

ANNUAL REPORT

FISCAL
YEARS
2022
2023



**PENSION
RESERVE TRUST**

FIDEICOMISO DE RESERVA DE PENSIONES

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An Introduction to the **Pension Reserve Trust**

Jason Fichtner
Chair



Letter from the Board Chair

It is my immense pleasure to present the first public report of the Commonwealth Plan of Adjustment Pension Reserve Trust (the "Pension Reserve Trust" or "PRT").

Our purpose is to provide funds to support the payment of pensions for the thousands of Puerto Rico public servants. The Commonwealth Government has committed to provide approximately \$10 billion over the next decade. Our commitment is to invest those funds carefully and professionally so that they can grow and meet future pension needs.

Thus far, the Government has done its part, contributing \$2.4 billion in the past two years. We prudently invested and increased that money considerably, by \$46 million as of this writing.

The Puerto Rico government made the second contribution payment of \$1 billion in October 2023. We expect that the forecasted contributions until 2032 plus reasonable investment returns may create a \$10 to \$15 billion investment pool in the future. The board is committed to managing these investments prudently so that the Pension Reserve Trust can support the payment of expected future pensions decades into the future.

To deliver on expectations, we built and evolved our internal capabilities and external partners to become an experienced and prudent investor and professional fiduciary. This builds the base to enable us over the next decades to generate desired investment returns.

Our investment strategy and investment policy statement build the foundation to convert our mission into a road map. I would like to thank my fellow PRT board members for their tireless effort in establishing a governance framework and designing our investment strategy, and the PRT staff for their dedicated work in setting up the Trust. Despite an unfavorable investment market, our conservative investment strategy allowed the Trust to generate \$46 million in investment returns during the nine months finishing in June 2023.

I thank the Governor and his administration, the Financial Oversight Management Board, the Pension Benefits Council, the members of the Act 106 Board and the Official Committee of Retirees ("COR") for their exceptional vision, collaboration and support for the design and setup of PRT. I look forward to continuing our great collaboration to help improve the financial wellbeing of Puerto Rican retirees in the future.

Jason Fichtner
Pension Reserve Board Chair

María del C. López
Executive Director



*Letter from the **Executive Director***

As a Puerto Rican it is my great honor to serve as the PRT Executive Director and share with you our progress and financial statements. I thank the PRT trustees for placing their trust in me as well as for their tireless support during our start-up phase. I would particularly like to thank my team for their unwavering energy to contribute to the financial wellbeing of thousands of retirees on the island through our work.

The PRT Board of Trustees entrusted us with turning the objectives found in the Plan of Adjustment and Guidelines into a reality. I am proud to report we got off to a good start.

Starting in July 2022, the Board worked hard to select many key service providers to enable us to become an institutional asset owner and asset manager organization. We selected our legal counsel, our investment advisor, our custodian bank, and our outsourced Chief Investment Officer provider to name a few. We have our operation in place, onboarded and running. I am grateful for the exceptional support provided by the Financial Oversight Management Board, the Government of Puerto Rico, and the Pension Benefits Council. They helped us transform the Guidelines into the foundation of a professional organization. Our investment performance for fiscal year 2023, which generated an investment return of \$46 million, is indicative of a good start. As our assets grow so will our requirements and complexity. We will continue to evolve and adapt to deliver the best outcomes possible.

To that end, we began the gradual transition to our agreed long-term investment strategy. As investment markets are volatile that means one thing: in the short-term we may experience risk and volatility. We will take that into account as part of our business to deliver expected long-term investment outcomes.

I am proud to share that our website is up and running with the information available in English and Spanish. We are also present on social media through our LinkedIn page. We have designed these core platforms to inform our stakeholders. Through our regular quarterly meeting with the Pension Benefits Council and Act 106 Board members, we will comply with our transparency and disclosure requirements. The respective reports shared on our website provide good insights and full transparency about PRT's operation.

I look forward to collaborating with my team, the trustees, and all our stakeholders to fulfill PRT's mission to support the Commonwealth of Puerto Rico in helping to pay pensions to public sector retirees.

María del C. López
Executive Director

Our People



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The Pension Reserve Trust (PRT) has an independent board of five trustees appointed by different key stakeholder groups. PRT's executive management consists of an Executive Director and a Chief Financial Officer, plus a growing team.

You can find detailed curriculum vitae at – <https://www.prtp.org/>.

Who **We Are**



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We are an independent trust created to help make sure that public pensions will be paid.
Under the Plan of Adjustment, the Government annually contributes to the PRT for the next 10 years.

The Trust invests the money so that the Government has funds in the decades after that to make pension payments.
The trustees are independent of the Government. Together they have decades of investment experience.

The Trust's independence is protected by the US courts, the Pension Benefits Council and the Financial Oversight
and Management Board (FOMB) of Puerto Rico.

What **We Do**



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We at the Pension Reserve Trust invest funds contributed by the Commonwealth Government. Our goal is to invest, carefully and professionally to achieve sufficient returns over the years so that the Trust's funds, in combination with the Government's other funds, help to pay the pensions of the public employees of Puerto Rico.

We use our experience and that of our professional advisors to decide how much of the Trust's funds will be invested in the various classes of investments, as well as choosing the investment managers to make and manage those investments. We report on our activities and investments to the Pension Benefits Council, to the FOMB, to the Government, and to the public through this website and various reports.

The Pension Benefits Council is responsible for assuring that the Government of Puerto Rico's annual contributions and withdrawals are in accordance with what was established by the Commonwealth Plan of Adjustment.

About the Pension Reserve Trust

The Commonwealth Plan of Adjustment Pension Reserve Trust was created as a means to provide, in combination with the Government's other funds, enough to pay the pensions promised to the public employees of Puerto Rico.

The Pension Reserve Trust is a trust under Puerto Rico law, independent of the government. The Commonwealth of Puerto Rico is obligated to pay from 2022 to 2031 annual contributions to the PRT following a specific formula. Beginning in FY2032, the Government can withdraw funds subject to a specific process, formula, and conditions.

PRT is accountable to the Commonwealth of Puerto Rico as the sole trust beneficiary, the Pension Benefits Council, the Financial Oversight and Management Board (FOMB) and the US District Court.

PRT is a large professional asset owner and institutional investor that manages the trust assets used to support the future payment of pensions.

A five-member Board of Trustees with extensive professional experience in the areas of Investments, Retirement Planning, Pension Investing, Asset Management, and Public Sector Services were each appointed by the key stakeholder groups that oversee the PRT.

A small team, led by our Executive Director and supported by several highly professional service providers, manage the day-to-day operations and investments. PRT is solely responsible for making all relevant investment and operating decisions, unless otherwise defined by the Guidelines.

Learning from the past, PRT is highly transparent with regular reporting and a comprehensive website. The Guidelines impose a set of foundational standards PRT must comply with, including being a professional, accountable, and ethical fiduciary.

Creation of PRT

The Pension Reserve Trust was established on March 14, 2022, through the execution of a Public Deed of Trust (the "Deed of Trust") in accordance with the Plan of Adjustment.

The Plan of Adjustment incorporates as a Plan Supplement the "Guidelines for the Governance and Administration of the Puerto Rico Plan of Adjustment Pension Reserve Trust and Monitoring of Plan of Adjustment Pension Benefits" (the "Guidelines") and the Deed of Trust incorporates the terms of the Guidelines. These Guidelines establish a means for governing the Trust.

For those readers interested in further details and the exact legal outline of the PRT Deed of Trust, Guidelines, or any other relevant information, please visit <https://www.prtpr.org/>.

Our Board & **Management Team**

Member of the Pension Reserve Board



Jason Fichtner, Ph.D.
Board Chair

Appointed by FOMB

Other Positions / Affiliations

- Chief Economist, Bipartisan Policy Center
- Senior Fellow, Alliance for Lifetime Income & Retirement Income Institute
- Policy Fellow, Stanford Institute for Economic Policy Research, Stanford University
- Research Fellow, Center for Financial Security, University of Wisconsin
- Board of Directors, National Academy of Social Insurance
- Member, Pension Benefits Council of the Pension Reserve Trust of Puerto Rico
- Board of Directors, FINRA Investor Education Foundation

Editorial Service

- Editorial Advisory Board, Retirement Management Journal
- Reviewer, Journal of Pension Economics and Finance

Previous Professional Experience

- Chief Economist, U.S. Social Security Administration
- Deputy Commissioner for Social Security (Acting), U.S. Social Security Administration
- International Economics & Associate Director, Johns Hopkins University (Paul H. Nitze School of Advanced International Studies)
- Senior Research Fellow, Mercatus Center at George Mason University
- Senior Consultant, Arthur Andersen LLP – Office of Federal Tax Services, Economic Analysis Group
- Economist, U.S. Department of Treasury – Internal Revenue Services



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Member of the Pension Reserve Board



Hon. Joshua Gotbaum, MPP, JD
Audit & Compliance
Committee Chair

Appointed by Pension Benefits Council

Other Positions / Affiliations

- Guest Scholar in Economic Studies, Brookings Institution
- Chair, Maryland Saves Workplace Savings Program
- Fellow, National Academy of Public Administration
- Fellow, National Academy of Social Insurance

Previous Professional Experience

- Director (CEO), U.S. Pension Benefit Guaranty Corp.
- Investor/ Business Consultant
- Ch 11 Trustee (CEO), Hawaiian Airlines
- CEO, The September 11th Fund
- Senior U.S. government official in Defense, Treasury, Office of Management & Budget
- U.S. Senate Budget Committee
- Managing Director & Partner, Lazard



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Member of the Pension Reserve Board



Michael Finke, PhD, CFP®
Investment Committee Chair

Appointed by Pension Benefits Council

Other Positions / Affiliations

- Professor of Wealth Management
- Director for the Granum Center for Financial Security
- Frank M. Engle Distinguished Chair in Economic Security

Previous Professional Experience

- Professor, PhD Coordinator in Department of Personal Financial Planning at Texas Tech University
- Associate Professor and Director of Graduate Studies at University of Missouri
- Author and Public Speaker on topics related to retirement income planning



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Member of the Pension Reserve Board



Desirée Mieses Llavat, MBA, CIMA
Board Secretary

Appointed by Government

Other Positions / Affiliations

- Managing Director of Lumiere Bay, a RRIA Registered Investment Advisor in PR & Florida
- Director of the Board, Casa de Niños Manuel Fernandez Juncos
- Director of the Board, Chair of Investment Committee, Puerto Rico Community Foundation
- Director of the Board of Alumni, Bentley University
- Adviser to Música Pa' Culebra

Previous Professional Experience

- Vice President Institutional Advisory Services, Santander Asset Management
- Chief Investment Officer, The Bank & Trust of Puerto Rico
- IMCA Certified Investment Management Analyst Program Wharton School 2012
- Governing for Non for Profit Excellence Harvard Business School 2019

Member of the Pension Reserve Board



Gabriel Olivera-Magraner, JD, LLM

Appointed by Government

Other Positions / Affiliations

- Co-founder Vice Chair of Board, Arevilo Capital Management LLC
- Co-founder Chairman Preferred Capital Fund LLC
- Board Director, VAPR Federal Credit Union

Previous Professional Experience

- President & CEO FDIC insured local bank with \$1B AUM.
- Director of the Board, AAFAF
- Director and Vice Chair, Government Development Bank of Puerto Rico
- Attorney at Law, LLM-Tax Law
- Law clerk at Supreme Court of PR
- Auditor-Arthur Andersen & Co



**PENSION
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Pension Reserve Trust Team



María del Carmen López Fuentes
Executive Director



Julian Bayne Hernández
Chief Financial Officer



José J. Pérez
Investment Accountant



Joana Rodríguez
Executive Assistant & Office Manager



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Key Partners

The Pension Reserve Trust has four key partners that support our mission and purpose with insight, foresight, and specified oversight:

Pension Benefits Council

Link: <https://consejotransitorio.org/>

Who are they?

The PBC consists of nine members appointed by different key stakeholders or elected by eligible retirees. The PBC started in May 2022 as interim appointed PBC. In the recent open elections, eligible members voted and selected several new council members. During 2024, they will form the ongoing Pension Benefits Council. Please refer to the Council website for further details.

What is their PRT responsibility?

PBC ensures that Government makes the pension contributions it is required to make and ensures that any withdrawals from the PRT are only used to pay pensions.

Why is this important?

PRT has the sole discretion on any relevant investment and operating decisions, but, as a partner, the Council acts as an additional specific oversight body. The Council is entitled to receive its annual budget from PRT assets.

Act 106 Board

Link: <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/0106-2017.pdf>

Who are they?

The Act 106 Board consists of thirteen members responsible for the oversight of the defined contribution plan as well as the "Pay-Go" system to facilitate pension benefit payments for retirees. The Act 106 Board is the highest governing body of all Puerto Rico retirement systems.

What is their PRT responsibility?

The PRT meets quarterly with the Act 106 Board for information and reporting purposes to share details on the prior quarter's operation and investment outcomes. Please refer to Act No. 106-2017 for further detail.

Why is this important?

PRT has the sole discretion on any relevant investment and operating decisions, but, as a partner, the Act 106 Board acts as an additional specific oversight body.

FOMB

Link: <https://oversightboard.pr.gov/>

Who are they?

The Financial Oversight and Management Board is an additional body established by the US Federal Government to focus on the bankruptcy of the Commonwealth of Puerto Rico. The FOMB is a key stakeholder in the PRT creation and Guideline design. Please refer to the FOMB website for further details.

What is their PRT responsibility?

FOMB reviews the PRT's annual administration budget.
As per the Guidelines, the FOMB reviews and approves certain PRT contracts.

Why is this important?

PRT has the sole discretion on any relevant investment and operating decisions, but, as a partner, the FOMB acts as an additional specific oversight body.

Commonwealth of Puerto Rico

Link: <https://www.pr.gov/>

Who are they?

The governing body for the Commonwealth of Puerto Rico.

What is their PRT responsibility?

The Plan of Adjustment and Guidelines require the Government to pay annual contributions between 2022 and 2031 following a specific formula. As PRT's sole beneficiary, the Government can withdraw assets from PRT beginning in 2032, subject to meeting specific conditions and a defined formula.

Why is this important?

The Commonwealth is responsible for paying pensions. Neither the PRT, the Plan of Adjustment nor the Guidelines relieve the Commonwealth of that responsibility. However, through contributing to the PRT until 2031, the Commonwealth may tap into the Trust's assets, subject to meeting certain conditions. This provides additional financial capabilities for the Government to pay for pensions post-2031.

Eligible Current and Future Retirees of the Government of Puerto Rico

Why is this important?

Through PRT's efforts and investment outcomes that support the Commonwealth of Puerto Rico from 2032 onwards, subject to specific conditions in paying for their pensions, we hope they achieve more trust, confidence, and better financial wellbeing in their retirement. The Guidelines provide further details for the roles and responsibilities of each of PRT's partners.

Our Deed of Trust

For those readers interested in further details and the exact legal outline of the PRT Trust Deed, Guidelines, or any other relevant information, please visit <https://www.prtptr.org/>.

Investments

The Pension Reserve Trust consists of a diversified portfolio of investments, managed by professionals who were chosen after careful review in a public process. In this section you will find a summary of the types of assets and the allocations we are investing in, as well as the Investment Policy Statement that describes how we make our decisions.

Investment Context

The Pension Reserve Trust is not a pension fund. It does not pay pensions, nor does it carry any pension liabilities. Instead, PRT was designed as a reserve fund to collect and invest large annual contributions from the Government over several years determined in the agreed Fiscal Plan. PRT is expected to receive two types of contributions: a) mandatory and b) additional subject to the Commonwealth of Puerto Rico's positive fiscal conditions. Significant natural disasters or another pandemic could have an impact on the PRT receiving all expected additional contributions. This would, in turn, have an effect on long-term investment outcomes. The Government as PRT's sole beneficiary can make withdrawals starting in FY2032 to reimburse their funds for making agreed pension payments in years of fiscal strain. These withdrawals must meet specific conditions.

For investment purposes PRT operates more like a purpose-linked "Rainy Day" fund common in most US states. Additional contributions carry some uncertainty as do withdrawals in timing and amounts.

The PRT Board of Trustees agreed to set 4.5% as the minimum long-term investment return target to determine the investment strategy and meet PRT's overall mission. This is based on the projected contributions and modelled withdrawals in the Commonwealth Fiscal Plan. Achieving this minimum target is expected under most cash flow scenarios to enable meeting the Government's projected withdrawals to compensate for paying pensions. Receiving less contributions as well as higher or closer than projected to FY2032 withdrawals will impact PRT's ability to compensate the Government for paying pensions. Later or lower than projected withdrawals further strengthen PRT's ability to support the Government in paying pensions.

Overview

The Board has defined a set of general policies to guide the Trust's investments over time. Through striving for an appropriate rate of growth for the Commonwealth contributions, the Trust will aim for the necessary returns over the next three decades, maintaining conservative investment beliefs consistent with the fund's needs. The Trust will diversify its investments, keep expenses low, and rely on professional investment advice to make its decisions.

Investment Policy Statement

The purpose of the Trust's Investment Policy Statement, which reflect the beliefs outlined above, is to set into action the investment goals of the Board and provide a mechanism to effectively supervise, monitor, and evaluate the assets and risk tolerance of the Trust.

The five main objectives of the Investment Policy Statement are to:

1. Distinguish the main responsibilities of the service providers hired to help implement the Trust's investment policy.
2. Describe the investment program designed to meet the investment objectives of the Trust, as well as the procedures for annually reviewing and modifying the program.
3. Describe the classes of investments that will be considered and the percentage allocations to each asset class.
4. Document a prudent monitoring and measurement process that includes criteria for replacing and retaining investment managers.
5. Establish effective communication procedures between the Board, the Trust staff, investment managers, the investment advisor, and the custodian bank.

Investments in Fiscal Year 2023

The PRT received the first contribution of \$1.42 billion from the Commonwealth on September 30, 2022, ahead of schedule. As the Board was formed in July 2022, the PRT was still in its early start-up phase. Staff recruitment, service provider procurement and investment strategy development were only in the early stage and the investment market conditions were turbulent while US Government securities offered great investment returns. Therefore, the Board determined to invest conservatively, with the entire amount invested in government-guaranteed securities.

Working with the selected investment consultant, PRT determined to retain this conservative investment portfolio until the end of June 2023. This initial investment saw returns of \$46 million through the end of FY23, during turbulent market conditions.

Now, the PRT has all the necessary key building blocks and external service providers and advisors in place to gradually transition to its agreed long-term investment strategy.

Asset Allocation

As the PRT did not have investment managers procured to oversee specific asset classes, the initial investments were to be entirely in government securities. Until the PRT procures its investment managers, the agreed-upon strategy beginning in fiscal year 2024 onward is to invest in ETFs and institutional mutual funds. Shifting away from this short-term investment strategy, PRT plans to move assets in three monthly increments towards its targeted asset allocation. This will allow for greater oversight and risk control in the interim.

The Trust's asset allocation is designed for conservative growth over the long-term and it is outlined in further detail in the Investment Policy Statement. With input from its investment advisor, the Board will review and modify the asset allocation as appropriate, based on key drivers such as changes in market conditions or economic outlook.

Planned investment asset allocation is designed to be conservative.

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

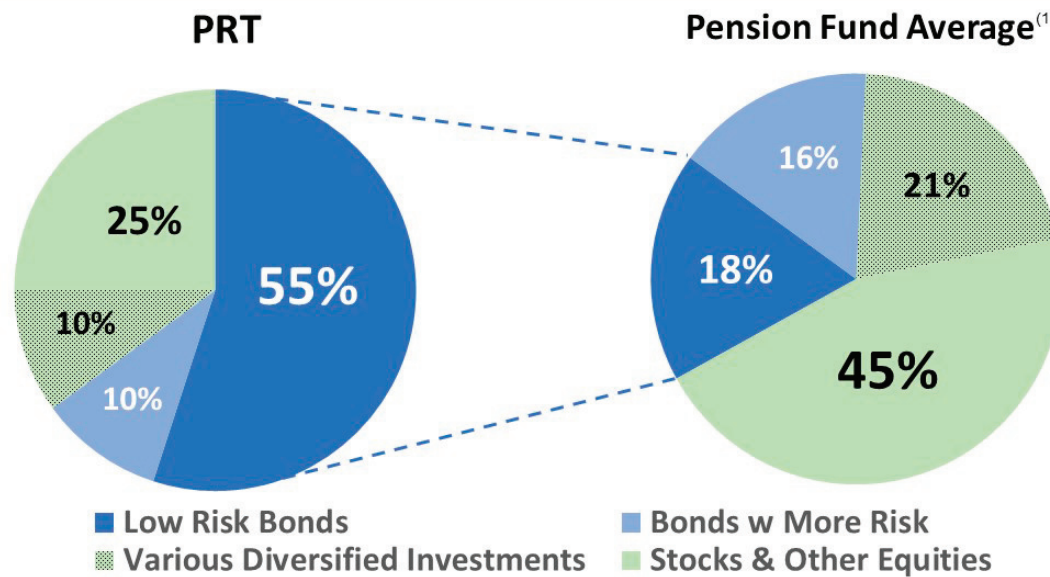
"Low Risk Bonds:" US Treasuries, US federal agency debt, discount notes, money market funds and similar instruments, investment grade corporate bonds

"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

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



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



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Investment Outlook for Fiscal Year 2024

The PRT selected a professional Outsourced Chief Investment Officer (OCIO) provider to assist with the management of the investments while leveraging their scale and expertise for lower fees.

Starting in July 2023, the PRT instructed the OCIO provider to gradually transition from the initial conservative investment portfolio to its long-term investment strategy. This instruction was based on advice from its investment consultant. This is expected to generate higher long-term investment returns for a higher yet still modest risk.

On September 29, 2023, the Commonwealth paid again ahead of time the annual contribution of \$1bn.
This brings our total investment portfolio to almost \$2.5bn.

As investment markets continue to be challenging, the PRT initially invested the new amount conservatively as provided in our Investment Policy Statement. We continue to closely monitor the investment markets together with our investment advisor. We are adjusting our transition of the entire investment portfolio to the long-term investment strategy to minimize transition risks while still benefiting from some of the highest U.S. Government securities returns in a long time.

Milestones

The PRT has seen great progress from its receiving of start-up funds from the Commonwealth to onboarding new staff, relocating into an office space, procuring third-party service providers, and ultimately seeing investment returns of \$46 million on the initial contribution amidst a turbulent investment landscape.

Date	Milestones
FY22	
March 15, 2022	The PRT is established, with initial start-up funds of \$4.45M transferred from the Commonwealth.
June 23, 2022	Trustees chosen by FOMB, Commonwealth Government, and Pension Benefits Council
FY23	
July, 2022	Held various meetings to define first steps of the PRT.
August 18, 2022	Legal counsel selected.
September 30, 2022	Government transfer of Base and Additional Contribution totaling \$1.4B.
October 3, 2022	Initial investments in safe fixed income (discount notes with staged maturity)
November 15, 2022	Board selects Investment Advisor after a public RFP process. Board appoints Executive Director and Chief Financial Officer.
December 18, 2022	Custodian bank selected after a public RFP process.
January 18, 2023	First matured discount notes rolled over and re-invested.
February 22, 2023	First PBC / Act 106 Board quarterly meeting held.
April 3, 2023	Transfer of investment funds to new custodian bank.
May 5, 2023	Investment Policy Statement approved and issued to stakeholders.
June 7, 2023	Second PBC / Act 106 Board quarterly meeting held.
June 23, 2023	Board establishes Investment and Audit and Compliance committees.
FY24	
July 1, 2023	Begin shift to medium-term investments of ETFs / mutual funds.
July 30, 2023	The Pension Reserve Trust launches website in English and Spanish.
October 2, 2023	Second Government transfer of Base Contribution of \$1B.
November 1, 2023	Second Government transfer of Additional Contribution of \$87M
March 1, 2024	Completed shift to medium-term investments of ETFs / mutual funds.

The PRT is committed to its continued growth into a fully institutionalized organization in the years to come, anticipating additional expansion in matters such as governance, risk oversight, IT, human resources, and more, as additional contributions are received from the Commonwealth over the next decade.

Second PBC Quarterly Meeting on June 8, 2023



Meeting with Governor Pedro Pierluisi on September 13 2023



Corporate Governance and Risk Management

Overview

The Pension Reserve Trust is a large professional asset owner and asset manager. As the fiduciary, the Pension Reserve Trust must act in the best interest of the beneficiary while also complying with the Deed of Trust, the Guidelines, and relevant laws and regulations. The PRT is also subject to significant transparency requirements through regular reporting to the Pension Benefits Council and the Act 106 Board.

As such, an adequate corporate governance structure with effective risk management is critical.

Key Governance Highlights

The PRT is taking several steps to adequately meet these fiduciary and management requirements, including the following:

1. Develop by-laws and a code of conduct designed to meet expectations similar to those applicable to Government employees and Trustees of similarly situated organizations.
2. Establish an Audit and Compliance Committee dedicated to the PRT to focus on audit risk and compliance and relevant management policies. The Committee subsequently selected and recommended to the full board an independent auditor.
3. Coordinate with NEPC and Northern Trust to receive their independently assessed internal controls assessment reports to evidence they have adequate risk and controls in place to manage and handle the PRT's investments.
4. Adopt several Commonwealth of Puerto Rico requirements as per Guidelines including, but not limited to, public procurement, ethics, conflict of interest, and contract registration with the Commonwealth's Comptroller's Office.

Financial **Section**

Independent Auditor Report 2022



KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

Board of Trustees
Puerto Rico Pension Reserve Trust

Opinion

We have audited the fund financial statements of the Puerto Rico Pension Reserve Trust (the Trust) as of June 30, 2022 and for the period from March 14, 2022 (inception) to June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Trust, as of June 30, 2022, and the changes in its financial position for the period from March 14, 2022 (inception) to June 30, 2022 in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Trust are intended to present the financial position and changes in financial position of only that portion of the general fund of the Commonwealth of Puerto Rico (the Commonwealth) that is attributable to the transactions of the Trust. They do not purport to, and do not, present fairly the financial position of the Commonwealth, as of June 30, 2022, and the changes in its financial position for the period from March 14, 2022 (inception) to June 30, 2022 in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of

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internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

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

San Juan, Puerto Rico
January 23, 2024

Stamp No. ES20155 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

KPMG LLP



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Independent Auditor Report 2023



KPMG LLP
American International Plaza
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San Juan, PR 00918-1819

Independent Auditors' Report

Board of Trustees
Puerto Rico Pension Reserve Trust:

Opinion

We have audited the fund financial statements of the Puerto Rico Pension Reserve Trust (the Trust) as of June 30, 2023 and for the period ended June 30, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Trust, as of June 30, 2023, and the changes in its financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Trust are intended to present the financial position and changes in financial position of only that portion of the general fund of the Commonwealth of Puerto Rico (the Commonwealth) that is attributable to the transactions of the Trust. They do not purport to, and do not, present fairly the financial position of the Commonwealth, as of June 30, 2023, and the changes in its financial position for the period then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in

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the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

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

San Juan, Puerto Rico
February 27, 2024

Stamp No. E556005 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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Management's Discussion and Analysis

Overview

This section presents management's discussion and analysis of the Commonwealth Plan of Adjustment Pension Reserve Trust's (the "Pension Reserve Trust" or the "Trust") financial performance for the fiscal year ended June 30, 2023 and should be read in conjunction with the financial statements, which follow this section.

The Pension Reserve Trust is a Puerto Rico irrevocable public trust duly organized due to the execution of that certain Deed of Public Trust (the "Deed of Trust"), effective as of March 14th, 2022, pursuant to the provisions of Chapter III of Act 219 of August 31st, 2012, as amended (the "Trust Act") to provide financial support for the Government's pension obligations under the pay-as-you-go pension system (the "PayGo System") created pursuant to the provisions of Act 106 of August 23, 2017.

The Guidelines for the Governance and Administration of the Puerto Rico Plan of Adjustment Pension Reserve Trust and Monitoring of Plan of Adjustment Pension Benefits (the "Guidelines") are incorporated into the Deed of Trust. The Trust is overseen by a five-person board of trustees (the "Pension Reserve Board" or the "Board"), which is tasked with providing independent and professional management of the Trust's assets. As part of the Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico (the "Plan"), the Government of Puerto Rico (the "Government") has agreed to provide contributions to the Trust on a yearly basis through the fiscal year ending June 30, 2031. These contributions will be received in the form of a base contribution, as well as an additional contribution contingent on the economic performance of the Government.

During fiscal year 2023, the Trust moved into its offices and received the first annual contribution from the Government (the "First Annual Contribution").

The first annual contribution was deposited into the selected interim custodian bank, Banco Popular de Puerto Rico. Subsequently, on March 15, 2023, the Pension Reserve Board selected The Northern Trust Company as the long-term Custodian Bank for the Trust. Furthermore, the Pension Reserve Board established the Investment Committee and Audit & Compliance Committee.

The Financial Statements include the balance sheet and the statement of revenues, expenditures, and change in fund balance. They present the financial position of the Trust as of June 30, 2023, and its financial activities for the year then ended. The notes to the financial statements provide further information that is essential to a full understanding of the financial statements. The notes describe the significant accounting policies of the Pension Reserve Trust and provide detailed disclosures on certain account balances.

The financial statements of the Pension Reserve Trust are prepared in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") for governments as prescribed by the Governmental Accounting Standards Board ("GASB") and reported using the current financial resources measurement focus and the modified accrual basis of accounting. Further, this complies with Article 5.7 of the Deed of Trust, which requires the Trust to "... keep accurate records and books of account of all transactions affecting assets of the Pension Reserve Trust, following standards that are generally accepted in public pension funds in the United States."

Investment Strategy

As part of the investment objectives embedded in the Deed of Trust and the Guidelines, the objective of the Trust's investment program is to generate returns within an appropriately risk-constrained framework, net of reasonable investment fees and expenses, that must serve the intended purposes of the Pension Reserve Trust under the Plan. The above will be achieved by means of a carefully planned and executed long-term investment program as developed and adopted by the Pension Reserve Board (the "Investment Policy Statement") with expert assistance from its investment advisors. As of June 30, 2023, the investment advisors of the Trust were NEPC.

On May 5, 2023, the Board adopted the Investment Policy Statement. The Pension Reserve Board adopted an investment strategy with the goal of generating enough monies to support pension obligations by investing contributions received from the Government in line with these objectives. The Investment Policy Statement is intended to assist the Pension Reserve Board in carrying out its fiduciary responsibilities for the prudent investment of the assets of the Trust and is designed to set forth the goals, objectives, and risk tolerances of the Pension Reserve Trust's investment program. The Investment Policy Statement includes the mechanism to effectively supervise, monitor, and evaluate the investment of the assets of the Trust, all in furtherance of the investment objective defined in Section 8.1D of the Guidelines. The objectives of the Investment Policy Statement are based on currently available information, including but not limited to the Government's Certified Fiscal Plan. If there is a material change in relevant forecasts and projections, the Board could reevaluate the investment strategy and objectives set forth in the Investment Policy Statement.

The Board's asset allocation plan embodies its decisions to invest portions of the Trust in high-quality fixed income securities (US Treasury Bills, Bonds & Notes, discount notes, investment grade corporate bonds, etc.), equity securities, global fixed income securities, below investment grade corporate bonds, private credit, public market real assets and real estate. As such, the Pension Reserve Board will implement an investment strategy with a flexible approach using target allocations and ranges.

At June 30, 2023, the Trust held investments consisting of short-term U.S. Government Agency obligations in the amount of \$1.466 billion.

All Annual Contributions received from the Government are deposited into the Custodian Bank account and invested in accordance with the Investment Policy Statement approved by the Pension Reserve Board. No material or relevant changes were experienced in the forecast and/or projections as considered in the Investment Policy Statement.

In the instances of additional government contributions, the Board may use a short-term dollar-cost averaging approach. During this period, the PRT will invest the cash proceeds in either the default cash option or an equivalent set of holdings (e.g., treasuries, discount notes, or other government securities).

Financial Highlights

- The fund balance of the PRT increased \$1.5 billion during the year ended June 30, 2023. Total fund balance was \$1.47 billion at June 30, 2023, compared to \$4.4 million at June 30, 2022.
- Net investment income for 2023 was \$45.6 million. As there were no investments held during the year ended June 30, 2022, no investment income was reported.
- Transfers in from the Commonwealth to the PRT totaled \$1.4 billion during the year ended June 30, 2023, compared to \$5 million during the period ended June 30, 2022.
- Transfers out to the Pension Benefits Council totaled \$578 thousand during the year ended June 30, 2023, compared to \$550 thousand during the period ended June 30, 2022.

Pension Reserve Trust Performance for Fiscal Year Ending June 30, 2023

The Trust took receipt of an initial cash contribution of \$1.421 billion on October 1, 2022. From there the Board invested the capital in various cash equivalent assets such as treasury bills, discount notes, and money market funds. For the year ending June 30, 2023, the Pension Reserve Trust portfolio earned 3.0%, net of fees. This rate was in line with a comparable return of 3.1% on the 90-Day US Treasury Bill Index.

The Trust ended the fiscal year with \$1.466 billion in assets, adding over \$45.5 million in earnings. As of June 30, the ending assets were invested almost evenly among US Treasury Bills Due on August 1 and August 29, and a Money Market Treasury Fund with Northern Trust, the Pension Reserve Trust's custodian bank. As a result, the Trust's financial position has improved when compared with the period ended June 30, 2022, when the Trustees composing the Pension Reserve Board had only recently been appointed, the \$4.45M initial funding contribution transferred from the Commonwealth had been received, and the process to hire the Trust's staff had not commenced.

In April 2023, the Board approved a new investment policy statement and a long-term asset allocation strategy, with the stated goal of initiating the new asset allocation policy in early July 2023. The asset allocation policy is as follows: High Quality Fixed Income 55%, Equity 25%, Credit 10%, and Diversification 10%.

The policy defines these as follows:

High Quality Fixed Income: US treasury bills, bonds, & notes, federal agency debt, discount notes, money market funds and other similar instruments, investment grade US dollar denominated corporate bonds.

Equity: investments include public market stocks.

Credit: Investments include global fixed income, below investment grade corporate bonds, and private credit.

Diversification: Investments include public market real assets, private real estate, and tactical asset allocation strategies.

Other Information

This financial report is designed to provide a general overview of the PRT's financial results. Additional information can be found on the PRT Board's website at www.prtpr.org. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Pension Reserve Trust Board via e-mail through comments@prtpr.org or by mail to B5 Tabonuco Street, Suite 216, PMB 355, Guaynabo, Puerto Rico 00968.

Condensed Financial Information

Summary balances and activities of the Pension Reserve Trust as of and for the year ended June 30, 2023, and as of and for the period ended June 30, 2022, are presented below:

Summary of fund balance:

<i>Assets:</i>	June 30, 2023 (In thousands)	June 30, 2022 (In thousands)
Cash	\$2,022	\$4,451
Investments at fair value	\$1,466,491	-
Operating lease right-of-use asset	\$234	-
Property, plant & equipment – net	\$16	-
Total liabilities	\$63	-
Total assets	\$1,468,826	\$4,451

<i>Liabilities:</i>	June 30, 2023 (In thousands)	June 30, 2022 (In thousands)
Accounts payable	\$165	-
Accrued expenses	\$245	\$18
Personnel related payable	\$14	-
Operating lease liability	\$234	-
Withholding taxes	\$7	-
Total liabilities	\$665	\$18
Fund balance – restricted	\$1,468,161	\$4,433

Summary of revenues, expenditures, and change in fund balance:

<i>Revenues:</i>	June 30, 2023 (In thousands)	June 30, 2022 (In thousands)
Interest income	\$45,630	\$1
Expenditures:		
General government expenditures	\$1,702	\$18
Investment expenditures	\$558	-
Total liabilities	\$2,260	\$18

<i>Other financing sources (uses):</i>	June 30, 2023 (In thousands)	June 30, 2022 (In thousands)
Transfer in – Commonwealth	\$1,420,936	\$5000
Transfer out – Pension Benefits Council ("PBC")	\$578	\$550
Total other financing sources	\$558	-
Change in fund balance	\$1,420,358	\$4,433
Fund balance, beginning of year – restricted	\$4,433	-
Fund balance, end of year – restricted	\$1,468,161	\$4,433



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KEY SERVICE PROVIDERS

The Pension Reserve Trust selected a range of key service providers and when required, using a competitive public procurement process.

The service provider contracts are registered with the Government's Comptroller's Office as required by the Guidelines.

The following table provides an overview of the fees paid to each key service provider:

Service category	Service provider	Fees paid in FY23	Fees paid in FY22
Banking service	Banco Popular	\$80	\$90
Legal Services	Marichal Hernández / Pillsbury	\$836,521	\$0
External Audit	KPMG	\$36,000	\$0
Bookkeeping	NMA Certified Public Accountants	\$33,887	\$0
Communications	JJ Communications	\$13,375	\$0
Office Rent	Caparra Hills	\$25,220	\$0
Investment consultant & OCIO	NEPC	\$386,629	\$0
Design Plans	The Roman Group Architects	\$9,005	\$0
Interim Investment Custodian Bank	Banco Popular	\$73,579	\$0
Long-term investment Custodian Bank	Northern Trust	\$60,165	\$0
Recruitment	Careers, Inc.	\$25,200	\$0
IT Services	Carlos Vargas	\$8,856	\$0
HR Consulting	Vanessa Burgos Díaz	\$381	\$0
Internet Service Provider	FiberX	\$1,602	\$0
Water Supply	Quality Water Service and Distribution	\$350	\$0
Secure Documents Disposal	Stericycle of Puerto Rico	\$204	\$0
D&O Insurance Policy	Marsh Saldaña	\$90,988	\$0

Payments made to Board Members

Name	FY2023		FY2022	
	Compensation Paid	Expenses Reimbursed	Fees Accrued	Expenses Reimbursed
Jason Fichtner	\$53,165	\$11,550	\$11,370 ⁽¹⁾	\$0
Michael Finke	\$53,165	\$6,563	\$1,061 ⁽²⁾	\$0
Joshua Gotbaum	\$53,165	\$11,900	\$1,061 ⁽²⁾	\$0
Desirée Mieses	\$53,165	\$8,369	\$2,157 ⁽³⁾	\$0
Gabriel Olivera	\$53,165	\$1,739	\$2,157 ⁽³⁾	\$0

(1) Based on appointment date of 4/8/22

(2) Based on appointment date of 6/23/22

(3) Based on appointment date of 6/15/22

Investment **Section**



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Letter from Our Investment Advisor (NEPC, LLC)



Rhett Humphreys,
CFA, Partner

As co-fiduciary to the Trust, NEPC proudly joined the PRT team in November 2022 as the Trust's first investment advisor. The primary consulting team has over 50 years of investment and consulting experience to draw upon in service to the PRT board and executive staff.

During our first fiscal year of assignment, we collaborated on the retention of the PRT's long-term custodian bank, the creation of a newly minted investment policy statement, and the adoption of a long-term asset allocation strategy. The successful completion of these major milestones speaks volumes to the commitment and industrious nature of the board, staff, and supporting vendors.

By fiscal year ending 2023, the PRT was poised to transition to its long-term investment objectives. The first among these is to begin an asset allocation phase-in approach, which focuses on risk management in pursuit of long-term return goals.



Keith Stronkowsky,
CFA, Principal

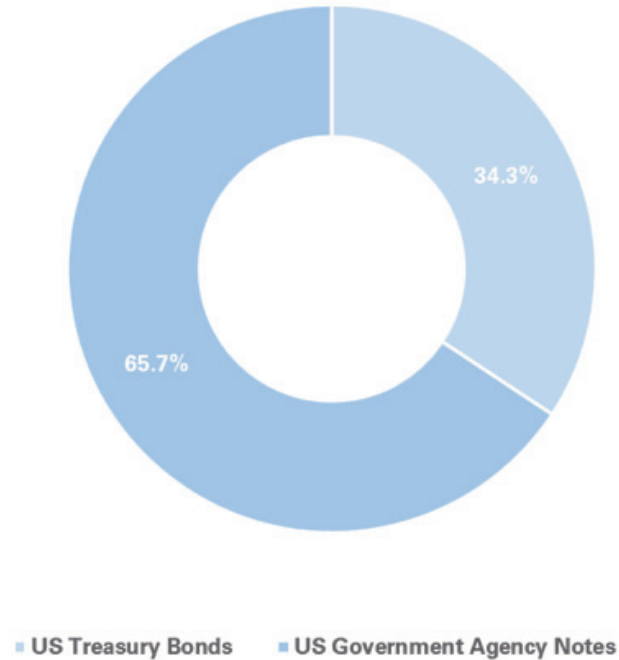
As philosophically codified in policy, some capital market risk must be assumed to achieve the Trust's long-term investment objectives. Current policy also reflects that investing in financial instruments and markets involves interim market value fluctuations and some variance in the expected rates of return. Reconciling these inherencies, the investment policy defines risk tolerance as Conservative to Moderate. The current asset allocation strategy unites these return goals and risk parameters with a low target to equities and a materially higher target to various fixed income instruments, compared to institutional averages. To achieve these goals, the current asset allocation strategy is as follows:

- 55% target to Low-Risk Bonds (e.g., treasuries, discount notes)
- 10% target to Bonds with More Risk (e.g., global bonds, high yield bonds)
- 25% target to Equities (e.g., publicly traded stocks)
- 10% target to Diversifying Assets (e.g., real estate, tactical asset allocation)

Performance of Investments by Asset Class

The initial contribution was invested 100% in government-guaranteed securities (Low-Risk Bonds).
These assets increased by nearly \$46,000,000 from inception through June 30, 2023.

All assets invested initially in government-guaranteed securities



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Investment Fees

During fiscal year 2023, the following expenses were paid for investment consulting, OCIO and custody bank services:

Service category	Service provider	Fees paid FY23
Investment consultant & OCIO	NEPC	\$386,629
Interim Investment Custodian Bank	Banco Popular	\$73,813
Long-term Investment Custodian Bank	Northern Trust	\$60,165