Next Generation:
Public Private Partnerships

October 2, 2012
CACUBO Presentation
Presenters

• **Illinois State University**
  – Dan Layzell, Vice President for Finance and Planning

• **RBC Capital Markets**
  – Sara Russell, Vice President

• **Standard and Poor’s**
  – Jessica Lukas, Associate Director, Higher Education Group
Illinois State University

Dan Layzell
Vice President for Finance and Planning
University Overview

• Illinois State University
  – 1st public university in the State of Illinois, founded in 1857; one of 12 public university campuses in state
  – 960-acre main campus located in Normal, Illinois; midway between Chicago and St. Louis
  – Composed of six degree-granting colleges offering 68 undergraduate majors, 43 master’s programs, 9 doctoral program and 10 certificate programs
  – Fall 2012 Enrollment overview
    ▪ Total Headcount – 20,502
    ▪ Undergraduate – 18,207
    ▪ Graduate – 2,295
    ▪ New Undergraduates (Freshmen and Transfers) – 4,964
  – Primarily residential campus
    ▪ Four-semester on-campus housing requirement
    ▪ 5,900 on-campus beds (down from a high of ~7,500 beds in the 1970s)
University Overview

• Enrollment Trends – Total Headcount
  – Annual on-campus enrollment target is 20,000 to 21,000
University Overview

• Enrollment Trends

  – Annual new undergraduate target is ~5,000, with 60/40 split between new freshmen and transfers
University Overview

Long Range Housing and Dining Plan

• Initiated in 2004
  – Upgrade University housing and dining facilities
  – Strategically right size campus housing and dining capacity to accommodate future enrollment targets
  – Planned decommissioning of selected facilities
  – Rotated 400-800 beds offline each year
  – Project completed in 2012

• Financing
  – Total cost – $96M
  – Equity financed with cash reserves - $48M
  – Debt financed - $48M
University Overview

• Occupancy rates & capacity
  – On-campus beds were reduced from 6,600 in 2009-10 to 5,900 in Fall 2012 (including 900 in new Cardinal Court complex)

Note: Includes ~ 300 supplemental lounge spaces each year. Cardinal Court Fall 2012 occupancy – 99.3%.
The On-Campus Housing Challenge and Decision Process

- **On-Campus Housing Status**
  - Long-range Housing and Dining Plan completed in 2012
  - Four-semester on-campus housing requirement
  - State law requiring sprinklers in all residence halls effective January 2013
  - Decision NOT to renovate South Campus Complex (~1,600 beds)

- **Considerations**
  - Cost and other University debt-issuance needs
  - No apartment-style housing on campus for undergraduates
  - Land availability and options
  - Time constraints

- **Options**
  - Eliminate four-semester on-campus housing requirement
  - Re-densify existing residence halls
  - Build new residence hall
  - Explore public-private partnership (P3) to address housing needs
The On-Campus Housing Challenge and Decision Process

• Process
  – Established cross-University working group to research possible P3 alternatives
  – Developed RFP to invite proposals for housing project
  – Variety of options proposed by private development teams

• Key Decision Criteria
  – Project had to stand on its own financially – no University subsidies
  – Had to be completed by Fall 2012
  – University needed to retain management/quality control
  – Reputation and track record of development team

• Timeline
  – May 2010: Selection of ACC/CHF development team
  – June 2010: BOT approval of project; executed ground lease with CHF
  – July 2010 – February 2011
    ▪ Market study
    ▪ Project design/costing
    ▪ Financing/legal issues and considerations
The On-Campus Housing Challenge and Decision Process

• Timeline (cont.)
  – March – June 2011: Demolition and site-work
  – August 2012: Move-in

• Challenges and Observations
  – Changes in State procurement/legal environment
  – Political issues
  – Unpredictability of financial markets
  – First-time experience with P3; Some observations:
    - Take time to determine clear goals and priorities for the project
    - Be disciplined in evaluating and choosing the right P3 partner/team
    - Bring in experienced legal and financial advisors – it’s worth the added cost
    - Involve local government(s) in planning
    - Don’t underestimate the time required on the part of your institution during the transaction to ensure a successful outcome
    - Don’t leave the details to others; be hands-on in working with P3 partners
The Project is situated on the previous Cardinal Court Apartment site located on the main campus of the University, an approximately 10 - 15 minute walk from the academic quad.
Project Description & Amenities

- The project provides **replacement housing** and enables ISU to “right-size” campus housing options.

- The community provides both private and semi-private bedroom and bathroom accommodations for students.

- A 15,000 square foot community center provides for student recreation, food service, residence life programming and outdoor amenities.

- Resident amenities also include on-site parking, bicycle racks and a campus shuttle bus stop.

<table>
<thead>
<tr>
<th>Unit Type</th>
<th># of Units</th>
<th># of Beds</th>
<th>Sq Ft Per Unit</th>
<th>2012-13 Monthly Rent</th>
<th>2012-13 Semester Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit A</td>
<td>2 Bedroom / 2 Bath (Single Occupancy)</td>
<td>8</td>
<td>16</td>
<td>720</td>
<td>$806</td>
</tr>
<tr>
<td>Unit B</td>
<td>4 Bedroom / 4 Bath (Single Occupancy)</td>
<td>64</td>
<td>256</td>
<td>1,223</td>
<td>$641</td>
</tr>
<tr>
<td>Unit C</td>
<td>2 Bedroom / 2 Bath (Double Occupancy)</td>
<td>12</td>
<td>48</td>
<td>924</td>
<td>$575</td>
</tr>
<tr>
<td>Unit D</td>
<td>3 Bedroom / 2 Bath (Single Occupancy)</td>
<td>48</td>
<td>96</td>
<td>989</td>
<td>$605</td>
</tr>
<tr>
<td>3 Bedroom / 2 Bath (Double Occupancy)</td>
<td></td>
<td></td>
<td>96</td>
<td>989</td>
<td>$575</td>
</tr>
<tr>
<td>Unit E</td>
<td>4 Bedroom / 2 Bath (Single Occupancy)</td>
<td>96</td>
<td>384</td>
<td>1,053</td>
<td>$605</td>
</tr>
<tr>
<td>Total</td>
<td>228</td>
<td>896</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Transaction Overview

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**Structural Finance Considerations – Market Study**

- **August 2010** - CHF engaged CDS Market Research to conduct an independent market feasibility study to evaluate the overall need for additional housing at ISU
  - Survey and analysis - evaluation of existing housing facilities both on and off campus, the demand for additional housing, and the type of units and pricing that would best fulfill students needs

- The market contains approximately 8,000 rental units in approximately 1,000 buildings
  - The complexes most immediately adjacent to campus are approximately 97% - 100% occupied, though renters pay a premium price for the proximity to campus as compared to some of the larger garden style units available further away.

- After project completion and the decommissioning of existing housing units, ISU’s total housing stock will be approximately 6,000 beds (approximately 5,000 residence hall beds and 1,000 apartment beds)
## Structural Finance Considerations – University Support

<table>
<thead>
<tr>
<th>Ground Lease Support Provisions</th>
<th>Management Agreement</th>
<th>Dining/Café Sublease</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Agreement to treat project as part of ISU’s housing stock, on an equal basis with other facilities</td>
<td>• Agreement coterminous with the Ground Lease</td>
<td>• Covers a portion of the community center used for dining/café operations</td>
</tr>
<tr>
<td>• Students cannot be directed or assigned to other facilities in preference over the project</td>
<td>• Assumption of responsibility for rent collection and managing a series of restricted accounting funds to administer the Flow of Funds established by the Trust Indenture</td>
<td>• Initial term of 10 years with an option to terminate by ISU after 5 years</td>
</tr>
<tr>
<td>• Agreement to maintain current policies for student payment delinquencies</td>
<td>• Assumption of responsibility for project operations, payable from project revenue</td>
<td>• Assumption of responsibility for furnishing and operation of the space and receives all revenues from operations</td>
</tr>
<tr>
<td>• Agreement to decommission certain buildings as further required by Illinois Fire Sprinkler Dorm Act</td>
<td>• Agreement to subordinate reimbursement for overhead and management fees</td>
<td></td>
</tr>
<tr>
<td>• Agreement to a market verification covenant before any future housing facilities are constructed</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

# Financing Summary

<table>
<thead>
<tr>
<th><strong>Par Amount</strong></th>
<th>$59,610,000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Conduit Issuer</strong></td>
<td>Illinois Finance Authority</td>
</tr>
<tr>
<td><strong>Borrower</strong></td>
<td>CHF-Normal, L.L.C., the sole member of which is Collegiate Housing Foundation, a 501(c)(3) organization.</td>
</tr>
<tr>
<td><strong>Structure / Ratings</strong></td>
<td>Fully amortizing, tax-exempt student housing revenue bonds with a 32-year final maturity. Underlying ratings of “Baa3” by Moody’s and “BBB-” by Standard &amp; Poor’s are assigned.</td>
</tr>
<tr>
<td><strong>Ground Lease</strong></td>
<td>Long-term ground lease with a stated expiration on the 40th anniversary of the Commencement Date or upon the full repayment of the financing, with an option for ISU to acquire the project at any time.</td>
</tr>
<tr>
<td><strong>Payment Dates</strong></td>
<td>Interest is paid semi-annually on each April and October 1st. Principal payments or sinking fund redemptions will be made annually, on each April 1st, commencing April 1, 2013.</td>
</tr>
<tr>
<td><strong>Optional Redemption</strong></td>
<td>On or after April 1, 2021 at a redemption price of par, plus any accrued interest.</td>
</tr>
<tr>
<td><strong>Construction Period</strong></td>
<td>Approximately 18 months, with the project delivered on time and on budget in August 2012.</td>
</tr>
<tr>
<td><strong>Security for the Bonds</strong></td>
<td>The Bonds are secured solely by the revenues and assets of the project.</td>
</tr>
<tr>
<td><strong>Reserve Funds</strong></td>
<td>Bond proceeds funded capitalized interest through construction and stabilization and a debt service reserve fund. Annual deposits to an R&amp;R Fund will be made from project cash flows.</td>
</tr>
<tr>
<td><strong>Management / University Involvement</strong></td>
<td>As Manager, the University will be responsible for the ongoing operation and maintenance of the Project, including the collection of revenue and payment of operating expenses from such revenue. The University will administer the Flow of Funds within the Indenture by creating certain restricted accounting funds into which Project revenue will be deposited and transferred monthly to the Trustee for debt service payments and to an Operating Account for operating expenses.</td>
</tr>
</tbody>
</table>


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**Financing Results**

### Sources of Funds

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Par Amount of Bonds</td>
<td>$59,610,000.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Original Issue Discount</td>
<td>(838,165.60)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Original Issue Premium</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$58,771,834.40</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Uses of Funds

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction Costs</td>
<td>$45,132,679.03</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capitalized Interest Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Service Reserve Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated Issuance Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$58,771,834.40</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Financing Statistics

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Arbitrage Yield **</td>
<td>7.02%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All-In TIC **</td>
<td>7.19%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Max Annual Debt Service</td>
<td>$4,863,050.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Net Debt Service</td>
<td>$152,242,021.77</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NPV of Surplus Cash Flow</td>
<td>$20,305,811.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum DSCR</td>
<td>1.25</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Operating Assumptions

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy Rate</td>
<td>95%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease Term</td>
<td>12 months</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expenses Per Bed</td>
<td>$1,628</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subordinated Expenses Per Bed</td>
<td>$637</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Starting R&amp;R Fund Deposit Per Bed</td>
<td>$175</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue/Expense Growth</td>
<td>3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Bond pricing on February 10, 2011 amid tumultuous market conditions. 30-year MMD rate equaled 4.94% at the time of pricing and the muni market was seeing a dramatic widening of credit spreads, wide spread selling and fund outflows.**

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Fixed Rate Municipal Market Update

Municipal yields are near all time historical levels

AAA Historical Municipal Yields

“AAA” MMD is the composite yield curve comprised of “AAA” rated general obligation municipal issues by which other municipal issues are benchmarked.

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Current</th>
<th>1 Month Ago</th>
<th>1 Year Ago</th>
<th>ISU Pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Year</td>
<td>0.20%</td>
<td>0.20%</td>
<td>0.23%</td>
<td>0.37%</td>
</tr>
<tr>
<td>3-Year</td>
<td>0.36%</td>
<td>0.37%</td>
<td>0.47%</td>
<td>1.14%</td>
</tr>
<tr>
<td>5-Year</td>
<td>0.62%</td>
<td>0.70%</td>
<td>0.97%</td>
<td>1.92%</td>
</tr>
<tr>
<td>10-Year</td>
<td>1.71%</td>
<td>1.76%</td>
<td>2.09%</td>
<td>3.38%</td>
</tr>
<tr>
<td>30-Year</td>
<td>2.88%</td>
<td>2.90%</td>
<td>3.52%</td>
<td>4.94%</td>
</tr>
</tbody>
</table>

30-Year US Tsy 2.84% 2.76% 3.07% 4.77%
30-Year Muni-to-Tsy 101.41% 105.07% 114.66% 103.56%

Source: TM3 | AAA MMD GO Index

Source: RBC Capital Markets

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A Rating Agency Perspective
Jessica Lukas, Associate Director
Standard and Poor’s
Current Debt Trends

Public University

- Median Debt per FTE By Rating Category 2011-2007

- General Characteristics
  - Debt Issuance Increasing
  - Deferred maint. growing
  - Issuers remain conservative

Private University

- Median Debt per FTE By Rating Category 2011-2007

- Types of Debt and Structure
  - No major trend changes in security types
  - Direct purchase bonds
  - Century bonds
  - Off-balance sheet bonds*
Traditional vs. Private Housing

• Difference between traditional housing and private housing
  – Connectivity: university management, ownership or oversight
  – Location: on-campus/ off-campus

• Credit Risk Relationship Model
  – University’s long term viability and credit rating
  – Economic interest and control
  – Demand for housing
  – Linkage to university
  – Stand alone or housing system
S&P Criteria

• Criteria that Standard and Poor’s follows:
  – Location
  – Management
  – Rate covenants and bond test
    ▪ Cash flows
  – Reserves and insurance
  – Occupancy rates and breakeven levels
  – Construction risk
  – Debt structure
  – Long term rating of institution

WICHE = Western Interstate Commission for Higher Education.

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Current Debt Trends

Off Balance sheet debt

• Characteristics
  – Avg actual cov. across all ratings 1.9x
  – Avg beds +2000 (1460 BBB+ and below)
  – Avg cov require 1.2x
  – System pledge 2/3’s of deals

Off Balance Sheet Distribution
CHF-Normal, LLC – Rating Strengths

Overview of OBS Rating (from Standard and Poor’s Perspective)

• ISU's (A+/ Stable) solid demand for university-owned housing, which operates at over 96% of capacity

• New project beds are substantially replacement stock

• The bonds' adequate security features

• High connectivity between ISU and the project, as demonstrated by the project's on-campus location, ISU's management, oversight, and active role in marketing the new housing as part of its own housing stock, and eventual ownership of the project once the bonds are repaid

• The project's assumed break-even (1.0x) occupancy levels of 83.6%, which we consider manageable

• ISU's stable enrollment and demand trends - with fall 2011's enrollment of 21,080, 71% freshman selectivity, and 36% matriculation rate.
Connectivity – University support for the project

• The new housing facility represents a **small portion of total on-campus beds** (approximately 15%) at ISU

• **Replacement Housing** - as the new housing becomes available, the university plans to take approximately 1,774 beds offline

• Ground lease - contains provisions outlining the **university's support for the project**, which includes the decommissioning of the aforementioned existing housing facilities

• The new apartment complex will be located **on campus**; a natural pathway will connect the facilities with the main campus.
Management & Flow of Funds

Why is this important?

- Who will manage the housing units?
- Who will market the housing units?
- Will the housing units be connected to the campus computer system?
- Will they have the benefits of university campus parking and police services?
- What type of housing contract will be used? And, will it enforce the same terms and conditions as other university housing?
- Who will collect monthly all housing rental payments and who will transmit revenues to the trustee to provide for the funding of debt service payments and other financing related expenses?
- What will happen to any surplus funds, after debt service coverage has been met?
CHF Transaction – Flow of Funds

Student Rental Payments
collected by the University under the Management Agreement and held by the University in restricted accounts

Revenue Fund

On the 20th day of each month, the University shall make the following disbursement to the Trustee for the Bond Fund:

- Bond Fund
  amount equal to 1/6th of interest and 1/12th of principal for the next succeeding payment due
  
  On the 20th day of each month, the University shall make the following disbursements:

  - Issuer & Trustee Fees
    amount then due and payable

  - Operational Expense Fund
    amount shown in the Annual Budget for Op Ex for the next succeeding month

  - Debt Service Reserve Fund
    amount of any replenishments necessary

  - Repair & Replacement Fund
    $175/bed/year escalating annually at 3%

On the last business day of each month, the University shall make transfers for:

- Payment of Borrower Fees
  amounts remaining after monthly transfers

- Reimbursement of Overhead
  if funds are available

- Payment of Management Fees
  if funds are available

- Operations Contingency Fund
  all amounts remaining

- Replenishment of Funds
  Bond Fund, Operational Expense Fund, Debt Service Reserve Fund, R&R Fund

  On June 30th of each year, the University shall deposit monies remaining in the Operations Contingency Fund into:

- Surplus Fund
  Amounts remaining in the Surplus Fund at the end of the Fiscal Year are retained by the University as Ground Rent provided that the Release Test is met.

CHF-Normal, LLC – Offsetting Characteristics

Rating Limitations:

• Nonrecourse security pledge of project net revenues

• New construction risk

• Financial projections that indicate a 1.0x (not including debt service reserves) in-ground maximum annual debt service (MADS) coverage with expected MADS of $4.9 million on projected fiscal 2014 net operating income (first full year without any capitalized interest) of $4.9 million

• A management agreement that includes equal treatment of the housing project within ISU's student housing program; however, there is no priority assignment or "first fill" requirement
Finance Structure = Investment Grade Credit

- Approximately $60 million fixed rate bond issuance
- Nonrecourse security, self retirement of debt through project cash flows
- New construction risk
- Capitalized interest & replacement reserve funds
- Adequate debt service coverage
- University supported contracted services agreement
- Solid enrollment and expected student demand

➢ S&P rating of BBB- / Stable
Cardinal Court

Before....

After....

- Project construction commenced in March 2011 and was completed by August 2012
- Construction was **on time** and **on budget**
- Student demand for the property is strong, with fall 2012 occupancy of **99%**

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Question & Answer Session
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