



GOVERNMENT OF BERMUDA

The Ministry of Finance

Ministry of Finance Headquarters

Ministerial Statement

To the House of Assembly

By

The Hon. E. David Burt, JP, MP

Premier and Minister of Finance

US\$500 Million Senior Notes due 2032

Date: 15th July, 2022

Mr. Speaker, thank you for allowing me to deliver this Ministerial Statement at this time. In accordance with Section 2 (3) of the Government Loans Act 1978, I am pleased to rise this afternoon to inform this Honourable House of the successful execution of a new issuance of \$500 million of Senior Notes with a coupon of 5% which concluded earlier today.

On Wednesday, 6 July 2022, the Bermuda Government announced and began a 3-day virtual roadshow with a series of fixed income investors. These meetings were a part of the process of updating investors on the Government's plans and recent performance, while evaluating market conditions and opportunities to refinance some or all existing debt scheduled to mature within the next 18 months. At the same time, it was also announced that Bermuda would concurrently offer to repurchase for cash, two series of our outstanding USD notes that mature in 2023 and 2024 in a tender offer.

Mr. Speaker, feedback from investors was resoundingly supportive for a proposed new offering. Consequently, on Monday, 11 July 2022, - with the unanimous support of the Public Debt Advisory Committee, the Government launched a new issue with a target size of \$500 million with the objective of prioritizing cost and fully refinancing its December 2022 and January 2023 maturities. Initial demand from investors resulted in orders in excess of \$2.5 Billion covering more than 5 times the target size, which permitted the Government to tighten the spread to US Treasuries from initial price talk (IPT) of 250 basis points by 40 basis points. When compared with estimated fair value based on trading levels of Bermuda's existing bonds, Bermuda paid negligible or even negative new issue premium, one of the lowest to date in 2022, where other US high grade issuers paid between 25 to 50 basis points only a few days earlier. While spreads in general are higher in this volatile interest rate environment, achieving this new issue premium is an excellent result from a highly successful execution.

Mr. Speaker, Bermuda issued \$500 million with a spread of 210 over US Treasuries, for an all-in placement yield of 5.084%. Priced with a coupon of 5.000%, this resulted in gross proceeds of \$496.74 million. The new issuance and tender of the 4.138% Senior Notes due 2023 closed earlier today. The Government intends to use all remaining proceeds to redeem or pay the maturity of all outstanding near-term debt, including all notes due in January 2023 that were not tendered.

Given current interest rate levels, the Government did not accept any tenders for the notes due in 2024. As a result, Bermuda's remaining medium-term debt is approximately \$450 million, with \$BD 50 million due in December 2023 and the remainder in February 2024. The Government will continue to monitor market conditions and opportunities to refinance these in due course.

Mr. Speaker, it is important to note that while interest rates have increased, the Government continues to prudently and effectively manage its fiscal policy. As announced recently, we will have achieved a 2021/22 deficit of approximately \$95 million, an improvement of about \$30 million from original estimates. Additionally, we are committed to achieving our fiscal targets going forward. While annual interest expense will increase marginally by approximately \$2.3 million following this refinancing, it represents only about a 6 basis point increase in our average cost of capital while de-risking short-term refinance risk.

Mr. Speaker, other details and highlights of the transaction include:

- US\$500 million 5.000% 10-year Senior Note, US Treasury +210bps, Re-offer Yield 5.084%
- Proceeds earmarked to
 - Pre-fund a \$140 million 5.73% private placement due in December 2022
 - Finance the tender of its \$354 million 4.138% Senior Notes due January 2023
 - Finance the intended make-whole redemption to clean up any remaining 4.138% Senior Notes due in January 2023

- The new deal came to market on the back of months of heightened market volatility, including a June inflation report of 8.6% in the United States, the Russian-Ukraine conflict, and a massive slowdown in both primary and secondary fixed income market activity.
- Marketing efforts were led by me as Premier and Minister of Finance, the Acting Financial Secretary, senior team members of the Ministry of Finance, and representatives from the Bermuda Monetary Authority.
- Market response was exceptional, particularly given the backdrop, with in excess of \$2.5 billion in orders out of a select pool (93 names) of participating accounts which allowed for the very low new issue pricing concession. Despite the soft prevailing context, at UST+210bps, the deal priced only slightly above past-year average of 203bps from 2013-2020, reflective of Bermuda's high quality/ratings, resilient economic performance, as well as ongoing fiscal prudence and focus on debt management (2021/22 estimated fiscal deficit of 1.3% of GDP, 43% debt/GDP).
- Based on quotations of existing notes at the opening of markets on 11 July 2022, estimated fair value of the new 2032 notes was 214 basis points. With Bermuda issuing at 210, that would mean there was negligible or even negative new issue premium, **one of the lowest for high grade issuances in 2022**. This indicates that investors fully absorbed the price adjustment, a testament to the strong credit position of Bermuda and the appropriateness of the debt management strategy executed in this deal.

Mr. Speaker, we wish to thank everyone that played a key role in supporting the Bermuda Government in this transaction. They include HSBC and Goldman Sachs as advisers and joint bookrunners, Milbank LLP as the Government's US counsel, and all the other parties and advisors to the transaction. In addition, I would like to thank the local industry professionals serving on my public debt advisory committee, who assisted with and fully supported the execution strategy taken by the Government. And finally, I wish to thank the Ministry of Finance team who coordinated and led this important initiative and were supported by colleagues in all other Ministries and authorities, including the Bermuda Monetary Authority, the Business Development Agency and the Bermuda Tourism Authority.

Mr. Speaker, our focus in these matters has been to ensure that Bermuda continues to implement a strong and robust fiscal and debt management strategy. The successful execution of this refinancing initiative, coupled with the recent positive assessments by independent rating agencies, reinforces that Bermuda is on the right track. We will continue to remain focused, vigilant and prudently manage the assets of the Bermuda Government, to ensure that we can protect and provide for the people of Bermuda in a fair, equitable and sustainable manner.

Thank you Mr. Speaker.