,164	38,225	7/1/15-9/16/15	61	_
Other foreign currencies	224,170	225,609	7/1/15–12/4/15	2,683	(1,246)
Foreign currency exchange					
contracts sold:					
Brazilian Real	144,387	143,624	7/2/15-9/16/15	763	_
British Pound	385,343	386,077	7/1/15-8/5/15	_	(734)
Canadian Dollar	34,009	34,345	7/3/15-7/22/15	_	(336)
Chilean Peso	42,621	43,701	7/27/15-9/16/15	_	(1,080)
Chinese Yuan Renminbi	54,564	53,939	8/13/15-9/16/15	625	_
Euro	348,545	350,536	7/1/15-8/18/15	_	(1,991)
Indian Rupee	37,051	36,763	7/1/15-9/16/15	288	_
Japanese Yen	171,258	169,829	7/1/15-9/15/15	1,429	_
Malaysian Ringgit	34,848	35,210	7/2/15-9/17/15	_	(362)
Mexican New Peso	61,529	62,623	7/1/15-9/30/15	_	(1,094)
New Turkish Lira	91,317	90,507	7/29/15-9/16/15	810	_
Polish Zloty	66,252	67,074	7/2/15-9/16/15	_	(822)
South African Comm Rand	50,825	49,936	7/6/15-9/16/15	889	_
Other foreign currencies	241,876	243,137	7/1/15–12/16/15	395	(1,656)
Total			\$	13,440	(25,810)

			2014		
	Fair value	Aggregate face value	Delivery date(s)	Unrealized gains	Unrealized losses
Foreign currency exchange					
contracts purchased:					
Australian Dollar	\$ 278,708	277,562	7/1/14-9/12/14 \$	_	(1,146)
Brazilian Real	131,237	129,567	7/1/14-5/5/15	_	(1,670)
British Pound	351,167	349,512	7/1/14-9/11/14	_	(1,655)
Canadian Dollar	41,839	40,617	7/3/14-9/18/14	_	(1,222)
Colombian Peso	26,593	25,887	7/7/14-8/29/14	_	(706)
Euro	521,140	518,405	7/1/14-9/17/14	_	(2,735)
Hungarian Forint	27,627	27,807	7/2/14-2/18/15	180	_
Japanese Yen	82,648	82,234	7/1/14-9/12/14	_	(414)
New Turkish Lira	25,522	25,367	7/1/14-9/17/14	_	(155)
Russian Rubel	56,204	53,842	7/2/14-10/31/14	_	(2,362)
South African Comm Rand	35,256	35,332	7/1/14-9/17/14	76	_
Singapore Dollar	37,933	37,767	7/1/14-9/17/14	_	(166)
Other foreign currencies	220,039	219,048	7/1/14–9/8/15	941	(1,932)
Foreign currency exchange					
contracts sold:					
Australian Dollar	120,718	120,557	7/1/14-9/12/14	161	_
Brazilian Real	93,305	92,580	7/1/14-8/4/14	725	_
Chinese Yuan Renminbi	42,747	42,756	7/3/14-9/8/15	_	(9)
Colombian Peso	40,604	39,165	7/1/14-10/15/14	1,439	_
Euro	94,912	94,474	7/1/14-2/18/15	438	_
Indian Rupee	31,973	31,702	7/2/14-9/17/14	271	_
Malaysian Ringgit	28,490	28,155	7/4/14-8/25/14	335	_
Mexican New Peso	46,153	46,051	7/1/14-10/22/14	102	_
New Turkish Lira	31,998	32,024	8/5/14-9/17/14	_	(26)
Peruvian Nuevo Sol	26,619	26,645	7/16/14-8/4/14	_	(26)
Polish Zloty	40,545	40,786	8/11/14-9/17/14	_	(241)
Russian Rubel	48,363	47,327	7/2/14-10/15/14	1,036	_
Thailand Baht	25,645	25,635	7/16/14-9/17/14	10	_
Other foreign currencies	162,678	161,867	7/1/14–11/19/14	1,429	(619)
Total			\$_	7,143	(15,084)

For the years ended June 30, 2015 and 2014, the change in net unrealized appreciation (depreciation) on foreign currency exchange contracts was \$(4,429) and \$(15,476), respectively.

### (b) Futures Contracts

The PRIT Fund 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 (Continued)

at a set price on a future date. Upon entering into financial and commodity futures contracts, the PRIT Fund 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, the PRIT Fund agrees to receive from, or pay to, the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as "variation margin" and are recorded by the PRIT Fund as unrealized gains or losses. When the contract is closed, the PRIT Fund 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 the PRIT Fund 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. The PRIT Fund is also subject to credit risk should its clearing brokers be unable to meet their obligations to the PRIT Fund.

Futures contracts held at June 30 were as follows:

			2015		
			Gross	Fair value	Unrealized
	Number of	Expiration	notional	of notional	appreciation
Description	contracts	date	amount	amount	(depreciation)
Short cash and cash equivalents:					
90-Day Eurodollar	(3,243)	12/15-12/17	\$ (792,354)	(796,126)	(3,772)
Long cash and cash equivalents:					
90-Day Eurodollar	3,895	7/15-3/16	968,943	970,133	1,190
Other long cash and cash					
equivalents	1,642	9/15	173,229	173,642	413
Long fixed income:					
US 5-Yr Treasury Notes	818	9/15	97,279	97,553	274
US 10-Yr Treasury Notes	2,580	9/15	327,007	325,523	(1,484)
Ultra US Treasury Bond	1,490	9/15	231,003	229,553	(1,450)
Other long fixed income	4,041	8/15-9/15	61,747	64,493	2,746
Short fixed income:					
TSE 10-Yr Japanese					
Government Bond	(61)	9/15	(72,048)	(73,266)	(1,218)
US 10-Yr Treasury Notes	(386)	9/15	(48,770)	(48,702)	68
Other short fixed income	(631)	9/15	(107,490)	(105,804)	1,686
Short equity and commodities:					
Other short equity and					
commodities	(1,495)	7/15-9/15	(21,461)	(21,514)	(53)
Long equity and commodities:					
S&P 500 E-mini Index	6,319	9/15	661,075	649,088	(11,987)
S&P 500 Index	1,175	9/15	614,290	603,480	(10,810)
MINI MSCI Emerging					
Markets Index	4,264	9/15	205,358	204,544	(814)
MSCI EAFE Index	1,122	9/15	104,814	102,887	(1,927)
Dow Jones EURO STOXX					
50 Index	1,477	9/15	58,338	56,545	(1,793)
Other long equity and					
commodities	3,378	7/15-9/15	353,241	348,252	(4,989)
Total futures					
exposure			\$ 2,814,201	2,780,281	(33,920)

				2014		
Description	Number of contracts	Expiration date		Gross notional amount	Fair value of notional amount	Unrealized appreciation (depreciation)
						(aspirodianon)
Short cash and cash equivalents:						
90-Day Eurodollar	(957)	6/15	\$	(238,093)	(238,018)	75
Long cash and cash equivalents:						
90-Day Eurodollar	5,221	9/15-9/16		1,289,077	1,291,240	2,163
Other long cash and cash						
equivalents	1,295	9/14-3/17		191,732	194,193	2,461
Long fixed income:						
US 5-Yr Treasury Notes	2,738	9/14		326,983	327,084	101
US 10-Yr Treasury Notes	2,023	9/14		253,038	253,223	185
Ultra US Treasury Bond	1,431	9/14		211,165	214,561	3,396
Other long fixed income	1,543	8/14-9/14		33,425	34,883	1,458
Short fixed income:						
Australian 10-Yr Treasury						
Bond	(686)	9/14		(76,155)	(78,004)	(1,849)
US 2-Yr Treasury Notes	(275)	9/14		(60,380)	(60,388)	(8)
US 10-Yr Treasury Notes	(301)	9/14		(37,520)	(37,677)	(157)
US Treasury Bond	(443)	9/14		(60,231)	(60,774)	(543)
Other short fixed income	(402)	9/14		(103,653)	(105,294)	(1,641)
Long equity and commodities:						
S&P 500 E-mini Index	4,612	9/14		445,115	450,223	5,108
S&P 500 Index	1,175	9/14		566,295	573,518	7,223
MINI MSCI Emerging						
Markets Index	1,665	9/14		86,675	86,638	(37)
Dow Jones EURO STOXX						
50 Index	1,182	9/14		52,622	52,305	(317)
Other long equity and						
commodities	2,897	7/14–9/14	_	332,153	337,850	5,697
Total futures						
exposure			\$_	3,212,248	3,235,563	23,315

For the years ended June 30, 2015 and 2014, the change in net unrealized appreciation (depreciation) on futures contracts was \$(57,235) and \$44,490, respectively.

### (c) Swaps

The PRIT Fund enters into swap agreements to gain exposure to certain markets and actively hedge other exposures to market and credit risks. The PRIT Fund utilizes interest rate, credit default, inflation, and total return swaps within the portfolio. The PRIT Fund's OTC swap agreements are

recorded at fair value as estimated by the PRIM Board. These estimated fair values are determined in good faith by using information from the PRIT Fund'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.

Open swap contracts at June 30 were as follows:

		2015				
Description	PRIT pays/receives interest rate	PRIT pays/receives index/ protection	Maturity date		Gross notional amount	Net unrealized appreciation (depreciation)
Interest rate swaps Inflation swaps	0.12%-13.92% 1.85%-3.52%	Various* Inflation	4/16–12/45	\$	1,335,368	2,669
Credit default swaps	0.11%-3.36%	protection Credit default	3/16–12/44		61,214	(599)
		protection	9/15-5/46	_	186,582	(5,677)
Total swaps				\$	1,583,164	(3,607)

\* PRIT pays/receives counterparty based on 1-Month LIBOR, 3-Month USD LIBOR, 3-Month CNY rate, 3-Month HKD HIBOR rate, 3-Month SAFEX-JIBAR rate, 6-Month Euro LIBOR, 6-Month GBP LIBOR, 6-Month JPY LIBOR, 6-Month SGD rate, 6-Month THBFIX rate, Brazil CDI rate, China seven-day repo rate, Mexican TIIE rate.

		2014			
Description	PRIT pays/receives interest rate	PRIT pays/receives index/ protection	Maturity date	Gross notional amount	Net unrealized appreciation (depreciation)
Interest rate swaps Inflation swaps	0.4%-12.56% 1.85%-2.07%	Various* Inflation	10/14-3/44 \$	1,521,506	8,078
Credit default swaps	0.18%-5.00%	protection Credit default	2/16–3/18	116,010	92
		protection	9/14–7/45	289,001	2,913
Total swaps			\$	1,926,517	11,083

<sup>\*</sup> PRIT pays/receives counterparty based on 3-Month AUD BBSW, 6-Month AUD-BBR-BBSW, 3-Month LIBOR, 3-Month Euribor, Fed Funds rate, Brazil CDI rate, Mexican TIIE rate, 6-Month THBFIX rate, and 3-Month KLIBOR.

For the years ended June 30, 2015 and 2014, the change in net unrealized appreciation (depreciation) on swap contracts was (14,690) and (8,929), respectively.

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

					201	15		
		_		Interest rate Credit default swaps swaps			Inflat swa	
Counterparty	Credit rating		Gross notional	Fair value	Gross notional	Fair value	Gross notional	Fair value
Bank of America NA	А	\$	966	(2)	33,385	(2,259)	_	_
Barclays Bank PLC	A-		47,978	160	31,513	(590)	54,860	(279)
CME Group Inc.	AA-		212,920	636	_	_	_	_
Citibank NA	Α		21,807	52	10,213	(339)	_	_
Deutsche Bank AG	BBB+		6,899	68	26,300	(153)	_	_
LCH.Clearnet Ltd	A+		386,810	1,541	_	· –	_	_
UBS AG	BBB+		23,797	(361)	21,071	(3)	_	_
U.S. Bank National Association	AA-		500,000	303	_		_	_
All others	Various	_	134,191	272	64,100	(2,333)	6,354	(320)
		\$	1,335,368	2,669	186,582	(5,677)	61,214	(599)

					201	4			
		-	Interest rate Credit default				Inflation		
			swa	ps	swa	ps	swa	ps	
	Credit		Gross	Fair	Gross	Fair	Gross	Fair	
Counterparty	rating		notional	value	notional	value	notional	value	
Barclays Bank PLC	Α	\$	23,150	291	12,500	(64)	116,010	92	
CME Group Inc.	AA-		784,699	4,955	_	_	_	_	
Citibank NA	Α		181,717	107	29,361	14	_	_	
Deutsche Bank AG	Α		_	_	35,700	255	_	_	
Intercontinental Exchange Inc.	A-		_	_	78,294	2,653	_	_	
JPMorgan Chase Bank NA	A+		22,617	(19)	9,900	45	_	_	
UBS AG	Α		4,582	42	27,346	152	_	_	
U.S. Bank National Association	AA-		500,000	2,603	_	_	_	_	
All others	Various	_	4,741	99	95,900	(142)			
		\$	1,521,506	8,078	289,001	2,913	116,010	92	

### (9) Management Fees

In accordance with the PRIM Board's Operating Trust Agreement, expenses incurred by the PRIM Board in managing the PRIT Fund are charged to the PRIT Fund 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 were \$83,142 and \$69,564 for the years ended June 30, 2015 and 2014, 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.

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 a performance fee based on the net gains on realized partnership investments.

The LLC's investment management fees generally consist of a base fee and a performance fee. Base fees are calculated and paid monthly. Performance fees are paid every two years to managers who out-perform their respective hurdle rates.

Timberland 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; however, performance fees are paid every three years.

Hedge fund-of-funds investment managers are paid base fees, which are calculated and paid quarterly.

Fees for direct hedge fund investments generally consist of a base fee and a performance fee based on return.

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.

### (b) Investment Advisory Fees

NEPC, LLC, Callan Associates, Arden Asset Management, LLC, Hamilton Lane, and The Townsend Group served as the PRIM Board's principal investment advisors in fiscal year 2015. NEPC, LLC served as the asset allocation advisor, Callan Associates served as the public markets advisor, Arden Asset Management, LLC provided hedge fund advisory services, Hamilton Lane served as the private equity advisor, and The Townsend Group provided real estate and timberland advisory services. These investment advisors, among others, provided the PRIM Board with comprehensive investment advisory services, including recommendations on asset allocation, selection of investment managers, and the monitoring of performance of the PRIT Fund and its individual investment managers.

For the years ended June 30, 2015 and 2014, as compensation for their services, investment advisors earned fees aggregating \$4,161 and \$4,493, respectively, and are included in management fees in the accompanying statements of changes in pooled net position.

### (c) Custodian Fees

BNY Mellon is the investment custodian and record keeper for the PRIT Fund. BNY Mellon records all daily transactions, including investment purchases and sales, investment income, expenses, and all participant activity for the PRIT Fund. BNY Mellon also provides portfolio performance analysis each month for the PRIT Fund.

In December 2013, BNY Mellon agreed to reimburse the PRIM Board \$15,450 in the form of a discount in custodian fees over a nine-year period to settle alleged foreign currency transaction overcharges from January 2000 to May 2011. In addition, BNY Mellon reimbursed the PRIM Board \$100 for legal fees incurred. For the years ended June 30, 2015 and 2014, custodian fees were \$674 and \$690, respectively, 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, 2015 and 2014, other administrative expenses of the PRIM Board, including employee compensation, professional fees and occupancy costs, charged to the PRIT Fund totaled \$10,189 and \$9,417, respectively, and are included in management fees in the accompanying statements of changes in pooled net position.

### (10) Commitments

As of June 30, 2015, the PRIT Fund had outstanding unfunded commitments to invest approximately \$5.2 billion in private equity, venture capital, distressed debt, hedge fund, and real estate investments.

### Schedule of Pooled Net Position – Capital Fund and Cash Fund June 30, 2015

(Dollars in thousands)

	_	Capital Fund	Cash Fund	Total
Assets:				
Investments, at fair value:				
Short-term	\$	1,664,130	69,399	1,733,529
Fixed income		14,389,277	· <del>_</del>	14,389,277
Equity		24,642,955	_	24,642,955
Real estate		7,678,800	_	7,678,800
Timberland		1,664,581	_	1,664,581
Private equity		6,980,423	_	6,980,423
Hedge funds		5,351,631	_	5,351,631
Other	_	94,909		94,909
Total investments		62,466,706	69,399	62,536,105
Cash		282,624	_	282,624
Securities lending collateral		557,158	_	557,158
Interest and dividends receivable		139,650	29	139,679
Receivable for investments sold and				
other assets		1,281,902	_	1,281,902
Securities sold on a when-issued basis		223,685	_	223,685
Unrealized gains on foreign currency				
exchange contracts	_	13,440		13,440
Total assets	_	64,965,165	69,428	65,034,593
Liabilities:	_	_		
Payable for investments purchased and				
other liabilities		1,007,366	_	1,007,366
Real estate debt		1,511,769	_	1,511,769
Securities lending obligations		557,135	_	557,135
Securities purchased on a when-issued basis		648,945	_	648,945
Unrealized losses on foreign currency				
exchange contracts		25,810	_	25,810
Management fees payable to PRIM	_	39,823		39,823
Total liabilities	_	3,790,848		3,790,848
Net position held in trust for pool				
participants	\$_	61,174,317	69,428	61,243,745

See accompanying independent auditors' report.

# Schedule of Changes in Pooled Net Position – Capital Fund and Cash Fund Year ended June 30, 2015 (Dollars in thousands)

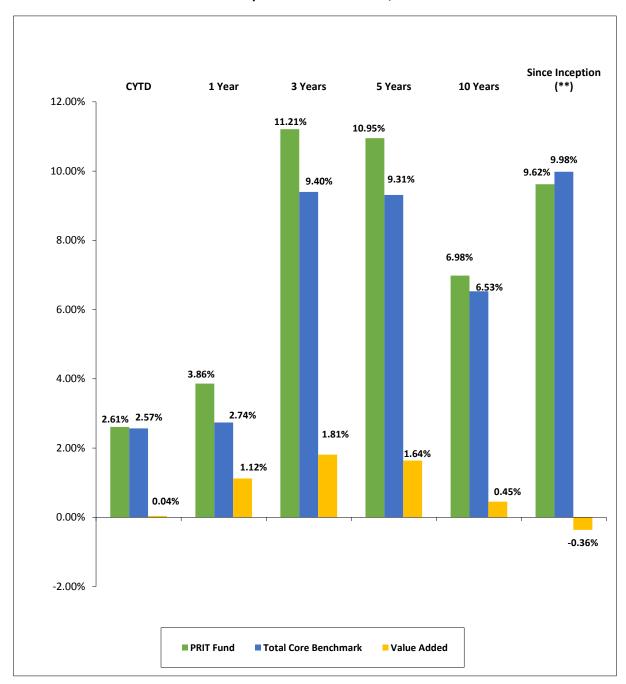
	Capital Fund	Cash Fund	Total
Additions:			
Contributions:			
State employees	\$ -	580,527	580,527
State teachers	<u> </u>	721,148	721,148
Other participants	_	877,252	877,252
Total contributions		2,178,927	2,178,927
Net investment income:			
From investment activities:			
Net realized income on investments and			
foreign currency transactions	2,552,747	_	2,552,747
Net change in unrealized depreciation	, ,		, ,
on investments and foreign			
currency translations	(1,730,479)	_	(1,730,479)
Interest income	269,864	267	270,131
Dividend income	650,996	_	650,996
Real estate income	260,366	_	260,366
Timberland income	11,854	_	11,854
Private equity income	151,001	_	151,001
1 /	2,166,349	267	2,166,616
Management fees	(98,166)	_	(98,166)
Net income from investment			
activities	2,068,183	267	2,068,450
From securities lending activities:			
Securities lending income	5,624	_	5,624
Securities lending expenses	(698)		(698)
Net income from securities			
lending activities	4,926	_	4,926
Total net investment income	2,073,109	267	2,073,376
Total additions	2,073,109	2,179,194	4,252,303
Deductions:			
Redemptions:			
State employees	_	1,266,799	1,266,799
State teachers	_	1,650,026	1,650,026
Other participants		768,507	768,507
Total deductions	_	3,685,332	3,685,332
Interfund transfers (out) in, net	(1,502,350)	1,502,350	_
Net increase (decrease) in pooled			
net position	570,759	(3,788)	566,971
Net position held in trust for pool participants:			
Balance, beginning of year	60,603,558	73,216	60,676,774
Balance, end of year	\$ 61,174,317	69,428	61,243,745

**COMPREHENSIVE ANNUAL FINANCIAL REPORT** 

### **Investment Section**

### **Total PRIT Fund Performance Summary (\*)**

For the periods ended June 30, 2015



- (\*) Gross of Fees. Total PRIT Fund includes the 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. The PRIM Board 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 PRIM 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 7.75%). A summary of other investment objectives is provided in the Investment Policy Statement at the end of this section.

As of June 30, 2015, the PRIM Board employed thirty-two public markets investment managers, one hundred two private equity markets managers, thirteen real estate, natural resources, and timberland managers, one hedge fund-of-funds manager, twenty-two direct hedge fund managers, one portfolio completion strategies manager, and five external investment advisors. The PRIT Fund had approximately \$61.2 billion in assets under management at June 30, 2015. Each investment manager operates within guidelines that are established by the PRIM Board and are delineated in a detailed investment management agreement or partnership 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 and subsequently updated in December 2014 states that over the long-term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. At reasonable intervals of not more than three to five years, the PRIM Board will complete 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 PRIM Board's risk tolerances. The PRIM 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's last comprehensive review of the PRIT Fund asset allocation was conducted during fiscal year 2014.

Asset Class	6/30/2015 Allocation % (3)	Long-Term Policy Target % (1)
Global Equity (*)	42.7	40.0
Core Fixed Income	13.7	13.0
Value-Added Fixed Income	8.3	10.0
Real Estate	10.0	10.0
Private Equity	11.3	10.0
Timber / Natural Resources	3.8	4.0
Hedge Funds	9.1	9.0
Portfolio Completion Strategies	0.2	4.0
Portable Alpha Wind Down (2)	0.1	0.0
Overlay (2)	0.9	0.0

- (\*) Global Equity includes the PRIT Fund's investments in domestic, international, and emerging markets equities.
- (1) Asset allocation approved February 11, 2015.
- (2) These asset classes do not have target % because they are not components of the long-term policy target asset allocation.
- (3) Totals may not add due to rounding.

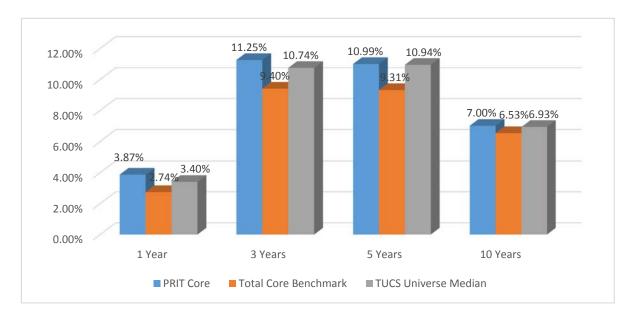
In addition to asset allocation, the PRIM Board seeks to diversify the PRIT Fund through a complementary diversification of investment styles within various asset classes. The PRIM Board requires detailed investment guidelines with each investment manager to ensure portfolios are managed with appropriate diversification and risk control.

### **Income and Expense Allocation**

Income earned and expenses incurred in each investment account are allocated to retirement systems based on each individual retirement system's share of ownership in each investment account. Expenses are classified in three categories for purposes of allocation to retirement systems: 1) investment management fees, 2) investment advisory fees, and 3) operational fees. Investment management fees are those directly associated with the investment management of a certain account. Investment advisory fees are fees that are either directly associated with an individual asset class, or, for general advisors, are allocated pro-rata based on net asset values of each asset class. Operational fees are custodian and other administrative 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.

### PRIT CORE PERFORMANCE: FISCAL YEAR 2015

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, 2015:



In the fiscal year 2015, the PRIT Core Fund returned 3.87%, outperforming the Total Core benchmark return of 2.74% by 113 basis points. The PRIT Fund began fiscal year 2015 with a net asset value of \$60.7 billion and ended with \$61.2 billion. On a gross basis the fund increased \$567.0 million, which is the result of \$2.1 billion in net investment income along with \$1.5 billion in net redemptions from the State Employees, State Teachers' and Participant accounts.

The quarterly returns of the PRIT Core Fund in fiscal year 2015 were as follows:

- -0.83% for September 30, 2014 versus a benchmark return of -1.09%.
- 2.08% for December 31, 2014 versus a benchmark return of 1.24%.
- 2.69% for March 31, 2015 versus a benchmark return of 2.92%.
- -0.07% for June 30, 2015 versus a benchmark return of -0.34%.

The PRIT Fund seeks to outperform its three 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 7.75%; 2) exceeding the long-term Policy Benchmark, which measures how well the PRIT Fund has implemented its asset allocation; and 3) achieving top quartile rankings in the TUCS report, which measures the PRIT Fund's investment performance against its peers nationwide. Through June 30, 2015, the PRIT Core Fund returned 9.57% since inception, outperforming the actuarial rate of return of 7.75% by 182 basis points. According to the TUCS ranking, the PRIT Fund's performance ranked in the second quartile of all U.S. Public Pension Funds over \$1 billion in size for fiscal year 2015 and for the trailing 10-year period.

### **Management Costs**

Expenses incurred by the PRIM Board in managing the PRIT Fund are charged to the PRIT Fund. These expenses consist of investment management fees, advisory fees, custodian fees, professional fees, salaries and administrative expenses of the PRIM Board.

The PRIM Board tracks two types of fees: 1) direct fees and 2) indirect fees. Direct fees are fees the PRIM Board pays directly to vendors for services rendered. These fees include most investment management fees, advisory fees, custodian fees, and salaries and administrative expenses of the PRIM Board. Indirect fees are expenses typically incurred when investing in partnerships or other commingled investment vehicle structures, such as private equity funds, hedge funds, real estate, timberland, and other commingled funds. Indirect management fees incurred in these funds are charged to the respective investments. The fair value of these investments are reported net of indirect management fees.

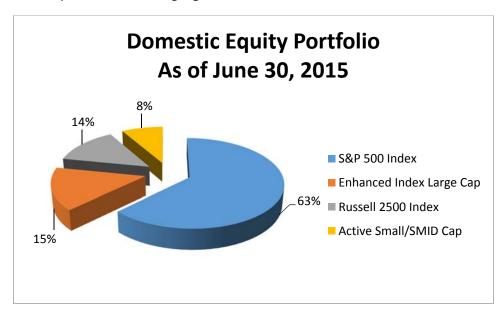
The PRIM Board's investment managers operate with formal contracts. Investment management fees accounted for approximately 84.4% of the PRIM Board's total direct expenses for fiscal 2015. The PRIM Board also contracts with a custodian and investment advisors. Fees to these providers were approximately 4.9% of the PRIM Board's total expense for fiscal year 2015.

Project SAVE which stands for "Strategic Analysis for Value Enhancement" was launched in 2013. The mission of this effort is to seek "value enhancement" for the PRIM Board, in terms of cost savings and return enhancements. The PRIM Board has successfully completed the first phase of Project SAVE, and since its launch, Project SAVE has realized over \$120 million in value enhancement initiatives. The PRIM Board continues to monitor the portfolio and processes for value enhancing opportunities and has begun research on the next phase of Project SAVE.

The total cost of managing the PRIT Fund for fiscal year 2015, *inclusive* of investment management (direct and indirect), advisory, custodial and overhead charges was 53 basis points of the average net asset value of the PRIT Fund compared to 55 basis points in fiscal year 2014. For information on expense ratios for each investment account, refer to the *Financial Highlights* and the *Financial Highlights Ratios* on pages 99-105 included in the Statistical Section of this report.

### **Domestic Equity Portfolio**

As of June 30, 2015, the Domestic Equity portfolio had approximately \$11.7 billion in net assets, which represented 19.2% of the PRIT Core Fund. Approximately 78% of the domestic equity portfolio is invested utilizing a large capitalization equity strategy (large cap) with the remaining 22% invested in small and middle capitalization equity strategies (small/smid cap). 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 two enhanced index large capitalization managers outperformed their benchmarks. The S&P 500 Index fund, the Russell 2500 Index fund, and the five active small/smid capitalization managers all underperformed their respective benchmarks. As of fiscal year end, the weighting of Domestic Equity was 45.0% 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 6.75% return compared to 7.12% for the portfolio benchmark. The PRIT Fund's large cap managers returned 7.63% compared to the 7.42% return of the large cap

benchmark S&P 500 index. The PRIT Fund's small/smid cap managers returned 3.31% compared to the 5.71% return of the small/smid cap benchmark (70.5% Russell 2500/5.5% Russell 2500 Growth/6.5% Russell 2000 Growth/17.5% Russell 2000 Value at 6/30/2015).

On a three-, five-, and 10-year basis through June 30, 2015, The PRIT Fund's Domestic Equity portfolio has returned 17.64%, 17.41%, and 6.86%, respectively, compared to the benchmark, which returned 17.59%, 17.45%, and 7.74%, respectively.

The top ten holdings in the Domestic Equity portfolio at June 30, 2015 are illustrated below. A complete listing of holdings is available upon request.

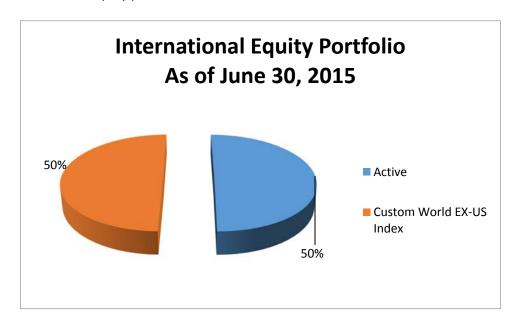
				% of Account
#	Issue Name	Fair	Value (\$000s)	Fair Value
1	Apple Inc.	\$	316,155	2.69%
2	Microsoft Corp.		153,672	1.31%
3	Exxon Mobil Corp.		151,002	1.29%
4	Johnson & Johnson		116,323	0.99%
5	Wells Fargo & Co.		114,560	0.98%
6	General Electric		111,288	0.95%
7	Berkshire Hathaway Inc.		106,826	0.91%
8	JPMorgan Chase & Co.		103,983	0.89%
9	Procter & Gamble		88,223	0.75%
10	Pfizer Inc		85,861	0.73%
	TOTAL	\$	1,347,893	11.49%

The PRIT Fund's Domestic Equity managers at June 30, 2015 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2015 (\$000s)		
State Street Global Advisors	S&P 500 Index	\$	7,367,985	
State Street Global Advisors	Russell 2500 Index		1,589,947	
INTECH	S&P 500 Enhanced Index		886,396	
PIMCO	S&P 500 Enhanced Index		926,182	
Frontier Capital Management	Small Cap Value		182,870	
Huber Capital	Small Cap Value		258,487	
Riverbridge Partners	SMID Cap Growth		167,014	
SouthernSun Asset Management	SMID Cap Core		155,016	
Summit Creek Advisors	Small Cap Growth		212,092	
Other portfolio net assets			(636)	
Total Portfolio Fair Value		\$	11,745,353	

### **International Equity Portfolio**

As of June 30, 2015, the International Equity portfolio had approximately \$10.3 billion in net assets, representing 16.9% 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 50% of the portfolio) and four actively managed accounts (50% of the portfolio). The passive manager 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 39.6% 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, 2015, the International Equity portfolio returned -2.76% compared to the asset class benchmark return (50% Custom MSCI EAFE/50% Custom World ex-U.S. IMI at 6/30/2015) of -4.54%. All of the PRIT Core Fund's four 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 asset class benchmark. On a three-, five-, and 10-year basis through June 30, 2015, The PRIT Fund's international equity managers posted returns of 13.10%, 10.76%, and 6.22%, respectively, ahead of the benchmark, which returned 11.74%, 9.31%, and 5.18%, respectively, over the same periods.

The top ten holdings in the International Equity portfolio at June 30, 2015 are illustrated below. A complete listing of holdings is available upon request.

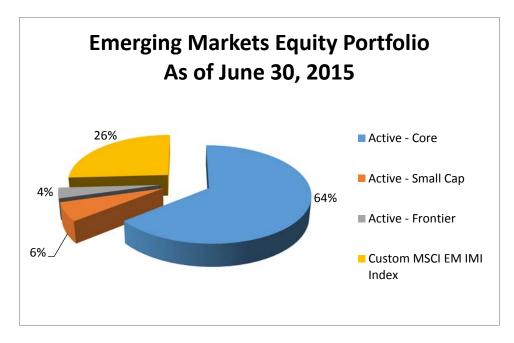
				% of Account
#	Issue Name	Fair	Value (\$000s)	Fair Value
1	Nestle SA	\$	139,167	1.35%
2	Roche Holding AG		137,094	1.33%
3	Novartis AG		118,781	1.15%
4	Novo Nordisk A/S		101,327	0.98%
5	Unilever PLC		93,184	0.90%
6	Toyota Motor Corp		86,849	0.84%
7	BP PLC		83,876	0.81%
8	MS&AD Insurance Group Holdings Inc		75,206	0.73%
9	Svenska Handelsbanken AB		71,114	0.69%
10	Sanofi		68,921	0.67%
	TOTAL	\$	975,519	9.45%

The PRIT Fund's International Equity managers at June 30, 2015 are presented in the following table:

		Portfol	io Fair Value at
Manager	Investment Mandate	June 3	0, 2015 (\$000s)
State Street Global Advisors	Custom World ex-US IMI Index	\$	5,154,161
Marathon-London	Custom MSCI EAFE		2,468,187
Baillie Gifford	Custom MSCI EAFE		1,815,041
Mondrian Investment	Custom MSCI EAFE		794,660
FIS Group, Inc.	Custom MSCI EAFE		108,145
Other portfolio net assets			1,113
Total Portfolio Fair Value		\$	10,341,307

### **Emerging Markets Portfolio**

As of June 30, 2015, the Emerging Markets Equity portfolio had approximately \$4.0 billion in net assets, representing 6.6% 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 Custom MSCI Emerging Markets Small Cap) while the passive account is benchmarked against the Custom MSCI Emerging Markets Investable Market Index - Net Dividends (Custom MSCI Emerging Markets IMI). The active frontier market equity managers are benchmarked against the Custom MSCI Frontier Markets 15% Country Capped Net Dividends Index (Custom MSCI Frontier Markets 15% Country Capped). The emerging markets equity portfolio is allocated to five active core equity managers (6% of the portfolio), two frontier equity managers (4% of the portfolio), and one passive manager (26% of the portfolio). The PRIM Board maintains a target weighting of 75% active and 25% passive for the Emerging Markets Equity portfolio.



The primary strategy for this portfolio is investing in companies in developing countries, including, but not limited to, China, Brazil, Russia, South Korea, Taiwan, India and Turkey. These countries typically have less efficient securities markets, and thus there is opportunity for substantial returns. As of fiscal year end, the weighting of Emerging Markets Equity was 15.4% 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 -5.85% compared to the custom asset class benchmark return of -3.92%. Since inception in March 2015, two of the PRIT Core Fund's five active emerging markets core equity managers outperformed the Custom MSCI Emerging Markets Standard index. The passive manager outperformed the Custom MSCI Emerging Markets IMI index. The PRIT Core Fund's two active emerging markets small cap equity managers outperformed the MSCI Emerging Markets Small Cap index for the fiscal year. The two active frontier equity managers, Acadian Frontier and City of London, outperformed the Custom MSCI Frontier Markets Country Capped index, since their inceptions in April and February 2015, respectively. On a three-, five-, and 10-year basis through June 30, 2015, the PRIT Fund's emerging markets equity managers posted returns of 4.23%, 4.11%, and 7.31%, respectively, compared to the custom asset class benchmark, which returned 4.54%, 3.97%, and 8.34% over the same periods.

The top ten holdings in the Emerging Markets Equity portfolio at June 30, 2015 are illustrated below. A complete listing of holdings is available upon request.

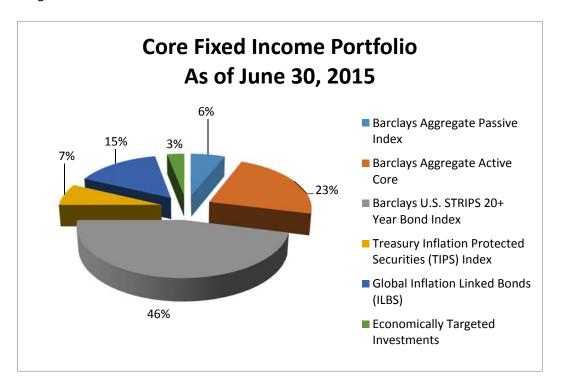
		N	/larket Value	% of Account
#	Issue Name		(\$000s)	Fair Value
1	Samsung Electronics	\$	88,202	2.20%
2	Tawain Semiconductor Mfg. Co.		75,704	1.89%
3	Tencent Holdings Ltd		75,337	1.88%
4	Naspers Ltd		59,216	1.48%
5	China Mobile		56,362	1.41%
6	Hon Hai Precision Industry Co.		51,687	1.29%
7	China Construction Bank		46,953	1.17%
8	Ping An Insurance (Group) Co. of China		41,591	1.04%
9	Dragon Oil PLC		35,429	0.88%
10	SK Hynix Inc		29,451	0.73%
	TOTAL	\$	559,932	13.97%

The PRIT Fund's Emerging Markets Equity managers at June 30, 2015 are presented in the following table:

Managar	Investment Mandate	Portfolio Fair Value at		
Manager	investment ivianuate	June 30, 2015 (\$000s)		
State Street Global Advisors	Custom MSCI EM IMI Index	\$ 1,038,913		
AQR Emeging	EM Core	483,909		
Baillie Gifford EMM	EM Core	561,314		
Driehaus Capital	EM Core	586,818		
Harding Loevner	EM Core	373,989		
Pzena Investment Management, LLC	EM Core	505,836		
Wasatch	EM Small Cap	106,088		
Acadian	EM Small Cap	145,923		
Acadian Frontier	Frontier	39,991		
City of London	Frontier	101,613		
Other portfolio net assets		66,898		
Total Portfolio Fair Value		\$ 4,011,292		

### **Fixed Income Portfolio**

The PRIM Board had approximately \$8.4 billion invested in the investment grade Core Fixed Income portfolio, representing 13.7% of the PRIT Core Fund as of June 30, 2015. 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 U.S. STRIPS 20+ Year Bond Index for STRIPS 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 three managers under the PRIM Board's Economically Targeted Investment (ETI) program, which are benchmarked against the Barclays Capital Aggregate Index. Further discussion on the PRIT Fund's ETI 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. The STRIPS portfolio is designed to approximate the performance of the Barclays U.S. STRIPS 20+ Year Bond Index and to lower overall volatility of the total PRIT Fund.

**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 2015, the Fixed Income composite return of 4.68% outperformed the benchmark (31% Barclays Capital Aggregate/47% Barclays U.S. STRIPS 20+ Year Bond Index /7% Barclays Capital US TIPS/15% Barclays Capital ILB US\$ Hedged as of 6/30/2015), which returned 4.30%. The Aggregate mandates including the ETI program returned 2.58%, outperforming their benchmark (Barclays Capital Aggregate Index) by 72 basis points. The STRIPS mandate returned 8.85%, compared to the Barclays U.S. STRIPS 20+ Year Bond Index return of 8.95%. The passively managed TIPS mandate returned -1.75%, compared to its benchmark (Barclays Capital US TIPS) which returned -1.73%. The actively managed ILBs mandate returned 3.36%, outperforming its benchmark (Barclays Capital ILB US\$ Hedged Index) by 2 basis points.

The top ten Core Fixed Income holdings as of June 30 2015, excluding TIPS investments and certain pooled funds, are illustrated below. A complete listing of holdings is available upon request.

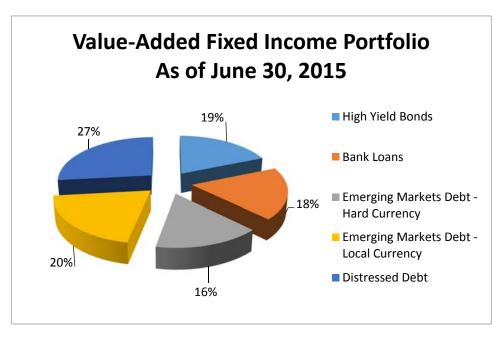
				% of Account
#	Issue Name	Fair \	/alue (\$000s)	Fair Value
1	U.S. Treasury Bond Principal STRIP 0.000% February 2044	\$	246,738	2.95%
2	U.S. Treasury Bond Principal STRIP 0.000% May 2044		243,134	2.90%
3	U.S. Treasury Bond Principal STRIP 0.000% February 2043		217,542	2.60%
4	U.S. Treasury Bond Principal STRIP 0.000% May 2043		207,987	2.48%
5	U.S. Treasury Bond Principal STRIP 0.000% November 2042		187,122	2.23%
6	U.S. Treasury Bond Principal STRIP 0.000% November 2043		179,731	2.15%
7	U.S. Treasury Bond Principal STRIP 0.000% May 2040		148,348	1.77%
8	U.S. Treasury Bond Principal STRIP 0.000% November 2039		134,053	1.60%
9	U.S. Treasury Bond Principal STRIP 0.000% August 2040		131,826	1.57%
10	U.S. Treasury Bond Principal STRIP 0.000% February 2040		123,800	1.48%
	TOTAL	\$	1,820,281	21.73%

The PRIT Fund's Core Fixed Income portfolio managers at June 30, 2015 are presented in the following table:

		Portfolio Fair Valu	
Manager	Investment Mandate	June 3	0, 2015 (\$000s)
Blackrock Financial Management	Core Index	\$	508,665
Loomis, Sayles & Co., LP	Active Core		1,120,762
PIMCO	Active Core		788,245
Blackrock Financial Management	Inflation Link Bonds		1,249,627
Blackrock Financial Management	STRIPS Index		3,860,954
Blackrock Financial Management	TIPS Index		594,742
AFL - CIO Housing Investment	ETI		124,473
Access Capital	ETI		102,668
Community Capital Management	ETI		27,595
Other portfolio net assets			3
Total Portfolio Fair Value		\$ 8,377,734	

### Value-Added Fixed Income Portfolio

The PRIM Board had approximately \$5.1 billion invested in the Value-Added Fixed Income portfolio, representing 8.3% of the PRIT Core Fund as of June 30, 2015. The Value-Added Fixed Income portfolio is invested using the following strategies:



**Distressed debt**, 2.2% of the PRIT Core Fund, represents investments in private partnerships that invest directly in distressed debt investment opportunities. As at June 30, 2015 the PRIT Fund had approximately \$1.4 billion in distressed debt investments with thirteen 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, the PRIM Board'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 Fund high yield bond program, all through separate accounts.

**Emerging markets debt**, 3.0% 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**, 1.5% of the PRIT Core Fund, represents investments in senior secured bank loans. There are two managers in the PRIT Fund 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 2015, the Value-Added Fixed Income composite returned -2.60% compared to -7.01% for the asset class benchmark. The PRIT Core Fund's three high yield bond managers returned 0.56%, while the Merrill Lynch High Yield Master II Constrained index returned -0.54%. The Emerging Markets Debt Hard Currency portfolio returned -3.46% during the fiscal year, compared to the JP Morgan Emerging Markets Bond Index (JPM EMBI Global Index), which returned -1.57%. The Emerging Markets Debt Local Currency portfolio, managed by three managers, returned -15.25%, outperforming the JP Morgan GBI Emerging Markets Global Diversified index return of -15.39%. The two bank loan managers, returned 2.73%, outperforming the S&P LSTA Leveraged Loan index return of 1.82%. The Distressed Debt portfolio returned 3.55% compared to the index return of -13.09%. 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, 2015, 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.

				% of Account
#	Issue Name	Fair	Value (\$000s)	Fair Value
1	Brazil Notas Do Tesouro Nacional 10.000% January 2017	\$	52,938	1.05%
2	Brazil Notas Do Tesouro Nacional 10.000% January 2021		28,714	0.57%
3	Mexican Bonos 10.000% December 2024		23,322	0.46%
4	South Africa Government Bond 10.500% December 2026		20,906	0.41%
5	Thailand Government Bond 3.650% December 2021		20,674	0.41%
6	Malaysia Government Bond 4.262% September 2016		18,527	0.37%
7	Turkey Government Bond 6.300% February 2018		16,357	0.32%
8	Indonesia Treasury Bond 9.000% March 2029		15,199	0.30%
9	Turkey Government Bond 9.500% January 2022		15,101	0.30%
10	Brazil Letras Do Tesouro Nacional 0.000% January 2018		14,900	0.29%
	TOTAL	\$	226,638	4.48%

The PRIT Fund's Value-Added Fixed Income portfolio managers at June 30, 2015 are presented in the following table:

		Portfoli	o Fair Value at	
Manager	Investment Mandate	June 30, 2015 (\$000s)		
Fidelity Management Trust	High Yield Bond	\$	317,433	
Loomis, Sayles & Co., LP	High Yield Bond		327,944	
Shenkman Capital Management	High Yield Bond		303,063	
Ashmore Investment Management	Emerging Markets Debt Hard Currency		489,951	
PIMCO	Emerging Markets Debt Hard Currency		307,387	
Investec	Emerging Markets Debt Local Currency		283,814	
Pictet	Emerging Markets Debt Local Currency		455,285	
Stone Harbor	Emerging Markets Debt Local Currency		281,558	
Eaton Vance	Bank Loans		470,543	
Voya	Bank Loans		465,831	
Various partnerships	Distressed Debt		1,350,752	
Other portfolio net assets			(366)	
Total Portfolio Fair Value		\$	5,053,195	

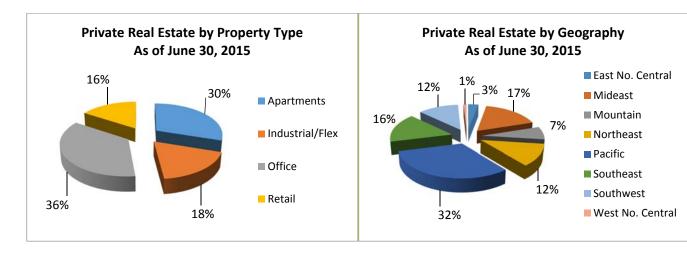
### **Real Estate Portfolio**

As of June 30, 2015 the PRIM Board had \$6.1 billion invested in real estate through the PRIT fund's ownership interest in PRIT Core Realty Holdings LLC (the LLC), representing 10.0% of the PRIT Core Fund. Real estate holdings consist of directly-owned properties, REITs, Investment in real estate private equity funds, 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 81% 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, 2015, \$4.5 billion (net of portfolio debt) of Core real estate investments and \$424 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. The PRIM Board's Non-Core program targets opportunities associated with development, 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 Fund real estate portfolio. As of June 30, 2015 the PRIM Board had approximately \$1.2 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 1.9% of the total PRIT fund.

The following charts display the property type and geographic diversification of the PRIM Board's directly owned Real Estate assets, at June 30, 2015:



The PRIM Board's strategies utilize a disciplined portfolio approach to real estate investing that is focused on investments in equity interests in institutional quality real estate. The PRIM Board's fiscal 2015 allocation to real estate is 10% of total plan assets, which allows the PRIM Board to establish separate accounts with capable real estate investment managers under terms that are beneficial to the PRIM Board. Because the PRIM Board is typically the sole owner of the real estate in each such account, the managers operate under clear policies and guidelines most appropriate to the PRIM Board'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, 2015, the LLC had portfolio level debt of \$1.0 billion and property level debt of \$511.8 million. The LLC was in compliance with the debt covenants at June 30, 2015.

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 the PRIM Board 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 the PRIM Board 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, the PRIM Board's direct real estate and REIT investments produced strong performance in response to improving employment data, a continued low interest rate environment and strong demand for real estate in core markets.

For the fiscal year 2015, the real estate portfolio returned 11.99%, outperforming the asset class benchmark (80% NCREIF Property Index (one quarter lag)/20% FTSE EPRA NAREIT Developed Net Total Return) by 1.67%. The private real estate portfolio returned 15.26% for the year ended June 30, 2015, comparing to the NCREIF Property Index (one quarter lag), which returned 12.72% over the same period. REIT investments returned 0.94%, outperforming its benchmark by 0.65%.

The Real Estate portfolio returned 12.78% over the past three-years versus the asset class benchmark return of 11.19%. On a five-year basis, returns were 13.76% compared to the benchmark return of 12.94%. On a 10-year basis, the real estate portfolio returned 8.59% compared to the benchmark return of 7.92%.

The PRIT Fund's real estate investment managers at June 30, 2015 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2015 (\$000s)		
Invesco Realty Advisors	Separate Accounts - Core	\$	1,115,216	
LaSalle Investment Management	Separate Accounts - Core		1,556,639	
AEW	Separate Accounts - Core		988,716	
J.P. Morgan Investment Management	Separate Accounts - Core		754,954	
TA Associates Realty	Separate Accounts - Core		1,109,776	
Various Non-Core Partnerships	Non-Core		409,972	
Invesco Realty Advisors - Transition	Global REITs		144,325	
Invesco Realty Advisors	Global REITs		264,037	
CenterSquare Investment Management	Global REITs		753,455	
Canyon Johnson	ETI		5,519	
Intercontinental	ETI		1,036	
New Boston	ETI		7,450	
Other portfolio net assets (portfolio debt included)			(1,017,953)	
Total Portfolio Fair Value		\$	6,093,142	

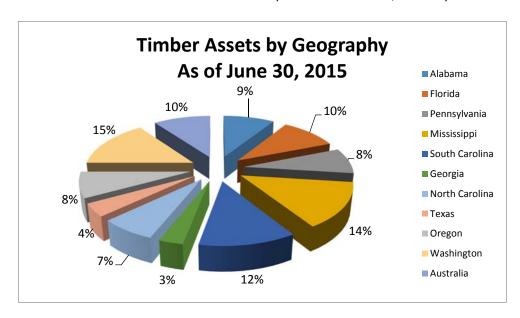
### **Timber and Natural Resources Portfolio**

As of June 30, 2015, the PRIM Board had \$1.7 billion invested in timber, representing 2.8% 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). In February 2008, the Board voted to add a 2% allocation to Natural Resources in order to complement the timber allocation. In June 2009, the Board voted to set a 4% long-term target allocation to timber. In order to fund this allocation, the Board authorized the liquidation of the 2% allocation to publicly traded natural resources at the appropriate time. As of June 30, 2015, the PRIM Board had \$381.8 million invested with two Natural Resources managers, Jennison and T. Rowe Price, representing 0.6% 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 \$269.6 million is invested in natural resources through PRIM's Private Equity program, representing 0.4% 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.

In Australia, there is approximately 2 million hectares (4.9 million acres) of plantation timberlands that are almost evenly split between hardwood and softwood species. Australia is a net importer of forest products, with limited domestic supply and high demand. With increasing fiber demand from China, export opportunities exist for plantations with close proximity to ports.

The geographical diversification of the PRIT Fund's timber portfolio at June 30, 2015 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 timberland 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 the PRIM Board through coordination with external appraisers and the PRIM Board'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. International timberland investments are also subject to currency fluctuations that can result in unpredictable gains or losses when foreign currency is converted into U.S. dollars.

**Performance.** As of June 30, 2015, the one-year Timber return was 9.69% as compared to the NCREIF Timber Index (one quarter lag) of 10.64%. Since its inception, in January 2002, the Timber portfolio has produced an annualized return of 9.85%. With a 2.8% investment in timber at fiscal year-end, the PRIM Board was under its target of 4%. For the year ended June 30, 2015, the publicly traded Natural Resource portfolio returned -27.90%, comparing to the Lipper Natural Resources Global Fund index return of -25.93%. The private Natural Resources investments returned -8.81% for the fiscal year. As of June 30, 2015, the one-year combined Timber/Natural Resources return was -1.35% as compared to the blended NCREIF Timber/Lipper Natural Resources Global Fund/Actual Private Natural Resources Index of -0.28%. On a three-, five-, and 10-year basis through June 30, 2015, the PRIT Fund's combined Timber/Natural Resources portfolio has returned 6.18%, 5.78%, and 6.41%, respectively, compared to the benchmark return of 7.35%, 6.25%, and 6.06%, respectively.

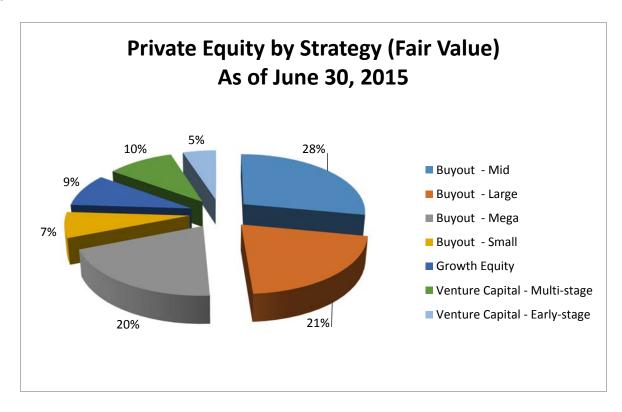
The PRIT Fund's Timber and Natural Resources investment managers at June 30, 2015 are presented in the following table:

Manager	Investment Mandate	 lio Fair Value at 0, 2015 (\$000s)
Forest Investments Associates	Separate Accounts - Timber	\$ 1,109,273
The Campbell Group	Separate Accounts - Timber	549,695
Jennison	Global Natural Resources	188,502
T. Rowe Price	Global Natural Resources	193,291
Various Private Equity Investments	Natural Resources - Private	269,793
Other portfolio net assets		36,496
Total Portfolio Fair Value		\$ 2,347,050

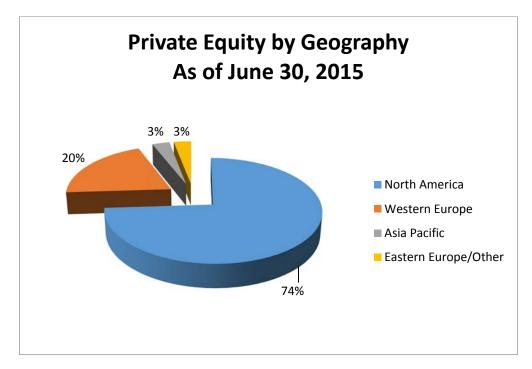
### **Private Equity Portfolio**

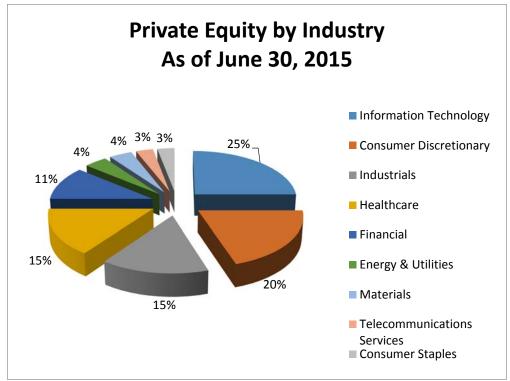
As of June 30, 2015 the market value of the Private Equity portfolio was \$6.9 billion or 11.3% of the total PRIT Core Fund. The PRIT Fund's long-term target allocation to Private Equity investments is 10%. Two components comprise the PRIT Fund's Private Equity portfolio: venture capital (early-stage 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, 2015 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:

- <u>Illiquidity</u>: 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.
- <u>Volatility</u>: 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.
- <u>Management Fee Effect</u>: 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.
- <u>Valuation of investments</u>: 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.
- <u>General Partner Discretion</u>: 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.)
- <u>Binding Commitments</u>: 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.)
- <u>Risk of Loss</u>: 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.** The PRIT Fund's Private Equity portfolio delivered a one-year return of 15.57% through June 30, 2015. The PRIT Fund's Private Equity managers were active in making new investments as well as in generating liquidity in the year ending June 30, 2015. The PRIT Fund's managers called \$1.2 billion of capital for additional investments including management fees and partnership expenses, which is higher than the \$1.1 billion called

during the prior fiscal year. From a liquidity standpoint, the portfolio generated total distributions of \$2.0 billion, similar to the \$2.0 billion distributed in the 2014 fiscal year.

While there is not currently a widely used or conventional benchmark in this asset class, the PRIM Board staff targets investment opportunities with the ability to generate a long-term rate of return equal to or greater than the Russell 3000 + 3%. The PRIT Fund's Private Equity program has achieved this goal over the 10-year period, outperforming the Russell 3000 by a minimum of 300 basis points. Over the long term the PRIT Fund's Private Equity portfolio has performed well with a 10-year annual return of 16.89% as of June 30, 2015, exceeding the Russell 3000 index return of 8.15% by 874 basis points. On a five-year basis, the portfolio outperformed the Russell 3000 by 85 basis points, 18.39% compared to 17.54%. For the three-year period ending June 30, 2015, the Private Equity portfolio returned 18.67%, outperforming the Russell 3000 index return of 17.73% by 94 basis points. For the one-year period ending June 30, 2015, the Private Equity portfolio returned 15.57%, outperforming the Russell 3000 index return of 7.29% by 828 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, 2015 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 Russell 3000.

Since inception to June 30, 2015, the PRIT Fund has committed over \$16.4 billion to 348 partnerships (265 active) of which \$13.5 billion has been invested. The program has generated \$14.7 billion in distributions. The net IRR since inception for the program is 13.23%.

### PRIVATE EQUITY EXTERNAL MANAGERS

### As of June 30, 2015

	Partnership	Location		Partnership	Location
1	ACON Investments	Washington, DC	53	Keytone Ventures	Beijing, China
2	Advent International	Boston, MA	54	Kohlberg Kravis Roberts & Co.	New York, NY
3	Alchemy Partners	London, UK	55	KPS Capital Partners	New York, NY
4	Alta Communications	Boston, MA	56	Landmark Partners	Simsbury, CT
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
.0	Bain Capital	Boston, MA	62	Nautic Partners	Providence, RI
1	Battery Ventures	Wellesley, MA	63	New Enterprise Associates	Baltimore, MD
2	Berkshire Partners, LLC	Boston, MA	64	Nordic Capital	Stockholm, Sweden
3	The Blackstone Group	New York, NY	65	Odyssey Investment Partners	New York, NY
4	Boston Ventures	Boston, MA	66	Olympus Growth Fund	Stamford, CT
5	Bridgepoint	London, UK	67	Onex Partners	Toronto, CA
6	Candover	London, UK	68	PAI Partners	Paris, France
7	Carlyle Partners	Washington, DC	69	Permira Europe	London, UK
8	Castile Ventures	Waltham, MA	70	Polaris Venture Partners	Waltham, MA
9	Catalyst Investors	New York, NY	71	Providence Equity Partners	Providence, RI
0	Centerbridge Capital Partners	New York, NY	72	Quad - C Management, Inc.	Charlottesville, VA
1	Charles River Ventures	Waltham, MA	73	Quantum Energy Partners	Houston, TX
2	Charles River Ventures  Charlesbank Capital Partners	Boston, MA	73	Rembrandt Venture Partners	Menlo Park, CA
	·			Rhône Capital	·
3	Charterhouse Capital Partners	London, UK	75 76	'	New York, NY
4	Chequers Capital	Paris, France	76	SAIF Partners	Hong Kong, China
5	Code Hennessey & Simmons	Chicago, IL	77	SCP Vitalife	Tel Aviv, Israel
6	Commonwealth Capital Ventures	Wellesley, MA	78	Sherbrooke Capital	Newton, MA
7	CVC Capital (Europe)	London, UK	79	Sofinnova Venture Partners	Menlo Park, CA
8	Cypress Merchant Banking	New York, NY	80	Spark Capital	Boston, MA
9	Denham Capital Management	Boston, MA	81	Spectrum Equity Partners	Boston, MA
0	DLJ Merchant Banking	New York, NY	82	Summit Ventures	Boston, MA
1	El Dorado Ventures	Menlo Park, CA	83	SV Life Sciences	Boston, MA
2	Equitable Capital Management	New York, NY	84	TA Associates	Boston, MA
3	Essex Woodlands	Houston, TX	85	TCV	Menlo Park, CA
4	Ethos Private Equity	Johannesburg, South Africa	86	Texas Pacific Group	San Fran./Fort Worth
5	Exponent Partners	London, UK	87	Thoma Bravo	Chicago/San Francisco
6	First Reserve Corporation	Greenwich, CT	88	Thoma Cressey	Chicago, IL
7	Flagship Ventures	Cambridge, MA	89	Thomas H. Lee Equity Partners	Boston, MA
8	Freeman Spogli Equity Partners	Los Angeles, CA	90	Torquest Partners	Toronto, CA
9	Genstar Capital Partners	San Francisco, CA	91	Towerbrook Capital Partners	New York/London
0	Guilde Buy Out Partners	Utrecht, Netherlands	92	Trident Capital	Palo Alto, CA
1	The Gores Group	Los Angeles, CA	93	Union Square Ventures	New York, NY
2	GTCR Golder, Rauner	Chicago, IL	94	VantagePoint Partners	San Bruno, CA
3	Hellman & Friedman Capital Partners	San Francisco, CA	95	Vestar Capital Partners	New York, NY
4	H.I.G. Capital	Miami, Fla.	96	Vista Equity Partners	San Francisco, CA
5	Highland Capital Partners	Boston, MA	97	Welsh CarsonAnderson & Stowe	New York, NY
6	Hony Capital	Beijing, China	98	Weston Presidio Capital	Boston/San Francisco
7	Index Ventures	Geneva, Switzerland	99	Westview Capital Partners	Boston, MA
8	Insight Venture Partners	New York, NY	100	Whitney & Co.	Stamford, CT
9	Institutional Venture Partners	Menlo Park, CA	101	Willis Stein	Chicago, IL
0	InterWest Partners	Menlo Park, CA/Dallas, TX	102	Xenon Private Equity	Milan, Italy
1	Kelso & Company	New York, NY	102	y	,,
	Kepha Partners	Waltham, MA			

### **Hedge Fund Portfolio**

As of June 30, 2015 the Hedge Fund portfolio had approximately \$5.6 billion in assets, which represented 9.1% of the PRIT Fund. The PRIM Board has investments with twenty-two direct hedge fund managers including managed accounts, one 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, 2015 are presented in the following table:

Manager	Strategy Focus	Portfolio Fair Value at June 30, 2015 (\$000s)		
PAAMCO	Core - Emerging Managers	\$	1,210,770	
Arden Asset Management - Liquidation	Equity Market Neutral/Fundamental Credit		52,532	
Ivy Asset Management Corp Liquidation	N/A		4,692	
Direct Hedge Funds	Core		4,056,051	
Other portfolio net assets			251,108	
Total Portfolio Fair Value		\$	5,575,153	

**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, as well as 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.

**Performance.** The PRIT Fund's Hedge Fund portfolio managers returned 3.68% for the fiscal year versus a return of 3.84% for the benchmark HFRI Fund of Funds Composite Index. The Hedge Fund portfolio has returned 8.83% and 6.39% over the three and five year periods versus the asset class benchmark of 6.23% and 4.14%, respectively. On a 10-year basis, the Hedge Fund portfolio returned 4.88% compared to the benchmark return of 5.08%. 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, 2015, the Portable Alpha Wind Down portfolio had \$32.1 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.

### Portfolio Completion Strategies (PCS) Portfolio

As of June 30, 2015 the PCS portfolio had approximately \$94.9 million in assets with one manager, which represented 0.2% of the PRIT Fund.

The objective of the PCS portfolio is to provide the PRIT Fund access to broader investment opportunities. Investments selected for the PCS portfolio should enhance the risk/return profile of the PRIT Fund. Investments may include long-term strategic investments or short-term opportunistic investments.

Each investment within the PCS portfolio is compared against an appropriate benchmark. The overall PCS portfolio benchmark is the weighted-average of each of the underlying investment benchmarks.

**Portfolio Risks.** The PCS portfolio is subject to the various risks of alternative risk premia and other underlying investments. The portfolio is subject to market risk through a general reversal of the risk premia that the strategies are trying to capture. The portfolio is also exposed to liquidity risk in unwinding illiquid positions. In addition, the PCS portfolio is exposed to operational risks in executing investment strategies and valuing investment positions. The PRIM Board has developed a detailed PCS investment plan to manage these risks and ensure appropriate diversification within the asset class.

**Performance.** Since its inception in January 2015, the PRIT Fund's PCS portfolio returned -5.09% comparing to the asset class benchmark return of 1.58%.

### **Overlay**

At the August 8, 2013 Board meeting, the PRIM Board voted to hire the Clifton Group for the Cash Overlay program. As of June 30, 2015, the Overlay portfolio had \$567.4 million in assets which represents 0.9% of the PRIT Fund. The Overlay portfolio returned 2.09% for the fiscal year and had a return of 6.59% since its inception in October 2013.

The objective of the overlay program is to provide market exposure to cash which is not invested with a similar risk/return profile of the PRIT Fund. Investments are made through the futures market.

### SCHEDULE OF TIME-WEIGHTED RETURNS BY ASSET CLASS\* For the Periods Ended June 30, 2015

Asset Class	1 Year	3 Year	5 Year	10 Year
Benchmark as of June 30, 2015				
Global Equity	0.88%	13.70%	12.68%	6.72%
44% Domestic Equity BM/40% Interantional Equity BM/16%				
Emerging Markets BM	0.69%	13.20%	12.05%	6.45%
Domestic Equity	6.75%	17.64%	17.41%	6.86%
79% S&P 500/15% Russell 2500/1% Russell 2500 Growth/1%				
Russell 2000 Growth/4% Russell 2000 Value	7.12%	17.59%	17.45%	7.74%
International Equity	-2.76%	13.10%	10.76%	6.22%
50% Custom MSCI World EX-US IMI NET DIVS/50% Custom MSCI				
EAFE Standard Index NET DIVS	-4.54%	11.74%	9.31%	5.18%
Emerging Markets	-5.85%	4.23%	4.11%	7.31%
Asset Class Benchmark (1)	-3.92%	4.54%	3.97%	8.34%
Core Fixed Income	4.68%	3.34%	4.70%	4.74%
31% BC Agg/47% BC US STRIPS 20+ Year /7%BC US TIPS/15%				
BC ILB US\$ HEDGED	4.30%	2.78%	4.19%	4.31%
Value-Added Fixed Income	-2.60%	4.85%	7.00%	7.68%
19% ML Master II HY Constrained Index/18% S&P LSTA				
Leveraged Loan Index/16% JPM EMBI Global/20% JPM GBI-EM				
Global/27% Altman Index	-7.01%	3.35%	4.99%	6.48%
Real Estate	11.99%	12.78%	13.76%	8.59%
80% NCREIF Property One Qtr. Lag/20% FTSE EPRA NAREIT				
DEVELOPED Net Total Return	10.32%	11.19%	12.94%	7.92%
Private Equity	15.57%	18.67%	18.39%	16.89%
No Benchmark	na	na	na	na
Timber/Natural Resources (2)	-1.35%	6.18%	5.78%	6.41%
71% NCREIF Timber/17% Lipper Natural Resources Global Fund				
Index/12% Actual Natural Resources - Private	-0.28%	7.35%	6.25%	6.06%
Hedge Funds	3.68%	8.83%	6.39%	4.88%
HFRI Fund of Funds Composite Index (3)	3.84%	6.23%	4.14%	5.08%
Portable Alpha Wind Down (4)	-4.28%	-2.63%	-1.88%	na
HFRI Fund of Funds Composite Index (3)	3.84%	6.23%	4.14%	na
Overlay (5)	2.09%	na	na	na
No Benchmark	na	na	na	na
	1 Year	3 Year	5 Year	10 Year
Total PRIT Core Fund	3.87%	11.25%	10.99%	7.00%
Policy Benchmark	2.74%	9.40%	9.31%	6.53%
TUCS Universe Median	3.40%	10.74%	10.94%	6.93%
TUCS Universe Ranking	33rd	38th	47th	43rd

<sup>(1)</sup> Current Emerging Markets benchmark is maintained by MSCI and is based on the beginning adjusted monthly market value of each index group, customized to exclude legislatively prohibited tobacco, Sudan and Iran securities.

<sup>(2)</sup> The Timber Account's inception date was January 1, 2002; Natural Resources Account's inception was August 1, 2008.

<sup>(3)</sup> 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%.

<sup>(4)</sup> Prior to January 1, 2010, Portable Alpha returns are reflected in the Domestic Equity Account.

The Overlay Account's inception date was October 31, 2013.

<sup>\*</sup> 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, 2015

	Fair Value	% of Fair
Short-term:	(\$000s)	Value
Money market investments	\$ 1,733,529	2.77%
Fixed income:		
U.S. government obligations	5,225,621	8.36%
Domestic fixed income	4,660,555	7.45%
International fixed income	3,152,349	5.04%
Distressed debt	1,350,752	2.16%
Equity:		
Domestic equity securities	10,353,626	16.56%
International equity securities	14,289,329	22.85%
Real estate	7,678,800	12.28%
Timberland	1,664,581	2.66%
Private Equity:		
Venture capital	1,579,463	2.53%
Special equity	5,400,960	8.64%
Hedge Funds:		
Direct hedge funds and hedge fund of funds	5,323,426	8.51%
Liquidating hedge fund of funds	28,205	0.04%
Other:		
Portfolio completion strategies investment funds	94,909	0.15%
Total investments	\$ 62,536,105	100.00%

### **SUMMARY SCHEDULE OF BROKER COMMISSIONS**

(Top 25 Brokers and Cumulative Fees Paid to Others)

### Fiscal Year Ended June 30, 2015

Brokerage Firms	Fe	ees Paid (\$)	% Total	Average \$ per share
		σοι αια (φ)	/o 10 tal	peronare
Citigroup	\$	922,304	9.1%	0.0044
Morgan Stanley		690,232	6.8%	0.0043
State Street		666,633	6.6%	0.0009
Merrill Lynch		586,791	5.8%	0.0035
UBS		565,245	5.6%	0.0030
JP Morgan		515,189	5.1%	0.0043
Credit Suisse		514,765	5.1%	0.0028
Macquarie		489,456	4.8%	0.0011
Goldman Sachs		418,526	4.1%	0.0020
Deutsche Bank		355,474	3.5%	0.0013
Instinet		342,148	3.4%	0.0049
Credit Lyonnais Securities		316,079	3.1%	0.0017
HSBC		302,723	3.0%	0.0015
Jefferies & Co		146,249	1.4%	0.0034
Camara De Lequidacao E Custodia		146,021	1.4%	0.0043
Barclays		124,778	1.2%	0.0016
Sanford C. Bernstein & Co		118,667	1.2%	0.0019
SG Securities		96,091	0.9%	0.0030
Investment Technology Group		95,584	0.9%	0.0043
Weeden & Co		81,315	0.8%	0.0244
Banco Santander		76,385	0.8%	0.0074
BNY Convergex		74,693	0.7%	0.0084
Rosenblatt Securities		74,149	0.7%	0.0214
Daewoo Securities		71,575	0.7%	0.0894
Daiwa Securities		65,716	0.6%	0.0021
Others		2,307,898	22.7%	0.0015
Totals	\$	10,164,686	100%	0.0020

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, 2015 the PRIT Fund earned \$2,276 from the commission recapture program.

### **SCHEDULE OF DIRECT MANAGEMENT FEES**

### Fiscal Year Ended June 30, 2015

Investment Management Fees by Asset Class:	(\$000s)
Domestic Equity	\$ 14,071
Emerging Markets Equity	11,636
International Equity	16,401
Core Fixed Income	6,114
Value-Added Fixed Income	10,409
Real Estate	13,486
Timberland/Natural Resources	8,888
Private Equity	1,499
Hedge Funds	38
Overlay	 600
Total Investment Management Fees	 83,142
Investment Advisory Fees	4,161
Custodian Fees	674
Other Administrative Fees	10,189
Total Direct Management Fees charged to the PRIT Fund	\$ 98,166

### **SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT**

Segmentation Accounts invested as of June 30, 2015

			Thing.	*				, <sub>2</sub> 3	*	o. >
	 	Seneral * 410-ation	Domestic Fully	International Squity	inerging Markers	Coetiked	Real Estate	Private Equity	Hedge Funds	400 1900 1900 1900 1900 1900 1900 1900 1
Retirement System	Asset Vaules 00s) 6/30/15	& #\\	OF THE STATE OF TH	'nternation family	# % X	Ge Lot	A. C.	ونيمق	200	Public Vall Added Fix Income
Amesbury	\$ 47,352	х								
Andover	\$ 112,890	х								
Arlington	\$ 120,830	х								
Attleboro	\$ 183							x		
Barnstable	\$ 851,272	х								
Belmont	\$ 26,670	х		х			х	×	х	
Berkshire	\$ 194,144	х								
Beverly	\$ 99,728	х								
Blue Hills	\$ 9,760	х								
State Boston/Teachers	\$ 1,445,836	х								
Braintree	\$ 44,841	х					х		х	
Bristol County	\$ 38,948							x	х	
Brookline	\$ 18,658							x	х	
Cambridge	\$ 76,592							×	х	
Chelsea	\$ 122,150	х								
Chicopee	\$ 28,338						х		х	
Clinton	\$ 39,212	х			х		х	x		
Concord	\$ 55,564	х					х	x		
Danvers	\$ 41,382			х	х		х	×	х	
Dedham	\$ 109,920	х								
Dukes County	\$ 61,350	х		х			х			
Easthampton	\$ 42,809	х								
Essex	\$ 333,867	х								
Everett	\$ 103,397	х								
Fairhaven	\$ 50,319	х								
Fall River	\$ 224,050	х								
Falmouth	\$ 11,689								х	
Fitchburg	\$ 92,975	х								
Framingham	\$ 258,165	х								
Franklin County	\$ 73,877	х		х			х			
Gardner	\$ 46,002	х								
Gloucester	\$ 84,884	x								
Greenfield	\$ 58,624	x								
Hampden County	\$ 287,486	x								
Hampshire County	\$ 84,247				х		х	х	х	
Haverhill	\$ 87,350			х	x	x	x	x	x	x
Hingham	\$ 95,749	х	х	x	x	x	x	x	x	X
Holyoke	\$ 2,213	^			^				x	^
Hull	\$ 37,273	х							^	
Lawrence	\$ 175,845	x								
Leominster	\$ 88,900	x								
Lexington	\$ 14,483	^							x	
Lowell	\$ 297,066	x							^	
Lynn	\$ 253,772	x								
Lynn Marblehead	\$	x								
	\$ 88,788	×								
Mass Turnpike	184,045	X					v			
Massport	\$ 77,007				v	v	X	х	v	v
Maynard	\$ 15,674				х	х	X		X	X
Medford	\$ 35,390						×	x	х	

### SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT, continued

Segmentation Accounts invested as of June 30, 2015

			۷		ş					
			the state of the s	le <sub>u</sub>	N. N	ъ	.e	A. Marie	ğ	% & 3
Retirement System	Asset Vaules 000s) 6/30/15	Seneral Allostion	Domestic Faut.	<sup>Internation</sup> s	Shoping Warters	Coresised Mone	People State	Private Equity	Hege Finds	Public Adea Value Income Fixed
Melrose	\$ 66,807	х								
Methuen	\$ 109,227	x								
Middlesex	\$ 997,721	x								
Milford	\$ 75,276	x								
Milton	\$ 108,187	х								
Minuteman	\$ 12,618	x								
Montague	\$ 34,318	x								
MSCBA	\$ 4,390	x								
MWRA	\$ 39,753	х					х	×	х	
Natick	\$ 16,813	x					х	x	x	
Needham	\$ 134,860	х								
Newburyport	\$ 64,658	x								
Newton	\$ 286,301	x								
Norfolk	\$ 80,857						х		x	
North Adams	\$ 1,475							х	x	
Northbridge	\$ 28,813	x								
Northampton	\$ 1,737							×	х	
Norwood	\$ 24,013						х		х	
Peabody	\$ 128,276	х								
Pittsfield	\$ 110,558	x								
Plymouth	\$ 31,458	х					х	×	х	
Quincy	\$ 10,123	x						x	x	
Reading	\$ 118,473	х								
Revere	\$ 126,169	x								
Salem	\$ 131,156	х								
Saugus	\$ 82,398	х								
Shrewsbury	\$ 96,143	х	х	х		х	х			
Southbridge	\$ 39,449	x								
Springfield	\$ 272,638	x								
State Employees'	\$ 23,796,142	х								
State Retiree Benefits Trust	\$ 849,883	х								
State Teachers'	\$ 25,241,023	x								
Stoneham	\$ 72,404	х								
Swampscott	\$ 32,843	х								
Wakefield	\$ 102,588	х								
Waltham	\$ 184,243	х								
Watertown	\$ 35,112		х				х	х	x	
Webster	\$ 6,031						х	х	x	
Wellesley	\$ 151,941	х								
Westfield	\$ 18,230						х		x	
Weymouth	\$ 27,528						х		x	
Winchester	\$ 25,124					х			x	
Winthrop	\$ 53,940	х								
Woburn	\$ 50,608			х	х	х	х	х	x	х
Worcester	\$ 69,340						х		x	
Worcester Regional	\$ 540,534	x								

\$ 61,243,745

### 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 PRIT 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 meet or exceed its actuarial target rate of return.

The *investment policy benchmark* is calculated by applying the investment performance of the asset class benchmarks to the PRIT Fund's asset allocation targets. The investment policy benchmark enables PRIM to compare the PRIT 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 peer universe comparison permits PRIM to compare its performance to large public and other pension plans. While PRIM seeks to rank consistently in the top half of comparable public pension funds, PRIM 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. The expected volatility of markets and unique objectives of PRIM relative to other pension plans may not favor, over shorter periods, PRIM's strategic investment policies.

### **B. Asset Allocation Plan**

PRIM recognizes that over the long-term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. At reasonable intervals of not more than three to five years, PRIM will complete 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 PRIM's risk tolerances. The PRIM Board shall examine the Asset allocation Plan annually, and shall consider adjustments to the Plan as may be appropriate given the Plan's long-term nature and objectives.

The PRIM Board conducted an asset/liability study in February 2014 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, 2013 and estimating the components of the valuation report as of January 1, 2014, which estimated a 60.6% and 61.5% funded ratio, respectively.

### 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

The actual asset allocation mix will deviate from the Asset Allocation Plan's target due to market movement, cash flows, and manager performance. Material deviations from the asset allocation targets can alter the expected return and risk of the PRIT Fund. Accordingly, the PRIM Board has adopted asset class ranges for each asset class, and positioning within a specified asset class range is acceptable and constitutes compliance with the Asset Allocation Plan. It is the responsibility of PRIM staff to keep actual asset class allocations within the asset allocation bands. It is anticipated that the PRIM Board will make periodic revisions to the Asset Allocation Plan, and it is recognized that in some cases it may be prudent to allow an extended period of time to fully implement revisions to the Asset Allocation Plan. The spirit of this policy is to implement the investment strategy within the asset class ranges at a reasonable cost, recognizing that overly precise management of asset exposures can result in transactions costs that are not economically justified. In the circumstance that a rebalancing is warranted, staff shall have the discretion to instruct public securities managers (including an overlay manager) to use futures as a short-term tool to rebalance the PRIT Fund. The PRIM Board acknowledges that market conditions or circumstances beyond PRIM's control may lead to asset class weightings being temporarily out of their target ranges, especially as those ranges relate to illiquid 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 to seek investment opportunities that will benefit the economic climate of the Commonwealth as a whole, provided that such investments are consistent with PRIM'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 with a substantial, direct and measurable benefit to the economy of the Commonwealth.

Such Economically Targeted Investments ("ETIs") must meet the following criteria:

- 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 PRIT Fund 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, PRIM staff, its managers, and its advisors 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 advisors without disproportionate expenditure of time and resources.

### **Statistical Section**

# **Schedules of Changes in Pooled Net Position**

### For Fiscal Years Ending June 30

### (Dollars in thousands)

Additions		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
State Employees contributions	\$	580,527 \$	547,627 \$	529,031 \$	544,166 \$	\$ 868'885	475,591 \$	462,471 \$	464,330 \$	420,199 \$	409,515
State teachers contributions		721,148	709,114	669,815	640,056	616,533	593,147	599,410	573,984	548,229	527,820
Other participants contributions		877,252	793,507	613,345	898,837	1,535,681	620,865	991,362	2,347,537	1,047,285	759,088
Net investment income (loss)		2,073,376	8,991,375	5,922,932	(280,407)	9,169,664	4,676,706	(12,492,194)	(1,185,523)	8,228,782	5,466,443
Total additions to pooled net position		4,252,303	11,041,623	7,735,123	1,802,652	11,860,776	6)366,309	(10,438,951)	2,200,328	10,244,495	7,162,866
Deductions											
State employees warrants		381,565	357,089	347,330	315,943	282,398	259,285	242,694	239,452	227,510	218,831
State teachers warrants		544,646	494,363	496,987	451,844	418,153	388,366	361,773	341,575	299,612	273,209
Participants redemptions		768,507	739,175	683,279	532,873	508,579	364,648	383,748	202,723	128,843	108,577
State appropriation funding		1,954,853	1,973,058	1,815,315	1,851,504	1,663,799	1,731,617	1,465,275	1,184,774	1,100,000	939,100
Operating expenses	j	35,761	30,789	30,394	28,447	26,391	27,332	24,954	23,294	15,447	18,305
Total deductions to pooled net position	1	3,685,332	3,594,474	3,373,305	3,180,611	2,899,320	2,771,248	2,478,444	1,991,818	1,771,412	1,558,022
Changes in pooled net position	<b>\$</b> >	566,971 \$	7,447,149 \$	4,361,818 \$	\$ (1,377,959)	8,961,456 \$	3,595,061 \$	(12,917,395) \$	208,510 \$	8,473,083 \$	5,604,844

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 Schedule of Changes in Pooled Net Position - Capital Fund and Cash Fund provided in the Financial Section.

### Financial Highlights and Financial Highlights Ratios

Pages 100-101 provide the financial highlights of the PRIT Core Fund for the year ended June 30, 2015. In addition, pages 102-105 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.

For the year ended June 30, 2015 Financial Highlights

						Public Value-					Private	Private	Private	Private	Private
					Core	Added			Portable		Vintage	a)	Vintage	Vintage	Vintage
	General	Domestic	International	Emerging	Fixed	Fixed	Distressed	Hedge	Alpha	Private	Year		Year	Year	Year
	Allocation Account	Equity Account	Equity Account	Markets Account	Income Account	Income Account	Debt Account	Funds Account	Wind Down Account	Equity Account	2000 Account	2001 Account	2002 Account	2003 Account	2004 Account
Net asset value per unit, beginning of year \$	\$ 285.51	236.90	283.36	436.98	238.40	290.95	125.73	79.11	97.04	383.12	288.54	602.54	209.73	350.51	94.73
Investment operations: Net investment income (loss)(1)	5.94	4.12	7.26	8.80	2.46	14.51	2.42	(0.01)	(0.02)	3.56	3.87	36.08	18.46	21.99	5.79
Net realized and unrealized gain (loss) on investments and foreign currency	3.80	11.52	(15.59)	(35.63)	8.46	(29.46)	0.02	2.89	(4.10)	15.71	13.36	9.46	(9.83)	23.80	(0.13)
Total from investment operations	9.74	15.64	(8.33)	(26.83)	10.92	(14.95)	2.47	2.88	(4.12)	19.27	17.23	45.54	8.63	45.79	5.66
Net asset value per unit, end of year	\$ 295.25	252.54	275.03	410.15	249.32	276.00	128.20	81.99	92.92	402.39	305.77	648.08	218.36	396.30	100.39
Ratios and supplementary data: Total net return(2)	3.41%	9.60%	(2.94)%	(6.14)%	4.58%	(5.14)%	1.96%	3.64%	(4.25)%	5.03%	5.97%	7.56%	4.11%	13.06%	5.97%
Net assets, end of year (\$'000s)	\$ 59,982,623	11,745,353	10,341,307	4,011,292	8,377,734	3,702,871	1,350,323	5,575,153	32,057	52,713	103,656	102,397	20,089	145,442	119,669
Units outstanding, end of year ('000s)	203,159	46,508	37,600	9,780	33,603	13,416	10,533	866'29	345	131	339	158	95	367	1,192
Ratios to average net assets: Ratio of expenses including indirect															
management fees	0.53%	0.14%	0.18%	0.31%	0.10%	0.47%	1.55%	1.40%	0.04%	0.04%	0.25%	0.22%	0.76%	0.38%	%06.0
Ratio of expenses, excluding indirect															
management fees	0.16%	0.14%	0.18%	0.31%	0.09%	0.30%	0.04%	0.04%	0.02%	0.04%	0.04%	0.05%	0.04%	0.04%	0.05%
Ratio of net investment income (loss)	2.05%	1.69%	2.72%	2.09%	1.06%	5.17%	1.90%	(0.01)%	(0.02)%	1.40%	1.16%	5.14%	8.21%	2.62%	2.15%
Moto. Einancia Highlichte include only the Core Eund and does not include the Cash Eund which maintains a stable net ascet value of \$1 00 ner unit	are Find and does	od abulant	ach Eund which m	aldeta e actabla	, and extent your	of ¢1 00 per unit									

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.

<sup>(1)</sup> Based on weighted average units outstanding.
(2) Total net return calculation is based on the value of a single unit of participation outstanding throughout the year. It represents the percentage change in the net asset value per unit between the beginning and end of the year.

### Financial Highlights, continued For the year ended June 30, 2015

Portfolio Completion Strategies Account	100.00	(0.10)	(5.11)	(5.21)	94.79	(5.21)% (3) 94,882		0.29% (3)	0.10% (3) (0.10)% (3)
Cash Overlay Account	147.46	0.01	7.65	7.66	155.12	5.19% 567,427	3,658	0.07%	0.07% —
Timber/ Natural Resources Account	256.16	1.10	(6.32)	(5.22)	250.94	(2.04)% 2,347,050	9,353	0.70%	0.40%
Real Estate Account	444.89	20.00	30.29	50.29	495.18	9,9	12,305	0.64%	0.27% 4.29%
Private Equity Vintage Year 2015	100.00	0.08	(6.34)	(6.26)	93.74	(6.26)% (3) 40,871	436	2.57% (3)	0.02% (3)
Private Equity Vintage Year 2014 Account	78.15	(0.02)	(10.55)	(10.57)	67.58	(13.53)%	2,634	9.28%	0.06%
Private Equity Vintage Year 2013 Account	91.34	(2.61)	(2.18)	(4.79)	86.55	(5.24)% 170,840	1,9/4	8.83%	0.04%
Private Equity Vintage Year 2012 Account	12.23	0.01	1.43	1.44	13.67	11.77%	31,126	3.27%	0.05%
Private Equity Vintage Year 2011 Account	49.60	(0.03)	11.97	11.94	61.54	24.07%	11,44/	2.21%	0.15% (0.06)%
Private Equity Vintage Year 2010 Account	87.80	0.28	16.48	16.76	104.56	19.09%	7,290	1.61%	0.04%
Private Equity Vintage Year 2009 Account	73.98	2.08	15.69	17.77	91.75	24.02% 494,545	0,8390	1.71%	0.04%
Private Equity Vintage Year 2008 Account	88.87	2.12	12.69	14.81	103.68	16.66%	9,816	0.97%	0.11%
Private Equity Vintage Year 2007 Account	25.65	0.51	1.81	2.32	27.97	9.04%	41,282	1.01%	0.04%
Private Equity Vintage Year 2006 Account	84.12	2.41	7.27	9.68	93.80	11.51%	9,049	0.80%	0.05%
Private Equity Vintage Year 2005	\$ 120.67	3.58	14.70	18.28	\$ 138.95	15.15% \$ 594,274	7/7'4	0.82%	0.05%
	Net asset value per unit, beginning of year	Investment operations:  Net investment income (loss)(1)  Net realized and increalized casin (loss)	on investments and foreign currency	Total from investment operations	Net asset value per unit, end of year	Ratios and supplementary data: Total net return(2) Net assets, end of year (\$'000s)	Units outstanding, end or year ( bous) Ratios to average net assets: Ratio of expenses, including indirect	management fees Ratio of expenses, excluding indirect	management fees Ratio of net investment income (loss)

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.

Based on weighted average units outstanding.
 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.
 Denotes account commenced operations subsequent to the beginning of the fiscal year. Total return and ratios not annualized.

## For the years ended June 30, 2014-2006

Ratios and supplementary data:	General Allocation Account	Domestic Equity Account	International Equity Account	Emerging Markets Account	Core Fixed Income Account	Public Value-Added Fixed Income Account	Distressed Debt 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	Vintage Year 2003 Account
2014 Total net return (1) Net assets, end of year (5'000s) Units outstanding, end of year ('000s)	17.18% 59,507,530 208,428	24.78% 11,478,177 48,451	24.23% 10,382,202 36,639	13.76% 4,263,167 9,756	5.66% 8,398,309 35,228	6.90% 3,787,240 13,017	15.18% 1,360,006 10,817	10.72% 5,845,587 73,892	(5.88)% 49,684 512	8.25% 94,631 247	23.80% 137,922 478	27.29% 133,764 222	8.97% 35,025 167	
2013 Total net return (1) Net assets, end of year (\$'000s) Units outstanding, end of year ('000s)	12.28% 52,274,725 214,541	21.98% 11,066,413 58,286	19.34% 9,531,557 41,787	5.10% 3,438,125 8,951	(0.45)% 6,712,701 29,751	3.07% 3,444,265 12,655	9.16% (3) 1,269,546 11,630	12.20% 4,903,178 68,628	2.39% 72,275 701	3.28% 160,679 454	8.68% 173,402 744	10.18% 189,340 400	11.79% 58,316 303	
Total net return (1)  Net assets, end of year (\$'000s)  Units outstanding, end of year ('000s)	(0.54)% 48,101,609 221,647	3.64% 9,415,207 60,491	(12.15)% 8,155,824 42,670	(16.79)% 3,261,031 8,923	7.96% 6,352,958 28,029	2.81% 4,180,242 15,830	N N N A A A A	(1.74)% 4,809,557 75,522	(7.47)% 110,458 1,097	(0.35)% 177,159 517	5.23% 278,587 1,299	(2.66)% 242,301 564	26.76% 66,969 389	
Total net return (1)  Net assets, end of year (\$'000s)  Units outstanding, end of year ('000s)	21.97% 49,546,154 227,076	32.07% 11,073,922 73,736	30.69% 10,865,457 49,937	28.88% 3,304,907 7,525	5.31% 6,619,356 31,528	16.18% 3,024,257 11,775	N N N N N N N N N N N N N N N N N N N	7.48% 3,611,056 55,719	6.43% 220,570 2,027	20.27% 275,801 802	15.85% 370,120 1,816	23.12% 298,784 677	32.48% 121,827 897	
Total net return (1)  Net assets, end of year (\$'000s)  Units outstanding, end of year ('000s)	12.47% 40,753,645 227,816	14.50% 8,188,194 72,008	9.50% 8,264,027 49,641	23.57% 2,338,946 6,864	11.56% 5,774,372 28,965	32.22% 2,897,661 13,107	N N N N N N N N N N N N N N N N N N N	7.10% 3,154,587 52,318	2.25% 776,629 7,595	15.73% 339,078 1,186	14.13% 480,643 2,732	17.76% 324,708 906	12.96% 100,441 980	
Total net return (1)  Net assets, end of year (\$'000s)  Units outstanding, end of year ('000s)	(24.41)% 37,113,501 233,338	(32.13)% 9,164,719 92,280	(31.95)% 7,146,289 47,004	(31.98)% 1,887,971 6,846	(5.57)% 4,897,346 27,405	(11.60)% 2,883,436 17,245	N N N N N N N N N N N N N N N N N N N	(14.45)% 2,135,634 37,934	Z Z Z	(23.13)% 343,288 1,390	(18.99)% 483,606 3,137	(22.76)% 317,591 1,043	(27.47)% 86,586 954	
2008 Total net return (1) Net assets, end of year (\$'000s) Units outstanding, end of year ('000s)	(2.30)% 49,845,944 236,891	(15.69)% 13,180,182 90,077	(9.27)% 10,119,936 45,297	(0.03)% 2,761,180 6,810	14.18% 8,510,469 44,973	2,511,813 13,280	N N N A A A A A A A A A A A A A A A A A	1.73% 2,614,238 39,723	Z Z Z	19.23% 457,054 1,422	17.10% 642,580 3,377	18.39% 417,740 1,060	19.01% 114,619 916	
2007  Total net return (1)  Net assets, end of year (\$'000s)  Units outstanding, end of year ('000s)	19.53% 49,519,109 229,913	20.60% 15,049,415 86,717	26.15% 10,574,561 42,945	42.26% 2,750,631 6,782	4.78% 7,800,673 47,065	14.73% 2,329,393 12,568	N N N N N N N N N N N N N N N N N N N	13.82% 2,569,001 39,711	V V V	24.53% 533,033 1,977	23.15% 698,900 4,301	50.18% 509,022 1,529	26.70% 102,564 976	
2006  Total net return (1)  Net assets, end of year (\$'000s)  Units outstanding, end of year ("000s)	14.87% 41,257,962 228,973	9.30% 11,516,779 80,029	27.01% 8,303,709 42,540	36.12% 2,455,151 8,612	(0.51)% 6,452,906 40,794	5.80% 2,208,795 13,672	N N N N N N N N N N N N N N N N N N N	11.18% 2,114,139 37,197	Z Z Z	36.45% 777,941 3,594	34.70% 764,926 5,797	55.07% 480,794 2,169	38.67% 79,588 959	
Ratios to average net assets: 2014 Ratio of expenses, including indirect management fees Ratio of expenses, excluding indirect management fees Ratio of net investment income (loss)	0.55% 0.15% 2.45%	0.14% 0.14% 1.65%	0.19% 0.19% 3.23%	0.27% 0.24% 2.10%	0.11% 0.10% 2.57%	0.49% 0.31% 5.41%	1.90% 0.04% 1.98%	1.50% 0.05% (0.05)%	0.10% 0.02% (0.02)%	0.03% 0.03% 1.82%	0.25% 0.05% 2.47%	0.59% 0.07% 1.16%	0.49% 0.05% (0.05)%	
Ratio of expenses, including indirect management fees Ratio of expenses, excluding indirect management fees Ratio of net investment income (loss)	0.55% 0.14% 2.53%	0.08% 0.08% 2.02%	0.19% 0.19% 2.93%	0.33% 0.32% 2.59%	0.14% 0.12% 2.87%	0.85% 0.34% 6.27%	0.92% (3) 0.01% (3) 2.37% (3)	1.33% 0.05% (0.05)%	0.13% 0.02% (0.02)%	,0.03)% 3.86%	0.39% 0.07% 4.02%	0.59% 0.09% 2.53%	0.77% 0.05% 1.19%	
Auto of expenses, including indirect management fees Ratio of expenses, excluding indirect management fees Ratio of net investment income (loss)	0.50% 0.14% 2.55%	0.09% 0.09% 1.91%	0.19% 0.19% 3.37%	0.32% 0.30% 2.61%	0.14% 0.13% 3.41%	0.89% 0.18% 4.67%	N N N N N N N N N N N N N N N N N N N	0.91% 0.04% (0.04)%	0.09% 0.02% (0.02)%	0.24% 0.04% 0.38%	0.54% 0.07% 2.74%	0.73% 0.08% 0.96%	0.81% 0.04% 1.13%	

## For the years ended June 30, 2014-2006

•		% 2.12% % 0.89% % 0.06% }% 2.94%	_		
Vintage Year 2002 Account	0.97	(0.04)% 1.13% 0.06% (0.05)%	1.19 0.06 (0.02)	1.13 0.02 0.15	1.55% 0.08% % 2.43% 0.08%
Vintage Year 2001 Account	1.49%	3.63% 1.07% 0.08% 1.47%	1.21% 0.07% 1.18%	0.99% 0.02% 1.63%	1.02% 0.09% 6.96% 1.31% 0.09%
Vintage Year 2000 Account	1.25%	2.34% 1.57% 0.08% 2.11%	1.39% 0.06% 0.31%	1.43% 0.02% 0.58%	1.61% 0.08% 2.56% 1.99% 0.08%
Private Equity Account	0.32% (0.01)%	0.57% 0.79% 0.16% 0.75%	0.94% 0.16% 0.04%	0.98% 0.14% 1.85%	1.06% 0.19% 2.89% 1.16% 0.14%
Portable Alpha Wind Down Account (2)	0.06%	0.14% 0.02% (0.01)%	Z Z Z Z Z Z Z Z Z Z Z Z Z Z Z Z Z Z Z	N N N N A A	X
Hedge Funds Account	0.81%	0.82% 0.03% (0.02)%	0.85% 0.04% (0.03)%	0.76% 0.04% (0.02)%	1.26% 0.03% (0.03)% 1.09% 0.03%
Public Value-Added Fixed Income Account	0.96%	3.07% 1.08% 0.28% 4.07%	0.89% 0.16% 5.97%	0.85% 0.21% 5.41%	0.70% 0.24% 5.95% 0.31% 0.30%
Core Fixed Income Account	0.15%	3.88% 0.16% 0.14% 3.85%	0.14% 0.12% 4.60%	0.17% 0.16% 5.32%	0.13% 0.13% 4.96% 0.14% 0.14%
Emerging Markets Account	0.35%	2.54% 0.25% 0.17% 1.59%	0.48% 0.38% 2.19%	0.21% 0.10% 2.23%	0.46% 0.33% 2.76% 0.82%
International Equity Account	0.19%	3.03% 0.23% 0.23% 2.69%	0.29% 0.29% 3.19%	0.26% 0.26% 2.84%	0.27% 0.27% 2.73% 0.23% 0.23%
Domestic Equity Account	0.08%	1.76% 0.20% 0.08% 1.49%	0.29% 0.11% 1.72%	0.27% 0.17% 1.49%	0.29% 0.16% 1.87% 0.23% 0.23%
General Allocation Account		2.54% 0.54% 2.34%	0.51% 0.10% 2.78%	0.52% 0.25% 2.70%	0.54% 0.27% 2.93% 0.63% 0.41%
	Ratio of expenses, including indirect management fees Ratio of expenses, excluding indirect management fees	2010 Ratio of net investment income (1055) Ratio of expenses, including indirect management fees Ratio of expenses, excluding indirect management fees Ratio of net investment income (1055)	Autoof expenses, including indirect management fees Ratio of expenses, excluding indirect management fees Ratio of net investment income (loss) 2008	Ratio of expenses, including indirect management fees Ratio of expenses, excluding indirect management fees Ratio of net investment income (loss) 2007	Ratio of expenses, including indirect management fees Ratio of expenses, excluding indirect management fees Ratio of net investment income (loss)  2006 Ratio of expenses, including indirect management fees Ratio of expenses, excluding indirect management fees Datio of expenses, excluding indirect management fees

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. (1)

**FISCAL YEAR 2015** 

<sup>(3)</sup> 

Prior to January 1, 2010, Portable Alpha assets were reflected in the Domestic Equity portfolio. Denotes account commenced operations subsequent to the beginning of the fiscal year. Total return and ratios not annualized.

## For the years ended June 30, 2014-2006

	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	Vintage Year 2013 Account	Vintage Year 2014 Account	Core Real Estate Account	Noncore Real Estate Account	Timber / NR Account	Cash Overlay Account
Ratios and supplementary data:															
Total net return (1)  Net assets, end of year (5'000s)  Units outstanding, end of year ('000s)	52.79% 257,109 2,714	20.33% 703,977 5,834	23.18% 1,098,091 13,054	22.67% 1,319,704 51,443	30.63% 1,050,050 11,815	27.66% 401,949 5,433	27.52% 597,679 6,807	17.90% 435,298 8,777	16.81% 215,895 17,648	(8.66)% 52,887 579	(21.85)% (2) 3,204 41	12.91% 5,380,022 12,093	Z Z Z	12.81% 2,374,863 9,271	47.46% (2) 549,427 3,726
Total net return (1)  Net assets, end of year (5'000s)  Units outstanding, end of year ('000s)	8.87% 265,784 4,287	13.07% 801,538 7,993	13.29% 1,217,424 17,827	14.39% 1,212,620 57,995	17.96% 895,341 13,161	15.65% 301,492 5,203	14.41% 391,799 5,691	(1.98)% 201,700 4,794	(21.87)% 61,569 5,879	X X X	Z Z Z	12.28% 4,382,052 11,121	Z Z Z	6.27% 2,129,694 9,379	4 4 4 4 4 7 7 2 2 2
Total net return (1)  Net assets, end of year (5'000s)  Units outstanding, end of year ('000s)	9.06% 360,592 6,332	16.13% 879,582 9,918	13.20% 1,291,372 21,422	11.33% 1,072,936 58,687	14.15% 685,645 11,889	0.62% 184,789 3,688	(9.88)% 214,792 3,569	(54.42)% 97,989 2,283	(86.60)% (2) 134 10	Z Z Z	Z Z Z	9.41% 4,724,457 13,463	Z Z Z	(8.68)% 1,903,043 8,906	V Z Z Z
Total net return (1)  Net assets, end of year (5'000s)  Units outstanding, end of year ('000s)	50.10% 415,720 7,961	19.74% 872,773 11,428	23.61% 1,208,620 22,699	20.56% 804,057 48,975	20.34% 439,750 8,704	(7.45)% 86,944 1,746	(29.52)% 44,610 668	(5.84)% (2) 1,789 19	X X X A A A	N N N	Z Z Z	20.17% 4,103,735 12,794	N N N	19.20% 2,003,721 8,563	4 4 4 4 4 7
Total net return (1)  Net assets, end of year (5'000s)  Units outstanding, end of year ('000s)	14.37% 365,651 10,458	15.50% 750,824 11,670	15.53% 913,119 20,982	11.18% 467,426 33,927	6.01% 203,969 4,786	(46.19)% 18,978 349	(5.25)% (2) 7,080 74	N N N N A A	Z Z Z Z Z Z	N N N	Z Z Z	2.35% 3,767,749 13,815	Z Z Z Z Z Z	(5.90)% 1,671,981 8,517	4 4 4 7 Z Z
Total net return (1) Net assets, end of year (\$'000s) Units outstanding, end of year ('000s)	(19.91)% 318,973 10,485	(25.79)% 629,918 11,408	(23.62)% 708,085 18,991	(19.41)% 285,173 23,279	N/A 62,947 1,590	ZZZ	Z Z Z Z Z Z Z	Z Z Z Z Z Z	N N N N A A A A	N N N	Z Z Z	(23.90)% 4,090,525 15,686	(100.00)%	(14.84)% 1,776,921 8,518	V V V
Yord net return (1)  Net assets, end of year (\$'000s)  Units outstanding, end of year ('000s)	21.15% 388,181 10,222	22.18% 748,612 10,060	2.80% 783,796 16,056	(84.80)% 163,835 10,778	N/A (2) 8,038 91	N N N N N N N N N N N N N N N N N N N	Z Z Z	N N N N A A	N N N A A A	N N N	4 4 4 2 2 2	4.41% 5,520,030 16,109	N/A	20.69% 1,065,586 4,350	V V V
Total net return (1) Net assets, end of year (\$'000s) Units outstanding, end of year ('000s)	22.32% 319,874 10,204	13.02% 385,139 6,325	(38.73)% 251,773 5,301	—% (2) 740 7	4 4 4 2 X X	X	Z Z Z Z Z Z	Z Z Z Z Z Z	N N N A A A	Z Z Z	Z Z Z	15.65% 4,316,265 13,152	318.62%	14.67% 1,598,166 7,874	V V V
Jobs Total net return (1)  Net assets, end of year (\$'000s)  Units outstanding, end of year ('000s)	(4.55)% 143,419 5,596	(32.12)% 106,808 1,982	(22.49)% (2) 3,182 41	N N N N N N N N N N N N N N N N N N N	4 4 4 2 2 2	N N N N A A A	Z Z Z	N N N A A A	Z Z Z Z Z Z	N N N	₹ ₹ ₹ 2 Z Z	22.70% 4,618,446 16,275	106.43% 38 —	18.52% 1,480,574 8,365	V V V
Ratios to average net assets: 2014															
Ratio of expenses, including indirect management fees Ratio of expenses, excluding indirect management fees Ratio of net investment income (loss)	0.88% 0.08% 4.30%	0.91% 0.08% 3.18%	0.84% 0.06% 2.54%	1.32% 0.04% 1.24%	1.70% 0.15% 3.35%	2.59% 0.04% 2.18%	2.55% 0.04% 0.65%	4.26% 0.41% (0.14)%	7.53% 0.05% 0.29%	14.31% 0.04% 18.06%	10.58% (2) 0.11% (2) (0.11)% (2)	0.56% 0.17% 4.69%	A A A	0.55% 0.16% 0.51%	0.09% (2) 0.09% (2) (0.08)% (2)
2013 Ratio of expenses, including indirect management fees Dation of expanses, excluding indirect management face	0.94%	1.01%	0.97%	1.70%	1.88%	3.26%	3.69%	7.38%	14.26%	A/A	ĕ <	0.49%	V ×	0.67%	V
Ratio of net investment income (loss)	1.60%	2.49%	1.84%	1.58%	1.03%	0.79%	0.36%	(0.13)%	(0.22)%	N/A	Z Z	4.56%	N/A	0.13%	Z Z
Ratio of expenses, including indirect management fees Ratio of expenses, excluding indirect management fees	0.80%	1.02%	1.11%	2.12% 0.04%	0.21%	5.61%	7.85% 0.04%	16.15% 0.04%	8.19% (2) 0.25% (2)	A A S	<b>∀</b>	0.50%	N N 8	0.78%	∀ ∀ ₹ 2 Z Z
Natio of net investment income (loss)	7.08%	%//.0	1.14%	1.18%	0.28%	0.81%	% 	0.62%	(488.92)% (2)	N/A	A/A	4.59%	A/X	0.03%	Z Z

### For the years ended June 30, 2014-2006

	Vintage Year 2004 Account	Vintage Year 2005 Account	Vintage Year 2006 Account	Vintage Year 2007 Account	Vintage Year 2008 Account	Vintage Year 2009 Account	Vintage Year 2010 Account	Vintage Year 2011 Account	Core Real Estate Account	Noncore Real Estate Account	Timber / NR Account
2011											
Ratio of expenses, including indirect management fees	1.05%	1.43%	1.45%	3.81%	3.98%	15.75%	13.44%	10.80%	0.53%	A/N	0.83%
Ratio of expenses, excluding indirect management fees	0.09%	0.11%	0.20%	(0.01)%	0.22%	0.04%	0.05%	0.02%	0.16%	N/A	0.22%
Ratio of net investment income (loss)	0.79%	2.14%	2.23%	0.53%	1.16%	%99.0	(0.04)%	(0.02)%	5.02%	N/A	0.26%
Ratio of expenses, including indirect management fees	1.16%	1.93%	2.03%	2.66%	9.21%	51.16%	0.06%	N/A	0.53%	N/A	0.57%
Ratio of expenses, excluding indirect management fees	0.18%	0.19%	0.30%	0.06%	0.06%	0.06%	0.06%	N/A	0.15%	N/A	0.02%
Ratio of net investment income (loss)	0.99%	0.15%	0.90%	0.46%	0.72%	0.15%	(32.74)%	N/A	4.80%	N/A	0.60%
2009											
Ratio of expenses, including indirect management fees	1.67%	1.67%	2.20%	7.96%	23.91%	N/A	N/A	N/A	(0.26)%	N/A	1.00%
Ratio of expenses, excluding indirect management fees	0.27%	0.18%	0.28%	0.05%	0.06%	N/A	A/N	N/A	(0.59)%	N/A	%09.0
Ratio of net investment income (loss)	0.43%	0.12%	0.31%	0.37%	4.62%	N/A	A/N	N/A	5.53%	N/A	%(06:0)
2008											
Ratio of expenses, including indirect management fees	0.97%	2.07%	2.37%	16.71%	%-	N/A	A/N	N/A	0.79%	N/A	2.33%
Ratio of expenses, excluding indirect management fees	0.27%	%60.0	0.18%	0.02%	%	N/A	A/N	N/A	0.50%	N/A	2.10%
Ratio of net investment income (loss)	0.62%	0.14%	%-	(0.11)%	%-	N/A	N/A	N/A	4.18%	N/A	(1.64)%
2007											
Ratio of expenses, including indirect management fees	1.49%	5.20%	10.88%	%	N/A	N/A	A/N	N/A	1.13%	A/N	0.98%
Ratio of expenses, excluding indirect management fees	0.31%	0.22%	1.81%	%	N/A	N/A	A/N	A/N	0.80%	N/A	0.72%
Ratio of net investment income (loss) 2006	0.22%	3.70%	(1.47)%	%	N/A	N/A	N/A	N/A	3.94%	N/A	0.09%
Ratio of expenses, including indirect management fees	6.73%	20.92%	19.76%	N/A	N/A	A/N	N/A	N/A	1.66%	1.00%	2.27%
Ratio of expenses, excluding indirect management fees	1.04%	2.03%	0.21%	N/A	A/N	A/N	N/A	N/A	1.29%	1.00%	2.00%
Ratio of net investment income (loss)	%(26.0)	(1.66)%	(0.22)%	N/A	N/A	N/A	N/A	N/A	3.57%	2.85%	(0.04)%

<sup>(1)</sup> 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.

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Domestic Equity	19.2%	19.0%	20.8%	19.2%	22.0%	19.9%	24.4%	26.1%	29.9%	27.5%
International Equity	16.9%	17.1%	18.0%	16.7%	21.7%	20.0%	19.0%	20.0%	21.0%	19.8%
Emerging Markets	%9.9	7.0%	6.5%	6.7%	%9.9	2.7%	2.0%	5.5%	5.5%	5.9%
Core Fixed Income	13.7%	13.9%	12.6%	13.0%	13.2%	14.0%	13.0%	16.8%	15.4%	15.4%
Value-Added Fixed Income	8.3%	8.5%	8.9%	8.6%	%0.9	7.0%	7.7%	2.0%	4.6%	5.3%
Private Equity	11.3%	11.1%	11.7%	12.1%	10.7%	10.6%	%9.6	8.4%	9.7%	6.5%
Real Estate	10.0%	8.9%	8.2%	9.7%	8.2%	9.1%	10.9%	10.9%	8.6%	11.0%
Timber/Natural Resources	3.8%	3.9%	4.0%	3.9%	4.0%	4.1%	4.7%	2.1%	3.2%	3.5%
Hedge Funds	9.1%	%9.6	9.5%	86.6	7.2%	7.7%	2.7%	5.2%	5.1%	5.1%
Portable Alpha Wind Down (1)	0.1%	0.1%	0.1%	0.5%	0.4%	1.9%	ı	1	1	ı
Overlay	0.9%	0.9%	ı	1	1	1	ı	1	1	1
Portfolio Completion Strategies	0.2%	1		1	ı	1	ı	ı	ı	

Totals may not add due to rounding.

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

