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Gundlach Buys \$20 Million of Junk-Rated Puerto Rico Bonds.

DoubleLine Capital's Jeffrey Gundlach bought \$20 million of junk-rated Puerto Rico bonds this year as the commonwealth struggled with its fiscal crisis.

DoubleLine's \$2.26 billion Income Solutions Fund held \$20 million of Puerto Rico general obligations as of Feb. 27, data compiled by Bloomberg show. The fund didn't hold any commonwealth debt at the end of 2014. The bonds, which were issued in March 2014, traded Wednesday at record-low prices.

Puerto Rico securities, which are tax-exempt nationwide, have traded at distressed levels for more than a year amid speculation the commonwealth and its agencies won't be able to repay \$73 billion of debt. Municipal bonds sold in Puerto Rico lost 0.72 percent this year through April 21, the worst start since 2011, according to S&P Dow Jones Indices.

"I do think they are going to make it to the goal line," Gundlach said of Puerto Rico in a March 10 conference call. The yield on the debt is "unbelievably high," especially for residents of high-tax states such as California, he said.

As the value of Puerto Rico debt has dropped, hedge funds and distressed-debt buyers have purchased more of the securities, while municipal-bond mutual funds have cut their holdings.

High Reward

The bonds purchased by DoubleLine, which mature in 2035, traded Wednesday at an average price of 79.7 cents on the dollar, the lowest yet, for an average yield of 10.4 percent, Bloomberg data show. That's equivalent to about a 17 percent yield on taxable bonds for investors in the highest tax bracket.

DoubleLine oversaw \$73 billion of assets as of March 31. Its \$46.2 billion Total Return Bond Fund has beaten 99 percent of peers in the past five years. Loren Fleckenstein, a spokesman for the Los Angeles-based firm, declined to comment.

The Income Solutions Fund is a closed-end fund. Corporate debt accounts for about two-thirds of its holdings, its largest allocation, Bloomberg data show. The Puerto Rico bonds are the fund's only municipal holdings, taking up less than one percent of assets.

It's not the company's first purchase of Puerto Rico debt. DoubleLine had \$2.5 million of the same general obligations in its \$129.6 million Multi-Asset Growth Fund at the end of March, Bloomberg data show. That fund first bought the debt last year.

Bloomberg

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