

AVOIDING FIXED INCOME DETERIORATION

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AAll Los Altos
March 14, 2020





The lurch into bonds continues

Here's Where We Stand

AAA Rated Corporates	\$100.6 billion
AA Rated Corporates	\$431.8 billion
A Rated Corporates	\$ 2.34 trillion
BBB Rated Corporates	\$ 2.91 trillion

A-rated or above are at all-time lows which speaks volumes about credit quality

2020 International Bond Market Rates

It is inconceivable that negatively yielding debt continues to exist.

Country	5-Year	10-Year
US	.58%	.75%
UK	.19%	.28%
France	-.60%	-.31%
Germany	-.92%	-.74%
Italy	-.66%	1.17%
Spain	-.18%	.25%
Japan	-.22%	-.07%

*As of Midday, March 11,
2020*

Global Income Investors Are Desperate For Yield

10 year US Treasury Bond:

January 20, 2000:
6.79%

Clearly, this income deterioration was heaped upon us by the Global Central Banks



Underpinnings

- Over \$15 trillion of negative yielding bonds
- Not enough high-quality income producing assets to meet demand
- Global central banks cut interest rates about 90 times in 2019 and have distorted traditional lending and borrowing practices

MEGA TREND

- Longest economic recovery and biggest bull market in US history
- The consumer is the chief source of firepower for this growth

But beware of megatrends...

Disruptor

Streaming

Uber, Lyft

Online news alerts

Smart phones & other digital devices

Ecommerce

GIG economy, Robots, AI

Email

Smart watches

Text messaging, social media

Venmo, PayPal, Apple Pay, Bitcoin

Craig's List, Let's Go

Air B&B

Drones

Cyber ransom

Google, online search

Google maps, MapQuest

Electric vehicles

Vape pens

Disrupted

Big 4 TV networks, Cable
TV, broadcast radio

Taxis

Newspapers

Print media, books, movie
theaters, TV sets, cameras

Department stores

9-5 workers

US Post Office, fax machines,
copy machines

Mechanical watches

Face-to-face conversation

Money, credit cards

Garage sales, newspaper
classified ads

Hotels

Aerial reconnaissance &
filming

Bank robberies

Encyclopedias, dictionaries,
thesaurus

Thomas Bros. Maps

Internal combustion engines

Tobacco products

*Bottom line:
Productivity is a recovery
extender. And tech
acceleration is a
megatrend enabling
increased productivity.*

Are There Any Circumstances In Which You Should Invest In Non-rated Corporate Bonds?

Tender offers get rejected because their yields are irreplaceable

Yes!

Johnson Controls, Inc.

3.625% due July 2, 2024

Amount issued: \$500 Million

Amount outstanding after tender: \$31.4 million

Non-rated—ratings were withdrawn due to size. The company's other bond ratings: Baa2, BBB+, BBB

The company provides building products, technology solutions, air systems, HVAC controls, security, and fire safety solutions.

A Tender Offer

Andeavor Logistics LP

Taken over by MPLX

5.25% due January 15, 2025

Amount originally issued: \$750 million

Amount remaining post tender: \$42 million

Ratings withdrawn due to small outstanding size

Our clients are in at 4.35% Yield

What would you do?



The company owns and operates crude oil and natural gas pipelines, terminals, and storage facilities. Andeavor was acquired by MPLX.

M&A Plus Tenders Can Be A Mixed Bag

T	6.500%	3/15/29	Originally Now	\$ 3 billion \$115 million
CVS	6.250%	6/1/27	Originally Now	\$ 1 billion \$371 million
Celgene Corp	3.450%	11/15/27	Originally Now	\$ 1 billion \$ 38 million
CBS	7.125%	11/1/23	Originally Now	\$100 million \$ 45 million
LPT now PLD	4.375%	12/1/29	Originally Now	\$350 million \$ 38 million
Whole Foods	5.200%	12/3/25	Originally Now	\$990 million \$120 million
Viacom CBS Inc.	7.875%	9/1/23	Originally Now	\$225 million \$186 million

Bottom Line

- Do you or don't you scrape for extra yield?
- Will you or won't you give up liquidity?
- Do you or don't you tender?

Being flexible is the key...

Perfection in Bondland is one name: Microsoft, AAA.
Even Johnson & Johnson, AAA, has blemishes, scars
and legal problems up the wazoo.



The Bond Manager's Dilemma: No Tender Offer

APTIV: 4.15% due March 15, 2024

Rated Baa2, BBB, BBB

Company manufactures and distributes vehicle components.

Products include: Connector wires, safety restraint systems, pin headers, all worldwide.

- ✓ Wrong sector
- ✓ Positive earnings
- ✓ Revenues okay
- ✓ Free cash flow okay

Purchased in 2015 @ 4.05% yield to Worst Call *and* Yield to Maturity



The company produces connector wires, safety systems, pin headers, towed arrays for commercial vehicles. APTIV designs and assembles a car's electrical architecture. It creates software used in autonomous cars.

Corporate Bond Recommendations

Name	Coupon	Maturity	Rating	YTW, YTM
Broadcom	3.500%	01/15/28	Baa3, BBB-, BBB-	3.54% 3.54%
GLP Capital	5.750%	06/01/28	Ba1, BBB-, BBB-	3.77% 3.77%
Hasbro	3.900%	11/19/29	Baa3, BBB-, BBB-	3.87% 3.87%
Hughes Satellite	5.250%	08/01/26	Ba1, BBB-	4.23% 4.23%
Motorola Solutions	4.600%	05/23/29	Baa3, BBB-, BBB-	3.10% 3.13%
Seagate Technology	4.875%	06/01/27	Baa3, BB+, BBB-	4.37% 4.37%

Additional Income Recommendations

Preferreds

JP Morgan 4.75%	4.67% Yield to Worst Call
Morgan Stanley 4.875%	4.97% Yield to Worst Call
Met Life 4.75%	4.94% Yield to Worst Call
Gabelli Series K 5.00%	4.88% Yield to Worst Call
BofA Series LL 5.00%	4.95% Yield to Worst Call

REITS

MGM Growth Properties	MGP	: 8.08% Yield	
Outfront Media	OUT	: 7.58%	Yield
Stag Industrial Inc.	STAG	: 5.88%	Yield
VICI Properties, Inc.	VICI	: 5.67%	Yield
WPC Carey, Inc.	WPC	: 5.45%	Yield

**See last page for explanation of the REITs businesses.*

Yields as of Mid-day March 11, 2020

Here's What Most Investors Think About Municipal Bonds

1. Low yielding
2. Boring
3. Not worthwhile—THEY ARE RIGHT!

Presently Municipal Bonds Are:

1. Over loved
2. Over valued

But...they won't always be



Municipal Bonds To Avoid

Theme Parks
Real Estate Development Deals Not Built Out
Charter Schools
Continuing Care & Retirement Communities
Museums
Mobile Home Parks
Shopping Malls
Biofuel Recyclers
Zoos
Small Airports and hospitals
Small Private Universities

Here's What To Invest In When Yields Rise

Airports: Only the top ten largest
Housing Bonds: Only FHA or GNMA backed
Mega Hospitals: Kaiser, Stanford, Cedars Sinai
School Bonds with State Intercept Backing
Harbor Bonds when the coronavirus is extinguished

What about Water & Sewer or Municipal Districts?

Why Am I Skeptical?

- Bonds sold in 1981 to finance the USS *Intrepid* defaulted
- Sports Museum of America defaulted 4 months after opening
- National Law Enforcement Museum defaulted

Would you invest in museum bonds issued by the Academy of Motions Pictures Arts & Sciences?



The Latest But NOT The Greatest

Municipal Water Districts are selling their systems to plug unfunded pension liabilities

Warning about Change of Control Provisions and Extraordinary Redemption Provisions:

You get killed if you've paid a high premium and your bonds get called at par. Your premium goes up in smoke.



Lessons Learned From Detroit & Puerto Rico Bankruptcy

- General Obligation bonds:
Constitutional guarantees are worthless
- Bondholders are not a privileged class
- Judges won't stand for a distressed municipality to get skinned alive no matter how dishonest its elected officials
- The rating agencies are as crooked as ever
- At the end of the day, investors have no memory of past debacles



The Biggest Threats To Municipalities Once Were:

Unfunded Pension Liabilities

Hurricanes

Tornados

Floods

Fires

Earthquakes

Today The Biggest Threats Are Cyber Attacks

Easy targets:

- Small cities and counties
- School districts
- Hospitals and Trauma Centers
- Municipal utility and water districts

Watch for outmigration.

Cyber Attacks...Ransom Paid Or Not Paid

Baltimore: \$100,000 paid in Bitcoin—\$18 million to recover

City of New Orleans

Atlanta: \$50,000 paid in Bitcoin—\$17 million to fix

Riviera Beach, FL: \$600,000 paid in Bitcoin—population is just 34,000

Lake City, FL

Broken Arrow, OK

Lodi, CA: \$400,000 payable in Bitcoin—the chose not to pay the ransom instead paid \$500,000 to upgrade their systems

Clark County, NV

Truman Medical Center, Kansas City, MO

New Orleans Public School District

Los Angeles Police Department

Olean Medical Group

Seneca Nation Health Systems

Water Districts

Utilities

Cities

Hospitals

Park DuValle Community Health Center, Louisville, KY—paid \$70,000

Munson Healthcare

Conduits

NY Empire State Development Corp.

NY Dorm Authority

California Community Development Authority

California Municipal Funding Authority

Arizona Health Facilities

Maryland Health & Higher Education

Wisconsin Public Finance Authority

With rates so low and muni appetites so high, be cautious of conduit issuers.

Munis Make No Sense At These Yields

California General Obligation bond maturing in 10 years:

State & Federal tax rate: State)	41.30% (32% Fe & 9.3%
Cal GO due 2030:	0.90%
Taxable Bond Yield:	1.53%

It's better to invest in corporate bonds.

Record high prices and low yields in municipal bonds erases most of the tax breaks.

Envision Capital Management, Inc.
Fixed Income Money Managers

MINIMUM ACCOUNT SIZE: \$500,000

ACCOUNTS \$1 MILLION AND OVER ARE NEGOTIABLE

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Corporate Bond Recommendations

- Broadcom Inc: Designs, develop, and markets digital and analog semiconductors. Products span many telecom hardware offerings.
- Gaming & Leisure Properties: Owns and leases 44 gaming properties across 16 states.
- Hasbro, Inc.: Designs, manufactures, and markets toys and other children and infant products.
- EchoStar Corp. (Hughes Satellite): Provides satellite communications infrastructures worldwide
- Motorola Solutions, Inc.: Data com and telecom equipment provider to public safety networks and first responders
- Seagate Technology: Designs, manufactures, and markets hard disk drives for a variety of customer classes.

Real Estate Investment Trusts Recommendations

- MGM Growth Properties, LLC: REIT engaging in ownership, & leasing of destination leisure resorts and entertainment venues.
- Outfront Media, Inc.: Leases advertising space on billboards and municipal transit systems
- Stag Industrial, Inc.: REIT investing in single-tenant industrial properties
- VICI Properties, Inc.: Owner, acquirer and developer of gaming, hospitality, and entertainment properties.
- WP Carey, Inc.: Net-lease REIT providing long-term sale-leaseback and build-to-sit solutions to companies worldwide.