

JANUARY, 2019

## PUERTO RICO UPDATE - NEW RESTRUCTURED BOND

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

### INVITATION FOR SOLICITATION OF VOTES

Following our June 4, 2018 update (“GDB Offers Restructuring Terms”), additional information was made available by the government of Puerto Rico. On August 9th, the Puerto Rico Fiscal Agency and Financial Advisory (“AAFAF”-Spanish Acronym) and the Government Development Bank (GDB) announced that they would be soliciting votes from creditors / bondholders **seeking approval for the terms of the new bond** offered under Title VI of the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”).

The government noted that the voting process was an important milestone towards closing out the restructuring process. According to the **Puerto Rico Fiscal Agency & Financial Advisory Authority**, the move was lauded because it confirmed that the government and creditors could resolve legacy issues without litigation.

JMMB voted on behalf its clients acting in their best interest and we believe that this was the best option available to bondholders given Puerto Rico’s challenges.

Puerto Rican debt has what is referred to as a **Collective Action Clause (CAC)**. This means that once the majority votes to accept the qualifying modification, all participating bond claims, will mandatorily accept the exchange of old bonds for newly discounted bonds. This would obtain even if the holder of the claims voted to approve, reject or even did not vote. The solicitation process was in fact successful and Government moved forward with the new bonds.

### DETAILS OF THE NEW BONDS ON OFFER

The total value on offer to clients is worth 61.14% of the value of the old bond, with a cash payment of 11.45% and remaining 49.69% to be paid in the form of a new bond. The new bonds will bear **a fixed interest rate of 7.5% per annum**, they

will be **payable semi-annually** on February-20 and August-20 each year with the final **payment/maturity date being August-20-2040**.

## ANALYST'S OPINION

**Puerto Rico has experienced a difficult and ongoing economic and fiscal situation.** As noted before, the sovereign's 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 US-Federal tax holidays; and
- the devastation caused by hurricanes Irma and Maria. Estimates by Moody's indicate that Hurricane Maria alone could cost between US\$45 and US\$95 billion (almost a year's total economic output on the high end).

**The default must give Puerto Rico room to comfortably service/repay its debt.** This means that the interest burden (interest payments as a percentage of tax revenue) needs to be manageable. If the default does not create enough fiscal space (manageable interest burden) then Puerto Rico could be placed in a situation where they are contemplating default again in a few years.

**The US appointed Federal Oversight and Management Board (FOMB) has recommended tough fiscal measures for Puerto Rico.** The FOMB recommended, on three separate occasions, a 10% cut to all pensions that pay out more than USD1,000 per month. The government however refused the recommendation on all three occasions

and refused the austerity measures overall. Therefore it is likely that the FOMB will be forced to impose a fiscal austerity package on the territory.

The FOMB and the elected government have had verbal clashes with Governor Rossello openly criticizing the Board for undermining the elected government. It is believed however that given the wide powers granted to the FOMB by Congress, that the FOMB has the power to implement the fiscal measures. This could lead to protests as issues of sovereignty and a possible referendum could be brought to the people. Consequently Puerto could have ongoing challenges.

## ACTIONS TAKEN AND NEXT STEPS

Based on JMMB's representation on behalf of its clients, we have received both the new bonds and the cash payment and are in the process of having them reflected in your accounts.

## 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/MARKET WEIGHT -**

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](http://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.