Mesirow

Market Update

In this issue

How P3 financing helped make a new healthcare center a reality

For public sector officials tasked with financing infrastructure projects – and the private contractors who work with them – a public-private partnership (P3) model can offer distinct advantages. Mesirow recently advised the University of Illinois in a transaction that may provide valuable insight into P3 financing.

First, a bit of background. A P3 is a unique contractual arrangement. A government agency contracts with a private partner to build or renovate a public infrastructure project – roads, bridges, hospitals, water treatment plants, transit systems, etc. Under the right circumstances, P3s allow the public sector to integrate all parts of a project under one contract while retaining ownership. This allows them to take advantage of upfront collaboration to help increase efficiency. Credit risk is spread out among partners.

A crucial part of the P3 model is the mitigation of risk for taxpayers. Unlike a typical scenario where the public sector funds a project throughout construction, a P3 can finance part of the capital cost during construction and/or design phases by borrowing money or putting up its own funds. P3 financing lets public institutions shift administration costs to contractors and extend the time frame for payment. In addition, being responsible for costs motivates P3 partners to complete their project on time and on budget.

P3 case study: UIC's Outpatient Surgery Center and Specialty Clinics building

A new 200,000 square-foot clinic currently under construction near the University of Illinois Chicago Hospital serves as an outstanding example of what P3 financing can achieve. The unique ownership and transaction structure of the P3 model allowed the Board of Trustees to exercise control over several aspects of the operation, without bearing the administrative burdens typically associated such a project.

The deal was innovative: one of the first tax-exempt healthcare P3 financings in the country and the first in Illinois. Mesirow's Public Finance and CTL and Structured Debt Products teams acted as the senior underwriter.

Working throughout the pandemic, the teams strategically navigated several unique challenges in structuring and marketing an Illinois hospital credit. Showing considerable creativity, the team was still able to secure a better-than-expected credit rating for the bonds.

Given the singular nature of credit within the healthcare space, and the lack of comparable deals, price discovery was essential. The Series 2020 Bonds were met with heavy investor demand, reaching oversubscription before the order period had concluded, resulting in a downward adjustment in spreads from pre-marketing to final pricing.

The success of the project provides an outstanding example of how a P3 financing model gives those responsible for financing public works – and the private contractors who work with them – a powerful tool to build projects for the public good.

Market snapshot: Middle market mergers & acquisitions

1Q2021 At a glance

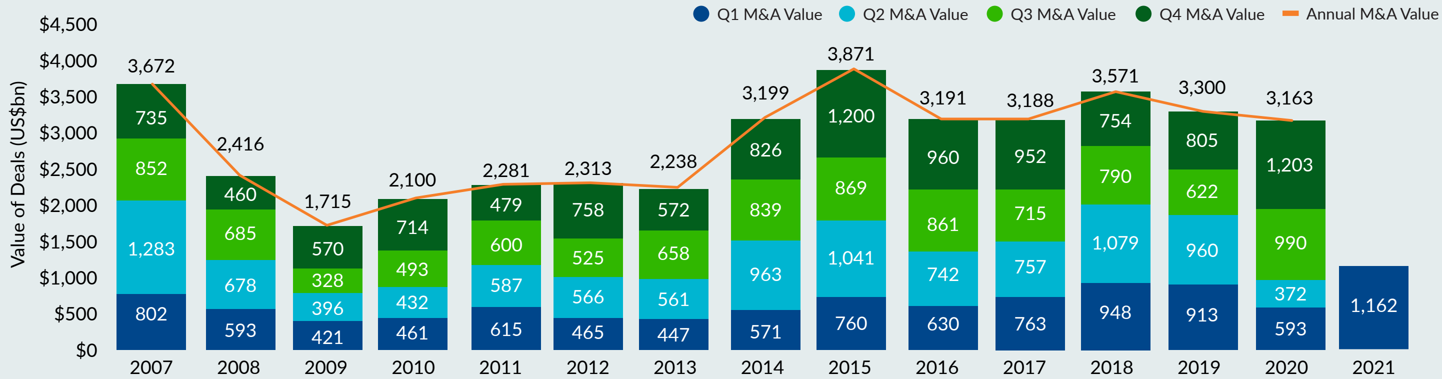
- The global deal value in 1Q2021 increased 96.9% over 1Q2020 deal value
- Carrying forward the momentum of 4Q2020, global mergers and acquisitions activity turned in a strong first quarter performance
- Cross-border deals were a significant contributor to overall activity, hitting a record of $516.6 billion for first quarter activity and nearly returning to historical averages of more than 44.4% of total deal value
- North America, dominated by the US, reached its highest market share in 14 years netting 54.4% of global deal value, up from 48% in 4Q2020
- "Carrying forward the momentum of 4Q2020, global mergers and acquisitions activity turned in a strong first quarter performance."
  – Mark Druskoff, Data-Driven Content Coordinator

Private Equity started 2021 with a robust volume

- The COVID-19 pandemic and the ongoing recovery appear to have acted as catalysts for sponsors to deploy capital as dry powder levels reached a record high in June 2021, surpassing $2 billion
- In 1Q2021, TMT continued its deal-making dominance with $344.8 billion in deal value and 1,237 total deals in the space, making up ~29.7% of all deal values
- In 2020, in spite of the pandemic, global private equity investment, buoyed by a reported dry-powder of $1.7 trillion, climbed to its highest annual value since the Global Financial Crisis. This growth is expected to accelerate this year considering economic recovery and a rebound in fundraising, with 97 US PE funds amassing $88.5 billion in 1Q2021

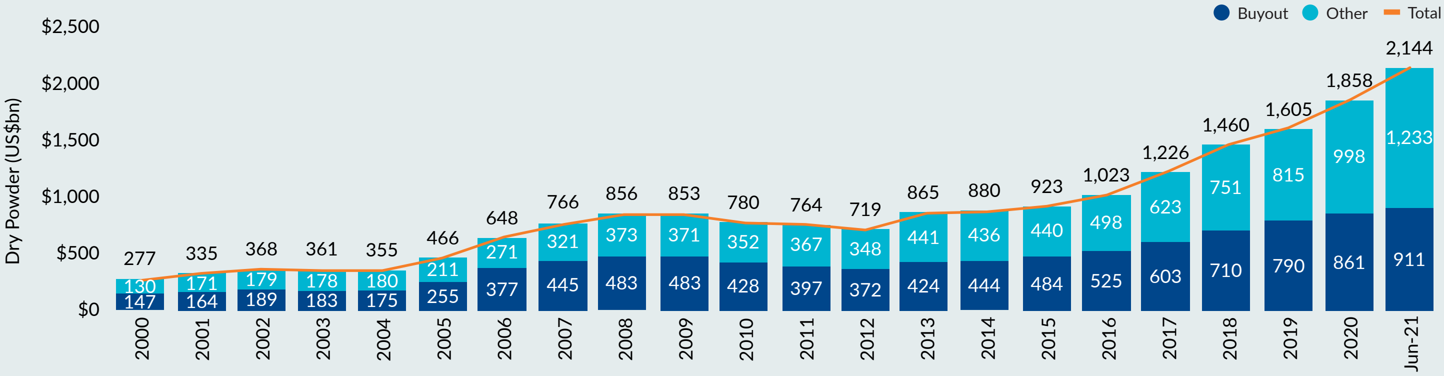
Source: Pitchbook.com

CHART 1: QUARTERLY GLOBAL M&A COMPARISON



Source: MergerMarket. Data as of 6.15.2021.

CHART 2: 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. Data as of 6.18.2021.

Market snapshot: Municipal bonds

In the first half of 2021, the economic recovery was evident both in continued municipal fund inflows and the compression of credit spreads. Save for a single week of outflows during the week ending March 3, municipal fund flows have remained positive for the entire year. On net, municipal fund flows for YTD 2021 total over $28.331 billion as of June 9, a stark contrast to last year, when net fund flows were negative at approximately ($5.7 billion) at this point in the year. In fact, municipal fund inflows are on pace to exceed their strong total for 2019, a year characterized by a remarkable 51 straight weeks of positive flows. This development signals renewed investor confidence in municipals—as well as the desirability of tax-advantaged instruments given legislative changes such as the SALT deduction cap implemented in 2017 and the possibility of tax increases on high-income households as a result of the Democratic control of the White House and Congress.

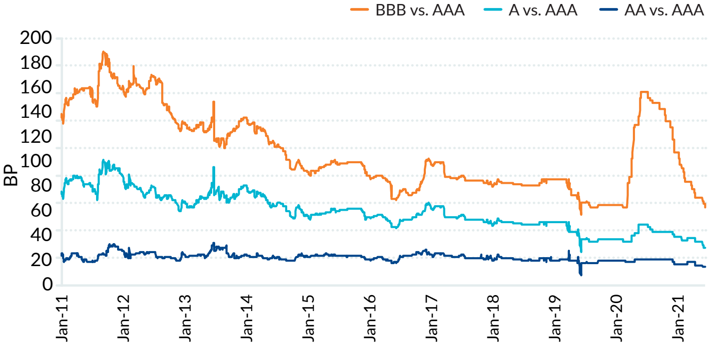
Supply has also been relatively strong in the first half of 2021, with total issuance reaching over $193.2 billion as of the week ended June 11. This slightly outpaces 2020, which had total issuance of just over $173.2 billion at this point, although issuance was obviously slowed due to the COVID-19 pandemic. It remains to be seen whether the trend we have observed over the last several years of steadily increasing municipal issuance will continue in 2021, although overall market conditions remain extremely favorable to borrowers. Of particular note is the change in taxable issuance since the elimination of tax-exempt advance refundings in 2017, which has spurred many issuers to consider taxable advance refundings instead. As a percentage of total issuance, taxable bonds represented 9% of primary market issuance in 2018, 18% in 2019, and 31% in 2020. Thus far in 2021, taxable issuance has decreased somewhat to about 23% of total issuance, perhaps a reflection of the belief among some market participants that tax-exempt advance refundings may be reinstated in the near future, given that bills to do just that are currently in the US House and Senate.

The economic recovery is also visible in the compression in credit spreads after their dislocation in Spring 2020. As of June, credit spreads for BBB-rated issuers have returned to more or less pre-pandemic levels, and spreads for A and AA-rated issuers have actually decreased since March 2020. This likely represents not only improving fundamentals for state and local governments hit hard by COVID-19 but is also a result of rather strong demand for municipal bonds. In an extremely low-interest-rate environment such as the one we are in now, yield-hungry investors continue to turn to munis as a source of reliable, tax-free income, and demand for even riskier municipal bonds continues to grow. We expect more borrowers—especially lower-rated credits that may have sat out the last few months due to less-than-favorable macroeconomic conditions—to enter back into the market as the economy recovers.

What about inflation? The unprecedented amount of federal aid delivered to keep the economy afloat during the pandemic, combined with stimulating action and low rates from the Federal Reserve, has caused some inflation concerns to bubble to the surface in the first quarter of 2021, sending the 20-year MMD to a nearly-one-year high of 1.60% in late February into early March. In May, the US consumer price index surged 5% from a year earlier. Prices for raw materials, such as lumber, famously soared (although they have come back down in recent weeks). Notably, the US Treasury curve has steepened since the start of 2021, with the 30-year UST rate increasing to 2.19% from 1.66%. However, there are reasons to believe that fears of renewed 1970s-style inflation are overblown, or at least that the increase in prices is more of a temporary blip in the context of a broader economic recovery. The 20-year treasury rate is actually down about 24 basis points from its mid-March peak in spite of the CPI numbers that raised some eyebrows on Wall Street. Additionally, MMD rates on the back end of the curve are currently not far off from where they started the year.

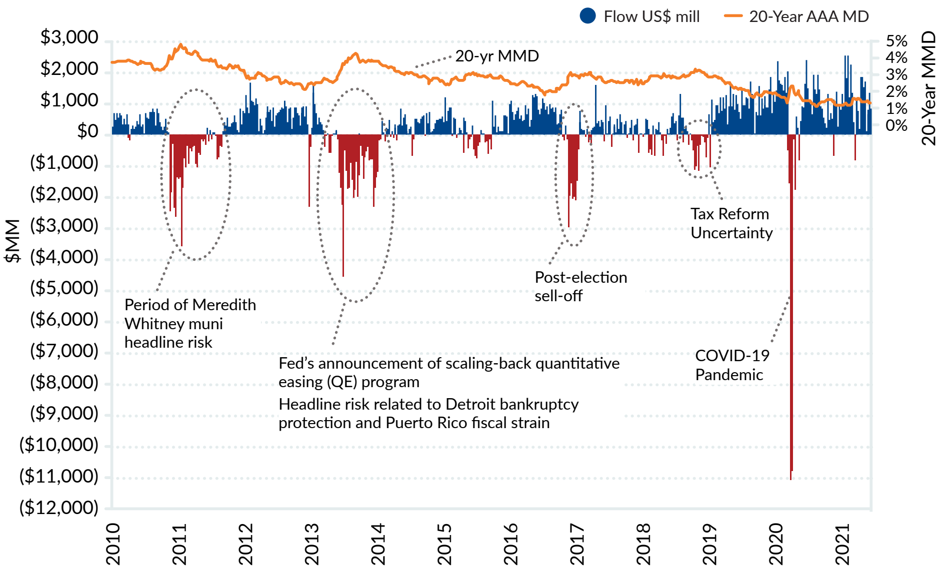
That being said, the Federal Reserve on June 16 signaled that it was keeping an eye on inflation pressures, stating that it expected to make two interest rate hikes by the end of 2023, according to its updated summary of economic projections. Previously, officials had anticipated rates to remain at their current near-zero levels at least into 2024. While Fed Chairman Jerome Powell cautioned against reading too much into the Fed's projections, this indicates that the central bank may be taking its foot off the gas, so to speak, sooner than originally expected thanks to the rapid economic recovery.

CHART 3: **30-YEAR CREDIT SPREADS**



Source: The Municipal Market Monitor (TM3).

CHART 4: **MUNICIPAL BOND FUND FLOWS AND 20-YEAR MMD**



Source: EPFR Global Fund Flows and Allocations Data – All Muni Funds (Retail and Institutional Funds) | As of the weekly reporting date June 9, 2021

TRAILING 16-WEEK DATA

Muni Fund Reporting Date	Weekly Fund Flow ($MM USD)	20-Yr AAA MMD (%)
2/24/2021	$420.89	1.55%
3/3/2021	($810.70)	1.60%
3/10/2021	$1,134.00	1.48%
3/17/2021	$1,093.89	1.50%
3/24/2021	$771.50	1.54%
3/31/2021	$190.58	1.55%
4/7/2021	$1,864.69	1.49%
4/14/2021	$1,868.20	1.40%
4/21/2021	$1,512.74	1.36%
4/28/2021	$1,714.96	1.37%
5/5/2021	$125.74	1.38%
5/12/2021	$810.43	1.41%
5/19/2021	$651.89	1.39%
5/26/2021	$1,355.71	1.33%
6/2/2021	$827.50	1.31%
6/9/2021	**$2,155.62**	**1.20%**

Market snapshot: Corporate debt and infrastructure finance

Corporate debt finance

The US corporate bond market has rallied YTD, as the market has reflected investor confidence that US companies have successfully endured the pandemic. This result has been sustained by vaccine rollouts, economic stimulus and support from the Federal Reserve. The average spread investors demanded to hold corporate bonds has steadily decreased after widening sharply amid the pandemic in April 2020. Average investment-grade corporate bond spreads over US treasuries were approx. 70 basis points in June 2021 according to S&P. That was down from approximately 86 basis points in January 2021. The average spread over treasuries on high yield corporate bonds narrowed by approximately 70 basis points during this period.

10-year US treasury yields ended 2Q2021 at approximately 1.48%, an increase of approximately 55 basis points compared to the start of 2021. In comparison, the yield on the 30-year US treasury bond rose to 2.07% at the end of 2Q2021, approximately 41 basis points above where it started the year. Short-term rates rose more relative to long-dated yields over the first half of the year, signaling the potential that the market participants' optimism for long-term economic recovery may be beginning to wane. Despite the increase in yield, US treasury rates remain at historically low levels, as the central bank continued their stimulus activity, purchasing $120 billion of dollars' worth of treasuries and mortgage securities each month.

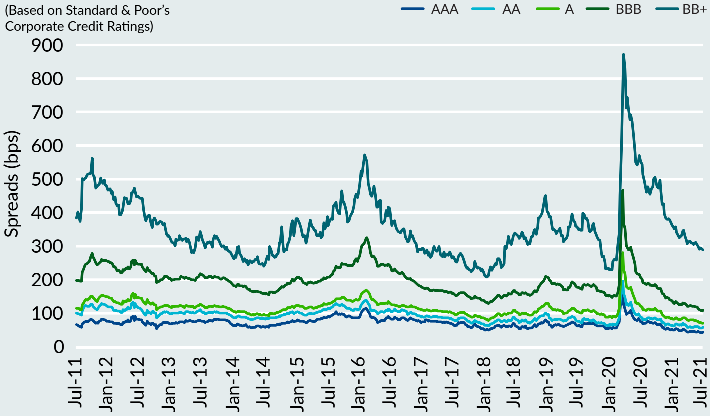
New corporate bond issuance through 2Q2021 was $1,130.5 billion, trailing slightly behind last year's record-breaking year in terms of new corporate bond issuance. Through the first two quarters last year, new corporate bond issuance was $1,438.8 billion.

US Infrastructure

The US government is seemingly focused on providing a spark to the infrastructure industry. A bipartisan infrastructure bill is currently being negotiated by US law makers, but the lack of congressional consensus has not resulted in an approved stimulus program. According to a draft outline of the proposed bill, the infrastructure plan would dedicate $579 billion in new infrastructure spending in addition to baseline spending for a total of $973 billion over 5 years or $1.2 trillion if extended to an 8-year timeline. The breakout of the new spending is roughly $312 billion on transportation and $266 billion on other infrastructure, like water, broadband and power. Among the proposed financing sources listed in the plan, public-private partnerships, private activity bonds, direct pay bonds and asset recycling for infrastructure investment are included.

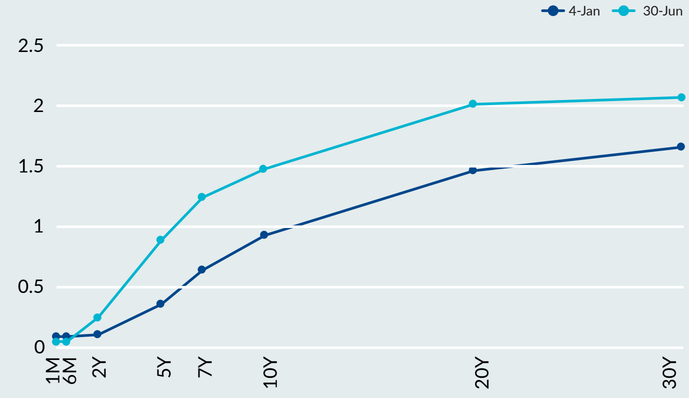
After several infrastructure projects were delayed or canceled due to the pandemic, there has recently been an influx in new public-private partnerships that have gone out to public procurement. Examples include several broadband infrastructure projects that have entered the market, while the University of Maine is in procurement for the redevelopment of a historical building on its campus. PennDOT is currently asking teams to bid for a major bridge replacement and rehabilitation project. Airport projects in procurement include the AirTrain at LaGuardia Airport and an air cargo facility in Atlanta.

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



Source: S&P Global Fixed Income Research.

CHART 6: TREASURY CURVE SNAPSHOTS AT 1Q BEGINNING AND 2Q END



Source: US Department of the Treasury.

Mesirow featured deals

SELL-SIDE ADVISOR

PRATT MILLER

HAS BEEN ACQUIRED BY

OSHKOSH™

M&A sell-side advisor to Pratt Miller

Mesirow acted as exclusive financial advisor to Pratt Miller Engineering & Fabrications, Inc. ("Pratt Miller" or the "Company") on its sale to Oshkosh Corporation (NYSE:OSK) ("Oshkosh"), a leading designer and manufacturer of mission-critical vehicles and essential equipment used in numerous end markets and applications. Headquartered in New Hudson, MI, Pratt Miller is a full ground vehicle development company that specializes in advanced engineering, technology and innovation across the defense, mobility and motorsports markets. Founded in 1989, the Company's vertically-integrated and industry-leading product development processes are responsible for significant advances in dynamic growth areas such as artificial intelligence, robotics, autonomous and connected systems & electrification. The acquisition of Pratt Miller will strengthen Oshkosh's capabilities, technology platform and value proposition while positioning both companies for strategic growth.

City of New Britain, CT

$60,355,000

Taxable General Obligation and General Obligation Refunding Bonds Series 2020AB

SENIOR MANAGER

Innovative debt restructuring aids the City of New Britain in addressing budget challenges

The City of New Britain was experiencing significant budget pressure in fiscal years 2021-2022, partly due to the COVID-19 pandemic. Mesirow ("MFI") structured the transaction with a taxable and tax-exempt series in order to take advantage of currently callable maturities maturing in Fall 2020, thereby reducing the overall cost of the financing and generating large annual savings for the City. By strategically allowing the more cost-effective tax-exempt refunding bonds to mature at the end of the amortization period, MFI also minimized the cost of extending taxable debt. MFI additionally structured the financing to take advantage of the temporary state legislation (Connecticut Public Act 17-147) which permits municipalities to restructure their debt – allowing the financing to have minimal impact on the City's overall debt service profile after the initial relief period. MFI's pre-marketing efforts yielded more than favorable results for the City when the Bonds priced. The tax-exempt basis point spread to MMD on the 2044 term bond was bumped (or reduced) by seven basis points after the initial order period. The spreads to UST for the taxable component remained tight from 75 – 205 basis points through the order period. This debt restructuring demonstrates Mesirow's ability to provide innovative & thoughtful strategies, as well as superior execution, to our public sector clients.

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About Mesirow

Mesirow is an independent, employee-owned financial services firm founded in 1937. Headquartered in Chicago, with offices 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 Investment Management, Capital Markets & Investment Banking, and Advisory Services, we invest in what matters: our clients, our communities and our culture.
To learn more, visit mesirow.com and follow us on LinkedIn.

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