

INVESTMENT POLICY STATEMENT

for the

*Commonwealth of Puerto Rico Plan of Adjustment
Pension Reserve Trust*



Approved
May 5, 2023

Contents

I.	OVERVIEW AND PURPOSE	3
II.	TRUST DESCRIPTION	4
III.	ROLES AND RESPONSIBILITIES	5
	A. Pension Reserve Board Roles & Responsibilities:	5
	B. Investment Advisor Roles & Responsibilities:.....	5
	C. Investment Manager Roles & Responsibilities:	6
	D. Bank Custodian Roles & Responsibilities:.....	6
	E. OCIO Roles & Responsibilities:.....	7
IV.	TRUST INVESTMENT PROGRAM	7
	Trust Investment Objectives	7
	Trust Investment Time Horizon.....	7
	Limitation of Investment Risks & Risk Tolerance	7
	Account Performance Measurement	8
V.	ELIGIBLE ASSET CLASSES, ASSET ALLOCATIONS, AND REBALANCING	8
VI.	INVESTMENT GUIDELINES.....	8
VII.	INVESTMENT MANAGER SELECTION, MONITORING AND TERMINATION.....	9
	Appendix I: PENSION RESERVE TRUST ASSET ALLOCATION POLICY	11

I. OVERVIEW AND PURPOSE

This Investment Policy Statement ("Policy" or "IPS") is adopted by the Pension Reserve Board ("PRB" or "Board"), with the assistance of its investment advisor, pursuant to the provisions of certain *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")*, specifically, Sections 8.1(B)(ii) and (C).

The purpose of this Policy is to set forth the goals, objectives, and risk tolerances of the Investment Program adopted by the PRB and provide a mechanism to effectively supervise, monitor and evaluate the investment of the assets of the Commonwealth Plan of Adjustment Pension Reserve Trust ("PRT" or the "Trust"), all in furtherance of the investment objective defined in Section 8.1(D) of the Guidelines¹.

It should be noted that the Trust is not a pension fund and that its purposes, and therefore its investment practices, will differ in some respects from the investment practices of pension funds.

The objectives, benchmarks, policies, and procedures outlined in this document were created as a general framework and guide for the management of the Trust's assets. The statements contained in this document are intended to provide sufficient flexibility to the Board in the investment process. Accordingly, this Investment Policy Statement:

1. Provides a mechanism to establish and periodically review its investment program and risk tolerance.
2. Distinguishes the responsibilities of the service providers hired to help to develop and implement the Plan's Investment Policy—the investment advisor, the OCIO, the investment managers, and the bank custodian/trustee.
3. Describes the investment program designed to meet the investment objectives of the Trust, as well as the procedures for annually modifying the program.
4. Describes the classes of investments that will be considered and the percentage allocations to each asset class.
5. Documents a prudent monitoring and measurement process that includes criteria for replacing and retaining investment managers.
6. Establishes effective communication procedures between the Board, staff, the investment managers, investment advisor, and bank custodian/trustee.

The Policy is established so that all investment decisions shall be made for the exclusive benefit of and in the best economic interest of the PRT's sole beneficiary, the Commonwealth of Puerto Rico.

Provisions within this document are intended to be additive to contractual agreements established with the Trust's service providers (e.g., investment managers, custodians, consultants, etc.).

¹ "The objective of the Pension Reserve Trust's investment program is to generate returns within an appropriately risk-constrained framework, net of reasonable investment fees and expenses, in order to serve the intended purposes of the Pension Reserve Trust under the Plan of Adjustment."

This Policy is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the Trust, the Board, individual Board members, officers, employees, or agents.

Nothing contained herein could or should be interpreted to preclude the PRB from deviating from this Policy when compliance thereof would cause the breach of fiduciary duties imposed upon the Trustees under the Guidelines.

II. TRUST DESCRIPTION

The PRT was established by the execution of a Public Deed of Trust (the "Deed of Trust") in accordance with the Commonwealth's Act 219 of August 31st, 2012 (the "Trust Act") and the Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico (the "Plan of Adjustment") as part of a Plan Support Agreement², dated as of June 7, 2019, by and between the Financial Oversight and Management Board for Puerto Rico, as representative of the Commonwealth of Puerto Rico, and the Official Committee of Retirees appointed in the Commonwealth's Title III Case. The PRT is designed to provide financial support to the Commonwealth's pension obligations under its current pay-as-you-go system.

The Plan of Adjustment incorporates as a plan supplement, the Guidelines, and the Deed of Trust incorporates the terms of the Guidelines. The Guidelines provide for the creation and governance of a five-member board of trustees to provide the independent and professional management of the Pension Reserve Trust (the "Pension Reserve Board").

The Plan of Adjustment describes the provisions which apply to the required Commonwealth funding of the PRT. The Guidelines describe the conditions that must be met for the Commonwealth to be able to request to withdraw funds in the future, beginning no sooner than fiscal year 2032. The Guidelines also describe the Pension Benefits Council's responsibility to confirm that the contributions to and withdrawals from the PRT are consistent with the Provisions of the Plan of Adjustment and the Guidelines.

The Guidelines provide that the objective of the PRT's investment program is to generate returns within an appropriately risk-constrained framework, net of reasonable investment fees and expenses, to serve the intended purposes of the Pension Reserve Trust under the Plan of Adjustment³. This will be achieved via a carefully planned and executed long-term investment program. This Policy is intended to assist the Pension Reserve Board in carrying out its fiduciary responsibilities for the prudent investment of the assets of the PRT.

After the close of each fiscal year, the Commonwealth must make contributions to the Pension Trust based on annual surplus from the most recent fiscal year. These contributions are expected for 10 fiscal years, with the last payment expected based on the fiscal year ending June 30, 2031. Most of the contributions are expected to be received as a base contribution by October 1 of each year, although a contingent portion based on the economic performance of the Commonwealth may not be known until November of each year. These projected cashflows will be deposited and invested in accordance with this IPS.

The objectives of this IPS are based on forecasts and projections using currently available information, including in the Commonwealth Certified Fiscal Plan. If there is a material change

² Exhibit F of the Plan of Adjustment. The Oversight Board also entered into a Plan Support Agreement (the "AFSCME PSA") with the American Federation of State, County and Municipal Employees ("AFSCME"), which also provides (albeit with somewhat different terminology) for the creation of a Pension Reserve Board and a Pension Reserve Trust as reflected in the term sheet annexed to the AFSCME PSA.

³ Section 8.1.D of the Guidelines

in relevant forecasts and projections, the Pension Reserve Board could reevaluate the investment strategy and objectives set forth herein.

III. ROLES AND RESPONSIBILITIES

A. Pension Reserve Board Roles & Responsibilities:

- With the advice of the investment advisor, to develop, maintain, review and modify from time to time the investment program object of this Policy, as well as its goals, objectives and risk tolerances.
- With the advice of the investment advisor, to develop, maintain, review and modify from time to time an asset allocation strategy for the PRT,
- Select, monitor, analyze the performance of and, if appropriate in its sole judgement, replace the investment advisor.
- In consultation with and in its discretion relying on the recommendations and analysis of the investment advisor, to select and/or replace the investment managers.
- Consistent with its fiduciary obligations under Article 27 of the Trust Act, Act No. 219-2012, may delegate to the Executive Director or staff of the PRT or its investment advisor such roles and responsibilities the Board considers appropriate to execute the objectives of the Trust and of this Policy.

B. Investment Advisor Roles & Responsibilities:

- Assisting the Board in making decisions regarding the investment of PRT assets, including periodic reviews of asset allocations and strategy.
- Assisting the Board in the development of investment objectives and guidelines that reflect the Board's tolerance for risk and rate-of-return objectives.
- Assist in the analysis, selection, monitoring and replacement of direct investments and investment managers.
- Assisting the Board in selecting an adequately diverse group of investment managers and asset classes.
- Assisting the Board in the identification of appropriate market benchmarks and manager "style groups" against which each investment manager shall be evaluated.
- Formulate concrete recommendations to the Board for the selection of, monitoring, analysis of performance and replacement of investment managers.
- Assisting the Board in monitoring each investment manager. This includes the ongoing monitoring of (i) total fund and individual investment manager performance on a quarterly basis, which includes rate of returns results and compliance with PRT investment guidelines and Board policies and directives including proxy voting; (ii) the impact of investment managers' decisions on the asset allocation; (iii) each investment manager's conformance to its represented investment style, and (iv) organizational developments at each investment manager through due diligence monitoring of all PRT portfolio managers.
- Monitor, evaluate, and report on the performance of PRT assets relative to the guidelines and objectives contained in this IPS.

C. Investment Manager Roles & Responsibilities:

- Assume the roles and responsibilities required of an “investment manager” under Section 3(38) of the Employee Retirement Income Security Act of 1974 (“ERISA”), including but not limited to acknowledging in writing that such Investment Manager is a fiduciary with respect to the assets it manages on behalf of PRT. Nothing in the foregoing sentence, however, is intended to imply that the Board or Trust is subject to ERISA; rather the reference to Section 3(38) of ERISA is solely to set a minimum standard for the fiduciary duties that an “investment manager” must assume on behalf of the Board and Trust and under this Policy.
- Accept assets and invest in compliance with all relevant laws, the Investment Manager’s individual IMA, and this Policy.
- Managing PRT assets under its supervision in accordance with the guidelines and objectives contained in this IPS and consistent with each investment manager’s stated investment philosophy and style as presented to the Board.
- Meeting or exceeding the manager-specific benchmarks, net of all fees and expenses, expressed herein over various and appropriately measured time periods.
- Complying with all provisions pertaining to the investment manager’s duties and responsibilities as a fiduciary.
- Exercising investment discretion in regard to buying, managing and selling assets held in the portfolio, subject to any limitations contained in the manager’s Investment Management Agreement (“IMA”) and this IPS.
- Communicating with the Board, administrative staff, investment advisor and OCIO (if applicable) in a timely manner and in writing regarding all significant changes pertaining to the portfolio it manages or the firm itself including but not limited to a) substantive changes in investment strategy and portfolio structure, b) significant changes in ownership, organizational structure, financial condition or professional staffing, c) litigation or violation of securities regulations, and/or d) significant account losses or growth of new business.
- Disclosing all conflicts and potential conflicts of interest.
- Meeting with the Board and staff as needed or upon request.
- Communicating with the Board, staff, investment advisor and OCIO (if applicable), in a timely manner and in writing regarding any violation of their Investment Management Agreement guidelines or any of the guidelines contained in this IPS.
- Initiating written communication when the manager believes that this IPS is inhibiting performance and/or should be altered for any valid reason. No deviations from the guidelines and objectives established in the Investment Management agreement and this IPS are permitted until after such communication has occurred and the Board or Executive Director has approved such deviation in writing.

D. Bank Custodian Roles & Responsibilities:

- Providing adequate safekeeping services, cash-management services, administrative support, accounting services, risk management, and data processing capabilities.
- Settling securities transactions on time.
- Collecting income when due.
- Providing prompt, accurate proxy administration.

- Preparing accurate and timely investment reports including monthly statements reporting the value of all assets at cost and market and monthly statements reporting all portfolio transactions by each investment manager.
- Preparing a quarterly summary of brokerage commissions paid on transactions by investment managers.
- File all relevant class action suits on behalf of PRT unless instructed otherwise.

E. OCIO Roles and Responsibilities:

- Cash management decisions regarding the allocation and investment of excess cash, including periodic rebalancing, and raising cash consistent with this IPS.
- Management and tracking of capital calls, distributions, valuations, and changes to operating agreements for investment of assets structured as private investment vehicles.
- Monitoring of data aggregator.
- Back-office, operational, portfolio management and trade order support, including document preparation.

IV. TRUST INVESTMENT PROGRAM

Trust Investment Objectives

The Pension Reserve Board has established the following objectives for the investment of PRT assets:

1. Select a portfolio of investments intended to meet anticipated future cash flow needs to make pension payments based on anticipated contributions under the Plan of Adjustment. It should be noted that the projections used in the design of the Trust imply the Trust must achieve a positive investment return to meet those future needs.
2. Prudently manage and diversify the portfolio to reduce the risk that the Trust will be unable to meet future cash flow needs.

The Pension Reserve Board will review this IPS annually and may in its judgment and exercise of its fiduciary obligations adjust asset allocation strategy for the PRT based on those factors it considers appropriate, including without limitation the estimated funding and timing of liquidity needs, the expected return on various classes of assets, and other factors.

Trust Investment Time Horizon

Since the purpose of the Trust is to provide funds as necessary beginning FY 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.

Limitation of Investment Risks & Risk Tolerance

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 markets in which it invests involves fluctuations in market value and rates of return. The Board will aim to meet these objectives and limit risk by its asset allocation, and by diversifying assets across asset classes and investment managers.

The Board's current risk tolerance is conservative to moderate, which typically means an allocation to equity or other growth-type assets in the range from 20%-45%.

Account Performance Measurement

In measuring the performance of an account, a total return concept is applied. This means that the returns customarily include the income generated from the assets under management during the measurement period as well as the change in asset value. When securities are bought or sold, the trade date values are used. The income generated by fixed income securities is to be measured on an accrual basis rather than on a cash basis. Performance is usually measured according to the CFA Institute Standard, which utilizes a time-weighted measurement method to minimize the impact that contributions and withdrawals have on portfolio returns.

V. ELIGIBLE ASSET CLASSES, ASSET ALLOCATIONS, AND REBALANCING

Based on the investment objectives, the Pension Reserve Board will, after consultation with its investment advisors, establish classes of eligible investment assets, broad and sub-allocations, and the mix of public and private investments. The current policy target asset allocation established by the Pension Reserve Board will reflect the current financial objectives for investment return, risk tolerance, liquidity, and time horizon. It is included in Appendix I. These allocations will be reviewed annually to incorporate the Board's revised judgments concerning current economic and market conditions as well as other factors that could impact the long-term outlook.

One essential component of a strategic asset-allocation policy is the development and use of rebalancing ranges for the target allocation. The rebalancing ranges are shown in Appendix I. The OCIO will rebalance the portfolio within the ranges approved by the Board. The OCIO will consider market conditions and transaction costs, as well as any other relevant factors when rebalancing.

VI. INVESTMENT GUIDELINES

Manager Investment Discretion: Full discretion, within the parameters of the guidelines described herein, is granted to the investment managers regarding the asset allocation, security selection, and the timing of transactions, and subject to the terms of each investment manager's IMA and this IPS.

Separate accounts: The Pension Reserve Board will develop objectives and constraints directly with each investment manager in cases where a separate account is used as the investable vehicle. Such guidelines will be included in the investment management agreement.

Commingled funds: The Pension Reserve PRT may invest in commingled or mutual fund vehicles and Exchange Traded Funds ("ETFs"). The Board recognizes that it cannot give specific policy directives to a fund whose policies are already established. Accordingly, investments in commingled funds will be governed by the terms of the manager's IMA and the spirit and intent of guidelines contained in this IPS.

The Deed of Trust requires any private equity manager with whom the Pension Reserve Board invests to comply with the reporting guidelines developed by the Institutional Limited Partners Association (the "ILPA") as such guidelines are amended from time to time by the ILPA and require any private equity manager to offer financial terms for any investment placed by the Pension Reserve Board that are no less favorable than the terms offered by that private equity manager to other investors in the same fund or investment with a similar sized commitment.

For managers not participating in an Alternatives Investment program, the following guidelines are to be adhered to, unless prior approval has been granted:

- There shall be no use of options or commodities.
- Uncovered options or futures contracts may not be purchased.
- Uncovered short positions may not be purchased.
- Short selling is not permitted.
- There shall be no use of financial leverage.

VII. INVESTMENT MANAGER SELECTION, MONITORING AND TERMINATION

In compliance with the Deed of Trust, the Board will establish a public RFP process to search for outside investment advisors including, at the Board's option, an Outsourced Chief Investment Officer ("OCIO"), investment managers, custodian bank, and any other Pension Reserve Trust service providers, with the goal of soliciting and evaluating proposals in a fair and objective manner in a documented public process.

The PRT's investment managers will be selected and monitored in a manner consistent with generally accepted standards of fiduciary responsibility with the skill, care and diligence of a prudent person acting in such capacity and in accordance with the Trust Guidelines. In general, investment managers should possess attributes including, but not limited to, the following:

- Stable and financially strong investment management organization
- Tenured portfolio manager or portfolio management team
- Historically competitive investment returns and risk
- Consistent application of investment strategy in compliance with the guidelines and objectives under the Policy
- Sufficient asset base
- Reasonable expenses, competitive with similar funds in similar investment categories

The performance of the investment managers will be monitored on an ongoing basis at least quarterly.

The Pension Reserve Board has full discretion to terminate an investment manager at any time, for any reason, in accordance with the terms of each manager's IMA, as it is deemed necessary or advisable to maintain the best interests of the PRT. Some grounds that the Board may consider for termination of an investment manager may include but are not limited to the following criteria:

1. Organizational Matters

Extraordinary events which may be evaluated prior to a termination decision could include such things as:

- a) Ownership changes
- b) Key personnel departures
- c) Significant changes in the investment philosophy or the investment process
- d) Litigation or other regulatory matters

e) Failure to comply with stated investment guidelines

f) A change in asset allocation or IPS

2. Long-Term Performance in Relation to Appropriate Market Index

3. Shorter-Term Performance in Relation to Appropriate Style Group and/or Style Benchmark

Approved By Resolution of the Pension Reserve Board

Date: May 17, 2023

By: [Signature]

Chair

Appendix I: **PENSION RESERVE TRUST ASSET ALLOCATION POLICY**

The Pension Reserve Board has adopted an investment strategy with the goal of making available enough monies to meet pension obligations by 2038⁴, investing contributions received from the Commonwealth Government in line with these objectives. Due to the PRT's unique objectives, cashflows, local economic outlook, market outlook and time horizon, the Board may change return objectives or asset allocations periodically. As such, the Pension Reserve Board will implement an investment strategy with a flexible approach using target allocations and ranges. The target allocations will be reviewed and modified appropriately as and when funding objectives are achieved.

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).

Asset Class	Target	Range
High Quality Fixed Income	55%	40% - 70%
Equity	25%	15% - 35%
Credit	10%	5% - 15%
Diversification	10%	5% - 15%

Broad asset classes categories will primarily invest in the asset classes listed below:

High Quality Fixed Income: US Treasuries Bills, Bonds & Notes, Federal agency debt, discount notes, money market funds and other similar instruments, investment grade USD-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

In addition to comparing the Fund's total return outcome to its benchmark (e.g., 4.5%), the total fund's performance will also be measured against a Policy Index and an Allocation Index. The Policy Index is a weighted average return of index returns based on the policy's asset allocation targets. The Allocation Index is the weighted average return of index returns based on the fund's actual weightings to asset classes.

⁴ The Commonwealth Fiscal Year 22 Certified Fiscal Plan, which served as the basis for the confirmation of the Plan of Adjustment, projected that, if the Trust received all projected contributions and achieved a 4.5% nominal average annual return net of expenses, it would have sufficient funds to meet projected future needs by 2038. Analysis based on the information available at that time.