



PENSION  
RESERVE TRUST

# Working to Preserve Pension Benefits

Quarterly Report of the Pension Reserve Trust

June 30, 2023

# Agenda

- **Steps Since Our Last Meeting**
- **Investments**
  - **Initial Investment Performance**
  - **Investment Policy & Planned Investments**
- **Financial Report**
- **Operations & Expenses**
- **Communications**
- **Next Steps**

## Since our Last Meeting

- **Established Board chair, investment & audit committees, & secretary**
- **Began transition from initial investments to planned allocations**
- **Onboarded investment accountant**
- **Launched website in English and Spanish**
- **Provided funding for PBC elections**

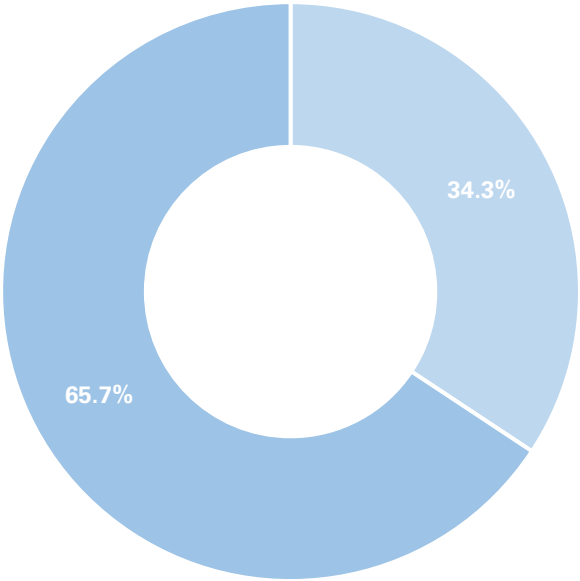
# Investments

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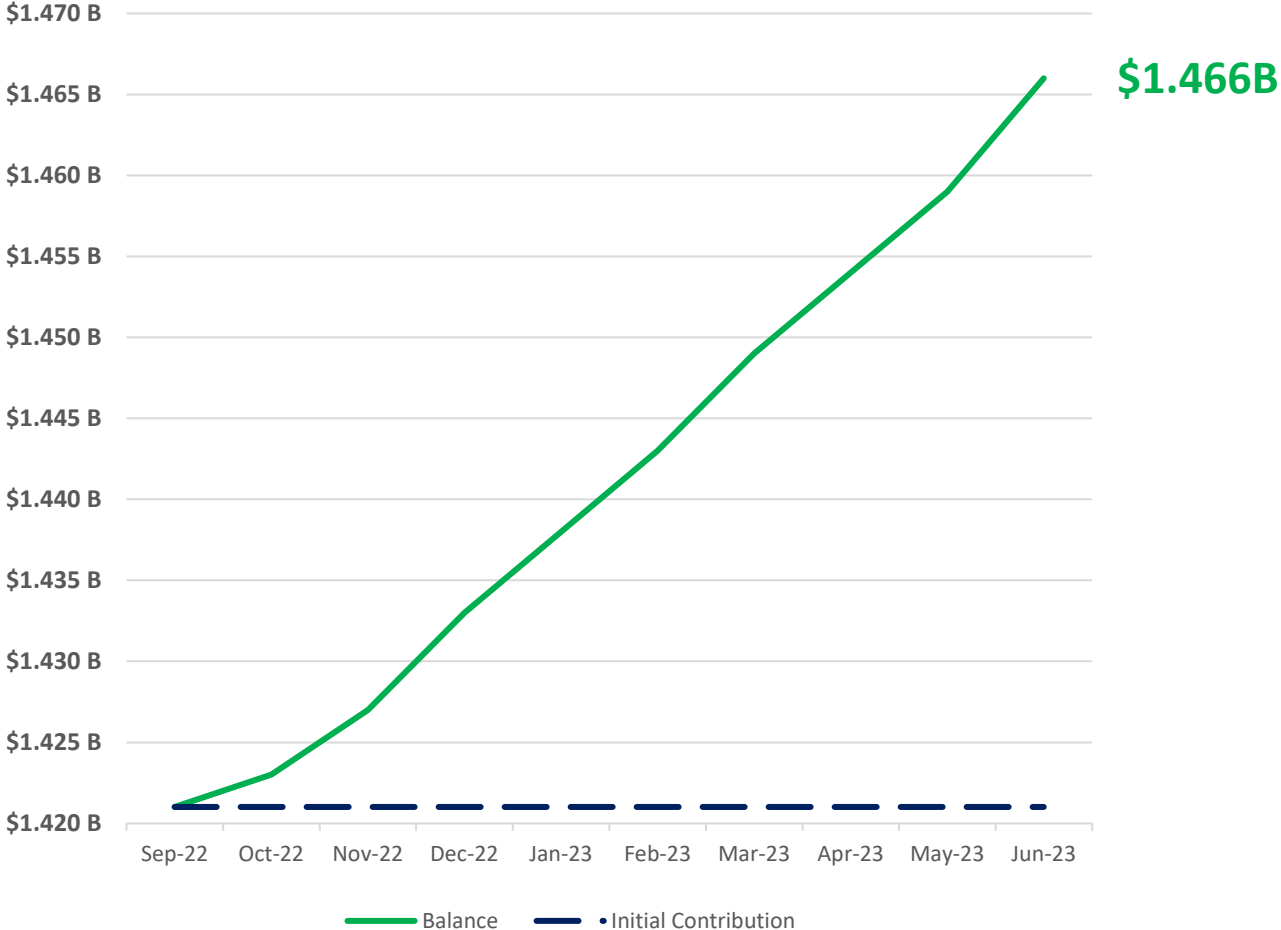
- **Initial investments in US govt securities**
- **After deciding investment policies & asset allocation, moving to a more diversified portfolio**
- **Initial transition to ETFs and other passive investments**
- **Transition will be completed with FOMB approval of investment manager selection process and contract**

# The initial contribution was invested conservatively. Assets increased by nearly \$46,000,000 through June 30

All assets invested initially in government-guaranteed securities



■ US Treasury Bonds   ■ US Government Agency Notes



# Our Investment Policies

- **Invest conservatively but consistent with government projected funding needs**
- **Recognizing that investment returns will fluctuate from quarter to quarter, invest for the long term**
- **Diversify investments & types of investments**
- **Keep investment expenses low**
- **Rely as appropriate on professional investment advice**

# Planned investment asset allocation is designed to be conservative.

Asset Class	Initial %	Planned %	Range
<b>Low Risk Bonds</b>	<b>100%</b>	<b>55%</b>	<b>40% - 70%</b>
<b>Bonds with More Risk</b>	<b>0%</b>	<b>10%</b>	<b>5% - 15%</b>
<b>Stocks &amp; Other Equities</b>	<b>0%</b>	<b>25%</b>	<b>15% - 35%</b>
<b>Other Diversified Investments</b>	<b>0%</b>	<b>10%</b>	<b>5% - 15%</b>

“Low Risk Bonds:” US Treasuries, US federal agency debt, discount notes, money market funds and similar instruments, investment grade corporate bonds

“Bonds with More Risk:” Global fixed income, below investment grade corporate bonds, and private credit

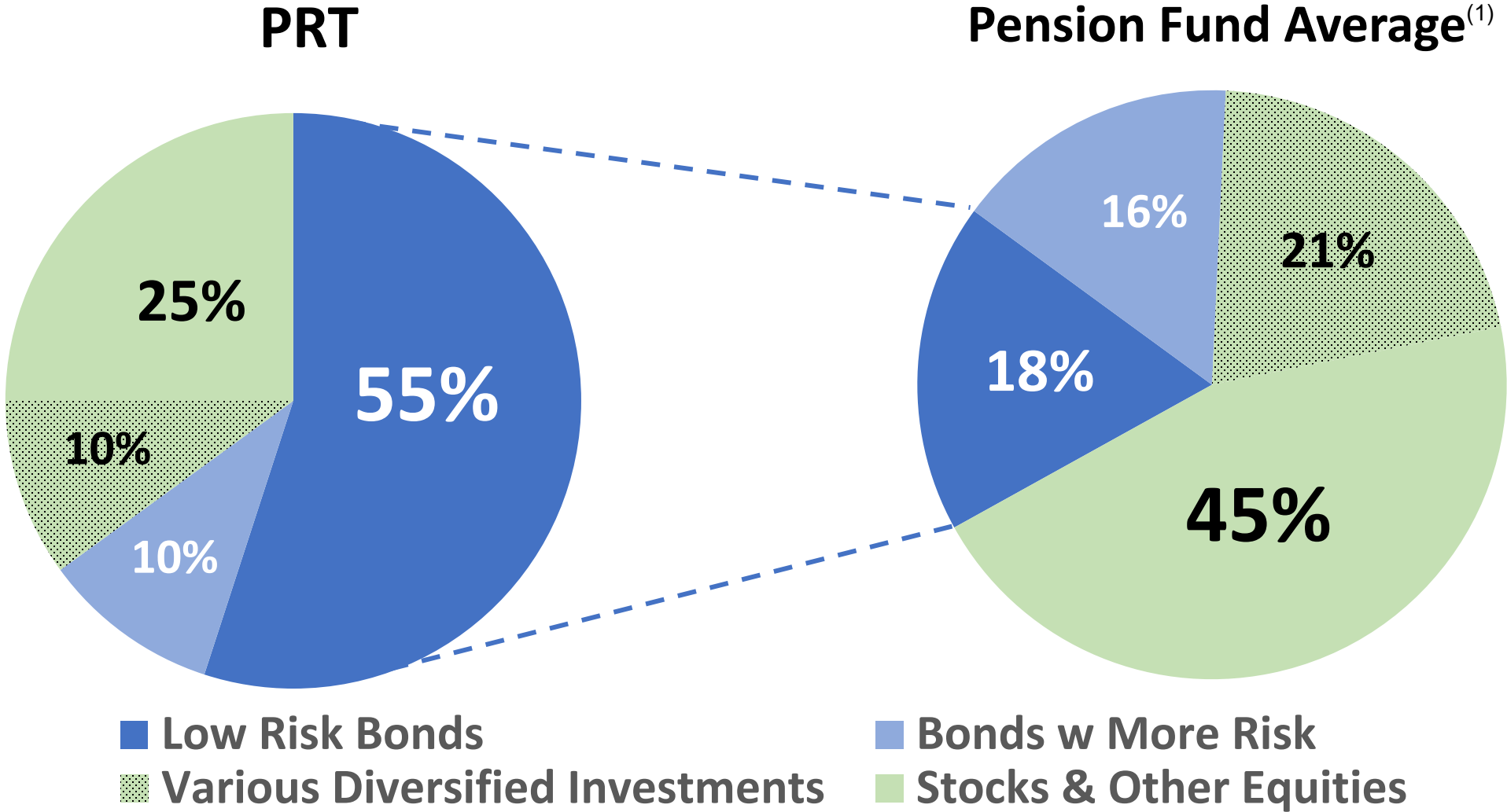
“Stocks & Other Equity:” Principally public market stocks

“Other Diversified Investments:” Includes real estate, tactical asset allocation strategies, etc. with different risks than stocks

- 8 ***PRT will review and modify allocations as appropriate based on changes in market conditions or economic outlook, among others.***



# PRT's target investment asset allocation is more conservative than most pension funds



(1) InvestMetrics Public DB Universe as of June 30, 2023.



# Financial Report

# Balance Sheet for Year ended June 30, 2023 <sup>(1)</sup> *(Dollars in thousands)*

<b>Assets</b>	<b>\$ 1,468,586</b>
Liabilities	474
Trust Capital	1,468,112
<b>Total Liabilities &amp; Trust Capital</b>	<b>\$ 1,468,586</b>

For more detailed information regarding the financial statements, please refer to the Appendix.

(1) Unaudited. Excludes Pension Benefits Council financials

# Income Statement for Year ended June 30, 2023 <sup>(1)</sup> *(Dollars in thousands)*

Total Revenues		\$	45,870
Total Expenses			2,292
<b>Net Income</b>		<b>\$</b>	<b>43,578</b>

For more detailed information regarding the financial statements, please refer to the Appendix.

<sup>(1)</sup> Unaudited.

# Operations & Budget

# Budget

Year ended June 30, 2023 <sup>(1)</sup>

- **Continue to operate within budget limits**
- **Have begun discussions about changes to permit full professional operations**

Expenses	Budget	Expenses	Diff.
Administrative and Operating Expenses	1,300,000	941,120	358,880
Investment Expenses	2,693,000	561,637	2,131,363
Start-Up Expenses	1,130,000	788,280	341,720
<b>Total Expenses<sup>(1)</sup></b>	<b>5,123,000</b>	<b>2,291,037</b>	<b>2,831,963</b>

For more detailed information regarding these expenses, please refer to the Appendix.

# Next Steps

## A Investments

- FOMB approval of manager selection process/contract
- RFP to select managers & implement plan

## B Operations

- Implement new accounting platform(s)
- Establish cash management processes
- Develop shared services for PBC

## C Governance & Accountability

- Publish Ethics & Conflict of Interest Policies
- Publish FY23 Annual Report & Audits



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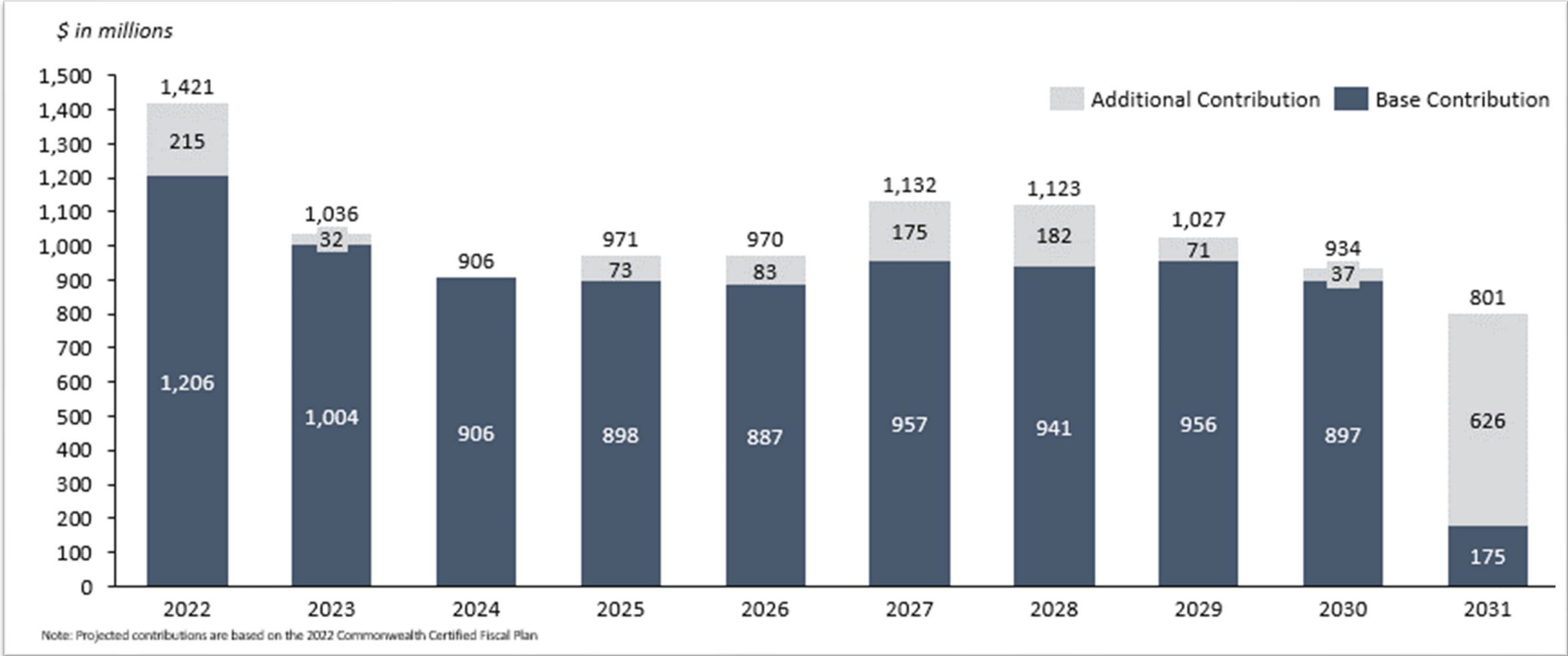
# Important Notices & Disclaimers

- ▶ *This presentation is being provided for the information and use of the Act 106 Board and the Pension Benefits Council. It is not investment advice or legal advice.*
- ▶ *The objective of the Pension Reserve Trust is, if possible, to provide funds to the Government adequate to meet pension obligations by prudently investing its funds over the next several decades. The investment decisions of the Trust are made with that objective while minimizing unnecessary risks. However, **all investments carry some level of risk. Their performance in the future can and will differ from their past performance and the Trust's asset values will fluctuate from quarter to quarter and year to year.** Diversification and other asset allocation techniques do not ensure profit or protect against losses.*
- ▶ *The PRT and Board make investment decisions to implement the particular requirements of the Plan of Adjustment, the Deed of Trust, and the Guidelines. **This presentation and the Trust's investment decisions should not be relied on in any way by any other party for any other purpose, particularly (but not only) decisions about investment of pension funds and of individual retirement plans.** Every person should make their own analysis based on their own goals with independent financial professionals before making any investment.*
- ▶ *The views presented here represent the good faith views of the Pension Reserve Trust as of the publication date and are subject to change at any time. The presentation does not contain all the analysis and data examined by the Board in coming to its views.*
- ▶ *Some of the information presented here has been obtained from external sources including the FOMB, the Commonwealth Government, consultants, vendors, etc.. While the Board has exercised reasonable professional care in preparing this content, we cannot guarantee the accuracy of all source information. Any financial information is unaudited.*



# Appendix

# The flow of contributions per the FY22 Certified Fiscal Plan forecasts more than \$10 billion in contributions over the next ten (10) years



# Balance Sheet at June 30, 2023 <sup>(1)</sup> *(Dollars in thousands)*

<b>Assets</b>	<b>Balance</b>
<b>Current Assets</b>	
Cash	\$ 2,018
Investment Custody Account	1,466,490
Other Current Assets	62
<b>Total Current Assets</b>	<b>1,468,570</b>
Furniture & Electronic Equipment	18
Accumulated Depreciation – Furniture & Electronic Equipment	(2)
<b>Total Assets</b>	<b>\$ 1,468,586</b>

# Balance Sheet at June 30, 2023 <sup>(1)</sup> *(Dollars in thousands)* (Continued)

<b>Liabilities</b>	<b>Balance</b>
Accounts Payable	\$ 152
Accrued Expenses	250
Personnel Related Payable	56
Withholding Taxes	16
<b>Total Liabilities</b>	<b>474</b>
<b>Trust Capital</b>	
Trust Corpus – Operational	3,855
Trust Corpus – Investment	1,420,936
Unrealized Gain/(Loss)	(257)
Net Income	43,578
<b>Total Trust Capital</b>	<b>1,468,112</b>
<b>Total Liabilities &amp; Trust Capital</b>	<b>\$ 1,468,586</b>

<sup>(1)</sup> Unaudited. (Excludes PBC financials)

# Income Statement as of June 30, 2023 <sup>(1)</sup> *(Dollars in thousands)*

<b>Revenues</b>	<b>Balance</b>
Investment Income	\$ 45,870
<b>Operational Expenses</b>	
Personnel Related	371
Trustees	263
Legal Counsel	108
Accounting and Audit	74
Other Professionals	33
Ordinary Business (General)	47
Travel & Other Reimbursable Expenses	46
Start Up Costs	788
<b>Total Operational Expenses</b>	<b>1,730</b>
<b>Gross Profit</b>	<b>44,140</b>

# Income Statement as of June 30, 2023 <sup>(1)</sup> *(Dollars in thousands)* (Continued)

<b>Expenses</b>	<b>Balance</b>
<b>Investment Expenses</b>	
Interim Custodian	74
Custodian	60
D&O Insurance Policy	38
Investment Consultant OCIO & Annual Fee	390
<b>Total Investment Expenses</b>	<b>562</b>
<b>Net Income</b>	<b>\$ 43,578</b>

# Administrative and Operating Expenses

Year ended June 30, 2023 <sup>(1)</sup>

<b>Administrative and Operating Expenses</b>	<b>Budget</b>	<b>Expenses</b>	<b>Diff.</b>
Personnel Related	398,000	371,261	26,738
Trustees	267,000	262,877	4,123
Legal Counsel	110,000	107,806	2,194
Accounting and Audit	90,000	73,888	16,113
Other Professionals	140,000	32,588	107,412
Ordinary Business (General)	70,000	46,635	23,365
Travel and other reimbursable expenses	75,000	46,065	28,935
Emergency and Contingency Reserve	150,000	-	150,000
<b>Total Administrative and Operating Expenses<sup>(1)</sup></b>	<b>1,300,000</b>	<b>941,120</b>	<b>358,880</b>



# Annual Recurring Investment Related Expenses

Year ended June 30, 2023 <sup>(1)</sup>

<b>Investment Expenses</b>	<b>Budget</b>	<b>Expenses<sup>(1)</sup></b>	<b>Diff.</b>
Interim custodian	110,000	73,579	36,421
Custodian	75,000	60,165	14,835
D&O Insurance Policy	85,000	37,912	47,088
Investment consultant OCIO & Annual Fee	970,000	389,981	580,019
Investment management fees	1,453,000	-	1,453,000
<b>Total Investment Related Expenses<sup>(1)</sup></b>	<b>2,693,000</b>	<b>561,637</b>	<b>2,131,363</b>

# Non-Recurring Start-Up Expenses

Year ended June 30, 2023 <sup>(1)</sup>

<b>Start-Up Expenses</b>	<b>Budget</b>	<b>Expenses<sup>(1)</sup></b>	<b>Diff.</b>
Recruitment consultant	30,000	25,200	4,800
IT/website set-up	50,000	4,507	45,493
Legal Counsel	900,000	728,715	171,285
Office Configuration	50,000	10,888	39,112
Furniture and Electronic Equipment	100,000	18,970	81,030
<b>Total Start-Up Expenses<sup>(1)</sup></b>	<b>1,130,000</b>	<b>788,280</b>	<b>341,720</b>