

Subject: FW: Swaps + high dividends - an interesting combination... [C]  
From: Paul Morris <[REDACTED]>  
Date: Mon, 23 Feb 2015 18:39:16 -0500  
To: Stewart Oldfield <[REDACTED]>

Classification: Confidential

Paul Morris

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From: Daniel Sabba  
Sent: Monday, February 23, 2015 4:35 PM  
To: jeffrey E.  
Cc: Vahe Stepanian; Paul Morris; Ariane Dwyer  
Subject: FW: Swaps + high dividends - an interesting combination... [C]

Classification: Confidential

Resending... The payout is quanto USD.

From: Daniel Sabba  
Sent: Tuesday, February 10, 2015 7:31 PM  
To: 'jeffrey E.'  
Cc: Vahe Stepanian; Paul Morris; 'Richard Kahn'; Jay Lipman  
Subject: Swaps + high dividends - an interesting combination... [C]

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:  $(\text{Underlying Final} - \text{Initial}) / \text{Initial}$

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

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%

The performance on the upside is uncapped

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

Backtesting, the benefits of this index have been higher dividend, higher returns, lower volatility and lower drawdowns than Eurostoxx50 Index and Stoxx600 Index

Higher dividends (lower forwards) and lower volatility makes the underlying optionality in the trade cheaper leading to a leveraged upside participation

## Risks

Counterparty Risk

Mark-to-Market Risk

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

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Daniel Sabba

## Key Client Partners

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