

Subject: JE [I]
From: Tazia Smith <[REDACTED]>
Date: Mon, 23 Dec 2013 12:01:04 -0500
To: Paul Morris <[REDACTED]>
Cc: Vahe Stepanian <[REDACTED]>

Classification: For internal use only

Paul -

Per our discussion, suggestions below. I look forward to your feedback. Let's discuss.

Southern Financial:

- \$5mm in EURUSD 1mo Deposit plus, 1.36 4% annualized yield
- \$1mm notional 6mo 1.37 EURcUSDp with 1.35 KO ~1.6%
- Speculative: Add to ARIA
- Add AEGR to biotech basket
- Add eurostoxx hedge once acct is set up

Southern Trust:

- \$1-3mm inflation linked re-pack structure, 10yr, fixed 4.25% through 3/18 then 245% of CPI, details below (need to confirm booking)
- \$1-3mm European Periphery linked CLN, 5yr, Spain, Italy, Ireland, Portugal, indicative 3moL +375bps, floating. (need to confirm booking)
- Leave/watch BRL notes
- Speculative: Greek 5mo 5.25% sov debt (details below)

Haze:

- \$2-3mm in DFRTX
- \$1-2mm AXL 6.25% 10/15/22

Jeepers:

- \$2-5mm in Jeepers in DFRTX (and/or add to JPSHX floating rate fund)
- Buy ~\$250k-1mm FRC E 7% (thin, buy with a limit), trading ~\$25.23 last
- Buy \$1-2mm of DXJ and/or Japanese single stocks ((Toyota, Rukaten, Resona, Panasonic, Omron, Kawasaki Kisen, sell yen forward - would be done in Southern

Financial or Southern Trust, bc that acct is set up)

- Buy \$1-2mm China end-market basket (YUM, MJN, VOW)
- Contrarian in China: Swire properties (1972.HK)
- Buy \$1-2mm European equities (single names, TRS, CROCI note, or mutual fund (top dividend and top euro fund) DWSTFC LX (LU0145647722), DITPDLX LX (LU0507265923)
- Tech ETF: VGT
- Build US single name GARP basket (start with 1-2mm total to start): CMCSA,

KMI, ADBE

- Smidcap names to add (carefully): SUNE, HASI, CWST
- Speculative: CIE

* * * background * * *

European Recovery

Upside Surprise in Inflation

Preferreds

Bullish Japan, Bearish Yen

Bullish China (8.6% GDP Growth)

Other - Bullish Equities, favor Tech in the US

(See attached file: ARIA - competitor upgrade 12.20.13.pdf)

(See attached file: AEGR 11.18.13.pdf) (See attached file: CIE 12.19.13.pdf)

spot ref 1.3700

Leg 1: Call Spread

<Client> buys Call, sells Call on EUR/USD in a Call Spread

Strike: 1.37 : 1.43

Notional: EUR 1,000,000 EUR

Expiry: Tue 25-Mar-2014 (3m)

Settlement: Thu 27-Mar-2014

ZoneCut: NY

Premium: USD 20,620:-2,630 (17,990)

Premium Date: Fri 27-Dec-2013

Leg 2: Call Spread

<Client> buys Call, sells Call on EUR/USD in a Call Spread

Strike: 1.37 : 1.45

Notional: EUR 1,000,000 EUR

Expiry: Wed 25-Jun-2014 (6m)
Settlement: Fri 27-Jun-2014
ZoneCut: NY
Premium: USD 30,780:-5,210 (25,570)
Premium Date: Fri 27-Dec-2013

Leg 3: European Option Call
<Client> buys European EUR Call on EUR/USD
Strike: 1.37
Notional: EUR 1,000,000
Expiry: Tue 25-Mar-2014 (3m)
Settlement: Thu 27-Mar-2014
ZoneCut: NY
Premium: USD 20,640
Premium Date: Fri 27-Dec-2013

Leg 4: European Option Call
<Client> buys European EUR Call on EUR/USD
Strike: 1.37
Notional: EUR 1,000,000
Expiry: Wed 25-Jun-2014
Settlement: Fri 27-Jun-2014
ZoneCut: NY
Premium: USD 30,800
Premium Date: Fri 27-Dec-2013

Knockout Options

Leg 1: Knockout Option Call
<Client> buys European EUR Call on EUR/USD with American Knock-Out
Strike: 1.37
Notional: EUR 1,000,000
American Knock-Out: 1.35
Expiry: Tue 25-Mar-2014
Settlement: Thu 27-Mar-2014
ZoneCut: NY
Premium: USD 13,890
Premium Date: Fri 27-Dec-2013

Leg 2: Knockout Option Call
<Client> buys European EUR Call on EUR/USD with American Knock-Out
Strike: 1.37
Notional: EUR 1,000,000
American Knock-Out: 1.35
Expiry: Wed 25-Jun-2014
Settlement: Fri 27-Jun-2014

ZoneCut: NY
Premium: USD 15,930
Premium Date: Fri 27-Dec-2013

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----- Forwarded by Tazia Smith/db/dbcom on 12/23/2013 10:46 AM -----

From: Vanshree Verma/db/-
[REDACTED]

To: Tazia Smith/db/-
[REDACTED],

Cc: Jay Lipman/db/[REDACTED], John-B Manley/db/-
[REDACTED], Vinit Sathe/db/[REDACTED]

Date: 12/19/2013 12:25
PM

Subject: Inflation Material
[I]

Classification: For internal use only

Hi All,
Here is some material on inflation and the product:

RATIONALE

1) Policy bias remains loose across central banks. 'Real' fed funds rate at historical lows, while continuation of QE implies massive expansion of the monetary base. We see upside risks to inflation in the long term given Fed's tolerance for inflation in the short term, and the sheer magnitude of liquidity in the system.

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2) Historically period of fiscal strain have been followed by rising inflation as monetary policy has "monetised" public debt. Ken Rogoff: "Inflation needed to combat crisis"... "a sudden burst of moderate inflation would be helpful in unwinding today's epic debt morass"

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Central banks have no experience with unconventional policy measures. In particular, the effect on inflation expectations remains unclear. There is a practical limit to quick unwinding of measures and consensus opinion points towards a lag in exit and some overshoot of inflation target as a distinct possibility.

3) Equities, commodities and property have proved to be unstable or unreliable hedges against inflation in the past. The only way to achieve pure inflation hedge or take a view on inflation is via an inflation-linked product where cash flows are based on CPI.

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PRODUCT

4) An inflation linked product such as the following appears interesting because it takes advantage of any upside risks to inflation in the future, while also protecting against near term inflation downside surprises. The collateral (in this case) is 10y Italian Government Bond.

10y BTP repack (priced through GS)

Format: SPV
Size: [50MM USD]
Start date (T+3weeks)
Maturity: 01-Mar-2024
Collateral: Italy 4.5% 01-Mar-2024 (ISIN: IT0004953417)
Coupon: Start date to 01-Mar-2018: 4.25% fixed (Annual, Act/Act)
1-Mar-2018 to Maturity: 245% x (YoY Return Linked to US CPI
paid yearly in arrears, 3m lag) [Floored at 0.00%, Capped at 7%] (Annual)
Price: 100.00%

Market Triggers are applicable, i.e. GS right to terminate the structure if either one of the 2 conditions is satisfied:

- (i) MtM of Swap (from GS perspective) > 60% MtM of BTP
- (ii) SPV Note Value < 50% (Note Value defined as Swap MtM from SPV perspective + MtM of BTP)

Note that:

a) Even though current inflation is low, historically this has averaged close to 2.7% annually.

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b) Current forwards look like..

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..rising sharply from 2017 onwards. If these are realised the coupons from Year 5 onwards would be between 6.5-7%, and the IRR on the structure close to 5.5%. Higher than the forward inflation currently priced in benefits the investor (until the cap of 7% is hit). Compare this to the yield on the same BTP Mar-24 of 4.07% !

Hope this helps and please call if any questions!

Regards,
Vanshree.

----- Forwarded by Tazia Smith/db/dbcom on 12/23/2013 11:05 AM -----

From: [REDACTED] Vinit Sahni/db/-

To: [REDACTED], Nav Gupta/db/-

Cc: [REDACTED] "Tazia Smith"

Date: 12/12/2013 11:58
AM

Subject: Re: 5 Month Maturity, Greek Sovereign Paper, 2.5x Leverage
(provided by us) Yields 10% [C]

Classification: Confidential

Nav - can u pls give tazia a call and talk to her abt the idea. She will be taking a very active interest and looking after the KCP cap markets effort in

EFTA01465995

US. Wud like u to talk to her as much as possible and share ideas.

Thanks

----- Original Message -----

From: Nav Gupta

Sent: 12/12/2013 04:12 PM GMT

To: Hella Alashkar; Karine Genevey; Karsten LeBlanc; Manuel deSouzaGirao; Pierluigi Amicarella; Ramona Lieser; Roger Posch; Vinit Sahni; Anurag Mahesh; Bobby Abraham; Caroline Kitidis; Dario Schiraldi

Cc: Juan Landazabal; Mitch Matharu; Apurva Gupta; Debducta Bhattacharya

Subject: 5 Month Maturity, Greek Sovereign Paper, 2.5x Leverage (provided by us) Yields 10% [C]

Classification: Confidential

Summary

As some of you may know we are in touch with a large block of illiquid 5month Greek paper. Levered 2.5x it yields 10% which may be of interest to those clients presently comfortable with Greek risk.

The seller, a Greek bank who currently finances them with the ECB, is shrinking its balance sheet, we presume ahead of the upcoming AQR and stress tests.

To diversified and well capitalized clients we can lend, with recourse, against this bond assuming 40% haircut (60% LTV / 2.5x leverage) at Euribor + 270bp. In addition there is a 15bp arrangement fee on the loan amount (dirty price x 60%).

We have been advised by the seller's agent (but are still in the process of verifying):

"The bond is issued under local law - same as T-bills, and together with the August2014 floater is the only GGB bond (large size issues in any case), excluded from the PSI. These bonds were issued in 2009 by Greece as payment for the preference shares that the State got from all greek banks (in lieu of cash, which at the time was scarce). They are held primarily by Greek banks with 10-20% held by foreign institutions including ECB. The bonds have no collective action clause (CAC) and symmetric no cross-default with other Greek securities."

Salient points

The bond is a floater (vs 6m Euribor). Its last fix took place on 19th Nov 2013 so both remaining cashflows due May2014, the final coupon and principal, are known

Yield of 10% assuming 2.5x leverage for 5 months. Unlevered the bond yields

5.6%.

There is at least EUR100mm available

These bonds are believed to be without CAC and with no-symmetric cross-default (note: still to be verified)

This bond is illiquid. Some dealers make 2-3point wide prices in EUR1-2mm only. DB doesn't quote it.

The higher yield reflects among other things a risk of restructuring. This risk is present in all Greek bonds. Personally I believe these shorter bonds have a lower probability of restructuring than the longer (9y+) ones... the seller's agent advises these bonds are 80-90% owned by Greek banks, the balance being owned by international real money + ECB. While Greece could conceivably restructure short dated GGB's held by Greek

banks,

restructuring a relatively small quantity of internationally held bonds would be highly counterproductive to Greece realizing its ambition of quickly returning to capital markets.

In July 2013 the IMF estimated Greece had a 2014 financing deficit of EUR4bn. Various subsequent unofficial estimates have put this number

around

EUR2bn. Greek Government estimates have been closer to EUR0.5bn

Juan Landazabal (trading), Mitch Matharu (financing) and myself are available for questions

thanks

Nav

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[attachment "Greece.docx" deleted by Vinit Sahni/db/dbcom]

<http://www.imf.org/external/pubs/ft/scr/2013/cr13241.pdf>

This is the most recent IMF report on the Greece programme. It is dated July 2013. Greece is still negotiating the latest Troika progress report. The details will have moved on since July, but this is the 'latest' publicly available data on Greece.

On page 60 of the linked PDF, you will find "General Government Financing Requirements and Sources, 2012-16". This tells you about upcoming liabilities and available resources to pay them. You will see that as of July, the IMF was

estimating a E4.4bn funding gap in 2014 and E6.5bn in 2015. These estimates could change (based on public comments, the IMF believes they may have risen while Greece thinks they have fallen).

The options for closing the gap are several: raising new taxes; cutting spending, e.g., on pensions; raising privatisation estimates; raise GDP growth estimates and the primary surplus; getting NCBs to agree to roll their GGBs; rolling maturing bond held by the Greek banks for capital purposes (E7,6bn); tapping the remaining resources in the HFSF (E7bn); accelerating the payment of EU structural funds; issuing new GGBs.

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