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Puerto Rico Gets On-Site Attention from GenTrust

- **The Miami-based financial adviser opens San Juan office**
- **Firm wants to increase Puerto Rico business to \$1 billion**

By Michelle Kaske and Amanda Albright

(Bloomberg) -- Investment firm GenTrust already has its New Year's resolution: grow its Puerto Rico business.

The Miami-based financial adviser plans to do just that by meeting clients at its new office in San Juan. Establishing an on-island presence may help GenTrust meet its goal of managing \$1 billion of assets on the island in the next five years, up from more than \$400 million now.

To help spearhead the Puerto Rico push, Elena Hernandez, GenTrust's head of impact investing, will relocate to San Juan. Hernandez, who spent more than a decade at Goldman Sachs, grew up on the island and is a graduate of the University of Puerto Rico.

"I believe we as a firm, and I, have a deep understanding of the culture in Puerto Rico, the financial industry history of the island, the opportunities that it presents and the challenges," Hernandez said in an interview.



Puerto Rico native Elena Hernandez will lead GenTrust's new wealth management office in San Juan.

Source: GenTrust

GenTrust, which manages \$2.4 billion, is focusing on Puerto Rico as the island's economy is just emerging from a more than decade-long recession and working toward resolving its bankruptcy, the largest ever in the municipal-bond market.

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Popular Investment

Puerto Rico entered bankruptcy in May 2017, seeking to restructure most of its \$74 billion of debt and fix a broke pension system that owes current and future retirees \$50 billion. Puerto Rico sold debt for years to help fill budget gaps as its economy shrank and residents left the island for work on the U.S. mainland.

Those tax-exempt securities, some of which are taxable outside of Puerto Rico, were a popular investment on the island, where the median household income is \$19,775 and nearly 45% of people live in poverty, according to U.S. Census data.

Investors saw their assets dwindle in value when prices on Puerto Rico bonds plummeted in 2013 as traditional municipal-debt buyers sold off the securities and hedge funds scooped up the debt at distressed levels.

"It was a product-driven environment," George Perez, a founding principal at GenTrust, said in an interview.

UBS Group AG's Puerto Rico unit, for example, loaded up its closed-end mutual funds with the commonwealth's pension bonds, the very same securities the Swiss bank underwrote. Many residents invested in the closed-end funds couldn't afford the risk of being so heavily exposed to Puerto Rico debt. The bank in 2015 agreed to pay a combined \$34 million to the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority regarding the closed-end funds.

"Sadly, the industry has under served its clients for the past decade," Hernandez said.

Avoid Portfolios

GenTrust said it plans to avoid placing commonwealth debt into portfolios, although some high-wealth clients may be able to take on the risk. On-island investors already have Puerto Rico exposure through their businesses and real-estate, Hugh Nickola, a principal at the firm, said in an interview.

While it's purchased Puerto Rico's restructured sales-tax bonds, the firm won't be recommending those securities to on-island investors, according to Nickola.

"By and large for accounts in Puerto Rico, it's not really the best thing for them to be in regardless of how good we think the credit is at this stage, just because of the diversification issues," Nickola said.

Current and potential clients include long-time residents with established businesses on the island and also "young money" as entrepreneurs, athletes and entertainers grow their success on the island, Perez said.

"We see that the economy has an encouraging future," Hernandez said. "We're seeing a lot of entrepreneurs and the economy pick up, but it's a silver lining of what Hurricane Maria and Irma did to the island and we want to make sure that investors are rightly served to ensure the sustainable economic recovery of the island."

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