

JUNE, 2018

PUERTO RICO UPDATE- Government Development Bank (GDB) Offers Restructuring Terms

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

SUMMARY

On May, 11th the Financial Oversight and Management Board for Puerto Rico (the Oversight Board created by Congress) authorized the Fiscal Agency and Financial Advisory Authority ("AAFAP"-the Spanish acronym) to proceed with the restructuring of the debt of the Government Development Bank (GDB) of Puerto Rico. The proposed restructuring is a voluntary agreement. Epiq Bankruptcy Solutions, LLC (Epiq) has been appointed as Calculation and Information Agent for the proposed deal. **GDB Financial creditors have the opportunity to exchange their claims for one tranche of new bonds at an upfront exchange ratio of 55%.**

The Executive Director of the AAFAP noted that the proposed agreement was an important step towards the debt restructuring of Puerto Rico. The agreement simplifies the government's financial framework while creating value for stakeholders and reaffirmed the administration's

commitment to creditors. Some creditors have given their support to the agreement already; these include the Ad Hoc Group, the Puerto Rico municipalities, on-island cooperatives and an important representation of local bondholders.

The restructuring agreement provides additional relief to certain municipalities as they recover from the severe damage caused by Hurricanes Irma and Maria. Certain municipalities have the option of receiving immediate liquidity based on their certified excess as defined by the GDB Debt Restructuring Act. The GDB will allow municipalities to offset any loans owed to it with assets on deposit at the bank and can receive immediate payment of 55% of certain assets held at the GDB.

ANALYST'S OPINION

The offer to clients who hold GDB bonds is not an offer of cash. It is an offer of new bonds worth

55% of what the clients' holding of bonds were before the restructuring. If clients choose to accept the offer they will be faced with the further choice of either holding the bonds and accepting the consequent coupon flows or selling in the market. Both choices provide investors with cash flow.

If clients choose not to accept the voluntary offer, then seeking recourse by joining other creditors in a lawsuit, via a court in New York, would be the next plausible option. Prior to the announced default by Puerto Rico, a number of vulture funds had purchased Puerto Rican debt at very low levels (below 40 cents on the dollar). A vulture fund is defined generally as a fund that invests in companies or properties that are performing poorly and may therefore be undervalued. In the past some vulture funds have held out and not accepted voluntary offers from countries who have defaulted.

The hold-out creditors are usually prepared for a drawn out legal battle, sometimes taking as much as 14 years which was the case with Argentinian creditors. The challenge faced by hold-out creditors is that they must prove in court that the offer made by the country in default is much less than what they can afford to repay. In the case of Puerto Rico, ability to pay is a real challenge given the contraction in economic activity over the past decade, the relocation of businesses out of Puerto Rico due to expiration of tax holidays given by the US-government and the devastation caused by Hurricanes Irma and Maria. Estimates by Moody's indicate that Hurricane Maria could cost between US\$45 and US\$95 billion (almost a year's total economic output on the high end).

NEXT STEPS

JMMB will continue to monitor the situation and update bond holders when a formal offer to swap current bond holdings is made.

Source: Capitaliq.com, FITCH, Bloomberg, www.dailymail.co.uk, www.forbe.com

APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation DEFINITIONS/ RECOMMENDATIONS.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT -

REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL -

REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKETWEIGHT -

EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY -

EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

COPYRIGHT INFRINGEMENT

"Unless otherwise expressly stated, copyright or similar rights in all material in this research report (including graphical images) is owned, controlled or licensed by Jamaica Money

Market Brokers Limited (JMMB) or its affiliates and is protected or covered by copyright, trade mark, intellectual property law and other proprietary rights. No part of this research report or the report in its entirety may be published, used, reproduced, distributed, displayed or copied for public or private use in any form including by any mechanical, photographic or electronic process (electronically, digitally on the Internet or World Wide Web, or over any network, or local area network or otherwise) without written permission from JMMB.

No part of this research report may be modified or changed or exploited or used in any way for derivative works, or offered for sale, or used to construct any kind of database or mirrored at any other location without the express written permission of JMMB.

Thank you for respecting our intellectual property rights.”

The investments referred to in this report may not be suitable for you. You should consult your licensed investment advisor. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable to your individual circumstances or otherwise constitutes a personal recommendation to you.

DISCLOSURE UNDER THE SECURITIES ACT

This disclosure is being provided pursuant to section 39 of the Securities Act. This research report is prepared by Jamaica Money Market Brokers Limited (JMMB) and the information and views expressed are those of JMMB. JMMB is a subsidiary of the JMMB Group Limited (JMMBGL). Associated persons of JMMB include JMMBGL and its subsidiaries and affiliated companies, including JMMB Fund Managers Limited, a licensed securities dealer and manager of collective investment schemes.

As at the date of this report, JMMB and its affiliates, directors, officers, employees and other associated persons may from time to time buy or sell, or act as principal or agent in, the securities mentioned in this research report. JMMB or its affiliates, directors, officers and employees have no interest in or interest in the acquisition or disposal of the securities, other than expressed above. No part of their compensation is or will be related to the recommendations or opinions in this report.

CUSTOMIZED SOLUTIONS • BANKING • INVESTMENTS • CAMBIO • INSURANCE BROKERS • MONEY TRANSFER

Tel: **998-JMMB**
5 6 6 2

www.jmmb.com

All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst's judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.