# Bond Case Briefs

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## Hedge Fund Support For Puerto Rico Bond Deal Is Only Half The Fight.

The tentative agreement between Puerto Rico's financial oversight board and investors holding $8 billion of the bankrupt commonwealth's debt brings together rival bondholder groups that had been holding out for better terms. Still, that may not be enough to clinch the deal.

Puerto Rico Governor Wanda Vazquez has rejected the pact in its current form, bond insurers are in opposition, and it crimps payouts to other investors holding about $16 billion of debt with weaker claims who are sure to dispute it.

The deal, if enacted, would help Puerto Rico cut some of its general-obligation and commonwealth-guaranteed bond debt and interest almost in half to $10.7 billion from $18.7 billion. The decision by Aurelius Capital Management and Autonomy Capital to sign onto the agreement could help accelerate the island's case, with lead mediator Judge Barbara Houser anticipating much of Puerto Rico's government exiting bankruptcy by the end of the year.

"It's a pretty good recovery for commonwealth bondholders and obviously it comes at the expense of other stakeholders," said Matt Fabian, partner at Municipal Markets Analytics.

Aurelius, Autonomy and other bond investors would get between 65.4 cents to 77.6 cents on the dollar for central-government backed securities, up from an earlier offer of 23 cents to 73 cents. They would receive new bonds — a blend of general obligations and sales-tax bonds with a junior-lien pledge — as well as a split of a $3.8 billion cash settlement.

Holders of about $16 billion of other debt, such has highway bonds that are repaid with revenue that Puerto Rico can claw back and use for other spending and pension-obligation bonds, would get about three cents on the dollar. Although there is ongoing litigation that could affect that repayment.

**Broader Plan**

The tentative agreement is part of a broader plan to cut the island's debt and non-bond bankruptcy claims to $11 billion from $35 billion, a $24 billion reduction. Puerto Rico's congressionally mandated financial oversight board has until Feb. 28 to file a revision that includes fixing its broke pension system that owes current and future retirees $50 billion.

Getting Aurelius and Autonomy to sign on was key. The two firms have been at odds with other bondholders over who would be left holding the bag after the oversight board last year asked the bankruptcy court to cancel $6 billion of bonds sold in 2012 and 2014, claiming they breached the island's constitutional debt limit. The proposed agreement would end that challenge.

The next test for the deal is to gain support from island lawmakers. Vazquez said Sunday after it was announced that she wants to see better terms for public workers given how favorably it treats Wall Street. Puerto Rico will hold general elections in November, with its legislators up for re-election and Vazquez seeking to remain in the governor's mansion. This debt plan needs legislative approval unless the oversight board seeks a cramdown from the court.

Bond insurance companies Ambac Financial Group Inc., Assured Guaranty Ltd., National Public Finance Guarantee Corp. and Financial Guaranty Insurance Co. haven't signed on to the deal, claiming the board didn't "meaningfully engage" with them. The agreement is based on inaccurate and incomplete data on Puerto Rico's economy, cash balances and debt capacity, the companies said Monday evening in a joint statement.

"The primary beneficiaries and architects of the plan support agreement are hedge funds, having shaken bonds from the hands of retail and long-term supporters and bondholders of Puerto Rico (many of which are on-island retirees) at pennies on the dollar," the bond insurers said in the statement.

**Cancellation Fear**

Prices on Puerto Rico securities plummeted to record lows in the aftermath of Hurricane Maria. General obligations with an 8% coupon fell to an average low of 21.8 cents on the dollar on Dec. 18, 2017 and junior-lien sales-tax bonds known as Cofinas dropped to less than 10 cents at that time, according to data compiled by Bloomberg.

While some hedge funds and distressed buyers did scoop up the debt at those levels, others bought 8% general-obligation bonds in the primary market at 93 cents when Puerto Rico issued the debt in 2014.

**Bloomberg Markets**

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