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Illinois Bondholders Cheer Reversal of Fortune Before Big Sale.

- **Worst-rated state has stabilized, biggest bondholders say**
- **State plans to borrow to pay down record backlog of late bills**

As Illinois prepares for what may be its biggest debt sale in over a decade, its largest investors are celebrating a rally that's transformed the state's bonds from one of this year's worst performers to one of the best.

Since the state in July resolved a two-year budget impasse that pushed its rating to the brink of junk, debt issued by Illinois and its local governments has vaulted to a 7 percent return this year, more than any other state, according to S&P Municipal Bond Indices. Until June 8, they were the worst performer among the five most-indebted states, which include Texas, California, Florida and New York.

The reversal came after lawmakers enacted a budget — and raised taxes — over Governor Bruce Rauner's objections. They also extended Illinois authority to reduce a record pile of leftover bills by selling as much as \$6 billion of bonds. It would be the state's biggest sale since 2003 if done in a single offering.

What follows is a round-up of the outlook for the state from some of Illinois's largest bondholders and how much their firms own:

Nuveen Investments: \$868 million

"It has turnaround potential," said John Miller, co-head of fixed-income at Nuveen, which bought more Illinois bonds in late June and July as the budget came together. The firm plans to take a "hard look" at the \$6 billion borrowing, calling it a "benchmark-type deal" because it may be one of the largest of the year, according to Miller, who cautioned that the state's rising pension-fund debts are still posing risks.

AllianceBernstein LP: \$583 million

"They've stopped the bleeding," said Guy Davidson, director of municipal investments at AllianceBernstein. He said the firm is interested in buying more Illinois debt. "It's not like we think they have solved their problems. We just think they've stabilized their problems."

Davidson said investors are "getting paid more than we think the risk entails"

Wells Fargo Asset Management: \$428 million

“They’re not under the gun as much as far as ratings go,” said Dennis Derby, a portfolio manager at Wells, which holds \$40 billion of municipal debt. The firm would be “more comfortable” if the state took action soon to reduce the \$16 billion of unpaid bills

BlackRock Inc.: \$310 million

The tax hike gives the state “more tools” to meet their expenses and obligations, marking an improvement, said Joe Gankiewicz, a credit-research analyst in Princeton, New Jersey, for the company, which oversees about \$124 billion of municipal debt. The state’s unfunded retirement liabilities — \$130 billion, according to the Commission on Government Forecasting and Accountability — remain an issue. “The pension expense is likely to outstrip the organic revenue growth in the state in the coming years,” Gankiewicz said

Illinois G.O. holding figures are based on data compiled by Bloomberg.

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