April 4, 2017

CAPITAL MARKET UPDATE

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HJ SIMS FINANCED RIGHT®

Member FINRA/SIPC

Senior Living New Issue Rates as of 4/4/17

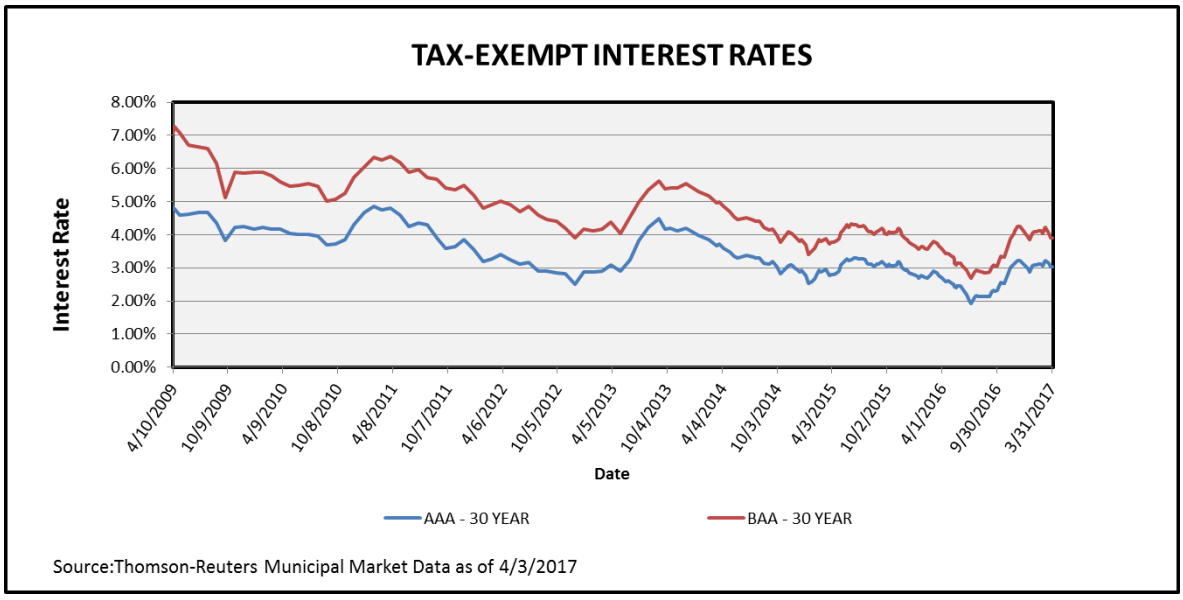
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.750%	2.250%	2.650%	2.90%	3.00-3.55%	4.00-4.50%
10 yr.	NA	2.590%	3.250%	3.450%	3.75%	4.00-4.35%	4.75-5.25%
20 yr.	NA	3.410%	4.100%	4.300%	4.75%	4.75-5.20%	5.50-6.00%
30 yr.	3.570%	3.660%	4.200%	4.400%	4.90%	5.00-5.45%	6.00-6.75%

Senior Living new issue rates for borrowers in specialty states are 20-30 basis points lower in yield.

SIFMA Index	LIBOR
0.91%	0.98%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
4.03%	2.3650%	3.0040%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	1.00%	1.32%	1.52%	1.68%	1.84%
Weekly LIBOR Swap Rates	1.38%	1.77%	2.00%	2.16%	2.33%



Market Commentary

The number of public companies has shrunk by one-third in the last 20 years, falling from 9,113 in 1997 to 5,734 according to the Center for Research in Security Prices at the University of Chicago. Average valuations have snowballed, but the count of U.S. listed public companies stands about where it did in 1982 when the real GDP was $6.5 trillion versus the $16.8 trillion of today. Mergers and acquisitions as well as a dramatic increase in private fundraising and outsourcing are among the most significant reasons for the drop. Not much else, however, is getting smaller these days. The New York Stock Exchange reported that margin debt rose to $528.2 billion in February, surpassing the all-time record set in January. The Center for Immigration Studies notes that 23 percent of public school students now live in a household with at least one immigrant parent, up from 7 percent in 1980. Federal spending now accounts for nearly one-fifth of all state economic activity. Moody's estimated that unfunded liabilities for U.S. state public pensions could hit $1.75 trillion in FY17. And the Congressional Budget Office warns us that the national debt is on track to nearly double over the next three decades, due to reach 150% of GDP in 2047.

The municipal market has many more listings than the stock market, boasting some 65,000 issuers with more than 1.5 million individual CUSIPs (security identifiers) outstanding. In March, top-rated munis ended mostly flat, as did Treasuries. The high yield muni sector, however, posted a return of negative 0.31% as price declines in Puerto Rico credits followed the official release of a 10-year Fiscal Plan showing that cash flow would only support about 24% of debt service on most outstanding debt. $1.3 billion of new money was added to municipal bond funds, including $521 million to high yield funds, but the month ended with muni volume coming in at under $29.8 billion, off 30% from last year. First quarter volume fell by 12% to $87.8 billion as refundings plummeted by more than $10 billion from the 2016 level. The Federal Open Market Committee hiked rates by a quarter point each in December and March, as expected, but a rising rate environment rendered some refundings inefficient. More than a few borrowers also became skittish with political concerns, choosing to delay their deals until they grew more comfortable with the lay of the land in Washington.

HJ Sims brought a $98.4 million financing for Brethren Village in Manheim Township, Pennsylvania last week. The BB+ rated issue of the Lancaster County Hospital Authority had a final maturity in 2041, where we priced term bonds with a coupon of 5.00% to yield 4.80%. Prince George's County Maryland was in the market with a $63.9 million non-rated transaction for Collington Episcopal Life Care Community in Mitchellville and sold 30-year term bonds at 5.25% to yield 4.91%. The California Public Finance Authority issued $53.2 million of Ba2 rated university housing revenue bonds for Claremont Colleges that featured 2047 term bonds priced at 5.00% to yield 4.58%. The Industrial Development Authority of Rolla, Missouri came to market with a $20.6 million non-rated deal for the Westside Marketplace Redevelopment with tax increment and special district revenue bonds due in 2044 priced at 5.375% to yield 5.446%. The City of Kokomo, Indiana issued $15.7 million of non-rated multifamily housing bonds for Silver Birch of Kokomo and sold 20-year term bonds priced at par to yield 5.875%. And the Utah State Charter School Finance Authority issued $8.6 million of non-rated revenue bonds for Voyage Academy structured with 30-year term bonds yielding 5.60%.

Fed officials have recently started to lay the groundwork for a more aggressive pace of rate hikes, but the markets have only priced in two more this year. The FOMC next meets on May 2. Among recent news affecting the markets, New Jersey got socked with a ratings downgrade to A3. Existing home sales rose to a 10-year high, consumer confidence reached a 16 year-peak and optimism among manufacturers surveyed was the best in 20 years. Toshiba's nuclear development subsidiary, Westinghouse Electric, filed for bankruptcy. New York started its new fiscal year on April 1 without a budget; Illinois has been at a stalemate for 22 months. The Chair of the Senate Banking Committee announced his plan for a bipartisan overhaul of financial regulations by early 2018.

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Market Commentary

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Momentum in Washington seemed to stall with the failure of the first health care reform bill, but the markets like to hear that talks are continuing. Not much more clarity on tax reform is likely this month; however, the Administration just announced plans to roll out its infrastructure program in late May. The Congress is scheduled to be in session for only 12 days this month, and priority attention will be devoted to keeping the government funded, as the FY17 spending resolution expires on April 28. This week, as we welcome the return of baseball, Daniel Tarullo officially hangs up his spikes after eight long years on the Federal Reserve Board. The $8 billion municipal lineup includes the $181.2 million non-rated Public Finance Authority bond issue for Mary's Woods at Marylhurst in Lake Oswego, Oregon, and a $52.5 million New Hope Cultural Education Facilities Finance Corporation senior living project for Stoney Brook projects in central Texas. At this writing, the 30-day visible supply of municipal bond is $11 billion. The 10-year AAA municipal benchmark yield is 2.23%, and the 30-year is at 3.03%. The 10- and 30-year Treasury yields are at 2.34% and 2.98%, and the 10-year Treasury volatility index is below average for the year at 5.07.

Sims Successfully Leads $29 Million Debt Modification to Lower Debt Service, Fix Interest Rates and Extend Maturity

LAUREL LAKE

Partnered Right	• Laurel Lake is a not-for-profit life plan community providing housing, health care and other supportive services to seniors in Northeast Ohio • Multi-Series 2013 Bank Debt Outstanding • Taxable and Tax Exempt Bank Debt with Citizens Bank
Structured Right	• Sought to reduce overall debt service • Wanted to extend the bank commitment on the taxable debt and fix a larger portion of the outstanding debt
Executed Right	• Two-part interest rate swap • Executed swap and forward starting swap at the same time to lock-in interest rates • 10 year bank commitment extension (2026)
Financed Right®	• Lowered the total cost of capital significantly • Fixed the majority of the taxable debt through a swap • Maintained existing covenants achieved the desired capital structure

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Sims Successfully Leads $29 Million

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Partnered Right

Laurel Lake is a not-for-profit life plan community providing housing, health care and other supportive services to seniors in Northeast Ohio. It is located on a 150-acre site in Hudson, approximately 16 miles north of Akron and 29 miles southeast of Cleveland.

Laurel Lake was incorporated in 1985, opened in 1989, and in 1993 affiliated with Humility of Mary Health Care Corporation ("HMHCC"), a regional not-for-profit health services provider. Shortly thereafter, HMCCC assumed full sponsorship. In 1997, HMHCC joined Catholic Health Partners ("CHP"), and Laurel Lake became part of CHP. In 2013, CHP divested its senior living/long-term care facilities which included Laurel Lake. This involved a competitive bidding process, and Laurel Lake was the successful bidder to acquire the community with senior bank debt (taxable and tax-exempt) and subordinate tax-exempt bond debt (together, the "2013 Bank and Bond Financing").

In mid-2016, with interest rates near multi-decade lows and Laurel Lake's continued successful operation as an independent entity, HJ Sims identified the opportunity for Laurel Lake to explore a refinancing (or modification) of all or a portion of Laurel Lake's outstanding 2013 Bank and Bond Financing. With the prospect of a significant reduction in interest rates and the opportunity for extension of the existing bank credit commitment, Laurel Lake engaged HJ Sims to explore the specifics of this multi-faceted debt modification opportunity, to structure and to implement the financing.

Structured Right

Given the positive existing relationship between Laurel Lake and its lender, Citizens Bank ("Citizens"), HJ Sims and Laurel Lake approached Citizens to discuss its willingness to refinance or modify all or a portion of the outstanding debt. Citizens expressed strong interest, given the additional financial benefits that the debt refinancing would provide in reducing interest rates and extending the bank credit commitment to further stabilize Laurel Lake's capital structure. HJ Sims worked constructively with Citizens in the review and negotiation of a financing term sheet focusing particularly on pricing along with maintenance of the existing covenant package.

There were multiple issues to be assessed and successfully addressed in the financing preparation process, including: 1) the most efficient means to implement the transaction; and 2) optimum structuring of the transaction including a) matching the duration of the remaining loan commitment and b) achieving Laurel Lake's desired interest rate mix, focused primarily on fixed rate financing, involving potential conversion of what had been variable rate debt to a fixed rate and most cost effectively achieving this objective by entering into a new variable-to-fixed interest rate swap.

Executed Right

Acting as Structuring Agent, HJ Sims assessed the various plans and worked effectively with Laurel Lake Management, Citizens Bank and legal counsel to successfully complete the financing on a timely basis.

HJ Sims and Laurel Lake started by analyzing the economics of refinancing or modifying all or a portion of Laurel Lake's 2013 Bank and Bond Financing, consisting of five separate series (three tax exempt and two taxable). After a variety of refinancing combinations were analyzed and vetted by legal counsel, Laurel Lake decided that the modification of the two series of taxable debt, approximating $32 million, was the most economic financing option, retaining the three series of tax-exempt debt in place. This was determined to be the most efficient means of achieving Laurel Lake's transaction goals, in particular, reducing the all-in interest rate on the two taxable series, fixing the interest rate on a larger portion of the taxable debt and extending the credit commitment as long as possible (10 years through 2026). This also enabled savings in financing costs, particularly legal fees that would have increased if the tax-exempt debt was included in the refinancing/modification, along with shortening the time required to complete the financing.

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Sims Successfully Leads $29 Million

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Laurel Lake sought the use of fixed (vs. variable) interest rates on the majority of financing, given the historically low level of interest rates and an aversion to any significant increase in variable rates. Accordingly, a key component of financing structuring and implementation involved an assessment of interest rate risk management and hedging strategies. This was focused on the most cost effective approach to hedging of interest rates. Laurel Lake ultimately opted to enter into new swaps for the modification of the 2013 Taxable Series Bank Financing, leaving only $1,500,000 outstanding in a variable rate interest mode. Given the interest rate mix on the outstanding Series 2013 Bank and Bond Financing and a desire to fix interest rates simultaneously, Sims recommended a current starting swap for a portion of the debt and a forward starting swap for the balance of debt.

Financed Right®

With HJ Sims' leadership, the debt modification was fully documented, and all financing committed by February, 2017.

Laurel Lake realized a significant reduction in interest rates and debt service, which enhanced operating profitability and cash flow. The taxable bank financing was extended for 10 additional years (and matching the term of the credit commitment with the term of its interest rate swaps). Finally, a larger portion of the outstanding debt was converted to fixed rate.

Jim Bodine and Mack Welch represented HJ Sims on this transaction. Jim Bodine continued his working relationship with Laurel Lake, having served as lead investment banker on Laurel Lake's successful membership substitution bid and recapitalization financing in 2013.

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