

Bond Case Briefs

Municipal Finance Law Since 1971

Sell Oppenheimer Funds on Puerto Rico Risk, Ameriprise Says.

Ameriprise Financial Inc., one of the world's biggest asset managers and financial planning firms, is advising clients to sell OppenheimerFunds municipal-bond funds that hold Puerto Rico debt in the aftermath of the island's record default.

Oppenheimer holds the most Puerto Rico debt among municipal mutual funds, according to Morningstar Inc. As the commonwealth works to reduce its \$70 billion debt load through bondholder losses, Oppenheimer funds that hold commonwealth bonds may need to cut dividends or see changes in the value of their portfolios, Jeffrey Lindell, senior research analyst at Ameriprise, wrote in a Monday report.

"As Puerto Rico bond defaults accelerate, the mutual funds may have to cut dividend rates as bond interest payments are missed," Lindell wrote. "The net asset value of the mutual funds could also be volatile as the price of Puerto Rico bonds reacts to speculation and news, or as potential principal haircuts occur."

Oppenheimer held \$3.5 billion of Puerto Rico securities across 19 funds, as of March 31, the most among municipal mutual funds, according to Morningstar Inc. Dan Loughran, who started the firm's Rochester funds in 1994 and oversaw its \$24 billion of muni-bond funds, transitioned into an advisory role on July 1 and will retire from the company at the end of September.

Fund Strategy

Loughran's departure and the risk of losses on Puerto Rico debt led Ameriprise to advise clients to seek less risky options, Lindell wrote in the report.

"The Rochester team maintains a steady hand and constantly focuses on the long term," said Kimberly Weinrick, a New York-based spokeswoman for OppenheimerFunds. "With the passage of Promesa, it was an opportune time for Dan to retire and to pass responsibility for managing the Rochester team to his longstanding trusted colleagues," Scott Cottier and Troy Willis, she said.

OppenheimerFunds is known for its strategy of pouring money into the riskiest areas of the \$3.7 trillion municipal market in pursuit of big returns. Over the years, its funds have purchased tobacco bonds, real-estate development deals roiled by the housing-market crash and debt issued by Puerto Rico. Its high-yield fund returned nearly 15 percent over the past year, beating 98 percent of its peers, according to data compiled by Bloomberg.

Debt Restructuring

Investors anticipate much of the commonwealth's debt will be restructured. President Barack Obama on June 30 enacted a law, called Promesa, that creates a federal control board to oversee any restructuring and monitor the commonwealth's budgets. The next day, Puerto Rico defaulted on nearly \$1 billion of principal and interest, the largest such payment failure ever in the municipal

bond market.

The price of commonwealth securities tumbled after Governor Alejandro Garcia Padilla in June 2015 said the island was unable to repay its obligations on time and in full. The island piled on debt through years of borrowing to paper over budget deficits as its economy failed to grow.

Minneapolis-based Ameriprise, which oversees \$800 billion of assets, recommends clients sell their investments from 16 different Oppenheimer muni funds. Potential replacements include municipal portfolios of Nuveen Asset Management, Eaton Vance Management, BlackRock Inc. and Columbia Management Investment Advisers, the company said in the report.

The one Columbia fund that Ameriprise recommends, the Columbia AMT-Free New York Intermediate fund, is managed by Columbia Management Investment Advisers, which has a global brand name of Columbia Threadneedle Investments. Columbia Threadneedle is the global asset management group of Ameriprise.

Bloomberg Business

by Michelle Kaske

July 19, 2016 — 1:54 PM PDT Updated on July 19, 2016 — 2:49 PM PDT

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com