

ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

MARKET COMMENTARY

FROM A CAPITAL MARKETS PERSPECTIVE

Equities finished the week higher, with the exception of the small-cap Russell 2000 Index all of the major benchmarks hit new highs. Trading volume was down early in the week, and the market's advance remained remarkably stable. Stocks woke up from their siesta on Thursday, driven once again by hopes for higher corporate profits under the Trump administration. According to a Wall Street Journal report on Monday, the large-cap Standard & Poor's 500 Index had gone 34 trading days without a daily volatile of over 1%, the longest run in 20 years. By Wednesday, the index set an all-time record for such a streak, which was extended to 39 days by Friday. As for economic data, the calendar was light and had little impact on markets. Late in the week and after reaching a high in January, markets paid little attention to a drop in University of Michigan's gauge of consumer sentiment. Year-to-date, the US equities markets are still searching for a breakout week in either direction.

The bond markets finished the week in positive territory. Intermediate- and long-term Treasury prices rose for the week as yields decreased. Auction demand for 30-year bonds was noticeably strong. Municipal bonds also posted positive returns for the week but underperformed Treasuries as the new issuance calendar picked up, even as the secondary market remained relatively subdued. Surprisingly, Puerto Rico's bonds performed well as Governor Ricardo Rosselló issued a statement that the commonwealth would make the February 1 coupon payment on its general obligation debt. A payment that was not expected to be made. The 10-year MMD closed the week unchanged at 2.30%, while 30-year MMD was one basis point lower, finishing at 3.07%. New cash came into the tax-exempt mutual funds with inflows of \$304 million resulting in the four-week moving average improving to \$209 million.

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See pages 4-5 for current market rates

Market and other data within this report derived from Bloomberg and other sources deemed to be reliable.

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FEATURED ARTICLE

ORGANIZATION GROWTH: THE HUMAN CAPITAL CONVERSATION

There is much written about organizational growth, specifically strategic planning for growth, capital needed to grow, and modes of growth (expanding service lines, affiliating, engaging in a joint venture, etc.). However, the one element that is overlooked at times is the importance of human capital. This is the people conversation. While it is important to ensure buy-in from all the stakeholders of the organization, this article is devoted to the human resources needed to effectively execute upon growth initiatives.

In the 2016 LeadingAge Ziegler 150 survey, there was a question asked of all providers regarding staffing. Specifically, the question aimed at better understanding the positions being added among the largest not-for-profits to respond to the changing environment and growing sophistication needed to operate and grow in the senior living space. The positions listed below are the corporate-level specialty positions that were most likely to be added in 2015 (in order of mentions).

POSITIONS ADDED
Chief Clinical/Health Officer
Chief Information/Technology Officer
Chief Talent/HR Officer
Business Development/Strategy Officer
Chief Compliance Officer
Philanthropy/Foundation Director

The above positions clearly relate to the key trends impacting the senior living space: healthcare reform, technology, workforce challenges, strategic growth, complex regulatory environment, and increased need for financial support. These positions are in response to the need to hire expertise to navigate all of these waters, but they also position an organization to more effectively grow and execute upon that growth, whether an organization is acquiring a home care agency or affiliating with another seniors housing provider.

It is recommended that in conjunction with other growth conversations, organizational leadership and board members need to engage in dialog that focuses on what expertise and manpower is needed to support the growth goals. For example, an organization cannot expect to meet goals of 5-10% annual growth (whether defined in people served, revenue, etc.), without incrementally adding the human infrastructure to support that growth. Some organizations will allow growth initiatives to get ahead of the infrastructure realignment and then end up playing a game of catch-up, which can be painful. Sure, you often need growth to financially support the addition of certain positions, but at the same time, growth can be fostered by these positions as well. Here are some recommended questions to bring forth during growth conversations.

- Do we have the expertise needed to grow in the manner in which we have outlined?**
Example: If you are affiliating with an organization that has Affordable Housing, but you have only ever managed market-rate communities, do you have what it takes to effectively grow in this way?
- Have we devoted enough resources to maintain current operations while also focusing on growth?**
Example: You've decided to grow by adding a development consulting arm, but you are utilizing staff from existing operations to execute the work. Can this be sustained without compromising existing operations?
- We have had notable growth through affiliation activity in recent years, but has the corporate structure to support those initiatives grown at the same rate?**
Example: The organization has grown by an additional three communities in the past five years, but the corporate staffing to support this growth has not changed.
- We may have the people needed to grow, in terms of headcount, but do those people have the skill set necessary to advance the organizational growth initiatives?**
Example: From a headcount standpoint, you may be sufficiently staffed, but as the organization has grown, the demands on those positions has elevated. The people leading the organization 5 or 10 years ago may not have the skill set that the organization needs today or in the future.

There is not one answer to addressing the staffing issue related to growth, but organizations need to be disciplined enough to plan for the human capital needed to meet organizational goals. Human capital is extremely important in successful growth and should not be an after-thought in the planning process.

If you have any questions regarding the items in this article or anything else related to Ziegler, please reach out to the Ziegler banker in your region.

LISA MCCrackEN
 SENIOR VICE PRESIDENT
 SENIOR LIVING RESEARCH & DEVELOPMENT

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

FEBRUARY 7 - 13, 2017

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
No Ratings Actions to Report this Week.				

This ratings table represents review of the reports released by Fitch Ratings, Standard & Poor's, and Moody's Investors Service and has been compiled by Ziegler Investment Banking.

INTEREST RATES

FOR THE WEEK ENDING FEBRUARY 10, 2017

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.06%	3.09%	2.58%
Senior Living 30-Yr "A"	4.16%	4.35%	3.54%
Senior Living 30-Yr "BBB"	4.56%	4.70%	3.89%
Senior Living Unrated	5.21%	5.30%	4.72%
Senior Living New Campus	6.75%	6.75%	6.38%
SIFMA Muni Swap Index	0.65%	0.65%	0.50%

Source: Ziegler Capital Markets

FEATURED FINANCINGS



\$122,450,000

The Industrial Development Authority of the City of Kirkwood, Missouri, Retirement Community Revenue Bonds, Series 2017A

ABERDEEN HEIGHTS

Kirkwood, Missouri



\$52,070,000

Refunding/Bank Direct Purchase

COVENANT RETIREMENT COMMUNITIES

Skokie, Illinois

MARKET REVIEW

MONEY MARKET RATES

	<u>2/10/17</u>	<u>1 WEEK AGO</u>	<u>1 MONTH AGO</u>	<u>1 YEAR AGO</u>
Prime Rate	3.75	3.75	3.75	3.50
Federal Funds (weekly average)	0.66	0.64	0.66	0.38
90 Day T-Bills	0.53	0.49	0.51	0.28
30-Day Commercial Paper (taxable)	0.61	0.61	0.61	0.35
Libor (30-day)	0.77	0.78	0.76	0.42
7 Day Tax-Exempt VRDB	0.65	0.65	0.67	0.02
Daily Rate Average	0.56	0.60	0.65	0.01

COMPARATIVE YIELDS

	GOVT.	TAXABLE REVENUE				TAX-EXEMPT REVENUE					
		NR*	A	BAB A		MMD	NR**	NR*	BBB	A	AAA
1 Year	0.79	2.25	1.50	1.55	1 Year	0.88	2.38	2.00	1.38	1.18	0.98
5 Year	1.88	4.00	3.50	3.95	5 Year	1.52	3.22	3.70	2.32	1.97	1.67
7 Year	2.21	4.50	4.00	4.45	10 Year	2.28	4.43	4.65	3.48	3.08	2.58
10 Year	2.40	4.75	4.25	4.55	15 Year	2.72	4.87	5.00	4.22	3.82	3.22
30 Year	3.00	6.25	4.50	4.60	30 Year	3.06	5.21	5.25	4.56	4.16	3.66
					5 year EXTRA			4.25			

(* Representative of recent non-rated issues underwritten by Ziegler retail sales); (** Representative of institutional sales.)

Tax-exempt market indicators

Bond Buyer	<u>THIS WEEK</u>	<u>LAST WEEK</u>	<u>CHANGE</u>	2017	
				<u>HIGH</u>	<u>LOW</u>
20 Bond Index	3.88	3.87	+01	3.88	3.72
11 Bond Index	3.38	3.37	+01	3.38	3.25
Revenue Bond Index	4.03	4.02	+01	4.03	3.83
30 Year MMD	3.06	3.09	-03	3.10	2.88
Weekly Tax-Exempt Volume (Bil)	6.12	3.37	+2.75	7.39	2.92
30 Day T/E Visible Supply (Bil)	6.14	5.55	+92	13.37	5.55
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	120.39	140.77	-20.38	147.05%	120.39%

INTEREST RATE COMPARISON

DATE	7-DAY T/E VRDB	PRIME RATE	FED FUNDS WEEKLY AVG.	13-WEEK T-BILL RATE	C.P.RATE TAXABLE	LIBOR (30-DAY)	30-YEAR T/E BONDS (A-AAA)		
02/10/17	0.65	3.75	0.66	0.54	0.61	0.78	4.16	-	3.66
02/03/17	0.65	3.75	0.64	0.49	0.61	0.78	4.35	-	3.55
01/27/17	0.66	3.75	0.67	0.50	0.63	0.77	4.35	-	3.55
01/20/17	0.66	3.75	0.67	0.50	0.65	0.77	4.30	-	3.50
01/13/17	0.67	3.75	0.66	0.51	0.61	0.76	4.20	-	3.40
01/06/17	0.68	3.75	0.62	0.51	0.62	0.76	4.40	-	3.55
12/30/16	0.72	3.75	0.62	0.51	0.63	0.77	4.50	-	3.60
12/23/16	0.73	3.75	0.66	0.50	0.43	0.76	4.65	-	3.70
12/16/16	0.55	3.75	0.47	0.50	0.66	0.70	4.60	-	3.70
12/09/16	0.57	3.50	0.41	0.50	0.54	0.65	4.55	-	3.60
12/02/16	0.56	3.50	0.38	0.47	0.50	0.62	4.80	-	3.85
11/25/16	0.55	3.50	0.41	0.48	0.25	0.60	4.55	-	3.60
11/04/16	0.56	3.50	0.38	0.37	0.40	0.53	3.55	-	2.85
10/07/16	0.87	3.50	0.40	0.31	0.39	0.52	3.30	-	2.75
09/02/16	0.56	3.50	0.38	0.32	0.39	0.52	2.75	-	2.40
08/05/16	0.44	3.50	0.40	0.26	0.36	0.49	2.90	-	2.45
07/01/16	0.41	3.50	0.39	0.25	0.37	0.46	2.85	-	2.35
06/03/16	0.39	3.50	0.35	0.27	0.38	0.46	3.20	-	2.70
05/06/16	0.39	3.50	0.37	0.18	0.34	0.43	3.30	-	2.90
04/01/16	0.40	3.50	0.35	0.22	0.33	0.43	3.60	-	3.10
03/04/16	0.02	3.50	0.35	0.26	0.36	0.43	3.85	-	3.30
02/05/16	0.02	3.50	0.37	0.28	0.34	0.42	3.65	-	3.15

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