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**From:** Tazia Smith [REDACTED]  
**Sent:** 6/10/2014 1:05:24 PM  
**To:** Rich Kahn [REDACTED]; >  
**CC:** Paul Morris [REDACTED]; Vahe Stepanian [REDACTED]  
**Subject:** Fw: KCP Capital Markets Trade Idea: Enel and Telefonica hybrids that offer 5.5% yield to call to play the carry and periphery theme post ECB [C]

Classification: Confidential

Hi Rich - An iteration here of the tighter-periphery spreads here. I know you and I have discussed yield/bond solutions for getting cash to work with a much different payout profile than binary trades. Let me know your thoughts and/or please highlight to Jeffrey as you identify value/a fit.

All My Best,  
Tazia

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**From:** Vanshree Verma  
**Sent:** 06/10/2014 05:45 PM CET  
**To:** Vinit Sahni  
**Subject:** KCP Capital Markets Trade Idea: Enel and Telefonica hybrids that offer 5.5% yield to call to play the carry and periphery theme post ECB [I]

Classification: For internal use only

Intended for Non-Advisory Clients

- Corporate hybrids are high yielding, perpetual securities, lower in the capital structure and therefore offer a significant pickup vs senior paper
- Hybrids issued by peripheral issuers such as Enel and Telefonica offer a way of playing carry and periphery, both themes I like post ECB
- Rating agencies treat these securities as 50% debt and 50% equity until the call date, after which they are treated as 100% debt. So issuers have a strong incentive to call these, and they are priced as such
- Key risk with these securities is that these can be called by the issuer at a price of 101 if their senior bonds are downgraded to high yield - This is a 2 notch downgrade from current ratings ( their senior bonds are rated Baa2 and both companies are on negative outlook)
- I particularly like Enel 6.5% and Telefonica 6.75% bonds as the risk of the ratings related 101 call being triggered is minimised due to the lower price and higher coupon vs others. These yield around 5.5% to their call dates in Jan-2019 and Nov-2020
- Both these issuers have reported solid fundamentals - Telefonica highlighted a continued improvement in Spain and solid performance in Brazil. Enel is continuing deleveraging and also benefits from a €4.4bn disposal programme