



PENSION  
RESERVE TRUST

# Working to Preserve Pension Benefits

Quarterly Report of the Pension Reserve Trust

March 31<sup>st</sup>, 2023

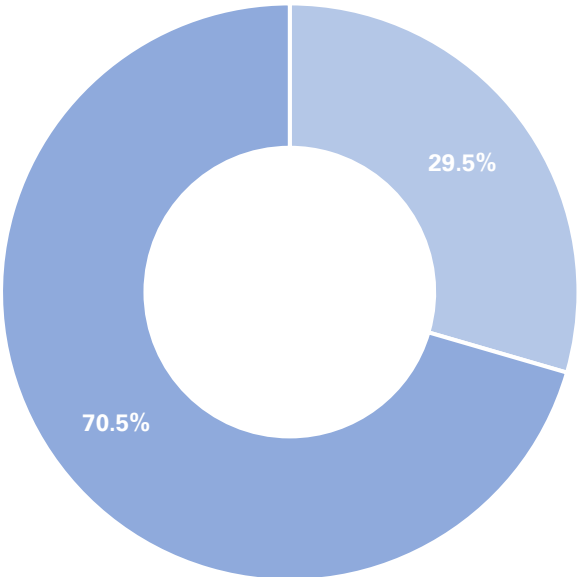
- **Steps Since Our Last Report**
- **Initial Investments**
- **Investment Expenses**
- **Investment Policy & Planned Investments**
- **Next Steps**

## Since our Last Meeting

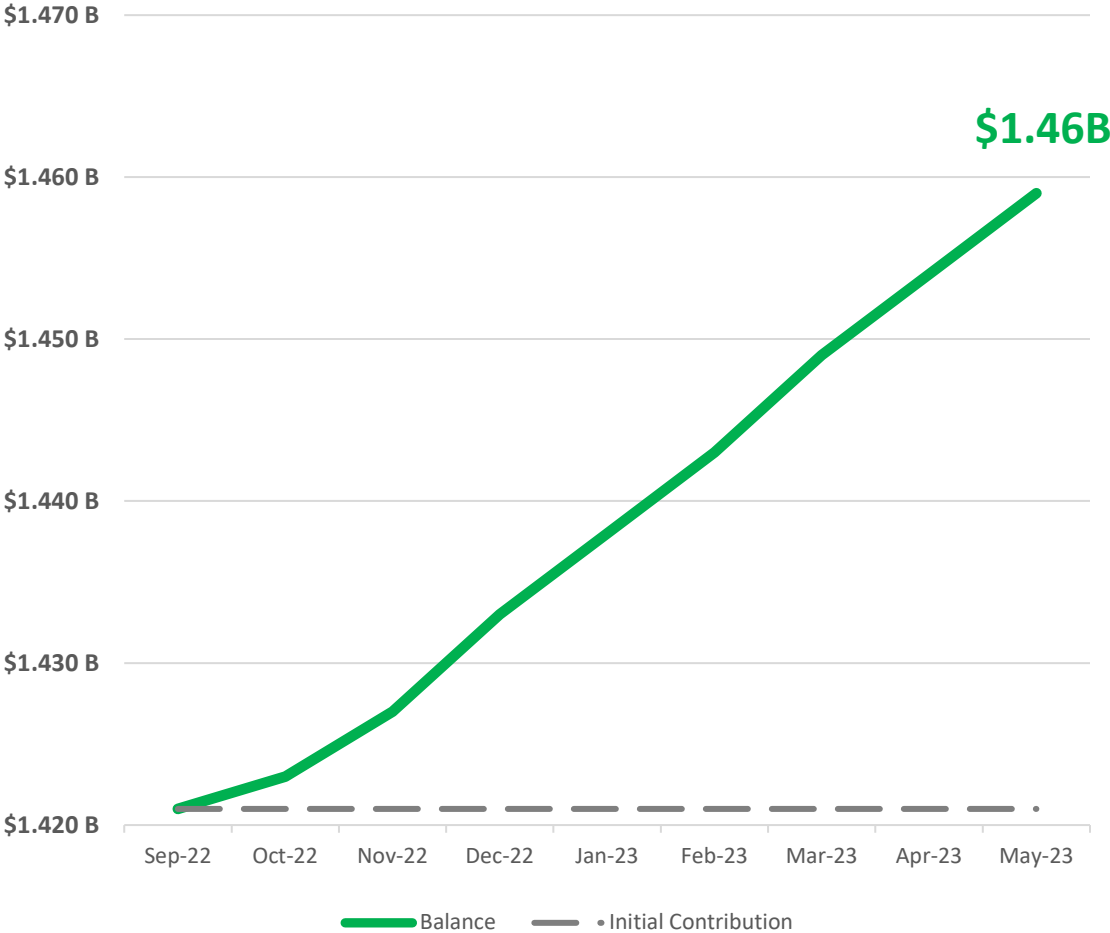
- **Developed & approved Investment Policy Statement**
- **Decided on allocation of our assets, moving out of transitional investments**
- **Agreed on Custodian Bank and transferred initial funds**
- **Leased and moved into office**
- **Worked with Pension Benefits Council (PBC) transfer to fund operating expenses.**

# The initial contribution was invested conservatively. Total assets have increased by \$39,000,000 since October 1.

All assets invested in government-guaranteed securities



■ US Treasury Bonds ■ US Government Agency Notes



# First year investment expenses have been very low – about .01% of total assets excluding startup costs.

YTD (March 31, 2023) <sup>(1)</sup>

Investment Related Expenses <sup>(1)</sup>	Budget	YTD Expenses <sup>(2)</sup>	Diff,
Interim custodian <sup>(3)</sup>	110,000	73,579	36,421
Custodian	75,000	-	75,000
D&O Insurance Policy	85,000	15,165	69,835
Investment consultant annual fee	400,000	95,033	304,967
Investment consultant OCIO	570,000	-	570,000
Investment management fees	1,453,000	-	1,453,000
<b>Total Investment Related Expenses <sup>(2)</sup></b>	<b>2,693,000</b>	<b>183,777</b>	<b>2,509,223</b>

<sup>(1)</sup> Excludes non-recurring setup costs.

<sup>(2)</sup> Unaudited.

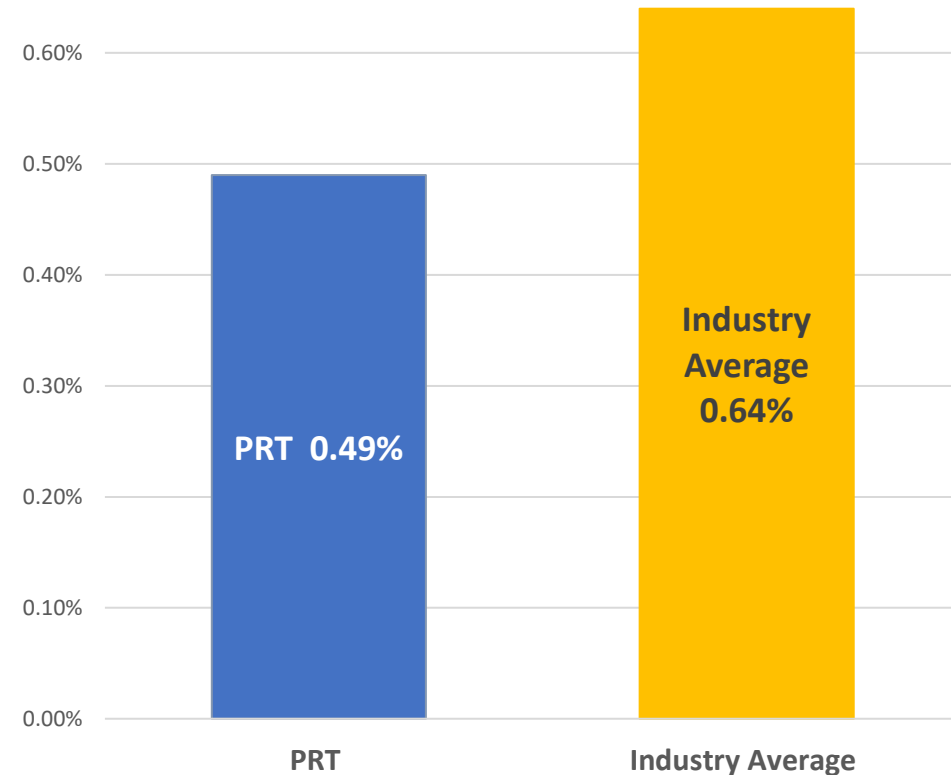
<sup>(3)</sup> Full interim custodian fees were paid during April 2023.

# Ongoing investment expenses are planned to be well below average industry costs

**Investment expenses next year are planned to be less than one-half of one percent of assets.**

**The industry average is about 30% higher.<sup>2</sup>**

**As trust assets continue to grow, investment expenses are expected to be a lower percentage of total assets in the future.**



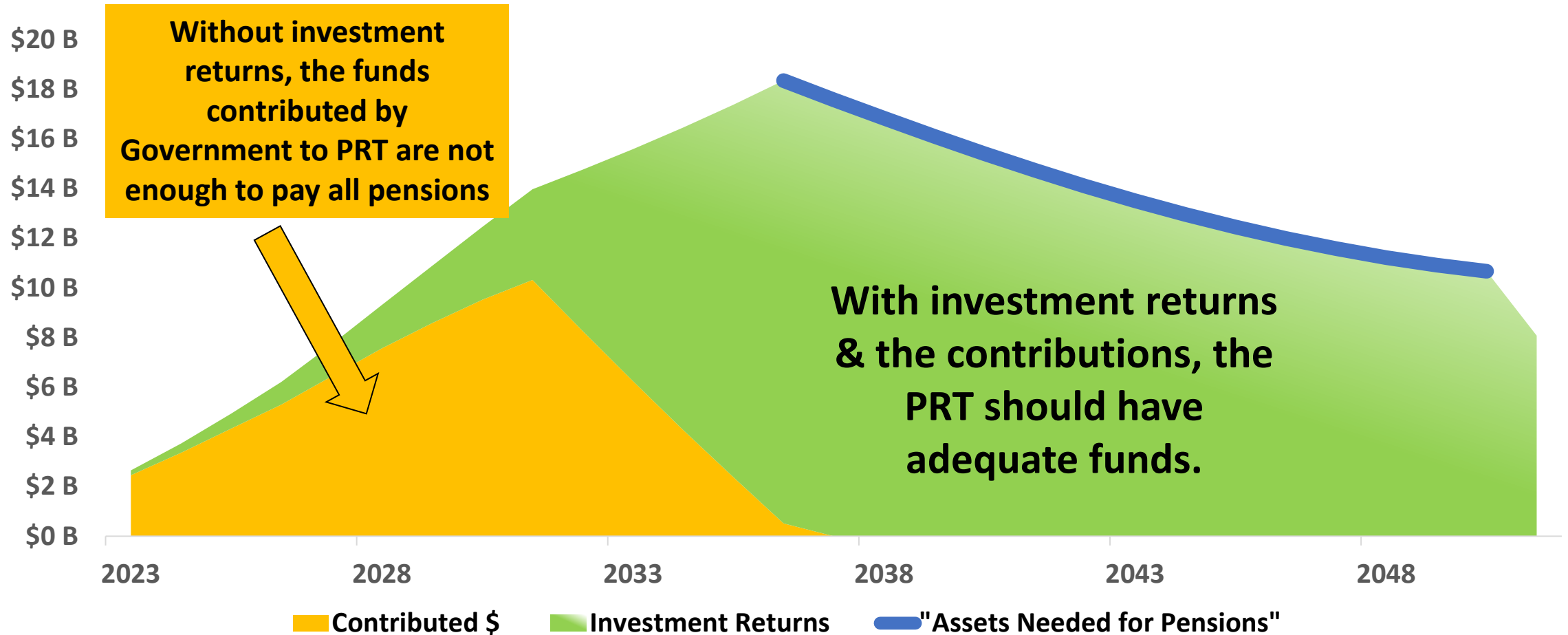
PRT investment expenses levels for FY 23 have been low because all investments were in government securities for which there were no management fees. This will change in FY24. FY24 includes fees for investment management, consultant and custody (but excl. D&O insurance and AWM study).

Industry average based on Callan Institute 2021 report on historical weighted average fees from 2016-2021 across a comprehensive range of asset classes.  
[www.callan.com/blog-archive/investment-management-fees-2021/](http://www.callan.com/blog-archive/investment-management-fees-2021/)

# Trust Investment Policies

- **Invest to provide funds to meet projected pension needs.**
- **Investment values fluctuate month to month & year to year – *Aim for getting the necessary returns over the next three decades.***
- **Invest conservatively, consistent with funding needs.**
- **Diversify investments & types of investments.**
- **Keep investment expenses low**
- **Rely as appropriate on professional investment advice**

# TO FUND PENSIONS, PRT NEEDS INVESTMENT RETURNS, NOT EVERY QUARTER – ASSET VALUES WILL GO UP & DOWN – BUT OVER THE NEXT SEVERAL DECADES.



***Important: "Assets needed" are based on FOMB projections. Actual asset levels and withdrawals will be different depending on Commonwealth finances & market performance.***



# PRT's investment asset allocation is designed to be conservative, but returns will fluctuate from year to year.

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

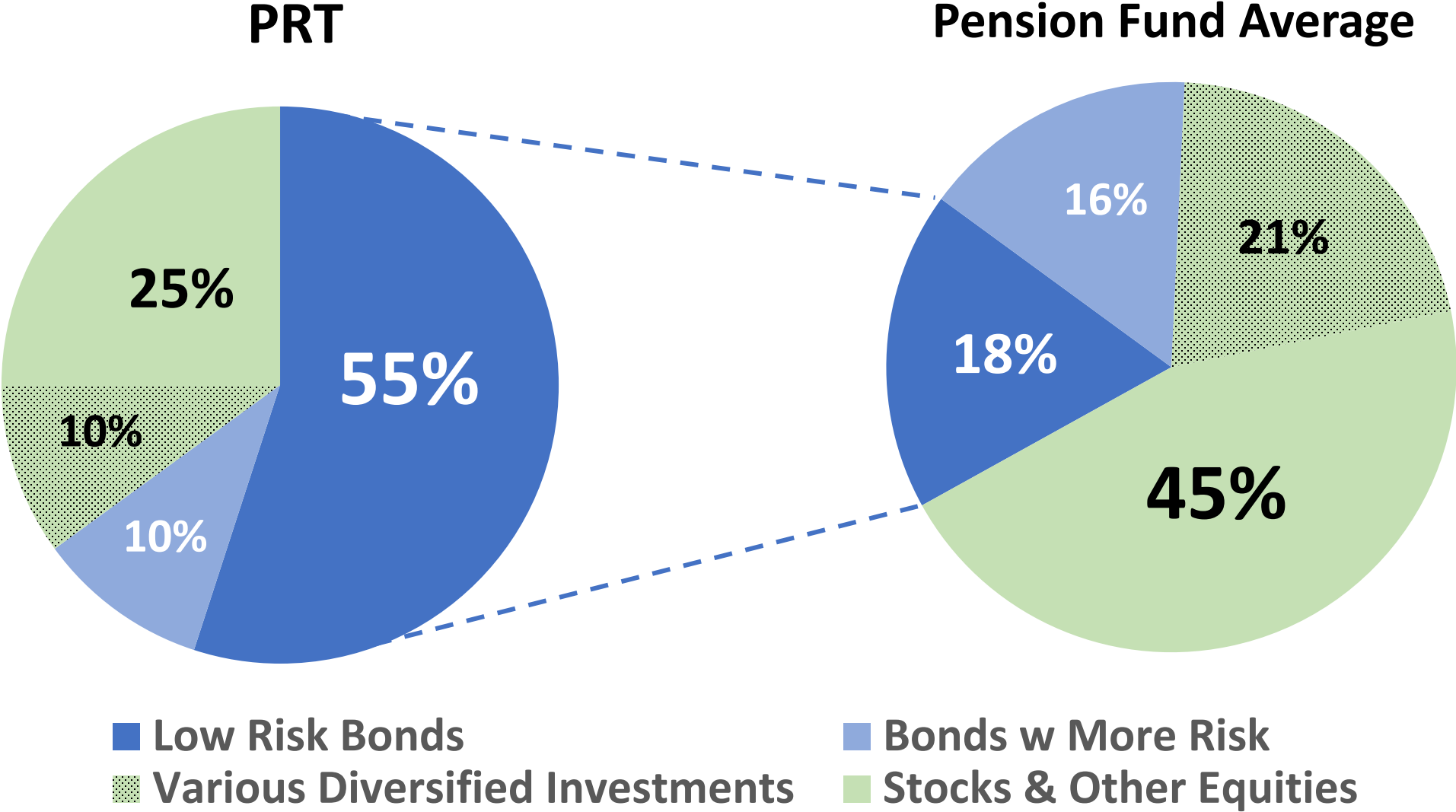
"Stocks & Other Equity:" Principally public market stocks

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

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



# PRT's investment asset allocation is more conservative & lower risk than most pension funds



# PRT – Next Steps

## A Investment policy

- Asset allocation implementation.

## B Operations

- Onboard PRT onto new custodian service portal.
- Application of new platform to assist with investment accounting, reporting and bookkeeping.
- Establish cash management processes (i.e. contributions and transfers for expenses)

## C Reporting

- Establish website
- Creation of various reports including investment performance.

# PRT Reporting will be frequent & public

Website will provide:

- Investment Policy Statement
- Details of Investments
- Funds performance
- Meeting materials



# 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.*



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