

# Massachusetts Probes Sales of Puerto Rico Bonds

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Secretary of the Commonwealth of Massachusetts William Galvin launched an investigation Wednesday into sales of Puerto Rico's bonds to Massachusetts residents, saying he was concerned local investors may be unaware of all the risks they are taking on.

Puerto Rico has had some difficulty borrowing money in the municipal-bond market as its bonds fell sharply in value. Island officials have reduced the amount of debt Puerto Rico plans to sell and have taken out shorter-term loans to fund the island.

Puerto Rico suffers from slow economic growth, high unemployment and a credit rating that sits just one notch above "junk."

Puerto Rico debt has been popular among mutual funds with tax-exempt status and among some individual investors because its interest is exempt from federal, state, and local taxes. The bonds generally have higher yields than most other municipal debt.

As part of its initial inquiry, Mr. Galvin's securities division sent letters this week to Fidelity Investments, OppenheimerFunds, and [UBS](#) AG, as they are all firms with "a presence and a significant book of business" in Massachusetts, Mr. Galvin said.

"People who tend to invest in municipal-bond funds tend to be conservative investors," he said. "Were they notified? Were average investors told what exposure to Puerto Rico they have? What were the sales practices? These are all reasonable questions...everyone knows there is a problem with Puerto Rican bonds."

"This is a question that goes beyond just Massachusetts," Mr. Galvin added.

OppenheimerFunds said in a statement it received notice Tuesday of Mr. Galvin's inquiry and said its Puerto Rico holdings "are disclosed and discussed at length" in its funds' public disclosures. The firm "is cooperating fully" with the inquiry.

Fidelity and UBS declined to comment.

Mr. Galvin's concerns come as U.S. government officials also are becoming more worried about Puerto Rico's financial woes and their potential impact on the municipal-bond market, given how widely the debt is held. At a lunch with municipal analysts Monday, the president of the Puerto Rico Senate, Eduardo Bhatia, said he expected an announcement soon from the White House about how to help the ailing island economy, though he didn't think that help would come in the form of a bailout.

About three-fourths of all municipal-bond mutual funds own debt issued by Puerto Rico, according to Morningstar. Some of those bonds have slid to trade about 60 cents on the dollar in recent weeks. S&P Dow Jones's Puerto Rico municipal bond index has fallen about 19% year to date.

"If you're an investor in a Massachusetts fund that has Puerto Rico bonds, I think you'd want to know that the disclosures to you were handled correctly and the funds were valuing the bonds correctly," said Niels Holch, attorney and founder of the Coalition of Mutual Fund Investors. "It can't change the fiscal situation in Puerto Rico, but at least it can make sure that your interests were handled correctly as a shareholder with respect to these bonds."

Many mutual funds with names that suggest they buy the debt of a single state are loaded up on bonds from the Caribbean island commonwealth. The Oppenheimer Rochester Massachusetts fund, for instance, has about 26% of its assets in Puerto Rican bonds, according to Morningstar data.

Jeff Tjornehoj, director of Americas research at Lipper, the fund-tracking unit of Thomson Reuters, said investors who own Puerto Rico bonds should be more concerned with politics in Puerto Rico itself, rather than Massachusetts. He said it is possible the investigation could exacerbate the flow of money out of muni mutual funds.

"We'll see what comes of it," Mr. Tjornehoj said of the investigation. "A lot of portfolio managers feel that their job is to assess risks. They may look to the outsider as excessively risky, but they may not understand the portfolio construction process."