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Harvard, Princeton Rush to Sell Debt to Yield-Hungry Buyers.

- **American college debt sales have risen to $36 billion in 2020**
- **Barclays banker has seen more Asia demand in last 3-6 months**

In a world of falling interest rates, U.S. universities like Harvard and Princeton are finding love for their bonds from international investors seeking extra yield.

Demand for debt of American colleges has increased recently from investors in places like Japan, South Korea, Singapore and Taiwan, market participants say. That's helped the universities price about $36 billion of bonds this year, the most since at least 2004, as they join a global boom in debt deals.

While colleges face uncertainties this academic year after having to close or modify campuses due to the coronavirus, many global investors are finding the long-term stable outlook of the schools particularly appealing as weaker borrowers stumble. For investors in countries that need funds to support aging populations like Japan and South Korea, the perceived strength of the issuers for years to come is a particular draw.

"Those types of credits help investors sleep at night," said John Augustine, a managing director at Barclays Plc who runs the bank's higher education group. He said he's seen an increase in Asian investors interested in college and university bonds over the last three to six months.

Such buyers are drawn to high-quality names at major private and public research universities, usually rated AA or higher, Augustine said. His firm is one of the top-ranked dealers for debt sold by U.S. universities, according to Bloomberg-compiled data.

South Korea's Samsung Life Insurance Co., the nation's biggest life insurer, has previously bought such debt and is considering additional investments that offer a bit more yield than local notes, it said.

Wealthy Korean individual investors are interested in U.S. college bonds as well, according to Kim Sung-soo, a Seoul-based credit analyst at NH Investment & Securities Co., who recommends debt of highly ranked universities such as Yale and Harvard given their large endowments and high credit scores.

Top-graded university bonds also offer a yield premium to U.S. sovereign debt. Harvard's AAA rated notes due in 2050, for instance, initially priced at a 2.517% yield or 110 basis points more than Treasuries.

When California State University sold $466 million in taxable bonds last month, investors from Taiwan and Korea were among buyers that put in orders for the debt, said Mike Uhlenkamp, a spokesperson for the school. That type of credit is exactly what international investors will gravitate toward, said Kathleen McNamara, senior municipal-bond strategist at UBS's wealth management arm.

“It’s as simple as yields are so low, if you can buy a muni that is AA rated with some name recognition at 100 basis points over where Treasuries are, why not?” McNamara said. “I’m sure they can’t find long-duration high quality bonds anywhere else.”

The Cal State deal is rated AA- by S&P Global Ratings and Aa2 by Moody’s Investors Service. A 10-year bond priced 104 basis points over Treasuries.

Still, there are risks that foreign investors face, such as the threat that any weakening in the dollar would reduce their returns in home currency terms.

Jamison Feheley, head of public finance banking at JPMorgan Chase & Co., said his markets team in the U.S. is in constant communication with their international sales colleagues when they underwrite a taxable municipal bond deal, notably those for colleges and universities.

“It’s not a one-off order here or there either — in some transactions we have double-digit participation from international accounts,” he said.

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