

HEDGE PAPERS No. 21

**The Antonio Weiss Files:
Vultures, Bribes & Conflicts
of Interest in Puerto Rico**

ANTONIO WEISS, LAZARD FRÈRES AND THE PUERTO RICO CRISIS

Antonio Weiss must be recused from decisions on the Puerto Rico crisis.

Treasury official Antonio Weiss is currently leading the Treasury Department's response to the Puerto Rico debt crisis.

But Weiss received a \$21,200,000 golden parachute from his previous employer, Lazard Frères, an investment bank with numerous ties to the Puerto Rico debt crisis.

- Lazard traded in Puerto Rican debt.
- Former Lazard partners incentivized Puerto Rico to underwrite more debt with Lazard.
- Lazard has reportedly invested in Puerto Rican debt.
- And Lazard partners have come under scrutiny from law enforcement officials for unethical and/or illegal business practices related to debt underwriting, including in Puerto Rico, for bribery, kickbacks and conflicts of interest.



Antonio Weiss

The relationship between Lazard Frères, Weiss and Puerto Rico is fraught with conflicts of interest and ethical tangles. How could Treasury Secretary Jack Lew and President Obama allow Weiss to leader their team on Puerto Rico?

Since arriving at Treasury last year, Weiss has brought along yet another former Lazard colleague to assist on Puerto Rico issues.[1] It's not at all clear whether the U.S. Government team working on the debt crisis has the interests of working Puerto Ricans in mind—or the interests of hedge funds and investment banks.

The \$21.2 million golden parachute raises questions about Weiss's independence from Lazard—and Lazard's ties to the Puerto Rico debt crisis raise questions about where Weiss's loyalties lie.

From top Lazard bankers accused of bribing Puerto Rico's governor for favorable roles in debt deals, to their role in advising vulture hedge funds on how to invest in the Island, Lazard is totally intertwined with the Puerto Rico debt crisis—and Antonio Weiss and his golden-parachute millions are totally intertwined with Lazard.

Given questionable allegiances, Antonio Weiss is the wrong person to handle Treasury's response to this crisis.

We are calling on Antonio Weiss to recuse himself from all Treasury activity relating to Puerto Rico and the Island's debt crisis.

ANTONIO WEISS— THE \$21.2 MILLION MAN

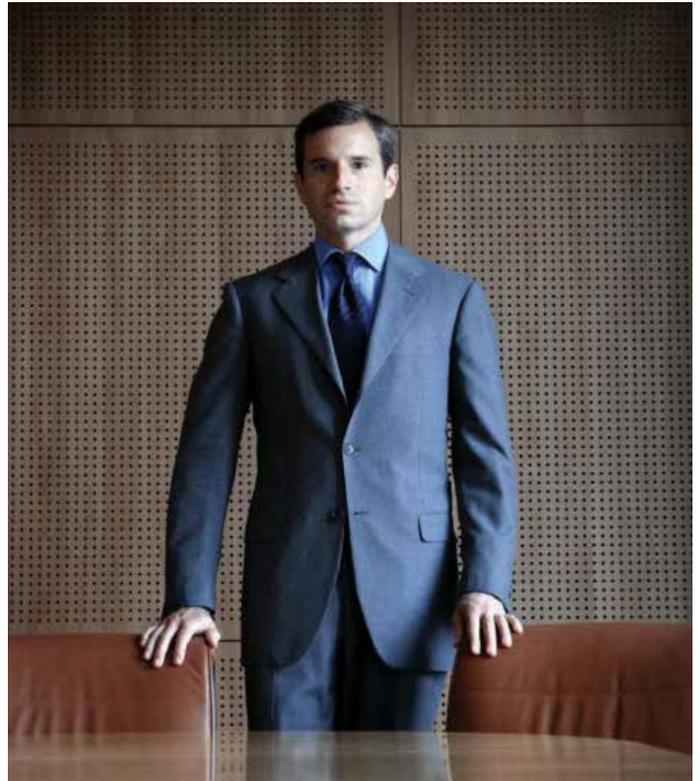
In 2014, Antonio Weiss was put forward for appointment to the Treasury, as undersecretary for domestic finance. At the time of the appointment, Weiss was pulling down in excess of \$7 million per year as head of investment banking at Lazard Frères. [2]

While his Treasury gig would have paid a respectable \$167,000/year, it clearly would have been a drastic step down in lifestyle for Weiss, who splits his time between his Central Park West pied-à-terre, his historic Connecticut manse, and a \$1 million property in the Dominican Republic. [3]

Fortunately, Weiss's pals at Lazard had a plan—they'd gladly advance him his \$21.2 million unvested income ahead of schedule. [4] Who wouldn't want a pal in the Treasury Department, right?

Weiss withdrew from consideration for the Treasury posting in January 2015, following an outpouring of condemnation over his \$21.2 million golden parachute. [5][6]

As a consolation prize, Weiss was installed as an advisor to the Treasury Department—a position that did not require Congressional approval. [7] Now Weiss is leading up the Treasury Department's task force on Puerto Rico, which is currently in the throes of a struggle with wealthy hedge fund managers.



PUERTO RICO, HEDGE FUNDS & WEISS

On the other side of that struggle are a group of hedge fund profiteers, aided in many ways by Weiss's former employer. The problems facing Puerto Rico are almost inseparably intertwined with the actions of Lazard.

In its advisory practice, Lazard has hosted meetings pitching hedge fund managers on investing in Puerto Rico's municipal debts. Lazard's fund-of-hedge funds is reported to have numerous client relationships with the hedge funds that form the so-called "Ad Hoc Committee on Puerto Rico," a loose confederation of asset managers who are scheming to prevent Puerto Rico from obtaining the ability to declare bankruptcy—a move that would wipe out some of the Island's outstanding debt.

Lazard managed funds also have small positions in the Island's bonds, and portfolio companies of Lazard's private equity arm have infrastructure investments in the Island.

Lazard has an interest in protecting not only fee income earned through their relationships with the hedge fund vultures that seek to destroy the Puerto Rican economy, but also their debt and equity investments in the Island.

From Lazard's perspective, Weiss is probably the ideal person to handle Treasury's response to the Puerto Rico debt crisis.

Given Lazard's manifold ties to the hedge fund players that are trying to profit from the Island's debts, one supposes that it certainly wouldn't hurt to have their former top guy running interference at Treasury.

But for Puerto Ricans and anyone else concerned about fairness and transparency in government economic policy, he's exactly the wrong person for the job.

LAZARD FRÈRES: MARKETING PUERTO RICAN DEBT TO HEDGE FUND DEBT VULTURES

Puerto Rico's municipal debt crisis is driven by the attractiveness of Puerto Rico's bonds to United States investors.

In 1916, the United States Congress passed a law declaring that bonds issued by Puerto Rico and its authorized borrowers would be free of taxes for investors in any state.[8] This so-called "triple tax exemption" makes Puerto Rico bonds very attractive to U.S. investors, who can normally only claim this tax exemption for bonds issued within their home state.[9]

This triple tax advantage has caused an investor clamor for Puerto Rico's bonds, leading to a per-capita indebtedness on the island that is more than fifteen times the median of U.S. states and easily the highest among U.S. states and protectorates.[10]



The high yields offered by the bonds also attracted another type of investor: hedge fund managers.

Although unable to take advantage of the favorable tax treatment, hedge fund managers can use leverage to magnify returns.[11] And further enhancing Puerto Rico's attractiveness to hedge funds is the Island's lack of a bankruptcy law.

Hedge funds and their billionaire managers are furiously lobbying to prevent Puerto Rico from establishing a bankruptcy process, as fund managers would be forced to share some of the pain in a restructuring.[12][13] Without a fair bankruptcy law or other structure for fair negotiations, hedge funds can engage in another favored strategy: debt vulturism.[14]

Hedge funds are aided in this endeavor by a group of investment banks, which have been marketing Puerto Rico's debts to them in a hard-sell pitch for the last several years.

One of the leaders in this practice is none other than Lazard, who held a 2013 marketing session with 75 hedge funds solely to market debt investment opportunities in Puerto Rico.

Luis Fortuño

According to reporting in Bloomberg, the October 10, 2013 meeting was held by Lazard Capital's New York office, and featured former Puerto Rico governor Luis Fortuño as a speaker.[15]

Fortuño is now a lobbyist with Steptoe & Johnson, and he travels the country advising Wall Street types on how best to pillage his former homeland.[16]

Peter Santry, the former head of fixed-income trading at Lazard, could not have explained Lazard's interest in Puerto Rico more clearly: "[a]s more hedge funds buy and sell commonwealth securities, the firm wants to capture that trading revenue." [17]



For this reason alone Weiss should recuse himself.

Lazard was one of a handful of funds that fueled the hedge fund interest in Puerto Rico government bonds, and Weiss may have even attended the October 10, 2013 meeting.

Given their complicity in marketing Puerto Rico's debts to Wall Street vultures, the Treasury should make sure there are no conflict and no perception of conflict regarding Antonio Weiss's potential ties and allegiances to his former employer. Weiss should recuse himself based on Lazard's debt marketing alone.

But it gets even worse.

Unfortunately for the Island's citizens, Lazard's connections to the hedge fund profiteers in Puerto Rico run significantly deeper than their advisory and transaction fee interests.

DOES LAZARD HAVE DIRECT TIES TO HEDGE FUND DEBT VULTURES AND PUERTO RICO PROFITEERS?

Lazard Frères subsidiary Lazard Asset Management is reported to have investments in two hedge funds that are part of the so-called “Ad Hoc Group” on Puerto Rico. According to data obtained from Preqin, a proprietary database of investors in hedge funds and other alternatives, a hedge fund-of-funds

managed by Lazard has investments in Blue Mountain Capital’s Credit Alternatives Master Fund and Pine River Capital’s Fixed Income Master Fund.[18]

BlueMountain Capital is reported to own \$400 million worth of Puerto Rico bonds, and was both a founding member of the Ad Hoc group as well as the lead plaintiff in a successful 2014 challenge to a Puerto Rico bill that would have provided a sensible restructuring bill for the Island’s debts.[19] The size of Lazard’s investment in this fund is unknown.

Pine River Capital is reported to have been purchasing Puerto Rico debt as early as 2011, according to news reports.[20] According to the Centro de Periodismo Investigativo, a Puerto Rico-based investigative journalism and open government group, Pine River Capital is one of the members of the so-called Ad Hoc Group on Puerto Rico.[21]



Andrew Feldstein of Blue Mountain Capital

Lazard Asset Management markets their investments in these funds as part of a “fund-of-hedge funds” product. Investors in funds-of-funds are usually charged an additional fee, on top of the management and incentive fees paid to the various hedge funds in the investment portfolio.

The purported value proposition of fund-of-funds is that they have relationships with some of the most exclusive money managers in the world. Lazard likely values the relationships they’ve built with these fund managers, and that may bias their outlook on Puerto Rico.

Given Weiss’s \$21.2 million golden parachute from Lazard, one has to wonder whether that will bias his opinion of how Puerto Rico should be protected from these hedge fund vultures.

LAZARD HELPED PUSH PUERTO RICO FURTHER AND FURTHER INTO DEBT

Before Lazard exited the municipal bond underwriting business—shortly before the indictment of two of their senior municipal finance staffers—the firm was one of nearly a dozen who helped underwrite a complex \$1.16 billion bond deal for the Puerto Rico Highway and Transportation Authority.

According to the official statement, Lazard and the other underwriters collectively received an aggregate purchase discount of \$8,322,310 from the authority, so that they could profit from the remarketing of these bonds.[22]



Disconcertingly, this deal closely mirrors the circumstances that led to the indictment of former Lazard partner Mark Ferber.

In 1995, Ferber was indicted on 63 counts of criminal fraud and corruption for his role in a municipal interest rate swap kickback scheme.[23] According to an October 1995 settlement agreement, Ferber had failed to disclose the compensation arrangement he had entered into with Merrill Lynch, whereby

Merrill Lynch would pay Lazard “a portion of any compensation received” by the company in connection with the successful execution of something called an interest rate swap.[24]

Interest rate swaps are complex financial products sold to municipal clients by big Wall Street banks, who stand to make significant fees on the transactions.[25] These deals have been called “predatory” for burying risks and charging hefty termination fees.[26][27]

Ferber did not disclose his interest rate swap kickback deal with his municipal clients, and was found to have misrepresented portions of the Merrill Lynch agreement to his own employer, Lazard.[28]

Ferber was indicted following a joint investigation by the Massachusetts Attorney General and U.S. Attorney General into Ferber’s non-disclosure of this arrangement with several Massachusetts finance authorities, who Ferber helped advise on bond deals. According to the settlement agreement, Ferber’s arrangement with Merrill began in 1989 and ended with his departure in 1993.[29]

Merrill Lynch was the chief among the 1993 Puerto Rico Highway Transportation Authority bond underwriters.[30] As a supplement to the Puerto Rico bonds, Merrill Lynch Capital Services entered into a fixed-to-floating interest rate swap with the authority for the variable-rate portion of the bonds, which had a principal of approximately \$101mn. [31]

While Ferber and was never implicated in any wrongdoing related to the 1993 bond deal, the circumstances bear an incredible similarity to the scheme described in Ferber’s 1995 indictment.

For his role in the fraud, Ferber was convicted on 58 counts, and Lazard was ordered to pay \$24mn in settlement fines.[32] [33] Moody’s withdrew the rating for these bonds in 2015, after downgrading them ‘Ca’—a “default imminent” status in May 2015.[34]

DID LAZARD BANKERS BRIBE PUERTO RICO OFFICIALS TO GET DEBT UNDERWRITING BUSINESS?

Lazard's ties to shadiness in Puerto Rico bond offerings go much deeper than Mark Ferber. The SEC sued two former top Lazard bankers over an alleged pay-to-play scheme.

Lazard's activity here is totally relevant to Puerto Rico's current financial situation—

by bribing Commonwealth officials for underwriting business, Lazard was pushing the Island deeper and deeper in municipal debt.

Hedge fund vultures seeking billion-dollar returns at the expense of the Puerto Rican people are now speculating those very same debts on.

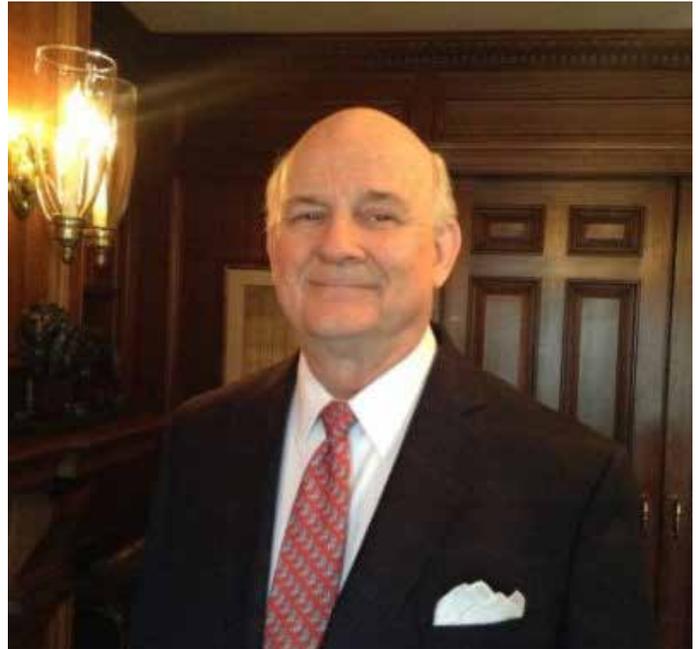
In 1993, Puerto Rico's Public Buildings Authority dropped Lazard as a senior manager on a \$705 million bond offering, fearing "fallout from recent negative publicity about the company" according to a source cited by Bond Buyer Magazine.

[35]

The negative publicity the authority was concerned about involved a front-page story in The Wall Street Journal about another top Lazard banker, Richard Poirier. Poirier was reported to be Lazard's senior banker for Puerto Rico's Government Development Bank, and had cooked up quite the scheme to obtain this coveted role. [36]

According to the civil complaint filed against Poirier and fellow Lazard banker James Eaton, Poirier arranged to make substantial political contributions to Puerto Rico's former Governor, Pedro Rossello, in exchange for inclusion on municipal underwriting deals.[37]

The donations were sometimes funneled through third parties, who were reimbursed by Lazard through fraudulent invoices.[38] While the SEC did not prevail in their civil case, Poirier was convicted of wire fraud and conspiracy for using illicit donations to secure underwriting business from Fulton County, GA.[39]



Richard Poirier

In 1994, a fourth Lazard banker was accused of using his political connections to secure business for the firm.

On April 15, 1994, officials from the Securities and Exchange Commission met with former Puerto Rico Rep. Jorge de Castro Font, who accused former Governor Pedro Rossello and former Government Development Bank president Marcos Rodriguez-Ema of benefiting personally from the Island's bond issuances.[40]

Key to de Castro Font's allegations was the relationship between the Rossello administration and Ivar Pietri, the managing director of Lehman Brother's Puerto Rico office. The representative also named Wolfram Piertri, Ivar's brother and a Lazard employee, as personally benefiting from Puerto Rico bond deals. Neither of the Pietris was ever indicted as a result of de Castro Font's accusations.[41]

LAZARD HAS DIRECT EXPOSURE TO PUERTO RICO BONDS AND EQUITIES

Puerto Rico's triple tax-exempt bonds have found their way into bond portfolios across the country, and Lazard is no exception. Lazard's U.S. Tax -Exempt Bond Fund reported exposure to the country as recently as 2014.[42] Lazard's Opportunities fund has investments in a Puerto Rico bank.[43] The firm's private equity arm, Edgewater Growth Capital Partners, has an investment in Vertical Bridge Holdings LLC, a cell tower leasing company whose CEO sees Puerto Rico as "an attractive region." [44][45] Lazard is also a registered broker-dealer in Puerto Rico.[46]

Here again, Weiss's golden parachute makes his independence from Lazard quite suspect.

Given the multiple connections between Lazard and Puerto Rico, Weiss's ability to advocate for the resident of Puerto Rico, rather than his old employer, should also be viewed with suspicion.

There are twenty-one million reasons for Treasury official Antonio Weiss to stay far away from policy related to Puerto Rico, debt and Lazard while he's working for the American people.

Given Lazard's sordid background and Weiss' questionable allegiances, it's clear that Antonio Weiss is the wrong person to handle Treasury's response to the Puerto Rican debt crisis.

We are calling on Antonio Weiss to recuse himself from all Treasury activity relating to Puerto Rico and the Island's debt crisis.

FOOTNOTES:

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FOOTNOTES:

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WHO ARE THE HEDGE CLIPPERS?

The Hedge Clippers are working to expose the mechanisms hedge funds and billionaires use to influence government and politics in order to expand their wealth, influence and power. We're exposing the collateral damage billionaire-driven politics inflicts on our communities, our climate, our economy and our democracy. We're calling out the politicians that do the dirty work billionaires demand, and we're calling on all Americans to stand up for a government and an economy that works for all of us, not just the wealthy and well-connected.

The project is supported by the Strong Economy for All Coalition, a coalition of labor unions and community groups working to fight income inequality and build shared prosperity and economic & social justice in New York and around the country.



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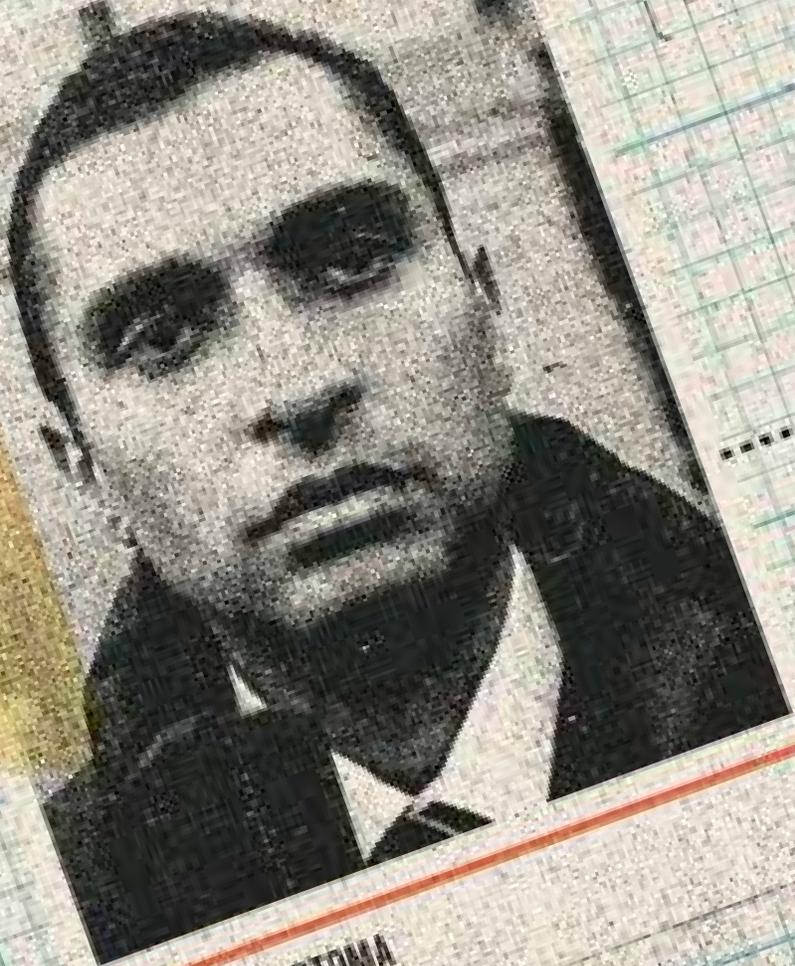
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