

Breaking Argentina

Last year, Bracebridge Capital earned Yale and other investors 800% returns on Argentine government debt that it bought for a fraction of its face value in 2001. Bracebridge leveraged these returns through litigation and political power while delaying Argentina's return to full solvency, and setting legal precedent that makes it more difficult for developing nations to emerge from financial crises. Yale earned an estimated \$315 million return on its investment.

Argentina's Default:

In 1998, Argentina fell into a four-year economic Depression:

Gross domestic product dropped by 28 percent, 57.5 percent of Argentines were living in poverty, and the unemployment rate skyrocketed to above 20 percent, leading to riots and clashes that resulted in 39 deaths.¹

During the crisis, the government defaulted on \$132 billion in loans.² A large amount of the debt was purchased by hedge funds for pennies on the dollar after the default.

The Hedge Fund Holdouts:

In 2005 and 2010, the government negotiated agreements with debt holders. According to Bloomberg, "The 2005 restructuring imposed losses of about 70 percent on investors' claims, and Argentina made a similar offer in 2010. While about 92 percent of creditors tendered their debt in those two restructurings,"³ Bracebridge and several other hedge funds refused the government's offers, pursuing their claims in federal court. These holdouts became widely known as "Vulture Funds."

During fifteen years of litigation, the "holdouts" won 2 critical rulings from Judge Thomas Griesa. Judge Griesa ruled that the holdout creditors must be paid in full plus interest.⁴

Judge Griesa also ruled that Argentina could not pay the creditors who had agreed to accept the earlier settlements until the "holdouts" were paid too.⁵ CNN reported that in the final settlement, Bracebridge made 800% returns on a \$120 million investment.⁶ An analysis of court documents by University of Buenos Aires Professor Martin Guzman shows Bracebridge-managed entities receiving \$988 million including interest and attorneys' fees.⁷ Yale's share is at least \$358 million, an estimated \$315 million return on its original investment.

Bloomberg notes that for the holdouts, "the return on principal from the settlement is almost three times those an investor would've made accepting the terms of Argentina's 2005 debt restructuring,"⁸ This means that Bracebridge and Yale could have made better than a 100% return in less than five years, but chose to press their legal claims.

The Price of Hedge Fund Profits:

Argentine residents were the primary victims of the recession that began in 1998 and that allowed Bracebridge Capital to buy Argentine debt at steep discounts. Now these residents are bearing the brunt of government spending cuts, while Bracebridge Capital and Yale make extraordinary profits from Argentine debt. The poverty rate has increased to 32 percent from 29 percent in 2015 according to Catholic University of Argentina.⁹ The Argentine government cut spending programs that helped the poor, like gas subsidies for home heating. In 2016, inflation reached

40% without commensurate increases in wages. These conditions have led to massive strikes that are paralyzing the country.¹⁰ The government has cut funding to the science ministry by 36% and made other cuts to science, causing 33,000 researchers and teachers to sign a petition in opposition to President Mauricio Macri's first budget.¹¹

Moral Hazard:

Nobel economics laureate Joseph Stiglitz and Martin Guzman argue that Judge Griesa's rulings and the settlement will set a dangerous precedent. "This resolution will carry a high price for the international financial system, encouraging other funds to hold out and making debt restructuring virtually impossible."¹² They conclude:

"It's common to hear the phrase "moral hazard" when looking at countries that face crushing debt, like Greece or Argentina. Moral hazard refers to the idea that allowing countries (or companies or people) to renegotiate and lower their debts only reinforces the profligate behavior that put them in debt in the first place. Better that the debtor faces disapproval and harsh consequences. But the Argentina deal reversed the moral hazard by rewarding investors for making small bets and reaping huge rewards."¹³

David Swensen's Good Friend:

Yale's Chief Investments Officer David Swensen reportedly helped launch Bracebridge co-founder and managing partner Nancy Zimmerman,¹⁴ and continued its longstanding relationship with Bracebridge and Zimmerman despite controversy. Zimmerman's husband, Harvard economist Andrei Schliefer won an Agency for International Development grant to develop Russia's equity markets in the 1990s. In 2000, Schleifer was accused of using his influence to profit from the markets he helped create. Harvard, Shleifer and the U.S. Justice Department eventually reached an agreement in which the university paid \$26.5 million to settle a civil lawsuit and Shleifer paid \$2 million. Zimmerman's company paid \$1.5 million to resolve civil claims that it improperly used resources and staff from the government-funded project." Neither Zimmerman nor Shleifer admitted wrongdoing.¹⁵

Yale continued to work with Zimmerman following the Russian case. "'We took a hard look and found no reason to modify our relationship,' said Swensen, who describes himself as a close friend of Zimmerman's."¹⁶

Yale's Money with Bracebridge and Argentina:

Bracebridge-managed FYI Ltd. received \$366.4 million in payments, interest and legal fees under the Argentina settlement.¹⁷ Yale owns 100% of New FYI Ltd, a Cayman Islands hedge fund managed by Bracebridge Capital.¹⁸ New FYI Ltd in turn owns 97.87% of FYI Ltd, which makes Yale's share of the settlement \$358.6 million, an estimated \$315 million gain on its original investment.¹⁹

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2 Guzman and Stiglitz. https://www.nytimes.com/2016/04/01/opinion/how-hedge-funds-held-argentina-for-ransom.html?_r=0#story-continues-1

3 Katia Porzecanski, "Singer makes 369% on Principal on Argentine Bonds in Debt Offer," Bloomberg, March 1, 2016. <https://www.bloomberg.com/news/articles/2016-03-01/singer-makes-369-of-principal->

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- 4 Marting Guzman and Joseph Stiglitz, https://www.nytimes.com/2016/04/01/opinion/how-hedge-funds-held-argentina-for-ransom.html?_r=0#story-continues-1
 - 5 Katia Porzecanski, <https://www.bloomberg.com/news/articles/2016-03-01/singer-makes-369-of-principal-on-argentine-bonds-in-debt-offer>
 - 6 Patrick Gillespie, “This fund made an 800% return on Argentina debt,” CNN.com, March 2, 2016. <http://money.cnn.com/2016/03/02/news/economy/hedge-funds-argentina-debt/>
 - 7 Martin Guzman, “An Analysis of Argentina’s 2001 Default Resolution”, Centre for International Governance Innovation, CIGI Papers #110, Table 3, page 20. https://www.cigionline.org/sites/default/files/documents/CIGI%20Paper%20No.110WEB_0.pdf.
Bracebridge manages FFI Fund Ltd., FYI Ltd., and Olifant Fund. See, for example, Pernix Therapeutics, Securities and Exchange Commission Form 13G, May 26, 2016, page 8.
 - 8 Katia Porzecanski, <https://www.bloomberg.com/news/articles/2016-03-01/singer-makes-369-of-principal-on-argentine-bonds-in-debt-offer>
 - 9 Benedict Mander “Macri enlists business as austerity bites” Financial Times April 22,2016 <https://www.ft.com/content/3f472c28-07c7-11e6-876d-b823056b209b>
 - 10 “Police and protestors class as worker strike paralyzes Argentina” The Guardian, April 6, 2017. <https://www.theguardian.com/world/2017/apr/06/argentina-strike-labor-unions-austerity-wages-inflation>
 - 11 Valeria Román “Argentina’s first budget angers scientists”, Nature.com, November 17, 2016, <http://www.nature.com/news/argentina-president-s-first-budget-angers-scientists-1.21013>
 - 12 Guzman and Stiglitz. https://www.nytimes.com/2016/04/01/opinion/how-hedge-funds-held-argentina-for-ransom.html?_r=0#story-continues-1
 - 13 Guzman and Stiglitz. https://www.nytimes.com/2016/04/01/opinion/how-hedge-funds-held-argentina-for-ransom.html?_r=0#story-continues-1
 - 14 Sabrina Wilmer and Tom Moroney, “The Secretive Hedge Fund That’s Generating Huge Profits for Yale”, Bloomberg.com, February 4, 2016. <https://www.bloomberg.com/news/articles/2016-02-04/the-secretive-hedge-fund-that-s-generating-huge-profits-for-yale>
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 - 17 https://www.cigionline.org/sites/default/files/documents/CIGI%20Paper%20No.110WEB_0.pdf
 - 18 Yale University IRS Form 990 fiscal year end June 30, 2015, Schedule R.
 - 19 Yale University IRS Form 990 T, fiscal year end June 30, 2009, form 8846.