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Subject: Swaps + high dividends - an interesting combination... [C]
Date: Wed, 11 Feb 2015 00:31:10 +0000
Inline-Images: image001.gif; image002.gif

Classification: **Confidential**

Jeffrey,

We came across with the following structure that takes advantage of high dividends to finance the funding of an excess return swap with floored downside. I thought it was clever... Interested in hearing your thoughts. If you would like we can refresh pricing.

Structure linked to Stoxx Low Beta High Dividend Index

Index Description

The STOXX Europe Low Beta High Div 50 Index is derived from the STOXX Europe 600 Index. To be eligible for inclusion in the new index, companies must have a net dividend yield for the past twelve
months that is higher than the overall net dividend yield of the EURO STOXX 50 Index over the same time period. All those companies are then screened for their beta to the EURO STOXX 50 Index over the past twelve months, and only those 50 companies with the lowest beta are selected. A cap of eight companies per country is applied to ensure diversification in the index.

The STOXX Europe Low Beta High Div 50 Index is weighted by liquidity measured through components' three month average daily trading volume (ADTV), with a single component's weight cap of 5 percent. The index is reviewed annually in December, with the cutoff date for dividend yield and beta data being the last trading day of the previous month.

Structure Terms

Tenor: 5 Yrs
Counterparty: Deutsche Bank
Format: Swap
Ccy: USD

Underlying: STOXX Europe low Beta High Div 50 Price Return Index (SDB50EP Index)

Participation Factor : **120% to the positive performance of the underlying**
(PF)

Performance: (Underlying Final - Initial)/Initial

At Maturity: If Performance is positive: Client Receives + PF * max (0%, Performance)
i.e. Client participates 1.2x in the upside performance of the index, uncapped

If Performance is negative, no settlement

Client Pays: USD3mLibor + 1.55% p.a.

Benefits

1. Structure allows the client to participate 1.2 x times in the upside performance of the underlying index. i.e. At maturity, if the index is up 15%, Clients final redemption = 18%
2. The performance on the upside in uncapped
3. The Index allows participating clients to take a view on stocks which have low volatility, low beta and high dividend yield in the Eurozone area
4. Backtesting, the benefits of this index have been higher dividend, higher returns, lower volatility and lower drawdowns than Eurostoxx50 Index and Stoxx600 Index
5. Higher dividends (lower forwards) and lower volatility makes the underlying optionality in the trade cheaper leading to a leveraged upside participation

Risks

1. Counterparty Risk
2. Mark-to-Market Risk
3. Risk of rising Libor Rates

Payoff Comparison at Maturity

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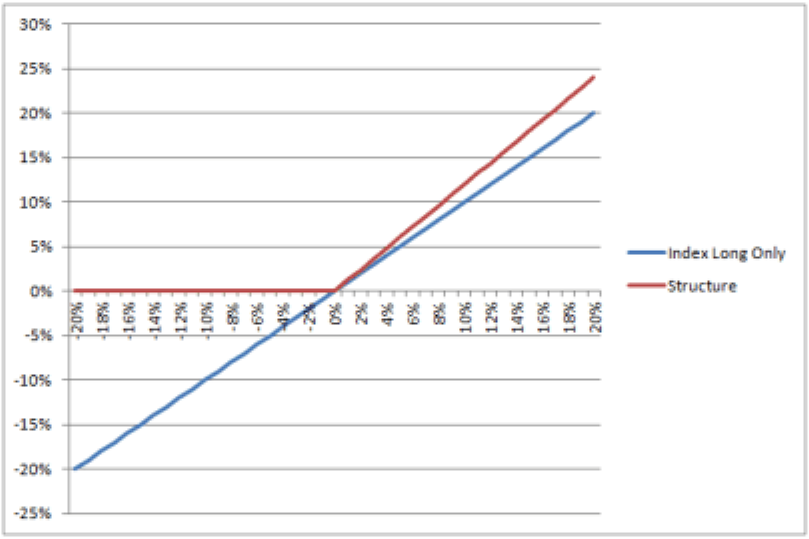
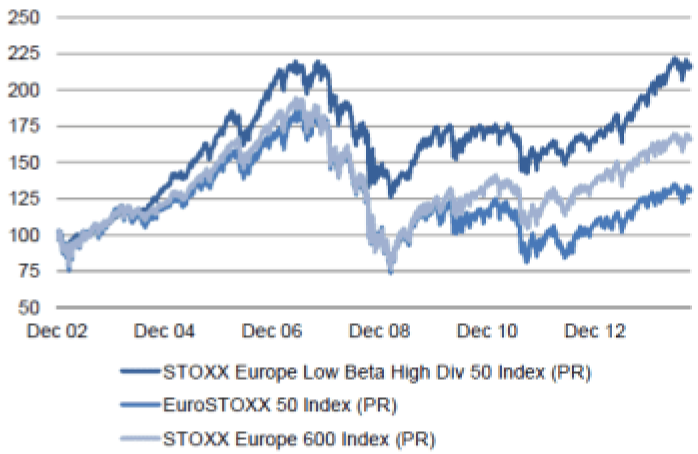


Index performance comparison vs benchmarks
— Higher returns and lower volatility than the benchmark
— The Index is also showing lower drawdowns than the benchmarks
— The beta to SX5E Index is about 55% over the full period

Performance since Index inception



Return statistics

	STOXX Europe Low Beta High Div 50 Index (PR)	SX5E Index Index (PR)	STOXX Europe 600 Index (PR)
IRR since inception	6.80%	2.34%	4.42%
YTD return	7.89%	3.76%	4.51%
1-month return	-0.45%	1.68%	0.32%
3-month return	-0.79%	-0.07%	0.36%
1 year return	15.42%	11.50%	10.51%
3 year return	42.45%	48.00%	51.68%
Worst day	-8.01%	-7.88%	-7.62%
Best day	10.34%	11.00%	9.87%
Maximum Drawdown	-42.56%	-60.29%	-60.54%
Annualised Volatility	14.29%	22.45%	18.93%
Return/Risk ratio	0.48	0.10	0.23
Beta	100.00%	55.63%	68.86%
Correlation	100.00%	87.42%	91.14%

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