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## Pimco, Long Shy of Puerto Rico, Bought In. Then the Bonds Soared.

- **Firm's investments came before debt rallied on fiscal plans**
- **In November, as prices hit new lows, bonds grew attractive**

Pacific Investment Management Co. made a well-timed bet on Puerto Rico bonds.

The firm scooped up the bankrupt island's debt after prices tumbled amid concern over the devastation caused by Hurricane Maria, leaving parent company Allianz SE with an almost $540 million stake, according to the most recent regulatory disclosures. That made it primed to benefit late last month, when the bonds rallied over two days after Governor Ricardo Rossello offered a more sanguine outlook for the recovery. The prices of some securities have doubled since December.

Pimco's strategy may have been to hold the bonds temporarily, or it could be interested in joining the chorus of Puerto Rico bondholders who are sticking it out in the island's record-setting bankruptcy — hoping for a better recovery than the market's pricing in.

Agnes Crane, a spokeswoman for Pimco, declined to comment.

Unlike hedge funds that plowed into high-yielding Puerto Rico bonds, incorrectly wagering that Congress wouldn't give it the power to discharge debt in court, Pimco mostly steered clear as the island's financial challenges grew.

In May, when Puerto Rico filed for bankruptcy, Pimco analyst Sean McCarthy said bondholders likely faced deeper losses than trading prices suggested. General-obligation debt was trading at about 60 cents on the dollar at the time.

Then Maria arrived. As the territory contended with devastating damage, some investors fled for the exits, causing prices to tumble. By November, when prices had dropped below 30 cents, David Hammer, Pimco's head of municipal bonds, said they were looking more attractive.

The Newport Beach, California-based firm boosted its holdings of Puerto Rico securities by the end of December. Of the debt held by Allianz, the bulk was purchased by Pimco funds, according to data compiled by Bloomberg. More than $400 million of the securities were bought in the fourth quarter of 2017, the data show.

The firm held $115.3 million of the island's general obligations due in 2035, the most actively traded security, as of Dec. 31. All but $869,000 of that was bought in the last three months of 2017. That bond, with an 8 percent coupon, traded this year for as much as 45 cents on March 26, up from a low 20.75 cents on Dec. 19. It sold at an average 41.7 cents Thursday.

The run up came after Puerto Rico increased its estimated surplus, which may mean better recoveries for bondholders. Rossello's latest fiscal plan projects a $6.3 billion surplus through fiscal 2023, before paying debt service costs.

The large rally in Puerto Rico debt stands out from the company's other fixed-income investments, which have mostly generated returns from smaller moves because of the low volatility in the bond market, Pimco Chief Executive Officer Emmanuel "Manny" Roman and Chief Investment Officer Dan Ivascyn said in an interview in early April at the company's headquarters.

"Some Puerto Rican bonds went up about 100 percent," Ivascyn said.

"So we have exceptions where you hit a great home run," Roman added.

Some are questioning the rally's stamina. The commonwealth has a history of missing budget projections and Puerto Rico's federal oversight board has yet to certify the fiscal turnaround plan. The panel has asked the governor to impose cuts to retirement benefits, which Rossello has refused to endorse.

Pimco's $73 billion Global Investors Series PLC fund holds $315 million of Puerto Rico bonds bought in the fourth quarter, which included general obligations and power authority debt, the data show. The biggest chunk was $109 million of the bonds due in 2035.

The $111.9 billion Pimco Income Fund, the largest actively managed fixed-income fund, also held $98.2 million of general obligations as of Dec. 31. Its $1 billion High Yield Municipal Bond Fund held $61.7 million of Puerto Rico securities, including general obligations, power authority and sewer debt.

**Bloomberg Markets**

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