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## **New Wave of Puerto Rico Bond Troubles Hits Mutual Funds.**

### ***Oppenheimer, Franklin Templeton, others see market value plunge***

Another downturn in Puerto Rico bonds is rippling through mutual funds on the mainland.

A new fiscal plan that leaves the troubled island commonwealth with less money to cover its debts pushed the value of certain bonds down as much as 9% last week through Thursday, according to Municipal Securities Rulemaking Board data.

That means tens of millions of dollars in paper losses for U.S. mutual funds that are some of the largest holders of Puerto Rico's \$70 billion in debt. That includes OppenheimerFunds, said a person familiar with the matter.

Oppenheimer and Franklin Templeton Investments are among more than 50 U.S. fund companies that own \$14 billion in bonds issued by the commonwealth, according to research firm Morningstar Inc.

The market value of that \$14 billion has dropped to \$8 billion as Puerto Rico's financial condition worsened over time, according to the most recent information available from Morningstar.

The lower value doesn't necessarily equate to \$6 billion in losses because the funds could have purchased the bonds at any time over the past several years as the value dropped. The date of the mutual funds' bond purchases aren't public.

Oppenheimer's \$6.6 billion investment now has a market value of \$3.5 billion, according to Morningstar. Franklin Templeton's \$2.7 billion holding has a value of \$1.4 billion, according to Morningstar. About 7% of Franklin's debt is insured, according to a person familiar with the matter.

Puerto Rico Gov. Ricardo Rossello had initially proposed earmarking about \$1.2 billion a year for debt repayment over the next decade. But the fiscal control board that Congress created to oversee a debt restructuring required him to revise his economic forecasts downward. That left about \$800 million for annual debt service.

The move affected various Puerto Rico bonds in different ways. One considered a benchmark—a \$3.5 billion general-obligation bond maturing in 2035—fell about 9% for the week through Thursday, according to trading data from the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website. That is a big move in the normally sleepy municipal-bond world. The bond price, which had been climbing since Mr. Rossello took office in January, is now a few cents above its one-year low.

Paper losses on that bond for mutual funds were about \$10 million, based on trading data. Mutual-fund holdings of that particular bond could have sold for about \$98 million as of Thursday, compared with \$108 million at the end of the prior week, based on trading data Thursday tracked by MSRB.

Other commonwealth bonds also dropped in value during that period. Prices on four sales-tax bonds and two other general-obligation bonds fell between 2% and 10%, according to an analysis by ICE

Data Services. Those bond groups together make up much of U.S. mutual funds' holdings.

More declines are likely, said Matt Fabian, a partner with the research firm Municipal Market Analytics. "Even if the fiscal plan is the start of a negotiating process, bondholder losses are probably larger than current market prices imply," Mr. Fabian said.

One big U.S. mutual fund company isn't worried: MFS Investment Management's Puerto Rico bonds have a market value of \$508 million, according to Morningstar, but the mutual fund said the "vast majority" is insured, making it far less vulnerable to changes in the island's financial condition.

A total of about \$12 billion of the island's outstanding debt is insured, according to filings by the island's five biggest bond insurers

"Our direct exposure to the credit of Puerto Rico is limited," a MFS spokesman said.

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By HEATHER GILLERS

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Write to Heather Gillers at [heather.gillers@wsj.com](mailto:heather.gillers@wsj.com)

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