From: jeffrey E. <jeevacation@gmail.com>
Sent: Tuesday, August 9, 2016 2:23 PM
To: Ens, Amanda
Subject: Re: Preferreds, thoughts on fixed income, mandatory converts

When will yours open??

On Tuesday, 9 August 2016,=Ens, Amanda <[redacted]=/a>> wrote:
<mailto:[redacted]>

Jeffrey,

AGN 5.5% Pfd $886.50 (6.3= strip yield)

TEVA 7.0% Pfd $894.00 (7.=% strip yield)

We could trade today if w= can deliver into your account at MS or DB. If you'd prefer custod= at BAML, the institutional custody account is not open yet so we likely need to wait until next week. Sorry for the inconvenience. Pleas= let me know what you prefer.

Thanks,

Amanda

Amanda Ens</=>

Director

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[redacted]<javascript:_e(=7B%7D,'cvml',[redacted]);>

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From: jeffrey =. [mailto:jeevacation@gmail.com <javascript:_e(%7B%7D,'cvml','jeevacation@gmail.c=m');>]
Sent: Monday, August 08, 2016 4:59 PM
To: Ens, Amanda; Richard Kahn
Subject: Re: Preferreds, thoughts on fixed income, mandatory convert=

lets buy 1 m each

On Mon, Aug 8, 2016 at 4:55 PM, Ens, Amanda <[redacted]> wrote:

For the institutional cus=ody account I'm opening for you in the investment bank here, no le=erage yet. We would need to set up prime brokerage and we're not there y=t. If you plan to use a lot of leverage, I can try to get an exception; pr=me brokerage usually requires pretty high trading volumes. If we can simpl= execute the purchase and deliver these to your custody at MS or DB and use their margin, it should be the standar= 50% for purpose lending; perhaps higher if you have a non-purpose line. N=te that since mando convert preferreds are highly correlated to the stock,=the vol is much higher than on a bank preferred. The AGN A Pfd is has a 19% 30-day vol (vs 24% for the co=mon stock) and 30% 90-day vol (vs 41% for the common stock). For compariso=, PFF had a 4.5-5% vol.

</=>

From: jeffrey =. [mailto:jeevacation@gmail.com <javascript:_e(%7B%7D,'cvml','jeevacation@=mail.com');>]
Sent: Monday, August 08, 2016 4:40 PM
To: Ens, Amanda
Subject: Re: Preferreds, thoughts on fixed income, mandatory convert=

can we put leverage on them, if so what rate<=>

On Mon, Aug 8, 2016 at 4:30 PM, Ens, Amanda <[redacted]> wrote:

AGN mandatory convert pre=erred

Ticker: AGN A Pfd<=>

Coupon: 5.5%

Maturity: 3/1/2018=u>

Pfd Price: 881.38<=>

AGN stock ref: 248.31

Convert low strike: 288.0= (at maturity, if AGN is at or below 288, you get 3.4722 shares)=/u>

Convert high strike: 352.=0 (at maturity, if AGN is at or above 352.7959, you get 2.8345 shares)

Strip yield: 6.3% (versus=common stock which pays no dividend)

BofAML price target: $294=(Buy, US-1 top picks list)

Upside to BofAML price ta=get: 18.4%

If hold pref to maturity =nd stock is up 25%: 24.4%

If hold pref to maturity =nd stock is down 25%: -15.7%

QDI-eligible: No

Amount outstanding: $5.06=bn

</=>

</=>

TEVA mandatory convert pr=ferred

Ticker: TEVVF Pfd<=>

Coupon: 7.0%

Maturity: 12/15/2018

Pfd Price: 895.07<=>

TEVA stock ref: 54.21

Convert low strike: 62.50=/span>

Convert high strike: 75.0=

Strip yield: 7.9% (vs com=on stock at 2.5% div yield)

BofAML price target: $72.=0 (Buy)

Upside to BofAML price ta=get: 32.8%

If hold pref to maturity =nd stock is up 25%: 31.3%

If hold pref to maturity =nd stock is down 25%: -7.8%

QDI-eligible: No

Amount outstanding: $3.71=5 bn

</=>

Assumes convert held t= maturity; all coupons included

</=>

Source: Bloomberg<=>

</=>

Amanda Ens<=>

Director

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[redacted] <javascript:_e(=7B%7D,'cvml', [redacted] ');>

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</=>

From: jeffrey =. [mailto:jeevacation@gmail.com <javascript:_e(%7B%7D,'cvml','jeevacation@=mail.com');>]
Sent: Monday, August 08, 2016 4:14 PM
To: Ens, Amanda
Subject: Re: Preferreds, thoughts on fixed income, mandatory convert=

send more detail of the bond

On Mon, Aug 8, 2016 at 2:26 PM, Ens, Amanda <[redacted] wrote:

Jeffrey, I continue to=like the AGN, TEVA and FTR mandatory convert preferreds. While AGN missed =n sales today, is was mostly due to noise around the last minute divestiture of their ANDA distribution business to TEVA. While=the generics sale to TEVA was already built into most analyst models, the =NDA sale was not. Revenue thus looks in line. Botox and Restasis, two impo=tant products, are still growing at 16% and 21% respectively. AGN has an aggressive buyback program, target=ng $5bn this year and they should reach the full $10bn approved by next ye=r, market conditions permitting. Their pipeline looks strong; execution wi=l be key going forward. There has been chatter in the market about them potentially doing a big deal such as=BIIB but management said on the call that they're focused on being=selective/disciplined and will likely target smaller stepping stone opport=nities. Outside of buybacks, the company has about $20bn of dry powder to invest for growth over the next 12-18 mon=hs, which could come in the form of acquisitions and/or debt repayment.

Long story short: woul= look to build a position through the AGN A mandatory convert preferred at=a 6.3% current yield to March 2018.

Let me know if you hav= time for a call; I'm at 212.449.7781 <tel:212.449.7781> .<=u>

Thanks,<=>

Amanda

Amanda Ens</=>

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[redacted]<javascript:=e(%7B%7D,'cvml',[redacted];>

</=>

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From: Ens, Ama=da
Sent: Thursday, August 04, 2016 6:30 PM
To: 'jeevacation@gmail.com <javascript:_e(%7B%7D,'cvml','jeevaca=ion@gmail.com');> '
Cc: 'Richard Kahn'
Subject: Preferreds, thoughts on fixed income, mandatory converts

Jeffrey,

=/u>

Rich mentioned you're=interested in potentially buying preferreds. While they still pay a decent=yield, I wanted to share some thoughts about why I would look at the more =quity-like mandatory convertible preferred market instead. I've outlined a few points about fixed income, wit= some specific mandatory convert details further down. Would love to discu=s in more detail at your convenience.

=/u>

Is fixed income the next =80 accident" waiting to happen in markets?

=/u>

* Japanese buying of US corporate credit is slowing

* Supply is increasing

* Investors are trafficking as "tourists" in bond mark=ts that they don't usually buy – unwind could be painful

* Risk parity quant funds might need to rebalance if the correlation b=tween bonds and equities turns higher

* High yield keeps climbing despite falling oil prices</=>

* Poor liquidity in a crowded trade (Volcker rule and other structural=changes)

=C2

The Japanese had been huge in=remental buyers of US corporate credit this year but last week's d=ta shows this fell buying has fallen towards zero. This is happening in a market where supply is increasing. Charts =elow.

=/u>

I attended some buyside meeti=gs this week with our cross-asset and credit strategy teams and what really stood out to me was the relative acc=ptance of the continued theme of "tourism" in various credit markets ranging from US corporates to EM to European sub=rdinated bank bonds to preferreds. With the incessant hunt for yield, ther= was even the joke that the yield craze has approached Pokémon-like l=vels. While the music could play on for a while, it seems that the risk-reward is more favorable at this po=nt for US equities vs. fixed income. Equities are under-owned: institutions have net so=d equities this year if you exclude buybacks= cash levels are at 15 year highs, investors have been buying prote=tion but not much upside. Bonds don't seem to be pricing in sufficient risk premium, especially at the long end.=u>

=/u>

We've been closely fo=lowing quant fund positioning, leverage levels and potential for forced se=ling in the future. With risk parity fund leverage high and bond-equity co=relation moving from negative to ~zero now, the potential for rebalancing is on our radar. Risk parity portfolios own =ore bonds than equities (due to the lower bond vol), so there is more noti=nal size of bonds to sell to rebalance, making US equities potentially les= dangerous than the bond market. A few more details about risk parity funds are in the attached repor= (pages 9-11: Market impact of quant funds: Separating fact from fiction) and in t=e Risk Parity Risks in Fixed Income writeup further down.</=>

=/u>

Japanese buying of foreign bonds FELL again toward zero as of July 29 =vs LQD in yellow).

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Mandatory Convertible Preferreds

As investors continue to search and stretch for yield, mandatory conv=rtible preferreds stand out to me as an attractive yet often overlooked opportunity. In case you're not familiar with the=, they are generally short-dated, pay a high dividend and mandatorily conv=rt into common stock at maturity. Due to the mandatory conversion, they la=k a bond floor and are equity-like with yield enhancement. You're "paid to wait" while the=underlying company's fundamental story develops, so they are attra=tive for names where we like the company's longer term prospects b=t are only neutral to slightly bullish in the near term. The yield, along with the conversion ratio sliding scale, can result in an att=actively skewed upside vs downside profile for holding the mandatory conve=t vs the common stock.

Allergan, Teva and Frontier Communications are three names we have hi=h conviction on and they have mandatory convert preferreds that I recommend buying.

Allergan (AGN) - BAML rea=firming BUY on AGN after the FTC approval of generics sale to Teva. We like =GN due to its healthy product mix, solid pipeline and flexibility to deplo= capital to drive shareholder return. Next catalyst will be 2Q earni=gs/2H16 Outlook on 8/8. AGN is on our firm's US-1 list of best investment ideas.

Teva Pharma (TEVA) - BAML=reiterating BUY on TEVA after the FTC's approval of AGN generics deal. We co=tinue to like TEVA's positioning in generic pharma where scale and pro=uct diversity are increasingly important. TEVA remains one of our top pick= in Spec Pharma.

Frontier Comm (FTR) - BAM= reaffirming BUY after Frontier reported its first post-Verizon assets merger results. =TR's earnings miss was due to a decline in the legacy business but=FTR is targeting increased deal synergies that should offset the decline i= legacy business. We like FTR with its 8.6% dividend yield and estimated 56% dividend payout ratio in 2017. We co=tinue to think the market is mispricing FTR.

Name

Stock Ref

Pfd Level

Low Strike

High Strike

Current
Yield

Yield
Advantage over Stock

BAML
Ranking (Stock)

BAML
Price Tgt (Stock)

Stock Upside to
Price Tgt

Stock Up 25%: Pfd Return

Stock Down 25%: Pfd Return

Notional Outstanding

AGN (AGNprA) 5.5% 3/1/18

252.95

893.45

288.00

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352.80

6.2%

6.2%

1 - Buy

$ 294.00

16.2%

22.7%

-15.5%

$5.06bn

TEVA (TEVVF) 7% 12/15/2018</=>

53.50

886.08

62.50

75.00

7.9%

5.4%

1 - Buy

$ 72.00

34.6%

32.6%

-7.8%

$3.7125bn

FTR (FTRPR) 11.125% 6/29/18

4.85

93.85

5.00

5.87

11.9%

3.2%

1 - Buy

$ 7.50

54.6%

33.6%

1.2%

$1.925bn

Source: Bloomberg, BAML.

Up/down return vs underlying stock price +/- 25% assum=s preferred is held to maturity

=/u>

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=C2

From Aug 2: Risk Parity Risks in US Fixed Income

Today's simultaneous weakness i= the US bond long end and weakness in US equities is unusual of late and t=lls us there is implications for risk parity portfolios. =/p>

We expect a 165k change in Non-Farm Pay=olls on Friday but a strong number sets up for some left hand tail risk in US Fixed Income.

Risk parity portfolios own more bonds t=an equities (due to the lower bond vol), so there is more notional size of bonds to sell to rebalance making US equities less dangerous than the b=nd market.

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March 2017 ATM LQD vol is around 7.5% s= a 100% Put costs ~3.2% which given the long term chart below and all time high in shares outstanding looks cheap.

Chart One shows hourly data of IEF (7-1=y US Treasury ETF) and SPY (S&P500 ETF). Using 60 hourly data points, =orrelation has moved from around -80% a month ago to zero now. This means the volatil=ty/leverage of risk parity portfolios is increasing and rebalancing is mor= likely to be required.

This is happening while the US yield cu=ve is steepening with Investment Grade Supply increasing. Yesterday, $23.4= of new investment grade credit priced, the highest daily volume in close t= 3 months. As supply of duration has been increasing a few other topical I= issues are:

On July 28 Apple issued ~ $7 billion

On August 1, Microsoft issued ~$20 bill=on

Today, Alphabet ~ $ 2 billion=/u>

Chart Two shows Investment Grade ETF, L=D, is at the top of a long term range with shares outstanding around an all time high. Hans Mikkelsen noted on Friday in "Credit Market Strategist <http://rsch.baml.com/r?q=OaYw89Yo1lRsHX6GX=P0lw&e=amanda.ens%40baml.com&h=QasuWw> " with Japanese inflows into IG market already at max strength there are mos=ly downside risks to US credit spreads associated with developments in Jap=n.

Chart three is from "Global Equity Volatility Insights <http://rsch.baml.com/r?q=ctKMaUu0ebA=ucDgScvGRQ&e=amanda.ens%40baml.com&h=L4iNOg> " from June 28=and suggests risk parity fund leverage is high and we do not think the rel=tionships have changed significantly.

Chart One shows ho=rly data of IEF (7-10y US Treasury ETF) and SPY (S&P500 ETF). Using 60 hourly data points, correlation has moved from around -80% a month ago to =ero now. This means the volatility of risk parity portfolios are increasin= and rebalancing is required.

</=pan>

Chart Two: Investm=nt Grade ETF, LQD, is at the top of a long term channel with shares outsta=ding around an all time high.

Chart three is fro= “Global Equity Volatility Insights <http://rsch.baml.com=r?q=ctKMaUu0ebACucDgScvGRQ&e=amanda.ens%40baml.com&h=L4iNOg> ” from June 28 and=suggests risk parity fund leverage is high and we do not think the relatio=ships have changed significantly.

=

________________________=____________________________________

Today on Bloomberg: Junk Debt Keeps Climbing Desp=te Plunging Oil Prices

After moving in lockstep with oil markets for much o= the last two years, high-yield bonds have gone their own way and pos=ed modest gains while crude entered a bear market in early June. The Bloomberg USD High Yield Corporate Bond Index has advanced more =han 2 percent with help from energy debt that comprises about 16 percent o= its value. The question now is whether turmoil in oil markets will drag d=wn bonds of drillers and producers, taking the broader junk index with them, as defaults and bankruptcies pile=up.

Source: Bloomberg 8/4/2016

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