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Nuveen's Warning to Wall Street: Cut Off Our Muni Rival or Else.

- **December calls put pressure on banks, court transcripts show**
- **'The Street just has to choose,' Nuveen's Miller tells Goldman**

Nuveen LLC was giving Deutsche Bank AG an ultimatum.

John Miller, who oversees $160 billion of investments in state and local government bonds for the mutual-fund company, had watched in anger as a Dallas upstart muscled in on his lucrative corner of the municipal-securities market. The latest encroachment: the rival, Preston Hollow Capital LLC, landed $200 million of debt offered by a junk-rated university located in Nuveen's hometown of Chicago.

Now, Deutsche Bank was being told that Nuveen would pull business from the bank for providing financing for Preston Hollow, according to the transcript of a December telephone call filed in a Delaware court.

Miller's subordinate said Nuveen had already penalized Wells Fargo & Co. and Bank of America Corp. And other major banks were being put on notice for working with Preston Hollow, a firm Miller said was hurting the market by charging "predatory" interest rates on bonds it planned to resell to others.

"I have been working with John for 15 years and I have never seen him as serious about anything. I mean nothing gets him more upset than these Preston Hollow deals," said the employee, who wasn't identified by name in the transcript of the phone call with Deutsche Bank. "We are going to every single bank and broker-dealer today to examine what is the extent of their business, and the policy going forward is that if you are actively doing business with them, Nuveen will not be doing business with you."

The transcripts provide an inside look at a clash in the high-yield municipal market, a $500 billion corner where a flood of cash and relatively scant issuance frequently leaves firms fighting over new debt offerings. Few wield as much influence in that business as Nuveen, a unit of New York's TIAA.

In February, Preston Hollow sued Nuveen in Delaware Chancery Court, alleging the company used its market power to organize an industry-wide boycott against it. The telephone transcripts are at the heart of the case, with Preston Hollow arguing that they show Nuveen engaged in a "campaign of intimidation" to blackball it from the industry.

Free to Choose

A spokesman for Nuveen, Stewart Lewack, said Preston Hollow's claims have no merit and the company intends to "vigorously defend itself" when the case goes to trial later this month. He said the transcripts provide a distorted view of Nuveen's interactions with brokerage firms. He declined to comment on whether Nuveen pulled its business from banks over their ties to Preston Hollow.

Miller didn't respond to an email seeking comment.

A spokesman for Deutsche Bank, Troy Gravitt, declined to comment. Jonathan Morgan, a spokesman for Preston Hollow, said Deutsche Bank didn't cut its financing to the company.

In court filings, Nuveen's lawyers argued that the firm can choose with whom to do business and select partners based on whether they work with competitors. They said Preston Hollow hasn't identified any lost business because of Nuveen's alleged conduct or demonstrated a reciprocal, collusive relationship among Nuveen and Wall Street banks, the filings said. This year, Preston Hollow has purchased at least $136 million bonds in exclusive deals underwritten by Loop Capital Markets LLC, Stifel Financial Corp. and Piper Jaffray Cos., according to offering documents.

The lawsuit comes just as competition for the riskiest municipal bonds has intensified as rock bottom interest rates leave investors hunting for larger returns. High-yield municipal securities funds have picked up $10.5 billion of new cash in the first half of 2019, according to Morningstar Inc. data. Miller's $20 billion fund at Nuveen received 20% of it.

Striking Core Business

Spending the money isn't always easy. It's rare to see billion-dollar deals for large speculative projects, such as Virgin Trains USA's passenger railroad in southern Florida or the American Dream shopping mall in New Jersey's Meadowlands. Most low-rated municipal-bond deals come in chunks of $50 million or less from smaller borrowers like hospitals, charter schools or senior-living centers.

That's why even a firm like Preston Hollow could create a challenge for far bigger rivals. Rather than buy bonds in public offerings, the 5-year-old company negotiates to buy the entire deal in private. That saves borrowers costs for marketing and credit ratings.

In a phone conversation with Deutsche Bank, which extended financing to Preston Hollow through a so-called tender option bond program, Miller said the Dallas rival had initially only been doing a "handful" of $20 million to $50 million deals.

But it had started buying ones of $100 million or more, including from issuers whose securities Nuveen owned. Miller said that Preston Hollow was engaging in predatory practices by charging overly high interest rates for debt that it didn't intend to hold on to, creating financial risk for the borrowers and other bondholders.

"What's happened in the last two months really strikes more at the core of our business," Miller said, according to a transcript of his call filed in court. He later said that their "ability for them to move up the scale into deals that are really hurting us and really hurting our industry. That ability does come from your TOB financing."

'Devastating News'

One of Preston Hollow's deals was for Roosevelt University, a private school near Chicago's Grant Park that's seen enrollment shrink by 30% since 2014. In September 2018, Wells Fargo sold the entire issue, which was done through the Illinois Finance Authority, directly to Preston Hollow, even though Nuveen already owned some of its debt.

In the call with Deutsche Bank, the Miller subordinate criticized Preston Hollow for securing "exorbitant" yields and weakening protections for bondholders. "It's predatory," the employee said.

Allegations that Preston Hollow charged excessive rates and structured rushed deals are false and

defamatory, the firm said in court filings. Roosevelt University's 2018 bonds had stronger financial protections for investors than prior bond issues by the university and Preston Hollow engaged in extensive discussions on the covenants with Roosevelt and its financial adviser, bond counsel and underwriter, said Morgan, the Preston Hollow spokesman.

Nuveen suspended its trading with Wells Fargo, the employee said, speculating that the move helped contribute to the ouster of the bank's public finance chief, Stratford Shields, after about a year on the job. Deutsche Bank needed to cut off the liquidity and unwind financing to Preston Hollow, the employee explained, or Miller would reduce Nuveen's business with the bank "to zero."

"It's devastating news," one unidentified Deutsche Bank employee said.

Shields said through a spokesman that the comments cast doubt on the company's previously stated reasons for his ouster. A spokesperson for Wells Fargo declined to comment.

Deutsche Bank ignored the suggestion, according to Morgan, the Preston Hollow spokesman. But he said the Dallas lender is concerned about the effect the "extreme economic pressure" applied by Nuveen could have in the future. "We are thankful for Deutsche Bank's willingness to stand up to Nuveen's pressure and hope it will continue to do so in the future," Morgan said.

Can't Do Both

The transcripts show that Deutsche Bank wasn't the only one to face such hardball tactics. Miller told Deutsche Bank he had commitments from Bank of America, Goldman Sachs Group Inc. and JPMorgan Chase & Co. and was soon meeting with Citigroup Inc. about not working with Preston Hollow. An agreement with Morgan Stanley, he said, was pending and similar deals were in the works with "a whole bunch" of smaller, region-based underwriters.

Morgan Stanley didn't stop doing business with Preston Hollow following conversations with Nuveen, said Mark Lake, a spokesman. Spokespeople at Bank of America, Citigroup, Goldman Sachs and JPMorgan declined to comment.

"The Street just has to choose," Miller said in a call with Goldman Sachs, according to a court transcript. "They have to choose who and what type of business they're going to do because they're not going to do both. At least not with Nuveen."

"I've got 90% of the major top bracket muni broker dealer firms and banks to say absolutely never again, and I'm working on 100%," Miller told Deutsche Bank. "I feel my chances are very good at getting there."

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By Martin Z Braun

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— With assistance by Jef Feeley

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