HJ SIMS FINANCED RIGHT®

Member FINRA/SIPC

December 5, 2017

CAPITAL MARKET UPDATE

Tel: 800-HJS-1935 www.hjsims.com

Senior Living New Issue Rates as of 12/5/17

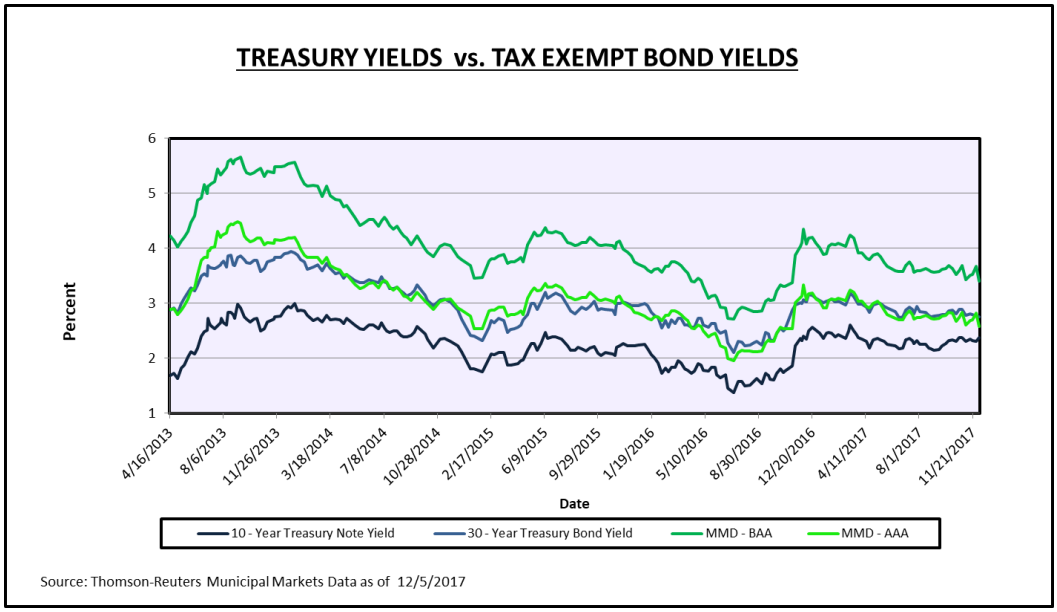
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.610%	2.100%	2.400%	2.65%	2.60-3.10%	4.00-4.50%
10 yr.	NA	2.390%	2.800%	3.100%	3.55%	3.40-3.90%	4.50-5.00%
20 yr.	NA	3.030%	3.350%	3.500%	4.05%	4.10-4.60%	5.25-6.00%
30 yr.	3.500%	3.260%	3.500%	3.700%	4.25%	4.30-4.80%	5.75-6.375%

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

SIFMA Index	LIBOR
0.97%	1.35%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
4.04%	2.3140%	2.6980%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	1.26%	1.50%	1.62%	1.74%	1.87%
Weekly LIBOR Swap Rates	1.80%	2.09%	2.21%	2.29%	2.39%



Market Commentary: Breaking Records as the Municipal Bond Market Awaits Tax Reform

The Russian stories circulating in Washington are hardly enchanting, but they have captivated a gigantic audience. One narrator got the story wrong last week and caused the stock market to fall back. At one point on Friday, the Dow Jones Industrial Average dropped by 350 points. Before the details of the story were corrected, blindsided investors turned to the havens of gold, U.S. Treasuries and other bonds, causing prices to spike. All week long, the focus had been on the Senate and its painfully slow tax reform vote-counting drama, the holdouts and the horse-trading. Stocks were optimistic about the outcome, especially after Gross Domestic Product data for the third quarter was revised upward. Bond prices sagged. But when the Majority Leader reported that he had pulled together enough Republican votes to pass a bill, the Russian stories were no longer captivating. Equities resumed their jubilant year-long rally. Muni prices rose along with the likelihood of a big drop in supply starting in January. Although the NASDAQ lost 42 points when the dust cleared, the Dow gained 674 points on the week, closing well over another record-setting milestone at 24,231. The S&P 500 Index finished up 40 points to 2,642. Bonds had a roller coaster ride and ended basically flat, except for the 30-year muni benchmark which strengthened by 8 basis points to 2.68%. The 10- and 30-year Treasury yields stood at 2.36% and 2.76%, respectively, at the close on Friday. The 10-year AAA general obligation benchmark yield finished at 2.07% after having hit 2.21% on Wednesday. Oil prices dipped 59 cents to $58 and gold fell $8 to $1,280. The Senate finally passed its version of the Tax Cut and Jobs Act by a vote of 51-49 early Saturday morning.

The municipal bond market is bracing for major changes as a result of the tax reform bills heading to conference. State and local officials, issuers, lawyers, bankers and borrowers across sectors have pulled together to lobby for more favorable outcomes, including a transition prior to the elimination of advance refunding bonds and the retention of most or all private activity bonds. Decisions on the alternative minimum tax, mortgage interest, state and local tax deductions, and tax credit bonds will also have an effect on the market sector. Investors are stocking up on tax-exempt securities out of concern for the possible drop in future supply, perhaps as much as 40% according to some estimates. At this writing, the Senate conferees have not been named, but they will certainly include the senior members of the tax writing committee, and all Republicans are under intense pressure to get a compromise bill to the President by Christmas. Given the number of controversial provisions, passage is not a foregone conclusion. Not a single Democratic yea vote is expected, and the outcome of the Alabama Senate race will be a factor. It remains to be seen whether the bill will need a longer growing season or whether it will be the root of significant economic growth in the years ahead.

In the meantime, the prospects for upheaval in the muni bond industry have borrowers rushing to market with billions of new and refunding issues, some of which were planned for January and others hurriedly patched together. In last week's $10+ billion primary market, the Parish of St. John the Baptist in Louisiana issued $1 billion of nonrated variable rate revenue refunding bonds for Marathon Oil Corporation, and the Florida Development Finance Corporation sold $600 million of BB-minus rated variable rate revenue bonds for the south segment of the Brightline Passenger Rail Project. In the student housing sector, a Baa3 rated deal for Texas A&M featured bonds due in 2042 with a coupon of 5.00% yielding 3.99%. Health care deals included a $81.2 million non-rated Public Finance Authority private placement for the Alabama Proton Therapy Center structured with 30-year term bonds priced at par to yield 8.50% and a $33.5 million nonrated refunding and improvement issue for Hampton Regional Medical Center in South Carolina with term bonds priced at 5.00% to yield 4.44% in 2046. Among the educational facility transactions was an $18.7 million non-rated issue for Cambridge Lakes Learning Center in Illinois structured with 30-year term bonds priced at 5.25% to yield 5.07%, a $16.2 million non-rated financing for Rocketship Public Schools in California with a 2053 maturity priced at 5.00% to yield 4.59%, a $4.6 million non-rated deal for A-2 Heritage Academy and a $13.5 million Public Finance Authority bond issue for Coral Academy of Science in Las Vegas with a final maturity in 2053 priced at 5.00% to yield 4.45%. In the senior living sector, $14.3 million of non-rated bonds for the River Park Senior Living community came to market with 40-year bonds priced at par to yield 7.75%, and Augustana Chapel View Homes in Minnesota sold $4.8 million of non-rated term bonds including a 20-year maturity priced at par to yield 4.25%.

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Market Commentary

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This week may see a record for municipal bond issuance, and HJ Sims is in the market with the largest fixed rate public bond issue for a single site life plan community on record, a $237.8 million BB+ rated issue for NewBridge on the Charles in Dedham, Massachusetts. The BB+ rated bonds are being issued by the Massachusetts Development Finance Agency. We are also underwriting a $51 million non-rated bond issue of the Lee County Industrial Development Authority for Volunteers of America National Services and The Preserve, a new assisted living and skilled nursing to be located in Fort Myers, Florida. Also on the calendar, which may grow to $20 billion, in the high yield sector the Twin Cities International School is selling $25 million of non-rated bonds, Epiphany Preparatory School of San Diego has $18 million of non-rated bonds, Metropolitan Lighthouse Charter School is bringing a $24.9 million Ba1 rated issue, and Leman Academy of Excellence in Arizona has a $32. 4 million non-rated financing. The Trousdale Foundation has 3 series of non-rated senior living bond issues totaling $171 million for facilities in Tennessee, Florida, and Ohio. Village on the Isle in Florida has a $70 million BBB-minus rated deal in the market, and Lifespire of Virginia has a $54 million non-rated transaction. There will be $42 million of non-rated Green Bonds for a recycling facility in South Carolina. The University of Illinois at Chicago plans a $102.8 million Baa3 rated financing, Mount Saint Mary's University in Maryland has a $58.7 million BB+ rated refunding, and Averett University in Virginia is bringing a $14.6 million non-rated refunding. It will be all hands on deck for the remainder of the year. In much the same way, as borrowers rushed to market with nearly $55 billion of deals in December 1985 ahead of the last major tax reform, and nearly regardless of what happens when the temporary government funding bill expires on December 8 and if the Federal Open Market Committee raises rates on December 13, we expect very heavy issuance all the way through Christmas.

$61 Million Refunding for American Baptist Homes of the Midwest Generates Near Term Cash Flow Savings

"HJ Sims is one of our most valued business partners. They have played a key role in our system-wide repositioning with respect to both construction financing and innovative re-financing strategies."

- *Dave Zwickey, President and CEO American Baptist Homes of the Midwest*

Partnered Right	• American Baptist Homes of the Midwest: 1,400 units in 13 locations across 6 states. • Six financings completed with HJ Sims since 2011. • Outstanding Series 2007 and Series 2009 Bonds.
Structured Right	• Desire to reduce cost of capital and achieve minimum level of Net Present Value savings. • Need to generate upfront savings in order to bolster cash position after multiple recent repositioning projects.
Executed Right	• Successfully priced $61,785,000 fixed rate refunding with lower principal payments in the early years. • Worked within IRS restrictions relating to remaining average useful life.
Financed Right®	• Generated $6.5M of savings, 82% of which is realized in the first three years. • Reduced average coupon from 6.79% to 4.95%.

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$61 Million Refunding for American Baptist Homes of the Midwest

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Partnered Right

American Baptist Homes of the Midwest ("ABHM") is principally engaged in the business of owning and operating health care facilities which provide skilled nursing, convalescent and rehabilitative care to elderly persons on an in-patient basis, and residential care facilities (Assisted Living), senior residential apartments (Independent Living) and group homes for the developmentally disabled (Crest Services). ABHM is headquartered in Eden Prairie, Minnesota and has 13 locations in 6 states which include 589 skilled nursing beds, 273 assisted living units, 358 independent living units and 173 developmentally disable units. HJ Sims has worked with ABHM since 2011 and completed six financings for the organization.

Structured Right

HJ Sims was engaged by ABHM to currently refund the Obligated Group's Series 2007 bonds and advance refund its Series 2009 bonds. Due to recent repositionings of many of their communities, ABHM's cash position was lower than its organizational standard, so it was important that the new financing structure address this. In addition, HJ Sims worked with ABHM to identify other financing objectives such as lowering the Obligated Group's cost of capital and achieve a minimum 5.0% present value of savings. Achieving each of these objectives would ultimately enable ABHM to increase its days cash on hand.

Executed Right

In order to meet ABHM's strategic financing objectives, HJ Sims recommended a fixed rate, tax-exempt bond issue (the "Series 2017 bonds"). To generate greater upfront savings and cash for the organization, sinking fund payments were reduced in the first few years to lower overall debt service requirements. However, because of IRS tax constraints relating to average useful life, it was also important that the structure of the Series 2017 bonds not extend the maturity of the prior bonds.

Financed Right®

On September 14, 2017, HJ Sims successfully priced a $61,785,000 issue with an arbitrage yield of 4.811%. On a net present value basis, the refunding of the Series 2007 and Series 2009 bonds provided ABHM a savings of $6,517,278 or approximately 11.13% of the par amount of the bonds refunded. By having lower sinking fund payments in the early years of the issue, $5,363,551, or 82%, of the total savings are to be realized in the first 3 years. This allows ABHM to bolster its cash position and increase its day's cash on hand. The average annual savings after the first three years will be $236,123 and the average coupon decreased from 6.79% to 4.95%, which achieves ABHM's strategic objective of lowering the Obligated Group's cost of capital.

For more information, please contact Mark Landreville at 952-683-7509, mlandreville@hjsims.com or Christina Rappl at 952-683-7507 or crappl@hjsims.com.

Participate in HJ Sims' *Capital Market Update* Survey

We appreciate the time you take to read our weekly newsletter and hope you find it interesting and useful. As we look to improve our *Capital Market Update* and because we value your opinion, we have designed a brief 5-question survey to help us better understand what information you find most meaningful and relevant. This is a multiple choice survey and should take only a few minutes to complete and submit.

We will then closely examine the important information from your survey responses and use it to improve your weekly newsletter in the future. Your feedback is confidential. Thank you for your time and your continued business.

Take the Survey

For more information, please contact an HJ Sims banker.

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