




**BIRLING**  
CAPITAL ADVISORS, LLC

**THINK STRATEGICALLY:  
OKUVAMILE**  
**2<sup>nd</sup> PROMESA Conference**  
**January 31, 2018**

Puerto Rico and every citizen needs to find its own voice and seek its new way of doing business, focused on “Okuvamile” what we have been doing for the past 20 years has not worked, the time has come to start anew.

**Weekly Market Summary Close**

 BIRLING CAPITAL ADVISORS, LLC	DOW	S&P 500	NASDAQ	EUR-USD	USD-JPY
Jan 26, 2018	26,518.19	2,859.95	7,475.94	1.2431	108.65

**IPO Calendar Trade Date estimate week of Jan 29**

Company	Ticker	Deal Size
VICI Properties	VICI	\$1,000mm
Hudson	HUD	\$788mm
Central Puerto	CEPU	\$174mm
Corporación América Airports	CEPU	\$600mm
FTS International	FTSI	\$250mm
Sol-Gen Technologies	SLGL	\$60mm
MTech Aquisition	METCU	\$50mm
One Stop Systems	OSS	\$20mm

## President Trump in Davos: Takeaways from The World Economic Forum

The Zulu word "Okuvamile" means "Common Good," is perhaps the best description of the work the World Economic Forum (WEF) performs to tackle the significant issues concerning the world, from political reforms, economic growth, to social and environmental issues.

Participants include some of the most prominent CEOs, ambassadors, public figures, heads of state, media personalities, government officials, and religious leaders among others. The principal event the WEF hosts in held every January in Davos Switzerland.

The WEF hosted President Trump in Davos for the first time, probably expecting The Apprentice or Twitterverse version of Trump instead received Donald Trump, the debonair salesman.

The President stated in his address to the World Economic Forum: "America is open for business, and we are competitive once again."

Trump's speech was designed to target global companies to come to the U.S. and increase investments under his administration's.

However, all was not honey and spice; the President warned countries that the U.S. would no longer allow the abuses of international trade deals.

The President stated "We cannot have a free and open trade if some countries exploit the system at the expense of others," he said. "We support free trade, but it needs to be fair, and it needs to be reciprocal."

The speech was a transition from Trump's initial day in Davos where he dominated the event with his trademark bold moves, spontaneous and normal disruption. For President Trump, this was a Presidential, respectful and businesslike scripted pitch to an audience of global elites.

With U. S. Unemployment's down, Both business and consumer optimism up and U.S. companies increasing investments due to the new Tax Reform it creates the basis for continued U.S. economic growth.

## Puerto Rico Update: The Government Updated the Fiscal Plan

Governor Ricardo Rossello presented this week a revised fiscal plan for Puerto Rico, one of the most challenging items to stomach is that in the plan there is no allocation for debt service payments over the next five years.

Last March 2017 the Financial Oversight & Management Board (FOMB) had certified a plan that covered a 10-year period and allocated around \$800 million per year for debt service payments, which translated to less than 25% of the debt service needs of Puerto Rico.

This decision will result in severe damage to most bondholders especially Local Bondholders.

These some of the facts:

- Individual local bondholders total 60,000
- Many are retired employees who had put their life savings in PR bonds.
- Depend on the interest payments as their primary source of income.
- Local Bondholders include government employees, retirees, professionals, small businesses, corporations and wealthy families.

### These are most widely held holdings in order of exposure of PR residents are:



**The consequences of this action will be to destroy the savings of most local bondholders further.**

In the aftermath of Hurricane Maria, a decision was made that the fiscal plan had to reflect the \$94 Billion plus destruction Puerto Rico has suffered and focused on rebuilding better.

This revised fiscal plan mainly covers the central government and reduces the time frame from ten to five years without debt service payments and guaranteeing Government employees their pensions.

While the government will increase its expenses during the five-year period, further analysis point to a steep decline in population between 18% to 20%, which translates to 612,000 to 680,000 Puerto Ricans moving to the States.

**The Fiscal plan estimates disaster relief funding as follows:**

Disaster Relief Funding		
<b>\$35.3 Billion + FEMA Program</b>	<b>\$21.9Billion = Private Insurance</b>	<b>\$57.2 Billion Disaster Relief Assistance</b>

Although the Government anticipates receiving more than the \$35.3 Billion as it previously requested \$94.4 Billion in Federal Disaster Relief Assistance.

The proposed funding uses of the FEMA allocation are:

- 51% Repairing, modernizing, and strengthening power and water infrastructure.
- 24% Reconstruction critical publicly mixed buildings and fixing equipment
- 25% Rebuilding and enhancing emergency response capabilities and water control facilities.

The government's plan considers a model that incorporates U.S. GDP growth transfers from the federal government and historical capital investments in the economic and oil prices. The model also includes hurricane impact,

disaster relief assistance, revenue and expense measures and structural reforms.

After all government transformation initiatives and structural reforms are implemented, the economy faces a contraction for Fiscal 2018 of -11.2%, followed by 7.6% in FY2019, 2.4% in FY20, 1.8% in FY21 and 1.5% in FY22.

The consensus from economists is that not allocating debt service payments is problematic for Puerto Rico and others have stated that this economic growth forecast will be next to impossible to achieve. Puerto Rico may foresee a funding gap of \$3.4 billion through fiscal 2022. As a result, some form of a liquidity facility will be needed.

Rep. Rob Bishop, R-UT, the chairman of the House Natural Resources Committee and the father of PROMESA, wants full transparency in the transformation process, saying it "cannot be done behind closed doors."

"It is imperative the Oversight Board, and Governor fully integrate those who hold the debt into the development of these plans, thereby guaranteeing accuracy and transparency in the underlying assumptions," Bishop said in a statement issued Thursday.

The Board's principal role under PROMESA is to return Puerto Rico to fiscal solvency and full access to capital markets, and this can only occur if the budgetary plans respect the right priorities and liens of debt holders.

A Bondholder critical of the New Fiscal Plan is Assured Guaranty which has approximately \$853 million of exposure to PREPA's in a statement said, "The system cannot be sold free and clear of the lien on revenues unless the lien is discharged through full payment of the bonds. There is adequate coverage of debt service after any sale of assets, or the bonds are given the full value of their collateral through a confirmed plan of adjustment,"

As we review the New Fiscal Plan the Financial Oversight and Management Board (FOMB) received the Fiscal Plans for the Government, PREPA, and PRASA, we expect them to evaluate the three fiscal plans and may certify them by February 23rd. The FOMB views the implementation of structural reforms and

investing in critical infrastructure as key to restoring economic growth, and increasing confidence.

The FOMB will host a listening session to receive testimony from experts and stakeholders on the future of Puerto Rico's energy sector next Thursday 2/1/18 in New York.

In the New Fiscal Plan, a large part of government transformation that presents a new model for operating the government. Below are some of the agencies and impacts.

New Government Model: Summary of Impact		
Agency	Fiscal Impact	Time Frame
Education Department	\$303MM	5 years
Corrections Department	\$130MM	5 years
Health Department	\$ 86MM	5 years
Agency Transformation	\$ 554MM	5 years
Payroll and Operating Expense Freeze	\$ 191MM	5 years
<b>Total</b>	<b>\$1,264MM</b>	<b>5 years</b>

### Final Word: How do we Substitute the 47.3% of manufacturing GDP or has Economic Growth Become Irrelevant?

There is little in the form of a cohesive Economic Development Growth Plan in the New Fiscal Plan other than discussions of reforms, public, private partnerships and the resulting construction activity that results as a derivative of the FEMA funding. We await to see the detailed plan from the Secretary of Economic Development of the new route his department will take us towards to.

We need to create "Supra National Goals" that the whole country may protect and follow and implement a detailed "Economic Development Plan" with a focus on creating a "Vision for Puerto Rico" for the period from 2018 to 2032. This process should have detailed principles, objectives, goals, and strategic guidelines to accomplish them.

This Vision should be implemented and followed no matter which party is in control of Puerto Rico and includes the following parameters:

- **Legislate a New Vision for Puerto Rico-** that is based on consensus of all parties, approve principles, objectives and "Supra National Goals for 2018-2032,
- **Present a Country Plan-** that covers the New vision for Puerto Rico 2018-2032, and the plan made by legislation and make every government for the next four governments to keep this implementation of the plan intact.

- **A Matrix of "Governability Index"-** benchmarks are being established to measure success and know how to recognize it as it applies to the Governments, performance.

As all Puerto Ricans can understand the new Vision for Puerto Rico and the Country Plan, every citizen will, in turn, defend and protect its goals and aspirations

### This new Vision for Puerto Rico must contain the following elements:

- Facilitate Increased levels of employment in the private sector to absorb thousands of Government Sector jobs.
- Implement changes to our social structure and focus it on economic development and entrepreneurship.
- Implement a forceful presence in the Global Economy.
- Eliminate regulations and barriers to allow increased productivity.
- Seek the local entrepreneurial sector at all levels into a highly competitive one, focused on innovations and exports.
- Diversify our economy so that we are not dependent on any single sector.
- Move to the private sector every economic activity except in those cases that involve essential services such as health, security, and justice among others.
- Recognize that by implementing the regionalization concept we can decentralize the Government and eliminate duplicity in the Municipal administrations.
- Entrepreneurship must be the foundation for our new economic model, and all government incentives must guide these activities.

There are discussions among the Government technocrats and other experts about the "deindustrialization" of the Puerto Rico economy. Manufacturing matters in Puerto Rico heavily and we must do all that is needed to prevent that our manufacturing base is not eroded. The Federal Tax Cuts and Jobs Act is a challenge since the IRS considers

Puerto Rico as foreign tax jurisdiction all Controlled Foreign Corporations may be subject to the 12.5% tax on profits from intangibles that impact pharmaceuticals, Information Technology, and medical equipment. Losing this base would be severe for Puerto Rico as evidenced by the revenues below:

Total Fiscal Revenues received by the General Fund from U.S. Corporations- Fiscal Years							
	2011	2012	2013	2014	2015	2016	2017
<b>Total</b>	<b>2,088.60</b>	<b>3,158.30</b>	<b>2,930.30</b>	<b>3,249.70</b>	<b>3,130.40</b>	<b>3,054.00</b>	<b>3,165.90</b>
<b>Exempt Corporations</b>	<b>398.0</b>	<b>364.0</b>	<b>306.0</b>	<b>440.5</b>	<b>399.7</b>	<b>382.9</b>	<b>414.6</b>
<b>Withheld to nonresidents</b>	<b>1,000.40</b>	<b>890.8</b>	<b>982.9</b>	<b>899.9</b>	<b>784.1</b>	<b>808.8</b>	<b>673.0</b>
<b>Toll Gate Tax</b>	<b>12.6</b>	<b>27.7</b>	<b>8.9</b>	<b>7.1</b>	<b>3.7</b>	<b>0.0</b>	<b>0</b>
<b>Act 154</b>	<b>677.6</b>	<b>1,875.8</b>	<b>1,632.5</b>	<b>1,902.2</b>	<b>1,942.9</b>	<b>1,862.3</b>	<b>2,078.20</b>
<b>Total as % of Net Revenues to GF</b>	<b>25.6%</b>	<b>36.4%</b>	<b>34.2%</b>	<b>36.0%</b>	<b>34.9%</b>	<b>33.3%</b>	<b>33.9%</b>

Source: PR Treasury Department & Estudios Tecnicos,inc.

However, there are several loopholes in the new Tax Reform Cuts and Job Acts that may benefit Puerto Rico greatly. These loopholes are being modeled to implement a strategy to curtail the initial damage the law may impact and revert it to a growing opportunity for Puerto Rico. There are many moving parts still, but there may be a "Game Changing" development for Puerto Rico.

No one said it better than **Apple Co-Founder Steve Jobs when he said "Your time is limited, so don't waste it living someone else's life.**

**Don't be trapped by dogma - which is living with the results of other people's thinking. Don't let the noise of other's opinions drown out your inner voice. And most important, dare to follow your heart and intuition. They somehow already know what you truly want to become. Everything else is secondary."**

Puerto Rico and every citizen needs to find its own voice and seek its new way of doing business, focused on "Okuvamile" what we have been doing for the past 20 years has not worked, the time has come to start anew.