



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\$1.35 billion Dual Senior Unsecured Notes due 2030 and 2050

Date: December 4, 2020

Mr. Speaker, Honourable Members are advised that on Thursday, 20 August, the Bermuda Government issued \$1.35 billion Senior Notes, split evenly into two tranches: a 10-year maturity at a record low coupon of 2.375%, and Bermuda's first ever 30-year at 3.375%. 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 am now pleased to report on this successful capital markets transaction.

Mr. Speaker, on Monday, August 11, 2020 the Bermuda Government announced a 3-day roadshow with a series of fixed income investor starting on Wednesday, August 12, 2020. These meetings were a part of the

Government's process of evaluating market conditions and potential funding opportunities to address its borrowing requirement for this fiscal year, due to the impact of COVID-19, and future years. At the same time, it was also announced that Bermuda would offer to repurchase for cash, four series of our outstanding USD Bonds.

While the roadshow was 100% virtual given the limited travel backdrop, the Government was able to effectively present itself on video and audio calls with investors across the globe during the 3-day marketing period while the 5-day Tender Offer was open.

Mr. Speaker, after hearing of the main social safety measures taken by the Government to mitigate the impacts of the COVID-19 pandemic on the country, and the Government's plans to rebuild our economy and reduce our deficit in the context of COVID-19, 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 2020/21 budget deficit and deficits for future years, but also to refinance various loan facilities with local financial institution that were scheduled to mature later this year and in early 2021 and engage, concurrently with the new issue, in a targeted liability management transaction strategically aimed at repurchasing some of our 4.138% coupon bonds maturing in 2023, our 4.854% bonds maturing in 2024, our 3.717%

coupon bonds maturing in 2027 and our 4.75% coupon bonds maturing in 2024.

Mr. Speaker, it is important to note that although the Government issued a total of \$1.35 billion in new bonds, overall debt outstanding increased by approximately \$520 million as the majority of the proceeds were used to refinance existing indebtedness and the remainder deposited into the Sinking Fund to be used to fund anticipated deficits for the current fiscal year 2020/21 and the next two years. This exercise will produce current annual interest savings on existing debt of approximately \$10 million, although overall interest expense will increase by \$3.1 million.

As mentioned previously the Government of Bermuda conducted an effective and well-timed virtual roadshow that included calls with approximately 50 global accounts during the 3-day marketing effort roadshow.

Mr. Speaker, following the roadshow, on Monday August 17th 2020 the transaction was announced and the transaction immediately attracted healthy demand and the attention of some of the world's top institutional investors.

Mr. Speaker, initial orders were close to \$10 billion, or about eight times the original target of \$1.25 billion, resulting in not only a reduction of the final interest rates on both tranches of Notes, but also the smallest spread to 10-year US Treasuries ever achieved by Bermuda. This also enabled us to upsize the transaction to \$1.35 billion.

Other details and highlights of the transaction include:

- Bermuda's first ever 30-year Notes was placed at 3.375%, notably inside the previous record low coupon on the 3.717% Notes due in 2027 (i.e., 34bps less interest for 20 years additional maturity).
- A US Treasury +170bps spread on the 10-year beat the previous record low spread of T+175bps reached on the 2029 Notes issued in November 2018. Adding to the list of achievements was pricing of the new 10-year Notes 15bps inside the prevailing trading levels of the 2029 Notes (8.2yrs maturity), demonstrating investors willing to buy new Bermuda bonds at tighter spreads despite longer maturity.
- Bermuda also set its first-ever long-dated issuance, pricing new 30-year Notes at a US Treasury +195bps spread. While a clear endorsement of Bermuda's prospects for the next 30 years, the spread is notable since it is flat to inside every 10-year issuance spread Bermuda has executed except for the 2029 Notes.
- Concurrent partial tender offers significantly reduced near term maturities, where \$500 million in principal across maturities due in 2023, 2024, 2027, and 2019 was refinanced at lower rates
- The new issue and tender offers reduced pro-forma annual interest expense on the repurchased notes by about \$6.4 million. Combined with refinancing short-term credit facilities, this totals about \$10 million in current annual interest savings.
- A reduction in the Government's pro-forma average portfolio coupon of -0.59% is also expected, along with an 8.4-year extension in the entire debt portfolio's average life. The dual-tranche structure also allows Bermuda to maintain a smooth and manageable debt maturity profile.

- The combination of ever tighter issuance spreads and sizable orderbook speaks volumes to Bermuda's ongoing proactive debt management overall and current handling of the pandemic, a view clearly validated by the most relevant global market players.

Mr. Speaker, as we continue to navigate our way through the COVID-19 pandemic, this borrowing strategy was essential. It allowed the Government to lock in historically low rates to help fund an economic recovery, reduce interest expense on existing debt and take advantage of strong current global demand for investment-grade assets like those of Bermuda.

However, Mr. Speaker, as we head into 2021, it is expected that the international capital markets will tighten. As conditions tighten, retaining the confidence of investors and rating agencies will be critical. Therefore, it is absolutely essential that we continue to manage the fiscal affairs of the country prudently and we must be astute in the use of the additional funds borrowed from this debt issue.

Mr. Speaker, like most small states and territories, Bermuda's economy is highly vulnerable to external events, underlining the need for financial and fiscal prudence. This vulnerability is compounded by our continuing budget deficits and high level of Government debt, which now stands at \$2.97 billion. This vulnerability has now materialised in a far more rapid and powerful form than anyone could have expected with the onset of COVID-19.

With this new borrowing the annual debt service cost is currently \$127.2 million, claiming 13.6 cents of every dollar of revenue that the government takes in. This level of debt service has the potential to displace spending in critically important areas such as education, social services and national security. We must focus on achieving better value from the dollars we expend as our ability to incur additional indebtedness will become increasingly constrained underlining the urgent need to balance the budget and reduce our indebtedness.

Mr. Speaker, this landmark transaction was successful by all measures, and I would like to thank the entire Bermuda team for their efforts as strategic partners in helping to shape a very positive outcome for the Government of Bermuda in this recent issue of a public offering in the global markets.

Thank you, Mr. Speaker.