California Debt and Investment Advisory Commission

Municipal Debt Essentials Seminar

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Introduction: Recent Trends in the Bond Market

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Tony has served as a municipal bond banker for over 25 years. In 2009 he moved from Citi, where he was a Managing Director and Western Region Manager, to Barclays. Tony currently heads Barclays' Western Region Public Finance Group based in San Francisco. Since 1983, Tony has senior managed over $80 billion worth of transactions, including two Institutional Investor "Deals of the Year," and three Bond Buyer "Deals of the Year".

Tony is a CSAC Circle of Service award winner. He is a member of the Municipal Operating Committee and architect of several statewide pools including tobacco securitization and vehicle license fees.

Tony received his bachelor's degree in Mathematics from the University of California, Los Angeles and an MBA degree in Finance from the University of California, Berkeley. Prior to becoming an investment banker, Tony was a middle and high school math teacher.

Recent Trends in the Municipal Bond Market

1. Interest Rates
2. Increased Focus on Credit
3. Who Are The Players and How Have They Changed
4. Changes in Regulation

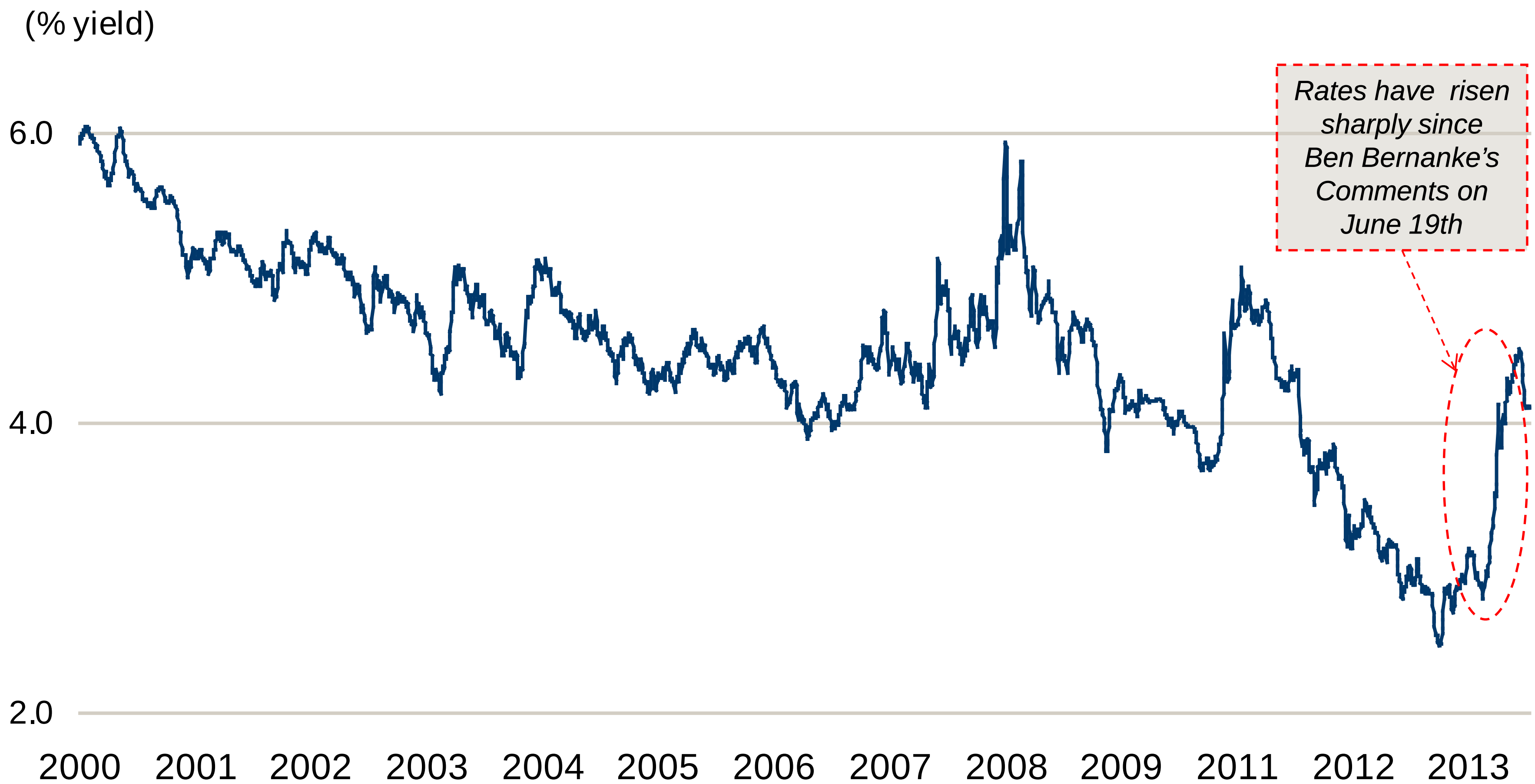
1. Interest Rates Are Rising

- Historical Rates
- A Steepening Yield Curve
- Supply and Demand Dynamics

Historical Interest Rate Movements

Recent Fed comments have resulted in increased interest rate volatility

Historical 30-Year MMD Rates

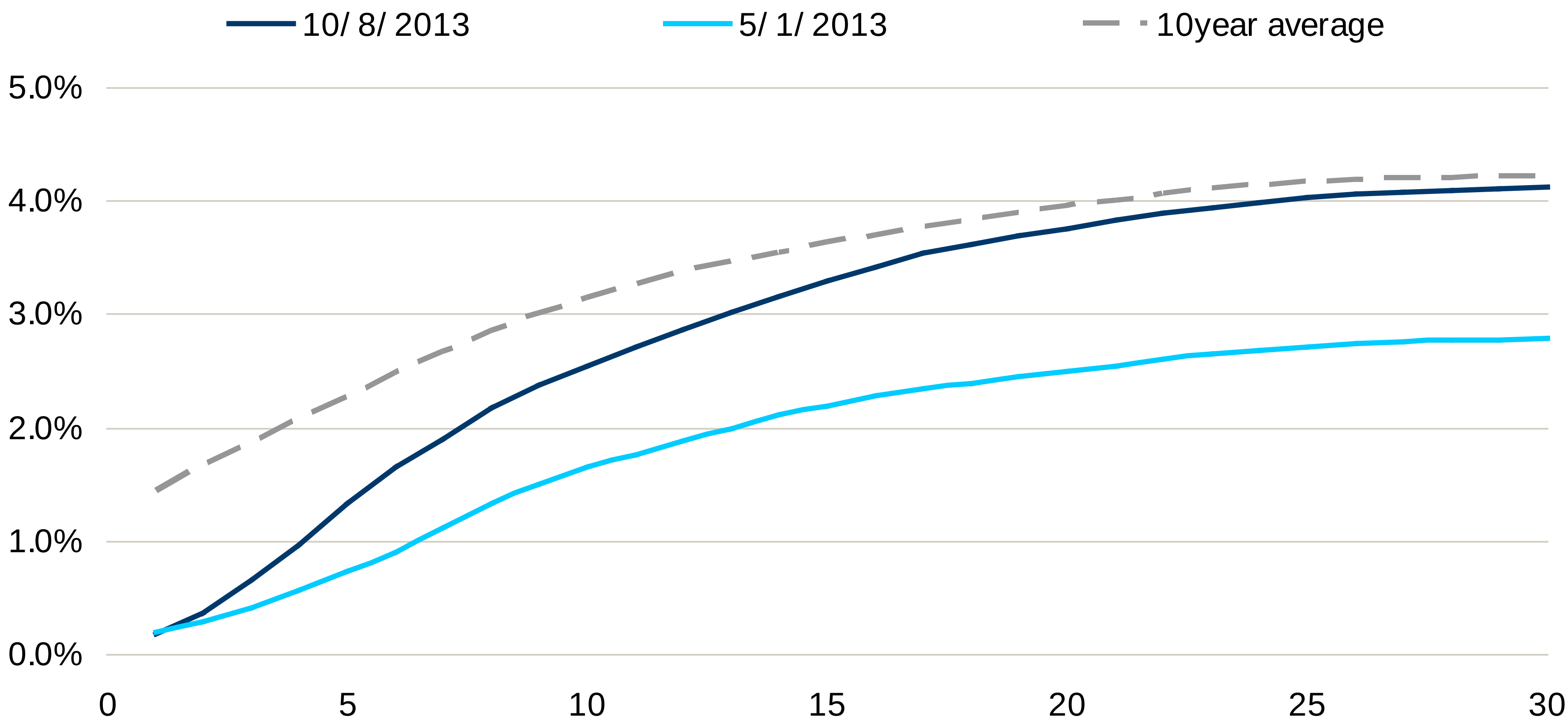


Source: Municipal Market Data. As of October 8, 2013

A Steepening Yield Curve

The tax-exempt yield curve has steepened significantly since May; short term rates likely to remain low over the near term, while long terms rates have risen

MMD Yield Curve Movements over Time

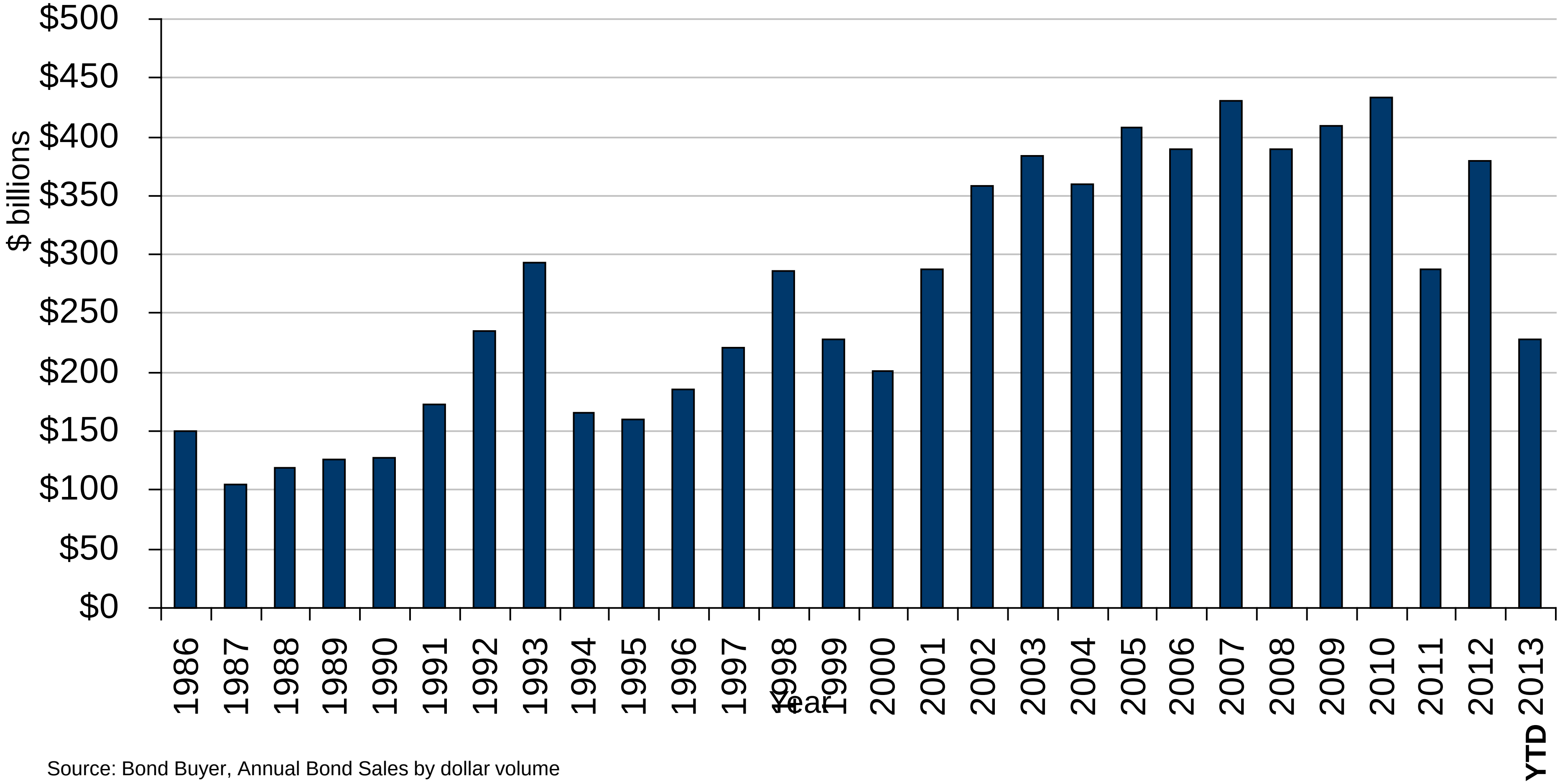


Source: Municipal Market Data. As of October 8, 2013

Supply Has Dropped From Highs But Remains Steady

Supply has dropped from the highs seen during the ARRA legislation, but low interest rates have kept issuers in the market with refunding and new money financings

Historical Municipal New Money and Refunding Issuance

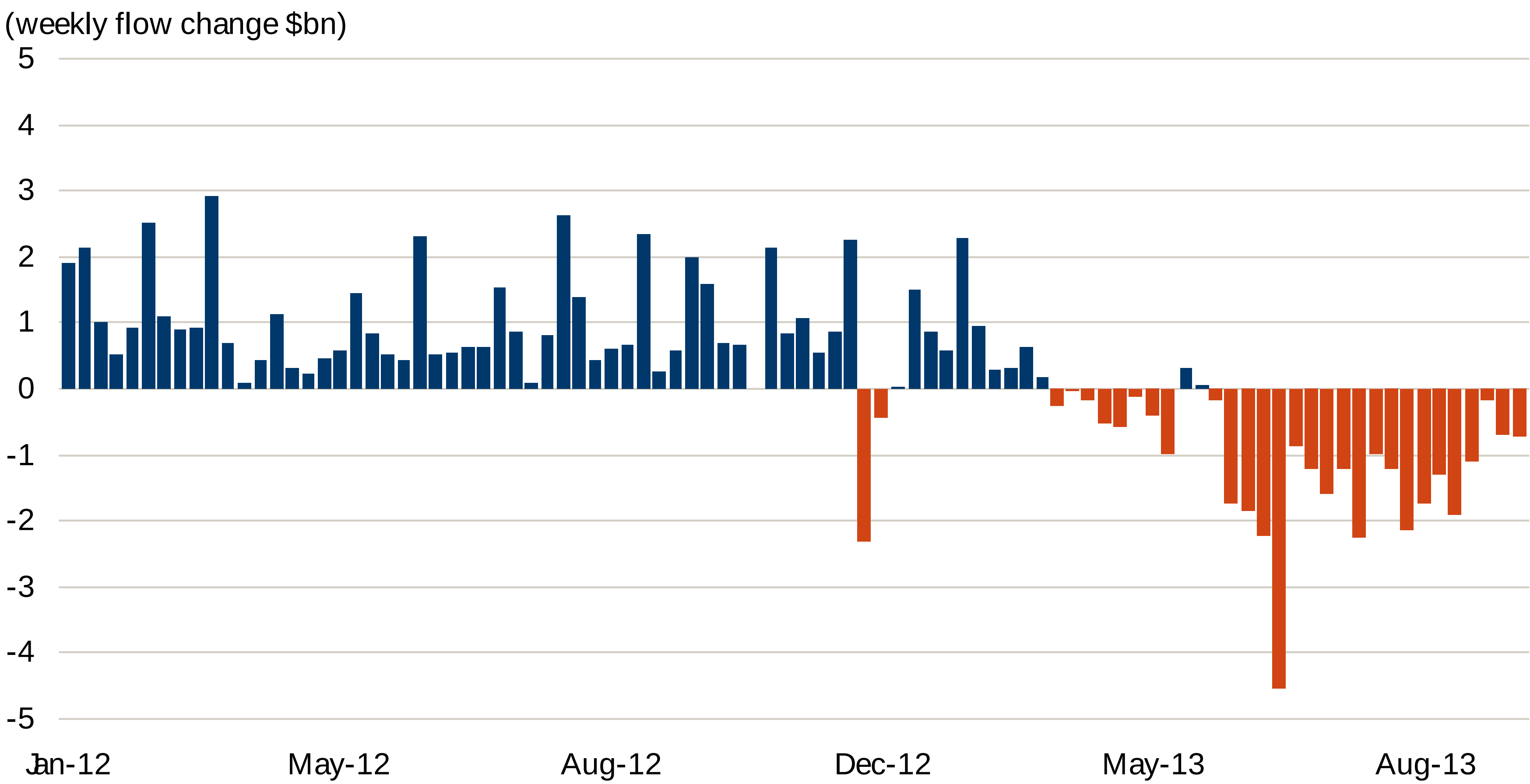


Source: Bond Buyer, Annual Bond Sales by dollar volume

Demand

Anticipated increases in interest rates and concerns over credit caused by recent bankruptcies have caused municipal bond funds to pull out of munis and into other asset classes

Tax-Exempt Bond Fund Flows Have Turned Negative

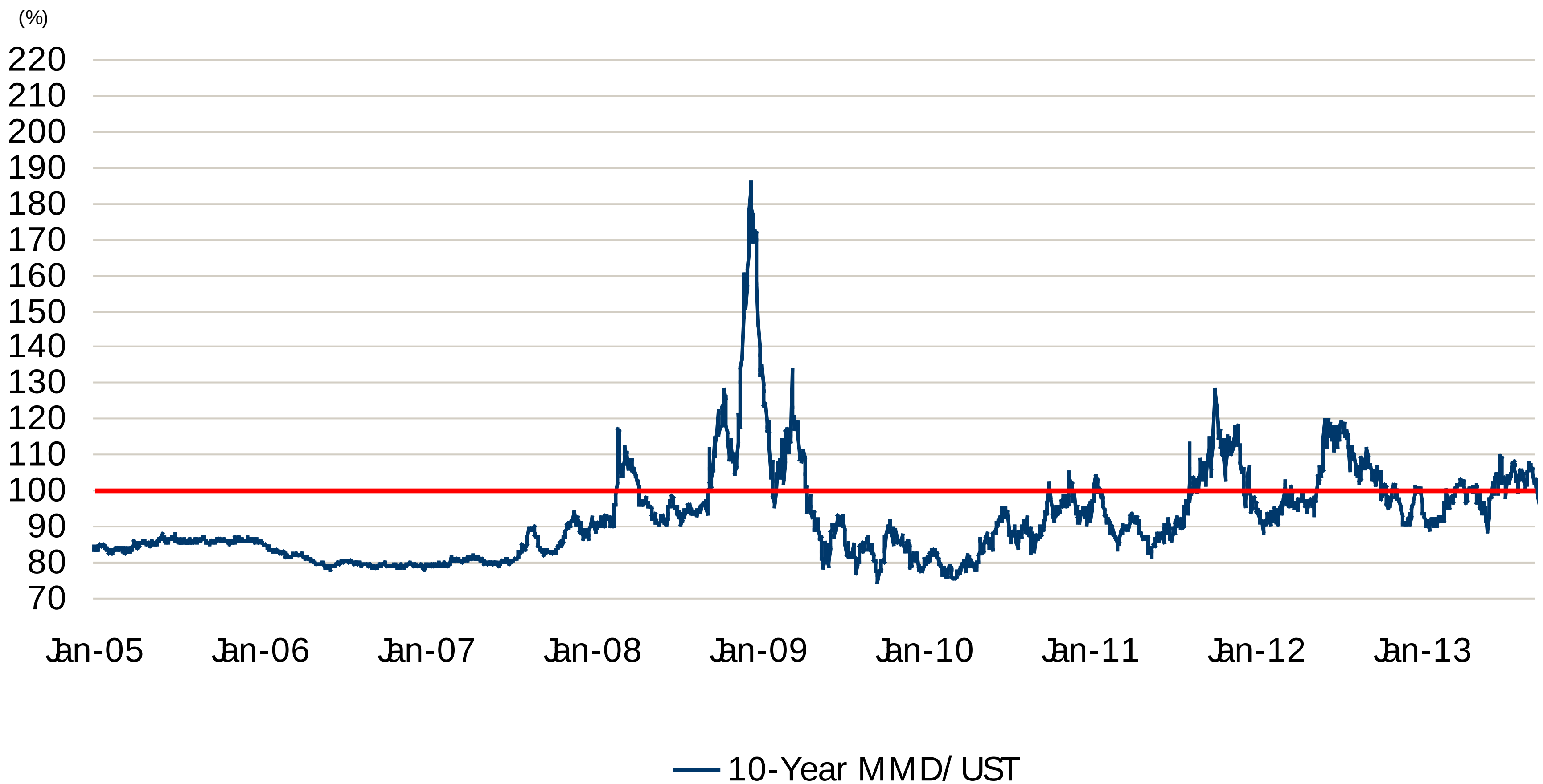


Source: Lipper US Fund Flows. As of October 10, 2013

Municipals vs. Treasuries

Prior to the credit crisis, the ratio of tax-exempt to taxable debt held steady below 100, ratios returned to these levels briefly at times since 2008 but have remained volatile

Tax-Exempt/Taxable Ratios



Source: Thomson Reuters The Municipal Market Monitor. As of October 3, 2013

Recent Trends from a Low Interest Rate Environment

- Issue as much as is needed as soon as possible to lock in low rates
- Avoidance of negative arbitrage in reserve funds

2. A Greater Focus on Underlying Credit

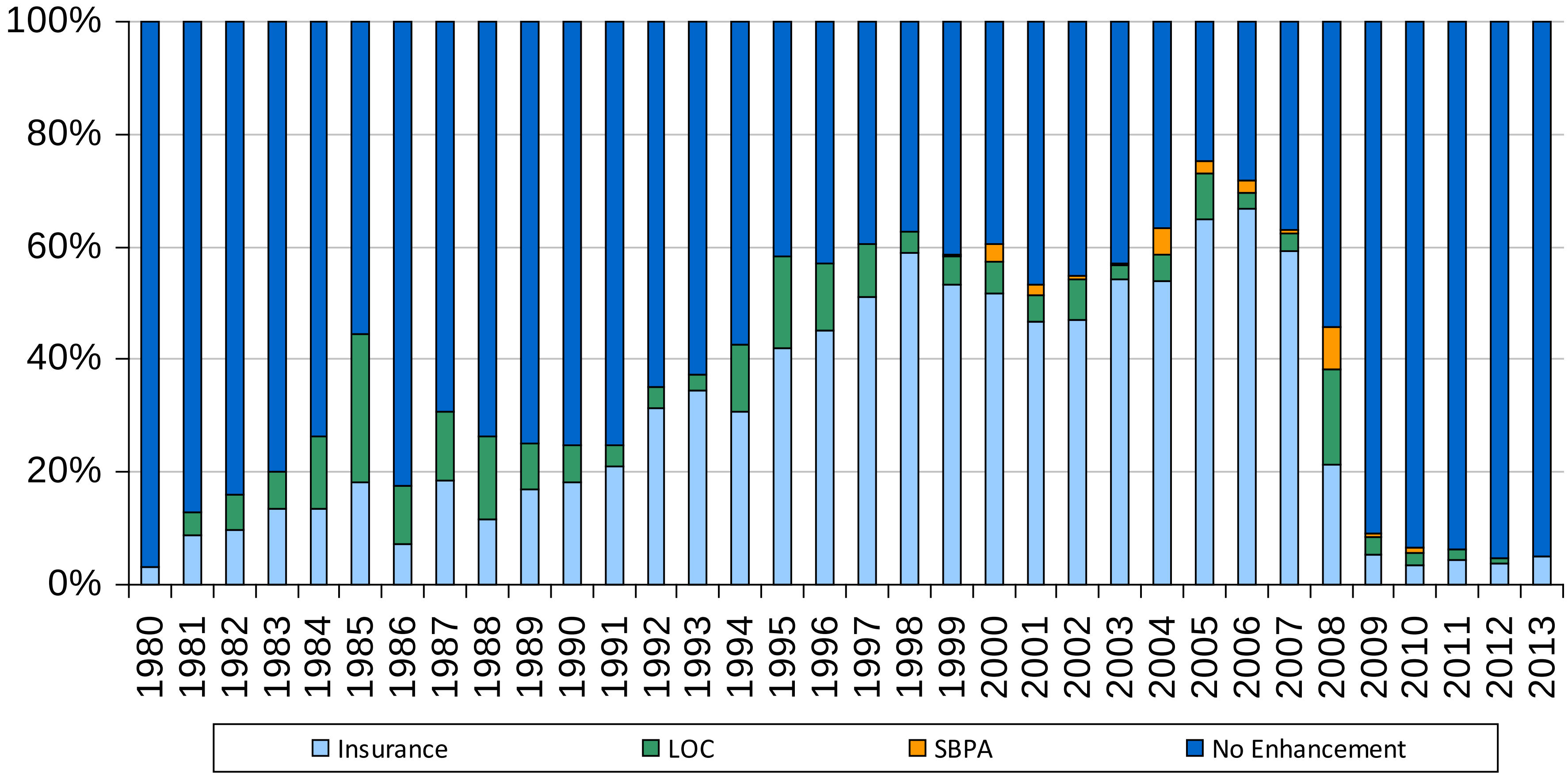
The Credit Crisis has had long lasting effects on the municipal bond market

- Decline in Bond Insurance
- Credit Spreads
- Investor Focus on Credit

Insured vs. Uninsured Issuance

Trend of credit enhancement grew over the 1980's and 1990's before coming to a halt after the credit crisis

California Issuance by Credit Enhancement



Source: Thomson Reuters SDC Platinum. As of October 1, 2013.

Monoline Bond Insurers

A once-large and thriving industry has condensed into two players, for the time being

Insurer	Status
Ambac	Filed for Bankruptcy, 2010
Assured Guaranty Municipal	Rated A2(stable)/AA-(stable)/ Withdrawn
Berkshire Hathaway Assurance Corp.	Rated Aa1(stable)/AA+(neg)/ NR
CIFG	All ratings withdrawn, solvent but not writing new business
FGIC	Emerged from rehabilitation with the State of New York in August 2013
FSA	Acquired by Assured Guaranty, now called Assured Guaranty Municipal
National Public Finance Guaranty (Formerly MBIA)	Litigation pending regarding split off of municipal bond business from other mostly asset-backed insurance business
Syncora Guaranty	Solvent but not writing new business

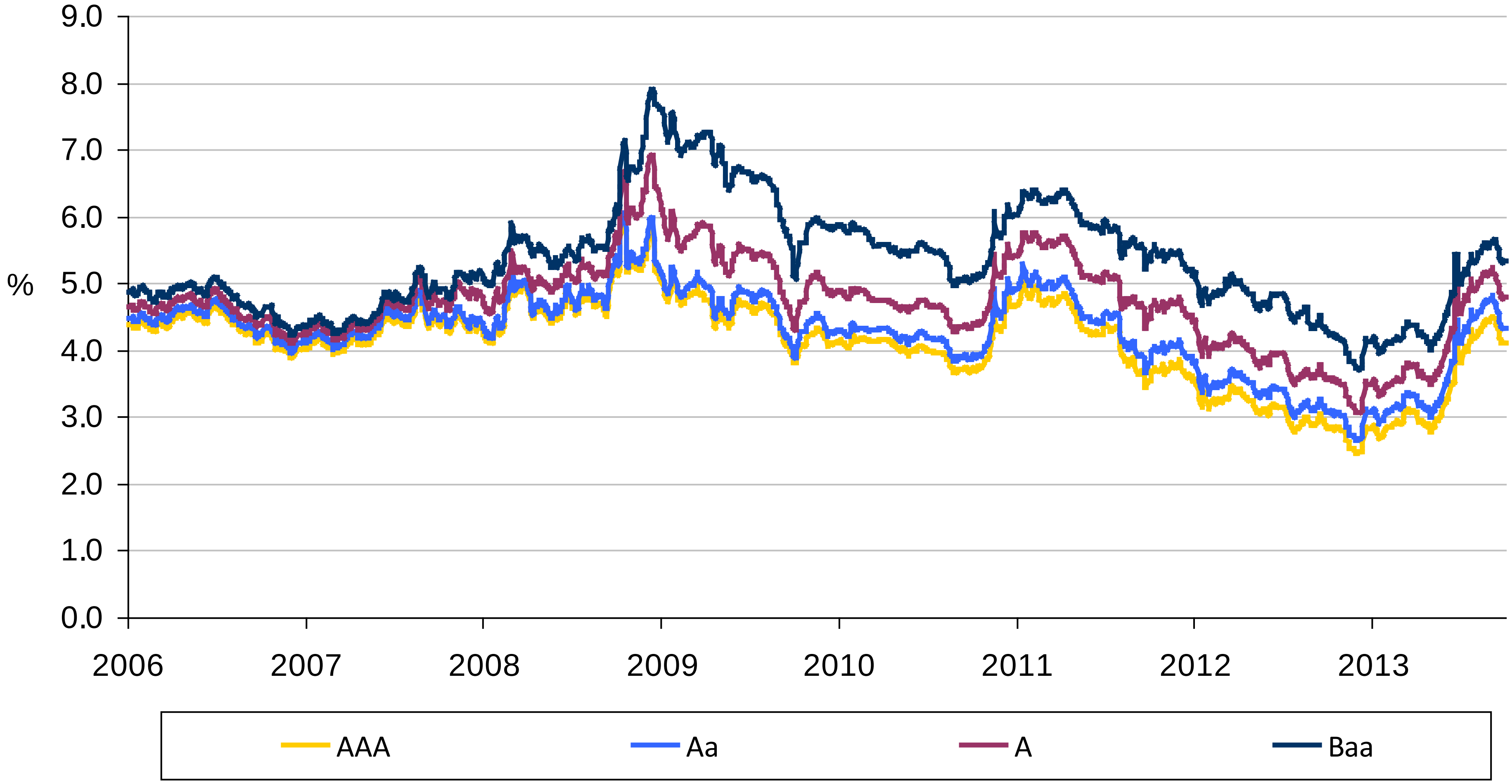
Insurer	Ratings
Assured Guaranty Mutual	A2(stable)/AA-(stable)/ Withdrawn
Build America Mutual	AA(stable)
National Public Finance Guarantee	Baa1 (pos)/A (stable)/NR

Source: Moody's, S&P and company websites.

Credit Spreads

Credit spreads have tightened since Credit Crisis but have yet to return to pre-crisis levels

Historical Credit Spreads Since 2006



Source: Barclays, as of October 2, 2013

3. The Players

New requirements, a changed insurance landscape and increased volatility have impacted how investors, rating agencies, issuers, underwriters and financial advisors view and interact with each other

- Rating Agencies
- Buyers
- Issuers, Underwriters and Financial Advisors

Rating Agencies

- Ongoing surveillance causes issuers to be in more constant contact with rating agencies
  - Bond rating process become more of an update than a full education
- Ratings Criteria give more clarity to issuers
- Increased separation between business and credit side of ratings houses
- Ratings not the final word in investor due diligence

An Evolving Buyer Base

Individuals

- Individual investors who buy and sell securities for their personal account
- Reached through banks with large brokerage networks
- Generally prefer bonds maturing in first ten years

Separately Managed Accounts

- Individual investors now buy bonds through financial advisors and pooled accounts
- Advisors perform credit work that most individual investors don't have resources or background knowledge to do

Bond Funds and Insurance Companies

- Large source of demand for municipals with $532 billion of assets under management
- Prefer bonds maturing in later years

New Buyers: Crossover Buyers & Banks

- Dislocation in relationship between taxable vs. tax-exempt rates draws taxable buyers into muni space
- BABs increased these buyers' understanding of tax-exempt market features

4. The World Has Changed

New rules governing the municipal market impact perceived roles and relationships as well as defined new responsibilities

Issuers: 15c2-12

- Disclosure requirements directed at issuers but enforced through underwriters
- Markets focus on: Pension programs and plans for reform; why are you not the next Detroit?

Underwriters: Dodd Frank, MSRB Rule G-17

- Underwriters are not defined as Municipal Advisors under Dodd Frank
- Technically no fiduciary responsibility
- Required to make certain disclosures to issuers prior to acting in underwriter capacity

Financial Advisors

- Defined as Municipal Advisors and deemed to have a fiduciary duty
- New requirements to register with the SEC

Conclusion: Looking Ahead to Future Trends

- Federal Budget Impasse impact on Munis
- Pension Problems Resolved?
- Private Placements
- Interest Rates
- The Future of Tax Exemption

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