From: Barrett, Paul S <[redacted]>
Sent: Wednesday, February 13, 2013 5:41 PM
To: Jeffrey Epstein
Cc: Weissend, Renee E; Ens, Amanda
Subject: An idea

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Jeff=ey

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I do not =hink we have enough equity risk in the portfolio right now. While we fee= very good about our mortgages and credit exposure, the upside in credit f=els limited. Therefore I would like to selectively add some equity=exposure with names that have underperformed the broader market yet mainta=n some buffers to protect us on the downside.

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We recently added Merck to our =ocus list. I think we should consider a Market Plus Note on MRK (Overwei=ht with a $52 price target)

- =nbsp; 18 mo=th
- =0D Greater of the upside o= a 3% coupon so long as we don't finish below 80% at expiry.<=o:p>
- Would consider $1MM

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Background:

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Merck is the 2nd l=rgest pharmaceutical company globally with a broad portfolio of market-lea=ing medicines and vaccines. International revenues represent 62% o= total, while the U.S. represents ~38%. Highest selling products inc=ude: Singulair (asthma/allergies) and Januvia (diabetes)=/p>

- =nbsp; Pullback presents opportunity in a favored sector (the cheapest d=fensive sector)

– </=pan>MRK is down -14% over last 4 months vs=2E PFE at up 7% and S&P at up 4%

– Delay in filing of odanacatib, M=K's phase III osteoporosis drug and investor concern about upcoming =rial data have hurt sentiment. We believe this pullback is overdon= and at current levels potential downside from upcoming trial information =ppears limited.

- =0AUpcoming pipeline data =oints expected in 2H13 and 2014 provide catalysts and higher EPS growth po=ential than peers

– MRK has a solid pipeline beyond =danacatib (suvorexant - insomnia, anacetrapib - cholesterol, PD-1 -oncolog=, BACE - Alzheimers) as well as healthy core product portfolio (Janu=ia -diabetes and vaccines).

– JPMS LLC expects strong EPS growth of ~8% thro=gh 2020

- &nb=p; Valuation a=tractive both versus peers and historical averages; high dividend should s=pport the stock

– MRK trades at 11.2x F13EPS vs. 12.5x five-y= avg, PFE at 12.0x and at a 20% discount to larger cap pharma peers, des=ite higher growth potential

– 4.2% div yield, which we view as sustainable given 7.8% FCF=yld

Wh=te line = buffer

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