

<b>PENSION RESERVES INVESTMENT MANAGEMENT BOARD</b>
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*Agenda – June 1, 2010*  
**9:30 AM**

**I. MINUTES**

- A. MINUTES OF APRIL 6, 2010

**II. FINANCIAL REPORT**

- A. PRIT FUND PERFORMANCE THROUGH APRIL 30, 2010
- B. PRIT FUND TUCS RANKINGS AS OF MARCH 31, 2010
- C. PRIM OPERATING BUDGET THROUGH MARCH 31, 2010
- D. PRIM OPERATING BUDGET THROUGH FEBRUARY 28, 2010

**III. EXECUTIVE DIRECTOR'S REPORT**

**IV. INVESTMENT COMMITTEE**

- A. ETI RFP RECOMMENDATION
- B. ETI QUARTERLY SUMMARY: 1Q10
- C. ENNIS KNUPP PRESENTATION ON ASSET ALLOCATION TRENDS
- D. PRIVATE EQUITY

**V. REAL ESTATE AND TIMBER COMMITTEE**

- A. REAL ESTATE PORTFOLIO UPDATE
- B. RREEF TERMINATION AND TRANSITION RECOMMENDATION
- C. TIMBER PORTFOLIO UPDATE

**VI. ADMINISTRATION & AUDIT**

- A. EXECUTIVE DIRECTOR SUCCESSION
- B. AUDIT STATUS UPDATES

**VII. OTHER BUSINESS**

**APPENDICES**

<b>PENSION RESERVES INVESTMENT MANAGEMENT BOARD</b>
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<b>I. Minutes</b>
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*Finance*

**A. Minutes of April 6, 2010**

## **II. Financial Report**

### *Memorandum*

<b>To:</b>	PRIM Board Members
<b>From:</b>	PRIM Staff
<b>Date:</b>	June 1, 2010
<b>Subject:</b>	Performance Summary

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#### **A. PRIT Fund Performance through April 30, 2010**

A graphical depiction of performance is contained at **Appendix B**.

The Mellon Performance Report is contained at **Appendix C**.

#### **B. PRIT Fund TUCS Rankings as of March 31, 2010**

For the quarter-ending March 31, 2010 the PRIT Fund ranked in the 38<sup>th</sup>, 53<sup>rd</sup>, 50<sup>th</sup>, 92<sup>nd</sup>, 41<sup>st</sup>, 10<sup>th</sup> and 32<sup>nd</sup> percentiles for the Quarter-to-Date, Fiscal-Year-to-Date, 1-year, 3-year, 5-year, 7-year and 10-year time periods, respectively. As a reminder to the Committee, the PRIT Fund's universe of comparison is Public Pension Funds with total assets over \$1BN. The complete TUCS ranking presentation is contained **Appendix D**.

## C. PRIM Operating Budget through March 31, 2010

<u>FY 2010</u>	<u>Investment Management Fees</u>	<u>YTD Actual</u>	<u>YTD Budget</u>	<u>Variance Under (Over)</u>	<u>Percent</u>
8,677,508	Domestic Equity	4,125,014	6,411,129	2,286,115	36%
17,713,119	International Equity	14,196,613	13,284,826	(911,787)	-7%
6,094,933	Emerging Markets Equity	4,865,007	4,483,605	(381,402)	-9%
4,822,314	Core Fixed Income	5,334,712	3,610,971	(1,723,741)	-48%
4,145,442	Value Added Fixed Income	2,678,521	3,109,079	430,558	14%
4,118,828	Real Estate - REIT's	3,812,778	3,089,122	(723,656)	-23%
0	Real Estate - Separate Accounts	-	-	-	0%
2,237,821	Timber/Natural Resources	158,523	1,678,366	1,519,843	91%
4,685,000	Private Equity	2,749,857	3,513,750	763,893	22%
<b>52,494,965</b>	<b>Subtotal</b>	<b>37,921,025</b>	<b>39,180,848</b>	<b>1,259,823</b>	<b>3%</b>
<u>PRIM operations:</u>					
<u>Custody &amp; Outside Advisors</u>					
2,725,000	Custodian	2,025,000	2,043,750	18,750	1%
674,314	Consultant - General	462,952	505,736	42,784	8%
1,600,000	Consultant - Private Equity	1,200,000	1,200,000	-	0%
436,450	Consultant - Real Estate	308,100	327,338	19,238	6%
273,000	Consultant - Hedge Funds	186,300	204,750	18,450	9%
359,500	Accounting & Tax	177,981	269,625	91,644	34%
300,000	Legal	81,833	225,000	143,167	64%
224,454	Governance	129,158	168,340	39,182	23%
<b>6,592,718</b>	<b>Subtotal</b>	<b>4,571,324</b>	<b>4,944,539</b>	<b>373,215</b>	<b>8%</b>
<u>Operations:</u>					
4,016,233	Salaries	2,889,415	2,992,540	103,125	3%
496,390	Occupancy	343,005	372,298	29,293	8%
265,482	Insurance	182,760	199,112	16,352	8%
97,797	Employee Benefits	54,599	73,348	18,749	26%
104,934	Office Expenses	60,762	78,701	17,939	23%
1,126,500	Computer & MIS Expenses	681,607	844,875	163,268	19%
150,000	Due Diligence Travel	54,703	112,500	57,797	51%
100,000	Professional Development	35,909	75,000	39,091	52%
56,814	Client Services	13,735	42,611	28,876	68%
30,000	Dues and Subscriptions	16,428	22,500	6,072	27%
20,000	Temporary Labor	-	15,000	15,000	100%
<b>6,464,150</b>	<b>Subtotal</b>	<b>4,332,923</b>	<b>4,828,485</b>	<b>495,562</b>	<b>10%</b>
<b>13,056,868</b>	<b>Total operations &amp; advisors</b>	<b>8,904,247</b>	<b>9,773,024</b>	<b>868,777</b>	<b>9%</b>
<b>65,551,833</b>	<b>Total PRIM Direct Operating Budget</b>	<b>46,825,272</b>	<b>48,953,872</b>	<b>2,128,600</b>	<b>4%</b>
<u>Indirect Fees Recorded by PRIM</u>					
14,987,794	Real Estate	11,270,909	11,240,844	(30,065)	0%
2,255,000	Timber	1,684,721	1,691,250	6,529	0%
95,095,300	Private Equity	63,907,665	71,321,475	7,413,810	10%
15,789,000	Distressed Debt	14,481,351	11,841,750	(2,639,601)	-22%
20,422,500	Hedge Funds	14,222,998	14,725,000	502,002	3%
21,497,500	Portable Alpha Wind Down	12,742,619	16,714,998	3,972,379	24%
8,035,000	Commingled Funds	5,252,044	6,026,245	774,201	13%
<b>243,633,927</b>	<b>Total PRIM Direct &amp; Indirect Fees</b>	<b>170,387,579</b>	<b>182,515,434</b>	<b>12,127,855</b>	<b>7%</b>

## D. PRIM Operating Budget through February 28, 2010

<u>FY 2010</u>	<u>Investment Management Fees</u>	<u>YTD Actual</u>	<u>YTD Budget</u>	<u>Variance Under (Over)</u>	<u>Percent</u>
8,677,508	Domestic Equity	3,665,642	5,655,668	1,990,026	35%
17,713,119	International Equity	12,802,558	11,808,732	(993,826)	-8%
6,094,933	Emerging Markets Equity	4,297,315	3,946,496	(350,819)	-9%
4,822,314	Core Fixed Income	4,681,992	3,209,752	(1,472,240)	-46%
4,145,442	Value Added Fixed Income	2,381,212	2,763,625	382,413	14%
4,118,828	Real Estate - REIT's	3,432,114	2,745,886	(686,228)	-25%
0	Real Estate - Separate Accounts	-	-	-	
2,237,821	Timber/Natural Resources	(122,788)	1,491,881	1,614,669	108%
4,685,000	Private Equity	2,831,834	3,279,500	447,666	14%
<b>52,494,965</b>	<b>Subtotal</b>	<b>33,969,879</b>	<b>34,901,540</b>	<b>931,661</b>	<b>3%</b>
<u>PRIM operations:</u>					
<u>Custody &amp; Outside Advisors</u>					
2,725,000	Custodian	1,800,000	1,816,667	16,667	1%
674,314	Consultant - General	411,314	449,542	38,228	9%
1,600,000	Consultant - Private Equity	1,066,667	1,066,667	-	0%
436,450	Consultant - Real Estate	273,650	290,967	17,317	6%
273,000	Consultant - Hedge Funds	165,600	182,000	16,400	9%
359,500	Accounting & Tax	160,034	239,667	79,633	33%
300,000	Legal	81,833	200,000	118,167	59%
224,454	Governance	116,734	149,636	32,902	22%
<b>6,592,718</b>	<b>Subtotal</b>	<b>4,075,832</b>	<b>4,395,146</b>	<b>319,314</b>	<b>7%</b>
<u>Operations:</u>					
4,016,233	Salaries	2,570,679	2,684,535	113,856	4%
496,390	Occupancy	301,663	330,932	29,269	9%
265,482	Insurance	162,242	176,988	14,746	8%
97,797	Employee Benefits	49,016	65,197	16,181	25%
104,934	Office Expenses	53,144	69,955	16,811	24%
1,126,500	Computer & MIS Expenses	567,383	751,000	183,617	24%
150,000	Due Diligence Travel	42,921	100,000	57,079	57%
100,000	Professional Development	28,745	66,667	37,922	57%
56,814	Client Services	13,033	37,876	24,843	66%
30,000	Dues and Subscriptions	14,642	20,000	5,358	27%
20,000	Temporary Labor	-	13,333	13,333	100%
<b>6,464,150</b>	<b>Subtotal</b>	<b>3,803,468</b>	<b>4,316,483</b>	<b>513,015</b>	<b>12%</b>
<b>13,056,868</b>	<b>Total operations &amp; advisors</b>	<b>7,879,300</b>	<b>8,711,629</b>	<b>832,329</b>	<b>10%</b>
<b>65,551,833</b>	<b>Total PRIM Direct Operating Budget</b>	<b>41,849,179</b>	<b>43,613,169</b>	<b>1,763,990</b>	<b>4%</b>
<u>Indirect Fees Recorded by PRIM</u>					
14,987,794	Real Estate	7,512,929	7,493,896	(19,033)	0%
2,255,000	Timber	1,123,293	1,127,500	4,207	0%
95,095,300	Private Equity	43,685,375	47,547,650	3,862,275	8%
15,789,000	Distressed Debt	9,201,210	7,894,500	(1,306,710)	-17%
20,422,500	Hedge Funds	8,424,877	9,027,500	602,623	7%
21,497,500	Portable Alpha Wind Down	12,034,490	11,932,498	(101,992)	-1%
8,035,000	Commingled Funds	4,428,385	5,356,660	928,275	17%
<b>243,633,927</b>	<b>Total PRIM Direct &amp; Indirect Fees</b>	<b>128,259,738</b>	<b>133,993,373</b>	<b>5,733,635</b>	<b>4%</b>

### III. Executive Director's Report

#### *Memorandum*

**To:** PRIM Board Members  
**From:** Michael Travaglini  
**Date:** June 1, 2010  
**Subject:** Executive Director's Report

The following summarizes notable events affecting PRIM since the last Board meeting.

#### **A. PRIT Fund Update**

The PRIT Fund started calendar year 2010 with \$42.6 billion. The PRIT Fund ended April with \$44.2 billion, an increase of \$1.6 billion. For the month of April the PRIT Fund returned 0.86%, outperforming the PRIT Fund's policy benchmark return of 0.49% by 37 basis points. For the Calendar Year 2010, and Fiscal Year to Date 2010, the PRIT Fund has returned 4.41% and 19.71% respectively, outperforming the Calendar Year 2010 policy benchmark return of 3.28% by 113 basis points, and outperforming the FY 2010 policy benchmark return of 17.20% by 251 basis points.

The Calendar Year to Date returns for the individual asset classes and their benchmarks are as follows:

	PRIM	Benchmark
Global Equity	5.04%	3.30%
Core Fixed Income	3.35%	2.80%
Value-Added Fixed Income	6.71%	10.84%
Private Equity	5.57%	5.57%
Real Estate	2.24%	-0.94%
Timber/Natural Resources	2.26%	-0.29%
Hedge Funds (net of fees)	2.90%	2.09%
Portable Alpha Wind Down (net of fees)	3.18%	2.09%

#### **B. Client Service & Legislative Update**

##### *Client Service Update*

The PRIT Fund currently manages the assets of 92 retirement systems: 55 systems are fully invested, including the State Employees and State Teachers, and 37 systems participate in the Segmentation program. PRIM invests 87% of all state and local retirement systems. There are 14 retirement systems that do not invest through PRIM.

The Client Service team continues to meet with the retirement boards of member systems and other retirement boards seeking information about PRIM. The following is a list of the more recent and upcoming client meetings: **Stoneham** (4/27/10), **Marblehead** (4/29/10), **Braintree** (5/10/10), **Barnstable County** (5/11/10), **Needham** (5/12/10), **Springfield** (5/12/10), **Middlesex**

**County Retirement Board Advisory Council** (5/20/10), **Westfield** (5/20/10), **Andover** (5/24/10), **Hull** (5/25/10), **Massachusetts Water Resources Authority** (5/27/10), **Chicopee** (6/10/10), **Milton** (6/24/10), and **Concord** (7/28/10). As always, additional client meetings will be scheduled throughout the third quarter of 2010.

Jennifer Cole and Paul Todisco plan to attend the **MACRS Spring Conference** in Hyannis, MA from Sunday, June 6, 2010, through Wednesday June 9, 2010. As is customary, Jennifer and Paul will be stationed at the PRIM Exhibit Table with the other conference exhibitors on Monday and Tuesday.

### *Legislative Update*

On May 14, 2010, a fiscal year 2010 supplemental budget bill containing language that would transfer City of Boston Teachers' pension assets to the PRIT Fund (**House, No. 4670**, formerly part of **House, No. 4444**) was enacted by the House and Senate and sent to the Governor for his signature. As reported at the last Committee meeting, the intent of the legislation is to link the investment responsibility with the liability responsibility of the Boston Teachers' Pensions. Currently, the Commonwealth is responsible for the Boston Teachers' pension liability, but the assets are invested by the City of Boston State-Boston Retirement System ("SBRS"). The approximate amount of the Boston Teachers' Pension assets is \$1.1 Billion. If signed into law, the legislation would separate the SBRS pension assets into two categories: "SBRS/Teachers" and "SBRS All Other". Under this provision, the SBRS would be a Participating System in the PRIT Fund, but only for the assets attributable to Boston Teachers. Such participation would be irrevocable. Active and retired Boston Teachers would remain members of the SBRS, and the SBRS Board would continue to administer Boston Teachers' pensions and benefits.

On May 13, 2010, the Senate passed its version of a Municipal Relief bill, **Senate, No. 2424** (originally filed by the Governor on January 25, 2010 as **House, No. 4439**), which was a vastly different version than the legislation passed by the House on April 26, 2010 (**House, No. 4630**) in that the Senate bill includes several of the principles contained in the report of the Special Commission to Study Massachusetts Retirement Systems, such as capping pensions. One of the key provisions of the bill would extend the current pension funding schedule for local retirement systems to 2040 from 2030, which would provide budgetary relief to many municipalities that may be facing 50% to 75% increases in their annual pension appropriations in fiscal year 2011 due to the large investment losses experienced in 2008. The Senate bill also contains an amendment filed by Senator Richard Tisei that would essentially alter PRIM's current incentive compensation program by inserting following language into Chapter 32 of the General Laws: "not award any compensation package that includes incentive payments for performance in any year in which the total value of the fund is reduced from the total value thereof in the preceding year." The House non-concurred with the Senate draft and a Conference Committee will be appointed to iron out the differences in the House and Senate versions of the bill. The House appointed Representatives Donato, Murphy and Barrows on May 20, 2010. As of this writing, the Senate had not appointed its representatives to the Conference Committee.

**Senate, No. 2377**, legislation filed originally as a recommendation of Public Employees Retirement Administration Commission (PERAC) in January 2009, was passed to be engrossed by the Senate on April 15, 2010, and referred to House Ways & Means on April 20, 2010. The bill makes changes to certain of the pension governance laws in Chapter 32 of the Massachusetts General Laws. It further authorizes PERAC to appoint a receiver to oversee the Essex Regional Retirement Board for one year. The bill also requires trustees of local retirement boards to



undergo 18 hours of training, and further requires those trustees to file statements of financial interest with the State Ethics Commission. There has been no further action taken on the bill as of this writing.

**Senate Bill, 2380**, legislation that would require PRIM to invest up to \$50 million in banks or financial institutions that would make loans to small businesses, was approved by the Senate on April 8, 2010 and referred to House Ways & Means on April 22, 2010, where it currently resides.

### **C. Travel and Staff Development Update**

A detailed schedule of PRIM Board expenses associated with due diligence, travel, and staff and Board development reimbursed as of March 31, 2010 is attached as **Appendix E**. Additional travel that has not yet been reimbursed or occurred is outlined below:

#### ***In March:***

- 3/16/10 Ryan Foscaldo attended BC Partners Meeting in New York City, NY.
- 3/18/10 Wayne Smith attended Spark Annual Meeting in Boston, MA.
- 3/30/10 Scott Hutchins attended 2010 Apax Global Annual Meeting in New York City, NY.

#### ***In April:***

- 4/7/10 – 4/14/10 Michael Landon conducted an on-site due diligence visits to Chequers, TCW Crescent, Glide Buy Out Partners, Bridgeport and PAI in Paris, France and Ethos Private Equity in Johannesburg, South Africa.
- 4/12/10 Wayne Smith attended Permira Annual Meeting in Cambridge, MA.
- 4/13/10 Scott Hutchins attended Angelo Gordon Annual Conference and conducted an on-site due diligence visit to FT Ventures in New York, NY.
- 4/13/10 John LaCara conducted J.P. Morgan Property Tours in Orlando, FL.
- 4/21/10 Hannah Commoss, David Gurtz and William Fink conducted an on-site due diligence visits to BlackRock and Arden in New York City, NY.
- 4/21/10 – 4/22/10 Michael Langdon conducted an on-site due diligence visits to Odyssey and KPS in New York City, NY.
- 4/26/10 Hannah Commoss and David Gurtz conducted an on-site due diligence visits to Ennis Knupp Associates and Grosvenor in Chicago, IL.
- 4/27/10 Donald Payne joined Hannah, and David for the due diligence visit to Grosvenor and then Dave and Donald continued to LaSalle in Chicago, IL.
- 4/26/10 – 4/28/10 Wayne Smith and Scott Hutchins conducted an on-site due diligence visit to Gilde Buy-Out Fund IV in Utrecht, Netherlands.
- 4/27/10 Michael Langdon attended GTCR Annual Meeting in Chicago, IL.

#### ***In May:***

- 5/3/10 Wayne Smith conducted an on-site due diligence visit to Flagship Ventures in Cambridge, MA.
- 5/3/10 – 5/5/10 Thomas Hanna attended the spring meeting of Association of Public Pension Fund Auditors (APPFA) in Denver, CO.
- 5/4/10 – 5/5/10 I attended Ennis Knupp Client Advisory Board Meeting in Chicago, IL.
- 5/4/10 – 5/6/10 Scott Hutchins attended Summit Partners 2010 Annual Meeting of Investors in London, UK.

- 5/4/10 – 5/6/10 Michael Langdon attended Rembrandt Venture Partners 2010 Annual LP Meeting in Menlo Park, CA and Hellman & Friedman LLC Annual Meeting in San Francisco, CA.
- 5/5/10 – 5/7/10 Ryan Foscaldo attended Blackstone Capital Partners Annual Meeting in New York City, NY.
- 5/7/10 David Gurtz conducted an on-site due diligence visit to J.P. Morgan in New York City, NY.
- 5/10/10 – 5/13/10 Wayne Smith attended Bridgeport Capital Limited Annual Meeting and Montagu Annual Investor Meeting in London, UK.
- 5/11/10 – 5/12/10 David Gurtz conducted an on-site due diligence visits to ING in Phoenix, AZ and Invesco in Dallas, TX.
- 5/11/10 Yisroel Markov attended Investment Companies Session in Boston, MA.
- 5/17/10 – 5/21/10 Scott Hutchins attended KKR 2010 Investors' Conference in San Francisco, CA, Trident Capital 2010 Annual Meeting in Menlo, CA and NEA Annual 2010 Annual Meeting in San Francisco, CA.
- 5/18/10 – 5/20/10 Michael Langdon attended Charterhouse Annual Investor Day in Hertfordshire, England.
- 5/19/10 Stanley Mavromates was a speaker on a panel discussing Institutional Investor Asset Allocation: "Where Does Real Estate Fit In?" at the Greater Boston Real Estate Finance Association in Boston, MA.
- 5/21/10 Stanley Mavromates, Hannah Com Moss and Michael Langdon attended a luncheon sponsored by Brandeis University on Brazil: Potential to Powerhouse.
- 5/25/10 – 5/26/10 Timothy Schlitzer will conduct property tours of TA Realty in Houston, TX.
- 5/25/10 – 5/26/10 Michael Langdon and Ryan Foscaldo will attend Vista 2010 Annual Investors' Meeting in Chicago, IL.

***In June:***

- 6/1/10 – 6/2/10 Scott Hutchins will attend Nautic Partners 2010 Annual Meeting in Newport, RI.
- 6/2/10 – 6/4/10 Michael Langdon will attend 2010 Genstar Capital, LL Annual Meeting in San Francisco, CA.
- 6/3/10 Stanley Mavromates and Hannah Com Moss will attend an Institutional Asset Management Meeting sponsored by Vanguard in Boston, MA.
- 6/7/10 – 6/8/10 Grace Lee, First Deputy Treasurer and General Counsel and I will travel to Los Angeles, CA for Toyota Class Action Court Hearing.
- 6/7/10 Stanley Mavromates will be attending "Move Your Assets, Thriving in Seven Lean Years Conference hosted by GMO in Boston, MA.
- 6/10/10 Stanley Mavromates will be a speaker on a panel at the Boston Investment Professionals Meeting in Boston, MA.
- 6/22/10 – 6/26/10 Timothy Schlitzer will attend North American Timberland Investment Summit in Vancouver, Canada

***In July:***

- 7/26/10 – 7/28/10 Paul Shanley, Board Member will attend Program for Advanced Trustee Studies sponsored by NCPERS at Harvard Law School in Cambridge, MA

#### **D. Lead Plaintiff Case - Toyota**

PRIM's Securities Litigation Policy recognizes that it may be necessary to file for lead plaintiff on behalf of the board prior to board approval. The policy requires ratification of the board subsequent to the filing. PRIM Staff will be requesting board ratification for the April 9, 2010 filing for lead plaintiff status in the Toyota Motor Corporation securities class action litigation. During the class period, PRIM lost \$15-24 million depending upon the use of the LIFO or FIFO methodology.

#### **E. PRIM Awarded GFOA Certificate**

PRIM received notice that it has received its fifth annual Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officer's Association. This is the highest form of recognition in governmental accounting and financial reporting. Donny Payne and Paul Todisco assumed the primary responsibility in pulling PRIM's submission together, but this award is a reflection of a great deal of hard work done by everyone at PRIM.

#### **F. Staffing Updates**

After close to three years of service to PRIM, Bill Fink, Public Markets Investment Analyst tendered his resignation effective May 14, 2010. Bill has accepted an offer from Wellington Management Company to work in Client Service for their sub advisory business.

In light of Matthew Marx's resignation on March 26, 2010, PRIM Staff has been collecting resumes for its Director of Technology position. Interviews with twelve potential candidates are being held on Monday and Tuesday, May 24th and 25th. PRIM Staff is hopeful this position will be filled from the selected group of candidates.

Peony Keves, Public Markets Investment Officer received the Chartered Alternative Investment Analyst (CAIA) designation after passing level II in March 2010. The CAIA program provides a broad-based curriculum in alternative investments. The curriculum examines alternative asset classes such as hedge funds, private equity, commodities and managed futures, real estate and other real assets, and structured products.

#### **G. Executive Director Resignation**

At this Board meeting, I will be tendering my resignation effective June 11, 2010. I have accepted a Managing Director position with Grosvenor Capital Management. As all of you were made aware previously by my letter dated April 6, 2010, I was interested in looking for employment opportunities outside of PRIM.

## **IV. Investment Committee**

### ***Memorandum***

<b>To:</b>	PRIM Board Members
<b>From:</b>	Investment Committee
<b>Date:</b>	June 1, 2010
<b>Subject:</b>	Investment Committee Report

The following is the report of the Investment Committee, which met on June 1, 2010.

### **A. ETI RFP Recommendation**

#### ***Responses to RFP***

PRIM issued a Request for Proposals for economically targeted investment management services on December 14, 2009. The search was advertised in Pension & Investments and was posted on PRIM's website. The proposal deadline was 3:00 p.m. EST March 5, 2010. The complete Search Committee report is contained at **Appendix F**. Eight (8) proposals were submitted. Of the eight (8) proposals submitted, seven (7) met the minimum criteria.

#### ***Search Committee***

The ETI RFP Search Committee consisted of PRIM Board Trustee Paul Shanley, Stan Mavromates, David Gurtz, Hannah Commoss, Peony Keve, Bill Fink, Wayne Smith, Scott Hutchins, Ryan Foscaldo, Tim Schlitzer, and John LaCara of PRIM.

#### ***Finalists***

The Search Committee conducted a detailed review of each proposer's qualifications based on the selection criteria set forth in the RFP. The areas of examination constitute the basis of PRIM's procurement process: ability to meet PRIM's ETI program criteria, organizational stability and general experience of the firm, quality, stability, depth and experience of personnel, client relations, investment philosophy, process and strategy, performance, and fees.

In addition to the one (1) proposal that failed to meet the minimum criteria, the Search Committee eliminated four (4) proposals based on unsatisfactory factors in the ability to meet PRIM's ETI program criteria, organizational stability and general experience of the firm, quality, stability, depth and experience of personnel, client relations, investment philosophy, process and strategy, performance, and fees.

On April 12, 2010 the Search Committee interviewed the remaining 3 finalist proposals, listed below:

Tremont Realty Capital: Real Estate  
Flagship Ventures: Private Equity  
Genovation Capital: Private Equity

Tremont Realty Capital was invited to interview with the search committee based on their experience in real estate debt management and investment banking. They possess a strong and

experienced investment team and have demonstrated expertise within the proposed investment strategy. However, they possess little experience managing institutional accounts and their performance history for the proposed strategy is difficult to quantify and limited. Furthermore, due to poor performance and economic uncertainty, the value-added real estate program was halted in 2008 until real estate markets recover and stabilize. Accordingly, staff does not recommend engaging Tremont for the ETI program.

Genovation Capital was invited to interview with the Search Committee based on their experience as operating Executives and venture capital investors. However, they possess little experience managing institutional-sized funds and their performance history for the proposed strategy is limited. Furthermore, due to lack of institutional-size and a thin track record of investing, staff does not recommend engaging Genovation Capital for the ETI program.

Flagship Ventures was invited to interview with the Search Committee as it represents an attractive opportunity for the PRIT fund's venture capital portfolio and an excellent candidate for the Economically Targeted Investment Program. Flagship has a well developed early-stage venture investment strategy targeting life science and clean technology opportunities. The firm has assembled an impressive team of investment professionals with backgrounds as scientists, operators and venture investors. Those professionals possess a large network of contacts in academia and industry that can be leveraged to add value to portfolio companies and source investment opportunities. The firm has a unique venture creation strategy that has generated an exciting pipeline of high potential start-up opportunities. Flagship has established a reputation as an active, value-add investor in the venture community and with executives and entrepreneurs. While it is still early in Flagship's life, the firm has established an impressive track record, and its current portfolio is developing nicely. Finally, Flagship's strategy fits perfectly within the framework of the PRIT fund's ETI Program. Flagship's 2004 Fund and 2007 Fund, prior ETI investments, have already generated benefits to Massachusetts, and that portfolio has considerable growth potential. PRIM staff and the Investment Committee are recommending an investment of \$20 million in Flagship 2010 through the ETI Program. A full report for Flagship 2010 is contained at **Appendix G**.

### ***Recommendation***

Based upon the RFP submissions and interviews, the Search Committee and Investment Committee are recommending that the PRIM Board approve an investment of \$20 million in Flagship 2010. Additionally, after a thorough review of each current provider, the Search Committee and Investment Committee are not recommending any additional allocations to existing ETI managers.

## **B. ETI Quarterly Summary: 1Q10**

### ***Overview***

Since the program's inception in 2003, PRIM has committed \$270 million to Economically Targeted Investments (ETI). These commitments are allocated across 3 asset classes and 9 investment managers, as displayed in the table on the following page:

### ETI Program Summary: As of March 31, 2010

<u>Firm</u>	<u>Asset Class</u>	<u>Inception Date</u>	<u>PRIM Commitment</u>	<u>Capital Called</u>	<u>Remaining Capital to be Called</u>	<u>Current NAV</u>
Access Capital	Fixed Income	3/31/2004	\$ 75,000,000	\$ 75,000,000	\$ -	\$ 96,734,000
Community Cap.Mgmt.	Fixed Income	6/30/2006	\$ 25,000,000	\$ 25,000,000	\$ -	\$ 31,771,000
AFL-CIO HIT Fund	Fixed Income	7/31/2007	\$ 90,000,000	\$ 90,000,000	\$ -	\$ 102,329,000
Castile Ventures	Private Equity	9/14/2006	\$ 10,000,000	\$ 5,550,000	\$ 4,450,000	\$ 4,300,000
Flagship Ventures 2004	Private Equity	3/16/2005	\$ 10,000,000	\$ 9,200,000	\$ 800,000	\$ 9,300,000
Flagship Ventures 2007	Private Equity	8/23/2007	\$ 20,000,000	\$ 7,500,000	\$ 12,500,000	\$ 8,700,000
Canyon Johnson	Real Estate	4/30/2005	\$ 20,000,000	\$ 17,658,784	\$ 2,863,359	\$ 11,688,000
New Boston	Real Estate	11/30/2006	\$ 10,000,000	\$ 5,234,579	\$ 4,765,421	\$ 2,778,000
Intercontinental	Real Estate	6/30/2005	\$ 10,000,000	\$ 10,000,000	\$ -	\$ 4,780,000
<b>Total</b>			<b>\$ 270,000,000</b>	<b>\$ 245,143,363</b>	<b>\$ 25,378,780</b>	<b>\$ 272,380,000</b>
Total Fund at March 31, 2010		\$ 43,957,998,000				
ETI as a Percentage of Total PRIT Fund		0.62%				

While each of the three asset classes in our ETI program has a different time horizon, the overall ETI program is meeting expectations. As the Board is aware, due to the nature of both Real Estate and Private Equity investing, the full benefits to the Commonwealth of Massachusetts will not be fully realized for several years. That said, the investments in each of the asset classes have yielded an economic impact to the Commonwealth of Massachusetts, and can be found in the table below:

<b>Economic Impact to the Commonwealth of Massachusetts as of 03/31/2010</b>					
<u>Firm</u>	<u>Asset Class</u>	<u>Mortgages</u>	<u>Jobs Created</u>	<u>Affordable Rental Housing Units</u>	<u>Small Business/Economic Development Loans</u>
Access Capital	Fixed Income	1405	300	201	10
Community Cap. Mgmt.	Fixed Income	108	23	2200	4
AFL-CIO HIT Fund	Fixed Income	17	852	1567	0
Castile Ventures	Private Equity	0	257	0	0
Flagship Ventures 2004	Private Equity	0	382	0	0
Flagship Ventures 2007	Private Equity	0	337	0	0
Canyon Johnson	Real Estate	0	270	15	0
New Boston	Real Estate	0	553	98	0
Intercontinental	Real Estate	0	385	20	0
<b>Total</b>		<b>1530</b>	<b>3359</b>	<b>4101</b>	<b>14</b>

The complete Quarterly ETI Summary Report is contained at **Appendix H**

#### **C. Ennis Knupp Presentation on Asset Allocation Trends**

At the request of the Board, Ennis Knupp prepared an educational presentation to dispel recent media claims that public pension funds, in comparison to corporate pension plans, have been taking on additional and unwarranted risks to recoup losses in the wake of the events of 2008. Ennis Knupp's presentation is contained at **Appendix I**. Additionally, a short presentation that quantifies the improved risk/return profile of the PRIT Fund, as a result of the broad asset allocation shifts made in 2003, is contained at **Appendix J**.

#### **D. Private Equity**

The materials for Private Equity are contained in **Appendices K-O**.

## **V. Real Estate and Timber Committee**

### ***Memorandum***

<b>To:</b>	PRIM Board Members
<b>From:</b>	Real Estate and Timber Committee
<b>Date:</b>	June 1, 2010
<b>Subject:</b>	Real Estate and Timber Committee Report

The following is the report of the Real Estate & Timber Committee, which met on June 1, 2010.

### **A. Real Estate Portfolio Update**

Performance and portfolio detail as of April 30, 2010 is contained in **Appendix P**. As of April 30, total real estate performance was 0.95% over a one-year period. Performance over periods of three-years, five-years and 10-years was -5.72%, 5.38% and 9.76%.

#### **1. Invesco Portfolio Manager Change**

In January 2010, senior management at Invesco reassigned PRIM's New York based portfolio manager to their asset management group and conducted a search to find a replacement. As part of the search process, PRIM staff expressed an interest in working with a portfolio manager who had portfolio management experience and would be located at Invesco's home office in Dallas. Invesco subsequently hired Ron Carey, who will be located in Dallas, Texas. Mr. Carey's biography is located in **Appendix Q**. Mr. Carey has over 20 years of experience in acquisitions, dispositions, development, and portfolio management with a number of investment managers, including the State of Florida. PRIM staff met with Mr. Carey on May 6 and had a favorable first impression. Mr. Carey officially joined Invesco on May 10. Sarah Angus from Callan Associates ("Callan") met with Mr. Carey shortly after his start date.

### **B. RREEF Termination and Transition Recommendation**

Staff and Jamie Shen from Callan will present three recommendations pertaining to PRIM's relationship with RREEF. These recommendations will require independent votes. A summary of each recommendation is listed below:

#### **1. RREEF Core and Value Add Termination Recommendation**

RREEF manages 22 assets in both core and value added separate accounts on behalf of PRIM. These assets are currently valued at approximately \$728 million. On April 20, 2010, PRIM was notified that Peter Feinberg, Portfolio Manager, resigned from RREEF and accepted a position in portfolio management with Invesco in their New York office. Mr. Feinberg was named PRIM's portfolio manager in June 2009 after the departure of Liz Cole and is the third PRIM portfolio manager to leave RREEF in three years. On April 29, representatives from RREEF attended a meeting at PRIM's offices to provide an update on Mr. Feinberg's departure and their organization. Jamie Shen and Sarah Angus from Callan participated via conference call. Attending on behalf of RREEF were the following:



Tim Gonzalez, CEO, North America  
Tim Ellsworth, Head of Portfolio Management  
Dennis Martin, Managing Director, Client Relations  
John Robertson, CEO, RREEF Securities  
Sandro Arbulu, Portfolio Manager

At this meeting, RREEF proposed replacing Mr. Feinberg with Tim Ellsworth on an interim basis, suspension of fees for six-months and a reduction of AUM, or a combination thereof. RREEF also expressed their commitment to the account and pledged to continue managing the assets with full focus and care, even in the event of a resulting termination. In addition, John Robertson, who manages the RREEF Global REIT account for PRIM, conveyed his commitment to the real estate securities mandate and RREEF Securities organization. Mr. Robertson stressed his commitment by disclosing certain details of compensation arrangements for him and his team and expressed his happiness at RREEF.

After a full review of these circumstances and the RREEF organization, staff and Callan recommend the termination of RREEF's core and value added separate accounts. This recommendation is based on significant turnover in the portfolio manager role and staff's diminished confidence in RREEF's ability to retain talented staff within its private real estate investment platform.

## **2. RREEF Asset Transfer Recommendation**

After considering four options, which will be presented to the Board, PRIM staff and Callan recommend that all assets managed by RREEF be transitioned to LaSalle on an interim basis, which is expected to last until December 31, 2010. This strategy allows for the transfer of all assets on a temporary basis to a single manager that can provide ongoing management continuity while PRIM conducts a search for a fifth investment manager. While staff believes that PRIM has four capable managers remaining, LaSalle has the capacity, experience and organizational stability to most successfully facilitate a transition.

In an effort to minimize any negative operational impact of the transition, existing property management engagements will remain in place throughout the interim period. Subsequent to the selection of a new advisor, a process will be conducted that will allow existing advisors, including a new advisor resulting from the RFP, to express interest in the RREEF assets. A final transfer of assets from LaSalle to each newly assigned manager is expected to take place on January 1, 2011.

## **3. Recommendation to Issue RFP and Conduct Expression of Interest**

Staff and Callan recommend initiating a search for a new real estate investment advisor and issuing an RFP on June 14, 2010. Hiring a fifth separate account investment advisor will return PRIM to a five manager structure which provides greater manager diversification and an average account size of approximately \$650 million. Responses are expected to be received in July. A staff recommendation and finalist presentation will be made for the Board's evaluation at the October 12, 2010 meeting. As mentioned above, each of PRIM's existing advisors as well as the new advisor will have the opportunity to manage the former RREEF investments based on an evaluation of the property and

carrying value. Callan's Termination and Transition Recommendation is located in **Appendix R**.

### **C. Timber Portfolio Update**

The Performance Report for April 30, 2010 is contained in **Appendix P**. As of April 30, total timberland returned -16.43% over a one-year period and 8.66% over three-years.

## **VI. Administration & Audit**

### ***Memorandum***

<b>To:</b>	PRIM Board Members
<b>From:</b>	Administration & Audit Committee
<b>Date:</b>	June 1, 2010
<b>Subject:</b>	Administration & Audit Committee Report

The following is the report of the Administration & Audit Committee, which met on June 1, 2010.

#### **A. Executive Director Succession**

Michael Travaglini informed the Administration & Audit Committee of his resignation from the PRIM Board effective June 11, 2010. A discussion ensued regarding the options available to the Committee for filling this position. It was noted that there was no formal model or precedent established when filling past Executive Director vacancies.

In light of this being an election year and its impending impact on the Board, the fact that Michael's departure amounts to the PRIM Board's third employee departure since March 2010, and, most importantly, the acknowledgement that appropriate talent currently resides at the PRIM Board, the Administration & Audit Committee is unanimously recommending that Karen Gershman succeed Michael Travaglini as Executive Director. The Committee commented that providing immediate stability and continuity was essential not only to the Staff, but to the beneficiaries of the PRIT Fund (i.e., the 92 Participating and Purchasing Systems) and that this outweighed any potential benefits from undertaking a protracted and lengthy search process. The risk of losing other senior level staff posed a significant threat in the short term and needed to be addressed.

Therefore, the Administration & Audit Committee is recommending that the PRIM Board approve the appointment of Karen Gershman as Executive Director commencing June 14, 2010 at a salary of \$280,000.

#### **B. Audit Status Updates**

The Fiscal June 30, 2010 PRIM and PRIT financial statement audits and SAS 70 commenced on May 10, 2010. KPMG Audit Manager, Amy Staunton met with PRIM Staff for an audit planning meeting on May 13, 2010. KPMG began audit work on May 10<sup>th</sup> at Mellon's offices in Everett to perform interim testing and will be spending the week of May 17, 2010 at PRIM's offices to primarily focus on the SAS 70.

Refer to **Appendix S** for a copy of the 2010 Audit Plan.

The Calendar Year-end Real Estate, Timber and Hedge Fund of Funds audits are well under way. PRIM Staff has bi-weekly scheduled calls with KPMG regarding the status updates of each of the separate accounts. Jeff Podziewski and Amy Staunton, KPMG Senior Managers

assigned to PRIM's RE/Timber audits and Hedge Fund of Fund audits, respectively, updated PRIM Staff with a status of all audits during the May 13<sup>th</sup> planning meeting at PRIM's offices. KPMG Managers indicated that all audits are running smoothly with managers' full cooperation.

Amy Staunton presented at the Committee meeting.

## **VII. Other Business**

## **Appendices**

<b>Item</b>	<b>Topic</b>
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- |           |   |
|-----------|---|
| <b>A.</b> | <b>Minutes of the April 6, 2010 Board Meeting</b>           |
| <b>B.</b> | <b>April 2010 Color Charts</b>                              |
| <b>C.</b> | <b>April 2010 Mellon Performance Report</b>                 |
| <b>D.</b> | <b>March 31, 2010 PRIT Fund TUCS Rankings</b>               |
| <b>E.</b> | <b>Board and Staff Travel</b>                               |
| <b>F.</b> | <b>ETI Search Committee Report</b>                          |
| <b>G.</b> | <b>Flagship Ventures 2010 Recommendation</b>                |
| <b>H.</b> | <b>Quarterly ETI Summary Report: 1Q10</b>                   |
| <b>I.</b> | <b>Ennis Knupp Presentation on Asset Allocation Trends</b>  |
| <b>J.</b> | <b>Presentation on PRIM Risk Reduction Since 2003</b>       |
| <b>K.</b> | <b>Private Equity Agenda</b>                                |
| <b>L.</b> | <b>Hamilton Lane Recommendation - Gilde Buy Out Fund IV</b> |
| <b>M.</b> | <b>Hamilton Lane Recommendation - Ethos PE VI</b>           |
| <b>N.</b> | <b>Hamilton Lane Rec. Addendum - Ethos PE VI</b>            |
| <b>O.</b> | <b>Hamilton Lane Recommendation - SAIF IV</b>               |
| <b>P.</b> | <b>April 2010 Color Charts Performance</b>                  |
| <b>Q.</b> | <b>Ron Carey Invesco Bio</b>                                |
| <b>R.</b> | <b>Callan Termination and Transition Recommendation</b>     |
| <b>S.</b> | <b>KPMG 2010 Audit Plan</b>                                 |

1                   **COMMONWEALTH OF MASSACHUSETTS**  
2                   **PENSION RESERVES INVESTMENT MANAGEMENT BOARD**

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12                   ***Minutes of the April 6, 2010, Board Meeting***  
13                   ***commencing at 9:30 a.m.***  
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23                                   **in the**  
24                                   **Board Offices**  
25                                   **at 84 State Street**  
                                 **Boston, Massachusetts**

1	<b>I N D E X</b>	
2		<b><u>PAGE NO.</u></b>
3	Call to Order	3
4	Approval of the Minutes	4
5	Financial Report	5
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**P R O C E E D I N G S**

**Call to Order:**

A meeting of the Pension Reserves Investment Management Board was held on Tuesday, April 6, 2010, at the PRIM Board located at 84 State Street, Boston, Massachusetts. Present board members were as follows: Treasurer Cahill, Mr. Alex Aikens, Mr. LaRoy Brantley, Mr. Robert Brousseau, Mr. Jay Dow, Mr. Greg Mennis, Ms. Theresa McGoldrick, and Mr. Paul Shanley. Mr. Paul Cesan was not present.

Also present were members of the PRIM Board staff; First Deputy Treasurer Grace Lee; Mr. Mike Koenig of Hamilton Lane; Mr. Bruce Shain of BNY/Mellon; Mr. Michael Trotsky and Mr. Michael Tow of the Health Care Securities Trust; Ms. Jamie Shen and Ms. Sarah Angus of Callan; Ms. Suzanne Bernard and Mr. Max Kotary of EnnisKnupp; Mr. Kevin Blanchette of the Worcester Regional Retirement System; Ms. Keri Hepburn of INVESCO; Mr. Patrick Brock of the Hampshire County Retirement System; Mr. Neil Hickey of Old Mutual Asset Management; Mr. Joseph Finn; Mr. Paul Heffernan of Putnam; Mr. Doug Greenstein and Mr. Chuck Knudsen of T.Rowe Price; Ms. Michele

1 Bernius of BlackRock; Ms. Melissa Cunningham of  
2 the Middlesex County Retirement; Mr. Dave Kibbe  
3 of TRE; Mr. Tom Gibson of Middlesex and Belmont  
4 Retirement Boards; Mr. Jim Quirk, Jr., and  
5 Mr. Mark Zielinski of Barnstable County  
6 Retirement; MR. Art Greenwood of Pyramis Global  
7 Advisors; Mr. Douglas Appell of Pensions &  
8 Investments; and Mr. Bob Dennis of PERAC.

9 The meeting convened at 9:30 a.m.  
10 Treasurer & Receiver-General Timothy P. Cahill  
11 chaired the meeting.

12 TREASURER CAHILL: We're going to get this  
13 meeting started. I'll ask for approval of the  
14 minutes of the February 2 meeting.

15 MR. BROUSSEAU: So moved.

16 MR. SHANLEY: Second.

17 TREASURER CAHILL: All those in favor say  
18 aye.

19 THE BOARD: Aye (unanimous).

20 TREASURER CAHILL: Opposed? The ayes have  
21 it.

22 **(VOTED: That the PRIM Board approve**  
23 **the minutes of the Meeting,**  
24 **February 2, 2010; and, further, that**  
25 **the Board authorize the Executive**  
**Director to take all actions necessary**  
**to effectuate this motion.)**

1           TREASURER CAHILL: We'll move on to the  
2 financial report. Stan.

3           MR. MAVROMATES: Good morning. So this is  
4 an unusual meeting, the timing of it. We're only  
5 a couple of days after the end of the quarter.  
6 So what I'm going to go over is very briefly  
7 February performance, and then as I go along and  
8 do that, I'm going to give you a March estimate.  
9 I just will caution you it's an estimate. I  
10 think it's probably going to be close, but I'll  
11 try to do my best to give you that estimate.

12           If I can direct your attention to  
13 Appendix B, and we have the power point  
14 presentation. We'll get started on the second  
15 page. You'll see the bar chart which basically  
16 shows the PRIT fund assets over periods of time.  
17 At the end of February it looks like we were at  
18 42.2 billion. That's a decrease of \$500 million  
19 as of the beginning of the year or the end of  
20 2009.

21           The estimate for the end of March is  
22 \$43.8 billion. So that's an increase of  
23 1.1 billion over the end the year. And then if  
24 you go back to March of 2009, exactly one year  
25 ago today, that's an increase of \$10 billion. We

1       were at 34 billion on March 31, 2009. I'm  
2       estimating, if you round up to 44, we're up \$10  
3       billion over one year ago. So obviously people  
4       know that because of the rise in the stock  
5       market. That's how that is directly impacting  
6       the PRIT fund. A very healthy recovery, a nice  
7       trend, all arrows are pointing up, as they say.

8               Page 3 will show you the asset  
9       allocation. On the right side is the actual  
10      allocation. This is as of the end of February.  
11      And there is a couple of things to note here. If  
12      you start at around three o'clock at global  
13      equity, that's 47.3 percent. Our target is 49.  
14      I think we're almost there as of the end of  
15      March. We're almost right at our target.

16             And if you go down to around  
17      six o'clock, portable alpha winddown. You recall  
18      that used to be 6 percent. We're down to  
19      3.4 percent. Hanna's been doing a great job in  
20      processing that liquidation with the help of Rock  
21      Creek, and we've gotten a lot of money back.

22             And then if you look at the very top at  
23      twelve o'clock, the hedge funds are nearly 7  
24      percent, and the reason for that is because when  
25      it comes out of portable alpha winddown it goes

1       into hedge funds. So we're getting much closer  
2       to our targets than we had.

3               A couple other things of note, you'll  
4       notice the core fixed income, which is around  
5       seven o'clock there, 12.6 percent, a little under  
6       allocated, any excess cash that we've had we've  
7       been putting into bonds, and that's because it's  
8       relative to the other performance of the other  
9       asset classes. Although the other asset classes  
10      are strong, this is only up about 1.8 percent,  
11      roughly.

12             Value add and fixed income we've been  
13      redeeming out of there, especially high yield,  
14      which has done quite well as you know. It was up  
15      nearly 60 percent last year, taking money out of  
16      there. And then real estate, REITs have done  
17      quite well, and Tim and John LaCara, we hit a  
18      rebalancing trigger, and we sold 260 million of  
19      REITs in the first quarter, taken some profits  
20      and so that brought the REITs down at 2 percent,  
21      and now they're back above as they continue to do  
22      quite well. So a lot of activity going on in  
23      trying to get the plan as close as possible to  
24      the strategic targets.

25             MR. BRANTLEY: On the hedge funds, Stan,

1 weren't we originally at 8 percent for hedge  
2 funds and 3 percent portable alpha? Didn't we  
3 have like an 11 percent exposure at one point in  
4 time? How is that below 7 now?

5 MR. MAVROMATES: Well, no. Hedge funds, the  
6 dedicated hedge fund bucket, if you will, was at  
7 5 percent target, which the Board voted to change  
8 this past summer. Then we increased that to 8  
9 percent.

10 MR. BRANTLEY: I'm aware of that. I'm just  
11 saying we were at one point in time at 11 percent  
12 and were considering that as a target.

13 MR. BROUSSEAU: That was the portable alpha.

14 MR. BRANTLEY: Oh, and the beta.

15 MR. MAVROMATES: 11 percent.

16 MR. TRAVAGLINI: 5 absolute return, 6  
17 portable alpha is how we first structured it, and  
18 then now we've combined them.

19 MR. MAVROMATES: So page 4 shows  
20 performance. Again, on the page here that's  
21 through the end of February. The fund through  
22 February is down negative 1.02 percent,  
23 outperforming its benchmark by 24 basis points.  
24 I think the month of March is up about 4 percent.  
25 That's the single month of March up 4 percent.

1       So that puts the fund up three percent year to  
2       date. So as you can see, negative 1.02 percent,  
3       if that number now is up 3 percent, that would  
4       put you on a fiscal year basis up about  
5       17.6 percent. That's through the end of March,  
6       and then the one year return is about up  
7       31 percent. So all very good numbers and,  
8       specifically, there are the fiscal year and the  
9       year to date are both beating the policy  
10      benchmark.

11               Page 5 which is the next page which just  
12      compares our performance and the PRIT fund's  
13      performance in blue to the bond market. The  
14      Barclay's capital aggregate and the S&P 500. And  
15      you can see that the fund was down 1.02 percent,  
16      bonds were up 1.9, and the S&P was down about  
17      61 basis points. Those numbers now I think are  
18      up 3, as I just mentioned. Bonds are up 1.78.  
19      Stocks are up about 5.39. So a complete reversal  
20      in stocks during the month of March.

21               And then, lastly, on the next page, this  
22      page here, what it shows you is the different  
23      portfolios within the PRIT fund ranked highest  
24      return to lowest return. So as of the end of  
25      February, core fixed income was the highest

1     returner at 1.78 and then the lowest returner all  
2     the way to the right was global equity at  
3     negative 2.51. They've switched places right now  
4     at the end of March. They've completely switched  
5     places. Bonds are last and stocks are first, and  
6     that just goes to show you how quickly this thing  
7     can turn around or work against you.

8             One thing of note here is that all the  
9     portfolios are beating their benchmarks, with the  
10    exception of value added fix income is down and  
11    we talked about that at the last meeting. That  
12    has to do with the benchmark we used for  
13    distressed debt. We've been trying to rectify  
14    that. That portfolio is marked to market on a  
15    quarterly basis. The benchmark is valued  
16    monthly. So there's some issues there. But we  
17    would expect over time for that to rectify  
18    itself. But the point of all this here is to  
19    show you that any active management is working.  
20    Most of the asset classes here, hedge funds are  
21    beating their benchmark, even the portable alpha  
22    is beating their benchmark, real estate, et  
23    cetera.

24             And that's really all I was going to  
25    talk about. We will mail you the March



1 performance. We will not receive our peer group  
2 rankings until around the first week of May, and  
3 we don't have another meeting until June. So  
4 we'll probably mail you the peer group rankings  
5 and the TUCS rankings at that time. If anybody  
6 has further questions, I'm happy to entertain  
7 those.

8 TREASURER CAHILL: Any questions?

9 MR. MAVROMATES: Thank you.

10 TREASURER CAHILL: Donny is going to step in  
11 for Karen.

12 MR. TRAVAGLINI: Tom.

13 TREASURER CAHILL: Oh, Tom. I'm sorry.

14 MR. HANNA: Thank you. The budget is on  
15 page 5 of the agenda. This is January 31st.  
16 Overall, our investment manager fees are over  
17 budget or would be over budget because  
18 performance is better than expected this year.  
19 So really what we're looking at is  
20 outperformance. However, for domestic equity  
21 fees, our shift to indexed managers from active  
22 management has saved us money. And timber, in  
23 our timber asset class, we have actually realized  
24 some clawbacks from performance fees for Forest  
25 Investment Associates, our timber advisor. So

1       those two things have offset what would otherwise  
2       be a moderate over budgeted investment management  
3       fees, again, due to the outperformance in the  
4       markets.

5               For operations and advisors, we're under  
6       budget by \$412,000. I think the biggest variance  
7       is in technology, and we expect this variance to  
8       grow as we go through the fiscal year. What's  
9       happening here is we are shifting some projects  
10      that were expected to be completed this year into  
11      next year. So Donny will discuss that more when  
12      we go over the fiscal 2011 budget, but those are  
13      the largest variances. So in a big picture  
14      what's happening here, unless there are any  
15      questions on specific line items.

16           TREASURER CAHILL: Any questions of Tom?  
17      Very good. Thank you.

18           MR. HANNA: Thanks.

19           TREASURER CAHILL: We'll move on to the  
20      executive director's report.

21           MR. TRAVAGLINI: Thank you, Mr. Chairman,  
22      and good morning. First, a staff update. I  
23      don't know whether the Board has seen, but  
24      Matthew Marx, our director of information  
25      technology has resigned since we've last met. He

1 and his family are moving back to Austin, Texas,  
2 where Matt is from, and Matt has an opportunity  
3 with a technology firm startup. So good news, I  
4 mean, obviously, Matt's done a great job in the  
5 time that he was here, and we've gotten a lot  
6 done vis a vi our technology upgrades. We're at  
7 a point where a large part of the heavy lifting  
8 is done.

9 We certainly need to look for a  
10 replacement, and I hope the Board stays committed  
11 to having a senior level IT person here at the  
12 Board because I think it is a very worthwhile  
13 expenditure. We've already gotten, Stan, what a  
14 hundred resumes. We have posted the job and  
15 there seems to be genuine interest by lots of  
16 people in the industry. So we're trying to work  
17 our way through the large number of resumes that  
18 we've received, and we'll keep you posted, but  
19 our plan is to find a replacement to serve as  
20 director of IT for the PRIM Board.

21 Karen, she'll probably kill me, but  
22 Karen had surgery for a disk problem in her neck.  
23 The surgery was very successful yet she's still  
24 not at a point where she can return to us. Stan  
25 and I and others have been in regular contact

1 with her at home and she's doing fine, and we  
2 hope that she will be back with us shortly.

3 From a client service perspective, we  
4 can report Essex County, as you may know,  
5 previously voted last November to transfer all of  
6 its assets to the PRIT fund. That transfer  
7 actually took place on March 1st or at least the  
8 lion's share of the assets came in on March 1st,  
9 and you may recall the Boston Teachers issue  
10 that's been kicking around for a long time. So  
11 this issue of the Boston Retirement System  
12 actually physically has custody of some of the  
13 assets that go towards the state teacher  
14 retirement liability. So it's been this sort of  
15 anachronism that's existed for a long time that  
16 people have tried to correct legislatively.  
17 Well, that legislation is about to pass wherein  
18 about a billion dollars of the Boston retirement  
19 assets that are associated with the state teacher  
20 liabilities will be transferred into the PRIT  
21 fund in an equitable fashion, meaning the assets  
22 should reside where the liabilities are paid out  
23 of. So I will obviously keep you posted on that  
24 transfer.

25 MS. MCGOLDRICK: Can I ask a question.

1 MR. TRAVAGLINI: Absolutely.

2 MS. MCGOLDRICK: Does that mean we manage  
3 and invest that money now?

4 MR. TRAVAGLINI: That is correct.

5 MS. MCGOLDRICK: But we just had reflected  
6 the liabilities although they invested them  
7 prior. Is that how it works now? They are  
8 investing that money.

9 MR. TRAVAGLINI: Well, they were making the  
10 investment decisions on it, and the payments were  
11 being paid out of the PRIT fund to their  
12 beneficiaries.

13 MS. MCGOLDRICK: Okay. I just wanted to  
14 understand it.

15 MR. TRAVAGLINI: So now we're making the  
16 investment decisions on it, but they'll be  
17 treated like a participant. This liability will  
18 be sort of like an accounting ledger like our  
19 other municipal systems on behalf of the Boston  
20 Retirement System, just that the assets will  
21 physically move into our pooled investment  
22 account.

23 MR. BROUSSEAU: As of when, Michael?

24 MR. TRAVAGLINI: Well, the legislation is  
25 about to be passed. And so, again, we're open on

1 the first of every month to take money. We need  
2 to talk with them about their current holdings  
3 and let them decide sort of where they're going  
4 to liquidate from to give us the assets because  
5 obviously, New England Pension Consultants needs  
6 to pay attention to their asset allocation and  
7 make sure that it's not impacted in an inordinate  
8 way. So they're going to need to decide which  
9 pots of money that total amount will come out  
10 from. So we're sort of advising them this is  
11 when we take money. This is how we'll take it.  
12 They need to decide where they're going to fund  
13 it from.

14 MR. BROUSSEAU: And their board is amenable  
15 to this.

16 MR. TRAVAGLINI: Oh, yes. There has been a  
17 working group that has involved the Teachers  
18 State Retirement, the secretary of A&F, PRIM,  
19 PERAC. This has been going on as an issue for  
20 two years now. So I think all of the parties who  
21 need to be aware are aware. It's just that we're  
22 at the point where we're finally going to  
23 implement a transaction in the relatively near  
24 future.

25 And, lastly, Mr. Chairman, I wish I

1        didn't have to but I passed out to each of the  
2        trustees and I hope you've had a chance to look  
3        at it because I don't plan on spending a lot of  
4        time on it, but it's a letter from Senator and  
5        Lieutenant Governor Candidate Richard Tisei on  
6        his campaign stationery. So that should let you  
7        know a little bit about the motivation for this.  
8        Received it minutes before the meeting this  
9        morning, and they're asking us to put an agenda  
10       item on the meeting which relates to placement  
11       agents and the information around placement  
12       agents, and if you're not aware, the Baker-Tisei  
13       campaign has attempted to create an issue where  
14       there isn't one, frankly.

15                I mean, if there's ever an election year  
16       stunt, this letter is certainly it, given the  
17       timing of it and the way that it was delivered  
18       this morning. But be that as it may, I think it  
19       presents just a good opportunity for us to remind  
20       everybody that the manager selection process  
21       here, we are very comfortable with in terms of  
22       the integrity of that process and I think, and  
23       you're free to tell me otherwise, that I think  
24       the Board as a whole is also comfortable with the  
25       integrity of the manager selection process here.

1 Right?

2 It is competitively done. We use  
 3 outside consultants who vet managers along with  
 4 staff. There are multiple layers of due  
 5 diligence involving the search committee, the  
 6 investment committee, outside consultants, and  
 7 then the full board of trustees, as you know. We  
 8 also every year audit every procurement we do in  
 9 the course of a year with an outside independent  
 10 auditing firm which is currently KPMG. I'm not  
 11 sure there are any other pension funds, and if  
 12 there are, they're certainly not many who do that  
 13 back end review after a selection has been made.

14 So, you know because it's been delivered  
 15 in a high profile fashion, I don't want it go  
 16 unaddressed because I think there's some danger  
 17 in that. But I think it's way off base, and  
 18 unless any of you has any questions or concerns,  
 19 we can get to the real business that we have on  
 20 our agenda today. Bob.

21 MR. BROUSSEAU: Well, first of all, you're  
 22 right, it comes at the 11th hour, April 6. It  
 23 arrived at 9:25 this morning. Do all these  
 24 individuals receive copies of our SAS 70?

25 MR. TRAVAGLINI: Well, no. I mean,



1 obviously, we haven't sent them to the  
2 Baker-Tisei campaign, but maybe we should. Maybe  
3 I'll do that this afternoon.

4 MR. BROUSSEAU: It is a public document.  
5 And I would send the SAS 70s for as long as we've  
6 been doing them and send them over there so they  
7 can take a good look at them.

8 TREASURER CAHILL: I'm sure they will.

9 MR. BROUSSEAU: And furthermore, if it was  
10 going to come, you take something under  
11 advisement. You don't take action on something  
12 like this at a meeting when you get it five  
13 minutes before. I wouldn't do that as chair of  
14 the school committee in Wareham. I'd send them  
15 all the documentation that we have and also every  
16 year we get the highest award given by Government  
17 Accounting Services. I'm on the financial side,  
18 but the SAS 70, they should have copies and let  
19 them look at it. And if they have any concerns  
20 or questions, let them raise them.

21 MR. TRAVAGLINI: Theresa?

22 MS. MCGOLDRICK: I just wanted to add that  
23 speaks to placement agents, and I believe we  
24 implemented a placement agent disclosure policy,  
25 and we have been practicing that for some time.

1 I just wanted to add that.

2 MR. TRAVAGLINI: Yeah, and, again, what I've  
3 said in response to their complaints, I'm not  
4 sure what the right characterization is, we've  
5 been doing as a process what they are calling for  
6 us to do for over ten years. The one piece is we  
7 don't have it available real time on our website.  
8 Now, if the Board thinks we need to do that,  
9 that's fine. Frankly, I think that's not  
10 necessary. Anyone who's sought this information  
11 and has requested it has gotten it on the same  
12 day that it's been requested. So that's the one  
13 clarification. I think they're still holding out  
14 the fact that it isn't on our website, to keep  
15 this issue alive, but, frankly, it's an issue  
16 that has no basis in fact in terms of processes  
17 that we conduct down here.

18 MR. SHANLEY: Now, Michael, would you  
19 respond to this in writing?

20 MR. TRAVAGLINI: No. This one I won't. Any  
21 sort of newspaper articles -- and then I should  
22 admit now, I probably should have done it sooner,  
23 Charlie Baker himself was on WRKO radio, and I  
24 chose to call in, and I think I was described as  
25 prickly, and what I tried to convey was -- let me

1 know when everybody's finished.

2 But I think you agree. We understand  
3 it's an election year. Everybody understands  
4 that. And for those of us who were here in 2002,  
5 which was the last time a Treasurer ran for  
6 Governor, we know this is the type of gimmick  
7 that we deal with. Right? It's plain as day.  
8 We know that's it's going to happen.

9 My point is, on the pay to play stuff,  
10 is that goes to the integrity of everybody  
11 sitting at this table. And call me prickly, but  
12 I'm not going to stand down even in an election  
13 year when they're calling in to question the  
14 integrity of everyone on staff and everyone on  
15 this Board as it relates to how we make decisions  
16 because that is just me. I'm not going to let it  
17 happen, regardless of what corner it's coming  
18 from and what their motivation is.

19 So it shouldn't go unaddressed. I think  
20 we've already spent more time on it than  
21 necessary this morning, and, frankly, we've got  
22 more important business on behalf our  
23 beneficiaries to conduct today. So I just wanted  
24 to make sure that we made that clear. And that  
25 concludes my report, Mr. Chairman. Thank you.

1 MR. MENNIS: Michael, I have one question.

2 MR. TRAVAGLINI: Sure, Greg.

3 MR. MENNIS: It sounds like Essex is going  
4 fine. I'm only asking because there's been a lot  
5 of governance concerns that have been public, but  
6 no hiccups on our end.

7 MR. TRAVAGLINI: Yeah, there's no hiccups on  
8 the transition. There are still -- the  
9 governance isn't completely resolved up there,  
10 but PERAC is sort of the agency of jurisdiction  
11 to continue to bring that to resolution, but it  
12 hasn't affected the transfer of the assets.

13 TREASURER CAHILL: Anyone else? Okay.  
14 We'll move into Investment Committee. Stan and  
15 the team.

16 MR. MAVROMATES: So I'm on page 11 of the  
17 agenda, and I want to spend a minute or two here  
18 to describe, if you recall, the program or  
19 recommended procedure by which we go through  
20 this. There's one issue here that we had passed  
21 a manager sizing policy at the last meeting. If  
22 the recommendation today is approved, we will  
23 violate that policy, and we're asking the Board  
24 to do that for very valid reasons. So I'm  
25 placing that -- bringing that topic up now. The

1 way that we recommend that we proceed is to go  
2 through the two RFPs, Hannah and Peony and  
3 EnnisKnupp will go through those two RFPs, have  
4 the recommended firm come in, present, and then  
5 entertain all questions related to the two  
6 recommendations and the manager sizing issue at  
7 the conclusion, after the recommended firm  
8 presents. If that is fine for the Board, I would  
9 just move in that direction. If not, we can  
10 certainly discuss it further right now.

11 MR. MENNIS: I think that's fine. If we  
12 could just frame it a little bit, that might  
13 help. Because the manager sizing one is the  
14 25 percent threshold for index funds.

15 MR. MAVROMATES: That's correct.

16 MR. MENNIS: And from our conversations  
17 yesterday, I think I understand that maybe after  
18 this we might go to 26 percent.

19 MR. MAVROMATES: Yeah. I'll hand out the  
20 actual sizing numbers, as they add up to if  
21 everything's approved, so you can have a frame of  
22 reference. As a frame of reference, we passed  
23 the policy that said we would not allow any firm  
24 that passively manages portfolios in aggregate of  
25 25 percent or more. These are all separate

1 accounts. And as a reminder, we only found one  
2 other plan sponsor in the country that actually  
3 has a policy. Nobody else does.

4 And so this comes down to, I would say,  
5 fees versus a policy issue, and the economics of  
6 this I think we are in favor of perhaps granting  
7 exception in this particular case.

8 MS. MCGOLDRICK: And the fees are other  
9 finalists are three times the fees?

10 MR. MAVROMATES: Correct. That's correct.  
11 We can quantify that as we go through, if that's  
12 fine with the Board. I'm certainly here to do  
13 anything you want, but that's the recommended  
14 course of action at this point. So Hannah and  
15 Peony and Max, if you want to come up.

16 MS. COMMOSS: So I'm at the bottom of  
17 page 11 in the board agenda. In addition, we  
18 wanted to just mention that the complete search  
19 committee report for the world ex-US IMI RFP is  
20 contained at Appendix G, and EnnisKnupp's memo on  
21 the search is contained at Appendix F.

22 In December of 2009 PRIM issued a  
23 request for proposals for a \$1.5 billion world  
24 ex-US index mandate benchmarked to the MSCI world  
25 ex-US investable market index. A full accounting

1 of the RFP procurement and initial search review  
2 processes can be found on pages 11 and 12 in the  
3 agenda package as well as in the search committee  
4 report.

5 After review of the RFP selection  
6 criteria, four firms: BlackRock, Mellon Capital  
7 Management, Northern Trust, and State Street  
8 Global Advisors were selected as finalists for  
9 the RFP. On March 3, the Search Committee  
10 conducted interviews of all four of the firms,  
11 and there is significant detail provided in both  
12 the agenda package and the search committee  
13 report on the search committee's impressions of  
14 all of the finalist candidates.

15 Given the stability of the organization  
16 the depth and tenure of the portfolio management  
17 team, their fee bids, and the commodity-like  
18 nature of the equity indexing business, the  
19 Search Committee and Investment Committee are  
20 recommending State Street Global Advisors to the  
21 PRIM Board for management of a \$1.5 billion  
22 passive separate account mandate benchmarked to  
23 the MSCI World ex-US investable market index.

24 SSgA's international indexing  
25 capabilities date back to 1979 and as of December

1        31, SSgA has \$312 billion in non-US index assets  
2        under management. It's also worth specifically  
3        pointing out that of the four finalist firms,  
4        SSgA is the only candidate with practical  
5        experience managing a separate account to the  
6        MSCI world ex-US IMI index. The search committee  
7        viewed that as a distinct advantage.

8                In addition to their scale and  
9        demonstrated product capability, one of SSgA's  
10       biggest competitive advantages is their deep and  
11       stable investment management team led by Lynn  
12       Blake, who's been at State Street for over 20  
13       years and Karl Schneider, the world ex-US  
14       portfolio manager who's been at State Street for  
15       over 12 years. While the PRIM board and SSgA  
16       have had a very positive investment management  
17       relationship going back maybe 20 years, the  
18       Search Committee and Investment Committees'  
19       confidence in SSgA has grown since Scott Powers  
20       took over as CEO in 2008.

21               In his tenure Scott has demonstrated his  
22       commitment to the ongoing strength and viability  
23       of the organization by improvements he's made to  
24       SSgA's leadership team, as well as to the  
25       governance and reporting structures and



1 processes. SSgA discussed these improvements  
2 with the Search Committee during their March 3  
3 interview and on our March 19th on site due  
4 diligence visit.

5 Outside of their established ability in  
6 the world ex-US IMI indexing space and their firm  
7 commitment to passive investment management,  
8 their fee bid was extremely compelling. As  
9 detailed in your agenda in the middle of page 13,  
10 The State Street Global Adviser's best and final  
11 fee bid was nearly three times lower than the  
12 nearest competitor's bid.

13 In conclusion, the Search Committee and  
14 Investment Committee are recommending State  
15 Street Global Advisors to the Board for the  
16 management of a \$1.5 billion passive separate  
17 account mandate benchmark to the MSCI world ex-US  
18 investable market index. As Stan mentioned in  
19 the introduction, SSgA is here to present today,  
20 after Peony goes through the emerging markets  
21 RFP. And they're represented by James Case, who  
22 is an executive vice president and head of global  
23 sales and marketing; Karl Schneider, vice  
24 president and senior portfolio manager for the  
25 world ex-US IMI mandate; Tom Coleman, vice

1 president and portfolio manager of the emerging  
2 markets product; and Mary Guy a vice president  
3 and senior relationship manager. Scott Powers  
4 would like to have been here, but he had previous  
5 plans to be in Korea on business. With that I'll  
6 pass it over to Peony.

7 MS. KEVE: Thank you. Hannah covered a lot  
8 of similar comments that I would normally go over  
9 since the candidates were the same. So PRIM  
10 Staff issued an RFP to procure an investment  
11 manager to manage a \$600 million passive emerging  
12 markets mandate. This mandate will be  
13 benchmarked to the MSCI emerging markets  
14 investable market index. And as a reminder, the  
15 PRIM Board voted to change its global equity  
16 benchmark from the MSCI standard index  
17 methodology to the investable market index  
18 methodology or IMI for short. The new IMI  
19 methodology covers 99 percent of global market  
20 capitalization and includes large, mid, and small  
21 cap markets.

22 The RFP was issued on December 14, 2009,  
23 and responses were due back January 29, 2010.  
24 There were only four respondents, one of which  
25 did not qualify the minimum criteria because it

1 offered an enhanced product rather than a passive  
2 product. The remaining three respondents were  
3 Northern Trust, BlackRock, and State Street  
4 Global Advisors or SSgA, and each of these  
5 candidates were interviewed March 3, 2010.

6 Based on the March 3rd interview and the  
7 due diligence meeting held on March 19, PRIM  
8 Staff is recommending SSgA to manage the \$600  
9 million passive emerging markets mandate. The  
10 key reasons for this decision include, first,  
11 that SSgA offers very strong index management  
12 capabilities. Its track record dates back to  
13 1991 for emerging markets passive mandates, and  
14 that includes all types of benchmarks.

15 It's long term ten-year tracking error  
16 is quite low at 60 basis points, and while SSgA  
17 does not currently manage an emerging markets IMI  
18 mandate, it does manage an all country world IMI  
19 mandate, which encompasses the emerging markets  
20 IMI universe. So effectively it has experience  
21 managing to the IMI benchmark in emerging  
22 markets.

23 Second, it has a deep and stable  
24 investment team as Hannah had mentioned with an  
25 average of over 15 years of experience. Third,

1 the SSgA team and CEO Scott Powers really  
2 demonstrated the firm's dedication to its  
3 clients, it's focus on passive management, and  
4 overall business strength and strategic  
5 positioning.

6 Finally, SSgA offers the most  
7 competitive fee bid, which is between 2 and 3  
8 times less than the other two candidates. For  
9 additional detail, please refer to the search  
10 committee package and EnnisKnupp's memo in the  
11 Appendices I and J of your packages. Now I'll  
12 turn it over to Max, and EnnisKnupp, for any of  
13 his comments.

14 MR. KOTARY: I think both Hannah and Peony  
15 did a good job of outlining the issue. In  
16 looking at both searches I think when you're  
17 looking for an index fund manager, and as Hannah  
18 mentioned, it is somewhat of a commodity. It's  
19 kind of a scale business. And when we looked at  
20 the respondents to the RFP, I think both  
21 BlackRock and SSgA kind of emerged as head and  
22 shoulders above, as far as investment  
23 capabilities.

24 Looking at those two candidates we in  
25 narrowed it down to kind of tracking and fees to

1 focus on, and I think they have a similar  
2 capability, but when it comes down to fees, it's  
3 a little bit difficult to justify paying 2.75 or  
4 3 times for indexation. So with that we fully  
5 support staff's recommendation to move forward  
6 with SSgA.

7 MS. COMMOSS: If there are no questions at  
8 this moment, I'll just grab SSgA.

9 MR. AIKENS: Yeah, actually, a couple of  
10 questions. Now, they are paying us or we are  
11 saving a couple of basis points on the 1 percent  
12 overage. Is that the math? I mean, if I'm going  
13 to violate my policies, my cost of violation, if  
14 you will, is the differential on about a billion  
15 six, is that right, the fee differential?

16 MS. COMMOSS: Yeah. We're talking about  
17 roughly \$450,000.

18 MR. AIKENS: 450,000. If we held our  
19 policy, it would cost us 450,000.

20 MS. KEVE: On the IMI and then on the  
21 emerging markets another \$500,000.

22 MR. AIKENS: That's the cost of the  
23 violation.

24 MS. KEVE: That's right, the difference  
25 between.

1           MR. TRAVAGLINI: And year on year,  
2 obviously.

3           MS. KEVE: Yeah.

4           MR. AIKENS: I just wanted to know how much  
5 it cost me to not be true to my policies. The  
6 second question is separate account.

7           MR. BRANTLEY: Well, that would be if they  
8 got both mandates. That's the math there.

9           MS. KEVE: Yeah.

10          MR. BRANTLEY: If we only got one mandate,  
11 we would still be within the parameters of the  
12 policy.

13          MR. AIKENS: If we had to take the separate  
14 account, do we know what we would do?

15          MS. COMMOSS: We're recommending separate  
16 accounts.

17          MR. AIKENS: If it eventuated. If it was  
18 like Ivy and we had to take control, do we know  
19 what we would do?

20          MS. COMMOSS: Yes.

21          MR. AIKENS: We know where the assets are.

22          MS. COMMOSS: We would take ownership the  
23 same day. You know, that is the reason that we  
24 go into separate accounts is because we maintain  
25 ownership. Somebody else has investment

1 management responsibility, the underlying  
2 securities are in PRIM's name. We would reclaim  
3 them on the same day. We feel that it offers the  
4 best protection.

5 MR. AIKENS: So we know where they all are,  
6 they're in our name, no problem.

7 MS. COMMOSS: Yes. Any other questions?

8 MR. TRAVAGLINI: I just want to also raise  
9 for the Board, because I can never resist an  
10 opportunity to talk about my opposition to  
11 divestment, the tracking error on the emerging  
12 markets will be complicated by our Sudan and  
13 tobacco restrictions that we have in place. So  
14 that's the one thing, as we monitor going  
15 forward, we're going to see tracking error which  
16 is a little bit louder than normal because of  
17 trying to implement those investment  
18 restrictions.

19 MS. MCGOLDRICK: I thought, though, I did  
20 read something in here that said State Street was  
21 by far the best at looking at those.

22 MR. TRAVAGLINI: In management, but there  
23 are just certain market conditions where that's  
24 going to show up more on your return diversion  
25 from the benchmark that has no restrictions, I

1 guess.

2 (State Street Global Advisors enters the  
3 room.)

4 MR. TRAVAGLINI: Good morning, everyone. Go  
5 ahead, Mary, the floor is yours.

6 MS. GUY: All right. Thank you,  
7 Mr. Treasurer, the Trustees, Staff, thank you  
8 very much for inviting us here today. My name is  
9 Mary Guy. I'm the relationship manager at State  
10 Street Global Advisors. With me today I have  
11 Jamie Case, executive vice president, member of  
12 the executive management group at SSgA and also  
13 the head of global sales and marketing; Karl  
14 Schneider is a vice president and senior  
15 portfolio manager. Carl's going to discuss the  
16 passive team and the world ex-US IMI product, and  
17 Tom Coleman is a vice president and portfolio  
18 manager, and Tom will be covering the emerging  
19 market IMI. So with that I will turn it over to  
20 Jamie.

21 MR. CASE: Thank you, Mary. Thank you,  
22 Mr. Treasurer, Trustees, and Staff. On behalf of  
23 my colleagues on the executive management team  
24 and State Street Global Advisors, I'm honored to  
25 be here today. We have been privileged to have



1 managed assets, passive assets for PRIM for over  
2 20 years now, and view it as one of our most  
3 important valued clients. Thank you for your  
4 existing business and thank you for the  
5 opportunities that you're presenting us here  
6 today.

7 We believe that we are well-positioned  
8 to manage these new passive assets for PRIM.  
9 First, we manage over \$1.2 trillion in passive  
10 assets for our existing clients. This is a  
11 critical and core part of our business model.  
12 And we've invested heavily in our teams, in our  
13 technology, in our trading resources, to create a  
14 global scalable business. This scale and scope  
15 enables us to create efficiencies and to manage  
16 these assets in a cost effective manner, and  
17 we'll pass these on to you in the form of type  
18 tracking to your selective benchmarks.

19 Second, we believe we've emerged from  
20 the financial crisis as a stronger and better  
21 company. The corporation is deeply strong and  
22 stable. Recently State Street Corporation  
23 promoted its long time president Jay Hooley to  
24 our new CEO. Jay has spent his entire career at  
25 State Street, and as such his employment takes us

1 forward on a consistent and strategic path with  
2 his new management team in place.

3 Additionally, through the leadership of  
4 State Street Global Advisors CEO, Scott Powers,  
5 over the last two years we have invested heavily  
6 in our management resources and additionally our  
7 governance structure. We have invested heavily  
8 in new legal risk and compliance folks. To  
9 ensure their independence we, have been reporting  
10 both to our CEO of global advisors as well as to  
11 the corporation itself. As a testament to that  
12 financial stability and strength, in 2009 we  
13 added over \$240 billion in net earned assets for  
14 our clients. And now Karl will spend a few  
15 minutes on the investment team.

16 MR. SCHNEIDER: In the interest of time, of  
17 course, I will not go over all the slides in the  
18 presentation, but under tab 2 we have the  
19 organization chart of the passive team at SSgA,  
20 and I just wanted to point out a few things with  
21 regards to the team.

22 The stability of the team is something  
23 that should be noted. If you've seen this org.  
24 chart over the past decade or so, there really  
25 hasn't been all that many changes in that time.

1 If anything, over the last couple years there  
2 have been some net adds to staff, given the  
3 increase in interest in passive investing. A lot  
4 of risk has been taken off the table over the  
5 last couple years and passive industry, State  
6 Street Global Advisors in specific, has  
7 benefitted from that.

8 Also, a very experienced team. The  
9 average tenure of the portfolio managers in our  
10 group is approximately 12 years. The portfolio  
11 managers on the PRIM relationship: Lynn Blake,  
12 who heads up our non-US team within the group,  
13 has been with the team for over 20 years.  
14 Myself, I've been here about 14 years. Tom has  
15 been here about 10 years.

16 So it definitely makes sense to have a  
17 stable and experienced team with this. Although,  
18 with passive management as opposed to active  
19 management, it's not so much the star power of a  
20 specific portfolio manager, as much as I'd like  
21 to think of myself as a star. It's really all  
22 about the process and the support functions that  
23 we have built into our process.

24 And speaking of the support functions,  
25 down on the right-hand corner we call it the GSPG

1 toolkit. It talks about, really, the three  
2 functions within our company that make the  
3 passive process go so smoothly and without it, it  
4 wouldn't function nearly as well as it does. Our  
5 global trading operation, 23 traders, three  
6 trading desks around the world such that we can  
7 trade on a 24-hour basis. Our operations group,  
8 80 dedicated professionals that are doing our  
9 passion daily, reconciliations on our portfolios,  
10 making sure that our portfolios look good when we  
11 get in in the morning. Our data group as well, a  
12 specific team just scrubbing all of the data that  
13 comes in over night, something like 50,000 data  
14 items each night that needs to be checked and  
15 verified and scrubbed to make sure that's all  
16 ready to go in the morning when we get in.

17 The next page I just wanted to point out  
18 a couple of important points. We do have  
19 extensive non-US passive experience. We've been  
20 successfully managing international index assets  
21 since 1979 with our first EAFE portfolio. We  
22 started our first market to market fund in 1990,  
23 and of course we've been managing your passive  
24 non-US developed as is since 1997. Having such a  
25 large and diverse asset base helps in terms of

1 trading, since we are always seeking out natural  
2 sources of liquidity. Internally within the GSPG  
3 in Boston we generate an average of greater than  
4 \$40 billion of trades each month.

5 In addition to that, we're also able to  
6 tap in to the liquidity of State Street's Global  
7 markets business. Last year they did over 1,000  
8 different restructurings worth approximately \$400  
9 billion in assets. So this is important in terms  
10 of lowering transaction costs and keeping trades  
11 off the market.

12 Under tab 3 I just briefly want to  
13 mention the world ex-US IMI strategy. We did  
14 change benchmarks in December from EAFE to the  
15 world ex-US IMI. It's essentially replicated,  
16 though we do tend to avoid the real small cap  
17 illiquid names at the bottom of the benchmark  
18 spectrum. We do consistently run the portfolios  
19 through our risk models to make sure, though,  
20 that we're capturing the risk and return  
21 characteristics of the IMI benchmark.

22 And then, lastly, I just wanted to point  
23 out we have two slides of composite performance  
24 on page 25 and 26. We've been managing assets to  
25 the IMI benchmark since the IMI benchmarks were

1 created in June of 2008, and then we have the  
2 longer period of history shown on the next slide,  
3 world ex-US composite since 1997. The takeaways  
4 from this, really, I just want to show the  
5 long-term track record of consistent performance,  
6 and, really, that's what you should expect when  
7 hiring a passive index manager. Tom's going to  
8 speak about the emerging markets.

9 MR. COLEMAN: Thank Karl. Like Karl, I'm  
10 not going to touch on every single slide, but if  
11 you head to tab 4 on page 29, this is the passive  
12 emerging markets AUM pie chart as of December of  
13 last year. At that point we had over 36 billion  
14 in emerging assets under management. As you can  
15 see the blue portion which represents the lion's  
16 share of the assets was benchmarked to MSCI  
17 indices, and the reason for that is clients have  
18 had MSCI, EAFE, and MSCI World mandates and  
19 they've wanted to broaden that to include  
20 emerging by getting an ACWI or ACWI-ex strategy.  
21 MSCI emerging is the most logical choice, if  
22 you're looking to get MSCI, EAFE, or MSCI world  
23 exposure.

24 And if you look down to slide 30,  
25 there's 22 markets on the right-hand side. Those

1 represent all the countries that comprise the  
2 emerging IMI benchmark. The top 90 percent of  
3 the benchmark is concentrated in about 750 names.  
4 The bottom 10 percent of the benchmark, which  
5 represents the small cap portion, is spread out  
6 over 1,800 names. So that being the case, we  
7 would recommend an optimized strategy as opposed  
8 to a replicated strategy because of the trade-off  
9 in transaction cost versus tracking error  
10 combined every single one of the small cap names.  
11 But if we were to actually take the portfolio and  
12 line up against the benchmark, with the exception  
13 of the Sudan and tobacco restrictions, that would  
14 be about 50 basis points of tracking error, but  
15 again through optimizing, we could lower that to  
16 about 30 basis points of expected tracking error.

17 If we move forward to page 31, this just  
18 quickly shows how we would construct the  
19 portfolio. We have over 90 percent local stock.  
20 We would employ the use of ADRs and GDRs in a  
21 market like Russia because liquidity is there and  
22 they're cheaper to transact. Some markets like  
23 Thailand don't allow foreigners to buy local  
24 stocks. So we'd be buying shares in the same  
25 company, just different share classes. And

1 finally, we'd have about 2 or 3 percent in  
2 futures exposure just to have some liquidity  
3 there for smaller type withdrawals.

4 Moving forward to page 35, this shows we  
5 don't currently have an IMI emerging small cap  
6 and large and mid cap in one strategy. We have  
7 two separate strategies. But again, 90 percent  
8 of this particular mandate would be represented  
9 by the top slide on page 35, which represents the  
10 standard emerging markets index, and there are  
11 many reasons why an emerging market mandate won't  
12 track as close as a US portfolio or an  
13 international developed portfolio.

14 Some of those reasons are compounding  
15 when you underperform a little bit in the  
16 beginning of the year and the index goes on a  
17 tear like it has recently. That tracking error  
18 tends to widen over the course of 12 months. In  
19 some countries, like Thailand, we can't hold the  
20 same exact share of the index. Some countries  
21 like Russia we're using ADRs and GDRs. So it's  
22 not as straightforward a construction as the  
23 strategy that Karl referred to.

24 So there's definitely reasons that make  
25 the tracking error for this type of strategy a



1     little bit wider than it would be for a US or an  
2     international developed portfolio. Many of those  
3     reasons are those that are out of our control.  
4     And that pretty much sums up the emerging portion  
5     of the presentation.

6           MR. MENNIS: Can you explain the difference  
7     between optimization and replication and also how  
8     the futures component provides liquidity.

9           MR. COLEMAN: Sure. Optimizing would be if  
10    we basically invest -- so there's about 2,600  
11    stocks in benchmark. So if we more or less  
12    bought all 2,600, with the exception of the  
13    restrictions that would be basically replicated  
14    to the benchmark. Optimizing is where you don't  
15    buy every single stock but you, and especially  
16    with the restrictions that you can't buy from  
17    Sudan and tobacco, you would sort of basically  
18    run it through the risk optimizer and you could  
19    come up with a subset of 2,600, say, 1,500  
20    stocks, and so by doing that you can actually  
21    release the tracking error. You would actually  
22    buy everything less the exceptions.

23           MR. MENNIS: How does that release tracking  
24    around replications, because you're not bumping  
25    into as many liquidity --

1           MR. SCHNEIDER: And transaction costs  
2 involved with investing in that small cap  
3 portion, especially in Emerging Markets.

4           MR. COLEMAN: And the second question was  
5 futures?

6           MR. MENNIS: Yeah.

7           MR. COLEMAN: For futures, if there was only  
8 a \$2 million or a \$3 million redemption and we  
9 have everything invested just solely in stocks  
10 and there was a short turnaround for the time we  
11 needed liquidity, we'd actually have to go to  
12 market and sell the stocks, wait until we brought  
13 the proceeds back to dollar. But if we actually  
14 have some futures equitizing some US dollars in  
15 the account, then we could, in a short period of  
16 time, turn around and facilitate a relatively  
17 smaller size redemption.

18          MR. MENNIS: Equitizing US dollars.

19          MR. COLEMAN: Right.

20          MR. MENNIS: At our last meeting I think we  
21 were educated that there's been a big development  
22 in Emerging Markets index funds where now all  
23 2,600 whereas in the past at least some of the  
24 indices the people used were excluding some of  
25 the SMID companies. Is that a roughly accurate

1 understanding of things? Does that require  
2 ongoing investment technology, things like that?

3 MR. SCHNEIDER: Well, I think part of that  
4 problem stems from the creation of the IMI  
5 indices whereas before there wasn't a dedicated  
6 small cap emerging market index. That was purely  
7 investibles. MSCI created these IMI benchmarks  
8 in response to investor demands. Large and mid  
9 cap space is very well represented, but the small  
10 cap not so much. So rolling it out globally, not  
11 just US and non-US but also in the emerging  
12 market space.

13 MR. MENNIS: You guys could have always done  
14 this, just not with an index benchmark.

15 MR. SCHNEIDER: That's correct.

16 MR. COLEMAN: It's all the same markets. So  
17 there's nothing that needs to be set up through  
18 investments and securities. It's just going more  
19 down the spectrum through the market cap.

20 MR. MENNIS: Is there a secondary operating  
21 method after tracking error that you are mindful  
22 of? Are there fund accounting errors and that  
23 sort of thing that factor into the equation for  
24 an index fund like you?

25 MR. SCHNEIDER: Well, there's all sorts of

1 risk and compliance controls built into the  
2 process, and that's something that we have risk  
3 teams and compliance teams specifically looking  
4 at in addition to ourselves. As portfolio  
5 managers, really, tracking error is our first  
6 line of defense and really job number one. We  
7 need to assure the performance down to the single  
8 basis point. So looking at these portfolios each  
9 and every day and knowing where over or under  
10 performance comes from is crucial.

11 MR. MENNIS: But you mentioned there's been  
12 investments as sort of the headline.

13 MR. CASE: That is correct, but there's also  
14 been a continued ongoing investment in that  
15 operational infrastructure to facilitate very  
16 smooth movement of funds from you to us, to the  
17 investment teams, and then back out again because  
18 you could run risks in that area.

19 TREASURER CAHILL: Any other questions?

20 MR. CASE: Thank you very much for your time  
21 today. We appreciate the opportunity to manage  
22 your business, and we look forward to taking on  
23 additional business and continuing our  
24 partnership with you. Thank you very much.

25 MR. MAVROMATES: So we did what we said. We

1 just headlined the issue of the manager sizing  
2 policy, presented a recommendation. You've heard  
3 from the manager. We'll entertain any questions  
4 for all of those items, as I mentioned, the  
5 economics of this we think outweigh the benefits  
6 of the limitations of the manager sizing policy  
7 roughly to the tune of over \$800,00 a year. If  
8 you add it up over 10 years, that's \$8 million.  
9 Average pension payment in the Commonwealth of  
10 Massachusetts is \$24,000 a year.

11 If you think of it in that context,  
12 that's a lot of pensions to be paid, and that's  
13 why we feel very strongly about this. We feel  
14 that those economics outweigh the limitations of  
15 the policy, and we feel very comfortable because  
16 it's a separate account. As others have brought  
17 up, almost all of our public markets are separate  
18 accounts. We've had experience taking over  
19 things. And all through the crisis, that team at  
20 State Street never had any issues. You've read  
21 in the paper about other teams, but this specific  
22 team in the equity index fund did not have any  
23 issues. They did not lose any talent, nobody got  
24 fired, et cetera, et cetera.

25 TREASURER CAHILL: We discussed this at the

1 investment committee meeting, I think, that as  
2 this portfolio grows and it starts to take up a  
3 bigger percentage, we will continue to review  
4 this and bring it back to the Board and the  
5 Investment Committee if it gets up to 30 percent  
6 at some point because the assets grow. Is that  
7 correct?

8 MR. SHANLEY: I think at the investment  
9 committee we said if we went forward this would  
10 be a six-month review, a year review. It would  
11 be more closer monitoring because of the  
12 percentage, percentagewise.

13 TREASURER CAHILL: Just so the Board knows  
14 that because that's probably what we hope will  
15 happen is that it will grow, and if it takes up a  
16 bigger and bigger piece, then we can review it  
17 and go back. Any questions? Anyone else?

18 MR. MENNIS: We're not going to have a  
19 formal policy about 30 percent or anything like  
20 that?

21 TREASURER CAHILL: No. But we are going  
22 review, and that is formally part of the  
23 Investment Committee and we'll bring that to the  
24 Board as well.

25 MR. AIKENS: Just so that I understand, if

1     this grows, as long as it grows more slowly than  
2     the balance of the asset classes, we're never  
3     going to -- it will ultimately come into policy.  
4     It's a question of how fast this asset class  
5     grows relative; right? I have this right; right?

6             MR. MAVROMATES: That's correct.

7     Theoretically, everything can grow faster.

8             MR. AIKENS: We have to grow our way out.

9             MR. MAVROMATES: The way the policy is  
10     written, if we have to rebalance and they're over  
11     the policy, we won't rebalance or give them more  
12     money in order to get within the target. So  
13     there are some practical issues.

14            MR. AIKENS: The other thing I think the  
15     relationship manager on the way out talked about  
16     new business. There's nothing in the pipe line  
17     with SSgA, is there?

18            MR. MAVROMATES: No. There are not. There  
19     are no outstanding RFPs, and as you'll recall,  
20     we're doing all this because we made a strategic  
21     decision to index half of non-US and index a  
22     fourth of emerging, and this will be the last  
23     step in completing that strategy that Ennis  
24     recommended to this Board. So there are no other  
25     RFPs. The only RFP out there right now is the

1       ETI, and I think it would be stretch if State  
2       Street applied for that. I think that was the  
3       salesperson leaving the room.

4           MR. BROUSSEAU: Stan, you said we're going  
5       to be just 1 percent over the 25 percent.

6           MR. MAVROMATES: Yeah. The sheet I handed  
7       out is actually 26.6. So it's a little bit more,  
8       1.6 percent over.

9           MR. BROUSSEAU: And we're looking at  
10      \$430,000 total fees 200,000 and 230,000.

11          MR. MAVROMATES: There's a little confusion.  
12      I think Alex's question was asking what is the  
13      incremental amount, right, which is roughly \$660  
14      million would be roughly the assets, which LaRoy  
15      pointed out that's basically -- I would say  
16      that's the emerging markets mandate. That fee  
17      difference is \$470,000 a year. So in other  
18      words, the next closest competitor that we would  
19      recommend is three times what SSgA costs.

20          MR. AIKENS: It cost you 400,000 to violate  
21      your policy.

22          MS. MCGOLDRICK: And also if we were to go  
23      with BlackRock on one of these two, wasn't there  
24      an overriding concern with both search committees  
25      as to the acquisition of funds? There are other



1 reasons.

2 MR. MAVROMATES: Max.

3 MR. KOTARY: I'll just point out two things.  
4 We had a little bit of a concern with the  
5 acquisition of BGI and the integration into  
6 BlackRock. I think the other point we would make  
7 as it relates to the manager sizing policy is  
8 that I think the spirit of the policy is to limit  
9 exposure to any one organization, so we  
10 understand doing that, but if we were to give  
11 this to BlackRock, while BlackRock's our second  
12 biggest exposure, we already have four portfolios  
13 with them so are we really helping ourselves out  
14 by giving this to BlackRock?

15 MR. BRANTLEY: Not quite 26 percent, though.

16 MR. KOTARY: That is true but they are the  
17 second largest.

18 MR. BRANTLEY: I think every one of these  
19 managers had some hair on them in terms of  
20 considering them for the mandate and essentially  
21 it came down to the fees and if the other folks  
22 weren't willing to lower their bids to get there,  
23 they essentially ruled themselves out of the  
24 process. It's a tough argument because we are  
25 violating a policy that we just implemented, but

1 the common sense part of it is if you're going to  
2 compete, you've got to compete; and if one of the  
3 three larger factors is the fee, you've got to  
4 meet us. And we didn't see that.

5 MR. BROUSSEAU: Max, I guess the thing that  
6 boggles my mind somewhat is how the fees can be  
7 so much lower with SSgA and yet these people are  
8 in a competitive business.

9 MR. BRANTLEY: That was asked.

10 MR. BROUSSEAU: They know they're out of the  
11 competitive range.

12 MR. KOTARY: It's a really good question. I  
13 think two things. One, obviously, with SSgA  
14 considering the larger relationship, I think  
15 they're able to realize a few economies that  
16 maybe BlackRock couldn't, but I would say, too,  
17 that Legacy BGI and now BlackRock is somewhat  
18 known for not lowering the fees, and we asked for  
19 best and final. We usually get back the same fee  
20 they submitted whereas SSgA does tend to sharpen  
21 their pencils a bit.

22 MR. BROUSSEAU: They've got enough business.  
23 They don't need ours.

24 MR. BRANTLEY: No, no, no. They've got  
25 enough business with us that they were able to

1 scale in.

2 MR. BROUSSEAU: I'm talking about BlackRock.

3 MR. SHANLEY: I think BlackRock had some  
4 favored nation concerns. If they lowered for us,  
5 they would have to go lower for others. So that  
6 was one of their concerns.

7 TREASURER CAHILL: One of the main reasons  
8 we moved into index funds was to save money in a  
9 very big part of our portfolio. So it's not just  
10 the money we're saving versus other index funds.  
11 It's really the money we're saving by taking it  
12 out of an active manager, too. So that's a  
13 bigger piece of it. So if we did that for the  
14 first reason, it wouldn't make sense to then give  
15 it to a higher priced competitor, if all other  
16 things were equal. The fees are looked at at the  
17 end, not at the beginning. So they don't drive  
18 the process. But when it gets down to the end,  
19 we certainly have a fiduciary responsibility to  
20 look at it. I think the staff did a great job.  
21 I think the investment committee -- you know, we  
22 studied this and questioned it very very hard,  
23 and I think this is the right solution. It will  
24 be monitored as we go forward, and not only that  
25 but the fact that State Street is up the street

1 means I think we have to keep an eye on any  
2 business practices that might make us worried,  
3 and it's something that the staff can -- they can  
4 be down here. We can be up there in less than a  
5 half an hour, if there are any issues.

6 Seeing no other questions, I'll ask for  
7 approval that this Board accepts the Investment  
8 Committee's recommendation that we hire SSgA for  
9 both the 1.5 billion world ex-US and the IMI  
10 index mandate, and 600 million in emerging  
11 markets IMI index mandate as well.

12 MR. BROUSSEAU: So moved.

13 MR. SHANLEY: Second.

14 TREASURER CAHILL: All those in favor say  
15 aye.

16 THE BOARD: Aye (unanimous).

17 TREASURER CAHILL: Opposed? The ayes have  
18 it.

19 **(VOTED: That the PRIM Board approve**  
20 **hiring State Street Global Advisors**  
21 **(SSgA) for both a \$1.5 billion World**  
22 **ex-US equity IMI index mandate and a**  
23 **\$600 million Emerging Markets equity**  
24 **IMI index mandate, as recommended by**  
25 **the Investment Committee,**  
**acknowledging that these two mandates**  
**will push SSgA's allocation of the**  
**PRIT Fund above 25%; and, further,**  
**that the Board authorize the Executive**  
**Director to take all actions necessary**  
**to effectuate this motion.)**

1           MR. MAVROMATES: The next item is a  
2 non-voting item. It's more informational.  
3 Page 17 in your agenda is the quarterly ETI  
4 update. This one represents the fourth quarter  
5 of 2009. You can read it at your leisure, and  
6 also there are more details contained in Appendix  
7 K. The only thing I'll mention, and I usually  
8 don't do this, but pending legislation, there is  
9 a senate Bill 2345 that has language that  
10 suggests that the PRIM Board shall invest not  
11 less than 25 million or not more than 50 million  
12 in banks or financial institutions which make  
13 capital available to small business. If that is  
14 passed, this sort of teeing this up, we would  
15 foresee using the ETI program to implement such  
16 legislation.

17           Now, I'm going to caveat that with this  
18 is a proposed legislation that is not passed, but  
19 the reason I'm mentioning it now is because the  
20 next meeting, June 5th, I forget the exact date,  
21 is when we will have any ETI recommendations, and  
22 I want to make sure that the Board is aware of  
23 this legislation that perhaps may impact us.

24           MR. TRAVAGLINI: And in fairness to the  
25 legislature, they reached out in advance. And so

1 let me just frame the issue, because everyone  
2 knows it from just reading the current press.  
3 Lending to small businesses is still not at  
4 historic levels, normal, or whatever people  
5 consider normal. So that's the sort of problem  
6 they're trying to address.

7 We've told them that we understand that.  
8 We're still not sure the pension fund can play a  
9 meaningful role in that, but we've tried to  
10 advise them in what creative ways may be  
11 available for this type of program. So it's not  
12 like they did it without consulting us, but I've  
13 reminded them of what this Board's obligations  
14 are, which is to invest within our program, and  
15 even though there may be broader economic  
16 problems out there, we're not the funding source  
17 of last report for any sort of economic malady  
18 that exists.

19 So we'll continue to update you on it,  
20 but to Stan's point, this provision is in  
21 legislation and if it becomes law, we'll need to  
22 sort of figure out how we are going to respond to  
23 it becoming law.

24 MR. AIKENS: Stan, are you reading from  
25 something? I'm sorry. The proposed legislation.

1           MR. MAVROMATES: This is just the proposed  
2           legislation which is on the website which Paul  
3           gave to me. I can e-mail it to you. It's  
4           pending.

5           MR. AIKENS: I can look it up. What's the  
6           substance of it again?

7           MR. MAVROMATES: Basically to make available  
8           a minimum of \$25 million to banks and  
9           institutions in order for them to loan to small  
10          businesses.

11          MR. AIKENS: So our existing bank accounts  
12          don't meet this?

13          MR. MAVROMATES: No, not specifically.

14          MR. TRAVAGLINI: Again, what you've got to  
15          keep in mind is we don't -- we have a bank  
16          account. The pension fund is fully invested in  
17          the asset classes that we're in through our  
18          custodian, Mellon, but the Treasurer has got  
19          other short term cash in deposits that is a whole  
20          other side of the Treasurer's office. We try to  
21          make them --

22          MR. AIKENS: So the legislation comes down  
23          actually to PRIM?

24          MR. TRAVAGLINI: This particular provision  
25          is PRIM specific, again, because they understand

1 we've got a lot of money, frankly, and they view  
2 \$25 million as not a lot of money based on our  
3 total assets. But what I've tried to get them to  
4 understand is we're not in the business of giving  
5 money to banks. So while we have a lot of  
6 assets, there isn't a mechanism existing where we  
7 give money to banks who can then turn around and  
8 make it available.

9 MR. AIKENS: I wasn't aware we didn't have  
10 operating accounts at banks.

11 MR. SHANLEY: I'm just curious. From an  
12 operational standpoint, if the legislation  
13 passes, which banks do you give it to? Do we  
14 have a process on it?

15 MR. MAVROMATES: We would have to figure  
16 that out, but more than likely we would identify  
17 an ETI manager to figure that out, just like  
18 Access Capital does with the mortgage program  
19 through Mellon. You can earmark what you want  
20 them to do with those funds. Now, whether  
21 somebody that's in our current roster has the  
22 capability or experience of doing that, that's  
23 questionable at this point. We would have to do  
24 our research.

25 MS. MCGOLDRICK: Is there a cap on how much



1 we invest in ETI? There's only .63 in the total  
2 fund right now. There's no cap?

3 MR. MAVROMATES: No. The manager sizing  
4 policy specifically excluded any ETI investments.  
5 There is a common sense cap.

6 TREASURER CAHILL: If you look at the bottom  
7 of page 17 where it gives you the economic impact  
8 of our ETI program. Two of our -- both Access  
9 Capital and Community Capital Management have  
10 made 13 loans to small business economic  
11 development. So we're already doing what they're  
12 asking us to do. I don't know what that amounts  
13 to, but Access has \$95 million of our money and  
14 Community has \$31 million. They are, in addition  
15 to creating affordable housing, jobs, and  
16 mortgages, 13 of those -- there have been 13  
17 specific small business economic development  
18 loans made to the ETI program already.

19 MR. MENNIS: Stan, I just have a couple  
20 questions on that. Where are those statistics  
21 compiled, the economic impact statistics? And  
22 then I know in Section K we have all the  
23 individual investment returns over time. Do you  
24 have the ability to do a composite return for the  
25 ETI?

1           MR. MAVROMATES: A composite return? Well,  
2 we can create one. You have to recognize that  
3 it's three buckets: real estate, private equity,  
4 and then publicly traded fixed income. So you'd  
5 be mixing sort of apples, oranges, and lemons,  
6 whether that's a meaningful statistic, because  
7 some of these -- so we can do that. We can  
8 create one, the statistics of the economic  
9 impact. That is in the contract of the managers.  
10 They're required to report that to us on a  
11 quarterly basis, and that's our monitoring  
12 mechanism which the Board wants us to do on a  
13 quarterly basis. That's why it's even in here.

14           MR. MENNIS: So we take them at their word  
15 that they're doing those things for us?

16           MR. MAVROMATES: Yes.

17           MR. MENNIS: I would assume that they would,  
18 of course.

19           MR. MAVROMATES: Yes. And we actually have,  
20 the mortgages you see there for Access Capital,  
21 1,378, we actually have the addresses of those  
22 mortgages. We have a lot of detail. And if you  
23 want to look at that, we can. I know that one of  
24 the loans that Access made was to the health  
25 center in Holyoke. That health center wouldn't

1 be there if it wasn't for that loan, and they  
2 hired people. But you have to earmark exactly  
3 what focus -- what do you want them to focus on.  
4 We have them focus on the Commonwealth of  
5 Massachusetts, anything within.

6 We can have them focus on western  
7 Massachusetts, geographic areas. You can dial it  
8 up or down to anything you want, and that's  
9 specifically Access Capital and Community  
10 Capital. They buy quite a few of the bonds that  
11 are issued within the Commonwealth, development  
12 bonds, whereas AFL-CIO, basically they're  
13 providing funding for construction of new  
14 properties, specifically using union labor. They  
15 have a couple of projects within the Commonwealth  
16 now that they've done. They've already called  
17 all the capital, \$90 million. There's projects  
18 on the ground already working on that. Whereas  
19 these other ones, Castile, Flagship's '04 and  
20 '07, those are all private equity. You could  
21 argue that they're creating small businesses too.  
22 And then Canyon, New Boston, and Intercontinental  
23 are all real estate funds. We can think about  
24 creating a composite review. And if you want  
25 more information, we do have information on the

1 details, and we can certainly provide that.

2 MR. BRANTLEY: The challenge is finding the  
3 qualified managers to come into the program. The  
4 last two years we haven't been able to do that.  
5 This will be an up year for that.

6 MR. MAVROMATES: I wouldn't --

7 MR. BRANTLEY: Or maybe not.

8 MR. MAVROMATES: The pickings are slim.  
9 Let's just leave it at that. So anyway, I don't  
10 know if there's any further questions on the ETI.

11 And then the last item is just more of  
12 an informational. Some of you may or may not  
13 know we have a risk officer at PRIM. He's in the  
14 corner. Dave Gurtz. He doesn't get a lot of  
15 face time with this Board, but he's working on a  
16 project this year to review his systems and  
17 recommending whether we purchase such a system  
18 and aggregate all our risk.

19 So he's just starting that, and I'm just  
20 putting you on notice that he's working on that.  
21 He may at some point ask for a budget or may not.  
22 So I'm just making you aware of that. Seeing no  
23 other questions, we will move on to private  
24 equity with Wayne and company.

25 MR. SMITH: Good morning. All of the

1 private equity materials start in Appendix L in  
2 your package. We have some portfolio summary  
3 information and cash flow information here on the  
4 first page, but that information is as of year  
5 end so it is somewhat dated. So I'm going to  
6 move on from that. Regarding the commitments  
7 we've made to date, we have two recommendations  
8 for you today, both venture capital investments.

9 I'll also let you know, we're also  
10 working on a number of investments that we're  
11 doing due diligence on currently. A couple of  
12 those fall into the emerging markets segment,  
13 which is a segment where we haven't made many  
14 recommendations in the past. So just as a heads  
15 up we're looking at select specific funds in  
16 those markets.

17 On the distressed front we're working on  
18 a deal right now that will likely require interim  
19 approval in the next few weeks. We have two  
20 venture capital investments today, but I'm happy  
21 to take any questions prior to that if anyone has  
22 them. Seeing none, I'll just take a moment on  
23 venture capital.

24 In general, you know, it's been a tough  
25 space over the last 10 years. The returns have

1 not been as they have been in the past. Staff  
2 has continued to stay in the asset class,  
3 although we're taking somewhat of a bifurcated  
4 approach to the asset class. One, we're  
5 continuing to back brand name managers that are  
6 existing managers that we continue to have a lot  
7 of faith in. I think they have strong  
8 organizations and believe the impact on their  
9 portfolio is more market related as opposed to  
10 firm specific.

11 And then we've also very selectively  
12 started to back some new and emerging managers,  
13 smaller funds, focused on capital efficiency  
14 which can supplement our brand name exposure. We  
15 have also during this time said no to many  
16 existing managers in the venture capital space  
17 where we just don't believe they're working in  
18 the current environment.

19 So I just wanted to give you a little  
20 color and context regarding how we think about  
21 venture capital. This is a cyclical business.  
22 Staff believes that the asset class will generate  
23 returns. It's just taking some time, and it's  
24 been a pretty tough environment to exit high  
25 technology investments in this market. If there

1 are any questions on that, I'll take them.

2 Otherwise, I'll move on to the recommendations.

3 MR. AIKENS: Is there anything that is  
4 easily publicly available that would tell me how  
5 much venture capital was brought to the public  
6 market?

7 MR. SMITH: Yeah, there are statistics on  
8 that as well. I think we captured some of that  
9 in our annual plan we did earlier this year.

10 MR. AIKENS: We can go off line.

11 MR. SMITH: Yeah. We'll get you some  
12 information on that. Any other questions? All  
13 right. The first investment today is Polaris  
14 Venture Partners VI. Hamilton Lane's report is  
15 located in Appendix M of your package. Polaris  
16 was formed in 1996 and is a well-regarded venture  
17 capital firm located in Waltham, Massachusetts.  
18 The firm is currently raising up to \$600 million  
19 for its sixth venture capital fund.

20 Polaris, as a result of the market, has  
21 taken a hard look at their portfolio, their  
22 strategy, and their team, and has made several  
23 changes as a result of the difficult market.  
24 Number one, they have reduced the economics in  
25 their fund, and they've also reduced the fund

1 size significantly from a billion dollars down to  
2 a range of between \$400 million and \$600 million.  
3 They've also looked at what they've done well in  
4 the past, and early stage investing has been a  
5 very strong area for them in the past. They'll  
6 be focusing more dollars in those areas going  
7 forward. And, lastly, they've made efforts over  
8 the last several years to strengthen and broaden  
9 their investment management team, and now have  
10 six of their homegrown partners running the firm  
11 moving forward. We think it's a positive  
12 development.

13           Polaris is an active early stage  
14 investor in both healthcare and information  
15 technology. The firm also has built a strong  
16 presence in later stage investing, which will be  
17 a smaller component of the firm strategy moving  
18 forward. The firm has also very strong  
19 relationships with local universities and has  
20 sourced a number of its deals through MIT,  
21 Harvard, and Dartmouth, where they have very  
22 strong relationships.

23           PRIM Staff believes that Polaris is  
24 attractive for the following reasons: The fund  
25 is a well-regarded venture capital firm with a



1     sound strategy and excellent team; the firm has  
2     broadened and strengthened its management team,  
3     which we think is a very positive development for  
4     the firm; and, lastly, Staff has spent a large  
5     amount of time going through the individual  
6     portfolio companies and prior funds and feels  
7     like there's a lot of value in those portfolios  
8     that isn't reflected in the numbers today.

9             As you'll notice when you look at some  
10    of the numbers today, the benchmarks are very low  
11    and, you know, it's hard to solely focus on  
12    numbers because minus 1 percent versus plus 1  
13    percent isn't a large difference in this  
14    environment, and one or two investment successes  
15    or failures can change those numbers drastically.  
16    So we spent a lot of time with the underlying  
17    portfolio here. We think there's a lot of  
18    promise. The firm has also delivered some  
19    significant liquidity over the last 12 months,  
20    which we think is encouraging, and we think  
21    there's more of that going forward.

22            So based on all of these factors, we  
23    think Polaris continues to be a well-regarded  
24    venture capital firm who is well-positioned in  
25    the Boston market. We think the firm has made

1     some significant changes to its organization and  
2     its strategy, which will help improve performance  
3     moving forward. And therefore, the Investment  
4     Committee and Staff are recommending \$20 million  
5     for Polaris Venture VI. Mike, if you wanted to  
6     add anything.

7           MR. KOENIG: The only point I will add, and  
8     it's really echoing what Wayne said, is that the  
9     network, the ability to source deals with this  
10    group is really significant, and that's from a  
11    prospective basis, and it's also demonstrated by  
12    the sourcing they've done to date, the real  
13    majority of it being proprietary. In other  
14    words, them going out and finding deals, working  
15    with the universities and other sorts of  
16    information providers. So a strong investment  
17    from that respect.

18           TREASURER CAHILL: Motion.

19           MR. MENNIS: In terms of the longer term  
20    track record, I was trying to cross-reference  
21    what's in here with the Hamilton Lane report  
22    because I think in the course of these  
23    discussions, I'm going to understand the  
24    important things that we get with any of the top  
25    tier firms are all the attributes you talked

1     about. Are there longer time frames going back  
2     to their inception date of 1996 that give us a  
3     better sense of their long-term ability to  
4     deliver on their numbers?

5           MR. SMITH: I think if you look at their  
6     performance, and I'll just reference this table  
7     here on page 5 of Staff's writeup, and I think  
8     Hamilton Lane somewhere in their report does a  
9     similar thing. You can see, if you go back, that  
10    the way private equity works is it's rated on a  
11    vintage year basis. So 1 through 5 here. And  
12    you can see their '96 and 1998 funds, which were  
13    preInternet bubble, generated significantly high  
14    returns, over 50 percent in Fund I, 20 percent in  
15    Fund II.

16           And if you look at the next to last  
17    column in this information packet, this is the  
18    venture economics top quartile. So it measures  
19    all of the managers that are in the market in  
20    that same year and where their performance is  
21    relative to the universe. And so that would  
22    represent, the top 25 percent of all managers  
23    that raised funds in 1996, for example, in 1998,  
24    and so on and so forth. So, you know, we focus  
25    on the top line to make some cursory sort of

1 decisions on whether it merits more attention or  
2 not, but obviously the work we're doing is much  
3 more detailed than that.

4 MR. MENNIS: So for '96 you can interpret  
5 this as they were in the second quartile.

6 MR. SMITH: That's right.

7 MR. MENNIS: And '98 they were in the top  
8 quartile.

9 MR. SMITH: That's right. And then Fund III  
10 really stands out. That has underperformed  
11 relative to the market. That was right at the  
12 peak of the Internet bubble and, you know, it's  
13 never going to be a home run fund. They're  
14 hoping to return capital there but they're  
15 probably slightly below the top quartile.

16 MR. MENNIS: And then ten years. Do you  
17 have that rule of thumb of how it went? Is the  
18 vintage year really mature enough to value it?

19 MR. SMITH: Yeah. I mean, I think that's  
20 changed a little bit just because there's been so  
21 little liquidity for venture capital over the  
22 last 10 years. So I alluded to that a little bit  
23 in my initial comments, which are, when you look  
24 at some of these numbers, they're pretty modest  
25 on an absolute basis. And, you know, what does

1       it really mean if the manager is 1 percent today  
2       or 5 percent today or negative 3 percent today?

3               If a large portion of the portfolio is  
4       unrealized, there are significant events that can  
5       happen both positively and negatively that change  
6       those numbers drastically. The problem venture  
7       capital has had over the last 10 years is that  
8       time is your enemy when you're sort of measured  
9       by IRR. So ultimately we may get reasonable  
10      multiples from these asset classes, but the IRRs  
11      are going to be low relative to historical  
12      returns.

13             MR. MENNIS: But that's something if you  
14      look at the older ones, they're in the first and  
15      second quartile.

16             MR. SMITH: That's right.

17             TREASURER CAHILL: Any other questions?  
18      Motion.

19             MR. BROUSSEAU: Move \$20 million for Polaris  
20      VI.

21             MR. SHANLEY: Second.

22             TREASURER CAHILL: All those in favor say  
23      aye.

24             THE BOARD: Aye (unanimous).

25             TREASURER CAHILL: Opposed? The ayes have

1       it.

2                   **(VOTED: That the PRIM Board approve**  
3                   **an investment of up to \$20 million in**  
4                   **Polaris Venture Partners VI; and,**  
5                   **further, that the Board authorize the**  
6                   **Executive Director to take all actions**  
7                   **necessary to effectuate this motion.)**

8               MR. LANGDON: So I'll be presenting the one  
9       emerging manager opportunity we have, Rembrandt  
10      Venture Partners II. PRIM's recommendation  
11      begins on page 5 of the private equity agenda.  
12      Hamilton Lane's materials are available in  
13      Appendix N.

14               Rembrandt Venture Partners was formed in  
15      2003 and raised their first early stage venture  
16      capital fund in 2004. The firm is currently  
17      targeting \$150 million of capital commitment for  
18      Rembrandt Venture Partners II with a hard cap at  
19      \$200 million.

20               Rembrandt invests primarily in early  
21      stage, Silicon Valley based information  
22      technology companies that focus on the market  
23      opportunity presented by the convergence of  
24      voice, data, and video. The fund will be managed  
25      by the firm's four managing members: Gerald  
26      Casilli, Richard Ling, Doug Schrier and In Sik  
27      Rhee. Those four partners bring complimentary

1 skill sets and networks, and each has extensive  
2 experience as an entrepreneur, AS an investor in  
3 venture backed companies and as senior executive  
4 at large public companies.

5 From a performance standpoint, Rembrandt  
6 Venture Partners I is off to an excellent start  
7 with strong relative returns and nice early  
8 liquidity, and the prior investing records of the  
9 partners are very impressive as well. So in sum,  
10 PRIM Staff regards Rembrandt as a firm early in  
11 its life cycle but with the potential to evolve  
12 into a top tier venture capital firm, and that is  
13 why it's under consideration for the emerging  
14 manager program specifically. So with that, PRIM  
15 Staff and the Investment Committee are  
16 recommending a capital commitment of \$20 million  
17 to this fund.

18 And I did just want to make one last  
19 comment, really, about venture capital broadly  
20 but specific to this, there's been a lot of  
21 discussion of terms in general of fees.  
22 Obviously, we always focus on it. Hamilton Lane  
23 always focuses on it. Wayne addressed it in  
24 regard to the last recommendation. The committee  
25 focuses on it. You focus on it. But not

1 surprising, given the environment, there's been a  
2 lot of focus externally on it. So I did want to  
3 arm you with the latest on fees.

4 The docs are done for the final close  
5 here. Not surprisingly, broadly, the terms are  
6 exactly what you'd expect them to be and the big  
7 picture terms of the management fees and the  
8 carried interest are standard markets terms. So  
9 I did want to give you that information and to  
10 the extent that Mike has anything. I'm happy to  
11 take any questions.

12 TREASURER CAHILL: Any questions? Seeing  
13 none. Motion.

14 MR. BROUSSEAU: Move \$20 million for  
15 Rembrandt Venture Partners II.

16 MR. SHANLEY: Second.

17 TREASURER CAHILL: All those in favor say  
18 aye.

19 THE BOARD: Aye (unanimous).

20 TREASURER CAHILL: Opposed? The ayes have  
21 it.

22 **(VOTED: That the PRIM Board approve**  
23 **an investment of up to \$20 million in**  
24 **Rembrandt Venture Partners II; and,**  
25 **further, that the Board authorize the**  
**Executive Director to take all actions**  
**necessary to effectuate this motion.)**



1           TREASURER CAHILL: Thank you, gentlemen.  
2     Real estate.

3           MR. SCHLITZER: Good morning. The Real  
4     Estate and Timberland Committee had a fairly  
5     brief agenda this last round. It starts on  
6     page 19 of your package. There are two  
7     appendices. Appendix O has our usual portfolio  
8     data charts. I'm going to leave those for your  
9     reference and then Appendix P has Callan's annual  
10    manager and portfolio review.

11           This is an exercise that we do every  
12    year. It's essentially, as opposed to the annual  
13    strategic plan, a little bit more of a where are  
14    we now looking at the managers, how are they  
15    doing, also at the portfolio level as well, that  
16    sort of thing. So I've asked Jamie and Sarah to  
17    present just for ten minutes. That was kind of  
18    my direction to them, but they're happy to go  
19    through this information as much as anybody  
20    wants.

21           In terms of current events, kind of on  
22    the real estate side, not a lot, Stan mentioned  
23    the REIT rebalancing in terms of valuation, we  
24    are down about 1.5 percent for the quarter. I'm  
25    expecting that, with offsetting income, we will

1 be about flat, maybe up to 50 basis points  
2 positive.

3 And then as far as the annual plan,  
4 recent capital commitments to our separate  
5 account managers, as you know, we committed \$500  
6 million to the existing five managers, kind of in  
7 various amounts. Those letters have gone out.  
8 We gave them all consistent guidelines and  
9 direction on how this should all work. We've  
10 seen two transactions so far. Neither one of  
11 those actually met guidelines.

12 Staff does spend a fair amount of time  
13 going through these deals with managers as they  
14 go along, but as you know the managers do have  
15 discretion and, you know, they need to meet  
16 guidelines, especially at this point, and I think  
17 patience is important.

18 And then, as far as timberland, as you  
19 know, we also committed a very sizable amount to  
20 the Campbell Group for Pacific Northwest TIMBER  
21 INVESTMENTS. No activity there, but Jamie and  
22 Sarah did visit them, I believe, on March 2 and  
23 conducted full due diligence and I believe had  
24 positive impressions, and they can share with you  
25 a little bit during their presentation. So if

1       there aren't any questions, with that I'll hand  
2       it to over to Jamie and Sarah.

3               MS. MCGOLDRICK: I have one question on the  
4       transactions in private real estate. The office  
5       building, Town and Country. What was the sale  
6       price of that? Did it sell?

7               MR. SCHLITZER: It did sell and, candidly,  
8       I'm always a little bit -- I try to have some  
9       discretion in terms of the information on these,  
10      but I'm happy to share that with you.

11              MS. MCGOLDRICK: Later on.

12              MR. SCHLITZER: If that's okay. It will be  
13      out there at some point, but that was a value  
14      added transaction that we did a couple years ago,  
15      and they had an opportunity to sell it at about  
16      20 percent premium to one of the tenants in the  
17      building who is a fairly large healthcare  
18      provider. So they took advantage of that. I  
19      would say from a return perspective it was not  
20      favorable to PRIM, but under the circumstances it  
21      was probably the right thing to do. Questions?

22              MS. SHEN: I know we've talked a lot about  
23      the real estate market in past meetings, and the  
24      market is changing and is dynamic. And so I just  
25      want to briefly comment on a dynamic that we're

1 starting to see in the market is that we are  
2 seeing pricing becoming better than expectations.  
3 Our transactions that are occurring are at above  
4 what the appraised values are now or the carrying  
5 values. I think in Boston there was a  
6 transaction here that sold for 6.3 percent cap  
7 rate when the expectation was that the market was  
8 moving much more to like an 8 percent cap rate.  
9 So we're seeing more capital interested in  
10 acquiring real estate, and we feel like we're  
11 seeing stabilization and balancing along the  
12 bottom. So that's the good news in what's just a  
13 quick update in what we're seeing in the market.

14 As far as your portfolio specific, let's  
15 turn to page 8 of Appendix P, which is a large  
16 presentation. We're just going to hit on a  
17 couple of slides in here. But here you can see  
18 the strategy makeup of your portfolio, which is  
19 the core value added and public securities. This  
20 information is as of December 31 and shows about  
21 7 percent in core and close to 30 percent in the  
22 public securities with very limited exposure to  
23 the value add.

24 As Tim mentioned, there has been a  
25 public securities rebalancing. That market

1 rebounded quite a bit in the last year, and so  
2 with that rebalancing it's now closer to 80  
3 percent of the portfolio being in core and  
4 20 percent being in securities. As your  
5 portfolio overall we just want to say that it is  
6 in compliance with guidelines, and it's well  
7 diversified by property type, geography, and also  
8 by manager. So there's a lot of good news in  
9 your portfolio, even in the broader market  
10 disruption.

11 Now, if you could turn to page 11, and  
12 it just goes over to touch on your portfolio  
13 overall in the performance, you can see that over  
14 every time period against our database, you've  
15 been above the median, and over the last 10 years  
16 you were in the top quartile. You also have  
17 beaten the benchmark over the three, five, and  
18 ten-year periods. So this all very good news in,  
19 again, a down market.

20 On page 17 I'm going to talk about your  
21 core portfolio and the composite information and  
22 the managers, and then Sarah is going to talk  
23 about the other aspects of the value added, the  
24 securities, and also the timber. So on page 17  
25 you can see how well your core program has done,

1 particularly compared to our database of core.  
2 One of the reasons is because your portfolio is  
3 largely unlevered, and our database does include  
4 leverage, and so in a down market the leverage  
5 has been amplifying the decrease. And so this  
6 database, though, is representative of what a lot  
7 of your peers are seeing in their real estate  
8 portfolios. So while your portfolio has been  
9 down, it's outperformed the peer group.

10 This composite is comprised of five  
11 separate account managers. That's INVESCO,  
12 RREEF, TA, J.P. Morgan and LaSalle. All of them  
13 have also experienced top quartile performance  
14 over all the time periods. LaSalle and TA have  
15 both experienced top decile performance over the  
16 time periods with the exception of TA their last  
17 quarter because they did take some write downs in  
18 the appraisals there.

19 INVESCO has been given 143.5 million to  
20 make new investments. TA has been given 46.9,  
21 J.P. Morgan 97.3, LaSalle 194.5, and the one  
22 manager that has not been given a new allocation  
23 for investment is RREEF, and that was a decision  
24 based on organizational changes. And so we  
25 continue to watch them and make sure that before

1 new capital would be given that they were -- that  
2 things had stabilized, and also there was a  
3 concern about how much they were managing of your  
4 portfolio compared to the other managers. So  
5 there was also some right sizing going on as  
6 well. And then Sarah can talk about the value  
7 add area.

8 MS. ANGUS: If you would look to slide 77,  
9 you can see the PRIM value added composite over  
10 the quarter year and two-and-a-half year time  
11 period, and that cumulative time period of  
12 two-and-a-half years indicates that this  
13 portfolio, value added portfolio, was being  
14 invested in a challenging real estate vintage  
15 time period. I wanted to point that out.

16 This composite is made up of three ETI  
17 funds and one value added separate account. The  
18 value added separate account now has two assets  
19 remaining, and it will not grow any further than  
20 where it is today. So that's really in a wind  
21 down mode. The ETI funds are in their investment  
22 period still. So they haven't been able to  
23 really create the value that they're planning to.  
24 So we'll hopefully see positive performance going  
25 forward as they are more actively managing those

1 portfolios.

2 As far as the ETI managers, there  
3 haven't been any major organizational or  
4 personnel changes at Canyon Johnson or at  
5 Intercontinental. New Boston did have 15  
6 departures during the year, and that was part of  
7 their reorganization where they're moving away  
8 from development and focusing more on actively  
9 managing properties as opposed to developing.

10 And now going on to the security side,  
11 on page 99 you can see each of your securities'  
12 managers performance versus their respective  
13 benchmarks and peer groups. All of the managers  
14 exhibited very strong performance in 2009, and  
15 most of them outperformed their benchmark. None  
16 of the REIT managers have had major  
17 organizational or personnel changes. Urdang did  
18 purchase a new debt team within their firm, and  
19 Todd Briddell who is the PM for the REIT  
20 portfolio is going to be taking on some oversight  
21 of that debt team going forward, but we don't  
22 feel that that will have a negative impact on his  
23 ability to manage your portfolio.

24 And on page 124 I wanted to touch just  
25 for a minute on the timberland market. The



1 NCREIF timberland index is starting to exhibit  
2 negative returns although it's still lagging the  
3 broader markets considerably, and that's due to  
4 the fact that a number of the contributors to  
5 that index are only appraising once every three  
6 years as opposed to annual appraisals. So that's  
7 something that will continue going forward.

8 Transaction value has been down. There  
9 have been a couple of large transactions that  
10 have taken place, and one of those was in  
11 Australia recently, and the pine beetle in Canada  
12 has basically done its damage, and now we're in a  
13 salvage mode or Canada is in a salvage mode.  
14 That will have an impact on supply in about two  
15 years, and that should have a favorable impact on  
16 the US timberland supply and demand component.

17 The public markets, if you switch to  
18 page 125, you can see that the public timberland  
19 markets have rebounded considerably, and on the  
20 upper right-hand side chart, you can see that  
21 over the last quarter a number of different wood  
22 types have seen increases. So that's a positive  
23 signal.

24 Looking at your timberland portfolio  
25 status on page 126, you can see that the private

1 timber market is below its target allocation and  
2 this will be addressed through an allocation to  
3 the Campbell Group where they will build a  
4 portfolio in the Pacific Northwest, and that will  
5 be very advantageous for your portfolio on a  
6 diversification basis as well because you  
7 currently have exposure to that part of the  
8 country.

9 And Jamie and I did visit their  
10 headquarter office in Portland. We were  
11 comfortable with their team. We met a number of  
12 team members and learned more about their  
13 process, and they're very focused on their client  
14 relationships, even as they look at building  
15 their organization and how they structure their  
16 organization. And we left there comfortable with  
17 that group and so are on board with the  
18 recommendation to make an allocation to them.

19 I think that would wrap up my comments  
20 on the rest of the portfolio, unless there are  
21 any other questions.

22 MR. SCHLITZER: That's all we had on the  
23 agenda. Thank you.

24 TREASURER CAHILL: Thank you very much. We  
25 have Admin. Donny and Tom.

1           MR. HANNA: We have three items on the  
2 Admin. Committee report today. The first two  
3 require a vote, and the third one is just an  
4 update on information technology.

5           So Donny is going to go over the fiscal  
6 2011 budget. We require a vote on that and then  
7 I will go over updates to our travel policy, and  
8 we'll take it from there.

9           MR. PAYNE: Located in Appendix Q is the  
10 proposed Fiscal 2011 budget. I'm not going to go  
11 through it in detail. We did go through it in  
12 detail at the audit and administrative meeting  
13 last month, but I will go through the four slides  
14 that we just passed around. So we can start on  
15 page 2 there and just talk about the two types of  
16 fees that make up the budget.

17           The first are direct fees and these are  
18 fees paid to investment managers, third-party  
19 service providers, and operational fees made  
20 directly by PRIM, and then also indirect fees,  
21 which are fees charge directly to underlying  
22 investment partnerships, properties, and  
23 commingled products. We see these in our private  
24 equity, distressed debt, bank loan, hedge fund,  
25 real estate and timber, and certain commingled

1 investments, and I will note that indirect fees  
2 for disclosure purposes only and for  
3 transparencies reasons.

4 So if we flip over to page 3, we'll just  
5 do through some of the highlights on the direct  
6 side. Overall we see a \$4.2 million increase.  
7 Four million of that attributable to investment  
8 manager fees which are a reflection of higher  
9 assets creating increased base fees and also  
10 higher anticipated performance fees over a  
11 three-year rolling period.

12 This amount is mostly offset by the  
13 Board decision to increase the passive allocation  
14 of the domestic portfolio to a hundred percent,  
15 the international portfolio to 50 percent, and  
16 the emerging markets portfolio to 25 percent. We  
17 also see additional natural resources fees as  
18 we've increased assets in that category. I will  
19 note that direct real and timber performance fees  
20 are not projected for either fiscal 2010 or '11.

21 Moving onto the third party service  
22 provider and operation fees. You see a net  
23 increase of about 300,000, 200,000 of which is  
24 attributable to third party service providers.  
25 You see a decrease in that category which is

1 associated with contractual fees reduced by  
2 recent RFPs. Mostly in the hedge fund and  
3 general consulting area. Additionally, we see a  
4 decrease in legal fees due to a reduction in  
5 hedge fund managers.

6 The \$500,000 operational increase is  
7 primarily related to salaries and information  
8 technology. Consistent with the last three  
9 years, the salary budget did not anticipate a  
10 salary increase but does account for unbudgeted  
11 2010 promotions as well as an additional staff  
12 hired in January 2010. The current budget also  
13 includes the flexibility to hire additional staff  
14 where deemed necessary. The remaining increase  
15 in the IT category relates to the continued  
16 commitment to the entity-wide technology  
17 initiative, along with budgeted 2010 projects  
18 which have been tabled to 2011.

19 If we move onto page 4, you'll see  
20 overall a \$5.1 million increase in the indirect  
21 category. This increase is attributable to a  
22 large decrease in the portable alpha termination  
23 of the October 2009 board meeting. This amount  
24 was offset by accordingly the increase in the  
25 hedge fund allocation increase from 5 percent to

1     8 percent. I will note that PRIM was able to  
2     renegotiate some of the hedge fund contracts that  
3     were more favorable to PRIM, and also we see  
4     increases in our private equity and distressed  
5     debt which was driven by increased capital  
6     payments.

7             Overall, I will just note for fiscal  
8     2011 on the direct side we saw a decrease in  
9     terms of basis points from 17 in fiscal 2010 to  
10    16 in the current year. That decrease is due to  
11    the Board's decision to passively manage assets  
12    as opposed to actively manage assets in Fiscal  
13    2010. And on the indirect side we saw a decrease  
14    from 46 basis points to currently 41, which is  
15    due in part to the portable alpha termination,  
16    which brings a total decrease from 61 basis  
17    points to 57 basis points in the current year.

18            And I'm not going to go through the last  
19    slide in detail, but you will see that a large  
20    portion of our fees are attributable to our other  
21    indirect management fee category which is made up  
22    of private equity distressed debt, and a small  
23    piece of commingled assets. You will see an  
24    increase in 2011 from the 2010/2011 projected  
25    actual which was mainly due to, as Stan noted,

1 the additional \$10 billion of assets that we  
2 received over the past couple years.

3 With that said if there's any questions  
4 on any of the detail, I'm happy to answer those.

5 MR. BRANTLEY: Could you just summarize  
6 quickly, and I think I may have asked this  
7 question two or three years ago. Direct versus  
8 indirect. Is direct where we actually write out  
9 a check?

10 MR. PAYNE: Yes.

11 MR. BRANTLEY: And the indirect is when they  
12 pull it off of the assets that they have.

13 MR. PAYNE: Yes, the underlying  
14 partnerships.

15 MR. BRANTLEY: Now, are private equities  
16 indirect? I would assume part of the capital  
17 they call is part of the management fee; right?

18 MR. PAYNE: A small portion of private  
19 equity fees are direct but for the most part.

20 MR. HANNA: You'll see a line in direct and  
21 in indirect.

22 MR. PAYNE: The lion's share is on the  
23 indirect side.

24 MR. BRANTLEY: Thanks. Nice job.

25 MR. HANNA: And just to add to that. These

1 indirect fees, a lot of -- many funds don't  
2 report them and track them the way we do, but as  
3 Donny mentioned, we're just trying to -- any fee  
4 that's predictable, identifiable, that comes out  
5 of our assets, we try to track it, look at it, so  
6 we can talk about it, evaluate it, and just kind  
7 of for disclosure purposes.

8 MR. TRAVAGLINI: And because we do this once  
9 a year, I want to make sort of two points, which  
10 you all know, to invest \$43.5 billion prudently  
11 costs a fair amount of money, right, number one.  
12 I think you have a sense from Staff that we are  
13 aggressive and efficient from a fee perspective  
14 to asset management firms but also from an  
15 operating perspective, and the general tendency  
16 is to look to see whether the budget goes up year  
17 to year. We want the budget to go up year to  
18 year. Remember, in our business, we want the  
19 budget to go up year to year, because it means  
20 our fund is growing and we're paying more in  
21 asset management fees.

22 So that's a little bit counterintuitive  
23 about our budget exercise, but I want to thank  
24 the Board because even in this incredibly  
25 difficult environment, the IT initiative, adding



1 the fourth private equity person, you've  
2 continued to support things where we make a case  
3 that there is a need and we have the luxury that  
4 we're not subject to appropriation, which  
5 obviously is a huge advantage as we conduct our  
6 business, but I would hope that you continue,  
7 even though the environment remains difficult,  
8 that if we come to you for additional needs, that  
9 you'll remain as supportive.

10 And I'm not sitting here presently  
11 thinking of anything, but our number of clients  
12 is such that we're at a point where, and it  
13 depends on the day, but we may consider another  
14 client service person or part-time equivalent to  
15 help Paul. He and I are sharing the lion's load  
16 now. It's good for me to get out and do this as  
17 well. So I'm not adverse to that, but these are  
18 the types of things we're just trying to have  
19 some flexibility. Because we only do this  
20 exercise once a year, I want to have some  
21 flexibility to be able to come to you in the  
22 middle of a year, and not have to wait until we  
23 go through the budget exercise again annually.  
24 So I want to thank you but also just remind  
25 everybody that if our budget goes up year to

1 year, that's not necessarily sort of a bad thing?

2 MR. BRANTLEY: I don't think that's  
3 counterintuitive. I think with a growing fund,  
4 you would expect the budget to go up and you  
5 would expect to increase the resources. I think  
6 some of the parts that are counterintuitive would  
7 be where you're over budget in terms of  
8 investment management fees. That's a good thing.

9 MR. TRAVAGLINI: I guess I didn't explain  
10 myself well. The Treasurer in his operating  
11 budget, right, they look at it year over year,  
12 and if it's going up they sort of say, well, you  
13 must be doing something sort of inefficiently  
14 because it's going up, and that's my point.  
15 That's the traditional public view of budgets  
16 year on year. Our view of a budget year on year  
17 is if it's going up it's not necessarily a bad  
18 thing, to your point, but anyway.

19 MR. BROUSSEAU: To put it in perspective  
20 also, you look back at fiscal year 2009, horrible  
21 year. We had a \$38 million total actual budget.  
22 Here we're now at \$70 million which indicates the  
23 growing economy and the success here at PRIM  
24 which has driven over 90 percent of it by  
25 management fees. I'd love to see that budget at

1     \$150 million. We'd really be rolling in money  
2     then and we would have probably erased the  
3     unfunded liabilities that we have, but that's not  
4     going to happen for some time.

5           MR. MENNIS: I had a fee question from the  
6     detail package. Can you explain what the  
7     performance fees are for -- there's five of the  
8     investment managers that are outside of  
9     alternative investments. Would you typically  
10    expect to see that?

11          MR. PAYNE: Some of our investment managers  
12    have performance contracts where, measured  
13    against their predetermined benchmark, if they  
14    outperformed by a certain number of basis points,  
15    they're eligible for a performance fee. Similar  
16    to you'll notice back in 2009 our real estate  
17    timber fees if you look at sort of the red on the  
18    last page of the slide, significantly more.  
19    There's predetermined rates there. They're now  
20    eligible for performance fees, and,  
21    unfortunately, to Mike's point, we don't  
22    anticipate there will be any in the current year.

23          MR. BROUSSEAU: We've been negotiating out  
24    performance fees anyway.

25          MR. PAYNE: To the extent we can.

1           MR. BROUSSEAU: There used to be a lot more  
2 several years back.

3           MR. HANNA: I don't know what asset sleeve  
4 you're looking at there, but typically these are  
5 the older managers. Where they have, relative to  
6 the other managers, a small base fee and then  
7 they share in outperformance over a hurdle.

8           MR. BRANTLEY: So this isn't an absolute  
9 outperformance. This is a relative  
10 outperformance of a benchmark.

11          MR. PAYNE: Right. So they have contractual  
12 estimated outperformance that we anticipate or  
13 they anticipate that they'll outperform the  
14 benchmark by, and what we do is we take --  
15 they're paid on a three-year rolling average. So  
16 we take sort of historical averages to date so we  
17 have two years or 18 months of history, and we  
18 project that moving forward based on their  
19 projections and sort of see where sort of at the  
20 end of the day their performance fees will shake  
21 out. So we have sort of partial information and  
22 what we do is try to estimate over the next  
23 18 months.

24          MR. MAVROMATES: Real estate is absolute.  
25 It's an IRR basis. Whereas the public markets

1 are relative to a benchmark. Timber is an  
2 absolute basis.

3 MR. BRANTLEY: So you have to make money in  
4 order to get that performance.

5 MR. MAVROMATES: In real estate and timber.

6 MR. BRANTLEY: But in the equity markets you  
7 just have to beat your benchmark. So you could  
8 have a negative return and still get --

9 MR. MAVROMATES: The benchmark could be down  
10 10 and still only have 5, if that's helpful.  
11 Sorry to interrupt.

12 MR. MENNIS: Our preference is not to have  
13 them and we're trying to negotiate those out over  
14 time.

15 MR. PAYNE: Our preference is to have them  
16 in the interim because that means we're  
17 outperforming.

18 MR. TRAVAGLINI: A better way, Greg, to  
19 answer that is I don't think there's a real  
20 stated preference by Staff. What we do is if  
21 there's a performance component, Staff makes  
22 every effort to make sure that the hurdle rate is  
23 real and legitimate and that there isn't -- it's  
24 not an automatic. No matter what they return,  
25 they're getting a bonus, that there's value --

1       it's tied to a metric that only is value added,  
2       and that's when the fee can be shared as opposed  
3       to the asset base.

4           MR. PAYNE: I think it might help to note  
5       sort of where what he's seeing the performance  
6       basis in the emerging markets area, and they're  
7       paid on a funded amount. So take the GMO, for  
8       example, where they have over a billion in  
9       assets. They're only being paid on the initial  
10      quarter million or so that we gave them. So in a  
11      blended rate when they sort of don't get a  
12      performance fee, their fees are actually very  
13      low.

14          MR. MENNIS: And the two small cap managers  
15      aren't going to be there anymore.

16          MR. PAYNE: Right.

17          MR. HANNA: Obviously, we have all the  
18      details to share with you if you want more  
19      information.

20          MR. MENNIS: Is now a time to ask questions  
21      about the operating part of the budget as well?

22          MR. HANNA: Sure.

23          MR. MENNIS: The legal fees went up a bit.  
24      We have \$200,000 there relative to a project  
25      number of 75 grand. Is there a special

1 initiative or something that's going on?

2 MR. PAYNE: If you look at previous budgets  
3 of about \$300,000, that's sort of a best guess.  
4 That's any sort of litigation surrounding some of  
5 the hedge fund issues.

6 MR. TRAVAGLINI: Again, the approach we  
7 take, Greg, is our legal fees, outside legal  
8 fees, are what they are, right, so it's  
9 difficult. The year when we funded our five  
10 hedge fund of funds, which was going into the  
11 asset class for the first time, we exceeded our  
12 legal fee budget that year because that was an  
13 initiative we undertook mid year. So it's hard  
14 for to us gauge legal fees. I think the comfort  
15 you can take is that's just a dilemma for us from  
16 a budgeting perspective. The legal fees are what  
17 they are. So if next fiscal year they're nowhere  
18 near \$200,000, we just try to come up with the  
19 plug, if you will, for what we're going to use  
20 based on historical data that we have.

21 MR. MENNIS: It was just higher than actual  
22 projected trends. I just was asking if there was  
23 something that we're concerned about.

24 MR. TRAVAGLINI: Not that we're --

25 MR. BROUSSEAU: They've never been at that

1 rate. I mean for 2010 the projection was for  
2 \$75,000.

3 MR. PAYNE: We've taken a hundred thousand  
4 off.

5 MR. BROUSSEAU: There was \$300,000 in the  
6 budget. We've removed a hundred thousand from it  
7 for next year.

8 MR. PAYNE: Having less hedge fund managers  
9 was the motivation there.

10 MR. BRANTLEY: And it's typically in  
11 alternatives where you're going to spend most of  
12 that money, and we defray some of that through  
13 Hamilton Lane as well on the private equity side.

14 TREASURER CAHILL: Any other questions on  
15 the budget? Seeing none. Bob, do you want to  
16 make a motion?

17 MR. BROUSSEAU: Yes. I'll move that the  
18 Board approve the fiscal proposed 2011 operating  
19 budget for the PRIM Board.

20 MR. SHANLEY: Second.

21 TREASURER CAHILL: All those in favor say  
22 aye.

23 THE BOARD: Aye (unanimous).

24 TREASURER CAHILL: Opposed? The ayes have  
25 it.



1           **(VOTED: That the PRIM Board approve**  
2           **the proposed operating budget for**  
3           **fiscal 2011; and, further, that the**  
4           **Board authorize the Executive Director**  
5           **to take all actions necessary to**  
6           **effectuate this motion.)**

7           MR. HANNA: The next agenda item, which also  
8           requires a vote, relates to an update in our  
9           travel policy. I'm happy to read through the  
10          whole document, but I will not do that.

11          MR. TRAVAGLINI: We're being fully  
12          transparent here, but we want the Board to  
13          understand the change that's going to be made and  
14          then we'll explain it.

15          MR. HANNA: You stopped me before I said,  
16          ". . .if you like." I won't do that. There are  
17          some edits here. There's a redlined version in  
18          Appendix R in your package. There are really  
19          three main changes here. One of them is we have  
20          updated the -- we've changed the hotel threshold  
21          requiring additional approval from \$200 to \$275.

22          So the prior version of this, which was  
23          incorporated in December 5, 2006, had a \$200  
24          threshold where you had to come to Karen, myself,  
25          or Mike and get written approval to exceed that.  
26          We're proposing an increase to \$275 for that  
27          based on just our experience with how often

1 people have been needing to get approvals.  
2 Typically it's London, New York, Washington DC,  
3 some other sort of cities. California, it really  
4 depends specifically on where you're going.  
5 Those are really the main suspects for that.

6 So that's one issue. The other issue is  
7 we're clarifying -- we put some new verbiage in  
8 there about travel days, meaning if you're  
9 traveling and for some reason your travel  
10 schedule requires you to take some additional  
11 time off at home to rest or sleep or what have  
12 you, the clarification is we do not have a set --  
13 there is no automatic travel time associated with  
14 PRIM travel.

15 So some agencies have if you leave after  
16 six, if you get home after seven at night you  
17 earn time, if you leave in the morning. We don't  
18 do that here, and we just wanted to clarify that,  
19 that we do not do that, that if you do feel that  
20 your travel arrangements require you to spend  
21 some time at home recuperating based on a red eye  
22 or some extended flight, that you need to clarify  
23 that in your travel plans when the executive  
24 director approves your travel and discuss it with  
25 your supervisor.

1           So we're not creating a formal policy.  
2       I think PRIM has been very good and its entire  
3       travel policy says throughout that we're to use  
4       best efforts to keep our costs low and to  
5       minimize time away from work. This is just a  
6       paragraph that kind of clarifies that point. I  
7       don't know whether I've been clear on that or if  
8       you have any question about that, I'm happy to  
9       answer it. Just something we felt we should add  
10      to our policies.

11           TREASURER CAHILL: Do you have a third?

12           MR. HANNA: And we have a third, yes. The  
13      third is just we sort of clarified that we will  
14      pay miscellaneous airline charges. The policy  
15      before this suggested that we would not pay for  
16      miscellaneous charges but in recent years, you  
17      know, that's become the norm.

18           MR. TRAVAGLINI: This is checked bags. So  
19      we like our staff to take their bags with them.  
20      When they travel we like them fully dressed when  
21      they do due diligence visits to the asset  
22      management firms.

23           MR. HANNA: Just anticipating that there  
24      will be new charges that will continue to pop up  
25      that it's hard to kind of clarify to delineate

1       here specifically, we have that kind of general,  
2       but just wanted to acknowledge that we would pay  
3       for those things.

4           TREASURER CAHILL: Any questions?

5           MR. BROUSSEAU: Move that the Board approve  
6       the proposed revisions for the travel policy.

7           MR. MENNIS: Just on lodging, just in this  
8       day and age and the time that we're in,  
9       everything comes under scrutiny. So how much  
10      burden does it really put on us to have the 200  
11      threshold versus the 275?

12          MR. HANNA: I don't think it's a tremendous  
13      burden, to your point. I think our inclination  
14      to change it was more -- came more from the  
15      perspective that the threshold was -- just that  
16      the number of times that we conceptually, the  
17      scrutiny aside, sort of, for the moment --

18          MR. TRAVAGLINI: I wouldn't consider it a  
19      burden, necessarily, but it is a time suck when  
20      you're making -- because we make our own travel  
21      arrangements here. There is no PRIM travel  
22      agent. So if I have to spend extra time on  
23      Orbitz figuring out the hotel, that I think is  
24      real and legitimate. So I wouldn't consider it a  
25      burden, but people are less efficient because

1       they are spending time trying to shoehorn a room.  
2       And so my point is, given the amount of increase,  
3       which is modest, and to the extent that they can  
4       still be under \$200, they will still be. It's  
5       just removing the margin in trying to eliminate  
6       that five search inquiry where you might be able  
7       to do it in one.

8               MR. MENNIS: And the employees don't travel  
9       enough to justify having some sort of outsource.

10              MR. TRAVAGLINI: Once they know a place  
11       that -- if it's a visit they've done, then it's  
12       kind of a no-brainer unless the hotel has changed  
13       their rates, which they do.

14              MR. BRANTLEY: I think his question touches  
15       on what you touched on in that -- well, first of  
16       all, I don't think 275 is unreasonable. I think,  
17       given the cities, that you mentioned, that's a  
18       deal. If you can get that, that's great. But  
19       the inefficiencies that you ride in with of  
20       having your folks having to go out and find these  
21       deals anyway, maybe it would justify bringing in  
22       some sort of travel service to take that off  
23       the --

24              MR. TRAVAGLINI: Well, one, I appreciate  
25       that. That to me is a tougher political list. I

1 would prefer we remain doing our own travel  
2 arrangements.

3 MR. BRANTLEY: It's real easy for me to pick  
4 up a phone and say give me a room at X, Y, and Z  
5 place.

6 MR. MENNIS: So you're saying a significant  
7 majority of the time people would no longer have  
8 to spend that extra hour finding --

9 MR. TRAVAGLINI: Enough of a time, Greg,  
10 that we think it's worth considering this. And  
11 so I think the point is just because the cap is  
12 lifted, doesn't mean that we've now changed our  
13 query to start at 275. We're going to find the  
14 cheapest rooms at the most convenient hotel.

15 MR. MENNIS: I think it's a great  
16 explanation. So I appreciate that.

17 MR. HANNA: And all of our travel is  
18 disclosed to the Board in a graphical -- you know  
19 all the dollars we spend on travel is disclosed  
20 in the package.

21 MR. BROUSSEAU: Just to add to that, Greg,  
22 every meeting, every quarterly of the  
23 administration committee, we look at all the  
24 travel of all staff and board people. We have a  
25 printout. You've got it there. And we review,

1 and that started many, many years ago back in the  
2 early 1990s when PERAC did audits. And they had  
3 concerns as to how we were tracking staff  
4 expenses up here, and that's why that was put  
5 into policy. And we do it on a very regular  
6 basis.

7 So we spend time. If there are any  
8 questions on travel, we can ask Karen. We can  
9 ask Mike. And what have you. And that's why  
10 it's done. And we keep a very tight hold on it.  
11 In fact, if anything, we do not -- in the budget,  
12 we, in my view, have not spent enough in terms of  
13 even if we put in for due diligence, we have not  
14 spent every single -- I'm not saying we don't  
15 spend enough. Yes, we do, but we want our people  
16 to be doing due diligence for the \$43 billion  
17 fund and we want our Board people to be traveling  
18 and doing things and get education more than just  
19 possibly once every two or three years, and  
20 that's why, you know, we have the policies and we  
21 look at it carefully. It has not been  
22 exorbitant, and it has not been -- in fact, if  
23 anything, we are always on a budget at all these  
24 things.

25 MR. TRAVAGLINI: Okay.

1           TREASURER CAHILL: Travel policy.

2           MR. BROUSSEAU: Move that the Board approve  
3 the proposed revisions to the travel policy.

4           MR. SHANLEY: Second.

5           TREASURER CAHILL: Motion is made. All  
6 those in favor say aye.

7           THE BOARD: Aye (unanimous).

8           TREASURER CAHILL: Opposed? The ayes have  
9 it.

10                   **(VOTED: That the PRIM Board approve**  
11                   **the proposed revisions to the Travel**  
12                   **Policy; and, further, that the Board**  
13                   **authorize the Executive Director to**  
                  **take all actions necessary to**  
                  **effectuate this motion.)**

14           TREASURER CAHILL: Technology update.

15           MR. HANNA: Just really briefly there are  
16 three issues here. One is we've recently  
17 completed an automation project that takes  
18 processing our approving, reviewing, processing,  
19 and accounting for private equity wires, draw  
20 down commitments, and cash flow transactions and  
21 automates it, takes it from a manual process to  
22 an automated process. That's the first paragraph  
23 here. That's been very successful, and I think  
24 everybody's very happy with the outcome.

25           The second paragraph is that we have



1 deferred some business continuity changes from  
2 we're going to move them from this year to next  
3 year, and that's largely to do with the fact that  
4 our director -- we have an interruption in the  
5 director of information technology's position so  
6 that's more of a disclosure. And, finally,  
7 there's a paragraph just sort of disclosing that  
8 we will be continuing to upgrade staff computers  
9 based on need. The computers that we currently  
10 have for many of the staff are not adequate  
11 anymore from a power resource point of view. Any  
12 questions on technology?

13 TREASURER CAHILL: Seeing none. Thank you,  
14 gentlemen. Robert, other business?

15 MR. BROUSSEAU: We don't need an answer  
16 today but probably about three weeks ago I  
17 started getting e-mails from the leadership of  
18 the teachers organizations and also from members  
19 about an article that appeared in the New York  
20 Times on the 8th of March by Mary Williams Walsh,  
21 referencing that public pension funds are adding  
22 risk to raise returns. And I also was interested  
23 to find that in the March 8th issue of Pensions  
24 and Investments, one of the lead articles on the  
25 front page had to do with corporate funds between

1 corporate and private funds.

2 And I was probably going to mention to  
3 Suzanne and to Max, but it doesn't have to be  
4 done today. I guess the bottom line is that the  
5 charge has been that the public pension funds are  
6 talking far too much risk, that apparently  
7 corporate America is moving out of equities and  
8 out of stocks, not only for their pension funds  
9 but also in any of their investments, whereas it  
10 seems as if the public pension, especially the  
11 defined benefit end, that we're charging full  
12 speed ahead, we have actuarial rates of return  
13 that have to be met and that we're taking risks  
14 that are inordinate.

15 And I know that we approve our asset  
16 allocation every three years. We tweak it. We  
17 look at standard deviations and what have you. I  
18 guess I would like to get some information  
19 through Stan, Suzanne, and Max to give the board  
20 a comfort level with the issues. Maybe you are  
21 aware that -- was it the Greenwich study I guess?  
22 And this article that appeared in the New York  
23 Times and Stan sent me a copy of it, and I read  
24 the articles in here. And I have some concerns  
25 because I said usually when I start getting

1 e-mails from members they read these things and  
2 say, "Are our pension funds safe and what kind of  
3 risks are we taking?"

4 I've tried to assure them the things we  
5 have done, moving an index, change it to small  
6 cap, and maybe other things, but for them to get  
7 an understanding of this, I would like some  
8 information from our consultant and from staff  
9 here so we can allay some of these concerns.

10 MR. TRAVAGLINI: Stan and I will talk and  
11 we'll come back to you at the next meeting. Let  
12 me give you the short answer, just because  
13 corporate plans are very different from public  
14 plans. And the main point is because of law they  
15 are more fully funded by a significant margin  
16 than public plans.

17 So this liability matching and this  
18 derisking that you're talking about is very  
19 germane to the corporate pension fund space at a  
20 mid '60s funded status, it makes no sense for us  
21 to start meaningfully talking about matching our  
22 assets to liabilities unless we want to lock in  
23 the amount of our unfunded liabilities, but  
24 that's a legitimate point, I will say, because  
25 you know headlines because you've read them for a

1 long time. We're not adding risk. The authors  
2 are saying because we are not lowering our  
3 discount rates, like a number of the corporate  
4 plans are, we're somehow at -- no, we're  
5 maintaining the status quo that we've maintained  
6 for 25 years and have exceeded our discount rate,  
7 including 2008.

8 But we'll get back to you because I do  
9 think this is a good discussion to have, and  
10 Suzanne and Max and Stan and I will talk. We'll  
11 put it in more context, but I do think the easy  
12 answer is everyone wants to compare corporates  
13 and publics, and that's a flawed premise to start  
14 comparing the two because of the level of  
15 funding.

16 MR. BROUSSEAU: And they're trying to say  
17 we're headed for a crash in the public sector  
18 because they say we're taking inordinate amounts  
19 of risk as opposed to the corporate area, and I  
20 there are differences. We've known that for  
21 years but we need a comfort level I think with  
22 all of this.

23 MR. TRAVAGLINI: And as a good reminder,  
24 over the past five years we've demonstrated that  
25 we've actually improved the risk return profile.

1           MR. BROUSSEAU: Yes, and that's the stuff I  
2           want to see.

3           MS. MCGOLDRICK: I was going to say that  
4           we're exploring it through Dave this year, right,  
5           to look at a risk monitoring program.

6           MR. TRAVAGLINI: Again, that's in the risk  
7           and sort of the engine parts. What we're talking  
8           about here is the asset allocation and 8.25 and  
9           should we be rethinking our approach.

10          MS. MCGOLDRICK: Which we looked at through  
11          our asset allocation study that we just completed  
12          with EnnisKnupp.

13          MR. DOW: Part of these articles are written  
14          from the point of view of California, and let's  
15          face it, California has got a pretty serious  
16          problem out there compared to the complexity of  
17          their operation compared to ours. Ours seems to  
18          be running reasonably well, and theirs is not.  
19          So an article like this comes forth only because  
20          there's a context of a lot of money in that part  
21          of the country that's in question.

22          MR. BRANTLEY: I would just add when you  
23          address these parties that you just don't limit  
24          the type of risk to standard deviation. There  
25          are other elements of risk that we have

1       addressed.

2               MR. BROUSSEAU:  I did.  I stayed away from  
3       standard deviation and covered the other aspects  
4       of how we have mitigated risk and how we continue  
5       to.

6               TREASURER CAHILL:  Anything else?  Very  
7       good.  Motion to adjourn.

8               MR. BROUSSEAU:  So moved.

9               MR. SHANLEY:  Second.

10              TREASURER CAHILL:  Motion made and seconded.  
11       All those in favor say aye.

12              THE BOARD:  Aye.  (Unanimous.)

13              TREASURER CAHILL:  Opposed?  The ayes have  
14       it.

15                       **(VOTED:  That the April 6, 2010,**  
16                       **meeting of the PRIM Board be adjourned**  
                      **at 11:40 a.m.)**

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Treasurer Cahill, Chair

Alexander E. Aikens, III

C. LaRoy Brantley

Robert L. Brousseau

John "Jay" Dow

Theresa McGoldrick

Greg Mennis

Paul E. Shanley

Michael Travaglini,  
Executive Director

# ***PRIT Fund***

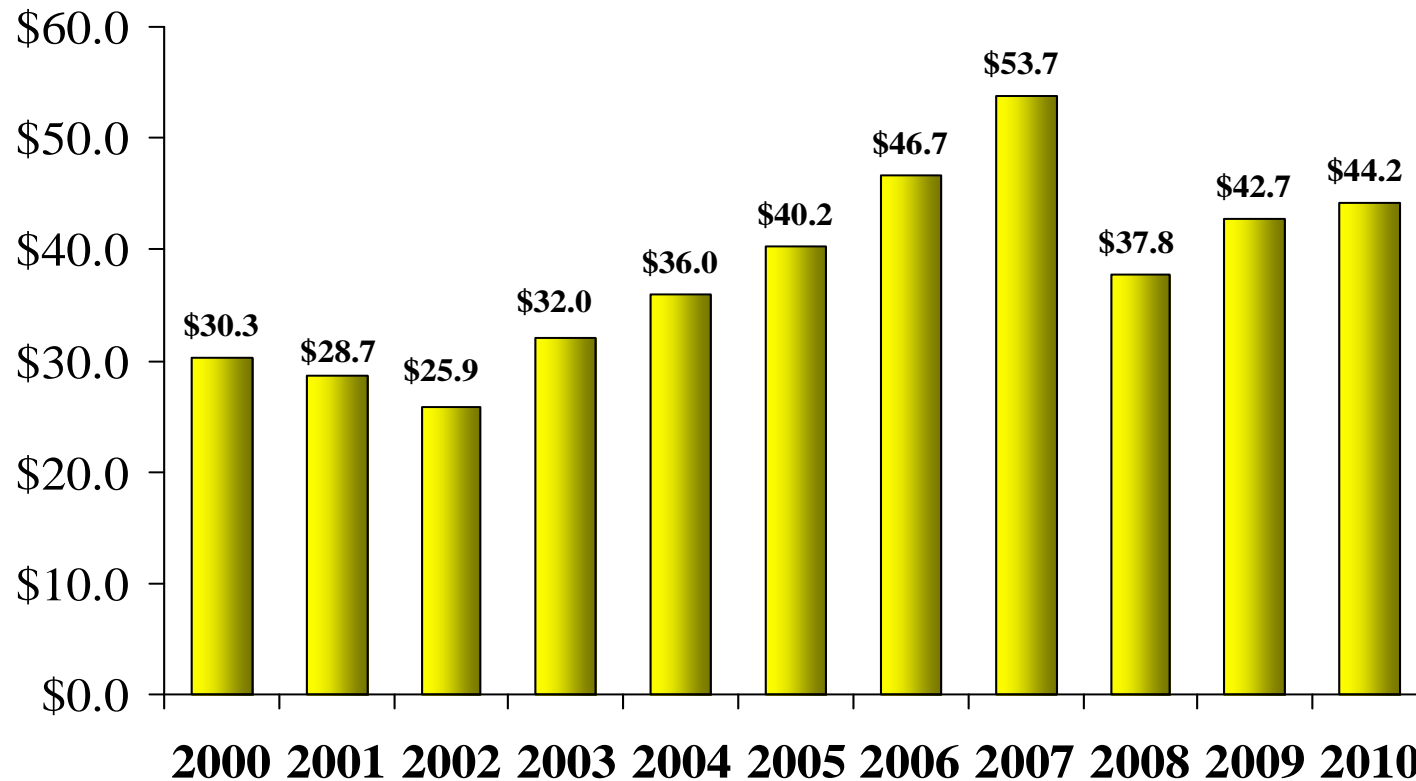
**Gross of Fees  
Performance Report  
For Period Ending  
April 30, 2010**



# ***Total PRIT Fund Assets (NAV) in \$Billions***

## ***2000 to 2010***

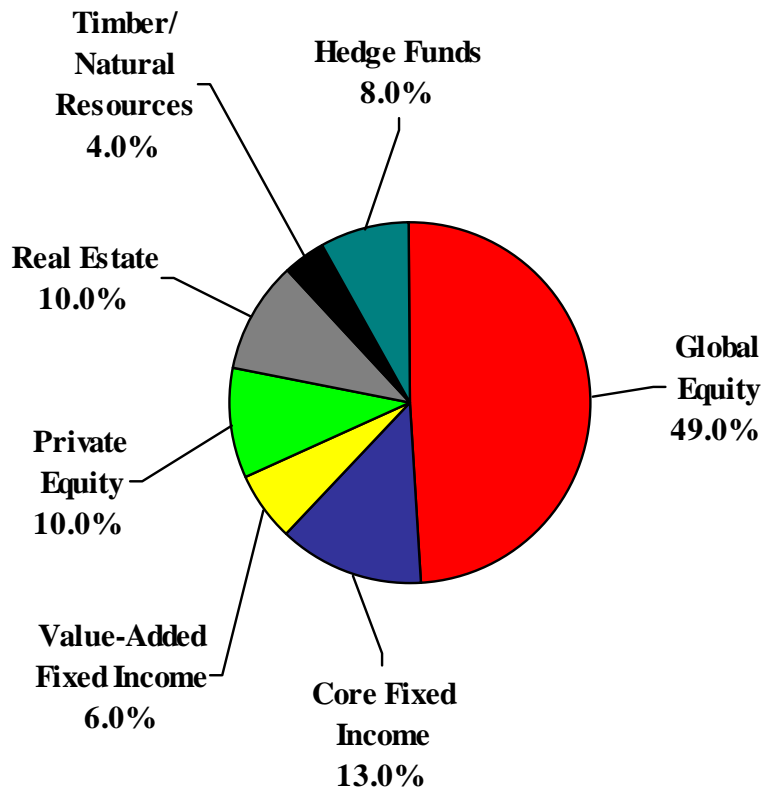
### ***As of April 30, 2010***



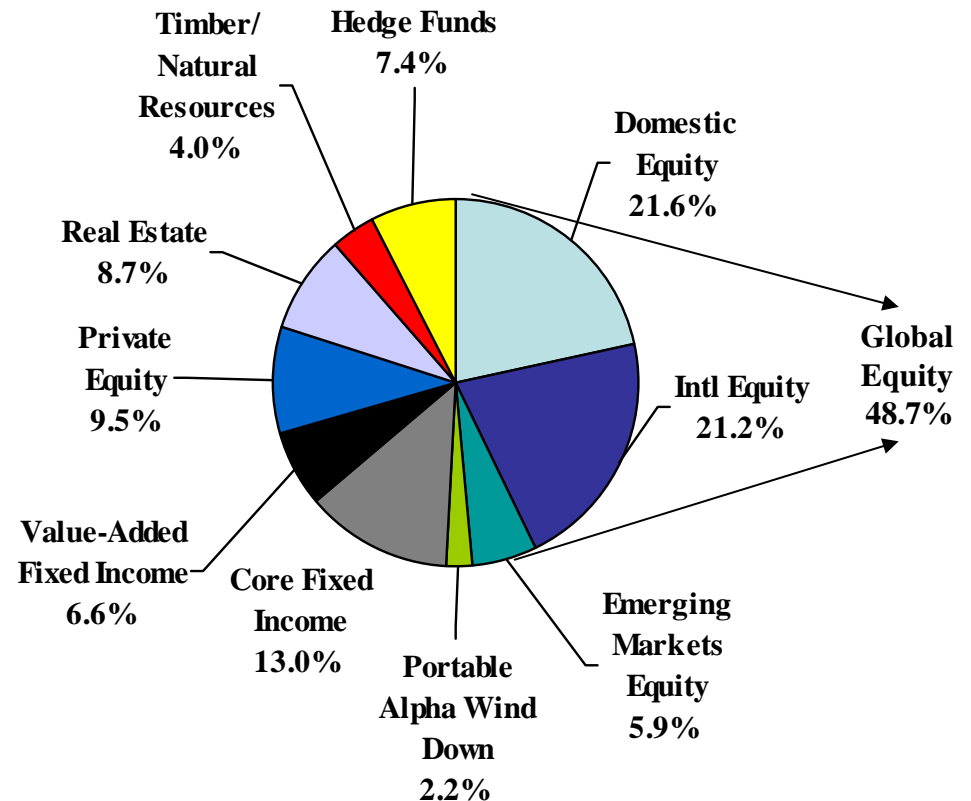
# ***PRIT Fund Asset Allocation***

***Total 04/30/2010 Assets: \$44.2 Billion***

**Long Term Target  
Allocation**



**Actual Allocation**

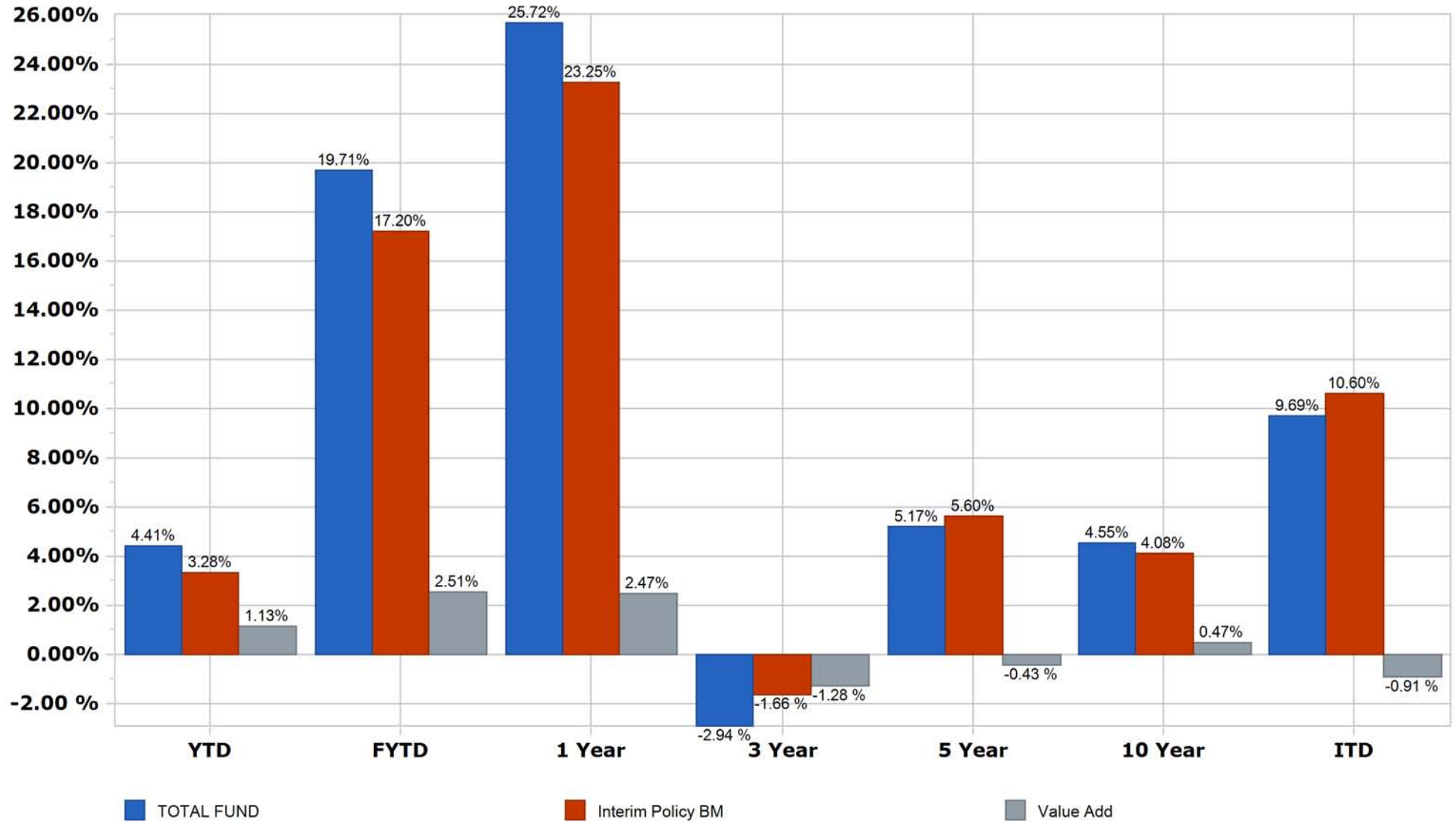


# PRIT Total Fund Performance

Gross of Fees

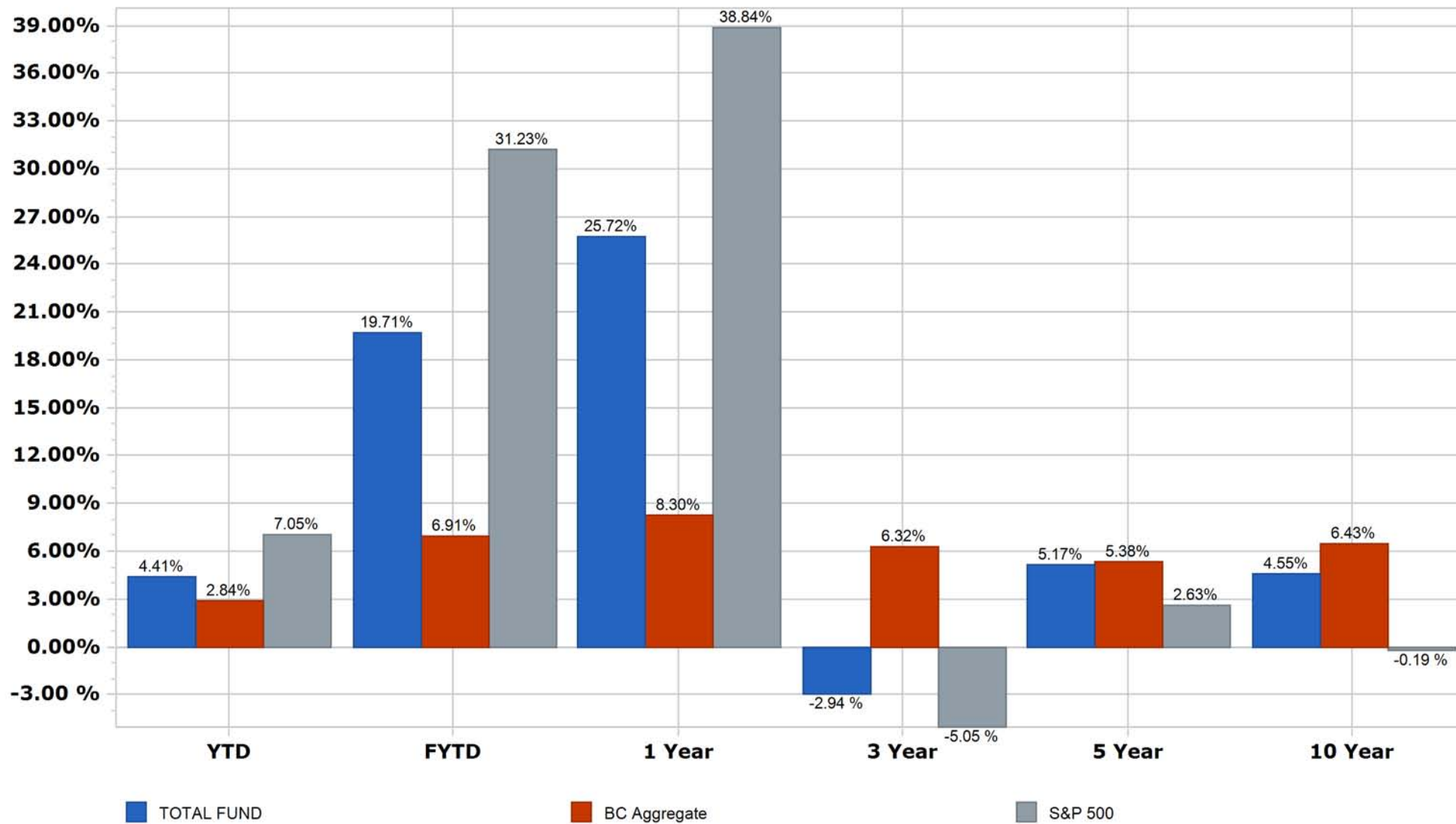
Assets: \$44.2 Billion

As of April 30, 2010

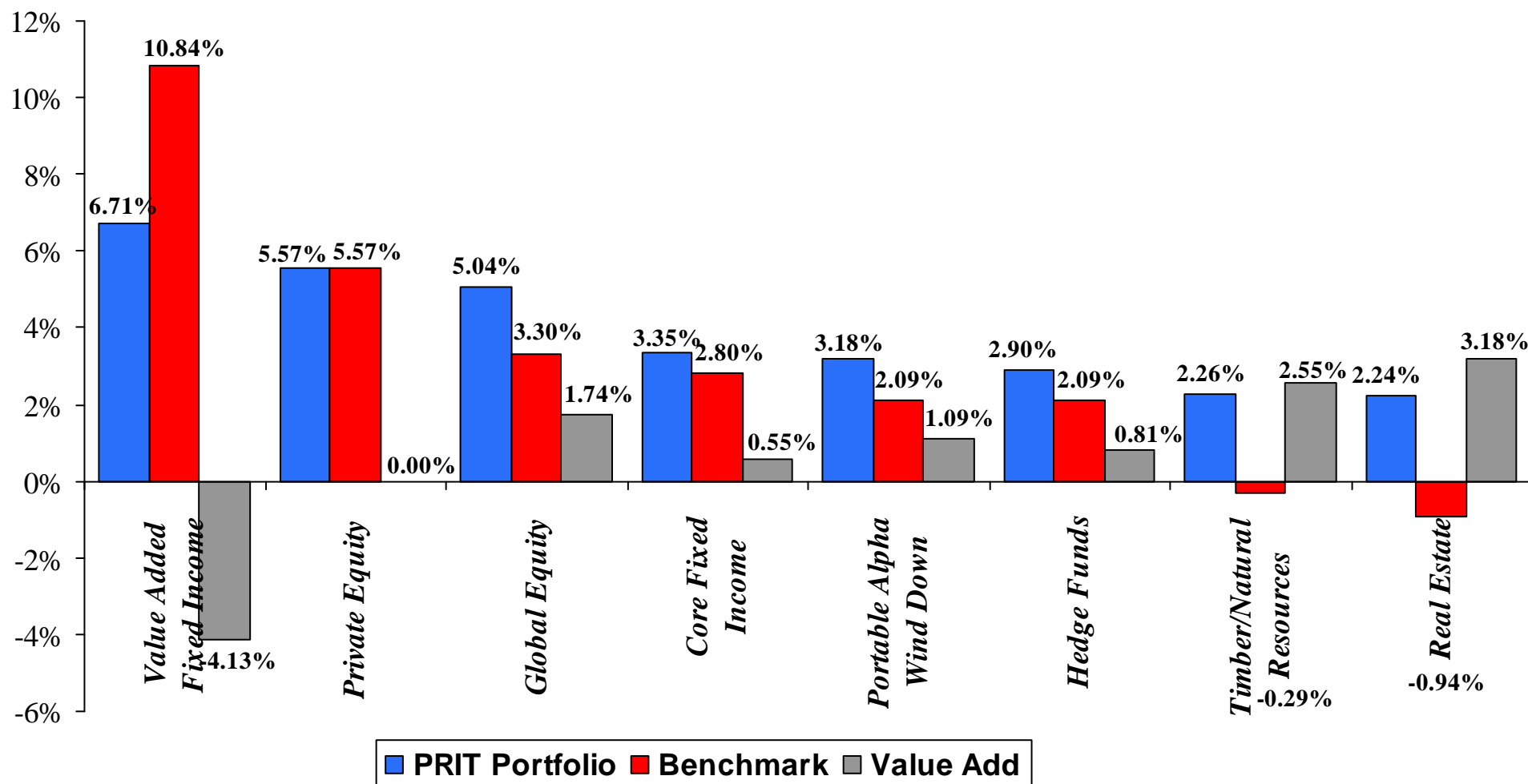


# Total PRIT Fund Performance Compared to Bonds & Stocks

As of April 30, 2010



# 2010 Gross of Fees Performance of PRIT Portfolios As of April 30, 2010



\*Portable Alpha is in wind-down mode

# ***Appendix***

***Gross of Fees  
Asset Class & Specific Manager  
Performance  
April 30, 2010***

# Major Contributors to 2010 Gross of Fees Performance

<u>Manager (NAV) / Asset Class</u>	<u>Relative Outperformance*</u>
1. Marathon (\$2.4B) – Developed Non-US Equity	31.7 bps
2. Baillie Gifford (\$1.7B) – Developed Non-US Equity	21.4 bps
3. PIMCO (\$1.1B) – Domestic Equity	4.6 bps
4. SSGA (\$4.1B) – Developed Non-US Equity	4.3 bps
5. GMO (\$714M) – Emerging Markets	3.8 bps
6. Loomis Sayles (\$1.0B) – Core Fixed Income	3.3 bps
7. PIMCO (\$1.2B) – Core Fixed Income	3.1 bps
8. EMM (\$712M) – Emerging Markets	1.4 bps
9. PAAMCO (\$705M) – Hedge Funds	1.3 bps
10. INTECH (\$1.1B) – Domestic Equity	1.2 bps

*\*The relative outperformance is calculated by multiplying the outperformance versus the benchmark times the allocation to the overall PRIT Fund.*

*\*\*Core Real Estate and Timber managers are only included in months that are quarter-end.*

# Major Detractors from 2010 Gross of Fees Performance

<u>Manager (NAV)/ Asset Class</u>	<u>Relative Underperformance*</u>
1. Mondrian (\$612M) – Developed Non-US Equity	-5.3 bps
2. K2 (\$550M) – Hedge Funds	-1.5 bps
3. Invesco (\$200M) – REIT	-1.1 bps
4. Shenkman (\$214M) – High Yield	-1.0 bps
5. European Investors (\$270M) – Non-US REIT	-0.9 bps
6. RREEF (\$284M) – Global REIT	-0.8 bps
7. ING (\$243M) – Bank Loans	-0.5 bps
8. Rock Creek (\$723M) – Hedge Funds	-0.4 bps
9. Grosvenor (\$674M) – Hedge Funds	-0.3 bps
10. Urdang (\$204M) – REIT	-0.3 bps

*\*The relative outperformance is calculated by multiplying the outperformance versus the benchmark times the allocation to the overall PRIT Fund.*

*\*\*Core Real Estate and Timber managers are only included in months that are quarter-end.*



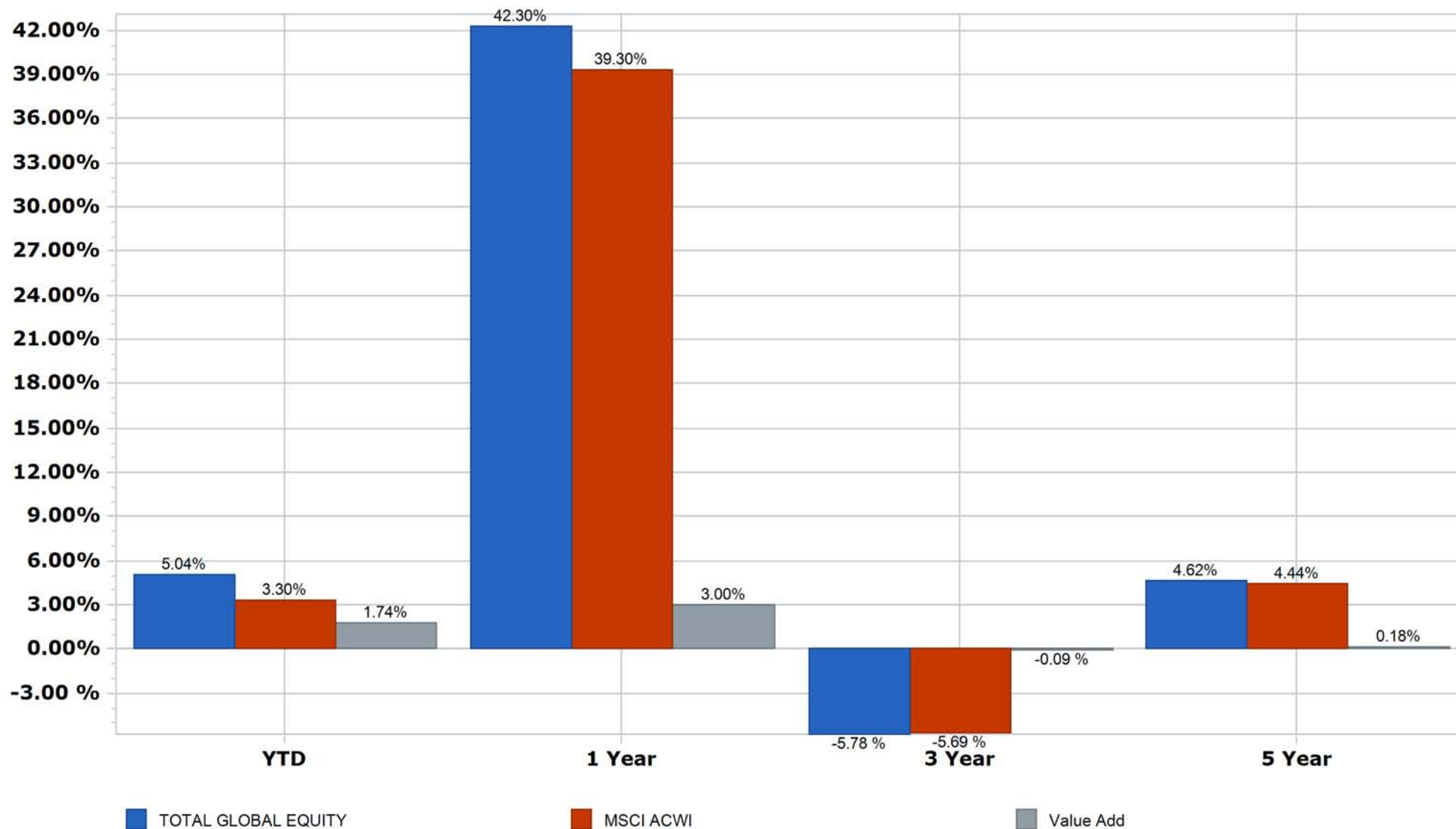
# Underperformers' Long-Term Gross of Fees Performance Records As of April 30, 2010

	CYTD	1 Year	3 Year	5 Year	10 Year	Manager ITD	Inception
1 Mondrian	-4.66	30.82				-13.30	6/30/2008
<b>MSCI EAFE Index</b>	<b>0.45</b>	<b>36.34</b>				<b>-13.22</b>	
Difference in bps	-511	-552				-8	
2 K2 Advisors	0.87	8.59	-0.11	4.19		4.62	07/31/04
<b>100% HFRI Fund of Funds Composite Index</b>	<b>2.09</b>	<b>4.93</b>	6.10	7.02		<b>6.87</b>	
Difference in bps	-122	366	-621	-283		-226	
3 INVESCO	15.41	65.33	-6.78	6.21		12.64	07/31/03
<b>NAREIT Equity REIT</b>	<b>17.66</b>	<b>68.70</b>	<b>-8.57</b>	<b>4.12</b>		<b>9.83</b>	
Difference in bps	-225	-337	179	209		281	
4 Shenkman	5.22	21.85	6.06	7.37		6.96	04/30/04
<b>ML Master II HY Constrained Index</b>	<b>7.13</b>	<b>44.21</b>	<b>7.18</b>	<b>8.59</b>		<b>8.00</b>	
Difference in bps	-191	-2236	-112	-122		-104	
5 European Investors	-0.93	46.22				-8.78	02/29/08
<b>FTSE EPRA NAREIT Developed ex US REIT</b>	<b>0.37</b>	<b>48.30</b>				<b>-12.48</b>	
Difference in bps	-130	-208				370	

# Underperformers' Long-Term Gross of Fees Performance Records (cont.) As of April 30, 2010

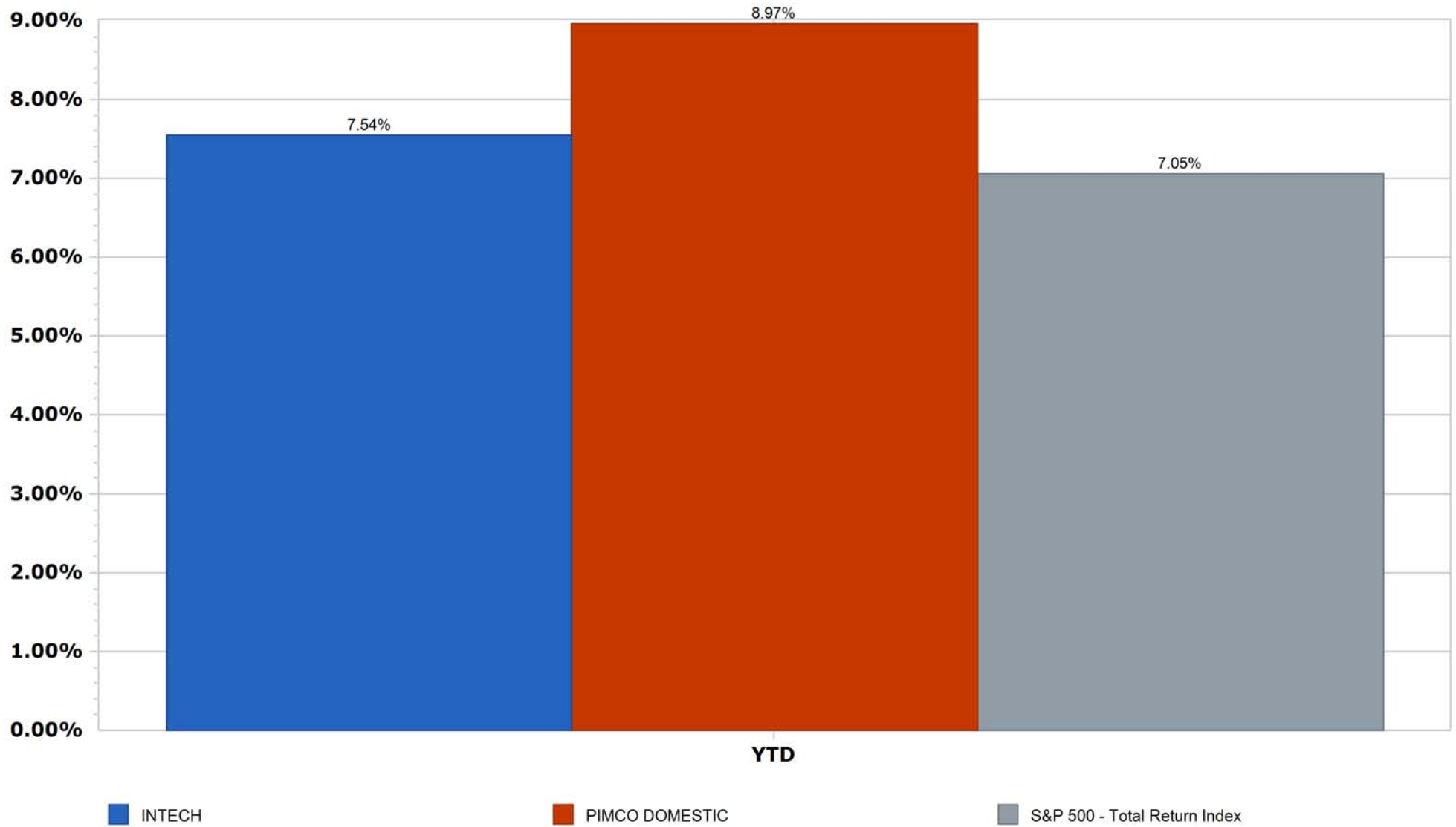
	CYTD	1 Year	3 Year	5 Year	10 Year	Manager ITD	Inception
6 RREEF Global REIT	5.48	54.47				-8.72	02/29/08
<b>FTSE EPRA NAREIT Developed REIT</b>	<b>6.59</b>	<b>56.77</b>				<b>-9.21</b>	
Difference in bps	-111	-230				49	
7 ING	5.21	23.71				7.15	07/31/08
<b>S&amp;P LSTA Leveraged Loan Index</b>	<b>6.16</b>	<b>34.87</b>				<b>8.12</b>	
Difference in bps	-96	-1116				-97	
8 Rock Creek	2.82	14.14	-0.94	3.96		4.55	11/30/04
<b>90% HFRI FOF Conservative Index / 10% HFRI Emerging Markets Global Index</b>	<b>3.06</b>	<b>5.93</b>	<b>6.44</b>	<b>7.23</b>		<b>7.14</b>	
Difference in bps	-24	821	-738	-327		-259	
9 Grosvenor	4.41					4.41	01/31/10
<b>60% HFRI FOF Conservative Idx / 40% HFRI Event Driven Distressed/Restructuring Idx</b>	<b>4.59</b>					<b>4.59</b>	
Difference in bps	-18					-18	
10 Urdang	17.17	74.56	-4.82	7.34		12.75	07/31/03
<b>NAREIT Equity REIT</b>	<b>17.66</b>	<b>68.70</b>	<b>-8.57</b>	<b>4.12</b>		<b>9.83</b>	
Difference in bps	-49	586	375	323		292	

PRIT Global Equity  
 2010 Gross of Fees Performance  
 Assets: \$21.5 Billion  
 As of April 30, 2010



# PRIT Large Cap Managers vs. S&P 500 Tobacco

As of April 30, 2010



# Manager At A Glance United States Intech vs. S&P 500 Total Return Idx

Period Ending April 30, 2010

Currency : USD

Report ID : IAN0101

## CAP Quintiles (Russell 3000 Index Break Point)

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	47	43.29 &	Above	44.45%	51.08%	-6.63%
Second	130	12.97 -	43.29	25.97%	30.11%	-4.14%
Third	171	4.48 -	12.97	24.66%	16.54%	8.12%
Fourth	50	1.80 -	4.48	4.52%	2.23%	2.29%
Lowest	4	Below	1.80	0.40%	0.04%	0.36%
Unclassified	0			0.00%	0.00%	0.00%

## Portfolio P/E Quintiles (Russell 3000)

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	98	Below	0.03	12.82%	14.98%	-2.16%
Second	85	0.03 -	0.05	21.73%	21.33%	0.40%
Third	87	0.05 -	0.06	21.68%	20.47%	1.21%
Fourth	52	0.06 -	0.07	22.39%	22.45%	-0.06%
Lowest	76	0.07 &	Above	20.83%	20.40%	0.43%
Negative Earnings	46			5.46%	7.53%	-2.07%

## Performance Total Gross of Fees

	Market Value	Current	3 Months	YTD	1 Year	3 Years	5 Years
Intech	1.07B	1.83	11.92	7.54	38.82	-4.63	---
S&P 500 - Total Return Index		1.58	11.05	7.05	38.84	-5.05	2.63
<b>Excess Return</b>		0.25	0.87	0.49	-0.02	0.42	---

Statistic	1 Year	3 Years	5 Years
Alpha	0.02	0.04	---
Information Ratio	0.00	0.07	---
Sharpe Ratio	0.87	-0.06	---
Standard Deviation	3.22	5.78	---
Tracking Error	0.43	0.56	---

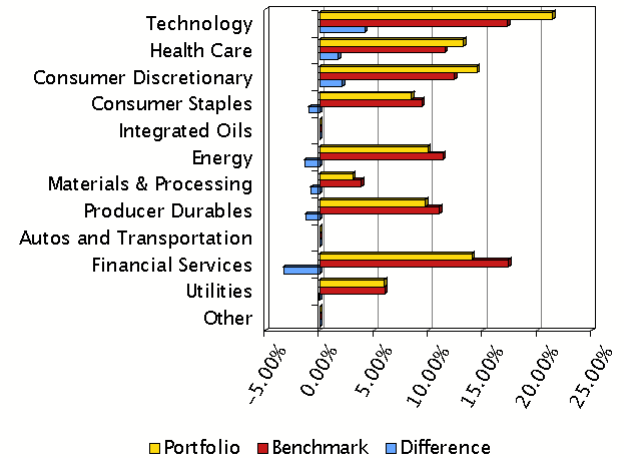
## Equity Style

	Value	Blend	Growth
Large		<b>X</b>	
Medium			
Small			

## Fundamental Characteristics

Portfolio P/E	18.27	19.52	-1.24
Portf. P/E I/B/E/S 1 Yr Forecast EPS	14.24	14.26	-0.02
L.T. Growth Forecast – I/B/E/S	11.16	10.63	0.53
Price/Cash Flow	11.29	11.56	-0.27
Portfolio Price/Sales	1.39	1.44	-0.05
Portfolio Price/Book	2.34	2.26	0.08
Dividend Yield	1.74	1.87	-0.13
Pretax Return on Assets – 5 Year Avg.	13.40	12.93	0.47
Return on Equity – 1 Year	19.05	18.05	1.00
Sales/Share Growth – 2 Years	0.39	-0.33	0.72
Debt/Equity	1.10	1.22	-0.12
Number of Holdings	402	500	
Market Cap - \$-Weighted Median	33.12	44.41	-11.29
S&P Equity Rating	B+	B+	

## Russell Sector Exposure Active Weights



## Top Ten Positions

	Portfolio	Benchmark	Difference
EXXON MOBIL CORP	3.98%	2.99%	1.00%
AT&T INC	2.36%	1.43%	0.93%
MICROSOFT CORP	2.31%	2.17%	0.14%
IBM CORP	2.09%	1.56%	0.53%
APPLE COMPUTER INC	2.01%	2.21%	-0.20%
GENERAL ELECTRIC CO	1.98%	1.88%	0.11%
JOHNSON & JOHNSON	1.84%	1.65%	0.19%
CHEVRON CORP	1.73%	1.52%	0.21%
CISCO SYSTEMS INC	1.62%	1.44%	0.18%
PROCTER & GAMBLE CO	1.51%	1.68%	-0.18%
<b>Total</b>	<b>21.44%</b>	<b>18.53%</b>	

## Top Five Overweight Positions

EXXON MOBIL CORP	3.98%	2.99%	1.00%
AT&T INC	2.36%	1.43%	0.93%
IBM CORP	2.09%	1.56%	0.53%
AGILENT TECHNOLOGIES INC	0.61%	0.12%	0.50%
COGNIZANT TECHNOLOGY	0.61%	0.14%	0.47%

## Top Five Underweight

BANK OF AMERICA CORP	0.73%	1.67%	-0.94%
BERKSHIRE HATHAWAY INCDEL CL	0.26%	1.19%	-0.93%
PHILIP MORRIS INTL INC	0.00%	0.86%	-0.86%
SCHLUMBERGER LTD	0.00%	0.80%	-0.80%
WELLS FARGO & CO	0.80%	1.60%	-0.80%

As of April 30, 2010

Prim

UNITED STATES DOLLAR		PIMCO DOMESTIC		BC US Aggregate Bonds		S&P 500 Total Return Idx			
<b>Composition and Performance Summary</b>									
<b>Portfolio Composition</b> \$/%	Total Portfolio Size	1.07B		14.30B		10.73T			
	Equity	0.04	4.10%	0.00	0.00%	10.73	100.00%		
	Fixed Income	0.53	49.37%	14.26	99.78%	0.00	0.00%		
	Convertibles	0.00	0.00%	0.00	0.00%	0.00	0.00%		
	Real Estate	0.00	0.00%	0.00	0.00%	0.00	0.00%		
	Alternatives	0.00	0.00%	0.00	0.00%	0.00	0.00%		
	Cash & Equivalents	0.50	46.54%	0.03	0.22%	0.00	0.00%		
	Other	0.00	-0.01%	0.00	0.00%	0.00	0.00%		
<b>Total Performance Returns</b>	Monthly	1.95		1.04		1.58			
<b>Total Fund Gross of Fees</b>	Quarterly	11.83		1.29		11.05			
	Six Month	18.07		2.54		15.66			
	Fiscal YTD	39.09		---		---			
	YTD	8.97		2.84		7.05			
<b>Characteristics Summary</b>									
<b>Leverage</b>	Gross Leverage Ratio	1.93		1.00		1.00			
	Net Leverage Ratio	1.58		1.00		1.00			
<b>Credit Quality</b>	Moody's Rating	AAA		AAA		---			
	S&P Rating	AAA		AAA		---			
	Fitch Rating	AAA		AAA		---			
	DBRS Rating	-		A(LOW)		---			
	Average Agency Rating	AAA		AAA		---			
<b>Interest Rate Sensitivity</b>	Duration	2.75		4.66		---			
	Modified Duration	2.57		4.57		---			
	Opt. Adj. Duration	1.17		4.40		---			
	Duration to Worst	2.58		4.62		---			
	Spread Duration	1.07		4.57		---			
	Opt. Adj. Spread	0.58		0.37		---			
	Opt. Adj. Convexity	-0.20		-0.01		---			
	<b>Yield and Other</b>	Num of Fixed Income Holdings	259		8218		---		
Average Coupon		1.90%		4.61%		---			
Weighted Average Life		2.74		6.21		---			
Current Yield		1.73%		4.33%		---			
Yield to Maturity		1.46%		3.14%		---			
Effective Yield to Maturity		1.69%		2.79%		---			
Yield to Worst		1.45%		3.13%		---			
Fixed Income Profile Number		PRMF12300002		IX1F00003848		IX1F00079488			

As of April 30, 2010

Prim

UNITED STATES DOLLAR		PIMCO DOMESTIC			BC US Aggregate Bonds			S&P 500 Total Return Idx				
<b>Sector Breakdown - Barclays Global Scheme</b>												
<b>Count, % MV, Opt Adj Duration</b>	Treasuries & Sovereign	19	20.43%	0.73	393	33.27%	1.62	---	---	---		
	Government Related	---	---	---	---	---	---	---	---	---		
	Agencies	---	---	---	1018	16.90%	0.50	---	---	---		
	Local Authorities	4	0.87%	0.12	208	0.97%	0.09	---	---	---		
	Supranational	---	---	---	101	1.18%	0.04	---	---	---		
	Other Muni & Quasi Security	1	0.10%	0.01	2	0.00%	0.00	---	---	---		
	Corporates	---	---	---	---	---	---	---	---	---		
	Financial	25	8.95%	0.20	821	6.27%	0.33	---	---	---		
	Industrials	12	4.24%	0.14	1968	10.13%	0.66	---	---	---		
	Utility	---	---	---	480	1.46%	0.11	---	---	---		
	Securitized	---	---	---	---	---	---	---	---	---		
	MBS Passthrough	6	0.35%	0.01	1158	25.06%	0.81	---	---	---		
	ABS	20	4.25%	0.04	116	0.33%	0.01	---	---	---		
	CMBS	5	1.26%	0.05	1765	3.20%	0.12	---	---	---		
	Covered	---	---	---	---	---	---	---	---	---		
	CMO	36	10.16%	0.21	---	---	---	---	---	---		
	Interest Rate Swaps/Swaptions	31	1.00%	-0.64	---	---	---	---	---	---		
	Credit Default Swap	32	-11.35%	0.01	---	---	---	---	---	---		
	Fixed Income Futures	4	19.54%	0.16	---	---	---	---	---	---		
	Cash & Cash Equivalents	58	45.73%	0.07	1	0.22%	0.01	---	---	---		
Other	6	-5.53%	0.06	187	1.01%	0.10	---	---	---			
Total			1.17			4.40			---			
<b>Quality Rating Breakdown - Average Quality Ratings</b>												
<b>Credit Exposure%, CDS Protection%, Opt Adj Duration</b>	US Treasuries	12.65%	---	0.54	30.35%	---	1.51	---	---	---		
	Agency	47.41%	---	0.12	41.11%	---	1.27	---	---	---		
	Aaa	14.80%	---	0.19	5.70%	---	0.19	---	---	---		
	Aa1-Aa3	10.25%	---	0.27	5.06%	---	0.28	---	---	---		
	A1-A3	7.88%	2.68%	0.24	8.97%	---	0.56	---	---	---		
	Baa1-Baa3	5.37%	3.34%	0.22	8.03%	---	0.52	---	---	---		
	Ba1-Ba3	---	---	---	0.08%	---	0.00	---	---	---		
	B1-B3	0.38%	---	0.01	---	---	---	---	---	---		
	Caa1-Caa3	---	---	---	---	---	---	---	---	---		
	Ca	---	---	---	---	---	---	---	---	---		
	C	---	---	---	---	---	---	---	---	---		
	Less than C	---	---	---	---	---	---	---	---	---		
	Other	-0.53%	6.85%	-0.42	0.70%	---	0.07	---	---	---		
	Total	98.21%	12.87%	1.17	100.00%	---	4.40	---	---	---		
	Credit Default Swap Exposure	1.53%	12.87%		---	---		---	---	---		
	Fixed Income Profile Number		PRMF12300002			IX1F00003848			IX1F00079488			



# TOTAL FIXED INCOME PROFILE

Report ID: IFI0200

As of April 30, 2010

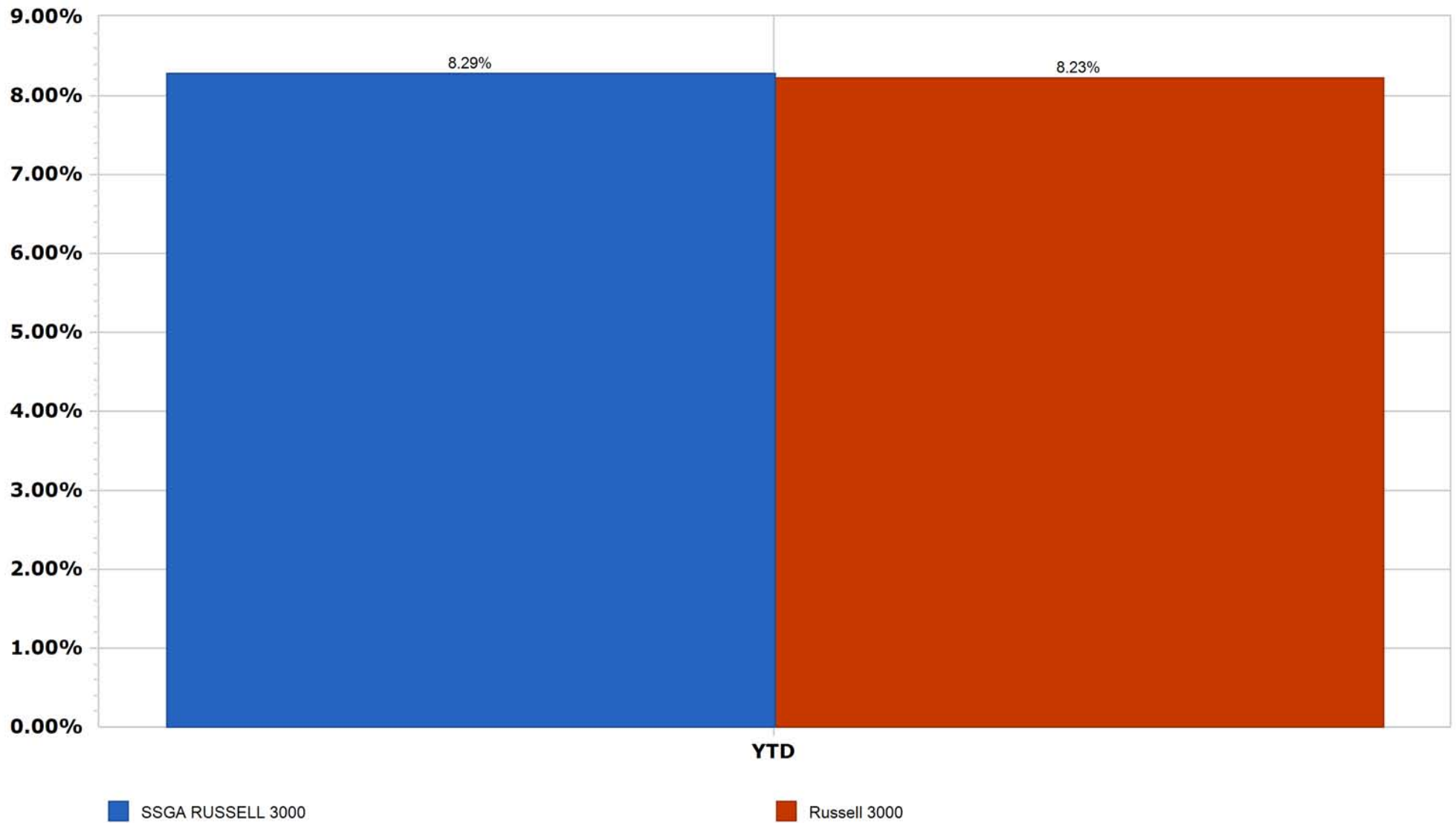
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UNITED STATES DOLLAR		PIMCO DOMESTIC			BC US Aggregate Bonds			S&P 500 Total Return Idx				
<b>Maturity Breakdown</b>												
Count, % MV,	Less than 1 Year/Cash Equivalents	88	49.79%	0.19	159	0.53%	0.00	---	---	---		
Opt Adj Duration	1 - 3 Years	53	21.40%	-0.37	2948	30.57%	0.58	---	---	---		
	3 - 5 Years	30	6.44%	0.17	1669	31.27%	1.06	---	---	---		
	5 - 7 Years	23	10.68%	0.40	1134	15.44%	0.75	---	---	---		
	7 - 10 Years	30	7.49%	0.50	1034	11.57%	0.76	---	---	---		
	10 - 15 Years	10	1.40%	0.06	147	1.69%	0.14	---	---	---		
	15 - 20 Years	6	0.18%	0.05	213	1.75%	0.17	---	---	---		
	20 Yrs and over	8	2.51%	0.20	914	7.18%	0.89	---	---	---		
	Other	11	0.11%	-0.03	---	---	0.05	---	---	---		
	Total			1.17			4.40			---		
Fixed Income Profile Number		PRMF12300002			IX1F00003848			IX1F00079488				



# PRI T Large Cap Manager vs. Russell 3000

As of April 30, 2010



# Manager At A Glance United States SSGA Russell 3000 vs. Russell 3000 Index

Period Ending April 30, 2010

Currency : USD

Report ID : IAN0101

## CAP Quintiles (Russell 3000 Index Break Point)

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	47	43.29 &	Above	40.32%	41.19%	-0.87%
Second	149	12.97 -	43.29	25.57%	25.08%	0.49%
Third	298	4.48 -	12.97	16.85%	16.51%	0.34%
Fourth	493	1.80 -	4.48	9.83%	9.85%	-0.02%
Lowest	1673	Below	1.80	7.42%	7.38%	0.04%
Unclassified	0			0.00%	0.00%	0.00%

## Portfolio P/E Quintiles (Russell 3000)

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	1172	Below	0.03	19.63%	19.75%	-0.12%
Second	472	0.03 -	0.05	19.78%	20.08%	-0.30%
Third	345	0.05 -	0.06	20.17%	19.58%	0.59%
Fourth	196	0.06 -	0.07	19.95%	20.18%	-0.23%
Lowest	454	0.07 &	Above	20.04%	19.96%	0.08%
Negative Earnings	755			9.93%	10.15%	-0.22%

## Performance Total Gross of Fees

	Market Value	Current	3 Months	YTD	1 Year	3 Years	5 Years
SSGA Russell 3000	7.32B	2.14	12.34	8.29	40.97	---	---
Russell 3000 Index		2.16	12.28	8.23	40.90	-4.56	3.28
<b>Excess Return</b>		-0.02	0.06	0.06	0.07	---	---

Statistic	1 Year	3 Years	5 Years
Alpha	0.01	---	---
Information Ratio	0.04	---	---
Sharpe Ratio	0.89	---	---
Standard Deviation	3.29	---	---
Tracking Error	0.09	---	---

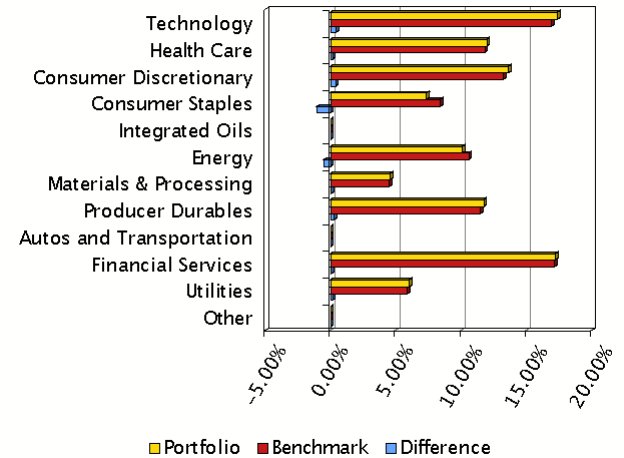
## Equity Style

	Value	Blend	Growth
Large		<b>X</b>	
Medium			
Small			

## Fundamental Characteristics

Portfolio P/E	20.88	21.04	-0.16
Portf. P/E I/B/E/S 1 Yr Forecast EPS	14.53	14.56	-0.03
L.T. Growth Forecast – I/B/E/S	10.97	11.00	-0.03
Price/Cash Flow	11.92	12.06	-0.14
Portfolio Price/Sales	1.37	1.40	-0.03
Portfolio Price/Book	2.19	2.23	-0.03
Dividend Yield	1.72	1.76	-0.04
Pretax Return on Assets – 5 Year Avg.	11.96	12.01	-0.06
Return on Equity – 1 Year	16.41	16.32	0.09
Sales/Share Growth – 2 Years	-0.50	-0.43	-0.07
Debt/Equity	1.16	1.17	-0.01
Number of Holdings	2660	2953	
Market Cap - \$-Weighted Median	28.57	29.43	-0.86
S&P Equity Rating	B+	B+	

## Russell Sector Exposure Active Weights



## Top Ten Positions

	Portfolio	Benchmark	Difference
EXXON MOBIL CORP	2.54%	2.56%	-0.02%
MICROSOFT CORP	1.81%	1.82%	-0.01%
APPLE COMPUTER INC	1.79%	1.80%	-0.01%
GENERAL ELECTRIC CO	1.54%	1.55%	-0.01%
PROCTER & GAMBLE CO	1.41%	1.40%	0.00%
JOHNSON & JOHNSON	1.36%	1.37%	-0.01%
BANK OF AMERICA CORP	1.36%	1.37%	-0.01%
WELLS FARGO & CO	1.32%	1.33%	-0.01%
IBM CORP	1.31%	1.32%	-0.01%
JPMORGAN CHASE & CO	1.30%	1.31%	-0.01%
<b>Total</b>	<b>15.74%</b>	<b>15.83%</b>	

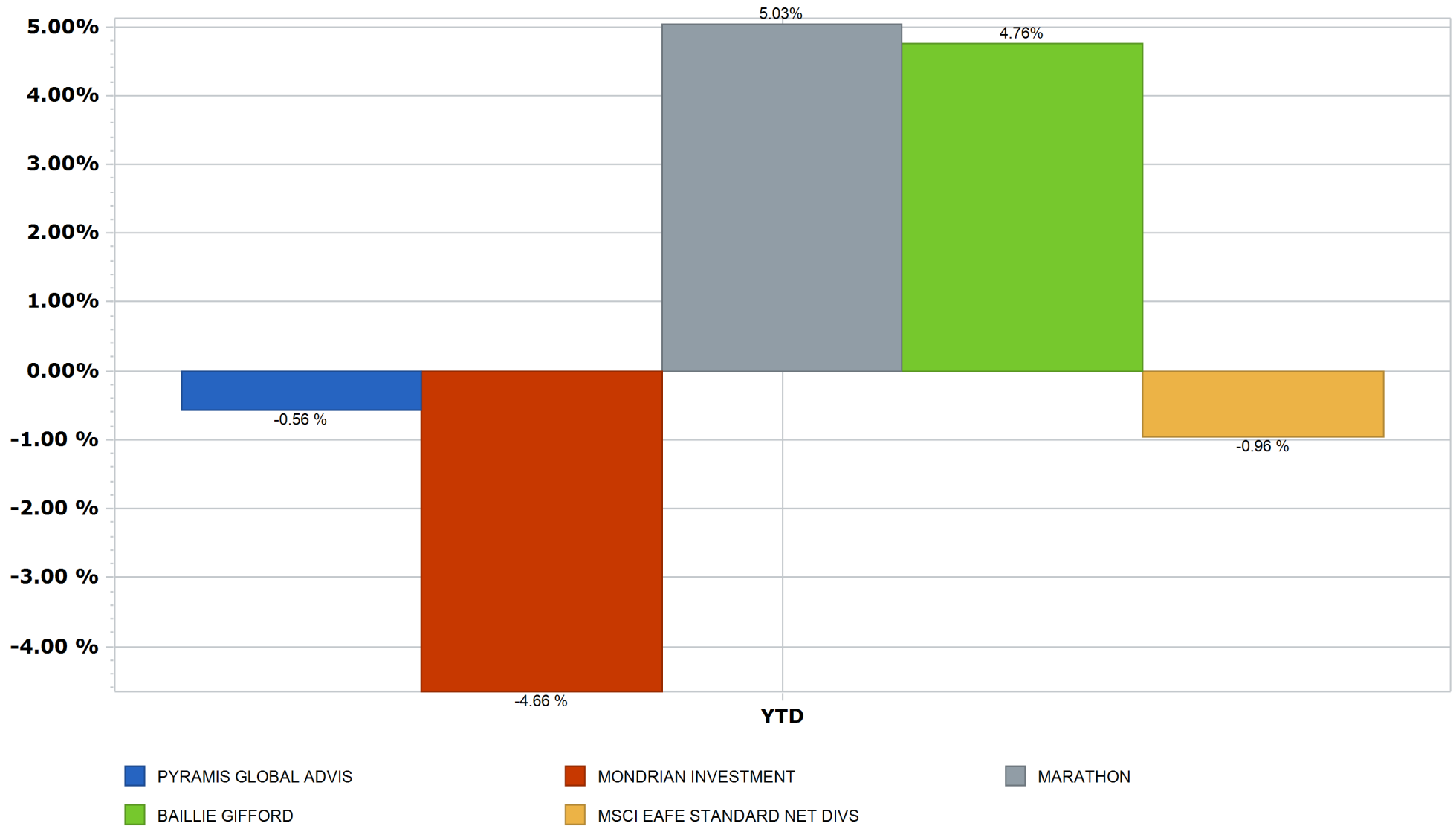
## Top Five Overweight Positions

S&P 500 EMINI FUT (CME)	0.05%	0.00%	0.05%
S & P 500 INDEX FUTURE (CME)	0.02%	0.00%	0.02%
CONSOL ENERGY INC	0.08%	0.06%	0.01%
AT&T INC	1.20%	1.19%	0.01%
MACERICH CO	0.04%	0.03%	0.01%

## Top Five Underweight

PHILIP MORRIS INTL INC	0.00%	0.75%	-0.75%
SCHLUMBERGER LTD	0.00%	0.66%	-0.66%
ALTRIA GROUP INC	0.00%	0.34%	-0.34%
LORILLARD INC	0.00%	0.09%	-0.09%
REYNOLDS AMERICAN INC	0.00%	0.07%	-0.07%

# PRIT International Equity Managers vs. MSCI EAFE Standard Index Net Divs As of April 30, 2010



# Manager At A Glance Total Pyramis Global Advis vs. MSCI EAFE

Period Ending April 30, 2010

Currency : USD

Report ID : IAN0101

## CAP Quintiles (SP Dev BMI Break Point)

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	40	53.85 &	Above	34.84%	36.29%	-1.45%
Second	55	19.25 -	53.85	24.07%	27.46%	-3.39%
Third	83	7.87 -	19.25	23.16%	19.99%	3.17%
Fourth	62	2.85 -	7.87	13.43%	13.82%	-0.39%
Lowest	26	Below	2.85	4.21%	2.34%	1.87%
Unclassified	3			0.29%	0.10%	0.19%

## Portfolio P/E Quintiles

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	64	---	---	17.52%	16.19%	1.33%
Second	58	---	---	22.76%	21.73%	1.03%
Third	52	---	---	22.13%	20.63%	1.50%
Fourth	38	---	---	17.96%	18.79%	-0.83%
Lowest	53	---	---	19.21%	22.25%	-3.04%
Negative Earnings	59			16.00%	15.41%	0.59%

## Performance Total Gross of Fees

	Market Value	Current	3 Months	YTD	1 Year	3 Years	5 Years
Pyramis Global Advis	598.43 M	-1.09	4.19	-0.56	32.79	---	---
MSCI EAFE Composite		-1.73	3.76	-0.80	35.02	-8.45	4.34
<b>Excess Return</b>		0.65	0.44	0.25	-2.23	---	---

Statistic	1 Year	3 Years	5 Years
Alpha	-0.05	---	---
Information Ratio	-0.33	---	---
Sharpe Ratio	0.55	---	---
Standard Deviation	4.49	---	---
Tracking Error	0.45	---	---

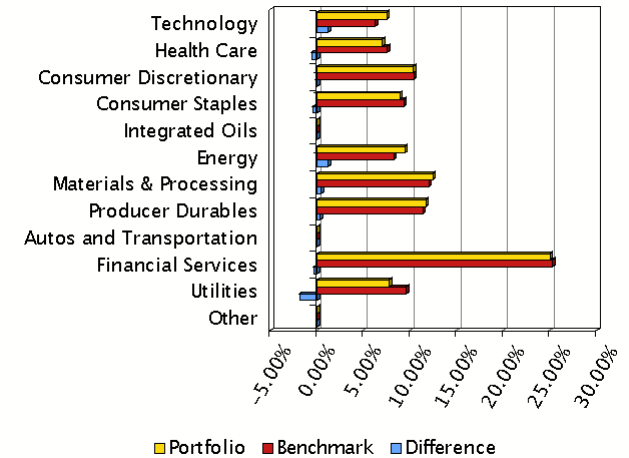
## Equity Style

	Value	Blend	Growth
Large		X	
Medium			
Small			

## Fundamental Characteristics

Portfolio P/E	25.80	25.45	0.35
Portf. P/E I/B/E/S 1 Yr Forecast EPS	13.33	12.83	0.50
L.T. Growth Forecast – I/B/E/S	12.52	11.46	1.06
Price/Cash Flow	7.83	8.11	-0.28
Portfolio Price/Sales	0.90	0.88	0.02
Portfolio Price/Book	1.61	1.61	0.00
Dividend Yield	2.62	2.95	-0.33
Return on Equity – 1 Year	10.72	11.21	-0.49
Sales/Share Growth – 2 Years	0.27	0.79	-0.53
Debt/Equity	0.72	0.75	-0.03
Number of Holdings	269	953	
Market Cap - \$-Weighted Median	27.15	33.21	-6.06
S&P Equity Rating	-	-	

## Russell Sector Exposure Active Weights



## Top Ten Positions

	Portfolio	Benchmark	Difference
ROYAL DUTCH SHELL A SHS	2.62%	0.00%	2.62%
HSBC HOLDINGS PLC	2.13%	1.77%	0.36%
NESTLE SA	1.92%	1.69%	0.23%
ROCHE HOLDING AG	1.46%	1.10%	0.36%
VODAFONE GROUP PLC	1.20%	1.16%	0.04%
BG GROUP PLC	1.18%	0.57%	0.61%
TOTAL SA	1.17%	1.14%	0.03%
SIEMENS AG	1.11%	0.81%	0.30%
COMMONWEALTH BANK	1.09%	0.83%	0.25%
E.ON AG	1.00%	0.70%	0.30%
<b>Total</b>	<b>14.87%</b>	<b>9.78%</b>	

## Top Five Overweight Positions

ROYAL DUTCH SHELL A SHS	2.62%	0.00%	2.62%
LINDE AG	0.80%	0.18%	0.62%
BG GROUP PLC	1.18%	0.57%	0.61%
RECKITT BENCKISER GROUP PLC	0.92%	0.32%	0.60%
KONINKLIJKE (ROYAL) PHILLIPS	0.91%	0.33%	0.58%

## Top Five Underweight

BP PLC	0.38%	1.64%	-1.26%
ROYAL DUTCH SHELL PLC	0.00%	1.11%	-1.11%
NOVARTIS AG	0.01%	1.07%	-1.06%
ROYAL DUTCH SHELL 'B' SHS	0.00%	0.81%	-0.81%
WESTPAC BANKING CORP	0.00%	0.74%	-0.74%

# Manager At A Glance Total Mondrian Investment vs. MSCI EAFE

Period Ending April 30, 2010

Currency : USD

Report ID : IAN0101

## CAP Quintiles (SP Dev BMI Break Point)

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	13	53.85 &	Above	44.08%	36.29%	7.79%
Second	16	19.25 -	53.85	44.46%	27.46%	17.00%
Third	5	7.87 -	19.25	10.50%	19.99%	-9.49%
Fourth	1	2.85 -	7.87	0.95%	13.82%	-12.87%
Lowest	0	Below	2.85	0.00%	2.34%	-2.34%
Unclassified	0			0.00%	0.10%	-0.10%

## Portfolio P/E Quintiles

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	4	---	---	11.36%	16.19%	-4.83%
Second	3	---	---	5.61%	21.73%	-16.12%
Third	9	---	---	24.59%	20.63%	3.96%
Fourth	6	---	---	19.41%	18.79%	0.62%
Lowest	13	---	---	39.02%	22.25%	16.77%
Negative Earnings	1			2.77%	15.41%	-12.64%

## Performance Total Gross of Fees

	Market Value	Current	3 Months	YTD	1 Year	3 Years	5 Years
Mondrian Investment	613.20 M	-1.87	1.37	-4.66	30.82	---	---
MSCI EAFE Composite		-1.73	3.76	-0.80	35.02	-8.45	4.34
<b>Excess Return</b>		-0.14	-2.38	-3.86	-4.20	---	---

Statistic	1 Year	3 Years	5 Years
Alpha	-0.25	---	---
Information Ratio	-0.30	---	---
Sharpe Ratio	0.50	---	---
Standard Deviation	4.71	---	---
Tracking Error	0.89	---	---

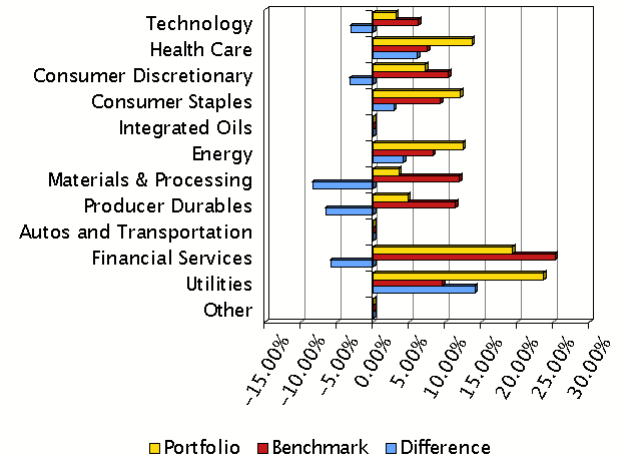
## Equity Style

	Value	Blend	Growth
Large		X	
Medium			
Small			

## Fundamental Characteristics

	Portfolio	Benchmark	Difference
Portfolio P/E	14.91	25.45	-10.54
Portf. P/E I/B/E/S 1 Yr Forecast EPS	11.42	12.83	-1.40
L.T. Growth Forecast - I/B/E/S	9.90	11.46	-1.56
Price/Cash Flow	7.19	8.11	-0.92
Portfolio Price/Sales	0.88	0.88	-0.01
Portfolio Price/Book	1.65	1.61	0.03
Dividend Yield	4.39	2.95	1.43
Return on Equity - 1 Year	15.70	11.21	4.49
Sales/Share Growth - 2 Years	-0.43	0.79	-1.22
Debt/Equity	0.68	0.75	-0.06
Number of Holdings	35	953	
Market Cap - \$-Weighted Median	41.71	33.21	8.50
S&P Equity Rating	-	-	

## Russell Sector Exposure Active Weights



## Top Ten Positions

	Portfolio	Benchmark	Difference
CANON INC	4.61%	0.49%	4.12%
ROYAL DUTCH SHELL A SHS	4.40%	0.00%	4.40%
UNILEVER PLC	4.22%	0.39%	3.83%
NOVARTIS AG	4.16%	1.07%	3.08%
BP PLC	4.12%	1.64%	2.48%
CARREFOUR SA	4.00%	0.31%	3.69%
GLAXOSMITHKLINE PLC	3.87%	0.96%	2.91%
TAKEDA PHARMACEUTICAL CO.	3.68%	0.32%	3.36%
KAO CORP	3.54%	0.13%	3.41%
TOTAL SA	3.49%	1.14%	2.35%
<b>Total</b>	<b>40.09%</b>	<b>6.45%</b>	

## Top Five Overweight Positions

	Portfolio	Benchmark	Difference
ROYAL DUTCH SHELL A SHS	4.40%	0.00%	4.40%
CANON INC	4.61%	0.49%	4.12%
UNILEVER PLC	4.22%	0.39%	3.83%
CARREFOUR SA	4.00%	0.31%	3.69%
KAO CORP	3.54%	0.13%	3.41%

## Top Five Underweight

	Portfolio	Benchmark	Difference
HSBC HOLDINGS PLC	0.00%	1.77%	-1.77%
NESTLE SA	0.00%	1.69%	-1.69%
BHP BILLITON LTD	0.00%	1.27%	-1.27%
ROYAL DUTCH SHELL PLC	0.00%	1.11%	-1.11%
ROCHE HOLDING AG	0.00%	1.10%	-1.10%

# Manager At A Glance Total Marathon vs. MSCI EAFE

Period Ending April 30, 2010

Currency : USD

Report ID : IAN0101

## CAP Quintiles (SP Dev BMI Break Point)

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	28	53.85 &	Above	20.24%	36.29%	-16.05%
Second	29	19.25 -	53.85	17.77%	27.46%	-9.69%
Third	38	7.87 -	19.25	20.28%	19.99%	0.29%
Fourth	67	2.85 -	7.87	29.13%	13.82%	15.31%
Lowest	62	Below	2.85	12.58%	2.34%	10.24%
Unclassified	1			0.00%	0.10%	-0.10%

## Portfolio P/E Quintiles

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	51	---	---	16.12%	16.19%	-0.07%
Second	50	---	---	22.05%	21.73%	0.32%
Third	32	---	---	19.13%	20.63%	-1.50%
Fourth	44	---	---	21.23%	18.79%	2.44%
Lowest	42	---	---	17.05%	22.25%	-5.20%
Negative Earnings	50			17.64%	15.41%	2.23%

## Performance Total Gross of Fees

	Market Value	Current	3 Months	YTD	1 Year	3 Years	5 Years
Marathon	2.37B	0.93	7.33	5.03	39.78	-3.70	8.13
MSCI EAFE Composite		-1.73	3.76	-0.80	35.02	-8.45	4.34
<b>Excess Return</b>		2.66	3.57	5.83	4.77	4.76	3.79

Statistic	1 Year	3 Years	5 Years
Alpha	0.74	0.32	0.30
Information Ratio	0.22	0.36	0.31
Sharpe Ratio	0.74	-0.04	0.11
Standard Deviation	3.91	6.27	5.17
Tracking Error	1.20	1.05	0.88

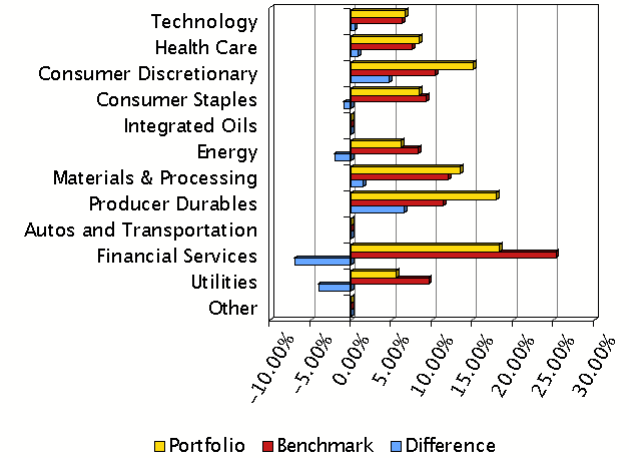
## Equity Style

	Value	Blend	Growth
Large		X	
Medium			
Small			

## Fundamental Characteristics

Portfolio P/E	27.29	25.45	1.83
Portf. P/E I/B/E/S 1 Yr Forecast EPS	13.69	12.83	0.86
L.T. Growth Forecast – I/B/E/S	9.08	11.46	-2.38
Price/Cash Flow	9.39	8.11	1.28
Portfolio Price/Sales	0.75	0.88	-0.14
Portfolio Price/Book	1.58	1.61	-0.04
Dividend Yield	2.36	2.95	-0.59
Return on Equity – 1 Year	12.14	11.21	0.93
Sales/Share Growth – 2 Years	1.35	0.79	0.55
Debt/Equity	0.64	0.75	-0.11
Number of Holdings	225	953	
Market Cap - \$-Weighted Median	11.53	33.21	-21.68
S&P Equity Rating	-	-	

## Russell Sector Exposure Active Weights



## Top Ten Positions

	Portfolio	Benchmark	Difference
JARDINE MATHESON HOLDINGS	1.92%	0.00%	1.92%
JARDINE STRATEGIC HOLDINGS	1.49%	0.00%	1.49%
ASSAABLOY AB	1.21%	0.07%	1.14%
SAIPEM SPA	1.20%	0.10%	1.10%
BP PLC	1.19%	1.64%	-0.46%
VODAFONE GROUP PLC	1.12%	1.16%	-0.05%
ROCHE HOLDING AG	1.09%	1.10%	-0.01%
METSO OYJ	1.08%	0.05%	1.03%
ARCELORMITTAL	1.07%	0.34%	0.73%
RECKITT BENCKISER GROUP PLC	1.06%	0.32%	0.75%
<b>Total</b>	12.42%	4.78%	

## Top Five Overweight Positions

JARDINE MATHESON HOLDINGS	1.92%	0.00%	1.92%
JARDINE STRATEGIC HOLDINGS	1.49%	0.00%	1.49%
ASSA ABLOY AB	1.21%	0.07%	1.14%
SAIPEM SPA	1.20%	0.10%	1.10%
METSO OYJ	1.08%	0.05%	1.03%

## Top Five Underweight

HSBC HOLDINGS PLC	0.00%	1.77%	-1.77%
NESTLE SA	0.00%	1.69%	-1.69%
ROYAL DUTCH SHELL PLC	0.00%	1.11%	-1.11%
TOTAL SA	0.12%	1.14%	-1.02%
GLAXOSMITHKLINE PLC	0.00%	0.96%	-0.96%

Manager At A Glance  
Total  
Baillie Gifford vs. MSCI EAFE

Period Ending April 30, 2010  
Currency : USD  
Report ID : IAN0101

CAP Quintiles (SP Dev BMI Break Point)

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	15	53.85 &	Above	20.25%	36.29%	-16.04%
Second	12	19.25 -	53.85	11.65%	27.46%	-15.81%
Third	38	7.87 -	19.25	40.49%	19.99%	20.50%
Fourth	23	2.85 -	7.87	20.16%	13.82%	6.34%
Lowest	63	Below	2.85	7.45%	2.34%	5.11%
Unclassified	0			0.00%	0.10%	-0.10%

Portfolio P/E Quintiles

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	18	---	---	13.03%	16.19%	-3.16%
Second	35	---	---	25.57%	21.73%	3.84%
Third	32	---	---	26.28%	20.63%	5.65%
Fourth	30	---	---	21.22%	18.79%	2.43%
Lowest	36	---	---	13.90%	22.25%	-8.35%
Negative Earnings	27			14.48%	15.41%	-0.93%

Performance Total Gross of Fees

	Market Value	Current	3 Months	YTD	1 Year	3 Years	5 Years
Baillie Gifford	1.67B	0.31	7.56	4.76	45.67	-4.14	6.95
MSCI EAFE Composite		-1.73	3.76	-0.80	35.02	-8.45	4.34
<b>Excess Return</b>		2.04	3.80	5.57	10.65	4.32	2.61

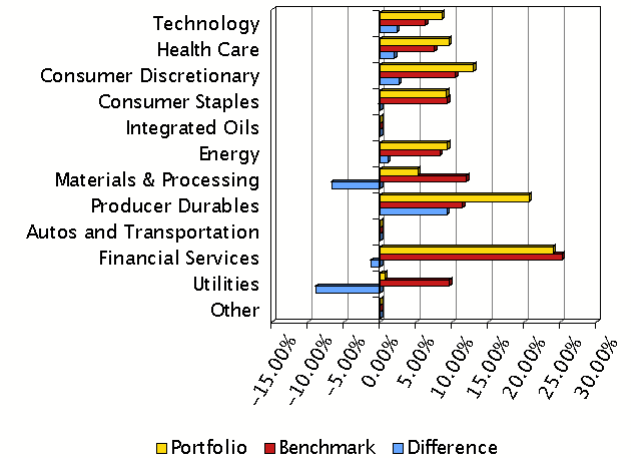
Statistic	1 Year	3 Years	5 Years
Alpha	0.92	0.41	0.21
Information Ratio	0.82	0.33	0.21
Sharpe Ratio	0.78	-0.03	0.09
Standard Deviation	4.19	7.10	5.84
Tracking Error	0.76	1.20	1.03

Equity Style

	Value	Blend	Growth
Large		X	
Medium			
Small			

Fundamental Characteristics	Portfolio	Benchmark	Difference
Portfolio P/E	21.73	25.45	-3.72
Portf. P/E I/B/E/S 1 Yr Forecast EPS	15.31	12.83	2.48
L.T. Growth Forecast - I/B/E/S	10.19	11.46	-1.27
Price/Cash Flow	11.35	8.11	3.25
Portfolio Price/Sales	1.08	0.88	0.20
Portfolio Price/Book	2.00	1.61	0.39
Dividend Yield	2.33	2.95	-0.63
Return on Equity - 1 Year	14.21	11.21	3.00
Sales/Share Growth - 2 Years	-0.90	0.79	-1.69
Debt/Equity	0.54	0.75	-0.21
Number of Holdings	151	953	
Market Cap - \$-Weighted Median	12.08	33.21	-21.13
S&P Equity Rating	-	-	

Russell Sector Exposure Active Weights

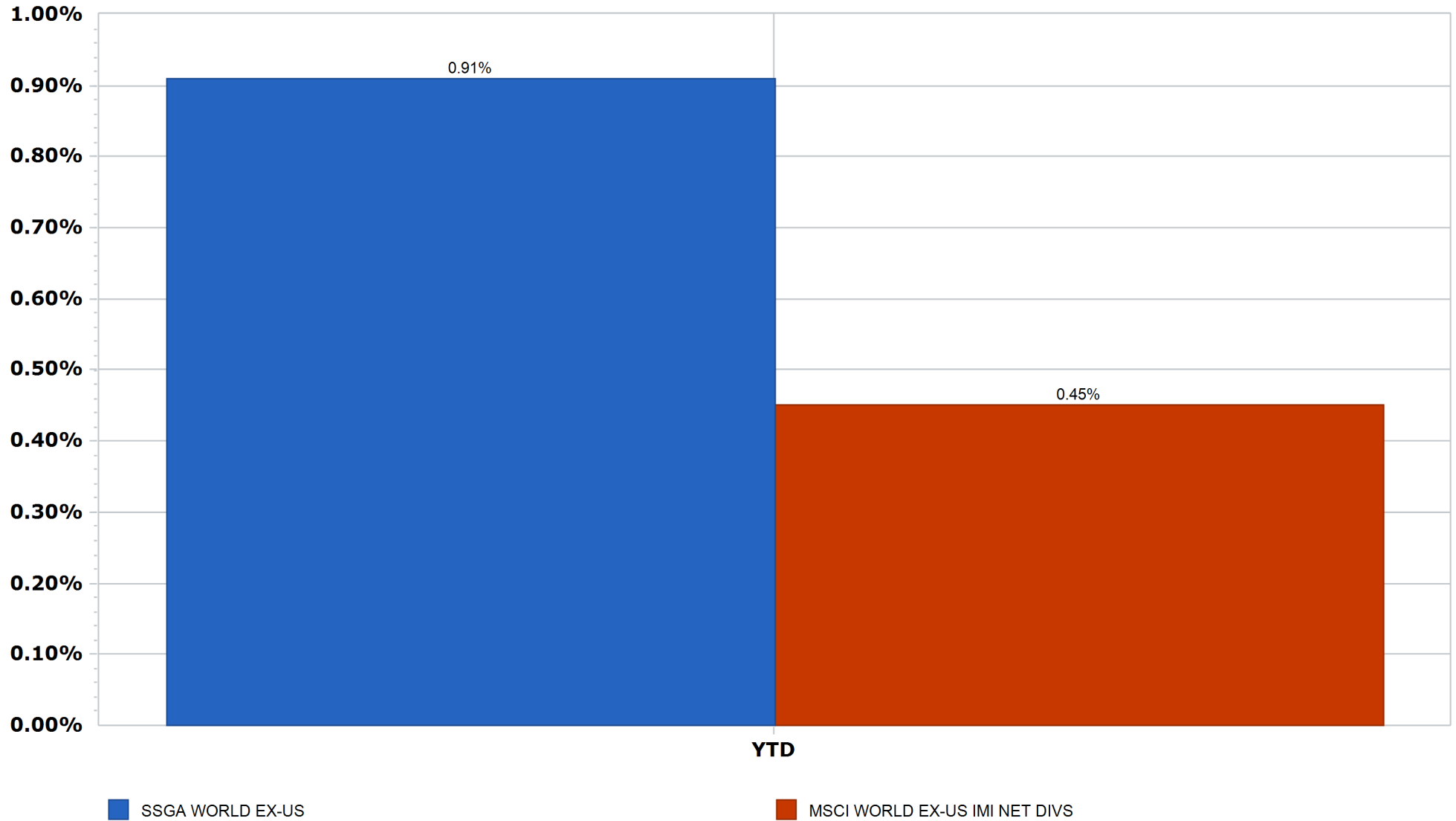


Top Ten Positions	Portfolio	Benchmark	Difference
NESTLE SA	2.95%	1.69%	1.26%
SVENSKA HANDELSBANKEN AB	2.78%	0.14%	2.64%
ATLAS COPCO AB	2.20%	0.11%	2.09%
CANON INC	2.01%	0.49%	1.52%
JYSKE BANK A/S	1.91%	0.00%	1.91%
L OREAL SA	1.87%	0.25%	1.62%
GROUPE BRUXELLES LAMBERT SA	1.87%	0.07%	1.80%
SCHINDLER HLDG AG	1.75%	0.04%	1.70%
AEON CO LTD	1.74%	0.07%	1.67%
CELESIO AG	1.74%	0.03%	1.71%
<b>Total</b>	<b>20.81%</b>	<b>2.89%</b>	

Top Five Overweight Positions	Portfolio	Benchmark	Difference
SVENSKA HANDELSBANKEN AB	2.78%	0.14%	2.64%
ATLAS COPCO AB	2.20%	0.11%	2.09%
JYSKE BANK A/S	1.91%	0.00%	1.91%
GROUPE BRUXELLES LAMBERT SA	1.87%	0.07%	1.80%
CELESIO AG	1.74%	0.03%	1.71%

Top Five Underweight	Portfolio	Benchmark	Difference
HSBC HOLDINGS PLC	0.00%	1.77%	-1.77%
BP PLC	0.00%	1.64%	-1.64%
BHP BILLITON LTD	0.00%	1.27%	-1.27%
NOVARTIS AG	0.00%	1.07%	-1.07%
BANCO SANTANDER CENT HISP SA	0.00%	1.04%	-1.04%

PRIT International Equity Managers  
vs. MSCI World ex-US IMI Divs  
As of April 30, 2010







PRMG43000000-IX1G03166518

**Manager At A Glance**  
**Total**  
**SSGA WORLD EX-US vs. MSCI Wld Ex USD Nt Cmp**

Period Ending April 30, 2010

Currency : USD

Report ID : IAN0101

**CAP Quintiles (SP Dev BMI Break Point)**

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	54	53.85 &	Above	29.50%	29.94%	-0.44%
Second	141	19.25 -	53.85	25.66%	26.32%	-0.66%
Third	259	7.87 -	19.25	18.19%	17.64%	0.55%
Fourth	509	2.85 -	7.87	14.32%	13.67%	0.65%
Lowest	1116	Below	2.85	12.17%	12.26%	-0.09%
Unclassified	15			0.16%	0.16%	0.00%

**Portfolio P/E Quintiles**

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	582	---	---	17.95%	18.08%	-0.13%
Second	378	---	---	21.56%	21.18%	0.38%
Third	357	---	---	21.02%	20.39%	0.63%
Fourth	358	---	---	16.90%	18.34%	-1.44%
Lowest	396	---	---	22.13%	21.59%	0.54%
Negative Earnings	518			16.47%	16.19%	0.28%

**Performance Total Gross of Fees**

	Market Value	Current	3 Months	YTD	1 Year	3 Years	5 Years
SSGA WORLD EX-US	4.12B	-0.97	5.56	0.91	37.76	-7.51	4.89
MSCI World Ex United States IMI Net		-1.09	5.22	0.68	38.00	---	---
<b>Excess Return</b>		0.13	0.34	0.23	-0.24	---	---

Statistic	1 Year	3 Years	5 Years
Alpha	0.11	---	---
Information Ratio	-0.06	---	---
Sharpe Ratio	0.61	-0.08	0.06
Standard Deviation	4.55	6.85	5.64
Tracking Error	0.39	---	---

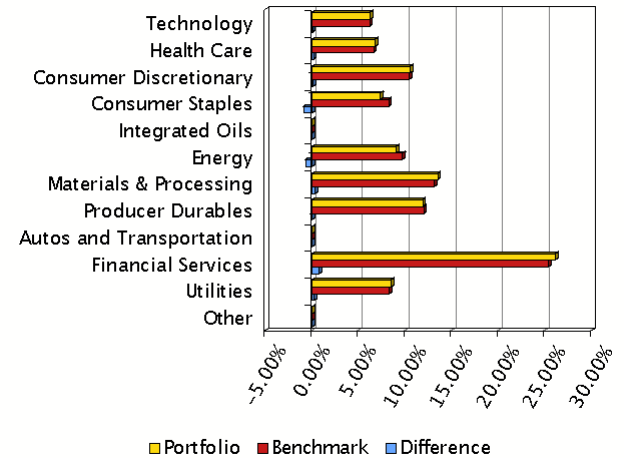
**Equity Style**

	Value	Blend	Growth
Large		X	
Medium			
Small			

**Fundamental Characteristics**

	Portfolio	Benchmark	Difference
Portfolio P/E	27.72	27.40	0.31
Portf. P/E I/B/E/S 1 Yr Forecast EPS	13.26	13.17	0.09
L.T. Growth Forecast - I/B/E/S	11.41	11.26	0.15
Price/Cash Flow	8.49	8.47	0.02
Portfolio Price/Sales	0.92	0.91	0.01
Portfolio Price/Book	1.62	1.62	0.00
Dividend Yield	2.81	2.84	-0.03
Return on Equity - 1 Year	10.42	10.56	-0.14
Sales/Share Growth - 2 Years	0.45	0.64	-0.19
Debt/Equity	0.69	0.69	0.00
Number of Holdings	2094	3497	
Market Cap - \$-Weighted Median	24.33	25.30	-0.97
S&P Equity Rating	B+	B+	

**Russell Sector Exposure Active Weights**



Top Ten Positions	Portfolio	Benchmark	Difference
HSBC HOLDINGS PLC	1.42%	1.40%	0.02%
NESTLE SA	1.36%	1.34%	0.02%
BP PLC	1.30%	1.30%	0.00%
BHP BILLITON LTD	1.00%	1.00%	0.00%
VODAFONE GROUP PLC	0.94%	0.92%	0.01%
TOYOTA MOTOR CORP	0.91%	0.90%	0.01%
ROCHE HOLDING AG	0.89%	0.87%	0.02%
ROYAL DUTCH SHELL PLC	0.88%	0.88%	0.00%
NOVARTIS AG	0.87%	0.85%	0.02%
BANCO SANTANDER CENT HISP SA	0.83%	0.82%	0.00%
<b>Total</b>	10.40%	10.30%	

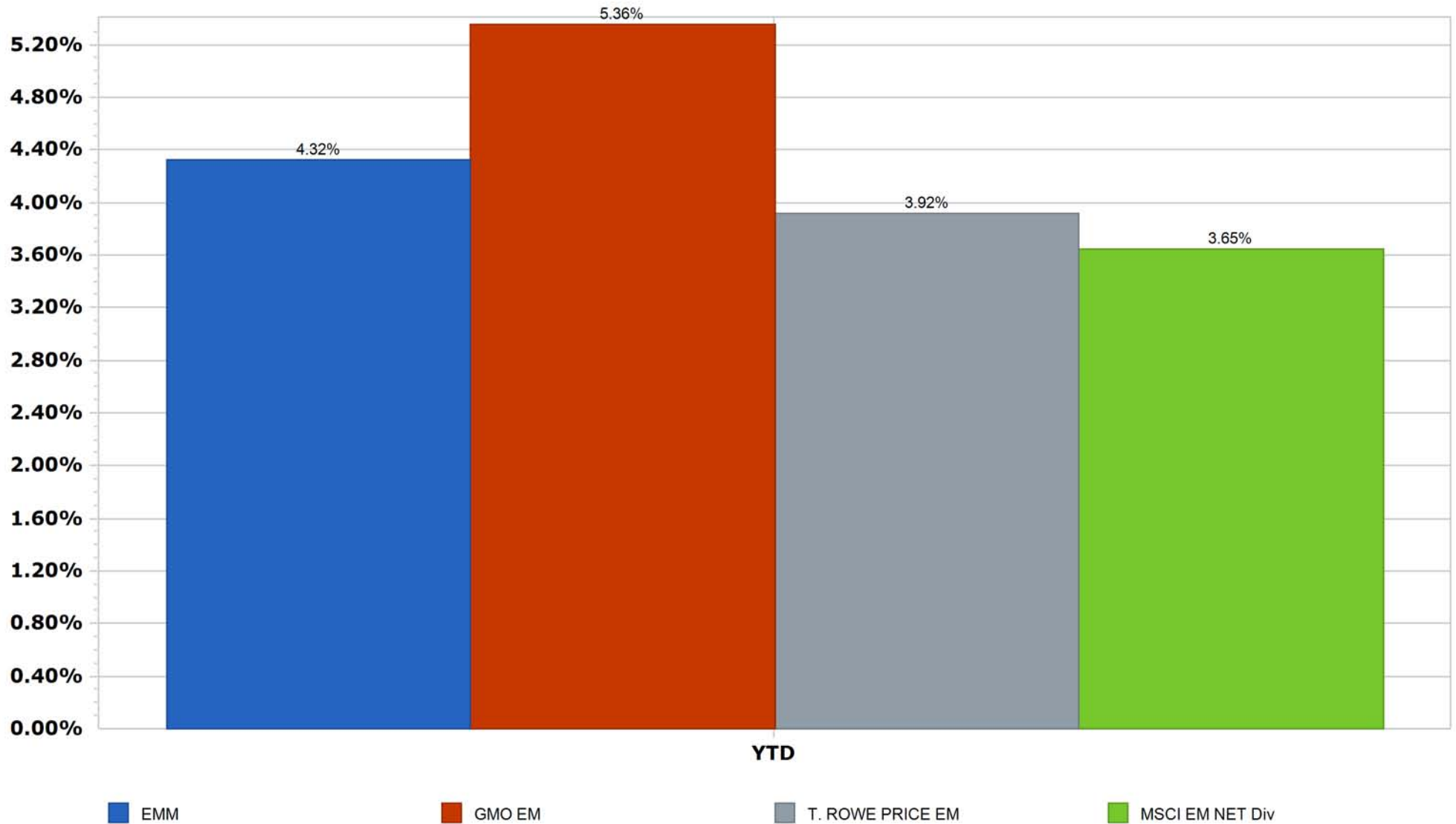
**Top Five Overweight Positions**

	Portfolio	Benchmark	Difference
TOPIX INDEX FUTURE (TSE)	0.05%	0.00%	0.05%
LLOYDS TSB GROUP PLC	0.33%	0.30%	0.03%
NESTLE SA	1.36%	1.34%	0.02%
HSBC HOLDINGS PLC	1.42%	1.40%	0.02%
NOVARTIS AG	0.87%	0.85%	0.02%

**Top Five Underweight**

	Portfolio	Benchmark	Difference
TOTAL SA	0.00%	0.91%	-0.91%
BRITISH AMERICAN TOBACCO PLC	0.00%	0.49%	-0.49%
ABB LTD	0.00%	0.34%	-0.34%
IMPERIAL TOBACCO GROUP PLC	0.00%	0.23%	-0.23%
SEVEN & I HOLDINGS CO LTD	0.00%	0.16%	-0.16%

# PRIT Emerging Markets Equity Managers vs. MSCI Emerging Markets Index As of April 30, 2010



# Manager At A Glance Total EMM vs. MSCI Em Mkts

Period Ending April 30, 2010

Currency : USD

Report ID : IAN0101

## CAP Quintiles (SP Dev BMI Break Point)

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	12	53.85 &	Above	26.28%	25.44%	0.84%
Second	11	19.25 -	53.85	14.58%	20.34%	-5.76%
Third	28	7.87 -	19.25	17.45%	26.36%	-8.91%
Fourth	45	2.85 -	7.87	23.13%	20.77%	2.36%
Lowest	22	Below	2.85	8.22%	6.53%	1.69%
Unclassified	5			10.34%	0.57%	9.77%

## Portfolio P/E Quintiles

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	16	---	---	9.53%	12.74%	-3.21%
Second	28	---	---	17.75%	20.59%	-2.84%
Third	22	---	---	16.43%	21.60%	-5.17%
Fourth	20	---	---	18.70%	23.71%	-5.01%
Lowest	24	---	---	13.80%	20.30%	-6.50%
Negative Earnings	5			3.17%	5.71%	-2.54%

## Performance Total Gross of Fees

	Market Value	Current	3 Months	YTD	1 Year	3 Years	5 Years
EMM	712.59 M	1.86	10.32	4.32	61.30	2.18	14.86
MSCI Emerging Markets (EM) Composite		1.23	9.82	3.71	57.53	4.31	16.93
<b>Excess Return</b>		0.63	0.50	0.61	3.77	-2.13	-2.07

Statistic	1 Year	3 Years	5 Years
Alpha	0.20	-0.18	-0.10
Information Ratio	0.41	-0.19	-0.17
Sharpe Ratio	0.69	0.05	0.16
Standard Deviation	6.11	8.95	7.60
Tracking Error	0.51	1.16	1.06

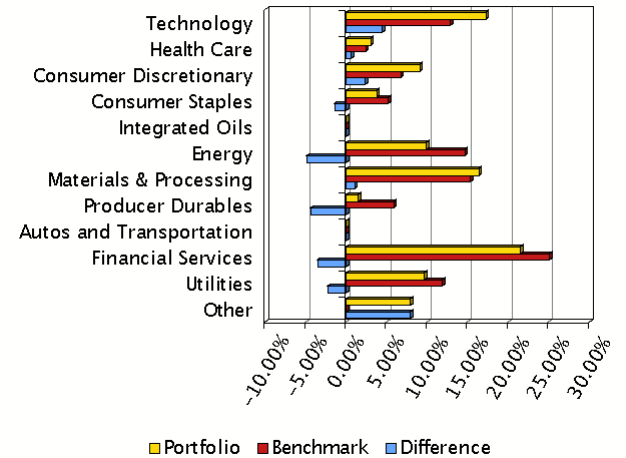
## Equity Style

	Value	Blend	Growth
Large		X	
Medium			
Small			

## Fundamental Characteristics

Portfolio P/E	17.10	18.23	-1.12
Portf. P/E I/B/E/S 1 Yr Forecast EPS	12.91	13.23	-0.32
L.T. Growth Forecast – I/B/E/S	12.38	14.44	-2.06
Price/Cash Flow	10.38	8.75	1.63
Portfolio Price/Sales	1.78	1.39	0.39
Portfolio Price/Book	2.29	2.13	0.16
Dividend Yield	1.54	2.04	-0.50
Return on Equity – 1 Year	16.48	16.26	0.22
Sales/Share Growth – 2 Years	11.85	12.75	-0.90
Debt/Equity	0.37	0.46	-0.09
Number of Holdings	123	763	
Market Cap - \$-Weighted Median	16.51	16.92	-0.42
S&P Equity Rating	A-	-	

## Russell Sector Exposure Active Weights



## Top Ten Positions

	Portfolio	Benchmark	Difference
EMM UMBRELLA FUNDS EM MKTS	7.20%	0.00%	7.20%
EMSAF - MAURITIUS	6.54%	0.00%	6.54%
EMM MIDDLE EAST FUND	4.49%	0.00%	4.49%
SAMSUNG ELECTRONICS	4.12%	2.54%	1.58%
VALE SA	3.69%	0.00%	3.69%
PETROLEO BRASILEIRO SA	3.36%	0.00%	3.36%
CHINA MOBILE LTD	2.20%	1.78%	0.42%
TAIWAN SEMICONDUCTOR MFG CO	2.05%	1.44%	0.60%
AFRICA EMERGING MKT FDS	1.78%	0.00%	1.78%
HON HAI PRECISION INDS CO LTD	1.71%	1.09%	0.62%
<b>Total</b>	37.14%	6.85%	

## Top Five Overweight Positions

EMM UMBRELLA FUNDS EM MKTS	7.20%	0.00%	7.20%
EMSAF - MAURITIUS	6.54%	0.00%	6.54%
EMM MIDDLE EAST FUND	4.49%	0.00%	4.49%
VALE SA	3.69%	0.00%	3.69%
PETROLEO BRASILEIRO SA	3.36%	0.00%	3.36%

## Top Five Underweight

PETROLEO	0.00%	1.77%	-1.77%
CIA VALE DO RIO DOCE	0.00%	1.69%	-1.69%
GAZPROM OAO	0.00%	1.64%	-1.64%
TEVA PHARMA INDS LTD	0.00%	1.62%	-1.62%
PETROLEO BRASILEIRO SA	0.00%	1.45%	-1.45%

# Manager At A Glance Total GMO EM vs. MSCI Em Mkts

Period Ending April 30, 2010

Currency : USD

Report ID : IAN0101

## CAP Quintiles (Russell 3000 Index Break Point)

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	24	43.29 &	Above	27.54%	25.44%	2.10%
Second	65	12.97 -	43.29	24.99%	20.34%	4.65%
Third	80	4.48 -	12.97	19.53%	26.36%	-6.83%
Fourth	79	1.80 -	4.48	12.28%	20.77%	-8.49%
Lowest	75	Below	1.80	5.74%	6.53%	-0.79%
Unclassified	27			9.92%	0.57%	9.35%

## Portfolio P/E Quintiles

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	48	---	---	9.03%	12.74%	-3.71%
Second	50	---	---	13.56%	20.59%	-7.03%
Third	47	---	---	11.28%	21.60%	-10.32%
Fourth	49	---	---	16.23%	23.71%	-7.48%
Lowest	111	---	---	26.06%	20.30%	5.76%
Negative Earnings	22			3.50%	5.71%	-2.21%

## Performance Total Gross of Fees

	Market Value	Current	3 Months	YTD	1 Year	3 Years	5 Years
GMO EM	714.29 M	2.36	10.84	5.36	58.41	1.48	14.84
MSCI Emerging Markets (EM) Composite		1.23	9.82	3.71	57.53	4.31	16.93
<b>Excess Return</b>		1.13	1.02	1.64	0.88	-2.82	-2.09

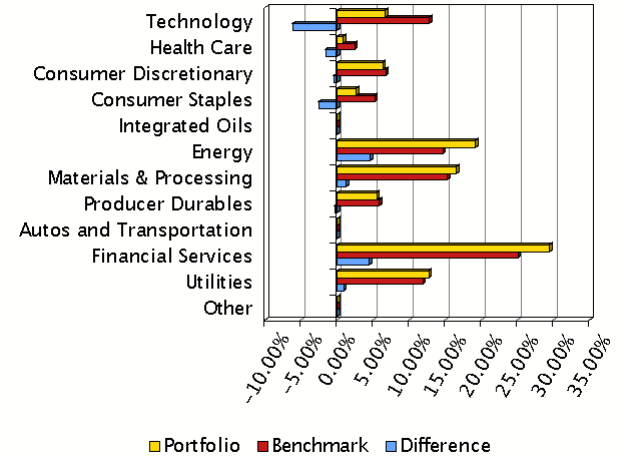
Statistic	1 Year	3 Years	5 Years
Alpha	0.19	-0.22	-0.15
Information Ratio	0.04	-0.22	-0.16
Sharpe Ratio	0.68	0.05	0.16
Standard Deviation	5.94	9.58	8.11
Tracking Error	1.08	0.98	0.88

## Equity Style

	Value	Blend	Growth
Large		<b>X</b>	
Medium			
Small			

Fundamental Characteristics	Portfolio	Benchmark	Difference
Portfolio P/E	12.61	18.23	-5.61
Portf. P/E I/B/E/S 1 Yr Forecast EPS	10.01	13.23	-3.22
L.T. Growth Forecast - I/B/E/S	12.96	14.44	-1.48
Price/Cash Flow	7.22	8.75	-1.53
Portfolio Price/Sales	1.11	1.39	-0.28
Portfolio Price/Book	1.86	2.13	-0.27
Dividend Yield	1.64	2.04	-0.40
Return on Equity - 1 Year	17.63	16.26	1.37
Sales/Share Growth - 2 Years	11.81	12.75	-0.94
Debt/Equity	0.53	0.46	0.07
Number of Holdings	350	763	
Market Cap - \$-Weighted Median	16.92	16.92	0.00
S&P Equity Rating	-	-	

## Russell Sector Exposure Active Weights



## Top Ten Positions

	Portfolio	Benchmark	Difference
GMO TR TAIWAN FD	5.74%	0.00%	5.74%
OAQ GAZPROM	3.97%	0.00%	3.97%
SAMSUNG ELECTRONICS	2.74%	2.54%	0.21%
PETROLEO BRASILEIRO SA	2.05%	0.00%	2.05%
VALE SA	1.73%	0.00%	1.73%
LUKOIL	1.72%	0.00%	1.72%
TURKIYE GARANTI BANKASI AS	1.55%	0.31%	1.24%
AMERICA MOVIL SA DE CV	1.40%	0.00%	1.40%
PETROLEO BRASILEIRO SA	1.30%	0.00%	1.30%
POSCO	1.28%	0.88%	0.40%
<b>Total</b>	23.47%	3.72%	

Top Five Overweight Positions	Portfolio	Benchmark	Difference
GMO TR TAIWAN FD	5.74%	0.00%	5.74%
OAQ GAZPROM	3.97%	0.00%	3.97%
PETROLEO BRASILEIRO SA	2.05%	0.00%	2.05%
VALE SA	1.73%	0.00%	1.73%
LUKOIL	1.72%	0.00%	1.72%

## Top Five Underweight

	Portfolio	Benchmark	Difference
PETROLEO	0.00%	1.77%	-1.77%
GAZPROM OAO	0.00%	1.64%	-1.64%
TEVA PHARMA INDS LTD	0.00%	1.62%	-1.62%
PETROLEO BRASILEIRO SA	0.00%	1.45%	-1.45%
TAIWAN SEMICONDUCTOR MFG CO	0.00%	1.44%	-1.44%

**Manager At A Glance**  
**Total**  
**T. Rowe Price EM vs. MSCI Em Mkts**

Period Ending April 30, 2010

Currency : USD

Report ID : IAN0101

**CAP Quintiles (SP Dev BMI Break Point)**

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	15	53.85 &	Above	27.34%	25.44%	1.90%
Second	18	19.25 -	53.85	15.67%	20.34%	-4.67%
Third	31	7.87 -	19.25	23.19%	26.36%	-3.17%
Fourth	31	2.85 -	7.87	22.35%	20.77%	1.58%
Lowest	16	Below	2.85	6.97%	6.53%	0.44%
Unclassified	7			4.48%	0.57%	3.91%

**Portfolio P/E Quintiles**

Quintiles	Obs	Low	High	Portfolio	Benchmark	Difference
Highest	24	---	---	20.18%	12.74%	7.44%
Second	25	---	---	19.08%	20.59%	-1.51%
Third	25	---	---	21.40%	21.60%	-0.20%
Fourth	13	---	---	11.97%	23.71%	-11.74%
Lowest	12	---	---	10.50%	20.30%	-9.80%
Negative Earnings	5			3.80%	5.71%	-1.91%

**Performance Total Gross of Fees**

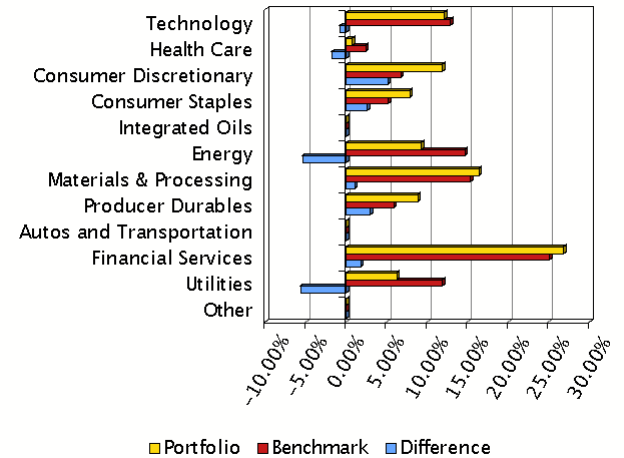
	Market Value	Current	3 Months	YTD	1 Year	3 Years	5 Years
T. Rowe Price EM	548.96 M	0.91	11.17	3.92	65.82	1.41	---
MSCI Emerging Markets (EM) Composite		1.23	9.82	3.71	57.53	4.31	16.93
<b>Excess Return</b>		-0.31	1.35	0.20	8.30	-2.89	---

Statistic	1 Year	3 Years	5 Years
Alpha	-0.01	-0.19	---
Information Ratio	0.39	-0.07	---
Sharpe Ratio	0.65	0.05	---
Standard Deviation	6.91	10.59	---
Tracking Error	1.27	1.65	---

**Equity Style**

	Value	Blend	Growth
Large			X
Medium			
Small			

Fundamental Characteristics	Portfolio	Benchmark	Difference
Portfolio P/E	20.32	18.23	2.09
Portf. P/E I/B/E/S 1 Yr Forecast EPS	13.91	13.23	0.69
L.T. Growth Forecast - I/B/E/S	16.01	14.44	1.57
Price/Cash Flow	10.84	8.75	2.09
Portfolio Price/Sales	1.80	1.39	0.42
Portfolio Price/Book	2.73	2.13	0.60
Dividend Yield	1.28	2.04	-0.76
Return on Equity - 1 Year	17.10	16.26	0.85
Sales/Share Growth - 2 Years	15.43	12.75	2.68
Debt/Equity	0.54	0.46	0.08
Number of Holdings	118	763	
Market Cap - \$-Weighted Median	15.73	16.92	-1.19
S&P Equity Rating	-	-	

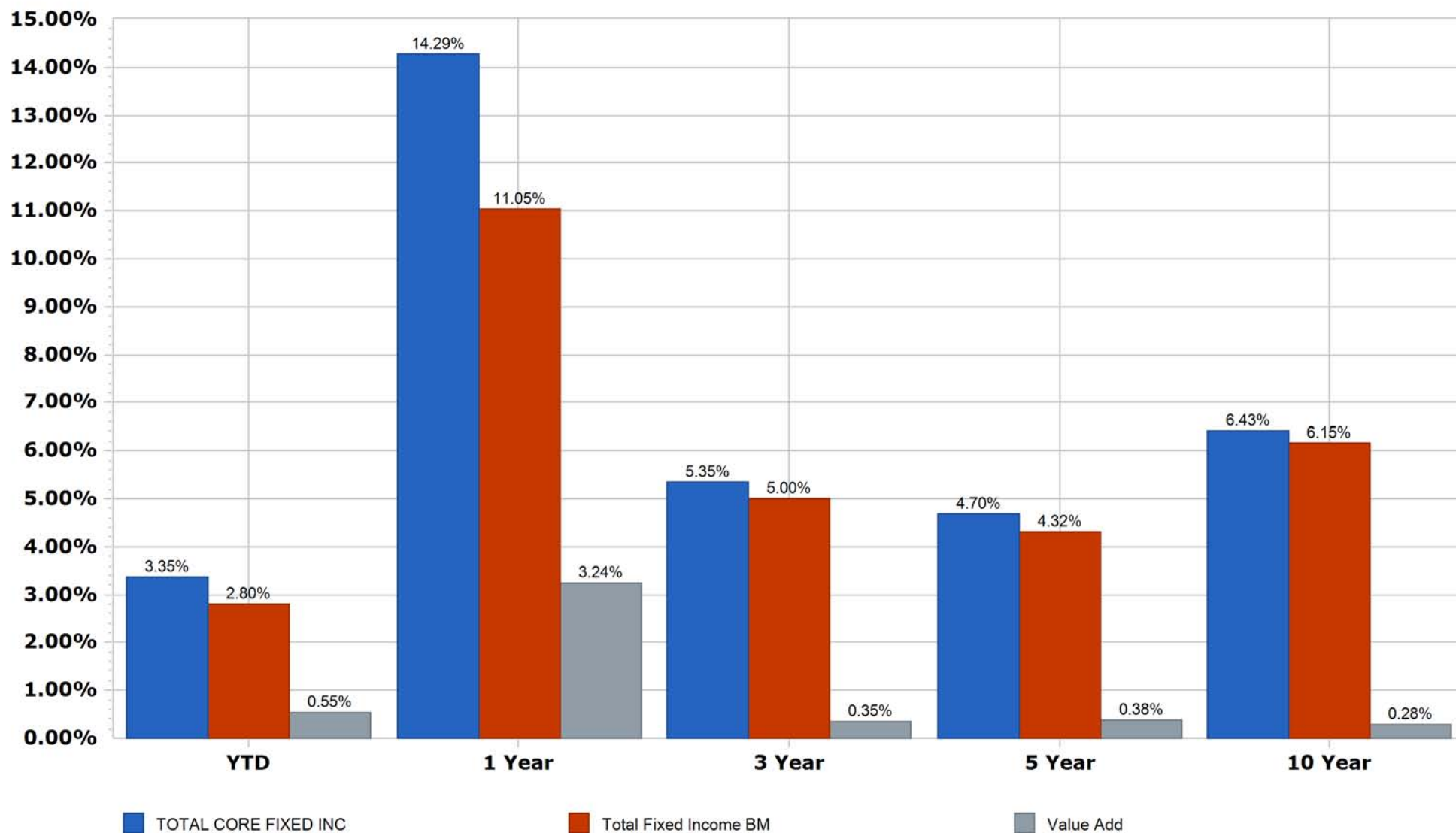
**Russell Sector Exposure Active Weights**

**Top Ten Positions**

	Portfolio	Benchmark	Difference
SAMSUNG ELECTRONICS	3.63%	2.54%	1.09%
BANCO ITAU HOLDING FIN	3.25%	1.33%	1.92%
AMERICA MOVIL SA DE CV	2.48%	0.00%	2.48%
PETROLEO BRASILEIRO SA	2.42%	0.00%	2.42%
VALE SA	2.17%	0.00%	2.17%
HON HAI PRECISION INDS CO LTD	1.90%	1.09%	0.81%
CNOOC LTD	1.86%	0.95%	0.92%
LG HOUSEHOLD & HLTH CARE LTD	1.81%	0.07%	1.74%
WAL-MART DE MEXICO SA	1.75%	0.41%	1.34%
VALE SA	1.62%	0.00%	1.62%
<b>Total</b>	<b>22.89%</b>	<b>6.38%</b>	

Top Five Overweight Positions	Portfolio	Benchmark	Difference
AMERICA MOVIL SA DE CV	2.48%	0.00%	2.48%
PETROLEO BRASILEIRO SA	2.42%	0.00%	2.42%
VALE SA	2.17%	0.00%	2.17%
BANCO ITAU HOLDING FIN	3.25%	1.33%	1.92%
LG HOUSEHOLD & HLTH CARE LTD	1.81%	0.07%	1.74%

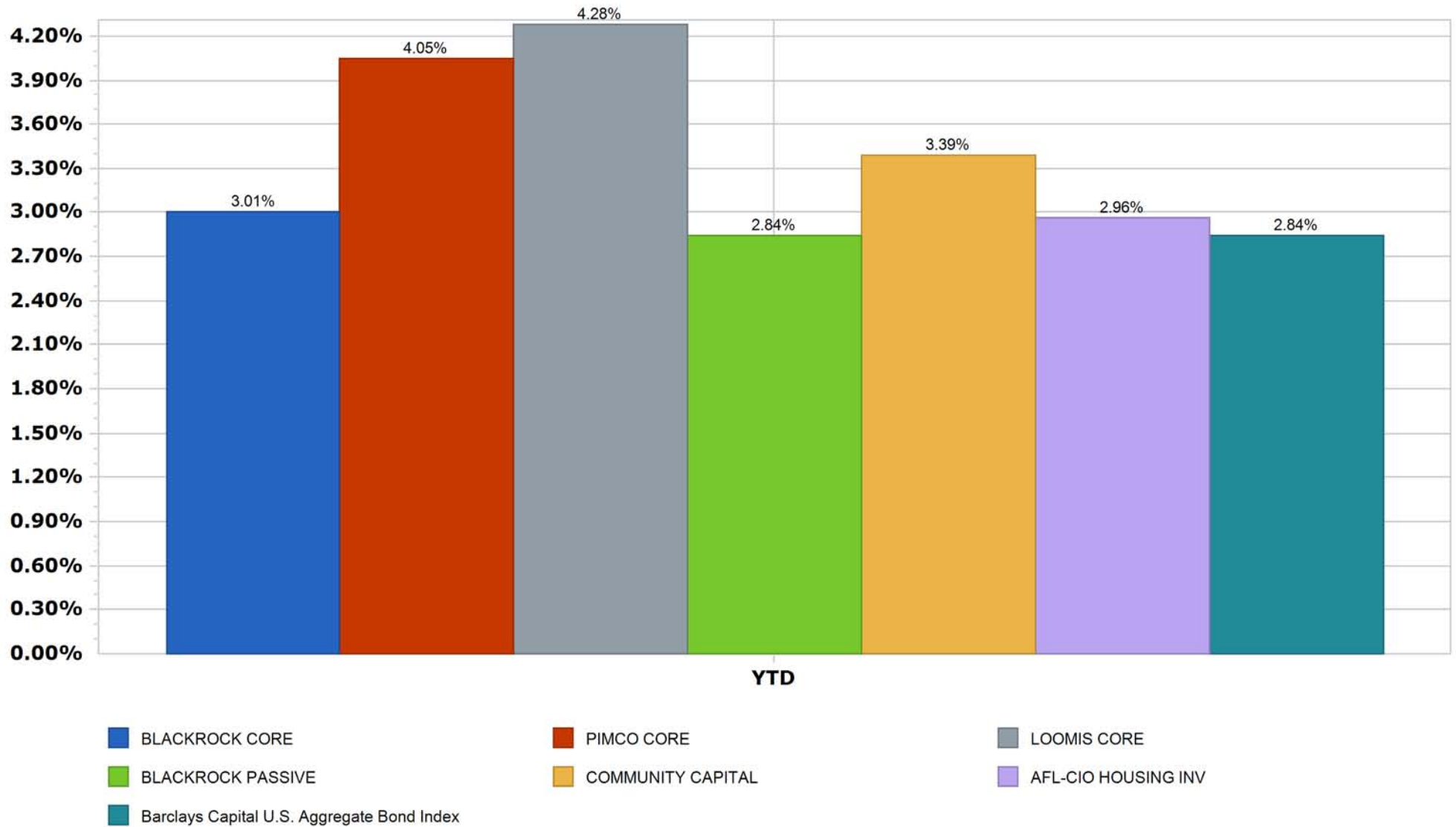
Top Five Underweight	Portfolio	Benchmark	Difference
CHINA MOBILE LTD	0.00%	1.78%	-1.78%
PETROLEO	0.00%	1.77%	-1.77%
CIA VALE DO RIO DOCE	0.00%	1.69%	-1.69%
GAZPROM OAO	0.00%	1.64%	-1.64%
TEVA PHARMA INDS LTD	0.00%	1.62%	-1.62%

PRIT Fixed Income  
2010 Gross of Fees Performance  
Assets: \$5.7 Billion  
As of April 30, 2010



# PRIT Fixed Income Managers vs. Barclays Capital Aggregate Bond Index

As of April 30, 2010



As of April 30, 2010

Prim

UNITED STATES DOLLAR		Blackrock Core		Blackrock Passive		Loomis Core		Pimco Core		BC US Aggregate Bonds	
<b>Composition and Performance Summary</b>											
<b>Portfolio Composition</b> \$/%	Total Portfolio Size	1.02B		1.09B		1.02B		1.16B		14.30B	
	Equity	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	-0.01%	0.00	0.00%
	Fixed Income	1.10	107.70%	1.09	100.19%	0.98	96.01%	0.79	67.80%	14.26	99.78%
	Convertibles	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
	Real Estate	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
	Alternatives	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
	Cash & Equivalents	-0.08	-7.70%	0.00	-0.19%	0.04	3.99%	0.37	32.21%	0.03	0.22%
	Other	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
<b>Total Performance Returns</b>	Monthly	0.93		1.04		1.45		1.32		1.04	
<b>Total Fund Gross of Fees</b>	Quarterly	1.40		1.23		2.23		2.50		1.29	
	Six Month	2.74		2.37		4.60		4.57		2.54	
	Fiscal YTD	8.54		6.75		12.85		11.48		---	
	YTD	3.01		2.84		4.28		4.05		2.84	
<b>Characteristics Summary</b>											
<b>Leverage</b>	Gross Leverage Ratio	1.24		1.00		0.96		3.49		1.00	
	Net Leverage Ratio	0.95		1.00		0.96		3.49		1.00	
<b>Credit Quality</b>	Moody's Rating	AA2		AAA		AA3		AA1		AAA	
	S&P Rating	AA		AAA		AA-		AA+		AAA	
	Fitch Rating	AA		AAA		AA		AA+		AAA	
	DBRS Rating	-		AAA		-		-		A(LOW)	
	Average Agency Rating	AA2		AAA		AA3		AA1		AAA	
<b>Interest Rate Sensitivity</b>	Duration	6.01		4.56		4.82		4.34		4.66	
	Modified Duration	5.89		4.48		4.71		4.26		4.57	
	Opt. Adj. Duration	5.23		4.34		4.48		3.99		4.40	
	Duration to Worst	5.53		4.81		5.01		5.63		4.62	
	Spread Duration	5.33		4.75		4.88		5.31		4.57	
	Opt. Adj. Spread	0.81		0.36		1.02		0.67		0.37	
	Opt. Adj. Convexity	0.34		0.01		0.27		-0.64		-0.01	
<b>Yield and Other</b>	Num of Fixed Income Holdings	324		1643		207		448		8218	
	Average Coupon	4.62%		4.89%		4.62%		4.68%		4.61%	
	Weighted Average Life	9.38		6.45		7.03		7.23		6.21	
	Current Yield	4.80%		4.76%		4.55%		4.48%		4.33%	
	Yield to Maturity	3.81%		3.18%		3.69%		2.83%		3.14%	
	Effective Yield to Maturity	3.65%		2.86%		3.53%		2.46%		2.79%	
	Yield to Worst	3.42%		3.20%		3.70%		3.22%		3.13%	
Fixed Income Profile Number		PRMF50000002		PRMF50700002		PRMF50410002		PRMF50300002		IX1F00003848	



As of April 30, 2010

Prim

UNITED STATES DOLLAR		Blackrock Core			Blackrock Passive			Loomis Core			Pimco Core			BC US Aggregate Bonds		
Sector Breakdown - Barclays Global Scheme																
Count, % MV, Opt Adj Duration	Treasuries & Sovereign	25	31.19%	2.43	161	32.02%	1.59	9	23.63%	0.81	17	6.29%	0.49	393	33.27%	1.62
	Government Related	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
	Agencies	10	6.23%	0.29	52	10.65%	0.29	1	0.41%	0.01	12	1.44%	0.07	1018	16.90%	0.50
	Local Authorities	10	1.64%	0.24	31	1.04%	0.11	---	---	---	11	0.96%	0.11	208	0.97%	0.09
	Supranational	---	---	---	20	0.99%	0.04	---	---	---	---	---	---	101	1.18%	0.04
	Other Muni & Quasi Security	---	---	---	---	---	---	---	---	---	7	2.28%	0.09	2	0.00%	0.00
	Corporates	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
	Financial	29	8.53%	0.31	136	6.07%	0.32	24	10.76%	0.56	51	18.86%	0.89	821	6.27%	0.33
	Industrials	67	12.51%	0.76	268	9.83%	0.64	81	26.63%	1.84	18	5.74%	0.27	1968	10.13%	0.66
	Utility	9	1.40%	0.12	44	1.43%	0.11	3	2.43%	0.11	2	0.74%	0.00	480	1.46%	0.11
	Securitized	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
	MBS Passthrough	106	21.18%	0.64	845	30.67%	0.96	37	13.38%	0.38	105	7.23%	0.20	1158	25.06%	0.81
	ABS	23	10.90%	0.07	6	0.34%	0.01	10	4.08%	0.04	22	10.55%	0.02	116	0.33%	0.01
	CMBS	16	7.50%	0.14	32	3.31%	0.12	24	7.74%	0.39	8	4.37%	0.23	1765	3.20%	0.12
	Covered	3	2.32%	0.07	---	---	---	---	---	---	---	---	---	---	---	---
	CMO	6	1.19%	0.00	---	---	---	5	0.89%	0.00	23	4.08%	0.12	---	---	---
	Interest Rate Swaps/Swaptions	---	---	---	---	---	---	---	---	---	56	26.43%	0.13	---	---	---
	Credit Default Swap	---	---	---	---	---	---	---	---	---	37	5.91%	0.00	---	---	---
	Fixed Income Futures	3	-11.81%	-0.01	---	---	---	---	---	---	17	83.70%	0.53	---	---	---
	Cash & Cash Equivalents	7	8.22%	0.01	2	4.91%	0.00	2	4.07%	0.00	56	204%	0.49	1	0.22%	0.01
	Other	10	-1.00%	0.16	46	-1.26%	0.15	11	5.98%	0.34	6	-283%	0.35	187	1.01%	0.10
	Total			5.23			4.34			4.48			3.99			4.40
Quality Rating Breakdown - Average Quality Ratings																
Credit Exposure%,	US Treasuries	21.40%	---	2.10	29.14%	---	1.47	23.17%	---	0.81	6.36%	---	0.35	30.35%	---	1.51
CDS Protection%,	Agency	12.26%	---	0.38	40.00%	---	1.21	14.54%	---	0.39	47.42%	---	0.22	41.11%	---	1.27
Opt Adj Duration	Aaa	26.10%	---	0.51	5.70%	---	0.19	4.38%	---	0.11	11.40%	---	0.36	5.70%	---	0.19
	Aa1-Aa3	12.61%	---	0.55	5.30%	---	0.31	7.25%	---	0.32	12.62%	---	0.47	5.06%	---	0.28
	A1-A3	11.34%	---	0.65	8.73%	---	0.56	20.71%	---	1.14	15.90%	---	0.75	8.97%	---	0.56
	Baa1-Baa3	8.69%	---	0.52	7.57%	---	0.50	24.50%	---	1.69	7.20%	---	0.37	8.03%	---	0.52
	Ba1-Ba3	---	---	---	---	---	---	0.08%	---	0.01	---	---	---	0.08%	---	0.00
	B1-B3	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
	Caa1-Caa3	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
	Ca	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
	C	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
	Less than C	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
	Other	22.73%	---	0.52	7.82%	---	0.10	4.53%	---	0.01	8.18%	---	1.47	0.70%	---	0.07
	Total	115.13%	---	5.23	104.26%	---	4.34	99.16%	---	4.48	109.08%	---	3.99	100.00%	---	4.40
	Credit Default Swap Exposure	---	---	---	---	---	---	---	---	---	5.91%	---	---	---	---	---
Fixed Income Profile Number		PRMF50000002			PRMF50700002			PRMF50410002			PRMF50300002			IX1F00003848		



# TOTAL FIXED INCOME PROFILE

Report ID: IFI0200

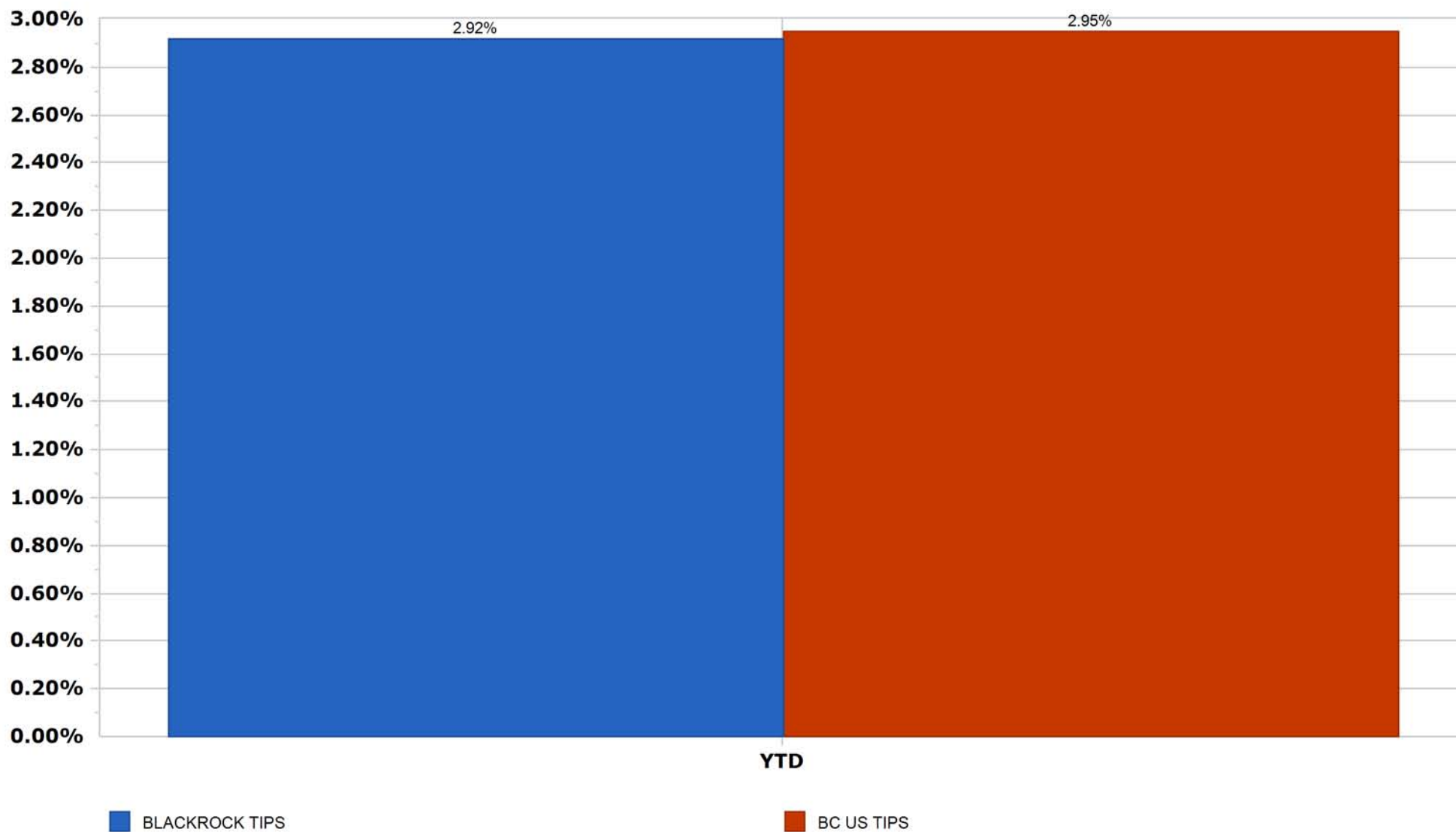
As of April 30, 2010

Prim

UNITED STATES DOLLAR		Blackrock Core			Blackrock Passive			Loomis Core			Pimco Core			BC US Aggregate Bonds		
<b>Maturity Breakdown</b>																
Count, % MV,	Less than 1 Year/Cash Equivalents	47	13.80%	0.03	52	4.79%	0.01	10	5.79%	0.01	99	40.61%	0.90	159	0.53%	0.00
Opt Adj Duration	1 - 3 Years	104	28.81%	0.74	603	31.56%	0.65	29	20.70%	0.37	130	16.95%	0.47	2948	30.57%	0.58
	3 - 5 Years	62	18.95%	0.81	497	28.36%	1.05	57	29.26%	0.99	59	4.52%	0.34	1669	31.27%	1.06
	5 - 7 Years	10	6.20%	0.41	122	13.70%	0.73	29	8.22%	0.39	22	9.47%	0.42	1134	15.44%	0.75
	7 - 10 Years	30	17.58%	1.73	125	9.93%	0.71	50	25.70%	1.57	42	15.58%	1.02	1034	11.57%	0.76
	10 - 15 Years	10	1.78%	0.17	20	1.70%	0.15	2	0.42%	0.03	7	1.42%	0.10	147	1.69%	0.14
	15 - 20 Years	7	0.76%	0.10	41	1.86%	0.22	5	0.61%	0.06	3	5.09%	0.01	213	1.75%	0.17
	20 Yrs and over	53	12.22%	2.14	183	8.09%	1.02	25	9.29%	1.05	26	6.39%	0.72	914	7.18%	0.89
	Other	1	-0.10%	-0.90	---	0.01%	-0.20	---	0.01%	0.01	60	-0.03%	0.01	---	---	0.05
	Total			5.23			4.34			4.48			3.99			4.40
Fixed Income Profile Number		PRMF50000002			PRMF50700002			PRMF50410002			PRMF50300002			IX1F00003848		

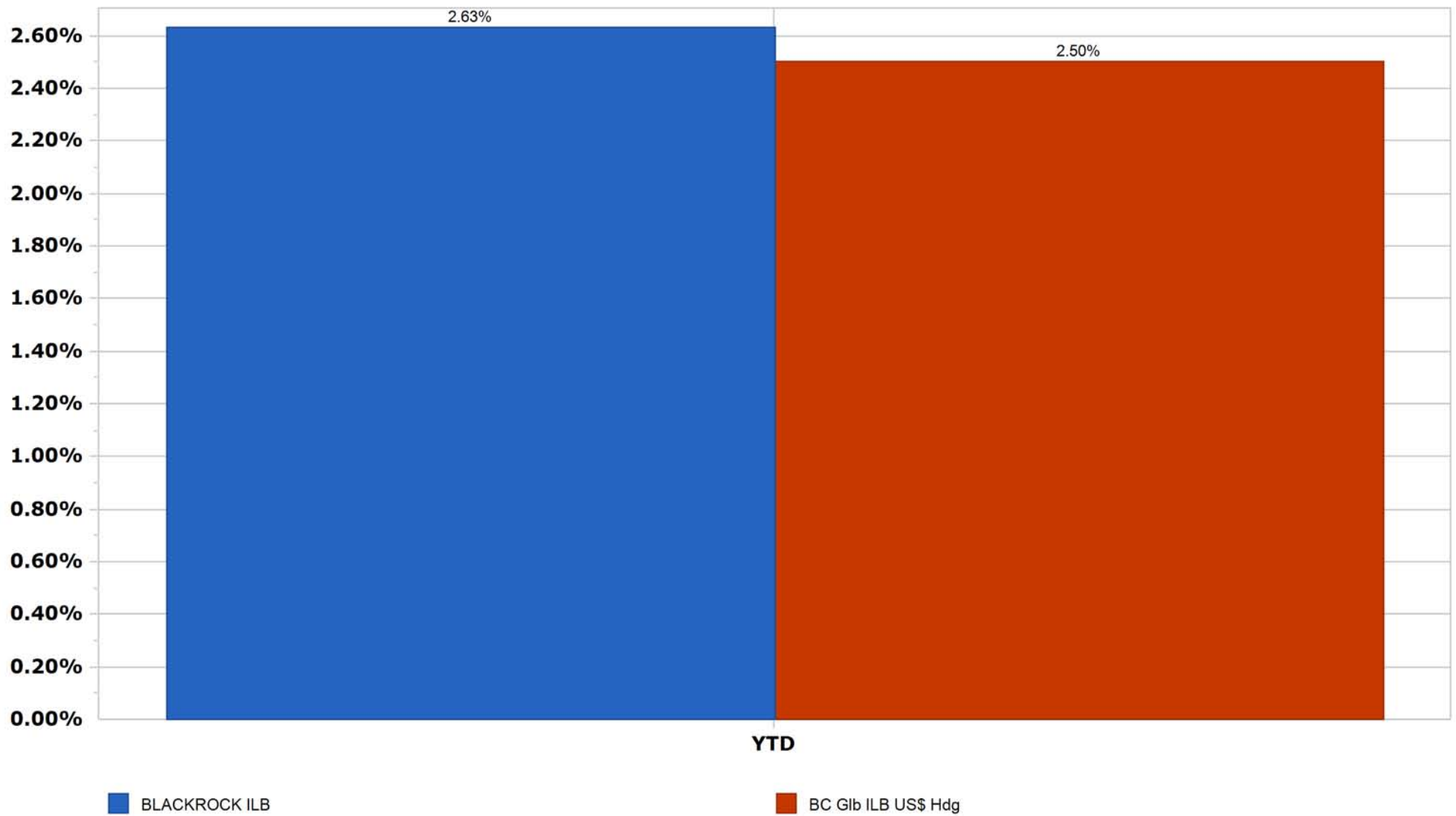
# PRIT Fixed Income Manager vs. Barclays Capital US TIPS

As of April 30, 2010



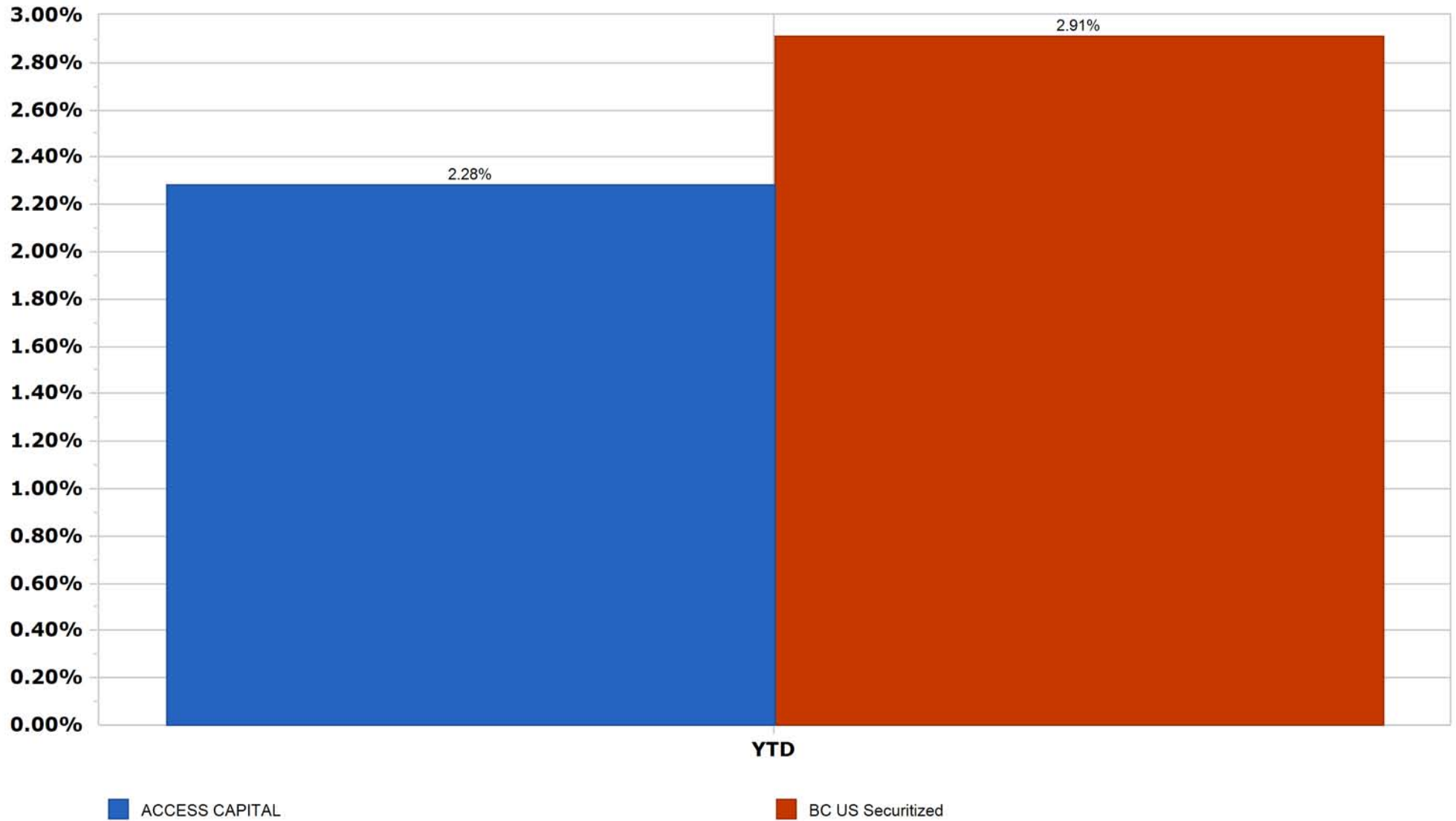
# PRIT Fixed Income Manager vs. BC Global ILB US\$ Hedged

As of April 30, 2010



# PRIT Fixed Income Manager vs. Barclays Capital Securitized Index

As of April 30, 2010

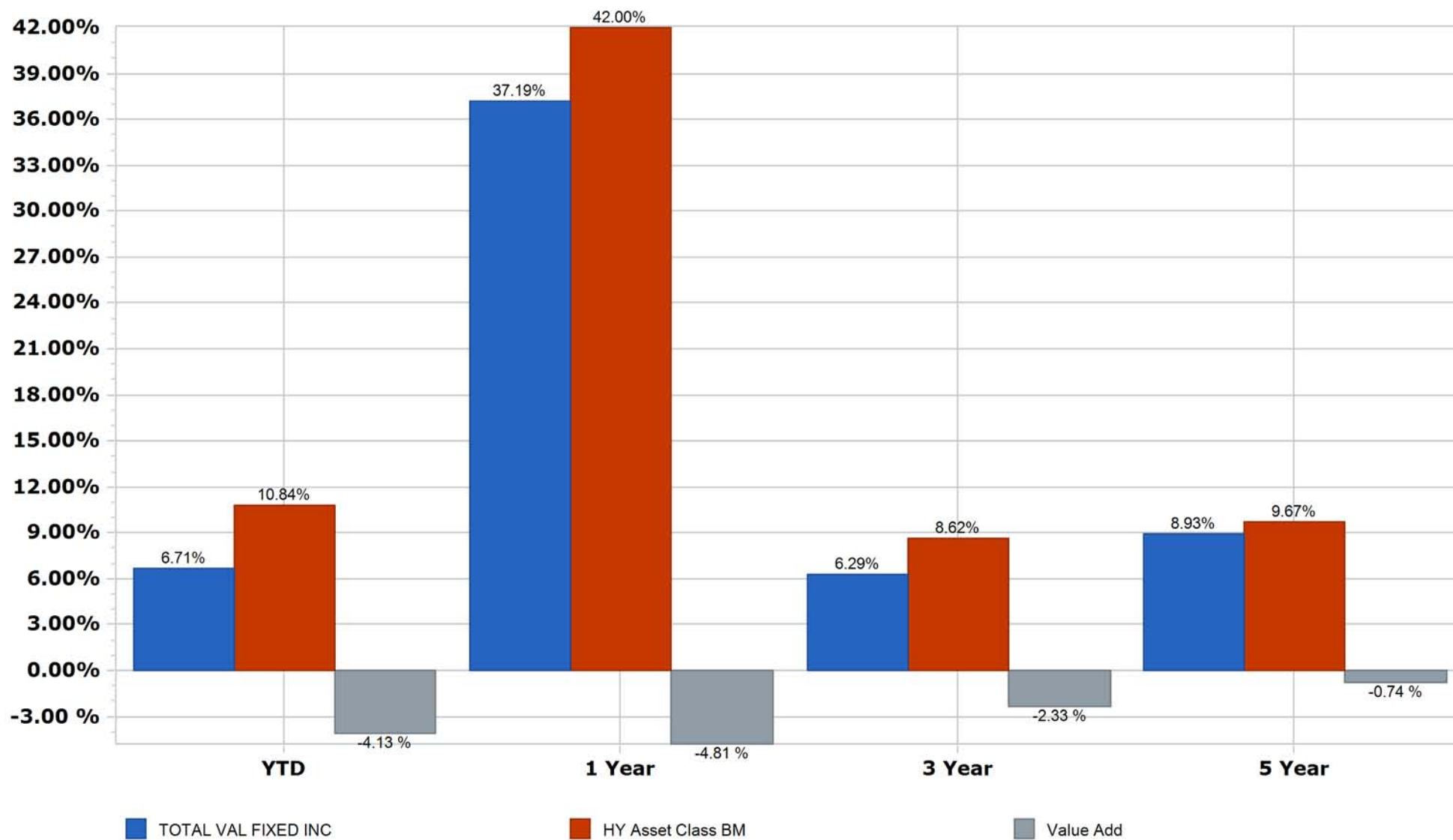


# PRIT Value Added Fixed Income

2010 Gross of Fees Performance

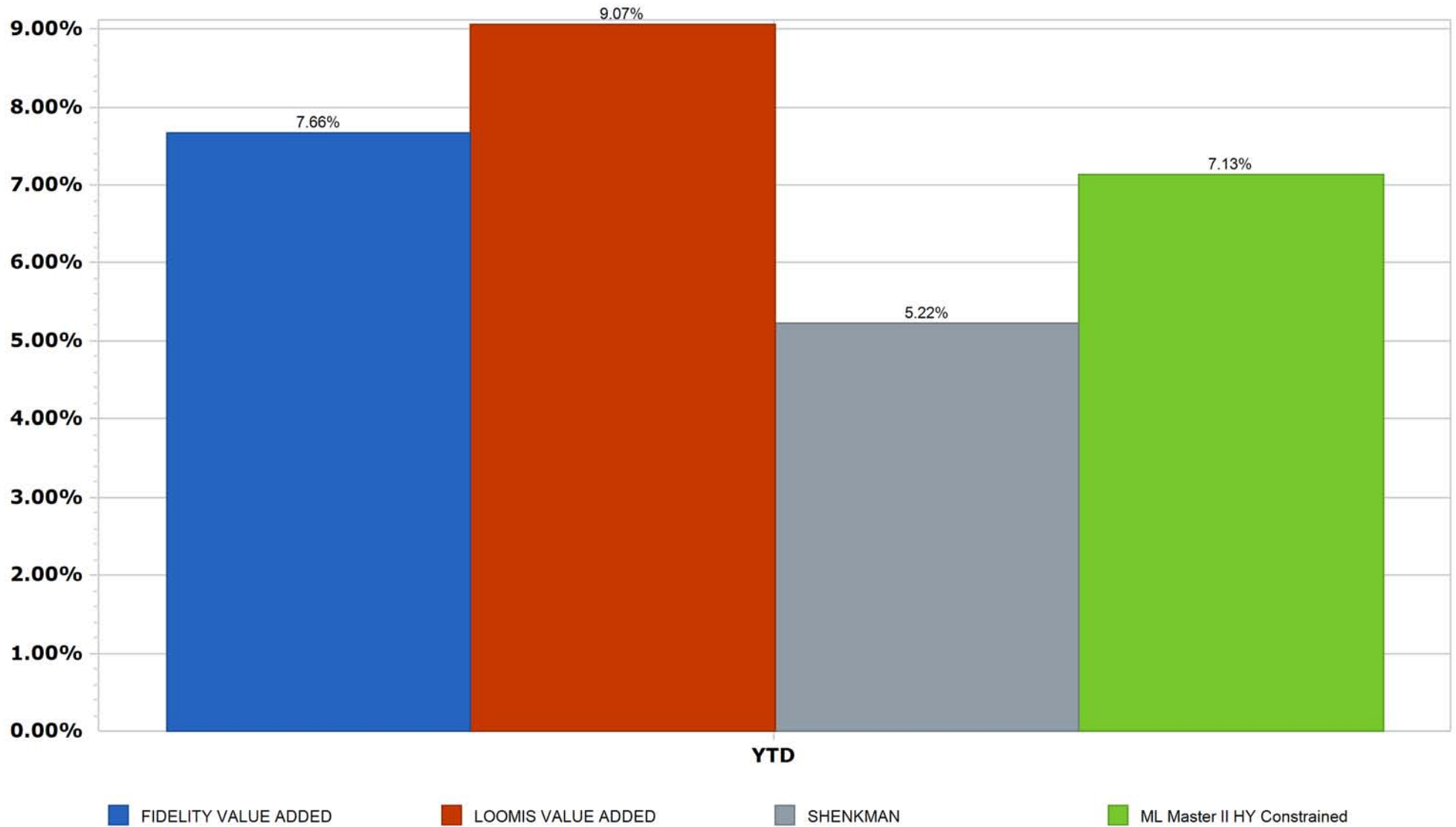
Assets: \$2.9 Billion

As of April 30, 2010



# PRIT High Yield Debt Managers vs. Merrill Lynch High Yield Master II

As of April 30, 2010



As of April 30, 2010

Prim

UNITED STATES DOLLAR		Fidelity Value Added		Loomis Value Added		Shenkman		BofAML US HY Master II Const		
<b>Composition and Performance Summary</b>										
<b>Portfolio Composition</b> \$/%	Total Portfolio Size	228.70M		233.26M		214.03M		892.52B		
	Equity	2.12	0.93%	1.55	0.66%	0.00	0.00%	0.00	0.00%	
	Fixed Income	186.71	81.64%	187.29	80.29%	187.94	87.81%	892.52	100.00%	
	Convertibles	33.15	14.50%	43.97	18.85%	17.02	7.95%	0.00	0.00%	
	Real Estate	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	
	Alternatives	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	
	Cash & Equivalents	6.71	2.94%	0.45	0.19%	9.08	4.24%	0.00	0.00%	
	Other	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	
<b>Total Performance Returns</b>	Monthly	3.07		2.82		2.01		2.27		
<b>Total Fund Gross of Fees</b>	Quarterly	6.87		7.60		4.77		5.51		
	Six Month	14.53		14.66		8.58		11.58		
	Fiscal YTD	34.53		36.07		18.42		---		
	YTD	7.66		9.07		5.22		7.13		
<b>Characteristics Summary</b>										
<b>Leverage</b>	Gross Leverage Ratio	0.97		0.99		0.96		1.00		
	Net Leverage Ratio	0.97		0.99		0.96		1.00		
<b>Credit Quality</b>	Moody's Rating	B2		BA3		B3		B1		
	S&P Rating	B		BB-		B		B+		
	Fitch Rating	BB-		BB-		B		BB-		
	DBRS Rating	-		-		-		BBB		
	Average Agency Rating	B2		BA3		B2		B1		
<b>Interest Rate Sensitivity</b>	Duration	10.70		6.90		4.84		4.98		
	Modified Duration	10.52		6.66		4.68		4.79		
	Opt. Adj. Duration	9.00		5.71		3.66		4.15		
	Duration to Worst	11.67		6.84		4.87		4.73		
	Spread Duration	9.93		6.04		4.22		4.47		
	Opt. Adj. Spread	3.65		5.14		4.91		5.38		
	Opt. Adj. Convexity	15.75		0.69		0.11		0.20		
<b>Yield and Other</b>	Num of Fixed Income Holdings	252		208		164		2004		
	Average Coupon	7.21%		6.31%		7.03%		8.45%		
	Weighted Average Life	5.65		11.35		5.54		7.35		
	Current Yield	7.09%		7.05%		7.77%		8.38%		
	Yield to Maturity	7.40%		8.36%		7.58%		8.17%		
	Effective Yield to Maturity	6.08%		8.51%		7.29%		7.80%		
	Yield to Worst	5.08%		7.83%		7.32%		8.23%		
Fixed Income Profile Number		PRMF50100002		PRMF50420002		PRMF51800002		IX1F89313818		



As of April 30, 2010

Prim

UNITED STATES DOLLAR			Fidelity Value Added			Loomis Value Added			Shenkman			BofAML US HY Master II Const			
Sector Breakdown - Merrill Lynch Global Scheme															
- Corporates 3															
Count, % MV, Opt Adj Duration	Global Corporate		---	---	---	---	---	---	---	---	---	---	---	---	---
	Financial		---	---	---	---	---	---	---	---	---	---	---	---	---
	Banking		10	4.50%	0.39	5	1.90%	0.10	1	0.47%	0.03	98	5.84%	0.23	
	Brokerage		---	---	---	---	---	---	---	---	---	4	0.24%	0.01	
	Finance & Investment		19	8.01%	2.28	8	2.17%	0.08	5	2.94%	0.08	55	3.43%	0.11	
	Insurance		4	2.11%	0.18	---	---	---	---	---	---	39	1.77%	0.11	
	Industrials		---	---	---	---	---	---	---	---	---	---	---	---	
	Basic Industry		14	3.54%	0.12	11	7.15%	0.62	14	7.21%	0.31	197	9.93%	0.41	
	Capital Goods		8	2.84%	0.10	6	2.85%	0.23	12	7.47%	0.35	164	6.73%	0.27	
	Consumer Cyclical		32	11.78%	0.43	14	10.47%	0.53	14	7.78%	0.30	198	9.01%	0.33	
	Energy		27	9.26%	0.41	17	4.36%	0.26	20	9.75%	0.39	240	11.03%	0.51	
	Media		23	7.32%	0.26	5	1.32%	0.03	20	10.65%	0.41	139	7.69%	0.29	
	Real Estate		2	0.81%	0.04	9	1.49%	0.06	---	---	---	44	1.70%	0.06	
	Services Cyclical		31	10.52%	2.46	12	6.61%	0.39	29	16.57%	0.58	309	12.41%	0.46	
	Services Non-Cyclical		7	1.81%	0.05	5	3.95%	0.12	7	3.55%	0.13	27	0.86%	0.03	
	Technology & Electronics		19	8.07%	0.31	12	4.45%	0.27	5	2.33%	0.10	62	4.21%	0.16	
	Telecommunications		20	11.96%	0.51	22	13.43%	0.87	13	8.89%	0.30	117	9.18%	0.39	
	Utility		5	2.54%	0.10	13	6.26%	0.31	7	4.05%	0.20	93	5.40%	0.23	
	Global Quasi & Forgn Govt		---	---	---	4	5.03%	0.18	---	---	---	---	---	---	
	Global Securitized/Collzd		---	---	---	15	3.78%	0.11	---	---	---	---	---	---	
	Global Sovereign		---	---	---	7	5.99%	0.45	---	---	---	---	---	---	
	US Tax-Exempt Muni		---	---	---	---	---	---	---	---	---	---	---	---	
	Preferred Securities		2	0.43%	0.04	18	0.38%	0.02	---	---	---	---	---	---	
	Global Cash & Temporary		1	0.06%	---	---	---	---	---	---	---	---	---	---	
	Other		28	14.44%	1.32	25	18.41%	1.08	17	18.34%	0.48	218	10.57%	0.55	
	Total				9.00			5.71			3.66			4.15	
Quality Rating Breakdown - Average Quality															
Ratings															
Credit Exposure%, CDS Protection%, Opt Adj Duration	US Treasuries		---	---	---	---	---	---	---	---	---	---	---	---	---
	Agency		---	---	---	---	---	---	---	---	---	---	---	---	---
	Aaa		---	---	---	4.17%	---	0.08	---	---	---	---	---	---	---
	Aa1-Aa3		---	---	---	4.16%	---	0.17	---	---	---	---	---	---	---
	A1-A3		---	---	---	3.59%	---	0.32	---	---	---	0.01%	---	0.00	
	Baa1-Baa3		5.93%	---	2.52	2.59%	---	0.17	---	---	---	0.22%	---	0.01	
	Ba1-Ba3		14.91%	---	1.03	30.61%	---	2.43	16.59%	---	0.76	40.54%	---	1.90	
	B1-B3		38.73%	---	3.42	22.47%	---	0.98	53.59%	---	2.24	38.91%	---	1.51	
	Caa1-Caa3		25.64%	---	0.85	20.95%	---	1.16	15.37%	---	0.39	18.71%	---	0.60	
	Ca		2.14%	---	0.11	1.88%	---	0.08	1.37%	---	0.01	0.81%	---	0.02	
	C		---	---	---	0.44%	---	0.01	---	---	---	0.41%	---	0.01	
	Less than C		0.37%	---	0.00	---	---	---	---	---	---	0.03%	---	0.00	
	Other		10.58%	---	1.07	9.76%	---	0.31	14.88%	---	0.26	0.36%	---	0.10	
	Total		98.30%	---	9.00	100.62%	---	5.71	101.80%	---	3.66	100.00%	---	4.15	
	Credit Default Swap Exposure		---	---	---	---	---	---	---	---	---	---	---	---	
Fixed Income Profile Number			PRMF50100002			PRMF50420002			PRMF51800002			IX1F89313818			



# TOTAL FIXED INCOME PROFILE

Report ID: IFI0200

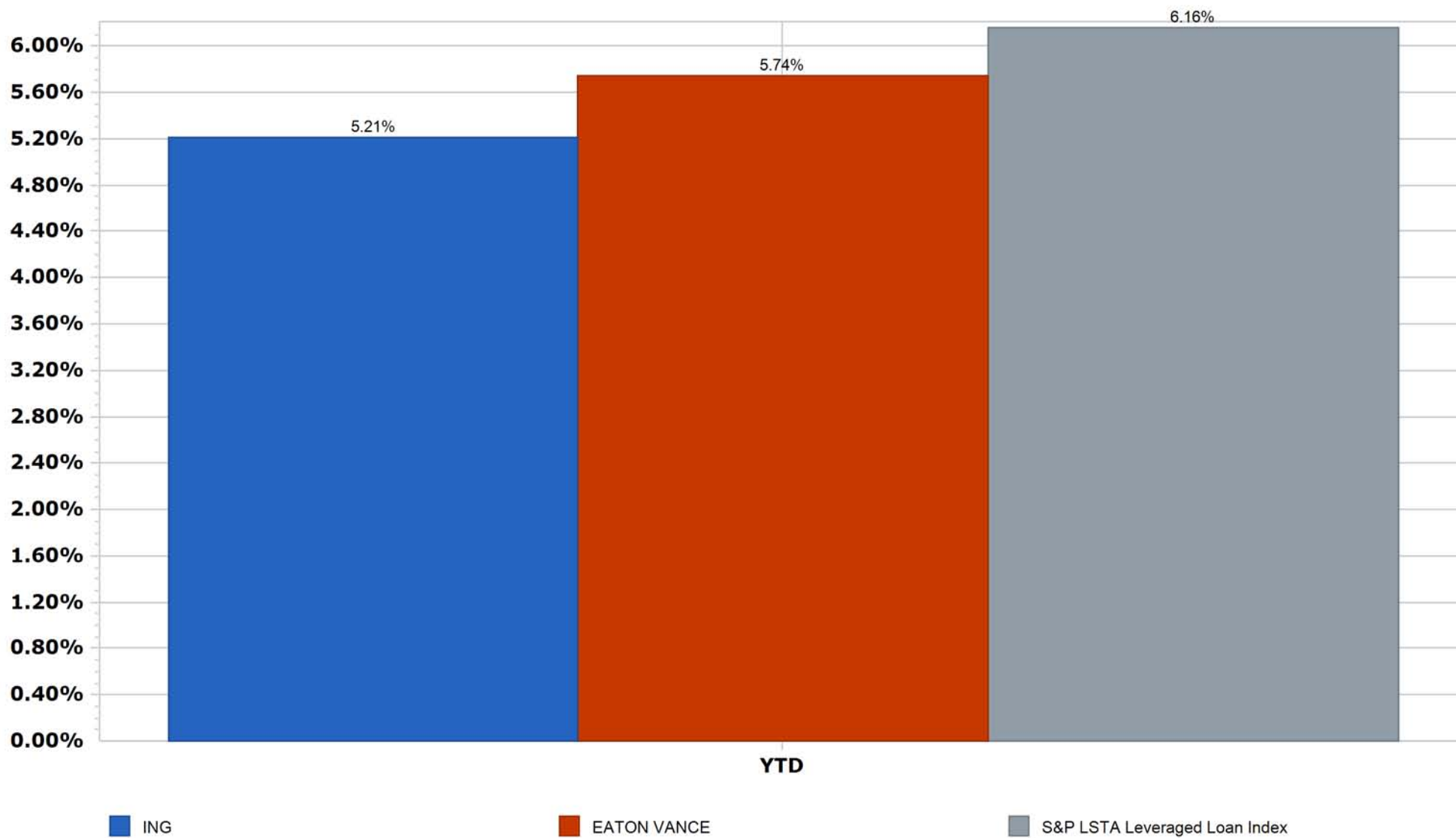
As of April 30, 2010

Prim

UNITED STATES DOLLAR		Fidelity Value Added			Loomis Value Added			Shenkman			BofAML US HY Master II Const			
<b>Maturity Breakdown</b>														
Count, % MV,	Less than 1 Year/Cash Equivalents	11	4.46%	0.01	10	5.01%	0.01	5	9.89%	0.02	66	2.36%	0.01	
Opt Adj Duration	1 - 3 Years	22	8.85%	0.16	27	15.61%	0.29	21	10.05%	0.21	323	14.83%	0.27	
	3 - 5 Years	77	34.06%	0.94	25	10.09%	0.36	47	24.44%	0.89	536	25.35%	0.81	
	5 - 7 Years	66	26.73%	1.05	26	10.14%	0.49	45	28.36%	1.18	492	27.40%	1.13	
	7 - 10 Years	49	14.69%	0.73	33	16.71%	0.94	39	20.53%	1.15	335	18.77%	1.02	
	10 - 15 Years	4	0.99%	0.01	9	3.90%	0.29	6	2.34%	0.17	46	1.80%	0.11	
	15 - 20 Years	8	2.98%	0.27	30	22.29%	1.80	---	---	---	78	2.46%	0.21	
	20 Yrs and over	3	0.47%	0.04	29	15.71%	1.56	---	---	---	125	6.96%	0.50	
	Other	12	6.77%	5.79	19	0.54%	-0.03	1	4.39%	0.04	3	0.07%	0.09	
	Total			9.00			5.71			3.66			4.15	
Fixed Income Profile Number		PRMF50100002			PRMF50420002			PRMF51800002			IX1F89313818			

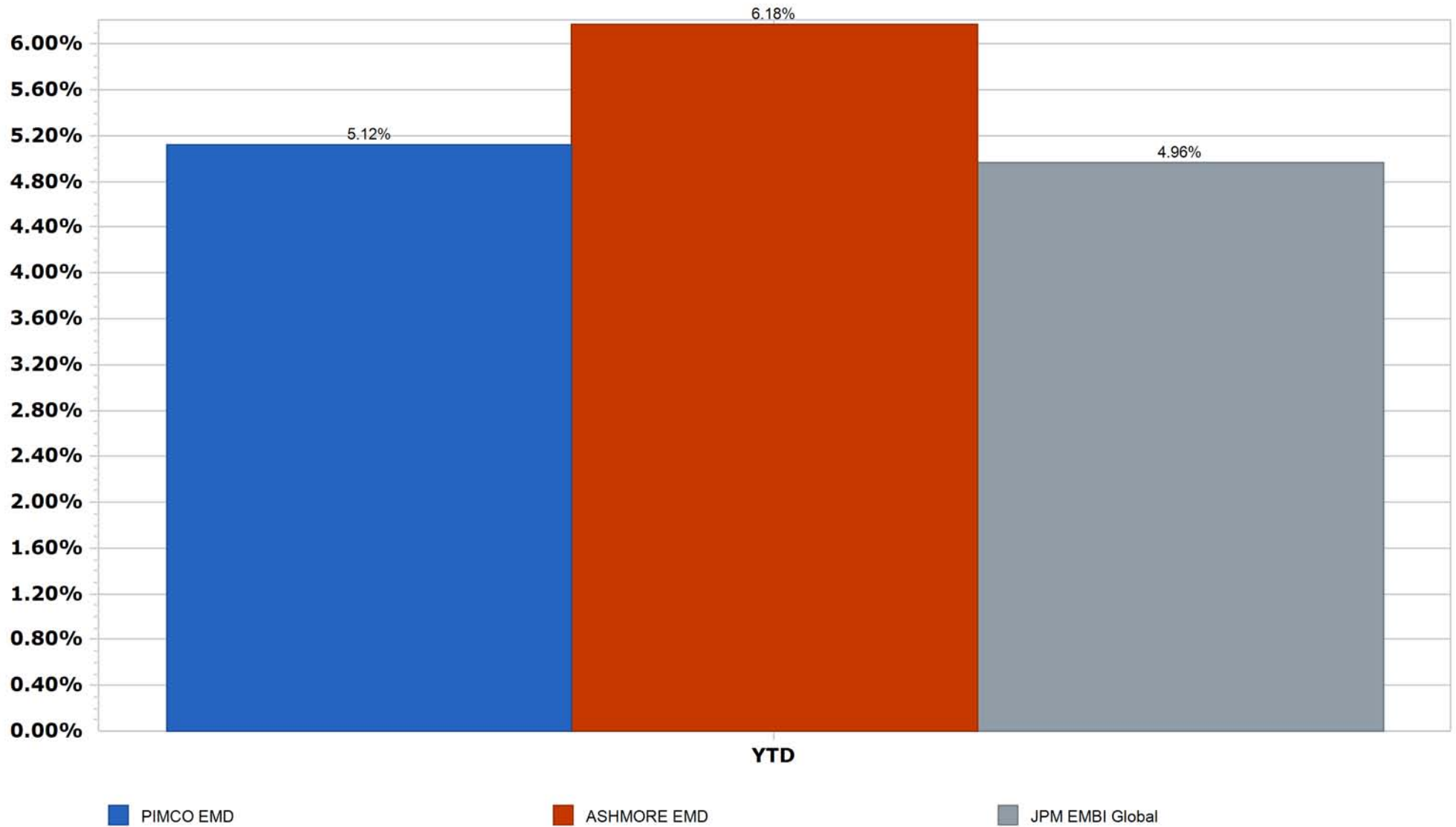
# PRIT Bank Loan Managers vs. S&P LSTA Leveraged Loan Index

As of April 30, 2010



# PRIT Emerging Markets Debt Managers vs. JP Morgan EMBI Global

As of April 30, 2010



As of April 30, 2010

Prim - HCST

UNITED STATES DOLLAR		Ashmore EMD		PIMCO EMD		Total Emg Market Debt		JPM EMBI Global	
<b>Composition and Performance Summary</b>									
<b>Portfolio Composition</b>	Total Portfolio Size	363.61M		226.78M		590.39M		362.68B	
<b>\$/%</b>	Equity	42.21	11.61%	0.00	0.00%	42.21	7.15%	0.00	0.00%
	Fixed Income	398.49	109.59%	217.77	96.03%	616.26	104.38%	362.68	100.00%
	Convertibles	3.82	1.05%	0.00	0.00%	3.82	0.65%	0.00	0.00%
	Real Estate	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
	Alternatives	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
	Cash & Equivalents	-81.26	-22.35%	9.00	3.97%	-72.25	-12.24%	0.00	0.00%
	Other	0.35	0.10%	0.00	0.00%	0.35	0.06%	0.00	0.00%
<b>Total Performance Returns</b>	Monthly	0.93		0.87		-0.12		0.76	
<b>Total Fund Gross of Fees</b>	Quarterly	5.60		4.66		4.15		4.57	
	Six Month	7.98		6.85		6.42		6.40	
	Fiscal YTD	20.20		19.03		20.12		---	
	YTD	6.18		5.12		4.68		4.96	
<b>Characteristics Summary</b>									
<b>Leverage</b>	Gross Leverage Ratio	1.87		3.31		2.42		1.00	
	Net Leverage Ratio	1.00		3.31		1.88		1.00	
<b>Credit Quality</b>	Moody's Rating	BA1		BAA2		BAA3		BAA3	
	S&P Rating	BBB-		BBB-		BBB-		BB+	
	Fitch Rating	BB+		BBB		BBB-		BBB-	
	DBRS Rating	-		-		-		-	
	Average Agency Rating	BAA3		BAA3		BAA3		BA1	
<b>Interest Rate Sensitivity</b>	Duration	7.20		7.17		7.19		7.47	
	Modified Duration	6.97		6.97		6.97		7.24	
	Opt. Adj. Duration	6.60		6.69		6.63		6.85	
	Duration to Worst	7.12		7.18		7.14		7.37	
	Spread Duration	6.67		7.43		6.97		6.91	
	Opt. Adj. Spread	20.17		1.71		12.78		2.45	
	Opt. Adj. Convexity	0.75		0.65		0.71		0.80	
<b>Yield and Other</b>	Num of Fixed Income Holdings	205		247		424		223	
	Average Coupon	7.24%		7.83%		7.47%		7.71%	
	Weighted Average Life	11.62		12.14		11.83		12.07	
	Current Yield	6.81%		7.10%		6.92%		6.96%	
	Yield to Maturity	6.43%		6.18%		6.33%		5.85%	
	Effective Yield to Maturity	23.52%		5.52%		16.34%		5.71%	
	Yield to Worst	6.38%		5.71%		6.11%		5.79%	
Fixed Income Profile Number		PRMF51500002		PRMF51400002		PRMG55000000		IX1F0000412C	

As of April 30, 2010

Prim - HCST

UNITED STATES DOLLAR		Ashmore EMD			PIMCO EMD			Total Emg Market Debt			JPM EMBI Global			
<b>Sector Breakdown - Barclays Global Scheme</b>														
<b>Count, % MV,</b>	Treasuries & Sovereign	119	79.56%	5.92	46	39.50%	2.91	142	62.98%	4.67	177	85.14%	5.96	
<b>Opt Adj Duration</b>	Government Related	---	---	---	---	---	---	---	---	---	---	---	---	
	Agencies	2	0.84%	0.06	6	2.52%	0.17	7	1.54%	0.10	4	1.05%	0.06	
	Local Authorities	1	0.09%	0.00	---	---	---	1	0.05%	0.00	---	---	---	
	Supranational	---	---	---	---	---	---	---	---	---	---	---	---	
	Other Muni & Quasi Security	---	---	---	---	---	---	---	---	---	---	---	---	
	Corporates	---	---	---	---	---	---	---	---	---	---	---	---	
	Financial	27	11.60%	0.30	22	8.42%	0.32	48	10.28%	0.31	7	1.83%	0.07	
	Industrials	38	13.98%	0.50	52	20.40%	1.06	88	16.64%	0.73	25	9.38%	0.48	
	Utility	4	1.66%	0.09	7	2.49%	0.14	10	2.00%	0.11	5	1.07%	0.07	
	Securitized	---	---	---	---	---	---	---	---	---	---	---	---	
	MBS Passthrough	---	---	---	---	---	---	---	---	---	---	---	---	
	ABS	---	---	---	---	---	---	---	---	---	---	---	---	
	CMBS	---	---	---	---	---	---	---	---	---	---	---	---	
	Covered	---	---	---	---	---	---	---	---	---	---	---	---	
	CMO	---	---	---	---	---	---	---	---	---	---	---	---	
	Interest Rate Swaps/Swaptions	---	---	---	5	9.36%	0.09	5	3.87%	0.04	---	---	---	
	Credit Default Swap	---	---	---	41	20.06%	0.00	41	8.30%	0.00	---	---	---	
	Fixed Income Futures	---	---	---	1	206%	0.51	1	85.09%	0.21	---	---	---	
	Cash & Cash Equivalents	3	-25.24%	---	29	3.62%	0.01	32	-13.29%	0.00	---	---	---	
	Other	11	17.51%	-0.27	38	-212%	1.48	49	-77.46%	0.46	5	1.53%	0.21	
	Total			6.60			6.69			6.63			6.85	
<b>Quality Rating Breakdown - Moody's Ratings</b>														
<b>Credit Exposure%,</b>	US Treasuries	---	---	---	0.91%	---	0.06	0.38%	---	0.03	---	---	---	
<b>CDS Protection%,</b>	Agency	---	---	---	3.39%	---	0.01	1.40%	---	0.00	---	---	---	
<b>Opt Adj Duration</b>	Aaa	---	---	---	0.56%	---	0.08	0.23%	---	0.03	---	---	---	
	Aa1-Aa3	---	---	---	2.44%	---	0.09	1.01%	---	0.04	---	---	---	
	A1-A3	6.28%	---	0.41	3.48%	---	0.24	5.12%	---	0.34	9.63%	---	0.49	
	Baa1-Baa3	34.03%	---	2.48	65.32%	---	3.01	46.98%	---	2.70	41.73%	---	3.04	
	Ba1-Ba3	36.54%	---	2.72	35.77%	---	2.30	36.22%	---	2.55	32.87%	---	2.40	
	B1-B3	13.37%	---	0.51	0.32%	---	0.01	7.97%	---	0.31	7.12%	---	0.39	
	Caa1-Caa3	0.44%	---	0.02	---	---	---	0.26%	---	0.01	0.17%	---	0.01	
	Ca	---	---	---	---	---	---	---	---	---	---	---	---	
	C	---	---	---	---	---	---	---	---	---	---	---	---	
	Less than C	---	---	---	---	---	---	---	---	---	---	---	---	
	Other	7.63%	---	0.46	6.85%	---	0.89	7.31%	---	0.62	8.48%	---	0.52	
	Total	98.29%	---	6.60	119.04%	---	6.69	106.88%	---	6.63	100.00%	---	6.85	
	Credit Default Swap Exposure	---	---	---	20.06%	---	---	8.30%	---	---	---	---	---	
Fixed Income Profile Number		PRMF51500002			PRMF51400002			PRMG55000000			IX1F0000412C			



# TOTAL FIXED INCOME PROFILE

Report ID: IFI0200

As of April 30, 2010

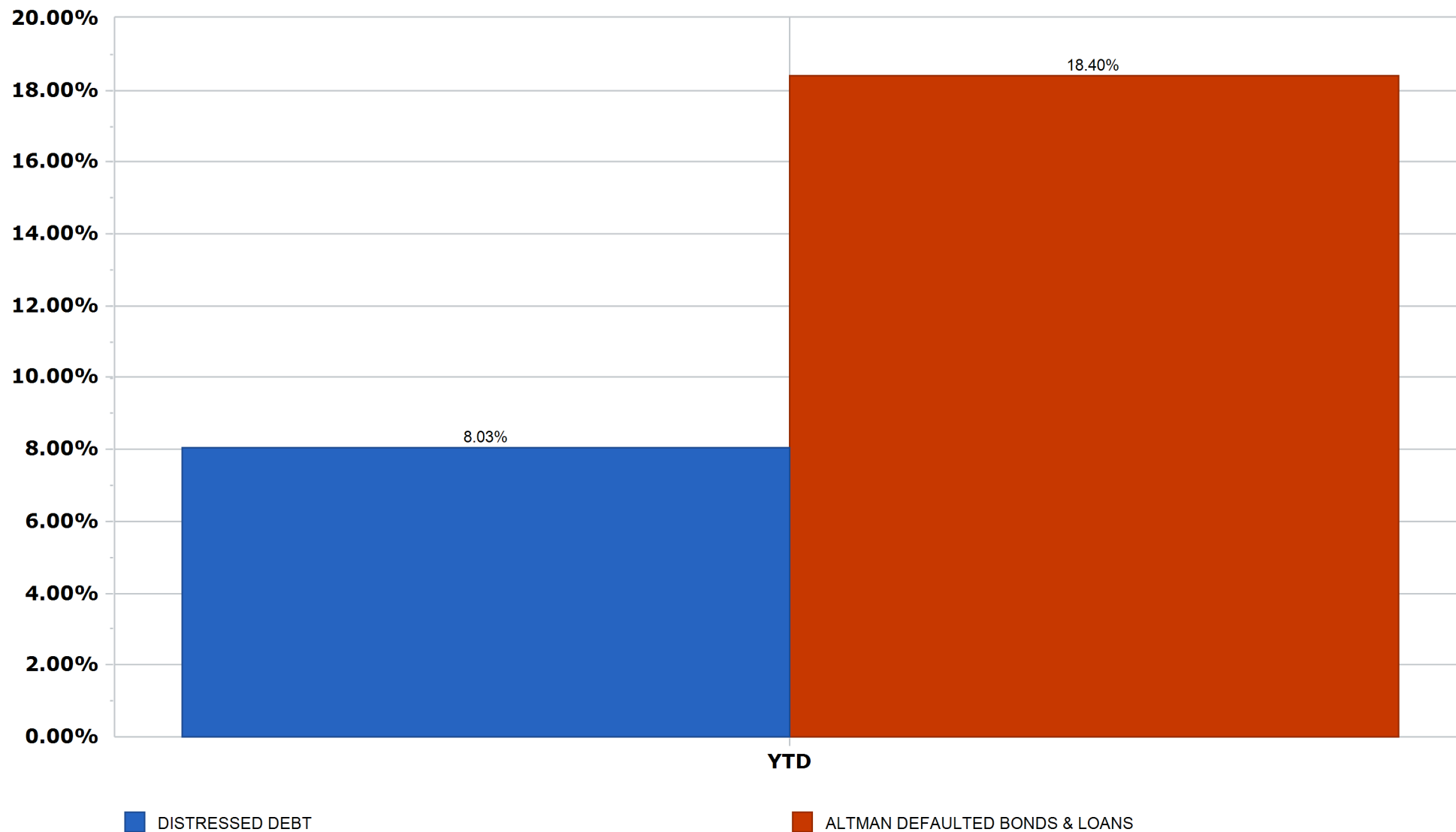
Prim - HCST

UNITED STATES DOLLAR		Ashmore EMD			PIMCO EMD			Total Emg Market Debt			JPM EMBI Global			
<b>Maturity Breakdown</b>														
Count, % MV,	Less than 1 Year/Cash Equivalents	6	2.44%	0.00	62	7.19%	0.57	68	4.42%	0.24	---	---	---	
Opt Adj Duration	1 - 3 Years	17	6.77%	0.09	23	5.97%	0.15	40	6.44%	0.11	27	7.87%	0.14	
	3 - 5 Years	41	14.61%	0.45	28	8.98%	0.32	66	12.27%	0.40	39	14.78%	0.51	
	5 - 7 Years	22	12.73%	0.60	32	17.94%	0.83	51	14.90%	0.70	28	10.86%	0.53	
	7 - 10 Years	51	26.38%	1.61	63	35.17%	2.19	102	30.04%	1.85	53	24.47%	1.51	
	10 - 15 Years	19	13.87%	1.01	5	1.05%	0.09	23	8.54%	0.63	23	10.12%	0.78	
	15 - 20 Years	13	14.17%	1.24	6	12.50%	1.28	17	13.48%	1.25	17	14.84%	1.34	
	20 Yrs and over	28	17.45%	1.91	28	11.19%	1.27	49	14.85%	1.65	36	17.06%	1.91	
	Other	8	-8.42%	-0.31	---	0.01%	-0.01	8	-4.94%	-0.20	---	---	0.13	
	Total			6.60			6.69			6.63			6.85	
Fixed Income Profile Number		PRMF51500002			PRMF51400002			PRMG55000000			IX1F0000412C			

## PRIT Distressed Debt

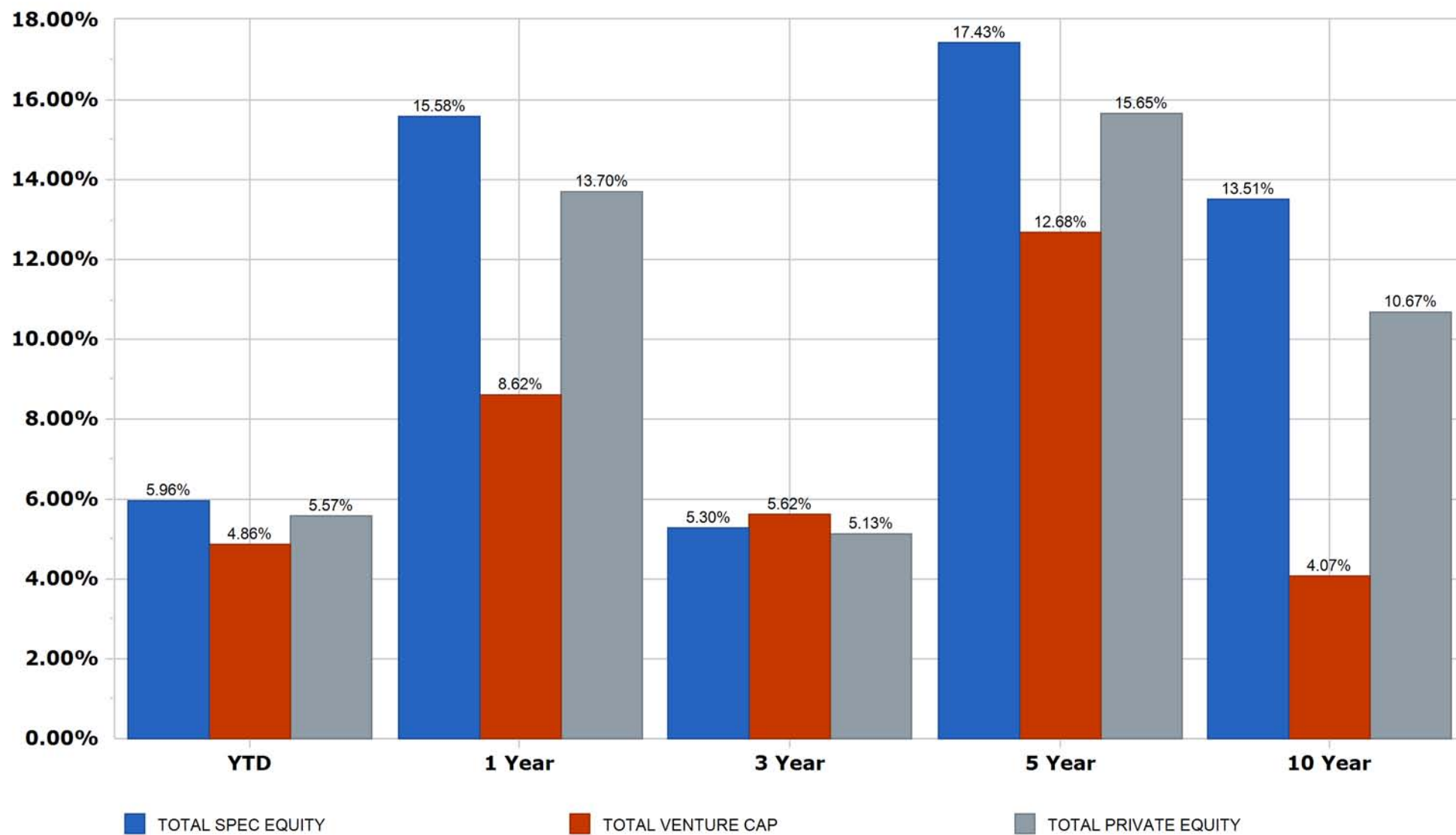
vs. Altman NYU Salomon Center Combined Defaulted Public Bond & Bank Loan Index

As of April 30, 2010

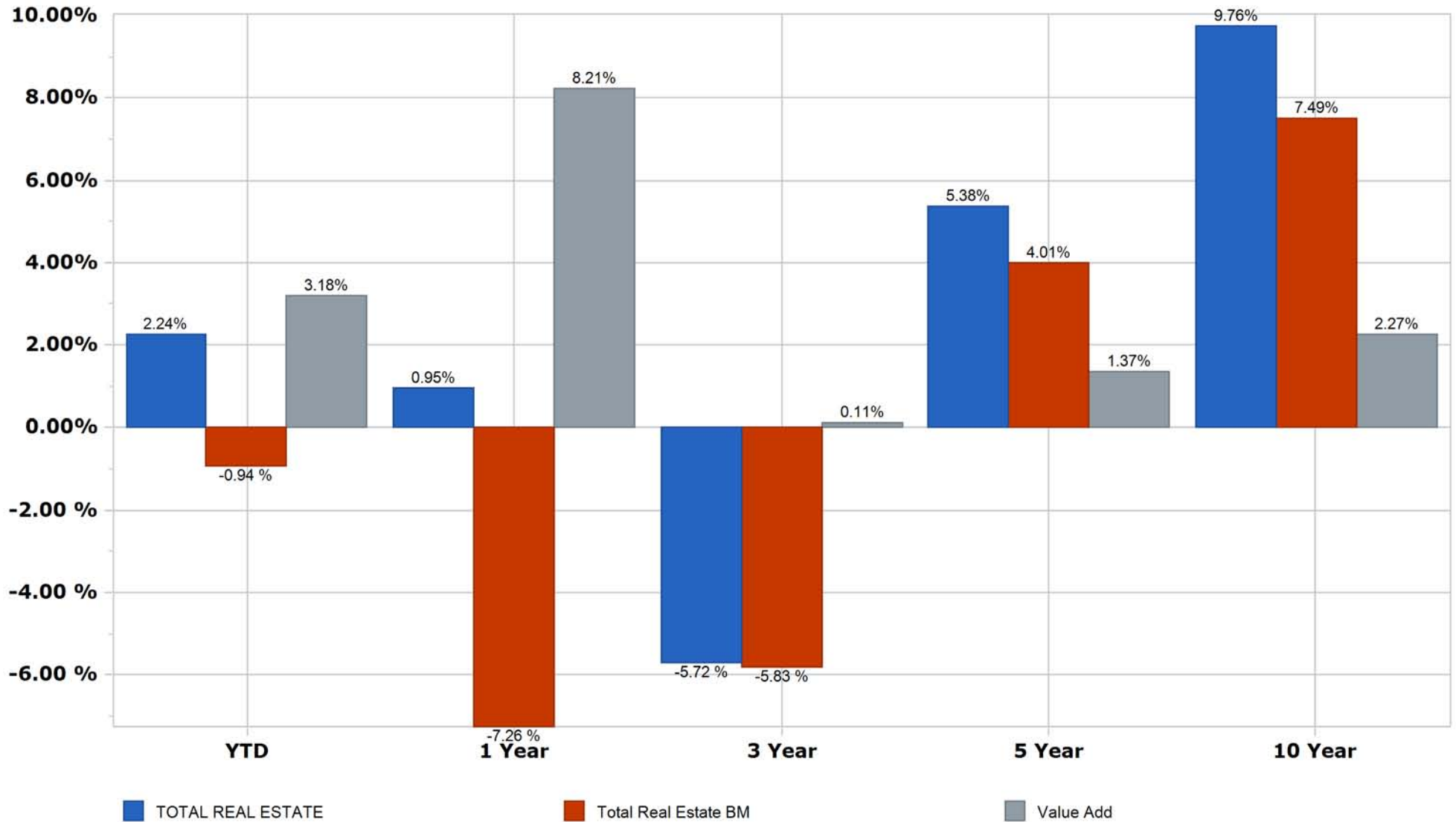




PRIT Private Equity  
2010 Gross of Fees Performance  
Assets: \$4.2 Billion  
As of April 30, 2010

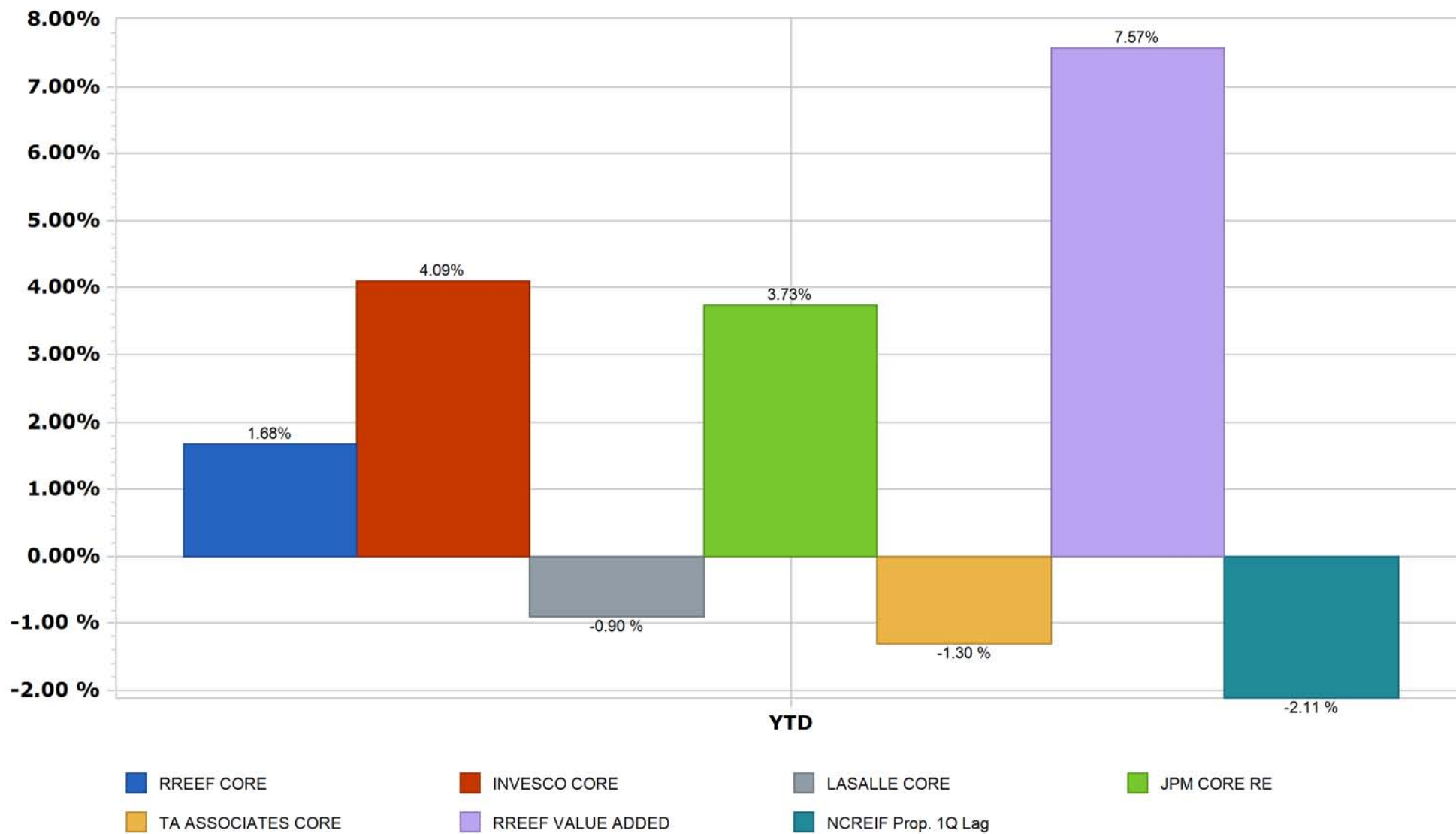


PRIT Real Estate  
 2010 Gross of Fees Performance  
 Assets: \$3.8 Billion  
 As of April 30, 2010



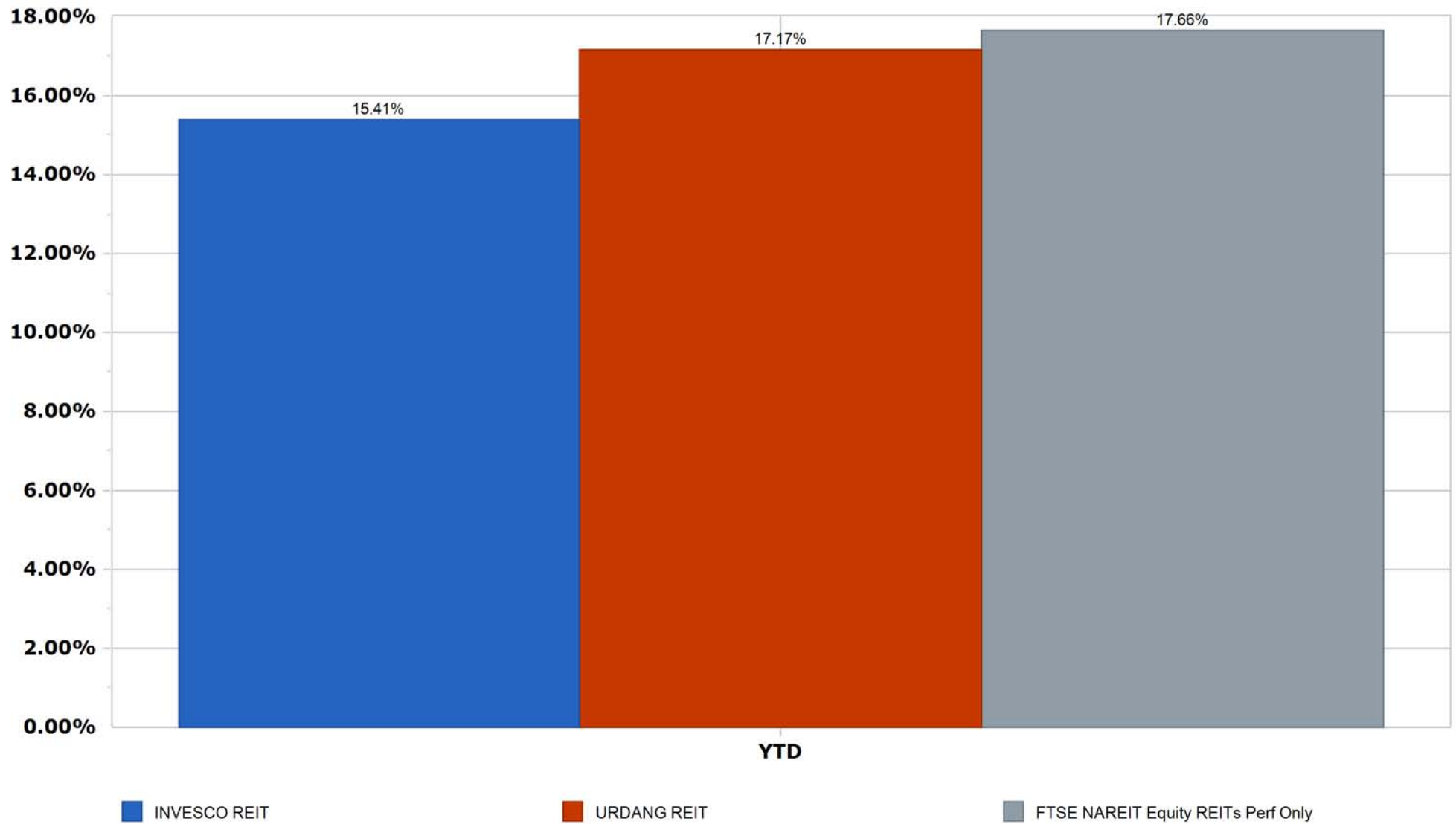
# PRIT Real Estate Separate Account Managers vs. NCREIF (Quarter Lag) Index

As of April 30, 2010



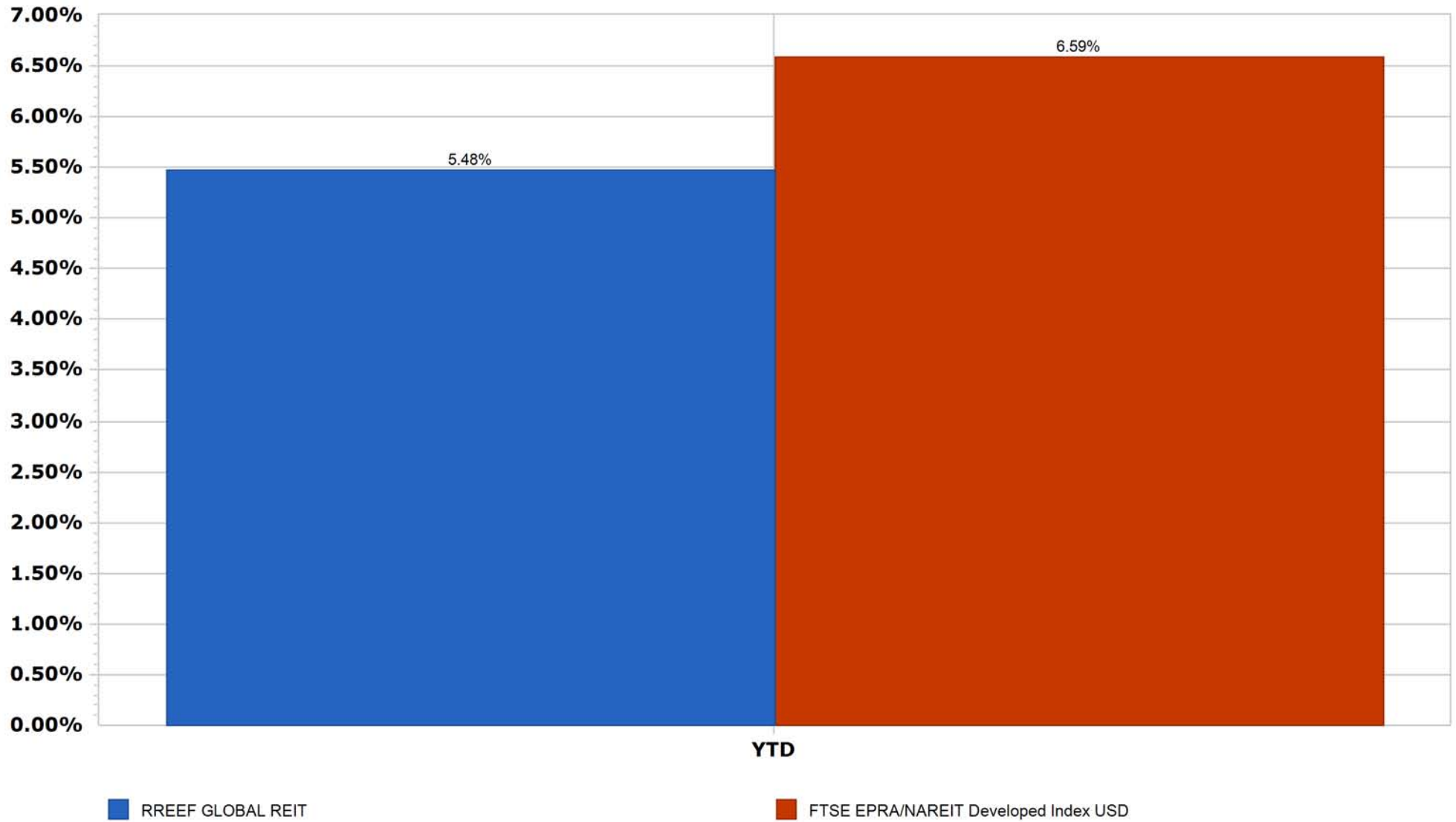
# PRIT US REIT Managers vs. FTSE NAREIT Equity REIT

As of April 30, 2010

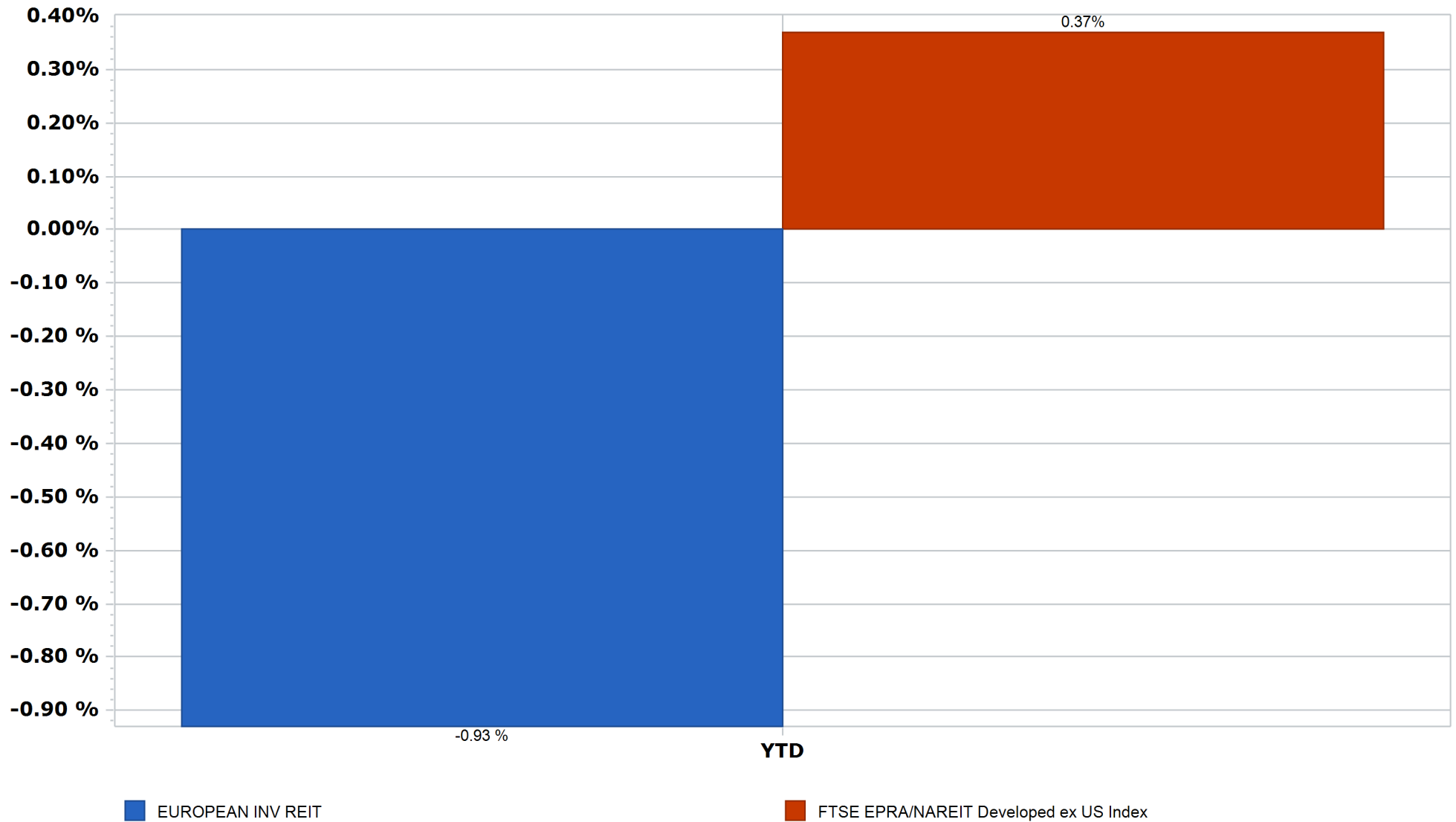


# PRIT Global REIT Manager vs. FTSE EPRA/NAREIT Developed

As of April 30, 2010



PRIT International REIT Manager  
vs. FTSE EPRA/NAREIT Developed ex. US  
As of April 30, 2010

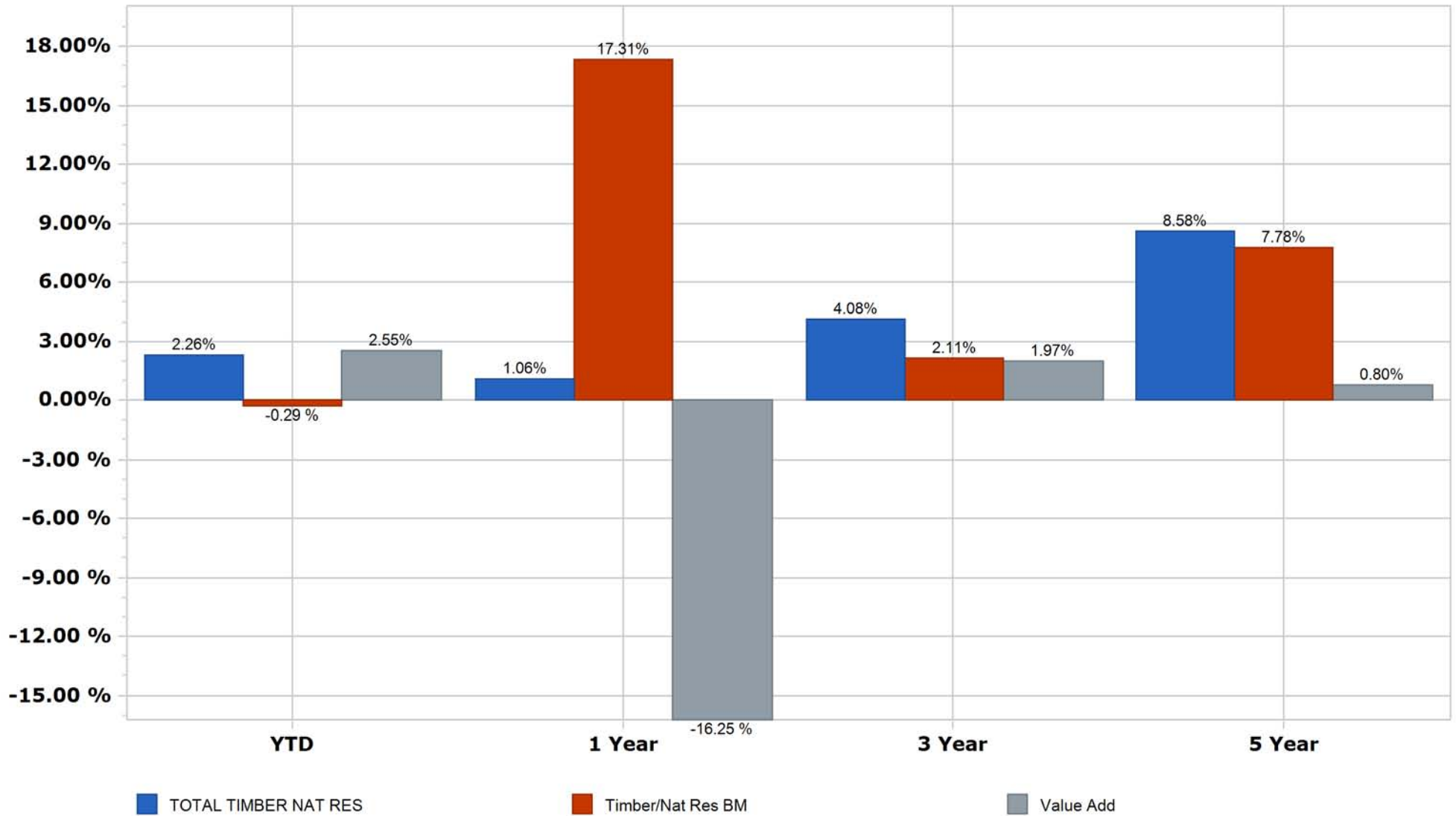


# PRIT Timber/Natural Resources

## 2010 Gross of Fees Performance

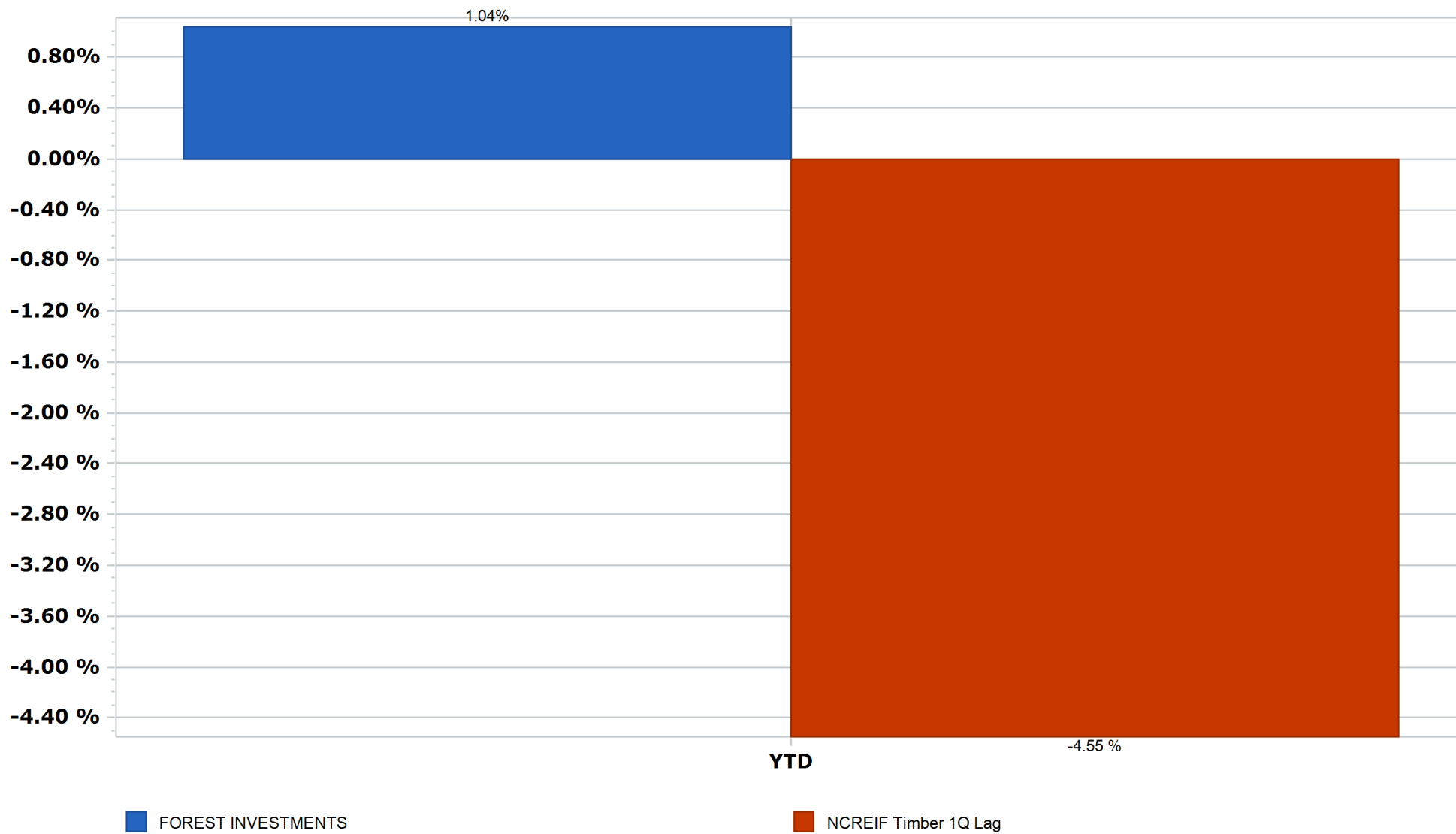
Assets: \$1.7 Billion

As of April 30, 2010



# PRIT Timber Manager vs. NCREIF Timber

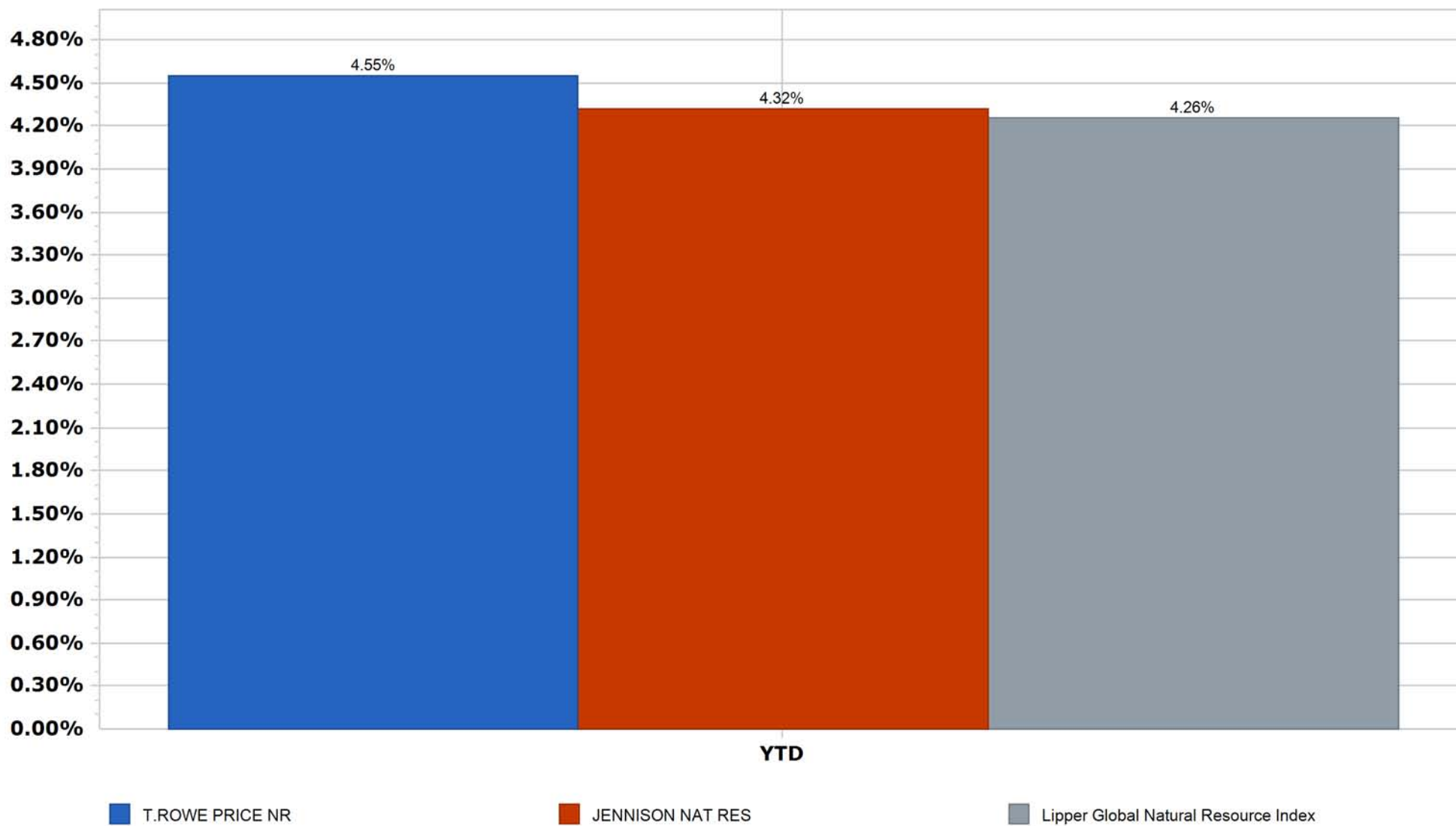
As of April 30, 2010





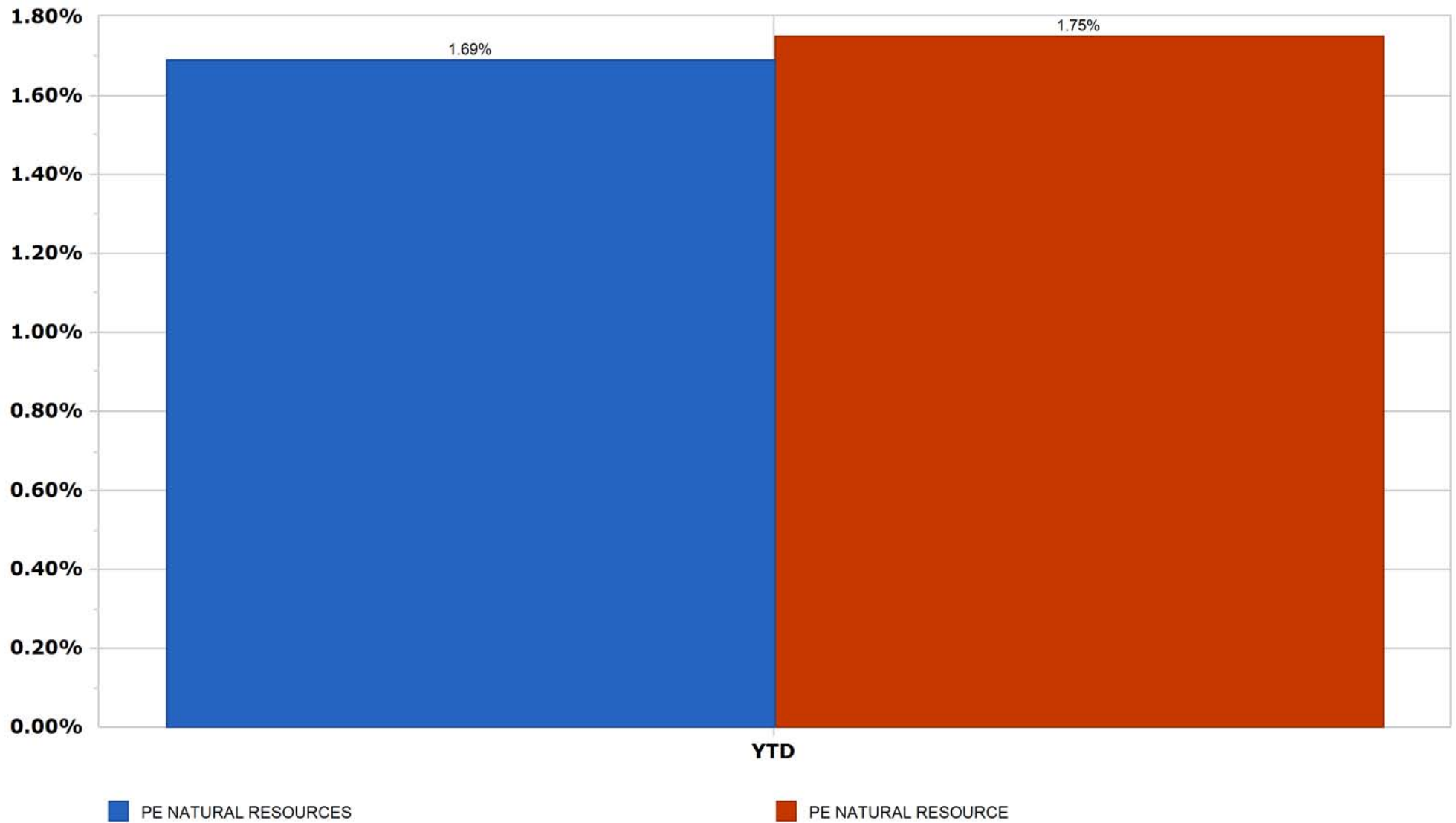
# PRIT Natural Resources Manager vs. Lipper Global Natural Resources Index

As of April 30, 2010

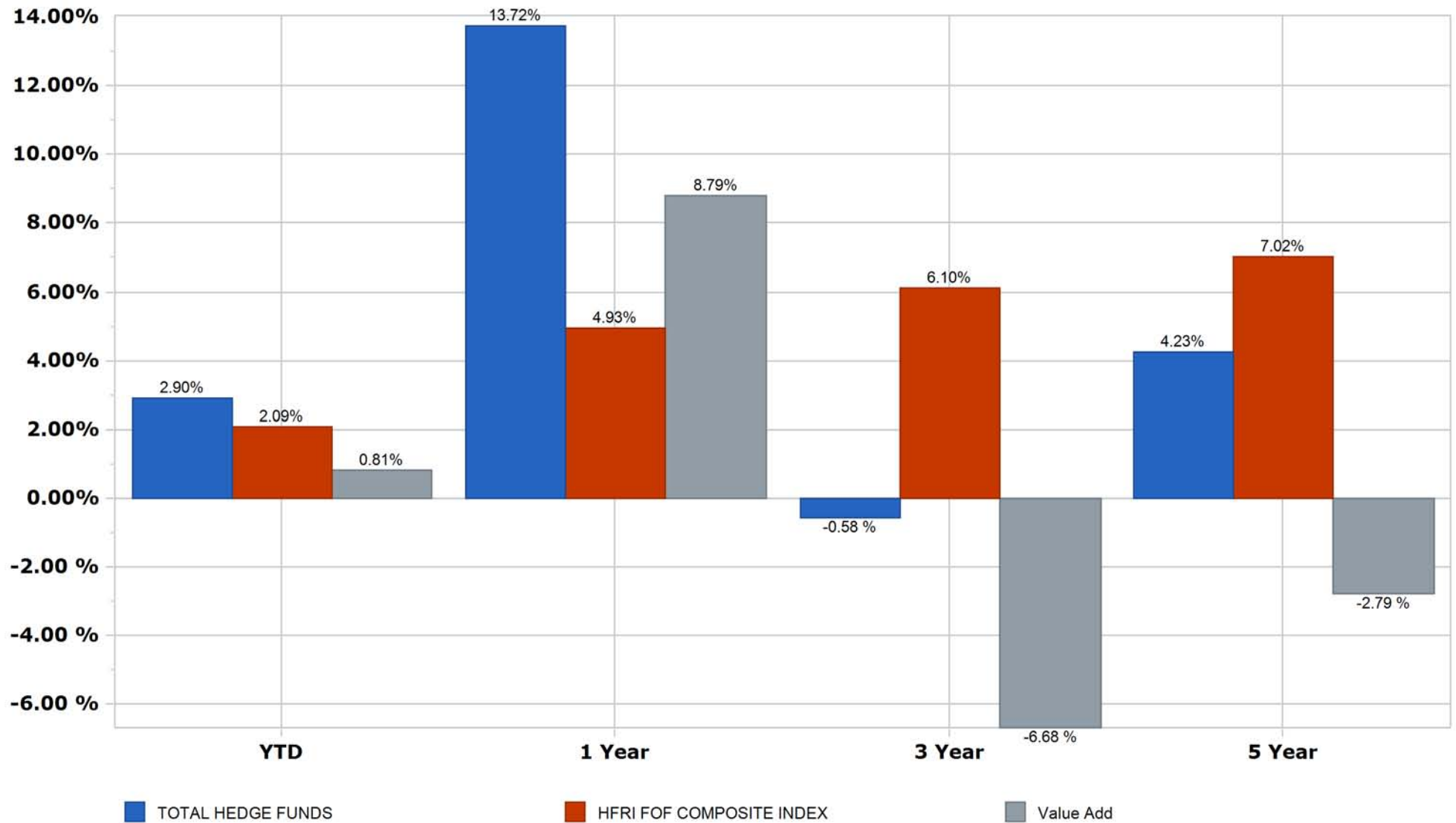


# PRIT Private Natural Resources vs. Private Natural Resources Benchmark

As of April 30, 2010



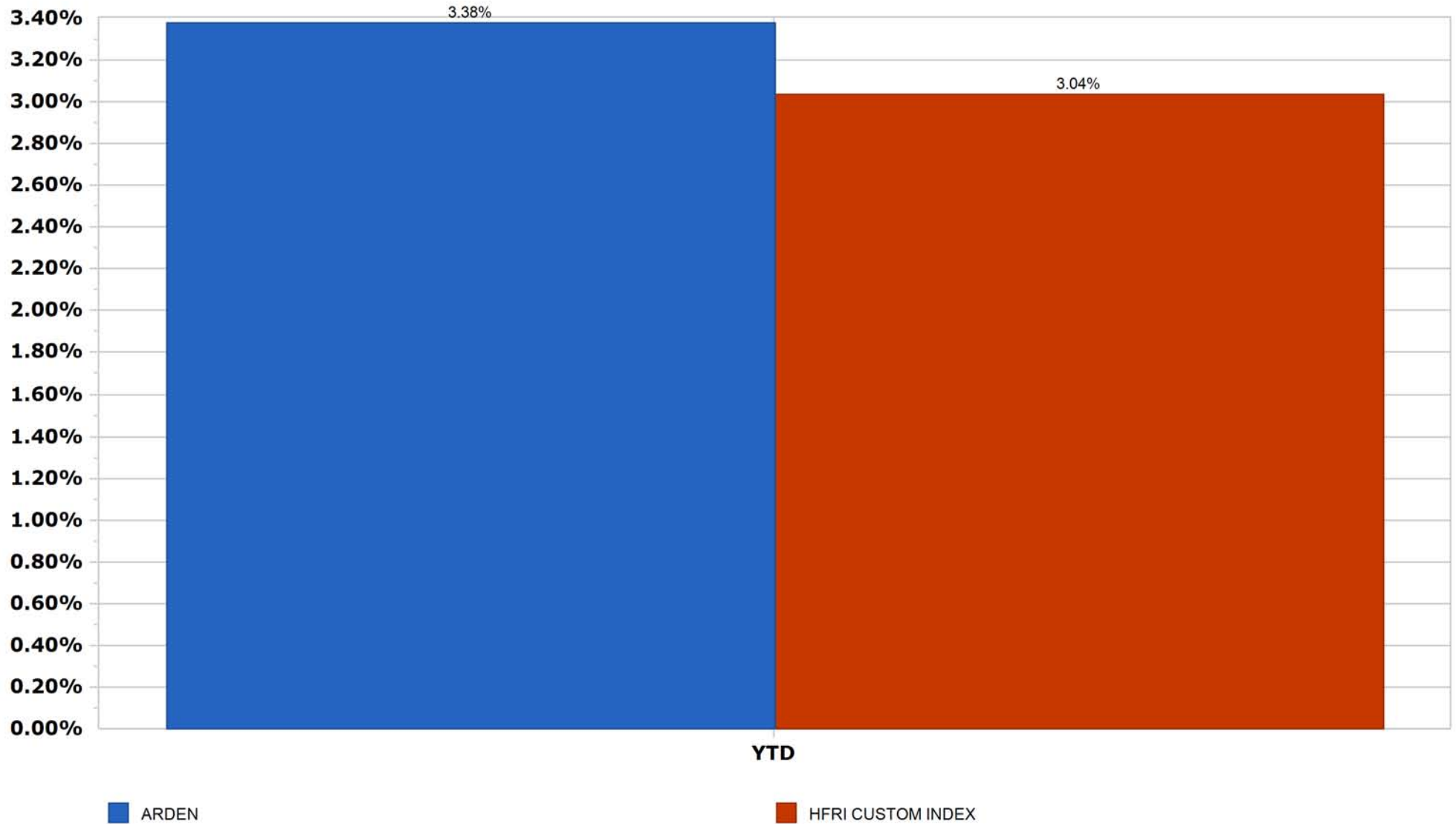
PRIT Hedge Funds  
2010 Net of Fees Performance  
Assets: \$3.3 Billion  
As of April 30, 2010



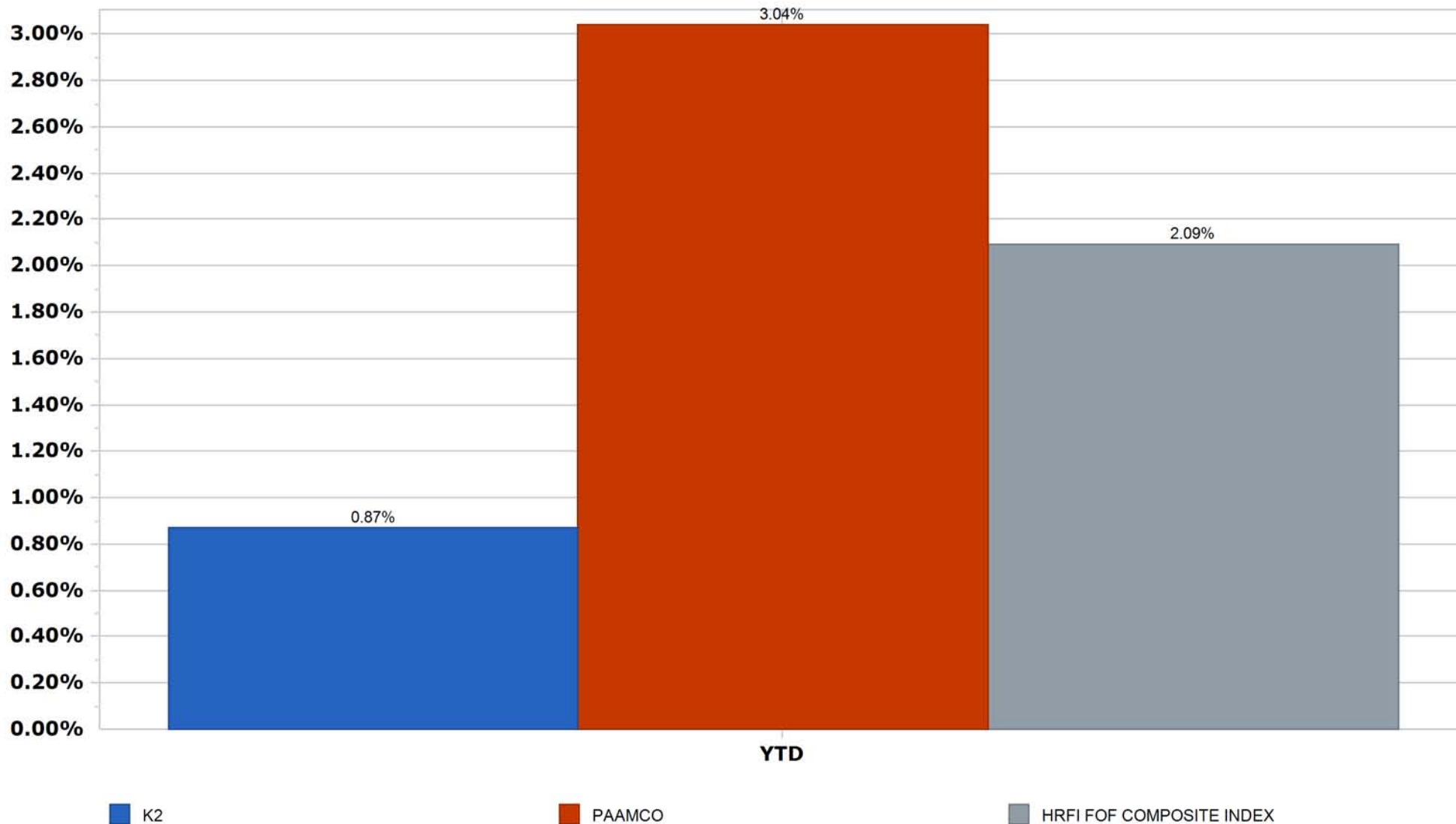
# PRIT Hedge Fund Managers

vs. HFRI 60% FoF Conservative/20% Relative Value/20% Equity Market Neutral Index

As of April 30, 2010



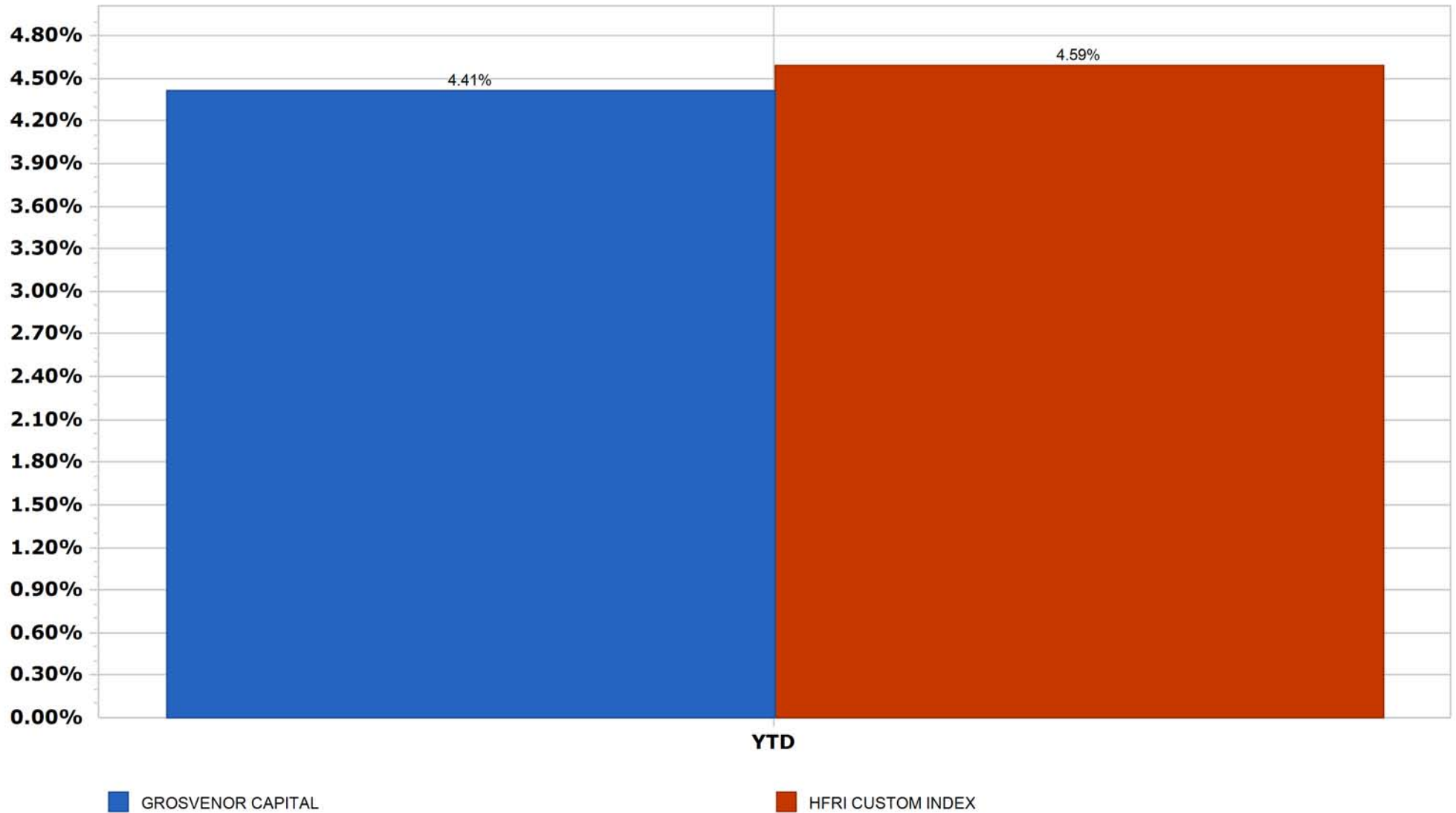
# PRIT Hedge Fund Managers vs. HFRI FoF Composite Index As of April 30, 2010



# PRIT Hedge Fund Managers

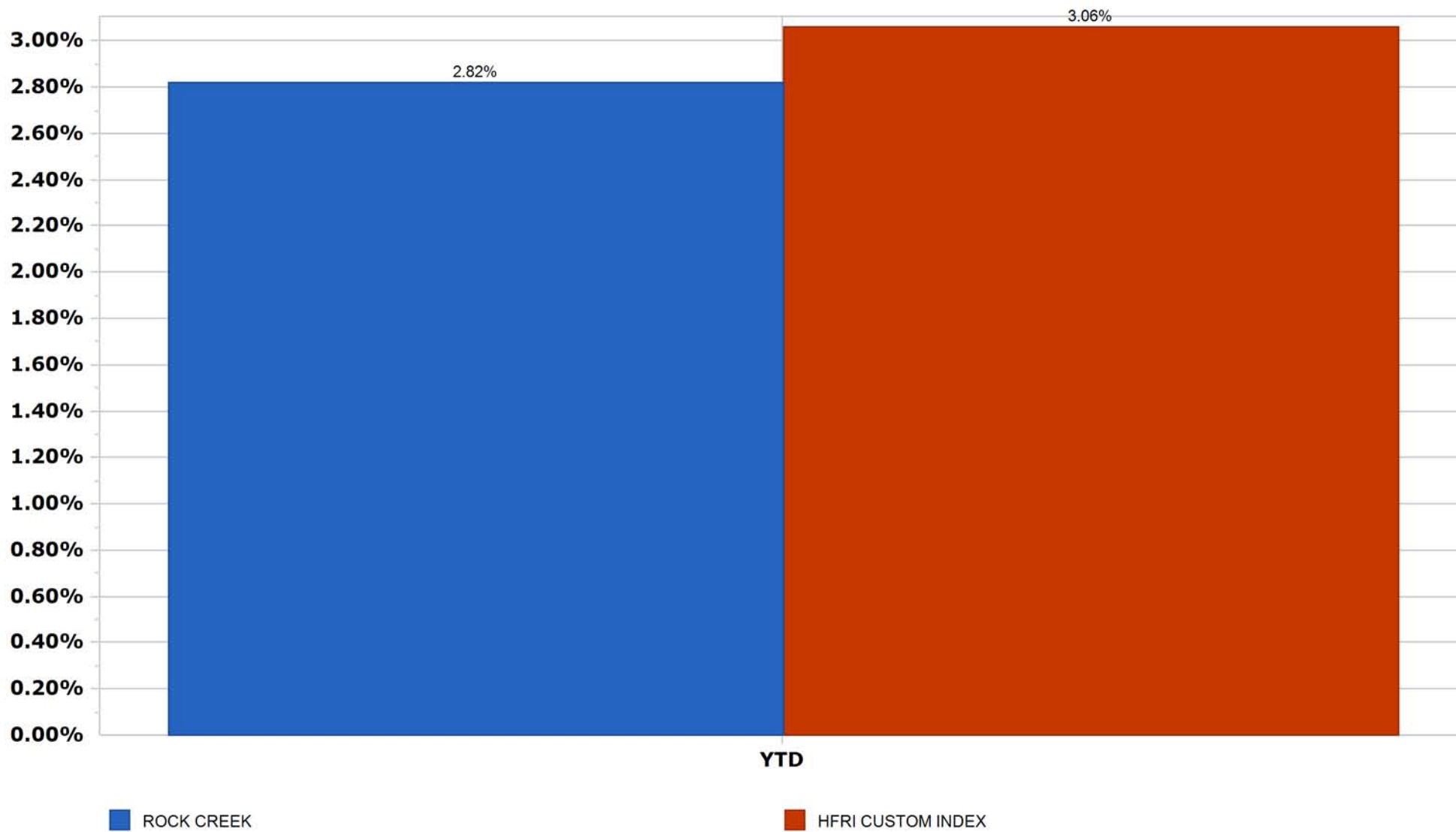
vs. HFRI 60% FoF Conservative/40% Event Driven Distressed/Restructuring Index

As of April 30, 2010



# PRIT Hedge Fund Managers vs. HFRI 90% Conservative/10% Emerging Markets Global Index

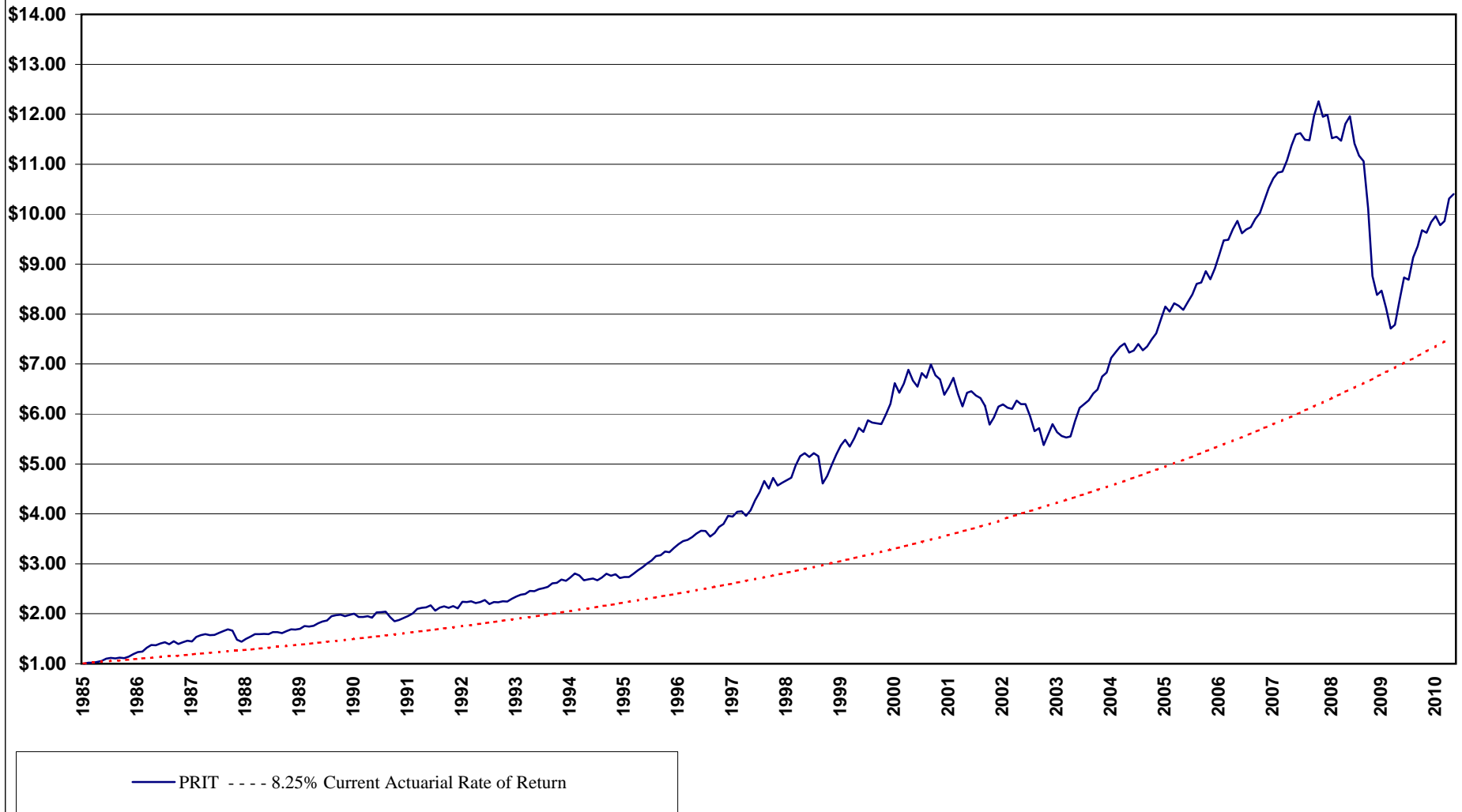
As of April 30, 2010



**Pension Reserves Investment Management Board**  
**Performance Measurement**  
**April 30, 2010**



**Growth of a Dollar invested in the PRIT Fund**  
**Monthly, December 31, 1984 to April 30, 2010**  
**\$1.00 invested in the PRIT Fund on January 1, 1985 would have grown to \$10.40 by April 30, 2010**



<b>PENSION RESERVES INVESTMENT TRUST</b> <b>SUMMARY OF PLAN PERFORMANCE</b> <b>RATES OF RETURN (GROSS OF FEES)</b> <b>Periods Ending April 30, 2010</b>											
	NAV \$ (M)	Long Term Target Allocation %	Actual Allocation %	Month	FY '10	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
<b>GLOBAL EQUITY</b>	21,475,768	49.0%	48.7%	0.96	30.05	5.04	42.30	-5.78	4.62		3.63
<b>CORE FIXED INCOME</b>	5,738,165	13.0%	13.0%	1.27	9.76	3.35	14.29	5.35	4.70	6.43	8.21
<b>VALUE-ADDED FIXED INCOME</b>	2,923,620	6.0%	6.6%	0.72	30.95	6.71	37.19	6.29	8.93		9.86
<b>PRIVATE EQUITY</b>	4,209,721	10.0%	9.5%	-0.26	14.92	5.57	13.70	5.13	15.65	10.67	13.80
<b>REAL ESTATE</b>	3,828,792	10.0%	8.7%	1.12	3.91	2.24	0.95	-5.72	5.38	9.76	5.06
<b>TIMBER/NATURAL RESOURCES</b>	1,746,034	4.0%	4.0%	0.82	-1.26	2.26	1.06	4.08	8.58		10.26
<b>HEDGE FUNDS (NET OF FEES)</b>	3,253,436	8.0%	7.4%	0.80	9.82	2.90	13.72	-0.58	4.23		4.49
<b>PORTABLE ALPHA WIND DOWN (NET OF FEES)</b>	966,396	0.0%	2.2%	1.16	19.03	3.18	27.56	-18.04			-10.57
<b>TOTAL</b>	<b>44,141,932</b>	<b>100%</b>	<b>100%</b>	<b>0.87</b>	<b>19.80</b>	<b>4.42</b>	<b>25.83</b>	<b>-2.95</b>	<b>5.18</b>	<b>4.56</b>	<b>9.61</b>
PARTICIPANTS CASH FUND	14,919			0.02	0.26	0.08	0.37	2.07	3.07	2.91	4.85
<b>TOTAL CORE</b>	<b>44,156,851</b>			<b>0.87</b>	<b>19.77</b>	<b>4.42</b>	<b>25.80</b>	<b>-2.95</b>	<b>5.18</b>	<b>4.56</b>	<b>9.71</b>
<b>INTERIM POLICY BENCHMARK</b>				0.49	17.20	3.28	23.25	-1.66	5.60	4.08	10.60
TEACHERS' AND EMPLOYEES' SEPARATE ACCOUNT	46,857			0.02	0.26	0.08	0.38	1.21	2.55	2.74	3.79
<b>TOTAL FUND</b>	<b>44,203,708</b>			<b>0.86</b>	<b>19.71</b>	<b>4.41</b>	<b>25.72</b>	<b>-2.94</b>	<b>5.17</b>	<b>4.55</b>	<b>9.69</b>
<b>POLICY RETURN</b>				<b>1.02</b>	<b>19.57</b>	<b>4.41</b>	<b>25.97</b>	<b>-1.74</b>	<b>5.96</b>	<b>4.94</b>	<b>9.85</b>
<b>POLICY BENCHMARK</b>				0.59	16.38	3.04	22.59	-1.19	5.90	4.23	10.66

PENSION RESERVES INVESTMENT TRUST SUMMARY OF MANAGER PERFORMANCE RATES OF RETURN (GROSS OF FEES) Periods Ending April 30, 2010												
	NAV \$ (M)	%	Month	FY '10	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Manager ITD	Manager Benchmark - ITD	Inception
DOMESTIC EQUITY												
INTECH	1,069,740	2.4%	1.83	31.59	7.54	38.82	-4.63			1.11	0.95	1/31/2006
PIMCO DOMESTIC	1,074,592	2.4%	1.95	39.09	8.97	51.77	-4.50			0.75	0.35	2/28/2006
CLOSED PORTFOLIOS	0	0.0%										
TOTAL LARGE CAP MANAGERS												
S&P 500	2,144,333	4.9%	1.92	35.43	8.36	45.30	-5.40	2.53	-0.03	4.32	4.10	7/31/1997
CLOSED PORTFOLIOS												
	199	0.0%										
SSGA R3000	7,315,181	16.6%	2.14	33.31	8.29	40.97				-5.25	-5.45	6/30/2008
RUSSELL 3000			2.16	33.31	8.23	40.90						
DOMESTIC EQUITY CASH												
HCST PE SWAP	2,519	0.0%										
	52,709	0.1%										
TOTAL DOMESTIC EQUITY												
	9,514,941	21.6%	2.09	31.81	8.29	40.07	-8.29	1.00	0.21	9.77	10.06	2/28/1985
ASSET CLASS BENCHMARK: Russell 3000 <sup>1</sup>												
			2.16	27.96	8.23	35.24	-5.76	2.60	0.26			

<b>PENSION RESERVES INVESTMENT TRUST</b> <b>SUMMARY OF MANAGER PERFORMANCE</b> <b>RATES OF RETURN (GROSS OF FEES)</b> <b>Periods Ending April 30, 2010</b>												
	NAV \$ (M)	%	Month	FY '10	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Manager ITD	Manager Benchmark - ITD	Inception
<b>INTERNATIONAL EQUITY</b>												
SSGA WORLD EX-US	4,119,151	9.3%	-0.97	23.83	0.91	37.76	-7.51	4.89	2.34	6.19	5.73	3/31/1992
MSCI WORLD EX-US IMI NET DIVS <sup>2</sup>			-1.09	22.62	0.45	36.34	-8.40	4.21	1.81			
MARATHON ASSET MANAGEMENT	2,363,937	5.4%	0.93	24.86	5.03	39.78	-3.70	8.13	8.01	8.79	4.24	10/31/1996
BAILLIE GIFFORD	1,666,682	3.8%	0.31	30.38	4.76	45.67	-4.14	6.95		8.60	6.08	8/31/2004
PYRAMIS GLOBAL ADVISORS	597,830	1.4%	-1.09	20.26	-0.56	32.79				-15.69	-13.22	6/30/2008
MONDRIAN INVESTMENT	612,483	1.4%	-1.87	18.21	-4.66	30.82				-13.30	-13.22	6/30/2008
SSGA TRANSITION INTERNATIONAL EQUITY	174	0.0%										
CLOSED PORTFOLIOS	1,178	0.0%										
INTERNATIONAL EQUITY CASH	71	0.0%										
MCSI EAFE STANDARD INDEX NET DIVS <sup>3</sup>			-1.81	20.90	-0.96	34.43	-8.83	3.92	1.66			
<b>TOTAL INTERNATIONAL EQUITY</b>	<b>9,361,506</b>	<b>21.2%</b>	<b>-0.34</b>	<b>24.42</b>	<b>2.11</b>	<b>38.19</b>	<b>-7.67</b>	<b>4.87</b>	<b>2.96</b>	<b>8.28</b>	<b>6.73</b>	<b>7/31/1986</b>
<b>ASSET CLASS BENCHMARK:</b>												
MSCI WORLD EX-US IMI NET DIVS <sup>4</sup>			-1.09	22.62	0.45	36.34	-8.40	4.21	1.81			
<b>EMERGING MARKETS EQUITY</b>												
EMERGING MARKETS MANAGEMENT	712,423	1.6%	1.86	36.90	4.32	61.30	2.18	14.86	12.44	12.36	6.44	2/28/1990
GMO	713,465	1.6%	2.36	39.19	5.36	58.41	1.48	14.84		22.13	22.43	10/31/2002
T. ROWE PRICE EM	547,742	1.2%	0.91	38.04	3.92	65.82	1.41			7.22	9.17	3/31/2006
SSGA TRANSITION	-	0.0%										
CLOSED PORTFOLIOS	625,656	1.4%										
EMERGING MARKETS CASH	35	0.0%										
<b>TOTAL EMERGING MARKETS</b>	<b>2,599,320</b>	<b>5.9%</b>	<b>1.62</b>	<b>37.71</b>	<b>4.39</b>	<b>60.62</b>	<b>1.36</b>	<b>14.53</b>	<b>9.69</b>	<b>11.81</b>	<b>6.44</b>	<b>2/28/1990</b>
<b>ASSET CLASS BENCHMARK:</b>												
MSCI EM STANDARD INDEX NET DIVS <sup>5</sup>			1.21	36.03	3.65	57.13	4.22	16.71	11.22			
<b>TOTAL GLOBAL EQUITY<sup>6</sup></b>	<b>21,475,768</b>	<b>48.7%</b>	<b>0.96</b>	<b>30.05</b>	<b>5.04</b>	<b>42.30</b>	<b>-5.78</b>	<b>4.62</b>		<b>3.63</b>	<b>2.47</b>	<b>1/31/2001</b>
<b>ASSET CLASS BENCHMARK: MSCI ALL COUNTRY WORLD STOCK INDEX NET DIVS</b>												
			0.17	27.39	3.30	39.30	-5.69	4.44				

<b>PENSION RESERVES INVESTMENT TRUST</b> <b>SUMMARY OF MANAGER PERFORMANCE</b> <b>RATES OF RETURN (GROSS OF FEES)</b> <b>Periods Ending April 30, 2010</b>												
	NAV \$ (M)	%	Month	FY '10	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Manager ITD	Manager Benchmark - ITD	Inception
<b>CORE FIXED INCOME</b>												
BLACKROCK PASSIVE	1,085,169	2.5%	1.04	6.75	2.84	8.24	6.43	5.48	6.53	6.27	6.31	6/30/1995
BLACKROCK CORE	1,023,846	2.3%	0.93	8.54	3.01	11.14	5.07	4.69	6.25	5.84	5.95	5/31/1999
PIMCO CORE	1,164,104	2.6%	1.32	11.48	4.05	15.83	8.58	6.76	7.46	8.22	7.13	9/30/1990
LOOMIS SAYLES CORE	1,023,454	2.3%	1.45	12.85	4.28	18.87	6.47	5.69	6.97	8.15	7.25	5/31/1990
TOTAL CORE	4,296,572	9.7%	1.19	9.86	3.55	13.37	6.63	5.65	6.79	6.52	6.16	7/31/1999
BARCLAYS CAPITAL AGGREGATE			1.04	6.91	2.84	8.30	6.32	5.38	6.43			
BLACKROCK - TIPS	539,836	1.2%	2.48	7.87	2.92	10.32	6.48	4.86		6.75	6.84	4/30/2001
BARCLAYS CAPITAL US TIPS			2.37	7.99	2.95	10.76	6.59	4.91				
BLACKROCK ILBs	665,049	1.5%	1.01	11.81	2.63	26.45	-5.07			-2.88	-3.62	10/31/2005
CLOSED PORTFOLIOS	-	0.0%										
TOTAL ILBs	665,049	1.5%	1.01	11.81	2.63	26.45	-5.22			-3.21	-3.62	10/31/2005
BC ILB US\$ HEDGED <sup>7</sup>			1.17	11.05	2.50	25.55	-5.43					
TOTAL TIPS & ILBs	1,204,886	2.7%	1.66	10.23	2.80	19.39	-3.08	-1.13		3.32	3.30	4/30/2001
33% BC US TIPS/67% BC ILB US\$ HEDGED			1.57	10.05	2.65	20.66	-3.36	-1.32				
ACCESS CAPITAL - ETI	97,332	0.2%	0.67	6.26	2.28	7.48	6.49	5.43		5.01	6.10	4/30/2004
BC US SECURITIZED INDEX <sup>8</sup>			0.76	7.02	2.91	7.87	8.39	6.75				
COMMUNITY CAPITAL MANAGEMENT	32,105	0.1%	1.08	6.80	3.39	8.39	6.49			6.78	6.84	7/31/2006
AFL - CIO HOUSING INVESTMENT	103,151	0.2%	0.82	5.84	2.96	6.63				7.41	7.00	8/31/2007
BARCLAYS CAPITAL AGGREGATE			1.04	6.91	2.84	8.30	6.32					
CLOSED PORTFOLIOS	4,071	0.0%										
FIXED INCOME CASH	47	0.0%										
<b>TOTAL CORE FIXED INCOME</b>	<b>5,738,165</b>	<b>13.0%</b>	<b>1.27</b>	<b>9.76</b>	<b>3.35</b>	<b>14.29</b>	<b>5.35</b>	<b>4.70</b>	<b>6.43</b>	<b>8.21</b>	<b>7.63</b>	<b>9/30/1985</b>
ASSET CLASS BENCHMARK												
77% BC Agg / 8% BC US TIPS/15% BC ILB US\$ HEDGED			1.17	7.62	2.80	11.05	5.00	4.32	6.15			

PENSION RESERVES INVESTMENT TRUST SUMMARY OF MANAGER PERFORMANCE RATES OF RETURN (GROSS OF FEES) Periods Ending April 30, 2010												
	NAV \$ (M)	%	Month	FY '10	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Manager ITD	Manager Benchmark - ITD	Inception
VALUE-ADDED FIXED INCOME												
FIDELITY	228,697	0.5%	3.07	34.53	7.66	50.85	5.91	8.39	8.21	10.48	9.46	1/31/1990
LOOMIS SAYLES HIGH YIELD	233,260	0.5%	2.82	36.07	9.07	53.05	9.52	10.90	10.54	9.41	7.17	7/31/1997
SHENKMAN	214,033	0.5%	2.01	18.42	5.22	21.85	6.06	7.37		6.96	8.00	4/30/2004
DISTRESSED DEBT CASH	5,104	0.0%										
HIGH YIELD DEBT CASH	22	0.0%										
TOTAL HIGH YIELD BONDS	681,117	1.5%	2.64	27.48	7.28	38.64	6.42	8.16		8.83	9.49	7/31/2001
CSFB Thru 7/02 / ML Master HY II Thru 02/07/ Currently ML Master II HY Constrained Index												
			2.27	30.40	7.13	44.21	7.18	8.59	8.37			
EATON VANCE	248,765	0.6%	1.23	16.74	5.74	27.79				8.24	8.12	7/31/2008
ING	242,587	0.5%	1.17	15.30	5.21	23.71				7.15	8.12	7/31/2008
TOTAL BANK LOANS	491,352	1.1%	1.20	15.99	5.48	25.70				7.68	8.12	7/31/2008
S&P LSTA LEVERAGED LOAN			1.46	21.78	6.16	34.87						
ASHMORE	363,609	0.8%	0.93	20.20	6.18	26.25	6.45	10.86		11.90	9.06	1/31/2004
PIMCO EMD	226,777	0.5%	0.87	19.03	5.12	26.08	6.69	9.24		9.40	9.09	2/29/2004
TOTAL EMERGING MARKET DEBT	590,387	1.3%	-0.12	20.12	4.68	28.09	4.45	9.08		10.00	9.06	1/31/2004
JPM EMBI GLOBAL			0.76	17.43	4.96	23.49	7.24	9.10				
DISTRESSED DEBT	1,160,765	2.6%	-0.15	48.98	8.03	42.93	7.74	10.90		15.55	16.04	7/31/2001
ALTMAN NYU SALOMON CENTER COMBINED DEFAULTED PUBLIC BOND & BANK LOAN INDEX <sup>9</sup>												
TOTAL VALUE-ADDED FIXED INCOME <sup>10</sup>												
	2,923,620	6.6%	0.72	30.95	6.71	37.19	6.29	8.93		9.86	10.81	7/31/2001
ASSET CLASS BENCHMARK												
24.20% ML MASTER II HY CONSTRAINED INDEX/16.56% S&P LSTA LEVERAGED LOAN INDEX/19.43% JPM EMBI GLOBAL/39.81% ALTMAN INDEX <sup>11</sup>												

PENSION RESERVES INVESTMENT TRUST SUMMARY OF MANAGER PERFORMANCE RATES OF RETURN (GROSS OF FEES) Periods Ending April 30, 2010												
	NAV \$ (M)	%	Month	FY '10	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Manager ITD	Manager Benchmark - ITD	Inception
PRIVATE EQUITY												
SPECIAL EQUITY	160,016	0.4%	-0.27	20.79	8.16	12.80	-0.46	11.06	9.65	14.16		9/30/1986
SPECIAL EQUITY - 2000	231,150	0.5%	-0.24	20.97	5.53	17.67	5.88	19.66	15.69	15.27		2/29/2000
SPECIAL EQUITY - 2001	201,930	0.5%	-0.38	22.68	8.15	26.46	10.16	29.08		23.19		4/30/2001
SPECIAL EQUITY - 2002	75,589	0.2%	-1.51	38.04	3.51	35.77	9.02	22.58		14.27		7/31/2002
SPECIAL EQUITY - 2003	360,384	0.8%	-0.15	21.44	6.76	17.95	10.48	23.73		19.31		7/31/2003
SPECIAL EQUITY - 2004	317,897	0.7%	-0.40	9.67	3.41	7.90	6.21	7.11		5.62		7/31/2004
SPECIAL EQUITY - 2005	640,119	1.5%	-0.79	16.36	3.22	16.44	3.41			5.76		6/30/2005
SPECIAL EQUITY - 2006	757,849	1.7%	-0.14	14.73	8.03	12.31	-2.29			-8.27		4/30/2006
SPECIAL EQUITY - 2007	356,050	0.8%	-0.54	12.54	6.02	15.78				-6.59		7/31/2007
SPECIAL EQUITY - 2008	193,455	0.4%	1.60	16.00	7.88	22.24				-14.62		4/30/2008
SPECIAL EQUITY - 2009	12,079	0.0%	-1.74		-2.41					-17.73		8/31/2009
TOTAL SPECIAL EQUITY	3,306,516	7.5%	-0.30	16.82	5.96	15.58	5.30	17.43	13.51	15.78		9/30/1986
VENTURE CAPITAL	63,597	0.1%	-0.05	16.30	9.94	20.59	13.81	20.55	4.65	11.61		4/30/1986
VENTURE CAPITAL - 2000	248,780	0.6%	-0.01	7.48	4.22	6.57	4.16	10.24	4.06	3.89		2/29/2000
VENTURE CAPITAL - 2001	118,498	0.3%	-0.65	8.60	8.56	7.07	3.71	15.82		13.41		2/28/2001
VENTURE CAPITAL - 2002	28,195	0.1%	-0.70	-16.25	-6.48	-27.01	-10.14	-0.76		-1.31		4/30/2003
VENTURE CAPITAL - 2003	38,548	0.1%	0.00	22.71	7.30	17.18	5.44	8.10		6.75		2/29/2004
VENTURE CAPITAL - 2004	38,015	0.1%	0.00	39.41	16.12	40.70	22.49	13.80		13.10		2/28/2005
VENTURE CAPITAL - 2005	101,305	0.2%	-0.11	6.61	2.01	3.61	4.05	4.08		3.94		3/31/2005
VENTURE CAPITAL - 2006	128,332	0.3%	-0.05	10.84	1.22	11.12	3.66			2.60		4/30/2006
VENTURE CAPITAL - 2007	72,297	0.2%	0.00	14.62	7.05	16.49	1.64			1.60		4/30/2007
VENTURE CAPITAL - 2008	7,550	0.0%	0.00	5.85	-5.63	5.90				2.57		7/31/2008
VENTURE CAPITAL - 2009	5,582	0.0%	0.00		-0.64					-18.35		8/31/2009
VENTURE CAPITAL - 2010	7,472	0.0%	0.00							0.00		4/30/2010
TOTAL VENTURE CAPITAL	858,172	1.9%	-0.14	9.96	4.86	8.62	5.62	12.68	4.07	11.31		4/30/1986
PRIVATE EQUITY CASH	45,033	0.1%										
TOTAL PRIVATE EQUITY	4,209,721	9.5%	-0.26	14.92	5.57	13.70	5.13	15.65	10.67	13.80	16.86	4/30/1986
ASSET CLASS BENCHMARK <sup>12</sup>			-0.26	14.92	5.57	13.70	5.13	15.65	9.09			
7 YEAR ANNUALIZED RETURN PE <sup>13</sup>			1.38	13.28	5.50	15.84				15.22	6.12	7/31/2007
7 YEAR ANNUALIZED RUSSELL 3000 +3% <sup>14</sup>			0.77	7.24	3.15	7.93						

<b>PENSION RESERVES INVESTMENT TRUST</b> <b>SUMMARY OF MANAGER PERFORMANCE</b> <b>RATES OF RETURN (GROSS OF FEES)</b> <b>Periods Ending April 30, 2010</b>												
	NAV \$ (M)	%	Month	FY '10	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Manager ITD	Manager Benchmark - ITD	Inception
<b>PRIVATE REAL ESTATE</b>												
INVESCO CORE	332,882	0.8%	0.45	-9.14	4.09	-8.98	-3.93	3.95	6.98	8.39	8.79	5/31/1995
LASALLE	671,353	1.5%	0.27	1.23	-0.90	-4.16	-4.01	4.58	7.63	9.11	8.72	1/31/1995
RREEF CORE	677,848	1.5%	0.43	-3.39	1.68	-6.07	-4.14	4.11	8.20	9.67	8.79	5/31/1995
JP MORGAN	399,103	0.9%	0.67	-3.50	3.73	-12.22	-6.69	4.69		8.84	7.30	9/30/2000
TA ASSOCIATES	753,324	1.7%	0.43	-14.24	-1.30	-18.86	-3.15	5.39		7.59	7.30	9/30/2000
TOTAL CORE ACCOUNTS	2,834,510	6.4%	0.43	-6.26	0.80	-10.65	-4.24	4.36	7.55	8.86	8.78	12/31/1994
RREEF VALUE ADDED	6,189	0.0%	0.00	-3.68	7.57	-62.68	-35.17			-34.41	-3.32	4/30/2007
TOTAL VALUE ACCOUNTS	6,189	0.0%	0.00	-3.68	7.57	-62.68	-34.70			-33.94	-3.32	4/30/2007
TOTAL SEPARATE ACCOUNTS	2,840,699	6.4%	0.43	-6.26	0.81	-11.11	-4.47	4.21	7.42	8.62	8.73	11/30/1994
PORTFOLIO DEBT	-											7/31/2002
<b>TOTAL SEPARATE ACCOUNTS - LEVERAGED</b>	<b>2,840,699</b>	<b>6.4%</b>	<b>0.43</b>	<b>-6.26</b>	<b>0.81</b>	<b>-11.11</b>	<b>-4.31</b>	<b>5.76</b>	<b>9.40</b>	<b>9.91</b>	<b>8.73</b>	<b>11/30/1994</b>
<b>ETI (PARTNERSHIPS)</b>												
CANYON JOHNSON II	11,786	0.0%	0.00	-22.39	-10.20	-25.51	-9.80	-6.65		-6.65	4.75	5/31/2005
INTERCONT IV	4,780	0.0%	0.00	-8.96	-8.04	-10.23	-18.49			-14.88	4.18	7/31/2005
NEW BOSTON URBAN I	3,376	0.0%	0.00	33.06	15.11	33.21	-16.69			-16.38	-0.74	12/31/2006
TOTAL ETI ACCOUNTS	19,942	0.0%	0.00	-13.87	-6.67	-16.40	-14.23	-10.97		-10.97	4.75	5/31/2005
<b>TOTAL PRIVATE REAL ESTATE<sup>15</sup></b>	<b>2,860,640</b>	<b>6.5%</b>	<b>0.42</b>	<b>-6.31</b>	<b>0.76</b>	<b>-11.15</b>	<b>-4.37</b>	<b>5.70</b>	<b>9.37</b>	<b>9.89</b>	<b>8.73</b>	<b>11/30/1994</b>
NCREIF PROPERTY ONE QTR LAG			0.00	-10.27	-2.11	-16.85	-3.41	4.75	7.30			



PENSION RESERVES INVESTMENT TRUST SUMMARY OF MANAGER PERFORMANCE RATES OF RETURN (GROSS OF FEES) Periods Ending April 30, 2010												
	NAV \$ (M)	%	Month	FY '10	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Manager ITD	Manager Benchmark - ITD	Inception
PUBLIC REAL ESTATE (REITS)												
INVESCO REIT	200,084	0.5%	6.72	67.12	15.41	65.33	-6.78	6.21		12.64	9.83	7/31/2003
URDANG	203,851	0.5%	6.88	74.43	17.17	74.56	-4.82	7.34		12.75	9.83	7/31/2003
CLOSED PORTFOLIOS	104	0.0%										
TOTAL US REITS	404,039	0.9%	6.80	70.60	16.28	70.88	-7.85	5.50	13.57	10.93	8.55	6/30/1998
NAREIT EQUITY REIT			6.94	71.54	17.66	68.70	-8.57	4.12	11.45			
RREEF GLOBAL REIT	283,966	0.6%	3.10	36.52	5.48	54.47				-8.72	-9.21	2/29/2008
FTSE EPRA NAREIT DEVELOPED REIT			2.53	39.19	6.59	56.77						
EUROPEAN INVESTORS	269,630	0.6%	-1.48	19.53	-0.93	46.22				-8.78	-12.48	2/29/2008
FTSE EPRA NAREIT DEVELOPED EX US REIT			-0.25	22.74	0.37	48.30						
REIT CASH	(9)	0.0%										
TOTAL REITS	957,626	2.2%	3.26	43.50	7.86	53.31	-12.29	2.42	11.90	9.56	7.49	6/30/1998
50% FTSE NAREIT EQUITY REIT/50% FTSE EPRA NAREIT DEVELOPED EX US REIT <sup>16</sup>			3.34	45.59	8.78	51.89	-12.06	1.72	10.15			
CORE REAL ESTATE CASH	10,526	0.0%										
REAL ESTATE TRANSITION	0	0.0%										
TOTAL CORE ACCOUNT	3,828,792	8.7%	1.12	3.91	2.24	0.95	-5.72	5.38	9.77	9.87	8.90	12/31/1994
TOTAL REAL ESTATE	3,828,792	8.7%	1.12	3.91	2.24	0.95	-5.72	5.38	9.76	5.06	6.96	1/31/1986
ASSET CLASS BENCHMARK: 80% NCREIF PROPERTY ONE QTR LAG/10% NAREIT EQUITY REIT/10% FTSE EPRA NAREIT DEVELOPED EX US REIT <sup>17</sup>			0.23	-3.15	-0.94	-7.26	-5.83	4.01	7.49			

PENSION RESERVES INVESTMENT TRUST SUMMARY OF MANAGER PERFORMANCE RATES OF RETURN (GROSS OF FEES) Periods Ending April 30, 2010												
	NAV \$ (M)	%	Month	FY '10	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Manager ITD	Manager Benchmark - ITD	Inception
TIMBER												
FOREST INVESTMENTS	1,000,796	2.3%	0.00	-16.09	1.04	-16.44	8.38	8.13		8.43	8.36	1/31/2002
TIMBER CASH	(4)	0.0%										
TOTAL TIMBER	1,000,793	2.3%	0.00	-16.07	1.04	-16.43	8.66	11.42		11.98	8.36	1/31/2002
NCREIF TIMBER INDEX ONE QTR LAG <sup>18</sup>			0.00	-3.01	-4.55	-1.79	8.01	11.47				
NATURAL RESOURCES - PUBLIC												
JENNISON	324,740	0.7%	2.76	41.05	4.32	56.79				-13.13	-20.72	7/31/2008
T. ROWE PRICE NR	285,295	0.6%	1.67	32.62	4.55	45.64				-18.68	-20.72	7/31/2008
PUBLIC NATURAL RESOURCES CASH	6	0.0%										
TOTAL NATURAL RESOURCES PUBLIC	610,041	1.4%	2.25	36.95	4.43	51.34				-15.87	-20.72	7/31/2008
LIPPER NATURAL RESOURCES GLOBAL FUND INDEX			2.11	33.50	4.26	46.75						
NATURAL RESOURCES- PRIVATE												
NATURAL RESOURCES- PRIVATE	129,573	0.3%	0.63	-3.52	1.69	-2.98				-9.15	-11.19	8/31/2008
PRIVATE NATURAL RESOURCES CASH	5,627	0.0%										
TOTAL NATURAL RESOURCES PRIVATE	135,200	0.3%	0.60	-3.89	1.75	-3.34				-11.19	-11.19	8/31/2008
BENCHMARK - NAT. RES. PRIVATE <sup>19</sup>			0.60	-3.89	1.75	-3.34						
TOTAL TIMBER/NATURAL RESOURCES	1,746,034	4.0%	0.82	-1.26	2.26	1.06	4.08	8.58		10.26	6.19	1/31/2002
ASSET CLASS BENCHMARK:												
50% NCREIF TIMBER/42% LIPPER NATURAL RESOURCES GLOBAL FUND INDEX/8% ACTUAL NATURAL RESOURCES-PRIVATE <sup>20</sup>			0.94	11.41	-0.29	17.31	2.11	7.78				

PENSION RESERVES INVESTMENT TRUST SUMMARY OF MANAGER PERFORMANCE RATES OF RETURN (GROSS OF FEES) Periods Ending April 30, 2010												
	NAV \$ (M)	%	Month	FY '10	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Manager ITD	Manager Benchmark - ITD	Inception
HEDGE FUNDS (NET OF FEES)												
ARDEN	529,118	1.2%	1.21	10.71	3.38	14.65	-1.67	4.23		4.46	7.04	7/31/2004
60% HFRI FUND OF FUNDS CONSERVATIVE INDEX/20% HFRI RELATIVE VALUE TOTAL INDEX/20%HFRI EQUITY MARKET NEUTRAL INDEX <sup>21</sup>			1.14	5.19	3.04	5.90	6.43	7.22				
IVY LIQUIDATION	64,403	0.1%	0.66	2.17	0.81	6.06				5.25		3/31/2009
K2 ADVISORS	550,156	1.2%	0.39	5.98	0.87	8.59	-0.11	4.19		4.62	6.87	7/31/2004
PAAMCO	704,993	1.6%	0.62	12.70	3.04	17.97	1.59	5.33		5.05	6.90	8/31/2004
100% HFRI FUND OF FUNDS COMPOSITE INDEX <sup>22</sup>			0.98	4.22	2.09	4.93	6.10	7.02				
GROSVENOR CAPITAL	674,392	1.5%	1.34		4.41					4.41	4.59	1/31/2010
60% HFRI FUND OF FUNDS CONSERVATIVE INDEX/40% HFRI EVENT DRIVEN DISTRESSED/RESTRUCTURING INDEX <sup>23</sup>			1.42		4.59							
ROCK CREEK	722,886	1.6%	0.49	10.15	2.82	14.14	-0.94	3.96		4.55	7.14	11/30/2004
90% HFRI FUND OF FUNDS CONSERVATIVE INDEX/10% HFRI EMERGING MARKETS GLOBAL INDEX <sup>24</sup>			1.19	5.22	3.06	5.93	6.44	7.23				
HEDGE FUND CASH	7,488	0.0%										
TOTAL HEDGE FUNDS (NET OF FEES)	3,253,436	7.4%	0.80	9.82	2.90	13.72	-0.58	4.23		4.49	6.87	7/31/2004
ASSET CLASS BENCHMARK:												
HFRI FUND OF FUNDS COMPOSITE INDEX <sup>25</sup>			0.98	4.22	2.09	4.93	6.10	7.02				

PENSION RESERVES INVESTMENT TRUST SUMMARY OF MANAGER PERFORMANCE RATES OF RETURN (GROSS OF FEES) Periods Ending April 30, 2010												
	NAV \$ (M)	%	Month	FY '10	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Manager ITD	Manager Benchmark - ITD	Inception
PORTABLE ALPHA WIND DOWN (NET OF FEES)												
AUSTIN CAPITAL	50,653	0.1%	0.31	8.23	2.08	12.51				-6.09	-11.64	9/30/2008
BLACKSTONE ALT ASSET	213,262	0.5%	1.05	11.43	3.24	14.59				4.14	-6.56	10/31/2008
EIM MANAGEMENT USA	96,622	0.2%	1.66	9.71	3.31	13.98				4.96	-11.64	9/30/2008
CRESTLINE	267,646	0.6%	1.46	11.61	4.13	15.09	-0.81			2.12	-4.60	9/30/2006
STRATEGIC	241,227	0.5%	1.09	11.75	3.05	17.15	-2.41			0.59	-5.38	10/31/2006
TOTAL FUND OF FUNDS (NET OF FEES)	869,410	2.0%	1.21	11.38	3.34	15.55	-1.48			1.39	-4.60	9/30/2006
CLOSED PORTFOLIOS	-	0.0%										
PORTABLE ALPHA CASH	96,986	0.2%										
TOTAL PORTABLE ALPHA WIND DOWN (NET OF FEES)	966,396	2.2%	1.16	19.03	3.18	27.56	-18.04			-10.57	-4.60	9/30/2006
ASSET CLASS BENCHMARK:												
HFRI FUND OF FUNDS COMPOSITE INDEX <sup>26</sup>												
			0.98	11.62	2.09	17.98	-9.89					

PENSION RESERVES INVESTMENT TRUST SUMMARY OF MANAGER PERFORMANCE RATES OF RETURN (GROSS OF FEES) Periods Ending April 30, 2010												
	NAV \$ (M)	%	Month	FY '10	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Manager ITD	Manager Benchmark - ITD	Inception
<b>TOTAL</b>	<b>44,141,932</b>	<b>99.9%</b>	<b>0.87</b>	<b>19.80</b>	<b>4.42</b>	<b>25.83</b>	<b>-2.95</b>	<b>5.18</b>	<b>4.56</b>	<b>9.61</b>		<b>2/28/1985</b>
<b>CASH FUND</b>												
PARTICIPANTS' CASH FUND (NET OF FEES)	14,919	0.0%	0.02	0.26	0.08	0.37	2.07	3.07	2.91	4.85	4.66	7/31/1985
MERRILL LYNCH 90 DAY T BILL			0.01	0.13	0.02	0.15	1.84	2.86	2.80			
<b>TOTAL CORE</b>	<b>44,156,851</b>	<b>99.9%</b>	<b>0.87</b>	<b>19.77</b>	<b>4.42</b>	<b>25.80</b>	<b>-2.95</b>	<b>5.18</b>	<b>4.56</b>	<b>9.71</b>		<b>1/31/1985</b>
LONG-TERM POLICY BENCHMARK			0.47	17.55	3.31	23.62	-1.08	6.35	4.58			
INTERIM POLICY BENCHMARK			0.49	17.20	3.28	23.25	-1.66	5.60	4.08			
MASS STATE TEACHERS CASH (NET OF FEES)	11,695	0.0%	0.02	0.26	0.08	0.37	1.21	2.56	2.76	3.55	3.60	7/31/1996
MASS STATE EMPLOYEES CASH (NET OF FEES)	35,162	0.1%	0.02	0.26	0.08	0.38	1.21	2.57	2.76	3.55	3.60	7/31/1996
MERRILL LYNCH 90 DAY T BILL <sup>27</sup>			0.01	0.13	0.02	0.15	2.16	3.14	2.98			
TEACHERS' AND EMPLOYEES' SEPARATE ACCOUNT	46,857	0.1%	0.02	0.26	0.08	0.38	1.21	2.55	2.74	3.79		7/31/1996
<b>TOTAL FUND</b>	<b>44,203,708</b>	<b>100.0%</b>	<b>0.86</b>	<b>19.71</b>	<b>4.41</b>	<b>25.72</b>	<b>-2.94</b>	<b>5.17</b>	<b>4.55</b>	<b>9.69</b>		<b>1/31/1985</b>

**PENSION RESERVES INVESTMENT TRUST**  
**FOOTNOTES**  
**RATES OF RETURN**  
**Periods Ending April 30, 2010**

**Direct Real Estate**

(1) Direct core and value real estate performance is time series weighted and based on property distributed income and capital appreciation/depreciation resulting from external appraisals and dispositions. PRIM's real estate appraisal policy requires that approximately one quarter of the directly owned properties be appraised by a real estate appraiser with an MAI designation every quarter. The goal is to obtain updated market values for each property annually.

(2) The NCREIF Property Index (NPI) is an unleveraged, time series composite measurement of the investment performance of a large group of commercial real estate properties. The NPI is released 25 days after the end of each quarter. Because Mellon's performance report is released earlier, the NPI used as benchmark is lagged one quarter.

(3) Direct Real Estate Manager NAV's are net of property level debt.

**Timber/Natural Resources**

(4) PRIM's Timber/Natural resources appraisal policy states that all timber/natural resources properties be externally appraised every three years using a full narrative report format. These reports (and property values) are then updated annually by a Timber/Natural Resources Appraiser to reflect changes in timber markets, inventories and land values. The goal is to obtain market values for each timberland annually.

(5) PRIM's timber portfolio currently does not utilize leverage.

(6) The NCREIF Timber/Natural Resources Index (NTI) is an unleveraged, time series composite measurement of the investment performance of individual timber properties. The NTI is released 25 days after the end of each quarter. Because Mellon's performance report is released earlier, the NTI used as benchmark is lagged one quarter.

**REITs**

(7) The NAREIT Equity Index is an unmanaged index of publicly traded U.S., tax-qualified REITs that have 75% or more of their gross assets invested in the equity ownership of real estate. This index does not include Real Estate Operating Companies (REOCs) although these are acceptable investments as part of the manager's guidelines and included in PRIM's REIT holdings.

(8) The NAREIT equity index can be considered a "leveraged" index given that the majority of the REITs included in the index use leverage as part of their investment strategy.

**ETI**

(9) Real estate ETI Funds are primarily invested in development projects with a three to five year lifecycle. These investments require substantial capital investment with very little income during the initial stage of the cycle, resulting in a J curve return profile. The returns are expected later in the cycle, upon project completion and lease up. For lack of a better benchmark, the NPI which is a core property benchmark used to track stabilized, institutional grade properties is used by PRIM. However, Staff is focused more on deal flow quality and on returns generated relative to the risk adjusted returns projected by Managers in their offering memoranda.

**Private Equity**

(10) Private Equity performance represents time weighted returns reflecting the most recent partnership financial statement valuations (typically lagging one calendar quarter) adjusted for actual cash flows through the reporting date. The Private Equity portfolio consists primarily of assets that are illiquid in nature, and valuations are determined by the General Partner based on current industry fair market value practices. Limited Partnership valuations are reviewed through a formal audit process annually, and valuations are also commonly reviewed by partnership advisory boards on a quarterly basis.

**Hedge Fund of Funds**

(11) The Hedge Fund of Fund valuations are net of underlying manager fees and net of all Hedge Fund manager administrative, base and performance fees.

**PENSION RESERVES INVESTMENT TRUST  
BENCHMARK/COMPOSITE FOOTNOTES  
RATES OF RETURN  
Periods Ending April 30, 2010**

**Domestic Equity**

(1) Dow Jones Wilshire 5000 through 04/30/08; Russell 3000 thru 06/30/2009; 78% Russell 3000/22% 3 Month Libor + 3% thru 12/31/2009; currently Russell 3000

**International**

(2) MSCI EAFE Net Dividends Thru 9/30/2007; MSCI EAFE Net Dividends Provisional Standard Index through 5/31/2008; MSCI EAFE Net Dividends Standard Index thru 12/31/2009; currently MSCI World ex-US IMI Net Dividends

(3) MSCI EAFE Net Dividends Thru 9/30/2007; MSCI EAFE Net Dividends Provisional Standard Index through 5/31/2008; currently MSCI EAFE Net Dividends Standard Index

(4) MSCI EAFE Net Dividends Thru 9/30/2007; MSCI EAFE Net Dividends Provisional Standard Index through 5/31/2008; MSCI EAFE Net Dividends Standard Index thru 12/31/2009; currently MSCI World ex-US IMI Net Dividends

**Emerging Markets**

(5) MSCI EMF Thru 6/30/2004; MSCI Emerging Markets Net Dividends through 9/30/2007; MSCI Emerging Markets Net Dividends Provisional Standard Index through 5/31/2008; Currently MSCI Emerging Markets Net Dividends Standard Index

**Global Equity**

(6) The Total Global Equity composite inception date coincides with the establishment of the MSCI All Country World Index on January 1, 2001.

**Core Fixed Income**

(7) BC AGG THRU 6/01; 67% BC Agg / 20% BC US TIPS/13% CUSTOM COMMODITIES BM ;Custom Commodities BM thru 06/30/2009; currently BC ILB US\$ Hedged

(8) 80% ML MTGS 30 YR / 20% ML US TREAS 1-10 YR thru 12/31/08; currently BC securitized index

**Value-Added Fixed Income**

(9) Actual Performance Thru 2/07; ML Master II FI Constrained Index thru 12/31/2009; currently Altman NYU Salomon Center Combined Def Public Bond & Bank Loan Index

(10) The Total Value-Added Fixed Income composite inception date coincides with PRIM's initiative to separate High Yield from Core Fixed Income. Underlying manager market values and cash flows are unavailable prior to July 1, 2001.

(11) CSFB Thru 7/02 / 43% ML HY Master II/43% JPM EMBI Global/14% Actual Distressed Debt thru 02/07/ thru 06/08 60% ML Master II HY Constrained Index and 40% JPM EMBI Global/ 50% ML Master II HY Constrained Index/ 33% JPM EMBI Global/17% S&P LSTA Leveraged Index thru 06/30/2009; 58% ML Master II FI Constrained Index/ 25% JPM EMBI Global/17% S&P LSTA Leveraged Index thru 12/31/2009; 24% ML HY Master II/17% S&P LSTA Leveraged Index/20% JPM EMBI Global/39% Altman Index thru 03/31/2010; currently 24.20% ML HY Master II/16.56% S&P LSTA Leveraged Index/19.43% JPM EMBI Global/39.81% Altman Index

**Private Equity**

(12) Thru 6/30/2000, S&P 500 + 5%; currently Actual Performance. This benchmark is used in the Interim Policy Benchmark.

(13) The 7 Year Annualized performance is used in the Policy Return and Policy Benchmark.

(14) Prior to May 1, 2008 Wilshire 5000 +3%.

**Real Estate - Private/Public**

(15) On 06/30/02 PRIM instituted portfolio leverage of up to 40%; increased to 50% leverage on 02/03/04. Portfolio leverage was paid down in September 2005 (\$450 million), October 2005 (\$200 million), and July 2007 (\$450 million). There is currently no leverage at the portfolio level.

(16) NAREIT EQUITY REIT Thru 3/31/2008; 63% NAREIT Equity REIT/27% NAREIT Global REIT/10% NAREIT International REIT thru 06/30/09; currently 50% FTSE NAREIT Equity REIT/50% FTSE EPRA NAREIT Developed Ex US REIT

(17) NCREIF Thru 6/30/03; 67% NCREIF/33% NAREIT Thru 12/31/06; NCREIF + Ratio of 2% NAREIT to PRIT Fund thru 03/31/08; 73% NCREIF Property One Qtr Lag/17% NAREIT Equity REIT/7.25% NAREIT Global REIT/2.75% NAREIT Intl REIT thru 06/30/09; Currently 80% NCREIF Property One Qtr Lag/10% NAREIT Equity REIT/10% FTSE EPRA NAREIT Developed Ex US REIT

**Timber/Natural Resources**

(18) NCREIF Timber Index thru 6/30/03; NCREIF Timber Index Ex-PRIM thru 2/28/2010; currently NCREIF Timber Index

(19) Currently Private Natural Resources Actual Performance.

(20) NCREIF Timber Index through 6/30/03; NCREIF Timber Index Ex-PRIM thru 06/30/08; 50% NCREIF Timber Index Ex-PRIM/ 42% Lipper Natural Resources Global Fund Index/ 8% Actual Natural Resources Private thru 2/28/2010; currently 50% NCREIF Timber Index/ 42% Lipper Natural Resources Global Fund Index/ 8% Actual Natural Resources Private

**PENSION RESERVES INVESTMENT TRUST**  
**BENCHMARK/COMPOSITE FOOTNOTES**  
**RATES OF RETURN**  
**Periods Ending April 30, 2010**

**Hedge Funds**

(21) ML 90 Day T-Bill + 4% thru 12/31/2009; currently 60% HFRI Fund of Funds Conservative Index/20% HFRI Relative Value Total Index/20% HFRI Equity Market Neutral Index. (Flash returns are used for all HFRI indices)

(22) ML 90 Day T-Bill + 4% thru 12/31/2009; currently HFRI Fund of Funds Composite Index. (Flash returns are used for all HFRI indices)

(23) ML 90 Day T-Bill + 4% thru 12/31/2009; currently 60% HFRI Fund of Funds Conservative Index/40% HFRI Event Driven Distressed/Restructuring index. (Flash returns are used for all HFRI indice

(24) ML 90 Day T-Bill + 4% thru 12/31/2009; currently 90% HFRI Fund of Funds Conservative Index/10% HFRI Emerging Markets Global Index. (Flash returns are used for all HFRI indice:

(25)Merrill Lynch 90 Day T Bill +4% thru 12/31/2009; currently HFRI Fund of Funds Composite Index. (Flash returns are used for all HFRI indice:

**Portable Alpha Wind Down**

(26) S&P 500 index through April 2008; Russell 3000 index through July 2009; US 3 Month Libor + 3% thru 12/31/2009; currently HFRI FOF Composite Index. (Flash returns are used for all HFRI indice:

**Total Fund**

(27) Merrill Lynch 90 Day T-Bill through 6/30/03; Merrill Lynch 3-Month Libor through 03/31/08; currently Merrill Lynch 90 Day T-B





***National Ranking of PRIT's Investment Returns  
Relative to Public Pension Funds  
With A Total Market Value Greater Than \$1 Billion***

	QTD as of 3/31/2010	FYTD as of 3/31/2010	1-Year as of 3/31/2010	3-Years as of 3/31/2010	5-Years as of 3/31/2010	7-Years as of 3/31/2010	10-Years as of 3/31/2010
PRIT Fund "Core" Return	3.52%	18.74%	32.54%	-2.35%	4.78%	9.28%	4.13%
PRIT Percentile Ranking	38 <sup>th</sup>	53 <sup>rd</sup>	50 <sup>th</sup>	92 <sup>nd</sup>	41 <sup>st</sup>	10 <sup>th</sup>	32 <sup>nd</sup>
Public Fund Median Return	3.30%	18.77%	32.54%	-0.92%	4.58%	8.02%	3.63%

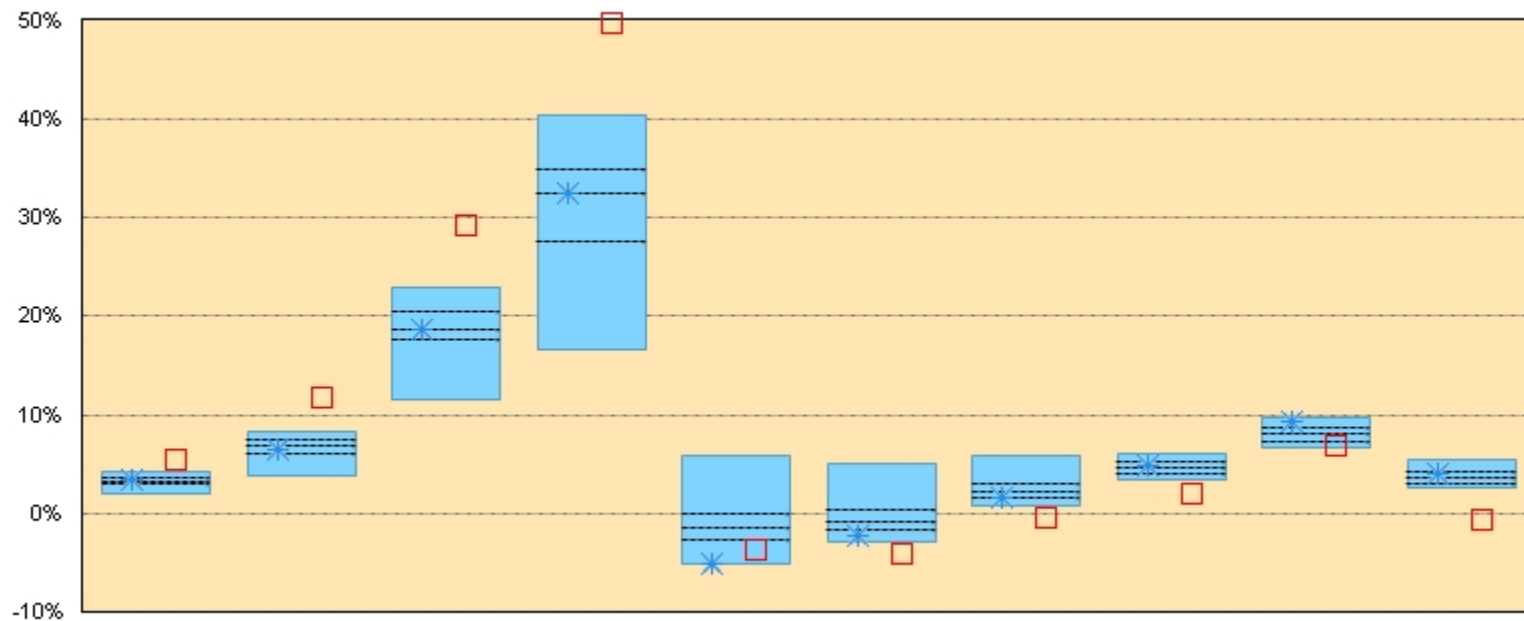
Source: Trust Universe Comparison Service (TUCS) Master Trust Report, for periods ending March 31, 2010.

Universe: For QTD, FYTD, 1 Year, 3 Year, 5 Year, 7 year and 10 Year, the Universe of Public Pension Funds with a Total Market Value greater than \$1 BN is 61, 61, 60, 58, 56, 55 and 54 funds, respectively.

# Pension Reserve Investment Trust

## Performance Comparison

Total Return of Master Trusts - Public : Plans > \$1 Billion  
Cumulative Periods Ending : March 31, 2010

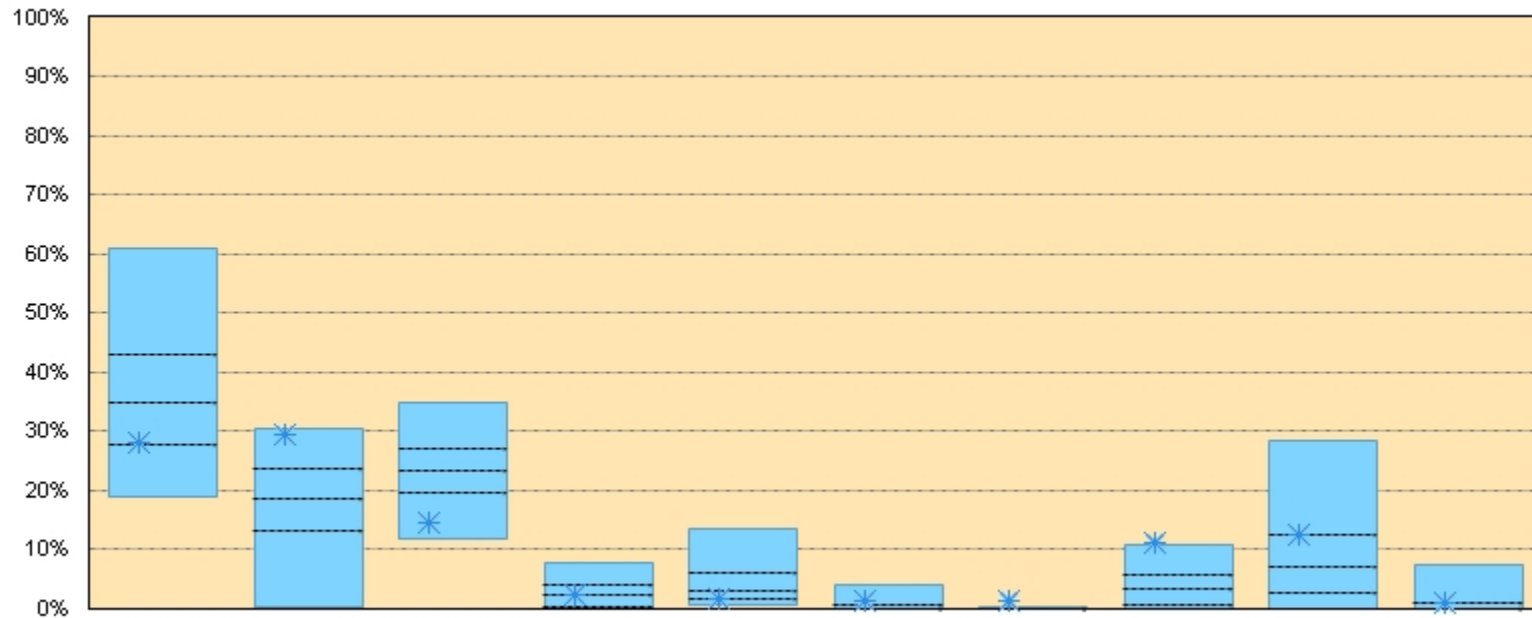


Percentile Rankings	1 Qtr	2 Qtrs	3 Qtrs	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th	4.22	8.28	23.05	40.39	5.89	5.11	5.85	6.02	9.75	5.45
25th	3.70	7.53	20.51	34.98	-0.12	0.46	2.97	5.17	8.75	4.30
50th	3.30	6.94	18.77	32.54	-1.46	-0.92	2.15	4.58	8.02	3.63
75th	2.93	6.12	17.63	27.67	-2.65	-1.59	1.64	4.11	7.38	3.07
95th	1.92	3.79	11.66	16.73	-5.19	-2.92	0.80	3.41	6.60	2.64
No. Of Obs	61	61	61	60	59	58	58	56	55	54
* Pension Reserve Invest	3.52 (38)	6.53 (65)	18.74 (53)	32.54 (50)	-5.19 (95)	-2.35 (92)	1.54 (81)	4.78 (41)	9.28 (10)	4.13 (32)
□ S&P 500	5.38 (1)	11.74 (1)	29.17 (1)	49.75 (1)	-3.70 (87)	-4.16 (99)	-0.38 (99)	1.92 (100)	6.81 (91)	-0.67 (100)

# Pension Reserve Investment Trust

## Asset Allocation of Master Trusts - Public : Plans > \$1 Billion

Quarter Ending March 31, 2010

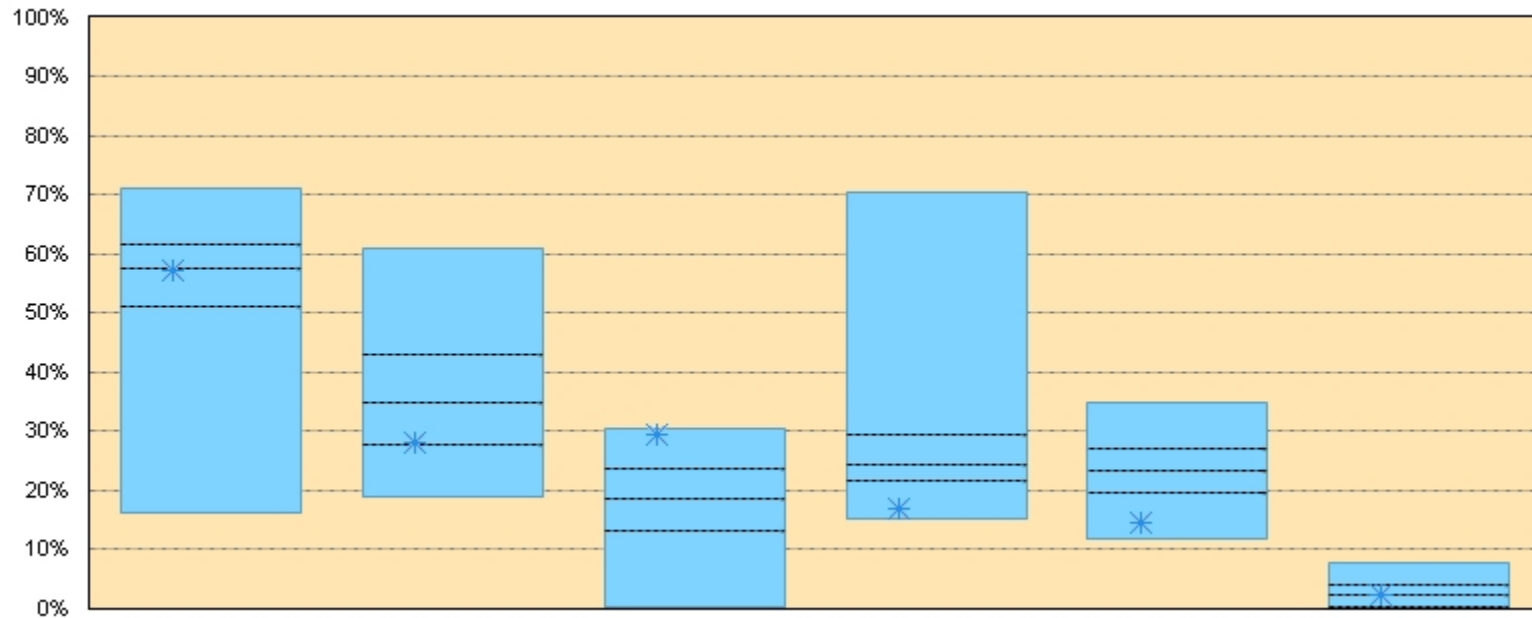


Percentile Rankings	US Equity	Non-US Equity	US Fixed	Non-US Fixed	Cash	Convertible	GIC GAC	Real Estate	Alternative Investments	Other
5th	61.08	30.64	34.95	7.84	13.67	4.12	0.23	10.77	28.45	7.61
25th	43.09	23.57	27.24	3.91	6.15	0.55	0.00	5.67	12.53	0.98
50th	34.82	18.66	23.55	2.25	2.94	0.05	0.00	3.41	7.08	0.00
75th	27.83	13.14	19.57	0.31	1.72	0.00	0.00	0.67	2.85	0.00
95th	18.97	0.45	11.84	0.00	0.56	0.00	0.00	0.00	0.00	0.00
* Pension Reserve Invest	28.03 (73)	29.33 (8)	14.67 (91)	2.30 (45)	0.56 (95)	0.21 (32)	0.23 (5)	11.16 (3)	12.53 (25)	0.98 (25)

# Pension Reserve Investment Trust

## Asset Allocation of Master Trusts - Public : Plans > \$1 Billion

Quarter Ending March 31, 2010



Percentile Rankings	Total Equity	US Equity	Non-US Equity	Total US Fixed	US Fixed	Non-US Fixed
5th	71.23	61.08	30.64	70.42	34.95	7.84
25th	61.75	43.09	23.57	29.54	27.24	3.91
50th	57.58	34.82	18.66	24.40	23.55	2.25
75th	51.26	27.83	13.14	21.74	19.57	0.31
95th	16.25	18.97	0.45	15.19	11.84	0.00
* Pension Reserve Invest	57.36 (52)	28.03 (73)	29.33 (8)	16.97 (94)	14.67 (91)	2.30 (45)

PRIM BOARD

Due Diligence Travel, Trustee and Staff Fiduciary Education, and Professional Development  
FY 2010

<i>Dates</i>	<i>Name</i>	<i>Organization</i>	<i>Location</i>	<i>Purpose</i>	<i>Due Diligence Travel 6510001</i>	<i>Staff Development 6520001</i>	<i>TOTAL</i>
<b>Total Jennifer Cole</b>					-	-	-
2/17/10, 2/23/10	Hannah Comboss	K2, Rock Creek, AFL-CIO	Stamford, CT & Washington DC	Due Diligence	950.40		950.40
2/3 - 2/4/10	Hannah Comboss	INTECH and CMM	West Palm Beach, FL	Due Diligence	928.54		928.54
2/17 and 2/23/10	Hannah Comboss	AFL-CIO, Rock Creek and K2	Washington, D.C. & Stamford, CT	Due Diligence	218.28		218.28
3/7 - 3/9/10	Hannah Comboss	PAAMCO and PIMCO	Newport Beach, CA	Due Diligence	1,124.21		1,124.21
<b>Total Hannah Comboss</b>					<b>3,221.43</b>	-	<b>3,221.43</b>
10/18 - 10/21/09	Tony Falzone	P2F2 Annual Conference	Sacramento, CA	Staff Development		1,629.68	1,629.68
<b>Total Anthony Falzone</b>					-	<b>1,629.68</b>	<b>1,629.68</b>
11/18 - 11/20/09	Bill Fink	T Rowe Price Symposium	Baltimore, MD	Staff Development		835.89	835.89
2/3 - 2/4/10	Bill Fink	INTECH and Community Capital	West Palm Beach, FL	Due Diligence	769.34		769.34
2/17/2010	Bill Fink	AFL-CIO and Rock Creek	Washington D.C	Due Diligence	791.43		791.43
<b>Total Bill Fink</b>					<b>1,560.77</b>	<b>835.89</b>	<b>2,396.66</b>
7/12 - 7/15/09	Ryan Foscaldo	ILPA	Chicago, IL	Staff Development		2,995.16	2,995.16
9/14 - 9/18/09	Ryan Foscaldo	CVC Annual Meeting, GP Meetings	London, England	Due Diligence	1,439.76		1,439.76
9/21/2009	Ryan Foscaldo	Onex Annual Meeting	New York, NY	Due Diligence	1,053.31		1,053.31
9/22/2009	Ryan Foscaldo	Onex Annual Meeting (reclass to reimbursable)	New York, NY	Due Diligence	(839.51)		(839.51)
10/5 - 10/6/09	Ryan Foscaldo	Montreux Annual Meeting	Palo Alto, CA	Due Diligence	795.69		795.69
11/5 - 11/6/09	Ryan Foscaldo	El Dorado Annual Meeting	Half Moon Bay, CA	Due Diligence	816.02		816.02
11/3 - 11/4/09	Ryan Foscaldo	ILPA	New York, NY	Staff Development		374.68	374.68
11/17 - 11/18/09	Ryan Foscaldo	Madison Dearborn Annual Meeting	Chicago, IL	Due Diligence	751.11		751.11
3/3 - 3/4/10	Ryan Foscaldo	Alchemy Annual Meeting	London, England	Due Diligence	820.13		820.13
<b>Total Ryan Foscaldo</b>					<b>4,836.51</b>	<b>3,369.84</b>	<b>8,206.35</b>
10/18 - 10/21/09	Karen Gershman	P2F2 Annual Conference	Sacramento, CA	Staff Development		1,469.91	1,469.91
3/22/2010	Karen Gershman	NSCP - Boston Regional Meeting	Boston, MA	Staff Development		270.00	270.00
<b>Total Karen Gershman</b>					-	<b>1,739.91</b>	<b>1,739.91</b>
7/29/2009	David Gurtz	European Institutional Investors (EII)	New York, NY	Due Diligence	340.32		340.32
11/18/2009	David Gurtz	T Rowe Price	Baltimore, MD	Due Diligence	176.27		176.27
2/17/10, 2/23/10	David Gurtz	K2, Rock Creek, AFL-CIO	Stamford, CT & Washington DC	Due Diligence	1,014.86		1,014.86
2/3 - 2/4/10	David Gurtz	INTECH and CMM	West Palm Beach, FL	Due Diligence	659.14		659.14
3/7 - 3/9/10	David Gurtz	PAAMCO and PIMCO	Long Beach, CA	Due Diligence	903.69		903.69
3/22/2010	David Gurtz	NSCP - Boston Regional Meeting	Boston, MA	Staff Development		270.00	270.00
<b>Total David Gurtz</b>					<b>3,094.28</b>	<b>270.00</b>	<b>3,364.28</b>
<b>Total Tom Hanna</b>					-	-	-
9/8 - 12/8/09	Cathy Hodges	Quincy College	Boston, MA	Staff Development		1,171.07	1,171.07
12/21/2009	Cathy Hodges	Quincy College	Boston, MA	Staff Development		150.00	150.00
<b>Total Cathy Hodges</b>					-	<b>1,321.07</b>	<b>1,321.07</b>
2/9 - 2/11/10	Scott Hutchins	Technology Crossover Ventures Annual Meeting	San Francisco, CA	Due Diligence	1,011.68		1,011.68
3/2 - 3/3/10	Scott Hutchins	Austin Ventures Annual Meeting	Austin, Texas	Due Diligence	707.16		707.16
3/7 - 3/8/10	Scott Hutchins	Avenue Capital	New York, NY	Due Diligence	464.72		464.72
<b>Total Scott Hutchins</b>					<b>2,183.56</b>	-	<b>2,183.56</b>
9/22 - 9/29/2009	Peony Keve	Baillie Gifford, Marathon, Ashmore, T. Rowe Price, Mc	Scotland and England	Due Diligence	3,146.26		3,146.26
9/22 - 9/29/2009	Peony Keve	Baillie Gifford (Reimbursable Hotel)	Scotland and England	Due Diligence	(740.98)		(740.98)

<i>Dates</i>	<i>Name</i>	<i>Organization</i>	<i>Location</i>	<i>Purpose</i>	<i>6510001</i>	<i>6520001</i>	<i>TOTAL</i>
9/1/2009	Peony Keve	CAIA Exam Level I	Boston, MA	Staff Development		1,300.00	1,300.00
10/21 - 10/22/09	Peony Keve	EMM Annual Meeting	Washington, D.C.	Due Diligence	944.99		944.99
12/8/2009	Peony Keve	PIMCO Seminar	Boston, MA	Staff Development		10.00	10.00
11/18 - 11/20/09	Peony Keve	T Rowe Price Symposium	Baltimore, MD	Staff Development		622.14	622.14
3/15/2010	Peony Keve	CAIA Exam Level II	Boston, MA	Staff Development		2,186.29	2,186.29
3/7 - 3/9/10	Peony Keve	PAAMCO and PIMCO	Long Beach, CA	Due Diligence	1,176.30		1,176.30
<b>Total Peony Keve</b>					<b>4,526.57</b>	<b>4,118.43</b>	<b>8,645.00</b>
7/9/2009	John LaCara	Urdang	Philadelphia, PA	Due Diligence	203.20		203.20
7/14/2009	John LaCara	RREEF	New York, NY	Due Diligence	303.20		303.20
7/29/2009	John LaCara	European Institutional Investors (EII)	New York, NY	Due Diligence	375.37		375.37
9/1/2009	John LaCara	CAIA Exam and Books Level I	Boston, MA	Staff Development		2,232.66	2,232.66
11/12/2009	John LaCara	Duff & Phelps	Chicago, IL	Due Diligence	249.20		249.20
11/3 - 11/4/09	John LaCara	FIA - tour Clarion Headwaters	Buffalo, NY	Due Diligence	549.35		549.35
12/2/2009	John LaCara	RREEF and J P Morgan	New York, NY	Due Diligence	393.20		393.20
1/7/2010	John LaCara	Forest Investment Advisors	Atlanta, GA	Due Diligence	794.90		794.90
3/15/2010	John LaCara	CAIA Exam	Boston, MA	Staff Development		2,198.44	2,198.44
<b>Total John LaCara</b>					<b>2,868.42</b>	<b>4,431.10</b>	<b>7,299.52</b>
7/13/2009	Mike Langdon	KPS	New York, NY	Due Diligence	413.79		413.79
7/6 - 7/8/09	Mike Langdon	Oaktree Capital Management	Los Angeles, CA	Due Diligence	1,237.46		1,237.46
9/14 - 9/15/09	Mike Langdon	The Carlyle Group	Washington, D.C.	Due Diligence	1,236.58		1,236.58
9/24/2009	Mike Langdon	Menlo Ventures Annual Meeting	San Francisco, CA	Due Diligence	720.60		720.60
10/13 - 10/16/09	Mike Langdon	Quad-C, Avenue and TCW Meetings	New York and Santa Monica	Due Diligence	613.22		613.22
10/20 - 10/21/09	Mike Langdon	TPG	Scottsdale, AZ	Due Diligence	1,152.88		1,152.88
10/7/2009	Mike Langdon	Providence Equity Partners	Providence, RI	Due Diligence	72.03		72.03
10/29/2009	Mike Langdon	Centerbridge Capital Partners	New York, NY	Due Diligence	346.18		346.18
11/1 - 11/5/09	Mike Langdon	Advent, Charterhouse	Prague, Czech Republic, London	Due Diligence	2,962.62		2,962.62
11/4/2009	Mike Langdon	Charterhouse (hotel reimbursable)	London, England	Due Diligence	(557.35)		(557.35)
11/9 - 11/10/09	Mike Langdon	Union Square Board and Advisory Meeting	New York, NY	Due Diligence	660.07		660.07
11/16 - 11/19/09	Mike Langdon	PAI, Nordic Capital Meetings	Paris and London	Due Diligence	4,613.80		4,613.80
10/13-10/14/09	Mike Langdon	Avenue Capital Management	New York, NY	Due Diligence	1,327.55		1,327.55
10/13-10/14/09	Mike Langdon	Avenue Capital Management (Reimbursable Hotel, Air)	New York, NY	Due Diligence	(1,327.55)		(1,327.55)
10/14 - 10/16/09	Mike Langdon	TCW	Los Angeles, CA	Due Diligence	1,027.50		1,027.50
10/14 - 10/16/09	Mike Langdon	TCW (Reimbursable hotel)	Los Angeles, CA	Due Diligence	(1,027.50)		(1,027.50)
12/2 - 12/3/09	Mike Langdon	Denham Annual Meeting	Houston, TX	Due Diligence	1,629.09		1,629.09
1/19 - 1/21/10	Mike Langdon	Rembrandt, KKR, TCV	Menlo Park & Palo Alto, CA	Due Diligence	805.47		805.47
3/8, 3/9 - 3/12/10	Mike Langdon	Avenue and OCM	New York and Beverly Hills, CA	Due Diligence	1,882.21		1,882.21
3/16 - 3/17/10	Mike Langdon	Candover Partners Limited	London, England	Due Diligence	2,628.60		2,628.60
3/16 - 3/17/10	Mike Langdon	Candover Partners Limited (Reimbursable)	London, England	Due Diligence	(2,628.60)		(2,628.60)
<b>Total Mike Langdon</b>					<b>17,788.65</b>	<b>-</b>	<b>17,788.65</b>
11/10 - 11/13/09	Izzy Markov	CPE Seminars	Boston, MA	Staff Development		709.00	709.00
<b>Total Izzy Markov</b>					<b>-</b>	<b>709.00</b>	<b>709.00</b>
7/1/2009	Matt Marx	Aquent Graphics Institute	Woburn, MA	Staff Development		995.00	995.00
<b>Total Matthew Marx</b>					<b>-</b>	<b>995.00</b>	<b>995.00</b>
3/23/2010	Stan Mavromates	PREA CEO Conference	Boston, MA	Staff Development		110.00	110.00
<b>Total Stan Mavromates</b>					<b>-</b>	<b>110.00</b>	<b>110.00</b>
11/10/2009	Eileen Molloy	PricewaterhouseCoopers Seminar	Boston, MA	Staff Development		450.00	450.00
<b>Total Eileen Molloy</b>					<b>-</b>	<b>450.00</b>	<b>450.00</b>
<b>Total Donald Payne</b>					<b>-</b>	<b>-</b>	<b>-</b>

<i>Dates</i>	<i>Name</i>	<i>Organization</i>	<i>Location</i>	<i>Purpose</i>	<i>6510001</i>	<i>6520001</i>	<i>TOTAL</i>
	<b>Total Alyssa Profenna</b>				-	-	-
	<b>Total Maureen Roche</b>				-	-	-

<i>Dates</i>	<i>Name</i>	<i>Organization</i>	<i>Location</i>	<i>Purpose</i>	<i>6510001</i>	<i>6520001</i>	<i>TOTAL</i>
7/9/2009	Tim Schlitzer	Urdang	Philadelphia, PA	Due Diligence	259.27		259.27
7/14/2009	Tim Schlitzer	RREEF	New York, NY	Due Diligence	403.92		403.92
7/27/2009	Tim Schlitzer	Intercontinental Annual Meeting	Belmont, MA	Due Diligence	31.00		31.00
7/29/2009	Tim Schlitzer	European Institutional Investors (EII)	New York, NY	Due Diligence	396.25		396.25
9/13 - 9/17/09	Tim Schlitzer	World Forestry Conference	Portland, OR	Staff Development		1,933.94	1,933.94
10/5 - 10/9/09	Tim Schlitzer	Property Tours	San Francisco, CA	Due Diligence	773.87		773.87
10/7 - 10/8/09	Tim Schlitzer	NCREIF Conference	San Francisco, CA	Staff Development		2,110.01	2,110.01
10/26 - 10/29/09	Tim Schlitzer	PREA Conference and Property Tours	Los Angeles, CA	Both	858.98	1,056.28	1,915.26
11/12/2009	Tim Schlitzer	Duff & Phelps	Chicago, IL	Due Diligence	461.15		461.15
11/4/2009	Tim Schlitzer	FIA - tour Clarion Headwaters	Buffalo, NY	Due Diligence	618.35		618.35
11/2/2009	Tim Schlitzer	THL Advisory Meeting	Boston, MA	Due Diligence	56.05		56.05
12/2/2009	Tim Schlitzer	RREEF and J P Morgan Budget Meetings	New York, NY	Due Diligence	378.27		378.27
12/8 - 12/9/09	Tim Schlitzer	Invesco, LaSalle Budget Meetings	Baltimore and Dallas	Due Diligence	1,538.86		1,538.86
1/7/2010	Tim Schlitzer	Forest Investment Advisors	Atlanta, GA	Due Diligence	720.28		720.28
2/23 - 2/25/10	Tim Schlitzer	NCREIF Conference and property tour	Sunny Isles, FL	Both	583.15	878.62	1,461.77
3/23/2010	Tim Schlitzer	PREA Conference	Boston, MA	Staff Development		110.00	110.00
<b>Total Tim Schlitzer</b>					<b>7,079.40</b>	<b>6,088.85</b>	<b>13,168.25</b>
6/7 - 6/11/09	Wayne Smith	Permira (airfare reclassified to reimbursable)	London	Due Diligence	(1,423.10)		(1,423.10)
9/22 - 9/25/09	Wayne Smith	Genstar Fall Conference	San Francisco, CA	Due Diligence	3,870.96		3,870.96
9/22 - 9/25/10	Wayne Smith	Genstar Fall Conference (reclass hotel to reimbursable)	San Francisco, CA	Due Diligence	(1,612.80)		(1,612.80)
10/5 - 10/7/09	Wayne Smith	Thoma Bravo and Providence	Chicago and Providence	Due Diligence	858.79		858.79
10/5/2009	Wayne Smith	Thoma Bravo (reclass hotel to reimbursable)	Chicago, IL	Due Diligence	(288.48)		(288.48)
10/20/2009	Wayne Smith	Wayzata Annual Meeting	Minnesota	Due Diligence	627.12		627.12
10/28 - 10/29/09	Wayne Smith	Centerbridge, Vestar	New York, NY	Due Diligence	1,123.23		1,123.23
11/18 - 11/19/09	Wayne Smith	Flagship & Spectron Annual Meeting	Boston, Cambridge	Due Diligence	93.35		93.35
11/12, 11/09 - 11/10/09	Wayne Smith	HCP and Union Square Advisory Meetings	Boston and New York, NY	Due Diligence	903.38		903.38
1/19 - 1/21/10	Wayne Smith	Rembrandt, KKR, TCV	Menlo Park & Palo Alto, CA	Due Diligence	969.53		969.53
2/22, 2/23 - 2/25/10	Wayne Smith	TA, Thoma Bravo and Polaris	Boston, San Francisco, CA	Due Diligence	1,086.24		1,086.24
3/11/2010	Wayne Smith	Insight	New York, NY	Due Diligence	533.43		533.43
<b>Total Wayne Smith</b>					<b>6,741.65</b>	<b>-</b>	<b>6,741.65</b>
10/4 - 10/6/09	Mike Travaglini	NASIO Conference	Las Vegas, NV	Staff Development		2,566.80	2,566.80
10/19 - 10/21/09	Mike Travaglini	Institutional Investors Roundtable	Chicago, IL	Staff Development		1,466.69	1,466.69
1/11 - 1/12/10	Mike Travaglini	CII Board Meeting	Washington, DC	Staff Development		765.56	765.56
1/11 - 1/12/10	Mike Travaglini	CII Board Meeting (Reimbursable Travel)	Washington, DC	Staff Development		(765.56)	(765.56)
2/24 - 2/26/10	Mike Travaglini	Pacific Pension Institute	Napa, CA	Staff Development		1,890.24	1,890.24
<b>Total Mike Travaglini</b>					<b>-</b>	<b>5,923.73</b>	<b>5,923.73</b>
<b>Total Veronica Williams</b>					<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Treasurer Cahill</b>					<b>-</b>	<b>-</b>	<b>-</b>
7/8 - 7/10/09	LaRoy Brantley	Opal Financial Pension Conference	Newport, RI	Staff Development		421.48	421.48
<b>Total LaRoy Brantley</b>					<b>-</b>	<b>421.48</b>	<b>421.48</b>
9/24/2009	Patrick Brock	PRIM Committee Meeting	Boston, MA	Due Diligence	112.99		112.99
11/24/2009	Patrick Brock	PRIM Committee Meeting	Boston, MA	Due Diligence	113.00		113.00
<b>Patrick Brock</b>					<b>225.99</b>	<b>-</b>	<b>225.99</b>
7/21, 7/22, 8/5/09	Bob Brousseau	PRIM Board Meetings	Boston, MA	Due Diligence	111.60		111.60
9/10, 9/24, 10/13/09	Bob Brousseau	PRIM Board Meetings	Boston, MA	Due Diligence	111.60		111.60
11/12, 11/13, 11/24, 12/1/09	Bob Brousseau	PRIM Board Meetings & NEA Conference	Boston, MA	Both	74.40	950.81	1,025.21
1/30, 2/02/10	Bob Brousseau	PRIM Board Meetings & MTA Meeting	Boston, MA	Due Diligence	99.70		99.70
<b>Total Bob Brousseau</b>					<b>397.30</b>	<b>950.81</b>	<b>1,348.11</b>
7/22 and 8/5/09	Jay Dow	PRIM Board Meetings	Boston, MA	Due Diligence	51.80		51.80



<i>Dates</i>	<i>Name</i>	<i>Organization</i>	<i>Location</i>	<i>Purpose</i>	<i>6510001</i>	<i>6520001</i>	<i>TOTAL</i>
10/13/2009	Jay Dow	PRIM Board Meetings	Boston, MA	Due Diligence	25.90		25.90
11/18, 12/1/09	Jay Dow	PRIM Board Meetings	Boston, MA	Due Diligence	51.80		51.80
1/20, 2/2/10	Jay Dow	PRIM Board Meetings	Boston, MA	Due Diligence	48.80		48.80
							-
	<b>Total Jay Dow</b>				<b>178.30</b>	<b>-</b>	<b>178.30</b>
11/7 - 11/11/09	Paul Shanley	International Foundation Conference	Orlando, Fl	Staff Development		2,544.02	2,544.02
							-
	<b>Total Paul Shanley</b>				<b>-</b>	<b>2,544.02</b>	<b>2,544.02</b>

<b>Grand Total @ 03/31/10</b>	<b>54,702.83</b>	<b>35,908.81</b>	<b>90,611.64</b>
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<p style="text-align: center;"><b>PENSION RESERVES INVESTMENT MANAGEMENT BOARD</b> <b>Economically Targeted Investment (ETI) Services RFP</b></p>
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***Responses to RFP***

PRIM issued a Request for Proposals for economically targeted investment management services on December 14, 2009. The search was advertised in Pension & Investments and was posted on PRIM's website. The proposal deadline was 3:00 p.m. EST March 5, 2010. Eight (8) proposals were submitted, and a listing of the respondents can be found in Attachment A (page 3). Of the eight (8) proposals submitted, seven (7) met the minimum criteria.

***Search Committee***

The ETI RFP Search Committee consisted of Board Trustee Paul Shanley, Stan Mavromates, David Gurtz, Hannah Commoss, Peony Keve, Bill Fink, Wayne Smith, Scott Hutchins, Ryan Foscaldo, Tim Schlitzer, and John LaCara of PRIM.

***Finalists***

The Search Committee conducted a detailed review of each proposer's qualifications based on the selection criteria set forth in the RFP. The areas of examination constitute the basis of PRIM's procurement process: ability to meet PRIM's ETI program criteria, organizational stability and general experience of the firm, quality, stability, depth and experience of personnel, client relations, investment philosophy, process and strategy, performance, and fees. PRIM's ETI program criteria can be found in Attachment B (page 4).

In addition to the one (1) proposal that failed to meet the minimum criteria, the Search Committee eliminated four (4) proposals based on unsatisfactory factors in the ability to meet PRIM's ETI program criteria, organizational stability and general experience of the firm, quality, stability, depth and experience of personnel, client relations, investment philosophy, process and strategy, performance, and fees. Attachment C (page 5) contains a listing of the firms that failed to meet the minimums and those that were eliminated by the Search Committee after further review.

The Search Committee interviewed the remaining 3 finalist proposals. Attachment D (page 6) contains a listing of the finalists, and they are also listed below:

Tremont Realty Capital: *Real Estate*

Flagship Ventures: *Private Equity*

Genovation Capital: *Private Equity*

The materials provided to the Search Committee are contained in Attachment E (starting on page 7). Interviews were held on April 12, 2010 in PRIM's offices.

**Tremont Realty Capital** was invited to interview with the search committee based on their experience in real estate debt management and investment banking. They possess a strong and experienced investment team and have demonstrated expertise within the proposed investment strategy. However, they possess little experience managing institutional accounts and their performance history for the proposed strategy is difficult

to quantify and limited. Furthermore, due to poor performance and economic uncertainty, the value-added real estate program was halted in 2008 until real estate markets recover and stabilize. Accordingly, staff does not recommend engaging Tremont for the ETI program.

**Genovation Capital** was invited to interview with the Search Committee based on their experience as operating Executives and venture capital investors. However, they possess little experience managing institutional-sized funds and their performance history for the proposed strategy is limited. Furthermore, due to lack of institutional-size and a thin track record of investing, staff does not recommend engaging Genovation Capital for the ETI program.

**Flagship Ventures** was invited to interview with the Search Committee as it represents an attractive opportunity for the PRIT fund's venture capital portfolio and an excellent candidate for the Economically Targeted Investment Program. Flagship has a well developed early-stage venture investment strategy targeting life science and clean technology opportunities. The firm has assembled an impressive team of investment professionals with backgrounds as scientists, operators and venture investors. Those professionals possess a large network of contacts in academia and industry that can be leveraged to add value to portfolio companies and source investment opportunities. The firm has a unique venture creation strategy that has generated an exciting pipeline of high potential start-up opportunities. Flagship has established a reputation as an active, value-add investor in the venture community and with executives and entrepreneurs. While it is still early in Flagship's life, the firm has established an impressive track record, and its current portfolio is developing nicely. Finally, Flagship's strategy fits perfectly within the framework of the PRIT fund's ETI Program. Flagship's 2004 Fund and 2007 Fund, prior ETI investments, have already generated benefits to Massachusetts, and that portfolio has considerable growth potential. PRIM staff is recommending an investment of \$20 million in Flagship 2010 through the ETI Program.

### ***Recommendation***

Based upon the RFP submissions and interviews, the Search Committee is recommending an investment of \$20 million in Flagship 2010 to the Investment Committee for consideration at their May 18, 2010 meeting. An evaluation and recommendation for each of the firms that submitted a proposal can be found in Attachment F (starting on page 30).

## Attachment A

### Economically Targeted Investment (ETI) Services RFP

	<u>Respondents</u>	<u>Number of Proposals</u>
1	Community Development Finance Corp.	1
2	Constitution Capital Partners	1
3	Flagship Ventures	1
4	Genovation Capital	1
5	Public Financing Strategies	1
6	Paradigm Capital Advisors	1
7	Tremont Realty Capital	1
8	Wellesley Advisors	1
	<b>Total Proposals</b>	<b>8</b>

## **Attachment B PRIM ETI Policy**

Adopted 8/14/03

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

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

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

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

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

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

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

## Attachment C

### Eliminated Firms

<u>Respondents</u>	<u>Number of Proposals</u>
1 Community Development Finance Corp.*	1
2 Constitution Capital Partners	1
3 Public Financing Strategies	1
4 Paradigm Capital Advisors	1
5 Wellesley Advisors	1
<b>Total Proposals</b>	<b>5</b>

\* *Didn't meet the minimum criteria*

## Attachment D

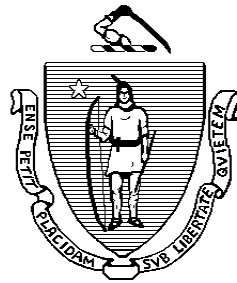
### Finalist Firms

	<b><u>Respondents</u></b>	<b><u>Number of Proposals</u></b>
1	Tremont Realty Capital	1
2	Flagship Ventures	1
3	Genovation Capital	1
	<b>Total Proposals</b>	<b>3</b>

**Attachment E – Search Committee Materials**



# ETI RFP



*April 12, 2010*



# *Agenda*

- 9:00 – Tremont Realty Capital (*Real Estate*)
  - Daniel Mee – Executive Director
  - Douglas Lanois – Portfolio Manager
  
- 9:45 – Flagship Ventures (*Private Equity*)
  - Noubar B. Afeyan, PH.d – Managing Partner & CEO
  - Edwin M. Kania – Managing Partner and Chairman
  - Douglas G. Cole – General Partner
  - James V. Matheson – General Partner
  - Harry W. Wilcox – Partner & CFO
  
- 10:30 – Genovation Capital, LLC (*Private Equity*)
  - Jeffrey Binder – General Partner
  - Vin Bisceglia – General Partner
  - Dave Fellows – General Partner
  - Steve Kurylo – Acting CFO

# Tremont Realty Capital



Performance							
Fund Name	Rolling 1-Year	Rolling 3-Year	Rolling 5-Year	Historical	IRR	Inception	NAV 12/31/2009
Fund I	14.9%	22.2%	50.6%	54.8%	8.86%	2004	\$ 32,709,163
Fund III	-28.5%	-43.4%	18.8%	18.8%	10.19%	2004	\$ 3,601,357
Fund IV	-15.2%	0.4%	N/A	1.07%	5.24%	2006	\$ 98,913,245

Fund Name	Capital Commitment	Equity Invested	Investment Capitalization	Net Proceeds
Fund I	\$ 53,685,526.00	\$ 36,699,575.00	\$ 315,186,025.00	\$ 36,698,503.00
Fund II	\$ 9,889,390.00	\$ -	\$ 74,139,204.00	\$ 15,641,590.00
Fund III	\$ 51,601,200.00	\$ 9,016,700.00	\$ 5,735,601.00	\$ 45,934,889.00
Fund IV	\$ 120,000,000.00	\$ 119,829,035.00	\$ 154,231,124.00	\$ 35,481,744.00

**Tremont Realty Capital**, headquartered in Boston, MA, with offices in East Longmeadow, MA, New York, Annapolis, Chicago, and Newport Beach, CA, is a nationally recognized provider of structured investments to the commercial real estate middle market. The firm was formed in 2000 as a lift-out of senior real estate professionals from a prior firm, and is independently owned by senior staff. Tremont Commercial Real Estate Solutions Team (CREST) provides real estate portfolio consulting services to creditors, banks, private lenders and institutional investors. The firm is comprised of highly trained and experienced real estate debt professionals. Tremont's experience has been gathered over multiple economic and real estate cycles with a consistent focus on capital preservation and risk management for clients and investors. [www.tremontcapital.com](http://www.tremontcapital.com)

Tremont Summary	Senior Management	
<ul style="list-style-type: none"> <li>• Direct real estate lending / investment and portfolio management</li> <li>• Nationally recognized loan consultant and work-out expert</li> <li>• Core expertise in performing / non-performing real estate debt</li> <li>• National origination capabilities: six offices across the U.S.</li> <li>• Professionals average 20+ years industry experience</li> <li>• Over \$20 billion of transactional experience</li> <li>• 5 managed accounts with over \$345 million of capital commitments</li> <li>• Total property capitalization managed of over \$900 million</li> </ul>	<b>Daniel O. Mee.</b> Founder & Executive Director <ul style="list-style-type: none"> <li>• 30 years real estate industry experience</li> <li>• Investment Committee member</li> <li>• Harvard University, AB &amp; MBA</li> </ul>	<b>Richard C. Gallitto.</b> Founder & Executive Director <ul style="list-style-type: none"> <li>• 26 years real estate industry experience</li> <li>• Investment Committee member</li> <li>• Harvard University, AB</li> </ul>
	<b>G. Douglas Lanois.</b> CFO & Portfolio Manager <ul style="list-style-type: none"> <li>• 25 years real estate / CPA experience</li> <li>• Investment Committee Member</li> <li>• University of Massachusetts, BBA &amp; BA</li> </ul>	<b>Thomas K. Morgan, Esq.</b> General Counsel & Senior Director <ul style="list-style-type: none"> <li>• Lender Liability, RE Law, General Business Exp.</li> <li>• Harvard University, AB; Boston College, JD</li> </ul>

Market Opportunity
<p>Beginning with the 2007-2008 credit crisis commercial real estate has been under pressure and investment returns have been dismal. Most agree that the recovery in the real estate markets will require an increase in available credit. We believe the following four factors are major contributors to this investment opportunity:</p> <ol style="list-style-type: none"> <li><b>1. Favorable Supply and Demand.</b> The reduction of traditional capital sources and senior lender liquidity continues to plague the markets and provides significant opportunities for lenders with capital to deploy.</li> <li><b>2. Strong Deal Flow.</b> Opportunities are evolving with both distressed lenders and distressed properties. New lenders have the ability to be very selective for transactions on performing properties.</li> <li><b>3. Improved Valuations.</b> The real estate industry has experienced value corrections nationally ranging from 25% to 50%. New investment based on adjusted values should provide enhanced returns for investors.</li> <li><b>4. Improved Pricing.</b> Pricing has improved as lenders enjoy increased leverage in the negotiation process. Spreads have widened 400-700 basis points over levels experienced in 2006.</li> </ol>

Economic Benefits	
<b>TEMPORARY JOBS</b>	<ul style="list-style-type: none"> <li>▪ Design / Engineering</li> <li>▪ Construction</li> <li>▪ Appraisal, Banking, Legal, Brokerage and other professional fields</li> </ul>
<b>PERMANENT JOBS</b>	<ul style="list-style-type: none"> <li>▪ Property Management</li> <li>▪ Maintenance</li> <li>▪ Asset Management</li> <li>▪ Commercial tenants</li> </ul>
<b>ECONOMIC IMPACT</b>	<ul style="list-style-type: none"> <li>▪ Higher real estate tax base</li> <li>▪ Enhanced local commerce</li> <li>▪ Increased sales taxes from operations</li> </ul>

# Opportunistic Real Estate Debt Fund

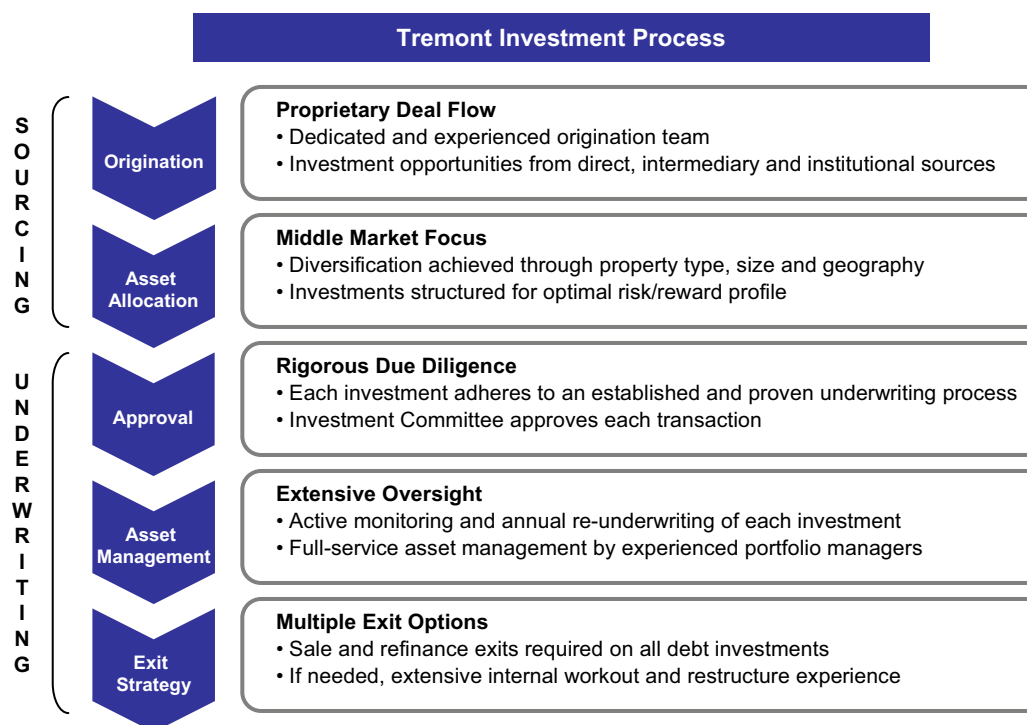
Tremont Realty Capital

## Executive Summary

Investment Strategy	Target
<b><u>New Loan Origination</u></b>  Origination of new loans focused on the middle of the capital stack including: <ul style="list-style-type: none"> <li>• Mezzanine loans</li> <li>• Preferred Equity</li> <li>• Bridge Loans</li> </ul>	80 %
<b><u>Note Purchase</u></b>  <ul style="list-style-type: none"> <li>• Selectively acquire or assist in acquisition of loans that meet structure, yield, ETI criteria.</li> </ul>	20 %

Fund Terms	
Fund Name	Opportunistic Real Estate Debt Fund, L.P.
General Partner	Tremont Realty Management, LLC
Target Equity Raise	\$25-75 million
Target Market	Commercial Real Estate Debt – Whole/Sub Loans
Target Sector	Middle Market – Total Capital Structure \$10-85 million
Target Collateral	Office, retail, multifamily, industrial
Geographic Focus	50% Massachusetts, Balance US
Targeted Portfolio Gross Return	18-22% before loan loss provision
Targeted Net IRR	16-22%
Leverage	Applied only to first mortgage loans
Investment Period	Two years with two, one 1 year extension
Initial Fund Term	Six years with three, one 1 year extension
Management Fee	1.5%
Performance Fee	20%, after investor receives 100% capital and preferred return
Preferred Return	10%
GP Co-investment	1% up to \$500,000

Success Factors
<ul style="list-style-type: none"> <li>• <b>Disciplined underwriting by experienced professionals.</b> Quality underwriting of the property and sponsor are the only ways we know of to gain a complete understanding of an investment opportunity. The ability to understand the property and the asset at a granular level, price to the risks involved and diligently manage the asset to exit is critical.</li> <li>• <b>Market presence and an established network to source quality deals.</b> Given projected refinance volumes, the ability to access and efficiently triage opportunities is an important factor in sorting through potential investments.</li> <li>• <b>Knowledge and experience in work-outs and legal remedies to protect investments.</b> While clearly not the preferred path, in today's environment knowledge of viable options and a willingness to roll-up the sleeves on a specific property is a valuable risk management tool.</li> </ul>



## Tremont Realty Capital

### OPPORTUNISTIC REAL ESTATE DEBT FUND - SAMPLE PORTFOLIO

#### Fund Level Assumptions

Capital to Invest	30,000,000
Max Investment (% of Fund)	15.0%
Max Investment (\$)	4,500,000
Average Investment (% of Fund)	10.0%
Average Investment (\$)	3,000,000
No. Investments	10
Estimated Closing Date	8/1/2010
	0
Average Investment LTV	85%
Average Property Level Senior Debt	65%
Average Deal Size	20,000,000
Investment Period (Mos.)	24
Average Investment Life (Mos.)	48
Fund Life (Mos.)	72

#### Fund Expenses

Management Fees	1.50%
General & Admin	0.10%
Loan Loss Provisions	0.25%
Start-up Cost	0.75%

#### Investment Assumptions

Investment Pricing			
Index	Libor		
Index Start	0.25%		
Index Growth Rate (per Yr)	0.20%		
Index Floor	1.00%		
	Mezz	PE	Avg
Gross Spread/Yields	19.00%	22.00%	20.5%
Origination Fees	1.50%	2.50%	2.0%
% of Portfolio	50%	50%	100.0%
No. Investments	5	5	10
\$ Invested	15,000,000	15,000,000	30,000,000
* Manager will utilize both Mezzanine and Preferred Equity investment structures			
** Yields to be generated through Interest Rates as well as back-end equity participations			
*** All returns assumptions do not anticipate any re-investment of returned capital			

#### Fund Economics

Investor Preferred Return	10.0%
Manager Co-Invest	0.50%
Manager Incentive Return	20.0%

#### Investor (LP's) Cash Flow

	<u>Closing</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>
Outstanding Investments (\$ Balance)		18,000,000	30,000,000	30,000,000	30,000,000	12,000,000	-	-
Outstanding Investments (No. Investments)		6	10	10	10	4	-	-
Investments	-	(18,000,000)	(12,000,000)	-	-	-	-	-
Management Fees	-	(450,000)	(450,000)	(450,000)	(450,000)	(318,750)	(41,250)	-
General & Admin	-	(8,750)	(27,250)	(30,000)	(30,000)	(21,250)	(2,750)	-
Loan Loss Provisions	-	-	-	-	-	(3,750)	(2,500)	-
Start-up Cost	(225,000)	-	-	-	-	-	-	-
Return of Capital	-	2,241,250	6,098,750	6,450,000	6,452,500	8,757,500	-	-
Preferred Return On Capital	-	-	-	-	-	7,799,863	-	-
Residual Cash Flow Splits	-	-	-	-	-	6,041,803	12,599,167	-
Net Cash Flow	(225,000)	(16,217,500)	(6,378,500)	5,970,000	5,972,500	22,255,417	12,552,667	-
Gross IRR Before Incentive Mgt Fees	22.4%							
Incentive Mgt Fees	-	-	-	-	-	3,197,083	4,535,700	-
Net Cash Flow after Incentive Mgt Fees	(225,000)	(16,217,500)	(6,378,500)	5,970,000	5,972,500	19,058,334	8,016,967	-
Net IRR After Mgt Incentive Fees	17.0%							
Cumulative Profit	(225,000)	(16,442,500)	(22,821,000)	(16,851,000)	(10,878,500)	8,179,834	16,196,800	16,196,800
Multiple					0.64	1.27	1.54	1.54

# Flagship Ventures



Performance (millions)										
<i>Fund</i>	<i>Vintage</i>	<i>Committed</i>	<i>Cost</i>	<i>Realized</i>	<i>Unrealized</i>	<i>Total</i>	<i>Multiple</i>	<i>Net IRR</i>	<i>Thomson Top Quartile</i>	<i>Thomson Medium</i>
NewcoGen Funds	2000	\$ 61.5	\$ 61.5	\$ 15.2	\$ 63.7	\$ 78.9	1.28	2.90%	1.90%	-3.00%
Applied Genomic Technology	2000	\$ 146.8	\$ 146.8	\$ 105.0	\$ 86.3	\$ 191.3	1.30	5.30%	1.90%	-3.00%
Flagship 2004	2004	\$ 151.5	\$ 139.8	\$ -	\$ 141.0	\$ 141.0	1.01	0.30%	5.50%	-1.70%
Flagship 2007	2007	\$ 234.8	\$ 86.4	\$ -	\$ 101.4	\$ 101.4	1.17	17.56%	3.00%	-12.80%
<b>Total</b>		<b>\$ 594.6</b>	<b>\$ 434.5</b>	<b>\$ 120.2</b>	<b>\$ 392.5</b>	<b>\$ 512.7</b>	<b>1.18</b>	<b>5.80%</b>	<b>3.30%</b>	<b>-4.50%</b>

## **EXECUTIVE SUMMARY**

Flagship Ventures Fund IV, L.P. (the “Fund”) is a life-science focused venture capital fund being formed by the partners of Flagship Ventures (the “Firm”) to carry on the innovative strategies of its previous funds raised in 2000, 2004 and 2007. The Fund will primarily invest in life science applications related to Healthcare and Sustainability. The Firm, founded in 1999, combined the prior entrepreneurial and executive track record of Dr. Afeyan with the extensive venture capital experience and record of Mr. Kania. During the previous decade, the two had worked together on three highly successful new venture projects, PerSeptive Biosystems (sold for \$360 million), ChemGenics Pharmaceuticals (sold for \$100 million) and EXACT Sciences (currently a public company). Beyond these three collaborative projects, prior to the founding of Flagship, Dr. Afeyan and Mr. Kania individually contributed to the founding investment, development and exit realization of another fifteen new ventures; they are: Adolor, Alere Medical, Anesta, Antigenics, Aspect Medical, Audiologic, Celera Genomics, Color Kinetics, Cytac, DataSage, IDXX, MetroNet, Somatogen, Telecorp and TripAdvisor. The returns produced by each of these ventures range from 3x to 20x with average exit valuations between \$200 and \$500 million.

Flagship’s core investment team comprises its two managing partners: Dr. Afeyan and Mr. Kania; two general partners: Dr. Cole and Mr. Matheson; and Mr. Wilcox, who is a partner and CFO. The key investment principals of the Firm have worked together since 2001 and average 14+ years venture investing experience. In addition, the Firm has four partners: Dr. Baynes, Dr. Berry, Dr. Levinson and Dr. Varma. Beyond the team of 9 senior investment professionals, the Flagship team includes three associates as well as an extensive team of financial and operational experts involved in partnership and portfolio company activities.

Flagship Ventures is one of the nation’s leading Life Science/Healthcare venture capital firms and is increasingly recognized as a leader in the emerging field of Cleantech/Sustainability investing. Over the past ten years and based on a stable core investment team, the Firm has developed compelling value-building investment and company-building strategies focused on early and active involvement with new ventures that convert major innovations into market transforming enterprises. These strategies have been utilized by the Firm to deploy over \$600 million from three predecessor funds (Flagship Ventures NewcoGen/AGTC Funds 2000, Flagship Ventures Fund 2004 and Flagship Ventures Fund 2007 - FSV I, FSV II and FSV III respectively) into a balanced, high potential portfolio of over 66 investments. Of these, three have successfully gone public, two are currently in registration to go public, and nine have been sold including three for which the Fund received significant multiples of invested capital. Ten additional companies have achieved significant value-enhancing milestones that position them for high-valued liquidity events within the next 12-24 months. Out of the 43 currently active investments, Flagship has greater than 20% ownership interest in 23, with ownership exceeding 30% in 14. The current portfolio is shown in Appendix I.

The performance to date of the Firm’s funds demonstrates the attractiveness of Flagship’s investment approach. The latest comparative performance data available from Cambridge Associates (“CA”) is as of 9/30/2009. As of that date, FSV I and FSV II were in the top quartile of performance. When comparing the performance of FSV III as of 12/31/09 to the most recent CA statistics, FSV III exceeds the top quartile performance by more than 20%.



## Flagship Ventures

Since its inception, Flagship Ventures has invested a significant portion of its funds in founding innovative companies through its Flagship Venture Labs Unit. At Flagship Labs, breakthrough technologies and large unmet needs in Healthcare and Sustainability markets are matched and transformed into proprietary start-up companies. To date, over 20 new start-up companies have been formed within the Labs. These first-in-class companies, all partly or wholly conceptualized and founded by members of the Flagship Labs team, are started within the Flagship's Cambridge offices and provide unique opportunities for our limited partners to participate in some of the most exciting start-ups in the United States. By starting as a low-cost exploratory project, the founding team, typically comprising Flagship's entrepreneurs and leading academics, iterates the business model assumptions and validates the product, opportunity and strategy in order to lay the foundations for a market-disruptive company. At the same time, a substantial intellectual property portfolio is secured by filing blocking patents and securing licenses needed to execute the business plan. The Flagship Labs team is typically able to take new ideas and form companies several years before more mainstream investors realize an emerging market opportunity is likely to be compelling.

Like its predecessor Life Science focused funds, Flagship Ventures Fund IV will predominantly invest in Health Care and Sustainability related opportunities. The Fund's investment program will develop a high quality portfolio comprising primarily of Flagship Labs companies, seed/early stage investments, and selective second round investments. The Fund will be deployed across three principle business segments: Therapeutics, Tools, Devices & Diagnostics and Renewable Energy/Cleantech.

The Firm's strategic investment focus is on innovations that enjoy significant intellectual property protection. By identifying specific markets and customers who can reward the innovator and by developing targeted products or services that can transfer the value of the innovation to the end-user, an entrepreneurial startup can create extraordinary shareholder value. Doing so requires assembling the right leadership team and executing a winning strategy, one that is often highly adaptive to the rapidly changing conditions within a transforming market. Another important element of a winning startup strategy is to efficiently deploy capital to reduce risk and demonstrate value early in the venture's life. These insights, garnered by Flagship's founders during the two decades they have each spent working with numerous new ventures, guide Flagship's investment practice.

In order to find suitable investment prospects within a crowded world of startups, Flagship Ventures relies on its extensive network of academics, entrepreneurs and technologists. The team also engages in proactive deal sourcing in targeted areas. While the initial investments may be as low as \$100K to \$1 million, during a new venture's lifecycle the Firm typically invests between \$7-12 million as part of a strong syndicate of co-investors and plays the role of lead or co-lead investor obtaining 20-30% equity ownership. Once invested, the Firm's partners engage actively in company-building through their role as board members and by deploying the Firm's network towards the company's particular needs. Investment returns are generated through M&A transactions or through sale of shares in a public company. The Firm targets exit enterprise values of \$200-500M and final ownership positions ranging from 10-20%. In the current environment, exits are expected within 4-6 years from initial investment. A typical portfolio of Flagship Ventures will comprise 25 companies of which three are expected to be written off, four to return invested cash, nine to return at the low end of return expectations, and nine to return at the high end.

To date, over 20 companies have been founded within Flagship Labs (see Appendix II). Notably, several of these companies represent the pioneering startup within highly attractive emerging market segments, for example: evolutionary algorithms, systems biology, synthetic biology, renewable biofuels, single molecule DNA detection, engineered protein therapeutics, nanotechnology for diagnostics, nanotechnology for drug delivery, and engineered essential nutrients. By being willing and able to engage in the entrepreneurial process directly, Flagship obtains strategic deal control and an enhanced ownership position as compared to merely investing. By limiting its initial investment amount and replacing dollars by active involvement, such ventures receive a highly rigorous diligence process of the sort that can only be conducted through direct participation in the company. This, in turn, enables a project to be discontinued at an early stage if it lacks merit, minimizing further cost and time expenditure. Finally, the Flagship Labs activities strongly complement the Firm's venture investment program by increasing deal flow and adding to our diligence capabilities and perspectives. By entering emerging markets segments early with an internally generated venture, Flagship is often in an advantaged position to learn of adjacent market needs and investment opportunities much earlier than others who wait for the segment to emerge and a crowd of investors to form.

Looking ahead, Flagship foresees continuing and, in fact, expanding opportunity to generate significant returns through its innovation-focused investment strategy. There are three macro-level trends that are driving "market-pull" for innovations at an accelerating pace: Health, Productivity, and Sustainability. In each, there is a convergence of major unmet needs, market inefficiencies, regulatory or government pressure, well-funded incumbent companies struggling to adapt, and increasing availability of capital as well as acquisition interest. At the same time, major technical advances emerging from academia are providing "technology-push" for innovations; specifically, Biotech and Medtech continue to offer new solutions within Health sectors, Infotech and Nanotech are impacting Productivity, while Energytech and Cleantech are impacting opportunities in the emerging markets of Sustainability. All of these factors combine to create unlimited opportunities for innovative startups as well as their venture backers.

Given these significant market needs and opportunities and using the aforementioned strategies for generating investment returns, Flagship competes effectively within the early stage life science investment community. A key to the firm's continuing success is its strong ecosystem. Flagship's partners have strong ties with most of the leading academic institutions that generate intellectual property within the life science and Renewable Energy/Cleantech. In addition, the firm has relationships with senior management across the pharmaceutical, diagnostic and tools companies that are likely partners and acquirers of portfolio companies. The current portfolio of ventures and their leadership represent a further strength as they are a conduit for new venture ideas as well as a source of validation for Flagship's impact as a startup's lead investor. Finally, having several current co-investments with most of the early stage venture capital firms, Flagship has an active national network from which to attract strong and compatible syndicates to back a promising new venture.

## Appendix I to Executive Summary

### Flagship Ventures Portfolio

Therapeutics	Tools/Devices/Diagnostics	Renewable Energy/ CleanTech
<b>FSV Fund I</b>     	   	
<b>FSV Fund II</b>     	   	  
<b>FSV Fund III</b>     	   	   

***Appendix II to Executive Summary***  
**22 Flagship-Created Ventures**

<b>Conception</b>	<b>Founding</b>
<b>Adnexus Therapeutics</b>	<b>Celexion</b>
<b>Affinova</b>	<b>Codon Devices</b>
<b>BG Medicine</b>	<b>Pervasis Therapeutics</b>
<b>Eleven Biotherapeutics</b>	<b>T2 Biosystems</b>
<b>engineOS</b>	
<b>Ensemble Discovery</b>	
<b>Epitome Biosystems</b>	
<b>Essentient</b>	
<b>Genstruct</b>	
<b>Helicos</b>	
<b>IntelliVid</b>	
<b>Joule Biotechnologies</b>	
<b>LS9</b>	
<b>NetEffect</b>	
<b>Newco LS15</b>	
<b>Newco LS17 / Midori</b>	
<b>Seventh Sense Biosystems</b>	
<b>Theracrine</b>	

# Genovation Capital



Performance (millions)										
<i>Fund</i>	<i>Vintage</i>	<i>Committed</i>	<i>Cost</i>	<i>Realized</i>	<i>Unrealized</i>	<i>Total</i>	<i>Multiple</i>	<i>Net IRR</i>	<i>Thomson Top Quartile</i>	<i>Thomson Medium</i>
Binder Track Record	1992	\$ 2.4	\$ 2.4	\$ 21.9	\$ -	\$ 21.9	9.13	104.80%	38.90%	13.70%
Bisceglia Track Record	1997	\$ 145.0	\$ 145.0	\$ 1,103.0	\$ -	\$ 1,133.0	7.81	126.50%	59.60%	20.00%
Fellows Track Record	2000	\$ 56.7	\$ 56.7	\$ 150.6	\$ -	\$ 150.6	2.66	789.30%	1.50%	-3.00%
<b>Total</b>		<b>\$ 204.1</b>	<b>\$ 204.1</b>	<b>\$ 1,275.5</b>	<b>\$ -</b>	<b>\$ 1,305.5</b>	<b>6.4</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

**K. EXECUTIVE SUMMARY**

**EXECUTIVE SUMMARY**

**Sector Expertise and A Top-Decile Track Record:** Genovation Capital, LLC is an emerging manager Venture Fund based in the Boston area, and invests in early stage companies that possess a large potential market opportunity at the intersection of the Communications, Media, and Internet sectors; areas in which the Team has deep experience and industry contacts.

The combined sector expertise of Jeffrey Binder, Vin Bisceglia and David Fellows rivals that found among the best in the venture capital industry. The past successes of the Team include a top decile venture and private equity track record, the successful creation and management of multiple early stage companies with both M&A and IPO exits, and positions in the most senior technical leadership roles in America's leading technology and media companies. Mr. Fellows was formerly division president at Scientific-Atlanta, co-founder and General Partner of Pilot House Ventures, the Chief Technology Officer of Continental Cablevision, MediaOne, ATT Broadband, and most recently of Comcast. Mr. Bisceglia was a former senior executive with National Semiconductor and Siemens, CEO of Technology Service Group (NASDAQ:TSGI), CEO of NEON Communications (NASDAQ:NEON) and most recently CEO of Broadbus Technologies. Mr. Binder was formerly founder and CEO of Magic Music, Inc., Partner at Ingenus, LLC, CEO of Leading Golf Courses of America, founder and President of Broadbus Technologies and most recently, GM of On-Demand Solutions and Senior Director of Strategy and Business Development for Motorola. The Managing Members have successfully worked together for almost a decade in a variety of roles including that of management team members, board members, investors, and as customers and vendors to one another.

**The Opportunity:** It is rare to find under one roof serial entrepreneurs that have created more than \$1 billion in value for investors, a top decile sector correlated venture track record, and the top technical leadership of America's largest technology companies. The Team believes that combining this breadth of experience with the focus of a modest sized fund, will lead to outsized returns with a lower overall risk profile. Despite the economic downturn, companies in the Fund's target areas have enjoyed significant exits and less downward pressure to revenue than peers in other sectors. Communication, Media, and Internet ("CMI") encompasses a myriad of vertical markets, however, the Fund expects to concentrate in the areas of collaboration, media and asset management, targeted advertising, fixed mobility, and data storage.

**Track Record:** Since the middle nineties, the Managing Members have been investing in early stage companies both as individuals and as investing principals in both private equity and venture capital funds. Mr. Fellows has a top decile venture track record among 2000 vintage funds, investing \$56 million in nine companies that returned just over \$150 million in one of the toughest M&A and IPO markets in history. Mr. Binder has a less traditional venture track record, investing and managing approximately \$2.4 million from 1990-2000 in

## Genovation Capital

eight early and late stage tech companies, returning \$22 million for investors. Mr. Bisceglia has created substantial returns for investors in his role as CEO in leading startups and public companies over the past 15 years, helping to generate more than \$1.1 Billion in returns for investors during his tenure. Most importantly, the investment and business success has not been concentrated in *one* company, with more than two-thirds of the Team's investments yielding a positive IRR. Companies such as Broadbus, BigBand Networks, Sightpath, NEON Communications, Technology Service Group, and Broadband Access Networks can be counted among the successes of the Team, which includes four IPO's, eight M&A transactions, and four stock sales.

### **COMPETITIVE ADVANTAGE**

The Team is building a scalable, world-class venture firm, focused on formulaic innovation generation in sectors where it has an intimate understanding and real operating experience. Investing should not be based just on intuition, but rather a transferable process that can be used to grow the franchise. This repeatable process of invention and execution is a cultural element employed within the firm and will result in a greater number of "best of breed" companies.

**Market Opportunity and Trends - CMI:** The past 15 years have seen an amazing set of transformations that we now take for granted in our daily lives. The ubiquitous use of email, Internet, and digital television are all services that only the earliest of adopters utilized little more than a decade ago. Yet despite these advances, most of the companies that have emerged utilize revenue generation techniques that are based upon decades-old business models. In this sense, the Managing Members believe that many more existing behaviors will be brought into the 21<sup>st</sup> century using new technologies we can already blueprint. It is this vision of the future of CMI that gives the Managing Members a great investment advantage.

**Operational Experience:** One of the hallmark competitive advantages of the Fund lies in the wealth of operational experience of the Managing Members. The lessons learned from recent adverse market cycles, such as those experienced over the last decade, indicated that the venture industry as a whole was ill-equipped to deal with the operational issues associated with downward-market cycles. The Team believes significant operational skills necessary to perform "triage" and maximize outcomes in less than ideal markets are an important part of the investor's arsenal. A revolving door for CEOs and management teams does not need to be the only method employed in times of distress, as it often leads to less than desired outcomes. Being able to look beyond management into the markets, technology and trends, leads to better, more focused, decision making. The Team believes that its operating experience allows it to see the bright line between governance and operations, and provide the portfolio companies with the breathing room they need to perform. The Managing Members' previous operating experience allows it to build a governance and support plan as part of the investment process.

**Market Intelligence:** Collectively, the Team has one of the broadest and deepest personal networks in the CMI sector. They have an extensive range of experience and a network of

## Genovation Capital

contacts that allow them to judge the future success of a venture from a better vantage point than would otherwise be the case. Their ability to correctly assess market timing has been proven over and over both as investors and entrepreneurs. Senior technical members of nearly all of the leading service providers have worked closely with at least one member of the Team and these relationships help them to determine the viability of many ideas from a customer perspective. The Team has worked, over the course of their careers as suppliers, customers, investors, and as board members – giving them superior first hand experience in all aspects of a typical value chain. This background and experience allows the General Partner to consider - is this a point solution, or a system solution? Is this a fad or the next break through? In other words, does this solve all of the problem, or only part of the problem? Is this a feature or a product? Can this stand alone, or should it/will it be part of another company's range of product offerings?

**Fund Deal Flow:** After almost two decades as operators and investors in the industries being targeted by the Fund for investment, the Managing Members have developed their own set of channels for new idea generation. These channels include in-house deal generation, long-standing relationships with top entrepreneurs and leaders in the CMI sectors, and a network of strategic investors with both spin-in and spinout opportunities.

**Extensive Co-Investor Network:** With a combined experience in technology businesses spanning more than three decades, the Team's relationships with co-investors extend far and wide. These relationships include many of the nation's leading service providers, many of the nation's leading tech companies, and importantly a number of the leading venture capital funds in New England and Silicon Valley. Mr. Fellows, during his tenure with Pilot House, co-invested with Charles River Ventures, Redpoint Ventures, Greylock, Cisco, Motorola, AOL/Time Warner, and Highland Capital. General Partners at top funds have invested in companies run by the Managing Members with successful outcomes, including those at Battery Ventures, Charles River Ventures, Comcast Interactive Ventures, Matrix Partners, and North Bridge Venture Partners.

**Liquidity and Optimizing Returns:** The issue and process of liquidity must be an active component throughout the life cycle of an investment for *both* management and investors. Experience has shown that exit opportunities are best achieved through *active* guidance and positioning by management and directors, rather than simply "presiding" over a *passive* process that is often the norm. This differentiated approach will yield significantly better returns for our investors. The stark reality is that even among the very best venture funds, only a select few "rocket ships" ever achieve an IPO. The remaining companies in a portfolio are what can be called the "vast middle class". For this vast middle class, only two options exist: liquidation or M&A. Early creation of an "exit eco-system" is a hallmark of the Genovation approach. Building early relationships and rapport with potential acquirers creates a fertile environment when and if a company chooses the M&A route. Companies prefer to buy companies that have teams they know and trust, and products that have demonstrated success despite competitive threats. Exit eco-systems lead to more serious bidders and higher valuations. Without these eco-systems, many companies might otherwise fail when acquisition is the only viable option.



ETI RFP Interview Finalist Matrix

Manager	Tremont Realty Capital	Flagship Ventures	Genovation Capital
Asset Class	Real Estate	Venture Capital	Venture Capital
HQ Location	Boston, MA	Cambridge, MA	Beverly, MA
Product Name	Opportunistic Real Estate Debt Fund	Flagship Ventures Fund IV	Genovation Capital, LP
Product Inception	2004	New Offering 2010	Feb-08
Organizational Notes	Tremont was formed in 2000 as an investment banking intermediary and lending firm. The investment management group was created in 2003 and started managing the strategy in 2004. The firm is 100% employee owned, with the founder Gallitto and Mee representing 65%. The firm employees 18 people: 3 PM's, 2 Research Analysts, 7 in Marketing, 3 Admins, 2 Client Service and 1 General Counsel	Flagship was formed in 1999 to make early-stage venture capital investments in life science and clean technology companies. The firm Flagship Ventures Management, Inc. is owned equally by Noubar Afeyan and Edwin Kania. The General Partner of the proposed fund will be Flagship Ventures Fund IV General Partner and will be owned by the principals of the firm.	Genovation Capital is a fund in formation. The General Partnership was formed in February 2008. The partnership's term shall commence with the filing of the certificate of limited partnership and will continue until 10 years from the fee commencement date. The fund is owned equally by the Managing Directors Jeff Binder, Vin Bisceglia, and David Fellows.
Total AUM (\$millions)	\$210M	\$603 M	\$0
Total AUM in Subject Product/ Target Fund Amount	\$163M	\$300-350 M	\$120M
# of Separate Accts (US Tax-Exempt)	2	N/a	N/a
# of Professionals in Product	18	29	8
Head PM (Location)	Doug Lanois - CFO/Portfolio Manager Steven Skelley - Assistant PM Ryan Weinberg - Assistant PM	Dr. Noubar Afeyan - Managing Partner/CEO Edwin Kania - Managing Partner/Chairman Dr. Doug Cole - General Partner Jim Matheson - General Partner Harry Wilcox - CFO & Partner	Jeff Binder - General Partner Vin Bisceglia - General Partner David Fellows - General Partner
Economic Impact	Tremont's fund will target subordinated real estate debt investments. Due to significant shift in the markets, senior lenders no longer provide leverage to 80-85% of the capital stack. They are now lending to more traditional levels of 50-70%. This has created additional demand for "gap capital", including subordinated debt. Tremont has indicated at least 50% would be invested in Massachusetts with economic benefits that include a higher real estate tax base, enhanced local commerce and increased sales taxes from operations. Tremont believes jobs will be created in the areas of property management, maintenance, construction, and professional services.	Flagship believes "There is a widely documented shortage, both in Massachusetts and nationally, of venture investment funds for early stage and emerging life science companies. The resulting "capital gap" is not solely financial, but a gap in the combination of experiential and intellectual capital coming alongside the financial capital. Flagship's investment strategy takes advantage of this gap by identifying opportunities to deploy capital at attractive valuations in high potential, early stage life science companies, participating deeply in the company development process, and generating significant returns as well as important value to society. Further, the Firm has a unique venture creation Unit, Flagship Labs, with a model and capability wherein the principals engage in conceptualizing and forming new companies.	Genovation believes Massachusetts is currently suffering from a significant "capital gap" in early stage technology venture investing. Many of the historically active firms in this sector have moved up market to later stage larger companies in an effort to reduce risk and place much larger capital pools to work. As a result, the greatest jobs creation engine, early stage startups, is lagging here in Massachusetts. Genovation will be investing in early stage technology companies and estimates that the five-year job creation potential for the Massachusetts area could be as high as 1,000 jobs.
Strategy Highlights	The fund will employ a value added strategy of investing in subordinated debt that have characteristics of fixed income and real estate assets. (Includes: newly originated mezzanine debt, B-notes and preferred equity investments). Tremont will concentrate in multifamily, office, industrial and retail properties in in-fill positions with strong demographics. The fund will not invest in securitized pools, such as CMBS. No investment will exceed 15% of committed equity.	Flagship commonly allocated 70-80% of capital to life science investments including measurement tools/diagnostics. The firm is extending its strategy to include renewable energy, biocomputing and nanomaterials.	The fund will be focused in the Communications, Media, and Internet Sector. The objective is to build a scalable, world-class venture firm focused on formulaic innovation generation in sectors where it has an intimate understanding, and real operating experience. They believe investing should not be based just on intuition, but rather a transferable process that can be used to grow the franchise. This repeatable process of invention and execution is a cultural element employed within the firm and will result in a number of "best of breed" companies, such that predictable returns can be achieved over long periods of time without the traditional ups and downs from fund to fund, and partner to partner.
Additional Info		PRIM is invested in Flagship 2004 & 2007 through its ETI Program	
Optimal Fund Size	Proposing \$25-75 Million Fund	Looking for a \$30-40 Million Commitment from PRIM	Expecting avg. \$10M per limited partner
Suggested Benchmark	80%Value Add NCREIF/ 20% Prime Interest Rate 450 bps	N/a	N/a
Fees in Bps - Sep Acct	Management Fee: 1.5% Performance Fee: 20% after investor receives 100% Capital and 10% preferred rate of return	Management Fee: 2.5% Performance Fee: Unknown at this time	Management Fee: 2.5% Performance Fee: 20% after 100% of capital is returned to investor.

## Memorandum

To: PRIM Investment Staff

From: Ryan Foscaldo

Date: 06 April 2010

Re: Flagship Ventures

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### Organization:

Flagship Ventures was formed in 1999 to make early-stage venture capital investments in life science and clean technology companies. Flagship Ventures is seeking \$300 million in capital commitments for its 2010 Fund. PRIM has invested in Flagship 2004 Fund (\$10 million commitment) and Flagship 2007 Fund (\$20 million commitment).

The key investment Principals of the prior funds have worked together since 2001 and average 14+ years of venture investing experience. Flagship's investment committee comprises its two Managing Partners, Dr. Afeyan and Mr. Kania, two General Partners, Dr. Cole and Mr. Matheson, and Mr. Wilcox who is a Partner and also CFO. Dr. Cole and Mr. Matheson joined the firm in 2001 and 2000 respectively. Mr. Wilcox joined the firm in 2006. Dr. David Berry (Partner) and Geoff Whitehead and Ann Dewitt (Senior Associates) also participate in the investment program with additional support from five highly experienced professionals (4 PhDs and a JD) who work within Flagship Venture Labs.

### Strategy:

Flagship makes early-stage venture capital investments in life science and clean technology companies. The firm typically invests \$100k to \$500k in new ventures, deploying \$7 million to \$12 million across the life of an investment. The firm takes a lead or co-lead role in deals where they can acquire 20-30% of ownership. Flagship commonly allocates 70-80% of capital to life science investments including measurement tools/diagnostics, life science platforms or therapeutics, with the largest concentration in therapeutics. The firm is extending its strategy to include renewable energy, biocomputing and nanomaterials.

### Investment in Massachusetts:

Flagship believes that there is a wide shortage, both in Massachusetts and nationally, of venture investment funds for early stage and emerging life science companies. The resulting "capital gap" is not solely financial, but a gap in the combination of experiential and intellectual capital coming alongside the financial capital. Flagship believes its investment strategy takes advantage of this gap by identifying opportunities to deploy capital at attractive valuations in high potential, early stage life science companies, participating deeply in the company development process, and generating significant returns as well as important value to society. Further, Flagship believes that it has a unique venture creation unit, Flagship Labs, with a model and capability wherein the principals engage in conceptualizing and forming new companies. The people who staff this unit are highly educated in the life sciences and all have relevant experience starting and growing companies. They are supported by a team whose experience in building companies through the stage when they are taken public is clearly demonstrated. Members of the investment team, who provide advice and in some cases board membership to Flagship Labs

companies, have been CEO's, CFO's and senior members of large public companies in the relevant industries. This allows innovations that would otherwise not be commercialized effectively, to become the foundations of new enterprises that provide jobs in Massachusetts while competing successfully in international markets.

#### Investment Performance:

Performance (millions)										
<i>Fund</i>	<i>Vintage</i>	<i>Committed</i>	<i>Cost</i>	<i>Realized</i>	<i>Unrealized</i>	<i>Total</i>	<i>Multiple</i>	<i>Net IRR</i>	<i>Thomson Top Quartile</i>	<i>Thomson Median</i>
NewcoGen Funds	2000	\$61.5	\$61.5	\$15.2	\$63.7	\$78.9	1.28	2.90%	1.90%	-3.00%
Applied Genomic Technology Cap	2000	\$146.8	\$146.8	\$105.0	\$86.3	\$191.3	1.30	5.30%	1.90%	-3.00%
Flagship 2004	2004	\$151.5	\$139.8	\$0.0	\$141.0	\$141.0	1.01	0.30%	5.50%	-1.70%
Flagship 2007	2007	\$234.8	\$86.4	\$0.0	\$101.4	\$101.4	1.17	17.56%	3.00%	-12.80%
<b>TOTAL</b>		<b>\$594.5</b>	<b>\$434.4</b>	<b>\$120.2</b>	<b>\$392.5</b>	<b>\$512.7</b>	<b>1.18</b>	<b>5.80%</b>	<b>3.3%</b>	<b>-4.5%</b>

The Principals of Flagship invested in 16 companies through NewcoGen Funds with a cost basis of \$61.5 million and a total value of \$78.9 million (1.28x). This fund generated a Net IRR of 2.9%. On a multiple and IRR basis, this fund is a top quartile performer for its vintage year, 2000. Again, in 2000, the Principals made an additional 19 investments (some crossovers with NewcoGen) with a cost basis of \$146.8 million and a total value of \$191.3 million (1.3x). This fund generated a Net IRR of 5.3%. On a multiple and IRR basis, this fund is a top quartile performer for its vintage year, 2000.

In 2004, the Principals raised and began to invest Flagship Ventures 2004. This fund has invested in 20 companies with a cost basis of \$139.8 million and a total value of \$141 million (1.01x). This fund has generated a Net IRR of 0.3% versus a top quartile benchmark of 5.5% for its vintage year, 2004. Although it is too early to gauge the performance of this fund, it is performing in the second quartile. In 2007, the Principals raised and began to invest Flagship Ventures 2007. This fund has invested in 18 companies (some crossovers with the 2004 fund) with a cost basis of \$86.4 million and a total value of \$101.4 million (1.17x). This fund has generated a Net IRR of 17.56% versus a top quartile benchmark of 3.0% for its vintage year, 2007. Although it is too early to gauge the performance of this fund, it is performing in the top quartile and is well ahead of its peers.

#### Issues:

- 1) Development/structure of the Firm and emerging contributors;
- 2) Capacity of Principals;
- 3) Expansion of investment strategy and competitive advantage within renewable energy, biocomputing and nanomaterials;
- 4) Performance of 2004 Fund and 2007 Fund and liquidity outlook;
- 5) Value creation within portfolio companies; and
- 6) Investment pace and ability to put capital to work.

## Memorandum

To: PRIM Investment Staff; Michael Travaglini, Karen Gershman; David Gurtz

From: Ryan Foscaldo

Date: 06 April 2010

Re: Genovation Capital LLC

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### Organization:

Genovation Capital LLC is raising a first generation fund to make early stage, venture capital, investments in the communication, media and internet space. Genovation Capital is seeking \$100 million in capital commitments for this fund.

The Firm is managed by three General Partners: Jeff Binder, Vin Bisceglia and David Fellows.

Jeffrey Binder was most recently a senior executive with Motorola, serving as Senior Director Strategy and M&A and GM of its On-Demand Solutions group. In addition to day-to-day operations of the 150+ person On-Demand Solutions group, with offices in the US, Europe and Asia, Mr. Binder spearheaded several initiatives within the office of the CEO, as well as driving the company's worldwide on-demand video business and M&A strategy.

Vin Bisceglia most recently served as Chairman and CEO of Broadbus Technologies from 2004 to 2006. As CEO, Mr. Bisceglia drove the company to a near \$200 million exit, outperforming the valuation of every public and private company in the sector including previous market leader SeaChange.

David Fellows was most recently Chief Technology Officer of Comcast where he was responsible for the company's centralized operations (Network Operations Centers), a \$6 billion annual capital budget and creating the infrastructure that delivers television, broadband and voice (the Triple Play) to more than 25 million Americans. As CTO of ATT Broadband, he was intimately involved in the merger with Comcast in 2002. Prior to Comcast, Mr. Fellows was a co-founder and General Partner with Pilot House Ventures. Mr. Fellows led nine of the investments during the three years from 1999 through 2001, investing more than \$50 million. Mr. Fellows served on three boards during his time at Pilot House and has remained active with most of his portfolio companies through liquidity. His companies had five exits to acquirers that included Cisco and Juniper, along with one IPO.

### Strategy:

The Team's objective is to build a scalable, world-class venture firm, focused on formulaic innovation generation in sectors where it has an intimate understanding, and real operating experience. They believe that investing should not be based just on intuition, but rather a transferable process that can be used to grow the franchise. This repeatable process of invention and execution is a cultural element employed within the firm and will result in a number of "best of breed" companies, such that predictable returns can be achieved over long periods of time without the traditional ups and downs from fund to fund, and partner to partner. By leveraging the Team's networks, deal flow, and employing first mover advantage techniques, the firm believes that it can establish a new plateau of growth to realize outsized returns for its investors.

The Fund expects to invest between \$3 million to \$12 million in individual portfolio companies (but never more than 10% of the fund) over their life, with initial investments ranging from \$1 million to \$5 million. Pre-money valuation targets will range from \$1million to \$15 million for traditional Series A rounds, and the Fund will look to its extensive co-investor network as pre-money values and opportunity dictate the need for a larger syndicate. The Fund expects that as many as 75% of its investments will be syndicated, and they claim to have strong, established relationships with several top venture firms that are eager to work with the General Partner.

#### Investment in Massachusetts:

Two of the firm's principals, David Fellows and Vin Bisceglia, are lifelong residents of the Commonwealth. The firm is committed to the geographic region of New England, representing up to 70% of its investment capital, with the predominance of the fund's investments in Massachusetts. More than half of the value of the historical aggregated individual investments by these partners has been in the Commonwealth.

The Firm believes that Massachusetts is currently suffering from a significant "capital gap" in early stage technology venture investing. Many of the historically active firms in this sector have moved up market to later stage larger companies in an effort to reduce risk and place much larger capital pools to work. As a result, the greatest jobs creation engine, which they believe to be early stage startups, is lagging in Massachusetts. Genovation will be investing in early stage technology companies and estimates that the five-year job creation potential for the Massachusetts area could be as high as 1,000 jobs.

#### Investment Performance:

Performance (millions)										
<i>Fund</i>	<i>Vintage</i>	<i>Committed</i>	<i>Cost</i>	<i>Realized</i>	<i>Unrealized</i>	<i>Total</i>	<i>Multiple</i>	<i>Net IRR</i>	<i>Thomson Top Quartile</i>	<i>Thomson Median</i>
Binder Track Record	1992	\$2.4	\$2.4	\$21.9	\$0.0	\$21.9	9.13	104.80%	38.90%	13.70%
Bisceglia Track Record	1997	\$145.0	\$145.0	\$1,103.0	\$0.0	\$1,103.0	7.61	126.50%	59.60%	20.00%
Fellows Track Record	2000	\$56.7	\$56.7	\$150.6	\$0.0	\$150.6	2.66	789.30%	1.90%	-3.00%
<b>TOTAL</b>		<b>\$204.1</b>	<b>\$204.1</b>	<b>\$1,275.5</b>	<b>\$0.0</b>	<b>\$1,275.5</b>	<b>6.25</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

The track record provided were aggregate track records for the individual General Partners. Please note that the investments that comprise the respective track records of the General Partners were made in the "boom" era for venture capital.

Binder's track record represents eight investments (none of which were MA-based) with a cost basis of \$2.4 million and a total value of \$21.9 million. One deal was written off and the remaining investments generated strong returns. Five of the eight investments represent early stage investments, while three represent later stage investments.

Bisceglia's track record represents three investments (two of which were MA-based) with a cost basis of \$145 million and a total value of \$1.1 billion. Two deals were early stage investments and one deal was an expansion investment. The track record is driven by one deal where he was CEO and Chairman of the Board. This deal was NEON Communications, which had a cost basis of \$96 million and a total value of \$912 million (9.5x).

Fellow's track record represents nine investments (five of which were MA-based) with a cost basis of \$56.7 million and a total value of \$150.6 million. Two deals were written off (both early stage) and the remaining investments generated strong returns. Six of the nine investments represent early stage investments, while three represent seed investments. His track record is primarily driven by three deals (two early stage and one seed): Sightpath (18.1x), Broadband Access Systems (12.3x) and BigBand (3.0x).

**Issues:**

- 1) Development/structure of the Firm;
- 2) Development of investment strategy and competitive advantage;
- 3) Ability to source proprietary deal flow;
- 4) Investment pace and ability to put capital to work; and
- 5) Ability to raise \$100 million fund.

**Attachment F – Evaluation and Recommendation of Submitted Proposals**

**Public Markets  
ETI Proposal  
Evaluation and Recommendation**



## **Public Markets ETI Submission**

**Name of Firm:** Massachusetts Community Development Finance Corporation  
**Product Structure:** \$15 Million loan by PRIM  
**Fund Size:** Not a fund, requesting \$15 Million Loan  
**Strategy:** Finance the working capital needs of small businesses in Massachusetts

### **Organization**

CDFC is a quasi-public instrumentality of the Commonwealth of Massachusetts. It is dedicated to utilizing its assets to generate public benefit in new economic activity and good quality jobs. CDFC provides flexible, primary subordinate financing to businesses that lack access to capital.

### **Description of Strategy**

CDFC is requesting a \$15 million loan paying 4% interest for an 8 year term with interest only payments during the first three years. CDFC will use the loan to finance small businesses in Massachusetts that are unable to obtain any or sufficient conventional financing. It has and will make loans to restaurants, manufacturing companies, remedial environmental companies and other types of businesses in minority or low income communities.

### **Recommendation**

While the CDFC does have and provide an ETI focus, specifically to Massachusetts, it does not meet the minimum criteria set forth in the RFP. The firm and proposal do not meet the following criteria:

- 1. The proposing firm must demonstrate that their investments will not exceed a reasonable weighting in the portfolio, including tracking the degree of exposure to the Massachusetts economy and ensuring appropriate geographic diversification. The firm must demonstrate that the investments will maintain the overall portfolio's compliance with its asset allocation strategy.*

The proposal is asking for a loan from PRIM, and as such, is not a portfolio nor does it have an asset allocation strategy. While CDFC is making loans to small businesses, PRIM would not be invested in a portfolio of loans, rather one \$15 million loan that would receive interest over an 8 year period.

- 2. The proposing firm must demonstrate that their firm is an experienced, capable, and qualified discretionary investment manager.*

The proposing firm is not an investment manager, and states in its submitted RFP that it is not an investment manager.

3. *The proposing firm must be SEC-registered or exempt from registration with the nature of the exemption provided. The firm must submit its full Form ADV (Parts I and II).*

The proposing firm is not an investment manager, and as such is not SEC-registered nor does it have an exemption from the SEC.

As a result of CDFC not meeting the criteria set forth above, PRIM did not move forward with evaluating the proposal.

**Real Estate  
ETI Proposal  
Evaluation & Recommendation**

## **Real Estate ETI Submission**

**Name of Firm:** Tremont Realty Capital, LLC (“Tremont”)  
**Product Structure:** Fund / Separate Account  
**Fund Size:** \$25 – 75 million  
**Strategy:** Invest in subordinated real estate debt (Private Debt).

### **Organization/Investment Team**

Tremont was formed in 2000 as an investment banking intermediary and lending firm. The investment management group was created in 2003 and started managing the strategy in 2004. The firm is 100% employee owned with 65% of the ownership held by the two founders (Daniel Mee and Richard Gallitto). Tremont currently has 18 employees and six offices across the U.S. Total AUM is \$210 million including investments by New England Teamsters Pension Fund, Guggenheim Partners and the Boylston Investment Fund (England).

The investment team consists of seven people:

Daniel Mee, Investment Committee  
Richard Gallitto, Investment Committee  
Doug Lanois, Portfolio Manager & Investment Committee  
Steven Skelley, Assistant Portfolio Manager  
Ryan Weinberg, Assistant Portfolio Manager  
Jared Lewis, Director of Underwriting  
Brandon Beatty, Underwriter

The three members of the Investment Committee are responsible for all investment decisions.

### **Description of Strategy**

The fund will employ a value-added strategy of investing in subordinated debt that have characteristics of fixed income and real estate assets, e.g. newly originated mezzanine debt, B-notes and preferred equity investments. Tremont will concentrate in multifamily, office, industrial and retail properties in in-fill positions with strong demographics. The fund will not invest in any securitized pools, such as CMBS. No investment will exceed 15% of committed equity. The management fee is 1.50%. An incentive fee of 20% will be earned after 100% of invested capital is returned with a 10% preferred return. The target net IRR is 16-22%.

### **ETI Focus**

Tremont’s theory is that senior lenders are less willing to provide leverage up to 80-85% of a capital stack and are lending in the 50-70% range. This has created additional demand for “gap capital”, including subordinated debt. At least 50% of the investments will be in Massachusetts real estate projects. The economic benefits include a higher real estate tax base, enhanced local commerce and increased sales taxes from operations. Tremont believes that jobs will be created in the areas of property management, maintenance, construction and professional services.

## **Performance**

Tremont has established funds for single entities and individuals. Fund I is a sub managed investment for an open end fund focused on mezzanine debt. Fund II is for a high net worth investor with equity investments in RV parks. Fund III is on behalf of a hedge fund and invested in high yield first mortgages, including senior loans and B-Notes. Fund IV is on behalf of a Taft Hartley plan and focused on bridge loans using B-Notes and mezzanine.

<b>Fund Name</b>	<b>Rolling 1-year</b>	<b>Rolling 3-year</b>	<b>Rolling 5-year</b>	<b>Historical</b>	<b>IRR</b>	<b>Inception</b>	<b>NAV 12-31-09</b>
Fund I	14.9%	22.2%	50.6%	54.8%	8.86%	2004	\$ 32,709,163
Fund III	-28.5%	-43.4%	18.8%	18.8%	10.19%	2004	\$ 3,601,357
Fund IV	-15.2%	0.4%	NA	1.07%	-5.24%	2006	\$ 98,913,245

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<b>Fund Name</b>	<b>Capital Commitment</b>	<b>Equity Invested</b>	<b>Investment Capitalization</b>	<b>Net Proceeds</b>
Fund I	\$ 53,685,526	\$ 36,699,575	\$ 315,186,025	\$ 36,698,503
Fund II	\$ 9,889,390	\$ -	\$ 74,139,204	\$ 15,641,590
Fund III	\$ 51,601,200	\$ 9,016,700	\$ 5,735,601	\$ 45,934,889
Fund IV	\$ 120,000,000	\$ 119,829,035	\$ 154,231,124	\$ 35,481,744

## **Real Estate ETI Submission**

**Name of Firm:** Wellesley Advisors  
**Product/Structure:** 1921 Realty, Inc., closed end preferred units  
**Fund Size:** \$100 - 130 million  
**Strategy:** Hybrid real estate (debt and equity)

### **Organization/Investment Team**

Wellesley Advisors is a 100% family owned Real Estate Operating Company established in 2002. As of year-end 2009, AUM was approximately \$275 million. The investment team consists of two portfolio managers and two research analysts. The portfolio managers are Robert Buonato, Managing Director and Thomas Zaccagnino, Managing Director. Wellesley's existing clients include Pipefitters Local 537, IBEW 103, and the Plymouth County Retirement System.

### **Description of Strategy**

1921 Realty, Inc. invests as a feeder fund into the 1921 Fund, LLC. The fund holds redeemable preferred units that are closed-end investments for seven years. The fund will focus on hybrid strategies in which they will acquire properties via equity investments and provide debt and equity-lending to entrepreneurs for real estate projects. The equity investments will include a variety of property types including apartments, industrial, mixed-use, retail, office, land, recreational and resort, and storage. Wellesley will also invest in commercial loans, including originating loans. Their geographic focus will be the northeast, but have discretion to invest outside the region on an exception basis. The management fee is 2.00% and profits will be split 80/20 up to a 15% return and 75/25 in excess of 15%.

### **ETI Focus**

Wellesley believes a funding gap exists due to tighter underwriting standards by banks and is positioned to provide funding to mid-sized borrowers (\$2 – 8 million).

### **Performance**

<b>1921 Realty, Inc</b>										
4Q 2009	3Q 2009	2Q 2009	1Q 2009	4Q 2008	3Q 2008	2Q 2008	1Q 2008	4Q 2007	3Q 2007	2Q 2007
1.81%	1.75%	1.82%	1.82%	1.48%	1.81%	1.79%	1.96%	1.95%	2.06%	1.70%

## **Real Estate ETI Submission**

**Name of Firm:** Paradigm Capital Advisors  
**Product/Structure:** APCA Property Fund II, LP  
**Fund Size:** \$100 million  
**Strategy:** Value-added real estate equity (17-20% IRR target)

### **Organization/Investment Team**

Total firm AUM is \$106 million with \$17 million being classified as institutional. The firm has no tax exempt investor clients. Fund II will have a team of 10 investment professionals. Kevin McCall will serve as Portfolio Manager. Kevin founded the company in 1997. He was previously a managing director at AEW Partners where he oversaw a \$5 billion investment and asset management operation. Kevin also oversees Fund I. Paradigm provided Linda Assante, formerly of The Townsend Group, and now at Oak Hill Investment Management as a reference. Staff has reached out to Linda but has not heard back.

### **Description of Strategy**

Paradigm believes that the current market will provide a wide range of real estate opportunities due to lack of and higher cost of available debt financing, weakened fundamentals, and higher required cap rates. They believe that in the short term, there will be significant opportunities to buy distressed properties or buy stabilized properties from distressed owners at low cost basis. In the next part of the upcoming cycle, they also expect a number of acquisition opportunities in properties that are undervalued and require management execution. Paradigm has traditionally focused on Class B industrial properties but will look at all property types in this fund. Use of leverage was not 100% clear but Paradigm used significant (greater than 50%) leverage in Fund I. Asset management fees are 150 bps. Performance fees are 20% of proceeds after a 10% IRR (no catch up).

### **ETI Focus**

Based on Paradigm's local presence and experience in Massachusetts, they appear committed to and qualified to invest in the Commonwealth. They also appear to have some experience investing in geographies that may be experiencing gaps in available capital. One example they provided was an investment in the Marine Industrial Park in South Boston. Paradigm completed a ground up development in partnership with the Massachusetts Port Authority. This investment has unrealized equity appreciation of 12%.

### **Performance**

Paradigm has made twelve investments in Fund I. Seven were in Massachusetts. The first investment was made in June 2006. The Fund has completed one disposition for a 16% IRR. Paradigm as a firm made 14 other investments from 1997 (firm inception) to 2001. 13 of these were in Massachusetts. Initial invested equity was \$81.6 million. The realized return was 21.39%.

## **Real Estate ETI Recommendations**

### **Tremont Realty**

Tremont Realty was invited to interview with the search committee based on their experience in real estate debt management and investment banking. They possess a strong and experienced investment team and have demonstrated expertise within the proposed investment strategy. However, they possess little experience managing institutional accounts and their performance history for the proposed strategy is difficult to quantify and limited. Furthermore, due to poor performance and economic uncertainty, the value-added real estate program was halted in 2008 until real estate markets recover and stabilize. Accordingly, staff does not recommend engaging Tremont for the ETI program.

### **Wellesley Advisors**

The benefits of the fund in filling a capital gap and providing an economic benefit e.g. job creation are not clear. Staff does not recommend investment in the 1921 Realty, Inc. for the ETI program.

### **Paradigm Capital Advisors**

Paradigm has strong management and investment experience in Kevin McCall and appears to have a relatively short but successful track record of making commercial real estate investments in Massachusetts. While Paradigm appears to have a genuine interest in making “double bottom line” investments, it is unclear how Fund II’s strategy will translate into economic and/or social benefits in terms of job growth, new housing, or environmental impact. The strategy and firm specialization seems to focus on existing, commercial (non-residential) industrial buildings. Staff also has concerns over Paradigm’s small AUM, short track record and lack of institutional client base. Finally, as previously mentioned, PRIM halted investing in value-added strategies for the foreseeable future. Therefore, staff does not recommend that Paradigm be interviewed or move further in this year’s RFP process.



**Private Equity  
ETI Proposal  
Evaluation & Recommendation**

## Public Finance Strategies, LLC

<b>Target Fund Size</b>	\$120 million
<b>Stage</b>	n/a

<b>Sector</b>	Infrastructure
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### Strategy

Public Revenue Enhancement Fund, L.P. (the “Fund”) invests in parking-related assets owned by municipalities, including both parking meter systems and parking and moving violations that are overdue. By bringing private sector technology and management skills to those assets, Public Revenue Enhancement Fund accomplishes two things: 1) it enhances revenue sources for the municipality by maximizing the value of assets that the municipality already owns; and 2) it provides above-market rate returns for Public Revenue Enhancement Fund’s investors by bringing needed private resources to extract value from municipal assets.

### MA Investments

Public Revenue Enhancement Fund, L.P. will target the large capital gap facing virtually every municipality in the Commonwealth of Massachusetts, a gap that represents a significantly underserved investment market. Municipalities have valuable assets that may include unpaid parking violations, unpaid moving violations and the right to charge for on-street, off-street and garage parking. While valuable, these municipal assets often go unexploited because municipalities on their own are unable to readily apply state-of-the-art technology and best market practices in order to maximize the value of these assets. Without private sector involvement, these assets often fall short of their potential to provide vital revenue to municipalities.

### General Partners/ Key Management Team

Public Revenue Enhancement Fund, L.P. will be managed by Public Revenue Enhancement Partners, LLC, a joint venture between Public Finance Strategies, LLC, Kendall Investments, LLC and Pinckney Financial, Inc.

Public Finance Strategies, LLC is an experienced investor in municipal revenue enhancement programs. It currently manages violations collections programs in Providence, RI and Nassau County, NY. Kendall Investments, LLC and Pinckney Financial Services, Inc. will support Public Finance Strategies. Kendall manages the Private Equity Access Fund (“PEAF”) program, a discretionary private equity fund-of-funds investment program that was founded in 2000.

The PEAF program has deployed capital across three funds, PEAF I, PEAF II and PEAF III. These funds have invested in leading private equity opportunities worldwide. Since inception, the PEAF funds have generated significant investment returns, provided detailed investment information to investors, and have been audited annually by Ernst & Young, LLP. Pinckney Financial Services, Inc. raises and manages cash and cash-related products for municipalities in Massachusetts and nationwide.

Performance (millions)										
<i>Fund</i>	<i>Vintage</i>	<i>Committed</i>	<i>Cost</i>	<i>Realized</i>	<i>Unrealized</i>	<i>Total</i>	<i>Multiple</i>	<i>Net IRR</i>	<i>Thomson Top Quintile</i>	<i>Thomson Median</i>
Providence I	2006	\$170	\$15	\$18	\$130	\$148	9.87	25.00%	-4.00%	-8.40%
Providence II	2008	\$230	\$20	\$19	\$200	\$219	10.95	23.00%	-2.70%	-13.80%
Nassau County	2009	\$300	\$90	\$00	\$300	\$300	3.33	23.00%	n/a	n/a
<b>TOTAL</b>		<b>\$700</b>	<b>\$125</b>	<b>\$37</b>	<b>\$630</b>	<b>\$667</b>	<b>5.34</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

### Performance Comments:

Detailed performance of the underlying assets within each “fund” was not offered. The “committed” amount reflects the dollar amount of the assets purchased. The “cost” reflects the amount invested in these assets and the “unrealized value” reflects the current value of these assets. This being the case, the valuations seem to be inflated and reflect receiving back 100 cents on the dollar.

## Constitution Capital Partners

<b>Target Fund Size</b>	\$100 million
<b>Stage</b>	Middle Market Buyout – North America

<b>Sector</b>	Generalist
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<b>Strategy</b>	<p>Constitution Capital Partners (“CCP”) is a private equity firm focused on middle market buyouts in North America. CCP invests in this space through two investment types: fund of funds investments and co-investments.</p> <p>For CCP’s fund of funds strategy, CCP invests in underlying fund managers that will then invest in portfolio companies. The manager will liquidate the underlying portfolio companies and distribute the proceeds to Ironsides II (their fund of funds product). With a four to five year investment period and a four to five year hold period, they expect to see exits from the underlying fund managers in year four, and full liquidation in years eight through ten. In some 30 circumstances, there may be a secondary sale if CCP deems it necessary. However, CCP does not plan on using a secondary sale as a potential for exit often.</p> <p>CCP will focus on middle market buyouts. CCP will not invest in early stage companies or start-ups. CCP would expect each of its funds to have the follow estimated breakdown; at least 50% to traditional buyouts; 10% to distressed and special situations; 15% to growth; up to 10% to mezzanine; and 25% to sector focused funds. Since CCP sources its co-investments from its fund relationships, CCP would expect its co-investments to follow the same rough breakdown.</p> <p>For CCP’s co-investment strategy, CCP’s policy is to maximize share holder value with the appropriate level of risk. CCP anticipates realizations to come through sales to strategic and possibly financial buyers, as well as initial public offerings in the public equity marketplace. The average hold period for a co-investment will tend to be between three and five years.</p>
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### MA Investments

CCP feels that there is adequate investment opportunity for private equity investments focused on the Massachusetts marketplace. According to Venture Xpert, from 2000-2010, buyout transactions in Massachusetts ranked fourth in the USA. This highlights the fact that the Massachusetts marketplace has ample investment opportunity for private equity investors.

As CCP receives a substantial amount of deal flow on a yearly basis, CCP is confident that over 50% of the investments in the segregated mandate will be targeted in investments that either are based in the Commonwealth or have significant operations in the Commonwealth, creating external benefits for the state such as job creation and tax revenue.

### General Partners/ Key Management Team

Prior to the formation of CCP, the investment team (the CCP “Team”), consisting of six individuals, worked together for Standard Life Investment’s US Private Equity operation based in Boston, MA, focused exclusively on North American buyout fund of funds and co-investment opportunities from 2003 – 2007. Over this time, the Team managed four funds totaling \$710mm of assets, making 20 fund investments and 12 co-investments.

While this same Team started CCP in 2008, the Team has been executing the same strategy together from 2003 until the present. In addition, Dan Cahill, a CCP Managing Partner, started Wilton Asset Management’s private equity business in 2001. During Mr. Cahill’s tenure from 2001 - 2003, Wilton made 20 fund investments and four co-investments, representing approximately \$610mm of capital invested on behalf of institutional clients.

<b>Performance (millions)</b>										
<i>Fund</i>	<i>Vintage</i>	<i>Committed</i>	<i>Cost</i>	<i>Realized</i>	<i>Unrealized</i>	<i>Total</i>	<i>Multiple</i>	<i>Net IRR</i>	<i>Thomson Top Quartile</i>	<i>Thomson Median</i>
Pre-CCP Fund of Funds I	2001	\$600.0	\$572.9	\$755.1	\$247.2	\$1,002.3	1.75	20.70%	19.80%	8.60%
Pre-CCP Fund of Funds II	2006	\$300.0	\$180.1	\$44.9	\$149.6	\$194.5	1.08	4.50%	-4.00%	-8.10%
All Co-Investments	2001	\$450.0	\$261.6	\$114.3	\$198.6	\$312.9	1.20	10.30%	19.80%	8.60%
USS-Constitution - Funds*	2008	\$300.0	\$48.0	\$2.9	\$42.0	\$44.9	0.94	n/a		
USS-Constitution - Co-Invs*	2008	\$300.0	\$17.1	\$0.0	\$17.1	\$17.1	1.00	n/a		
Ironsides Fund V - Funds	2008	\$250.0	\$32.9	\$1.9	\$28.9	\$30.8	0.94	n/a		
Ironsides Fund VI - Co-Invs	2008	\$250.0	\$17.1	\$0.0	\$17.1	\$17.1	1.00	n/a		
<b>TOTAL</b>		<b>\$2,450.0</b>	<b>\$1,129.7</b>	<b>\$919.1</b>	<b>\$700.5</b>	<b>\$1,619.6</b>	<b>1.43</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

\*\*Separate Account

### Performance Comments:

Detailed investment performance was only offered for USS-Constitution Co-Investments and Ironsides Fund VI Co-Investments. Both funds are of a 2008 vintage and, at this point, it is too early to gauge their performance. The USS-Constitution fund has made seven investments to date, while Ironsides Fund VI has only made four. These investments are currently being valued at cost.

## Genovation Capital LLC

<b>Target Fund Size</b>	\$120 million
<b>Stage</b>	Early Stage – Venture Capital

<b>Sector</b>	Communications, Media, and Internet
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<b>Strategy</b>	<p>The Team’s objective is to build a scalable, world-class venture firm, focused on formulaic innovation generation in sectors where it has an intimate understanding, and real operating experience. They believe that investing should not be based just on intuition, but rather a transferable process that can be used to grow the franchise. This repeatable process of invention and execution is a cultural element employed within the firm and will result in a number of “best of breed” companies, such that predictable returns can be achieved over long periods of time without the traditional ups and downs from fund to fund, and partner to partner. By leveraging the Team’s networks, deal flow, and employing first mover advantage techniques, the firm believes that it can establish a new plateau of growth to realize outsized returns for its investors.</p> <p>The Fund expects to invest between \$3 million to \$12 million in individual portfolio companies (but never more than 10% of the fund) over their life, with initial investments ranging from \$1 million to \$5 million. Pre-money valuation targets will range from \$1million to \$15 million for traditional series A rounds, and the Fund will look to its extensive co-investor network as pre-money values and opportunity dictate the need for a larger syndicate. The Fund expects that as many as 75% of its investments will be syndicated, and it has strong, established relationships with several Tier 1 venture firms that are eager to work with the General Partner.</p>
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<b>MA Investments</b>
<p>Two of the firm’s principals, David Fellows and Vin Bisceglia, are lifelong residents of the Commonwealth. The firm is committed to the geographic region of New England, representing up to 70% of its investment capital, with the predominance of the fund’s investments in Massachusetts. More than half of the value of the historical aggregated individual investments by these partners has been in the Commonwealth.</p> <p>The Firm believes that Massachusetts is currently suffering from a significant “capital gap” in early stage technology venture investing. Many of the historically active firms in this sector have moved up market to later stage larger companies in an effort to reduce risk and place much larger capital pools to work. As a result, the greatest jobs creation engine, early stage startups, is lagging here in Massachusetts. Genovation will be investing in early stage technology companies and estimates that the five-year job creation potential for the Massachusetts area could be as high as 1,000 jobs.</p>

<b>General Partners/ Key Management Team</b>
<p>The Firm is managed by three General Partners: Jeff Binder, Vin Bisceglia and David Fellows.</p> <p>Jeffrey Binder was most recently a senior executive with Motorola, serving as Senior Director Strategy and M&amp;A and GM of its On-Demand Solutions group. In addition to day-to-day operations of the 150+ person On-Demand Solutions group, with offices in the US, Europe and Asia, Mr. Binder spearheaded several key initiatives within the office of the CEO, as well as driving the company’s worldwide on-demand video business and M&amp;A strategy.</p> <p>Vin Bisceglia most recently served as Chairman and CEO of Broadbus Technologies from 2004-2006. As CEO, Mr. Bisceglia drove the company to a near \$200 million exit, outperforming the valuation of every public and private company in the sector including previous market leader SeaChange.</p> <p>David Fellows was most recently Chief Technology Officer of Comcast where he was responsible for the company’s centralized operations (Network Operations Centers), a \$6 billion annual capital budget, and creating the infrastructure that delivers television, broadband and voice (the Triple Play) to more than 25 million Americans. As CTO of ATT Broadband, he was intimately involved in the merger with Comcast in 2002. Prior to Comcast Mr. Fellows was a co-founder and General Partner with Pilot House Ventures. Mr. Fellows led nine of the investments during the three years from 1999 through 2001, investing more than \$50 million and delivering a top decile IRR during the toughest technology venture market in history. Mr. Fellows served on three boards during his time at Pilot House, and remained active with most of his portfolio companies through liquidity. His companies had five exits to acquirers that included Cisco and Juniper, and one IPO.</p>

<b>Performance (millions)</b>										
<i>Fund</i>	<i>Vintage</i>	<i>Committed</i>	<i>Cost</i>	<i>Realized</i>	<i>Unrealized</i>	<i>Total</i>	<i>Multiple</i>	<i>Net IRR</i>	<i>Thomson Top Quartile</i>	<i>Thomson Median</i>
Binder Track Record	1992	\$2.4	\$2.4	\$21.9	\$0.0	\$21.9	9.13	104.80%	38.90%	13.70%
Bisceglia Track Record	1997	\$145.0	\$145.0	\$1,103.0	\$0.0	\$1,133.0	7.81	126.50%	59.60%	20.00%
Fellows Track Record	2000	\$56.7	\$56.7	\$150.6	\$0.0	\$150.6	2.66	789.30%	1.90%	-3.00%
<b>TOTAL</b>		<b>\$204.1</b>	<b>\$204.1</b>	<b>\$1,275.5</b>	<b>\$0.0</b>	<b>\$1,305.5</b>	<b>6.40</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

### Performance Comments:

The track record provided were aggregate track records for the individual General Partners.

Binder's track record represents eight investments (none of which were MA-based) with a cost basis of \$2.4 million and a total value of \$21.9 million. One deal was written off and the remaining investments generated strong returns. Five of the eight investments represent early stage investments, while three represent later stage investments.

Bisceglia's track record represents three investments (two of which were MA-based) with a cost basis of \$145 million and a total value of \$1.1 billion. Two deals were early stage investments and one deal was an expansion investment. The track record is driven by one deal where he was CEO and Chairman of the Board. This deal was NEON Communications, which had a cost basis of \$96 million and a total value of \$912 million (9.5x).

Fellow's track record represents nine investments (five of which were MA-based) with a cost basis of \$56.7 million and a total value of \$150.6 million. Two deals were written off (both early stage) and the remaining investments generated strong returns. Six of the nine investments represent early stage investments, while three represent seed investments. His track record is primarily driven by three deals (two early stage and one seed): Sightpath (18.1x), Broadband Access Systems (12.3x) and BigBand (3.0x)

## Flagship Ventures 2010

<b>Target Fund Size</b>	\$300 million
<b>Stage</b>	Early Stage – Venture Capital

<b>Sector</b>	Life Sciences & Clean Technology
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### Strategy

Flagship Ventures was formed in 1999 to make early-stage venture capital investments in life science and clean technology companies. The firm typically invests \$100k to \$500k in new ventures, deploying \$7-\$12 million across the life of an investment. The firm takes a lead or co-lead role in deals where they can acquire 20-30% of ownership. Flagship commonly allocates 70-80% of capital to life science investments including measurement tools/diagnostics, life science platforms or therapeutics, with the largest concentration in therapeutics. The firm is extending its strategy to include renewable energy, biocomputing and nanomaterials. MassPRIM invested \$10 million in FSV 2004 and \$20 million in FSV 2007.

### MA Investments

There is a widely documented shortage, both in Massachusetts and nationally, of venture investment funds for early stage and emerging life science companies. The resulting “capital gap” is not solely financial, but a gap in the combination of experiential and intellectual capital coming alongside the financial capital. Flagship’s investment strategy takes advantage of this gap by identifying opportunities to deploy capital at attractive valuations in high potential, early stage life science companies, participating deeply in the company development process, and generating significant returns as well as important value to society. Further, the Firm has a unique venture creation Unit, Flagship Labs, with a model and capability wherein the principals engage in conceptualizing and forming new companies. The people who staff this Unit are highly educated in the life sciences and all have relevant experience starting and growing companies. They are supported by a team whose experience in building companies through the stage when they are taken public is clearly demonstrated. Members of the investment team, who provide advice and in some cases board membership to Flagship Labs companies, have been CEO’s, CFO’s and senior members of large public companies in the relevant industries. This allows innovations that would otherwise not be commercialized effectively, to become the foundations of new enterprises that provide jobs in Massachusetts while competing successfully in international markets.

### General Partners/ Key Management Team

The key investment Principals of the prior funds and have worked together since 2001 and average 14+ years venture investing experience. Flagship’s investment committee comprises its two Managing Partners, Dr. Afeyan and Mr. Kania, two General Partners, Dr. Cole and Mr. Matheson, and Mr. Wilcox who is a Partner and also CFO. Dr. Cole and Mr. Matheson joined the firm in 2001 and 2000 respectively. Mr. Wilcox joined the firm in 2006. Dr. David Berry (Partner) and Geoff Whitehead and Ann Dewitt (Senior Associates) also participate in the investment program with additional support from five highly experienced professionals (4 PhDs and a JD) who work within Flagship Venture Labs.

Performance (millions)										
<i>Fund</i>	<i>Vintage</i>	<i>Committed</i>	<i>Cost</i>	<i>Realized</i>	<i>Unrealized</i>	<i>Total</i>	<i>Multiple</i>	<i>Net IRR</i>	<i>Thomson Top Quintile</i>	<i>Thomson Median</i>
NewcoGen Funds	2000	\$61.5	\$61.5	\$15.2	\$63.7	\$78.9	1.28	2.90%	1.90%	-3.00%
Applied Genomic Technology C	2000	\$146.8	\$146.8	\$105.0	\$86.3	\$191.3	1.30	5.30%	1.90%	-3.00%
Flagship 2004	2004	\$151.5	\$139.8	\$0.0	\$141.0	\$141.0	1.01	0.30%	5.50%	-1.70%
Flagship 2007	2007	\$234.8	\$86.4	\$0.0	\$101.4	\$101.4	1.17	17.56%	3.00%	-12.80%
<b>TOTAL</b>		<b>\$594.5</b>	<b>\$434.4</b>	<b>\$120.2</b>	<b>\$392.5</b>	<b>\$512.7</b>	<b>1.18</b>	<b>5.80%</b>	<b>3.3%</b>	<b>-4.5%</b>

### **Performance Comments:**

The Principals of Flagship invested in 16 companies through NewcoGen Funds with a cost basis of \$61.5 million and a total value of \$78.9 million (1.28x). This fund generated a Net IRR of 2.9%. On a multiple and IRR basis, this fund is a top quartile performer for its vintage year, 2000. Again, in 2000, the Principals made an additional 19 investments (some crossovers with NewcoGen) with a cost basis of \$146.8 million and a total value of \$191.3 million (1.3x). This fund generated a Net IRR of 5.3%. On a multiple and IRR basis, this fund is a top quartile performer for its vintage year, 2000.

In 2004, the Principals raised and began to invest Flagship Ventures 2004. This fund has invested in 20 companies with a cost basis of \$139.8 million and a total value of \$141 million (1.01x). This fund has generated a Net IRR of 0.3% versus a top quartile benchmark of 5.5% for its vintage year, 2004. Although it is too early to gauge the performance of this fund, it is performing in the second quartile. In 2007, the Principals raised and began to invest Flagship Ventures 2007. This fund has invested in 18 companies (some crossovers with the 2004 fund) with a cost basis of \$86.4 million and a total value of \$101.4 million (1.17x). This fund has generated a Net IRR of 17.56% versus a top quartile benchmark of 3.0% for its vintage year, 2007. Although it is too early to gauge the performance of this fund, it is performing in the top quartile and is well ahead of its peers.



## **ETI Recommendations**

### **Public Finance Strategies, LLC:**

The Public Revenue Enhancement Fund is employing an investment strategy that is outside that of which the private equity program invests. In addition, the Firm's track record, as well as differentiated strategy, is very immature, so it is hard to gauge current performance relative to appropriate benchmarks. Lastly, this investment opportunity did not meet all five selection criterion, set out in Attachment "B" of the Search Committee Report.

### **Constitution Capital Partners:**

Constitution Capital Partners is seeking to establish a separate account focused on co-investments with PRIM for \$100 million. As a strategy within the private equity program, PRIM does not invest through separate accounts. In addition, the Firm's co-investment track record is immature, so it is hard to gauge its current performance. Lastly, this investment opportunity did not meet all five selection criterion, set out in Attachment "B" of the Search Committee Report.

### **Genovation Capital LLC:**

Genovation Capital was invited to interview with the Search Committee based on their experience as operating Executives and venture capital investors. However, they possess little experience managing institutional-sized funds and their performance history for the proposed strategy is limited. Furthermore, due to lack of institutional-size and a thin track record of investing, staff does not recommend engaging Genovation Capital for the ETI program. Lastly, this investment opportunity did not meet all five selection criterion, set out in Attachment "B" of the Search Committee Report.

### **Flagship Ventures 2010 Fund:**

For an investment to be made through the Economically Targeted Investments Program, the investment opportunity must meet all five criteria set out in Attachment "B" of the Search Committee Report. The following details how Flagship Ventures 2010 Fund meets this criterion:

- In accordance with the investment criterion that a manager must meet for the Economically Targeted Investments Program, Flagship Ventures has generated, and is expected to continue generating, target risk-adjusted, market-rate returns and have provided net returns equivalent to or higher than other available investments, at commensurate levels of risk.
- In addition, Flagship Ventures does not exceed a reasonable weighting in the portfolio, including tracking the degree of exposure to the Massachusetts economy and ensures appropriate geographical diversification.
- Since 2000, Flagship Ventures has been considered a leading life sciences venture capital firm and is increasingly recognized as a leader in the emerging field of clean technology/sustainability investing.
- Early-stage venture investing by nature is done locally, and more than 75% of Flagship's investments since inception have been located in Massachusetts. The portfolio companies in Flagship Ventures 2004 Fund and Flagship Ventures 2007 Fund have demonstrated considerable job growth to this point in their development. To date those companies have created more than 300 jobs, the majority of which are research or technical in nature. Flagship Ventures addresses a wide shortage, both in Massachusetts and nationally, of venture investment funds for early-stage and emerging life science and clean technology/sustainability companies. The resulting "capital gap" is not solely financial, but a gap in the combination of experiential and intellectual capital coming alongside the financial capital.
- Lastly, Flagship Ventures, as a prior ETI participant, has continuously tracked the investment performance and collateral benefits of their portfolio companies. This continues to be reviewed and monitored by PRIM staff.

Flagship Ventures 2010 Fund represents an attractive opportunity for the PRIT fund's venture capital portfolio and an excellent candidate for the Economically Targeted Investment Program. Flagship has a well developed early-stage venture investment strategy targeting life science and clean technology/sustainability opportunities. The firm has

assembled an impressive team of investment professionals with backgrounds as scientists, operators and venture investors. Those professionals possess a large network of contacts in academia and industry that can be leveraged to add value to portfolio companies and source investment opportunities. The firm has a unique venture creation strategy that has generated an exciting pipeline of high potential start-up opportunities. Flagship has established a reputation as an active, value-add investor in the venture community and with executives and entrepreneurs. While it is still early in Flagship's life, the firm has established an impressive track record, and its current portfolio is developing nicely. Finally, Flagship's strategy fits well within the framework of the PRIT fund's ETI Program. Flagship Ventures 2004 Fund and Flagship Ventures 2007 Fund, prior ETI investments, have already generated benefits to Massachusetts, and that portfolio has considerable growth potential. PRIM staff is recommending an investment of \$20 million in Flagship Ventures 2010 Fund through the ETI Program.

## **Appendix C: Flagship Ventures 2010 Fund**

### **Description of Firm, PRIM Staff Recommendation:**

Flagship Ventures (“Flagship”) focuses on seed, early-stage and, on an opportunistic basis, later-stage venture capital investments primarily in the life sciences and clean technology/sustainability sector. The firm was founded in 2000 by Ed Kania (Managing Partner and Chairman) and Noubar Afayan (Managing Partner and CEO) who today act as Managing Partners. Messrs. Kania and Afayan had collaborated on several successful ventures prior to the formation of Flagship, and those experiences created the platform on which they have built what increasingly looks like an emerging top tier venture firm.

Flagship Ventures is a leading life sciences venture capital firm and is increasingly recognized as a leader in the emerging field of clean technology/sustainability investing. Over the past ten years, and based on a stable core investment team, the Firm has developed compelling value-building and company-building strategies focused on early and active involvement with new ventures that convert major innovations into market transforming enterprises. These strategies have been utilized by the Firm to raise \$595 million across four funds, including \$386 million to pursue the life science and clean technology/sustainability strategies that the firm now emphasizes. The key investment professionals of the prior funds have worked together since 2001 and average 14+ years of venture investing experience.

Flagship’s investment committee comprises its two Managing Partners, Dr. Afayan and Mr. Kania, two General Partners, Dr. Doug Cole and Mr. Jim Matheson, and Mr. Harry Wilcox who is a Partner and also the CFO. Dr. Cole and Mr. Matheson joined the firm in 2001 and 2000 respectively while Mr. Wilcox joined the firm in 2006. These Partners are supported by eight investment professionals (4 Partners, 1 Principal, 1 Vice President and 2 Senior Associates) out of their office in Cambridge, MA. Flagship Ventures is currently raising \$300 million for Flagship Ventures 2010 Fund. PRIM previously allocated \$10 million to Flagship Ventures 2004 Fund and \$20 million to Flagship Ventures 2007 Fund as ETI investments.

Flagship’s strategy emphasizes life sciences and clean technology/sustainability investments. The firm leverages deep domain expertise and extensive industry and academic contacts to source innovative investment opportunities and add value through a hands-on management approach. Due to the fact that the firm pursues mostly early-stage investment opportunities which demand active, hands-on attention from the General Partners, Flagship by default will create a Massachusetts centric portfolio. In prior funds, Flagship has invested in 39 local companies and through 2009 had attracted more than \$1.5 billion in capital into those companies. The firm expects a significant portion of investments to be Massachusetts based going forward. Finally, given the early-stage nature of Flagship’s strategy, the firm’s portfolio companies are an excellent platform for creating new, technically-oriented jobs in Massachusetts.

Flagship Ventures 2010 Fund represents an attractive and high quality opportunity for the PRIT fund’s venture capital portfolio and is an excellent candidate for the Economically

Targeted Investment Program. Flagship's strategy fits well within the framework of the PRIT fund's ETI Program. PRIM staff is pleased that Flagship Ventures 2004 Fund and Flagship Ventures 2007 Fund, prior ETI investments, have already generated benefits to Massachusetts and that portfolio has considerable growth potential. PRIM staff is recommending an investment of \$20 million for Flagship Ventures 2010 Fund through the ETI Program.

### **History of Firm/Background**

Ed Kania and Noubar Afayan began working together in 1990 through PerSeptive Biosystems, a company that Mr. Afayan founded and in which Mr. Kania invested while at Morgan Holland Ventures. Mr. Afayan later co-founded Chemgenics, in which Mr. Kania invested through One Liberty Ventures, a follow-on firm to Morgan Holland. Mr. Afayan has co-founded or been a key entrepreneur and backer of several successful venture-backed companies and brings a unique skill set to venture capital through his background as an entrepreneur. Mr. Kania has worked in venture capital since 1984 through Banc Boston Ventures, Morgan Holland, and One Liberty Ventures and has generated a substantial and successful investment experience at these firms.

Based on the success of their prior collaborations, Mr. Kania and Mr. Afayan decided to join forces in 2000 to establish what is now Flagship Ventures. The combined team's first venture was NewCoGen Fund with \$61 million of total capital commitments. NewCoGen represents a series of partnerships established to fund start-up life science companies sourced through what has evolved into the firm's venture creation sourcing strategy. Later in 2000, Flagship raised two separate institutional funds to pursue life science and information technology investments, respectively. While the firm was run as an umbrella organization for each of these funds, the 2000 fundraising environment and the nature of the limited partner interests demanded separate, sector-focused funds. Applied Genomic Technology Capital Fund was formed with \$147 million of capital commitments to make early-stage biotech investments, and One Liberty Ventures 2000 received \$210 million of commitments for information technology focused investments. One Liberty Ventures 2000 is largely a continuation of the activities of Mr. Kania's prior firm One Liberty Ventures. Many of the professionals tasked with overseeing that portfolio are no longer on the team, and the firm has since moved away from the strategy used to manage that fund. In 2001, the firm adopted Flagship Ventures as its brand name and began the process of institutionalizing its strategy and sector focus around early-stage life science investments. That process culminated in 2004 when Flagship raised \$152 million for Flagship Ventures 2004 Fund to pursue early-stage life science and clean technology/sustainability investments exclusively under a single vehicle. In 2007, Flagship successfully raised \$235 million for Flagship Ventures 2007 Fund as a continuance of the 2004 Fund investment strategy.

### **Investment Strategy**

Flagship Ventures is a lead investor in seed, early-stage and, on an opportunistic basis, later-stage financings primarily in the life sciences and clean technology/sustainability sectors. Flagship defines itself as a company builder, bridging the gap between

entrepreneurs and venture capitalists. The firm proactively pursues innovations that they believe have disruptive market potential, but where investment value is protected through intellectual property. Historically, Flagship has focused on investments made in the life sciences and information technology sectors. Since the formation of Flagship Ventures 2004 Fund, the firm has moved away from investing in information technology and has begun to pursue investments in the clean technology/sustainability space. PRIM staff believes that Flagship has successfully adapted its deep expertise in life sciences to the clean technology/sustainability sector. Furthermore, PRIM staff believes that Flagship has quickly established itself as a leader in this space and has built a domain expertise that positions the firm well to execute on their investment strategy.

The firm typically invests \$100k to \$1 million in new ventures, deploying \$7 million to \$15 million across the life of an investment. The firm takes a lead or co-lead role in deals where they can acquire 20% to 30% of ownership. Flagship commonly allocates 40% to 60% of capital to life science investments including therapeutics, tools/diagnostics and life science platforms. In addition, 40% to 60% of capital will be allocated to companies within the clean technology/sustainability space. The 2010 fund will target 20 to 30 companies which is consistent with the firm's prior track record. PRIM staff believes that Flagship Ventures has a differentiated investment strategy and sourcing model as well as strong domain expertise and value-add capabilities.

### **Sourcing**

Flagship has developed a deep network including leading academic researchers, technologists, entrepreneurs and industry professionals that afford the team an early look at developing venture opportunities. One of the things that sets Flagship apart from its competition is a willingness to incubate new technologies and create start-ups in-house. The firm's venture creation strategy, developed and executed within their internal incubator ("Flagship Labs"), focuses on developing companies out of breakthrough technology with very strong intellectual property. Since inception, Flagship Labs has generated 22 investment opportunities, many of which are beginning to develop early traction. The key factors to the success of this program, and a key to Flagship's sourcing strategy overall, are deep relationships with Harvard and MIT and the deep domain expertise of the investment team, which allows them to quickly access the validity of new technology and its commercial opportunity. Going forward, Flagship will focus upwards to 30% to 40% of its sourcing efforts in venture creation and 60% to 70% of its efforts in traditional venture projects. PRIM staff believes that Flagship has assembled an impressive team of investment professionals with backgrounds as scientists, operators and venture investors who possess a large network of contacts in academia and industry that can be leveraged to add value to portfolio companies and source investment opportunities.

### **Diversification**

From a sector standpoint, Flagship focuses primarily on life sciences and possesses a particular expertise in life science platforms, measurement tools and diagnostics, and novel therapeutics. As previously mentioned, it is likely that 40% to 60% of the Flagship

Ventures 2010 Fund will be deployed in these three life science sub-sectors with the largest concentration in therapeutics. Flagship will also pursue opportunities in the clean technology/sustainability space as the dynamics of the macro environment, with regard to clean technology/sustainability investing, are currently presenting exciting opportunities. Flagship has adapted its deep expertise in life sciences to the clean technology/sustainability sector. The firm has quickly established itself as a leader in this space and will emphasize opportunities within the clean technology/sustainability space where their domain expertise can be leveraged. The firm expects to deploy 40% to 60% of Flagship Ventures 2010 Fund's capital in the clean technology/sustainability space.

### **Value-Add**

Flagship is a hands-on investor and aims to add value through all stages of the venture life cycle. Flagship is well-known within the venture capital community as a firm that plays an important role in developing venture capital investments and moving companies through stages of investment and growth. The firm's investment professionals possess technical aptitude that is largely unparalleled in the life science focused venture capital space. That domain expertise coupled with a long track record of starting, operating and investing in companies allows the team to take a strategic view of how technology can be commercialized and how investments can ultimately be realized. The firm also brings a large network of contacts that can be leveraged to build teams and boards, vet innovations and ideas, create a customer base, identify acquisition targets, create strategic joint ventures and ultimately identify merger or acquisition partners. Finally, Flagship has an impressive roster of past and present syndicate partners including several top tier venture firms.

### **ETI**

As discussed above, early-stage venture investing by nature is done locally, and more than 75% of Flagship's investments since inception have been located in Massachusetts. The portfolio companies in Flagship Ventures 2004 Fund and Flagship Ventures 2007 Fund have demonstrated considerable job growth to this point in their development. To date those companies have created more than 300 jobs, the majority of which are research or technical in nature.

Flagship believes that there is a wide shortage, both in Massachusetts and nationally, of venture investment funds for early-stage and emerging life science and clean technology/sustainability companies. The resulting "capital gap" is not solely financial, but a gap in the combination of experiential and intellectual capital coming alongside the financial capital. Flagship believes its investment strategy takes advantage of this gap by identifying opportunities to deploy capital at attractive valuations in high potential, early-stage life science and clean technology/sustainability companies, participating deeply in the company development process, and generating significant returns as well as important value to society. Further, Flagship believes that it has a unique venture creation unit, Flagship Labs, with a model and capability wherein the firm engages in conceptualizing and forming new companies. The professionals who staff this unit are highly educated in the life sciences and all have relevant experience starting and growing companies. They

are supported by a team whose experience in building companies from inception to exit is clearly demonstrated. Members of the investment team, who provide advice and in some cases board membership to Flagship Labs companies, have been CEO's, CFO's and senior members of large public companies in the relevant industries. This allows innovations that would otherwise not be commercialized effectively, to become the foundations of new enterprises that provide jobs in Massachusetts while competing successfully in international markets.

## **Performance**

Since inception, Flagship Ventures has raised \$595 million across four investment vehicles dedicated to venture capital investments in life sciences and clean technology/sustainability companies. The firm has made 73 investments with a cost basis of \$399 million and a total value of \$555 million (1.39x cost). 27 of these investments have been exited with a cost basis of \$119 million and a TV of \$174 million (1.46x cost). The remaining 46 investments remain unrealized with a cost basis of \$280 million and a TV of \$381 million (1.36x cost).

This track record includes NewCoGen Funds Group raised in 2000 with \$61 million in capital commitments; Applied Genomic Technology Capital Fund raised in 2000 with \$147 million in capital commitments; Flagship Ventures 2004 Fund with \$152 million in capital commitments; and Flagship Ventures 2007 Fund with \$235 million in capital commitments. Flagship Ventures 2004 Fund and Flagship Ventures 2007 Fund were raised to pursue early-stage life science and clean technology/sustainability investments exclusively under a single vehicle. PRIM staff believes that since institutionalizing their strategy, Flagship has generated consistent and strong relative results through a difficult environment for venture investments. Staff further believes that the portfolio is well positioned and several of the firm's portfolio companies have begun to generate positive operating traction with some nearing early liquidity. It is also important to note that their portfolio is still relatively young and populated primarily with early-stage, life science and clean technology/sustainability investments. Given that that subset of the venture universe typically takes longer to generate returns and exits, Flagship appears to be posting formidable results. PRIM staff has been impressed with the development of Flagship Ventures 2004 Fund and Flagship Ventures 2007 Fund, which despite their young vintages are beginning to demonstrate significant progress.

## **NewGenCo Funds Group**

NewcoGen Funds is a 2000 vintage year fund. The fund has made 16 investments with a cost basis of \$61.03 million and a total value of \$80.43 million (1.32x cost). 11 of the 16 investments have been exited and have generated realized proceeds of \$28.23 million (0.47x fund's cost basis). These 11 investments have a cost basis of \$33.88 million and a total value of \$28.23 million (0.83x cost). The remaining five investments have a cost basis of \$27.15 million and a total value of \$52.20 million (1.92x cost).

The fund's total value to paid-in-capital multiple is 1.28x. This is above the Venture Economics top quartile benchmark of 1.09x. The fund's distributions (net to LPs) is

\$15.16 million (0.25x distributions to paid-in-capital). This is below the Venture Economics top quartile benchmark of 0.5x. Lastly, the fund's net IRR is 2.90%, which compares to the top quartile benchmark of 1.9% for its vintage year, 2000.

### **Applied Genomic Technology Capital Fund**

Applied Genomic Technology Capital Fund is a 2000 vintage year fund. The fund has made 19 investments with a cost basis of \$145.92 million and a total value of \$228.64 million (1.57x cost). 10 of the 19 investments have been exited and have generated realized proceeds of \$137.92 million (0.95x fund's cost basis). These 10 investments have a cost basis of \$63.75 million and a total value of \$137.92 million (2.16x cost). The remaining nine investments have a cost basis of \$82.17 million and a total value of \$90.72 million (1.10x cost).

The fund's total value to paid-in-capital multiple is 1.30x. This is above the Venture Economics top quartile benchmark of 1.09x. The fund's distributions (net to LPs) is \$105.03 million (0.72x distributions to paid-in-capital). This is above the Venture Economics top quartile benchmark of 0.5x. Lastly, the fund's net IRR is 5.30%, which compares to the top quartile benchmark of 1.9% for its vintage year, 2000.

### **Flagship Ventures 2004 Fund**

Flagship Ventures 2004 Fund is a 2004 vintage year fund. The fund has made 20 investments with a cost basis of \$122.97 million and a total value of \$144.82 million (1.18x cost). Five of the 20 investments have been exited and have generated realized proceeds of \$7.5 million (0.06x fund's cost basis). These five investments have a cost basis of \$20.56 million and a total value of \$8.12 million (0.39x cost) – two of these deals were write offs. The remaining 15 investments are progressing well, have begun to show traction and are valued at a cost basis of \$102.41 million and a total value of \$136.71 million (1.33x cost).

The fund's total value to paid-in-capital multiple is 1.01x. This is below the Venture Economics top quartile benchmark of 1.16x. The fund has yet to distribute capital to LPs. This puts the fund below the Venture Economics top quartile benchmark of 0.26x on a distributions to paid-in-capital basis. Lastly, the fund's net IRR is 0.30%, which compares to the top quartile benchmark of 5.8% for its vintage year, 2004.

There were two noteworthy deals for Flagship Ventures 2004 Fund. The first investment is LS9 and was made in October 2005 and is currently unrealized. The company develops patent-pending UltraClean fuels and sustainable chemicals made with the power of synthetic biology. This deal is led by Dr. Afeyan and has a cost of \$10.17 million and a total value of \$35.14 million (3.45x cost). The second investment is Mascoma and was made in May 2006 and is currently unrealized. The company works to develop cellulosic ethanol technologies that can use a variety of feedstocks. This deal is led by Mr. Matheson and has a cost of \$8.4 million and a total value of \$20.85 million (2.48x cost).



These two deals represent 39% of the fund's total value. The fund's loss ratio is 10%, which is considerably lower than that of their peer group.

PRIM staff has reviewed the underlying portfolio companies and is confident that there are several companies with the potential to contribute significant liquidity and value to the fund.

### **Flagship Ventures 2007 Fund**

Flagship Ventures 2007 Fund is a 2007 vintage year fund. The fund has made 18 investments with a cost basis of \$69.50 million and a total value of \$101.15 million (1.46x cost). The firm has written off one investment, Avidimer Therapeutics, which had a cost basis of \$0.53 million. This is the smallest investment in the fund. Despite this, the remaining 17 investments are showing strong progress and have a cost basis of \$69.98 million and a total value of \$101.15 million (1.47x cost).

The fund's total value to paid-in-capital multiple is 1.17x. This is above the Venture Economics top quartile benchmark of 1.04x. The fund has yet to distribute capital to LPs. This puts the fund in line with the Venture Economics top quartile benchmark of 0.0x on a distributions to paid-in-capital basis. Lastly, the fund's net IRR is 17.56%, which compares to the top quartile benchmark of 2.1% for its vintage year, 2007.

There were two noteworthy deals for Flagship Ventures 2007 Fund. The first investment is Joule Biotechnologies and was made in September 2007 and is currently unrealized. The company has developed proven platform for renewable fuel production with greater efficiencies, scale and net energy yield. This deal is led by Dr. Afeyan and has a cost of \$9.01 million and a total value of \$39.64 million (4.40x cost). The second investment is Agios Pharmaceuticals and was made in December 2007 and is currently unrealized. The company is a developer of novel therapeutic agents aimed at newly discovered metabolic targets that are altered in cancer. This deal is led by Dr. Cole and has a cost of \$10.0 million and a total value of \$10.03 million (1.0x). On April 15, 2010, Agios and Celgene Corporation announced a global strategic collaboration to develop cancer therapeutics based on Agios' novel cancer metabolism platform. This deal provides for milestones payments of up to \$120 million to Agios for each program developed under the collaboration, plus royalties on sales. This strategic alliance between Agios and Celgene Corporation is a testament to the early and promising progress that the 2007 Fund is making.

These two deals represent 49% of the fund's total value. The fund's loss ratio is 5.5%, which is considerably lower than that of their peer group.

PRIM staff has reviewed the underlying portfolio companies and is please to find that many of these companies have gained early traction and have met significant milestones. Staff is confident that there are several companies with the potential to contribute significant liquidity and value to the fund.

A summary of all Flagship funds is detailed below:

Performance as of December 31, 2009 (\$ in millions)									
Fund	Vintage Year	Committed Assets	Cost Basis	Realized Value	Total Value	Total Value Multiple	Net IRR	VE TQ IRR <sup>1</sup>	VE TQ TVPI <sup>1</sup>
NewCoGen Funds Group	2000	\$ 61.48	\$ 61.03	\$ 28.74	\$ 80.43	1.32	2.9%	1.9%	1.1
AGIC Fund	2000	\$ 146.75	\$ 145.92	\$ 138.84	\$ 228.64	1.57	5.3%	1.9%	1.1
Flagship 2004 Fund	2004	\$ 151.53	\$ 122.97	\$ 7.59	\$ 144.82	1.18	0.3%	5.8%	1.2
Flagship 2007 Fund	2007	\$ 234.75	\$ 69.50	\$ 0.06	\$ 101.15	1.46	17.6%	2.1%	1.0
<b>TOTAL</b>		<b>\$ 594.51</b>	<b>\$ 399.42</b>	<b>\$ 175.23</b>	<b>\$ 555.04</b>	<b>1.39</b>	<b>5.8%</b>	<b>3.2%</b>	<b>1.1</b>

Data is Gross unless otherwise noted.

1. Venture Economics Benchmarks are for US venture capital as of December 31, 2009.

PRIM staff believes that while it is still early in the lives of Flagship Ventures 2004 Fund and Flagship Ventures 2007 Fund, the firm has established a consistent and strong track record, and that its current portfolio is developing well.

## Team

The Flagship Ventures team currently consists of 13 investment professionals. Flagship's is lead by its two Managing Partners, Dr. Afeyan and Mr. Kania, two General Partners, Dr. Doug Cole and Mr. Jim Matheson, and Mr. Harry Wilcox who is a Partner and also CFO. Dr. Cole and Mr. Matheson joined the firm in 2001 and 2000 respectively while Mr. Wilcox joined the firm in 2006. Messrs. Afeyan, Kania, Cole, Matheson and Wilcox are primarily responsible for the investment activities of the firm; however Flagship uses a highly collaborative approach to executing and monitoring deals. They are supported by eight investment professionals (4 Partners, 1 Principal, 1 Vice President and 2 Senior Associates). All of these professionals operate out of their office in Cambridge, MA.

PRIM staff believes that the team is very high caliber with exceptional domain expertise and aptitude for technology, a strong operating skill set, excellent contacts and a strategic mind toward moving companies through the venture life cycle. The team also has an impressive roster of top tier syndicate partners, which further speaks to the caliber of Flagship's professionals, their ability to source and execute interesting opportunities and the value-add capabilities that they bring to a deal. While the team did experience a moderate amount of turnover in its formative period for various reasons, the core deal group appears to be very solid, and they have built a very impressive support team. PRIM staff believes that Flagship Ventures has established an impressive team that possesses unique domain expertise and a significant network. Staff further believes that the Flagship team is well positioned to execute the firm's investment strategy.

The following chart lists the principal Investment Team. Biographies for the firm's General Partners, responsible for portfolio company investments, follow.

<b>Key Investment Professionals</b>		
<b>Name</b>	<b>Title</b>	<b>Years at Flagship</b>
<b>Ed Kania</b>	<b>Managing Partner</b>	10
<b>Noubar Afeyan</b>	<b>Managing Partner</b>	10
Doug Cole	General Partner	9
Jim Matheson	General Partner	10
Harry Wilcox	Partner/CFO	4

### **Ed Kania, Founding Managing Partner and Chairman**

Ed Kania is Managing Partner and Chairman of Flagship Ventures, a firm he co-founded in 2000. Mr. Kania has 26 years of experience in the venture capital industry. Prior to co-founding Flagship Ventures in 2000, he spent 14 years as General Partner of OneLiberty Ventures and of its predecessor firm, Morgan, Holland Ventures. From 1983 to 1984 he served as an Investment Officer at First Capital Corporation of Boston, the venture capital subsidiary of Bank of Boston, and, previously, as Research Associate at Harvard Business School and as General Manager at J. Cunningham. He is a frequent speaker on venture capital and entrepreneurship. Mr. Kania earned his undergraduate degree in physics from Dartmouth College and his MBA from Harvard Business School. While at Dartmouth and Harvard Business School, he was an All-American Track and Field athlete, a national and collegiate record holder, and a member of the Pacific Coast Club, a track club based in Long Beach, CA.

Throughout his professional career, Mr. Kania has operated both as an investor and as an active partner to entrepreneurs in company building. His direct investment experience covers over 100 companies. In addition, he has been intimately involved in the launch and development of more than a dozen companies as the founding, lead or co-lead investor, and on occasion has assumed operating roles in support of management. Several of these companies are now publicly traded while others have been acquired by significant publicly-traded companies. The total value of the companies in which Mr. Kania has participated as founding or lead investor is currently several billion dollars. Mr. Kania has served as a Director of Adolor (Nasdaq: ADLR), Alere Medical (purchased by Inverness Medical), Anesta (Nasdaq: NSTA, purchased by Cephalon), Aspect Medical (Nasdaq: ASPM, purchased by Covidien), AudioLogic (purchased by Cirrus Logic), ChemGenics Pharmaceuticals (purchased by Millennium), Cytoc (Nasdaq: CYTC), Ontogeny (merged into Curis, Nasdaq: CRIS), PerSeptive Biosystems (Nasdaq: PBIO, purchased by Applera), Somatogen (Nasdaq: SMTG, purchased by Baxter), and as a founding investor in IDEXX Laboratories (Nasdaq: IDXX) and TripAdvisor (purchased by InterActive Corp). He is currently a Director of Flagship portfolio companies Acceleron Pharma, DataCore Software, EXACT Sciences, INTIO, Parasol Therapeutics, Pervasis Therapeutics, and TARIS Biomedical, and is Chairman of the Board of TransMedics and VisEn Medical.

Mr. Kania also serves as Co-Chairman of the Board of Directors of Common Impact, a non-profit organization that connects skilled professionals from global corporations to local, high potential non-profits. He is currently a director of MassBio, a not-for-profit organization that works in support of the Massachusetts biotechnology industry, and a

member of The Johns Hopkins Medicine Alliance for Science and Technology Development Industry.

### **Noubar Afeyan, Managing Partner and Chief Executive Officer**

Noubar Afeyan is Managing Partner and CEO of Flagship Ventures, a firm he co-founded in 2000. He is also a Senior Lecturer at MIT's Sloan School of Management where he has taught the MBA program's primary entrepreneurship course since 2000. Dr. Afeyan has authored numerous scientific publications and patents since earning his PhD in Biochemical Engineering from MIT in 1987.

A technologist, entrepreneur and venture capitalist, Dr. Afeyan has co-founded and helped build over 20 successful life science and technology startups during the past two decades. He was founder and CEO of PerSeptive Biosystems (Nasdaq: PBIO), a leader in the bio-instrumentation field. After PerSeptive's acquisition by Applera Corporation (NYSE: ABI), he was Senior Vice President and Chief Business Officer of Applera, where he initiated and oversaw the creation of Celera Genomics (Nasdaq: CRA).

Currently, Dr. Afeyan serves on a number of public and private company boards. He is a director and co-founder of Flagship portfolio companies Affinova, BG Medicine, Ensemble Discovery, Helicos BioSciences (Nasdaq:HLCS), Joule Biotechnologies and LS9, and is on the board of Eleven Biotherapeutics. Previously, he was a member of the founding team, director and investor in several successful ventures including Adnexus Therapeutics, Chemgenics Pharmaceuticals, Color Kinetics, Antigenics and EXACT Sciences.

Dr. Afeyan is a member of several advisory boards including the Deshpande Center for Technological Innovation at MIT, the Whitehead Institute at MIT, the Harvard-MIT Division of Health Sciences and Technology (HST), the SKOLKOVO School of Management in Moscow and the Board of Overseers of Boston University. He is also a member of the Board of Overseers of the Boston Symphony Orchestra. Dr. Afeyan is Co-Founder and Board Member of Armenia 2020 and the National Competitiveness Foundation of Armenia, two international economic development projects focusing on the former Soviet Republic of Armenia. In 2008 he received an Ellis Island Medal of Honor, an award granted to outstanding Americans who have distinguished themselves as U.S. citizens and who have enabled their ancestry groups to maintain their identities while becoming integral parts of American life.

### **Doug Cole, General Partner**

Dr. Doug Cole joined Flagship in 2001 where he focuses on life science investments. He came to Flagship with significant industrial experience and a strong academic background. He obtained post-graduate training in medicine at Johns Hopkins Hospital in Baltimore, MD and in neurology at Massachusetts General Hospital in Boston, MA. In 1992, Dr. Cole was appointed Instructor in Neurology at Harvard Medical School and an Assistant in Neurology at Massachusetts General Hospital. He established a research program investigating the mechanistic basis of neuronal signaling events and plasticity in

neuropsychiatric disorders with the support of the National Institute of Health and several non-profit research foundations. Dr. Cole holds an AB magna cum laude with High Distinction in English from Dartmouth College, where he was a Senior Fellow and a member of Phi Beta Kappa, and an MD from the University Of Pennsylvania School Of Medicine, where he was a member of Alpha Omega Alpha.

In 1996, Dr. Cole joined Cytotherapeutics in Providence, RI. As Medical Director, he oversaw various research and clinical activities related to the company's cell-based therapeutic technologies. In 1997, he was appointed Program Executive at Vertex Pharmaceuticals, in Cambridge, MA, where he led a multidisciplinary program that conducted preclinical development through Phase II studies in tissue protection and repair, oversaw international research collaboration, and was responsible for identifying strategic market and technology opportunities in multiple arenas.

At Flagship, Dr. Cole has led investments in Agios Pharmaceuticals, Alvine Pharmaceuticals, Avedro, CombinatoRx (Nasdaq: CRXX), Concert Pharmaceuticals, Quanterix, Receptos and Tetrphase Pharmaceuticals. He co-founded Ensemble Discovery with Dr. Afeyan and Professor David Liu of Harvard University, and he served as CEO of the company in its initial stages. He currently serves on the Boards of Directors of Agios Pharmaceuticals, Avedro, AVEO Pharmaceuticals, Concert Pharmaceuticals, Ensemble Discovery, Quanterix, Receptos, Resolvix Pharmaceuticals, Selecta Biosciences, and Tetrphase Pharmaceuticals, and is an Observer on the Board of Directors of Alvine. He formerly served on the Board of Directors of CombinatoRx and Morphotek (purchased by Eisai Corporation).

Dr. Cole is a member of the Scientific Advisory Board of the Spinal Muscular Atrophy Foundation, the Genetics Advisory Council of the Harvard-Partners Center for Genetics and Genomics, the Scientific Advisory Board of the Massachusetts Life Sciences Center, and serves on the Board of Directors of the Birch Rock Camp in Waterford, ME.

### **Jim Matheson, General Partner**

Jim Matheson joined Flagship Ventures in 2000 and focuses on creating and funding new ventures in the clean technology/sustainability and special technologies (e.g. nanotechnology, materials and technology systems) arenas. Mr. Matheson earned an MBA from Harvard Business School, a Bachelor of Science (with honors) from the United States Naval Academy and retired as a Commander in the US Naval Reserves.

Mr. Matheson has over 20 years of technology and leadership experience across a variety of organizations and roles designing, engineering and deploying sophisticated technology platforms. He formerly served as a Navy F-14 & FA-18 pilot including duties flying combat missions from an aircraft carrier, and as a Top Gun Instructor and Adversary Pilot. He also gained broad experience in emerging aircraft & weapons system design, testing and procurement, and was deeply involved in many of the military's IT modernization initiatives.

Mr. Matheson serves on the boards of Flagship portfolio companies Advanced Electron Beams, Black Duck Software, Frontier Energy (Mascoma subsidiary), Mascoma Corporation, Novomer and Oasys Water and is Chairman of the Board of Genstruct and Ze-gen. He was previously a director of e-Dialog (acquired by GSI Commerce), Flamenco Networks (acquired by SOA Software) and Yantra (acquired by Sterling Commerce/SBC).

Mr. Matheson is on the Board of New York-based hedge fund Black Horse Capital, Common Impact (a non-profit providing business services to other non-profits), and the Center for Women & Enterprise, and is actively involved in numerous entrepreneurial and venture capital organizations including the Department of Energy's Biomass Technical Advisory Committee, New England Clean Energy Council, MIT Enterprise Forum, The Deshpande Center, and Service Academy Business Network.

## **Conclusion**

Flagship Ventures represents an attractive opportunity for the PRIT fund's venture capital portfolio and an excellent candidate for the Economically Targeted Investment Program. Flagship has a well developed early-stage and later-stage venture investment strategy targeting life science and clean technology/sustainability opportunities. The firm has assembled an impressive team of investment professionals with backgrounds as scientists, operators and venture investors. Those professionals possess a large network of contacts in academia and industry that can be leveraged to add value to portfolio companies and source investment opportunities. The firm has a unique venture creation strategy that has generated an exciting pipeline of high potential start-up opportunities. Flagship has established a reputation as an active, value-add investor in the venture community and with executives and entrepreneurs. While it is still early in Flagship's life, the firm has established a consistent and strong track record, and its current portfolio is developing nicely. Finally, Flagship's strategy fits well within the framework of the PRIT fund's ETI Program. Flagship Ventures 2004 Fund and Flagship Ventures 2007 Fund, prior ETI investments, have already generated benefits to Massachusetts, and that portfolio has considerable growth potential. PRIM staff is recommending an investment of \$20 million in Flagship Ventures 2010 Fund through the ETI Program.

Per PRIM's policy regarding third party marketing agent disclosures, PRIM staff would like to note that Flagship Ventures did not utilize a placement agent for Flagship Ventures 2010 Fund. PRIM staff dealt directly with the General Partner on this due diligence process.



## Pension Reserves Investment Management Board Economically Targeted Investment Program: 1st Quarter 2010 Summary

### Overview

Since the program's inception in 2003, PRIM has committed \$270 million to Economically Targeted Investments (ETI). These commitments are allocated across 3 asset classes and 9 investment managers, as displayed in the table below:

ETI Program Summary: As of March 31, 2010						
<u>Firm</u>	<u>Asset Class</u>	<u>Inception Date</u>	<u>PRIM Commitment</u>	<u>Capital Called</u>	<u>Remaining Capital to be Called</u>	<u>Current NAV</u>
Access Capital	Fixed Income	3/31/2004	\$ 75,000,000	\$ 75,000,000	\$ -	\$ 96,734,000
Community Cap.Mgmt.	Fixed Income	6/30/2006	\$ 25,000,000	\$ 25,000,000	\$ -	\$ 31,771,000
AFL-CIO HIT Fund	Fixed Income	7/31/2007	\$ 90,000,000	\$ 90,000,000	\$ -	\$ 102,329,000
Castile Ventures	Private Equity	9/14/2006	\$ 10,000,000	\$ 5,550,000	\$ 4,450,000	\$ 4,300,000
Flagship Ventures 2004	Private Equity	3/16/2005	\$ 10,000,000	\$ 9,200,000	\$ 800,000	\$ 9,300,000
Flagship Ventures 2007	Private Equity	8/23/2007	\$ 20,000,000	\$ 7,500,000	\$ 12,500,000	\$ 8,700,000
Canyon Johnson	Real Estate	4/30/2005	\$ 20,000,000	\$ 17,658,784	\$ 2,863,359	\$ 11,688,000
New Boston	Real Estate	11/30/2006	\$ 10,000,000	\$ 5,234,579	\$ 4,765,421	\$ 2,778,000
Intercontinental	Real Estate	6/30/2005	\$ 10,000,000	\$ 10,000,000	\$ -	\$ 4,780,000
<b>Total</b>			<b>\$ 270,000,000</b>	<b>\$ 245,143,363</b>	<b>\$ 25,378,780</b>	<b>\$ 272,380,000</b>
Total Fund at March 31, 2010			\$ 43,957,998,000			
ETI as a Percentage of Total PRIT Fund			0.62%			

While each of the three asset classes in our ETI program has a different time horizon, the overall ETI program is meeting expectations. As the Board is aware, due to the nature of both Real Estate and Private Equity investing, the full benefits to the Commonwealth of Massachusetts will not be fully realized for several years. That said, the investments in each of the asset classes have yielded an economic impact to the Commonwealth of Massachusetts, and can be found in the table below:

Economic Impact to the Commonwealth of Massachusetts as of 03/31/2010					
<u>Firm</u>	<u>Asset Class</u>	<u>Mortgages</u>	<u>Jobs Created</u>	<u>Affordable Rental Housing Units</u>	<u>Small Business/Economic Development Loans</u>
Access Capital	Fixed Income	1405	300	201	10
Community Cap. Mgmt.	Fixed Income	108	23	2200	4
AFL-CIO HIT Fund	Fixed Income	17	852	1567	0
Castile Ventures	Private Equity	0	257	0	0
Flagship Ventures 2004	Private Equity	0	382	0	0
Flagship Ventures 2007	Private Equity	0	337	0	0
Canyon Johnson	Real Estate	0	270	15	0
New Boston	Real Estate	0	553	98	0
Intercontinental	Real Estate	0	385	20	0
<b>Total</b>		<b>1530</b>	<b>3359</b>	<b>4101</b>	<b>14</b>



## **Pension Reserves Investment Management Board Economically Targeted Investment Program: 1st Quarter 2010 Summary**

### ***Fixed Income***

First Quarter performance for the ETI fixed income managers was positive for 2 out of the 3 managers on a relative basis and positive for all on an absolute basis. Community Capital and the AFL-CIO HIT fund outperformed their benchmark, the Barclays Capital Aggregate, by 50 bps and 34 bps respectively. Access Capital fell short of its benchmark, the Barclays Capital US Securitized Index, by -54 bps.

The First Quarter was a continuation of 2009, resulting in strong performance from the fixed income sector. Investors continued to seek higher yielding securities, which have pushed yield spreads down to pre-Lehman levels. Mortgage backed securities yield spreads tightened considerably to levels not seen in 25 years, which resulted in a 1.54% return for that sector. The CMBS market posted a very strong 9.1% return, with Corporate bonds and ABS following at 2.3% and 2.22% respectively. Yield seeking investors have been a strong driver in the recovery of the credit markets. This has been apparent with the end of the Fed's mortgage purchase program, as investors have stepped in and are now providing liquidity to this market and keeping spreads on mortgage securities tight.

Below are characteristics of the aggregate Fixed Income ETI portfolio:

<b>Fixed Income ETI Characteristics</b>		
	<b>Portfolio</b>	<b>BC Agg</b>
Convexity	-0.38	-0.28
Effective Duration	4.14	4.68
Current Yield	4.87%	4.39%

<b>Fixed Income ETI Sector Distribution</b>	
MBS	82.23%
CMBS	12.28%
Municipal	1.81%
ABS	5.59%
Cash & Equiv	0.42%
Agency	0.29%
Treasury	6.13%
Other*	-8.76%

<b>Quality Distribution</b>	
Government/Agcy	83.10%
Treasury	7.17%
AAA	3.26%
AA	5.24%
A	0.66%
Cash & Equivalent	0.56%

\*Other includes Treasury/Swap futures, OTC swaptions, and repurchase agreements in the Access Capital Fund

### ***Private Equity***

As of March 31, 2010, the aggregate Private Equity ETI program has invested in 32 companies in the Commonwealth of Massachusetts, which in turn have created 976 jobs. Since the 4<sup>th</sup> quarter of 2009, there has been a 6.7% increase in the number of jobs created. While a clear economic benefit has been provided early on by the investments in this portfolio, a long term return has yet to be realized.





**Pension Reserves Investment Management Board  
Economically Targeted Investment Program:  
1st Quarter 2010 Summary**

***Real Estate***

The aggregate Real Estate ETI program has also yielded economic benefit through the creation of jobs, as well as affordable housing through rentals and sales. The table below shows the aggregate number of units and affordable units created by these investments:

<b><i>Aggregate Number of Units &amp; Affordable Housing Units Created</i></b>		
<b>Type of Units Completed</b>	<b># of units at</b>	<b># of affordable</b>
	<b>market</b>	<b>units</b>
Rental Units	387	133
For Sale Units	19	

Performance figures and the individual economic impact from each ETI provider can be found on the subsequent pages.

## PRIM ETI QUARTERLY UPDATE

Asset Class: Fixed-Income Quarter Ending: 3/31/10

Firm: Access Capital Community Investment Fund (Ticker: ACCSX)

AUM: \$96.7M Committed Capital: \$75M Capital Called: \$75M

### **Program Objective**

*(Please describe your investment vehicle and its objectives. Please attach an additional page if more space is required.)*

Access Capital only invests in fixed income investments that are guaranteed by U.S. Government agencies, Fannie Mae, Freddie Mac or have AAA credit enhancements. The Fund provides the potential for competitive, risk-weighted, high credit quality taxable returns through a double bottom line investment vehicle that fosters economic development in America's underserved communities.

Unlike other asset backed security funds, the Fund can target its investments by income and geographic region allowing investors to pinpoint where their investment makes a positive impact on the community. 100% of PRIM's investment is allocated to the Commonwealth of Massachusetts.

### **Gross Performance**

(Benchmark dates - end date of the prior period)

	<u>Quarter</u>	<u>1 Year Annualized</u>	<u>3 Year Annualized</u>	<u>5 Year Annualized</u>	<u>Inception to Date 3/31/2004</u>
Return	1.60%	7.50%	6.40%	5.55%	4.96%
Benchmark Return	2.14%	7.99%	8.28%	6.84%	6.05%
Difference (In Basis Points)	-54	-49	-188	-129	-109

### **Residual Benefits of Program in Massachusetts**

*(Please quantify or explain how this investment program benefits Massachusetts and its residents. Quantify the number of jobs that have been created in Massachusetts as a result of the program, if applicable. Please attach an additional page if more space is required.)*

At 3/31/2010, the Fund had over \$142.1 million invested in Massachusetts. This includes:

- 1,405 home mortgages to low- and moderate-income homebuyers
- 201 affordable rental housing units
- 10 small business loans
- \$9.4 loan to the Holyoke Community Health Center. The Holyoke Health Center investment has added over 300 new jobs to the local economy.

These investments are located in 13 counties and 270 cities and towns throughout the state.

## PRIM ETI QUARTERLY UPDATE

Asset Class: Fixed Income Quarter Ending: 03/31/10

Firm: Community Capital Management, Inc.

AUM: \$31.8 M Committed Capital: \$25 M Capital Called: \$25M

### **Program Objective**

*(Please describe your investment vehicle and its objectives.)*

On behalf of Massachusetts PRIM, Community Capital Management (CCM) actively manages a portfolio of high credit quality, fixed-income securities that support economic development in Massachusetts.

### **Performance**

	<u>Quarter</u>	<u>1 Year Annualized</u>	<u>3 Year Annualized</u>	<u>Inception to Date 6/30/2006</u>
Return	2.28%	7.18%	6.32%	6.63%
Benchmark Return	1.78%	7.69%	6.14%	6.71%
Difference (In Basis Points)	50	-51	18	-8

### **Residual Benefits of Program in Massachusetts**

*(Please quantify or explain how this investment program benefits Massachusetts and its residents. Quantify the number of jobs that have been created in Massachusetts as a result of the program, if applicable.)*

Community Capital Management has purchased over \$45 million in Massachusetts-based fixed income ETIs. This translates into:

- Home mortgages for 108 low- and moderate-income families totaling over \$17.3 million;
- Four small business loans totaling \$1,874,547 including two loans originated under the SBA's Community Express Loan Program;
- \$21.63 million in multifamily mortgage-backed securities and municipal bonds that finance affordable housing for low- and moderate-income families;
- \$3,780,214 in enterprise development; and
- \$1,180,000 of comprehensive community development projects throughout Massachusetts.

## PRIM ETI QUARTERLY UPDATE

Asset Class: Fixed-Income Quarter Ending: 3/31/10

Firm: AFL-CIO HIT Fund

AUM: \$102.3M Committed Capital: \$90M Capital Called: \$90M

### **Program Objective**

*(Please describe your investment vehicle and its objectives. Please attach an additional page if more space is required.)*

The AFL-CIO Housing Investment Trust (HIT) strives to be one of the premier socially responsible investment companies in the U.S. Its investment objective is to generate competitive risk-adjusted total rates of return for its investors by investing in fixed-income investments, primarily in government agency issued and insured multifamily and single family MBS. Approximately 96% of the HIT portfolio is AAA-rated or carries a government or GSE guarantee. The HIT has no securities backed by subprime mortgages or corporate bonds in its portfolio and never has. Other important objectives of the HIT are to encourage the construction of affordable housing and to facilitate employment for union members in the construction trades and related industries. The HIT has a special focus on mortgage backed securities that finance new construction or rehabilitation of multifamily housing projects and health care facilities. All on-site construction work directly financed through HIT investments is required to be performed by 100% union labor.

### **Gross Performance**

	<u>Quarter</u>	<u>1 Year Annualized</u>	<u>Account Inception to Date (7/31/2007)</u>
Return	2.12%	5.92%	7.32%
Barclays Aggregate (formerly Lehman)	1.78%	7.69%	6.81%
Difference (In Basis Points)	34	-177	51

*HIT's net performance for the 1-, 3-, 5-, and 10-year periods ended March 31, 2010 was 5.77%, 6.26%, 5.61% and 6.51%, respectively. The performance data quoted represents past performance and is no guarantee of future results. Investment results and principal value will fluctuate so that units in the Trust, when redeemed, may be worth more or less than their original cost. The Trust's current performance may be lower or higher than the performance quoted. Performance data current to the most recent month-end is available from the Trust's website at [www.aflcio-hit.com](http://www.aflcio-hit.com). Gross performance figures do not reflect the deduction of Trust expenses. Net performance figures reflect the deduction of HIT expenses and are the performance figures investors experience in the HIT. Information about HIT expenses can be found on page 6 of the HIT's current prospectus. The Barclays Capital Aggregate Bond Index is an unmanaged index. It is not available for direct investment; its returns would be lower if they reflected the expenses associated with active management of an actual portfolio.*

**Residual Benefits of Program in Massachusetts**

*(Please quantify or explain how this investment program benefits Massachusetts and its residents. Quantify the number of jobs that have been created in Massachusetts as a result of the program, if applicable. Please attach an additional page if more space is required.)*

Since July 2007, the HIT has committed \$88.9 million to fourteen projects in Massachusetts. The projects represent 1,698 units, including 1,597 units designated for low- and moderate-income residents. The total development cost of these projects is \$214 million and will generate an estimated 852 jobs and 1.7 million hours of work. A detailed list of these projects is attached. Including the above projects, the HIT has committed over \$206 million in financing for 29 projects in the state since 1990. The total development cost of these projects is \$501 million. The projects represent nearly 3,200 units of housing, including over 2,600 units designated for low- and moderate-income residents. The majority of these projects involve new construction, generating an estimated 2,730 jobs and 5.4 million hours of work for Massachusetts residents. As of March 31, 2010, there were 17 mortgage securities in the HIT portfolio backed by projects in the Commonwealth of Massachusetts with a value of \$62.0 million.

**AFL-CIO Housing Investment Trust**  
**Massachusetts Housing Initiative**  
*Projects financed as of March 31, 2010*

Property Name	City	Units		HIT	TDC	Jobs	# of	Project Status
		Total	Afford.	Commitment			Hours	
Back of the Hill	Jamaica Plain	125	125	4,000,000	27,356,765	171	342,000	Completed
Casa Maria Apartments	Boston	85	85	2,000,000	21,749,710	136	272,000	Completed
Franklin Hill 1B	Dorchester	24	24	300,000	12,491,787	78	156,000	Completed
Franklin Park Apartments	Boston	220	220	25,672,000	34,000,000	192	396,000	Pre-Const.
Hadley Building Apartment	Worcester	45	40	1,120,000	15,827,868	99	198,000	Under Const.
Regency Tower	New Bedford	129	33	16,420,000	31,195,797	176	364,000	Pre-Const.
Squantum Gardens	Quincy	223	223	755,000	755,000	-	-	Completed
MassHousing Pooled Deals	Various Cities	250	250	12,235,000	12,235,000	-	-	Completed
MassHousing Pooled Deals	Various Cities	250	250	15,000,000	15,000,000	-	-	Completed
MassHousing Pooled Deals	Various Cities	570	570	11,385,000	43,616,638	-	-	Completed
<i>Asher's Path</i>	<i>Mashpee</i>	<i>56</i>	<i>56</i>		<i>9,348,000</i>	-	-	
<i>Hemenway Apartments</i>	<i>Boston</i>	<i>183</i>	<i>183</i>		<i>14,370,193</i>	-	-	
<i>Heritage House</i>	<i>Newberryport</i>	<i>101</i>	<i>101</i>		<i>6,743,000</i>	-	-	
<i>Hope Gardens</i>	<i>Attleboro</i>	<i>160</i>	<i>160</i>		<i>9,591,445</i>	-	-	
<i>Rolfe House</i>	<i>Lynn</i>	<i>70</i>	<i>70</i>		<i>3,564,000</i>	-	-	
<b>Totals</b>		1,921	1,820	88,887,000	214,228,565	852	1,728,000	

## PRIM ETI QUARTERLY UPDATE

Asset Class: Private Equity - Early-Stage Venture Capital Quarter Ending: 3/31/10

Firm: Castile Ventures – Castile III

**People:** Nina Saberi (Founder/Managing Partner), Marcia Hooper (Partner), Roger Walton (Partner), Carl Stjernfeldt (Partner) & Mark Ain (Venture Advisor)

**AUM:** \$100 million      **Committed Capital:** \$10 million      **Capital Called:** \$5,550,000

### Program Objective

Castile III will target 15-18 early-stage investments of \$6-10 million in companies that focus on IT services, systems, software and components. They define early-stage to include pre-plan (formation), pre-product (development) and pre-revenue (initial expansion) companies. The General Partner anticipates investing 30% of Fund III in pre-plan companies, 40% in pre-product companies and 30% in pre-revenue companies.

### Performance & Residual Benefits of Program in Massachusetts

Through March 31, 2010, the Fund has called 56% of capital to make nine investments. The PRIT Fund's position has a current value \$4.3 million which is slightly below the investment's gross cost. To date, the Fund has generated a **net IRR since inception of negative 13.7%**. This compares to 5.8% for the top quartile and -0.6% for the median.

To date, roughly one third of capital has been allocated to four Massachusetts based companies. Those companies, as well as two companies with operations in MA, currently employ 257 individuals in the Commonwealth. A breakdown of the aggregate professionals was not provided.

## PRIM ETI QUARTERLY UPDATE

Asset Class: Private Equity - Early-Stage Venture Capital Quarter Ending: 3/31/10

Firm: Flagship Ventures – Flagship 2004

**People:** Noubar Afeyan, PhD (Managing Partner and CEO), Ed Kania (Managing Partner and Chairman), Douglas G. Cole, M.D. (General Partner), Jim Matheson (General Partner), Harry Wilcox (CFO & Partner) & Doug Levinson, PhD (Partner).

AUM \$151,531,000 Committed Capital: \$10 million Capital Called: \$9.2 million

### Program Objective

Flagship generally serves as a lead investor, and over 80% of investments are seed or first round. Initial investments typically range from \$2.5 million to \$4 million. They may invest up to \$15-20 million during the life of a venture and typically form a syndicate that includes other leading venture firms. The focus is on creating new life science and information technology ventures that are first in their category, typically incorporating significant intellectual property and potential for long-term value creation. Through an intense entrepreneurial seed phase, they design and validate a suitable business model for the opportunity and assemble the initial management team and advisors who can lead the new venture into the next phase and beyond.

### Performance & Residual Benefits of Program in Massachusetts

Through March 31, 2010, the Fund has called 92% of capital to make eighteen investments. The PRIT Fund's position has a current value \$9.3 million or 1.0 times contributed capital. The fund's **net IRR since inception of 0.3%** compares to 5.8% and -0.6% for top quartile and median for venture capital funds in the 2004 vintage, respectively. The 2004 Fund portfolio is beginning to mature, and there have been positive developments in many of the portfolio companies.

To date, 84% of the portfolio's cost basis is allocated to fourteen Massachusetts companies that have a total of 382 employees. Those investments include nine healthcare/biotechnology companies, three high technology companies and two energy focused companies. A breakdown of the aggregate professionals employed by those companies is provided below.

CEO	CFO	CTO	CSO	VP	Finance	HR/Admin	Sales & Marketing	Technical - Scientists/Engineers	General Counsel
11	6	3	3	26	17	23	54	237	2



## PRIM ETI QUARTERLY UPDATE

Asset Class: Private Equity - Early-Stage Venture Capital Quarter Ending: 3/31/10

Firm: Flagship Ventures – Flagship 2007

**People:** Noubar Afeyan, PhD (Managing Partner and CEO), Ed Kania (Managing Partner and Chairman), Douglas G. Cole, M.D. (General Partner), Jim Matheson (General Partner), Harry Wilcox (CFO & Partner) & Doug Levinson, PhD (Partner).

**AUM:** \$125,400,000      **Committed Capital:** \$20 million      **Capital Called:** \$7.5 million

### Program Objective

Flagship generally serves as a lead investor and over 80% of investments are seed or first round. Initial investments typically range from \$2.5 million to \$4 million. They may invest up to \$15-20 million during the life of a venture and typically form a syndicate that includes other leading venture firms. The focus is on creating new life science and information technology ventures that are first in their category, typically incorporating significant intellectual property and potential for long-term value creation. Through an intense entrepreneurial seed phase, they design and validate a suitable business model for the opportunity and assemble the initial management team and advisors that can lead the new venture into the next phase and beyond.

### Performance & Residual Benefits of Program in Massachusetts

Through March 31, 2010, the Fund has called 38% of capital to make 18 investments with a total value of \$8.7 million (1.2 times cost). On a gross basis the portfolio is valued slightly above cost. The **net IRR since inception of negative 13.9%** compares to 2.1% for the top quartile and -3.2% for the median. With that said, it is still very early for this fund.

Fourteen of those investments accounting for 68% of total cost to date are based in MA. Those companies currently employ 337 professionals. A breakdown of the aggregate professionals employed by the MA based companies is provided below.

CEO	CFO	CTO	CSO	VP	Finance	HR/Admin	Sales & Marketing	Technical - Scientists/Engineers	General Counsel
11	4	2	5	14	12	24	37	226	2

## PRIM ETI QUARTERLY UPDATE

Asset Class: Real Estate Quarter Ending: 3/31/10

Firm: Canyon-Johnson Urban Fund II, L.P.

AUM: \$11,688,000\* Committed Capital: \$20,000,000 Capital Called: \$17,658,784

\*from PRIM's Mellon Performance Report

### Program Objective

The Canyon-Johnson Urban Fund II, L.P. was formed to identify, enhance and capture value through the development and redevelopment of real estate in densely populated, ethnically diverse urban communities. The Fund's objectives are to seek current income and capital appreciation and, in addition to meeting its investment goals, Canyon-Johnson II is committed to providing for and fostering economic opportunities for the residents of the urban neighborhoods in which the Fund invests. Canyon-Johnson Urban Fund II is a successor to Canyon-Johnson Urban Fund I, L.P.

### Performance

	<u>Quarter</u>	<u>1 Year Annualized</u>	<u>3 Year Annualized</u>	<u>Inception to Date (4/30/2005)</u>
Return*	-10.20%	-25.51%	-9.80%	-6.76%
Benchmark Return**	-2.11%	-16.85%	-3.41%	4.84%
Difference (in basis points)	-809	-866	-639	-1,160

\*Performance as reported in the Mellon Performance Report. Real estate ETI Funds are primarily invested in development projects with a three to five year lifecycle. These situations require substantial initial capital investment with returns expected upon project completion and lease up.

\*\*The NCREIF Property Index (one qtr. lagged) is a Core property benchmark used to track stabilized, institutional grade properties. While being the best current benchmark option for PRIM's ETI investments, it measures an alternate class of real estate investment. In the early stages of the program, staff is focused more on deal flow quality and relative returns between managers.

### Residual Benefits of Program in Massachusetts

CJUF II made its first investment in Boston, partnering with locally-based Cathartes Private Investments on a transit-oriented, workforce housing development featuring 146 residential rental units adjacent to the Sullivan Square MBTA station in Charlestown just two miles from downtown Boston. The Project is comprised of 15 affordable and 131 market-rate units, all of which represent workforce housing at a discount to Cambridge and Boston prices. The development has helped meet the significant demand for affordable and market-rate housing in this ethnically diverse area and has transformed the existing 1.9 acre industrial site. Located in the historic "Little Neck" section of Charlestown, the site is convenient to major retail, eating and entertainment venues. Moreover, both the construction and management of the Project have resulted in job creation and an increase in the assessed value of the property.

**Massachusetts Pension Reserves Investment Management Board**

**Canyon Johnson Urban Fund II**

**Job Creation Matrix  
State of Massachusetts Only**

**For the Quarter ended: March 31, 2010**

**I. Property Name: 50 Brighton Street, Charlestown, MA - Mezzo**

<b>By Trade</b>	<b>No. of Jobs Created</b>	<b>Total Labor Hours</b>	<b>Total Labor Cost</b>
Laborers	30	14,109	\$1,058,210
Carpenters	50	28,715	\$2,153,620
Bricklayers	10	4,000	\$300,020
Cement Finishers	15	15,119	\$1,133,910
Teamsters	2	625	\$50,000
Operating Engineers	12	18,303	\$1,281,240
Ironworkers	12	10,742	\$859,370
Roofers	8	2,166	\$184,150
Glaziers	14	6,246	\$418,450
Painters	10	2,400	\$180,000
Elevators Constructors	4	326	\$27,680
Plumbers	12	10,015	\$881,290
Pipe fitters	6	4,621	\$374,330
Sheet Metal Workers	6	10,980	\$944,240
Electricians	12	19,767	\$1,581,320
Property Management	5	22,400	\$672,000
Others	62	20,573	\$1,522,410
<b>Total</b>	<b>270</b>	<b>191,107</b>	<b>\$13,622,240</b>

**Comments**

1. 'Others' includes GC site superintendent and GC trailer crew, civil engineers, Fire Sprayers, landscapers, cabinet installers, tillers, waterproofers, geotechnical engineers and carpenters.
2. The above matrix does not include police detail or city inspectors.
3. The above matrix is an estimate of jobs created since the beginning of the project.

**Affordable Housing:**

As of March 31, 2010, the building was 97% leased (i.e., 141 units), including 15 affordable units.

***Mezzo Lofts***

<b>Type of Units Completed</b>	<b># of units at market</b>	<b># of affordable units</b>
Rental Units	131	15
For Sale Units		

<b>Grand Total</b>	<b>270</b>	<b>191,107</b>	<b>\$13,622,240</b>
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## PRIM ETI QUARTERLY UPDATE

Asset Class: Real Estate Quarter Ending: 3/31/10

Firm: New Boston - Urban Strategy America Fund ("USA Fund")

AUM: \$2,778,000\* Committed Capital: \$10,000,000 Capital Called: \$5,234,579

\*from PRIM Mellon Performance Report

### **Program Objective**

The [Urban Strategy America Fund, L.P. \("USA Fund"\)](#) is a private real estate investment fund with the goal of generating a competitive return on investment to our investors while striving to make a significant and positive economic, social and environmental impact on the areas where it invests. The USA Fund will focus on the acquisition, redevelopment and development of mid-market, multi-family residential, office, warehouse/distribution, and retail properties in the Eastern United States.

### **Performance**

	<u>Quarter</u>	<u>1 Year Annualized</u>	<u>3 Year Annualized</u>	<u>Inception to Date (11/30/2006)</u>
Return*	15.11%	42.01%	-16.59%	-16.75%
Benchmark Return**	-2.11%	-16.85%	-3.41%	-0.76%
Difference (in basis points)	1,722	5,886	-1,318	-1,751

\*Performance as reported in the Mellon Performance Report. Real estate ETI Funds are primarily invested in development projects with a three to five year lifecycle. These situations require substantial initial capital investment with returns expected upon project completion and lease up.

\*\*The NCREIF Property Index (one qtr. lagged) is a Core property benchmark used to track stabilized, institutional grade properties. While being the best current benchmark option for PRIM's ETI investments, it measures an alternate class of real estate investment. In the early stages of the program, staff is focused more on deal flow quality and relative returns between managers.

### **Residual Benefits of Program in Massachusetts**

In addition to the primary goal of producing a strong rate of return, the USA Fund evaluates every investment based on its potential impact on the community and the environment. An ideal USA Fund project would:

- Create permanent and construction jobs for local residents, women and minorities;
- Create housing for sale and for rent that address all levels of affordability;
- Stimulate third-party development and economic development in an area to create a ripple effect;
- Project components that offer goods, services and amenities that are missing or underrepresented in a community and leverage the creation of infrastructure to benefit the broader community (i.e. transit, traffic, utility, recreation, etc. improvements); and
- Develop and acquire "Green Buildings" that utilize sustainable and energy efficient technology.

**Massachusetts Pension Reserves Investment Management Board  
Economically Targeted Investments**

**Urban Strategy America Fund – New Boston**

**Job Creation Matrix  
State of Massachusetts Only**

**For the Quarter ended: March 31, 2010**

**I. Property Name: Olmsted Green, Mattapan, MA**

<b>By Trade</b>	<b>No. of Jobs Created</b>	<b>Total Labor Hours</b>	<b>Total Labor Cost</b>
Laborers	66	31,887	\$892,836
Carpenters	168	80,512	\$2,254,336
Bricklayers	9	4,680	\$131,040
Cement Finishers	18.25	8,760	\$245,280
Teamsters	0	0	\$0
Operating Engineers	18	7,560	\$211,680
Ironworkers	5	2,208	\$61,824
Roofers	18	8,730	\$244,440
Glaziers	0	0	\$0
Painters	38	18,080	\$506,240
Elevators Constructors	0	0	\$0
Plumbers	25	12,164	\$340,592
Pipe fitters	15	7,154	\$200,312
Sheet Metal Workers	3	1,560	\$43,680
Electricians	29	13,724	\$384,272
Others	47	22,794	\$638,232
<b>Total</b>	<b>459</b>	<b>219,813</b>	<b>\$6,154,764</b>

**Comments**

Olmsted Green Phase 1 Homeownership (19 units) and Olmsted Rental 1 (51 units) completed construction in November 2008. All units are certified for occupancy. The rental units are 100% occupied. Four of the Homeownership units are sold and have closed.

Olmsted Rental 2, 50 units, started site-work in early March 2009. All phases of construction progressed well through the construction period. Construction is complete with only final landscaping and exterior punch-list remaining. Six of the seven buildings are certified for

occupancy with the final building to be completed and certified later in May. The project has moving well and we are excited for final completion in late May.

## **Affordable Housing**

### *Olmsted Green*

<b>Type of Units Completed</b>	<b># of units at market</b>	<b># of affordable units</b>
Rental Units		92
For Sale Units	19	

## **II. Property Name: The Schoolhouse, Dorchester Lower Mills, MA**

<b>By Trade</b>	<b>No. of Jobs Created</b>	<b>Total Labor Hours</b>	<b>Total Labor Cost</b>
Laborers	6	3,120	\$87,360
Carpenters	22	11,440	\$320,320
Bricklayers	1	520	\$14,560
Cement Finishers	4	2,080	\$58,240
Teamsters	0	0	\$0
Operating Engineers	0	0	\$0
Ironworkers	0.5	240	\$7,280
Roofers	2	1,040	\$29,120
Glaziers	0	0	\$0
Painters	11	5,720	\$160,160
Elevators Constructors	0.5	240	\$7,280
Plumbers	17	8,840	\$247,520
Pipe fitters	4	2,080	\$58,240
Sheet Metal Workers	6	3,120	\$87,360
Electricians	8	4,160	\$116,480
Others	12	6,240	\$174,720
<b>Total</b>	<b>94</b>	<b>48,840</b>	<b>\$1,368,640</b>

## **Comments**

Schoolhouse was completed January 2008

**Affordable Housing**

***The Schoolhouse***

<b>Type of Units Completed</b>	<b># of units at market</b>	<b># of affordable units</b>
Rental Units	56	6
For Sale Units		

**III. Parcel 24 is not yet underway**

<b>GRAND TOTAL</b>	<b>553</b>	<b>268,653</b>	<b>\$7,523,404</b>
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## PRIM ETI QUARTERLY UPDATE

Asset Class: Real Estate Quarter Ending: 3/31/10

Firm: Intercontinental Real Estate Investment Fund IV, LLC

AUM: \$4,780,000\* Committed Capital: \$10,000,000 Capital Called: \$10,000,000

\*from PRIM Mellon Performance Report

### Program Objective

Intercontinental Real Estate Investment Fund IV, LLC (IREIF IV), a New England focused, closed-ended commingled real estate investment fund, seeks to target new development projects and acquisitions of real property assets which require construction, rehabilitation, repositioning and financial restructuring. The overall objective of the Fund is to provide favorable risk adjusted returns.

### Performance

	<u>Quarter</u>	<u>1 Year Annualized</u>	<u>3 Year Annualized</u>	<u>Inception to Date (6/30/2005)</u>
Return*	-8.04%	-10.23%	-18.49%	-15.12%
Benchmark Return**	-2.11%	-16.85%	-3.41%	4.25%
Difference (in basis points)	-593	662	-1,508	-1,937

\*Performance as reported in the Mellon Performance Report. Real estate ETI Funds are primarily invested in development projects with a three to five year lifecycle. These situations require substantial initial capital investment with returns expected upon project completion and lease up.

\*\*The NCREIF Property Index (one qtr. lagged) is a Core property benchmark used to track stabilized, institutional grade properties. While being the best current benchmark option for PRIM's ETI investments, it measures an alternate class of real estate investment. In the early stages of the program, staff is focused more on deal flow quality and relative returns between managers.

### Residual Benefits of Program in Massachusetts

IREIF IV has invested in six development projects including two in Massachusetts; Ten Faxon Avenue in Quincy, MA (Residential) and 371-401 D Street in South Boston, MA (Residential, Mixed-Use). Ten Faxon closed Q1 2010 with an 88.5% occupancy rate, which is an eight percent increase from Q1 2009 occupancy of 80.5%. Ten Faxon's leasing staff maintained a strong occupancy while receiving twenty two applications through the first quarter. Seven of these applications were submitted through the local brokers.

Given the current condition of the housing market the start of construction on D Street has been delayed until market conditions improve. Other options are being explored, which include the potential change in use from residential to office, retail, hotel, parking or a combination thereof. Conversations continue with officials from the Boston Redevelopment Authority to explore alternate options of development for this site.

**Massachusetts Pension Reserves Investment Management Board  
Economically Targeted Investments**

**Intercontinental Real Estate Investment Fund IV**

**Job Creation Matrix  
State of Massachusetts Only**

**For the Quarter ended: March 31, 2010**

**Property Name: Ten Faxon Avenue, Quincy, MA.**

<b>By Trade</b>	<b>No. of Jobs Created</b>	<b>Total Labor Hours</b>	<b>Total Labor Cost</b>
Laborers	51	32,500	\$2,275,000
Carpenters	92	58,850	\$4,119,500
Bricklayers	17	10,750	\$752,500
Cement Finishers	6	4,100	\$287,000
Teamsters	23	14,400	\$1,008,000
Operating Engineers	18	11,200	\$784,000
Ironworkers	42	27,000	\$1,890,000
Roofers	3	2,100	\$147,000
Glaziers	17	11,000	\$770,000
Painters	11	6,800	\$476,000
Elevators Constructors	8	4,800	\$336,000
Plumbers	29	18,350	\$1,284,500
Pipe fitters	23	14,450	\$1,011,500
Sheet Metal Workers	14	8,800	\$616,000
Electricians	31	19,950	\$1,396,500
Others	0	0	\$0
<b>Total</b>	<b>385</b>	<b>245,050</b>	<b>\$17,153,500</b>

**Comments**

Above Total Labor Hours and Total Labor Cost figures are estimates based on total project hard costs of \$37,568,525. No. of Jobs Created is based on estimated labor hours with the assumption of average job duration of four months.

### **Affordable Housing**

Intercontinental contributed an amount equivalent to 20 affordable units at Ten Faxon Ave. to the City of Quincy's Affordable Housing Trust.

#### ***Ten Faxon***

<b>Type of Units Completed</b>	<b># of units at market</b>	<b># of affordable units</b>
Rental Units	200	20
For Sale Units	0	0

#### **Property Name 371-401 D Street, South Boston, MA**

<b>By Trade</b>	<b>No. of Jobs Created</b>	<b>Total Labor Hours</b>	<b>Total Labor Cost</b>
Laborers	0	0	\$0
Carpenters	0	0	\$0
Bricklayers	0	0	\$0
Cement Finishers	0	0	\$0
Teamsters	0	0	\$0
Operating Engineers	0	0	\$0
Ironworkers	0	0	\$0
Roofers	0	0	\$0
Glaziers	0	0	\$0
Painters	0	0	\$0
Elevators Constructors	0	0	\$0
Plumbers	0	0	\$0
Pipe fitters	0	0	\$0
Sheet Metal Workers	0	0	\$0
Electricians	0	0	\$0
Others	0	0	\$0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>\$0</b>

### **Comments**

This two phase development project originally consisted of the construction of 585 residential units located in Boston's Seaport/South Boston neighborhood. The Project received approval

from the Boston Redevelopment Authority in the third quarter of 2006. However, Intercontinental continues to evaluate a number of development options.

**Affordable Housing**

371-401 D Street will offer 76 units of affordable housing.

<b>GRAND TOTAL</b>	<b>385</b>	<b>245,050</b>	<b>\$17,153,500</b>
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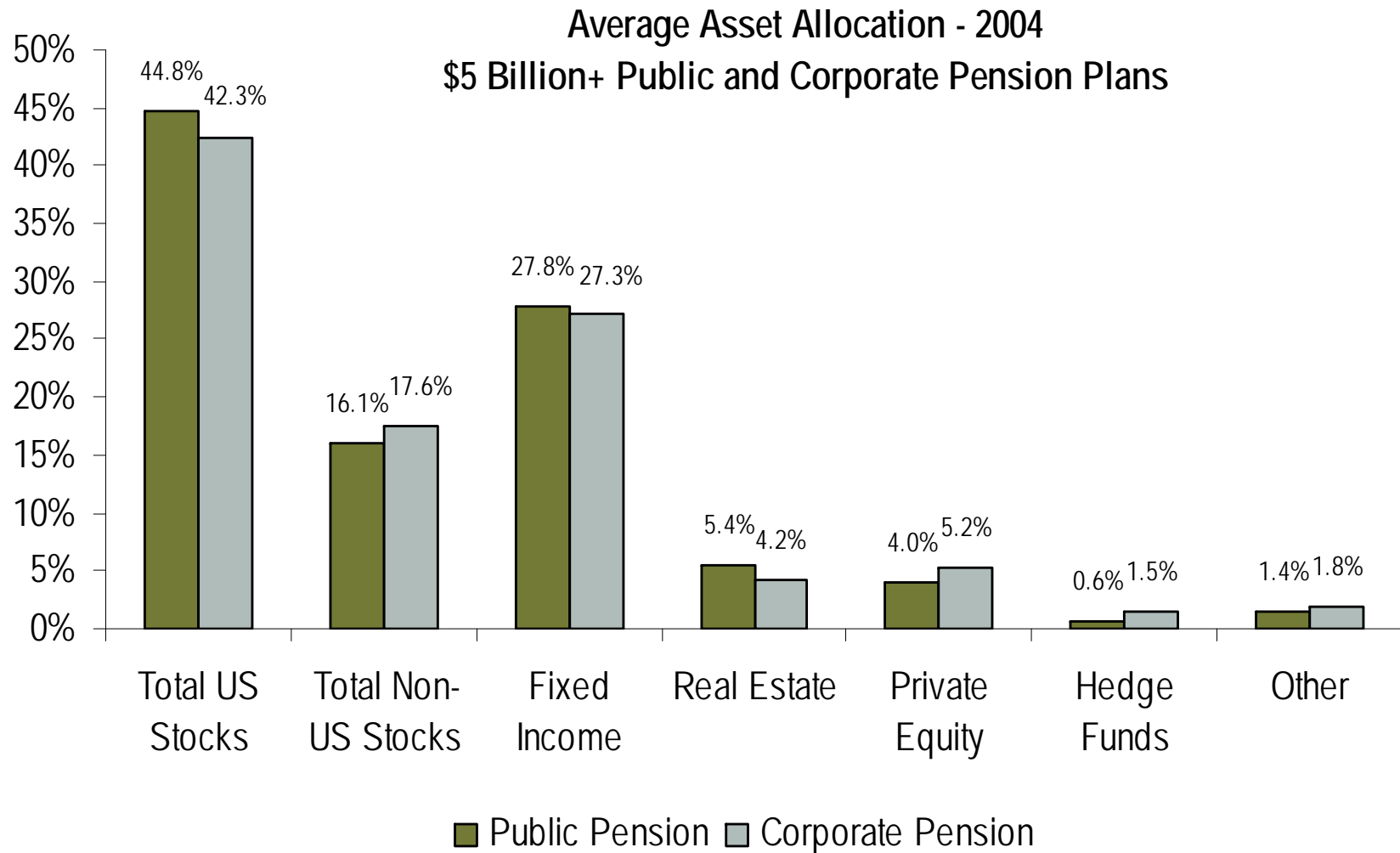
# Asset Allocation Trends Public Pension Plans vs. Corporate Pension Plans

June 2010



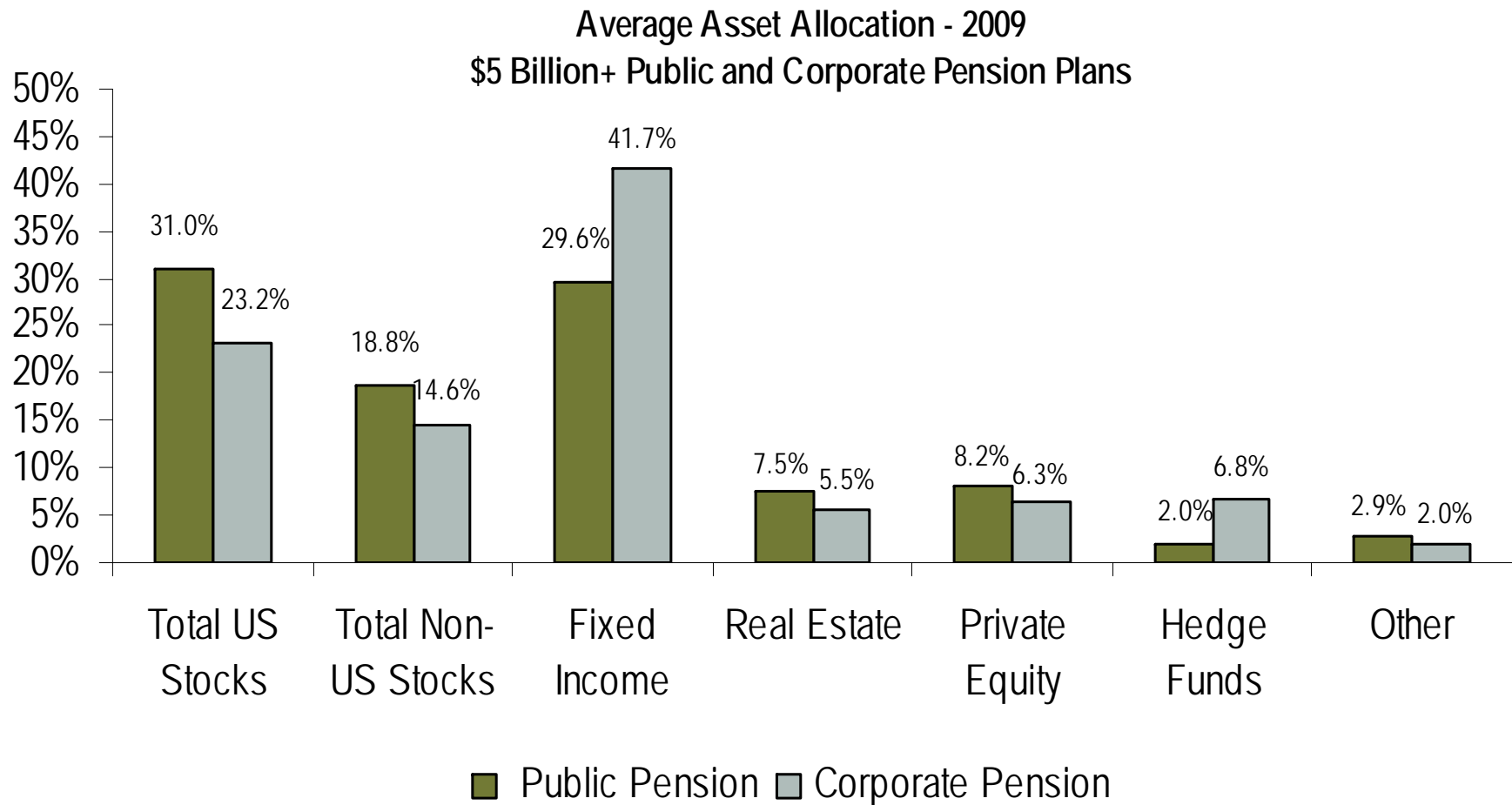
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# Public Pension vs. Corporate Pension Asset Allocation – 2004



Source: Greenwich Associates: 2004 Market Dynamics; Public and Corporate Funds with assets of over \$5 billion.

# Public Pension vs. Corporate Pension Asset Allocation – 2009



Source: Greenwich Associates: Market Trends 2009 ; Public and Corporate Funds with assets of over \$5 billion.



## Summary of Allocation Shifts Over the Past Five Years

	Public Pension Plans	Corporate Pension Plans
Stocks	-11.1%	-22.1%
Bonds	+1.8%	+14.4%
Alternatives + Other	+9.2%	+7.9%

- There are two primary drivers for the shifts in asset allocation observed over the past 5 years
  - 1) Plan sponsors have sought diversification benefits and/or increased returns by moving monies out of equities and into alternative assets
    - Both public and corporate pension plans have participated in this trend; each has increased allocations to real estate, private equity, and hedge funds over the past five years while decreasing allocations to stocks
  - 2) Corporate plan sponsors have reduced allocations to stocks and increased allocations to long duration bonds
    - The passage of the Pension Protection Act (PPA) of 2006, which applies to corporate plans but not public plans, has been the catalyst for this change

# Implications of the Pension Protection Act of 2006 for Corporate Pension Plans

- Under the Pension Protection Act, corporations:
  - Are less able to smooth (i.e., manage) valuations of assets and liabilities
  - Face onerous consequences for falling below certain funded status thresholds
  - Must amortize any funding shortfall over a period of seven years
- In response to PPA, corporations:
  - 1) Made sizable plan contributions (if able) in an attempt to bring funded status above “at-risk” thresholds, and
  - 2) *Became very concerned with surplus return volatility*
- Surplus return volatility = Asset Return – Liability Return (“Liability Return” = growth in liabilities)
  - Since PPA significantly curtails the ability to smooth valuations and heavily penalizes corporations that don’t maintain specified funding status levels, any sudden increase in pension liability or decrease in pension asset level can have severe consequences
  - Decreasing surplus return volatility became a primary focus of corporate pension plan management
  - PPA stipulates that corporations value liabilities based on liability-duration-matched AA corporate bond interest rates
    - Exposure to long-duration bonds therefore provides a good hedge on liability returns
  - For this reason, most corporations over the past several years have:
    - 1) Increased the duration of their bond allocation to better match the duration of their liabilities
    - 2) Increased the size of their bond allocation

# Volatility Comparison – Public Pension vs. Corporate Pension

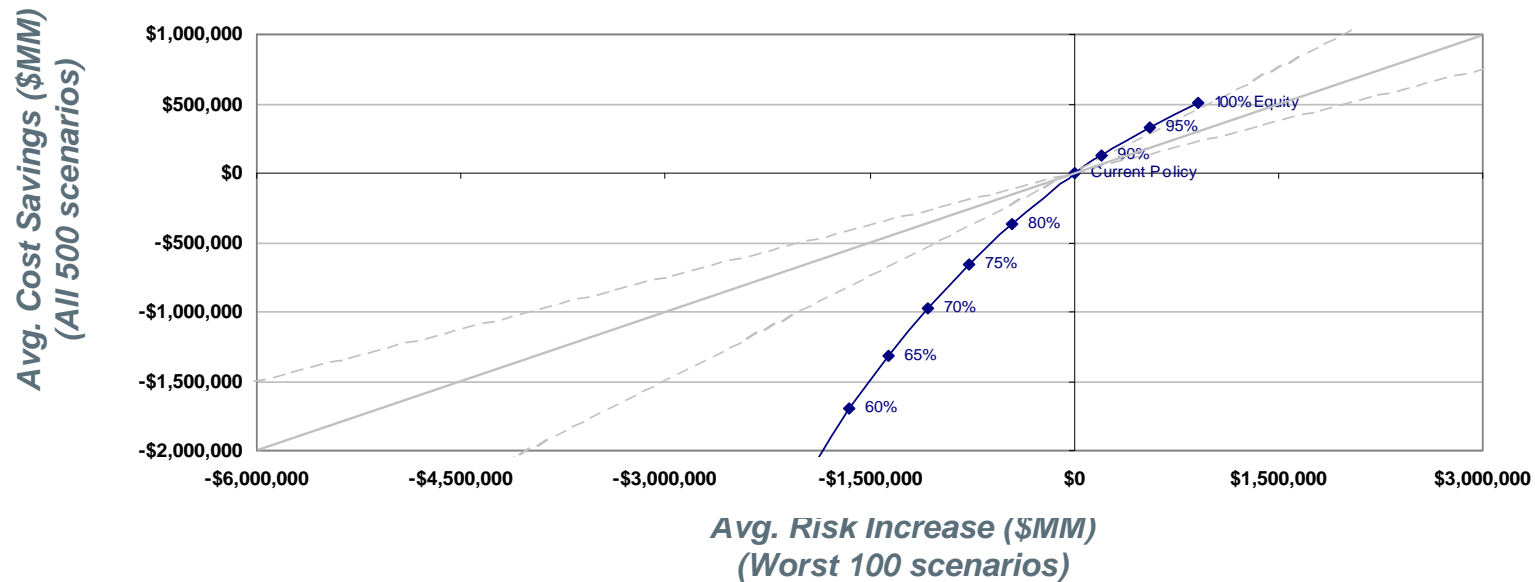
	Public Pension > \$5 Billion 2004	Corporate Pension > \$5 Billion 2004	Public Pension > \$5 Billion 2009	Corporate Pension > \$5 Billion 2009	MassPRIM Long-Term Target Allocation -- 2004	MassPRIM Long-Term Target Allocation -- 2010
U.S. Stocks	44.8%	42.3%	31.0%	23.2%	26.0%	--
Non-U.S. Stocks	16.1	17.6	18.8	14.6	20.0	--
Global Stocks	--	--	--	--	--	49.0%
Aggregate Bonds	27.8	27.3	29.6	--	10.0	10.0
Long Duration Bonds	--	--	--	41.7	--	--
Inflation-Linked Bonds	--	--	--	--	5.0	3.0
Value-Added Bonds	--	--	--	--	9.0	6.0
Real Estate	5.4	4.2	7.5	5.5	10.0	10.0
Private Equity	4.0	5.2	8.2	6.3	10.0	10.0
Hedge Funds	0.6	1.5	2.0	6.8	5.0	8.0
Timber/Natural Res.	--	--	--	--	5.0	4.0
Other*	1.4	1.8	2.9	2.0	--	--
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Forecasted Return	6.8%	6.9%	6.9%	6.8%	7.3%	7.4%
Forecasted Volatility	12.2	12.4	11.8	10.9	12.8	13.6

- By increasing the size of the bond allocation and lengthening its duration, corporate pension plans have meaningfully decreased *surplus* volatility, but the impact on *absolute* volatility has been more modest than might be assumed
  - The volatility of long duration bonds falls between that of stocks and aggregate bonds
- PRIM's target allocation, forecasted return, and forecasted volatility in 2004 and at present are depicted in the rightmost columns, for reference

## Differences in Risk Tolerance

- As shown on the previous slide, public pension plans do, on average, have a slightly riskier asset allocation posturing than corporate pension plans
- This posturing is justified by the differing funding regulations applicable to corporate and public plans
  - Corporate plan sponsors must fund shortfalls over 7 years (per PPA)
  - Public funds typically have 15-30 years to amortize shortfalls
    - A shorter amortization period reduces a plan's ability to bear investment risk
  - Furthermore, many corporate pension plans are closed or frozen so their ultimate horizon is shorter than that of public plan

# Implications for PRIM



*The risk/reward chart based on the measure of long-term economic cost supports the current policy allocation.*

- The funding and accounting regulations applicable to corporate pension plans and public pension plans differ, which has implications for asset allocation policy
- The Asset/Liability study that was conducted in 2009 (which took into account the funding and accounting regulations applicable to PRIM) confirmed that PRIM's risk posturing was appropriate given PRIM's circumstances
- We do not recommend that PRIM make any changes to its risk posturing at this time

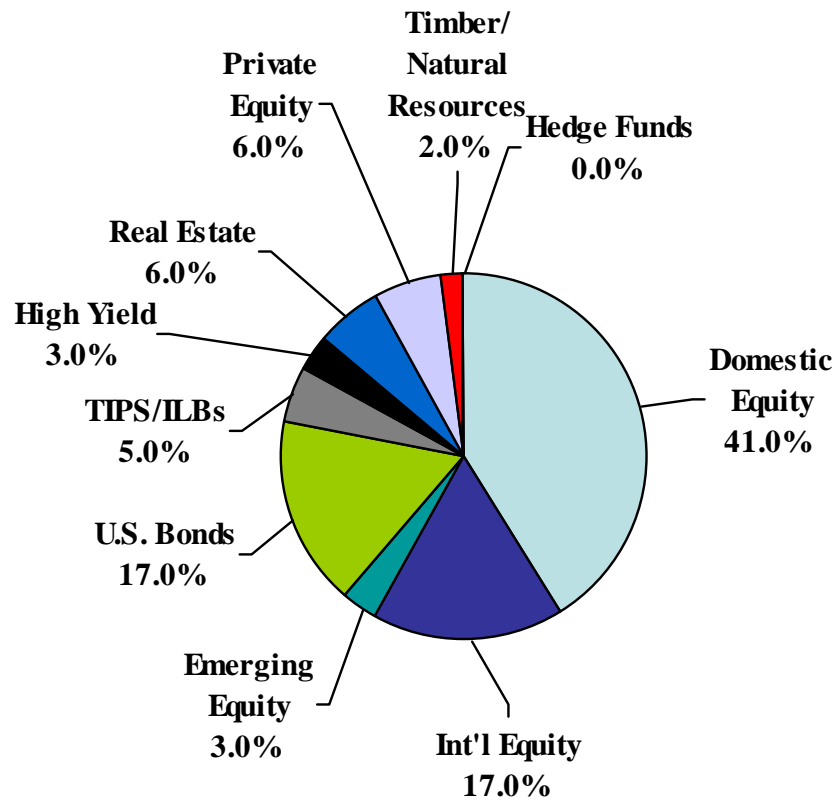


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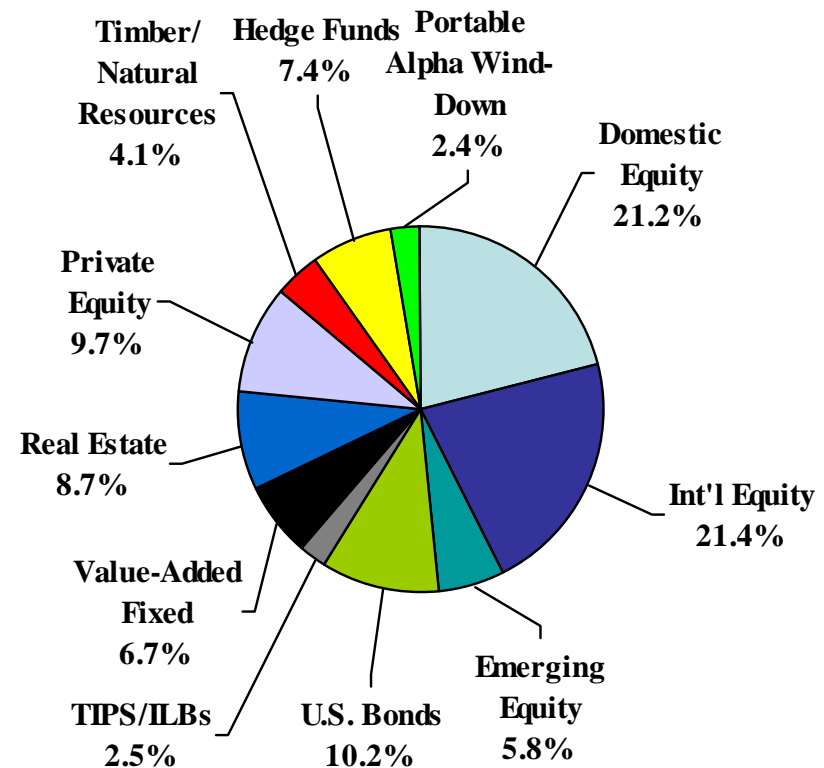
**Did The Asset Allocation Changes Made in 2003 Increase  
Return & Reduce Risk?**

***PRIT Fund Asset Allocation:  
The PRIT Fund Has Significantly Less in US  
Stocks than it did in 2002***

**1/01/03 Allocation**



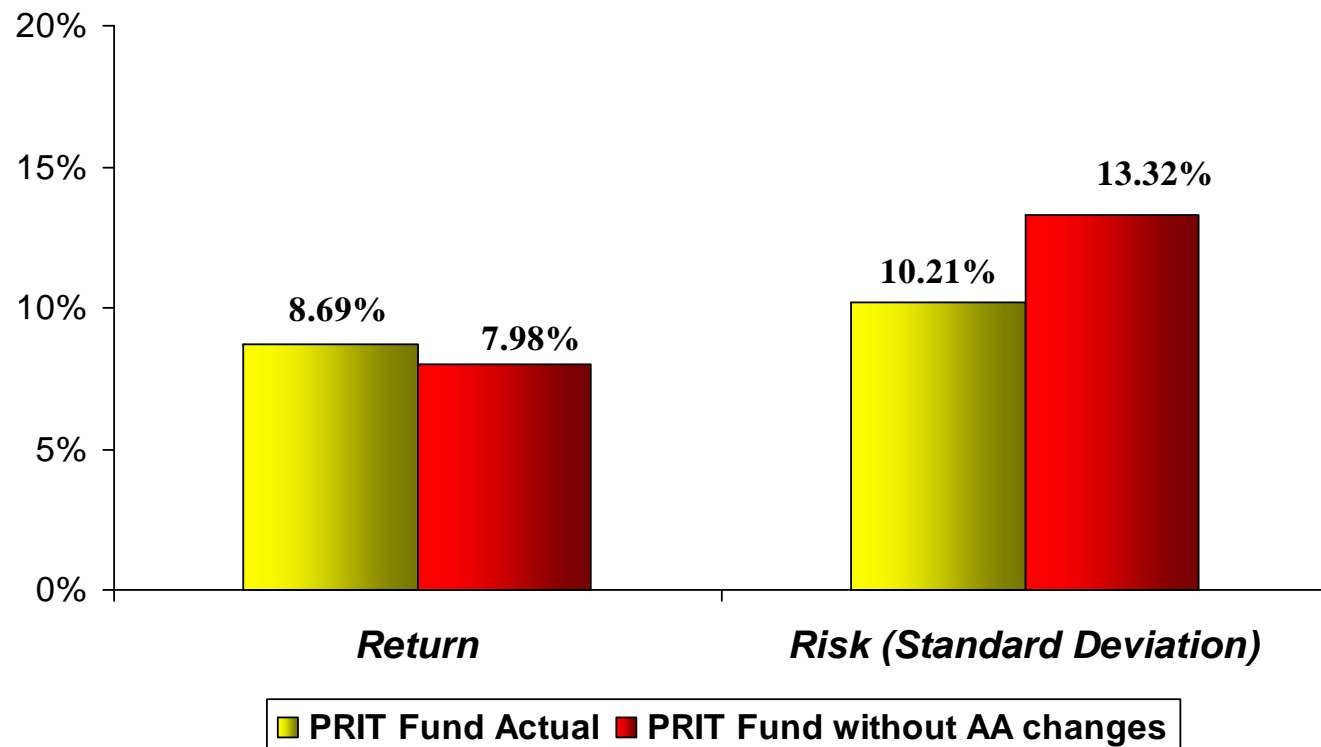
**3/31/10 Allocation**





***The Changes Made Since 2002 Has Reduced the Risk of the PRIT Fund & Increased The 7.25-Year Annualized Return & Risk As of 3/31/2010***

**An 8% Increase In Return & A 30% Decrease in Risk**



## **What were the benefits to the PRIT Fund?**

- The increased return is worth an additional \$326 million per year to the fund each year or about \$2.4 billion in total over the 7.25 years
- The increase expense cost to the fund is an additional 8 basis points per year, about \$36.7 million per year or about \$266 million in total over the 7.25 years
- Net of the total increased expenses, the fund is \$2.1 billion better off than if the changes were not made
- Viewed in the context of an investment, we spent an additional \$36.7 million per year to earn an additional \$326 million per year or about 8.9x our investment
- Viewed in the context of risk reduction, each basis point of incremental expense reduced the risk of the fund by 39 basis points
- During this period, the PRIT Fund is ranked in the 10<sup>th</sup> percentile of public plans with a market value greater than \$1 billion

**PENSION RESERVES INVESTMENT MANAGEMENT BOARD**  
**Board Meeting**  
**Private Equity Agenda**  
**Tuesday, June 1, 2010**  
**9:30 A.M.**

- A. Private Equity Performance Summary
- B. 2010 Commitment Summary Year to Date
- C. New Private Equity Opportunities
  - 1. Gilde Buy-Out Fund IV
  - 2. Ethos Private Equity VI
  - 3. SAIF Fund IV
- D. Interim Recommendations (For Review Only)
  - 1. Avenue Special Situations Fund VI

## A. Private Equity Performance Summary

### Portfolio Summary

PRIM Board Private Equity Portfolio Performance as of December 31, 2009 (\$000s) <sup>3</sup>					
Committed	Contributed <sup>1</sup>	Distributed	Market Value	Total Value	Net IRR <sup>2</sup>
\$11,571,161	\$8,096,778	\$7,317,008	\$4,268,321	\$11,585,329	12.72%

1. Contributions include fees.
2. Net IRR since inception, as calculated by Hamilton Lane's Portfolio Reporting System.
3. Excludes Alternative Fixed Income and Private Natural Resources partnerships.

### 2010 Cash Flows<sup>1</sup>

Quarter	Contributions <sup>2</sup>	Distributions	Net Cash Flow
31-Mar-10	\$ 107,457,401	\$ 120,550,895	\$ 13,093,494
30-Jun-10			\$ -
30-Sep-10			\$ -
31-Dec-10			\$ -
<b>TOTAL</b>	<b>\$ 107,457,401</b>	<b>\$ 120,550,895</b>	<b>\$ 13,093,494</b>

1. Excludes Alternative Fixed Income and Private Natural Resources partnerships.
2. Contributions include fees.

## B. 2010 Commitment Summary Year to Date

<b>PRIM</b> <b>Private Equity</b> <b>2010 Deal Summary</b> <b>(\$ in Millions)</b>				
*Denotes existing PRIM relationship				
<u>Partnership</u>	<u>Investment Focus</u>	<u>Special Equity</u>	<u>Venture Capital</u>	<u>Total PRIT Commitment</u>
<u>Approved at the April 6th Board Meeting</u>				
Polaris Venture Partners VI*	Multistage VC		\$ 20	
Rembrandt Venture Partners II	Early stage VC - Info. Tech		\$ 20	
<u>To be presented at the June 1st Board Meeting</u>				
Gilde Buy-Out Fund IV	Mid market buyout - Benelux region	\$ 38		
Ethos Private Equity VI	Mid market buyout - South Africa	\$ 40		
SAIF Partners IV	Late stage VC - China & India		\$ 25	
Flagship 2010 Fund*	Early stage VC - Life Sciences		\$ 20	
<b>Subtotal</b>		<b>\$ 78</b>	<b>\$ 85</b>	<b>\$ 163</b>
<b>Totals</b>		<b>\$ 78</b>	<b>\$ 85</b>	<b>\$ 163</b>
<b>2010 Investment Plan</b>				<b>\$1,000</b>
<b>Remaining To Be Committed</b>				<b>\$837</b>
<b>PRIM</b> <b>Alternative Fixed Income</b> <b>2010 Deal Summary</b> <b>(\$ in Millions)</b>				
*Denotes existing PRIM relationship				
<u>Partnership</u>				<u>Total PRIT Commitment</u>
<u>Approved as an interim recommendation</u>				
Avenue Special Situations VI*	Large market distressed debt		\$ 150	
<b>2010 Totals</b>			<b>\$ 150</b>	
<b>2010 Investment Plan</b>				<b>\$500</b>
<b>Remaining To Be Committed</b>				<b>\$350</b>

## C. New Private Equity Opportunities

### 1. Gilde Buy-Out Fund IV

Founded in 1982, Gilde is one of the oldest private equity groups in Europe and the Benelux. Gilde Buy Out Partners is a mid-market leveraged buy-out team with a core focus on the Benelux region and a secondary focus on the German-speaking (Germany, Austria and Switzerland) and French economies. The group's core strength lies in its ability to create exclusive deal flow which allows the team to conduct thorough due diligence on businesses in order to select investment opportunities with the greatest inherent value. Gilde actively pursues buy and build strategies that offer significant long-term value, in close partnership with strong and aligned management teams. Over the past 26 years, Gilde has executed a disciplined approach to private equity investing in the Target Region, and the track record achieved over this time demonstrates their strong reputation and network in the market with local managers, owners, intermediaries and banks.

Gilde has been active in private equity investments since 1982. In 1994, it completed its first middle-market buyout in the Benelux region, and in 1996 formed its first dedicated buyout fund with commitments from four institutional investors, including Rabobank. In 1996, Rabobank became the cornerstone investor of Fund I and the sole owner of the management company; however, the team remained independent and Rabobank never received any preferential terms. In 2005, Rabobank sold 100% of Gilde Investment Management to the respective investment teams (now Gilde Buy Out Partners, GEM Benelux and Gilde Healthcare). GEM Benelux focuses on buyout, buy-in and growth investments in smaller companies, whereas Gilde Healthcare invests in early stage biotechnology and pharmaceutical companies. Gilde Buy-Out Partners, GEM Benelux and Gilde Healthcare are managed by fully independent and separate partnerships and only share a back-office staff. Rabobank's limited partner commitment has been substantially reduced over time: 76% in GBOF I, 37% in GBOF II and 31% in GBOF III; its stake in Fund IV is expected to decrease to 13% of total commitments.

Gilde Buy-Out Fund IV intends to invest in control situations and provide the necessary support to enhance significant changes in performance in order to maximize the level of operational value creation. The General Partner will continue to focus on its core sectors, which are consumer, industrial/manufacturing and services. Target sector allocation is 40% in industrial, 30% in consumer and 30% in services. Gilde has a clear value creation approach based on their proven ability to source what Gilde believes to be exceptional acquisition opportunities on advantageous terms; putting in place strategies and mechanisms, in partnership with management, to drive operational excellence and managing optimal exit strategies. Gilde actively pursues buy and build strategies that offer significant long-term value, together with experienced senior and aligned management teams. While the regional strategy was refined in the mid-1990s, the team has expanded its market presence with the establishment of its Paris office in 2001 and Zurich office in 2004, which are staffed with fully dedicated teams of buy-out professionals. In 2008, Gilde opened offices in Brussels, staffed semi-permanently with two professionals, and Frankfurt as a satellite office to facilitate the execution of local transactions and to intensify local marketing efforts. These offices broaden Gilde's deal flow from the core Benelux market to the neighboring economies, and have helped ensure that Gilde continues to see and execute what Gilde believes to be some of the most attractive industrial investment opportunities across the target region.

Once invested, Gilde actively manages and closely monitors its portfolio companies, which typically involves using its position as the controlling shareholder and board member. Gilde's buy and build strategy focuses on market expansion, add-on acquisitions, disposal of non-core assets, strategy enhancement, operational improvements, asset/liability transactions, working capital improvements and creation of stable bank financing. Gilde remains patient and only invests in companies that satisfy the criteria inherent in its disciplined investment process. Despite reviewing approximately 500-600 deals annually, Gilde will typically only invest in three to five portfolio investments per annum, as it does not believe in the scalability of exclusivity and relationships with management teams. Gilde has been able to generate top quartile

returns through all economic cycles since 1996, when it launched its first dedicated buy-out fund. Gilde is able to minimize its exposure to highly cyclical companies as a result of its disciplined investment process as well as its focus on exclusive deal flow and value creation through buy and build strategies.

The team is led by Boudewijn Molenaar, who is supported by three managing Directors responsible for leading the other main offices: Mr. Wyss in Zurich, Mr. Thole in Brussels and Mr. Bekx in Paris. The four Managing Directors are supported by four Directors, one Investment Director, five Investment Managers and six Associates.

Medium-sized private companies within Gilde's size parameters (€75-€400 million in enterprise value) are thought to form the backbone of the economies in the Benelux region. Yet despite the wealth of attractive middle market investment opportunities, the Benelux region is relatively uninhabited in terms of regionally focused private equity investors. At the larger end of the European buyout spectrum a number of large U.S. and U.K.-based firms have adopted a pan-European approach that contrasts with Gilde's proven, consistent regional focus. These larger firms also tend to acquire larger businesses that exceed the upper bounds of Gilde's investment range.

Performance as of December 31, 2009 (€in Millions)										
Fund	Vintage Year	Commitment	Called	Realized Value	Unreal. Value	Total Value	TV/Cost	Net IRR	VE TQ	VE Med
GBOF III	2006	600	476	120	401	521	1.09	5.0%	3.0%	-6.0%
GBOF II	2000	472	472	1,017	113	1,130	2.39	27.0%	18.0%	10.0%
GBOF I	1996	182	181	400	-	400	2.21	22.0%	22.0%	13.0%
<b>TOTAL</b>		<b>€1,254</b>	<b>€1,129</b>	<b>€1,537</b>	<b>€514</b>	<b>€2,051</b>	<b>1.82</b>	<b>16.6%</b>		

Data is gross unless otherwise noted.

1. Venture Economics Benchmarks are for European buyout as of September 30, 2009.

While the PRIT Fund already has exposure to the region through relationships with its Western European managers, this commitment would represent a more regional focus on the Benelux region. Gilde is a well-regarded buyout firm that has been able to deliver strong relative returns across multiple investment cycles. PRIM staff believes that Gilde's large network of relationships and strong brand name in the Netherlands will ensure proprietary deal flow in the region. This coupled with the team's ability to create significant value in portfolio companies through operating improvements and making add-on acquisitions should provide PRIM with strong returns going forward. Therefore, PRIM staff and the Investment Committee recommend an investment of €30 million (roughly \$38 million) for Gilde Buy-Out Partners IV. Hamilton Lane's recommendation can be found in **Appendix XX (Investment - Appendix XX Hamilton Lane Recommendation - Gilde BO Fund IV – 05102010)**.

Per PRIM's policy regarding third party marketing agent disclosures, PRIM staff would like to note that Gilde Buy-Out Partners utilized MVision Private Equity Advisers as a placement agent for Gilde Buy-Out Partners IV.

## **2. Ethos Private Equity VI**

Ethos Private Equity (Ethos) was formed in 1984 as South Africa's first private equity firm. It was initially formed by Andre Roux as the buyout division of First National Bank, which at that time was owned by Barclays. Ethos formed its first fund with third party commitments in 1992, and the firm has raised South Africa Rand (ZAR) 9 billion since inception. In 1996 the firm achieved independence from First National Bank, and Ethos acquired the final minority interest from FNB in 2009. Today Ethos is targeting \$750 million (roughly ZAR 5.6 billion) for Ethos Private Equity VI. The General Partner will commit 1% of the Fund commitments and may invest up to 5% through a co-investment arrangement.

Ethos targets control buyout, growth equity and replacement capital investments in leading, scale companies primarily in South Africa. The firm targets investments of ZAR 750 million to ZAR 2.5 billion (\$100-325 million) in companies benefiting from emerging market and strategic growth dynamics. Ethos seeks market leading companies with differentiated business models, barriers to entry, strong cash flows and experienced management teams. The firm utilizes leverage prudently and creates returns through operational improvements. The investment approach is theme-oriented and is currently focused on a shift from consumption-led to investment-led growth in South Africa, increased consumption led by the emerging black consumer and South Africa as the gateway to Sub-Saharan Africa (SSA). Up to 20% of Fund VI can be invested outside of South Africa, and the firm is currently favoring Nigeria, Ghana, Kenya, Uganda and Tanzania. PRIM staff believes that Ethos pursues a highly developed strategy which is appropriate for the target market.

As discussed above, Andre Roux formed Ethos in 1984, and he continues to lead the firm as its CEO. He currently oversees a team of 16 investment professionals based in Johannesburg. Ethos is owned by its 10 Principals with more than 150 years of aggregate private equity experience. Eight of the Principals have worked together for more than a decade, and the Principals are supported by three Senior Associates and three Associates. PRIM staff believes that Ethos employs a highly experienced and cohesive investment team that is well positioned to execute the firm's investment strategy.

Since inception, Ethos has invested ZAR 6.2 billion in 95 companies with a gross total value of ZAR 11.5 billion (1.9 times cost). The firm has exited 84 investments and generated ZAR 8.0 billion of total proceeds (1.3 times total cost). Across the entire track record, Ethos has only had four realized losses. Each of the mature funds exceeds the net IRR top quartile for US buyout funds on a ZAR basis, and only Fund IV misses the top quartile by 10 basis points on a USD basis. PRIM staff believes that Ethos has generated a consistently strong track record since the firm's inception in 1984. Ethos full track record is presented on the next page.



**Performance as of December 31, 2009 (in millions)**

<b>Fund</b>	<b>Vintage</b>	<b>Size</b>	<b>Cost</b>	<b>Realized Value</b>	<b>Unreal. Value</b>	<b>Total Value</b>	<b>TV/ Cost</b>	<b>ZAR Net IRR</b>	<b>USD Net IRR</b>	<b>VE TQ<sup>1</sup></b>	<b>VE Med.</b>
FNB	1984	ZAR 300.00	ZAR 300.54	ZAR 614.69	ZAR 8.51	ZAR 623.20	2.1	44.9%	39.6%	30.5%	23.9%
Ethos II	1992	ZAR 116.00	ZAR 110.88	ZAR 364.88	ZAR 0.00	ZAR 364.88	3.3	50.3%	36.6%	29.8%	18.3%
Ethos III	1996	ZAR 720.00	ZAR 718.83	ZAR 2,176.26	ZAR 0.00	ZAR 2,176.26	3.0	21.3%	13.5%	9.9%	5.2%
Ethos IV	2000	ZAR 2,300.00	ZAR 1,469.14	ZAR 4,833.85	ZAR 234.57	ZAR 5,068.42	3.4	21.6%	18.7%	18.8%	6.5%
Ethos V	2005	ZAR 5,644.00	ZAR 3,582.99	ZAR 56.47	ZAR 3,257.83	ZAR 3,314.30	0.9	NM	NM	4.7%	-1.1%
<b>TOTAL</b>		<b>ZAR 9,080.00</b>	<b>ZAR 6,182.38</b>	<b>ZAR 8,046.15</b>	<b>ZAR 3,500.91</b>	<b>ZAR 11,547.06</b>	<b>1.9</b>				

Data is gross unless otherwise noted.

1. Venture Economics Benchmarks are for US buyout as of September 30, 2009.

A commitment to Ethos Private Equity VI would represent PRIM's first private equity investment in South Africa or in Africa generally. PRIM staff believes that South Africa represents a logical geographic expansion for PRIM's Private Equity portfolio because South Africa combines first world corporations, financial institutions and infrastructure with emerging market growth characteristics. South Africa has a population of 49 million and a 2008 GDP of \$277 billion ranking it 32<sup>nd</sup> in the world. The country has a sophisticated banking system based on the British model which is supported by the independent South African Reserve Bank. The legal system is based on the Roman-Dutch and British models, and the Johannesburg Stock Exchange is the 19<sup>th</sup> largest in the world with a market cap of \$720 billion. Since the end of apartheid in 1994, South Africa has undertaken significant economic, political and social reforms. Today the country is led by the democratically elected African National Congress (ANC) which has used free market means to drive real but moderate enfranchising of a historically disadvantaged population. In 2009, South Africa held its fourth national election since the end of apartheid, and the ANC achieved just short of a two thirds majority. Jacob Zuma was inaugurated as the new president in May of 2009, and the new administration envisions no fundamental changes to public policy during the 2009-2014 electoral mandate period.

From 2004-2007, South Africa grew GDP in excess of 5% per annum. The country has been resilient through the global financial crisis and, after a down year of 2% in 2009, estimated 2010 GDP is expected to be 3%. The government had significantly committed to public infrastructure spending from 2009-2011 which should have a counter-cyclical impact. It is expected that nearly ZAR 800 billion (\$100 billion) will be invested over this period. Additionally, South Africa's fiscal balance sheet is among the best positioned in the developed world with gross government debt representing only 29.2% of GDP. This compares to foreign exchange reserves of \$35.8 billion. Ethos believes that long-term factors that will continue to underpin the economy include:

- Improved diversification in the economy - Mining and agriculture now represent only 8% of GDP and services have increased to one third of the economy.
- A clean and liquid banking system - The banking system has remained sound through the crisis and was ranked 6<sup>th</sup> in the world in terms of sophistication and soundness in the 2009-10 Global Competitiveness Report.

- Strong government and corporate balance sheets - Total government debt is projected to remain below 50% for the next several years, and JP Morgan believes that South African companies are holding cash representing nearly 45% of GDP.
- Monetary policy flexibility to sustain growth - Current interest rates in South Africa stand at 7% so there is a lot of room for cuts if the central bank deems necessary.
- Increased foreign exchange reserves to support the Rand – Net foreign reserves have improved from negative \$25 billion in 1999 to \$36 billion in 2009.

Additionally, South Africa has been the engine for growth in Sub-Saharan Africa (SSA) with more than 28% of SSA GDP attributable to the country in 2008. South Africa's leadership position on the continent as well as its stable western style banking and legal systems make it ideal as a platform for multinational companies to access the SSA growth opportunity.

In sum, Ethos Private Equity Fund VI represents a strong candidate for PRIM's buyout portfolio. PRIM staff believes that Ethos pursues a well developed strategy that is tailored to a very attractive and growing market. Staff further believes that Ethos employs a highly experienced team which is well positioned to outperform. PRIM staff also believes that Ethos has produced very strong returns over an extended period of time. Finally, staff believes that an investment in the South Africa market through a best of breed manager like Ethos is a logical addition to the PRIM Private Equity Program. PRIM staff and the Investment Committee recommend a capital commitment of \$40 million to Ethos Private Equity VI. Hamilton Lane's recommendation and a brief update memo are attached in **Appendix XX (Investment - Appendix XX Hamilton Lane Recommendation - Ethos PE VI – 05102010)** and **Appendix XX (Investment - Appendix XX Hamilton Lane Rec Addendum - Ethos PE VI – 05102010)**.

Per PRIM's policy regarding third party marketing agent disclosures, staff would like to note that Ethos Private Equity utilized Credit Suisse as a placement agent for Ethos Private Equity VI.

### 3. SAIF Fund IV

SAIF Partners IV L.P. is being formed to make private equity investments primarily in companies based, or with significant operations in the Asia-Pacific region. Fund IV will be managed by SAIF Management II Ltd., which is led by Andrew Yan and six senior investment professionals. In total, SAIF has 37 investment professionals and maintains primary offices in Hong Kong, Beijing, Shanghai, New Delhi and Mumbai. Fund IV is targeting total capital commitments of \$1.2 billion. Fund IV will focus its investment efforts primarily on China and, to a lesser extent, India.

The General Partner was founded as an affiliate of Softbank in 2001. Cisco was the sole limited partner in Fund I. The team receives only 15% of the carried interest in Fund I, while the remainder is allocated to Softbank. The Fund I focus was infrastructure technology, media & telecommunication sectors across China, India and Korea. SAIF

gained its independence from Softbank in 2004 and has gradually diversified its activity away from the technology, media & telecommunication sectors and decreased its Korean activity. The firm also moved away from technology risk in its portfolio companies.

SAIF believes that there is a strong cultural preference among entrepreneurs and management teams in the region to conduct business with local, long-term partners who can understand local business practices and work with them to achieve common goals. SAIF has been amongst the most active private equity investors in its core countries. The firm has led or co-led investments in more than 70 private companies in different stages of development over the past five years. Furthermore, in over 90% of these investments, SAIF was the first institutional investor.

The General Partner will continue to be an active, lead or co-lead investor, and will work closely with portfolio company management teams to significantly enhance the value of portfolio companies in Fund IV. SAIF anticipates that the majority of investments will be in China (~80%) and, to a lesser extent, India (~20%). It may also invest in the Asia-Pacific region on an opportunistic basis. SAIF will seek to deploy the majority of the capital in established cash-flow-positive companies, but may also invest up to 10% in certain early to mid-stage companies that demonstrate a competitive advantage or in partnership with a strategic partner. Consistent with the approach followed for the prior funds, SAIF will typically target individual equity investments of between \$20 million and \$60 million in one or more financings and will generally seek to obtain a significant minority equity ownership position in the range of 20% to 40% of a portfolio company. Follow-on investments may also be considered in order to finance portfolio companies which are achieving or exceeding their objectives, or when management and SAIF have identified new opportunities for growth.

SAIF expects to maintain the disciplined, value-based investment approach of the prior funds, which is focused on attractive entry valuations as well as opportunistic investing in companies which are undervalued relative to their long-term growth prospects. SAIF will adhere to the prior funds' proven investment strategy, which is characterized by: (i) a strong local presence and proprietary deal flow, (ii) growth oriented businesses, (iii) attractive purchase prices, (iv) rigorous due diligence and risk minimization, (v) active management of portfolio companies to create value, and (vi) determining appropriate exit times and strategies.

SAIF prides itself on a standardized and rigorous investment process to evaluate and debate both the merits and risks involved in each investment. The rigorous debating and comprehensive due diligence process often uncover issues which result in term sheet renegotiations or walking away from the transaction, even after substantial time and effort have been invested into a project. The legal due diligence and documentation process is detail-oriented to maximize minority investor rights to ensure that SAIF has a strong voice on all critical decisions and to minimize downside risks. The success of this investment discipline has been demonstrated not only in the attractive investments made in the prior funds but also in the attractive exits and remedial measures implemented in the investments which have not lived up to their potential.

Performance as of December 31, 2009 (\$ in Millions)										
Fund	Vintage Year	Commitment	Called	Realized Value	Unreal. Value	Total Value	TV/Cost	Net IRR	VE TQ	VE Med
SAIF III	2007	1,103	847	63	1,160	1,223	1.44	16.2%	3.0%	-12.8%
SAIF II	2005	643	619	262	1,148	1,410	2.28	23.2%	6.2%	-0.7%
SAIF I	2001	404	392	530	463	993	2.53	33.0%	7.3%	-0.7%
<b>TOTAL</b>		<b>\$2,150</b>	<b>\$1,858</b>	<b>\$855</b>	<b>\$2,771</b>	<b>\$3,626</b>	<b>1.95</b>	<b>22.1%</b>		

Data is gross unless otherwise noted.

1. Venture Economics Benchmarks are for US venture as of September 30, 2009.

A commitment to SAIF Partners IV would represent PRIM's first private equity investment in China and India or in Asia generally. PRIM staff believes that China, and to a lesser extent, India represent a logical geographic expansion for PRIM's Private Equity portfolio because this region has achieved global competitiveness and, in some cases, global leadership in many sectors of trade, manufacturing and technology development. SAIF believes that the core countries for Fund IV include some of the most dynamic and fastest growing economies in the world. In particular, from 2000 to 2008, China and India experienced estimated average real gross domestic product growth rates of 10.0% and 7.2%, respectively (compared to 2.5% of the U.S.). China boasts a large, relatively young consumer population with strong positive long-term trends in per-capita income growth and saving rates, and has the largest number of subscribers in the world in fixed line and cellular phones and the Internet. Mobile phone subscribers in India are also expected to grow three-fold from 143 million in 2006 to 434 million in 2010.

China has been experiencing annual GDP growth rates verging on double digits. Strong fiscal position and positive external balances have allowed China to stimulate its economy through the global financial crisis and maintain growth rates. Although per-capita GDP is still low relative to the developed world, it is becoming more meaningful and is expected to reach roughly \$4,000 by 2010. China's economy is primarily still export-led, but domestic consumption is growing and is the focus of government initiatives as the U.S. consumer, a significant source of demand for China's manufacturing base, faces challenges.

The Chinese equity markets have matured substantially over the last two decades. The average equity daily turnover for the country's two stock exchanges increased from RMB3.5 billion (US\$433 million) in 1995 to RMB220 billion (US\$32 billion) in 2009. The number of domestic companies with stock market listings increased from 345 to nearly 2,000 (1,700 in China, 156 in Hong Kong, and 200 listed overseas) from 1995 to 2009. At end of 2009, the combined market value of Mainland Chinese companies listed on stock exchanges exceeded US\$3.5 trillion, the second largest in the world behind the combined NYSE Euronext28 and NASDAQ OMX.

In February 2010, the Shenzhen and Shanghai stock exchanges traded at 38x and 27x P/E, respectively. The SME (Small, Medium Enterprise Board) and GEM (Growth Enterprise Market Board) markets trade at much higher multiples – at 45x and 88x, respectively.

Investor sentiment in India and China continues to be on a high, compared to other markets, in the first quarter this year. India investor sentiment is very high mainly due to strong domestic consumption and positive economic outlook. Indian investors showed increased optimism across a number of areas in spite of the rising inflation.

Indian Finance Minister Pranab Mukherjee has indicated the government might withdraw some of the stimulus measures announced during the economic meltdown, hoping that India's growth rate would climb back to a level between 8.25 and 8.75% in 2011. He further added that the doubling of the benchmark stock market index Sensex from a low of around 9,000 to the present level of 18,000 was a market reflection of the improved scenario.

Industrial output in India grew at the fastest pace in almost two decades. In December 2009, the industrial output grew at 16.8% year-over-year. The manufacturing sector, which constitutes approximately 80% of industrial output, grew by 18.8% year-over-year helped by strong output growth in the automobile and capital goods sectors. The output of both these sectors grew at 46% year-over-year and 38.8% year-over-year, respectively.

In conclusion, SAIF has built one of the largest and most experienced investment teams in China, making it a key player in the private equity market. PRIM staff believes that SAIF's strong network, along with the reputation of its management team will continue to bring strong proprietary deal flow to the firm. Therefore, PRIM staff and the Investment Committee recommend an investment of \$25 million for SAIF Partners IV. Hamilton Lane's recommendation can be found in **Appendix XX (Investment - Appendix XX Hamilton Lane Recommendation - SAIF IV – 05102010)**.

Per PRIM's policy regarding third party marketing agent disclosures, PRIM staff would like to note that SAIF Partners did not utilize a placement agent for SAIF Partners IV. PRIM staff dealt directly with the General Partner on this due diligence process.

#### **D. Interim Recommendations (For Review Only)**

##### **1. Avenue Special Situations Fund VI**

Avenue Capital (Avenue) was formed in 1995 by Marc Lasry and Sonia Gardner to focus on distressed and special situations investing. Prior to founding Avenue, Mr. Lasry and Ms. Gardner founded Amroc Investments, LLC. Amroc was initiated in 1989 as a \$100 million distressed debt investment partnership organized in association with the Robert M. Bass Group, Inc. Today Avenue has \$18.6 billion in assets under management across all strategies including North America distressed debt (\$10.4 billion), Europe distressed debt (\$3.8 billion), Asia distressed debt (\$2.8 billion), real estate (\$125 million), CLO (\$1.3 billion) and hedge fund-of-funds (\$220 million). The core philosophies of the firm include a value orientation, deep due diligence, an aversion to fund-level leverage and a willingness to take an active role on creditor or steering committees. In 2006, Avenue sold a 20% equity interest in the firm to Morgan Stanley for \$280 million. The General

Partner committed to re-investing the proceeds in Avenue investment vehicles and Morgan Stanley has no control over the General Partner. PRIM has a relationship with Avenue dating back to 2006 including roughly \$235 million of capital commitments across Avenue Special Situations Fund V (2007 - \$150 million) and Avenue Europe Special Situations Fund (2008 - €65 million). Avenue is currently targeting \$2-3 billion for Avenue Special Situations Fund VI to continue the North America distressed debt strategy. The General Partner commitment will be at least \$50 million. Fund VI will have a three year investment period followed by a two year harvesting period. Management fees of 1.25% will only be charged on capital that has been drawn and not returned, and the carried interest of 20% is effective after an 8% preferred return.

Avenue's original strategy was distressed debt investing in North America, and Avenue has raised \$9.3 billion and invested \$20 billion across five private equity funds since 1995. The firm also manages two hedge funds (Avenue Investments LP and Avenue International LTD) and separate accounts with \$1.7 billion of assets under management utilizing the same strategy. Investment opportunities are allocated among the private equity funds, the hedge funds and the separately managed accounts on a pro-rata basis based on available cash. This allocation policy, more often than not, will tend to work in favor of the private equity funds.

The North America distressed debt strategy focuses on creating investments in asset rich companies or companies with predictable cash flows at low valuations primarily through senior debt securities. From a due diligence perspective, the firm looks at investments from both a bottoms-up, fundamental perspective and from a top-down, theme generation perspective. The goal of the macro due diligence is to allow Avenue to select industries that are undergoing periods of rapid change and/or deterioration, which may provide significant opportunities as cycles run their course. To mitigate risk and create alpha, the General Partner diversifies across both industries and capital structures, performs deep and detailed due diligence, has the ability to be active on committees to influence reorganization and bankruptcy processes and does not apply leverage. Investments will typically fall into four categories including value investments in performing senior bank debt and secured bonds, investments in performing distressed bonds, investments in defaulted bank debt and bonds or special situations such as post-reorg equities or trade claims. The Fund will be focused mainly on North American opportunities, but a select number of investments may be made in Europe along with Avenue Europe International Management. PRIM staff believes that Avenue pursues a strategy which has been refined across several distressed debt cycles.

On a global basis, Avenue employs 292 employees including 107 investment professionals operating out of offices in New York (Headquarters), London, New Delhi, Luxembourg, Munich, Bangkok, Singapore, Beijing, Shanghai, Manila, Hong Kong, Jakarta and Hanoi. Marc Lasry continues to act as Chairman and CEO, and Sonia Gardner acts as Managing Partner. The North America distressed debt team currently consists of 30 investment professionals based in New York. The Co-Founders provide oversight of the strategy, with Mr. Lasry taking the lead role on day-to-day investment management. He is complemented by Rob Symington (Senior Portfolio Manager), four

Portfolio Managers, nine Senior Vice Presidents, seven Vice Presidents, four Associates and one Junior Trader. The team includes both restructuring and workout experience, as well as deep industry expertise across the consumer, retail, healthcare, gaming & leisure, satellites, media, cable & wireless, printing & publishing, technology, autos & suppliers, manufacturing, telecom, transportation, airlines, real estate, building materials, financials, chemicals and oil & gas industries. PRIM staff believes that Avenue employs a large, deep and experienced team which is well positioned to outperform.

In early 2009, Bruce Grossman left Avenue following a long tenure as the Senior Portfolio Manager on the North America distressed debt team. He left over a difference of philosophy with Mr. Lasry regarding how the funds should be managed in the wake of the credit crisis. PRIM staff has spent considerable time with Avenue on this issue since the change originally occurred. Staff is confident that Mr. Grossman's departure will not have an adverse impact because Avenue has added considerable, impressive senior talent to the team since 2005. Staff also views Mr. Lasry's increased involvement in the day-to-day management of the funds as a positive given his experience, talent and track record. Though it has only been one year since the departure of Mr. Grossman, the early performance has been very strong.

Since inception, Avenue has drawn \$8.7 billion across all funds and invested \$20.6 billion after recycling generating a gross total value of \$23.0 billion across the North America distressed debt track record. Of the 327 investments included in the full track record, 231 investments have been exited and \$15.1 billion has been realized. Each of the five North America focused funds has generated a net IRR well in excess of the median for US buyout funds, and three funds have generated top quartile results. The firm's annualized net IRR since inception is 11.1%. PRIM staff believes that Avenue has generated compelling returns across a long track record. Avenue's full North America distressed debt track record is presented below.

Performance as of December 31, 2009 (\$ in millions)												
Fund	Vintage	Size	Called	Cost	Realized Value	Unreal. Value	Total Value	TV/ Cost	TV/ Called	Net IRR	VE TQ <sup>1</sup>	VE Med.
ASSF	1998	\$113.3	\$107.1	\$314.8	\$351.1	\$0.0	\$351.1	1.1	3.3	10.1%	10.9%	5.5%
ASSF II	2000	\$570.3	\$542.0	\$1,730.2	\$2,159.0	\$0.4	\$2,159.4	1.2	4.0	20.5%	18.8%	6.5%
ASSF III	2002	\$821.0	\$584.3	\$2,469.4	\$2,977.4	\$2.6	\$2,980.0	1.2	5.1	18.0%	21.8%	11.8%
ASSF IV	2006	\$1,684.6	\$1,602.1	\$4,676.8	\$3,591.1	\$1,510.1	\$5,101.2	1.1	3.2	6.9%	-4.0%	-8.1%
ASSF V	2007	<b>\$6,100.0</b>	<b>\$5,852.6</b>	<b>\$11,387.4</b>	<b>\$6,028.8</b>	<b>\$6,394.2</b>	<b>\$12,423.0</b>	1.1	2.1	<b>8.1%</b>	<b>0.4%</b>	<b>-12.9%</b>
<b>TOTAL</b>		<b>\$ 9,289.1</b>	<b>\$ 8,688.1</b>	<b>\$ 20,578.7</b>	<b>\$ 15,107.5</b>	<b>\$ 7,907.3</b>	<b>\$ 23,014.7</b>	<b>1.1</b>	<b>2.6</b>	<b>11.1%</b>		

Data is gross unless otherwise noted. PRIM investments are bolded.

1. Venture Economics Benchmarks are for US buyout as of September 30, 2009.

In summary, Avenue Special Situations Fund VI represents an attractive, core candidate for the PRIT Fund's distressed debt portfolio. PRIM staff believes that Avenue pursues a well developed and proven strategy. Staff further believes that Avenue's investment team is large and highly experienced despite the departure of Bruce Grossman in 2009. Finally, staff believes that Avenue has generated strong returns across its long track record. On May 12, 2010 the Board and the Investment Committee approved a capital

commitment of \$150 million through the Alternative Fixed Income program for Avenue Special Situations Fund VI.



# Final Investment Report

Gilde Buy-Out Fund IV, C.V.

January 11, 2010



HAMILTON LANE

**Confidentiality statement:**

This investment memorandum contains proprietary information, trade secrets and/or other sensitive information that are the sole property of Hamilton Lane. Hamilton Lane is submitting this information to the client solely for the purpose of assisting the client in evaluating investments for its private equity portfolio. This information is exempt from public disclosure. Hamilton Lane does not permit disclosure of proprietary information, trade secrets and/or other sensitive information to anyone other than the client's officers, employees and lawful agents.

\*\*\*\* IMPORTANT DISCLOSURES \*\*\*\*

The information contained in this report may include forward-looking statements regarding the fund presented or its portfolio companies. Forward-looking statements include a number of risks, uncertainties and other factors beyond the control of the fund or the portfolio companies, which may result in material differences in actual results, performance or other expectations. The opinions, estimates and analyses reflect our current judgment, which may change in the future.

The past performance information contained in this report is not necessarily indicative of future results and there is no assurance that the fund will achieve comparable results or that it will be able to implement its investment strategy or achieve its investment objectives. The actual realized value of currently unrealized investments will depend on a variety of factors, including future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions and circumstances on which the current unrealized valuations are based.

Any tables, graphs or charts relating to past performance included in this report are intended only to illustrate the performance of the fund or the portfolio companies referred to for the historical periods shown. Such tables, graphs and charts are not intended to predict future performance and should not be used as the basis for an investment decision.

\*\*\*\* IMPORTANT DISCLOSURES \*\*\*\*

## OVERVIEW

## Fund Information:

General Partner:	Gilde Buy Out Partners ("Gilde")
Fund:	Gilde Buy-Out Fund IV, C.V. ("GBOF IV")
Firm Inception:	1982
Target Size:	€800 million
Hard Cap:	€800 million
Strategy:	Mid-market buyouts
Geography:	Benelux (50-70%), German-speaking Europe (20-30%) and France (10-20%)
Team:	20 investment professionals
Senior Partners:	Boudewijn Molenaar, Ralph Wyss, Paul Bekx, Robert Thole
Locations:	Utrecht, Paris, Zurich, Brussels and Frankfurt (satellite office)
Equity Investments:	€20 million to €70 million
Industries:	i) Industrial (40%); ii) consumer goods (30%); and iii) services (30%)

## Prior Funds:

Fund	Vintage	Capital Committed (€mm)	% Drawn	Strategy
Gilde Buy-Out Fund I ("Fund I")	1996	€182	100%	Buyout
Gilde Buy-Out Fund II ("Fund II")	2000	472	100%	Buyout
Gilde Buy-Out Fund III ("Fund III")	2006	600	78%	Buyout

## Closing Schedule:

First Closing: €217 million (September 2009)

## Key Terms:

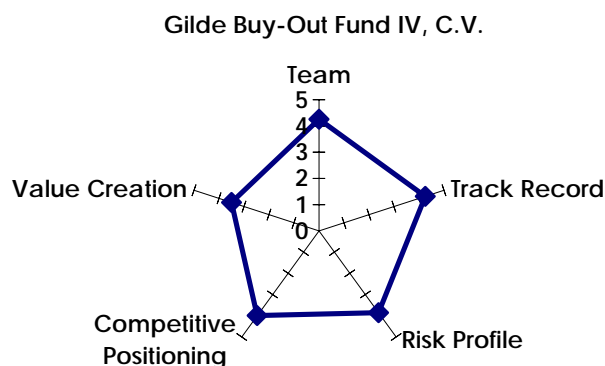
Investment Term:	5 years
Fund Term:	10 years, plus one two-year extension
Management Fee:	Investment period: 1.5% on committed capital Post-investment period: 1.5% of the acquisition cost of unrealized investments
Fee Offset:	Transaction fees will be offset against abort costs. If transactions fee are in excess of abort costs, 80% is charged to the Fund and 20% to General Partner
Carry / Hurdle:	20% / 8%
GP Commitment:	3% to 4%
Key Man:	i) Any four of Boudewijn Molenaar, Ralph Wyss, Paul Bekx, Robert Thole, Eric-Jan Vink, Nikolai Pronk, Martijn Schreurs, Hein Ploegmakers and Benjamin Barrière; or ii) two of Boudewijn Molenaar, Ralph Wyss, Paul Bekx and Robert Thole

## Investment Highlights:

- Cohesive and experienced team
- Generated attractive returns
- Good performance of unrealized portfolio through downturn
- Strong proprietary deal flow in the Netherlands
- Non-intrusive approach, but hands-on in underperforming companies

## Recommendation:

## Hamilton Lane General Partner Rating System (GPRS)



<u>Criteria</u>	<u>Score</u>
<i>Team</i>	4.3
<i>Track Record</i>	4.3
<i>Risk Profile</i>	3.9
<i>Competitive Positioning</i>	4.0
<i>Value Creation</i>	3.5
<b><i>Weighted Average</i></b>	<b>4.0</b>

About GPRS: The GPRS is a proprietary model developed by Hamilton Lane to evaluate each General Partner and provide a means to compare one fund to another on a more quantitative basis. Each of the five categories (Team, Track Record, Risk Profile, Competitive Positioning and Value Creation) is comprised of several subcategories which are weighted and totaled to create an overall value for the fund.

The ratings for each category and subcategory are 1 through 5, with 5 being the best.

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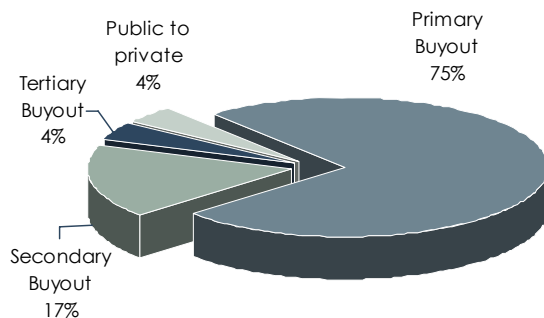
## Section 1 - INVESTMENT STRATEGY

### 1.1 APPROACH

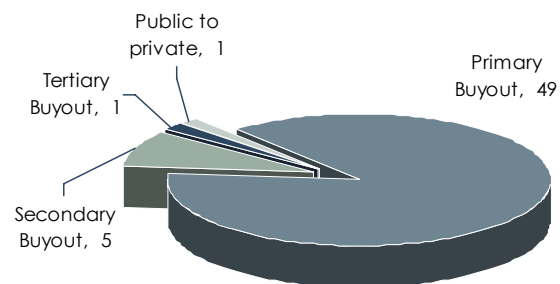
- Control mid-market buyouts
- Focus on Benelux and to a lesser extent on German-speaking Europe
- Diversified sector approach, with a focus on industry and consumer
- Proprietary sourcing through network of relationships

- Gilde will continue investing in the same strategy of control buyout investments in established companies.

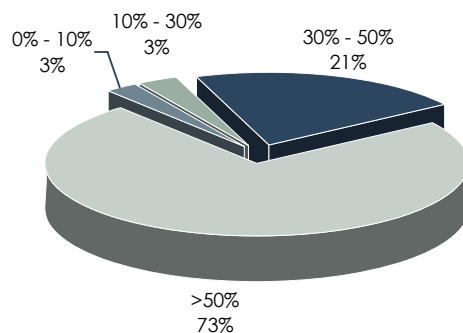
Historical Transaction Role by Amount Invested



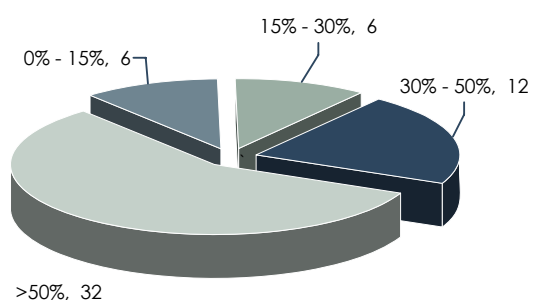
Historical Transaction Role by # of Investments



Historical Ownership by Amount Invested

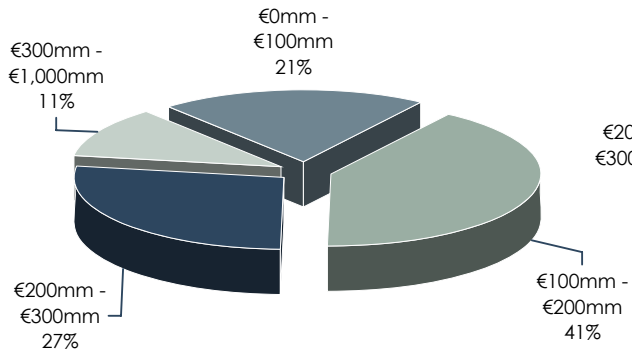


Historical Ownership by # of Investments

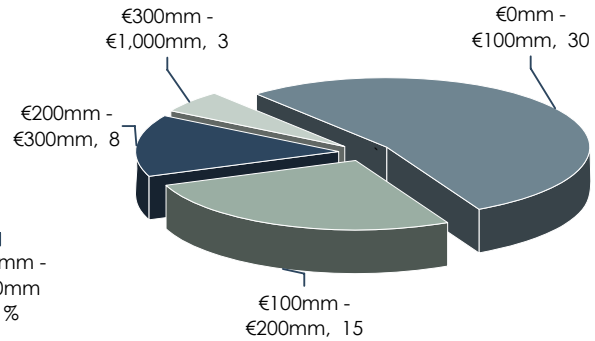


- The Fund will target middle-market companies, in the range of €75 million to €400 million of enterprise value and €20 million to €70 million of equity investment, in line with the General Partner's prior investment experience.

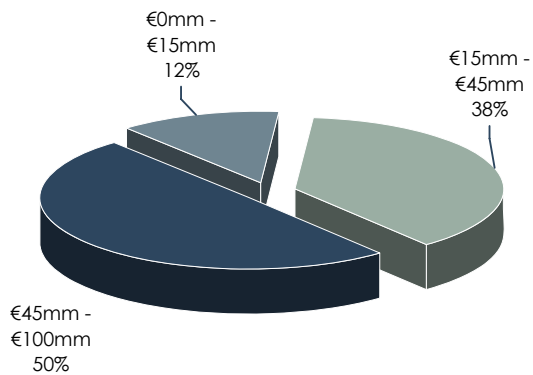
Historical Enterprise Value by Amount Invested



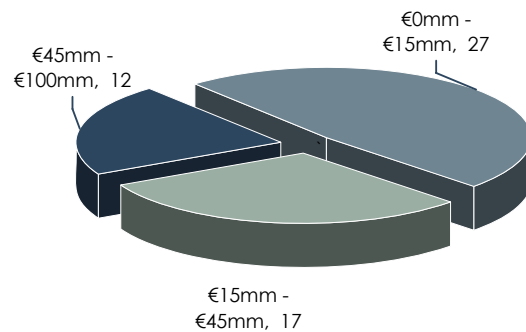
Historical Enterprise Value by # of Investments



Historical Inv. Size by Amount Invested

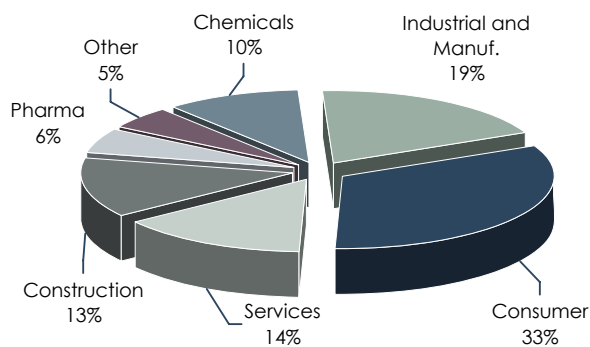


Historical Inv. Size by # of Investments

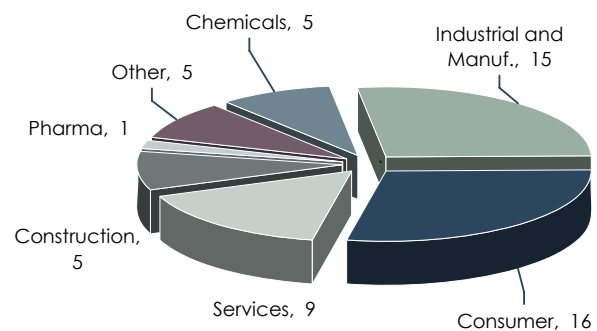


- The General Partner will continue to focus on its core sectors, which are consumer, industrial / manufacturing and services. Target sector allocation is 40% in industrial, 30% in consumer and 30% in services.

Historical Sector Allocation by Amount Invested

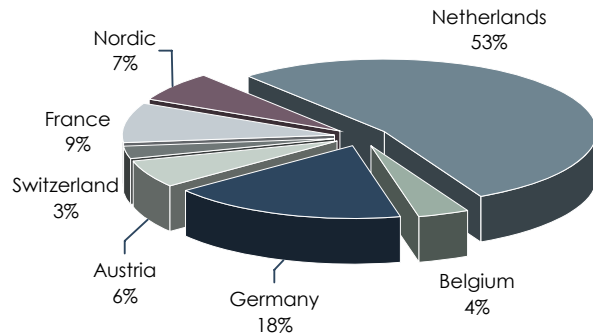


Historical Sector Allocation by # of Investments

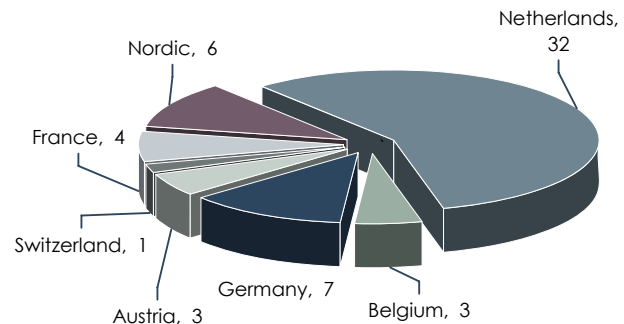


- The Fund will invest primarily in Benelux, and to a lesser extent in Germany, Austria and Switzerland (collectively, "DACH") and France.

Historical Country Allocation by Amount Invested

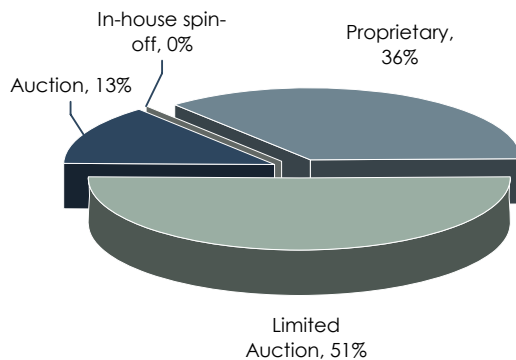


Historical Country Allocation by # of Investments

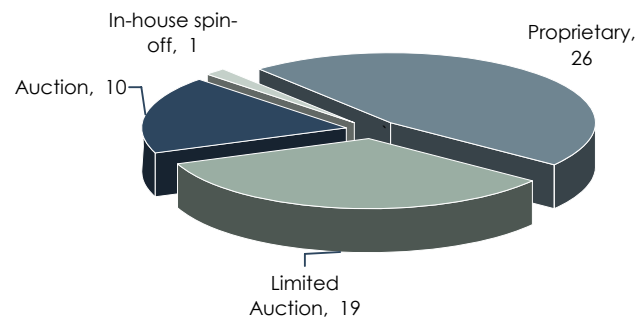


- Gilde originates proprietary investment opportunities through the network of relationships established by the investment team, particularly in the Benelux region. Since 2003, more than a third of investments were sourced directly by the team.

Historical Source by Amount Invested



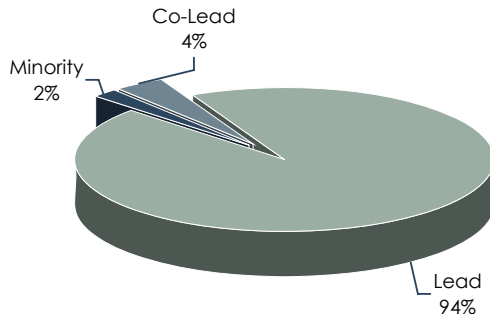
Historical Source by # of Investments



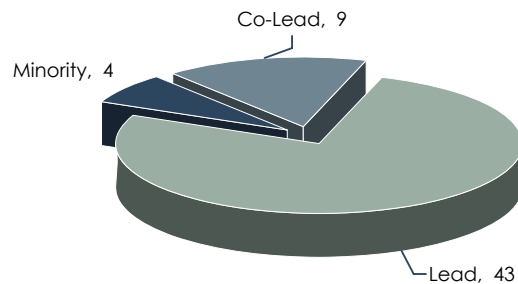
- Historically, the General Partner has been the lead investor in 94% of its investments (by cost) and has served on boards in most of them. The co-led and minority deals were early investments completed mostly in Fund I.



Historical Transaction Role by Amount Invested

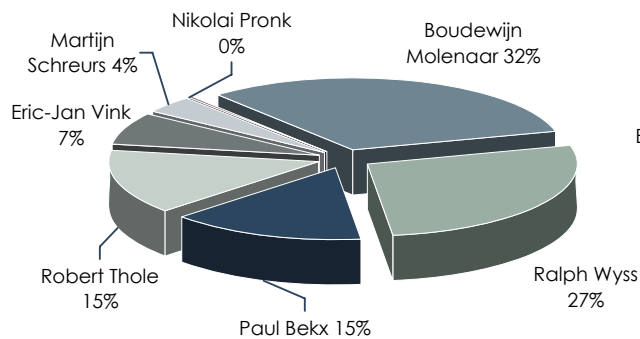


Historical Transaction Role by # of Investments

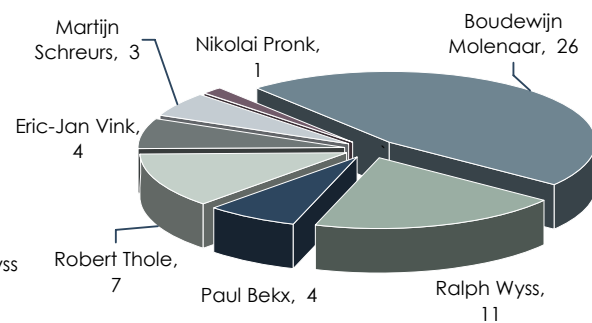


- Boudewijn Molenaar and Ralph Wyss have led a significant share of the transactions completed since inception. Eric-Jan Vink, Martin Schreurs and Nikolai Pronk are recently promoted Partners, whose role in sourcing and leading transactions is expected to increase during the life of the Fund.

Historical Principal Lead by Amount Invested

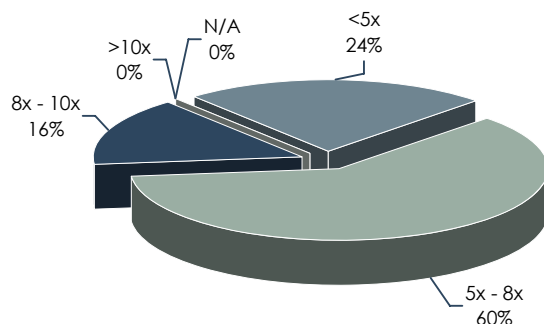


Historical Principal Lead by # of Investments

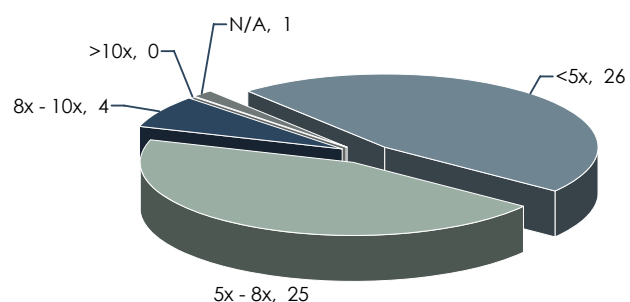


- The General Partner focuses on buying cash generative stable assets at a reasonable entry prices. Over the Prior Funds, the average EV/EBITDA multiple was 6.3x.

Historical Entry Multiple by Amount Invested

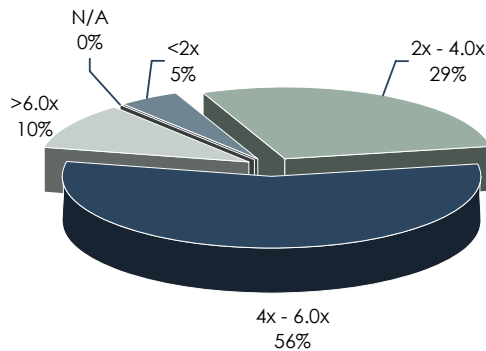


Historical Entry Multiple by # of Investments

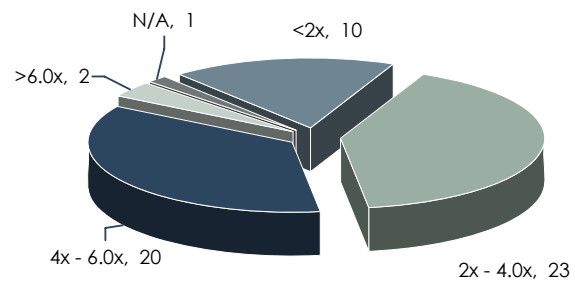


- The General Partner has made relatively limited use of leverage. Historical average leverage is 4.2x EBITDA.

Historical Entry Debt Multiple by Amount Invested



Historical Entry Debt Multiple by # of Investments



## 1.2 PORTFOLIO COMPOSITION

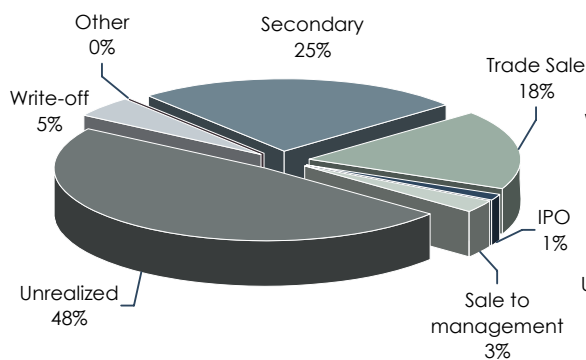
Fund Portfolio Construction	
Target number of deals completed per year	3 to 4
Target number of deals in Fund	14 to 16
Target equity investment sizes	€20m - €70m
Target enterprise values	€75m - €400m
Maximum % of Fund to be invested in single investment	10%*
Expected holding period	4-5 years
Expected years until Fund is fully invested	3.5-5 years
Target number of deals per partner	1.5 to 2

(1) The Fund may invest up to 15% in two portfolio companies.

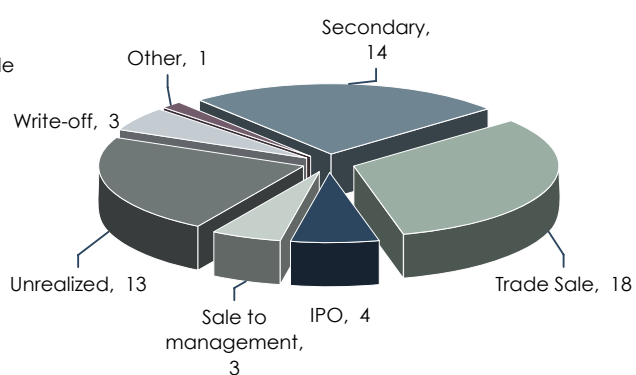
## 1.3 EXIT STRATEGY

- Gilde has exited 42 of the 56 investments completed since inception. The most common exit routes were trade and secondary sales.

Historical Exit Type by Amount Invested



Historical Exit Type by # of Investments



Note: Sale to management includes to investments exited below 0.5x original cost.

## 1.4 PEER GROUP/COMPETITION

Fund Manager	Benelux Competitors	DACH Competitors	France Competitors
3i	x	x	x
Abenex			x
Alpha Associates			x
Bridgepoint		x	x
Chequers			x
Cognetas		x	x
CVC	x		
ECM		x	
Egeria	x		
Hg Capital		x	
Industri Kapital		x	x
LBO France			x
Odewald		x	
Sagard			x
Waterland	x	x	

## **Section 2 - GENERAL PARTNER**

### **2.1 ORGANIZATION**

- Gilde has been active in private equity investments since 1982. In 1994, it completed its first middle-market buyout in the Benelux region and in 1996 formed its first dedicated buyout fund with commitments from four institutional investors, including Rabobank.
- In 1996, Rabobank became the cornerstone investor of Fund I and the sole owner of the management company; however, the team remained independent and Rabobank never received any preferential terms.
- In 2005, Rabobank sold 100% of Gilde Investment Management to the respective investment teams (now Gilde Buy Out Partners, GEM Benelux and Gilde Healthcare).
  - GEM Benelux focuses on buyout, buy-in and growth investments in smaller companies (enterprise value between €25 million and €75 million), whereas Gilde Healthcare invests in early stage biotechnology and pharmaceutical companies.
  - Gilde Buy Out Partners, GEM Benelux and Gilde Healthcare are managed by fully independent and separate partnerships and only share a back-office staff.
- Rabobank's limited partner commitment has been substantially reduced over time: 76% in GBOF I, 37% in GBOF II and 31% in GBOF III; its stake in the Fund is expected to decrease to 25% of total commitments.
- Offices are based in Utrecht, Zurich and Paris. Additionally, Gilde has an office in Brussels (semi-permanently staffed) and one in Frankfurt (used for meetings).

Gilde Buy Out Partners Investment Team Organization Chart		
Utrecht (HQ)	Zurich	Paris
<b>Boudewijn Molenaar</b> Managing Director	<b>Ralph Wyss</b> Managing Director	<b>Paul Bekx</b> Managing Director
<b>Robert Thole (Brussels)</b> Managing Director	<b>Nikolai Pronk</b> Director	Benjamin Barriere Investment Director
<b>Eric-Jan Vink</b> Director	Rogier Engelsma Investment Manager	Charles-Antoine Wallaert Investment Manager
<b>Martijn Schreurs</b> Director	Alexander Friedrich Investment Manager	Daniel Cohen-Sabban Associate
<b>Hein Ploegmakers</b> Director	Daniel Geiger Associate	
Maurits Boomsma Investment Manager	Gianluigi Manna Associate	
Nikolas Linkens (Brussels) Investment Manager		
Tom Muizers Associate		
Ruben Maase Associate		
David de Graaf Associate		

- The team is led by Boudewijn Molenaar, who is supported by three managing Directors responsible for leading the other main offices: Mr. Wyss in Zurich, Mr. Thole in Brussels and Mr. Bekx in Paris. The four Managing Directors are supported by four Directors, one Investment Director, five Investment Managers and six Associates.
  - Mr. Pronk will move back from Zurich to the Netherlands in Q1 2010. The Zurich team was enhanced with Mr. Engelsma, who moved from the Utrecht office to Zurich in December 2008.
- Transaction teams typically consist of four professionals: a Managing Director, a Director or Investment Director, an Investment Manager and an Associate. In addition, a second Managing Director from another office is appointed, with the aim to provide an independent view on the merits of the investment opportunity.
- Investment decisions are made on a consensus-basis.
- Carried interest is allocated to Partner-level professionals. Junior- and mid-level professionals are incentivized through bonuses, which can be awarded ad-hoc and can be equivalent to 2-3x the salary.

Distribution of Carried Interest <sup>(1)</sup>				
Individual	Fund I	Fund II	Fund III	Fund IV
Boudewijn Molenaar	37.9%	30.0%	20.0%	17.0%
Ralph Wyss	19.8%	21.0%	16.3%	15.0%
Paul Bekx		21.0%	16.3%	13.0%
Robert Thole	14.8%	18.0%	15.0%	11.0%
Eric-Jan Vink		3.5%	7.8%	8.5%
Nikolai Pronk		3.5%	7.8%	8.5%
Martijn Schreurs		2.0%	7.8%	8.5%
Hein Ploegmakers			1.5%	6.5%
Benjamin Barriere			1.0%	1.0%
Hubert Lange (leaver)			1.7%	0.0%
Retired partners	27.6%			
Other investment professionals + staff	0.0%	1.0%	1.0%	1.0%
Management Company			3.8%	
Unallocated (for new Partners)				10.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

(1) 100% equivalent to 20 carried interest points.

## 2.2 EXPERIENCE OF INVESTMENT PROFESSIONALS

Investment Professionals Overview							
Name	Title	Location	Age	Tenure	Tot. Yrs Exper.	Prior Experience	Educational Background
Boudewijn Molenaar	Managing Director	Utrecht	56	15	26	<ul style="list-style-type: none"> <li>ABN-AMRO, head of private equity (1986-94)</li> <li>Royal Dutch Navy (2 years)</li> </ul>	Eindhoven Technical University (Electronic Engineering)
Ralph Wyss	Managing Director	Zurich	46	13	21	<ul style="list-style-type: none"> <li>Citibank (London), senior transactor for LBOs and structured finance</li> </ul>	University of St. Gallen (Masters in Finance & Accounting)
Paul Bekx	Managing Director	Paris	44	9	22	<ul style="list-style-type: none"> <li>HSBC (London and Paris), private equity (1990-2000)</li> <li>Générale de Banque New York, LBO finance (1988-90)</li> <li>Previously, technical textile consultant in Germany</li> </ul>	Leuven University (MBA in International Finance) Degree in Engineering
Robert Thole	Managing Director	Utrecht/Brussels	39	13	13	<ul style="list-style-type: none"> <li>N/a</li> </ul>	Nijenrode University (Degree in Business Administration)
Eric-Jan Vink	Director	Utrecht	38	12	12	<ul style="list-style-type: none"> <li>Previously founded and managed logistics company</li> </ul>	Rotterdam School of Management (Masters in Business Administration)
Nikolai Pronk	Director	Zurich	35	12	12	<ul style="list-style-type: none"> <li>MeesPierson, corporate finance &amp; capital markets</li> </ul>	Maastricht University (Masters in Business Economics)
Martijn Schreurs	Director	Utrecht	37	7	12	<ul style="list-style-type: none"> <li>Merrill Lynch (London and New York), investment banking (1997-2000)</li> </ul>	INSEAD (MBA) Groningen University (Masters degree in Finance)
Hein Ploegmakers	Director	Utrecht	35	10	11	<ul style="list-style-type: none"> <li>Morgan Stanley Dean Witter (London), M&amp;A group (1998-99)</li> </ul>	Maastricht University (Masters in Economics)
Benjamin Barrière	Investment Director	Paris	32	8	8	<ul style="list-style-type: none"> <li>Previously worked as trainee at Crédit Agricole, Pinault Printemps Redoute Interactive (venture capital)</li> </ul>	HEC (Degree in Business Administration)
Maurits Boomsma	Investment Manager	Utrecht	29	5	6	<ul style="list-style-type: none"> <li>ABN Amro, private banking</li> <li>Goldman Sachs (London), intern</li> </ul>	Groningen University (Masters in Economics)
Alexander Friedrich	Investment Manager	Zurich	31	3	6	<ul style="list-style-type: none"> <li>The Royal Bank of Scotland, leveraged finance department</li> <li>Previously worked at 3i, JP Morgan</li> </ul>	Technical University Aachen (Ph.D. in Business Administration) Leipzig Graduate School of Management (MBA)
Rogier Engelsma	Investment Manager	Zurich	33	3	8	<ul style="list-style-type: none"> <li>Arthur D. Little Management Consultants (5 years)</li> </ul>	University of St. Gallen (Masters in Economics)
Nicolas Linkens	Investment Manager	Utrecht/Brussels	29	3	6	<ul style="list-style-type: none"> <li>Deloitte, corporate finance</li> </ul>	University of Ghent (Masters in Applied Economics)
Charles-Antoine Wallaert	Investment Manager	Paris	33	1	8	<ul style="list-style-type: none"> <li>McKinsey &amp; Co (Paris and New-York, 4 years)</li> <li>Pechiney, operations</li> </ul>	Sciences-Po Paris (MBA) Supélec (Masters in Electrical Engineering)
Tom Muizers	Associate	Utrecht	28	2	3	<ul style="list-style-type: none"> <li>Indofin Private Equity</li> </ul>	Erasmus University (Masters in Financial Economics)
Gianluigi Manna	Associate	Zurich	28	2	2	<ul style="list-style-type: none"> <li>Helbling Corporate Finance, intern</li> </ul>	University of St. Gallen (Masters in Accounting & Finance)
Daniel Cohen Sabban	Associate	Paris	26	2	3	<ul style="list-style-type: none"> <li>Natixis Private Equity (2007-08)</li> </ul>	Essec Business School (Master in Finance and Business Administration)
Ruben Maase	Associate	Utrecht	25	2	2	<ul style="list-style-type: none"> <li>NIBC, investment banking division</li> </ul>	Vrije Universiteit Amsterdam (Masters in Business Administration)
Daniel Geiger	Associate	Zurich	28	1	1	<ul style="list-style-type: none"> <li>Dresdner Kleinwort, intern</li> </ul>	University of St. Gallen (Masters in Accounting & Finance)
David de Graaf	Associate	Utrecht	27	1	2	<ul style="list-style-type: none"> <li>Credit Suisse (London), M&amp;A</li> </ul>	Erasmus University (Masters in Business Administration)
Average:			34	6	9		

Key Principals' Time Allocation							
Name	Managing Firm	Deal Sourcing	Due Diligence	Monitoring	Marketing	Non-Fund Initiatives	Total
Boudewijn Molenaar	20%	40%	0%	30%	10%	0%	100%
Ralph Wyss	10%	40%	10%	30%	10%	0%	100%
Paul Bekx	10%	40%	10%	20%	20%	0%	100%
Robert Thole	5%	40%	15%	30%	10%	0%	100%
Eric-Jan Vink	5%	30%	20%	40%	5%	0%	100%
Nikolai Pronk	5%	30%	20%	40%	5%	0%	100%
Martijn Schreurs	5%	30%	20%	40%	5%	0%	100%
Hein Ploegmakers	5%	20%	25%	45%	5%	0%	100%
Benjamin Barrière	5%	20%	25%	45%	5%	0%	100%

## 2.3 TENURE OF INVESTMENT PROFESSIONALS

				Fund II							Fund III			
Name	Overall Exp.	Inv. Exp.	Tenure	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Boudewijn Molenaar	26	23	15											
Ralph Wyss	21	13	13											
Paul Bekx	22	19	9											
Robert Thole	13	13	13											
Eric-Jan Vink	12	12	12											
Nikolai Pronk	12	12	12											
Martijn Schreurs	12	7	7											
Hein Ploegmakers	11	10	10											

	= Tenure with General Partner		= Investment Experience
	= Overall Experience		

## 2.4 DEPARTURES

Turnover				
Name	Title	Start Date	Leave Date	Reason for Leaving
Peter Tavernier	Investment Director	Sep-96	Nov-01	Resigned
Sabine de Jong	Associate	Apr-01	Dec-03	Resigned
Stefan Linde	Investment Director	Sep-01	May-02	Resigned
Pepijn Fuss	Associate	Dec-05	Mar-06	Resigned
Reinier Mackor	Investment Manager	Sep-00	May-06	Resigned
Stephan Jakober	Investment Manager	Sep-04	May-07	Mutual Agreement
Hubert Lange	Director	Aug-05	Jan-09	Mutual Agreement

## 2.5 REFERENCES

Throughout its typical diligence process, Hamilton Lane will generally contact a number of individuals in connection with its evaluation of a Fund including portfolio companies CEOs and prior employees.

The team has been uniformly viewed as comprising individuals of high integrity and intelligence. References reported:

- The General Partner is characterized as having good industry knowledge and a strong rapport with management; these were often mentioned as the reason why Gilde was selected amongst its competitors, sometimes irrespective of the price offered.
- Overall, references stated that the General Partner employs a thorough due diligence process and is a management-friendly and generally non-intrusive investor unless the company underperforms.
- The General Partner has at least one to two board seats and is viewed as providing substantial support in terms of financial structuring and negotiating add-on acquisitions, which is a central part of the investment thesis in almost all cases.
- The General Partner was believed to have successfully led portfolio companies through debt restructuring in the recent financial turmoil.
- The General Partner is viewed as a strong player in the Benelux region, although needing to further develop its sourcing capabilities in other regions, particularly in France. The development of the French office is somewhat seen as a concern.

## 2.6 LITIGATION

The General Partner has indicated that neither it, nor any members of the team, are involved in, or have in the past been involved with, any pending or threatened: (i) criminal proceeding; (ii) regulatory investigation; or (iii) any action of proceeding involving their management of any private equity vehicle other than in an ordinary course of business.



## Section 3 - PRIOR INVESTMENT EXPERIENCE

### 3.1 GROSS FUND OVERALL RETURNS

Gilde Buy-Out Fund IV - Prior Investment History As Reported by the General Partner As of 09/30/2009										
(Euro) Fund	Vintage	# of Inv.		Total Fund Size	Amount			Mult.	Gross IRR	Net IRR
		Total	Real.		Invested	Realized	Unrealized Value			
Fund I	1996	29	29	€182,000,000	€218,842,574	€487,800,759	€0	2.2x	26.3%	22.0%
Fund II	2000	17	12	472,000,000	524,826,960	1,266,284,912	141,300,008	2.7x	28.4%	26.9%
Fund III	2006	10	1	600,000,000	444,480,657	135,903,466	337,382,621	1.1x	3.5%	-1.1%
<b>Total</b>		<b>56</b>	<b>42</b>		<b>€1,188,150,192</b>	<b>€1,889,989,137</b>	<b>€478,682,629</b>	<b>2.0x</b>	<b>26.0%</b>	<b>22.4%</b>

Gilde Buy-Out Fund IV - Prior Investment History Realized Investment Performance As of 09/30/2009				
(Euro) Fund	Amount Invested	Amount Realized	Unrealized Value	Multiple
Fund I	€218,842,574	€487,800,759	€0	2.2x
Fund II	329,216,943	1,223,899,762	0	3.7x
Fund III	34,386,004	804,135	0	0.0x
<b>Total</b>	<b>€582,445,521</b>	<b>€1,712,504,655</b>	<b>€0</b>	<b>2.9x</b>

Gilde Buy-Out Fund IV - Prior Investment History Unrealized Investment Performance As of 09/30/2009				
(Euro) Fund	Amount Invested	Amount Realized	Unrealized Value	Multiple
Fund I	€0	€0	€0	n/a
Fund II	195,610,018	42,385,151	141,300,008	0.9x
Fund III	410,094,653	135,099,331	337,382,621	1.2x
<b>Total</b>	<b>€605,704,671</b>	<b>€177,484,482</b>	<b>€478,682,629</b>	<b>1.1x</b>

### 3.2 NET RETURNS TO LIMITED PARTNERS

(Euro) Fund	Vintage	Total Capital Drawn	Total Capital Distributed	NAV	DPI	TVPI	Net IRR
Fund I	1996	€181,330,576	€398,418,270	€1,700,000	2.20x	2.21x	22.0%
Fund II	2000	471,700,000	1,017,127,542	124,287,839	2.16x	2.42x	26.9%
Fund III	2006	476,117,113	120,000,000	347,210,831	0.25x	0.98x	-1.1%
<b>Total</b>		<b>€1,129,147,689</b>	<b>€1,535,545,812</b>	<b>€473,198,670</b>	<b>1.36x</b>	<b>1.78x</b>	<b>22.4%</b>

### 3.3 HAMILTON LANE PORTFOLIO EVALUATION

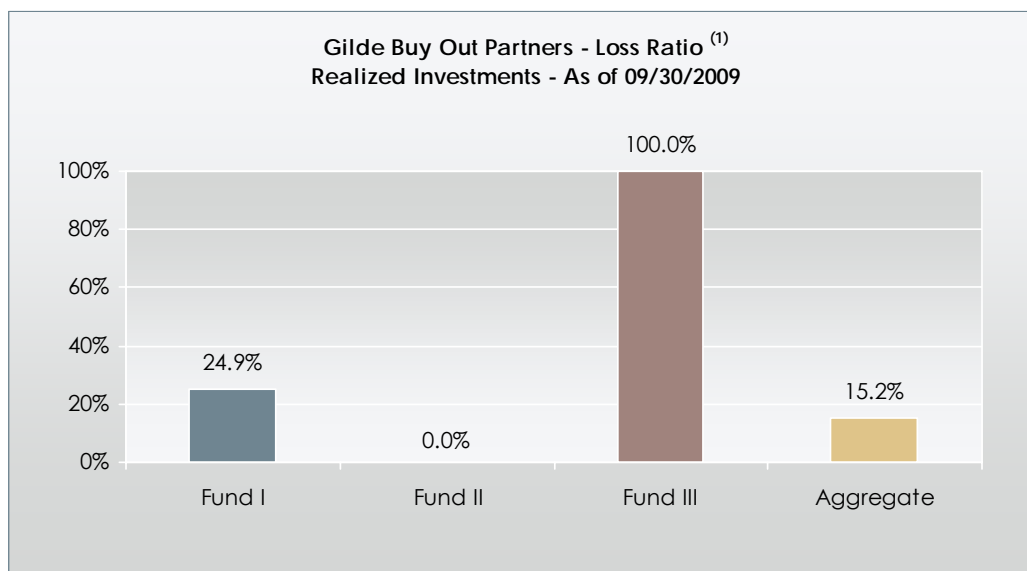
Hamilton Lane revalued the unrealized portfolio companies in Gilde Buyout Fund II and III using the most recent performance data available and an average of the 12 months backward and forward EBITDA multiple of comparable market valuations. As displayed below, Hamilton Lane's overall valuation as of September 30, 2009 is similar to that of the General Partner.

The difference in the valuation is due to the General Partner using both 2008 and 2009 EBITDA and EBITA numbers and forward and backward comparable multiples to calculate valuation. The rationale behind the methodology is to smooth out the volatility in both EBITDA and market multiple in 2009 and to provide a long-term view of valuation.

Gilde Buy Out Partners Valuation of Portfolio Companies As of 09/30/09					
(€ mm)	Investment Information				HL Valuation
	Amount Invested	Amount Realized	Unrealized Value	GP Gross Multiple	HL Gross Multiple
Fund II	€168	€38	€141	1.1x	0.9x
Fund III	410	135	337	1.2x	1.1x
<b>Total</b>	<b>€578</b>	<b>€173</b>	<b>€479</b>	<b>1.1x</b>	<b>1.0x</b>

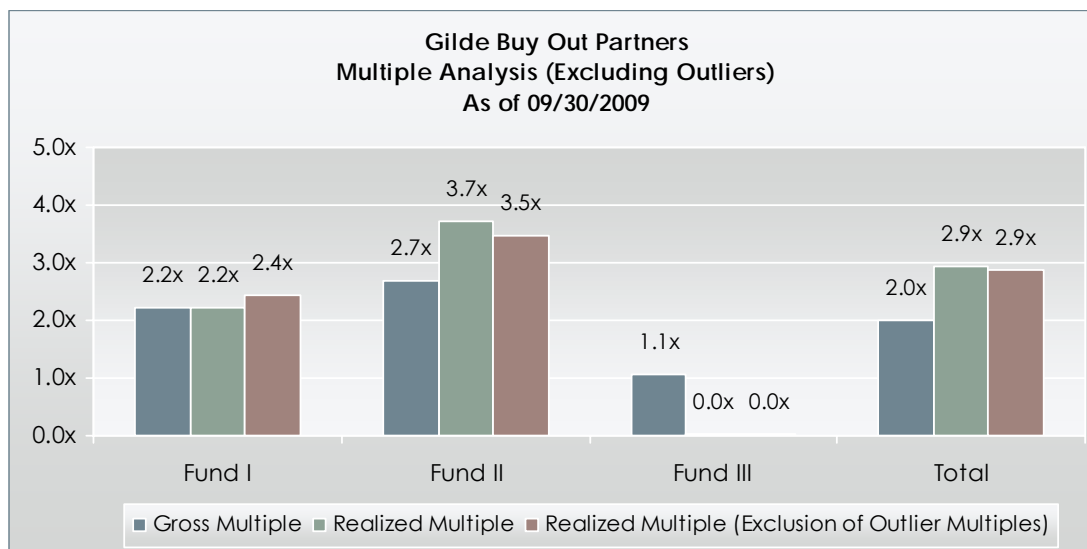
Note: Excluding Stankiewicz, written off in Q3 2009 but classified as unrealized as of 09/30/09.

### 3.4 LOSS RATIO ANALYSIS



(1) Only one investment has been fully realized in Fund III (write-off of Arovit).

### 3.5 MULTIPLE ANALYSIS (EXCLUDING OUTLIERS)



### 3.6 BENCHMARK ANALYSIS

Gilde Buy Out Partners - European (Country-Focused) Performance Benchmark <sup>(1)</sup>						
As of September 30, 2009						
Fund	Vintage	Fund Size (in million)	Gross Multiple	Gross IRR	Net IRR	Date
Fund A	2006	€ 400	2.0x	52%	n/a	September 30, 2009
Fund B	2006	€ 250	1.5x	149%	n/a	June 30, 2009
Fund C	2006	€ 330	1.4x	n/a	12%	September 30, 2009
Fund III	2006	€ 600	1.1x	4%	-1%	September 30, 2009
Fund D	2005	€ 100	2.3x	92%	44%	December 30, 2008
Fund E	2005	SEK 2,350	1.6x	32%	18%	September 30, 2009
Fund F	2005	€ 140	n/a	n/a	n/a	n/a
Fund G	2004	£ 105	1.8x	37%	27%	August 31, 2009
Fund H	2003	€ 172	3.2x	77%	n/a	September 30, 2009
Fund J	2003	£ 375	1.0x	n/a	-6%	June 30, 2009
Fund K	2001	€ 50	2.8x	42%	n/a	September 30, 2009
Fund L	2000	€ 125	4.5x	n/a	53%	June 30, 2009
Fund M	2000	€ 45	4.4x	68%	44%	December 30, 2008
Fund N	2000	SEK 850	3.8x	48%	32%	September 30, 2009
Fund II	2000	€ 472	2.7x	28%	27%	September 30, 2009
Fund O	1999	£ 183	2.3x	n/a	25%	June 30, 2009
Fund P	1996	€ 13	9.7x	81%	53%	December 30, 2008
Fund I	1996	€ 182	2.2x	26%	22%	September 30, 2009
Fund Q	1996	€ 80	1.8x	19%	n/a	June 30, 2009

(1) Fund performances are in fund currency.

Source: Preqin and HL proprietary information. Not for external distribution.

Gilde Buy Out Partners - European (Regional) Performance Benchmark <sup>(1)</sup>						
As of September 30, 2009						
Fund	Vintage	Fund Size (in million)	Gross Multiple	Gross IRR	Net IRR	Date
Fund R	2006	€ 1,100	1.2x	14%	n/a	December 31, 2008
Fund III	2006	€ 600	1.1x	4%	-1%	September 30, 2009
Fund S	2006	£ 950	0.7x <sup>(2)</sup>	n/a	-20%	March 31, 2009
Fund T	2005	€ 2,500	2.1x	124%	68%	September 30, 2009
Fund U	2005	€ 2,060	1.3x	12%	7%	September 30, 2009
Fund V	2005	€ 2,500	0.8x	n/a	-8%	September 30, 2009
Fund W	2005	€ 1,250	0.4x	-42%	-49%	September 30, 2009
Fund X	2002	£ 918	1.8x	32%	23%	March 31, 2009
Fund Y	2001	€ 1,500	3.5x	61%	45%	September 30, 2009
Fund Z	2001	€ 2,032	2.0x	34%	29%	September 30, 2009
Fund AA	2001	€ 400	1.1x <sup>(2)</sup>	n/a	n/a	March 31, 2009
Fund II	2000	€ 472	2.7x	28%	27%	September 30, 2009
Fund AB	2000	€ 1,000	2.1x	29%	23%	September 30, 2009
Fund AC	1999	€ 650	2.9x	34%	n/a	December 31, 2008
Fund AD	1999	£ 215	1.4x <sup>(2)</sup>	n/a	n/a	September 30, 2009
Fund AE	1998	€ 1,000	1.8x	13%	12%	June 30, 2009
Fund I	1996	€ 182	2.2x	26%	22%	September 30, 2009

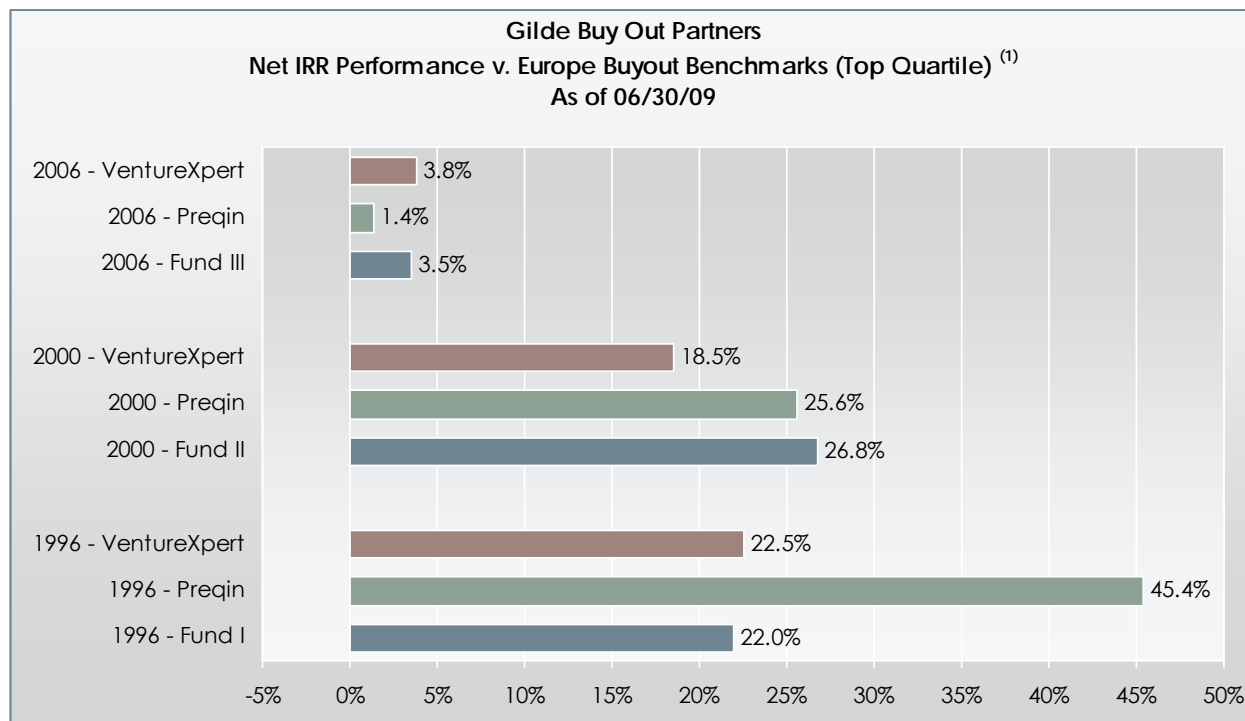
(1) Fund performances are in fund currency; (2) Net multiple.

Source: Preqin and HL proprietary information. Not for external distribution.

Gilde Buy Out Partners - Global Performance Benchmark <sup>(1)</sup>						
As of September 30, 2009						
Fund	Vintage	Fund Size (in million)	Gross Multiple	Gross IRR	Net IRR	Date
Fund AF	2007	\$1,553	1.0x	n/a	-4%	September 30, 2009
Fund AG	2006	\$ 594	1.7x	39%	25%	June 30, 2009
Fund AH	2006	\$ 225	1.1x	5%	-1%	September 30, 2009
Fund III	2006	€ 600	1.1x	4%	-1%	September 30, 2009
Fund AI	2005	\$ 800	1.2x	11%	6%	June 30, 2009
Fund AJ	2005	\$ 800	1.1x	2%	1%	September 30, 2009
Fund AK <sup>(2)</sup>	2005	ZAR 5,500	0.9x	n/a	n/a	September 30, 2009
Fund AL	2004	\$ 153	3.9x	52%	43%	June 30, 2009
Fund AM	2004	\$ 750	1.6x <sup>(3)</sup>	n/a	30%	June 30, 2009
Fund AN	2001	\$1,114	2.4x	36%	26%	June 30, 2009
Fund AO	2001	\$ 576	1.8x	22%	15%	September 30, 2009
Fund II	2000	€ 472	2.7x	28%	27%	September 30, 2009
Fund AP <sup>(2)</sup>	1998	ZAR 2,500	3.2x	25%	19%	September 30, 2009
Fund AQ	1998	\$ 432	3.1x	60%	35%	June 30, 2009
Fund AR	1998	\$ 760	2.7x	22%	n/a	December 31, 2008
Fund AS	1997	\$ 175	3.0x	31%	24%	June 30, 2009
Fund AT	1996	\$ 180	2.7x	44%	31%	June 30, 2009
Fund I	1996	€ 182	2.2x	26%	22%	September 30, 2009
Fund AU <sup>(2)</sup>	1996	ZAR 750	2.2x	17%	14%	September 30, 2009

(1) Fund performances are in fund currency, except where noted; (2) Performance in USD; (3) Net multiple.

Source: Preqin and HL proprietary information. Not for external distribution.



(1) VentureXpert IRRs are Euro-denominated.

### 3.7 REALIZED ATTRIBUTION ANALYSIS (AS OF 09/30/09)

Aggregate - Realized Performance by Sector					
(Euro) Sector	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
Other <sup>(1)</sup>	4	€13,424,713	2.3%	4.6x	180.2%
Chemicals	5	121,519,132	20.9%	4.4x	62.7%
Industrial and Manufacturing	13	146,853,807	25.2%	2.7x	22.7%
Consumer	11	163,907,348	28.1%	2.7x	35.8%
Construction	3	76,396,331	13.1%	2.1x	15.9%
Services	6	60,344,190	10.4%	1.7x	11.4%
<b>Total</b>	<b>42</b>	<b>€582,445,521</b>		<b>2.9x</b>	<b>31.8%</b>

(1) Other includes investments in Communications, Energy and Transportation.

Aggregate - Realized Performance by Region					
(Euro) Region	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
Finland	1	€4,955,279	0.9%	4.2x	40.1%
Sweden	1	35,136,819	6.0%	3.5x	42.1%
Germany	4	101,174,966	17.4%	3.4x	25.0%
Netherlands	24	296,467,174	50.9%	3.4x	33.3%
Belgium	2	7,161,119	1.2%	2.5x	5937.5%
France	3	35,964,948	6.2%	2.2x	50.6%
Switzerland	1	32,120,831	5.5%	2.0x	14.4%
Denmark	4	39,949,771	6.9%	1.3x	385.6%
Austria	2	29,514,612	5.1%	0.0x	-58.6%
<b>Total</b>	<b>42</b>	<b>€582,445,521</b>		<b>2.9x</b>	<b>31.8%</b>

Aggregate - Realized Performance by Source					
(Euro) Source	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
Proprietary	22	€271,748,674	46.7%	3.1x	34.8%
Auction	8	76,890,270	13.2%	3.0x	67.8%
Limited Auction	11	232,440,584	39.9%	2.7x	22.8%
In-house spin-off	1	1,365,993	0.2%	0.3x	-69.5%
<b>Total</b>	<b>42</b>	<b>€582,445,521</b>		<b>2.9x</b>	<b>31.8%</b>

Aggregate - Realized Performance by Lead					
(Euro) Lead	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
Martijn Schreurs	2	€16,371,838	2.8%	10.4x	113.4%
Ralph Wyss	6	122,413,324	21.0%	3.3x	44.8%
Boudewijn Molenaar	24	280,357,253	48.1%	2.9x	29.7%
Robert Thole	5	86,326,000	14.8%	2.4x	17.0%
Paul Bekx	2	69,522,823	11.9%	1.8x	34.6%
Eric-Jan Vink	2	5,484,049	0.9%	1.6x	16.5%
Nikolai Pronk	1	1,970,234	0.3%	1.2x	19.1%
<b>Total</b>	<b>42</b>	<b>€582,445,521</b>		<b>2.9x</b>	<b>31.8%</b>

Aggregate - Realized Performance by Security Type					
(Euro) Security Type	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
Cum pref shares	14	289,584,748	49.7%	3.3x	51.3%
Shareholder Loan	20	239,349,395	41.1%	2.8x	25.2%
Convertible Shareholder Loan	1	€7,717,764	1.3%	2.2x	48.6%
Ordinary shares	7	45,793,614	7.9%	1.7x	17.6%
<b>Total</b>	<b>42</b>	<b>€582,445,521</b>		<b>2.9x</b>	<b>31.8%</b>

Aggregate - Realized Performance by Investment Stage					
(Euro) Investment Stage	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
Primary Buyout	41	€550,324,690	94.5%	3.0x	32.7%
Secondary Buyout	1	32,120,831	5.5%	2.0x	14.4%
<b>Total</b>	<b>42</b>	<b>€582,445,521</b>		<b>2.9x</b>	<b>31.8%</b>

Aggregate - Realized Performance by Transaction Role					
(Euro) Transaction Role	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
Lead	29	514,025,063	88.3%	3.1x	29.3%
Co-Lead	9	€46,602,287	8.0%	2.9x	90.4%
Minority	4	21,818,171	3.7%	0.4x	-19.7%
<b>Total</b>	<b>42</b>	<b>€582,445,521</b>		<b>2.9x</b>	<b>31.8%</b>

Aggregate - Realized Performance by Exit Strategy					
(Euro) Exit Strategy	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
IPO	4	€16,502,252	2.8%	4.1x	206.0%
Secondary	13	267,975,096	46.0%	3.7x	30.1%
Trade Sale	18	208,993,919	35.9%	3.0x	39.3%
Loan Repayment	1	96,655	0.0%	1.9x	62.9%
Sale to management	3	33,632,668	5.8%	0.3x	-21.9%
Forced Sale to Bank	1	34,386,004	5.9%	0.0x	-100.0%
Write-off	1	16,178,183	2.8%	0.0x	-69.2%
Partial Write-Down	1	4,680,743	0.8%	0.0x	-71.9%
<b>Total</b>	<b>42</b>	<b>€582,445,521</b>		<b>2.9x</b>	<b>31.8%</b>

Aggregate - Realized Performance by Ownership					
(Euro) Ownership	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
0% - 10%	6	€31,308,812	5.4%	1.3x	10.6%
10% - 30%	6	33,072,678	5.7%	3.0x	178.6%
30% - 50%	10	144,927,190	24.9%	2.4x	18.4%
>50%	20	373,136,841	64.1%	3.3x	33.8%
<b>Total</b>	<b>42</b>	<b>€582,445,521</b>		<b>2.9x</b>	<b>31.8%</b>

Aggregate - Realized Performance by Entry Leverage					
(Euro) Leverage	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
0% - 25%	4	€15,564,787	2.7%	3.6x	133.8%
25% - 50%	6	32,657,994	5.6%	2.0x	13.8%
50% - 75%	27	498,436,105	85.6%	2.8x	28.1%
>75%	5	35,786,635	6.1%	5.0x	97.9%
<b>Total</b>	<b>42</b>	<b>€582,445,521</b>		<b>2.9x</b>	<b>31.8%</b>

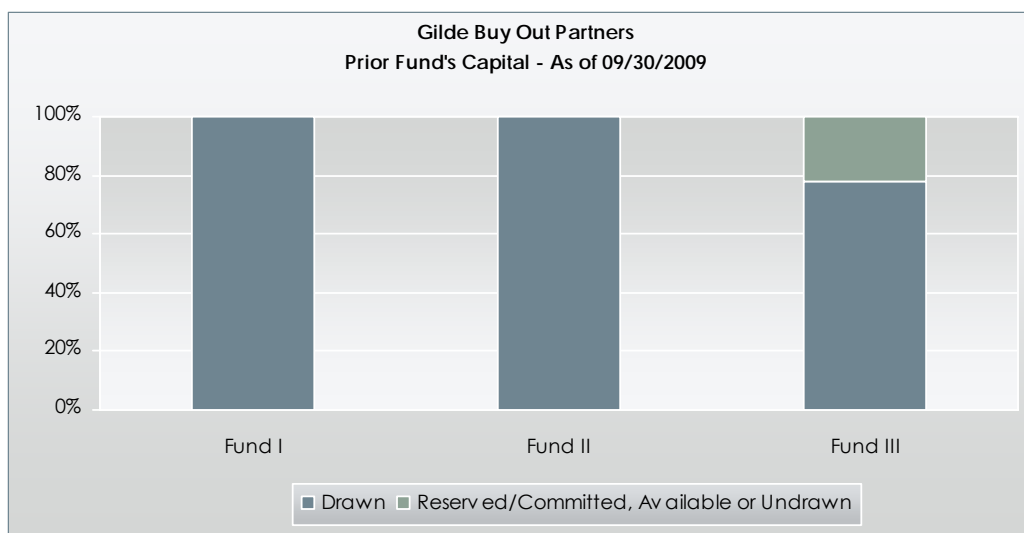
Aggregate - Realized Performance by Investment Size					
(Euro) Investment Size	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
€0mm - €15mm	27	€147,440,812	25.3%	3.7x	44.8%
€15mm - €45mm	11	248,602,787	42.7%	2.1x	19.3%
€45mm - €100mm	4	186,401,922	32.0%	3.5x	41.5%
<b>Total</b>	<b>42</b>	<b>€582,445,521</b>		<b>2.9x</b>	<b>31.8%</b>

Aggregate - Realized Performance by Enterprise Value					
(Euro) Enterprise Value	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
€0mm - €100mm	29	€216,851,796	37.2%	3.2x	31.6%
€100mm - €200mm	8	211,983,442	36.4%	2.4x	50.9%
€200mm - €300mm	3	87,048,237	14.9%	4.5x	33.7%
€300mm - €1,000mm	2	66,562,046	11.4%	1.8x	9.8%
<b>Total</b>	<b>42</b>	<b>€582,445,521</b>		<b>2.9x</b>	<b>31.8%</b>

Aggregate - Realized Performance by Entry Enterprise Value / EBITDA					
(Euro) Entry Multiple	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
<5x	24	€223,211,065	38.3%	3.4x	37.1%
5x - 10.0x	17	359,137,801	61.7%	2.7x	26.8%
>10.0x	0	0	0.0%	N/A	N/A
N/A	1	96,655	0.0%	1.9x	62.9%
<b>Total</b>	<b>42</b>	<b>€582,445,521</b>		<b>2.9x</b>	<b>31.8%</b>

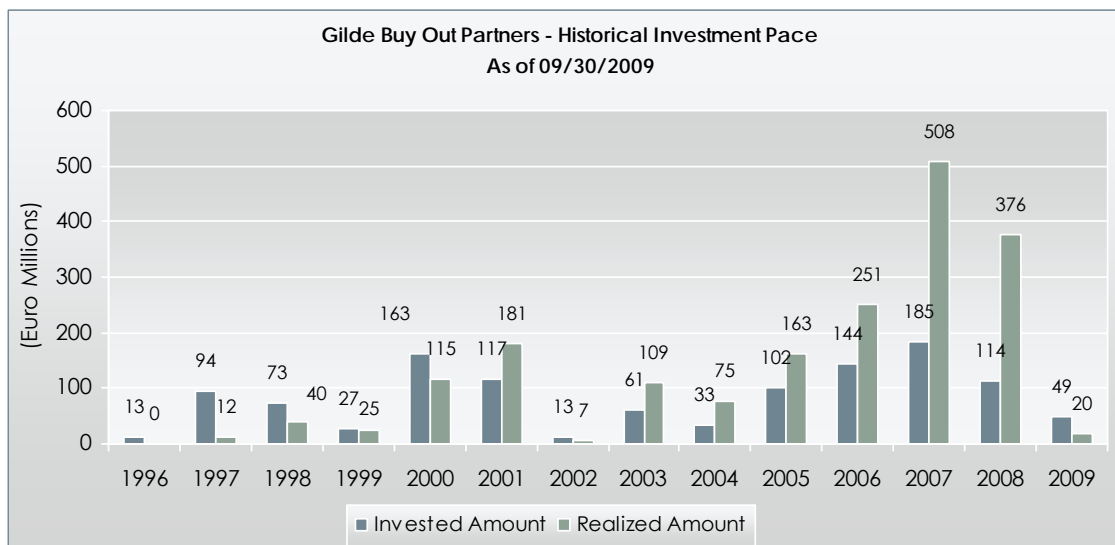
Aggregate - Realized Performance by Debt / EBITDA					
(Euro) Leverage multiple	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
<2x	10	€54,695,790	9.4%	3.6x	40.3%
2x - 4.0x	20	240,218,713	41.2%	2.9x	38.3%
4x - 6.0x	11	287,434,363	49.3%	2.8x	23.5%
>6.0x	0	0	0.0%	N/A	N/A
N/A	1	96,655	0.0%	1.9x	62.9%
<b>Total</b>	<b>42</b>	<b>€582,445,521</b>		<b>2.9x</b>	<b>31.8%</b>

### 3.8 REMAINING FUND CAPITAL





### 3.9 INVESTMENT PACING



### 3.10 INSTITUTIONAL SPONSORSHIP

Main Institutional Sponsorship
Rabobank
Access Capital Partners
Amanda Capital
Crédit Agricole

## **Section 4 - EVALUATION OF THE INVESTMENT PROPOSAL**

### **4.1 KEY DRIVERS**

- Cohesive and experienced team
- Generated attractive returns
- Good performance of unrealized portfolio through downturn
- Strong proprietary deal flow in the Netherlands
- Non-intrusive approach, but hands-on in underperforming companies

#### **A. Cohesive and experienced team**

- The General Partner represents an experienced and cohesive team with the largest number of buyout professionals in the Netherlands. Many of Gilde's investment professionals have served the majority of their private equity career with the firm.
- The team is led by Boudewijn Molenaar, who is supported by three Managing Directors, five Directors and 11 mid and junior-level investment professionals.
  - The Managing Directors have worked together for more than 13 years making private equity investments at Gilde. Messrs. Bekx and Wyss worked together in their prior careers as they were both involved in leveraged finance since the early 1990's.
- The Directors have an average of 11 years of experience and 10 years of tenure with Gilde. The majority have been with Gilde throughout their private equity careers.

Name	Title	Location	Tenure	Tot. Yrs Exper.	% at the GP
Boudewijn Molenaar	Partner	Utrecht	15	26	58%
Ralph Wyss	Partner	Zurich	13	21	62%
Paul Bekx	Partner	Paris	9	22	41%
Robert Thole	Partner	Utrecht/ Brussels	13	13	100%
<b>Average (MDs)</b>			<b>13</b>	<b>21</b>	<b>61%</b>
Eric-Jan Vink	Partner	Utrecht	12	12	100%
Nikolai Pronk	Partner	Zurich	12	12	100%
Martijn Schreurs	Partner	Utrecht	7	12	58%
Hein Ploegmakers	Director	Utrecht	10	11	91%
Benjamin Barrière	Investment Director	Paris	8	8	100%
<b>Average (Dir.)</b>			<b>10</b>	<b>11</b>	<b>89%</b>
<b>Average (Total)</b>			<b>11</b>	<b>15</b>	<b>72%</b>

- The General Partner has a clear remuneration policy and a system for rewarding top performers. As illustrated in the chart in the next page, the carried interest is distributed widely among the senior investment professionals.
  - Junior investment professionals are incentivized through ad-hoc discretionary bonuses (up to 2-3x base salary), which are paid in case of exceptional contribution to successful exits as well as 1% of the carried interest allocation.

Distribution of Carried Interest <sup>(1)</sup>				
Individual	Fund I	Fund II	Fund III	Fund IV
Boudewijn Molenaar	37.9%	30.0%	20.0%	17.0%
Ralph Wyss	19.8%	21.0%	16.3%	15.0%
Paul Bekx		21.0%	16.3%	13.0%
Robert Thole	14.8%	18.0%	15.0%	11.0%
Eric-Jan Vink		3.5%	7.8%	8.5%
Nikolai Pronk		3.5%	7.8%	8.5%
Martijn Schreurs		2.0%	7.8%	8.5%
Hein Ploegmakers			1.5%	6.5%
Benjamin Barriere			1.0%	1.0%
Hubert Lange (leaver)			1.7%	0.0%
Retired partners	27.6%			
Other investment professionals + staff	0.0%	1.0%	1.0%	1.0%
Management Company			3.8%	
Unallocated (for new Partners)				10.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

(1) 100% equivalent to 20 carried interest points.

- In the past ten years, turnover has been limited, with only one senior investment professional leaving the firm. The departure of Paris-based Hubert Lange is a result of culture misfit and lack of deals from the French office.
- The General Partner will commit at least 3% of the total Fund size, ensuring alignment of interest with the investors.

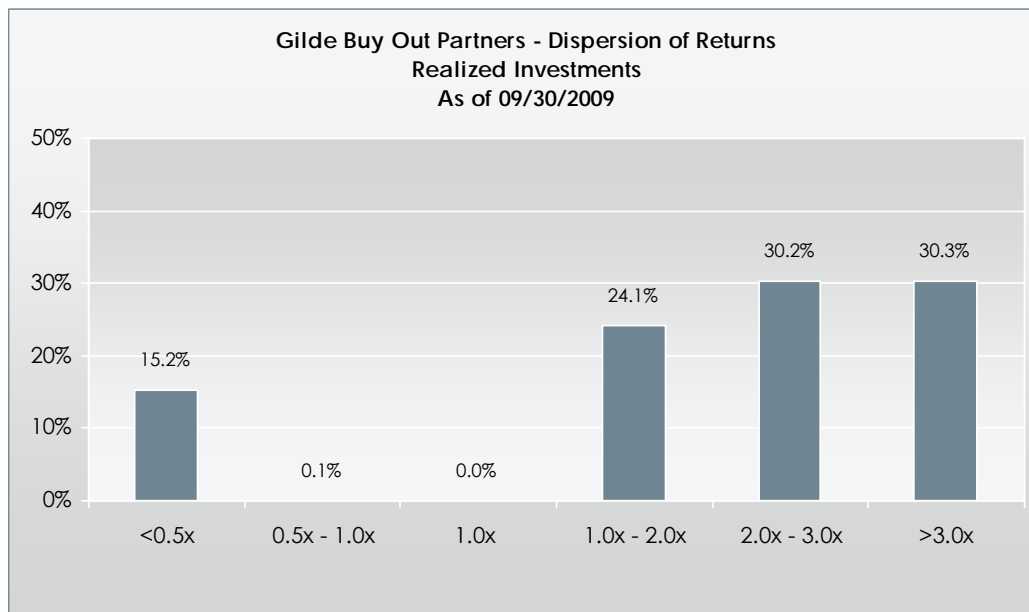
## B. Generated attractive returns through the Prior Funds

- Gilde has generated strong historical returns across all Prior Funds, with an aggregate realized gross multiple of 2.9x of cost through 42 exits.

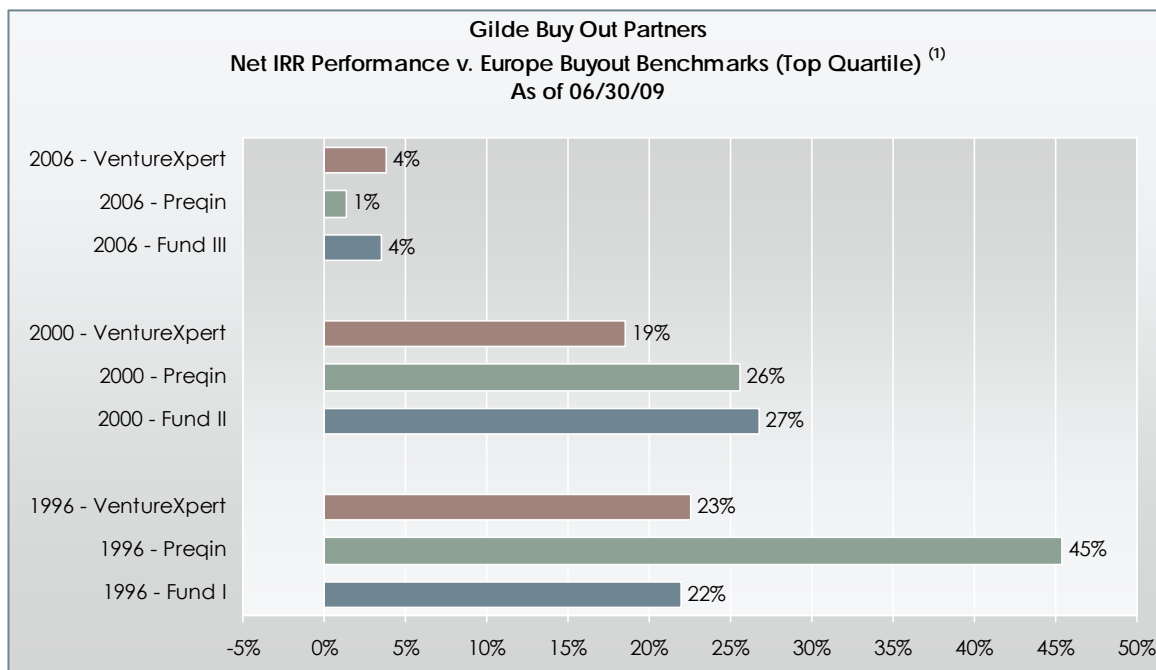
Gilde Buy-Out Fund IV - Prior Investment History Realized Investment Performance As of 09/30/2009						
(Euro) Fund	# of Inv.	Amount Invested	Amount Realized	Unrealized Value	Mult.	Gross IRR
Fund I	29	€218,842,574	€487,800,759	€0	2.2x	26.3%
Fund II	12	329,216,943	1,223,899,762	0	3.7x	40.1%
Fund III	1	34,386,004	804,135	0	0.0x	-100.0%
<b>Total</b>	<b>42</b>	<b>€582,445,521</b>	<b>€1,712,504,655</b>	<b>€0</b>	<b>2.9x</b>	<b>31.8%</b>

- Only one investment has been fully realized in Fund III: Arovit, a pan-European producer of pet food, was written-off in September 2008.
  - The investment in the German service company walter services was initially sold in August 2008, generating a gross multiple of 4.9x of cost. Part of the proceeds (€24 million) was reinvested in a minority stake alongside Odewald; the reinvested stake has been written down due to deteriorating performance, bringing down returns to 4.1x of original cost (as of 09/30/09). If the investment was currently included in the realized track record, Fund III aggregate realized multiple would be 1.9x of cost.

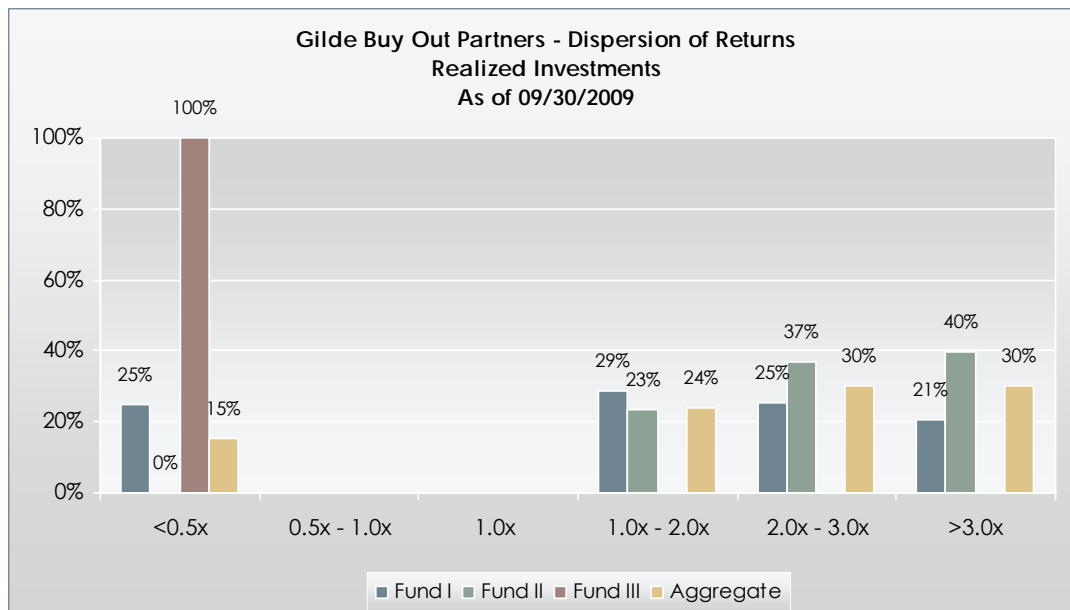
- Almost a third of investments were realized above 3.0x gross multiple and the loss ratio is in line with its peers.
  - Only 15% of the cost basis of realized investments was exited below 0.5x. This is concentrated in Fund I, with five investments realized below 0.5x. No investment was realized below cost in Fund II, whereas Arovit was written-off in Fund III in Q3 2008.



- Gilde's track record compares favorably to European benchmarks.

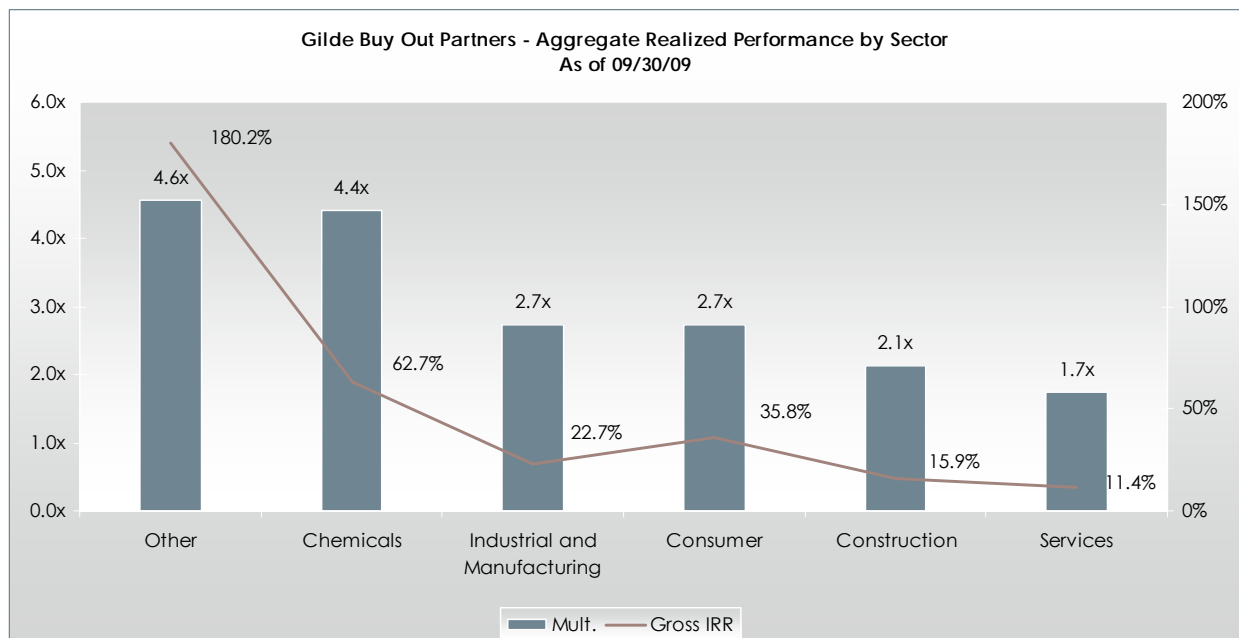


- Volatility of returns has been low.



(1) Only one investment has been fully realized in Fund III (write-off of Arovit).

- Performance has been consistent across sectors.



### C. Good performance of unrealized portfolio through downturn

- Over the last year, the valuation of the unrealized portfolio has been relatively stable (see below).

Gilde Buy Out Partners Prior Investment Performance Q4 2008 - Q3 2009									
Fund	Vintage	Gross Multiple				Gross IRR			
		Q4 08	Q1 09	Q2 09	Q3 09	Q4 08	Q1 09	Q2 09	Q3 09
<b>Fund I</b>	<b>1996</b>	<b>2.2x</b>	<b>2.2x</b>	<b>2.2x</b>	<b>2.2x</b>	<b>26%</b>	<b>26%</b>	<b>26%</b>	<b>26%</b>
Realized		3.7x	3.7x	3.7x	3.7x	40%	40%	40%	40%
Unrealized		1.2x	1.2x	0.8x	0.9x	4%	3%	-4%	-1%
<b>Fund II</b>	<b>2000</b>	<b>2.8x</b>	<b>2.8x</b>	<b>2.7x</b>	<b>2.7x</b>	<b>29%</b>	<b>29%</b>	<b>28%</b>	<b>28%</b>
Realized		0.0x	0.0x	0.0x	0.0x	n/m	n/m	n/m	n/m
Unrealized		1.3x	1.3x	1.3x	1.2x	19%	16%	15%	8%
<b>Fund III</b>	<b>2006</b>	<b>1.2x</b>	<b>1.2x</b>	<b>1.2x</b>	<b>1.1x</b>	<b>12%</b>	<b>9%</b>	<b>9%</b>	<b>4%</b>
<b>Total</b>		<b>2.1x</b>	<b>2.1x</b>	<b>2.0x</b>	<b>2.0x</b>	<b>27%</b>	<b>27%</b>	<b>26%</b>	<b>26%</b>

- At the company level, a number of investments have experienced declining valuations over the last few quarters, as performance was below plan mainly due to the economic environment (see below). However, most portfolio companies are not expected to breach covenants over the next few quarters and negotiations with the lenders have been completed or are ongoing for those with tight covenant situations (see Appendix).

Gilde Buy Out Partners - Unrealized Portfolio Valuations Q4 2008 - Q3 2009								
(€ mm)	Date of Inv.	Amount Invested	Mult. at 09/30	Mult. at 06/30	Mult. at 03/31	Mult. at 12/31	Gross IRR	Comments
<b>Fund II</b>								
Hans Anders	Nov-04	€41.9	1.8x	1.8x	2.7x	2.3x	14%	Below long term plan due to recession
Betafence	Feb-05	39.0	1.5x	1.2x	2.0x	2.3x	15%	Above new plan (below long term plan)
Synbra	Jan-00	42.6	1.0x	1.0x	1.0x	1.2x	1%	Above new plan (below long term plan)
Stankiewicz	Mar-06	27.8	0.2x	0.0x	0.0x	0.0x	-99%	Written-off in Q3
Gazelle	Jul-01	44.3	0.0x	0.0x	0.1x	0.1x	-99%	Below plan
<b>Fund III</b>								
walter services <sup>(1)</sup>	Feb-06	€29.8	4.1x	4.9x	4.9x	4.9x	95%	Partially realized
Hofmann-Menü	Jan-08	56.1	1.3x	1.3x	1.1x	1.0x	16%	On plan
Plukon Royale	Apr-09	30.4	1.0x	1.0x	n/a	n/a	10%	Above plan
Royal Swets & Zeitlinger	Oct-07	53.0	1.0x	1.2x	0.9x	1.3x	2%	Below plan
Powerlines	Dec-08	44.8	1.0x	1.0x	1.0x	1.0x	3%	On plan (Value incr. expect. in Q4)
Novasep	Jan-07	68.3	1.0x	0.9x	1.0x	0.8x	-1%	On plan
Nedschroef	Jun-07	50.8	0.9x	0.9x	1.0x	1.4x	-4%	Below plan (ok perform. - automotive)
Heiploeg - Fund III	Feb-06	49.8	0.6x	0.6x	0.8x	0.7x	-14%	Below plan
Novagraaf	May-07	27.2	0.1x	0.4x	0.6x	0.5x	-71%	Below plan

(1) The Fund re-invested €23.7m in a 11.4% stake after having sold the company in August 2008.

- The investment in Plukon Royale (poultry meat processor), completed in April 2009, is held at cost as per valuation guidelines. However, as the company is significantly exceeding performance expectations (run-rate EBITDA of €50 million vs. €42 million in the plan), its valuation is expected to undergo a sizeable increase in Q4 2009.

- Further, the General Partner has stated that it expects to recover value in the written-down investments, through several value creation initiatives coupled with an expected recovery in the economy.
  - As the General Partner plans to complete two additional investments, Fund III is expected to ultimately generate a net multiple of approximately 2x of cost.

Gilde Buy Out Partners - Fund III Valuation Expectations As of 09/30/09					
(€ mm) Company	Amount Invested	Amount Realized	Unrealized Value	GP Mult. (09/30/09)	GP Mult. (Exp. at exit)
Heiploeg - Fund III	€49.8	€2.9	€37.4	0.6x	1.7x
Hofmann-Menü	56.1	1.4	55.5	1.3x	2.0x
Nedschroef	50.8	1.6	35.1	0.9x	1.8x
Novagraaf	27.2	0.8	-2.0	0.1x	0.8x
Novasep	68.3	2.0	84.3	1.0x	1.9x
Plukon Royale	30.4	1.2	30.4	1.0x	4.3x
Powerlines	44.8	1.0	44.8	1.0x	2.0x
Royal Swets & Zeitlinger	53.0	1.6	18.9	1.0x	1.5x
walter services	29.8	122.5	0.0	4.1x	5.3x
<b>Total</b>	<b>€410.1</b>	<b>€135.1</b>	<b>€304.5</b>	<b>1.2x</b>	<b>2.2x</b>

- Hamilton Lane re-evaluated the General Partner's unrealized investments in Fund II and Fund III. Based on a market analysis using data provided from the General Partner and public company information, each unrealized portfolio company was re-assessed based on multiples of EBITDA. Hamilton Lane's results were in line with the General Partner's unrealized value as of September 30, 2009.

#### D. Strong proprietary deal flow in the Netherlands

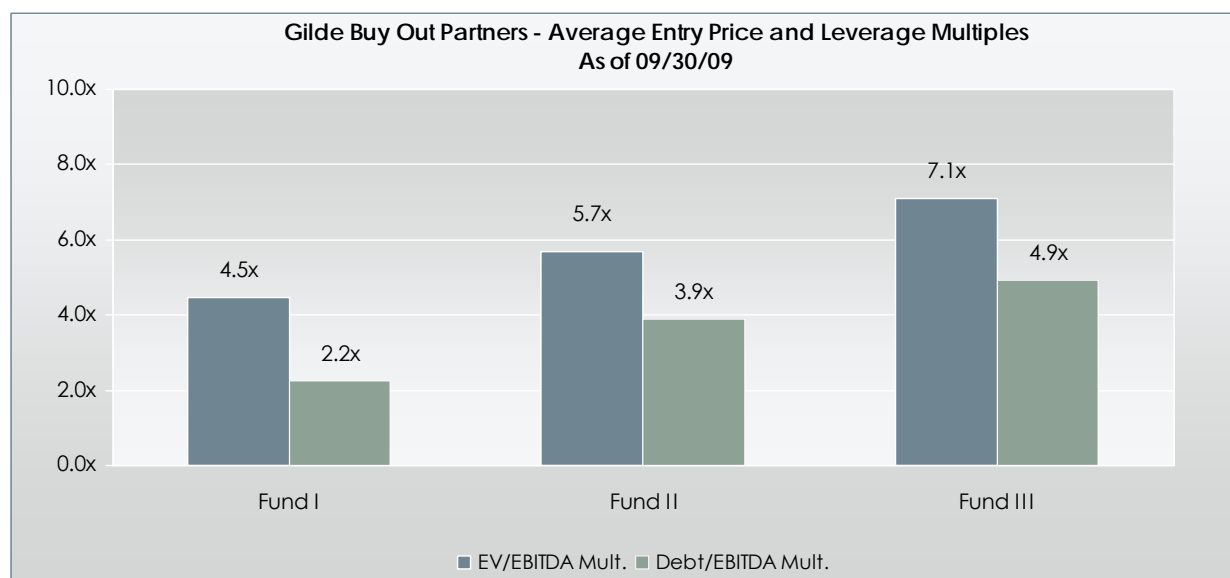
- Gilde's deal sourcing is based on a large network of relationships developed by the Partners, including managers, business owners, board members and intermediaries.
  - Proprietary deal sourcing abilities are particularly strong in the Netherlands, where Gilde has built the largest investment team and one of the most recognized brand names. Additionally, the General Partner appears to have founded a good proprietary network in Germany.

Gilde Buy Out Partners - Proprietary Deals by Region As of 09/30/09		
(€ mm) Country	% of Proprietary Deals (by cost)	# of Proprietary Deals
Sweden	100%	1
Germany	45%	3
Netherlands	42%	18
France	16%	1
Belgium	11%	1
Denmark	6%	2
<b>Total</b>	<b>36%</b>	<b>26</b>

- Brand and sourcing abilities appear to be relatively weaker in France, where the investment pace has historically proven to be somewhat inconsistent, also due to stronger competitive pressure from local private equity players.
  - However, concerns are limited by the fact that France has historically been less of a focus, as only 9% of capital has been deployed in 4 deals since 1996.
  - Gilde indicated it expects to complete two to three French deals in Fund III. Should this not realize, the General Partner is contemplating closing that office.

#### E. Non-intrusive approach, but hands-on in underperforming companies

- Gilde deploys a typical LBO partnership model, focused on buying control stakes at reasonable prices and backing good management teams. Focus is on the buying aspect of a transaction, i.e. selecting good assets with strong management teams that are capable of running their companies.
- Entry price and leverage multiples have been kept at reasonable levels over the last few years, with an average of 7x and 5x EBITDA in Fund III, respectively (see below).



- Most management teams have ownership stakes, which strongly align their economic interests with the company performance. Incentives packages are typically more generous in case of highly capable management teams, with up to 20% of equity to managers, with claw-back mechanisms if targets are not met.
- While the General Partner does not utilize operating professionals, Managing Directors take an active role in the strategic development of each of their portfolio companies and provide substantial support in terms of financial structuring and negotiating add-on acquisitions.

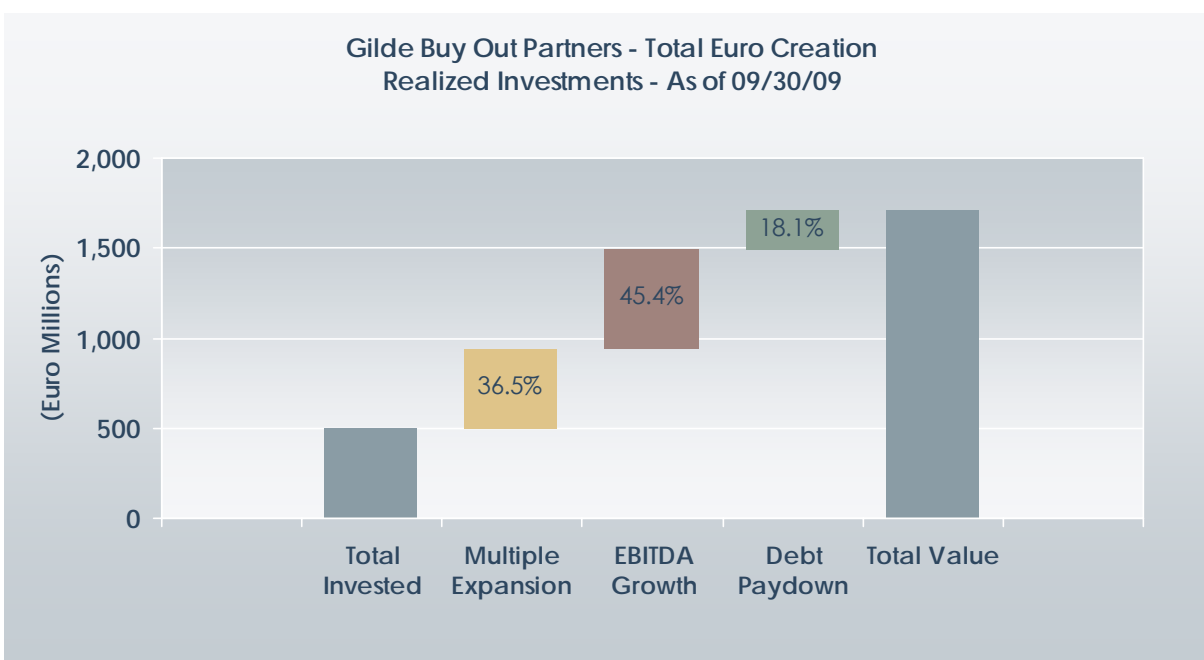


- Deal teams typically take a more hands-on approach in underperforming companies, as confirmed by references.
- Gilde focuses on growing portfolio companies mainly through add-on acquisitions and has also completed a number of corporate carve-outs from large, local companies. The following table shows value creation initiatives being implemented in Fund III unrealized companies.

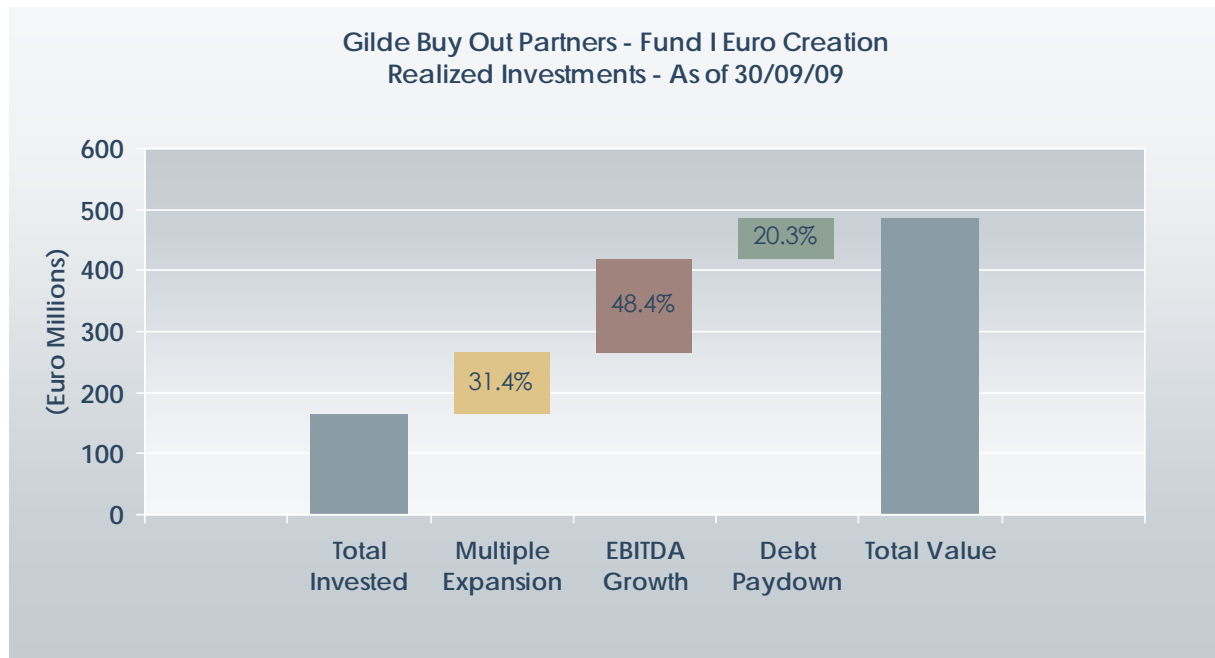
Fund III - Value Drivers						
Company	Replace Management	Improved Systems	New Product Lines	Organic Growth	Cost Reductions	Add-On Acquisitions
Heiploeg	x				x	x
Hofmann Menu			x	x		x
Nedschroef				x	x	
Novagraaf	x	x			x	x
Novasep			x	x		x
Plukon Royale			x	x	x	
Powerlines				x		x
Swets & Zeitlinger	x	x				x

Note: Excluding walter services.

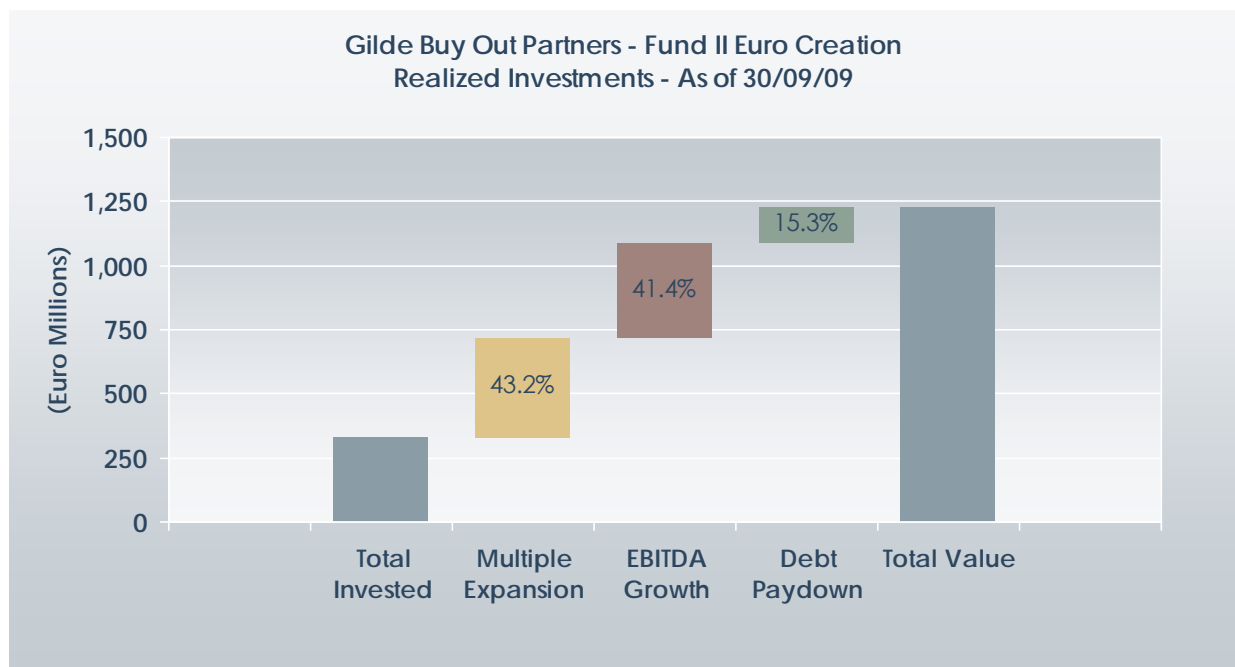
- The operational focus of the General Partner is reflected in the revenue and EBITDA growth of realized invested companies (see Appendix) and in the significant weight of EBITDA growth in creating value across Prior Funds, as illustrated by the table below.



Note: Excludes six investments (Arovit, Autodistribution, Datarius, Kdg, Strijbos, Trega) realized below 0.5x and TOEB.  
Source: Hamilton Lane.



Note: Excluding five investments realized below 0.5x and TOEB.  
Source: Hamilton Lane.



Source: Hamilton Lane.

## **Section 5 -INVESTMENT RECOMMENDATION**

### **5.1 CONCLUSION**

Gilde is led by an experienced and cohesive group of investment professionals, who operate as one team, with one investment process, multi-office deal teams, one investment committee and whole fund based carry. The General Partner places a great emphasis on a collegial atmosphere and transparency, which has contributed to the firm's ongoing continuity.

The team has developed a large network of relationships and a strong brand name in the Netherlands, ensuring significant proprietary deal flow in the region. The development of the French office remains a concern, albeit mitigated by the limited amount of capital deployed in the country.

The General Partner focuses on the buying aspect of its transactions, i.e. on picking the right management to drive value in the underlying investments. This strategy results in relatively high management ownership stakes in the portfolio companies and a less intrusive approach by the deal team. However, the investment professionals have shown the propensity and capability to adopt a more hands-on approach in underperforming companies to drive recovery in the performance and value of the business.

Through the Prior Funds, Gilde has been able to generate attractive returns relative to industry benchmarks and across multiple investment cycles. Furthermore, the General Partner has generated attractive realized returns by implementing a consistent strategy and has created significant value in portfolio companies through operating improvements and by making add-on acquisitions. Performance has been driven by a broad number of investments rather than a small number of outsized successes and it is consistently strong in different sectors. Also, Fund III unrealized portfolio companies appear to be well positioned for a downturn and two investments are on track to deliver above average returns.

### **5.2 RECOMMENDATION**

## **Section 6 -APPENDICES**

### **6.1 SUMMARY OF TERMS**

Term:	The Fund will terminate ten years from the Commencement Date, but may be extended by two additional two year periods by the Manager with the consent of Investors in the LP and the Co-op representing more than 50% of Total Fund Commitments.
Minimum Inv.:	Investors will make Commitments to the LP. The minimum Commitment to the LP shall be d10 million, unless the LP General Partner agrees otherwise.
GP Commitment:	Executives of the Manager and its Associates will invest an amount equal to between 3% and 4% of Total Fund Commitments in the Fund alongside and on the same terms as the other Investors.
Management Fee:	From the Commencement Date until the end of the Investment Period the Manager will receive an annual Management Fee equal to 1.5% (excluding VAT, if due) of the Total Fund Commitments. After the end of the Investment Period, the Management Fee will reduce to an annual amount equal to 1.5% (excluding VAT, if due) of the acquisition cost of unrealized Investments as calculated at the beginning of each accounting period.
Distribution of Profits and Losses:	<p>Proceeds will, after making reasonable reservation for any ongoing obligations and operating expenses of the Fund and payment of the Management Fee and general partner's share of d250, be distributed 100% to the LP which will, after meeting its own expenses and liabilities and paying the general partner's share of d1,000 per annum, distribute the proceeds in the following order of priority to Investors in the LP:</p> <ul style="list-style-type: none"> <li>(a) first, to the Investors until the Investors have been repaid an amount equal to their drawn down Commitments;</li> <li>(b) second, to the Investors in payment of the Preferred Return;</li> <li>(c) third, to the Carry LP until they have received an amount equal to 25% of distributions made pursuant to (b) above in order to give the Carry LP 20% of the aggregate profits of the LP; and</li> <li>(d) finally, 20% to the Carry LP and 80% to the Investors.</li> </ul>
Organizational Expenses:	The Fund will bear all expenses in relation to the administration and business of the Fund and any investment holding company including, without limitation, legal, audit, administration and accounting fees, abort costs, due diligence, litigation costs, consulting and custodian fees and expenses, the expenses of the Investor Committee and other expenses associated with the acquisition, holding, monitoring and

	<p>disposal of Investments, costs of printing and circulating reports and notices, establishment and ongoing fees and expenses of any conduit entity, insurance costs, borrowing costs and extraordinary expenses (such as litigation).</p> <p>The Manager will bear its own operating costs and overhead expenses.</p>
Key-Man Provision:	<p>If at any time prior to the end of the Investment Period any four of the Named Executives (as defined below) cease to be employed or engaged by the Manager or any of its Associates or cease to devote a substantial majority of their business time to the Fund, Gilde Buy-Out Fund II, Gilde Buy-Out Fund III and a successor fund to the Fund, then the Investment Period shall be suspended and the Manager shall not make further Investments (other than follow-on Investments) unless:</p> <p>(a) Investors representing 66.67% of the Total Fund Commitments, vote to lift the suspension of the Investment Period, or</p> <p>(b) the Investor Committee approves the replacement of Named Executives nominated by the Manager whereby, if they had been appointed prior to the suspension of the Investment Period, the keyman event above would not have taken place,</p> <p>then the suspension of the Investment Period in either case shall be lifted and the Manager shall be entitled to continue to make further Investments. If either (a) or (b) do not take place within 12 months of the suspension of the Investment Period then the Investment Period shall terminate.</p> <p>The Named Executives shall be each of Boudewijn Molenaar, Ralph Wyss, Paul Bekx, Robert Thole, Eric-Jan Vink, Nikolai Pronk, Martijn Schreurs, Hein Ploegmakers and Benjamin Barrière or such other key employees, officers and/or managers of the Manager as nominated by the Manager and approved by the Investor Committee from time to time.</p>
Investment Limitations:	<p>Without the prior consent of the Investor Committee:</p> <p>(a) no more than 12.5% of Total Fund Commitments will be invested in any one Portfolio Company save that the Fund may invest up to 25% of Total Fund Commitments in any one Portfolio Company provided that any Investment exceeding the 12.5% restriction is likely to be sold on or disposed of within one year of making the relevant Investment;</p> <p>(b) the Fund shall not invest in or finance:</p> <p>(i) any investment fund or similar pooled investment vehicle; or</p> <p>(ii) listed companies except in connection with a "public to private"</p>

	<p>transaction or in circumstances where securities originally acquired in a Portfolio Company have become listed as a result of the flotation of that Portfolio Company or securities have been received as consideration for the realization of an Investment or where such securities in Investments have the nature of a private equity investment such as an investment that provides for representation on the board of directors (or similar body) of the relevant Portfolio Company or an Investment in preferred stock (or other security) of a Portfolio Company that is not publicly quoted at the time of the Investment; or</p> <p>(iii) any hostile transaction; or</p> <p>(iv) any company which:</p> <ul style="list-style-type: none"> <li>(a) is not headquartered; or</li> <li>(b) is not incorporated; or</li> <li>(c) does not have a significant proportion of its business interests in the European Economic Area or Switzerland; or</li> </ul> <p>(v) any company that derives a significant portion of its income from:</p> <ul style="list-style-type: none"> <li>(a) production and/or distribution of weapons;</li> <li>(b) production of tobacco products;</li> <li>(c) production of hard liquor;</li> <li>(d) gambling; or</li> <li>(e) pornography; or</li> </ul> <p>(vi) speculative investments (excluding hedging currency or interest rate risks, which the Fund is permitted to do); or</p> <p>(vii) oil or gas or other natural resources; or</p> <p>(viii) real estate.</p>
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## 6.2 SUMMARY OF PORTFOLIO COMPANIES

### By Fund - Alphabetical

Fund I - Alphabetical										
(Euro) Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Amas	Fund I	Jun-97	Jun-01	4.1	€5,137,441	€14,341,217	€0	2.8x	48.7%	YES
Autodistribution	Fund I	Jul-99	Dec-04	5.4	16,178,183	277,256	0	0.0x	-69.2%	YES
AXA Stenman	Fund I	Dec-96	Jul-00	3.6	7,717,764	16,784,916	0	2.2x	48.6%	YES
Capacity Holding	Fund I	Aug-96	Jul-98	1.9	5,558,808	8,638,332	0	1.6x	40.8%	YES
Continental Sweets	Fund I	May-98	Oct-00	2.4	8,721,164	48,633,562	0	5.6x	103.2%	YES
Datarius	Fund I	Dec-02	Apr-07	4.4	1,365,993	435,400	0	0.3x	-69.5%	YES
Eurelco	Fund I	Dec-98	Jan-08	9.1	12,373,108	25,439,017	0	2.1x	9.5%	YES
Full Support Services	Fund I	Dec-97	Apr-05	7.4	14,036,783	20,357,507	0	1.5x	5.3%	YES
Gelderse Papiergroep	Fund I	Sep-98	Sep-00	2.0	14,716,552	23,416,206	0	1.6x	26.6%	YES
Grands Moulins de Paris	Fund I	Sep-98	May-01	2.7	11,065,601	31,143,692	0	2.8x	50.4%	YES
Hebu Holding	Fund I	Jun-97	Jun-06	9.0	3,516,797	12,686,754	0	3.6x	18.2%	YES
Heiploeg - Fund I	Fund I	Jun-97	Sep-00	3.3	4,870,962	13,031,903	0	2.7x	43.3%	YES
Homann Feinkost	Fund I	May-97	Nov-04	7.5	17,505,523	93,595,836	0	5.3x	30.9%	YES
IPSO Group	Fund I	Jun-97	Jul-98	1.1	5,190,885	15,730,338	0	3.0x	5940.0%	YES
Janssen Pers	Fund I	Jun-97	Jun-05	8.0	4,693,669	12,352,716	0	2.6x	18.2%	YES
Kdg Mediatech AG	Fund I	Jul-97	Dec-07	10.5	28,148,619	428,128	0	0.0x	-54.2%	YES
Kosan Teknova	Fund I	Jun-97	Aug-99	2.2	432,256	411,582	0	1.0x	-2.2%	YES
La Couronne	Fund I	Aug-99	Jun-00	0.8	1,970,234	2,270,909	0	1.2x	19.1%	YES
Maxeres	Fund I	Jun-97	Dec-04	7.6	4,956,206	6,858,460	0	1.4x	5.3%	YES
Noviant	Fund I	Mar-97	Jun-01	4.3	4,955,279	20,814,630	0	4.2x	40.1%	YES
Pickenpack Tiefkuhl	Fund I	Dec-98	Jun-03	4.5	21,975,980	42,881,412	0	2.0x	16.4%	YES
Rahbekfisk	Fund I	Jun-03	Dec-04	1.6	1,789,435	17,083,431	0	9.5x	178.4%	YES
Smit Transformatoren	Fund I	Jun-97	Dec-00	3.5	251,527	946,120	0	3.8x	47.9%	YES
Stribbos International	Fund I	Oct-96	Dec-02	6.2	4,680,743	75,486	0	0.0x	-71.9%	YES
TOEB	Fund I	Jun-97	Apr-99	1.8	96,655	186,050	0	1.9x	62.9%	YES
Trega International	Fund I	Jun-97	May-06	9.0	4,038,968	1,493,020	0	0.4x	-25.6%	YES
Trend Design	Fund I	Jul-98	Apr-07	8.8	4,118,055	8,293,370	0	2.0x	20.6%	YES
Vendor Holding	Fund I	Jun-97	Jul-00	3.1	5,437,308	15,693,497	0	2.9x	41.8%	YES
Vestas Wind Systems	Fund I	Jun-97	Jun-99	2.0	3,342,076	33,500,010	0	10.0x	435.4%	YES
Total			Average:	4.7	€218,842,574	€487,800,759	€0	2.2x	26.3%	

Fund II - Alphabetical										
(Euro) Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Armacell	Fund II	May-00	Jan-07	6.7	€50,383,863	€120,470,300	€0	2.4x	15.2%	YES
Betafence	Fund II	Feb-05	Sep-09	4.6	39,010,185	31,877,769	25,100,000	1.5x	15.4%	NO
CABB	Fund II	Jul-05	Jan-07	1.5	11,309,600	89,617,762	0	7.9x	359.2%	YES
Drie Mollen Group	Fund II	Nov-02	Jan-08	5.2	18,419,380	76,841,265	0	4.2x	34.8%	YES
Gazelle	Fund II	Jul-01	Sep-09	8.2	44,347,862	1,846,985	4	0.0x	-99.0%	NO
GB Ingredients	Fund II	Jun-05	Oct-07	2.3	38,246,859	112,838,902	0	3.0x	46.9%	YES
Hans Anders	Fund II	Nov-04	Sep-09	4.8	41,906,511	1,560,000	74,200,000	1.8x	14.0%	NO
Inversco	Fund II	Mar-05	May-06	1.3	6,760,000	34,500,258	0	5.1x	323.0%	YES
Janssen de Jong	Fund II	Aug-01	Oct-03	2.2	21,973,500	40,960,274	0	1.9x	33.3%	YES
Norit I	Fund II	May-00	Feb-01	0.8	47,800,000	94,348,971	0	2.0x	110.0%	YES
Norit II	Fund II	Nov-03	Jun-07	3.7	49,971,200	320,805,569	0	6.4x	67.7%	YES
Plastal	Fund II	Sep-01	Feb-05	3.5	35,136,819	122,012,072	0	3.5x	42.1%	YES
Soudronic	Fund II	Mar-01	Aug-06	5.5	32,120,831	65,819,183	0	2.0x	14.4%	YES
Stankiewicz	Fund II	Mar-06	Sep-09	3.5	27,763,648	4,680,000	4	0.2x	-99.0%	NO
Stokvis Tapes Group	Fund II	Nov-03	May-08	4.6	9,611,838	135,564,263	0	14.1x	93.5%	YES
Synbra	Fund II	Jan-00	Sep-09	9.7	42,581,812	2,420,396	42,000,000	1.0x	0.5%	NO
Thermphos Holding	Fund II	Jan-00	Feb-03	3.1	7,483,053	10,120,942	0	1.4x	10.5%	YES
Total			Average:	4.2	€524,826,960	€1,266,284,912	€141,300,008	2.7x	28.4%	

Fund III - Alphabetical										
(Euro) Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Arovit	Fund III	Oct-06	Sep-08	1.9	€34,386,004	€804,135	€0	0.0x	-100.0%	YES
Heiploeg - Fund III	Fund III	Feb-06	Sep-09	3.6	49,799,744	2,914,403	26,900,000	0.6x	-14.0%	NO
Hofmann-Menü	Fund III	Jan-08	Sep-09	1.7	56,060,427	1,410,669	70,500,000	1.3x	16.2%	NO
Nedschroef	Fund III	Jun-07	Sep-09	2.3	50,844,118	1,633,814	44,500,000	0.9x	-4.4%	NO
Novagraaf	Fund III	May-07	Sep-09	2.3	27,197,643	826,666	2,700,000	0.1x	-71.0%	NO
Novasep	Fund III	Jan-07	Sep-09	2.7	68,286,823	2,000,000	64,600,000	1.0x	-1.1%	NO
Plukon Royale	Fund III	Apr-09	Sep-09	0.4	30,361,859	1,200,000	30,361,859	1.0x	10.1%	NO
Powerlines	Fund III	Oct-08	Sep-09	0.9	44,820,760	1,008,403	44,820,760	1.0x	3.1%	NO
Royal Swets & Zeitlinger	Fund III	Oct-07	Sep-09	1.9	52,968,929	1,620,226	53,000,000	1.0x	1.7%	NO
walter services	Fund III	Apr-06	Sep-09	3.4	29,754,350	122,485,150	2	4.1x	94.6%	NO
Total			Average:	2.1	€444,480,657	€135,903,466	€337,382,621	1.1x	3.5%	

## By Fund – Chronological

Fund I - Chronological										
(Euro) Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Capacity Holding	Fund I	Aug-96	Jul-98	1.9	€5,558,808	€8,638,332	€0	1.6x	40.8%	YES
Srijbos International	Fund I	Oct-96	Dec-02	6.2	4,680,743	75,486	0	0.0x	-71.9%	YES
AXA Stenman	Fund I	Dec-96	Jul-00	3.6	7,717,764	16,784,916	0	2.2x	48.6%	YES
Noviant	Fund I	Mar-97	Jun-01	4.3	4,955,279	20,814,630	0	4.2x	40.1%	YES
Homann Feinkost	Fund I	May-97	Nov-04	7.5	17,505,523	93,595,836	0	5.3x	30.9%	YES
Amas	Fund I	Jun-97	Jun-01	4.1	5,137,441	14,341,217	0	2.8x	48.7%	YES
Hebu Holding	Fund I	Jun-97	Jun-06	9.0	3,516,797	12,686,754	0	3.6x	18.2%	YES
Heiploeg - Fund I	Fund I	Jun-97	Sep-00	3.3	4,870,962	13,031,903	0	2.7x	43.3%	YES
IPSO Group	Fund I	Jun-97	Jul-98	1.1	5,190,885	15,730,338	0	3.0x	5940.0%	YES
Janssen Pers	Fund I	Jun-97	Jun-05	8.0	4,693,669	12,352,716	0	2.6x	18.2%	YES
Kosan Teknova	Fund I	Jun-97	Aug-99	2.2	432,256	411,582	0	1.0x	-2.2%	YES
Maxeres	Fund I	Jun-97	Dec-04	7.6	4,956,206	6,858,460	0	1.4x	5.3%	YES
Smit Transformatoren	Fund I	Jun-97	Dec-00	3.5	251,527	946,120	0	3.8x	47.9%	YES
TOEB	Fund I	Jun-97	Apr-99	1.8	96,655	186,050	0	1.9x	62.9%	YES
Trega International	Fund I	Jun-97	May-06	9.0	4,038,968	1,493,020	0	0.4x	-25.6%	YES
Vendor Holding	Fund I	Jun-97	Jul-00	3.1	5,437,308	15,693,497	0	2.9x	41.8%	YES
Vestas Wind Systems	Fund I	Jun-97	Jun-99	2.0	3,342,076	33,500,010	0	10.0x	435.4%	YES
Kdg Mediatech AG	Fund I	Jul-97	Dec-07	10.5	28,148,619	428,128	0	0.0x	-54.2%	YES
Full Support Services	Fund I	Dec-97	Apr-05	7.4	14,036,783	20,357,507	0	1.5x	5.3%	YES
Continental Sweets	Fund I	May-98	Oct-00	2.4	8,721,164	48,633,562	0	5.6x	103.2%	YES
Trend Design	Fund I	Jul-98	Apr-07	8.8	4,118,055	8,293,370	0	2.0x	20.6%	YES
Gelderse Papiergroep	Fund I	Sep-98	Sep-00	2.0	14,716,552	23,416,206	0	1.6x	26.6%	YES
Grands Moulins de Paris	Fund I	Sep-98	May-01	2.7	11,065,601	31,143,692	0	2.8x	50.4%	YES
Eureco	Fund I	Dec-98	Jan-08	9.1	12,373,108	25,439,017	0	2.1x	9.5%	YES
Pickenpack Tiefkuhl	Fund I	Dec-98	Jun-03	4.5	21,975,980	42,881,412	0	2.0x	16.4%	YES
Autodistribution	Fund I	Jul-99	Dec-04	5.4	16,178,183	277,256	0	0.0x	-69.2%	YES
La Couronne	Fund I	Aug-99	Jun-00	0.8	1,970,234	2,270,909	0	1.2x	19.1%	YES
Datarius	Fund I	Dec-02	Apr-07	4.4	1,365,993	435,400	0	0.3x	-69.5%	YES
Rahbekfisk	Fund I	Jun-03	Dec-04	1.6	1,789,435	17,083,431	0	9.5x	178.4%	YES
Total			Average:	4.7	€218,842,574	€487,800,759	€0	2.2x	26.3%	



Fund II - Chronological										
(Euro) Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Synbra	Fund II	Jan-00	Sep-09	9.7	€42,581,812	€2,420,396	€42,000,000	1.0x	0.5%	NO
Thermphos Holding	Fund II	Jan-00	Feb-03	3.1	7,483,053	10,120,942	0	1.4x	10.5%	YES
Armacell	Fund II	May-00	Jan-07	6.7	50,383,863	120,470,300	0	2.4x	15.2%	YES
Norit I	Fund II	May-00	Feb-01	0.8	47,800,000	94,348,971	0	2.0x	110.0%	YES
Soudronic	Fund II	Mar-01	Aug-06	5.5	32,120,831	65,819,183	0	2.0x	14.4%	YES
Gazelle	Fund II	Jul-01	Sep-09	8.2	44,347,862	1,846,985	4	0.0x	-99.0%	NO
Janssen de Jong	Fund II	Aug-01	Oct-03	2.2	21,973,500	40,960,274	0	1.9x	33.3%	YES
Plastal	Fund II	Sep-01	Feb-05	3.5	35,136,819	122,012,072	0	3.5x	42.1%	YES
Drie Mollen Group	Fund II	Nov-02	Jan-08	5.2	18,419,380	76,841,265	0	4.2x	34.8%	YES
Norit II	Fund II	Nov-03	Jun-07	3.7	49,971,200	320,805,569	0	6.4x	67.7%	YES
Stokvis Tapes Group	Fund II	Nov-03	May-08	4.6	9,611,838	135,564,263	0	14.1x	93.5%	YES
Hans Anders	Fund II	Nov-04	Sep-09	4.8	41,906,511	1,560,000	74,200,000	1.8x	14.0%	NO
Betafence	Fund II	Feb-05	Sep-09	4.6	39,010,185	31,877,769	25,100,000	1.5x	15.4%	NO
Inversco	Fund II	Mar-05	May-06	1.3	6,760,000	34,500,258	0	5.1x	323.0%	YES
GB Ingredients	Fund II	Jun-05	Oct-07	2.3	38,246,859	112,838,902	0	3.0x	46.9%	YES
CABB	Fund II	Jul-05	Jan-07	1.5	11,309,600	89,617,762	0	7.9x	359.2%	YES
Stankiewicz	Fund II	Mar-06	Sep-09	3.5	27,763,648	4,680,000	4	0.2x	-99.0%	NO
Total			Average:	4.2	€524,826,960	€1,266,284,912	€141,300,008	2.7x	28.4%	

Fund III - Chronological										
(Euro) Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Heiploeg - Fund III	Fund III	Feb-06	Sep-09	3.6	€49,799,744	€2,914,403	€26,900,000	0.6x	-14.0%	NO
walter services	Fund III	Apr-06	Sep-09	3.4	29,754,350	122,485,150	2	4.1x	94.6%	NO
Arovit	Fund III	Oct-06	Sep-08	1.9	34,386,004	804,135	0	0.0x	-100.0%	YES
Novasep	Fund III	Jan-07	Sep-09	2.7	68,286,823	2,000,000	64,600,000	1.0x	-1.1%	NO
Novagraaf	Fund III	May-07	Sep-09	2.3	27,197,643	826,666	2,700,000	0.1x	-71.0%	NO
Nedschroef	Fund III	Jun-07	Sep-09	2.3	50,844,118	1,633,814	44,500,000	0.9x	-4.4%	NO
Royal Swets & Zeitlinger	Fund III	Oct-07	Sep-09	1.9	52,968,929	1,620,226	53,000,000	1.0x	1.7%	NO
Hofmann-Menü	Fund III	Jan-08	Sep-09	1.7	56,060,427	1,410,669	70,500,000	1.3x	16.2%	NO
Powerlines	Fund III	Oct-08	Sep-09	0.9	44,820,760	1,008,403	44,820,760	1.0x	3.1%	NO
Plukon Royale	Fund III	Apr-09	Sep-09	0.4	30,361,859	1,200,000	30,361,859	1.0x	10.1%	NO
Total			Average:	2.1	€444,480,657	€135,903,466	€337,382,621	1.1x	3.5%	

## By Fund – by Returns

Fund I - Returns										
(Euro) Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Vestas Wind Systems	Fund I	Jun-97	Jun-99	2.0	€3,342,076	€33,500,010	€0	10.0x	435.4%	YES
Rahbekfisk	Fund I	Jun-03	Dec-04	1.6	1,789,435	17,083,431	0	9.5x	178.4%	YES
Continental Sweets	Fund I	May-98	Oct-00	2.4	8,721,164	48,633,562	0	5.6x	103.2%	YES
Homann Feinkost	Fund I	May-97	Nov-04	7.5	17,505,523	93,595,836	0	5.3x	30.9%	YES
Noviant	Fund I	Mar-97	Jun-01	4.3	4,955,279	20,814,630	0	4.2x	40.1%	YES
Smit Transformatoren	Fund I	Jun-97	Dec-00	3.5	251,527	946,120	0	3.8x	47.9%	YES
Hebu Holding	Fund I	Jun-97	Jun-06	9.0	3,516,797	12,686,754	0	3.6x	18.2%	YES
IPSO Group	Fund I	Jun-97	Jul-98	1.1	5,190,885	15,730,338	0	3.0x	5940.0%	YES
Vendor Holding	Fund I	Jun-97	Jul-00	3.1	5,437,308	15,693,497	0	2.9x	41.8%	YES
Grands Moulins de Paris	Fund I	Sep-98	May-01	2.7	11,065,601	31,143,692	0	2.8x	50.4%	YES
Amas	Fund I	Jun-97	Jun-01	4.1	5,137,441	14,341,217	0	2.8x	48.7%	YES
Heiploeg - Fund I	Fund I	Jun-97	Sep-00	3.3	4,870,962	13,031,903	0	2.7x	43.3%	YES
Janssen Pers	Fund I	Jun-97	Jun-05	8.0	4,693,669	12,352,716	0	2.6x	18.2%	YES
AXA Stenman	Fund I	Dec-96	Jul-00	3.6	7,717,764	16,784,916	0	2.2x	48.6%	YES
Euretco	Fund I	Dec-98	Jan-08	9.1	12,373,108	25,439,017	0	2.1x	9.5%	YES
Trend Design	Fund I	Jul-98	Apr-07	8.8	4,118,055	8,293,370	0	2.0x	20.6%	YES
Pickenpack Tiefkuhl	Fund I	Dec-98	Jun-03	4.5	21,975,980	42,881,412	0	2.0x	16.4%	YES
TOEB	Fund I	Jun-97	Apr-99	1.8	96,655	186,050	0	1.9x	62.9%	YES
Gelderse Papiergroep	Fund I	Sep-98	Sep-00	2.0	14,716,552	23,416,206	0	1.6x	26.6%	YES
Capacity Holding	Fund I	Aug-96	Jul-98	1.9	5,558,808	8,638,332	0	1.6x	40.8%	YES
Full Support Services	Fund I	Dec-97	Apr-05	7.4	14,036,783	20,357,507	0	1.5x	5.3%	YES
Maxeres	Fund I	Jun-97	Dec-04	7.6	4,956,206	6,858,460	0	1.4x	5.3%	YES
La Couronne	Fund I	Aug-99	Jun-00	0.8	1,970,234	2,270,909	0	1.2x	19.1%	YES
Kosan Teknova	Fund I	Jun-97	Aug-99	2.2	432,256	411,582	0	1.0x	-2.2%	YES
Trega International	Fund I	Jun-97	May-06	9.0	4,038,968	1,493,020	0	0.4x	-25.6%	YES
Datarius	Fund I	Dec-02	Apr-07	4.4	1,365,993	435,400	0	0.3x	-69.5%	YES
Autodistribution	Fund I	Jul-99	Dec-04	5.4	16,178,183	277,256	0	0.0x	-69.2%	YES
Strijbos International	Fund I	Oct-96	Dec-02	6.2	4,680,743	75,486	0	0.0x	-71.9%	YES
Kdg Mediatech AG	Fund I	Jul-97	Dec-07	10.5	28,148,619	428,128	0	0.0x	-54.2%	YES
Total			Average:	4.7	€218,842,574	€487,800,759	€0	2.2x	26.3%	

Fund II - Returns										
(Euro) Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Stokvis Tapes Group	Fund II	Nov-03	May-08	4.6	€9,611,838	€135,564,263	€0	14.1x	93.5%	YES
CABB	Fund II	Jul-05	Jan-07	1.5	11,309,600	89,617,762	0	7.9x	359.2%	YES
Norit II	Fund II	Nov-03	Jun-07	3.7	49,971,200	320,805,569	0	6.4x	67.7%	YES
Inversco	Fund II	Mar-05	May-06	1.3	6,760,000	34,500,258	0	5.1x	323.0%	YES
Drie Mollen Group	Fund II	Nov-02	Jan-08	5.2	18,419,380	76,841,265	0	4.2x	34.8%	YES
Plastal	Fund II	Sep-01	Feb-05	3.5	35,136,819	122,012,072	0	3.5x	42.1%	YES
GB Ingredients	Fund II	Jun-05	Oct-07	2.3	38,246,859	112,838,902	0	3.0x	46.9%	YES
Armacell	Fund II	May-00	Jan-07	6.7	50,383,863	120,470,300	0	2.4x	15.2%	YES
Soudronic	Fund II	Mar-01	Aug-06	5.5	32,120,831	65,819,183	0	2.0x	14.4%	YES
Norit I	Fund II	May-00	Feb-01	0.8	47,800,000	94,348,971	0	2.0x	110.0%	YES
Janssen de Jong	Fund II	Aug-01	Oct-03	2.2	21,973,500	40,960,274	0	1.9x	33.3%	YES
Hans Anders	Fund II	Nov-04	Sep-09	4.8	41,906,511	1,560,000	74,200,000	1.8x	14.0%	NO
Betafence	Fund II	Feb-05	Sep-09	4.6	39,010,185	31,877,769	25,100,000	1.5x	15.4%	NO
Thermphos Holding	Fund II	Jan-00	Feb-03	3.1	7,483,053	10,120,942	0	1.4x	10.5%	YES
Synbra	Fund II	Jan-00	Sep-09	9.7	42,581,812	2,420,396	42,000,000	1.0x	0.5%	NO
Stankiewicz	Fund II	Mar-06	Sep-09	3.5	27,763,648	4,680,000	4	0.2x	-99.0%	NO
Gazelle	Fund II	Jul-01	Sep-09	8.2	44,347,862	1,846,985	4	0.0x	-99.0%	NO
Total			Average:	4.2	€524,826,960	€1,266,284,912	€141,300,008	2.7x	28.4%	

Fund III - Returns										
(Euro) Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
walter services	Fund III	Apr-06	Sep-09	3.4	€29,754,350	€122,485,150	€2	4.1x	94.6%	NO
Hofmann-Menü	Fund III	Jan-08	Sep-09	1.7	56,060,427	1,410,669	70,500,000	1.3x	16.2%	NO
Plukon Royale	Fund III	Apr-09	Sep-09	0.4	30,361,859	1,200,000	30,361,859	1.0x	10.1%	NO
Royal Swets & Zeitlinger	Fund III	Oct-07	Sep-09	1.9	52,968,929	1,620,226	53,000,000	1.0x	1.7%	NO
Powerlines	Fund III	Oct-08	Sep-09	0.9	44,820,760	1,008,403	44,820,760	1.0x	3.1%	NO
Novasep	Fund III	Jan-07	Sep-09	2.7	68,286,823	2,000,000	64,600,000	1.0x	-1.1%	NO
Nedschroef	Fund III	Jun-07	Sep-09	2.3	50,844,118	1,633,814	44,500,000	0.9x	-4.4%	NO
Heiploeg - Fund III	Fund III	Feb-06	Sep-09	3.6	49,799,744	2,914,403	26,900,000	0.6x	-14.0%	NO
Novagraaf	Fund III	May-07	Sep-09	2.3	27,197,643	826,666	2,700,000	0.1x	-71.0%	NO
Arovit	Fund III	Oct-06	Sep-08	1.9	34,386,004	804,135	0	0.0x	-100.0%	YES
Total			Average:	2.1	€444,480,657	€135,903,466	€337,382,621	1.1x	3.5%	

### 6.3 PORTFOLIO VALUE CREATION (REALIZED INVESTMENTS ONLY)

Gilde Buy Out Partners - Revenue, EBITDA, Net Debt % increases Entry vs. Exit (or Current)										
Company	Amount Invested (€ mm)	Revenue at entry (€ 000's)	Revenue at exit/ current (€ 000's)	EBITDA at entry (€ 000's)	EBITDA at exit/ current (€ 000's)	Debt at entry (€ 000's)	Debt at exit/ current (€ 000's)	Revenue Growth %	EBITDA Growth %	Debt Growth %
Fund I										
Amas	€5,137	€136,229	€112,807	€4,651	€5,925	€12,048	€5,216	-17%	27%	-57%
Autodistributie	16,178	909,053	1,039,600	65,797	69,600	325,481	463,050	14%	6%	42%
AXA Stenman	7,718	38,668	45,169	6,777	8,781	14,077	0	17%	30%	n/a
Capacity Holding	5,559	9,317	13,137	1,247	2,206	(133)	1,300	41%	77%	n/a
Continental Sweets	8,721	147,861	157,662	11,910	15,060	44,879	24,970	7%	26%	-44%
Datarius	1,366	10,433	11,300	(1,042)	(800)	2,862	5,500	8%	-23%	92%
Eurelco	12,373	911,191	1,068,289	13,503	18,835	15,882	37,800	17%	39%	138%
Full Support Services	14,037	123,973	n/a	9,465	12,200	40,840	14,490	n/a	29%	-65%
Gelderse Papiergroep	14,717	115,669	117,174	13,069	12,528	31,492	52,310	1%	-4%	66%
Grands Moulins de Paris	11,066	370,891	418,598	29,724	33,321	104,094	60,960	13%	12%	-41%
Hebu Holding	3,517	12,758	38,500	2,396	5,667	4,047	6,410	202%	137%	58%
Heiploeg - Fund I	4,871	149,608	301,521	15,781	40,953	41,087	159,186	102%	160%	287%
Homann Feinkost	17,506	292,234	275,457	14,614	23,700	28,006	1,600	-6%	62%	-94%
IPSO Group	5,191	61,728	69,639	9,343	10,845	29,910	24,142	13%	16%	-19%
Janssen Pers	4,694	23,427	37,500	1,902	2,600	91	(2,336)	60%	37%	n/a
Kdg Mediatech AG	28,149	39,956	36,600	12,188	600	30,480	5,200	-8%	-95%	-83%
Kosan Teknova	432	22,800	8,736	2,600	3,700	5,800	7,713	-62%	42%	33%
La Couronne	1,970	7,999	8,091	636	558	0	0	1%	-12%	n/a
Maxeres	4,956	593,545	547,400	39,907	31,400	146,485	75,900	-8%	-21%	-48%
Noviant	4,955	133,362	188,389	28,866	48,525	121,885	80,000	41%	68%	-34%
Pickenpack Tiefkuhl	21,976	114,665	136,622	9,974	10,542	45,445	22,256	19%	6%	-51%
Rahbekfisk	1,789	69,466	85,100	2,270	3,948	6,017	7,400	23%	74%	23%
Smit Transformatoren	252	54,227	70,872	8,259	6,280	13,727	21,464	31%	-24%	56%
Strijbos International	4,681	9,448	8,500	1,910	300	5,215	3,378	-10%	-84%	-35%
Trega International	4,039	48,063	31,387	6,951	749	21,962	14,300	-35%	-89%	-35%
Trend Design	4,118	38,571	50,100	4,311	4,234	5,128	5,600	30%	-2%	9%
Vendor Holding	5,437	19,507	24,225	4,887	5,821	10,652	2,042	24%	19%	-81%
Vestas Wind Systems	3,342	115,367	377,865	9,407	40,137	7,779	21,674	228%	327%	179%
<b>Average (non-weighted)</b>	<b>€7,812</b>	<b>€163,572</b>	<b>€195,564</b>	<b>€11,832</b>	<b>€14,936</b>	<b>€39,830</b>	<b>€40,055</b>	<b>20%</b>	<b>26%</b>	<b>1%</b>
<b>Average (weighted)</b>		<b>€230,865</b>	<b>€253,193</b>	<b>€15,974</b>	<b>€17,694</b>	<b>€57,134</b>	<b>€56,763</b>	<b>10%</b>	<b>11%</b>	<b>-1%</b>
Fund II										
Armcell	€50,384	€218,500	€331,100	€47,100	€50,200	€222,250	€210,353	52%	7%	-5%
CABB	11,310	124,357	143,000	10,510	22,500	29,800	19,500	15%	114%	-35%
Drie Mollen Group	18,419	187,736	282,395	25,793	40,300	118,700	156,600	50%	56%	32%
GB Ingredients	38,247	340,000	370,000	24,500	35,000	132,900	60,000	9%	43%	-55%
Inversco	6,760	92,245	105,000	6,700	9,000	34,377	36,974	14%	34%	8%
Janssen de Jong	21,974	333,500	357,026	27,368	26,800	72,292	42,400	7%	-2%	-41%
Norit I	47,800	251,000	264,200	33,800	41,200	113,344	110,299	5%	22%	-3%
Norit II	49,971	230,140	369,300	29,088	55,500	149,000	127,478	60%	91%	-14%
Plastal	35,137	331,979	453,000	30,777	40,000	87,500	49,595	36%	30%	-43%
Soudronic	32,121	148,000	149,200	31,503	32,900	139,000	133,400	1%	4%	-4%
Stokvis Tapes Group	9,612	78,517	190,700	7,343	28,700	20,751	52,321	143%	291%	152%
Thermphos Holding	7,483	257,120	282,600	19,830	18,000	55,090	41,700	10%	-9%	-24%
<b>Average (non-weighted)</b>	<b>€27,435</b>	<b>€216,091</b>	<b>€274,793</b>	<b>€24,526</b>	<b>€33,342</b>	<b>€97,917</b>	<b>€86,718</b>	<b>27%</b>	<b>36%</b>	<b>-11%</b>
<b>Average (weighted)</b>		<b>€241,253</b>	<b>€309,666</b>	<b>€30,169</b>	<b>€39,882</b>	<b>€126,481</b>	<b>€108,332</b>	<b>28%</b>	<b>32%</b>	<b>-14%</b>
Fund III										
Arovit	€34,386	€218,000	€229,300	€19,400	€11,300	€93,000	€101,000	5%	-42%	9%
walter services	29,754	159,500	251,400	20,200	33,500	109,750	97,800	58%	66%	-11%
<b>Average (non-weighted)</b>	<b>€32,070</b>	<b>€188,750</b>	<b>€240,350</b>	<b>€19,800</b>	<b>€22,400</b>	<b>€101,375</b>	<b>€99,400</b>	<b>27%</b>	<b>13%</b>	<b>-2%</b>
<b>Average (weighted)</b>		<b>€190,862</b>	<b>€239,552</b>	<b>€19,771</b>	<b>€21,598</b>	<b>€100,770</b>	<b>€99,516</b>	<b>26%</b>	<b>9%</b>	<b>-1%</b>

Note: Fund I excluding TOEB.

## 6.4 COVENANT POSITION OF UNREALIZED PORTFOLIO

Gilde Buy Out Partners - Unrealized Portfolio Covenant Detail As of 06/30/09							
Company	Debt/EBITDA Covenant		Interest Coverage Ratio Covenant		Fixed Charge Ratio Covenant		Comments
Hans Anders	EBITDA Cushion%	30.3%	EBITDA Cushion%	66.3%	Free Cash Flow Cushion%	28.1%	
	In Compliance		In Compliance		In Compliance		
Gazelle	EBITDA Cushion%	14.1%	EBITDA Cushion%	-25.7%	Free Cash Flow Cushion%	n/a	In discussion with banks
	In Compliance		Covenant waived		Covenant waived		
Novasep	EBITDA Cushion%	12.6%	EBITDA Cushion%	27.2%	EBITDA Cushion%	16.0%	
	In Compliance		In Compliance		In Compliance		
Heiploeg	EBITDA Cushion%	8.9%	EBITA Cushion%	10.7%	EBITDA Cushion%	32.9%	
	In Compliance		In Compliance		In Compliance		
Novagraaf	EBITDA Cushion%	-22.3%	EBITDA Cushion%	-30.6%	EBITDA Cushion%	-8.7%	Negotiations with the Lenders in progress
	Not in compliance		Not in compliance		Not in compliance		
Plukon	EBITDA Cushion%	58.6%	(EBITDA - capex) Cush.%	61.9%	EBITDA Cushion%	83.9%	
	In Compliance		In Compliance		In Compliance		
Nedschroef	EBITDA Cushion%	0.7%	EBITA Cushion%	14.3%	EBITDA Cushion%	57.6%	
	In Compliance		In Compliance		In Compliance		
Betafence	Covenant waived		Covenant waived		Covenant waived		Covenant light period (refinan. arranged in Q3 2009)
Powerlines	EBITDA Cushion%	27.5%	EBITDA Cushion%	56.9%	n/a		
	In Compliance		In Compliance				
Hofmann Menü	EBITDA Cushion%	26.0%	EBITDA Cushion%	27.3%	n/a		
	In Compliance		In Compliance				
Walter Services	EBITDA Cushion%	0.7%	EBITDA Cushion%	17.3%	n/a		Discussions with the banks for more flexible financing
	In Compliance		In Compliance				
Royal Swets & Zeitlinger	EBITDA Cushion%	14.4%	EBITDA Cushion%	7.3%	EBITDA Cushion%	21.9%	
	In Compliance		In Compliance		In Compliance		
Synbra Holding	EBITDA Cushion%	18.3%	EBITDA Cushion%	11.8%	EBITDA Cushion%	25.9%	Refinancing rearranged in Q3 2009
	In Compliance		In Compliance		In Compliance		

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# Ethos Private Equity

Ethos Private Equity Fund VI, L.P.

September 22, 2008

[www.hamiltonlane.com](http://www.hamiltonlane.com)



**HAMILTON LANE**

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\*\*\*\* IMPORTANT DISCLOSURES \*\*\*\*

The information contained in this report may include forward-looking statements regarding the fund presented or its portfolio companies. Forward-looking statements include a number of risks, uncertainties and other factors beyond the control of the fund or the portfolio companies, which may result in material differences in actual results, performance or other expectations. The opinions, estimates and analyses reflect our current judgment, which may change in the future.

The past performance information contained in this report is not necessarily indicative of future results and there is no assurance that the fund will achieve comparable results or that it will be able to implement its investment strategy or achieve its investment objectives. The actual realized value of currently unrealized investments will depend on a variety of factors, including future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions and circumstances on which the current unrealized valuations are based.

Any tables, graphs or charts relating to past performance included in this report are intended only to illustrate the performance of the fund or the portfolio companies referred to for the historical periods shown. Such tables, graphs and charts are not intended to predict future performance and should not be used as the basis for an investment decision.

\*\*\*\* IMPORTANT DISCLOSURES \*\*\*\*

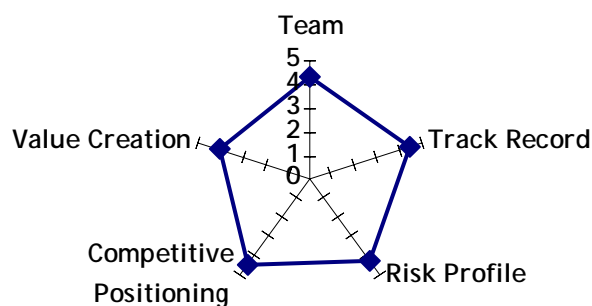


## OVERVIEW

Fund Information:	
General Partner:	Ethos Private Equity
Fund:	Ethos Private Equity Fund VI, L.P.
Firm Inception:	1984
Target Size:	\$1.25 billion
Hard Capitalization:	Not determined yet
Strategy:	Primarily buyouts; growth investments
Geography:	South Africa (70%), Sub-Saharan Africa (30%)
Team:	11 Senior Partners led by Andre Roux; CFO; three Principals; two Associates
Locations:	Johannesburg, South Africa
Equity Investments:	ZAR 200 million - ZAR 1 billion (approximately \$25 million - \$125 million)
Industries:	Diversified
Prior Funds:	
	1984 - FNB - \$101 million
	1992 - Ethos II - \$32 million
	1996 - Ethos III - \$172 million
	1998 - Ethos IV - \$358 million
	2005 - Ethos V - \$740 million
Closing Schedule:	
	First Close: Q4 08
Key Terms - Not Finalized Yet	
Investment Term:	
Fund Term:	
Management Fee:	Investment Period:
	Post-Investment Period
Fee Offset:	
Carry/Hurdle:	
GP Commitment:	
Key Person:	
Investment Highlights:	
<ul style="list-style-type: none"> <li>• The General Partner has generated a stable and attractive track record</li> <li>• No loss of capital on realized transactions in Funds II - V</li> <li>• The investment team is highly experienced and cohesive</li> <li>• Ethos has established a pre-eminent presence in the South African market, resulting in proprietary deal flow</li> <li>• Limited operational resources</li> </ul>	
Recommendation:	

## Hamilton Lane General Partner Rating System (GPRS)

Ethos Private Equity VI, L.P.



<u>Criteria</u>	<u>Score</u>
<i>Team</i>	4.4
<i>Track Record</i>	4.5
<i>Risk Profile</i>	4.3
<i>Competitive Positioning</i>	4.5
<i>Value Creation</i>	4.0
<i>Weighted Average</i>	4.3

About GPRS: The GPRS is a proprietary model developed by Hamilton Lane to evaluate each General Partner and provide a means to compare one fund to another on a more quantitative basis. Each of the five categories (Team, Track Record, Risk Profile, Competitive Positioning and Value Creation) is comprised of several subcategories which are weighted and totaled to create an overall value for the fund.

The ratings for each category and subcategory are 1 through 5, with 5 being the best.

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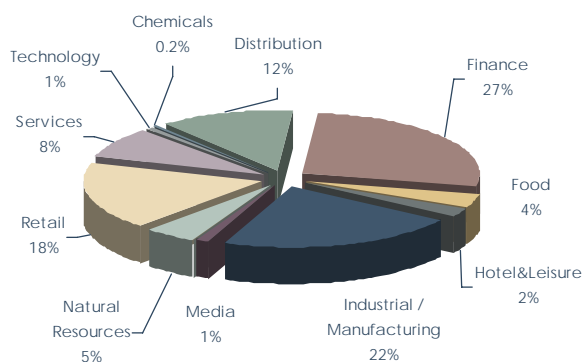
## Section 1 - INVESTMENT STRATEGY

### 1.1 APPROACH

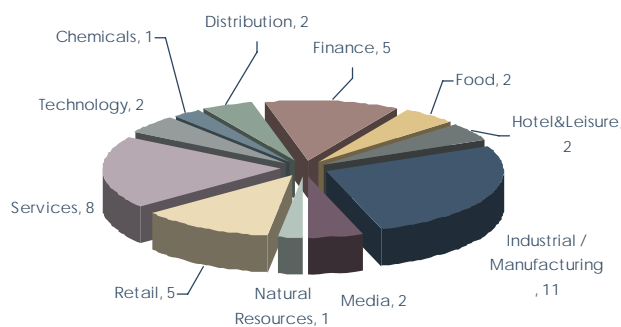
- Investment experience in a wide variety of sectors.
- Proprietary sourcing skills.
- Focus on South African buyouts.

- Expertise across a wide variety of sectors.

Prior Funds - Sector Allocation by Amount Invested

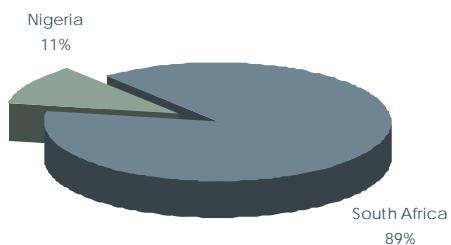


Prior Funds - Sector Allocation by Number of Transactions

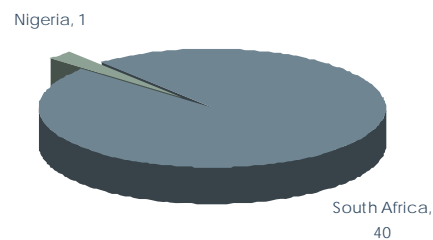


- Nearly all investments made in South Africa.

Prior Funds - Geographical Allocation by Amount Invested

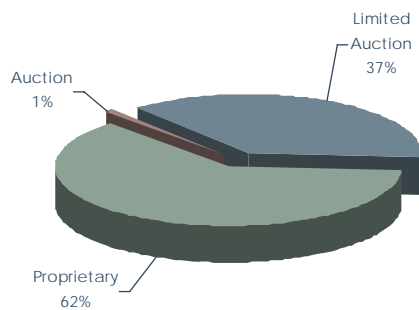


Prior Funds - Geographical Allocation by Number of Transactions

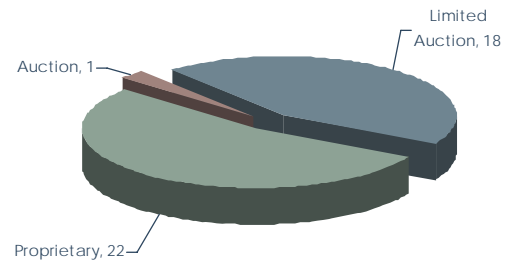


- Strong proprietary sourcing capabilities.

Prior Funds - Deal Sources by Amount Invested

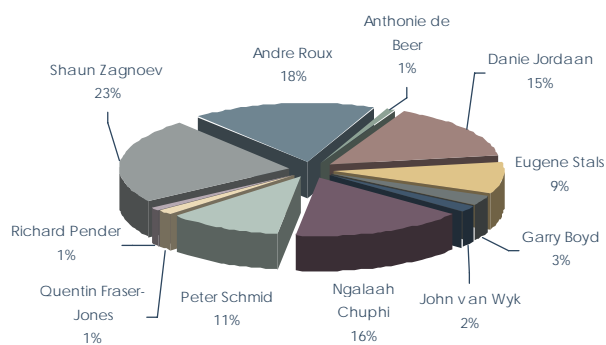


Prior Funds - Deal Sources by Number of Transactions

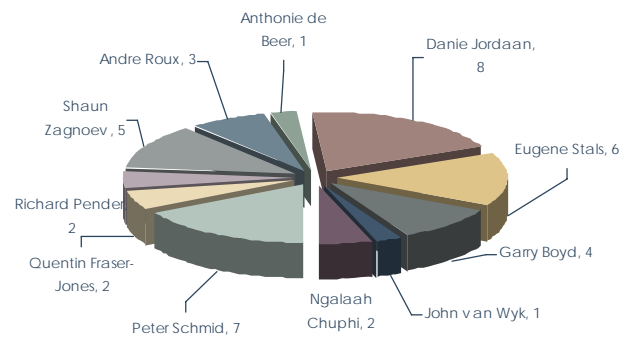


- Responsibilities widely distributed among the investment professionals.

Prior Funds - Lead Principal by Amount Invested

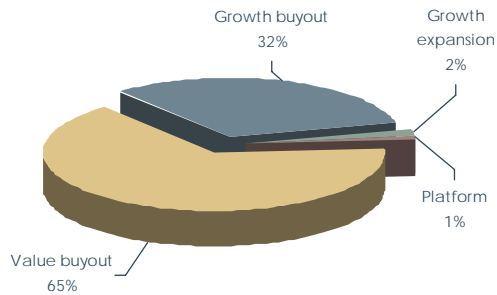


Prior Funds - Lead Principal by Number of Transactions

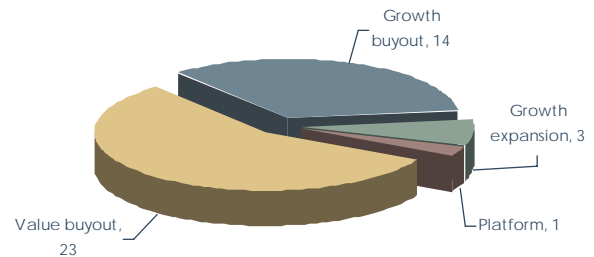


- Focus on buyouts.

Prior Funds - Investment Strategy by Amount Invested

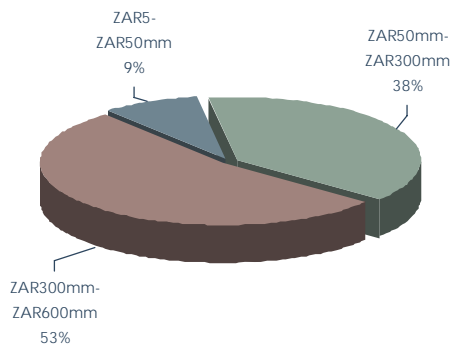


Prior Funds - Investment Strategy by Number of Transactions

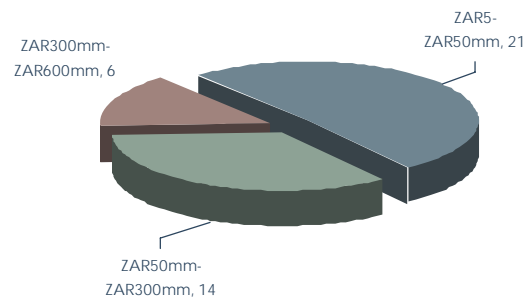


- Growth buyouts are defined as leveraged investments in rapidly growing industries, whereas value buyouts focus on under-valued companies or assets.

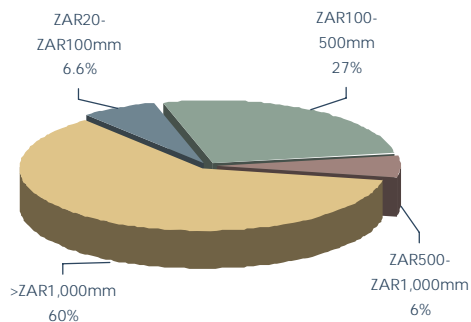
Prior Funds - Investment Size by Amount Invested



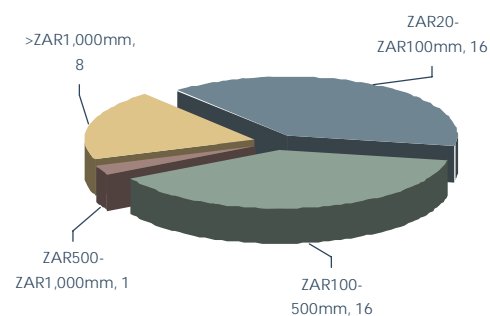
Prior Funds - Investment Size by Number of Transactions



Prior Funds - Enterprise Value by Amount Invested

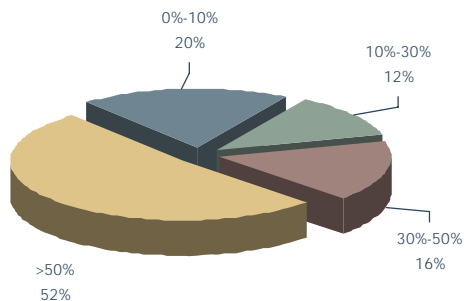


Prior Funds - Enterprise Value by Number of Transactions

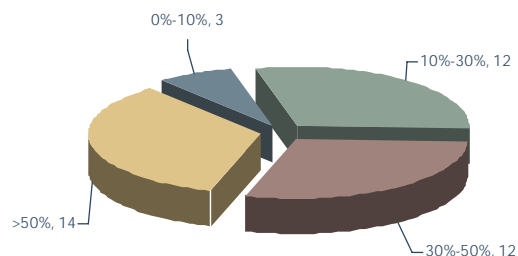


- Influential to majority stake in a majority of investments.

Prior Funds - % Ownership by Amount Invested



Prior Funds - % Ownership by Number of Transactions

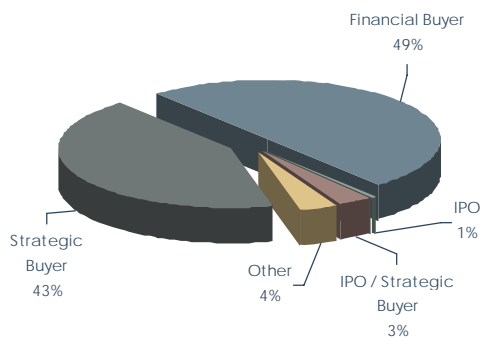


## 1.2 PORTFOLIO COMPOSITION

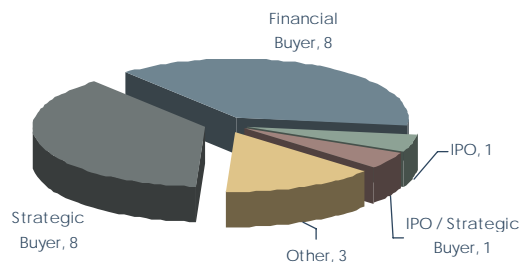
Fund Portfolio Construction	
Target number of deals in Fund	12 to 15
Maximum % of Fund to be invested in single investment	20%
Target number of deals completed per year	3 to 4
Expected holding period per investment	3 - 7 years
Expected # of years until Fund is fully invested	4-5 years
Target number of deals per partner	2 - 3

## 1.3 EXIT STRATEGY

Fund II &amp; Fund III - Exits by Amount Invested



Fund II &amp; Fund III - Exits by Number of Transactions



## 1.4 PEER GROUP/COMPETITION

Fund Manager	Domestic Competitors	Pan-African Competitors
CapitalWorks	x	
Lereko Metier	x	
Pamodzi	x	
Actis	x	x
Brait	x	x
Emerging Capital Partners		x

## 1.5 SOUTH AFRICA MACROECONOMIC ENVIRONMENT

South Africa Key Economic Statistics			
Gross Domestic Product <sup>1</sup>		Interest Rates	
Q2, 2008	+4.5%	3-month	12.2%
% change vs. previous quarter	+4.9%	10-year government bonds	9.2%
2008 <sup>2</sup>	+3.2%		
2009 <sup>2</sup>	+3.5%		
Inflation <sup>1</sup>		Other Statistics	
July 2008	+13.4%	Population	48.8 million
July 2007	+7.0%	GDP / Capita	\$9,800 <sup>3</sup>
2008 <sup>2</sup>	+10.3%	Trade Balance <sup>1</sup>	-\$11 billion
		Current Account <sup>1</sup>	-\$22 billion

<sup>1</sup> Change vs. one year before

<sup>2</sup> Projections - The Economist

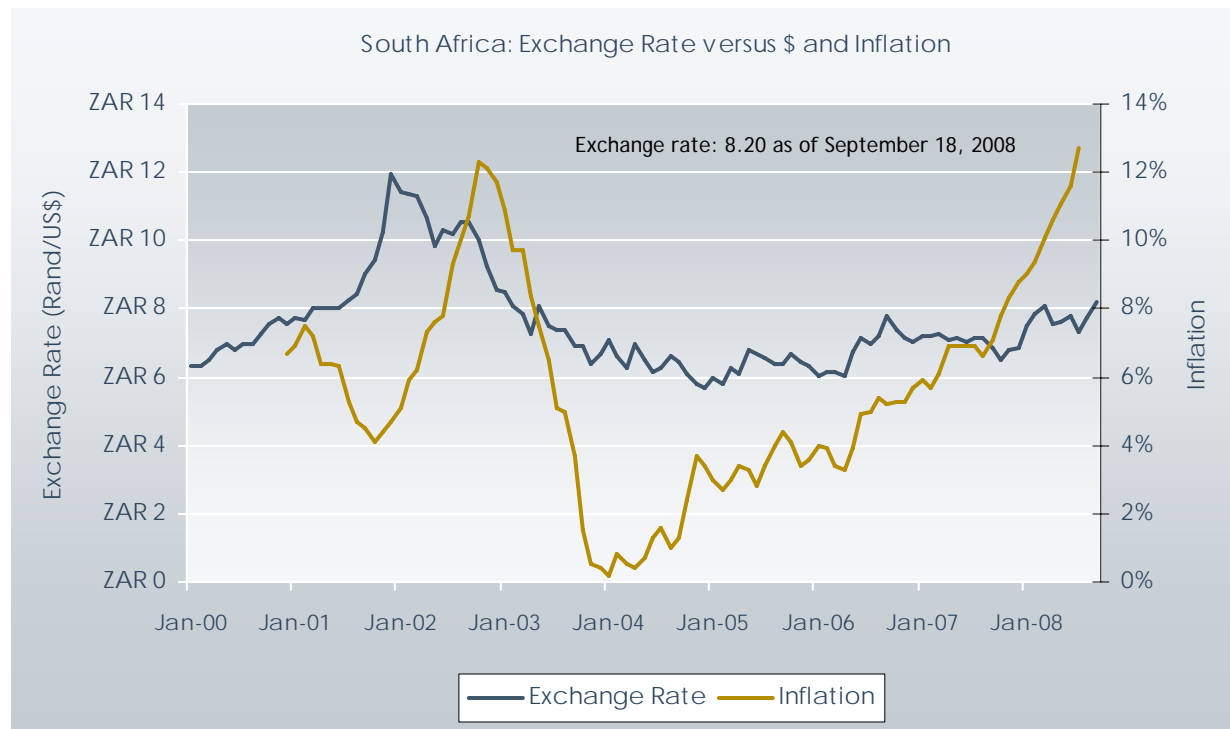
<sup>3</sup> 2007 estimate

Sources: the Economist; CIA Factbook

- In the decade prior to the advent of full democracy in 1994, GDP growth averaged 1.0%. In the decade thereafter, GDP growth averaged 2.9%. More recently, from 2005 to 2007, GDP growth averaged 5.0%. There have been 39 consecutive quarters of positive GDP growth to date.
- Service sectors accounted for approximately 67% of GDP in Q2 2008.
- Public debt levels have fallen to less than 30% of GDP (versus 37% in the U.S.) and South Africa has obtained sovereign investment grade ratings from both Moody's and S&P. Moody's upgraded South Africa to Baa1 in 2005 and S&P has awarded South Africa with a BBB+ rating.
- In terms of inflation, prices have been outside their designated 3% - 6% range for 13 consecutive months, rising to 13% in August 2008. The inflation hike has been fueled by higher electricity, food, fuel and housing cost.
- Since June 2006, in response to the high inflation, the South African central bank has raised the interest rate ten times - by 50 basis points each time - to 12%. It is widely believed that the next move in interest rates will be a cut, probably in 2009.



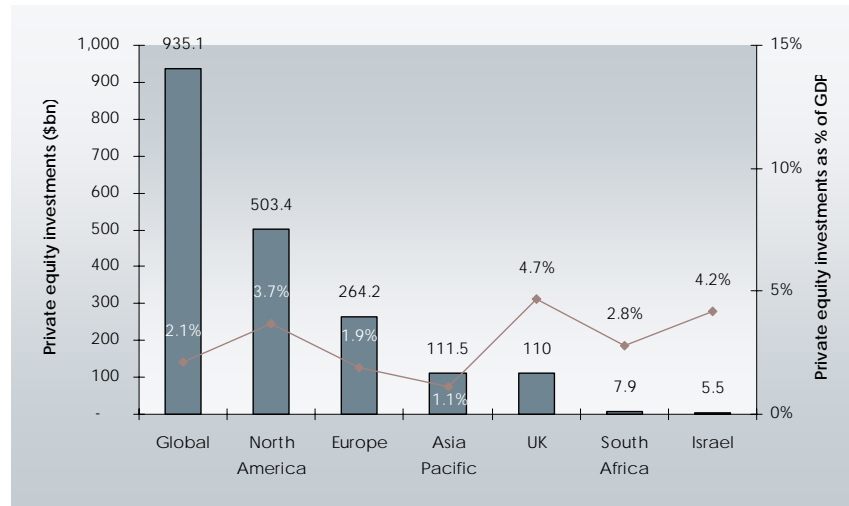
- The South African Rand has stabilized since beginning 2004 after three years of fluctuations. The stability of the currency is driven by a restrained fiscal and monetary policy with a focus on building foreign currency reserves. South Africa has currently net reserves of \$33 billion.



- The Rand has, after the Singapore Dollar, the most liquid exchange rate of emerging countries, i.e. the most traded in the international foreign exchange market.
- The currency fluctuations were primarily driven by inflationary pressure.
- Ethos abandoned its hedging policy in Fund V and will not hedge in Fund VI.

## 1.6 SOUTH AFRICA PRIVATE EQUITY MARKET

- The total volume of M&A activity in South Africa totaled approximately ZAR 514 billion in 2007.
- At year-end 2007, there was ZAR 31.7 billion available in investment funds from private equity managers.
- In terms of total funds under management relative to GDP, South Africa's private equity industry represents 2.8% of GDP, which is higher than the global average of 2.1%, the European average of 1.9% and the Asian Pacific average of 1.1%



Source: South African Venture Capital & Private Equity Association

- The private equity market going forward is expected to benefit from two phenomena :
  1. Between 2003 and 2005, approximately 950,000 new, emerging consumers, moved from low income earning brackets into higher income earning, middle class brackets. This trend of wealth creation of black middle class drives greater share of ownership of basic luxury goods, e.g. cars, branded clothing, home appliances, etc;
  2. The South African government has announced an infrastructural spending program of ZAR 500 billion, somewhat offsetting the impact a potential slowdown in developed economies could have on the local economy. Private equity players expect to find investment opportunities in companies supplying services/products to the infrastructure industry.

## 1.7 BLACK ECONOMIC EMPOWERMENT

- The Black Economic Empowerment (“BEE”) policy has been installed to bring previously disadvantaged individuals into the mainstream economy. BEE is a socio-economic process that is intended to bring about i) a significant increase in the number of black South Africans who actively participate, as owners and managers of enterprises, in the country’s economy; ii) significant decreases in income inequalities; and iii) accelerated, shared and sustainable economic growth.
- The BEE policy is valid for all companies with revenues above ZAR 5 million. Criteria include ownership and control of enterprises and assets, management at senior level and employment equity.
- BEE has become an important factor driving merger and acquisition deal flow in South Africa. In 2007 alone, 153 BEE transactions worth R96 billion were completed in South Africa.
- BEE transactions support the political priority of promoting black ownership, and as a result BEE companies’ post-acquisition performance can be improved by preferred access to government contracts.
- 63% of the investments in Fund IV and 50% of the investments in Ethos V are BEE transactions.

## Section 2 - GENERAL PARTNER

### 2.1 ORGANIZATION

- The General Partner was founded in 1984 by Andre Roux who continues to serve as CEO of the organization. The Johannesburg-based General Partner is independent since its buyout from First National Bank (“FNB”) when FNB merged with Rand Merchant Bank in 1998. Between 1984 and 1998, the investment team was investing for FNB’s own account.
- Ethos comprises 11 Partners, three Principals and two further Associates. Five of the Partners have been with the firm for over 15 years. The investment team shares an aggregate of 150 years of private equity experience.

Ethos Private Equity		
Andre Roux	CEO	24
Danie Jordaan	Partner	18
Garry Boyd	Partner	18
Claudia Koch	Partner	15
Shaun Zagnoev	Partner	15
Stuart MacKenzie	Partner	10
Bill Ashmore	Partner	9
Ngalaah Chuphi	Partner	9
Christo Roos	Partner	7
Anthonie de Beer	Partner	6
Busi Mabuza	Partner	3
Jos van Zyl	Principal	2
Sam Pokroy	Principal	2
Arshad Essa	Principal	1
Craig Dreyer	CFO	10
Average		10

- Chaired by Mr. Roux, the Investment Committee comprises all the Partners.
- In November 2004, the General Partner entered into a strategic alliance with Sphere Private Equity (“Sphere”), a black-owned private equity firm, in which Sphere acquired a 24.5% interest in Ethos. Collectively, Sphere and Ethos’ black investment professionals now own 50.01% of the General Partner. This ownership restructuring is expected to enhance Ethos’ positioning with respect to ongoing black economic empowerment initiatives. However, while Ethos has given up some ownership to Sphere, it still retains operating control of the firm.
- The General Partner launched ZAR 27 million Ethos Technology Fund I (the “Tech Fund”) in August 2003. The Tech Fund was focused on making late-state investments in South African internet, wireless and mobile and information technology companies.
- The Tech Fund was run by an independent team led by Ms. Koch. When the decision was made not to pursue the strategy going forward, Ms. Koch, Mr. MacKenzie and Sam Pokroy Bossenger joined the buyout fund. Only Mr. Bossenger dedicates a substantial amount of time to the Tech Fund (around 60% of his professional time). Two dedicated technology specialists have left the General Partner.
- The Tech Fund made seven investments, of which two are co-investments with the Ethos buyout fund. Two investments have been written off with the remaining five being active. To date, the fund has returned 65% of cost of investment.

## 2.2 EXPERIENCE OF INVESTMENT PROFESSIONALS

Experience of Investment Professionals				
Name	Title	Age	Prior Experience	Educational Background
Andre Roux	CEO	59	-Founding Partner of Ethos -FirstCorp Merchant Bank	-University of the Witwatersrand (BA)
Danie Jordaan	Partner	46	-FirstCorp Merchant Bank -Deloitte & Touche	-University of Johannesburg (BA) -University of South Africa (BS)
Garry Boyd	Partner	54	-ABSA Merchant Bank -Anglo American Corporation -Deloitte & Touche	-University of the Witwatersrand (BA)
Claudia Koch	Partner	42	-Gemini Consulting -Deloitte & Touche	-University of Rochester (MBA) -University of the Witwatersrand (BA)
Shaun Zagnoev	Partner	41	-Gemini Consulting	-University of the Witwatersrand (MBA, MS, BS)
Stuart MacKenzie	Partner	39	-JP Morgan	-University of the Witwatersrand (BA)
Bill Ashmore	Partner	61	-Citibank -FirstCorp Merchant Bank -First National Bank	
Ngalaah Chuphi	Partner	46	-International Finance Corporation -Gemini Consulting -Deloitte & Touche	-Pepperdine University (MBA) -Queen's University (BS)
Christo Roos	Partner	36	-Ernst & Young -Abbey National -PricewaterhouseCoopers	-University of Pretoria (BA, MA)
Anthonie de Beer	Partner	35	-PricewaterhouseCoopers	-Rand Afrikaans University (BA)
Busi Mabuza	Partner	45	-Women Private Equity Fund -All Risk Management Systems	-Stern (MBA) -City University of New York (BA)

Key Principals' Time Allocation								
Name	Deal Origination, Assessment and Execution	Post-deal Value-Add	Exit Structuring	Investor Relations and Fund Raising	Ethos Reputation Enhancement, Franchise	Firm Infrastructure	Strategic and Operational Initiatives	Total
Andre Roux	41%	14%	3%	10%	14%	7%	10%	100%
Danie Jordaan	55%	28%	0%	0%	3%	0%	14%	100%
Garry Boyd	55%	0%	0%	10%	7%	0%	28%	100%
Claudia Koch	21%	7%	7%	17%	14%	24%	10%	100%
Shaun Zagnoev	52%	33%	12%	0%	3%	0%	0%	100%
Stuart McKenzie	59%	24%	7%	3%	0%	7%	0%	100%
Bill Ashmore	55%	0%	0%	3%	21%	14%	7%	100%
Ngalaah Chuphi	50%	21%	0%	17%	7%	2%	3%	100%
Christo Roos	55%	28%	10%	0%	3%	3%	0%	100%
Anthonie de Beer	55%	17%	17%	0%	3%	3%	3%	100%
Busi Mabuza	21%	0%	0%	28%	0%	0%	52%	100%
Craig Dreyer - CFO	0%	0%	0%	14%	7%	59%	21%	100%

## 2.3 TENURE OF INVESTMENT PROFESSIONALS

Name	PE Exp.	Tenure	Fund IV							Fund V				
			1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Andre Roux	24	24												
Danie Jordaan	18	18												
Garry Boyd	18	18												
Claudia Koch	15	15												
Shaun Zagnoev	15	15												
Stuart MacKenzie	10	10												
Bill Ashmore	9	9												
Ngalaah Chuphi	9	9												
Christo Roos	7	7												
Anthonie de Beer	6	6												
Busi Mabuza	3	3												
Craig Dreyer	10	10												

 = Tenure with General Partner

## 2.4 DEPARTURES

Name	Title	Start Date	Leave Date	Tenure	Reason for Leaving
Richard Pender	Partner	1994	2008	14	Pursue personal interests
Nadine Rechenberg	Partner	1997	2007	10	Pursue personal interests
Eugene Stals*	Partner	1993	2004	11	Moved abroad
Peter Schmid	Partner	1993	2004	11	Joined Actis
Andrew Richardson	Partner	1993	2004	11	Resignation
John Van Wyk	Partner	1995	2004	9	Joined Actis
Ishara Ramsunder	Principal	2004	2006	2	Resignation
Tshego Sefolo	Associate	2005	2008	3	Resignation
Lorraine Corlet	Associate	2003	2007	4	Overseas MBA study
Sue Ann Stander	Associate	2002	2005	3	Resignation
Cora Fernandes	Associate	2001	2004	3	Resignation

\*Eugene Stals remains a member of the Investment Committee and continues to represent Ethos at its Annual Meetings.

## 2.5 REFERENCES

Throughout its typical diligence process, Hamilton Lane will generally contact a number of individuals in connection with its evaluation of a Fund including portfolio company CEOs, co-investors, prior employees, other general partners and limited partners. The references we spoke with reported:

- Ethos has built strong brand value among local entrepreneurs given its long history of private equity investing in the South African market.
- CEOs praised Ethos for its ability to build strong relationships with managements.
- The General Partner is characterized as a non-intrusive investor who focuses on choosing the right management team, giving management large ownership stakes and various incentive schemes, and serving as a strategic partner on the boards.

- Mr. Zagnoev was praised for his sharp negotiating skills and active board presence.

## 2.6 LITIGATION

The General Partner has indicated that neither it, nor any members of the team, are involved in, or have in the past been involved with, any pending or threatened: i) criminal proceeding; ii) regulatory investigation; or iii) any action of proceeding involving their management of any private equity vehicle other than in an ordinary course of business.

## Section 3 -PRIOR INVESTMENT EXPERIENCE

### 3.1 GROSS FUND OVERALL RETURNS

Ethos Private Equity											Ethos Private Equity		
Prior Investment Performance											USD Returns		
As of 06/30/08											As of 06/03/08		
ZAR in thousands		# of Inv.		Size	Amount Invested	Amount Realized	Unrealized Value	Mult.	Gross IRR	Net IRR	Mult.	Gross IRR	Net IRR
Fund	Vintage	Total	Real.										
Fund II	1992	9	9	ZAR 110,000	ZAR 110,881	ZAR 364,885	ZAR 0	3.3x	55.7%	50.3%	2.4x	41.5%	36.6%
Fund III	1996	15	13	750,000	718,823	2,113,291	40,107	3.0x	25.9%	21.3%	2.1x	16.4%	13.4%
Fund IV	1998	9	8	2,500,000	1,469,138	4,770,476	260,053	3.4x	28.4%	21.7%	3.2x	24.9%	18.8%
Fund V	2005	8	0	5,500,000	2,849,804	11,922	3,204,635	1.1x	14.7%	3.5%	1.0x	4.9%	nm
Total		41	30	ZAR 8,860,000	ZAR 5,148,646	ZAR 7,260,574	ZAR 3,504,795	2.1x	30.1%				

Ethos Private Equity Realized Investment Performance As of 06/30/08				
(ZAR) Fund	Amount Invested	Amount Realized	Unrealized Value	Multiple
Fund II	ZAR 110,881	ZAR 364,885	ZAR 0	3.3x
Fund III	607,693	2,067,177	0	3.4x
Fund IV	1,337,388	4,729,564	41,668	3.6x
<b>Total</b>	<b>ZAR 2,055,963</b>	<b>ZAR 7,161,626</b>	<b>ZAR 41,668</b>	<b>3.5x</b>

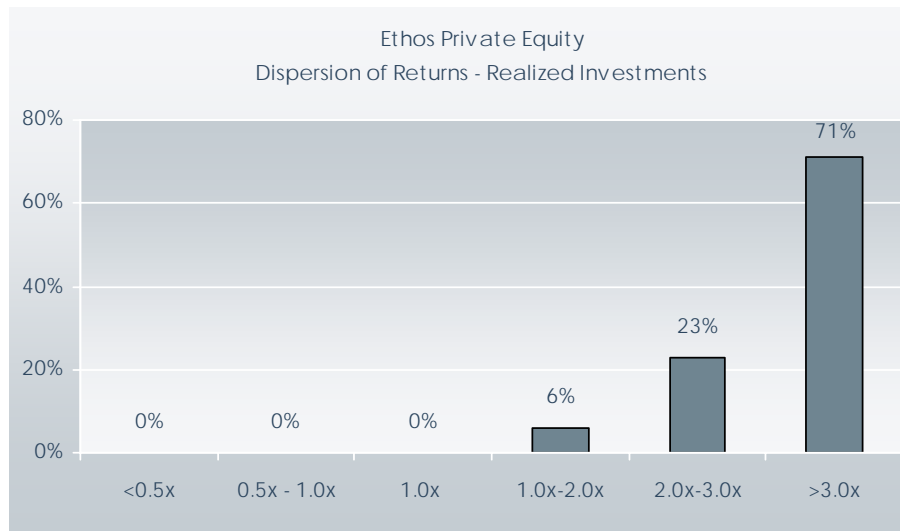
Ethos Private Equity Unrealized Investment Performance As of 06/30/08				
(ZAR) Fund	Amount Invested	Amount Realized	Unrealized Value	Multiple
Fund III	ZAR 111,130	ZAR 46,114	ZAR 40,107	0.8x
Fund IV	131,749	40,912	218,385	2.0x
Fund V	2,849,804	11,922	3,204,635	1.1x
<b>Total</b>	<b>ZAR 3,092,683</b>	<b>ZAR 98,948</b>	<b>ZAR 3,463,127</b>	<b>1.2x</b>

- Between 1984 and 1997, the General Partner executed 53 transactions for FNBs own account.

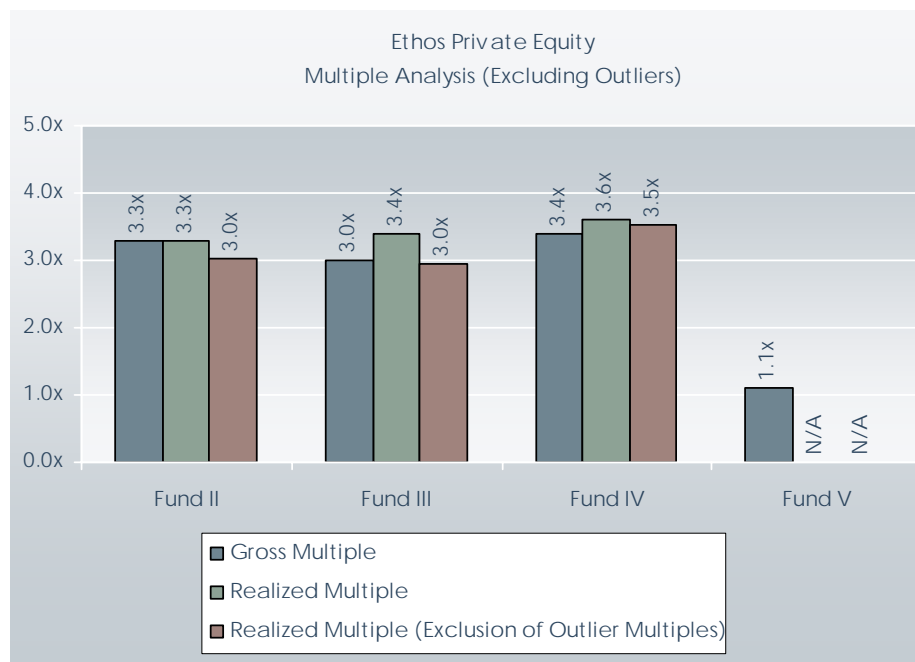
### 3.2 NET RETURNS TO LIMITED PARTNERS

Fund	Vintage	Currency	Total Capital Committed (million)	Total Capital Drawn (million)	Total Capital distributed (million)	NAV (million)	DPI	RVPI	TVPI	Net IRR
Fund II	1992	ZAR	ZAR 120	ZAR 111	ZAR 365	ZAR 0	3.3x	0.0x	3.3x	50.3%
Fund III	1996	ZAR	761	718	2,113	40	2.9x	0.1x	3.0x	21.3%
Fund IV	1998	ZAR	2,120	1,469	4,770	286	3.2x	0.2x	3.4x	21.7%
Fund V	2005	ZAR	4,500	2,850	12	3,205	0.0x	1.1x	1.1x	3.5%
<b>Total</b>			<b>ZAR 7,501</b>	<b>ZAR 5,148</b>	<b>ZAR 7,260</b>	<b>ZAR 3,531</b>	<b>1.4x</b>	<b>0.7x</b>	<b>2.1x</b>	

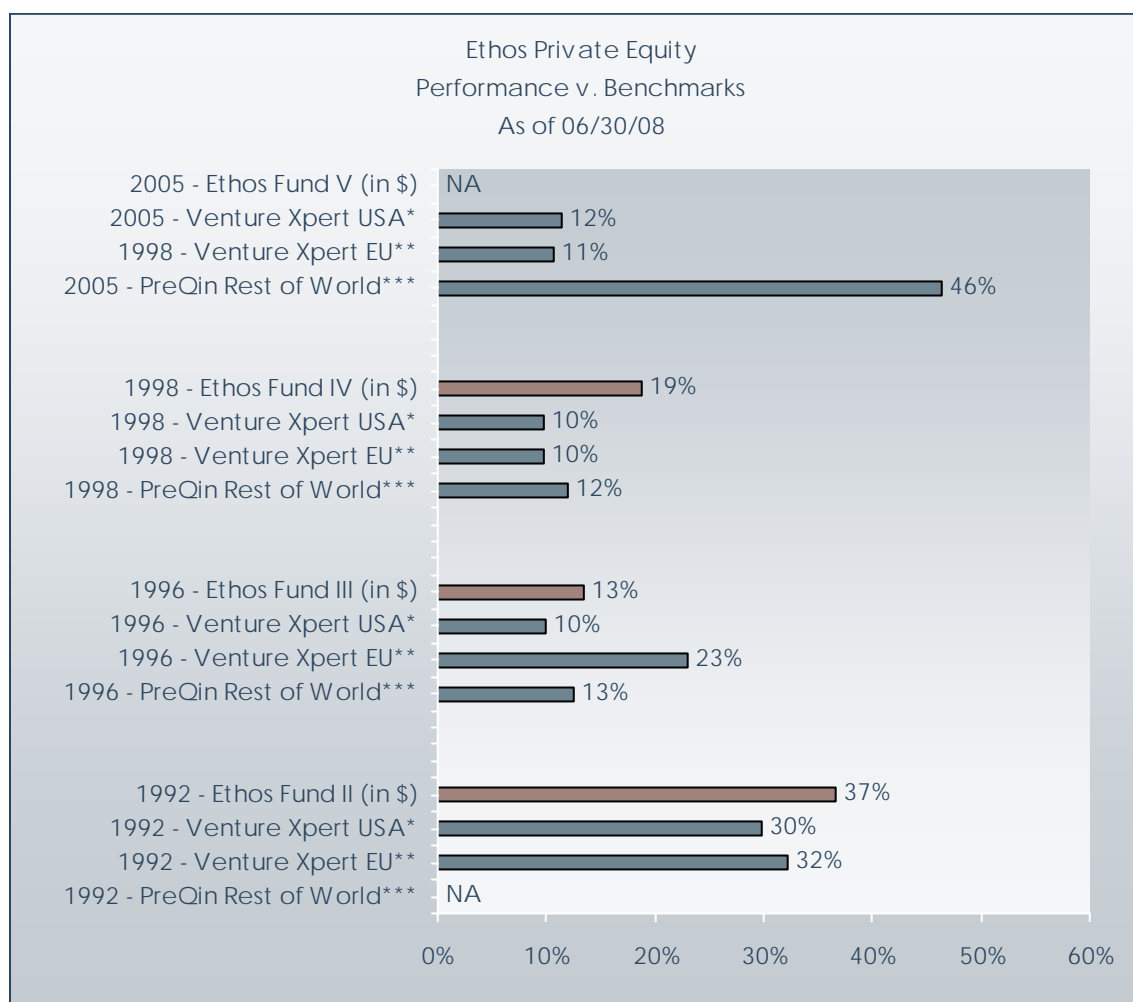
### 3.3 LOSS RATIO ANALYSIS



### 3.4 MULTIPLE ANALYSIS (EXCLUDING OUTLIERS)



### 3.5 BENCHMARK ANALYSIS



\*As of March 31, 2008

\*\*As of December 31, 2007

\*\*\*PreQin benchmarks indicate "Rest of World" returns, i.e. excluding US and Europe, as of June 30, 2006

Fund	Vintage	Geographical Focus	Fund Size (in million)	Gross Multiple	Gross IRR	Net IRR	Date
Brait IV	2007	South Africa	\$880	1.0x	-2.0%	na	June 30, 2008
ECP II	2006	Pan-Africa	\$523	1.9x	122.3%	na	March 31, 2008
Ethos V	2005	South Africa	ZAR 5,500	1.0x	4.9%	nm	June 30, 2008
Actis Africa II	2003	Pan-Africa	\$465	1.5x	31.0%	na	March 31, 2008
ECP I	2000	Pan-Africa	\$291	2.5x	34.4%	na	March 31, 2008
Brait III	1999	South Africa	\$409	3.3x	31.0%	na	June 30, 2008
Actis Africa I	1998	Pan-Africa	\$395	3.2x	28.3%	na	March 31, 2008
Ethos IV	1998	South Africa	ZAR 2,500	3.2x	24.9%	18.8%	June 30, 2008
Ethos III	1996	South Africa	ZAR 750	2.1x	16.4%	13.4%	June 30, 2008
Brait II	1995	South Africa	\$144	1.8x	31.0%	na	June 30, 2008
Ethos II	1992	South Africa	ZAR 110	2.4x	41.5%	36.6%	June 30, 2008



## 3.6 TOTAL ATTRIBUTION ANALYSIS

Prior Funds - Realized Performance by Sector					
Sector	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
Food	2	ZAR 185,037	9.0%	4.5x	30.0%
Services	8	410,748	20.0%	4.1x	33.1%
Natural Resources	1	240,500	11.7%	3.7x	35.0%
Media	2	54,367	2.6%	3.5x	66.8%
Distribution	1	48,024	2.3%	3.2x	39.8%
Industrial/Manufacturing	9	948,272	46.1%	3.1x	26.8%
Finance	2	69,443	3.4%	3.1x	61.5%
Hotel&Leisure	1	14,131	0.7%	2.4x	58.7%
Retail	1	27,927	1.4%	2.4x	37.5%
Technology	2	49,513	2.4%	2.4x	32.7%
Chemicals	1	8,000	0.4%	2.0x	32.9%
	30	ZAR 2,055,963		3.5x	33.0%

Prior Funds - Realized Performance by Lead					
Lead	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
Garry Boyd	4	ZAR 140,156	6.8%	5.3x	34.9%
Shaun Zagnoev	2	115,888	5.6%	4.0x	98.3%
Peter Schmid	7	550,337	26.8%	3.8x	28.7%
Eugene Stals	5	350,528	17.0%	3.6x	29.6%
Andre Roux	2	540,979	26.3%	3.2x	29.3%
Quentin Fraser-Jones	2	69,443	3.4%	3.1x	61.5%
Danie Jordaan	5	126,380	6.1%	3.0x	45.6%
Richard Pender	2	66,624	3.2%	2.8x	27.9%
John van Wyk	1	95,628	4.7%	1.7x	11.8%
	30	ZAR 2,055,963		3.5x	33.0%

Prior Funds - Realized Performance by Region					
Region	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
South Africa	30	ZAR 2,055,963	100.0%	3.5x	33.0%

Prior Funds - Realized Performance by Strategy					
Strategy	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
Value buyout	17	ZAR 1,148,588	55.9%	3.7x	28.6%
Growth expansion	2	81,260	4.0%	3.6x	45.9%
Growth buyout	10	781,945	38.0%	3.3x	42.7%
Platform	1	44,169	2.1%	2.2x	24.4%
	30	ZAR 2,055,963		3.5x	33.0%

Prior Funds - Realized Performance by Auction					
Auction	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
Limited Auction	15	ZAR 1,133,685	55.1%	3.5x	32.4%
Proprietary	14	881,877	42.9%	3.5x	33.5%
Auction	1	40,400	2.0%	3.0x	36.8%
	30	ZAR 2,055,963		3.5x	33.0%

Prior Funds - Realized Performance by % Ownership					
% Ownership	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
10%-30%	11	ZAR 503,316	24.5%	3.1x	51.7%
30%-50%	11	838,306	40.8%	3.1x	28.1%
>50%	8	714,341	34.7%	4.3x	31.6%
	30	ZAR 2,055,963		3.5x	33.0%

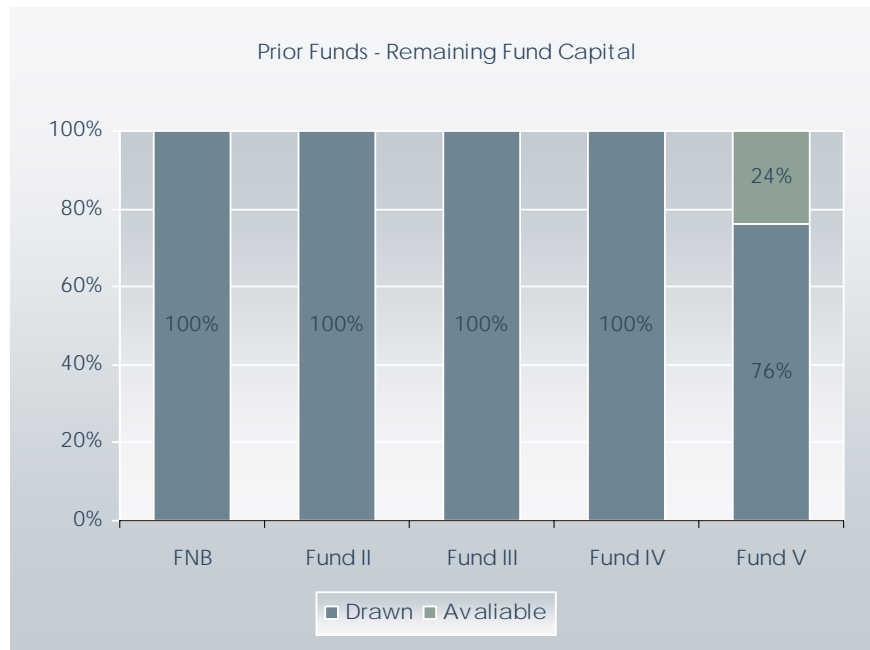
Prior Funds - Realized Performance by Investment Size					
Investment Size	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
ZAR5-ZAR50mm	19	ZAR 385,275	18.7%	3.2x	46.5%
ZAR50mm-ZAR300mm	10	1,370,208	66.6%	3.7x	29.1%
ZAR300mm-ZAR600mm	1	300,479	14.6%	2.7x	24.4%
	30	ZAR 2,055,963		3.5x	33.0%

Prior Funds - Realized Performance by Enterprise Value					
Enterprise Value	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
ZAR20-ZAR100mm	15	ZAR 329,133	16.0%	3.3x	48.5%
ZAR100-500mm	13	1,147,795	55.8%	3.9x	29.8%
ZAR500-ZAR1,000mm	0	0	0.0%	N/A	N/A
>ZAR1,000mm	2	579,035	28.2%	2.9x	24.1%
	30	ZAR 2,055,963		3.5x	33.0%

Prior Funds - Realized Performance by Multiple					
Multiple	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
1.0x-2.0x	3	ZAR 122,228	5.9%	1.8x	12.5%
2.0x-3.0x	8	473,017	23.0%	2.5x	26.6%
>3.0x	19	1,460,718	71.0%	4.0x	36.3%
	30	ZAR 2,055,963		3.5x	33.0%

Prior Funds - Realized Performance by Gross IRR					
Gross IRR	No. of Trans.	Amount Invested	As %	Mult.	Gross IRR
0%-20%	3	ZAR 166,394	8.1%	1.8x	11.4%
20%-50%	16	1,630,642	79.3%	3.6x	28.7%
50%-100%	8	236,111	11.5%	3.4x	73.0%
>100%	3	22,816	1.1%	6.6x	109.9%
	30	ZAR 2,055,963		3.5x	33.0%

### 3.7 REMAINING FUND CAPITAL



### 3.8 INSTITUTIONAL SPONSORSHIP

Fund V Institutional Sponsorship	
Allstate	
CDC	
DEG	
IFC	
New York City	
New York Life	
Old Mutual	
Ontario Teachers	
Sanlam Life Insurance	
South African Investors	
State of Connecticut	
TIAA	
Wega Support	

## Section 4 - EVALUATION OF THE INVESTMENT PROPOSAL

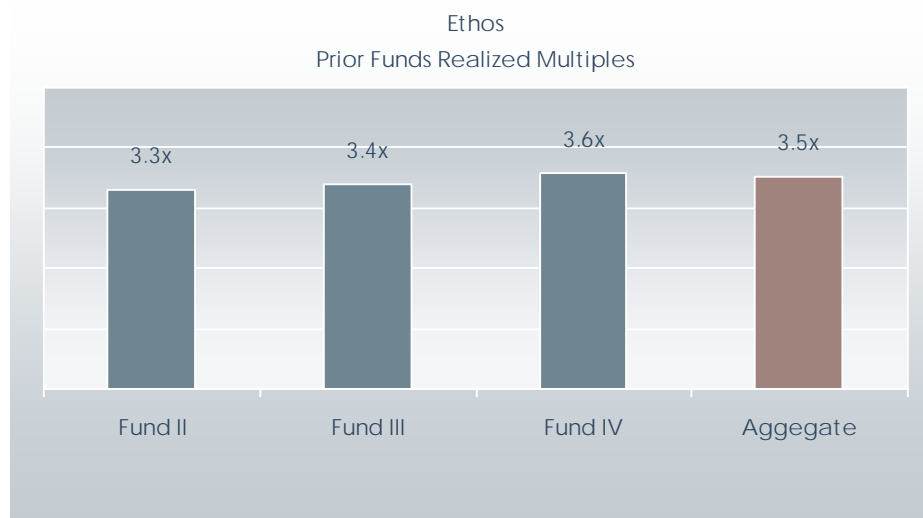
### 4.1 KEY DRIVERS

- The General Partner has generated a stable and attractive track record
- No loss of capital on realized transactions in Funds II - V
- The investment team is highly experienced and cohesive
- Access to proprietary deal flow
- Limited operational resources

#### A. Stable and robust track record

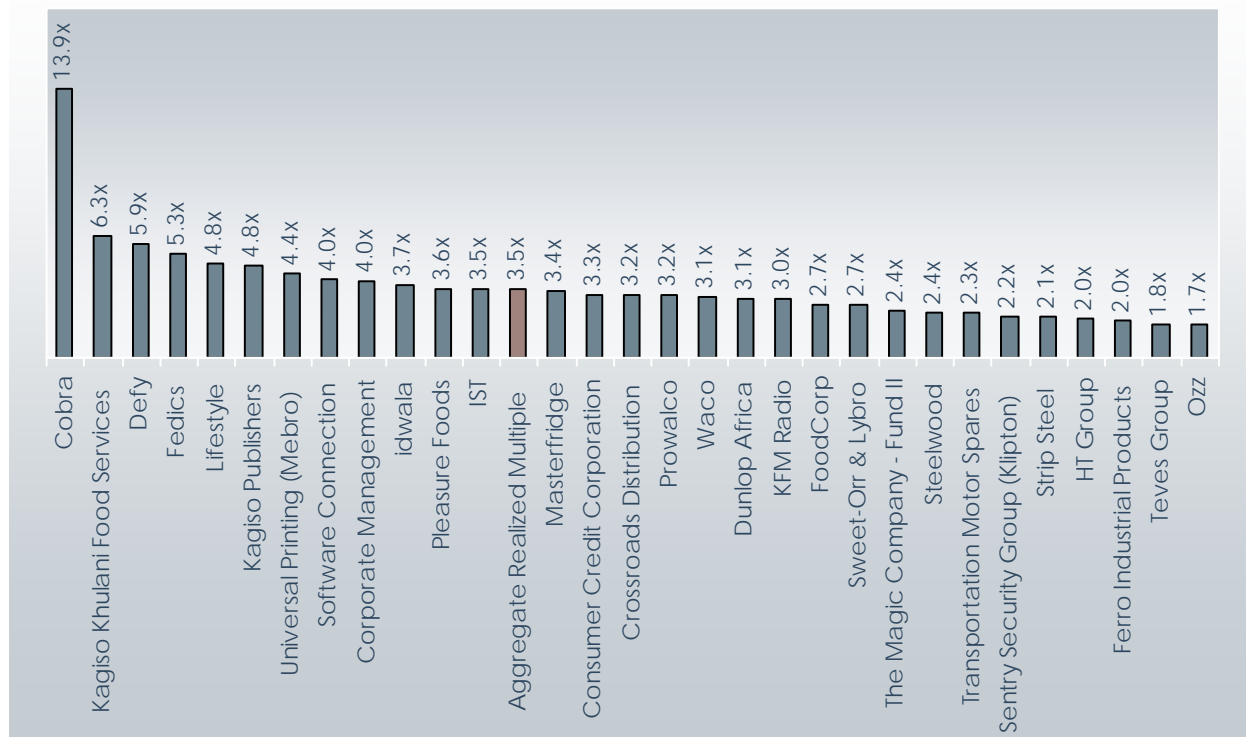
- Ethos has generated a track record of attractive realizations.

Ethos Private Equity - Prior Investment History Realized Investment Performance As of 06/30/08				
(ZAR) Fund	Amount Invested	Amount Realized	Unrealized Value	Multiple
Fund II	ZAR 110,881	ZAR 364,885	ZAR 0	3.3x
Fund III	607,693	2,067,177	0	3.4x
Fund IV	1,337,388	4,729,564	41,668	3.6x
<b>Total</b>	<b>ZAR 2,055,963</b>	<b>ZAR 7,161,626</b>	<b>ZAR 41,668</b>	<b>3.5x</b>

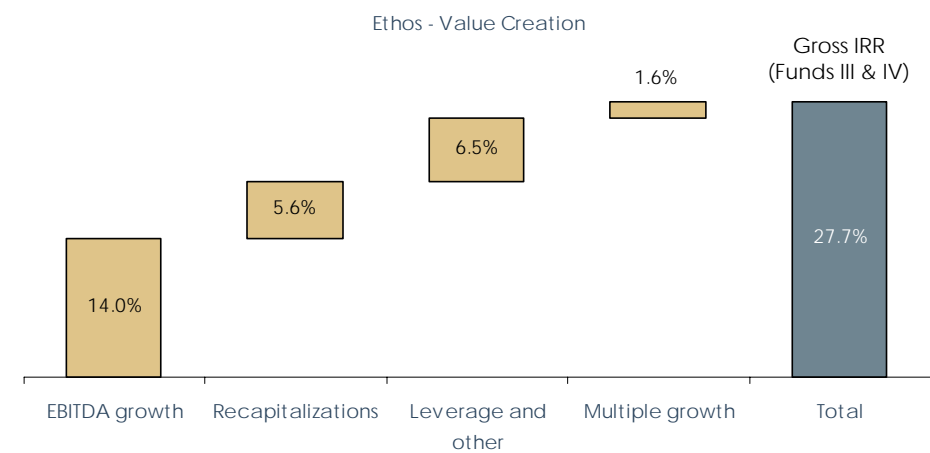


- The General Partner has exited 30 investments since 1996. 28 investments were exited at or above 2.0x.

Ethos  
Prior Funds Realized Multiples



- There has been no loss of capital in Funds II - V. The worst performing investment (the Magic Company - Fund III) generated a 0.6x multiple of cost and ZAR 19 million of the ZAR 100 million investment remains unrealized.
- The General Partner reports that value creation is driven by EBITDA growth. Of the 28% realized gross Rand IRR in Ethos III and IV, 14% can be attributed to EBITDA growth.



Source: The General Partner

- The unrealized portfolio is concentrated in Fund V and it is held at cost except Oceanic Bank, Moresport, Plumblink and Transaction Capital. The oldest unrealized investment was done in late 2005.

Ethos Private Equity - Prior Investment History Unrealized Investment Performance As of 06/30/08				
(ZAR) Fund	Amount Invested	Amount Realized	Unrealized Value	Multiple
Fund III	ZAR 111,130	ZAR 46,114	ZAR 40,107	0.8x
Fund IV	131,749	40,912	218,385	2.0x
Fund V	2,849,804	11,922	3,204,635	1.1x
<b>Total</b>	<b>ZAR 3,092,683</b>	<b>ZAR 98,948</b>	<b>ZAR 3,463,127</b>	<b>1.2x</b>

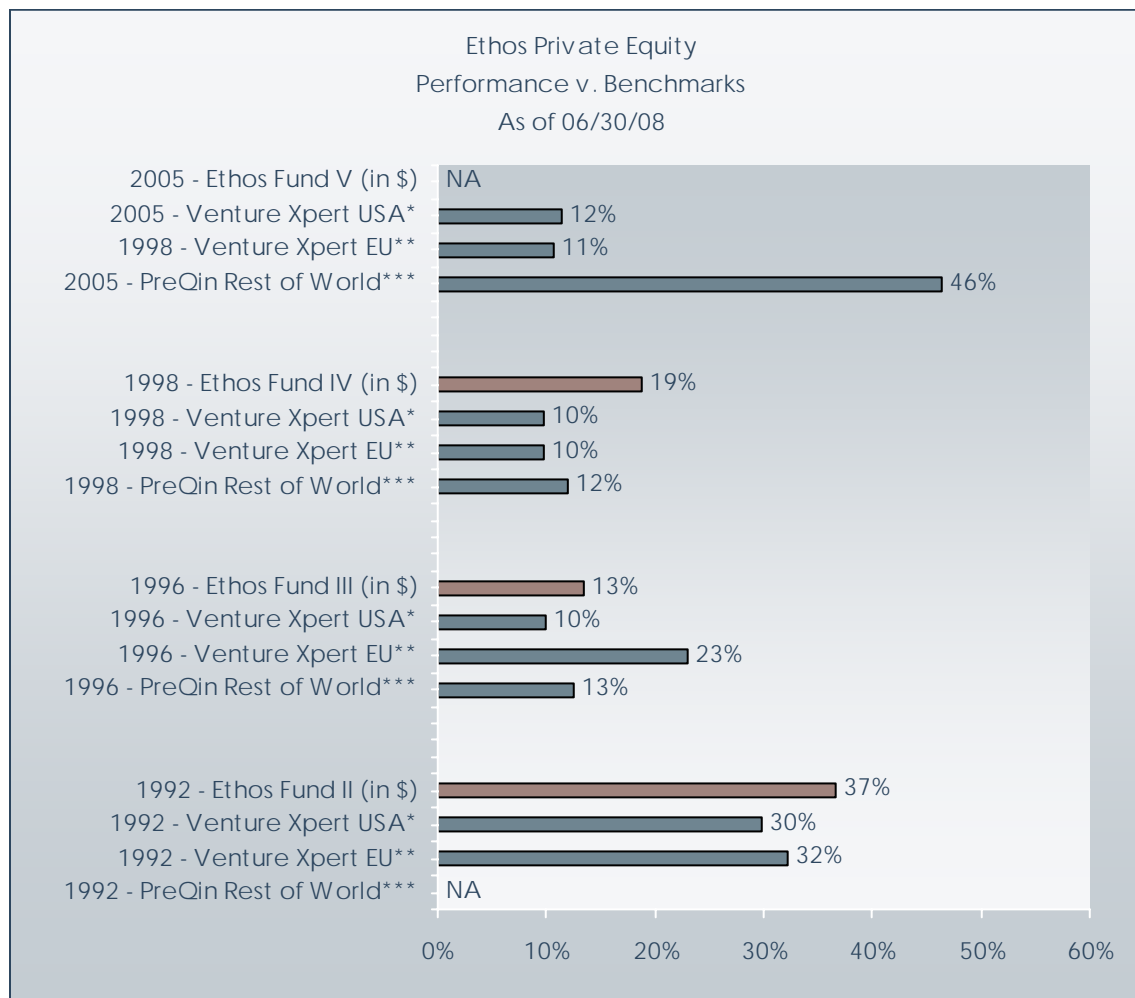
- Apart from one investment (Plumblink), the eight unrealized companies in Fund V are largely performing on plan. It should be noted that Plumblink represents only 2% of the cost base of Fund V.

Ethos Private Equity - Unrealized Portfolio		
Company	Performance	Comments
Brandcorp	On plan	70% - 80% of revenue is in premium brands to which Brandcorp has exclusive access; 80% of profits are limited to industrial customers
Moresport	On plan	Experienced management team, low involvement from Ethos
Oceanic Bank	On plan	Listed on the Lagos stock exchange. The company is performing on plan, although the stock market has become more volatile. Healthy balance sheet compared to local peers
Tiger Wheels	On plan	Good visibility over revenue. 30% market share and 15% more stores opened
Transaction Capital	On plan	Operations and margins performing on plan
Busby	On Watch	Might suffer from drop in consumer spending going forward
Alexander Forbes	Slightly Behind plan	Run by Actis; management issues (new CEO hired); European business underperforming
Plumblink	Behind plan	Underperforming on the bottom line

- The portfolio companies in Fund V were acquired at conservative debt multiples.

Ethos Private Equity - Unrealized Portfolio		
Company	EV/ EBITDA at Entry	Debt / EBITDA at Entry
Busby	10.5x	3.3x
Tiger Wheels	9.3x	5.0x
Alexander Forbes	8.8x	5.1x
Brandcorp	7.8x	3.7x
Transaction Capital	6.6x	0.1x
Moresport	5.8x	2.5x
Plumblink	4.7x	2.6x
Oceanic Bank	N/A	N/A
<b>Weighted Average</b>	<b>8.5x</b>	<b>3.7x</b>

- Fund II, III, and IV have outperformed industry benchmarks. Investments in Fund V are largely held at cost given their early life and have not benefitted from early recapitalizations as has been the case in other markets.



\*As of March 31, 2008

\*\*As of December 31, 2007

\*\*\*PreQin benchmarks indicate "Rest of World" returns, i.e. excluding US and Europe, as of June 30, 2006

- The following table compares the robust investment performance of Ethos relative to a selection of global SMID investors.

Fund	Vintage	Geographical Focus	Fund Size (in million)	Gross Multiple	Net IRR	Date
Advent Latin America IV	2007	Latin America	\$1,300	1.8x	nm	March 31, 2008
Navis V	2007	South & South East Asia	\$1,050	1.1x	14%*	March 31, 2008
Graphite VII	2007	UK & Europe	£475	1.0x	1.3%	September 1, 2007
Kohlberg VI	2007	U.S.	\$1,000	1.0x	nm	June 30, 2008
Waterland III	2006	Germany, BeNeLux	€ 404	2.5x	109%*	February 15, 2008
HG Capital	2006	Europe	€ 700	1.2x	17%*	March 31, 2008
Weston Presidio V	2006	U.S.	\$1,010	1.1x	10%*	March 31, 2010
Patria II	2005	Brazil	\$200	14.5x	327.5%	December 31, 2007
Affinity II	2005	Asia	\$700	2.9x	70%*	December 31, 2007
Navis IV	2005	South & South East Asia	\$315	1.5x	28%*	March 31, 2008
Kohlberg V	2005	U.S.	\$729	1.5x	18.0%	June 30, 2008
Exponent I	2005	UK	£400	1.4x	34.7%*	June 30, 2008
Advent Latin America III	2005	Latin America	\$375	1.4x	23.0%	March 31, 2008
Ethos V	2005	South Africa	\$740	1.0x	nm	June 30, 2008
Clessidra I	2004	Italy	€ 820	2.7x	90.9%	February 2, 2009
Lion Capital I	2004	Europe	€ 647	1.9x	47%*	September 30, 2007
Waterland II	2003	Germany, BeNeLux	€ 171	3.8x	101.5%*	February 15, 2008
Navis III	2003	South & South East Asia	\$86	1.9x	20%*	March 31, 2008
Graphite VI	2003	UK & Europe	£375	1.1x	3.9%	September 1, 2007
Levine Leichtman III	2002	U.S.	\$500	1.3x	16.8%	August 31, 2008
Waterland I	2001	Germany, BeNeLux	€ 50	3.4x	51.4%*	February 15, 2008
Advent Latin America II	2001	Latin America	\$264	3.1x	32.0%	March 31, 2008
Kohlberg IV	2001	U.S.	\$576	2.2x	20.0%	June 30, 2008
HG Capital 4	2001	Europe	£311	2.2x	33%*	March 31, 2008
Navis I/II	2000	South & South East Asia	\$68	4.0x	39%*	March 31, 2008
Weston Presidio IV	2000	U.S.	\$1,400	1.4x	12%*	March 31, 2009
Graphite V	1999	UK & Europe	£183	2.2x	25.4%	September 1, 2007
Ethos IV	1998	South Africa	\$358	3.2x	18.8%	June 30, 2008
Affinity I	1998	Asia	\$336	2.4x	23%*	December 31, 2007
Levine Leichtman II	1998	U.S.	\$350	1.7x	11.7%	August 31, 2008
Weston Presidio III	1998	U.S.	\$597	1.3x	5%*	March 31, 2008
Patria I	1997	Brazil	\$235	2.1x	6.6%	December 31, 2007
HG Capital 3	1997	Europe	£197	1.7x	16%*	March 31, 2008
Ethos III	1996	South Africa	\$172	2.1x	13.4%	June 30, 2008
Advent Latin America I	1996	Latin America	\$230	2.2x	12.0%	March 31, 2008
Levine Leichtman I	1994	U.S.	\$103	1.6x	18.7%	August 31, 2008
Ethos II	1992	South Africa	\$32	2.4x	36.6%	June 30, 2008

\*Gross IRR

Note: All fund performances are in fund currency



- Compared to its direct competition, the General Partner demonstrated a strong performance.

Fund	Vintage	Geographical Focus	Fund Size (in million)	Gross Multiple	Gross IRR	Net IRR	Date
Brait IV	2007	South Africa	\$880	1.0x	-2.0%	na	June 30, 2008
ECP II	2006	Pan-Africa	\$523	1.9x	122.3%	na	March 31, 2008
Ethos V	2005	South Africa	ZAR 5,500	1.0x	4.9%	nm	June 30, 2008
Actis Africa II	2003	Pan-Africa	\$465	1.5x	31.0%	na	March 31, 2008
ECP I	2000	Pan-Africa	\$291	2.5x	34.4%	na	March 31, 2008
Brait III	1999	South Africa	\$409	3.3x	31.0%	na	June 30, 2008
Actis Africa I	1998	Pan-Africa	\$395	3.2x	28.3%	na	March 31, 2008
Ethos IV	1998	South Africa	ZAR 2,500	3.2x	24.9%	18.8%	June 30, 2008
Ethos III	1996	South Africa	ZAR 750	2.1x	16.4%	13.4%	June 30, 2008
Brait II	1995	South Africa	\$144	1.8x	31.0%	na	June 30, 2008
Ethos II	1992	South Africa	ZAR 110	2.4x	41.5%	36.6%	June 30, 2008

- The average holding periods are relatively long and amount to 7.5 years on average in Fund III and to 5.4 years on average in Fund IV.
- The large currency fluctuations, detailed in Section 1.5, which negatively impacted the dollar returns of the Prior Funds, are expected to stabilize going forward.

#### B. Stable and experienced investment team

- The 11 partners, led by Mr. Roux, have an average tenure of 12 years.

Tenure of the Partners		
Andre Roux	CEO	24
Danie Jordaan	Partner	18
Garry Boyd	Partner	18
Claudia Koch	Partner	15
Shaun Zagnoev	Partner	15
Stuart MacKenzie	Partner	10
Bill Ashmore	Partner	9
Ngalaah Chuphi	Partner	9
Christo Roos	Partner	7
Anthonie de Beer	Partner	6
Busi Mabuza	Partner	3
<b>Average</b>		<b>12</b>

- Mr. Ashmore is a dedicated debt specialist and focuses on arranging and structuring of senior and mezzanine debt for the various Ethos transactions.
- Chaired by Mr. Roux, the Investment Committee comprises all the Partners.
- The carried interest is deeply distributed among all team members. The 22% unallocated portion is reserved to reward individual performance over the life of the Fund. Senior Partners receive a higher fixed portion of the carried interest.

Carried Interest Distribution*		
Senior Partner Group	Andre Roux	31%
	Garry Boyd	
	Shaun Zagnoev	
	Ngalaah Chupi	
Middle Level Partner Group	Stuart Mackenzie	14%
	Anthonie de Beer	
	Christo Roos	
Specialist Partner Group	Claudia Koch	11%
	Bill Ashmore	
	Busi Mabuza	
Principals & Associates	5 - 8 professionals	12%
CFO & Support Staff		5%
Africa Partners (sourcing pan-African deals)		5%
Unallocated		22%
<b>Total</b>		<b>100%</b>

\*Preliminary

- Ethos expects to hire two new Associates by the end of 2008.
- Since the last fundraising cycle, Mr. Pender and Ms. Rechenberg are the only senior professionals to leave. Each is no longer active in the private equity industry.

Name	Title	Start Date	Leave Date	Tenure	Reason for Leaving
Richard Pender	Partner	1994	2008	14	Pursue personal interests
Nadine Rechenberg	Partner	1997	2007	10	Pursue personal interests
Eugene Stals*	Partner	1993	2004	11	Moved abroad
Peter Schmid	Partner	1993	2004	11	Joined Actis
Andrew Richardson	Partner	1993	2004	11	Resignation
John Van Wyk	Partner	1995	2004	9	Joined Actis
Ishara Ramsunder	Principal	2004	2006	2	Resignation
Tshego Sefolo	Associate	2005	2008	3	Resignation
Lorraine Corlet	Associate	2003	2007	4	Overseas MBA study
Sue Ann Stander	Associate	2002	2005	3	Resignation
Cora Fernandes	Associate	2001	2004	3	Resignation

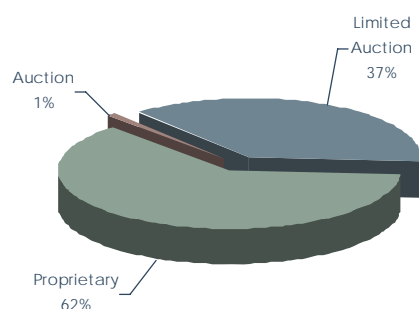
\*Eugene Stals remains a member of the Investment Committee and continues to represent Ethos at its Annual Meetings.

- It appears that since the departure of Messrs. Stals, van Wyck and Schmid, who left before Fund V was launched, the investment team has stabilized.
- Mr. Roux indicated that he will remain CEO for a period of approximately three years after closing of the Fund. The new CEO is likely to come from within the firm and would thus assume leadership of the firm before the end of the investment period. Mr. Roux will remain active within the organization as an advisor.
- Mr. Roux and Ms. Koch together make decisions regarding the carried interest allocations and salaries.

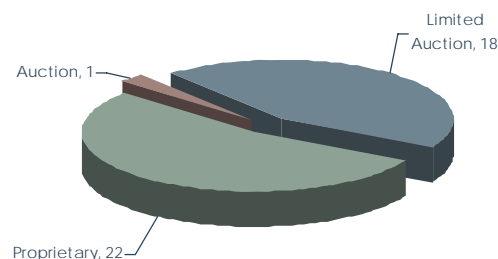
### C. Proprietary Deal flow

- Ethos leverages its reputation and long tenure in the market to source deals on a predominantly proprietary basis.

Prior Funds - Acquisition through Auctions by Amount Invested



Prior Funds - Acquisition through Auctions by Number of Transactions

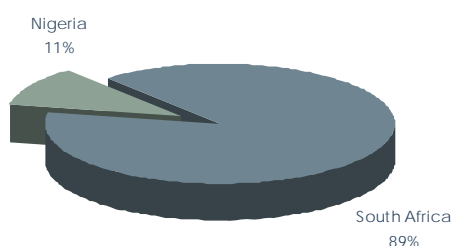


- Only one investment, KFM Radio, was bought in full auction.

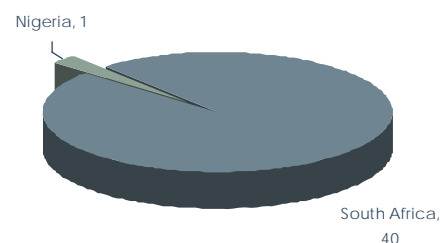
### D. Geographical Expansion

- With the investment in Oceanic Bank in Nigeria, Ethos completed its first transaction outside South Africa. The geographic limitation to invest in sub-Saharan countries outside South Africa has been raised to 30% in the Fund (versus 25% in Fund V).

Prior Funds - Geographical Allocation by Amount Invested



Prior Funds - Geographical Allocation by Number of Transactions



Company	Fund	Country	Inv. Date	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR
Oceanic	Fund V	Nigeria	May-07	ZAR 559,600	ZAR 0	ZAR 769,099	1.4x	34.1%

- Established in 1990, Oceanic is a Nigerian financial institution and listed on the Nigerian Stock Exchange. Its services include retail banking, corporate banking and business-to-business services. Ethos invested in ordinary shares worth ZAR 560 million (\$80 million; 2.8% ownership) in April 2007. This transaction is seen as a strategic first investment outside the South African territory.

- Ethos has indicated that it will pursue approximately two to three investments in sub-Saharan Africa. The General Partner aims to complete two transactions in West Africa (Nigeria, Ghana) and one transaction in East Africa (Kenya, Tanzania, Uganda).
- Ethos anticipates establishing business development offices in both Lagos (Nigeria) and Nairobi (Kenya) to support local deal sourcing efforts in the markets. Mr. Chupi is of Kenyan origin and is expected to lead initiatives outside South Africa.

#### E. Limited operational resources

- Ethos's operational resources are limited compared to its competitors such as Brait and Actis. Instead of deploying operational partners or senior industry advisors, Ethos heavily relies on consultants for both pre and post-investment period. Most frequently used consultants include McKinsey, Monitor, Burlington and LEK.
- The General Partner indicated it has considered adding operational partners to its team in the past but ultimately rejected the idea as it believes that such additions to the firm would disturb the current team cohesion and culture.
- In order to boost its operational capabilities, Ethos intends to hire more consultants earlier in the investment process, and in particular, will focus on hiring niche consulting advisors that deal with specific issues such as procurement, pricing, tax advantages, etc.

### 4.2 CONCLUSION

Established in 1984, Ethos has built one of the longest track records of private investing in South Africa. The returns have been characterized by an impressive dispersion of returns, with no loss of capital in realized investments in Funds II through V (since 1992). Fund V, which began investing in 2005, remains completely unrealized. However, all companies, with exception of one (which is also the smallest investment), are on or ahead of the budget. The increase in the fund size is justified by Ethos's already gradual increase in investment size over time, South African stable and growing economy (5% in the past few years), as well as the firm's intention to slightly expand its investment program to other Sub-Saharan African countries.

The team, while it has experienced some turnover in the past, appears to have stabilized since the last fundraising cycle. Two most notable departures, who left to join Actis, occurred before Fund V was raised. In total, the most senior partners now have an average 12-year tenure at Ethos. Andre Roux, the founder of the firm, will not be involved through the entire investment period of the Fund, but our references confirm that the younger partners are already actively leading deals and Mr. Roux's role has been gradually reducing over the past few years. Identifying a new leader will be one of the most crucial challenges for the firm in the upcoming years.

As the South African private equity market becomes more competitive and businesses become more sophisticated, private equity operational value-add will become more important, as it has been the case in the Western markets. In this respect, Ethos is yet to evolve this model and the firm is currently experimenting with various approaches in order to augment its operational value-add capabilities.

### 4.3 RECOMMENDATION

**Section 5 -APPENDICES****5.1 SUMMARY OF TERMS**

The term sheet for the Fund has not yet been made available.

Term:	
GP Commitment:	
Management Fees:	
Other Expenses:	
Distributions:	
Key Person Termination:	
Investment and Other Limitations:	
Co-Investment Policy:	
Clawback:	

## 5.2 SUMMARY OF PORTFOLIO COMPANIES

## Prior Funds - alphabetical

Fund II - Alphabetical										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Corporate Management Systems	Fund II	Nov-95	Oct-98	2.9	ZAR 5,344	ZAR 21,297	ZAR 0	4.0x	76.1%	YES
Ferro Industrial Products	Fund II	Feb-94	Apr-99	5.2	8,000	15,637	0	2.0x	32.9%	YES
Kagiso Khulani Food Services	Fund II	Nov-94	Jun-98	3.6	9,000	56,780	0	6.3x	108.6%	YES
Kagiso Publishers	Fund II	Mar-94	Sep-97	3.5	13,967	66,668	0	4.8x	98.8%	YES
Masterfridge	Fund II	Dec-93	Aug-96	2.7	12,600	42,745	0	3.4x	71.6%	YES
Prowalco	Fund II	Oct-93	Oct-01	8.0	22,500	71,930	0	3.2x	34.1%	YES
Strip Steel	Fund II	Jul-92	Jul-03	11.0	13,446	27,942	0	2.1x	21.0%	YES
The Magic Company - Fund II	Fund II	Jun-94	Aug-96	2.2	14,131	33,952	0	2.4x	58.7%	YES
Transportation Motor Spares	Fund II	Aug-94	May-96	1.8	11,893	27,933	0	2.3x	78.4%	YES
Total			Average:	4.5	ZAR 110,881	ZAR 364,885	ZAR 0	3.3x		

Fund III - Alphabetical										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Consumer Credit Corporation	Fund III	Sep-96	Jul-01	4.8	ZAR 57,550	ZAR 187,846	ZAR 0	3.3x	53.5%	YES
Crossroads Distribution	Fund III	Dec-97	Jul-04	6.6	48,024	154,508	0	3.2x	39.8%	YES
Defy	Fund III	Apr-97	Apr-06	9.0	94,000	551,453	0	5.9x	29.8%	YES
Dunlop Africa	Fund III	Mar-98	Mar-08	10.0	134,593	414,749	0	3.1x	24.1%	YES
Epsidon (First Technology)	Fund III	Sep-96	Jun-08	11.8	10,700	4,000	20,899	2.3x	8.5%	NO
HT Group	Fund III	Mar-97	Jul-06	9.3	52,166	105,100	0	2.0x	12.1%	YES
KFM Radio	Fund III	Oct-96	Dec-00	4.2	40,400	121,484	0	3.0x	36.8%	YES
Pleasure Foods	Fund III	Nov-96	Jan-04	7.2	48,000	171,401	0	3.6x	29.6%	YES
Sentry Security Group (Klipton)	Fund III	Jul-97	Mar-04	6.7	44,169	95,566	0	2.2x	24.4%	YES
Software Connection	Fund III	Jun-96	Jul-02	6.1	9,748	39,136	0	4.0x	87.5%	YES
Steelwood	Fund III	Jul-97	Jul-03	6.0	27,927	65,975	0	2.4x	37.5%	YES
Sweet-Orr & Lybro	Fund III	Jun-96	Nov-98	2.4	8,806	23,662	0	2.7x	117.2%	YES
Teves Group	Fund III	Oct-96	Jun-05	8.7	18,600	32,828	0	1.8x	8.7%	YES
The Magic Company - Fund III	Fund III	Jul-96	Jun-08	11.9	100,430	42,114	19,208	0.6x	-6.0%	NO
Universal Printing (Mebro)	Fund III	Dec-96	Mar-04	7.3	23,710	103,468	0	4.4x	32.3%	YES
Total			Average:	7.5	ZAR 718,823	ZAR 2,113,291	ZAR 40,107	3.0x		

Fund IV - Alphabetical										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Cobra	Fund IV	Jun-03	Nov-04	1.4	ZAR 5,010	ZAR 69,609	ZAR 0	13.9x	614.4%	YES
Fedics	Fund IV	Mar-00	Jun-08	8.3	169,301	901,479	0	5.3x	27.1%	YES
FoodCorp	Fund IV	Dec-98	Jun-04	5.5	300,479	822,590	0	2.7x	24.4%	YES
Idwala	Fund IV	Dec-98	Feb-06	7.2	240,500	897,418	0	3.7x	35.0%	YES
IST	Fund IV	Oct-04	Jun-08	3.7	110,878	368,668	23,078	3.5x	55.2%	YES
Lifestyle	Fund IV	Oct-00	Jul-07	6.8	137,037	660,653	0	4.8x	30.3%	YES
Ozz	Fund IV	Apr-03	Jun-08	5.2	95,628	148,661	18,590	1.7x	11.8%	YES
Savcio	Fund IV	Sep-05	Jun-08	2.8	131,749	40,912	218,385	2.0x	30.1%	NO
Waco	Fund IV	Jul-00	Dec-06	6.4	278,556	860,487	0	3.1x	23.7%	YES
Total			Average:	5.2	ZAR 1,469,138	ZAR 4,770,476	ZAR 260,053	3.4x		

Fund V - Alphabetical										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Brandcorp	Fund V	Aug-07	Jun-08	0.8	ZAR 590,574	ZAR 662	ZAR 590,573	1.0x	0.1%	NO
Busby	Fund V	Apr-08	Jun-08	0.2	515,009	0	515,008	1.0x	0.0%	NO
Forbes	Fund V	Jul-07	Jun-08	0.9	361,651	0	361,651	1.0x	0.0%	NO
Moresport	Fund V	Sep-06	Jun-08	1.8	286,000	0	403,335	1.4x	21.7%	NO
Oceanic	Fund V	May-07	Jun-08	1.1	559,600	0	769,099	1.4x	34.1%	NO
Plumblink	Fund V	Mar-06	Jun-08	2.3	47,668	3,449	60,290	1.3x	14.3%	NO
Tiger Wheels	Fund V	Feb-08	Jun-08	0.3	399,574	0	399,574	1.0x	0.0%	NO
Transaction Capital	Fund V	Nov-05	Jun-08	2.6	89,728	7,811	105,105	1.3x	10.9%	NO
Total			Average:	1.2	ZAR 2,849,804	ZAR 11,922	ZAR 3,204,635	1.1x		

## Prior Funds - Chronological

Fund II - Chronological										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Strip Steel	Fund II	Jul-92	Jul-03	11.0	ZAR 13,446	ZAR 27,942	ZAR 0	2.1x	21.0%	YES
Prowalco	Fund II	Oct-93	Oct-01	8.0	22,500	71,930	0	3.2x	34.1%	YES
Masterfridge	Fund II	Dec-93	Aug-96	2.7	12,600	42,745	0	3.4x	71.6%	YES
Ferro Industrial Products	Fund II	Feb-94	Apr-99	5.2	8,000	15,637	0	2.0x	32.9%	YES
Kagiso Publishers	Fund II	Mar-94	Sep-97	3.5	13,967	66,668	0	4.8x	98.8%	YES
The Magic Company - Fund II	Fund II	Jun-94	Aug-96	2.2	14,131	33,952	0	2.4x	58.7%	YES
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Total			Average:	4.5	ZAR 110,881	ZAR 364,885	ZAR 0	3.3x		

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Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
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The Magic Company - Fund III	Fund III	Jul-96	Jun-08	11.9	100,430	42,114	19,208	0.6x	-6.0%	NO
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Steelwood	Fund III	Jul-97	Jul-03	6.0	27,927	65,975	0	2.4x	37.5%	YES
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Dunlop Africa	Fund III	Mar-98	Mar-08	10.0	134,593	414,749	0	3.1x	24.1%	YES
Total			Average:	7.5	ZAR 718,823	ZAR 2,113,291	ZAR 40,107	3.0x		

Fund IV - Chronological										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
FoodCorp	Fund IV	Dec-98	Jun-04	5.5	ZAR 300,479	ZAR 822,590	ZAR 0	2.7x	24.4%	YES
idwala	Fund IV	Dec-98	Feb-06	7.2	240,500	897,418	0	3.7x	35.0%	YES
Fedics	Fund IV	Mar-00	Jun-08	8.3	169,301	901,479	0	5.3x	27.1%	YES
Waco	Fund IV	Jul-00	Dec-06	6.4	278,556	860,487	0	3.1x	23.7%	YES
Lifestyle	Fund IV	Oct-00	Jul-07	6.8	137,037	660,653	0	4.8x	30.3%	YES
Ozz	Fund IV	Apr-03	Jun-08	5.2	95,628	148,661	18,590	1.7x	11.8%	YES
Cobra	Fund IV	Jun-03	Nov-04	1.4	5,010	69,609	0	13.9x	614.4%	YES
IST	Fund IV	Oct-04	Jun-08	3.7	110,878	368,668	23,078	3.5x	55.2%	YES
Savcio	Fund IV	Sep-05	Jun-08	2.8	131,749	40,912	218,385	2.0x	30.1%	NO
Total			Average:	5.2	ZAR 1,469,138	ZAR 4,770,476	ZAR 260,053	3.4x		

Fund V - Chronological										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Transaction Capital	Fund V	Nov-05	Jun-08	2.6	ZAR 89,728	ZAR 7,811	ZAR 105,105	1.3x	10.9%	NO
Plumblink	Fund V	Mar-06	Jun-08	2.3	47,668	3,449	60,290	1.3x	14.3%	NO
Moresport	Fund V	Sep-06	Jun-08	1.8	286,000	0	403,335	1.4x	21.7%	NO
Oceanic	Fund V	May-07	Jun-08	1.1	559,600	0	769,099	1.4x	34.1%	NO
Forbes	Fund V	Jul-07	Jun-08	0.9	361,651	0	361,651	1.0x	0.0%	NO
Brandcorp	Fund V	Aug-07	Jun-08	0.8	590,574	662	590,573	1.0x	0.1%	NO
Tiger Wheels	Fund V	Feb-08	Jun-08	0.3	399,574	0	399,574	1.0x	0.0%	NO
Busby	Fund V	Apr-08	Jun-08	0.2	515,009	0	515,008	1.0x	0.0%	NO
Total			Average:	1.2	ZAR 2,849,804	ZAR 11,922	ZAR 3,204,635	1.1x		

# Final Investment Report

## Ethos Private Equity Fund VI (Addendum)

December 14, 2009



HAMILTON LANE

**Confidentiality statement:**

This investment memorandum contains proprietary information, trade secrets and/or other sensitive information that are the sole property of Hamilton Lane. Hamilton Lane is submitting this information to the client solely for the purpose of assisting the client in evaluating investments for its private equity portfolio. This information is exempt from public disclosure. Hamilton Lane does not permit disclosure of proprietary information, trade secrets and/or other sensitive information to anyone other than the client's officers, employees and lawful agents.



\*\*\*\* IMPORTANT DISCLOSURES \*\*\*\*

The information contained in this report may include forward-looking statements regarding the fund presented or its portfolio companies. Forward-looking statements include a number of risks, uncertainties and other factors beyond the control of the fund or the portfolio companies, which may result in material differences in actual results, performance or other expectations. The opinions, estimates and analyses reflect our current judgment, which may change in the future.

The past performance information contained in this report is not necessarily indicative of future results and there is no assurance that the fund will achieve comparable results or that it will be able to implement its investment strategy or achieve its investment objectives. The actual realized value of currently unrealized investments will depend on a variety of factors, including future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions and circumstances on which the current unrealized valuations are based.

Any tables, graphs or charts relating to past performance included in this report are intended only to illustrate the performance of the fund or the portfolio companies referred to for the historical periods shown. Such tables, graphs and charts are not intended to predict future performance and should not be used as the basis for an investment decision.

\*\*\*\* IMPORTANT DISCLOSURES \*\*\*\*

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**OVERVIEW**


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**Fund Information:**


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General Partner:	Ethos Private Equity ("Ethos")
Fund:	Ethos Private Equity Fund VI, L.P. ("Fund VI")
Firm Inception:	1984
Target Size:	\$750 million (revised down from \$1.25 billion)
Hard Cap:	N/A
Strategy:	Primarily control or joint-control buyouts
Geography:	South Africa 80%, Sub-Saharan Africa (Nigeria, Ghana, Kenya, Uganda and Tanzania) 20%
Team:	16 investment professionals led by 10 Principals
Senior Partners:	Andre Roux, Bill Ashmore, Garry Boyd, Ngalaah Chuphi, Anthonie de Beer, Craig Dreyer, Danie Jordaan, Stuart Mackenzie, Christo Roos and Shaun Zagnoev
Locations:	Johannesburg, South Africa
Equity Investments:	ZAR 200 million – ZAR 1 billion (\$25-140 million)
Industries:	Diversified

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**Prior Funds:**


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Fund	Vintage	Total Commitments (\$ MM)
FNB ("Fund I")	1984	\$101
Ethos II ("Fund II")	1992	32
Ethos III ("Fund III")	1996	172
Ethos IV ("Fund IV")	1998	358
Ethos V ("Fund V")	2005	740

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**Closing Schedule:**


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First Close: expected in Q1-2010 (approximately \$350 million commitments)  
Final Close: 12 or 18 months after First Close

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**Key Terms:**


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Investment Term:	5 years
Fund Term:	10 years
Management Fee:	2% of commitments during Investment Term 2% of investments after Investment Term
Fee Offset:	80%
Carry / Hurdle:	20% / 8%
GP Commitment:	1%
Key Man:	Any three of Andre Roux, Garry Boyd, Ngalaah Chuphi, Danie Jordaan, Stuart Mackenzie and Shaun Zagnoev. Any five of André Roux, Danie Jordaan, Shaun Zagnoev, Ngalaah Chuphi, Stuart Mackenzie, Garry Boyd, Christo Roos and Anthonie de Beer.

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**Recommendation:**


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An investment in the Fund is recommended.

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## **Section 1 - UPDATE**

### **1.1 FUND UPDATE**

- The target size of the Fund has been lowered from \$1.25 billion to \$750 million. A hard cap has not been established.
- The allocation for Sub-Saharan investments in Fund VI has been lowered from 25% to 20%.
  - For deals outside of South Africa, the General Partner will require a local partner before entering into the deal.

### **1.2 GENERAL PARTNER UPDATE**

- Busi Mabusa (Principal) has stepped down to a part-time role.
  - Ms. Mabusa was the head of fundraising for a Black Economic Empowerment ("BEE") fund which Ethos attempted to raise in 2006. However, this fund was never launched.
  - Ms. Mabusa is still a member of the board of directors of Ethos, but has no deal responsibilities in the portfolio.
- Claudia Koch (Principal) has left the General Partner in order to focus on her family.
  - Ms. Koch worked at Ethos' technology fund 2002-2006 before moving to the buyout team, where she worked on talent management and investor relations.
  - Ms. Koch had no deal responsibilities in the portfolio.
- Ms. Mabusa's position will not be replaced, while Ms. Koch's HR responsibilities have been delegated to Ngalaah Chuphi and Stuart Mackenzie.
- Ethos is now fully owned by the management team after it acquired the remaining 25% stake from Sphere Private Equity and Rand Merchant Bank.
  - To comply with government BEE regulations, the required BEE ownership is now fulfilled by the General Partner's black employees.
  - In addition, the General Partner engages in activities such as skill development and community activities to maintain its BEE rating.

Ownership of Ethos <sup>(1)</sup>	
Name	Shareholding
Andre Roux	14.00%
Danie Jordaan	9.50%
Shaun Zagnoev	9.25%
Ngalaah Chuphi	8.00%
Stuart Mackenzie	8.00%
Craig Dreyer	7.00%
Bill Ashmore	6.13%
Garry Boyd	6.13%
Anthonie de Beer	5.00%
Christo Roos	5.00%
<b>Total Partners</b>	<b>78.00%</b>
Arshad Essa	6.00%
Mauna Mahlare	4.25%
Jos van Zyl	2.00%
Samantha Pockroy	2.00%
Kgaugelo Legoabe	1.75%
Michael Jensen	1.00%
Busi Mabusa	2.00%
<b>Total Other</b>	<b>19.00%</b>
Unallocated	3.00%
<b>Total</b>	<b>100.00%</b>

(1) Following the acquisition of Sphere/RMB shareholding.

Carried Interest as of November 20, 2009	
Name	Allocation
Andre Roux	9.00%
Shaun Zagnoev	7.25%
Stuart Mackenzie	6.00%
Danie Jordaan	5.70%
Ngalaah Chuphi	5.50%
Anthonie de Beer	5.25%
Christo Roos	4.70%
Craig Dreyer	3.50%
Bill Ashmore	3.00%
Garry Boyd	2.00%
<b>Total Partners</b>	<b>51.90%</b>
Arshad Essa	3.50%
Jos van Zyl	2.25%
Samantha Pockroy	1.75%
<b>Total Principals</b>	<b>7.50%</b>
Michael Jensen	1.50%
Mauna Mahlare	1.50%
Kgaugelo Legoabe	0.50%
<b>Total Associates</b>	<b>3.50%</b>
C Wilkinson	0.50%
E Ambrosi	0.50%
M Irwin	0.50%
P Anderson	0.50%
<b>Total Admin</b>	<b>2.00%</b>
Unallocated	35.10%
<b>Total</b>	<b>100.00%</b>

### 1.3 PERFORMANCE UPDATE

Ethos Private Equity Prior Investment Performance As of 09/30/09											Ethos Private Equity USD Returns <sup>(1)</sup> As of 09/30/09		
ZAR in thousands		# of Inv.		Size	Amount Invested	Amount Realized	Unrealized Value	Mult.	Gross IRR	Net IRR	Mult.	Gross IRR	Net IRR
Fund	Vintage	Total	Real.										
Fund II	1992	9	9	ZAR 110,000	ZAR 110,881	ZAR 364,885	ZAR 0	3.3x	55.7%	50.3%	2.4x	41.5%	36.6%
Fund III	1996	15	15	750,000	718,823	2,157,865	0	3.0x	26.0%	21.3%	2.2x	16.5%	13.5%
Fund IV	1998	9	8	2,500,000	1,469,138	4,833,846	222,637	3.4x	28.3%	21.6%	3.2x	24.9%	18.7%
Fund V	2005	9	0	5,500,000	3,659,043	37,016	3,164,270	0.9x	n/a	n/a	0.9x	n/a	n/a
<b>Total</b>		<b>42</b>	<b>32</b>	<b>ZAR 8,860,000</b>	<b>ZAR 5,957,885</b>	<b>ZAR 7,393,612</b>	<b>ZAR 3,386,907</b>	<b>1.8x</b>	<b>36.4%</b>	<b>n/a</b>	<b>1.7x</b>	<b>31.5x</b>	<b>n/a</b>

(1) blended OPIC and non-OPIC investors

Ethos Private Equity Realized Investment Performance As of 09/30/09				
(ZAR) Fund	Amount Invested	Amount Realized	Unrealized Value	Multiple
Fund II	ZAR 110,881	ZAR 364,885	ZAR 0	3.3x
Fund III	718,823	2,157,865	0	3.0x
Fund IV	1,337,388	4,778,961	3,877	3.6x
Fund V	0	0	0	n/a
<b>Total</b>	<b>ZAR 2,167,093</b>	<b>ZAR 7,301,711</b>	<b>ZAR 3,877</b>	<b>3.4x</b>

Ethos Private Equity Unrealized Investment Performance As of 09/30/09				
(ZAR) Fund	Amount Invested	Amount Realized	Unrealized Value	Multiple
Fund II	ZAR 0	ZAR 0	ZAR 0	n/a
Fund III	0	0	0	n/a
Fund IV	131,749	54,885	218,760	2.1x
Fund V	3,659,043	37,016	3,164,270	0.9x
<b>Total</b>	<b>ZAR 3,790,792</b>	<b>ZAR 91,901</b>	<b>ZAR 3,383,030</b>	<b>0.9x</b>

#### Fund IV

- Savcio (electrical repairs) is the only remaining portfolio company in Fund IV.
  - The investment is held at 2.1x.
  - The performance remains strong and the General Partner expects an exit at 3x to a strategic buyer in 18-20 months.

#### Fund V

- Fund V has been written down from 1.1x in June 2008 (date of the original Hamilton Lane report) to 0.9x in September 2009.
  - iDwala (industrial minerals) was acquired for ZAR 571 million in December 2008.
    - The company was previously owned by Fund IV from 1998-2006 and was sold to a BEE group.
    - Ethos acquired 26.8% through a limited auction process. The Ethos team had maintained a good relationship with the company since the exit in Fund IV.
    - The entry multiple was 7.7x.
    - The net debt is at 3.4x.
  - Oceanic (listed commercial bank in Nigeria) has been written down from 1.4x to nil.
    - The branch network has been rolled out from 25 to 400 branches.
    - The bank is the victim of fraud, as management issued themselves with personal loans without the knowledge of the board. These loans account for more than half of all the bank's non-performing loans.
    - The management has been charged with fraud and been replaced.

- Fund VI owns 2.8% of the listed shares. The share price was ZAR 2.04 as of December 4, 2009, down from ZAR 17.75 at the time of acquisition.
- The investment is held at nil, but Ethos expects some recovery of capital.
- Of note, Oceanic Bank is located outside South Africa and is one of the few minority deals completed by the fund.
- o Plumblink (plumbing products) is written down from 1.3x to nil.
  - Immediately after the acquisition, EBITDA increased sharply from ZAR 52 million to ZAR 72 million. However, since then EBITDA has declined to ZAR 15 million as many of the employees left to form a competitor.
  - The CEO has been replaced and a new IT systems has been implemented.
  - The company is in breach of covenants, which Ethos expects to be cured by an equity injection of \$1-3 million.
  - The General Partner expects to recover some of its original investment.
  - Net debt is at 5.2x.
- o Moresport (sporting goods) is written up from 1.4x to 2.3x due to improved performance.
  - Since acquisition, revenue and EBITDA have grown annually by 16.9% and 16.3%, respectively.
  - The number of stores has grown from 35 to 48.
  - Net debt is at 1.1x.
  - A strategic acquirer has approached the company for a potential sale.
- o Busby (fashion) was hit by adverse FX-movements in the Australian dollar, which impacted margins despite strong sales.
  - The situation has improved, but trading is still soft as the South African retail market is weak.
  - Net debt is at 2.5x.
- o The General Partner does not expect any large movements for December 2009 valuations.
- The General Partner's return expectation for Fund V is 2.5-3.0x gross multiple and a low 20's gross IRR.
- The average entry EBITDA multiple was 5.7x and 7.5x for Fund IV and Fund V, respectively.
- Ethos expects to make one or two investments in Fund V before Fund VI starts deploying capital.

Deal Pipeline as of December 8, 2009				
Code name of potential deal	Description	Nature of opportunity	Size of business	Potential size of investment
Medical B	Leading independent pharmaceutical and toiletries retailer	Buyout	ZAR 2 billion	ZAR 500 million
Mobile Towers	Cell phone towers of one of the largest cell phone company in SA	Auction. Platform investment, possibly to be merged with other cell phone operators	ZAR 2 billion	ZAR 500 million
Raw Metals	Wear part business serving global mining industry with foundries in numerous jurisdictions	Buyout pursuant to an auction	ZAR 8 billion	ZAR 700 million
Expedient Courier	Leading player in the high value courier space	Buyout - to be used as a platform investment	ZAR 700 million	ZAR 400 million
Hot Water	Leading manufacturer of geysers in South Africa	Private equity sale	ZAR 1.5 billion	ZAR 600 million
<b>Total</b>			<b>ZAR 14.2 billion</b>	<b>ZAR 2.7 billion</b>

## 1.4 SOUTH AFRICA MACROECONOMIC ENVIRONMENT

South Africa Key Economic Statistics			
Gross Domestic Product <sup>1</sup>		Interest Rates	
Q3, 2009	- 2.1%	3-month	+ 7.2%
% change vs. previous quarter	+ 0.9%	10-year government bonds	+ 9.0%
2009 <sup>2</sup>	- 2.2%		
2010 <sup>2</sup>	+ 3.1%		
Inflation <sup>1</sup>		Other Statistics	
2007	+ 6.5%	Population	49.1 million
2008	+ 11.3%	GDP / Capita	\$10,100 <sup>3</sup>
2009	+ 5.9%	Trade Balance <sup>1</sup>	-\$2.6 billion
		Current Account <sup>1</sup>	-\$15.8 billion

<sup>1</sup> Change vs. previous year

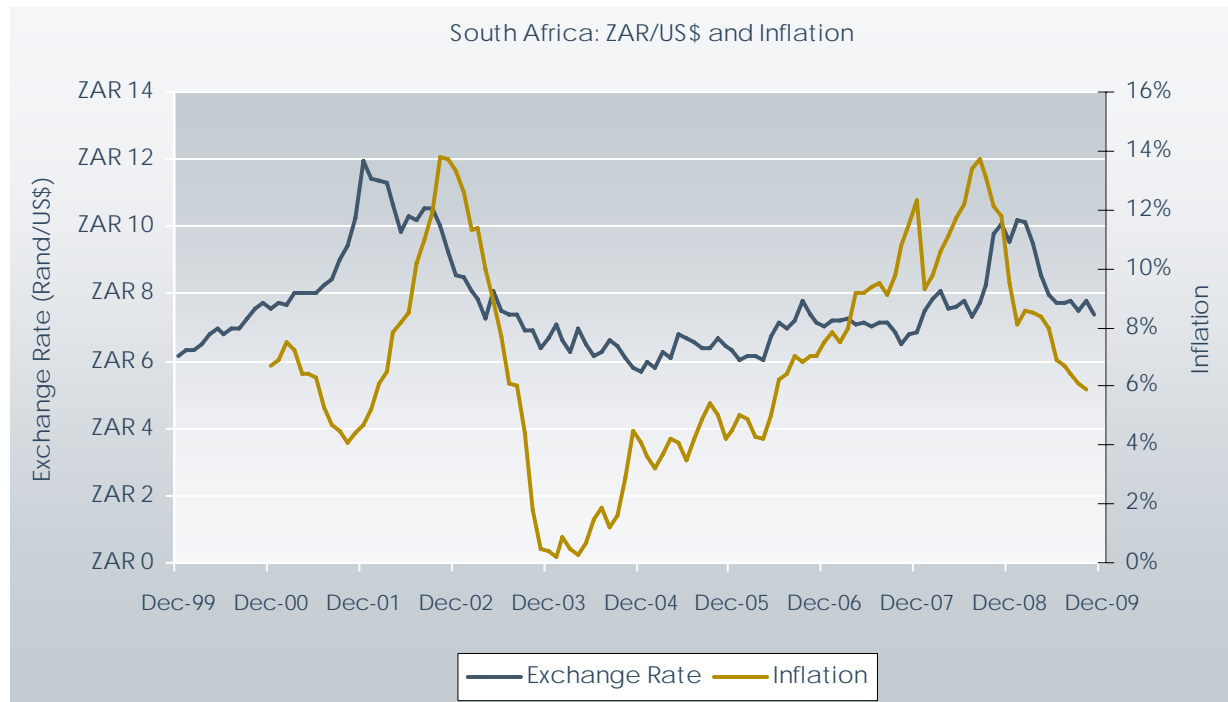
<sup>2</sup> Projections - The Economist

<sup>3</sup> 2009 estimate

Sources: the Economist; CIA Factbook

- South Africa has entered the general downturn relatively late and will experience a lag before returning back to growth, but has weathered the crisis well.
- In the decade prior to the advent of full democracy in 1994, GDP growth averaged 1.0%. In the decade thereafter, GDP growth averaged 2.9%. More recently, GDP growth was 5.3% in 2006, 5.1% in 2007 and 3.1% in 2008. The forecast for 2009 is -2%.
- Service sectors accounted for approximately 63% of GDP in 2008, while industry accounted for 34%.
- Public debt levels have fallen to less than 31.6% of the 2008 GDP (versus 45.9% in 2004) and South Africa has obtained sovereign investment grade ratings from both Moody's and S&P. Moody's upgraded South Africa's rating to A3 in 2009 citing the build-up in foreign currency reserves and well managed government debt and S&P has awarded South Africa with a BBB+ rating.
- Overall the South African economy is in relatively good shape, which is evidenced by the decrease in debt levels and increase currency reserves.
- South Africa has a \$36 billion of foreign currency reserves as of June 2009.





Source: Bloomberg and Statistics South Africa

## 1.5 CONCLUSION AND RECOMMENDATION

Since the Hamilton Lane report in August 2008, two Fund V investments (PlumbLink and Oceanic Bank) have been written down to nil. This fall in valuation has been somewhat offset by a strong performance in Moresport. As a consequence of the non-controlled minority investment in Oceanic Bank in Nigeria, the General Partner will decrease its allocation to non-South African deals from 25% to 20% and will in the future only complete control or joint-control deals. The General Partner indicated that local partnerships (with local investors) in non-South African investments will be critical. The target size for Fund VI is now \$750 million, having been \$1.25 billion previously.

In 2009, two partner-level professionals left the team. However, neither had deal specific responsibilities in Fund V. Busi Mabusa stepped down to part-time involvement as Ethos never implemented the BEE fund she was raising in 2006 and Claudia Koch, who worked on HR matters, left the firm for family reasons.

The ownership of the General Partner now resides 100% within the management team after the purchase of the remaining 25% stake from Sphere Private Equity and Rand Merchant Bank.

An investment in the Fund continues to be recommended.

## **Section 2 - APPENDICES**

### **2.1 SUMMARY OF TERMS**

Term:	<p>Commitments may be drawn down to make Investments at any time up to the fifth anniversary of the final Closing (the "Commitment Period"). Upon the expiration of the Commitment Period, all Partners will be released from any further obligation with respect to their unfunded Commitments, except to the extent necessary to: (i) cover expenses, liabilities and obligations of the Fund, including Advisory fees payable to the Advisor; (ii) complete Investments by the Fund in transactions that were in process or committed to as of the end of the Commitment Period; and (iii) make follow-on Investments in existing portfolio companies up to an aggregate maximum of 15% of the total Commitments ("Follow-On Investments").</p> <p>The term of the Fund will be ten years from the final Closing. However, it may be extended for up to a maximum of two consecutive one-year periods at the discretion of the General Partner subject to approval of the Board of Advisors (as defined below) to permit orderly dissolution</p>
Minimum Inv.:	<p>The minimum Commitment of a limited partner (collectively, the "Limited Partners" and, together with the General Partner, the "Partners") will be U.S.\$10 million, although individual Commitments of lesser amounts may be accepted at the discretion of the General Partner.</p>
GP Commitment:	<p>Ethos, or an affiliate to be designated by the Firm, will commit (as an investor) at least 1% of the total commitments to the Fund.</p> <p>Furthermore, the Principals and key management members of certain affiliates of Ethos (collectively, the "Co-Investors"), at the discretion of the Principals, will invest side-by-side in Investments with, and on the same terms and conditions as, the Fund in amounts up to 5% of the total invested capital by the Fund and the Co-Investors in each portfolio Investment. A co-investment percentage shall be designated for each calendar year at the beginning of such calendar year (or, in the case of the Partnership's first calendar year, within 60 days after final Closing (as defined below)) and shall apply to all portfolio Investments made during such calendar year.</p>
Management Fee:	<p>During the Commitment Period, the Fund will pay the Advisor an annual advisory fee (the "Advisory Fee"), payable semi-annually in advance, equal to 2% of aggregate Commitments. After the expiration of the Commitment Period, the annual Advisory Fee, payable semi-annually in advance, will be equal to 2% of a base amount to be determined as of the commencement of each semi-annual period. The base amount for each such semi-annual period will be equal to the sum of (i) the aggregate cost basis of the portfolio company investments held by the Fund as of the commencement of such semi-annual period to the extent that at such time such investments have not been completely and permanently written off; plus (ii) the aggregate amounts that, as of the commencement of such semi-annual period, have been designated by the General Partner to be used (A) for investments in such portfolio companies (or prospective portfolio</p>

	<p>companies) pursuant to contractual commitments of the Fund (including without limitation guarantees permitted under the Limited Partnership agreements) and / or (B) for additional (or follow-on) investments in existing portfolio companies.</p> <p>Further, the applicable annual percentage will be reduced from 2% to 1.5% commencing as of the time the Advisor first begins to receive advisory fees in respect of a permitted successor private equity fund established by Ethos.</p> <p>The Advisory Fee will be subject to reduction as set forth below in "Transaction and Other Fees," "Break-Up Fees" and "Directors' and Monitoring Fees".</p> <p>The Advisory Fee will commence as of the date of the initial Closing based on total Commitments, regardless of when a Limited Partner is actually admitted. Limited Partners participating in a subsequent Closing will be assessed Advisory Fees retroactive to the initial Closing and, in addition, will be charged interest on such amounts at the prime rate plus 2% from the initial Closing date. Any such amounts will be paid to the Advisor.</p> <p>The Advisor will pay all ordinary operating expenses of the Fund for salaries, rent and similar expenses (including travel and maintenance of the Advisor's offices) in connection with the investigation of investment and disposition opportunities for the Fund and monitoring of the Fund's Investments (to the extent not reimbursed by a portfolio company), except as set forth below under "Other Expenses."</p>
Distribution of Profits and Losses:	<p>Net proceeds attributable to the sale or other disposition of Investments, distributions of securities in kind and any dividends or interest income (other than certain shortterm interest income) received with respect to Investments, generally will be distributed in the following order of priority:</p> <p>(a) First: 100% to all Partners in proportion to their funded Commitments until the aggregate of all amounts distributed shall equal the sum of:</p> <p>(i) the total amount of Commitments actually drawn down from the Partners as of the date of such distribution, plus</p> <p>(ii) a preferred return on the amount of Commitments actually drawn down as of the date of such distribution, which preferred return shall be compounded annually from the date of drawdown, and will be (i) at the rate of 8% per annum in the case of each Limited Partnership whose functional currency is denominated in U.S. dollars, or (ii) at the rate of 10% per annum in the case of each Limited Partnership whose functional currency is denominated in South African Rand.</p> <p>(b) Second: 80% to the General Partner and 20% to all Partners in proportion to their funded Commitments, until the General Partner has received 20% of all cumulative amounts distributed to all Partners under paragraph (a)(ii) above and this paragraph (b); and (c) Thereafter: 80% to all Partners in proportion to their funded Commitments and 20% to the General Partner.</p> <p>All short-term interest income (other than short-term interest income received from portfolio companies and interest income earned on any Bridge Financing as defined below during the first year following the date of the closing of such Bridge Financing) will be distributed 100% to the Partners in proportion to funded Commitments. Such short-term interest income will</p>

	<p>not be considered in determining the General Partner's carried interest.</p> <p>For purposes of the foregoing, all calculations of capital, income and distributions (including carried interest distributions) in respect of each of the Limited Partnerships shall be made in the relevant reference currency of that Limited Partnership.</p> <p>The Fund intends to distribute the net cash proceeds realised from the sale of an Investment, within 90 days after the sale, except for reasonable amounts to be held in reserve to meet the Fund's obligations and amounts that may be held for reinvestment.</p> <p>Prior to the termination of the Fund, distributions will be made in cash or marketable securities. Upon termination of the Fund, distributions also may include restricted securities or other assets of the Fund.</p>
Organizational Expenses:	<p>The Advisor will bear the economic burden of all fees payable to any placement agents in connection with their role as placement agent for, and financial advisor to, the Fund.</p> <p>The Fund will bear legal and organisational expenses, including the out-of-pocket expenses of the General Partner and the Advisor and their agents (including the placement agent), incurred in the formation and capitalisation of the Fund up to U.S.\$3.0 million. Organisational expenses in excess of this amount, if any, will be borne by the Advisor.</p>
Key-Man Provision:	<p>In the event that either of the "triggering events" (referred to below) shall occur at any time prior to the earlier of (i) the end of the Commitment Period or (ii) such time as 75% of the total capital commitments have been invested, or committed (or reserved) for portfolio investments, or used to pay (or reserved for) Limited Partnership liabilities and expenses, then, the General Partner shall give prompt written notice to the Limited Partners and the Limited Partnerships shall promptly suspend making any investments in new portfolio companies (other than as may be required to honour outstanding contractual commitments or as may be permitted by the Board of Advisors) and, within 90 days after the occurrence of such event, the General Partner shall present to the Limited Partners in writing the basis on which the General Partner proposes to continue the affairs of the Limited Partnerships. In the event that such proposal shall not be presented during such 90-day period or shall not be approved in writing by the Board of Advisors or by at least 51% in interest of the Limited Partners within 90 days after the presentation, then the following shall apply: (i) the Limited Partnerships shall be prohibited from making any investment in new portfolio companies (other than as may be required to honour outstanding contractual commitments or as may be permitted by the Board of advisors), (ii) the Commitment Period shall thereupon end, and (iii) each of the Limited Partners shall thereupon be released from any further obligation to pay additional instalments of its capital commitment except to the extent as provided above under "Commitment Period".</p> <p>A "triggering event" will occur if either (x) any three of André Roux, Garry Boyd, Ngalaah Chuphi, Danie Jordaan, Stuart Mackenzie and Shaun Zagnoev shall cease to devote substantially all of his normal business time to</p>

the activities and affairs of the Fund or any prior (or any permitted successor) Ethos investment fund at any time prior to the earlier of clause (i) or (ii) above; or (y) within any twelve month period occurring prior to the earlier of clause (i) or (ii) above, any five of the eight individuals named below cease to devote substantially all of his or her normal business time to the activities and affairs of the Fund or any prior (or any permitted successor) investment fund. The eight named individuals are André Roux, Danie Jordaan, Shaun Zagnoev, Ngalaah Chuphi, Stuart Mackenzie, Garry Boyd, Christo Roos and Anthonie de Beer. In the event that any of the individuals named above ceases to be so active, then, the General Partner will be permitted to propose another person to replace such inactive individual as a key-person and, if such person is so approved by the Board of Advisors, then such person shall then become a key-person and such inactive individual shall be disregarded completely for the purpose of applying the above key-person provision.

## 2.2 SUMMARY OF PORTFOLIO COMPANIES

### Alphabetical

Ethos Private Equity  
Portfolio Company Summary as of 09/30/2009  
ZAR in '000s

Fund II - Alphabetical										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Corporate Management Systems (CMS)	Fund II	Nov-95	Oct-98	2.9	ZAR 5,344	ZAR 21,297	ZAR 0	4.0x	76.1%	YES
Ferro Industrial Products	Fund II	Feb-94	Apr-99	5.2	8,000	15,637	0	2.0x	32.9%	YES
Kagiso Khulani Supervision Food Service	Fund II	Nov-94	Jun-98	3.6	9,000	56,780	0	6.3x	108.6%	YES
Kagiso Publishers	Fund II	Mar-94	Sep-97	3.5	13,967	66,668	0	4.8x	98.8%	YES
Masterfridge	Fund II	Dec-93	Aug-96	2.7	12,600	42,745	0	3.4x	71.6%	YES
Prowalco	Fund II	Oct-93	Oct-01	8.0	22,500	71,930	0	3.2x	34.1%	YES
Strip Steel	Fund II	Jul-92	Jul-03	11.0	13,446	27,942	0	2.1x	21.0%	YES
The Magic Company - Fund II	Fund II	Jun-94	Aug-96	2.2	14,131	33,952	0	2.4x	58.7%	YES
Transportation Motor Spares (TMS)	Fund II	Aug-94	May-96	1.8	11,893	27,933	0	2.3x	78.4%	YES
Total			Average:	4.5	ZAR 110,881	ZAR 364,885	ZAR 0	3.3x		

Ethos Private Equity  
Portfolio Company Summary as of 09/30/2009  
ZAR in '000s

Fund III - Alphabetical										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Consumer Credit Corporation (CCC)	Fund III	Sep-96	Jul-01	4.8	ZAR 57,550	ZAR 187,846	ZAR 0	3.3x	53.4%	YES
Crossroads Distribution	Fund III	Dec-97	Jul-04	6.6	48,024	154,508	0	3.2x	39.8%	YES
Defy	Fund III	Apr-97	Apr-06	9.0	94,000	551,453	0	5.9x	29.9%	YES
Dunlop Africa	Fund III	Mar-98	Mar-08	10.0	134,593	414,749	0	3.1x	24.2%	YES
Epsidon (First Technology)	Fund III	Sep-96	Jun-08	11.8	10,700	29,046	0	2.7x	9.1%	YES
HT Group	Fund III	Mar-97	Jul-06	9.3	52,166	105,100	0	2.0x	12.2%	YES
KFM Radio	Fund III	Oct-96	Dec-00	4.2	40,400	121,484	0	3.0x	36.8%	YES
Pleasure Foods	Fund III	Nov-96	Jan-04	7.2	48,000	171,401	0	3.6x	29.6%	YES
Sentry Security Group (Klipton)	Fund III	Jul-97	Mar-04	6.7	44,169	95,566	0	2.2x	24.4%	YES
Software Connection	Fund III	Jun-96	Jul-02	6.1	9,748	39,136	0	4.0x	87.6%	YES
Steelwood	Fund III	Jul-97	Jul-03	6.0	27,927	65,975	0	2.4x	37.5%	YES
Sweet-Orr & Lybro	Fund III	Jun-96	Nov-98	2.4	8,806	23,662	0	2.7x	117.7%	YES
Teves Group	Fund III	Oct-96	Jun-05	8.7	18,600	32,828	0	1.8x	8.7%	YES
The Magic Company - Fund III	Fund III	Jul-96	Jun-08	11.9	100,430	61,642	0	0.6x	neg	YES
Universal Printing (Mebro)	Fund III	Dec-96	Mar-04	7.3	23,710	103,468	0	4.4x	32.3%	YES
Total			Average:	7.5	ZAR 718,823	ZAR 2,157,865	ZAR 0	3.0x		

Ethos Private Equity  
Portfolio Company Summary as of 09/30/2009  
ZAR in '000s

Fund IV - Alphabetical										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Cobra	Fund IV	Jun-03	Nov-04	1.4	ZAR 5,010	ZAR 69,609	ZAR 0	13.9x	619.7%	YES
Fedics	Fund IV	Mar-00	Jun-08	8.3	169,301	901,479	0	5.3x	27.1%	YES
FoodCorp	Fund IV	Dec-98	Jun-04	5.5	300,479	822,590	0	2.7x	24.4%	YES
idwala	Fund IV	Dec-98	Feb-06	7.2	240,500	897,418	0	3.7x	35.0%	YES
IST	Fund IV	Oct-04	Jun-08	3.7	110,878	404,727	3,877	3.7x	56.8%	YES
Lifestyle	Fund IV	Oct-00	Jul-07	6.8	137,037	660,653	0	4.8x	30.3%	YES
Ozz	Fund IV	Apr-03	Jun-08	5.2	95,628	161,999	0	1.7x	10.9%	YES
Savcio	Fund IV	Sep-05	Sep-09	2.8	131,749	54,885	218,760	2.1x	23.0%	NO
Waco	Fund IV	Jul-00	Dec-06	6.4	278,556	860,487	0	3.1x	23.7%	YES
Total			Average:	5.2	ZAR 1,469,138	ZAR 4,833,846	ZAR 222,637	3.4x		



## Ethos Private Equity Fund VI, L.L.P.

Ethos Private Equity  
Portfolio Company Summary as of 09/30/2009  
ZAR in '000s

Fund V - Alphabetical										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Brandcorp	Fund V	Aug-07	Sep-09	0.8	ZAR 551,801	ZAR 22,383	ZAR 476,969	0.9x	neg	NO
Busby	Fund V	Apr-08	Sep-09	0.2	511,614	528	320,570	0.6x	neg	NO
Forbes	Fund V	Jul-07	Sep-09	0.9	595,126	2,845	585,404	1.0x	n/a	NO
Idwala (V)	Fund V	Dec-08	Sep-09	0.8	570,932	0	598,455	1.0x	n/a	NO
Moresport	Fund V	Sep-06	Sep-09	1.8	286,000	0	659,876	2.3x	32.1%	NO
Oceanic	Fund V	May-07	Sep-09	1.1	559,600	0	0	0.0x	-100.0%	NO
Plumbblink	Fund V	Mar-06	Sep-09	2.3	94,668	3,449	0	0.0x	neg	NO
Tiger Wheels	Fund V	Feb-08	Sep-09	0.3	399,574	0	338,765	0.8x	neg	NO
Transaction Capital	Fund V	Nov-05	Sep-09	2.6	89,728	7,811	184,231	2.1x	24.7%	NO
Total			Average:	1.2	ZAR 3,659,043	ZAR 37,016	ZAR 3,164,270	0.9x		

## Chronological

Ethos Private Equity  
Portfolio Company Summary as of 09/30/2009  
ZAR in '000s

Fund II - Chronological										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Strip Steel	Fund II	Jul-92	Jul-03	11.0	ZAR 13,446	ZAR 27,942	ZAR 0	2.1x	21.0%	YES
Prowalco	Fund II	Oct-93	Oct-01	8.0	22,500	71,930	0	3.2x	34.1%	YES
Masterfridge	Fund II	Dec-93	Aug-96	2.7	12,600	42,745	0	3.4x	71.6%	YES
Ferro Industrial Products	Fund II	Feb-94	Apr-99	5.2	8,000	15,637	0	2.0x	32.9%	YES
Kagiso Publishers	Fund II	Mar-94	Sep-97	3.5	13,967	66,668	0	4.8x	98.8%	YES
The Magic Company - Fund II	Fund II	Jun-94	Aug-96	2.2	14,131	33,952	0	2.4x	58.7%	YES
Transportation Motor Spares (TMS)	Fund II	Aug-94	May-96	1.8	11,893	27,933	0	2.3x	78.4%	YES
Kagiso Khulani Supervision Food Service	Fund II	Nov-94	Jun-98	3.6	9,000	56,780	0	6.3x	108.6%	YES
Corporate Management Systems (CMS)	Fund II	Nov-95	Oct-98	2.9	5,344	21,297	0	4.0x	76.1%	YES
Total			Average:	4.5	ZAR 110,881	ZAR 364,885	ZAR 0	3.3x		

Ethos Private Equity  
Portfolio Company Summary as of 09/30/2009  
ZAR in '000s

Fund III - Chronological										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Software Connection	Fund III	Jun-96	Jul-02	6.1	ZAR 9,748	ZAR 39,136	ZAR 0	4.0x	87.6%	YES
Sweet-Orr & Lybro	Fund III	Jun-96	Nov-98	2.4	8,806	23,662	0	2.7x	117.7%	YES
The Magic Company - Fund III	Fund III	Jul-96	Jun-08	11.9	100,430	61,642	0	0.6x	neg	YES
Consumer Credit Corporation (CCC)	Fund III	Sep-96	Jul-01	4.8	57,550	187,846	0	3.3x	53.4%	YES
Epsidon (First Technology)	Fund III	Sep-96	Jun-08	11.8	10,700	29,046	0	2.7x	9.1%	YES
KFM Radio	Fund III	Oct-96	Dec-00	4.2	40,400	121,484	0	3.0x	36.8%	YES
Teves Group	Fund III	Oct-96	Jun-05	8.7	18,600	32,828	0	1.8x	8.7%	YES
Pleasure Foods	Fund III	Nov-96	Jan-04	7.2	48,000	171,401	0	3.6x	29.6%	YES
Universal Printing (Mebro)	Fund III	Dec-96	Mar-04	7.3	23,710	103,468	0	4.4x	32.3%	YES
HT Group	Fund III	Mar-97	Jul-06	9.3	52,166	105,100	0	2.0x	12.2%	YES
Defy	Fund III	Apr-97	Apr-06	9.0	94,000	551,453	0	5.9x	29.9%	YES
Sentry Security Group (Klipton)	Fund III	Jul-97	Mar-04	6.7	44,169	95,566	0	2.2x	24.4%	YES
Steelwood	Fund III	Jul-97	Jul-03	6.0	27,927	65,975	0	2.4x	37.5%	YES
Crossroads Distribution	Fund III	Dec-97	Jul-04	6.6	48,024	154,508	0	3.2x	39.8%	YES
Dunlop Africa	Fund III	Mar-98	Mar-08	10.0	134,593	414,749	0	3.1x	24.2%	YES
Total			Average:	7.5	ZAR 718,823	ZAR 2,157,865	ZAR 0	3.0x		



## Ethos Private Equity Fund VI, L.L.P.

Ethos Private Equity

Portfolio Company Summary as of 09/30/2009

ZAR in '000s

Fund IV - Chronological										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
FoodCorp	Fund IV	Dec-98	Jun-04	5.5	ZAR 300,479	ZAR 822,590	ZAR 0	2.7x	24.4%	YES
Idwala	Fund IV	Dec-98	Feb-06	7.2	240,500	897,418	0	3.7x	35.0%	YES
Fedics	Fund IV	Mar-00	Jun-08	8.3	169,301	901,479	0	5.3x	27.1%	YES
Waco	Fund IV	Jul-00	Dec-06	6.4	278,556	860,487	0	3.1x	23.7%	YES
Lifestyle	Fund IV	Oct-00	Jul-07	6.8	137,037	660,653	0	4.8x	30.3%	YES
Ozz	Fund IV	Apr-03	Jun-08	5.2	95,628	161,999	0	1.7x	10.9%	YES
Cobra	Fund IV	Jun-03	Nov-04	1.4	5,010	69,609	0	13.9x	619.7%	YES
IST	Fund IV	Oct-04	Jun-08	3.7	110,878	404,727	3,877	3.7x	56.8%	YES
Savcio	Fund IV	Sep-05	Sep-09	2.8	131,749	54,885	218,760	2.1x	23.0%	NO
Total			Average:	5.2	ZAR 1,469,138	ZAR 4,833,846	ZAR 222,637	3.4x		

Ethos Private Equity

Portfolio Company Summary as of 09/30/2009

ZAR in '000s

Fund V - Chronological										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Transaction Capital	Fund V	Nov-05	Sep-09	2.6	ZAR 89,728	ZAR 7,811	ZAR 184,231	2.1x	24.7%	NO
Plumbblink	Fund V	Mar-06	Sep-09	2.3	94,668	3,449	0	0.0x	neg	NO
Moresport	Fund V	Sep-06	Sep-09	1.8	286,000	0	659,876	2.3x	32.1%	NO
Oceanic	Fund V	May-07	Sep-09	1.1	559,600	0	0	0.0x	-100.0%	NO
Forbes	Fund V	Jul-07	Sep-09	0.9	595,126	2,845	585,404	1.0x	n/a	NO
Brandcorp	Fund V	Aug-07	Sep-09	0.8	551,801	22,383	476,969	0.9x	neg	NO
Tiger Wheels	Fund V	Feb-08	Sep-09	0.3	399,574	0	338,765	0.8x	neg	NO
Busby	Fund V	Apr-08	Sep-09	0.2	511,614	528	320,570	0.6x	neg	NO
Idwala (V)	Fund V	Dec-08	Sep-09	0.8	570,932	0	598,455	1.0x	n/a	NO
Total			Average:	1.2	ZAR 3,659,043	ZAR 37,016	ZAR 3,164,270	0.9x		

## Returns

Ethos Private Equity

Portfolio Company Summary as of 09/30/2009

ZAR in '000s

Fund II - Returns										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Kagiso Khulani Supervision Food Service	Fund II	Nov-94	Jun-98	3.6	ZAR 9,000	ZAR 56,780	ZAR 0	6.3x	108.6%	YES
Kagiso Publishers	Fund II	Mar-94	Sep-97	3.5	13,967	66,668	0	4.8x	98.8%	YES
Corporate Management Systems (CMS)	Fund II	Nov-95	Oct-98	2.9	5,344	21,297	0	4.0x	76.1%	YES
Masterfridge	Fund II	Dec-93	Aug-96	2.7	12,600	42,745	0	3.4x	71.6%	YES
Prowalco	Fund II	Oct-93	Oct-01	8.0	22,500	71,930	0	3.2x	34.1%	YES
The Magic Company - Fund II	Fund II	Jun-94	Aug-96	2.2	14,131	33,952	0	2.4x	58.7%	YES
Transportation Motor Spares (TMS)	Fund II	Aug-94	May-96	1.8	11,893	27,933	0	2.3x	78.4%	YES
Strip Steel	Fund II	Jul-92	Jul-03	11.0	13,446	27,942	0	2.1x	21.0%	YES
Ferro Industrial Products	Fund II	Feb-94	Apr-99	5.2	8,000	15,637	0	2.0x	32.9%	YES
Total			Average:	4.5	ZAR 110,881	ZAR 364,885	ZAR 0	3.3x		





## Ethos Private Equity Fund VI, L.L.P.

Ethos Private Equity

Portfolio Company Summary as of 09/30/2009

ZAR in '000s

Fund III - Returns										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Defy	Fund III	Apr-97	Apr-06	9.0	ZAR 94,000	ZAR 551,453	ZAR 0	5.9x	29.9%	YES
Universal Printing (Mebro)	Fund III	Dec-96	Mar-04	7.3	23,710	103,468	0	4.4x	32.3%	YES
Software Connection	Fund III	Jun-96	Jul-02	6.1	9,748	39,136	0	4.0x	87.6%	YES
Pleasure Foods	Fund III	Nov-96	Jan-04	7.2	48,000	171,401	0	3.6x	29.6%	YES
Consumer Credit Corporation (CCC)	Fund III	Sep-96	Jul-01	4.8	57,550	187,846	0	3.3x	53.4%	YES
Crossroads Distribution	Fund III	Dec-97	Jul-04	6.6	48,024	154,508	0	3.2x	39.8%	YES
Dunlop Africa	Fund III	Mar-98	Mar-08	10.0	134,593	414,749	0	3.1x	24.2%	YES
KFM Radio	Fund III	Oct-96	Dec-00	4.2	40,400	121,484	0	3.0x	36.8%	YES
Epsidon (First Technology)	Fund III	Sep-96	Jun-08	11.8	10,700	29,046	0	2.7x	9.1%	YES
Sweet-Orr & Lybro	Fund III	Jun-96	Nov-98	2.4	8,806	23,662	0	2.7x	117.7%	YES
Steelwood	Fund III	Jul-97	Jul-03	6.0	27,927	65,975	0	2.4x	37.5%	YES
Sentry Security Group (Klipton)	Fund III	Jul-97	Mar-04	6.7	44,169	95,566	0	2.2x	24.4%	YES
HT Group	Fund III	Mar-97	Jul-06	9.3	52,166	105,100	0	2.0x	12.2%	YES
Teves Group	Fund III	Oct-96	Jun-05	8.7	18,600	32,828	0	1.8x	8.7%	YES
The Magic Company - Fund III	Fund III	Jul-96	Jun-08	11.9	100,430	61,642	0	0.6x	neg	YES
Total			Average:	7.5	ZAR 718,823	ZAR 2,157,865	ZAR 0	3.0x		

Ethos Private Equity

Portfolio Company Summary as of 09/30/2009

ZAR in '000s

Fund IV - Returns										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Cobra	Fund IV	Jun-03	Nov-04	1.4	ZAR 5,010	ZAR 69,609	ZAR 0	13.9x	619.7%	YES
Fedics	Fund IV	Mar-00	Jun-08	8.3	169,301	901,479	0	5.3x	27.1%	YES
Lifestyle	Fund IV	Oct-00	Jul-07	6.8	137,037	660,653	0	4.8x	30.3%	YES
Idwala	Fund IV	Dec-98	Feb-06	7.2	240,500	897,418	0	3.7x	35.0%	YES
IST	Fund IV	Oct-04	Jun-08	3.7	110,878	404,727	3,877	3.7x	56.8%	YES
Waco	Fund IV	Jul-00	Dec-06	6.4	278,556	860,487	0	3.1x	23.7%	YES
FoodCorp	Fund IV	Dec-98	Jun-04	5.5	300,479	822,590	0	2.7x	24.4%	YES
Savcio	Fund IV	Sep-05	Sep-09	2.8	131,749	54,885	218,760	2.1x	23.0%	NO
Ozz	Fund IV	Apr-03	Jun-08	5.2	95,628	161,999	0	1.7x	10.9%	YES
Total			Average:	5.2	ZAR 1,469,138	ZAR 4,833,846	ZAR 222,637	3.4x		

Ethos Private Equity

Portfolio Company Summary as of 09/30/2009

ZAR in '000s

Fund V - Returns										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Moresport	Fund V	Sep-06	Sep-09	1.8	ZAR 286,000	ZAR 0	ZAR 659,876	2.3x	32.1%	NO
Transaction Capital	Fund V	Nov-05	Sep-09	2.6	89,728	7,811	184,231	2.1x	24.7%	NO
Idwala (V)	Fund V	Dec-08	Sep-09	0.8	570,932	0	598,455	1.0x	n/a	NO
Forbes	Fund V	Jul-07	Sep-09	0.9	595,126	2,845	585,404	1.0x	n/a	NO
Brandcorp	Fund V	Aug-07	Sep-09	0.8	551,801	22,383	476,969	0.9x	neg	NO
Tiger Wheels	Fund V	Feb-08	Sep-09	0.3	399,574	0	338,765	0.8x	neg	NO
Busby	Fund V	Apr-08	Sep-09	0.2	511,614	528	320,570	0.6x	neg	NO
Plumbink	Fund V	Mar-06	Sep-09	2.3	94,668	3,449	0	0.0x	neg	NO
Oceanic	Fund V	May-07	Sep-09	1.1	559,600	0	0	0.0x	-100.0%	NO
Total			Average:	1.2	ZAR 3,659,043	ZAR 37,016	ZAR 3,164,270	0.9x		

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# Final Investment Report

SAIF Partners IV, L.P.

March 23, 2009

[www.hamiltonlane.com](http://www.hamiltonlane.com)



**HAMILTON LANE**

**Confidentiality statement:**

This investment memorandum contains proprietary information, trade secrets and/or other sensitive information that are the sole property of Hamilton Lane. Hamilton Lane is submitting this information to the client solely for the purpose of assisting the client in evaluating investments for its private equity portfolio. This information is exempt from public disclosure. Hamilton Lane does not permit disclosure of proprietary information, trade secrets and/or other sensitive information to anyone other than the client's officers, employees and lawful agents.

\*\*\*\* IMPORTANT DISCLOSURES \*\*\*\*

The information contained in this report may include forward-looking statements regarding the fund presented or its portfolio companies. Forward-looking statements include a number of risks, uncertainties and other factors beyond the control of the fund or the portfolio companies, which may result in material differences in actual results, performance or other expectations. The opinions, estimates and analyses reflect our current judgment, which may change in the future.

The past performance information contained in this report is not necessarily indicative of future results and there is no assurance that the fund will achieve comparable results or that it will be able to implement its investment strategy or achieve its investment objectives. The actual realized value of currently unrealized investments will depend on a variety of factors, including future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions and circumstances on which the current unrealized valuations are based.

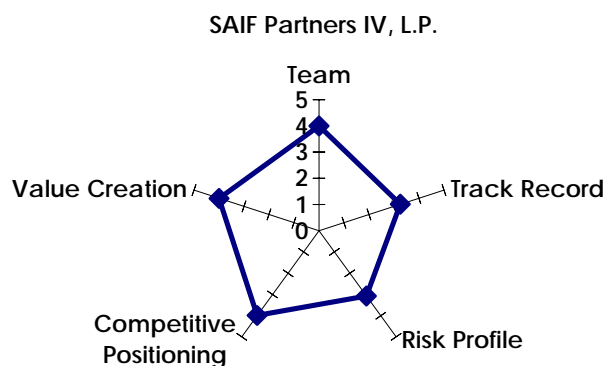
Any tables, graphs or charts relating to past performance included in this report are intended only to illustrate the performance of the fund or the portfolio companies referred to for the historical periods shown. Such tables, graphs and charts are not intended to predict future performance and should not be used as the basis for an investment decision.

\*\*\*\* IMPORTANT DISCLOSURES \*\*\*\*

## OVERVIEW

Fund Information:	
General Partner:	SAIF Partners (or "SAIF")
Fund:	SAIF Partners IV, L.P.
Firm Inception:	2001
Target Size:	\$1.5 billion
Hard Capitalization:	\$1.5 billion
Strategy:	Late stage venture and expansion capital with up to 10% early stage investments
Geography:	70% - 80% China, 20% - 25% India, and selectively Asia Pacific region
Team:	37 Investment Professionals (including seven Partners) and Six Venture Partners
Senior Partners:	Andrew (Andy) Yan (Managing Partner), Daniel Yang (Partner), Ravi Adusumalli (Partner), Jason So (Partner), Brandon Lin (Partner), Ben Ng (Partner), and Hang Xu (Partner)
Locations:	Hong Kong (HQ), Beijing, Shanghai, New Delhi, and Mumbai
Equity Investments:	\$10 million to \$150 million
Industries:	Diversified (mainly TMT, Consumer, Healthcare, Manufacturing, and Financial)
Prior Funds:	
	2007 - SAIF Partners III, L.P. ("Fund III")
	2005 - SB Asia Investment Fund II, L.P. ("Fund II")
	2001 - SB Asia Infrastructure Fund, L.P. ("Fund I")
Closing Schedule:	
	First Close - April 2009
Key Terms:	
Investment Term:	Five years
Fund Term:	Ten years with two one-year extensions (General Partner discretion)
Management Fee:	Investment Period: 2% of aggregate commitments Post-Investment Period: 2% of aggregate acquisition cost of assets held in the Fund
Fee Offset:	75% of any director's fees 100% of all other fees
Carry/Hurdle:	Deal-by-deal distribution 8% preferred return 20% Fund performance up to 2.5x net multiple of cost (with catch-up) 25% Fund performance between 2.5x and 3.25x net multiple of cost (with catch-up) 30% Fund performance above 3.25x net multiple of cost (no catch-up)
GP Commitment:	1% of total capital commitments
Key Person:	Andrew Yan, or any three of the seven Partners
Investment Highlights:	
<ul style="list-style-type: none"> <li>· Large team of experienced professionals with limited turnover</li> <li>· Strong proprietary deal-flow due to SAIF brand and network of relationships</li> <li>· Strong returns driven by few exits, with large unrealized portfolio</li> <li>· Venture-like portfolio construction and economics</li> </ul>	
Recommendation:	
An Investment in the Fund is recommended subject to further fee negotiations.	

## Hamilton Lane General Partner Rating System (GPRS)



<u>Criteria</u>	<u>Score</u>
<i>Team</i>	4.0
<i>Track Record</i>	3.3
<i>Risk Profile</i>	3.1
<i>Competitive Positioning</i>	4.0
<i>Value Creation</i>	4.0
<b><i>Weighted Average</i></b>	<b>3.6</b>

About GPRS: The GPRS is a proprietary model developed by Hamilton Lane to evaluate each General Partner and provide a means to compare one fund to another on a more quantitative basis. Each of the five categories (Team, Track Record, Risk Profile, Competitive Positioning and Value Creation) is comprised of several subcategories which are weighted and totaled to create an overall value for the fund.

The ratings for each category and subcategory are 1 through 5, with 5 being the best.

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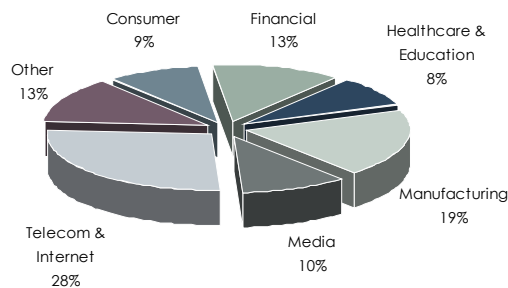
## Section 1 - INVESTMENT STRATEGY

### 1.1 APPROACH

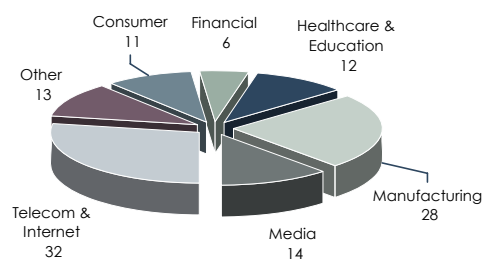
- Mostly minority growth investments (20% to 40% ownership) and up to 10% early stage investments
- Significant minority protection rights and control features
- Enterprise values between \$10 million (for early stage deals) and \$2 billion
- Equity sizes typically between \$10 million and \$150 million
- Focus primarily on China and secondarily India

- The General Partner started out as a technology, media and telecom investor but has gradually diversified its industry mix.

SAIF Partners  
Prior Funds Sector Allocation by Amount Invested

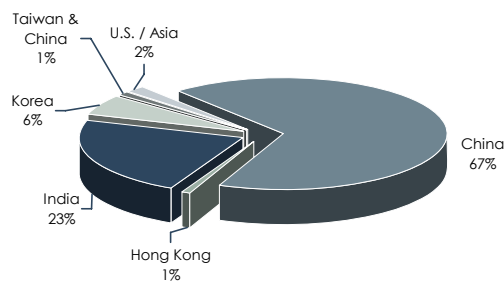


SAIF Partners  
Prior Funds Sector Allocation by Number of Transactions

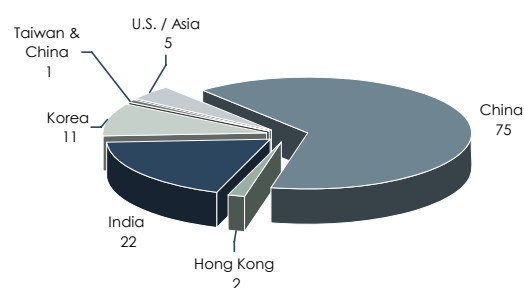


- SAIF anticipates that the majority of investments will be in China (~80%) and, to a lesser extent, India (~20%). It may invest in the Asia-Pacific region on an opportunistic basis.

SAIF Partners  
Prior Funds Geographical Allocation by Amount Invested



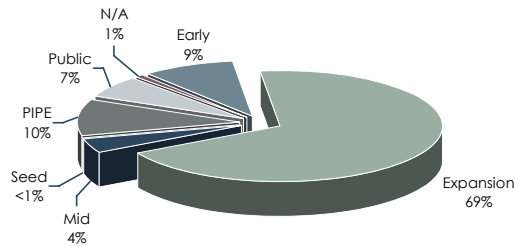
SAIF Partners  
Prior Funds Geographical Allocation by Number of Transactions



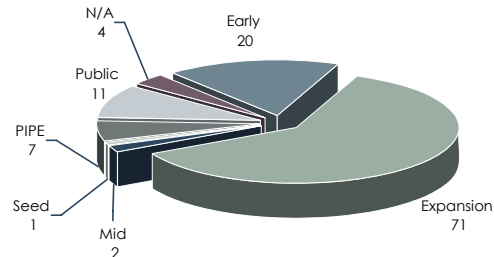


- The strategy is focused on expansion capital while up to 10% may be allocated to early stage opportunities.

SAIF Partners  
Prior Funds Investment Stage by Amount Invested

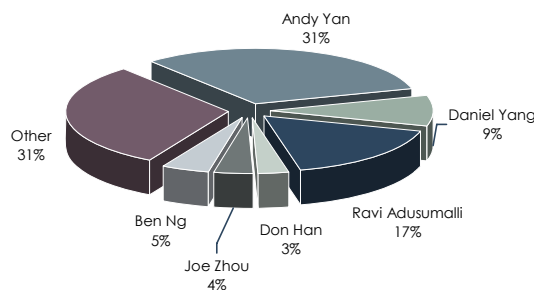


SAIF Partners  
Prior Funds Investment Stage by Number of Transactions

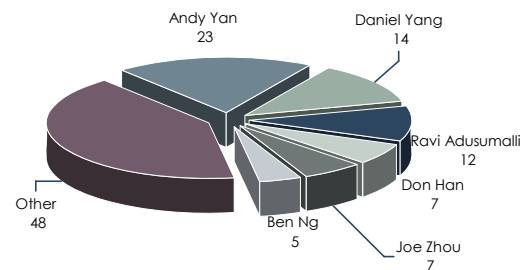


- Deal sourcing and leadership roles are relatively well distributed among different investment professionals.

SAIF Partners  
Prior Funds Deal Source (SAIF Professional) by Amount Invested

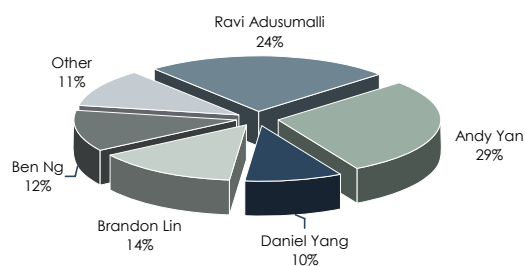


SAIF Partners  
Prior Funds Deal Source (SAIF Professional) by Number of Transactions

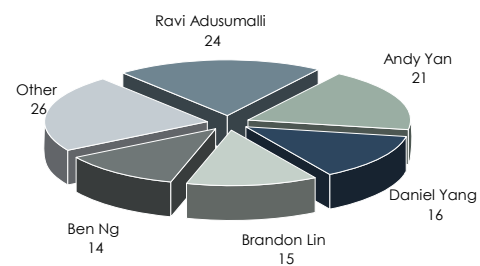


Note: Denotes the investment professional at SAIF who originated the investment. Other includes SAIF professionals other than partners and Softbank employees.

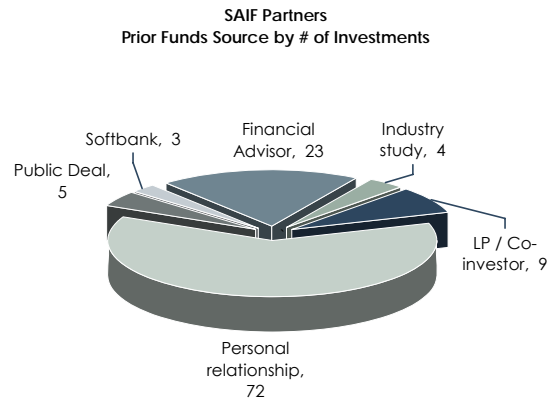
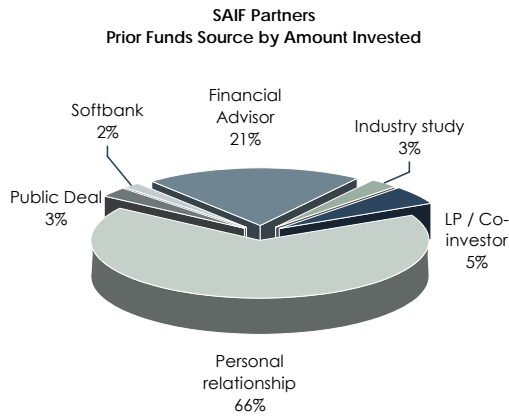
SAIF Partners  
Prior Funds Deal Lead (SAIF Professional) by Amount Invested



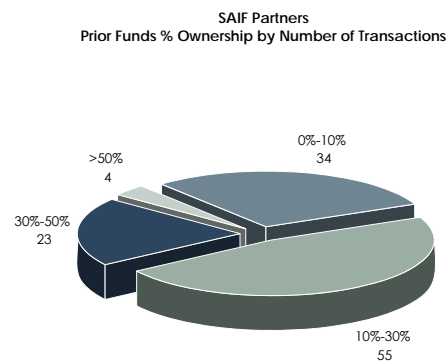
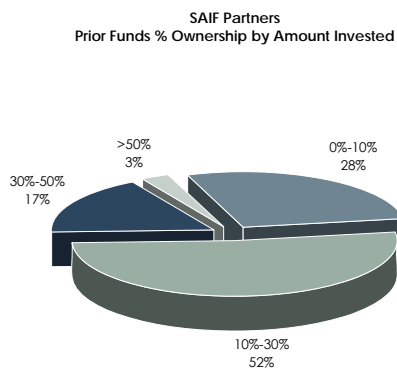
SAIF Partners  
Prior Funds Deal Lead (SAIF Professional) by Number of Transactions



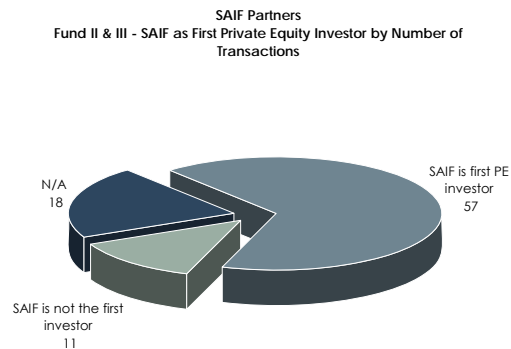
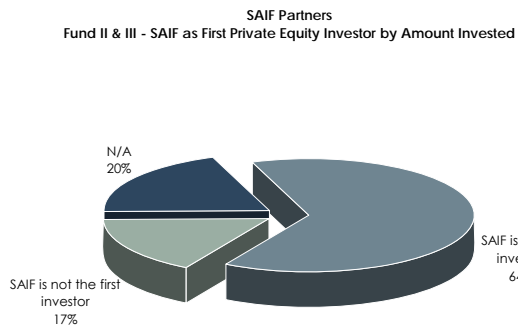
- The majority of deals are sourced through SAIF's professionals' network of relationships.



- Shareholding is typically between 10% and 30% alongside the entrepreneur/founder (who is often CEO).

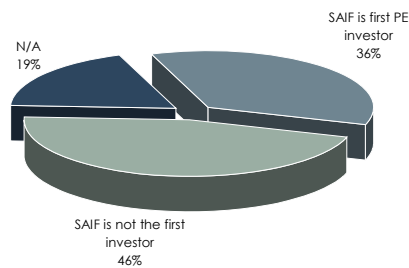


- SAIF was the first private equity investor in 64% of all deals completed in Fund II and III and was the lead or co-lead investor in 94% of deals completed in Fund I, II, and III.

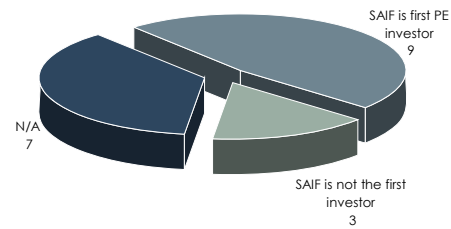


- SAIF was the first private equity investor in 36% of the Indian deals completed in Fund II and III. Indian target companies generally require more financing rounds because they are at an earlier stage of their life when compared to China.

SAIF Partners  
Fund II & III - SAIF as First Private Equity Investor by Amount Invested in India Only

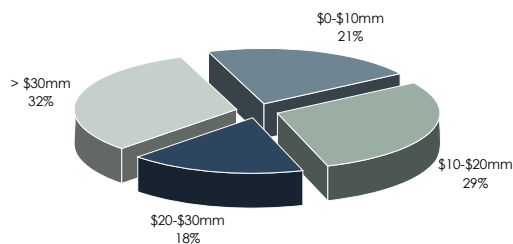


SAIF Partners  
Fund II & III - SAIF as First Private Equity Investor by Number of Transactions in India Only

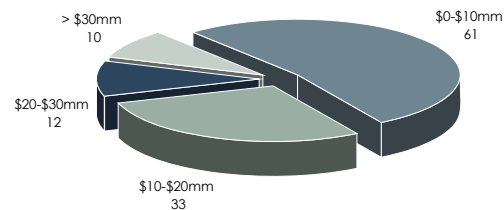


- Historically, SAIF made a large number of small investments (up to \$10 million). Equity investments have been steadily rising in Fund II and III.

SAIF Partners  
Prior Funds Investment Size by Amount Invested

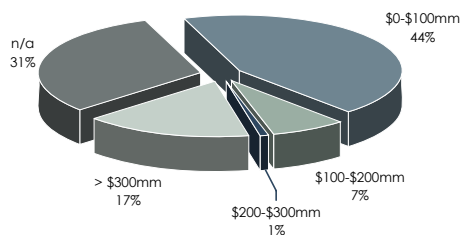


SAIF Partners  
Prior Funds Investment Size by Number of Transactions

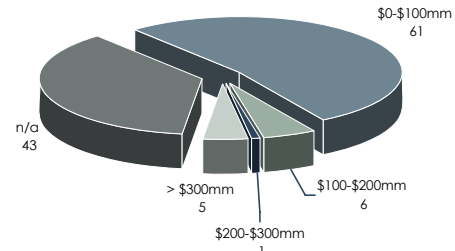


- Target enterprise values have also grown over time, up to \$1.9 billion in Fund III.

SAIF Partners  
Prior Funds Enterprise Value by Amount Invested



SAIF Partners  
Prior Funds Enterprise Value by Number of Transactions



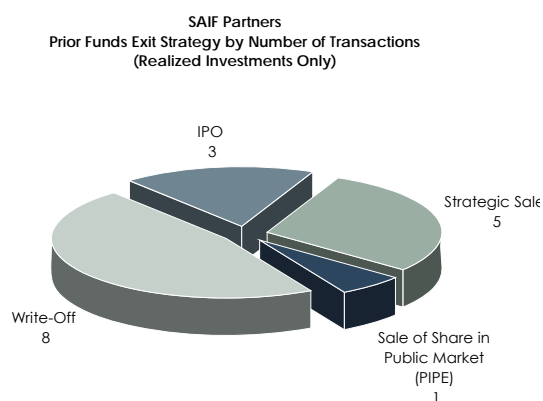
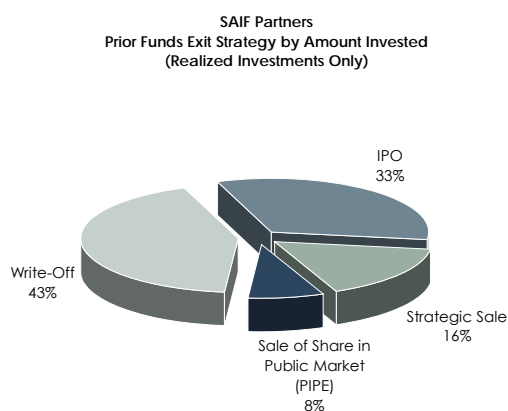
- Of a total of 116 investments made in all three funds:
  - 73 companies (75% on cost basis) were profitable at investment,
  - Of the remainder, six out of 39 investments became profitable after 12 months.
- SAIF seeks to hold minority interests with some control features in form of extensive protection rights, including 25 different veto rights (including on budget, CFO appointment, compensation, etc.).
- Target companies generally present the following features:
  - Proven business model with revenue and profits,
  - Strong domestic market presence with ability to grow internationally,
  - Owned by ambitious first generation of entrepreneurs (no state-owned enterprises).
- SAIF does not expect to use leverage on company or fund-level basis.

## 1.2 PORTFOLIO COMPOSITION

Fund Portfolio Construction	
Target number of deals completed per year	12 to 16
Target number of deals in Fund	50 to 60
Target equity investment sizes	\$10m - \$150m
Target enterprise values	\$10m - \$2bn
Maximum % of Fund to be invested in single investment	20%
Expected holding period	3-6 years
Expected number of years until Fund is fully invested	4 years
Target number of deals per partner	2

## 1.3 EXIT STRATEGY

- Although a large majority of investments are still unrealized, the General Partner expects to use the IPO exit method for 90% of its investments.



Note: As of October 31, 2008.

**1.4 PEER GROUP/COMPETITION**

Fund Manager	China	India
Baring PE Partners (India)		x
Capital Today China	x	
Carlyle Asia Growth	x	x
CDH	x	
CITIC Capital Partners	x	
HONY Capital	x	
Keytone	x	
New Horizon Capital	x	

## Section 2 -GENERAL PARTNER

### 2.1 ORGANIZATION

- The General Partner was founded as an affiliate of Softbank in 2001. Cisco was the sole limited partner in Fund I. The team receives only 15% of the carried interest in Fund I, while the remainder is allocated to Softbank.
- Fund I focus was infrastructure technology, media & telecommunication sectors (or "TMT") across China, India, and Korea.
- SAIF gained its independence from Softbank in 2004 and has gradually diversified its activity away from the TMT sector and decreased its Korean activity. The firm also moved away from technology risk in its portfolio companies.
- The firm has currently more than 55 employees including 37 investment professionals.
- SAIF has a single investment process where a majority vote is required from the investment committee (Andy Yan is the only Partner with a veto right).

SAIF Partners Investment Team Organization Chart				
Hong Kong (HQ)	Beijing	Shanghai	New Dehli & Mumbai	Korea
<b>Andy Yan*</b> Managing Partner	<b>Daniel Yang*</b> Partner	<b>Hang Xu*</b> Partner	<b>Ravi Adusumalli*</b> Partner	J.D. Yu Vice President
<b>Jason So*</b> Partner	<b>Brandon Lin*</b> Partner	Derek Chen Principal	Vibhor Mehra Principal	
Lynda Lau Principal	<b>Ben Ng*</b> Partner	Shirley Yuan Vice President	Vishal Sood Senior Vice President	
Ben Yam Vice President	Andrew Tang Senior Vice President	Three Analysts	Babar Khan Vice President	
Anita Chan Financial Controller	Ken Lee Senior Vice President		Two Associates & Analysts	
	Erix Xu Vice President			
	Yanchao Zhao Vice President			
	Xuejun Xie General Counsel			
	12 Associates & Analysts			
	Six Venture Partners			

\* Investment Committee member.

- In addition to its dollar-denominated funds, the General Partner is raising a RMB 2 billion fund (capped at RMB 3 billion). The RMB fund will primarily invest in restricted industries where foreign funds are required to go through a special approval process lasting six to ten months. The RMB fund will invest pro-rata with the other SAIF funds and will be managed by a separate team to be hired by the General Partner.

## 2.2 EXPERIENCE OF INVESTMENT PROFESSIONALS

Experience of Investment Professionals					
Name	Title	Location	Age	Prior Experience	Educational Background
Andrew Y. Yan*	Managing Partner	Hong Kong	51	<ul style="list-style-type: none"> <li>Emerging Markets Partnership</li> <li>Sprint International, Director</li> <li>Hudson Institute</li> <li>World Bank</li> <li>State Council of China</li> </ul>	<ul style="list-style-type: none"> <li>Princeton University (Ph.D)</li> <li>Wharton School (Exec. MBA)</li> <li>Beijing University (M.S.)</li> <li>Nanjing Aeronautics Institute (B.S.)</li> </ul>
Brandon Ho-Ping Lin*	Partner	Beijing	37	<ul style="list-style-type: none"> <li>Credit Suisse</li> <li>Donaldson, Lufkin &amp; Jenrette</li> <li>Sullivan &amp; Cromwell</li> </ul>	<ul style="list-style-type: none"> <li>Harvard Law School (J.D.)</li> <li>Stanford University (B.A.)</li> </ul>
Benjamin Jin-Ping Ng*	Partner	Beijing	47	<ul style="list-style-type: none"> <li>Cisco Systems</li> <li>Metaplex</li> <li>IBM</li> <li>Netlink</li> </ul>	<ul style="list-style-type: none"> <li>Macquarie University (MBA)</li> <li>University of New South Wales (B.S.)</li> </ul>
Jason K.C. So*	Partner	Hong Kong	47	<ul style="list-style-type: none"> <li>Delta Associates</li> <li>Emerging Markets Partnership</li> <li>Union Bank of Switzerland</li> <li>Chase Manhattan Asia</li> <li>PaineWebber Incorporated</li> </ul>	<ul style="list-style-type: none"> <li>University of Hong Kong (MBA)</li> <li>University of Hong Kong (B.S.)</li> </ul>
Hang M. Xu*	Partner	Shanghai	41	<ul style="list-style-type: none"> <li>TVG Capital Partners</li> <li>Bitfone Corporation</li> <li>LinkAir Communications</li> <li>Carlyle Asia</li> <li>Emerging Markets Partnership</li> <li>Goldman Sachs</li> </ul>	<ul style="list-style-type: none"> <li>Wharton School (MBA)</li> <li>Wesleyan University (B.A.)</li> </ul>
Daniel D. Yang*	Partner	Beijing	37	<ul style="list-style-type: none"> <li>Softbank China Venture Capital</li> <li>Salomon Smith Barney</li> <li>Merrill Lynch Asia Pacific</li> </ul>	<ul style="list-style-type: none"> <li>University of Southern California (M.A.)</li> <li>Tsinghua University (B.S.)</li> </ul>
Ravi C. Adusumalli*	Partner	Mumbai	32	<ul style="list-style-type: none"> <li>Mobius Venture Capital</li> <li>Credit Suisse First Boston</li> <li>Wasatch Funds</li> </ul>	<ul style="list-style-type: none"> <li>Cornell University (B.A.)</li> </ul>
Derek Chen	Principal	Shanghai	34	<ul style="list-style-type: none"> <li>CITIC Frontier China Research</li> <li>Thomas Weisel Partners</li> <li>Cisco Systems</li> <li>Procter &amp; Gamble</li> </ul>	<ul style="list-style-type: none"> <li>Columbia Business School (MBA)</li> <li>University of Illinois at Urbana-Champaign</li> </ul>
Lynda Lau	Principal	Hong Kong	42	<ul style="list-style-type: none"> <li>ING Barings Securities</li> <li>Asian Infrastructure Fund Advisers</li> <li>Credit Lyonnais Securities</li> </ul>	<ul style="list-style-type: none"> <li>CFA</li> <li>University of Warwick (MBA)</li> <li>Hong Kong Polytechnic University (BA)</li> </ul>
Vibhor Mehra	Principal	New Delhi	33	<ul style="list-style-type: none"> <li>Boston Consulting Group</li> </ul>	<ul style="list-style-type: none"> <li>IIM Bangalore</li> <li>Delhi Institute of Technology</li> </ul>
Kenneth Lee	Senior Vice President	Beijing	41	<ul style="list-style-type: none"> <li>Topsec Holdings Limited</li> <li>RimAsia Capital</li> <li>Delta Associates</li> <li>CNK Telecom</li> <li>H&amp;Q Asia Pacific</li> <li>Salomon Brothers</li> </ul>	<ul style="list-style-type: none"> <li>Amherst College (B.A.)</li> </ul>
Andrew Tang	Senior Vice President	Beijing	40	<ul style="list-style-type: none"> <li>HuaWei-3COM</li> <li>Harbour Networks</li> <li>Aubade Networks</li> </ul>	<ul style="list-style-type: none"> <li>U.C. Berkeley (M.S.)</li> <li>Peking University (B.S.)</li> </ul>
Vishal Sood	Senior Vice President	n/a	37	<ul style="list-style-type: none"> <li>Kotak Mahindra Investment Bank</li> <li>SSKI Investment Bank</li> <li>SBI Capital Markets</li> <li>IT industry</li> </ul>	<ul style="list-style-type: none"> <li>IIM Ahmedabad (MBA)</li> </ul>

\* Investment Committee member.

Key Principals' Time Allocation						
Name	Managing Firm	Deal Sourcing	Due Diligence	Monitoring	Non-Fund Initiatives <sup>(1)</sup>	Total
Andy Yan	15%	35%	15%	30%	5%	100%
Brandon Lin	5%	25%	35%	35%	0%	100%
Jason So	15%	15%	25%	45%	0%	100%
Daniel Yang	5%	30%	30%	35%	0%	100%
Ben Ng	0%	35%	30%	35%	0%	100%
Hang Xu	5%	30%	30%	35%	0%	100%
Ravi Adusumalli	5%	30%	30%	35%	0%	100%

(1) Refer to Andy Yan's time dedicated to relations with the government and independent board positions.

Distribution of Carried Interest	
Individual	Carried Interest Allocation
Andy Yan	27%
Daniel Yang, Ravi Adusumalli, Brandon Lin, Hang Xu, Ben Ng, Jason So	53%
Other professionals <sup>(1)</sup>	20%
<b>Total</b>	<b>100%</b>

(1) Includes team members below partner-level and a portion for new hires. Excludes professionals below associate level and associates with less than two years of tenure.

- The carried interest is distributed from one common pool rather than on a deal-by-deal basis.
- The carried interest is vested over seven years with the following method:
  - 15% annual vesting (cliff) for the first six years, and
  - 10% vesting in the seventh year.



## 2.3 TENURE OF INVESTMENT PROFESSIONALS

Name	Title	Overall Exp.	Tenure	Fund I				Fund II		Fund III		
				2001	2002	2003	2004	2005	2006	2007	2008	2009
Andrew Yan	Managing Partner	25	7									
Brandon Lin	Partner	14	7									
Daniel Yang	Partner	12	7									
Lynda Lau	Principal	14	7									
Ravi Adusumalli	Partner	10	7									
Derek Chen	Principal	11	5									
Jason So	Partner	24	5									
Vibhor Mehra	Principal	9	5									
Ben Ng	Partner	23	3									
Andrew Tang	Senior Vice President	12	2									
Hang Xu	Partner	17	2									
Kee Lee	Senior Vice President	10	2									
Vishal Sood	Senior Vice President	14	2									


Tenure with the General Partner

## 2.4 DEPARTURES

Turnover				
Name	Title	Start Date	Leave Date	Reason for Leaving
Paul Zimmerman	Partner	Jan-02	Nov-02	Personal decision
King Chuen Wong	Associate	Oct-01	Aug-03	Joined a public company
Eric Hsia	Partner	Dec-01	Dec-04	Personal decision
Woo Sung Cho	Principal	Sep-01	Dec-04	Joined SoftBank Korea as investment activity in Korea decreased
Donglei Zhou	Associate	Oct-01	Jan-04	Joined a portfolio company
Jing Sheng Huang	Partner	Jan-02	Sep-05	Joined Bain Capital
Jungwoo Sung	Principal	Sep-01	Jan-06	Joined Carlyle Korea as investment activity in Korea decreased
ZhiXiong (Joe) Zhou	Partner	Oct-01	Oct-06	Joined KPCB China
Han Don	Partner	Oct-01	Dec-07	Due to decrease in investment activity in Korea

## 2.5 REFERENCES

Throughout its typical diligence process, Hamilton Lane will generally contact a number of individuals in connection with its evaluation of a Fund including portfolio company CEOs, co-investors, prior employees, other general partners and limited partners. References reported:

- SAIF is viewed as one of the most experienced and talented groups of private equity investors in its target regions, particularly in China where references praised its recognized brand and its ability to leverage a large network of contacts.
- References from portfolio company executives were positive, particularly regarding SAIF's quick and effective decision process as well as the experience and capabilities of its senior investment professionals.

- In particular, Andy Yan and Ravi Adusumalli appear to be well known figures and are considered to be some of the most reputable investors in China and India, respectively.
- The General Partner is regarded as an active financial investor, with significant involvement in making strategic decisions at the board level and limited interference in the operational activities of the management teams, particularly in the case of companies with sound performance.
- References suggested that the General Partner has added value to portfolio companies in multiple ways, particularly by providing support when hiring key management professionals, drafting budgets and business plans, and negotiating successive financing rounds.
- One reference noted that while SAIF brand equity in India has grown over time, it is still somewhat behind compared to other active private equity players.

## 2.6 LITIGATION

The General Partner has indicated that neither it, nor any members of the team, are involved in, or have in the past been involved with, any pending or threatened: (i) criminal proceeding; (ii) regulatory investigation; or (iii) any action of proceeding involving their management of any private equity vehicle other than in an ordinary course of business.

### Section 3 - PRIOR INVESTMENT EXPERIENCE

#### 3.1 GROSS FUND OVERALL RETURNS

- The table below shows performance of Prior Funds, as of October 31, 2008, the latest date for which cash flows were provided.

SAIF Partners IV, L.P. - Prior Investment History											
Prior Investment Performance											
As Reported by the General Partner											
31/10/2008											
Fund	Vintage	# of Inv.		Total Fund Size	Amount			Gross Real. IRR	Mult.	Gross IRR	Net IRR
		Total	Real.		Invested	Realized	Unrealized Value				
Fund I	2001	30	15	\$404,000,000	\$354,368,362	\$661,473,448	\$375,454,976	154.0%	2.9x	66.4%	n/a
Fund II	2005	42	2	643,000,000	616,368,499	67,363,612	1,144,262,917	160.7%	2.0x	33.8%	26.3%
Fund III	2007	44	0	1,103,000,000	633,477,509	5,068,291	642,706,791	n/a	1.0x	2.6%	-3.0%
<b>Total</b>		<b>116</b>	<b>17</b>	<b>\$2,150,000,000</b>	<b>\$1,604,214,370</b>	<b>\$733,905,351</b>	<b>\$2,162,424,684</b>	<b>154.2%</b>	<b>1.8x</b>	<b>48.9%</b>	<b>n/a</b>

SAIF Partners IV, L.P. - Prior Investment History				
Realized Investment Performance				
31/10/2008				
Fund	Amount Invested	Amount Realized	Unrealized Value	Multiple
Fund I	\$140,613,782	\$646,613,229	\$59,032,341	5.0x
Fund II	30,723,006	62,569,175	245,357,100	10.0x
Fund III	0	0	0	n/a
<b>Total</b>	<b>\$171,336,788</b>	<b>\$709,182,404</b>	<b>\$304,389,441</b>	<b>5.9x</b>

Note: Fund II realizations consist of Perfect World (7.8x realized and \$245 million unrealized on \$8 million cost basis - fair value as of October 31, 2008) and Mania (written-off).

SAIF Partners IV, L.P. - Prior Investment History				
Unrealized Investment Performance				
31/10/2008				
Fund	Amount Invested	Amount Realized	Unrealized Value	Multiple
Fund I	\$213,754,580	\$14,860,219	\$316,422,635	1.5x
Fund II	585,645,493	4,794,437	898,905,817	1.5x
Fund III	633,477,509	5,068,291	642,706,791	1.0x
<b>Total</b>	<b>\$1,432,877,582</b>	<b>\$24,722,947</b>	<b>\$1,858,035,243</b>	<b>1.3x</b>

#### 2008 Year End Performance Update

- The General Partner provided updated valuations to December 30, 2008. The overall fund-level performance has not changed materially since October 31, 2008.

SAIF Partners IV, L.P. - Prior Investment History As Reported by the General Partner 31/12/2008										
Fund	Vintage	# of Inv.		Total Fund Size	Amount			Mult.	Gross IRR	Net IRR <sup>(2)</sup>
		Total	Real.		Invested	Realized <sup>(1)</sup>	Unrealized Value			
Fund I	2001	30	15	\$404,000,000	\$361,557,755	\$670,970,380	\$403,684,514	3.0x	66.3%	34.8%
Fund II	2005	41	2	643,000,000	623,050,974	169,963,156	1,009,236,102	1.9x	29.8%	22.0%
Fund III	2007	43	0	1,103,000,000	653,565,103	5,075,507	668,419,556	1.0x	3.0%	-1.1%
<b>Total</b>		<b>114</b>	<b>17</b>	<b>\$2,150,000,000</b>	<b>\$1,638,173,832</b>	<b>\$846,009,042</b>	<b>\$2,081,340,172</b>	<b>1.8x</b>	<b>n/a</b>	<b>24.5%</b>

(1) Includes monetization of Perfect World stock in January 2009 (\$103 million); (2) Pro forma net IRR.

### Additional Investments

- Between October and December 2008, the General Partner has invested additional \$7.1 million, \$6.7 million and \$27.3 million in Funds I, II and III portfolio companies, respectively.
  - In Fund I, the \$7.1 million investment was completed in China Digital TV.
  - In Fund II, SAIF completed follow-ons in Acorn (\$0.7 million), ATA (\$1 million), and Sunnykey (\$5 million). Also, in January 2009, ACT merged with China Broad Media.
  - In December 2008, Fund III completed a new investment in Lmobile Information Technology (\$5 million) and follow-on investments in AquaMats (\$0.4 million) and Millennium Star (\$9.1 million). SAIF also committed additional amounts to the following listed portfolio companies: Digital China (\$1.5 million), China Grand Forestry (\$1.3 million), Havells (\$0.8 million), Mindtree (\$2.4 million), Indian Hotels (\$2.5 million) and Thermax (\$4.2 million).

### Realizations

- In Fund II, SAIF has realized additional \$103 million in Perfect World, which to January 2009 has returned in aggregate over \$165 million (equivalent to a 20.6x realized multiple of cost). Additionally, \$9.5 million were realized in the Fund II investment in China Digital TV.

SAIF Partners IV, L.P. - Prior Investment History Realized Investment Performance 31/12/2008				
Fund	Amount Invested	Amount Realized	Unrealized Value	Mult.
Fund I	\$147,803,175	\$656,110,161	\$91,613,667	5.1x
Fund II	30,723,006	165,159,645	115,932,696	9.1x
Fund III	0	0	0	n/a
<b>Total</b>	<b>\$178,526,181</b>	<b>\$821,269,806</b>	<b>\$207,546,363</b>	<b>5.8x</b>

Note: Fund II realizations consist of Perfect World (20.6x realized and \$115 million unrealized on \$8 million cost basis, as of January 2009) and Mania (written-off).

### Unrealized Valuations

- In Fund I, Versa Tech was written down to 0.1x (from 0.5x).
- In Fund II, ATA and MainOne were written down to 1.6x and 3.8x (from 2.6x and 5.6x), respectively; Yanhuang (\$6.4 million) was written down to zero. Eternal Asia and Sunnykey have been written-up to 6.5x (from 4.8x) and 1.4x (from 1.0x), respectively.

- In Fund III, One97 was written up to 3.1x, whereas Millennium Star was written down from 3.2x to 2.4x following the recent injection of capital. Valuations have declined also for the public portfolio companies, mostly due to declining public multiples.

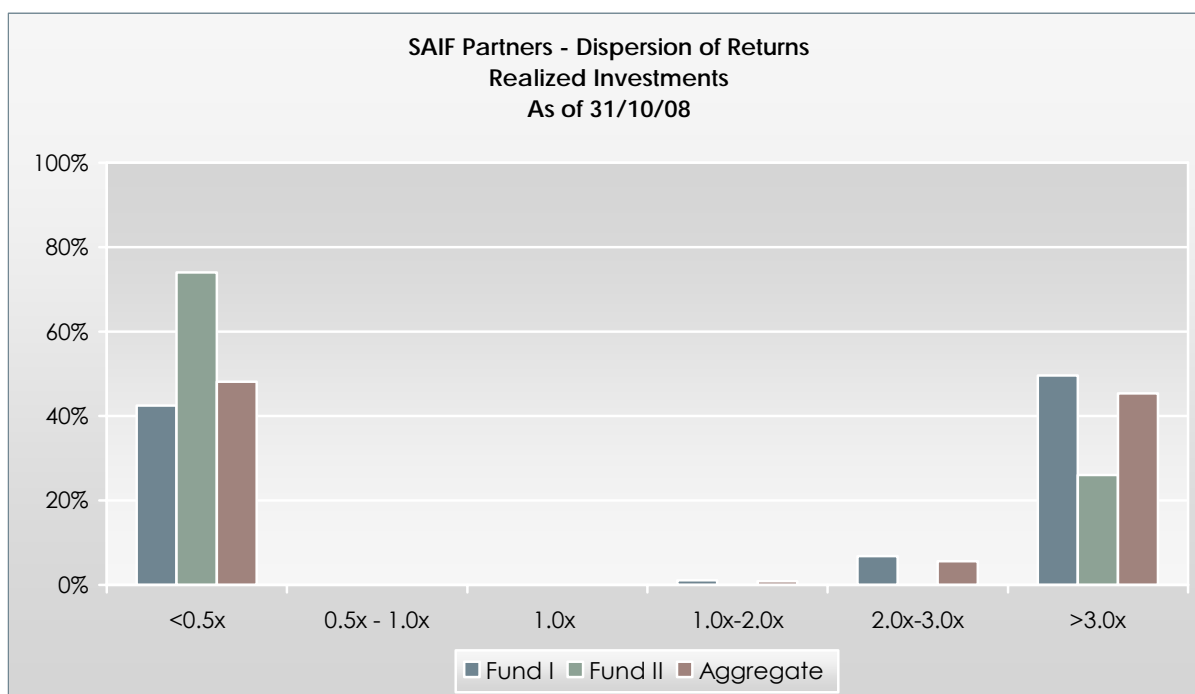
SAIF Partners IV, L.P. - Prior Investment History Unrealized Investment Performance 31/12/2008				
Fund	Amount Invested	Amount Realized	Unrealized Value	Mult.
Fund I	\$213,754,580	\$14,860,219	\$312,070,847	1.5x
Fund II	592,327,969	4,803,511	893,303,406	1.5x
Fund III	653,565,103	5,075,507	668,419,556	1.0x
<b>Total</b>	<b>\$1,459,647,652</b>	<b>\$24,739,237</b>	<b>\$1,873,793,809</b>	<b>1.3x</b>

### 3.2 NET RETURNS TO LIMITED PARTNERS

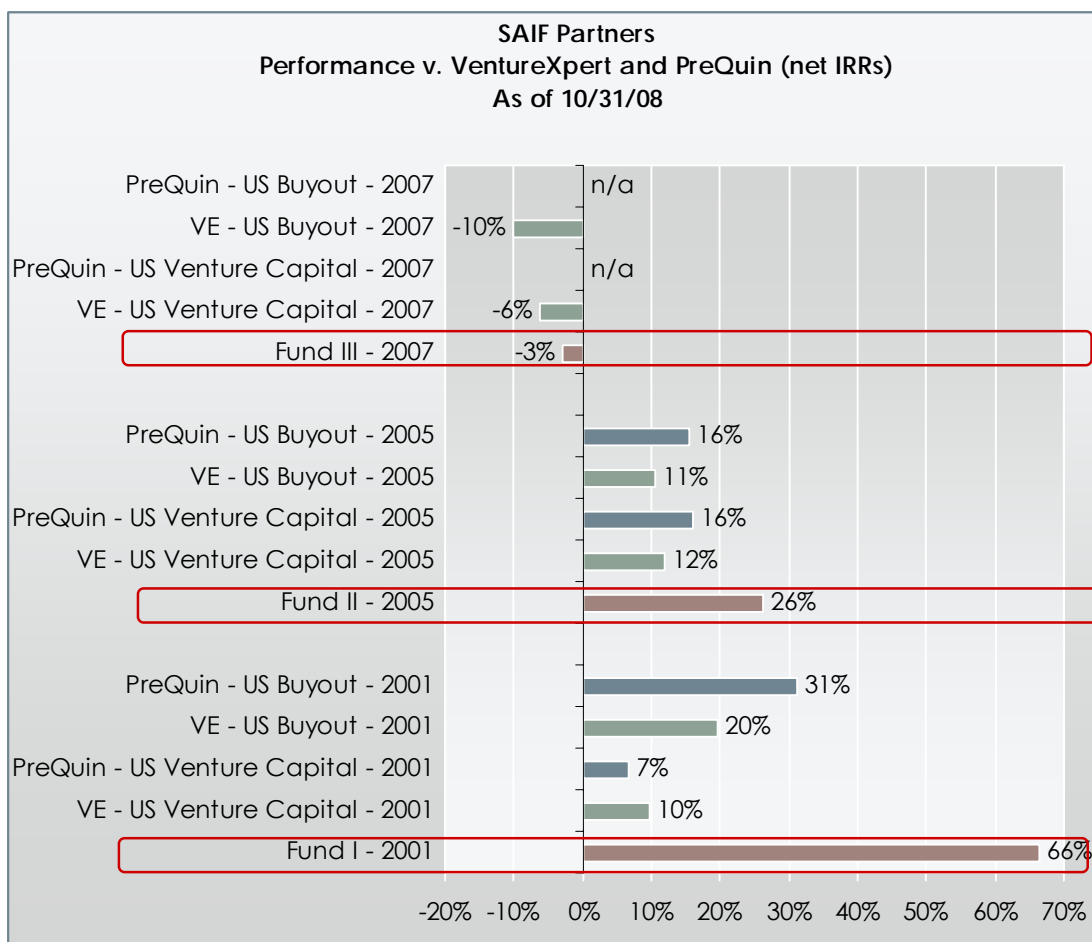
SAIF Partners Prior Investment Performance As of 12/31/08							
Fund	Vintage	Total Capital Drawn	Total Capital Distributed	NAV	DPI	TVPI	Net IRR
Fund I	2001	\$392,199,482	\$521,403,257	\$386,935,262	1.3x	2.3x	34.8%
Fund II	2005	619,125,000	0	1,055,402,043	0.0x	1.7x	22.0%
Fund III	2007	847,000,000	0	836,835,168	0.0x	1.0x	-1.1%
<b>Total</b>		<b>\$1,858,324,482</b>	<b>\$521,403,257</b>	<b>\$2,279,172,474</b>	<b>0.3x</b>	<b>1.5x</b>	<b>24.5%</b>

Notes: Cisco was the sole limited partner in Fund I. Earlier realizations in Fund II were recycled, whereas \$102 million was distributed in proceeds to limited partners in January 2009.

### 3.3 LOSS RATIO ANALYSIS



### 3.4 BENCHMARK AND PEERS ANALYSIS



Notes: Prequin data as of "most up to date" and VentureXpert data as of 9/30/2008

Chinese Peer Analysis								
Fund	Vintage	Fund Size (in million)	Amount Invested	Amount Realized	Unrealized Value	Gross Multiple	Gross IRR	Date
Fund A <sup>(1)</sup>	2007	\$1,628	\$916	\$13	\$917	1.0x	2%	December 31, 2008
SAIF Partners III <sup>(2)</sup>	2007	1,103	654	5	668	1.0x	3%	December 31, 2008
Fund B	2007	500	346	0	346	1.0x	n/m	December 31, 2008
Fund C <sup>(1)</sup>	2006	580	380	1	641	1.7x	n/a	June 30, 2008
Fund D	2006	280	107	0	143	1.3x	n/a	November, 2008
Fund E	2006	425	176	0	222	1.3x	27%	June 30, 2008
Fund F	2005	100	87	127	258	4.4x	102%	December 31, 2008
Fund G	2005	315	280	175	644	2.9x	60%	December 31, 2008
SB Asia Investment Fund II <sup>(2)</sup>	2005	643	623	170	1,009	1.9x	30%	December 31, 2008
Fund H	2004	87	71	102	350	6.4x	n/a	June 30, 2008
Fund I	2003	38	37	49	52	2.7x	n/a	June 30, 2008
Fund J	2002	102	86	266	45	3.6x	136%	December 31, 2008
SB Asia Infrastructure Fund <sup>(2)</sup>	2001	404	362	671	404	3.0x	66%	December 31, 2008

(1) In 2008, the General Partner has also raised a RMB-denominated fund, with support from the Chinese government.

(2) Includes non-Chinese investments.

### 3.5 ATTRIBUTION ANALYSIS OF REALIZED INVESTMENTS (AS OF OCTOBER 31, 2008)

Aggregate - Realized Performance by Sector											
Region	# of Trans.	Amount Invested	As %	Amount Realized	As %	Unrealized Value	As %	Total	As %	Mult.	Gross IRR
Telecom & Internet	8	\$99,177,786	57.9%	\$653,342,164	92.1%	\$245,357,100	80.6%	\$898,699,264	88.7%	9.1x	193.8%
Media	2	9,617,560	5.6%	24,539,392	3.5%	56,886,623	18.7%	81,426,015	8.0%	8.5x	70.9%
Financial	1	8,651,784	5.0%	29,773,599	4.2%	2,145,718	0.7%	31,919,317	3.1%	3.7x	43.5%
Manufacturing	6	53,889,658	31.5%	1,527,249	0.2%	0	0.0%	1,527,249	0.2%	0.0x	N/A
<b>Total</b>	<b>17</b>	<b>\$171,336,788</b>		<b>\$709,182,404</b>		<b>\$304,389,441</b>		<b>\$1,013,571,845</b>		<b>5.9x</b>	<b>154.2%</b>

Aggregate - Realized Performance by Region											
Region	# of Trans.	Amount Invested	As %	Amount Realized	As %	Unrealized Value	As %	Total	As %	Mult.	Gross IRR
China	5	\$80,324,299	46.9%	\$604,331,982	85.2%	\$302,243,723	99.3%	\$906,575,705	89.4%	11.3x	337.0%
India	2	21,651,784	12.6%	71,502,585	10.1%	2,145,718	0.7%	73,648,303	7.3%	3.4x	227.2%
Korea	6	54,786,217	32.0%	31,820,588	4.5%	0	0.0%	31,820,588	3.1%	0.6x	-18.6%
Hong Kong	1	3,500,000	2.0%	1,527,249	0.2%	0	0.0%	1,527,249	0.2%	0.4x	-33.7%
U.S. / Asia	3	11,074,488	6.5%	0	0.0%	0	0.0%	0	0.0%	0.0x	-100.0%
<b>Total</b>	<b>17</b>	<b>\$171,336,788</b>		<b>\$709,182,404</b>		<b>\$304,389,441</b>		<b>\$1,013,571,845</b>		<b>5.9x</b>	<b>154.2%</b>

Aggregate - Realized Performance by Source - Type											
Source	# of Trans.	Amount Invested	As %	Amount Realized	As %	Unrealized Value	As %	Total	As %	Mult.	Gross IRR
Personal relationship	11	\$127,389,294	74.4%	\$707,655,155	99.8%	\$304,389,441	100.0%	\$1,012,044,596	99.8%	7.9x	207.5%
Softbank	2	11,224,488	6.6%	1,527,249	0.2%	0	0.0%	1,527,249	0.2%	0.1x	N/A
Financial Advisor	1	5,500,000	3.2%	0	0.0%	0	0.0%	0	0.0%	0.0x	-100.0%
LP / Co-investor	3	27,223,006	15.9%	0	0.0%	0	0.0%	0	0.0%	0.0x	-100.0%
<b>Total</b>	<b>17</b>	<b>\$171,336,788</b>		<b>\$709,182,404</b>		<b>\$304,389,441</b>		<b>\$1,013,571,845</b>		<b>5.9x</b>	<b>154.2%</b>

Aggregate - Realized Performance by Source - SAIF Professional											
Source	# of Trans.	Amount Invested	As %	Amount Realized	As %	Unrealized Value	As %	Total	As %	Mult.	Gross IRR
Andy Yan	4	\$72,223,006	42.2%	\$581,914,040	82.1%	\$245,357,100	80.6%	\$827,271,140	81.6%	11.5x	342.2%
Ravi Adusumalli	2	21,651,784	12.6%	71,502,585	10.1%	2,145,718	0.7%	73,648,303	7.3%	3.4x	227.2%
Don Han	3	16,116,267	9.4%	31,401,450	4.4%	0	0.0%	31,401,450	3.1%	1.9x	22.3%
Other	8	61,345,731	35.8%	24,364,329	3.4%	56,886,623	18.7%	81,250,952	8.0%	1.3x	7.4%
<b>Total</b>	<b>17</b>	<b>\$171,336,788</b>		<b>\$709,182,404</b>		<b>\$304,389,441</b>		<b>\$1,013,571,845</b>		<b>5.9x</b>	<b>154.2%</b>

Note: Denotes the investment professional at SAIF who originated the investment. Other includes SAIF professionals other than partners and Softbank employees.

Aggregate - Realized Performance by Lead											
Lead	# of Trans.	Amount Invested	As %	Amount Realized	As %	Unrealized Value	As %	Total	As %	Mult.	Gross IRR
Daniel Yang	1	\$8,000,000	4.7%	\$62,569,175	8.8%	\$245,357,100	80.6%	\$307,926,275	30.4%	38.5x	507.6%
Andy Yan	2	48,101,293	28.1%	541,762,807	76.4%	56,886,623	18.7%	598,649,430	59.1%	12.4x	339.8%
Ravi Adusumalli	3	29,376,272	17.1%	71,502,585	10.1%	2,145,718	0.7%	73,648,303	7.3%	2.5x	71.6%
Other	8	58,136,217	33.9%	31,820,588	4.5%	0	0.0%	31,820,588	3.1%	0.5x	-20.4%
Brandon Lin	3	27,723,006	16.2%	1,527,249	0.2%	0	0.0%	1,527,249	0.2%	0.1x	N/A
<b>Total</b>	<b>17</b>	<b>\$171,336,788</b>		<b>\$709,182,404</b>		<b>\$304,389,441</b>		<b>\$1,013,571,845</b>		<b>5.9x</b>	<b>154.2%</b>

Note: Denotes the investment professional at SAIF who led the investment. Other includes SAIF professionals other than partners and Softbank employees.

Aggregate - Realized Performance by Stage											
Stage	# of Trans.	Amount Invested	As %	Amount Realized	As %	Unrealized Value	As %	Total	As %	Mult.	Gross IRR
Expansion	11	\$123,039,294	71.8%	\$667,453,418	94.1%	\$304,389,441	100.0%	\$971,842,859	95.9%	7.9x	173.8%
PIPE	2	35,723,006	20.8%	41,728,986	5.9%	0	0.0%	41,728,986	4.1%	1.2x	235.7%
Early	3	12,224,488	7.1%	0	0.0%	0	0.0%	0	0.0%	0.0x	-100.0%
Seed	1	350,000	0.2%	0	0.0%	0	0.0%	0	0.0%	0.0x	-100.0%
<b>Total</b>	<b>17</b>	<b>\$171,336,788</b>		<b>\$709,182,404</b>		<b>\$304,389,441</b>		<b>\$1,013,571,845</b>		<b>5.9x</b>	<b>154.2%</b>

Aggregate - Realized Performance by Exit Strategy											
Exit Strategy	# of Trans.	Amount Invested	As %	Amount Realized	As %	Unrealized Value	As %	Total	As %	Mult.	Gross IRR
IPO	3	\$56,101,293	32.7%	\$604,331,982	85.2%	\$302,243,723	99.3%	\$906,575,705	89.4%	16.2x	340.1%
Public Sale	1	13,000,000	7.6%	41,728,986	5.9%	0	0.0%	41,728,986	4.1%	3.2x	252.0%
Strategic Sale	5	28,268,051	16.5%	62,702,298	8.8%	2,145,718	0.7%	64,848,016	6.4%	2.3x	23.9%
Write-Off	7	66,242,956	38.7%	419,138	0.1%	0	0.0%	419,138	0.0%	0.0x	-100.0%
N/A	1	7,724,488	4.5%	0	0.0%	0	0.0%	0	0.0%	0.0x	-100.0%
<b>Total</b>	<b>17</b>	<b>\$171,336,788</b>		<b>\$709,182,404</b>		<b>\$304,389,441</b>		<b>\$1,013,571,845</b>		<b>5.9x</b>	<b>154.2%</b>

Aggregate - The General Partner is first PE institutional investor / co-investor?											
	# of Trans.	Amount Invested	As %	Amount Realized	As %	Unrealized Value	As %	Total	As %	Mult.	Gross IRR
Yes	7	\$70,103,077	40.9%	\$635,632,830	89.6%	\$304,389,441	100.0%	\$940,022,271	92.7%	13.4x	239.2%
No	8	65,510,705	38.2%	31,820,588	4.5%	0	0.0%	31,820,588	3.1%	0.5x	-23.7%
N/A	2	35,723,006	20.8%	41,728,986	5.9%	0	0.0%	41,728,986	4.1%	1.2x	235.7%
<b>Total</b>	<b>17</b>	<b>\$171,336,788</b>		<b>\$709,182,404</b>		<b>\$304,389,441</b>		<b>\$1,013,571,845</b>		<b>5.9x</b>	<b>154.2%</b>

Aggregate - Lead or co-lead investor?											
	# of Trans.	Amount Invested	As %	Amount Realized	As %	Unrealized Value	As %	Total	As %	Mult.	Gross IRR
Yes	15	\$160,612,300	93.7%	\$709,182,404	100.0%	\$304,389,441	100.0%	\$1,013,571,845	100.0%	6.3x	176.2%
No	2	10,724,488	6.3%	0	0.0%	0	0.0%	0	0.0%	0.0x	-100.0%
N/A	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	N/A	N/A
<b>Total</b>	<b>17</b>	<b>\$171,336,788</b>		<b>\$709,182,404</b>		<b>\$304,389,441</b>		<b>\$1,013,571,845</b>		<b>5.9x</b>	<b>154.2%</b>

Aggregate - Portfolio Company Profitable @ investment?											
	# of Trans.	Amount Invested	As %	Amount Realized	As %	Unrealized Value	As %	Total	As %	Mult.	Gross IRR
Yes	7	\$95,356,375	55.7%	\$661,804,719	93.3%	\$304,389,441	100.0%	\$966,194,160	95.3%	10.1x	285.5%
No	10	75,980,413	44.3%	47,377,685	6.7%	0	0.0%	47,377,685	4.7%	0.6x	N/A
N/A	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	N/A	N/A
<b>Total</b>	<b>17</b>	<b>\$171,336,788</b>		<b>\$709,182,404</b>		<b>\$304,389,441</b>		<b>\$1,013,571,845</b>		<b>5.9x</b>	<b>154.2%</b>

Aggregate - Portfolio Company Profitable after 12 Months?											
	# of Trans.	Amount Invested	As %	Amount Realized	As %	Unrealized Value	As %	Total	As %	Mult.	Gross IRR
Yes	10	\$114,872,642	67.0%	\$707,655,155	99.8%	\$304,389,441	100.0%	\$1,012,044,596	99.8%	8.8x	216.1%
No	5	51,964,146	30.3%	1,527,249	0.2%	0	0.0%	1,527,249	0.2%	0.0x	N/A
N/A	2	4,500,000	2.6%	0	0.0%	0	0.0%	0	0.0%	0.0x	-100.0%
<b>Total</b>	<b>17</b>	<b>\$171,336,788</b>		<b>\$709,182,404</b>		<b>\$304,389,441</b>		<b>\$1,013,571,845</b>		<b>5.9x</b>	<b>154.2%</b>

Aggregate - Realized Performance by Ownership											
Ownership	# of Trans.	Amount Invested	As %	Amount Realized	As %	Unrealized Value	As %	Total	As %	Mult.	Gross IRR
0%-10%	6	\$33,976,272	19.8%	\$58,580,848	8.3%	\$2,145,718	0.7%	\$60,726,566	6.0%	1.8x	17.8%
10%-30%	10	135,844,249	79.3%	648,480,106	91.4%	302,243,723	99.3%	950,723,829	93.8%	7.0x	220.8%
30%-50%	1	1,516,267	0.9%	2,121,450	0.3%	0	0.0%	2,121,450	0.2%	1.4x	5.7%
>50%	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	N/A	N/A
<b>Total</b>	<b>17</b>	<b>\$171,336,788</b>		<b>\$709,182,404</b>		<b>\$304,389,441</b>		<b>\$1,013,571,845</b>		<b>5.9x</b>	<b>154.2%</b>

Aggregate - Realized Performance by Investment Size											
Investment Size	# of Trans.	Amount Invested	As %	Amount Realized	As %	Unrealized Value	As %	Total	As %	Mult.	Gross IRR
\$0-\$10mm	12	\$62,443,832	36.4%	\$147,689,415	20.8%	\$304,389,441	100.0%	\$452,078,856	44.6%	7.2x	55.7%
\$10-\$20mm	3	46,169,950	26.9%	42,148,124	5.9%	0	0.0%	42,148,124	4.2%	0.9x	-29.9%
\$20-\$30mm	1	22,723,006	13.3%	0	0.0%	0	0.0%	0	0.0%	0.0x	-100.0%
> \$30mm	1	40,000,000	23.3%	519,344,865	73.2%	0	0.0%	519,344,865	51.2%	13.0x	345.1%
<b>Total</b>	<b>17</b>	<b>\$171,336,788</b>		<b>\$709,182,404</b>		<b>\$304,389,441</b>		<b>\$1,013,571,845</b>		<b>5.9x</b>	<b>154.2%</b>

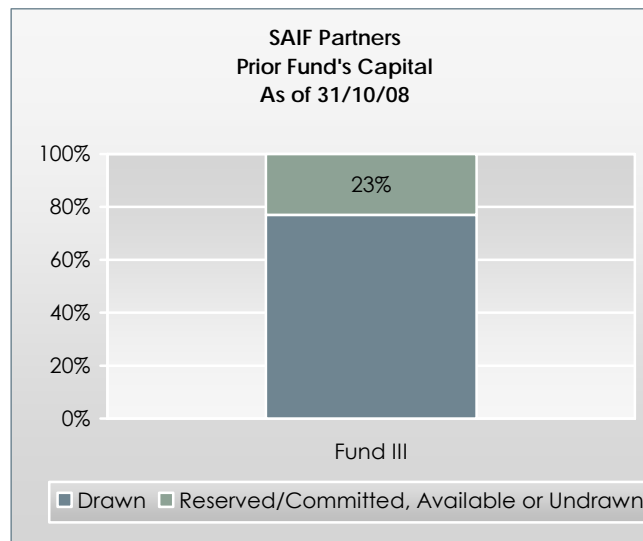


Aggregate - Realized Performance by Enterprise Value											
Enterprise Value	# of Trans.	Amount Invested	As %	Amount Realized	As %	Unrealized Value	As %	Total	As %	Mult.	Gross IRR
\$0-\$100mm	2	\$30,723,006	17.9%	\$62,569,175	8.8%	\$245,357,100	80.6%	\$307,926,275	30.4%	10.0x	N/A
\$100-\$200mm	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	N/A	N/A
\$200-\$300mm	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	N/A	N/A
> \$300mm	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	N/A	N/A
n/a	15	140,613,782	82.1%	646,613,229	91.2%	59,032,341	19.4%	705,645,570	69.6%	5.0x	154.0%
	17	\$171,336,788		\$709,182,404		\$304,389,441		\$1,013,571,845		5.9x	154.2%

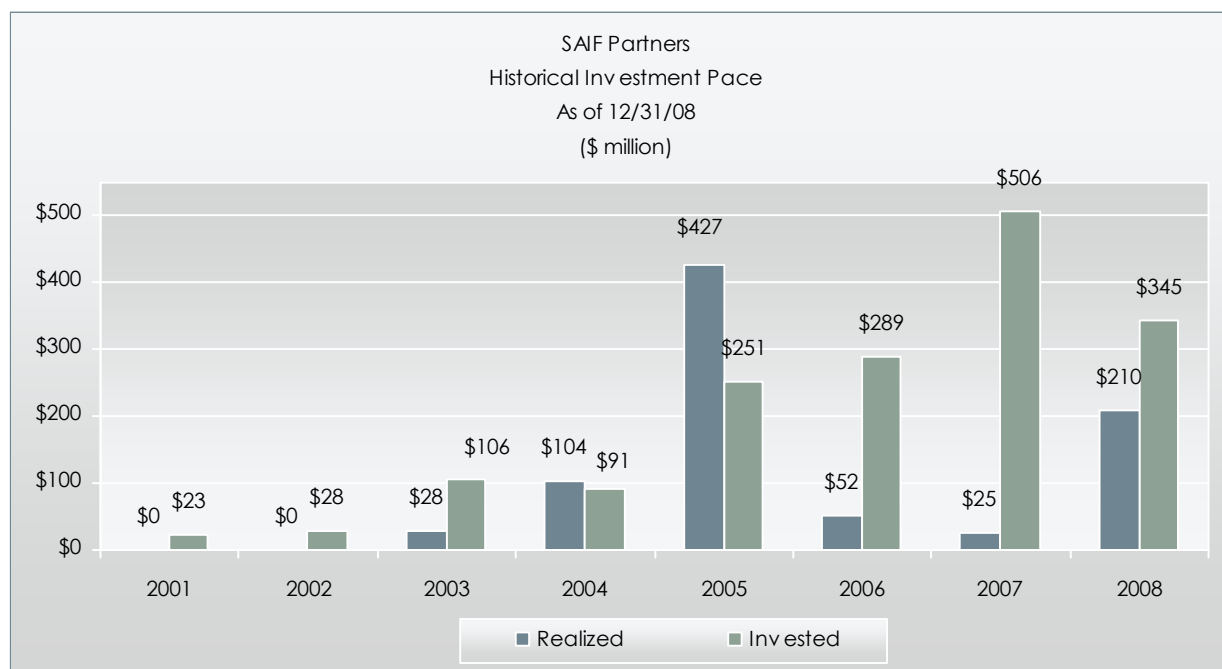
Aggregate - Realized Performance by Multiple											
Multiple	# of Trans.	Amount Invested	As %	Amount Realized	As %	Unrealized Value	As %	Total	As %	Mult.	Gross IRR
<0.5x	10	\$82,467,444	48.1%	\$3,946,387	0.6%	\$0	0.0%	\$3,946,387	0.4%	0.0x	N/A
0.5x - 1.0x	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	N/A	N/A
1.0x	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	N/A	N/A
1.0x-2.0x	1	1,516,267	0.9%	2,121,450	0.3%	0	0.0%	2,121,450	0.2%	1.4x	5.7%
2.0x-3.0x	1	9,600,000	5.6%	27,280,000	3.8%	0	0.0%	27,280,000	2.7%	2.8x	75.0%
>3.0x	5	77,753,077	45.4%	675,834,567	95.3%	304,389,441	100.0%	980,224,008	96.7%	12.6x	322.5%
	17	\$171,336,788		\$709,182,404		\$304,389,441		\$1,013,571,845		5.9x	154.2%

Aggregate - Realized Performance by Gross IRR											
Gross IRR	# of Trans.	Amount Invested	As %	Amount Realized	As %	Unrealized Value	As %	Total	As %	Mult.	Gross IRR
<0%	10	\$82,467,444	48.1%	\$3,946,387	0.6%	\$0	0.0%	\$3,946,387	0.4%	0.0x	N/A
0	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	N/A	N/A
0%-20%	1	1,516,267	0.9%	2,121,450	0.3%	0	0.0%	2,121,450	0.2%	1.4x	5.7%
20%-50%	1	8,651,784	5.0%	29,773,599	4.2%	2,145,718	0.7%	31,919,317	3.1%	3.7x	43.5%
50%-100%	1	9,600,000	5.6%	27,280,000	3.8%	0	0.0%	27,280,000	2.7%	2.8x	75.0%
>100%	4	69,101,293	40.3%	646,060,968	91.1%	302,243,723	99.3%	948,304,691	93.6%	13.7x	325.6%
	17	\$171,336,788		\$709,182,404		\$304,389,441		\$1,013,571,845		5.9x	154.2%

### 3.6 REMAINING FUND III CAPITAL



### 3.7 INVESTMENT PACING



Note: Includes \$103 million realized through the monetization of Perfect World stock in January 2009.

7-Year Average Investment Pace	
Year	Invested
2001	\$23
2002	28
2003	106
2004	91
2005	251
2006	289
2007	506
2008	345
<b>Average:</b>	<b>\$205</b>

### 3.8 INSTITUTIONAL SPONSORSHIP

Main Institutional Sponsorship
Princeton
JP Morgan
Alpinvest
Horsley Bridge
LGT

## Section 4 -EVALUATION OF THE INVESTMENT PROPOSAL

### 4.1 KEY DRIVERS

- Large team of experienced professionals with limited turnover
- Strong proprietary deal-flow due to SAIF brand and network of relationships
- Strong returns driven by few exits, with large unrealized portfolio
- Venture-like portfolio construction and economics

#### A. The General Partner comprises an experienced and cohesive team

- The General Partner comprises a team of 37 investment professionals, located in five offices.
- The Chinese team has 30 investment professionals, located in Hong Kong, Beijing and Shanghai; this is one of the largest private equity teams in China.

China-focused Funds	# of Inv. Professionals	Latest Fund Vintage	Latest Fund size (\$ MM)	USD mil. / professional	# of offices
Hony Capital	31	2008	1,398	45.1	2
SAIF Partners	30 <sup>(1)</sup>	2007	1,103	36.8	3 <sup>(1)</sup>
CDH Investments	22	2007	1,628	74.0	2
New Horizon Capital Partners	20	2007	500	25.0	1
Capital Today	15	2006	280	18.7	1
CITIC Capital	13	2006	425	32.7	2

(1) China only.

- The team is led by Andy Yan, who is supported by six Partners, all experienced professionals with a mix of financial, corporate and investment backgrounds.
  - Mr. Yan has extensive experience investing in China and is one of the best known venture capital investors in the region.
  - Overall, the Partners have an average nine years of investment experience, with an average tenure of five years with the firm. Ben Hg and Hang Xu are the latest additions to the partner team, having joined in 2006 and 2007, respectively, before the launch of Fund III.

Name	Title	Location	Age	Overall Experience	Investment Experience	Tenure at SAIF
Andrew Y. Yan	Managing Partner	Hong Kong	51	25	13	8
Daniel Yang	Partner	Beijing	37	12	9	8
Ravi Adusumalli	Partner	Mumbai / Delhi	33	10	7+	7
Brandon Lin	Partner	Beijing	38	14	8	8
Hang Xu	Partner	Shanghai	42	17	n/a	2
Ben Ng	Partner	Beijing	48	23	3	3
Jason So	Partner	Hong Kong	47	24	15	5
<b>Average</b>				<b>18</b>	<b>9</b>	<b>5</b>

- The senior investment team is further supported by three Principals and three Senior Vice Presidents, who have local experience in the target regions and come from a broad spectrum of backgrounds in private equity, management and investment banking.
- The team has experienced some turnover, as five Partners and a few junior team members have left the firm. However, all Partner-level professionals have left prior to the launch of Fund III.

Turnover				
Name	Title	Start Date	Leave Date	Reason for Leaving
Paul Zimmerman	Partner	Jan-02	Nov-02	Personal decision
King Chuen Wong	Associate	Oct-01	Aug-03	Joined a public company
Eric Hsia	Partner	Dec-01	Dec-04	Personal decision
Woo Sung Cho	Principal	Sep-01	Dec-04	Joined SoftBank Korea as investment activity in Korea decreased
Donglei Zhou	Associate	Oct-01	Jan-04	Joined a portfolio company
Jing Sheng Huang	Partner	Jan-02	Sep-05	Joined Bain Capital
Jungwoo Sung	Principal	Sep-01	Jan-06	Joined Carlyle Korea as investment activity in Korea decreased
ZhiXiong (Joe) Zhou	Partner	Oct-01	Oct-06	Joined KPCB China
Han Don	Partner	Oct-01	Dec-07	Due to decrease in investment activity in Korea

- Coordination between the Chinese and the Indian team is ensured by a single investment process adopted by the General Partner for opportunities in China and India, characterized by a single investment committee and approval through majority vote (with a veto right for Mr. Yan).
- Approximately 80% of the carried interest is allocated to the seven Partners, with the remainder being distributed to the other investment professionals down to the associate level with at least a two-year tenure.
  - o Additionally, there is no separate allocation of carried interest between the Indian and the Chinese teams, as investment professionals are all entitled to a share of the overall profits generated by the Fund.

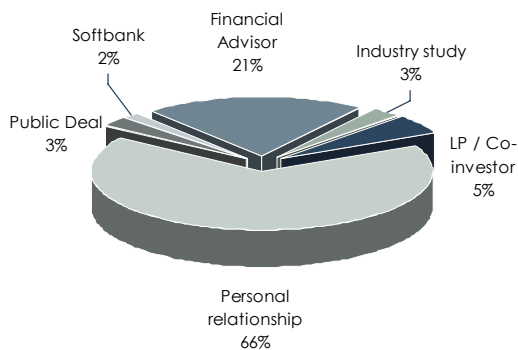
Distribution of Carried Interest	
Individual	Carried Interest Allocation
Andy Yan	27%
Daniel Yang, Ravi Adusumalli, Brandon Lin, Hang Xu, Ben Ng, Jason So	53%
Other professionals <sup>(1)</sup>	20%
<b>Total</b>	<b>100%</b>

(1) Includes team members below partner-level and a portion for new hires. Excludes professionals below associate level and associates with less than two years of tenure.

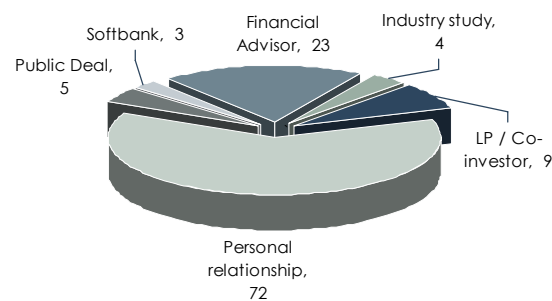
## B. Strong proprietary deal-flow due to SAIF brand and network of relationships

- The General Partner stated that it reviews on average over 1,000 investment opportunities per year and completes due diligence on approximately 100 deals, which results in 14 to 18 investments per year between India and China.
- Over the prior funds, as of October 2008, 67% of the capital was invested in proprietary transactions, generated mainly through personal relationships, but also through intermediaries and industry research.
  - Senior investment professionals, particularly Andy Yan, have established a wide network of relationships that includes CEOs, advisory institutions and other intermediaries active in the target regions.
  - In particular, Mr. Yan has generated almost a third of the overall deal flow since inception.

Prior Funds Source by Amount Invested



Prior Funds Source by # of Investments

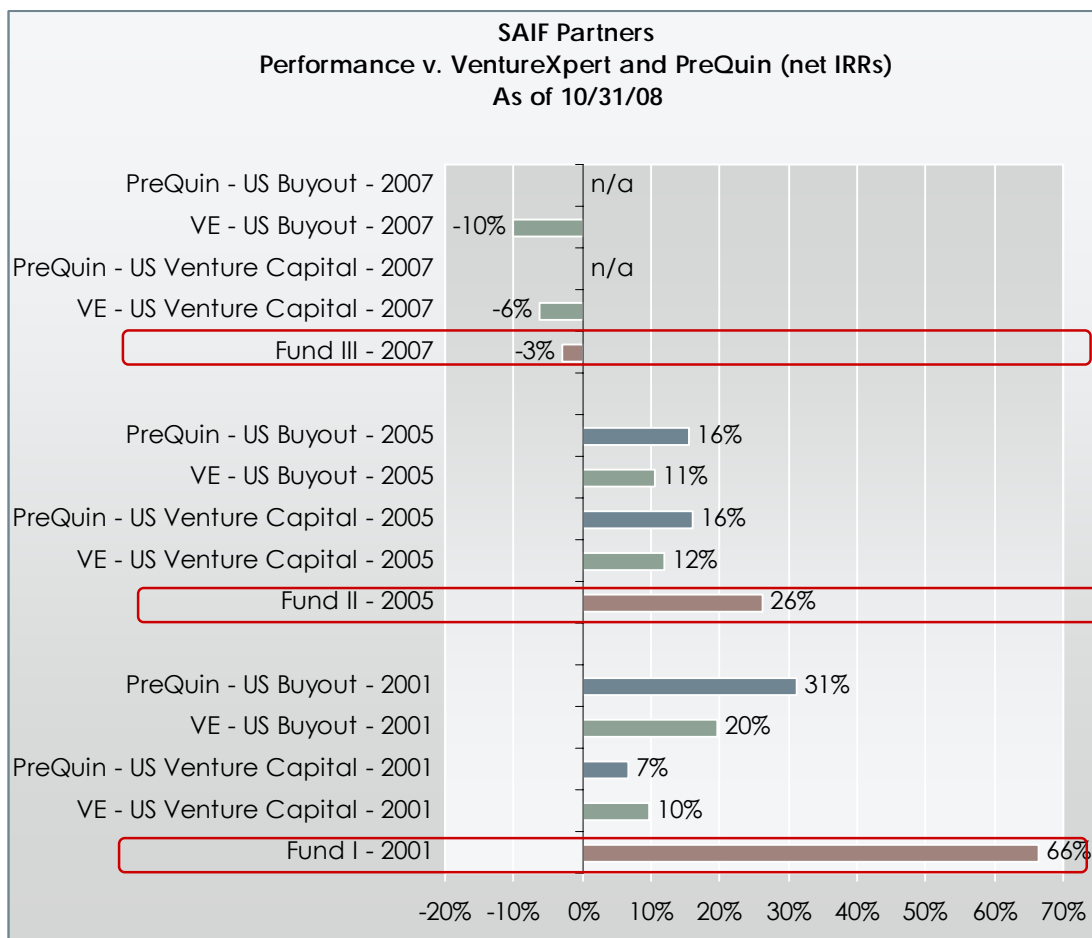


Note: As of October 31, 2008.

- In addition, due to the very successful and high profile investments in Shanda and Perfect World, SAIF is considered a reputable and successful venture capital investor, in both China and India. This creates additional deal-flow as entrepreneurs and intermediaries contact SAIF directly with investment opportunities.
  - The General Partner states that in 50% of the cases, investments were sourced through a direct approach from entrepreneurs, eager to be associated and work with the SAIF team.

## C. The General Partner has generated strong returns, although driven by few exits, and it maintains a large unrealized portfolio

- Over the Prior Funds, SAIF relative performance has been attractive, with gross multiples of 3.0x and 1.9x in Fund I and II, respectively.



Notes: Prequin data as of "most up to date" and VentureXpert data as of 9/30/2008

- As shown in the table below, Prior Funds have been performing largely in line with major competitors in China. With approximately \$846 million realized across the Prior Funds, SAIF has distributed the largest dollar amount to limited partners among its peers.

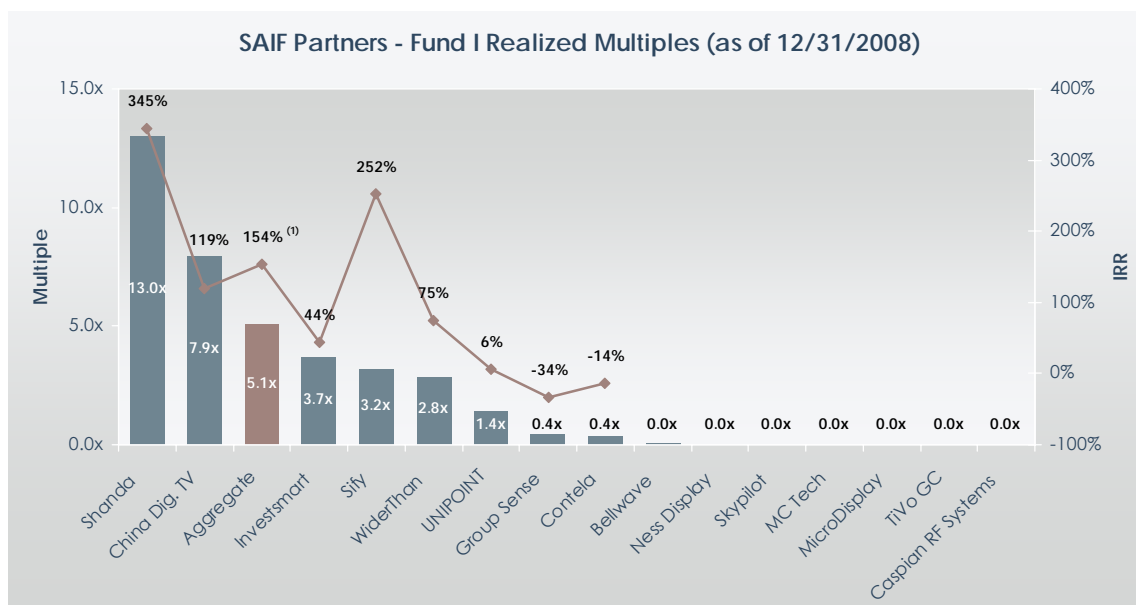
Chinese Peer Analysis								
Fund	Vintage	Fund Size (in million)	Amount Invested	Amount Realized	Unrealized Value	Gross Multiple	Gross IRR	Date
Fund A <sup>(1)</sup>	2007	\$1,628	\$916	\$13	\$917	1.0x	2%	December 31, 2008
SAIF Partners III <sup>(2)</sup>	2007	1,103	654	5	668	1.0x	3%	December 31, 2008
Fund B	2007	500	346	0	346	1.0x	n/m	December 31, 2008
Fund C <sup>(1)</sup>	2006	580	380	1	641	1.7x	n/a	June 30, 2008
Fund D	2006	280	107	0	143	1.3x	n/a	November, 2008
Fund E	2006	425	176	0	222	1.3x	27%	June 30, 2008
Fund F	2005	100	87	127	258	4.4x	102%	December 31, 2008
Fund G	2005	315	280	175	644	2.9x	60%	December 31, 2008
SB Asia Investment Fund II <sup>(2)</sup>	2005	643	623	170	1,009	1.9x	30%	December 31, 2008
Fund H	2004	87	71	102	350	6.4x	n/a	June 30, 2008
Fund I	2003	38	37	49	52	2.7x	n/a	June 30, 2008
Fund J	2002	102	86	266	45	3.6x	136%	December 31, 2008
SB Asia Infrastructure Fund <sup>(2)</sup>	2001	404	362	671	404	3.0x	66%	December 31, 2008

(1) In 2008, the General Partner has also raised a RMB-denominated fund, with support from the Chinese government.

(2) Includes non-Chinese investments.

### Fund I

- In Fund I, the General Partner has realized a total of 15 investments (14 full realizations). Returns were mainly driven by the investment in Shanda, an online game developer, which was exited through an IPO in 2004; the investment generated a 13.0x multiple of cost and a 345% gross IRR, accounting for 77% of total distributions in Fund I.

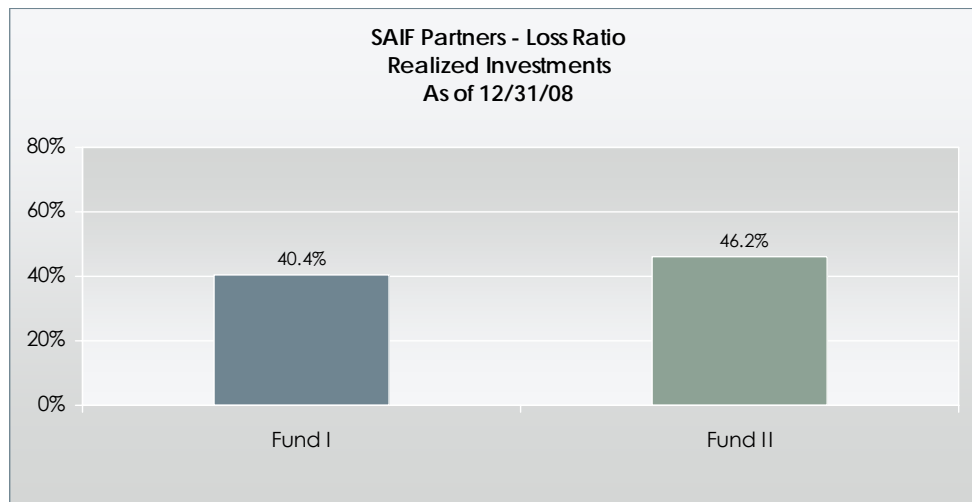


(1) Aggregate IRR as of October 30, 2008

- Excluding Shanda, the gross multiple generated by the realized investments drops from 5.1x to 2.1x, whereas the aggregate multiple goes from 3.0x to 1.7x.

Fund I - Returns (as of 12/31/2008)					
Company	Amount Invested	Amount Distributed	Unrealized Value	Total Value	Mult.
Shanda	\$40,000,000	\$519,344,865	\$0	\$519,344,865	13.0x
Other realized investments	107,803,175	136,765,296	91,613,667	228,378,963	2.1x
Unrealized investments	213,754,580	14,860,219	312,070,847	326,931,066	1.5x
Fund I - Excluding Shanda	321,557,755	151,625,515	403,684,514	555,310,028	1.7x
<b>Fund I - Total</b>	<b>\$361,557,755</b>	<b>\$670,970,380</b>	<b>\$403,684,514</b>	<b>\$1,074,654,893</b>	<b>3.0x</b>

- The General Partner has lost capital on nine investments in Fund I, resulting in high loss ratio of 40%.



- As of October 31, in Fund I, 15 companies are still unrealized, for a total invested amount of \$214 million and a total remaining value of \$312 million (approximately 30% of the total value of Fund I). Of these, nine are currently held above cost, representing more than half of the unrealized capital invested.

Fund I - Performance of Unrealized Investments (as 12/31/08)						
Performance	# of Trans.	Amount Invested	%	Amount Distributed	Unrealized Value	Mult.
Above cost	9	\$114,928,642	54%	\$14,860,219	\$236,132,498	2.2x
At cost	3	71,100,574	33%	0	71,100,574	1.0x
Below cost	3	27,725,364	13%	0	4,837,775	0.2x
<b>Total</b>	<b>15</b>	<b>\$213,754,580</b>	<b>100%</b>	<b>\$14,860,219</b>	<b>\$312,070,847</b>	<b>1.5x</b>

- In particular, three investments (Best Elite, UnionPay and Alchip) represent over half of the total value of the unrealized portfolio; thus, their performance will largely drive the overall ultimate returns of Fund I. However, given the current limited involvement of the General Partner in the management Fund I, the team dedicates only a limited portion of their time to these companies.

Fund I - Unrealized Investments (as of 12/31/08)					
Company	Amount Invested	Amount Distributed	Unrealized Value	Total Value	Mult.
Best Elite	56,000,500	0	56,000,500	56,000,500	1.0x
UnionPay	33,958,762	828,970	88,823,843	89,652,813	2.6x
Alchip	20,824,833	0	35,492,338	35,492,338	1.7x
Seven	17,506,364	0	3,489,416	3,489,416	0.2x
Net263	15,277,001	12,832,680	9,166,200	21,998,880	1.4x
Intelligroup	15,000,000	0	24,156,861	24,156,861	1.6x
MDC	12,568,315	0	13,606,684	13,606,684	1.1x
Other Investments (8)	42,618,805	1,198,569	81,335,005	82,533,574	1.9x
<b>Total</b>	<b>\$213,754,580</b>	<b>\$14,860,219</b>	<b>\$312,070,847</b>	<b>\$326,931,066</b>	<b>1.5x</b>



### Fund II

- Fund II has generated a gross multiple of 1.9x, although mostly driven by the investment in Perfect World, a 3D online gaming company. The investment (\$8 million) was completed in September 2006 and, as of December 2008, had already distributed \$165 million, generating a realized gross multiple of 20.6x. However, a large portion of the investment is still unrealized, as SAIF expects to realize in total \$281 million.
- Fund II is still largely unrealized, as only one additional exit has been completed besides Perfect World. Mania, a German company acquired in a transaction led by Investcorp, has been written down to zero as the company was forced into bankruptcy by the lenders. The \$22 million invested by SAIF in Mania represents 4% of the capital deployed by Fund II as of December 31, 2008.
- Overall, 39 companies remain unrealized in Fund II, representing approximately 76% of the total value of Fund II; of these, 12 are held at cost and 15 below cost, representing 22% and 31% of the unrealized invested capital, respectively (see table below).

Fund II - Performance of Unrealized Investments (as of 12/31/08)						
Performance	# of Trans.	Amount Invested	%	Amount Distributed	Unrealized Value	Mult.
Above cost	13	\$279,760,835	47%	\$4,461,550	\$683,717,674	2.5x
At cost	12	127,582,269	22%	0	127,582,269	1.0x
Below cost	14	184,984,864	31%	341,961	82,003,463	0.4x
	<b>39</b>	<b>\$592,327,969</b>		<b>\$4,803,511</b>	<b>\$893,303,406</b>	<b>1.5x</b>

### Fund III

- Fund III was launched in 2007 with approximately \$1.1 billion in capital commitments; as of December 31, 2008, the General Partner has invested \$653 million in 43 companies. These investments, the earliest of which was completed in March 2007, are collectively held at 1.0x multiple of cost.
  - Of these, 15 companies, representing about a third of the capital invested, are currently held below cost, whereas seven (20% of capital invested) are held above cost at an aggregate gross multiple of 1.9x (see table below).

Fund III - Performance of Unrealized Investments (as of 12/31/2008)						
Performance	# of Trans.	Amount Invested	%	Amount Distributed	Unrealized Value	Mult.
Above cost	7	\$133,970,568	20%	\$432,356	\$259,550,270	1.9x
At cost	21	301,196,451	46%	0	301,196,451	1.0x
Below cost	15	218,398,084	33%	4,643,151	107,672,835	0.5x
	<b>43</b>	<b>\$653,565,103</b>		<b>\$5,075,507</b>	<b>\$668,419,556</b>	<b>1.0x</b>

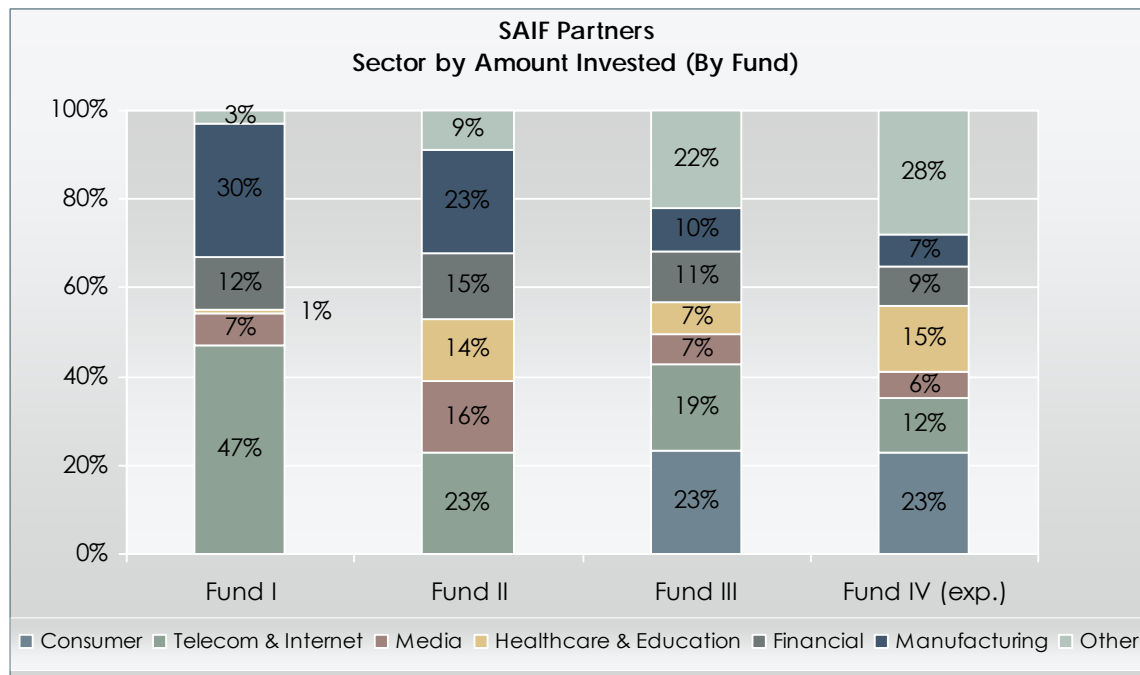
- Overall, SAIF expects both Fund II and III to generate a gross multiple of at least 4x. The General Partner indicated that the valuations of portfolio companies are conservative as it currently values at cost also several companies for which it has received offers to be sold at higher multiples. A select list of these is presented below.

SAIF Partners - Select Projected Returns							
Company	Fund	Inv. Date	Holding Period	Amount Invested	Mult. at 12/31/08	Exit Mult. Offered	Mult. Projected
Digital China	Fund III	Jul-07	1.4	\$81,871,285	0.7x	n/a	3x - 5x
Eternal Asia	Fund II	May-06	2.6	18,220,000	6.5x	7.5x	n/a
International Web Travel	Fund II	May-05	3.6	24,526,176	3.4x	n/a	10.0x
Maike Fund II	Fund II	Oct-08	0.2	34,000,000	1.0x	n/a	5.0x
Maike Fund III	Fund III	Dec-07	1.0	66,000,000	1.0x	n/a	5.0x
Millennium Star	Fund III	Jul-07	1.5	24,920,406	2.4x	n/a	10.0x
NSE Fund II	Fund II	Apr-07	1.7	64,046,864	1.6x	2.0x	5.0x
NSE Fund III	Fund III	Apr-07	1.7	61,535,223	1.6x	2.0x	5.0x
One97	Fund III	Mar-07	1.8	7,791,667	3.1x	3.0x	n/a
Runtian	Fund III	Nov-07	1.0	26,091,634	1.0x	6.0x	n/a
<b>Total</b>			<b>1.7</b>	<b>\$409,003,255</b>	<b>0.9x</b>		

- In its active portfolio of 97 investments, SAIF holds board seats in 62 companies, filled by one of the Partners, Principals and/or Senior Vice Presidents; of these, six are publicly traded companies, where the General Partner expects a somewhat limited involvement. Thus, on average the members of the senior investment team currently hold four board seats each, somewhat reducing the concern regarding the high number of investments expected in the Fund.

#### D. Venture-like portfolio construction and economics

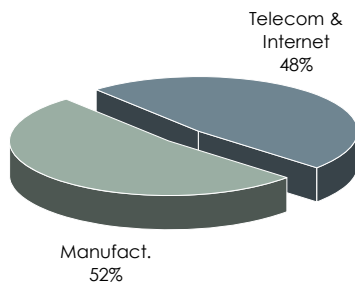
- Across its Prior Funds, SAIF has deployed a venture-like portfolio construction approach, having invested in a large number of companies (over 100 across three funds), and with a heavy concentration in Technology, Media and Telecommunications (TMT) sector.
  - In the Fund, the General Partner is targeting 50 to 60 deals and expects to invest 10% of the commitments in early stage deals.
- Whereas Fund I was heavily focused on the TMT sector, given the mandate from Cisco, the weight of the non-technology sectors has been increasing already in the later funds.



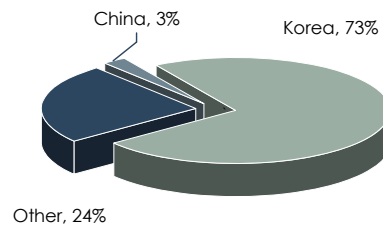
Note: Others also include the agriculture, trading & logistics, clean-tech sectors.

- Returns are characterized by a high loss ratio of realized investments, as described in the prior section, typical of a venture capital fund.
  - However, a significant portion of the losses in Fund I are related to four expansion investments completed in Korea, a strategy no longer pursued by the General Partner.

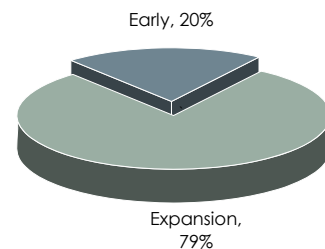
**Fund I - Loss-making Realized Investments by Sector (by Amount Invested)**



**Fund I - Loss-making Realized Investments by Region (by Amount Invested)**



**Fund I - Loss-making Realized Investments by Stage (by Amount Invested)**



Note: Loss-making is defined as investments realized below original cost. Other includes one investment in Hong Kong and three in U.S. / Asia.

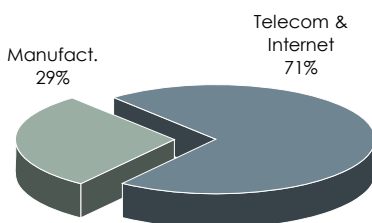
- To date, the only realized loss in Fund II is Mania, where SAIF co-invested along Investcorp, in a German-headquartered company. The General Partner has stated that in the Fund it does not expect to complete deals outside of its target sectors and geographies.

- Additionally, a significant share of the unrealized portfolio companies, particularly in terms of invested capital, is currently held below cost.

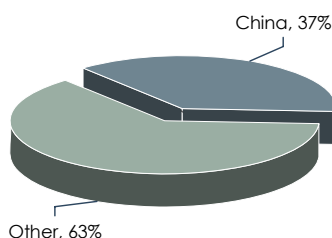
SAIF Partners - Underperforming companies						
Fund	# of Trans.	Amount Invested	% of Fund	Amount Distributed	Unrealized Value	Mult.
Fund I	3	\$27,725,364	13%	\$0	\$4,837,775	0.2x
Fund II	14	184,984,864	31%	341,961	82,003,463	0.4x
Fund III	15	218,398,084	33%	4,643,151	107,672,835	0.5x
	32	\$431,108,312		\$4,985,111	\$194,514,073	0.5x

- o In Fund I and II underperforming unrealized investments are mostly early and expansion stage transactions in the TMT sector.

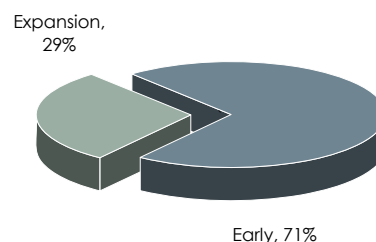
Fund I - Underperforming Investments by Sector (by Amount Invested)



Fund I - Underperforming Investments by Region (by Amount Invested)

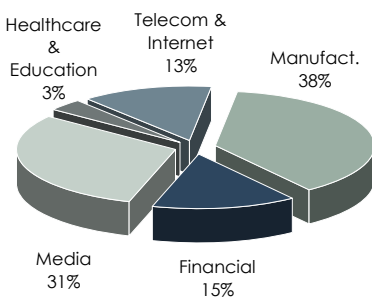


Fund I - Underperforming Investments by Stage (by Amount Invested)

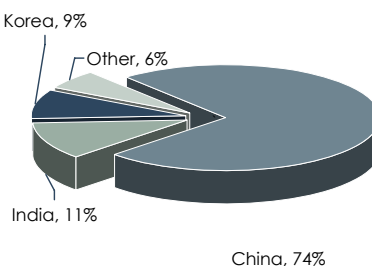


Note: Underperforming is defined as investments held below original cost.

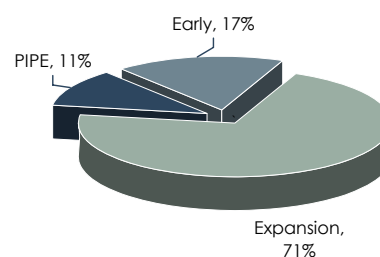
Fund II - Underperforming Investments by Sector (by Amount Invested)



Fund II - Underperforming Investments by Region (by Amount Invested)

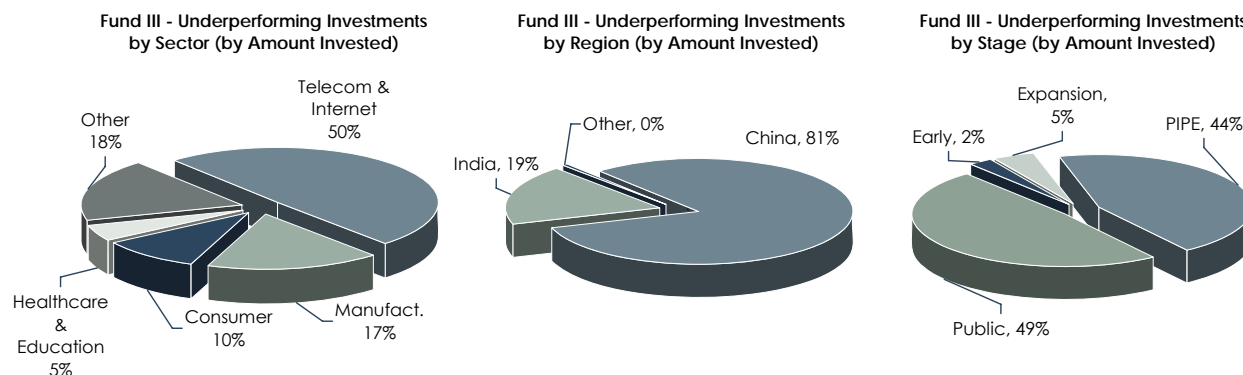


Fund II - Underperforming Investments by Stage (by Amount Invested)



Note: Underperforming is defined as investments held below original cost.

- o In Fund III underperformance is mostly driven by the investment in Digital China (an \$80 million PIPE deal, currently valued at 0.7x of cost), and by declining stock prices. Also, TMT investments in Fund III are mostly companies in a later stage of their life compared to those in Fund I and II.



Note: Underperforming is defined as investments held below original cost.

SAIF Partners - Public Portfolio Companies								
Company	Fund	Inv. Date	Holding Period	Amount Invested	Mult. at 12/31/08	Share Price at 12/31/08	Share Price at 03/18/09	% Change
Bosideng <sup>(1)</sup>	Fund III	Apr-08	0.7	\$9,990,405	0.5x	HKD 0.7	HKD 0.5	-29%
China Grand Forestry <sup>(1)</sup>	Fund III	Sep-07	1.3	26,443,298	0.2x	HKD 0.3	HKD 0.3	-12%
Cummins	Fund III	Jul-08	0.5	1,321,210	1.0x	USD 26.7	USD 23.3	-13%
Fosun International <sup>(1)</sup>	Fund III	Jul-07	1.5	1,009,712	0.3x	HKD 2.5	HKD 2.4	-5%
Havells	Fund III	Jul-08	0.5	16,322,546	0.4x	INR 122.4	INR 125.5	3%
HOKU <sup>(2)</sup>	Fund III	Oct-08	0.2	1,054,830	0.5x	USD 2.7	USD 2.6	-1%
Indian Hotel	Fund III	Sep-08	0.3	9,906,163	0.7x	INR 45.1	INR 35.3	-22%
Kingboard <sup>(1)</sup>	Fund III	Jun-08	0.5	5,129,168	0.4x	HKD 1.8	HKD 1.9	3%
Mindtree	Fund III	Aug-08	0.3	11,145,017	0.7x	INR 236.9	INR 195.2	-18%
Peace Mark <sup>(3)</sup>	Fund III	Jul-08	0.4	22,068,885	0.0x	n/a	n/a	n/a
Thermax	Fund III	Oct-08	0.2	11,635,564	0.7x	INR 179.9	INR 174.7	-3%
<b>Total</b>			<b>0.6</b>	<b>\$116,026,799</b>	<b>0.4x</b>			

(1) Share price as of 12/30/2008; (2) Share price as of 03/17/2009; (3) Peace Mark is in provisional liquidation and has been written down to zero.

- The Fund has a carried interest distribution structure more typical of venture capital funds, with the share of profits distributed to the General Partner growing with returns.

#### SAIF Partners IV - Carried Interest Distribution Structure

Deal-by-deal distribution

8% preferred return

20% Fund performance < 2.5x net multiple of cost (with catch-up)

25% Fund performance between 2.5x and 3.25x net multiple of cost (with catch-up)

30% Fund performance > 3.25x net multiple of cost (no catch-up)

## **Section 5 -INVESTMENT RECOMMENDATION**

### **5.1 CONCLUSION**

The General Partner has built one of the largest and experienced team of investment professionals in China; it also established a significant presence in India, where its senior investment team has developed a strong network of relationships and deployed a large amount of capital.

Since inception, the General Partner has invested \$1.1 billion in China, being one of the largest private equity investors in the region. Additionally, although generated mostly through a single exit, SAIF has the largest realizations among its peers.

The high returns generated in Shanda and Perfect World and the reputation of its management team make it a key player in the private equity market, particularly in China, as illustrated by the strong proprietary deal flow generated so far and by the ability to work together with management teams.

SAIF's track record shows a venture-like approach to investing, with a high number of deals, high loss ratio, track record driven by home-runs and a relatively higher propensity to take technology risk. This is reflected in the higher risk-return profile of the Prior Funds investments, where performance was driven by a few deals that generated compelling returns, and with a high loss of capital. The General Partner confirmed it will pursue a comparable strategy, stating it expects to deploy at least 10% of the capital in early stage opportunities, with the aim to repeat its successful "home-runs".

### **5.2 RECOMMENDATION**

An Investment in the Fund is recommended subject to further fee negotiations.

## **Section 6 -APPENDICES**

### **6.1 SUMMARY OF TERMS**

Term:	The term of Fund IV will be ten years, subject to up to two consecutive additional one-year extensions as determined by the General Partner with the consent of the Advisory Committee to allow for the orderly liquidation of Fund IV's investments.
Minimum Inv.:	The minimum Capital Commitment for a limited partner of Fund IV (collectively, the "Limited Partners" and together with the General Partner, the "Partners") is US\$15 million. The General Partner may accept Capital Commitments of lesser amounts.
GP Commitment:	The General Partner and its affiliates generally will participate in Fund IV's investments in an amount equal to at least 1% of the total Capital Commitments.
Management Fee:	Until the earlier of (i) the date on which any management fee is paid in respect of any successor fund having aggregate capital commitments equal to or greater than 80% of the aggregate Capital Commitments, and (ii) the last day of the year of termination of the Investment Period, the Manager will receive an annual management fee (the "Management Fee") equal to 2% of Capital Commitments. Thereafter, the Management Fee will be equal to 2% of the aggregate acquisition cost of portfolio investments held by Fund IV, subject to a minimum amount (before reduction as set out below) of \$2 million. The Management Fee is subject to reduction as provided below in "Organizational Expenses" and "Transaction, Break-Up and Other Fees". The Management Fee is payable semi-annually in advance from drawdowns of the Limited Partners' unfunded Capital Commitments.
Distribution of Profits and Losses:	<p>Net proceeds attributable to the disposition of a portfolio investment, distributions in kind of securities, and any dividends, interest or other income received with respect to a portfolio investment, will be distributed to all Partners participating in such investment.</p> <p>Each such Partner's proportionate share thereof generally will be distributed in the following order of priority:</p> <p>(a) Return of Realized Capital and Costs: First, 100% to such Partner until the cumulative distributions to such Partner equal the aggregate of the following:</p> <ul style="list-style-type: none"> <li>(i) the capital contributions of such Partner used to acquire realized and written off portfolio investments as of that time; and</li> <li>(ii) the capital contributions of such Partner used to pay organizational expenses and other Fund expenses, including the Management Fee, allocated to such investments;</li> </ul>

(b) Preferred Return: Second, 100% to such Partner until the cumulative distributions to such Partner are sufficient to provide a preferred return on the amounts included in paragraph (a) above at the rate of 8% per annum, compounded annually;

(c) 80/20 Catch-Up: Third, 100% to the General Partner until the General Partner has received 20% of the distributions made to such Partner and to the General Partner with respect to such Partner pursuant to paragraphs (b) to (g);

(d) 80/20 Split: Fourth, 80% to such Partner and 20% to the General Partner, until the cumulative distributions to such Partner equal 250% of the capital contributions of such Partner used to fund the acquisition cost of portfolio investments;

(e) 75/25 Catch-Up: Fifth, 80% to the General Partner and 20% to such Partner until the General Partner has received 25% of the distributions made to such Partner and to the General Partner with respect to such Partner pursuant to paragraphs (b) to (g);

(f) 75/25 Split: Sixth, 75% to such Partner and 25% to the General Partner, until the cumulative distributions to such Partner equal 325% of the capital contributions of such Partner used to fund the acquisition cost of portfolio investments; and

(g) 70/30 Split: Seventh, 70% to such Partner and 30% to the General Partner.

(The distributions to the General Partner described in paragraphs (c) to (g) above are referred to collectively as the General Partner's "Carried Interest".)

Notwithstanding the foregoing, after the end of the Investment Period the General Partner shall not make any distributions to itself (including, without limitation, with respect to the acquisition cost of realized investments) at any time that the General Partner has received distributions of Carried Interest in excess of the amounts that should have been distributed to the General Partner as Carried Interest above applied on an aggregate basis covering all transactions of Fund IV. All distributions not directly attributable to a particular portfolio investment generally will be made to the Partners in proportion to their funded Capital Commitments used to acquire the investment giving rise to the distribution.

Proceeds from dispositions of portfolio investments generally will be distributed no later than 90 days after receipt by Fund IV. Distributions prior to the dissolution of Fund IV will be made in cash or marketable securities. Upon dissolution of Fund IV, distributions may also include restricted securities or other assets of Fund IV for which the General Partner will submit a valuation to the Advisory Committee and, in



	<p>certain circumstances, seek a valuation from independent experts. If Fund IV disposes of only a portion of its investment in a portfolio company, the portion sold will be deemed a separate investment from the portion retained for the purposes of distributing the proceeds of such disposition as outlined above.</p> <p>Notwithstanding the foregoing, Fund IV may make tax distributions to the Partners in respect of gain and other income from portfolio investments in accordance with the manner in which such gain and other income are allocated to the Partners.</p>
Organizational Expenses:	Fund IV will bear all legal and other expenses incurred in the formation of Fund IV and the offering of the Interests (other than any placement fees), up to an amount not to exceed US\$1.25 million. Organizational expenses in excess of this amount, and any placement fees, will be paid by Fund IV but borne by the Manager through a 100% offset against the Management Fee.
Key-Man Provision:	If, before the Full Investment Date (as defined below), (a) Andrew Y. Yan (the "Key Person") ceases, for any reason, to devote substantially all of his business time, excluding time devoted to existing and successor funds, to the affairs of Fund IV or (b) fewer than four of Ravi C. Adusumalli, Brandon Ho-Ping Lin, Benjamin Jin-Ping Ng, Jason K.C. So, Hang Xu and Daniel Yang continue, for any reason, to devote substantially all of their business time, excluding time devoted to existing and successor funds, to the affairs of Fund IV, Fund IV will enter into suspension mode, during which time the General Partner will be permitted to make further investments only in (i) existing investments, (ii) investments in which Fund IV had an existing legal commitment as of the date on which Fund IV entered into the suspension mode and (iii) any other investments with the consent of the Advisory Committee. If within 120 days after entering the suspension mode the General Partner nominates, and the Advisory Committee approves, one or more qualified replacements for the departed Key Person or Principals, the suspension mode will end and Fund IV will resume its investment activities. If such qualified replacement or replacements are not nominated and approved within such 120-day period, the Investment Period will terminate.
Investment Limitations:	Without prior approval of the Advisory Committee, Fund IV will not invest in (i) "hostile" transactions, as such term is commonly understood in the investment community or (ii) any other pooled multiple-investment vehicle that provides for a payment by Fund IV of a management fee or a carried interest or other incentive or performance-based fee, unless the General Partner makes appropriate arrangements (such as a reduction of the Management Fee) to ensure that the Limited Partners are not subject to an aggregate amount of management fee, carried interest or other incentive or performance-based fee in excess of the fees and carried interest to which they would otherwise be subject.

## 6.2 SUMMARY OF PORTFOLIO COMPANIES (AS OF OCTOBER 31, 2008)

### By Fund – Alphabetical

By Fund - Alphabetical										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Alchip	Fund I	Oct-04	Oct-08	4.0	\$20,824,833	\$0	\$35,492,338	1.7x	18.2%	NO
Bellwave	Fund I	Jun-03	Oct-05	2.4	15,503,298	419,138	0	0.0x	-100.0%	YES
Best Elite	Fund I	Jan-03	Oct-08	5.8	56,000,500	0	56,000,500	1.0x	0.0%	NO
Blog Times	Fund I	Oct-04	Oct-08	4.0	2,219,000	0	221,900	0.1x	-50.8%	NO
Bocom	Fund I	May-02	Oct-08	6.4	5,000,000	0	5,000,000	1.0x	0.0%	NO
Caspian RF Systems	Fund I	Mar-04	Mar-04	0.0	350,000	0	0	0.0x	-100.0%	YES
China Digital TV	Fund I	May-04	Oct-08	4.4	8,101,293	22,417,942	56,886,623	9.8x	109.0%	YES
China WEBEDU	Fund I	Dec-04	Oct-08	3.8	2,000,000	0	3,284,297	1.6x	17.3%	NO
Contela	Fund I	Apr-02	Feb-08	5.9	5,000,000	2,000,000	0	0.4x	-14.5%	YES
DigiFUN	Fund I	Jul-04	Oct-08	4.3	1,491,636	0	3,929,582	2.6x	52.0%	NO
Group Sense	Fund I	Sep-01	Nov-03	2.2	3,500,000	1,527,249	0	0.4x	-33.7%	YES
Intelligroup	Fund I	Sep-04	Oct-08	4.1	15,000,000	0	25,364,704	1.7x	15.6%	NO
Investsmart	Fund I	Jan-05	Oct-08	3.8	8,651,784	29,773,599	2,145,718	3.7x	43.5%	YES
MC Tech	Fund I	Sep-04	Sep-04	0.0	5,500,000	0	0	0.0x	-100.0%	YES
MDC	Fund I	Dec-02	Oct-08	5.8	12,568,315	0	13,606,684	1.1x	2.0%	NO
MicroDisplay	Fund I	Apr-04	Apr-04	0.0	3,000,000	0	0	0.0x	-100.0%	YES
Mobi	Fund I	Jan-03	Oct-08	5.8	6,608,093	1,198,569	43,590,000	6.8x	43.3%	NO
Ness Display	Fund I	Jan-04	Jun-05	1.4	17,666,652	0	0	0.0x	-100.0%	YES
Net263	Fund I	Feb-05	Oct-08	3.7	15,277,001	12,832,680	9,166,200	1.4x	13.2%	NO
SAIF Venture Capital	Fund I	Jan-05	Oct-08	3.8	10,100,074	0	10,100,074	1.0x	0.0%	NO
Seven	Fund I	Jul-01	Oct-08	7.3	17,506,364	0	3,489,416	0.2x	-22.0%	NO
Shanda	Fund I	Mar-03	Mar-06	3.1	40,000,000	519,344,865	0	13.0x	345.1%	YES
Sify, Ltd	Fund I	Dec-02	Sep-05	2.7	13,000,000	41,728,986	0	3.2x	252.0%	YES
Skypilot	Fund I	Sep-01	Jun-05	3.7	7,724,488	0	0	0.0x	-100.0%	YES
TiVo GC	Fund I	Aug-04	Aug-04	0.0	1,500,000	0	0	0.0x	-100.0%	YES
Topsec	Fund I	Jun-04	Oct-08	4.4	7,200,002	0	14,239,918	2.0x	16.8%	NO
UnionPay*	Fund I	May-04	Oct-08	4.5	33,958,762	828,970	88,937,022	2.6x	35.3%	NO
UNIPOINT	Fund I	Jan-02	Jan-08	6.0	1,516,267	2,121,450	0	1.4x	5.7%	YES
Versa Tech	Fund I	Jan-04	Oct-08	4.8	8,000,000	0	4,000,000	0.5x	-13.6%	NO
WiderThan Co. Ltd.	Fund I	Dec-04	Nov-06	1.9	9,600,000	27,280,000	0	2.8x	75.0%	YES
Total			Average:	3.7	\$354,368,362	\$661,473,448	\$375,454,976	2.9x	66.4%	

\* Includes a \$1.0m investment in China Union Loyalty Company Limited, a subsidiary of UnionPay Merchant Services.

By Fund - Alphabetical										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Acorn	Fund II	Jan-05	Oct-08	3.8	\$43,000,000	\$0	\$25,259,483	0.6x	-13.8%	NO
ACT	Fund II	Jun-05	Oct-08	3.4	7,467,048	0	7,467,048	1.0x	0.0%	NO
Ad Union	Fund II	Sep-06	Oct-08	2.1	5,000,000	0	800,000	0.2x	-58.0%	NO
Asian Health	Fund II	Dec-06	Oct-08	1.8	10,855,101	0	10,855,101	1.0x	0.0%	NO
ATA	Fund II	Mar-05	Oct-08	3.6	21,009,700	0	54,395,859	2.6x	34.4%	NO
Baitai	Fund II	Sep-06	Oct-08	2.1	10,000,000	0	19,462,979	1.9x	45.5%	NO
Careland	Fund II	Dec-06	Oct-08	1.9	6,000,000	0	6,000,000	1.0x	0.0%	NO
Channelsoft	Fund II	Apr-05	Oct-08	3.5	15,250,000	0	15,250,000	1.0x	0.0%	NO
China Broad Media	Fund II	Jan-06	Oct-08	2.8	6,500,000	0	6,500,000	1.0x	0.0%	NO
China Real Est	Fund II	Sep-05	Oct-08	3.1	27,000,000	0	20,250,000	0.8x	-9.1%	NO
City Info	Fund II	Aug-06	Oct-08	2.2	4,791,306	0	5,593,263	1.2x	14.7%	NO
Dragonfly	Fund II	May-06	Oct-08	2.4	13,000,120	0	13,000,120	1.0x	0.0%	NO
Eternal Asia	Fund II	May-06	Oct-08	2.5	18,220,000	2,522,473	84,827,813	4.8x	89.3%	NO
Greensaver	Fund II	Dec-06	Oct-08	1.8	15,269,396	0	3,817,349	0.3x	-53.2%	NO
IdeaCulture	Fund II	Sep-05	Oct-08	3.1	10,937,309	0	1,600,000	0.1x	-55.4%	NO
International Web Travel	Fund II	May-05	Oct-08	3.4	24,526,176	0	82,731,877	3.4x	75.3%	NO
Jade Tech	Fund II	Sep-05	Oct-08	3.1	15,129,193	0	4,129,193	0.3x	-38.4%	NO
Jiahe	Fund II	Sep-06	Oct-08	2.1	10,000,000	0	10,000,000	1.0x	0.0%	NO
Jindal Poly Films	Fund II	Mar-06	Oct-08	2.6	12,606,673	251,830	4,469,299	0.4x	-31.9%	NO
Joy Media	Fund II	Jul-05	Oct-08	3.3	13,000,000	0	6,500,000	0.5x	-19.0%	NO
Just Dial	Fund II	Oct-06	Oct-08	2.1	13,078,839	0	24,230,208	1.9x	35.7%	NO
Maike Fund II	Fund II	Oct-08	Oct-08	0.1	34,000,000	0	34,000,000	1.0x	0.0%	NO
MainOne	Fund II	Jul-05	Oct-08	3.3	10,000,000	0	56,435,400	5.6x	68.8%	NO
Mania	Fund II	Dec-05	May-08	2.4	22,723,006	0	0	0.0x	-100.0%	YES
Megasoft	Fund II	Aug-05	Oct-08	3.2	8,398,649	90,130	771,161	0.1x	-51.2%	NO
My Show	Fund II	Apr-06	Oct-08	2.6	5,000,000	0	5,000,000	1.0x	0.0%	NO
Neo Technical	Fund II	Jan-07	Oct-08	1.8	9,867,942	0	2,795,973	0.3x	-60.8%	NO
NSE Fund II	Fund II	Apr-07	Oct-08	1.6	64,046,864	450,004	100,119,408	1.6x	33.1%	NO
NTS International	Fund II	Dec-06	Oct-08	1.9	9,990,000	0	9,990,000	1.0x	0.0%	NO
NVC Lighting	Fund II	Aug-06	Oct-08	2.2	32,174,999	0	119,621,108	3.7x	108.8%	NO
Perfect World	Fund II	Sep-06	Oct-08	2.2	8,000,000	62,569,175	245,357,100	38.5x	507.6%	YES
PnP	Fund II	Oct-05	Oct-08	3.0	6,234,308	0	3,117,154	0.5x	-23.9%	NO
PointChips	Fund II	Oct-06	Oct-08	2.0	3,000,000	0	3,000,000	1.0x	0.0%	NO
Risecomm	Fund II	Apr-06	Oct-08	2.6	5,000,000	0	5,000,000	1.0x	0.0%	NO
Sicomm	Fund II	Dec-05	Oct-08	2.9	10,630,000	0	10,630,000	1.0x	0.0%	NO
SlashSupport	Fund II	Jan-06	Oct-08	2.8	25,033,361	0	48,923,917	2.0x	27.3%	NO
Tai & Rye	Fund II	Sep-06	Oct-08	2.2	5,000,000	1,480,000	4,066,380	1.1x	5.4%	NO
TV18	Fund II	Jul-06	Oct-08	2.3	20,919,842	0	49,748,400	2.4x	117.3%	NO
WininChina	Fund II	Sep-07	Oct-08	1.2	1,520,000	0	1,520,000	1.0x	0.0%	NO
Yanhuang	Fund II	Sep-06	Oct-08	2.2	6,438,667	0	11,292,430	1.8x	33.3%	NO
Yasi	Fund II	Sep-06	Oct-08	2.1	25,000,000	0	25,000,000	1.0x	0.0%	NO
Zero2IPO Fund II	Fund II	Sep-06	Oct-08	2.1	750,000	0	734,894	1.0x	-1.7%	NO
Total			Average:	2.5	\$616,368,499	\$67,363,612	\$1,144,262,917	2.0x	33.8%	

By Fund - Alphabetical										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Advision	Fund III	Oct-07	Oct-08	1.0	\$11,378,858	\$0	\$11,378,858	1.0x	0.0%	NO
Amoha	Fund III	Sep-07	Oct-08	1.2	6,240,000	0	6,240,000	1.0x	0.0%	NO
Aquamats	Fund III	Mar-07	Oct-08	1.6	5,000,000	0	5,000,000	1.0x	0.0%	NO
Bosideng	Fund III	Apr-08	Oct-08	0.5	9,990,406	636,529	4,978,400	0.6x	-69.0%	NO
China Grand Forestry	Fund III	Sep-07	Oct-08	1.2	25,137,065	0	2,711,667	0.1x	-85.4%	NO
China Organic	Fund III	Jun-07	Oct-08	1.4	15,950,000	0	15,950,000	1.0x	0.0%	NO
China Transinfo Technology	Fund III	Jul-08	Oct-08	0.3	15,000,000	0	9,956,897	0.7x	-75.6%	NO
China United Cleaning	Fund III	Aug-07	Oct-08	1.2	15,613,992	0	15,613,992	1.0x	0.0%	NO
Chuanyi	Fund III	Sep-08	Oct-08	0.1	6,401,180	0	6,401,180	1.0x	0.0%	NO
Cummins	Fund III	Jul-08	Oct-08	0.3	1,321,210	598,751	579,426	0.9x	-37.9%	NO
Dafeng	Fund III	Jan-08	Oct-08	0.8	4,165,510	0	4,165,510	1.0x	0.0%	NO
Digital China	Fund III	Jul-07	Oct-08	1.3	80,392,698	3,250,823	53,269,399	0.7x	-29.0%	NO
Eduask	Fund III	Nov-07	Oct-08	1.0	10,001,050	0	15,001,575	1.5x	65.7%	NO
Evan (Vanci)	Fund III	Dec-07	Oct-08	0.9	6,222,222	0	11,877,394	1.9x	157.6%	NO
Fosun Int'l	Fund III	Jul-07	Oct-08	1.3	1,009,712	18,091	168,115	0.2x	-73.1%	NO
Foxcity	Fund III	Jul-08	Oct-08	0.3	3,000,000	0	3,000,000	1.0x	0.0%	NO
Fuhua	Fund III	Jul-08	Oct-08	0.3	23,427,091	0	23,427,091	1.0x	0.0%	NO
Hanyu	Fund III	Jan-08	Oct-08	0.8	8,412,045	0	8,412,045	1.0x	0.0%	NO
Havells	Fund III	Jul-08	Oct-08	0.3	15,505,639	0	8,151,047	0.5x	-97.1%	NO
HOKU	Fund III	Oct-08	Oct-08	0.0	1,054,830	0	1,004,518	1.0x	-85.4%	NO
ICA	Fund III	Sep-07	Oct-08	1.1	12,500,000	0	12,500,000	1.0x	0.0%	NO
Indian Hotel	Fund III	Sep-08	Oct-08	0.1	7,444,697	0	4,201,698	0.6x	-99.3%	NO
iVision	Fund III	Aug-08	Oct-08	0.2	12,000,000	0	12,000,000	1.0x	0.0%	NO
Jilin Sky-Scenery	Fund III	Dec-07	Oct-08	0.9	18,000,000	0	29,633,632	1.6x	99.1%	NO
JinYuan	Fund III	May-08	Oct-08	0.5	20,000,000	0	20,000,000	1.0x	0.0%	NO
Kingboard	Fund III	Jun-08	Oct-08	0.3	5,129,172	131,740	2,119,459	0.4x	-96.2%	NO
Kolen	Fund III	Jul-07	Oct-08	1.3	5,716,630	0	5,716,630	1.0x	0.0%	NO
Maike Fund III	Fund III	Dec-07	Oct-08	0.9	66,000,000	0	66,000,000	1.0x	0.0%	NO
Mega Media	Fund III	May-07	Oct-08	1.5	15,000,000	0	15,000,000	1.0x	0.0%	NO
Millennium Star	Fund III	Jul-07	Oct-08	1.3	15,777,900	0	51,095,038	3.2x	145.8%	NO
Mindtree	Fund III	Aug-08	Oct-08	0.2	8,723,211	0	6,630,153	0.8x	-87.4%	NO
NSE Fund III	Fund III	Apr-07	Oct-08	1.6	61,535,222	432,357	96,193,157	1.6x	33.1%	NO
OED	Fund III	May-08	Oct-08	0.5	3,000,000	0	3,000,000	1.0x	0.0%	NO
One97	Fund III	Mar-07	Oct-08	1.6	7,791,667	0	7,791,667	1.0x	0.0%	NO
Peace Mark	Fund III	Jul-08	Jul-08	0.0	22,068,885	0	0	0.0x	-100.0%	NO
Rising	Fund III	Apr-07	Oct-08	1.6	11,200,000	0	11,200,000	1.0x	0.0%	NO
Runtian	Fund III	Nov-07	Oct-08	0.9	26,091,634	0	26,091,634	1.0x	0.0%	NO
SemiBio	Fund III	Sep-07	Oct-08	1.1	2,959,810	0	2,959,810	1.0x	0.0%	NO
Speciality	Fund III	Dec-07	Oct-08	0.9	9,043,099	0	9,043,099	1.0x	0.0%	NO
Thermax	Fund III	Oct-08	Oct-08	0.1	7,420,772	0	6,892,398	0.9x	-76.3%	NO
Vienna	Fund III	Aug-07	Oct-08	1.2	15,251,302	0	15,251,302	1.0x	0.0%	NO
Yinda	Fund III	Aug-07	Oct-08	1.2	10,000,000	0	10,000,000	1.0x	0.0%	NO
Zero2IPO Fund III	Fund III	Aug-08	Oct-08	0.2	100,000	0	100,000	1.0x	0.0%	NO
ZTEsoft	Fund III	Jul-07	Oct-08	1.3	5,500,000	0	22,000,000	4.0x	185.1%	NO
Total			Average:	0.8	\$633,477,509	\$5,068,291	\$642,706,791	1.0x	2.6%	

## By Fund – Chronological

By Fund - Chronological										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Seven	Fund I	Jul-01	Oct-08	7.3	\$17,506,364	\$0	\$3,489,416	0.2x	-22.0%	NO
Group Sense	Fund I	Sep-01	Nov-03	2.2	3,500,000	1,527,249	0	0.4x	-33.7%	YES
Skypilot	Fund I	Sep-01	Jun-05	3.7	7,724,488	0	0	0.0x	-100.0%	YES
UNIPOINT	Fund I	Jan-02	Jan-08	6.0	1,516,267	2,121,450	0	1.4x	5.7%	YES
Contela	Fund I	Apr-02	Feb-08	5.9	5,000,000	2,000,000	0	0.4x	-14.5%	YES
Bocom	Fund I	May-02	Oct-08	6.4	5,000,000	0	5,000,000	1.0x	0.0%	NO
Sify, Ltd	Fund I	Dec-02	Sep-05	2.7	13,000,000	41,728,986	0	3.2x	252.0%	YES
MDC	Fund I	Dec-02	Oct-08	5.8	12,568,315	0	13,606,684	1.1x	2.0%	NO
Mobi	Fund I	Jan-03	Oct-08	5.8	6,608,093	1,198,569	43,590,000	6.8x	43.3%	NO
Best Elite	Fund I	Jan-03	Oct-08	5.8	56,000,500	0	56,000,500	1.0x	0.0%	NO
Shanda	Fund I	Mar-03	Mar-06	3.1	40,000,000	519,344,865	0	13.0x	345.1%	YES
Bellwave	Fund I	Jun-03	Oct-05	2.4	15,503,298	419,138	0	0.0x	-100.0%	YES
Ness Display	Fund I	Jan-04	Jun-05	1.4	17,666,652	0	0	0.0x	-100.0%	YES
Versa Tech	Fund I	Jan-04	Oct-08	4.8	8,000,000	0	4,000,000	0.5x	-13.6%	NO
Caspian RF Systems	Fund I	Mar-04	Mar-04	0.0	350,000	0	0	0.0x	-100.0%	YES
MicroDisplay	Fund I	Apr-04	Apr-04	0.0	3,000,000	0	0	0.0x	-100.0%	YES
UnionPay*	Fund I	May-04	Oct-08	4.5	33,958,762	828,970	88,937,022	2.6x	35.3%	NO
China Digital TV	Fund I	May-04	Oct-08	4.4	8,101,293	22,417,942	56,886,623	9.8x	109.0%	YES
Topsec	Fund I	Jun-04	Oct-08	4.4	7,200,002	0	14,239,918	2.0x	16.8%	NO
DigiFUN	Fund I	Jul-04	Oct-08	4.3	1,491,636	0	3,929,582	2.6x	52.0%	NO
TiVo GC	Fund I	Aug-04	Aug-04	0.0	1,500,000	0	0	0.0x	-100.0%	YES
MC Tech	Fund I	Sep-04	Sep-04	0.0	5,500,000	0	0	0.0x	-100.0%	YES
Intelligroup	Fund I	Sep-04	Oct-08	4.1	15,000,000	0	25,364,704	1.7x	15.6%	NO
Alchip	Fund I	Oct-04	Oct-08	4.0	20,824,833	0	35,492,338	1.7x	18.2%	NO
Blog Times	Fund I	Oct-04	Oct-08	4.0	2,219,000	0	221,900	0.1x	-50.8%	NO
WiderThan Co. Ltd.	Fund I	Dec-04	Nov-06	1.9	9,600,000	27,280,000	0	2.8x	75.0%	YES
China WEBEDU	Fund I	Dec-04	Oct-08	3.8	2,000,000	0	3,284,297	1.6x	17.3%	NO
Investsmart	Fund I	Jan-05	Oct-08	3.8	8,651,784	29,773,599	2,145,718	3.7x	43.5%	YES
SAIF Venture Capital	Fund I	Jan-05	Oct-08	3.8	10,100,074	0	10,100,074	1.0x	0.0%	NO
Net263	Fund I	Feb-05	Oct-08	3.7	15,277,001	12,832,680	9,166,200	1.4x	13.2%	NO
Total			Average:	3.7	\$354,368,362	\$661,473,448	\$375,454,976	2.9x	66.4%	

\* Includes a \$1.0m investment in China Union Loyalty Company Limited, a subsidiary of UnionPay Merchant Services.

By Fund - Chronological										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Acom	Fund II	Jan-05	Oct-08	3.8	\$43,000,000	\$0	\$25,259,483	0.6x	-13.8%	NO
ATA	Fund II	Mar-05	Oct-08	3.6	21,009,700	0	54,395,859	2.6x	34.4%	NO
Channelsoft	Fund II	Apr-05	Oct-08	3.5	15,250,000	0	15,250,000	1.0x	0.0%	NO
International Web Travel	Fund II	May-05	Oct-08	3.4	24,526,176	0	82,731,877	3.4x	75.3%	NO
ACT	Fund II	Jun-05	Oct-08	3.4	7,467,048	0	7,467,048	1.0x	0.0%	NO
MainOne	Fund II	Jul-05	Oct-08	3.3	10,000,000	0	56,435,400	5.6x	68.8%	NO
Joy Media	Fund II	Jul-05	Oct-08	3.3	13,000,000	0	6,500,000	0.5x	-19.0%	NO
Megasoft	Fund II	Aug-05	Oct-08	3.2	8,398,649	90,130	771,161	0.1x	-51.2%	NO
ideaCulture	Fund II	Sep-05	Oct-08	3.1	10,937,309	0	1,600,000	0.1x	-55.4%	NO
Jade Tech	Fund II	Sep-05	Oct-08	3.1	15,129,193	0	4,129,193	0.3x	-38.4%	NO
China Real Est	Fund II	Sep-05	Oct-08	3.1	27,000,000	0	20,250,000	0.8x	-9.1%	NO
PnP	Fund II	Oct-05	Oct-08	3.0	6,234,308	0	3,117,154	0.5x	-23.9%	NO
Sicomm	Fund II	Dec-05	Oct-08	2.9	10,630,000	0	10,630,000	1.0x	0.0%	NO
Mania	Fund II	Dec-05	May-08	2.4	22,723,006	0	0	0.0x	-100.0%	YES
SlashSupport	Fund II	Jan-06	Oct-08	2.8	25,033,361	0	48,923,917	2.0x	27.3%	NO
China Broad Media	Fund II	Jan-06	Oct-08	2.8	6,500,000	0	6,500,000	1.0x	0.0%	NO
Jindal Poly Films	Fund II	Mar-06	Oct-08	2.6	12,606,673	251,830	4,469,299	0.4x	-31.9%	NO
My Show	Fund II	Apr-06	Oct-08	2.6	5,000,000	0	5,000,000	1.0x	0.0%	NO
Risecomm	Fund II	Apr-06	Oct-08	2.6	5,000,000	0	5,000,000	1.0x	0.0%	NO
Eternal Asia	Fund II	May-06	Oct-08	2.5	18,220,000	2,522,473	84,827,813	4.8x	89.3%	NO
Dragonfly	Fund II	May-06	Oct-08	2.4	13,000,120	0	13,000,120	1.0x	0.0%	NO
TV18	Fund II	Jul-06	Oct-08	2.3	20,919,842	0	49,748,400	2.4x	117.3%	NO
NVC Lighting	Fund II	Aug-06	Oct-08	2.2	32,174,999	0	119,621,108	3.7x	108.8%	NO
City Info	Fund II	Aug-06	Oct-08	2.2	4,791,306	0	5,593,263	1.2x	14.7%	NO
Tai & Rye	Fund II	Sep-06	Oct-08	2.2	5,000,000	1,480,000	4,066,380	1.1x	5.4%	NO
Perfect World	Fund II	Sep-06	Oct-08	2.2	8,000,000	62,569,175	245,357,100	38.5x	507.6%	YES
Yanhuanag	Fund II	Sep-06	Oct-08	2.2	6,438,667	0	11,292,430	1.8x	33.3%	NO
Zero2IPO Fund II	Fund II	Sep-06	Oct-08	2.1	750,000	0	734,894	1.0x	-1.7%	NO
Yasi	Fund II	Sep-06	Oct-08	2.1	25,000,000	0	25,000,000	1.0x	0.0%	NO
Ad Union	Fund II	Sep-06	Oct-08	2.1	5,000,000	0	800,000	0.2x	-58.0%	NO
Baitai	Fund II	Sep-06	Oct-08	2.1	10,000,000	0	19,462,979	1.9x	45.5%	NO
Jiahe	Fund II	Sep-06	Oct-08	2.1	10,000,000	0	10,000,000	1.0x	0.0%	NO
Just Dial	Fund II	Oct-06	Oct-08	2.1	13,078,839	0	24,230,208	1.9x	35.7%	NO
PointChips	Fund II	Oct-06	Oct-08	2.0	3,000,000	0	3,000,000	1.0x	0.0%	NO
Careland	Fund II	Dec-06	Oct-08	1.9	6,000,000	0	6,000,000	1.0x	0.0%	NO
NTS International	Fund II	Dec-06	Oct-08	1.9	9,990,000	0	9,990,000	1.0x	0.0%	NO
Asian Health	Fund II	Dec-06	Oct-08	1.8	10,855,101	0	10,855,101	1.0x	0.0%	NO
Greensaver	Fund II	Dec-06	Oct-08	1.8	15,269,396	0	3,817,349	0.3x	-53.2%	NO
Neo Technical	Fund II	Jan-07	Oct-08	1.8	9,867,942	0	2,795,973	0.3x	-60.8%	NO
NSE Fund II	Fund II	Apr-07	Oct-08	1.6	64,046,864	450,004	100,119,408	1.6x	33.1%	NO
WininChina	Fund II	Sep-07	Oct-08	1.2	1,520,000	0	1,520,000	1.0x	0.0%	NO
Maike Fund II	Fund II	Oct-08	Oct-08	0.1	34,000,000	0	34,000,000	1.0x	0.0%	NO
Total			Average:	2.5	\$616,368,499	\$67,363,612	\$1,144,262,917	2.0x	33.8%	

By Fund - Chronological										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
One97	Fund III	Mar-07	Oct-08	1.6	\$7,791,667	\$0	\$7,791,667	1.0x	0.0%	NO
Aquamats	Fund III	Mar-07	Oct-08	1.6	5,000,000	0	5,000,000	1.0x	0.0%	NO
NSE Fund III	Fund III	Apr-07	Oct-08	1.6	61,535,222	432,357	96,193,157	1.6x	33.1%	NO
Rising	Fund III	Apr-07	Oct-08	1.6	11,200,000	0	11,200,000	1.0x	0.0%	NO
Mega Media	Fund III	May-07	Oct-08	1.5	15,000,000	0	15,000,000	1.0x	0.0%	NO
China Organic	Fund III	Jun-07	Oct-08	1.4	15,950,000	0	15,950,000	1.0x	0.0%	NO
Millennium Star	Fund III	Jul-07	Oct-08	1.3	15,777,900	0	51,095,038	3.2x	145.8%	NO
ZTEsoft	Fund III	Jul-07	Oct-08	1.3	5,500,000	0	22,000,000	4.0x	185.1%	NO
Fosun Int'l	Fund III	Jul-07	Oct-08	1.3	1,009,712	18,091	168,115	0.2x	-73.1%	NO
Kolen	Fund III	Jul-07	Oct-08	1.3	5,716,630	0	5,716,630	1.0x	0.0%	NO
Digital China	Fund III	Jul-07	Oct-08	1.3	80,392,698	3,250,823	53,269,399	0.7x	-29.0%	NO
Yinda	Fund III	Aug-07	Oct-08	1.2	10,000,000	0	10,000,000	1.0x	0.0%	NO
Vienna	Fund III	Aug-07	Oct-08	1.2	15,251,302	0	15,251,302	1.0x	0.0%	NO
China United Cleaning	Fund III	Aug-07	Oct-08	1.2	15,613,992	0	15,613,992	1.0x	0.0%	NO
China Grand Forestry	Fund III	Sep-07	Oct-08	1.2	25,137,065	0	2,711,667	0.1x	-85.4%	NO
Amoha	Fund III	Sep-07	Oct-08	1.2	6,240,000	0	6,240,000	1.0x	0.0%	NO
ICA	Fund III	Sep-07	Oct-08	1.1	12,500,000	0	12,500,000	1.0x	0.0%	NO
SemiBio	Fund III	Sep-07	Oct-08	1.1	2,959,810	0	2,959,810	1.0x	0.0%	NO
Advision	Fund III	Oct-07	Oct-08	1.0	11,378,858	0	11,378,858	1.0x	0.0%	NO
Eduask	Fund III	Nov-07	Oct-08	1.0	10,001,050	0	15,001,575	1.5x	65.7%	NO
Runtian	Fund III	Nov-07	Oct-08	0.9	26,091,634	0	26,091,634	1.0x	0.0%	NO
Jilin Sky-Scenery	Fund III	Dec-07	Oct-08	0.9	18,000,000	0	29,633,632	1.6x	99.1%	NO
Evan (Vancl)	Fund III	Dec-07	Oct-08	0.9	6,222,222	0	11,877,394	1.9x	157.6%	NO
Maike Fund III	Fund III	Dec-07	Oct-08	0.9	66,000,000	0	66,000,000	1.0x	0.0%	NO
Speciality	Fund III	Dec-07	Oct-08	0.9	9,043,099	0	9,043,099	1.0x	0.0%	NO
Hanyu	Fund III	Jan-08	Oct-08	0.8	8,412,045	0	8,412,045	1.0x	0.0%	NO
Dafeng	Fund III	Jan-08	Oct-08	0.8	4,165,510	0	4,165,510	1.0x	0.0%	NO
Bosideng	Fund III	Apr-08	Oct-08	0.5	9,990,406	636,529	4,978,400	0.6x	-69.0%	NO
OED	Fund III	May-08	Oct-08	0.5	3,000,000	0	3,000,000	1.0x	0.0%	NO
JinYuan	Fund III	May-08	Oct-08	0.5	20,000,000	0	20,000,000	1.0x	0.0%	NO
Kingboard	Fund III	Jun-08	Oct-08	0.3	5,129,172	131,740	2,119,459	0.4x	-96.2%	NO
Havells	Fund III	Jul-08	Oct-08	0.3	15,505,639	0	8,151,047	0.5x	-97.1%	NO
Foxcity	Fund III	Jul-08	Oct-08	0.3	3,000,000	0	3,000,000	1.0x	0.0%	NO
Cummins	Fund III	Jul-08	Oct-08	0.3	1,321,210	598,751	579,426	0.9x	-37.9%	NO
China Transinfo Technology	Fund III	Jul-08	Oct-08	0.3	15,000,000	0	9,956,897	0.7x	-75.6%	NO
Fuhua	Fund III	Jul-08	Oct-08	0.3	23,427,091	0	23,427,091	1.0x	0.0%	NO
Peace Mark	Fund III	Jul-08	Jul-08	0.0	22,068,885	0	0	0.0x	-100.0%	NO
Zero2IPO Fund III	Fund III	Aug-08	Oct-08	0.2	100,000	0	100,000	1.0x	0.0%	NO
iVision	Fund III	Aug-08	Oct-08	0.2	12,000,000	0	12,000,000	1.0x	0.0%	NO
Mindtree	Fund III	Aug-08	Oct-08	0.2	8,723,211	0	6,630,153	0.8x	-87.4%	NO
Indian Hotel	Fund III	Sep-08	Oct-08	0.1	7,444,697	0	4,201,698	0.6x	-99.3%	NO
Chuanyi	Fund III	Sep-08	Oct-08	0.1	6,401,180	0	6,401,180	1.0x	0.0%	NO
Thermax	Fund III	Oct-08	Oct-08	0.1	7,420,772	0	6,892,398	0.9x	-76.3%	NO
HOKU	Fund III	Oct-08	Oct-08	0.0	1,054,830	0	1,004,518	1.0x	-85.4%	NO
Total			Average:	0.8	\$633,477,509	\$5,068,291	\$642,706,791	1.0x	2.6%	

## By Fund – Returns

By Fund - Returns										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Shanda	Fund I	Mar-03	Mar-06	3.1	\$40,000,000	\$519,344,865	\$0	13.0x	345.1%	YES
China Digital TV	Fund I	May-04	Oct-08	4.4	8,101,293	22,417,942	56,886,623	9.8x	109.0%	YES
Mobi	Fund I	Jan-03	Oct-08	5.8	6,608,093	1,198,569	43,590,000	6.8x	43.3%	NO
Investsmart	Fund I	Jan-05	Oct-08	3.8	8,651,784	29,773,599	2,145,718	3.7x	43.5%	YES
Sify, Ltd	Fund I	Dec-02	Sep-05	2.7	13,000,000	41,728,986	0	3.2x	252.0%	YES
WiderThan Co. Ltd.	Fund I	Dec-04	Nov-06	1.9	9,600,000	27,280,000	0	2.8x	75.0%	YES
UnionPay*	Fund I	May-04	Oct-08	4.5	33,958,762	828,970	88,937,022	2.6x	35.3%	NO
DigiFUN	Fund I	Jul-04	Oct-08	4.3	1,491,636	0	3,929,582	2.6x	52.0%	NO
Topsec	Fund I	Jun-04	Oct-08	4.4	7,200,002	0	14,239,918	2.0x	16.8%	NO
Alchip	Fund I	Oct-04	Oct-08	4.0	20,824,833	0	35,492,338	1.7x	18.2%	NO
Intelligroup	Fund I	Sep-04	Oct-08	4.1	15,000,000	0	25,364,704	1.7x	15.6%	NO
China WEBEDU	Fund I	Dec-04	Oct-08	3.8	2,000,000	0	3,284,297	1.6x	17.3%	NO
Net263	Fund I	Feb-05	Oct-08	3.7	15,277,001	12,832,680	9,166,200	1.4x	13.2%	NO
UNIPOINT	Fund I	Jan-02	Jan-08	6.0	1,516,267	2,121,450	0	1.4x	5.7%	YES
MDC	Fund I	Dec-02	Oct-08	5.8	12,568,315	0	13,606,684	1.1x	2.0%	NO
Best Elite	Fund I	Jan-03	Oct-08	5.8	56,000,500	0	56,000,500	1.0x	0.0%	NO
SAIF Venture Capital	Fund I	Jan-05	Oct-08	3.8	10,100,074	0	10,100,074	1.0x	0.0%	NO
Bocom	Fund I	May-02	Oct-08	6.4	5,000,000	0	5,000,000	1.0x	0.0%	NO
Versa Tech	Fund I	Jan-04	Oct-08	4.8	8,000,000	0	4,000,000	0.5x	-13.6%	NO
Group Sense	Fund I	Sep-01	Nov-03	2.2	3,500,000	1,527,249	0	0.4x	-33.7%	YES
Contela	Fund I	Apr-02	Feb-08	5.9	5,000,000	2,000,000	0	0.4x	-14.5%	YES
Seven	Fund I	Jul-01	Oct-08	7.3	17,506,364	0	3,489,416	0.2x	-22.0%	NO
Blog Times	Fund I	Oct-04	Oct-08	4.0	2,219,000	0	221,900	0.1x	-50.8%	NO
Bellwave	Fund I	Jun-03	Oct-05	2.4	15,503,298	419,138	0	0.0x	-100.0%	YES
Ness Display	Fund I	Jan-04	Jun-05	1.4	17,666,652	0	0	0.0x	-100.0%	YES
Skypilot	Fund I	Sep-01	Jun-05	3.7	7,724,488	0	0	0.0x	-100.0%	YES
MC Tech	Fund I	Sep-04	Sep-04	0.0	5,500,000	0	0	0.0x	-100.0%	YES
MicroDisplay	Fund I	Apr-04	Apr-04	0.0	3,000,000	0	0	0.0x	-100.0%	YES
TiVo GC	Fund I	Aug-04	Aug-04	0.0	1,500,000	0	0	0.0x	-100.0%	YES
Caspian RF Systems	Fund I	Mar-04	Mar-04	0.0	350,000	0	0	0.0x	-100.0%	YES
Total			Average:	3.7	\$354,368,362	\$661,473,448	\$375,454,976	2.9x	66.4%	

\* Includes a \$1.0m investment in China Union Loyalty Company Limited, a subsidiary of UnionPay Merchant Services.



By Fund - Returns										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
Perfect World	Fund II	Sep-06	Oct-08	2.2	\$8,000,000	\$62,569,175	\$245,357,100	38.5x	507.6%	YES
MainOne	Fund II	Jul-05	Oct-08	3.3	10,000,000	0	56,435,400	5.6x	68.8%	NO
Eternal Asia	Fund II	May-06	Oct-08	2.5	18,220,000	2,522,473	84,827,813	4.8x	89.3%	NO
NVC Lighting	Fund II	Aug-06	Oct-08	2.2	32,174,999	0	119,621,108	3.7x	108.8%	NO
International Web Travel	Fund II	May-05	Oct-08	3.4	24,526,176	0	82,731,877	3.4x	75.3%	NO
ATA	Fund II	Mar-05	Oct-08	3.6	21,009,700	0	54,395,859	2.6x	34.4%	NO
TV18	Fund II	Jul-06	Oct-08	2.3	20,919,842	0	49,748,400	2.4x	117.3%	NO
SlashSupport	Fund II	Jan-06	Oct-08	2.8	25,033,361	0	48,923,917	2.0x	27.3%	NO
Baitai	Fund II	Sep-06	Oct-08	2.1	10,000,000	0	19,462,979	1.9x	45.5%	NO
Just Dial	Fund II	Oct-06	Oct-08	2.1	13,078,839	0	24,230,208	1.9x	35.7%	NO
Yanhuang	Fund II	Sep-06	Oct-08	2.2	6,438,667	0	11,292,430	1.8x	33.3%	NO
NSE Fund II	Fund II	Apr-07	Oct-08	1.6	64,046,864	450,004	100,119,408	1.6x	33.1%	NO
City Info	Fund II	Aug-06	Oct-08	2.2	4,791,306	0	5,593,263	1.2x	14.7%	NO
Tai & Rye	Fund II	Sep-06	Oct-08	2.2	5,000,000	1,480,000	4,066,380	1.1x	5.4%	NO
Maike Fund II	Fund II	Oct-08	Oct-08	0.1	34,000,000	0	34,000,000	1.0x	0.0%	NO
Yasi	Fund II	Sep-06	Oct-08	2.1	25,000,000	0	25,000,000	1.0x	0.0%	NO
Channelsoft	Fund II	Apr-05	Oct-08	3.5	15,250,000	0	15,250,000	1.0x	0.0%	NO
Dragonfly	Fund II	May-06	Oct-08	2.4	13,000,120	0	13,000,120	1.0x	0.0%	NO
Asian Health	Fund II	Dec-06	Oct-08	1.8	10,855,101	0	10,855,101	1.0x	0.0%	NO
Sicomm	Fund II	Dec-05	Oct-08	2.9	10,630,000	0	10,630,000	1.0x	0.0%	NO
Jiahe	Fund II	Sep-06	Oct-08	2.1	10,000,000	0	10,000,000	1.0x	0.0%	NO
NTS International	Fund II	Dec-06	Oct-08	1.9	9,990,000	0	9,990,000	1.0x	0.0%	NO
ACT	Fund II	Jun-05	Oct-08	3.4	7,467,048	0	7,467,048	1.0x	0.0%	NO
China Broad Media	Fund II	Jan-06	Oct-08	2.8	6,500,000	0	6,500,000	1.0x	0.0%	NO
Careland	Fund II	Dec-06	Oct-08	1.9	6,000,000	0	6,000,000	1.0x	0.0%	NO
My Show	Fund II	Apr-06	Oct-08	2.6	5,000,000	0	5,000,000	1.0x	0.0%	NO
Risecomm	Fund II	Apr-06	Oct-08	2.6	5,000,000	0	5,000,000	1.0x	0.0%	NO
PointChips	Fund II	Oct-06	Oct-08	2.0	3,000,000	0	3,000,000	1.0x	0.0%	NO
WininChina	Fund II	Sep-07	Oct-08	1.2	1,520,000	0	1,520,000	1.0x	0.0%	NO
Zero2IPO Fund II	Fund II	Sep-06	Oct-08	2.1	750,000	0	734,894	1.0x	-1.7%	NO
China Real Est	Fund II	Sep-05	Oct-08	3.1	27,000,000	0	20,250,000	0.8x	-9.1%	NO
Acorn	Fund II	Jan-05	Oct-08	3.8	43,000,000	0	25,259,483	0.6x	-13.8%	NO
Joy Media	Fund II	Jul-05	Oct-08	3.3	13,000,000	0	6,500,000	0.5x	-19.0%	NO
PnP	Fund II	Oct-05	Oct-08	3.0	6,234,308	0	3,117,154	0.5x	-23.9%	NO
Jindal Poly Films	Fund II	Mar-06	Oct-08	2.6	12,606,673	251,830	4,469,299	0.4x	-31.9%	NO
Neo Technical	Fund II	Jan-07	Oct-08	1.8	9,867,942	0	2,795,973	0.3x	-60.8%	NO
Jade Tech	Fund II	Sep-05	Oct-08	3.1	15,129,193	0	4,129,193	0.3x	-38.4%	NO
Greensaver	Fund II	Dec-06	Oct-08	1.8	15,269,396	0	3,817,349	0.3x	-53.2%	NO
Ad Union	Fund II	Sep-06	Oct-08	2.1	5,000,000	0	800,000	0.2x	-58.0%	NO
ideaCulture	Fund II	Sep-05	Oct-08	3.1	10,937,309	0	1,600,000	0.1x	-55.4%	NO
Megasoft	Fund II	Aug-05	Oct-08	3.2	8,398,649	90,130	771,161	0.1x	-51.2%	NO
Mania	Fund II	Dec-05	May-08	2.4	22,723,006	0	0	0.0x	-100.0%	YES
Total			Average:	2.5	\$616,368,499	\$67,363,612	\$1,144,262,917	2.0x	33.8%	

By Fund - Returns										
Company	Fund	Inv. Date	Exit Date	Holding Period	Amount Invested	Amount Distributed	Unrealized Value	Mult.	Gross IRR	Realized
ZTEsoft	Fund III	Jul-07	Oct-08	1.3	\$5,500,000	\$0	\$22,000,000	4.0x	185.1%	NO
Millennium Star	Fund III	Jul-07	Oct-08	1.3	15,777,900	0	51,095,038	3.2x	145.8%	NO
Evan (Vanci)	Fund III	Dec-07	Oct-08	0.9	6,222,222	0	11,877,394	1.9x	157.6%	NO
Jilin Sky-Scenery	Fund III	Dec-07	Oct-08	0.9	18,000,000	0	29,633,632	1.6x	99.1%	NO
NSE Fund III	Fund III	Apr-07	Oct-08	1.6	61,535,222	432,357	96,193,157	1.6x	33.1%	NO
Eduask	Fund III	Nov-07	Oct-08	1.0	10,001,050	0	15,001,575	1.5x	65.7%	NO
Maike Fund III	Fund III	Dec-07	Oct-08	0.9	66,000,000	0	66,000,000	1.0x	0.0%	NO
Runtian	Fund III	Nov-07	Oct-08	0.9	26,091,634	0	26,091,634	1.0x	0.0%	NO
Fuhua	Fund III	Jul-08	Oct-08	0.3	23,427,091	0	23,427,091	1.0x	0.0%	NO
JinYuan	Fund III	May-08	Oct-08	0.5	20,000,000	0	20,000,000	1.0x	0.0%	NO
China Organic	Fund III	Jun-07	Oct-08	1.4	15,950,000	0	15,950,000	1.0x	0.0%	NO
China United Cleaning	Fund III	Aug-07	Oct-08	1.2	15,613,992	0	15,613,992	1.0x	0.0%	NO
Vienna	Fund III	Aug-07	Oct-08	1.2	15,251,302	0	15,251,302	1.0x	0.0%	NO
Mega Media	Fund III	May-07	Oct-08	1.5	15,000,000	0	15,000,000	1.0x	0.0%	NO
ICA	Fund III	Sep-07	Oct-08	1.1	12,500,000	0	12,500,000	1.0x	0.0%	NO
iVision	Fund III	Aug-08	Oct-08	0.2	12,000,000	0	12,000,000	1.0x	0.0%	NO
Advision	Fund III	Oct-07	Oct-08	1.0	11,378,858	0	11,378,858	1.0x	0.0%	NO
Rising	Fund III	Apr-07	Oct-08	1.6	11,200,000	0	11,200,000	1.0x	0.0%	NO
Yinda	Fund III	Aug-07	Oct-08	1.2	10,000,000	0	10,000,000	1.0x	0.0%	NO
Speciality	Fund III	Dec-07	Oct-08	0.9	9,043,099	0	9,043,099	1.0x	0.0%	NO
Hanyu	Fund III	Jan-08	Oct-08	0.8	8,412,045	0	8,412,045	1.0x	0.0%	NO
One97	Fund III	Mar-07	Oct-08	1.6	7,791,667	0	7,791,667	1.0x	0.0%	NO
Chuanyi	Fund III	Sep-08	Oct-08	0.1	6,401,180	0	6,401,180	1.0x	0.0%	NO
Amoha	Fund III	Sep-07	Oct-08	1.2	6,240,000	0	6,240,000	1.0x	0.0%	NO
Kolen	Fund III	Jul-07	Oct-08	1.3	5,716,630	0	5,716,630	1.0x	0.0%	NO
Aquamats	Fund III	Mar-07	Oct-08	1.6	5,000,000	0	5,000,000	1.0x	0.0%	NO
Dafeng	Fund III	Jan-08	Oct-08	0.8	4,165,510	0	4,165,510	1.0x	0.0%	NO
Foxcity	Fund III	Jul-08	Oct-08	0.3	3,000,000	0	3,000,000	1.0x	0.0%	NO
OED	Fund III	May-08	Oct-08	0.5	3,000,000	0	3,000,000	1.0x	0.0%	NO
SemiBio	Fund III	Sep-07	Oct-08	1.1	2,959,810	0	2,959,810	1.0x	0.0%	NO
Zero2IPO Fund III	Fund III	Aug-08	Oct-08	0.2	100,000	0	100,000	1.0x	0.0%	NO
HOKU	Fund III	Oct-08	Oct-08	0.0	1,054,830	0	1,004,518	1.0x	-85.4%	NO
Thermax	Fund III	Oct-08	Oct-08	0.1	7,420,772	0	6,892,398	0.9x	-76.3%	NO
Cummins	Fund III	Jul-08	Oct-08	0.3	1,321,210	598,751	579,426	0.9x	-37.9%	NO
Mindtree	Fund III	Aug-08	Oct-08	0.2	8,723,211	0	6,630,153	0.8x	-87.4%	NO
Digital China	Fund III	Jul-07	Oct-08	1.3	80,392,698	3,250,823	53,269,399	0.7x	-29.0%	NO
China Transinfo Technology	Fund III	Jul-08	Oct-08	0.3	15,000,000	0	9,956,897	0.7x	-75.6%	NO
Indian Hotel	Fund III	Sep-08	Oct-08	0.1	7,444,697	0	4,201,698	0.6x	-99.3%	NO
Bosideng	Fund III	Apr-08	Oct-08	0.5	9,990,406	636,529	4,978,400	0.6x	-69.0%	NO
Havells	Fund III	Jul-08	Oct-08	0.3	15,505,639	0	8,151,047	0.5x	-97.1%	NO
Kingboard	Fund III	Jun-08	Oct-08	0.3	5,129,172	131,740	2,119,459	0.4x	-96.2%	NO
Fosun Int'l	Fund III	Jul-07	Oct-08	1.3	1,009,712	18,091	168,115	0.2x	-73.1%	NO
China Grand Forestry	Fund III	Sep-07	Oct-08	1.2	25,137,065	0	2,711,667	0.1x	-85.4%	NO
Peace Mark	Fund III	Jul-08	Jul-08	0.0	22,068,885	0	0	0.0x	-100.0%	NO
Total			Average:	0.8	\$633,477,509	\$5,068,291	\$642,706,791	1.0x	2.6%	

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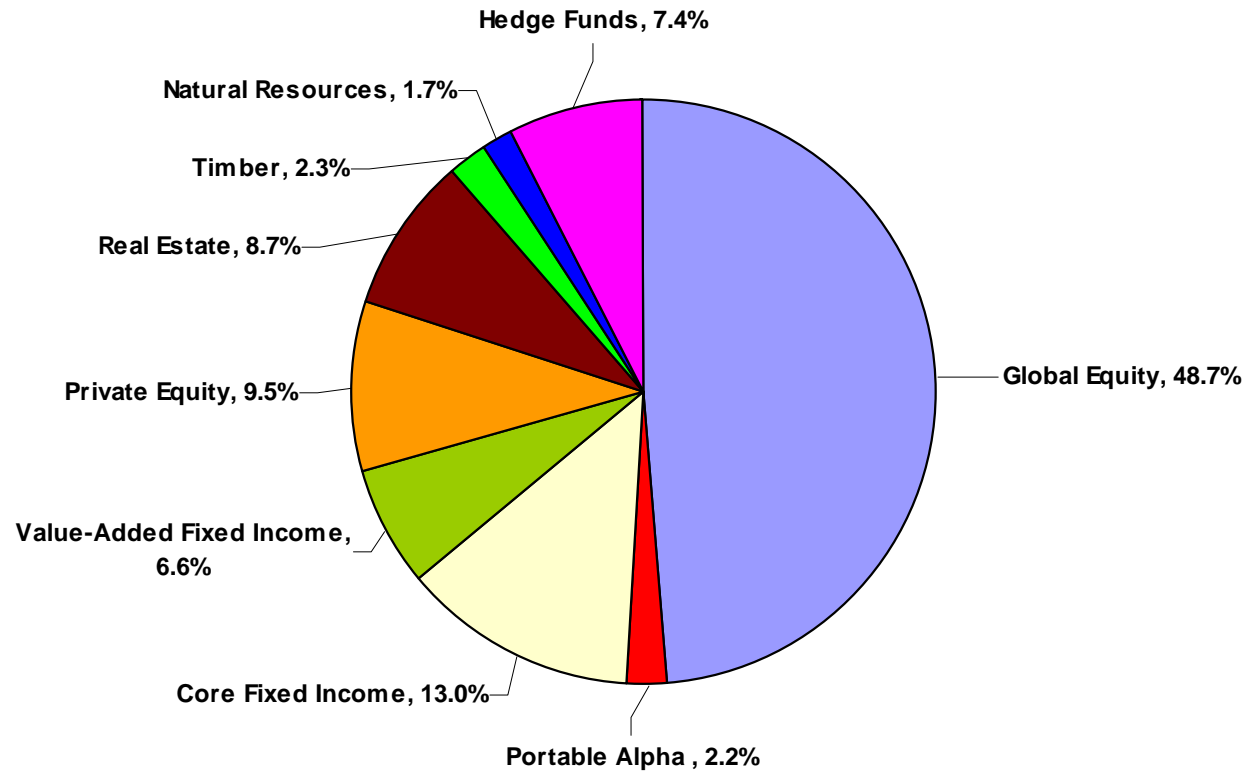
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**Real Estate and Timber  
Performance and Diversification  
For Period Ending  
April 30, 2010**

**Mass PRIM Asset Allocation**  
**April 30, 2010**  
**Total PRIT Assets - \$ 44,204 billion\***



<b>PENSION RESERVES INVESTMENT TRUST</b> <b>SUMMARY OF PLAN PERFORMANCE</b> <b>RATES OF RETURN (GROSS OF FEES)</b> <b>Periods Ending April 30, 2010</b>											
	NAV \$ (M)	Long Term Target Allocation %	Actual Allocation %	Month	FY '10	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
<b>GLOBAL EQUITY</b>	21,476,282	49.0%	48.7%	0.96	30.06	5.05	42.31	-5.78	4.62		3.63
<b>CORE FIXED INCOME</b>	5,738,165	13.0%	13.0%	1.27	9.76	3.35	14.29	5.35	4.70	6.43	8.21
<b>VALUE-ADDED FIXED INCOME</b>	2,923,620	6.0%	6.6%	0.72	30.95	6.71	37.19	6.29	8.93		9.86
<b>PRIVATE EQUITY</b>	4,209,721	10.0%	9.5%	-0.26	14.92	5.57	13.70	5.13	15.65	10.67	13.80
<b>REAL ESTATE</b>	3,828,792	10.0%	8.7%	1.12	3.91	2.24	0.95	-5.72	5.38	9.76	5.06
<b>TIMBER/NATURAL RESOURCES</b>	1,746,034	4.0%	4.0%	0.82	-1.26	2.26	1.06	4.08	8.58		10.26
<b>HEDGE FUNDS (NET OF FEES)</b>	3,253,436	8.0%	7.4%	0.80	9.82	2.90	13.72	-0.58	4.23		4.49
<b>PORTABLE ALPHA WIND DOWN (NET OF FEES)</b>	966,396	0.0%	2.2%	1.16	19.03	3.18	27.56	-18.04			-10.57
<b>TOTAL</b>	<b>44,142,446</b>	<b>100%</b>	<b>100%</b>	<b>0.87</b>	<b>19.80</b>	<b>4.42</b>	<b>25.83</b>	<b>-2.95</b>	<b>5.18</b>	<b>4.56</b>	<b>9.61</b>
PARTICIPANTS CASH FUND	14,919			0.02	0.26	0.08	0.37	2.07	3.07	2.91	4.85
<b>TOTAL CORE</b>	<b>44,157,365</b>			<b>0.87</b>	<b>19.78</b>	<b>4.42</b>	<b>25.80</b>	<b>-2.95</b>	<b>5.18</b>	<b>4.56</b>	<b>9.71</b>
<b>INTERIM POLICY BENCHMARK</b>				0.49	17.20	3.28	23.25	-1.66	5.60	4.08	10.60
TEACHERS' AND EMPLOYEES' SEPARATE ACCOUNT	46,857			0.02	0.26	0.08	0.38	1.21	2.55	2.74	3.79
<b>TOTAL FUND</b>	<b>44,204,222</b>			<b>0.87</b>	<b>19.72</b>	<b>4.41</b>	<b>25.72</b>	<b>-2.94</b>	<b>5.17</b>	<b>4.55</b>	<b>9.69</b>
<b>POLICY RETURN</b>				<b>1.02</b>	<b>19.57</b>	<b>4.41</b>	<b>25.97</b>	<b>-1.74</b>	<b>5.96</b>	<b>4.94</b>	<b>9.85</b>
<b>POLICY BENCHMARK</b>				0.59	16.38	3.04	22.59	-1.19	5.90	4.23	10.66

<b>PENSION RESERVES INVESTMENT TRUST</b> <b>SUMMARY OF MANAGER PERFORMANCE</b> <b>RATES OF RETURN (GROSS OF FEES)</b> <b>Periods Ending April 30, 2010</b>												
	NAV \$ (M)	%	Month	FY '10	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Manager ITD	Manager Benchmark - ITD	Inception
<b>PRIVATE REAL ESTATE</b>												
INVESCO CORE	332,882	0.8%	0.45	-9.14	4.09	-8.98	-3.93	3.95	6.98	8.39	8.79	5/31/1995
LASALLE	671,353	1.5%	0.27	1.23	-0.90	-4.16	-4.01	4.58	7.63	9.11	8.72	1/31/1995
RREEF CORE	677,848	1.5%	0.43	-3.39	1.68	-6.07	-4.14	4.11	8.20	9.67	8.79	5/31/1995
JP MORGAN	399,103	0.9%	0.67	-3.50	3.73	-12.22	-6.69	4.69		8.84	7.30	9/30/2000
TA ASSOCIATES	753,324	1.7%	0.43	-14.24	-1.30	-18.86	-3.15	5.39		7.59	7.30	9/30/2000
<b>TOTAL CORE ACCOUNTS</b>	<b>2,834,510</b>	<b>6.4%</b>	<b>0.43</b>	<b>-6.26</b>	<b>0.80</b>	<b>-10.65</b>	<b>-4.24</b>	<b>4.36</b>	<b>7.55</b>	<b>8.86</b>	<b>8.78</b>	<b>12/31/1994</b>
RREEF VALUE ADDED	6,189	0.0%	0.00	-3.68	7.57	-62.68	-35.17			-34.41	-3.32	4/30/2007
<b>TOTAL VALUE ACCOUNTS</b>	<b>6,189</b>	<b>0.0%</b>	<b>0.00</b>	<b>-3.68</b>	<b>7.57</b>	<b>-62.68</b>	<b>-34.70</b>			<b>-33.94</b>	<b>-3.32</b>	<b>4/30/2007</b>
<b>TOTAL SEPARATE ACCOUNTS</b>	<b>2,840,699</b>	<b>6.4%</b>	<b>0.43</b>	<b>-6.26</b>	<b>0.81</b>	<b>-11.11</b>	<b>-4.47</b>	<b>4.21</b>	<b>7.42</b>	<b>8.62</b>	<b>8.73</b>	<b>11/30/1994</b>
PORTFOLIO DEBT	-											7/31/2002
<b>TOTAL SEPARATE ACCOUNTS - LEVERAGED</b>	<b>2,840,699</b>	<b>6.4%</b>	<b>0.43</b>	<b>-6.26</b>	<b>0.81</b>	<b>-11.11</b>	<b>-4.31</b>	<b>5.76</b>	<b>9.40</b>	<b>9.91</b>	<b>8.73</b>	<b>11/30/1994</b>
<b>ETI (PARTNERSHIPS)</b>												
CANYON JOHNSON II	11,786	0.0%	0.00	-22.39	-10.20	-25.51	-9.80	-6.65		-6.65	4.75	5/31/2005
INTERCONT IV	4,780	0.0%	0.00	-8.96	-8.04	-10.23	-18.49			-14.88	4.18	7/31/2005
NEW BOSTON URBAN I	3,376	0.0%	0.00	33.06	15.11	33.21	-16.69			-16.38	-0.74	12/31/2006
<b>TOTAL ETI ACCOUNTS</b>	<b>19,942</b>	<b>0.0%</b>	<b>0.00</b>	<b>-13.87</b>	<b>-6.67</b>	<b>-16.40</b>	<b>-14.23</b>	<b>-10.97</b>		<b>-10.97</b>	<b>4.75</b>	<b>5/31/2005</b>
<b>TOTAL PRIVATE REAL ESTATE<sup>15</sup></b>	<b>2,860,640</b>	<b>6.5%</b>	<b>0.42</b>	<b>-6.31</b>	<b>0.76</b>	<b>-11.15</b>	<b>-4.37</b>	<b>5.70</b>	<b>9.37</b>	<b>9.89</b>	<b>8.73</b>	<b>11/30/1994</b>
<i>NCREIF PROPERTY ONE QTR LAG</i>												
			0.00	-10.27	-2.11	-16.85	-3.41	4.75	7.30			

<b>PENSION RESERVES INVESTMENT TRUST</b> <b>SUMMARY OF MANAGER PERFORMANCE</b> <b>RATES OF RETURN (GROSS OF FEES)</b> <b>Periods Ending April 30, 2010</b>												
	NAV \$ (M)	%	Month	FY '10	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Manager ITD	Manager Benchmark - ITD	Inception
<b>PUBLIC REAL ESTATE (REITS)</b>												
INVESCO REIT	200,084	0.5%	6.72	67.12	15.41	65.33	-6.78	6.21		12.64	9.83	7/31/2003
URDANG	203,851	0.5%	6.88	74.43	17.17	74.56	-4.82	7.34		12.75	9.83	7/31/2003
CLOSED PORTFOLIOS	104	0.0%										
TOTAL US REITS	404,039	0.9%	6.80	70.60	16.28	70.88	-7.85	5.50	13.57	10.93	8.55	6/30/1998
NAREIT EQUITY REIT			6.94	71.54	17.66	68.70	-8.57	4.12	11.45			
RREEF GLOBAL REIT	283,966	0.6%	3.10	36.52	5.48	54.47				-8.72	-9.21	2/29/2008
FTSE EPRA NAREIT DEVELOPED REIT			2.53	39.19	6.59	56.77						
EUROPEAN INVESTORS	269,630	0.6%	-1.48	19.53	-0.93	46.22				-8.78	-12.48	2/29/2008
FTSE EPRA NAREIT DEVELOPED EX US REIT			-0.25	22.74	0.37	48.30						
REIT CASH	(9)	0.0%										
<b>TOTAL REITS</b>	<b>957,626</b>	<b>2.2%</b>	<b>3.26</b>	<b>43.50</b>	<b>7.86</b>	<b>53.31</b>	<b>-12.29</b>	<b>2.42</b>	<b>11.90</b>	<b>9.56</b>	<b>7.49</b>	<b>6/30/1998</b>
50% FTSE NAREIT EQUITY REIT/50% FTSE EPRA NAREIT DEVELOPED EX US REIT <sup>16</sup>			3.34	45.59	8.78	51.89	-12.06	1.72	10.15			
CORE REAL ESTATE CASH	10,526	0.0%										
REAL ESTATE TRANSITION	0	0.0%										
TOTAL CORE ACCOUNT	3,828,792	8.7%	1.12	3.91	2.24	0.95	-5.72	5.38	9.77	9.87	8.90	12/31/1994
<b>TOTAL REAL ESTATE</b>	<b>3,828,792</b>	<b>8.7%</b>	<b>1.12</b>	<b>3.91</b>	<b>2.24</b>	<b>0.95</b>	<b>-5.72</b>	<b>5.38</b>	<b>9.76</b>	<b>5.06</b>	<b>6.96</b>	<b>1/31/1986</b>
ASSET CLASS BENCHMARK: 80% NCREIF PROPERTY ONE QTR LAG/10% NAREIT EQUITY REIT/10% FTSE EPRA NAREIT DEVELOPED EX US REIT <sup>17</sup>			0.23	-3.15	-0.94	-7.26	-5.83	4.01	7.49			



PENSION RESERVES INVESTMENT TRUST SUMMARY OF MANAGER PERFORMANCE RATES OF RETURN (GROSS OF FEES) Periods Ending April 30, 2010												
	NAV \$ (M)	%	Month	FY '10	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Manager ITD	Manager Benchmark - ITD	Inception
TIMBER												
FOREST INVESTMENTS	1,000,796	2.3%	0.00	-16.09	1.04	-16.44	8.38	8.13		8.43	8.36	1/31/2002
TIMBER CASH	(4)	0.0%										
TOTAL TIMBER	1,000,793	2.3%	0.00	-16.07	1.04	-16.43	8.66	11.42		11.98	8.36	1/31/2002
NCREIF TIMBER INDEX ONE QTR LAG <sup>18</sup>			0.00	-3.01	-4.55	-1.79	8.01	11.47				
NATURAL RESOURCES - PUBLIC												
JENNISON	324,740	0.7%	2.76	41.05	4.32	56.79				-13.13	-20.72	7/31/2008
T. ROWE PRICE NR	285,295	0.6%	1.67	32.62	4.55	45.64				-18.68	-20.72	7/31/2008
PUBLIC NATURAL RESOURCES CASH	6	0.0%										
TOTAL NATURAL RESOURCES PUBLIC	610,041	1.4%	2.25	36.95	4.43	51.34				-15.87	-20.72	7/31/2008
LIPPER NATURAL RESOURCES GLOBAL FUND INDEX			2.11	33.50	4.26	46.75						
NATURAL RESOURCES- PRIVATE												
NATURAL RESOURCES- PRIVATE	129,573	0.3%	0.63	-3.52	1.69	-2.98				-9.15	-11.19	8/31/2008
PRIVATE NATURAL RESOURCES CASH	5,627	0.0%										
TOTAL NATURAL RESOURCES PRIVATE	135,200	0.3%	0.60	-3.89	1.75	-3.34				-11.19	-11.19	8/31/2008
BENCHMARK - NAT. RES. PRIVATE <sup>19</sup>			0.60	-3.89	1.75	-3.34						
TOTAL TIMBER/NATURAL RESOURCES	1,746,034	4.0%	0.82	-1.26	2.26	1.06	4.08	8.58		10.26	6.19	1/31/2002
ASSET CLASS BENCHMARK:												
50% NCREIF TIMBER/42% LIPPER NATURAL RESOURCES GLOBAL FUND INDEX/8% ACTUAL NATURAL RESOURCES-PRIVATE <sup>20</sup>			0.94	11.41	-0.29	17.31	2.11	7.78				

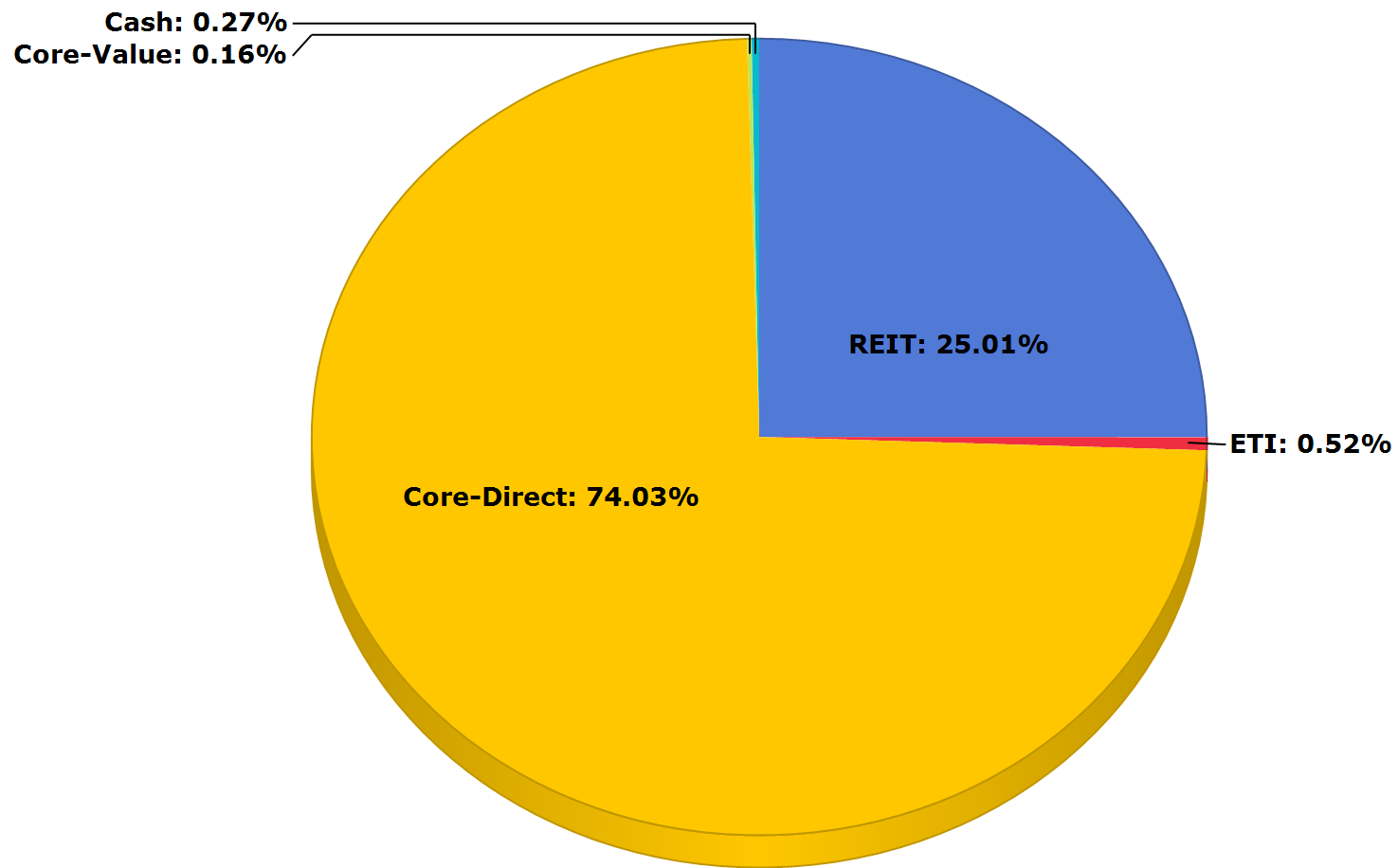


**Real Estate  
For Period Ending  
April 30, 2010**

# Real Estate Asset Allocation

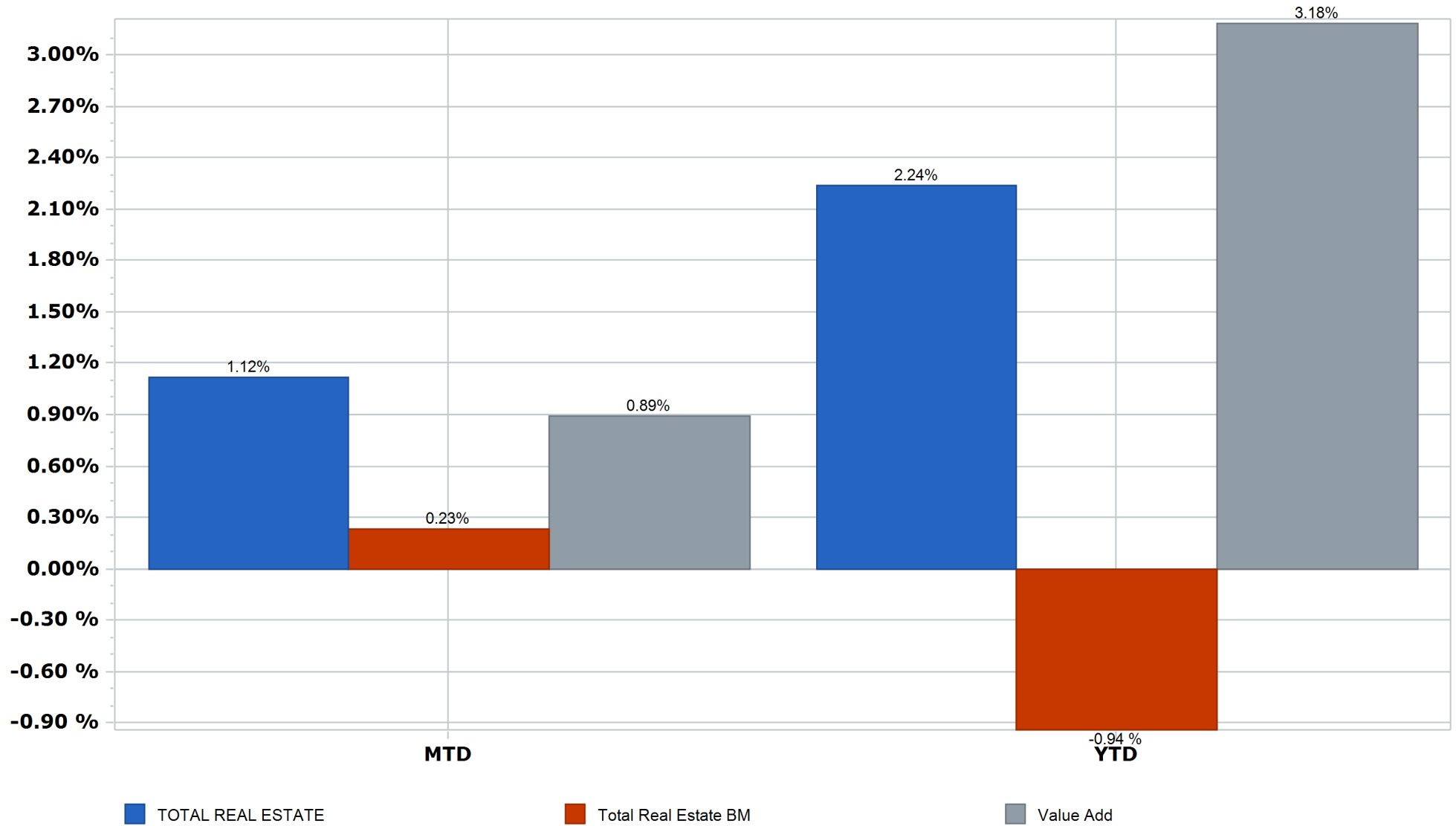
Total Net Assets: \$3,828,792,264.79

April 30, 2010



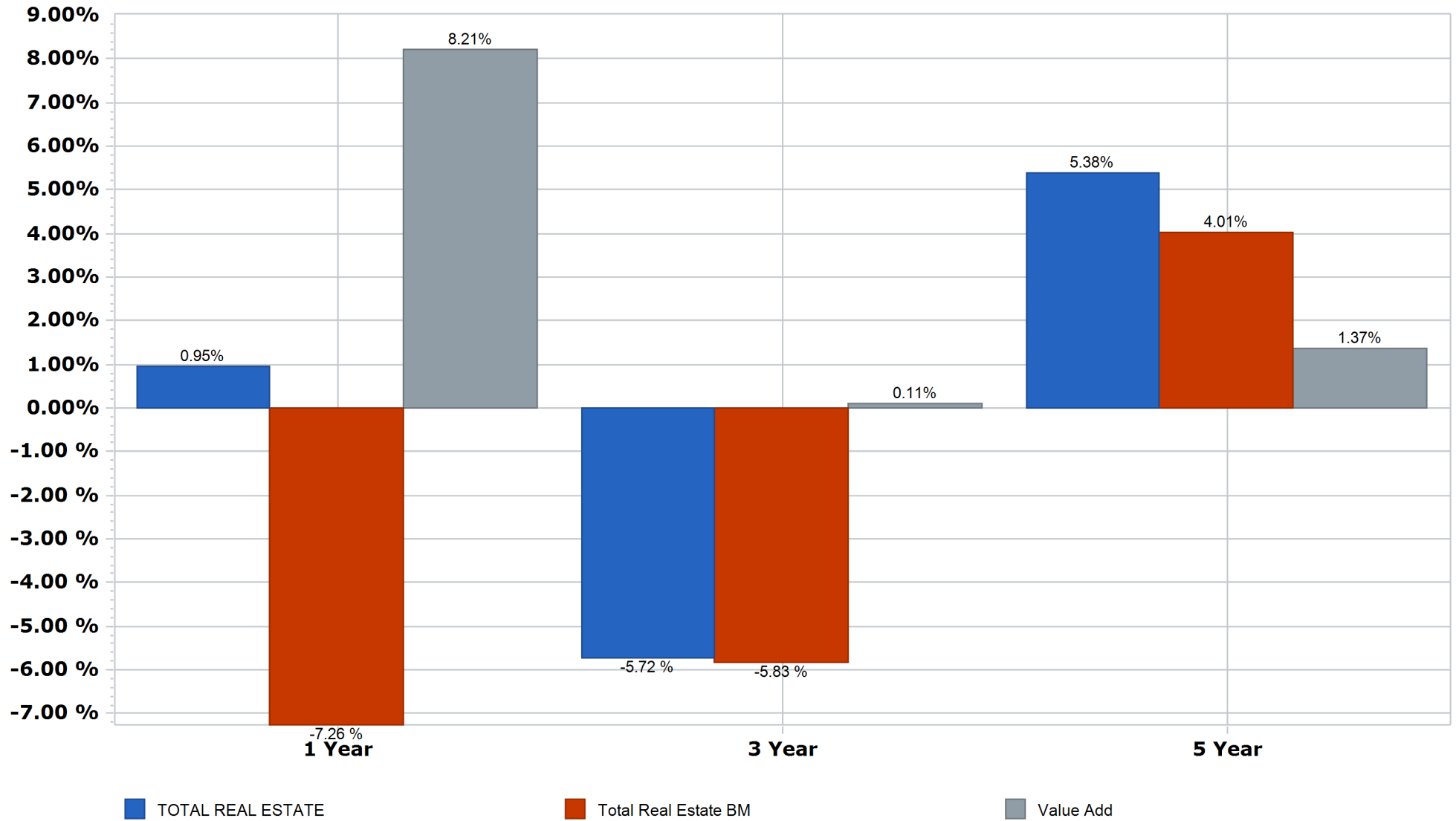
# Total Real Estate Performance

As of April 30, 2010



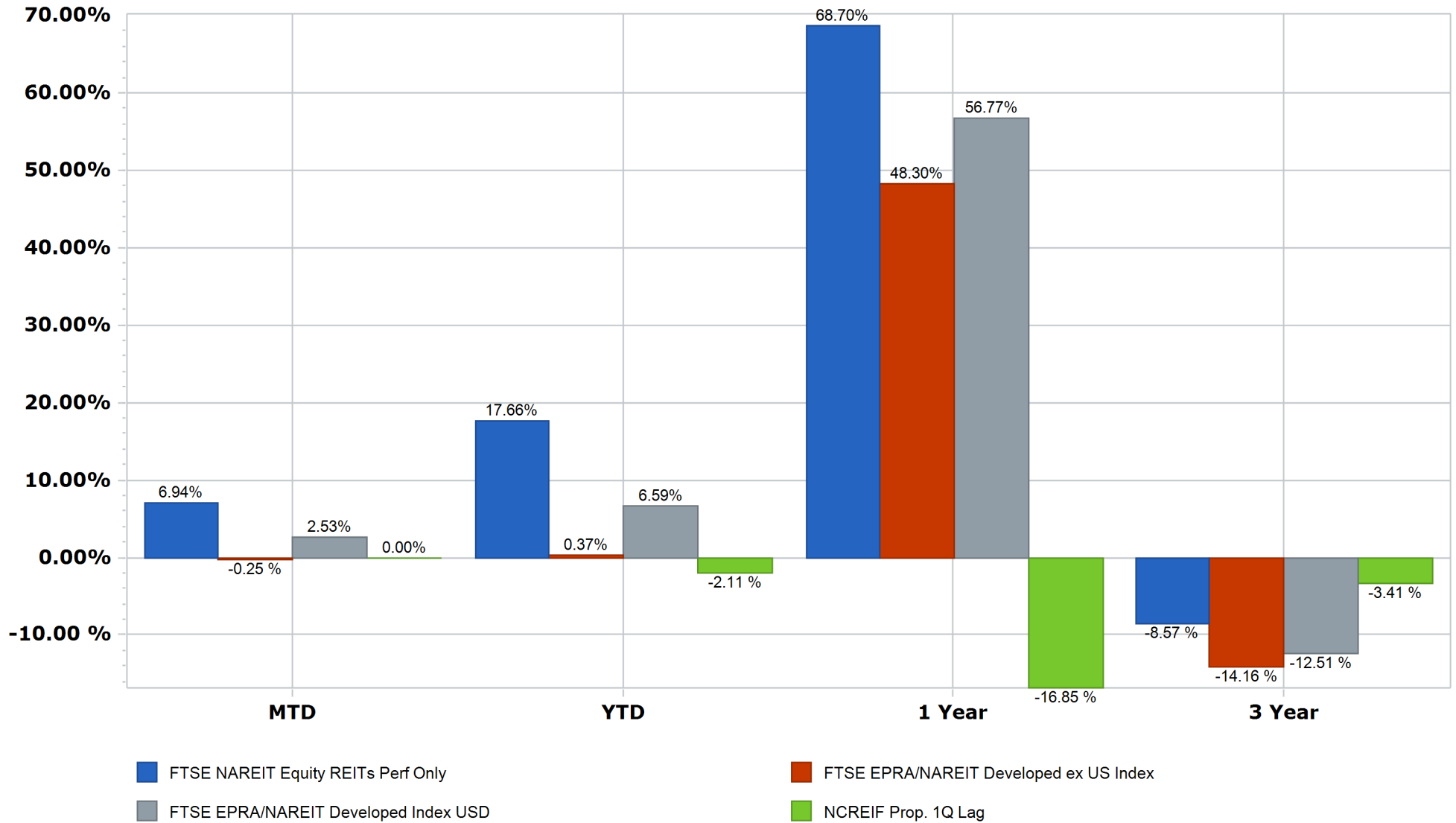
# Total Real Estate Performance

As of April 30, 2010



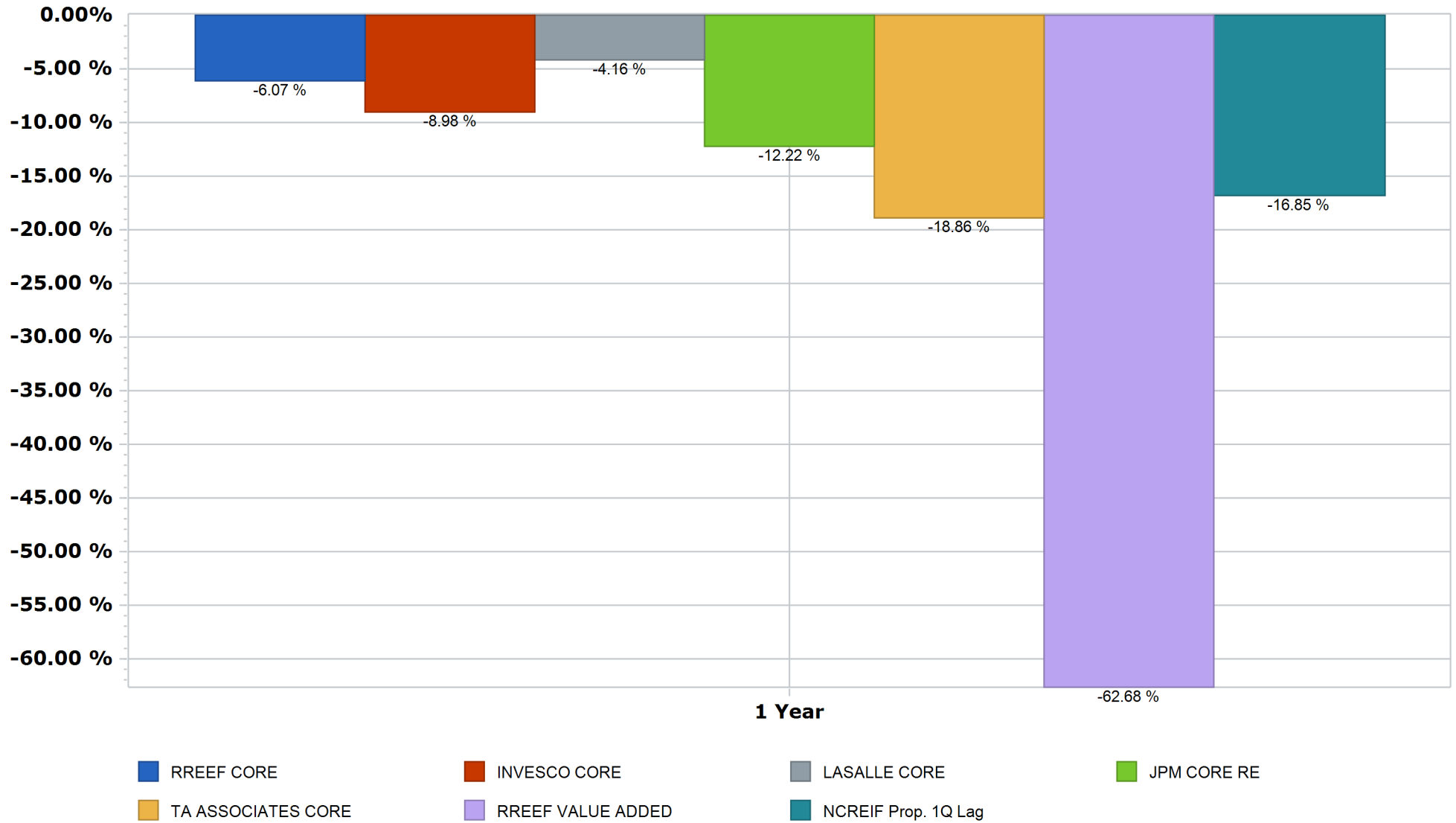
# Market Performance

As of April 30, 2010



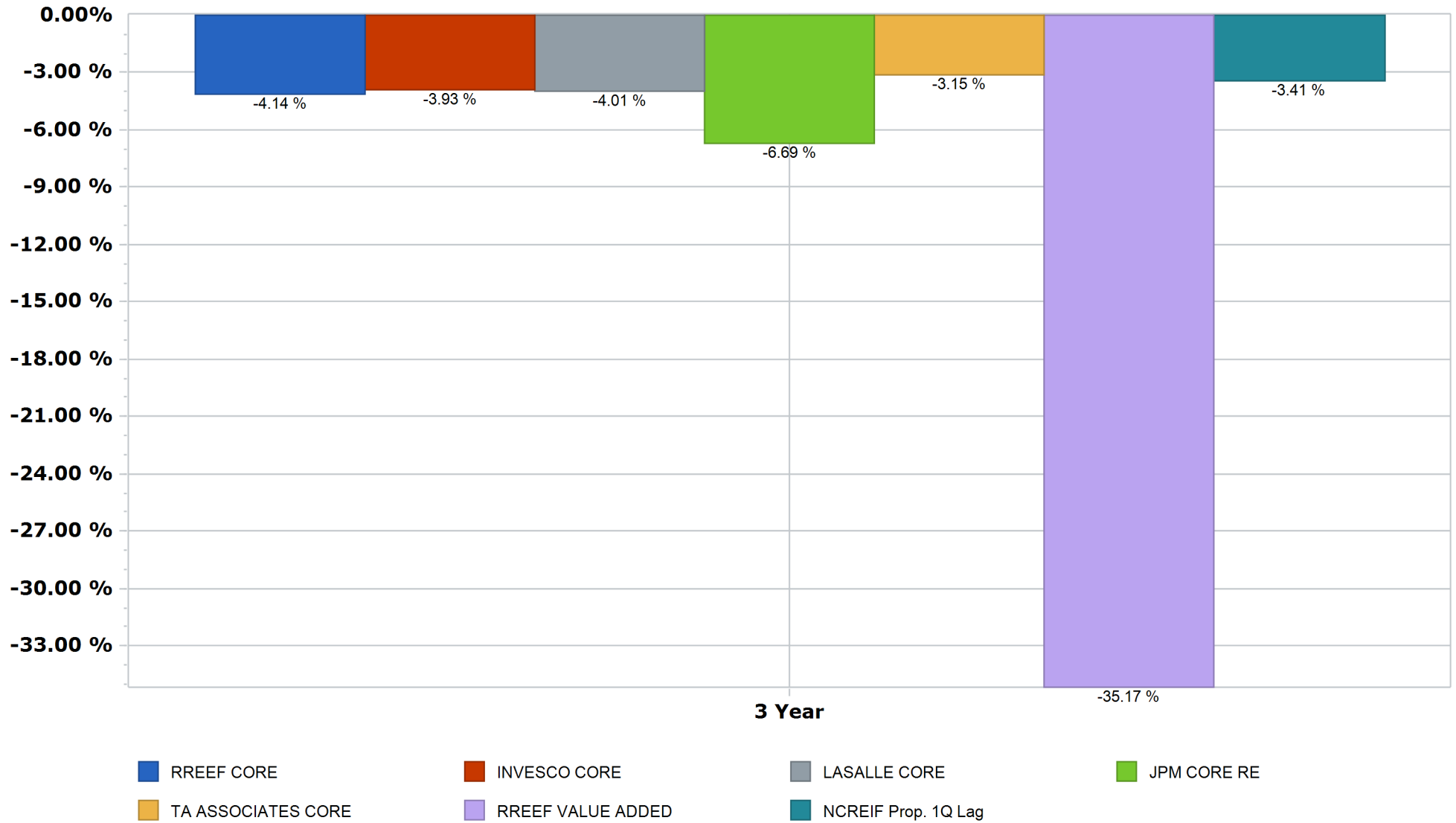
# Direct Real Estate Managers Performance

As of April 30, 2010



# Direct Real Estate Managers Performance

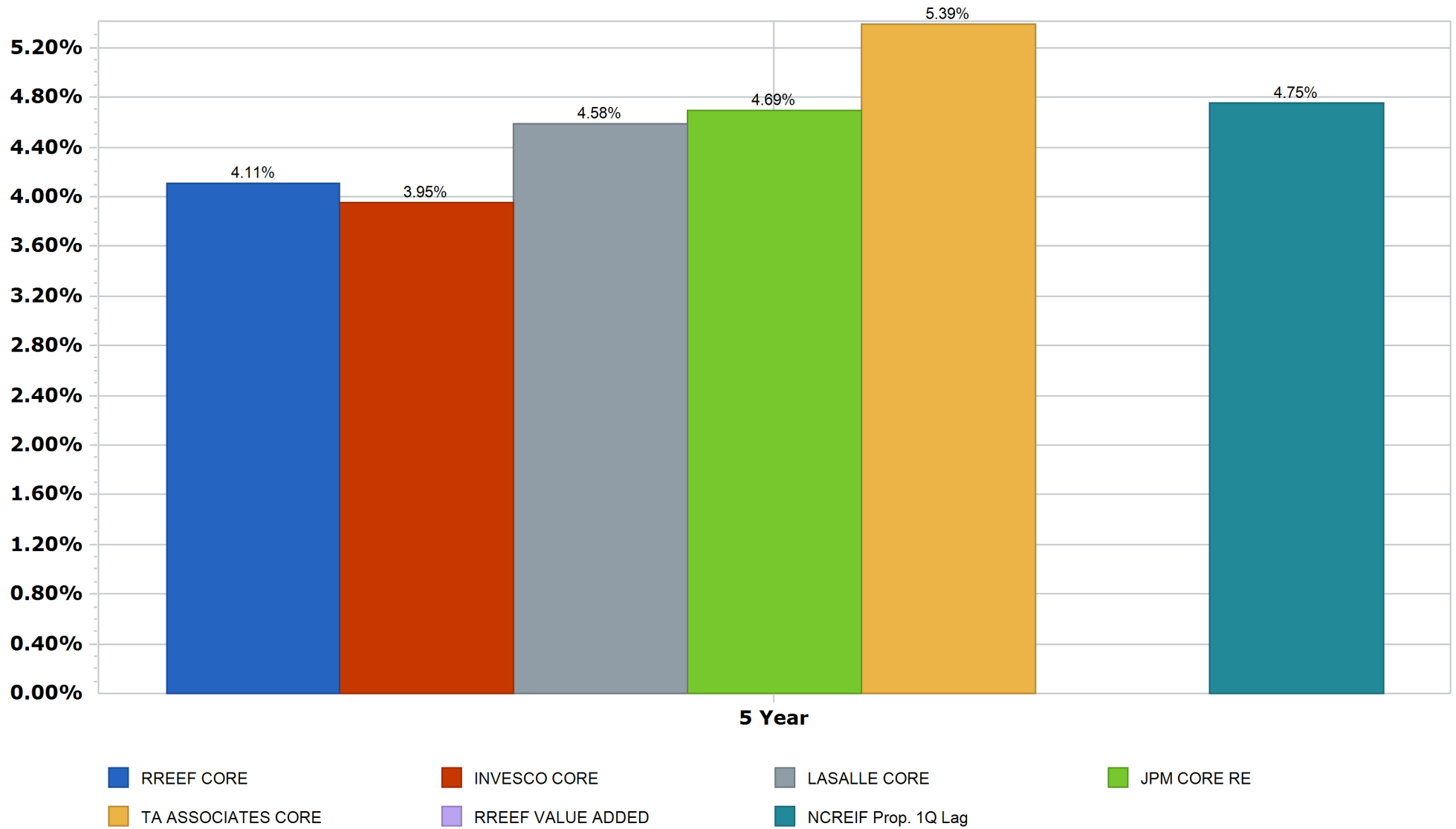
As of April 30, 2010





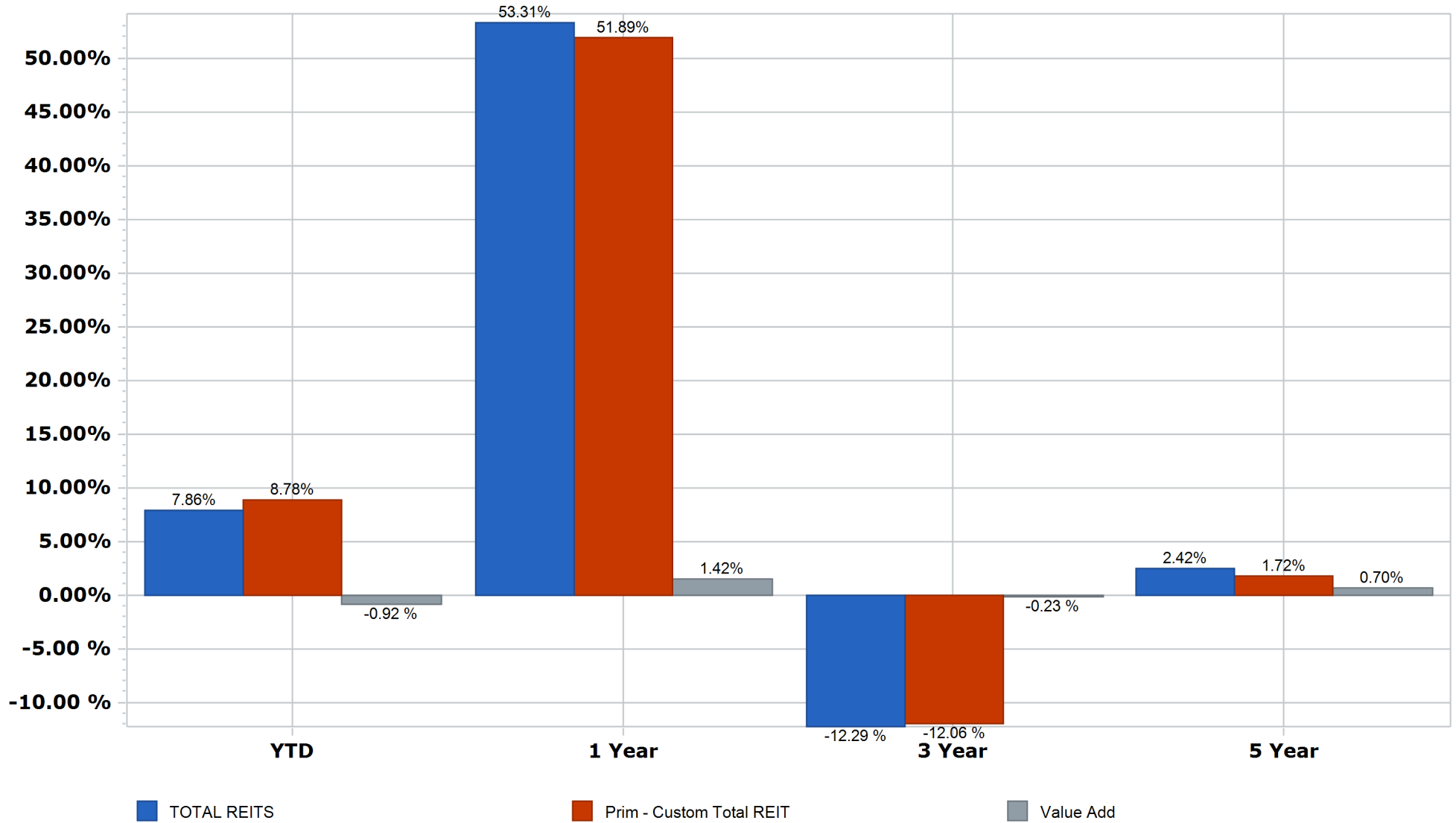
# Direct Real Estate Managers Performance

As of April 30, 2010



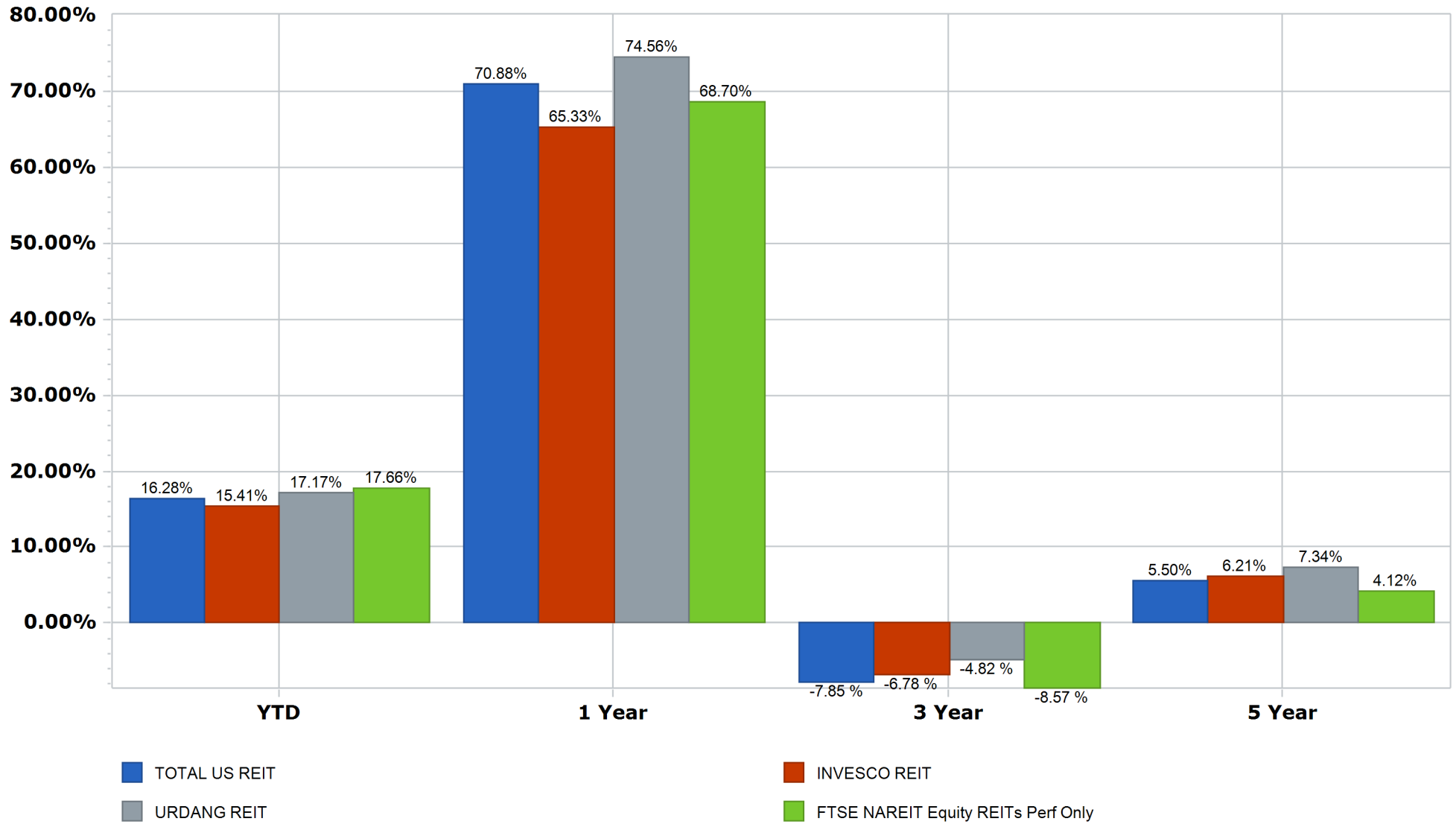
# Total REIT Performance

As of April 30, 2010



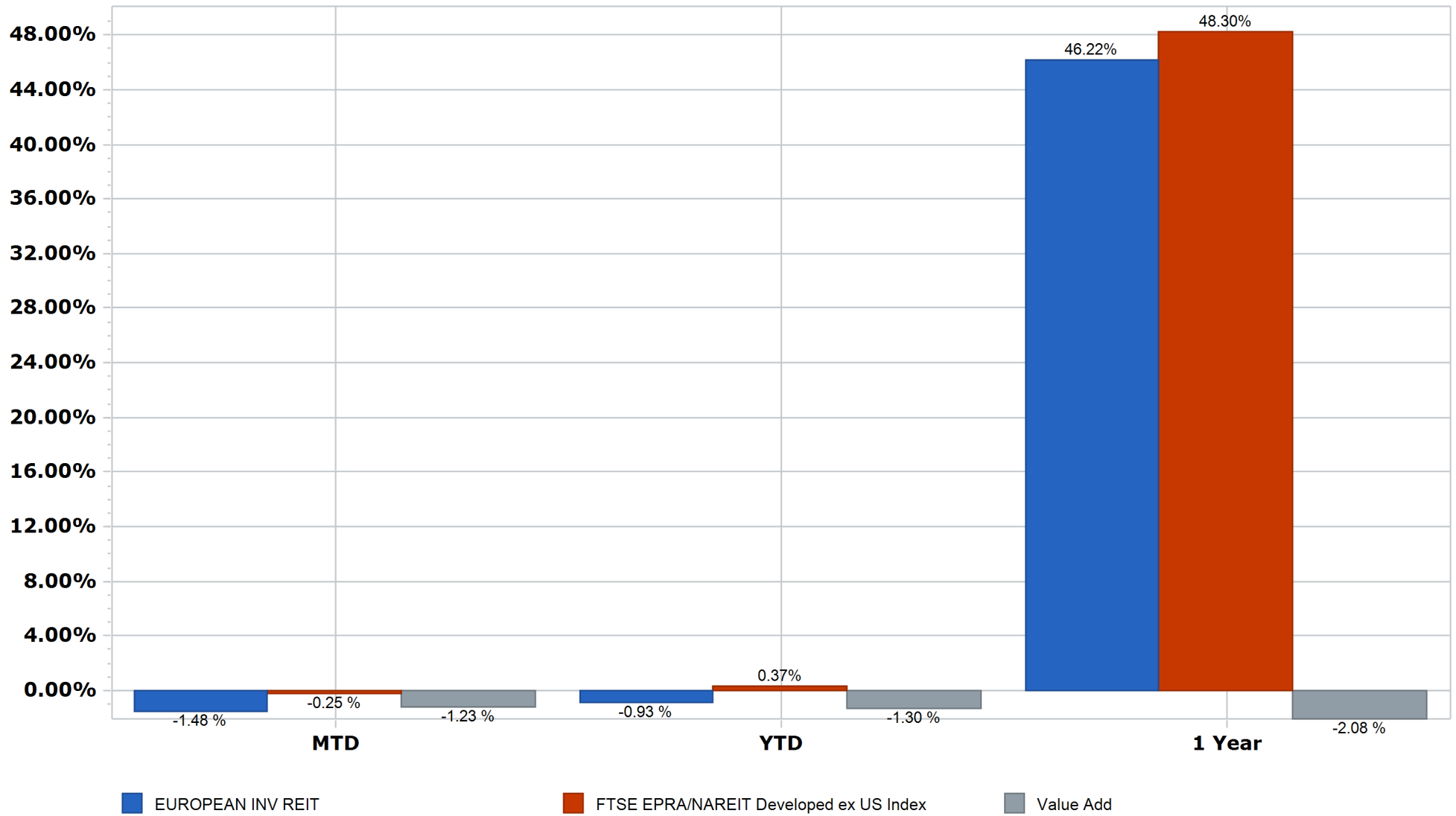
# U.S. REIT Performance

As of April 30, 2010



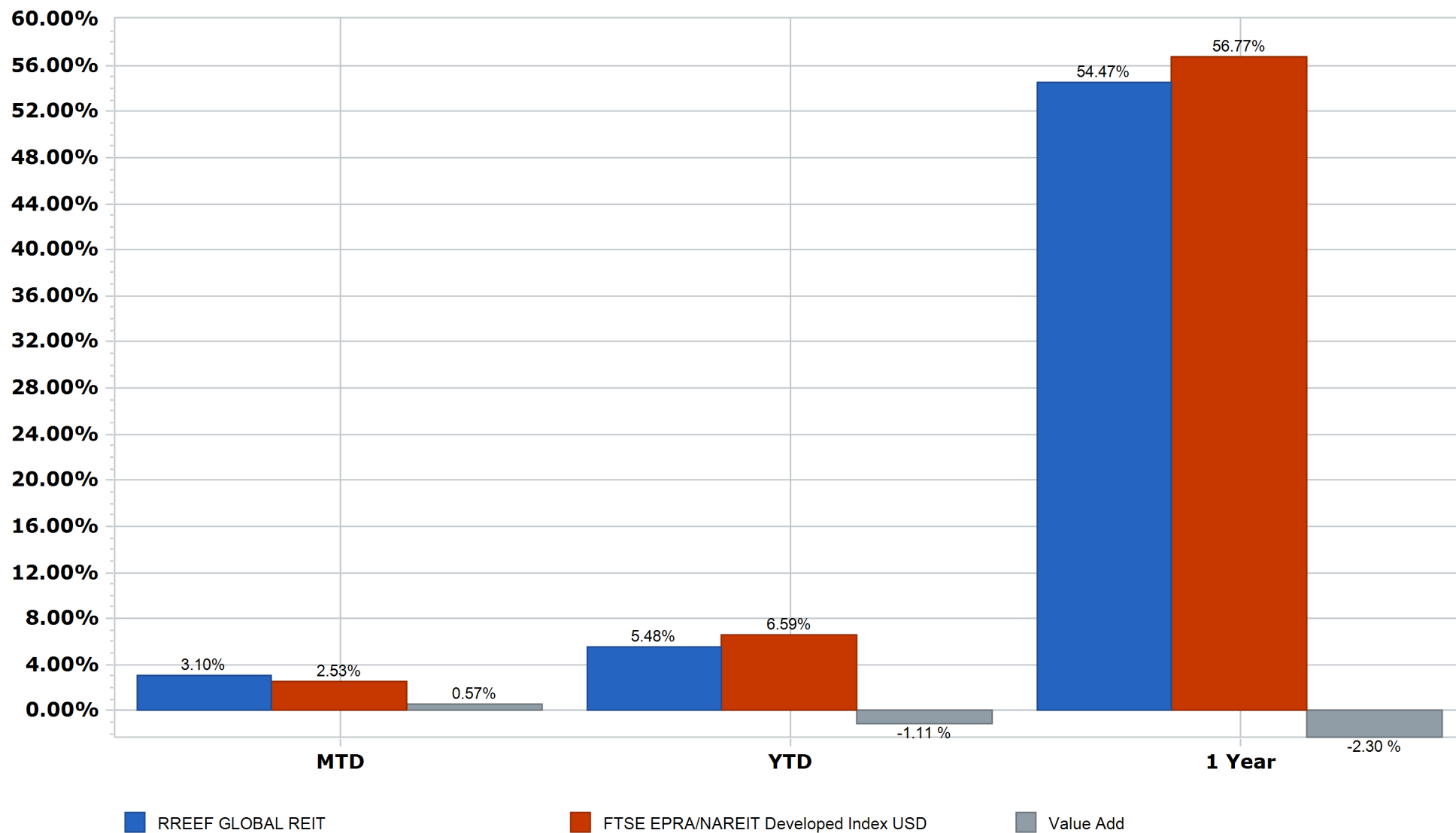
# International REIT Performance

As of April 30, 2010



# Global REIT Performance

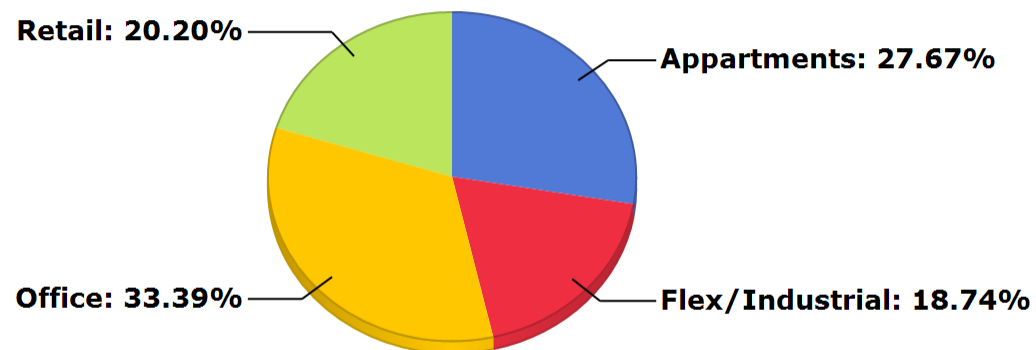
As of April 30, 2010



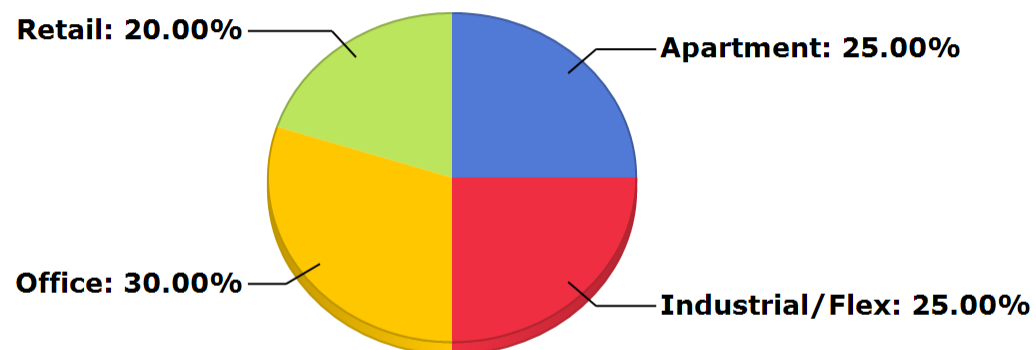
# PRIM RET Core Real Estate Property Type Diversification

Total Net Assets: \$2,847,090,584.07

## Actual Allocation



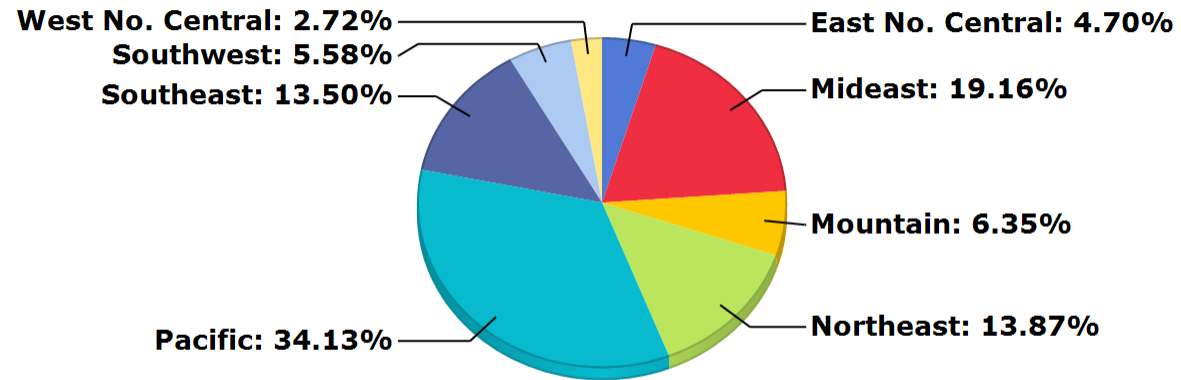
## Policy Target



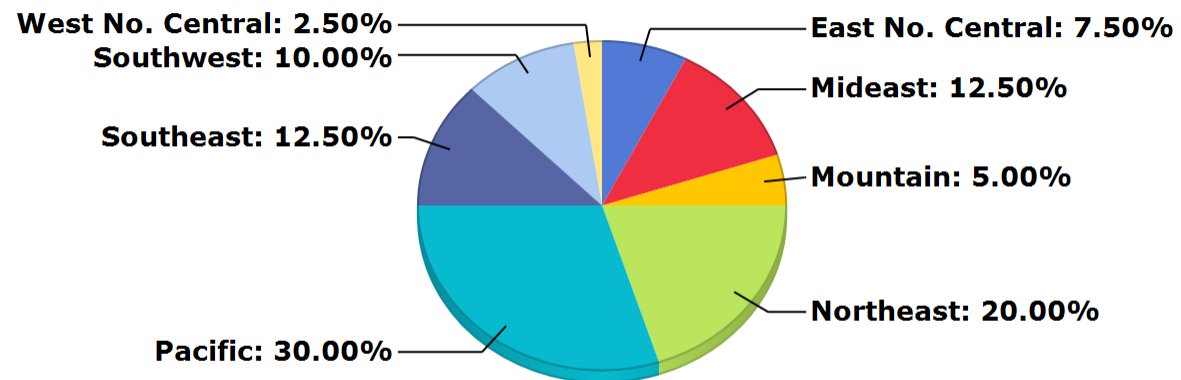
# PRIM RET Core Real Estate Regional Diversification

Total Net Assets: \$2,847,090,584.07

## Actual Allocation

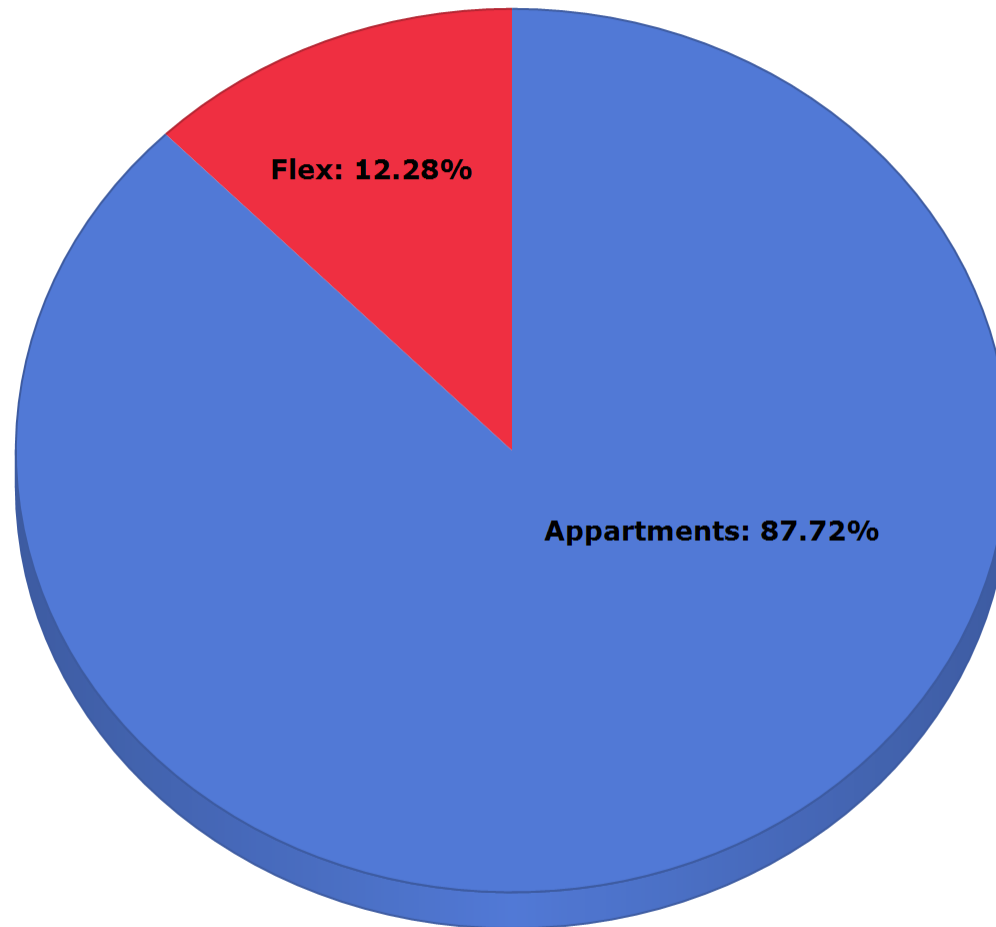


## Policy Target



# PRIM RET Value Real Estate Property Type Diversification

Total Net Assets: \$6,168,995.57





# PRIM RET Core Real Estate Market Diversification

Total Net Assets: \$2,847,090,584.07

## Top 10 MSAs

Metro Region	MSA Rank	# of Properties	%
New York-North NJ	1	5	10.42 %
Los Angeles	2	9	9.98 %
Chicago	3	9	5.42 %
Dallas-Ft. Worth	4	1	0.69 %
Philadelphia	5	3	3.66 %
Houston	6	3	2.60 %
Miami-Ft. Lauderdale	7	3	2.89 %
Washington DC	8	5	14.87 %
Atlanta	9	5	4.49 %
Boston	10	3	1.36 %
		<hr/>	
		46	56.39 %

## Other MSAs

Metro Region	MSA Rank	# of Properties	%
Detroit	11	1	0.20 %
San Francisco	12	5	7.26 %
Phoenix-Mesa	13	2	1.04 %
Riverside-Ontario	14	6	4.18 %
Seattle	15	2	3.19 %
Minneapolis	16	2	2.72 %
San Diego	17	4	5.19 %
Tampa	19	1	1.24 %
Baltimore	20	5	2.02 %
Denver-Boulder	21	6	5.31 %
Sacramento	26	3	4.33 %
Orlando	27	2	3.96 %
Austin	37	2	2.28 %
Stamford	56	1	0.69 %
		<hr/>	
		42	43.61 %
		<hr/>	
Total		88	100.00 %

# Total Real Estate Portfolio Acquisitions

1/1/2010 - 5/24/2010

Account Name	Property Name	City	State	Property Type	Fund Type	Date Purchased	Total Sqft	# Units	Acquisition Cost	Acquisition Cost / Sqft Unit	Equity Value	Debt Amount	Gain (loss)
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No acquisitions.

# Total Real Estate Portfolio Dispositions

1/1/2010 - 5/24/2010

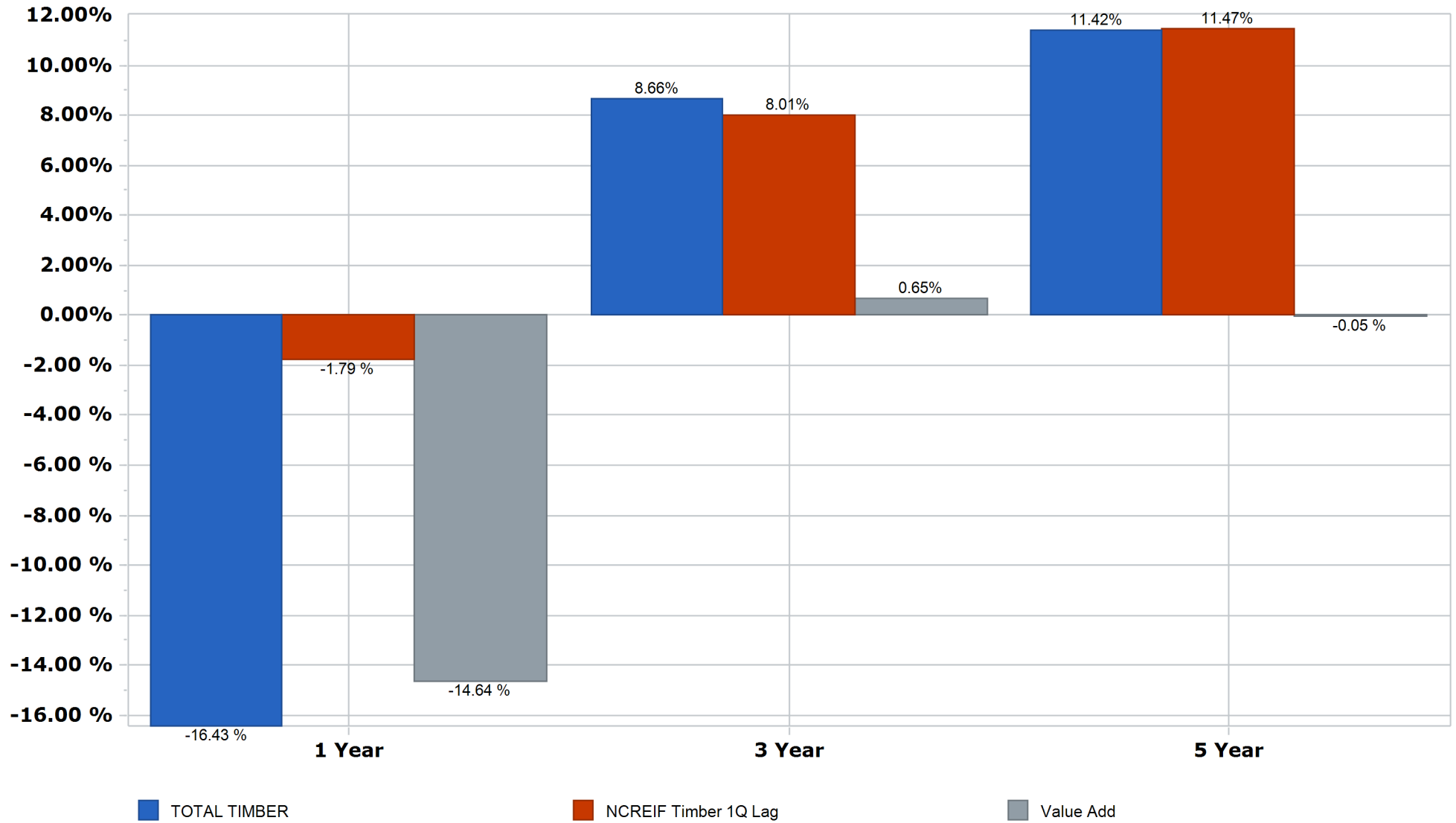
Property Type	Account Name	Property Name	City	State	Fund Type	Date Purchased	Date Sold	Total Sqft	# of Units	Total Acquisition Cost	Acq. Cost / Sqft   Unit	Sale Price	Sale Price / Sqft   Unit	Gain (loss)
Office	RREEF	Town and Country Corporate Center	Miami	FL	Value	6/30/2008	3/1/2010	122,220	0	\$26,867,000	\$220	\$22,900,000	\$187	(\$3,967,000)
<b>Total</b>										<b>\$26,867,000</b>		<b>\$22,900,000</b>		



**Timberland**  
**For Period Ending**  
**April 30, 2010**

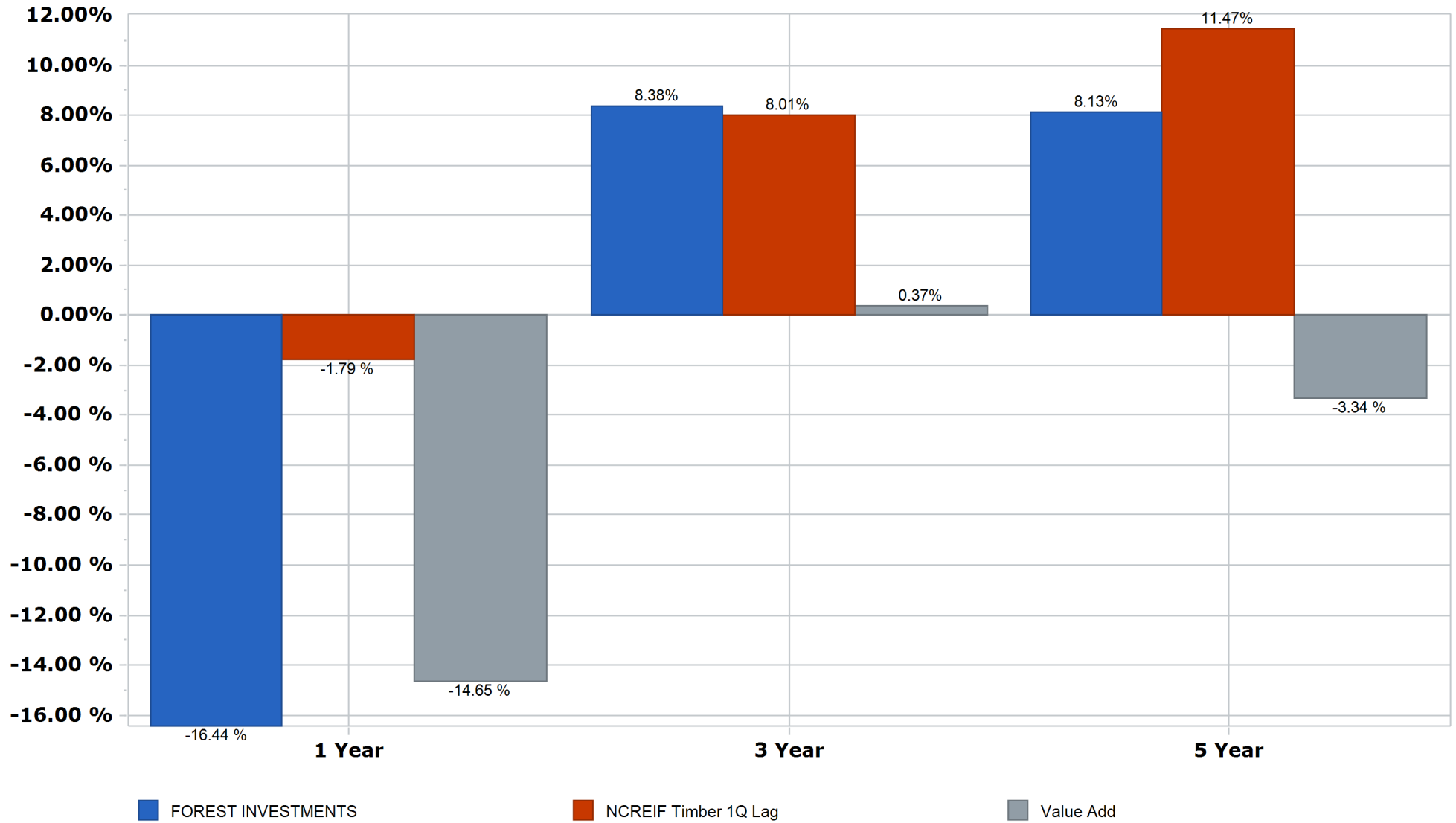
# Total Timberland Performance

As of April 30, 2010



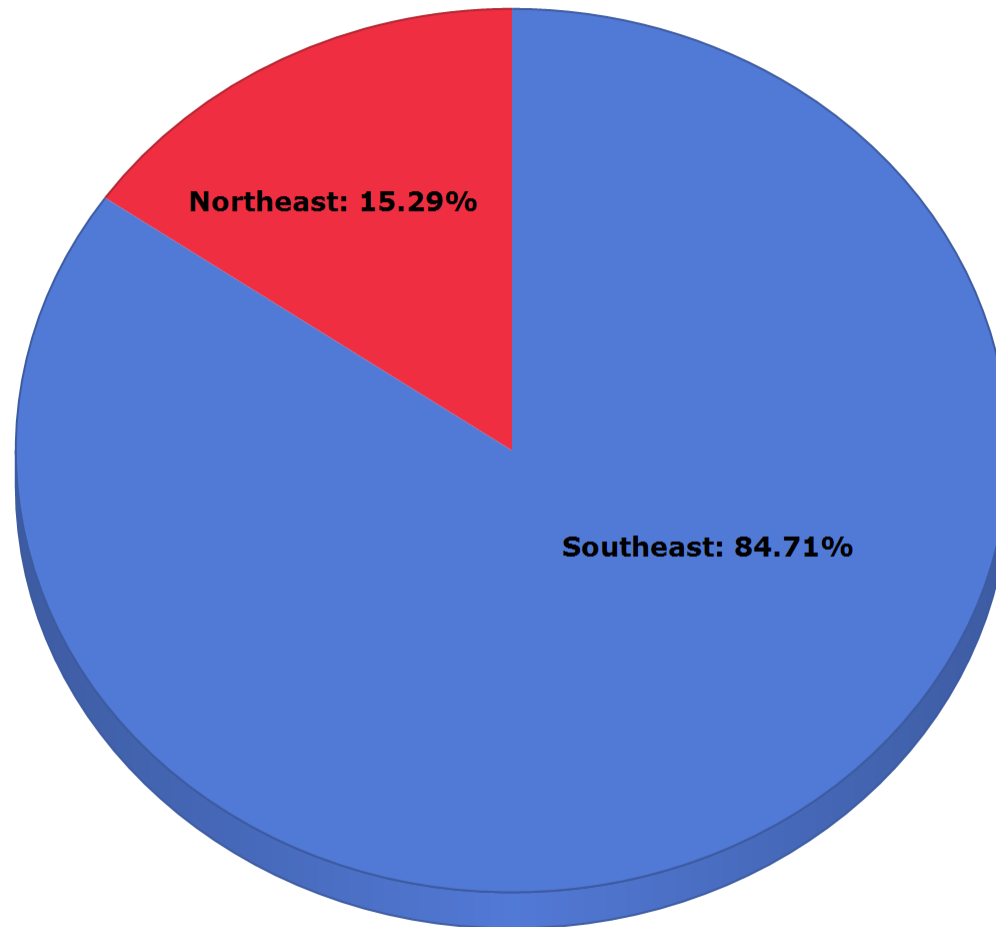
# Timberland Manager Performance

As of April 30, 2010



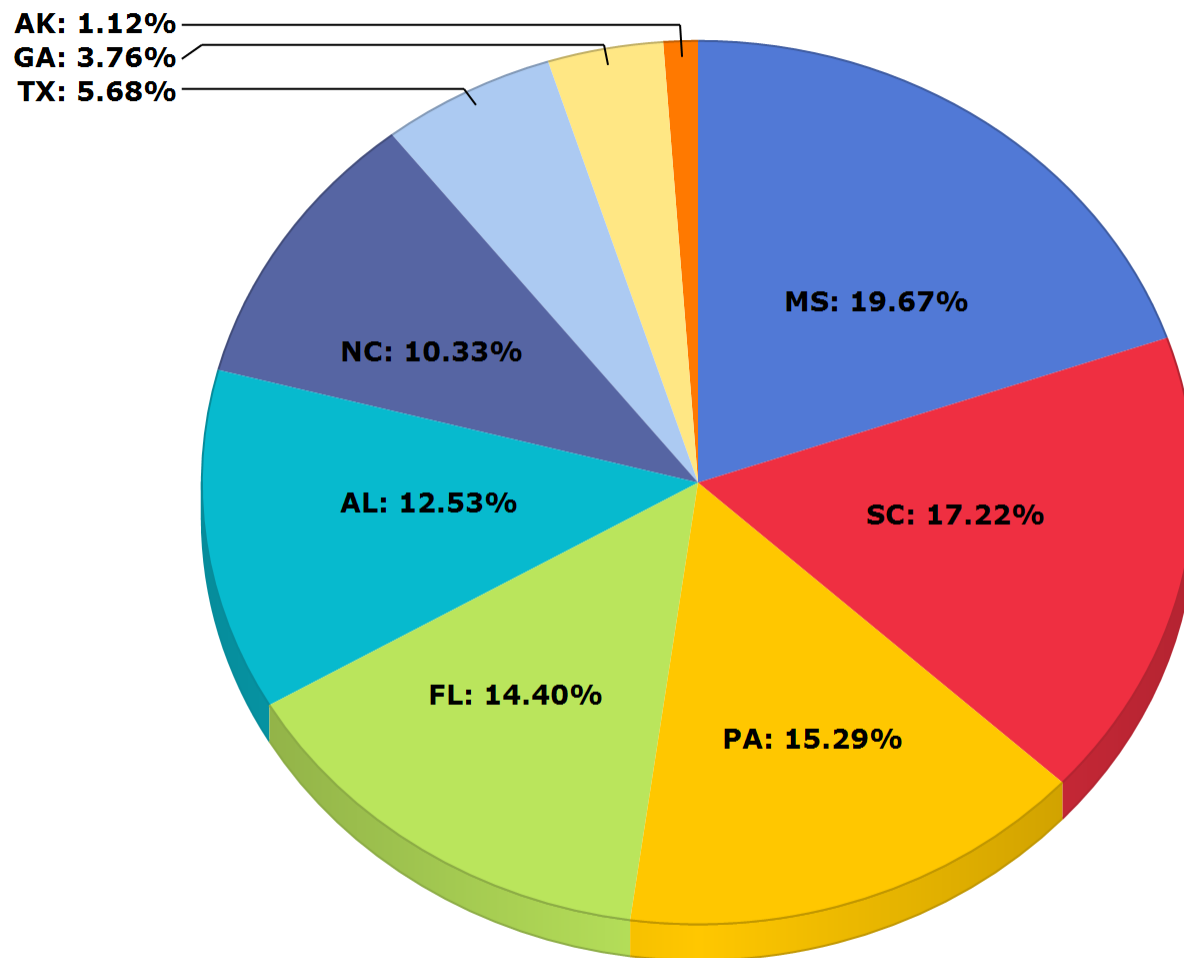
## PRIM RET Timber Regional Diversification

Total Net Assets: \$1,000,796,321.37



# PRIM RET Timber Regional Diversification

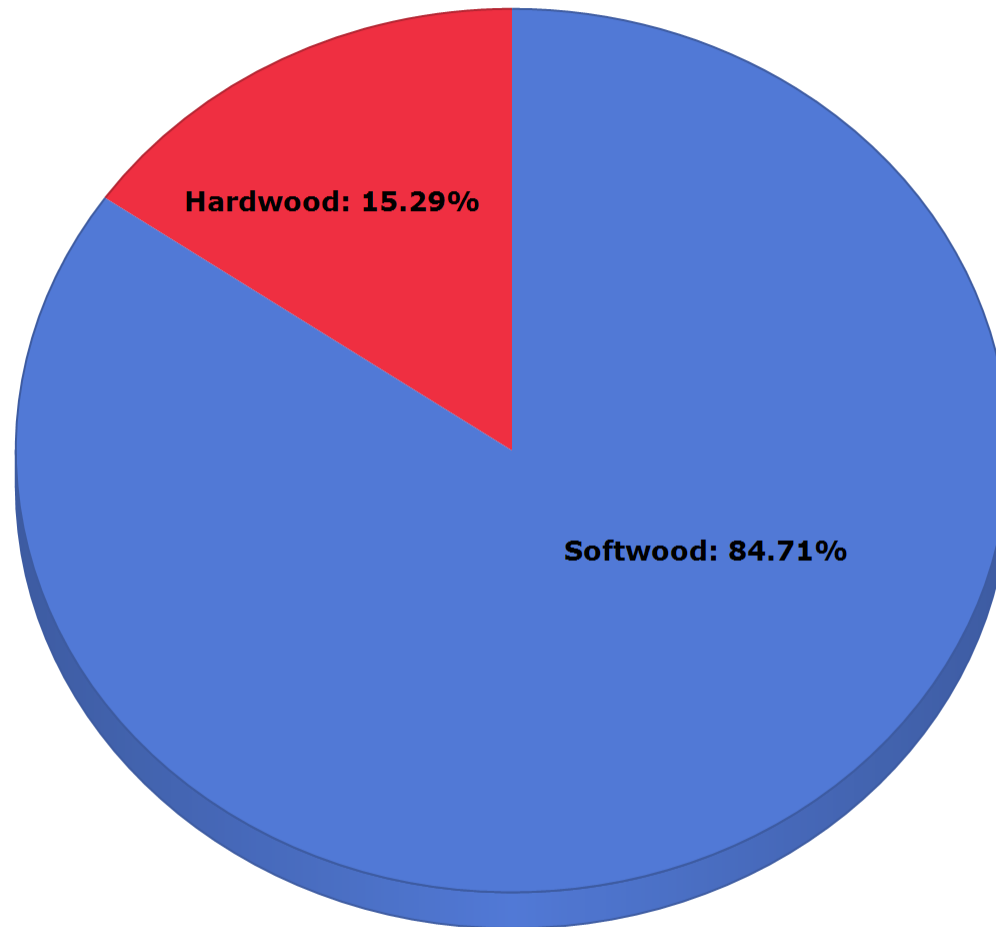
Total Net Assets: \$1,000,796,321.37





## PRIM RET Timber Property Type Diversification

Total Net Assets: \$1,000,796,321.37



**Ron Carey**  
**Senior Portfolio Manager**

Mr. Carey started his real estate career in 1984 and via his 25+ years of experience, has acquired and disposed of over \$3.0 billion in real estate assets. Spanning public, private and family-held companies, the following outlines the broad platform Mr. Carey brings to Invesco:

- ML Realty Partners – Responsible for all operations of Texas region (acquisitions, development, leasing and management);
- First Industrial REIT – Responsible for acquisitions for multi-state region;
- Opus South Corporation – Responsible for dispositions for multi-state region;
- State Board of Administration of Florida – Responsible for acquisitions;
- L&B Group – Responsible for acquisitions;
- Vantage Companies – Responsible for dispositions;

Mr. Carey received his Bachelor of Business Administration degree in Real Estate / Finance from Southern Methodist University and is actively involved in the following local Dallas chapters: National Association of Industrial and Office Parks (NAIOP), North Texas Commercial Association of Realtors (NTCAR) and The Real Estate Council (TREC). Mr. Carey is also a licensed real estate broker in the State of Texas.



# Pension Reserves Investment Management Board

## *Commonwealth of Massachusetts*

### Termination & Transition Recommendation

### June 1, 2010

**Jamie K. Shen**  
Senior Vice President



# RREEF Management & Portfolio Manager History

## ■ History of Relationship

- PRIM hired RREEF in 1995 to manage a core separate account. In 1998, RREEF was hired to manage a domestic real estate securities mandate, which was subsequently transitioned into a global securities mandate in 2007. Also in 2007, RREEF was hired to manage a direct value added separate account.
- Currently, RREEF manages a core and value added separate account and a global real estate securities separate account on behalf of PRIM.

## ■ Portfolio Manager History

### **2007**

- Jeannie Murphy was the original portfolio manager for the account and led portfolio management efforts from inception through 2007. In 2007, she departed along with several other senior RREEF professionals to join Stockbridge Real Estate Funds.
- Liz Cole replaced Jeannie Murphy, in 2007, as the lead portfolio manager. Liz was assisted in portfolio management by Sandro Arbulu.
- In 2007, RREEF was hired to manage a real estate securities account and John Roberston was designated as the lead Global Portfolio Manager.

### **2009**

- Liz Cole announced her unanticipated retirement in June of 2009. She was replaced by Peter Feinberg, who stepped down from his role of Head of Portfolio Management in the Americas, to be dedicated to the PRIM account.
- Peter Feinberg confirmed his dedication to the PRIM account and the RREEF organization verbally and key man language was put in place to further solidify his commitment. He served as the leading Portfolio Manager, along with Sandro Arbulu, as Assistant Portfolio Manager.

### **2010**

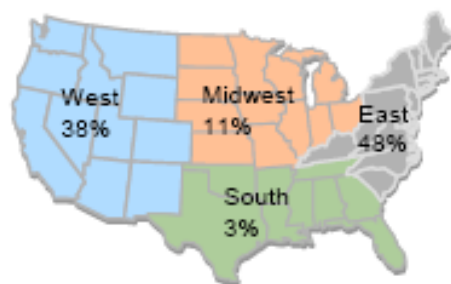
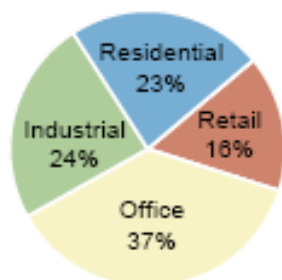
- Peter Feinberg announced his departure in order to join Invesco in April 2010.
- RREEF has assigned an interim portfolio management team that includes Sandro Arbulu and Tim Ellsworth, the current Head of Portfolio Management.



# RREEF Separate Account Overview

## ■ Existing RREEF Separate Account Portfolio

- Private portfolio includes 22 assets in Core (20) and Value Added (2) separate accounts.
- Diversified among the four main property types and across the United States.



- Total private portfolio occupancy is 91%.
- Total separate account portfolio valued at approximately \$725 million as of March 31, 2010.
- Largest investment is the 2020K office building in Washington DC, which is valued at \$195 million.



# RREEF Separate Account Overview

## Property List (As of March 31, 2010)

<u>Property Name</u>	<u>Metro Location</u>	<u>Type</u>	<u>Size (sf/units)</u>	<u>Carrying Value<sup>1</sup></u>	<u>Debt Balance<sup>1</sup></u>	<u>Occupancy<sup>1</sup></u>
2020 K Street	Washington, DC	Office	393,926 sf	\$ 194,378,574	\$ -	94%
830 Third Avenue	New York, NY	Office	141,493 sf	\$ 59,989,642	\$ -	83%
Marketplace at Birdcage	Sacramento, CA	Retail	318,408 sf	\$ 50,362,129	\$ -	82%
Eden Place	Minneapolis, MN	Residential	508 units	\$ 49,511,939	\$ -	97%
Brookwood Villas	Corona, CA	Residential	314 units	\$ 35,045,376	\$ -	93%
Springfield Commons	Springfield, VA	Retail	119,093 sf	\$ 32,961,575	\$ -	100%
Regency Woods	Minneapolis, MN	Residential	282 units	\$ 27,875,553	\$ -	94%
Noble Town Center	Abington, PA	Retail	167,689 sf	\$ 27,208,643	\$ -	100%
Encore at Sherman Oaks	Los Angeles, CA	Residential	174 units	\$ 23,500,000	\$ -	94%
Walnut Tech Business Center	Walnut, CA	Industrial Flex	200,049 sf	\$ 22,000,000	\$ -	91%
Sorrento Mesa Business Center	San Diego, CA	Industrial Flex	150,674 sf	\$ 20,651,613	\$ -	90%
Post & Paddock Industrial Park	Dallas, TX	Industrial	634,653 sf	\$ 19,900,000	\$ -	84%
Willow Grove at Danbury	Danbury, CT	Residential	135 units	\$ 19,400,000	\$ -	93%
MacArthur Corporate Center	Santa Ana (OC), CA	Industrial	203,300 sf	\$ 19,086,270	\$ -	84%
Carlsbad Industrial	San Diego, CA	Industrial	161,310 sf	\$ 17,095,112	\$ -	100%
Benicia Logistics	Benicia, CA	Industrial	247,630 sf	\$ 16,700,000	\$ -	100%
Tempe Distribution Portfolio	Phoenix, AZ	Industrial	295,841 sf	\$ 15,100,334	\$ -	85%
Northwest Business Center	Phoenix, AZ	Industrial Flex	227,603 sf	\$ 14,912,884	\$ -	88%
Corona Industrial	Corona, CA	Industrial	146,253 sf	\$ 10,598,595	\$ -	100%
Chatsworth Industrial	Los Angeles, CA	Industrial	99,694 sf	\$ 9,800,000	\$ -	100%
<b>Core - Totals</b>				<b>\$ 686,078,239</b>	<b>\$ -</b>	<b>92%</b>
Mezzo Apartments	Denver, CO	Residential	315 units	\$ 29,097,400	\$ 24,250,000	94%
Aventura Business Park	Miami, FL	Industrial Flex	204,876 sf	\$ 12,776,519	\$ 12,575,000	86%
<b>Value - Totals</b>				<b>\$ 41,873,919</b>	<b>\$ 36,825,000</b>	<b>88%</b>
<b>Portfolio - Grand Totals</b>				<b>\$ 727,952,158</b>	<b>\$ 36,825,000</b>	<b>91%</b>



# PRIM Real Estate Allocation Status

(As of March 31, 2010)\*

■ Asset Allocation & Funding Status	Value (\$)	%
— PRIM Plan Assets	\$43,957	
— Real Estate Target	\$ 4,395	<b>10%</b>
— Plan's Real Estate Market Value	\$ 3,802	<b>8.6%</b>
— Unfunded Commitments		
• New Boston Fund VII	\$ 4	
• Canyon Johnson Urban Fund II	\$ 5	
• Core Separate Account Commitments	\$ 482	
• Market Value Plus Commitments	\$ 4,293	<b>9.7%</b>
— Remaining Allocation	\$ 102	

\*Private component based on year end values.



# PRIM Core Real Estate Allocation

## Core Separate Account Sizing Scenarios

(As of March 31, 2010)\*

■ Target Allocation & Account Sizing		Value (\$)	%
—	PRIM Real Estate Assets (Including Commitments)	\$ 4,293	100%
—	Core Real Estate Target	\$ 3,220	75%
 <i>Average Separate Account Size:</i>			
—	Four Managers	\$ 805	19%
—	Five Managers	\$ 644	15%
—	Six Managers	\$ 537	13%

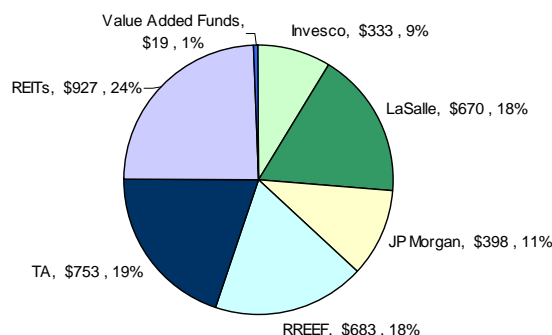
\*Private component based on year end values.



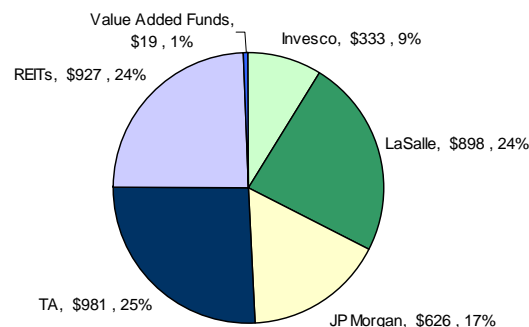


# PRIM Real Estate Allocation Status (As of March 31, 2010)\*

Manager Diversification



Potential Manager Diversification



- PRIM's current separate account relationships are sizeable, representing a large component of the overall portfolio.
- Policy diversification limit of 30% of total real estate portfolio per manager.
- If RREEF's assets were transitioned equally to LaSalle, JP Morgan and TA, LaSalle and TA would be approaching the 30% limit.
- An additional separate account manager is necessary to allow for flexibility in allocating RREEF assets and allow for future portfolio growth, while maintaining manager diversification.

\*Private component based on year end values.



# RREEF Portfolio Transition Options

- **Transition Options**

1. Asset assignment to existing separate account managers
2. Expression of interest for assets from existing separate account managers
3. Issue RFP for additional manager to takeover RREEF assets
4. Interim transfer of assets with subsequent RFP and expression of interest for assets from new and existing managers



# RREEF Portfolio Transition Options

## *Asset Assignment*

### 1. Asset assignment to existing separate account managers

#### PROS

- Experience with existing separate account managers.
- Fastest transition execution.
- PRIM would control which investment manager receives the assets based upon firm expertise and strengths.

#### CONS

- Could create concentrated exposures by region or property type within existing manager accounts.
- Would create future performance benchmarking challenges as managers did not acquire assets.
- Presents philosophical challenge relating to Invesco, as to not reward Invesco for the PM change.
- Would create concentrations by manager.

#### TIMELINE

- Need to decide assignment at Committee meeting in order to effectuate a transfer as of June 30, 2010.

#### CONCLUSIONS

- Would not consider Invesco as part of the asset transfer, which limits the asset recipients to three candidates, including JP Morgan, LaSalle and TA Associates.
- Would be wary of investment manager, property type and regional concentrations within accounts and future performance benchmarking issues.



## RREEF Portfolio Transition Options

### *Expression of Interest*

## 2. Existing managers express interest for assets based on appraised values

### PROS

- Experience with existing separate account managers.
- Separate account managers could select which investments would best enhance their individual portfolios and benefit by their investment acumen.

### CONS

- Could create concentrated exposures by region or property type within existing manager accounts.
- PRIM Staff and Consultant would have to allocate properties that receive interest from multiple managers based on perceived opinion of strengths/weaknesses.
- Presents philosophical challenge relating to Invesco, as to not reward Invesco for the PM change.
- Would create concentrations by manager.
- Could create future performance issues depending on timing of appraisals.

### TIMELINE

- Transfer decision would be made at August Board Meeting. Need to assign interim manager or allow RREEF to manage assets through September 30, 2010.

### CONCLUSIONS

- Would not consider Invesco to be eligible to bid on assets, which limits the asset recipients to three candidates, including JP Morgan, LaSalle and TA Associates.



## RREEF Portfolio Transition Options

### *RFP for Takeover*

### **3. Issue RFP for additional manager to takeover RREEF assets**

#### **PROS**

- Would bring a new separate account manager into the portfolio, which will be required as PRIM's portfolio grows.
- Would eliminate the risk of overweights by manager and concentrations within existing separate account portfolios.

#### **CONS**

- The RFP process can be lengthy.
- If the entire RREEF portfolio were transitioned to the new manager, it may be difficult for the manager to establish its own track record and investment profile with PRIM.
- A new manager may not have the expertise to manage all of the assets in the RREEF portfolio.
- Limited stable separate account universe as it is undergoing major shifts and changes after challenging market environment.

#### **TIMELINE**

- The RFP process would be rushed to accommodate the July Real Estate Committee meeting. If a special meeting could be called coupled with a Board mail vote, could effectuate a transfer by September 30, 2010.

#### **CONCLUSIONS**

- Could present challenge for new manager to show their strengths without ability to acquire new assets given the size of the portfolio.
- A new manager makes sense over the long term for the overall PRIM portfolio.



## RREEF Portfolio Transition Options

### *Hybrid of Options*

#### **4. Interim asset transfer with subsequent RFP and expression of interest based on appraised values**

##### **PROS**

- Immediate transfer of assets and management responsibility from RREEF.
- Would combine the previous options to select the best solution, by both bringing in a new manager through an RFP process and subsequent expression of interest among new and existing managers.
- If certain assets represent short term holds, a manager is in place to effectuate dispositions.
- Eliminates rushed manager selection process.

##### **CONS**

- Portion of the portfolio would be transferred twice which may cause confusion in the market.
- PRIM Staff and Consultant would have to allocate properties that receive interest from multiple managers based on perceived opinion of strengths/weaknesses.
- Designated interim manager may be viewed as receiving preferential treatment or being given an advantage over the other managers.
- Could create future performance issues depending on timing of appraisals.

##### **TIMELINE**

- Could designate interim manager at May/June meetings with takeover occurring June 30, 2010. Subsequent RFP and bid process to conclude at October Board Meeting and final transfer date of December 31, 2010.

##### **CONCLUSIONS**

- Would transfer assets from terminated manager as soon as possible and give Staff and Consultant sufficient time to conduct a thorough RFP process and review of asset bids.



# Recommendations

## **1. Terminate RREEF for direct separate accounts.**

### **Rationale:**

- Continued portfolio manager turnover and organizational unrest within the private Americas business.

## **2. Retain RREEF for the global real estate securities mandate.**

### **Rationale:**

- Portfolio manager and broader team stability coupled with strong investment performance.

## **3. Transition RREEF assets to LaSalle on an interim basis.**

### **Rationale:**

- Alleviates any concern that a non-motivated manager is managing the assets.
- LaSalle has proven experience with all property types and core and value added strategies.
- LaSalle has a stable portfolio management team and relatively strong historical performance.
- Existing property management will remain in place, to mitigate portfolio disruption.

## **4. Launch manager RFP and expression of interest for RREEF portfolio.**

### **Rationale:**

- Allows Staff and Callan time to conduct a thorough search and bid process in order to make the right long-term decision for long-term assets.
- Avoids potential concentrations by manager, property type and region.



2010 Audit Plan  
**Pension Reserves Investment  
Management Board**

May 20, 2010

KPMG LLP



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2010 Engagement Letters	

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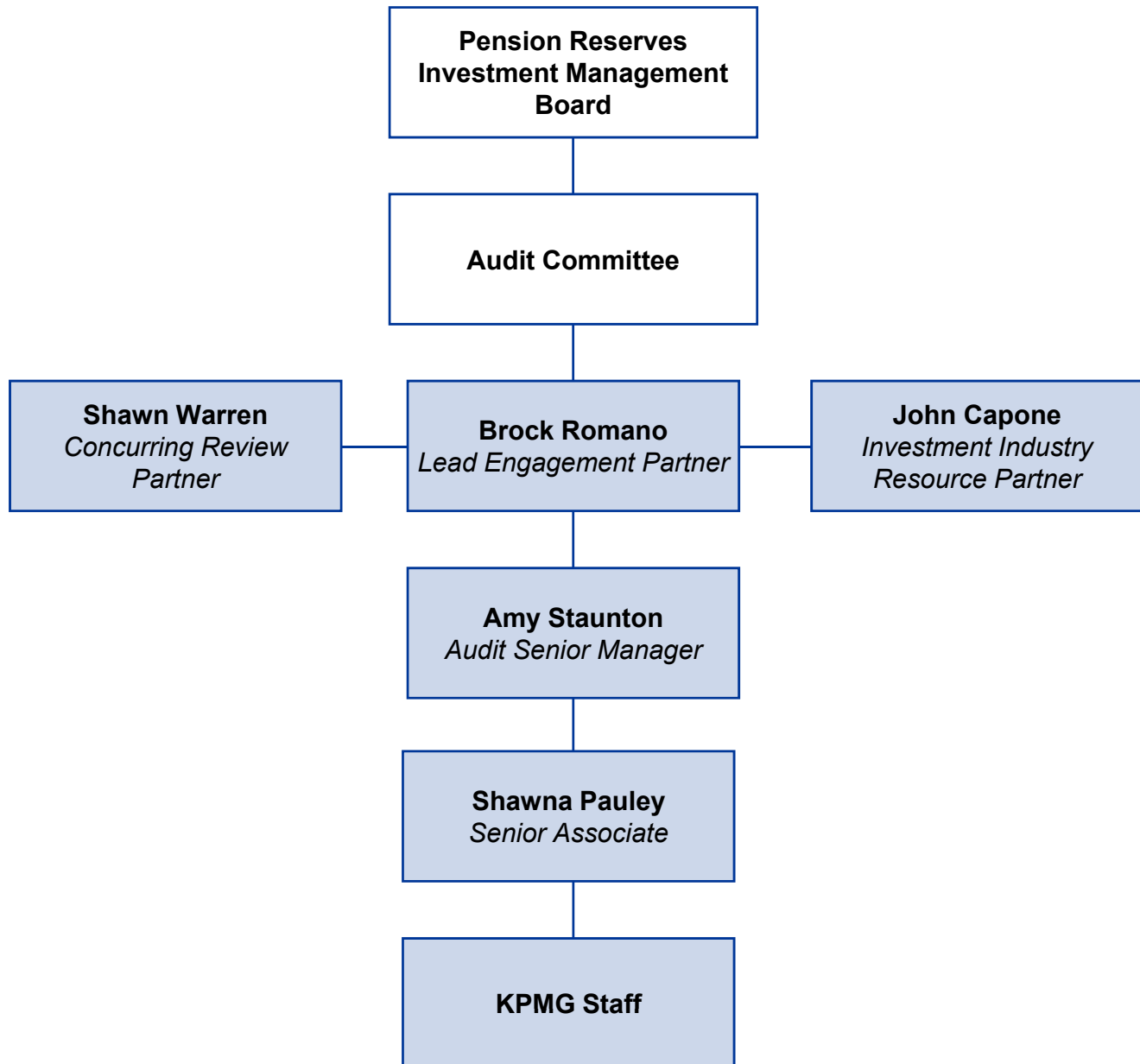
The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.



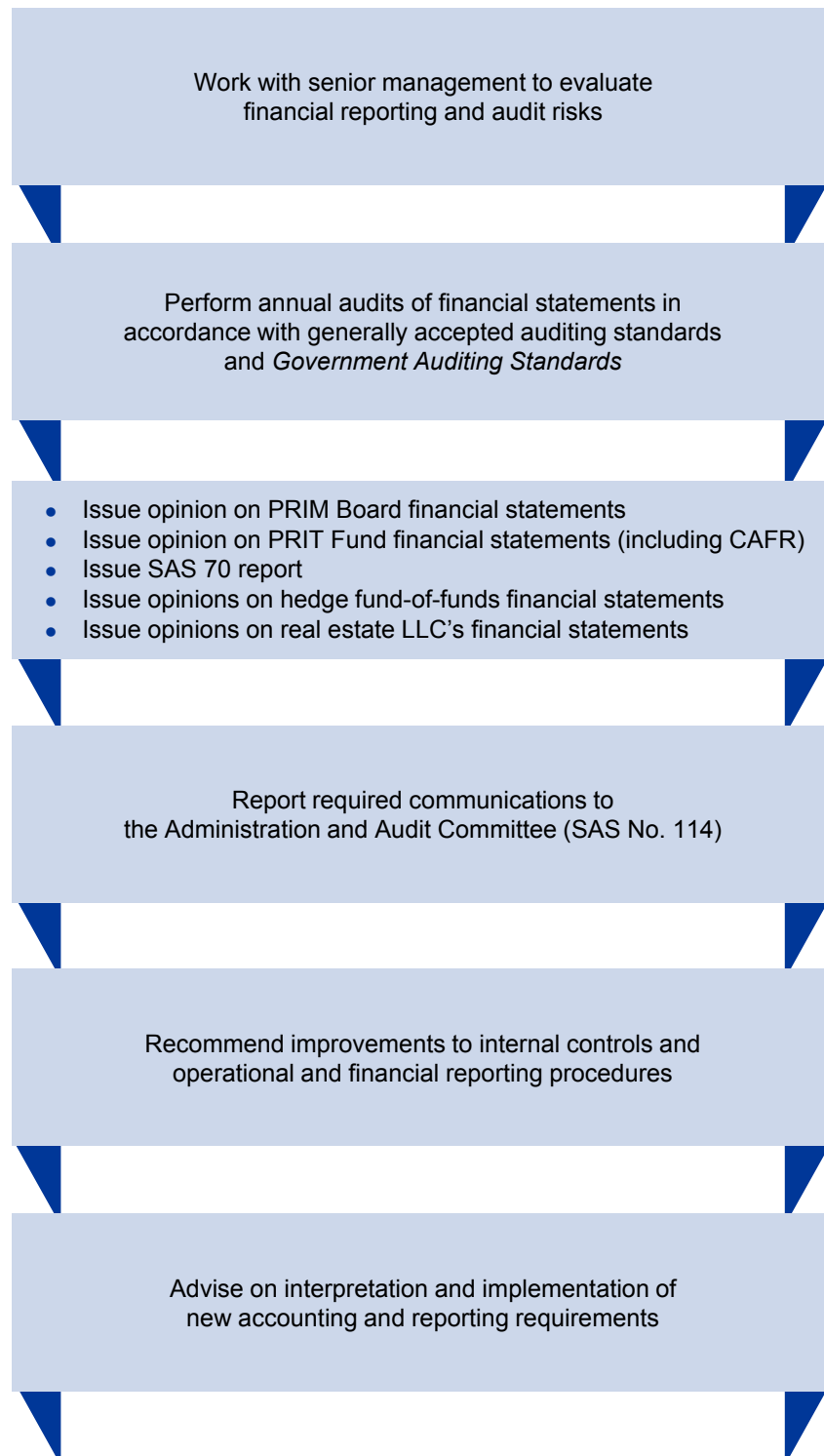
## Overview of the Plan

- Outlines the roles and responsibilities of management, KPMG and the Administration and Audit Committee with respect to financial reporting and compliance
- Describes KPMG's 2010 audit objectives for the Pension Reserves Management Investment Board
- Describes KPMG's approach to auditing key areas
- The plan was developed based on our:
  - Understanding of the industry
  - Experience with PRIM's operations
  - Assessment of PRIM's business and audit risks
  - Review of 2009 audit results
  - Review of 2009 SAS 70 audit
  - Discussions with management about the business and their input on important transactions and events
  - Changes in accounting and regulatory environment

## 2010 KPMG Engagement Team



## KPMG's Audit Objectives for PRIM



# KPMG's Audit Methodology

In its present form, our audit practice uses a risk based audit approach which begins with gaining an understanding of how the client enterprise operates its business (from strategy to execution) and the risks stemming from such activities. The workflow of the KPMG audit process is comprised of the these distinct phases:

- Planning
- Substantive Testing
- Control Evaluation
- Completion

KPMG's Audit Process			
1	Planning	<ul style="list-style-type: none"> <li>• Perform risk assessment procedures and identify risks</li> <li>• Determine audit strategy and identify critical accounting matter</li> <li>• Determine planned audit approach</li> </ul>	<b><i>Audit Deliverables</i></b> <ul style="list-style-type: none"> <li>• Report of Independent Registered Public Accounting Firm</li> <li>• SAS 114 Communications with Audit Committee</li> <li>• Report on Independence</li> </ul>
2	Control Evaluation	<ul style="list-style-type: none"> <li>• Understand accounting and reporting activities</li> <li>• Evaluate design and implementation of selective controls</li> <li>• Test operating effectiveness of selected controls</li> <li>• Assess control risk</li> </ul>	
3	Substantive Testing	<ul style="list-style-type: none"> <li>• Plan substantive procedures</li> <li>• Perform substantive procedures</li> <li>• Consider if audit evidence is sufficient and appropriate</li> <li>• Conclude on critical accounting matters</li> </ul>	
4	Completion	<ul style="list-style-type: none"> <li>• Perform completion procedures</li> <li>• Perform overall evaluation of the financial statement and disclosures</li> <li>• Form an audit opinion</li> </ul>	

- Efficient, effective audit
- Highly focused on significant business risks
- Year-round audit services
- Ongoing communications
- Prompt response to emerging issues
- Comparisons with industry "best practices"
- Meaningful feedback and advice
- No surprises

## KPMG's Audit Methodology, continued

### Planning

- We use a risk-based approach to understand the entity's business and its environment and industry. The audit team preliminarily identifies the areas where the risk of material misstatement in the financial statements is the highest. We do this through structured interviews of management and others, analytical procedures, observation, and inspection. Specifically, we consider the:
  - Financial reporting framework
  - Business and industry
  - Accounting policies and practices
  - Financial performance
  - Internal controls.
- We identify areas where estimates and management judgments could have a material impact on the financial statements. We analyze the significance of identified risks and determine our procedures accordingly.

### Control Evaluation

- Using a structured approach, we evaluate controls to assess the risk of significant misstatement for each audit objective. For audit objectives where we plan to rely on controls to modify the nature, timing, and extent of our substantive procedures, our control evaluation includes:
  - Evaluating the design and implementation of controls
  - Understanding the relevant accounting and reporting activities for each audit objective
  - Evaluating and testing any antifraud controls you have implemented
  - Evaluating selected controls over the significant risk points where material misstatements may occur
  - Performing a walk-through test, tracing a transaction through the accounting activities and selected controls, to confirm that we understand how your accounting activities and controls work
  - Testing the operating effectiveness of selected controls.

## KPMG's Audit Methodology, continued

### Substantive Testing

- We test selected audit objectives using substantive analytical procedures, tests of details, or a combination of the two, as well as substantive procedures directed toward any fraud risk we have identified. In designing our substantive audit procedures, we consider the characteristics of the class of transaction, account balance, or disclosure. We assess the risks of material misstatement identified during planning and the effectiveness of controls over these risks.
- Our testing includes:
  - Using analytical procedures designed to confirm our expectation of an overall balance
  - Vouching individual transactions to supporting documentation
  - Confirming balances and relevant information directly with third parties
  - Verifying the objectivity of assumptions, the quality of data, and the calculations underlying accounting estimates
  - Concluding on critical accounting matters
  - Checking financial statements back to the underlying accounting records.
- We decide whether evidence is sufficient and appropriate or if more work is needed. If we find exceptions or conflicting evidence, we investigate and, if necessary, perform more procedures. We reach a conclusion on each audit objective.

## KPMG's Audit Methodology, continued

### Completion

- We review the financial statements and determine whether the evidence for each audit objective reduces the risk of material misstatement in the financial statements to an acceptably low level. We form conclusions on specific topics, such as litigation and claims, and prepare a final evaluation of fraud-related matters.
- A summary of our significant findings and matters identified helps us to identify trends and potential management bias. The summary addresses matters such as:
  - The selection, application, and consistency of accounting principles, including related disclosures
  - Material weaknesses and other deficiencies in internal controls over financial reporting
  - Material misstatements and omissions in financial statements
  - Circumstances that caused significant difficulties in applying audit procedures
  - Significant findings and issues, such as those related to critical areas of judgment
  - Significant changes in the assessed level of audit risk.
- Our audit opinion is based on a review of the final financial statements and an evaluation of all evidence in accordance with generally accepted auditing standards.



# KPMG Audit Approach for PRIT Audit

## Strategic Business Risks

Strategic Business Risk	Financial Statement Items Affected	PRIT Business Process	KPMG's Primary Audit Tests
Valuation of real estate, private equity, hedge funds, and timber investments does not consider appropriate market data/risks	<ul style="list-style-type: none"> <li>• Investments at fair value: real estate, hedge funds, timber, and private equity</li> <li>• Net realized and unrealized gains/losses on investments</li> <li>• Allocation of net assets to pool participants</li> </ul>	<ul style="list-style-type: none"> <li>• Investment Management</li> </ul>	<ul style="list-style-type: none"> <li>• Review controls and reports provided by managers and consultants</li> <li>• Review reasonableness and consistency of valuation methods</li> <li>• Review and agree appraisals and audited financials to monthly rollforwards</li> <li>• Review and test controls on wire transactions and agree the wires to the monthly rollforwards</li> </ul>
Accounting and disclosure of derivative instruments is based on inappropriate assumptions or data	<ul style="list-style-type: none"> <li>• Valuation, presentation and disclosure of investments               <ul style="list-style-type: none"> <li>— Foreign currency forwards</li> <li>— Futures contracts</li> <li>— Interest-rate swaps</li> <li>— Credit default swaps</li> <li>— When-issued securities</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Investment Management</li> </ul>	<ul style="list-style-type: none"> <li>• Review appropriateness of valuation assumptions</li> <li>• Review adequacy of disclosures made</li> <li>• Disclosures are in accordance with GASB 53</li> </ul>

## KPMG Audit Approach for PRIT Audit, continued

### PRIT Audit Significant Classes of Transactions

Significant Classes of Transactions	Financial Statement Items Affected	PRIT Business Process	KPMG's Primary Audit Tests
Valuation and existence of marketable securities	<ul style="list-style-type: none"> <li>• Investments at fair value: short-term, fixed income, and equity</li> <li>• Net realized and unrealized gains/losses on investments</li> </ul>	<ul style="list-style-type: none"> <li>• Investment Management</li> </ul>	<ul style="list-style-type: none"> <li>• Review controls over investment manager procurement (SAS 70)</li> <li>• Reprice selected securities</li> <li>• Review controls and reports provided by investment managers at Mellon and PRIM</li> <li>• Disclosures are in accordance with GASB 40</li> </ul>
Investment-generated income and expense	<ul style="list-style-type: none"> <li>• Interest income</li> <li>• Dividend income</li> <li>• Real estate, timber, and alternative investments income, net</li> <li>• Management fees</li> <li>• Securities lending income and expenses</li> </ul>	<ul style="list-style-type: none"> <li>• Investment Management</li> </ul>	<ul style="list-style-type: none"> <li>• Test internal controls</li> <li>• Test details</li> <li>• Analytical reviews</li> <li>• Review Mellon's SAS 70</li> <li>• Assess adequacy of disclosures</li> </ul>
Contributions and related cash receipts	<ul style="list-style-type: none"> <li>• Contributions from participating and purchasing systems</li> </ul>	<ul style="list-style-type: none"> <li>• Contributions</li> </ul>	<ul style="list-style-type: none"> <li>• Test internal controls</li> <li>• Test details of transactions</li> <li>• Analytically review activities</li> </ul>
Distributions and related cash disbursements	<ul style="list-style-type: none"> <li>• Distributions to participating and purchasing systems</li> </ul>	<ul style="list-style-type: none"> <li>• Distributions</li> </ul>	<ul style="list-style-type: none"> <li>• Test internal controls</li> <li>• Test details</li> <li>• Review authorizations</li> </ul>

# KPMG Audit Approach for PRIM Audit/SAS 70

## PRIM Audit – Significant Classes of Transactions

Significant Classes of Transactions	Financial Statement Items Affected	PRIM Business Process	KPMG's Primary Audit Tests
Operations (excluding management fees and related payables/receivables)	<ul style="list-style-type: none"> <li>Investment advisory fees</li> <li>Custodian fees</li> <li>Salaries and employee benefits</li> <li>Legal and audit fees</li> <li>Occupancy</li> <li>Travel expenses</li> <li>Other</li> </ul>	<ul style="list-style-type: none"> <li>PRIM operations</li> </ul>	<ul style="list-style-type: none"> <li>Test internal controls</li> <li>Test details</li> <li>Analytical reviews</li> <li>Evaluate adequacy of disclosures, including related-party transactions</li> </ul>
Calculation of management fees and related receivables/payables	<ul style="list-style-type: none"> <li>Investment management fees: base and performance fees</li> <li>Receivable from PRIT for reimbursement of fees and other expenses</li> <li>Accrued investment management fees</li> </ul>	<ul style="list-style-type: none"> <li>Management fees, expenses, and revenues</li> </ul>	<ul style="list-style-type: none"> <li>Test internal controls</li> <li>Test details</li> <li>Analytical reviews</li> <li>Evaluate presentation and disclosure</li> </ul>

## Approach to the SAS 70 Audit

- Review procurement process for investment management and other professional services
- Design and perform tests of controls
- Evaluate findings
- Draft and finalize reports

Procurement Areas	Procurement Process
Public Markets, Real Estate, Hedge Funds and Timber Investment Managers	<ul style="list-style-type: none"> <li>Review policies and procedures</li> <li>Identify user controls</li> <li>Develop tests of design of controls</li> <li>Test effectiveness of controls by reviewing 100% of procurement transactions</li> <li>Review Trustee board minutes</li> </ul>
Consultants, Custodians, Auditors and Other Professionals	
Private Equity	
Economically Targeted Investments (ETI)	

## Other Areas of Audit Emphasis

### Control Environment

- Update and test PRIM's relevant internal controls over financial reporting and compliance, including Information Technology controls, as appropriate
- Review Mellon's SAS 70 and other controls
- Assess documentation of business policies and procedures
- Review budget development and monitoring processes and strategic planning process

### Financial Reporting and Compliance

- Review financial statements and footnotes, including critical accounting policies, for accuracy, completeness and conformity with applicable accounting and reporting requirements
- Review other information, including MD&A and required supplementary information, for consistency with financial statements

### Other Areas

- Conduct annual fraud interviews in accordance with SAS 99
- Review related-party transactions, including adequacy of accounting and disclosure
- Obtain and review legal letters from outside attorneys
- Evaluate effect of any subsequent events
- Obtain management representation letters

### CAFR

- Advise on CAFR disclosures
- Review CAFR report
- CAFR deadline is December 31, 2010

# Audit Timetable

## Audit Timetable

Our approach is designed to provide maximum and continuous feedback. Accordingly, we gather and evaluate information on a real-time basis throughout the year.

	2010											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Planning meetings with Management												
Meetings with the Audit Committee												
Begin planning												
Complete planning												
Begin control assessment												
Complete substantial control assessment and testing												
Complete remaining substantive audit procedures												
Issue PRIM's SAS 70 report							X					
Issue PRIT audit report										X		
Issue PRIM audit report										X		
Issue management letter										X		
CAFR												

X – Indicates audit deliverable.

## Current and Emerging Issues

- Statement on Standards for Attestation Engagements No. 16, *Reporting on Controls at a Service Organization*
  - The SSAE relates to the SAS 70 engagement and will be effective for periods beginning on or after December 15, 2010. Following is a relevant section of the Q&A issued in connection with the SSAE:
    - Q.** Have significant changes been made to SSAE 16 that would affect a service auditor's engagement?
    - A.** *The two major changes are that (1) management of the service organization will now be required to provide the service auditor with a written assertion about the fairness of the presentation of the description of the system, and about the suitability of the design and, in a type 2 engagement, the operating effectiveness of the controls. That assertion will either accompany the service auditor's report or be included in the service organization's description, and (2) in a type 2 engagement, the description of the service organization's system and the service auditor's opinion on the description will cover a period (the same period as the period covered by the service auditor's tests of the operating effectiveness of controls).*
- GASB 53 – *Accounting and Financial Reporting for Derivative Instruments*
  - Effective for this fiscal year.

## Appendix

### 2010 Engagement Letters



**KPMG LLP**  
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Boston, MA 02110-2374

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Internet [www.us.kpmg.com](http://www.us.kpmg.com)

April 28, 2010

Ms. Karen Gershman  
Chief Financial Officer  
Pension Reserves Investment Management Board  
84 State Street, Suite 250  
Boston, Massachusetts 02109

Dear Ms. Gershman:

This letter (the Engagement Letter) confirms our understanding of our engagement to provide professional services to Pension Reserves Investment Management Board (the PRIM Board) and the Pension Reserves Investment Trust Fund (PRIT).

### **Objectives and Limitations of Services**

#### ***Audit Services***

We will issue a written report upon our audit of the PRIM Board and PRIT's financial statements as set forth in Appendix I.

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, with the objective of expressing an opinion as to whether the presentation of the financial statements, taken as a whole, that have been prepared by management with the oversight of those charged with governance, conforms with U.S. generally accepted accounting principles.

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements, and because the determination of abuse is subjective, *Government Auditing Standards* does not expect auditors to provide reasonable assurance of detecting abuse.





Ms. Karen Gershman  
Chief Financial Officer  
Pension Reserves Investment Management Board  
April 28, 2010  
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Our report on the PRIM Board will be addressed to the Administrative and Audit Committee and Trustees of the PRIM Board. Our report on PRIT will be addressed to the Administrative and Audit Committee and Trustees of the PRIM Board and the Participating and Purchasing Systems of PRIT. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

***Internal Control over Financial Reporting and Compliance and Other Matters***

In planning and performing our audit of the financial statements, we will consider the PRIM Board and PRIT's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the effectiveness of the PRIM Board and PRIT's internal control over financial reporting. In accordance with *Government Auditing Standards*, we are required to communicate that the limited purpose of our consideration of internal control may not meet the needs of some users who require additional information about internal control. We can provide other services to provide you with additional information on internal control which we would be happy to discuss with you at your convenience.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of The PRIM Board and PRIT's compliance with certain provisions of laws, regulations, contracts and grant agreements, violations of which could have a direct and material effect on the financial statements. However, our objective is not to provide an opinion on compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the PRIM Board and PRIT's internal control over financial reporting and we are not obligated to search for significant deficiencies or material weaknesses as part of our audit of the financial statements, this report will include any significant deficiencies and material weaknesses to the extent they come to our attention. 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. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected on a timely basis.<sup>5</sup> This report will also include illegal acts and fraud, unless clearly inconsequential, and material violations of abuse and provisions of contracts and grant agreements. It will indicate that it is intended solely for the information and use of the audit committee and management of the PRIM Board and PRIT and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

In accordance with *Government Auditing Standards*, we will also issue a management letter to communicate violations of provisions of contracts or grant agreements or abuse that has an effect on the financial statements that is less than material but more than inconsequential that comes to our attention.



Ms. Karen Gershman  
Chief Financial Officer  
Pension Reserves Investment Management Board  
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In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud or illegal acts directly to parties outside the auditee.

### ***Offering Documents***

Should the PRIM Board and PRIT wish to include or incorporate by reference these financial statements and our audit reports thereon into an offering of exempt securities, prior to our consenting to include or incorporate by reference our reports on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future offering documents will be determined at the time the services are to be performed.

Should the PRIM Board and PRIT wish to include or incorporate by reference these financial statements and our audit report(s) thereon into an offering of exempt securities without obtaining our consent to include or incorporate by reference our report(s) on such financial statements, and we are not otherwise associated with the offering document, then the PRIM Board and PRIT agrees to include the following language in the offering document:

“KPMG LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement.”

### **Our Responsibility to Communicate with the Administrative and Audit Committee**

We will report to you, in writing, the following matters:

- Corrected misstatements arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the PRIM Board and PRIT’s financial reporting process. In this context, corrected misstatements are proposed corrections of the financial statements that were recorded by management and, in our judgment, may not have been detected except through the auditing procedures performed.
- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.
- Any disagreements with management or other significant difficulties encountered in performance of our audit.



Ms. Karen Gershman  
Chief Financial Officer  
Pension Reserves Investment Management Board  
April 28, 2010  
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- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

We will also read minutes, if any, of audit committee meetings for consistency with our understanding of the communications made to the audit committee and determine that the audit committee has received copies of all material written communications between ourselves and management. We will also determine that the audit committee has been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

If, in performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to the audit committee our reasons for modification or withdrawal.

### **Management Responsibilities**

The management of the PRIM Board and PRIT is responsible for the fair presentation, in accordance with U.S. generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the PRIM Board and PRIT complies with laws, regulations, contracts, and grant agreements applicable to its activities, and for informing us of any known material violations of such laws and regulations and provisions of contracts and grant agreements. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management is also responsible for informing us, of which it has knowledge, of all significant deficiencies and material weaknesses, in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management of the PRIM Board and PRIT also agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the PRIM Board and PRIT's personnel. As required by the auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

In accordance with *Government Auditing Standards*, as part of our planning of the audit we will evaluate whether the PRIM Board and PRIT has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the



Ms. Karen Gershman  
Chief Financial Officer  
Pension Reserves Investment Management Board  
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financial statements. To assist us, management agrees to identify previous audits, attestation engagements, or other studies that relate to the objectives of the audit, including whether related recommendations have been implemented, prior to the beginning of fieldwork.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon taken as a whole. Because of the importance of management's representations to the effective performance of our services, the PRIM Board and PRIT will release KPMG LLP (KPMG) and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations in the representation letter referred to above.

Management is also responsible for providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAGAS report within a reasonable time of being provided with draft findings. If such information is not provided on a timely basis prior to release of the report, the GAGAS report will indicate the status of management's responses.

Management is responsible for the distribution of the reports issued by KPMG.

### **Dispute Resolution**

Any dispute or claim arising out of or relating to this Engagement Letter or the services provided hereunder, or any other audit or attest services provided by or on behalf of KPMG or any of its subcontractors or agents to the PRIM Board and PRIT or at its request, shall be submitted first to non-binding mediation (unless either party elects to forego mediation by initiating a written request for arbitration) and if mediation is not successful within 90 days after the issuance by one of the parties of a request for mediation then to binding arbitration in accordance with the Rules for Non-Administered Arbitration of the International Institute for Conflict Prevention and Resolution then in effect ("CPR Arbitration Rules"). Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or enforceability of these dispute resolution procedures, including any contention that all or part of these procedures is invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. By operation of this provision, the parties agree to forego litigation over such disputes in any court of competent jurisdiction.

Mediation, if selected, may take place at a location to be designated by the parties using Mediation Procedures of the International Institute for Conflict Prevention and Resolution, with the exception of paragraph 2 (Selecting the Mediator). Arbitration shall take place in the Commonwealth of Massachusetts. The arbitration panel shall have no power to award non-monetary or equitable relief of any sort except as provided in CPR Rule 13 (Interim Measures of Protection). Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages shall be unavailable in arbitration or any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.



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Chief Financial Officer  
Pension Reserves Investment Management Board  
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Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm and enforce any final award entered in arbitration, in any court of competent jurisdiction. Notwithstanding the agreement to such procedures, either party may seek equitable relief to enforce its rights in any court of competent jurisdiction.

#### **Other Matters**

This letter shall serve as the PRIM Board and PRIT's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and the PRIM Board and PRIT and between KPMG and outside specialists or other entities engaged by either KPMG or the PRIM Board and PRIT. The PRIM Board and PRIT acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

Further, for purposes of the services described in this letter only, the PRIM Board and PRIT hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all names, logos, trademarks and service marks of the PRIM Board and PRIT solely for presentations or reports to the PRIM Board and PRIT or for internal KPMG presentations and intranet sites.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.

KPMG member firms located outside the United States and other third-party service providers operating under our supervision may also participate in providing the services described in this letter.

The work papers for this engagement are the property of KPMG. Pursuant to *Government Auditing Standards*, we are required to make certain work papers available in a full and timely manner to regulatory agencies upon request for their reviews of audit quality and for use by their auditors. In addition, we may be requested to make certain work papers available to regulators pursuant to authority given to it by law or regulation. Access to the requested work papers will be provided under supervision of KPMG personnel. Furthermore, upon request, we may provide photocopies of selected work papers to regulatory agencies. These regulatory agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement for the PRIM Board and PRIT in judicial or administrative proceedings to which KPMG is not a party, the PRIM Board and PRIT shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

#### ***Other Government Auditing Standards Matters***

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report.



Ms. Karen Gershman  
Chief Financial Officer  
Pension Reserves Investment Management Board  
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***Additional Reports and Fees for Services***

Appendix I to this letter lists the additional reports we will issue as part of this engagement and our fees for professional services to be performed per this letter.

In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to those in this letter.

\* \* \* \* \*

Our engagement herein is for the provision of annual audit services for the financial statements and for the periods described in Appendix I, and it is understood that such services are provided as a single engagement. Pursuant to our arrangement as reflected in this letter we will provide the services set forth in Appendix I as a single engagement for each of the PRIM Board and PRIT's subsequent fiscal years until either Management or we terminate this agreement, or mutually agree to the modification of its terms. The fees for each subsequent year will be annually subject to negotiation and approval by the Management.

In accordance with your instructions, we have forwarded a copy of this letter to the members of the Administrative and Audit Committee.

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us.

Very truly yours,

KPMG LLP

N. Brock Romano  
*Partner*

ACCEPTED:

**Pension Reserves Investment Management Board  
and Pension Reserves Investment Trust Fund**

\_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date



## Appendix I

### Fees for Services

Based upon our proposal dated January 6, 2009, our fees for services we will perform are estimated as follows:

Audit of financial statements of The PRIM Board for the year ended June 30, 2010	\$ 26,000
Audit of financial statements of PRIT for the year ended June 30, 2010	<u>183,000</u>
<b>Total</b>	<b>\$209,000</b>

Our fees will be payable according to the following schedule:

<u>The PRIM Board</u>		<u>PRIT</u>	
<u>Due Date</u>	<u>Amount</u>	<u>Due Date</u>	<u>Amount</u>
May 31, 2010	\$6,000	May 31, 2010	\$45,000
June 30, 2010	7,000	June 30, 2010	55,000
August 31, 2010	8,000	August 31, 2010	73,000
September 30, 2010	<u>5,000</u>	September 30, 2010	<u>10,000</u>
	<u>\$26,000</u>		<u>\$183,000</u>

The above estimates are based on the level of experience of the individuals who will perform the services. In addition, expenses are billed for reimbursement as incurred but will not exceed \$1,500. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to clients. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

PricewaterhouseCoopers LLP  
400 Campus Drive  
P. O. Box 988  
Florham Park NJ 07932  
Telephone (973) 236 4000  
Facsimile (973) 236 5000

### System Review Report

To the Partners of KPMG LLP  
and the AICPA Center for Public Company Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm) applicable to non-SEC issuers in effect for the year ended March 31, 2008. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards*, audits of employee benefit plans, and an audit performed under FDICIA.

In our opinion, the system of quality control for the accounting and auditing practice applicable to non-SEC issuers of KPMG LLP in effect for the year ended March 31, 2008, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. KPMG LLP has received a peer review rating of *pass*.

*PricewaterhouseCoopers LLP*

December 2, 2008





**KPMG LLP**  
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April 29, 2010

**Private and Confidential**

Ms. Karen Gershman  
Chief Financial Officer  
Pension Reserves Investment Management Board  
84 State Street, Suite 250  
Boston, Massachusetts 02109

Dear Ms. Gershman:

This letter (the Engagement Letter) confirms our understanding of our engagement to report upon our examination of Pension Reserves Investment Management Board (PRIM's) description of controls applicable to the processing of transactions related to the PRIM investment management and other advisory services procurement process as of June 30, 2010 for user organizations for user organizations. In addition, our examination will also report on the effectiveness of selected controls, included in the description, during the period from July 1, 2009 to June 30, 2010. A report on controls placed in operation and tests of operating effectiveness is commonly referred to as a Statement on Auditing Standards No. 70 *type II report*.

**Scope of Services**

We will conduct our examination in accordance with standards established by the American Institute of Certified Public Accountants (AICPA). The following paragraphs describe the objectives of our engagement and the nature and limitations of the services we will provide.

Our examination will include procedures to obtain reasonable assurance as to whether:

- PRIM's description of controls presents fairly, in all material respects, the aspects of PRIM's controls that may be relevant to a user organization's internal control, as it relates to an audit of financial statements,<sup>2</sup>
- The controls included in the aforementioned description are suitably designed to provide reasonable assurance that the control objectives specified in the description, would be achieved if the described controls were complied with satisfactorily, and user organizations applied the controls contemplated in the design of PRIM's controls,
- Such controls had been placed in operation as of July 1, 2009, and
- The controls that we will select for testing are operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives were achieved during the period from July 1, 2009 to June 30, 2010.



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Chief Financial Officer  
Pension Reserves Investment Management Board  
April 29, 2010  
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The control objectives for this examination are specified by PRIM management.

In conducting the examination we will examine, on a test basis, evidence supporting PRIM's description of controls, including the operating effectiveness of the controls that we will select for testing, and perform other procedures as we consider necessary in the circumstances to provide a reasonable basis for our report. Our examination will not include other systems, controls, operations, or services not specified herein, including internal control at user organizations; and, accordingly, we will express no opinion on such items.

An examination is planned and performed to obtain reasonable assurance of detecting both intentional and unintentional misstatements that are material to the description of controls taken as a whole and whether the controls were not operating effectively. Absolute assurance is not attainable because of factors such as the need for judgment regarding the areas to be tested and the nature, timing, and extent of tests to be performed; the concept of selective testing of the data; the nature of fraud; and the inherent limitations of the controls applicable to the control objective. Therefore, there is a risk that fraud or a material misstatement may exist or that the controls are not operating effectively and may not be detected by an examination performed in accordance with professional standards. Also, an examination is not designed to detect matters that are not material to the description or operating effectiveness of controls. In addition, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes made to the system or controls, or the failure to make needed changes to the system or controls, may alter the validity of such conclusions.

If we conclude that the description of controls contains material omissions or material misstatements of fact, that controls are not operating effectively, or if we determine that there is evidence that fraud may exist, or if we determine that an illegal act may exist (unless such illegal act is clearly inconsequential), we will report the matter to management and, if deemed appropriate, to the audit committee or board of directors.

## **Report**

Our report will be addressed to the Trustees of PRIM. We cannot provide assurance that we will render an unqualified opinion. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement. In such circumstances, we will communicate our findings or reasons for withdrawal to the administrative and audit committee.

While our report may be sent to PRIM electronically for your convenience, only the hard copy report is to be relied upon as our work product.

## **Responsibilities of the Client**

PRIM agrees that all records, documentation, and information we request in connection with our examination will be made available to us, that all material information will be disclosed to us including, without limitation, any and all actual or claimed malfunction, breach, error, or



Ms. Karen Gershman  
Chief Financial Officer  
Pension Reserves Investment Management Board  
April 29, 2010  
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problem associated with the description of controls, and that we will have the full cooperation of PRIM's personnel.

At the conclusion of the engagement, PRIM's management will provide us with a representation letter that, among other things, will confirm management's responsibility for the presentation of the control description, and that all records, documentation, and information relevant to the control description have been made available to us including any and all actual or claimed malfunction, breach, error, or problem associated with the systems and processes subject to our examination. Management's responses to our inquiries, written representations, and the results of our other examination procedures comprise the evidential matter we will rely upon in forming our opinion on the description of controls placed in operation and tests of operating effectiveness.

The management of PRIM is responsible for the implementation and reliability of information systems, processes, and controls described in the description of controls. They also are responsible for the description of PRIM's systems and controls and all representations contained therein.

### **KPMG Resources**

KPMG LLP (KPMG) is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.

KPMG member firms located outside the United States and other third-party service providers operating under our supervision may also participate in providing the services described in this letter.

### **Release to Third Parties**

We understand that our report will not be used, nor will we be referred to in any manner relating to this engagement, in any marketing or promotional literature. This report is intended solely for the information and use of management of PRIM, its customers, and the independent auditors of its customers (collectively, the "Authorized Parties") and is not intended to be and should not be used by anyone other than these specified parties. Management of PRIM is responsible for distributing the report to its customers and to the independent auditors of its customers.

### **Limitation of Liability**

Because of the importance of management's representations to the effective performance of our services, PRIM will release KPMG and its personnel from any claims, liabilities, costs, and expenses relating to our services under this letter attributable to any misrepresentations in the representation letter referred to above.



Ms. Karen Gershman  
Chief Financial Officer  
Pension Reserves Investment Management Board  
April 29, 2010  
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KPMG's maximum liability to PRIM arising for any reason relating to services rendered under this letter shall be limited to the amount of fees paid for these services.

PRIM will indemnify, defend, and hold KPMG and its personnel harmless from and against any and all claims, liabilities, costs, and expenses asserted against KPMG by any third party to the extent resulting from that party's use or possession of, or reliance upon, KPMG's report or other reference to KPMG's services hereunder as a result of PRIM's disclosure of such report or reference thereto other than to the Authorized Parties.

### **Other Contract Terms**

#### ***Dispute Resolution***

Any dispute or claim arising out of or relating to this Engagement Letter or the services provided hereunder, or any other audit or attest services provided by or on behalf of KPMG or any of its subcontractors or agents to PRIM or at its request, shall be submitted first to non-binding mediation (unless either party elects to forego mediation by initiating a written request for arbitration) and if mediation is not successful within 90 days after the issuance by one of the parties of a request for mediation then to binding arbitration in accordance with the Rules for Non-Administered Arbitration of the International Institute for Conflict Prevention and Resolution then in effect ("CPR Arbitration Rules"). Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or enforceability of these dispute resolution procedures, including any contention that all or part of these procedures is invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. By operation of this provision, the parties agree to forego litigation over such disputes in any court of competent jurisdiction.

Mediation, if selected, may take place at a location to be designated by the parties using Mediation Procedures of the International Institute for Conflict Prevention and Resolution, with the exception of paragraph 2 (Selecting the Mediator). Arbitration shall take place in the Commonwealth of Massachusetts. The arbitration panel shall have no power to award non-monetary or equitable relief of any sort except as provided in CPR Rule 13 (Interim Measures of Protection). Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages shall be unavailable in arbitration or any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm and enforce any final award entered in arbitration, in any court of competent jurisdiction. Notwithstanding the agreement to such procedures, either party may seek equitable relief to enforce its rights in any court of competent jurisdiction.



Ms. Karen Gershman  
Chief Financial Officer  
Pension Reserves Investment Management Board  
April 29, 2010  
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### ***Other Matters***

This letter shall serve as PRIM's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and PRIM and between KPMG and outside specialists or other entities engaged by either KPMG or PRIM. PRIM acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

PRIM agrees that KPMG may list the company as a client in proposals, under a heading reflective of the services rendered. KPMG may also list the company as a client in marketing materials. Further, for purposes of the services described in this letter only, PRIM hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all names, logos, trademarks and service marks of PRIM solely for presentations or reports to PRIM or for internal KPMG presentations and intranet sites.

The work papers for this engagement are the property of KPMG. In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement for PRIM in judicial or administrative proceedings to which KPMG is not a party, PRIM shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorneys' fees, incurred in responding to such requests.

We may also be requested to make certain work papers available to regulatory agencies (e.g., the Public Company Accounting Oversight Board (PCAOB) or other regulatory agencies) pursuant to authority given to it by law or regulation. If requested, access to such work papers will be provided under the supervision of KPMG personnel. Furthermore, upon request, we may provide photocopies of selected work papers to those regulatory agencies. Those regulatory agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including the Securities and Exchange Commission [and other government agencies]. We agree to communicate to you on a timely basis requests by any such regulatory agency for access to the work papers as part of its inspection process and whenever such regulatory agency desires direct contact with members of the audit committee.

### **Professional Fees**

Based upon our proposal dated January 6, 2009, we estimate that our fees for the examination will be \$24,000. This estimate is based on the level of experience of the individuals who will perform the services. In addition, expenses are billed for reimbursement as incurred. In estimating our fees for these services, we have assumed that the control descriptions in support of the control objectives have already been developed by PRIM and will require minimal modifications for the service auditor's report.. Circumstances encountered during the



Ms. Karen Gershman  
Chief Financial Officer  
Pension Reserves Investment Management Board  
April 29, 2010  
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performance of these services that warrant additional time or expense could cause us to be unable to deliver our services within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Our fees will be payable as follows:

<u>Due Date</u>	<u>Amount</u>
May 31, 2010	\$11,000
June 30, 2010	10,000
August 31, 2010	<u>3,000</u>
	\$24,000

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

#### **Acceptance**

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Should these arrangements meet with your approval, please sign and return it to us.

Very truly yours,

KPMG LLP

N. Brock Romano  
*Partner*



Ms. Karen Gershman  
Chief Financial Officer  
Pension Reserves Investment Management Board  
April 29, 2010  
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ACCEPTED

Pension Reserves Investment Management Board

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Authorized Signature

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Title

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Date