

# Bond Case Briefs

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## Canceling Puerto Rico Debt 'Impractical,' Says Hedge Fund Billionaire Klarman.

***Activist group asking institutions invested in Baupost Group to put pressure on hedge fund to forgive its portion of distressed bonds***

Billionaire hedge-fund manager Seth Klarman questioned the wisdom of expunging Puerto Rico's financial obligations in a Wednesday letter to his investors.

The message from one of Puerto Rico's most prominent investors was a response to intensifying calls for deep write-downs on the U.S. territory's \$73 billion in debt to free up funds for mounting fiscal and humanitarian problems following Hurricane Maria.

An activist group has contacted institutions invested in Mr. Klarman's Baupost Group to request they pressure the hedge fund into forgiving its portion of Puerto Rico's distressed bonds, according to his letter. Baupost owns \$911 million in bonds backed by Puerto Rico sales taxes.

Canceling Puerto Rico's public debts or putting a moratorium on payments "may be well intentioned," Mr. Klarman said in his letter, but "it is impractical" and would undermine the obligation of bond issuers to repay their obligations that undergird credit markets.

Puerto Rican citizens and small cooperative banks on the island also hold government debt, he said, and eliminating those bonds would impact household savings.

The advocacy group Hedge Clippers sent letters this week to 18 universities, including Harvard, Yale and the University of Washington, to criticize Baupost's Puerto Rico investments and to urge the endowments to divest, according to a Hedge Clippers spokesman.

Mr. Klarman's comments reflect a tension in Puerto Rico's restructuring strategy. Investors agree the island can't sustain its existing levels of debt, but disagree on whether and how a reduction in its current obligations would affect its ability to borrow again and finance new projects.

Bondholders have argued in court that a deep restructuring would alienate the capital markets and cripple Puerto Rico's chance of accessing new credit. Others say that municipal investors, hungry for high-yielding tax-exempt debt, will gladly invest in Puerto Rico again once its obligations are reduced and its economy revives.

"If the repayment obligation underlying a debt was uncertain, the market would quickly shut down, potentially for even the most creditworthy issuers," Mr. Klarman's letter said. "Expunging the debt would almost certainly eliminate any ability the commonwealth would have to borrow money in the future at reasonable rates."

Puerto Rico's debt is spread across 18 tranches of debt, its \$17 billion in sales-tax bonds being the largest. In May, a federal oversight board installed by Congress placed the territory under court protection, starting what amounts to the largest-ever U.S. municipal bankruptcy. Baupost first

bought sales-tax bonds, known as Cofinas, on the open market in 2015.

His communique came two weeks after President Donald Trump sparked a rout in Puerto Rico bonds when he said the debt load may get wiped out to help the island economy recover from Hurricane Maria.

The White House walked back Mr. Trump's comments, saying the administration doesn't intend to get involved in Puerto Rico's ongoing, court-supervised bankruptcy. Mr. Trump has no authority to unilaterally forgive Puerto Rico's debts.

But politicians and advocacy groups have since ramped up calls for additional debt relief. Labor, environmental and immigrant-rights groups, joined by Sen. Elizabeth Warren (D-Mass.), held a rally near Capitol Hill on Thursday for a congressional recovery plan that cancels Puerto Rico's public debts or puts a moratorium on payments.

A federal judge is presiding over Puerto Rico's restructuring under a quasi-bankruptcy law approved last year, known as Promesa. The oversight board's framework called for Puerto Rico to pay bondholders roughly a quarter of what they are owed over the next decade.

That fiscal plan is being reevaluated to account for the economic slowdown and population loss from the hurricane and for the ongoing federal disaster relief efforts.

Gov. Ricardo Rosselló met with President Trump and Federal Emergency Management Agency officials at the White House on Thursday to discuss the federal aid package being developed for Puerto Rico.

A bill released by House Republicans last week included a \$4.9 billion U.S. Treasury Department loan designed to avert a government shutdown on the island. Advocates are pressing for more federal support in addition to debt relief.

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