From: Vahe Stepanian <[redacted]>
To: Jeffrey Epstein <jeevacation@gmail.com>
CC: Daniel Sabba <[redacted]>, Ariane Dwyer <[redacted]>, Paul Morris <[redacted]>, Stewart Oldfield <[redacted]>, "[redacted]" <[redacted]>
Subject: Fixed Income Follow-Up [C]
Date: Wed, 18 Nov 2015 20:52:19 +0000
Attachments: Petrobras_-_Buy_the_17s_DB_Research.pdf

Classification: **Confidential**

Jeffrey - Paul sent along the email you sent to him yesterday (included below) and we worked together to come up with a few ideas that may be relevant.
Please let us know if you have questions.

Thank you,
Vahe

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1) Buy Petrobras '17s. Rationale:

- Since May 2015, Petrobras 10yr spreads have widened by ~400bps and in September S&P downgraded Petrobras to BB
- In October, domestic fuel prices increased and Petrobras announced significant capex and opex cuts for 2015 and 2016. These can be seen as positive signs for the company's future, but may not mitigate its large long term funding gap: Petrobras will need to roll $60bn and $104bn of debt maturities in the next four and nine years respectively and sovereign support is not guaranteed
- DB's Brazil credit analyst believes that the company can meet its short term debt maturities through 2017 without resorting to direct support from the government. DB has revised its forecasts and has upgraded the 3.25% and 3.5% '17s to a Buy rating (please find attached DB Research report). The bonds are currently yielding 7.06% and 7.10% respectively
- Petrobras is one of the largest integrated oil companies worldwide and aims to be one of top 5 globally by 2030

Indicative Terms (as of 11/17/2015):

Client buys	PETBRA 3.250% Notes '17
Maturity	03/17/2017
Amount O/S	$1.6bn
Rating	Ba2 / BB / BBB- (Mdy/S&P/Fitch)
Price	95.25
Mid Yield	7.06%

Client buys	PETBRA 3.500% Notes '17
Maturity	02/06/2017
Amount O/S	$1.75bn
Rating	Ba2 / BB / BBB- (Mdy/S&P/Fitch)
Price	95.875
Mid Yield	7.10%

We are happy to also speak about other HY names.

2) We have also been looking Contingent Convertibles bonds, which have been issued post-crisis primarily by European banks as securities that absorb losses when capital of the issuing bank falls below a certain level (i.e. trigger). Two such examples that we've highlighted:

<u>SocGen 6.00 2049 (Offer Px- 95.51, YTC - 7.26%)</u>

- The bond is a non call 5y (NC5) structure with first call date on 01/27/2020, after which it floats to USSW5 + 4.067%. Post first call date, it is callable every five years
- Using the forward curve, the yield to perpetuity is ~7.00% (assuming it is not called)
- Principal Trigger: The Common Equity Tier 1 (CET1) trigger for the bond is 5.125%. SocGen currently runs a fully loaded CET1 ratio of 10.5%, the buffer to a principal write down is ~€20bn.
- Coupon deferral: The coupons may get deferred if the CET1 ratio falls below 8% (this rule starts to phase in from Jan 01, 2016 and is only fully applicable in 2019). The buffer to this requirement is a very healthy ~11bn
- Notes: Buying one of the highest yielding/ lowest $ NC5 AT1; Buffers to any triggers are very healthy and higher than the averages in the sector; SocGen has filled its AT1 requirements, so the probability of a new issue re-pricing this bond is "low"; French banks have traditionally been the most investor friendly of all Euro Zone banks (i.e. still call all institutional deals on first call date)

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<u>SEB 5.75 2049 (Offer Px - 99.26, YTC - ~6.0%)</u>

- The bond is a non call 5y (NC5) structure with first call date on 05/13/2020, after which it floats to USSW5 + 3.850%. Post first call date, it is callable very six months.
- Using the forward curve, the yield to perpetuity is ~6.4% (assuming it is not called)
- Principal Trigger: The CET1 trigger for the bond is 8.0%. SEB currently runs a fully loaded CET1 ratio of 17.8%, the buffer to a principal write down of ~10% is one of the highest among all AT1 issuers
- Coupon deferral: The coupons may get deferred if the CET1 ratio falls below ~10.5% (this rule starts to phase in from Jan 01, 2016 and is only fully applicable in 2019). The buffer to this requirement is also one of the highest given the very high CET1 ratio.
- Notes: SEB is one of the most profitable and well capitalized banks in the world; Business mix ensures that it is less exposed to the Swedish property market vs. the peer group; Another issuer where the need for further AT1 is very limited, so new issue is less likely and the bond should have a strong regional bid (35% of the issue was placed with Nordic asset managers); this the desk's best pick among the high quality IG rated AT1s

3) Lastly, please find a run of bank $1000 bank preferreds. Pricing is indicative as of today, 11/18/2015.

		Nxt Call	B Px A Px	B YTC	B CUR	Floats	Notes
AXP	5.20	11/15/19	98⅞-99⅜	5.518	5.259	+ 342.8	S 2MM
AXP	4.90	03/15/20	96-96¾	5.964	5.104	+ 328.5	S 5MM
BAC	5.20	06/01/23	93¾-94¼	6.254	5.547	+313.5	S 2MM
BAC	5.125	06/17/19	96⅝-97⅛	6.193	5.304	+338.7	S 5MM
BAC	6.25	09/05/24	100⅞-101⅜	6.118	6.196	+370.5	
BAC	6.50	10/23/24	104¾-105½	5.809	6.205	+417.4	
BAC	8.00	01/30/18	103¼-104	6.376	7.748	+ 363	
BAC	8.125	05/15/18	103¾-104¼	6.462	7.831	+ 364	S 2MM
BAC	6.10	03/17/25	100¼-100¾	6.063	6.085	+3.898	
BK	4.95	06/20/20	98¾-99¼	5.259	5.013	+ 342	S 3MM
BK	4.50	06/20/23	92½-93½	5.693	4.865	+ 246	Q
C	6.30	05/15/24	97½-98	6.691	6.462	+ 342	

Nxt Call B Px A Px B YTC B CUR Floats Notes

C	6.125	11/15/20	100⅜-100¾	6.036	6.102	+ 447.8	MKt 3MM
C	5.95 N	08/15/20	98⅝-99⅛	6.288	6.033	+ 409.5	
C	5.95	01/30/23	97⅝-98⅜	6.365	6.095	+ 407	
C	5.95	05/15/25	95⅛-95½	6.651	6.255	+ 390.5	Mkt 3x2
C	5.90	02/15/23	97⅝-98⅜	6.312	6.044	+ 423	
C	5.875	03/27/20	98⅛-98½	6.373	5.987	+ 405.9	Mkt 3MM
C	5.80	11/15/19	98-98½	6.377	5.918	+ 409.3	
C	5.35	05/15/23	93½-94½	6.459	5.722	+ 347	
COF	5.55	06/01/20	99¾-100½	5.613	5.564	+ 380	
FITB	4.90	09/30/19	93¾-94¾	6.767	5.227	+313	Q
FITB	5.10	06/30/23	90¾-91¾	6.670	5.620	+ 303	
GS	0	12/21/15	71⅛-72⅜	611.530	5.585	+ 76.75	

		Nxt Call	B Px A Px	B YTC	B CUR	Floats	Notes
GS	5.375	05/10/20	99¼-99¾	5.566	5.416	+ 392	
GS	5.70	05/10/19	100¼-101	5.619	5.686	+ 388	
JPM	7.90	04/30/18	102⅞-103⅜	6.600	7.679	+ 347	S 3MM
JPM	6.75	02/01/24	107¾-108½	5.557	6.265	+ 378	
JPM	5.00	07/01/19	96⅝-97⅜	6.054	5.175	+ 332	
JPM	6.10	10/01/24	100¾-101½	5.988	6.055	+ 333	
JPM	6.125	04/30/24	100¾-101½	6.010	6.079	+ 333	
JPM	5.15	05/01/23	95¼-96	5.949	5.407	+ 325	
JPM	6.00	08/01/23	100½-101¼	5.916	5.970	+ 330	
JPM	5.30	05/01/20	99½-100	5.427	5.327	+ 380	
MS	5.55	07/15/20	99⅝-99⅞	5.703	5.585	+ 381	S 2MM
MS	5.45	07/15/19	97¼-98¼	6.304	5.604	+ 361	S 3MM

		Nxt Call	B Px A Px	B YTC	B CUR	Floats	Notes
PNC	4.85	06/01/23	94-95	5.847	5.160	+ 304	Q
PNC	6.75	08/01/21	108-109	5.110	6.250	+ 368	
STI	5.625	12/15/19	100⅛-100⅝	5.589	5.618	+ 386	
STT	5.25	09/15/20	100⅛-100⅝	5.218	5.243	+ 359.7	
WFC	5.875	06/15/25	105-105½	5.204	5.595	+399	
WFC	7.98	03/15/18	106-106½	5.186	7.528	+ 377	
WFC	0.00	12/21/15	97¼-97¾	41.965	5.727	+ 93	
WFC	5.90	06/15/24	101¼-101¾	5.713	5.827	+ 311	

Sources: Bloomberg Finance LP; BIS Cocos: a primer; Deutsche Bank Flow Credit Trading

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From: jeffrey E. [mailto:jeevacation@gmail.com]
Sent: Tuesday, November 17, 2015 12:43 PM
To: Paul Morris
Subject:

lets look at leveraged preferred or leveraged bonds.

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JEE
