

About the Conference

One way NASP facilitates the education of our members and associates is through our Annual Pension and Financial Services Conference, which has evolved into one of the industry's most respected and influential educational forums.

Our conference consistently has attracted an impressive group of investment professionals, corporate treasurers, public trustees, asset allocation experts, municipal issuers and world-renowned economists. Each year, many of the investment industry's top decision makers gather at this annual celebration of diversity and achievement to enhance their knowledge and source new opportunities and relationships. The conference has been proven repeatedly as the one industry event you do not want to miss!

The 2012 conference in Baltimore was a resounding success - attended by more than 500 industry professionals including over 150 key decision-makers. We continually strive to enrich the conference experience through relevant topics, influential speakers, and festive social functions. The planning committee is working hard to develop another excellent program. Our industry faces a number of challenges on the horizon, and in keeping with the conference objectives, the workshops and general sessions will place a priority on:

- Pension plan fiduciary education;
- Asset allocation for today's environment;
- Challenges and opportunities in the municipal markets;
- Strategic and financial considerations for corporations;
- The changing face of risk and its potential consequences;
- Geo-political considerations for your portfolio;
- Alternative investment strategies; and
- The exploration of global opportunities.

Our focus over the past several years has been to enrich the educational component, providing a platform to significantly increase the participation of trustees, plan sponsors, municipal issuers and corporations, while limiting the number of non-trustee registrations. This has helped to maintain a better ratio of decision makers to investment and corporate professionals. We successfully have delivered upon our goal of creating an elite learning environment with more valuable networking opportunities.

PANEL, Tues., June 25, 9:45

Format:

We agreed that we would have a PowerPoint-free panel discussion, with an emphasis on interaction and audience participation. Moreover, we discussed having 3 to 5 topics to address that would allow for equitable participation by the panelists and with the objective of teasing out the varied practices and

approaches by the issuers represented on the panel. Lastly, we all agreed that we would leave significant time at the end so that the panelists could field questions from the audience.

Questions (the bold is the topical question and the italics are the follow-up questions): **SEE BELOW**, notes from Charisse, in caps; my notes in lower case.

1. **Given the diminished supply of bond insurance, trepid faith in the rating agencies, and the new vigor that investors undertake with credit analysis, what are each of you doing to “sell” your credit story to engender investor confidence?** *Is the “selling” process exclusive to when you have deals in the market? What other actions are you undertaking to foster investor confidence (i.e. investor-friendly websites, quarterly financials, frequent press releases, timely continue disclosure filings, etc.)?*
2. **How has the new regulatory focus on disclosure impacted the way you do deals?** *Do you find that you need to involve more agency senior stakeholders (i.e. elected officials, department heads, etc.) than in years past? Are the underwriters more zealous in the line of questions they pose or information they request to fulfill their due diligence requirement? Has the regulatory focus added administrative burden resulting in additional cost to issuing bonds? Do your disclosure documents look different now as a result of the new regulatory focus on disclosure?*
3. **What are the most important attributes that you look for when selecting underwriters to lead and/or participate in your bonds syndicate?** *How important is the capitalization of the broker/dealer in your selection metrics? What importance do you accord to the prowess of retail investor distribution channels? Is the public policy objective of providing access to MBE and smaller underwriting firms still an important commitment for your agency? How much influence do you cede to your financial advisors in the underwriter selection process?*
4. **Are you concerned about the discussions in Washington regarding eliminating or reducing the tax-exemption for municipal bonds?** *If so, what actions has your agency undertaken to make policymakers aware of your concerns? Do you think some form Build America Bonds will ever return? If so, when and why?*
5. **As it relates to issuing bonds, what is/are the issue(s) that is/are most concerning for you in today’s market?**

I know it seems like a lot; however, I want to have a robust field of issues for us to potentially explore. Let me know whether any of the above questions or issues are pause for concern. That said, I was trying to be mindful of the specific interest of our audience at the conference. Lastly, to ensure we honor our commitment for an unrehearsed, interactive exchange on our panel, I ask that you allow me to choose

from the above which topical questions to pose to the panel and the order for doing so based on my read of flow and audience reaction. All ok?

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TALKING POINTS FOR NASP CONFERENCE

1. Given the diminished supply of bond insurance, trepid faith in the rating agencies, and the new vigor that investors undertake with credit analysis, what are each of you doing to “sell” your credit story to engender investor confidence?

THE CITY OF HOUSTON SPONSORED its FIRST INVESTOR CONFERENCE IN APRIL 2013 TO FOCUS MORE ON INVESTOR RELATIONS. OTHER CITIES ARE DOING THE SAME. OTHER ALTERNATIVES HAVE BEEN INVESTOR ROAD SHOWS. THE CITY OF HOUSTON IS WORKING ON AN INVESTOR WEB PAGE WHERE INVESTORS can ACCESS FINANCIAL INFORMATION ABOUT THE CITY IN ONE SPOT.

Of course, Houston is in an enviable position in regards to the economic turnaround we are experiencing. Home prices are the best in over a decade, our property tax and sales tax revenues are even better than we’d hoped for. Voters overwhelmingly approved four bond packages last November—public schools, community college, city and METRO—two of which required a tax increase, so the mood here is good!

> 1. Given the diminished supply of bond insurance, trepid faith in the rating agencies, and the new vigor that investors undertake with credit analysis, what are each of you doing to “sell” your credit story to engender investor confidence? Is the “selling” process exclusive to when you have deals in the market? What other actions are you undertaking to foster investor confidence (i.e. investor-friendly websites, quarterly financials, frequent press releases, timely continue disclosure filings, etc.)?

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> The muni market changed dramatically after 2008--as you noted the demise of bond insurance and faith in rating agencies spurred a robust review of each and every issuer.

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> What did that mean for the issuer? For the City of Houston while it presented a challenge, it represented an opportunity to tell our story which might prove difficult to comprehensively convey solely with a credit rating or even a ratings report. No one tells your story better than you.

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> While Houston did not go unaffected by the national recession, the severity of the recession did not come close to what other parts of the country endured during the height of the crisis, given our stable housing market which did not experience the dramatic upswings and subsequent precipitous declines and thriving energy sector. Fortunately, Houston was on the LIFO method, only being pulled into the late wave of the recession, and rebounding fairly quickly.

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> Increased scrutiny and inaccurate predictions of rampant muni defaults required the City of Houston to increase our efforts to promote the City's various credits. So we sought out the various stakeholders, including current and prospective investors, rating agencies, and media outlets.

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> Although blind faith in ratings was a thing of the past in the wake of the financial crisis, the rating agencies continued to be an important partner. So rather than wait to engage the rating agencies when a specific deal was coming to market, we contacted them to schedule meetings to discuss our current financials and upcoming budget...including the bright spots and the challenges on the horizon. It was also important that we point out the steps we were taking to address these challenges. I am proud to note that we were able to maintain our ratings despite fiscal challenges, even successfully having the rating agency outlook improved on one of our credits. And, one of the factors that the agencies pointed out as a strength in the rating reports was the City's strong management.

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> Transparency is also vital.

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> While the City has always been big on transparency, including making its monthly financial reports, quarterly investment reports and annual audited reports available on its website, in this day and age it is imperative to not only maintain but step up these efforts.

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> Instead of simply making these documents available online, we feel it is important to actively engage the stakeholders by providing some context. We routinely reach out to the City's biggest bondholders and our liquidity providers. In addition to holding our first investor conference this past March, we are also in the process of creating an investor website that aggregates the City's financial and operational information.

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> To that end, it becomes even more critical to actively engage in the bond pricing process. Gone are the days of delegating all elements of a sale to someone else i. e. the underwriter and financial advisor. It's your bonds and ultimately your responsibility. You and your constituents often will have to live with these sales results for a decade or more so employing every tactic you can to ensure the lowest borrowing costs is a must. (May represent a chance for Controller to expound on the necessity of being at a pricing).

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> I also must note that it's not enough to simply engage in these efforts when you are gearing up for a deal, but that this must be an ongoing strategy. It fosters familiarity which can positively impact primary offerings and secondary trading which ultimately affects the pricing on future issuances by increasing liquidity and reducing credit spreads.

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> When the investor is provided with more information, she feels empowered to make a better decision...if not, she may opt to pass on investing in your bonds or price in some information deficit premium.

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> We also do not shy away from media outlets, including Bond Buyer, Bloomberg, and the local press. They can be a useful partner in this process.

2. How has the new regulatory focus on disclosure impacted the way you do deals?

I DO NOT KNOW IF it HAS IMPACTED ON THE "WAY" THAT WE DO DEALS, BUT IT HAS DEFINETLY IMPACTED OUR DISCLOSURE DOCUMENTS. WE HAVE HAD TO INVOLVE MORE EXECUTIVE LEVEL EMPLOYEES IN OUR DUE DILIGENCE CALLS. THE LINE OF QUESTIONING HAS BEEN CHANGED FROM YES NO ANSWERS TO MORE DISCUSSION TYPE QUESTONS. AT THIS POINT THERE HAS NOT BEEN ANY ADDITIONAL COSTS OF ADDITIONAL DISCLOSURE TO OUR ISSUANCES. OUR DOCUMENTS HAVE NOT CHANGED MUCH. THERE IS A LOT MORE FOCUS ON PENSION LANGUAGE AND DISLOSURE THAN BEFORE.

This office has always been guided by transparency.

Q.2Regulatory Question/Q.3UW Question

How has the new regulatory focus on disclosure impacted the way you do deals? Do you find that you need to involve more agency senior stakeholders (i.e. elected officials, department heads, etc.) than in years past? Are the underwriters more zealous in the line of questions they pose or information they request to fulfill their due diligence requirement? Has the regulatory focus added administrative burden resulting in additional cost to issuing bonds? Do your disclosure documents look different now as a result of the new regulatory focus on disclosure?

The current market environment has required increased due diligence efforts by many of the participants in the bond issuance process. While this can lengthen the time it takes to bring a deal to market, the upside is that it increases the likelihood of a successful transaction. While it has required building additional time into the issuance process to allow for input from various stakeholders (I.e a rep from the Water System to discuss operational data) , a more vigorous due diligence process is not necessarily all negative--increasing investor confidence in Houston specifically and the muni market in general.

It has not necessarily translated into any substantial increase in issuance costs, but this is where the phrase "doing more with less" becomes more than a motto. Our office has had to bear much of the additional disclosure responsibility. To address this, we established internal compliance procedures requiring periodic review of our continuing disclosure submissions by multiple staff members.

Every challenge does have a silver lining. So while many may bemoan the increased disclosure requirements, we actually welcome these stepped up

regulatory efforts to increase transparency and foster communication between us and investors. After revisiting our offering and continuing disclosure documents, I was happy to confirm that our current documents are fairly comprehensive and did not require much revision.

What are the most important attributes that you look for when selecting underwriters to lead and/or participate in your bonds syndicate? How important is the capitalization of the broker/dealer in your selection metrics? What importance do you accord to the prowess of retail investor distribution channels? Is the public policy objective of providing access to MBE and smaller underwriting firms still an important commitment for your agency? How much influence do you cede to your financial advisors in the underwriter selection process?

The selection of underwriters is based on a myriad of factors but ultimately it boils down can you sell my paper and achieve the lowest possible costs in the prevailing market environment. The presentation of innovative ideas does factor into our decision but in many cases a simple refunding is just that simply a refunding. You can save X number of dollars if you pay off these bonds and issue new bonds at a lower rate. In many ways, analogous to refinancing your home when rates drop. And that is not to discourage innovation.

Let's pause on this idea of capitalization. Many banks will tout this, but not every one is willing to use it. Furthermore if the firm does commit to use their capital to take down bonds, is it at the original prices. Or are they offering to take these bonds down at a lower price/higher yield? Hence, the capital argument can be a bit tricky.

Diversity is an important part of the discussion. Not simply in terms of being reflective of the Houston demographics, but often we have found that smaller and minority firms have performed extraordinarily well as lead managers, pricing through previous deals and bringing new investors to the fold.

While we do evaluate input from the financial advisor, ultimately we are responsible for the sale and thus the underwriters selected.

3. What are the most important attributes that you look for when selecting underwriters to lead and/or participate in your bonds syndicate?

THINGS THAT WE LOOK AT ARE: TRANS BIDDING, PROPOSALS SUBMITTED FOR BONDING IDEAS, CREDIT, AND PARTICIPATION ON A SYNDICATE. WE ALWAYS WANT TO LOOK AT MINORITY PARTICIPATION. THE MAYOR AND CONTROLLER DETERMINE WHO WILL BE ON TRANSACTION, NOT OUR FINANCIAL ADVISORS.

4. Are you concerned about the discussions in Washington regarding eliminating or reduction the tax-exemption for municipal bonds?

WE ARE VERY CONCERNED. I (THE CONTROLLER) HAVE BEEN TALKING TO OTHER AGENCIES ABOUT THE DETRIMENT TO THE CITY AND OTHER CITIES IT WOULD BE IF THE TAX EXEMPTION IS REDUCED OR GOES AWAY.

5. As it relates to issuing bonds, what is/are the issue(s) that is/are most concerning for you in today's market?

TAX EXEMPTION AS MENTIONED BEFORE. RISING INTEREST RATES.

It would be good to have clear message in Washington in regards to muni bonds; there continues to be a "threat" to bonds and, of course, if that threat were realized it would curtail or even end a lot of planned infrastructure in cities. It could prove disastrous especially for school districts.