

Quick Hit – FNFA, a continuing credit improvement story

It's been almost a year now since the First Nations Finance Authority last came to the market on October 19, 2017, having issued \$126 million of its 3.05% Jun-2028 at 107 bps vs Can 1.00% Jun-27, representing 30 bps over Ontario at the time. With new indications hinting that the name could return to the market for a fifth time in the near future, one can't help but wonder: what has changed for the FNFA credit since then? Simply put: a lot.

For starters, the First Nations Finance Authority's rating was raised to A+ from A- (outlook changed to stable from positive) on August 3, 2018, following the agency's methodology and assumptions criteria changes for Public-Sector Funding Agencies—which we previously discussed [here](#). Prior to that, recall that S&P had placed the ratings on the Authority Under Criteria Observation (UCO) on May 22, 2018, in conjunction with the criteria's release. As such, following its review, S&P determined that FNFA possesses "substantial capital levels", "solid risk management" as well as assistance from the federal government to "support its growing track record of providing access to capital by First Nations". What's more, the stable outlook reflects the agency's view that FNFA will, in the next two years, "continue the strong pace" of its loan growth, which it already demonstrated since it began lending in 2012. On that front, it wouldn't be surprising to see an updated rating report from Moody's emerge in the upcoming weeks. To us, the Authority's improving track record won't go unnoticed.

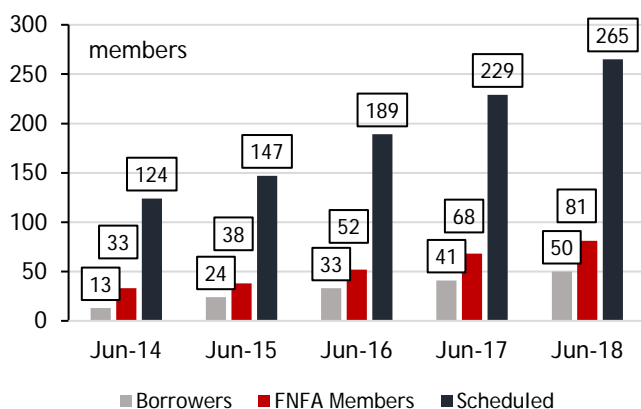
Another testimony of the increased recognition gained by the name was the \$50 million support over five years (and \$11 million/year thereafter) allocated to FNFA institutions by the federal government in its 2018 budget. Specifically, this investment aims for the strengthening of the FMB, the FNFA and the First Nations Tax Commission, with the objective to "stabilize operations and maximize potential". This will translate into new regional office openings throughout Canada—inaugural office recently launched in the province of Québec and more to come in Ontario and the Atlantic area—to increase the Authority's geographic dispersion.

And talking about increased/improving geographic diversification, the FNFA now has Scheduled and Pending members across Canada's ten provinces (and one territory) as of September 2018, following the addition of a new band in Prince Edward Island. As such, Scheduled and Pending members currently amount to 265, up from 229 (in nine provinces and one territory) back in September 2017. As for eligible borrowing members, they have also grown to 84 in September 2018, up from 68 in June 2017 and 33 in June 2014, back when FNFA first came to the market. At that time, 13 First Nations had accessed the bond loan program vs 50 as of September 2018, with further steady growth ahead (Chart 1).

But FNFA's success story doesn't quite end there... it was also lauded by no other than the Governor General in May, which awarded the organization with its prestigious Innovation Award, "given to individuals, teams, and/or organizations whose innovations are truly exceptional, transformative, and positive in their impact on quality of life in Canada". In this capacity, the Governor General recognized the FNFA's role in First Nation's empowerment "to develop long-term community plans, and to better manage their own economic development". From a valuation perspective, this flow of recognition directly slid into financial markets, which have acknowledged the name's stronger credit background and interesting/unique story through the years, as demonstrated by the tightening basis to Ontario at which most of FNFA's prior deals were consecutively issued (Chart 2). The name has achieved growing recognition within the investment community, therefore broadening potential investor subscription and likely pointing to an even tighter basis to Ontario—relative to prior deals—if, as, and when the issuer chooses to tap the market.

Chart 1: Member evolution through the years

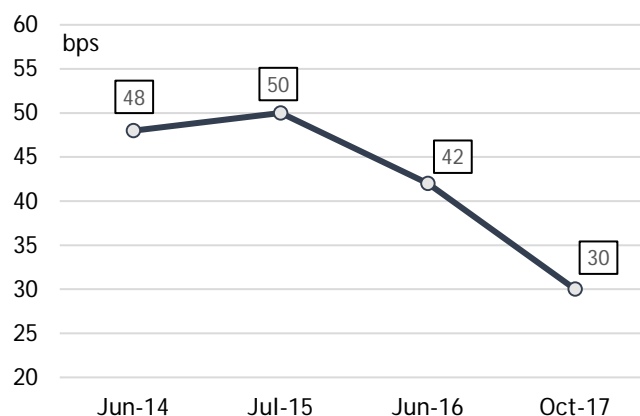
Total number of Borrowing & FNFA members as well as Scheduled



Source: NBF, FNFA Investor Presentations

Chart 2: Basis to Ontario spread trajectory

FNFA spread to comparable Ontario for each of first four deals



Source: NBF

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Fixed Income Trading Desk Strategy

Public Sector Strategy

Warren Lovely

+1 416-869-8598 | Warren.Lovely@nbc.ca

Catherine Maltais

+1 514-879-2270 | Catherine.Maltais@nbc.ca

Taylor Schleich

+1 416-869-6480 | Taylor.Schleich@nbc.ca

Corporate Credit

Connor Sedgewick

+1 514-879-3182 | Connor.Sedgewick@nbc.ca

Pete Metzger

+1 416-869-8607 | Pete.Metzger@nbc.ca

Relative Value Models

Drew Lloyd

+44 (0)20-7488-9379 | Drew.Lloyd@nbc.ca

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