

MAY, 2022

PUERTO RICO EMERGES FROM BANKRUPTCY

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EXECUTIVE SUMMARY

The Government of Puerto Rico, on January 18th, 2022 emerged from bankruptcy after almost five years. The US Federally appointed Financial Oversight and Management Board (FOMB) that oversees Puerto Rico's finances and bondholders struck a deal which also has the support of the territorial government. The broad details of the deal include:

LEGACY BONDS TO BE RESTRUCTURED	POST-RESTRUCTURED BONDS AND CASH PAYOUTS
US\$18.8 billion of general obligations and commonwealth-guaranteed Public Buildings Authority debt	US\$7.4 billion of new general obligations US\$7 billion cash payment
US\$3 billion of taxable pension bonds	Contingent-value instrument that pays if sales-tax collections exceed targets US\$373 million cash payment

The deal also includes a plan to establish a reserve trust which will see a deposit of US\$1.5 billion coming in to help fund Puerto Rico's public pension system, the plan also creates a pension reserve trust that will be funded with more than US\$10 billion in upcoming years. Puerto Rico's pension plan includes approximately **US\$55 billion in unfunded liabilities**.

Despite a plan involving haircuts for most creditors, the government remains committed to making annual average debt payments of US\$1.2 billion in the coming decade plus average pension cost payments of US\$1.9 billion. The local government also objected to plans involving pension cuts by the FOMB. In late 2021, the local government passed laws effectively supporting the pension plans which has forced ongoing negotiations between the FOMB and the local government.

Despite the absence of consensus between the local government and the FOMB on payments to support the domestic pension funds, there was consensus on cauterizing the liabilities. The default of the Employees' Retirement System debt (EMPGEN's) was a part of a larger default of Puerto Rico debt following the invocation of the debt moratorium under PROMESA (Puerto Rico Oversight, Management, and Economic Stability Act).

In June 2019, the Title III court ruled that creditors do not have a lien on employer contributions made to the pension funds after ERS's (Employee Retirement Scheme's) Title III case commenced and further ruled that employer contributions are not special revenues. **Despite attempts by ERS creditors to appeal, the final Title III (8th) Plan of Adjustment dismissed remaining litigation and recovery attempts. ERS holders will get US\$373 million cash** and the remaining value of the pension trust assets, which the POA values at US\$70.75 million; this is a nominal 14% recovery, but time value-adjusted is estimated at 10%, as the original ERS bonds went out to 2058.

CONCLUSION

EMPGEN bondholders will receive a one-off AND FINAL cash payment representing approximately 10% of the value of their original holdings. This payment has already been credited to the account of bondholders.

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.

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