

# RBC Capital Markets

C\$49.38 million 1-10 year Serial Debenture  
Transaction Review

March 25<sup>th</sup>, 2019



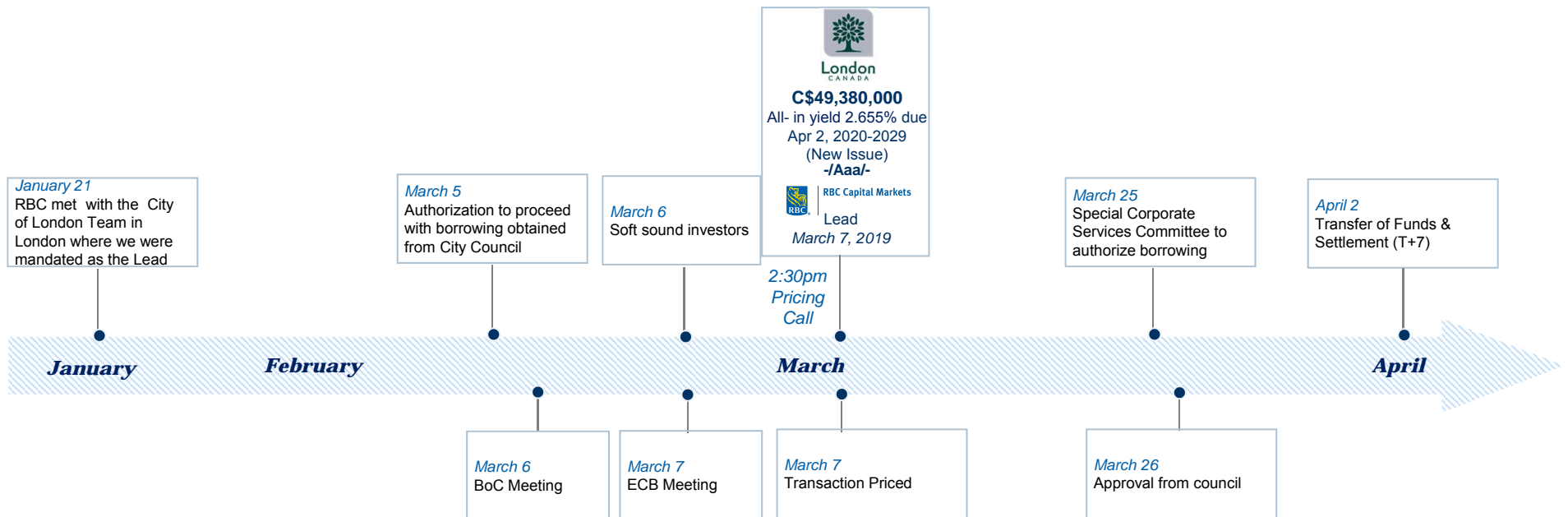
**RBC Capital Markets**

# City of London Transaction Review

## Brief Time Line & Transaction Details

- City of London conducted an extensive syndicate review after 7 years in September 2018 following which RBC was reappointed as 1 of the 3 Lead managers
- RBC is extremely pleased and thankful for being given the opportunity to Lead the first debt issue for the City since the syndicate review
- They City was able to price well in advance of its March 25 debenture meeting, with a desired settlement of April 2 while navigating several macro economic events and achieving an all-in cost of funds of 2.655%

### Transaction Execution Timeline



# City of London Transaction Review

## Macro Overview

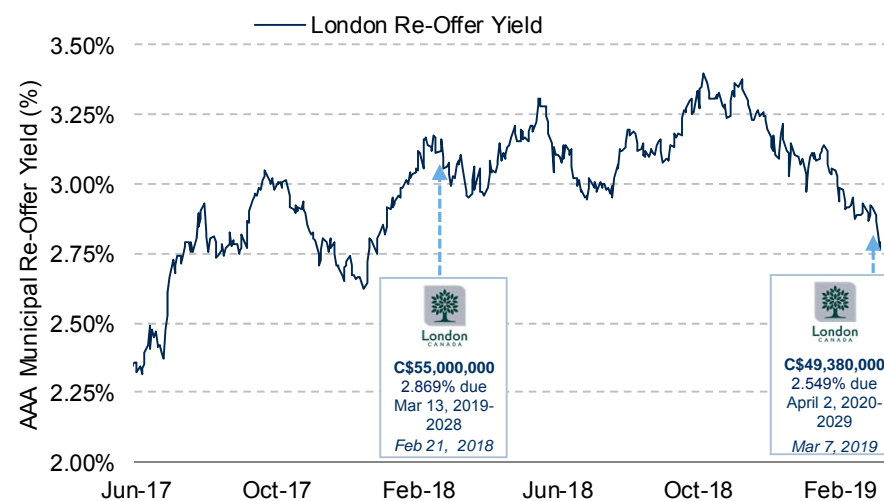
- Financial markets in 2018 and 2019 have been dominated by concerns surrounding trade and global economic growth
- In Canada, NAFTA Negotiations, US Tariffs on China, Brexit, and slowing economic growth domestically and in Europe has created uncertainty for both the Bank of Canada (“BoC”) and Investors
- The week of London’s transaction the BoC and ECB highlighted economic risks and future uncertainty, dampening the economic outlook for their respective economies and sending yields lower
  - Specifically, the BoC held the overnight rate at 1.75%, suggesting the need for further stimulus, and announced it anticipates lower growth in 2019 while also highlighting uncertainty in the path of future rate hikes
  - Following the BoC, the ECB announced it was shifting out the projection of its first hike by at least 6 months and announced TLTRO-III, essentially extending cheap financing to banks to stimulate economic growth
- The combination of these announcements resulted in Canadian yields declining 10-13bps to levels not seen since June 2017 during the week of London’s deal, resulting in the lowest all-in cost of funds available to the City in over a year and a half
- RBC currently projects a 25bps hike in each of Q3 and Q4 2019 by the BoC
- The FOMC has also acknowledged an increasingly uncertain global backdrop, and has stated that it is content to be patient and assess the impact of global risks before resuming a tightening path
- RBC currently projects a rate hike in each of Q2 and Q4 of 2019 in the US

## RBC Economics Interest Rate Forecasts<sup>(1)</sup>

RBC Interest Rate Forecasts						
🇨🇦 Government of Canada Rates Forecast						
Term	Current	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20
O/N	1.75%	1.75%	1.75%	2.00%	2.25%	2.25%
5-Year GoC	1.63%	2.10%	2.30%	2.45%	2.50%	2.45%
10-Year GoC	1.74%	2.20%	2.40%	2.55%	2.60%	2.60%
30-Year GoC	2.04%	2.40%	2.55%	2.65%	2.70%	2.70%
🇺🇸 US Treasury Rates Forecast						
Term	Current	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20
O/N	2.50%	2.50%	2.75%	2.75%	3.00%	3.00%
10-Year UST	2.63%	2.95%	3.15%	3.25%	3.30%	3.25%
30-Year UST	3.02%	3.20%	3.30%	3.40%	3.45%	3.40%

*Although the Bank came out with a dovish outlook in February, it did not dispense with the prospect that interest rates will rise in the future*

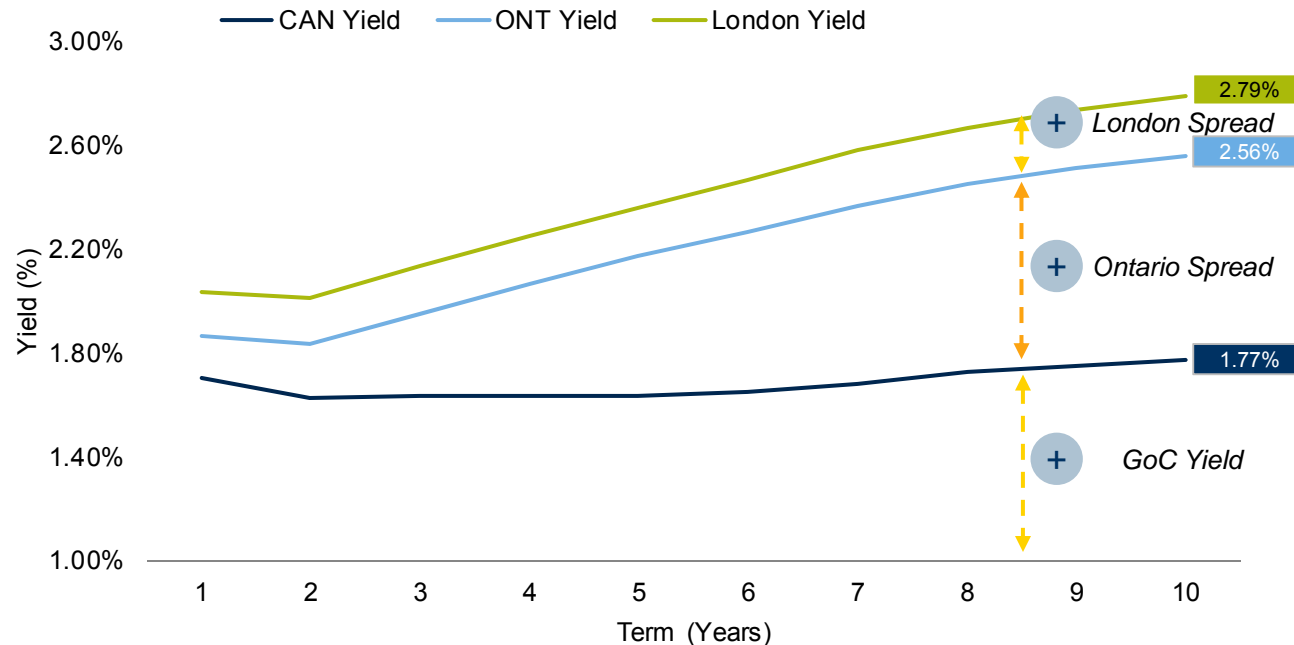
## London 10-Year Re-Offer Yields



# City of London Transaction Review

## City of London 1-10yr Serial Debenture – Yield Curve

- The City of London yield curve consists of the underlying government of Canada yields plus a spread to reflect the Ontario credit and a spread to reflect the City of London's credit
  - City of London Yield (%) = Canada Yield (%) + Ontario Spread (%) + City of London Spread (%)
- City of London bonds, much like every other municipal bond trade in secondary markets at a spread versus Ontario
- The City's 'Aaa' rating from Moody's bond rating agency allows London to issue debentures at the lowest yields amongst municipal issuers of serial debentures



# City of London Transaction Review

## City of London Pricing

- London was able to achieve an attractive weighted average all-in cost of 2.655% for its 1-10yr structure
  - Marks an improvement of ~32bps relative to the cost of funds in 2018 due to lower underlying yields
- Final pricing was ONT +19 bps in 5s and ONT +23 bps in 10s
- Line sizes of C\$4.5-5.5 million allowed for significant interest from the investor base
- Weighted average life of ~5.7 years for the structure

## London 1-10 Year Serial Pricing

TERM (YR)	PRINCIPAL AMOUNT	MATURITY APR 2,	GoC BENCHMARK	BENCHMARK YIELD	SPREAD	OFFERING YIELD	COUPON	OFFERING PRICE (\$)	CC	DRAWDOWN	NET PRICE (\$)	NET YIELD
1	4,459,000	2020	TBILL	1.700%	0.330%	2.030%	2.000%	\$ 99.970	\$ 0.2500	\$ 0.1000	\$ 99.7200	2.285%
2	4,550,000	2021	CAN 2.25% 1FEB21	1.626%	0.380%	2.006%	2.000%	\$ 99.988	\$ 0.2500	\$ 0.1000	\$ 99.7380	2.135%
3	4,643,000	2022	CAN 0.5% 1MAR22	1.631%	0.500%	2.131%	2.100%	\$ 99.910	\$ 0.3500	\$ 0.2000	\$ 99.5600	2.253%
4	4,742,000	2023	CAN 1.75% 1MAR23	1.633%	0.615%	2.248%	2.200%	\$ 99.817	\$ 0.4500	\$ 0.2500	\$ 99.3670	2.367%
5	4,850,000	2024	CAN 2.25% 1MAR24	1.633%	0.725%	2.358%	2.350%	\$ 99.962	\$ 0.5000	\$ 0.2500	\$ 99.4620	2.465%
<b>TOTAL</b>	<b>23,244,000</b>					<b>2.216%</b>		<b>\$ 99.929</b>			<b>\$ 99.5660</b>	<b>2.341%</b>
6	4,964,000	2025	CAN 2.5% 1JUN24	1.651%	0.815%	2.466%	2.450%	\$ 99.911	\$ 0.6000	\$ 0.3000	\$ 99.3110	2.575%
7	5,088,000	2026	CAN 2.25% 1JUN25	1.682%	0.895%	2.577%	2.550%	\$ 99.828	\$ 0.7000	\$ 0.3000	\$ 99.1280	2.688%
8	5,220,000	2027	CAN 1.5% 1JUN26	1.723%	0.940%	2.663%	2.650%	\$ 99.907	\$ 0.7500	\$ 0.3500	\$ 99.1570	2.768%
9	5,358,000	2028	CAN 1% 1JUN27	1.749%	0.985%	2.734%	2.700%	\$ 99.730	\$ 0.7500	\$ 0.3500	\$ 98.9800	2.829%
10	5,506,000	2029	CAN 2% 1JUN28	1.769%	1.020%	2.789%	2.750%	\$ 99.662	\$ 0.7500	\$ 0.3500	\$ 98.9120	2.876%
<b>TOTAL</b>	<b>26,136,000</b>					<b>2.668%</b>		<b>\$ 99.804</b>			<b>\$ 99.0930</b>	<b>2.767%</b>
<b>GRAND TOTAL</b>	<b>49,380,000</b>	<b>WATM = 5.694 YRS</b>				<b>2.549%</b>		<b>\$ 99.863</b>	<b>\$ 0.548</b>		<b>\$ 99.3150</b>	<b>2.655%</b>

## London Historical Transaction Yields (2014-2019)

Year	Re-Offer Yield	All-In Yield
<b>2019</b>	<b>2.549%</b>	<b>2.655%</b>
<b>2018</b>	2.869%	2.976%
<b>2017</b>	2.375%	2.480%
<b>2016</b>	2.196%	2.301%
<b>2015</b>	1.765%	1.869%
<b>2014</b>	2.850%	2.957%

# City of London Transaction Review

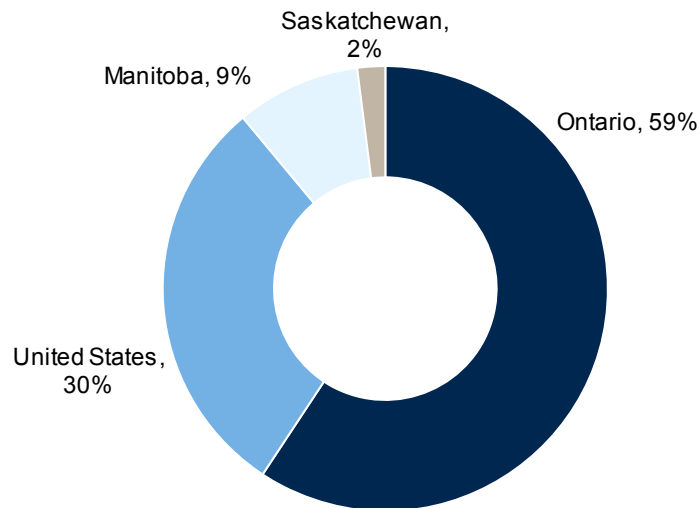
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## Distribution

- The City of London bonds were broadly distributed across 9 institutional investors
- The offering was primarily placed with domestic investors (70%) while 30% was placed into the US
  - Domestic breakdown includes Ontario (59%), Manitoba (9%), and Saskatchewan (2%)
- In terms of investor type, the transaction was purchased by Governments (63%), Insurance Companies (20%), Asset Managers (9%) and Retail Investors (7%)

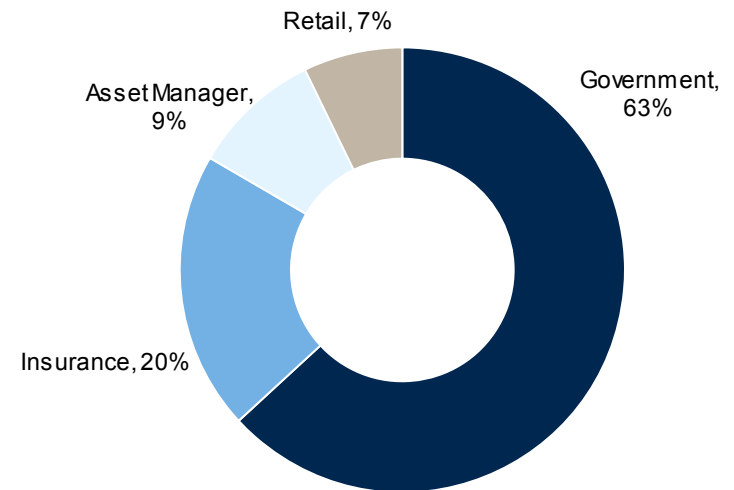
## Geographic Distribution

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## Distribution by Investor Type

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# City of London Transaction Review

## City of London C\$49.38 million 1-10 year Serial Debenture



**London**  
CANADA

**C\$49,380,000**  
All-in yield 2.655% due  
April 2, 2020-2029  
(1-10yr Serial New Issue)



RBC Capital Markets

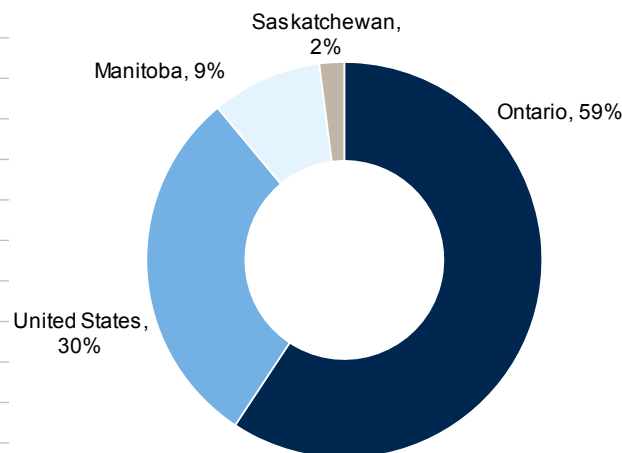
Lead  
March 7, 2019

- On Thursday March 7, 2019 the City of London (“London”) priced a successful C\$49.38 million 1-10 year serial debenture transaction with RBC as Lead Manager
  - The offering marked the first municipal serial offering in the Canadian market in 2019
  - Represents London’s return to the market following a successful C\$55 million 1-10 year serial in February 2018
- London is a regular issuer of serial debentures in the Canadian market, having completed an offering in each consecutive year since 2011 for a total of C\$426.3 million
- London was able to navigate a volatile rates backdrop driven by a number of economic events including the Bank of Canada (“BoC”) and European Central Bank (“ECB”) announcements
  - Underlying Government of Canada yields declined ~10-13bps during the week following a dovish BoC announcement which highlighted uncertainty and lower growth, while the ECB extended targeted refinancing programmes and shifted the schedule for a rate hike to later in the year
  - The dovish tilt from the central banks and risk-off move from investors pushed underlying yields to their lowest levels since June 2017, resulting in a very attractive all-in rate of 2.655% for the City**
- The ability of London to navigate volatility and complete a successful offering in relatively volatile conditions speaks to the strength of the London credit
- The offering saw demand from 9 high-quality institutional investors and retail investors from Ontario (59%), United States (30%), Manitoba (9%), and Saskatchewan (2%)
- In terms of investor type, the transaction was purchased by Governments (63%), Insurance Companies (20%), Asset Managers (9%) and Retail Investors (7%)

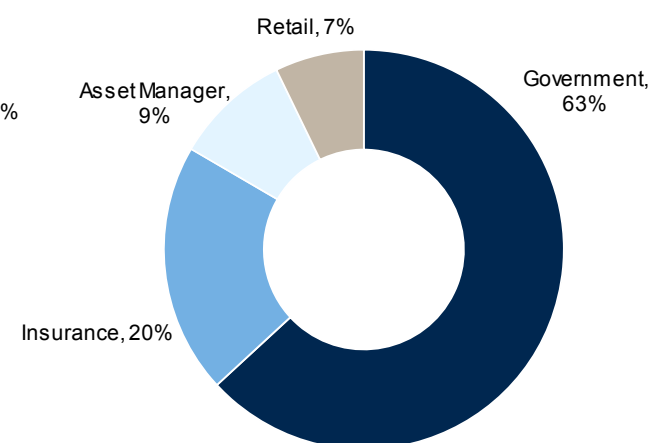
### Summary Details

<b>Issuer:</b>	City of London
<b>Ratings:</b>	-/Aaa/-
<b>Launch Date:</b>	March 6, 2019
<b>Price Date:</b>	March 7, 2019
<b>Settlement Date:</b>	April 2, 2019 (T+18)
<b>Structure:</b>	1-10 Year Serial
<b>Size:</b>	C\$49.38 million
<b>Wt. Avg. Life:</b>	5.694 years
<b>Wt. Avg. Re-Offer:</b>	2.549%
<b>All-In Yield:</b>	2.655%
<b># Institutional Buyers:</b>	9
<b>Lead:</b>	RBC

### Overall Distribution by Geography



### Overall Distribution by Type



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