



PENSION RESERVES INVESTMENT TRUST FUND

(A Component Unit of the Commonwealth of Massachusetts)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2018

(With Basic Financial Statements for the Fiscal Years Ended June 30, 2018 and 2017)

Deborah B. Goldberg, Treasurer and Receiver General, Chair

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

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(With Basic Financial Statements for the Fiscal Years Ended June 30, 2018 and 2017)

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 29, 2018

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, 2018. The document that follows is the 14th consecutive CAFR produced in the PRIM Board's 34-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, 2018.

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 2018 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 21, 2018, calculated the Commonwealth's unfunded actuarial pension liability at \$41.4 billion. The PERAC valuation report estimates that, as of January 1, 2018, the pension liability is 57.0% funded using a target date of 2036. It should be noted that the unfunded actuarial pension liability is calculated on a calendar year basis.

The PRIM Board seeks to maximize the return on the PRIT Fund investments within acceptable levels of risk 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, 2018, the PRIT Fund had approximately \$71.8 billion in net position compared to \$66.9 billion at the end of fiscal year 2017, which is an increase of \$4.9 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 2018 was another exceptionally strong year for the PRIM Board. The PRIT Fund returned 10.0% gross of fees (9.5% net) for the fiscal year, 140 basis points above benchmark, net of fees. Six of seven major asset classes outperformed their benchmarks net of fees. Private Equity returned 19.9% for the year, Global Equities returned 11.7%, Real Estate returned 8.9%, and Timberland returned 7.4%. Portfolio Completion Strategies (PCS), now 13.4% of the total PRIT Fund, returned 6.8% net of fees, 78 basis points above the benchmark while exhibiting low realized volatility of approximately 2.8%.

We evaluate the performance of the PRIT Fund on three equally important metrics: return, risk, and cost. As described above, the returns of each asset class and the entire PRIT Fund were very strong both relative to the benchmarks and in absolute terms, and importantly, expenses and risk remained tightly controlled. Even with the Board-approved, larger allocation in the fiscal year to high-performing, relatively higher fee, actively managed alternative asset classes such as Private Equity and PCS, we are pleased to report that the ratio of total expenses was 52 basis points in fiscal year 2018, compared with 54 basis points in fiscal year 2017. This decrease highlights our continuing efforts related to Project SAVE, as well as our focus on lower-fee separately managed accounts in our PCS portfolio, the success of our Private Equity co-investment program, and new direct Real Estate investments, among other things. Moreover, the 9.5% net of fees return of the PRIT Fund for the year was achieved with a realized volatility of 4.3%, producing a very high Sharpe ratio of approximately 1.8. We believe this Sharpe ratio, which measures the risk-adjusted return of the PRIT Fund, would be among the highest in the country, meaning our portfolio is higher returning relative to our peers even though it has comparatively lower risk, and low cost. The PRIM Board's strong performance in both up markets such as fiscal year 2018 and calendar year 2017, combined with our strong outperformance in down markets like we had in fiscal year 2016, gives us confidence that our investment program is performing as designed.

Organizationally, fiscal 2018 was another outstanding year. One senior-level employee departed, the first such departure in several years, and consistent with the Board-approved hiring plans, we filled six staff vacancies with top talent. We are staffed with exceptional investment and finance professionals, and our job postings attract literally hundreds of talented and well-qualified applicants. 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. Our comparatively small staff researched and deployed approximately \$5.4 billion in new Board-approved investments in fiscal year 2018, a new milestone for the PRIM Board's productivity.

We have never been stronger or more productive, but retention of key employees remains our primary concern. The employment environment in the nation and in the region is strong, meaning there are numerous opportunities for our employees outside of the PRIM Board, and we have spent considerable time and effort on retention strategies for our employees. We continue to ensure that we provide a challenging and rewarding opportunity for all our employees, and that the PRIM Board continues to maintain a positive culture and working environment that our employees enjoy and value. We owe a great deal of gratitude to our Board and committees for providing the support necessary to advance our investment program and to attract and retain highly-qualified employees.

Recent Recognition

The American Investment Council ranked PRIM's Private Equity **#1 in private equity returns** among 163 U.S. public pension funds based on 10-year performance. PRIM is the only fund that has been in the Top 5 of all private equity portfolios in every year the American Investment Council has performed the study, including #1 rankings in 2015 and 2013.

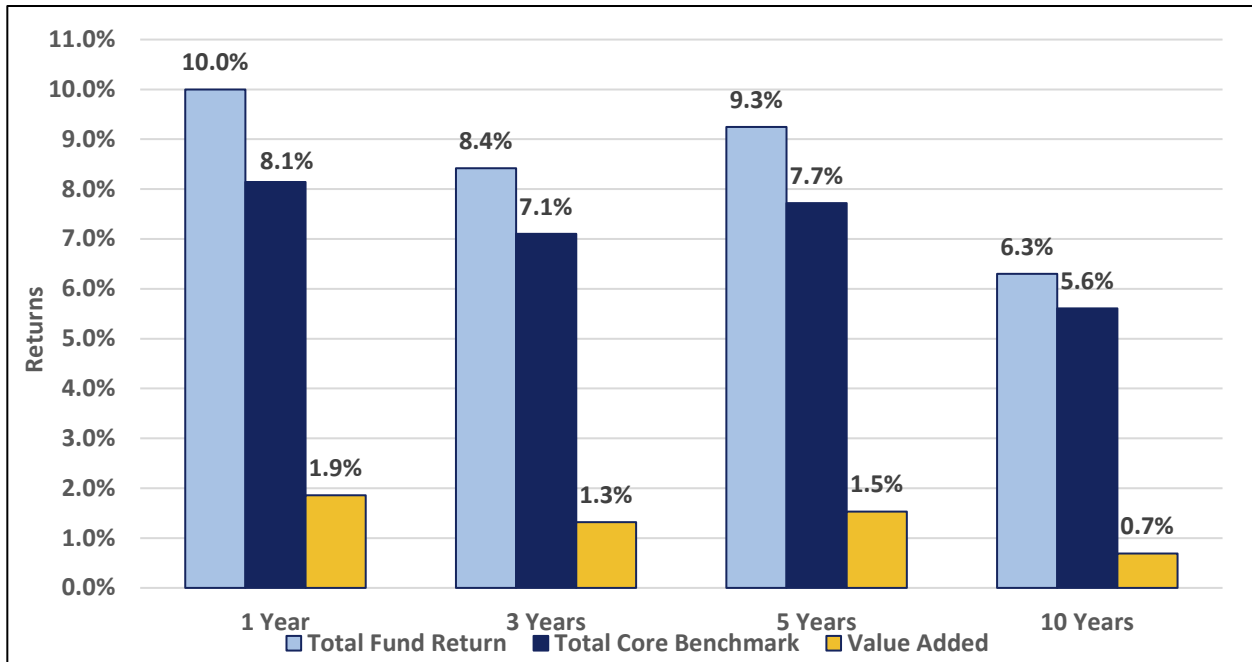
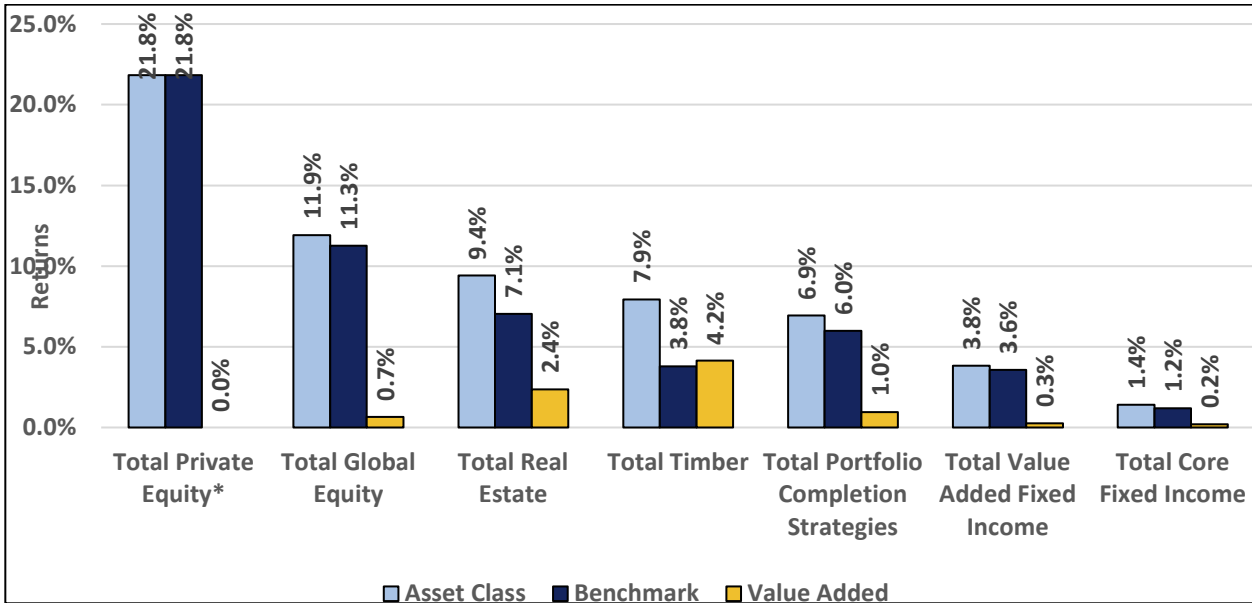
In May, and for the 13th consecutive year, the PRIM Board was awarded the Government Finance Officers Association's **Certificate of Achievement for Excellence in Financial Reporting** for the completeness and timeliness of our Comprehensive Annual Financial Report.

Michael Trotsky, CFA, Executive Director and Chief Investment Officer, was elected **Vice-Chair of the CFA Society Boston** in late June. In the ordinary course of succession at the CFA, the Board's Vice-Chair is likely to serve as Chair of the Board in the following year. The CFA Society Boston serves more than 5,700 members in the greater Boston area. Last August, Michael's 3-year term as a Governor of the CFA Institute ended. The CFA Institute is the global parent of the CFA Society Boston, serving more than 150,000 members worldwide.

PRIT Fund Performance

As of June 30, 2018, the PRIT Fund net position stood at \$71.8 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, 2018, the PRIT Fund rose 10.0% (gross of fees), outperforming the total core benchmark of 8.1% by 186 basis points. On a net of fees basis, the PRIT Fund was up 9.5%, outperforming its benchmark by 140 basis points
- This performance equates to an investment gain of \$6.4 billion, net of fees.
- This outperformance equates to \$935 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, 2018, were approximately \$1.4 billion

PRIT Total Core Fund Returns (Gross of Fees)*Annualized Returns as of June 30, 2018***PRIT Asset Class Performance (Gross of Fees)***One Year Ended June 30, 2018*

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

PRIT Asset Class Performance (Gross of Fees)*Annualized Returns as of June 30, 2018*

1 Year	3 Year	5 Year	10 Year
PRIVATE EQUITY 21.8%	PRIVATE EQUITY 18.3%	PRIVATE EQUITY 19.4%	PRIVATE EQUITY 13.6%
GLOBAL EQUITY 11.9%	REAL ESTATE 9.4%	REAL ESTATE 10.8%	REAL ESTATE 6.9%
REAL ESTATE 9.4%	GLOBAL EQUITY 9.1%	GLOBAL EQUITY 10.0%	VALUE-ADDED FIXED INCOME 6.8%
TIMBER 7.9%	TIMBER 5.5%	TIMBER 7.6%	GLOBAL EQUITY 6.6%
PORTFOLIO COMPLETION STRATEGIES 6.9%	VALUE-ADDED FIXED INCOME 5.0%	PORTFOLIO COMPLETION STRATEGIES 4.8%	TIMBER 4.6%
VALUE-ADDED FIXED INCOME 3.8%	CORE FIXED INCOME 3.6%	VALUE-ADDED FIXED INCOME 4.4%	CORE FIXED INCOME 4.0%
CORE FIXED INCOME 1.4%	PORTFOLIO COMPLETION STRATEGIES 3.3%	CORE FIXED INCOME 4.3%	PORTFOLIO COMPLETION STRATEGIES 3.2%

PRIT Core Fund Performance Summary**Gross of Fees Performance***Trailing 1-Year Performance as of June 30, 2018*

Trailing 1-Year Performance: June 30, 2018	Return	Benchmark Return	Over/(Under) Benchmark (bps)	\$Value (millions)	% of PRIT Fund*
Total PRIT Fund	10.0%	8.1%	186	71,802	100%
Total Global Equity	11.9%	11.3%	66	30,064	41.9%
<i>Domestic Equity</i>	<i>15.6%</i>	<i>15.4%</i>	<i>25</i>	<i>13,696</i>	<i>19.1%</i>
<i>International Developed</i>	<i>8.7%</i>	<i>8.0%</i>	<i>69</i>	<i>11,831</i>	<i>16.5%</i>
<i>Emerging Markets</i>	<i>9.1%</i>	<i>7.8%</i>	<i>129</i>	<i>4,537</i>	<i>6.3%</i>
Private Equity**	21.8%	21.8%	0	7,735	10.8%
Real Estate	9.4%	7.1%	236	6,455	9.0%
Total Timberland	7.9%	3.8%	415	2,434	3.4%
Portfolio Completion Strategies	6.9%	6.0%	95	9,622	13.4%
Value Added Fixed Income	3.8%	3.6%	25	5,760	8.0%
Core Fixed Income	1.4%	1.2%	20	9,154	12.8%

*Total does not add to 100% due to small allocations not included in this chart.

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

Summary of Fiscal Year 2018 Key Accomplishments**1. PRIM Board Promotions**

- Deborah Coulter, CPA, was promoted to Chief Financial Officer
- Anthony Falzone was promoted to Chief Operating Officer
- David Gurtz, CPA, CFA, was promoted to Deputy Chief Investment Officer & Director of Public Markets
- Bill Li, CFA, CAIA, was promoted to Senior Investment Officer, PCS
- Matthew Liposky was promoted to Chief Investment Operating Officer

2. PRIM Board New Hires

- Sylvia Argiropoulos – Administrative Assistant – June 2018
- David Griswold – Director of Information Technology – June 2018
- Jennifer Kuhn, PHR, SHRM-CP – Director of Human Resources – April 2018
- Maria Garrahan – Investment Officer – PCS – January 2018
- Edward Caron – Investment Operations Analyst – November 2017
- Maria Clements – Administrative Assistant – September 2017

3. Maintained low employee turnover

- One senior staff departures in FY 2018 – Sarah Samuels, Deputy Chief Investment Officer to Wellesley College Endowment Office

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

- PRIM was nominated for the “**Team of the Year**” award by *Institutional Investor Magazine*. (November 2017)
- PRIM’s Private Equity ranked #1 in private equity returns among 163 U.S. public pension funds based on 10-year performance. PRIM is the only fund that has been in the Top 5 of all private equity portfolios in every year the American Investment Council has performed the study – including #1 rankings in 2015 and 2013.
- Michael Trotsky, CFA, Executive Director and Chief Investment Officer was named one of 2017’s “**Top 30 Public Pension Chief Investment Officers**” by *Trusted Insight*, a global network of institutional investors. (November 2017)
- Michael Trotsky, CFA, Executive Director and Chief Investment Officer, was elected Vice Chair of Board of Governors of the CFA Society Boston. (June 2018)

- Eric Nierenberg, Ph.D., Chief Strategy Officer was nominated for the “**Next CIO**” award by Institutional Investor Magazine. (November 2017)
- Timothy Schlitzer, CRE, CFA, Senior Investment Officer – Director of Real Estate and Timberland, received the **Commonwealth’s Citation for Outstanding Performance** at a State House ceremony with Treasurer Deborah Goldberg, Chair of the PRIM Board. (September 2017)
- Chris Supple, General Counsel and Deputy Executive Director, was appointed to Chair of the Securities Litigation Committee of the National Association of Public Pension Attorneys (NAPPA). (February 2018)

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

- Our staff credentials: 2 Ph.D.’s, 8 Master’s Degrees, one J.D., 10 CFAs, 6 CPAs, one CAIAs and 20 CFA Investment Foundations Program.
- Expanded the “PRIM University” training program.
- Alyssa Fiore, Investment Analyst on the Private Equity Team, was awarded the *Chartered Financial Analyst (CFA)* designation, having passed all three tests and completed the work requirements.
- Andrew Gromer, Investment Analyst on the Public Markets Team, was awarded the *Chartered Financial Analyst (CFA)* designation, having passed all three tests and completed the work requirements.
- Morgan Burns, Accounting Assistant on the Investment Operations team, was awarded the *Chartered Financial Analyst (CFA)* designation, having passed all three tests and completed the work requirements.
- Andre Abouhala, Investment Analyst on the Public Markets Team, earned his MBA from Boston University.
- Carlo Scarpa, Help Desk Specialist on the Information Technology team, passed the COMPTIA Security+ certification exam.

6. Continued to implement the PRIM Board Professional Development Program

- Continued to support and develop cross-training and the career development program, which allows high-performing employees to grow their expertise beyond their core responsibilities.

7. Continued diversity staffing initiatives

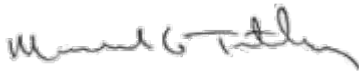
- Commissioned a diversity and inclusion assessment to support PRIM’s diversity and inclusion initiatives.
- Hired five interns, two of whom were participants in the “Women in Finance Fellowship” created by Treasurer, Deborah Goldberg, Chair of the PRIM Board, and sponsored one intern from “Girls Who Invest”. Of the five interns, four were female and one was a minority male.

- Of our fiscal year 2018 full time employee hires, 4 of the 6 employees are diverse due to gender, race or both.
- For all posted positions, PRIM ensures that a full slate of qualified diverse candidates is received before hiring the most qualified candidate.

Acknowledgements

The PRIM Board's success is inextricably linked to the diligence of our Board and its Chair, Treasurer Deborah B. Goldberg. We are truly 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, 2017

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, 2017. This was the 13th 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

Former Hingham Town Administrator

Patrick E. Brock

Chairman, Hampshire County Retirement Board

Joseph Connolly

Managing Director, Strategic Development, TerraCap Management

Karen E. Gershman, CPA

Retired Partner and 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 & Principal, Whitham Law LLC

Compensation Committee

Michele A. Whitham, Esq., Chair

Founder & Principal, Whitham Law LLC

Deborah B. Goldberg

Ex Officio Board Member

Robert L. Brousseau

Board Member

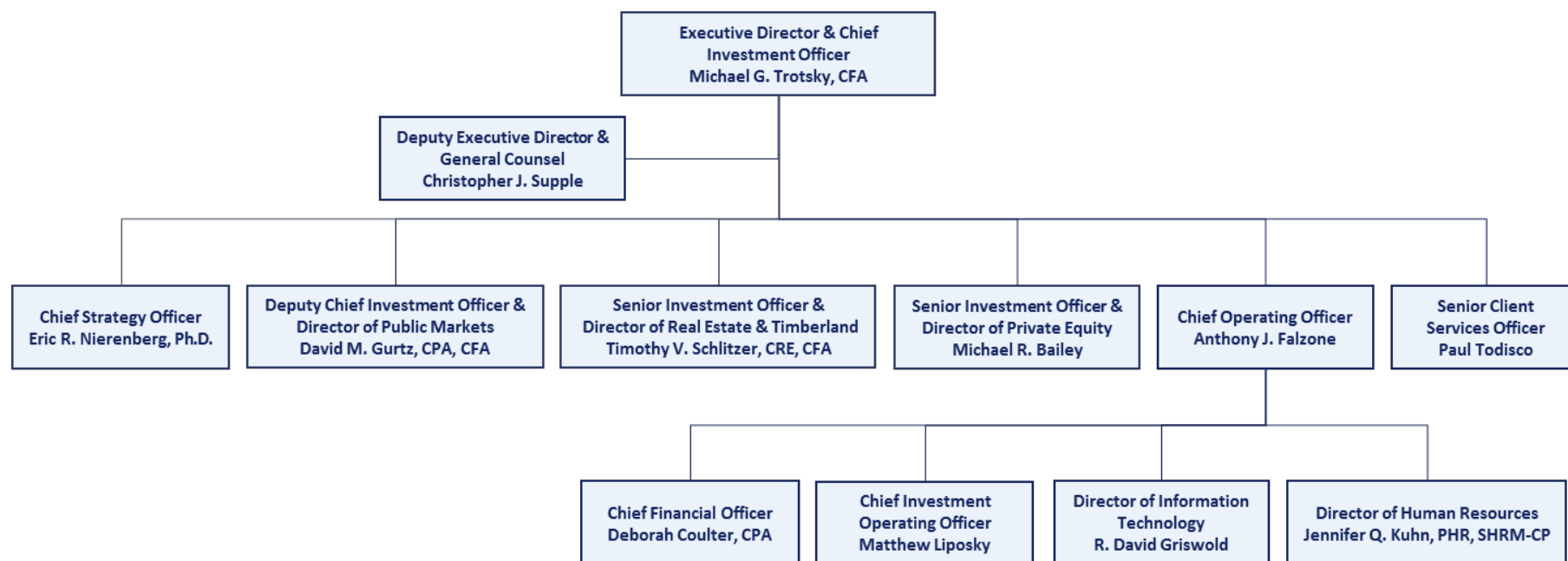
Patrick E. Brock

Chairman, Hampshire County Retirement Board

Joseph Connolly

Managing Director, Strategic Development, TerraCap Management

PRIM Board Management Organizational Chart



PRIM Board Investment Advisors

Aberdeen Asset Management Inc.
Portfolio Completion Strategies Advisory Services

Callan Associates
Public Market Advisory Services

Hamilton Lane
Private Equity Advisory Services

International Woodland Company
Timberland Advisory Services

NEPC, LLC
Asset Allocation Advisory Services

NewAlpha Asset Management
Portfolio Completion Strategies Advisory Services

The Townsend Group
Real Estate 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, 2018 and 2017, 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, 2018 and 2017, and the changes in its pooled net position for the years then ended in accordance with U.S. generally accepted accounting principles.

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 29, 2018 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PRIT Fund's 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 29, 2018

Required Supplementary Information –
Management's Discussion and Analysis

June 30, 2018 and 2017

(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, 2018 and 2017 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, 2018 and 2017 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 2018

- The net position of the PRIT Fund increased \$5.0 billion during the year ended June 30, 2018. Total net position was \$71.8 billion at June 30, 2018, compared to \$66.9 billion at June 30, 2017.
- Net investment income for fiscal year 2018 was \$6.4 billion, compared to net investment income of \$7.7 billion for the prior fiscal year. The PRIT Fund returned 9.97%, gross of fees, in fiscal year 2018, compared to 13.20% in fiscal year 2017.
- Contributions to the PRIT Fund totaled \$2.7 billion in each of the years ended June 30, 2018 and 2017.
- Redemptions from the PRIT Fund totaled \$4.2 billion in each of the years ended June 30, 2018 and 2017.

(Continued)

Required Supplementary Information –
Management's Discussion and Analysis

June 30, 2018 and 2017

(Unaudited)

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

Condensed Financial Information

Summary balances and activities of the PRIT Fund as of and for the years ended June 30, 2018, 2017, and 2016 are presented below:

	June 30		
	2018	2017	2016
	(Dollars in thousands)		
Summary of pooled net position:			
Assets:			
Investments	\$ 75,621,192	70,069,983	63,387,573
Cash	169,376	267,019	221,028
Securities lending collateral	256,445	306,659	622,640
Receivables and other assets	1,188,043	1,195,196	624,478
Total assets	77,235,056	71,838,857	64,855,719
Liabilities:			
Other liabilities	4,884,830	4,392,325	3,511,540
Securities lending obligations	505,746	556,237	622,487
Management fees payable to PRIM	42,838	39,854	28,887
Total liabilities	5,433,414	4,988,416	4,162,914
Net position held in trust for pool participants	\$ 71,801,642	66,850,441	60,692,805

(Continued)

Required Supplementary Information –
Management's Discussion and Analysis

June 30, 2018 and 2017

(Unaudited)

		June 30	
	2018	2017	2016
	(Dollars in thousands)		
Summary of changes in pooled net position:			
Additions:			
Contributions	\$ 2,749,989	2,689,066	2,402,074
Net investment income	6,354,624	7,655,016	1,091,671
Total additions	9,104,613	10,344,082	3,493,745
Deductions:			
Redemptions	4,153,412	4,186,446	4,044,685
Change in pooled net position	4,951,201	6,157,636	(550,940)
Net position held in trust for pool participants:			
Balance, beginning of year	66,850,441	60,692,805	61,243,745
Balance, end of year	\$ 71,801,642	66,850,441	60,692,805

The PRIT Fund Performance during the year ended June 30, 2018

The PRIT Fund began fiscal year 2018 with net position of \$66.9 billion and ended the fiscal year with a net position of \$71.8 billion, representing a 7.41% increase. Net investment income for the year ended June 30, 2018 was \$6.4 billion, which when added to net participant redemptions (contributions less redemptions) of \$1.4 billion, resulted in an overall increase in net position of \$5.0 billion.

For the year ended June 30, 2018, the PRIT Fund returned 9.97% gross of fees, exceeding its benchmark of 8.14% by 183 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, 2018 are as follows: Global Equity 11.92%; Core Fixed Income 1.40%; Value-Added Fixed Income 3.82%; Private Equity 21.84%; Real Estate 9.41%; Timberland 7.94%; Portfolio Completion Strategies 6.94%; and Overlay 3.12%.

The PRIT Fund outperformed its benchmark for the fiscal year ended June 30, 2018 and has returned an average of 9.51%, 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 \$25 billion over the one-year, three-year, and five-year periods ended June 30, 2018.

(Continued)

Required Supplementary Information –
Management's Discussion and Analysis

June 30, 2018 and 2017

(Unaudited)

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%.

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. 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, 2018 and 2017

(Dollars in thousands)

	2018	2017
Assets:		
Investments, at fair value:		
Short-term	\$ 1,621,234	1,676,219
Fixed income	15,801,995	14,023,318
Equity	29,214,292	29,392,931
Timberland	2,420,914	2,480,243
Private equity funds	7,570,364	7,017,326
Real estate:		
Real estate properties	6,265,041	6,023,845
Equity	1,614,349	1,505,037
Real estate funds	74,591	90,827
Other	66,055	60,914
Total real estate	8,020,036	7,680,623
Portfolio completion strategies:		
Equity	4,012,556	1,932,338
Investment funds	3,399,187	3,334,812
Fixed income	1,772,156	989,603
Cash and cash equivalents	1,393,918	1,339,057
Agricultural investments	393,303	203,323
Other	1,237	190
Total portfolio completion strategies	10,972,357	7,799,323
Total investments	75,621,192	70,069,983
Cash	169,376	267,019
Securities lending collateral	256,445	306,659
Interest and dividends receivable	202,232	172,849
Receivable for investments sold and other assets	499,162	500,323
Securities sold on a when-issued basis	435,489	506,614
Foreign currency forward contracts	51,160	15,410
Total assets	77,235,056	71,838,857
Liabilities:		
Payable for investments purchased and other liabilities	810,099	396,625
Real estate debt and other liabilities	1,425,825	1,390,612
Securities lending obligations	505,746	556,237
Securities purchased on a when-issued basis	949,570	1,029,545
Foreign currency forward contracts	28,659	20,234
Management fees payable to PRIM	42,838	39,854
Portfolio completion strategies liabilities:		
Securities sold short, at fair value	1,616,583	1,500,209
Other	54,094	55,100
Total portfolio completion strategies liabilities	1,670,677	1,555,309
Total liabilities	5,433,414	4,988,416
Net position held in trust for pool participants	\$ 71,801,642	66,850,441

See accompanying notes to financial statements.

Statements of Changes in Pooled Net Position

Years ended June 30, 2018 and 2017

(Dollars in thousands)

	2018	2017
Additions:		
Contributions:		
State employees	\$ 727,625	855,586
State teachers	804,171	761,753
Other participants	1,218,193	1,071,727
Total contributions	2,749,989	2,689,066
Net investment income:		
From investment activities:		
Net realized gain on investments and foreign currency transactions	3,859,853	2,577,447
Net change in unrealized appreciation on investments and foreign currency translations	991,372	3,619,175
Interest	357,027	311,988
Dividends	791,098	735,490
Timberland	48,301	25,147
Private equity	122,014	197,368
Portfolio completion strategies	46,046	18,295
Real estate:		
Income	503,136	529,269
Expenses	(215,158)	(225,125)
	287,978	304,144
Income from investment activities	6,503,689	7,789,054
Investment management and other management fees	(159,459)	(144,004)
Net income from investment activities	6,344,230	7,645,050
From securities lending activities:		
Securities lending income	12,030	11,374
Securities lending expenses	(1,636)	(1,408)
Net income from securities lending activities	10,394	9,966
Total net investment income	6,354,624	7,655,016
Total additions	9,104,613	10,344,082
Deductions:		
Redemptions:		
State employees	1,442,808	1,459,041
State teachers	1,714,084	1,672,202
Other participants	996,520	1,055,203
Total deductions	4,153,412	4,186,446
Net increase in pooled net position	4,951,201	6,157,636
Net position held in trust for pool participants:		
Balance, beginning of year	66,850,441	60,692,805
Balance, end of year	\$ 71,801,642	66,850,441

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2018 and 2017

(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

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Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

a schedule of state pension appropriations that assumes a long-term actuarial rate of return for the PRIT Fund of 7.35%.

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, 2018, there were 39 Participating Systems and 58 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, 2018: 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, Equity Hedge, Other Credit Opportunities,

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Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

Liquidating Portfolios, Private Equity Investments, and Private Equity Investments Vintage Years 2000-2018. 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, 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 Investments, and Private Equity Investments Vintage Years 2000-2017.

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, 2018 and 2017, there were 42 and 39 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, 2018 and 2017

(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 2017 financial statements to conform to the 2018 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, 2018 and 2017

(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, 2018 and 2017, 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

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Notes to Financial Statements

June 30, 2018 and 2017

(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, 2018 and 2017, foreign taxes withheld of \$23,211 and \$19,311, respectively, have been netted against dividend income in the statements of changes in pooled net

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Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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. Portfolio completion strategies income includes cash distributions of operating income from agricultural investments as well as investment income from managed accounts.

(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 equity, fixed income, portfolio completion strategies, 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

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Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

include contracts for differences, foreign currency exchange contracts, financial and commodity futures contracts, and customized swap agreements (see note 7 for more detail). These derivative instruments can be exchange-traded or OTC contracts. The primary difference in risk associated with OTC contracts and exchange-traded contracts is credit and liquidity risks. For exchange-traded contracts, credit risk is limited to the role of the exchange or clearing corporation. OTC contracts contain credit risk for unrealized gains from various counterparties for the duration of the contract.

(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.

(Continued)

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(Dollars in thousands)

(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. Fair values are primarily obtained from third-party pricing services for identical or comparable assets or liabilities, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. 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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June 30, 2018 and 2017

(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, 2018 and 2017:

Investments at fair value	Total	2018 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	\$ 1,621,234	—	1,621,234	—	—	
Fixed income:						
U.S. government obligations (1)	5,910,344	5,910,344	—	—	—	
Domestic fixed income (2)	5,635,457	1,812	5,585,586	48,059	—	
International fixed income (3)	2,907,782	141,278	2,760,137	6,367	—	
Distressed debt (4)	1,148,148	—	—	—	1,148,148	1,322,760
Other credit opportunities (5)	200,264	394	49,886	140,728	9,256	45,063
	15,801,995	6,053,828	8,395,609	195,154	1,157,404	
Equity:						
Domestic equity securities	13,002,507	13,002,470	37	—	—	
International equity securities	16,211,785	16,178,344	—	33,441	—	
	29,214,292	29,180,814	37	33,441	—	
Timberland	2,420,914	—	—	2,420,914	—	
Private equity funds:						
Special equity (6)	5,567,287	—	—	—	5,567,287	4,895,680
Venture capital (7)	1,836,814	—	—	—	1,836,814	443,597
Natural resources (8)	166,263	—	—	—	166,263	52,204
	7,570,364	—	—	—	7,570,364	
Real estate:						
Real estate properties	6,265,041	—	—	6,265,041	—	
Real estate equity securities	1,614,349	1,598,418	15,931	—	—	
Real estate funds (9)	74,591	—	—	—	74,591	108,857
Other	66,055	—	—	66,055	—	
	8,020,036	1,598,418	15,931	6,331,096	74,591	
Portfolio completion strategies:						
Event-driven hedge funds (10)	1,429,571	—	—	—	1,429,571	25,832
Relative value hedge funds (11)	301,348	—	—	—	301,348	
Equity long/short hedge funds (12)	157,464	—	—	—	157,464	
Fund of funds (13)	996,974	—	—	—	996,974	
Risk premia funds (14)	217,627	—	—	—	217,627	
Real assets funds (15)	296,203	—	—	—	296,203	12,000
Investment funds	3,399,187	—	—	—	3,399,187	
Equity securities	4,012,556	3,966,774	21,132	24,650	—	
Fixed income securities	1,772,156	—	1,652,285	119,871	—	105,000
Cash and cash equivalents	1,393,918	1,294,247	99,671	—	—	
Agricultural investments	393,303	—	—	393,303	—	
Other	1,237	—	—	1,237	—	
	10,972,357	5,261,021	1,773,088	539,061	3,399,187	
Total investments	\$ 75,621,192	42,094,081	11,805,899	9,519,666	12,201,546	

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June 30, 2018 and 2017

(Dollars in thousands)

2018						
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)	Unfunded commitments
Securities lending collateral:						
Repurchase agreements	\$ 250,000	—	250,000	—	—	
Money market investments	6,445	—	6,445	—	—	
Total securities lending collateral	\$ 256,445	—	256,445	—	—	
Portfolio completion strategies liabilities at fair value						
Securities sold short:						
Equity securities	\$ 1,211,002	1,208,864	2,138	—	—	
Cash and cash equivalents	349,612	1,800	347,812	—	—	
Fixed income securities	55,969	6,961	49,008	—	—	
	1,616,583	1,217,625	398,958	—	—	
Other	54,094	—	—	54,094	—	
Total portfolio completion strategies liabilities	\$ 1,670,677	1,217,625	398,958	54,094	—	

(Continued)

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(Dollars in thousands)

Investments at fair value	Total	2017 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	\$ 1,676,219	—	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 (6)	5,153,026	—	—	—	5,153,026	3,410,559
Venture capital (7)	1,668,255	—	—	—	1,668,255	497,727
Natural resources (8)	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 (9)	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 (10)	1,528,571	—	—	—	1,528,571	58,834
Relative value hedge funds (11)	462,186	—	—	—	462,186	
Equity long/short hedge funds (12)	139,411	—	—	—	139,411	
Fund of funds (13)	975,017	—	—	—	975,017	
Risk premia fund (14)	212,754	—	—	—	212,754	
Real assets fund (15)	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 equivalents	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	190	—	190	—	—	
	<u>7,799,323</u>	<u>3,212,143</u>	<u>939,532</u>	<u>312,836</u>	<u>3,334,812</u>	
Total investments	\$ <u>70,069,983</u>	<u>39,387,198</u>	<u>10,110,672</u>	<u>8,946,890</u>	<u>11,625,223</u>	

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Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

		2017				
		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)	Unfunded commitments
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 equivalents	231,499	—	231,499	—	—	
Fixed income securities	83,273	101	83,172	—	—	
	1,500,209	1,185,538	314,671	—	—	
Other	55,100	—	—	55,100	—	
Total portfolio completion strategies liabilities	\$ 1,555,309	1,185,538	314,671	55,100	—	

- (1) Fiscal 2018 rates range from 0.00% to 8.13%, and maturities range from 2018 to 2048. Fiscal 2017 rates range from 0.00% to 8.75%, and maturities range from 2017 to 2047.
- (2) Fiscal 2018 rates range from 0.00% to 16.99%, and maturities range from 2018 to 2116. Fiscal 2017 rates range from 0.00% to 20.38%, and maturities range from 2017 to 2116.
- (3) Fiscal 2018 rates range from 0.00% to 36.75%, and maturities range from 2018 to 2115. Fiscal 2017 rates range from 0.00% to 26.25%, and maturities range from 2017 to 2117.
- (4) This represents investments in 39 private partnerships that invest directly in distressed debt investment opportunities at June 30, 2018 and 2017, 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 managed accounts and private partnerships that makes credit investments. 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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(Dollars in thousands)

- (6) This includes investments in 189 and 167 private partnerships focused on acquisition financing, equity infusion capital, recovery investments, and special situations at June 30, 2018 and 2017, 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.
- (7) This includes investments in 113 and 121 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, 2018 and 2017, 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.
- (8) This represents investments in four private partnerships that make investments in the energy and natural resources industries at June 30, 2018 and 2017. 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 year at June 30, 2018 and 2017, respectively.
- (9) This includes six and eight closed-end real estate funds that invest in U.S. real estate at June 30, 2018 and 2017, 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 six and four years at June 30, 2018 and 2017, respectively.
- (10) This includes nine and 11 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, 2018 and 2017, respectively. Redemption frequency for these investments ranged from quarterly to two years with 45 to 90 days' notice.
- (11) This includes two and three 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, 2018 and 2017, respectively. Redemption frequency for these investments ranged from monthly to quarterly with 45 to 90 days' notice.
- (12) This includes three 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, 2018 and 2017. Redemption frequency for these investments ranged from quarterly to three years with 45 to 60 days' notice.

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(Dollars in thousands)

- (13) This includes one active hedge fund of funds manager, valued at \$959,006 and \$928,483, at June 30, 2018 and 2017, 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.
- (14) This includes one fund that is invested in a multi-strategy risk premia program at June 30, 2018 and 2017. Redemption frequency for this fund is monthly with 30 days' notice.
- (15) This includes three and one funds that seeks to make investments in real assets at June 30, 2018 and 2017, respectively. Investments in these funds are generally not redeemable and distributions are received as the funds liquidate the underlying assets.

(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, 2018 and 2017.

(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

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(Dollars in thousands)

and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes, including callable options, prepayments, and other factors. These factors are reflected in the effective duration numbers provided in the following table. The PRIM Board compares the effective duration of a manager's portfolio to their relevant benchmark including Bloomberg Barclays Capital Aggregate index, US Treasury STRIPS 20+ Year index, Bloomberg Barclays Capital US TIPS index, Bloomberg 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 Intercontinental Exchange Bank of America Merrill Lynch (ICE BofAML) High Yield index.

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

Investment	2018		2017	
	Fair value	Effective weighted duration rate	Fair value	Effective weighted duration rate
		(Years)		(Years)
Asset-backed securities	\$ 417,981	1.69	226,450	1.44
Commercial mortgage – backed securities	248,079	2.31	202,455	2.15
Commercial paper and CDs	200	0.18	30,629	0.35
Corporate bonds and other credits	5,102,987	5.42	4,284,454	6.26
U.S. government bonds	3,000,887	15.31	2,730,364	16.31
U.S. government agencies	23,944	3.05	21,605	4.01
U.S. government TIPS	2,909,457	5.41	2,433,399	6.97
U.S. government mortgage – backed securities	1,360,894	5.00	1,138,067	3.98
Global inflation linked bonds	420,781	8.86	396,989	8.65
Municipal bonds	38,702	8.12	38,883	8.94
Pooled money market fund (1)	1,621,234	N/A	1,676,219	N/A
Other pooled funds (2)	4,050,239	N/A	3,509,626	N/A
Total fixed income and short-term investments	\$ 19,195,385		16,689,140	
Securities lending collateral investments:				
Pooled money market fund (1)	6,445	N/A	156,659	N/A
Repurchase agreements (1)	250,000	N/A	150,000	N/A
Total securities lending collateral investments	\$ 256,445		306,659	

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

(2) Other pooled funds have a weighted average maturity of approximately two and three years at June 30, 2018 and 2017, respectively.

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(Dollars in thousands)

(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, 2018 and 2017. The following tables present the PRIT Fund's fixed-income securities credit ratings at June 30:

Investment	Total fair value	2018					
		Investment grade			Noninvestment grade		Not rated
		AAA	AA+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	
Asset-backed securities	\$ 417,981	27,597	40,299	3,984	63,224	203,652	79,225
Commercial mortgage-backed securities	248,079	74,783	11,633	7,209	18,282	68,600	67,572
Commercial paper and CDs	200	—	—	—	—	—	200
Corporate bonds and other credits	5,102,987	126,070	947,590	1,136,307	1,426,207	360,662	1,106,151
U.S. government agencies	23,944	—	23,944	—	—	—	—
U.S. government mortgage-backed securities	1,145,561	2,145	613,730	—	2,049	—	527,637
Global inflation linked bonds	420,781	82,534	222,944	99,455	—	—	15,848
Municipal bonds	38,702	662	33,641	1,997	2,237	165	—
Pooled money market fund	1,621,234	—	—	—	—	—	1,621,234
Other pooled funds	4,050,239	—	—	—	—	—	4,050,239
Total credit risk, fixed income, and short-term investments	13,069,708	313,791	1,893,781	1,248,952	1,511,999	633,079	7,468,106
Fixed income investments explicitly backed by the U.S. government	6,125,677						
Total fixed income and short-term investments	\$ 19,195,385						
Securities lending collateral investments:							
Pooled money market fund	6,445	6,445	—	—	—	—	—
Repurchase agreements	250,000	—	175,000	—	—	—	75,000
Total securities lending collateral investments	\$ 256,445	6,445	175,000	—	—	—	75,000

(Continued)

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(Dollars in thousands)

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	\$ 226,450	27,259	36,281	2,895	44,765	95,977	19,273
Commercial mortgage-backed securities	202,455	79,987	10,433	9,880	29,308	53,379	19,468
Commercial paper and CDs	30,629	—	25,321	—	—	—	5,308
Corporate bonds and other credits	4,284,454	143,104	1,039,533	1,052,002	1,252,597	327,654	469,564
U.S. government agencies	21,605	—	21,605	—	—	—	—
U.S. government mortgage-backed securities	934,392	13,439	419,453	5,513	2,211	—	493,776
Global inflation linked bonds	396,989	103,835	137,299	155,855	—	—	—
Municipal bonds	38,883	690	33,686	2,329	2,178	—	—
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	11,321,702	368,314	1,723,611	1,228,474	1,331,059	477,010	6,193,234
Fixed income investments explicitly backed by the U.S. government	5,367,438						
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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(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):

	2018						Total
	Cash and short-term investments	Equity	Fixed income	Portfolio completion strategies	Private equity investments	Timberland investments	
Australian Dollar	\$ 8,269	566,790	14,391	11,142	—	286,221	886,813
British Pound	21,223	2,341,679	376,298	62,471	18,443	—	2,820,114
Canadian Dollar	10,031	462,698	35,458	46,014	1,879	—	556,080
Danish Krone	4,436	310,531	3,220	914	—	—	319,101
Euro	40,148	2,887,294	335,248	219,433	1,138,093	—	4,620,216
Hong Kong Dollar	5,079	1,307,737	—	1,320	—	—	1,314,136
Indian Rupee	983	364,244	178	—	—	—	365,405
Japanese Yen	58,165	2,649,494	82,337	2,814	—	—	2,792,810
New Taiwan Dollar	1,692	424,752	—	—	—	—	426,444
S. African Comm Rand	560	253,296	69,888	(213)	—	—	323,531
South Korean Won	9,884	551,859	30,858	(75)	—	—	592,526
Swedish Krona	498	411,961	11,440	(550)	—	—	423,349
Swiss Franc	19,951	687,681	—	684	—	—	708,316
Other foreign currencies	28,362	1,141,878	601,004	32,284	—	—	1,803,528
Total securities subject to foreign currency risk	209,281	14,361,894	1,560,320	376,238	1,158,415	286,221	17,952,369
International investments denominated in U.S. dollars	—	1,849,891	1,347,462	—	—	—	3,197,353
Total international investments and cash deposits	\$ 209,281	16,211,785	2,907,782	376,238	1,158,415	286,221	21,149,722

(Continued)

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

	2017						Total
	Cash and short-term investments	Equity	Fixed income	Portfolio completion strategies	Private equity investments	Timberland investments	
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

(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, 2018 and 2017.

(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, 2018 and 2017

(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, 2018 and 2017, 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, 2018 and 2017 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, 2018 and 2017, the fair value of securities on loan was \$481,339 and \$533,768, respectively, and the associated collateral received in cash was \$505,746 and \$556,237, 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, 2018 and 2017. During the years ended June 30, 2018 and 2017, in accordance with the Securities Lending Agency Agreement, the PRIT Fund loaned \$250,000, 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 \$256,445 and \$306,659 at June 30, 2018 and 2017, respectively, and is reported as securities lending collateral in the accompanying statements of pooled net position.

(Continued)

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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

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

	2018	2017
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, 2018 in each of the next five years and in the aggregate thereafter are as follows:

	Amount
Year ending June 30:	
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.

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, 2018 and 2017, the applicable rate is 1.15%.

(Continued)

Notes to Financial Statements

June 30, 2018 and 2017

(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, 2018 and 2017.

(b) Mortgage Loans Payable

The LLC had 16 and 13 property-level mortgage loans payable as of June 30, 2018 and 2017, respectively. The mortgages have a weighted average interest rate of 3.87% and 3.90% and a weighted average maturity of 4.8 and 2.2 years at June 30, 2018 and 2017, respectively. The following table presents the face value of mortgage loans payable at June 30:

	<u>2018</u>	<u>2017</u>
Mortgage loans payable	\$ 422,942	351,973
Total	<u>\$ 422,942</u>	<u>351,973</u>

(c) Other Liabilities:

The LLC had other liabilities of \$2,883 and \$38,639 as of June 30, 2018 and 2017, 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 contracts for differences, foreign currency exchange contracts, futures contracts, and swap contracts.

(a) Contracts for differences

A contract for differences is an instrument whose value is based on the price movement of the underlying asset. It allows for gain or losses to be realized when the underlying asset moves in relation to the position taken, although the actual underlying asset is not owned by the PRIT Fund. The fair value of these instruments is generally recorded at the contract's net equity value. The net

(Continued)

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

equity value is calculated by determining the change in value of the underlying asset less the cost of any leverage. 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 value of the contract at the time it was opened and the value at the time it was closed.

Contracts for differences held at June 30 were as follows:

Description	Number of contracts	2018		
		Gross notional amount	Fair value of contracts	Unrealized appreciation (depreciation)
Long exposure	25,578	\$ 125,765	122,315	(3,450)
Short exposure	(13,499)	(120,488)	(120,546)	(58)
Total exposure		\$ 5,277	1,769	(3,508)

For the years ended June 30, 2018 and 2017, the change in net unrealized appreciation (depreciation) on contracts for differences was \$(3,508) and \$0, respectively.

(b) Foreign Currency Exchange Contracts

A foreign currency exchange contract is an agreement between two parties to buy or sell a fixed quantity of currency at a set price on a future date. The PRIT Fund may enter into foreign currency exchange contracts to hedge its exposure to the effect of changes in foreign currency exchange rates upon its non-U.S. dollar-denominated investments. The fair value of such contracts will fluctuate with changes in currency exchange rates. The contracts are valued daily, and the changes in fair value are recorded by the PRIT Fund as unrealized gains or losses. When the contract is closed, the PRIT Fund records a realized gain or loss equal to the difference between the cost of the contract at the time it was opened and the value at the time it was closed.

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Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

Foreign currency exchange contracts open at June 30 (in U.S. dollars) were as follows:

	Fair value	Aggregate face value	2018		Unrealized losses
			Delivery date(s)	Unrealized gains	
Foreign currency exchange contracts purchased:					
Australian Dollar	117,853	118,824	7/2/18-12/14/18	\$ 971	—
Brazilian Real	239,520	248,004	7/2/18-5/11/20	8,484	—
British Pound	903,946	907,625	7/2/18-11/26/18	3,679	—
Canadian Dollar	199,948	200,988	7/3/18-9/19/18	1,040	—
Euro	885,319	886,429	7/2/18-3/15/19	1,110	—
Israeli Shekel	120,242	122,891	7/9/18-9/20/18	2,649	—
Japanese Yen	303,822	306,944	7/2/18-9/19/18	3,122	—
Mexican New Peso	104,384	102,883	7/2/18-3/3/19	—	(1,501)
New Zealand Dollar	121,565	124,229	7/2/18-9/19/18	2,664	—
South Korean Won	136,202	139,521	7/2/18-9/19/18	3,319	—
Swedish Krona	197,915	202,968	7/2/18-9/19/18	5,053	—
Swiss Franc	303,583	306,226	7/2/18-9/19/18	2,643	—
South African Comm Rand	91,583	95,471	7/2/18-9/19/18	3,888	—
Other foreign currencies	669,984	675,231	7/2/18-9/19/18	6,118	(871)
Foreign currency exchange contracts sold:					
Australian Dollar	148,449	150,956	7/2/18-9/19/18	—	(2,507)
Brazilian Real	90,751	92,414	7/3/18-9/19/18	—	(1,663)
British Pound	544,461	546,183	7/2/18-9/19/18	—	(1,722)
Canadian Dollar	134,017	134,470	7/3/18-9/19/18	—	(453)
Euro	420,035	419,639	7/2/18-9/19/18	396	—
Japanese Yen	245,647	247,207	7/2/18-9/19/18	—	(1,560)
Mexican New Peso	277,269	271,777	7/2/18-9/26/18	5,492	—
Norwegian Krone	95,617	96,205	7/2/18-9/26/18	—	(588)
Russian Ruble	108,936	109,206	7/2/18-10/31/18	—	(270)
South African Comm Rand	101,814	105,718	7/2/18-9/19/18	—	(3,904)
Turkish Lira	185,444	185,569	7/2/18-9/28/18	—	(125)
Other foreign currencies	845,650	858,613	7/2/18-1/3/19	532	(13,495)
Total				\$ 51,160	(28,659)

(Continued)

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

	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)

For the years ended June 30, 2018 and 2017, the change in net unrealized appreciation (depreciation) on foreign currency exchange contracts was \$27,325 and \$(30,481), respectively.

(c) 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 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

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Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

the value at the time it was closed. The potential risk to the PRIT Fund is that the change in value of futures contracts primarily corresponds with the value of underlying instruments, which may not correspond to the change in value of the hedged instruments. The PRIT Fund is also subject to credit risk should its clearing brokers be unable to meet their obligations to the PRIT Fund.

Futures contracts held at June 30 were as follows:

Description	Number of contracts	Expiration date	2018		
			Gross notional amount	Fair value of contracts	Unrealized appreciation (depreciation)
Short cash and cash equivalents:					
3-Month Euribor	(444)	12/18	\$ (131,399)	(129,967)	1,432
90-Day Bank Bill	(652)	9/18-12/18	(492,158)	(479,366)	12,792
Other short cash and cash equivalents	(9,239)	9/18-6/21	(2,094,058)	(2,091,885)	2,173
Long cash and cash equivalents:					
3-Month Euribor	1,403	12/18-6/21	414,221	409,617	(4,604)
90-Day Bank Bill	125	12/18-6/19	93,375	91,898	(1,477)
90-Day Sterling	1,037	9/18-6/21	171,805	169,611	(2,194)
Other long cash and cash equivalents	6,817	9/18-9/21	1,393,334	1,391,068	(2,266)
Short fixed income:					
Canada 10-Yr Government Bond	(2,345)	9/18	(242,713)	(243,707)	(994)
Japan 10-Yr Government Bond	(104)	9/18	(143,140)	(141,627)	1,513
Other short fixed income	(9,701)	9/18	(1,420,607)	(1,422,511)	(1,904)
Long fixed income:					
Australian 10-Yr Treasury Bond	3,057	9/18	295,875	292,185	(3,690)
Japan 10-Yr Government Bond	460	9/18	629,619	626,429	(3,190)
Euro-BUND	3,492	9/18	656,624	662,730	6,106
US 10-Yr Treasury Notes	1,787	9/18	213,532	214,775	1,243
Ultra US Treasury Bond	428	9/18	66,843	68,293	1,450
Other long fixed income	7,554	8/18-9/18	837,050	840,965	3,915
Short equity and commodities:					
Agriculture	(7,730)	7/18-12/18	(197,823)	(192,820)	5,003
Metal	(1,131)	7/18-10/18	(107,122)	(103,880)	3,242
Oil and gas	(561)	7/18	(35,368)	(36,595)	(1,227)
S&P 500 E-mini Index	(3,022)	9/18	(419,636)	(411,234)	8,402
S&P 500 Index	(67)	9/18	(46,619)	(45,587)	1,032
Other short equity and commodities	(7,196)	7/18-9/18	(238,615)	(236,546)	2,069
Long equity and commodities:					
Metal	1,170	7/18-10/18	93,806	89,832	(3,974)
Oil and gas	2,403	7/18-11/18	153,583	160,083	6,500
Amsterdam Index	265	7/18	35,159	34,133	(1,026)
DAX Index	99	9/18	37,230	35,568	(1,662)
Euro STOXX 50 Index	1,742	9/18	70,987	68,969	(2,018)
FTSE 100 Index	792	9/18	80,746	79,484	(1,262)
IBEX 35 Index	392	7/18	45,076	43,945	(1,131)
KOSPI 200 Index	468	9/18	33,865	31,494	(2,371)
MSCI EAFE Index	1,535	9/18	154,787	150,077	(4,710)
MINI MSCI Emerging Markets Index	2,141	9/18	120,925	113,826	(7,099)
S&P 500 E-mini Index	1,728	9/18	239,985	235,146	(4,839)
S&P Midcap 400 E-mini Index	247	9/18	49,456	48,316	(1,140)
TOPIX Index	699	9/18	112,928	109,206	(3,722)
Other long equity and commodities	9,737	7/18-3/19	436,173	433,065	(3,108)
Total futures exposure			\$ 867,726	864,990	(2,736)

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(Dollars in thousands)

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)

For the years ended June 30, 2018 and 2017, the change in net unrealized depreciation on futures contracts was \$(247) and \$(12,736), respectively.

(d) Swaps

The PRIT Fund enters into swap agreements to gain exposure to certain markets and actively hedge other exposures to market and credit risks. The PRIT Fund utilizes interest rate, credit default, inflation, and total return swaps within the portfolio. The PRIT Fund's OTC swap agreements are recorded at fair value as estimated by the PRIM Board. These estimated fair values are determined in good faith by using information from the PRIT Fund's investment managers, including methods and assumptions considering market conditions and risks existing at the date of the statements of pooled net position. Such methods and assumptions incorporate standard valuation conventions and

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(Dollars in thousands)

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	2018				
	PRIT pays/receives interest rate	PRIT pays/receives index/ protection	Maturity date	Gross notional amount	Net unrealized appreciation (depreciation)
Interest rate swaps	0.27%–7.97%	Various*	12/18-3/48	\$ 3,066,531	45,097
Credit default swaps	0.11%–5.00%	Credit default protection	12/18-11/63	1,784,958	(11,290)
Total return and other swaps	Variable	Various*	8/18-6/48	2,219,681	(20,091)
Total swaps				\$ 7,071,170	13,716

* PRIT pays/receives counterparty based on 1-Month JIBAR, 3-Month CAD CDOR, 3-Month EUR LIBOR, 3-Month GBP LIBOR, 3-Month JIBAR, 3-Month JPY LIBOR, 3-Month KLIBOR, 3-Month USD LIBOR, 6-Month GBP LIBOR, 6-Month Euribor rate, 6-Month JPY LIBOR, 6-Month MIBOR, 6-Month NIBOR, 6-Month PRIBOR, 6-Month SIBOR, 6-Month USD LIBOR, 6-Month WIBOR, Mexican TIIE rate, Sterling Overnight rate.

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.

For the years ended June 30, 2018 and 2017, the change in net unrealized appreciation on swap contracts was \$7,147 and \$25,056, respectively.

(Continued)

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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

Counterparty	Credit rating	2018					
		Interest rate swaps		Credit default swaps		Total return and other swaps	
		Gross notional	Fair value	Gross notional	Fair value	Gross notional	Fair value
Bank of America NA	A+	\$ —	—	28,171	(4,247)	—	—
Citibank NA	A+	4,085	(51)	6,400	(271)	445,417	(4,433)
CME Group Inc.	AA-	595,149	7,169	—	—	—	—
Credit Suisse	A	—	—	1,155,603	16,369	—	—
Deutsche Bank AG	A	—	—	7,777	42	885,001	(16,277)
Goldman Sachs	A+	—	—	69,560	(3,363)	32,481	(1,059)
LCH.Clearnet Ltd	A	1,543,716	11,577	—	—	279,131	(311)
Morgan Stanley	A+	—	—	36,661	(9,098)	—	—
SMBC Capital Markets Inc.	A+	250,000	9,969	—	—	—	—
U.S. Bank National Association	A+	500,000	15,828	—	—	—	—
All others	Various	173,581	605	480,786	(10,722)	577,651	1,989
		<u>\$ 3,066,531</u>	<u>45,097</u>	<u>1,784,958</u>	<u>(11,290)</u>	<u>2,219,681</u>	<u>(20,091)</u>

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>

(Continued)

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

(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 \$137,133 and \$122,848 for the years ended June 30, 2018 and 2017, respectively. \$100,836 and \$89,259 were incurred by the PRIM Board for the years ended June 30, 2018 and 2017, 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.

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 generally 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 generally paid every three years.

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

(Continued)

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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. 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 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, International Woodland Company, NewAlpha Asset Management, and The Townsend Group served as the PRIM Board's principal investment advisors in fiscal year 2018. NEPC, LLC served as the asset allocation advisor, Callan Associates served as the public markets advisor, Aberdeen Asset Management Inc. and NewAlpha Asset Management provided portfolio completion strategies advisory services, Hamilton Lane served as the private equity advisor, International Woodland Company provided timberland advisory services, and The Townsend Group provided real estate 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, 2018 and 2017, investment advisory fees were \$8,572 and \$8,074, respectively, which 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, 2018 and 2017, custodian fees were \$758 and \$707, 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, 2018 and 2017

(Dollars in thousands)

(d) Other Administrative Fees

For the years ended June 30, 2018 and 2017, other administrative expenses of the PRIM Board, including employee compensation, professional fees and occupancy costs, charged to the PRIT Fund totaled \$12,996 and \$12,375, respectively, which are included in investment management and other management fees in the accompanying statements of changes in pooled net position.

(9) Commitments

As of June 30, 2018 and 2017, the PRIT Fund had outstanding unfunded commitments to invest \$7,010,993 and \$5,379,689, respectively, 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, 2018

(Dollars in thousands)

	Capital Fund	Cash Fund	Total
Assets:			
Investments, at fair value:			
Short-term	\$ 1,551,792	69,442	1,621,234
Fixed income	15,801,995	—	15,801,995
Equity	29,214,292	—	29,214,292
Timberland	2,420,914	—	2,420,914
Private equity funds	7,570,364	—	7,570,364
Real estate:			
Real estate properties	6,265,041	—	6,265,041
Equity	1,614,349	—	1,614,349
Real estate funds	74,591	—	74,591
Other	66,055	—	66,055
Total real estate	8,020,036	—	8,020,036
Portfolio completion strategies:			
Equity	4,012,556	—	4,012,556
Investment funds	3,399,187	—	3,399,187
Fixed income	1,772,156	—	1,772,156
Cash and cash equivalents	1,393,918	—	1,393,918
Agricultural investments	393,303	—	393,303
Other	1,237	—	1,237
Total portfolio completion strategies	10,972,357	—	10,972,357
Total investments	75,551,750	69,442	75,621,192
Cash	169,292	84	169,376
Securities lending collateral	256,445	—	256,445
Interest and dividends receivable	201,871	361	202,232
Receivable for investments sold and other assets	499,162	—	499,162
Securities sold on a when-issued basis	435,489	—	435,489
Foreign currency forward contracts	51,160	—	51,160
Total assets	77,165,169	69,887	77,235,056
Liabilities:			
Payable for investments purchased and other liabilities	810,099	—	810,099
Real estate debt and other liabilities	1,425,825	—	1,425,825
Securities lending obligations	505,746	—	505,746
Securities purchased on a when-issued basis	949,570	—	949,570
Foreign currency forward contracts	28,659	—	28,659
Management fees payable to PRIM	42,838	—	42,838
Portfolio completion strategies liabilities:			
Securities sold short, at fair value	1,616,583	—	1,616,583
Other	54,094	—	54,094
Total portfolio completion strategies liabilities	1,670,677	—	1,670,677
Total liabilities	5,433,414	—	5,433,414
Net position held in trust for pool participants	\$ 71,731,755	69,887	71,801,642

See accompanying independent auditors' report.

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

Year ended June 30, 2018

(Dollars in thousands)

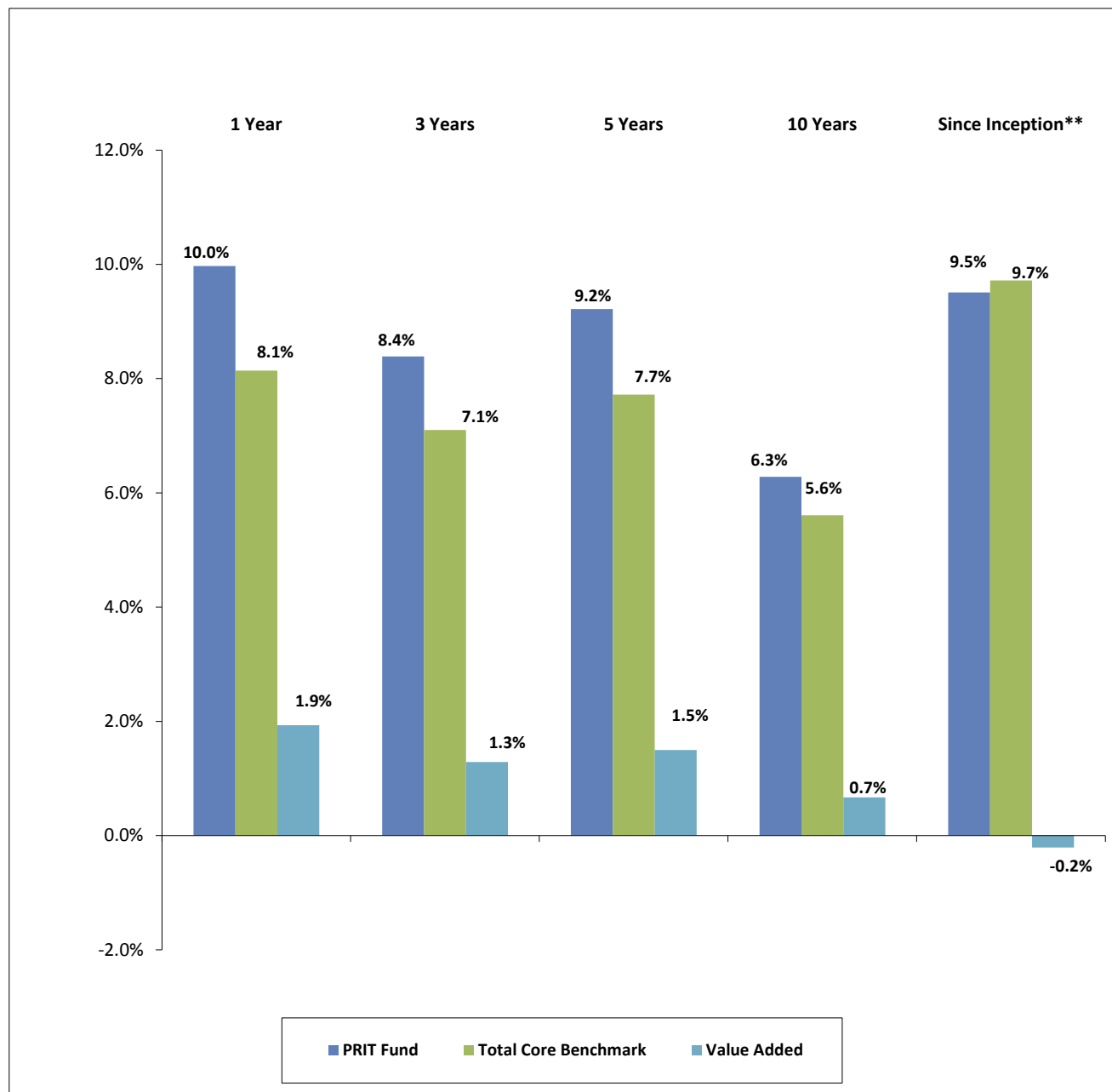
	Capital Fund	Cash Fund	Total
Additions:			
Contributions:			
State employees	\$ —	727,625	727,625
State teachers	—	804,171	804,171
Other participants	—	1,218,193	1,218,193
Total contributions	—	2,749,989	2,749,989
Net investment income:			
From investment activities:			
Net realized gain on investments and foreign currency transactions	3,859,853	—	3,859,853
Net change in unrealized appreciation on investments and foreign currency translations	991,372	—	991,372
Interest	353,759	3,268	357,027
Dividends	791,098	—	791,098
Timberland	48,301	—	48,301
Private equity	122,014	—	122,014
Portfolio completion strategies	46,046	—	46,046
Real estate:			
Income	503,136	—	503,136
Expenses	(215,158)	—	(215,158)
	287,978	—	287,978
Income from investment activities	6,500,421	3,268	6,503,689
Investment management and other management fees	(159,459)	—	(159,459)
Net income from investment activities	6,340,962	3,268	6,344,230
From securities lending activities:			
Securities lending income	12,030	—	12,030
Securities lending expenses	(1,636)	—	(1,636)
Net income from securities lending activities	10,394	—	10,394
Total net investment income	6,351,356	3,268	6,354,624
Total additions	6,351,356	2,753,257	9,104,613
Deductions:			
Redemptions:			
State employees	—	1,442,808	1,442,808
State teachers	—	1,714,084	1,714,084
Other participants	—	996,520	996,520
Total deductions	—	4,153,412	4,153,412
Interfund transfers (out) in, net	(1,378,947)	1,378,947	—
Net increase (decrease) in pooled net position	4,972,409	(21,208)	4,951,201
Net position held in trust for pool participants:			
Balance, beginning of year	66,759,346	91,095	66,850,441
Balance, end of year	\$ 71,731,755	69,887	71,801,642

See accompanying independent auditors' report.

Investment Section

Total PRIT Fund Performance Summary*

For the periods ended June 30, 2018



* 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 7.35%). A summary of other investment objectives is provided in the Investment Policy Statement at the end of this section.

As of June 30, 2018, the PRIM Board employed thirty-six public markets investment managers, one hundred private equity markets managers, ten real estate and timberland managers, thirty portfolio completion strategies managers, and seven external investment advisors. The PRIT Fund had approximately \$71.8 billion in assets under management at June 30, 2018. 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 February 2018 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	6/30/2018 Allocation % (3)	Long-Term Policy Target Mid-Point % (1)
Global Equity	41.9	39.0
Core Fixed Income	12.8	12.0
Value-Added Fixed Income	8.0	10.0
Real Estate	9.0	10.0
Private Equity	10.8	12.0
Timberland	3.4	4.0
Portfolio Completion Strategies	13.4	13.0
Overlay (2)	0.4	0.0
Liquidating Portfolios (2)	0.3	0.0

(1) Asset allocation approved February 15, 2018.

(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.

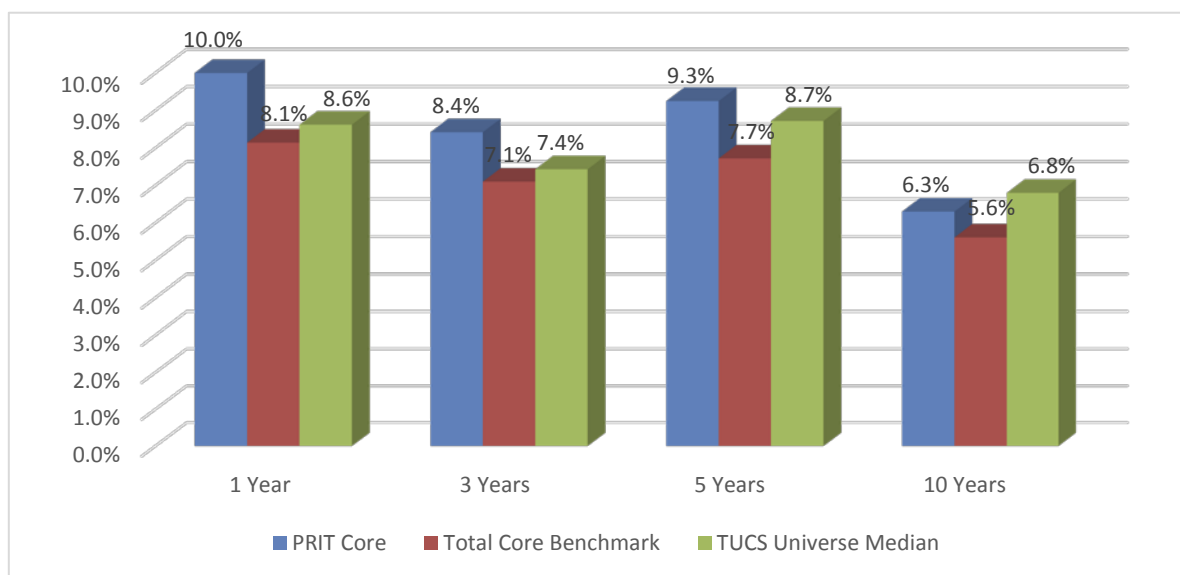
In addition to asset allocation, the PRIM Board seeks to diversify the PRIT Fund through a complementary diversification of investment styles within various asset classes. The PRIM Board requires detailed investment guidelines with each investment manager to ensure portfolios are managed with appropriate 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 2018

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, 2018:



In the fiscal year 2018, the PRIT Core Fund returned 10.00%, outperforming the Total Core benchmark return of 8.14% by 186 basis points. The PRIT Fund began fiscal year 2018 with net position of \$66.9 billion and ended with \$71.8 billion. On a gross basis the fund increased \$5.0 billion, which is the result of \$6.4 billion in net investment income along with \$1.4 billion in net redemptions from the State Employees, State Teachers' and Participant accounts.

The quarterly returns of the PRIT Core Fund in fiscal year 2018 were as follows:

- 4.01% for September 30, 2017 – versus a benchmark return of 3.42%.
- 3.97% for December 31, 2017 – versus a benchmark return of 3.51%.
- 0.60% for March 31, 2018 – versus a benchmark return of 0.26%.
- 1.11% for June 30, 2018 – versus a benchmark return of 0.78%.

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 7.35%; 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, 2018, the PRIT Core Fund returned 9.46% since inception, outperforming the actuarial rate of return of 7.35% by 211 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 \$25 billion in size for the one, three, and five-year periods ending June 30, 2018.

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.

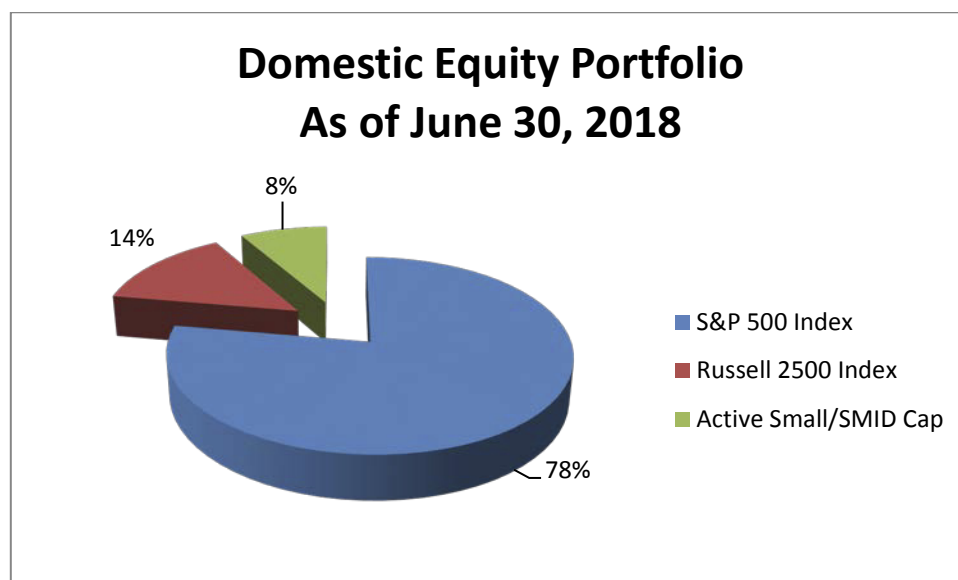
The PRIM Board tracks two types of fees: 1) direct fees and 2) indirect fees. Direct fees are fees the PRIM Board pays directly to vendors for services rendered. These fees include most investment management fees, advisory fees, custodian fees, and salaries and administrative expenses of the PRIM Board. 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 80.8% of the PRIM Board's total direct expenses for fiscal 2018. The PRIM Board also contracts with a custodian and investment advisors. Fees to these providers were approximately 7.5% of the PRIM Board's total expense for fiscal year 2018.

The total cost of managing the PRIT Fund for fiscal year 2018, *inclusive* of investment management (direct and indirect), advisory, custodial and overhead charges was 52 basis points of the average net position of the PRIT Fund compared to 54 basis points in fiscal year 2017. For information on expense ratios for each investment account, refer to the *Financial Highlights and Financial Highlights Ratios* on pages 102-111 included in the Statistical Section of this report.

Domestic Equity Portfolio

As of June 30, 2018, the Domestic Equity portfolio had approximately \$13.7 billion in net position, representing 19.1% 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/smld 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/smld cap investments, and actively managed small/smld cap investments is highlighted below.



During the fiscal year, the S&P 500 Index portfolio, the Russell 2500 Index portfolio and one of the four active small/smld capitalization managers underperformed their respective benchmarks. Three active small/smld capitalization managers outperformed their respective benchmarks. As of fiscal year end, the weighting of Domestic Equity was 45.5% 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 15.61% return compared to 15.36% for the portfolio benchmark. The PRIT Fund's large cap manager returned 14.99% compared to the 15.00% return of the large cap benchmark, the customized S&P 500 index. The PRIT Fund's small/smld cap managers returned 17.57%

compared to the 16.54% 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, 2018, the PRIT Fund's Domestic Equity portfolio has returned 11.70%, 13.20%, and 9.25%, respectively, compared to the benchmark, which returned 11.87%, 13.36%, and 9.82%, respectively.

The top ten holdings in the Domestic Equity portfolio at June 30, 2018 are illustrated below. A complete listing of holdings is available upon request.

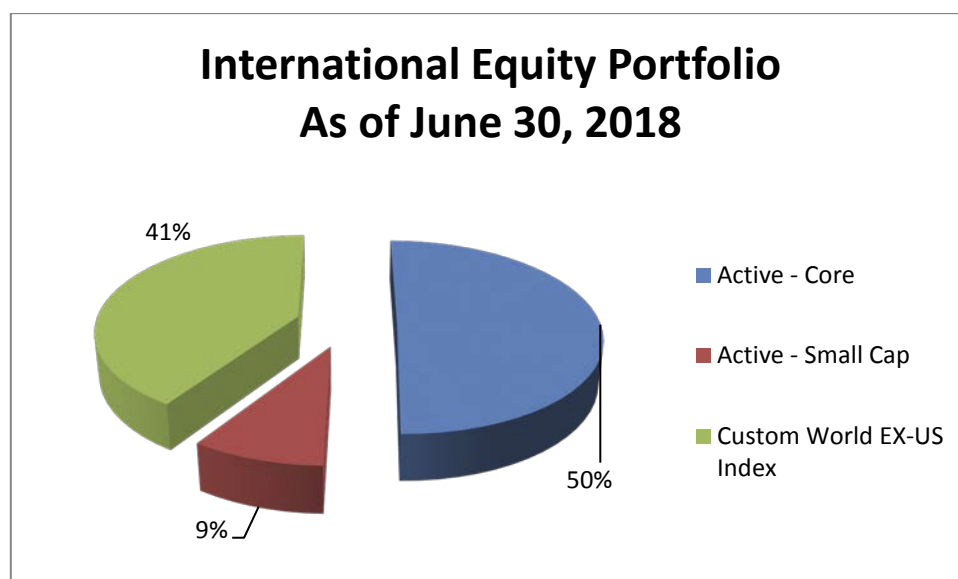
#	Issue Name	% of Account	
		Fair Value (\$000s)	Fair Value
1	Apple Inc.	\$ 420,213	3.07%
2	Microsoft Corp.	349,916	2.55%
3	Amazon.com Inc.	316,151	2.31%
4	Facebook Inc.	214,296	1.56%
5	Berkshire Hathaway Inc.	165,195	1.21%
6	JPMorgan Chase & Co.	163,915	1.20%
7	Exxon Mobil Corp.	161,772	1.18%
8	Alphabet Inc - CL C	156,376	1.14%
9	Alphabet Inc - CL A	155,196	1.13%
10	Johnson & Johnson	150,310	1.10%
	TOTAL	\$ 2,253,340	16.45%

The PRIT Fund's Domestic Equity managers at June 30, 2018 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2018 (\$000s)
State Street Global Advisors	Custom S&P 500 Index	\$ 10,648,842
State Street Global Advisors	Russell 2500 Index	1,910,127
Frontier Capital Management	Small Cap Value	316,361
Huber Capital	Small Cap Value	319,705
Riverbridge Partners	SMID Cap Growth	185,595
Summit Creek Advisors	Small Cap Growth	317,282
Other portfolio net assets		(2,014)
Total Portfolio Fair Value		\$ 13,695,898

International Equity Portfolio

As of June 30, 2018, the International Equity portfolio had approximately \$11.8 billion in net position, representing 16.5% 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 (50% of the portfolio), and five active small cap equity accounts (9% 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 39.4% 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, 2018, the International Equity portfolio returned 8.70% 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 6/30/2018) of 8.01%. Three of the PRIT Fund's four active international equity managers outperformed the Custom MSCI EAFE index for the fiscal year. Two 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, 2018, the PRIT Fund's international equity managers posted returns of 6.45%, 7.86%, and 4.18%, respectively, ahead of the benchmark, which returned 5.39%, 6.84%, and 3.02%, respectively, over the same periods.

The top ten holdings in the International Equity portfolio at June 30, 2018 are illustrated below. A complete listing of holdings is available upon request.

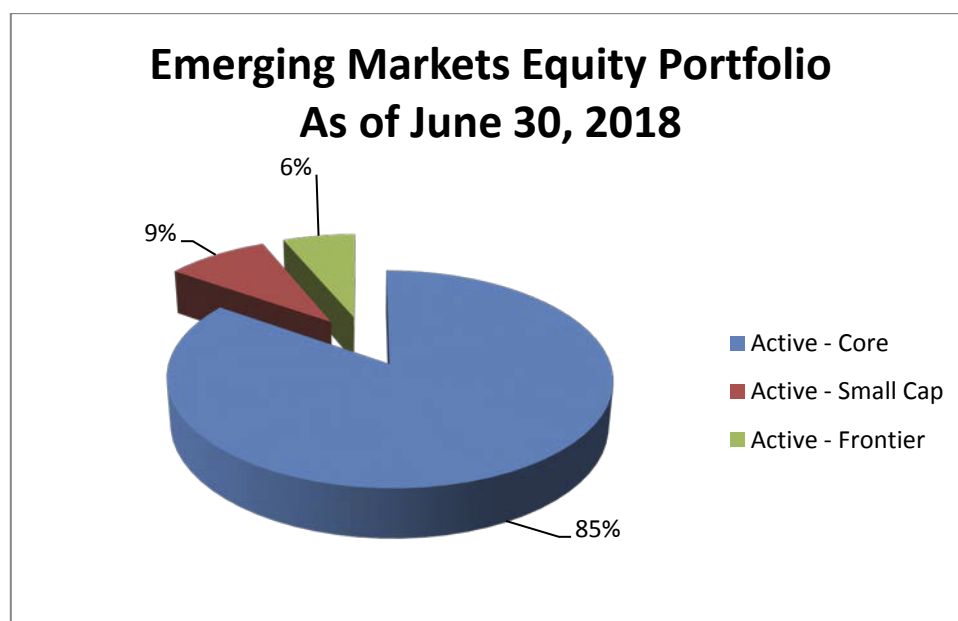
#	Issue Name	% of Account	
		Fair Value (\$000s)	Fair Value
1	Shiseido Co Ltd	\$ 100,995	0.85%
2	BP PLC	99,808	0.84%
3	AIA Group Ltd	84,650	0.72%
4	United Overseas Bank Ltd	83,326	0.70%
5	Novartis AG	82,574	0.70%
6	Rightmove PLC	82,530	0.70%
7	Intertek Group PLC	78,434	0.66%
8	Legrand SA	77,626	0.66%
9	Cie Financiere Richemont SA	72,774	0.62%
10	Roche Holding AG	67,054	0.57%
	TOTAL	\$ 829,771	7.01%

The PRIT Fund's International Equity managers at June 30, 2018 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2018 (\$000s)	
State Street Global Advisors	Custom World ex-US IMI Index	\$	4,821,564
Marathon-London	EAFE Core		2,818,532
Baillie Gifford	EAFE Core		2,106,821
Mondrian Investment	EAFE Core		896,479
FIS Group, Inc.	EAFE Core		131,841
TimeSquare Capital Management	EAFE Small Cap		300,463
Strategic Global Advisors	EAFE Small Cap		114,690
Acadian Asset Management	EAFE Small Cap		349,231
LMCG Investments	EAFE Small Cap		116,659
AQR Capital Management	EAFE Small Cap		173,595
Other portfolio net assets			1,177
Total Portfolio Fair Value		\$	11,831,052

Emerging Markets Portfolio

As of June 30, 2018, the Emerging Markets Equity portfolio had approximately \$4.5 billion in net position, representing 6.3% 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). 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 six active core equity managers (which comprise about 85% of the emerging market portfolio), two active small cap equity managers (9% of the portfolio), and two frontier equity managers (6% of the portfolio). The PRIM Board maintains a target weighting of 100% active for the Emerging Markets Equity portfolio.



The primary strategy for this portfolio is investing in companies in developing countries, including, but not limited to, China, Brazil, Russia, South Korea, Taiwan, India and Turkey. These countries typically have less efficient securities markets, and thus there is opportunity for substantial returns. As of fiscal year end, the weighting of Emerging Markets Equity was 15.1% 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 9.10% compared to the custom asset class benchmark return of 7.81%. Four of the PRIT Fund's six active emerging markets core equity

managers (one manager with inception date of April 30, 2018) outperformed the Custom MSCI Emerging Markets Standard index. The PRIT Fund's two active emerging markets small cap equity managers outperformed the MSCI Emerging Markets Small Cap index for the fiscal year. One of 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, 2018, the PRIT Fund's emerging markets equity managers posted returns of 8.16%, 6.33%, and 2.76%, respectively, compared to the custom asset class benchmark, which returned 5.35%, 5.08%, and 2.33% over the same periods.

The top ten holdings in the Emerging Markets Equity portfolio at June 30, 2018 are illustrated below. A complete listing of holdings is available upon request.

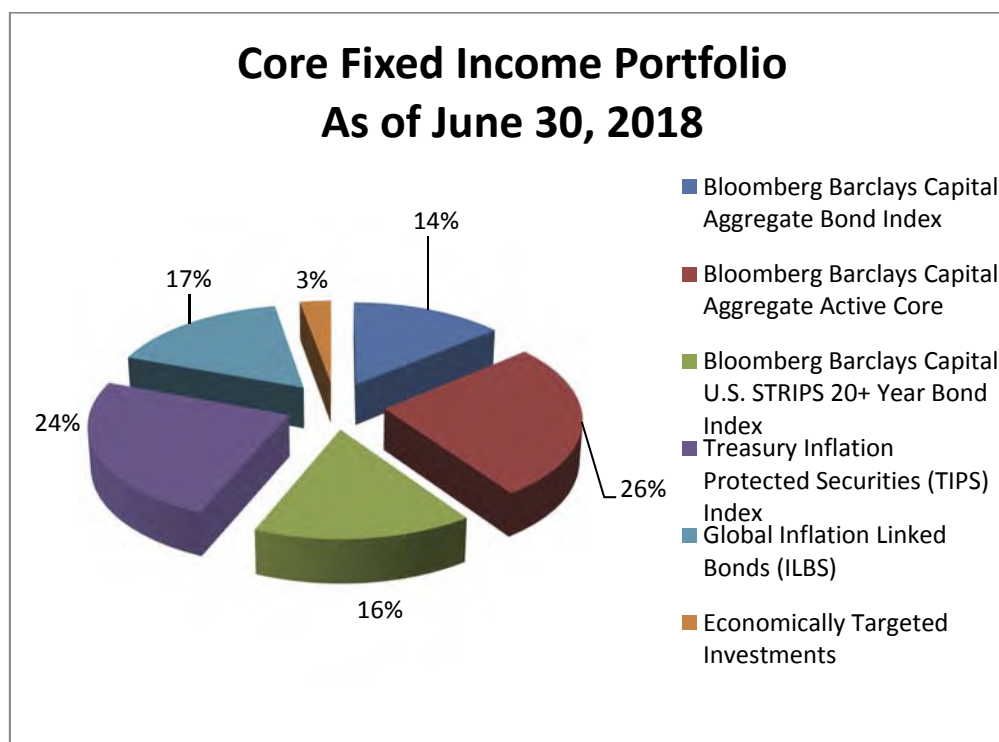
#	Issue Name	Market Value (\$000s)	% of Account Fair Value
1	Tencent Holdings Ltd	\$ 181,665	4.00%
2	Alibaba Group Holding Ltd	138,197	3.05%
3	Samsung Electronics	136,048	3.00%
4	Tawain Semiconductor Mfg. Co.	103,611	2.28%
5	Sberbank of Russia	72,623	1.60%
6	CNOOC Ltd	48,061	1.06%
7	Naspers Ltd	48,043	1.06%
8	Ping An Insurance	46,506	1.02%
9	LUKOIL	46,360	1.02%
10	Baidu Inc.	44,474	0.98%
	TOTAL	\$ 865,588	19.07%

The PRIT Fund's Emerging Markets Equity managers at June 30, 2018 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2018 (\$000s)
AQR Emerging	EM Core	\$ 745,681
Baillie Gifford	EM Core	711,330
Driehaus Capital	EM Core	658,725
Harding Loevner	EM Core	422,448
Pzena Investment Management, LLC	EM Core	809,677
T. Rowe Price	EM Core	513,248
Wasatch	EM Small Cap	122,940
Acadian	EM Small Cap	260,950
Acadian	Frontier	134,696
City of London	Frontier	151,766
Other portfolio net assets		6,013
Total Portfolio Fair Value		\$ 4,537,474

Core Fixed Income Portfolio

As of June 30, 2018, the Core Fixed Income Portfolio had approximately \$9.2 billion invested in investment grade Core Fixed Income positions, representing 12.8% of the PRIT Fund. The Core Fixed Income Portfolio is invested using the following strategies:



The Core Fixed Income portfolio is benchmarked to the Bloomberg Barclays Capital Aggregate Bond Index for core fixed income securities, the Bloomberg Barclays Capital U.S. STRIPS 20+ Year Bond Index for STRIPS securities, the Bloomberg Barclays Capital US TIPS Index for U.S. TIPS securities, and the Bloomberg Barclays Capital Inflation Linked Bond US\$ Hedged Index for the Global Inflation Linked Bonds (ILBs).

The Bloomberg 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 Bloomberg 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 Bloomberg Barclays Capital Aggregate Bond 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 Bloomberg 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 2018, the Core Fixed Income composite returned 1.40% compared to the 1.20% return of the benchmark (41.6% Bloomberg Barclays Capital Aggregate/16.7% Bloomberg Barclays Capital U.S. STRIPS 20+ Year Bond Index /25% Bloomberg Barclays Capital US TIPS/16.7% Bloomberg Barclays Capital ILB US\$ Hedged as of June 30, 2018). The Bloomberg Barclays Capital Aggregate mandates returned 0.10%, compared to the Bloomberg Barclays Capital Aggregate Bond Index return of -0.40%. The STRIPS mandate returned 1.37%, compared to the Bloomberg Barclays Capital U.S. STRIPS 20+ Year Bond Index return of 1.30%. The passively managed TIPS mandate returned 2.16%, compared to its benchmark (Bloomberg Barclays Capital US TIPS) which returned 2.11%. The actively managed ILBs mandate returned 3.94%, compared to the Bloomberg Barclays Capital ILB US\$ Hedged Index return of 3.44%.

On a three-, five-, and 10-year basis through June 30, 2018, the PRIT Fund's Core Fixed Income portfolio has returned 3.60%, 4.25%, and 3.99%, respectively, compared to the benchmark, which returned 3.51%, 4.04%, and 3.65%, respectively.

The top ten Core Fixed Income holdings as of June 30, 2018, excluding certain pooled funds, are illustrated below. A complete listing of holdings is available upon request.

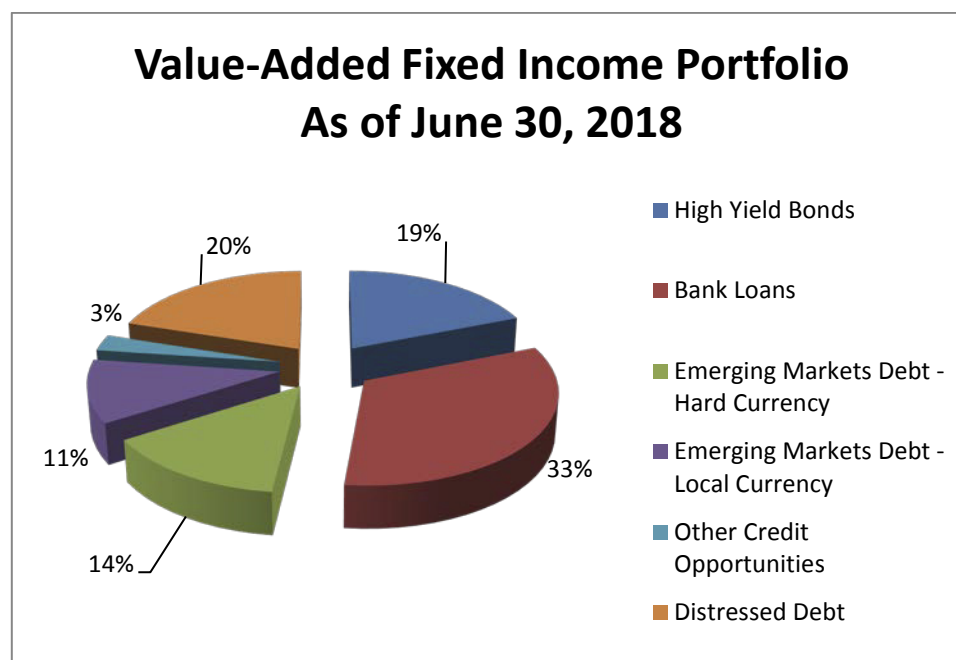
Issue Name	% of Account	
	Fair Value (\$000s)	Fair Value
Commit to Purchase FNMA 3.500% August 2048	\$ 276,535	3.02%
U.S. Treasury Bond Principal STRIP 0.000% February 2045	167,785	1.83%
U.S. Treasury-CPI Inflation 0.250% January 2025	141,097	1.54%
U.S. Treasury-CPI Inflation 0.125% April 2020	136,618	1.49%
U.S. Treasury-CPI Inflation 0.375% July 2025	123,516	1.35%
U.S. Treasury-CPI Inflation 0.125% April 2021	121,788	1.33%
U.S. Treasury Bond Principal STRIP 0.000% May 2043	121,673	1.33%
U.S. Treasury-CPI Inflation 0.625% January 2024	119,438	1.30%
U.S. Treasury Notes 2.250% November 2024	115,355	1.26%
U.S. Treasury-CPI Inflation 0.375% July 2027	115,060	1.26%
TOTAL	<u>\$ 1,438,865</u>	<u>15.71%</u>

The PRIT Fund's Core Fixed Income portfolio managers at June 30, 2018 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2018 (\$000s)
<i>Blackrock Financial Management</i>	Core Index	\$ 1,276,246
<i>Loomis, Sayles & Co., LP</i>	Active Core	1,142,342
<i>PIMCO</i>	Active Core	1,117,990
<i>Progress Investment Management</i>	Active Core	157,681
<i>Blackrock Financial Management</i>	Inflation Link Bonds	1,508,641
<i>Blackrock Financial Management</i>	STRIPS Index	1,459,343
<i>Blackrock Financial Management</i>	TIPS Index	2,227,421
<i>AFL - CIO Housing Investment</i>	ETI - Active Core	129,772
<i>Access Capital</i>	ETI - Active Core	105,315
<i>Community Capital Management</i>	ETI - Active Core	28,949
<i>Other portfolio net assets</i>		31
Total Portfolio Fair Value		\$ 9,153,731

Value-Added Fixed Income Portfolio

As of June 30, 2018, the Value-Added Fixed Income portfolio had approximately \$5.8 billion in net position, representing 8.0% of the PRIT Fund. The Value-Added Fixed Income portfolio is invested using the following strategies:



High yield bonds, which represent 1.5% 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, 2.6% 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, 2.0% 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.

Other credit opportunities, 0.2% of the PRIT Fund, represents investments in other credit strategies whose risk, return and liquidity characteristics lie between the public market strategies of high yield bonds, bank loans and emerging markets debt and the private partnerships in the distressed debt strategies. There are two managers

in the PRIT Fund other credit opportunities program; one is through a private partnership while the other is through a separate account.

Distressed debt. 1.6% of the PRIT Fund, represents investments in private partnerships that invest directly in distressed debt investment opportunities. As of June 30, 2018, the PRIT Fund had approximately \$1.1 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 2018, the Value-Added Fixed Income composite returned 3.82% compared to 3.57% for the asset class benchmark. The PRIT Fund's three high yield bond managers returned 2.73%, while the Intercontinental Exchange Bank of America Merrill Lynch (ICE BofAML) High Yield index returned 2.54%. The Emerging Markets Debt Hard Currency portfolio returned -1.57% during the fiscal year, compared to the JP Morgan Emerging Markets Bond Index (JPM EMBI Global Index), which returned -2.45%. The Emerging Markets Debt Local Currency portfolio, managed by three managers, returned -2.94%, compared to the JP Morgan GBI Emerging Markets Global Diversified index return of -2.33%. The two bank loan managers, returned 4.71%, compared to the S&P LSTA Leveraged Loan index return of 4.37%. Since its inception in December 2017, the Other Credit Opportunities portfolio returned 3.03% compared to the custom benchmark of 2.26%. The Distressed Debt portfolio returned 11.19% (3-year annualized return of 6.08%) compared to the index return of -2.11%. The benchmark for the Distressed Debt portfolio at June 30, 2018 is the 3-year annualized return of the Altman NYU Salomon Center Combined Defaulted Public Bond & Bank Loan Index.

On a three-, five-, and 10-year basis through June 30, 2018, the PRIT Fund's Value-Added Fixed Income portfolio has returned 4.98%, 4.39%, and 6.75%, respectively, compared to the benchmark, which returned 3.21%, 2.28%, and 5.69%, respectively.

The top ten holdings in the Value-Added Fixed Income portfolio at June 30, 2018, excluding investments in emerging debt pooled funds, bank loan funds, distressed debt and other credit opportunities 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	\$ 17,428	0.30%
2	South Africa Government Bond 10.500% December 2026	17,144	0.30%
3	Indonesia Treasury Bond 9.000% March 2029	15,916	0.28%
4	Brazil Notas Do Tesouro Nacional 10.000% January 2025	13,122	0.23%
5	Brazil Notas Do Tesouro Nacional 10.000% January 2023	10,768	0.19%
6	Mexican Bonos 5.750% March 2026	10,706	0.19%
7	Colombian TES 7.500% August 2026	9,914	0.17%
8	Poland Government Bond 2.500% July 2027	8,423	0.15%
9	Thailand Government Bond 3.775% June 2032	8,371	0.15%
10	Poland Government Bond 4.000% October 2023	8,302	0.14%
TOTAL		<u>\$ 120,094</u>	<u>2.10%</u>

The PRIT Fund's Value-Added Fixed Income portfolio managers at June 30, 2018 are presented in the following table:

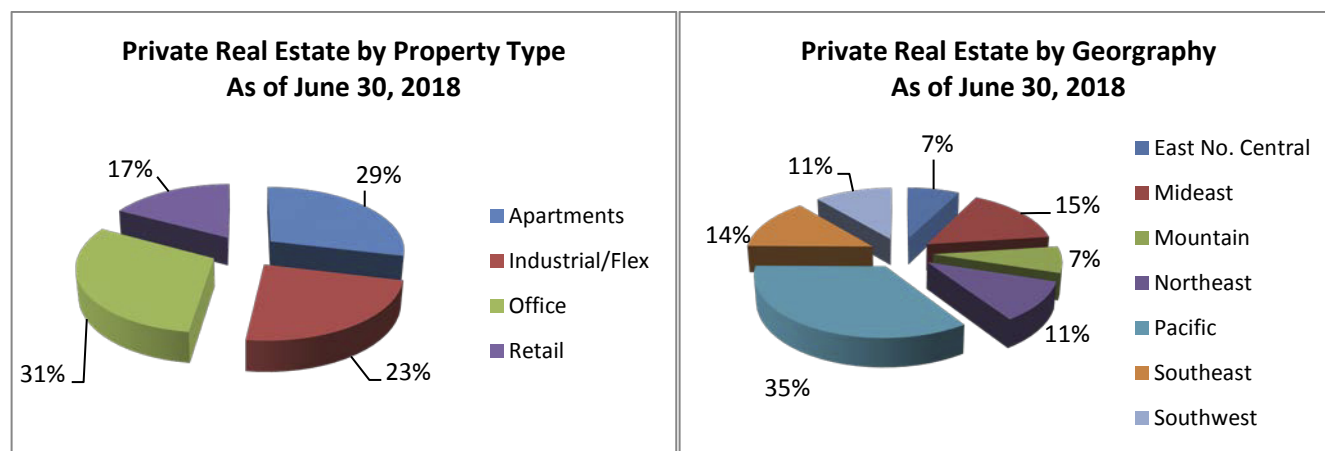
Manager	Investment Mandate	Portfolio Fair Value at June 30, 2018 (\$000s)
<i>Fidelity Management Trust</i>	High Yield Bond	\$ 374,045
<i>Loomis, Sayles & Co., LP</i>	High Yield Bond	377,363
<i>Shenkman Capital Management</i>	High Yield Bond	343,377
<i>Ashmore Investment Management</i>	Emerging Markets Debt Hard Currency	460,422
<i>PIMCO</i>	Emerging Markets Debt Hard Currency	356,731
<i>Investec</i>	Emerging Markets Debt Local Currency	204,658
<i>Pictet</i>	Emerging Markets Debt Local Currency	290,814
<i>Stone Harbor</i>	Emerging Markets Debt Local Currency	144,405
<i>Eaton Vance</i>	Bank Loans	948,406
<i>Voya</i>	Bank Loans	941,582
<i>Various accounts</i>	Other Credit Opportunities	164,184
<i>Various partnerships</i>	Distressed Debt	1,148,148
<i>Other portfolio net assets</i>		5,700
Total Portfolio Fair Value		<u>\$ 5,759,835</u>

Real Estate Portfolio

As of June 30, 2018, the PRIM Board had \$6.5 billion invested in real estate through the PRIT Fund's ownership interest in PRIT Core Realty Holdings LLC (the LLC), representing 9.0% 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 73% 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, 2018, \$4.2 billion (net of portfolio debt) of Core real estate investments and \$485 million of Non-Core real estate investments comprise PRIT's Private Real Estate Investments, which represents 6.5% 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, 2018, the PRIM Board had approximately \$1.6 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, 2018:



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 continued strong economic fundamentals, a continued low interest rate environment and strong demand for real estate in core markets, particularly industrial assets.

For the fiscal year 2018, the real estate portfolio returned 9.41%, outperforming the 7.05% 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 10.14% for the year ended June 30, 2018, comparing to the NCREIF Property Index (one quarter lag), which returned 7.12% over the same period. REIT investments returned 7.54%, outperforming its benchmark return of 6.49%.

On a three-, five-, and 10-year basis through June 30, 2018, the PRIT Fund's Real Estate portfolio has returned 9.44%, 10.75%, and 6.92%, respectively, compared to the benchmark, which returned 8.37%, 9.45%, and 6.26%, respectively.

The PRIT Fund's real estate investment managers at June 30, 2018 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2018 (\$000s)
<i>Invesco Realty Advisors</i>	Separate Accounts - Core	\$ 1,068,868
<i>LaSalle Investment Management</i>	Separate Accounts - Core	1,821,110
<i>AEW</i>	Separate Accounts - Core	1,612,184
<i>J.P. Morgan Investment Management</i>	Separate Accounts - Core	613,949
<i>AEW - Transition Portfolio</i>	Separate Accounts - Core	202,919
<i>PRIM Board</i>	Separate Accounts - Core	45,150
<i>Various Partnerships</i>	Non-Core	483,964
<i>CenterSquare Investment Management</i>	Global REITs	937,401
<i>Presima</i>	Global REITs	118,733
<i>Brookfield Investment Management</i>	Global REITs	568,822
<i>New Boston</i>	ETI	980
<i>Other portfolio net assets (portfolio debt included)</i>		(1,019,303)
Total Portfolio Fair Value		\$ 6,454,777

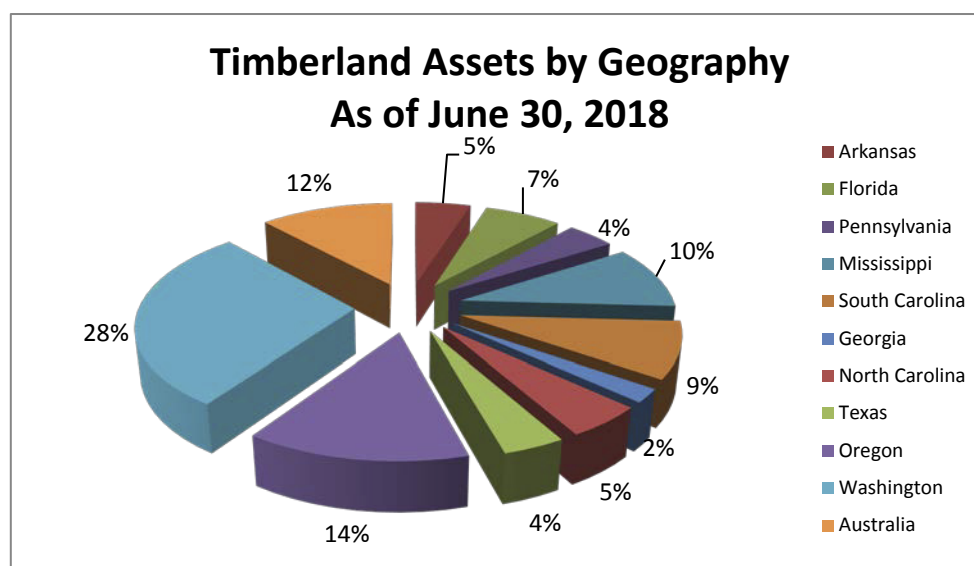
Timberland Portfolio

As of June 30, 2018, the PRIM Board had \$2.4 billion invested in timberland, representing 3.4% 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, 2018 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, 2018, the one-year Timberland return was 7.94% as compared to the NCREIF Timberland Index (one quarter lag) of 3.79%. On a three-, five-, and 10-year basis through June 30, 2018, the PRIT Fund's Timberland portfolio has returned 5.50%, 7.56%, and 4.64%, respectively, compared to the benchmark return of 3.44%, 6.10%, and 4.39%, respectively.

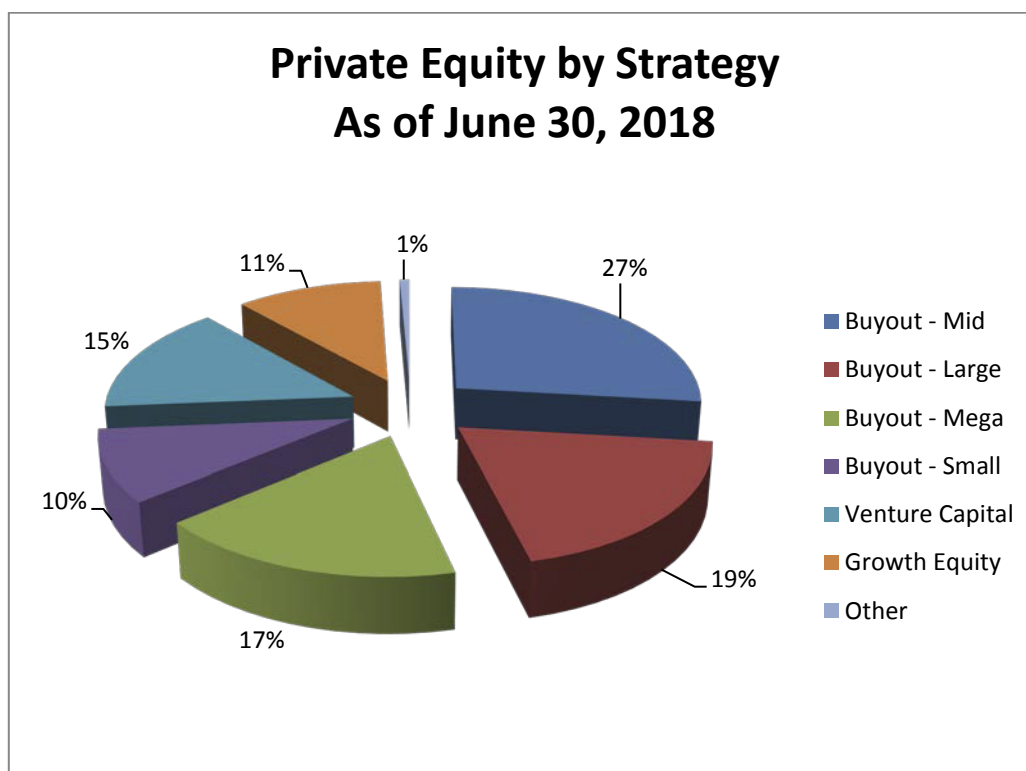
The PRIT Fund's Timberland investment managers at June 30, 2018 are presented in the following table:

Manager	Investment Mandate	Portfolio Fair Value at June 30, 2018 (\$000s)	
<i>Forest Investments Associates</i>	Separate Accounts - Timberland	\$	1,102,106
<i>The Campbell Group</i>	Separate Accounts - Timberland		1,305,467
<i>Other portfolio net assets</i>			26,187
Total Portfolio Fair Value		\$	2,433,760

Private Equity Portfolio

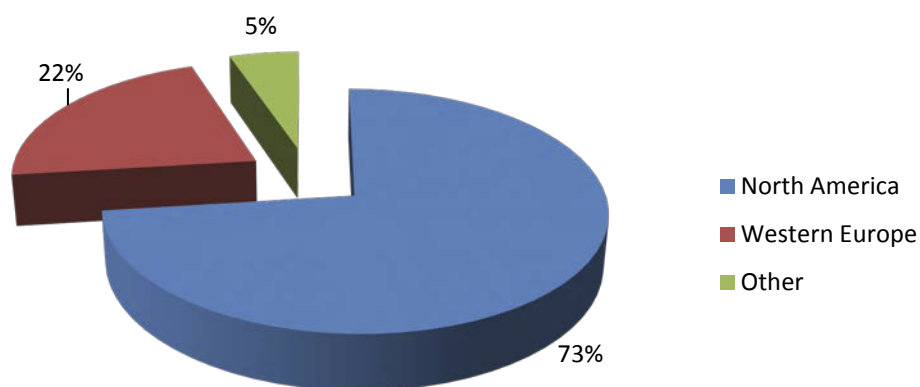
As of June 30, 2018, the fair value of the Private Equity portfolio was \$7.7 billion, representing 10.8% of the PRIT Fund. The PRIT Fund's long-term target allocation to Private Equity investments is 12%. Two components comprise the PRIT Fund's Private Equity portfolio: venture capital (early-stage and multi-stage) and special equity partnerships (buyout and growth equity). Additionally, the PRIT Fund had approximately \$166.3 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, 2018 is presented below.

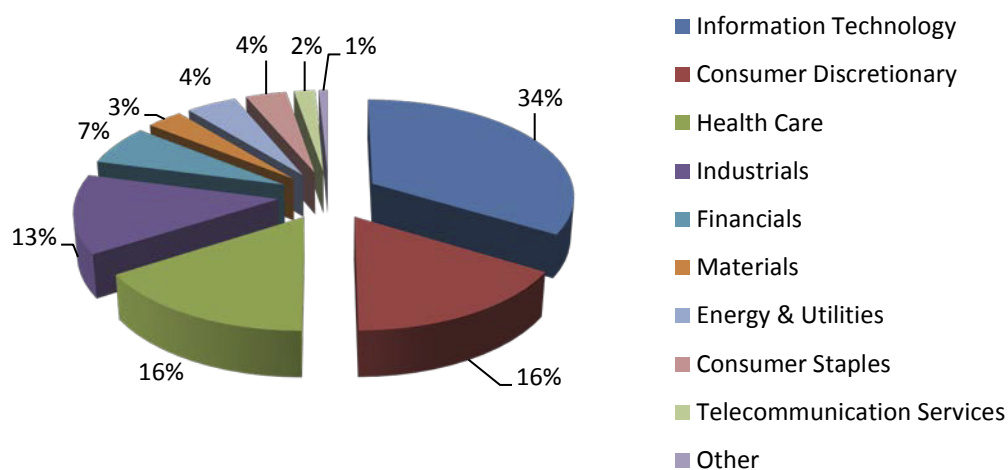


The Private Equity portfolio is diversified at the partnership level by strategy as well as at the underlying portfolio company level by industry and geography. The portfolio's current geographical and industry allocations are presented below.

Private Equity by Geography As of June 30, 2018



Private Equity by Industry As of June 30, 2018



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 21.84% through June 30, 2018. 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, 2018. The PRIT Fund’s managers called \$1.4 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 \$1.9 billion which compares to \$2.0 billion for the 2017 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% and an appropriate non-U.S. equity benchmark. 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 13.63% as of June 30, 2018, exceeding the Russell 3000 index return of 10.23% by 340 basis points. On a five-year basis, the portfolio outperformed the Russell 3000 by 611 basis points, 19.41% compared to 13.30%. For the three-year period ending June 30, 2018, the Private Equity portfolio returned 18.34%, outperforming the Russell 3000 index return of 11.58% by 676 basis points. For the one-year period ending June 30, 2018, the Private Equity portfolio returned 21.84%, outperforming the Russell 3000 index return of 14.78% by 706 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, 2018 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, 2018, the PRIT Fund has committed over \$20.1 billion to 392 partnerships (275 active) of which \$17.2 billion has been invested. The program has generated \$21.0 billion in distributions. The net IRR since inception for the program is 13.45%.

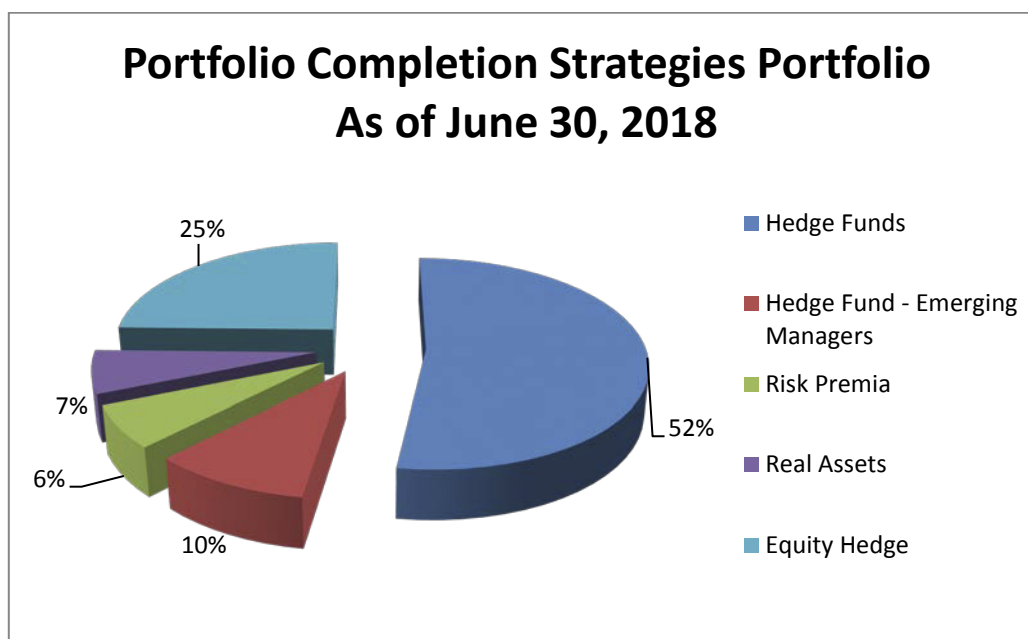
PRIVATE EQUITY EXTERNAL MANAGERS

As of June 30, 2018

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

Portfolio Completion Strategies (PCS) Portfolio

As of June 30, 2018, the PCS portfolio had approximately \$9.6 billion in net position, representing 13.4% 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 6.94% compared to the asset class benchmark return of 5.99%. On a three-, five-, and 10-year basis through June 30, 2018, the PRIT Fund's PCS portfolio has returned 3.26%, 4.78%, and 3.23%, respectively, compared to the benchmark return of 2.35%, 3.71%, and 3.33%, respectively.

The PRIT Fund's PCS managers at June 30, 2018 are presented in the following table:

Manager	Strategy Focus	Location
1 400 Capital Management	Hedge Fund - Relative Value	New York, NY
2 Aeolus Capital Management Ltd	Real Assets	Hamilton, Bermuda
3 AglS Capital	Real Assets	Boston, MA
4 Anchorage Capital Group	Hedge Fund - Event-Driven	New York, NY
5 AQR Capital Management	Risk Premia	Greenwich, CT
6 Bridgade Capital Management	Hedge Fund - Relative Value	New York, NY
7 Cantab Capital Partners	Hedge Fund - Macro	Cambridge, UK
8 Canvas Capital	Hedge Fund - Event-Driven	Rio de Janeiro, Brazil
9 Capula Investment Management	Hedge Fund - Relative Value	Greenwich, CT
10 Claren Road Asset Management	Hedge Fund - Relative Value	New York, NY
11 Contrarian Capital Management	Hedge Fund - Event-Driven	Greenwich, CT
12 Davidson Kempner Capital Management	Hedge Fund - Event-Driven	New York, NY
13 East Lodge Capital	Hedge Fund - Relative Value	London, UK
14 Elliot Management Corporation	Hedge Fund - Event-Driven	New York, NY
15 Glenview Capital Management	Hedge Fund - Event-Driven	New York, NY
16 Goldman Sachs Asset Management	Risk Premia, Equity Hedge	New York, NY
17 Highfields Capital	Hedge Fund - Event-Driven	Boston, MA
18 IPM Informed Portfolio Management AB	Hedge Fund - Macro	Stockholm, Sweden
19 JEN Partners	Real Assets	New York, NY
20 King Street Capital Management	Hedge Fund - Event-Driven	New York, NY
21 Land and Buildings Investment Management	Hedge Fund - Event-Driven	Stamford, CT
22 Markel CATCo Investment Management	Real Assets	Hamilton, Bermuda
23 Mudrick Capital Management	Hedge Fund - Event-Driven	New York, NY
24 Och-Ziff Capital Management Group	Hedge Fund - Event-Driven	New York, NY
25 PAAMCO	Hedge Fund - Emerging Managers	Newport Beach, CA
26 PanAgora Asset Management	Hedge Fund - Relative Value, Risk Premia	Boston, MA
27 Pershing Square Capital Management	Hedge Fund - Event-Driven	New York, NY
28 SECOR Capital Advisors LP	Hedge Fund - Macro	New York, NY
29 Steadfast Capital Management, LP	Hedge Fund - Equity Long/Short	New York, NY
30 Winton Capital Management	Hedge Fund - Macro	London, UK

Overlay

As of June 30, 2018, the Overlay portfolio, managed by Parametric, had \$304.4 million in net position, representing 0.4% of the PRIT Fund. The Overlay portfolio returned 3.12% for the fiscal year, 3.87% over the three-year period, and 4.86% 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, 2018

Asset Class	1 Year	3 Year	5 Year	10 Year
<i>Benchmark as of June 30, 2018</i>				
Global Equity	11.92%	9.12%	10.04%	6.64%
44% Domestic Equity BM/40% Interantional Equity BM/16% Emerging Markets BM	11.26%	8.32%	9.50%	5.88%
Domestic Equity	15.61%	11.70%	13.20%	9.25%
78.9% Custom S&P 500/21.1% Total Small/Smid Cap Equity BM	15.36%	11.87%	13.36%	9.82%
International Equity	8.70%	6.45%	7.86%	4.18%
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	8.01%	5.39%	6.84%	3.02%
Emerging Markets	9.10%	8.16%	6.33%	2.76%
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	7.81%	5.35%	5.08%	2.33%
Core Fixed Income	1.40%	3.60%	4.25%	3.99%
41.6% BC Agg/16.7% BC US STRIPS 20+ Year /25% BC US TIPS/16.7% BC ILB US\$ HEDGED	1.20%	3.51%	4.04%	3.65%
Value-Added Fixed Income	3.82%	4.98%	4.39%	6.75%
Asset Class BM (1)	3.57%	3.21%	2.28%	5.69%
Real Estate	9.41%	9.44%	10.75%	6.92%
80% NCREIF Property One Qtr. Lag/20% FTSE EPRA NAREIT DEVELOPED Net Total Return	7.05%	8.37%	9.45%	6.26%
Private Equity	21.84%	18.34%	19.41%	13.63%
No Benchmark	na	na	na	na
Timberland	7.94%	5.50%	7.56%	4.64%
NCREIF Timberland Index (one quarter lag)	3.79%	3.44%	6.10%	4.39%
Portfolio Completion Strategies	6.94%	3.26%	4.78%	3.23%
Total Portfolio Completion Strategies Composite Index (2)	5.99%	2.35%	3.71%	3.33%
Overlay (3)	3.12%	3.87%	na	na
No Benchmark	na	na	na	na
	1 Year	3 Year	5 Year	10 Year
Total PRIT Core Fund	10.00%	8.42%	9.25%	6.30%
Policy Benchmark	8.14%	7.10%	7.72%	5.61%
TUCS Universe Median	8.62%	7.43%	8.72%	6.80%
TUCS Universe Ranking	15th	10th	25th	81st

- (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, Distressed Debt component is using actual Distressed Debt Returns.
- (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, 2018

	Fair Value (\$000s)	% of Fair Value
Short-term:		
Money market investments	\$ 1,621,234	2.14%
Fixed income:		
U.S. government obligations	5,910,344	7.82%
Domestic fixed income	5,635,457	7.45%
International fixed income	2,907,782	3.85%
Distressed debt	1,148,148	1.52%
Other credit opportunities	200,264	0.27%
Equity:		
Domestic equity securities	13,002,507	17.19%
International equity securities	16,211,785	21.44%
Timberland	2,420,914	3.20%
Private Equity:		
Special equity	5,567,287	7.36%
Venture capital	1,836,814	2.43%
Natural resources	166,263	0.22%
Real estate:		
Real estate properties	6,265,041	8.28%
Real estate equity securities	1,614,349	2.13%
Real estate funds	74,591	0.10%
Other	66,055	0.09%
Portfolio completion strategies:		
Event-driven hedge funds	1,429,571	1.89%
Relative value hedge funds	301,348	0.40%
Equity long/short hedge funds	157,464	0.21%
Fund of funds	996,974	1.32%
Risk premia fund	217,627	0.29%
Real assets fund	296,203	0.39%
Equity securities	4,012,556	5.31%
Fixed income securities	1,772,156	2.34%
Cash and cash equivalent	1,393,918	1.84%
Agricultural investments	393,303	0.52%
Other	1,237	0.00%
Total investments	\$ 75,621,192	100.00%

SUMMARY SCHEDULE OF BROKER COMMISSIONS

(Top 25 Brokers and Cumulative Fees Paid to Others)

Fiscal Year Ended June 30, 2018

Brokerage Firms	Fees Paid (\$)	% Total	Average \$ per share
Morgan Stanley	\$ 1,082,436	9.6%	0.0034
Citigroup	1,014,796	9.0%	0.0037
JP Morgan	845,059	7.5%	0.0039
Merrill Lynch	709,330	6.3%	0.0020
UBS	667,348	5.9%	0.0032
Credit Suisse	544,389	4.8%	0.0018
Goldman Sachs	536,229	4.8%	0.0022
HSBC	512,919	4.5%	0.0025
Instinet	427,812	3.8%	0.0014
Macquarie	378,438	3.4%	0.0021
Deutsche Bank	302,148	2.7%	0.0030
Jefferies & Co	255,947	2.3%	0.0042
Credit Lyonnais Securities	226,030	2.0%	0.0024
Sanford C. Bernstein & Co	188,603	1.7%	0.0032
ITG	187,830	1.7%	0.0019
Societe Generale	165,620	1.5%	0.0010
BNP Paribas	123,355	1.1%	0.0049
Daiwa Securities	113,727	1.0%	0.0036
Banco Santander	95,254	0.8%	0.0079
Bradesco Corretora	92,680	0.8%	0.0103
Liquidnet	92,337	0.8%	0.0310
CLSA	91,564	0.8%	0.0060
Investec	88,189	0.8%	0.0057
Pershing	87,726	0.8%	0.0077
The City Bank Limited	84,547	0.7%	0.0036
Others	2,361,033	20.9%	0.0038
Totals	\$ 11,275,346	100.0%	0.0029

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, 2018 the PRIT Fund earned \$15,571 from the commission recapture program.

SCHEDULE OF MANAGEMENT FEES

Fiscal Year Ended June 30, 2018

Investment Management Fees by Asset Class:	(\$000s)
Global Equity	\$ 60,992
Core Fixed Income	6,899
Value-Added Fixed Income	9,469
Real Estate	28,796
Timberland	7,314
Private Equity	4,199
Portfolio Completion Strategies	18,386
Overlay	1,078
Total Investment Management Fees	137,133
Investment Advisory Fees	8,572
Custodian Fees	758
Other Administrative Fees	12,996
 Total Management Fees charged to the PRIT Fund	 \$ 159,459

SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT

Segmentation Accounts invested as of June 30, 2018

Retirement System	Net Asset Values (\$000s) 6/30/18	General Allocation	Domestic Equity	International Equity	Emerging Markets	Core Fixed Income	Real Estate	Private Equity	Hedge Funds	Public Value Added Fixed Income
Adams	\$ 6,865	X			X		X	X	X	
Amesbury	\$ 55,092	X								
Andover	\$ 114,082	X	X	X	X	X	X			X
Arlington	\$ 145,366	X								
Attleboro	\$ 2,054							X		
Barnstable	\$ 1,084,064	X								
Belmont	\$ 39,969	X		X	X		X	X	X	
Berkshire	\$ 240,455	X								
Beverly	\$ 125,541	X								
Blue Hills	\$ 11,204	X								
State Boston/Teachers	\$ 1,628,902	X								
Braintree	\$ 9,511							X	X	
Bristol County	\$ 54,854							X	X	
Brookline	\$ 6,344							X		
Cambridge	\$ 140,301							X	X	
Chelsea	\$ 164,144	X								
Chicopee	\$ 35,463						X	X	X	
Clinton	\$ 49,485	X		X	X			X		
Concord	\$ 73,047	X					X	X		
Danvers	\$ 48,890			X	X		X	X	X	
Dedham	\$ 141,699	X								
Dukes County	\$ 80,359	X		X			X	X		
Easthampton	\$ 52,585	X								
Essex	\$ 442,822	X								
Everett	\$ 148,906	X								
Fairhaven	\$ 62,187	X								
Fall River	\$ 259,169	X								
Falmouth	\$ 18,641						X	X	X	
Fitchburg	\$ 114,907	X								
Framingham	\$ 309,349	X								
Franklin County	\$ 84,781	X		X			X			
Gardner	\$ 53,816	X								
Gloucester	\$ 102,691	X								
Greenfield	\$ 69,243	X								
Hampden County	\$ 351,266	X								
Hampshire County	\$ 124,077				X	X	X	X		
Haverhill	\$ 76,706			X	X	X	X	X	X	X
Hingham	\$ 117,413	X								
Holyoke	\$ 3,589						X			
Hull	\$ 47,159	X								
Lawrence	\$ 219,661	X								
Leominster	\$ 144,095	X								
Lexington	\$ 31,469						X		X	
Lowell	\$ 359,143	X								
Lynn	\$ 329,956	X								
Marblehead	\$ 98,265	X								
Mass Turnpike	\$ 175,104	X								
Massport	\$ 87,110						X	X		
Maynard	\$ 20,643				X	X	X		X	X
Medford	\$ 37,905						X	X	X	

SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT, continued

Segmentation Accounts invested as of June 30, 2018

Retirement System	Net Asset Values (\$000s) 6/30/18	General Allocation	Domestic Equity	International Equity	Emerging Markets	Core Fixed Income	Real Estate	Private Equity	Hedge Funds	Public Value Added Fixed Income
Melrose	\$ 79,867	X								
Methuen	\$ 148,113	X								
Middlesex	\$ 1,274,117	X								
Milford	\$ 93,063	X								
Milton	\$ 133,670	X								
Minuteman	\$ 13,649	X								
Montague	\$ 42,061	X								
MSCBA	\$ 5,194	X								
MWRA	\$ 51,245	X					X	X	X	
Natick	\$ 30,903	X					X	X	X	
Needham	\$ 158,435	X								
Newburyport	\$ 80,076	X								
Newton	\$ 339,307	X								
Norfolk	\$ 126,315					X	X	X	X	
North Adams	\$ 315							X		
Northbridge	\$ 35,373	X								
Northampton	\$ 585							X		
Norwood	\$ 33,631				X		X			
Peabody	\$ 149,675	X								
Pittsfield	\$ 133,831	X								
Plymouth	\$ 41,415	X					X	X	X	
Quincy	\$ 28,337	X				X		X		
Reading	\$ 132,449	X								
Revere	\$ 156,475	X								
Salem	\$ 171,746	X								
Saugus	\$ 103,587	X								
Shrewsbury	\$ 124,519	X	X	X	X	X	X			X
Somerville	\$ 35							X		
Southbridge	\$ 52,677	X								
Springfield	\$ 313,412	X								
State Employees'	\$ 27,583,505	X								
State Retiree Benefits Trust	\$ 1,506,334	X								
State Teachers'	\$ 28,588,059	X								
Stoneham	\$ 36,890	X					X	X	X	
Swampscott	\$ 48,906	X	X	X	X	X	X			X
Wakefield	\$ 120,549	X								
Waltham	\$ 86,340	X					X	X	X	
Watertown	\$ 51,058		X				X	X	X	
Webster	\$ 7,751						X	X	X	
Wellesley	\$ 190,185	X								
Westfield	\$ 4,327						X		X	
Weymouth	\$ 25,471						X		X	
Winchester	\$ 117,966	X								
Winthrop	\$ 69,625	X								
Woburn	\$ 67,585			X	X	X	X	X	X	X
Worcester	\$ 356,783	X			X		X	X		
Worcester Regional	\$ 685,882	X								
	\$ 71,801,642									

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. 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:

- A. 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.
- B. 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.
- C. 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.
- D. Investments should target a “capital gap” where there are likely to be underserved markets.
- E. 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)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Additions										
State Employees contributions	\$ 727,625	\$ 855,586	\$ 727,147	\$ 580,527	\$ 547,627	\$ 529,031	\$ 544,166	\$ 538,898	\$ 475,591	\$ 462,471
State teachers contributions	804,171	761,753	752,835	721,148	709,114	669,815	640,056	616,533	593,147	599,410
Other participants contributions	1,218,193	1,071,727	922,092	877,252	793,507	613,345	898,837	1,535,681	620,865	991,362
Net investment income (loss)	6,354,624	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)
Total additions to pooled net position	9,104,613	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)
Deductions										
State employees warrants	486,526	458,340	444,166	381,565	357,089	347,330	315,943	282,398	259,285	242,694
State teachers warrants	621,701	596,815	569,054	544,646	494,363	496,987	451,844	418,153	388,366	361,773
Participants redemptions	996,520	1,055,203	924,710	768,507	739,175	683,279	532,873	508,579	364,648	383,748
State appropriation funding	2,014,583	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
Operating expenses	34,082	41,509	40,491	35,761	30,789	30,394	28,447	26,391	27,332	24,954
Total deductions to pooled net position	4,153,412	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
Changes in pooled net position	\$ 4,951,201	\$ 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)

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, 2018. In addition, pages 106-111 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, 2018

	General	Domestic	International	Emerging	Core	Public					Private	Private	Private	Private
	Allocation	Equity	Equity	Markets	Fixed	Value-	Distressed	Hedge	Liquidating	Private	Equity	Equity	Equity	Equity
	Account	Account	Account	Account	Income	Added	Debt	Funds	Portfolios	Equity	Year	Year	Year	Year
		Account	Account	Account	Account	Income	Account	Account	Account	Account	2000	2001	2002	2003
Net position per unit, beginning 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
Investment operations:														
Net investment income (loss)(1)	7.89	5.68	7.94	7.88	6.57	18.11	5.03	0.06	0.00	7.63	(0.48)	15.92	38.69	(0.18)
Net realized and unrealized gain (loss) on investments and foreign currency	24.52	41.39	17.80	32.74	(3.04)	(13.62)	7.74	5.08	3.48	16.86	(1.01)	10.19	(60.35)	106.05
Total from investment operations	32.41	47.07	25.74	40.62	3.53	4.49	12.77	5.14	3.48	24.49	(1.49)	26.11	(21.66)	105.87
Net position per unit, end of year	\$ 371.67	350.84	329.80	511.73	276.40	309.95	150.59	89.91	89.65	431.08	291.56	763.46	193.08	494.21
Ratios and supplementary data:														
Total net return(2)	9.55%	15.50%	8.47%	8.62%	1.29%	1.47%	9.27%	6.06%	4.04%	6.02%	(0.51)%	3.54%	(10.09)%	27.26%
Net position, end of year (\$'000s)	\$ 70,145,449	13,695,898	11,831,052	4,537,474	9,153,731	4,441,960	1,153,692	5,999,629	203,319	137,947	35,279	46,571	4,827	42,008
Units outstanding, end of year ('000s)	188,731	39,037	35,873	8,867	33,118	14,331	7,661	66,727	2,268	320	121	61	25	85
Ratios to average net assets:														
Ratio of expenses, including indirect management fees	0.52%	0.11%	0.23%	0.47%	0.10%	0.44%	1.76%	1.17%	0.92%	0.05%	0.04%	0.01%	0.68%	0.04%
Ratio of expenses, excluding indirect management fees	0.18%	0.11%	0.23%	0.47%	0.10%	0.23%	0.04%	0.09%	0.03%	0.05%	0.04%	0.04%	0.05%	0.04%

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, 2018**

	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	\$ 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
Investment operations:														
Net investment income (loss)(1)	(0.55)	0.80	0.98	0.83	2.09	2.89	3.66	0.47	0.00	1.95	0.64	(0.14)	0.00	1.87
Net realized and unrealized gain (loss) on investments and foreign currency	(2.15)	18.22	4.21	5.45	34.30	23.57	31.05	17.16	3.46	13.42	20.82	29.26	4.59	3.34
Total from investment operations	(2.70)	19.02	5.19	6.28	36.39	26.46	34.71	17.63	3.46	15.37	21.46	29.12	4.59	5.21
Net position per unit, end of year	\$ 117.79	198.75	110.30	44.12	187.05	154.53	174.99	111.24	21.43	124.37	105.04	127.19	63.96	105.17
Ratios and supplementary data:														
Total net return(2)	(2.24)%	10.58%	4.94%	16.60%	24.15%	20.66%	24.74%	18.83%	19.25%	14.10%	25.68%	29.69%	7.73%	5.21%
Net position, end of year (\$'000s)	\$ 22,851	135,744	306,512	538,342	726,311	343,201	701,188	866,997	739,683	623,594	1,087,916	941,586	290,614	127,993
Units outstanding, end of year ('000s)	194	683	2,779	12,203	3,883	2,221	4,007	7,794	34,520	5,014	10,357	7,403	4,544	1,217
Ratios to average net assets:														
Ratio of expenses, including indirect management fees	0.21%	0.53%	0.62%	0.92%	0.70%	1.59%	1.25%	1.35%	1.59%	1.77%	2.19%	3.16%	6.59%	10.13%
Ratio of expenses, excluding indirect management fees	0.04%	0.06%	0.08%	0.04%	0.09%	0.04%	0.04%	0.07%	0.04%	0.04%	0.04%	0.51%	0.04%	0.04%

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, 2018**

	Private Equity Vintage Year 2018 Account	Real Estate Account	Timberland Account	Cash Overlay Account	Risk Premia Account	Real Assets Account	Equity Hedge Account	Other Credit Opportunities Account
Net position per unit, beginning of year	\$ 100.00	587.84	261.21	187.73	97.75	101.22	100.00	100.00
Investment operations:								
Net investment income (loss)(1)	(0.14)	25.61	5.46	1.11	(0.11)	2.84	1.05	(0.13)
Net realized and unrealized gain (loss) on investments and foreign currency	(0.85)	26.46	13.81	3.85	5.48	3.18	9.42	3.07
Total from investment operations	(0.99)	52.07	19.27	4.96	5.37	6.02	10.47	2.94
Net position per unit, end of year	\$ 99.01	639.91	280.48	192.69	103.12	107.24	110.47	102.94
Ratios and supplementary data:								
Total net return(2)	(0.99)% (3)	8.86%	7.38%	2.64%	5.49%	5.95%	10.47%	2.94% (3)
Net position, end of year (\$'000s)	\$ 15,842	6,454,777	2,433,762	304,443	618,533	631,406	2,372,889	164,184
Units outstanding, end of year ('000s)	160	10,087	8,677	1,580	5,998	5,888	21,480	1,595
Ratios to average net assets:								
Ratio of expenses, including indirect management fees	0.14% (3)	0.50%	0.55%	0.06%	0.90%	1.37%	0.42%	0.62% (3)
Ratio of expenses, excluding indirect management fees	0.14% (3)	0.14%	0.21%	0.06%	0.11%	0.03%	0.03%	0.62% (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

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

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

Financial Highlights Ratios

For the years ended June 30, 2017-2009

	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
Ratios and supplementary data:															
2017															
Total net return (1)	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%	25.85%
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	41,088
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	341
2016															
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)%
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
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
2015															
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%
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
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
2014															
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%
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
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
2013															
Total net return (1)	12.28%	21.98%	19.34%	5.10%	(0.45)%	3.07%	9.16%	(3)	12.20%	2.39%	3.28%	10.18%	11.79%	4.52%	8.87%
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
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
2012															
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%
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
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
2011															
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%
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
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
2010															
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%
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
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
2009															
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)%
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
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
Ratios to average net assets:															
2017															
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%	0.20%
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%	0.04%
2016															
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%
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%	0.08%	0.04%	0.07%	0.04%	0.04%	0.06%
2015															
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%
Ratio of expenses, excluding indirect management fees	0.16%	0.14%	0.18%	0.31%	0.09%	0.30%	0.04%	0.04%	0.02%	0.04%	0.04%	0.05%	0.04%	0.04%	0.05%
2014															
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%
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%
2013															
Ratio of expenses, including indirect management fees	0.55%	0.08%	0.19%	0.33%	0.14%	0.85%	0.92%	(3)	1.33%	—	0.39%	0.59%	0.77%	0.90%	0.94%
Ratio of expenses, excluding indirect management fees	0.14%	0.08%	0.19%	0.32%	0.12%	0.34%	0.01%	(3)	0.05%	(0.03)%	0.07%	0.09%	0.05%	0.05%	0.12%

Financial Highlights Ratios, continued

For the years ended June 30, 2017-2009

	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
2012														
Ratio of expenses, including indirect management fees	0.50%	0.09%	0.19%	0.32%	0.14%	0.89%	0.91%	0.09%	0.24%	0.54%	0.73%	0.81%	0.83%	0.80%
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%
2011														
Ratio of expenses, including indirect management fees	0.50%	0.08%	0.19%	0.35%	0.15%	0.96%	0.81%	0.06%	0.32%	1.25%	1.49%	0.97%	0.89%	1.05%
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%
2010														
Ratio of expenses, including indirect management fees	0.54%	0.20%	0.23%	0.25%	0.16%	1.08%	0.82%	0.14%	0.79%	1.57%	1.07%	1.13%	0.89%	1.16%
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%
2009														
Ratio of expenses, including indirect management fees	0.51%	0.29%	0.29%	0.48%	0.14%	0.89%	0.85%	N/A	0.94%	1.39%	1.21%	1.19%	0.96%	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%

(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, 2017-2009

	Vintage Year 2005 Account	Vintage Year 2006 Account	Vintage Year 2007 Account	Vintage Year 2008 Account	Vintage Year 2009 Account	Vintage Year 2010 Account	Vintage Year 2011 Account	Vintage Year 2012 Account	Vintage Year 2013 Account	Vintage Year 2014 Account	Vintage Year 2015 Account	Vintage Year 2016 Account	Vintage Year 2017 Account	Core Real Estate Account
Ratios and supplementary data:														
2017														
Total net return (1)	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)% (2)	6.27%
Net position, end of year (\$'000s)	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	6,047,656
Units outstanding, end of year ('000s)	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	10,288
2016														
Total net return (1)	8.56%	2.52%	9.87%	12.84%	20.05%	15.08%	22.91%	8.34%	5.06%	5.15%	(9.23)%	(17.50)% (2)	N/A	11.70%
Net position, end of year (\$'000s)	430,797	612,037	912,296	904,434	443,570	806,666	796,339	542,987	308,790	399,073	184,978	165	N/A	6,302,436
Units outstanding, end of year ('000s)	2,856	6,365	29,691	7,731	4,027	6,704	10,528	36,668	3,396	5,616	2,174	2	N/A	11,394
2015														
Total net return (1)	15.15%	11.51%	9.04%	16.66%	24.02%	19.09%	24.07%	11.77%	(5.24)%	(13.53)%	(6.26)% (2)	N/A	N/A	11.30%
Net position, end of year (\$'000s)	594,274	848,797	1,154,470	1,017,713	494,545	762,278	704,428	425,548	170,840	177,995	40,871	N/A	N/A	6,093,142
Units outstanding, end of year ('000s)	4,277	9,049	41,282	9,816	5,390	7,290	11,447	31,126	1,974	2,634	436	N/A	N/A	12,305
2014														
Total net return (1)	20.33%	23.18%	22.67%	30.63%	27.66%	27.52%	17.90%	16.81%	(8.66)%	(21.85)% (2)	N/A	N/A	N/A	12.91%
Net position, end of year (\$'000s)	703,977	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	N/A	5,380,022
Units outstanding, end of year ('000s)	5,834	13,054	51,443	11,815	5,433	6,807	8,777	17,648	579	41	N/A	N/A	N/A	12,093
2013														
Total net return (1)	13.07%	13.29%	14.39%	17.96%	15.65%	14.41%	(1.98)%	(21.87)%	N/A	N/A	N/A	N/A	N/A	12.28%
Net position, end of year (\$'000s)	801,538	1,217,424	1,212,620	895,341	301,492	391,799	201,700	61,569	N/A	N/A	N/A	N/A	N/A	4,382,052
Units outstanding, end of year ('000s)	7,993	17,827	57,995	13,161	5,203	5,691	4,794	5,879	N/A	N/A	N/A	N/A	N/A	11,121
2012														
Total net return (1)	16.13%	13.20%	11.33%	14.15%	0.62%	(9.88)%	(54.42)%	(86.60)% (2)	N/A	N/A	N/A	N/A	N/A	9.41%
Net position, end of year (\$'000s)	879,582	1,291,372	1,072,936	685,645	184,789	214,792	97,989	134	N/A	N/A	N/A	N/A	N/A	4,724,457
Units outstanding, end of year ('000s)	9,918	21,422	58,687	11,889	3,688	3,569	2,283	10	N/A	N/A	N/A	N/A	N/A	13,463
2011														
Total net return (1)	19.74%	23.61%	20.56%	20.34%	(7.45)%	(29.52)%	(5.84)% (2)	N/A	N/A	N/A	N/A	N/A	N/A	20.17%
Net position, end of year (\$'000s)	872,773	1,208,620	804,057	439,750	86,944	44,610	1,789	N/A	N/A	N/A	N/A	N/A	N/A	4,103,735
Units outstanding, end of year ('000s)	11,428	22,699	48,975	8,704	1,746	668	19	N/A	N/A	N/A	N/A	N/A	N/A	12,794
2010														
Total net return (1)	15.50%	15.53%	11.18%	6.01%	(46.19)%	(5.25)% (2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.35%
Net position, end of year (\$'000s)	750,824	913,119	467,426	203,969	18,978	7,080	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3,767,749
Units outstanding, end of year ('000s)	11,670	20,982	33,927	4,786	349	74	N/A	N/A	N/A	N/A	N/A	N/A	N/A	13,815
2009														
Total net return (1)	(25.79)%	(23.62)%	(19.41)%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(23.90)%
Net position, end of year (\$'000s)	629,918	708,085	285,173	62,947	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4,090,525
Units outstanding, end of year ('000s)	11,408	18,991	23,279	1,590	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	15,686
Ratios to average net assets:														
2017														
Ratio of expenses, including indirect management fees	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% (2)	0.46%
Ratio of expenses, excluding indirect management fees	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% (2)	0.09%
2016														
Ratio of expenses, including indirect management fees	0.73%	0.77%	1.00%	0.98%	1.29%	1.30%	1.74%	2.28%	4.91%	4.71%	9.50%	(21.53)% (2)	N/A	0.47%
Ratio of expenses, excluding indirect management fees	0.04%	0.03%	0.04%	0.14%	0.04%	0.04%	0.16%	0.04%	0.04%	0.05%	0.04%	(21.53)% (2)	N/A	0.09%
2015														
Ratio of expenses, including indirect management fees	0.82%	0.80%	1.01%	0.97%	1.71%	1.61%	2.21%	3.27%	8.83%	9.28%	2.57% (2)	N/A	N/A	0.64%
Ratio of expenses, excluding indirect management fees	0.05%	0.05%	0.04%	0.11%	0.04%	0.04%	0.15%	0.05%	0.04%	0.06%	0.02% (2)	N/A	N/A	0.27%
2014														
Ratio of expenses, including indirect management fees	0.91%	0.84%	1.32%	1.70%	2.59%	2.55%	4.26%	7.53%	14.31%	10.58% (2)	N/A	N/A	N/A	0.56%
Ratio of expenses, excluding indirect management fees	0.08%	0.06%	0.04%	0.15%	0.04%	0.04%	0.41%	0.05%	0.04%	0.11% (2)	N/A	N/A	N/A	0.17%
2013														
Ratio of expenses, including indirect management fees	1.01%	0.97%	1.70%	1.88%	3.26%	3.69%	7.38%	14.26%	N/A	N/A	N/A	N/A	N/A	0.49%
Ratio of expenses, excluding indirect management fees	0.09%	0.10%	0.04%	0.16%	0.04%	0.04%	0.17%	0.08%	N/A	N/A	N/A	N/A	N/A	0.13%

Financial Highlights Ratios, continued

For the years ended June 30, 2017-2009

	Vintage Year 2005 Account	Vintage Year 2006 Account	Vintage Year 2007 Account	Vintage Year 2008 Account	Vintage Year 2009 Account	Vintage Year 2010 Account	Vintage Year 2011 Account	Vintage Year 2012 Account	Core Real Estate Account
2012									
Ratio of expenses, including indirect management fees	1.02%	1.11%	2.12%	2.54%	5.61%	7.85%	16.15%	8.19% (2)	0.50%
Ratio of expenses, excluding indirect management fees	0.08%	0.19%	0.04%	0.21%	0.04%	0.04%	0.04%	0.25% (2)	0.15%
2011									
Ratio of expenses, including indirect management fees	1.43%	1.45%	3.81%	3.98%	15.75%	13.44%	10.80%	N/A	0.53%
Ratio of expenses, excluding indirect management fees	0.11%	0.20%	(0.01)%	0.22%	0.04%	0.05%	0.02%	N/A	0.16%
2010									
Ratio of expenses, including indirect management fees	1.93%	2.03%	5.66%	9.21%	51.16%	0.06%	N/A	N/A	0.53%
Ratio of expenses, excluding indirect management fees	0.19%	0.30%	0.06%	0.06%	0.06%	0.06%	N/A	N/A	0.15%
2009									
Ratio of expenses, including indirect management fees	1.67%	2.20%	7.96%	23.91%	N/A	N/A	N/A	N/A	(0.26)%
Ratio of expenses, excluding indirect management fees	0.18%	0.28%	0.05%	0.06%	N/A	N/A	N/A	N/A	(0.59)%

(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.

Financial Highlights Ratios, continued

For the years ended June 30, 2017-2009

	Noncore Real Estate Account	Timberland Account	Cash Overlay Account	Portfolio Completion Strategies Account (3)	Risk Premia Account (3)	Real Assets Account (3)
Ratios and supplementary data:						
2017						
Total net return (1)	N/A	7.65%	14.55%	N/A	(5.06)%	1.22%
Net position, end of year (\$'000s)	N/A	2,483,085	682,197	N/A	585,639	153,348
Units outstanding, end of year ('000s)	N/A	9,506	3,634	N/A	5,991	1,515
2016						
Total net return (1)	N/A	(3.31)%	5.65%	8.62%	N/A	N/A
Net position, end of year (\$'000s)	N/A	2,012,000	286,627	736,581	N/A	N/A
Units outstanding, end of year ('000s)	N/A	8,292	1,749	7,154	N/A	N/A
2015						
Total net return (1)	N/A	(2.04)%	5.19%	(5.21)% (2)	N/A	N/A
Net position, end of year (\$'000s)	N/A	2,347,050	567,427	94,882	N/A	N/A
Units outstanding, end of year ('000s)	N/A	9,353	3,658	1,001	N/A	N/A
2014						
Total net return (1)	N/A	12.81%	47.46% (2)	N/A	N/A	N/A
Net position, end of year (\$'000s)	N/A	2,374,863	549,427	N/A	N/A	N/A
Units outstanding, end of year ('000s)	N/A	9,271	3,726	N/A	N/A	N/A
2013						
Total net return (1)	N/A	6.27%	N/A	N/A	N/A	N/A
Net position, end of year (\$'000s)	N/A	2,129,694	N/A	N/A	N/A	N/A
Units outstanding, end of year ('000s)	N/A	9,379	N/A	N/A	N/A	N/A
2012						
Total net return (1)	N/A	(8.68)%	N/A	N/A	N/A	N/A
Net position, end of year (\$'000s)	N/A	1,903,043	N/A	N/A	N/A	N/A
Units outstanding, end of year ('000s)	N/A	8,906	N/A	N/A	N/A	N/A
2011						
Total net return (1)	N/A	19.20%	N/A	N/A	N/A	N/A
Net position, end of year (\$'000s)	N/A	2,003,721	N/A	N/A	N/A	N/A
Units outstanding, end of year ('000s)	N/A	8,563	N/A	N/A	N/A	N/A
2010						
Total net return (1)	N/A	(5.90)%	N/A	N/A	N/A	N/A
Net position, end of year (\$'000s)	N/A	1,671,981	N/A	N/A	N/A	N/A
Units outstanding, end of year ('000s)	N/A	8,517	N/A	N/A	N/A	N/A
2009						
Total net return (1)	(100.00)%	(14.84)%	N/A	N/A	N/A	N/A
Net position, end of year (\$'000s)	—	1,776,921	N/A	N/A	N/A	N/A
Units outstanding, end of year ('000s)	—	8,518	N/A	N/A	N/A	N/A
Ratios to average net assets:						
2017						
Ratio of expenses, including indirect management fees	N/A	0.67%	0.07%	N/A	1.27%	0.04%
Ratio of expenses, excluding indirect management fees	N/A	0.34%	0.07%	N/A	0.15%	0.04%
2016						
Ratio of expenses, including indirect management fees	N/A	0.23%	0.07%	0.90%	N/A	N/A
Ratio of expenses, excluding indirect management fees	N/A	(0.11)%	0.07%	0.16%	N/A	N/A
2015						
Ratio of expenses, including indirect management fees	N/A	0.70%	0.07%	0.29% (2)	N/A	N/A
Ratio of expenses, excluding indirect management fees	N/A	0.40%	0.07%	0.10% (2)	N/A	N/A
2014						
Ratio of expenses, including indirect management fees	N/A	0.55%	0.09% (2)	N/A	N/A	N/A
Ratio of expenses, excluding indirect management fees	N/A	0.16%	0.09% (2)	N/A	N/A	N/A
2013						
Ratio of expenses, including indirect management fees	N/A	0.67%	N/A	N/A	N/A	N/A
Ratio of expenses, excluding indirect management fees	N/A	0.15%	N/A	N/A	N/A	N/A

Financial Highlights Ratios, continued

For the years ended June 30, 2017-2009

	<u>Timberland Account</u>
2012	
Ratio of expenses, including indirect management fees	0.78%
Ratio of expenses, excluding indirect management fees	0.19%
2011	
Ratio of expenses, including indirect management fees	0.83%
Ratio of expenses, excluding indirect management fees	0.22%
2010	
Ratio of expenses, including indirect management fees	0.57%
Ratio of expenses, excluding indirect management fees	0.07%
2009	
Ratio of expenses, including indirect management fees	1.00%
Ratio of expenses, excluding indirect management fees	0.60%

- (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.
- (3) Prior to July 2016, Risk Premia and Real Assets were reflected in the Portfolio Completion Strategies account.

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.

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Domestic Equity	19.1%	19.8%	18.7%	19.2%	19.0%	20.8%	19.2%	22.0%	19.9%	24.4%
International Equity	16.5%	18.0%	16.5%	16.9%	17.1%	18.0%	16.7%	21.7%	20.0%	19.0%
Emerging Markets	6.3%	7.9%	7.0%	6.6%	7.0%	6.5%	6.7%	6.6%	5.7%	5.0%
Core Fixed Income	12.8%	12.0%	13.9%	13.7%	13.9%	12.6%	13.0%	13.2%	14.0%	13.0%
Value-Added Fixed Income	8.0%	8.1%	8.4%	8.3%	8.5%	8.9%	8.6%	6.0%	7.0%	7.7%
Private Equity	10.8%	10.6%	11.1%	11.3%	11.1%	11.7%	12.1%	10.7%	10.6%	9.6%
Real Estate	9.0%	9.1%	10.4%	10.0%	8.9%	8.2%	9.7%	8.2%	9.1%	10.9%
Timberland	3.4%	3.7%	3.3%	3.8%	3.9%	4.0%	3.9%	4.0%	4.1%	4.7%
Hedge Funds (1)	0.0%	0.0%	8.6%	9.1%	9.6%	9.2%	9.9%	7.2%	7.7%	5.7%
Liquidating Portfolios (2)	0.3%	0.4%	0.3%	0.1%	0.1%	0.1%	0.2%	0.4%	1.9%	-
Overlay	0.4%	1.0%	0.5%	0.9%	0.9%	-	-	-	-	-
Portfolio Completion Strategies (1)	13.4%	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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