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Guggenheim Restructuring Team Looks to Muni Debt, Derivatives.

- **Stress from pension obligations emerging on state, city level**
- **Guggenheim bought Millstein & Co. to create new advisory group**

Guggenheim Partners, which recently merged its restructuring business with Millstein & Co., sees opportunities in helping struggling local government creditors as budget impasses and pension liabilities put pressure on municipal bond issuers.

"We're starting to see some stress" on the state and local government side, driven by pension and other post-employment benefits and liabilities, which states are having "an impossible time funding," said Elizabeth Abrams, a senior managing director at Guggenheim, who came over from Millstein when the two advisory firms combined this month.

Pension liabilities in particular are an issue, she said, with the Federal Reserve estimating shortfalls for public pensions standing at around $1.8 trillion. Millstein was an adviser to Puerto Rico in the island's $74 billion bankruptcy.

Companies have also been taking on more debt relative to assets, while offering weaker loan safeguards to investors. As a result, one place the combined firm is looking for opportunities is reviewing companies' debt documents to advise them on how to position themselves in negotiations with lenders, Abrams said.

Guggenheim Securities, the investment banking arm of the New York-based company, on Monday closed on its takeover of the advisory firm founded in 2011 by Jim Millstein just after he counseled the U.S. Treasury during the Great Recession. The deal creates a combined restructuring group with around 50 employees in anticipation that the expansion of corporate credit will turn into a bust for over-indebted companies.

Restructurings have grown more complicated as distressed investors and companies have grown more likely to use credit derivatives, which can give them unexpected incentives.

'Smart Money'

"Smart money is attracted to the distressed space, and with that smart money, more creative structures," said Morgan Suckow, a senior managing director at Guggenheim. "That has changed our jobs, it has made our jobs a lot more interesting."

CDS have stirred controversy in debt markets recently, a decade after they played a key role in the 2008 financial crisis. Some hedge funds, as part of financing packages they extend to troubled companies, are pressing the companies to trigger or avert payouts on these derivatives, depending on what side of the trade the hedge funds are on. Critics say using CDS trades this way amounts to rigging an $11 trillion market.

Guggenheim’s takeover of Millstein comes as other financial firms expand their restructuring offerings: Greenhill & Co. hired Rothschild & Co. veteran Neil Augustine in March to help run its North American turnaround business. Todd Snyder, formerly of Rothschild, opened up his own shop in February. Last August, UBS Group AG hired LLoyd Sprung from Evercore Partners LLC to build a new practice in the area. Lazard Ltd., Perella Weinberg Partners and AlixPartners are also among firms that have expanded their turnaround teams.

“We’re expecting activity in the market to intensify,” said Ronen Bojmel, who will lead the combined Guggenheim restructuring team.

Guggenheim’s Chief Investment Officer Scott Minerd has projected a U.S. recession may come within the next two years. So has Millstein who has cited both trade wars heating up under President Donald Trump and a wall of corporate debt. They are echoing views across Wall Street that tighter fiscal and monetary policies will create problems for the world’s biggest economy by 2020.

Millstein’s firm has advised US Airways in its acquisition of American Airlines and Caesars Entertainment Corp. in its Chapter 11 proceedings. It has also worked on Venezuelan debt. Guggenheim’s recent restructuring work includes Iconix Brand Group Inc., Payless Inc. and Intelsat SA.

Bloomberg Markets

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September 19, 2018, 4:00 AM MDT