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Puerto Rico

The COFINA Agreement, Part 2: Profits for the Few

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> This is the second installment of a two-part series on the COFINA debt restructuring agreement for Puerto Rico.

If the COFINA agreement represents the continuous ruin of their country for the large majority of Puerto Ricans who are working people, for the bondholders, it constitutes a guarantee of immen: profits on their investments.

The biggest beneficiaries of this agreement are the vulture funds that purchased the debt when bond prices fell significantly between 2014 and 2016. Among them are hedge funds Aristeia Capital, Baupost Group, Canyon Capital, GoldenTree Asset Management, Old Bellows Partners, Scoggin Capital Management, Taconic Capital Advisors, Tilden Park Capital and Whitebox Advisors. Collectively, these hedge funds are organized as the COFINA Senior Bondholders Coalition. By August 2018 they held around $5.2 billion in bonds – almost 30% of COFINA's debt.

If we assume that these funds bought senior bonds at an average of 55 cents for every dollar (a roughly average price between 2014 and 2016), then under this agreement they would secure over $1 billion in profits, a massive payout on their initial investment. The below table shows these figures:

Table 1. Estimated profits for senior bondholders

Hedge funds	**Nominal value of senior COFINA debt**	**Value of purchase** (if purchased at 55 cents on the dollar)	**Repayment** (at 93 cents on the dollar)	**Profits**
Aristeia Capital LLC	$185,520,000	$102,036,000	$172,533,600	$70,497,000

Baupost Group	$452,413,003	$248,827,151	$420,744,092	$171,916,941
Canyon Capital Advisors	$246,075,000	$135,341,250	$228,849,750	93,508,500
Fideicomiso Plaza	$1,210,000	$665,500	$1,125,300	$459,800
GoldenTree Asset Management LP	$732,239,032	$402,731,467	$680,982,299	$278,250,832
Old Bellows Partners LP	$172,988,236	$95,143,529	$160,879,059	$67,735,530
Scoggin Management LP	$54,425,100	$29,933,805	$50,615,343	$20,681,538
Taconic Capital Advisors LP	$180,284,093	$99,156,251	$167,664,206	$68,507,955
Tilden Park Capital Management LP	$544,743,752	$299,609,063	$506,611,689	$207,002,626
Whitebox Advisors LLC	$125,643,939	$69,104,166	$116,848,863	$47,744,697
Totals	**$2,695,542,155**	**$1,482,548,182**	**$2,506,854,201**	**$1,026,305,419**

Despite the cuts to subordinated bondholders, the vulture funds that also invested in these bonds will also profit heavily.

Five of the funds in the COFINA Senior Bondholders Coalition – Aristeia Capital, GoldenTree, Old Bellows, Tilden Park and Taconic Capital – made huge purchases of subordinated bonds just after Hurricane Maria. Due to the chaos caused by the hurricane, the bond prices fell significantly in the following months. These funds quadrupled their junior bond holdings from October 2017 to April 2018, from $254 million to $1.1 billion.

All this came while these firms signed a statement "in support of Puerto Rico" for the ravages caused by the natural disaster.

Let's assume that these funds purchased subordinated COFINA bonds between October 2017 and April 2018 at an average of 15 cents for every dollar (several subordinated bonds exchanged between 5 and 28 cents in that time period). Under the terms of the agreement they would see the following gains on their post-hurricane purchases:

Table 2. Estimated profits from subordinated bonds acquired after the hurricane

Hedge funds	**Nominal value of subordinated bonds purchased between October 2017 and April 2018**	**Value of purchase** (if purchased at 15 cents on the dollar)	**Repayment** (at 54 cents on the dollar)	**Profits**
GoldenTree Asset Management LP	$408,675,047	$61,301,257	$220,684,525	$159,383,268
Tilden Park Capital Management LP	$282,530,939	$42,379,641	$152,566,707	$110,187,06
Taconic Capital Advisors LP	$107,530,194	$16,129,529	$58,066,305	$41,936,776
Old Bellows Partners LP	$30,620,000	$4,593,000	$16,534,800	$11,941,800
Aristeia Capital LLC	$22,585,000	$3,387,750	$12,195,900	$8,808,150
Totals	**$851,941,180**	**$127,791,177**	**$460,048,237**	**$332,257,060**

We would be talking about approximately $332 million in profits, or a 260% return on the total capital invested. Between April and August of 2018 these five funds continued to buy subordinated bonds, totaling $243,739,618.

It is important to note that while the executives at these hedge funds will be raking in huge profits at the expense of Puerto Ricans, they are also managing money on behalf of outside clients – meaning that outside investors in the hedge funds, such as universities, public pension funds, and foundations will also be profiting. Baupost's investors, for instance, include Ivy League universities Harvard, Yale, and Princeton, some of the wealthiest universities in the world. In the case of GoldenTree Asset Management, the vulture fund manages some of the investments of the Teacher

Retirement System of Texas, Miami University, and the University of Maine System.

Vulture funds have used a variety of aggressive strategies to maximize their profits in Puerto Rico, spending heavily on lawyers and lobbyists. In July of 2018, we were able to get a brief window onto this lobbying offensive when one of their hired lobbying firms sued for payment in federal court. The contract with Politank, a lobbying firm hired by a law firm representing hedge funds who own COFINA bonds, shows how high-powered law and lobbying firms also stand to profit from the extraction of debt payments from Puerto Rico.

Politank was hired by Quinn Emanuel Urquart & Sullivan LLP, a law firm representing the COFINA hedge funds. Their contract was, among other things, to lobby the government of Puerto Rico to reach a consensual agreement for the restructuring of COFINA's debt. Politank is led by Francisco J. Domenech, the former campaign director for Jenniffer Gonzalez, Puerto Rico's nonvoting member of the House of Representatives in Washington. Kenneth McClintock, past President of the Senate and former Secretary of State, is also a principal at the lobbying firm.

Politank's lawsuit on behalf of COFINA bondholders reveals just how lucrative the contract was for the firm. In addition to monthly payments of $55,000, the contract with Politank stipulated a "success fee," a fee that depended on the amount repaid by COFINA to the vulture funds. The greater the profits, the greater the success rate – or, in other words, the more the people of Puerto Rico had to pay the vulture funds, the greater the bonus for lobbyists.

According to the lawsuit, if the bondholders' recovery was 95% or more, the fee would be $3 million. If it was 92.5%, it would be $2.5 million; if it was 90%, it would be $1.275 million, and so o

The contract was terminated by Quinn Emanuel Urquart & Sullivan LLP for the alleged violation o one of the clauses that established that should Politank commit any illegality, the contract would automatically canceled. Though the specific cause of cancellation remains unclear, it could be du to the domestic violence charges that Domenech's wife, Veronica Ferraiuoli, brought against him drawing attention from the press. Charges were later dropped and Ferraiuoli now represents Politank in the case.

The next adjustment plan will be that of the Central Government. As is the case with the COFINA agreement, this adjustment plan will also govern the country for the next 40 years and will in all likelihood mean millions in profits for the bondholders.

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