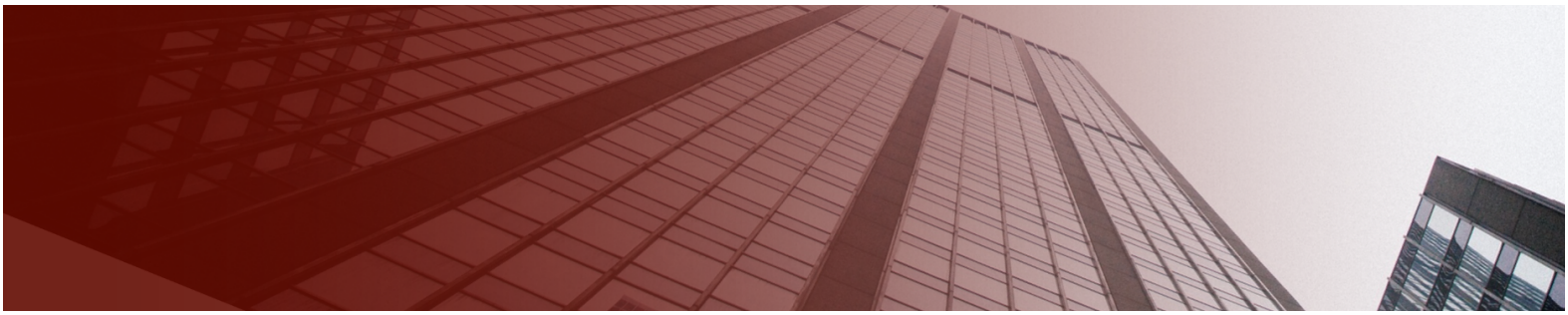


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Cross-Border Bond Issuance Dynamics

Overbond



State of Cross-Border Bond Offerings

On April 7th, 2017, treasurers from some of Canada's largest corporate and financial debt issuers gathered at the CFA Society Toronto luncheon to provide insight and share their considerable experiences in accessing international markets to meet their debt funding requirements. The Overbond team engaged with the industry professionals to discuss key trends and considerations in cross-border bond issuance.

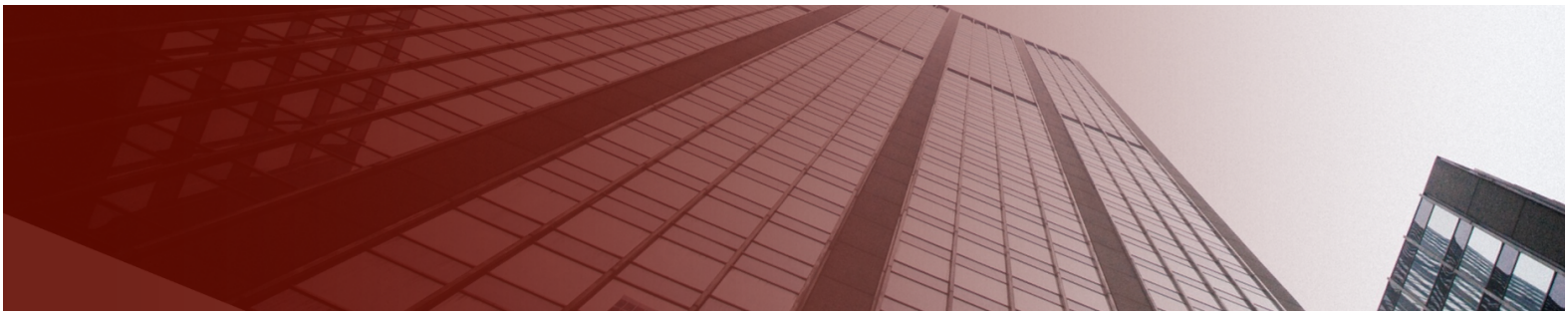
Experienced Treasurer Panel

Panelists included Paul Brock (Vice President & Treasurer) from Magna International, Glenn Brandt (Senior Vice President Corporate Development and Treasury) from Rogers Communications and Kelly Marshall (Managing Partner, Corporate Finance) from Brookfield Asset Management. Liam O'Sullivan (Portfolio Manager) from RP Investment Advisors moderated the panel discussion.

Treasurers' Take on the Market

Discussion topics included benefits of tapping offshore bond markets, key differences of issuing securities in CAD/USD/EUR markets and techniques to monitor and evaluate cost of funding across multiple markets.

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Accessing Offshore Bond Markets

Treasurers discussed the rationale for issuing debt in multiple currencies and markets and highlighted the benefits of cross-border issuance. Below is a summary of borrowing program profiles of three participating issuers:

	Issuer		
Borrowing Program Profile	Magna International	Rogers Communications	Brookfield Asset Management
Credit Rating (DBRS)	A (low)	BBB	A (low)
Amount Outstanding (C$)*	$3.88bn	$17.86bn	$26.20bn
Number of Bonds Issued*	29	33	242
Market of Issuance*	Canada, U.S., Europe	Canada, U.S.	Canada, U.S., Europe, Brazil
Swap-covered Borrowing	Yes	Yes	Yes
Natural Hedge	Yes	No	Yes

Natural Hedge

Most corporations with foreign operations and sales issue bonds denominated in the foreign currency to provide a natural hedge for those cash flows. While issuers can issue foreign currency bonds domestically, it's common that foreign currency bonds are issued in the market of the foreign currency of denomination. For example, Mr. Brock from Magna International stated that the €550mn Eurobond offering in November 2015 was used to fund its recent acquisition of Germany automotive supplier Getrag.

Cost Incentive

There is an increasing number of issuers with no foreign currency funding needs still actively engaging in opportunistic swap-covered offshore issuance to lower their cost of funding. Mr. Brandt from Rogers Communications stated "we have US$6.7bn bonds outstanding (out of C$17.86bn entire borrowing program), all of which are swapped. We have seen a very advantageous change in the rates to a point where we could issue in the U.S. and swap back to Canadian dollars, and (all-in funding costs) would come well inside of where we were able to issue in Canada".

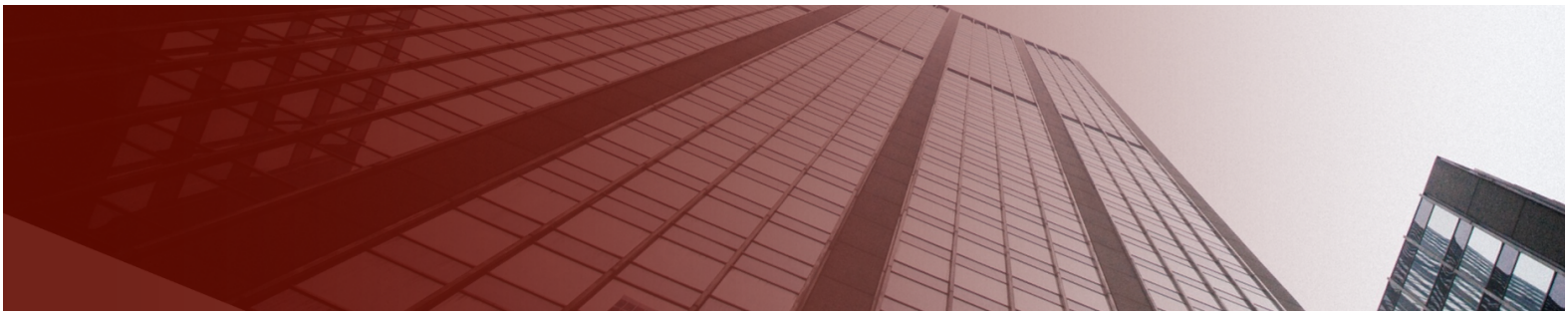
Funding Diversification

Treasurer participants stated that cross-border issuance is helpful in diversifying funding sources and investor base. It is desirable to maintain an active presence in multiple markets, as part of an issuer's funding diversification strategy. If one market were to shut down, the issuer can still access other markets. Mr. Marshall from Brookfield Asset Management noted that it would be imprudent to be an infrequent issuer in major markets such as the United States.

Market Incompleteness

Many Canadian corporations access the U.S. bond market in the long end of the yield curve, since the demand from U.S. investors significantly outweigh that from Canadian investors, thereby driving down the cost of debt capital. For instance, Mr. Brandt mentioned that all of Rogers Communications's outstanding U.S. bonds were issued in either 10-year or 30-year tenor. Besides investment grade issuers, the majority of Canadian high yield issuers choose to issue in the U.S., the largest market for high-yield bonds, to raise larger amounts of funding at a more attractive level.

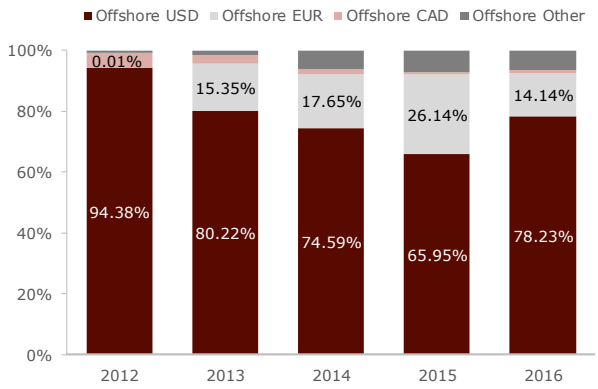
**Amount outstanding, number of bonds issued and market of issuance include subsidiaries, as of April 25, 2017 (Source: Thomson Reuters, Overbond).*



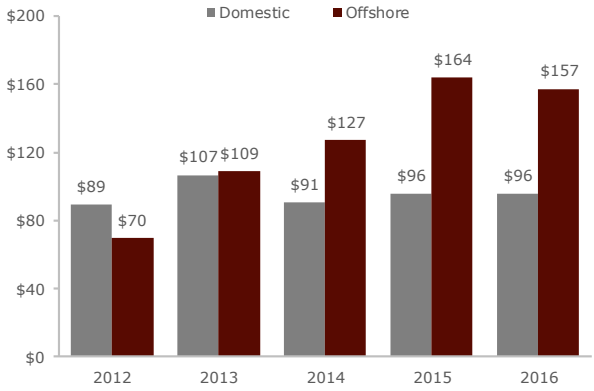
Key Market Analysis

Over the last five years, Canadian corporations have been increasingly active in offshore bond issuance and U.S. remains the most popular foreign market.

***Canadian Corporate Bond Issuance** (in C$bn)**



Offshore Bond Issuance Amount by Currency



1. Market Depth

Treasurers commented that the U.S. corporate bond market is the deepest and therefore is able to absorb large offerings without increasing cost of funding. Mr. Brandt mentioned that the 2014 Rogers Communications same-day issuance in both Canadian and the U.S. markets moved the Canadian market noticeably but not the U.S. market.

2. Secondary Market Liquidity

Since financial crisis in 2008, secondary bond market liquidity has dropped significantly across the globe. The consensus from treasurers is that investors, especially those in the U.S., demand a certain level of liquidity.

3. Issue Size

Mr. Brandt from Rogers Communications and Mr. Marshall from Brookfield Asset Management mentioned that C$300mn-C$500mn and US$500mn-US$750mn are ideal issue size ranges for Canadian and the U.S. markets respectively, to ensure optimal economics and desired secondary market liquidity.

4. Issue Frequency

Treasurers noted that there is an issuance premium for infrequent issuers and they would like to issue at least every two years in major markets such as Canada and the U.S. to remain relevant.

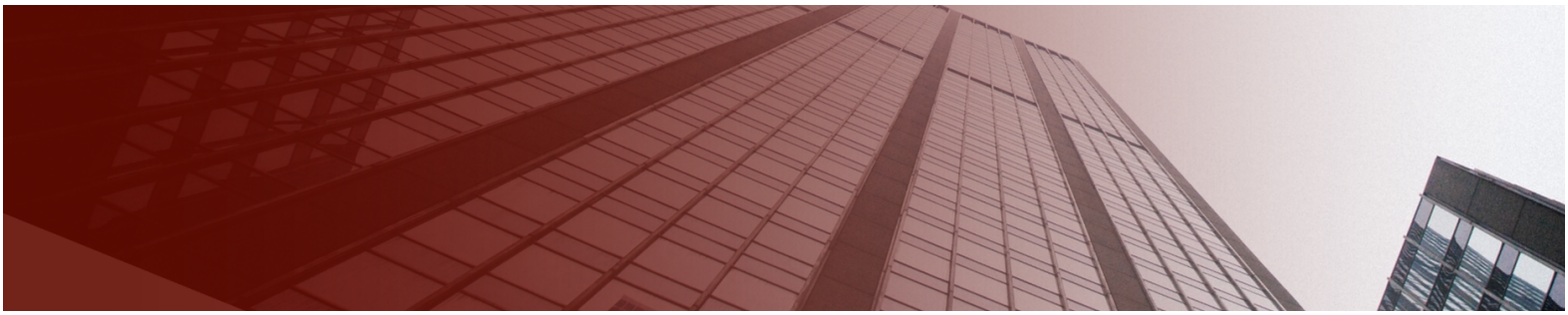
5. Regulatory Harmonization

Treasurers are not particularly concerned with the documentation associated with offshore issuance, mainly thanks to the widespread adoption of U.S.-Canadian Multijurisdictional Disclosure System (MJDS) that streamlines the regulatory reporting for cross-border offerings and enables Canadian issuers' easy access to U.S. capital markets.

6. Deal Marketing

Deal marketing best practices vary in different markets. Mr. Brock from Magna International stated that in-person roadshows are typically required in Europe whereas online roadshows would suffice in the U.S. Further, he added that regular non-deal roadshows are helpful in keeping foreign investors engaged.

**Source: Bank of Canada, Statistics Canada, Thomson Reuters, Overbond.*



Monitoring Global Funding Costs

It is important for treasurers to monitor funding costs across multiple markets on a regular basis.

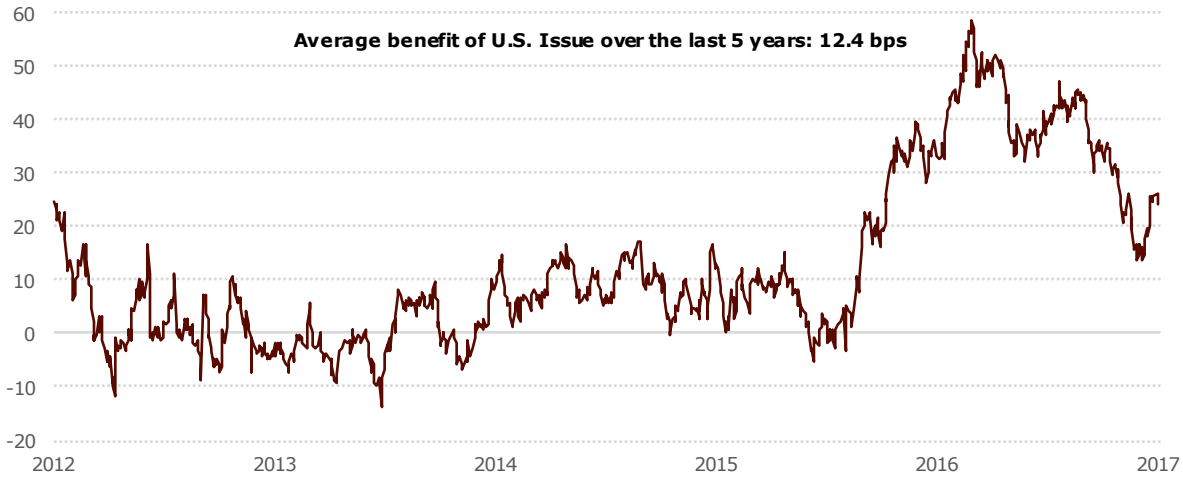
Swap-covered Foreign Currency Borrowing

The rapid development of currency swap markets has been driving the surge of cross-border bond offerings. Globally active borrowers with no foreign currency funding requirements are tapping multiple foreign markets opportunistically to lower their funding costs.

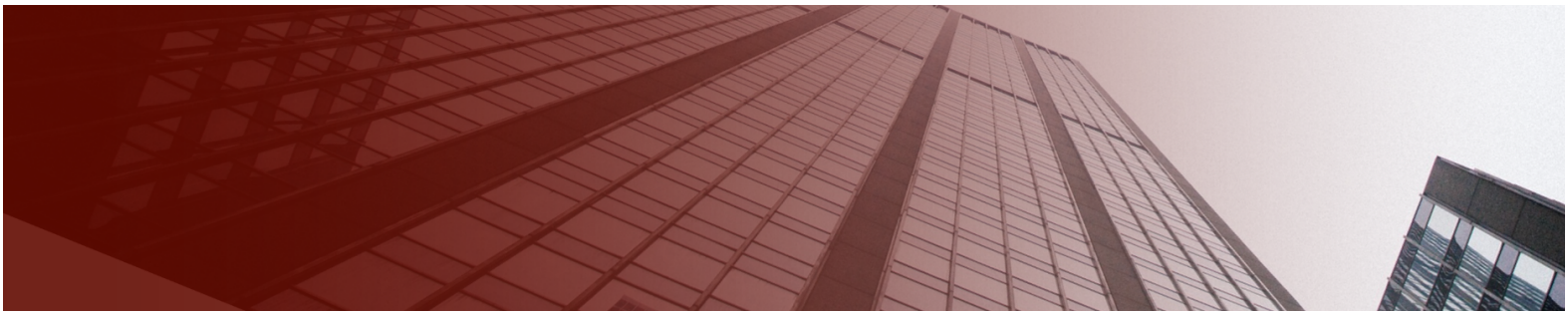
- Treasurers noted that pricing is the most important factor, with diversifying funding sources being a close second
- Treasurers mentioned that they make tenor and size decisions on an all-in swapped equivalent basis
- Most cross-border issuers like Rogers Communications track their new issue pricing and cost of hedging in all markets on a weekly basis

Benefit (Cost) of U.S. Issue vs. Domestic Issue: 7-year Bond for an A-rated Canadian Issuer (bps)*

From 2012 to 2016, the cost of funding in the U.S. is on average 12.4 bps lower than that in Canada for a 7-year bond issue by an A-rated Canadian issuer. The benefit of U.S. issue is especially significant since late 2015, reaching a peak of 58.6 bps in February 2016.



**Data Inputs: 7-Year Canadian US Corporate Generic "A" Index , 7-Year US Corporate Generic "A" Index, 7-Year Canada Swap Rates, 7-Year US Swap Rates, 7-year CAD/USD Basis Spreads; hedging costs not included (Source: Bloomberg, Thomson Reuters)*



Fintech Tools to Monitor Global Markets

Capital markets fintech platform Overbond offers issuers a suite of Corporate Bond Intelligence (COBI) tools. One of them is Swap Pricer, a digital tool that helps treasurers evaluate funding costs in multiple markets at any time.

Overbond Swap Pricer

- Real-time swapped equivalent rates for prospective new issues powered by Thomson Reuters data
- Instantaneous computation of CAD and USD single currency interest rate and cross-currency swap rates
- Interactive swap curve visualization for seamless comparison of implied funding costs against different benchmarks and in multiple markets

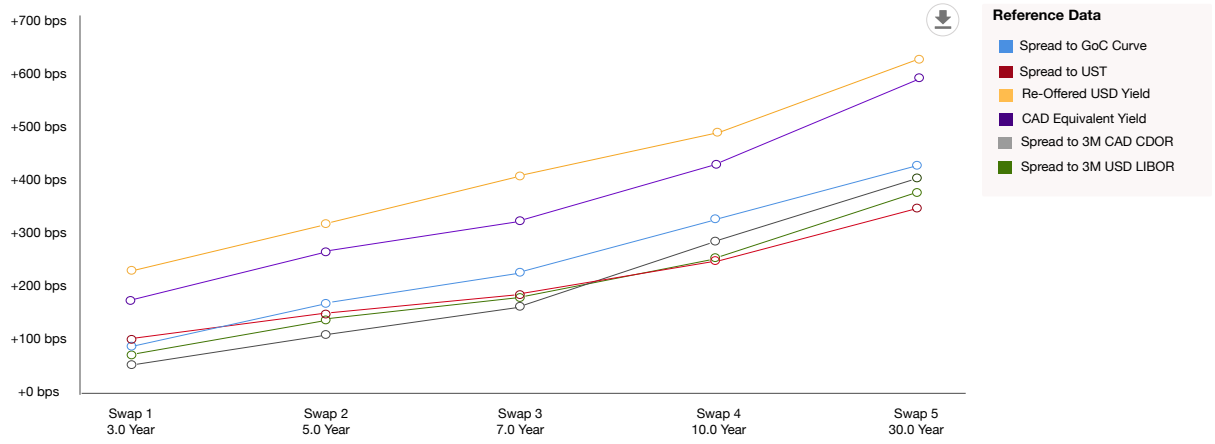
Swap Pricer

	Leg 1	Leg 2	Pricing Source
	USD	CAD	Cobi

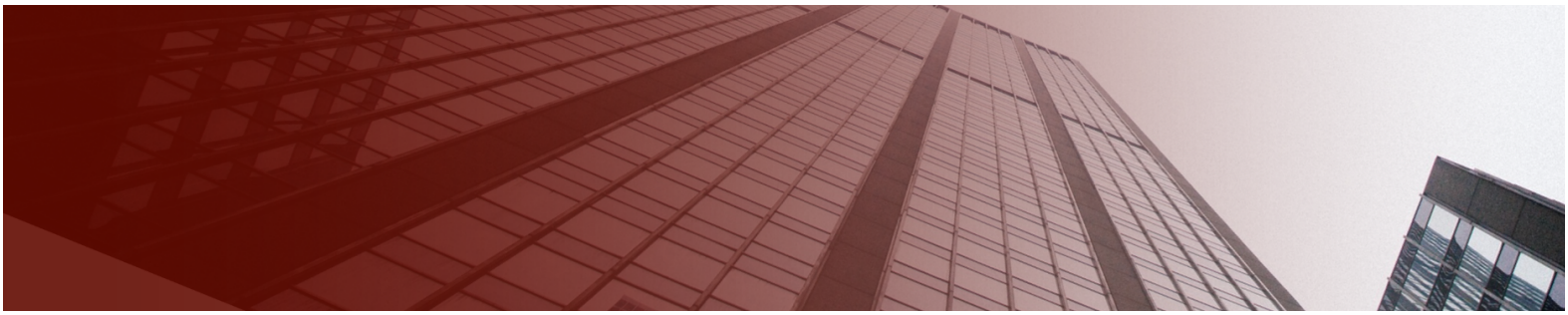
	Swap 1	Swap 2	Swap 3	Swap 4	Swap 5
Tenor	3.0 Years	5.0 Years	7.0 Years	10.0 Years	30.0 Years
Benchmark UST	T 1.50 04/15/2020	T 1.88 03/31/2022	T 2.13 03/31/2024	T 2.25 02/15/2027	T 3.00 02/15/2047
Benchmark Yield	1.435 %	1.802 %	2.081 %	2.273 %	2.926 %
Spread to UST	100.0 bps	120.0 bps	145.0 bps	185.0 bps	235.0 bps
Re-Offered USD Yield	2.435%	3.002%	3.531%	4.123%	5.276%
Spread to 3M USD LIBOR	+72.2 bps	+106.5 bps	+143.9 bps	+186.7 bps	+277.2 bps
Spread to 3M CAD CDOR	+57.5 bps	+98.5 bps	+142.4 bps	+191.7 bps	+288.7 bps
CAD Equivalent Yield	1.759%	2.345%	2.950%	3.692%	5.137%
Benchmark GoC Bond 1	CAN 1.50 03/01/2020	CAN 0.50 03/01/2022	CAN 1.50 06/01/2023	CAN 1.50 06/01/2026	CAN 2.75 12/01/2048
Benchmark GoC Bond 2	CAN 3.50 06/01/2020	CAN 2.75 06/01/2022	CAN 2.50 06/01/2024	CAN 1.00 06/01/2027	None selected
Benchmark Yield 1	0.812 %	1.037 %	1.200 %	1.483 %	2.150 %
Curve Adjustment	1.3 bps	3.4 bps	9.1 bps	8.2 bps	0.0 bps
Spread to GoC Curve	+93.4 bps	+127.4 bps	+165.9 bps	+212.7 bps	+298.7 bps

Model assumes standard swap conventions for day count and business days

Swap Analysis



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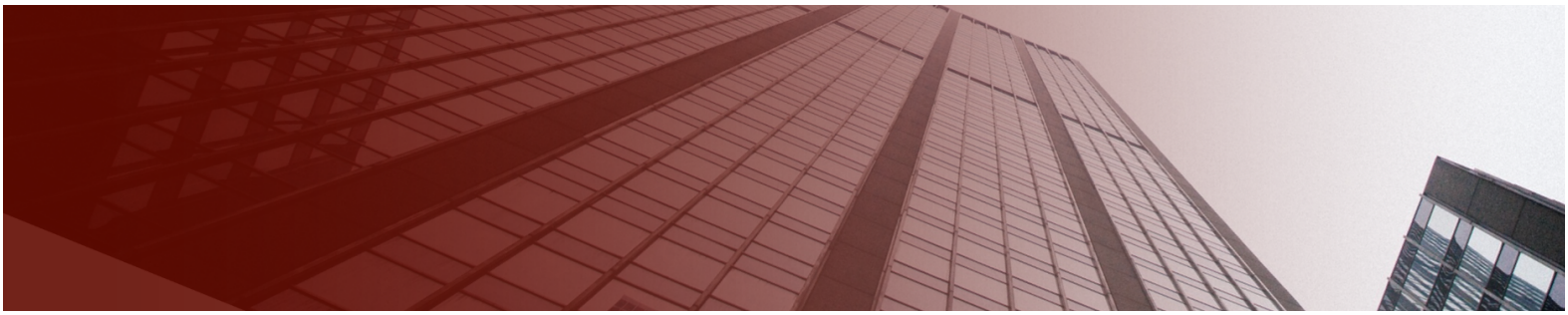


Conclusions

Key considerations in cross-border bond offerings have been discussed in the report. Below is a summary of our findings and conclusions:

1. Canadian offshore bond issuance has been growing at an unprecedented pace, surpassing domestic bond issuance ever since 2013
2. A number of issuers with no foreign currency funding requirements are frequently turning to offshore bond markets to achieve lower cost of funding
3. Besides cost incentive, issuers engage in foreign issuance for reasons including natural hedge, funding diversification and domestic market incompleteness
4. The U.S. market remains the go-to market for international issuance, especially for long bonds and high yield bonds
5. Deal marketing best practices vary in different markets and documentation is not a major concern for treasurers
6. Treasurers make tenor and size decisions on an all-in swapped equivalent basis
7. Capital markets fintech platform Overbond offers issuers Swap Pricer, enabling treasurers to monitor funding costs in multiple markets at any time

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About Overbond

Overbond brings all bond market participants together. It is a platform that makes primary bond issuance digital, transparent and secure. Overbond connects corporate and government issuers with dealers and investors directly.

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