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FT: Century Bond Surge Defies Rate Fears.

Investors are seizing the chance to lend money to US companies and municipalities for up to 100 years in exchange for a chance to capture higher yields for longer.

Sales of the so-called ultra long bonds, those maturing in 50 years or longer, have exploded this year despite expectations of higher US bond yields, which may hit long-dated corporate and municipal debt.

Cleveland Clinic, the Ohio-based medical and research centre giant, became on Thursday the first not-for-profit healthcare company to sell 100-year bonds.
Strong demand from institutional investors, such as large pension funds and insurers, has boosted total returns on the bonds with investors leaving aside concerns about duration – a measure of the sensitivity of bond prices to changes in interest rates – in their bond portfolios.

Longer dated bonds have higher duration, meaning they are more vulnerable to interest rate increases.

"It is a special market, for investors who are comfortable managing a higher exposure to duration risks in exchange to adding great names to their portfolios and the possibility of earning higher yields," said Jay Sterns, director of public finance at Barclays.

Some large corporate borrowers, including Caterpillar and EDF, and not-for-profit organisations, such as the Massachusetts Institute of Technology, have tapped the ultra-long market this year.

Total sales of the securities are running at $14.3bn, a jump of almost 60 per cent from the same period in 2013, according to Dealogic.

Long-term corporate debt has generated a total return of 11.5 per cent so far in 2014 compared with a 3.6 per cent return on corporate bonds maturing in 10 years or less, according to Barclays.

The strong performance on long-term debt has been welcomed by pension funds and insurers, which have been traditionally the biggest buyers of this type of bond.
They use high-grade, longer-dated securities to match their underlying liabilities.

But a broader pool of buyers and borrowers has been increasingly attracted to the ultra-long corner of the market.

The Cleveland Clinic deal follows the sale of $350m worth of "century" bonds from the District of Columbia Water and Sewer Authority in July.

Cleveland Clinic completed the sale of $400m in securities maturing in 2114, with yields of about 4.85 per cent, compared with 3.27 per cent for the US 30-year note, according to people familiar with the sale.

Cleveland Clinic's century bonds received an investment-grade rating of Aa2 from Fitch Ratings, and will account for about 12 per cent of the company’s total debt portfolio, according to Fitch Ratings.

Barclays and JPMorgan managed the offer.

Mr Sterns said there are at least another 15-20 tax-exempt healthcare companies with the right profile to sell century bonds.

“We saw the 100-year funding option as a very good opportunity for us given the combination of low borrowing costs and investor interest,” said Steve Glass, chief financial officer of Cleveland Clinic.

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By Vivianne Rodrigues in New York