

SO YOU THINK BONDS ARE BORING?
AU CONTRAIRE...

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AAll
San Diego, CA
October 2017

QE BEGAN WITH THE FEDERAL RESERVE

- The ECB matched it with a larger portfolio and added corporate bonds
- The Swiss and Japanese Central Banks threw in equities and derivatives
- European and Japanese rates went negative and financial assets kept rocketing higher
- Globally: \$9 trillion in negatively yielding bonds



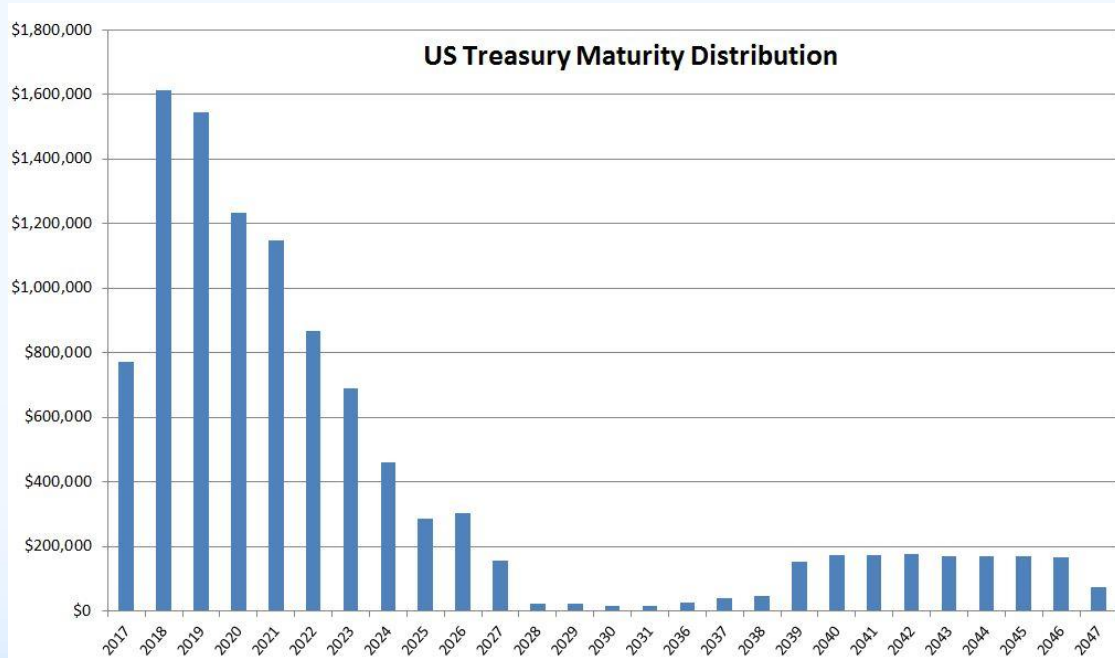
All this brings us to today's three "L's":

- Lower
- Longer
- Lingering trading range

THE FED: CONFUSED CERTAINTY



Debt Distribution



Debt (trillions)	
Munis:	\$3.8
UST:	14.0
Mtg.:	8.9
Corp.:	8.6
Agcy:	2.0
MMkts:	0.9
Asset Bkd:	<u>1.2</u>
Total	\$39.5

Bond investors worry as the Federal Reserve reduces its \$4.5 trillion balance sheet.

AMAZONED

Am~a~zoned: Verb: Brick and mortar stores annihilated from Amazon.com online competition

Usage: We've been Amazoned!

Collateral damage: Malls, REIT stocks & bonds, retailers, property tax revenues, CMBS that finance malls

Latest carnage: Average shopping miles driven is down. Causes a drop in gasoline taxes collected. Loss of sales tax revenues. Loss of property taxes, REITS, retailers, grocery stores, CMBS...

AMAZONED: THE FEAR IS REAL

- Books
- Clothing
- Small appliances
- Large appliances
- Food: Whole Foods
- What's next?
Prescriptions...watch out
pharmacy benefit
companies
- Drug stores
- Large box stores
- The effect on Municipals



WHERE DO STATES GET THEIR MONEY?

- Taxes and Federal Funds account for 81% of revenues
- Taxes are the largest revenue source in 46 states
- California:
 - 57% from taxes
 - 30.4% from Federal Funds
 - 8.1% from Service Charges
 - 3.8% from Miscellaneous sources

Municipal and Budget Ramifications

SANCTUARY CITIES AND COUNTIES



Portrait of a city on the ropes

- State capital city
- Population: 125,000
- 50% of the property in the city is tax exempt
- Since 2000 property tax increased seven times
- Property tax now 50% higher than in 1998
- A homeowner pays \$22,287 in property tax on a home with an assessed value of \$300,000 (7.43%)
- More than 1/2 of the city budget goes to debt service





Riots



Law suits



Civil rights
violations



Wrongful death

Judgment Obligation Bonds:

- Unbudgeted liabilities
- Occurred in Chicago, Cleveland, Dallas, Los Angeles, New York, Philadelphia and many other major cities

SOME MUNI NO NO'S /SOME MUNI YES ANSWERS

No No's

- No Detroit or Anything in Michigan
- No Chicago Bonds
- No Illinois Bonds
- No Puerto Rico bonds
- No GOs from PROBLEM AREAS
- No PENSION OBLIGATION bonds (taxable)
- No SALES TAX REVENUE bonds
- No bonds NEEDING ANNUAL APPROPRIATIONS
- No stadium, Parking, Coliseum, Museum, Prison, Court House, or Police HQ bonds
- Judgment bonds

Yes

- Yes on Senior Lien Airport Revenue bonds
- Yes on Water & Sewers in GOOD AREAS
- Yes on ESSENTIAL REVENUE BONDS
- Yes on PERSONAL INCOME TAX bonds (PIT)
- Toll Bridges
- Large Port Authority bonds

USE BOND RATINGS ONLY AS A SUGGESTION



Upgrade?

Downgrade?

Dunno?

Who's going to pay me?

RATINGS FARCE

Illinois:

- No balanced budget last 2 years until near junk
- \$15 billion owed to vendors
- Just passed a budget in July
- Will plug its budget holes by issuing \$6 or 7 billion in General Obligation Bonds
- Depleted budget reserves
- Weakened financial conditions
- Baa3, BBB—, BBB...Really??



MUNICIPALS: FERRET OUT THE DEALS



Mandatory Put Bonds:

- Bay Area Toll Authority
- San Francisco Bay Area Toll Bridge
- Revenue Bonds

2.10% due April 1, 2045

Mandatory Put April 1, 2022

Most municipal bond funds cannot buy
Mandatory Put Bonds

BEST PORTS IN A STORM

TOP 10 US PORTS

Los Angeles
Long Beach
New York & New Jersey
Georgia
Seattle-Tacoma
Virginia
Houston
South Carolina
Oakland
Miami



AIRPORT REVENUE BONDS SENIOR LIENS

- San Francisco Int'l
- Los Angeles Int'l
- San Diego
- John Wayne





**Pensions
of
U.S.
States**

Maybe you hate interest rates in the US, but others find our yields generous

Country	5-Year	10-Year
US	1.96%	2.36%
UK	.77%	1.36%
France	(.01%)	.71%
Germany	(.28%)	.44%
Italy	.71%	2.18%
Spain	.35%	1.67%
Japan	(.11%)	.04%

*As of , October 12, 2017 \$9 trillion of global
bonds trades with negative yields*

How Easy Or Difficult Is It To Find bond Buyers?



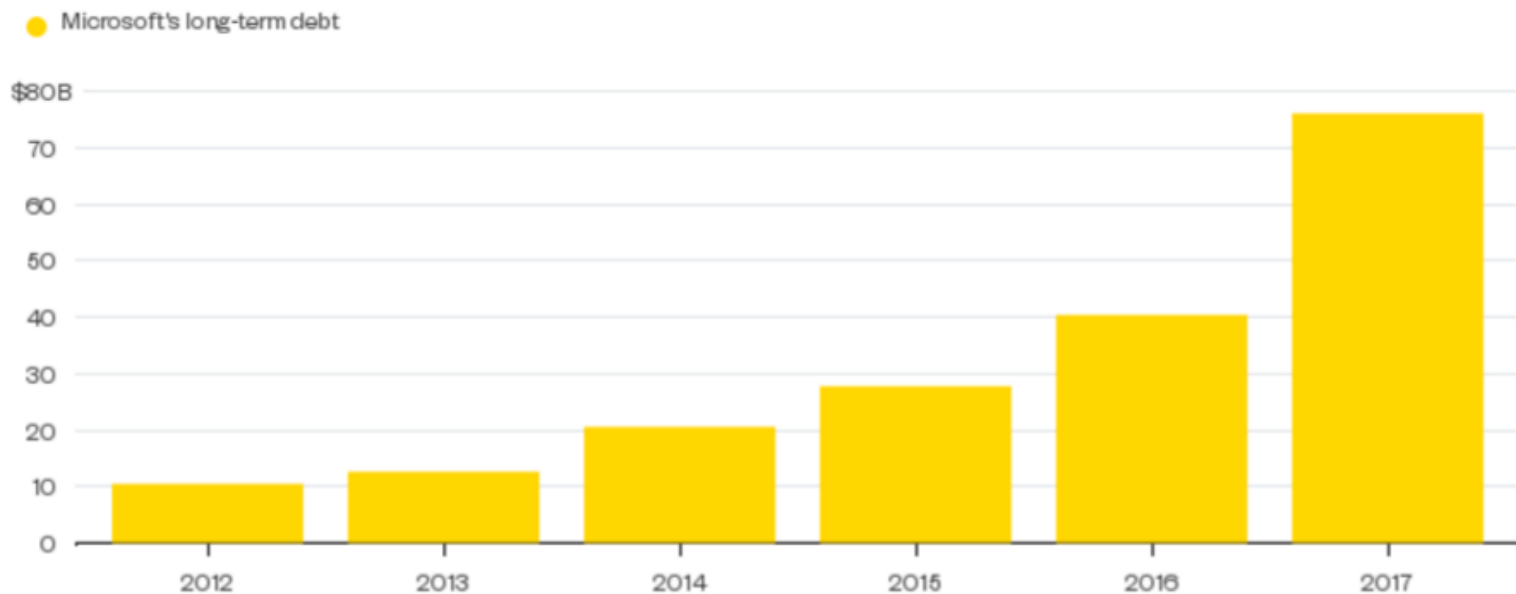
AT&T/Time Warner: Target: \$15 billion, raised \$22.5 billion, 3 times oversubscribed.

British Tobacco/Reynolds America: Target: \$17.5 billion, 3 times over subscribed.

Amazon/Whole Foods: Target: \$16 billion, 3 times oversubscribed

Debt Load

Microsoft has sold tons of debt recently, in large part to buy back shares and pay dividends



Source: Bloomberg, SEC filings

BloombergGadfly

Borrowing Binge

Apple had no debt in early 2013, and now its borrowings stand at more than \$100 billion



Source: Bloomberg

Note: The quarters shown here reflect Apple's fiscal year, which ends each September.

BloombergGadfly

THE SEARCH FOR YIELD

The Corporate Bond Market Has Ballooned Ultra-low interest rates spurred an issuance frenzy

■ Bloomberg Barclays U.S. Investment-Grade Corporate Bond Index Market Size



Bloomberg

Investors fell in love with REITs as a bond substitute when rates were so low

- **Outfront Media (OUT)**
Leases advertising space on billboards of all types and municipal transit systems like MTA in New York.
- **Mid-American Apartment Comm (MAA)**
Owns and develops multi family apartment communities in the Southeast, Midwest, and Texas. Also does property management.
- **WP Carney, Inc. (WPC)**
Net lease REIT, provides RE financing in the US and Europe. Does sale lease-backs. Leases are long term: 9.4 years.
- **Omega Healthcare (OHI)**
Provides financing to the long-term care industry. Operates its own healthcare facilities in the US

Compare and Contrast

REITs	Yield	Bond Coupon	Maturity	YTM
OUT	5.96%	5.875%	3.15.2025	4.90% YTM
MAA	3.21%	4.00%	11.15.2025	3.29% YTM
WPC	5.86%	4.00%	2.1.2025	3.75% YTM
OHI	8.20%	4.50%	1.15.2025	4.15% YTM

All prices and yields are as of October 10, 2017

TAXABLE RECOMMENDATIONS



Iron Mountain, Inc.

6.00% due August 15, 2023, callable 8.15.18

\$600 million outstanding

CUSIP: 46284PAQ7

Rated: Ba3, BB-

2.30% Yield to Worst 4.80% Yield to Maturity

Storage and information management company. Provides records and data management, information, and destruction services.

Leucadia National Corp.

5.50% due October 18, 2023, callable 1.18.23

\$750 million outstanding

CUSIP: 527288BE3

Rated: Ba2, BBB, BBB-

3.95% Yield to Worst 4.10% Yield to Maturity

Diversified holding company. Investment banking, beef processing, asset management, oil and gas exploration. Various businesses.



Leucadia National Corporation

DIVERSIFY YOUR TAXABLE BONDS



Crown Castle Int'l Corp.

3.70% due June 15, 2026

\$750 million outstanding

Baa3, BBB-, BBB-

CUSIP: 22822VAC5

3.59% Yield to Maturity

Owns, operates, and leases cell towers for wireless communication in the US and Australia



Methanex Corp.

4.25% due December 1, 2024

\$300 million outstanding

Baa3, BB+, BBB-

CUSIP: 59151KAK4

4.35% Yield to Maturity

Produces and markets methanol used to make industrial and consumer products, windshield washer fluid, paint, silicone sealants, and synthetic fibers

TAXABLE RECOMMENDATIONS



Sabine Pass Liquefaction

5.625% due March 1, 2025, CUSIP: 785592AM8, 3.79% YTW, 3.85% YTM

5.875% due June 30, 2026, CUSIP: 785592AV8, 4.13% YTW, 4.20% YTM

Owns, develops, and operates natural gas liquefaction facilities in Cameron Parish, Louisiana



United Continental Holdings

5.00% due Feb. 1, 2024

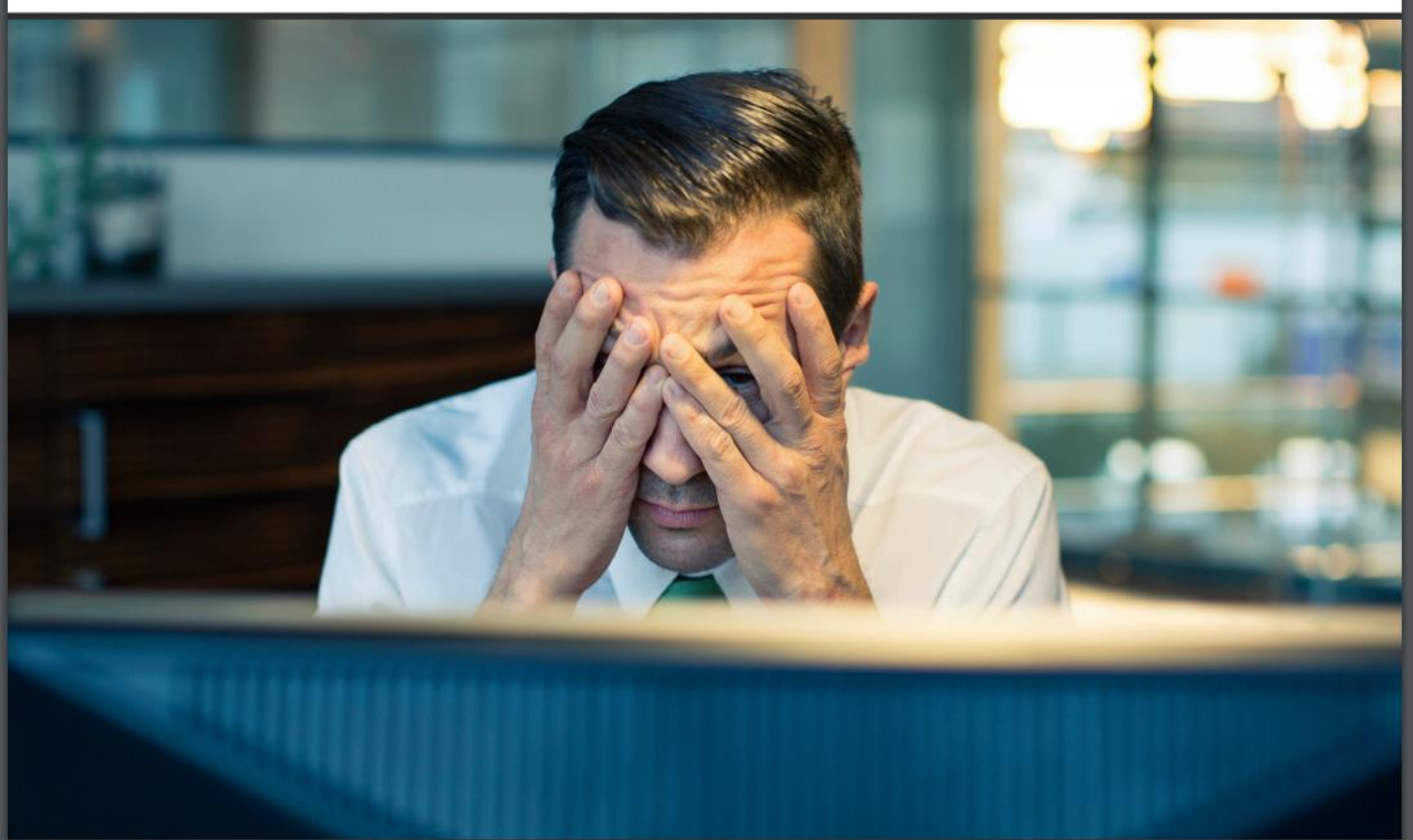
CUSIP: 910047AH2

\$300 million outstanding

Ba3, BB-, BB

4.60% Yield to Maturity

OH #@\$%! WHAT IF RATES MOVE UP?



Fixed to Float

Nustar Logistics LP: Petroleum products storage, transportation, fuels marketing.

CUSIP: 67058H201

8.50% Fixed until December 15, 2021, 7.10% Yield to 2021

Then 6.766% Plus 3-month LIBOR, which is now cumulative preferred, Ba3, B+, B+

CUSIP: 67058H300

7.625% Fixed until June 15, 2022, 7.26% Yield to 2022

Then 5.643% Plus 3-month LIBOR, cumulative preferred, Ba3, B+, B+

Plains All American Pipeline LP

CUSIP: 726503AE5 6.125% Fixed until November 15, 2022 then 4.11% Plus 3-month LIBOR. Looks like a preferred but it's a Jr. Subordinated bond. Ba3, BB, 6.02% Yield to 2022

Other fixed to float issuers: GM, GMA, CITI, Gilead Sciences, BP Capital, EQT Corp.

YOU HAVE CHOICES...*LOTS OF TAXABLE CHOICES*

- **Rising Rate Hedged High Yield ETFs:**
 - HYHG 5.76% Proshares
 - HYZD 5.21% Wisdomtree
- **Rising Rate Hedged Investment Grade ETFs:**
 - IGHG 3.45% Proshares
- **Floating Rate ETFs:**
 - FLOT 1.59% iShares
 - FLRN 1.66% SPDR State Street
- **Floating Rate High Yield Open End Fund:**
 - FFRHX 3.90% Fidelity
- **CPI Floating Rate Bonds**
- **LIBOR Floating Rate Bonds**



BONDS ARE A TORTOISE, NOT A HARE INVESTMENT. EQUALLY IMPORTANT, BONDS ARE A SAFETY NET WHEN THE EQUITY MARKET CORRECTS OR BECOMES A BEAR MARKET



Envision Capital Management, Inc.

Fixed Income Money Managers

MINIMUM ACCOUNT SIZE \$500,000

FEES:

- **MUNICIPALS:** **.43%**
- **INVESTMENT GRADE CORPORATES:** **.60%**
- **SPLIT-RATED CORPORATES:** **.75%**
- **HIGH YIELD:**

1.00%

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