

**PENSION RESERVES INVESTMENT MANAGEMENT BOARD**  
**Administration and Audit Committee Meeting**  
**Thursday, October 1, 2015**  
**10:00 a.m.**

Agenda

- I. Approval of the Minutes.
- II. Executive Director / Chief Investment Officer Comments.
- III. FY 2015 Audit Results.
- IV. Executive Director's FY 2015 Self-Evaluation and FY 2016 Goals and Objectives.
- V. Proxy Voting Update and ISS contract extension.
- VI. PRIM's Information Technology Overview.
- VII. 2016 Proposed PRIM Board and Committee Meeting Schedule.
- VIII. Legal/Legislative Update.
- IX. Other Matters:
  - a. August 2015 PRIM Budget.
  - b. Travel and Staff Development.
  - c. Client Service.
- X. Litigation Updates (Executive Session).

Appendices

- A. Minutes of the PRIM Administration and Audit Committee Meeting of May 21, 2015.
- B. KPMG Report on 2015 Audit.
- C. Draft PRIT Audited Financials.
- D. Draft PRIM Audited Financials.
- E. 2015 Proxy Voting Update.
- F. PRIM Technology Update.
- G. 2016 Proposed PRIM Board and Committee Schedule.
- H. August 2015 PRIM Operating Budget.
- I. Travel and Staff Development.

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**PENSION RESERVES INVESTMENT MANAGEMENT BOARD**  
**Administration and Audit Committee Meeting**  
**Thursday, October 1, 2015**  
**10:00 a.m.**

**EXPANDED AGENDA**

**I. Approval of the Minutes.**

The minutes of the May 21, 2015 Administration and Audit Committee meeting are contained at **Appendix A**.

**II. Executive Director and Chief Investment Officer Comments.**

Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer, provides the Committee with an update.

**III. FY 2015 Audit Results.**

The annual audits of PRIM and PRIT and the Agreed-Upon Procedures review of PRIM's Procurement Process for Investment Management and Other Professional Services and the PRIT Fund's Benchmark Calculations (the AUP reviews) have concluded with clean opinions and no audit exceptions. KPMG Partner David Gagnon will present to the Committee the results of the fiscal year 2015 PRIM and PRIT audits and the AUP reviews.

KPMG's report is attached at **Appendix B** and includes an overview of the audit processes that were employed, copies of draft audit opinion letters, and KPMG's report on the AUP reviews. The draft PRIT and PRIM financial statements are attached at **Appendices C and D**. In addition to KPMG's presentation, the Committee will have an opportunity to meet with the KPMG auditors without PRIM staff present, consistent with audit committee best practices.

PRIM staff is recommending that the Administration and Audit Committee make a recommendation to the PRIM Board to accept the fiscal year 2015 PRIM and PRIT financial statements and the Agreed-Upon Procedures reports on PRIM's Procurement Process for Investment Management and Other Professional Services and the PRIT Fund's Benchmark Calculations.

**IV. Executive Director's FY 2015 Evaluation and FY 2016 Goals and Objectives.**

The Chair of the Administration and Audit Committee is charged with coordinating the process for the Executive Director's evaluation by the Board and with ensuring that the Board has received all materials and information necessary to conduct the Executive Director's evaluation. The Chair will discuss the evaluation materials and next steps in the process for the Board's FY 2015 Executive Director Evaluation.

The Administration and Audit Committee's role, pursuant to the PRIM Charters, is to review the goals and objectives and recommend them to the PRIM Board for Approval. The Executive Director's FY 2016 Goals and Objectives will be distributed separately from this agenda. PRIM staff is recommending that the Administration and Audit Committee make a recommendation to the PRIM Board to accept the Executive Director's FY 2016 Goals and Objectives.

## **V. Proxy Voting Update and ISS contract extension.**

PRIM staff will provide an update on PRIM's Proxy Voting, presentation is attached at **Appendix E**.

PRIM's current three – year contract with Institutional Shareholder Services (ISS) expires on December 31, 2015. Given the recent changes in proxy voting guidelines, change in PRIM's COO/CFO position, and proposed new 2016 proxy voting guideline implementation timeline, PRIM staff is recommending to extend the ISS contract for another year. This extension will ensure continuity in implementing our custom proxy voting guidelines.

PRIM staff is recommending that the Administration and Audit Committee make a recommendation to the PRIM Board to extend the ISS contract for one year, ending December 31, 2016.

## **VI. PRIM's Information Technology Overview.**

Anthony J. Falzone, Chief Technology Officer. Overview of PRIM's information technology structure is attached at **Appendix F**.

## **VII. 2016 Proposed PRIM Board and Committee Meeting Schedule.**

Attached at **Appendix G** is a copy of the 2016 Proposed PRIM Board and Committee Meeting Schedule. The schedule will be distributed to Board and Committee members for review, and a final draft will be included in the November Administration and Audit Committee meeting materials for a recommendation to the Board in December.

## **VIII. Legal/Legislative Update**

Christopher J. Supple, Esq., Deputy Executive Director and General Council will update the Committee on legal and legislative matters.

## **IX. Other Matters.**

### **a. August 2015 PRIM Operating Budget (Appendix H).**

#### **Domestic Equity**

Fee Type	Actual	Budget	Variance	Percent
Base Fees	2,272,041	2,387,047	115,006	5%
Performance Fee	114,866	120,947	6,081	5%
Totals:	2,386,907	2,507,994	121,087	5%

Variances are due to lower-than-budgeted performance.

#### **International Equity**

Fee Type	Actual	Budget	Variance	Percent
Base Fees	2,755,345	2,818,661	63,316	2%

Variance within expectations.

### **Emerging Markets Equity**

Fee Type	Actual	Budget	Variance	Percent
Base Fees	2,686,746	3,233,804	547,058	17%
Performance Fees	-	-	-	n/a
Totals:	2,686,746	3,233,804	547,058	17%

Variances are due to lower-than-budgeted performance.

### **Core Fixed Income**

Fee Type	Actual	Budget	Variance	Percent
Base Fees	751,027	779,091	28,064	4%
Performance Fees	-	14,036	14,036	100%
Totals:	751,027	793,127	42,100	5%

Variances within expectations.

### **Value Added Fixed Income**

Fee Type	Actual	Budget	Variance	Percent
High Yield	625,408	644,188	18,780	3%
Emerging Markets Debt	1,042,630	1,146,348	103,718	9%
Totals:	1,668,038	1,790,536	122,498	7%

Variances are due to lower-than-budgeted performance.

### **REITs and Direct Real Estate Incentive fees**

Fee Type	Actual	Budget	Variance	Percent
Base Fees (REITs)	719,851	817,610	97,759	12%
Performance Fees	(1,603,045)	-	1,603,045	n/a
Totals:	(883,194)	817,610	1,700,804	208%

The base fee variance is due to lower-than budgeted performance. Performance fee variance is due to one Core Real Estate manager who is underperforming projections and we are clawing-back previous performance fees.

### **Timberland & Natural Resources**

Fee Type	Actual	Budget	Variance	Percent
Base Fees	299,906	358,303	58,397	16%
Performance Fees	(2,000,323)	-	2,000,323	n/a
Totals:	(1,700,417)	358,303	2,058,720	575%

The base fee variance is due to lower-than-budgeted performance. Performance fee variance is due to one Timberland manager (two portfolios) who is underperforming projections and we are clawing-back previous fees.

### **Private Equity (Direct)**

Fee Type	Actual	Budget	Variance	Percent
Base Fees	152,812	530,144	377,332	71%

The base fee variance is primarily due to lower-than-budgeted invoices from two funds who applied income credits against fee charges.

### **Hedge Funds**

Fee Type	Actual	Budget	Variance	Percent
Base Fees	8,156	8,334	178	2%

Variances within expectations.

### **Overlay & Foreign Currency**

Fee Type	Actual	Budget	Variance	Percent
Transaction	173,735	69,428	(104,307)	-150%

Currency trading variance is due to higher-than-expected activity by International and Emerging Equity managers. Overlay expense is due to higher cash volumes.

### **Operations and Advisors**

Fee Type	Actual	Budget	Variance	Percent
Operations and Contractual	2,431,701	3,230,886	799,185	25%

Variance due primarily to lower than budgeted contractual fees for hedge fund advisors and staff salaries due to open job positions.

**b. Travel and Staff Development.**

A detailed schedule of expenses associated with due diligence travel and fiduciary education or professional development that have been reimbursed to employees since our prior report is attached at **Appendix I**.

Additional due diligence travel and fiduciary education or professional development that has either been approved or has occurred since our prior report, but has not yet been reimbursed is outlined below:

Date:	Name:	Location:	Organization:	Purpose:
8/6/2015- 8/7/2015	Eric R. Nierenberg	New York, NY	Arden	DD
8/13/2015	Michael R. Bailey	Amsterdam & Netherlands	Gilde Due Diligence	DD
9/9/2015	Sarah N. Samuels	New York, NY	AIF Woman Investors Forum	FE/PD
9/9/2015	Timothy V. Schlitzer	Chicago, IL	AEW Capital Property Tours	DD
9/10/2015	Michael G. Trotsky, David M. Gurtz, Michael M. McGirr, Eric R. Nierenberg, Paul E. Shanley, C. LaRoy Brantley, & Michael J. Heffernan	Boston, MA	BSAS (Ten Nobel Laureates In Economics)	FE/PD
9/15/2015- 9/18/2015	Michael R. Bailey	Beijing, China	Hony Annual Meeting	DD
9/17/2015- 9/18/2015	Erin K. McCafferty	Boston, MA	Onex Annual Meeting	DD
9/21/2015	Michael R. Bailey	Boston, MA	Hamilton Lane	DD
9/22/2015	David M. Gurtz	Washington, DC	US Treasury Conference	FE/PD
9/30/2015- 10/2/2015	Ellen M. Hennessy	Boston, MA	CII Fall 2015 Conference	FE/PD
10/4/2015- 10/5/2015	Jennifer L. Cole	Springfield, MA	MACRS Fall Conference	FE/PD
10/6/2015- 10/7/2015	Sarah N. Samuels	San Francisco, CA	Thoma Bravo	DD
10/6/2015- 10/8/2015	Timothy V. Schlitzer & John F. LaCara	Jacksonville, FL	Campbell Global Client Conference	DD
10/14/2015- 10/15/2015	Michael M. McGirr	Virginia & New York	Quad C Advisory Committee & AGM	DD
10/27/2015	Michael M. McGirr	Philadelphia, PA	Lovell Minnick Annual Meeting	DD
11/17/2015- 11/18/2015	Michael M. McGirr	Florida	KPS Annual Meeting	DD

**Key: DD=Due Diligence; FE/PD=Fiduciary Education and/or Professional Development; SL=Securities Litigation**

**c. Client Service.**

There are 94 retirement systems that currently invest in the PRIT Fund: 55 systems are fully invested ("Participating Systems"), including the State Employees/MA Turnpike, State Teachers, the State-Boston Retirement System - Teachers ("SBRS/Teachers"), and the Massachusetts State College Building Authority ("MSCBA"); 39 systems are partial investors that participate in the Segmentation Program. As of January 1, 2015, the Athol Retirement System was dissolved and its assets transferred to the Worcester Regional Retirement System, which is a Participating System in the PRIT Fund. PRIM serves as an investment manager for approximately 90% of all state and local retirement systems. There are currently 12 unaffiliated retirement systems that do not invest through PRIM. PRIM also manages the assets of the State Retiree Benefits Trust Fund ("SRBTF"), the Commonwealth's Other Post-Employment Benefits ("OPEB") liability fund.

*Client and Other Meetings.*

The client service team continues to meet with many of PRIM's member retirement systems and other jurisdictions. The Senior Client Services Officer also meets with professional organizations and government entities interested in learning more about the SRBTF. Some recent and upcoming meetings are as follows: Woburn (6/30/2015); Essex Regional, Danvers, MA (7/20/2015); SRBTF Board (8/6/2015); Webster (8/19/2015); MassPort Authority (8/20/2015); Barnstable County, Hyannis, MA (8/24/2015); Lexington (8/26/2015); Gloucester (8/26/2015); Attleboro (8/27/2015); Haverhill (9/8/2015); Brookline (9/16/2015); PERAC Emerging Issues Forum, Worcester, MA, OPEB Panel (9/17/2015); Fairhaven (9/22/2015); Shrewsbury (9/23/2015); Newburyport (9/24/2015); Amesbury (9/24/2015); Massachusetts Teachers Retirement System Annual Review and Constituent Meeting, Cambridge, MA (9/25/2015); Quincy (9/30/2015); MACRS, Springfield, MA (10/4 – 10/7/2015); Falmouth (10/8/2015); SRBTF Board (10/15/2015); Chicopee (10/15/2015); Winchester (10/20/2015); Holliston-OPEB (10/20/2015); Wellesley (10/27/2015); Salem (10/28/2015); Natick (10/28/2015); PRIM Investors' Conference (11/5/2015); Worcester, City of (11/12/2015); Concord (11/20/2015); Barnstable County, Hyannis, MA (11/24/2015); Clinton (11/24/2015); SRBTF Board (12/3/2015); Hampshire County, Northampton, MA (12/9/2015); and Chicopee (12/10/2015).

*SRBTF Update.*

The SRBTF Board approved four new local submissions for investment in the SRBTF at its August 6, 2015 meeting: the Town of Blackstone, the City known as the Town of Franklin, the Town of Lincoln, and the Town of Sherborn. In addition to the Massachusetts State Retirees OPEB assets, the SRBTF now has 42 government entity clients that have opted to invest in the SRBTF. As of July 31, 2015, the market value of the total SRBTF was \$868.5 million.

**X. Litigation Update (Executive Session).**

PRIM's General Counsel will provide the Committee with litigation updates.



PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD

## Appendix A

Minutes of the PRIM Administration and Audit Committee Meeting of May 21, 2015

*PRIM Administration and Audit Committee*  
*Thursday, October 1, 2015*

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PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD

Minutes of the Administration and Audit Committee  
Meeting on Thursday, May 21, 2015

Meeting Attendees:

- Robert L. Rousseau, Chair
- James MacDonald (First Deputy Treasurer, as designee for Treasurer Deborah B. Goldberg)
- Treasurer Deborah B. Goldberg (by telephone beginning at 11:00 a.m.)
- Ted C. Alexiades, CPFO
- Patrick E. Brock
- Joseph A. Connolly
- Karen E. Gershman, CPA (arrived at 11:00 a.m.)
- Eileen Glovsky
- Michael J. Heffernan
- Dennis J. Naughton
- Michele A. Whitham, Esquire (departed at 11:45 a.m.)

Other Attendees:

- Ruth Ellen Fitch, PRIM Board Member

The Administration and Audit Committee meeting was called to order at 10:00 a.m.

**I. Approval of the Minutes.**

The Administration and Audit Committee unanimously approved (with Eileen Glovsky, Joseph Connolly, and Michael Heffernan abstaining) the minutes of the March 26, 2015 meeting.

**II. ED/CIO Comments.**

Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer, provided the Committee with an update on the following:

*Organizational Update*

Tom Hanna, CPA, PRIM's Chief Operating Officer and Chief Financial Officer, left PRIM to take an extended break and then to explore other career opportunities. PRIM is conducting a search to find a replacement for Tom in his positions.

David Gurtz, CPA, CFA, has been appointed to Interim Chief Operating Officer and Chief Financial Officer. Dave is in his 8<sup>th</sup> year at PRIM and brings significant expertise in both financial accounting and reporting, and in investment and risk analysis.

Sarah Samuels has been appointed to Deputy Chief Investment Officer.

Sarah Samuels and David Gurtz will join Chris Supple and Michael G. Trotsky on PRIM's senior executive management team.

Michael Bailey was recently nominated for the Institutional Investor's Investor Intelligence Award for Private Equity, and Sarah Samuels was nominated and selected as one of Chief Investment Officer Magazine's 2015 "40 Under 40" list. Michael's nomination recognizes the most outstanding and innovative public plan employees in North America, and Sarah's award recognizes up-and-coming asset owner employees who have made meaningful investment contributions to their organizations. The "40 under 40" list includes asset owners from other public funds, corporate pension plans, endowments and foundations, health care funds, and insurance funds worldwide. These are the two latest examples of PRIM receiving national recognition for our accomplishments and for the strength and innovation of our staff and the investment program that they oversee.

#### *Market Analysis and PRIT Fund Performance*

Markets continue to be volatile in 2015 as economic data continues to be mixed. On the positive side, leading economic indicators and the job market strengthened, with initial jobless claims at historic lows of 264,000 and the unemployment rate falling to 5.4%. On the negative side, wage growth is still anemic, industrial production is weak, and consumer confidence indicators have plummeted for three straight months. Furthermore, Gross Domestic Product growth in Q1 was barely existent, coming in below estimates at 0.2%. The International Monetary Fund reduced its growth estimates for the U.S. while it raised growth estimates for Europe and Japan.

Despite the mixed data, and following a relatively weak March, equity markets were up in April and May with international markets outperforming the U.S. The S&P 500 Index was up 1.0% in April, while developed international markets were up 4.1% and emerging markets were up 7.7%. In May (through May 26), the S&P was up 1.1% while developed international markets were flat and emerging markets were down 1.9%. For the calendar year, the S&P 500 was up 3.0%, developed international markets were up 9.0%, and emerging markets were up 8.0%.

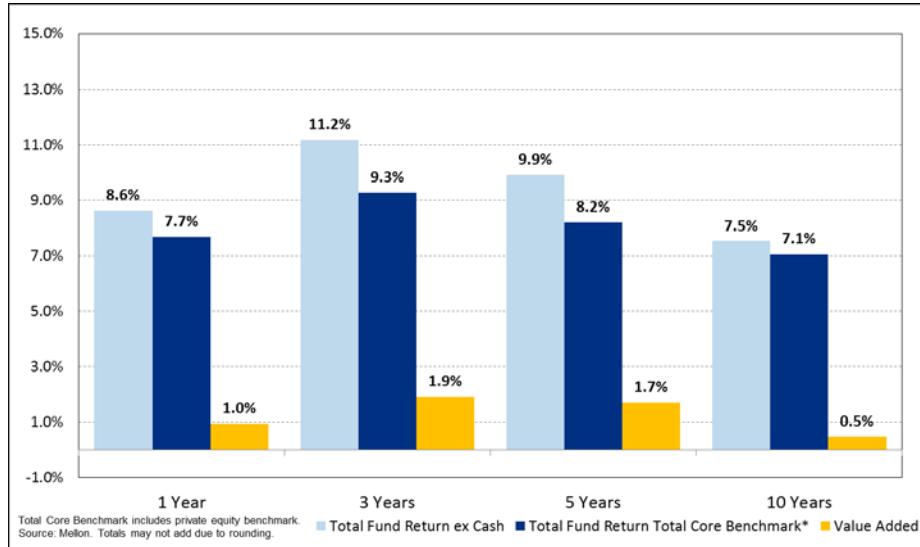
The bond market has been under pressure in recent months with yields rising in anticipation of a Federal Reserve rate hike later in the calendar year. Long duration bonds were down 5.6% in April and 4.1% in May, while shorter duration bonds, as measured by the Barclays Aggregate index, fell 0.4% in April, and 0.5% in May. For the calendar year, long bonds were down 4.5% while the shorter duration bonds were up 0.8%.

With this backdrop, the PRIT Fund is performing well. As of April 30, 2015, the PRIT Fund net asset value stood at \$62.3 billion. The PRIT Fund's trailing 1, 3, 5, and 10 year returns remain strong both on an absolute and on a relative basis:

- For the one-year ended April 30, 2015, the PRIT Fund was up 8.6%, outperforming the total core benchmark of 7.7% by 95 basis points.
- The return equates to an investment gain of \$5.1 billion.
- The outperformance equates to \$560 million of value above the benchmark return.
- Five of the seven major asset classes outperformed their respective benchmarks: Private Equity (14%), Real Estate (+13.4%), Core Fixed Income (+12.6%), and Hedge Funds (+6.7%) were the strongest performing asset classes.
- Net outflows to pay benefits were \$1.5 billion for the one-year ended April 30, 2015.

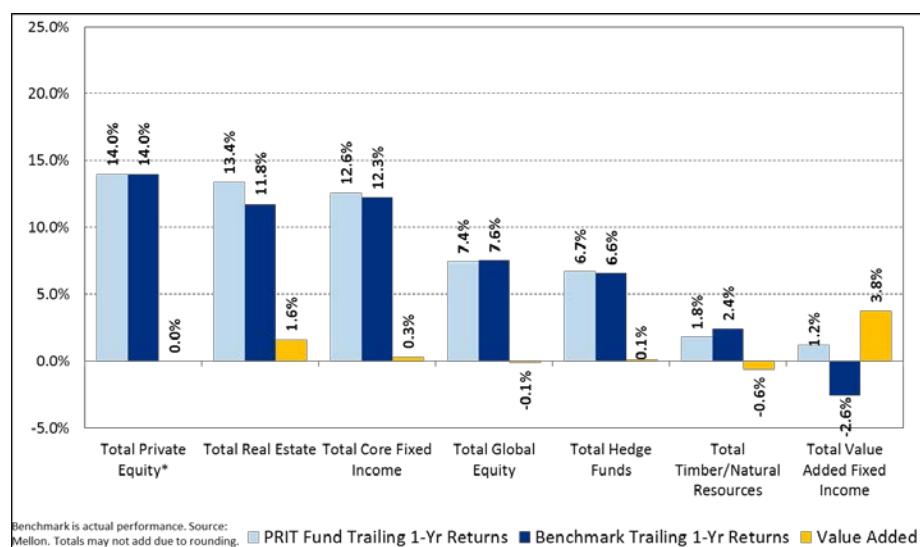
## Total PRIT Fund Returns (Gross of Fees)

Annualized Returns as of April 30, 2015



## PRIT Asset Class Performance (Gross of Fees)

One Year Ended April 30, 2015



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

Trailing 1-Year Performance April 30, 2015	Return	Benchmark Return	Over/(Under) Benchmark (bps)	\$Value (millions)	% of PRIT Fund
<b>Total PRIT Fund</b>	<b>8.6%</b>	<b>7.7%</b>	<b>95</b>	<b>\$ 62,305</b>	<b>100%</b>
<b>Total Global Equity</b>	<b>7.4%</b>	<b>7.6%</b>	<b>(11)</b>	<b>\$ 26,670</b>	<b>42.8%</b>
<i>Domestic</i>	12.0%	12.4%	(43)	\$ 12,061	19.4%
<i>International Developed</i>	3.0%	1.8%	125	\$ 10,370	16.6%
<i>Emerging Markets</i>	6.0%	8.3%	(226)	\$ 4,239	6.8%
<b>Private Equity</b>	<b>14.0%</b>	<b>14.0%</b>	-	<b>\$ 6,727</b>	<b>10.8%</b>
<b>Real Estate</b>	<b>13.4%</b>	<b>11.8%</b>	<b>162</b>	<b>\$ 5,890</b>	<b>9.5%</b>
<b>Timberland/Natural Resources</b>	<b>1.8%</b>	<b>2.4%</b>	<b>(61)</b>	<b>\$ 2,382</b>	<b>3.8%</b>
<b>Hedge Funds</b>	<b>6.7%</b>	<b>6.6%</b>	<b>11</b>	<b>\$ 5,742</b>	<b>9.2%</b>
<b>Value Added Fixed Income</b>	<b>1.2%</b>	<b>(2.6%)</b>	<b>380</b>	<b>\$ 5,119</b>	<b>8.2%</b>
<b>Core Fixed Income</b>	<b>12.6%</b>	<b>12.3%</b>	<b>33</b>	<b>\$ 9,191</b>	<b>14.8%</b>

*Market Analysis*

Mr. Trotsky provided the committee with highlights of Constance M. Everson, CFA's Market Analysis presentation to the Investment Committee at its meeting on May 19, 2015. Ms. Everson described the recent sharp rise of sovereign bond yields.

In principle, the underlying economy was not strong enough to support a rise in bond yields, but there appeared to be a non-linear relationship of bond yields to the economy. The bond market rallied throughout 2014 despite a very strong 2Q and 3Q, and stopped rallying in 2015 despite a very weak 1Q. The driver could possibly be the higher or lower prospects for rate hikes, as if the bond market was signaling that rate hikes would be a mistake. Yields rose sharply in the wake of the (dovish) FOMC meeting in March, 2015, as if the bond market no longer needed to discount a policy mistake.

Discussion followed about recent economic data, such as retail sales, which had risen strongly in March after 3 months of declines, but without follow-through in April, when retail sales were flat. Even the strong numbers, in other words, needed to be put in a very moderate context. From a global perspective, the strong exports to the US being reported by Japan and the Eurozone, in local currencies, translated to a flat line when the same shipments were reported as US imports in US dollars. This difference helped explain why domestic growth was so slow in Japan, and production was not rising in the Eurozone as strongly as the currency advantage might have suggested. The strong US dollar, in other words, was not contributing to global growth rates as it had in earlier strong times.

There was further discussion about challenges to the effectiveness of ECB QE, risks to equity markets from slow growth, and the spillover impact of low energy prices on other industries.

**III. COO/CFO Comments.**

David M. Gurtz, CPA, CFA, Interim Chief Financial Officer and Chief Operating Officer, provided the Committee with an update on his transition into the role of Interim Chief Operating Officer and Chief Financial Officer, and the current staffing and responsibilities of the finance team.

#### **IV. Meeting with Auditors.**

Dave Gagnon, KPMG Audit Partner, updated the Committee on the time table of audits, the PRIM and PRIT June 30, 2015 audit plan, and the KPMG team and their approach to auditing the PRIT fund, including risks, strategies and process. Also discussed were emerging industry issues, such as GASB 72, how these changes will impact financial statements next year, and how PRIM and KPMG are preparing for these changes.

##### *PRIT Real Estate Audits and Engagements*

The second annual PRIT Core Realty Holdings, LLC (PRIT Core Realty) financial statements audit has resulted in an unqualified opinion. This engagement, which is required due to PRIM's real estate leverage program, encompasses the PRIT Fund's entire real estate asset sleeve including core and non-core properties, commingled fund investments, and Real Estate Investment Trust securities.

##### *PRIT Timber Portfolio Audits*

The calendar-year financial statement audits of PRIT's two timberland portfolios are underway and the reporting deadlines are expected to be met without issue.

Karen E. Gershman, CPA arrived at 11:00 a.m.

Treasurer Deborah B. Goldberg joined by telephone at 11:00 a.m.

#### **V. Approval to Issue Request for Proposals for Real Estate Administration Services.**

Matthew H. Liposky, Director of Investment Operations, discussed the issuance of a Request for Proposals for Real Estate Administration Services, to manage valuation, financial reporting and audits of direct real estate properties.

The Administration and Audit Committee unanimously agreed to make a recommendation to the PRIM Board for the approval of the issuance of a Request for Proposals for Real Estate Administration Services, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

#### **VI. Diversity Initiative Update.**

David M. Gurtz, CPA, CFA, was joined by Sarah N. Samuels, CFA, Deputy Chief Investment Officer, and Daniel C. Eckman, CPA, Director of Finance and Administration & Manager of Human Resources, to provide the Committee with an update on PRIM's Diversity Initiatives. The Committee discussed why diversity is important, industry challenges, and what PRIM has done and can do moving forward.

Michelle A. Whitham, Esquire departed at 11:45 a.m.

#### **VII. Board Education Plan.**

PRIM staff presented the Board Education Plan to the Committee, which PRIM was developing based on the 2014 PRIM Board Self-Evaluations.

The Administration and Audit Committee unanimously agreed to make a recommendation to the PRIM Board for adoption of the 2015 Board Education Plan, as described in Appendix D to the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

## **VIII. Legal/Legislative Update.**

PRIM's General Counsel provided the Committee with an update on the issues relating to the completed House budget process that are being debated in the ongoing Senate budget process. According to the State House News Service, a proposed fossil fuel divestment study amendment has been rejected by the Senate, as well as a proposed amendment that would have required a unanimous PRIM Board vote for executive director compensation adjustments. A proposed amendment that would change the composition of the PRIM Board from 9 to 11 members has passed in the House Budget, and a similar proposal is still under consideration by the Senate.

## **IX. Other Matters.**

The Committee members present briefly discussed the following topics:

- a. **March 2015 PRIM Budget.**
- b. **Travel and Staff Development.**
- c. **Client Service.**

The meeting of the PRIM Administration and Audit Committee adjourned at 12:10 p.m.

*List of documents and exhibits used during the meeting:*

- *PRIM Administration and Audit Committee Meeting Expanded Agenda. (May 21, 2015)*
- *Minutes of the PRIM Administration and Audit Committee Meeting of March 26, 2015.*
- *KPMG 2015 Audit Plan.*
- *PRIT Core Realty Holdings, LLC December 31, 2014 Audited Financial Statements.*
- *2015 Board Education Plan.*
- *March 2015 PRIM Operating Budget.*
- *Travel and Staff Development.*
- *Handout – PRIT Fund Performance. (April 30, 2015)*
- *Handout – BNY Mellon Gross of Fees Performance Report. (April 30, 2015)*
- *Handout – Overview of Finance & Administration, Investment Operations, and Technology.*
- *Handout – Diversity Initiative.*



PENSION RESERVES  
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MANAGEMENT BOARD

## Appendix B

KPMG Report on 2015 Audit

*PRIM Administration and Audit Committee*  
*Thursday, October 1, 2015*

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# Pension Reserves Investment Management Board 2015 Audit Results

October 1, 2015

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## 1.0 Responsibilities

## 2.0 Audit status

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- Areas of emphasis
- Summary of uncorrected differences
- Audit observations
- Required communications

## 4.0 Agreed-upon Procedures – Procurement

## 5.0 Material written communications between KPMG and management

## 6.0 Independence

## 7.0 KPMG's Audit Committee Institute and Accounting Updates

### Appendix A – Draft audit reports

### Appendix B – Draft reports on internal control over financial reporting in accordance with *Government Auditing Standards*

### Appendix C – Draft benchmarking agreed-upon-procedures report

### Appendix D – Draft procurement process agreed-upon-procedures report

### Appendix E – Draft management representation letters –audits, benchmarking agreed-upon-procedures report and procurement process agreed-upon-procedures report

### Appendix F – GASB 72, *Fair Value Measurement and Application*

# 1.0

# Responsibilities

# Responsibilities

## **Management is responsible for:**

- Adopting sound accounting policies
- Fairly presenting the financial statements, including disclosures, in conformity with generally accepted accounting principles (GAAP)
- Establishing and maintaining effective internal control over financial reporting (ICFR), including internal controls to prevent, deter, and detect fraud
- Identifying and ensuring that the PRIM Board and the PRIT Fund comply with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations
- Making all financial records and related information available to the auditor
- Providing unrestricted access to personnel within the entity from whom the auditor determines it necessary to obtain audit evidence
- Adjusting the financial statements to correct material misstatements
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but is not limited to, management's:
  - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the PRIM Board's or the PRIT Fund's financial reporting
  - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud; and
  - Affirmation that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole

# Responsibilities (continued)

## **The Administration and Audit Committee is responsible for:**

- Oversight of the financial reporting process and oversight of internal control over financial reporting (ICFR)
- Oversight of the establishment and maintenance of programs and internal controls designed to prevent and detect fraud

## **Management and the Administration and Audit Committee are responsible for:**

- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

**The audit of the financial statements does not relieve management or the Administration and Audit Committee of their responsibilities.**

## **KPMG is responsible for:**

- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Administration and Audit Committee are presented fairly, in all material respects, in conformity with GAAP
- Planning and performing the audit with an attitude of professional skepticism
- Conducting the audit in accordance with relevant professional standards, including generally accepted auditing standards in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and complying with the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant CPA societies and relevant state boards of accountancy
- Evaluating ICFR as a basis for designing audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR
- Communicating to management and the Administration and Audit Committee all required information, including significant matters
- Communicating to management and the Administration and Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention

# Responsibilities (continued)

## **Responsibilities for other information in documents containing audited financial statements:**

- The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information.
- We are required to:
  - Read the other information to identify material inconsistencies with the audited financial statements or material misstatements of fact, and
  - Make appropriate arrangements with management or the Administration and Audit Committee to obtain the other information prior to the report release date.
- Any material inconsistencies or misstatement of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement.
- We will perform the following procedures with respect to the Comprehensive Annual Financial Report (CAFR):
  - Read the CAFR, and
  - Compare information in the CAFR to the audited financial statements to identify material inconsistencies or misstatements of fact.

## **2.0**

# **Audit status**

# Audit status

## Significant changes to our audit plan

There have been no changes to our audit plan dated May 21, 2015

## Pending matters, as of Tuesday, September 22, 2015

- Evaluate the impact of GASB 68, *Accounting and Financial Reporting for Pensions*, on the PRIM Board financial statements and notes
- Conduct annual fraud interviews in accordance with SAS 99
- Outstanding open trade confirmations (3 of 9) from external brokers
- Legal confirmations (5 of 5) to be received close to the date of sign-off, as required by our audit process
- Completion of documentation regarding controls over the valuation of investments
- Final assessment of valuation difference for private equity portfolio
- Approval/acceptance of the financial statements by the PRIM Board
- Evaluate effect of any subsequent events
- Obtain management representation letters
- Completion

## **3.0**

# **Audit results**

# Areas of emphasis

## The PRIM Board – Areas of Emphasis

- Recalculated a sample of management and performance fees
- Reviewed other operating results

## The PRIT Fund – Areas of Emphasis

- Investments are measured at fair value. Most of the portfolio is comprised of separate accounts with marketable securities or funds holding marketable securities. The PRIT Fund utilizes net asset value (NAV), which is reviewed by management, as a practical expedient to estimate fair value of its alternative investments, which are held through commingled funds and limited partnerships. During our audit we:
  - Assessed the design and operating effectiveness of custodial controls over valuation of directly held marketable investments and management's controls over certain alternative investments
  - Confirmed existence and performed valuation procedures over a sample of marketable securities and REIT investments
  - Confirmed a sample of private equity and hedge fund investments with underlying investment managers
  - Performed substantive test-of-details over the accuracy of a sample of private equity, hedge fund, real estate and timber investments, utilizing audited NAV statements, cash activity, and benchmark data
  - Tested reasonableness of a sample of real estate appraisals
  - Reviewed contributions from and redemptions to members

## Other Areas of Emphasis

- Reviewed conformity of presentation and disclosure with GASB standards

## Non-GAAP policies

- The PRIT Fund - Management records the investment valuation results for certain alternative investments on a quarter lag, due to the timing of receipt of financial information. See Summary of Unadjusted Audit Differences (SUAD) slide for impact.

The following Non-GAAP policy is below KPMG's SUAM posting threshold:

- The PRIT Fund - Management records net derivative activity in investments, instead of gross derivative activity.

## Areas of emphasis (continued)

Results of Fair Value Testing	Percentage of Portfolio
<p><b>■ Marketable Securities</b></p> <ul style="list-style-type: none"> <li>– Reviewed the process for holding and valuing marketable securities, including reviewing BNY Mellon's SOC 1 report, as well as relevant user controls at the PRIM Board</li> <li>– Priced a sample of marketable securities using independent third party vendors</li> <li>– Reviewed a sample of pricing reconciliations between investment managers and BNY Mellon</li> </ul>	67%
<p><b>■ Private Equity</b></p> <ul style="list-style-type: none"> <li>– Reviewed controls in place over valuation and existence of private equity investments</li> <li>– Confirmed a sample of private equity investments and compared to the PRIM Board's valuation</li> <li>– Reviewed selected December 31, 2014 audited financial statements and performed a rollforward to the NAV to June 30, 2015, including the reasonableness of the private equity investments performance</li> </ul>	11%
<p><b>■ Hedge Funds</b></p> <ul style="list-style-type: none"> <li>– Reviewed controls in place over valuation and existence of hedge fund investments</li> <li>– Confirmed a sample of commingled and direct hedge investments and compared to the PRIM Board's valuation</li> <li>– Reviewed selected December 31, 2014 audited financial statements and performed a rollforward to the NAV to June 30, 2015, including the reasonableness of the hedge fund investments performance</li> </ul>	9%
<p><b>■ Real Estate</b></p> <ul style="list-style-type: none"> <li>– Reviewed controls in place over valuation and existence of real estate investments</li> <li>– Tested a sample of real estate valuation statements to the PRIM Board's records</li> <li>– Reviewed selected December 31, 2014 audited financial statements and performed a rollforward to the NAV to June 30, 2015, including the reasonableness of the real estate investments performance</li> <li>– Tested mortgage and unsecured debt and related covenant compliance</li> </ul>	10%
<p><b>■ Timber</b></p> <ul style="list-style-type: none"> <li>– Reviewed controls in place over valuation and existence of timber investments</li> <li>– Tested a sample of timber valuation statements to the PRIM Board's records</li> <li>– Reviewed selected December 31, 2014 audited financial statements and performed a rollforward to the NAV to June 30, 2015, including the reasonableness of the timber investments performance</li> </ul>	3%

***KPMG noted no material fair value pricing exceptions.***

# Summary of uncorrected audit differences (in thousands)

## The PRIM Board

Audit difference related to performance fees where the incorrect hurdle rate was used in the calculation of the Campbell incentive, resulting in an over-accrual of fees. The impact on the financial statements to correct this difference is as follows:

Decrease reimbursement of fees and other expenses	196
Decrease accrued investment fee liability	196
Decrease investment fee expense	196
Decrease receivable from PRIT	196

## The PRIT Fund

Valuation difference on private equity, real estate and timber funds due to the use of 3/31/15 values in accordance with the PRIM Board's historical accounting policy. At the time of printing, the impact on the financial statements to record this difference is as follows:

Increase private equity investments	294,577*
Increase real estate investments	48,291
Increase timber investments	6,049
Decrease net change in unrealized appreciation	99,217*
Increase pooled net position as of June 30, 2014	448,134**

\* Number is subject to change upon receipt of additional 6/30/15 reports

\*\* Adjustment includes impact of comparable 6/30/14 unrecorded audit difference

# Audit observations

## The PRIT Fund

- We noted during our audit that management's review of controls at BNY Mellon does not include a robust review of the periodic Service Organizations Controls Report (SOC 1 Report) issued by BNY Mellon:
  - Management should enhance their review process and documentation around the SOC 1 Reports to ensure that the PRIM Board adequately addresses all control considerations and exceptions at the service organizations that could impact the relevant control environment relating to the PRIM Board and the PRIT Fund.
  - Management should review and address all relevant User Control Considerations outlined in the SOC 1 reports, to ensure that the PRIM Board and the PRIT Fund's control environment adequately considers them.

## The PRIM Staff Response:

- PRIM staff communicates informally with BNY Mellon on a daily basis. Formally, PRIM staff meets with BNY Mellon on a monthly basis to discuss upcoming portfolio changes, benchmark changes, cash flows from clients, as well as relevant updates from BNY Mellon. PRIM staff has requested that BNY Mellon formally present the relevant SOC1 report s at a formal monthly meeting, thus allowing PRIM staff and BNY Mellon to discuss any findings and PRIM staff's User Control Considerations. This enhanced process will ensure the proper attention and documentation of the SOC1 reports is achieved.

## Required communications – The PRIM Board and the PRIT Fund

Errors or omissions in disclosures	No material items noted
Related-party transactions	Related party transactions are sufficiently described in the notes to the financial statements for the PRIM Board and the PRIT Fund
Litigations, claims, and assessments	None noted
Illegal acts or fraud	None noted
Noncompliance with laws and regulations	None noted
Significant difficulties encountered during the audit	No matters to report
Disagreements with management	No matters to report
Management's consultation with other accountants	To our knowledge, no matters to report
Significant issues discussed, or subject to correspondence, with management	No matters to report
Scope limitation	None
Other Information in Documents Containing Audited Financial Statements	Consistent with audited financial statements

## **4.0**

# **Agreed-upon Procedures – Procurement**

# Agreed-upon Procedures – Procurement

## For the year ended June 30, 2015

- The PRIM Board has controls related to the selections of third parties to provide investment management, investment advisory, custody and recordkeeping, auditing, and other professional services related to the management of the PRIM Board and the PRIT Fund.
- These controls are in place to ensure the PRIM Board's procurement process of professional services is open, competitive, objective, and designed to ensure that the Trustees have access to a broad array of the highest quality service providers.
- KPMG performed agreed-upon procedures on these procurement controls solely to assist specified parties in evaluating the PRIM Board's procurement process.
- KPMG did not find any exceptions in the agreed-upon procedures performed.

## **5.0 Material written communications between KPMG and management**

# Material written communications between KPMG and management

## **Material written communications**

- Draft audit reports (Appendix A)
- Draft reports on internal control over financial reporting in accordance with *Government Auditing Standards* (Appendix B)
- Draft benchmarking agreed-upon-procedures report (Appendix C)
- Draft procurement process agreed-upon-procedures report (Appendix D)
- Draft management representation letters –audits, benchmarking agreed-upon-procedures report and procurement process agreed-upon-procedures report (Appendix E)

## 6.0 Independence

# Independence

In our professional judgment, we are independent with respect to the PRIM Board and the PRIT Fund, as that term is defined by the professional standards.

## **7.0**

# **KPMG's Audit Committee Institute and Accounting Updates**

# KPMG's Audit Committee Institute (ACI)

## *In depth insights. In time to matter.*

### ACI Programs

- Audit Committee Roundtable Series
- Quarterly Audit Committee Webcast
- 12<sup>th</sup> Annual Audit Committee Issues Conference
  - February 1-2, 2016, San Francisco, CA

### Suggested Publications (available for download at [www.kpmg.com/aci](http://www.kpmg.com/aci))

- Directors Quarterly
- Global Boardroom Insights
- On the 2015 Audit Committee and Board Agendas
- 2015 Global Audit Committee Survey

### Resources

- ACI Web site: [www.kpmg.com/aci](http://www.kpmg.com/aci)
- ACI mailbox: [auditcommittee@kpmg.com](mailto:auditcommittee@kpmg.com)
- ACI hotline: [1-877-KPMG-ACI](tel:1-877-KPMG-ACI)



# Accounting Updates

- **GASB 68 – Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27**
  - Effective for Fiscal year 2015
- **GASB 72 – Fair Value Measurement and Application, issued in February 2015**
  - Effective for Fiscal year 2016
  - See Appendix F for further information
- **GASB 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans**
  - Effective for Fiscal year 2017
- **GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions**
  - Effective for Fiscal year 2018
- **GASB 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments**
  - Effective for Fiscal year 2016
- **FASB Accounting Standards Update (ASU) 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)**
  - Effective for PRIT Core entities in Fiscal year 2017 but may be adopted early

# Appendix A

## **Independent Auditors' Report**

The Administrative and Audit Committee and Trustees,  
Pension Reserves Investment Management Board:

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

We have audited the accompanying financial statements of the Pension Reserves Investment Management Board (the PRIM Board), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the PRIM Board'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 fiduciary net position of the Pension Reserves Investment Management Board as of June 30, 2015 and 2014, and the changes in fiduciary net position for the years then ended, in accordance with U.S. generally accepted accounting principles.

#### ***Other Matter – Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages        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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2015 on our consideration of the PRIM Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PRIM Board's internal control over financial reporting and compliance.

October 13, 2015

## **Independent Auditors' Report**

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

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

We have audited the accompanying financial statements of the Pension Reserves Investment Trust Fund (the PRIT Fund), a component unit of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the PRIT Fund's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the pooled net position of the Pension Reserves Investment Trust Fund as of June 30, 2015 and 2014, and the changes in its pooled net position for the years then ended in accordance with U.S. generally accepted accounting principles.

## ***Other Matters***

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

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages        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 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2015 on our consideration of the PRIT Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PRIT Fund's internal control over financial reporting and compliance.

October 13, 2015

## **Appendix B**

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards***

The Administrative and Audit Committee and Trustees,  
Pension Reserves Investment Management Board:

We have audited, in accordance with the 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, the financial statements of the Pension Reserves Investment Management Board (the PRIM Board), which comprise the statement of fiduciary net position as of June 30, 2015, the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated **October 13, 2015**.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the PRIM Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the PRIM Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the PRIM Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the PRIM Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PRIM Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PRIM Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

October 13, 2015

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards***

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

We have audited, in accordance with the 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, the financial statements of the Pension Reserves Investment Trust Fund (the PRIT Fund), which comprise the statement of pooled net position as of June 30, 2015, the related statement of changes in pooled net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated **October 13, 2015**.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the PRIT Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the PRIT Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the PRIT Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the PRIT Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PRIT Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PRIT Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

October 13, 2015

## Appendix C

**Independent Accountants' Report  
on Applying Agreed-Upon Procedures**

Pension Reserves Investment Management Board:

We have performed the procedures enumerated below, which were agreed to by the Pension Reserves Investment Management Board (the PRIM Board), to assist you in determining the accuracy of the Total Core, Net-of-Fees Adjusted Policy, Interim, and Asset Class Benchmark Returns (collectively, the Benchmarks) used in the Performance Measurement Presentation during the year ended June 30, 2015.

The PRIM Board's management is responsible for the construction and presentation of the Performance Measurement Presentation, and Bank of New York Mellon (BNYM) is responsible for the calculation of the Benchmarks used in the Performance Measurement Presentation. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

As agreed with management, any differences resulting in an impact of less than 0.01% (i.e., less than or equal to 0.009%) to the report are considered to be immaterial, and are not reported herein.

The procedures that we performed, and our findings with respect thereto, are as follows:

I. Obtained the following reports:

- 1) Performance Measurement Presentation, prepared and provided by BNYM as of June 30, 2015.
- 2) Benchmark List, prepared and provided by BNYM listing all benchmarks used in the Performance Measurement presentation and their unique identifiers.
- 3) Master Structure Map, prepared and provided by BNYM, listing the composite benchmark, the benchmarks that make up the composite, start date, end date, segment, category, sector, level, and the weighted % of the composite.
- 4) Benchmark Return Streams, prepared and provided by BNYM for the Total Core Benchmark, Net-of-Fees Adjusted Policy Benchmark, Interim Benchmark, and the following asset class benchmarks: Domestic Equity, International Equity, Emerging Markets, Global Equity, Core Fixed Income, Value Added Fixed Income, Private Equity, Real Estate, Timber/Natural Resources, Hedge Funds, Portfolio Completion Strategies, and Portable Alpha Wind Down, for the year ended June 30, 2015 obtained by BNYM directly from data vendors.
- 5) Benchmark Change Letters, prepared by the PRIM Board and periodically sent to BNYM instructing any changes to benchmark construction. Change Letters received from the

PRIM Board for the following dates: August 6, 2014, February 5, 2015, and March 11, 2015.

- 6) Benchmark Maintenance Forms, prepared and provided by BNYM to document the authorization, execution, and review of the benchmark changes requested in the Benchmark Change Letters. Maintenance Forms received for the following dates: August 6, 2014 with an effective date of July 31, 2014 and September 30, 2014, February 5, 2015 with an effective date of January 31, 2015, and March 11, 2015 with an effective date of February 28, 2015.

II. To evaluate the construction of each benchmark the following procedures were performed:

- 1) Obtained copies of the following Benchmark Change Letters in order to determine that all Total Core, Net-of-Fees Adjusted Policy, Interim, and asset class benchmarks included in the scope of the review were constructed as instructed in the following letters:

<u>Letter Date</u>	<u>Effective Date of Change</u>
August 6, 2014	July 31, 2014 and September 30, 2014
February 5, 2015	January 31, 2015
March 11, 2015	February 28, 2015

*No exceptions noted.*

- 2) Obtained the following Benchmark Maintenance Forms in order to determine that they were completed by BNYM:

<u>Benchmark</u>	<u>Form Date</u>	<u>Effective Date of Change</u>
Global Equity	August 6, 2014	July 31, 2014
Domestic Equity	August 6, 2014	July 31, 2014
Emerging Markets Equity	August 6, 2014	September 30, 2014
International Equity	August 6, 2014	September 30, 2014
Interim	February 5, 2015	January 31, 2015
Total Core	February 5, 2015	January 31, 2015
Portfolio Completion Strategies	February 5, 2015	January 31, 2015
Interim	March 11, 2015	February 28, 2015
Total Core	March 11, 2015	February 28, 2015
Emerging Markets Equity	March 11, 2015	February 28, 2015

*No exceptions noted.*

III. For each of the Asset Class Benchmarks, using the Benchmark Return Streams, performed the following procedures:

- 1) Recalculated the June 30, 2015 Month to Date Return and agreed it to the Performance Measurement Presentation

*No exceptions noted, other than those caused by subsequent revisions to industry benchmarks. See note <sup>(1)</sup>.*

<u>Asset Class</u>	<u>KPMG Calculation</u>	<u>BNY Report</u>	<u>Difference</u>
Hedge Funds	(1.07)	(1.17)	0.10 <sup>(1)</sup>
Portable Alpha Wind Down	(1.07)	(1.17)	0.10 <sup>(1)</sup>

- 2) Recalculated the June 30, 2015 Quarter to Date Return and agreed it to the Performance Measurement Presentation

*No exceptions noted, other than those caused by subsequent revisions to industry benchmarks. See note <sup>(1)</sup>.*

<u>Asset Class</u>	<u>KPMG Calculation</u>	<u>BNY Report</u>	<u>Difference</u>
Hedge Funds	0.17	0.09	0.08 <sup>(1)</sup>
Portable Alpha Wind Down	0.17	0.09	0.08 <sup>(1)</sup>

- 3) Recalculated the Calendar Year to Date Return (January 1, 2015 – June 30, 2015) and agreed it to the Performance Measurement Presentation

*No exceptions noted, other than those caused by subsequent revisions to industry benchmarks. See note <sup>(1)</sup>.*

<u>Asset Class</u>	<u>KPMG Calculation</u>	<u>BNY Report</u>	<u>Difference</u>
Hedge Funds	2.68	2.58	0.10 <sup>(1)</sup>
Portable Alpha Wind Down	2.68	2.58	0.10 <sup>(1)</sup>

- 4) Recalculated the 1 Year Return (July 1, 2014 – June 30, 2015) and agreed it to the Performance Measurement Presentation

*No exceptions noted, other than those caused by subsequent revisions to industry benchmarks. See note <sup>(1)</sup>.*

<u>Asset Class</u>	<u>KPMG Calculation</u>	<u>BNY Report</u>	<u>Difference</u>
Hedge Funds	3.93	3.84	0.09 <sup>(1)</sup>
Portable Alpha Wind Down	3.93	3.84	0.09 <sup>(1)</sup>

- 5) Recalculated the Trailing 3 Year Return ( July 1, 2012 – June 30, 2015) and agreed it to the Performance Measurement Presentation

*No exceptions noted, other than those caused by subsequent revisions to industry benchmarks. See note <sup>(1)</sup>.*

<u>Asset Class</u>	<u>KPMG Calculation</u>	<u>BNY Report</u>	<u>Difference</u>
Hedge Funds	6.24	6.23	0.01 <sup>(1)</sup>
Portable Alpha Wind Down	6.24	6.23	0.01 <sup>(1)</sup>

- 6) Recalculated the Trailing 5 Year Return ( July 1, 2010 – June 30, 2015) and agreed it to the Performance Measurement Presentation

*No exceptions noted, other than those caused by subsequent revisions to industry benchmarks. See note <sup>(1)</sup>.*

<u>Asset Class</u>	<u>KPMG Calculation</u>	<u>BNY Report</u>	<u>Difference</u>
Hedge Funds	4.15	4.14	0.01 <sup>(1)</sup>
Portable Alpha Wind Down	4.15	4.14	0.01 <sup>(1)</sup>

- 7) Recalculated the Trailing 10 Year Return ( July 1, 2005 – June 30, 2015) and agreed it to the Performance Measurement Presentation

*No exceptions noted. Not applicable for the Portable Alpha Wind Down Asset Class because it has not been used for 10 years.*

IV. Using the monthly Asset Class Benchmarks recalculated in Section III, performed the following procedures over the Total Core Benchmark and the Interim Benchmark:

- 1) Recalculated the June 30, 2015 Month to Date Return and agreed it to the Performance Measurement Presentation

*No exceptions noted, other than those caused by subsequent revisions to industry benchmarks. See note <sup>(1)</sup>.*

<u>Asset Class</u>	<u>KPMG Calculation</u>	<u>BNY Report</u>	<u>Difference</u>
Interim	(0.91)	(0.92)	0.01 <sup>(1)</sup>
Total Core	(1.36)	(1.37)	0.01 <sup>(1)</sup>

- 2) Recalculated the June 30, 2015 Quarter to Date Return and agreed it to the Performance Measurement Presentation

*No exceptions noted, other than those caused by subsequent revisions to industry benchmarks. See note <sup>(1)</sup>.*

<u>Asset Class</u>	<u>KPMG Calculation</u>	<u>BNY Report</u>	<u>Difference</u>
Interim	(0.03)	(0.04)	0.01 <sup>(1)</sup>
Total Core	(0.33)	(0.34)	0.01 <sup>(1)</sup>

- 3) Recalculated the Calendar Year to Date Return (January 1, 2015 – June 30, 2015) and agreed it to the Performance Measurement Presentation

*No exceptions noted, other than those caused by subsequent revisions to industry benchmarks. See note <sup>(1)</sup>.*

<u>Asset Class</u>	<u>KPMG Calculation</u>	<u>BNY Report</u>	<u>Difference</u>
Total Core	2.58	2.57	0.01 <sup>(1)</sup>

- 4) Recalculated the 1 Year Return (July 1, 2014 – June 30, 2015) and agreed it to the Performance Measurement Presentation

*No exceptions noted, other than those caused by subsequent revisions to industry benchmarks. See note <sup>(1)</sup>.*

<u>Asset Class</u>	<u>KPMG Calculation</u>	<u>BNY Report</u>	<u>Difference</u>
Interim	3.23	3.22	0.01 <sup>(1)</sup>
Total Core	2.75	2.74	0.01 <sup>(1)</sup>

- 5) Recalculated the Trailing 3 Year Return (July 1, 2012 – June 30, 2015) and agreed it to the Performance Measurement Presentation

*No exceptions noted, other than those caused by subsequent revisions to industry benchmarks. See note <sup>(1)</sup>.*

<u>Asset Class</u>	<u>KPMG Calculation</u>	<u>BNY Report</u>	<u>Difference</u>
Interim	10.36	10.35	0.01 <sup>(1)</sup>
Total Core	9.41	9.40	0.01 <sup>(1)</sup>

- V. Using the monthly Total Core Benchmark recalculated in Section IV, subtracted the monthly fees as provided by BNYM, and listed below, related to the illiquid investments (private equity, hedge funds, portfolio completion strategies, distressed debt, real estate, timber, and natural resources) and performed the following procedures over the Net-of-Fee Adjusted Policy Benchmark:

<u>Month</u>	<u>Fees Subtracted</u>
July 2014	\$ 397,909.05
August 2014	\$ 378,260.84
September 2014	\$ 57,021,208.48
October 2014	\$ (577,205.56)
November 2014	\$ 337,341.87
December 2014	\$ 64,824,764.09
January 2015	\$ (487,997.38)
February 2015	\$ (589,499.39)
March 2015	\$ 56,556,012.07
April 2015	\$ 268,924.91
May 2015	\$ (554,343.43)
June 2015	\$ 64,948,858.94

- 1) Recalculated the June 30, 2015 Month to Date Return and agreed it to the Performance Measurement Presentation

*No exceptions noted.*

- 2) Recalculated the June 30, 2015 Quarter to Date Return and agreed it to the Performance Measurement Presentation

*No exceptions noted.*

- 3) Recalculated the Calendar Year to Date Return (January 1, 2015 – June 30, 2015) and agreed it to the Performance Measurement Presentation

*No exceptions noted.*

- 4) Recalculated the 1 Year Return (July 1, 2014 – June 30, 2015) and agreed it to the Performance Measurement Presentation

*No exceptions noted.*

- 5) Recalculated the Trailing 3 Year Return ( July 1, 2012 – June 30, 2015) and agreed it to the Performance Measurement Presentation

*No exceptions noted.*

## **Discussion of Results**

- <sup>(1)</sup> KPMG investigated all differences identified in Section II, III, IV, and V, and their procedures listed above. Through discussions with BNYM, it was determined that the returns for the HFRI Fund of Funds Composite Index (“HFRI Index”) were revised by HFRI subsequent to the date of the PRIM Board’s performance report, June 30, 2015. BNYM noted that effective January 1, 2012; it is the PRIM Board’s policy to update certain asset class benchmarks (including the Hedge Funds, and Portable Alpha Wind Down) for any subsequent revisions reported by the benchmark data vendors. These two indices are components of the Interim, Total Core benchmark, and Net-of-Fees Adjusted Policy benchmarks; therefore, these benchmarks are subject to the same revisions that the Hedge Funds and Portable Alpha are subject to. The HFRI Index represented 100% of the Hedge Fund and Portable Alpha Wind Down asset class benchmarks. KPMG agreed each of the final revised monthly returns provided by BNYM to Bloomberg without material exception.

KPMG determined that this revision impacted the returns for each period by the differences identified above. BNYM noted that this revision will be captured in the extended period returns presented in the Performance Measurement Presentation going forward; therefore, no adjustment is considered necessary as BNYM followed policy and revised the Hedge Fund and Portable Alpha Wind Down asset class benchmarks for prospective reporting upon receiving the revision reported by the benchmark data vendor.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the benchmark returns within the PRIM Board's Performance Measurement Presentation as of June 30, 2015. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management and the Administration and Audit Committee of the PRIM Board and is not to be distributed externally to third parties, in whole or in part, without prior written consent from KPMG in each instance, or used for any other purpose. We disclaim any intention to update or revise the observations whether as a result of new information, future events, or otherwise. Should additional documentation or other information become available that impacts upon the observation reached in our deliverables, we reserve the right to amend our observations and summary documents accordingly.

October 13, 2015

## **Appendix D**

**PENSION RESERVES INVESTMENT MANAGEMENT BOARD (THE PRIM BOARD)**

Report on the PRIM Board's  
Procurement Process for Investment Management and  
Other Professional Services

Period from July 1, 2014 to June 30, 2015

**PENSION RESERVES INVESTMENT MANAGEMENT BOARD (THE PRIM BOARD)**

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## SECTION I

### Overview

#### A. Description

This Section describes the controls of the Pension Reserves Investment Management Board (the PRIM Board) as they relate to the selection of third parties to provide investment management, advisory, custody and recordkeeping, auditing and other professional services related to the management of the PRIM Board and the Pension Reserves Investment Trust Fund (the PRIT Fund). Section II contains the report of KPMG LLP (KPMG). Section III details control objectives and related controls prepared by the PRIM Board, a description of the tests of selected controls performed by KPMG, and the results of those tests. Section IV provides a listing of the services covered by this report that were procured by the PRIM Board during the period from July 1, 2014 to June 30, 2015.

#### B. PRIM Board/PRIT Fund Overview

##### *Organization*

The PRIT Fund, a component unit of the Commonwealth of Massachusetts, was created in 1983 under Chapter 661 of the Acts of 1983, as amended by Chapter 315 of the Acts of 1996. The PRIT Fund is a pooled investment fund that invests the assets of the State Teachers' and State Employees' Retirement Systems of Massachusetts and the assets of county, authority, school district, and municipal retirement systems that choose to invest in the PRIT Fund. The PRIT Fund is not registered with the Securities and Exchange Commission, but is subject to oversight provided by the PRIM Board. The PRIM Board was created by legislation to provide general supervision of the investments and management of the PRIT Fund.

A nine-member Board of Trustees (the Board or the Trustees) governs the PRIM Board. The Board has authority to employ an Executive Director, outside investment managers, custodians, advisors, and others 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. See Massachusetts General Laws (M.G.L) ch. 32, sec. 23(2A) (e). To assist them in carrying out their duties, the Board has established four advisory committees: Investment, Administration and Audit, Real Estate and Timber, and Compensation.

As Trustees of the PRIT Fund, members of the Board are fiduciaries. The PRIM Board members fiduciary standards are guided by M.G.L ch. 32, sec. 23(3). Fiduciary standards of conduct also apply to the PRIM Board committee members, staff, investment managers, custodians, investment advisors, and others who exercise discretionary authority or discretionary control over the management or disposition of the PRIT Fund assets. See M.G.L. ch. 32, sec. 1.

Specific duties and responsibilities of the Board, Board Chair, Executive Director and Committees are outlined in the Board Governance Manual.

The mission of the PRIT Fund is to ensure that assets to support current and future pension benefit obligations are invested in a cost-effective manner. The PRIM Board seeks to maximize the total return on investments within acceptable levels of risk for a public pension fund.

The PRIM Board employs professional investment managers and gives them discretion, consistent with specified objectives and guidelines, to manage the PRIT Fund's assets. Each investment manager

## SECTION I

### Overview

operates under a contract that delineates responsibilities and performance expectations, including investment guidelines and administrative requirements.

The PRIM Board may contract with investment management advisors to assist the Board, committees, and staff in performance review, asset allocation studies, investment structure analyses, manager screening and selection, investment research and other matters of investment policy, procedures and implementation.

The PRIM Board may contract with one or more custodian banks or trust institutions to provide the PRIT Fund with comprehensive global custodial services associated with a complex, multi-billion dollar pension investment fund client. The custodian is responsible for the physical retention and administration of property received by the PRIT Fund, the collection of income, disbursement of funds, and the monthly reporting of all transactions in accordance with generally accepted accounting principles.

The PRIM Board may utilize the services of independent auditors, appraisers and other third parties, as needed.

#### C. Summary of the PRIM Board's Procurement Practices

The PRIM Board's procurement procedures apply to the selection of investment managers, advisors, custodians, auditors and other specific providers of services to the PRIM Board. Procurement procedures are designed to ensure that the PRIM Board has access to a broad array of the highest quality of service providers. The PRIM Board's procurement practices are detailed in its Procurement Policy.

##### *Request for Proposals*

The PRIM Board's Request for Proposals (RFP) practice includes the following:

1. The PRIM Board staff, in conjunction with an advisor where appropriate, recommends to the appropriate Committee to request the Board issue a RFP for the specific services. The Board must approve the issuance of all RFPs.
2. The PRIM Board staff, in conjunction with an advisor where appropriate, drafts and issues a RFP. The RFP provides background information on the PRIM Board, outlines the scope of services, minimum criteria (if applicable), selection criteria and process, and requests detailed information on all topics relevant to the services sought. The RFP is advertised in industry and/or local publications.
3. An evaluation committee (typically comprised of the PRIM Board staff, an advisor where appropriate, and potentially representatives of the Trustees and/or their pertinent Committee) reviews the proposals received and makes objective judgments based solely on the selection criteria outlined in the RFP. The evaluation committee may interview finalists, undertake site visits, and conduct such other due diligence as is prudent and warranted under the circumstances. The evaluation committee's recommendation is presented to the pertinent Committee of the Trustees for review. If approved, the Committee presents that recommendation to the Trustees for final approval. If approved, the Trustees delegate to the Executive Director the authority to carry out the recommendation.

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### Overview

During the search process, all participants are provided with identical information and judged by the same criteria. The PRIM Board's principal tool to ensure the fairness of the process is an open RFP process. The PRIM Board do not employ "by invitation only" RFPs. The RFP guides participants through the process of offering to manage assets for, or provide other services to, the PRIM Board. It lays out the rules of the RFP process, establishes the selection criteria and provides applicable documents which may influence how participants would manage a portfolio for, or provide other services to, the PRIM Board. Once the search is concluded, all relevant information to the selection process are available to the public.

The most fundamental procurement risk the PRIM Board faces is that of selecting an investment manager or other professional service provider who does not perform up to expectations. When this occurs, the PRIM Board incurs opportunity costs and potential disruption of its investment program.

While it is never possible to predict any future performance, the RFP process is intended to give the PRIM Board the opportunity to engage organizations whose investment skill and/or other capabilities (e.g., client service) will persist. The RFP is a detailed document and seeks to approach each of the principal issues in the selection process from a variety of perspectives. The evaluation committee reviews each proposal and prepares an evaluation committee memorandum summarizing the selection process.

Firms assessed through the RFP process generally are judged on the following criteria: 1) the firm's stability and general experience; 2) the experience of firm personnel; 3) client relations and referrals; 4) philosophy/process; and 5) fees.

If the evaluation committee is seeking to engage an investment manager, it makes a quantitative and qualitative assessment of how the manager will fit into the existing portfolio in the particular asset class or subasset class. Such an assessment is based on many of the same factors used in asset allocation, namely, risk, return and correlation among managers, as well as a thorough understanding of the types of risk factors the managers use to earn excess return. It is intended to avoid the risk that by hiring a particular manager, the PRIM Board may overweight a particular investment style or factor and thereby create an unintended bias.

If the evaluation committee is seeking to engage an advisor, custodian, auditor or other professional service provider, it makes an assessment of how the firm will meet the needs of the PRIM Board and the PRIT Fund. It will assess which firm can best provide the required services outlined in the RFP, with consideration given to the cost of providing those services.

The Trustees vote to approve the engagement of investment managers and other professional service providers is made during public board meetings and is subject to the satisfactory outcome of contract and fee negotiations.

## SECTION I

### Overview

#### ***Alternate Procurement for Investment Opportunities***

Certain investments, such as Private Equity, Alternative Debt, Direct Hedge Fund, Real Estate partnerships, Real Estate direct property level investments, and Portfolio Completion Strategies (PCS) investments, cannot be sourced through a competitive bidding process (RFP process). Therefore, the Trustees have developed the following process to source, evaluate and select these investment opportunities as they arise.

The Trustees will select investments based on the due diligence and the resulting recommendation of the PRIM Board staff and investment advisor, where appropriate. The following criteria generally will be considered when selecting investments for recommendation:

- a. Quality and stability of the investment team.
- b. Previous investment track record.
- c. Proposed investment strategy.
- d. Ability of investment manager to demonstrate its capability to generate superior returns.
- e. Alignment of interests.
- f. Operational capabilities.
- h. PRIT Fund portfolio fit.

The Trustees select investments in accordance with the following process:

- a. The PRIM Board staff, in conjunction with an advisor, where applicable, performs due diligence on investment opportunities that meet the selection criteria and are appropriate for investment.
- b. An Investment Report, which includes the PRIM Board staff's recommendation and an advisor's due diligence report, where applicable, is presented to the Trustees' Investment or Real Estate and Timber Committee, whichever is appropriate for review. If approved, the appropriate Committee presents that recommendation to the Trustees for final approval. If approved, the Trustees delegate to the Executive Director the authority to carry out the recommendation.
- c. If the closing of a private equity or alternative debt investment conflicts with the PRIM Board's Investment Committee and Board meetings, an interim meeting approval process is followed. This interim meeting approval process may only be used for investment recommendations for existing relationships that the Board has previously approved. Upon completion of due diligence, the PRIM Board staff provides Investment Committee and Trustees with the Investment Report, which includes the PRIM Board staff's recommendation and an advisor's due diligence report. Investment Committee and Trustees may present questions and concerns to the PRIM Board staff. In consideration of all discussion with Investment Committee and Board members, the Chief Investment Officer has discretion to approve an investment in the recommended vehicle.

## SECTION II

### Independent Accountant's Report On Applying Agreed-Upon Procedures

The Pension Reserves Investment Management Board:

For each of the services procured through Request for Proposal (RFP) (see Section IV), we have performed the procedures enumerated in Section III, which were agreed to by the Audit and Administration Committee and management of the Pension Reserves Investment Management Board (the PRIM Board), solely to assist the specified parties in evaluating the procurement process for the selection of third parties to provide investment management, advisory, custody and recordkeeping, auditing and other professional services (Procurement Process) related to the management of the PRIM Board and the Pension Reserves Investment Trust Fund (the PRIT Fund) during the year ended June 30, 2015. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Section III either for the purpose for which this report has been requested or for any other purpose.

The procedures applied are enumerated in Section III and the results indicate that no exceptions were noted.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the Procurement Process related to the management of the PRIM Board and the PRIT Fund for the year ended June 30, 2015. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Audit and Administration Committee and management of the PRIM Board, and is not intended to be and should not be used by anyone other than these specified parties.

[*(signed) KPMG LLP*]

October 13, 2015

## SECTION III

### The PRIM Board Control Objectives, Controls and KPMG Agreed-Upon Procedures

#### Introduction

KPMG's agreed-upon procedures over controls were restricted to the control objectives and related procedures specified by the PRIM Board. It is each interested party's responsibility to evaluate this information in relation to the controls in place at user organizations.

KPMG's agreed-upon procedures covered all RFPs listed in Section IV for which services were procured during the period from July 1, 2014 to June 30, 2015. Those agreed-upon procedures consisted of inquiries of management and inspection of documents and included sampling of information where appropriate. Sample sizes were determined using the following matrix:

Population Size	Sample Size
Less than 13	2
13 to 52	5
53 to 365	15
More than 365	25

The results of those agreed-upon procedures are described for each of the PRIM Board controls listed by management. The controls listed are management's responsibility.

#### ***Results of Procedures Performed***

No exceptions noted on the agreed-upon-procedures performed as described on pages 7 – 23.

## **THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES**

### **A. Public Markets, Hedge Funds, Real Estate and Timber Investment Managers**

1. Controls provide reasonable assurance that the Trustees approve the issuance of Requests for Proposals.

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• The PRIM Board staff requests the appropriate Committee to make a recommendation to the Trustees to issue a Request for Proposals (RFP). If granted, the Committee makes a formal recommendation to the Trustees, which is included in the Board Meeting Agenda package. The Board has the authority to issue an RFP without prior recommendation from the committee.</li><li>• The Trustees decide by a majority vote during a public meeting whether to accept or reject the recommendation of the Committee to issue an RFP.</li></ul>	<ul style="list-style-type: none"><li>• For all RFPs for which services were procured during the period, we inspected the Board Meeting Agenda package and noted an agenda item of the recommendation by the PRIM Board staff and the applicable Committee to request the Trustees to issue the RFP.</li><li>• For all RFPs for which services were procured during the period, we inspected Trustees' meeting minutes and noted Trustees' vote to issue the RFP.</li></ul>

2. Controls provide reasonable assurance that pertinent information regarding the RFP process is provided to potential respondents.

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• Each RFP authorized and issued by the Trustees defines the scope of services to be provided.</li><li>• Each RFP authorized and issued by the Trustees includes a copy of The PRIM Board's standard investment management agreement, if applicable.</li></ul>	<ul style="list-style-type: none"><li>• For all RFPs for which services were procured during the period, we inspected copies of the RFPs and noted that there was a section containing a scope of services.</li><li>• For all RFPs for which services were procured during the period, we inspected copies of the RFPs and noted inclusion of a standard investment management agreement in the RFP.</li></ul>

## THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"> <li>• Each RFP authorized and issued by the Trustees describes the selection process.</li> <li>• Each RFP authorized and issued by the Trustees provides a tentative timetable for the selection process.</li> <li>• Each RFP authorized and issued by the Trustees defines minimum qualifications (if appropriate) that respondents must meet in order to be granted further consideration.</li> <li>• Each RFP authorized and issued by the Trustees contains selection criteria that will be used to evaluate respondents' proposals.</li> </ul>	<ul style="list-style-type: none"> <li>• For all RFPs for which services were procured during the period, we inspected copies of the RFPs and noted that the selection process was described in the RFP.</li> <li>• For all RFPs for which services were procured during the period, we inspected copies of the RFPs and noted inclusion of a tentative timetable in the RFP.</li> <li>• For all RFPs for which services were procured during the period, we inspected copies of the RFPs and noted that the minimum qualifications were defined in the RFP.</li> <li>• For all RFPs for which services were procured during the period, we inspected copies of the RFPs and noted that the specific selection criteria was detailed in the RFP.</li> </ul>
<p>3. Controls provide reasonable assurance that potential respondents are informed about the legal structure of the PRIM Board as well as the overall investment mix of the PRIT Fund.</p>	

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"> <li>• Each RFP authorized and issued by the Trustees includes summary information on The PRIM Board's legal structure, the PRIT Fund's investment allocation (if appropriate), and/or a link referring potential respondents to a website which contains such information.</li> </ul>	<ul style="list-style-type: none"> <li>• For all RFPs for which services were procured during the period, we inspected copies of the RFPs and noted the inclusion of a summary of the PRIM Board's legal structure, the PRIT Fund's investment allocation, and/or a link referring potential respondents to a website which contains such information in the RFP.</li> </ul>

## **THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES**

4. Controls provide reasonable assurance that communication with potential respondents during the search process is organized and controlled.

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• Each RFP authorized and issued by the Trustees includes the name of the Procurement Officer and clearly states that all communications regarding the RFP and selection process should be directed to the Procurement Officer.</li><li>• Each RFP authorized and issued by the Trustees provides an opportunity and means for potential respondents to submit questions and obtain responses from the Procurement Officer prior to the Proposal Deadline.</li><li>• Inquiries from potential respondents are answered when received in writing on or before the stated Question Deadline Date. Questions received subsequent to the deadline are not answered.</li></ul>	<ul style="list-style-type: none"><li>• For all RFPs for which services were procured during the period, we inspected copies of the RFPs and noted inclusion of the name of Procurement Officer and a section directing all questions to the Procurement Officer in the RFP.</li><li>• For all RFPs for which services were procured during the period, we noted an explanation of the question and answer process and deadline for submission of questions in the RFP.</li><li>• For all RFPs for which services were procured during the period, we inspected the PRIM Board's Responses to Questions, which comprises a listing of questions and responses. We selected a sample of questions from the list in accordance with the sample size matrix on page 6 and agreed them to the originating firm's transmittal. We noted that the date and time stamp was dated before or on the Question Deadline Date stated in the RFP.</li><li>• For all RFPs for which services were procured during the period, we selected a sample of questions from the population of respondent transmittals in accordance with the sample size matrix on page 6. We noted that the date and time stamp was dated before or on the Question Deadline Date in the RFP. We compared those questions to the PRIM Board's Responses to Questions and found no exceptions.</li></ul>

## **THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES**

5. Controls provide reasonable assurance that information regarding the issuance of an RFP is widely disseminated.

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• Each RFP issuance is advertised in industry publications, local publications or both, if appropriate.</li><li>• Each RFP is available on PRIM Board's website (<a href="http://www.mapension.com">www.mapension.com</a>) until the Proposal Deadline.</li></ul>	<ul style="list-style-type: none"><li>• For all RFPs for which services were procured during the period, we inspected copies of and/or original advertisements.</li><li>• For all RFPs for which services were procured during the period, we inspected a series of screen shots and/or confirmation from website administrator evidencing that a respondent could download the RFP from the PRIM Board's website.</li></ul>

6. Controls provide reasonable assurance that proposals received after the stated deadline are not evaluated.

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• Each RFP authorized and issued by the Trustees contains a Proposal Deadline. All responses to RFPs are denoted with date and time of receipt. The Evaluation Committee does not consider proposals received after the Proposal Deadline.</li></ul>	<ul style="list-style-type: none"><li>• For all RFPs for which services were procured during the period, we inspected the date and time stamp on the submitted proposal and noted that all proposals considered were received prior to or on the Proposal Deadline in the RFP.</li></ul>

7. Controls provide reasonable assurance that responses to an RFP are reviewed and evaluated objectively.

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• For each RFP, an Evaluation Committee is established.</li></ul>	<ul style="list-style-type: none"><li>• For all RFPs for which services were procured during the period, we inspected the Evaluation Committee Summary Report and noted that an Evaluation Committee was established.</li></ul>

## **THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES**

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• The Evaluation Committee initially reviews responses to ensure that respondents meet the minimum qualifications as stipulated in the RFP.</li><li>• The Evaluation Committee may invite selected respondents (finalists) to a face to face interview.</li><li>• The Evaluation Committee evaluates the respondents and makes objective judgments and recommendations based on the selection criteria outlined in the RFP.</li></ul> <p>8. Controls provide reasonable assurance that an investment advisor, where appropriate, provides insight into the selection process.</p>	<ul style="list-style-type: none"><li>• For all RFPs for which services were procured during the period, we inspected a sample of RFP response packages in accordance with the sample size matrix on page 6, noting that only those respondents that met the minimum qualifications as stipulated in the RFP were considered by the Evaluation Committee.</li><li>• For all RFPs, if applicable, for which services were procured during the period, we inspected the letters sent to each finalist, noting the time, place and duration of a face to face interview.</li><li>• For all RFPs for which services were procured during the period, we inspected the Evaluation Committee report and noted that the objective selection criteria outlined in the RFP was used to determine their selections.</li></ul>

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• For each RFP, an investment advisor (if appropriate) assists the Evaluation Committee in the evaluation of responses and provides the appropriate Committee and Trustees with an independent recommendation (if applicable).</li></ul>	<ul style="list-style-type: none"><li>• For all RFPs, if applicable, for which services were procured during the period, we inspected copies of the Evaluation Committee reports addressed to the appropriate Committee and noted inclusion of separate reports of the investment advisor.</li></ul>

## **THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES**

9. Controls provide reasonable assurance that potential conflicts of interest are identified.

<b>The PRIM Board Controls</b>	<b>KPMG Agreed-Upon Procedures</b>
<ul style="list-style-type: none"><li>For each recommendation, the Evaluation Committee ensure the recommended firms have completed the Disclosure Statement that requires the respondent to disclose relationships with the PRIM Board, the Commonwealth of Massachusetts and its Office of the Treasurer.</li></ul>	<ul style="list-style-type: none"><li>For all recommendations approved by the Trustees during the period, we inspected copies of Disclosure Statements and noted that they were completed.</li></ul>

10. Controls provide reasonable assurance that the appropriate Committee is educated about the search and selection process in order to make an informed recommendation to the Trustees.

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>The selection process is summarized by the Evaluation Committee in a written report that is included in the appropriate Committee Meeting Agenda package and discussed during the Committee meeting.</li><li>The appropriate Committee decides by a majority vote whether to accept, reject or modify the recommendation of the Evaluation Committee. The Committee then makes a formal recommendation to the Trustees, which is included in the Board Meeting Agenda package.</li></ul>	<ul style="list-style-type: none"><li>For all RFPs for which services were procured during the period, we inspected copies of applicable Committee materials, noting inclusion of the Evaluation Committee reports in the Committee Meeting Agenda package. We also verified discussion in the Committee meeting minutes.</li><li>For all RFPs for which services were procured during the period, we inspected the Board Meeting Agenda package, noting the formal recommendation made by the applicable Committee to the Trustees.</li></ul>

## **THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES**

11. Controls provide reasonable assurance that the Trustees are informed about the search and selection process prior to accepting, rejecting or modifying the recommendation of the appropriate Committee.

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• The selection process is summarized by the Evaluation Committee in a written report that is included in the Board Meeting Agenda package and discussed during the Board meeting.</li> <li>• The Trustees decide by a majority vote whether to accept, reject or modify the recommendation of the appropriate Committee during a public meeting.</li></ul>	<ul style="list-style-type: none"><li>• For all RFPs for which services were procured during the period, we inspected Trustees' meeting agendas and minutes and noted presentation by the appropriate Committee to the Trustees, including results of the search and the applicable Committee's recommendation.</li> <li>• For all RFPs for which services were procured during the period, we inspected the Trustees' meeting minutes and noted the decision to accept, reject or modify the recommendation of the applicable Committee was made by a majority vote.</li></ul>

## **THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES**

### **B. Advisors, Custodians, Auditors and Other Professionals**

1. Controls provide reasonable assurance that the Trustees approve the issuance of Requests for Proposals.

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"> <li>• The PRIM Board staff requests the appropriate Committee to make a recommendation to the Trustees to issue a Request for Proposals (RFP). If granted, the Committee makes a formal recommendation to the Trustees, which is included in the Board Meeting Agenda package. The Board has the authority to issue an RFP without prior recommendation from the committee.</li> <li>• The Trustees decide by a majority vote during a public meeting whether to accept or reject the recommendation of the Committee to issue an RFP.</li> </ul>	<ul style="list-style-type: none"> <li>• For all RFPs for which services were procured during the period, we inspected the Board Meeting Agenda package and noted an agenda item of the recommendation by the PRIM Board staff and the applicable Committee to request the Trustees to issue the RFP.</li> <li>• For all RFPs for which services were procured during the period, we inspected the Trustees' meeting minutes and noted the Trustees' vote to issue an RFP.</li> </ul>
<ol style="list-style-type: none"> <li>2. Controls provide reasonable assurance that pertinent information regarding the RFP process is provided to potential respondents.</li> </ol>	<ol style="list-style-type: none"> <li>2. Controls provide reasonable assurance that pertinent information regarding the RFP process is provided to potential respondents.</li> </ol>
<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"> <li>• Each RFP authorized and issued by the Trustees defines the scope of services to be provided.</li> <li>• Each RFP authorized and issued by the Trustees describes the selection process.</li> <li>• Each RFP authorized and issued by the Trustees provides a tentative timetable for the selection process.</li> </ul>	<ul style="list-style-type: none"> <li>• For all RFPs for which services were procured during the period, we inspected copies of the RFPs and noted that there was a section containing a scope of services.</li> <li>• For all RFPs for which services were procured during the period, we inspected copies of the RFPs and noted that the selection process was described in the RFP.</li> <li>• For all RFPs for which services were procured during the period, we inspected copies of the RFPs and noted inclusion of a tentative timetable in the RFP.</li> </ul>

## **THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES**

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• Each RFP authorized and issued by the Trustees defines minimum qualifications (if appropriate) that respondents must meet in order to be granted further consideration.</li><li>• Each RFP authorized and issued by the Trustees contains selection criteria that will be used to evaluate respondents' proposals.</li></ul>	<ul style="list-style-type: none"><li>• For all RFPs for which services were procured during the period, we inspected copies of the RFPs and noted that the minimum qualifications (if applicable) were defined in the RFP.</li><li>• For all RFPs for which services were procured during the period, we inspected copies of the RFPs and noted that the specific selection criteria was detailed in the RFP.</li></ul>
3. Controls provide reasonable assurance that potential respondents are informed about the legal structure of the PRIM Board as well as the overall investment mix of the PRIT Fund (if appropriate).	
<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• Each RFP authorized and issued by the Trustees includes summary information on PRIM Board's legal structure, the PRIT Fund's investment allocation (if appropriate), and/or a link referring potential respondents to a website which contains such information.</li></ul>	<ul style="list-style-type: none"><li>• For all RFPs for which services were procured during the period, we inspected copies of the RFPs and noted the inclusion of a summary of the PRIM Board's legal structure, the PRIT Fund's investment allocation (if applicable), and/or a link referring potential respondents to a website which contains such information in the RFP.</li></ul>
4. Controls provide reasonable assurance that communication with potential respondents during the search process is organized and controlled.	
<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• Each RFP authorized and issued by the Trustees includes the name of the Procurement Officer and clearly states that all communications regarding the RFP and selection process should be directed to the Procurement Officer.</li></ul>	<ul style="list-style-type: none"><li>• For all RFPs for which services were procured during the period, we inspected copies of the RFPs and noted inclusion of the name of the Procurement Officer and a section directing all questions to the Procurement Officer in the RFP.</li></ul>

## **THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES**

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• Each RFP authorized and issued by the Trustees provides an opportunity and means for potential respondents to submit questions and obtain responses from the Procurement Officer prior to the Proposal Deadline.</li><li>• Inquiries from potential respondents are answered when received in writing on or before the stated Question Deadline Date. Questions received subsequent to the deadline are not answered.</li></ul>	<ul style="list-style-type: none"><li>• For all RFPs for which services were procured during the period, we noted an explanation of the question and answer process and deadline for submission of questions in the RFP.</li><li>• For all RFPs for which services were procured during the period, we inspected the PRIM Board's Responses to Questions, which comprises a listing of questions and responses. We selected a sample of questions from the list in accordance with the sample size matrix on page 6 and agreed them to the originating firm's transmittal. We noted the date and time stamp was dated before or on the Question Deadline Date.</li><li>• For all RFPs for which services were procured during the period, we selected a sample of questions from the population of respondent transmittals in accordance with the sample size matrix on page 6. We noted the date and time stamp was dated before or on the Question Deadline Date. We compared those questions to the PRIM Board's Responses to Questions and found no exceptions.</li></ul>
5. Controls provide reasonable assurance that information regarding the issuance of an RFP is widely disseminated.	

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• Each RFP issuance is advertised in industry publications, local publications or both, if appropriate.</li></ul>	<ul style="list-style-type: none"><li>• For all RFPs for which services were procured during the period, we inspected copies of and/or original advertisements.</li></ul>

## **THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES**

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• Each RFP is available on the PRIM Board's website (<a href="http://www.mapension.com">www.mapension.com</a>) until the Proposal Deadline.</li></ul>	<ul style="list-style-type: none"><li>• For all RFPs for which services were procured during the period, we inspected a series of screen shots and/or confirmation from website administrator evidencing that a respondent could download the RFP from the PRIM Board website.</li></ul>
<p>6. Controls provide reasonable assurance that proposals received after the stated deadline are not evaluated.</p>	
<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• Each RFP authorized and issued by the Trustees contains a Proposal Deadline. All responses to RFPs are denoted with date and time of receipt. The Evaluation Committee does not consider any proposal received after the Proposal Deadline.</li></ul>	<ul style="list-style-type: none"><li>• For all RFPs for which services were procured during the period, we inspected the date and time stamp on the submitted proposal and noted that all proposals considered were received prior to or on the Proposal Deadline in the RFP.</li></ul>
<p>7. Controls provide reasonable assurance that responses to an RFP are reviewed and evaluated objectively.</p>	
<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• Based on the scope of each RFP, an Evaluation Committee is established if appropriate.</li></ul>	<ul style="list-style-type: none"><li>• For all RFPs, if applicable, for which services were procured during the period, we inspected the Evaluation Committee Summary Report and noted that an Evaluation Committee was established.</li></ul>

## **THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES**

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"> <li>• The Evaluation Committee initially reviews responses to ensure that all respondents meet the minimum qualifications as stipulated in the RFP.</li>     <li>• The Evaluation Committee may invite selected respondents (finalists) to a face to face interview.</li>     <li>• The Evaluation Committee evaluates the respondents and makes objective judgments and recommendations based on the selection criteria outlined in the RFP.</li> </ul>	<ul style="list-style-type: none"> <li>• For all RFPs for which services were procured during the period, we inspected a sample of RFP response packages in accordance with the sample size matrix on page 6, noting that only those respondents that met the minimum qualifications as stipulated in the RFP were considered by the Evaluation Committee.</li> <li>• For all RFPs, if applicable, for which services were procured during the period, we inspected the letters sent to each finalist, noting the time, place and duration of a face to face interview.</li> <li>• For all RFPs for which services were procured during the period, we inspected the Evaluation Committee report and noted that the objective selection criteria outlined in the RFP was used to determine their selections.</li> </ul>

8. Controls provide reasonable assurance that potential conflicts of interest are identified.

<b>The PRIM Board Controls</b>	<b>KPMG Agreed-Upon Procedures</b>
<ul style="list-style-type: none"> <li>• For each recommendation, the Evaluation Committee ensure the recommended firms have completed the Disclosure Statement that requires the respondent to disclose relationships with the PRIM Board, the Commonwealth of Massachusetts and its Office of the Treasurer.</li> </ul>	<ul style="list-style-type: none"> <li>• For all recommendations approved by the Trustees during the period, we inspected copies of Disclosure Statements and noted that they were completed.</li> </ul>

## **THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES**

9. Controls provide reasonable assurance that the appropriate Committee is educated about the search and selection process in order to make an informed recommendation to the Trustees.

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"> <li>• The selection process is summarized by the Evaluation Committee in a written report that is included in the appropriate Committee Meeting Agenda package and discussed during the Committee meeting.</li> <li>• The applicable Committee decides by a majority vote whether to accept, reject or modify the recommendation of the Evaluation Committee. The Committee then makes a formal recommendation to the Trustees, which is included in the Board Meeting Agenda package.</li> </ul>	<ul style="list-style-type: none"> <li>• For all RFPs for which services were procured during the period, we inspected copies of applicable Committee materials. We noted the inclusion of reports from the Evaluation Committee.</li> <li>• For all RFPs for which services were procured during the period, we inspected the Board Meeting Agenda package, noting the formal recommendation made by the applicable Committee to the Trustees.</li> </ul>

10. Controls provide reasonable assurance that the Trustees are informed about the search and selection process prior to accepting, rejecting or modifying the recommendation of the appropriate Committee.

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"> <li>• The selection process is summarized by the Evaluation Committee in a written report that is included in the Board Meeting Agenda package and discussed during the Board meeting.</li> <li>• The Trustees decide by a majority vote whether to accept, reject or modify the recommendation of the appropriate Committee during a public meeting.</li> </ul>	<ul style="list-style-type: none"> <li>• For all RFPs for which services were procured during the period, we inspected Trustees' meeting agendas and minutes and noted presentations by the applicable Committee to the Trustees, including results of the search and the applicable Committee's recommendation.</li> <li>• For all RFPs for which services were procured during the period, we inspected the Trustees' meeting minutes and noted the decision to accept, reject or modify the recommendation of the applicable Committee was made by a majority vote.</li> </ul>

## **THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES**

### **C. Alternative Investments**

1. Controls provide reasonable assurance that an investment advisor, where appropriate, provides insight into investment opportunities.

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• An investment advisor provides a detailed Investment Analysis Report for each proposed investment opportunity that concludes with a recommendation which generally considers the following criteria:<ul style="list-style-type: none"><li>– Quality and stability of the investment team.</li><li>– Previous investment track record.</li><li>– Proposed investment strategy.</li><li>– Ability of investment manager to demonstrate its capability to generate superior returns.</li><li>– Legal and economic terms governing the investment structure.</li><li>– Alignment of interests.</li><li>– Operational capabilities.</li><li>– PRIT Fund portfolio fit.</li></ul></li><li>• The PRIM Board staff and the investment advisor, where appropriate, must agree to recommend investing in an opportunity prior to presenting to the appropriate Committee.</li></ul>	<ul style="list-style-type: none"><li>• For all Alternative Investments approved by the Trustees during the period, we inspected copies of the investment advisor's report and noted the inclusion of information specified.</li><li>• For all Alternative Investments approved by the Trustees during the period, we reviewed the applicable Committee Meeting Agenda package and investment advisor reports to verify that both the PRIM Board staff and the investment advisor recommended the Alternative Investment. If the investment was approved via an Interim Recommendation, we performed alternate procedures to verify the Alternative Investment was documented.</li></ul>

## **THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES**

2. Controls provide reasonable assurance that potential conflicts of interest are identified.

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>For each investment, the general partner/manager must complete a standard Disclosure Statement. The Disclosure Statement requires the respondent to disclose relationships with the PRIM Board, the Commonwealth of Massachusetts and its Office of the Treasurer.</li></ul>	<ul style="list-style-type: none"><li>For all Alternative Investments approved by the Trustees during the period, we inspected copies of the Disclosure Statements and noted that they were completed.</li></ul>

## **THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES**

3. Controls provide reasonable assurance that the appropriate Committee is educated about investment opportunities in order to make an informed recommendation to the Trustees.

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• Each investment opportunity is summarized by PRIM Board staff and is included in the appropriate Committee Meeting Agenda package.</li> <li>• The investment advisor's Investment Analysis Report for each investment opportunity is provided as an appendix to the appropriate Committee Meeting Agenda package, if applicable.</li></ul>	<ul style="list-style-type: none"><li>• For all Alternative Investments approved by the Trustees during the period, we inspected copies of applicable Committee materials and reviewed the PRIM Board staff and the investment advisor recommendations. If the investment was approved via an Interim Recommendation, we performed alternate procedures to verify the Alternative Investment was documented.</li> <li>• For all Alternative Investments approved by the Trustees during the period, we inspected the applicable Committee Meeting Agenda package to verify that the investment advisor's Investment Analysis Report for each Alternative Investment opportunity is provided as an appendix. If the investment was approved via an Interim Recommendation, we performed alternate procedures to verify the Alternative Investment was documented.</li></ul>

## **THE PRIM BOARD CONTROL OBJECTIVES, CONTROLS AND KPMG AGREED-UPON PROCEDURES**

<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• The applicable Committee decides by a majority vote whether to accept or reject the recommendation of PRIM Board staff and the investment advisor, if appropriate. If accepted, the Committee then makes a formal recommendation to the Trustees, which is included in the Board Meeting Agenda package.</li></ul>	<ul style="list-style-type: none"><li>• For all Alternative Investments approved by the Trustees during the period, we inspected the Board Meeting Agenda package to verify the Committee's formal recommendation to the Trustees. If the investment was approved via an Interim Recommendation, we performed alternate procedures to verify the Alternative Investment was documented.</li></ul>
<p>4. Controls provide reasonable assurance that the Trustees are informed about the investment opportunity prior to accepting or rejecting the recommendation of the appropriate Committee.</p>	
<b>The PRIM Board Controls</b>	<b>KPMG Tests and Relevant Exception, if any</b>
<ul style="list-style-type: none"><li>• The investment opportunity is summarized and included in the Board Meeting Agenda package and discussed during the Board meeting.</li></ul>	<ul style="list-style-type: none"><li>• For all Alternative Investments approved by the Trustees during the period, we inspected Trustees' meeting agendas and minutes and noted presentations by the applicable Committee to the Trustees, including recommendation of the Alternative Investment. If the investment was approved via an Interim Recommendation, we performed alternate procedures to verify the Alternative Investment was documented.</li></ul>
<ul style="list-style-type: none"><li>• The Trustees decide by a majority vote whether to accept, reject or modify the recommendation of the appropriate Committee during a public meeting.</li></ul>	<ul style="list-style-type: none"><li>• For all Alternative Investments approved by the Trustees during the period, we inspected the Trustees' meeting minutes and noted that the decision to accept, reject or modify the recommendation by the applicable Committee was made by a majority vote. If the investment was approved via an Interim Recommendation, we performed alternate procedures to verify the Alternative Investment was documented.</li></ul>

**SECTION IV**  
 Listing of Services Provided Through RFP  
 July 1, 2014 – June 30, 2015

RFP No.	Board approval date	Advisory committee	Decision	Type of RFP	Description
1	8/12/2014	Investment	Approval to Hire	Hedge Fund Managed Account Services	Hire HedgeMark
2	8/12/2014	Investment	Approval to Hire	Real Estate and Timberland Consulting Services	Hire The Townsend Group for general consulting services and select six firms for project consulting services
3	8/22/2014	Investment	Approval to Invest*	Private Equity	Invest up to \$230 million to Hellman & Friedman Capital Partners VIII, L.P.
4	10/7/2014	Investment	Approval to Hire	Securities Lending Services	Hire eSecLending
5	10/7/2014	Investment	Approval to Invest	Private Equity	Invest up to \$200 million to Centerbridge Capital Partners Fund III, L.P.
6	10/22/2014	Investment	Approval to Invest*	Private Equity	Invest up to \$100 million to Quantum Energy Partners VI, L.P. and up to \$50 million to Thomas H. Lee Equity Fund VII, L.P.
7	12/2/2014	Investment	Approval to Invest	Long Duration US Treasury STRIPS Indexed Investment Management Services	Hire BlackRock to manage up to \$6 billion or 10% of PRIT Fund assets in Long Duration US Treasury STRIPS
8	12/2/2014	Investment	Approval to Invest	Active Emerging Markets Equity	Approve a combined \$2.8 billion allocation to seven firms and place two managers on "manager bench"
9	12/2/2014	Investment	Approval to Invest	Hedge Fund	An initial allocation of \$150 million to the PanAgora Diversified Arbitrage Strategy
10	12/2/2014	Investment	Approval to Invest	Portfolio Completion Strategies	An initial allocation of \$100 million to the PanAgora Diversified Factor Premia Strategy
11	12/2/2014	Investment	Approval to Invest	Private Equity	Invest up to \$175 million to American Securities Partners VII, L.P. and up to \$125 million to H.I.G. Bayside Loan Opportunity Fund IV, L.P.
12	1/20/2015	Investment	Approval to Invest*	Private Equity	Invest up to \$65 million to Catalyst Investors IV, L.P., up to \$120 million to Insight Venture Partners IX, L.P., and up to \$40 million to Insight Growth-Buyout Coinvestment Fund, L.P.
13	2/10/2015	Investment	Approval to Hire	Stock Distribution Management Services	Hire Russell Investments
14	2/10/2015	Investment	Approval to Hire	Private Equity Advisory Services	Hire Hamilton Lane
15	2/11/2015	Investment	Approval to Invest	Private Equity	Invest up to \$25 million to Flagship Ventures Fund V, L.P. and up to €100 million to Rhône Partners V, L.P.
16	3/2/2015	Investment	Approval to Invest*	Private Equity	Invest €30 million in Index Venture Growth III, up to \$75 million to Oaktree Opportunities Fund X, L.P., and up to \$150 million to Oaktree Opportunities Fund Xb, L.P.
17	4/7/2015	Investment	Approval to Hire	Public Markets and Strategic Asset Allocation Advisory Services	Hire Callan Associates as Public Markets Advisor and NEPC, LLC as Strategic Asset Allocation Advisor
18	4/7/2015	Investment	Approval to Invest	Private Equity	Invest up to \$250 million to Blackstone Capital Partners VII, L.P. up to \$150 million to CVI Credit Value Fund III, L.P., up to \$200 million to TA XII, L.P., and up to \$50 million to Thoma Bravo Special Opportunities Fund II, L.P.
19	4/7/2015	Audit and Admin	Approval to Hire	Audit and Tax Services	Hire KPMG LLP for audit services and Deloitte Tax LLP for tax services
20	6/4/2015	Investment	Approval to Invest	Private Equity	Invest €100 million in Charterhouse Capital Partners X, L.P. and up to \$50 million to Quantum Parallel Partners VI-C, L.P.
21	6/4/2015	Investment	Approval to Invest	Hedge Fund	An initial allocation of up to \$150 million to the 400 Capital Credit Opportunities Strategy
22	6/4/2015	Investment	Approval to Invest	Portfolio Completion Strategies	An initial allocation of up to \$200 million to the Goldman Sachs Asset Management Diversifying Alternative Risk Premia Strategy and an initial allocation of up to \$200 million to the AQR Capital Management Style Premia Strategy

\* Investment approved by PRIM's Chief Investment Officer in accordance with the PRIM Board's interim alternative investment review procedures.

## Appendix E

**October 13, 2015**

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

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements, and the related notes to the financial statements, of the Pensions Reserves Investment Management Board (the PRIM Board), as of and for the years ended June 30, 2015 and 2014, for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the fiduciary net position of the PRIM Board and the respective changes in fiduciary net position in conformity with U.S. generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of **October 13, 2015**, the following representations made to you during your audits:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 8, 2015, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.
2. We have made available to you:
  - a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements.
  - b. Additional information that you have requested from us for the purpose of the audit.

- c. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence.
  - d. All minutes of the meetings of the Board of Trustees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. Except as disclosed to you in writing, there have been no:
- a. Circumstances that have resulted in communications from the PRIM Board's external legal counsel to the PRIM Board reporting evidence of a material violation of securities law or breach of fiduciary duty, or similar violation by the PRIM Board or any agent thereof.
  - b. Communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
  - c. False statements affecting the PRIM Board's financial statements made to the PRIM Board's internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audit.
4. There are no:
- a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62, paragraphs 96 – 113.
  - d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.

- e. Events that have occurred subsequent to the date of the statement of net position and through the date of this letter that would require adjustment to or disclosure in the financial statements.
- 5. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with GASB Statement No. 62, paragraphs 96 – 113.
- 6. The effects of the uncorrected audit differences summarized in the accompanying schedules are immaterial, both individually and in the aggregate, to the financial statements for each respective opinion unit.
- 7. We acknowledge our responsibility for the design, implementation and maintenance of programs and controls to prevent and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. We understand that the term “fraud” includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.
- 8. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the PRIM Board’s ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.
- 9. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 10. We have no knowledge of any fraud or suspected fraud affecting the PRIM Board’s financial statements involving:
  - a. Management
  - b. Employees who have significant roles in internal control over financial reporting, or
  - c. Others where the fraud could have a material effect on the financial statements.

11. We have no knowledge of any allegations of fraud or suspected fraud affecting the PRIM Board received in communications from employees, former employees, analysts, regulators, or others.
12. The PRIM Board has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.
13. We have no knowledge of any officer or trustee of the PRIM Board, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.
14. The following have been properly recorded or disclosed in the financial statements:
  - a. Related party relationships and transactions of which we are aware in accordance with the requirements of U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the PRIM Board is contingently liable.
  - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, and lines of credit or similar arrangements.
  - d. Agreements to repurchase assets previously sold, including sales with recourse.
  - e. Changes in accounting principle affecting consistency.
  - f. The existence of and transactions with joint ventures and other related organizations.
15. The PRIM Board has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
16. The PRIM Board has complied with all aspects of laws, regulations, contractual agreements, and grants that may affect the financial statements, including noncompliance.
17. Management is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the PRIM Board. Management has identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

18. Amounts advanced to related entities represent valid receivables and are expected to be recovered at some future date in accordance with the terms of related agreements.
19. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net position and have been appropriately reduced to their estimated net realizable value.
20. Deposits and investment securities are properly classified and reported.
21. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.
22. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.
23. The PRIM Board has properly applied the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, including those related to the recognition of outlays associated with the development of internally generated computer software.
24. The PRIM Board has no:
  - a. Commitments for the purchase or sale of services or assets at prices involving material probable loss.
  - b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values.
25. The PRIM Board has complied with all tax and debt limits and with all debt related covenants.
26. The PRIM Board has identified and properly accounted for and presented all deferred outflows of resources and deferred inflows of resources.
27. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.
28. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally

accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the PRIM Board's current period financial statements, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.

29. We acknowledge our responsibility for the presentation of the required supplementary information which includes, Management's Discussion and Analysis, in accordance with the applicable criteria and prescribed guidelines established by the *Governmental Accounting Standards Board* and:
  - a. Believe the required supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and prescribed guidelines.
  - b. The methods of measurement or presentation of the required supplementary information have not changed from those used in the prior period.
  - c. The significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information are reasonable and appropriate in the circumstances.
30. The PRIM Board has complied with all applicable laws and regulations in adopting, approving, and amending budgets.
31. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.
32. There are no representations provided in connection with your audit of the financial statements as of June 30, 2014 and for the year then ended that requires modification.

Further, we confirm that we are responsible for the fair presentation in the financial statements of the fiduciary net position and changes in fiduciary net position, and the related notes to the financial statements, in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Very truly yours,

Pension Reserves Investment Management Board

---

Michael G. Trotsky, CFA

*Executive Director and Chief Investment Officer*

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David M. Gurtz, CPA, CFA

*Interim Chief Operating Officer and Chief Financial Officer*

**October 13, 2015**

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

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements and the related notes to the financial statements of the Pension Reserves Investment Trust Fund (the PRIT Fund) as of and for the years ended June 30, 2015 and 2014, for the purpose of expressing an opinion as to whether these financial statements present fairly, in all material respects, the pooled net position and changes in pooled net position of the PRIT Fund in conformity with U.S. generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of **October 13, 2015**, the following representations made to you during your audit:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 8, 2015, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.
2. We have made available to you:
  - a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements.

- b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence.
  - d. All minutes of the meetings of the Board of Trustees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. Except as disclosed to you in writing, there have been no:
- a. Circumstances that have resulted in communications from the PRIT Fund's external legal counsel to the PRIT Fund reporting evidence of a material violation of securities law or breach of fiduciary duty, or similar violation by the PRIT Fund or any agent thereof.
  - b. Communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
  - c. False statements affecting the PRIT Fund's financial statements made to the PRIT Fund's internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audit.
4. There are no:
- a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62, paragraphs 96 – 113.
  - d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.

- e. Events that have occurred subsequent to the date of the statement of net position and through the date of this letter that would require adjustment to or disclosure in the financial statements.
- 5. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with GASB Statement No. 62, paragraphs 96 – 113.
- 6. The effects of the uncorrected audit differences summarized in the accompanying schedules are immaterial, both individually and in the aggregate, to the financial statements for each respective opinion unit.
- 7. We acknowledge our responsibility for the design, implementation and maintenance of programs and controls to prevent and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.
- 8. There are no deficiencies, significant deficiencies, or material weaknesses in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the PRIT Fund's ability to initiate, authorize, record, process, or report financial data. We have applied the definitions of a "significant deficiency" and a "material weakness" in accordance with the definitions in AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.
- 9. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 10. We have no knowledge of any fraud or suspected fraud affecting the PRIT Fund's financial statements involving:
  - a. Management
  - b. Employees who have significant roles in internal control over financial reporting, or
  - c. Others where the fraud could have a material effect on the financial statements.

11. We have no knowledge of any allegations of fraud or suspected fraud affecting the PRIT Fund's financial statements received in communications from employees, former employees, analysts, regulators, or others.
12. The PRIT Fund has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.
13. We have no knowledge of any officer or trustee of the PRIT Fund, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.
14. The following have been properly recorded or disclosed in the financial statements:
  - a. Related party relationships and transactions of which we are aware in accordance with the requirements of U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the PRIT Fund is contingently liable.
  - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, and lines of credit or similar arrangements.
  - d. Agreements to repurchase assets previously sold, including sales with recourse.
  - e. Changes in accounting principle affecting consistency.
  - f. The existence of and transactions with joint ventures and other related organizations.
15. The PRIT Fund has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
16. The PRIT Fund has complied with all aspects of laws, regulations, contractual agreements, and grants that may affect the financial statements, including noncompliance.
17. Management is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the PRIT Fund. Management has identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

18. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net position and have been appropriately reduced to their estimated net realizable value.
19. Deposits and investment securities are properly classified and reported.
20. We are responsible for making the fair value measurements and disclosures included in the financial statements, including determining the fair value of investments for which a readily determinable fair value does not exist. As part of fulfilling this responsibility, we have established an accounting and financial reporting process for determining the fair value measurements and disclosures, considered the appropriateness of valuation methods, adequately supported any significant assumptions used, and ensured that the presentation and disclosure of the fair value measurements are in accordance with generally accepted accounting principles. We believe the assumptions and methods used by us, including those used by specialists engaged by us, are appropriate in the circumstances and the resulting valuations and disclosures are reasonable.
21. The PRIT Fund has identified and properly reported all of its derivative instruments and any related deferred outflows of resources or deferred inflows of resources related to hedging derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The PRIT Fund complied with the requirements of GASB Statement No. 53 related to the determination of hedging derivative instruments and the application of hedge accounting. Further, the PRIT Fund has disclosed all material information about its derivative and hedging arrangement in accordance with GASB Statement No. 53.
22. The estimate of fair value of derivative instruments is in compliance with GASB Statement No. 53. For derivative instruments with fair values that are based on other than quoted market prices, the PRIT Fund has disclosed the methods and significant assumptions used to estimate those fair values.
23. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:
  - a. The extent, nature, and terms of financial instruments with off-balance-sheet risk;
  - b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and

- c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
24. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.
25. The PRIT Fund has no:
- a. Commitments for the purchase or sale of services or assets at prices involving material probable loss.
  - b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values.
  - c. Loss to be sustained as a result of other-than-temporary declines in the fair value of investments.
26. The PRIT Fund has complied with all tax and debt limits and with all debt related covenants.
27. The PRIT Fund has identified and properly accounted for and presented all deferred outflows of resources and deferred inflows of resources.
28. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.
29. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on The PRIT Fund's current period financial statements, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.
30. We acknowledge our responsibility for the presentation of the supplementary information, which includes the Schedule of Pooled Net Position – Capital Fund and Cash Fund as of June 30, 2015 and the Schedule of Changes in Pooled Net Position – Capital Fund and Cash

Fund for the year ended June 30, 2015, in accordance with the applicable criteria and/or prescribed guidelines and:

- a. Believe the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and/or prescribed guidelines.
  - b. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period.
  - c. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.
31. We acknowledge our responsibility for the presentation of the required supplementary information which includes, Management's Discussion and Analysis in accordance with the applicable criteria and prescribed guidelines established by the *Governmental Accounting Standards Board* and:
- a. Believe the required supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and prescribed guidelines.
  - b. The methods of measurement or presentation of the required supplementary information have not changed from those used in the prior period.
  - c. The significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information are reasonable and appropriate in the circumstances.
32. The PRIT Fund has complied with all applicable laws and regulations in adopting, approving, and amending budgets.
33. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.
34. There are no representations provided in connection with your audit of the financial statements as of June 30, 2014 and for the year then ended that requires modification.

Further, we confirm that we are responsible for the fair presentation in the financial statements of the pooled net assets and changes in pooled net assets, and the related notes to the financial statements, in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Very truly yours,

Pension Reserves Investment Management Board

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Michael G. Trotsky, CFA

*Executive Director and Chief Investment Officer*

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David M. Gurtz, CPA, CFA

*Interim Chief Operating Officer and Chief Financial Officer*

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

October 13, 2015

Ladies and Gentlemen:

In connection with your engagement to apply agreed-upon procedures, listed in Appendix A, which were agreed to by the Pension Reserves Investment Management Board (the PRIM Board), solely to assist us in evaluating the accuracy of the total core, net-of-fees adjusted policy, interim, and asset class benchmark returns presented in the Performance Measurement Presentation as of June 30, 2015, we confirm:

1. Our understanding that you were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the subject matter described above. Accordingly, you did not express such an opinion. Had additional procedures been performed, other matters might have come to your attention that would have been reported to us.

Further, we confirm that, to the best of our knowledge and belief, the following representations made to you during your agreed-upon procedures engagement:

2. We are responsible for the subject matter and, when applicable, the assertion.
3. We are responsible for the fair presentation of the subject matter prepared in the Performance Measurement Report as of June 30, 2015.
4. We are responsible for selecting the criteria and for determining that such criteria are appropriate for our purposes.
5. We have made available to you all related financial records and data.
6. We have advised you of all actions taken at meetings of the board of trustees and committees of the board of trustees that may affect the subject matter.

7. We have reviewed a draft of your report of findings dated **October 13, 2015**, and we are not aware of any significant errors or misstatements contained in that report, and the procedures referred to in the draft report are those we requested.
8. We take responsibility for the sufficiency (nature, timing and extent) of the agreed-upon procedures for our purposes.
9. Your procedures were limited to those which we determined would best meet our informational needs and may not necessarily disclose all significant errors, irregularities, including fraud or defalcation, or illegal acts, that may exist.
10. Your report is intended solely for use by us and the other specified parties, and is not intended for use by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes.
11. We have responded fully to all inquiries made to us by you during your engagement.
12. We have communicated to you all known matters contradicting the subject matter or the assertion.
13. No procedures have been performed since the date of your report and you have no responsibility to update your procedures.
14. There have been no communications from regulatory agencies that would affect the subject matter or the assertion.
15. The PRIM Board has complied with all aspects of contractual agreements that would have a material effect on the subject matter or the assertion in the event of noncompliance.
16. There are no material transactions that have not been properly recorded as part of the subject matter or the assertion.
17. We have communicated to you any known events subsequent to the period of the subject matter being reported on that would have a material effect on the subject matter or assertion.

Very truly yours,

Pension Reserves Investment Management Board

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Michael G. Trotsky, CFA

*Executive Director and Chief Investment Officer*

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David M. Gurtz, CPA, CFA

*Interim Chief Financial Officer and Chief Operating Officer*

## **Appendix A**

The procedures that we performed are as follows:

I. Obtained the following reports:

- 1) Performance Measurement Presentation, prepared and provided by the Bank of New York Mellon (BNYM) as of June 30, 2015.
- 2) Benchmark List, prepared and provided by BNYM listing all benchmarks used in the Performance Measurement presentation and their unique identifiers.
- 3) Master Structure Map, prepared and provided by BNYM, listing the composite benchmark, the benchmarks that make up the composite, start date, end date, segment, category, sector, level, and the weighted % of the composite.
- 4) Benchmark Return Streams, prepared and provided by BNYM for the total core benchmark, net-of-fees adjusted policy benchmark, interim benchmark, and the following asset class benchmarks: Domestic Equity, International Equity, Emerging Markets, Global Equity, Core Fixed Income, Value Added Fixed Income, Private Equity, Real Estate, Timber Natural Resources, Hedge Funds, Portfolio Completion Strategies, and Portable Alpha Wind Down, benchmark return information for the year ended June 30, 2015.
- 5) Benchmark Change Letters, prepared by the PRIM Board and periodically sent to BNYM instructing any changes to benchmark construction.
- 6) Benchmark Maintenance Forms, prepared and provided by BNYM to document the authorization, execution, and review of the benchmark changes requested in the Benchmark Change Letters.

II. To evaluate the construction of each benchmark the following procedures were performed:

- 1) Obtained a copy of all Benchmark Change Letters during the reporting period, and ensure that all total core, net-of-fees adjusted policy, interim, and asset class benchmarks included in the scope of the review are constructed as instructed.
- 2) Obtained and reviewed all Benchmark Maintenance Forms during the reporting period, and ensure that they are completed timely and accurately.

III. For each of the Asset Class Benchmarks, using the Benchmark Return Streams, performed the following procedures:

- 1) Recalculated the June 30, 2015 Month to Date Return
- 2) Recalculated the June 30, 2015 Quarter to Date Return
- 3) Recalculated the Calendar Year to Date Return (January 1, 2015 - June 30, 2015)
- 4) Recalculated the 1 Year Return (July 1, 2014 - June 30, 2015)
- 5) Recalculated the Trailing 3 Year Return (July 1, 2012- June 30, 2015)
- 6) Recalculated the Trailing 5 Year Return (July 1, 2010 - June 30, 2015)
- 7) Recalculated the Trailing 10 Year Return (July 1, 2005 - June 30, 2015)

IV. Using the monthly Asset Class Benchmarks to be recalculated in Section III, performed the following procedures over the total core benchmark and the interim benchmark:

- 1) Recalculated the June 30, 2015 Month to Date Return
- 2) Recalculated the June 30, 2015 Quarter to Date Return
- 3) Recalculated the Calendar Year to Date Return (January 1, 2015 - June 30, 2015)
- 4) Recalculated the 1 Year Return (July 1, 2014 - June 30, 2015)
- 5) Recalculated the Trailing 3 Year Return (July 1, 2012- June 30, 2015)

V. Using the monthly total core benchmark to be recalculated in Section IV, subtract the monthly fees as provided by BNYM, related to the illiquid investments (private equity, hedge funds, portfolio completion strategies, distressed debt, real estate, timber, and natural resources) and performed the following procedures over the net-of-fee adjusted policy benchmark:

- 1) Recalculated the June 30, 2015 Month to Date Return
- 2) Recalculated the June 30, 2015 Quarter to Date Return
- 3) Recalculated the Calendar Year to Date Return (January 1, 2015 - June 30, 2015)
- 4) Recalculated the 1 Year Return (July 1, 2014 - June 30, 2015)
- 5) Recalculated the Trailing 3 Year Return (July 1, 2012- June 30, 2015)

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

October 13, 2015

Ladies and Gentlemen:

In connection with your engagement to apply agreed-upon procedures, which were agreed to by management of the Pension Reserves Investment Management Board (the PRIM Board), solely to assist us in evaluating the procurement process for the selection of third parties to provide investment management, advisory, custody and recordkeeping, auditing and other professional services (Procurement Process) related to the management of the PRIM Board and the Pension Reserves Investment Trust Fund for the period from July 1, 2014 to June 30, 2015, we confirm:

1. Our understanding that you were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the subject matter described above. Accordingly, you did not express such an opinion. Had additional procedures been performed, other matters might have come to your attention that would have been reported to us.

Further, we confirm that, to the best of our knowledge and belief, the following representations made to you during your agreed-upon procedures engagement:

2. We are responsible for the subject matter and, when applicable, the assertion.
3. We are responsible for the fair presentation of the subject matter prepared in conformity with the PRIM Board's Procurement Process for the period from July 1, 2014 to June 30, 2015.
4. We are responsible for selecting the criteria and for determining that such criteria are appropriate for our purposes.
5. We have made available to you all related financial records and data.
6. We have advised you of all actions taken at meetings of the board of trustees and committees of the board of trustees that may affect the subject matter.
7. We have reviewed a draft of your report of findings dated October 13, 2015, and we are not aware of any significant errors or misstatements contained in that report, and the procedures referred to in the draft report are those we requested.

8. We take responsibility for the sufficiency (nature, timing and extent) of the agreed-upon procedures for our purposes.
9. Your procedures were limited to those which we determined would best meet our informational needs and may not necessarily disclose all significant errors, irregularities, including fraud or defalcation, or illegal acts, that may exist.
10. Your report is intended solely for use by us, and is not intended for use by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes.
11. We have responded fully to all inquiries made to us by you during your engagement.
12. We have communicated to you all known matters contradicting the subject matter or the assertion.
13. No procedures have been performed since the date of your report and you have no responsibility to update your procedures.
14. There have been no communications from regulatory agencies that would affect the subject matter or the assertion.
15. The PRIM Board has complied with all aspects of contractual agreements that would have a material effect on the subject matter or the assertion in the event of noncompliance.
16. There are no material transactions that have not been properly recorded as part of the subject matter or the assertion.
17. We have communicated to you any known events subsequent to the period of the subject matter being reported on that would have a material effect on the subject matter or assertion.
18. We have agreed to the definitions of the following terms as disclosed in your report.

Sample sizes were determined using the following matrix:

<b>Population Size</b>	<b>Sample Size</b>
Less than 13	2
13 to 52	5
53 to 365	15
More than 365	25

Very truly yours,

Pension Reserves Investment Management Board

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

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David M. Gurtz, CPA, CFA  
*Interim Chief Operating Officer and Chief Financial Officer*

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## Appendix F

## GASB 72, Fair Value Measurement and Application

- There is one new accounting development that is expected to be directly relevant to the PRIT Fund's 2016 financial statements.
- GASB 72, *Fair Value Measurement and Application*, was issued in early 2015 and must be adopted by the PRIT Fund in fiscal 2016:
  - Upon adoption, the Statement must be applied retrospectively to any prior periods presented (2015).
  - Aligns GASB with FASB ASC 820, *Fair Value Measurements and Disclosures*. The Statement will require the use of certain valuation techniques, introduces the concept of the fair value hierarchy, and defines when net asset value (NAV) as a practical expedient to estimate fair value can be utilized, in addition to other fair value concepts. In addition, the statement will require additional disclosures around fair value measurements, valuation techniques, inputs, and additional disclosure regarding investments in certain entities that calculate NAV per share (or its equivalent).
  - We expect the impact to the PRIT Fund's investment disclosures in particular to be significant, requiring further insight into the nature and liquidity of investments, more detailed assessments of the strategies, underlying investments, and redemption terms of NAV-measured investments, and more data to support what will be significantly expanded disclosures. We therefore suggest that early in the 2016 fiscal year, the PRIM Board evaluate the Statement's impact on its financial statements and perform the work needed to restate its fiscal 2015 information, as appropriate.



# **Fair Value Measurements and Application to Investments**

*GASB 72 – Fair Value  
Measurement and Application*

## Scope and Effective Date

### Scope

- Applicable to assets and liabilities required to be measured at fair value
- Required for financial statements of all state and local governments



### Effective Date

- Effective for financial statements for periods beginning after June 15, 2015.
- Earlier application is encouraged



***The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.***

### In addition to defining fair value, the standard:

Provides guidance for determining a fair value measurement and applying fair value to certain investments

Defines an *investment* and generally requires investments to be measured at fair value

Changes the measurement guidance for donated capital assets, donated works of art, historical treasures and similar assets

Requires disclosures related to all fair value measurements

## Definition of a Investment

GASB 72 defines an investment and *requires all investments to be measured at fair value* (with limited exceptions)

Investment – a security or other asset that:

A government holds primarily for the purpose of income or profit, and

Has the present service capacity based solely on its ability to generate cash or to be sold to generate cash

There are limited *exceptions* and GASB 72 provides specific guidance on the accounting for these exceptions

## Investments and Other Assets Not Measured at Fair Value

Investment	Accounting
Investments in nonparticipating interest-earning investment contracts	Cost based measure per GASB 31.8
Investments in unallocated insurance contracts	Reported as interest-earning investment contracts per GASB 31.8 and 51.4
Money market inv. and participating interest-earning inv. contracts with remaining maturity at time of purchase of one year or less	Amortized cost per GASB 31.9
Investments <i>held by</i> 2a7-like external inv. pools	Amortized cost per GASB 31.16
Synthetic GICs that are fully benefit responsive	Contract value per GASB 53.67
Investments <i>in</i> 2a7-like external inv. pools	Net asset value per share per GASB 59.5
Investments in life insurance contracts	Cash surrender value
Donated capital assets, works of art, historical treasures and similar assets	Acquisition value
Capital assets received in a service concession arrangement	Acquisition value

## Fair Value Hierarchy

2

**Inputs (other than quoted market prices included within Level 1) that are *observable* for the asset/liability, either directly or indirectly**  
(e.g. *observable prices for similar assets/liabilities in active markets, prices for identical assets or liabilities in non-active markets, direct/indirect observable market inputs*)

1

**Quoted prices (unadjusted) in active markets for identical assets or liabilities that the government has the ability to access**

3

***Unobservable* inputs for the asset/liability; used to the extent that observable inputs are not available**

***The overall “fair value level” is dictated by the lowest level within the hierarchy of any significant input used in the valuation technique***

## Fair Value Hierarchy – Common Examples

2

- Corporate bond issuances not traded in an active market
- Certain mortgage-backed and asset-backed securities (MBSs and ABSs)
- Municipal bonds not traded in an active market

1

- Equity securities included in the S&P 500
- Listed futures and options contracts
- “On-the-run” U.S. Government and Agency bonds

3

- Subordinate (residual) tranches in securitization structures
- Private equity investments
- Most nonfinancial assets

*We will discuss application of the fair value hierarchy in more detail in the next section.*

## Valuation Techniques: Observable vs. Unobservable Inputs

### Observable Inputs



*A government shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.*

# Alternative Investments

**Typically defined as investments in private investment funds that meet the definition of an *investment company***

**Typical alternative investments include**

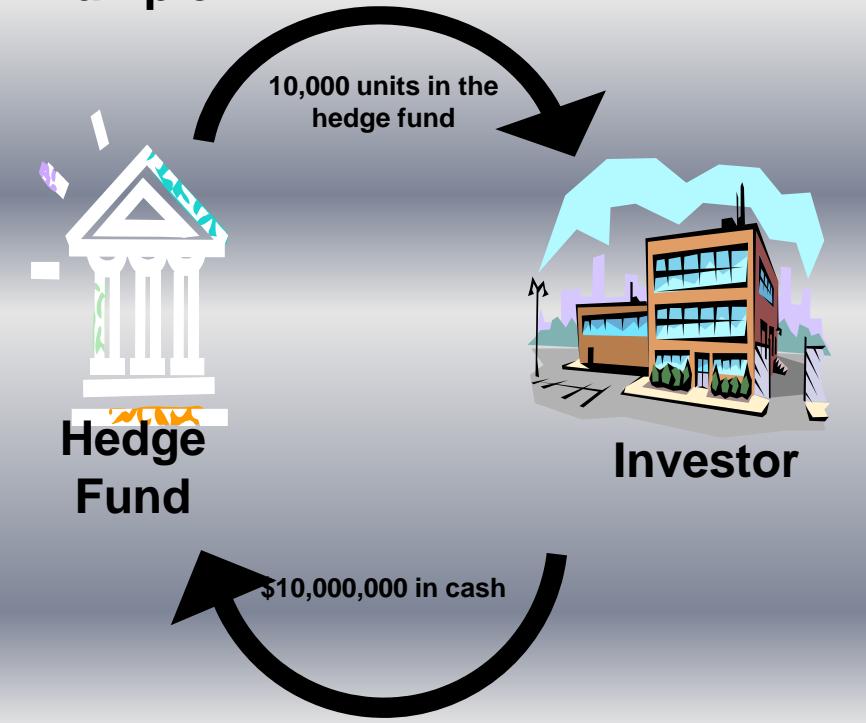
Private equity

Venture capital funds

Real estate funds

Hedge funds

**Example:**



## NAV: Fair Value Hierarchy Considerations



***Investments that are valued using the NAV practical expedient are not part of the fair value hierarchy and the associated disclosures by level. Separate disclosures for these investments are required.***

## Additional Disclosures: Investments in Certain Entities That Calculate NAV

### Disclose the following information for each type of investment:

1	Fair value measurement of the investment type and a description of the significant investment strategies of the investee(s) in that type
2	For each type of investment that includes investments that can never be redeemed with the investees, but a government receives distributions through the liquidation of the underlying assets of the investees: the government's estimate of the period over which the underlying assets are expected to be liquidated
3	Amount of a government's unfunded commitments related to that investment type
4	General description of the terms and conditions upon which a government may redeem investments in the type
5	Circumstances in which an otherwise redeemable investment in the type (or portion thereof) might not be redeemable

## **Additional Disclosures: Investments in Certain Entities That Calculate NAV (continued)**

### **Disclose the following information for each type of investment:**

- |   |   |
|---|---|
| 6 | For those otherwise redeemable investments (#5) that are restricted from redemption as of the measurement date: the estimate of when the restriction from redemption might lapse; if an estimate cannot be made, disclose that fact and how long the restriction has been in effect |
| 7 | Any other significant restriction on the ability to sell investments in the type at the measurement date  |
| 8 | If it is probable that it will sell an investment(s) for an amount different from the NAV per share, the total fair value of all investments that meet the “probable that it will sell” criteria and any remaining actions required to complete the sale                            |
| 9 | If a group of investments would otherwise meet the “probable that it will sell” criteria but the individual investments to be sold have not been identified, the plans to sell and any remaining actions required to complete the sale(s)   |

# Disclosures

## General guidelines provided

A government's specific circumstances should dictate the level of disaggregation and amount of detail to disclose

## Requirements for recurring and nonrecurring fair value measurements

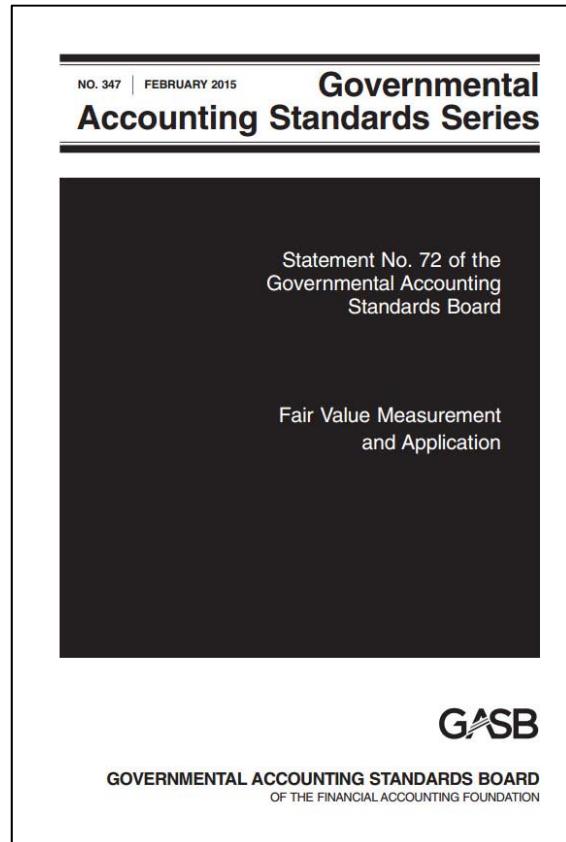
Recurring – those that other Statements require or permit in the statement of net position at the end of each reporting period

Nonrecurring – those that other Statements require or permit in the statement of net position in particular circumstances

## Flexibility in presentation but organized by class or type of asset or liability



# Disclosure Requirements



**Disclose the following for recurring and nonrecurring fair value measurements**

The fair value measurement at the end of the reporting period

The fair value hierarchy level within which the fair value measurement is categorized (Level 1, Level 2 or Level 3)

- Exception for investments measured at the NAV per share

A description of the valuation techniques used

If there has been a change in valuation technique that has a significant impact on the result, the change and the reason(s) for making it

**For nonrecurring fair value measurements, also disclose the reason(s) for the measurement**

***Disclosures should be organized by type of asset or liability.***



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PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD

## Appendix C

Draft PRIT Audited Financials

*PRIM Administration and Audit Committee*  
*Thursday, October 1, 2015*

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*Final Editorial Review Not Completed*

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**PENSION RESERVES INVESTMENT TRUST FUND**  
(A Component Unit of the Commonwealth of Massachusetts)

Financial Statements and Required Supplementary and  
Other Supplementary Information

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

**PENSION RESERVES INVESTMENT TRUST FUND**  
(A Component Unit of the Commonwealth of Massachusetts)

June 30, 2015 and 2014

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## **Independent Auditors' Report**

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

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

We have audited the accompanying financial statements of the Pension Reserves Investment Trust Fund (the PRIT Fund), a component unit of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the PRIT Fund's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the pooled net position of the Pension Reserves Investment Trust Fund as of June 30, 2015 and 2014, and the changes in its pooled net position for the years then ended in accordance with U.S. generally accepted accounting principles.

### ***Other Matters***

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

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-6 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 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated **October 13, 2015** on our consideration of the PRIT Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PRIT Fund's internal control over financial reporting and compliance.

**October 13, 2015**

**PENSION RESERVES INVESTMENT TRUST FUND**  
(A Component Unit of the Commonwealth of Massachusetts)

Required Supplementary Information –  
Management’s Discussion and Analysis

June 30, 2015 and 2014

(Unaudited)

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

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

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

### **Overview of the Financial Statements**

The financial statements include the statements of pooled net position and the statements of changes in pooled net position. They present the financial position of the PRIT Fund as of June 30, 2015 and 2014 and its financial activities for the years then ended. The notes to the financial statements provide further information that is essential to a full understanding of the financial statements. The notes describe the significant accounting policies of the PRIT Fund and provide detailed disclosures on certain account balances. The supplementary schedules of pooled net position and changes in pooled net position on pages 35 and 36 separately display the balances and activities of the Capital Fund and Cash Fund of the PRIT Fund.

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

### **Financial Highlights**

#### ***Fiscal Year 2015***

- The net position of the PRIT Fund increased \$567.0 million during the year ended June 30, 2015. Total net position was \$61.2 billion at June 30, 2015, compared to \$60.7 billion at June 30, 2014.
- Net investment income for fiscal year 2015 was \$2.1 billion, compared to net investment income of \$9.0 billion for the prior fiscal year. The PRIT Fund returned 3.86% in fiscal year 2015, compared to 17.53% in fiscal year 2014.
- Contributions to the PRIT Fund totaled \$2.2 billion during fiscal year 2015, compared to \$2.1 billion in 2014.
- Redemptions from the PRIT Fund totaled \$3.7 billion during the year ended June 30, 2015, compared to \$3.6 billion during the year ended June 30, 2014.

**PENSION RESERVES INVESTMENT TRUST FUND**  
 (A Component Unit of the Commonwealth of Massachusetts)

Required Supplementary Information –  
 Management's Discussion and Analysis

June 30, 2015 and 2014

(Unaudited)

**Fiscal Year 2014**

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

**Condensed Financial Information**

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

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

**PENSION RESERVES INVESTMENT TRUST FUND**  
 (A Component Unit of the Commonwealth of Massachusetts)

Required Supplementary Information –  
 Management's Discussion and Analysis

June 30, 2015 and 2014

(Unaudited)

	<b>June 30</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
(Dollars in thousands)			

**Summary of changes in pooled net position:**

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

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

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

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

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

The PRIT Fund outperformed its benchmark for the fiscal year ended June 30, 2015 and has returned an average of 9.62% annually since January 1, 1985. According to the Trust Universe Comparison Service (TUCS) for Public Pension Funds, the most widely accepted benchmark for the performance of institutional assets, the PRIT Fund ranked in the second quartile of public pension plans with net position in excess of \$1 billion over the ten-year period ended June 30, 2015.

**PENSION RESERVES INVESTMENT TRUST FUND**  
(A Component Unit of the Commonwealth of Massachusetts)

Required Supplementary Information –  
Management’s Discussion and Analysis

June 30, 2015 and 2014

(Unaudited)

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

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

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

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

**Other Information**

This financial report is designed to provide a general overview of the PRIT Fund’s financial results. Additional information can be found on the PRIM Board’s website at [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.

**PENSION RESERVES INVESTMENT TRUST FUND**  
 (A Component Unit of the Commonwealth of Massachusetts)

Statements of Pooled Net Position

June 30, 2015 and 2014

(Dollars in thousands)

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

See accompanying notes to financial statements.

**PENSION RESERVES INVESTMENT TRUST FUND**  
 (A Component Unit of the Commonwealth of Massachusetts)

Statements of Changes in Pooled Net Position

Years ended June 30, 2015 and 2014

(Dollars in thousands)

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

See accompanying notes to financial statements.

**PENSION RESERVES INVESTMENT TRUST FUND**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

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

*(a) General*

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

A nine-member Board of Trustees governs the PRIM Board. The Trustees include: (1) the Governor, ex officio, or his designee; (2) the State Treasurer, ex officio, or his designee who shall serve as Chair of the PRIM Board; (3) a private citizen experienced in the field of financial management appointed by the State Treasurer; (4) an employee or retiree who is a member of the State Teachers' Retirement System, elected by the members of such system for a term of three years; (5) an employee or retiree who is a member of the State Employees' Retirement System, elected by the members of such system for a term of three years; (6) the elected member of the State Retirement Board; (7) one of the elected members of the Teachers' Retirement Board chosen by the members of the Teachers' Retirement Board; (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 maximize the total return on investments within acceptable levels of risk for a public pension fund. Under current law, by the year 2040, the PRIT Fund will have grown, through annual payments in accordance with a legislatively approved funding schedule and through total return of the PRIT Fund, to an amount sufficient to meet the then-existing pension obligations of the Commonwealth. The Commonwealth has adopted a schedule of state pension appropriations that assumes a long-term actuarial rate of return for the PRIT Fund of 7.75%.

The State Teachers' and State Employees' Retirement Systems are mandated by statute to invest all of their assets in the PRIT Fund and are, therefore, considered involuntary participants. Other retirement systems have the option to become Participating or Purchasing System participants in the PRIT Fund. Participating Systems must transfer all of their assets to the PRIT Fund, commit to remain invested for five years, and are entitled to share in appropriations made to the PRIT Fund by the Commonwealth in accordance with Massachusetts General Laws, Chapter 32, Section 22B. The Commonwealth has

**PENSION RESERVES INVESTMENT TRUST FUND**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

made no such appropriation to the PRIT Fund on behalf of Participating Systems since fiscal year 2000.

Purchasing Systems may invest all or a portion of their assets in the PRIT Fund and retain the ability to contribute and withdraw funds at their discretion; however, they are not entitled to state appropriations. Participating and Purchasing Systems share in the investment earnings of the PRIT Fund based on their proportionate share of net assets. As of June 30, 2015, there were 41 Participating Systems and 54 Purchasing Systems invested in the PRIT Fund.

On July 15, 2007, the Governor signed into law Chapter 68 of the Acts of 2007, An Act to Reduce the Stress on Local Property Taxes through Enhanced Pension Fund Investment, better known as the Municipal Partnership Act. Section 2 of Chapter 68 requires the Public Employee Retirement Administration Commission (PERAC) to assess the investment performance and funded ratio of retirement systems as of January 1 of each year. If a system is less than 65% funded and has trailed the performance of the PRIT Fund by 2% or more on an annualized basis over the previous 10-year period, then PERAC declares the system “underperforming” and requires it to transfer its assets to the PRIT Fund as a participating system. For the years ended June 30, 2015 and 2014, no retirement systems were required to transfer their assets to the PRIT Fund under the provisions of this Act.

**(b) *Investment Funds***

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

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

Assets contributed by retirement systems are initially deposited in the Cash Fund and then transferred to the Capital Fund. Funds transferred into the Capital Fund are generally invested in the General Allocation Account, which invests in all asset classes of the PRIT Fund in accordance with the PRIM Board’s asset allocation plan and investment policy guidelines. The Capital Fund serves as the investment portfolio of the PRIT Fund and consists of the following accounts at June 30, 2015: General Allocation (holds units of all other accounts), Domestic Equity, Core Fixed Income, Value-Added Fixed Income, International Equity, Emerging Markets, Real Estate, Timber/Natural Resources, Hedge Funds, Distressed Debt, Overlay, Portfolio Completion Strategies, Private Equity Investments, and Private Equity Investments Vintage Years 2000-2015. Vintage Year refers to the fiscal year in which the PRIT Fund made a commitment to invest in a private equity investment.

The Capital Fund consists of the following accounts at June 30, 2014: General Allocation (holds units of all other accounts), Domestic Equity, Core Fixed Income, Value-Added Fixed Income, International

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Equity, Emerging Markets, Real Estate, Timber/Natural Resources, Hedge Funds, Distressed Debt, Overlay, Private Equity Investments, and Private Equity Investments Vintage Years 2000-2014.

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

Chapter 84 of the Acts of 1996 permits Massachusetts retirement boards to purchase units in the individual investment accounts of the PRIT Fund as an alternative to investing in its General Allocation Account. This investment option, also referred to as “segmentation,” was established by an amendment to the PRIM Board’s Operating Trust Agreement in 1994 in response to requests from retirement boards wishing to invest in certain asset classes of the PRIT Fund. Purchasing Systems, as “segmented investors,” may invest in one or more of the following accounts of the Capital Fund: Domestic Equity, International Equity, Emerging Markets, Core Fixed Income, Public Value Added Fixed Income, Real Estate, Hedge Funds, and Private Equity Vintage Year accounts. At June 30, 2015 and 2014, there were 39 segmented investors in the PRIT Fund. The remaining Purchasing Systems invested in the General Allocation Account.

**(2) Summary of Significant Accounting Policies**

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

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

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

**(b) Investments**

The PRIM Board recognizes that over the long term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. The PRIM Board’s asset allocation plan embodies its decisions to invest portions of the Capital Fund in domestic and international equity securities, emerging markets, fixed income securities, value added fixed income, real estate, timberland, hedge funds, natural resources, private equity and, where appropriate, the various sub asset classes of each asset class. Statutes prohibit the PRIT Fund from investing in certain securities. The PRIM Board ensures that investment managers adhere to the requirements of Massachusetts General Laws.

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

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

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

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

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

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

Hedge fund investments represent the PRIT Fund's ownership in both direct hedge funds including managed accounts and hedge fund-of-funds. The investment in hedge funds is recorded at fair value as estimated by the PRIM Board, generally using the net asset value as a practical expedient. These estimated fair values are determined in good faith by the PRIM Board with guidance from the PRIT Fund's hedge fund investment managers and is based on the value of the PRIT Fund's ownership in the underlying hedge fund investments.

Private equity investments are typically made through limited partnerships that, in turn, invest in venture capital, leveraged buyouts, private placements, and other investments where the structure, risk profile, and return potential differ from traditional equity and fixed income investments. These investments are recorded at fair values estimated by the PRIM Board, generally using the net asset value of the underlying fund as a practical expedient. These estimated fair values are determined in good faith by investment managers or general partners using consistently applied procedures.

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

**(c) *Investment Income***

Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned. For the years ended June 30, 2015 and 2014, foreign taxes withheld of \$25,167 and \$24,519, respectively, have been netted against dividend income in the statements of changes in pooled net position. Real estate income includes dividends earned on REIT securities as well as cash distributions of operating income from investments in real estate properties less interest expenses on real estate debt. Timberland income includes cash distributions of operating income from investments in timberland properties. Private equity investment income is recorded on a cash distribution basis.

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

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

Unrealized net currency gains and losses from valuing foreign currency-denominated assets and liabilities at month-end exchange rates are reflected as a component of net unrealized appreciation

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(depreciation) on investments. For financial reporting purposes, it is not practicable to isolate that portion of the results of operations arising as a result of changes in foreign exchange rates from the fluctuations arising from changes in the market price of securities during the period.

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

**(e) Derivative Instruments**

In accordance with GASB Statement No. 53, *Accounting and Financial Reporting of Derivative Instruments*, the PRIT Fund has recorded all of its derivative activity at fair value as investment instruments within the equity, fixed income, and real estate investments and the related change in such instruments within the net change in unrealized appreciation (depreciation) on investments and foreign currency translations in the accompanying financial statements.

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

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

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

The PRIT Fund may also enter into mortgage dollar-roll and reverse mortgage dollar-roll agreements on a when-issued basis. A mortgage dollar-roll is an agreement in which the PRIT Fund sells securities on a when-issued basis and simultaneously contracts with the same counterparty to repurchase similar

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

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

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

	June 30	
	2015	2014
Short-term:		
Money market investments	\$ 1,733,529	1,152,040
Fixed income:		
U.S. government obligations (1)	5,225,621	4,463,870
Domestic fixed income (2)	4,660,555	5,545,436
International fixed income (3)	3,152,349	3,604,539
Distressed debt	<u>1,350,752</u>	<u>1,329,099</u>
	<u>14,389,277</u>	<u>14,942,944</u>
Equity:		
Domestic equity securities	10,353,626	10,409,415
International equity securities	<u>14,289,329</u>	<u>14,714,199</u>
	<u>24,642,955</u>	<u>25,123,614</u>
Real estate	7,678,800	6,964,718
Timberland	1,664,581	1,510,688
Private equity:		
Venture capital	1,579,463	1,389,868
Special equity	<u>5,400,960</u>	<u>5,522,375</u>
	<u>6,980,423</u>	<u>6,912,243</u>
Hedge funds:		
Direct hedge funds and hedge fund of funds	5,323,426	5,845,788
Liquidating hedge fund of funds	<u>28,205</u>	<u>49,682</u>
	<u>5,351,631</u>	<u>5,895,470</u>
Other:		
Portfolio completion strategies investment funds	<u>94,909</u>	<u>—</u>
Total investments excluding securities lending collateral	<u>\$ 62,536,105</u>	<u>62,501,717</u>
Securities lending collateral investments:		
Repurchase agreements	\$ 200,000	—
Money market investments	147,978	—
Domestic fixed income (4)	<u>209,180</u>	<u>—</u>
Total securities lending collateral investments	<u>557,158</u>	<u>—</u>
Total investments including securities lending collateral	<u>\$ 63,093,263</u>	<u>62,501,717</u>

- (1) Fiscal 2015 rates range from 0.00% to 9.13%, and maturities range from 2015 to 2045. Fiscal 2014 rates range from 0.00% to 10.63%, and maturities range from 2014 to 2044
- (2) Fiscal 2015 rates range from 0.00% to 12.64%, and maturities range from 2015 to 2115. Fiscal 2014 rates range from 0.00% to 13.79%, and maturities range from 2014 to 2114.

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- (3) Fiscal 2015 rates range from 0.00% to 16.39%, and maturities range from 2015 to 2115. Fiscal 2014 rates range from 0.00% to 16.00%, and maturities range from 2014 to 2073.
- (4) U.S. government agency securities with maturities of less than three months.

**(4) Deposits and Investments Risks**

*(a) Custodial Credit Risk*

Custodial credit risk is the risk that in the event of bank failure, the PRIT Fund's deposits and investments may not be returned. The PRIM Board manages the PRIT Fund's exposure to custodial credit risk by requiring all relevant investment managers to hold investments in separate accounts with the PRIM Board's custodian (see note 9). The PRIM Board has not adopted a formal custodial credit risk policy.

Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk. As of June 30, 2015 and 2014, all but \$250 of the PRIT Fund's \$282,624 and \$189,947 cash balances, respectively, were uninsured and uncollateralized and, therefore, exposed to custodial credit risk.

*(b) Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates of fixed income investments will adversely affect the fair value of an investment. While the PRIM Board does not have a formal policy relating to interest rate risk, the PRIM Board manages the PRIT Fund's exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its fixed income investment managers. The guidelines with each individual manager require that the effective duration of the domestic fixed income investment portfolio be within a specified percentage or number of years of the effective duration band of the appropriate benchmark index. For emerging markets fixed income investments, the portfolio must have duration with a band ranging from three to eight years. Effective duration is a measure of a fixed income investment's exposure to fair value changes arising from changes in interest rates. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes, including callable options, prepayments, and other factors. These factors are reflected in the effective duration numbers provided in the following table. The PRIM Board compares the effective duration of a manager's portfolio to their relevant benchmark including Barclays Capital Aggregate index, US Treasury STRIPS 20+ Year index, Barclays Capital US TIPS index, Barclays Capital Inflation Linked Bonds index, S&P LSTA Leveraged Loan index, JPMorgan Global Emerging Markets Bond index, JPMorgan Global Diversified Emerging Markets Bond index, and the Merrill Lynch High Yield Master II index.

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

Investment	2015		2014	
	Fair value	Effective weighted duration rate (Years)	Fair value	Effective weighted duration rate (Years)
Asset-backed securities	\$ 154,740	2.19	\$ 238,794	1.83
Commercial mortgage-backed securities	235,583	2.18	395,208	2.89
Commercial paper and CDs	51,922	0.14	48,875	1.33
Corporate bonds and other credits	4,018,855	13.01	5,124,760	5.21
U.S. government bonds	3,988,370	24.23	3,271,542	21.81
U.S. government agencies	55,097	3.91	93,468	3.97
U.S. government TIPS	1,237,251	8.04	1,192,328	8.37
U.S. government mortgage-backed securities	1,179,408	1.99	1,193,603	2.80
Global inflation linked bonds	378,121	9.61	376,534	7.32
Municipal bonds	40,134	10.35	54,426	10.54
Pooled money market fund	1,733,529	—	1,152,040	—
Other pooled funds	<u>3,049,796</u>	—	<u>2,953,406</u>	—
Total fixed income and short-term investments	<u>\$ 16,122,806</u>		<u>\$ 16,094,984</u>	
Securities lending collateral investments:				
U.S. government agencies	\$ 209,180	—	\$ —	—
Pooled money market fund	147,978	—	—	—
Repurchase agreements	<u>200,000</u>	—	<u>—</u>	—
Total securities lending collateral investments	<u>\$ 557,158</u>		<u>\$ —</u>	

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**(c) Credit Risk**

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

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

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

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

Investment	Total fair value	2015					
		Investment grade			Noninvestment grade		
		AAA	AA+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Not rated
Asset-backed securities	\$ 154,740	69,846	76,967	779	6,905	243	—
Commercial mortgage-backed securities	235,583	64,170	57,091	52,448	37,610	23,050	1,214
Commercial paper and CDs	51,922	—	3,097	48,825	—	—	—
Corporate bonds and other credits	4,018,855	127,408	1,271,634	1,318,177	889,931	141,220	270,485
U.S. government agencies	55,097	—	55,097	—	—	—	—
U.S. government mortgage-backed securities	988,164	105	636,993	—	—	—	351,066
Global inflation linked bonds	378,121	110,287	172,755	95,079	—	—	—
Municipal bonds	40,134	593	34,475	1,948	3,118	—	—
Pooled money market fund	1,733,529	—	—	—	—	—	1,733,529
Other pooled funds	3,049,796	—	—	—	—	—	3,049,796
Total credit risk, fixed income, and short-term investments	10,705,941	372,409	2,308,109	1,517,256	937,564	164,513	5,406,090
Fixed income investments explicitly backed by the U.S. government	5,416,865						
Total fixed income and short-term investments	\$ 16,122,806						
Securities lending collateral investments:							
U.S. government agencies	\$ 209,180	—	209,180	—	—	—	—
Pooled money market fund	147,978	—	—	—	—	—	147,978
Repurchase agreements	200,000	—	—	200,000	—	—	—
Total securities lending collateral investments	\$ 557,158	—	209,180	200,000	—	—	147,978

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Investment	Total fair value	2014					
		Investment grade			Noninvestment grade		
		AAA	AA+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Not rated
Asset-backed securities	\$ 238,794	96,734	125,689	989	6,714	8,373	295
Commercial mortgage-backed securities	395,208	158,394	70,098	91,866	46,563	26,879	1,408
Commercial paper and CDs	48,875	—	13,694	2,286	—	—	32,895
Corporate bonds and other credits	5,124,760	239,913	1,196,204	1,670,820	698,436	209,665	1,109,722
U.S. government agencies	93,468	—	93,364	—	—	—	104
U.S. government mortgage-backed securities	974,362	—	817,444	—	—	—	156,918
Global inflation linked bonds	376,534	191,512	152,644	32,378	—	—	—
Municipal bonds	54,426	1,673	47,652	1,921	3,180	—	—
Pooled money market fund	1,152,040	—	—	—	—	—	1,152,040
Other pooled funds	2,953,406	—	—	—	—	—	2,953,406
Total credit risk, fixed income, and short-term investments	11,411,873	688,226	2,516,789	1,800,260	754,893	244,917	5,406,788
Fixed income investments explicitly backed by the U.S. government	<u>4,683,111</u>						
Total fixed income and short-term investments	\$ <u>16,094,984</u>						

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**(d) Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. Although the PRIM Board has no overall policy regarding foreign currency risk, the PRIM Board does manage the PRIT Fund's exposure to foreign currencies by establishing investment guidelines with each of its international managers. These guidelines set maximum investment balances for any currency and/or country holdings must be within a certain percentage of predefined benchmarks. In addition, the PRIM Board's investment managers may actively manage the PRIT Fund's exposure to foreign currencies through the use of forward foreign currency contracts. The following tables present the PRIT Fund's foreign currency exposures at June 30 (stated in U.S. dollars):

	2015					
	<b>Cash and short-term investments</b>	<b>Equity</b>	<b>Fixed income</b>	<b>Private equity investments</b>	<b>Timber investments</b>	<b>Total</b>
Australian Dollar	\$ 4,699	452,827	12,549	—	172,588	642,663
Brazilian Real	918	108,213	197,872	—	—	307,003
British Pound	29,184	2,276,111	362,371	91,237	—	2,758,903
Canadian Dollar	23,085	462,151	31,505	18,364	—	535,105
Danish Krone	351	303,635	3,947	—	—	307,933
Euro	9,530	2,340,962	293,225	1,188,043	—	3,831,760
Hong Kong Dollar	9,336	1,077,867	—	—	—	1,087,203
Japanese Yen	116,886	2,240,071	47,659	—	—	2,404,616
Mexican Peso	13,091	103,000	129,819	—	—	245,910
New Taiwan Dollar	16,188	449,513	—	—	—	465,701
S. African Comm Rand	1,729	286,470	91,292	—	—	379,491
South Korean Won	2,614	514,806	27,665	—	—	545,085
Swedish Krona	808	366,189	16,956	—	—	383,953
Swiss Franc	11,318	789,138	—	—	—	800,456
Other foreign currencies	<u>13,614</u>	<u>1,002,358</u>	<u>681,368</u>	<u>—</u>	<u>—</u>	<u>1,697,340</u>
Total securities subject to foreign currency risk	253,351	12,773,311	1,896,228	1,297,644	172,588	16,393,122
International investments denominated in U.S. dollars	<u>—</u>	<u>1,516,018</u>	<u>1,256,121</u>	<u>—</u>	<u>—</u>	<u>2,772,139</u>
Total international investments and cash deposits	<u>\$ 253,351</u>	<u>14,289,329</u>	<u>3,152,349</u>	<u>1,297,644</u>	<u>172,588</u>	<u>19,165,261</u>

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	2014					
	Cash and short-term investments	Equity	Fixed income	Private equity investments	Timber investments	Total
Australian Dollar	\$ 5,629	567,019	134,282	—	172,373	879,303
Brazilian Real	3,662	236,552	295,874	—	—	536,088
British Pound	37,611	2,180,933	340,590	112,710	—	2,671,844
Canadian Dollar	11,437	532,480	37,880	15,192	—	596,989
Danish Krone	64	326,814	2,757	—	—	329,635
Euro	58,882	2,457,268	428,037	1,327,484	—	4,271,671
Hong Kong Dollar	6,216	971,845	—	—	—	978,061
Indian Rupee	3,783	234,396	2,830	—	—	241,009
Indonesian Rupiah	700	104,435	96,780	—	—	201,915
Japanese Yen	42,637	1,963,600	38,037	—	—	2,044,274
Malaysian Ringgit	601	106,236	119,357	—	—	226,194
Mexican Peso	1,223	145,564	122,637	—	—	269,424
New Taiwan Dollar	2,198	432,813	—	—	—	435,011
New Turkish Lira	824	113,709	107,661	—	—	222,194
S. African Comm Rand	1,133	280,808	107,698	—	—	389,639
South Korean Won	1,857	661,188	20,660	—	—	683,705
Swedish Krona	3,239	380,903	19,668	—	—	403,810
Swiss Franc	172	807,726	—	—	—	807,898
Other foreign currencies	9,563	649,630	422,700	—	—	1,081,893
Total securities subject to foreign currency risk	191,431	13,153,919	2,297,448	1,455,386	172,373	17,270,557
International investments denominated in U.S. dollars	—	1,560,280	1,307,091	—	—	2,867,371
Total international investments and cash deposits	\$ 191,431	14,714,199	3,604,539	1,455,386	172,373	20,137,928

**(e) Concentration of Credit Risk**

The PRIM Board manages the PRIT Fund's exposure to concentration of credit risk by establishing guidelines with each investment manager that limit the percentage of investment in any single issue or issuer. The PRIT Fund has no investments, at fair value, that exceed 5% of the PRIT Fund's total investments as of June 30, 2015 and 2014.

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

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

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risks if the counterparties to the contracts are unable to meet the terms of their contracts or if the value of the foreign currency changes unfavorably.

**(5) Securities Lending Program**

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

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

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

**(6) Real Estate – Investment in the LLC**

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

According to the operating agreement, as of any valuation date, the net assets of the LLC shall be the fair value of investments, less the amount of debt and accrued expenses. The unit net asset value of the LLC shall be the net asset value of the LLC divided by the number of units outstanding on such date. The LLC holds core and value real estate assets consisting of real estate properties, real estate private equity investments, and REIT securities.

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**(7) Real Estate Debt**

**(a) Notes Payable**

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

	<b>Face value</b>	
	<b>2015</b>	<b>2014</b>
Senior unsecured term loan	\$ 500,000	500,000
Senior unsecured notes	500,000	500,000
<b>Total</b>	<b>\$ 1,000,000</b>	<b>1,000,000</b>

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

	<b>Amount</b>	
	Year ending June 30:	
2016	\$ —	—
2017	—	—
2018	500,000	—
2019	—	—
2020	175,000	—
2021–2025	325,000	—
	<b>\$ 1,000,000</b>	

**(i) Senior Unsecured Term Loan**

On February 12, 2013, the LLC issued a Senior Unsecured Term Loan in the aggregate principal amount of \$500,000, maturing February 12, 2018. Interest is payable monthly based on LIBOR plus an applicable rate based upon the range into which the Total Leverage Ratio falls as outlined in the Term Loan agreement. As of June 30, 2015 and 2014, the applicable rate is 1.15%.

**(ii) Senior Unsecured Notes**

On February 14, 2013, the LLC issued 3.25% Series A Senior Notes in the aggregate principal amount of \$175,000 maturing February 14, 2020; 3.85% Series B Senior Notes in the aggregate principal amount of \$175,000 maturing February 14, 2023; 4.00% Series C Senior Notes in the aggregate principal amount of \$150,000 maturing February 14, 2025. Interest on the notes is payable semi-annually.

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

**(b) Mortgage Loans Payable**

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

	<b>2015</b>	<b>2014</b>
Mortgage loans payable	\$ 511,769	548,854
Total	\$ 511,769	548,854

**(8) Derivative Investments**

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

**(a) Foreign Currency Exchange Contracts**

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

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

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

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

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

**(b) Futures Contracts**

The PRIT Fund enters into financial and commodity futures on various exchanges. A futures contract is an agreement between two parties to buy or sell units of a particular index, security, or commodity 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

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receive from, or pay to, the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as “variation margin” and are recorded by the PRIT Fund as unrealized gains or losses. When the contract is closed, the PRIT Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The potential risk to the PRIT Fund is that the change in value of futures contracts primarily corresponds with the value of underlying instruments, which may not correspond to the change in value of the hedged instruments. The PRIT Fund is also subject to credit risk should its clearing brokers be unable to meet their obligations to the PRIT Fund.

Futures contracts held at June 30 were as follows:

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

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

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

**(c) Swaps**

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

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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:

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

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

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

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

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

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

Counterparty	Credit rating	2015					
		Interest rate swaps		Credit default swaps		Inflation swaps	
		Gross notional	Fair value	Gross notional	Fair value	Gross notional	Fair value
Bank of America NA	A	\$ 966	(2)	33,385	(2,259)	—	—
Barclays Bank PLC	A-	47,978	160	31,513	(590)	54,860	(279)
CME Group Inc.	AA-	212,920	636	—	—	—	—
Citibank NA	A	21,807	52	10,213	(339)	—	—
Deutsche Bank AG	BBB+	6,899	68	26,300	(153)	—	—
LCH.Clearnet Ltd	A+	386,810	1,541	—	—	—	—
UBS AG	BBB+	23,797	(361)	21,071	(3)	—	—
U.S. Bank National Association	AA-	500,000	303	—	—	—	—
All others	Various	134,191	272	64,100	(2,333)	6,354	(320)
		<b>\$ 1,335,368</b>	<b>2,669</b>	<b>186,582</b>	<b>(5,677)</b>	<b>61,214</b>	<b>(599)</b>

Counterparty	Credit rating	2014					
		Interest rate swaps		Credit default swaps		Inflation swaps	
		Gross notional	Fair value	Gross notional	Fair value	Gross notional	Fair value
Barclays Bank PLC	A	\$ 23,150	291	12,500	(64)	116,010	92
CME Group Inc.	AA-	784,699	4,955	—	—	—	—
Citibank NA	A	181,717	107	29,361	14	—	—
Deutsche Bank AG	A	—	—	35,700	255	—	—
Intercontinental Exchange Inc.	A-	—	—	78,294	2,653	—	—
JPMorgan Chase Bank NA	A+	22,617	(19)	9,900	45	—	—
UBS AG	A	4,582	42	27,346	152	—	—
U.S. Bank National Association	AA-	500,000	2,603	—	—	—	—
All others	Various	4,741	99	95,900	(142)	—	—
		<b>\$ 1,521,506</b>	<b>8,078</b>	<b>289,001</b>	<b>2,913</b>	<b>116,010</b>	<b>92</b>

**(9) Management Fees**

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

**PENSION RESERVES INVESTMENT TRUST FUND**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

**(a) *Investment Management Fees***

Investment management fees are paid to discretionary managers pursuant to executed contracts. Total investment management fees were \$83,142 and \$69,564 for the years ended June 30, 2015 and 2014, respectively.

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

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

Fees for private equity investments are typically a percentage of committed capital with the fee percentage decreasing over time. In addition, the general partners (investment managers) of private equity limited partnerships are entitled to a performance fee based on the net gains on realized partnership investments.

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

Timberland investment management fees consist of a base fee and a performance fee component and are calculated and paid similar to the LLC's investment management fees; however, performance fees are paid every three years.

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

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

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

**PENSION RESERVES INVESTMENT TRUST FUND**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

**(b) Investment Advisory Fees**

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

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

**(c) Custodian Fees**

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

In December 2013, BNY Mellon agreed to reimburse the PRIM Board \$15,450 in the form of a discount in custodian fees over a nine-year period to settle alleged foreign currency transaction overcharges from January 2000 to May 2011. In addition, BNY Mellon reimbursed the PRIM Board \$100 for legal fees incurred. For the years ended June 30, 2015 and 2014, custodian fees were \$674 and \$690, respectively, and are included in management fees in the accompanying statements of changes in pooled net position.

**(d) Other Administrative Fees**

For the years ended June 30, 2015 and 2014, other administrative expenses of the PRIM Board, including employee compensation, professional fees and occupancy costs, charged to the PRIT Fund totaled \$10,189 and \$9,417, respectively, and are included in management fees in the accompanying statements of changes in pooled net position.

**(10) Commitments**

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

**PENSION RESERVES INVESTMENT TRUST FUND**  
 (A Component Unit of the Commonwealth of Massachusetts)

Schedule of Pooled Net Position – Capital Fund and Cash Fund

June 30, 2015

(Dollars in thousands)

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

See accompanying independent auditors' report.

**PENSION RESERVES INVESTMENT TRUST FUND**  
 (A Component Unit of the Commonwealth of Massachusetts)

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

Year ended June 30, 2015

(Dollars in thousands)

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

See accompanying independent auditors' report.



PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD

## Appendix D

Draft PRIM Audited Financials

*PRIM Administration and Audit Committee*  
*Thursday, October 1, 2015*

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*Final Editorial Review Not Completed*

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**PENSION RESERVES INVESTMENT  
MANAGEMENT BOARD**

Financial Statements and Required Supplementary Information

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

**PENSION RESERVES INVESTMENT  
MANAGEMENT BOARD**

Financial Statements and Required Supplementary Information

June 30, 2015 and 2014

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## **Independent Auditors' Report**

The Administrative and Audit Committee and Trustees,  
Pension Reserves Investment Management Board:

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

We have audited the accompanying financial statements of the Pension Reserves Investment Management Board (the PRIM Board), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the PRIM Board'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 fiduciary net position of the Pension Reserves Investment Management Board as of June 30, 2015 and 2014, and the changes in fiduciary net position for the years then ended, in accordance with U.S. generally accepted accounting principles.

***Other Matter – Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-5 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated **October 13, 2015** on our consideration of the PRIM Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PRIM Board's internal control over financial reporting and compliance.

**October 13, 2015**

**PENSION RESERVES INVESTMENT  
MANAGEMENT BOARD**

Required Supplementary Information –  
Management’s Discussion and Analysis

June 30, 2015 and 2014

(Unaudited)

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

The PRIM Board was created by Massachusetts legislation to provide supervision of the management of the investments of the Pension Reserves Investment Trust Fund (the PRIT Fund).

**Overview of the Financial Statements**

The financial statements include the statements of fiduciary net position, which present the PRIM Board’s financial position as of June 30, 2015 and 2014, and the statements of changes in fiduciary net position, which present the PRIM Board’s financial activities for the years then ended. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements. The notes describe the significant accounting policies of the PRIM Board and provide detailed disclosures on certain account balances.

The PRIM Board’s financial statements are prepared in conformity with U.S. generally accepted accounting principles as applied to governmental fiduciary funds and employ the accrual basis of accounting.

**Financial Highlights and Analysis**

At June 30, 2015, the PRIM Board maintained a fiduciary net position value of zero, consistent with the prior year. Total assets and liabilities increased approximately 60.3% in fiscal year 2015, primarily due to higher accrued investment management fees, which were approximately \$37.3 million and \$22.1 million at June 30, 2015 and 2014, respectively.

Total assets and liabilities increased approximately 2.2% from June 30, 2013 to June 30, 2014, due to higher accrued investment management fees during the fiscal year.

	<b>June 30</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
(Amounts in thousands)			
Total assets	\$ 40,862	25,486	24,934
Total liabilities	<u>40,862</u>	<u>25,486</u>	<u>24,934</u>
Total fiduciary net position	\$ —	—	—

All expenses of the PRIM Board are reimbursed by the PRIT Fund; therefore, additions equaled deductions for the years ended June 30, 2015, 2014, and 2013.

**PENSION RESERVES INVESTMENT  
MANAGEMENT BOARD**

Required Supplementary Information –  
Management's Discussion and Analysis

June 30, 2015 and 2014

(Unaudited)

	<b>June 30</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
(Amounts in thousands)			
Total additions	\$ 98,204	84,199	73,406
<b>Deductions:</b>			
Investment management fees	83,180	69,599	57,571
Investment advisory fees	4,161	4,493	4,529
Custodian fees	674	690	2,700
Other expenses	10,189	9,417	8,606
Total deductions	<u>98,204</u>	<u>84,199</u>	<u>73,406</u>
Change in fiduciary net position	—	—	—
Fiduciary net position, beginning of year	—	—	—
Fiduciary net position, end of year	<u>\$ —</u>	<u>—</u>	<u>—</u>

The PRIM Board expenses were \$98.2 million for the year ended June 30, 2015 compared to \$84.2 million for the year ended June 30, 2014, representing a 16.6% increase in total expenses. Investment management fees, which include both base and performance fees, increased by \$13.6 million in fiscal 2015. Base fees decreased by \$0.7 million and performance fees increased by \$14.3 million. The base fee decreased 1.0% despite an increase in the PRIT Fund's assets under management due to rebalancing of assets and better fee negotiations. The performance fee increase was due to outperformance by a core real estate manager and a timberland manager. Investment advisory fees decreased 7.4% primarily due to lower contractual hedge fund advisory fees. Custodian fees decreased 2.3% due to lower contractual fee arrangements. Other operating expenses increased 8.2%, primarily due to Board-approved compensation and staff increases and higher legal fees, offset by lower occupancy costs. Occupancy costs decreased despite an expansion of office space due to a 7-year lease executed in September 2014 with better terms.

**PENSION RESERVES INVESTMENT  
MANAGEMENT BOARD**

Required Supplementary Information –  
Management’s Discussion and Analysis

June 30, 2015 and 2014

(Unaudited)

The PRIM Board’s expenses were \$84.2 million for the year ended June 30, 2014 compared to \$73.4 million for the year ended June 30, 2013, a 14.7% increase in total expenses. Investment management fees, which include both base and performance fees, increased by \$12.0 million in fiscal 2014. Overall, base fees increased by approximately 22.7% and performance fees decreased by 35.2%. The base fee increase is attributable to an overall increase in the PRIT Fund’s assets under management and funding of new managers. The performance fee decrease was due to underperformance by fixed income and emerging markets equity managers compared to predetermined benchmarks partially offset by an increase in performance fees due to outperformance by a core real estate manager. Investment advisory fees decreased by approximately 0.8%, primarily due to the completion of certain projects which began in the prior fiscal year. The decrease was offset by higher contractual hedge fund advisory fees. Custodian fees decreased by 74.4%. The decrease was a result of significant fee discount that was negotiated as part of a foreign currency transaction overcharges claim settlement with BNY Mellon. Other operating expenses increased 9.4%, due to staff and office expansion, offset by lower legal fees, which were down 67%.

**Other Information**

This financial report is designed to provide a general overview of the PRIM Board’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.

**PENSION RESERVES INVESTMENT  
MANAGEMENT BOARD**

Statements of Fiduciary Net Position

June 30, 2015 and 2014

(Dollars in thousands)

	<b>2015</b>	<b>2014</b>
<b>Assets:</b>		
Cash	\$ 21	41
Receivable from PRIT (notes 2 and 3)	39,823	24,592
Other assets	1,018	853
<b>Total assets</b>	<b>40,862</b>	<b>25,486</b>
<b>Liabilities:</b>		
Accrued custodian fees (note 4)	145	240
Accrued investment advisory fees (note 4)	1,155	963
Accrued investment management fees (note 4)	37,283	22,083
Other accrued expenses	2,279	2,200
<b>Total liabilities</b>	<b>40,862</b>	<b>25,486</b>
<b>Fiduciary net position</b>	<b>\$ —</b>	<b>—</b>

See accompanying notes to financial statements.

**PENSION RESERVES INVESTMENT  
MANAGEMENT BOARD**

Statements of Changes in Fiduciary Net Position

Years ended June 30, 2015 and 2014

(Dollars in thousands)

	<b>2015</b>	<b>2014</b>
Additions:		
Reimbursement of fees and other expenses (notes 2 and 3)	\$ 98,204	84,199
Deductions (notes 2 and 4):		
Investment management fees:		
Base fees	67,748	68,437
Performance fees	15,432	1,162
Investment advisory fees	4,161	4,493
Custodian fees (note 4)	674	690
Other expenses:		
Salaries and employee benefits	6,109	5,180
Legal and audit fees	856	459
Occupancy	690	755
Other	2,534	3,023
Total deductions	98,204	84,199
Change in fiduciary net position	—	—
Fiduciary net position, beginning of year	—	—
Fiduciary net position, end of year	\$ —	—

See accompanying notes to financial statements.

## PENSION RESERVES INVESTMENT MANAGEMENT BOARD

Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

### **(1) Description of the PRIM Board**

The Pension Reserves Investment Management Board (the PRIM Board) was created in 1983 by the Commonwealth of Massachusetts (the Commonwealth) through legislation (Chapter 661 of the Acts of 1983, as amended by Chapter 315 of the Acts of 1996), to provide general supervision of the investments and management of the Pension Reserves Investment Trust Fund (the PRIT Fund). The PRIT Fund was created by the same legislation and is the investment portfolio for the assets of the State Employees' and State Teachers' Retirement Systems, as well as local retirement systems that choose to invest in the PRIT Fund.

The PRIM Board is governed by a nine-member board of trustees. 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 PRIM Board seeks to maximize the return on investments within acceptable levels of risk for a public pension fund. Under current law (as amended by Section 45 of Chapter 68 of the Acts of 2011), by the year 2040, the PRIT Fund will have grown, through annual payments in accordance with a legislatively approved funding schedule and through total return of the PRIT Fund, to an amount sufficient to meet the then-existing pension obligations of the Commonwealth. The Commonwealth has adopted a schedule of state pension appropriations that assumes a long-term actuarial rate of return for the PRIT Fund of 7.75%.

The nine-member 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 is the legal custodian of the PRIT Fund and has fiduciary responsibility for the assets transferred to the PRIT Fund. The PRIM Board selects investment managers and advisors, reviews and evaluates performance, and performs various other activities in the daily management of the PRIT Fund. As of June 30, 2015 and 2014, the PRIT Fund had net assets totaling \$61,243,745 and \$60,676,774, respectively. Net assets increased \$566,971 in 2015 and increased \$7,447,149 in 2014. For a copy of the audited financial statements of the PRIT Fund, contact the PRIM Board.

### **(2) Summary of Significant Accounting Policies**

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

The PRIM Board's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as specified by the Governmental Accounting Standards Board's (GASB's) requirements for fiduciary activities.

**PENSION RESERVES INVESTMENT  
MANAGEMENT BOARD**

Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

**(b) Additions and Deductions**

In accordance with the PRIM Board's operating trust, 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, investment advisory, custodian and other professional fees, salaries, and expenses of the PRIM Board.

**(c) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires 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.

**(3) Receivable from PRIT**

The receivable from the PRIT Fund includes amounts due to the PRIM Board for reimbursement of management fees and other expenses incurred as a result of supervising the investments and management of the PRIT Fund. Certain investment management fees and other expenses are paid over a period longer than one year.

**(4) Investment Management, Investment Advisory, Custodian, and Other Fees**

**(a) Investment Management Fees**

Investment management fees are paid to managers pursuant to executed contracts.

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

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

Fees for private equity investments are typically a percentage of committed capital, with the fee percentage decreasing over time. In addition, the general partners (investment managers) of private equity investment limited partnerships are entitled to a performance fee based on the net gains on realized partnership investments.

**PENSION RESERVES INVESTMENT  
MANAGEMENT BOARD**

Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

Real estate and timberland investment management fees consist of a base fee and a performance fee. Base fees are calculated and paid monthly. Performance fees are paid every two years for real estate managers and every three years for timberland managers.

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

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

The majority of investment management fees for private equity investments and distressed debt investments are charged by the general partners to the investment partnerships and not to the limited partner investors directly. All investment management fees for hedge funds are charged to the respective investments. Most investment management base fees for investments in real estate properties and timberland are charged against the respective investments. In addition, certain investments are in commingled funds, which charge fees at the fund level. Therefore, these investments are reported net of “indirect” management fees.

**(b) *Investment Advisory Fees***

NEPC, LLC, Callan Associates, Arden Asset Management, LLC, Hamilton Lane, and The Townsend Group served as the PRIM Board’s principal investment advisors in FY2015. NEPC, LLC served as the asset allocation advisor, Callan Associates served as the public markets advisor, Arden Asset Management, LLC provided hedge fund advisory services, Hamilton Lane served as the private equity advisor, and The Townsend Group provided real estate and timberland advisory services. These investment advisors, among others, provided the PRIM Board with comprehensive investment advisory services, including recommendations on asset allocation, selection of investment managers, and the monitoring of performance of the PRIT Fund and its individual investment managers.

For the years ended June 30, 2015 and 2014, as compensation for their services, investment advisors earned fees aggregating \$4,161 and \$4,493, respectively.

**(c) *Custodian Fees***

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

In December 2013, BNY Mellon agreed to reimburse the PRIM Board \$15,450 in the form of a discount in custodian fees over a nine-year period to settle alleged foreign currency transaction overcharges from January 2000 to May 2011. In addition, BNY Mellon reimbursed the PRIM Board \$100 for legal fees incurred. For the years ended June 30, 2015 and 2014, custodian fees were \$674 and \$690, respectively.

**PENSION RESERVES INVESTMENT  
MANAGEMENT BOARD**

Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

**(d) Other Expenses**

For the years ended June 30, 2015 and 2014, other expenses of the PRIM Board, including employee compensation, professional fees, occupancy costs, and fixtures and depreciation, charged to the PRIT Fund totaled \$10,189 and \$9,417, respectively.

**(5) Operating Leases**

The PRIM Board leases office space at 84 State Street in Boston, Massachusetts from a PRIT Fund real estate subsidiary. In September 2014, the PRIM Board amended the office lease by entering into a new lease with the PRIT Fund real estate subsidiary. The lease expires in August 2021 and includes an expansion of the office space.

For the years ended June 30, 2015 and 2014, total expenses incurred under operating leases were \$611 and \$667, respectively, which are included in occupancy expenses on the statements of changes in fiduciary net position.

The PRIM Board's future minimum payments under the noncancelable operating lease for office space in effect at June 30, 2015 are approximately as follows:

Fiscal year:		
2016	\$	672
2017		689
2018		705
2019		722
2020		739
Thereafter		881
Total	\$	<u>4,408</u>

**PENSION RESERVES INVESTMENT  
MANAGEMENT BOARD**

Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

**(6) Custodial Credit Risk**

At June 30, 2015 and 2014, the PRIM Board held no investments (investments are held by the PRIT Fund). As a result, its custodial credit risk was limited to its deposits. Custodial credit risk is the risk that, in the event of bank failure, the PRIM Board's deposits and investments may not be returned to it. The PRIM Board manages its exposure to custodial credit risk by requiring all cash to be held with a major financial institution. The PRIM Board has not adopted a formal custodial credit risk policy.

Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk. As of June 30, 2015 and 2014, none of the PRIM Board's \$21 and \$41 cash balances, respectively, was uninsured or exposed to custodial credit risk.

**(7) Retirement Plan**

All full-time employees of the PRIM Board must participate in the Massachusetts State Retirement Plan. The percentage rate of contribution is determined by an employee's entry date into the State Employees' Retirement System (SERS). Employees of the PRIM Board become vested after ten years of creditable service. No pension costs are recorded by the PRIM Board. Required employee contributions to the SERS are borne solely by the Commonwealth. The employer share of retiree health insurance costs has historically been paid by the Commonwealth and, accordingly, no pension expense or obligation is allocated to the PRIM Board.



PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD

## Appendix E

### 2015 Proxy Voting Update

*PRIM Administration and Audit Committee*  
*Thursday, October 1, 2015*

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# 2015 Proxy Voting Update

*Presentation to PRIM Administration & Audit Committee  
October 1, 2015*

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



# **PRIM Custom Policy Enhancements**

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- PRIM implemented the following enhancements in 2015:

## **Board Diversity**

- Vote AGAINST /WITHHOLD from all board nominees if less than 25 percent of board is diverse in terms of both gender and race.

## **Equal Employment Opportunity**

- Vote FOR shareholder proposals requesting nondiscrimination in salary, wages and all benefits.
- Vote FOR shareholder proposals calling for action on equal employment opportunity and antidiscrimination.

## **Labor and Human Rights Standards**

- Vote FOR shareholder proposals to implement human rights standards and workplace codes of conduct.

## **Linking Executive Compensation to Non-Financial Factors**

- Vote FOR shareholder proposals calling for linkage of executive pay to non-financial factors including performance against social and environmental goals, customer/employee satisfaction, corporate downsizing, community involvement, human rights, or predatory lending.
- Vote FOR shareholder proposals seeking reports on linking executive pay to non-financial factors.

# **PRIM Custom Policy Enhancements (continued)**

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- PRIM implemented the following enhancements in 2015:

## **Human Rights Risk Assessment**

- Vote FOR proposals requesting that a company conduct an assessment of the human rights risks in its operations or in its supply chain, or report on its human rights risk assessment process.

## **Recycling**

- Vote FOR shareholder proposals requesting the preparation of a report on the company's recycling efforts.
- Vote FOR shareholder proposals that ask companies to increase their recycling efforts or to adopt a formal recycling policy.

## **Renewable Energy**

- Vote FOR shareholder proposals seeking: 1) reporting on activities related to development of renewable energy sources and 2) increased investment in renewable energy sources unless the terms of the resolution are overly restrictive.

## **Energy Efficiency**

- Vote FOR shareholder proposals requesting a report on company energy efficiency policies and/or goals.

## **Tobacco Advertising**

- Vote FOR shareholder proposals seeking a report on a tobacco company's advertising approach.

# ***Impact of Changes to 2015 (May - June) Proxy Votes***

---

	2015 Custom Policy (Actual Votes)	Based on Previous 2014 Custom Policy (Hypothetical)	Difference
<b>Board Diversity</b>			
For	32.6%	85.1%	52.5%
Against/Withhold	67.4%	14.9%	
Total Votes	10,512	10,512	
<b>Labor and Human Rights Standards</b>			
For	80.0%	20.0%	60.0%
Against/Withhold	20.0%	80.0%	
Total Votes	5	5	
<b>Linking Executive Compensation to Non-Financial Factors</b>			
For	100%	-	100.0%
Against/Withhold	-	100%	
Total Votes	4	4	
<b>Human Rights Risk Assessment</b>			
For	100%	50.0%	50.0%
Against/Withhold	-	50.0%	
Total Votes	4	4	
<b>Recycling</b>			
For	100%	100%	0.0%
Against/Withhold	-	-	
Total Votes	4	4	
<b>Renewable Energy</b>			
For	100%	100%	0.0%
Against/Withhold	-	-	
Total Votes	2	2	

# ***ISS Contract Extension***

---

- Given ISS' knowledge of PRIM's Custom Policy evolution, it has proven to be very beneficial to have continuity in the Proxy Voting Advisory Services provider especially given all the proxy voting changes PRIM initiated in 2015.
  
- PRIM Staff is proposing extending ISS Proxy Voting Advisory Services contract for one additional year - through December 31, 2016.

# **Next Steps**

---

PRIM Staff recommended timeline for updating 2016 Custom Policy to better align enhancements with Proxy Voting Season.

## Timeline:

- December – ISS Releases Updated 2016 Benchmark Voting Policies
- January – Administration and Audit Committee may recommend enhancements to PRIM's Custom 2016 Policy
- February – ISS Global Policy Updates will take effect for meetings that occur on or after February 1, 2016
- February – PRIM Board approves proxy voting policy



PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD

## Appendix F

### PRIM Technology Update

*PRIM Administration and Audit Committee*  
*Thursday, October 1, 2015*

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PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD

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# *Information Technology Overview*

*October 1, 2015*

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

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



# *Agenda*

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- Board education opportunity – Technology
- General overview of technology at PRIM
  - Technology mission and governance
  - How decisions are made
  - Technology service model
  - Technology support highlights



# Mission

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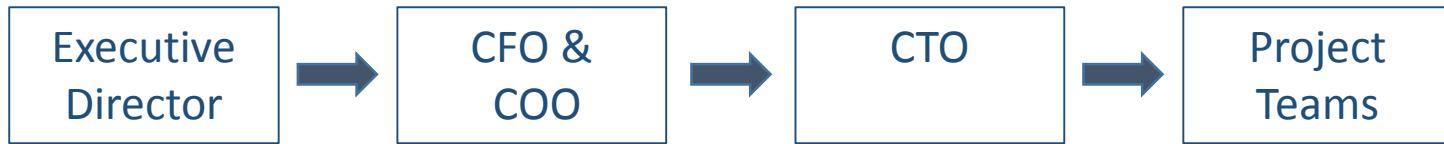
- Share information and provide governance oversight of technology
- Prioritize technologies to support strategic goals
- Advocate the use of technology to:
  - Improve efficiency
  - Reduce cost
  - Optimize operations
  - Improve process



# *Organization*

---

- IT governance works within the PRIM Board's leadership framework



- Owner or sponsor of a particular project presents a business case
- Resources are then reviewed
  - IT budget
  - Staff bandwidth
- Management then decides how to proceed



# *IT Decision Making Process*

---

- Focus on key areas of the business
  - Enterprise information technology
  - Accounting and operations
  - Investment tools
- IT controls for current and future systems
  - Process and procedures
  - Security
- Allocating the proper resources
  - Vendors
  - Hardware and software
  - Staff



# *IT Service Model*

---

- PRIM utilizes a hybrid support structure
  - Internal staff handle most immediate needs
  - Issues escalated to outside consultants where appropriate
  - Strategy and budget are a collaborative effort
- Why is this model ideal for PRIM?
  - IT consulting services
    - Layers of support with a deep bench
    - Specific areas of expertise
  - Internal IT staff
    - Less expensive
    - Improved customer service
    - Increased capacity
    - Industry knowledge (financial services)
    - Manage vendor relationships



# *Vendor Relationships*

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- Many technology products require expertise



# ***PRIM IT Support Responsibilities***

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- Desktop/End User Support and Maintenance
- Network Management
  - Perform analysis on PRIM's network
    - Intrusion protection
    - Bandwidth analysis
    - VLAN configuration
- Data Management
  - Secure, backup and replicate data
  - Manage data feeds and transmissions
    - Bloomberg, Open Checkbook, Custodian, IRS, etc.
- Systems/Business Analysis and Design
  - PRIM fee systems
  - Work flow automation



# ***Summary of Main Points***

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- PRIM has a working technology mission and governance structure that takes into account all areas of the business.
- Information technology is managed in a collaborative way that is proactive not reactive.
- Information technology support is handled using a layered approach to ensure coverage is complete and timely.



# *Future Topics*

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- PRIM Architecture and Systems Overview
- Information Technology Security
- Quarterly Updates





PENSION RESERVES  
**INVESTMENT**  
MANAGEMENT BOARD

## Appendix G

### 2016 Proposed PRIM Board and Committee Schedule

*PRIM Administration and Audit Committee*  
*Thursday, October 1, 2015*

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## **Committee and Board Meeting Potential Dates.**

### **January 2016.**

Tuesday, January 19, 2016 - Investment Committee.  
Wednesday, January 20, 2016 – Real Estate and Timberland Committee.  
Thursday, January 21, 2016 – Admin and Audit Committee.

### **February 2016**

Tuesday, February 2, 2016 – Board Meeting.

### **March 2016**

Tuesday, March 22, 2016 – Investment Committee.  
Wednesday, March 23, 2016 – Real Estate and Timberland Committee.  
Thursday, March 24, 2016 – Admin & Audit Committee.

### **April 2016**

Tuesday, April 5, 2016 – Board Meeting.

### **May 2016**

Tuesday, May 24, 2016 – Investment Committee.  
Wednesday, May 25, 2016 – Real Estate and Timberland Committee.  
Thursday, May 26, 2016 – Admin and Audit Committee.

### **June 2016**

Tuesday, June 7, 2016 – Board Meeting.

### **July 2016**

Tuesday, July 26, 2016 – Investment Committee.  
Wednesday, July 27, 2016 – Real Estate and Timberland Committee.  
Thursday, July 28, 2016 – Admin and Audit Committee.

### **August 2016**

Tuesday, August 9, 2016 – Board Meeting.

### **September 2016**

Tuesday, September 20, 2016 – Investment Committee.  
Wednesday, September 21, 2016 – Real Estate and Timberland Committee.  
Thursday, September 22, 2016 – Admin & Audit Committee.

### **October 2016**

Tuesday, October 4, 2016 – Board Meeting.

### **November 2016**

Tuesday, November 15, 2016 – Investment Committee.  
Wednesday, November 16, 2016 – Real Estate and Timberland Committee.  
Thursday, November 17, 2016 – Admin and Audit Committee.

### **December 2016**

Tuesday, December 6, 2016 – Board Meeting.

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PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD

## Appendix H

August 2015 PRIM Operating Budget

*PRIM Administration and Audit Committee*  
*Thursday, October 1, 2015*

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PENSION RESERVES INVESTMENT MANAGEMENT BOARD

Budget as of August 31, 2015

<u>FY 2016</u>	<u>Investment Management Fees</u>	<u>YTD Actual</u>	<u>YTD Budget</u>	<u>Variance Under (Over)</u>	<u>%</u>
15,048,014	Domestic Equity	2,386,907	2,507,994	121,087	5%
16,912,003	International Equity	2,755,345	2,818,661	63,316	2%
19,402,865	Emerging Markets Equity	2,686,746	3,233,804	547,058	17%
4,758,798	Core Fixed Income	751,027	793,127	42,100	5%
10,743,249	Value Added Fixed Income	1,668,038	1,790,536	122,498	7%
4,905,660	Real Estate - REIT's	719,851	817,610	97,759	12%
0	Real Estate - Core Strategy	(1,603,405)	-	1,603,405	0%
3,050,037	Timber/Natural Resources	(1,700,417)	358,303	2,058,720	575%
2,424,000	Private Equity	152,812	530,144	377,332	71%
50,000	Hedge Funds	8,156	8,334	178	2%
416,553	Overlay/Foreign Currency	173,735	69,428	(104,307)	-150%
<b>77,711,179</b>	<b>Subtotal</b>	<b>7,998,795</b>	<b>12,927,941</b>	<b>4,929,146</b>	<b>38%</b>

PRIM Operations:

<u>Custody &amp; Outside Advisors</u>					
790,000	Custodian	121,161	131,666	10,505	8%
786,375	Consultant - General	102,089	131,057	28,968	22%
1,500,000	Consultant - Private Equity	270,203	250,000	(20,203)	-8%
585,000	Consultant - Real Estate	61,667	97,498	35,831	37%
3,617,784	Consultant - Hedge Funds	350,076	602,964	252,888	42%
444,000	Audit & Tax	57,333	73,998	16,665	23%
375,000	Legal	-	62,510	62,510	100%
259,184	Governance	33,942	43,196	9,254	21%
1,231,226	Risk Management	169,363	205,202	35,839	17%
<b>9,588,569</b>	<b>Subtotal</b>	<b>1,165,834</b>	<b>1,598,091</b>	<b>432,257</b>	<b>27%</b>
<u>Operations:</u>					
6,822,823	Salaries	901,316	1,137,134	235,818	21%
855,464	Occupany	116,016	142,573	26,557	19%
303,336	Insurance	30,582	50,552	19,970	40%
167,500	Employee Benefits	17,401	27,914	10,513	38%
246,072	General Office Expenses	45,374	41,003	(4,371)	-11%
866,980	Computer & MIS	116,398	144,494	28,096	19%
215,000	Due Diligence Travel	7,643	35,832	28,189	79%
100,000	Professional Development	9,319	16,666	7,347	44%
86,787	Client Service	870	12,463	11,593	93%
80,000	Dues & Subscriptions	13,764	13,332	(432)	-3%
65,000	Temporary Labor	7,184	10,832	3,648	34%
<b>9,808,962</b>	<b>Subtotal</b>	<b>1,265,867</b>	<b>1,632,795</b>	<b>366,928</b>	<b>22%</b>
<b>19,397,531</b>	<b>Total Operations &amp; Advisors</b>	<b>2,431,701</b>	<b>3,230,886</b>	<b>799,185</b>	<b>25%</b>
<b>97,108,710</b>	<b>Total PRIM Direct Operating Budget</b>	<b>10,430,496</b>	<b>16,158,827</b>	<b>5,728,331</b>	<b>35%</b>
<u>Indirect Fees</u>					
24,445,573	Real Estate	-	-	-	0%
3,699,268	Timber	-	-	-	0%
108,873,088	Private Equity	-	-	-	0%
23,700,811	Distressed Debt	-	-	-	0%
79,835,832	Hedge Funds	-	-	-	0%
10,000	Portable Alpha Wind Down	-	-	-	0%
7,758,000	Commingled Funds	1,257,306	1,292,998	35,692	3%
2787377	Portfolio Completion Strategies	-	-	-	0%
<b>251,109,949</b>	<b>Total PRIM Indirect Budget</b>	<b>1,257,306</b>	<b>1,292,998</b>	<b>35,692</b>	<b>3%</b>
<b>348,218,659</b>	<b>Total PRIM Direct &amp; Indirect Fees</b>	<b>11,687,802</b>	<b>17,451,825</b>	<b>5,764,023</b>	<b>33%</b>

**PRIM Board**  
**Budget Detail**  
**For Month Ending**  
**August 31, 2015**

**Domestic Equity**

FY 2016 Budget	Manager	Year to Date Actual	Year to Date Budget	Variance Under (Over)
<b><u>Base Fees</u></b>				
2,497,689	PIMCO (Enhanced Index)	402,657	416,280	13,623
1,805,700	INTECH (Enhanced Index)	283,598	300,950	17,352
725,687	INTECH(Performance Fee)	114,866	120,947	6,081
689,567	SSgA (S&P 500 Index)	108,098	114,927	6,829
141,520	SSgA (Russell 2500 Index)	23,093	23,586	493
1,651,253	Frontier Capital	263,980	275,208	11,228
3,374,767	Huber Capital	501,149	562,460	61,311
1,201,614	Riverbridge Partners	201,898	200,268	(1,630)
1,091,995	SouthernSun Asset	172,194	181,998	9,804
1,868,222	Summit Creek Advisors	315,374	311,370	(4,004)
<b><u>15,048,014</u></b>	<b>Total Base Fees</b>	<b>2,386,907</b>	<b>2,507,994</b>	<b>121,087</b>
<b><u>15,048,014</u></b>	<b>Total Domestic Equity</b>	<b>2,386,907</b>	<b>2,507,994</b>	<b>121,087</b>

**PRIM Board**  
**Budget Detail**  
**For Month Ending**  
**August 31, 2015**

**International Equity**

FY 2016 Budget	Manager	Year to Date Actual	Year to Date Budget	Variance Under (Over)
<b>Base Fees</b>				
436,197	SSgA (World Ex-US Index)	74,054	72,698	(1,356)
7,807,126	Marathon	1,308,131	1,301,186	(6,945)
5,033,646	Baillie Gifford	799,076	838,940	39,864
2,938,159	Mondrian Investment	459,351	489,692	30,341
696,875	FIS Group	114,733	116,145	1,412
<b>16,912,003</b>	<b>Total Base Fees</b>	<b>2,755,345</b>	<b>2,818,661</b>	<b>63,316</b>
<b>16,912,003</b>	<b>Total International Equity</b>	<b>2,755,345</b>	<b>2,818,661</b>	<b>63,316</b>

**PRIM Board**  
**Budget Detail**  
**For Month Ending**  
**August 31, 2015**

**Emerging Markets Equity**

FY 2016 Budget	Manager	Year to Date Actual	Year to Date Budget	Variance Under (Over)
<b><u>Base Fees</u></b>				
0	Ashmore/EMM	0	0	0
0	GMO	0	0	0
0	T. Rowe Price	0	0	0
1,626,153	Acadian Asset	221,953	271,024	49,071
1,141,490	Wasatch	163,505	190,248	26,743
340,786	SSgA (EM Index)	52,005	56,796	4,791
372,881	AQR-Performance Fee	0	62,148	62,148
4,090,012	Baillie Gifford (Emerging)	555,046	681,668	126,622
760,729	City Of London	114,348	126,788	12,440
3,070,170	Driehaus Capital	438,684	511,694	73,010
3,050,632	Harding Loevner	458,837	508,438	49,601
3,466,482	Pzena Investment	541,495	577,746	36,251
1,483,530	Frontier	140,873	247,254	106,381
<hr/>				
<b>19,402,865</b>	<b>Total Base Fees</b>	<b>2,686,746</b>	<b>3,233,804</b>	<b>547,058</b>
<hr/>				
<b><u>Performance Fees</u></b>				
0	EMM	0	0	0
0	GMO	0	0	0
<hr/>				
<b>0</b>	<b>Total Performance Fees</b>	<b>0</b>	<b>0</b>	<b>0</b>
<hr/>				
<b>19,402,865</b>	<b>Total Emerging Markets</b>	<b>2,686,746</b>	<b>3,233,804</b>	<b>547,058</b>
<hr/>				

\* Separate account management fees are offset by credits related to investments in the Taiwan commingled I (Refer to "Indirect Fees").

**PRIM Board**  
**Budget Detail**  
**For Month Ending**  
**August 31, 2015**

**Core Fixed Income Value Added Fixed Income**

FY 2016 Budget	Manager	Year to Date Actual	Year to Date Budget	Variance Under (Over)
<b><u>Core Fixed Income</u></b>				
<b>Base Fees</b>				
66,042	Blackrock (BA Index)	17,329	11,006	(6,323)
117,552	Blackrock (TIPS)	10,906	19,592	8,686
536,453	Blackrock (STRIPS)	68,005	89,408	21,403
112,782	Community Capital	18,518	18,796	278
1,571,543	Loomis Sayles	255,593	261,923	6,330
1,543,649	Blackrock (ILB)	248,333	257,274	8,941
726,558	PIMCO	132,343	121,092	(11,251)
<u>4,674,579</u>	Total Base Fees	<u>751,027</u>	<u>779,091</u>	<u>28,064</u>
<b>Performance Fees</b>				
<u>84,219</u>	PIMCO	<u>0</u>	<u>14,036</u>	<u>14,036</u>
<b><u>4,758,798</u></b>	<b>Total Core Fixed Income</b>	<b><u>751,027</u></b>	<b><u>793,127</u></b>	<b><u>42,100</u></b>
<b><u>Value Added Fixed Income</u></b>				
<b>High Yield</b>				
1,113,254	Pyramis Global	181,899	185,542	3,643
1,575,505	Loomis Sayles	252,511	262,584	10,073
<u>1,176,380</u>	Shenkman	<u>190,998</u>	<u>196,062</u>	<u>5,064</u>
<u>3,865,139</u>	Sub Total High Yield	<u>625,408</u>	<u>644,188</u>	<u>18,780</u>
<b><u>Emerging Market Debt</u></b>				
1,097,723	PIMCO	177,187	182,953	5,766
1,821,178	Investec	272,189	303,528	31,339
2,185,346	Pictet	330,795	364,224	33,429
<u>1,773,863</u>	Stone Harbor	<u>262,459</u>	<u>295,643</u>	<u>33,184</u>
<u>6,878,110</u>	Sub Total Emerging Market Debt	<u>1,042,630</u>	<u>1,146,348</u>	<u>103,718</u>
<b><u>10,743,249</u></b>	<b>Total Value Added Fixed Income</b>	<b><u>1,668,038</u></b>	<b><u>1,790,536</u></b>	<b><u>122,498</u></b>

**PRIM Board**  
**Budget Detail**  
**For Month Ending**  
**August 31, 2015**

**Real Estate, Timber and Natural Resources (PRIM Paid)**

FY 2016 Budget	Manager	Year to Date Actual	Year to Date Budget	Variance Under (Over)
<b>REIT Fees</b>				
1,379,881	Invesco	199,399	229,980	30,581
2,757,882	CenterSquare	411,463	459,648	48,185
767,897	INVESCO (transition)	108,989	127,982	18,993
<b>4,905,660</b>	<b>Total REIT Fees</b>	<b>719,851</b>	<b>817,610</b>	<b>97,759</b>
<b>Real Estate Incentive Fees*</b>				
0	Invesco	0	0	0
0	JP Morgan	0	0	0
0	LaSalle	0	0	0
0	TA Realty	0	0	0
0	AEW	(1,603,405)	0	1,603,405
<b>0</b>	<b>Total Core</b>	<b>(1,603,405)</b>	<b>0</b>	<b>1,603,405</b>
<b>4,905,660</b>	<b>Total Real Estate Fee</b>	<b>(883,554)</b>	<b>817,610</b>	<b>1,701,164</b>
<b>Timber Base Fees</b>				
900,205	Campbell International	0	0	0
<b>900,205</b>	<b>Total International Timber Base</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Timber Incentive Fees*</b>				
0	Campbell Domestic	(1,190,679)	0	1,190,679
0	Campbell International	(809,644)	0	809,644
0	Forest Investment Associates	0	0	0
<b>0</b>	<b>Total Timber Incentive</b>	<b>(2,000,323)</b>	<b>0</b>	<b>2,000,323</b>
<b>Natural Resources Fees</b>				
900,957	Jennison Associates	123,492	150,158	26,666
1,248,875	T. Rowe Price	176,414	208,145	31,731
<b>2,149,832</b>	<b>Total Natural Resources Fees</b>	<b>299,906</b>	<b>358,303</b>	<b>58,397</b>
<b>3,050,037</b>	<b>Total Timber/Natural Resources Fees</b>	<b>(1,700,417)</b>	<b>358,303</b>	<b>2,058,720</b>

\* for these asset classes, PRIM incurs both direct and indirect fees.

Refer to "Indirect Fees" for further details.

**PRIM Board**  
**Budget Detail**  
**For Month Ending**  
**August 31, 2015**

**Private Equity**

FY 2016 Budget	Manager	Year to Date Actual	Year to Date Budget	Variance Under (Over)
<b><u>Private Equity</u></b>				
2,400,000	Domestic Special Equity	152,812	525,000	372,188
24,000	International Special Equity	0	5,144	5,144
<b><u>2,424,000</u></b>	<b>Total Private Equity *</b>	<b><u>152,812</u></b>	<b><u>530,144</u></b>	<b><u>377,332</u></b>

\* For this asset class, PRIM incurs both direct and indirect fees.  
Refer to "Indirect Fees" for further details.

**PRIM Board  
Budget Detail  
For Month Ending  
August 31, 2015**

**Hedge Funds**

<b>FY 2016 Budget</b>	<b>Manager</b>	<b>Year to Date</b>	<b>Year to Date</b>	<b>Variance</b>
		<b>Actual</b>	<b>Budget</b>	<b>Under (Over)</b>
<b><u>Hedge Funds</u></b>				
50,000	Direct Hedge Fund	8,156	8,334	178
<b><u>50,000</u></b>	<b>Total Hedge Funds</b>	<b><u>8,156</u></b>	<b><u>8,334</u></b>	<b><u>178</u></b>

**PRIM Board**  
**Budget Detail**  
**For Month Ending**  
**August 31, 2015**

**Overlay/Foreign Currency**

FY 2016 Budget	Manager	Year to Date Actual	Year to Date Budget	Variance Under (Over)
<u><b>Overlay/Foreign Currency</b></u>				
74,138	Clifton Group-Domestic Equity	16,532	12,358	(4,174)
133,449	Clifton Group-Int'l Equity	30,815	22,242	(8,573)
88,966	Cilfton Group-Fixed Income	19,520	14,828	(4,692)
120,000	Currency Trading	106,868	20,000	(86,868)
<b>416,553</b>	<b>Total Overlay/Foreign Currency</b>	<b>173,735</b>	<b>69,428</b>	<b>(104,307)</b>

**PRIM Board**  
**Budget Detail**  
**For Month Ending**  
**August 31, 2015**

**Custody and Consultants**

			Year to Date Actual	Year to Date Budget	Variance Under (Over)
	<b>FY 2016 Budget</b>				
<b>Custody</b>					
	650,000	BNY Mellon	121,161	108,332	(12,829)
	80,000	OTC Valuation	0	13,334	
	10,000	Other/Contingency	0	1,666	
	50,000	GASB Reporting	0	8,334	
	<b>790,000</b>	<b>Total Custody</b>	<b>121,161</b>	<b>131,666</b>	<b>10,505</b>
<b>General Consultant</b>					
	317,375	General - Callan	33,333	52,895	19,562
	202,500	Asset Allocation - NEPC	44,277	33,750	(10,527)
	52,000	Legislative Restriction - ISS	8,279	8,666	387
	40,000	Curr. Reporting-FX Transparency	0	6,666	6,666
	35,000	Benchmarking - CEM	0	5,832	5,832
	94,500	Communication - O'Neill & Asso	15,750	15,750	0
	25,000	Compensation-McLagan	450	4,166	3,716
	20,000	Other/Contingency	0	3,332	3,332
	<b>786,375</b>	<b>Total General Consultant</b>	<b>102,089</b>	<b>131,057</b>	<b>28,968</b>
<b>Private Equity - Consultant</b>					
	1,500,000	Hamilton Lane	266,667	250,000	(16,667)
	0	Administration Services	3,536	0	(3,536)
	<b>1,500,000</b>	<b>Total Private Equity Consultant</b>	<b>270,203</b>	<b>250,000</b>	<b>(20,203)</b>
<b>Real Estate Consultant</b>					
	370,000	Townsend	61,667	61,666	(1)
	165,000	Leverage Reporting - KPMG	0	27,500	27,500
	50,000	Other/Contingency	0	8,332	8,332
	<b>585,000</b>	<b>Total Real Estate Consultant</b>	<b>61,667</b>	<b>97,498</b>	<b>35,831</b>
<b>Hedge Fund Consultant</b>					
	750,000	Direct HF - Cliffwater	125,000	125,000	0
	2,867,784	Managed Acct Platform Provider	225,076	477,964	252,888
	0	Other/Contingency	0	0	0
	<b>3,617,784</b>	<b>Total Hedge Fund Consultant</b>	<b>350,076</b>	<b>602,964</b>	<b>252,888</b>

**PRIM Board**  
**Budget Detail**  
**August 31, 2015**

**Audit Tax, Legal, Governance, and Risk Management**

<b>FY 2016 Budget</b>		<b>Year to Date</b>	<b>Year to Date</b>	<b>Variance</b>
		<b>Actual</b>	<b>Budget</b>	<b>Under (Over)</b>
<b>Audit &amp; Tax</b>				
260,000	Financial Statement Audit	43,333	43,332	(1)
84,000	Agreed-Upon Procedures	14,000	14,000	0
25,000	Accounting - Other	0	4,166	4,166
75,000	Tax Services	0	12,500	12,500
<b>444,000</b>	<b>Total Audit &amp; Tax</b>	<b>57,333</b>	<b>73,998</b>	<b>16,665</b>
<b>Legal</b>				
<b>375,000</b>	<b>Total Legal</b>	-	<b>62,510</b>	<b>62,510</b>
<b>375,000</b>	<b>Total Legal</b>	<b>0</b>	<b>62,510</b>	<b>62,510</b>
<b>Governance</b>				
177,684	Proxy Voting Services - ISS	28,892	29,614	722
31,500	Council of Inst. Investors	5,000	5,250	250
20,000	Board Education	50	3,332	3,282
30,000	Other	0	5,000	5,000
<b>259,184</b>	<b>Total Governance</b>	<b>33,942</b>	<b>43,196</b>	<b>9,254</b>
<b>Risk Management</b>				
630,438	Risk Management - MSCI Barra	127,166	105,072	(22,094)
600,788	Investment Tools and Analytics	42,197	100,130	57,933
<b>1,231,226</b>	<b>Total Risk Management</b>	<b>169,363</b>	<b>205,202</b>	<b>35,839</b>

**PRIM Board  
Budget Detail  
For Month Ending  
August 31, 2015**

**Salaries, Occupancy, Insurance Benefits**

FY 2016 Budget		Year to Date Actual	Year to Date Budget	Variance Under (Over)
<b>Salaries</b>				
5,173,126	Staff Salaries	664,774	862,186	197,412
1,493,697	Incentive Plan	248,950	248,948	(2)
84,000	Vacation & Sick Accruals	(12,746)	14,000	26,746
72,000	Staff Recruitment	338	12,000	11,662
<b><u>6,822,823</u></b>	<b>Total Salaries</b>	<b><u>901,316</u></b>	<b><u>1,137,134</u></b>	<b><u>235,818</u></b>
<b>Occupancy</b>				
671,419	Lease	106,260	111,902	5,642
37,657	Lease - CAM	0	6,276	6,276
30,000	Occupancy-Equipment	0	5,000	5,000
60,069	Utilities	3,521	10,010	6,489
46,319	Parking	6,235	7,719	1,484
10,000	Other	0	1,666	1,666
<b><u>855,464</u></b>	<b>Total Occupancy</b>	<b><u>116,016</u></b>	<b><u>142,573</u></b>	<b><u>26,557</u></b>
<b>Insurance</b>				
271,314	Fiduciary	25,699	45,218	19,519
26,672	Business Insurance Policies	4,095	4,444	349
5,350	Workers Compensation	788	890	102
<b><u>303,336</u></b>	<b>Total Insurance</b>	<b><u>30,582</u></b>	<b><u>50,552</u></b>	<b><u>19,970</u></b>
<b>Employee Benefits</b>				
6,679	Dental/Vision	952	1,112	160
43,821	Disability	6,684	7,302	618
105,000	Medicare Tax	9,765	17,500	7,735
12,000	Unemployment Contingency	0	2,000	2,000
<b><u>167,500</u></b>	<b>Total Benefits</b>	<b><u>17,401</u></b>	<b><u>27,914</u></b>	<b><u>10,513</u></b>

**PRIM Board**  
**Budget Detail**  
**For Month Ending**  
**August 31, 2015**

**Office Expenses**

<b>FY 2016 Budget</b>		<b>Year to Date</b>	<b>Year to Date</b>	<b>Variance</b>
		<b>Actual</b>	<b>Budget</b>	<b>Under (Over)</b>
28,000	Postage and Courier	988	4,666	3,678
10,872	Payroll / Timesheets	1,592	1,812	220
22,500	Meeting Expenses	1,370	3,750	2,380
14,000	Records Storage	1,962	2,332	370
50,000	Office Supplies	2,828	8,332	5,504
40,000	Office Infrastructure	0	6,666	6,666
24,700	Other Expenses	2,558	4,112	1,554
11,000	Stenographer	1,181	1,833	652
45,000	Printing	737	7,500	6,763
0	Capitalized Assets-Office Equi	32,158	0	(32,158)
0	Capitalized Assets-Leasehold &	0	0	0
<b>246,072</b>	<b>Total Office Expense</b>	<b>45,374</b>	<b>41,003</b>	<b>(4,371)</b>

**PRIM Board**  
**Budget Detail**  
**For Month Ending**  
**August 31, 2015**

**Computer and MIS Expenses**

<b>FY 2016 Budget</b>		<b>Year to Date</b>	<b>Year to Date</b>	<b>Variance</b>
		<b>Actual</b>	<b>Budget</b>	<b>Under (Over)</b>
166,580	Computer Hardware & Software	16,803	27,762	10,959
612,400	Computer Support	92,603	102,066	9,463
88,000	Internet & Network Services	3,167	14,666	11,499
0	Capitalized Assets-Computer Eq	3,825	0	(3,825)
0	Capitalized Assets-Software De	0	0	0
<b>866,980</b>	<b>Total Computer &amp; MIS</b>	<b>116,398</b>	<b>144,494</b>	<b>28,096</b>

**PRIM Board  
Budget Detail  
For Month Ending  
August 31, 2015**

**Travel, Development, Client Services, Dues, and Temporary Labor**

<b>FY 2016 Budget</b>		<b>Year to Date</b>	<b>Year to Date</b>	<b>Variance</b>
		<b>Actual</b>	<b>Budget</b>	<b>Under (Over)</b>
<b>Due Diligence Travel</b>				
215,000	Due Diligence	7,643	35,832	28,189
<b>215,000</b>	<b>Total Due Diligence Travel</b>	<b>7,643</b>	<b>35,832</b>	<b>28,189</b>
<b>Professional Development</b>				
100,000	Professional Development	9,319	16,666	7,347
<b>100,000</b>	<b>Total Professional Development</b>	<b>9,319</b>	<b>16,666</b>	<b>7,347</b>
<b>Client Services</b>				
55,000	Meetings & Conferences	0	9,166	9,166
14,375	Auto Mileage	0	2,395	2,395
12,000	Other - Printing, Binding	0	0	0
5,412	Parking	870	902	32
<b>86,787</b>	<b>Total Client Services</b>	<b>870</b>	<b>12,463</b>	<b>11,593</b>
<b>Dues &amp; Subscriptions</b>				
80,000	Dues & Subscriptions	13,764	13,332	(432)
<b>80,000</b>	<b>Total Dues &amp; Subscriptions</b>	<b>13,764</b>	<b>13,332</b>	<b>(432)</b>
<b>Temporary Labor</b>				
65,000	Temporary Labor	7,184	10,832	3,648
<b>65,000</b>	<b>Total Temporary Labor</b>	<b>7,184</b>	<b>10,832</b>	<b>3,648</b>

**PRIM Board**  
**Budget Detail**  
**For Month Ending**  
**August 31, 2015**

**Real Estate and Timber Indirect Fees**

FY 2016 Budget	Manager	Year to Date Actual	Year to Date Budget	Variance Under (Over)
<b><u>Real Estate Indirect Fees</u></b>				
2,781,714	Invesco	0	0	0
3,810,070	J. P. Morgan	0	0	0
4,620,236	LaSalle	0	0	0
5,057,013	TA Realty	0	0	0
3,336,431	AEW	0	0	0
<b>19,605,464</b>	<b>Total Core</b>	<b>0</b>	<b>0</b>	<b>0</b>
475,000	The Carlyle Group	0	0	0
743,000	DivcoWest Fund III	0	0	0
1,130,000	DivcoWest Fund IV	0	0	0
704,109	JP Morgan	0	0	0
580,000	AEW	0	0	0
203,000	Industrial Development	0	0	0
200,000	Add'l New Investment	0	0	0
260,000	DivcoWest Co-investment Fund I	0	0	0
<b>4,295,109</b>	<b>Total Non-Core</b>	<b>0</b>	<b>0</b>	<b>0</b>
270,000	Canyon Johnson	0	0	0
125,000	Intercontinental	0	0	0
150,000	New Boston Fund	0	0	0
<b>545,000</b>	<b>Total Economically Targeted Investments</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>24,445,573</b>	<b>Total Real Estate Indirect Fees</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b><u>Timber Indirect Fees</u></b>				
1,497,000	Campbell Group	0	0	0
2,202,268	Forest Investment Associates	0	0	0
<b>3,699,268</b>	<b>Total Timber Indirect Fees</b>	<b>0</b>	<b>0</b>	<b>0</b>

**PRIM Board**  
**Budget Detail**  
**For Month Ending**  
**August 31, 2015**

**Private Equity and Distressed Debit Indirect Fees**

<b>FY 2016 Budget</b>	<b>Manager</b>	<b>Year to Date</b>	<b>Year to Date</b>	<b>Variance</b>
		<b>Actual</b>	<b>Budget</b>	<b>Under (Over)</b>
<b><u>Private Equity Indirect Fees</u></b>				
28,879,061	Domestic Venture	0	0	0
52,922,646	Domestic Special Equity	0	0	0
2,410,809	International Venture	0	0	0
20,010,572	International Special Equity	0	0	0
4,650,000	Natural Resources	0	0	0
<b><u>108,873,088</u></b>	<b>Total Private Equity Indirect Fees</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b><u>Distressed Debt Indirect Fees</u></b>				
23,400,811	Distressed Debt	0	0	0
300,000	Potential New Commitments	0	0	0
<b><u>23,700,811</u></b>	<b>Total Distressed Debt Indirect Fees</b>	<b>0</b>	<b>0</b>	<b>0</b>

**PRIM Board**  
**Budget Detail**  
**For Month Ending**  
**August 31, 2015**

**Hedge Funds Direct and Indirect Fees**

FY 2016 Budget	Manager	Year to Date Actual	Year to Date Budget	Variance Under (Over)
<b><u>Hedge Fund of Funds Base Fees</u></b>				
10,281,332	PAAMCO	0	0	0
10,281,332	Total Indirect Base Fees	0	0	0
<b><u>Hedge Fund of Funds Performance Fees</u></b>				
0	Arden	0	0	0
0	Total Indirect Performance Fees	0	0	0
<b><u>Hedge Fund Replications-SSgA</u></b>				
0	HF Replication	0	0	0
0	Total Hedge Fund Replication	0	0	0
<b><u>Separately Managed Accounts</u></b>				
20,420,936	Separately Managed Accounts	0	0	0
20,420,936	Total Separately Managed Accounts	0	0	0
<b><u>Direct Hedge Fund Fees</u></b>				
49,133,564	Direct Hedge Funds	0	0	0
49,133,564	Total Direct Hedge Funds Indirect Fees	0	0	0
<b><u>79,835,832</u></b>	<b>Total All Hedge Funds Indirect Fees</b>	<b>0</b>	<b>0</b>	<b>0</b>

**PRIM Board**  
**Budget Detail**  
**For Month Ending**  
**August 31, 2015**

**Portable Alpha Wind Down Indirect Fees**

		Year to Date	Year to Date	Variance
FY 2016 Budget	Manager	Actual	Budget	Under (Over)

**Portable Alpha Wind Down Base Fees**

10,000	Crestline Liquidation	0	0	0
<hr/>		<hr/>	<hr/>	<hr/>
10,000	Total Portable Alpha - Base Fees	0	0	0
<hr/>		<hr/>	<hr/>	<hr/>

10,000	Total Portable Alpha Indirect Fees	0	0	0
<hr/>		<hr/>	<hr/>	<hr/>

**PRIM Board**  
**Budget Detail**  
**For Month Ending**  
**August 31, 2015**

**Commingled Funds Indirect Fees**

FY 2016 Budget	Manager	Year to Date Actual	Year to Date Budget	Variance Under (Over)
<b>Fixed Income Commingled</b>				
666,000	Access Capital Strategies LLC	106,294	111,000	4,706
195,000	AFL-CIO Housing Invest.Trust	31,220	32,500	1,280
<b>861,000</b>	<b>Total Fixed Income Commingled</b>	<b>137,514</b>	<b>143,500</b>	<b>5,986</b>
<b>Emerging Markets Equity*</b>				
0	GMO Taiwan Fund	0	0	0
0	EMM Sm Cap Indirect Commingled	0	0	0
0	EMM Africa Indirect Commingled	0	0	0
<b>0</b>	<b>Total Emerging Markets Equity</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Emerging Markets Debt Funds</b>				
3,208,000	Ashmore Emerging Markets	567,831	534,666	(33,165)
<b>3,208,000</b>	<b>Total High Yield Funds (Emerging Mkts)</b>	<b>567,831</b>	<b>534,666</b>	<b>(33,165)</b>
<b>Senior Bank Loans</b>				
2,034,000	Eaton Vance Senior Loan Trust	281,107	339,000	57,893
1,655,000	ING Senior Loan Invest. Trust	270,854	275,832	4,978
<b>3,689,000</b>	<b>Total Bank Loans</b>	<b>551,961</b>	<b>614,832</b>	<b>62,871</b>
<b>7,758,000</b>	<b>Total Commingled Funds</b>	<b>1,257,306</b>	<b>1,292,998</b>	<b>35,692</b>

\* These funds are used by managers to invest in countries where individual registration of PRIT's accounts for trading is uneconomical.

**PRIM Board**  
**Budget Detail**  
**For Month Ending**  
**August 31, 2015**

<u>FY 2016 Budget</u>	<u>Manager</u>	<u>Portfolio Completion Strategies</u>			<u>Year to Date Variance</u>
		<u>Year to Date</u>	<u>Actual</u>	<u>Date</u>	
<b><u>Portfolio Completion Strategies</u></b>					
2,787,377	Managed Acct Platform Provider		0	0	0
<b>2,787,377</b>	<b>Total Portfolio Completion Strategies</b>		<b>0</b>	<b>0</b>	<b>0</b>

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PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD

## Appendix I

### Travel and Staff Development

*PRIM Administration and Audit Committee*  
*Thursday, October 1, 2015*

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PRIM BOARD  
 Due Diligence Travel, Trustee and Staff Fiduciary Education, and Professional Development  
 FY 2016

<i>Dates</i>	<i>Name</i>	<i>Organization</i>	<i>Location</i>	<i>Purpose</i>	<i>Due Diligence Travel</i>	<i>Staff Development</i>
7/1/2015	Morgan Burns	CFA Level II	Boston, MA	Fiduciary Education	1,498.56	
	Total Morgan Burns				1,498.56	
7/13/15-7/14/15	John LaPosta	Institutional Investor Forum	New York City, NY	Fiduciary Education	1,270.06	
8/24/15-8/25/15	John LaPosta	Progress Investment Management	San Francisco, CA	Due Diligence	586.20	
	Total John LaPosta				586.20	1,270.06
7/15/15-7/16/15	Erin McCafferty	ICS New England Impact Capitalism Summit	Boston, MA	Fiduciary Education	2,019.96	
7/28/2015	Erin McCafferty	Ascent Venture	Boston MA	Due Diligence	78.88	
	Total Erin McCafferty				78.88	2,019.96
7/14/15-7/15/15	Eric Nierenberg	Delivering Alpha Conference	New York City, NY	Fiduciary Education	847.79	
7/14/15-7/15/15	Eric Nierenberg	Meeting with Arden	New York City, NY	Due Diligence	847.79	
	Total Eric Nierenberg				847.79	847.79
8/24/15-8/25/15	Sarah Samuels	Progress Investment Management and potential managers	San Francisco and Los Angeles	Due Diligence	525.00	
	Total Sarah Samuels				525.00	-
7/27/15-7/31/15	Tim Schlitzer	Property Tours and potential managers	London and Paris	Due Diligence	5,350.62	
	Total Tim Schlitzer				5,350.62	-
7/19/15-7/22/15	Robert Brousseau	Opal Conference	Newport, RI	Fiduciary Education	1,240.86	
	Total Robert Brousseau				-	1,240.86
7/19/15-7/22/15	Dennis Naughton	Opal Conference	Newport, RI	Fiduciary Education	1,067.76	
	Total Dennis Naughton				-	1,067.76
7/19/15-7/22/15	Paul Shanley	Opal Conference	Newport, RI	Fiduciary Education	1,373.54	
	Total Paul Shanley				-	1,373.54