September 5, 2017

CAPITAL MARKET UPDATE

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Senior Living New Issue Rates as of 9/5/17

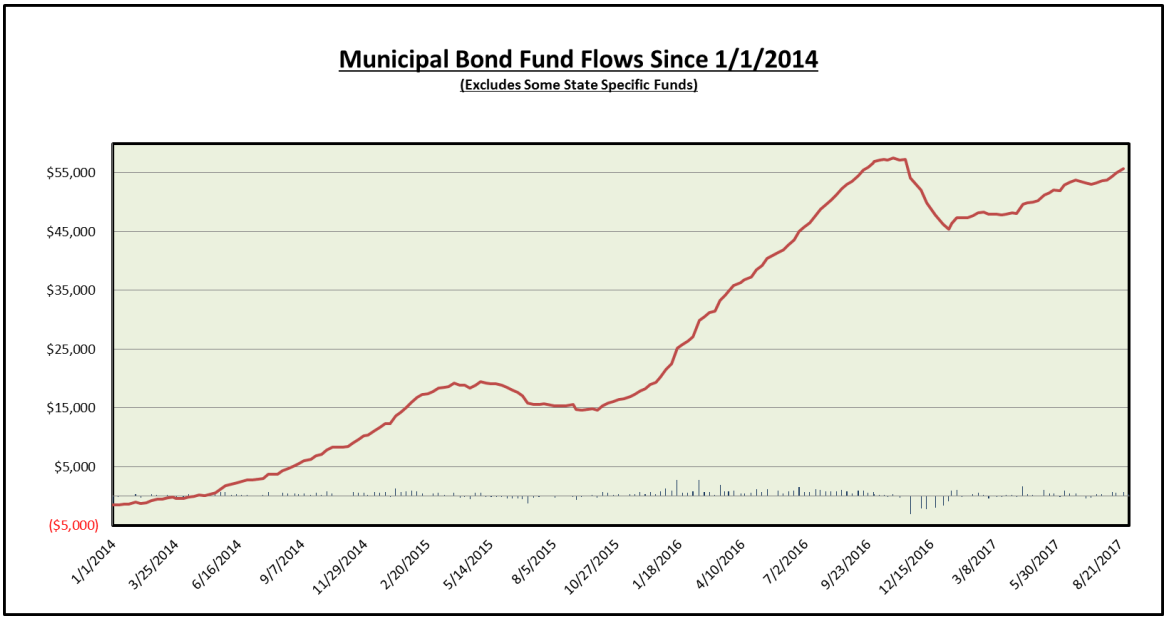
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.240%	1.750%	2.200%	2.50%	2.60-3.10%	4.00-4.50%
10 yr.	NA	2.300%	2.700%	3.000%	3.40%	3.50-4.00%	4.50-5.00%
20 yr.	NA	3.050%	3.400%	3.700%	4.15%	4.15-4.65%	5.25-6.00%
30 yr.	3.260%	3.340%	3.550%	3.900%	4.35%	4.35-4.85%	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
0.79%	1.24%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.72%	2.070%	2.6880%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	1.05%	1.20%	1.36%	1.49%	1.67%
Weekly LIBOR Swap Rates	1.45%	1.64%	1.79%	1.94%	2.11%



Members of P. R. Gilboy & Associates Join the HJ Sims Family of Companies

PRESS RELEASE - AUGUST 30, 2017

HJ Sims (Sims), a privately held investment bank and wealth management firm founded in 1935, announced today that members of P. R. Gilboy & Associates, municipal bond specialists serving a wide range of financial institutions since 1999, are joining the Sims organization. P.R. Gilboy & Associates will maintain its market name as a division of HJ Sims as well as remain intact as an operating business unit.

P. R. Gilboy & Associates is led by Philip R. Gilboy and Debra A. Gilboy. Philip began his career at The Northern Trust Company in 1976, moving to Charlotte, North Carolina in 1984 from Chicago to join an investment firm. Philip started P. R. Gilboy & Associates with extensive experience in trading, underwriting and institutional sales in the municipal bond industry. Debra A. Gilboy accompanied her husband and business partner to North Carolina after a successful career at Salomon Brothers, Inc., helping to co-found P. R. Gilboy & Associates. Debra has served as Chief Financial Officer, Financial and Operations Principal (Fin-Op) and Chief Compliance Officer.

"We pride ourselves on transparency and are relationship driven. We have earned our clients' trust and that is paramount. Joining forces with Sims will offer us the opportunity to access additional product to better serve our clients. Sims shares a similar client approach and will allow us the autonomy to do what we do best," says Philip Gilboy.

"We have experienced the entrepreneurial spirit of Charlotte and have grown our company within that environment, which has been exciting. We work hard, and we strive to do things the right way. At the end of the day, we like what we do, we know where we stand and it is a good feeling," says Debra Gilboy.

"P. R. Gilboy & Associates and HJ Sims share a common philosophy and approach. The members of P. R. Gilboy & Associates team are diligent, hard-working and trustworthy—attributes the Sims team mirrors and values in our industry. We look forward to a successful future with the Gilboy team and to growing the Sims footprint in North Carolina," said William Sims, Managing Principal, HJ Sims.

ABOUT P.R. GILBOY & ASSOCIATES, INC.: P. R. Gilboy & Associates, Inc. is a broker/dealer that specializes in municipal bonds. The firm deals with institutional customers and focuses in the secondary market. Contact prgilboy@bloomberg.net | 704-844-8665 | 11006 Rushmore Drive, Suite 110, Charlotte, NC.

ABOUT HJ SIMS: Founded in 1935, HJ Sims is a privately held investment bank and wealth management firm with $2.2 billion of assets under management. Known as one of the country's oldest underwriters of tax-exempt and taxable bonds, HJ Sims has raised $22+ billion for projects throughout the US. The firm is headquartered in Fairfield, Connecticut, with investment banking, private client wealth management and trading nation-wide. Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, is custodian of all client assets. www.hjsims.com/ourstory Investments involve risk, including the possible fluctuation of principal. Member FINRA, SIPC. Follow us on Facebook and LinkedIn.

Market Commentary

For many of us, summer is ending with a lot more than complaining about the start of school. Hurricane Harvey has devastated parts of Texas and Louisiana with 50 inches of pounding rain. Hurricane Irma has grown into a Category 5 Storm and threatens to batter the Caribbean Islands and continental U.S. More American troops are being deployed to Afghanistan. Financial markets are rattled by Iran testing its first long-range missile defense system and North Korea testing a hydrogen bomb. Congress is back at work and under heavy pressure to lift the debt limit, produce an urgent supplemental appropriations bill for Gulf Coast recovery, get moving on tax reform and enact an omnibus spending measure for the fiscal year that begins on October 1.

There is an awful lot of haggling that goes on over the shrinking portion of the budget that is discretionary and therefore subject to negotiation and horse-trading. More than 6% of the $4 trillion budget currently goes to pay interest on the federal debt, and nearly 65% of federal spending is for mandatory programs which include Social Security. According to data just released for December 2016 by the Social Security Administration, there are 61 million retirement, survivor and/or disability beneficiaries, including 90.4% of Americans over the age of 65. Twenty percent or more of the population in 21 states receive monthly support, and in West Virginia, Maine and Vermont, the percentage is closer to 25%. Nationwide in the month of December, that assistance totaled $75.9 billion, or an average of $1,246 per recipient. This amount represents the largest – and sometimes only – source of income for millions of Americans. According to the Center on Budget and Policy Priorities, Social Security provides nearly all the income for 42% of those aged 80 or older.

Bond investors looking for income-producing investments last week had to pay up once again. The municipal market was active as investors added $345 million to muni bond funds. The $7 billion calendar met with strong demand, pressing yields slightly lower. HJ Sims brought the largest high yield deal of the week, the $61.6 million non-rated Wisconsin Health and Educational Facilities Authority refunding for American Baptist Homes of the Midwest. The financing was structured with a 2039 final maturity that was repriced higher at 5.00% to yield 5.05%. The Arizona Industrial Development Authority had a $26.5 million non-rated multifamily housing bond issue for Bridgewater at Avondale, which had a similar maturity priced at par to yield 5.375%. The Utah State Charter School Finance Authority sold a $54.8 million non-rated refunding issue for The Freedom Academy which featured 2048 term bonds that came with a coupon of 5.375% to yield 5.50%. Nevada's Department of Business and Industry brought a $24.9 million BB+ rated deal for Doral Academy with a 30-year maturity priced at 5.00% to yield 4.625%; a non-rated $20.8 million Klickitat County Public Hospital District No. 2 revenue and refunding issue for Skyline Hospital had a similar maturity priced at par to yield 5.00%. And the California School Finance Authority sold $20 million of non-rated charter school revenue drawdown bonds for Magnolia Public Schools bearing a 5.25% coupon until 2027 then increasing to the greater of 6.00% or the 20-year MMD plus 3.50%.

Economic data releases last week included a payroll report that came in below expectations, a slight uptick in the unemployment rate, unanticipated declines in pending home sales and construction spending, and further increases in consumer confidence, personal consumption and manufacturing. This week's data will include factory orders, durable goods, trade balance and wholesale inventories. On Tuesday, regular way settlements for muni trades will be 2 days (T+2) instead of 3 days, the standard cycle since June of 1995. The municipal calendar is expected to total $3.8 billion, and several high yield transactions are planned. The South Carolina Jobs-Economic Development Authority has a $39.6 million non-rated financing for South Carolina Episcopal Home at Still Hopes and a $16.4 million non-rated deal for River Park Senior Living. Anderson University in Indiana has a $35.6 million BB rated refunding. The Phoenix Industrial Development Authority has a $43.9 million non-rated issue for Legacy Traditional Schools, and the Arizona Industrial Development Authority is in the market with a $10.5 million nonrated issue for Gateway Academy.

LIBOR: What Is It? Why Is It Going Away? What Should You Do?

The future demise of LIBOR has been widely reported by various sources recently, creating a degree of uncertainty in financial markets and a degree of concern among organizations that have commercial bank loans or interest rate swap agreements. Sims prepared the following to explain some basic aspects of the situation and provide some recommendations for our clients.

What Is LIBOR?

The London InterBank Offering Rate, or LIBOR, is narrowly defined as the average of interest rates estimated by the leading banks in London that it would be charged were it to borrow from other banks. It has grown in importance since its inception 30 years ago and is now the baseline from which most commercial banks add a credit spread to determine the variable interest rate charged to borrowers. If your organization has a variable interest rate loan from a bank, it is highly likely LIBOR is used to calculate the all-in interest rate. Most commercial banks provide variable rather than fixed rate loans because most acquire the funds loaned in the short-term, variable rate, inter-bank market.

In addition to being a proxy for cost of funds, LIBOR is deeply integrated into the vast majority of interest rate swaps that borrowers and financial institutions utilize to manage variable interest rate risk. In its simplest terms, under an interest rate swap one party (typically the capital markets arm of a commercial bank) is willing to pay LIBOR (and therefore take on the risk of rising interest rates) in exchange for receiving a fixed interest rate from the other party (typically the borrower of the underlying loan).

Estimates vary but by many measures LIBOR is associated with $350 trillion in financial transactions worldwide.

Why is It Going Away?

At one time LIBOR was based on actual transactions in the London inter-bank market, but over time it became more an estimate of inter-bank interest rates as reported by the banks. During the height of the financial crisis it was alleged that many commercial banks were understating the interest rate by which it could borrow as a way of masking underlying credit and liquidity problems. Banks and bankers were also accused of manipulating LIBOR for financial gain.

Consensus has developed around the need to find a replacement for LIBOR despite the breadth of its use since it is no longer representative of actual transactions. At this point no replacement index has been announced and no timeline established for the transition. Reports range from as early as 2018 (highly unlikely) to late 2021. Given how integrated LIBOR is in financial transactions much work and discussion will be forthcoming as to its eventual replacement.

What Should You Do?

Sims recommends the following guidance for clients with commercial bank loans and interest rate swaps based on LIBOR:

- Rest assured that any termination of LIBOR does not create an event of default and will not result in the termination of the underlying credit facility or interest rate swap.
- Discuss with your commercial bank what its position is on the issue and if it has announced any new policies.
- Do not let this uncertainty deter your organization from entering into a LIBOR-based interest rate swap. The risk of rising interest rates outweighs the risk of what effect the replacement index may or may not have on the swap.
- Work with your Sims banker on reviewing your existing loan and swap documentation. Some but not all may have alternate LIBOR language already that can be used. We can also assist in any discussions or negotiations with your commercial bank or swap provider and calculate the financial impact once a replacement index is announced.

For more information, please contact an HJ Sims banker.

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