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MARKETS | CREDIT MARKETS

Hedge Fund to Seek \$1.3 Billion From Peru in Land-Bonds Dispute

Gramercy Funds plans to start international arbitration process against South American country

By **RYAN DUBE**

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LIMA, Peru—A Connecticut hedge fund told Peru that it plans to start international arbitration against the South American country over demands that it pay debt issued from a decades-old dispute over land bonds.

Gramercy Funds Management LLC, which owns about 10,000 individual land bonds, said in a 15-page notice of intent that it would seek over \$1.3 billion from Peru for failing to pay the debt. The arbitration procedures fall under Peru's free-trade agreement with the U.S., which came into force in 2009.

Gramercy, which has \$6 billion under management, said it has attempted for years to reach a deal with Peru, but claimed officials have ignored its requests despite court rulings to pay up. Gramercy began buying the land bonds in 2006.

“Gramercy is confident in the merit of its claims and looks forward to vindicating them in a neutral international arbitration forum,” Gramercy's lawyer, Mark Friedman, said in a statement on Tuesday.

Peru's Finance Ministry confirmed it received the notice from Gramercy and said it will “defend itself energetically with respect to any eventual international claim.”

“Peru has demonstrated over several decades that it is a stable and responsible country in the management of its sovereign debt, as reflected in the investment grade rating of the country by the principal credit rating agencies,” the ministry added.

The dispute stems from the expropriation of millions of acres of agricultural land during the 1960s and 1970s by Peru's leftist military dictator, Juan Velasco. The military government compensated land owners by issuing bonds.

However, Peru stopped making payments on the bonds following the country's near-economic collapse in the late 1980s that led the government to change its currency as a result of hyperinflation.

While bondholders say Peru owes about \$5 billion, the government has calculated the debt to be far lower by using a different methodology. Gramercy says it would receive only \$1.9 million in compensation under the government's calculations.

"Peru's machinations to avoid paying its land bond debt flout fairness, due process and the rule of law," Gramercy said in the notice for arbitration.

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