KNOSSOS ASSET MANAGEMENT
AN AFFILIATED COMPANY OF MIURA

Venezuela/PDVSA Monthly Report September 2020

After being appointed as Finance Minister on September 10th, Delcy Rodríguez renewed interest in Venezuelan bonds when she debuted in her role revealing a consent solicitation to extend a “prescription period” included in the clauses of Venezuelan, PDVSA and ELECAR bonds. This occurred almost three months before reaching the third anniversary of Venezuelan bonds default next November and seems to be related to some noise from local holders who were worried about losing the chance of taking legal actions to claim payments. The real incentives behind this proposal are unclear and price reaction was weak, monthly return averaged 6.4 percent for sovereign bonds and 8 percent for PDVSA bonds, while they moved from their year lows reached between July and late August.

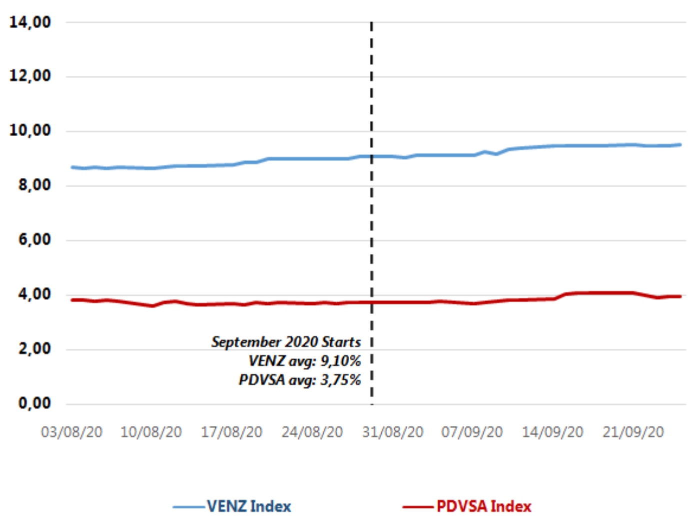

Chart N°1: VENZ/PDVSA bond indexes (Aug – Sep 2020).
Source: Bloomberg, Knossos Asset Management.

The proposal announced by Rodríguez offered bondholders a deal that would suspend statutes of limitation contained in the indentures, but in exchange bondholders would have to agree not to sue Venezuela or PDVSA or ELECAR, and suspend any ongoing litigation. According to Rodriguez, the offer aims to protect bondholders’ rights amid the US Government sanctions regime. Investors interested in participating in this offer would have to get in contact with the Maduro administration, PDVSA and ELECAR before October 13th.

This “market friendly” approach may be an attempt to persuade investors to reconsider their strategies regarding Venezuelan debt, something that may eventually translate in some political profit for the Maduro administration. However, this poses a risk as this kind of interaction with the Venezuelan government could expose investors to OFAC penalties.

Security	31/08/2020	30/09/2020	Total Return	Total Return (2020 YTD)
VENZ 6 12/09/20	7,60	7,95	+4,61%	-32,34%
VENZ 12 3/4 08/23/22	7,65	8,15	+6,54%	-33,23%
VENZ 9 05/07/23	7,70	8,00	+3,90%	-32,76%
VENZ 8 1/4 10/13/24	7,60	8,10	+6,58%	-32,56%
VENZ 7.65 04/21/25	7,60	8,00	+5,26%	-30,00%
VENZ 11 3/4 10/21/26	7,60	8,20	+7,89%	-31,71%
VENZ 9 1/4 09/15/27	7,65	8,20	+7,19%	-32,67%
VENZ 9 1/4 05/07/28	7,60	8,20	+7,89%	-32,35%
VENZ 11.95 08/05/31	7,65	8,25	+7,84%	-32,29%
VENZ 9 3/8 01/13/34	7,60	8,15	+7,24%	-31,33%
VENZ 7 03/31/38	7,60	8,00	+5,26%	-33,02%
PDVSA 8 1/2 10/27/20	11,60	11,35	-2,16%	-34,66%
PDVSA 9 11/17/21	2,85	3,10	+8,77%	-61,69%
PDVSA 12 3/4 02/17/22	2,85	3,15	+10,53%	-61,04%
PDVSA 6 05/16/24	2,85	3,20	+12,28%	-60,82%
PDVSA 6 11/15/26	2,85	3,10	+8,77%	-61,28%
PDVSA 5 3/8 04/12/27	2,80	3,05	+8,93%	-60,14%
PDVSA 9 3/4 05/17/35	2,85	3,15	+10,53%	-61,68%
PDVSA 5 1/2 04/12/37	2,95	3,10	+5,08%	-60,97%

Table N° 1: Venezuela/PDVSA bond performance, September 2020.
***Source: Bloomberg CBBT, Knossos Asset Management.* *Note: Returns were adjusted to account for the accrued interest lost, per EMTA resolutions.**

Considering that the proposal refers to bonds issued under New York law, it is worth highlighting that there is a six-year period which bondholders have to initiate actions against the Republic for principal or interest pending payment and is independent of the prescription clause cited by Rodríguez.

The prescription clause in the Venezuelan sovereign bonds states that claims in respect of principal and interest will become void unless presentation for payment is made within a period of ten years in the case of principal and three years in the case of interest from the ***Relevant Date***, to the extent permitted by applicable law. The focus need to be set in the ***Relevant Date***, that means whichever is the later of (i) the date on which any such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders. This makes it clear that we have not reached the relevant date for the sovereign bonds as no payments have been received by the Fiscal Agent.

Bonds denominated in US dollars issued by PDVSA and ELECAR expressly establish that claims against these issuers for principal or interest pending payment expire six years from the maturity date. The provisions of these bonds are also in accordance with the statutory limitation period under the laws of New York.

It is worth noting that there is consensus among bondholders about the fact that the prescription period has not been extinguished. Furthermore, Cleary Gottlieb, the legal advisor of the Venezuela Creditors Committee, has a similar opinion that was made public on February 5th, when they pointed that given the definition of *Relevant Date* and in particular because of the use of "the later of" formulation, the purpose of the prescription clause is to establish a limitations period only if the Fiscal Agent is holding funds from the issuer that it has not disbursed (which implicate the responsibility of the Fiscal Agent). The limitations period is not triggered if the issuer fails to cause interest or principal to be paid to the Fiscal Agent (i.e., a traditional payment default). Thus, the New York statutory limitations period of six years still applies.

More interestingly, on September 28th, the interim government also declared trough it official web site, sharing the same opinion as bondholder and Cleary Gottlieb explained above, and stating its willingness to negotiate extensions once the prescription period expires, something they expect to happen not before 2023.

All things considered, we assess the recent developments as positive as Venezuelan debt is back in the market's radar and the position of the Interim Government on the matter has been made clear. Bondholders may expect a forthcoming Venezuelan government not to raise this issue again, as the likelihood to retract their willingness to cooperate with bondholders on this matter seems low.

Further signs of hope come from the initial call on participation by some opposition leaders in next National Assembly elections that led to the release of a significant number of political prisoners. We view this as a signal of the continuation of negotiations which together with the news coming out of the UN and the now more unified position locally and internationally regarding the elections, implies that we are not in a stalemate and that we could have a positive breakthrough in the medium term.

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