



PENSION
RESERVE TRUST

Working to Preserve Pension Benefits

Quarterly Report of the Pension Reserve Trust

November 14, 2023

Agenda

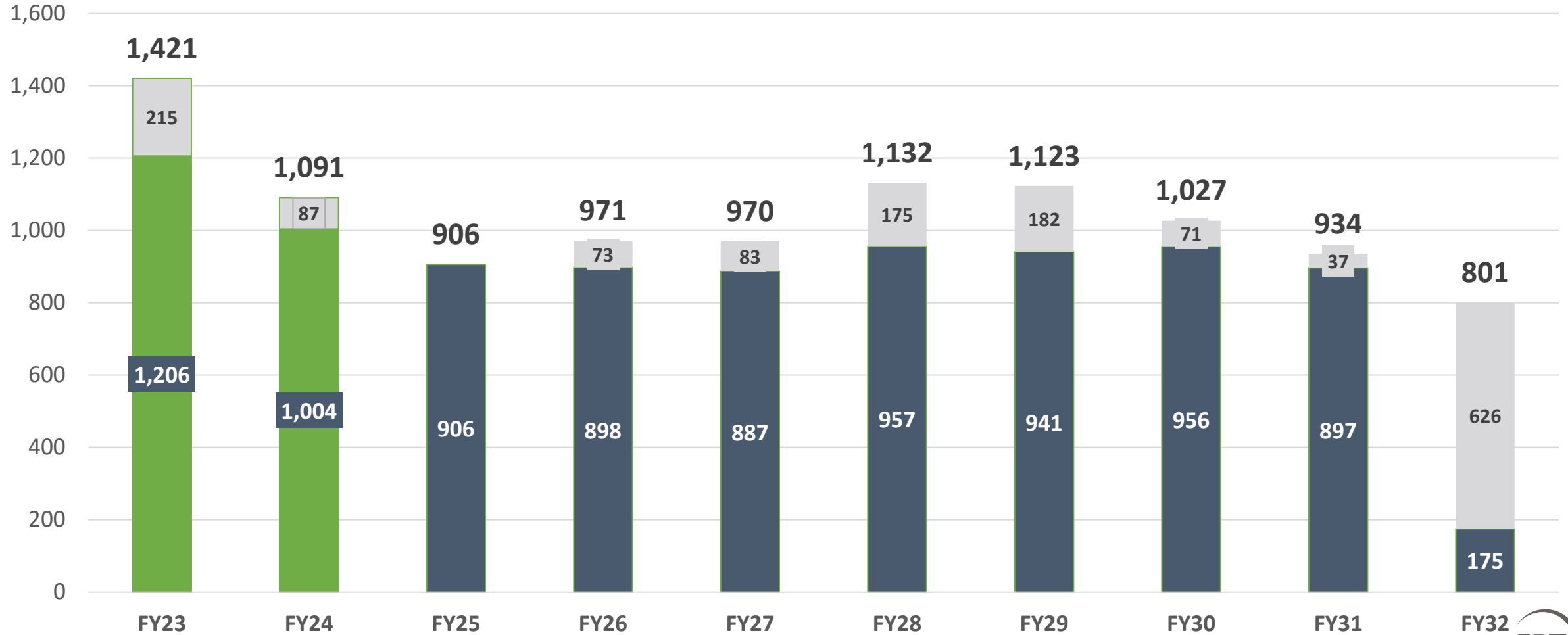
- **Steps Since Our Last Meeting**
- **Investments**
 - Investment Performance
 - Investment Policy & Planned Investments
- **Financial Report**
- **Operations & Expenses**
- **Communications**
- **Next Steps**

Since our Last Meeting

- **Received on time and invested contribution of \$1.1bn**
- **Continued transition from initial investments to planned allocation. Decided investment schedule for 2nd contribution.**
- **Provided funding to PBC for FY24 budget and elections**
- **Published conflict of interest and ethics policies**

PRT has received its first two contributions from the Commonwealth. Total contributions are expected to be more than \$10 billion.

\$ in millions



Note: projected contributions are based on the 2022 Commonwealth Certified Fiscal Plan



Investments

Investment Summary

- **Investments vary quarter to quarter. We invest for the long term.**
- **Our asset allocation is conservative, diversified & involves less risk than most pension funds.**
- ***We phase in* our long-term asset allocation gradually to reduce volatility. As a result, *PRT avoided \$15,000,000 in potential unrealized losses vs immediate investment of all contributions.***
- **Latest \$1.1B initially invested in treasury securities. Same phase in will be used.**

Our asset allocation is conservative.

Asset Class	Initial %	Current* %	Planned %
Low Risk Bonds	100%	74%	55%
Bonds with More Risk	0%	6%	10%
Stocks & Other Equities	0%	14%	25%
Other Diversified Investments	0%	6%	10%

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

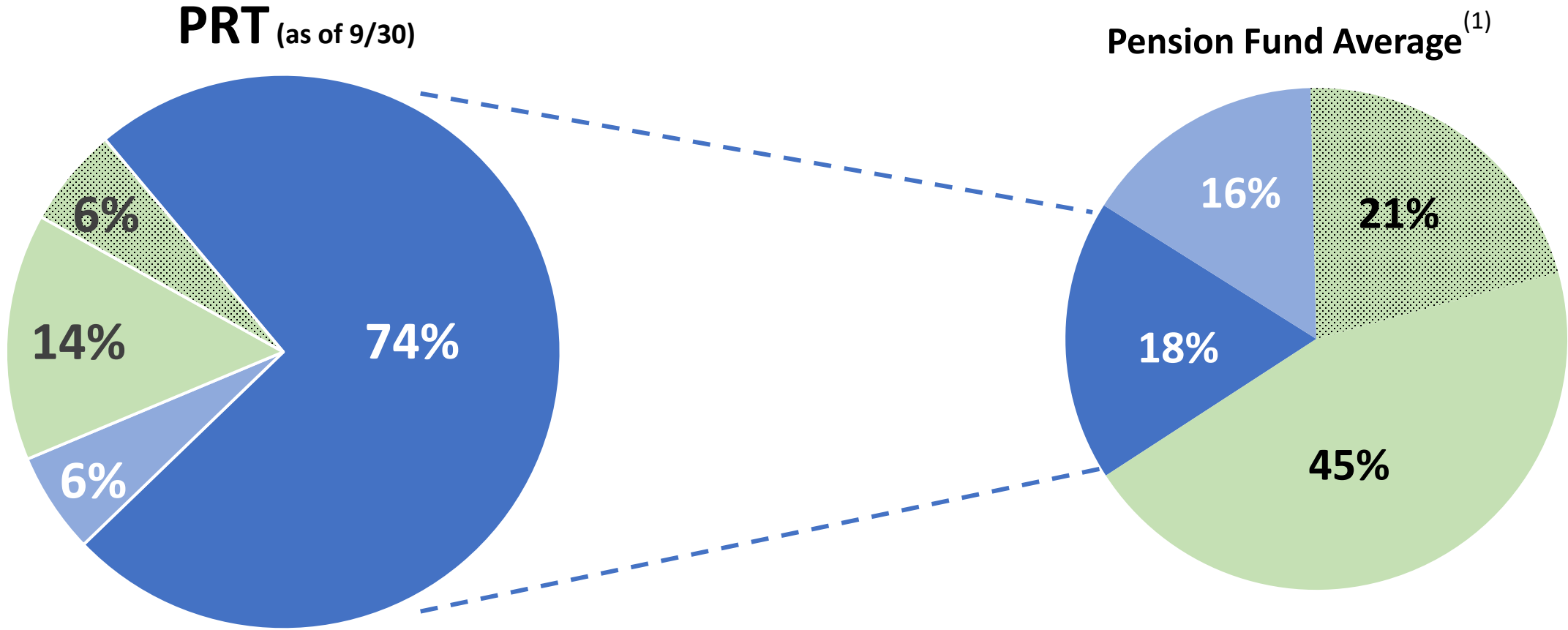
“Bonds with More Risk:” Global fixed income, below investment grade corporate bonds, and private credit

“Stocks & Other Equity:” Principally public market stocks

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

* “Current” is made up of approximate values as of September 30, 2023.

PRT will remain more conservatively invested than pension funds



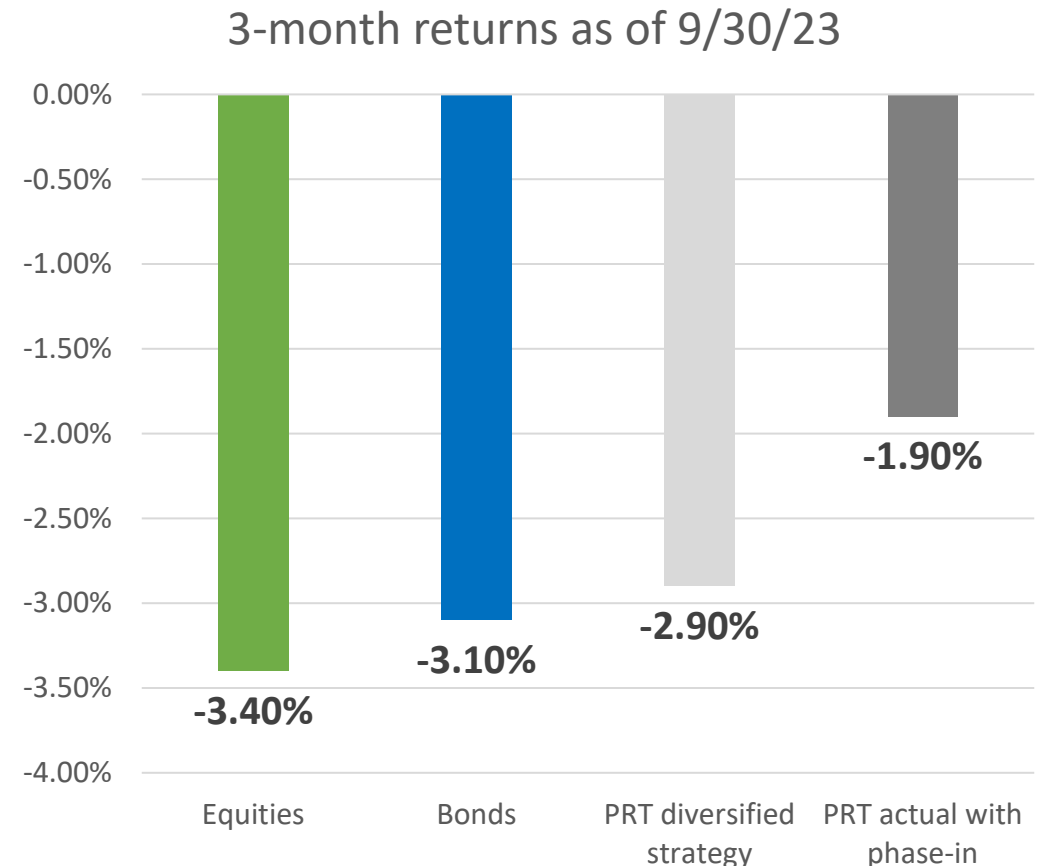
- Low Risk Bonds
- Bonds with More Risk
- Stocks & Other Equities
- Other Diversified

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

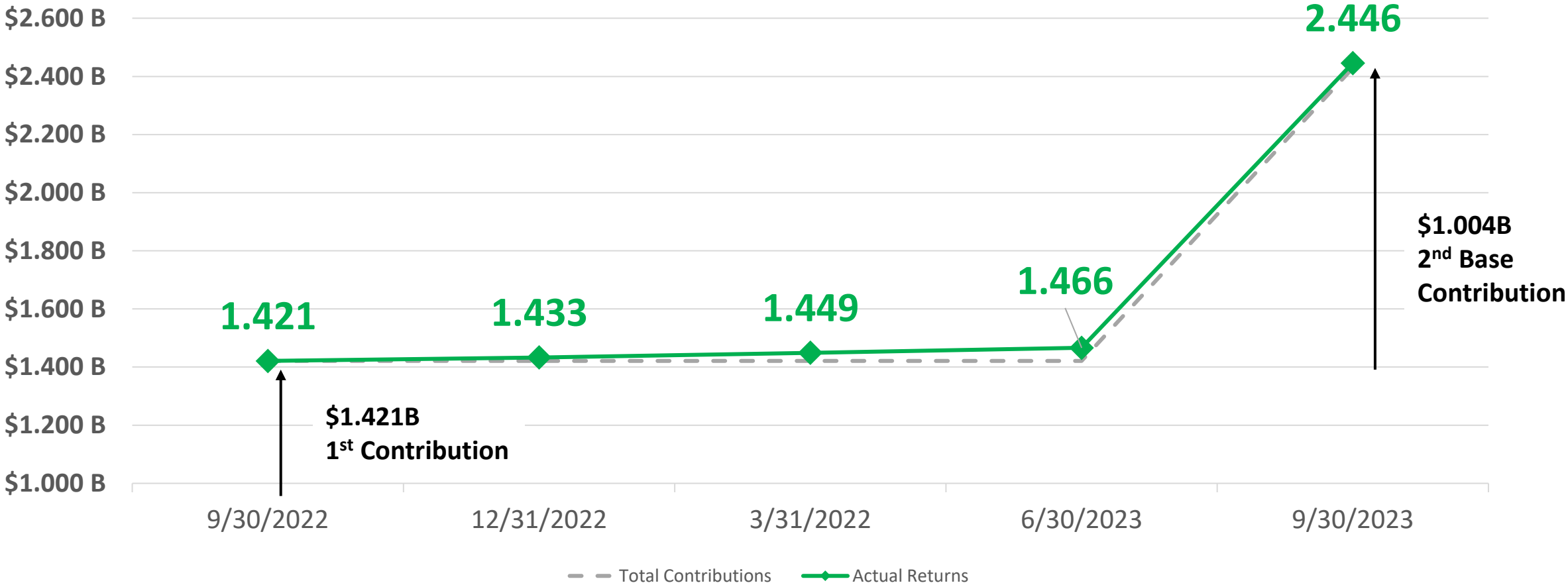


Phasing-in transition avoided \$15,000,000 in potential unrealized losses

- **Equities and bonds both performed poorly this quarter, at -3.4% and -3.1% respectively.**
- **Had the diversified portfolio been implemented immediately, the return for the quarter would have been -2.9%.**
- **Because the investments were phased in, some of the market downturn was avoided and the return for the quarter was -1.9%.**



PRT assets are on track for projected target



*1st contribution is inclusive of Base and Additional contributions, 2nd contribution is base only. Additional contribution came in 10/31/2023



Operations & Budget

We continue to operate within budget limits.

Expenses	Annual Budget	Quarterly Est. Budget	YTD ¹ Expenses	% of budget spent YTD
Administrative and Operating Expenses	1,512,000	378,000	298,079	20%
Investment Expenses	7,350,000	1,837,500	878,092	12%
Start-Up Expenses	445,000	111,250	90,368	20%
Total Expenses⁽¹⁾	9,307,000	2,326,750	1,266,540	14%

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

(1) Unaudited.

Quarter ended September 30, 2023⁽¹⁾

Next Steps

A Investments

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

B Operations

- **Implement new accounting platform(s)**
- **Continue to establish cash management processes**
- **Develop shared services for PBC**

C Governance & Accountability

- **Awaiting Government review of Guideline and budget changes**
- **Publish FY23 Annual Report & Audits**



PENSION
RESERVE TRUST

For further information contact:

Maria del Carmen Lopez, Executive Director

(787) 474-9744

Maria.Lopez@PRTPR.org



Appendix A

PRT Composite Performance

PERIODS ENDING SEPT 30, 2023 (NET OF FEES)

	Allocation			Performance (%)				
	Market Value (\$)	% of Portfolio	Policy (%)	1 Mo (%)	3 Mo (%)	YTD (%)	Inception (%)	Inception Date
Total Composite	2,445,813,434	100.0	100.0	-2.4	-1.9	0.2	1.1	Oct-22
<i>Policy Index</i>				-2.9	-2.9	-0.7	0.1	
<i>4.5% Target</i>				0.4	1.1	3.4	4.5	
Equity	352,444,396	14.4	25.0	-3.8			-6.7	Aug-23
<i>MSCI AC World Index</i>				-4.1			-6.7	
High Quality Fixed Income	792,949,067	32.4	55.0	-1.9			-2.3	Aug-23
<i>Blmbg. U.S. Aggregate Index</i>				-2.5			-3.2	
Credit	144,388,614	5.9	10.0	-2.0			-2.2	Aug-23
<i>Credit Custom BM</i>				-1.4			-1.4	
Diversification	141,795,521	5.8	10.0	-3.6			-5.7	Aug-23
<i>Diversification Custom BM</i>				-3.5			-5.7	
Cash Composite	1,014,235,837	41.5	0.0	0.8	1.7	3.8	4.7	Oct-22
<i>90 Day U.S. Treasury Bill</i>				0.5	1.3	3.6	4.5	

PRT Performance Detail

PERIODS ENDING SEPT 30, 2023 (NET OF FEES)

	Allocation			Performance (%)				
	Market Value (\$)	% of Portfolio	Policy (%)	1 Mo (%)	3 Mo (%)	YTD (%)	Inception (%)	Inception Date
Total Composite	2,445,813,434	100.0	100.0	-2.4	-1.9	0.2	1.1	Oct-22
<i>Policy Index</i>				-2.9	-2.9	-0.7	0.1	
4.5% Target				0.4	1.1	3.4	4.5	
Equity	352,444,396	14.4	25.0	-3.8			-6.7	Aug-23
Vanguard S&P 500 ETF	125,403,247	5.1		-4.7			-6.3	Aug-23
<i>S&P 500 Index</i>				-4.8			-6.3	
Vanguard Value ETF	49,252,182	2.0		-3.3			-5.6	Aug-23
<i>CRSP U.S. Large Cap Value TR Index</i>				-3.3			-5.6	
Vanguard Extended Market ETF	31,634,508	1.3		-4.8			-8.8	Aug-23
<i>S&P Completion Index</i>				-4.9			-8.8	
Vanguard FTSE Developed Markets ETF	66,660,846	2.7		-3.8			-7.6	Aug-23
<i>FTSE Developed All Cap ex-US Index (Net)</i>				-3.6			-7.3	
State Street Hedged Intl Dev Eq Idx K	24,764,334	1.0		-0.9			-2.4	Aug-23
<i>MSCI EAFE 100% USD Hedged</i>				-0.9			-2.4	
Vanguard FTSE Emerging Markets ETF	54,729,279	2.2		-2.5			-8.2	Aug-23
<i>FTSE EM All Cap China A Inclusion Net Tax (US RIC)</i>				-1.9			-7.0	
Fixed Income Composite	937,337,680	38.3	65.0	-1.9			-2.3	Aug-23
High Quality Fixed Income	792,949,067	32.4	55.0	-1.9			-2.3	Aug-23
Treasuries	358,356,892	14.7	0.0	-2.3			-2.8	Aug-23
Vanguard Short-Term Treasury ETF	110,225,376	4.5		-0.1			0.3	Aug-23
<i>Blmbg. U.S. Treasury: 1-3 Year</i>				0.0			0.4	
Vanguard Long-Term Treasury ETF	67,272,569	2.8		-7.3			-9.9	Aug-23
<i>Blmbg. U.S. Treasury: Long</i>				-7.3			-9.9	
Vanguard Intermediate-Term Trs	180,858,947	7.4		-1.7			-1.9	Aug-23
<i>Bloomberg U.S. Treasury 3-10 Year Index</i>				-1.6			-1.8	
Corporate Bonds	362,747,782	14.8	0.0	-1.4			-1.6	Aug-23
Vanguard Short-Term Corporate Bond ETF	219,552,303	9.0		-0.6			-0.5	Aug-23
<i>Bloomberg US Corporate 1-5 Years</i>				-0.5			-0.4	
Vanguard Interm-Term Corp Bd ETF	143,195,479	5.9		-2.6			-3.3	Aug-23
<i>Blmbg. U.S. Credit Corp 5-10 Year Index</i>				-2.6			-3.2	
Schwab US TIPS ETF	71,844,392	2.9		-1.9			-2.7	Aug-23
<i>Blmbg. U.S. TIPS</i>				-1.8			-2.7	

PRT Performance Detail

PERIODS ENDING SEPT 30, 2023 (NET OF FEES)

	Allocation			Performance (%)				
	Market Value (\$)	% of Portfolio	Policy (%)	1 Mo (%)	3 Mo (%)	YTD (%)	Inception (%)	Inception Date
Credit	144,388,614	5.9	10.0	-2.0			-2.2	Aug-23
Vanguard Total Corporate Bond ETF	71,447,654	2.9		-2.8			-3.6	Aug-23
<i>Bloomberg US Corporate</i>				-2.7			-3.4	
iShares Broad USD High Yield Corp Bd ETF	36,372,644	1.5		-1.5			-1.2	Aug-23
<i>ICE BofA US High Yield Master II Constrained</i>				-1.2			-0.9	
iShares 0-5 Year High Yield Corp Bd ETF	36,568,316	1.5		-0.8			-0.5	Aug-23
<i>ICE BofA 0-5 Year U.S. High Yield Constrained</i>				-0.5			0.1	
Diversification	141,795,521	5.8	10.0	-3.6			-5.7	Aug-23
Real Assets	70,730,582	2.9	0.0	-3.4			-6.2	Aug-23
SPDR S&P Global Natural Resources ETF	14,846,817	0.6		-0.5			-4.0	Aug-23
<i>S&P Global Natural Resources Sector Index (Net)</i>				-0.4			-3.8	
iShares Global Infrastructure ETF	13,707,908	0.6		-4.7			-9.5	Aug-23
<i>S&P Global Infrastructure (Net)</i>				-4.8			-9.3	
iShares Global REIT ETF	13,377,323	0.5		-6.4			-9.7	Aug-23
<i>FTSE EPRA/NAREIT Global REITs Index</i>				-6.4			-9.6	
SPDR Gold MiniShares	13,999,538	0.6		-4.7			-6.0	Aug-23
<i>LBMA Gold Price (USD; PM)</i>				0.0			-1.4	
Aberdeen Bloomberg All Commodity Strategy K-1 Free ETF	14,798,997	0.6		-0.8			-1.8	Aug-23
<i>Bloomberg Commodity Index Total Return</i>				-0.7			-1.5	
Multi-Asset	71,064,939	2.9	0.0	-3.9			-5.3	Aug-23
Vanguard Balanced Index Fund	71,064,939	2.9		-3.9			-5.3	Aug-23
<i>60% CRSP US Total Market Index 40% Bloomberg U.S. Aggregate Float Adjusted</i>				-3.9			-5.2	
Cash Composite	1,014,235,837	41.5	0.0	0.8	1.7	3.8	4.7	Oct-22
<i>90 Day U.S. Treasury Bill</i>				0.5	1.3	3.6	4.5	
Northern Trust Money Market Treasury NTPXX	1,014,235,837	41.5		0.8	1.9		2.8	May-23

PRT Performance Detail

Policy Index Consists of: 25% MSCI AC World Index / 55% Bloomberg U.S. Aggregate Index / 10% Credit Custom BM / 10% Diversification Custom BM

Credit Custom BM consists of: 50% Bloomberg U.S. Corporate Investment Grade Index / 25% Bloomberg U.S. Corporate High Yield Index / 25% Morningstar LSTA US Leveraged Loan Index

Diversification Custom BM consists of: 50% Diversification Real Assets Custom BM / 50% Diversification Multi Assets Custom BM

Diversification Real Assets Custom BM consists of: 20% S&P Global Infrastructure / 20% S&P GSCI Gold TR Index / 20% S&P Global Natural Resources Sector Index / 20% Bloomberg Commodity Index Total Return / 20% Dow Jones U.S. Select REIT Total Return Index

Diversification Multi Assets Custom BM consists of: 60% MSCI AC World Index / 40% Bloomberg U.S. Aggregate

Total Cost Basis of the portfolio at inception is \$1,420,936,000.

Federal Home Loan investments are investment grade rated.

The FHLBank System was created by the Federal Home Loan Bank act of 1932 as a government sponsored enterprise to support mortgage lending and community investment. The system is composed of 11 regional banks (Atlanta, Boston, Chicago, Dallas, New York, San Francisco, etc.) which are privately capitalized and owned as cooperatives by their members. The banks act as wholesale suppliers of billions of lendable funds annually to over 6,600 of America's banks, credit unions, insurance companies and community development financial institutions. All of the FHLBanks' lending is fully collateralized and by regulation they are prohibited from purchasing non-investment grade securities and nearly all of their investments are triple-A rated.



Appendix B

Administrative and Operating Expenses

Quarter ended September 30, 2023 ⁽¹⁾

Administrative and Operating Expenses	Annual Budget	YTD Expenses	% of Budget spent YTD
Personnel Related	864,000	187,348	22%
Trustees	271,000	67,590	25%
Legal Counsel	85,000	-	0%
Accounting and Audit	80,000	6,887	9%
Other Professionals	36,000	7,942	22%
Ordinary Business (General)	76,000	21,643	28%
Travel and other reimbursable expenses	50,000	6,669	13%
Emergency and Contingency Reserve	50,000	-	0%
Total Administrative and Operating Expenses⁽¹⁾	1,512,000	298,079	20%

Annual Recurring Investment Related Expenses

Quarter ended September 30, 2023 ⁽¹⁾

Investment Expenses	Annual Budget	YTD Expenses	% of Budget spent YTD
Custodian	459,200	30,552	7%
D&O Insurance Policy	95,000	22,747	24%
Investment consultant OCIO & Annual Fee	918,400	144,229	16%
Other	2,200	-	0%
Investment management fees	5,625,200	680,564	12%
Total Investment Related Expenses⁽¹⁾	7,350,000	878,092	12%

(1) Unaudited.

Non-Recurring Start-Up Expenses

Quarter ended September 30, 2023 ⁽¹⁾

Start-Up Expenses	Annual Budget	YTD Expenses	% of Budget spent YTD
Recruitment consultant	11,400	11,400	100%
IT/website set-up	28,600	22,860	80%
Legal Counsel	300,000	56,108	19%
Office Configuration	40,000	-	0%
Furniture and Electronic Equipment	65,000	-	0%
Total Start-Up Expenses⁽¹⁾	445,000	90,368	20%

⁽¹⁾ Unaudited.

Important Notices & Disclaimers

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