

Thank you for the kind introduction.

Secretary Baco, Commissioner Weyne, members of the government, esteemed guests and fellow participants; I appreciate the invitation to speak today and to share some thoughts regarding my experiences here.

As a new resident, it gives me great pleasure to say the following words: Welcome to Puerto Rico.

My family and I moved here from the mean streets of Greenwich a year ago and I am pleased to report that our standard issue black Mercedes wagon now sits unused in a garage in Connecticut.

Tanqueray has been replaced by Bacardi – and my blue blazer is fighting a valiant but ultimately losing battle with a growing number of guayabera shirts.

Have I gone native? Not yet.

The alarm still gets me into the office as the sun rises – the New York Times is delivered daily and unfortunately my weather from Monday thru Friday remains a constant 70 degrees and fluorescent.

That said, the weekends are utterly epic – we own a marina near the town of Fajardo – so on Sundays we cruise into small harbors on Culebra and find pristine beaches with funky beach bars...throw the anchor over, paddle ashore and kick back with ice cold beers and grilled fish – we often run into families from my daughter's school and end up whiling away the afternoon watching the kids play - pure bliss and a significant improvement upon the boathouse in Central Park.

If you are a golfer than welcome to the “17 Mile Drive” of the Caribbean – Robert Trent Jones the son is responsible for The St. Regis and his father for the course at the Ritz Reserve – Greg Norman did the River course at Riomar, Tom Kite did two courses for Trump and the great newcomer, David Pfaff designed the iconic links at Royal Isabella.

A few weeks ago, I walked the course at the St. Regis and I was overwhelmed by its sheer beauty – it was late in the afternoon, the coqui frogs were in full force, and nearby El Yungue was framed by two arching palm trees – it was quite a moment, zen-like really.

I think that Mr. Paulson has exercised his usual great business judgment by selecting excellent operating partners like the visionary Fede Sanchez or the legendary Hugh Andrews – great hoteliers who have imbued their teams with a level of service that is professional and authentic yet not contrived nor corporate – the way it used to be done at The Carlyle or The Bel Air.

When the Vanderbilt is completed, San Juan will finally have a hotel that will rival the Bristol in Paris and when the last villa goes up in Bahia Beach I have a pretty good feeling that that place it will be the modern day equivalent of Lyford Key – perhaps this time with a bit less Lily Pulitzer.

Puerto Rico has all the lifestyle assets in place to ensure great memories, but if you, like me, are married and have children, you would have to concede that that alone would not convince a smart spouse to make the move.

Frankly, it is much easier for me to move...all I really need is an office, connectivity and a steakhouse to be happy.

But it does become an entirely different proposition when you take your nine year old daughter out of Greenwich Country Day and say to your wife ... by the way, that whole life you have developed here for us ... that wonderful eco-system of tennis lessons, tutors, and weekend dinner parties ...how do you even breach a subject like moving to Puerto Rico with someone who has created that for your family?

But when I did, her reaction surprised me – the expected “you want me to move where” response was nowhere to be heard – instead she said she would have to go down there and perform her own due diligence – perform the same kind of analysis

my company does when it acquires an asset – meaning sleeves rolled up, little currency paid to conventional wisdom ... original analysis - no piggybacking.

It is hard to argue with that kind of good sense, so we did just and focused broadly on risk with particular emphasis placed on private schools and healthcare. I've never made an investment decision based solely on taxes - taxes are an expense, not a cost - tax treatment is a consideration not a decision driver so it was with that in mind that we began our work.

Let me tell you what we found:

St. John's and Robinson in Condado, Baldwin in Guaynabo and TASIS in Dorado are all top ranked institutions that can go head-to-head with the likes of Buckley and Spence.

How is that possible, you might ask? Check out this statistic: St. John's has consistently been ranked "top ten in the nation" for the number of National Merit Scholars it produces.

For purposes of context, that same list would include slackers like Andover, the Bronx School of Science and San Marino High School in Pasadena.

In this year's senior class of 60 at St. John's, fourteen students will attend Ivies and another dozen that will be going to the Middlebury's, Claremonts and Georgetown's of the world, a couple more will go to Boston College and Northwestern – those matriculation rates resemble Groton ... but Groton 60 years ago!

Prefer the International Baccalaureate program or ortho-gillingham or Montessori approaches to education – it's all here. The quality of teaching is world class. However, there is a difference – teachers seem more human and place greater emphasis on fostering an environment of friendliness. I like that. The world is cold and I do not want my children to grow up too fast. For now I want them to feel stimulated, acknowledged and most of all loved

As I walked my daughter to school that first day and felt her grip get tighter and tighter as we got closer and closer, my chest began to tighten - I felt an overwhelming sense of guilt – how could I taken her away from what she knew – then we opened the door to the classroom and the teacher, Mrs. Myatt, a woman in her 70s who has taught at the school for over 30 years came running over and threw her arms around my daughter, and said how happy she was to finally meet “Olivia” – she then called over the entire class and they circled us – each introducing themselves – each offering a sleepover or a playdate –I don’t think we had been in the classroom for more than a minute – I was overwhelmed by the generosity of spirit – the grip loosened and the hand fell away – she was now being shown her desk, she was being asked what her favorite movie was – she was being accepted – never have I ever been so relieved.

Let’s move on to healthcare in Puerto Rico.

We made it a point to meet with doctors and pediatricians and we came to the conclusion that there are only three acute conditions that require immediate medical attention – that even if you had an X written on the tail of your Citation it wouldn’t make a difference:

Trauma, stroke and cardiac care – those are the big three. Here are the frightening statistics - you have roughly five hours in for myocardial infarction, two and half hours for stroke and trauma requires immediate care – fortunately, Puerto Rico has all of these bases covered.

For example, I visited the Cardiovascular Institute and met with the medical director, Dr. Jose Novoa. The doctor trained at the Mayo Clinic and has 200 doctors on staff – many of the doctors have degrees from Harvard Medical School, Yale and UCLA– and that hospital has successfully handled 153 heart transplant operations.

It has six operating rooms, and the latest machines for nuclear medicine – they can handle everything from thoracic surgery to angioplasty – one operating suite alone has nearly \$4 million dollars of new technology in it and is an exact replica of the cardiac surgery suite at MD Anderson.

My point is that you can rest assured in knowing that there are great doctors and nurses here as well as a tradition of excellence and an intense desire to keep going back for training year after year.

As a group, I hope all of us make a commitment to support the tremendous work being done at the Cardiovascular Institute – all you need to do is walk through the pediatric ICU and see the faces of the nurses and doctors to know it is the right thing to do.

I sure feel better knowing it is within a 20 minute reach by helicopter from nearly every part of the island.

From a business risk standpoint, Puerto Rico falls under the jurisdiction of the US Federal court system, which provides for all of the rights afforded by our Constitution and the same rule of law which makes the United States the safest jurisdiction to do business, including due process, intellectual property protections, and the all-important enforceability of contracts.

Virtually every industry falls under the familiar purview of Federal regulations or oversight, including the FDA, FAA and EPA to name just a few.

And Puerto Rico's business infrastructure is well developed, with world-class attorneys, accountants, bankers, engineers, technologists, academics, and virtually every discipline necessary to conduct the most complex of transactions.

But there are also number of things that investors will find very different. Perhaps the most different is that Federal income taxes do not apply to residents of Puerto Rico, including both individuals and corporations and on active, passive, and portfolio income, as long as the income is Puerto Rico-sourced.

I would like to address one issue which has been broadly covered in the press and that is Puerto Rico's fiscal situation.

- a. As the third largest issuer of municipal debt in the United States, Puerto Rico's fiscal situation has always received a fair amount of attention, but never more than in the past few months, leading up to and following the downgrade to non-investment grade status of the island's General Obligation bonds.
- b. The justifications for the downgrade were varied and included short-term liquidity constraints, concerns about Puerto Rico's access to the market, the GDB's lack of transparency as well as the compounded effects of longer term structural deficits and the protracted economic recession.
- c. However, we were quickly reminded that there is a substantial difference between a downgrade and a default, as was clearly illustrated by the success of the recent \$3.5 billion dollar offering, the largest sale of non-investment grade bonds in the history of municipal markets.
- d. Investors recognized that the Commonwealth will continue to honor its commitments as it always has, and that Puerto Rico's structural fundamentals continue to provide a platform for long-term growth and the preservation of a substantial tax base.
- e. In other words, more than 270 investors – hedge funds and institutional buyers – realized that the returns outweighed the risks and put in orders to acquire over \$16 billion dollars of this issuance.

I delivered a speech two months ago at a technology conference and outlined why I thought Puerto Rico represented such a compelling investment opportunity despite all the dismal news that gets reported.

I won't repeat myself here, but one point does merit reiteration. Puerto Rico is in the process of a great reinvention. We are at an inflection point and after years of decline asset values here are creating generational opportunities.

Now, I know this isn't the story you read in the press. Between the high crime rate and the bond downgrades, you'd think no one would want to invest here, let alone live here. And to be sure, some of it is true. But some of it is not.

The New York Times recently portrayed San Juan as some bizarre incarnation of Medellin in the 90s.

I'm not saying crime doesn't exist here. I am not Bagdad Bob. It's a big city with high unemployment, and a police force that has not enforced the law particularly well.

But if you actually look at the crime stats here, you would see it's very much concentrated on drug related crime.

That makes sense. The southern border-states are finally getting heard in DC, and when the borders became less porous, the narco-traffickers identified Puerto Rico as an entry point to the states – a soft underbelly.

But the federal government has only recently begun to provide Puerto Rico with the assets necessary to defend itself and this Governor has worked tirelessly to secure more helicopters and Coast Guard cutters - significant seizures are now occurring.

Let's switch for a moment on the narrative being told about the Puerto Rican economy.

Official figures tell us that non-farm employment is down to 925,000 people, about 200,000 fewer than when the recession began in 2006.

The labor participation rate is now – officially – 41%, down from 48% in 2006. It's probably worth mentioning that in most developed economies, participation hovers in the range of 60%-65%, even during recessions.

Part of that decline has been the flight of talented young people from the island, which has amounted to some 450,000 residents in the last ten years.

When we factor in birth and death rates, the island's population declined by a bit more than 2% from 2000 through 2010, and by a little under 3% since 2010.

Accordingly, it is easy to understand why credit rating agencies are a bit edgy.

The population drop is one of the forces keeping the economy in net decline. After eight years of recession, the official Economic Activity Index published every month by the GDB fell again in February by 2.4% compared to the same period last year.

When I began looking at Puerto Rico, these numbers did not jive with what I saw.

A labor participation rate of 41%?

Really? How can labor participation plummet to 41% and yet sales tax revenues rise – yes, go up! – by 2%-3% every year?

How can the Economic Activity Index fall so precipitously – 2- 4% every month – and yet sales per square foot in mall after mall in Puerto Rico remain among the highest in the United States?

The Puerto Rican economy is underperforming. But it is nowhere near what official figures and the press would suggest.

What we have to understand is that those figures are not an adequate reflection of what's really going on.

Take the GDB's economic index which is a sort of index of leading economic indicators. It has four components:

- Gasoline sales
- Cement sales
- Electricity consumption
- And employment



Many of the components skew the data in misleading ways.

If we want to seriously move toward an economy that decouples growth from energy use, we need to think of changing that indicator, as well.

I'm a case in point.

We have retro-fitted all of our lights, we have installed solar panels on our roof, our planned \$90 million dollar expansion will utilize the latest construction means and methods which include the use of a light deck concrete slab system that will radically reduce our need for concrete without jeopardizing structural integrity – in fact our initiatives to save electricity on our existing buildings have cut our electrical bills already by 40%.

So if the GDB looked at me, it would have a problem - it would view our efficiency efforts as a negative indicator.

I don't know if I am an outlier but it does merit mention and highlights the need to revisit the GDB's indicators and use the ones that are really indicative of today's economic growth.

Of the four components of the GDB's index, none is more misleading than employment. We've all heard the informal economy in Puerto Rico is large, but that would be understatement - It is HUGE.

Some economists say it's 30%-35%. Others say it surpasses 40%. If you ask me, I tend to side with the forty percenters. But you know what? No one really knows the exact size and dimension of the island's informal economy.

We have anywhere from a third to half of the economy where there are real people working, making money, going shopping, and running businesses. And they're not being counted.

The truth is that the informal economy creates a distortion that makes it impossible to rely on official statistics.

What is the real labor participation rate in Puerto Rico?  
Or for that matter the rate of unemployment,  
disposable income, or overall economic growth?

Oh sure, there's enough of a formal economy to measure,  
and of course the economy is not robust or performing well at the moment.  
But with between a third and half of the economy outside those calculations,  
this is sort of like trying to find the door in a pitch dark room.

But the government is making great strides and deserves credit. Alejandro García Padilla recently named a blue ribbon task force to tackle these problems.  
It is the first time in the history of Puerto Rico that such a high-level group has been assembled.

The last major issue I want to tackle is what I refer to as the great misconception.

When I first came to the island, I had a mistaken belief that Puerto Ricans here were like Puerto Ricans in New York. The perception and the reality could not have been more different.

It reminds me of the first time I went to Italy - my perception was a combination of a Prince Spaghetti ad from 1975 and the movie The Godfather.

When I finally walked around Milan and saw the amazing design houses and spoke to businesspeople and waiters I quickly realized just how wrong I had been.

This story says as much about my ignorance as anything else, but I will tell you I am not alone – I have sat at many parties in Greenwich or New York and watched the expressions as we said we were moving to San Juan— in fact, one Fifth Avenue hostess whom I am sure John knows pretty well actually said: “Nicholas people move **from** Puerto Rico they don't move **to** Puerto Rico”. I still laugh at that one.

My wife and I recently danced the night away at the Ponce Museum Gala—with hundreds of people dressed to the nines...weeks later I attended the Casals Music Festival in San Juan's equivalent to Lincoln Center, Bellas Artes – it was one of

the great evenings of music and some of the best musicians the world attended, including Joshua Bell—all right here in a 100 x 35 mile island

a couple of weeks ago I went to the Gustav Klimt exhibit ... just yesterday I declined a private Placido Domingo concert to write this speech – thanks very much!

Suffice to say, my weeks are jam-packed with events, dinners, concerts, you name it—it's unbelievable and exhausting.

Food?

Chef Jose Enrique has been nominated for the James Beard award twice - Chef Jose Santaella ties him in awards and nominations and I can't even begin to tell you the meals I have had downstairs at 1919.

Puerto Rico has everything we thought we would miss. We are having a wonderful time and I urge you to seriously consider a move – we would love to have you become a part of the New Puerto Rico – thank you for your time.