CAPITAL MARKET UPDATE

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Senior Living New Issue Rates as of 5/30/17

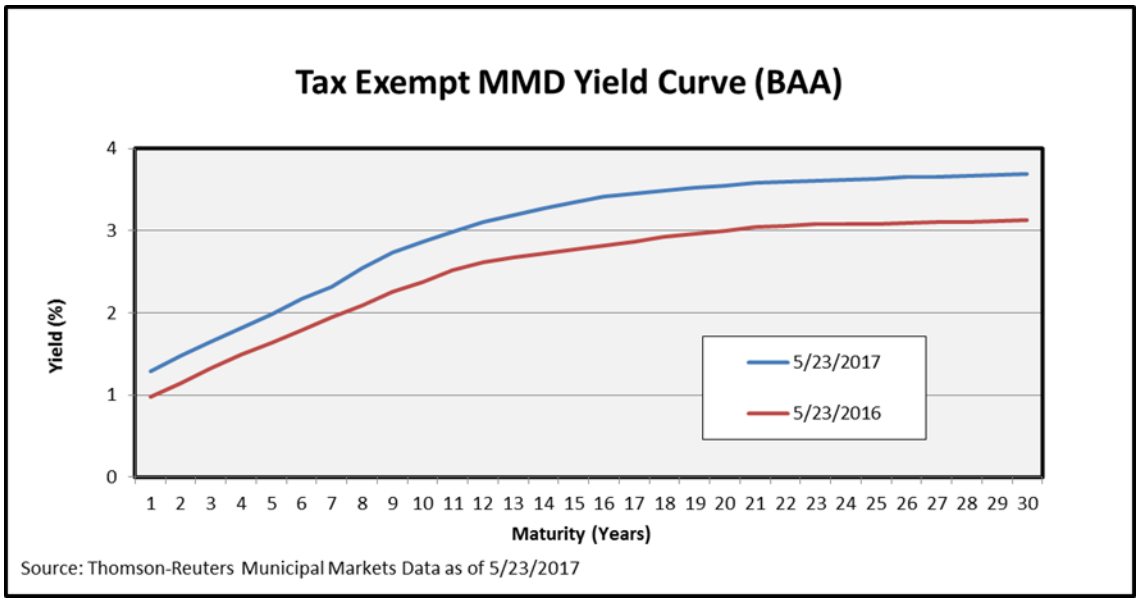
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.320%	2.100%	2.300%	2.70%	2.95-3.50%	4.00-4.50%
10 yr.	NA	2.350%	2.950%	3.200%	3.55%	3.90-4.25%	4.50-5.00%
20 yr.	NA	3.150%	3.800%	4.000%	4.60%	4.65-5.10%	5.375-5.875%
30 yr.	3.460%	3.400%	3.950%	4.100%	4.70%	4.90-5.35%	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
0.78%	1.03%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.87%	2.2210%	2.8810%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.99%	1.26%	1.45%	1.59%	1.75%
Weekly LIBOR Swap Rates	1.37%	1.67%	1.87%	2.02%	2.19%



Market Commentary

The run-up to Memorial Day was a busy time for many -- the president on his first overseas trip, families of graduating seniors, travelers kicking off the summer holiday season, volunteers placing American flags on the graves of fallen veterans. The strategy of "Sell in May and Go Away" became popular again to many in the stock market who yanked $9.9 billion from U.S. and global equity funds as Amazon approached the $1,000 per share mark and the S&P 500 Index and Nasdaq composite closed at all-time highs. The municipal bond market enjoyed its own virtual picnic, continuing a two-week rally with $7.17 billion of supply and $395 million of net fund inflows. Demand continues to outpace supply, and the imbalance for the June to August period is estimated at $50 billion, the largest such mismatch ever, as approximately $140 billion of bonds are maturing, called, or pay coupons, producing cash for reinvestment. Borrowers continue to take advantage of these conditions.

Last week in the high yield market, the City of Baltimore brought two new issues: $268.7 million of BBB-minus rated convention center hotel refunding bonds that included a 2046 maturity priced with a coupon of 5.00% to yield 3.78%, and a $47.6 million non-rated special obligation refunding for East Baltimore Research Park that had 2038 term bonds priced at 5.00% to yield 4.58%. The Tarrant County Cultural Education Facilities Finance Corporation issued $232.3 million of non-rated revenue bonds for the Buckner at Ventana retirement community with 2052 term bonds priced at 6.75% to yield 6.77%. The California Pollution Control Financing Authority brought a $228.1 million non-rated solid waste disposal issue, featuring 2039 term bonds subject to the alternative minimum tax, priced at 8.00% to yield 8.05%. The Health and Educational Facilities Board of Franklin, Tennessee issued $113.6 million of revenue bonds for the Provision Cares Proton Therapy Center in Nashville; non-rated 30-year term bonds priced at par to yield 7.50%. The New Hope Cultural Education Facilities Finance Corporation was in the market with a $39.2 million BB rated financing for Jubilee Academic Center in San Antonio, Texas that included a 2047 maturity priced at 5.125% to yield 5.15%. And the Industrial Development Authority of La Paz County, Arizona sold $37 million of non-rated 7.00% lease revenue bonds due in 10 years for Magnolia School of Excellence Charter School in Shreveport, Louisiana.

Just about every market sector has priced in the coming rate hike and now expects the gradual downsizing of the Federal Reserve's balance sheet to begin later this year. Bloomberg's World Interest Rate Probability measure (WIRP) places the odds of a June 14 increase at 86% and the CME Group (Chicago Mercantile Exchange) at 84%. It is not widely discussed, but Washington rues the prospect of any increases in rates as interest on the national debt now constitutes the third largest slice of the federal budget pie, after social programs and defense spending, totaling $34.4 billion in April and $432.6 billion in Fiscal Year 2016. The larger the slice, the less funding is available for discretionary programs, and the less likely the prospects for tax cuts or infrastructure work. Investors have been overlooking the rising cost of interest payments on the debt, as well as the size of the debt itself and many other pricey IOU's such as unfunded pensions and other post-employment benefits, and remain hopeful for reforms, stimulus and growth. Meanwhile, in the nation's capital, the August Congressional recess rapidly approaches, and the To-Do list has expanded to include work on the FY18 budget, the debt limit, taxes health care and confirmations as well as investigations.

Last week, the Treasury Secretary testified before the Senate Finance Committee that the Administration strongly supports the preservation of the tax-exemption for municipal bonds, the Commerce Department revised first quarter GDP growth to 1.2% from 0.7%, and two Senators introduced an infrastructure bill allocating new Move America Bonds to states and expanding tax credits for qualified projects. This week starts out slowly as traders return from the long holiday weekend and await a series of economic releases including home prices, consumer confidence, the ISM index for manufacturing and nonfarm payrolls. We will see only $4.8 billion of new municipal supply, including a $41.6 million non-rated Butler County Port Authority financing for Storypoint in Fairfield, Ohio. At this writing, the 10-year Treasury yield is 2.22%, down from 2.28% at the start of the month, and the 30-year yield has also dropped 6 basis points to 2.89%. Municipals have recorded an even stronger performance in May. The 10-year AAA general obligation bond yields 1.95%, down 19 basis points, and the 30-year benchmark yield is 2.80%, a 22 basis point improvement.

Sims Leads $98 Million Refinancing and Works Collaboratively with Bank to Finance Independent Living Expansion

"Jim Bodine and Brethren Village have had a valued working relationship for many years so it was an easy decision to work with HJ Sims for our refinancing. The team at HJ Sims skillfully guided us through the process from the initial discussions to the issuance of the bonds in a tenuous market. Their efforts allowed us to have a very successful refinancing that will benefit our organization for many years to come."

— Rodney L. Martzall, CPA, Vice President of Finance / CFO, Brethren Village

Partnered Right	• Founded in 1897 and currently comprised of 505 independent living apartments, 141 personal care units, 120 nursing beds and a separately licensed 20 bed rehabilitation center. • Recent campus expansion including 2008 repositioning with addition of independent living units and full realignment of its healthcare services and facilities financed with $123 million Series 2008 Bonds and 2015 capital investment including a dedicated rehabilitation expansion financed with $10 million Series 2015 Bonds underwritten by Sims. • Series 2017 Bonds refinanced Series 2008 Bonds and issued in parallel with financing of Northside Court independent living unit expansion.
Structured Right	• Multiple options considered for financing sourcing for the refinancing and new capital needs - included the use of all bond financing as well as the combination of bond and bank financing, including using a portion of bank financing as part of the refinancing. • Pursuit of a credit rating considered to enhance the marketability of the bonds and reduce the interest rate and further enhance debt service savings. • Close monitoring of market conditions and timing of the financing with an upcoming first call date. Modeled both advance refunding and current refunding options and the trade-off between waiting until the current call date vs. accelerating refinancing in the event of an interest rate increase.
Executed Right	• Coordinated the solicitation of a rating from Fitch Ratings with ultimate assignment of "BB+" rating (Stable Outlook). • Refinancing of the Series 2008 Bonds entirely with fixed rate bonds, capturing historically low interest rates, and combined with tax-exempt direct bank financing for the Northside Court Project at a variable rate to maximize prepayment flexibility using entrance fees and diversify overall capital structure.
Financed Right®	• Successfully sold $98 million of "BB+" rated fixed rate bonds to combination of retail and institutional investors, reducing fixed interest rates and "all-in" cost of financing. Sims served as senior managing underwriter and worked collaboratively with two co-managers and a third selling group member to broaden the retail distribution of the bonds to further benefit Brethren Village. • Brethren Village realized approximately $16 million in net present value savings, equaling 15.9% savings of the refunded bonds, increasing available debt capacity for the Northside Court Project financing.

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Sims Leads $98 Million Refinancing

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Partnered Right

Brethren Village is a not-for-profit life plan community providing housing, health care and other supportive services to seniors in Lancaster and the Central Pennsylvania region. It is located on a 96 acre campus in Lititz, Pennsylvania. Brethren Village was incorporated in 1897 and opened as a stand-alone nursing home. Brethren Village has grown in multiple phases and today is comprised of 505 independent living apartments, 141 personal care units, 120 nursing beds, a separately licensed 20 bed rehabilitation center (the "Rehab Center") and common areas.

Over the past decade, Brethren Village's growth has included a campus repositioning project undertaken in 2008, combining the addition of independent living units and full realignment of its healthcare services and facilities (personal care, memory support and skilled nursing) and financed with $122.7 million of non-rated fixed rate bonds (the "Series 2008 Bonds"). More recently, Brethren Village undertook a series of capital projects, including a 23-bed rehabilitation expansion, together with campus building and technology upgrades. Financing consisted of $10 million of non-rated fixed rate bonds (the "Series 2015 Bonds") and was underwritten by Sims.

In 2016, with interest rates near multi-decade lows and the call date for the Series 2008 Bonds approaching (July 2017), HJ Sims worked with Brethren Village to monitor the opportunity for refinancing of the Series 2008 Bonds. In the fall of 2016, with the prospect of a significant reduction in interest rates and realization of increased borrowing capacity, Brethren Village engaged HJ Sims to serve as Senior Managing Underwriter for the proposed refinancing of the Series 2008 Bonds. Sims was also asked to work collaboratively with Brethren Village's independent municipal advisor in coordinating pairing of the refinancing with financing for a proposed independent living unit expansion project ("Northside Court Project"), anticipated to be funded with direct bank financing.

Structured Right

HJ Sims worked with Brethren Village to evaluate the impact of refinancing the outstanding Series 2008 Bonds, including options for enhancing debt service savings, as well as considering the proposed Northside Court project and related financing. Multiple options were considered for sourcing the financing for both the refinancing and new capital needs - this included the use of all bond financing as well as the potential combination of bond and bank financing, including using a portion of bank financing as part of the refinancing. Consideration was also given to pursuit of a credit rating from Fitch Ratings which could enhance the marketability of the bonds and reduce the interest rate, further enhancing debt service savings. Market conditions and timing of the financing were also more closely monitored as Brethren Village sought to complete the refinancing in the first or second quarter of 2017 (on or before the first optional call date of July 1, 2017) – Sims modeled both advance refunding and current refunding options and the trade-off between waiting until the current call date, at which time savings could be maximized, with the potential loss of debt service savings in the event of an interest rate increase.

Ultimately, Brethren Village opted to undertake the refinancing of the Series 2008 Bonds entirely with fixed rate bonds. This was based on the low level of fixed interest rates, within range of multi-decade lows, and anticipated strong investor demand, including local retail investors along with institutional investors, further favorably impacting the fixed interest rates and "all-in" cost of financing.

For the Northside Court Project financing, Brethren Village elected to use tax-exempt direct bank financing wherein a significant amount of entrance fees would repay the bank debt. It also afforded greater flexibility for repayment of a portion of the debt with entrance fees received from the sale of the new independent living units as well as the ability to have either a floating or fixed rate or some combination. Brethren Village anticipated applying a significant amount of entrance fees to repay the debt and also opted to maintain a floating rate on the debt to reduce its cost of financing and diversify its interest rate exposure.

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Sims Leads $98 Million Refinancing

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Executed Right

Given the anticipated benefit of a credit rating, HJ Sims coordinated the solicitation of a rating from Fitch Ratings. Preliminary feedback suggested a below investment grade rating, due particularly to Brethren Village's debt load, offset by strong organizational profile and market position, newly repositioned campus along with more recent expansion, as well as other strong operating and financial metrics. This ultimately was borne out as Fitch assigned a "BB+" rating, the highest in the below investment grade category, along with a Stable outlook.

With desired consideration of bond and bank financing, Sims worked with Brethren Village and its financial advisor to insure that the two components of financing, both constituting "parity" debt, would coexist on terms acceptable to both Brethren Village's bondholders and the lending bank. This related particularly to affirmative and negative covenants and cure provisions as well as bank/bondholder creditor rights and remedies in the event of a default or other event requiring their consent. Ultimately, the bank financing was implemented with security provisions and covenants matching those contained in the existing Master Trust Indenture securing all parity debt, with the exception of one provision which was favorable to both the bondholders and bank.

The final plan of finance consisted of "BB+" rated fixed rate refunding bonds (the "Series 2017 Bonds"), structured with a combination of serial and term bonds, a 25-year final maturity and level annual debt service. The Series 2017 Bonds are structured with optional redemption provisions (at par) to enable Brethren Village to repay some or all of the bonds prior to maturity, if desired. The Northside Court bank financing was structured as a variable rate tax exempt direct placement with one bank. The term of the bank commitment is 10 years and has a 25 year principal amortization. Ultimately, except for one new provision, the bank financing was implemented with security provisions and covenants matching those contained in the existing Master Trust Indenture securing all parity debt.

Financed Right®

Market conditions in early 2017 improved dramatically from late 2016, following the U.S. Presidential election. With this favorable market backdrop, coupled with commencement of Northside Court Project construction, Brethren Village proceeded with the financing at the end of the first quarter and sought to close the transaction in early April in order to qualify the refunding as a "current" vs. advance refunding. Given the favorable market conditions and Brethren Village's excellent reputation and credit profile, investor demand for the issue was strong, and bonds were sold to a combination of retail and institutional investors, including both existing and new investors, which favorably impacted the fixed interest rates and "all-in" cost of financing. Brethren Village realized approximately $16 million in net present value savings, equaling 15.9% savings of the refunded bonds.

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