



GOVERNMENT OF BERMUDA

The Ministry of Finance

Ministry of Finance Headquarters

Ministerial Statement

To the House of Assembly

By

The Hon. Curtis L. Dickinson, JP, MP.

Minister of Finance

US\$620 million 4.75% Senior Unsecured Notes due 2029

Date: 23rd November, 2019

Mr. Speaker, Honourable Members are advised that on Thursday November 15, 2018, the Ministry of Finance successfully accessed the international capital markets and raised US\$620 million in “long” 10-year bonds. Therefore, in accordance with Section 2 (3) of the Government Loans Act 1978, I am pleased to rise this morning to inform this Honourable House of the execution of this borrowing transaction pursuant to the requirements of the Act.

Mr. Speaker, I can now report on this successful capital markets transaction which raised USD620 million in 10-year bonds, at an all-in yield of just 4.75% by the Government of Bermuda. The transaction represents the lowest ever bond spread to date achieved by the Government of Bermuda in the public bond markets.

What do I mean by the term “bond spread?” The bond spread is the difference between the yield on Bermuda’s bond as compared to the yield on the comparable referenced US Treasury 10 year bond. This spread is the measure of what investors use to assess the level of risk inherent in a bond issuance and it basically is an indication of whether we obtained a good deal or not: the smaller the spread, the better the deal.

Mr. Speaker, here is a brief overview of the process that led to this successful transaction.

As announced on Wednesday November 7th 2018, the Bermuda Government conducted a series of meetings and calls with fixed income investors in Europe and the United States to provide an update on economic and fiscal developments in the country since the PLP came into Office. These meetings were also a part of the Government's process of evaluating market conditions and potential funding opportunities to address its borrowing requirement laid out in the National Budget Statement for fiscal year 2018/2019. At the same time it was also announced that concurrently, Bermuda would offer to repurchase for cash, two series of our outstanding USD Bonds.

Mr. Speaker, after hearing of the Government's plans to grow our economy and reduce our deficit, feedback from perspective investors was very constructive and supportive of the proposed transaction. Accordingly, the subsequent transaction attracted healthy demand from some of the world's top investors.

Given the receptive context for new US\$ debt issuance and the favourable prevailing base rates, the Government took the opportunity to not only finance the remaining fiscal 2018/19 budget deficit, but also to refinance a \$135 million loan facility with a local financial institution that is scheduled to mature in 2019 and engage, concurrently with the new issue, a targeted liability management transaction strategically aimed at repurchasing all of our 5.603% coupon bonds maturing in 2020 and reducing up to \$200 million of our 4.854% coupon bonds maturing in 2024.

Mr. Speaker, it is important to note that although the Government issued a total of \$620 million in new bonds, the majority of the proceeds were used to refinance existing indebtedness and to fund the anticipated deficit for fiscal year 2018/19.

As mentioned previously the Government of Bermuda conducted an effective and well-timed roadshow that included calls and in-person meetings with almost 40 global accounts during a four-day marketing effort

roadshow in the major hubs in Europe and the US. These accounts would eventually represent ~63% of the final allocated book.

Mr. Speaker, following the roadshow, on Thursday November 15th 2018 the transaction was announced and the transaction immediately attracted healthy demand and the attention of the world's top institutional investors, allowing the interest rate on the notes to be reduced, thereby reducing that “bond spread.”

The bond spread and very large order-book confirmed that the market has a very favorable view of the new Government’s economic and fiscal plans. The success of this transaction is an independent, objective validation of these plans.

Mr. Speaker, highlights of the transaction include:

- On Thursday November 15, 2018, the Ministry of Finance successfully accessed the international capital markets, placing via intraday execution, a US\$620 million “long” 10-year bond offering due February 2029
- This resulted in a low coupon of 4.75%
- The weighted-average cost of borrowing has been reduced from this transaction
- Interest expense saving of just over USD1.0 million per year
- Markets continue to favor Bermuda, pricing 20 basis points inside the last 10-year issued by the Government in October 2016 (T+175bps vs. T+195bps)
- Reductions achieved even with US Treasury 10-year rates widening 130 basis points since October 2016 (1.77% then vs 3.09% today)
- Removed USD200 million from the largest maturity tower, taking down the 2024s from USD750 million to USD550 million (smoothing out the entire debt maturity profile)
- Refinancing of shorter-term maturities; Bermuda now has no major bonds due until 2023 instead of in 2020, significantly improving the liquidity profile

- True show of support for the Bermuda credit from top global accounts. Orderbook showed a healthy oversubscription of 3.2x composed of some of the world's top, high-quality asset managers (fund managers, insurance, and pension funds), underpinned by US accounts, and well-supported by the UK and Continental Europe accounts.
- Higher total orderbook than in 2016 (USD2.0bn vs. USD1.5bn)
- Notable 25bps tightening from IPTs of T+200 to directly launching the trade at T+175 (usually only 15bps tightening in most deals), skipping the usual guidance step in an effort to maintain the healthy momentum in the book while mitigating keeping the trade open under softer markets
- Well-timed execution, with the US Treasury 10-year reference yield dipping to its lowest point in a month (3.09%) after trading at an average of 3.15% during the past four weeks and trading as high as 3.24% just one week back

Mr. Speaker, this landmark transaction marked the Government of Bermuda's return to the international capital markets since 2016, successfully reducing its average cost of debt as well as extending the average life of its debt maturity profile.

Mr. Speaker, the Government team that was involved in the Road Show was: The Hon. E. David L. Burt JP, MP (Premier) yours truly (The Hon. Curtis L. Dickinson (Minister of Finance)) and Anthony Manders (Financial Secretary). The Government team was also supported by key senior officials in the Ministry of Finance Headquarters and the Attorney General's Chambers.

The Ministry of Finance wishes to thank HSBC Bank of Bermuda, HSBC Securities (USA) Inc., and Citigroup Global Markets Inc. joint bookrunners for the deal, Milbank, Tweed, Hadley & McCloy LLP (the Government's USA attorney), Simpson Thacher & Bartlett LLC (HSBC's USA and Citi's attorney) for their roles as strategic partners in helping to shape a very

positive outcome for the Government of Bermuda in this recent issue in the global markets.

Thank you Mr. Speaker.