



**Commonwealth Plan of Adjustment
Pension Reserve Trust**

**Fund Financial Statements
Fiscal Year Ended June 30, 2026
(With Independent Auditors' Report)**

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Independent Auditors' Report

Board of Trustees
Puerto Rico Pension Reserve Trust

Opinions

We have audited the fund financial statements of the Puerto Rico Pension Reserve Trust (the Trust), which comprise the balance sheet as of June 30, 2026, and the related statement of revenue, expenditures, and change in fund balance for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Trust activities as of June 30, 2026, and the results of its operations for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

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 opinions.

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, 2026, 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 opinions. 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 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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for a reasonable period of time.

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.

KPMG LLP

San Juan, Puerto Rico
October 1, 2026

License Number LLP-21
Expires December 1, 2028



DLLP21-614
Puerto Rico Pension Reserve Trust

Required Supplementary Information –
Management’s Discussion and Analysis

June 30, 2026

(Unaudited)

Overview of the Financial Statements

The following Management’s Discussion and Analysis (“MD&A”) provides an overview of the financial performance, governance, and operational activities of the Commonwealth Plan of Adjustment Pension Reserve Trust (the “Pension Reserve Trust” or the “Trust”) for the fiscal year ended June 30, 2026. This discussion is intended to assist readers in understanding the Trust’s financial position, operating results, and significant activities during the year. It should be read in conjunction with the accompanying financial statements and related notes, which provide further details regarding the Trust’s financial condition, accounting policies, and results of operations.

The Trust was established as an irrevocable public trust under the Deed of Public Trust (the “Deed of Trust”), effective March 14, 2022, pursuant to Chapter III of Act No. 219 of August 31, 2012, as amended (the “Trust Act”), and operates in accordance with the Amended Guidelines for the Governance and Administration of the Pension Reserve Trust (the “Guidelines”). Its primary statutory mandate is to accumulate and prudently manage financial resources in support of the Commonwealth’s pension obligations under the pay-as-you-go system created by Act No. 106 of August 23, 2017 (“PayGo System”).

The Trust is governed by a five-member board of trustees (the “Pension Reserve Board” or the “Board”) and functions as an independent fiduciary body with the responsibility to safeguard assets, implement sound investment practices, and ensure transparency in the deployment of resources.

The accompanying Financial Statements include the balance sheet and the statement of revenues, expenditures, and changes in fund balance. These statements present the financial position of the Trust as of June 30, 2026, and its financial activities for the year then ended. The notes to the financial statements provide essential explanatory information, including significant accounting policies, asset classifications, and risk exposures, and are an integral part of the financial reporting package.

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 are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This reporting framework is intended to provide transparent, consistent, and reliable financial information to stakeholders. The basis of presentation also 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.”

Required Supplementary Information –
Management's Discussion and Analysis

June 30, 2026

(Unaudited)

Financial Summary

Summary balances and activities of the Pension Reserve Trust as of and for the year ended June 30, 2026, and as of and for the year ended June 30, 2025, are presented below:

Summary of fund balance:

	<u>June 30, 2026</u> (In thousands)	<u>June 30, 2025</u> (In thousands)
Assets:		
Cash – operational	\$ 1,063	940
Cash equivalent held in money market account	28,734	37,799
Investments at fair value	5,397,741	3,935,168
Operating lease right-of-use asset	164	187
Property, plant & equipment – net	2	8
Other assets	93	92
Total assets	<u>5,427,797</u>	<u>3,974,194</u>
Liabilities:		
Accounts payable	64	269
Accrued expenses	939	682
Personnel related payable	-	45
Operating lease liability	164	187
Withholding taxes	1	6
Total liabilities	<u>1,168</u>	<u>1,189</u>
Fund balance – restricted	<u>\$ 5,426,629</u>	<u>3,973,005</u>

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

	<u>June 30, 2026</u> (In thousands)	<u>June 30, 2025</u> (In thousands)
Revenues:		
Interest, dividend, and net realized and unrealized gains on investments	\$ 469,928	309,694
Expenditures:		
General government expenditures	1,597	1,722
Investment expenditures	3,811	2,234
Total expenditures	<u>5,408</u>	<u>3,956</u>
Other financing sources (uses):		
Transfer in – Commonwealth	989,580	923,053
Distribution – Pension Benefits Council ("PBC")	(476)	(434)
Total other financing sources	<u>989,104</u>	<u>922,619</u>
Change in fund balance	<u>1,453,624</u>	<u>1,228,357</u>
Fund balance, beginning of year – restricted	3,973,005	2,744,648
Fund balance, end of year – restricted	<u>\$ 5,426,629</u>	<u>3,973,005</u>

Required Supplementary Information –
Management’s Discussion and Analysis

June 30, 2026

(Unaudited)

Detailed Analyses

- Total assets increased to \$5.43 billion at June 30, 2026, from \$3.97 billion at June 30, 2025. The \$1.45 billion increase was primarily attributable to \$989.6 million in contributions from the Commonwealth and \$469.9 million in investment earnings, partially offset by \$5.4 million of operating and investment expenditures.
- Total liabilities were \$1.168 million at June 30, 2026, compared to \$1.189 million at June 30, 2025. Liabilities remained relatively consistent year over year and primarily consisted of accrued investment-related expenses recorded at fiscal year-end.
- The excess of revenues over expenditures increased to \$464.5 million in fiscal year 2026 from \$305.7 million in fiscal year 2025. The increase was primarily driven by higher investment earnings, including increases in interest income, realized gains, and unrealized appreciation on the fair value of investments.
- Transfers in from the Commonwealth totaled \$989.6 million during fiscal year 2026, compared to \$923.1 million during fiscal year 2025. The increase was primarily attributable to a \$72.5 million discretionary contribution made by the Commonwealth during the year.
- Distributions to the Pension Benefits Council totaled \$476,000 during fiscal year 2026, compared to \$434,000 during fiscal year 2025. Such distributions are based on the Pension Benefits Council’s budgetary requirements and may vary from year to year.

Significant Capital Asset and Long-Term Financing Activities

The Trust did not experience significant capital asset activity during fiscal year 2026. The discussion below focuses on the Trust’s significant long-term financing activities.

As part of the Modified Eighth Amended Title III Joint Plan of Adjustment (the “Plan”), the Commonwealth committed to annual contributions through the fiscal year ending June 30, 2031, consisting of a base contribution and an additional contingent performance-linked contribution. These inflows constitute the primary source of capital formation within the Trust. The Trust also receives monthly contributions from the Commonwealth as a result of a Court-approved stipulation concerning Act 80 of 2020. These monthly contributions are expected to be received through the end of fiscal year 2031.

The Board, with the advice of its investment consultant NEPC, LLC, adopted a comprehensive Investment Policy Statement (“IPS”) on May 5, 2023. The IPS codifies the Trust’s long-term objectives, risk tolerance, governance framework, and performance monitoring procedures, in line with Section 8.1(D) of the Guidelines. The investment program is structured to generate sustainable, risk-adjusted returns net of investment expenses, while preserving capital and ensuring liquidity to meet the Trust’s statutory mandate.

The Board employs a strategic asset allocation model incorporating high-quality fixed income, global equities, credit strategies, real assets, and opportunistic diversifiers. The IPS prescribes target allocation ranges to provide tactical flexibility while maintaining discipline in portfolio construction. Contributions received from the Commonwealth are deployed in accordance with these parameters, typically via dollar-cost averaging to mitigate timing risk and reduce portfolio volatility.

Required Supplementary Information –
Management's Discussion and Analysis

June 30, 2026

(Unaudited)

The Trust's long-term strategic allocation is as follows:

- **High-Quality Fixed Income – 55%:** U.S. Treasury bills, bonds, & notes, federal agency debt, discount notes, money market funds and other similar instruments, investment grade U.S. dollar-denominated corporate bonds.
- **Equity – 25%:** Publicly traded equity securities across domestic and global markets.
- **Credit – 10%:** Global fixed income, below-investment-grade corporate bonds, and private credit.
- **Diversification – 10%:** Public-market real assets, private real estate, and tactical asset allocation strategies.

Currently Known Facts, Decisions, or Conditions

The Trust ended fiscal year 2026 with total investments of \$5.43 billion. The investment return for the fiscal year was 10.2% net of fees. This was well ahead of the long-term rate of return benchmark of 4.5%.

The Board receives an annual economic outlook from its investment advisors and OCIO, and continues to monitor fiscal, macroeconomic, and market conditions that may materially affect IPS assumptions, including interest rate dynamics, inflationary pressures, and fiscal policy developments within the Commonwealth. The IPS is monitored continuously and the board made no changes to the allocation during fiscal year 2026. The Board maintains a robust governance process to adjust strategic positioning in the event of material changes in projections or fiscal performance.

During fiscal year 2026, the Trust completed its first annual compliance audit as required by the amended Deed of Trust and Guidelines as previously approved by the United States District Court for the District of Puerto Rico (the "Title III Court"). The successful completion of the audit represented a significant operational and governance milestone, providing an independent assessment of the Trust's compliance with its governing requirements and further enhancing accountability, transparency, and oversight.

The Trust also began executing the Memorandum of Understanding ("MOU") as agreed with the Pension Benefits Council. Under the MOU, and consistent with Section 1.6(A) of the Guidelines, the Trust commenced providing accounting, administrative, and logistical coordination services, as well as contract registry services with the Office of the Comptroller of Puerto Rico. The initiative expanded the Trust's operational support role and reflected its continued efforts to leverage its administrative capabilities and expertise to support the Council's operations.

Finally, during fiscal year 2026, the Trust leadership accomplished several important fiduciary and governance initiatives that helped strengthen oversight and organizational accountability: (1) an on-site due diligence review of NEPC, LLC, (2) an on-site due diligence review of the custodian bank, Northern Trust, and (3) an actuarial based Asset & Withdrawal Modeling Study.

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 information should be addressed to the Pension Reserve Board via e-mail to comments@prtpr.org or by mail to B5 Tabonuco Street, Suite 216, PMB 355, Guaynabo, Puerto Rico 00968.

Balance Sheet

June 30, 2026

(Dollars in thousands)

	2026
Assets:	
Current assets	
Cash and cash equivalents	
Cash – operational	\$ 1,063
Cash equivalent held in money market account	28,734
Investments at fair value	
Fixed Income	2,834,103
Equity	2,510,895
Commodity	52,743
Other current assets	93
Total current assets	<u>5,427,631</u>
Noncurrent assets	
Property, plant & equipment – net	2
Operating lease right-of-use asset	164
Total assets	<u>5,427,797</u>
Liabilities:	
Current liabilities:	
Accounts payable	64
Accrued expenses	939
Current portion of operating lease liability	23
Withholding taxes	1
Total current liabilities	<u>1,027</u>
Operating lease liability	141
Total liabilities	<u>1,168</u>
Fund balance – restricted	<u>\$ 5,426,629</u>

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenditures, and Change in Fund Balance

For the Fiscal Year Ended June 30, 2026

(Dollars in thousands)

	2026
Revenues:	
Interest and dividend income	\$ 151,279
Net realized gain on investments	51,786
Net change in unrealized appreciation on investments	266,863
Total revenues	<u>469,928</u>
Expenditures:	
General government	
Personnel related	659
Trustees	421
Legal counsel	47
Accounting and audit	212
Other professionals	78
Administrative	103
Travel & other reimbursable expenses	71
Depreciation	6
Total general government expenditures	<u>1,597</u>
Investment expenditures	
Investment personnel related	495
Custodian	187
D&O insurance policy	111
Investment consultant services & OCIO	1,726
Investment management fees	1,074
Regulatory & Compliance	106
Equipment, Software, and Licensing	38
Asset & Withdrawal Management Study	58
Quarterly meetings	16
Total investment expenditures	<u>3,811</u>
Total expenditures	<u>5,408</u>
Other financing sources (uses):	
Transfer in – Commonwealth	989,580
Distribution – Pension Benefits Council (“PBC”)	(476)
Total other financing sources	<u>989,104</u>
Change in fund balance	1,453,624
Fund balance, beginning of year – restricted	3,973,005
Fund balance, end of year – restricted	<u>\$ 5,426,629</u>

The accompanying notes are an integral part of these financial statements.

Notes to the Fund Financial Statements

June 30, 2026

(Dollars in thousands)

(1) Description of the Pension Reserve Trust

Pursuant to 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" or the "Commonwealth"), and the Financial Oversight and Management Board for Puerto Rico ("FOMB") have established the Commonwealth Plan of Adjustment Pension Reserve Trust (the "Pension Reserve Trust" or the "Trust") 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 Pension Reserve Trust is a Puerto Rico irrevocable public trust duly organized pursuant to the execution of that certain Deed of Public Trust (the "Deed of Trust"), effective as of March 14th, 2022, as amended, pursuant to the provisions of Chapter III of Act 219 of August 31st, 2012, as amended (the "Trust Act").

As outlined in the Deed of Trust and the amended 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"), the Pension Reserve Trust is an independent and separate legal entity from the Government. The Government has the obligation to provide the Trust with initial funding, an annual base contribution (the "Annual Contribution"), and an additional contribution based on the Government surplus (the "Additional Contribution") while remaining responsible for all pension payments, current and future. 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. Assets under the Trust are irrevocably held by the Board for the exclusive purposes of: (i) paying the operating and administrative expenses of the Trust and the Pension Benefits Council, and (ii) making disbursements to the Government as the Trust's sole beneficiary pursuant to the Guidelines.

An additional entity composed of nine members appointed by different key stakeholders, and some elected by eligible retirees (the "Pension Benefits Council" or the "Council") was established for the purpose of ensuring the Government's compliance with the Plan of Adjustment and the Guidelines in funding the Pension Reserve Trust through annual contributions and shall, along with the Pension Reserve Board, administer requests by the Commonwealth to withdraw funds from the Trust.

After the close of each fiscal year, the Commonwealth must make deposits to the Pension Reserve Trust based on the annual surplus from the most recent fiscal year. The Annual Contributions are expected for a duration of ten (10) fiscal years, with the final payment anticipated to occur based on the fiscal year ending on June 30, 2031. Most of the deposits are expected to be received as a base contribution by October 1, although the Additional Contribution is contingent on the economic performance of the Commonwealth and may not be known until November of each year. The Trust will commence transferring funds back to the Commonwealth no earlier than 2032, as required to assist the Commonwealth in meeting its pension obligations.

Notes to the Fund Financial Statements

June 30, 2026

(Dollars in thousands)

On March 22, 2024, the Title III Court approved the Final Stipulation Concerning Act 80 of 2020 and Joint Resolution 33 of 2021 (the "Final Stipulation"). The Final Stipulation requires the Government to make additional contributions to the Pension Reserve Trust pursuant to Section 83.2(c) of the Plan (the "Act 80 Contributions") that will be deposited into the Trust on a monthly basis between fiscal years 2025 and 2031. Furthermore, pursuant to Section 83.2(c) of the Plan, the Government may, in its discretion, elect to deposit additional amounts into the Trust (the "Discretionary Contribution").

(2) Summary of Significant Accounting Policies***(a) Basis of Accounting and Financial Statement Presentation***

The preparation of these financial statements is in conformity with generally accepted accounting principles in the United States of America as promulgated for governmental funds by the Governmental Accounting Standards Board. The financial activities of the Pension Reserve Trust are reported as part of the Commonwealth's General Fund in the Commonwealth's financial statements. For its reporting purposes, the Trust has presented only governmental fund financial statements, which are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available, and net of amounts considered not collectible. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period.

The Trust's assets are restricted assets of the Commonwealth and represent only the portion of the Commonwealth's General Fund related to the Trust; therefore, the basic financial statements of the Trust are not intended to present the financial position or changes in financial position of the Commonwealth as a whole in conformity with U.S. generally accepted accounting principles.

(b) Cash and Cash Equivalents

Cash and cash equivalents include deposits and short-term investments held in the Trust's operating bank accounts and custodian bank. Short-term investments include cash held in short-term investment funds and other highly liquid investments. Short-term investments considered cash are recorded at cost, which approximates fair value.

(c) Transfers from the Commonwealth of Puerto Rico

The Commonwealth's Annual Contributions to the Trust are recognized as other financing source when received. Transfers are recognized as soon as they are both measurable and available.

(d) Distributions to the Pension Benefits Council

Funding of the Council's administrative and operating budget by the Trust is recognized as other finance use when paid.

Notes to the Fund Financial Statements

June 30, 2026

(Dollars in thousands)

(e) Investments

Investment securities owned by the Trust are carried at fair value, except for money market investments, which are carried at cost. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Such quoted market prices are obtained from independent sources. Investments in commingled funds are shown at net asset value (NAV), which is used as a practical expedient to estimate the fair value of the Trust's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV.

Security transactions are recorded on the date the securities are purchased or sold (i.e. the trade date). The cost of a security is the purchase price. The calculation of realized gains (losses) is independent of the calculation of the net change in unrealized appreciation (depreciation) on investments. Realized gains and losses on investments sold in the current year include previously recorded unrealized amounts and are included in net realized gain on investments within the financial statements.

(f) Prepaid Expenses

Expense items of a nature which will benefit future periods are charged to the prepaid expense accounts and are amortized over the term of the expenditure.

(g) Property and Equipment

Property and equipment are stated at cost. Expenditures for repairs and maintenance are charged to operations as incurred, whereas major improvements are capitalized. Depreciation and amortization are computed by the straight-line method based on the estimated useful life of the equipment. They are tested for recoverability whenever events or circumstances indicate that the carrying amount of the asset group may not be recoverable. If the asset group is not recoverable, its carrying amount is reduced to its fair value. The major category of property and equipment included within these financial statements is furniture and equipment, which is depreciated on a straight-line basis using a three-year estimated useful life.

(h) Investment Income

Interest income is recognized on an accrual basis using the effective interest method, which allocates interest income over the relevant period to reflect a constant periodic rate of return on the asset's carrying amount. Dividend income is recorded on the ex-dividend date, which is the date that establishes the Trust's right to receive the dividend.

Notes to the Fund Financial Statements

June 30, 2026

(Dollars in thousands)

(i) Use of Estimates

The preparation of the basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the fund financial statements, and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

(j) Fund Balance

Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or by enabling legislation. As the assets held by the Trust are restricted to provide financial support for the Government's pension obligations under the PayGo System in accordance with the Guidelines, and to pay the expenses of the Pension Reserve Board and the Pension Benefits Council, the Trust classifies fund balance as restricted.

(k) New Accounting Pronouncements**GASB Statement No. 103**

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the governmental financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing governmental accountability. Among other changes, the Statement revises the requirements for Management's Discussion & Analysis, establishes new requirements for the presentation of unusual or infrequent items, and updates certain financial reporting presentation and disclosure requirements. The Trust adopted the provisions of this Statement during the fiscal year ended June 30, 2026. The adoption primarily affected the presentation and disclosure of information in the Trust's annual financial report and did not have a material effect on the Trust's financial position or the results of its operations.

GASB Statement No. 104

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. The Statement requires lease assets, subscription assets, and certain other intangible assets to be disclosed separately within capital asset note disclosures and establishes additional disclosure requirements for capital assets held for sale. The Trust adopted the provisions of this Statement during fiscal year 2026. The adoption of this Statement did not have a material effect on the Trust's financial position or the results of its operations.

Notes to the Fund Financial Statements

June 30, 2026

(Dollars in thousands)

(I) Future Accounting Pronouncements – Issued But Not Yet Effective

The Trust's management is currently evaluating the impact on the financial statements, if any, on the following GASB statements:

GASB Statement No. 105

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The objective of this Statement is to improve the consistency and clarity of financial reporting related to events occurring after the financial statement date but before the financial statements are available to be issued. This Statement defines the subsequent events evaluation period, clarifies the distinction between recognized and nonrecognized subsequent events, and establishes specific note disclosure requirements for nonrecognized subsequent events, including disclosure of the date through which subsequent events were evaluated. The requirements of this Statement are effective for fiscal years beginning after June 15, 2026, with earlier application encouraged.

(3) Fair Value Measurements of Investments

GASB Statement No. 72, *Fair Value Measurement and Application*, (GASB No. 72), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and consider the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. By contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

In accordance with GASB No. 72, the Trust categorizes the fair value measurements of its investments within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the Trust can access at the measurement date. An active market is one in which transactions for the assets occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Fair values are primarily obtained from third-party pricing services for identical or comparable assets or liabilities, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Notes to the Fund Financial Statements

June 30, 2026

(Dollars in thousands)

- Level 3 – Significant unobservable inputs, for example, inputs derived through extrapolation that cannot be corroborated by observable market data. These will be developed based on the best information available in the circumstances. Level 3 inputs will consider the assumptions that market participants would use in pricing the asset, including assumptions about risk (e.g., credit risk, model risk, etc.).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The estimated fair value may be subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in calculating fair value could significantly affect the results. Therefore, the estimated fair value may materially differ from the value that could be realized on sale.

The inputs and methodology used for valuing securities or level assigned are not necessarily an indication of the risk associated with investing in those securities.

The composition of the Trust's investment portfolio is made up of investments in exchange-traded funds (ETF) and commingled funds. These ETFs held by the Trust are classified as Level 1 on the fair value hierarchy, as they are valued using quoted prices in active markets for identical investments at the measurement date. These quoted market prices provide the most reliable evidence of fair value and require minimal judgment in their application. Equity investments include both domestic and international equity ETFs, while fixed income investments consist of ETFs that invest in US Treasuries, US federal agency debt, discount notes, global fixed income, investment grade corporate bonds, below-investment grade corporate bonds, and private credit. The Trust's commodity investment is an ETF that provides investors with exposure to gold, tracking the price of physical gold minus the ETF's expenses.

The Trust invests in commingled funds, which are funds with capital pooled from multiple investors that are invested in accordance with a mutually agreed-upon strategy. The fair value of commingled funds is measured at NAV, where fair value is measured by multiplying the pool's share price by the number of shares held. The NAV is provided by the fund administrator and is based on the value of the underlying assets of the fund. Because the NAV is used as a practical expedient to estimate fair value, these investments are not categorized within the fair value hierarchy in accordance with GASB No. 72. Typically, there are no redemption constraints for commingled funds and there are no unfunded commitments related to this investment type. A two-business day period of notice prior to the redemption trade date should be given, with payment expected to occur within five business days after the trade date. A minimum balance is required to participate in any commingled fund. As of June 30, 2026, the Trust had no intention of selling investments at amounts different from NAV.

Notes to the Fund Financial Statements

June 30, 2026

(Dollars in thousands)

The following is a summary of the portfolio by inputs used as of June 30, 2026, in valuing the Pension Reserve Trust's investments carried at fair value:

Investments by Fair Value Level	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Equities:				
Domestic Equity	\$ 997,848	\$ 997,848	\$ -	\$ -
International Equity	374,684	374,684	-	-
	<u>1,372,532</u>	<u>1,372,532</u>	<u>-</u>	<u>-</u>
Fixed Income:				
Domestic Fixed Income	2,782,532	2,782,532	-	-
International Fixed Income	51,571	51,571	-	-
	<u>2,834,103</u>	<u>2,834,103</u>	<u>-</u>	<u>-</u>
Commodities	52,743	52,743	-	-
	<u>52,743</u>	<u>52,743</u>	<u>-</u>	<u>-</u>
Total Investments by Fair Value Level	\$ 4,259,378	\$ 4,259,378	\$ -	\$ -
Investments Measured at NAV				
International Equity	\$ 164,629			
Commingled Funds	973,734			
Total Investments Measured at NAV	\$ 1,138,363			
Total Investments Measured at Fair Value	\$ 5,397,741			

Notes to the Fund Financial Statements

June 30, 2026

(Dollars in thousands)

(4) Deposit and Investment Risks**(a) Credit Risk**

Custodial credit risk is the risk that in the event of bank failure, the Pension Reserve Trust's deposits may not be returned. The Trust maintains cash with Banco Popular de Puerto Rico, a major financial institution in Puerto Rico. The combined account balances at a specific financial institution may periodically exceed federally insured limits. The Trust does not have a deposit policy for custodial credit risk. As of June 30, 2026, the Trust's operational bank balance was \$1,063, and \$813 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. The Trust, through its consultants, monitors the credit quality of the financial institutions and does not anticipate their nonperformance.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Trust maintains a portion of its investments with Northern Trust, which employs a Global Enterprise Risk Committee to provide oversight and guidance related to risk management strategies, policies, and tolerance levels, including those for credit risk. The Trust also maintains a portion of its investments with SSIM, which engages its Chief Risk Officer to oversee the company's Risk Appetite Framework through its Enterprise Risk Management strategy. This Chief Risk Officer reports directly to the Risk Committee Board of Directors and is tasked with developing risk policies and limits that set boundaries for company-wide risk-taking within acceptable bounds.

Finally, the Trust maintains a portion of its investments with IR&M, which engages a Director of Investment Risk who reports to the Co-Chief Investment Officer and whose responsibilities include monitoring of, among others, credit risks. Where the Trust invests in commingled funds, the assets within the fund are held in the name of the trustee of the fund and not in the Trust's name.

(b) Market Risk

Since the purpose of the Trust is to provide funds as necessary beginning fiscal year 2032, the initial time horizon for investments is long-term, and investments will be made with the goal of meeting those needs when they ultimately occur. Capital values fluctuate. The Board recognizes that the risk of capital loss is inherent in any investment program seeking an investment return and that investment losses will occur from time to time. To minimize the risk that these fluctuations prevent the Trust from meeting its ultimate objectives, fund assets will be invested in a prudent manner to ensure diversification of investment risks and opportunities.

Notes to the Fund Financial Statements

June 30, 2026

(Dollars in thousands)

The Board recognizes that risk must be assumed to achieve the Trust's long-term investment objectives. The Board also understands that the nature of financial instruments and the markets in which they invest involve fluctuations in market value and rates of return. The Board aims to meet these objectives and limit risk by its asset allocation, and diversification across asset classes and investment managers.

(c) Concentration of Credit Risk

GASB Statement No. 40 *Deposit and Investment Risk Disclosures* establishes certain disclosure requirements related to investment risks including, but not limited to, concentration of credit risk. As part of this disclosure, an entity should provide information about the concentration of credit risk associated with its investments by disclosing, by amount and issuer, investments in any one issuer that represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. Government, and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

The Board, with the assistance of its investment advisor, manages the Trust's exposure to concentration of credit risk by establishing guidelines that limit the percentage of investment in any single issue or issuer. At June 30, 2026, the Trust had no investments at fair value, other than those excluded from this requirement, that exceed 5% of the Trust's total investments.

(5) Property, Plant & Equipment

As of June 30, 2026, net property, plant, and equipment balances were as follows:

Furniture and Equipment	\$	25
Less: Accumulated Depreciation		23
Net property, plant and equipment	\$	<u>2</u>

(6) Investment Management and Other Management Fees

Expenses incurred in managing the Trust are charged to the Pension Reserve Trust. These expenses consist of investment advisory fees, custodian fees, council fees, and professional fees, as well as staff salaries and other administrative expenses of the Board.

(a) Investment Advisory Fees

NEPC, LLC ("NEPC") served as the Board's principal investment advisor and Outsourced Chief Investment Officer ("OCIO") during fiscal year 2026. The investment advisors provided the Board with comprehensive investment advisory services, including recommendations on asset allocation, selection of investment managers, and monitoring performance of the Pension Reserve Trust.

Notes to the Fund Financial Statements

June 30, 2026

(Dollars in thousands)

For the year ended June 30, 2026, the Trust incurred \$1,726 in investment advisory fees, which are included in investment consultant services & OCIO fees in the accompanying Statement of Revenues, Expenditures, and Change in Fund Balance.

(b) Custodian Fees

Northern Trust served as the Trust's principal investment custodian during fiscal year 2026, providing safekeeping of assets, settlement of investment purchases and sales, and the recording of investment income and expenses.

For the year ended June 30, 2026, the Trust incurred \$187 in custodian fees, which are included in "Custodian" in the accompanying Statement of Revenues, Expenditures, and Change in Fund Balance.

(c) Pension Benefits Council Expenses

As provided in Section 1.7 of the Guidelines, the Pension Reserve Board transfers appropriate sums for administrative and operating expenses of the Pension Benefits Council for the payment of the Pension Benefits Council's expenses. For the year ended June 30, 2026, transfers made to the Pension Benefits Council for its expenses amounted to \$476 and are included as "Distribution - Pension Benefits Council ("PBC")" in the accompanying Statement of Revenues, Expenditures, and Change in Fund Balance. During fiscal year 2025, the Trust entered into a Memorandum of Understanding with the PBC to provide support services to be performed by Trust personnel, as provided by Section 1.6(A) of the Guidelines. Such services do not require payment to be made by the PBC to the Trust.

(d) Other Administrative Fees

For the year ended June 30, 2026, other administrative expenses of the Board, including employee compensation, trustee compensation, legal and other professional fees totaled \$1,597, and are included in the accompanying Statement of Revenues, Expenditures, and Change in Fund Balance.

(7) Description of Leasing Arrangements

The Trust leases an office under an operating lease with 10-year initial term. While the agreement provides for minimum lease payments, it includes payments adjusted for inflation or for variable payments regarding proportional share of insurance and other common expenses. Variable payments are not determinable at lease commencement and are not included in the measurement of the lease assets and liabilities. The lease agreement does not include any material residual value guarantees or restrictive covenants.

Notes to the Fund Financial Statements

June 30, 2026

(Dollars in thousands)

The following summarizes the line items in the balance sheet, which include amounts for operating leases, as of June 30, 2026:

Operating lease right-of-use assets	\$	164
Current portion of long-term debt of operating lease liabilities		23
Operating lease liabilities		141
Total operating lease liabilities	\$	<u>164</u>

The components of operating lease expenses that are included in "Administrative" in the Statement of Revenues, Expenditures and Change in Fund Balance for the year ended June 30, 2026, were as follows:

Operating lease cost	\$	30
Variable lease cost	\$	30

The maturities of operating lease liabilities as of June 30, 2026, were as follows:

Year ending June 30,		
2027	\$	23
2028		23
2029		23
2030		23
2031		23
Thereafter		49
Total	\$	<u>164</u>

(8) Subsequent Events

On September 28, 2026, the Pension Reserve Trust received the Annual Contribution for fiscal year 2026 due from the Government in the amount of \$887,272.