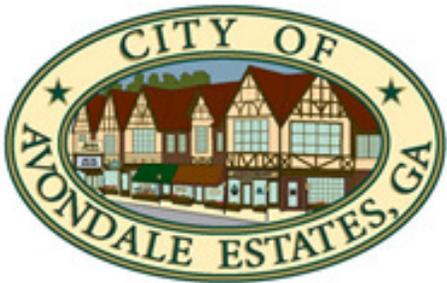


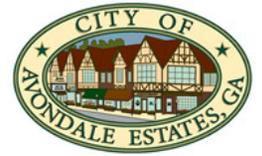
# City of Avondale Estates, Georgia

Bonds 101



February 13, 2019

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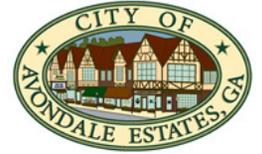


# Market Update

City of Avondale Estates, Georgia

# Market Highlights

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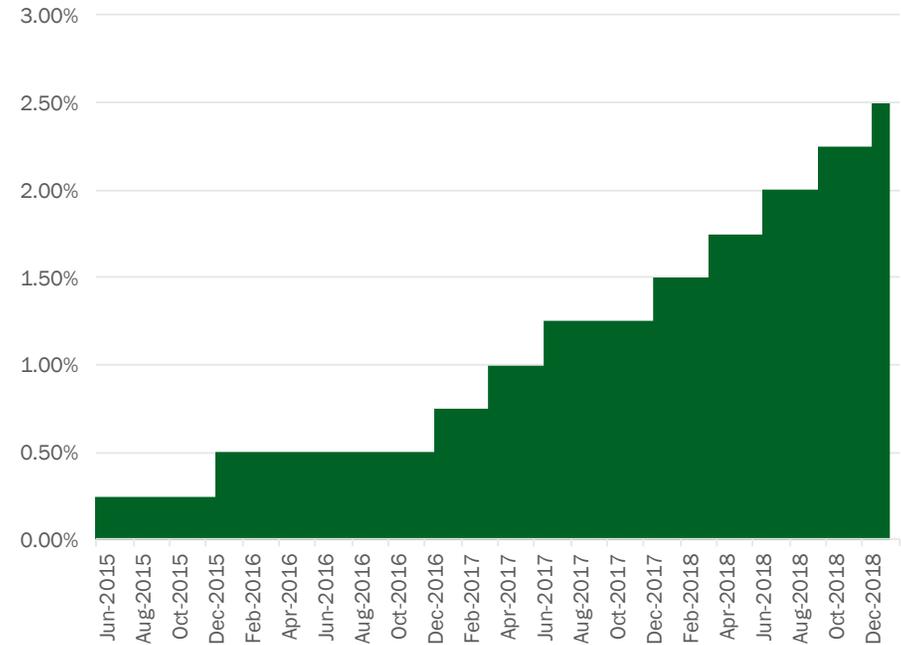
- Global Markets continue to face uncertainty due to trade policy, Brexit and slowing growth.
- Fed Officials have tempered expectations for rate hikes this year as the economic/market outlook has grown cautious.
  - The futures market is currently not pricing in any rate hikes for 2019.
- The near-term impact of the US Government shutdown remains in question.
- Due to reduction in the ability to refinance tax-exempt bonds in advance of their call date, the municipal market volume was down 22% in 2018.
- Heightened volatility in the fourth quarter of 2018 drove a flight to quality in November and December.
  - Since the first week in November, the 10-year MMD yield has declined 56 basis points.
- Demand on the long end of the curve remains tentative.
- After experiencing cash outflows in most weeks since October, municipal bond funds have recently seen a reversal to inflows.

# Fed Rate Increase History



| Federal Funds Historical Rate Changes |                  |        |
|---------------------------------------|------------------|--------|
| Date                                  | Upper Bound Rate | Change |
| 12/16/2008                            | 0.25%            | -0.75% |
| 12/17/2015                            | 0.50%            | 0.25%  |
| 12/15/2016                            | 0.75%            | 0.25%  |
| 3/16/2017                             | 1.00%            | 0.25%  |
| 6/15/2017                             | 1.25%            | 0.25%  |
| 12/14/2017                            | 1.50%            | 0.25%  |
| 3/22/2018                             | 1.75%            | 0.25%  |
| 6/14/2018                             | 2.00%            | 0.25%  |
| 9/27/2018                             | 2.25%            | 0.25%  |
| 12/19/2018                            | 2.50%            | 0.25%  |

Historical Federal Funds Rate Changes Since 2015



*The Federal Reserve has increased short term rates nine times since December 2015.*



# Recent 20-Year MMD Trends

- The 'AAA' MMD Curve is a composite index released on a daily basis by Municipal Market Data, a Thomson Financial company.
- Represents the industry benchmark for AAA general obligation tax-exempt municipal yields and is the basis for pricing new issues in the tax-exempt capital markets.
- Enables market participants to gauge pricing efficiency relative to market conditions on a given day.



Source: Thomson Reuters MMD Publication.

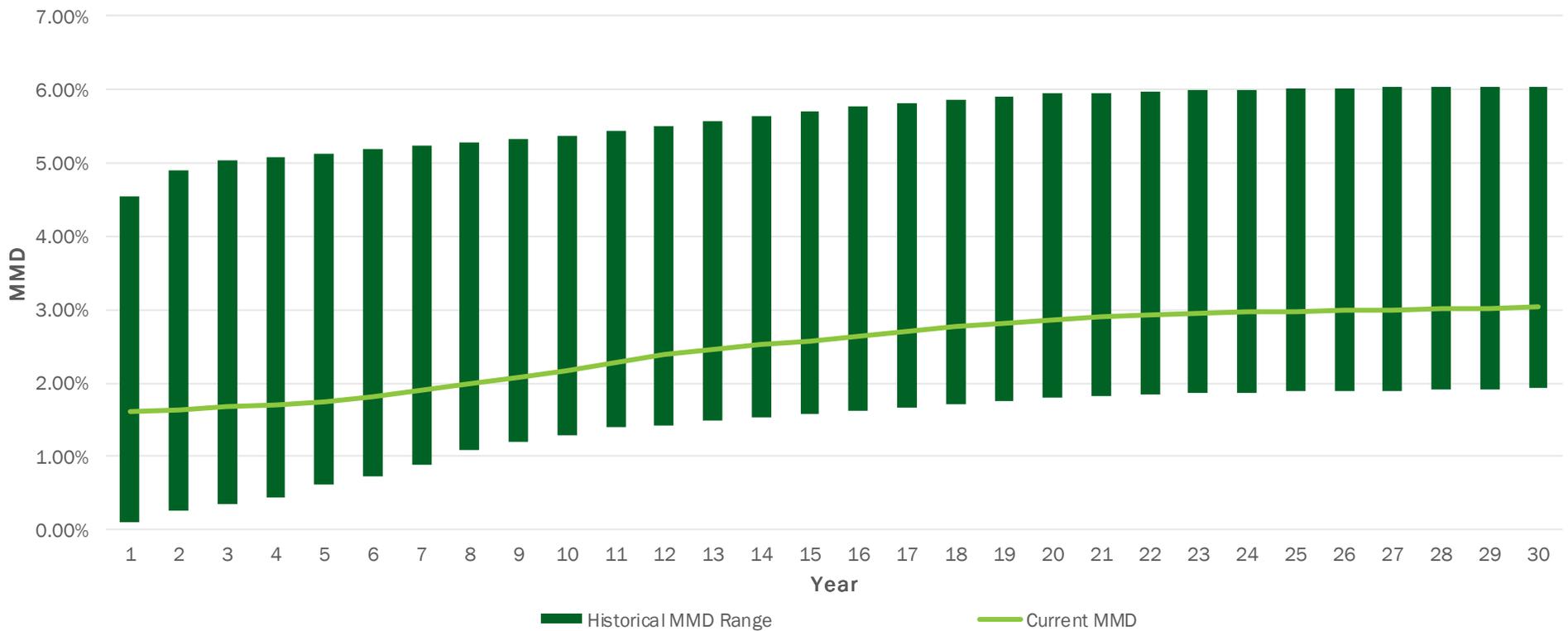
**DAVENPORT & COMPANY**

\*Note: Interest Rates as of February 6, 2019.

# Tax-Exempt Interest Rate Trends



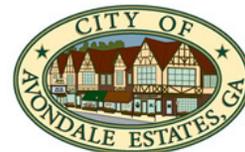
Historical MMD Range (2000 - 2018)



# How Tax Act of 2017 affected the Tax-Exempt Market



- Tax Act of 2017 eliminated the ability for Tax-Exempt issuers to Advance Refund existing debt, or in other words, refinance more than 90 days from the call date. Thus in order to refinance tax-exempt bonds, they must be refinanced within 90 days of the call date.
  
- Prior to the Tax Act of 2017 banks were taxed at the corporate tax rate of 35%. However, with the corporate tax rate lowered to 21%, banks increased the tax-exempt interest rates proposed to an issuer in order to get the same after-tax rate of return as they previously received.
  - 3.00% tax-exempt interest rate to the issuer returned 4.62% to the bank at a 35% tax rate
  
  - At a 21% tax rate a bank would offer the loan at 3.65%, a 65 basis point increase, in order to get the same 4.62% after-tax return
  
- Part of Davenport’s role is to evaluate the best method for procuring needed funds. This is one of the factors we take into account when performing this evaluation.



# Tax-Exempt Bonds vs. Taxable Bonds

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- Local governments have the advantage of being able to issue much of their debt at tax-exempt rates, which means that the bondholders' interest earnings are exempt from federal taxes and in some cases state and local taxes too.
- This helps contribute to lowering overall interest costs because the tax benefit helps contribute to lower rates.
- However, tax-exempt bonds may only be issued for projects that meet certain public purpose tests under the requirements of the Internal Revenue Service.
- Common examples of situations where these requirements are not met and taxable bonds would be required are sports facilities projects, industrial development projects, and economic development bonds.
- This distinction is most relevant in the context of potential development projects.
- In order for bonds for a development project to be issued on a tax-exempt basis, the IRS' public use tests would be required to be met .

# Tax-Exempt vs. Taxable Rates



## Interest Rate Comparison - MMD vs. Treasury

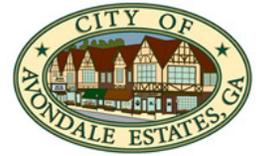




# Rating Agency Overview

City of Avondale Estates, Georgia

# Credit Ratings Scale



## City of Avondale Estates, Georgia

| Moody's              | S&P  | Fitch |   |                             |          |
|----------------------|------|-------|---|-----------------------------|----------|
| Aaa                  | AAA  | AAA   | Top Tier "Highest Possible Rating"        |                             |          |
| Aa1                  | AA+  | AA+   | 2nd Tier "Very Strong"                    | Considered Investment Grade |          |
| Aa2                  | AA   | AA    |   |                             | (Middle) |
| Aa3                  | AA-  | AA-   |   |                             | (Lowest) |
| A1                   | A+   | A+    | 3rd Tier "Strong"                         | Considered Investment Grade |          |
| A2                   | A    | A     |   |                             | (Middle) |
| A3                   | A-   | A-    |   |                             | (Lowest) |
| Baa1                 | BBB+ | BBB+  | 4th Tier "Adequate Capacity to Repay"     | Considered Investment Grade |          |
| Baa2                 | BBB  | BBB   |   |                             | (Middle) |
| Baa3                 | BBB- | BBB-  |   |                             | (Lowest) |
| BB, B, CCC, CC, C, D |      |       | 5th - 10th Tiers "Below Investment Grade" |                             |          |
|                      |      |       | Below Investment Grade                    |                             |          |



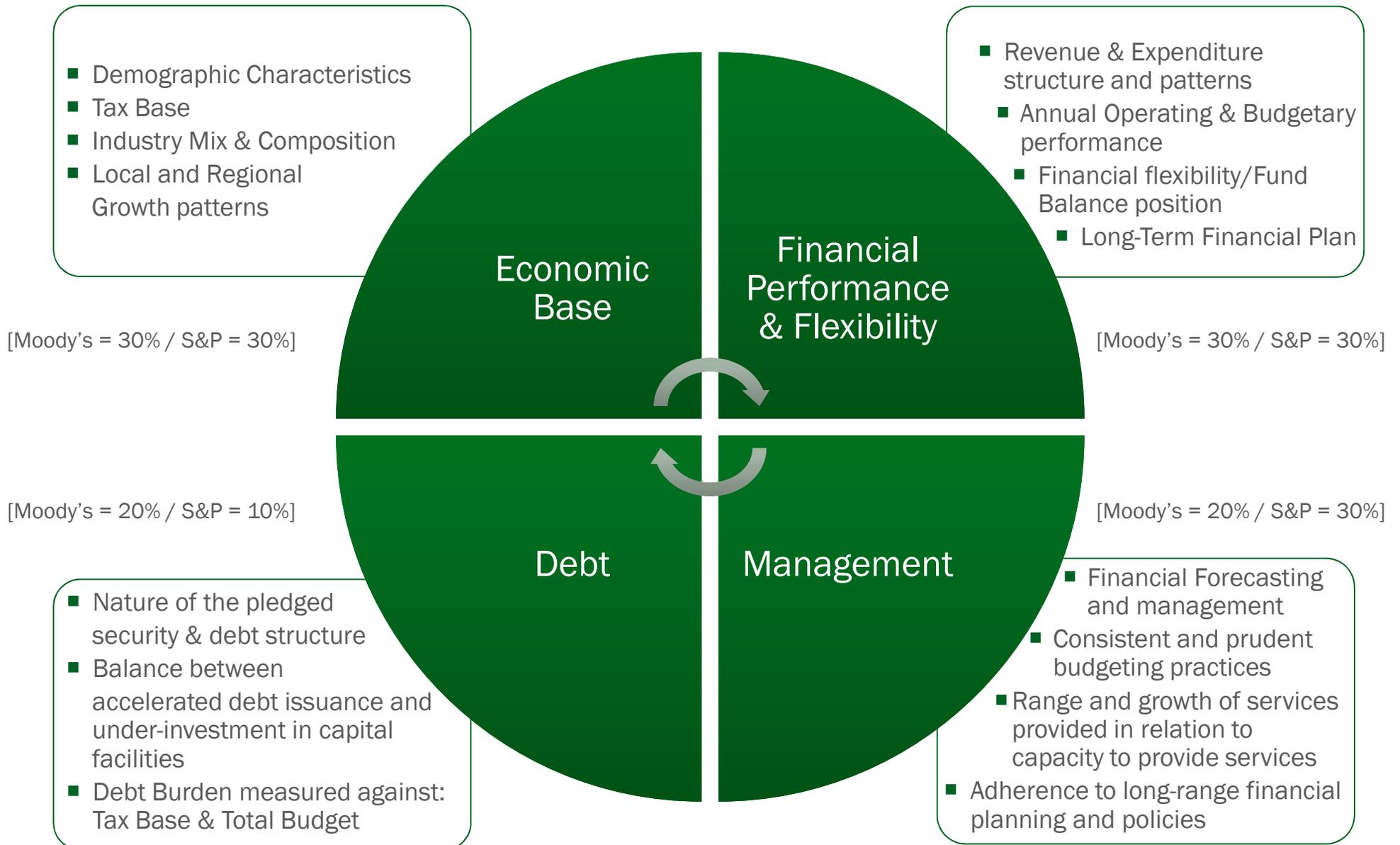
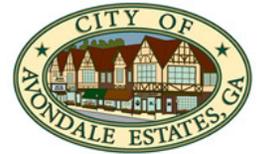
# Importance of a Credit Rating

The National Credit Rating Agencies serve as a proxy for the Credit Market's view of a Local Government like the City.

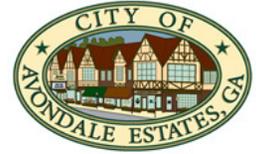
## Why do Credit Ratings matter?

- Credit Ratings play a primary role in determining what interest rate(s) the City is able to achieve when borrowing for New Money Projects and/or Refinancing existing debt.
  - Credit Ratings also send a signal to the business community about the Governance, Management, and Financial Health of a Local Government. This can be critical for Economic Development success.
  - Strong access to the Credit Markets can also translate to highly favorable interest rates, terms, and conditions for the City on its New Money projects and when Refinancing for savings purposes.
  - Additionally, the National Credit Rating Agencies provide an independent, outside perspective on how the City operates relative to other Local Governments in four criteria categories:
    - Local Economy;
    - Financial Performance;
    - Debt; and,
    - Management.
- Diagram illustrating control levels for criteria categories:
- Local Economy; } **Little Control**
  - Financial Performance; }
  - Debt; and, } **Great Deal of Control**
  - Management. }

# Key Drivers to a Credit Rating



# Cost of Rating Spread



AAA-A Credit Spread Since June 2003



|  | AAA - AA | AA - A | AAA-A |
|--|----------|--------|-------|
| Average Spread June 2003 – September 2008: | 0.10%    | 0.19%  | 0.28% |
| Average Spread September 2008 – Present:   | 0.22%    | 0.44%  | 0.67% |
| Current Spread:                            | 0.22%    | 0.30%  | 0.52% |

Savings of 50 basis points on approximately \$10 million issuance (for illustration purposes only) assuming a 20 year level debt service issuance would result in approximately \$550,000 in avoided interest costs.

# Pricing Examples



| Issuer    | Forsyth County School District, GA | Warner Robins Public Facilities Auth., GA | City of Conyers, GA |
|-----------|------------------------------------|---|---------------------|
| Size      | 147,500,000                        | 34,915,000                                | 13,000,000          |
| Rating    | Aaa/AAA (Moody's/S&P)              | Aa2 (Moody's)                             | A2 (Moody's)        |
| Call      | 2/1/2028 @ 100                     | 7/1/2028 @ 100                            | 4/1/2028 @ 100      |
| Sale Date | 8/1/2018                           | 8/28/2018                                 | 7/18/2018           |
| Security  | General Obligation                 | Intergovernmental Contract                | General Obligation  |

| Year | MMD  | Coupon | Yield | Spread | MMD  | Coupon    | Yield | Spread | MMD  | Coupon | Yield | Spread |
|------|------|--------|-------|--------|------|-----------|-------|--------|------|--------|-------|--------|
| 1    | 1.39 | 5.00   | 1.38  | (1)    | 1.52 | 5.00      | 1.60  | 8      | 1.38 |        |       |        |
| 2    | 1.55 | 5.00   | 1.56  | 1      | 1.63 | 5.00      | 1.73  | 10     | 1.52 | 3.00   | 1.65  | 13     |
| 3    | 1.70 | 5.00   | 1.72  | 2      | 1.76 | 5.00      | 1.88  | 12     | 1.67 | 4.00   | 1.80  | 13     |
| 4    | 1.83 | 5.00   | 1.87  | 4      | 1.87 | 5.00      | 2.01  | 14     | 1.78 | 4.00   | 1.98  | 20     |
| 5    | 1.93 | 5.00   | 1.96  | 3      | 1.98 | 5.00      | 2.14  | 16     | 1.88 | 3.00   | 2.10  | 22     |
| 6    | 2.04 | 5.00   | 2.06  | 2      | 2.09 | 3.00/5.00 | 2.27  | 18     | 2.01 | 4.00   | 2.26  | 25     |
| 7    | 2.16 | 5.00   | 2.20  | 4      | 2.20 | 5.00      | 2.39  | 19     | 2.14 | 5.00   | 2.42  | 28     |
| 8    | 2.28 | 5.00   | 2.34  | 6      | 2.32 | 5.00      | 2.53  | 21     | 2.26 | 3.00   | 2.53  | 27     |
| 9    | 2.36 | 5.00   | 2.43  | 7      | 2.38 | 5.00      | 2.60  | 22     | 2.34 | 5.00   | 2.65  | 31     |
| 10   | 2.43 | 5.00   | 2.50  | 7      | 2.44 | 5.00      | 2.67  | 23     | 2.40 | 5.00   | 2.75  | 35     |
| 11   | 2.49 | 5.00   | 2.56  | 7      | 2.50 | 5.00      | 2.75  | 25     | 2.45 | 5.00   | 2.81  | 36     |
| 12   | 2.55 | 5.00   | 2.64  | 9      | 2.56 | 5.00      | 2.83  | 27     | 2.50 | 4.00   | 2.91  | 41     |
| 13   | 2.60 | 5.00   | 2.69  | 9      | 2.62 | 5.00      | 2.89  | 27     | 2.54 | 3.00   | 3.20  | 66     |
| 14   | 2.71 | 5.00   | 2.76  | 5      | 2.65 | 5.00      | 2.93  | 28     | 2.60 | 3.13   | 3.30  | 70     |
| 15   | 2.76 | 5.00   | 2.81  | 5      | 2.70 | 4.00      | 3.30  | 60     | 2.65 | 3.25   | 3.36  | 71     |
| 16   | 2.80 | 5.00   | 2.84  | 4      | 2.75 | 4.00      | 3.35  | 60     | 2.69 | 3.25   | 3.41  | 72     |
| 17   | 2.84 | 5.00   | 2.88  | 4      | 2.79 | 4.00      | 3.39  | 60     | 2.73 | 3.38   | 3.48  | 75     |
| 18   | 2.88 | 5.00   | 2.92  | 4      | 2.83 | 4.00      | 3.43  | 60     | 2.76 |        |       |        |
| 19   | 2.92 | 5.00   | 2.95  | 3      | 2.86 | 4.00      | 3.46  | 60     | 2.79 | 5.00   | 3.17  | 38     |
| 20   | 2.94 | 5.00   | 2.97  | 3      | 2.89 | 4.00      | 3.49  | 60     | 2.81 |        |       |        |



# Types of Bonds Available

City of Avondale Estates, Georgia



# Types of Bonds Available

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1. General Obligation Bonds
2. Intergovernmental Contract Revenue Bonds
3. Pure Revenue Bonds (Typically Enterprise Fund)
4. Special Purpose Local Obligation Sales Tax (SPLOST) Bonds
5. Lease Purchase / Installment Sale Agreement Bonds

Note: There are various ways to Finance projects but ultimately they fall into one of the above categories with respect to the Security behind the financing.

- Public-Private Partnership
- Special Tax District
- Tax Allocation District

# Summary of Types of Bonds



|                              | General Obligation  | Intergovernmental Contract                                       | Pure Revenue Bonds   | SPLOST   | Lease Purchase / Installment Sale Agreements   |
|------------------------------|---|--|--|--|--|
| <b>Issuer</b>                | City of Avondale Estates                                      | Third Party Authority such as the Downtown Development Authority | Enterprise Fund  | City of Avondale Estates                           | A Third Party but typically the Georgia Municipal Association (“GMA”)                  |
| <b>Obligor</b>               | City of Avondale Estates                                      | City of Avondale Estates   | City of Avondale Estates   | City of Avondale Estates                           | City of Avondale Estates   |
| <b>Security</b>              | Full Faith & Credit   | Full Faith & Credit  | Enterprise Fund Revenues Only                                      | Sales Tax Proceeds First, then Full Faith & Credit | Collateral & Annual Appropriations by Commissioners                                    |
| <b>Project Eligibility</b>   | As Defined in the Ballot Question                             | As Defined by the Third Party Authority’s                        | Projects Supported by the Enterprise Fund Securing the Bonds       | As Defined in the Ballot Question                  | General Public Purpose Projects <sup>(1)</sup>   |
| <b>Referendum Required?</b>  | Yes   | No   | No   | Yes  | No   |
| <b>Validation Required?</b>  | Yes   | Yes  | Yes  | Yes  | No   |
| <b>Other Considerations?</b> | Exempt from Millage Rate Caps; Subject to “Legal” Debt Limits | Subject to Millage Rate Caps; Exempt from “Legal” Debt Limits    | Minimum Coverage Levels Required; Sometimes Reserve Funds Required | Cannot Extend Term Beyond SPLOST                   | Typically Lower Credit Quality when Compared to Full Faith & Credit secured financings |

(1) Note: Ultimately, Bond Counsel will need to determine project eligibility.

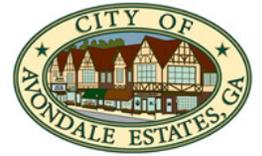


# Methods of Issuance

City of Avondale Estates, Georgia

# Method of Bond Issuances Available

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- Ensuring that the City obtains the lowest cost financing available begins at the onset of planning for a project.
  
- Davenport's experience as a Financial Advisor makes us particularly well suited to provide unbiased analysis of all of the available financing options. Our preference is to ensure that all of the available funding options are taken into account when planning for a new financing such as the City's park project.
  
- The most strategic Plan of Finance may take into account multiple funding sources. For purposes of this presentation, Davenport highlight the following funding options available:
  1. Direct Bank Loan; and,
  
  2. Public Market Issuance.

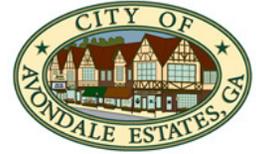
# Method of Sale Comparison



|                                  | Direct Bank Loan   | Public Market Issuance  |
|----------------------------------|--|---|
| <b>Credit Rating Requirement</b> | Credit rating not required to seek financing.  | Credit rating conventionally required to seek financing.  |
| <b>Offering Document</b>         | No formal offering document required. Approximately 5 page RFP distributed to banks instead.       | Comprehensive 100+ page formal offering document required to be prepared by bond counsel and distributed.                 |
| <b>Purchasers</b>                | Single institution purchases Bond for its own account. May be local, regional, or national lender. | Multiple purchasers through underwriting process including insurance companies, pension funds, individual investors, etc. |
| <b>Timing Flexibility</b>        | Shorter timeline – financing completed over the course of 30-45 days.                              | Longer timeline – financing completed over the course of 60-90 days   |
| <b>Interest Rates</b>            | Typically a single fixed rate for all maturities   | Individually fixed rates for each maturity  |
| <b>Structuring Flexibility</b>   | Somewhat flexible  | Complete flexibility  |
| <b>Term Limitations</b>          | Typically up to 20 years   | Typically up to 30 years  |
| <b>Prepayment</b>                | More flexibility with the possibility of prepayment without penalty                                | Some flexibility with 10 year call protection period being industry standard.   |

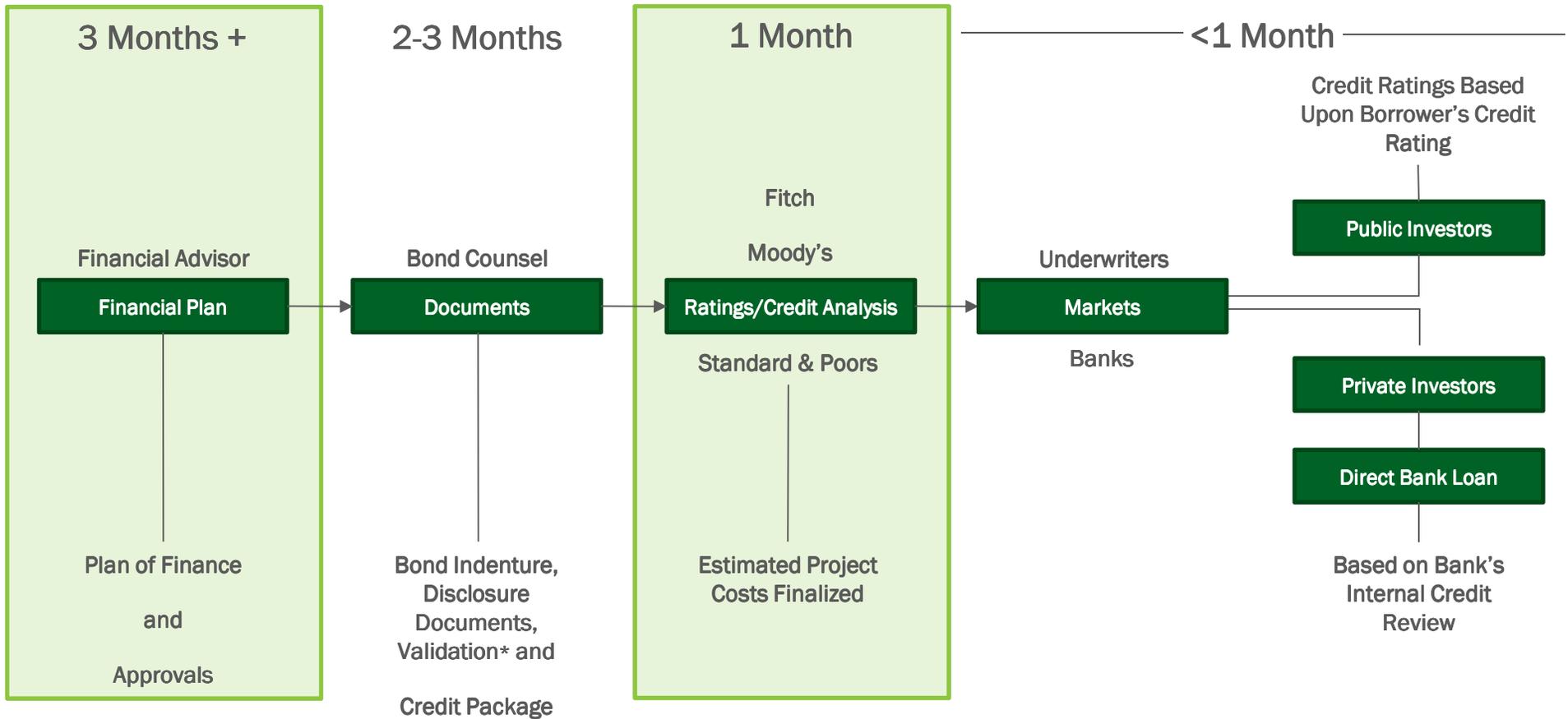
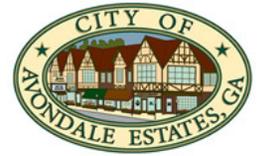
# Dual Track Approach

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- One Option that the City could consider when seeking financing is a “Dual Track Approach.”
- The Dual Track Approach means that Davenport, working on the City’s behalf, would:
  1. First, solicit financing proposals from local, regional, and national lenders for the public safety building via a competitive Request for Proposals process (the “Direct Bank Loan” approach). Then, if necessary;
  2. Enter the public credit markets through a Stand Alone Bond Issuance.
- Davenport would work as the City’s Financial Advisor to pursue the most favorable possible result, and, as such, would be unbiased as to which approach (Direct Bank Loan or Stand Alone Bond Issuance) would eventually be chosen.
- Additionally, Davenport would agree to work at risk to pursue the financing opportunity for the City, i.e., would only be entitled to compensation upon a successful closing of a transaction.
- The various nuances of each approach would continue to be discussed as the potential financing process evolved, and as a recommendation and eventual financing provider is selected.

# Financing Timeline

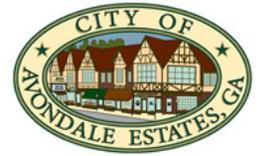




# Sizing Bond Issuances

City of Avondale Estates, Georgia

# Bond Sizing



## Bonds

- Form of Bonds
- Denominations
- Par Value
- Maturity - Principal Repayment
- Serial Bonds
- Term Bonds
- Sinking Funds
- Mixed Coupon vs. Fixed Coupon
- Calculation of Amount Due
- Timing of Payments
- Discount/Premium vs. Par Bond
- Yield to Maturity vs. Yield to Call

## Sizing New Money Bond Issues

- Par Restrictions
- Amortization Restrictions
- Construction Fund
- Capitalized Interest
- Reserve Fund
- Cost of Issuance
- Underwriter's Discount
- Debt Service Structure
- 2% Rule
- Arbitrage Yield
- True Interest Cost
- Average Life

# Sizing Refinancing Issues and Investment of Proceeds



## Sizing Refunding Issues

- a. Limits on Refunding Issues
  - i. Advance vs. Current Refundings
  - ii. Advance Refunding Limitations
- b. Gross/Net Cash Defeasance
  - i. Escrow Structure
  - ii. Permitted Securities
- c. Savings Structure
  - i. How Savings are Generated
  - ii. Level Savings
  - iii. Up Front Savings
  - iv. Target or Budgeted Savings

## Investment of Proceeds

- Arbitrage Limits and Exceptions
- Laddered Portfolio
- GIC – Flex Repo
- Short Term Portfolio
- Blended Portfolio
- Bidding Methods



# Debt Capacity / Affordability

City of Avondale Estates, Georgia



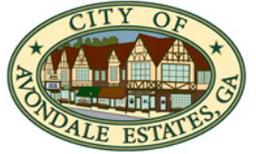
# Tax-Supported vs. Self-Supporting Debt

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- Tax-supported debt is considered any debt where the source of funds for repayment is tax revenues that are paid out of the General Fund.
- Tax-supported debt **does not exclusively** include obligations whose debt service is payable from ad valorem taxes collected by the locality. Rather, any obligation that is supported by a form of tax revenue that is collected in the General Fund may be considered tax-supported.
- By comparison, self-supporting debt includes any obligation of a locality whose debt service is to be paid exclusively from specified pledged revenues generated by a project/system.
- The advantage of having a self-supporting obligation is that the debt is excluded from the calculation of the key debt ratios. This is because the debt service on those obligations is not dependent on the capacity of the locality to collect taxes in order to make its payments.

# Debt Capacity vs. Affordability

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- When considering whether or not to take on additional debt to fund capital projects, it will be helpful for the City to consider both its Debt Capacity and its Debt Affordability.
  
- Debt Capacity can be thought of as the amount of debt a locality can incur while staying within prudent financial guidelines.
  - Debt Capacity can be thought of as the City’s credit card limit.
  
- Debt Affordability focuses more on the City’s ability to repay its debt obligations given its current cash flows.
  - Debt Affordability can be equated to the ability for City to pay its credit card bill.



# Key Debt Ratios – Tax Supported Debt

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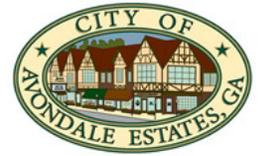
- An important part of debt management is monitoring indicators of borrowing capacity and affordability. While there are several different ratios/metrics that can be tracked to evaluate a government's debt profile, two are generally regarded industry-wide as **Key Debt Ratios**.

## 1. Debt vs. Full Value:

- Debt vs. Full Value measures a government's existing tax-supported debt burden as a percentage of its tax base.
- It is considered a key ratio that answers the "**Can I Borrow This?**" question. It is commonly used by rating agencies to measure an issuer's capacity to support existing and additional debt.

## 2. Debt Service vs. Expenditures

- Debt Service vs. Expenditures measures a government's existing tax-supported debt service expenditures as a percentage of its overall governmental expenditures.
- It is a key ratio because it measures how much of the annual budget is being spent to pay for debt, and can show how much additional debt service can be added before exceeding prudent levels. It answers the "**Can I Afford This?**" question.



# Key Debt Ratios – Tax-Supported Debt

## ■ Moody's Criteria for General Obligation Credits defines categories of Debt to Full Value as:

- Very Strong (Aaa): < 0.75%
- Strong (Aa): 0.75% - 1.75%
- Moderate (A): 1.75% - 4.00%
- Weak/Very Poor (Baa & below): > 4.00%

## ■ S&P's Criteria for General Obligation Credits defines categories of Debt Service to Expenditures as:

- Very Strong: < 8%
- Strong: 8% - 15%
- Adequate: 15% - 25%
- Weak: 25% - 35%
- Very Weak: > 35%



# Next Steps

City of Avondale Estates, Georgia

# Proposed Next Next Steps



| Date                              | Action  |
|-----------------------------------|---|
| February 13, 2019                 | <b>Commission Meeting:</b> Davenport delivers Bonds 101 Presentation  |
| Balance of February / Early March | Davenport and Staff finalizes preliminary Capital Improvement Plan and Debt Capacity / Affordability Analysis   |
| March 20, 2019                    | <b>Commission Meeting:</b> Davenport presents preliminary Capital Improvement Plan which includes the following: <ul style="list-style-type: none"> <li>■ Identifies potential Sources and Uses;</li> <li>■ Identifies potential revenues available for debt service;</li> <li>■ Evaluates potential funding mechanisms;</li> <li>■ Evaluates alternative funding strategies;</li> <li>■ Contemplates the effects on Key Debt Ratios; and</li> <li>■ Contemplates the effects on the General Fund’s Cash Flow.</li> </ul> |
| Balance of March                  | Davenport fine tunes Capital Improvement Plan and develops a Comprehensive Plan of Finance for the Board of Commissioners consideration.  |
| Mid - April 2019                  | <b>Commission Meeting:</b> Board of Commissioners approves Final Plan of Finance.   |
| Roughly 45 – 90 Days              | Davenport executes a formal Plan of Finance   |
| Summer 2019                       | Close on Financing(s)   |



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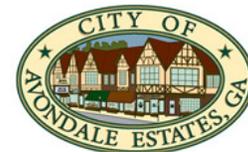
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