

# Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2020 and 2019

## Pension Reserves Investment Trust Fund

(A Component Unit of the Commonwealth of Massachusetts)



Deborah B. Goldberg, Treasurer and Receiver General, Chair  
Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer

# **Comprehensive Annual Financial Report**

For the Years Ended June 30, 2020 and 2019

## **Pension Reserves Investment Trust Fund**

(A Component Unit of the Commonwealth of Massachusetts)

**Prepared By**

**Pension Reserves Investment Management Board Staff**

## **For More Information**

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## *Introductory Section*





Pension Reserves Investment Management Board

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December 1, 2020

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

I am pleased to transmit the *Comprehensive Annual Financial Report* (CAFR) of the Massachusetts Pension Reserves Investment Trust Fund (the PRIT Fund) for the fiscal year ending June 30, 2020. The document that follows is the 16<sup>th</sup> consecutive CAFR produced in the PRIM Board's 36-year history. We hope that you will find the CAFR useful in understanding the performance and financial position of the PRIT Fund as of and for the fiscal year ended June 30, 2020.

The CAFR contains the basic financial statements presented in accordance with U.S. generally accepted accounting principles (GAAP) and the standards applicable to financial audits set forth by *Government Auditing Standards*. The CAFR and the basic financial statements are the responsibility of the PRIM Board. The fiscal year 2020 audit was conducted by KPMG LLP, a firm of licensed certified public accountants.

The CAFR is divided into four major sections:

**Introductory Section:** This section contains the letter of transmittal, the *Certificate of Achievement for Excellence in Financial Reporting* and outlines the PRIM Board's organizational structure.

**Financial Section:** This section contains the report of the independent auditors, Management's Discussion and Analysis (MD&A), the financial statements of the PRIT Fund, the notes to the financial statements and supporting schedules.

**Investment Section:** This section contains a summary of the PRIT Fund's investment strategy, investment policies, investment holdings, investment results and supporting tables and schedules.

**Statistical Section:** This section contains information regarding financial ratios of the PRIT Fund.

Within the financial section, the MD&A follows the independent auditors' report and provides an overview of the PRIT Fund's financial statements and financial results. The MD&A complements this letter of transmittal and should be read in conjunction with this letter. Responsibility for both the accuracy and completeness of the data and the contents of this report rests with the PRIM Board. The PRIM Board has implemented a system of internal controls designed to provide reasonable assurance that the financial statements are free from material misstatements, that all assets will be properly safeguarded and that transactions will be properly executed. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits to be derived. The objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.



**Profile of the PRIT Fund**

The PRIT Fund is a pooled investment trust fund established to invest the assets of the Massachusetts State Teachers' and Employees' Retirement Systems, and the assets of county, authority, district and municipal retirement systems. The PRIT Fund was created by the Legislature in 1983 (Chapter 661 of the Acts of 1983) with a mandate to accumulate assets through investment earnings to reduce the Commonwealth's unfunded pension liability, and to assist local participating retirement systems in meeting future pension obligations. The PRIT Fund merged with the Massachusetts State Teachers' and Employees' Retirement Systems (MASTERS) Trust in 1997, in accordance with Chapter 315 of the Acts of 1996.

The Massachusetts State Teachers', State Employees' and State-Boston/Teachers' Retirement Systems, and the State Retiree Benefits Trust Fund (SRBTF), are mandated by statute to invest all of their assets in the PRIT Fund. Other retirement systems may voluntarily invest all or part of their assets in the PRIT Fund. Furthermore, Chapter 84 of the Acts of 1996 explicitly granted retirement boards the ability to invest only in individual asset classes of the PRIT Fund through a segmentation program. See Note 1 of the financial statements for more information on the profile and background of the PRIT Fund.

The most recent Public Employee Retirement Administration Commission (PERAC) valuation report, dated October 17, 2019, calculated the Commonwealth's unfunded actuarial pension liability at \$44.0 billion. The PERAC valuation report estimates that, as of January 1, 2019, the pension liability is 56.3% funded using a target date of 2036. It should be noted that the unfunded actuarial pension liability is calculated on a calendar year basis.

The PRIM Board seeks to maximize the return on the PRIT Fund investments within acceptable levels of risk and cost for an approximately 60% funded public pension fund, by broadly diversifying its investment portfolio, capitalizing on economies of scale to achieve cost-effective operations and gaining access to high quality, innovative investment management firms. The PRIT Fund's Investment Policy Statement establishes investment objectives and policies designed to provide a framework for implementing investment strategy and oversight. A summary of the Investment Policy Statement is included in the Investment Section.

As of June 30, 2020, the PRIT Fund had approximately \$75.0 billion in net position compared to \$74.8 billion at the end of fiscal year 2019, which is an increase of \$150 million in net position. The PRIM Board contracts with a custodian bank to safeguard investment holdings and to ensure the proper settlement and recording of investment and cash transactions.

**Executive Director/ Chief Investment Officer Discussion**

During fiscal year 2020 (FY2020) the PRIT Fund net asset value grew \$150 million (2.4% gross, 2.0% net of fees) to \$75 billion and paid out \$1.3 billion in net redemptions (contributions less redemptions) to retirees despite a very difficult, volatile, and uncertain investment environment. The COVID-19 pandemic led to the sharpest sell-off in history when the S&P 500 fell 34% in 20 days in March. Since the March lows, the market has staged the fastest-ever recovery from a major correction, increasing nearly 60% in five months, despite significant global economic challenges, heightened geopolitical tensions, political discord, and social unrest. We believe the pandemic has caused severe economic damage, and the challenges the economy faces in restarting are enormous; it will likely take a long time to fully recover. In the meantime, we expect more

volatility, but we are confident that the carefully constructed, broadly diversified PRIT Fund will continue to perform well over the long term as it has consistently performed strongly in both up, and perhaps more importantly, down markets.

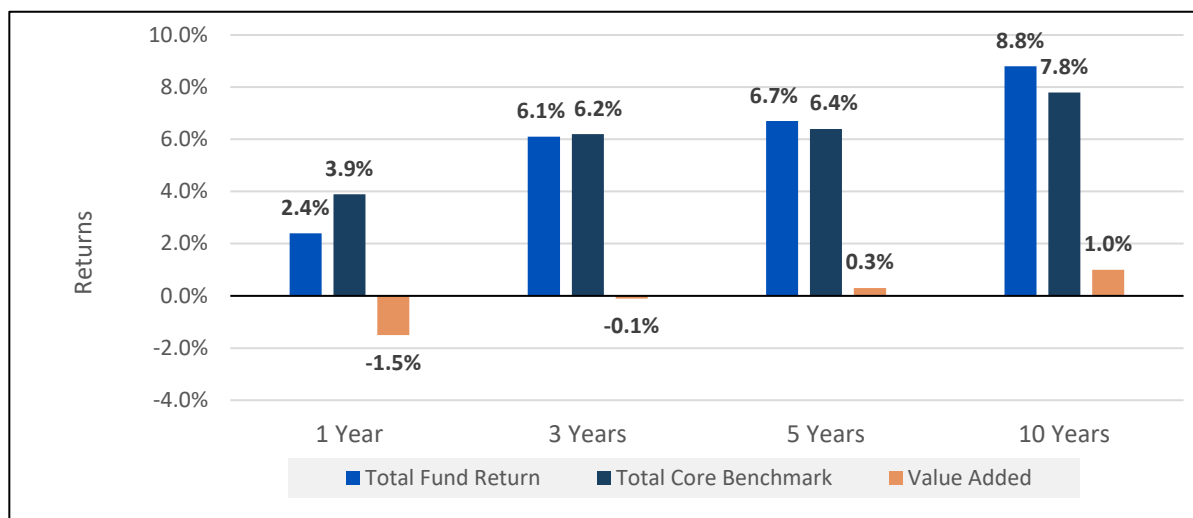
Following guidance from the Governor, Treasurer and other officials, the PRIM Board offices were shut down for more than three months starting in mid-March 2020 and during that time all staff was able to work remotely without difficulty. While the health and safety of our staff and their families is our number one priority, we are also committed to safely and gradually welcoming employees back to our offices as the guidance allows. We believe opening is an important step in optimizing our productivity, maintaining our collaborative culture, and encouraging innovation and efficiency at the PRIM Board. We could not be prouder of how our teams at the PRIM Board performed through all the challenges of this difficult situation.

The market correction in March 2020, when equities fell 34% in 20 days, was the fastest on record going back to the Great Depression, but it was not the deepest. The deepest correction in history was during the Great Depression when stocks fell 86% over 34 months. The March 2020 market correction lasted only 20 days, not 20 months, which is the average of the 14 major corrections since the Great Depression. The March correction was unusually sharp and steep, and the rebound, the bounce off the bottom, was also unusually fast and steep.

Short periods with extreme market volatility are difficult to navigate. As a result of our strategic, long-term asset allocation studies, we have gradually decreased the PRIT Fund's exposure to equities from a midpoint of 50% five years ago to 39% today. Lower exposure to equities contributed to our relatively strong performance in the March quarter, but the lower exposure to equities was a headwind in the June quarter when equities soared. For the fiscal year, the PRIT Fund's Core Fixed Income portfolio returned nearly 14%, providing downside protection when we needed it. An important component of Core Fixed Income is the U.S. Treasury STRIPs position, long-duration Treasuries, which returned more than 35% in FY2020, making it the top performer for the fiscal year. The PRIT Fund's second-best performing asset class was Private Equity, which returned 4.4% for the fiscal year. Notably, the PRIT Fund continues to have no liquidity issues, we are fully able to meet our benefit obligations.

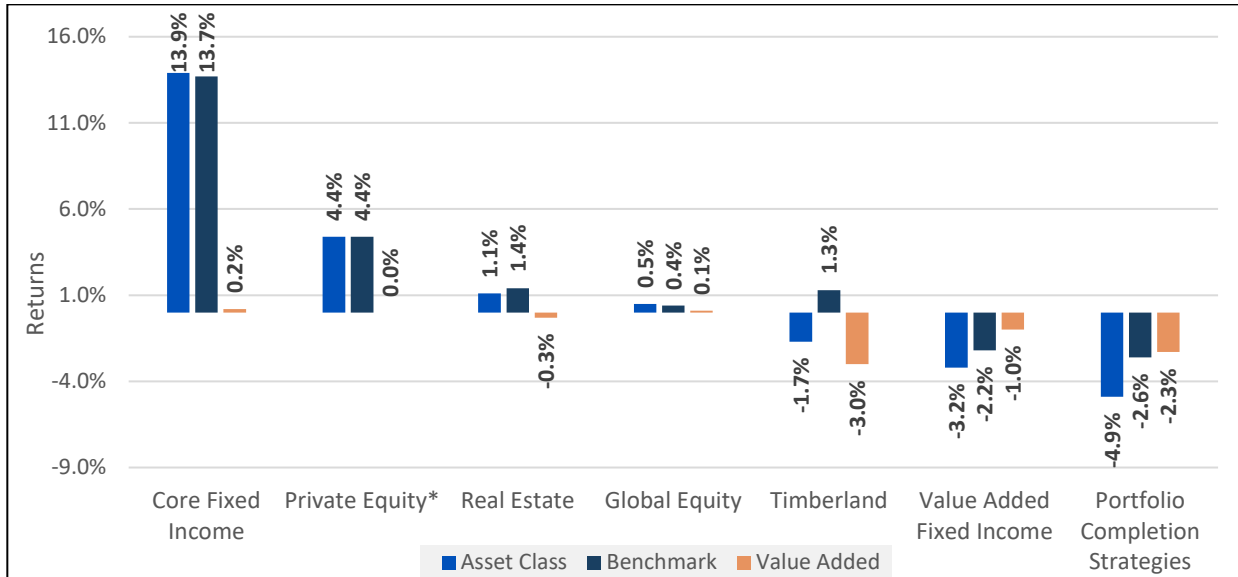
### ***Total PRIT Fund Returns (Gross of Fees)***

Annualized Returns as of June 30, 2020



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

One Year Ended June 30, 2020



\*Benchmark is actual performance

**PRIT Fund Periodic Table of Returns (Gross of Fees)**

Years Ended June 30, 2020

| 1 Year                                       | 3 Year                                     | 5 Year                                     | 10 Year                                    |
|--|--|--|--|
| CORE FIXED INCOME<br>13.9%                   | PRIVATE EQUITY<br>14.7%                    | PRIVATE EQUITY<br>15.4%                    | PRIVATE EQUITY<br>16.9%                    |
| PRIVATE EQUITY<br>4.4%                       | CORE FIXED INCOME<br>7.8%                  | REAL ESTATE<br>7.0%                        | REAL ESTATE<br>10.4%                       |
| REAL ESTATE<br>1.1%                          | GLOBAL EQUITY<br>5.5%                      | CORE FIXED INCOME<br>6.5%                  | GLOBAL EQUITY<br>9.5%                      |
| GLOBAL EQUITY<br>0.5%                        | REAL ESTATE<br>5.5%                        | GLOBAL EQUITY<br>6.4%                      | CORE FIXED INCOME<br>5.6%                  |
| TIMBER<br>(1.7%)                             | TIMBER<br>2.6%                             | VALUE-ADDED FIXED<br>INCOME<br>3.6%        | VALUE-ADDED FIXED<br>INCOME<br>5.3%        |
| VALUE-ADDED FIXED<br>INCOME<br>(3.2%)        | VALUE-ADDED FIXED<br>INCOME<br>2.3%        | TIMBER<br>3.3%                             | TIMBER<br>4.9%                             |
| PORTFOLIO COMPLETION<br>STRATEGIES<br>(4.9%) | PORTFOLIO COMPLETION<br>STRATEGIES<br>1.1% | PORTFOLIO COMPLETION<br>STRATEGIES<br>1.3% | PORTFOLIO COMPLETION<br>STRATEGIES<br>3.8% |

**Fiscal Year 2020 Highlights**

1. **PRIM Private Equity ranked #2** in private equity returns among 176 U.S. public pension funds based on 10-year performance. The PRIT Fund is the only fund that has been in the top 5 of all private equity portfolios in every year the *American Investment Council* has performed the study – including #1 rankings in 2019, 2018, 2015 and 2013.
2. For the 15<sup>th</sup> consecutive year, the PRIT Fund was awarded the Government Finance Officer Association's **Certificate of Achievement for Excellence in Financial Reporting** for the completeness and timeliness of our Comprehensive Annual Financial Report.
3. The PRIM Board's Executive Director/Chief Investment Officer is a founding member of the CFA Institute's Global Diversity and Inclusion Advisory Committee and is assisting the CFA Institute with the development of a Global Diversity and Inclusion Code of Conduct.
4. Staff identified and recommended, and the Board approved, \$5.4 billion in new investments during fiscal year 2020.
  - a. Committed to funding 14 Private Equity Funds totaling \$1.6 billion.
  - b. Completed RFP for U.S. Short-Term Fixed Income allocating \$1.5 billion to this new asset class.
  - c. Allocated \$600 million to minority and/or women owned investment managers.
  - d. Allocated \$450 million in Other Credit Opportunities, including an investment that utilizes the newly created TALF program.
  - e. Closed seven core real estate acquisitions totaling \$435.3 million.
  - f. Funded 10 Private Equity co-investments totaling \$210 million, an increase from FY 2019.
5. The Project SAVE Phase II Initiative deployed approximately \$174 million in lower fee, directly managed structures.
6. The Project SAVE Phase I initiative realized approximately \$187 million in annualized value. The original goal was \$100 million.
7. Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer, was awarded the Lifetime Achievement Award from Institutional Investor.
8. Michael McGirr, CFA, Senior Investment Officer – Private Equity, was invited to join the newly created Content Committee of the Institutional Limited Partners Association (ILPA). This committee is responsible for creating and curating content that will be beneficial for the ILPA's membership, which includes more than 500 international institutional private equity investors from peer public pensions, corporate pensions, endowments, and foundations.
9. Qingmei Li, CPA, Finance Reporting Manager, was awarded the Treasurer's 2019 Citation for Outstanding Performance. Those selected for this honor have made notable contributions to the office

of the Treasurer, its agencies, and the citizens of MA.

10. The PRIM Board recruited and on-boarded nine new full-time employees, all diverse regarding gender, race, or both.

### ***Acknowledgements***

The PRIM Board's success is inextricably linked to the diligence of our Board and its Chair, Treasurer Deborah B. Goldberg. We are truly privileged to have volunteers of such high caliber and professional achievement on the Board and its committees, and we recognize that our success is due in large part to their dedication, hard work, and expert oversight.

Very respectfully,



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



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Pension Reserves Investment Trust Fund  
Massachusetts**

For its Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

June 30, 2019

*Christopher P. Morrell*

Executive Director/CEO

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

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the PRIM Board for its comprehensive annual financial report for the fiscal year ended June 30, 2019. This was the 15<sup>th</sup> consecutive year that the PRIM Board has achieved this prestigious award. In order to be awarded a Certificate of Achievement, an entity must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

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

## **PRIM Board Trustees**

**Deborah B. Goldberg, Chair, Ex Officio Member**

State Treasurer & Receiver General, Commonwealth of Massachusetts

**Robert L. Brousseau, Elected Representative, Teachers' Retirement System**

Retired Teacher, Town of Wareham Public School System

**Ruth Ellen Fitch, Appointee of the State Treasurer**

Retired President and CEO, The Dimock Center

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

Retired Partner, Clough Capital

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

President, SEIU/NAGE Unit 6, Local 207

**Peter Monaco, Appointee of the Governor**

Managing Director, Raptor Group Holdings

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

Retired Educator, Millis Public Schools

**Carly Rose, Appointee of the Governor**

Public Safety Union Member

**Paul E. Shanley, Elected Representative, State Employees' Retirement System**

Director of Professional Liability, Amity Insurance, Quincy, MA

## Advisory Committees to the PRIM Board

### Investment Committee

**Deborah B. Goldberg, Chair**

Ex Officio Board Member

**Joseph C. Bonfiglio**

Massachusetts & Northern New England Laborers' District Council

**C. LaRoy Brantley**

Principal, Meketa Investment Group

**Michael Even, CFA**

Former President and CEO, Numeric Investors

**Constance M. Everson, CFA**

Managing Director, Capital Markets Outlook Group

**Ruth Ellen Fitch**

Board Member

**James B. G. Hearty**

Board Member

**Peter Monaco**

Board Member

**Philip Rotner**

Chief Investment Officer, Boston Children's Hospital

**Paul E. Shanley**

Board Member

**Glenn P. Strehle, CFA**

Treasurer Emeritus, MIT

**Timothy L. Vaill**

Former Chairman & CEO, Boston Private Financial

Current CFO, Anbaric Energy

### Real Estate Committee

**Jill S. Hatton, CRE, Chair**

Real Estate Investment Professional

**Deborah B. Goldberg**

Ex Officio Board Member

**Lydia Chesnick, Esq.**

Partner, Bernkopf Goodman LLP

**Robert Gifford**

Robert Gifford Advisory

**Anthony E. Hubbard, Esq.**

CVS Corporation

**Dr. Jack Lutz, PhD.**

Forest Research Group

**William F. McCall, Jr., CRE**

McCall & Almy, Inc.

**Garlan Morse, Jr., CRE**

Morris and Morse Company, Inc.

**Peter F. O'Connell**

Marina Bay Company

**Carly Rose**

Board Member



## Advisory Committees to the PRIM Board, continued

### Administration and Audit Committee

**Robert L. Brousseau, Chair**

Board Member

**Deborah B. Goldberg**

Ex Officio Board Member

**Patrick E. Brock**

Chairman, Hampshire County Retirement Board

**Joseph Connolly**

Managing Director, Strategic Development, TerraCap Management

**Karen E. Gershman, CPA**

Retired Partner and Chief Operating Officer, Health Advances

**James B. G. Hearty**

Board Member

**Theresa F. McGoldrick, Esq.**

Board Member

**Dennis J. Naughton**

Board Member

**Michele A. Whitham, Esq.**

Founder & Principal, Whitham Law LLC

### Compensation Committee

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

Founder & Principal, Whitham Law LLC

**Deborah B. Goldberg**

Ex Officio Board Member

**Robert L. Brousseau**

Board Member

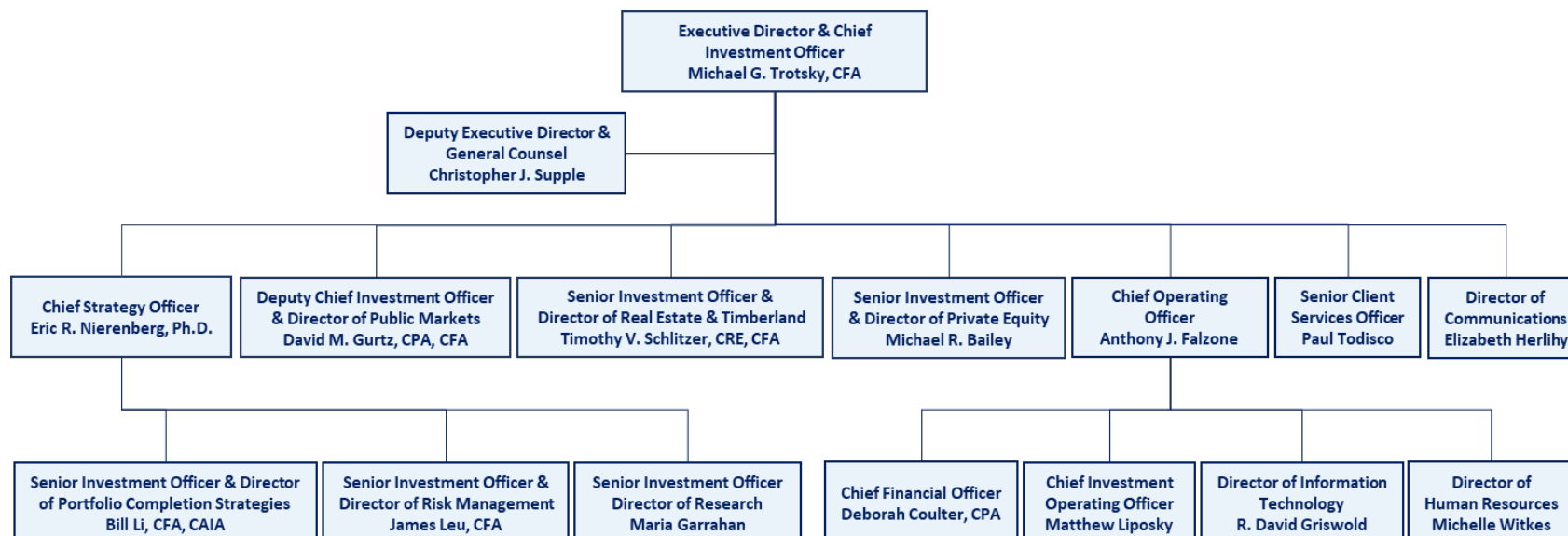
**Patrick E. Brock**

Chairman, Hampshire County Retirement Board

**Joseph Connolly**

Managing Director, Strategic Development, TerraCap Management

## PRIM Board Management Organizational Chart



## **PRIM Board Investment Advisors\***

**Aberdeen Asset Management Inc.**  
Portfolio Completion Strategies Advisory Services

**Callan Associates**  
Public Market Advisory Services

**Hamilton Lane**  
Private Equity Advisory Services

**International Woodland Company**  
Timberland Advisory Services

**NEPC, LLC**  
Asset Allocation Advisory Services

**NewAlpha Asset Management**  
Portfolio Completion Strategies Advisory Services

**The Townsend Group**  
Real Estate Advisory Services

\* List of investment managers is provided for each investment portfolio in the Investment Section on pages 66–88. Summary Schedule of Broker Commissions listed by brokerage firms is in the Investment Section on page 91.

## ***Financial Section***



KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

## **Independent Auditors' Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Pension Reserves Investment Trust Fund (the PRIT Fund), a component unit of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the PRIT Fund's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the pooled net position of the Pension Reserves Investment Trust Fund as of June 30, 2020 and 2019, and the changes in its pooled net position for the years then ended in accordance with U.S. generally accepted accounting principles.

### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 18-21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the PRIT Fund's basic financial statements. The Schedule of Pooled Net Position – Capital Fund and Cash Fund and Schedule of Changes in Pooled Net Position – Capital Fund and Cash Fund (collectively, the Schedules) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2020 on our consideration of the PRIT Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PRIT Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PRIT Fund's internal control over financial reporting and compliance.

KPMG LLP

December 1, 2020

Required Supplementary Information –  
Management's Discussion and Analysis

June 30, 2020 and 2019

(Unaudited)

This section presents management's discussion and analysis of the Pension Reserves Investment Trust Fund's (the PRIT Fund's) financial performance for the fiscal years ended June 30, 2020 and 2019 and should be read in conjunction with the financial statements, which follow this section.

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

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

### Overview of the Financial Statements

The financial statements include the statements of pooled net position and the statements of changes in pooled net position. They present the financial position of the PRIT Fund as of June 30, 2020 and 2019 and its financial activities for the years then ended. The notes to the financial statements provide further information that is essential to a full understanding of the financial statements. The notes describe the significant accounting policies of the PRIT Fund and provide detailed disclosures on certain account balances. The supplementary schedules of pooled net position and changes in pooled net position separately display the balances and activities of the Capital Fund and Cash Fund of the PRIT Fund.

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

### Financial Highlights

#### *Fiscal Year 2020*

- The net position of the PRIT Fund increased \$150 million during the year ended June 30, 2020. Total net position was \$75.0 billion at June 30, 2020, compared to \$74.8 billion at June 30, 2019.
- Net investment income for fiscal year 2020 was \$1.4 billion, compared to net investment income of \$4.0 billion for the prior fiscal year. The PRIT Fund returned 2.38%, gross of fees, in fiscal year 2020, compared to 6.12% in fiscal year 2019.
- Contributions to the PRIT Fund totaled \$3.0 billion during the year ended June 30, 2020, compared to \$3.2 billion during the year ended June 30, 2019.
- Redemptions from the PRIT Fund totaled \$4.3 billion during the year ended June 30, 2020, compared to \$4.2 billion during the year ended June 30, 2019.

(Continued)



Required Supplementary Information –  
Management's Discussion and Analysis

June 30, 2020 and 2019

(Unaudited)

*Fiscal Year 2019*

- The net position of the PRIT Fund increased \$3.0 billion during the year ended June 30, 2019. Total net position was \$74.8 billion at June 30, 2019, compared to \$71.8 billion at June 30, 2018.
- Net investment income for fiscal year 2019 was \$4.0 billion, compared to net investment income of \$6.4 billion for the prior fiscal year. The PRIT Fund returned 6.12%, gross of fees, in fiscal year 2019, compared to 9.97% in fiscal year 2018.
- Contributions to the PRIT Fund totaled \$3.2 billion during the year ended June 30, 2019, compared to \$2.7 billion during the year ended June 30, 2018.
- Redemptions from the PRIT Fund totaled \$4.2 billion in each of the years ended June 30, 2019 and 2018.

**Condensed Financial Information**

Summary balances and activities of the PRIT Fund as of and for the years ended June 30, 2020, 2019, and 2018 are presented below:

|  | June 30                |            |            |
|--|------------------------|------------|------------|
|  | 2020                   | 2019       | 2018       |
|  | (Dollars in thousands) |            |            |
| Summary of pooled net position:                  |                        |            |            |
| Assets:  |                        |            |            |
| Investments                                      | \$ 79,568,987          | 77,737,290 | 75,621,192 |
| Cash   | 177,151                | 230,363    | 169,376    |
| Securities lending collateral                    | 475,937                | 119,541    | 256,445    |
| Receivables and other assets                     | 1,397,891              | 1,104,847  | 1,188,043  |
| Total assets                                     | 81,619,966             | 79,192,041 | 77,235,056 |
| Liabilities:                                     |                        |            |            |
| Other liabilities                                | 5,876,067              | 3,942,977  | 4,884,830  |
| Securities lending obligations                   | 725,946                | 368,928    | 505,746    |
| Management fees payable to PRIM                  | 32,194                 | 44,498     | 42,838     |
| Total liabilities                                | 6,634,207              | 4,356,403  | 5,433,414  |
| Net position held in trust for pool participants | \$ 74,985,759          | 74,835,638 | 71,801,642 |

(Continued)

Required Supplementary Information –  
Management's Discussion and Analysis

June 30, 2020 and 2019

(Unaudited)

|   |                        | June 30    |            |
|---|------------------------|------------|------------|
|   | 2020                   | 2019       | 2018       |
|   | (Dollars in thousands) |            |            |
| Summary of changes in pooled net position:        |                        |            |            |
| Additions:  |                        |            |            |
| Contributions                                     | \$ 3,023,314           | 3,172,841  | 2,749,989  |
| Net investment income                             | 1,448,873              | 4,046,225  | 6,354,624  |
| Total additions                                   | 4,472,187              | 7,219,066  | 9,104,613  |
| Deductions:                                       |                        |            |            |
| Redemptions                                       | 4,322,066              | 4,185,070  | 4,153,412  |
| Change in pooled net position                     | 150,121                | 3,033,996  | 4,951,201  |
| Net position held in trust for pool participants: |                        |            |            |
| Balance, beginning of year                        | 74,835,638             | 71,801,642 | 66,850,441 |
| Balance, end of year                              | \$ 74,985,759          | 74,835,638 | 71,801,642 |

**The PRIT Fund Performance during the year ended June 30, 2020**

The PRIT Fund began fiscal year 2020 with net position of \$74.8 billion and ended the fiscal year with a net position of \$75.0 billion, representing a 0.20% increase. Net investment income for the year ended June 30, 2020 was \$1.4 billion, which when added to net participant redemptions (contributions less redemptions) of \$1.3 billion, resulted in an overall increase in net position of \$150 million.

For the year ended June 30, 2020, the PRIT Fund returned 2.38% gross of fees, lagging its benchmark of 3.91% by 153 basis points. The benchmark provides a measure of how well the PRIT Fund has implemented its asset allocation plan. It assumes that the PRIT Fund's actual allocation is identical to its target allocation and that all asset classes achieve index-like returns.

The asset classes of the PRIT Fund and related investment returns, gross of fees, for the year ended June 30, 2020 are as follows: Global Equity 0.54%; Core Fixed Income 13.92%; Value-Added Fixed Income -3.19%; Private Equity 4.43%; Real Estate 1.06%; Timberland -1.65%; Portfolio Completion Strategies -4.90%; and Overlay 7.02%.

The PRIT Fund underperformed its benchmark for the fiscal year ended June 30, 2020 but continues to outperform its benchmark over the five-year and ten-year periods and has returned an average of 9.21%, gross of fees, annually since January 1, 1985. According to the Trust Universe Comparison Service (TUCS) for Public Pension Funds, a widely-accepted peer ranking of public pension funds performance, the PRIT Fund ranked in the

(Continued)

Required Supplementary Information –  
Management's Discussion and Analysis

June 30, 2020 and 2019

(Unaudited)

second quartile of public pension plans with net position in excess of \$25 billion over the five-year and ten-year periods ended June 30, 2020.

**The PRIT Fund Performance during the year ended June 30, 2019**

The PRIT Fund began fiscal year 2019 with net position of \$71.8 billion and ended the fiscal year with a net position of \$74.8 billion, representing a 4.23% increase. Net investment income for the year ended June 30, 2019 was \$4.0 billion, which when added to net participant redemptions (contributions less redemptions) of \$1.0 billion, resulted in an overall increase in net position of \$3.0 billion.

For the year ended June 30, 2019, the PRIT Fund returned 6.12% gross of fees, lagging its benchmark of 6.58% by 46 basis points. The benchmark provides a measure of how well the PRIT Fund has implemented its asset allocation plan. It assumes that the PRIT Fund's actual allocation is identical to its target allocation and that all asset classes achieve index-like returns.

The asset classes of the PRIT Fund and related investment returns, gross of fees, for the year ended June 30, 2019 are as follows: Global Equity 4.25%; Core Fixed Income 8.33%; Value-Added Fixed Income 6.57%; Private Equity 18.51%; Real Estate 6.07%; Timberland 1.83%; Portfolio Completion Strategies 1.63%; and Overlay 1.48%.

**Other Information**

This financial report is designed to provide a general overview of the PRIT Fund's financial results. Additional information can be found on the PRIM Board's website at [www.mapension.com](http://www.mapension.com). Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Pension Reserves Investment Management Board, 84 State Street, Boston, Massachusetts 02109.

## Statements of Pooled Net Position

June 30, 2020 and 2019

(Dollars in thousands)

|   | 2020          | 2019       |
|---|---------------|------------|
| Assets:   |               |            |
| Investments, at fair value:                                 |               |            |
| Short-term  | \$ 2,069,658  | 1,844,046  |
| Fixed income  | 19,113,909    | 17,610,397 |
| Equity  | 29,267,619    | 29,954,299 |
| Timberland  | 2,755,084     | 2,875,480  |
| Private equity funds  | 8,399,154     | 8,345,095  |
| Real estate:  |               |            |
| Real estate properties                                      | 7,374,146     | 7,000,778  |
| Equity  | 1,253,533     | 1,620,020  |
| Real estate funds   | 89,781        | 76,438     |
| Other   | 39,998        | 52,348     |
| Total real estate   | 8,757,458     | 8,749,584  |
| Portfolio completion strategies:                            |               |            |
| Investment funds  | 2,138,112     | 2,529,840  |
| Equity  | 1,798,948     | 1,897,528  |
| Fixed income  | 2,945,226     | 1,825,098  |
| Cash and cash equivalents                                   | 1,771,931     | 1,573,611  |
| Agricultural investments                                    | 551,888       | 500,372    |
| Other   | —             | 31,940     |
| Total portfolio completion strategies                       | 9,206,105     | 8,358,389  |
| Total investments   | 79,568,987    | 77,737,290 |
| Cash  | 177,151       | 230,363    |
| Securities lending collateral                               | 475,937       | 119,541    |
| Interest and dividends receivable                           | 208,700       | 243,419    |
| Receivable for investments sold and other assets            | 455,035       | 400,210    |
| Securities sold on a when-issued basis                      | 573,661       | 383,787    |
| Foreign currency forward contracts                          | 160,495       | 77,431     |
| Total assets  | 81,619,966    | 79,192,041 |
| Liabilities:  |               |            |
| Payable for investments purchased and other liabilities     | 874,960       | 452,987    |
| Real estate debt and other liabilities                      | 1,581,527     | 1,434,633  |
| Securities lending obligations                              | 725,946       | 368,928    |
| Securities purchased on a when-issued basis                 | 973,584       | 718,888    |
| Foreign currency forward contracts                          | 160,486       | 90,803     |
| Management fees payable to PRIM                             | 32,194        | 44,498     |
| Securities sold short and other liabilities, at fair value: |               |            |
| Portfolio completion strategies                             | 2,126,309     | 1,245,666  |
| Fixed income  | 159,201       | —          |
| Total securities sold short and other liabilities           | 2,285,510     | 1,245,666  |
| Total liabilities   | 6,634,207     | 4,356,403  |
| Net position held in trust for pool participants            | \$ 74,985,759 | 74,835,638 |

See accompanying notes to financial statements.

## Statements of Changes in Pooled Net Position

Years ended June 30, 2020 and 2019

(Dollars in thousands)

|  | 2020          | 2019       |
|--|---------------|------------|
| Additions:   |               |            |
| Contributions:   |               |            |
| State employees  | \$ 705,315    | 733,289    |
| State teachers   | 851,798       | 860,223    |
| Other participants   | 1,466,201     | 1,579,329  |
| Total contributions  | 3,023,314     | 3,172,841  |
| Net investment income:   |               |            |
| From investment activities:  |               |            |
| Net realized gain on investments and foreign currency transactions                     | 2,053,247     | 3,148,833  |
| Net change in unrealized depreciation on investments and foreign currency translations | (2,040,645)   | (516,330)  |
| Interest   | 400,228       | 437,885    |
| Dividends  | 772,458       | 815,586    |
| Timberland   | 13,390        | 35,701     |
| Private equity   | 85,645        | 99,730     |
| Portfolio completion strategies  | 24,238        | (110,407)  |
| Real estate:   |               |            |
| Income   | 521,679       | 516,145    |
| Expenses   | (218,631)     | (221,300)  |
| Total real estate  | 303,048       | 294,845    |
| Income from investment activities  | 1,611,609     | 4,205,843  |
| Investment management and other management fees  | (169,898)     | (167,867)  |
| Net income from investment activities  | 1,441,711     | 4,037,976  |
| From securities lending activities:  |               |            |
| Securities lending income  | 8,203         | 9,510      |
| Securities lending expenses  | (1,041)       | (1,261)    |
| Net income from securities lending activities  | 7,162         | 8,249      |
| Total net investment income  | 1,448,873     | 4,046,225  |
| Total additions  | 4,472,187     | 7,219,066  |
| Deductions:  |               |            |
| Redemptions:   |               |            |
| State employees  | 1,454,457     | 1,445,514  |
| State teachers   | 1,649,331     | 1,666,258  |
| Other participants   | 1,218,278     | 1,073,298  |
| Total deductions   | 4,322,066     | 4,185,070  |
| Net increase in pooled net position  | 150,121       | 3,033,996  |
| Net position held in trust for pool participants:                                      |               |            |
| Balance, beginning of year   | 74,835,638    | 71,801,642 |
| Balance, end of year   | \$ 74,985,759 | 74,835,638 |

See accompanying notes to financial statements.

## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

**(1) Description of the Pension Reserves Investment Trust Fund****(a) General**

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

A nine-member Board of Trustees governs the PRIM Board. The Trustees include: (1) the Governor, ex officio, or his designee; (2) the State Treasurer, ex officio, or his designee who shall serve as Chair of the PRIM Board; (3) a private citizen experienced in the field of financial management appointed by the State Treasurer; (4) an employee or retiree who is a member of the State Teachers' Retirement System, elected by the members of such system for a term of three years; (5) an employee or retiree who is a member of the State Employees' Retirement System, elected by the members of such system for a term of three years; (6) the elected member of the State Retirement Board; (7) one of the elected members of the Teachers' Retirement Board chosen by the members of the Teachers' Retirement Board; (8) a person who is not an employee or official of the Commonwealth appointed by the Governor; and (9) a representative of a public safety union appointed by the Governor. Appointed members serve for a term of four years. The Board of Trustees has the authority to employ an Executive Director, outside investment managers, custodians, consultants, and others as it deems necessary; to formulate policies and procedures; and to take such other actions as necessary and appropriate to manage the assets of the PRIT Fund.

The PRIM Board seeks to manage the PRIT Fund to ensure that pension assets are well invested so that current and future benefit obligations are adequately funded in a cost-effective manner. The PRIM Board therefore seeks to maximize the total return on investment within acceptable levels of risk and cost for an approximately 60% funded public pension fund. Under current law, by the year 2040, the PRIT Fund plans to have grown, through annual payments in accordance with a legislatively approved funding schedule and through total return of the PRIT Fund, to an amount sufficient to meet the then-existing pension obligations of the Commonwealth. The Commonwealth has adopted

(Continued)

## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

a schedule of state pension appropriations that assumes a long-term actuarial rate of return for the PRIT Fund of 7.15%.

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

Purchasing Systems may invest all or a portion of their assets in the PRIT Fund and retain the ability to contribute and withdraw funds at their discretion; however, they are not entitled to state appropriations. Participating and Purchasing Systems share in the investment earnings of the PRIT Fund based on their proportionate share of net position. As of June 30, 2020, there were 37 Participating Systems and 62 Purchasing Systems invested in the PRIT Fund.

**(b) Investment Funds**

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

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

Assets contributed by retirement systems are initially deposited in the Cash Fund and then transferred to the Capital Fund. Funds transferred into the Capital Fund are generally invested in the General Allocation Account, which invests in all asset classes of the PRIT Fund in accordance with the PRIM Board's asset allocation plan and investment policy guidelines. The Capital Fund serves as the investment portfolio of the PRIT Fund and consists of the following accounts at June 30, 2020: General Allocation (holds units of all other accounts), Domestic Equity, International Equity, Emerging Markets Equity, Core Fixed Income, Value-Added Fixed Income, Real Estate, Timberland, Hedge Funds, Distressed Debt, Overlay, Real Assets, Other Credit Opportunities, Liquidating Portfolios,

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## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

Private Equity Investments, and Private Equity Investments Vintage Years 2000-2020. Vintage Year refers to the fiscal year in which the PRIT Fund made a commitment to invest in a private equity investment.

The Capital Fund consists of the following accounts at June 30, 2019: General Allocation (holds units of all other accounts), Domestic Equity, International Equity, Emerging Markets Equity, Core Fixed Income, Value-Added Fixed Income, Real Estate, Timberland, Hedge Funds, Distressed Debt, Overlay, Risk Premia, Real Assets, Other Credit Opportunities, Liquidating Portfolios, Private Equity Investments, and Private Equity Investments Vintage Years 2000-2019.

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

Chapter 84 of the Acts of 1996 permits Massachusetts retirement boards to purchase units in the individual investment accounts of the PRIT Fund as an alternative to investing in its General Allocation Account. This investment option, also referred to as "segmentation," was established by an amendment to the PRIM Board's Operating Trust Agreement in 1994 in response to requests from retirement boards wishing to invest in certain asset classes of the PRIT Fund. Purchasing Systems, as "segmented investors," may invest in one or more of the following accounts of the Capital Fund: Domestic Equity, International Equity, Emerging Markets, Core Fixed Income, Public Value Added Fixed Income, Real Estate, Hedge Funds, and Private Equity Vintage Year accounts. At June 30, 2020 and 2019, there were 44 segmented investors in the PRIT Fund. The remaining Purchasing Systems invested in the General Allocation Account.

**(2) Summary of Significant Accounting Policies****(a) Basis of Accounting and Financial Statement Presentation**

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

(Continued)



## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

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

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

In addition, certain amounts have been reclassified in the 2019 financial statements to conform to the 2020 presentation.

**(b) Investments**

The PRIM Board recognizes that over the long term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. The PRIM Board's asset allocation plan embodies its decisions to invest portions of the Capital Fund in global equity securities, core fixed income securities, value-added fixed income, real estate, timberland, private equity, portfolio completion strategies and, where appropriate, the various sub asset classes of each asset class. Statutes prohibit the PRIT Fund from investing in certain securities. The PRIM Board ensures that investment managers adhere to the requirements of Massachusetts General Laws.

Security transactions are recorded on the date the securities are purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to the PRIT Fund by a Participating or Purchasing System, the fair value of the securities on the transfer date. The calculation of realized gains (losses) is independent of the calculation of the net change in unrealized appreciation (depreciation) on investments. Realized gains and losses on investments sold in the current year include previously recorded unrealized amounts and are included in net realized gain on investments in the accompanying statements of changes in pooled net position.

The PRIM Board values investments in fixed income, money market, other short-term investments, and U.S. government agency obligations using independent pricing services. In determining the price, the services may reflect such factors as market prices, yields, maturities, and ratings, supplemented by dealer quotations. Investments in equity securities, including exchange-traded funds, traded on national securities exchanges are valued at the last daily sale price or, if no sale price is available, at the closing bid price. Securities traded on any other exchange are valued in the same manner or, if not so traded, on the basis of closing over-the-counter (OTC) bid prices. If no bid price exists, valuation is determined either by establishing the mean between the most recent published bid and asked prices or averaging quotations obtained from dealers, brokers, or investment bankers. Securities for which such valuations are unavailable are reported at their fair value as estimated in good faith by the PRIM Board based on information provided by the investment managers responsible for such investments. Fair values for investments in pooled investment vehicles (commingled funds), such as mutual and similar funds with a readily determinable fair value, are

(Continued)

## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

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

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

As described further below, certain qualifying investments may be measured using NAV as a practical expedient to estimate fair value unless as of the measurement date it is probable that the PRIT Fund's interest will be sold at an amount different than NAV. As of June 30, 2020 and 2019, the PRIT Fund had no plans or intentions to sell such investments at amounts other than NAV.

Investments in real estate represent the PRIT Fund's ownership interest in PRIT Core Realty Holdings LLC (the LLC). On October 19, 2001, the LLC was formed and was governed by an operating agreement entered into by the PRIM Board, as trustee of the PRIT Fund, as the sole member. The principal purpose of the LLC is to conduct the investment activities of the real estate program in a manner consistent with the PRIT Fund Declaration of Trust and any business or activities incidental to or in support of such investment activities.

The LLC holds investments in real estate properties, real estate fund investments, and Real Estate Investment Trust (REIT) securities. Investments in real estate properties are stated at fair value based on appraisals prepared by independent real estate appraisers or on estimated valuations determined by the PRIM Board assuming highest and best use of the assets. These estimated valuations are based on valuations prepared by the real estate investment managers under the general supervision of the PRIM Board. Generally, third-party appraisals are performed on each real estate property within 18 months of the date of acquisition and at least annually thereafter. Determination of fair value involves judgment because the actual fair value of a real estate investment can be determined only by negotiation between parties in a sales transaction. Due to the inherent uncertainty of valuation, fair values used may differ significantly from values that would have been determined had a ready market for the investments existed, and the differences could be material. Real estate fund investments are invested through limited partnerships and are recorded at fair value estimated by the PRIM Board, generally using the NAVs provided by general partners as a practical expedient. The NAVs provided by general partners are generally based on appraised value of underlying real estate investments, which considers inputs such as comparable sales, projected income, discount rate, and

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## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

capitalization rates. REIT securities are publicly traded securities and are valued in the same manner as the PRIT Fund's traded equity securities.

Investments in timberland are valued similarly to investments made by the LLC in real estate properties. Independent appraisals of timberland investments are performed annually.

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

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

**(c) Investment Income**

Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned. For the years ended June 30, 2020 and 2019, foreign taxes withheld of \$18,938 and \$23,200, respectively, have been netted against dividend income in the statements of changes in pooled net

(Continued)

## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

position. Real estate income includes dividends earned on REIT securities as well as cash distributions of operating income from investments in real estate properties. Timberland income includes cash distributions of operating income from investments in timberland properties. Private equity income is recorded on a cash distribution basis. Portfolio completion strategies income includes cash distributions of operating income from agricultural investments as well as investment income from managed accounts.

**(d) Foreign Currency Translation and Transactions**

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

Unrealized net currency gains and losses from valuing foreign currency-denominated assets and liabilities at month-end exchange rates are reflected within net unrealized appreciation (depreciation) on investments.

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

**(e) Derivative Instruments**

In accordance with GASB Statement No. 53, Accounting and Financial Reporting of Derivative Instruments, the PRIT Fund has recorded all of its derivative activity at fair value as investment instruments within equity, fixed income, portfolio completion strategies, and real estate investments and the related change in such instruments within the net change in unrealized appreciation (depreciation) on investments and foreign currency translations in the accompanying financial statements. As described in GASB Statement No. 72, Fair Value Measurement and Application (GASB 72), a credit valuation adjustment should be applied, when applicable, for nonperformance risk using the PRIT Fund's credit risk (liability) in determining fair value.

The PRIT Fund regularly trades derivative financial instruments with off-balance sheet risk in the normal course of its investing activities to manage exposure to certain risks within the fund. The PRIT Fund also enters into derivative transactions to gain exposure to currencies and markets where derivatives are the most effective instrument. The PRIT Fund's derivative financial instruments

(Continued)

## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

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

**(f) When-Issued Securities Transactions**

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

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

(Continued)

## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

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

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

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

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

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(Dollars in thousands)

The following tables present a summary of the fair value hierarchy of investments that are measured at fair value on a recurring basis at June 30, 2020 and 2019:

|                                    | 2020                          |  |   |   |                       | Unfunded commitments |
|------------------------------------|-------------------------------|--|---|---|-----------------------|----------------------|
|                                    | Fair value measurements using |  |   |   |                       |                      |
| Investments at fair value          | Total                         | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs or not redeemable (Level 3) | Net asset value (NAV) |                      |
| Short-term:                        |                               |  |   |   |                       |                      |
| Money market investments           | \$ 2,069,658                  | —  | 2,069,658                                     | —   | —                     |                      |
| Fixed income:                      |                               |  |   |   |                       |                      |
| U.S. government obligations (1)    | 7,611,309                     | 7,611,309  | —   | —   | —                     |                      |
| Domestic fixed income (2)          | 7,246,901                     | 2,156  | 7,196,499                                     | 48,246  | —                     |                      |
| International fixed income (3)     | 2,313,262                     | 130,569  | 2,159,788                                     | 22,905  | —                     |                      |
| Distressed debt (4)                | 1,197,253                     | —  | —   | —   | 1,197,253             | 778,627              |
| Other credit opportunities (5)     | 745,184                       | 57,684   | 520,802                                       | 134,985   | 31,713                | 154,575              |
|                                    | 19,113,909                    | 7,801,718  | 9,877,089                                     | 206,136   | 1,228,966             |                      |
| Equity:                            |                               |  |   |   |                       |                      |
| Domestic equity securities         | 14,836,528                    | 14,830,277   | —   | 6,251   | —                     |                      |
| International equity securities    | 14,431,091                    | 14,431,091   | —   | —   | —                     |                      |
|                                    | 29,267,619                    | 29,261,368   | —   | 6,251   | —                     |                      |
| Timberland                         | 2,755,084                     | —  | —   | 2,755,084   | —                     |                      |
| Private equity funds:              |                               |  |   |   |                       |                      |
| Special equity (6)                 | 6,333,659                     | —  | —   | —   | 6,333,659             | 5,171,500            |
| Venture capital (7)                | 2,012,141                     | —  | —   | —   | 2,012,141             | 540,564              |
| Natural resources (8)              | 53,354                        | —  | —   | —   | 53,354                | 46,207               |
|                                    | 8,399,154                     | —  | —   | —   | 8,399,154             |                      |
| Real estate:                       |                               |  |   |   |                       |                      |
| Real estate properties             | 7,374,146                     | —  | —   | 7,374,146   | —                     |                      |
| Real estate equity securities      | 1,253,533                     | 1,241,616  | 11,917  | —   | —                     |                      |
| Real estate funds (9)              | 89,781                        | —  | —   | —   | 89,781                | 260,441              |
| Other                              | 39,998                        | —  | —   | 39,998  | —                     |                      |
|                                    | 8,757,458                     | 1,241,616  | 11,917  | 7,414,144   | 89,781                |                      |
| Portfolio completion strategies:   |                               |  |   |   |                       |                      |
| Event-driven hedge funds (10)      | 733,342                       | —  | —   | —   | 733,342               |                      |
| Relative value hedge funds (11)    | 400,024                       | —  | —   | —   | 400,024               |                      |
| Equity long/short hedge funds (12) | 883                           | —  | —   | —   | 883                   |                      |
| Fund of funds (13)                 | 631,771                       | —  | —   | —   | 631,771               |                      |
| Distressed loan fund (14)          | 24,712                        | —  | —   | —   | 24,712                | 100,298              |
| Real assets funds (15)             | 347,380                       | —  | —   | —   | 347,380               | 665,888              |
| Investment funds                   | 2,138,112                     | —  | —   | —   | 2,138,112             |                      |
| Equity securities                  | 1,798,948                     | 1,768,070  | 15,582  | 15,296  | —                     |                      |
| Fixed income securities            | 2,945,226                     | 42   | 2,837,800                                     | 107,384   | —                     | 30,000               |
| Cash and cash equivalents          | 1,771,931                     | 1,441,861  | 330,070                                       | —   | —                     |                      |
| Agricultural investments           | 551,888                       | —  | —   | 551,888   | —                     |                      |
| Other                              | —                             | —  | —   | —   | —                     |                      |
|                                    | 9,206,105                     | 3,209,973  | 3,183,452                                     | 674,568   | 2,138,112             |                      |
| Total investments                  | \$ 79,568,987                 | 41,514,675   | 15,142,116                                    | 11,056,183  | 11,856,013            |                      |

(Continued)

## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

|   | 2020                          |   |   |   |                             |                         |
|---|-------------------------------|---|---|---|-----------------------------|-------------------------|
|   | Fair value measurements using |   |   |   |                             |                         |
| Investments at fair value                                 | Total                         | Quoted prices<br>in active<br>markets for<br>identical<br>assets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs or not<br>redeemable<br>(Level 3) | Net asset<br>value<br>(NAV) | Unfunded<br>commitments |
| Securities lending collateral:                            |                               |   |   |   |                             |                         |
| Money market investments                                  | \$ 475,937                    | —   | 475,937   | —   | —                           |                         |
| Total securities lending collateral                       | \$ 475,937                    | —   | 475,937   | —   | —                           |                         |
| Securities sold short and other liabilities at fair value |                               |   |   |   |                             |                         |
| Portfolio completion strategies:                          |                               |   |   |   |                             |                         |
| Equity securities   | \$ 473,588                    | 457,375   | 16,213  | —   | —                           |                         |
| Cash and cash equivalents                                 | 1,424,250                     | 25,373  | 1,398,877   | —   | —                           |                         |
| Fixed income securities                                   | 167,651                       | 25,751  | 141,900   | —   | —                           |                         |
| Other   | 60,820                        | —   | —   | 60,820  | —                           |                         |
|   | 2,126,309                     | 508,499   | 1,556,990   | 60,820  | —                           |                         |
| Fixed income:   |                               |   |   |   |                             |                         |
| Cash and cash equivalents                                 | 159,201                       | —   | 159,201   | —   | —                           |                         |
| Total securities sold short and other liabilities         | \$ 2,285,510                  | 508,499   | 1,716,191   | 60,820  | —                           |                         |

(Continued)



## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

| Investments at fair value          | 2019                          |  |   |   |                       | Unfunded commitments |
|------------------------------------|-------------------------------|--|---|---|-----------------------|----------------------|
|                                    | Fair value measurements using |  |   |   |                       |                      |
|                                    | Total                         | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs or not redeemable (Level 3) | Net asset value (NAV) |                      |
| Short-term:                        |                               |  |   |   |                       |                      |
| Money market investments           | \$ 1,844,046                  | —  | 1,844,046                                     | —   | —                     |                      |
| Fixed income:                      |                               |  |   |   |                       |                      |
| U.S. government obligations (1)    | 7,130,346                     | 7,130,346  | —   | —   | —                     |                      |
| Domestic fixed income (2)          | 6,378,162                     | 13,007   | 6,313,202                                     | 51,953  | —                     |                      |
| International fixed income (3)     | 2,601,248                     | 150,918  | 2,448,869                                     | 1,461   | —                     |                      |
| Distressed debt (4)                | 1,237,660                     | —  | —   | —   | 1,237,660             | 1,039,221            |
| Other credit opportunities (5)     | 262,981                       | —  | 109,033                                       | 132,148   | 21,800                | 260,238              |
|                                    | 17,610,397                    | 7,294,271  | 8,871,104                                     | 185,562   | 1,259,460             |                      |
| Equity:                            |                               |  |   |   |                       |                      |
| Domestic equity securities         | 14,433,454                    | 14,315,187   | 109,823                                       | 8,444   | —                     |                      |
| International equity securities    | 15,520,845                    | 15,502,593   | 1,984   | 16,268  | —                     |                      |
|                                    | 29,954,299                    | 29,817,780   | 111,807                                       | 24,712  | —                     |                      |
| Timberland                         | 2,875,480                     | —  | —   | 2,875,480   | —                     |                      |
| Private equity funds:              |                               |  |   |   |                       |                      |
| Special equity (6)                 | 6,158,085                     | —  | —   | —   | 6,158,085             | 4,933,040            |
| Venture capital (7)                | 2,064,020                     | —  | —   | —   | 2,064,020             | 537,340              |
| Natural resources (8)              | 122,990                       | —  | —   | —   | 122,990               | 46,760               |
|                                    | 8,345,095                     | —  | —   | —   | 8,345,095             |                      |
| Real estate:                       |                               |  |   |   |                       |                      |
| Real estate properties             | 7,000,778                     | —  | —   | 7,000,778   | —                     |                      |
| Real estate equity securities      | 1,620,020                     | 1,607,981  | 6,923   | 5,116   | —                     |                      |
| Real estate funds (9)              | 76,438                        | —  | —   | —   | 76,438                | 93,161               |
| Other                              | 52,348                        | —  | —   | 52,348  | —                     |                      |
|                                    | 8,749,584                     | 1,607,981  | 6,923   | 7,058,242   | 76,438                |                      |
| Portfolio completion strategies:   |                               |  |   |   |                       |                      |
| Event-driven hedge funds (10)      | 816,739                       | —  | —   | —   | 816,739               |                      |
| Relative value hedge funds (11)    | 319,943                       | —  | —   | —   | 319,943               |                      |
| Equity long/short hedge funds (12) | 1,721                         | —  | —   | —   | 1,721                 |                      |
| Fund of funds (13)                 | 810,250                       | —  | —   | —   | 810,250               |                      |
| Real assets funds (15)             | 393,344                       | —  | —   | —   | 393,344               | 702,805              |
| Risk premia funds (16)             | 187,843                       | —  | —   | —   | 187,843               |                      |
| Investment funds                   | 2,529,840                     | —  | —   | —   | 2,529,840             |                      |
| Equity securities                  | 1,897,528                     | 1,859,942  | 20,178  | 17,408  | —                     |                      |
| Fixed income securities            | 1,825,098                     | 95,016   | 1,614,006                                     | 116,076   | —                     | 207,500              |
| Cash and cash equivalents          | 1,573,611                     | 1,327,023  | 246,588                                       | —   | —                     |                      |
| Agricultural investments           | 500,372                       | —  | —   | 500,372   | —                     |                      |
| Other                              | 31,940                        | —  | —   | 31,940  | —                     |                      |
|                                    | 8,358,389                     | 3,281,981  | 1,880,772                                     | 665,796   | 2,529,840             |                      |
| Total investments                  | \$ 77,737,290                 | 42,002,013   | 12,714,652                                    | 10,809,792  | 12,210,833            |                      |

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|   | 2019                          |   |   |   |                             |                         |
|---|-------------------------------|---|---|---|-----------------------------|-------------------------|
|   | Fair value measurements using |   |   |   |                             |                         |
|   |                               | Quoted prices<br>in active<br>markets for<br>identical<br>assets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs or not<br>redeemable<br>(Level 3) | Net asset<br>value<br>(NAV) | Unfunded<br>commitments |
| Investments at fair value                                 | Total                         |   |   |   |                             |                         |
| Securities lending collateral:                            |                               |   |   |   |                             |                         |
| Repurchase agreements                                     | \$ 100,000                    | —   | 100,000   | —   | —                           |                         |
| Money market investments                                  | 19,541                        | —   | 19,541  | —   | —                           |                         |
| Total securities lending collateral                       | \$ 119,541                    | —   | 119,541   | —   | —                           |                         |
| Securities sold short and other liabilities at fair value |                               |   |   |   |                             |                         |
| Portfolio completion strategies:                          |                               |   |   |   |                             |                         |
| Equity securities   | \$ 584,519                    | 576,520   | 7,999   | —   | —                           |                         |
| Cash and cash equivalents                                 | 458,335                       | 5,565   | 452,770   | —   | —                           |                         |
| Fixed income securities                                   | 140,305                       | 28,960  | 111,345   | —   | —                           |                         |
| Other   | 62,507                        | —   | —   | 62,507  | —                           |                         |
| Total securities sold short and other liabilities         | \$ 1,245,666                  | 611,045   | 572,114   | 62,507  | —                           |                         |

- (1) Fiscal 2020 rates range from 0.00% to 7.50%, and maturities range from 2020 to 2050. Fiscal 2019 rates range from 0.00% to 8.13%, and maturities range from 2019 to 2049.
- (2) Fiscal 2020 rates range from 0.00% to 24.58%, and maturities range from 2020 to 2115. Fiscal 2019 rates range from 0.00% to 15.45%, and maturities range from 2019 to 2116.
- (3) Fiscal 2020 rates range from 0.00% to 33.36%, and maturities range from 2020 to 2117. Fiscal 2019 rates range from 0.00% to 68.47%, and maturities range from 2019 to 2115.
- (4) This represents investments in 35 and 38 private partnerships that invest directly in distressed debt investment opportunities at June 30, 2020 and 2019, respectively. These investments cannot be redeemed. Distributions are received as the partnerships liquidate the underlying assets of the funds. The life cycles of the private partnerships are typically 10 to 15 years.
- (5) This includes managed accounts and private partnerships that makes credit investments. Private partnerships typically have 10 to 15-year life cycles during which limited partners are unable to redeem their positions, but instead, receive distributions as the partnerships liquidate the underlying assets of the funds.

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## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

- (6) This includes investments in 202 and 200 private partnerships focused on acquisition financing, equity infusion capital, recovery investments, and special situations at June 30, 2020 and 2019, respectively. These private partnerships typically have 10 to 15-year life cycles during which limited partners are unable to redeem their positions, but instead, receive distributions as the partnerships liquidate the underlying assets of the funds.
- (7) This includes investments in 114 and 120 private partnerships focused on investing in companies in a range of stages of development from start-up/seed-stage, to early stage, to later-stage at June 30, 2020 and 2019, respectively. These investments are not redeemable. Distributions are received as the partnerships liquidate the underlying assets of the funds. The private partnerships typically have a life cycle of 10 to 15 years.
- (8) This represents investments in four liquidating private partnerships that make investments in the energy and natural resources industries at June 30, 2020 and 2019. Limited partners are unable to withdraw from the partnerships. Distributions are received as the partnerships liquidate the underlying assets.
- (9) This includes seven and six closed-end real estate funds that invest in U.S. real estate at June 30, 2020 and 2019, respectively. These investments are not redeemable. The funds have initial terms of eight to 11 years with extension of one to two years, and have a weighted average remaining life of approximately six years at June 30, 2020 and 2019.
- (10) This includes six and seven hedge funds that invest in event-driven strategies such as credit-event, equity-event, multi-event driven, and stressed/distressed credit positions at June 30, 2020 and 2019, respectively. Redemption frequency for these investments ranged from quarterly to annually with 60 to 90 days' notice.
- (11) This includes one hedge fund that invest in relative value strategies such as fixed income relative value positions at June 30, 2020 and 2019. Redemption frequency for this investment is quarterly with 45 days' notice.
- (12) This includes one and two liquidating hedge funds that invests in equity long/short strategies at June 30, 2020 and 2019, respectively. Distributions are received as the funds liquidate the underlying assets.
- (13) This includes one active hedge fund of funds manager, valued at \$615,170 and \$784,668, at June 30, 2020 and 2019, respectively, which invests in emerging hedge fund managers. Redemption frequency for this fund is monthly with 30 days' notice. The remaining balance represents

(Continued)

## Notes to Financial Statements

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(Dollars in thousands)

investments in five liquidating portfolios in which distributions are received as the funds liquidate the underlying assets.

- (14) This includes one fund that is invested in distressed loan at June 30, 2020. Investments in this fund is not redeemable and distributions are received as the fund liquidates the underlying assets.
- (15) This includes nine and eight funds that seeks to make investments in real assets at June 30, 2020 and 2019, respectively. Investments in these funds are generally not redeemable and distributions are received as the funds liquidate the underlying assets.
- (16) This includes one fund that is invested in a multi-strategy risk premia program at June 30, 2019. Redemption frequency for this fund is monthly with 30 days' notice.

**(4) Deposits and Investments Risks****(a) Custodial Credit Risk**

Custodial credit risk is the risk that in the event of bank failure, the PRIT Fund's deposits and investments may not be returned. The PRIM Board manages the PRIT Fund's exposure to custodial credit risk by requiring all relevant investment managers to hold investments in separate accounts with the PRIM Board's custodian (see note 8). The PRIM Board has not adopted a formal custodial credit risk policy.

Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk. The PRIT Fund maintains cash and cash equivalents with various major financial institutions. The combined account balances at a specific financial institution may periodically exceed federally insured limits. No losses have been incurred during the years ended June 30, 2020 and 2019.

**(b) Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of fixed income investments will adversely affect the fair value of an investment. While the PRIM Board does not have a formal policy relating to interest rate risk, the PRIM Board manages the PRIT Fund's exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its fixed income investment managers. The guidelines with each individual manager require that the effective duration of the domestic fixed income investment portfolio be within a specified percentage or number of years of the effective duration band of the appropriate benchmark index. For emerging markets fixed income investments, the portfolio must have duration with a band ranging from three to eight years. Effective duration is a measure of a fixed income investment's exposure to fair value changes arising from changes in interest rates. Effective duration makes assumptions regarding the most likely timing

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## Notes to Financial Statements

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(Dollars in thousands)

and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes, including callable options, prepayments, and other factors. These factors are reflected in the effective duration numbers provided in the following table. The PRIM Board compares the effective duration of a manager's portfolio to their relevant benchmark including Bloomberg Barclays Capital Aggregate index, US Treasury STRIPS 20+ Year index, Bloomberg Barclays Capital Treasury 1-3 Year index, Bloomberg Barclays Capital US TIPS index, Bloomberg Barclays Capital Inflation Linked Bonds index, S&P LSTA Leveraged Loan index, JP Morgan Global Emerging Markets Bond index, and the Intercontinental Exchange Bank of America Merrill Lynch (ICE BofAML) High Yield index.

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

| Investment                                      | 2020          |                                  | 2019       |                                  |
|---|---------------|----------------------------------|------------|----------------------------------|
|   | Fair value    | Effective weighted duration rate | Fair value | Effective weighted duration rate |
|   |               | (Years)                          |            | (Years)                          |
| Asset-backed securities                         | \$ 492,892    | 2.80                             | 523,378    | 2.59                             |
| Commercial mortgage – backed securities         | 235,826       | 2.65                             | 246,519    | 2.10                             |
| Commercial paper and CDs                        | 7,009         | 0.19                             | 12,620     | 0.14                             |
| Corporate bonds and other credits               | 7,185,588     | 2.63                             | 5,077,698  | 6.18                             |
| U.S. government bonds                           | 5,075,022     | 16.28                            | 4,552,758  | 16.03                            |
| U.S. government agencies                        | 25,634        | 3.39                             | 15,591     | 4.33                             |
| U.S. government TIPS                            | 2,576,366     | 7.91                             | 2,672,950  | 6.53                             |
| U.S. government mortgage – backed securities    | 1,477,714     | 2.33                             | 1,370,942  | 2.70                             |
| Global inflation linked bonds                   | 328,432       | 8.23                             | 287,770    | 9.18                             |
| Municipal bonds                                 | 54,793        | 8.49                             | 50,674     | 8.19                             |
| Pooled money market fund (1)                    | 2,122,322     | N/A                              | 1,844,156  | N/A                              |
| Other pooled funds (2)                          | 4,547,195     | N/A                              | 4,624,485  | N/A                              |
| Total fixed income and short-term investments   | \$ 24,128,793 |                                  | 21,279,541 |                                  |
| Securities lending collateral investments:      |               |                                  |            |                                  |
| Pooled money market fund (1)                    | 475,937       | N/A                              | 19,541     | N/A                              |
| Repurchase agreements (1)                       | —             | N/A                              | 100,000    | N/A                              |
| Total securities lending collateral investments | \$ 475,937    |                                  | 119,541    |                                  |

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

(2) Other pooled funds have a weighted average maturity of approximately two years at June 30, 2020 and 2019.

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(Dollars in thousands)

**(c) Credit Risk**

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

The PRIM Board does not have a formal investment policy governing credit risk; each fixed income securities investment manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. These guidelines vary depending on the manager's strategy and the role of its portfolio to the overall diversification of the PRIT Fund. The guidelines for the PRIT Fund's core fixed income portfolio establish the minimum credit rating for any security in the portfolio and the overall weighted average credit rating of the portfolio. For example, all securities held must generally be investment grade. The guidelines for the PRIT Fund's high yield fixed income portfolio establish a market value range of securities to be held with a specific minimum credit rating and the overall weighted average credit rating of the portfolio.

Credit risk for derivative instruments held by the PRIT Fund results from counterparty risk. The PRIT Fund is exposed to credit risk resulting from counterparties being unable to meet their obligations under the terms of the derivative agreements. See note 7 for more information on the PRIT Fund's derivative instruments.

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(Dollars in thousands)

The weighted average quality rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the U.S. government and other nonrated investments was BBB+ and BBB at June 30, 2020 and 2019. The following tables present the PRIT Fund's fixed-income securities credit ratings at June 30:

| Investment  | Total<br>fair value | 2020             |           |              |                     |           |           |
|---|---------------------|------------------|-----------|--------------|---------------------|-----------|-----------|
|   |                     | Investment grade |           |              | Noninvestment grade |           |           |
|   |                     | AAA              | AA+ to A- | BBB+ to BBB- | BB+ to B-           | CCC+ to D | Not rated |
| Asset-backed securities   | \$ 492,892          | 29,830           | 74,561    | 12,893       | 23,965              | 230,168   | 121,475   |
| Commercial mortgage-backed securities                             | 235,826             | 116,769          | 17,960    | 447          | 10,482              | 68,552    | 21,616    |
| Commercial paper and CDs  | 7,009               | —                | —         | —            | —                   | —         | 7,009     |
| Corporate bonds and other credits                                 | 7,185,588           | 940,499          | 1,073,650 | 1,475,524    | 1,508,109           | 397,213   | 1,790,593 |
| U.S. government agencies  | 25,634              | —                | 25,634    | —            | —                   | —         | —         |
| U.S. government mortgage-backed securities                        | 1,188,538           | 4,339            | 699,838   | 31,343       | 70,996              | —         | 382,022   |
| Global inflation linked bonds                                     | 328,432             | 43,713           | 213,020   | 66,506       | —                   | —         | 5,193     |
| Municipal bonds   | 54,793              | 1,195            | 46,372    | 2,892        | 2,579               | —         | 1,755     |
| Pooled money market fund  | 2,122,322           | —                | —         | —            | —                   | —         | 2,122,322 |
| Other pooled funds  | 4,547,195           | —                | —         | —            | —                   | —         | 4,547,195 |
| Total credit risk, fixed income, and short-term investments       | 16,188,229          | 1,136,345        | 2,151,035 | 1,589,605    | 1,616,131           | 695,933   | 8,999,180 |
| Fixed income investments explicitly backed by the U.S. government | 7,940,564           |                  |           |              |                     |           |           |
| Total fixed income and short-term investments                     | \$ 24,128,793       |                  |           |              |                     |           |           |
| Securities lending collateral investments:                        |                     |                  |           |              |                     |           |           |
| Pooled money market fund  | 475,937             | 475,937          | —         | —            | —                   | —         | —         |
| Total securities lending collateral investments                   | \$ 475,937          | 475,937          | —         | —            | —                   | —         | —         |

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(Dollars in thousands)

| Investment  | Total<br>fair value | 2019             |           |              |                     |           |           |
|---|---------------------|------------------|-----------|--------------|---------------------|-----------|-----------|
|   |                     | Investment grade |           |              | Noninvestment grade |           | Not rated |
|   |                     | AAA              | AA+ to A- | BBB+ to BBB- | BB+ to B-           | CCC+ to D |           |
| Asset-backed securities   | \$ 523,378          | 38,306           | 64,890    | 6,777        | 42,611              | 239,917   | 130,877   |
| Commercial mortgage-backed securities                             | 246,519             | 87,497           | 26,583    | 6,181        | 21,270              | 87,532    | 17,456    |
| Commercial paper and CDs  | 12,620              | —                | —         | —            | —                   | —         | 12,620    |
| Corporate bonds and other credits                                 | 5,077,698           | 181,086          | 839,570   | 1,195,634    | 1,603,918           | 302,885   | 954,605   |
| U.S. government agencies  | 15,591              | —                | 15,591    | —            | —                   | —         | —         |
| U.S. government mortgage-backed securities                        | 1,133,823           | 3,069            | 787,465   | —            | 1,001               | —         | 342,288   |
| Global inflation linked bonds                                     | 287,770             | 54,443           | 145,049   | 80,193       | —                   | —         | 8,085     |
| Municipal bonds   | 50,674              | 1,468            | 43,646    | 2,919        | 2,641               | —         | —         |
| Pooled money market fund  | 1,844,156           | —                | —         | —            | —                   | —         | 1,844,156 |
| Other pooled funds  | 4,624,485           | —                | —         | —            | —                   | —         | 4,624,485 |
| Total credit risk, fixed income, and short-term investments       | 13,816,714          | 365,869          | 1,922,794 | 1,291,704    | 1,671,441           | 630,334   | 7,934,572 |
| Fixed income investments explicitly backed by the U.S. government | 7,462,827           |                  |           |              |                     |           |           |
| Total fixed income and short-term investments                     | \$ 21,279,541       |                  |           |              |                     |           |           |
| Securities lending collateral investments:                        |                     |                  |           |              |                     |           |           |
| Pooled money market fund  | 19,541              | 19,541           | —         | —            | —                   | —         | —         |
| Repurchase agreements   | 100,000             | —                | 25,000    | —            | —                   | —         | 75,000    |
| Total securities lending collateral investments                   | \$ 119,541          | 19,541           | 25,000    | —            | —                   | —         | 75,000    |

(Continued)



## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

**(d) Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. Although the PRIM Board has no overall policy regarding foreign currency risk, the PRIM Board does manage the PRIT Fund's exposure to foreign currencies by establishing investment guidelines with each of its managers who invest in securities not denominated in U.S. dollars. These guidelines set maximum investment balances for any currency and/or country holdings must be within a certain percentage of predefined benchmarks. In addition, the PRIM Board's investment managers may actively manage exposure to foreign currencies through the use of forward foreign currency contracts. The following tables present the PRIT Fund's foreign currency exposures at June 30 (stated in U.S. dollars):

|   | 2020                            |            |              |                                 |                            |                        | Total      |
|---|---------------------------------|------------|--------------|---------------------------------|----------------------------|------------------------|------------|
|   | Cash and short-term investments | Equity     | Fixed income | Portfolio completion strategies | Private equity investments | Timberland investments |            |
| Australian Dollar                                     | \$ 3,399                        | 512,305    | 9,753        | (10,676)                        | —                          | 311,252                | 826,033    |
| British Pound   | 5,151                           | 1,743,073  | 249,018      | 52,412                          | 31,512                     | —                      | 2,081,166  |
| Canadian Dollar                                       | 6,026                           | 382,554    | 27,939       | 12,596                          | 1,805                      | —                      | 430,920    |
| Chinese Yuan  | 464                             | 164,777    | —            | 149,966                         | —                          | —                      | 315,207    |
| Euro  | 39,906                          | 2,540,748  | 312,824      | 140,626                         | 1,127,656                  | —                      | 4,161,760  |
| Hong Kong Dollar                                      | 7,506                           | 1,229,291  | —            | 6,289                           | —                          | —                      | 1,243,086  |
| Indian Rupee  | 1,350                           | 327,409    | —            | 1,491                           | —                          | —                      | 330,250    |
| Japanese Yen  | 46,549                          | 2,545,895  | 57,612       | 23,733                          | —                          | —                      | 2,673,789  |
| New Taiwan Dollar                                     | 2,059                           | 494,770    | —            | —                               | —                          | —                      | 496,829    |
| South Korean Won                                      | 7,158                           | 521,001    | 19,943       | 1,958                           | —                          | —                      | 550,060    |
| Swedish Krona   | 964                             | 458,495    | 5,302        | (280)                           | —                          | —                      | 464,481    |
| Swiss Franc   | 33,901                          | 612,789    | —            | (24)                            | —                          | —                      | 646,666    |
| Other foreign currencies                              | 37,040                          | 1,228,158  | 51,504       | 136,952                         | —                          | —                      | 1,453,654  |
| Total securities subject to foreign currency risk     | 191,473                         | 12,761,265 | 733,895      | 515,043                         | 1,160,973                  | 311,252                | 15,673,901 |
| International investments denominated in U.S. dollars | —                               | 1,669,826  | 1,579,367    | —                               | —                          | 193,525                | 3,442,718  |
| Total international investments and cash deposits     | \$ 191,473                      | 14,431,091 | 2,313,262    | 515,043                         | 1,160,973                  | 504,777                | 19,116,619 |

(Continued)

## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

|   | 2019                            |            |              |                                 |                            |                        | Total      |
|---|---------------------------------|------------|--------------|---------------------------------|----------------------------|------------------------|------------|
|   | Cash and short-term investments | Equity     | Fixed income | Portfolio completion strategies | Private equity investments | Timberland investments |            |
| Australian Dollar                                     | \$ 5,088                        | 555,570    | 9,874        | 4,794                           | —                          | 315,232                | 890,558    |
| Brazilian Real  | 525                             | 203,172    | 116,214      | 50,390                          | —                          | —                      | 370,301    |
| British Pound   | 18,626                          | 2,090,942  | 205,635      | 54,879                          | 11,675                     | —                      | 2,381,757  |
| Canadian Dollar                                       | 12,534                          | 435,372    | 21,952       | 54,693                          | 2,217                      | —                      | 526,768    |
| Euro  | 56,312                          | 2,629,559  | 305,133      | 212,829                         | 1,121,986                  | —                      | 4,325,819  |
| Hong Kong Dollar                                      | 7,248                           | 1,285,775  | —            | 1,193                           | —                          | —                      | 1,294,216  |
| Indian Rupee  | 762                             | 356,488    | (284)        | —                               | —                          | —                      | 356,966    |
| Japanese Yen  | 65,996                          | 2,486,262  | 46,336       | 45,370                          | —                          | —                      | 2,643,964  |
| New Taiwan Dollar                                     | 4,542                           | 387,441    | —            | —                               | —                          | —                      | 391,983    |
| South Korean Won                                      | 5,765                           | 512,949    | 24,763       | (3,898)                         | —                          | —                      | 539,579    |
| Swedish Krona   | 627                             | 398,176    | 5,741        | 227                             | —                          | —                      | 404,771    |
| Swiss Franc   | 29,243                          | 695,324    | —            | 804                             | —                          | —                      | 725,371    |
| Other foreign currencies                              | 36,227                          | 1,597,278  | 392,127      | 69,183                          | —                          | —                      | 2,094,815  |
| Total securities subject to foreign currency risk     | 243,495                         | 13,634,308 | 1,127,491    | 490,464                         | 1,135,878                  | 315,232                | 16,946,868 |
| International investments denominated in U.S. dollars | —                               | 1,886,537  | 1,473,757    | —                               | —                          | 203,136                | 3,563,430  |
| Total international investments and cash deposits     | \$ 243,495                      | 15,520,845 | 2,601,248    | 490,464                         | 1,135,878                  | 518,368                | 20,510,298 |

**(e) Concentration of Credit Risk**

The PRIM Board manages the PRIT Fund's exposure to concentration of credit risk by establishing guidelines with each investment manager that limit the percentage of investment in any single issue or issuer. The PRIT Fund has no investments, at fair value, that exceed 5% of the PRIT Fund's total investments as of June 30, 2020 and 2019.

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

In the normal course of business, the PRIT Fund enters into financial instrument transactions with off-balance-sheet risk. These financial instruments involve varying degrees and type of risks, including credit and market risks, which may be in excess of the amounts recognized in the Statements of Pooled Net Position. Futures and foreign currency exchange contracts represent commitments to purchase or sell foreign currencies at a future date and at a specified price. The PRIT Fund could be exposed to risks if the counterparties to the contracts are unable to meet the terms of their contracts or if the value of the foreign currency changes unfavorably.

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## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

**(5) Securities Lending Program**

In October 2014, the PRIM Board hired a third-party securities lending agent to launch a securities lending program on January 2, 2015. The program loans domestic and international equity, REIT, and fixed income securities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Securities on loan are secured with collateral ranging from 102% to 105% determined by the type of securities lent. Securities on loan are valued daily to maintain the collateral requirement and, where applicable, additional collateral is delivered. At June 30, 2020 and 2019, the PRIT Fund has no credit risk exposure to borrowers because the borrowers provided collateralization greater than 100% of the fair value of the securities on loan. The PRIT Fund cannot pledge or sell the collateral securities unless the lending agent defaults. The lending agent is required to indemnify the PRIT Fund in the event that it fails to return the securities on loan (and if the collateral is inadequate to replace the securities on loan) or if the lending agent fails to perform its obligations as stipulated in the agreement. There was no loss during the years ended June 30, 2020 and 2019 resulting from default by the lending agent.

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

Securities on loan are included in investments at fair value in the accompanying statements of pooled net position. As of June 30, 2020 and 2019, the fair value of securities on loan was \$659,549 and \$342,315, respectively, and the associated collateral received in cash was \$725,946 and \$368,928, respectively. Securities lending obligations to repay the collateral are reported in the accompanying statements of pooled net position. There was no security collateral or noncash collateral at June 30, 2020 and 2019. For the years ended June 30, 2020 and 2019, in accordance with the Securities Lending Agency Agreement, the PRIT Fund loaned \$250,000, of the cash collateral to the LLC to invest in real estate investments. Interest is paid monthly in arrears at a per annum rate equal to LIBOR. The loans mature on March 10, 2027 and can be prepaid at any time. As this is an inter-entity loan, it has been eliminated in consolidation. The fair value of the remaining cash collateral reinvested was \$475,937 and \$119,541 at June 30, 2020 and 2019, respectively, and is reported as securities lending collateral in the accompanying statements of pooled net position.

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## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

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

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

|                            | <u>2020</u>         | <u>2019</u>      |
|----------------------------|---------------------|------------------|
| Senior unsecured term loan | \$ 500,000          | 500,000          |
| Senior unsecured notes     | <u>525,000</u>      | <u>500,000</u>   |
| Total                      | <u>\$ 1,025,000</u> | <u>1,000,000</u> |

Scheduled long-term maturities of existing indebtedness at June 30, 2020 in each of the next five years and in the aggregate thereafter are as follows:

|                      | <u>Amount</u>       |
|----------------------|---------------------|
| Year ending June 30: |                     |
| 2021                 | \$ —                |
| 2022                 | 500,000             |
| 2023                 | 175,000             |
| 2024                 | —                   |
| 2025                 | 150,000             |
| 2026-2030            | <u>200,000</u>      |
|                      | <u>\$ 1,025,000</u> |

**(i) Senior Unsecured Term Loan**

On November 21, 2016, the LLC issued Senior Unsecured Term Loans with aggregate principal amounts of \$300,000 and \$200,000, maturing November 21, 2021. Interest is payable monthly based on LIBOR plus an applicable rate based upon the range into which the Total Leverage Ratio falls as outlined in the Term Loan agreements. As of June 30, 2020 and 2019, the applicable rate is 1.15%.

**(ii) Senior Unsecured Notes**

On February 14, 2013, the LLC issued 3.25% Series A Senior Notes in the aggregate principal amount of \$175,000 which matured on February 14, 2020.

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## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

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

On February 12, 2020, the LLC issued 3.07% Series D Senior Notes in the aggregate principal amount of \$200,000 maturing February 12, 2030. Interest on the notes is payable semi-annually.

Both the Senior Unsecured Term Loans and Senior Unsecured Notes contain certain financial covenants as outlined in the respective agreements. The LLC was in compliance with such covenants at June 30, 2020 and 2019.

**(b) Mortgage Loans Payable**

The LLC had 11 and 13 property-level mortgage loans payable as of June 30, 2020 and 2019, respectively. The mortgages have a weighted average interest rate of 3.38% and 3.93% and a weighted average maturity of 4.8 and 5.4 years at June 30, 2020 and 2019, respectively. The following table presents the face value of mortgage loans payable at June 30:

|                        | <u>2020</u>       | <u>2019</u>    |
|------------------------|-------------------|----------------|
| Mortgage loans payable | \$ 432,066        | 413,008        |
| Total                  | <u>\$ 432,066</u> | <u>413,008</u> |

**(c) Other Liabilities:**

The LLC had other liabilities of \$124,461 and \$21,625 as of June 30, 2020 and 2019, respectively.

**(7) Derivative Investments**

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

**(a) Contracts for differences**

A contract for differences is an instrument whose value is based on the price movement of the underlying asset. It allows for gain or losses to be realized when the underlying asset moves in relation to the position taken, although the actual underlying asset is not owned by the PRIT Fund.

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## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

The fair value of these instruments is generally recorded at the contract's net equity value. The net equity value is calculated by determining the change in value of the underlying asset less the cost of any leverage. The changes in fair value are recorded by the PRIT Fund as unrealized gains or losses. When the contract is closed, the PRIT Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

Contracts for differences held at June 30 were as follows:

| Description    | Number of contracts | 2020                  |                         |  |
|----------------|---------------------|-----------------------|-------------------------|--|
|                |                     | Gross notional amount | Fair value of contracts | Unrealized appreciation (depreciation) |
| Long exposure  | 16,708,563          | \$ 85,187             | 88,806                  | 3,619                                  |
| Short exposure | (7,439,476)         | (54,304)              | (55,891)                | (1,587)                                |
| Total exposure |                     | \$ 30,883             | 32,915                  | 2,032                                  |

| Description    | Number of contracts | 2019                  |                         |  |
|----------------|---------------------|-----------------------|-------------------------|--|
|                |                     | Gross notional amount | Fair value of contracts | Unrealized appreciation (depreciation) |
| Long exposure  | 38,090,747          | \$ 263,977            | 272,958                 | 8,981                                  |
| Short exposure | (34,046,724)        | (261,436)             | (264,401)               | (2,965)                                |
| Total exposure |                     | \$ 2,541              | 8,557                   | 6,016                                  |

For the years ended June 30, 2020 and 2019, the change in net unrealized appreciation (depreciation) on contracts for differences was \$(3,984) and \$9,524, respectively.

**(b) Foreign Currency Exchange Contracts**

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

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## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

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

|  | 2020       |                      |                  |                  |                   |
|--|------------|----------------------|------------------|------------------|-------------------|
|  | Fair value | Aggregate face value | Delivery date(s) | Unrealized gains | Unrealized losses |
| Foreign currency exchange contracts purchased: |            |                      |                  |                  |                   |
| Australian Dollar                              | 174,358    | 172,070              | 7/1/20-6/18/21   | \$ —             | (2,288)           |
| Brazilian Real                                 | 169,668    | 193,504              | 7/2/20-3/15/21   | 23,836           | —                 |
| Chinese Yuan                                   | 1,040,740  | 1,044,608            | 7/2/20-5/18/21   | 3,868            | —                 |
| Euro   | 856,376    | 853,719              | 7/1/20-2/22/21   | —                | (2,657)           |
| Gold oz  | —          | 57,737               | 7/21/20-8/19/20  | 57,737           | —                 |
| Hong Kong Dollar                               | 1,123,075  | 1,119,420            | 7/2/20-6/21/21   | —                | (3,655)           |
| Japanese Yen                                   | 373,822    | 375,824              | 7/1/20-3/31/21   | 2,002            | —                 |
| New Taiwan Dollar                              | 645,009    | 636,734              | 7/1/20-6/21/21   | —                | (8,275)           |
| Norwegian Krone                                | 96,436     | 98,914               | 7/1/20-9/16/20   | 2,478            | —                 |
| Philippines Peso                               | 148,776    | 145,417              | 7/1/20-2/24/21   | —                | (3,359)           |
| Silver oz                                      | 93         | 28,772               | 7/15/20-9/17/20  | 28,679           | —                 |
| Singapore Dollar                               | 1,411,644  | 1,386,630            | 7/1/20-6/16/21   | —                | (25,014)          |
| Other foreign currencies                       | 2,726,666  | 2,728,990            | 7/1/20-6/8/21    | 6,524            | (4,200)           |
| Foreign currency exchange contracts sold:      |            |                      |                  |                  |                   |
| Brazilian Real                                 | 86,988     | 93,527               | 7/1/20-11/3/20   | —                | (6,539)           |
| British Pound                                  | 434,145    | 436,243              | 7/1/20-12/16/20  | —                | (2,098)           |
| Chinese Yuan                                   | 1,023,210  | 1,029,976            | 7/2/20-6/30/21   | —                | (6,766)           |
| Gold oz  | —          | 57,728               | 7/21/20-8/19/20  | —                | (57,728)          |
| Hong Kong Dollar                               | 849,201    | 845,762              | 7/2/20-5/26/21   | 3,439            | —                 |
| Mexican Peso                                   | 74,862     | 77,928               | 7/1/20-9/17/20   | —                | (3,066)           |
| New Taiwan Dollar                              | 643,676    | 635,557              | 7/1/20-5/26/21   | 8,119            | —                 |
| Philippines Peso                               | 164,295    | 158,814              | 7/6/20-3/17/21   | 5,481            | —                 |
| Singapore Dollar                               | 1,419,690  | 1,407,662            | 7/1/20-6/16/21   | 12,028           | —                 |
| Silver oz                                      | 91         | 27,784               | 7/15/20-9/17/20  | —                | (27,693)          |
| Other foreign currencies                       | 3,205,819  | 3,206,663            | 7/1/20-9/24/21   | 6,304            | (7,148)           |
| Total  |            |                      |                  | \$ 160,495       | (160,486)         |

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## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

|  | 2019       |                      |                  |                  |                   |
|--|------------|----------------------|------------------|------------------|-------------------|
|  | Fair value | Aggregate face value | Delivery date(s) | Unrealized gains | Unrealized losses |
| Foreign currency exchange contracts purchased: |            |                      |                  |                  |                   |
| British Pound                                  | 770,871    | 767,517              | 7/1/19-11/22/19  | \$ —             | (3,354)           |
| Canadian Dollar                                | 155,995    | 152,901              | 7/2/19-12/3/19   | —                | (3,094)           |
| Chilean Peso                                   | 272,419    | 265,745              | 7/1/19-9/27/19   | —                | (6,674)           |
| Colombian Peso                                 | 92,956     | 90,162               | 7/2/19-9/18/19   | —                | (2,794)           |
| Euro   | 1,115,744  | 1,105,913            | 7/1/19-6/22/20   | —                | (9,831)           |
| Indonesian Rupiah                              | 158,838    | 156,809              | 7/1/19-12/5/19   | —                | (2,029)           |
| Indian Rupee                                   | 258,337    | 250,832              | 7/1/19-6/22/20   | —                | (7,505)           |
| Japanese Yen                                   | 423,543    | 419,881              | 7/1/19-11/12/19  | —                | (3,662)           |
| New Zealand Dollar                             | 278,662    | 273,619              | 7/1/19-9/18/19   | —                | (5,043)           |
| Philippines Peso                               | 209,007    | 202,118              | 7/1/19-3/12/20   | —                | (6,889)           |
| Singapore Dollar                               | 304,536    | 301,520              | 7/1/19-9/18/19   | —                | (3,016)           |
| South Korean Won                               | 372,349    | 366,131              | 7/1/19-9/20/19   | —                | (6,218)           |
| Swedish Krona                                  | 187,735    | 184,632              | 7/1/19-9/18/19   | —                | (3,103)           |
| Swiss Franc                                    | 143,756    | 140,644              | 7/19/19-9/18/19  | —                | (3,112)           |
| South African Comm Rand                        | 87,056     | 84,141               | 7/1/19-9/18/19   | —                | (2,915)           |
| Turkish Lira                                   | 152,513    | 146,921              | 7/1/19-3/18/20   | —                | (5,592)           |
| Other foreign currencies                       | 3,508,884  | 3,495,216            | 7/1/19-6/30/20   | 1,297            | (14,965)          |
| Foreign currency exchange contracts sold:      |            |                      |                  |                  |                   |
| Australian Dollar                              | 369,626    | 366,393              | 7/1/19-3/26/20   | 3,233            | —                 |
| Brazilian Real                                 | 258,818    | 252,306              | 7/1/19-9/18/19   | 6,512            | —                 |
| Canadian Dollar                                | 150,429    | 148,055              | 7/2/19-9/18/19   | 2,374            | —                 |
| Colombian Peso                                 | 122,792    | 119,042              | 7/2/19-9/18/19   | 3,750            | —                 |
| Euro   | 544,568    | 541,776              | 7/1/19-6/22/20   | 2,792            | —                 |
| Indonesian Rupiah                              | 230,799    | 226,721              | 7/1/19-12/5/19   | 4,078            | —                 |
| Indian Rupee                                   | 398,826    | 390,418              | 7/1/19-6/22/20   | 8,408            | —                 |
| Philippines Peso                               | 278,858    | 272,178              | 7/1/19-3/12/20   | 6,680            | —                 |
| Polish Zloty                                   | 195,066    | 192,072              | 7/1/19-9/18/19   | 2,994            | —                 |
| Russian Ruble                                  | 244,970    | 239,601              | 7/1/19-9/18/19   | 5,369            | —                 |
| South African Comm Rand                        | 79,262     | 76,625               | 7/1/19-9/18/19   | 2,637            | —                 |
| Swedish Krona                                  | 92,860     | 90,708               | 7/1/19-9/18/19   | 2,152            | —                 |
| Swiss Franc                                    | 130,490    | 128,381              | 7/22/19-9/18/19  | 2,109            | —                 |
| Turkish Lira                                   | 155,111    | 150,758              | 7/5/19-3/18/20   | 4,353            | —                 |
| Other foreign currencies                       | 4,214,358  | 4,196,672            | 7/1/19-6/17/20   | 18,693           | (1,007)           |
| Total  |            |                      |                  | \$ 77,431        | (90,803)          |

For the years ended June 30, 2020 and 2019, the change in net unrealized appreciation (depreciation) on foreign currency exchange contracts was \$13,381 and \$(35,873), respectively.

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(Dollars in thousands)

**(c) Futures Contracts**

The PRIT Fund enters into financial and commodity futures on various exchanges. A futures contract is an agreement between two parties to buy or sell units of a particular index, security, or commodity at a set price on a future date. Upon entering into financial and commodity futures contracts, the PRIT Fund is required to pledge to the broker an amount of cash or securities equal to a certain percentage of the contract amount (initial margin deposit). Pursuant to the contract, the PRIT Fund agrees to receive from, or pay to, the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as “variation margin” and are recorded by the PRIT Fund as unrealized gains or losses. When the contract is closed, the PRIT Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The potential risk to the PRIT Fund is that the change in value of futures contracts primarily corresponds with the value of underlying instruments, which may not correspond to the change in value of the hedged instruments. The PRIT Fund is also subject to credit risk should its clearing brokers be unable to meet their obligations to the PRIT Fund.

(Continued)

## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

Futures contracts held at June 30 were as follows:

| Description                           | Number of contracts | Expiration date | 2020                  |                         |  |
|---------------------------------------|---------------------|-----------------|-----------------------|-------------------------|--|
|                                       |                     |                 | Gross notional amount | Fair value of contracts | Unrealized appreciation (depreciation) |
| Short cash and cash equivalents:      |                     |                 |                       |                         |  |
| Euro FX currency                      | (491)               | 9/20            | \$ (69,674)           | (69,068)                | 606                                    |
| Other short cash and cash equivalents | (1,212)             | 9/20-6/23       | (279,757)             | (279,979)               | (222)                                  |
| Long cash and cash equivalents:       |                     |                 |                       |                         |  |
| 3-Month Euribor                       | 870                 | 3/21-6/23       | 241,519               | 245,450                 | 3,931                                  |
| 90-Day Bank Bill                      | 270                 | 9/20-6/21       | 180,747               | 185,825                 | 5,078                                  |
| Other long cash and cash equivalents  | 3,397               | 7/20-12/23      | 563,250               | 561,051                 | (2,199)                                |
| Short fixed income:                   |                     |                 |                       |                         |  |
| Australian 3-Yr Treasury Bond         | (8,700)             | 9/20            | (706,773)             | (701,182)               | 5,591                                  |
| Canada 10-Yr Government Bond          | (1,647)             | 9/20            | (184,642)             | (186,007)               | (1,365)                                |
| Euro-BUND                             | (2,198)             | 9/20            | (430,748)             | (435,772)               | (5,024)                                |
| Other short fixed income              | (4,180)             | 7/20-9/20       | (750,039)             | (750,930)               | (891)                                  |
| Long fixed income:                    |                     |                 |                       |                         |  |
| Euro-BTP                              | 318                 | 9/20            | 50,198                | 51,388                  | 1,190                                  |
| US 10-Yr Treasury Notes               | 3,935               | 9/20            | 546,254               | 547,641                 | 1,387                                  |
| Other long fixed income               | 10,794              | 9/20            | 1,658,748             | 1,661,028               | 2,280                                  |
| Short equity and commodities:         |                     |                 |                       |                         |  |
| Agriculture                           | (3,448)             | 7/20-3/21       | (80,673)              | (81,238)                | (565)                                  |
| Metal                                 | (610)               | 8/20-10/20      | (32,265)              | (33,635)                | (1,370)                                |
| Oil and gas                           | (1,558)             | 7/20-11/21      | (37,709)              | (38,240)                | (531)                                  |
| FTSE 100 Index                        | (115)               | 6/20-9/20       | (7,853)               | (8,829)                 | (976)                                  |
| S&P 500 E-mini Index                  | (2,735)             | 9/20            | (412,637)             | (422,585)               | (9,948)                                |
| Other short equity and commodities    | (4,221)             | 7/20-10/20      | (134,169)             | (134,698)               | (529)                                  |
| Long equity and commodities:          |                     |                 |                       |                         |  |
| Agriculture                           | 1,330               | 7/20-2/21       | 30,103                | 29,374                  | (729)                                  |
| Metal                                 | 483                 | 8/20-12/20      | 50,468                | 52,287                  | 1,819                                  |
| Oil and gas                           | 370                 | 7/20-1/21       | 13,236                | 13,377                  | 141                                    |
| Euro STOXX 50 Index                   | 1,093               | 9/20            | 38,508                | 39,566                  | 1,058                                  |
| MSCI EAFE Index                       | 2,145               | 9/20            | 188,730               | 190,733                 | 2,003                                  |
| MSCI Emerging Markets Index           | 2,098               | 9/20            | 101,990               | 103,400                 | 1,410                                  |
| Russell 2000 Mini Index               | 595                 | 9/20            | 41,054                | 42,769                  | 1,715                                  |
| S&P 500 E-mini Index                  | 1,472               | 9/20            | 223,292               | 227,439                 | 4,147                                  |
| TOPIX Index                           | 214                 | 9/20            | 32,148                | 30,914                  | (1,234)                                |
| Other long equity and commodities     | 4,163               | 7/20-10/20      | 332,376               | 331,856                 | (520)                                  |
| Total futures exposure                |                     |                 | \$ 1,165,682          | 1,171,935               | 6,253                                  |

(Continued)

## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

| Description                           | Number of contracts | Expiration date | 2019                  |                         |  |
|---------------------------------------|---------------------|-----------------|-----------------------|-------------------------|--|
|                                       |                     |                 | Gross notional amount | Fair value of contracts | Unrealized appreciation (depreciation) |
| Short cash and cash equivalents:      |                     |                 |                       |                         |  |
| 90-Day Eurodollar                     | (5,752)             | 9/19-6/21       | \$ (1,407,261)        | (1,414,702)             | (7,441)                                |
| Other short cash and cash equivalents | (1,710)             | 9/19-2/20       | (350,131)             | (352,128)               | (1,997)                                |
| Long cash and cash equivalents:       |                     |                 |                       |                         |  |
| 3-Month Euribor                       | 1,703               | 12/19-6/22      | 480,249               | 486,901                 | 6,652                                  |
| 90-Day Eurodollar                     | 5,226               | 9/19-12/22      | 1,281,952             | 1,285,396               | 3,444                                  |
| Other long cash and cash equivalents  | 4,208               | 9/19-6/22       | 682,775               | 683,324                 | 549                                    |
| Short fixed income:                   |                     |                 |                       |                         |  |
| Australian 10-Yr Treasury Bond        | (1,800)             | 9/19            | (178,124)             | (181,452)               | (3,328)                                |
| Canada 10-Yr Government Bond          | (1,439)             | 9/19            | (152,908)             | (157,395)               | (4,487)                                |
| Euro-BTP                              | (374)               | 9/19            | (55,291)              | (57,200)                | (1,909)                                |
| Euro-Schatz                           | (2,198)             | 9/19            | (274,608)             | (281,059)               | (6,451)                                |
| US 5-Yr Treasury Notes                | (1,624)             | 9/19            | (189,530)             | (191,886)               | (2,356)                                |
| Other short fixed income              | (4,193)             | 9/19            | (682,235)             | (689,189)               | (6,954)                                |
| Long fixed income:                    |                     |                 |                       |                         |  |
| Australian 10-Yr Treasury Bond        | 1,643               | 9/19            | 162,448               | 165,625                 | 3,177                                  |
| Euro-BOBL                             | 959                 | 9/19            | 144,221               | 146,823                 | 2,602                                  |
| Euro-BUND                             | 1,590               | 9/19            | 305,622               | 312,779                 | 7,157                                  |
| Euro-Schatz                           | 1,214               | 9/19            | 153,077               | 155,234                 | 2,157                                  |
| Long GILT                             | 1,383               | 9/19            | 227,197               | 229,347                 | 2,150                                  |
| US 10-Yr Treasury Notes               | 3,342               | 9/19            | 421,742               | 427,672                 | 5,930                                  |
| US Treasury Bond                      | 539                 | 9/19            | 81,948                | 83,865                  | 1,917                                  |
| Ultra US Treasury Bond                | 565                 | 9/19            | 97,762                | 100,323                 | 2,561                                  |
| Other long fixed income               | 4,977               | 8/19-9/19       | 935,468               | 945,059                 | 9,591                                  |
| Short equity and commodities:         |                     |                 |                       |                         |  |
| Agriculture                           | (14,345)            | 7/19-3/20       | (362,971)             | (362,166)               | 805                                    |
| Metal                                 | (2,496)             | 7/19-10/19      | (156,456)             | (158,908)               | (2,452)                                |
| Oil and gas                           | (2,855)             | 7/19-8/19       | (134,582)             | (141,552)               | (6,970)                                |
| S&P 500 E-mini Index                  | (2,973)             | 9/19            | (430,783)             | (437,655)               | (6,872)                                |
| Other short equity and commodities    | (4,023)             | 7/19-10/19      | (222,041)             | (225,531)               | (3,490)                                |
| Long equity and commodities:          |                     |                 |                       |                         |  |
| Agriculture                           | 8,753               | 7/19-2/20       | 227,833               | 225,047                 | (2,786)                                |
| Metal                                 | 1,678               | 8/19-12/19      | 103,709               | 105,971                 | 2,262                                  |
| Oil and gas                           | 3,264               | 7/19-11/19      | 160,085               | 168,577                 | 8,492                                  |
| Euro STOXX 50 Index                   | 2,206               | 6/19-9/19       | 84,944                | 87,079                  | 2,135                                  |
| MSCI EAFE Index                       | 2,226               | 9/19            | 208,518               | 214,063                 | 5,545                                  |
| MSCI Emerging Markets Index           | 2,562               | 9/19            | 129,943               | 134,941                 | 4,998                                  |
| S&P 500 E-mini Index                  | 2,113               | 9/19            | 306,569               | 311,055                 | 4,486                                  |
| Other long equity and commodities     | 6,621               | 6/19-9/19       | 628,239               | 642,008                 | 13,769                                 |
| Total futures exposure                |                     |                 | \$ 2,227,380          | 2,260,266               | 32,886                                 |

For the years ended June 30, 2020 and 2019, the change in net unrealized appreciation (depreciation) on futures contracts was \$(26,633) and \$35,622, respectively.

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## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

**(d) Swaps**

The PRIT Fund enters into swap agreements to gain exposure to certain markets and actively hedge other exposures to market and credit risks. The PRIT Fund utilizes interest rate, credit default, currency, inflation, and total return swaps within the portfolio. The PRIT Fund's OTC swap agreements are recorded at fair value as estimated by the PRIM Board. These estimated fair values are determined in good faith by using information from the PRIT Fund's investment managers, including methods and assumptions considering market conditions and risks existing at the date of the statements of pooled net position. Such methods and assumptions incorporate standard valuation conventions and techniques, such as discounted cash flow analysis and option pricing models. All methods utilized to estimate fair values result only in general approximations of value, and such values may or may not actually be realized.

Open swap contracts at June 30 were as follows:

| Description                  | 2020                                   |   |                  |                             |   |
|------------------------------|--|---|------------------|-----------------------------|---|
|                              | PRIT<br>pays/receives<br>interest rate | PRIT<br>pays/receives<br>index/<br>protection | Maturity<br>date | Gross<br>notional<br>amount | Net<br>unrealized<br>appreciation<br>(depreciation) |
| Interest rate swaps          | -0.58%–6.10%                           | Various*                                      | 7/20-12/56       | \$ 1,269,180,395            | (19,827)  |
| Credit default swaps         | 0.00%–5.00%                            | Credit default<br>protection                  | 10/20-12/72      | 3,328,081                   | (41,246)  |
| Total return and other swaps | Variable                               | Various*                                      | 7/20-1/50        | 6,247,427                   | (21,800)  |
| Total swaps                  |  |   |                  | \$ 1,278,755,903            | (82,873)  |

\* PRIT pays/receives counterparty based on 1-Month Euro LIBOR, 1-Month GBP LIBOR, 1-Month JIBAR, 1-Month JPY LIBOR, 1-Month SOR, 1-Month USD LIBOR, 1-Month WIBOR, 3-Month AUD-BBR-BBSW, 3-Month CDOR, 3-Month Eonia, 3-Month Euribor, 3-Month HIBOR, 3-Month KLIBOR, 3-Month KWCD, 3-Month NZD BBR, 3-Month SOR, 3-Month USD LIBOR, 3-Month WIBOR, 6-Month AUD-BBR-BBSW, 6-Month BUBOR, 6-Month Euro LIBOR, 6-Month Euribor, 6-Month GBP LIBOR, 6-Month JPY LIBOR, 6-Month MIBOR, 6-Month SOR, 6-Month THBFX, 6-Month USD LIBOR, 6-Month WIBOR, Brazil CDI rate, 7-Day CNY Repo Fixing Rate, CNY Semi-annual Swap Rate, CPI inflation rate, Eurozone HICP rate, Federal Funds Rate, Mexican TIE rate, RBA Overnight Cash Rate, SONIA rate, UK RPI rate.

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## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

| Description                  | 2019                                   |   |                  |                             |   |
|------------------------------|--|---|------------------|-----------------------------|---|
|                              | PRIT<br>pays/receives<br>interest rate | PRIT<br>pays/receives<br>index/<br>protection | Maturity<br>date | Gross<br>notional<br>amount | Net<br>unrealized<br>appreciation<br>(depreciation) |
| Interest rate swaps          | -0.24%–9.15%                           | Various*                                      | 7/19-3/54        | \$ 308,991,067              | (30,129)  |
| Credit default swaps         | 0.00%–7.00%                            | Credit default<br>protection                  | 12/19-11/63      | 2,705,652                   | (8,915)   |
| Total return and other swaps | Variable                               | Various*                                      | 7/19-6/49        | 3,909,623                   | 135,881   |
| Total swaps                  |  |   |                  | \$ 315,606,342              | 96,837  |

\* PRIT pays/receives counterparty based on 1-Month EUR LIBOR, 1-Month JPY LIBOR, 3-Month AUD-BBR-BBSW, 3-Month GBP LIBOR, 3-Month HIBOR, 3-Month JIBAR, 3-Month KLIBOR, 3-Month KWDC, 3-Month MosPrime, 3-Month NZD BBR, 3-Month USD LIBOR, 6-Month AUD-BBR-BBSW, 6-Month BUBOR, 6-Month GBP LIBOR, 6-Month JPY LIBOR, 6-Month MIBOR, 12-Month NZ OCR, 6-Month PRIBOR, 6-Month THBFX, 6-Month USD LIBOR, Brazil CDI rate, 7-Day CNY Repo Fixing Rate, Euribor rate, Federal Funds Rate, Mexican TIIE rate, RBA Overnight Cash Rate.

For the years ended June 30, 2020 and 2019, the change in net unrealized appreciation (depreciation) on swap contracts was \$(179,710) and \$83,121, respectively.

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

| Counterparty                      | Credit<br>rating | 2020                   |               |                         |               |                                 |               |
|-----------------------------------|------------------|------------------------|---------------|-------------------------|---------------|---------------------------------|---------------|
|                                   |                  | Interest rate<br>swaps |               | Credit default<br>swaps |               | Total return and<br>other swaps |               |
|                                   |                  | Gross<br>notional      | Fair<br>value | Gross<br>notional       | Fair<br>value | Gross<br>notional               | Fair<br>value |
| Bank of America NA                | A+               | \$ 1,341,555           | 1,445         | 219,387                 | (5,590)       | 34,912                          | (564)         |
| BNP Paribas Securities Corp       | A+               | —                      | —             | 420,112                 | 4,409         | —                               | —             |
| Citibank NA                       | A+               | —                      | —             | 2,300                   | (1)           | 479,153                         | (1,590)       |
| Credit Suisse                     | A                | —                      | —             | 710,099                 | 2,875         | 19,697                          | 287           |
| Goldman Sachs                     | A+               | —                      | —             | 515,441                 | (19,010)      | —                               | —             |
| JPMorgan                          | A+               | —                      | —             | 2,200                   | 37            | 5,329                           | (2,860)       |
| LCH Ltd                           | AA-              | 898,712                | 16,858        | —                       | —             | 222,620                         | (1,083)       |
| Merrill Lynch International       | A+               | —                      | —             | 4,800                   | 48            | 1,063,288                       | (3,226)       |
| Morgan Stanley                    | A+               | 102,684                | 72            | 437,319                 | (19,169)      | 1,962,300                       | 1,713         |
| SMBC Capital Markets Inc.         | A+               | 250,000                | (31,176)      | —                       | —             | —                               | —             |
| U.S. Bank National<br>Association | A+               | 500,000                | (11,208)      | —                       | —             | —                               | —             |
| All others (1)                    | Various          | 1,266,087,444          | 4,182         | 1,016,423               | (4,845)       | 2,460,128                       | (14,477)      |
|                                   |                  | \$ 1,269,180,395       | (19,827)      | 3,328,081               | (41,246)      | 6,247,427                       | (21,800)      |

(1) A majority of these swaps are centrally cleared and are settled daily.

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## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

| Counterparty                   | Credit rating | 2019                |            |                      |            |                              |            |
|--------------------------------|---------------|---------------------|------------|----------------------|------------|------------------------------|------------|
|                                |               | Interest rate swaps |            | Credit default swaps |            | Total return and other swaps |            |
|                                |               | Gross notional      | Fair value | Gross notional       | Fair value | Gross notional               | Fair value |
| Citibank NA                    | A+            | \$ 5,810            | —          | 6,178                | (295)      | 331,795                      | 15,145     |
| CME Group Inc.                 | AA-           | 1,302,534           | (4,548)    | —                    | —          | 8,080                        | 29         |
| Credit Suisse                  | A             | —                   | —          | 1,346,835            | 20,492     | —                            | —          |
| Goldman Sachs                  | A+            | —                   | —          | 107,902              | 274        | 36,392                       | 1,973      |
| LCH Ltd                        | AA-           | 608,982             | (12,004)   | —                    | —          | 339,948                      | (1,949)    |
| Merrill Lynch                  | A+            | —                   | —          | 24,280               | (243)      | 2,288,028                    | 78,094     |
| Morgan Stanley                 | A+            | —                   | —          | 274,194              | (3,031)    | 597,467                      | 40,941     |
| SMBC Capital Markets Inc.      | A+            | 250,000             | (9,271)    | —                    | —          | —                            | —          |
| U.S. Bank National Association | A+            | 500,000             | (1,265)    | —                    | —          | —                            | —          |
| All others (1)                 | Various       | 306,323,741         | (3,041)    | 946,263              | (26,112)   | 307,913                      | 1,648      |
|                                |               | \$ 308,991,067      | (30,129)   | 2,705,652            | (8,915)    | 3,909,623                    | 135,881    |

(1) A majority of these swaps are centrally cleared and are settled daily.

**(8) Investment Management and Other Management Fees**

In accordance with the PRIM Board's Operating Trust Agreement, expenses incurred by the PRIM Board in managing the PRIT Fund are charged to the PRIT Fund in the form of management fees. These expenses consist of investment management fees, investment advisory fees, custodian fees and professional fees, as well as staff salaries and other administrative expenses of the PRIM Board.

**(a) Investment Management Fees**

Investment management fees are paid to discretionary managers pursuant to executed contracts. Total investment management fees were \$140,692 and \$140,221 for the years ended June 30, 2020 and 2019, respectively. \$96,047 and \$100,050 were incurred by the PRIM Board for the years ended June 30, 2020 and 2019, respectively, and the remaining investment management fees were incurred by the single-member limited liability corporations that are consolidated into the PRIT Fund.

All domestic, international, and emerging market equity managers are paid a base fee calculated as a percentage of either current net position under management or an agreed-upon funded amount, typically equal to the amount of original and subsequent funding. In certain cases, this is subject to periodic revision. Base fees are paid quarterly. In addition, some active (nonindexed) equity managers are eligible to receive a performance fee.

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## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

Fixed income managers are generally paid a quarterly asset-based fee. Certain managers are eligible for a performance fee.

Fees for private equity investments are typically a percentage of committed capital with the fee percentage decreasing over time. In addition, the general partners (investment managers) of private equity limited partnerships are allocated additional profit, known as carried interests, based on the net gains generally above a specified hurdle rate, on realized partnership investments.

The LLC's investment management fees generally consist of a base fee and a performance fee. Base fees are calculated and paid monthly. Performance fees are paid to managers who out-perform their respective hurdle rates, as defined in the investment management agreements.

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

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

Fees for portfolio completion strategies investments generally consist of a base fee and a performance fee based on return.

The majority of investment management fees for private equity and distressed debt investments are charged by the general partners to the investment partnerships and not to the limited partner investors directly. Investment management fees for portfolio completion strategies investments and commingled account investments are charged to the respective investments. Base investment management fees for investments in real estate properties and timberland are charged against the respective investments. Therefore, the fair values of these investments are reported net of "indirect" management fees.

**(b) Investment Advisory Fees**

NEPC, LLC, Callan Associates, Aberdeen Asset Management Inc., Hamilton Lane, International Woodland Company, NewAlpha Asset Management, and The Townsend Group served as the PRIM Board's principal investment advisors in fiscal year 2020. NEPC, LLC served as the asset allocation advisor, Callan Associates served as the public markets advisor, Aberdeen Asset Management Inc. and NewAlpha Asset Management provided portfolio completion strategies advisory services, Hamilton Lane served as the private equity advisor, International Woodland Company provided timberland advisory services, and The Townsend Group provided real estate advisory services. These investment advisors, among others, provided the PRIM Board with comprehensive investment

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## Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

advisory services, including recommendations on asset allocation, selection of investment managers, and the monitoring of performance of the PRIT Fund and its individual investment managers.

For the years ended June 30, 2020 and 2019, investment advisory fees were \$11,563 and \$11,588, respectively, which are included in investment management and other management fees in the accompanying statements of changes in pooled net position.

**(c) Custodian Fees**

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

For the years ended June 30, 2020 and 2019, custodian fees were \$1,670 and \$808, respectively, and are included in investment management and other management fees in the accompanying statements of changes in pooled net position.

**(d) Other Administrative Fees**

For the years ended June 30, 2020 and 2019, other administrative expenses of the PRIM Board, including employee compensation, professional fees and occupancy costs, charged to the PRIT Fund totaled \$15,973 and \$15,250, respectively, which are included in investment management and other management fees in the accompanying statements of changes in pooled net position.

**(9) Commitments**

As of June 30, 2020 and 2019, the PRIT Fund had outstanding unfunded commitments to invest \$7,748,100 and \$7,820,065, respectively, in distressed debt, other credit opportunities investments, private equity funds, portfolio completion strategies investments, and real estate investments.



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

June 30, 2020

(Dollars in thousands)

|   | Capital Fund  | Cash Fund | Total      |
|---|---------------|-----------|------------|
| <b>Assets:</b>  |               |           |            |
| Investments, at fair value:                                 |               |           |            |
| Short-term  | \$ 2,000,752  | 68,906    | 2,069,658  |
| Fixed income  | 19,113,909    | —         | 19,113,909 |
| Equity  | 29,267,619    | —         | 29,267,619 |
| Timberland  | 2,755,084     | —         | 2,755,084  |
| Private equity funds  | 8,399,154     | —         | 8,399,154  |
| Real estate:  |               |           |            |
| Real estate properties                                      | 7,374,146     | —         | 7,374,146  |
| Equity  | 1,253,533     | —         | 1,253,533  |
| Real estate funds   | 89,781        | —         | 89,781     |
| Other   | 39,998        | —         | 39,998     |
| Total real estate   | 8,757,458     | —         | 8,757,458  |
| Portfolio completion strategies:                            |               |           |            |
| Investment funds  | 2,138,112     | —         | 2,138,112  |
| Equity  | 1,798,948     | —         | 1,798,948  |
| Fixed income  | 2,945,226     | —         | 2,945,226  |
| Cash and cash equivalents                                   | 1,771,931     | —         | 1,771,931  |
| Agricultural investments                                    | 551,888       | —         | 551,888    |
| Total portfolio completion strategies                       | 9,206,105     | —         | 9,206,105  |
| Total investments   | 79,500,081    | 68,906    | 79,568,987 |
| Cash  | 177,074       | 77        | 177,151    |
| Securities lending collateral                               | 475,937       | —         | 475,937    |
| Interest and dividends receivable                           | 208,646       | 54        | 208,700    |
| Receivable for investments sold and other assets            | 455,035       | —         | 455,035    |
| Securities sold on a when-issued basis                      | 573,661       | —         | 573,661    |
| Foreign currency forward contracts                          | 160,495       | —         | 160,495    |
| Total assets  | 81,550,929    | 69,037    | 81,619,966 |
| <b>Liabilities:</b>   |               |           |            |
| Payable for investments purchased and other liabilities     | 874,960       | —         | 874,960    |
| Real estate debt and other liabilities                      | 1,581,527     | —         | 1,581,527  |
| Securities lending obligations                              | 725,946       | —         | 725,946    |
| Securities purchased on a when-issued basis                 | 973,584       | —         | 973,584    |
| Foreign currency forward contracts                          | 160,486       | —         | 160,486    |
| Management fees payable to PRIM                             | 32,194        | —         | 32,194     |
| Securities sold short and other liabilities, at fair value: |               |           |            |
| Portfolio completion strategies liabilities                 | 2,126,309     | —         | 2,126,309  |
| Fixed income  | 159,201       | —         | 159,201    |
| Total securities sold short and other liabilities           | 2,285,510     | —         | 2,285,510  |
| Total liabilities   | 6,634,207     | —         | 6,634,207  |
| Net position held in trust for pool participants            | \$ 74,916,722 | 69,037    | 74,985,759 |

See accompanying independent auditors' report.

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

Year ended June 30, 2020

(Dollars in thousands)

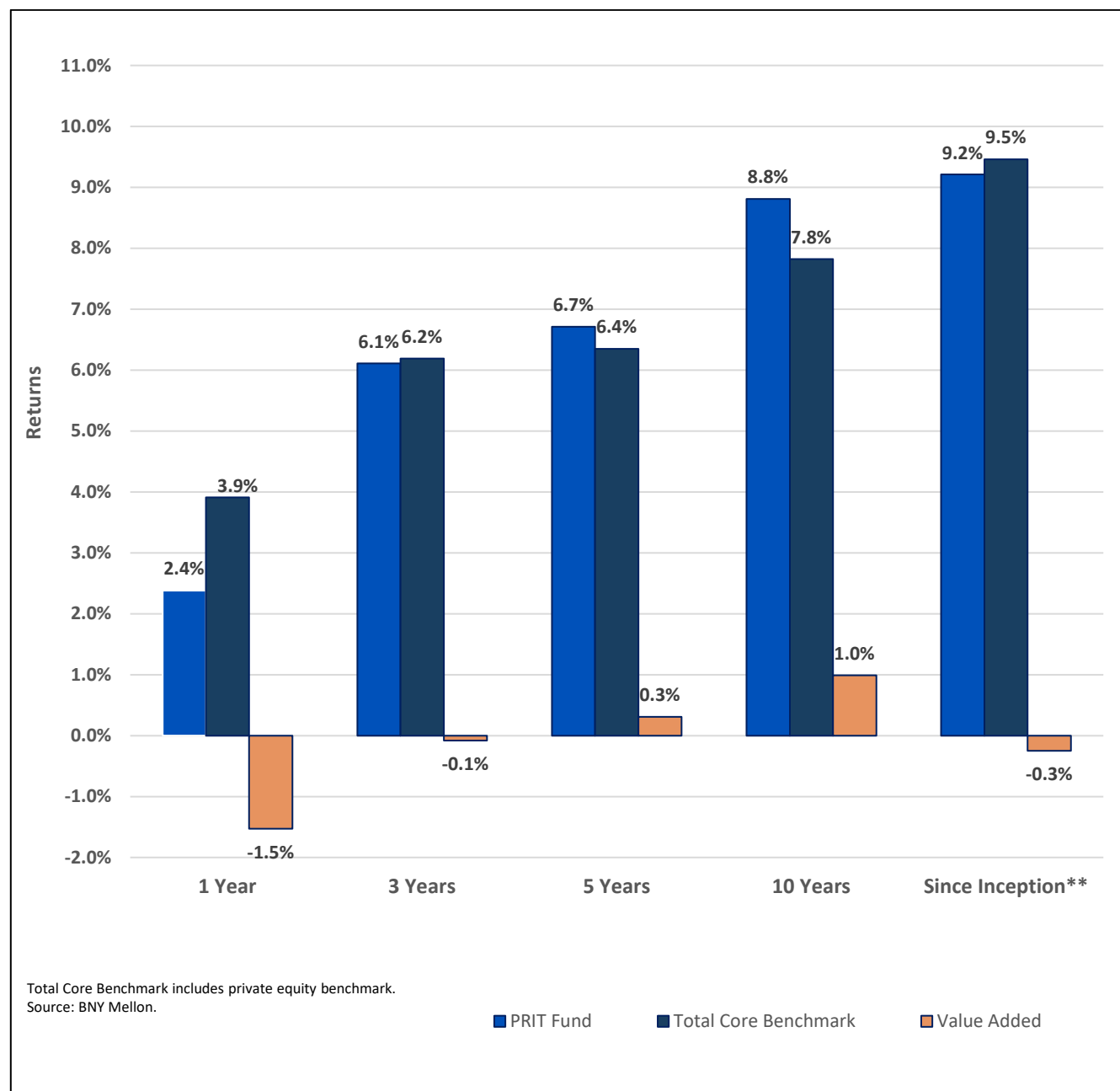
|  | Capital Fund  | Cash Fund | Total       |
|--|---------------|-----------|-------------|
| Additions:   |               |           |             |
| Contributions:   |               |           |             |
| State employees  | \$ —          | 705,315   | 705,315     |
| State teachers   | —             | 851,798   | 851,798     |
| Other participants   | —             | 1,466,201 | 1,466,201   |
| Total contributions  | —             | 3,023,314 | 3,023,314   |
| Net investment income:   |               |           |             |
| From investment activities:  |               |           |             |
| Net realized gain on investments and foreign currency transactions                     | 2,053,247     | —         | 2,053,247   |
| Net change in unrealized depreciation on investments and foreign currency translations | (2,040,645)   | —         | (2,040,645) |
| Interest   | 396,645       | 3,583     | 400,228     |
| Dividends  | 772,458       | —         | 772,458     |
| Timberland   | 13,390        | —         | 13,390      |
| Private equity   | 85,645        | —         | 85,645      |
| Portfolio completion strategies  | 24,238        | —         | 24,238      |
| Real estate:   |               |           |             |
| Income   | 521,679       | —         | 521,679     |
| Expenses   | (218,631)     | —         | (218,631)   |
| Total real estate  | 303,048       | —         | 303,048     |
| Income from investment activities  | 1,608,026     | 3,583     | 1,611,609   |
| Investment management and other management fees  | (169,898)     | —         | (169,898)   |
| Net income from investment activities  | 1,438,128     | 3,583     | 1,441,711   |
| From securities lending activities:  |               |           |             |
| Securities lending income  | 8,203         | —         | 8,203       |
| Securities lending expenses  | (1,041)       | —         | (1,041)     |
| Net income from securities lending activities  | 7,162         | —         | 7,162       |
| Total net investment income  | 1,445,290     | 3,583     | 1,448,873   |
| Total additions  | 1,445,290     | 3,026,897 | 4,472,187   |
| Deductions:  |               |           |             |
| Redemptions:   |               |           |             |
| State employees  | —             | 1,454,457 | 1,454,457   |
| State teachers   | —             | 1,649,331 | 1,649,331   |
| Other participants   | —             | 1,218,278 | 1,218,278   |
| Total deductions   | —             | 4,322,066 | 4,322,066   |
| Interfund transfers (out) in, net  | (1,268,529)   | 1,268,529 | —           |
| Net increase (decrease) in pooled net position   | 176,761       | (26,640)  | 150,121     |
| Net position held in trust for pool participants:                                      |               |           |             |
| Balance, beginning of year   | 74,739,961    | 95,677    | 74,835,638  |
| Balance, end of year   | \$ 74,916,722 | 69,037    | 74,985,759  |

See accompanying independent auditors' report.

## *Investment Section*

## Total PRIT Fund Performance Summary\*

For the periods ended June 30, 2020



\* Gross of Fees. Total PRIT Fund includes the Core Fund and Cash Fund. Returns are annualized and calculated based on a time-weighted rate of return methodology.

\*\* Performance inception date of January 1, 1985

## Investment Strategy Overview

The PRIT Fund was formed in December 1983 with a mandate to accumulate assets through investment earnings to reduce the Commonwealth of Massachusetts' unfunded pension liability and, further on, to assist local participating retirement systems in meeting their future pension obligations. The PRIM Board is charged with the general oversight of the PRIT Fund. The PRIM Board seeks to maximize the return on investments within acceptable levels of risk and cost for an approximately 60% funded public pension fund, by broadly diversifying its investment portfolio, capitalizing on economies of scale to achieve cost-effective operations, and gaining access to high quality, innovative investment management firms, all under the management of a professional staff and members of the PRIM Board. The PRIM Board's overall investment performance goal is to achieve an annual rate of return that exceeds the targeted actuarial rate of return used in determining the Commonwealth of Massachusetts' pension obligations (currently 7.15%). A summary of other investment objectives is provided in the Investment Policy Statement at the end of this section.

As of June 30, 2020, the PRIM Board employed thirty-seven public markets investment managers, one hundred three private equity markets managers, nine real estate and timberland managers, thirty-three portfolio completion strategies managers, and seven external investment advisors. The PRIT Fund had approximately \$75.0 billion in assets under management at June 30, 2020. Each investment manager operates within guidelines that are established by the PRIM Board and are delineated in a detailed investment management agreement or partnership agreement.

The PRIT Fund's net investment portfolio fair values reported in this section and used as a basis for calculating investment returns differ from those shown in the Financial Section and the Financial Highlights in the Statistical Section of this report. The values used in this section are the appropriate industry standard basis for investment return calculations and are net of all investment receivables and payables. Unless otherwise noted, all return information provided is gross of fees. In addition, "PRIT Core" return information refers to returns for the PRIT Capital Fund. PRIT Core return information excludes the impact of the Cash Fund on the total PRIT Fund return.

## Asset Allocation and Diversification Discussion

The Investment Policy Statement adopted by the PRIM Board in September 1998 with subsequent updates, most recently in February 2020, states that over the long-term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. At reasonable intervals of not more than three to five years, the PRIM Board will complete a comprehensive review of its Asset Allocation Plan and its underlying assumptions, including: the Commonwealth's current and projected pension assets and liabilities; long-term capital markets rate of return assumptions; and the PRIM Board's risk tolerances. The PRIM Board shall examine the Asset Allocation Plan annually, and shall consider adjustments to the Plan as may be appropriate given the Plan's long-term nature and objectives. The PRIM Board's last comprehensive review of the PRIT Fund asset allocation was conducted during fiscal year 2017.

| Asset Class                     | 6/30/2020<br>Allocation % (3) | Target Range % (1) |
|---------------------------------|-------------------------------|--------------------|
| Global Equity                   | 42.0                          | 34 - 44            |
| Core Fixed Income               | 15.7                          | 12 - 18            |
| Value-Added Fixed Income        | 7.5                           | 5 - 11             |
| Real Estate                     | 9.2                           | 7 - 13             |
| Private Equity                  | 11.4                          | 10 - 16            |
| Timberland                      | 3.7                           | 1 - 7              |
| Portfolio Completion Strategies | 9.7                           | 8 - 14             |
| Overlay (2)                     | 0.6                           | -                  |
| Liquidating Portfolios (2)      | 0.1                           | -                  |

(1) Asset allocation approved February 26, 2020.

(2) These asset classes do not have target range % because they are not components of the long-term policy target asset allocation.

(3) Totals may not add due to rounding.

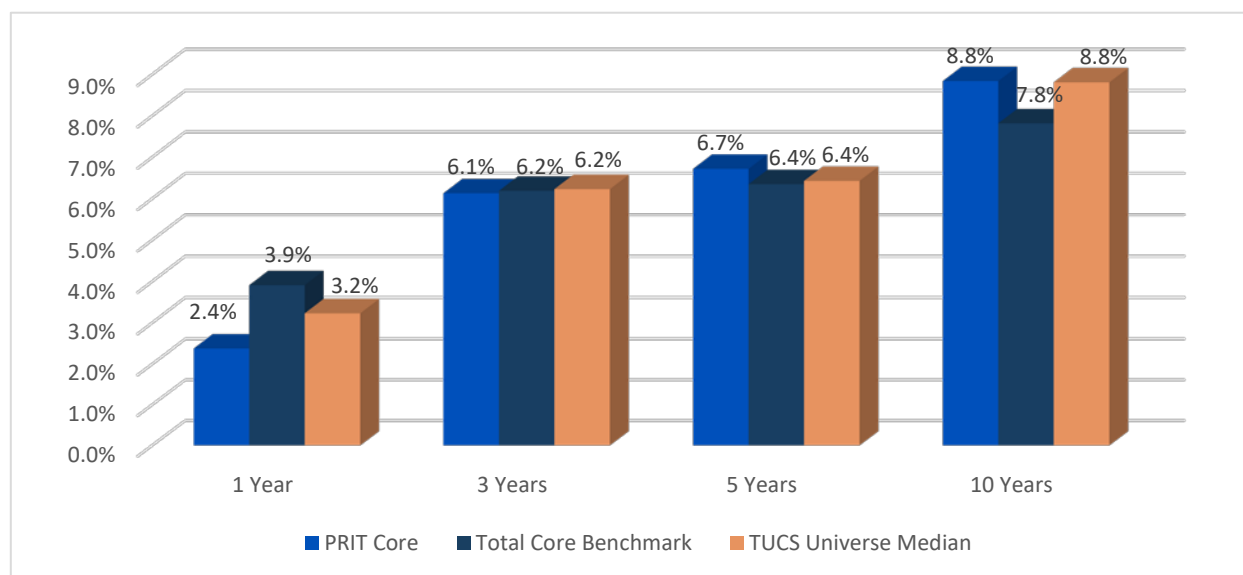
In addition to asset allocation, the PRIM Board seeks to diversify the PRIT Fund through a complementary diversification of investment styles within various asset classes. The PRIM Board requires detailed investment guidelines with each investment manager to ensure portfolios are managed with appropriate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

### Income and Expense Allocation

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

**PRIT Core Performance: Fiscal Year 2020**

Returns are calculated based on a time-weighted rate of return methodology. PRIT Core Returns (gross of fees) and benchmarks for the periods ended June 30, 2020:



In the fiscal year 2020, the PRIT Core Fund returned 2.38% compared to the Total Core benchmark return of 3.91%. The PRIT Fund began fiscal year 2020 with net position of \$74.8 billion and ended with \$75.0 billion. On a gross basis the fund increased \$150 million, which is the result of \$1.4 billion in net investment income along with \$1.3 billion in net redemptions from the State Employees, State Teachers' and Participant accounts.

The quarterly returns of the PRIT Core Fund in fiscal year 2020 were as follows:

- 1.39% for September 30, 2019 – versus a benchmark return of 1.27%.
- 4.58% for December 31, 2019 – versus a benchmark return of 4.17%.
- -9.89% for March 31, 2020 – versus a benchmark return of -9.74%.
- 7.16% for June 30, 2020 – versus a benchmark return of 9.19%.

The PRIT Fund seeks to outperform its three benchmarks in both up and down markets. In order of priority, these benchmarks are as follows: 1) beating the actuarial rate of return assumption (currently 7.15%); 2) exceeding the long-term Total Core Benchmark, which measures how well the PRIT Fund has implemented its asset allocation; and 3) achieving top quartile rankings in the Wilshire Trust Universe Comparison Service (TUCS) report, which measures the PRIT Fund's investment performance against its peers nationwide. Through June 30, 2020, the PRIT Core Fund returned 9.16% since inception, outperforming the actuarial rate of return of 7.15% by 201 basis points. The PRIT Core Fund outperforms its benchmark over the five-year and ten-year periods. According to the TUCS ranking, the PRIT Fund's performance ranked in the second quartile of all U.S. Public Pension Funds over \$25 billion in size for the five and ten-year periods ending June 30, 2020.

## Management Costs

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

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

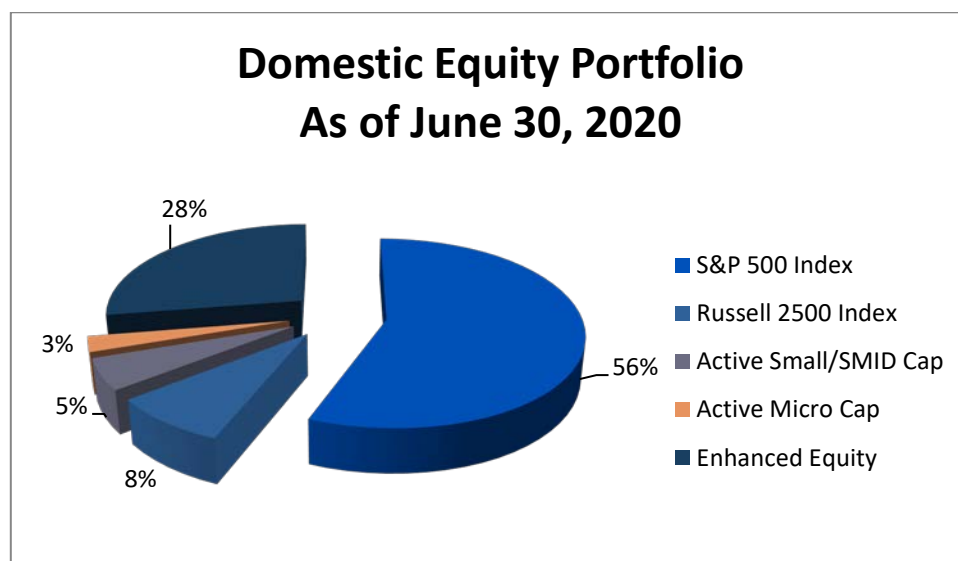
The PRIM Board's investment managers operate with formal contracts. Investment management fees accounted for approximately 73.8% of the PRIM Board's total direct expenses for fiscal 2020. The PRIM Board also contracts with a custodian and investment advisors. Fees to these providers were approximately 10.2% of the PRIM Board's total expense for fiscal year 2020.

The total cost of managing the PRIT Fund for fiscal year 2020, *inclusive* of investment management (direct and indirect), advisory, custodial and overhead charges was 51 basis points of the average net position of the PRIT Fund compared to 52 basis points in fiscal year 2019. For information on expense ratios for each investment account, refer to the *Financial Highlights and Financial Highlights Ratios* on pages 98-107 included in the Statistical Section of this report.



## Domestic Equity Portfolio

As of June 30, 2020, the Domestic Equity portfolio had approximately \$16.7 billion in net position, representing 22.2% of the PRIT Fund. As of June 30, 2020, the Domestic Equity portfolio allocation is approximately 56% invested in a passively managed large capitalization equity strategy (large cap), 28% invested in a put-spread-collar enhanced equity strategy (enhanced equity), 13% invested in small and middle capitalization equity strategies (small/smld cap), with the remaining 3% invested in micro capitalization equity strategies (micro cap) as highlighted below.



During the fiscal year, the S&P 500 Index portfolio, two of the three active small/smld capitalization managers, and the four active micro capitalization managers outperformed their respective benchmarks. The Russell 2500 Index portfolio and the enhanced equity portfolio underperformed their respective benchmarks. As of fiscal year end, the weighting of Domestic Equity was 52.9% of the Global Equity portfolio.

**Style Neutrality.** Because different styles (i.e. growth-oriented versus value-oriented stocks) of investment management are favored in different economic and market environments, and because of the Board's long-term perspective, the Board seeks to maintain a style-neutral portfolio.

**Portfolio Risks.** Although historically long-term returns in equity investments have exceeded all other public market asset classes (i.e. fixed income and cash), as evidenced by the recent years, there is no guarantee that this trend will continue or that investment in the short-term or long-term will produce positive results. Prices may fluctuate based on changes in a company's financial condition and on overall market and economic conditions. Smaller companies are especially sensitive to these factors. There is a significant risk of loss of principal due to market and economic conditions.

**Portfolio Returns.** For the fiscal year, the portfolio produced a 4.05% return compared to 5.54% for the portfolio benchmark. The PRIT Fund's large cap manager returned 8.00% compared to the 7.63% return of the large cap benchmark, the customized S&P 500 index (customized to exclude legislatively restricted securities in tobacco,

Iran, and Sudan). The PRIT Fund's small/smld/micro cap managers returned -0.98% compared to the -3.28% return of the small/smld/micro cap benchmark which is calculated by applying the investment performance of the sub asset class benchmarks to the sub asset class weights within the small/smld/micro cap equity portfolio. The PRIT Fund's enhanced equity manager returned 0.01% compared to the 6.70% return of the enhanced equity benchmark (80% S&P 500 index/20% LIBOR as of June 30, 2020).

On a three-, five-, and 10-year basis through June 30, 2020, the PRIT Fund's Domestic Equity portfolio has returned 9.28%, 9.48%, and 13.38%, respectively, compared to the benchmark, which returned 9.57%, 9.80%, and 13.56%, respectively.

The top ten holdings in the Domestic Equity portfolio at June 30, 2020, excluding certain swap collateral accounts, are illustrated below. A complete listing of holdings is available upon request.

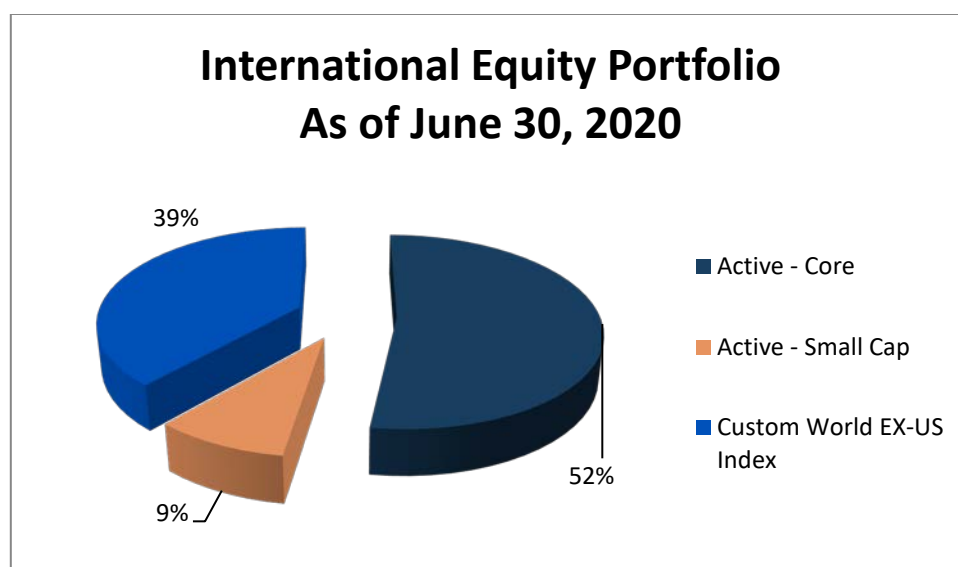
| #     | Issue Name              | Fair Value (\$000s) | % of Account |
|-------|-------------------------|---------------------|--------------|
|       |                         |                     | Fair Value   |
| 1     | Microsoft Corp.         | \$ 766,599          | 4.60%        |
| 2     | Apple Inc.              | 737,761             | 4.43%        |
| 3     | Amazon.com Inc.         | 573,815             | 3.44%        |
| 4     | Facebook Inc.           | 271,025             | 1.63%        |
| 5     | Alphabet Inc - CL A     | 211,204             | 1.27%        |
| 6     | Alphabet Inc - CL C     | 205,208             | 1.23%        |
| 7     | Johnson & Johnson       | 183,918             | 1.10%        |
| 8     | Berkshire Hathaway Inc. | 172,251             | 1.03%        |
| 9     | Visa Inc.               | 161,785             | 0.97%        |
| 10    | Procter & Gamble Co.    | 146,866             | 0.88%        |
| TOTAL |                         | \$ 3,430,432        | 20.58%       |

The PRIT Fund's Domestic Equity managers at June 30, 2020 are presented in the following table:

| Manager                           | Investment Mandate        | Portfolio Fair Value at<br>June 30, 2020 (\$000s) |
|-----------------------------------|---------------------------|---|
| State Street Global Advisors      | Custom S&P 500 Index      | \$ 9,344,286                                      |
| Goldman Sachs Asset Management    | Enhanced Equity           | 4,589,770   |
| State Street Global Advisors      | Custom Russell 2500 Index | 1,392,845   |
| Frontier Capital Management       | Small Cap Value           | 243,889   |
| Riverbridge Partners              | SMID Cap Growth           | 259,945   |
| Summit Creek Advisors             | Small Cap Growth          | 384,944   |
| Acadian Asset Management          | Micro Cap Core            | 99,311  |
| Brandywine Investment Management  | Micro Cap Value           | 91,391  |
| Lord, Abbett & Company            | Micro Cap Growth          | 122,927   |
| Driehaus Capital Management       | Micro Cap Growth          | 128,314   |
| Other portfolio net assets        |                           | (1,018)   |
| <b>Total Portfolio Fair Value</b> |                           | <b>\$ 16,656,604</b>                              |

## International Equity Portfolio

As of June 30, 2020, the International Equity portfolio had approximately \$10.4 billion in net position, representing 13.9% of the PRIT Fund. The active international core equity managers are benchmarked against the Custom MSCI EAFE Net Dividends index (Custom MSCI EAFE – customized to exclude legislatively restricted securities in tobacco, Iran, and Sudan), whose name is derived from the geographical areas of inclusion – Europe, Australia and the Far East. The active international small cap equity managers are benchmarked against the Custom MSCI EAFE Small Cap Net Dividends index (Custom MSCI EAFE Small Cap – customized to exclude legislatively restricted securities in tobacco, Iran, and Sudan). The International Equity portfolio is allocated to one passively managed account (which comprises 39% of the portfolio), four active core equity accounts (52% of the portfolio), and five active small cap equity accounts (9% of the portfolio). The passive manager is benchmarked against the Custom World ex-U.S. Investable Market Index – Net Dividends (Custom World ex-U.S. IMI – customized to exclude legislatively restricted securities in tobacco, Iran, and Sudan).



The primary strategy for this portfolio is investing in companies in developed markets, industrialized nations outside of the United States, including, but not limited to, Japan, Germany, the United Kingdom, France, Italy, Switzerland, Hong Kong, Canada, and Australia. As of fiscal year-end, the weighting of International Equity was 33.0% of the Global Equity portfolio.

**Portfolio Risks.** Investing in developed markets outside of the United States carries additional risks as compared to U.S. domestic investments. The added risks are primarily associated with currency, higher trading and settlement cost, and less stringent investor protections and disclosure standards.

**Portfolio Returns.** For the fiscal year ending June 30, 2020, the International Equity portfolio returned -3.27% compared to the asset class benchmark return (46.2% Custom MSCI EAFE/11.5% Custom MSCI EAFE Small Cap/42.3% Custom World ex-U.S. IMI as of June 30, 2020) of -5.12%. Two of the PRIT Fund's four active international equity managers outperformed the Custom MSCI EAFE index for the fiscal year. Two of the PRIT Fund's five active international small cap equity managers outperformed the Custom MSCI EAFE Small Cap index.

The passive manager outperformed the Custom World ex-U.S.IMI index for the fiscal year. Over the longer-term, PRIT's international equity managers continue to add value over the asset class benchmark. On a three-, five-, and 10-year basis through June 30, 2020, the PRIT Fund's international equity managers posted returns of 1.72%, 3.15%, and 6.89%, respectively, ahead of the benchmark, which returned 0.93%, 2.19%, and 5.69%, respectively, over the same periods.

The top ten holdings in the International Equity portfolio at June 30, 2020 are illustrated below. A complete listing of holdings is available upon request.

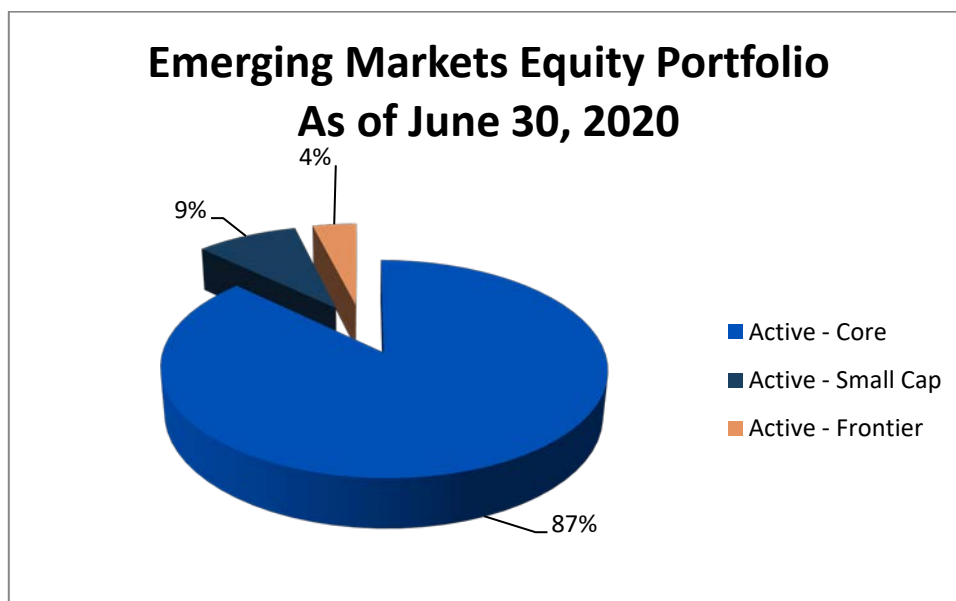
| #  | Issue Name               | % of Account        |            |
|----|--------------------------|---------------------|------------|
|    |                          | Fair Value (\$000s) | Fair Value |
| 1  | ASML Holding N.V.        | \$ 119,609          | 1.15%      |
| 2  | Roche Holding AG         | 110,375             | 1.06%      |
| 3  | AIA Group Ltd            | 89,468              | 0.86%      |
| 4  | Legrand SA               | 80,070              | 0.77%      |
| 5  | Nestle SA                | 79,506              | 0.77%      |
| 6  | Olympus Corp             | 73,123              | 0.70%      |
| 7  | Rightmove PLC            | 72,388              | 0.70%      |
| 8  | United Overseas Bank Ltd | 70,907              | 0.68%      |
| 9  | Novartis AG              | 67,606              | 0.65%      |
| 10 | Zalando SE               | 67,585              | 0.65%      |
|    | TOTAL                    | \$ 830,637          | 7.99%      |

The PRIT Fund's International Equity managers at June 30, 2020 are presented in the following table:

| Manager                           | Investment Mandate           | Portfolio Fair Value at<br>June 30, 2020 (\$000s) |                   |
|-----------------------------------|------------------------------|---|-------------------|
| State Street Global Advisors      | Custom World ex-US IMI Index | \$  | 4,005,486         |
| Marathon-London                   | EAFE Core                    |   | 2,275,974         |
| Baillie Gifford                   | EAFE Core                    |   | 2,215,543         |
| Mondrian Investment               | EAFE Core                    |   | 820,741           |
| Xponance                          | EAFE Core                    |   | 130,146           |
| TimeSquare Capital Management     | EAFE Small Cap               |   | 263,555           |
| Strategic Global Advisors         | EAFE Small Cap               |   | 99,528            |
| Acadian Asset Management          | EAFE Small Cap               |   | 324,318           |
| LMCG Investments                  | EAFE Small Cap               |   | 99,976            |
| AQR Capital Management            | EAFE Small Cap               |   | 147,064           |
| Other portfolio net assets        |                              |   | 1,200             |
| <b>Total Portfolio Fair Value</b> |                              | <b>\$</b>   | <b>10,383,531</b> |

## Emerging Markets Portfolio

As of June 30, 2020, the Emerging Markets Equity portfolio had approximately \$4.5 billion in net position, representing 6.0% of the PRIT Fund. The active emerging markets core equity managers are benchmarked against the Custom MSCI Emerging Markets Standard Index – Net Dividends (Custom MSCI Emerging Markets Standard – customized to exclude legislatively restricted securities in tobacco, Iran, and Sudan). The active emerging markets small cap equity managers are benchmarked against the Custom MSCI Emerging Markets Small Cap Net Dividends Index (Custom MSCI Emerging Markets Small Cap – customized to exclude legislatively restricted securities in tobacco, Iran, and Sudan). The active frontier market equity managers are benchmarked against the Custom MSCI Frontier Markets 15% Country Capped Net Dividends Index (Custom MSCI Frontier Markets 15% Country Capped – customized to exclude legislatively restricted securities in tobacco, Iran, and Sudan). The emerging markets equity portfolio is allocated to six active core equity managers (which comprise about 87% of the emerging market portfolio), two active small cap equity managers (9% of the portfolio), and two frontier equity managers (4% of the portfolio). The PRIM Board maintains a target weighting of 100% active for the Emerging Markets Equity portfolio.



The primary strategy for this portfolio is investing in companies in developing countries, including, but not limited to, China, Brazil, Russia, South Korea, Taiwan, and India. These countries typically have less efficient securities markets, and thus there is opportunity for returns above benchmarks. As of fiscal year end, the weighting of Emerging Markets Equity was 14.1% of the Global Equity portfolio.

**Portfolio Risks.** Investing in emerging markets carries risks above and beyond those inherent to domestic and developed international equity markets. Emerging markets tend to be less efficient than both U.S. and non-U.S. developed markets, and therefore, are more volatile. In addition to the added volatility, and those risks mentioned in association with investments in developed international equity markets, emerging market investments are subject to economic and political risks, exchange control regulation, expropriation, confiscatory taxation, and social instability.

**Portfolio Returns.** For the fiscal year, the Emerging Markets Equity portfolio returned -2.66% compared to the custom asset class benchmark return of -3.88%. Four of the PRIT Fund's six active emerging markets core equity managers outperformed the Custom MSCI Emerging Markets Standard index. The PRIT Fund's two active emerging markets small cap equity managers outperformed the MSCI Emerging Markets Small Cap index for the fiscal year. One of the two active frontier equity managers outperformed the Custom MSCI Frontier Markets Country Capped index. On a three-, five-, and 10-year basis through June 30, 2020, the PRIT Fund's emerging markets equity managers posted returns of 2.70%, 4.67%, and 4.39%, respectively, compared to the custom asset class benchmark, which returned 1.38%, 2.47%, and 3.22% over the same periods.

The top ten holdings in the Emerging Markets Equity portfolio at June 30, 2020 are illustrated below. A complete listing of holdings is available upon request.

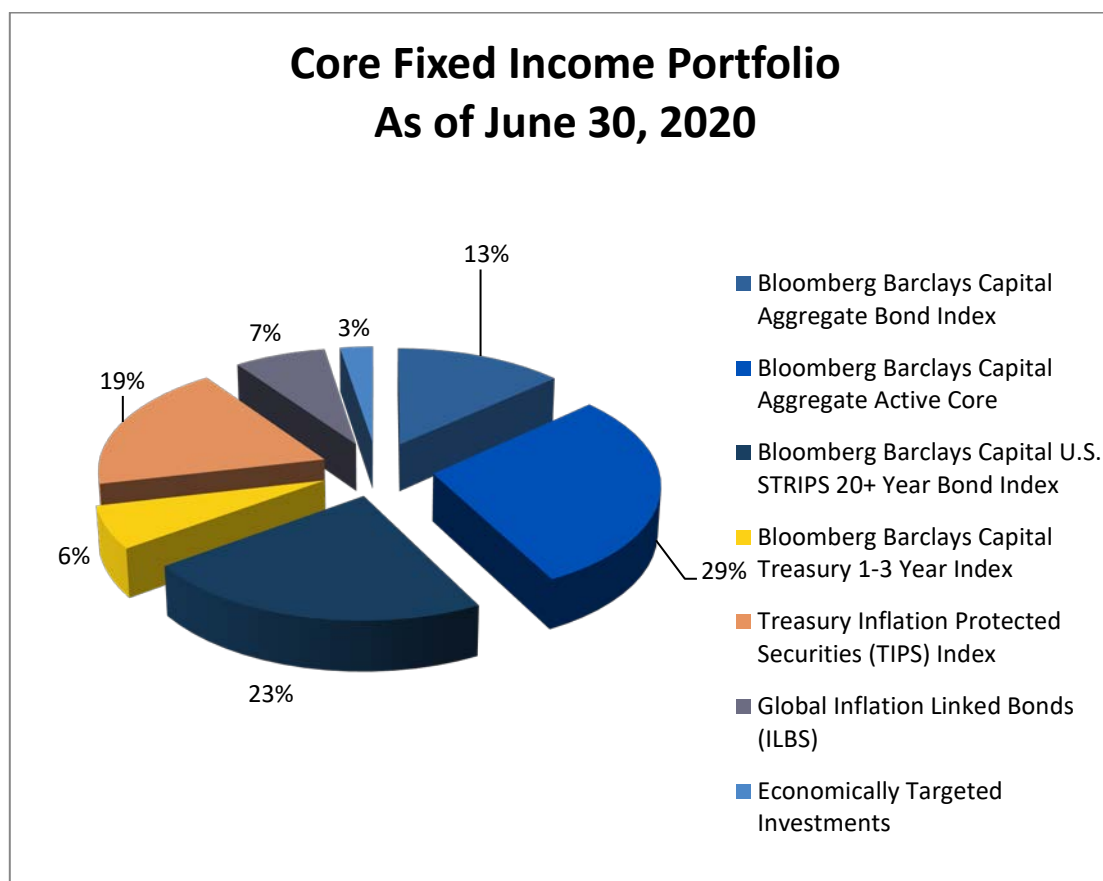
| #  | Issue Name                             | % of Account        |               |
|----|--|---------------------|---------------|
|    |  | Fair Value (\$000s) | Fair Value    |
| 1  | Tencent Holdings Ltd                   | \$ 233,950          | 5.24%         |
| 2  | Alibaba Group Holding Ltd              | 212,951             | 4.77%         |
| 3  | Tawain Semiconductor Mfg. Co.          | 134,729             | 3.02%         |
| 4  | Samsung Electronics                    | 119,544             | 2.68%         |
| 5  | Tawain Semiconductor Mfg. Co. Ltd. ADR | 71,868              | 1.61%         |
| 6  | Ping An Insurance                      | 56,427              | 1.26%         |
| 7  | Sberbank of Russia                     | 47,869              | 1.07%         |
| 8  | LUKOIL                                 | 43,953              | 0.99%         |
| 9  | Housing Development Finance Co.        | 37,089              | 0.83%         |
| 10 | B3 SA - Brasil Bolsa Balcao            | 37,024              | 0.83%         |
|    | TOTAL                                  | <u>\$ 995,404</u>   | <u>22.30%</u> |

The PRIT Fund's Emerging Markets Equity managers at June 30, 2020 are presented in the following table:

| Manager                           | Investment Mandate | Portfolio Fair Value at<br>June 30, 2020 (\$000s) |                         |
|-----------------------------------|--------------------|---|-------------------------|
| AQR Emerging                      | EM Core            | \$  | 716,441                 |
| Baillie Gifford                   | EM Core            |   | 775,194                 |
| Driehaus Capital                  | EM Core            |   | 739,100                 |
| Harding Loevner                   | EM Core            |   | 393,371                 |
| Pzena Investment Management, LLC  | EM Core            |   | 712,935                 |
| T. Rowe Price                     | EM Core            |   | 530,270                 |
| Acadian                           | EM Small Cap       |   | 251,141                 |
| Wasatch                           | EM Small Cap       |   | 148,318                 |
| Acadian                           | Frontier           |   | 43,643                  |
| City of London                    | Frontier           |   | 129,062                 |
| Other portfolio net assets        |                    |   | 21,818                  |
| <b>Total Portfolio Fair Value</b> |                    | <u>\$</u>   | <u><b>4,461,293</b></u> |

### Core Fixed Income Portfolio

As of June 30, 2020, the Core Fixed Income Portfolio had approximately \$11.8 billion invested in investment grade Core Fixed Income positions, representing 15.7% of the PRIT Fund. The Core Fixed Income Portfolio is invested using the following strategies:



The Core Fixed Income portfolio is benchmarked to the Bloomberg Barclays Capital Aggregate Bond Index for core fixed income securities, the Bloomberg Barclays Capital U.S. STRIPS 20+ Year Bond Index for STRIPS securities, the Bloomberg Barclays Capital Treasury 1-3 Year Index for short term fixed income securities, the Bloomberg Barclays Capital US TIPS Index for U.S. TIPS securities, and the Barclays Capital Inflation Linked Bond US\$ Hedged Index for the Global Inflation Linked Bonds (ILBs).

The Bloomberg Barclays Capital Aggregate Index replicates the investment grade bond market. The index is comprised of corporate, government, and mortgage-backed securities. The index portfolio is designed to approximate the performance of the Bloomberg Barclays Capital Aggregate Bond Index, while the active managers' mandate is to exceed the index return. The Core Fixed Income portfolio is designed to reduce the long-term volatility of the total PRIT Fund.

The Core Fixed Income portfolio also contains investments with three managers under the PRIM Board's Economically Targeted Investment (ETI) program, which are benchmarked against the Bloomberg Barclays Capital Aggregate Bond Index. The allocations to TIPS and to the ILBs strategy are designed to provide hedges against rises in inflation. The STRIPS portfolio is designed to approximate the performance of the Bloomberg Barclays U.S. STRIPS 20+ Year Bond Index and to lower overall volatility of the total PRIT Fund. The allocation to short term fixed income securities is designed to approximate the performance of the Bloomberg Barclays Treasury 1-3 Year Index and to reduce volatility while increasing liquidity within the Core Fixed Income portfolio.

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

**Portfolio Returns.** For the fiscal year 2020, the Core Fixed Income composite returned 13.92% compared to the 13.69% return of the benchmark (40% Bloomberg Barclays Capital Aggregate/20% Bloomberg Barclays Capital U.S. STRIPS 20+ Year Bond Index /20% Bloomberg Barclays Capital US TIPS/6.7% Bloomberg Barclays Capital ILB US\$ Hedged/13.3% Bloomberg Barclays Capital US Treasury 1-3 Year Index as of June 30, 2020). The Bloomberg Barclays Capital Aggregate mandates returned 8.79%, compared to the Bloomberg Barclays Capital Aggregate Bond Index return of 8.74%. The STRIPS mandate returned 35.59%, compared to the Bloomberg Barclays Capital U.S. STRIPS 20+ Year Bond Index return of 35.63%. The passively managed TIPS mandate returned 8.31%, compared to its benchmark (Bloomberg Barclays Capital US TIPS) which returned 8.28%. The actively managed ILBs mandate returned 7.52%, compared to the Barclays Capital ILB US\$ Hedged Index return of 7.95%. Since inception in December 2019, the passively managed short-term fixed income securities mandate returned 3.22%, compared to the Bloomberg Barclays Capital Treasury 1-3 Year Index return of 3.23%.

On a three-, five-, and 10-year basis through June 30, 2020, the PRIT Fund's Core Fixed Income portfolio has returned 7.76%, 6.53%, and 5.61%, respectively, compared to the benchmark, which returned 7.66%, 6.46%, and 5.32%, respectively.

The top ten Core Fixed Income holdings as of June 30, 2020, excluding certain pooled funds and repurchase agreements, are illustrated below. A complete listing of holdings is available upon request.

| #     | Issue Name  | % of Account        |            |
|-------|---|---------------------|------------|
|       |   | Fair Value (\$000s) | Fair Value |
| 1     | U.S. Treasury Bond Principal STRIP 0.000% February 2048 | \$ 302,973          | 2.58%      |
| 2     | U.S. Treasury Bond Principal STRIP 0.000% May 2048      | 214,235             | 1.82%      |
| 3     | Commit to Purchase FNMA 2.500% September 2050           | 184,264             | 1.57%      |
| 4     | U.S. Treasury Bond Principal STRIP 0.000% May 2043      | 183,795             | 1.56%      |
| 5     | U.S. Treasury Bond Principal STRIP 0.000% November 2047 | 155,631             | 1.32%      |
| 6     | U.S. Treasury Bond Principal STRIP 0.000% August 2048   | 155,054             | 1.32%      |
| 7     | U.S. Treasury Bond Principal STRIP 0.000% May 2046      | 146,357             | 1.24%      |
| 8     | U.S. Treasury Bond Principal STRIP 0.000% August 2047   | 141,570             | 1.20%      |
| 9     | U.S. Treasury Bond Principal STRIP 0.000% May 2044      | 123,217             | 1.05%      |
| 10    | U.S. Treasury-CPI Inflation 0.125% January 2023         | 122,467             | 1.04%      |
| TOTAL |   | \$ 1,729,563        | 14.70%     |

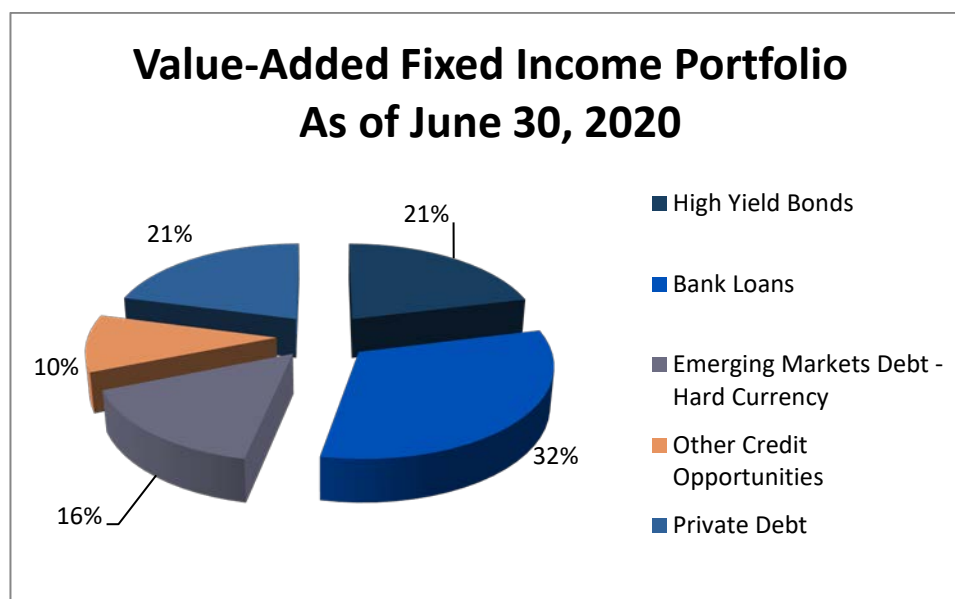


The PRIT Fund's Core Fixed Income portfolio managers at June 30, 2020 are presented in the following table:

| <b>Manager</b>                          | <b>Investment Mandate</b> | <b>Portfolio Fair Value at<br/>June 30, 2020 (\$000s)</b> |                   |
|---|---------------------------|---|-------------------|
| <i>Blackrock Financial Management</i>   | Core Index                | \$  | 1,565,313         |
| <i>Loomis, Sayles &amp; Co., LP</i>     | Active Core               |   | 1,540,108         |
| <i>PIMCO</i>                            | Active Core               |   | 1,464,720         |
| <i>Pugh Capital Management</i>          | Active Core               |   | 171,620           |
| <i>New Century Advisors</i>             | Active Core               |   | 82,188            |
| <i>Longfellow Investment Management</i> | Active Core               |   | 157,586           |
| <i>Blackrock Financial Management</i>   | Inflation Link Bonds      |   | 848,010           |
| <i>Blackrock Financial Management</i>   | STRIPS Index              |   | 2,668,688         |
| <i>Blackrock Financial Management</i>   | TIPS Index                |   | 2,212,024         |
| <i>Blackrock Financial Management</i>   | Short-Term Fixed Income   |   | 744,928           |
| <i>AFL - CIO Housing Investment</i>     | ETI - Active Core         |   | 149,869           |
| <i>RBC Global Asset Management</i>      | ETI - Active Core         |   | 121,207           |
| <i>Community Capital Management</i>     | ETI - Active Core         |   | 33,009            |
| <i>Other portfolio net assets</i>       |                           |   | 68                |
| <b>Total Portfolio Fair Value</b>       |                           | <b>\$</b>   | <b>11,759,338</b> |

### Value-Added Fixed Income Portfolio

As of June 30, 2020, the Value-Added Fixed Income portfolio had approximately \$5.7 billion in net position, representing 7.5% of the PRIT Fund. The Value-Added Fixed Income portfolio is invested using the following strategies:



**High Yield Bonds**, which represent 1.6% of the PRIT Fund, are securities that are typically rated below Investment Grade by Standard & Poor's, Fitch or Moody's. There are three managers in the PRIT Fund high yield bond program, all through separate accounts. Each manager's mandate is to exceed the index return.

**Bank Loans**, 2.4% of the PRIT Fund, represents investments in senior secured bank loans. There are two managers in the PRIT Fund bank loan program; both invest through commingled funds. Each manager's mandate is to exceed the index return.

**Emerging Markets Debt**, 1.2% of the PRIT Fund, represents investments in debt issued within the emerging marketplace. There are two managers in the PRIT Fund emerging debt program, representing Hard Currency strategies; one is through a commingled emerging debt investment vehicle while the other is through a separate account. Each manager's mandate is to exceed the index return.

**Other Credit Opportunities**, 0.8% of the PRIT Fund, represents investments in other credit strategies whose risk, return and liquidity characteristics lie between the public market strategies of high yield bonds, bank loans and emerging markets debt and the private partnerships in the private debt strategies. There are six managers in the PRIT Fund Other Credit Opportunities program; one is through a private partnership while the rest are through separate accounts.

**Private Debt**, 1.6% of the PRIT Fund, represents investments in private partnerships that invest directly in distressed debt investment opportunities. As of June 30, 2020, the PRIT Fund had approximately \$1.2 billion in distressed debt investments with twelve investment managers.

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

**Portfolio Returns:** In fiscal year 2020, the Value-Added Fixed Income composite returned -3.19% compared to -2.19% for the asset class benchmark. The PRIT Fund's three high yield bond managers returned 0.22%, while the Intercontinental Exchange Bank of America Merrill Lynch (ICE BofAML) High Yield index returned -1.17%. The Emerging Markets Debt portfolio returned -5.33% during the fiscal year, compared to the JP Morgan Emerging Markets Bond Index (JPM EMBI Global Index), which returned 1.52%. The two bank loan managers, returned -1.80%, compared to the S&P LSTA Leveraged Loan index return of -1.99%. The Other Credit Opportunities portfolio returned -0.81% compared to the custom benchmark of 1.19%. The Private Debt portfolio returned -6.22% (3-year annualized return of 9.37%) compared to the index return of -7.03%. The benchmark for the Private Debt portfolio at June 30, 2020 is the 3-year annualized return of the Altman NYU Salomon Center Combined Defaulted Public Bond & Bank Loan Index.

On a three-, five-, and 10-year basis through June 30, 2020, the PRIT Fund's Value-Added Fixed Income portfolio has returned 2.32%, 3.60%, and 5.29%, respectively, compared to the benchmark, which returned 2.53%, 2.74%, and 3.85%, respectively.

The top ten holdings in the Value-Added Fixed Income portfolio at June 30, 2020, excluding investments in emerging debt pooled funds, bank loan funds, private debt and other credit opportunities partnerships, and other pooled funds, are illustrated below. A complete listing of holdings is available upon request.

| #  | Issue Name                                | % of Account        |            |
|----|---|---------------------|------------|
|    |   | Fair Value (\$000s) | Fair Value |
| 1  | Federal Home Loan September 2020          | \$ 11,795           | 0.21%      |
| 2  | Coinmach 6/17 Cov-Lite TLB1               | 11,031              | 0.20%      |
| 3  | Sprint Capital Corp 8.750% March 2032     | 10,945              | 0.19%      |
| 4  | CCO Holdings LLC 4.750% March 2030        | 8,876               | 0.16%      |
| 5  | Petroleos Mexicanos 7.690% January 2050   | 8,344               | 0.15%      |
| 6  | Sprint Capital Corp 6.875% November 2028  | 7,631               | 0.14%      |
| 7  | Lineage Logistics 0.000% February 2025    | 6,894               | 0.12%      |
| 8  | Southern Gas Corridor 6.875% March 2026   | 6,669               | 0.12%      |
| 9  | Dish Network Corp 3.375% August 2026      | 6,248               | 0.11%      |
| 10 | Altice France Holding SA 10.500% May 2027 | 5,728               | 0.10%      |
|    | TOTAL                                     | \$ 84,161           | 1.50%      |

The PRIT Fund's Value-Added Fixed Income portfolio managers at June 30, 2020 are presented in the following table:

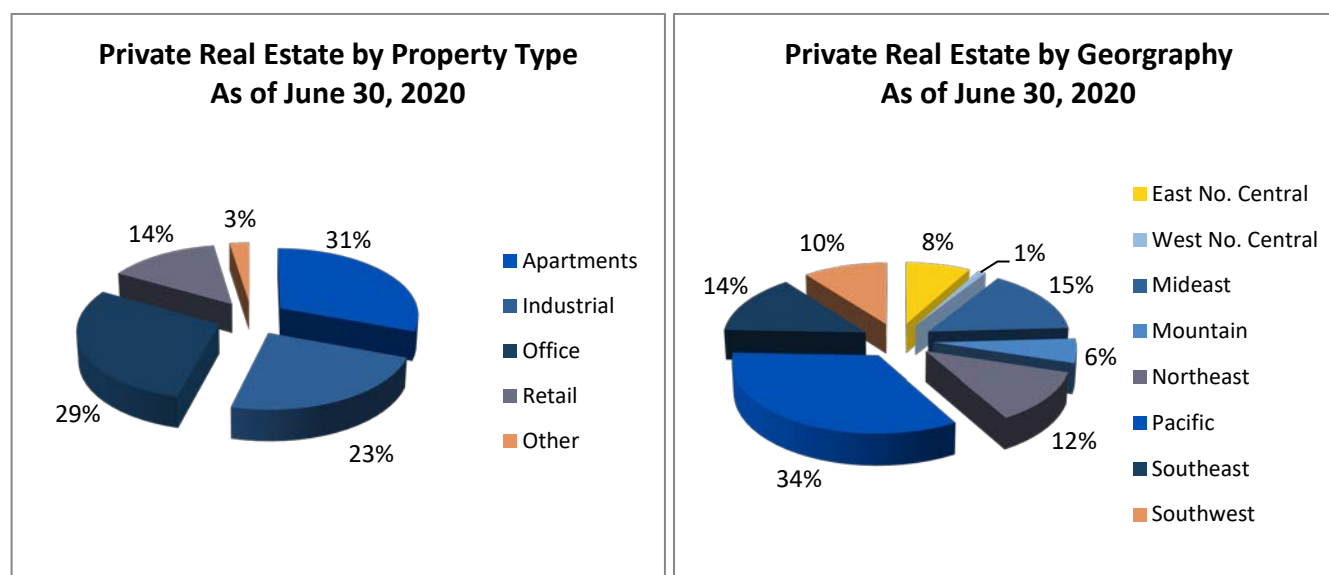
| Manager                              | Investment Mandate                  | Portfolio Fair Value at<br>June 30, 2020 (\$000s) |                  |
|--------------------------------------|-------------------------------------|---|------------------|
| <i>Fidelity Management Trust</i>     | High Yield Bond                     | \$  | 402,181          |
| <i>Loomis, Sayles &amp; Co., LP</i>  | High Yield Bond                     |   | 417,303          |
| <i>Shenkman Capital Management</i>   | High Yield Bond                     |   | 375,980          |
| <i>Ashmore Investment Management</i> | Emerging Markets Debt Hard Currency |   | 459,892          |
| <i>PIMCO</i>                         | Emerging Markets Debt Hard Currency |   | 408,379          |
| <i>Eaton Vance</i>                   | Bank Loans                          |   | 913,187          |
| <i>Voya</i>                          | Bank Loans                          |   | 896,041          |
| <i>Various accounts</i>              | Other Credit Opportunities          |   | 574,855          |
| <i>Various partnerships</i>          | Private Debt                        |   | 1,197,253        |
| <i>Other portfolio net assets</i>    |                                     |   | 5,304            |
| <b>Total Portfolio Fair Value</b>    |                                     | <b>\$</b>   | <b>5,650,375</b> |

## Real Estate Portfolio

As of June 30, 2020, the PRIM Board had \$6.9 billion invested in real estate through the PRIT Fund's ownership interest in PRIT Core Realty Holdings LLC (the LLC), representing 9.2% of the PRIT Fund. Real estate holdings consist of directly-owned properties, REITs, and investments in real estate funds. The PRIT Fund invests in real estate because it provides diversification and attractive returns. Real estate returns typically do not have a strong correlation with stock and bond returns, therefore offering an element of diversification to reduce volatility. Real estate can also offer attractive current returns as a portfolio of well-leased assets provides consistent cash flows from rental income.

Approximately 81% of the real estate allocation is dedicated to direct investments and private partnerships (the "Private Real Estate Investments"). The Private Real Estate Investments are subsequently broken down into Core and Non-Core real estate investments. As of June 30, 2020, \$5.4 billion (net of portfolio debt) of Core real estate investments and \$277 million of Non-Core real estate investments comprise PRIT's Private Real Estate Investments, which represents 7.5% of the PRIT Fund. Typically, Core real estate investments are relatively low risk and substantially leased (80% or greater occupancy at the time of investment) institutional quality real estate. Non-Core real estate investments offer higher potential returns at a higher risk profile. The PRIM Board's Non-Core program targets opportunities associated with development, vacancy and tenant exposure or the potential to physically or financially reposition an investment. Public REITs comprise the remainder of the investments in the PRIT Fund real estate portfolio. As of June 30, 2020, the PRIM Board had approximately \$1.3 billion allocated to public REITs. The public REIT portfolio represents 1.7% of the PRIT Fund.

The following charts display the property type and geographic diversification of the PRIM Board's directly-owned real estate assets, at June 30, 2020:



The PRIM Board's strategies utilize a disciplined portfolio approach to real estate investing that is focused on investments in equity interests in institutional quality real estate. The PRIM Board has established separate accounts with capable real estate investment managers under terms that are beneficial to the PRIM Board.

Because the PRIM Board is typically the sole owner of the real estate in each such account, the managers operate under clear policies and guidelines most appropriate to the PRIM Board's investment needs.

**Leverage.** The PRIM Board approved the Real Estate Portfolio Level Leverage Policy at its February 26, 2020 Board meeting. This policy permits portfolio level debt to be incurred subject to the following policy guidelines: (i) **Debt Service Coverage:** The ratio of i) portfolio EBITDA to ii) debt service on total indebtedness should be no lower than 1.5x at the time debt is placed, assuming actual debt service. (ii) **Spread of Operating Yield over Borrowing Rate:** PRIM will target a spread of 100 basis points between the property portfolio operating yield (EBITDA/portfolio value at cost) and the weighted average borrowing interest rate on total unsecured indebtedness at the time debt is placed. When acquiring Core Real Estate that requires an assumption of debt or placement of new debt, the property NOI Yield shall be at least 100 basis points, greater than the borrowing interest rate of the assumed or new debt. (iii) **Total Leverage Ratio:** The ratio should be no more than 40% of the total real estate property portfolio. This ratio includes any property-level financing in place as well as the portfolio level facility. The calculation of the loan to value ratio will be: total debt/gross asset value of the real estate property portfolio. (iv) **Financing Characteristics:** PRIM may consider all sources of financing options that are available. Leverage may utilize fixed or floating interest rates and may utilize derivatives to achieve these rates. The decision to use fixed or floating rates will be determined at the time of borrowing and will be a function of availability, rate, and risk. Fixed rate financing will be the preferred method.

In February 2013, the LLC completed a \$1.0 billion portfolio level real estate financing through the issuances of a senior unsecured term loan and senior unsecured notes. In November 2016, the LLC refinanced the existing \$500 million senior unsecured term loan with a new loan facility with U.S. Bank of the same amount. In addition, the LLC utilized internal securities lending capabilities to increase portfolio leverage by \$250 million. By utilizing the securities lending financing capabilities, the LLC is able to achieve lower borrowing costs for the Real Estate portfolio and allow more flexibility within the real estate debt program. As the \$250 million loan is an inter-entity loan, it has been eliminated in consolidation from the financial statements presented in the *Financial Section*. In February 2020, the LLC issued \$200 million senior unsecured notes and repaid \$175 million senior unsecured notes from the February 2013 issuances.

**Portfolio Risks.** Investments in real estate are subject to various risks, including adverse changes in economic conditions and in the capital markets, financial conditions of tenants, interest of buyers and sellers in real estate properties, environmental laws and regulations, zoning laws, governmental rules, uninsurable losses, and other factors beyond the control of the property owner. In addition, while diversification is an important tool used by the PRIM Board for mitigating risk, there is no assurance that diversification, either by geographic region or asset type, will consistently be maintained in the Core Real Estate Portfolio because of the illiquid nature of real estate. In addition, the portfolio is subject to valuation risk, as the valuation of the assets in this portfolio is based on estimates made by the PRIM Board in coordination with external appraisers and the investment managers. Furthermore, there can be no assurance that the fair value of the portfolio will ultimately correspond to the realized value of the underlying properties. Public REITs face risks similar to the risks of public equities both domestically and internationally since they are traded on public exchanges. They can experience corrections and price movements that are much more rapid than those experienced by private real estate portfolios and the share price can vary significantly from underlying net asset value.

**Performance.** During the fiscal year, the PRIM Board's private real estate portfolio experienced relative underperformance due to benchmark lag. The private real estate sector continues to benefit from a low interest

rate environment and strong demand for quality industrial and multifamily real estate in core markets, two property types where PRIM has a relative overweight.

For the fiscal year 2020, the real estate portfolio returned 1.06% compared to the 1.41% return of the asset class benchmark (80% NCREIF Property Index (one quarter lag)/20% FTSE EPRA NAREIT Developed Net Total Return). The Private Real Estate Investments portfolio returned 4.67% for the year ended June 30, 2020, comparing to the NCREIF Property Index (one quarter lag), which returned 5.28% over the same period. REIT investments returned -12.95%, comparing to its benchmark return of -15.60%.

On a three-, five-, and 10-year basis through June 30, 2020, the PRIT Fund's Real Estate portfolio has returned 5.46%, 7.04%, and 10.35%, respectively, compared to the benchmark, which returned 5.23%, 6.73%, and 9.79%, respectively.

The PRIT Fund's real estate investment managers at June 30, 2020 are presented in the following table:

| Manager   | Investment Mandate       | Portfolio Fair Value at<br>June 30, 2020 (\$000s) |
|---|--------------------------|---|
| <i>Invesco Realty Advisors</i>                              | Separate Accounts - Core | \$ 2,029,138                                      |
| <i>LaSalle Investment Management</i>                        | Separate Accounts - Core | 1,859,717   |
| <i>AEW</i>  | Separate Accounts - Core | 1,717,253   |
| <i>CBRE</i>   | Separate Accounts - Core | 221,724   |
| <i>Stockbridge</i>  | Separate Accounts - Core | 140,628   |
| <i>PRIM Board</i>   | Separate Accounts - Core | 351,402   |
| <i>Invesco Realty Advisors - Transition Portfolio</i>       | Separate Accounts - Core | 226,563   |
| <i>AEW - Transition Portfolio</i>                           | Separate Accounts - Core | 70,739  |
| <i>Various Partnerships</i>                                 | Non-Core                 | 277,013   |
| <i>CenterSquare Investment Management</i>                   | Global REITs             | 812,285   |
| <i>Brookfield Investment Management</i>                     | Global REITs             | 444,539   |
| <i>Other portfolio net assets (portfolio debt included)</i> |                          | (1,229,849)                                       |
| <b>Total Portfolio Fair Value</b>                           |                          | <b>\$ 6,921,152</b>                               |

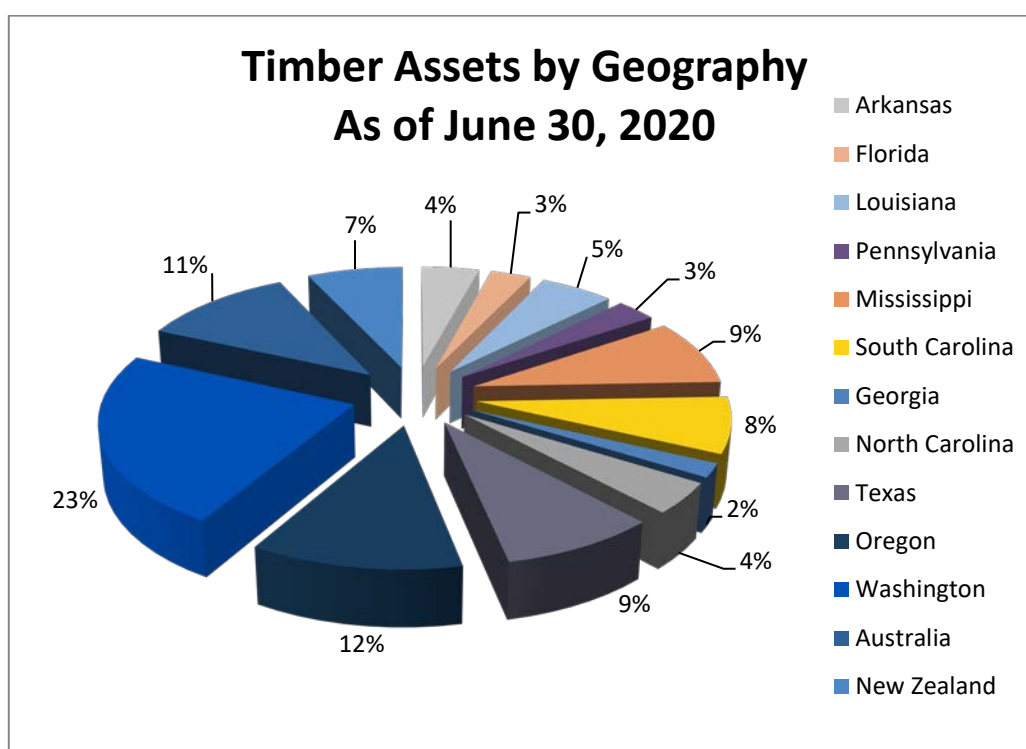
## Timberland Portfolio

As of June 30, 2020, the PRIM Board had \$2.8 billion invested in timberland, representing 3.7% of the PRIT Fund. The PRIT Fund's allocation to timberland is through two external timberland investment managers, Forest Investment Associates (FIA) and The Campbell Group (Campbell).

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

In Australia, there is approximately 2 million hectares (4.9 million acres) of plantation timberlands that are almost evenly split between hardwood and softwood species. Australia is a net importer of forest products, with limited domestic supply and high demand. With increasing fiber demand from China, export opportunities exist for plantations with close proximity to ports. There are approximately 2 million hectares of timberland plantations in New Zealand, comprised primarily of softwood (radiata pine). The country produces significantly more logs than it consumes, relying heavily on export markets, particularly China.

The geographical diversification of the PRIT Fund's timberland portfolio at June 30, 2020 is presented below.





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

**Portfolio Risks.** Investments in timberland assets are subject to various risks, including adverse changes in general economic conditions, fluctuations in the market price of timber, damage to timber properties due to infestation and weather-related events, changes in regulatory conditions and other governmental rules. In addition, the portfolio is subject to valuation risk, as the valuation of the assets in this segment are based on estimates made by the PRIM Board through coordination with external appraisers and the PRIM Board's timberland investment managers. Accordingly, there can be no assurance that the fair value of investments will correspond to the ultimate realized value of the properties. International timberland investments are also subject to currency fluctuations that can result in unpredictable gains or losses when foreign currency is converted into U.S. dollars.

**Performance.** As of June 30, 2020, the one-year Timberland return was -1.65% as compared to the NCREIF Timberland Index (one quarter lag) of 1.30%. On a three-, five-, and 10-year basis through June 30, 2020, the PRIT Fund's Timberland portfolio has returned 2.63%, 3.30%, and 4.89%, respectively, compared to the benchmark return of 2.48%, 2.80%, and 4.49%, respectively.

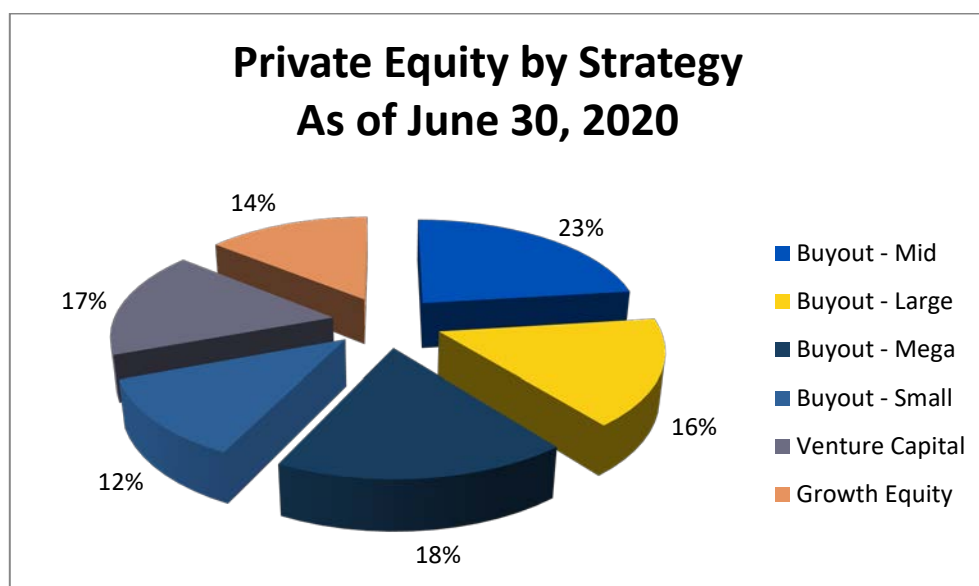
The PRIT Fund's Timberland investment managers at June 30, 2020 are presented in the following table:

| Manager                              | Investment Mandate             | Portfolio Fair Value at<br>June 30, 2020 (\$000s) |                  |
|--------------------------------------|--------------------------------|---|------------------|
| <i>Forest Investments Associates</i> | Separate Accounts - Timberland | \$  | 1,286,716        |
| <i>The Campbell Group</i>            | Separate Accounts - Timberland |   | 1,464,957        |
| <i>Other portfolio net assets</i>    |                                |   | 14,551           |
| <b>Total Portfolio Fair Value</b>    |                                | <b>\$</b>   | <b>2,766,224</b> |

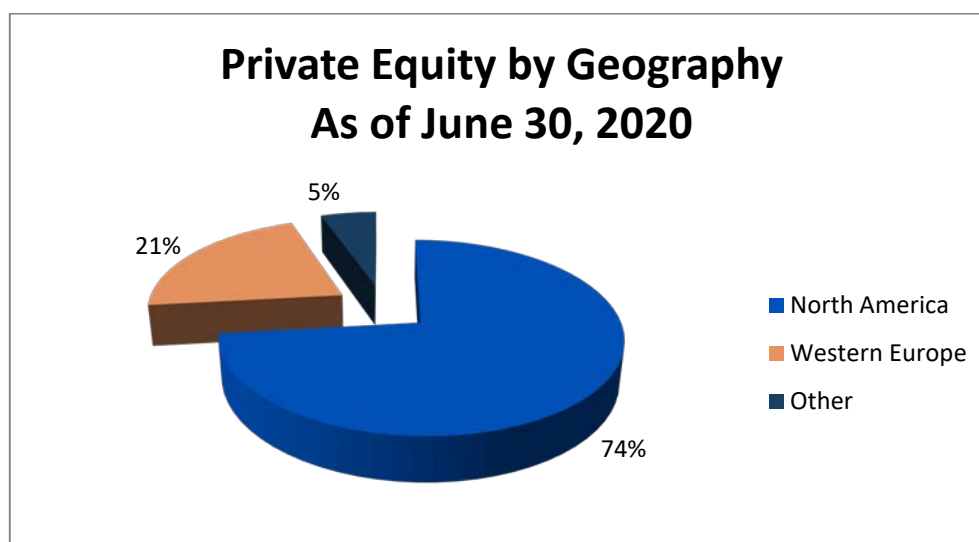
### Private Equity Portfolio

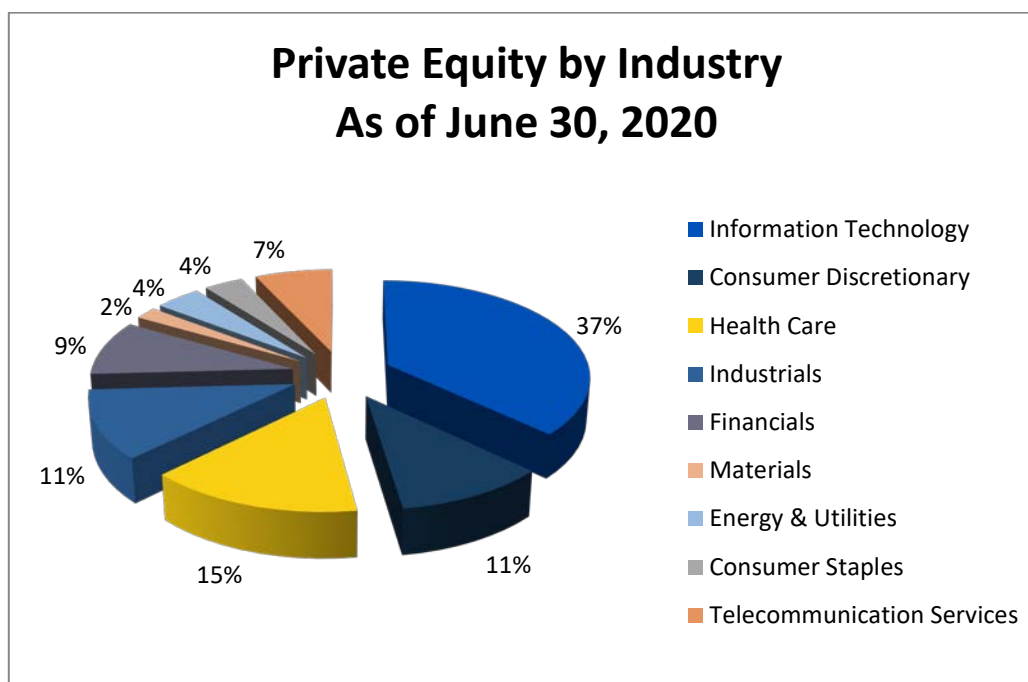
As of June 30, 2020, the fair value of the Private Equity portfolio was \$8.6 billion, representing 11.4% of the PRIT Fund. Unlike public equities, where investors have the ability to liquidate investments generally at any time, private equity investments are illiquid. Therefore, an investment in this category is a long-term commitment.

The Private Equity portfolio is well-diversified by strategy and the allocation as of June 30, 2020 is presented below.



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





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

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

- **Illiquidity:** Limited partnership vehicles typically have 10-15-year life cycles during which limited partners are unable to liquidate their entire positions, but instead, will receive the cash flow from successful investments. A defined secondary market such as the New York Stock Exchange does not exist for private equity.
- **Volatility:** Volatility, as measured by standard deviation from a mean return, has historically been greater for private equity investing than many other assets.
- **Management Fee Effect:** Typically, general partners’ fees range from 150 to 250 basis points annually. This is usually drawn down against committed capital, although it may not be invested, and may result in negative returns until investments are realized successfully.
- **Valuation of investments:** Investment valuation at any time may not be reflective of fair market value. Due to recent U.S. accounting rule changes (ASC 820) private equity investments are generally valued at fair value. However, because of the inherent uncertainty of the valuation of the portfolio companies, the estimated value may differ significantly from the value that would have been used had a ready market for these securities existed.

- General Partner Discretion: Investors lack control over the general partner's investment decisions. The general partner is provided capital to manage at its discretion and investors are provided limited rights, such as termination of the partnership in certain instances. (These rights may not prove practical except in extreme circumstances.)
- Binding Commitments: There is limited ability to reduce or terminate investments. Under the contractual terms of the partnership, investments may be terminated in some cases by super-majority vote of the investors and after the occurrence of certain events. (These rights may not prove practical except in extreme circumstances.)
- Risk of Loss: There is risk of losing 100% of the investment. Investments in partnerships are usually equity and their risk nature could result in loss of the entire investment.

**Performance.** The PRIT Fund's Private Equity portfolio delivered a one-year return of 4.43% through June 30, 2020. The PRIT Fund's Private Equity managers were active in making new investments as well as in generating liquidity in the year ending June 30, 2020. The PRIT Fund's managers called \$1.5 billion of capital for additional investments, management fees, and partnership expenses, which compares to the \$1.5 billion called during the prior fiscal year. From a liquidity standpoint, the portfolio generated total distributions of \$1.6 billion which compares to \$1.9 billion of distributions for the 2019 fiscal year.

While there is not currently a widely used or conventional benchmark in this asset class, the PRIM Board staff targets investment opportunities with the ability to generate a long-term rate of return equal to or greater than a custom benchmark (7-year annualized return of a blend of the 85.9% Russell 3000 + 3%/14.1% MSCI Europe IMI + 3% as of June 30, 2020). As of June 30, 2020, the PRIT Fund's Private Equity portfolio returned 4.43% compared to the custom benchmark return of 14.33%. On a three-, five-, and 10-year basis through June 30, 2020, the PRIT Fund's Private Equity portfolio has returned 14.67%, 15.45%, and 16.91%, respectively, compared to the custom benchmark return of 15.06%, 15.77%, and 12.09%, respectively. It is important to remember that there is a one quarter lag inherent in private equity valuations. For this reason, the June 30, 2020 results for the Private Equity portfolio do not reflect the same level of appreciation in asset values that are reflected in public market indices such as the Russell 3000 and the MSCI Europe IMI.

Since inception to June 30, 2020, the PRIT Fund has committed \$24.0 billion to 449 partnerships (307 active) of which \$20.1 billion has been invested. The program has generated \$24.5 billion in distributions. The net IRR since inception for the program is 13.30%.

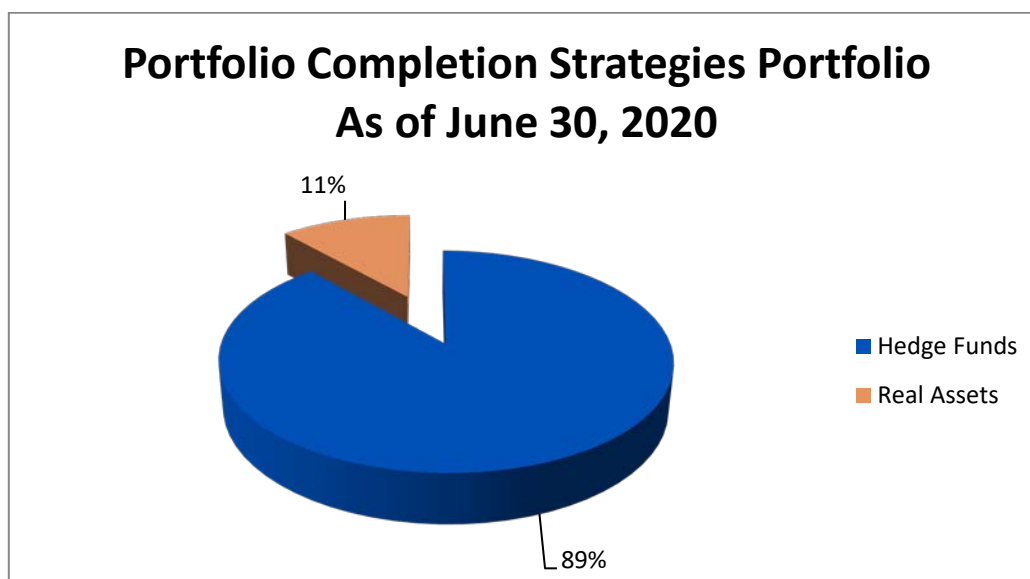
## PRIVATE EQUITY EXTERNAL MANAGERS

As of June 30, 2020

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

### Portfolio Completion Strategies (PCS) Portfolio

As of June 30, 2020, the PCS portfolio had approximately \$7.3 billion in net position, representing 9.7% of the PRIT Fund. The PCS portfolio is invested in the following strategies:



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

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

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

**Performance.** For the fiscal year, the PCS portfolio returned -4.90% compared to the asset class benchmark return of -2.60%. On a three-, five-, and 10-year basis through June 30, 2020, the PRIT Fund's PCS portfolio has returned 1.11%, 1.25%, and 3.77%, respectively, compared to the benchmark return of 2.00%, 1.43%, and 2.79%, respectively.

The PRIT Fund's PCS managers at June 30, 2020 are presented in the following table:

| Manager   | Strategy Focus | Location               |
|---|----------------|------------------------|
| 1 400 Capital Management                        | Hedge Fund     | New York, NY           |
| 2 Advent Capital Management                     | Hedge Fund     | New York, NY           |
| 3 Aeolus Capital Management Ltd                 | Real Assets    | Hamilton, Bermuda      |
| 4 Basswood Capital Management, LLC              | Hedge Fund     | New York, NY           |
| 5 BlackRock Financial Management                | Real Assets    | New York, NY           |
| 6 Bridgade Capital Management                   | Hedge Fund     | New York, NY           |
| 7 Cantab Capital Partners                       | Hedge Fund     | Cambridge, UK          |
| 8 Canvas Capital                                | Hedge Fund     | Rio de Janeiro, Brazil |
| 9 Capula Investment Management                  | Hedge Fund     | Greenwich, CT          |
| 10 CKC Capital                                  | Hedge Fund     | New York, NY           |
| 11 Complus Asset Management Limited             | Hedge Fund     | Hong Kong, China       |
| 12 Contrarian Capital Management                | Hedge Fund     | Greenwich, CT          |
| 13 Davidson Kempner Capital Management          | Hedge Fund     | New York, NY           |
| 14 East Lodge Capital                           | Hedge Fund     | London, UK             |
| 15 Elliot Management Corporation                | Hedge Fund     | New York, NY           |
| 16 Fir Tree Partners                            | Hedge Fund     | New York, NY           |
| 17 Global Sigma Group                           | Hedge Fund     | Boca Raton, FL         |
| 18 Goldman Sachs Asset Management               | Hedge Fund     | New York, NY           |
| 19 IPM Informed Portfolio Management AB         | Hedge Fund     | Stockholm, Sweden      |
| 20 Investcorp Investment Advisers               | Hedge Fund     | New York, NY           |
| 21 JEN Partners                                 | Real Assets    | New York, NY           |
| 22 Land and Buildings Investment Management     | Hedge Fund     | Stamford, CT           |
| 23 LMCG Serenitas                               | Hedge Fund     | New York, NY           |
| 24 Markel CATCo Investment Management           | Real Assets    | Hamilton, Bermuda      |
| 25 Mudrick Capital Management                   | Hedge Fund     | New York, NY           |
| 26 Mygale                                       | Hedge Fund     | London, UK             |
| 27 PAAMCO                                       | Hedge Fund     | Newport Beach, CA      |
| 28 PGIM   | Real Assets    | Newark, NJ             |
| 29 RV Capital Management                        | Hedge Fund     | Singapore              |
| 30 Sightway Capital                             | Real Assets    | New York, NY           |
| 31 Silver Creek Advisory Partners               | Real Assets    | Seattle, WA            |
| 32 Summit Partners Public Asset Management, LLC | Hedge Fund     | Boston, MA             |
| 33 Winton Capital Management                    | Hedge Fund     | London, UK             |

## Overlay

As of June 30, 2020, the Overlay portfolio, managed in part by Parametric Portfolio Associates, had \$444.8 million in net position, representing 0.6% of the PRIT Fund. The Overlay portfolio returned 7.02% for the fiscal year, 3.85% over the three-year period, 4.01% over the five-year period, and 4.67% since its inception in October 2013.

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

## SCHEDULE OF TIME-WEIGHTED RETURNS BY ASSET CLASS\*

### For the Periods Ended June 30, 2020

| Asset Class   | 1 Year        | 3 Year        | 5 Year        | 10 Year        |
|---|---------------|---------------|---------------|----------------|
| <i>Benchmark as of June 30, 2020</i>  |               |               |               |                |
| <b>Global Equity</b>  | <b>0.54%</b>  | <b>5.47%</b>  | <b>6.37%</b>  | <b>9.48%</b>   |
| 53.85% Domestic Equity BM/33.33% International Equity BM/12.82% Emerging Markets BM   | 0.41%         | 5.10%         | 5.81%         | 8.88%          |
| <b>Domestic Equity</b>  | <b>4.05%</b>  | <b>9.28%</b>  | <b>9.48%</b>  | <b>13.38%</b>  |
| Asset Class BM (1)  | 5.54%         | 9.57%         | 9.80%         | 13.56%         |
| <b>International Equity</b>   | <b>-3.27%</b> | <b>1.72%</b>  | <b>3.15%</b>  | <b>6.89%</b>   |
| 42.3% Custom MSCI World EX-US IMI NET DIVS/46.2% Custom MSCI EAFE Standard Index NET DIVS/11.5% Custom MSCI EAFE Small Cap Index NET DIVS | -5.12%        | 0.93%         | 2.19%         | 5.69%          |
| <b>Emerging Markets</b>   | <b>-2.66%</b> | <b>2.70%</b>  | <b>4.67%</b>  | <b>4.39%</b>   |
| 86% MSCI EM Standard NET DIVS/8% Custom MSCI EM Small Cap NET DIVS/6% Custom MSCI FM 15% Country Capped Index NET DIVS                    | -3.88%        | 1.38%         | 2.47%         | 3.22%          |
| <b>Core Fixed Income</b>  | <b>13.92%</b> | <b>7.76%</b>  | <b>6.53%</b>  | <b>5.61%</b>   |
| 40% BC Agg/20% BC US STRIPS 20+ Year /20% BC US TIPS/6.7% BC ILB US\$ HEDGED/13.3% BC US Treasury 1-3 Year Index                          | 13.69%        | 7.66%         | 6.46%         | 5.32%          |
| <b>Value-Added Fixed Income</b>   | <b>-3.19%</b> | <b>2.32%</b>  | <b>3.60%</b>  | <b>5.29%</b>   |
| Asset Class BM (2)  | -2.19%        | 2.53%         | 2.74%         | 3.85%          |
| <b>Real Estate</b>  | <b>1.06%</b>  | <b>5.46%</b>  | <b>7.04%</b>  | <b>10.35%</b>  |
| 80% NCREIF Property One Qtr. Lag/20% FTSE EPRA NAREIT DEVELOPED Net Total Return  | 1.41%         | 5.23%         | 6.73%         | 9.79%          |
| <b>Private Equity</b>   | <b>4.43%</b>  | <b>14.67%</b> | <b>15.45%</b> | <b>16.91%</b>  |
| No Benchmark  | na            | na            | na            | na             |
| <b>Timberland</b>   | <b>-1.65%</b> | <b>2.63%</b>  | <b>3.30%</b>  | <b>4.89%</b>   |
| NCREIF Timberland Index (one quarter lag)   | 1.30%         | 2.48%         | 2.80%         | 4.49%          |
| <b>Portfolio Completion Strategies</b>  | <b>-4.90%</b> | <b>1.11%</b>  | <b>1.25%</b>  | <b>3.77%</b>   |
| Total Portfolio Completion Strategies Composite Index (3)   | -2.60%        | 2.00%         | 1.43%         | 2.79%          |
| <b>Overlay (4)</b>  | <b>7.02%</b>  | <b>3.85%</b>  | <b>4.01%</b>  | <b>na</b>      |
| No Benchmark  | na            | na            | na            | na             |
|   | <b>1 Year</b> | <b>3 Year</b> | <b>5 Year</b> | <b>10 Year</b> |
| <b>Total PRIT Core Fund</b>   | <b>2.38%</b>  | <b>6.13%</b>  | <b>6.72%</b>  | <b>8.84%</b>   |
| Policy Benchmark  | 3.91%         | 6.19%         | 6.35%         | 7.82%          |
| TUCS Universe Median  | 3.23%         | 6.23%         | 6.43%         | 8.81%          |
| TUCS Universe Ranking   | 55th          | 60th          | 40th          | 45th           |

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

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



## Investment Summary at Fair Value

As of June 30, 2020

|                                  | Fair Value<br>(\$000s)      | % of Fair<br>Value    |
|----------------------------------|-----------------------------|-----------------------|
| Short-term:                      |                             |                       |
| Money market investments         | \$ 2,069,658                | 2.60%                 |
| Fixed income:                    |                             |                       |
| U.S. government obligations      | 7,611,309                   | 9.57%                 |
| Domestic fixed income            | 7,246,901                   | 9.11%                 |
| International fixed income       | 2,313,262                   | 2.91%                 |
| Distressed debt                  | 1,197,253                   | 1.50%                 |
| Other credit opportunities       | 745,184                     | 0.94%                 |
|                                  | <u>19,113,909</u>           | <u>24.03%</u>         |
| Equity:                          |                             |                       |
| Domestic equity securities       | 14,836,528                  | 18.65%                |
| International equity securities  | 14,431,091                  | 18.14%                |
|                                  | <u>29,267,619</u>           | <u>36.79%</u>         |
| Timberland                       | 2,755,084                   | 3.45%                 |
| Private Equity:                  |                             |                       |
| Special equity                   | 6,333,659                   | 7.96%                 |
| Venture capital                  | 2,012,141                   | 2.53%                 |
| Natural resources                | 53,354                      | 0.07%                 |
|                                  | <u>8,399,154</u>            | <u>10.56%</u>         |
| Real estate:                     |                             |                       |
| Real estate properties           | 7,374,146                   | 9.27%                 |
| Real estate equity securities    | 1,253,533                   | 1.58%                 |
| Real estate funds                | 89,781                      | 0.11%                 |
| Other                            | 39,998                      | 0.05%                 |
|                                  | <u>8,757,458</u>            | <u>11.01%</u>         |
| Portfolio completion strategies: |                             |                       |
| Event-driven hedge funds         | 733,342                     | 0.92%                 |
| Relative value hedge funds       | 400,024                     | 0.50%                 |
| Equity long/short hedge funds    | 883                         | 0.00%                 |
| Fund of funds                    | 631,771                     | 0.79%                 |
| Distressed loan fund             | 24,712                      | 0.03%                 |
| Real assets fund                 | 347,380                     | 0.44%                 |
| Equity securities                | 1,798,948                   | 2.26%                 |
| Fixed income securities          | 2,945,226                   | 3.70%                 |
| Cash and cash equivalent         | 1,771,931                   | 2.23%                 |
| Agricultural investments         | 551,888                     | 0.69%                 |
|                                  | <u>9,206,105</u>            | <u>11.56%</u>         |
| <b>Total investments</b>         | <u><u>\$ 79,568,987</u></u> | <u><u>100.00%</u></u> |

**SUMMARY SCHEDULE OF BROKER COMMISSIONS**

(Top 25 Brokers and Cumulative Fees Paid to Others)

**Fiscal Year Ended June 30, 2020**

| Brokerage Firms             | Fees Paid (\$)      | % Total       | Average \$<br>per share |
|-----------------------------|---------------------|---------------|-------------------------|
| Morgan Stanley              | \$ 1,008,152        | 10.7%         | 0.0056                  |
| JP Morgan                   | 730,051             | 7.8%          | 0.0041                  |
| Goldman Sachs               | 689,783             | 7.4%          | 0.0000                  |
| HSBC                        | 554,552             | 5.9%          | 0.0015                  |
| Citigroup                   | 516,984             | 5.5%          | 0.0028                  |
| Merrill Lynch               | 511,433             | 5.5%          | 0.0024                  |
| UBS                         | 483,416             | 5.2%          | 0.0023                  |
| Credit Suisse               | 449,689             | 4.8%          | 0.0014                  |
| Macquarie                   | 277,159             | 3.0%          | 0.0023                  |
| Instinet                    | 244,600             | 2.6%          | 0.0029                  |
| RBC                         | 230,171             | 2.5%          | 0.0074                  |
| Jefferies                   | 226,408             | 2.4%          | 0.0054                  |
| Credit Lyonnais             | 207,606             | 2.2%          | 0.0025                  |
| Pershing                    | 180,864             | 1.9%          | 0.0056                  |
| Investment Technology Group | 148,300             | 1.6%          | 0.0045                  |
| Daiwa Securities            | 141,641             | 1.5%          | 0.0070                  |
| Liquidnet                   | 125,802             | 1.3%          | 0.0134                  |
| National Financial Services | 95,645              | 1.0%          | 0.0059                  |
| CLSA                        | 93,461              | 1.0%          | 0.0034                  |
| Cowen                       | 89,846              | 1.0%          | 0.0257                  |
| Sanford C. Bernstein & Co   | 79,563              | 0.8%          | 0.0017                  |
| William Blair & Co          | 77,373              | 0.8%          | 0.0296                  |
| BNP Paribas                 | 77,153              | 0.8%          | 0.0029                  |
| Arqmaead Capital            | 73,102              | 0.8%          | 0.0010                  |
| Piper Jaffray               | 69,691              | 0.7%          | 0.0087                  |
| Others                      | 2,000,338           | 21.3%         | 0.0018                  |
| <b>Totals</b>               | <b>\$ 9,382,783</b> | <b>100.0%</b> | <b>0.0003</b>           |

## SCHEDULE OF MANAGEMENT FEES

Fiscal Year Ended June 30, 2020

| <b>Investment Management Fees by Asset Class:</b>     | <b>(\$000s)</b>   |
|---|-------------------|
| Global Equity   | \$ 74,605         |
| Core Fixed Income                                     | 6,344             |
| Value-Added Fixed Income                              | 7,702             |
| Real Estate   | 32,358            |
| Timberland  | (4,326)           |
| Private Equity  | 3,922             |
| Portfolio Completion Strategies                       | 19,268            |
| Overlay   | 819               |
| <b>Total Investment Management Fees</b>               | <b>140,692</b>    |
| <b>Investment Advisory Fees</b>                       | <b>11,563</b>     |
| <b>Custodian Fees</b>                                 | <b>1,670</b>      |
| <b>Other Administrative Fees</b>                      | <b>15,973</b>     |
| <b>Total Management Fees charged to the PRIT Fund</b> | <b>\$ 169,898</b> |

## SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT

| Retirement System | Net Asset Values<br>(\$000s) 6/30/20 | Segmentation Accounts invested as of June 30, 2020 |                 |                         |                  |                   |             |                |             |                                       |
|-------------------|--------------------------------------|--|-----------------|-------------------------|------------------|-------------------|-------------|----------------|-------------|---------------------------------------|
|                   |                                      | General<br>Allocation                              | Domestic Equity | International<br>Equity | Emerging Markets | Core Fixed Income | Real Estate | Private Equity | Hedge Funds | Public Value<br>Added Fixed<br>Income |
| Adams             | \$ 33,067                            | X  |                 |                         |                  |                   |             |                |             |                                       |
| Amesbury          | \$ 55,547                            | X  |                 |                         |                  |                   |             |                |             |                                       |
| Andover           | \$ 122,275                           | X  | X               | X                       | X                | X                 | X           |                |             | X                                     |
| Arlington         | \$ 152,220                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Attleboro         | \$ 5,179                             |  |                 |                         |                  |                   |             | X              |             |                                       |
| Barnstable        | \$ 1,162,512                         | X  |                 |                         |                  |                   |             |                |             |                                       |
| Belmont           | \$ 45,538                            | X  |                 | X                       | X                |                   | X           | X              | X           |                                       |
| Berkshire         | \$ 251,699                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Beverly           | \$ 134,997                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Blue Hills        | \$ 11,508                            | X  |                 |                         |                  |                   |             |                |             |                                       |
| Boston Teachers   | \$ 1,667,597                         | X  |                 |                         |                  |                   |             |                |             |                                       |
| Braintree         | \$ 10,947                            |  |                 |                         |                  |                   |             | X              | X           |                                       |
| Bristol County    | \$ 76,960                            |  |                 |                         |                  |                   |             | X              | X           |                                       |
| Brookline         | \$ 299,929                           | X  |                 |                         |                  |                   |             | X              |             |                                       |
| Cambridge         | \$ 173,562                           |  |                 |                         |                  |                   |             | X              | X           |                                       |
| Chelsea           | \$ 184,737                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Chicopee          | \$ 54,547                            |  |                 |                         |                  |                   | X           | X              | X           |                                       |
| Clinton           | \$ 53,402                            | X  |                 |                         |                  |                   |             | X              |             |                                       |
| Concord           | \$ 64,784                            | X  |                 |                         |                  |                   | X           | X              | X           |                                       |
| Danvers           | \$ 47,022                            |  |                 | X                       | X                |                   | X           | X              | X           |                                       |
| Dedham            | \$ 146,994                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Dukes County      | \$ 85,916                            | X  |                 | X                       |                  |                   | X           | X              |             |                                       |
| Easthampton       | \$ 55,358                            | X  |                 |                         |                  |                   |             |                |             |                                       |
| Essex             | \$ 477,188                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Everett           | \$ 173,491                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Fairhaven         | \$ 65,830                            | X  |                 |                         |                  |                   |             |                |             |                                       |
| Fall River        | \$ 272,661                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Falmouth          | \$ 20,085                            |  |                 |                         |                  |                   | X           | X              | X           |                                       |
| Fitchburg         | \$ 120,226                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Framingham        | \$ 324,681                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Franklin County   | \$ 85,768                            | X  |                 | X                       | X                |                   | X           |                |             | X                                     |
| Gardner           | \$ 55,702                            | X  |                 |                         |                  |                   |             |                |             |                                       |
| Gloucester        | \$ 108,994                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Greenfield        | \$ 72,219                            | X  |                 |                         |                  |                   |             |                |             |                                       |
| Hampden County    | \$ 371,627                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Hampshire County  | \$ 156,647                           |  |                 |                         | X                | X                 | X           | X              |             |                                       |
| Haverhill         | \$ 146,434                           | X  |                 |                         |                  |                   |             | X              |             |                                       |
| Hingham           | \$ 123,411                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Holyoke           | \$ 32,074                            |  |                 |                         |                  |                   | X           |                | X           |                                       |
| Hull              | \$ 51,293                            | X  |                 |                         |                  |                   |             |                |             |                                       |
| Lawrence          | \$ 235,858                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Leominster        | \$ 218,268                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Lexington         | \$ 24,068                            |  |                 |                         |                  |                   | X           |                | X           |                                       |
| Lowell            | \$ 377,586                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Lynn              | \$ 359,148                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Marblehead        | \$ 98,082                            | X  |                 |                         |                  |                   |             |                |             |                                       |
| Mass Turnpike     | \$ 156,210                           | X  |                 |                         |                  |                   |             |                |             |                                       |
| Massport          | \$ 99,529                            |  |                 |                         |                  |                   | X           | X              |             |                                       |
| Maynard           | \$ 22,601                            |  |                 |                         | X                | X                 | X           |                | X           | X                                     |
| MBTA              | \$ 19,575                            |  |                 |                         |                  |                   |             | X              | X           |                                       |
| Medford           | \$ 44,417                            |  |                 |                         |                  |                   | X           | X              | X           |                                       |

## SCHEDULE OF RETIREMENT SYSTEMS BY INVESTMENT, continued

| Retirement System            | Net Asset Values<br>(\$000s) 6/30/20 | Segmentation Accounts invested as of June 30, 2020 |                 |                      |                  |                   |             |                |             |                                 |
|------------------------------|--------------------------------------|--|-----------------|----------------------|------------------|-------------------|-------------|----------------|-------------|---------------------------------|
|                              |                                      | General Allocation                                 | Domestic Equity | International Equity | Emerging Markets | Core Fixed Income | Real Estate | Private Equity | Hedge Funds | Public Value Added Fixed Income |
| Melrose                      | \$ 82,855                            | X  |                 |                      |                  |                   |             |                |             |                                 |
| Methuen                      | \$ 162,655                           | X  |                 |                      |                  |                   |             |                |             |                                 |
| Middlesex                    | \$ 1,392,628                         | X  |                 |                      |                  |                   |             |                |             |                                 |
| Milford                      | \$ 98,692                            | X  |                 |                      |                  |                   |             |                |             |                                 |
| Milton                       | \$ 142,654                           | X  |                 |                      |                  |                   |             |                |             |                                 |
| Minuteman                    | \$ 13,383                            | X  |                 |                      |                  |                   |             |                |             |                                 |
| Montague                     | \$ 43,981                            | X  |                 |                      |                  |                   |             |                |             |                                 |
| MSCBA                        | \$ 5,334                             | X  |                 |                      |                  |                   |             |                |             |                                 |
| MWRA                         | \$ 22,621                            | X  |                 |                      |                  |                   |             | X              | X           |                                 |
| Natick                       | \$ 39,082                            | X  |                 |                      |                  |                   | X           | X              | X           |                                 |
| Needham                      | \$ 170,052                           | X  |                 |                      |                  |                   |             |                |             |                                 |
| Newburyport                  | \$ 86,610                            | X  |                 |                      |                  |                   |             |                |             |                                 |
| Newton                       | \$ 362,775                           | X  |                 |                      |                  |                   |             |                |             |                                 |
| Norfolk                      | \$ 167,286                           |  |                 |                      |                  | X                 |             | X              | X           |                                 |
| North Adams                  | \$ 187                               |  |                 |                      |                  |                   |             | X              |             |                                 |
| Northbridge                  | \$ 37,758                            | X  |                 |                      |                  |                   |             |                |             |                                 |
| Northampton                  | \$ 346                               |  |                 |                      |                  |                   |             | X              |             |                                 |
| Norwood                      | \$ 19,439                            |  |                 |                      | X                |                   | X           |                |             |                                 |
| Peabody                      | \$ 154,475                           | X  |                 |                      |                  |                   |             |                |             |                                 |
| Pittsfield                   | \$ 138,425                           | X  |                 |                      |                  |                   |             |                |             |                                 |
| Plymouth                     | \$ 45,830                            | X  |                 |                      |                  |                   | X           | X              | X           |                                 |
| Quincy                       | \$ 24,144                            | X  |                 |                      |                  | X                 |             | X              |             |                                 |
| Reading                      | \$ 139,669                           | X  |                 |                      |                  |                   |             | X              |             |                                 |
| Revere                       | \$ 167,998                           | X  |                 |                      |                  |                   |             |                |             |                                 |
| Salem                        | \$ 187,082                           | X  |                 |                      |                  |                   |             |                |             |                                 |
| Saugus                       | \$ 78,679                            | X  |                 |                      |                  |                   |             | X              |             |                                 |
| Shrewsbury                   | \$ 109,494                           | X  | X               | X                    | X                | X                 | X           |                |             | X                               |
| Somerville                   | \$ 1,972                             |  |                 |                      |                  |                   |             | X              |             |                                 |
| Southbridge                  | \$ 56,984                            | X  |                 |                      |                  |                   |             |                |             |                                 |
| Springfield                  | \$ 347,835                           | X  |                 |                      |                  |                   |             |                |             |                                 |
| State Employees'             | \$ 28,219,164                        | X  |                 |                      |                  |                   |             |                |             |                                 |
| State Retiree Benefits Trust | \$ 1,966,555                         | X  |                 |                      |                  |                   |             |                |             |                                 |
| State Teachers'              | \$ 29,148,613                        | X  |                 |                      |                  |                   |             |                |             |                                 |
| Stoneham                     | \$ 41,184                            | X  |                 |                      |                  |                   | X           | X              | X           |                                 |
| Swampscott                   | \$ 45,094                            | X  | X               | X                    | X                | X                 |             |                |             | X                               |
| Taunton                      | \$ 701                               |  |                 |                      |                  |                   |             | X              |             |                                 |
| Wakefield                    | \$ 124,426                           | X  |                 |                      |                  |                   |             |                |             |                                 |
| Waltham                      | \$ 59,913                            | X  |                 |                      |                  |                   | X           | X              | X           |                                 |
| Watertown                    | \$ 54,127                            |  | X               |                      |                  |                   | X           | X              | X           |                                 |
| Webster                      | \$ 8,221                             |  |                 |                      |                  |                   | X           | X              | X           |                                 |
| Wellesley                    | \$ 202,825                           | X  |                 |                      |                  |                   |             |                |             |                                 |
| Westfield                    | \$ 21,479                            |  |                 |                      |                  |                   | X           |                | X           |                                 |
| Weymouth                     | \$ 24,890                            |  |                 |                      |                  |                   | X           |                | X           |                                 |
| Winchester                   | \$ 126,537                           | X  |                 |                      |                  |                   |             |                |             |                                 |
| Winthrop                     | \$ 74,373                            | X  |                 |                      |                  |                   |             |                |             |                                 |
| Woburn                       | \$ 143,226                           | X  |                 |                      |                  |                   |             |                |             |                                 |
| Worcester                    | \$ 470,381                           | X  |                 |                      | X                |                   | X           | X              |             |                                 |
| Worcester Regional           | \$ 743,155                           | X  |                 |                      |                  |                   |             |                |             |                                 |
|                              | \$ 74,985,759                        |  |                 |                      |                  |                   |             |                |             |                                 |

## INVESTMENT POLICY STATEMENT

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

### A. Investment Objectives

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

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

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

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

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

### B. Asset Allocation Plan

PRIM recognizes that over the long-term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. At reasonable intervals of not more than three to five years, PRIM will complete a comprehensive review of its Asset Allocation Plan and its underlying assumptions, including: the Commonwealth's current and

projected pension assets and liabilities; long-term capital markets rate of return assumptions; and PRIM's risk tolerances. The PRIM Board shall examine the Asset Allocation Plan annually, and shall consider adjustments to the Plan as may be appropriate given the Plan's long-term nature and objectives.

### **C. Rebalancing Policy**

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

## *Statistical Section*



## Schedules of Changes in Pooled Net Position

For Fiscal Years Ending June 30

(Dollars in thousands)

| Additions                               | 2020       | 2019         | 2018         | 2017         | 2016         | 2015       | 2014         | 2013         | 2012           | 2011         |
|---|------------|--------------|--------------|--------------|--------------|------------|--------------|--------------|----------------|--------------|
| State Employees contributions           | \$ 705,315 | \$ 733,289   | \$ 727,625   | \$ 855,586   | \$ 727,147   | \$ 580,527 | \$ 547,627   | \$ 529,031   | \$ 544,166     | \$ 538,898   |
| State teachers contributions            | 851,798    | 860,223      | 804,171      | 761,753      | 752,835      | 721,148    | 709,114      | 669,815      | 640,056        | 616,533      |
| Other participants contributions        | 1,466,201  | 1,579,329    | 1,218,193    | 1,071,727    | 922,092      | 877,252    | 793,507      | 613,345      | 898,837        | 1,535,681    |
| Net investment income (loss)            | 1,448,873  | 4,046,225    | 6,354,624    | 7,655,016    | 1,091,671    | 2,073,376  | 8,991,375    | 5,922,932    | (280,407)      | 9,169,664    |
| Total additions to pooled net position  | 4,472,187  | 7,219,066    | 9,104,613    | 10,344,082   | 3,493,745    | 4,252,303  | 11,041,623   | 7,735,123    | 1,802,652      | 11,860,776   |
| Deductions                              |            |              |              |              |              |            |              |              |                |              |
| State employees warrants                | 542,457    | 516,014      | 486,526      | 458,340      | 444,166      | 381,565    | 357,089      | 347,330      | 315,943        | 282,398      |
| State teachers warrants                 | 680,135    | 656,099      | 621,701      | 596,815      | 569,054      | 544,646    | 494,363      | 496,987      | 451,844        | 418,153      |
| Participants redemptions                | 1,218,278  | 1,073,298    | 996,520      | 1,055,203    | 924,710      | 768,507    | 739,175      | 683,279      | 532,873        | 508,579      |
| State appropriation funding             | 1,844,875  | 1,910,459    | 2,014,583    | 2,034,579    | 2,066,264    | 1,954,853  | 1,973,058    | 1,815,315    | 1,851,504      | 1,663,799    |
| Operating expenses                      | 36,321     | 29,200       | 34,082       | 41,509       | 40,491       | 35,761     | 30,789       | 30,394       | 28,447         | 26,391       |
| Total deductions to pooled net position | 4,322,066  | 4,185,070    | 4,153,412    | 4,186,446    | 4,044,685    | 3,685,332  | 3,594,474    | 3,373,305    | 3,180,611      | 2,899,320    |
| Changes in pooled net position          | \$ 150,121 | \$ 3,033,996 | \$ 4,951,201 | \$ 6,157,636 | \$ (550,940) | \$ 566,971 | \$ 7,447,149 | \$ 4,361,818 | \$ (1,377,959) | \$ 8,961,456 |

The above table provides additional information regarding changes in pooled net position from that presented in the Statement of Changes in Pooled Net Position in the *Financial Section* of the CAFR. Deductions represent redemptions from the PRIT fund by state employees, state teachers and other participant retirement systems. Deductions also include redemptions for state appropriation funding and reimbursement of MASTERS operating expenses. State appropriation funding represents funds withdrawn to cover the shortfall in the pension appropriation of the Commonwealth of Massachusetts. Operating expenses represent redemptions made by state employees and state teachers for certain operating expenses. This information is derived from the same information used for the basic financial statements. Current fiscal year-end information should be read in conjunction with the Schedule of Changes in Pooled Net Position - Capital Fund and Cash Fund provided in the Financial Section.

## ***Financial Highlights and Financial Highlights Ratios***

Pages 99-101 provide the financial highlights of the PRIT Fund for the year ended June 30, 2020. In addition, pages 102-107 provide additional financial highlights ratios for the nine previous fiscal year ends. Together, these tables provide additional information regarding important ratios to assist the reader of the CAFR in understanding the financial position of the PRIT Fund. This information includes important return and expense ratios for the entire PRIT Fund as well as the various accounts that comprise the PRIT Fund. This information should be read in conjunction with the description of the investment program highlighted in the *Investment Section* of the CAFR.

## Financial Highlights

**For the year ended June 30, 2020**

|  |               |            |               |           | Public     |           |            |           |             |         | Private  | Private | Private  | Private  |
|--|---------------|------------|---------------|-----------|------------|-----------|------------|-----------|-------------|---------|----------|---------|----------|----------|
|  |               |            |               |           | Value-     |           |            |           |             |         | Equity   | Equity  | Equity   | Equity   |
|  |               |            |               | Core      | Added      |           |            |           |             |         | Vintage  | Vintage | Vintage  | Vintage  |
|  | General       | Domestic   | International | Emerging  | Fixed      | Fixed     | Distressed | Hedge     | Liquidating | Private | Year     | Year    | Year     | Year     |
|  | Allocation    | Equity     | Equity        | Markets   | Income     | Income    | Debt       | Funds     | Portfolios  | Equity  | 2000     | 2001    | 2002     | 2003     |
|  | Account       | Account    | Account       | Account   | Account    | Account   | Account    | Account   | Account     | Account | Account  | Account | Account  | Account  |
| Net position per unit, beginning of year                                       | \$ 392.78     | 381.23     | 329.38        | 519.03    | 299.12     | 329.92    | 156.73     | 92.42     | 73.45       | 446.29  | 253.21   | 763.91  | 230.16   | 596.26   |
| Investment operations:   |               |            |               |           |            |           |            |           |             |         |          |         |          |          |
| Net investment income (loss)(1)  | 7.49          | 5.38       | 7.92          | 10.84     | 5.08       | 20.03     | 3.01       | 0.39      | (0.02)      | 14.94   | 0.47     | 0.05    | (0.11)   | (0.27)   |
| Net realized and unrealized gain (loss)<br>on investments and foreign currency | 0.33          | 15.56      | (19.48)       | (27.59)   | 36.27      | (28.28)   | (15.08)    | (5.48)    | (33.37)     | (8.97)  | (75.57)  | 6.72    | (68.72)  | (71.67)  |
| Total from investment<br>operations  | 7.82          | 20.94      | (11.56)       | (16.75)   | 41.35      | (8.25)    | (12.07)    | (5.09)    | (33.39)     | 5.97    | (75.10)  | 6.77    | (68.83)  | (71.94)  |
| Net position per unit, end of year   | \$ 400.60     | 402.17     | 317.82        | 502.28    | 340.47     | 321.67    | 144.66     | 87.33     | 40.06       | 452.26  | 178.11   | 770.68  | 161.33   | 524.32   |
| Ratios and supplementary data:   |               |            |               |           |            |           |            |           |             |         |          |         |          |          |
| Total net return(2)  | 1.99%         | 5.49%      | (3.51)%       | (3.23)%   | 13.82%     | (2.50)%   | (7.70)%    | (5.51)%   | (45.46)%    | 1.34%   | (29.66)% | 0.89%   | (29.91)% | (12.07)% |
| Net position, end of year (\$'000s)  | \$ 73,216,082 | 12,066,835 | 10,383,531    | 4,461,293 | 11,759,338 | 3,873,573 | 1,201,948  | 6,419,650 | 70,224      | 88,643  | 17,099   | 21,579  | 2,420    | 16,254   |
| Units outstanding, end of year ('000s)   | 182,766       | 30,004     | 32,671        | 8,882     | 34,539     | 12,042    | 8,309      | 73,511    | 1,753       | 196     | 96       | 28      | 15       | 31       |
| Ratios to average net assets:  |               |            |               |           |            |           |            |           |             |         |          |         |          |          |
| Ratio of expenses, including indirect<br>management fees                       | 0.51%         | 0.11%      | 0.24%         | 0.58%     | 0.08%      | 0.43%     | 1.57%      | 1.11%     | 0.75%       | 0.04%   | 0.04%    | 0.00%   | 0.05%    | 0.04%    |
| Ratio of expenses, excluding indirect<br>management fees                       | 0.20%         | 0.11%      | 0.24%         | 0.58%     | 0.08%      | 0.19%     | 0.04%      | 0.13%     | 0.04%       | 0.04%   | 0.04%    | 0.04%   | 0.05%    | 0.04%    |

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

(1) Based on weighted average units outstanding.

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

**Financial Highlights, continued****For the year ended June 30, 2020**

|  | Private<br>Equity<br>Vintage<br>Year<br>2004<br>Account | Private<br>Equity<br>Vintage<br>Year<br>2005<br>Account | Private<br>Equity<br>Vintage<br>Year<br>2006<br>Account | Private<br>Equity<br>Vintage<br>Year<br>2007<br>Account | Private<br>Equity<br>Vintage<br>Year<br>2008<br>Account | Private<br>Equity<br>Vintage<br>Year<br>2009<br>Account | Private<br>Equity<br>Vintage<br>Year<br>2010<br>Account | Private<br>Equity<br>Vintage<br>Year<br>2011<br>Account | Private<br>Equity<br>Vintage<br>Year<br>2012<br>Account | Private<br>Equity<br>Vintage<br>Year<br>2013<br>Account | Private<br>Equity<br>Vintage<br>Year<br>2014<br>Account | Private<br>Equity<br>Vintage<br>Year<br>2015<br>Account | Private<br>Equity<br>Vintage<br>Year<br>2016<br>Account | Private<br>Equity<br>Vintage<br>Year<br>2017<br>Account |
|--|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net position per unit, beginning of year                                       | \$ 148.63   | 215.96  | 120.61  | 50.36   | 213.02  | 196.20  | 206.64  | 133.56  | 24.10   | 145.16  | 130.07  | 156.95  | 66.58   | 113.03  |
| Investment operations:   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Net investment income (loss)(1)  | 1.93  | 1.10  | 9.70  | 0.07  | 2.42  | 0.45  | 0.07  | 0.66  | 0.01  | 1.18  | 1.34  | 0.16  | 0.42  | 0.30  |
| Net realized and unrealized gain (loss)<br>on investments and foreign currency | 29.12   | (32.21)   | (18.22)   | 0.03  | (30.09)   | 1.94  | (15.16)   | (2.73)  | 1.63  | 21.28   | 5.61  | 20.58   | 4.82  | (2.37)  |
| Total from investment<br>operations  | 31.05   | (31.11)   | (8.52)  | 0.10  | (27.67)   | 2.39  | (15.09)   | (2.07)  | 1.64  | 22.46   | 6.95  | 20.74   | 5.24  | (2.07)  |
| Net position per unit, end of year   | \$ 179.68   | 184.85  | 112.09  | 50.46   | 185.35  | 198.59  | 191.55  | 131.49  | 25.74   | 167.62  | 137.02  | 177.69  | 71.82   | 110.96  |
| Ratios and supplementary data:   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Total net return(2)  | 20.89%  | (14.41)%  | (7.06)%   | 0.20%   | (12.99)%  | 1.22%   | (7.30)%   | (1.55)%   | 6.80%   | 15.47%  | 5.34%   | 13.21%  | 7.87%   | (1.83)%   |
| Net position, end of year (\$'000s)  | \$ 7,187  | 48,247  | 146,274   | 249,451   | 431,299   | 192,827   | 482,128   | 628,788   | 607,363   | 675,522   | 1,175,774   | 1,539,669   | 562,258   | 680,492   |
| Units outstanding, end of year ('000s)   | 40  | 261   | 1,305   | 4,944   | 2,327   | 971   | 2,517   | 4,782   | 23,595  | 4,030   | 8,581   | 8,665   | 7,829   | 6,133   |
| Ratios to average net assets:  |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Ratio of expenses, including indirect<br>management fees                       | 0.24%   | 0.67%   | 0.42%   | 0.50%   | 0.46%   | 1.57%   | 0.93%   | 1.04%   | 1.28%   | 1.15%   | 1.02%   | 1.35%   | 2.37%   | 3.95%   |
| Ratio of expenses, excluding indirect<br>management fees                       | 0.05%   | 0.04%   | 0.07%   | 0.05%   | 0.09%   | 0.04%   | 0.04%   | 0.06%   | 0.04%   | 0.04%   | 0.04%   | 0.24%   | 0.08%   | 0.05%   |

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

(1) Based on weighted average units outstanding.

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

**Financial Highlights, continued****For the year ended June 30, 2020**

|  | Private<br>Equity<br>Vintage<br>Year<br>2018<br>Account | Private<br>Equity<br>Vintage<br>Year<br>2019<br>Account | Private<br>Equity<br>Vintage<br>Year<br>2020<br>Account | Real<br>Estate<br>Account | Timberland<br>Account | Cash<br>Overlay<br>Account | Risk<br>Premia<br>Account (4) | Real<br>Assets<br>Account | Enhanced<br>Equity<br>Account (5) | Other<br>Credit<br>Opportunities<br>Account |
|--|---|---|---|---------------------------|-----------------------|----------------------------|-------------------------------|---------------------------|-----------------------------------|---|
| Net position per unit, beginning of year                                       | \$ 83.63  | 99.23   | 100.00  | 675.50                    | 284.89                | 195.28                     | 102.50                        | 91.19                     | 117.29                            | 109.07                                      |
| Investment operations:   |   |   |   |                           |                       |                            |                               |                           |                                   |   |
| Net investment income (loss)(1)  | 0.00  | (0.01)  | (0.02)  | 60.81                     | 3.04                  | 19.62                      | (0.04)                        | (0.55)                    | 1.30                              | 0.07  |
| Net realized and unrealized gain (loss)<br>on investments and foreign currency | (5.49)  | (7.60)  | (6.33)  | (57.03)                   | (8.00)                | 10.09                      | 3.05                          | (2.09)                    | (1.70)                            | (1.17)                                      |
| Total from investment<br>operations  | (5.49)  | (7.61)  | (6.35)  | 3.78                      | (4.96)                | 29.71                      | 3.01                          | (2.64)                    | (0.40)                            | (1.10)                                      |
| Net position per unit, end of year   | \$ 78.14  | 91.62   | 93.65   | 679.28                    | 279.93                | 224.99                     | 105.51                        | 88.55                     | 116.89                            | 107.97                                      |
| Ratios and supplementary data:   |   |   |   |                           |                       |                            |                               |                           |                                   |   |
| Total net return(2)  | (6.56)%   | (7.67)%   | (6.35)% (3)   | 0.56%                     | (1.74)%               | 15.21%                     | 2.94%                         | (2.90)%                   | (0.34)%                           | (1.01)%                                     |
| Net position, end of year (\$'000s)  | \$ 572,418  | 354,096   | 51,697  | 6,921,152                 | 2,766,226             | 444,807                    | 2                             | 832,035                   | 4,589,770                         | 574,855                                     |
| Units outstanding, end of year ('000s)   | 7,326   | 3,865   | 552   | 10,189                    | 9,882                 | 1,977                      | 0                             | 9,396                     | 39,267                            | 5,324                                       |
| Ratios to average net assets:  |   |   |   |                           |                       |                            |                               |                           |                                   |   |
| Ratio of expenses, including indirect<br>management fees                       | 6.23%   | 3.86%   | 4.22% (3)   | 0.49%                     | 0.09%                 | 0.07%                      | 0.52%                         | 1.23%                     | 0.37%                             | 1.14%                                       |
| Ratio of expenses, excluding indirect<br>management fees                       | 0.08%   | 0.12%   | 1.91% (3)   | 0.15%                     | 0.30%                 | 0.07%                      | 0.14%                         | 0.05%                     | 0.37%                             | 1.14%                                       |

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

(1) Based on weighted average units

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

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

(4) Risk Premia account was liquidated during the year.

(5) Formerly Equity Hedged Account

## Financial Highlights Ratios

For the years ended June 30, 2019-2011

|   | General<br>Allocation<br>Account | Domestic<br>Equity<br>Account | International<br>Equity<br>Account | Emerging<br>Markets<br>Account | Core Fixed<br>Income<br>Account | Public<br>Value-Added<br>Fixed Income<br>Account | Distressed<br>Debt<br>Account | Hedge<br>Funds<br>Account | Liquidating<br>Portfolios<br>Account (2) | Private<br>Equity<br>Account | Vintage<br>Year<br>2000<br>Account | Vintage<br>Year<br>2001<br>Account | Vintage<br>Year<br>2002<br>Account | Vintage<br>Year<br>2003<br>Account | Vintage<br>Year<br>2004<br>Account |
|---|----------------------------------|-------------------------------|------------------------------------|--------------------------------|---------------------------------|--|-------------------------------|---------------------------|--|------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>Ratios and supplementary data:</b>                 |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| <b>2019</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 5.68%                            | 8.66%                         | (0.13)%                            | 1.42%                          | 8.22%                           | 6.44%  | 4.08%                         | 2.79%                     | (18.07)%                                 | 3.53%                        | (13.15)%                           | 0.06%                              | 19.20%                             | 20.65%                             | 26.18%                             |
| Net position, end of year (\$'000s)                   | 73,116,815                       | 11,763,882                    | 11,264,739                         | 4,652,110                      | 10,162,275                      | 4,376,086  | 1,249,573                     | 6,029,787                 | 162,686                                  | 160,219                      | 26,334                             | 26,737                             | 4,373                              | 20,869                             | 22,889                             |
| Units outstanding, end of year ('000s)                | 186,154                          | 30,858                        | 34,200                             | 8,963                          | 33,974                          | 13,264   | 7,973                         | 65,240                    | 2,215                                    | 359                          | 104                                | 35                                 | 19                                 | 35                                 | 154                                |
| <b>2018</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 9.55%                            | 15.50%                        | 8.47%                              | 8.62%                          | 1.29%                           | 1.47%  | 9.27%                         | 6.06%                     | 4.04%                                    | 6.02%                        | (0.51)%                            | 3.54%                              | (10.09)%                           | 27.26%                             | (2.24)%                            |
| Net position, end of year (\$'000s)                   | 70,145,449                       | 13,695,898                    | 11,831,052                         | 4,537,474                      | 9,153,731                       | 4,441,960  | 1,153,692                     | 5,999,629                 | 203,319                                  | 137,947                      | 35,279                             | 46,571                             | 4,827                              | 42,008                             | 22,851                             |
| Units outstanding, end of year ('000s)                | 188,731                          | 39,037                        | 35,873                             | 8,867                          | 33,118                          | 14,331   | 7,661                         | 66,727                    | 2,268                                    | 320                          | 121                                | 61                                 | 25                                 | 85                                 | 194                                |
| <b>2017</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 12.80%                           | 18.49%                        | 19.98%                             | 27.49%                         | (4.48)%                         | 7.67%  | 15.40%                        | 9.32%                     | 16.35%                                   | 2.00%                        | 2.08%                              | 18.17%                             | (7.69)%                            | 2.31%                              | 25.85%                             |
| Net position, end of year (\$'000s)                   | 65,460,073                       | 13,216,006                    | 12,038,165                         | 5,243,481                      | 7,984,311                       | 4,176,825  | 1,225,906                     | 5,579,937                 | 250,843                                  | 67,900                       | 43,665                             | 60,463                             | 9,019                              | 55,921                             | 41,088                             |
| Units outstanding, end of year ('000s)                | 192,948                          | 43,507                        | 39,591                             | 11,130                         | 29,261                          | 13,674   | 8,895                         | 65,823                    | 2,911                                    | 167                          | 149                                | 82                                 | 42                                 | 144                                | 341                                |
| <b>2016</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 1.87%                            | 1.51%                         | (7.86)%                            | (9.91)%                        | 14.58%                          | 2.79%  | (6.84)%                       | (5.43)%                   | (20.30)%                                 | (0.94)%                      | (6.12)%                            | (3.72)%                            | 6.54%                              | (4.22)%                            | (4.63)%                            |
| Net position, end of year (\$'000s)                   | 59,382,003                       | 11,359,746                    | 10,018,446                         | 4,264,286                      | 8,404,125                       | 3,868,726  | 1,251,421                     | 5,192,238                 | 195,445                                  | 66,569                       | 56,265                             | 77,994                             | 13,493                             | 69,465                             | 80,997                             |
| Units outstanding, end of year ('000s)                | 197,436                          | 44,312                        | 39,533                             | 11,540                         | 29,419                          | 13,636   | 10,478                        | 66,965                    | 2,639                                    | 167                          | 196                                | 125                                | 58                                 | 183                                | 846                                |
| <b>2015</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 3.41%                            | 6.60%                         | (2.94)%                            | (6.14)%                        | 4.58%                           | (5.14)%  | 1.96%                         | 3.64%                     | (4.25)%                                  | 5.03%                        | 5.97%                              | 7.56%                              | 4.11%                              | 13.06%                             | 5.97%                              |
| Net position, end of year (\$'000s)                   | 59,982,623                       | 11,745,353                    | 10,341,307                         | 4,011,292                      | 8,377,734                       | 3,702,871  | 1,350,323                     | 5,575,153                 | 32,057                                   | 52,713                       | 103,656                            | 102,397                            | 20,089                             | 145,442                            | 119,669                            |
| Units outstanding, end of year ('000s)                | 203,159                          | 46,508                        | 37,600                             | 9,780                          | 33,603                          | 13,416   | 10,533                        | 67,998                    | 345                                      | 131                          | 339                                | 158                                | 92                                 | 367                                | 1,192                              |
| <b>2014</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 17.18%                           | 24.78%                        | 24.23%                             | 13.76%                         | 5.66%                           | 6.90%  | 15.18%                        | 10.72%                    | (5.88)%                                  | 8.25%                        | 23.80%                             | 27.29%                             | 8.97%                              | 21.56%                             | 52.79%                             |
| Net position, end of year (\$'000s)                   | 59,507,530                       | 11,478,177                    | 10,382,202                         | 4,263,167                      | 8,398,309                       | 3,787,240  | 1,360,006                     | 5,845,587                 | 49,684                                   | 94,631                       | 137,922                            | 133,764                            | 35,025                             | 197,688                            | 257,109                            |
| Units outstanding, end of year ('000s)                | 208,428                          | 48,451                        | 36,639                             | 9,756                          | 35,228                          | 13,017   | 10,817                        | 73,892                    | 512                                      | 247                          | 478                                | 222                                | 167                                | 564                                | 2,714                              |
| <b>2013</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 12.28%                           | 21.98%                        | 19.34%                             | 5.10%                          | (0.45)%                         | 3.07%  | 9.16%                         | (3)                       | 12.20%                                   | 3.28%                        | 8.68%                              | 10.18%                             | 11.79%                             | 4.52%                              | 8.87%                              |
| Net position, end of year (\$'000s)                   | 52,274,725                       | 11,066,413                    | 9,531,557                          | 3,438,125                      | 6,712,701                       | 3,444,265  | 1,269,546                     | 4,903,178                 | 72,275                                   | 160,679                      | 173,402                            | 189,340                            | 58,316                             | 270,764                            | 265,784                            |
| Units outstanding, end of year ('000s)                | 214,541                          | 58,286                        | 41,787                             | 8,951                          | 29,751                          | 12,655   | 11,630                        | 68,628                    | 701                                      | 454                          | 744                                | 400                                | 303                                | 939                                | 4,287                              |
| <b>2012</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | (0.54)%                          | 3.64%                         | (12.15)%                           | (16.79)%                       | 7.96%                           | 2.81%  | N/A                           | (1.74)%                   | (7.47)%                                  | (0.35)%                      | 5.23%                              | (2.66)%                            | 26.76%                             | 0.80%                              | 9.06%                              |
| Net position, end of year (\$'000s)                   | 48,101,609                       | 9,415,207                     | 8,155,824                          | 3,261,031                      | 6,352,958                       | 4,180,242  | N/A                           | 4,809,557                 | 110,458                                  | 177,159                      | 278,587                            | 242,301                            | 66,969                             | 345,110                            | 360,592                            |
| Units outstanding, end of year ('000s)                | 221,647                          | 60,491                        | 42,670                             | 8,923                          | 28,029                          | 15,830   | N/A                           | 75,522                    | 1,097                                    | 517                          | 1,299                              | 564                                | 389                                | 1,251                              | 6,332                              |
| <b>2011</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 21.97%                           | 32.07%                        | 30.69%                             | 28.88%                         | 5.31%                           | 16.18%   | N/A                           | 7.48%                     | 6.43%                                    | 20.27%                       | 15.85%                             | 23.12%                             | 32.48%                             | 22.22%                             | 50.10%                             |
| Net position, end of year (\$'000s)                   | 49,546,154                       | 11,073,922                    | 10,865,457                         | 3,304,907                      | 6,619,356                       | 3,024,257  | N/A                           | 3,611,056                 | 220,570                                  | 275,801                      | 370,120                            | 298,784                            | 121,827                            | 416,819                            | 415,720                            |
| Units outstanding, end of year ('000s)                | 227,076                          | 73,736                        | 49,937                             | 7,525                          | 31,528                          | 11,775   | N/A                           | 55,719                    | 2,027                                    | 802                          | 1,816                              | 677                                | 897                                | 1,523                              | 7,961                              |
| <b>Ratios to average net assets:</b>                  |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| <b>2019</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Ratio of expenses, including indirect management fees | 0.52%                            | 0.11%                         | 0.23%                              | 0.57%                          | 0.11%                           | 0.44%  | 1.59%                         | 1.11%                     | 0.89%                                    | 0.06%                        | 0.04%                              | 0.03%                              | 0.09%                              | 0.04%                              | 0.31%                              |
| Ratio of expenses, excluding indirect management fees | 0.20%                            | 0.11%                         | 0.23%                              | 0.57%                          | 0.11%                           | 0.22%  | 0.04%                         | 0.12%                     | 0.03%                                    | 0.06%                        | 0.04%                              | 0.04%                              | 0.04%                              | 0.04%                              | 0.04%                              |
| <b>2018</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Ratio of expenses, including indirect management fees | 0.52%                            | 0.11%                         | 0.23%                              | 0.47%                          | 0.10%                           | 0.44%  | 1.76%                         | 1.17%                     | 0.92%                                    | 0.05%                        | 0.04%                              | 0.01%                              | 0.68%                              | 0.04%                              | 0.21%                              |
| Ratio of expenses, excluding indirect management fees | 0.18%                            | 0.11%                         | 0.23%                              | 0.47%                          | 0.10%                           | 0.23%  | 0.04%                         | 0.09%                     | 0.03%                                    | 0.05%                        | 0.04%                              | 0.04%                              | 0.05%                              | 0.04%                              | 0.04%                              |
| <b>2017</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Ratio of expenses, including indirect management fees | 0.54%                            | 0.10%                         | 0.20%                              | 0.58%                          | 0.10%                           | 0.47%  | 1.91%                         | 1.25%                     | 1.02%                                    | 0.06%                        | 0.04%                              | 0.15%                              | 0.77%                              | 0.15%                              | 0.20%                              |
| Ratio of expenses, excluding indirect management fees | 0.18%                            | 0.10%                         | 0.20%                              | 0.58%                          | 0.09%                           | 0.29%  | 0.04%                         | 0.09%                     | 1.02%                                    | 0.06%                        | 0.04%                              | 0.09%                              | 0.04%                              | 0.04%                              | 0.04%                              |
| <b>2016</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Ratio of expenses, including indirect management fees | 0.53%                            | 0.13%                         | 0.19%                              | 0.44%                          | 0.09%                           | 0.47%  | 1.76%                         | 1.42%                     | 1.41%                                    | 0.08%                        | 0.18%                              | 0.17%                              | 0.79%                              | 0.28%                              | 0.43%                              |
| Ratio of expenses, excluding indirect management fees | 0.14%                            | 0.13%                         | 0.19%                              | 0.44%                          | 0.08%                           | 0.30%  | 0.04%                         | 0.06%                     | 1.40%                                    | 0.08%                        | 0.04%                              | 0.07%                              | 0.04%                              | 0.04%                              | 0.06%                              |
| <b>2015</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Ratio of expenses, including indirect management fees | 0.53%                            | 0.14%                         | 0.18%                              | 0.31%                          | 0.10%                           | 0.47%  | 1.55%                         | 1.40%                     | 0.04%                                    | 0.04%                        | 0.25%                              | 0.22%                              | 0.76%                              | 0.38%                              | 0.90%                              |
| Ratio of expenses, excluding indirect management fees | 0.16%                            | 0.14%                         | 0.18%                              | 0.31%                          | 0.09%                           | 0.30%  | 0.04%                         | 0.04%                     | 0.02%                                    | 0.04%                        | 0.04%                              | 0.05%                              | 0.04%                              | 0.04%                              | 0.05%                              |

## Financial Highlights Ratios, continued

For the years ended June 30, 2019-2011

|   | General<br>Allocation<br>Account | Domestic<br>Equity<br>Account | International<br>Equity<br>Account | Emerging<br>Markets<br>Account | Core Fixed<br>Income<br>Account | Public<br>Value-Added<br>Fixed Income<br>Account | Distressed<br>Debt<br>Account | Hedge<br>Funds<br>Account | Liquidating<br>Portfolios<br>Account (2) | Private<br>Equity<br>Account | Vintage<br>Year<br>2000<br>Account | Vintage<br>Year<br>2001<br>Account | Vintage<br>Year<br>2002<br>Account | Vintage<br>Year<br>2003<br>Account | Vintage<br>Year<br>2004<br>Account |
|---|----------------------------------|-------------------------------|------------------------------------|--------------------------------|---------------------------------|--|-------------------------------|---------------------------|--|------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>2014</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Ratio of expenses, including indirect management fees | 0.55%                            | 0.14%                         | 0.19%                              | 0.27%                          | 0.11%                           | 0.49%  | 1.90%                         | 1.50%                     | 0.10%                                    | 0.03%                        | 0.25%                              | 0.59%                              | 0.49%                              | 0.59%                              | 0.88%                              |
| Ratio of expenses, excluding indirect management fees | 0.15%                            | 0.14%                         | 0.19%                              | 0.24%                          | 0.10%                           | 0.31%  | 0.04%                         | 0.05%                     | 0.02%                                    | 0.03%                        | 0.05%                              | 0.07%                              | 0.05%                              | 0.04%                              | 0.08%                              |
| <b>2013</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Ratio of expenses, including indirect management fees | 0.55%                            | 0.08%                         | 0.19%                              | 0.33%                          | 0.14%                           | 0.85%  | 0.92% (3)                     | 1.33%                     | 0.13%                                    | —%                           | 0.39%                              | 0.59%                              | 0.77%                              | 0.90%                              | 0.94%                              |
| Ratio of expenses, excluding indirect management fees | 0.14%                            | 0.08%                         | 0.19%                              | 0.32%                          | 0.12%                           | 0.34%  | 0.01% (3)                     | 0.05%                     | 0.02%                                    | (0.03)%                      | 0.07%                              | 0.09%                              | 0.05%                              | 0.05%                              | 0.12%                              |
| <b>2012</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Ratio of expenses, including indirect management fees | 0.50%                            | 0.09%                         | 0.19%                              | 0.32%                          | 0.14%                           | 0.89%  | N/A                           | 0.91%                     | 0.09%                                    | 0.24%                        | 0.54%                              | 0.73%                              | 0.81%                              | 0.83%                              | 0.80%                              |
| Ratio of expenses, excluding indirect management fees | 0.14%                            | 0.09%                         | 0.19%                              | 0.30%                          | 0.13%                           | 0.18%  | N/A                           | 0.04%                     | 0.02%                                    | 0.04%                        | 0.07%                              | 0.08%                              | 0.04%                              | 0.04%                              | 0.11%                              |
| <b>2011</b>   |                                  |                               |                                    |                                |                                 |  |                               |                           |  |                              |                                    |                                    |                                    |                                    |                                    |
| Ratio of expenses, including indirect management fees | 0.50%                            | 0.08%                         | 0.19%                              | 0.35%                          | 0.15%                           | 0.96%  | N/A                           | 0.81%                     | 0.06%                                    | 0.32%                        | 1.25%                              | 1.49%                              | 0.97%                              | 0.89%                              | 1.05%                              |
| Ratio of expenses, excluding indirect management fees | 0.14%                            | 0.08%                         | 0.19%                              | 0.32%                          | 0.14%                           | 0.15%  | N/A                           | 0.03%                     | 0.02%                                    | (0.01)%                      | 0.06%                              | 0.08%                              | 0.06%                              | 0.02%                              | 0.09%                              |

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

(2) Includes Portable Alpha Wind Down, Hedge Funds closed portfolios, and Natural Resources Private Wind Down. Prior to January 31, 2016, Natural Resources Private assets were reflected in the Timberland portfolio.

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

## Financial Highlights Ratios, continued

For the years ended June 30, 2019-2011

|   | Vintage<br>Year<br>2005<br>Account | Vintage<br>Year<br>2006<br>Account | Vintage<br>Year<br>2007<br>Account | Vintage<br>Year<br>2008<br>Account | Vintage<br>Year<br>2009<br>Account | Vintage<br>Year<br>2010<br>Account | Vintage<br>Year<br>2011<br>Account | Vintage<br>Year<br>2012<br>Account | Vintage<br>Year<br>2013<br>Account | Vintage<br>Year<br>2014<br>Account | Vintage<br>Year<br>2015<br>Account | Vintage<br>Year<br>2016<br>Account | Vintage<br>Year<br>2017<br>Account | Vintage<br>Year<br>2018<br>Account | Vintage<br>Year<br>2019<br>Account |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>Ratios and supplementary data:</b>                 |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |
| <b>2019</b>   |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 8.66%                              | 9.35%                              | 14.14%                             | 13.88%                             | 26.97%                             | 18.09%                             | 20.06%                             | 12.46%                             | 16.72%                             | 23.83%                             | 23.40%                             | 4.10%                              | 7.47%                              | (15.53)%                           | (0.77)% (2)                        |
| Net position, end of year (\$'000s)                   | 84,655                             | 236,036                            | 443,048                            | 574,946                            | 262,119                            | 611,034                            | 759,937                            | 645,784                            | 711,849                            | 1,214,210                          | 1,467,994                          | 503,055                            | 389,158                            | 245,699                            | 57,257                             |
| Units outstanding, end of year ('000s)                | 392                                | 1,957                              | 8,798                              | 2,699                              | 1,336                              | 2,957                              | 5,690                              | 26,792                             | 4,904                              | 9,335                              | 9,353                              | 7,556                              | 3,443                              | 2,938                              | 577                                |
| <b>2018</b>   |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 10.58%                             | 4.94%                              | 16.60%                             | 24.15%                             | 20.66%                             | 24.74%                             | 18.83%                             | 19.25%                             | 14.10%                             | 25.68%                             | 29.69%                             | 7.73%                              | 5.21%                              | (0.99)% (2)                        | N/A                                |
| Net position, end of year (\$'000s)                   | 135,744                            | 306,512                            | 538,342                            | 726,311                            | 343,201                            | 701,188                            | 866,997                            | 739,683                            | 623,594                            | 1,087,916                          | 941,586                            | 290,614                            | 127,993                            | 15,842                             | N/A                                |
| Units outstanding, end of year ('000s)                | 683                                | 2,779                              | 12,203                             | 3,883                              | 2,221                              | 4,007                              | 7,794                              | 34,520                             | 5,014                              | 10,357                             | 7,403                              | 4,544                              | 1,217                              | 160                                | N/A                                |
| <b>2017</b>   |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 19.15%                             | 9.31%                              | 23.14%                             | 28.78%                             | 16.27%                             | 16.58%                             | 23.76%                             | 21.34%                             | 19.87%                             | 17.62%                             | 15.25%                             | (28.04)%                           | (0.04)% (2)                        | N/A                                | N/A                                |
| Net position, end of year (\$'000s)                   | 196,987                            | 440,532                            | 769,225                            | 882,880                            | 379,849                            | 791,761                            | 919,627                            | 623,043                            | 493,966                            | 659,809                            | 520,540                            | 108,285                            | 27,388                             | N/A                                | N/A                                |
| Units outstanding, end of year ('000s)                | 1,096                              | 4,191                              | 20,328                             | 5,860                              | 2,966                              | 5,644                              | 9,824                              | 34,669                             | 4,532                              | 7,894                              | 5,308                              | 1,824                              | 274                                | N/A                                | N/A                                |
| <b>2016</b>   |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 8.56%                              | 2.52%                              | 9.87%                              | 12.84%                             | 20.05%                             | 15.08%                             | 22.91%                             | 8.34%                              | 5.06%                              | 5.15%                              | (9.23)%                            | (17.50)% (2)                       | N/A                                | N/A                                | N/A                                |
| Net position, end of year (\$'000s)                   | 430,797                            | 612,037                            | 912,296                            | 904,434                            | 443,570                            | 806,666                            | 796,339                            | 542,987                            | 308,790                            | 399,073                            | 184,978                            | 165                                | N/A                                | N/A                                | N/A                                |
| Units outstanding, end of year ('000s)                | 2,856                              | 6,365                              | 29,691                             | 7,731                              | 4,027                              | 6,704                              | 10,528                             | 36,668                             | 3,396                              | 5,616                              | 2,174                              | 2                                  | N/A                                | N/A                                | N/A                                |
| <b>2015</b>   |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 15.15%                             | 11.51%                             | 9.04%                              | 16.66%                             | 24.02%                             | 19.09%                             | 24.07%                             | 11.77%                             | (5.24)%                            | (13.53)%                           | (6.26)% (2)                        | N/A                                | N/A                                | N/A                                | N/A                                |
| Net position, end of year (\$'000s)                   | 594,274                            | 848,797                            | 1,154,470                          | 1,017,713                          | 494,545                            | 762,278                            | 704,428                            | 425,548                            | 170,840                            | 177,995                            | 40,871                             | N/A                                | N/A                                | N/A                                | N/A                                |
| Units outstanding, end of year ('000s)                | 4,277                              | 9,049                              | 41,282                             | 9,816                              | 5,390                              | 7,290                              | 11,447                             | 31,126                             | 1,974                              | 2,634                              | 436                                | N/A                                | N/A                                | N/A                                | N/A                                |
| <b>2014</b>   |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 20.33%                             | 23.18%                             | 22.67%                             | 30.63%                             | 27.66%                             | 27.52%                             | 17.90%                             | 16.81%                             | (8.66)%                            | (21.85)% (2)                       | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                |
| Net position, end of year (\$'000s)                   | 703,977                            | 1,098,091                          | 1,319,704                          | 1,050,050                          | 401,949                            | 597,679                            | 435,298                            | 215,895                            | 52,887                             | 3,204                              | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                |
| Units outstanding, end of year ('000s)                | 5,834                              | 13,054                             | 51,443                             | 11,815                             | 5,433                              | 6,807                              | 8,777                              | 17,648                             | 579                                | 41                                 | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                |
| <b>2013</b>   |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 13.07%                             | 13.29%                             | 14.39%                             | 17.96%                             | 15.65%                             | 14.41%                             | (1.98)%                            | (21.87)%                           | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                |
| Net position, end of year (\$'000s)                   | 801,538                            | 1,217,424                          | 1,212,620                          | 895,341                            | 301,492                            | 391,799                            | 201,700                            | 61,569                             | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                |
| Units outstanding, end of year ('000s)                | 7,993                              | 17,827                             | 57,995                             | 13,161                             | 5,203                              | 5,691                              | 4,794                              | 5,879                              | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                |
| <b>2012</b>   |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 16.13%                             | 13.20%                             | 11.33%                             | 14.15%                             | 0.62%                              | (9.88)%                            | (54.42)%                           | (86.60)% (2)                       | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                |
| Net position, end of year (\$'000s)                   | 879,582                            | 1,291,372                          | 1,072,936                          | 685,645                            | 184,789                            | 214,792                            | 97,989                             | 134                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                |
| Units outstanding, end of year ('000s)                | 9,918                              | 21,422                             | 58,687                             | 11,889                             | 3,688                              | 3,569                              | 2,283                              | 10                                 | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                |
| <b>2011</b>   |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |
| Total net return (1)                                  | 19.74%                             | 23.61%                             | 20.56%                             | 20.34%                             | (7.45)%                            | (29.52)%                           | (5.84)% (2)                        | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                |
| Net position, end of year (\$'000s)                   | 872,773                            | 1,208,620                          | 804,057                            | 439,750                            | 86,944                             | 44,610                             | 1,789                              | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                |
| Units outstanding, end of year ('000s)                | 11,428                             | 22,699                             | 48,975                             | 8,704                              | 1,746                              | 668                                | 19                                 | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                | N/A                                |
| <b>Ratios to average net assets:</b>                  |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |
| <b>2019</b>   |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |
| Ratio of expenses, including indirect management fees | 0.56%                              | 0.55%                              | 0.45%                              | 0.56%                              | 1.63%                              | 0.79%                              | 1.08%                              | 1.39%                              | 1.45%                              | 1.58%                              | 1.89%                              | 3.33%                              | 8.34%                              | 4.39%                              | 0.14% (2)                          |
| Ratio of expenses, excluding indirect management fees | 0.04%                              | 0.07%                              | 0.04%                              | 0.09%                              | 0.04%                              | 0.04%                              | 0.09%                              | 0.04%                              | 0.04%                              | 0.04%                              | 0.32%                              | 0.04%                              | 0.04%                              | 0.17%                              | 0.14% (2)                          |
| <b>2018</b>   |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |
| Ratio of expenses, including indirect management fees | 0.53%                              | 0.62%                              | 0.92%                              | 0.70%                              | 1.59%                              | 1.25%                              | 1.35%                              | 1.59%                              | 1.77%                              | 2.19%                              | 3.16%                              | 6.59%                              | 10.13%                             | 0.14% (2)                          | N/A                                |
| Ratio of expenses, excluding indirect management fees | 0.06%                              | 0.08%                              | 0.04%                              | 0.09%                              | 0.04%                              | 0.04%                              | 0.07%                              | 0.04%                              | 0.04%                              | 0.04%                              | 0.51%                              | 0.04%                              | 0.04%                              | 0.14% (2)                          | N/A                                |
| <b>2017</b>   |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |
| Ratio of expenses, including indirect management fees | 0.65%                              | 0.74%                              | 0.98%                              | 0.75%                              | 1.47%                              | 1.15%                              | 1.53%                              | 1.82%                              | 2.82%                              | 3.69%                              | 5.87%                              | 10.75%                             | 0.01% (2)                          | N/A                                | N/A                                |
| Ratio of expenses, excluding indirect management fees | 0.06%                              | 0.03%                              | 0.04%                              | 0.08%                              | 0.04%                              | 0.04%                              | 0.15%                              | 0.04%                              | 0.04%                              | 0.04%                              | 0.74%                              | 0.30%                              | 0.01% (2)                          | N/A                                | N/A                                |
| <b>2016</b>   |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |
| Ratio of expenses, including indirect management fees | 0.73%                              | 0.77%                              | 1.00%                              | 0.98%                              | 1.29%                              | 1.30%                              | 1.74%                              | 2.28%                              | 4.91%                              | 4.71%                              | 9.50%                              | (21.53)% (2)                       | N/A                                | N/A                                | N/A                                |
| Ratio of expenses, excluding indirect management fees | 0.04%                              | 0.03%                              | 0.04%                              | 0.14%                              | 0.04%                              | 0.04%                              | 0.16%                              | 0.04%                              | 0.04%                              | 0.05%                              | 0.04%                              | (21.53)% (2)                       | N/A                                | N/A                                | N/A                                |
| <b>2015</b>   |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                                    |
| Ratio of expenses, including indirect management fees | 0.82%                              | 0.80%                              | 1.01%                              | 0.97%                              | 1.71%                              | 1.61%                              | 2.21%                              | 3.27%                              | 8.83%                              | 9.28%                              | 2.57% (2)                          | N/A                                | N/A                                | N/A                                | N/A                                |
| Ratio of expenses, excluding indirect management fees | 0.05%                              | 0.05%                              | 0.04%                              | 0.11%                              | 0.04%                              | 0.04%                              | 0.15%                              | 0.05%                              | 0.04%                              | 0.06%                              | 0.02% (2)                          | N/A                                | N/A                                | N/A                                | N/A                                |



## Financial Highlights Ratios, continued

For the years ended June 30, 2019-2011

|   | Vintage Year<br>2005<br>Account | Vintage Year<br>2006<br>Account | Vintage Year<br>2007<br>Account | Vintage Year<br>2008<br>Account | Vintage Year<br>2009<br>Account | Vintage Year<br>2010<br>Account | Vintage Year<br>2011<br>Account | Vintage Year<br>2012<br>Account | Vintage Year<br>2013<br>Account | Vintage Year<br>2014<br>Account |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| <b>2014</b>   |                                 |                                 |                                 |                                 |                                 |                                 |                                 |                                 |                                 |                                 |
| Ratio of expenses, including indirect management fees | 0.91%                           | 0.84%                           | 1.32%                           | 1.70%                           | 2.59%                           | 2.55%                           | 4.26%                           | 7.53%                           | 14.31%                          | 10.58% (2)                      |
| Ratio of expenses, excluding indirect management fees | 0.08%                           | 0.06%                           | 0.04%                           | 0.15%                           | 0.04%                           | 0.04%                           | 0.41%                           | 0.05%                           | 0.04%                           | 0.11% (2)                       |
| <b>2013</b>   |                                 |                                 |                                 |                                 |                                 |                                 |                                 |                                 |                                 |                                 |
| Ratio of expenses, including indirect management fees | 1.01%                           | 0.97%                           | 1.70%                           | 1.88%                           | 3.26%                           | 3.69%                           | 7.38%                           | 14.26%                          | N/A                             | N/A                             |
| Ratio of expenses, excluding indirect management fees | 0.09%                           | 0.10%                           | 0.04%                           | 0.16%                           | 0.04%                           | 0.04%                           | 0.17%                           | 0.08%                           | N/A                             | N/A                             |
| <b>2012</b>   |                                 |                                 |                                 |                                 |                                 |                                 |                                 |                                 |                                 |                                 |
| Ratio of expenses, including indirect management fees | 1.02%                           | 1.11%                           | 2.12%                           | 2.54%                           | 5.61%                           | 7.85%                           | 16.15%                          | 8.19% (2)                       | N/A                             | N/A                             |
| Ratio of expenses, excluding indirect management fees | 0.08%                           | 0.19%                           | 0.04%                           | 0.21%                           | 0.04%                           | 0.04%                           | 0.04%                           | 0.25% (2)                       | N/A                             | N/A                             |
| <b>2011</b>   |                                 |                                 |                                 |                                 |                                 |                                 |                                 |                                 |                                 |                                 |
| Ratio of expenses, including indirect management fees | 1.43%                           | 1.45%                           | 3.81%                           | 3.98%                           | 15.75%                          | 13.44%                          | 10.80% (2)                      | N/A                             | N/A                             | N/A                             |
| Ratio of expenses, excluding indirect management fees | 0.11%                           | 0.20%                           | (0.01)%                         | 0.22%                           | 0.04%                           | 0.05%                           | 0.02% (2)                       | N/A                             | N/A                             | N/A                             |

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

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

## Financial Highlights Ratios, continued

For the years ended June 30, 2019-2011

|   | Real<br>Estate<br>Account | Timberland<br>Account | Cash<br>Overlay<br>Account | Portfolio<br>Completion<br>Strategies<br>Account (3) | Risk<br>Premia<br>Account (3) | Real<br>Assets<br>Account (3) | Enhanced<br>Equity<br>Account | Other<br>Credit<br>Opportunities<br>Account |
|---|---------------------------|-----------------------|----------------------------|--|-------------------------------|-------------------------------|-------------------------------|---|
| <b>Ratios and supplementary data:</b>                 |                           |                       |                            |  |                               |                               |                               |   |
| <b>2019</b>   |                           |                       |                            |  |                               |                               |                               |   |
| Total net return (1)                                  | 5.56%                     | 1.57%                 | 1.34%                      | N/A  | (0.60)%                       | (14.97)%                      | 6.17%                         | 5.95%                                       |
| Net position, end of year (\$'000s)                   | 6,992,131                 | 2,888,192             | 465,349                    | N/A  | 615,528                       | 804,725                       | 4,586,863                     | 257,835                                     |
| Units outstanding, end of year ('000s)                | 10,351                    | 10,138                | 2,383                      | N/A  | 6,005                         | 8,825                         | 39,107                        | 2,364                                       |
| <b>2018</b>   |                           |                       |                            |  |                               |                               |                               |   |
| Total net return (1)                                  | 8.86%                     | 7.38%                 | 2.64%                      | N/A  | 5.49%                         | 5.95%                         | 10.47%                        | 2.94% (2)                                   |
| Net position, end of year (\$'000s)                   | 6,454,777                 | 2,433,762             | 304,443                    | N/A  | 618,533                       | 631,406                       | 2,372,889                     | 164,184                                     |
| Units outstanding, end of year ('000s)                | 10,087                    | 8,677                 | 1,580                      | N/A  | 5,998                         | 5,888                         | 21,480                        | 1,595                                       |
| <b>2017</b>   |                           |                       |                            |  |                               |                               |                               |   |
| Total net return (1)                                  | 6.27%                     | 7.65%                 | 14.55%                     | N/A  | (5.06)%                       | 1.22%                         | N/A                           | N/A   |
| Net position, end of year (\$'000s)                   | 6,047,656                 | 2,483,085             | 682,197                    | N/A  | 585,639                       | 153,348                       | N/A                           | N/A   |
| Units outstanding, end of year ('000s)                | 10,288                    | 9,506                 | 3,634                      | N/A  | 5,991                         | 1,515                         | N/A                           | N/A   |
| <b>2016</b>   |                           |                       |                            |  |                               |                               |                               |   |
| Total net return (1)                                  | 11.70%                    | (3.31)%               | 5.65%                      | 8.62%  | N/A                           | N/A                           | N/A                           | N/A   |
| Net position, end of year (\$'000s)                   | 6,302,436                 | 2,012,000             | 286,627                    | 736,581  | N/A                           | N/A                           | N/A                           | N/A   |
| Units outstanding, end of year ('000s)                | 11,394                    | 8,292                 | 1,749                      | 7,154  | N/A                           | N/A                           | N/A                           | N/A   |
| <b>2015</b>   |                           |                       |                            |  |                               |                               |                               |   |
| Total net return (1)                                  | 11.30%                    | (2.04)%               | 5.19%                      | (5.21)% (2)  | N/A                           | N/A                           | N/A                           | N/A   |
| Net position, end of year (\$'000s)                   | 6,093,142                 | 2,347,050             | 567,427                    | 94,882   | N/A                           | N/A                           | N/A                           | N/A   |
| Units outstanding, end of year ('000s)                | 12,305                    | 9,353                 | 3,658                      | 1,001  | N/A                           | N/A                           | N/A                           | N/A   |
| <b>2014</b>   |                           |                       |                            |  |                               |                               |                               |   |
| Total net return (1)                                  | 12.91%                    | 12.81%                | 47.46% (2)                 | N/A  | N/A                           | N/A                           | N/A                           | N/A   |
| Net position, end of year (\$'000s)                   | 5,380,022                 | 2,374,863             | 549,427                    | N/A  | N/A                           | N/A                           | N/A                           | N/A   |
| Units outstanding, end of year ('000s)                | 12,093                    | 9,271                 | 3,726                      | N/A  | N/A                           | N/A                           | N/A                           | N/A   |
| <b>2013</b>   |                           |                       |                            |  |                               |                               |                               |   |
| Total net return (1)                                  | 12.28%                    | 6.27%                 | N/A                        | N/A  | N/A                           | N/A                           | N/A                           | N/A   |
| Net position, end of year (\$'000s)                   | 4,382,052                 | 2,129,694             | N/A                        | N/A  | N/A                           | N/A                           | N/A                           | N/A   |
| Units outstanding, end of year ('000s)                | 11,121                    | 9,379                 | N/A                        | N/A  | N/A                           | N/A                           | N/A                           | N/A   |
| <b>2012</b>   |                           |                       |                            |  |                               |                               |                               |   |
| Total net return (1)                                  | 9.41%                     | (8.68)%               | N/A                        | N/A  | N/A                           | N/A                           | N/A                           | N/A   |
| Net position, end of year (\$'000s)                   | 4,724,457                 | 1,903,043             | N/A                        | N/A  | N/A                           | N/A                           | N/A                           | N/A   |
| Units outstanding, end of year ('000s)                | 13,463                    | 8,906                 | N/A                        | N/A  | N/A                           | N/A                           | N/A                           | N/A   |
| <b>2011</b>   |                           |                       |                            |  |                               |                               |                               |   |
| Total net return (1)                                  | 20.17%                    | 19.20%                | N/A                        | N/A  | N/A                           | N/A                           | N/A                           | N/A   |
| Net position, end of year (\$'000s)                   | 4,103,735                 | 2,003,721             | N/A                        | N/A  | N/A                           | N/A                           | N/A                           | N/A   |
| Units outstanding, end of year ('000s)                | 12,794                    | 8,563                 | N/A                        | N/A  | N/A                           | N/A                           | N/A                           | N/A   |
| <b>Ratios to average net assets:</b>                  |                           |                       |                            |  |                               |                               |                               |   |
| <b>2019</b>   |                           |                       |                            |  |                               |                               |                               |   |
| Ratio of expenses, including indirect management fees | 0.49%                     | 0.26%                 | 0.08%                      | N/A  | 0.89%                         | 1.48%                         | 0.43%                         | 0.92%                                       |
| Ratio of expenses, excluding indirect management fees | 0.15%                     | 0.26%                 | 0.08%                      | N/A  | 0.12%                         | 0.07%                         | 0.43%                         | 0.92%                                       |
| <b>2018</b>   |                           |                       |                            |  |                               |                               |                               |   |
| Ratio of expenses, including indirect management fees | 0.50%                     | 0.55%                 | 0.06%                      | N/A  | 0.90%                         | 1.37%                         | 0.42%                         | 0.62% (2)                                   |
| Ratio of expenses, excluding indirect management fees | 0.14%                     | 0.21%                 | 0.06%                      | N/A  | 0.11%                         | 0.03%                         | 0.03%                         | 0.62% (2)                                   |
| <b>2017</b>   |                           |                       |                            |  |                               |                               |                               |   |
| Ratio of expenses, including indirect management fees | 0.46%                     | 0.67%                 | 0.07%                      | N/A  | 1.27%                         | 0.04%                         | N/A                           | N/A   |
| Ratio of expenses, excluding indirect management fees | 0.09%                     | 0.34%                 | 0.07%                      | N/A  | 0.15%                         | 0.04%                         | N/A                           | N/A   |
| <b>2016</b>   |                           |                       |                            |  |                               |                               |                               |   |
| Ratio of expenses, including indirect management fees | 0.47%                     | 0.23%                 | 0.07%                      | 0.90%  | N/A                           | N/A                           | N/A                           | N/A   |
| Ratio of expenses, excluding indirect management fees | 0.09%                     | (0.11)%               | 0.07%                      | 0.16%  | N/A                           | N/A                           | N/A                           | N/A   |
| <b>2015</b>   |                           |                       |                            |  |                               |                               |                               |   |
| Ratio of expenses, including indirect management fees | 0.64%                     | 0.70%                 | 0.07%                      | 0.29% (2)  | N/A                           | N/A                           | N/A                           | N/A   |
| Ratio of expenses, excluding indirect management fees | 0.27%                     | 0.40%                 | 0.07%                      | 0.10% (2)  | N/A                           | N/A                           | N/A                           | N/A   |

## Financial Highlights Ratios, continued

For the years ended June 30, 2019-2011

|   | Real<br>Estate<br>Account | Timberland<br>Account | Cash<br>Overlay<br>Account |
|---|---------------------------|-----------------------|----------------------------|
| <b>2014</b>   |                           |                       |                            |
| Ratio of expenses, including indirect management fees | 0.56%                     | 0.55%                 | 0.09% (2)                  |
| Ratio of expenses, excluding indirect management fees | 0.17%                     | 0.16%                 | 0.09% (2)                  |
| <b>2013</b>   |                           |                       |                            |
| Ratio of expenses, including indirect management fees | 0.49%                     | 0.67%                 | N/A                        |
| Ratio of expenses, excluding indirect management fees | 0.13%                     | 0.15%                 | N/A                        |
| <b>2012</b>   |                           |                       |                            |
| Ratio of expenses, including indirect management fees | 0.50%                     | 0.78%                 | N/A                        |
| Ratio of expenses, excluding indirect management fees | 0.15%                     | 0.19%                 | N/A                        |
| <b>2011</b>   |                           |                       |                            |
| Ratio of expenses, including indirect management fees | 0.53%                     | 0.83%                 | N/A                        |
| Ratio of expenses, excluding indirect management fees | 0.16%                     | 0.22%                 | N/A                        |

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

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

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

## PRIT Fund Asset Allocation

As of June 30:

The following table is intended to provide readers of this CAFR with further information regarding the financial position of the PRIT Fund over the past ten years. This table provides the change in assets during this time period. This table should be read in conjunction with the discussion on asset allocation in the *Investment Section* of this CAFR.

|                                       | 2020  | 2019  | 2018  | 2017  | 2016  | 2015  | 2014  | 2013  | 2012  | 2011  |
|---------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Domestic Equity (1)                   | 22.2% | 21.9% | 19.1% | 19.8% | 18.7% | 19.2% | 19.0% | 20.8% | 19.2% | 22.0% |
| International Equity                  | 13.9% | 15.1% | 16.5% | 18.0% | 16.5% | 16.9% | 17.1% | 18.0% | 16.7% | 21.7% |
| Emerging Markets                      | 6.0%  | 6.2%  | 6.3%  | 7.9%  | 7.0%  | 6.6%  | 7.0%  | 6.5%  | 6.7%  | 6.6%  |
| Core Fixed Income                     | 15.7% | 13.6% | 12.8% | 12.0% | 13.9% | 13.7% | 13.9% | 12.6% | 13.0% | 13.2% |
| Value-Added Fixed Income              | 7.5%  | 7.9%  | 8.0%  | 8.1%  | 8.4%  | 8.3%  | 8.5%  | 8.9%  | 8.6%  | 6.0%  |
| Private Equity                        | 11.4% | 11.3% | 10.8% | 10.6% | 11.1% | 11.3% | 11.1% | 11.7% | 12.1% | 10.7% |
| Real Estate                           | 9.2%  | 9.4%  | 9.0%  | 9.1%  | 10.4% | 10.0% | 8.9%  | 8.2%  | 9.7%  | 8.2%  |
| Timberland                            | 3.7%  | 3.9%  | 3.4%  | 3.7%  | 3.3%  | 3.8%  | 3.9%  | 4.0%  | 3.9%  | 4.0%  |
| Hedge Funds (2)                       | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 8.6%  | 9.1%  | 9.6%  | 9.2%  | 9.9%  | 7.2%  |
| Liquidating Portfolios (3)            | 0.1%  | 0.2%  | 0.3%  | 0.4%  | 0.3%  | 0.1%  | 0.1%  | 0.1%  | 0.2%  | 0.4%  |
| Overlay                               | 0.6%  | 0.6%  | 0.4%  | 1.0%  | 0.5%  | 0.9%  | 0.9%  | -     | -     | -     |
| Portfolio Completion Strategies (1,2) | 9.7%  | 10.0% | 13.4% | 9.5%  | 1.2%  | 0.2%  | -     | -     | -     | -     |

Totals may not add due to rounding.

- (1) Includes Enhanced Equity. Prior to March 1, 2019, Enhanced Equity assets were reflected in the Portfolio Completion Strategies portfolio.
- (2) At the February 14, 2017 Board meeting, the PRIM Board voted to combine the Hedge Funds and Portfolio Completion Strategies portfolios into a single portfolio (Portfolio Completion Strategies).
- (3) Includes Portable Alpha Wind Down, Hedge Funds closed portfolios, and Natural Resources Private Wind Down. Prior to January 31, 2016, Natural Resources Private assets were reflected in the Timberland portfolio.



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