As we share this issue of The Zenith Investor, I would like to first thank Francisco “Paco Pepe” Rodríguez Castro, President & CEO of Birling Capital for his valuable contributions to the Puerto Rico Chamber of Commerce all these years with his collaboration and leadership in various successful investor conferences. This time, we have the opportunity to collaborate in a monthly financial publication. If you want to stay on top of the latest financial trends, as well as getting solid, long-term insight that you can use in your financial and investment planning efforts, reading The Zenith Investor on a regular basis can be a big help.

I take this opportunity to also invite you to have a deep and active reflection about our role as business men and women, and encourage you to be well informed about our global competitive environment. Today, our country’s context and global competitive position demands that we reinvent ourselves, rediscover new strengths and advantages, focusing more on our human capital; along with the financial and social capital. We are planning significant events for 2020 that will provide a timely and unparalleled opportunity for deep discussion that we hope will lead to the type of entrepreneurial solutions that will rekindle our economy and lead to sustained growth.

Jose E. Ledesma-Fuentes, CFA
President and Chairman of the Board
Puerto Rico Chamber of Commerce

Business acumen ("business savvy" and "business sense" are often used as synonyms) is defined as the keenness and quickness in understanding and dealing with a "business situation" (risks and opportunities) in a manner that is likely to lead to a good outcome. Additionally, business acumen has emerged as a vehicle for improving financial performance and leadership development. Consequently, several different types of strategies have developed around improving business acumen.

Financial literacy is a comprehensive understanding of the drivers of growth, profitability, and cash flow; an organization’s financial statements; key performance measures; and the implications of decisions on value creation. It entails the ability to take the knowledge of business fundamentals and use it to think strategically and then take appropriate action.

And while financial literacy is almost never a need for senior managers and high potentials; most already possess degrees in business, including MBAs, and many have also had experience in the business sides of their professional roles, we are privileged to count with the knowledge, experience, and business acumen of our collaborator, Francisco J. Rodríguez-Castro, to help us navigate these turbulent waters.

The need for managers will always be to understand how their actions and their behavior impact their financial decision-making and how this in turn affects financial outcomes at the unit and the corporate level.

Please enjoy this issue of our Zenith Investor.

Miguel L. Vargas-Jiménez
Executive Director & CEO
As we publish The Zenith Investor for April 2020, we are facing the biggest and most destructive challenge the modern world has ever faced. The Coronavirus pandemic as of March 31, 2020, according to the World Health Organization globally, there are 818,703 Confirmed cases, with 39,784 deaths. In the U.S., there are 174,684 positive cases and 3,400 deaths, and the U.S. is now the epicenter of the pandemic. However, in Italy and Spain, the deaths have been much higher than in China. Italy is reporting 101,739 positive cases and 11,591 deaths, and Spain is reporting 94,417 positive cases with 8,269 deaths. In Puerto Rico, we have 239 positive cases and 8 deaths, and although we have had a lock-down order since March 15, 2020, the Governments of Puerto Rico COVID-19 Task Force has estimated that at the current growth rate in Puerto Rico there may be as many as 30,000 COVID-19 cases. Should this scenario prove to be accurate, Puerto Rico will have a full-blown health crisis. In the middle of this crisis as it unfolds in the U.S. As citizens, we must be concerned with President Trump’s actions, for weeks initially dismissing, and then eroding his administration's efforts to fight the coronavirus outbreak. He blatantly resisted attempts to plan for worst-case scenarios, overturning the nation's best Scientists while repeating only the warnings that he chose to hear, most of it anecdotal in nature. President Trump has only one thing in his mind, his reelection, and it is a well-known fact that since 1912 no sitting President with an economy in recession has been reelected. His only claim to fame was that the stock market was thriving, corporate earnings were up, unemployment was down, and the overall jobs market was growing. When you take those away, his chances of reelection become greatly diminished.

We have had as president from farmers to movie stars, one thing we never have in recent memory was a president who lacks compassion, without compassion in any crisis you cannot be a good leader. In the history of the U.S., its greatest presidents have been those who served during great times of crisis. Has President Trump risen to the challenge?

…Three things in life are best proven in a crisis, Compassion, Leadership, and Character.

In the end, the presidency is all about compassion, leadership, and character, qualities that are essential but invisible to our eyes.

Forecast 1: $2.2 Trillion Economic Rescue Bill will Fall Short:

The U.S. Stock market delivered the best week in 11 years, recording gains in more than four weeks. All indices remain down for the year and far from their February 2020 market highs by 20% or more. One of the more positive surprises of this period has been The Federal Reserve Bank, which has acted with speed and focus. The FED has used all the tools in its arsenal to allow markets to remain open, including asset purchases, commercial paper, and several strategies designed to maintain the liquidity and the flow of credit to businesses, corporations, and consumers. Also, both Houses and the President

signed into law on Friday, March 27, The CARES Act (HB 748), which provides emergency assistance and healthcare response for individuals, families, and businesses affected by the COVID-19 pandemic. The CARES Act provides a $2.2 trillion economic rescue package to offset the fallout from the coronavirus outbreak; below; we discuss some of the highlights.

The U.S. Gross Domestic Product reported on March 26, 2020, at $21.73 trillion, so $2.2 is just 10% of the overall economy. To survive this crisis, we need a much larger Stimulus package, So as they say! We are going to need a bigger boat!

Highlights of the $2.2 Trillion CARES ACT:

- Small Business Interruption Loans- companies with fewer than 500 employees are eligible for a loan made under Section 7(a) of the Small Business Act (the “7A Loan”) for up to $10 million.

- Relaxed Eligibility Requirements for 7A Loans- For eligibility purposes, the business will only be required to have been operational on February 15, 2020, substantially impacted by COVID-19 and continued paying salaries and payroll taxes to its employees.
SBA 7A Loan Forgiveness - Borrowers will also be able to achieve loan forgiveness for the value of the cost of payroll, mortgage, rent, and expenses related to debt obligations for the eight weeks after the loan origination date. The loan forgiveness amount will be allowed to be excluded from the borrower's gross income for income tax purposes.

Individuals and Families -Granting of direct payment of up to $1,200 ($2,400 married filing jointly) to eligible individuals. The amount to be increased by $500 for every child.

Employee Retention Credit - Provides a credit against the employer's share of 6.2% social security payroll taxes of any business that is forced to suspend or close its operations due to the COVID-19 emergency, but that continues to pay its employees during the shutdown.

If you work in a 1-person business, or are an independent contractor, or work for hire, or self-employed, you qualify for a Payroll Protection Loan along with any company with less than 500 employees. The Small Business Administration has pledged to be ready to accept applications by Wednesday, April 1, and disburse the loans, once approved within 48 hours.

Division A of CARES Act details the Small Business Interruption Loans available. The following are the key elements:

Who Qualifies - Organizations which employ not more than 500 employees are eligible to receive a loan under section 7(a) of the Small Business Act. The organization was in operation on March 1, 2020, and had employees for whom the organization paid salaries and payroll taxes.

Maximum Loan Amount – The maximum loan amount shall be the lesser of:
- The product obtained by multiplying –Average monthly payments for payroll, mortgage payments, rent payments, and payments on any other debt obligations incurred during the first year before the date on which the loan is made by 4; or $10,000,000
- Allowable Uses – A recipient of a loan under Section 7(a) may use the proceeds of the loan for:
  - Payroll support – including paid sick, medical, or family leave, costs related to group health care benefits during the periods of leave;
  - Employees’ salaries;
  - Mortgage payments;
  - Rent;
  - Utilities; and
  - Any other debt or obligations that were incurred before the covered period.

Loan Forgiveness – An eligible organization shall be eligible for forgiveness of indebtedness on a covered 7(a) loan in an amount equal to the cost of maintaining payroll continuity during the covered period. The covered period means the period from March 1, 2020, and June 30, 2020.

The amount of loan forgiveness shall not exceed the sum of –
- Total payroll costs incurred by the organization during the covered period; and
- The amount of payments made during the covered period on debt obligations that were incurred before the covered period.

Reduction based on reduction in the number of employees – the amount of loan forgiveness shall be reduced by the percentage equal to the difference obtained by subtracting:
- The quotient obtained by dividing: The average number of full-time equivalent employees per month employed by the organization during the covered period; by
- The average number of full-time equivalent employees per month used by the organization during the period beginning on March 1, 2019, and ending on June 30, 2019.

The amount of loan forgiveness shall also be reduced by the amount of any reduction above 25 percent of compensation in the most recent full quarter in which the employee was paid in compensation during the covered period. An organization seeking loan forgiveness shall submit to the lender that originated the covered loan 7(a) loan an application, which shall include documentation verifying the number of full-time equivalent employees on payroll and pay rates for the periods described above, including:
- Payroll tax filings reported to the I.R.S., State income, payroll, and unemployment insurance filings;
- Financial statements verifying payment on debt obligations incurred before the covered period; and
- Any other documentation deemed necessary by Small Business Administration.

An organization receiving loan forgiveness shall make a good faith certification that the uncertainty of current economic conditions justifies the loan request to support the ongoing operations.
of the borrower and acknowledges that the funds will be used to retain workers and maintain payroll. Canceled indebtedness shall be excluded from gross income for purposes.

- **Loan Term** – for any amounts not forgiven, the maximum term is 10 years.
- **Interest rate and fees** – the maximum interest rate is 4%, zero loan fee, and zero prepayment fee. SBA will establish application fee caps for lenders that charge.
- **Deferment** – Principal and interest will be deferred, for a total of 6 months up to a year after the disbursement of the loan.

For more information regarding the CARES Act HB 748, please feel free to contact Birling Capital or the following team members as we are currently working remotely. Francisco Rodriguez-Castro, frc@birlingcapital.com

CPA Cesar Hernandez-Monagas, chernandez@birlingcapital.com

**Forecast 2: Puerto Rico’s 2020**

**From Bad to Grim:**

At Birling Capital we had forecasted for the Puerto Rico Economy growth of Gross National Product of 1.9%, which after carefully considering the lock-down order and its extended version, we predict that the economy will fall in negative territory for the rest of 2020 and will end between -0.8 to -1.2%.

To support our analysis, we reviewed a study by Estudios Tecnico, Inc. (ETI) that provides estimates of the economic impact of the COVID-19 effects on the Puerto Rico Economy before implementing the extended lock-down order.

**Forecast 3: The Federal Reserve Takes Decisive Action:**

In our view, the Federal Reserve System has worked much faster than the global financial crisis to support the flow of credit to consumers and businesses and the broader U.S. economy during this time of crisis. As they implement monetary policy as directed by the Federal Open Market Committee (FOMC), administering several Federal Reserve facilities that provide liquidity to a range of markets, developing critical research and analysis, and supporting the nation.

The FED took steps to deal with the recent illiquidity in parts of the credit markets, including:

- Injected $700 billion in liquidity to free up markets.
- Expanding bond purchases, including municipal bond markets.
- Lowered the discount window rate for banks.
- Implemented commercial paper purchases to allow companies to borrow.
- The FED worked with other central banks to increase swap lines and prevent a shortage of U.S. dollars.
- Backstopping money market funds that were under pressure as investors sold off assets.
- Implemented the Primary Dealer Credit Facility (PDCF) - this supports the credit needs of U.S. consumers and businesses and facilitate the availability of credit.

- Implemented Secondary Market Corporate Credit Facility to purchase corporate bonds issued by investment-grade U.S. companies and U.S.-listed exchange-traded funds in the secondary market.

FED Chairman Jerome Powel has stated that the FED will use all its emergency powers, and it's limitless as to the actions it can take to support the U.S. economy. The business community much welcomes this statement.
Forecast 4: Coronavirus puts the world economy at risk:

The World's economic growth was weak and was stabilizing until the coronavirus COVID-19 impacted the world. As lock-down orders, as well as restrictions on the movement of people, goods and services, and containment measures such as factory closures, have cut manufacturing and domestic demand sharply in China. The impact on the rest of the world through business travel and tourism, supply chains, and negative sentiment continues to grow.

- A severe, short-lived downturn in China, where GDP growth falls below 5% in 2020 but recovering to 6.4% in 2021.
- In Japan, Korea, Australia, growth also hit hard then gradual recovery.
- Impact less severe in other economies but still hit by a drop in confidence and supply chain disruption.
- Global growth could drop to 1.5 percent in 2020, half the rate projected before the virus outbreak.
- Recovery much more gradual through 2021.

The world's economy, previously weakened by the U.S.-China Trade War and other political tensions, and now Coronavirus has struck a severe blow to an economic environment that had already been impacted. All kids of firms from sectors such as tourism, retail, electronics, and automobiles are already reporting supply disruptions, and some have been forced to close temporarily. The world's economy is now too fragile, not fragile like a flower, fragile like a bomb for any nation to gamble on an automatic economic recovery. Dramatic measures will be needed to provide a soft landing for the economies.

Theme 1: Bill Gates, Co-Founder of Microsoft, Predicted a Pandemic in 2015.

Not many people would have ever thought that a biological pandemic would push the world's market and economies into a virtual collapse. Usually, the causes of market turmoil are financial and economic, However in 2015, during a TED Talk, Bill Gates, Co-Founder of Microsoft, stated that the next risk of a global catastrophe that would kill millions of people was going to be an infectious disease. He noted that the world had spent trillions of dollars over time to prepare for war and most countries to develop an arsenal of nuclear weapons. However, further stated that there is no preparation to deal with any epidemic. He even made a model of disease like the 1918 Spanish flu that would allow you to feel well enough while contaminated so that you can get on a plane, train, car, or events, In that model, it killed 33,365,533 people in 263 days. As he wrapped up his TED Talk, he said that the cost of such a pandemic would be $3 trillion worldwide, and the world is not prepared to face such an epidemic, and he was right. However, the world's impact has been more severe than he imagined. In recent interviews, Bill Gates has pointed out that the U.S. acted too slowly as the emerging COVID-19 pandemic was unfolding and missed its chance to avoid mandatory shutdowns sure to damage its economy. We quote a recent statement from Bill Gates that says it is all, “Everybody should have taken notice back in January,” the Microsoft co-founder told TED founder Chris Anderson during a TED Connects event streamed online. “There’s the period between where we realized it was transmitting and now, where we should’ve done more.”
Theme 2: Month in Markets, U.S. Stocks Finished the month down north of 20%, the worst month since 2008: The month of March 2020, has been marred by the coronavirus pandemic as investors turned greed into fear. You see markets oscillate between greed and fear because investors and people oscillate between greed and anxiety; it is human nature. When we feel good about our prospects, and the fundamental of the markets are good, most investors get greedy and focused on making money. Their greed and hubris cause markets to rise, and most asset classes to increase in value. However, as soon as uncertainty or negativity dominates the markets, fear takes over and begin buying less and start thinking about preserving their money. The best advice we can provide investors, to resist external influences, to remain emotionally balanced, act rationally, and weighs on both negative and positive events.

The Dow Jones Industrial Average closed March at 21,917.16 for a loss of 3,492.20 points, or -13.74% percent return and YTD return of -23.20%. The S&P 500 closed March at 2,584.59 for a loss of 369.63, a return of -12.51%, and a YTD return of -20.00%. Nasdaq closed March at 7,700.10 for a loss of 867.27 points and a -10.12% return and a YTD return -14.16%. The Birling Capital Puerto Rico Stock Index closed March at 1,245.52 for a loss of 369.59, and a return of -22.88%. Meanwhile, the U.S. Treasury’s 10-year note lost, closing at 0.70%, or a decrease of -38.05%. The U.S. Treasury's 2-year note fell to close at 0.29%, a return of minus -66.28 percent.

Dealing with the uncertainty coronavirus brought to the world plays a critical part in the market downturns. Make no mistake; the global economy will take an insurmountable hit in terms of GDP decrease and total employment, with a cost that could surpass $6 trillion. With a large part of the economy closing all companies other than Hospitals, Pharmacies, Supermarkets, and Restaurants, the impact on small and medium-sized entrepreneurs, will be severe. For that very same reason, The U.S. government, and Puerto Rico, announced measures that support the economy and thousands of businesses that are obligated to close to prevent the spread of the coronavirus. In the Eurozone and the U.S., stimulus packages approved that surpass at least in the U.S $2.2 trillion. As we see the investor temperament in action, we note that investors, in general, are between optimism and pessimism, and they are all gathered in the corner of greed and fear.
**Theme 3: Coronavirus and The Day the Bull Market Died**

Have you ever wondered what the meaning of a bull and bear market is? The symbols of the bull and bear are in the way each approaches its prey; the bull moves forward, thrusting their horns in the air; however, the bear strikes with its paws in a downward move. These actions have become metaphors for the movement of our market. If the trend is up, it's a bull market. If the pattern is down, it's a bear market.

The official end of the longest bull market in history occurred this past Wednesday, March 12, 2020, when all of the indexes closed with losses of more than 20%, thus entering the new era of the bear market. The bull market had reached its highest point on February 19, 2020; we compare both dates.

The graph below highlights the decrease in the Dow Jones, S&P 500, Nasdaq, and Birling PR Stock Index.

**Theme 4: Not event Ay Bendito! Can Help Us!**

Puerto Rico is having probably the worst run in its history, and I hope its to make us stronger, to allow us to learn how to better deal with our finances, how to elect our leaders, how to save for a rainy day, how to be better citizens. Not even the most creative of writers could have come up with a book with all the situations that Puerto Rico has been facing since 2015.

Since 2015 we are facing Puerto Rico’s Bankruptcy and thus ended Puerto Rico’s 60 years standing as an issuer of debt. In 2017, we faced Hurricane Maria, where we lost 15,000 business, 2,975 fellow Puerto Ricans lost their lives. For good measure, during 2019, we suffered what is referred to as “The Summer of Ricky,” where Governor Ricardo Rossello was forced to resign because of the telegram chat scandal. Additionally, in early 2020, several earthquakes that have not stopped have rocked Puerto Rico, causing severe damage as a final blow not just to Puerto Rico, but to the whole world is facing the coronavirus pandemic. The impact the coronavirus pandemic will have depends on how long it lasts. While potentially causing significant harm to most businesses, forcing bankruptcies, job losses, and will change the very fabric of at least two generations, our usually powerful and effective Ay Bendito! It would be a tool in our arsenal, not this time, as Ay Bendito! It is not translatable.

As we have often mentioned, every Puerto Rican does their best under the worst circumstances.
The current coronavirus pandemic has a lot of adverse effects not only in our day to day but in the world. People will get sick and die; the health system will have an overload. Also, schools and universities will close, companies will close and go bankrupt, employees will lose their jobs, and countries will spend billions of dollars on medical equipment and economic aid to companies.

But as the title of the work of Juan Ruiz de Alarcón y Mendoza says, “No hay mal que por bien no venga” or as our beloved Raul Julia would have translated it as “There Is No Bad that for good does not come.” The positive side that I want to emphasize is not necessarily economic, but opportunities to develop as human beings. The followings are some opportunities we can explore:

1. **Reflection:**

   By not being able to do our daily routines, we now have the opportunity to reflect on the things we do. We have to ask ourselves - what we do, the way we do things, and more importantly, Why? We do what we do. Now that many of us are working from home, we must ask if it is necessary to go to the office every day. In the same way, we must reflect on your other routines and make changes. Changes in our daily routine during the stay-at-home period but above all changes that we would like to implement after the crisis gone.

2. **Innovation:**

   Many companies sin from slow, bureaucratic processes that complicate the companies' daily processes. Now, we need to take action quickly, and to make such quick decisions, we are bypassing many of the methods previously used. Decisions are continually being made without formal authorization. Using work from home as an example again, employees are working from home with little or no supervision. The virus is creating a stimulus for companies to think out of the box and reinvent themselves. Do we need all this processed and procedures? How can we apply the lessons learned during the crisis to solidify our corporate structure?

3. **Meeting management:**

   Studies reveal that, on average, we spend about 20 hours a week in meetings, of which 40% of them are considered a waste of time. With the implementation of social distancing and lockdowns in many places, many of the scheduled meetings were canceled. The meetings that did take place were virtual and shorter. For years the technological advances to hold these virtual meetings have existed, and now forcefully, we have to use them. It is now up to executives to determine what practices will be implemented to make meetings more efficient once we emerge from the crisis.

4. **Calendar cleanup:**

   About two weeks ago, when we received an invitation to an event, the first thing that went through our minds was, Will I have time for that? Typically, our calendar is filled with social meetings or entertainment such as cinema, concerts, restaurants, and bars. Now all of a sudden, all these activities are canceled or even prohibited. And magically, our calendar has been cleaned, and our life goes on. So we must learn from time to time to clear our calendars, not only to spend more time with family and friends, and to do the things we have never have the time to do but also to take a break and enjoy our free time doing nothing.

5. **Communication:**

   Technology keeps us in touch with many people all the time, but are we effectively communicating? The answer is no. These moments where we have more free time, we must use it to communicate more effectively with our family and friends. By not being able to leave our homes to meet people, we are forced to make that call that we no longer secure and dedicate exclusive time to a person. Being in our homes, we feel alone and therefore move to communicate more. We are all in the same situation, and that one-on-one communication helps us make time pass faster, and we feel more fulfilled.
Globally, these days we are contributing to improving the environment. Thousands of factories are closed or operating at a lower capacity, vehicle and air traffic are at their lowest level in a long time. Big cities, such as Las Vegas, New York, and Madrid, which are known for the number of tourists on their streets, are now deserted. Although this dramatically affects the world economy, it has a positive effect on our environment. From this, we must learn how to modify traffic flow, manufacturing, and any other activity that negatively affects the environment.

Finally, during this period, we realize that regardless of how much we organize or plan our things, at the end of the day, we are not in control. This is the time to understand that there are too many variables around us for which we have no control.

There were only some examples of opportunities we’ve been able to observe over the last two weeks of lockdown. I am sure that if we keep a positive mind for the rest of the crisis, we will encounter other activities or areas where we can modify our behavior to have a better future.

The Final Word: Perseverance and Optimism Drive Puerto Rico.

This usually jovial, positive attitude of the citizens of Puerto Rico, is being tested to its limits with the imposition of the lock-down will be tested beyond anyone could imagine. Our usual enthused optimism towards the future is on hold while the coronavirus pandemic ravages the island and the world. No one could have considered possible the situation we are facing, a virus with no medical cure, with no medications that prevented or solved it and, while asymptomatic for some, very deadly to others, especially those over 60 years old. Most people are quite scared or the consequences, both short and long term. Meanwhile, the usual jovial spirit is intact in every Puerto Rican as we have seen all kinds of jokes, Facebook lives postings, and all ideas on how to pass the time while in lockdown. Our culture is further evidence of how Puerto Ricans can persevere under any circumstances and shows a positive face toward the future. This is one of the main reasons why I love our culture, stamina, environment, attitude, and positive outlook of the people. Being Puerto Rican means you are courageous, means that you always look to the positive side of things, and you expect that the Sun will shine bright in the new day ahead. These are the reasons why Perseverance and Optimism Drive Puerto Rico.

We hope that you have enjoyed this issue of The Zenith Investor ©, and we very much welcome your comments, thoughts, and ideas; you may reach us at frc@birlingcapital.com or 787-247-2500.

Francisco Rodríguez-Castro
President & CEO

About Birling Capital
Birling Capital is a corporate advisory & consulting firm that offers broad corporate finance & advisory services to institutional, government, corporate, middle-market companies, family corporations, and their owners in identifying and resolving organizational finance-related issues. We use a holistic approach to both assets and liabilities sides with integrated business, personal, family needs, and objectives. Over the past two decades, our firm’s principals have advised on more than hundreds of transactions in the corporate, healthcare, retail, education, insurance, banking, and government markets.

You have particular problems… We provide long term solutions. Doing the right thing at the right time.