



# **PENSION RESERVES INVESTMENT TRUST FUND**

(A Component Unit of the Commonwealth of Massachusetts)

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**Fiscal Year Ended June 30, 2017**

(With Basic Financial Statements for the Fiscal Years Ended June 30, 2017 and 2016)

**Deborah B. Goldberg, Treasurer and Receiver General, Chair**

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

**PENSION RESERVES INVESTMENT TRUST FUND**

(A Component Unit of the Commonwealth of Massachusetts)

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the Year Ended June 30, 2017

(With Basic Financial Statements for the Fiscal Years Ended June 30, 2017 and 2016)

**Prepared By**

**Pension Reserves Investment Management Board Staff**

## **For More Information**

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## *Introductory Section*



PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD



PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD

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

November 14, 2017

To Chair 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, 2017. The document that follows is the 13<sup>th</sup> consecutive CAFR produced in the PRIM Board's 33-year history. We hope that you will find the CAFR useful in understanding the performance and financial position of the PRIT Fund as of and for the fiscal year ended June 30, 2017.

The CAFR contains the basic financial statements presented in accordance with U.S. generally accepted accounting principles (GAAP) and the standards applicable to financial audits set forth by *Government Auditing Standards*. The CAFR and the basic financial statements are the responsibility of the PRIM Board. The fiscal year 2017 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, and 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 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, and the State Retiree Benefits Trust Fund (SRBTF), are mandated by statute to invest all of their assets in the PRIT Fund. Other retirement systems may voluntarily invest all or part of their assets in the PRIT Fund. Furthermore, Chapter 84 of the Acts of 1996 explicitly granted retirement boards the ability to invest only in individual asset classes of the PRIT Fund through a segmentation program. See Note 1 of the financial statements for more information on the profile and background of the PRIT Fund.

The most recent Public Employee Retirement Administration Commission (PERAC) valuation report, dated September 20, 2017, calculated the Commonwealth's unfunded actuarial pension liability at \$39.6 billion. The PERAC valuation report estimates that, as of January 1, 2017, the pension liability is 56.7% 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 and cost for an approximately 60% funded public pension fund, 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, 2017, the PRIT Fund had approximately \$66.9 billion in net position compared to \$60.7 billion at the end of fiscal year 2016, which is an increase of \$6.2 billion 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 year 2017 was exceptionally strong for the PRIM Board. The PRIT Fund ended the fiscal year at \$66.9 billion, a record high. The PRIT Fund was up 13.2% (gross of fees), outperforming its benchmark by 127 basis points. On a net-of-fees basis, the PRIT Fund was up 12.8%, outperforming its benchmark by 79 basis points. Six of the seven major asset classes outperformed their benchmarks. For the first time in several years, international equities outperformed domestic equities, though all equities were up strongly. We are

especially pleased with the performance for the fiscal year given that we have systematically de-risked the portfolio over the past several years.

Private Equity returned 21.3% for the year, Global Equities returned 20.9%, Value-Added Fixed Income returned 10.3% and Hedge Funds were up 9.4% (net of fees). Real Estate and Timberland performed well, returning 6.8% and 8.3%, respectively, for the fiscal year.

We completed our first ever direct real estate acquisition, acquiring 21 acres of prime office space land in Santa Clara, California. Executing the transaction directly will save the PRIM Board more than \$11 million in management fees over the expected life of the investment. Project SAVE is alive and well, deeply imbedded in our “DNA”, and we have now identified over \$160 million in value-enhancing strategies, well above our initial target of \$100 million. We have also launched Project SAVE Phase II – a careful deployment of direct investing.

At the PRIM Board, we believe that any investment should be analyzed on three equally important parameters: return, risk and cost, and that it is incomplete to evaluate the success of any investment program on just one of those parameters. Too often in the investment world, investment programs are evaluated solely on return, occasionally on cost, and very seldom, virtually never, on risk. We have noticed that few peer organizations can accurately measure and assess investment risk. We have allocated resources to measuring and controlling risk, and any new investment at the PRIM Board takes risk into account. In fact, every investment we make at the PRIM Board takes all three parameters into account: return, risk and cost.

Over the past few years we have re-engineered our Hedge Funds portfolio, re-engineered the Fixed Income portfolio and added significant risk-reducing strategies such as long-duration Treasury securities, agriculture, a put-spread-collar equity options strategy and alternative risk premia-harvesting strategies. We have reached an important milestone in the Hedge Funds portfolio, often a misunderstood investment strategy. Now, more than 50% of our direct Hedge Funds portfolio is invested in separately managed accounts, providing improved transparency, more control and lower fees than the commingled fund format that had been the norm. As a great illustration of our attention to risk, the Hedge Funds portfolio returned 9.4% for the fiscal year, net of fees, 3.1% above the benchmark, while exhibiting extremely low realized volatility of approximately 1.5%. This 9.4% return, combined with the 1.5% realized volatility, was the highest risk adjusted return in the PRIM Fund.

In February, the Board approved the new asset allocation, based on the triennial comprehensive asset/liability study. We maintained the Global Equity allocation at 40%, while implementing a put-spread-collar options portfolio to increase equity exposure with lower volatility; we increased the Private Equity allocation to 11% from 10%; we repositioned the Core Fixed Income portfolio to mitigate potential inflation and interest rate risk; we redeployed the Value-Added Fixed Income investments and introduced Other Credit Opportunities. We combined Hedge Funds and Portfolio Completion Strategies (PCS) into a single allocation to focus on delivering diversifying strategies (Please note that for performance-reporting purposes within this letter of transmittal, Hedge Funds performance is reported separately). We believe these changes will enable our portfolio to perform well in all market environments.

Those are a few important highlights of our investment program: solid results, a careful focus on returns, risks and costs, and continued nation-leading innovation across the program. Organizationally as well, fiscal year 2017 was another outstanding year. Once again, we reported that no senior-level employees departed, and consistent with the Board-approved hiring plans, we filled six staff vacancies with top talent. We are now nearly fully staffed with exceptional investment and finance professionals and all our job postings attract literally hundreds of talented and well-qualified applicants.

We developed a Board-approved, multi-year staff hiring plan in each functional area to ensure that we are appropriately resourced going forward. 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 our primary concern. The employment environment in the nation and in the region, is strong – there are opportunities for our employees outside of the PRIM Board – and we have spent considerable time and effort on retention strategies for key PRIM Board employees. We seek to provide a challenging and rewarding opportunity for all our employees, and a culture and work environment that our employees value.

To that end, in May we announced a couple of personnel moves on the investment team. The changes provide stimulating new challenges for two strong professionals and will enhance the PRIM Board's role as a leading innovator and performance leader among public pension funds. This year we will look for similar opportunities for other deserving members on the investment staff and on the finance staff. These personnel moves are:

- Eric R. Nierenberg, Ph.D., Director of Hedge Funds and Low Volatility Strategies, was named the PRIM Board's Chief Strategy Officer. In this new role, Eric will look across the entire \$67 billion PRIT Fund for innovative approaches to identify diversification strategies, enhance returns and reduce fees.
- Michael R. Bailey, Senior Investment Officer – Director of Private Equity, will be the second person to take part in the PRIM Board's Professional Development Program. The program rotates asset class heads through teams other than their own in order to enhance and broaden the employee's investment knowledge and to encourage cross-team knowledge sharing.

The organization has never been stronger or more innovative, not only in the investment arena but also in the finance, legal and operations area. Again, we were awarded the Government Finance Officers Association ***Certificate of Achievement for Excellence in Financial Reporting*** for fiscal year 2016, and as a result of our outstanding legal successes, our Deputy Executive Director and General Counsel, Christopher Supple, has been reappointed to a second term as Chair of the Securities Litigation Committee of NAPPA, the National Association of Public Pension Attorneys (Last term, Chris was co-Chair). There is no doubt our investment program is trend-setting and thoughtful, but without the finance and legal staff running in lock step with our investment program, none of the PRIM Board's success would be possible.

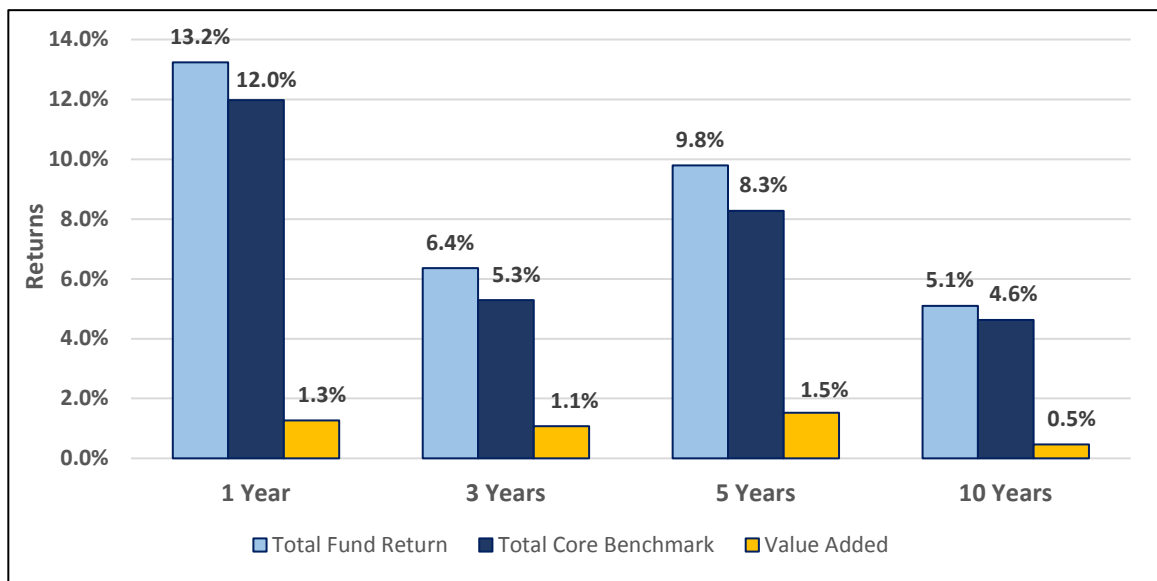
**PRIT Fund Performance**

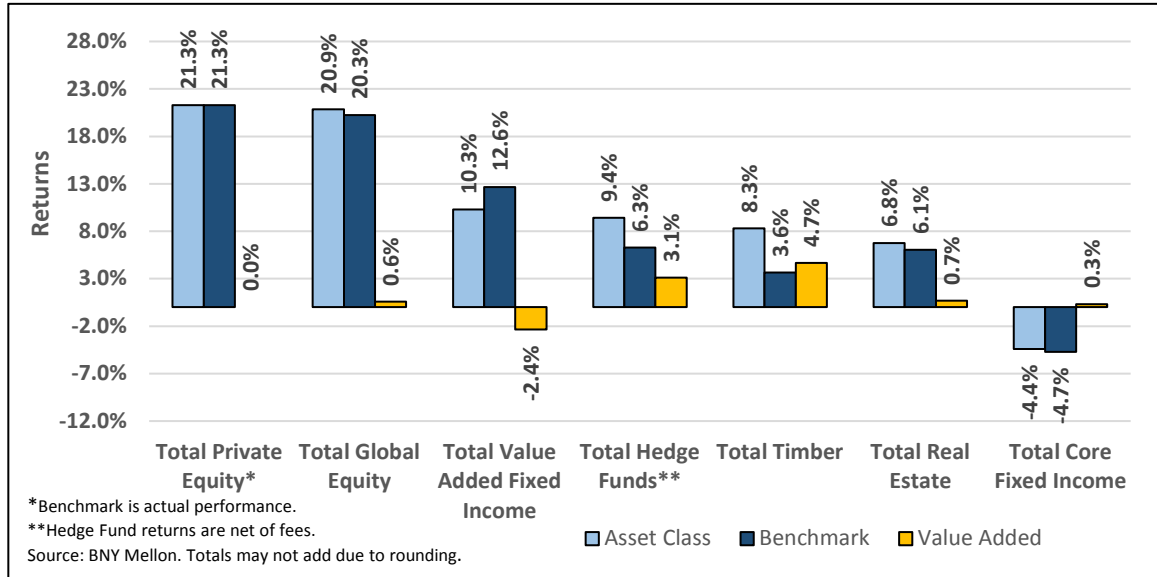
As of June 30, 2017, the PRIT Fund net position stood at \$66.9 billion. The PRIT Fund's trailing 1-, 3-, 5-, and 10-year returns remain strong on a relative and absolute basis:

- For the one-year ended June 30, 2017, the PRIT Fund was up 13.2% (gross of fees), outperforming the total core benchmark of 12.0% by 127 basis points. On a net-of-fees basis, the PRIT Fund was up 12.8%, outperforming its benchmark by 79 basis points
- This performance equates to an investment gain of \$7.7 billion, net of fees.
- This outperformance equates to \$480 million of value above the benchmark return, net of fees.
- Six of the seven major asset classes outperformed their respective benchmarks.
- Net total outflows to pay benefits for the one-year ended June 30, 2017, were approximately \$1.5 billion

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

*Annualized Returns as of June 30, 2017*



**PRIT Asset Class Performance (Gross of Fees)***Fiscal Year Ending June 30, 2017***PRIT Asset Class Performance (Gross of Fees)***Annualized Return as of June 30, 2017*

1 Year	3 Year	5 Year	10 Year
PRIVATE EQUITY 21.3%	PRIVATE EQUITY 16.3%	PRIVATE EQUITY 17.9%	PRIVATE EQUITY 13.4%
GLOBAL EQUITY 20.9%	REAL ESTATE 10.3%	REAL ESTATE 11.4%	VALUE-ADDED FIXED INCOME 6.7%
VALUE-ADDED FIXED INCOME 10.3%	TIMBER 6.1%	GLOBAL EQUITY 11.3%	REAL ESTATE 6.5%
HEDGE FUNDS (NET OF FEES) 9.4%	GLOBAL EQUITY 5.4%	TIMBER 7.4%	TIMBER 6.1%
TIMBER 8.3%	CORE FIXED INCOME 4.7%	HEDGE FUNDS (NET OF FEES) 6.0%	CORE FIXED INCOME 5.3%
REAL ESTATE 6.8%	VALUE-ADDED FIXED INCOME 2.8%	VALUE-ADDED FIXED INCOME 5.1%	GLOBAL EQUITY 4.2%
CORE FIXED INCOME (4.4%)	HEDGE FUNDS (NET OF FEES) 2.4%	CORE FIXED INCOME 3.9%	HEDGE FUNDS (NET OF FEES) 2.8%

**PRIT Core Fund Performance Summary**  
**Gross of Fees Performance**  
*Trailing 1-Year Performance as of June 30, 2017*

Trailing 1-Year Performance: June 30, 2017	Return	Benchmark Return	Over/(Under) Benchmark (bps)	\$Value (millions)	% of PRIT Fund*
<b>Total PRIT Fund</b>	<b>13.2%</b>	<b>12.0%</b>	<b>127</b>	<b>66,850</b>	<b>100%</b>
<b>Total Global Equity</b>	<b>20.9%</b>	<b>20.3%</b>	<b>60</b>	<b>30,498</b>	<b>45.7%</b>
Domestic Equity	18.6%	18.7%	(8)	13,216	19.8%
International Developed	20.2%	20.4%	(16)	12,038	18.0%
Emerging Markets	28.2%	23.4%	479	5,243	7.9%
<b>Private Equity**</b>	<b>21.3%</b>	<b>21.3%</b>	<b>0</b>	<b>7,092</b>	<b>10.6%</b>
<b>Real Estate</b>	<b>6.8%</b>	<b>6.1%</b>	<b>70</b>	<b>6,048</b>	<b>9.1%</b>
<b>Total Timberland</b>	<b>8.3%</b>	<b>3.6%</b>	<b>467</b>	<b>2,483</b>	<b>3.7%</b>
<b>Hedge Funds***</b>	<b>9.4%</b>	<b>6.3%</b>	<b>313</b>	<b>5,580</b>	<b>8.4%</b>
<b>Value Added Fixed Income</b>	<b>10.3%</b>	<b>12.6%</b>	<b>(235)</b>	<b>5,403</b>	<b>8.1%</b>
<b>Core Fixed Income</b>	<b>-4.4%</b>	<b>-4.7%</b>	<b>33</b>	<b>7,984</b>	<b>12.0%</b>

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

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

\*\*\*Hedge Fund returns are net of fees.

### **Summary of Fiscal Year 2017 Key Accomplishments**

#### **1. PRIM Board Promotions**

- Eric R. Nierenberg, Ph.D., who since joining the PRIM Board in 2012 had been Senior Investment Officer – Director of Hedge Funds and Low Volatility Strategies, was named the PRIM Board’s Chief Strategy Officer. In this new role, Eric will look across the entire \$67 billion PRIT Fund for innovative approaches to identify diversification strategies, enhance returns, reduce volatility, and reduce fees

#### **2. PRIM Board New Hires**

- George Tsipakis, Manager of Real Estate and Timberland Reporting – July 2016
- Samuel Olivier, Client Services Analyst – October 2016
- Alyssa Fiore, Investment Analyst – Private Equity – October 2016

- Andrew Gromer, Investment Analyst – Public Markets – October 2016
- Francesco Daniele, Senior Client Services Officer – December 2016
- Luis Roman, Ph.D., Senior Investment Officer – Director of Risk Management – April 2017

**3. Maintained low employee turnover**

- No senior staff departures in FY 2017

**4. Summary of recent recognition for the PRIM Board and its staff members**

- The PRIM Board was nominated again for *Institutional Investor Magazine's* 15th annual **Large Public Fund of the Year - Hedge Fund Industry Award**. The award recognizes excellence in innovation and thought leadership in the hedge fund space. This is the second consecutive year the PRIM Board has been nominated for this award. The PRIM Board won the award last year (May 2017)
- Sarah Samuels, CFA, CAIA, Deputy Chief Investment Officer, was named a **Hedge Fund Rising Star** – one of 30 – by Institutional Investor Magazine (May 2017)
- David Gurtz, CFA, CPA, Chief Operating Officer and Chief Financial Officer, and Paul Todisco, Senior Client Services Officer, received the **Commonwealth's Citation for Outstanding Performance** at a State House ceremony with Treasurer Deborah Goldberg, Chair of the PRIM Board (September 2016)

**5. Encouraged professional and continuing education for all PRIM Board, committee and staff members**

- Our staff credentials: 3 Ph.D.'s, 9 Master's Degrees, one J.D., 8 CFAs, 6 CPAs, 1 CAIA and 20 CFA Investment Foundations Program
- Tim Schlitzer, Senior Investment Officer - Director of Real Estate and Timberland, was awarded the Chartered Financial Analyst (CFA) designation, having passed all three tests and completed the work requirements
- Bill Li, Investment Officer on the PCS team, was awarded the CFA designation, having passed all three tests and completed the work requirements
- Bill Li was awarded the Chartered Alternative Investments Analyst (CAIA) designation after passing the required two-part exam
- Christina Satcher, Accounting Assistant on the finance team, passed the CFA Investment Foundations exam
- PRIM Board, committee and staff members frequently participated in educational courses and conferences

**6. Continued to implement the PRIM Board Professional Development Program**

- Michael Bailey, Senior Investment Officer -Director of Private Equity, will become the second person to take part in the PRIM Board's Professional Development Program, which rotates asset class heads through teams other than their own. Michael joined the PRIM Board in 2013

**7. Continued diversity staffing initiatives**

- Hired five summer interns, two of whom were participants in the "Women in Finance Fellowship" created by Treasurer Deborah Goldberg, Chair of the PRIM Board, and sponsored one intern from "Girls Who Invest"
- The PRIM Board completed a comprehensive gender wage audit conducted by a third-party consultant that concluded that there is no gender bias or wage gap at the PRIM Board
- For all posted positions, the PRIM Board ensures that a full slate of diverse candidates is received before hiring the most qualified candidate

**8. Launched the PRIM Investor Advisory Council**

- The Council provides our clients a forum in which to provide regular feedback to management and the Board
- Held two successful PRIM Investor Advisory Council meetings - on November 4, 2016, and March 3, 2017
- The Council consists of seven members from around the state serving two-year terms

**Acknowledgements**

The PRIM Board's success is inextricably linked to the diligence of our Board and its Chair, Treasurer Deborah B. Goldberg. I would also like to recognize Edward Kane and Dennis Kanin for their dedicated service on the Investment Committee and Real Estate and Timberland committees, respectively. Their insights and contributions were invaluable. This year we welcomed three new members to our committees: Robert Gifford and Carly Rose joined the Real Estate and Timberland Committee, and Phillip Rotner has joined the Investment Committee. We are privileged to have volunteers of such high caliber and professional achievement on the PRIM Board and its committees, and we recognize that our success is due in large part to their dedication, hard work, and expert oversight.

Very respectfully,



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





Government Finance Officers Association

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

Presented to

**Pension Reserves Investment  
Trust Fund, Massachusetts**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

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, 2016. This was the 12<sup>th</sup> 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**

Retired President and CEO, The Dimock Center

**James B. G. Hearty, Designee of the Governor**

Partner, Clough Capital

**Theresa F. McGoldrick, Esq., Elected Member, State Employees' Retirement Board**

President, SEIU/NAGE Unit 6

**Peter Monaco, Appointee of the Governor**

Managing Director, Raptor Group Holdings

**Dennis J. Naughton, Elected Member, State Teachers' Retirement Board**

Retired Educator, Millis Public Schools

**Carly Rose, Appointee of the Governor**

Public Safety Union Member

**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**

Former President and CEO, Numeric Investors

**Constance M. Everson, CFA**

Managing Director, Capital Markets Outlook Group

**Ruth Ellen Fitch**

Board Member

**James B. G. Hearty**

Board Member

**Peter Monaco**

Board Member

**Philip Rotner**

Chief Investment Officer, Boston Children's Hospital

**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

**Lydia Chesnick, Esq.**

Partner, Bernkopf Goodman LLP

**Robert Gifford**

Robert Gifford Advisory

**Anthony E. Hubbard, Esq.**

CVS Corporation

**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

**Carly Rose**

Board Member

## **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**

Consultant, Syncom Consulting

**James B. G. Hearty**

Board Member

**Theresa F. McGoldrick, Esq.**

Board Member

**Dennis J. Naughton**

Board Member

**Michele A. Whitham, Esq.**

Founder &amp; Principal, Whitham Law LLC

**Compensation Committee****Michele A. Whitham, Esq., Chair**

Founder &amp; Principal, Whitham Law LLC

**Deborah B. Goldberg**

Ex Officio Board Member

**Robert L. Brousseau**

Board Member

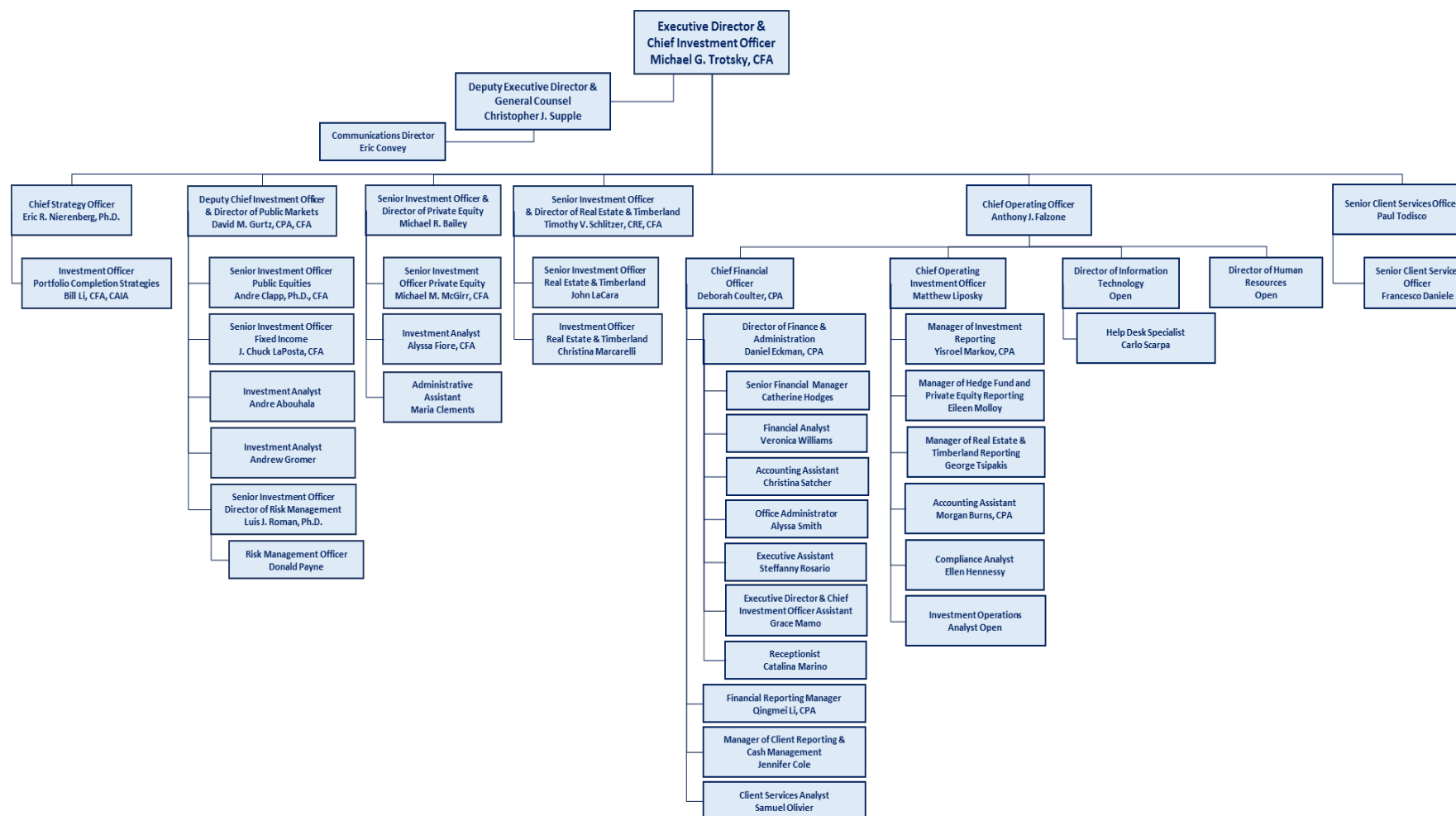
**Patrick E. Brock**

Chairman, Hampshire County Retirement Board

**Joseph Connolly**

Norfolk County Treasurer

## PRIM Board Staff Organizational Chart



## **PRIM Board Investment Advisors**

**Callan Associates**

Public Market Advisory Services

**Aberdeen Asset Management Inc.**

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, 2017 and 2016, 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, 2017 and 2016, and the changes in its pooled net position for the years then ended in accordance with U.S. generally accepted accounting principles.

### **Other Matters**

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 21-24 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### *Other Information*

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2017 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.

KPMG LLP

November 14, 2017

Required Supplementary Information –  
Management's Discussion and Analysis

June 30, 2017 and 2016

(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, 2017 and 2016 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, 2017 and 2016 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 61 and 62 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 2017*

- The net position of the PRIT Fund increased \$6.2 billion during the year ended June 30, 2017. Total net position was \$66.9 billion at June 30, 2017, compared to \$60.7 billion at June 30, 2016.
- Net investment income for fiscal year 2017 was \$7.7 billion, compared to net investment income of \$1.1 billion for the prior fiscal year. The PRIT Fund returned 13.20%, gross of fees, in fiscal year 2017, compared to 2.29% in fiscal year 2016.
- Contributions to the PRIT Fund totaled \$2.7 billion during fiscal year 2017, compared to \$2.4 billion in fiscal year 2016.

(Continued)

Required Supplementary Information –  
Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

- Redemptions from the PRIT Fund totaled \$4.2 billion during fiscal year 2017, compared to \$4.0 billion during fiscal year 2016.

*Fiscal Year 2016*

- The net position of the PRIT Fund decreased \$550.9 million during the year ended June 30, 2016. Total net position was \$60.7 billion at June 30, 2016, compared to \$61.2 billion at June 30, 2015.
- Net investment income for fiscal year 2016 was \$1.1 billion, compared to net investment income of \$2.1 billion for the prior fiscal year. The PRIT Fund returned 2.29%, gross of fees, in fiscal year 2016, compared to 3.86% in fiscal year 2015.
- Contributions to the PRIT Fund totaled \$2.4 billion during fiscal year 2016, compared to \$2.2 billion in fiscal year 2015.
- Redemptions from the PRIT Fund totaled \$4.0 billion during fiscal year 2016, compared to \$3.7 billion during fiscal year 2015.

**Condensed Financial Information**

Summary balances and activities of the PRIT Fund as of and for the years ended June 30, 2017, 2016, and 2015 are presented below:

		June 30	
	2017	2016	2015
	(Dollars in thousands)		
Summary of pooled net position:			
Assets:			
Investments	\$ 70,187,676	63,387,573	63,019,272
Cash	267,019	221,028	282,624
Securities lending collateral	306,659	622,640	557,158
Receivables and other assets	1,077,503	624,478	1,658,706
Total assets	71,838,857	64,855,719	65,517,760
Liabilities:			
Other liabilities	4,392,325	3,511,540	3,677,057
Securities lending obligations	556,237	622,487	557,135
Management fees payable to PRIM	39,854	28,887	39,823
Total liabilities	4,988,416	4,162,914	4,274,015
Net position held in trust for pool participants	\$ 66,850,441	60,692,805	61,243,745

(Continued)

Required Supplementary Information –  
Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

		June 30	
	2017	2016	2015
		(Dollars in thousands)	
Summary of changes in pooled net position:			
Additions:			
Contributions	\$ 2,689,066	2,402,074	2,178,927
Net investment income	7,655,016	1,091,671	2,073,376
Total additions	10,344,082	3,493,745	4,252,303
Deductions:			
Redemptions	4,186,446	4,044,685	3,685,332
Change in pooled net position	6,157,636	(550,940)	566,971
Net position held in trust for pool participants:			
Balance, beginning of year	60,692,805	61,243,745	60,676,774
Balance, end of year	\$ 66,850,441	60,692,805	61,243,745

**The PRIT Fund Performance during the year ended June 30, 2017**

The PRIT Fund began fiscal year 2017 with net position of \$60.7 billion and ended the fiscal year with a net position of \$66.9 billion, representing a 10.15% increase. Net investment income for the year ended June 30, 2017 was \$7.7 billion, which when added to net participant redemptions (contributions less redemptions) of \$1.5 billion, resulted in an overall increase in net position of \$6.2 billion.

For the year ended June 30, 2017, the PRIT Fund returned 13.20% gross of fees, exceeding its benchmark of 11.97% by 123 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, gross of fees, for the year ended June 30, 2017 are as follows: Global Equity 20.85%; Core Fixed Income -4.39%; Value-Added Fixed Income 10.29%; Private Equity 21.28%; Real Estate 6.76%; Timberland 8.31%; Portfolio Completion Strategies 7.71%; and Overlay 6.83%.

The PRIT Fund outperformed its benchmark for the fiscal year ended June 30, 2017 and has returned an average of 9.50%, gross of fees, annually since January 1, 1985. According to the Trust Universe Comparison Service (TUCS) for Public Pension Funds, a widely-accepted peer ranking of public pension funds performance, the PRIT Fund ranked in the top quartile of public pension plans with net position in excess of \$1 billion over the three-year period ended June 30, 2017.

(Continued)

Required Supplementary Information –  
Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

**The PRIT Fund Performance during the year ended June 30, 2016**

The PRIT Fund began fiscal year 2016 with net position of \$61.2 billion and ended the fiscal year with a net position of \$60.7 billion, representing a 0.90% decrease. Net investment income for the year ended June 30, 2016 was \$1.1 billion, which when added to net participant redemptions (contributions less redemptions) of \$1.6 billion, resulted in an overall decrease in net position of \$550.9 million.

For the year ended June 30, 2016, the PRIT Fund returned 2.29%, exceeding its benchmark of 1.46% by 83 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, 2016 are as follows: Global Equity -3.93%; Core Fixed Income 14.69%; Value-Added Fixed Income 1.04%; Private Equity 12.15%; Real Estate 12.21%; Timberland 0.44%; Hedge Funds -5.37%; Portfolio Completion Strategies 8.70%; and Overlay 1.73%.

**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 [www.mapension.com](http://www.mapension.com). 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, 2017 and 2016

(Dollars in thousands)

	2017	2016
Assets:		
Investments, at fair value:		
Short-term	\$ 1,676,219	1,204,170
Fixed income	14,023,318	14,046,001
Equity	29,392,931	24,907,679
Timberland	2,480,243	2,003,805
Private equity funds	7,017,326	6,661,690
Real estate:		
Real estate properties	6,023,845	6,021,497
Equity	1,505,037	1,484,402
Real estate funds	90,827	208,110
Other	60,914	45,066
	7,680,623	7,759,075
Portfolio completion strategies:		
Investment funds	3,334,812	3,886,563
Equity	1,932,338	1,248,859
Cash and cash equivalents	1,339,057	839,972
Fixed income	989,603	583,435
Agricultural investments	203,323	105,220
Other	117,883	141,104
	7,917,016	6,805,153
Total investments	70,187,676	63,387,573
Cash	267,019	221,028
Securities lending collateral	306,659	622,640
Interest and dividends receivable	160,624	164,874
Receivable for investments sold and other assets	394,855	101,228
Securities sold on a when-issued basis	506,614	295,967
Foreign currency forward contracts	15,410	62,409
Total assets	71,838,857	64,855,719
Liabilities:		
Payable for investments purchased and other liabilities	231,202	170,744
Real estate debt and other liabilities	1,390,612	1,450,193
Securities lending obligations	556,237	622,487
Securities purchased on a when-issued basis	1,029,545	755,796
Foreign currency forward contracts	20,234	36,752
Management fees payable to PRIM	39,854	28,887
Portfolio completion strategies liabilities:		
Securities sold short, at fair value	1,500,209	972,953
Other	220,523	125,102
	1,720,732	1,098,055
Total liabilities	4,988,416	4,162,914
Net position held in trust for pool participants	\$ 66,850,441	60,692,805

See accompanying notes to financial statements.

## Statements of Changes in Pooled Net Position

Years ended June 30, 2017 and 2016

(Dollars in thousands)

	2017	2016
Additions:		
Contributions:		
State employees	\$ 855,586	727,147
State teachers	761,753	752,835
Other participants	1,071,727	922,092
Total contributions	2,689,066	2,402,074
Net investment income:		
From investment activities:		
Net realized gain on investments and foreign currency transactions	2,577,447	1,420,910
Net change in unrealized appreciation (depreciation) on investments and foreign currency translations	3,619,175	(1,668,459)
Interest income	311,988	288,535
Dividend income	735,490	688,955
Timberland income	25,147	684
Private equity income	197,368	147,228
Portfolio completion strategies income	18,295	15,673
Real estate:		
Income	529,269	523,069
Expenses	(225,125)	(224,147)
	304,144	298,922
Income from investment activities	7,789,054	1,192,448
Investment management and other management fees	(144,004)	(112,129)
Net income from investment activities	7,645,050	1,080,319
From securities lending activities:		
Securities lending income	11,374	12,927
Securities lending expenses	(1,408)	(1,575)
Net income from securities lending activities	9,966	11,352
Total net investment income	7,655,016	1,091,671
Total additions	10,344,082	3,493,745
Deductions:		
Redemptions:		
State employees	1,459,041	1,452,096
State teachers	1,672,202	1,667,879
Other participants	1,055,203	924,710
Total deductions	4,186,446	4,044,685
Net increase (decrease) in pooled net position	6,157,636	(550,940)
Net position held in trust for pool participants:		
Balance, beginning of year	60,692,805	61,243,745
Balance, end of year	\$ 66,850,441	60,692,805

See accompanying notes to financial statements.



## Notes to Financial Statements

June 30, 2017 and 2016

(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, as well as the assets of the State Retiree Benefits Trust (SRBT) 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; (8) a person who is not an employee or official of the Commonwealth appointed by the Governor; and (9) a representative of a public safety union appointed by the Governor. Appointed members serve for a term of four years. The Board of Trustees has the authority to employ an Executive Director, outside investment managers, custodians, consultants, and others as it deems necessary; to formulate policies and procedures; and to take such other actions as necessary and appropriate to manage the assets of the PRIT Fund.

The PRIM Board seeks to manage the PRIT Fund to ensure that pension assets are well invested so that current and future benefit obligations are adequately funded in a cost-effective manner. The PRIM Board therefore seeks to maximize the total return on investment within acceptable levels of risk and cost for an approximately 60% funded public pension fund. Under current law, by the year 2040, the PRIT Fund plans to 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

(Continued)

## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

a schedule of state pension appropriations that assumes a long-term actuarial rate of return for the PRIT Fund of 7.5%.

The State Teachers' and State Employees' Retirement Systems and the SRBT Fund are mandated by statute to invest all of their assets in the PRIT Fund and are, therefore, considered involuntary participants. The assets of the State-Boston Retirement System attributable to teachers who are members of that system are also mandated to be held in the PRIT Fund. 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 position. As of June 30, 2017, there were 39 Participating Systems and 55 Purchasing Systems invested in the PRIT Fund.

**(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 position 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 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, 2017: General Allocation (holds units of all other accounts), Domestic Equity, International Equity, Emerging Markets Equity, Core Fixed Income, Value-Added Fixed Income, Real Estate, Timberland, Hedge Funds, Distressed Debt, Overlay, Risk Premia, Real Assets, Liquidating Portfolios, Private Equity  
(Continued)

## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

Investments, and Private Equity Investments Vintage Years 2000-2017. 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, 2016: General Allocation (holds units of all other accounts), Domestic Equity, International Equity, Emerging Markets Equity, Core Fixed Income, Value-Added Fixed Income, Real Estate, Timberland, Hedge Funds, Distressed Debt, Overlay, Portfolio Completion Strategies, Liquidating Portfolios, Private Equity Investments, and Private Equity Investments Vintage Years 2000-2016.

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 position 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, 2017 and 2016, there were 39 and 41 segmented investors, respectively, 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.

(Continued)

## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

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

The PRIT Fund consolidates assets and liabilities of its single-member limited liability corporations.

In addition, certain amounts have been reclassified in the 2016 financial statements to conform to the 2017 presentation.

**(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 global equity securities, core fixed income securities, value-added fixed income, real estate, timberland, private equity, portfolio completion strategies 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, including exchange-traded funds, 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), such as mutual and similar funds with a readily determinable fair value,

(Continued)

## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

are based on the commingled fund's published net asset value (NAV) which are valued based on the underlying marketable securities or, in the absence of readily ascertainable market values, the price of identical or similar securities.

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.

As described further below, certain qualifying investments may be measured using NAV as a practical expedient to estimate fair value unless as of the measurement date it is probable that the PRIT Fund's interest will be sold at an amount different than NAV. As of June 30, 2017 and 2016, the PRIT Fund had no plans or intentions to sell such investments at amounts other than NAV.

Investments in real estate represent the PRIT Fund's ownership interest in PRIT Core Realty Holdings LLC (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.

The LLC holds investments in real estate properties, real estate 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 assuming highest and best use of the assets. 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 fund investments are invested through limited partnerships and are recorded at fair value estimated by the PRIM Board, generally using the NAVs provided by general partners as a practical expedient. The NAVs provided by general partners are generally based on appraised value of underlying real estate investments, which considers inputs such as comparable sales, projected income, discount rate, and

(Continued)

## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

capitalization rates. 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. Independent appraisals of timberland investments are performed annually.

Portfolio completion strategies investments represent the PRIT Fund's ownership in direct hedge funds, hedge fund-of-funds, risk premia funds, and real assets funds (collectively, the funds), managed accounts, and agricultural investments. The fair values of the PRIT Fund's interest in funds are estimated by the PRIM Board, generally using NAVs provided by fund managers as a practical expedient. NAVs for direct hedge funds, risk premia, and real assets funds generally are based on the value of the underlying marketable securities or assets, or in the absence of readily ascertainable market values, the price of identical or similar securities or assets. NAVs for hedge fund-of-funds are generally based on the value of the NAVs of the underlying funds which value their investments similar to direct hedge funds. Managed account investments in equity securities, fixed income, and other investments are valued using independent pricing services. In the event that pricing information is not available, then the investment is reported at fair value as estimated in good faith by the PRIM Board based on information provided by the investment manager responsible for such investment. Cash and cash equivalents held in managed accounts consist of highly liquid investments that are readily convertible into cash. The carrying amount of these securities approximates fair value. Agricultural investments are valued similarly to investments made by the LLC in real estate properties and are generally appraised annually.

Private equity investments are typically made through limited partnerships that invest in venture capital, leveraged buyouts, private placements, and other investments whose 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 NAVs provided by general partners as a practical expedient. The NAVs generally are based on the value of underlying investment holdings, which are determined by investment managers and consider variables such as operating results, earnings of the underlying holdings, projected cash flows, recent sales prices, and other pertinent information. These estimated fair values are determined in good faith by investment managers or general partners using consistently applied procedures.

**(c) Investment Income**

Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned. For the years ended June 30, 2017 and 2016, foreign taxes withheld of \$19,311 and \$20,252, respectively, have been netted against dividend income in the statements of changes in pooled net

(Continued)

## Notes to Financial Statements

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position. Real estate income includes dividends earned on REIT securities as well as cash distributions of operating income from investments in real estate properties. Timberland income includes cash distributions of operating income from investments in timberland properties. Private equity 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 within net unrealized appreciation (depreciation) on investments.

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. As described in GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72), a credit valuation adjustment should be applied, when applicable, for nonperformance risk using the PRIT Fund's credit risk (liability) in determining fair value.

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 7 for more detail). These derivative instruments can be

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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.

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**(3) Fair Value Measurements of Investments**

In accordance with GASB 72, except for investments measured using NAV as a practical expedient to estimate fair value, the PRIT Fund categorizes the fair value measurements of its investments within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date. Most of the PRIT Fund's directly held marketable securities, mutual funds and exchange traded funds would be examples of Level 1 investments.
- Level 2 – Inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held fixed income securities are categorized in Level 2.
- Level 3 – Unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative financial instruments. Generally, the PRIT Fund's directly held investments in real estate and timberland will be categorized in Level 3 because a preponderance of inputs used to estimate fair value are not observable. For similar reasons, certain fixed income securities may also be categorized in Level 3.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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(Dollars in thousands)

The following tables present a summary of the fair value hierarchy of investments that are measured at fair value on a recurring basis at June 30, 2017 and 2016:

Investments at fair value	2017					Unfunded commitments
	Fair value measurements using				Net asset value (NAV)	
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs or not redeemable (Level 3)		
Short-term:						
Money market investments	\$ 1,676,219	—	1,676,219	—	—	
Fixed income:						
U.S. government obligations (1)	5,163,763	5,163,763	—	—	—	
Domestic fixed income (2)	4,844,367	3,997	4,795,929	44,441	—	
International fixed income (3)	2,832,930	150,369	2,682,561	—	—	
Distressed debt (4)	1,182,258	—	—	—	1,182,258	1,195,285
	<u>14,023,318</u>	<u>5,318,129</u>	<u>7,478,490</u>	<u>44,441</u>	<u>1,182,258</u>	
Equity:						
Domestic equity securities	12,233,468	12,233,468	—	—	—	
International equity securities	17,159,463	17,134,610	242	24,611	—	
	<u>29,392,931</u>	<u>29,368,078</u>	<u>242</u>	<u>24,611</u>	<u>—</u>	
Timberland	2,480,243	—	—	2,480,243	—	
Private equity funds:						
Special equity (5)	5,153,026	—	—	—	5,153,026	3,410,559
Venture capital (6)	1,668,255	—	—	—	1,668,255	497,727
Natural resources (7)	196,045	—	—	—	196,045	55,140
	<u>7,017,326</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,017,326</u>	
Real estate:						
Real estate properties	6,023,845	—	—	6,023,845	—	
Real estate equity securities	1,505,037	1,488,848	16,189	—	—	
Real estate funds (8)	90,827	—	—	—	90,827	129,144
Other	60,914	—	—	60,914	—	
	<u>7,680,623</u>	<u>1,488,848</u>	<u>16,189</u>	<u>6,084,759</u>	<u>90,827</u>	
Portfolio completion strategies:						
Event-driven hedge funds (9)	1,528,571	—	—	—	1,528,571	58,834
Relative value hedge funds (10)	462,186	—	—	—	462,186	
Equity long/short hedge funds (11)	139,411	—	—	—	139,411	
Fund of funds (12)	975,017	—	—	—	975,017	
Risk premia fund (13)	212,754	—	—	—	212,754	
Real assets fund (14)	16,873	—	—	—	16,873	33,000
Investment funds	3,334,812	—	—	—	3,334,812	
Equity securities	1,932,338	1,921,553	10,393	392	—	
Cash and cash equivalent	1,339,057	1,290,489	48,568	—	—	
Fixed income securities	989,603	101	880,381	109,121	—	
Agricultural investments	203,323	—	—	203,323	—	
Other	117,883	—	190	117,693	—	
	<u>7,917,016</u>	<u>3,212,143</u>	<u>939,532</u>	<u>430,529</u>	<u>3,334,812</u>	
Total investments	\$ <u>70,187,676</u>	<u>39,387,198</u>	<u>10,110,672</u>	<u>9,064,583</u>	<u>11,625,223</u>	

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## Notes to Financial Statements

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		2017				Unfunded commitments
		Fair value measurements using				
Investments at fair value	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs or not redeemable (Level 3)	Net asset value (NAV)	
Securities lending collateral:						
Repurchase agreements	\$ 150,000	—	150,000	—	—	
Money market investments	156,659	—	156,659	—	—	
Total securities lending collateral	\$ 306,659	—	306,659	—	—	
Portfolio completion strategies liabilities at fair value						
Securities sold short:						
Equity securities	\$ 1,185,437	1,185,437	—	—	—	
Cash and cash equivalent	231,499	—	231,499	—	—	
Fixed income securities	83,273	101	83,172	—	—	
	1,500,209	1,185,538	314,671	—	—	
Other	220,523	—	—	220,523	—	
Total portfolio completion strategies liabilities	\$ 1,720,732	1,185,538	314,671	220,523	—	

(Continued)

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Investments at fair value	Total	2016 Fair value measurements using			Net asset value (NAV)	Unfunded commitments
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs or not redeemable (Level 3)		
Short-term:						
Money market investments	\$ 1,204,170	—	1,204,170	—	—	
Fixed income:						
U.S. government obligations (1)	5,546,901	5,546,901	—	—	—	
Domestic fixed income (2)	4,100,864	17,500	4,064,372	18,992	—	
International fixed income (3)	3,162,671	142,939	3,019,386	346	—	
Distressed debt (4)	1,235,565	—	—	—	1,235,565	1,100,129
	<u>14,046,001</u>	<u>5,707,340</u>	<u>7,083,758</u>	<u>19,338</u>	<u>1,235,565</u>	
Equity:						
Domestic equity securities	10,696,300	10,696,263	—	37	—	
International equity securities	14,211,379	14,185,209	—	26,170	—	
	<u>24,907,679</u>	<u>24,881,472</u>	<u>—</u>	<u>26,207</u>	<u>—</u>	
Timberland	2,003,805	—	—	2,003,805	—	
Private equity funds:						
Special equity (5)	4,884,250	—	—	—	4,884,250	3,376,056
Venture capital (6)	1,599,074	—	—	—	1,599,074	555,159
Natural resources (7)	178,366	—	—	—	178,366	62,628
	<u>6,661,690</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,661,690</u>	
Real estate:						
Real estate properties	6,021,497	—	—	6,021,497	—	
Real estate equity securities	1,484,402	1,469,759	14,643	—	—	
Real estate funds (8)	208,110	—	—	—	208,110	142,987
Other	45,066	—	—	45,066	—	
	<u>7,759,075</u>	<u>1,469,759</u>	<u>14,643</u>	<u>6,066,563</u>	<u>208,110</u>	
Portfolio completion strategies:						
Event-driven hedge funds (9)	1,901,580	—	—	—	1,901,580	156,491
Relative value hedge funds (10)	520,060	—	—	—	520,060	
Equity long/short hedge funds (11)	319,669	—	—	—	319,669	
Fund of funds (12)	923,679	—	—	—	923,679	
Risk premia fund (13)	209,075	—	—	—	209,075	
Real assets fund (14)	12,500	—	—	—	12,500	37,500
Investment funds	3,886,563	—	—	—	3,886,563	
Equity securities	1,248,859	1,247,290	868	701	—	
Cash and cash equivalent	839,972	817,612	22,360	—	—	
Fixed income securities	583,435	89	509,091	74,255	—	
Agricultural investments	105,220	—	—	105,220	—	
Other	141,104	28,122	—	112,982	—	
	<u>6,805,153</u>	<u>2,093,113</u>	<u>532,319</u>	<u>293,158</u>	<u>3,886,563</u>	
Total investments	\$ <u>63,387,573</u>	<u>34,151,684</u>	<u>8,834,890</u>	<u>8,409,071</u>	<u>11,991,928</u>	

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Investments at fair value	Total	Fair value measurements using			Net asset value (NAV)	Unfunded commitments
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs or not redeemable (Level 3)		
Securities lending collateral:						
Repurchase agreements	\$ 200,000	—	200,000	—	—	
Money market investments	72,931	—	72,931	—	—	
Domestic fixed income (15)	349,709	—	349,709	—	—	
Total securities lending collateral	\$ 622,640	—	622,640	—	—	
Portfolio completion strategies liabilities at fair value						
Securities sold short:						
Equity securities	\$ 849,579	849,579	—	—	—	
Cash and cash equivalent	114,066	—	114,066	—	—	
Fixed income securities	9,308	88	9,220	—	—	
	972,953	849,667	123,286	—	—	
Other	125,102	—	—	125,102	—	
Total portfolio completion strategies liabilities	\$ 1,098,055	849,667	123,286	125,102	—	

- (1) Fiscal 2017 rates range from 0.00% to 8.75%, and maturities range from 2017 to 2047. Fiscal 2016 rates range from 0.00% to 9.13%, and maturities range from 2016 to 2046.
- (2) Fiscal 2017 rates range from 0.00% to 20.38%, and maturities range from 2017 to 2116. Fiscal 2016 rates range from 0.00% to 13.38%, and maturities range from 2016 to 2115.
- (3) Fiscal 2017 rates range from 0.00% to 26.25%, and maturities range from 2017 to 2117. Fiscal 2016 rates range from 0.00% to 16.15%, and maturities range from 2016 to 2115.
- (4) This represents investments in 39 and 38 private partnerships that invest directly in distressed debt investment opportunities at June 30, 2017 and 2016, respectively. These investments cannot be redeemed. Distributions are received as the partnerships liquidate the underlying assets of the funds. The life cycles of the private partnerships are typically 10 to 15 years.
- (5) This includes investments in 167 and 170 private partnerships focused on acquisition financing, equity infusion capital, recovery investments, and special situations at June 30, 2017 and 2016, respectively. These private partnerships typically have 10 to 15-year life cycles during which limited partners are unable to redeem their positions, but instead, receive distributions as the partnerships liquidate the underlying assets of the funds.

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## Notes to Financial Statements

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- (6) This includes investments in 121 and 119 private partnerships focused on investing in companies in a range of stages of development from start-up/seed-stage, to early stage, to later-stage at June 30, 2017 and 2016, respectively. These investments are not redeemable. Distributions are received as the partnerships liquidate the underlying assets of the funds. The private partnerships typically have a life cycle of 10 to 15 years.
- (7) This represents investments in four private partnerships that make investments in the energy and natural resources industries at June 30, 2017 and 2016. Limited partners are unable to withdraw from the partnerships. Distributions are received as the partnerships liquidate the underlying assets. The four private partnerships have life cycles of 10 to 11 years and a weighted average remaining life of approximately one and two years at June 30, 2017 and 2016, respectively.
- (8) This includes eight and seven closed-end real estate funds that invest in U.S. real estate at June 30, 2017 and 2016, respectively. These investments are not redeemable. The funds have initial terms of eight to 11 years with extension of one to two years, and have a weighted average remaining life of approximately four and five years at June 30, 2017 and 2016, respectively.
- (9) This includes 11 and 14 hedge funds that invest in event-driven strategies such as credit-event, equity-event, multi-event driven, and stressed/distressed credit positions at June 30, 2017 and 2016, respectively. Redemption frequency for these investments ranged from quarterly to two years with 45 to 90 days' notice.
- (10) This includes three and four hedge funds that invest in relative value strategies such as fixed income relative value, credit-relative value, and multi-relative value positions at June 30, 2017 and 2016, respectively. Redemption frequency for these investments ranged from monthly to quarterly with 45 to 90 days' notice.
- (11) This includes three and four hedge funds that invests in equity long/short strategies where there is combination of long and short positions primarily in publicly traded equities at June 30, 2017 and 2016, respectively. Redemption frequency for these investments ranged from quarterly to three years with 45 to 60 days' notice.
- (12) This includes one active hedge fund of funds manager, valued at \$928,483 and \$867,595, at June 30, 2017 and 2016, respectively, which invests in emerging hedge fund managers. Redemption frequency for this fund is monthly with 30 days' notice. The remaining balance represents investments in five liquidating portfolios in which distributions are received as the funds liquidates the underlying assets.

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## Notes to Financial Statements

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(Dollars in thousands)

- (13) This includes one fund that is invested in a multi-strategy risk premia program at June 30, 2017 and 2016. Redemption frequency for this fund is monthly with 30 days' notice.
- (14) This includes one fund that seeks to make short-duration investments targeting residential land development opportunities across the U.S. at June 30, 2017 and 2016. Investment in this fund is not redeemable and distributions are received as the fund liquidates its underlying assets.
- (15) 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 8). The PRIM Board has not adopted a formal custodial credit risk policy.

Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk. The PRIT Fund maintains cash and cash equivalents with various major financial institutions. The combined account balances at a specific financial institution may periodically exceed federally insured limits. No losses have been incurred as of June 30, 2017 and 2016.

**(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

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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, JP Morgan Global Emerging Markets Bond index, JP Morgan 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:

Investment	2017		2016	
	Fair value	Effective weighted duration rate (Years)	Fair value	Effective weighted duration rate (Years)
Asset-backed securities	\$ 60,054	0.15	73,442	0.45
Commercial mortgage – backed securities	129,969	2.97	163,728	1.80
Commercial paper and CDs	30,629	0.35	—	—
Corporate bonds and other credits	3,575,544	6.79	4,029,424	6.60
U.S. government bonds	2,730,364	16.31	4,299,621	22.6
U.S. government agencies	21,605	4.01	23,164	3.68
U.S. government TIPS	2,433,399	6.97	1,247,280	6.50
U.S. government mortgage – backed securities	1,096,256	3.86	940,359	2.19
Global inflation linked bonds	396,989	8.65	386,483	9.02
Municipal bonds	38,883	8.94	39,939	11.12
Portfolio completion strategies	989,603	0.19	583,435	5.68
Pooled money market fund (1)	1,676,219	N/A	1,204,170	N/A
Other pooled funds (2)	3,509,626	N/A	2,842,561	N/A
Total fixed income and short-term investments	\$ 16,689,140		15,833,606	
Securities lending collateral investments:				
U.S. government agencies (1)	\$ —	N/A	349,709	N/A
Pooled money market fund (1)	156,659	N/A	72,931	N/A
Repurchase agreements (1)	150,000	N/A	200,000	N/A
Total securities lending collateral investments	\$ 306,659		622,640	

(1) Short-term investments with maturities of less than three months.

(2) Other pooled funds have a weighted average maturity of approximately three years.

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**(c) Credit Risk**

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

The PRIM Board 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 7 for more information on the PRIT Fund's derivative instruments.

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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 BBB+ at June 30, 2017 and 2016. The following tables present the PRIT Fund's fixed-income securities credit ratings at June 30:

Investment	Total fair value	2017					
		Investment grade			Noninvestment grade		Not rated
		AAA	AA+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	
Asset-backed securities	\$ 60,054	18,259	35,163	1,886	4,586	160	—
Commercial mortgage-backed securities	129,969	79,987	10,433	9,880	10,282	17,936	1,451
Commercial paper and CDs	30,629	—	25,321	—	—	—	5,308
Corporate bonds and other credits	3,575,544	120,587	1,015,803	1,020,523	1,092,795	174,306	151,530
U.S. government agencies	21,605	—	21,605	—	—	—	—
U.S. government mortgage-backed securities	899,280	106	417,517	5,513	279	—	475,865
Global inflation linked bonds	396,989	103,835	137,299	155,855	—	—	—
Municipal bonds	38,883	690	33,686	2,329	2,178	—	—
Portfolio completion strategies	989,603	—	—	—	—	—	989,603
Pooled money market fund	1,676,219	—	—	—	—	—	1,676,219
Other pooled funds	3,509,626	—	—	—	—	—	3,509,626
Total credit risk, fixed income, and short-term investments	11,328,401	323,464	1,696,827	1,195,986	1,110,120	192,402	6,809,602
Fixed income investments explicitly backed by the U.S. government	5,360,739						
Total fixed income and short-term investments	\$ 16,689,140						
Securities lending collateral investments:							
Pooled money market fund	156,659	156,659	—	—	—	—	—
Repurchase agreements	150,000	—	100,000	50,000	—	—	—
Total securities lending collateral investments	\$ 306,659	156,659	100,000	50,000	—	—	—

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Investment	Total fair value	2016					
		Investment grade			Noninvestment grade		Not rated
		AAA	AA+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	
Asset-backed securities	\$ 73,442	29,537	36,851	1,761	5,101	192	—
Commercial mortgage-backed securities	163,728	71,377	35,740	28,943	13,594	12,777	1,297
Corporate bonds and other credits	4,029,424	115,468	1,134,288	1,216,684	1,146,453	154,629	261,902
U.S. government agencies	23,164	—	23,164	—	—	—	—
U.S. government mortgage-backed securities	725,327	111	318,803	—	—	—	406,413
Global inflation linked bonds	386,483	120,874	188,641	76,099	869	—	—
Municipal bonds	39,939	678	32,265	4,763	2,233	—	—
Hedge funds	563,834	—	—	—	—	—	563,834
Portfolio completion strategies	19,601	—	—	—	—	—	19,601
Pooled money market fund	1,204,170	—	—	—	—	—	1,204,170
Other pooled funds	2,842,561	—	—	—	—	—	2,842,561
Total credit risk, fixed income, and short-term investments	10,071,673	338,045	1,769,752	1,328,250	1,168,250	167,598	5,299,778
Fixed income investments explicitly backed by the U.S. government	5,761,933						
Total fixed income and short-term investments	\$ 15,833,606						
Securities lending collateral investments:							
U.S. government agencies	\$ 349,709	—	349,709	—	—	—	—
Pooled money market fund	72,931	—	—	—	—	—	72,931
Repurchase agreements	200,000	—	—	150,000	—	—	50,000
Total securities lending collateral investments	\$ 622,640	—	349,709	150,000	—	—	122,931

(Continued)

## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

**(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 managers who invest in securities not denominated in U.S. dollars. 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 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):

	2017						
	Cash and short-term investments	Equity	Fixed income	Portfolio completion strategies	Private equity investments	Timberland investments	Total
Australian Dollar	\$ 15,407	571,275	12,286	15,276	—	222,987	837,231
British Pound	51,960	2,286,839	337,392	26,114	26,774	—	2,729,079
Canadian Dollar	20,487	447,379	34,363	32,851	3,517	—	538,597
Danish Krone	1,397	363,801	2,434	2,927	—	—	370,559
Euro	52,640	2,896,786	339,195	127,263	1,092,881	—	4,508,765
Hong Kong Dollar	10,042	1,266,820	—	7,178	—	—	1,284,040
Indian Rupee	618	465,779	3,647	—	—	—	470,044
Japanese Yen	95,011	2,714,600	46,759	(2,858)	—	—	2,853,512
New Taiwan Dollar	352	578,997	—	—	—	—	579,349
S. African Comm Rand	1,381	302,036	44,116	24	—	—	347,557
South Korean Won	9,469	720,591	42,280	296	—	—	772,636
Swedish Krona	545	441,064	11,274	4,767	—	—	457,650
Swiss Franc	14,157	843,622	—	3,945	—	—	861,724
Other foreign currencies	23,282	1,357,105	692,249	3,252	—	—	2,075,888
Total securities subject to foreign currency risk	296,748	15,256,694	1,565,995	221,035	1,123,172	222,987	18,686,631
International investments denominated in U.S. dollars	—	1,902,769	1,266,935	—	—	—	3,169,704
Total international investments and cash deposits	\$ 296,748	17,159,463	2,832,930	221,035	1,123,172	222,987	21,856,335

(Continued)

## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

	2016						Total
	Cash and short-term investments	Equity	Fixed income	Portfolio completion strategies	Private equity investments	Timberland investments	
Australian Dollar	\$ 6,637	491,114	13,220	(3,347)	—	175,093	682,717
Brazilian Real	1,049	137,849	228,287	—	—	—	367,185
British Pound	17,560	2,015,961	356,450	29,845	38,393	—	2,458,209
Canadian Dollar	16,736	436,169	30,932	4,832	6,867	—	495,536
Danish Krone	1,689	314,872	2,381	3,917	—	—	322,859
Euro	12,219	2,236,302	272,994	97,699	1,093,515	—	3,712,729
Hong Kong Dollar	10,759	994,567	(595)	1,666	—	—	1,006,397
Indian Rupee	2,125	352,427	4,166	—	—	—	358,718
Japanese Yen	59,386	2,294,481	73,095	1,250	—	—	2,428,212
New Taiwan Dollar	3,927	444,196	—	—	—	—	448,123
S. African Comm Rand	4,362	250,774	126,634	136	—	—	381,906
South Korean Won	5,663	548,619	36,375	2	—	—	590,659
Swedish Krona	194	360,744	11,507	3,504	—	—	375,949
Swiss Franc	19,490	782,579	—	5,955	—	—	808,024
Other foreign currencies	18,553	1,017,779	911,989	(4,409)	—	—	1,943,912
Total securities subject to foreign currency risk	180,349	12,678,433	2,067,435	141,050	1,138,775	175,093	16,381,135
International investments denominated in U.S. dollars	—	1,532,946	1,095,236	—	—	—	2,628,182
Total international investments and cash deposits	\$ 180,349	14,211,379	3,162,671	141,050	1,138,775	175,093	19,009,317

**(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, 2017 and 2016.

**(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.

(Continued)

## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

**(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, 2017 and 2016, the PRIT Fund has no credit risk exposure to borrowers because the borrowers provided collateralization greater than 100% of the fair value of the securities on loan. The PRIT Fund cannot pledge or sell the collateral securities unless the lending agent defaults. The lending agent is required to indemnify the PRIT Fund 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 years ended June 30, 2017 and 2016 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, 2017 and 2016, the fair value of securities on loan was \$533,768 and \$593,133, respectively, and the associated collateral received in cash was \$556,237 and \$622,487, respectively. Securities lending obligations to repay the collateral are reported in the accompanying statements of pooled net position. There was no security collateral or noncash collateral at June 30, 2017 and 2016. During the years ended June 30, 2017 and 2016, in accordance with the Securities Lending Agency Agreement, the PRIT Fund loaned \$250,000 and \$0, respectively, of the cash collateral to the LLC to invest in real estate investments. Interest is paid monthly in arrears at a per annum rate equal to LIBOR. The loans mature on March 10, 2027 and can be prepaid at any time. As this is an inter-entity loan, it has been eliminated in consolidation. The fair value of reinvested cash collateral was \$306,659 and \$622,640 at June 30, 2017 and 2016, respectively, and is reported as securities lending collateral in the accompanying statements of pooled net position.

(Continued)

## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

**(6) Real Estate Debt****(a) Notes Payable**

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

	<b>2017</b>	<b>2016</b>
Senior unsecured term loan	\$ 500,000	500,000
Senior unsecured notes	500,000	500,000
Total	\$ <u>1,000,000</u>	<u>1,000,000</u>

Scheduled long-term maturities of existing indebtedness at June 30, 2017 in each of the next five years and in the aggregate thereafter are as follows:

	<b>Amount</b>
Year ending June 30:	
2018	\$ —
2019	—
2020	175,000
2021	—
2022	500,000
2023–2025	325,000
	\$ <u>1,000,000</u>

**(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, which was scheduled to mature on February 12, 2018. Interest was 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, 2016, the applicable rate was 1.15%.

On November 21, 2016, the LLC paid off the existing Senior Unsecured Term Loan, using proceeds from the issuance of Senior Unsecured Term Loans with aggregate principal amounts of \$300,000 and \$200,000, maturing November 21, 2021. 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 agreements. As of June 30, 2017, the applicable rate is 1.15%.

(Continued)

## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

**(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 Loans 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, 2017 and 2016.

**(b) Mortgage Loans Payable**

The LLC had 13 and 16 property-level mortgage loans payable as of June 30, 2017 and 2016, respectively. The mortgages have a weighted average interest rate of 3.90% and 3.70% and a weighted average maturity of 2.2 and 2.8 years at June 30, 2017 and 2016, respectively. The following table presents the face value of mortgage loans payable at June 30:

	<u>2017</u>	<u>2016</u>
Mortgage loans payable	\$ 351,973	424,416
Total	\$ <u>351,973</u>	<u>424,416</u>

**(c) Other Liabilities:**

The LLC had other liabilities of \$38,639 and \$25,777 as of June 30, 2017 and 2016, respectively.

**(7) 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

(Continued)



## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

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:

	2017				
	Fair value	Aggregate face value	Delivery date(s)	Unrealized gains	Unrealized losses
Foreign currency exchange contracts purchased:					
Brazilian Real	121,589	122,240	7/5/17-9/20/17	\$ 651	—
British Pound	729,240	724,937	7/3/17-8/3/17	—	(4,303)
Canadian Dollar	68,275	67,006	7/4/17-8/3/17	—	(1,269)
Chinese Yuan Renminbi	56,010	55,151	7/5/17-12/20/17	—	(859)
Euro	643,970	638,992	7/3/17-12/19/18	—	(4,978)
Japanese Yen	157,552	159,749	7/3/17-8/3/17	2,197	—
Mexican New Peso	41,714	40,602	7/3/17-3/3/19	—	(1,112)
New Zealand Dollar	36,520	36,077	7/3/17-8/15/17	—	(443)
Singapore Dollar	73,623	73,244	9/18/17-9/20/17	—	(379)
South Korean Won	85,668	87,377	7/3/17-11/10/17	1,709	—
Other foreign currencies	271,364	268,661	7/3/17-12/19/18	938	(3,641)
Foreign currency exchange contracts sold:					
Brazilian Real	53,239	53,425	7/5/17-9/5/17	—	(186)
British Pound	390,090	389,155	7/3/17-8/3/17	935	—
Chinese Yuan Renminbi	51,737	51,210	7/5/17-12/20/17	527	—
Czech Koruna	68,136	65,882	7/7/17-12/19/18	2,254	—
Euro	338,279	337,494	7/3/17-12/19/18	785	—
Indian Rupee	45,959	46,004	7/12/17-9/20/17	—	(45)
Japanese Yen	90,379	91,057	7/4/17-8/2/17	—	(678)
Mexican New Peso	89,585	87,656	7/10/17-9/20/17	1,929	—
South African Comm Rand	40,149	40,072	7/5/17-9/20/17	77	—
Turkish Lira	69,170	67,483	7/3/17-9/20/17	1,687	—
Other foreign currencies	384,919	385,539	7/3/17-11/7/17	1,721	(2,341)
Total				\$ 15,410	(20,234)

(Continued)

## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

		2016				
		Fair value	Aggregate face value	Delivery date(s)	Unrealized gains	Unrealized losses
Foreign currency exchange contracts purchased:						
Australian Dollar	\$	46,086	45,633	7/1/16-8/3/16	\$ —	(453)
Brazilian Real		106,987	97,242	7/1/16-10/4/16	—	(9,745)
British Pound		755,957	791,328	7/1/16-8/12/16	35,371	—
Canadian Dollar		58,283	58,210	7/6/16-8/12/16	—	(73)
Euro		561,710	563,233	7/1/16-9/26/16	1,523	—
Hong Kong Dollar		36,416	36,392	7/5/16-11/7/16	—	(24)
Japanese Yen		148,407	142,230	7/1/16-9/26/16	—	(6,177)
Mexican New Peso		54,287	53,869	7/5/16-3/3/19	—	(418)
New Taiwan Dollar		44,823	44,189	7/1/16-9/21/16	—	(634)
New Zealand Dollar		42,885	41,772	7/6/16-8/3/16	—	(1,113)
Singapore Dollar		76,410	74,925	8/18/16-9/21/16	—	(1,485)
South African Comm Rand		57,047	54,085	7/1/16-9/21/16	—	(2,962)
South Korean Won		58,177	57,307	7/1/16-9/21/16	—	(870)
Turkish Lira		42,359	41,242	7/13/16-9/21/16	—	(1,117)
Other foreign currencies		318,686	319,138	7/1/16-2/15/17	2,910	(2,458)
Foreign currency exchange contracts sold:						
Brazilian Real		99,223	91,567	7/1/16-10/4/16	7,656	—
British Pound		388,413	393,671	7/1/16-7/19/16	—	(5,258)
Colombian Peso		66,469	63,125	7/1/16-9/21/16	3,344	—
Euro		325,635	326,750	7/1/16-9/26/16	—	(1,115)
Hong Kong Dollar		46,094	46,067	7/2/16-11/7/16	27	—
Indian Rupee		35,964	35,879	7/1/16-9/21/16	85	—
Japanese Yen		84,225	83,175	7/1/16-8/12/16	1,050	—
Malaysian Ringgit		85,647	82,302	7/27/16-9/21/16	3,345	—
Polish Zloty		38,750	39,316	7/1/16-9/21/16	—	(566)
South African Comm Rand		48,784	46,661	7/1/16-9/21/16	2,123	—
Thailand Baht		63,604	63,193	7/5/16-9/21/16	411	—
Turkish Lira		97,057	94,608	7/1/16-9/21/16	2,449	—
Other foreign currencies		296,833	297,002	7/1/16-3/15/17	2,115	(2,284)
Total					\$ 62,409	(36,752)

For the years ended June 30, 2017 and 2016, the change in net unrealized appreciation (depreciation) on foreign currency exchange contracts was \$(30,481) and \$38,027, 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 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

(Continued)

## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

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.

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## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

Futures contracts held at June 30 were as follows:

Description	Number of contracts	Expiration date	2017		
			Gross notional amount	Fair value of contracts	Unrealized appreciation (depreciation)
Short cash and cash equivalents:					
90-Day Eurodollar	(2,984)	3/19-12/19	\$ (729,860)	(731,689)	(1,829)
Long cash and cash equivalents:					
90-Day Eurodollar	532	3/18-12/18	130,936	130,715	(221)
Euro FX currency	289	9/17	40,945	41,425	480
Other long cash and cash equivalents	1,026	9/17	92,960	93,000	40
Long fixed income:					
US 5-Yr Treasury Notes	1,082	9/17	127,823	127,498	(325)
US 10-Yr Treasury Notes	1,819	9/17	228,948	228,341	(607)
Ultra US Treasury Bond	369	9/17	60,107	61,208	1,101
Euro-Schatz	348	9/17	43,521	44,395	874
Other long fixed income	3,201	8/17-9/17	64,286	66,159	1,873
Short fixed income:					
US 2-Yr Treasury Notes	(740)	9/17	(160,025)	(159,921)	104
US Treasury Bond	(431)	9/17	(65,706)	(66,239)	(533)
Euro-BTP	(293)	9/17	(44,778)	(45,161)	(383)
Euro-BUND	(234)	9/17	(43,268)	(43,201)	67
Other short fixed income	(738)	9/17	(113,044)	(112,998)	46
Short equity and commodities:					
S&P 500 E-mini Index	(2,376)	9/17	(288,569)	(287,603)	966
Other short equity and commodities	(776)	7/17-9/17	(26,580)	(25,849)	731
Long equity and commodities:					
S&P 500 E-mini Index	3,753	9/17	454,926	454,282	(644)
MINI MSCI Emerging Markets Index	2,711	9/17	137,172	136,675	(497)
MSCI EAFE Index	1,691	9/17	159,731	159,766	35
Euro STOXX 50 Index	1,364	9/17	54,292	53,376	(916)
Russell 2000 Mini Index	691	9/17	49,113	48,864	(249)
TOPIX Index	561	9/17	82,245	80,460	(1,785)
FTSE 100 Index	461	9/17	43,656	43,369	(287)
S&P Midcap 400 E-mini Index	334	9/17	58,883	58,320	(563)
S&P/TSX 60 Index	325	9/17	44,023	44,505	482
Other long equity and commodities	1,487	7/17-9/17	78,114	77,665	(449)
Total futures exposure			\$ 479,851	477,362	(2,489)

(Continued)

## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

Description	Number of contracts	Expiration date	2016		
			Gross notional amount	Fair value of contracts	Unrealized appreciation (depreciation)
Short cash and cash equivalents:					
90-Day Eurodollar	(159)	12/16	\$ (39,194)	(39,482)	(288)
Long cash and cash equivalents:					
90-Day Eurodollar	514	12/17-9/18	127,374	127,358	(16)
Euro FX currency	287	9/16	40,948	39,848	(1,100)
Other long cash and cash equivalents	924	9/16	89,133	88,157	(976)
Long fixed income:					
US 5-Yr Treasury Notes	1,393	9/16	168,487	170,175	1,688
US 10-Yr Treasury Notes	1,319	9/16	171,195	175,406	4,211
Ultra US Treasury Bond	622	9/16	110,530	115,925	5,395
Other long fixed income	4,113	8/16-9/16	33,975	36,622	2,647
Short fixed income:					
US 2-Yr Treasury Notes	(366)	9/16	(80,112)	(80,274)	(162)
US Treasury Bond	(702)	9/16	(114,794)	(120,985)	(6,191)
Other short fixed income	(394)	9/16	(94,416)	(95,597)	(1,181)
Short equity and commodities:					
S&P 500 E-mini Index	(1,428)	9/16	(150,304)	(149,240)	1,064
Other short equity and commodities	(12,810)	7/16-9/16	(37,013)	(38,118)	(1,105)
Long equity and commodities:					
S&P 500 E-mini Index	1,656	9/16	171,808	173,069	1,261
S&P Midcap 400 E-mini Index	285	9/16	41,964	42,551	587
MINI MSCI Emerging Markets Index	2,951	9/16	120,229	123,160	2,931
MSCI EAFE Index	1,133	9/16	90,451	91,501	1,050
TOPIX Index	546	9/16	67,555	66,287	(1,268)
Other long equity and commodities	4,695	7/16-9/16	227,229	228,929	1,700
Total futures exposure			\$ 945,045	955,292	10,247

For the years ended June 30, 2017 and 2016, the change in net unrealized appreciation (depreciation) on futures contracts was \$(12,736) and \$44,167, 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

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## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

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:

Description	2017				
	PRIT pays/receives interest rate	PRIT pays/receives index/ protection	Maturity date	Gross notional amount	Net unrealized appreciation (depreciation)
Interest rate swaps	0.74%–16.15%	Various*	7/17-12/46	\$ 1,533,660	8,012
Inflation swaps	1.35%–3.59%	Inflation protection	7/17-6/47	200,073	(1,038)
Credit default swaps	0.11%–5.00%	Credit default protection	12/17-5/63	111,186	(405)
Total swaps				\$ 1,844,919	6,569

\* PRIT pays/receives counterparty based on 1-Month USD LIBOR, 3-Month CAD CDOR, 3-Month KRW CD KSDA Bloomberg, 3-Month USD LIBOR, 6-Month CAD CDOR, 6-Month GBP LIBOR, 6-Month Euribor rate, Brazil CDI rate, Federal Funds rate.

Description	2016				
	PRIT pays/receives interest rate	PRIT pays/receives index/ protection	Maturity date	Gross notional amount	Net unrealized appreciation (depreciation)
Interest rate swaps	0.99%–16.15%	Various*	11/16-9/46	\$ 1,032,138	(18,812)
Inflation swaps	2.07%–3.53%	Inflation protection	3/18-12/44	32,831	(539)
Credit default swaps	0.11%–5.00%	Credit default protection	9/16-5/63	86,457	(4,868)
Total return swaps	0.29%–1.75%	Various*	7/16-9/16	5,929	5,732
Total swaps				\$ 1,157,355	(18,487)

\* PRIT pays/receives counterparty based on 3-Month USD LIBOR, 3-Month CNY rate, 3-Month HKD HIBOR rate, 6-Month GBP LIBOR, 6-Month SGD rate, Brazil CDI rate, Mexican TIIE rate.

For the years ended June 30, 2017 and 2016, the change in net unrealized appreciation (depreciation) on swap contracts was \$25,056 and \$(14,880), respectively.

(Continued)

## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

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

Counterparty	Credit rating	2017					
		Interest rate swaps		Credit default swaps		Inflation swaps	
		Gross notional	Fair value	Gross notional	Fair value	Gross notional	Fair value
Bank of America NA	A+	\$ —	—	12,008	(781)	—	—
Barclays Bank PLC	A-	—	—	6,568	(155)	89,635	(814)
CME Group Inc.	AA-	512,799	5,396	—	—	—	—
Goldman Sachs	A+	—	—	20,800	(607)	10,529	(71)
Intercontinental Exchange	A	—	—	50,123	1,303	—	—
LCH.Clearnet Ltd	A	258,148	3,489	—	—	71,252	(92)
SMBC Capital Markets Inc.	A+	250,000	(2,443)	—	—	—	—
U.S. Bank National Association	A+	500,000	1,265	—	—	—	—
All others	Various	12,713	305	21,687	(165)	28,657	(61)
		<u>\$ 1,533,660</u>	<u>8,012</u>	<u>111,186</u>	<u>(405)</u>	<u>200,073</u>	<u>(1,038)</u>

Counterparty	Credit rating	2016					
		Interest rate swaps		Credit default swaps		Total return and inflation swaps	
		Gross notional	Fair value	Gross notional	Fair value	Gross notional	Fair value
Bank of America NA	A	\$ —	—	11,436	(1,818)	—	—
Barclays Bank PLC	A	—	—	8,871	(425)	27,430	(1,003)
CME Group Inc.	AA-	323,755	(7,906)	—	—	—	—
Deutsche Bank AG	BBB	13,078	(496)	8,300	(131)	—	—
Goldman Sachs	A	—	—	15,850	(589)	10,661	5,990
Intercontinental Exchange	A	—	—	13,800	(720)	—	—
LCH.Clearnet Ltd	A+	147,600	(6,353)	—	—	—	—
U.S. Bank National Association	AA-	500,000	(3,408)	—	—	—	—
All others	Various	47,705	(649)	28,200	(1,185)	669	206
		<u>\$ 1,032,138</u>	<u>(18,812)</u>	<u>86,457</u>	<u>(4,868)</u>	<u>38,760</u>	<u>5,193</u>

**(8) Investment Management and Other 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 \$122,848 and \$94,583 for the years ended June 30, 2017

(Continued)

## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

and 2016, respectively. \$89,259 and \$65,241 were incurred by the PRIM Board for the years ended June 30, 2017 and 2016, respectively, and the remaining investment management fees were incurred by the single-member limited liability corporations that are consolidated into the PRIT Fund.

All domestic, international, and emerging market equity managers are paid a base fee calculated as a percentage of either current net position 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 allocated additional profit, known as carried interests, based on the net gains generally above a specified hurdle rate, 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 portfolio completion strategies 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 portfolio completion strategies investments and commingled account investments are charged to the respective investments. Base investment management fees for investments in real estate properties and timberland are charged against the

(Continued)



## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

respective investments. Therefore, the fair values of these investments are reported net of “indirect” management fees.

**(b) Investment Advisory Fees**

NEPC, LLC, Callan Associates, Aberdeen Asset Management Inc., Hamilton Lane, and The Townsend Group served as the PRIM Board’s principal investment advisors in fiscal year 2017. NEPC, LLC served as the asset allocation advisor, Callan Associates served as the public markets advisor, Aberdeen Asset Management Inc. 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, 2017 and 2016, as compensation for their services, investment advisors earned fees aggregating \$8,074 and \$5,935, respectively, and are included in investment management and other 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.

For the years ended June 30, 2017 and 2016, custodian fees were \$707 and \$805, respectively, and are included in investment management and other management fees in the accompanying statements of changes in pooled net position.

**(d) Other Administrative Fees**

For the years ended June 30, 2017 and 2016, other administrative expenses of the PRIM Board, including employee compensation, professional fees and occupancy costs, charged to the PRIT Fund totaled \$12,375 and \$10,806, respectively, and are included in investment management and other management fees in the accompanying statements of changes in pooled net position.

(Continued)

## Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

**(9) Commitments**

As of June 30, 2017 and 2016, the PRIT Fund had outstanding unfunded commitments to invest approximately \$5.4 billion, in distressed debt, private equity funds, portfolio completion strategies investments, and real estate investments.

## Schedule of Pooled Net Position – Capital Fund and Cash Fund

June 30, 2017

(Dollars in thousands)

	Capital Fund	Cash Fund	Total
Assets:			
Investments, at fair value:			
Short-term	\$ 1,622,223	53,996	1,676,219
Fixed income	14,023,318	—	14,023,318
Equity	29,392,931	—	29,392,931
Timberland	2,480,243	—	2,480,243
Private equity funds	7,017,326	—	7,017,326
Real estate:			
Real estate properties	6,023,845	—	6,023,845
Equity	1,505,037	—	1,505,037
Real estate funds	90,827	—	90,827
Other	60,914	—	60,914
	7,680,623	—	7,680,623
Portfolio completion strategies:			
Investment funds	3,334,812	—	3,334,812
Equity	1,932,338	—	1,932,338
Cash and cash equivalents	1,339,057	—	1,339,057
Fixed income	989,603	—	989,603
Agricultural investments	203,323	—	203,323
Other	117,883	—	117,883
	7,917,016	—	7,917,016
Total investments	70,133,680	53,996	70,187,676
Cash	230,153	36,866	267,019
Securities lending collateral	306,659	—	306,659
Interest and dividends receivable	160,391	233	160,624
Receivable for investments sold and other assets	394,855	—	394,855
Securities sold on a when-issued basis	506,614	—	506,614
Foreign currency forward contracts	15,410	—	15,410
Total assets	71,747,762	91,095	71,838,857
Liabilities:			
Payable for investments purchased and other liabilities	231,202	—	231,202
Real estate debt and other liabilities	1,390,612	—	1,390,612
Securities lending obligations	556,237	—	556,237
Securities purchased on a when-issued basis	1,029,545	—	1,029,545
Foreign currency forward contracts	20,234	—	20,234
Management fees payable to PRIM	39,854	—	39,854
Portfolio completion strategies liabilities:			
Securities sold short, at fair value	1,500,209	—	1,500,209
Other	220,523	—	220,523
	1,720,732	—	1,720,732
Total liabilities	4,988,416	—	4,988,416
Net position held in trust for pool participants	\$ 66,759,346	91,095	66,850,441

See accompanying independent auditors' report.

## Schedule of Changes in Pooled Net Position – Capital Fund and Cash Fund

Year ended June 30, 2017

(Dollars in thousands)

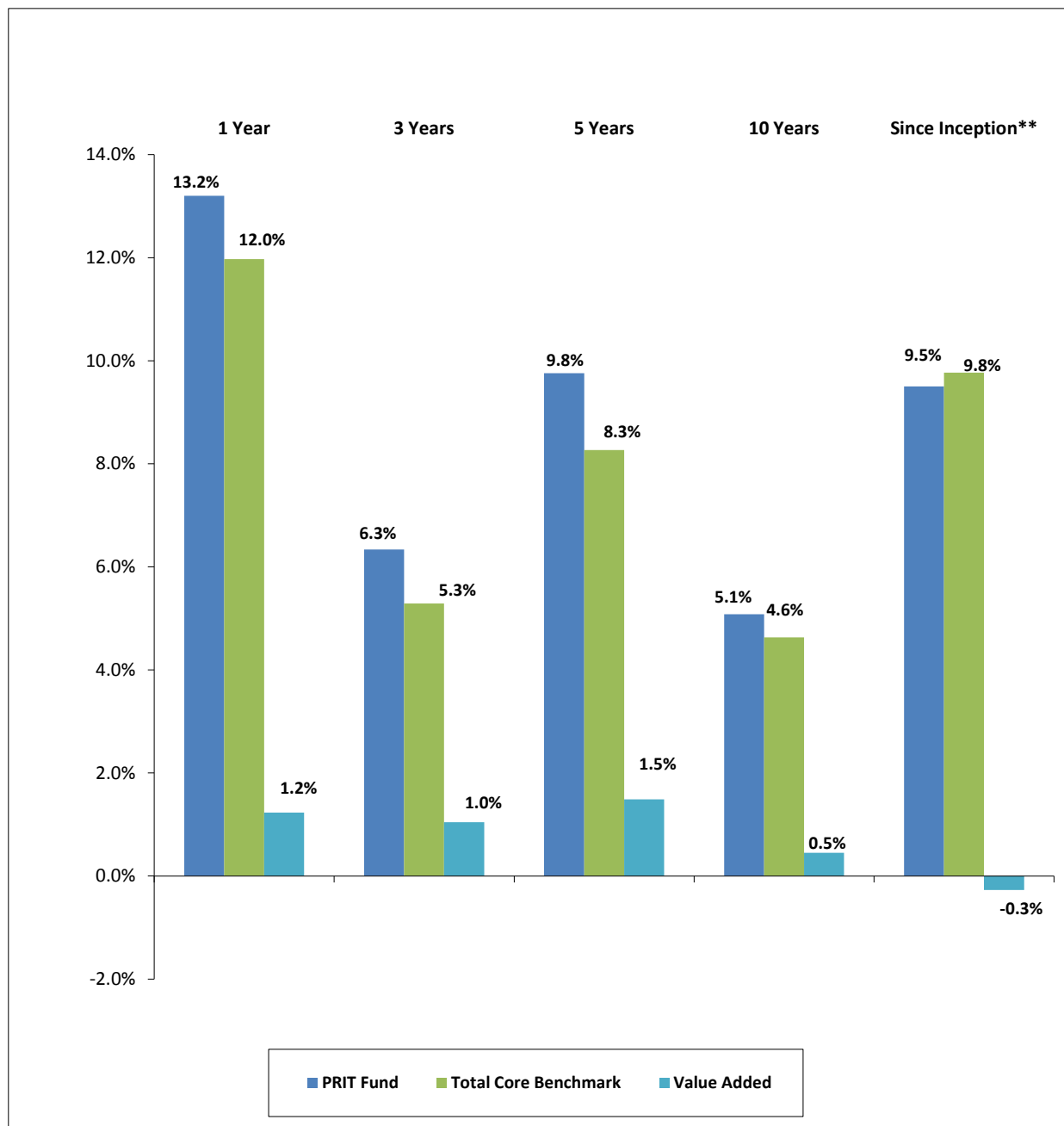
	Capital Fund	Cash Fund	Total
Additions:			
Contributions:			
State employees	\$ —	855,586	855,586
State teachers	—	761,753	761,753
Other participants	—	1,071,727	1,071,727
Total contributions	—	2,689,066	2,689,066
Net investment income:			
From investment activities:			
Net realized gain on investments and foreign currency transactions	2,577,447	—	2,577,447
Net change in unrealized appreciation on investments and foreign currency translations	3,619,175	—	3,619,175
Interest income	310,154	1,834	311,988
Dividend income	735,490	—	735,490
Timberland income	25,147	—	25,147
Private equity income	197,368	—	197,368
Portfolio completion strategies income	18,295	—	18,295
Real estate:			
Income	529,269	—	529,269
Expenses	(225,125)	—	(225,125)
	304,144	—	304,144
Income from investment activities	7,787,220	1,834	7,789,054
Investment management and other management fees	(144,004)	—	(144,004)
Net income from investment activities	7,643,216	1,834	7,645,050
From securities lending activities:			
Securities lending income	11,374	—	11,374
Securities lending expenses	(1,408)	—	(1,408)
Net income from securities lending activities	9,966	—	9,966
Total net investment income	7,653,182	1,834	7,655,016
Total additions	7,653,182	2,690,900	10,344,082
Deductions:			
Redemptions:			
State employees	—	1,459,041	1,459,041
State teachers	—	1,672,202	1,672,202
Other participants	—	1,055,203	1,055,203
Total deductions	—	4,186,446	4,186,446
Interfund transfers (out) in, net	(1,492,830)	1,492,830	—
Net increase (decrease) in pooled net position	6,160,352	(2,716)	6,157,636
Net position held in trust for pool participants:			
Balance, beginning of year	60,598,994	93,811	60,692,805
Balance, end of year	\$ 66,759,346	91,095	66,850,441

See accompanying independent auditors' report.

## *Investment Section*

## Total PRIT Fund Performance Summary\*

For the periods ended June 30, 2017



\* 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 and cost for an approximately 60% funded public pension fund, 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 7.5%). A summary of other investment objectives is provided in the Investment Policy Statement at the end of this section.

As of June 30, 2017, the PRIM Board employed thirty-four public markets investment managers, one hundred three private equity markets managers, ten real estate and timberland managers, twenty-eight portfolio completion strategies managers, and five external investment advisors. The PRIT Fund had approximately \$66.9 billion in assets under management at June 30, 2017. 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 2017.

Asset Class	6/30/2017 Allocation % (3)	Long-Term Policy Target % (1)
Global Equity	45.7	40.0
Core Fixed Income	12.0	12.0
Value-Added Fixed Income	8.1	10.0
Real Estate	9.1	10.0
Private Equity	10.6	11.0
Timberland	3.7	4.0
Portfolio Completion Strategies	9.5	13.0
Overlay (2)	1.0	0.0
Liquidating Portfolios (2)	0.4	0.0

(1) Asset allocation approved February 14, 2017.

(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.

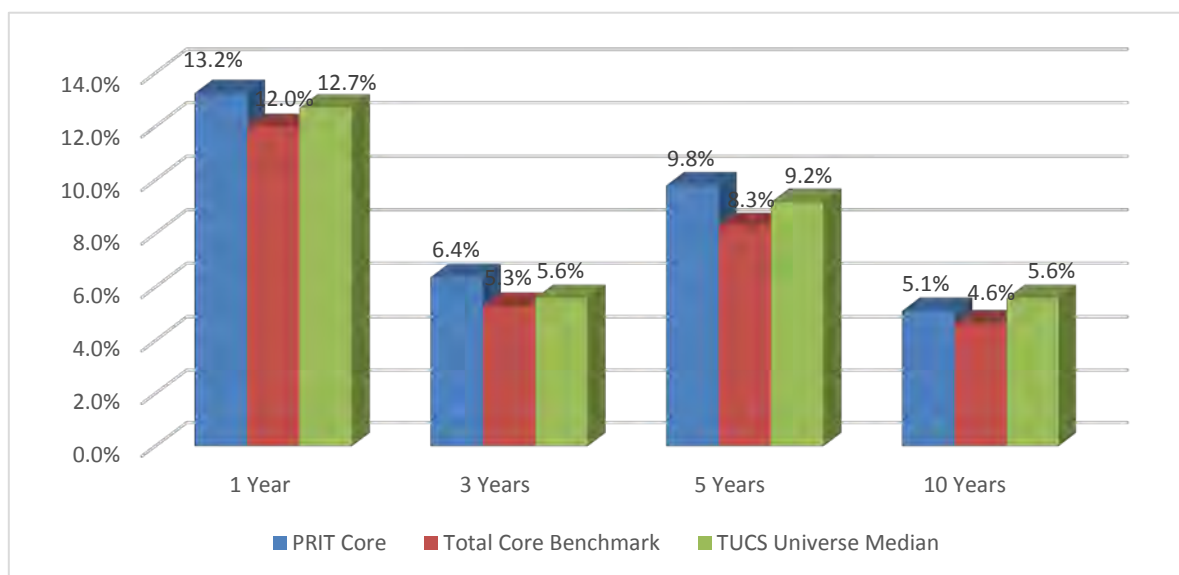
### Income and Expense Allocation

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 2017**

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, 2017:



In the fiscal year 2017, the PRIT Core Fund returned 13.24%, outperforming the Total Core benchmark return of 11.97% by 127 basis points. The PRIT Fund began fiscal year 2017 with net position of \$60.7 billion and ended with \$66.9 billion. On a gross basis the fund increased \$6.2 billion, which is the result of \$7.7 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 2017 were as follows:

- 4.25% for September 30, 2016 – versus a benchmark return of 4.24%.
- -0.20% for December 31, 2016 – versus a benchmark return of 0.12%.
- 4.85% for March 31, 2017 – versus a benchmark return of 4.19%.
- 3.81% for June 30, 2017 – versus a benchmark return of 3.00%.

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 7.5%; 2) exceeding the long-term Total Core Benchmark, which measures how well the PRIT Fund has implemented its asset allocation; and 3) achieving top quartile rankings in the Wilshire Trust Universe Comparison Service (TUCS) report, which measures the PRIT Fund's investment performance against its peers nationwide. Through June 30, 2017, the PRIT Core Fund returned 9.50% since inception, outperforming the actuarial rate of return of 7.5% by 200 basis points. According to the TUCS ranking, the PRIT Fund's performance ranked in the top quartile of all U.S. Public Pension Funds over \$1 billion in size for the three and five-year periods ending June 30, 2017.

## 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, portfolio completion strategies, 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.

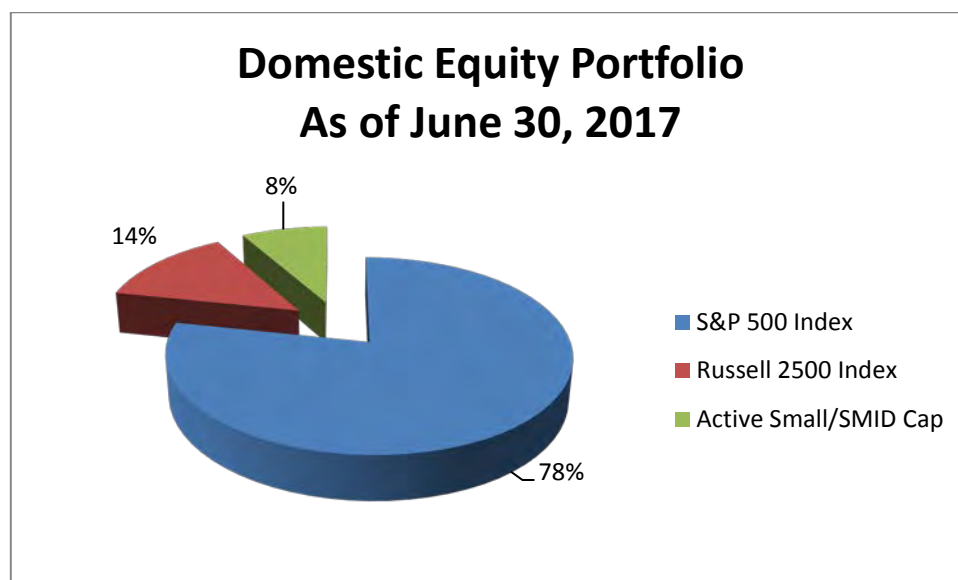
The PRIM Board's investment managers operate with formal contracts. Investment management fees accounted for approximately 79.8% of the PRIM Board's total direct expenses for fiscal 2017. The PRIM Board also contracts with a custodian and investment advisors. Fees to these providers were approximately 7.8% of the PRIM Board's total expense for fiscal year 2017.

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 \$160 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 2017, *inclusive* of investment management (direct and indirect), advisory, custodial and overhead charges was 54 basis points of the average net position of the PRIT Fund compared to 53 basis points in fiscal year 2016. For information on expense ratios for each investment account, refer to the *Financial Highlights and Financial Highlights Ratios* on pages 102-109 included in the Statistical Section of this report.

## Domestic Equity Portfolio

As of June 30, 2017, the Domestic Equity portfolio had approximately \$13.2 billion in net position, which represented 19.8% of the PRIT 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/smids cap). In the view of the PRIM Board, the overall domestic equity portfolio is highly diversified and balanced. The allocation between passively managed large cap investments, passively managed small/smids cap investments, and actively managed small/smids cap investments is highlighted below.



During the fiscal year, the S&P 500 Index portfolio, the Russell 2500 Index portfolio and two of the four active small/smids capitalization managers outperformed their respective benchmarks. Two active small/smids capitalization managers underperformed their respective benchmarks. As of fiscal year end, the weighting of Domestic Equity was 43.3% 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 18.61% return compared to 18.69% for the portfolio benchmark. The PRIT Fund's large cap manager returned 17.95% compared to the 17.91% return of the large cap benchmark, the customized S&P 500 index. The PRIT Fund's small/smids cap managers returned 20.83%

compared to the 21.44% return of the small/smld cap benchmark which is calculated by applying the investment performance of the sub asset class benchmarks to the sub asset class weights within the small/smld cap equity portfolio.

On a three-, five-, and 10-year basis through June 30, 2017, the PRIT Fund's Domestic Equity portfolio has returned 8.77%, 14.44%, and 5.87%, respectively, compared to the benchmark, which returned 9.14%, 14.56%, and 6.81%, respectively.

The top ten holdings in the Domestic Equity portfolio at June 30, 2017 are illustrated below. A complete listing of holdings is available upon request.

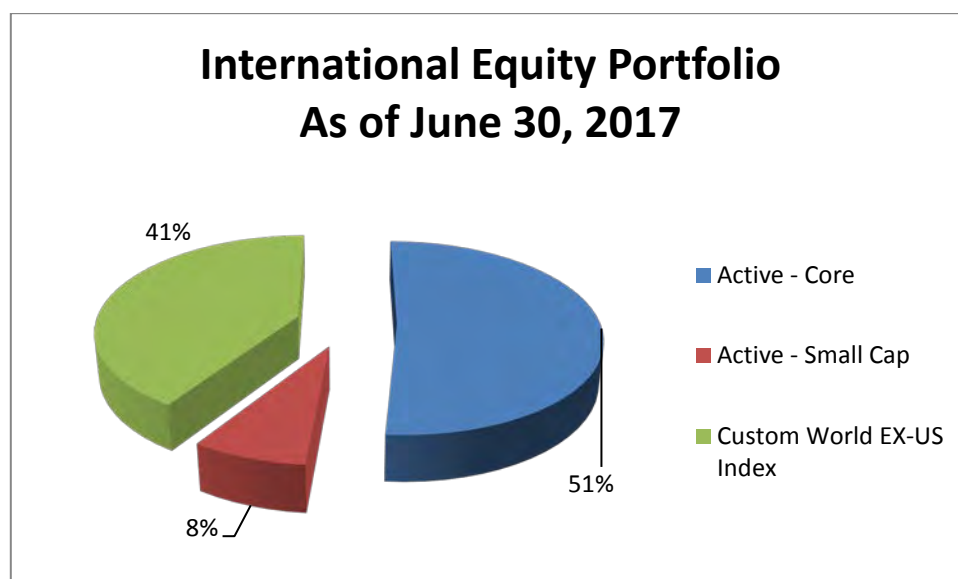
#	Issue Name	Fair Value (\$000s)	% of Account
			Fair Value
1	Apple Inc.	\$ 368,557	2.79%
2	Microsoft Corp.	261,133	1.98%
3	Amazon.com Inc.	188,366	1.43%
4	Facebook Inc.	175,031	1.32%
5	Johnson & Johnson	174,788	1.32%
6	Exxon Mobil Corp.	167,759	1.27%
7	JPMorgan Chase & Co.	159,235	1.20%
8	Berkshire Hathaway Inc.	157,760	1.19%
9	Alphabet Inc - CL A	135,677	1.03%
10	Alphabet Inc - CL C	132,916	1.01%
	TOTAL	\$ 1,921,222	14.54%

The PRIT Fund's Domestic Equity managers at June 30, 2017 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2017 (\$000s)
State Street Global Advisors	Custom S&P 500 Index	\$ 10,350,286
State Street Global Advisors	Russell 2500 Index	1,784,661
Frontier Capital Management	Small Cap Value	318,158
Huber Capital	Small Cap Value	275,764
Riverbridge Partners	SMID Cap Growth	201,693
Summit Creek Advisors	Small Cap Growth	287,138
Other portfolio net assets		(1,694)
<b>Total Portfolio Fair Value</b>		<b>\$ 13,216,006</b>

## International Equity Portfolio

As of June 30, 2017, the International Equity portfolio had approximately \$12.0 billion in net position, representing 18.0% of the PRIT Fund. The active international core 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 active international small cap equity managers are benchmarked against the Custom MSCI EAFE Small Cap Net Dividends index (Custom MSCI EAFE Small Cap). The International Equity portfolio is allocated to one passively managed account (which comprises 41% of the portfolio), four active core equity accounts (51% of the portfolio), and five active small cap equity accounts (8% 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 40% passive and 60% 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 39.5% 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, 2017, the International Equity portfolio returned 20.21% compared to the asset class benchmark return (50% Custom MSCI EAFE/9% Custom MSCI EAFE Small Cap/41% Custom World ex-U.S. IMI at 6/30/2017) of 20.37%. One of the PRIT Fund's four active international equity managers outperformed the Custom MSCI EAFE index for the fiscal year. Since their inception in April 2017, one of the PRIT Fund's five active international small cap equity managers outperformed the Custom MSCI EAFE Small Cap index. 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, 2017, the PRIT Fund's international equity managers posted returns of 2.57%, 9.93%, and 2.34%, respectively, ahead of the benchmark, which returned 1.14%, 8.62%, and 1.12%, respectively, over the same periods.

The top ten holdings in the International Equity portfolio at June 30, 2017 are illustrated below. A complete listing of holdings is available upon request.

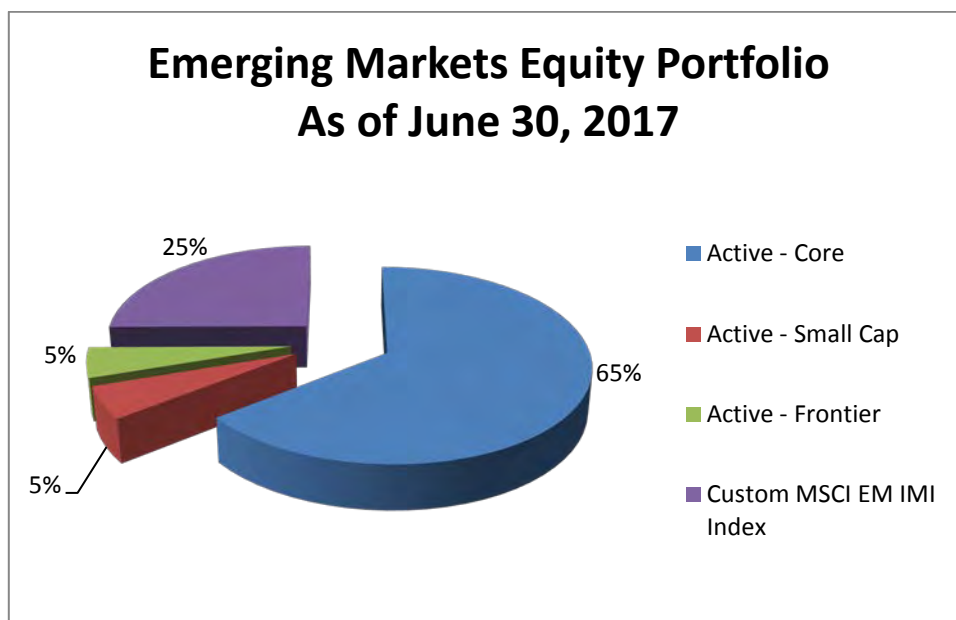
#	Issue Name	% of Account	
		Fair Value (\$000s)	Fair Value
1	Nestle SA	\$ 150,035	1.25%
2	Novartis AG	99,798	0.83%
3	Roche Holding AG	98,125	0.82%
4	Unilever PLC	88,902	0.74%
5	BP PLC	84,719	0.70%
6	United Overseas Bank Ltd	84,227	0.70%
7	Novo Nordisk A/S	82,314	0.68%
8	Rightmove PLC	78,142	0.65%
9	Svenska Handelsbanken AB	74,988	0.62%
10	MS&AD Insurance Group Holdings	74,834	0.62%
	TOTAL	<u>\$ 916,084</u>	<u>7.61%</u>

The PRIT Fund's International Equity managers at June 30, 2017 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2017 (\$000s)	
State Street Global Advisors	Custom World ex-US IMI Index	\$	4,921,543
Marathon-London	EAFE Core		2,852,901
Baillie Gifford	EAFE Core		2,255,967
Mondrian Investment	EAFE Core		951,870
FIS Group, Inc.	EAFE Core		120,476
TimeSquare Capital Management	EAFE Small Cap		261,547
Strategic Global Advisors	EAFE Small Cap		103,368
Acadian Asset Management	EAFE Small Cap		309,150
LMCG Investments	EAFE Small Cap		103,852
AQR Capital Management	EAFE Small Cap		156,663
Other portfolio net assets			828
<b>Total Portfolio Fair Value</b>		<u>\$</u>	<u>12,038,165</u>

## Emerging Markets Portfolio

As of June 30, 2017, the Emerging Markets Equity portfolio had approximately \$5.2 billion in net position, representing 7.9% of the PRIT 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 Net Dividends Index (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 (which comprise about 65% of the emerging market portfolio), two active small cap equity managers (5% of the portfolio), two frontier equity managers (5% of the portfolio), and one passive manager (25% 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 17.2% of the Global Equity portfolio.

**Portfolio Risks.** Investing in emerging markets carries risks above and beyond those inherent to domestic and developed international equity markets. Emerging markets tend to be less efficient than both 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 28.18% compared to the custom asset class benchmark return of 23.39%. Four of the PRIT 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 Investable Market Index (IMI). One of the PRIT 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 outperformed the Custom MSCI Frontier Markets Country Capped index. On a three-, five-, and 10-year basis through June 30, 2017, the PRIT Fund's emerging markets equity managers posted returns of 2.98%, 5.60%, and 1.88%, respectively, compared to the custom asset class benchmark, which returned 1.38%, 4.38%, and 2.09% over the same periods.

The top ten holdings in the Emerging Markets Equity portfolio at June 30, 2017 are illustrated below. A complete listing of holdings is available upon request.

#	Issue Name	Market Value (\$000s)	% of Account Fair Value
1	Samsung Electronics	\$ 167,361	3.19%
2	Tencent Holdings Ltd	158,915	3.03%
3	Alibaba Group Holding Ltd	137,817	2.63%
4	Tawain Semiconductor Mfg. Co.	133,421	2.54%
5	Hon Hai Precision Industry Co.	83,769	1.60%
6	Naspers Ltd	70,275	1.34%
7	Reliance Industries Ltd	63,608	1.21%
8	Ping An Insurance	56,078	1.07%
9	China Mobile	54,302	1.04%
10	Housing Development Finance Co.	51,813	0.99%
	TOTAL	<u>\$ 977,359</u>	<u>18.64%</u>

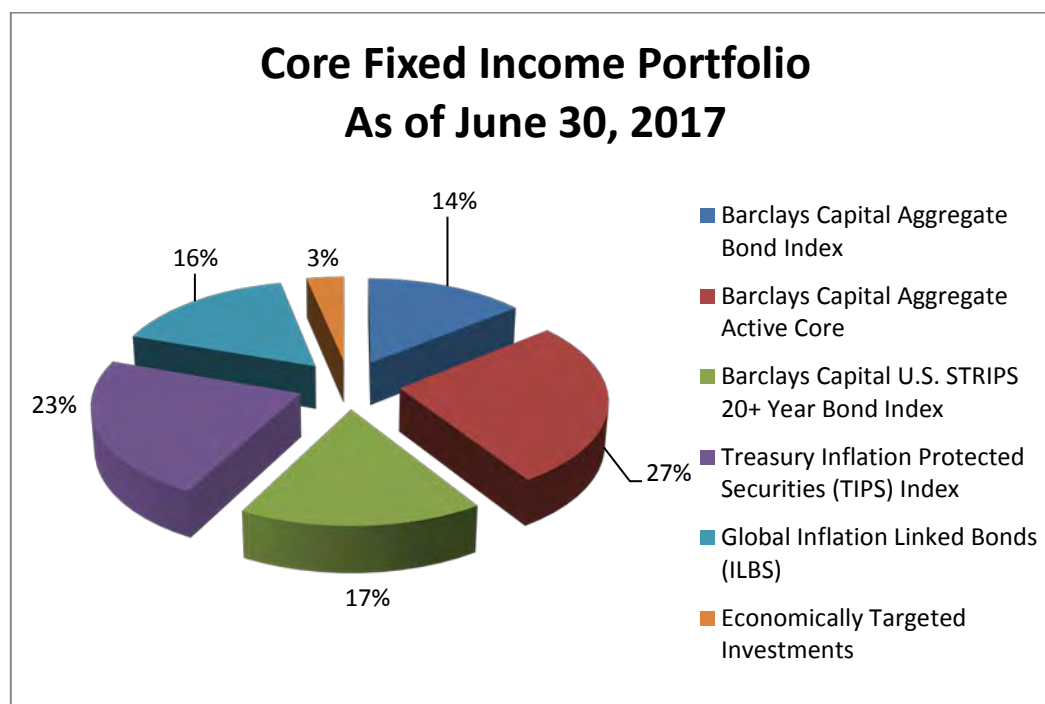
The PRIT Fund's Emerging Markets Equity managers at June 30, 2017 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2017 (\$000s)
State Street Global Advisors	Custom MSCI EM IMI Index	\$ 1,319,860
AQR Emerging	EM Core	609,124
Baillie Gifford	EM Core	819,416
Driehaus Capital	EM Core	714,218
Harding Loevner	EM Core	536,875
Pzena Investment Management, LLC	EM Core	697,006
Wasatch	EM Small Cap	111,984
Acadian	EM Small Cap	169,967
Acadian	Frontier	142,681
City of London	Frontier	121,862
Other portfolio net assets		488
<b>Total Portfolio Fair Value</b>		<u><b>\$ 5,243,481</b></u>



### Core Fixed Income Portfolio

The PRIM Board had approximately \$8.0 billion invested in the investment grade Core Fixed Income portfolio, representing 12.0% of the PRIT Fund as of June 30, 2017. The Core Fixed Income Portfolio is invested using the following strategies:



The Core Fixed Income portfolio is benchmarked to the Barclays Capital Aggregate Bond Index for core fixed income securities, the Barclays Capital U.S. 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 Index replicates the investment grade bond market. The index is comprised of corporate, government, and mortgage-backed securities. The index portfolio 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 Fixed Income portfolio 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. Erosion in principal value can result from credit risk and price fluctuations, and can adversely affect portfolio returns.

**Portfolio Returns.** For the fiscal year 2017, the Core Fixed Income composite returned -4.39% compared to the -4.72% return of the benchmark (41.6% Barclays Capital Aggregate/16.7% Barclays Capital U.S. STRIPS 20+ Year Bond Index /25% Barclays Capital US TIPS/16.7% Barclays Capital ILB US\$ Hedged as of June 30, 2017). The Barclays Capital Aggregate mandates returned 0.72%, compared to the Barclays Capital Aggregate Index return of -0.31%. The STRIPS mandate returned -10.12%, compared to the Barclays Capital U.S. STRIPS 20+ Year Bond Index return of -10.25%. The passively managed TIPS mandate returned -0.67%, compared to its benchmark (Barclays Capital US TIPS) which returned -0.63%. The actively managed ILBs mandate returned 2.23%, compared to the Barclays Capital ILB US\$ Hedged Index return of 1.93%.

On a three-, five-, and 10-year basis through June 30, 2017, the PRIT Fund's Core Fixed Income portfolio has returned 4.70%, 3.89%, and 5.25%, respectively, compared to the benchmark, which returned 4.56%, 3.54%, and 4.90%, respectively.

The top ten Core Fixed Income holdings as of June 30, 2017, excluding certain pooled funds, are illustrated below. A complete listing of holdings is available upon request.

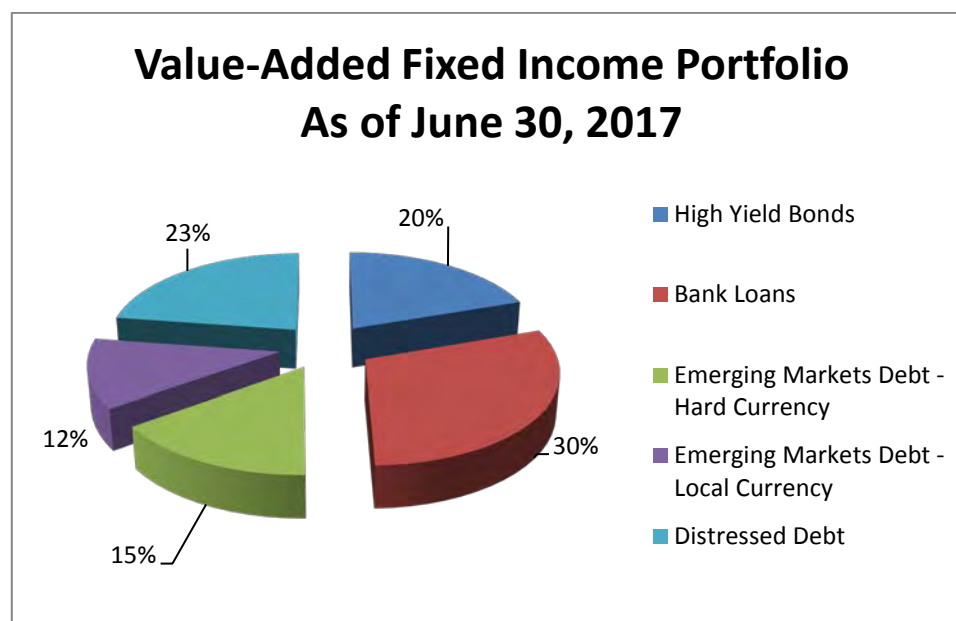
#	Issue Name	% of Account	
		Fair Value (\$000s)	Fair Value
1	Commit to Purchase FNMA 3.500% August 2047	\$ 164,495	2.06%
2	U.S. Treasury Bond Principal STRIP 0.000% February 2045	154,241	1.93%
3	U.S. Treasury-CPI Inflation 0.125% April 2020	134,768	1.69%
4	U.S. Treasury-CPI Inflation 0.125% July 2026	125,917	1.58%
5	U.S. Treasury Bond Principal STRIP 0.000% May 2043	120,065	1.50%
6	U.S. Treasury-CPI Inflation 0.125% April 2022	110,011	1.38%
7	U.S. Treasury Bond Principal STRIP 0.000% August 2045	107,636	1.35%
8	U.S. Treasury-CPI Inflation 0.250% January 2025	104,224	1.31%
9	U.S. Treasury-CPI Inflation 0.375% July 2025	103,346	1.29%
10	U.S. Treasury-CPI Inflation 1.125% January 2021	101,232	1.27%
TOTAL		<u>\$ 1,225,935</u>	<u>15.36%</u>

The PRIT Fund's Core Fixed Income portfolio managers at June 30, 2017 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2017 (\$000s)
<i>Blackrock Financial Management</i>	Core Index	\$ 1,133,543
<i>Loomis, Sayles &amp; Co., LP</i>	Active Core	1,138,601
<i>PIMCO</i>	Active Core	837,960
<i>Progress Investment Management</i>	Active Core	156,928
<i>Blackrock Financial Management</i>	Inflation Link Bonds	1,302,971
<i>Blackrock Financial Management</i>	STRIPS Index	1,340,537
<i>Blackrock Financial Management</i>	TIPS Index	1,808,047
<i>AFL - CIO Housing Investment</i>	ETI - Active Core	130,545
<i>Access Capital</i>	ETI - Active Core	106,186
<i>Community Capital Management</i>	ETI - Active Core	28,999
<i>Other portfolio net assets</i>		(6)
<b>Total Portfolio Fair Value</b>		<b>\$ 7,984,311</b>

### Value-Added Fixed Income Portfolio

The PRIM Board had approximately \$5.4 billion invested in the Value-Added Fixed Income portfolio, representing 8.1% of the PRIT Fund as of June 30, 2017. The Value-Added Fixed Income portfolio is invested using the following strategies:



**High yield bonds**, which represent 1.6% of the PRIT 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.

**Bank Loans**, 2.4% of the PRIT Fund, represents investments in senior secured bank loans. There are two managers in the PRIT Fund bank loan program; both invest through commingled funds.

**Emerging markets debt**, 2.2% of the PRIT 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.

**Distressed debt**, 1.8% of the PRIT Fund, represents investments in private partnerships that invest directly in distressed debt investment opportunities. As of June 30, 2017, the PRIT Fund had approximately \$1.2 billion in distressed debt investments with twelve investment managers.

**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 2017, the Value-Added Fixed Income composite returned 10.29% compared to 12.64% for the asset class benchmark. The PRIT Fund's three high yield bond managers returned 11.35%, while the Merrill Lynch High Yield Master II Constrained index returned 12.74%. The Emerging Markets Debt Hard Currency portfolio returned 10.30% during the fiscal year, compared to the JP Morgan Emerging Markets Bond Index (JPM EMBI Global Index), which returned 5.52%. The Emerging Markets Debt Local Currency portfolio, managed by three managers, returned 6.45%, compared to the JP Morgan GBI Emerging Markets Global Diversified index return of 6.41%. The two bank loan managers, returned 7.06%, compared to the S&P LSTA Leveraged Loan index return of 7.42%. The Distressed Debt portfolio returned 17.58% compared to the index return of 28.63%. The benchmark for the Distressed Debt portfolio is the Altman NYU Salomon Center Combined Defaulted Public Bond & Bank Loan Index.

On a three-, five-, and 10-year basis through June 30, 2017, the PRIT Fund's Value-Added Fixed Income portfolio has returned 2.77%, 5.14%, and 6.66%, respectively, compared to the benchmark, which returned -0.43%, 3.23%, and 5.44%, respectively.

The top ten holdings in the Value-Added Fixed Income portfolio at June 30, 2017, excluding investments in emerging debt pooled funds, bank loan funds, distressed debt partnerships and other pooled funds, are illustrated below. A complete listing of holdings is available upon request.

#	Issue Name	% of Account	
		Fair Value (\$000s)	Fair Value
1	Brazil Notas Do Tesouro Nacional 10.000% January 2021	\$ 20,225	0.37%
2	Indonesia Treasury Bond 9.000% March 2029	19,657	0.36%
3	General Electric Co. Variable Rate December 2049	13,369	0.25%
4	Brazil Letras Do Tesouro Nacional 0.000% January 2020	13,217	0.24%
5	Brazil Notas Do Tesouro Nacional 10.000% January 2025	12,919	0.24%
6	Mexican Bonos 10.000% December 2024	10,698	0.20%
7	Indonesia Treasury Bond 8.375% March 2024	10,255	0.19%
8	Poland Government Bond 4.000% October 2023	10,065	0.19%
9	Petroleos Mexicanos 6.500% June 2041	9,617	0.18%
10	South Africa Government Bond 10.500% December 2026	9,409	0.17%
TOTAL		<u>\$ 129,431</u>	<u>2.39%</u>

The PRIT Fund's Value-Added Fixed Income portfolio managers at June 30, 2017 are presented in the following table:

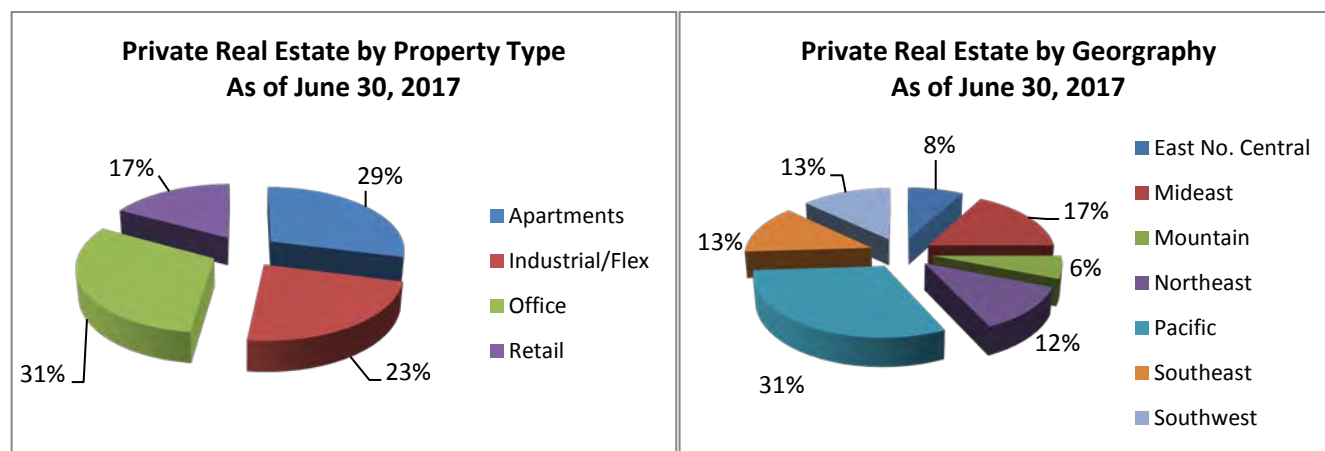
Manager	Investment Mandate	Portfolio Fair Value at June 30, 2017 (\$000s)
<i>Fidelity Management Trust</i>	High Yield Bond	\$ 363,924
<i>Loomis, Sayles &amp; Co., LP</i>	High Yield Bond	367,190
<i>Shenkman Capital Management</i>	High Yield Bond	335,400
<i>Ashmore Investment Management</i>	Emerging Markets Debt Hard Currency	473,308
<i>PIMCO</i>	Emerging Markets Debt Hard Currency	359,988
<i>Investec</i>	Emerging Markets Debt Local Currency	208,743
<i>Pictet</i>	Emerging Markets Debt Local Currency	301,545
<i>Stone Harbor</i>	Emerging Markets Debt Local Currency	149,184
<i>Eaton Vance</i>	Bank Loans	814,939
<i>Voya</i>	Bank Loans	802,494
<i>Various partnerships</i>	Distressed Debt	1,182,258
<i>Other portfolio net assets</i>		43,758
<b>Total Portfolio Fair Value</b>		<b>\$ 5,402,731</b>

## Real Estate Portfolio

As of June 30, 2017, the PRIM Board had \$6.0 billion invested in real estate through the PRIT Fund's ownership interest in PRIT Core Realty Holdings LLC (the LLC), representing 9.1% of the PRIT Fund. Real estate holdings consist of directly-owned properties, REITs, investments in real estate private equity like funds, and one ETI investment. 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 74% 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, 2017, \$4.0 billion (net of portfolio debt) of Core real estate investments and \$492 million of Non-Core real estate investments comprise PRIT's Private Real Estate Investments, which represents 6.7% of the PRIT Fund. Typically, Core real estate investments are relatively low risk and substantially leased (80% or greater occupancy at the time of investment) institutional quality real estate. Non-Core real estate investments offer higher potential returns at a higher risk profile. 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, 2017, the PRIM Board had approximately \$1.5 billion allocated to public REITs. The public REIT portfolio represents 2.3% of the 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, 2017:



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 has established 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. In November 2016, the LLC refinanced the existing \$500 million senior unsecured term loan with a new loan facility with U.S. Bank of the same amount. In addition, the LLC utilized internal securities lending capabilities to increase portfolio leverage by \$250 million. By utilizing the securities lending financing capabilities, the LLC is able to achieve lower borrowing costs for the Real Estate portfolio and allow more flexibility within the real estate debt program. As the \$250 million loan is an inter-entity loan, it has been eliminated in consolidation from the financial statements presented in the *Financial Section*.

**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 net asset value.

**Performance.** During the fiscal year, the PRIM Board's direct real estate and REIT investments produced strong performance relative to benchmark in response to improving employment data, a continued low interest rate environment and strong demand for real estate in core markets, particularly industrial assets.



For the fiscal year 2017, the real estate portfolio returned 6.76%, outperforming the 6.06% return of the asset class benchmark (80% NCREIF Property Index (one quarter lag)/20% FTSE EPRA NAREIT Developed Net Total Return). The Private Real Estate Investments portfolio returned 8.58% for the year ended June 30, 2017, comparing to the NCREIF Property Index (one quarter lag), which returned 7.27% over the same period. REIT investments returned 1.31%, outperforming its benchmark return of 0.96%.

The Real Estate portfolio returned 10.29% over the past three-years versus the asset class benchmark return of 9.46%. On a five-year basis, returns were 11.44% compared to the benchmark return of 10.32%. On a 10-year basis, the real estate portfolio returned 6.50% compared to the benchmark return of 6.21%.

The PRIT Fund's real estate investment managers at June 30, 2017 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2017 (\$'000s)
<i>Invesco Realty Advisors</i>	Separate Accounts - Core	\$ 1,011,166
<i>LaSalle Investment Management</i>	Separate Accounts - Core	1,738,389
<i>AEW</i>	Separate Accounts - Core	1,450,790
<i>J.P. Morgan Investment Management</i>	Separate Accounts - Core	655,999
<i>AEW - Transition Portfolio</i>	Separate Accounts - Core	303,933
<i>PRIM Board</i>	Separate Accounts - Core	43,269
<i>Various Partnerships</i>	Non-Core	485,670
<i>Invesco Realty Advisors</i>	Global REITs	254
<i>CenterSquare Investment Management</i>	Global REITs	864,006
<i>Presima</i>	Global REITs	111,498
<i>Brookfield Investment Management</i>	Global REITs	535,737
<i>New Boston</i>	ETI	5,734
<i>Other portfolio net assets (portfolio debt included)</i>		(1,158,789)
<b>Total Portfolio Fair Value</b>		<b>\$ 6,047,656</b>

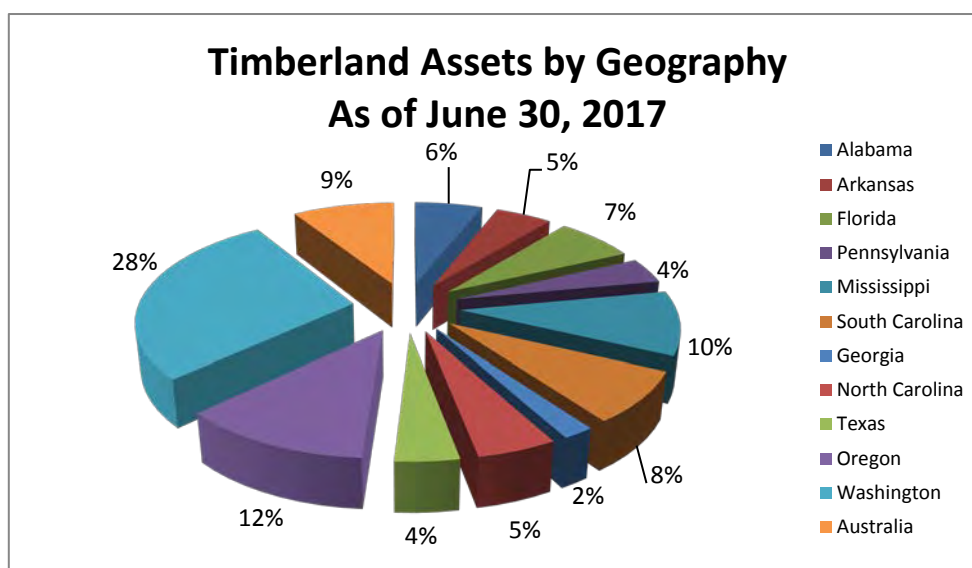
## Timberland Portfolio

As of June 30, 2017, the PRIM Board had \$2.5 billion invested in timberland, representing 3.7% of the PRIT Fund. The PRIT Fund's allocation to timberland is through two external timberland investment managers, Forest Investment Associates (FIA) and The Campbell Group (Campbell).

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 timberland portfolio at June 30, 2017 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, 2017, the one-year Timber return was 8.31% as compared to the NCREIF Timberland Index (one quarter lag) of 3.64%. Since its inception, in January 2002, the Timber portfolio has produced an annualized return of 9.12%. On a three-, five-, and 10-year basis through June 30, 2017, the PRIT Fund's Timberland portfolio has returned 6.07%, 7.35%, and 6.09%, respectively, compared to the benchmark return of 5.67%, 7.14%, and 5.97%, respectively.

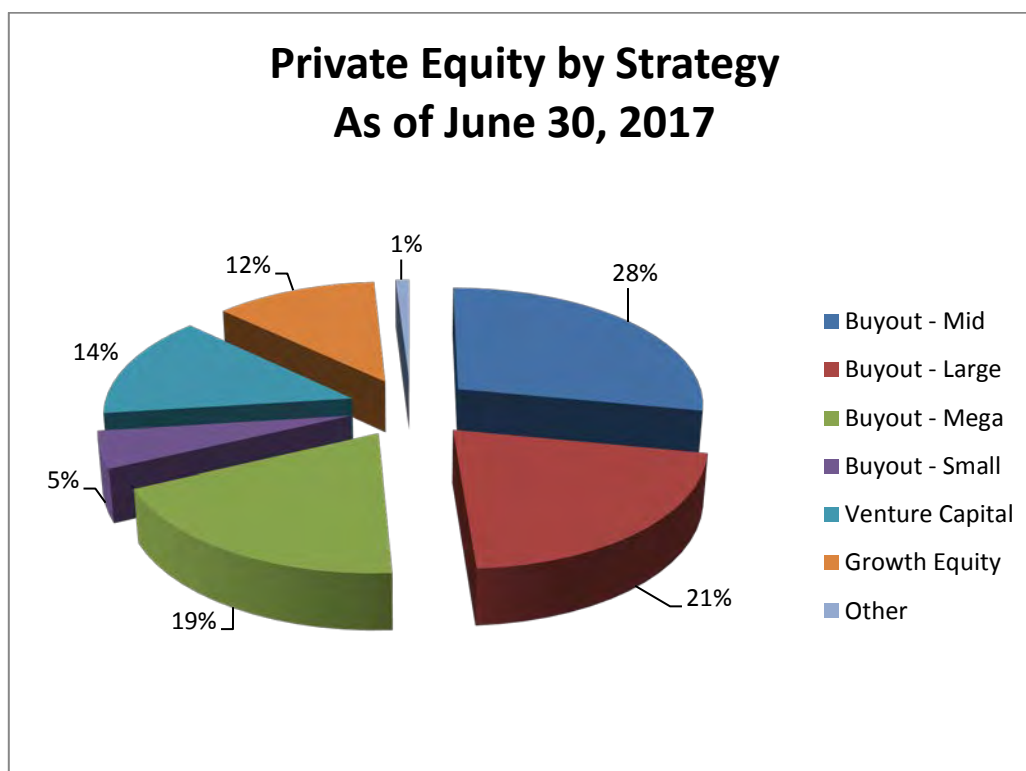
The PRIT Fund's Timberland investment managers at June 30, 2017 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2017 (\$000s)
<i>Forest Investments Associates</i>	Separate Accounts - Timberland	\$ 1,264,533
<i>The Campbell Group</i>	Separate Accounts - Timberland	1,203,016
<i>Other portfolio net assets</i>		15,534
<b>Total Portfolio Fair Value</b>		<b>\$ 2,483,083</b>

## Private Equity Portfolio

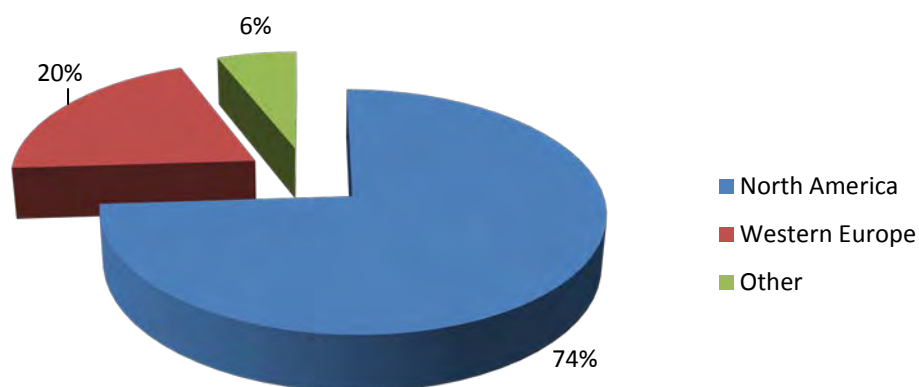
As of June 30, 2017, the fair value of the Private Equity portfolio was \$7.1 billion or 10.6% of the PRIT Fund. The PRIT Fund's long-term target allocation to Private Equity investments is 11%. Two components comprise the PRIT Fund's Private Equity portfolio: venture capital (early-stage and multi-stage) and special equity partnerships (buyout and growth equity). Additionally, the PRIT Fund had approximately \$196.0 million of natural resources investments in the Liquidating portfolios. 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, 2017 is presented below.

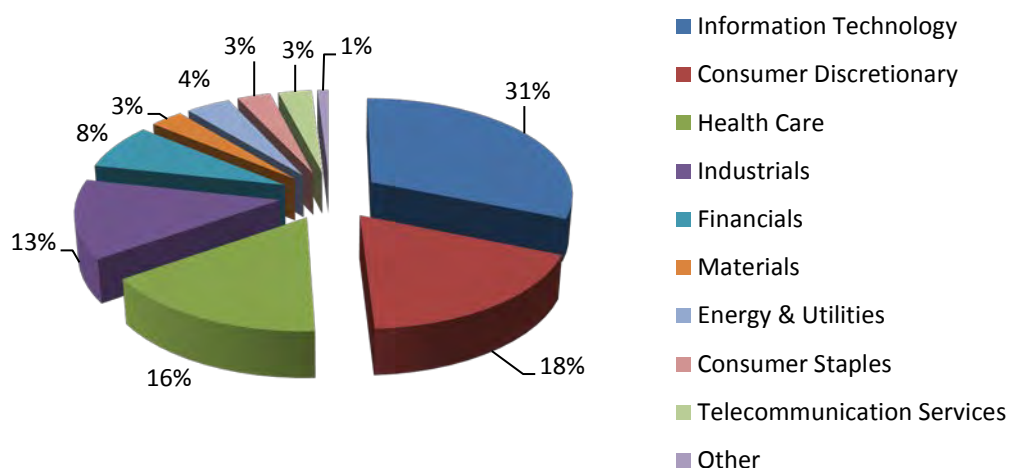


The Private Equity portfolio is diversified at the partnership level by strategy as well as at the underlying portfolio company level by industry and geography. The portfolio's current geographical and industry allocations are presented below.

### Private Equity by Geography As of June 30, 2017



### Private Equity by Industry As of June 30, 2017



Capital invested in private equity partnerships is subject to a relatively high degree of risk as compared to other potential investments, with the assumption that the investor will be rewarded with higher returns for that assumption of risk, i.e. the “risk/return trade-off”. This risk/return trade-off is the key consideration in determining if this asset is appropriate for a particular portfolio. These risks are highlighted below.

**Portfolio Risks.** Risks associated with investing in private equity limited partnerships include, but are not limited to:

- **Illiquidity:** Limited partnership vehicles typically have 10-15-year life cycles during which limited partners are unable to liquidate their entire positions, but instead, will receive the cash flow from successful investments. A defined secondary market such as the New York Stock Exchange does not exist for private equity.
- **Volatility:** Volatility, as measured by standard deviation from a mean return, has historically been greater for private equity investing than many other assets.
- **Management Fee Effect:** Typically, general partners’ fees range from 150 to 250 basis points annually. This is usually drawn down against committed capital, although it may not be invested, and may result in negative returns until investments are realized successfully.
- **Valuation of investments:** Investment valuation at any time may not be reflective of fair market value. Due to recent U.S. accounting rule changes (ASC 820) private equity investments are generally valued at fair value. However, because of the inherent uncertainty of the valuation of the portfolio companies, the estimated value may differ significantly from the value that would have been used had a ready market for these securities existed.
- **General Partner Discretion:** Investors lack control over the general partner’s investment decisions. The general partner is provided capital to manage at its discretion and investors are provided limited rights, such as termination of the partnership in certain instances. (These rights may not prove practical except in extreme circumstances.)
- **Binding Commitments:** There is limited ability to reduce or terminate investments. Under the contractual terms of the partnership, investments may be terminated in some cases by super-majority vote of the investors and after the occurrence of certain events. (These rights may not prove practical except in extreme circumstances.)
- **Risk of Loss:** There is risk of losing 100% of the investment. Investments in partnerships are usually equity and their risk nature could result in loss of the entire investment.

**Performance.** The PRIT Fund’s Private Equity portfolio delivered a one-year return of 21.28% through June 30, 2017. 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, 2017. The PRIT Fund’s managers called \$1.1 billion of capital for additional investments, management fees, and partnership expenses, which approximates the \$1.1 billion called during the prior fiscal year. From a liquidity standpoint, the portfolio generated total distributions of \$2.0 billion which compares to \$1.9 billion for the 2016 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 13.37% as of June 30, 2017, exceeding the Russell 3000 index return of 7.26% by 611 basis points. On a five-year basis, the portfolio outperformed the Russell 3000 by 326 basis points, 17.85% compared to 14.59%. For the three-year period ending June 30, 2017, the Private Equity portfolio returned 16.27%, outperforming the Russell 3000 index return of 9.10% by 717 basis points. For the one-year period ending June 30, 2017, the Private Equity portfolio returned 21.28%, outperforming the Russell 3000 index return of 18.51% by 277 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, 2017 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, 2017, the PRIT Fund has committed over \$18.5 billion to 371 partnerships (261 active) of which \$15.7 billion has been invested. The program has generated \$18.9 billion in distributions. The net IRR since inception for the program is 13.27%.

## PRIVATE EQUITY EXTERNAL MANAGERS

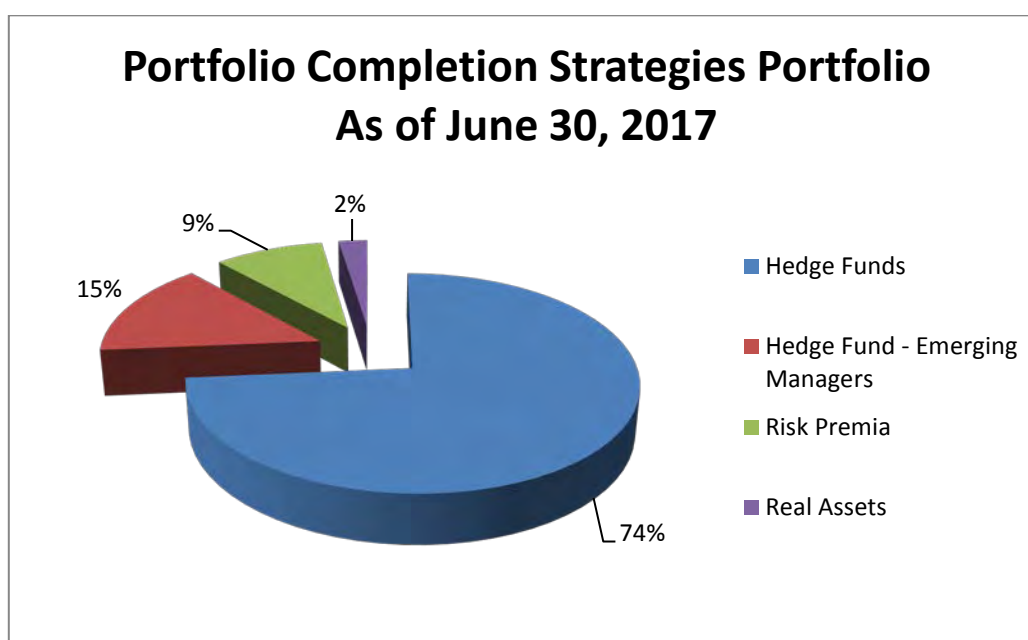
As of June 30, 2017

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



### Portfolio Completion Strategies (PCS) Portfolio

At the February 14, 2017 Board meeting, the PRIM Board voted to combine the Hedge Funds and PCS portfolios into a single portfolio (the PCS portfolio). As of June 30, 2017, the PCS portfolio had approximately \$6.3 billion in assets with 28 managers, which represented 9.5% of the PRIT Fund. The PCS portfolio is invested using the following strategies:



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 underlying investments. The portfolio is subject to market risk through a general downturn in market conditions and a general reversal of the risk premia that the strategies are trying to capture, as well as credit risk inherent in fixed income strategies. The portfolio is also exposed to liquidity risk in unwinding underlying 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.** For the fiscal year, the PCS portfolio returned 7.71% compared to the asset class benchmark return of 6.06%. On a three-, five-, and 10-year basis through June 30, 2017, the PRIT Fund's PCS portfolio has returned 2.15%, 5.80%, and 2.71%, respectively, compared to the benchmark return of 1.64%, 3.92%, and 3.47%, respectively.

The PRIT Fund's PCS managers at June 30, 2017 are presented in the following table:

Manager	Strategy Focus	Location
1 400 Capital Management	Hedge Fund - Relative Value	New York, NY
2 AgIS Capital, LLC	Agricultural	Boston, MA
3 Anchorage Capital, LLC	Hedge Fund - Event-Driven	New York, NY
4 AQR Capital Management, LLC	Risk Premia	Greenwich, CT
5 Arrowgrass G.P. Limited	Hedge Fund - Relative Value	New York, NY
6 Bridgade Capital GP, LLC	Hedge Fund - Relative Value	New York, NY
7 Cantab Capital Partners, LP	Hedge Fund - Macro	Cambridge, UK
8 Capula Management Limited	Hedge Fund - Relative Value	Greenwich, CT
9 Claren Road Capital, LLC	Hedge Fund - Relative Value	New York, NY
10 Contrarian Capital Management	Hedge Fund - Event-Driven	Greenwich, CT
11 Davidson Kempner Advisors Inc.	Hedge Fund - Event-Driven	New York, NY
12 East Lodge	Hedge Fund - Relative Value	London, UK
13 Elliot Capital Advisors, LP	Hedge Fund - Event-Driven	New York, NY
14 Glenview Capital GP, LLC	Hedge Fund - Event-Driven	New York, NY
15 Goldman Sachs Investment Management	Risk Premia	New York, NY
16 Highfields Associates, LLC	Hedge Fund - Event-Driven	Boston, MA
17 Informed Portfolio Management	Hedge Fund - Macro	Stockholm, Sweden
18 JEN Partners LLC	Residential Land Development	New York, NY
19 King Street Capital Management	Hedge Fund - Event-Driven	New York, NY
20 Land and Buildings Investment Management	Hedge Fund - Event-Driven	Stamford, CT
21 Mudrick Capital Management, LP	Hedge Fund - Event-Driven	New York, NY
22 OZ Advisors, LP	Hedge Fund - Event-Driven	New York, NY
23 PAAMCO	Hedge Fund - Emerging Managers	Newport Beach, CA
24 PanAgora Asset Management, Inc.	Hedge Fund - Relative Value, Risk Premia	Boston, MA
25 Pershing Square GP, LLC	Hedge Fund - Event-Driven	New York, NY
26 SECOR	Hedge Fund - Macro	New York, NY
27 Steadfast Capital Management, LP	Hedge Fund - Equity Long/Short	New York, NY
28 Winton Capital Management	Hedge Fund - Macro	London, UK

## Overlay

At the August 8, 2013 Board meeting, the PRIM Board voted to hire Parametric (formerly known as the Clifton Group) for the Cash Overlay program. As of June 30, 2017, the Overlay portfolio had \$682.2 million in assets which represents 1.0% of the PRIT Fund. The Overlay portfolio returned 6.83% for the fiscal year, 3.52% over the three-year period, and 5.33% 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, 2017

Asset Class	1 Year	3 Year	5 Year	10 Year
<i>Benchmark as of June 30, 2017</i>				
<b>Global Equity</b>	<b>20.85%</b>	<b>5.41%</b>	<b>11.28%</b>	<b>4.21%</b>
44% Domestic Equity BM/40% International Equity BM/16%				
Emerging Markets BM	20.25%	4.77%	10.63%	3.74%
<b>Domestic Equity</b>	<b>18.61%</b>	<b>8.77%</b>	<b>14.44%</b>	<b>5.87%</b>
78.9% S&P 500/21.1% Total Small/Smid Cap Equity BM	18.69%	9.14%	14.56%	6.81%
<b>International Equity</b>	<b>20.21%</b>	<b>2.57%</b>	<b>9.93%</b>	<b>2.34%</b>
41% Custom MSCI World EX-US IMI NET DIVS/50% Custom MSCI EAFE Standard Index NET DIVS/9% Custom MSCI EAFE Small Cap Index NET DIVS	20.37%	1.14%	8.62%	1.12%
<b>Emerging Markets</b>	<b>28.18%</b>	<b>2.98%</b>	<b>5.60%</b>	<b>1.88%</b>
25% Custom MSCI EM IMI NET DIVS/64% MSCI EM Standard NET DIVS/7% Custom MSCI EM Small Cap NET DIVS/4% Custom MSCI FM 15% Country Capped Index NET DIVS	23.39%	1.38%	4.38%	2.09%
<b>Core Fixed Income</b>	<b>-4.39%</b>	<b>4.70%</b>	<b>3.89%</b>	<b>5.25%</b>
41.6% BC Agg/16.7% BC US STRIPS 20+ Year /25% BC US TIPS/16.7% BC ILB US\$ HEDGED	-4.72%	4.56%	3.54%	4.90%
<b>Value-Added Fixed Income</b>	<b>10.29%</b>	<b>2.77%</b>	<b>5.14%</b>	<b>6.66%</b>
Asset Class BM (1)	12.64%	-0.43%	3.23%	5.44%
<b>Real Estate</b>	<b>6.76%</b>	<b>10.29%</b>	<b>11.44%</b>	<b>6.50%</b>
80% NCREIF Property One Qtr. Lag/20% FTSE EPRA NAREIT DEVELOPED Net Total Return	6.06%	9.46%	10.32%	6.21%
<b>Private Equity</b>	<b>21.28%</b>	<b>16.27%</b>	<b>17.85%</b>	<b>13.37%</b>
No Benchmark	na	na	na	na
<b>Timberland</b>	<b>8.31%</b>	<b>6.07%</b>	<b>7.35%</b>	<b>6.09%</b>
NCREIF Timberland Index (one quarter lag)	3.64%	5.67%	7.14%	5.97%
<b>Portfolio Completion Strategies</b>	<b>7.71%</b>	<b>2.15%</b>	<b>5.80%</b>	<b>2.71%</b>
Total Portfolio Completion Strategies Composite Index (2)	6.06%	1.64%	3.92%	3.47%
<b>Overlay (3)</b>	<b>6.83%</b>	<b>3.52%</b>	<b>na</b>	<b>na</b>
No Benchmark	na	na	na	na
	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>	<b>10 Year</b>
<b>Total PRIT Core Fund</b>	<b>13.24%</b>	<b>6.36%</b>	<b>9.79%</b>	<b>5.10%</b>
Policy Benchmark	11.97%	5.29%	8.27%	4.63%
TUCS Universe Median	12.69%	5.58%	9.17%	5.58%
TUCS Universe Ranking	28th	15th	21st	82nd

- (1) Value-Added Fixed Income benchmark is calculated by applying the investment performance of the sub asset class benchmarks to the sub asset class weights within the value-added fixed income portfolio.
- (2) Total Portfolio Completion Strategies Composite Index benchmark was formed on April 1, 2017 by combining the prior Portfolio Completion Strategies with Total Hedge Funds. Total Portfolio Completion Strategies Composite Index benchmark is calculated by applying the underlying benchmark return for each sub asset class to the asset class's weight within the Total Portfolio Completion Strategies Composite.
- (3) The Overlay Account's inception date was October 31, 2013.

\* All return information is gross of fees. Returns are calculated based on a time-weighted rate of return methodology.

## Investment Summary at Fair Value

As of June 30, 2017

	Fair Value (\$000s)	% of Fair Value
Short-term:		
Money market investments	\$ 1,676,219	2.39%
Fixed income:		
U.S. government obligations	5,163,763	7.36%
Domestic fixed income	4,844,367	6.90%
International fixed income	2,832,930	4.04%
Distressed debt	1,182,258	1.68%
Equity:		
Domestic equity securities	12,233,468	17.43%
International equity securities	17,159,463	24.45%
Timberland	2,480,243	3.53%
Private Equity:		
Special equity	5,153,026	7.34%
Venture capital	1,668,255	2.38%
Natural resources	196,045	0.28%
Real estate:		
Real estate properties	6,023,845	8.58%
Real estate equity securities	1,505,037	2.14%
Real estate funds	90,827	0.13%
Other	60,914	0.09%
Portfolio completion strategies:		
Event-driven hedge funds	1,528,571	2.18%
Relative value hedge funds	462,186	0.66%
Equity long/short hedge funds	139,411	0.20%
Fund of funds	975,017	1.39%
Risk premia fund	212,754	0.30%
Real assets fund	16,873	0.02%
Equity securities	1,932,338	2.75%
Cash and cash equivalent	1,339,057	1.91%
Fixed income securities	989,603	1.41%
Agricultural investments	203,323	0.29%
Other	117,883	0.17%
<b>Total investments</b>	<b>\$ 70,187,676</b>	<b>100.00%</b>

**SUMMARY SCHEDULE OF BROKER COMMISSIONS**

(Top 25 Brokers and Cumulative Fees Paid to Others)

**Fiscal Year Ended June 30, 2017**

<b>Brokerage Firms</b>	<b>Fees Paid (\$)</b>	<b>% Total</b>	<b>Average \$ per share</b>
Citigroup	\$ 732,494	8.4%	0.0049
Morgan Stanley	715,405	8.2%	0.0058
JP Morgan	580,505	6.6%	0.0038
Credit Suisse	504,917	5.8%	0.0026
UBS	502,767	5.7%	0.0025
Merrill Lynch	486,622	5.6%	0.0024
Goldman Sachs	437,618	5.0%	0.0013
Macquarie	358,829	4.1%	0.0019
Instinet	272,519	3.1%	0.0011
Sanford C. Bernstein & Co	247,614	2.8%	0.0023
HSBC	238,660	2.7%	0.0013
Credit Lyonnais Securities	211,446	2.4%	0.0048
ITG	158,108	1.8%	0.0034
Deutsche Bank	151,139	1.7%	0.0034
Knight Capital Group	143,978	1.6%	0.0059
Jefferies & Co	139,550	1.6%	0.0033
RBC	136,719	1.6%	0.0175
Pershing	116,905	1.3%	0.0073
BNP Paribas	107,970	1.2%	0.0041
The City Bank Limited	103,779	1.2%	0.0022
BNY Convergenx	102,167	1.2%	0.0047
CLSA	100,794	1.1%	0.0072
SG Securities	81,545	0.9%	0.0016
Banco Santander	80,255	0.9%	0.0126
Topline Securities	70,132	0.8%	0.0012
Others	1,994,647	22.7%	0.0037
<b>Totals</b>	<b>\$ 8,777,084</b>	<b>100.0%</b>	<b>0.0028</b>

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, 2017 the PRIT Fund earned \$13,126 from the commission recapture program.

## SCHEDULE OF MANAGEMENT FEES

Fiscal Year Ended June 30, 2017

<b>Investment Management Fees by Asset Class:</b>	(\$000s)
Global Equity	\$ 55,333
Core Fixed Income	5,465
Value-Added Fixed Income	10,712
Real Estate	26,173
Timberland	10,053
Private Equity	3,581
Portfolio Completion Strategies	10,568
Overlay	963
<b>Total Investment Management Fees</b>	<b>122,848</b>
<b>Investment Advisory Fees</b>	<b>8,074</b>
<b>Custodian Fees</b>	<b>707</b>
<b>Other Administrative Fees</b>	<b>12,375</b>
 <b>Total Management Fees charged to the PRIT Fund</b>	 <b>\$ 144,004</b>

## SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT

Segmentation Accounts invested as of June 30, 2017

Retirement System	Net Asset Vaules (\$000s) 6/30/17	General Allocation	Domestic Equity	International Equity	Emerging Markets	Core Fixed Income	Real Estate	Private Equity	Hedge Funds	Public Value Added Fixed Income
Amesbury	\$ 51,945	X								
Andover	\$ 127,714	X								
Arlington	\$ 131,850	X								
Attleboro	\$ 1,078							X		
Barnstable	\$ 986,591	X								
Belmont	\$ 32,923	X		X	X		X	X	X	
Berkshire	\$ 220,432	X								
Beverly	\$ 114,595	X								
Blue Hills	\$ 10,449	X								
State Boston/Teachers	\$ 1,544,201	X								
Braintree	\$ 8,838							X	X	
Bristol County	\$ 42,967							X	X	
Brookline	\$ 3,130							X		
Cambridge	\$ 115,965							X	X	
Chelsea	\$ 146,307	X								
Chicopee	\$ 32,288						X	X	X	
Clinton	\$ 44,976	X		X	X			X		
Concord	\$ 66,663	X					X	X		
Danvers	\$ 41,590			X	X		X	X	X	
Dedham	\$ 129,467	X								
Dukes County	\$ 71,587	X		X			X			
Easthampton	\$ 48,547	X								
Essex	\$ 401,232	X								
Everett	\$ 129,170	X								
Fairhaven	\$ 56,696	X								
Fall River	\$ 239,614	X								
Falmouth	\$ 13,404						X		X	
Fitchburg	\$ 105,664	X								
Framingham	\$ 285,986	X								
Franklin County	\$ 81,135	X		X			X			
Gardner	\$ 50,125	X								
Gloucester	\$ 94,559	X								
Greenfield	\$ 64,259	X								
Hampden County	\$ 323,475	X								
Hampshire County	\$ 78,082				X		X	X		
Haverhill	\$ 69,886			X	X	X	X	X	X	X
Hingham	\$ 108,575	X								
Hull	\$ 42,738	X								
Lawrence	\$ 201,776	X								
Leominster	\$ 121,138	X								
Lexington	\$ 24,431						X		X	
Lowell	\$ 331,026	X								
Lynn	\$ 299,823	X								
Marblehead	\$ 93,933	X								
Mass Turnpike	\$ 174,137	X								
Massport	\$ 78,255						X	X		
Maynard	\$ 19,815				X	X	X		X	X
Medford	\$ 38,821						X	X	X	

## SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT, continued

Segmentation Accounts invested as of June 30, 2017

Retirement System	Net Asset Values (\$000s) 6/30/17	General Allocation	Domestic Equity	International Equity	Emerging Markets	Core Fixed Income	Real Estate	Private Equity	Hedge Funds	Public Value Added Fixed Income
Melrose	\$ 74,130	X								
Methuen	\$ 133,489	X								
Middlesex	\$ 1,121,934	X								
Milford	\$ 85,879	X								
Milton	\$ 122,077	X								
Minuteman	\$ 13,113	X								
Montague	\$ 38,765	X								
MSCBA	\$ 4,669	X								
MWRA	\$ 38,926	X					X	X	X	
Natick	\$ 25,775	X					X	X	X	
Needham	\$ 147,840	X								
Newburyport	\$ 74,911	X								
Newton	\$ 315,208	X								
Norfolk	\$ 115,650					X	X	X	X	
North Adams	\$ 382							X		
Northbridge	\$ 32,550	X								
Northampton	\$ 705							X		
Norwood	\$ 29,577				X		X			
Peabody	\$ 139,845	X								
Pittsfield	\$ 123,818	X								
Plymouth	\$ 35,797	X					X	X	X	
Quincy	\$ 24,634	X				X		X		
Reading	\$ 129,390	X								
Revere	\$ 143,107	X								
Salem	\$ 154,439	X								
Saugus	\$ 94,492	X								
Shrewsbury	\$ 112,197	X	X	X		X	X			
Southbridge	\$ 47,142	X								
Springfield	\$ 288,305	X								
State Employees'	\$ 25,854,481	X								
State Retiree Benefits Trust	\$ 1,300,944	X								
State Teachers'	\$ 26,956,332	X								
Stoneham	\$ 32,481	X					X	X	X	
Swampscott	\$ 38,941	X								
Wakefield	\$ 112,102	X								
Waltham	\$ 115,887	X					X	X	X	
Watertown	\$ 41,818		X				X	X	X	
Webster	\$ 6,400						X	X	X	
Wellesley	\$ 173,572	X								
Westfield	\$ 3,980						X		X	
Weymouth	\$ 26,358						X		X	
Winchester	\$ 22,183					X			X	
Winthrop	\$ 63,215	X								
Woburn	\$ 59,747			X	X	X	X	X	X	X
Worcester	\$ 240,002	X			X		X	X		
Worcester Regional	\$ 631,394	X								
	<u>\$ 66,850,441</u>									



## 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 January 2017 to determine the optimum long-term asset allocation for the PRIT Fund, which estimated a 57% funded ratio at 1/1/2017.

### **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:

1. Investments must target risk-adjusted, market-rate returns and provide net returns equivalent to or higher than other available investments, at commensurate levels of risk. Economic or social benefits will not justify a lower return on any 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)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Additions</b>										
State Employees contributions	\$ 855,586	\$ 727,147	\$ 580,527	\$ 547,627	\$ 529,031	\$ 544,166	\$ 538,898	\$ 475,591	\$ 462,471	\$ 464,330
State teachers contributions	761,753	752,835	721,148	709,114	669,815	640,056	616,533	593,147	599,410	573,984
Other participants contributions	1,071,727	922,092	877,252	793,507	613,345	898,837	1,535,681	620,865	991,362	2,347,537
Net investment income (loss)	7,655,016	1,091,671	2,073,376	8,991,375	5,922,932	(280,407)	9,169,664	4,676,706	(12,492,194)	(1,185,523)
Total additions to pooled net position	10,344,082	3,493,745	4,252,303	11,041,623	7,735,123	1,802,652	11,860,776	6,366,309	(10,438,951)	2,200,328
<b>Deductions</b>										
State employees warrants	458,340	444,166	381,565	357,089	347,330	315,943	282,398	259,285	242,694	239,452
State teachers warrants	596,815	569,054	544,646	494,363	496,987	451,844	418,153	388,366	361,773	341,575
Participants redemptions	1,055,203	924,710	768,507	739,175	683,279	532,873	508,579	364,648	383,748	202,723
State appropriation funding	2,034,579	2,066,264	1,954,853	1,973,058	1,815,315	1,851,504	1,663,799	1,731,617	1,465,275	1,184,774
Operating expenses	41,509	40,491	35,761	30,789	30,394	28,447	26,391	27,332	24,954	23,294
Total deductions to pooled net position	4,186,446	4,044,685	3,685,332	3,594,474	3,373,305	3,180,611	2,899,320	2,771,248	2,478,444	1,991,818
Changes in pooled net position	\$ 6,157,636	\$ (550,940)	\$ 566,971	\$ 7,447,149	\$ 4,361,818	\$ (1,377,959)	\$ 8,961,456	\$ 3,595,061	\$ (12,917,395)	\$ 208,510

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 103-105 provide the financial highlights of the PRIT Fund for the year ended June 30, 2017. In addition, pages 106-109 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 Fund. This information includes important return and expense ratios for the entire PRIT Fund as well as the various accounts that comprise the PRIT Fund. This information should be read in conjunction with the description of the investment program highlighted in the *Investment Section* of the CAFR.

## Financial Highlights

### For the year ended June 30, 2017

	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	Liquidating Portfolios Account	Private Equity Account	Private Equity Vintage Year 2000 Account	Private Equity Vintage Year 2001 Account	Private Equity Vintage Year 2002 Account	Private Equity Vintage Year 2003 Account
Net position per unit, beginning of year	\$ 300.77	256.36	253.42	369.52	285.67	283.71	119.43	77.54	74.06	398.62	287.07	623.95	232.64	379.59
Investment operations:														
Net investment income (loss)(1)	7.51	5.32	7.75	8.38	5.05	15.20	6.51	0.00	0.03	5.78	(0.11)	34.19	2.33	9.68
Net realized and unrealized gain (loss) on investments and foreign currency	30.98	42.09	42.89	93.21	(17.85)	6.55	11.88	7.23	12.08	2.19	6.09	79.21	(20.23)	(0.93)
Total from investment operations	38.49	47.41	50.64	101.59	(12.80)	21.75	18.39	7.23	12.11	7.97	5.98	113.40	(17.90)	8.75
Net position per unit, end of year	\$ 339.26	303.77	304.06	471.11	272.87	305.46	137.82	84.77	86.17	406.59	293.05	737.35	214.74	388.34
Ratios and supplementary data:														
Total net return(2)	12.80%	18.49%	19.98%	27.49%	(4.48)%	7.67%	15.40%	9.32%	16.35%	2.00%	2.08%	18.17%	(7.69)%	2.31%
Net position, end of year (\$'000s)	\$ 65,460,073	13,216,006	12,038,165	5,243,481	7,984,311	4,176,825	1,225,906	5,579,937	250,843	67,900	43,665	60,463	9,019	55,921
Units outstanding, end of year ('000s)	192,948	43,507	39,591	11,130	29,261	13,674	8,895	65,823	2,911	167	149	82	42	144
Ratios to average net assets:														
Ratio of expenses, including indirect management fees	0.54%	0.10%	0.20%	0.58%	0.10%	0.47%	1.91%	1.25%	1.02%	0.06%	0.04%	0.15%	0.77%	0.15%
Ratio of expenses, excluding indirect management fees	0.18%	0.10%	0.20%	0.58%	0.09%	0.29%	0.04%	0.09%	1.02%	0.06%	0.04%	0.09%	0.04%	0.04%
Ratio of net investment income (loss)	2.35%	1.88%	2.79%	1.99%	1.89%	5.15%	5.05%	—%	0.03%	1.40%	(0.04)%	5.10%	1.00%	2.46%

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

(1) Based on weighted average units outstanding.

(2) Total net return calculation is based on the value of a single unit of participation outstanding throughout the year. It represents the percentage change in the net asset value per unit between the beginning and end of the year.

**Financial Highlights, continued****For the year ended June 30, 2017**

	Private Equity Vintage Year 2004 Account	Private Equity Vintage Year 2005 Account	Private Equity Vintage Year 2006 Account	Private Equity Vintage Year 2007 Account	Private Equity Vintage Year 2008 Account	Private Equity Vintage Year 2009 Account	Private Equity Vintage Year 2010 Account	Private Equity Vintage Year 2011 Account	Private Equity Vintage Year 2012 Account	Private Equity Vintage Year 2013 Account	Private Equity Vintage Year 2014 Account	Private Equity Vintage Year 2015 Account	Private Equity Vintage Year 2016 Account	Private Equity Vintage Year 2017 Account
Net position per unit, beginning of year	\$ 95.74	150.84	96.16	30.73	116.99	110.15	120.33	75.64	14.81	90.93	71.06	85.09	82.50	100.00
Investment operations:														
Net investment income (loss)(1)	4.80	5.06	4.45	1.16	4.28	0.92	1.95	1.09	0.00	1.83	0.31	(0.34)	(0.04)	(0.01)
Net realized and unrealized gain (loss) on investments and foreign currency	19.95	23.83	4.50	5.95	29.39	17.00	18.00	16.88	3.16	16.24	12.21	13.32	(23.09)	(0.03)
Total from investment operations	24.75	28.89	8.95	7.11	33.67	17.92	19.95	17.97	3.16	18.07	12.52	12.98	(23.13)	(0.04)
Net position per unit, end of year	\$ 120.49	179.73	105.11	37.84	150.66	128.07	140.28	93.61	17.97	109.00	83.58	98.07	59.37	99.96
Ratios and supplementary data:														
Total net return(2)	25.85%	19.15%	9.31%	23.14%	28.78%	16.27%	16.58%	23.76%	21.34%	19.87%	17.62%	15.25%	(28.04)%	(0.04)% (3)
Net position, end of year (\$'000s)	\$ 41,088	196,987	440,532	769,225	882,880	379,849	791,761	919,627	623,043	493,966	659,809	520,540	108,285	27,388
Units outstanding, end of year ('000s)	341	1,096	4,191	20,328	5,860	2,966	5,644	9,824	34,669	4,532	7,894	5,308	1,824	274
Ratios to average net assets:														
Ratio of expenses, including indirect management fees	0.20%	0.65%	0.74%	0.98%	0.75%	1.47%	1.15%	1.53%	1.82%	2.82%	3.69%	5.87%	10.75%	0.01% (3)
Ratio of expenses, excluding indirect management fees	0.04%	0.06%	0.03%	0.04%	0.08%	0.04%	0.04%	0.15%	0.04%	0.04%	0.04%	0.74%	0.30%	0.01% (3)
Ratio of net investment income (loss)	4.57%	2.98%	4.49%	3.28%	3.15%	0.76%	1.49%	1.29%	(0.01)%	1.99%	0.44%	(0.41)%	(0.02)%	(0.01)% (3)

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

(1) Based on weighted average units outstanding.

(2) Total net return calculation is based on the value of a single unit of participation outstanding throughout the year. It represents the percentage change in the net asset value per unit between the beginning and end of the year.

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



**Financial Highlights, continued****For the year ended June 30, 2017**

	Real Estate Account	Timberland Account	Cash Overlay Account	Risk Premia Account	Real Assets Account
Net position per unit, beginning of year	\$ 553.14	242.64	163.88	102.96	100.00
Investment operations:					
Net investment income (loss)(1)	25.17	3.19	1.23	0.82	(1.81)
Net realized and unrealized gain (loss) on investments and foreign currency	9.53	15.38	22.62	(6.03)	3.03
Total from investment operations	34.70	18.57	23.85	(5.21)	1.22
Net position per unit, end of year	\$ 587.84	261.21	187.73	97.75	101.22
Ratios and supplementary data:					
Total net return(2)	6.27%	7.65%	14.55%	(5.06)%	1.22%
Net position, end of year (\$'000s)	\$ 6,047,656	2,483,085	682,197	585,639	153,348
Units outstanding, end of year ('000s)	10,288	9,506	3,634	5,991	1,515
Ratios to average net assets:					
Ratio of expenses, including indirect management fees	0.46%	0.67%	0.07%	1.27%	0.04%
Ratio of expenses, excluding indirect management fees	0.09%	0.34%	0.07%	0.15%	0.04%
Ratio of net investment income (loss)	4.38%	1.31%	0.73%	0.93%	(0.45)%

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

(1) Based on weighted average units

(2) Total net return calculation is based on the value of a single unit of participation outstanding throughout the year. It represents the percentage change in the net asset value per unit between the beginning and end of the year.

## Financial Highlights Ratios

For the years ended June 30, 2016-2008

	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	Liquidating Portfolios Account (2)	Private Equity Account	Vintage Year 2000 Account	Vintage Year 2001 Account	Vintage Year 2002 Account	Vintage Year 2003 Account	Vintage Year 2004 Account	Vintage Year 2005 Account
<b>Ratios and supplementary data:</b>																
<b>2016</b>																
Total net return (1)	1.87%	1.51%	(7.86)%	(9.91)%	14.58%	2.79%	(6.84)%	(5.43)%	(20.30)%	(0.94)%	(6.12)%	(3.72)%	6.54%	(4.22)%	(4.63)%	8.56%
Net position, end of year (\$'000s)	59,382,003	11,359,746	10,018,446	4,264,286	8,404,125	3,868,726	1,251,421	5,192,238	195,445	66,569	56,265	77,994	13,493	69,465	80,997	430,797
Units outstanding, end of year ('000s)	197,436	44,312	39,533	11,540	29,419	13,636	10,478	66,965	2,639	167	196	125	58	183	846	2,856
<b>2015</b>																
Total net return (1)	3.41%	6.60%	(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%	15.15%
Net position, 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	594,274
Units outstanding, end of year ('000s)	203,159	46,508	37,600	9,780	33,603	13,416	10,533	67,998	345	131	339	158	92	367	1,192	4,277
<b>2014</b>																
Total net return (1)	17.18%	24.78%	24.23%	13.76%	5.66%	6.90%	15.18%	10.72%	(5.88)%	8.25%	23.80%	27.29%	8.97%	21.56%	52.79%	20.33%
Net position, end of year (\$'000s)	59,507,530	11,478,177	10,382,202	4,263,167	8,398,309	3,787,240	1,360,006	5,845,587	49,684	94,631	137,922	133,764	35,025	197,688	257,109	703,977
Units outstanding, end of year ('000s)	208,428	48,451	36,639	9,756	35,228	13,017	10,817	73,892	512	247	478	222	167	564	2,714	5,834
<b>2013</b>																
Total net return (1)	12.28%	21.98%	19.34%	5.10%	(0.45)%	3.07%	9.16%	(3)	12.20%	3.28%	8.68%	10.18%	11.79%	4.52%	8.87%	13.07%
Net position, end of year (\$'000s)	52,274,725	11,066,413	9,531,557	3,438,125	6,712,701	3,444,265	1,269,546	4,903,178	72,275	160,679	173,402	189,340	58,316	270,764	265,784	801,538
Units outstanding, end of year ('000s)	214,541	58,286	41,787	8,951	29,751	12,655	11,630	68,628	701	454	744	400	303	939	4,287	7,993
<b>2012</b>																
Total net return (1)	(0.54)%	3.64%	(12.15)%	(16.79)%	7.96%	2.81%	N/A	(1.74)%	(7.47)%	(0.35)%	5.23%	(2.66)%	26.76%	0.80%	9.06%	16.13%
Net position, end of year (\$'000s)	48,101,609	9,415,207	8,155,824	3,261,031	6,352,958	4,180,242	N/A	4,809,557	110,458	177,159	278,587	242,301	66,969	345,110	360,592	879,582
Units outstanding, end of year ('000s)	221,647	60,491	42,670	8,923	28,029	15,830	N/A	75,522	1,097	517	1,299	564	389	1,251	6,332	9,918
<b>2011</b>																
Total net return (1)	21.97%	32.07%	30.69%	28.88%	5.31%	16.18%	N/A	7.48%	6.43%	20.27%	15.85%	23.12%	32.48%	22.22%	50.10%	19.74%
Net position, end of year (\$'000s)	49,546,154	11,073,922	10,865,457	3,304,907	6,619,356	3,024,257	N/A	3,611,056	220,570	275,801	370,120	298,784	121,827	416,819	415,720	872,773
Units outstanding, end of year ('000s)	227,076	73,736	49,937	7,525	31,528	11,775	N/A	55,719	2,027	802	1,816	677	897	1,523	7,961	11,428
<b>2010</b>																
Total net return (1)	12.47%	14.50%	9.50%	23.57%	11.56%	32.22%	N/A	7.10%	2.25%	15.73%	14.13%	17.76%	12.96%	24.05%	14.37%	15.50%
Net position, end of year (\$'000s)	40,753,645	8,188,194	8,264,027	2,338,946	5,774,372	2,897,661	N/A	3,154,587	776,629	339,078	480,643	324,708	100,441	411,075	365,651	750,824
Units outstanding, end of year ('000s)	227,816	72,008	49,641	6,864	28,965	13,107	N/A	52,318	7,595	1,186	2,732	906	980	1,826	10,458	11,670
<b>2009</b>																
Total net return (1)	(24.41)%	(32.13)%	(31.95)%	(31.98)%	(5.57)%	(11.60)%	N/A	(14.45)%	N/A	(23.13)%	(18.99)%	(22.76)%	(27.47)%	(22.82)%	(19.91)%	(25.79)%
Net position, end of year (\$'000s)	37,113,501	9,164,719	7,146,289	1,887,971	4,897,346	2,883,436	N/A	2,135,634	N/A	343,288	483,606	317,591	86,586	393,043	318,973	629,918
Units outstanding, end of year ('000s)	233,338	92,280	47,004	6,846	27,405	17,245	N/A	37,934	N/A	1,390	3,137	1,043	954	2,177	10,485	11,408
<b>2008</b>																
Total net return (1)	(2.30)%	(15.69)%	(9.27)%	(0.03)%	14.18%	2.04%	N/A	1.73%	N/A	19.23%	17.10%	18.39%	19.01%	18.81%	21.15%	22.18%
Net position, end of year (\$'000s)	49,845,944	13,180,182	10,119,936	2,761,180	8,510,469	2,511,813	N/A	2,614,238	N/A	457,054	642,580	417,740	114,619	531,381	388,181	748,612
Units outstanding, end of year ('000s)	236,891	90,077	45,297	6,810	44,973	13,280	N/A	39,723	N/A	1,422	3,377	1,060	916	2,272	10,222	10,060
<b>Ratios to average net assets:</b>																
<b>2016</b>																
Ratio of expenses, including indirect management fees	0.53%	0.13%	0.19%	0.44%	0.09%	0.47%	1.76%	1.42%	1.41%	0.08%	0.18%	0.17%	0.79%	0.28%	0.43%	0.73%
Ratio of expenses, excluding indirect management fees	0.14%	0.13%	0.19%	0.44%	0.08%	0.30%	0.04%	0.06%	1.40%	0.04%	0.04%	0.07%	0.04%	0.04%	0.06%	0.04%
Ratio of net investment income (loss)	2.25%	1.91%	2.88%	2.03%	1.42%	5.95%	2.65%	—	(0.04)%	0.69%	0.12%	6.67%	2.47%	5.40%	1.65%	2.18%
<b>2015</b>																
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%	0.90%	0.82%
Ratio of expenses, excluding indirect management fees	0.14%	0.14%	0.18%	0.31%	0.09%	0.30%	0.04%	0.02%	0.04%	0.04%	0.04%	0.05%	0.04%	0.04%	0.05%	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%	5.62%	2.15%	2.68%
<b>2014</b>																
Ratio of expenses, including indirect management fees	0.55%	0.14%	0.19%	0.27%	0.11%	0.49%	1.90%	1.50%	0.10%	0.03%	0.25%	0.59%	0.49%	0.59%	0.88%	0.91%
Ratio of expenses, excluding indirect management fees	0.15%	0.14%	0.19%	0.24%	0.10%	0.31%	0.04%	0.05%	0.02%	0.03%	0.05%	0.07%	0.05%	0.04%	0.08%	0.08%
Ratio of net investment income (loss)	2.45%	1.65%	3.23%	2.10%	2.57%	5.41%	1.98%	(0.05)%	(0.02)%	1.82%	2.47%	1.16%	(0.05)%	2.20%	4.30%	3.18%
<b>2013</b>																
Ratio of expenses, including indirect management fees	0.55%	0.08%	0.19%	0.33%	0.14%	0.85%	0.92%	(3)	1.33%	0.13%	0.39%	0.59%	0.77%	0.90%	0.94%	1.01%
Ratio of expenses, excluding indirect management fees	0.14%	0.08%	0.19%	0.32%	0.12%	0.34%	0.01%	(3)	0.05%	0.02%	0.07%	0.09%	0.05%	0.12%	0.09%	0.09%
Ratio of net investment income (loss)	2.53%	2.02%	2.93%	2.59%	2.87%	6.27%	2.37%	(3)	(0.05)%	3.86%	4.02%	2.53%	1.19%	2.11%	1.60%	2.49%

## Financial Highlights Ratios, continued

For the years ended June 30, 2016-2008

	General Allocation Account	Domestic Equity Account	International Equity Account	Emerging Markets Account	Core Fixed Income Account	Public Value-Added Fixed Income Account	Hedge Funds Account	Liquidating Portfolios Account (2)	Private Equity Account	Vintage Year 2000 Account	Vintage Year 2001 Account	Vintage Year 2002 Account	Vintage Year 2003 Account	Vintage Year 2004 Account	Vintage Year 2005 Account
<b>2012</b>															
Ratio of expenses, including indirect management fees	0.50%	0.09%	0.19%	0.32%	0.14%	0.89%	0.91%	0.09%	0.24%	0.54%	0.73%	0.81%	0.83%	0.80%	1.02%
Ratio of expenses, excluding indirect management fees	0.14%	0.09%	0.19%	0.30%	0.13%	0.18%	0.04%	0.02%	0.04%	0.07%	0.08%	0.04%	0.04%	0.11%	0.08%
Ratio of net investment income (loss)	2.55%	1.91%	3.37%	2.61%	3.41%	4.67%	(0.04)%	(0.02)%	0.38%	2.74%	0.96%	1.13%	2.23%	2.08%	0.77%
<b>2011</b>															
Ratio of expenses, including indirect management fees	0.50%	0.08%	0.19%	0.35%	0.15%	0.96%	0.81%	0.06%	0.32%	1.25%	1.49%	0.97%	0.89%	1.05%	1.43%
Ratio of expenses, excluding indirect management fees	0.14%	0.08%	0.19%	0.32%	0.14%	0.15%	0.03%	0.02%	(0.01)%	0.06%	0.08%	0.06%	0.02%	0.09%	0.11%
Ratio of net investment income (loss)	2.54%	1.76%	3.05%	2.34%	3.88%	3.67%	(0.03)%	(0.01)%	0.57%	2.34%	3.65%	(0.04)%	2.12%	0.79%	2.14%
<b>2010</b>															
Ratio of expenses, including indirect management fees	0.54%	0.20%	0.23%	0.25%	0.16%	1.08%	0.82%	0.14%	0.79%	1.57%	1.07%	1.13%	0.89%	1.16%	1.93%
Ratio of expenses, excluding indirect management fees	0.15%	0.08%	0.23%	0.17%	0.14%	0.28%	0.03%	0.02%	0.16%	0.08%	0.08%	0.06%	0.06%	0.18%	0.19%
Ratio of net investment income (loss)	2.34%	1.49%	2.69%	1.59%	3.85%	4.07%	(0.02)%	(0.01)%	0.75%	2.11%	1.47%	(0.05)%	2.94%	0.99%	0.15%
<b>2009</b>															
Ratio of expenses, including indirect management fees	0.51%	0.29%	0.29%	0.48%	0.14%	0.89%	0.85%	N/A	0.94%	1.39%	1.21%	1.19%	0.96%	1.67%	1.67%
Ratio of expenses, excluding indirect management fees	0.10%	0.11%	0.29%	0.38%	0.12%	0.16%	0.04%	N/A	0.16%	0.06%	0.07%	0.06%	0.06%	0.27%	0.18%
Ratio of net investment income (loss)	2.78%	1.72%	3.19%	2.19%	4.60%	5.97%	(0.03)%	N/A	0.04%	0.31%	1.18%	(0.02)%	0.37%	0.43%	0.12%
<b>2008</b>															
Ratio of expenses, including indirect management fees	0.52%	0.27%	0.26%	0.21%	0.17%	0.85%	0.76%	N/A	0.98%	1.43%	0.99%	1.13%	0.58%	0.97%	2.07%
Ratio of expenses, excluding indirect management fees	0.25%	0.17%	0.26%	0.10%	0.16%	0.21%	0.04%	N/A	0.14%	0.02%	0.02%	0.02%	0.02%	0.27%	0.09%
Ratio of net investment income (loss)	2.70%	1.49%	2.84%	2.23%	5.32%	5.41%	(0.02)%	N/A	1.85%	0.58%	1.63%	0.15%	0.32%	0.62%	0.14%

- (1) Total net return calculation is based on the value of a single unit of participation outstanding throughout the year. It represents the percentage change in the net asset value per unit between the beginning and end of the year.
- (2) Includes Portable Alpha Wind Down and Natural Resources Private Wind Down. Prior to January 1, 2010, Portable Alpha assets were reflected in the Domestic Equity portfolio. Prior to January 31, 2016, Natural Resources Private assets were reflected in the Timberland portfolio.
- (3) Denotes account commenced operations subsequent to the beginning of the fiscal year. Total return and ratios not annualized.

## Financial Highlights Ratios, continued

For the years ended June 30, 2016-2008

	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	Vintage Year 2015 Account	Vintage Year 2016 Account	Core Real Estate Account	Noncore Real Estate Account	Timberland Account	Cash Overlay Account	Portfolio Completion Strategies Account
<b>Ratios and supplementary data:</b>																
<b>2016</b>																
Total net return (1)	2.52%	9.87%	12.84%	20.05%	15.08%	22.91%	8.34%	5.06%	5.15%	(9.23)%	(17.50)% (2)	11.70%	N/A	(3.31)%	5.65%	8.62%
Net position, end of year (\$'000s)	612,037	912,296	904,434	443,570	806,666	796,339	542,987	308,790	399,073	184,978	165	6,302,436	N/A	2,012,000	286,627	736,581
Units outstanding, end of year ('000s)	6,365	29,691	7,731	4,027	6,704	10,528	36,668	3,396	5,616	2,174	2	11,394	N/A	8,292	1,749	7,154
<b>2015</b>																
Total net return (1)	11.51%	9.04%	16.66%	24.02%	19.09%	24.07%	11.77%	(5.24)%	(13.53)%	(6.26)% (2)	N/A	11.30%	N/A	(2.04)%	5.19%	(5.21)% (2)
Net position, end of year (\$'000s)	848,797	1,154,470	1,017,713	494,545	762,278	704,428	425,548	170,840	177,995	40,871	N/A	6,093,142	N/A	2,347,050	567,427	94,882
Units outstanding, end of year ('000s)	9,049	41,282	9,816	5,390	7,290	11,447	31,126	1,974	2,634	436	N/A	12,305	N/A	9,353	3,658	1,001
<b>2014</b>																
Total net return (1)	23.18%	22.67%	30.63%	27.66%	27.52%	17.90%	16.81%	(8.66)%	(21.85)% (2)	N/A	N/A	12.91%	N/A	12.81%	47.46% (2)	N/A
Net position, end of year (\$'000s)	1,098,091	1,319,704	1,050,050	401,949	597,679	435,298	215,895	52,887	3,204	N/A	N/A	5,380,022	N/A	2,374,863	549,427	N/A
Units outstanding, end of year ('000s)	13,054	51,443	11,815	5,433	6,807	8,777	17,648	579	41	N/A	N/A	12,093	N/A	9,271	3,726	N/A
<b>2013</b>																
Total net return (1)	13.29%	14.39%	17.96%	15.65%	14.41%	(1.98)%	(21.87)%	N/A	N/A	N/A	N/A	12.28%	N/A	6.27%	N/A	N/A
Net position, end of year (\$'000s)	1,217,424	1,212,620	895,341	301,492	391,799	201,700	61,569	N/A	N/A	N/A	N/A	4,382,052	N/A	2,129,694	N/A	N/A
Units outstanding, end of year ('000s)	17,827	57,995	13,161	5,203	5,691	4,794	5,879	N/A	N/A	N/A	N/A	11,121	N/A	9,379	N/A	N/A
<b>2012</b>																
Total net return (1)	13.20%	11.33%	14.15%	0.62%	(9.88)%	(54.42)%	(86.60)% (2)	N/A	N/A	N/A	N/A	9.41%	N/A	(8.68)%	N/A	N/A
Net position, end of year (\$'000s)	1,291,372	1,072,936	685,645	184,789	214,792	97,989	134	N/A	N/A	N/A	N/A	4,724,457	N/A	1,903,043	N/A	N/A
Units outstanding, end of year ('000s)	21,422	58,687	11,889	3,688	3,569	2,283	10	N/A	N/A	N/A	N/A	13,463	N/A	8,906	N/A	N/A
<b>2011</b>																
Total net return (1)	23.61%	20.56%	20.34%	(7.45)%	(29.52)%	(5.84)% (2)	N/A	N/A	N/A	N/A	N/A	20.17%	N/A	19.20%	N/A	N/A
Net position, end of year (\$'000s)	1,208,620	804,057	439,750	86,944	44,610	1,789	N/A	N/A	N/A	N/A	N/A	4,103,735	N/A	2,003,721	N/A	N/A
Units outstanding, end of year ('000s)	22,699	48,975	8,704	1,746	668	19	N/A	N/A	N/A	N/A	N/A	12,794	N/A	8,563	N/A	N/A
<b>2010</b>																
Total net return (1)	15.53%	11.18%	6.01%	(46.19)%	(5.25)% (2)	N/A	N/A	N/A	N/A	N/A	N/A	2.35%	N/A	(5.90)%	N/A	N/A
Net position, end of year (\$'000s)	913,119	467,426	203,969	18,978	7,080	N/A	N/A	N/A	N/A	N/A	N/A	3,767,749	N/A	1,671,981	N/A	N/A
Units outstanding, end of year ('000s)	20,982	33,927	4,786	349	74	N/A	N/A	N/A	N/A	N/A	N/A	13,815	N/A	8,517	N/A	N/A
<b>2009</b>																
Total net return (1)	(23.62)%	(19.41)%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(23.90)%	(100.00)%	(14.84)%	N/A	N/A
Net position, end of year (\$'000s)	708,085	285,173	62,947	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4,090,525	—	1,776,921	N/A	N/A
Units outstanding, end of year ('000s)	18,991	23,279	1,590	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	15,686	—	8,518	N/A	N/A
<b>2008</b>																
Total net return (1)	2.80%	(84.80)%	N/A (2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4.41%	N/A	20.69%	N/A	N/A
Net position, end of year (\$'000s)	783,796	163,835	8,038	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5,520,030	2	1,065,586	N/A	N/A
Units outstanding, end of year ('000s)	16,056	10,778	91	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	16,109	—	4,350	N/A	N/A
<b>Ratios to average net assets:</b>																
<b>2016</b>																
Ratio of expenses, including indirect management fees	0.77%	1.00%	0.98%	1.29%	1.30%	1.74%	2.28%	4.91%	4.71%	9.50%	(21.53)% (2)	0.47%	N/A	0.23%	0.07%	0.90%
Ratio of expenses, excluding indirect management fees	0.03%	0.04%	0.14%	0.04%	0.04%	0.16%	0.04%	0.04%	0.05%	0.04%	(21.53)% (2)	0.09%	N/A	(0.11)%	0.07%	0.16%
Ratio of net investment income (loss)	0.85%	1.98%	3.02%	2.74%	0.55%	1.01%	0.27%	0.84%	(0.03)%	0.07%	(0.21)% (2)	4.35%	N/A	0.52%	0.16%	(0.16)%
<b>2015</b>																
Ratio of expenses, including indirect management fees	0.80%	1.01%	0.97%	1.71%	1.61%	2.21%	3.27%	8.83%	9.28%	2.57% (2)	N/A	0.64%	N/A	0.70%	0.07%	0.29% (2)
Ratio of expenses, excluding indirect management fees	0.05%	0.04%	0.11%	0.04%	0.04%	0.15%	0.05%	0.04%	0.06%	0.02% (2)	N/A	0.40%	N/A	0.07%	0.10% (2)	
Ratio of net investment income (loss)	2.63%	1.83%	2.16%	2.54%	0.30%	(0.06)%	0.05%	(0.90)%	(0.01)%	0.10% (2)	N/A	4.29%	N/A	0.44%	—	(0.10)% (2)
<b>2014</b>																
Ratio of expenses, including indirect management fees	0.84%	1.32%	1.70%	2.59%	2.55%	4.26%	7.53%	14.31%	10.58% (2)	N/A	N/A	0.56%	N/A	0.55%	0.09% (2)	N/A
Ratio of expenses, excluding indirect management fees	0.06%	0.04%	0.15%	0.04%	0.04%	0.04%	0.05%	0.04%	0.11% (2)	N/A	N/A	0.17%	N/A	0.16%	0.09% (2)	N/A
Ratio of net investment income (loss)	2.54%	1.24%	3.35%	2.18%	0.65%	(0.14)%	0.29%	18.06%	(0.11)% (2)	N/A	N/A	4.69%	N/A	0.51%	(0.08)% (2)	N/A
<b>2013</b>																
Ratio of expenses, including indirect management fees	0.97%	1.70%	1.88%	3.26%	3.69%	7.38%	14.26%	N/A	N/A	N/A	N/A	0.49%	N/A	0.67%	N/A	N/A
Ratio of expenses, excluding indirect management fees	0.10%	0.04%	0.16%	0.04%	0.04%	0.17%	0.08%	N/A	N/A	N/A	N/A	0.13%	N/A	0.15%	N/A	N/A
Ratio of net investment income (loss)	1.84%	1.58%	1.03%	0.79%	0.36%	(0.13)%	(0.22)%	N/A	N/A	N/A	N/A	4.56%	N/A	0.13%	N/A	N/A

## Financial Highlights Ratios, continued

For the years ended June 30, 2016-2008

	Vintage Year 2006 Account	Vintage Year 2007 Account	Vintage Year 2008 Account	Vintage Year 2009 Account	Vintage Year 2010 Account	Vintage Year 2011 Account	Vintage Year 2012 Account	Core Real Estate Account	Timberland Account
<b>2012</b>									
Ratio of expenses, including indirect management fees	1.11%	2.12%	2.54%	5.61%	7.85%	16.15%	8.19% (2)	0.50%	0.78%
Ratio of expenses, excluding indirect management fees	0.19%	0.04%	0.21%	0.04%	0.04%	0.04%	0.25% (2)	0.15%	0.19%
Ratio of net investment income (loss)	1.14%	1.18%	0.28%	0.81%	—%	0.62%	(488.92)% (2)	4.59%	0.03%
<b>2011</b>									
Ratio of expenses, including indirect management fees	1.45%	3.81%	3.98%	15.75%	13.44%	10.80%	N/A	0.53%	0.83%
Ratio of expenses, excluding indirect management fees	0.20%	(0.01)%	0.22%	0.04%	0.05%	0.02%	N/A	0.16%	0.22%
Ratio of net investment income (loss)	2.23%	0.53%	1.16%	0.66%	(0.04)%	(0.02)%	N/A	5.02%	0.26%
<b>2010</b>									
Ratio of expenses, including indirect management fees	2.03%	5.66%	9.21%	51.16%	0.06%	N/A	N/A	0.53%	0.57%
Ratio of expenses, excluding indirect management fees	0.30%	0.06%	0.06%	0.06%	0.06%	N/A	N/A	0.15%	0.07%
Ratio of net investment income (loss)	0.90%	0.46%	0.72%	0.15%	(32.74)%	N/A	N/A	4.80%	0.60%
<b>2009</b>									
Ratio of expenses, including indirect management fees	2.20%	7.96%	23.91%	N/A	N/A	N/A	N/A	(0.26)%	1.00%
Ratio of expenses, excluding indirect management fees	0.28%	0.05%	0.06%	N/A	N/A	N/A	N/A	(0.59)%	0.60%
Ratio of net investment income (loss)	0.31%	0.37%	4.62%	N/A	N/A	N/A	N/A	5.53%	(0.90)%
<b>2008</b>									
Ratio of expenses, including indirect management fees	2.37%	16.71%	—%	N/A	N/A	N/A	N/A	0.79%	2.33%
Ratio of expenses, excluding indirect management fees	0.18%	0.02%	—%	N/A	N/A	N/A	N/A	0.50%	2.10%
Ratio of net investment income (loss)	—%	(0.11)%	—%	N/A	N/A	N/A	N/A	4.18%	(1.64)%

(1) Total return calculation is based on the value of a single unit of participation outstanding throughout the year. It represents the percentage change in the net asset value per unit between the beginning and end of the year.

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

## PRIT Fund Asset Allocation

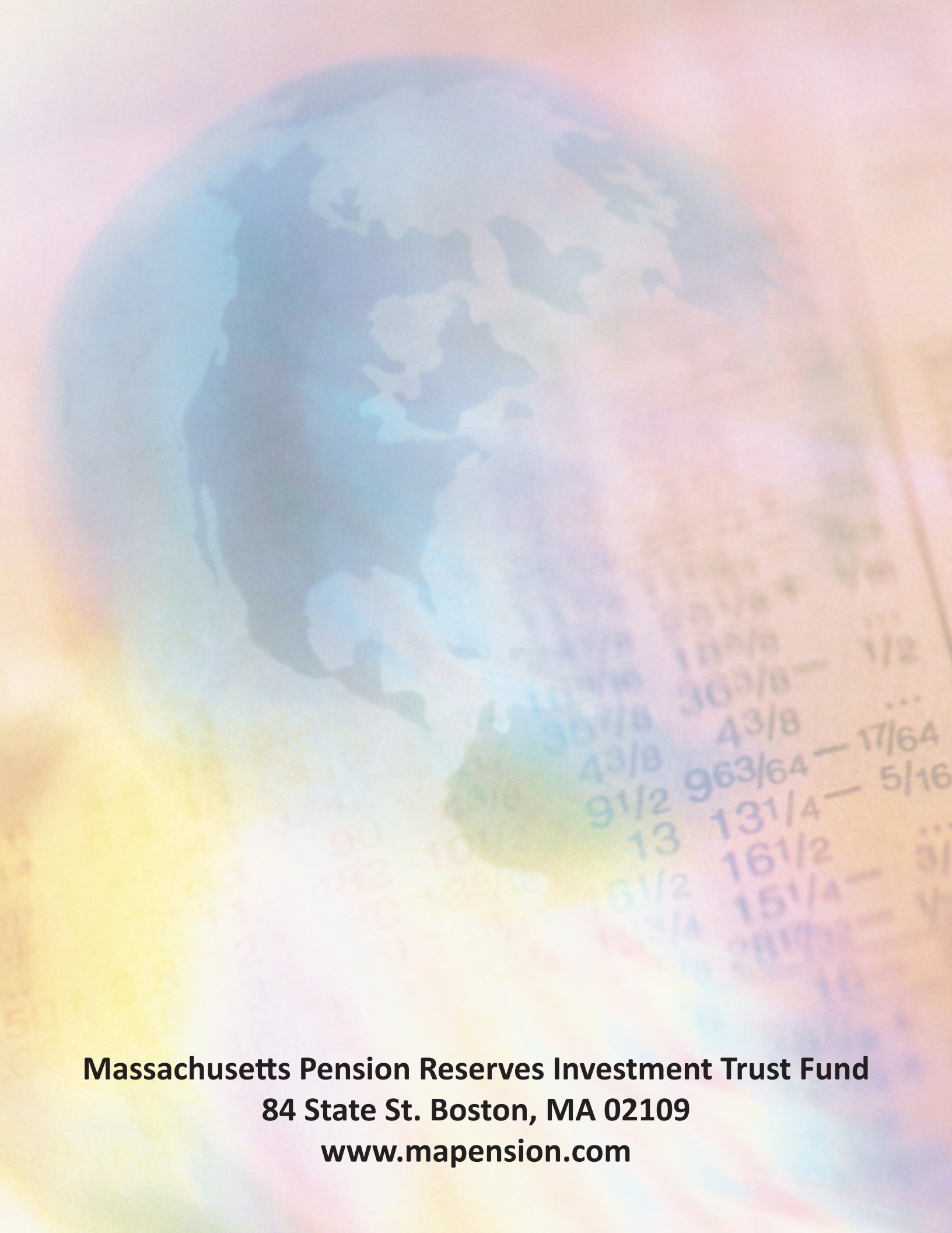
As of June 30:

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Domestic Equity	19.8%	18.7%	19.2%	19.0%	20.8%	19.2%	22.0%	19.9%	24.4%	26.1%
International Equity	18.0%	16.5%	16.9%	17.1%	18.0%	16.7%	21.7%	20.0%	19.0%	20.0%
Emerging Markets	7.9%	7.0%	6.6%	7.0%	6.5%	6.7%	6.6%	5.7%	5.0%	5.5%
Core Fixed Income	12.0%	13.9%	13.7%	13.9%	12.6%	13.0%	13.2%	14.0%	13.0%	16.8%
Value-Added Fixed Income	8.1%	8.4%	8.3%	8.5%	8.9%	8.6%	6.0%	7.0%	7.7%	5.0%
Private Equity	10.6%	11.1%	11.3%	11.1%	11.7%	12.1%	10.7%	10.6%	9.6%	8.4%
Real Estate	9.1%	10.4%	10.0%	8.9%	8.2%	9.7%	8.2%	9.1%	10.9%	10.9%
Timberland	3.7%	3.3%	3.8%	3.9%	4.0%	3.9%	4.0%	4.1%	4.7%	2.1%
Hedge Funds (1)	0.0%	8.6%	9.1%	9.6%	9.2%	9.9%	7.2%	7.7%	5.7%	5.2%
Liquidating Portfolios (2)	0.4%	0.3%	0.1%	0.1%	0.1%	0.2%	0.4%	1.9%	-	-
Overlay	1.0%	0.5%	0.9%	0.9%	-	-	-	-	-	-
Portfolio Completion Strategies (1)	9.5%	1.2%	0.2%	-	-	-	-	-	-	-

Totals may not add due to rounding.

- (1) At the February 14, 2017 Board meeting, the PRIM Board voted to combine the Hedge Funds and Portfolio Completion Strategies portfolios into a single portfolio (Portfolio Completion Strategies).
- (2) Includes Portable Alpha Wind Down and Natural Resources Private Wind Down. Prior to January 1, 2010, Portable Alpha assets were reflected in the Domestic Equity portfolio. Prior to January 31, 2016, Natural Resources Private assets were reflected in the Timberland portfolio.



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