PENSION RESERVES INVESTMENT TRUST FUND

(A Component Unit of the Commonwealth of Massachusetts)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2005

Timothy P. Cahill, Chair

Michael Travaglini, Executive Director

PENSION RESERVES INVESTMENT TRUST FUND

(A Component Unit of the Commonwealth of Massachusetts)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2005

Prepared By

Pension Reserves Investment Management Board Staff

For More Information

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Pension Reserves Investment Management Board

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Introductory Section

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December 6, 2005

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

I am pleased to transmit the Comprehensive Annual Financial Report (CAFR) of the Pension Reserves Investment Trust (PRIT) Fund for the fiscal year ending June 30, 2005 (FY05). The document that follows is the first CAFR to be produced in the 20-year existence of PRIT, a component unit of the Commonwealth of Massachusetts. The PRIM Board is charged with the general oversight of the PRIT Fund. I am delighted to confirm that the financial condition of the PRIT Fund remains strong and we trust that you will find PRIT's first CAFR useful in understanding the performance and financial position of PRIT at June 30, 2005.

The CAFR contains the basic financial statements presented in accordance with generally accepted accounting principals (GAAP) and the standards applicable to financial audits contained in *Government Auditing Standards*. The 2005 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 table of contents, letter of transmittal and the organizational structure of the PRIM Board.
- **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, a summary of the PRIT's investments, investment results, and supporting tables and schedules.
- **Statistical Section:** This section contains information regarding the PRIT Fund's participants, financial highlights, summary of operations, and other financial schedules and tables.

The CAFR is intended to provide comprehensive information on the financial position and results of the PRIT Fund. Responsibility for both the accuracy of the data and the completeness and fairness of the contents in this report rests with the PRIM Board. The MD&A immediately follows the independent auditor's report and provides an overview of PRIT's Financial Statements and the financial results of the PRIT Fund. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the PRIT Fund

The PRIT Fund is a pooled investment trust established to invest the assets of the Massachusetts State Teachers' and Employees' Retirement Systems, as well as the assets of county, authority, district, and municipal retirement systems that choose to invest. As of June 30, 2005, the PRIT Fund had approximately $36.3 billion in net assets. The PRIM Board, as Trustee, seeks to maximize the return on investments within acceptable levels of risk by broadly diversifying its investment portfolio, capitalizing on economies of scale to achieve cost-effective operations, and providing access to high quality, innovative investment management firms, all under the management of a professional staff and members of the Board. The PRIT Fund was created by the Legislature in December 1983 (Chapter 661 of the Acts 1983) with a mandate to accumulate assets through investment earnings to reduce the Commonwealth's unfunded pension liability and, further on, to assist local participating retirement systems in meeting their future pension obligations. The PRIT Fund merged with the Massachusetts State Teachers' and Employees' Retirement Systems (MASTERS) Trust on January 1, 1997, in accordance with Chapter 315 of the Acts of 1996. The Massachusetts State Teachers' and Employees' Retirement System are mandated by statute to invest all of their assets in the PRIT Fund. Chapter 84 of the Acts of 1996, signed into law on May 15, 1996, explicitly confirmed retirement boards' authority to invest in individual asset classes of the PRIT Fund. The program, called *"Segmentation"*, gives local retirement boards the flexibility to select specific asset classes in whatever proportions they believe are best suited to their needs.

See note 1 of the financial statements for more information on the profile and background of the PRIT Fund.

Investment Results

The PRIT Fund's Investment Policy Statement establishes investment objectives and policies designed to provide a framework for implementing investment strategy, while providing a foundation from which to oversee the management of the Fund in a prudent manner. A summary of the Investment Policy Statement is included in the Investment Section. The PRIM Board uses a custodian bank to safeguard investment holdings and to ensure the proper settlement and recording of investment and cash transactions.

The PRIT Fund's time-weighted return for fiscal year 2005 was 13.4%, exceeding the actuarial expected return of 8.25% by over 500 basis points, while surpassing the PRIT Fund's policy benchmark by 90 basis points. The PRIT Fund's long-term track record remains strong, with a time-weighted ten-year return of 10.6% for the period ended June 30, 2005. The PRIM Board has implemented a system of internal controls designed to ensure the reliability of reported investment information. The data presented in the Investment Section is in conformance with the presentation standards of the CFA Institute. Please refer to the Investment Section of this CAFR for more information on investment results.

Major Initiatives and Achievements

During the fiscal year ended 2005, the PRIM Board accomplished significant objectives it had established prior to the beginning of the year. This included the hiring of a new Chief Investment Officer. Stan Mavromates, PRIM's Deputy Chief Investment Officer, was selected as the result of a search process that attracted over 30 candidates from across the country. After a thorough RFP process for general consulting services, Cliffwater LLC was chosen. In conjunction with Cliffwater, staff coordinated the Board's annual asset allocation review which led to some recently approved changes designed to enhance the PRIM Board's overall risk/return profile.

The custody and oversight of $36 billion requires that the appropriate infrastructure is in place and the appropriate staff and resources are deployed. Working with our Chief Operating Officer, Karen Gershman, we continue to emphasize and develop enhancements to PRIM's risk control regime. An enterprise-wide risk management assessment was initiated; there were significant improvements to PRIM's internal alternative investment databases; and a comprehensive review of PRIM's proxy voting policy was completed, resulting in stronger governance positions. Finally, we have initiated the development and institutionalization of PRIM's first ever Board fiduciary education policy.

PRIM is continuously developing responses to industry wide issues such as divesting from investments in Sudan, and the defined benefit/defined contribution debate.

Looking to the future, as always, our first priority is to see that the PRIT Fund's long-term performance exceeds the actuarial rate of return, beats its policy benchmark, and compares favorably to the performance of other public funds. One of the keys to PRIM's success is our ability to recruit and retain talented staff members. To that end, I will oversee the process for selecting a new Senior Investment Officer for Real Estate/Timber and Investment and Financial Analysts. Operationally, reviews and improvements are constant. A program wide Information Technology assessment is planned for fiscal year 2006. The PRIM Board has completed the first CAFR in the PRIT Fund's history, and is seeking to obtain a certificate of achievement for excellence in financial reporting by the Government Finance Officers Association.

On the investment front an immediate goal is to conduct an RFP for active emerging markets investment management as well as enhanced US equity index investment management. We will also oversee a review and assessment of PRIM's existing benchmarks in the investment portfolio as well as its approach to foreign currency. In order to maintain consistency and diligence in our oversight of managers and their investments we have begun the process of bringing proxy voting for international equities in-house. Currently, PRIM staff makes the votes for domestic equity, but leaves the international votes to its managers.

Since its inception, the PRIM Board has successfully achieved its legislative mandate. I am confident that the PRIM Board, in conjunction with staff, will continue to make decisions that will lead to future success.

Very Respectfully,

Michael Travaglini

Executive Director, PRIM Board

Pension Reserves Investment Management Board

(9 Appointed and Elected Trustees)
Treasurer Timothy Cahill – Chair

Alexander E. Aikens, III	Theresa McGoldrick
C. LaRoy Brantley	George F. McSherry
Robert Brousseau	Peter Schwarzenbach
Paul Cesan	Ralph White

Investment, Audit/Administration & Real Estate Committees

20 Industry Professionals & Board Members

Executive Director
Michael Travaglini
March 8, 2004

Chief Investment Officer
Stanley P. Mavromates
February 1, 2000

Senior Client Service Officer
B. Michael Reardon
February 10, 2003

Chief Operating Officer
Chief Financial Officer
Karen Gershman
June 18, 2001

Executive Assistant
Maureen Roche
August 9, 1999

Public Securities

SIO, Real Estate & Timber
Lourdes S. Canlas
February 1, 2006

SIO
Alternative Investments
Wayne Smith
March 6, 2000

Mgr of Invest. Reporting & System Admin.
Yisroel Markov
February 16, 1998

Director of Finance
Thomas Hanna
May 22, 2000

Sr. Financial Analyst & Risk Mgmt. Officer
Greg Hegerich
June 24, 2004

Sr. Financial Analyst
Anthony J. Falzone
January 3, 2006

Investment Officer
Public Securities
Amy Prehn
April 15, 2002

Investment Analyst
Public Securities
Laura Bastian
July 11, 2005

Investment Analyst
Public Securities
Hannah Gilligan
August 2, 2004

Investment Analyst
Real Estate
Timothy Schlitzer
March 21, 2005

Investment Analyst
Alternative Investments
Joseph Senna
June 20, 2005

Investment Analyst
Alternative Investments
Vacant

Asst. Client Service Off. & Financial Analyst
Jennifer Cole
February 11, 2002

Staff Accountant
Vacant

Admin. Assistant
Alyssa Profenna
February 17, 2004

Financial Analyst
Eileen Coyne
July 22, 2002

Financial Analyst
Catherine Hodges
March 8, 2004

PRIT Fund - $36.3 Billion

28 Public Securities Managers Investing 37 Portfolios
12 Managers in Real Estate, Timber & REITs
74 Managers - 198 Private Equity Partnerships
5 Hedge Fund of Funds Managers
General, Private Equity, Absolute Return and Real Estate Consultants

Beneficiaries:
State Teachers & State Employees
& 52 Local Retirement Systems

PRIM Board Trustees

Advisory Committees to the PRIM Board

Investment Committee

Dr. Jerrold Mitchell, Chair
CIO, The Boston Foundation
C. LaRoy Brantley
Board Member
Ralph White
Board Member
Peter A. Brooke
Retired Investment Professional
Herman Daley
Metrocities Mortgage LLC
Glenn P. Strehle
Treasurer MIT (retired)

Real Estate Committee

Alexander E. Aikens III, Co-Chair
Board Member
Ralph White, Co-Chair
Board Member
George F. McSherry
Board Member
Peter Schwarzenbach
Board Member
Perry Hagenstein
Resource Issues, Inc. – Timber Expert
Peter O' Connell
Marina Bay Company
William F. McCall, Jr.
McCall & Almy, Inc.

Administration & Audit Committee
Robert Brousseau, Chair
Board Member
Paul Cesan
Board Member
Theresa McGoldrick
Board Member
Ted C. Alexiades
Town Accountant & Chair, Hingham Retirement Board
Richard P. Foley
Town Accountant, Reading Retirement Board
Robert Foy
Retired, City of Quincy Town Accountant

Financial Section

Independent Auditors' Report

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

We have audited the accompanying statements of pooled net assets of the Pension Reserves Investment Trust Fund (PRIT), a component unit of the Commonwealth of Massachusetts, as of June 30, 2005 and 2004, and the related statements of changes in pooled net assets for the years then ended. These financial statements are the responsibility of PRIT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on PRIT's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the pooled net assets of PRIT as of June 30, 2005 and 2004, and the changes in its pooled net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 8, 2005, on our consideration of PRIT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 12 through 16 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supporting schedules, introductory, investment, and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The supporting schedules presented on pages 42 to 44 have been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory, investment, and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

September 8, 2005

Management's Discussion and Analysis

June 30, 2005 and 2004

This section presents management's discussion and analysis of PRIT's financial performance for the fiscal years ended June 30, 2005 and 2004 and should be read in conjunction with the financial statements, which follow this section.

PRIT is a pooled investment fund, created in 1983 through Massachusetts legislation, that invests the assets of the State Teachers' and State Employees' Retirement Systems, as well as the assets of county, authority, school district and municipal retirement systems that choose to invest in PRIT.

The investment return percentages reported in management's discussion and analysis are presented gross of management fees.

Overview of the Financial Statements

The financial statements include the statements of pooled net assets and the statements of changes in pooled net assets. They present the financial position of PRIT as of June 30, 2005 and 2004 and its financial activities for the years then ended. The notes to the financial statements provide further information that is essential to a full understanding of the financial statements. The notes describe the significant accounting policies of PRIT and provide detailed disclosures on certain account balances. The supporting schedules of pooled net assets and changes in pooled net assets on pages 41 to 43 display the balances and activities of the Capital Fund and Cash Fund of PRIT.

The financial statements of PRIT are reported using the economic resources measurement focus and the accrual basis of accounting. They are prepared in conformity with accounting principles generally accepted in the United States of America.

Financial Highlights

Fiscal Year 2005

- The net assets of PRIT increased $3.7 billion during the year ended June 30, 2005. Total net assets were $36.3 billion at June 30, 2005, compared to $32.6 billion at June 30, 2004.
- Net investment income for fiscal year 2005 was approximately $4.2 billion, compared to net investment income of $5.3 billion for the prior fiscal year. The decrease was primarily due to a decline in investment performance in fiscal year 2005 compared to fiscal year 2004. PRIT returned 13.39% in fiscal year 2005, compared to 19.43% in fiscal year 2004.
- Contributions to PRIT totaled approximately $984 million during fiscal year 2005, compared to $1.1 billion in 2004.
- Redemptions from PRIT totaled approximately $1.5 billion during the year ended June 30, 2005, compared to $1.7 billion during the year ended June 30, 2004. The decrease was primarily attributable to a decrease in teachers and employees withdrawals, due to an increase in state pension appropriations by the Commonwealth of Massachusetts.

Management's Discussion and Analysis

June 30, 2005 and 2004

Fiscal Year 2004

- The net assets of PRIT increased $4.7 billion during the year ended June 30, 2004. Total net assets were $32.6 billion at June 30, 2004, compared to $27.9 billion at June 30, 2003.
- Net investment income for fiscal year 2004 was approximately $5.3 billion, compared to a net investment income increase of $0.9 billion for the prior fiscal year. The increase was primarily due to an improvement in overall investment performance.
- PRIT returned 19.43% in fiscal year 2004, compared to 4.02% in fiscal year 2003.
- Contributions to PRIT totaled approximately $1.1 billion during fiscal year 2004, compared to $1.0 billion in 2003.
- Redemptions from PRIT totaled approximately $1.7 billion during the year ended June 30, 2004, compared to $1.3 billion for the year ended June 30, 2003. The increase was primarily attributable to the withdrawal of funds to cover the shortfall in the pension appropriation of the Commonwealth of Massachusetts.

Management's Discussion and Analysis

June 30, 2005 and 2004

Condensed Financial Information

Summary balances and activities of PRIT as of and for the years ended June 30, 2005 and 2004 are presented below. The balances and activities as of and for the year ended June 30, 2003 are presented for comparative purposes only.

	June 30		
	2005	**2004**	**2003**
	(Amounts in thousands)		
Summary of pooled net assets:			
Assets:			
Investments	$ 37,702,829	33,128,502	28,822,609
Cash	78,637	61,812	53,091
Receivables and other assets	578,561	821,826	456,776
Total assets	38,360,027	34,012,140	29,332,476
Liabilities:			
Obligation under securities lending transactions	1,103,887	943,772	408,416
Management fees payable to PRIM	92,758	52,140	60,064
Other liabilities	843,175	376,228	969,917
Total liabilities	2,039,820	1,372,140	1,438,397
Net assets held in trust for pool participants	$ 36,320,207	32,640,000	27,894,079
Summary of changes in pooled net assets:			
Additions:			
Contributions	$ 984,530	1,142,334	991,432
Net investment income	4,212,098	5,309,069	947,539
Total additions	5,196,628	6,451,403	1,938,971
Deductions:			
Redemptions	1,516,421	1,705,482	1,329,325
Change in pooled net assets	3,680,207	4,745,921	609,646
Net assets held in trust for pool participants:			
Balance, beginning of year	32,640,000	27,894,079	27,284,433
Balance, end of year	$ 36,320,207	32,640,000	27,894,079

Management's Discussion and Analysis

June 30, 2005 and 2004

PRIT Performance During the Year Ended June 30, 2005

PRIT began fiscal year 2005 with net assets of $32.6 billion and ended the fiscal year with net assets of $36.3 billion, representing an 11.28% increase. The increase was due primarily to overall investment performance. Net investment income for the year ended June 30, 2005 was approximately $4.2 billion. However, net participant withdrawals of $532 million reduced the overall increase in net assets to $3.7 billion. Approximately $1.3 billion of PRIT's $1.5 billion in redemptions were withdrawn from the State Teachers' and State Employees' accounts, in part to make up for a shortfall in the pension funding of Massachusetts. Since fiscal year 1998, the state appropriations have been insufficient to fund the Commonwealth's annual cost of pension benefits.

For the year ended June 30, 2005, PRIT returned 13.39%, surpassing the interim policy benchmark of 12.49% by 90 basis points. The interim policy benchmark provides a measure of how well PRIT has implemented its asset allocation plan. It assumes that PRIT's actual allocation is identical to its interim target allocation and that all asset classes achieve index-like returns.

Approximately 65% of PRIT was actively managed, while the remaining 35% was indexed at June 30, 2005. All asset classes of PRIT had positive performance during the year ended June 30, 2005. The asset classes of PRIT and related investment returns for the year ended June 30, 2005 are as follows: Domestic Equity 7.81%; International Equity 14.14%; Emerging Markets 37.36%; Fixed Income 7.54%; High Yield Debt 15.38%; Alternative Investment 26.29%; Real Estate 30.78%, Timber 12.91% and Absolute Return 6.69%.

As of June 30, 2005, PRIT continues to outperform its benchmarks and has returned an average of 10.94% annually since its inception date, January 1, 1985. According to the Trust Universe Comparison Service (TUCS) for Public Pension Funds, the most widely accepted benchmark for the performance of institutional assets, PRIT ranked in the top 1% of pension plans with net assets in excess of $1 billion over the ten-year period ended June 30, 2005.

PRIT Performance During the Year Ended June 30, 2004

PRIT began fiscal year 2004 with net assets of $27.9 billion and ended the fiscal year with net assets of $32.6 billion, representing a 16.85% increase. The increase was due primarily to overall investment performance. Net investment income for the year ended June 30, 2004 was approximately $5.3 billion, compared to a net investment income of $0.9 billion in the prior year. However, net participant withdrawals of $563 million reduced the overall increase in net assets to $4.7 billion. Approximately $1.6 billion of PRIT's $1.7 billion in redemptions were withdrawn from the State Teachers' and State Employees' accounts, in part to make up for a shortfall in the pension funding of Massachusetts. Since fiscal year 1998, the state appropriations have been insufficient to fund the Commonwealth's annual cost of pension benefits.

For the year ended June 30, 2004, PRIT returned 19.43%, surpassing the interim policy benchmark of 17.76% by 167 basis points. The interim policy benchmark provides a measure of how well PRIT has implemented its asset allocation plan. It assumes that PRIT's actual allocation is identical to its interim target allocation and that all asset classes achieve index-like returns.

Management's Discussion and Analysis

June 30, 2005 and 2004

Approximately 60% of PRIT was actively managed, while the remaining 40% was indexed during fiscal year 2004. All asset classes of PRIT had positive performance during the year ended June 30, 2004. The asset classes of PRIT and related investment returns for the year ended June 30, 2004 are as follows: Domestic Equity 22.36%; International Equity 32.60%; Emerging Markets 35.12%; Fixed Income 1.63%; High Yield Debt 13.56%; Alternative Investment 24.97%; Real Estate 19.94% and Timber 12.68%.

As of June 30, 2004, PRIT continues to outperform its benchmarks and has returned an average of 10.81% annually since its inception date, January 1, 1985. According to TUCS for Public Pension Funds, the most widely accepted benchmark for the performance of institutional assets, PRIT ranked in the top 8% of pension plans with net assets in excess of $1 billion over the ten-year period ended June 30, 2004.

Statements of Pooled Net Assets

June 30, 2005 and 2004

(Amounts in thousands)

		2005	2004
Assets:			
Investments, at fair value:			
Short-term	$	908,415	1,913,623
Fixed income		8,720,414	7,674,248
Equity		18,842,512	18,043,835
Real estate		4,068,141	2,774,674
Timber		1,330,179	930,596
Alternative investments		2,106,913	1,791,526
Absolute return		1,726,255	—
Total investments		37,702,829	33,128,502
Cash		78,637	61,812
Interest and dividends receivable		124,527	114,367
Receivable for investments sold		180,944	607,807
Securities sold on a when-issued basis		241,004	83,771
Unrealized gains on foreign currency exchange contracts		20,712	2,257
Receivable from Health Care Security Trust		11,374	5,410
Margin variation receivable		—	8,214
Total assets		38,360,027	34,012,140
Liabilities:			
Payable for investments purchased		258,879	91,742
Securities purchased on a when-issued basis		579,751	274,880
Obligations under securities lending transactions		1,103,887	943,772
Unrealized losses on foreign currency exchange contracts		2,944	9,606
Margin variation payable		1,601	—
Management fees payable to PRIM		92,758	52,140
Total liabilities		2,039,820	1,372,140
Net assets held in trust for pool participants	$	36,320,207	32,640,000

See accompanying notes to financial statements.

Statements of Changes in Pooled Net Assets, continued

June 30, 2005 and 2004

(Amounts in thousands)

		2005	2004
Additions:			
Contributions:			
State employees	$	366,262	362,309
State teachers		506,711	522,133
Other participants		111,557	257,892
Total contributions		984,530	1,142,334
Net investment income:			
From investment activities:			
Net realized gain on investments and foreign currency transactions		1,781,162	1,838,578
Net change in unrealized appreciation on investments and foreign currency translations		1,412,165	2,636,865
Interest income		444,754	371,335
Dividend income		416,864	363,012
Real estate income, net		196,989	144,492
Timber income, net		9,996	10,152
Alternative investment income, net		69,401	14,656
		4,331,331	5,379,090
Management fees		(103,425)	(72,649)
Net income from investment activities		4,227,906	5,306,441
From securities lending activities:			
Securities lending income		7,620	9,629
Securities lending expense		(23,428)	(7,001)
Net (expense) income from securities lending activities		(15,808)	2,628
Total net investment income		4,212,098	5,309,069
Total additions		5,196,628	6,451,403

Statements of Changes in Pooled Net Assets, continued

June 30, 2005 and 2004

(Amounts in thousands)

		2005	2004
Deductions:			
Redemptions:			
State employees	$	751,018	852,702
State teachers		600,514	768,153
Other participants		164,889	84,627
Total deductions		1,516,421	1,705,482
Net increase in pooled net assets		3,680,207	4,745,921
Net assets held in trust for pool participants:			
Balance, beginning of year		32,640,000	27,894,079
Balance, end of year	$	36,320,207	32,640,000

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2005 and 2004

(1) Description of the Pension Reserves Investment Trust Fund

(a) General

The Pension Reserves Investment Trust Fund (PRIT), a blended component unit of the Commonwealth of Massachusetts, was created in 1983 through legislation (Chapter 661 of the Acts of 1983, as amended by Chapter 315 of the Acts of 1996). PRIT is a pooled investment fund that invests the assets of the State Teachers' and State Employees' Retirement Systems of Massachusetts and the assets of county, authority, school district and municipal retirement systems that choose to invest in PRIT. PRIT is not registered with the Securities and Exchange Commission, but is subject to oversight provided by the Pension Reserves Investment Management Board (the PRIM Board). The PRIM Board was created by legislation to provide general supervision of the investments and management of PRIT. The PRIM Board is a separate legal entity that issues its own financial statements, which are not included in the accompanying financial statements of PRIT.

A nine-member board of trustees governs the PRIM Board. The trustees include: (1) the Governor, ex officio, or his designee; (2) the State Treasurer, ex officio, or his designee who shall serve as Chair of the PRIM Board; (3) a private citizen experienced in the field of financial management appointed by the State Treasurer; (4) an employee or retiree, who is a member of the State Teachers' Retirement System, elected by the members of such system for a term of three years; (5) an employee or retiree, who is a member of the State 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, as fiduciary for each retirement system that invests in PRIT, has the authority to employ an Executive Director, outside investment managers, custodians, consultants, and others as it deems necessary; to formulate policies and procedures; and to take such other actions as necessary and appropriate to manage the assets of PRIT.

The mission of PRIT is to ensure that current and future pension benefit obligations are adequately funded in a cost-effective manner. The PRIM Board therefore seeks to maximize the total return on investments within acceptable levels of risk for a public pension fund. Under current law, by the year 2023, PRIT will have grown, through annual payments in accordance with a legislatively approved funding schedule and through total return of PRIT, to an amount sufficient to meet the then-existing pension obligations of the Commonwealth. The Commonwealth has adopted a schedule of state pension appropriations that assumes a long-term actuarial rate of return for PRIT of 8.25%.

The State Teachers' and State Employees' Retirement Systems are mandated by statute to invest all of their assets in PRIT and are therefore considered involuntary participants. Other retirement systems have the option to become Participating or Purchasing System participants in PRIT. Participating Systems must transfer all of their assets to PRIT, commit to remain invested for five years, and are entitled to share in appropriations made to PRIT by the Commonwealth.

Notes to Financial Statements

June 30, 2005 and 2004

Purchasing Systems may invest all or a portion of their assets in PRIT and retain the ability to contribute and withdraw funds at their discretion; however, they are not entitled to state appropriations. Participating and Purchasing Systems share in the investment earnings of PRIT based on their proportionate share of net assets. As of June 30, 2005, there were 18 Participating Systems (including the State Teachers' and State Employees' Retirement Systems) and 36 Purchasing Systems invested in PRIT.

(b) Investment Funds

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

The Cash Fund consists of short-term investments, which are used to meet the liquidity requirements of Participating and Purchasing Systems. All Cash Fund earnings are reinvested. The State Teachers' Retirement System and the State Employees' Retirement System make daily deposits into the Cash Fund, which is their source of funds for benefit payments and operating expenses. The price of Cash Fund units is determined daily by dividing the value of the net assets by the number of units outstanding. The Cash Fund maintains a stable net asset value of $1.00 per unit.

Assets contributed by retirement systems are initially deposited in the Cash Fund and then transferred to the Capital Fund, at their discretion. Funds transferred into the Capital Fund are generally invested in the General Allocation Account, which invests in all asset classes of PRIT in accordance with the PRIM Board's asset allocation plan and investment policy guidelines. The Capital Fund serves as the investment portfolio of PRIT and consists of the following accounts at June 30, 2005: General Allocation (holds units of all other accounts); Domestic Equity; Fixed Income; High Yield Debt; International Equity; Emerging Markets; Core Real Estate; Noncore Real Estate; Timber; Absolute Return; Alternative Investments; Alternative Investments Vintage Year 2000; Alternative Investments Vintage Year 2001; Alternative Investments Vintage Year 2002; Alternative Investments Vintage Year 2003; Alternative Investment Vintage Year 2004; and Alternative Investments Vintage Year 2005. (Vintage Year refers to the fiscal year in which PRIT made a commitment to invest in an alternative investment.)

Upon deposit by a Participating or Purchasing System into the accounts of the Capital Fund, units of participation equal to the total value of the contribution are issued. The value of a unit of each account is determined monthly by dividing the value of the net assets of the account by the number of units outstanding at each month-end valuation date. The unit price fluctuates with the performance of the Capital Fund. The number of units generally changes only when a retirement system makes a contribution or redemption.

Chapter 84 of the Acts of 1996 explicitly confirms Massachusetts retirement boards' authority to purchase units in the individual investment accounts of PRIT as an alternative to investing in its General Allocation Account. This investment option, also referred to as "segmentation," was established by an amendment to the PRIM Board's Operating Trust Agreement in 1994 in response to requests from retirement boards wishing to invest in certain asset classes of PRIT. Purchasing

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Systems, as "segmented investors," may invest in one or more of the following accounts of the Capital Fund: Domestic Equity, International Equity, Emerging Markets, Fixed Income, Core Real Estate, Absolute Return (effective July 1, 2005), and Alternative Investments "Vintage Year" accounts. At June 30, 2005 and 2004, there were 25 and 19 segmented investors in PRIT, respectively.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting and Financial Statement Presentation

The financial statements of PRIT are reported using the economic resources measurement focus and the accrual basis of accounting. They are prepared in conformity with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

PRIT follows Governmental Accounting Standards Board (GASB) guidance as applicable to external investment pools and applies only those Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. Except where noted, all dollar amounts in the footnotes and other sections of these financial statements are in thousands.

(b) Investments

The PRIM Board recognizes that over the long term, asset allocation is the single greatest contributor of return and risk to PRIT. The PRIM Board's asset allocation plan embodies its decisions to invest portions of the Capital Fund in domestic and international equity securities, emerging market and fixed income securities, high yield debt, real estate, timber, absolute return, alternative investments and, where appropriate, the various subasset classes of each. Statutes prohibit PRIT from investing in certain securities. The PRIM Board ensures that investment managers adhere to the requirements of Massachusetts General Laws, Chapter 32, Section 23, concerning certain investments relating to South Africa and Northern Ireland and tobacco and tobacco-related products.

Security transactions are recorded on the trade date of the securities purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a Participating or Purchasing System, the fair value of the securities on the transfer date. The calculation of realized gains and losses is independent of the calculation of the net change in unrealized appreciation on investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year are included in net change in unrealized appreciation on investments in the accompanying statements of changes in pooled net assets.

Investments are valued on a monthly basis. Money market and other short-term investments are recorded at amortized cost, which approximates fair value. Investments in fixed income and United

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States (U.S.) Government agency obligations are valued by an independent pricing service. In determining the price, the service reflects such factors as security prices, yields, maturities, and ratings, supplemented by dealer quotations. Investments in equity securities traded on national securities exchanges are valued at the last daily sale price or, if no sale price is available, at the closing bid price. Securities traded on any other exchange are valued in the same manner or, if not so traded, on the basis of closing over-the-counter 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 determined in good faith by the investment managers responsible for such investments.

PRIT invests a portion of its assets in emerging capital markets. These investments may involve greater risks than investments in more developed markets, and the prices of such investments may be volatile. The consequences of political, social, or economic changes in these markets may have disruptive effects on the market prices of these investments and the income they generate, as well as PRIT's ability to repatriate such amounts.

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

Investments in noncore real estate consist of commingled real estate funds stated at estimated fair values provided by fund managers on a monthly basis.

Investments in timber are valued similarly to investments made by the LLC in real estate properties; however, independent appraisals of timber investments are performed every three years.

Absolute return investments represent PRIT's ownership in hedge fund of funds investments. PRIT's hedge fund of funds investment managers, in turn, make investments in underlying hedge funds. The investment in absolute return is recorded at estimated fair value as determined in good faith by PRIT's hedge fund of funds investment managers and is based on the value of PRIT's ownership in the underlying hedge fund investments.

Alternative investments are typically made through limited partnerships that, in turn, invest in venture capital, leveraged buyouts, private placements and other investments where the structure,

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risk profile, and return potential differ from traditional equity and fixed income investments. These investments are recorded at estimated fair values as determined in good faith by investment managers or general partners using consistently applied procedures with input from investment advisors.

(c) Investment Income

Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned. For the years ended June 30, 2005 and 2004, foreign taxes withheld of $17,713 and $15,146, respectively, have been netted against dividend income in the statements of changes in pooled net assets. Real estate income includes noncore real estate income and PRIT's portion of the LLC's income, which includes dividends earned on REIT securities as well as cash distributions from investments in real estate properties. Timber income includes cash distributions from investments in timberland properties. Alternative investment income is recorded on the cash distribution basis.

(d) When-Issued Securities Transactions

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

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

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(e) Foreign Currency Translation and Transactions

The accounting records of PRIT are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing rates of exchange at month-end. Purchases and sales of securities, income receipts, and expense payments are translated into U.S. dollars at the prevailing exchange rate on the respective dates of the transactions.

Unrealized net currency gains and losses from valuing foreign currency-denominated assets and liabilities at month-end exchange rates are reflected as a component of net unrealized appreciation on investments. For financial reporting purposes, it is not practicable to isolate that portion of the results of operations arising as a result of changes in foreign exchange rates from the fluctuations arising from changes in the market price of securities during the period.

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.

(f) Foreign Currency Exchange Contracts

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

(g) Financial Futures Contracts

A financial futures contract is an agreement between two parties to buy or sell units of a particular index or a certain amount of a security at a set price on a future date. PRIT may purchase and sell financial futures contracts to hedge against the effect of changes in the values of securities it owns or expects to purchase.

Upon entering into such a contract, PRIT is required to pledge to the broker an amount of cash or securities equal to a certain percentage of the contract amount (initial margin deposit). Pursuant to the contract, PRIT agrees to receive from, or pay to, the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as “variation margin” and are recorded by PRIT as unrealized gains or losses. When the contract is closed, PRIT records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The potential risk to PRIT is that the change in value of futures contracts primarily corresponds with the value of underlying instruments, which may not

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correspond to the change in value of the hedged instruments. In addition, there is a risk that PRIT may not be able to close out its futures positions due to an illiquid secondary market or the potential inability of a counterparty to meet the terms of a contract.

(h) Reclassifications

Certain 2004 amounts have been reclassified to conform to the 2005 presentation.

(3) Investments

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

		June 30	
		2005	**2004**
Short-term:			
Money market investments	$	908,415	1,913,623
Fixed income:			
U.S. Government obligations (1)		2,507,494	2,458,513
Domestic fixed income (2)		4,793,166	4,189,027
International fixed income (3)		1,257,473	898,306
Distressed debt		162,281	128,402
		8,720,414	7,674,248
Equity:			
Domestic equity securities		10,991,106	11,126,892
International equity securities		7,851,406	6,916,943
		18,842,512	18,043,835
Real estate:			
Core		4,067,394	2,767,041
Noncore		747	7,633
		4,068,141	2,774,674
Timber		1,330,179	930,596
Alternative investments:			
Venture capital		606,486	490,015
Special equity		1,500,427	1,301,511
		2,106,913	1,791,526
Absolute return		1,726,255	—
Total investments	$	37,702,829	33,128,502

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(1) Fiscal 2005 rates range from 0% to 14%, and maturities range from 2005 to 2032. Fiscal 2004 rates range from 0% to 14.0%, and maturities range from 2004 to 2032.

(2) Fiscal 2005 rates range from 0% to 14.9%, and maturities range from 2005 to 2049. Fiscal 2004 rates range from 0% to 13.5%, and maturities range from 2004 to 2036.

(3) Fiscal 2005 rates range from 0% to 11.6%, and maturities range from 2005 to 2049. Fiscal 2004 rates range from 0% to 11.9%, and maturities range from 2004 to 2049.

(4) Deposits and Investments Risks

For the year ended June 30, 2005, PRIT has adopted Statement No. 40 of GASB, *Deposit and Investment Risk Disclosures*. The standard requires that entities disclose essential risk information about deposits and investments. Comparative information for fiscal 2004 has been provided to the extent that information is available. In future years, PRIT will provide full comparative information.

(a) Custodial Credit Risk

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

Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk. As of June 30, 2005 and 2004, $78,537 of PRIT's $78,637 and $61,712 of PRIT's $61,812 cash balances, respectively, was uninsured and exposed to custodial credit risk.

(b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of fixed income investments will adversely affect the fair value of an investment.

The PRIM Board manages PRIT's exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its fixed income investment managers. The guidelines with each individual manager require that the effective duration of the domestic fixed income investment portfolio be within a specified percentage or number of years of the effective duration band of the appropriate benchmark index. For emerging markets fixed income investments, the portfolio must have duration with a band ranging from three to eight years.

Effective duration is a measure of a fixed income investment's exposure to fair value changes arising from changes in interest rates. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes, including callable options, prepayments and other factors. These factors are reflected in the effective duration numbers provided in the following table. The PRIM Board compares the effective duration of a manager's portfolio to

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the Lehman Brothers Aggregate Index for domestic core "fixed income" securities and the Merrill Lynch High Yield Master II Index for domestic high yield, fixed income securities. At June 30, 2005, the following table shows the debt investments by investment type, fair value and effective weighted duration rate.

Investment		Fair value	Effective weighted duration rate
			(Amounts expressed in years)
Asset Backed Securities	$	198,820	2.08
Commercial Mortgage Backed Securities		142,051	3.66
Non-U.S. Government Backed C.M.O.s		56,128	3.92
Commercial Paper		62,960	0.11
Corporate Bonds and Other Credits		2,945,971	3.83
U.S. Government Bonds		774,531	5.73
U.S. Government Agencies		336,781	2.27
U.S. Government TIPS		1,743,098	6.15
U.S. Government Mortgage Backed Securities		1,652,586	2.35
Municipal Bonds		16,706	9.72
Pooled Money Market Fund		908,415	0.08
Other Pooled Funds		790,782	NA
Total fixed income and short-term investments	$	9,628,829	

(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 establishes credit investment guidelines with each of its fixed income securities investment managers in establishing a diversified portfolio. 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. 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.

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The weighted average quality rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States government and other nonrated investments was A- at June 30, 2005. The following presents the PRIT Fund's fixed-income securities credit ratings at June 30, 2005:

Investment	Total fair value	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+
Asset backed securities	$ 198,820	188,287	—	—	—	—	—	—	—	—	—	—
Commercial mortgage backed securities	142,051	134,446	—	—	1,028	—	—	—	—	—	—	—
Non-U.S. government backed C.M.O.s	56,128	50,324	—	—	—	—	—	—	—	—	—	—
Commercial paper	62,960	60,678	—	—	—	—	—	—	—	—	—	—
Corporate bonds and other credits	2,945,971	163,083	9,892	30,653	106,429	115,836	71,796	66,907	136,568	244,946	155,951	65,247
U.S. government agencies	336,781	335,301	—	—	1,480	—	—	—	—	—	—	—
U.S. government mortgage backed securities	1,566,771	1,502,868	—	—	—	—	—	—	—	—	—	—
Municipal bonds	16,706	3,286	1,259	2,788	—	—	—	—	—	—	9,373	—
Pooled money market fund	908,415	—	—	908,415	—	—	—	—	—	—	—	—
Other pooled funds	790,782	—	—	—	—	—	—	—	—	—	—	—
Total credit risk, fixed income and short-term investments	7,025,385	$ 2,438,273	11,151	941,856	108,937	115,836	71,796	66,907	136,568	244,946	165,324	65,247
Fixed income investments explicitly backed by the U.S. government	2,603,444											
Total fixed income and short-term investments	$ 9,628,829											

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Investment		BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC	C	Not rated
Asset backed securities	$	—	1,832	4,395	2,184	1,457	—	393	—	257	—	15
Commercial mortgage backed securities		—	—	—	—	—	—	—	—	—	—	6,577
Non-U.S. government backed C.M.O.s		—	—	—	—	—	—	—	—	—	—	5,804
Commercial paper		—	—	—	—	—	—	—	—	—	—	2,282
Corporate bonds and other credits		123,487	338,109	270,525	346,374	323,546	139,625	78,892	29,535	16,589	5,318	106,663
U.S. government agencies		—	—	—	—	—	—	—	—	—	—	—
U.S. government mortgage backed securities		—	—	—	—	—	—	—	—	—	—	63,903
Municipal bonds		—	—	—	—	—	—	—	—	—	—	—
Pooled money market fund		—	—	—	—	—	—	—	—	—	—	—
Other pooled funds		—	—	—	—	—	—	—	—	—	—	790,782
Total credit risk, fixed income and short-term investments	$	123,487	339,941	274,920	348,558	325,003	139,625	79,285	29,535	16,846	5,318	976,026

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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. The PRIM Board manages PRIT's exposure to foreign currencies by establishing investment guidelines with each of its international managers. These guidelines set maximum investment balances for any currency and/or country holdings must be within a certain percentage of predefined benchmarks. In addition, PRIM actively manages PRIT's exposure to foreign currencies by hedging a percentage of PRIT's non-U.S. dollar denominated investments to U.S. dollars through forward foreign currency contracts. The following table represents PRIT's foreign currency exposure at June 30, 2005:

	Cash and Short-Term Investments	Equity	Fixed Income	Alternative Investments	Total
Argentine Peso	$ 54	326	—	—	380
Australian Dollar	8,827	221,406	776	—	231,009
Brazilian Real	1,236	159,214	—	—	160,450
British Pound	14,448	1,300,740	4,568	—	1,319,756
Canadian Dollar	3	—	1,338	—	1,341
Chilean Peso	168	8,778	—	—	8,946
Colombian Peso	27	4,088	—	—	4,115
Czech Koruna	16	2,833	—	—	2,849
Danish Krone	528	59,084	—	—	59,612
Egyptian Pound	1,470	11,247	—	—	12,717
Euro	26,676	1,742,675	50,635	—	1,819,986
Greek Drachma	4	—	—	—	4
Hong Kong Dollar	1,656	270,597	400	—	272,653
Hungarian Forint	106	10,424	—	—	10,530
Indian Rupee	—	375	—	—	375
Indonesian Rupian	26	43,940	—	—	43,966
Israeli Shekel	98	17,711	—	—	17,809
Japanese Yen	10,297	1,268,502	1,487	—	1,280,286
Malaysian Ringgit	896	89,023	—	—	89,919
Mexican Peso	29	49,905	—	—	49,934
Taiwan Dollar	4,128	174,257	—	—	178,385
Turkish Lira	77	42,772	—	—	42,849
New Zealand Dollar	538	18,499	—	—	19,037
Norwegian Krone	611	27,096	—	—	27,707
Pakistan Rupee	—	2,438	—	—	2,438
Peruvian Nuevo Sol	—	1,411	—	—	1,411
Philippines Peso	104	11,738	—	—	11,842
Polish Zloty	102	24,023	—	—	24,125
Russian Rubel	—	918	—	—	918
South African Rand	500	188,415	14	—	188,929
Singapore Dollar	873	75,057	—	—	75,930
South Korean Won	1,083	432,351	—	—	433,434
Swedish Krona	2,562	170,633	—	—	173,195
Swiss Franc	4,186	274,105	—	—	278,291

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	Cash and Short-Term Investments	Equity	Fixed Income	Alternative Investments	Total
Thailand Baht	$ 78	43,436	—	—	43,514
Alternative investment funds denominated in foreign currencies (various currencies)	—	—	—	284,155	284,155
International equity pooled funds (various currencies)	—	295,173	—	—	295,173
International fixed income pooled funds (various currencies)	—	—	58,424	—	58,424
Total Securities subject to foreign currency risk	81,407	7,043,190	117,642	284,155	7,526,394
International investments denominated in United States Dollars	—	808,216	1,139,831	—	1,948,047
Total international investments and cash deposits	$ 81,407	7,851,406	1,257,473	284,155	9,474,441

(e) *Concentration of Credit Risk*

The PRIM Board manages PRIT's exposure to concentration of credit risk by establishing guidelines with each investment manager, that limit the percent of investment in any single issue or issuer.

PRIT has no investments, at fair value, that exceed 5% of PRIT's total investments as of June 30, 2005.

(5) Securities Lending Programs

PRIT participates in a third-party securities lending program with Goldman Sachs & Co. (Goldman). Under the agreement, PRIT receives a fee equal to the greater of $5,600 ($5,600 for the calendar year beginning January 1, 2004) or 80% of the notional gross revenue achieved annually for exclusive access to PRIT's domestic and international equity securities.

Either PRIT or the lending agent can terminate securities loans on demand. There were no term loans as of June 30, 2005 and 2004.

Securities on loan are secured with collateral equaling 102% of the fair value of the domestic securities borrowed and 105% on borrowings of international securities. Pursuant to the Operations Support

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Agreements with PRIT's lending agents, Mellon Trust held all collateral for securities on loan at June 30, 2005 and 2004. The collateral securities cannot be pledged or sold by PRIT unless the lending agent defaults. The lending agent is required to indemnify PRIT in the event that it fails to return the securities on loan (and if the collateral is inadequate to replace the securities on loan) or if the lending agent fails to perform its obligations as stipulated in the agreement. There were no losses during the years ended June 30, 2005 and 2004 resulting from default by the lending agent.

Securities on loan are included in investments at fair value in the accompanying statements of pooled net assets. As of June 30, 2005 and 2004, the fair value of the securities on loan was $1,877,595 and $2,115,720, respectively, and the fair value of the associated collateral amounted to approximately $1,953,412 and $2,204,156, respectively, of which $1,101,100 and $943,000, respectively, was cash. The fair value of cash collateral received is reported as an obligation under securities lending transactions. During the years ended June 30, 2005 and 2004, the cash provided to PRIT as collateral was lent to the LLC to invest in core real estate assets (see note 6). PRIT pays its lending agent a rebate monthly for all cash collateral posted. The rebate is computed daily in an amount equal to the daily Fed Funds Effective rate and is paid monthly and reported as securities lending expense. As of June 30, 2005 and 2004, PRIT owes Goldman $2,787 and $772, respectively, in rebates, which is also reported as an obligation under securities lending transactions.

(6) Investment in the LLC

On October 19, 2001, the LLC was formed and was governed by an operating agreement entered into by the PRIM Board, as trustee of PRIT, as the sole member. On November 1, 2001, the operating agreement was amended and restated by the PRIM Board and the Health Care Security Trust (HCST) Board, as trustee of HCST, to include the admission of HCST as a member of the LLC and establish the PRIM Board as managing member. The principal purpose of the LLC is to conduct the investment activities of the core real estate program in a manner consistent with the PRIM Board's Operating Trust Agreement and any business or activities incidental to or in support of such investment activities.

Pursuant to the contribution agreement dated November 1, 2001, in exchange for the contributions by PRIT and HCST, the LLC issued a number of units equal to each party's contribution. The fair market value of each unit was $1.00 on November 1, 2001, on which date, PRIT and HCST contributed $1,675,901, in kind (representing a 99.55% interest), and $7,551 in cash (representing a 0.45% interest), respectively, to the LLC. According to the amended and restated operating agreement, as of any valuation date, the net assets of the LLC shall be the fair value of investments, less the amount of debt and accrued expenses. The unit net asset value of the LLC shall be the net asset value of the LLC divided by the number of units outstanding on such date.

The LLC holds core and value real estate assets consisting of real property and REIT securities. To the extent the LLC requires cash for investment activity, PRIT requests Goldman to provide cash collateral in lieu of Treasury securities under its securities lending program. In turn, PRIT loans this cash (collateral) to the LLC in amounts and terms substantially the same as those between PRIT and Goldman. The portion of the debt service allocated to HCST, as a member of the LLC, amounted to $11,134 and $5,410 and is

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June 30, 2005 and 2004

included in Receivable from Health Care Security Trust in the accompanying statements of pooled net assets as of June 30, 2005 and 2004, respectively.

During the year ended June 30, 2005, the LLC entered into six interest rate swap contracts for the purpose of hedging its floating-rate interest exposure. The swap contracts are reported at fair value, which represents their estimated liquidation values (costs) to the LLC. The LLC either receives cash from the swap counterparties or pays the swap counterparties monthly depending on whether the fixed-rate interest is lower or higher than the variable-rate interest. Changes in the fair value of the swap contracts are included in net change in unrealized appreciation on investments and foreign currency transactions, and the income or expense related to settlements of interest under the contracts is included in real estate income, net in the accompanying statement of changes in pooled net assets for the year ended June 30, 2005.

As of June 30, 2005, the LLC had sixteen outstanding swap contracts in effect:

Counterparty	Fixed rate paid	Notional amount	Effective date	Maturity date	Fair value
Bank of America	4.82%	$ 50,000	07/23/02	07/01/12	$ (2,740)
Citibank, N.A. New York	4.32	50,000	08/05/02	08/01/09	(991)
Bear Stearns Bank PLC	3.95	50,000	08/19/02	09/01/07	(248)
Bank of America	4.18	50,000	12/02/02	12/03/12	(726)
Citibank, N.A. New York	3.68	50,000	01/01/03	01/01/10	343
Mellon Bank	3.17	50,000	01/30/03	02/01/08	742
Mellon Bank	3.82	50,000	03/06/03	06/01/13	523
Bear Stearns Bank PLC	3.45	50,000	05/13/03	06/01/11	1,217
Citibank, N.A. New York	3.54	50,000	08/21/03	09/01/08	353
Bank of America	4.34	50,000	09/22/03	12/01/13	(1,245)
Citibank, N.A. New York	4.11	50,000	10/27/03	12/01/11	(552)
Bear Stearns Bank PLC	3.37	50,000	11/24/03	03/01/09	758
Bank of America	4.32	50,000	12/17/03	06/01/14	(1,167)
Citibank, N.A. New York	3.98	50,000	04/23/04	06/01/10	(275)
Bear Stearns Bank PLC	5.01	50,000	05/21/04	12/01/14	(3,926)
Mellon Bank	4.49	50,000	06/21/04	12/01/10	(1,525)
Citibank, N.A. New York	4.47	50,000	07/19/04	09/01/12	(1,655)
Bear Stearns Bank PLC	4.44	50,000	11/16/04	05/01/15	(1,614)
Citibank, N.A. New York	4.17	50,000	12/20/04	03/01/14	(625)
Citibank, N.A. New York	4.27	50,000	02/15/05	12/01/15	(865)
Bear Stearns Bank PLC	4.59	50,000	03/15/05	09/01/13	(2,152)
Bear Stearns Bank PLC	4.42	50,000	04/21/05	03/01/15	(1,459)
		$ 1,100,000			$ (17,829)

To determine the fair values of its swap agreements, the LLC uses methods and assumptions considering market conditions and risks existing at the date of the statement of pooled net assets. Such methods and assumptions incorporate standard valuation conventions and techniques, such as discounted cash flow analysis and option pricing models. All methods utilized to estimate fair values result only in general approximations of value, and such values may or may not actually be realized. Fair value estimates are closely correlated with changes in market interest rates and the passage of time. For example, rising market

Notes to Financial Statements

June 30, 2005 and 2004

interest rates will generally increase the swaps' termination values to the LLC, whereas termination values are generally reduced as the swaps approach their maturity dates and fewer interest settlements remain under the contracts.

As of June 30, 2005 and 2004, PRIT owned 98.99% and 99.43%, respectively, of the total net assets of the LLC. HCST owned 1.01% and 0.57%, respectively.

(7) Derivative Investments

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

Notes to Financial Statements

June 30, 2005 and 2004

(a) Foreign Currency Exchange Contracts

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

	2005				
	Fair value	**Aggregate face value**	**Delivery date(s)**	**Unrealized gains**	**Unrealized losses**
Foreign currency exchange contracts purchased:					
Australian Dollar	$ 23,794	23,687	07/01/05-11/14/05	$ 107	—
Brazilian Real	1,293	1,396	08/02/05	—	(103)
British Pound	137,475	133,430	11/14/05	4,045	—
Canadian Dollar	1,233	1,252	07/19/05	—	(19)
Chilean Peso	166	167	07/01/05	—	(1)
Egyptian Pound	1,180	1,182	05/11/05-06/16/05	—	(2)
Euro	314,683	306,316	07/05/05-11/14/05	8,367	—
Indian Rupee	338	339	06/21/05		(1)
Japanese Yen	266,834	259,999	07/01/05-11/14/05	6,835	—
New Zealand Dollar	755	755	07/01/05-07/05/05	—	—
South Korean Won	3,621	3,655	06/28/05-07/05/05	—	(34)
Swiss Franc	28,913	27,784	11/14/05	1,129	—
Foreign currency exchange contracts sold:					
Australian Dollar	12,352	12,180	11/14/05	—	(172)
Brazilian Real	1,559	1,772	07/20/05-08/10/05	213	—
Chilean Peso	624	623	07/01/05-08/16/05	—	(1)
Chinese Yuan Renminbi	520	512	09/23/05	—	(8)
Euro	316	318	07/01/05	2	—
Indian Rupee	481	482	06/21/05-11/09/05	1	—
Japanese Yen	45,384	42,839	07/01/05-11/14/05	—	(2,545)
Malaysian Ringgit	308	307	07/01/05-07/05/05	—	(1)
Mexican Peso	446	455	08/09/05-09/23/05	9	—
Peruvian Nuevo Sol	182	182	08/09/05	—	—
Polish Zloty	960	959	07/01/05-08/24/05	—	(1)
Russian Rubel	474	460	07/29/05-08/23/05	—	(14)
South African Rand	641	644	08/10/05	3	—
Singapore Dollar	618	607	07/01/05-08/24/05	—	(11)
Slovakia Koruna	949	939	08/10/05-08/31/05	—	(10)
South Korean Won	409	396	07/27/05-08/31/05	—	(13)
Swiss Franc	249	250	07/01/05	1	—
Taiwan Dollar	366	359	08/17/05-08/24/05	—	(7)
Thailand Baht	672	671	07/05/05	—	(1)
Total				$ 20,712	(2,944)

Notes to Financial Statements

June 30, 2005 and 2004

		2004					
		Fair value	**Aggregate face value**	**Delivery date(s)**		**Unrealized gains**	**Unrealized losses**
Foreign currency exchange contracts purchased:							
Japanese Yen	$	132,365	134,916	07/01/04-11/10/04	$	—	(2,551)
Euro		101,081	103,546	07/01/04-11/10/04		—	(2,465)
British Pound		110,793	113,301	11/10/04		—	(2,508)
Swiss Franc		29,896	31,114	11/10/04		—	(1,218)
Australian Dollar		30,866	30,496	11/10/04		370	—
Brazilian Real		705	713	07/01/04-07/02/04		—	(8)
Thai Baht		109	109	07/02/04-07/06/04		—	—
Mexican Peso		38	38	07/01/04		—	—
Malaysian Ringgit		87	87	07/01/04		—	—
Canadian Dollar		51	51	07/02/04-07/06/04		—	—
Indonesian Rupiah		96	96	07/01/04		—	—
Philippines Peso		25	25	07/02/04		—	—
South African Rand		195	196	07/01/04-09/21/04		—	(1)
Swedish Krona		24	24	07/01/04-07/06/04		—	—
Foreign currency exchange contracts sold:							
British Pound		81,314	81,032	11/10/04		—	(282)
Japanese Yen		126,621	127,995	07/01/04-11/10/04		1,374	—
Euro		34,999	34,734	07/01/04-11/10/04		—	(265)
Swiss Franc		23,556	23,929	07/02/04-11/10/04		373	—
Australian Dollar		14,099	13,806	11/10/04		—	(293)
Hong Kong Dollar		460	460	07/26/04-09/20/04		—	—
Singapore Dollar		456	453	07/26/04-09/20/04		—	(3)
South African Rand		879	974	08/11/04-09/21/04		95	—
Danish Krone		58	58	07/01/04		—	—
Chilean Peso		627	625	07/01/04-09/17/04		—	(2)
Columbian Peso		384	381	07/06/04		—	(3)
Chinese Yuan Renminbi		500	496	09/23/04		—	(4)
Indian Rupee		194	191	09/21/04		—	(3)
Brazilian Real		439	442	07/26/04-09/17/04		3	—
Mexican Peso		1,894	1,902	08/13/04-09/21/04		8	—
Taiwan Dollar		292	292	08/24/04-09/20/04		—	—
Peruvian Nuevo Sol		293	294	08/24/04-09/20/04		1	—
Russian Rubel		440	442	07/23/04-09/20/04		2	—
Slovakia Koruna		292	297	08/24/04-09/21/04		5	—
Korean Won		1,862	1,888	07/01/04-11/08/04		26	—
Total					$	2,257	(9,606)

Notes to Financial Statements

June 30, 2005 and 2004

(b) *Financial Futures Contracts*

Financial futures contracts held at June 30 were as follows:

	2005				
Description	Number of contracts	Expiration date	Notional amount	Fair value of notional amount	Unrealized appreciation (depreciation)
Long:					
90-Day Eurodollar Future	941	03/06	$ 225,394	225,864	470
90-Day Eurodollar Future	105	09/06	25,149	25,195	46
U.S. Treasury Bond Future	626	09/05	74,097	74,338	241
Euro BOBL Future	44	09/05	6,112	6,160	48
SPI 200 Index Future	48	09/05	3,868	3,909	41
DAX Index Future	32	09/05	4,478	4,477	(1)
IBX 35 Index Future	31	07/05	3,597	3,657	60
CAC 40 Index Future	76	09/05	3,892	3,910	18
S&P/MIB Index Future	13	09/05	2,554	2,551	(3)
Hang Seng Index Future	19	07/05	1,741	1,736	(5)
Topix Index Future	139	09/05	14,363	14,733	370
S&P 500 Index Future	907	09/05	272,773	271,080	(1,693)
FTSE 100 Index Future	154	09/05	13,976	14,137	161
MSCI Taiwan Index Fund	228	07/05	5,942	5,898	(44)
All Shares Index Future	12	09/05	233	232	(1)
					(292)
Short:					
U.S. Treasury Bond Future	331	09/05	38,696	39,306	(610)
U.S. Treasury 10-Year Notes Future	149	09/05	16,934	16,907	27
U.S. Treasury 5-Year Notes Future	373	09/05	40,600	40,616	(16)
Euro BOBL Future	239	09/05	33,304	33,460	(156)
90-Day Eurodollar Future	50	03/06	12,013	12,001	12
90-Day Eurodollar Future	50	06/06	12,010	11,999	11
90-Day Eurodollar Future	50	09/05	12,033	12,019	14
90-Day Eurodollar Future	50	12/05	12,018	12,004	14
					(704)
					$ (996)

Notes to Financial Statements

June 30, 2005 and 2004

Description	Number of contracts	Expiration date	Notional amount	Fair value of notional amount	Unrealized appreciation (depreciation)
	2004				
Long:					
90-Day Eurodollar Future	384	03/05	$ 92,956	93,149	193
90-Day Eurodollar Future	692	06/05	167,947	167,170	(777)
90-Day Eurodollar Future	30	09/05	7,314	7,223	(91)
90-Day Eurodollar Future	302	12/04	73,381	73,601	220
90-Day Eurodollar Future	30	12/05	7,291	7,201	(90)
U.S. Treasury 10-Year Notes Future	4,185	09/04	452,222	457,538	5,316
U.S. Treasury 5-Year Notes Future	2	09/04	215	217	2
SPI 200 Index Future	26	09/04	1,567	1,601	34
DAX Index Future	10	09/04	1,204	1,243	39
IBEX 35 Index Future	11	07/04	1,062	1,072	10
CAC 40 Index Future	76	09/04	3,473	3,471	(2)
MIB 30 Index Future	10	09/04	1,689	1,723	34
FTSE 100 Index Future	132	09/04	10,803	10,703	(100)
Hang Seng Index Future	115	06/04	8,848	8,914	66
Hang Seng Index Future	6	07/04	469	473	4
Topix Index Future	30	09/04	3,258	3,273	15
S&P Index Future	2,351	09/04	666,208	670,270	4,062
Russell 2000 Index Future	474	09/04	135,382	140,387	5,005
Midcap 400 Index Future	213	09/04	63,696	64,779	1,083
S&P Mid 400 Emini	703	09/04	41,906	42,707	801
					15,824
Short:					
U.S. Treasury Bond Future	264	09/04	27,836	28,083	(247)
U.S. Treasury 5-Year Notes Future	475	09/04	51,394	51,626	(232)
					(479)
					$ 15,345

(8) Management Fees

In accordance with the PRIM Board's Operating Trust Agreement, expenses incurred by the PRIM Board in managing PRIT are charged to PRIT in the form of management fees. These expenses consist of investment management fees, investment advisory fees, custodian fees and professional fees, as well as a portion of 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 management fees amounts to $93,863 and $62,878 for the years ended June 30, 2005 and 2004, respectively.

Notes to Financial Statements

June 30, 2005 and 2004

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

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

Fees for alternative investments are typically a percentage of committed capital with the fee percentage decreasing over time. In addition, the general partners (investment managers) of alternative investment limited partnerships are entitled to 20-30% of net gains on the realization of partnership investments.

The LLC's investment management fees generally consist of a base fee and a performance fee component. Base fees are calculated and paid monthly. Performance fees are paid every two years to managers whose since-inception performance exceeds a pre-established hurdle, as defined in the investment management contracts.

Timber investment management fees consist of a base fee and a performance fee component and are calculated and paid similar to the LLC's investment management fees.

All absolute return investment managers are paid base fees, which are calculated and paid quarterly. Certain managers are entitled to performance fees. Performance fees are calculated and paid annually if the managers' performance exceeds a pre-established benchmark, as defined in the investment management contracts.

The majority of investment management fees for alternative investments are charged by the general partners to the investment partnerships and not to the limited partner investors directly. All investment management fees for absolute return investments are charged to the respective investments. Base investment management fees for investments in real estate properties and timber are charged against the respective investments. Therefore, the fair value of these investments are reported net of "indirect" management fees. For the years ended June 30, 2005 and 2004, these indirect management fees charged to PRIT's real estate, timber, absolute return and alternative investments amounted to approximately $77,034 and $56,785, respectively, and are not included in management fees in the accompanying statements of changes in pooled net assets.

Notes to Financial Statements

June 30, 2005 and 2004

(b) Investment Advisory Fees

Cliffwater LLC, The Townsend Group, Pathway Capital Management, LLC and New England Pension Consultants serve as the PRIM Board's principal investment advisors. These investment advisors, among others, provide the PRIM Board with comprehensive investment advisory services, including recommendations on asset allocations, selection of investment managers, and the measurement of performance of PRIT and the individual investment managers.

For the years ended June 30, 2005 and 2004, as compensation for their services, investment advisors earned fees aggregating approximately $2,815 and $3,095, respectively.

(c) Custodian Fees

Mellon Trust is the investment custodian and record keeper for PRIT. Mellon Trust records all daily transactions, including investment sales and purchases, investment income, expenses, and all participant activity for PRIT. Mellon Trust also provides portfolio performance analysis each month. For the years ended June 30, 2005 and 2004, custodian fees amounted to $2,800 and $2,675, respectively.

(d) Other Administrative Fees

For the years ended June 30, 2005 and 2004, other administrative expenses of the PRIM Board, including employee compensation, professional fees and occupancy costs, charged to PRIT totaled approximately $3,947 and $4,001, respectively.

(9) Commitments

As of June 30, 2005, PRIT had outstanding commitments to invest approximately $1,797,170 and $155,535 in alternative investments and distressed debt, respectively.

(10) State Appropriations

In accordance with Massachusetts General Laws, Chapter 32, Section 22B, in each fiscal year, the governor shall recommend to the Commonwealth an appropriation to be set aside in PRIT to reduce the unfunded pension liability of Participating Systems. The Commonwealth has made no such appropriation to PRIT on behalf of Participating Systems since fiscal year 2000.

Schedule of Pooled Net Assets – Capital Fund and Cash Fund

June 30, 2005

(Amounts in thousands)

	Capital Fund	Cash Fund	Total
Assets:			
Investments, at fair value:			
Short-term	$ 858,979	49,436	908,415
Fixed income	8,720,414	—	8,720,414
Equity	18,842,512	—	18,842,512
Real estate	4,068,141	—	4,068,141
Timber	1,330,179	—	1,330,179
Alternative investments	2,106,913	—	2,106,913
Absolute return	1,726,255	—	1,726,255
Total investments	37,653,393	49,436	37,702,829
Cash	78,637	—	78,637
Interest and dividends receivable	124,118	409	124,527
Receivable for investments sold	180,944	—	180,944
Securities sold on a when-issued basis	241,004	—	241,004
Unrealized gains on foreign currency exchange contracts	20,712	—	20,712
Receivable from Health Care Security Trust	11,374	—	11,374
Total assets	38,310,182	49,845	38,360,027
Liabilities:			
Securities purchased on a when-issued basis	579,751	—	579,751
Payable for investments purchased	258,879	—	258,879
Obligations under securities lending transactions	1,103,887	—	1,103,887
Unrealized losses on foreign currency exchange contracts	2,944	—	2,944
Margin variation payable	1,601	—	1,601
Management fees payable to PRIM	92,758	—	92,758
Total liabilities	2,039,820	—	2,039,820
Net assets held in trust for pool participants	$ 36,270,362	49,845	36,320,207

See accompanying independent auditors' report.

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

June 30, 2005

(Amounts in thousands)

		Capital Fund	Cash Fund	Total
Additions:				
Contributions:				
State employees	$	—	366,262	366,262
State teachers		—	506,711	506,711
Other participants		—	111,557	111,557
Total contributions		—	984,530	984,530
Net investment income:				
From investment activities:				
Net realized gain on investments and foreign currency transactions		1,781,162	—	1,781,162
Net change in unrealized appreciation on investments and foreign currency translations		1,412,165	—	1,412,165
Interest income		442,257	2,497	444,754
Dividend income		416,864	—	416,864
Real estate income, net		196,989	—	196,989
Timber income, net		9,996	—	9,996
Alternative investment income, net		69,401	—	69,401
		4,328,834	2,497	4,331,331
Management fees		(103,425)	—	(103,425)
Net income from investment activities		4,225,409	2,497	4,227,906
From securities lending activities:				
Securities lending income		7,620	—	7,620
Securities lending expense		(23,428)	—	(23,428)
Net expense from securities lending activities		(15,808)	—	(15,808)
Total net investment income		4,209,601	2,497	4,212,098
Total additions		4,209,601	987,027	5,196,628
Deductions:				
Redemptions:				
State employees		—	751,018	751,018
State teachers		—	600,514	600,514
Other participants		—	164,889	164,889
Total deductions		—	1,516,421	1,516,421

Schedule of Changes in Pooled Net Assets – Capital Fund and Cash Fund, continued

June 30, 2005

(Amounts in thousands)

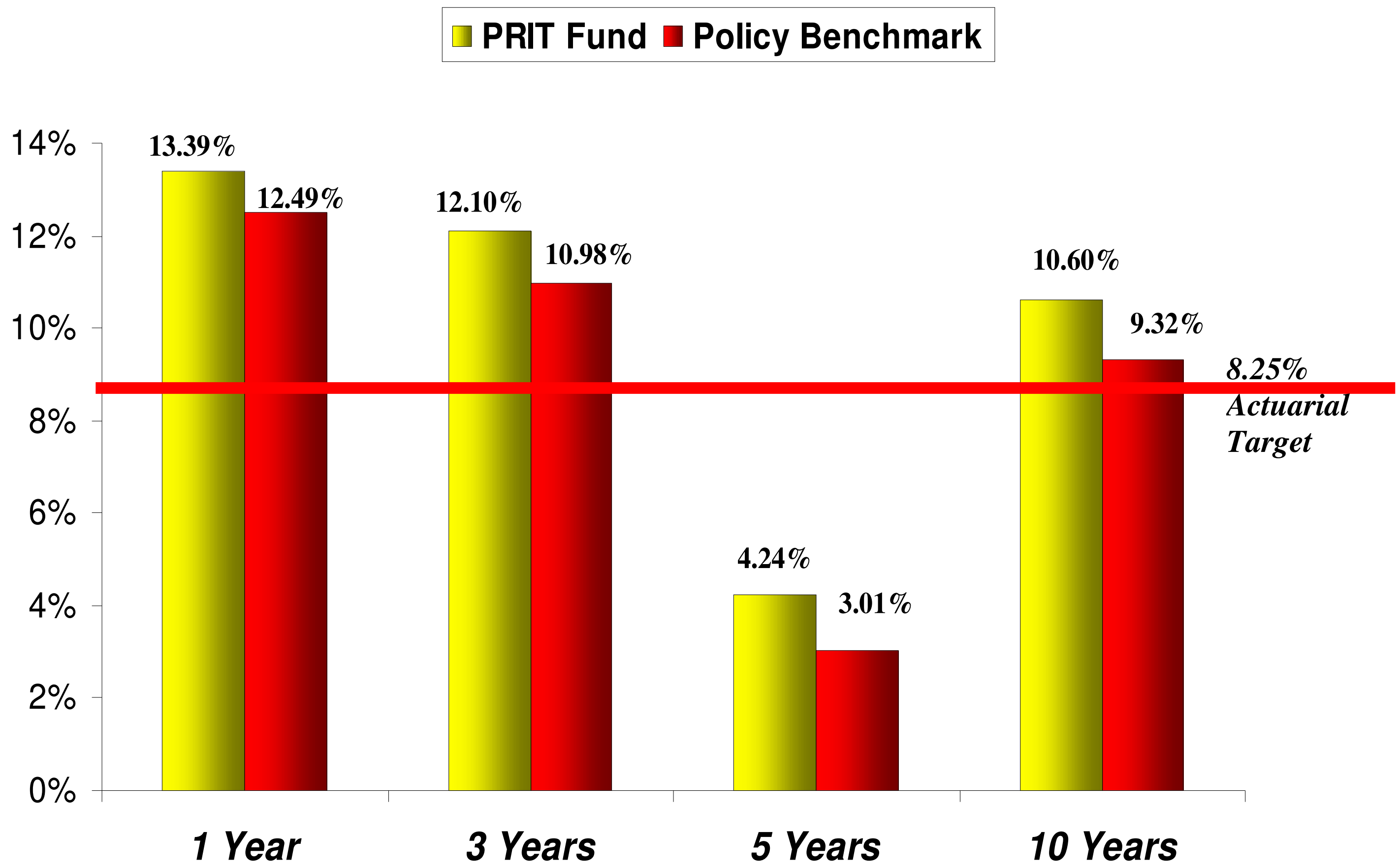
	Capital Fund	Cash Fund	Total
Interfund transfers	$ (526,677)	526,677	—
Net increase (decrease) in pooled net assets	3,682,924	(2,717)	3,680,207
Net assets held in trust for pool participants:			
Balance, beginning of year	32,587,438	52,562	32,640,000
Balance, end of year	$ 36,270,362	49,845	36,320,207

See accompanying independent auditors' report.

Investment Section

Total PRIT Fund Performance Summary *

For the periods ended June 30, 2005



* Gross of Fees. Total PRIT Fund includes Capital Fund and Cash Fund.

Investment Strategy Overview

The PRIT Fund was formed in December 1983 with a mandate to build up assets through investment earnings to reduce the Commonwealth of Massachusetts' unfunded pension liability and, further on, to assist local participating retirement systems in meeting their future pension obligations. The PRIM Board is charged with the general oversight of the PRIT Fund. PRIM seeks to maximize the return on investments within acceptable levels of risk by broadly diversifying its investment portfolio, capitalizing on economies of scale to achieve cost-effective operations, and providing access to high quality, innovative investment management firms, all under the management of a professional staff and members of the Board. The PRIM Board's overall investment performance goal is to achieve an annual rate of return that exceeds the targeted actuarial rate of return used in determining the Commonwealth of Massachusetts' pension obligations (currently 8.25%). A summary of other investment objectives is provided in the Investment Policy Statement at the end of this section.

Professional investment managers selected by the PRIM Board manage the PRIT Fund's investments. Each manager has a detailed investment management agreement with investment guidelines and parameters. As of June 30, 2005, PRIM employed twenty-eight public markets investment managers, more than seventy private equity markets managers, ten real estate and timber managers, five absolute return managers, and five external investment consultants. The PRIT Fund had approximately $36.3 billion in assets under management at June 30, 2005.

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

Asset Allocation and Diversification Discussion

The Investment Policy statement adopted by the PRIM Board in September 1998 requires that the Trustees undertake a comprehensive review of the PRIM Board's Asset Allocation Plan and its underlying assumptions at reasonable intervals of not more than three to five years. In addition, the Investment Policy statement requires that the Trustees conduct an annual evaluation of the PRIT Fund's asset allocation. The purpose is to determine whether adjustments to the Fund's structure are necessary due to any changes in the capital market assumptions, the plan's liability assumptions, the Board's risk tolerances, or in the Fund's investment objectives. The PRIM Board's last comprehensive review of the PRIT Fund asset allocation was conducted during the later half of fiscal year 2003 with the following objectives: first, the Board sought to increase the forecasted return of the PRIT Fund and second, to decrease the risk by reducing volatility through greater diversification. The expected return, standard deviation, and correlation numbers used for existing and potential asset classes in the optimization process were thoroughly reviewed and formally agreed upon. After months of detailed analysis, a new asset allocation was devised. It included modifications of the existing asset classes and the addition of two new asset classes - absolute return funds and emerging market debt. In June of 2003 the PRIM Board voted to implement the recommended changes. The PRIT Fund's long-term asset allocation and actual asset allocation at 6/30/05 is highlighted in the following table. The long-term expected rate of return of the PRIT Fund from this asset allocation review was revised upward to 8.33% from the former long-term expected rate of 8.16%. The revision was made in conjunction with a decrease in the overall expected risk of the portfolio from 12.75% to 11.60%, thus also achieving the goal of significantly reducing the volatility of the overall portfolio.

As predicted, this shift in strategy did not take place overnight; in fact, it took approximately 18 months to approach the Interim Target Allocations. While it may take as much as 2 to 3 years more to reach the Long-Term Target Allocations, PRIM staff has made significant strides towards the portfolio's ultimate structure. Specifically, the staff continues to employ great patience and prudence in increasing its stakes in real estate, timber, and alternative investments (private equity). In these somewhat illiquid asset classes the staff has made the quality of the portfolio's investments a priority over the speed with which the funds are re-allocated. As of November of 2004 PRIM staff transferred nearly all of the new $1.7 billion allocation to the Absolute Return portfolio, marking another significant milestone in both the implementation of the new asset allocation and the increased diversification of the portfolio.

Asset Class	6/30/2005 Allocation %	2003 Long-Term Policy Target %
U.S. Equity	32.5	26
International Equity	15.6	15
Emerging Markets Equity	5.7	5
U.S. Bonds	11.4	10
TIPS	4.8	5
High Yield Debt	5.4	7
Emerging Market Debt	2.1	2
Real Estate	8.1	10
Alternatives	6.0	10
Timber	3.6	5
Absolute Return	4.8	5

The PRIM Board completed its annual evaluation in June 2005. The result was a change in expectations for the long-term policy target expected return and expected risk from 8.33% and 11.60% to 7.96% and 11.30%, respectively. Subsequent to June 30, the PRIM Board implemented certain changes recommended by its external consultant, allocating a portion of the PRIT Fund's TIPS portfolio to global inflation linked bonds and adding a commodities overlay to the TIPS portfolio. Additional commentary on PRIT's asset allocation is included in the Investment Policy statement at the end of this section.

In addition to asset class allocation, the PRIM Board seeks to diversify the PRIT Fund through a diversification of investment styles in various asset classes. Investment managers are selected to achieve appropriate style diversification within the asset class. The PRIM Board also develops detailed investment guidelines with each investment manager to ensure portfolios are diversified at the individual manager level ensuring limits are placed on concentrations in any one security or sector. Further discussion on diversification within each asset class is provided in the detailed discussions on each portfolio provided in this section.

Income and Expense Allocation

Income earned and expenses incurred in each investment account are allocated to retirement systems based upon the individual retirement system's percentage of unit ownership in each account. Retirement systems may purchase and withdraw units in PRIT Fund investment accounts. Any retirement system that wishes to purchase units within available investment accounts must do so on the first business day of the month. Expenses are classified into three categories for purposes of allocation to retirement systems: 1) investment management fees,

2) targeted consultant fees and 3) operational fees. Investment management fees shall be those directly associated with the investment management of a certain account. Targeted consultant fees are those fees that are directly associated with a consultant for a certain account, except for the general consultant, whose fee is assessed on a proportionate basis across each separate account. Operational fees are the administrative, custodian and other operational expenses incurred by the PRIM Board in managing the PRIT Fund and are allocated pro-rata based on net asset values of each investment account.

The Year in Review – The World Markets

Fiscal 2005 demonstrated the need for an "all-weather" portfolio in today's volatile world markets. Following a superb fiscal year in 2004, the beginning of fiscal 2005 began with a significant drop-off. July set the tone as weak economic data came in from the 2nd calendar quarter of 2004 and energy costs began to soar, with gas up to $1.92 per gallon (if only we knew). GDP growth from the previous quarter slowed to an annualized pace of just 3%. Consumer spending was weakening early in the quarter but rebounded as summer turned to fall. August and September brought increasing strength to indicators such as new jobs, corporate earnings and business spending. Despite oil prices flirting with $50 per barrel mark by quarter's end, inflationary pressures appeared to be tame. The Fed raised short-term rates for the 3rd time in the year as Greenspan declared that economy had "regained some traction". During the 1st quarter of fiscal 2005 (ending September 30, 2004), the broad U.S. stock market, as represented by the Wilshire 5000 Index, returned –1.79%. On the whole, large cap stocks outperformed small and mid-cap stocks and value stocks dominated growth stocks. Large capitalization stocks, as measured by the S&P 500 Ex Tobacco Index, returned –1.78% during the quarter. Small capitalization stocks, as measured by the Russell 2000 Index, returned –2.86% during the quarter. Amongst the major US equity indices, only the Russell 1000 Value and the Russell 2000 Value had positive returns for the quarter. Energy, Telecom and Utilities led all S&P 500 sectors while Information Technology, Consumer Staples and Health Care lagged the group of mostly negative performers. International developed markets were split down growth and value lines for the quarter ended September 30, 2004. The return for the Morgan Stanley Capital International Europe, Australasia, Far East (MSCI EAFE) Index was –0.28% for the 1st fiscal quarter. EAFE Growth came in at –1.55% and EAFE Value grew by 1.03%. Emerging markets were the exception to the rule for the quarter as the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) Index returned 8.26%. Fixed income posted strong gains as investors retreated from the equity markets. The Lehman Brothers Aggregate (LB Agg) Index, the broad fixed income benchmark, gained 3.20% for the 1st fiscal quarter. Treasuries strengthened further with the yield on the 10-year bond dropping to 4.14% at the end of September, down from 4.59% at the end of June (the yield moves in the opposite direction of the price). The high yield market, as measured by the Merrill Lynch High Yield Master II indices, rose 4.63% for the 1st fiscal quarter.

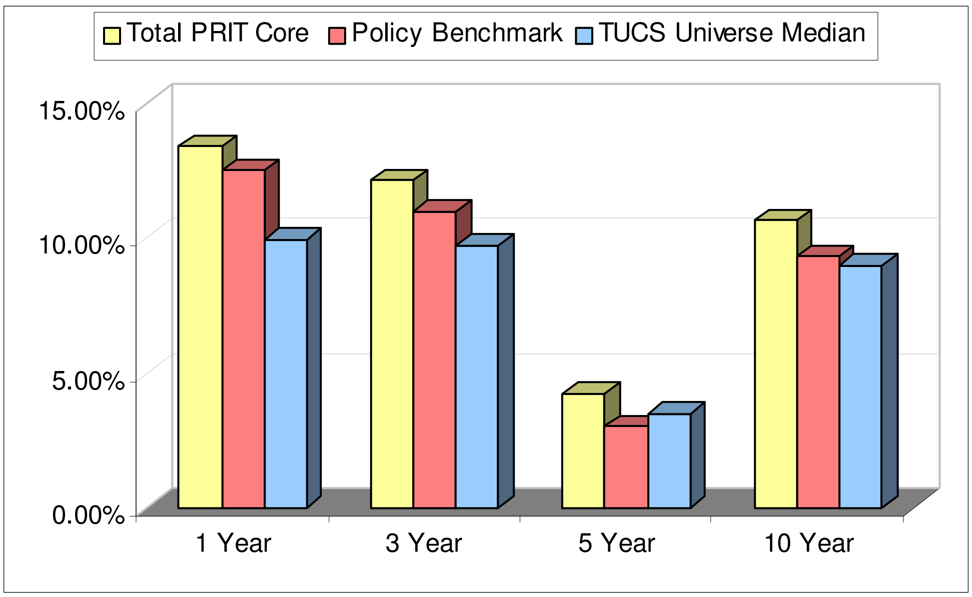
The 2nd fiscal quarter, ending December 31, 2004, wrapped up the calendar year with a bang as most worldwide equity markets posted double-digit profits. The December quarter salvaged what was an otherwise lackluster 12-month period for stocks, accounting for as much as 75-80% of the year's return. Despite continued inflationary fears (CPI at a two-year high of 2%) and measured rate increases by the Fed; jobs, productivity, consumer and business spending combined with lower energy prices propelled the markets both at home and abroad. With the uncertainty of the Presidential election in the rear-view mirror, investors could once again move forward. A much weaker US dollar catapulted indices in developed and emerging markets abroad as well as driving greater demand for US-produced goods and driving up the prices on imports. The Wilshire 5000 Index jumped 10.33% during the 2nd fiscal quarter of 2004. Large capitalization stocks, in the S&P 500 Ex Tobacco Index, were up 9.23% during the quarter. Small capitalization stocks in the Russell 2000 Index gained 14.09% during the quarter. Small caps stocks were clearly preferred while value stocks beat growth in the large cap space, but value underperformed growth in small and mid-cap stocks. While all S&P sectors were positive for the quarter, information technology, consumer discretionary and utilities led the charge with energy and health care lagged the other sectors. International developed markets also skyrocketed in the quarter. The MSCI EAFE Index enjoyed a gain of 15.32% for the 2nd fiscal quarter with nearly equal performance from both growth and value stocks. Emerging markets also recorded a tremendous gain for the quarter as the MSCI EMF Index returned 17.56%, again with the weakness in the Dollar accounting for just under half of the gains. Treasuries moved mostly sideways with the yield on the 10-year bond rising only slightly to 4.25% at the end of December, up from 4.14% at the end of September. The LB Agg Index returned 0.95% for the 2nd fiscal quarter and in the high yield market the Merrill Lynch High Yield (ML HY) Master II Index returned 4.54% for the quarter. Convertible bonds were the favorite posting a gain of 6.36%.

During the 3rd fiscal quarter, ending March 31, 2005, the markets were tumultuous to say the least, with across the board profit-taking in January, a rebound in February and yet another retreat in March. Inflation once again took center stage. The CPI hitting a 30-month high of 2.4% and the PPI rising to 2.8%, as US unemployment rates hit recent lows, were among inflation indicators that were stronger than anticipated. The Fed raised short-term interest rates for the 7th time and Alan Greenspan's comments, with the new inflation data in hand, seemed to indicate more of the same to come. It didn't help any that oil jumped as high as $56 per barrel, unless of course you were invested in the energy sector which was up just over 17% for the quarter. The broad U.S. stock market Wilshire 5000 Index returned –2.39% during the 3rd quarter of fiscal 2005. Large capitalization stocks in the S&P 500 Ex Tobacco Index returned –2.30% during the quarter. Small capitalization stocks in the Russell 2000 Index lagged –5.34% during the quarter. Only the Russell 1000 Value (+ 0.09%) was up for the quarter on the domestic front as value stocks trumped growth; and while large-cap stocks trounced small-cap, mid-cap was slightly better than both. The international markets were hurt somewhat by a strong US dollar. The MSCI EAFE Index returned –0.10% with a pretty wide disparity between growth (-0.81%) and value (+ 0.60) stocks. Emerging markets equities, despite suffering significant losses in March (-6.59%), actually posted a positive return as the MSCI EMF Index gained 1.94% for the quarter. Treasuries generally dropped during the quarter with the yield on the 10-year bond surging to 4.50% at the end of March, up from 4.24% at the end of December. The LB Agg index lost ground with a return of –0.48% for the March quarter and the high yield market index, ML HY Master II, returned –1.44% for the same period. As with the previous quarter, convertibles had the greatest movement, this time down, returning –5.33%.

The final quarter of the 2005 fiscal year, ending June 30, 2005, began on a down-note with declining economic indicators and growing inflationary pressures. Industrial and Consumer stocks were hit hardest when final 1st quarter data pointed to a slowdown with the slowest GDP growth in 2 years, soaring trade deficits, drops in manufacturing growth and orders for durable goods combined with the highest jump in core CPI since August of 2002. In case their was any doubt, with the first of two rate hikes of the quarter the Fed stated "recent data suggest that solid pace of spending growth has slowed…and pressures on inflation have picked up." Toward the end of the final fiscal quarter, data filtered in that indicated higher labor costs with lower productivity but a jump in consumer confidence and spending that seemed to indicate a possible turnaround with lessening inflation worries. The broad market indices, "Dow Jones" Wilshire 5000 and S&P 500 Ex Tobacco posted returns of 2.27% and 1.39% respectively for the quarter and 8.17% and 6.07% respectively for the trailing year. The narrow market benchmarks, Dow Jones Industrials and NASDAQ, posted returns of –1.62% and 2.89% for the quarter and 0.65% and 0.45% for the trailing year respectively. Small cap Russell 2000 Index rose 4.32% for the quarter and 9.45% for the year. Small cap stocks generally outperformed large cap for the quarter and he year. While style was somewhat mixed based on size for the quarter, value stocks clearly outpaced growth for the trailing 12 months. The leading sectors for the quarter were utilities, health care and financials. The laggards during the final fiscal quarter were materials, industrials and consumer-related stocks. As the dollar hit a 14 moth high against the Euro in June international equities returned –1.01% for the 4th fiscal quarter while the MSCI EAFE Index rose 13.65% during the past year. Again, investors had an obvious preference for value stocks. Despite some recent volatility, the 4.24% gain in Emerging markets equities for the 4th fiscal quarter put the MSCI EMF index up 34.89% for the year. Bond markets experienced surge for the quarter of 3.01% in the LB Agg Index, bringing the trailing year return to 6.80%. Within the broad LB Agg Index, long treasuries experienced tremendous strength up nearly 17% for the fiscal year. The Fed raised rates one more time to 3.25% by June's end and the yield on the 10-year treasury ended the quarter at 3.91%, well below March's ending level of 4.48%. High yield markets posted a gain of 2.61% for the quarter putting the ML HY Master II Index up 10.62% for the year ending June 30, 2005. Convertibles, returning –4.38% since the end of December, posted a gain of just 0.23% for the fiscal year.

PRIT CORE PERFORMANCE: FISCAL YEAR 2005

PRIT Core Returns (gross of fees) and benchmarks for the periods ended June 30:



In the fiscal year 2005, the PRIT Core returned 13.41%, surpassing the policy benchmark return of 12.49%, by 92 basis points. The performance in fiscal 2005 has propelled PRIM into the top 5% of all US Public Pension Funds over $1 billion in size for the past year according to the Trust Universe Comparison Services (TUCS). Over the long-term span of ten-years the PRIT Core Fund placed in the Top 1% of its peers nationwide with an annualized return of 10.65%. The PRIT Fund's fiscal year return is evidence of the importance of a long-term investment policy that builds on a foundation of diversification and as well as quality manager selection and due diligence.

The PRIT Fund began fiscal year 2005 with a net asset value of $32.64 billion and ended with $36.32 billion. On a gross basis the fund was up approximately $4.22 billion, an increase of $3.68 billion after $532 million in net redemptions from the State Employees, State-Teachers' and Participant accounts to make up, in part, for a shortfall in the pension appropriation.

The returns for each quarter of fiscal 2005 were positive despite negative performance in the US equities in the first and third fiscal quarters and negative results in international equities in the first and fourth fiscal quarters. The quarterly returns of the PRIT Core in fiscal year 2005 were as follows:

- 1.23% for September 30, 2004
- 8.74% for December 31, 2004
- 0.21% for March 31, 2005
- 2.81% for June 30, 2005

All asset classes were positive for the fiscal year as Emerging Markets and Real Estate lead the group, with gross returns of 37.36% and 30.78%, respectively. The remaining asset classes had positive returns in fiscal year 2005 as follows: Alternative Investments - Private Equity 26.29%, High Yield Debt 15.38%, International Equity 14.14%, Timber 12.91%, Domestic Equity 7.81%, Fixed Income 7.54% and the new Absolute Return portfolio was up 6.69%.

Active management makes up approximately 65% of the PRIT Core, which means that the investment committee and the PRIM staff are responsible for selecting and recommending managers to the Board that are expected to beat their respective contractual benchmarks. During fiscal year 2005, 75% of PRIM's active public markets managers outperformed their individual benchmarks. Over the past three years, 88% of PRIM's active public markets managers outperformed their benchmarks. A trademark of a successful pension fund is its ability to select managers that outperform their benchmarks in both bull and bear markets. We are proud to declare that the PRIM Board and staff have achieved this goal with remarkable results. Over both short and long periods of time, the PRIT Fund's relative performance continues to compare favorably to the policy benchmark. It is also important to note that the PRIT Fund has outperformed its benchmark with incredible consistency. For the three-year period ending June 30, 2005, PRIT Core had an annualized return of 12.13%, exceeding the interim policy benchmark by 115 basis points. During the five-year period ending June 30, 2005 the PRIT Core return of 4.25% outperformed the policy benchmark by 124 basis points per year and over ten years the PRIT Core returned 10.65%, 133 basis points above the benchmark.

Management Costs

Expenses incurred by the PRIM Board in overseeing the management of the PRIT Fund are charged to the PRIT Fund in the form of management fees. These costs include investment management fees, consultant fees, custodian fees as well as the professional fees, salaries and administrative expenses of PRIM.

PRIM employs professional investment managers and provides them discretion, consistent with specified objectives and guidelines, to manage the PRIT Fund's assets. Investment managers operate under formal contracts that delineate their responsibilities and performance expectations. Approximately 90.8% of PRIM's total budget for fiscal 2005 was allocated to investment management fees. PRIM also employs an outside custodian, investment consultants, and other professional services providers in managing the PRIT Fund. Approximately 5.4% of PRIM's operating budget for fiscal year 2005 was allocated to fees for these professional services.

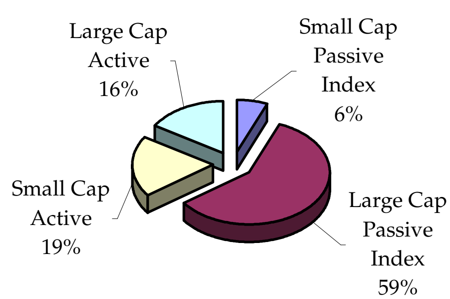
The PRIT Fund also incurs indirect management costs as a result of investing in alternative investments, absolute return, real estate and timber assets. Most investment management fees for alternative investments are charged by managing general partners to investment partnerships and not to the limited partner investors (e.g., PRIM) directly. Therefore, partnerships incur expenses and report income to the limited partners *net* of these fees. All investment management fees for absolute return are charged to the underlying investment funds. The majority of management fees for real estate and timber investments are charged in a similar manner, not to investors directly. Most pension funds do not disclose these indirect management fees as part of their overall costs. PRIM continues to disclose all investment management fees, including those charged at the partnership level, as part of the cost of managing the Fund.

The total cost of managing the PRIT Fund for fiscal year 2005, *inclusive* of all investment management (direct and indirect), consulting, custodial and overhead charges was 52 basis points of the average net asset value of the PRIT Fund compared to 42 basis points in fiscal year 2004. *Excluding* indirect management fees (as most public pension funds report), the cost of managing the PRIT Fund was 30 basis points compared to 23 basis points in fiscal year 2004. While fees can vary from year to year due to the nature of performance-based fees at PRIT, the increase in the FY'05 fees over the prior years' fees can be traced to two specific origins. The first and most pervasive reason that fees have risen is that the make-up of the portfolio has become much more complex. During the past fiscal year, the Fund moved billions of dollars, mostly from passively managed domestic equity and fixed income into more expensive, less liquid investments such as hedge fund of funds, real estate and timber. Secondly, PRIT's real estate managers have earned significant performance fees while the real estate portfolio was up over 30% for the year. The good news is that these higher fees are the direct result of strong performance. For information on expense ratios for each investment account, refer to the *Financial Highlights* ratios on pages 83-88 included in the Statistical Section of this report.

Domestic Equity Portfolio

As of June 30, 2005, the domestic equity portfolio had approximately $11.8 billion in net assets, which represented 32.6% of the PRIT Capital Fund. Approximately 75% of the domestic equity portfolio is invested utilizing a large capitalization stock ("large cap stocks") strategy and 25% utilizing a small capitalization stock ("small cap stocks") strategy, reflecting the composition of the total domestic equities market. In the view of the PRIM Board and its advisors, the overall domestic equity portfolio is highly diversified and balanced. The portfolio is allocated into passively managed accounts and actively managed accounts. The allocation between passively managed investments and actively managed investments is highlighted below.

Domestic Equity Portfolio
June 30, 2005



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 equities investments have exceeded all other public market asset classes (i.e., fixed income and cash), 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.

For the fiscal year, the portfolio produced a 7.81% return compared to 8.17% for the portfolio benchmark, the Dow Jones Wilshire 5000 index. PRIT's large cap managers outperformed the large cap benchmark S&P 500 index (ex-tobacco), returning 6.36% compared to 6.07%. However, the underperformance versus the benchmark for fiscal 2005 was due to the small cap managers returning 12.17% for the year versus 14.58% in the Dow Wilshire 4500 benchmark. During the year, three active managers outperformed their benchmarks, one passive and one active manager underperformed and four new managers were funded over the course of multiple months starting in November of 2004. The PRIT fund's investment strategy for Domestic Equity is to be neutral to the market with respect to capitalization weightings. The large cap component of the Domestic Equity portfolio was 75% of the total Domestic Equity portfolio at fiscal year-end, with the small capitalization composite representing the remaining 25%. While large cap is roughly 80% passively managed and the small cap portfolio is close to 25% passive, the portfolio as a whole is 65% passively managed.

On a three- five- and ten-year basis through June 30, 2005, PRIT's Domestic Equity portfolio has beaten its benchmarks, returning 10.41%, 0.15%, and 10.75%, respectively, compared to the Dow Wilshire 5000 index, which returned 9.91%, -1.29%, and 9.95%, respectively.

The top ten holdings in the domestic equity portfolio at June 30, 2005 are illustrated below. A complete listing of holdings is available upon request.

#	Issue Name	Market Value ($'000s)	% of Account Market Value
1	Exxon Mobil Corp.	$ 257,598	2.18%
2	General Electric	250,783	2.12%
3	Citigroup Inc.	194,963	1.65%
4	Microsoft Corp.	164,772	1.40%
5	Pfizer Inc	157,310	1.33%
6	Johnson & Johnson Co.	130,320	1.10%
7	Bank of America Corp.	128,800	1.09%
8	JPMorgan Chase & Co.	121,678	1.03%
9	United Health Group Inc.	108,708	0.92%
10	Intel Corp.	106,471	0.90%
	TOTAL:	$ 1,621,403	13.73%

The PRIT Fund's domestic equity managers at June 30, 2005 are highlighted in the following table:

Manager	Investment Mandate	Portfolio Market Value at June 30, 2005 ($000's)
State Street Global Advisors	S&P 500 Index	$ 7,005,658
State Street Global Advisors	Small Cap Index	692,023
Legg Mason Capital Management, Inc,	Large Cap Value	856,980
Fidelity Management Trust Company	Large Cap Core/Growth	335,989
Gardner Lewis	Large Cap Core/Growth	327,075
NWQ	Large Cap Value	336,344
AXA Rosenberg Investment Management	Small Cap Value	299,163
Numeric Investors, LP	Small Cap Growth	283,964
Wellington Management Company	Small Cap Core	293,305
Lazard Asset Management	Small Cap Value	289,531
Ariel Capital Management LLC	Small Cap Value	263,659
Earnest Partners	Small Cap Value	281,534
Mazama Capital Management	Small Cap Growth	266,108
Putnam Advisory Company	Small Cap Value	269,809
Other portfolio net assets		6,136
Total Portfolio Market Value June 30, 2005		**$ 11,807,278**

International Equity Portfolio

As of June 30, 2005, the PRIM Board invested $5.7 billion in the International Equity Portfolio, representing 15.6% of the PRIT Capital Fund. The portfolio is invested in a "passive" Europe, Australia, Far East ("EAFE") Index Fund, and three "active" EAFE portfolios

The primary strategy for this portfolio is the EAFE mandate. The EAFE managers invest in the developed markets of major industrialized nations such as Japan, Germany, the United Kingdom, France, Italy, Switzerland, Hong Kong, Canada, and Australia. The PRIM Board strategy is to allocate 33% of this portfolio to an EAFE Index Fund, which replicates the appropriate country weightings of the index and is designed to mirror the performance of that index. To take advantage of the inefficiencies that exist in foreign markets, EAFE managers actively invest 67% of the portfolio.

Portfolio Risks. Investing outside of the United States carries additional risks. Foreign equity markets tend to be less efficient than U.S. markets, and therefore, are more volatile. In addition, foreign investments are subject to higher settlement and trading costs; economic and political risks, such as exchange control regulation; expropriation; confiscatory taxation; social instability; less stringent investor protections and disclosure standards; and currency risk.

For the fiscal year, the International Equity portfolio returned 14.14% compared to the MSCI EAFE index return of 13.65%. PRIT’s best performing international equity manager was the London-based, value-oriented, Marathon Asset Management. Marathon’s return of 16.79% added 314 basis points above the benchmark. Over the longer-term, PRIT’s international equity managers continue to add significant value over the benchmark. On a three- five- and ten-year basis, PRIT’s international equity managers posted returns of 12.09%, 1.13%, and 8.96%, respectively, ahead of the MSCI EAFE index, which returned 12.06%, -0.55%, and 5.22% over the same periods. At the start of the fiscal year, PRIM funded two new managers; Baillie Gifford, a growth manager from Edinburgh, Scotland and The Boston Company, a local value manager were funded $600 million each. Both new managers performed just below the benchmark in their first year.

The top ten holdings in the international equity portfolio at June 30, 2005 are illustrated below. A complete listing of holdings is available upon request.

#	Issue Name	Market Value ($'000s)	% of Account Market Value
1	British Petroleum PLC	$ 99,311	1.76%
2	Vodafone Group PLC	90,344	1.60%
3	Total SA	78,260	1.38%
4	Royal Dutch Petroleum	66,375	1.17%
5	Glaxosmithkline	64,937	1.15%
6	Novartis	57,583	1.02%
7	Barclays	55,144	0.97%
8	Shell Trans & Trading	52,199	0.92%
9	UBS	50,478	0.89%
10	HSBC	46,432	0.82%
	TOTAL:	$ 661,063	11.68%

The PRIT Fund's international equity managers at June 30, 2005 are highlighted in the following table:

Manager	Investment Mandate		Portfolio Market Value at June 30, 2005 ($000's)
Marathon Asset Management Ltd.	EAFE Benchmark	$	1,925,350
State Street Global Advisors	EAFE Index		2,036,063
Pareto Partners	Currency Overlay		17,234
Ballie Gifford	EAFE Benchmark		836,841
The Boston Company	EAFE Benchmark		839,387
Other portfolio net assets			2,513
Total Portfolio Market Value June 30, 2005		**$**	**5,657,388**

Emerging Markets Portfolio

As of June 30, 2005, PRIM invested approximately $2.1 billion in the Emerging Markets Portfolio, which represented 5.7% of the PRIT Capital Fund. Included in the Emerging Markets portfolio are the equity securities of companies in developing countries in the Far East, South America, Central America, and Central/Southern/Eastern Europe. These countries typically have less efficient securities markets where there is opportunity for substantial returns.

Portfolio Risks. Investing in emerging markets carries risks that are in addition to the typical risks of domestic and established international equity markets. Emerging markets tend to be less efficient than established markets, and therefore, are more volatile. In addition, emerging market investments are subject to higher settlement, trading and management costs and greater economic and political risk, such as currency risk, exchange control regulation, expropriation, confiscatory taxation, and social instability.

For the fiscal year, the emerging markets equity portfolio returned 37.36% compared to the MSCI EMF index return of 34.38%. PRIT's best performing emerging markets equity manager was the Boston-based, Grantham Mayo Van Otterloo & Co. (GMO). GMO had a 1-year return of 41.19% adding 681 basis points above the benchmark. Over the longer-term, PRIT's emerging markets equity managers continue to add significant value over the benchmark. On a ten-year horizon, PRIT's emerging markets equity managers posted a return of 7.64%, ahead of the MSCI EMF index, which returned 4.47% over the same period.

The top ten holdings in the emerging markets portfolio at June 30, 2005 are illustrated below: A complete listing of holdings is available upon request.

#	Issue Name	Market Value ($'000s)	% of Account Market Value
1	Samsung Electronics	$ 96,907	4.72%
2	EMM EMSAF-Mauritus Fund	71,099	3.46%
3	Petroleo Brasileiro	41,402	2.02%
4	Taiwan Semiconductor	37,320	1.82%
5	Hon Hai Precision	32,097	1.56%
6	Petroleo Brasileiro Preferred	31,563	1.54%
7	Hyundai Motor Corp.	28,616	1.39%
8	Kookmin Bank	27,264	1.33%
9	Samsung Electronics Preferred	24,345	1.18%
10	Shinsegae Company Ltd.	24,205	1.18%
	TOTAL:	$ 414,818	20.19%

The PRIT Fund's emerging markets equity managers at June 30, 2005 are highlighted in the following table:

Manager	Investment Mandate	Portfolio Market Value at June 30, 2005 ($000's)
Emerging Markets Management	Value/Frontier	$ 913,517
Grantham, Mayo, Van Otterloo & Co. LLC	Value	919,656
State Street Global Advisors	EMF Index	221,529
Other portfolio net liabilities		(142)
Total Portfolio Market Value June 30, 2005		**$ 2,054,560**

Fixed Income Portfolio

The PRIM Board invested approximately $5.9 billion in the investment grade Fixed Income Portfolio, representing 16.2% of the PRIT Capital Fund as of June 30, 2005. The Fixed Income Portfolio is invested using the following strategies:

- 17% in a Lehman Brothers Aggregate passively managed index fund;
- 53% in actively managed Lehman Brothers Aggregate core portfolios;
- 30% in Treasury Inflation Protected Securities (TIPS).

The fixed income portfolio is benchmarked to the Lehman Brothers Aggregate Bond Index (LB Agg) for core fixed income securities and the Lehman Brothers U.S. TIPS Index for U.S. TIPS securities. The Lehman Aggregate replicates the investment grade bond market. The index is composed of corporate, government, and mortgage-backed securities. The index fund is designed to approximate the performance of the LB Agg Index, while the active managers' mandate is to exceed the index return. The core strategy is designed to reduce the long-term volatility of the overall portfolio. The portfolio has an investment with Access Capital under the PRIM Board's Economically Targeted Investment (ETI) program. Further discussion on the PRIT Fund's ETI investment program is included in the Investment Policy Statement at the end of this section. The allocation to TIPS is designed to provide a hedge against rises in inflation.

Portfolio Risks. As in the case of equities, the prices of fixed income securities increase and decrease in value. Price fluctuations in bonds result from rising and falling interest rates, changes in market conditions, and other economic and political developments. The portfolio is subject to credit risk through defaults on bonds and other fixed income securities. Although investment in the core fixed income portfolio is perceived as a "conservative" investment, erosion in principal value can result from credit risk and price fluctuations, and can adversely affect portfolio returns.

For the fiscal year 2005, the Fixed Income composite return of 7.54% beat the benchmark (78% LB Agg/22% Lehman US TIPS index), which was 7.36%. PRIT's TIPS manager, Barclays, achieved a 9.27% return versus the Lehman US TIPS benchmark return of 9.34%.

The top ten holdings in the fixed income portfolio at June 30, 2005 were all TIPS issues. The top ten holdings, excluding TIPS investments, are illustrated below. A complete listing of holdings is available upon request.

#	Issue Name	Market Value ($'000s)	% of Account Market Value
1	U.S. Treasury Notes 4.875% FEB 12	$ 83,488	1.42%
2	FNMA Pool #0735224 5.5% FEB 35	68,799	1.17%
3	TBA FNMA MTG 6.0% AUG 35	58,064	0.99%
4	TBA FNMA MTG 5.0% AUG 20	57,553	0.98%
5	U.S. Treasury Notes 3.125% JAN 07	50,439	0.86%
6	TBA FHLMC Gold 5.0% July 35	48,865	0.83%
7	U.S. Treasury Notes 3.625% APR 07	47,151	0.80%
8	FNMA Pool #0725425 5.5% APR 34	38,557	0.66%
9	TBA FNMA MTG 5.0% AUG 35	37,916	0.65%
10	U.S. Treasury Bonds 8.0% NOV 21	37,833	0.64%
	TOTAL:	$ 528,665	9.01%

The PRIT Fund's fixed income portfolio managers at June 30, 2005 are highlighted in the following table:

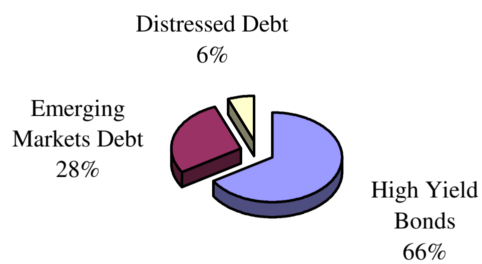
Manager	Investment Mandate	Portfolio Market Value at June 30, 2005 ($000's)
Barclays Global Investors	Core Index	$ 986,484
Barclays Global Investors	TIPS	1,738,341
PIMCO	Active Core	1,060,354
Blackrock Financial Management	Active Core	1,003,959
Loomis, Sayles & Co., LP	Active Core	1,043,242
Access Capital	ETI	26,354
Other portfolio net assets		8,260
Total Portfolio Market Value June 30, 2005		**$ 5,866,994**

High Yield Portfolio

The PRIM Board invested approximately $2.7 billion in the High Yield Portfolio, representing 7.5% of the PRIT Fund as of June 30, 2005. The High Yield Portfolio is invested using the following strategies:

High yield bonds are securities that are rated below Investment Grade by Standard & Poor's and Moody's.

High Yield Portfolio
June 30, 2005



These bonds are issued by companies without long track records of sales or earnings, or by those with questionable credit strength. This strategy also includes bonds that were Investment Grade at time of issue but have since declined in quality to below Investment Grade, referred to as "Fallen Angels". Despite the below Investment Grade rating, PRIM's managers have successfully constructed portfolios and selected securities to generate substantial returns due to the equity-like characteristics of high yield bonds and to mitigate risk by lowering the expected default rate.

Emerging markets debt represents PRIM's investment in debt issued within the emerging marketplace. In January 2004, the PRIM Board added three emerging markets debt managers to the PRIT Fund portfolio. The PRIT Fund's investment with two of these managers is through a commingled emerging debt investment vehicle.

Distressed debt represents PRIM's investment in private partnerships that invest directly in distressed debt investment opportunities. As at June 30, 2005 the PRIT Fund had approximately $162 million in distressed debt investments with three investment managers.

Portfolio Risks. As in the in the core fixed income portfolio, the prices of high yield securities increase and decrease in value. Price fluctuations in bonds result from rising and falling interest rates, changes in market conditions, and other economic and political developments. Lower-quality securities typically offer higher yields, but also carry more credit risk. The allocation of high yield investments to emerging markets and distressed debt expose the portfolio to additional risks. Investments in emerging markets are subject to higher settlement, trading and management costs and greater economic, regulatory and political risk, as well as currency risk. Investments in private distressed debt funds subject the portfolio to liquidity, valuation and other risks associated with private investments.

In fiscal year 2005, the High Yield composite returned 15.38% compared to 13.93% for the asset class benchmark. PRIT Core's high yield bond managers returned 10.36%, while the ML HY Master II index returned 10.62%. Distressed debt investments are limited partnerships and PRIT Core has invested a total of $162 million with three different managers; Oaktree Capital Management, Angelo, Gordon & Co. and TCW Asset Management. In fiscal year 2005, the Distressed Debt portfolio returned 25.54%. As there are no readily available, relevant indices for this class of assets, the benchmark for Distressed Debt is the actual performance of that portion of the portfolio. Fiscal 2005 marked the first full year of performance for the Emerging Markets debt portfolio within the high yield portfolio. This portfolio is managed by Ashmore, GMO and PIMCO and has returned 27.49% in its first fiscal year, comfortably ahead of JP Morgan Emerging Markets Bond Index (JPM EMBI Global Index) by 731 basis points.

The top ten holdings in the high yield portfolio at June 30, 2005, excluding investments in emerging debt pooled funds, distressed debt partnerships and other pooled funds, are illustrated below. A complete listing of holdings is available upon request.

#	Issue Name		Market Value	% of Account Market Value
1	Russian Federation Bonds Step MAR 30	$	32,952	1.22%
2	FNMA 3.875% FEB 10		24,980	0.92%
3	Mexico MTN 6.750% SEP 34		20,564	0.76%
4	Nextel Communications Sr 6.875% OCT 13		15,101	0.56%
5	Brazil VAR RT APR 12		14,286	0.53%
6	Brazil Bonds 10.125% MAY 27		13,288	0.49%
7	Brazil Federative Rep BD 8.25% JAN 34		12,410	0.46%
8	Revlon Inc. CL A		11,618	0.43%
9	MGM Mirage SR NT 8.50% SEP 10		10,206	0.38%
10	Bowater CDA Finance Corp. 7.95% NOV 11		10,201	0.38%
	TOTAL:	$	165,606	6.12%

The PRIT Fund's high yield portfolio managers at June 30, 2005 are highlighted in the following table:

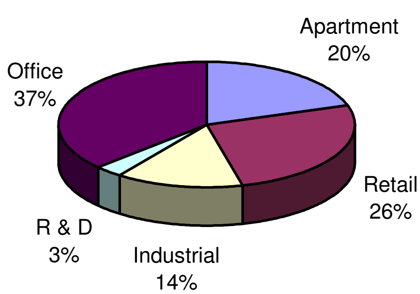
Manager	Investment Mandate		Portfolio Market Value at June 30, 2005 ($000's)
Fidelity Management Trust	High Yield Bond	$	357,578
Seix Investment Advisors	High Yield Bond		499,789
Shenkman Capital Management	High Yield Bond		505,156
Loomis, Sayles & Co., LP	High Yield Bond		442,186
Ashmore Investment Management	Emerging Markets Debt		259,363
Grantham, Mayo, Van Otterloo & Co. LLC	Emerging Markets Debt		255,991
PIMCO	Emerging Markets Debt		234,428
Oaktree Capital Management/Angelo Gordon/TCW	Distressed Debt		162,281
Other portfolio net liabilities			(9,068)
Total Portfolio Market Value June 30, 2005		**$**	**2,707,704**

Real Estate Portfolio

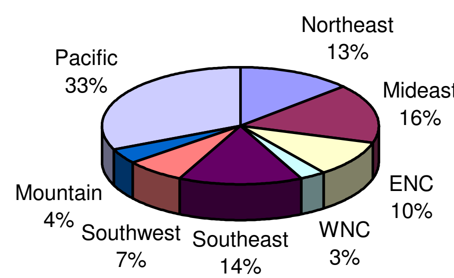
As of June 30, 2005, PRIM had $2.95 billion invested in real estate (net of $1.1 billion in debt), representing 8.1% of the PRIT Capital Fund. The Real Estate Portfolio consists of two separate accounts: core real estate and non-core real estate. Core real estate consists of directly-owned properties, REITs, and one ETI investment. The PRIT Fund invests in real estate because it provides the PRIT Fund with (i) diversification and (ii) attractive returns. Real estate returns 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. A portfolio of well-leased, operating properties provides steady monthly cash flow to the investor from property-level rents.

Currently, approximately 66% of the real estate allocation (gross of leveraged borrowings) is dedicated to direct investments in real estate properties. These investments are subsequently broken down into Core and Value real estate investments. Currently, $3.02 billion of Core real estate investments and $44 million of Value real estate investments comprise PRIM's directly owned real estate assets on a leveraged basis. Typically, core investments are relatively low risk, operating and substantially leased (80% or greater occupancy at the time of investment) institutional quality real estate. The following charts show the property type and location diversification of PRIM's directly owned real estate assets at June 30, 2005:

Real Estate Portfolio
Property Type Diversification



Real Estate Portfolio
Geographic Diversification



REITs comprise the remainder of the investments in the PRIT core real estate portfolio. Currently, PRIM has allocated approximately $985 million to REITs.

PRIM's strategies utilize a disciplined portfolio approach to real estate investing that is focused on investments in equity interests in institutional quality real estate. PRIM's current long-term allocation to real estate is 10% of total plan assets, which allows PRIM to establish separate accounts with capable real estate investment managers under terms that are beneficial to PRIM. Because PRIM is the sole owner of the real estate in each such account, the managers operate under clear policies and guidelines most appropriate to PRIM's investment needs.

Leverage. The PRIM Board approved the revision of its Real Estate Leverage Policy at its February 5, 2002 Board meeting. This policy was approved in order to enhance the yield of PRIT's real estate investments through the use of low cost debt. This policy permits third party debt to be incurred subject to the following new real estate debt policies: (i) total outstanding debt may not exceed 50% of the overall gross real estate portfolio, (ii) all leverage must be positive, (iii) no more than the greater of $200 million or 30% of the debt outstanding should mature in one year, (iv) floating rate debt without caps should not exceed the greater of $200 million or 50% of the outstanding debt, and (v) the debt term should not exceed ten years. As of June 30, 2005, the PRIT Fund had approximately $1.1 billion in borrowings. These borrowings are provided by cash collateral obtained through the PRIT Fund's securities lending program, and are included in obligations under securities lending transactions in the Fund's Statement of Pooled Net Assets.

Portfolio Risks. Investments in real estate are subject to various risks, including adverse changes in general economic conditions, adverse local market conditions, the financial conditions of tenants, buyers and sellers of properties, environmental laws and regulations, zoning laws, and other governmental rules, as well as uninsurable losses and other factors that are beyond the control of the property owner. In addition, while diversification is an important objective of PRIM's real estate strategy, there can be no assurance as to the degree of diversification, either by geographic region or asset type, which will actually be maintained in the Core Real Estate Portfolio. In addition, the portfolio is subject to valuation risk, as the valuation of the assets in this segment are based on estimates made by PRIM through the coordination with external appraisers and the investment managers. Accordingly, there can be no assurance that the fair value of the portfolio will ultimately correspond to the realized value of the underlying properties. REITs face risks similar to the risks of public equities since they are traded on a public exchange. They can experience corrections and price movements that are much more rapid than those experienced by private equity real estate portfolios.

For the one-year period, the portfolio returned 30.78%, well ahead of the asset class benchmark return of 20.84% (66% NCREIF Property Index/34% NAREIT Equity Index). During the year, PRIM's separate account managers continued to pursue new acquisitions while REIT managers received additional capital to manage in the robust public markets. At the same time, strong capital flows into real estate made it possible to sell various assets viewed as underperforming. Significant returns were realized from residential sales to condo converters while considerable asset appreciation has occurred in the retail and office sectors.

In addition to active management of the portfolio, the PRIT Fund's Real Estate returns were significantly enhanced by the use of debt. The investments in real property returned 19.32% for the twelve months ending June 30, 2005, beating the NCREIF Property Index, which returned 15.55% over the same period of time. In June 2003 the PRIM Board voted to increase its exposure to the REIT market, hiring four new managers and terminating one manager. For the one-year period the Fund's five REIT managers returned 37.21%, beating the NAREIT Equity Index, which returned 32.65%.

The Core real estate portfolio has returned 18.88% over the past three years versus the asset class benchmark of 13.34%. On a five-year basis, returns were 15.44% compared to the benchmark return of 11.69%. These strong returns have been achieved with less risk than the benchmark.

The PRIT Fund's real estate investment managers at June 30, 2005 are highlighted in the following table:

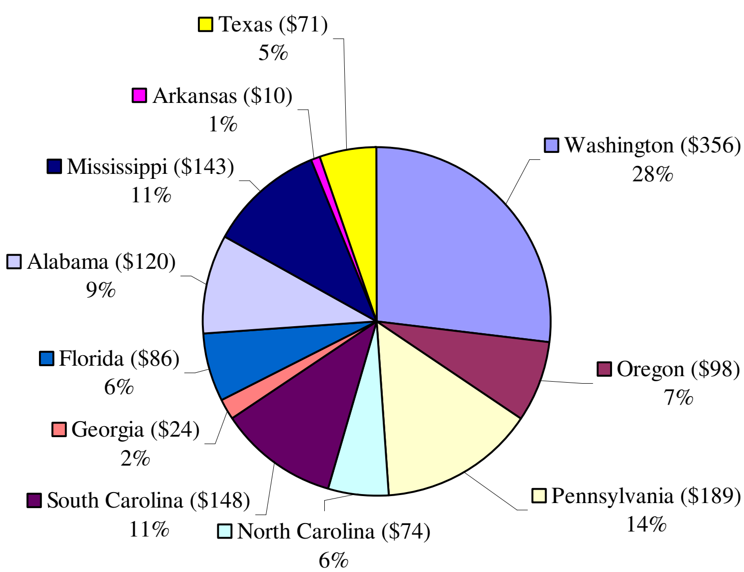
Manager	Investment Mandate	Portfolio Market Value at June 30, 2005 ($000's)
Invesco Realty Advisors	Separate Accounts	$ 507,474
Lasalle Investment Management	Separate Accounts	711,313
RREEF	Separate Accounts	1,010,803
J.P. Morgan Investment Management	Separate Accounts	91,992
TA Associates Realty	Separate Accounts	744,951
RREEF	REITs	271,775
Invesco Realty Advisors	REITs	109,332
Lasalle Investment Management	REITs	94,697
Urdang	REITs	98,635
Wellington	REITs	410,901
Canyon Johnson	ETI	1,533
Non-core real estate portfolio		822
Portfolio Debt		(1,103,887)
Other portfolio net assets		1,333
Total Portfolio Market Value June 30, 2005		**$ 2,951,674**

Timber Portfolio

As of June 30, 2005, PRIM had $1.3 billion invested in timber representing 3.6% of the PRIT Capital Fund. The PRIT Fund's allocation to timber is through two external timber investment managers: Forest Investment Associates (FIA) and the Campbell Group. As at June 30, 2005, FIA and the Campbell Group had approximately $876 and $433 million, respectively, in assets under management for the PRIT Fund.

The United States timberland markets are divided into three regions, each with distinct economic characteristics: the Pacific Northwest, the Northeast and the Southeast. The Northwest is a high value softwood market, in which the growing cycle to produce a mature tree is forty to fifty years. The high value tree in this region is Douglas Fir, which is used primarily to produce high quality dimensional and structural lumber. The timber growing cycle in the Southeast is much shorter, in the range of twenty-five years. Southern pine is the dominant species and it is used typically to make pulp for the paper industry or lower quality-framing lumber. The Northeast market is much smaller than the other two markets and consists of a wider range of trees including high value specialty woods such as cherry and oak. The geographical diversification of the PRIT Fund's timber portfolio at June 30, 2005 is highlighted below.

Timber Portfolio Holdings Geographic Diversification
June 30, 2005
($ Millions)



Investment returns from timberland investments are derived from the net cash flow generated from the sale of trees (referred to as stumpage sales) combined with capital appreciation from the biological growth of the trees. Both of these return factors depend to some degree upon the direction of forest product commodity prices (paper goods and lumber products). There can also be gains from the timely sale of timberland and from the conversion of timberland into higher and better uses, such as vacation property sales.

Portfolio Risks. Investments in timber assets are subject to various risks, including adverse changes in general economic conditions, fluctuations in the market price of timber, damage to timber properties due to weather related events, changes in regulatory conditions and other governmental rules. In addition, the portfolio is subject to valuation risk, as the valuation of the assets in this segment are based on estimates made by PRIM through coordination with external appraisers and PRIM's timber investment managers. Accordingly, there can be no assurance that the fair value of investments will correspond to the ultimate realized value of the properties.

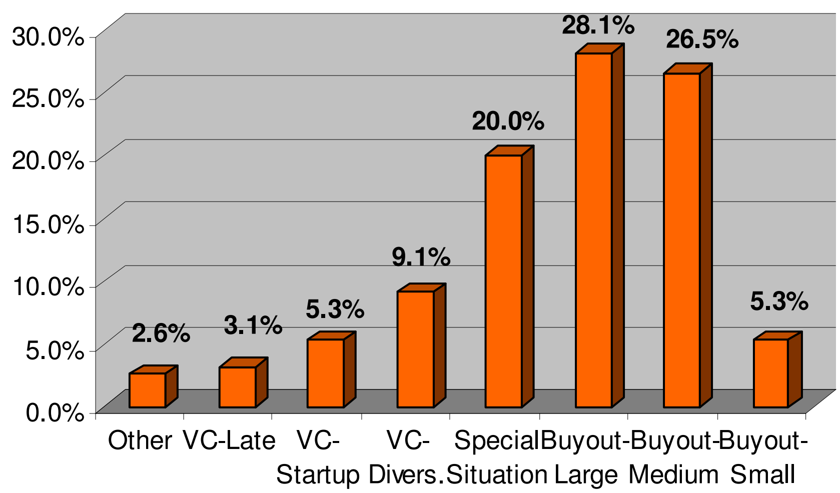
As of June 30, 2005, the one-year return was 12.91% as compared to the NCREIF Timber Index of 11.37%. Since its inception, in December of 2001, the Timber portfolio has produced an annualized return of 13.11% versus a benchmark return of 4.13%, an out-performance of 898 basis points.

With a target allocation of 5% in timber, the PRIM Board continues to work with its two timber managers to implement a diversified strategy. While competition has been heightened due to the popularity of the asset class, new opportunities are arising in all U.S. markets. New acquisitions are currently being sought in the southern, northwestern and mid-Atlantic regions of the country. These areas contain species used in the manufacturing of building products, pulp and paper, furniture and a variety of other products that should continue to prosper.

Alternative Investments Portfolio

As of June 30, 2005 the market value of the Alternative Investment Portfolio was $2.2 billion. This includes all vintage year alternative investment accounts opened to segmentation for participating systems.

Two components comprise the PRIT Fund's Alternative Investments Portfolio: venture capital and special equity partnerships. 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. As of June 30, 2005, the Alternative Investments Portfolio comprised 6.0% of the PRIT Capital Fund. This included 4.2% to special equity partnerships (buy-outs, special situations, mezzanine funds, secondary funds) and 1.8% to venture capital partnerships (early-stage, later-stage, and diversified-stage). The long-term allocation to alternative investments is 10%. The Alternative Investments Portfolio by strategy allocation at June 30, 2005 is highlighted below.



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

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

- *Illiquidity*: Limited partnership vehicles typically have 10-15 year life cycles during which limited partners are unable to liquidate their entire positions, but instead, will receive the cash flow from successful investments. A defined secondary market such as the New York Stock Exchange does not exist for private equity.

- *Volatility*: Volatility, as measured by standard deviation from a mean return, has historically been greater for private equity investing than many other assets. It is generally recognized that standard deviations for private equity should be estimated at approximately 30%, versus 17% for domestic public equity.

- *Management Fee Effect*: Typically, general partners' fees range from 150 to 250 basis points annually. This is usually drawn down against committed capital, although it may not be invested, and may result in negative returns until investments are realized successfully.
- *Valuation of investments*: Investment valuation at any time may not be reflective of fair market value. Investments may or may not be held at their cost basis. If held at cost basis, then an investment's value may be understated. If investments recognize "unrealized gains", then the potential for overstatement exists. The general partner makes subjective valuations of private equity holdings until an exit is achieved, and there is no formal, objective vehicle to confirm valuation prior to the liquidation of the investment.
- *General Partner Discretion*: Investors have a lack of control over the general partner's investment decisions. The general partner is provided capital to manage at its discretion and investors are provided limited rights, such as termination of the partnership in certain instances. (These rights may not prove practical except in extreme circumstances.)
- *Binding Commitments*: There is limited ability to reduce or terminate investments. Under the contractual terms of the partnership, investment may be terminated in some cases by super-majority vote of the investors and after the occurrence of certain events.
- *Risk of Loss*: There is risk of losing 100% of the investment. Investments in partnerships are usually equity and the risk nature of these investments could result in loss of the entire investment.

PRIT's alternative investments portfolio delivered strong returns over the past year, generating a one-year return of 26.29%. PRIT's alternative investments managers took advantage of the improved economic environment and healthy capital markets to sell assets generating $706 million in realized proceeds during fiscal year 2005. While this short-term performance is encouraging, investors should remember that alterative investments are a long-term asset class. The recent short-term performance is a general indicator of the direction of the alternative investments market to date. However, short-term performance is not always indicative of long term potential of the asset class.

While there is not currently a widely used or conventional benchmark in this asset class, the PRIM staff has generally targeted, over five to ten year periods, a 500 basis point margin over the S&P 500. PRIT's alternative investments program has achieved this goal over the one-year, three-year, five-year, and ten-year periods outperforming the S&P 500 by a minimum of 500 basis points over. Over the long term PRIT's alternative investments portfolio has performed well with a 10-year average annual return of 15.82%, exceeding the S&P 500 index return of 9.94% by 588 basis points. On a five-year basis, the portfolio exceeded the S&P 500 by 578 basis points, 3.41% compared to –2.37%. For the three-year period the alternative investments returned 13.78%, exceeding the S&P 500 index return of 8.28% by 550 basis points. For the fiscal year ended June 30, 2005, the alternative investments portfolio returned 26.29%, outperforming the S&P 500 index return of 6.32% by 1,997 basis points. Specifically during fiscal year 2005, the special equity portfolio generated a return of 33.0% and the venture capital portfolio returned 13.11%. As there is a one-quarter lag in reporting Alternative Investments portfolio returns, the year-end numbers actually reflect performance for the one-year ended March 31, 2005.

As of June 30, 2005, PRIT has committed over $5.9 billion to 198 partnerships of which $4.1 billion has been invested. The program has generated $3.8 billion in distributions and has a remaining market value of $2.2 billion.

ALTERNATIVE INVESTMENTS EXTERNAL MANAGERS

As of June 30, 2005

	Partnership	Location		Partnership	Location
1	Advent International	Boston, MA	38	Kelso & Company	New York, NY
2	Alchemy Partners	London, UK	39	Kohlberg Kravis Roberts& Co.	New York, NY
3	Alta Communications	Boston, MA	40	Landmark Equity Partners	Simsbury, CT
4	APAX Partners & Co.	London, UK	41	Lexington Partners	New York, NY
5	Apollo Management Co.	New York, NY	42	Madison Dearborn Capital Partners	Chicago, IL
6	AustinVentures	Austin , TX	43	Menlo Ventures	Menlo Park, CA
7	Battery Ventures	Wellesley, MA	44	M/C Venture Partners	Boston, MA
8	Berkshire Partners, LLC	Boston, MA	45	Montagu Private Equity	London, UK
9	The Blackstone Group	New York, NY	46	Narragansett Capital, Inc.	Providence, RI
10	Boston Ventures	Boston, MA	47	Nautic Partners	Providence, RI
11	Brown Brothers Harriman & Co.	New York, NY	48	New Enterprise Associates	Baltimore, MD
12	Candover	Boston, MA	49	Nordic Capital	Stockholm , Sweden
13	Carlyle Partners	London, UK	50	Olympus Growth Fund	Stamford, CT
14	Charles River Ventures	Waltham, MA	51	Onex Partners	Toronto, CA/NY, NY
15	Charlesbank Capital Partners	Boston, MA	52	Permira Europe	London, UK
16	Code Hennessey & Simmons	Chicago, IL	53	Polaris Venture Partners	Waltham, MA
17	Commonwealth Capital Ventures	Wellesley, MA	54	Providence Equity Partners	Providence, RI
18	CVC Capital (Europe)	London, UK	55	Quad - C Management, Inc.	Charlottesville, VA
19	Cypress Merchant Banking	New York, NY	56	Richland Ventures	Nashville, TN
20	DLJ Merchant Banking	New York, NY	57	Sovereign Capital Limited	London, UK
21	El Dorado Ventures	Menlo Park, CA	58	Spark Capital	Boston, MA
22	Equitable Capital Management	New York, NY	59	Spectrum Equity Partners	Boston, MA
23	Essex Woodlands	Chicago, IL	60	Summit Ventures	Boston, MA
24	Exponent Partners	London, UK	61	TA Associates/Advent	Boston, MA
25	First Reserve Corporation	Greenwich, CT	62	Texas Pacific Group	San Fran./Forth Worth
26	Flagship Ventures	Cambridge, MA	63	Thoma Cressey Fund	Chicago, IL
27	Forstmann, Little & Co.	New York, NY	64	Thomas H. Lee Equity Partners	Boston, MA
28	Freeman Spogli Equity Partners	Los Angeles, CA	65	Trident Capital	Palo Alto, CA
29	Genstar Capital Partners	San Francisco, CA	66	Union Square	New York, NY
30	GTCR Golder, Rauner	Chicago, IL	67	VantagePoint Partners	San Bruno, CA
31	Harborvest Partners	Boston, MA	68	Venture Capital Fund of NE	Boston, MA
32	Hellman & Friedman Capital Partners	Los Angeles, CA	69	Vestar Capital Partners	New York, NY
33	H.I.G. Capital	Miami, Fla.	70	Welsh CarsonAnderson & Stowe	New York, NY
34	Highland Capital Partners	Boston, MA	71	Weston Presidio Capital	Boston/San Francisco
35	Insight Venture Partners	New York, NY	72	Whitney & Co.	Stamford, CT
36	InterWest Partners	Menlo Park, CA/Dallas, TX	73	William Blair Mezzanine Capital Fund	Chicago, IL
37	Joseph Littlejohn & Levy	New York, NY	74	Willis Stein	Chicago, IL

Absolute Return Portfolio

As of June 30, 2005 the market value of the Absolute Return Portfolio was $1.7 billion consisting of investments in five hedge funds of funds portfolios. PRIM's absolute return managers at June 30, 2005 were as follows:

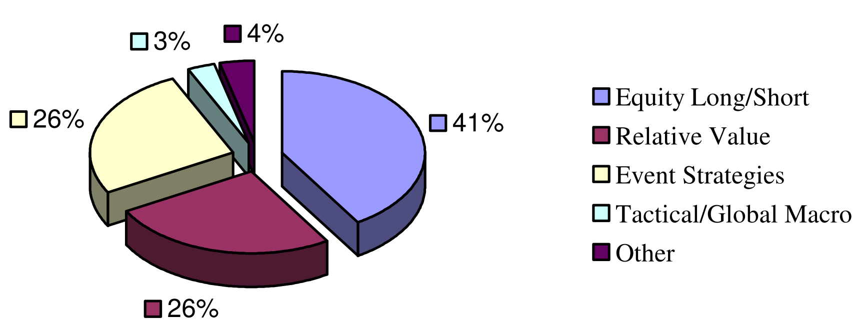
Manager	Portfolio Market Value at June 30, 2005 ($000's)	
Arden Asset Management	$	347,791
Ivy Asset Management Corp.		376,244
K2 Advisors		350,822
PAAMCO		335,033
The Rock Creek Group		316,365
Other portfolio net liabilities		(47)
Total Portfolio Market Value June 30, 2005	**$**	**1,726,208**

Using three models to triangulate an optimal strategy allocation for the absolute return portfolio, the following strategic guideline ranges for the Absolute Return portfolio were developed:

- Equity Hedge 30% to 50%
- Relative Value 20% to 40%
- Event Driven 15% to 25%
- Global Macro 5% to 15%

These ranges are meant to provide top-down investment guidelines while still allowing for flexibility with respect to manager selection and market conditions. Implementation of these allocation goals occurs by taking an active management approach, whereby high-quality, experienced manager selection are a key fundamental to building the portfolio. Actual absolute return strategy allocation at June 30, 2005 is highlighted below.

Absolute Return Portfolio Strategy Allocation
June 30, 2005



Portfolio Risks. The absolute return portfolio is subject to the various risks underlying investments in hedge funds. The portfolio is subject to market risk through a general downturn in market conditions, credit risk inherent in fixed income hedge fund strategies. The portfolio is also exposed to liquidity risk in unwinding underlying hedge fund investment positions. In addition, the hedge fund space is exposed to operational risks in executing investment strategies, and valuing investment positions. The PRIM Board has developed a detailed absolute return investment plan to manage these risks and ensure appropriate diversification within the asset class.

PRIT's absolute return portfolio managers returned 6.69% for the fiscal year versus a return of 6.15% for the benchmark of treasury bills plus 4%. The portfolio also outperformed the S&P 500 (ex-tobacco) by 62 basis points. All performance figures for this assets class are reported 'net of fees'. The out-performance compared to the benchmark was due to the strong performance of 4 of the 5 managers, with only PAAMCO lagging the benchmarks.

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

Asset Class / *Benchmark*	1 Year	3 Year	5 Year	10 Year
Domestic Equity	**7.81%**	**10.41%**	**0.15%**	**10.75%**
Dow Jones Wilshire 5000	*8.17%*	*9.91%*	*-1.29%*	*9.95%*
International Equity	**14.14%**	**12.09%**	**1.13%**	**8.96%**
MSCI EAFE	*13.65%*	*12.06%*	*-0.55%*	*5.22%*
Emerging Markets	**37.36%**	**25.90%**	**6.89%**	**7.64%**
MSCI EMF Gross Div.	*34.38%*	*24.27%*	*7.60%*	*4.47%*
Fixed Income (1)	**7.54%**	**7.21%**	**8.03%**	**7.93%**
78% LB Agg/22%LB US TIPS	*7.36%*	*6.57%*	*7.91%*	*7.08%*
High Yield Debt (1)	**15.38%**	**17.26%**	**na**	**na**
68% MLHYM, 27% JPM EMBI Global & 5% Actual Distressed	*13.93%*	*15.75%*	*na*	*na*
Real Estate	**30.78%**	**18.88%**	**15.44%**	**13.53%**
NCREIF Property Index (qtr. lagged)	*20.84%*	*13.34%*	*11.69%*	*11.79%*
Alternative Investments	**26.29%**	**13.78%**	**3.41%**	**15.82%**
No Benchmark	*na*	*na*	*na*	*na*
Timber (2)	**12.91%**	**13.70%**	**na**	**na**
NCREIF Timber Index	*11.37%*	*7.04%*	*na*	*na*
Absolute Return (3)	**6.69%**	**na**	**na**	**na**
T-bills plus 4%	*6.15%*	*na*	*na*	*na*

	1 Year	3 Year	5 Year	10 Year
Total PRIT Core	**13.41%**	**12.13%**	**4.25%**	**10.65%**
Policy Benchmark	*12.49%*	*10.98%*	*3.01%*	*9.32%*
TUCS Universe Median	*9.95%*	*9.71%*	*3.49%*	*9.00%*
TUCS Universe Ranking	5th	3rd	21st	1st

(1) In July 2001, the Fixed Income Account was split into two portfolios: Fixed Income and High Yield. Prior to July 2001, all high yield returns are reflected in the Fixed Income Account

(2) The Timber Account's inception date was January 1, 2002,

(3) The Absolute Return Account's inception date was July 1, 2004

*** All return information is gross of fees, except Absolute Return, which is net of fees.**

SUMMARY SCHEDULE OF BROKER COMMISSIONS

(Top 25 Brokers and Cumulative Fees Paid to Others)

Fiscal Year Ended June 30, 2005

Brokerage Firms	Fees Paid ($)	% total	Average per share
Merrill Lynch	$ 1,424,263	10.0%	$ 0.002
Investment Technology Groups	759,004	5.3%	0.019
Credit Suisse	640,055	4.5%	0.015
UBS	619,865	4.4%	0.014
Morgan Stanley & Co.	576,922	4.1%	0.007
State Street Brokerage Services	569,441	4.0%	0.013
Goldman Sachs & Co.	487,983	3.4%	0.010
Deutsche Bank	439,414	3.1%	0.003
JP Morgan Securities Inc.	409,777	2.9%	0.001
Lehman Brothers Inc.	389,013	2.7%	0.017
Lynch, Jones & Ryan Inc.	376,128	2.6%	0.040
Bear Stearns & Co. Inc.	299,998	2.1%	0.010
Citigroup Global Markets Inc.	292,008	2.1%	0.004
Broadcourt Capital Corp.	280,695	2.0%	0.044
Banc of America Securities LLC	224,655	1.6%	0.023
Instinet Corp	215,614	1.5%	0.016
Union Bank Switzerland Securities	199,550	1.4%	0.031
Pershing Securities Ltd	196,128	1.4%	0.004
Credit Lyonnais Securities	192,933	1.4%	0.003
Salomon Brothers International Ltd	178,718	1.3%	0.011
Banco Santander	163,867	1.2%	0.000
Liquidnet Inc.	150,704	1.1%	0.021
ING Barings Corp.	147,212	1.0%	0.005
Weeden & Co.	141,350	1.0%	0.037
Jones & Associates	126,176	0.9%	0.035
Others	4,715,099	33.2%	0.003
Totals	$14,216,572	100%	$ 0.003

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, 2005, the PRIT Fund earned approximately $1.5 million from the commission recapture program.

SCHEDULE OF PRIT MANAGEMENT FEES
Fiscal Year Ended June 30, 2005

		2005	% total
Investment Management Fees by Asset Class:		($000s)	
Domestic Equity	$	16,597	16.0%
International Equity		12,727	12.3%
Fixed Income		5,321	5.1%
High Yield Debt		7,514	7.3%
Emerging Markets Equity		13,147	12.7%
Real Estate		24,122	23.3%
Timber		13,840	13.4%
Alternative Investments		595	0.6%
Total Investment Management Fees		93,863	90.8%
Investment Advisory (Consulting) Fees		2,815	2.7%
Custodian Fees		2,800	2.7%
Other Administrative Fees		3,947	3.8%
Total Management Fees charged to PRIT	$	103,425	100%

SCHEDULE OF RETIREMENTS SYSTEMS BY INVESTMENT

Accounts Opened to Segmentation at June 30, 2005

Retirement System	Assets ($000s) 6/30/05	Initial Investment date	General Allocation	Domestic Equity	International Equity	Emerging Markets	Fixed Income	Real Estate	Alternative Investments
Amesbury	$ 3	01/01/05							X
Andover	5,198	03/01/04						X	
Barnstable County	113,522	03/01/01		X					X
Belmont	4,396	04/30/89						X	X
Berkshire Regional	100,566	01/31/87	X						
Blue Hills	5,530	09/01/00	X						
Braintree	6,615	08/27/98						X	
Brookline	999	08/30/89	X						
Chelsea	3,651	03/01/04						X	
Chicopee	5,160	12/31/97						X	
Concord	20,771	05/31/90	X						
Dedham	68,501	05/31/88	X						
Dukes County	6,868	01/04/96	X		X			X	
Easthampton	20,922	12/31/99	X						
Fairhaven	27,972	06/30/86	X						
Framingham	153,964	11/30/86	X						
Franklin County	7,956	10/01/04			X			X	
Gardner	32,272	11/30/86	X						
Gloucester	3,865	1/1/2004						X	
Greenfield	2,392	01/31/87						X	
Hampden County	7,247	11/01/04						X	
Hampshire County	3,082	10/01/04						X	X
Hingham	55,906	04/30/86	X						
Hull	15,858	11/30/00	X						
Lawrence	2	01/01/05							X
Leominster	24,382	05/31/98					X		
Lowell	189,519	03/01/04	X						
Marblehead	68,510	11/30/93	X						
MassPort	25,930	12/31/99						X	X

SCHEDULE OF RETIREMENTS SYSTEMS BY INVESTMENT, cont.

Retirement System	Assets ($000s) 6/30/05	Initial Investment date	General Allocation	Domestic Equity	International Equity	Emerging Markets	Fixed Income	Real Estate	Alternative Investments
Medford	$ 6,462	1/1/2004						**X**	**X**
Milton	66,266	06/30/86	**X**						
Minuteman Tech	9,141	06/30/85	**X**						
Montague	17,426	06/30/86	**X**						
MWRA	1,540	01/31/88	**X**						
Needham	90,236	06/30/85	**X**						
New Bedford	9,638	03/31/92	**X**						
Newburyport	33,561	07/03/00	**X**						
Northbridge	15,685	12/31/87	**X**						
Plymouth	7,436	08/02/00						**X**	
Quincy	4,434	02/28/90	**X**						**X**
Reading	72,399	05/31/88	**X**						
Revere	73,330	09/30/94	**X**						
Saugus	47,408	06/30/86	**X**						
Shrewsbury	3,869	05/31/98						**X**	
State Employees'	16,469,124	07/01/84	**X**						
State Teachers'	18,231,084	01/01/97	**X**						
Stoneham	46,935	06/30/00	**X**						
Wakefield	71,783	06/30/85	**X**						
Webster	920	11/02/98						**X**	**X**
Wellesley	196	08/01/02							**X**
Weymouth	11,833	10/24/84						**X**	
Winchester	12,767	11/03/03					**X**		
Winthrop	25,570	01/01/05	**X**						
Woburn	9,603	11/30/95			**X**	**X**			
	$ 36,320,207								

INVESTMENT POLICY STATEMENT

The following are significant elements and related excerpts from the PRIM Board's investment policy statement approved September 22, 1998. The purpose of the statement is to delineate the investment policy and guidelines and to establish the overall investment strategies and discipline of the PRIM Board. This policy is intended to allow for sufficient flexibility to capture investment opportunities, yet provide parameters that ensure prudence and care in the execution of the investment program. This policy is issued for the guidance of fiduciaries, including Trustees, staff professionals, investment mangers, custodians, and investment consultants, for managing the assets of the PRIT Fund. The policy is intended to provide a foundation from which to oversee the management of the Fund in a prudent manner.

A. Investment Objectives

PRIM's overall objective is to achieve the highest level of investment performance that is compatible with its risk tolerance and prudent investment practices. Because of the long-term nature of the Commonwealth's pension liabilities, PRIM maintains a long-term perspective in formulating and implementing its investment policies, and in evaluating its investment performance. Investment performance is measured by three integrated long-term objectives: 1) the actuarial target rate of return, 2) the investment policy benchmark, and 3) peer universe comparisons.

The *actuarial target rate of return* is the key actuarial assumption affecting future Commonwealth funding rates and pension liabilities. Investment performance that exceeds or underperforms the target rate may materially impact future funding rates and liabilities. The PRIM Board seeks to have a long term investment performance that will reasonably exceed its actuarial target rate of return of 8.25%.

The *investment policy benchmark* is calculated by applying the investment performance of the asset class benchmarks to the Fund's asset allocation targets. The investment policy benchmark permits the Board to compare the Fund's actual performance to a passively managed proxy, and to measure the contribution of active investment management and policy implementation.

PRIM also compares its total fund performance to appropriate public plan sponsor *comparison universes*. A universe comparison permits PRIM to compare its performance to large statewide public and other pension plans. (While PRIM seeks to rank consistently in the top half of comparable public pension funds, the Board recognizes that other funds may have investment objectives and risk tolerances that differ substantially from PRIM's.)

PRIM expects to meet or exceed these objectives over its long-term investment horizon. Over shorter periods, the expected volatility of markets and unique objectives of PRIM relative to other pension plans may not favor PRIT's strategic investment policies.

B. Asset Allocation Plan

The PRIM Board recognizes that over the long-term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. The Asset Allocation Plan embodies the Board's decisions about what proportions of the Fund shall be invested in domestic and international equity and fixed income securities, real estate, timber, absolute return, alternative investments, and, where appropriate the various sub-asset classes of each. At reasonable intervals of not more than three to five years, the Board will undertake a comprehensive review of its Asset Allocation Plan and its underlying assumptions, including: the Commonwealth's current and projected pension assets and liabilities; long-term capital markets rate of return assumptions; and the Board's risk tolerances. The comprehensive review will identify: a reasonable time horizon and investment strategy for matching assets and liabilities; a fund level total return target; and an optimal allocation among available asset classes and sub-asset classes. The Board shall examine the Asset Allocation Plan annually, and shall consider adjustments to the Plan as may be appropriate given the Plan's long-term nature and objectives.

The PRIM Board conducted an asset/liability study in 2003 to determine the optimum long-term asset allocation for the PRIT Fund, using the most recent Massachusetts Public Employee Retirement Administration Commission (PERAC) valuation report, which estimated an 81.1% funded ratio. The most recent PERAC valuation report (1/1/05) estimates a 72.3% funded ratio. The PRIM Board will be embarking on its next tri-annual comprehensive review during fiscal year 2006.

C. Commission Recapture Policy

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

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

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

D. Rebalancing Policy

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

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

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

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

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

E. Proxy Voting Policy

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

Under the contractual arrangements between the Board and its international investment managers, the responsibility for voting proxies on the corporate shares owned is delegated to the international investment manager. The manager's policies and proxy votes are reviewed and regularly monitored by the Board. On April 1, 2005, the PRIM Board voted that the Staff work with its international managers and ISS to develop a process, to be implemented by January 1, 2006, whereby under contractual agreements between the Board and its international separate account investment managers, the responsibility for voting proxies be retained by the Board.

The purpose of this policy is to outline the general principles applied by the Board in voting proxies. The Board recognizes that in applying these general rules exception will apply. The Executive Director and staff will vote in accordance with their best judgment in each circumstance.

The PRIM Board should periodically review the PRIM Board Proxy Voting Policy to ensure that it contains appropriate guidance for staff in determining how votes will be cast on a variety of matters and the underlying rationale for such determination.

The main goal in voting any proxy question is to enhance the value of the security. PRIM staff will not vote the proxies in a manner that would reduce the value of shares owned by PRIT.

F. Economically Targeted Investment Program

PRIM recognizes its obligations under Massachusetts law include a responsibility to seek out investment opportunities that will benefit the economic climate of the Commonwealth as a whole, provided that such investments are consistent with the Board's obligations to the members and beneficiaries of its participating retirement systems. (See M.G.L. ch. 32, sec. 23(2A)(h)) Accordingly, in cases where investment characteristics, including returns, risk, liquidity, compliance with allocation policy, and others, are equal, PRIM will favor those investments that have a substantial, direct and measurable benefit to the economy of the Commonwealth.

Such Economically Targeted Investments ("ETI's") must meet the following criteria:

1. Investments must target risk-adjusted, market-rate returns and provide net returns equivalent to or higher than other available investments, at commensurate levels of risk. Economic or social benefits will not justify a lower return on any PRIM investment. When evaluating ETI opportunities, PRIM will discount projected returns for any subsidies, deferral of income, higher risk levels, and other concessions to reach a real rate of return for comparison with other ETI and non-ETI investment alternatives. Similarly, ETI benefits will not justify higher investment risk. However, where appropriate, the PRIM staff, its managers, and its consultants will actively seek out and develop guarantees, third party recourse, hedging, and other acceptable and customary risk management vehicles to reduce or eliminate risk in ETI investments.

2. Investments must not exceed a reasonable weighting in the portfolio, including tracking the degree of exposure to the Massachusetts economy and ensuring appropriate geographic diversification. Investments should maintain the overall portfolio's compliance with its asset allocation strategy. ETI benefits will not justify deviation from the Asset Allocation Plan adopted by the PRIM Board.

3. Investments should be placed with an experienced and capable manager through an objective and transparent process. Investments should be managed by qualified discretionary investment managers. PRIM will not make any direct investments.

4. Investments should target a "capital gap" where there are likely to be underserved markets.

5. Investments must be tracked (both investment performance and collateral benefits) and managed with the same rigor and discipline imposed on other investments. Investments should be reviewed and monitored by PRIM staff and consultants without disproportionate expenditure of time and resources.

Statistical Section

Five Year Summary of Operations

For the year ended June 30, 2005

Summary of changes in pooled net assets:	June 30 *Amounts in Thousands*				
Additions:	**2005**	**2004**	**2003**	**2002**	**2001**
Contributions	984,530	1,142,334	991,432	954,450	766,354
Net investment income	4,212,098	5,309,069	947,539	(2,021,891)	(2,219,384)
Total additions	5,196,628	6,451,403	1,938,971	(1,067,441)	(1,453,030)
Deductions:					
Redemptions	1,516,421	1,705,482	1,329,325	1,075,765	652,500
Change in pooled net assets	3,680,207	4,745,921	609,646	(2,143,206)	(2,105,530)
Net assets held in trust for pool participants:					
Balance, beginning of year	32,640,000	27,894,079	27,284,433	29,427,639	31,533,169
Balance, end of year	36,320,207	32,640,000	27,894,079	27,284,433	29,427,639

Financial Highlights

For the year ended June 30, 2005

	General Allocation Account	Domestic Equity Account	International Equity Account	Emerging Markets Account(1)	Fixed Income Account	High Yield Account	Absolute Return Account	Alternative Investments Account	Alternative Investments Vintage Year 2000 Account
Net asset value, beginning of year	$ 138.92	122.31	134.98	153.03	148.02	132.70	47.94	136.32	80.37
Investment operations:									
Net investment income (loss)(2)	4.31	2.01	3.37	4.38	7.39	9.11	(0.02)	3.83	3.16
Net realized and unrealized gain (loss) on investments and foreign currency	13.63	7.34	15.34	52.02	3.59	10.89	3.20	18.51	14.43
Total from investment operations	17.94	9.35	18.71	56.40	10.98	20.00	3.18	22.34	17.59
Net asset value, end of year	$ 156.86	131.66	153.69	209.43	159.00	152.70	51.12	158.66	97.96
Ratios and supplementary data:									
Total return(3)	12.91%	7.64%	13.86%	36.85%	7.42%	15.07%	6.64%	16.39%	21.89%
Net assets, end of year ($'000s)	$ 35,997,752	11,807,278	5,657,388	2,054,560	5,866,994	2,707,704	1,726,208	881,979	647,335
Units outstanding, end of year ('000s)	229,491	89,680	36,812	9,810	36,898	17,732	33,767	5,559	6,608
Ratios to average net assets:									
Ratio of expenses, including indirect management fees	0.52%	0.16%	0.26%	0.68%	0.11%	0.42%	1.06%	1.40%	2.61%
Ratio of expenses, excluding indirect management fees	0.30%	0.16%	0.26%	0.68%	0.11%	0.32%	0.04%	0.11%	0.10%
Ratio of net investment income (loss)	2.96%	1.60%	2.32%	2.39%	4.80%	6.31%	(0.04)%	2.64%	3.64%

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

(1) Net investment income for the Emerging Markets Account includes all distributions from mutual funds, unit trusts, and other commingled investments. Expense ratios do not reflect expenses charged to underlying investments.

(2) Based on weighted average units outstanding.

(3) 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.

Financial Highlights, cont.

For the year ended June 30, 2005

	Alternative Investments Vintage Year 2001 Account	Alternative Investments Vintage Year 2002 Account	Alternative Investments Vintage Year 2003 Account	Alternative Investments Vintage Year 2004 Account(4)	Alternative Investments Vintage Year 2005 Account(5)	Core Real Estate Account	Noncore Real Estate Account	Timber Account
Net asset value, beginning of year	$ 91.51	61.87	81.14	$ 100.00	100.00	178.82	138.01	133.89
Investment operations:								
Net investment income (loss)(2)	6.91	(0.06)	0.59	(2.32)	—	13.16	8.87	1.80
Net realized and unrealized gain (loss) on investments and foreign currency	44.52	(1.97)	9.62	(70.83)	(20.63)	39.29	(51.62)	13.65
Total from investment operations	51.43	(2.03)	10.21	(73.15)	(20.63)	52.45	(42.75)	15.45
Net asset value, end of year	$ 142.94	59.84	91.35	$ 26.85	79.37	231.27	95.26	149.34
Ratios and supplementary data:								
Total return(3)	56.20%	(3.28)%	12.58%	(73.15)%	(20.63)%	29.33%	(30.98)%	11.54%
Net assets, end of year ($'000s)	$ 407,768	52,257	178,524	$ 13,401	910	2,950,852	822	1,316,382
Units outstanding, end of year ('000s)	2,853	873	1,954	499	11	12,759	9	8,815
Ratios to average net assets:								
Ratio of expenses, including indirect management fees	1.94%	4.28%	7.39%	53.44%	22.43%	1.58%	1.79%	1.50%
Ratio of expenses, excluding indirect management fees	0.09%	0.09%	0.09%	6.95%	—%	1.10%	0.03%	1.26%
Ratio of net investment income (loss)	6.39%	(0.09)%	0.70%	(6.95)%	—%	6.49%	6.46%	1.29%

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

(1) Net investment income for the Emerging Markets Account includes all distributions from mutual funds, unit trusts, and other commingled investments. Expense ratios do not reflect expenses charged to underlying investments.

(2) Based on weighted average units outstanding.

(3) 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.

(4) Alternative Investments Vintage Year 2004 Account commenced operations on September 10, 2004. Total return and ratios not annualized.

(5) Alternative Investments Vintage Year 2005 Account commenced operations on March 16, 2005. Total return and ratios not annualized.

Financial Highlights Ratios

For the years ended June 30, 2004-2001

	General Allocation Account	Domestic Equity Account	International Equity Account	Emerging Markets Account(1)	Fixed Income Account	High Yield Account	Alternative Investments Account
Ratios and supplementary data:							
2004							
Total return(2)	19.04%	22.21%	32.39%	34.01%	1.50%	12.84%	26.57%
Net assets, end of year ($'000s)	32,377,022	12,713,310	5,317,983	1,797,300	5,860,782	2,269,751	979,350
Units outstanding, end of year ('000s)	233,057	103,940	39,398	11,745	39,595	17,105	7,185
2003							
Total return(2)	0.53%	1.83%	(7.33)%	6.98%	12.62%	22.37%	(11.54)%
Net assets, end of year ($'000s)	27,653,710	11,709,050	4,679,366	1,057,285	5,835,043	980,991	1,015,387
Units outstanding, end of year ('000s)	250,376	116,992	45,898	9,258	40,013	8,342	9,428
2002							
Total return(2)	(9.24)%	(16.39)%	(8.12)%	(2.85)%	8.40%	(3.90)%	(12.42)%
Net assets, end of year ($'000s)	27,171,701	10,662,494	4,494,421	984,437	7,065,345	755,508	1,173,413
Units outstanding, end of year ('000s)	247,298	108,492	40,853	9,222	54,563	7,862	9,638
2001							
Total return(2)	(7.04)%	(10.93)%	(19.31)%	(28.53)%	9.91%	N/A	(13.17)%
Net assets, end of year ($'000s)	29,290,744	12,491,824	4,841,730	1,008,830	7,637,052	N/A	1,519,784
Units outstanding, end of year ('000s)	241,960	106,277	40,438	9,181	63,931	N/A	10,933
Ratios to average net assets:							
2004							
Ratio of expenses, including indirect management fees	0.42%	0.16%	0.21%	0.97%	0.13%	0.65%	1.65%
Ratio of expenses, excluding indirect management fees	0.23%	0.16%	0.21%	0.97%	0.13%	0.47%	0.15%
Ratio of net investment income (loss)	2.73%	1.41%	2.24%	1.90%	4.81%	4.97%	0.55%
2003							
Ratio of expenses, including indirect management fees	0.43%	0.19%	0.33%	0.57%	0.12%	0.59%	1.90%
Ratio of expenses, excluding indirect management fees	0.22%	0.19%	0.33%	0.57%	0.12%	0.38%	0.18%
Ratio of net investment income (loss)	2.98%	1.50%	2.42%	1.69%	5.18%	6.14%	0.37%
2002							
Ratio of expenses, including indirect management fees	0.43%	0.24%	0.51%	0.31%	0.11%	0.52%	1.75%
Ratio of expenses, excluding indirect management fees	0.25%	0.24%	0.51%	0.31%	0.11%	0.52%	0.29%
Ratio of net investment income (loss)	2.88%	1.10%	1.49%	1.29%	5.87%	6.63%	0.32%

Financial Highlights Ratios, cont.

For the years ended June 30, 2004-2001

	General Allocation Account	Domestic Equity Account	International Equity Account	Emerging Markets Account(1)	Fixed Income Account	High Yield Account	Alternative Investments Account
2001							
Ratio of expenses, including indirect management fees	0.38%	0.19%	0.56%	0.30%	0.16%	N/A	1.40%
Ratio of expenses, excluding indirect management fees	0.24%	0.19%	0.56%	0.30%	0.16%	N/A	0.22%
Ratio of net investment income (loss)	2.88%	0.95%	1.49%	0.69%	6.64%	N/A	0.23%

(1) Net investment income for the Emerging Markets Account includes all distributions from mutual funds, unit trusts, and other commingled investments. Expense ratios do not reflect expenses charged to underlying investments.

(2) Based on weighted average units outstanding.

Financial Highlights Ratios, cont.

For the years ended June 30, 2004-2001

	Vintage Year 2000 Account	Vintage Year 2001 Account	Vintage Year 2002 Account	Vintage Year 2003 Account	Core Real Estate Account	Noncore Real Estate Account	Timber Account
Ratios and supplementary data:							
2004							
Total return(2)	14.17%	22.29%	(29.93)%	(18.86)% 4	19.15%	1.84%	12.15%
Net assets, end of year ($'000s)	553,076	268,337	13,470	46,335	1,828,679	7,635	931,432
Units outstanding, end of year ('000s)	6,881	2,932	218	571,059	10,226	55,325	6,957
2003							
Total return(2)	(2.70)%	(9.26)%	(11.71)%	N/A	6.67%	(17.53)%	14.15%
Net assets, end of year ($'000s)	401,800	152,357	4,167	N/A	1,481,271	8,168	505,632
Units outstanding, end of year ('000s)	5,707	2,036	47	N/A	9,870	60	4,236
2002							
Total return(2)	(14.01)%	(15.59)%	N/A	N/A	8.87%	19.19%	4.58% 4
Net assets, end of year ($'000s)	270,656	68,394	N/A	N/A	1,700,053	21,335	55,999
Units outstanding, end of year ('000s)	3,741	829,299	N/A	N/A	12,082	129,843	535
2001							
Total return(2)	(15.62)%	(2.30)% 4	N/A	N/A	10.63%	10.37%	N/A
Net assets, end of year ($'000s)	199,925	19,012,705	N/A	N/A	1,618,384	32,633	N/A
Units outstanding, end of year ('000s)	2,376,463	194,593	N/A	N/A	12,522	236,710	N/A
Ratios to average net assets:							
2004							
Ratio of expenses, including indirect management fees	3.58%	3.84%	32.06%	11.52% 4	0.76%	0.46%	0.63%
Ratio of expenses, excluding indirect management fees	0.27%	0.31%	0.02%	0.01% 4	0.22%	0.03%	0.36%
Ratio of net investment income (loss)	0.68%	1.37%	(0.10)%	(0.26)% 4	7.69%	5.61%	0.95%
2003							
Ratio of expenses, including indirect management fees	5.75%	6.17%	14.44% 4	N/A	0.55%	1.10%	1.81%
Ratio of expenses, excluding indirect management fees	0.29%	0.56%	0.12% 4	N/A	0.04%	0.09%	1.53%
Ratio of net investment income (loss)	0.02%	(0.56)%	(14.43)% 4	N/A	7.79%	(7.24)%	2.45%
2002							
Ratio of expenses, including indirect management fees	8.18%	12.96%	N/A	N/A	0.43%	0.93%	0.24% 4
Ratio of expenses, excluding indirect management fees	0.97%	0.13%	N/A	N/A	(0.03)%	0.03%	0.01% 4
Ratio of net investment income (loss)	(0.86)%	(0.07)%	N/A	N/A	7.85%	3.55%	0.25% 4

Financial Highlights Ratios, cont.

For the years ended June 30, 2004-2001

	Vintage Year 2000 Account	Vintage Year 2001 Account	Vintage Year 2002 Account	Vintage Year 2003 Account	Core Real Estate Account	Noncore Real Estate Account	Timber Account
2001							
Ratio of expenses, including indirect management fees	8.27%	4.39% 4	N/A	N/A	0.75%	1.00%	N/A
Ratio of expenses, excluding indirect management fees	0.13%	0.05% 4	N/A	N/A	0.24%	0.02%	N/A
Ratio of net investment income (loss)	0.11%	(0.05)% 4	N/A	N/A	7.87%	6.64%	N/A

(1) Net investment income for the Emerging Markets Account includes all distributions from mutual funds, unit trusts, and other commingled investments. Expense ratios do n reflect expenses charged to underlying investments.

(2) Based on weighted average units outstanding.

(3) 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 ur between the beginning and end of the year.

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

Two Year Schedule of Broker Commissions

For the year ended June 30, 2005

Brokerage Firms	Fees Paid ($)	% total	Average per share	**Brokerage Firms**	Fees Paid ($)	% total	Average per share
		2005				**2004**	
Merrill Lynch	$ 1,424,263	10.0%	$ 0.002	Merrill Lynch	$ 947,008	8.5%	$ 0.001
Investment Technology Groups	759,004	5.3%	0.019	State Street Brokerage Services	841,989	7.6%	0.018
Credit Suisse	640,055	4.5%	0.015	Morgan Stanley & Co.	674,181	6.1%	0.001
UBS	619,865	4.4%	0.014	UBS	606,778	5.5%	0.001
Morgan Stanley & Co.	576,922	4.1%	0.007	Instinet Corp.	473,557	4.3%	0.019
State Street Brokerage Services	569,441	4.0%	0.013	Credit Suisse	461,929	4.2%	0.016
Goldman Sachs & Co.	487,983	3.4%	0.010	Goldman Sachs & Co.	348,824	3.1%	0.016
Deutsche Bank	439,414	3.1%	0.003	Lehman Brothers Inc.	308,362	2.8%	0.022
JP Morgan Securities Inc.	409,777	2.9%	0.001	Citigroup Global Markets Inc.	303,272	2.7%	0.001
Lehman Brothers Inc.	389,013	2.7%	0.017	Credit Lyonnais Securities	293,380	2.6%	0.003
Lynch, Jones & Ryan Inc.	376,128	2.6%	0.040	Deutsche Bank	272,587	2.5%	0.011
Bear Stearns & Co. Inc.	299,998	2.1%	0.010	Fidelity Capital Markets	231,110	2.1%	0.046
Citigroup Global Markets Inc.	292,008	2.1%	0.004	JP Morgan Securities Inc.	230,663	2.1%	0.002
Broadcourt Capital Corp.	280,695	2.0%	0.044	Pershing Securities Ltd	218,727	2.0%	0.005
Banc of America Securities LLC	224,655	1.6%	0.023	Investment Technology Groups	194,978	1.8%	0.017
Instinet Corp	215,614	1.5%	0.016	Union Bank Switzerland Securities	170,866	1.5%	0.019
Union Bank Switzerland Securities	199,550	1.4%	0.031	Broadcourt Capital Corp.	158,858	1.4%	0.050
Pershing Securities Ltd	196,128	1.4%	0.004	Weeden & Co.	147,358	1.3%	0.032
Credit Lyonnais Securities	192,933	1.4%	0.003	Bear Stearns & Co. Inc.	147,084	1.3%	0.005
Salomon Brothers International Ltd	178,718	1.3%	0.011	Lynch, Jones & Ryan Inc.	143,385	1.3%	0.023
Banco Santander	163,867	1.2%	0.000	Charles Schwab & Co	140,243	1.3%	0.036
Liquidnet Inc.	150,704	1.1%	0.021	Salomon Brothers International Ltd	127,155	1.1%	0.011
ING Barings Corp.	147,212	1.0%	0.005	Bridge Trading Co.	125,432	1.1%	0.046
Weeden & Co.	141,350	1.0%	0.037	ABN Amro	116,305	1.0%	0.002
Jones & Associates	126,176	0.9%	0.035	ING Barings Corp.	112,562	1.0%	0.000
Others	4,715,099	33.2%	0.003	Others	3,296,290	29.7%	0.002
Totals	$14,216,572	100%	$ 0.003	**Totals**	$ 11,092,883	100.0%	$ 0.002

* Broker commissions only available fiscal years ended June 30, 2005 and June 30, 2004

Five Year Schedule of Net Assets Under Management by Participant

June 30, 2005

(Amounts in Thousands)

Participant Retirement System	2005	2004	2003	2002	2001
Amesbury	$ 3	-	-	-	-
Andover	5,198	1,581	-	-	-
Barnstable	113,522	107,873	92,535	463	127
Belmont	4,396	3,450	997	859	849
Berkshire	100,566	88,165	73,631	71,083	75,105
Blue Hills	5,530	5,115	4,489	4,463	5,027
Braintree	6,615	5,115	4,293	4,024	3,697
Brookline	999	885	743	718	771
Chelsea	3,651	3,194	-	-	-
Chicopee	5,160	3,990	3,348	3,139	2,883
Concord	20,771	16,381	9,408	9,083	8,737
Dedham	68,501	61,229	52,048	50,385	53,960
Dukes County	6,868	5,709	4,512	4,586	4,674
Easthampton	20,922	18,179	14,893	14,253	15,049
Fairhaven	27,972	24,571	20,338	19,454	20,715
Framingham	153,964	137,954	117,961	116,219	58,927
Franklin County	7,956	-	-	-	-
Gardner	32,272	29,616	25,657	25,433	27,929
Gloucester	3,865	1,059	-	-	-
Greenfield	2,392	1,850	1,554	1,500	1,612
Hampden County	7,247	-	-	-	-
Hampshire County	3,082	-	-	-	-
Hingham	55,906	49,868	42,506	41,767	45,493
Hull	15,858	7,469	6,667	5,453	5,859
Lawrence	2	-	-	-	-
Leominster	24,382	26,209	28,080	28,067	25,592
Lowell	189,519	167,870	-	-	-
Marblehead	68,510	61,729	52,617	51,506	55,751
Massport	25,930	19,422	16,420	14,696	16,035
Medford	6,462	4,175	-	-	-
Milton	66,266	59,776	51,603	50,659	54,291
Minuteman	9,141	8,333	7,085	6,938	7,556
Montague	17,426	15,470	12,818	12,332	13,247
MWRA	1,540	1,364	1,146	1,106	1,188
Needham	90,236	81,811	72,844	73,201	81,558

Five Year Schedule of Net Assets Under Management by Participant, cont.

June 30, 2005

(Amounts in Thousands)

Participant Retirement System	2005	2004	2003	2002	2001
New Bedford	9,638	9,944	10,308	10,669	20,088
Newburyport	33,561	29,723	11,148	10,516	11,977
Northbridge	15,685	13,751	11,340	10,748	11,475
Plymouth	7,436	5,750	4,826	4,524	4,156
Quincy	4,434	3,525	2,939	2,912	3,152
Reading	72,399	64,793	55,002	53,907	58,128
Revere	73,330	66,381	58,485	57,330	63,232
Saugus	47,408	42,339	36,227	35,020	37,184
Shrewsbury	3,869	2,991	2,511	2,354	2,162
State - Employees'	16,469,124	14,931,861	12,961,502	12,810,139	13,931,523
State - Teachers'	18,231,084	16,225,658	13,837,762	13,491,049	14,501,692
Stoneham	46,935	41,639	36,286	35,414	38,767
Wakefield	71,783	64,330	54,381	52,790	56,895
Webster	920	704	2,940	2,804	2,995
Wellesley	196	49	3	-	-
Weymouth	11,833	98,172	84,868	84,628	89,756
Winchester	12,767	11,885	-	-	-
Winthrop	25,570	-	-	-	-
Woburn	9,603	7,093	5,358	8,242	7,825
PRIT Fund Total Net Assets	$ 36,320,207	32,640,000	27,894,079	27,284,433	29,427,639

Five Year Schedule of Investment Management, Consultants, and Other Management Fees

June 30, 2005

Investment Management Fees by Asset Class:	2005 ($'000s)	% total	2004 ($'000s)	% total	2003 ($'000s)	% total	2002 ($'000s)	% total	2001 ($'000s)	% total
Domestic Equity	$ 16,597	16.0%	$ 16,999	23.4%	$ 18,116	31.0%	$ 25,720	36.8%	$ 23,307	31.2%
International Equity	12,727	12.3%	10,004	13.8%	13,043	22.3%	21,987	31.5%	24,294	32.5%
Fixed Income	5,321	5.1%	6,230	8.6%	5,943	10.2%	9,706	13.9%	11,487	15.4%
High Yield Debt	7,514	7.3%	6,773	9.3%	3,109	5.3%	-	0.0%	-	0.0%
Emerging Markets Equity	13,147	12.7%	15,669	21.6%	5,096	8.7%	2,836	4.1%	3,202	4.3%
Real Estate	24,122	23.3%	2,896	4.0%	4,617	7.9%	(848)	-1.2%	4,186	5.6%
Timber	13,840	13.4%	2,662	3.7%	-	0.0%	-	0.0%	-	0.0%
Alternative Investments	595	0.6%	1,645	2.3%	1,488	2.5%	4,034	5.8%	2,413	3.2%
Total Investment Management Fees	93,863	90.8%	62,878	86.6%	51,412	87.8%	63,435	90.9%	68,889	92.2%
Investment Advisory (Consulting) Fees	2,815	2.7%	3,095	4.3%	2,675	4.6%	2,278	3.3%	1,798	2.4%
Custodian Fees	2,800	2.7%	2,675	3.7%	1,101	1.9%	1,100	1.6%	1,079	1.4%
Other Administrative Fees	3,947	3.8%	4,001	5.5%	3,335	5.7%	3,007	4.3%	2,988	4.0%
Total Management Fees charged to PRIT	$ 103,425	100%	$ 72,649	100%	$ 58,523	100%	$ 69,820	100%	$ 74,754	100%

Summary of Investment Consultants and Other Professional Services Providers

Investment Consultants:

New England Pension Consultants (NEPC), located in Boston, MA, is responsible for making recommendations regarding PRIM's Absolute Return strategy.

Cliffwater LLC, located in Santa Monica, California, is the general fund consultant and is responsible for making recommendations regarding asset allocation, manager selection and termination, and providing other advisory services that the Board may deem necessary. Cliffwater also works with the PRIM staff in monitoring the performance of managers and ensuring that managers are in compliance with their contractual guidelines.

The Townsend Group, located in Cleveland, Ohio, assists PRIM in monitoring its Real Estate and Timber Portfolios. Townsend makes recommendations with respect to manager selection, the divestment of non-core real estate assets, the development of an annual investment strategy, strategies that complement the Core Real Estate Separate Account Program, and the overall implementation of the Real Estate and Timber Investment Policy.

Morris and Morse Company, Inc., located in Boston, MA, assists PRIM with special projects relating to its Real Estate investments as well as general oversight of the real estate portfolio. Morris and Morse makes recommendations regarding acquisition and disposition decisions, portfolio debt structure, and new investment strategies.

Pathway Capital Management located in Irvine, California, serves as PRIM's alternative investments consultant. Pathway recommends a strategic plan for the annual deployment of assets committed to special equity (buy-outs) and venture capital, assists PRIM staff in performing due diligence with respect to selection of partnerships, and conducts a quarterly and annual review of the alternative investments portfolio.

Independent Auditors:

- **KPMG LLP, Boston, MA:** PRIM Board and PRIT Fund auditors
- **Deloitte & Touche LLP**, **Chicago, IL**: Real Estate and Timber portfolio auditors

Custodian Services:

- Mellon Trust, Everett, MA

Legal Counsel:

- Goodwin Procter LLC, Boston, MA
- Mintz, Levin, Cohn, Ferris, Glovsky & Popeo, P.C., Boston, MA

Five Year Schedule of Assets under Management by Investment Consultant (PRIT Capital Fund)

June 30, 2005

Amounts in Thousands

Capital Fund Accounts	2005	2004	2003	2002	2001
Domestic Equity	11,807,278	12,713,310	11,709,050	10,662,494	12,491,824
International Equity	5,657,388	5,317,983	4,679,366	4,494,421	4,841,730
Emerging Markets	2,054,560	1,797,300	1,057,285	984,437	1,008,830
Fixed Income	5,866,994	5,860,782	5,835,043	7,065,345	7,637,052
High Yield Debt (1)	2,707,704	2,269,751	980,991	755,508	-
Alternative Investments	2,182,174	1,860,566	1,573,711	1,512,463	1,738,722
Real Estate	2,951,674	1,836,314	1,489,439	1,721,388	1,651,017
Timber	1,316,382	931,432	505,632	55,999	-
Absolute Return	1,726,208	-	-	-	-

Primary Investment Consultant by Asset Class	2005	2004	2003	2002	2001
General Consultant	Cliffwater LLC	Wilshire Associates	Wilshire Associates	Wilshire Associates	Wilshire Associates
Domestic Equity	Cliffwater LLC	Wilshire Associates	Wilshire Associates	Wilshire Associates	Wilshire Associates
International Equity	Cliffwater LLC	Wilshire Associates	Wilshire Associates	Wilshire Associates	Wilshire Associates
Emerging Markets	Cliffwater LLC	Wilshire Associates	Wilshire Associates	Wilshire Associates	Wilshire Associates
Fixed Income	Cliffwater LLC	Wilshire Associates	Wilshire Associates	Wilshire Associates	Wilshire Associates
High Yield Debt	Cliffwater LLC	Wilshire Associates	Wilshire Associates	Wilshire Associates	Wilshire Associates
Alternative Investments	Pathway	Pathway	Pathway	Pathway	Pathway
Real Estate	Townsend Group	Townsend Group	Townsend Group	Townsend Group	Townsend Group
Timber	Townsend Group	Townsend Group	Townsend Group	Townsend Group	N/A
Absolute Return	NEPC	NEPC	N/A	N/A	N/A

(1) In July of 2001, the High Yield Account was created as a separate account. Prior to July 2001, high yield positions were included in the Fixed Income Account.

Five Year History: PRIT Capital Fund Asset Allocation

June 30, 2005

	Allocation %				
	2005	**2004**	**2003**	**2002**	**2001**
Domestic Equity	32.5%	39.0%	42.1%	39.1%	42.6%
International Equity	15.6%	16.3%	16.7%	16.5%	16.5%
Emerging Markets	5.7%	5.5%	3.8%	3.7%	3.4%
Fixed Income	16.2%	18.0%	21.0%	25.8%	23.7%
High Yield Debt	7.5%	7.0%	3.5%	2.9%	2.3%
Alternative Investments	6.0%	5.7%	5.7%	5.5%	5.9%
Real Estate	8.1%	5.6%	5.4%	6.3%	5.6%
Timber	3.6%	2.9%	1.8%	0.2%	0.0%
Absolute Return	4.8%	0.0%	0.0%	0.0%	0.0%