Mesirow

Market update

Market snapshot: municipal bonds

Our Capital Markets Comments from January of this year focused on the effect of relentlessly positive cash flows (45 weeks) into the Municipal market and the technical risks that the overbought market had created for both institutional and individual investors. We recommended maintaining a "low risk" investment profile.

The investor cash flow driven mix of (absolute) low yields and exceptionally tight credit spreads continued to tighten the market like a spring through February, when the COVID-19 virus morphed (epidemiologically, medically and politically) from a provincial problem in China into the lead story of the 24/7 news cycle.

Against this background of an emerging global pandemic, and the market's understanding of the probable human cost, a violent "risk-off" convulsion hit all global markets; both fixed income and equity.

The Municipal Market's overbought condition unwound with remarkable ferocity throughout the month of March, widening valuations and spreads (raising absolute yields) to levels not seen in years, as cash flows into the Municipal Market turned negative and the price of liquidity rose, even for the strongest and highest Investment grade securities. By the middle of April, cash flows into the market had slowly stabilized, and along with that, Investment Grade market liquidity and price discovery began to stabilize.

The damage in the High Yield Municipal market, the most overbought sector, was more extreme and is on-going, as cash flow is still weak and price discovery is evolving, sector by sector.

None of the comments above address the actual economic and fiscal damage to municipal credits that will follow in the wake of America's national shut-down. Whether our economic recovery is V-shaped, U-shaped or more prolonged, municipal credit quality will be impacted. The market has re-priced credit risk and liquidity across the board. Large issuers that entered the COVID-19 crisis in weakened fiscal condition (for example; Illinois, New Jersey, Chicago) are paying the highest price for market access. Smaller HY issuers will face a skeptical market on a case-by-case basis, likely paying increased premia for both liquidity and credit risk.

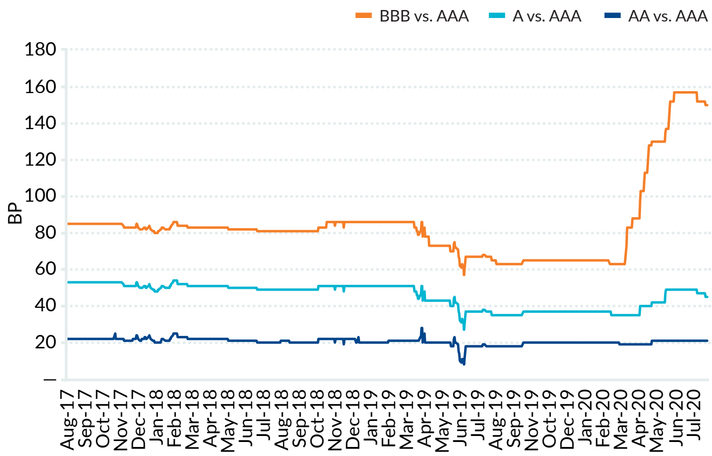
In this issue

Market snapshot: municipal bonds *continued*

Bottom line

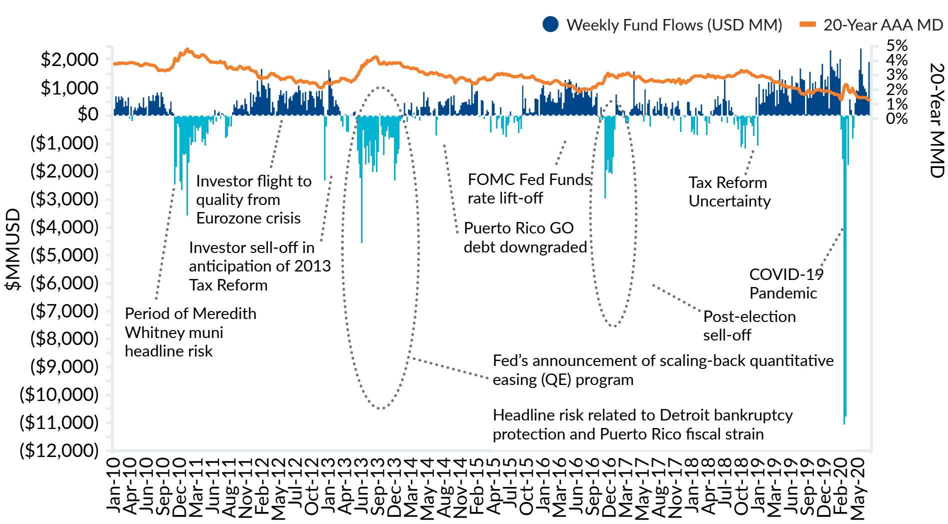
- COVID-19 fiscal strains will reduce credit quality across the Municipal Market
- Traditionally (fiscally) weak states are bearing the brunt of spread widening (see chart 1)
- Sectors that are heavily economically impacted by the shutdown (Higher Education, Healthcare, Student Housing, Airlines/Airports/Travel/Leisure, Elderly Housing) have experienced the heaviest market penalties.

CHART 1: **30-YEAR CREDIT SPREADS**



Source: The Municipal Market Monitor (TM3).

CHART 2: **MUNICIPAL BOND FUND FLOWS AND 20-YEAR MMD**



As of the weekly reporting date 7/22/2020. Data Source: EPFR Global Fund Flows and Allocations Data – All Muni Funds (Retail and Institutional Funds).

TRAILING 16-WEEK DATA

Muni Fund Reporting Date	Weekly Fund Flow ($MM USD)	20-Yr AAA MMD (%)
4/8/2020	(1,771.53)	1.92
4/15/2020	590.77	1.77
4/22/2020	205.84	1.82
4/29/2020	(813.38)	2.07
5/6/2020	(447.78)	1.84
5/13/2020	455.29	1.69
5/20/2020	912.33	1.54
5/27/2020	879.56	1.44
6/3/2020	1,642.45	1.44
6/10/2020	2,404.85	1.41
6/17/2020	1,490.43	1.43
6/24/2020	1,071.40	1.43
7/1/2020	969.28	1.43
7/8/2020	852.72	1.41
7/15/2020	670.68	1.30
7/22/2020	1,930.93	1.25

Market snapshot: middle-market mergers & acquisitions

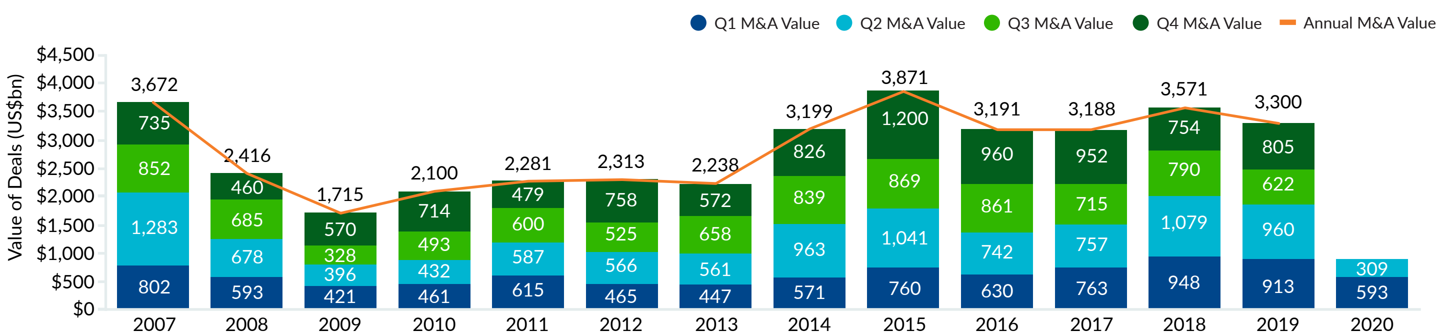
2Q20 At a glance

- Contrasting 1H20 to 1H19, deal volume fell 32% (6,938 vs 10,155 transactions), while deal values declined 52.7% (USD 901.6bn compared to USD 1.9tn)
- Despite declines across all sizes of the deals, the middle market remained relatively resilient. Smaller middle market deals saw significantly less impact during the height of the virus lockdown. Quarter on quarter deals under USD 2bn declined just 23.9% on volume (down to 1,297 deals from 1,704) and 28.3% on value (USD 203.5bn vs USD 284.0bn)
- "With the primary market for leveraged loans temporarily shut down, the number of buyouts has dramatically decreased in the past month, and Private Equity's ability to deploy capital will be further tested in the quarters to come" – Beranger Guille, Global Editorial Analytics Director at Mergermarket.

2020 Outlook

- The unpredictable nature of today's environment could potentially stall M&A markets for the foreseeable future.

CHART 3: **QUARTERLY GLOBAL M&A COMPARISON**

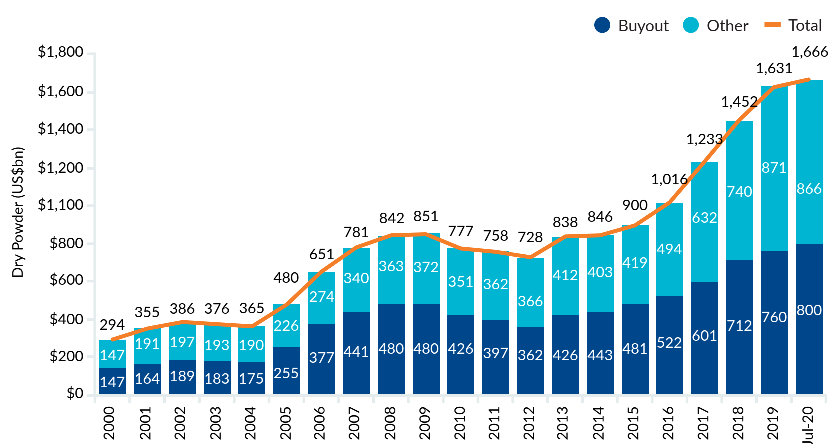


Source: MergerMarket.

Financial Sponsors patiently wait for new opportunities while sitting on record amounts of dry powder:

- Financial Sponsors have continued to deploy high levels of dry powder, with several multi-billion dollar deals announced in the first half of 2020
- Private equity buyout activity has declined at a lesser rate than strategic / corporate M&A
- Financial sponsors still sit on record amounts of dry powder and, with the crisis first affecting the corporate side rather than financial institutions, trust in private equity firms should remain strong

CHART 4: **GLOBAL PRIVATE EQUITY DRY POWDER OF BUYOUT FUNDS**



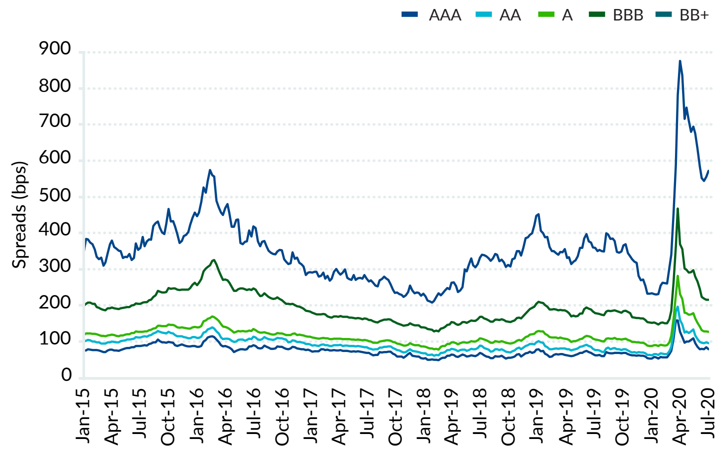
Source: MergerMarket, Preqin. Others include venture, growth, early stage, fund of funds, early stage, expansion, co-investment, among others

Market snapshot: corporate debt and infrastructure finance

Corporate debt finance – market update

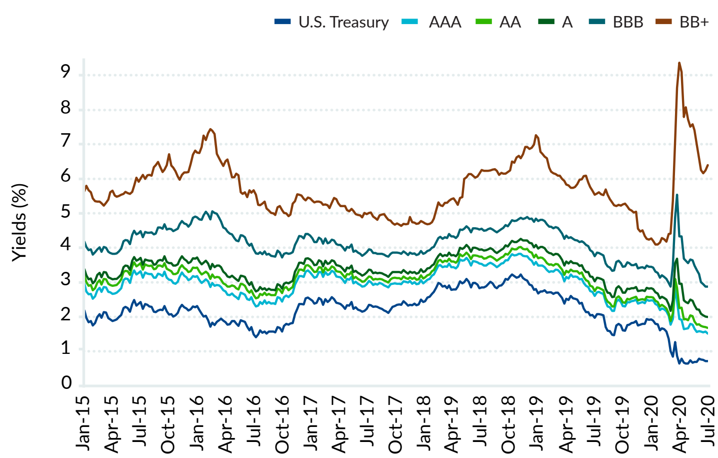
- Immediate concerns over COVID-19 and uncertainty of the future state of the economy caused investors to seek safety in the U.S. Treasury market in the second quarter. Consequently, 10-year Treasury yields ended the second quarter at approximately 0.70%, a decrease of approximately 110 basis points compared to the beginning of 2020. The 10-year U.S. Treasury dropped to a low of 0.32% in early March, its all-time low, and closed the second quarter at 0.66%. The 30-year Treasury yield also hit a record low of 0.70% in March, breaching the 1.00% threshold for the first time in history, before closing at a yield of 1.41% on June 30, 2020.
- As U.S. Treasury yields hit record lows in March, spreads on corporate bonds widened substantially before narrowing materially in the second quarter. According to the S&P Global Fixed Income Research, bond spreads widened by 140% to 190% across investment grade credit categories for 10-year bonds in March. Despite the spike, corporate bond yields at the end of the quarter remained well inside the levels reached during the 2008-09 global credit crisis. By mid-April, investment grade spreads had recovered by about half of the widening in March, and by the end of July spreads had recovered by about three-quarters of the widening in March.
- To help contain the economic fallout from the pandemic, the Federal Reserve announced at the end of March that it would aggressively purchase government-backed debt and corporate debt, including the riskiest investment-grade bonds, for the first time in its history. Liquidity for new investment-grade bonds improved significantly after the Federal Reserve's announcement and due to the uncertain economic environment, many companies were in search of liquidity despite the widened spreads. After a modest start to the year, March, April, and May saw record investment-grade corporate bond issuance including the highest total weekly issuance ever the week of April 2nd according to SIFMA data. Total corporate bond issuance was $300.9 billion in May and $235.4 billion in June. As of the end of June, total corporate issuance year-to-date was up 93.9% over June 2019.

CHART 5: **HISTORICAL CORPORATE BOND SPREADS TO 10-YEAR U.S. TREASURIES**



Source: S&P Global Fixed Income Research.

CHART 6: **HISTORICAL CORPORATE BOND YIELDS – 10-YEAR MATURITY**



Source: S&P Global Fixed Income Research.

Market snapshot: corporate debt and infrastructure finance *continued*

U.S. infrastructure – market update

- Despite an active start to U.S. infrastructure market this year, infrastructure and public-private partnership ("P3") activity will likely be sidelined as government officials deal with the COVID-19 crisis. As governments look to help individuals and businesses endure the crisis, they could come out of the crisis with fewer resources than before, which may drive the need for governments to pursue projects with fewer resources, more flexibility and more creativity and, therefore, create an uptick in infrastructure and P3 activity on the other side of the pandemic.
- P3 projects actively in procurement include transportation projects, namely the Maryland Managed Lanes project and Georgia SR 400, and Denver's Triangle Project at the National Western Center. University energy projects continue to be a hotbed of P3 activity. The University of Iowa privatized its utility system, receiving over $1 billion for the University's endowment. The University of Idaho is in procurement for the management and operation of the University's utility systems, while other universities, including Louisiana State University, University of Maryland, Dartmouth, Washington State and Wayne State, explore energy project opportunities.

Mesirow Financial featured deals

Mesirow Acquires the Las Vegas Raiders Headquarters and Practice Facility

Valued in Excess of $220 Million

Mesirow Acquires the Las Vegas Raiders Headquarters and Practice Facility, Valued in Excess of $220 Million

Mesirow Financial acquired the new Las Vegas Raiders corporate headquarters, a 323,000 square foot building located in Henderson, Nevada that includes a team training facility, a performance center and general office space. The Raiders organization will lease back the property for a 29-year term with an additional 70 years of extension options. Led by Senior Managing Directors Douglas Barker and Garry Cohen, Mesirow's Sale-Leaseback Capital group arranged for the facility's purchase. Acquisition financing was structured in collaboration with the firm's Credit Tenant Lease (CTL) and Institutional Sales and Trading groups. This transaction signifies the strength of Mesirow's Sale-Leaseback business, having executed more than $6.5 billion[1] in sale-leaseback transactions while serving the long-term strategic needs of organizations such as the Raiders.

SELL-SIDE ADVISOR

SAFRAN

HAS SOLD

base2 solutions

to

Belcan

a portfolio company of

ae Industrial Partners

M&A sell-side advisor to Safran S.A.

Mesirow Financial acted as the exclusive financial advisor to Safran S.A. ("Safran"), a global tier-one supplier of systems and equipment to the aviation, defense, and space markets, on the sale of its subsidiary Base2 Solutions ("Base2" or "the Company") to Belcan, LLC ("Belcan"), a portfolio company of AE Industrial Partners, LP ("AEI"). The sale of Base2 serves as part of Safran's ongoing portfolio optimization efforts following the acquisition of Zodiac Aerospace in 2018. Base2 specializes in providing technology consulting and engineering solutions that address complex business issues in industries requiring niche technical knowledge, providing services including custom software development, DevOps, information security, and systems engineering and integration. This transaction represents another successful assignment completed by Mesirow Financial's Investment Banking group highlighting the firm's global reach and its transaction experience within both the Aerospace & Defense and Technology sectors.

1. As of 3.31.20.

Mesirow Financial featured deals *continued*

ClevelandPublicPower

$83,580,000

Public Power System Revenue Refunding Bonds, Series 2020 (Tax-Exempt and Taxable)

SENIOR MANAGER

Mesirow Financial's 'ideas-oriented' approach to banking allows the City of Cleveland to execute a tax-exempt advance refunding of taxable bonds

Mesirow Financial recently priced the City of Cleveland Public Power's (CPP) Series 2020 Public Power Revenue Refunding Bonds. The financing originated as an idea presented by Mesirow Financial which sought to execute a tax-exempt advance refunding of the outstanding Series 2014 Taxable Bonds. The Series 2014 Bonds were originally issued to advance refund outstanding tax-exempt debt that had already utilized its advance refunding feature. Given that the escrow associated with the refunded bonds has now been extinguished, we are able to advance refund a portion of the taxable bonds on a tax-exempt basis. After thorough tax analysis from bond counsel, the City decided to pursue this idea. The results of the tax analysis deemed that approx. 85% of the outstanding bonds could be advance refunded on a tax-exempt basis, while the rest 15% would have to be taxable. The refinancing helped save the City approx. $14 million in aggregate.

Capital Markets

Established broker-dealer offering a suite of innovative financial products and services combined with extensive market expertise to serve the unique liquidity needs of your institution.

- Credit Tenant Lease Finance
- Fixed Income Sales and Trading
- Public Finance
- Sale-Leaseback Capital
- Structured Debt Products

Investment Banking

Boutique M&A advisor serving the middle-market and providing customized solutions to meet the unique needs of our clients.

About Mesirow Financial

Mesirow is an independent, employee-owned financial services firm founded in 1937. Headquartered in Chicago, with locations around the world, we serve clients through a personal, custom approach to reaching financial goals and acting as a force for social good. With capabilities spanning Global Invest-ment Management, Capital Markets & Investment Banking, and Advisory Services, we invest in what matters: our clients, our communities and our workplace culture. To learn more, visit mesirow.com and follow us on LinkedIn.

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