

First Puerto Rico AAA Fixed-Income Fund, Inc.	IRA Select Growth & Income Puerto Rico Fund	Popular Core Equity Fund	Puerto Rico Investors Bond Fund I
First Puerto Rico AAA Target Maturity Funds I-II	Multi-Select Securities Puerto Rico Fund	Popular High Grade Fixed Income Fund	Puerto Rico Investors Tax-Free Funds I-VI
First Puerto Rico Daily Liquidity Fund, Inc.	Puerto Rico AAA Portfolio Bond Funds I-II	Popular Income Plus Fund	Puerto Rico Investors Target-Maturity Funds I-II
First Puerto Rico Equity Opportunities Fund, Inc.	Puerto Rico AAA Portfolio Target Maturity Fund, Inc.	Popular Money Market Fund	
First Puerto Rico Target Maturity Income Opportunities Funds I-II	Puerto Rico Fixed Income Funds I-VI	Popular Total Return Fund	
First Puerto Rico Tax-Advantaged Target Maturity Funds I-II	Puerto Rico GNMA & U.S. Government Target Maturity Fund, Inc.		
First Puerto Rico Tax-Exempt Fund	Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc.		
First Puerto Rico Tax-Exempt Fund II	Puerto Rico Short-Term Investment Fund, Inc.		
First Puerto Rico Tax-Exempt Target Maturity Funds II-V and VII	Tax-Free Puerto Rico Funds I-II		
Santander AM Intermediate Fixed-Income Fund, Inc.	Tax-Free Puerto Rico Target Maturity Fund, Inc.		
	U.S. Municipal & Income Fund, Inc.		

San Juan, Puerto Rico

September 2, 2016

VIA EMAIL (prtaskforce@mail.house.gov)

The Honorable Orrin Hatch
U.S. Senator
104 Hart Senate Office Building
Washington, DC 20510

The Honorable Marco Rubio
U.S. Senator
284 Russell Senate Office Building
Washington DC, 20510

The Honorable Sean Duffy
U.S. Congressman
1208 Longworth House Office Building
Washington, DC 20515

The Honorable Tom MacArthur
U.S. Congressman
506 Cannon House Office Building
Washington, DC 20515

The Honorable Bill Nelson
U.S. Senator
716 Hart Senate Office Building
Washington, DC 20510

The Honorable Bob Menéndez
U.S. Senator
528 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Nydia M. Velázquez
U.S. Congresswoman
2302 Rayburn House Office Building
Washington, DC 20515

The Honorable Pedro Pierluisi
U.S. Congressman
2410 Rayburn House Office Building
Washington, DC 20515

RE: H. R. 5322 and Implications for Puerto Rico Investors and the Puerto Rico Economy

Dear Members of Congress and the PROMESA Economic Development Task Force:

The undersigned, investment companies organized under the laws of Puerto Rico and investments in which are only offered to Puerto Rico residents (the "Funds"), make this submission to offer our support and assistance to you as a member of the Congressional Task Force on Economic Development in Puerto Rico (the "Task Force") formed pursuant to the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"). As representatives of significant businesses on the Island, we want to bring to the Task Force's attention concerns with respect to H.R. 5322, approved by the U.S. House of Representatives on July 11, 2016 and presently referred to the Senate Committee on Banking, Housing, and Urban Affairs. While H.R. 5322's investor protection goals are laudable, the impact of this legislation and its implementation must be examined more closely before it is enacted to ensure that it does not inadvertently operate as an impediment to growth on the Island, cause Puerto Rico residents to lose valued professional jobs, and destroy the current income of thousands of residents, many of whom are retirees. Moreover, we believe that it is necessary to develop a better understanding of the additional protections that would be achieved by passage, and then to weigh those against the potential negative impact on the holdings of current fund shareholders and the disruption to the mutual fund industry in Puerto Rico. Given the fragile and unstable nature of the Puerto Rico economy, it would be prudent to allow for hearings and further examination of the potential impact before proceeding, in order to avoid having this legislation thwart the goals of PROMESA and this Task Force to spur sustainable long-term economic growth and job creation, reduce child poverty and attract investment in Puerto Rico.

Background on the Funds

The Funds manage and hold significant assets on behalf of more than ten thousand Puerto Rican investors - many of them retirees. The Funds represent over 95% of the Puerto Rico investment companies holding assets in the total aggregate amount of over \$6.31 billion dollars (as of June 30, 2016). The Funds have returned tax-exempt, favorable dividends in an aggregate amount exceeding \$5 billion since inception of the first Fund in 1994, thereby generating wealth for Puerto Rican investors in a period of significant economic turmoil on the Island. For example, the Funds returned \$287.5 million to investors in dividend payments in 2015 alone, at a time when other issuers of Puerto Rico fixed-income securities had all but ceased paying dividends.

Historically, the Funds have been the largest purchasers of Puerto Rico municipal debt, financing billions of dollars in infrastructure projects, as well as a lender of first resort to the Island. Accordingly, they will be key participants in any Puerto Rico municipal debt restructuring, and upon the restoration of the Puerto Rico bond market, the Funds will be an important source of capital to rebuild Puerto Rico. They have directly and indirectly fostered the creation of jobs on the Island and continue to provide quality employment opportunities for professionals on the Island. The Funds have been supported by the Puerto Rico asset management industry, which has been a significant employer and taxpayer in Puerto Rico. In an economic environment dominated by high unemployment and weak corporate returns and tax incentives, the Funds have provided quality jobs to Puerto Rican professionals seeking to remain on the Island and much-needed fiscal income to the Commonwealth.

Background on H. R. 5322

H.R. 5322 seeks to eliminate the exemption afforded by the Investment Company Act of 1940 (the "1940 Act"), under its Section 6(a)(1), for investment companies organized in Puerto Rico, the U.S. Virgin Islands, and other U.S. territories. On its face the proposed legislation, **which passed the House without a single hearing**, is very simple and its goals are laudable. The Funds wholeheartedly endorse and agree with initiatives to ensure investor protection for Puerto Rican investors. The Funds also support vigorous enforcement of the U.S. Securities and Exchange Commission's ("SEC") investor protection laws and regulations and SEC oversight. However, contrary to the contention that the 1940 Act exemption constitutes a "loophole," its implementation in Puerto Rico was deliberate and regulated to ensure investor protection and the removal of the exemption has consequences that must be considered.

Notably, the principles underlying the 1940 Act and many of the types of provisions contained in the rules and individual exemptions granted thereunder are either incorporated into local Puerto Rico regulations or the governing documents of the individual Funds (such as independent boards, affiliated transaction procedures requiring arm's length transactions on demonstrably fair and reasonable terms, and meaningful disclosures). Implementation issues that need to be examined include having a better understanding of how the functions, activities, and structure of the Funds would need to change in order to be in compliance with the 1940 Act provisions. For example, under the 1940 Act, there are prohibitions against affiliated transactions that did not apply to Puerto Rico investment companies. How will the prohibitions be implemented going forward with respect to existing funds? Similarly, how will existing funds come into compliance with lower leverage limitations of the 1940 Act? In either case, the Funds would need to sell assets to come into compliance with 1940 Act requirements, and they would be selling into a very unstable market and realizing substantial losses for their shareholders. In addition, if in the future the goals of PROMESA appear to be achieved and the markets begin to function again, the inability of the Funds to engage in portfolio transactions on desirable terms would thwart the purpose of the Funds and the collective investment by investors. These and similar consequences could harm the investors and the long term viability of the Puerto Rico mutual fund industry.

While H.R 5322 is promoted as investor protection legislation, there is no causal nexus between the severe market value decline of Puerto Rico bonds and the Puerto Rico mutual funds' exemption from registration under 1940 Act. The collapse of the markets in Puerto Rico bonds and in the closed-end Funds is a result of macro-economic events, including, among others, certain events that directly or indirectly impacted the overall municipal bond market, such as the Detroit bankruptcy and the Chicago pension insolvency. It has been severely exacerbated on-island by inadequate fiscal discipline by the Puerto Rico government and its desire to remedy this situation by defaulting on municipal obligations. These factors, not the 1940 Act exemption, led to the ongoing economic crisis and have caused the marked to market value of the Funds to decline. Moreover, neither the SEC nor the Financial Industry Regulatory Authority, Inc. ("FINRA") need the removal of this exemption in order to take enforcement action against unscrupulous or even unsuitable behavior towards investors in Puerto Rico funds. The SEC and FINRA already enforce securities law violations to protect investors in Puerto Rico. The effect of H.R 5322 will be to switch a developed industry from one regulatory scheme to another. Requiring existing funds to

come into full compliance with the SEC's regulatory scheme will have significant costs, some of which would invariably decrease the return to investors. All of these potential harms must be weighed against the benefit to be achieved, especially when the potential costs are likely to be exacerbated by Puerto Rico's current fiscal distress. We urge the Task Force to ensure that, **before** H.R. 5322 is enacted, proper analysis is undertaken on whether the necessary benefits can be achieved through a more tailored approach, such as, for example, amending Section 6(a)(1) of the 1940 Act to include the desired elements of investor protection while harmonizing with the existing local regulatory framework.

H. R. 5322 Should not Be Implemented Until its Impact Is Fully Understood

H.R. 5322 is being proposed at the same time that Congress, the PROMESA Task Force and the PROMESA Oversight Board are working diligently to find a way to stabilize the Puerto Rico economy, promote long-term economic growth, and spur new job creation. Given this situation, it is important that Congress avoid hasty actions that have unknown consequences. Prior to adopting changes that seek to alter the structure, functions, and activities of the Funds, the Senate Banking Committee should hold a hearing to examine how best to achieve the goals of ensuring investor protection without unnecessarily altering the operations of the fund industry in Puerto Rico. A failure to provide the existing Puerto Rico funds with appropriate relief from, or adequate transition periods to come into compliance with, the 1940 Act, could force the Funds to liquidate large amounts of assets into a non-functioning market in order to deleverage or significantly increase the Funds' lending costs. As a result, fund investors will experience additional losses to their investment values as well as a reduction in the dividends which many of them rely on to pay their living expenses, at a time where they are already reeling from the economic downturn. Even funds that have weathered the crisis to date will be forced to take losses if required to deleverage, adding scores of new victims to the crisis.

Until the PROMESA Oversight Board has completed its mission, it would be dangerous to add to the instability of the economic well-being of the Funds' investors. While PROMESA seeks "adequate funding" for the pensions of Puerto Rico Government employees, Puerto Rico's non-government retirees have not been afforded similar considerations. Faced with the Puerto Rico government's public proposal to reduce the principal amounts owed to these investors, wholesale implementation of the 1940 Act will compound the negative effects of the contemplated Puerto Rico debt restructuring by also reducing these retirees' current income at a time they desperately need it.

We also suggest that the fiscal crisis compels further investigation into the potential indirect effects of this legislation prior to consideration of passage. For example, SEC no-action letters that govern the existing funds require that the management, administration, and trading of Puerto Rico investment companies be done on-island. If the exemption is eliminated, there is no longer any significant need for them to comply with the SEC no-action requirements. While it is difficult to predict how many of those on Puerto Rico jobs will get moved to operations on the U.S. mainland, the mutual fund industry will be free to consolidate its trading and management operations stateside. This could eliminate numerous high-paying jobs as well as depriving the Puerto Rico Treasury of traditionally strong corporate taxpayers, at a time when the Island needs to retain talent and revenues. Further, contraction of the Funds business in Puerto Rico will remove

a valuable lender and provider of liquidity at a time when Puerto Rico projects suffer from a lack of access to capital.

Conclusion

As the Funds are both businesses in Puerto Rico and businesses that serve thousands of Puerto Rico residents we appreciate the work that the Task Force is undertaking to identify "impediments in current Federal law and programs to economic growth in Puerto Rico". We urge that now is not the time to add new legislation without first ensuring that it will not harm Puerto Rico or Puerto Rican investors. As set forth above, if not properly implemented (for example through targeted grandfathering and transitional implementation), the elimination of the 1940 Act exemption could inflict a host of unnecessarily negative consequences on current shareholders and the local economy at a time when the Commonwealth is already reeling from the effects of sustained economic downturn and financial crisis.

The Funds thank you for your attention to this matter and stand ready to assist the Task Force in answering questions or providing information at your convenience.

By: /s/ Frank J. Serra
Frank J. Serra
President
First Puerto Rico and Santander AM
Families of Funds

By: /s/ Javier Rubio
Javier Rubio, CFA
Senior Vice-President
Popular and Puerto Rico Investors
Families of Funds

By: /s/ Carlos V. Ubiñas
Carlos V. Ubiñas
President
Tax-Free Puerto Rico, Puerto Rico Fixed Income, Puerto Rico AAA Portfolio, Puerto Rico GNMA, Puerto Rico Mortgage-Backed, Puerto Rico Short-Term, Multi-Select, and U.S. Municipal, and Puerto Rico Investors Families of Funds