


 FAMILY OFFICE INSIGHTS
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Peer Insights

R E P O R T

Q&A with Kelly Chesney & Ignacio Canto of X² Opportunistic Debt Fund.

Principle Series:

Please join Family Office Insights for this luncheon on Tuesday, March 13th at 12PM. If you care to join us, please email admin@familyofficeinsights.com.



Family Office Insights sits down with Kelly Chesney, Principal of Pluscios Management, and Ignacio Canto, Founder of X² Capital and former Treasurer of the Puerto Rico Government Development Bank, to discuss their X² Opportunistic Debt Fund. Puerto Rico is currently faced with a fiscal crisis that has reached an inflection point, and with any complex event, it can also be potentially highly rewarding. The Fund will focus on liquid Puerto Rico public debt, less known private deals and public equities to build a portfolio that enhances total returns.

Family Office Insights is a voluntary, “opt-in” collaborative peer-to-peer community of single family offices, qualified investors and institutional investors. If you care to learn more, and perhaps join the community, you are welcome to visit us here at FamilyOfficeInsights.com.

Q: Tell us about your background and your companies, Pluscios Management & X².

A: [Kelly Chesney, Principal of Pluscios Management]

I spent several years working for the legacy First National Bank of Chicago Corporate Investments and Capital Markets Groups, now known as JPMorgan Capital Management, where I began as the lawyer for these groups and then, after getting my MBA from Kellogg Graduate School of Management at Northwestern University, became a Managing Director for the hedge fund investing group to reunite with my former client, Constance “Connie” Teska. Connie and I pioneered the Bank’s first external investments in hedge funds and eventually built co-mingled products for the Bank’s clients. We started making these investments in the mid-90s. We have worked together for over 20 years now and have experienced many market cycles. With our combined experience we’re able to identify talent – most importantly, early talent – which has proven to be instrumental in outperforming our peers over time.

Connie and I left JPMorgan in 2006 and founded Pluscios Management to continue doing what we were focused on all those years. We believed in our investment methodology and luckily, so did our clients, who supported and followed us when we started Pluscios. We created our company to build portfolios of hedge funds, but more importantly, to find niche opportunistic idiosyncratic managers. Typically, fund-of-funds have the best names, but all the same names in each of their portfolios, so we wanted to offer differentiated returns with outstanding managers.

One of the events and opportunities we have been watching closely was the Puerto Rico municipal debt events. We have had many managers from NY come to our office looking to start Puerto Rico debt funds. From our experience, we understood that this is different from corporate distressed debt. What we are dealing with here is more complex and dangerous if you don’t have the insight in this area but also very lucrative if you do.

Connie and I met Ignacio Canto, Founder of X² Capital, 5 years ago, and the more we got to know him, the more we knew that we had found a gem. Pluscios has a long history of identifying both lucrative opportunities and the best portfolio managers for the job, and X² is no exception. X² Capital is a Puerto Rican investment Advisor whose team has unparalleled experience with the entire Puerto Rico municipal bond ecosystem, with history of government financing, and whom are also well known on Wall Street, in DC, and on the Island. Together, we formed the X² Opportunistic Debt Fund. Pluscios is the GP of this Fund, while the X² team does the investing. We essentially wrapped an institutional quality infrastructure around an emerging, but highly skilled manager.

[Ignacio Canto, Founder of X² Capital and former Treasurer of the Puerto Rico Government Development Bank]

From 2005-2010, I worked as a portfolio manager and portfolio analyst at Santander Asset Management Corporation, where I traded interest rate derivatives, US Government agency debentures, structured products, municipal bonds, equities, and equity derivatives. I was also the Executive Vice President and Treasurer of Government Development Bank (GDB) for Puerto Rico from 2010-2012. In such capacity, I was responsible for the asset and liability management, and for pricing and structuring over \$18B of bonds issued by the Commonwealth of Puerto Rico and its instrumentalities.

I have been breathing and living the Puerto Rico financial crisis since day 1 and prior to that, I was a player in the Puerto Rico municipal debt complex. This issue is very complex, but we have the depth and breadth of experience to handle it using historical and analytical context. X² Capital has never had a negative year, even throughout the crisis until last year when the hurricanes hit. Despite the volatility, we still maintain that Hurricane Maria was a credit positive event and we have the data to prove it. Despite the 'destruction of the land' that the media shows, in such a short period of time, we have rebounded, with our land becoming green and flowering up again. We believe that we can absolutely capitalize upon the growth of Puerto Rico and make up for the losses of last year.

The Puerto Rico investment landscape is complex and misunderstood. Being misunderstood causes mispricing and inefficiencies. The political environment in Puerto Rico adds another layer of complexity. What many may not know is that Puerto Rico houses large manufacturing complexes and is responsible for creating 40% of medical devices used around the world. We see tourism as a big opportunity on the Island as a visa or passport is not needed to travel from PR to the Mainland. The government has been doing exciting things in structural reforms and we are starting to see nice legislation take form. For instance, the Island now has a DMO (Destination Marketing Office) where a non-political entity handles tourism-marketing efforts regardless of political cycles to consistently grow tourism GDP here. There's \$11B in community development funding coming into this area and, because it is an Island, those resources cannot bleed over to contractors in nearby states; so luckily, this will help small businesses here and build up the entrepreneurial spirit. We think that with patience, we can generate great returns here.

Q: Who is your target audience for this Fund?

A: The entire focus of the Fund is to capture the opportunities in Puerto Rico. We are looking for family offices and ultra high net worth individuals to be a part of this Fund. It's investors looking for a non-correlated asset that will diversify their portfolios. For examples, if you look at the latest market correction in February 2018, we are up 15% in February coming from a January with a 15% return as well. It's an investment that diversifies portfolios and this latest market correction proves it.

Q: What are some of the challenges you face in your market?

A: The negative perceptions people have, regarding the conditions in Puerto Rico, are being greatly exaggerated by the media. The news only films areas of devastation, but the reality is that after 3 weeks most of the communities were already back up and running like normal. People tend to create a perception, which is very inappropriate, and drastically different from what is actually happening, which is why in November and December everyone was selling when we were buying. It's a frustrating challenge, but it did create a great opportunity for us, which we acted on immediately.

Q: How are you different from your key competitors?

A: We don't react to the panic and fears of the headlines; when people start selling when it's a time they should actually be holding, or taking advantage and start buying more, we stay strong. Connie and I have always done well in assessing risk and opportunities and hold tight through the rough times. Last year with Hurricane Maria is a perfect example. We are very excited about the opportunities in Puerto Rico. Connie and I visited the Island the last week of February and saw the development; there's so much potential! After Hurricane Maria 5 months ago, every tree and all the foliage turned brown. Within weeks the green started to pop and now everything is back to being green and growing. We believe that the same rebound the Island saw in nature, we will see in the economy of Puerto Rico. The reality is that after the hurricane, there has been a lot of growth here.

One of the things the X² Opportunistic Debt fund has that no one else does is a team that lives and breathes Puerto Rico. Along with the knowledge of the political happenings and the ear to the ground information gathering and contacts that Ignacio and his team have, especially Ignacio's extensive experience as Treasurer of the Puerto Rico Government Development Bank, serves us well when it comes to investing in Puerto Rico. To date, there is no Fund that is as niche and 100% dedicated to Puerto Rico as we are. We are experts in this and are the best-skilled team for this opportunity.

Q: How are you changing the landscape of your industry?

A: We've blazed the trail in our industry. There are so many people looking to hire Ignacio right now, which is a testament that at Pluscios, we're surrounded by the best in Puerto Rico. The X² team really knows the balance sheet of the Island and where the revenue opportunities are. The hurricane has been heartbreaking, but it also brought significant federal aid and funding, which can be used to modernize infrastructure and utilities and services. We are at the forefront of the future of Puerto Rico as things progress and evolve.

Q: How much are you looking to raise and who is your ideal investor?

A: Our evergreen Fund has been up and running for a year now. We are raising \$100M for the Fund with a minimum investment of \$1M long term, as we are not opposed to anyone who wants to dip their toe in with \$500K and go up from there. We view this Fund as a way to diversify portfolio investments and our investor base. We want patient and smart investors, because niche opportunities are not for the faint of heart, but for those who have vision and staying power.

Q: What's your mission?

A: Our mission with this Fund is to capitalize on the opportunity in Puerto Rico in a reduced risk manner, as well as, build and maintain the best investor base for this event, providing great double-digit returns with unique volatility correlations that are idiosyncratic from the market.

Q: What's next for you?

A: We want to continue to raise assets for our Fund as the hurricane has driven up the urgency in Puerto Rico with opportunities that benefit the investor to ride the cycle with us to get the best results. Ignacio and team want to buy what they view as ridiculously underpriced opportunities right now.



Ms. Chesney is a co-founder of Pluscios. She has 25 years' experience in capital markets and alternative asset investing and serves as the firms COO.

Prior to founding Pluscios, Kelly was a Managing Director at JPMorgan Capital Management (formerly Banc One Capital Management) (the "Bank"), the Bank's hedge fund investing group which invested both proprietary and client assets in portfolios of hedge funds. Kelly was one of three voting members of the Investment Committee responsible for all aspects of portfolio management including portfolio construction, manager selection and on-going manager monitoring. Kelly was also a member of the group's Management Committee. Additionally, Kelly had primary responsibility for product design and development, product launches and lifecycle management, and had oversight for all aspects of the business operations.

Kelly also spent several years in the mid-nineties as a lawyer for the Bank's Corporate Investments and Capital Markets Groups. Kelly structured and negotiated complex domestic and international commercial finance transactions including tax-related transactions, derivatives, foreign exchange transactions and hedge fund, venture capital, asset backed and collateralized debt obligation investments. She participated in the strategy development and directed the creation of offering documents for a hedge fund of funds; structured the first foreign tax credit transaction for the Bank; and participated in the development and launch of new derivatives products.

Kelly began her career as an Associate at Skadden, Arps, Slate Meagher & Flom and Mayer, Brown & Platt.

Kelly received an M.B.A. from the Kellogg Graduate School of Management at Northwestern University, a J.D. from IIT Chicago-Kent College of Law, and a B.A. in communication studies from Northern Illinois University. Kelly is a member of 100 Women in Hedge Funds, the Chicago Finance Exchange, the National Association of Securities Professionals and is on the Illinois Board of Gift Adoption.

If you have any questions, please contact Kelly at kchesney@pluscios.com.

Mr. Ignacio Canto was Executive Vice President and Treasurer of Government Development Bank for Puerto Rico (GDB) from August 2010 until December 31, 2012. In such capacity, he was responsible for GDB's asset and liability management, and for pricing and structuring over \$18 billion of bonds issued by the Commonwealth of Puerto Rico and its instrumentalities. While at GDB, Mr. Canto implemented a global macro trading strategy with success, focusing on fundamental trends and technical studies. Between July 2005 and August 2010, Mr. Canto worked as a portfolio manager and portfolio analyst at Santander Asset Management Corporation, where he traded interest rate derivatives, U.S. Government agency debentures, structured products, municipal bonds, equities and equity derivatives, and in the Investment Banking division of Santander Securities Corporation. Mr. Canto holds a Bachelor of Business Administration with a concentration in Finance from Boston University's School of Management. Mr. Canto holds both the Chartered Financial Analyst (CFA) and the Financial Risk Manager (FRM) designations, and is a member of the CFA Society of Chicago.

If you have any questions, please contact Ignacio at ignacio.canto@xsquarecapital.com.



“Working with family office investors is rapidly becoming a relevant strategy for accessing investment capital from the ultra-wealthy and their investment offices.”

Arthur Andrew Bavelas