

Last squeeze to Jun-15 Series 9 Main equity

iTraxx Tranches Views & Trades

- In our [last tranche publication](#) back in February we argued that super senior tranches would continue underperforming given the very low likelihood of the emergence of big enough protection sellers. **To our surprise, the demand to sell super senior risk appeared and a few investors pulled the trigger in large enough size** to make super seniors outperform, correlations to slightly fall and mezz/equity tranches underperform.
- **View-wise, we're still bullish on the tranche market eventually picking up in flows as investors become keener (or forced to) lever up investment grade returns.** That should benefit mezz tranches the most; however, that may take a bit. We see clear signs that new investors are looking more carefully at tranches, but that hasn't translated in trades just yet. We will continue waiting.
- **In the short term, we are mildly constructive on equity and senior tranches, and expect mezz tranches to underperform.**

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Trade: Last squeeze to Jun-15 Series 9 Main equity

- We still think selling equity protection is a comfortable strategy in an environment – at least in Europe – where excess liquidity is not going to disappear – keeping investment grade default risk at the top of our preferred risks to take. However, given how high correlations remain, we would only express this view in very short dated tranches, where default risk will be the largest P&L driver.
- **The long risk European IG default risk is best expressed by selling short dated equity protection (Jun-15 Main S9) trading at 430bp** (COB yesterday). With little spread sensitivity given its short dated maturity, the hold-to-maturity MtM will be predominantly driven by priced default risk. We think any event impacting the market which does not materially impact the risk of short term defaults will have a very small impact in short dated equity tranches, even if it causes 5y spreads to sell-off.
- **Long risk Jun-15 Main S9 equity tranche:** We like the trade outright or as a relative value trade against:
 - **5y CDX IG** – As a way of going long European default risk vs. US market risk.
 - **EuroStoxx 50 (SX5E)** – As a way of going long default risk vs. growth (proxied by equity/stocks).

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Senior tranches build some momentum ... Will it last?

Visit our [iTraxx tranche daily analytics](#) for more details on tranche pricing and performance: [Series 9](#), [Series 19](#) and [Series 21](#).

We got it wrong ... to the benefit of our trading desk (and all trading desks across the street for that matter). In our [last tranche publication](#) back in February we argued that super senior tranches would continue underperforming given the very low likelihood of the emergence of big enough protection sellers. **To our surprise, the demand to sell super senior risk appeared and a few investors pulled the trigger in large enough size** to make super seniors outperform, correlations (Figure 3) to slightly fall and mezz/equity tranches underperform (Figure 2).

Figure 1. S9 – Tranche levels

Flat spreads (bp).

Series 9	Jun-15	Jun-18
0-3%	499	1011
3-6%	36	308
6-9%	23	178
9-12%	11	113
12-22%	7	61
22-100%	2	20
Ref	18	65

Figure 2. S9 – 3m performance delta-hedged *

From a protection seller's point of view.

Series 9	Jun-15	Jun-18
0-3%	-0.26%	-0.41%
3-6%	-0.20%	-0.55%
6-9%	-0.14%	-0.23%
9-12%	-0.05%	-0.26%
12-22%	-0.03%	-0.24%
22-100%	0.02%	0.05%
Ref **	0.16%	0.83%

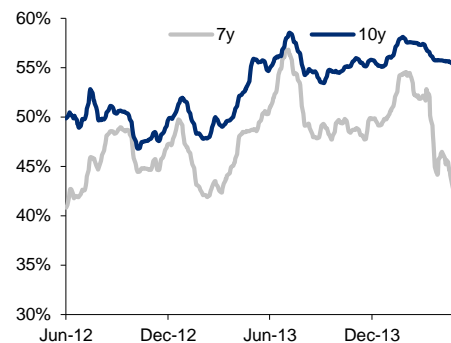
* As % of notional. ** Outright performance for the index.

Assuming daily delta rebalancing for the tranches.

Source: Citi Research, Markit.

Figure 3. S9 – Correlations

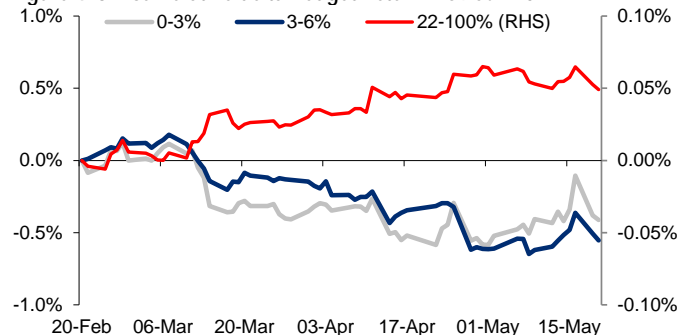
Equity tranche implied correlations.



Source: Citi Research, Markit. 5d moving average.

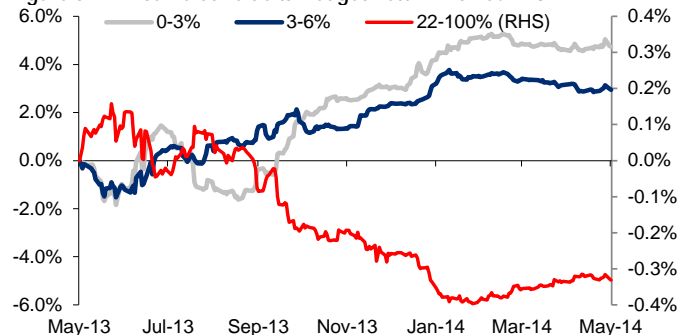
Source: Citi Research, Markit. COB yesterday.

Figure 4. 3m cumulative delta-hedged return – S9 Jun-18



Source: Citi Research, Markit. As % of notional, long tranche risk. Daily delta rebalancing.

Figure 5. 12m cumulative delta-hedged return – S9 Jun-18



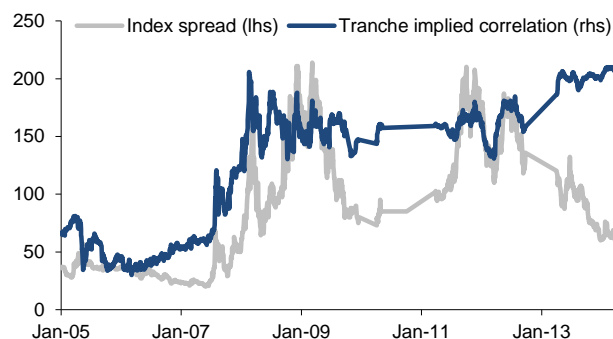
Source: Citi Research, Markit. As % of notional, long tranche risk. Daily delta rebalancing.

Equity correlations have recently started to go up again (Figure 3) after falling since February, making the 1m returns on delta-hedged equity tranches turn positive.

From a historical point of view, senior tranches still look very wide with correlations nowhere near where they were last time 5y spreads were around current levels (see Figure 6 and Figure 7). However, we still believe that unless the recent sellers of senior protection keep adding, the path of least resistance is for equity to slowly outperform (although not to the degree we've seen over the past 2y) – they are tight, but they can get a bit tighter.

Figure 6. iTraxx Main 5y on-the-run index spread and correlation

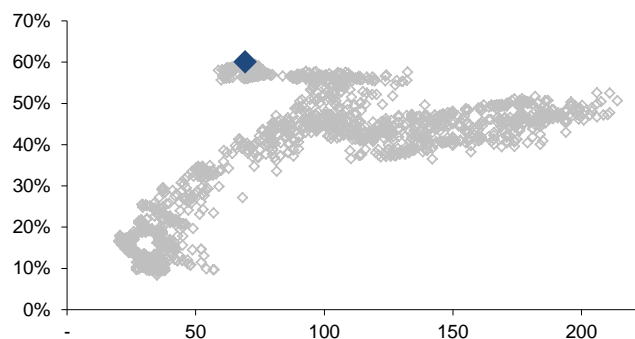
LHS: spread, bp. RHS: equity implied correlation, %.



Source: Citi Research, Markit.

Figure 7. Equity correlation vs. index spread

X-axis: spread, bp. Y-axis: equity implied correlation, %.



Source: Citi Research, Markit. Daily data points since Jan-05.

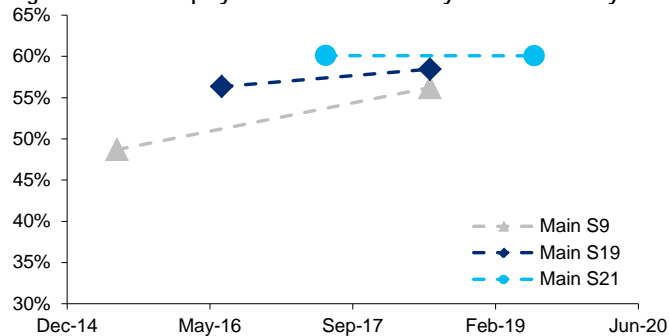
Where does this leave us?

Absent a very strong rally in the near term (which will bring sellers of mezz), everything boils down to how much more the recent sellers of super senior protection are willing to add. Banks should be keen to continue attracting these investors to recycle the long risk senior positions they've been put into over the past 12-18 months (by providing equity and junior mezz risk to investors, in standard and bespoke format). We are not yet convinced a lot more investors will be keen to sell super senior protection, but we also reckon that the levels of equity are pretty tight to attract a wave of new protection sellers; and we also reckon we underestimated the ability of banks to find super senior protection sellers 3 months ago. All in all, we don't expect delta-hedged returns, in 5y type of maturities, to be substantial, either way, in the near term (compared to the past 12-18 months).

■ We still see demand for equity tranche risk, but on a decreasing marginal notional given the tight levels – unlikely to make it outperform a lot.

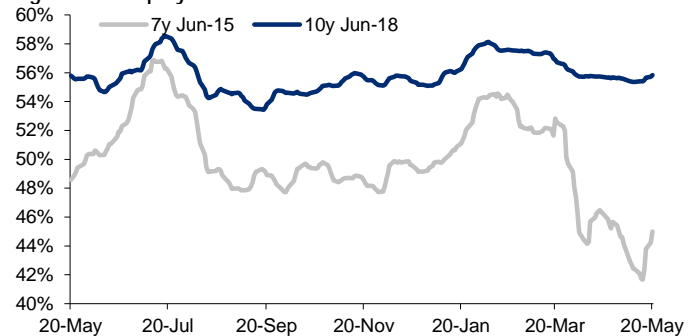
- **We believe investors looking for 5y equity risk should look at Series 21 tranches.** We have clearly seen recently, and expect this to continue, a preference by equity protection sellers to trade in new and clean portfolios. This has made S21 equity tranches perform very well recently: +0.35% delta-hedged return in S21 Jun-19 tranche over the past 1m vs. +0.11% in S9 Jun-18. Correlations in S21 tranches trade slightly above S9 and 19 tranches, as Figure 8 shows; reflecting the preference for clean portfolios among sellers of equity protection.
- We still think selling equity protection is a comfortable strategy in an environment – at least in Europe – where excess liquidity is not going to disappear – keeping investment grade default risk at the top of our preferred risks to take. As we highlight in our trade ideas section, we would **focus on short dated maturities (Jun-15 Main S9)** where the sensitivity of equity tranches to spread and correlation risk is lower and their sensitivity to default risk higher. Correlation-wise, short dated equity tranches have underperformed the most recently as Figure 9 show.

Figure 8. Current equity tranche correlations by series & maturity



Source: Citi Research, Markit.

Figure 9. S9 equity correlations



Source: Citi Research, Markit. 5d moving average.

- **We do not see a wave of mezz protection sellers unless we tighten aggressively – Thus, in the very near term, they'll probably continue suffering.** Mezzanine tranches should continue struggling until spreads tighten more and investors start more seriously considering adding levered IG risk (vs. adding high yield or CoCos, which is what they seem to be doing now).
 - We see Junior mezz tranches, paying close to 3% spreads in S9 and S21 Jun-18/19 maturities, as very attractive trades for anybody with a 2-3y holding horizon; however, they may still struggle a few more months.
- **We fear that the recent senior protection sellers are just trading opportunistically and will only deploy more capital into the trade if we re-test the wides (correlation-wise).** This means, to protection sellers, that even if the trade may not tighten massively, the widening potential is probably capped. So even if selling super senior protection may not be a home-run trade this year, we think the downside is limited.

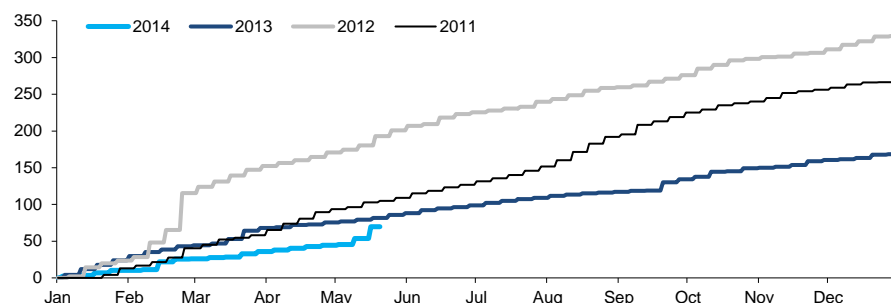
iTraxx Tranche Trading Volumes

Publicly available data on index tranche volumes is only available, as far as we know, via DTCC. We always hesitate to read too much on DTCC's volumes for tranches (and options) given that the reported volumes are not delta-adjusted (and 1bn of equity risk is not exactly the same as 1bn of super senior risk). However, with that in mind, and assuming the break-up of trading across the capital structure stays relatively constant (across time and series), it may be instructive to review the recent trading volumes as reported by DTCC. Notice that these volumes also exclude bespoke trades, which can represent a large part of the current trading activity.

Figure 10 shows the annual trading volumes in iTraxx tranches (adding S9, 19 and 21) since 2011. Volumes this year are slightly down vs. 2013. 2012 was a relatively active year due to the dislocations caused by the "London whale" story.

Figure 10. iTraxx S9-19-21 Trading Volumes: Cumulative by year

In \$bn. Non-delta-adjusted notional.



Source: Citi Research, DTCC.

Comparing volumes across different Series, most of the volumes still come from Series 9 tranches. That being said, Series 21 tranches are starting to trade more.

Figure 11. % of iTraxx Tranche Volumes by index series

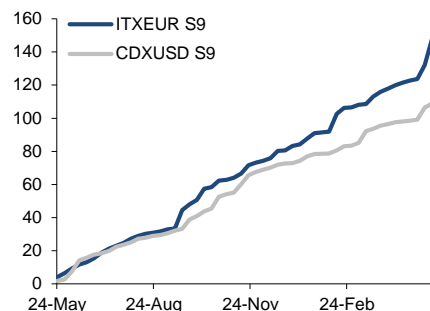
	S9	S19	S21	From	To
% of trading	95%	5%		01-Apr-13	01-Apr-14
% of trading	89%	1%	10%	01-Apr-14	Current

Source: Citi Research, DTCC.

Finally, Figure 12, Figure 13 and Figure 14 show that trading volumes in iTraxx and CDX IG are comparable across Series.

Figure 12. iTraxx vs. CDX IG – S9

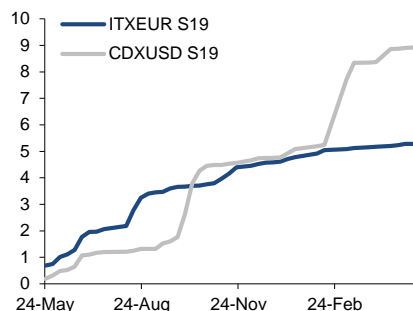
In \$bn. 1y cumulative non-delta-adjusted notional.



Source: Citi Research, DTCC.

Figure 13. iTraxx vs. CDX IG – S19

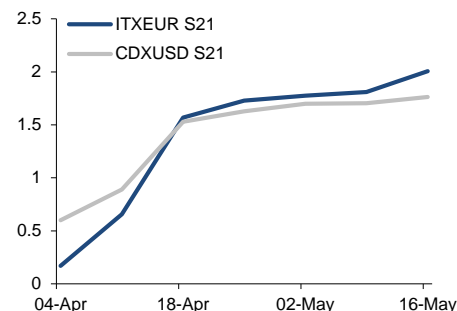
In \$bn. 1y cumulative non-delta-adjusted notional.



Source: Citi Research, DTCC.

Figure 14. iTraxx vs. CDX IG – S21

In \$bn. 1y cumulative non-delta-adjusted notional.



Source: Citi Research, DTCC.

Trade Ideas

Figure 15. Sell S9 Jun-15 Protection (No delta)

Index	ITXEUR S9
Tranche	0-3%
Maturity	Jun-15
Protection	Sell
Upfront	-0.75%
Coupon	500 bp
Spread	430 bp
Delta	22.3
MtM*	
Spreads** +10bp	-2.48%
Correl +5%	0.32%
Jump-to-def.**	-16.51%
3m time value	1.53%

Source: Citi Research, Markit. * MtM as % of tranche notional. ** Single name spreads. *** Instantaneous default (Peugeot).

Last squeeze to S9 Jun-15 Equity

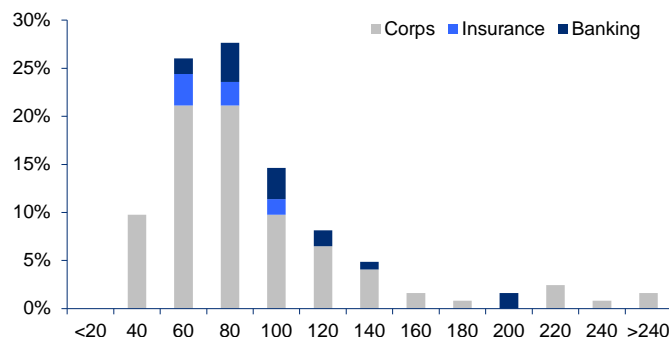
No. 1 – Long risk European IG default risk:

Sell Main S9 Jun-15 equity protection, Outright

- **Pure European IG default risk is one of the risks we like the most**, especially if the ECB ends up implementing more non-standard liquidity metrics as has been recently discussed: See our recent weeklies [16-May](#) and [25-April](#) as well as our economists' recent note [The ECB and QE](#) (22-Apr).
- With potentially more liquidity on its way, we believe the short term risk of European defaults – especially in big IG/Xover companies – is as close to zero as it can get.
- **Short dated equity tranches are one of the very few ways (and probably the most attractive one) to take default risk**: With little spread sensitivity given its short dated maturity, we believe the hold-to-maturity MtM will be driven entirely by priced default risk.
- Any event impacting the market which does not materially impact the risk of short term defaults will have a very small impact in short dated equity tranches, in our view, even if it causes 5y spreads to sell-off.
- **With only slightly more than 1y to maturity, we believe the ~4.75%¹ hold-to-maturity return – absent any default – on Jun-15 S9 equity tranches is attractive.**
- The trade mechanics are simple:
 - **Get paid ~4.75% if there are no defaults until maturity.**
 - **Each default (with 40% recovery) will represent an approx.16% loss.** The Main S9 portfolio is heavy in periphery credits but doesn't have any credit trading above 300bp in the 5y tenor. The 8 widest credits are: Peugeot, Portel, Finmeccanica, Thyssen, OTE, TITIM, BES and Monte dei Paschi.

Figure 16. iTraxx Main S9 5y spread distribution

Y-axis: % credits. X-axis: 5y spread bucket, in bp.



Source: Citi Research, Markit.

Figure 17. iTraxx Main S9 5y country distribution

Country	# Credits	Country	# Credits
Portugal	3	Germany	24
Greece	1	Austria	1
Spain	7		
Italy	7	Finland	1
		Norway	1
France	26	Sweden	5
Belgium	0	Switzerland	8
Luxembourg	1		
Netherlands	9	United Kingdom	29

Source: Citi Research.

- **We like the trade outright, no delta, and also as a way to fund “market” shorts by taking default risk** – see next pages.

¹ -0.75% upfront plus 5% carry for 1.1 years.

No. 2 – Long risk European IG default risk vs. short risk US market risk

■ Sell Main S9 Jun-15 equity protection vs. Buy CDX IG 5y S22 protection.

■ As we highlighted in a recent weekly analyzing the potential impact of European QE ([25-April](#), H. Lorenzen), **the outperformance of European credit over US credit is one of the most obvious RV opportunities**: “Just as tighter Fed policy is negative for both \$ and € credit, ECB QE is a positive for both markets, but we reckon it is more positive for € credit – especially against the prospect of direct intervention. So it strengthens our conviction in being long € credit.”

■ Selling Jun-15 equity tranche vs. buying CDX IG 5y protection allows investors to take European default risk vs. US market risk.

■ Sizing the trade is the trickiest part. The beta of CDX IG with respect to the S9 equity tranche over the past 6m has been around 6.2x. Trading 6.2x more notional on the CDX IG leg (vs. the equity tranche leg) generates a slightly positive 12m time value on the trade, as Figure 18 shows.

Figure 18. Trade idea details - Sell Main S9 Jun-15 equity prot. vs. Buy CDX IG 5y S22 prot.

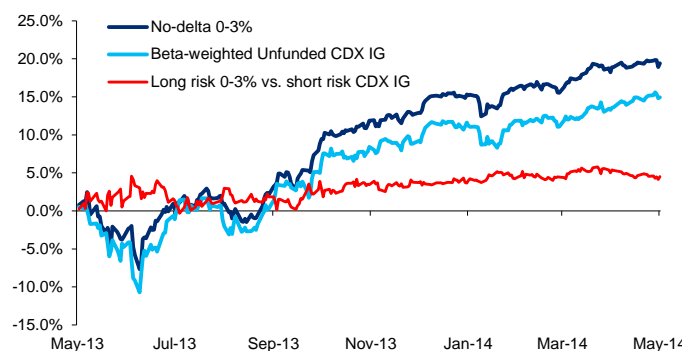
	Spread	Protection	Notional*	12m time value**	12m hist. return**
S9 Jun-15 0-3%	430	Sell	1.0	5.13%	19.4%
CDX IG S22 5y	66.35	Buy	6.2	-3.35%	-11.8%
Total				1.78%	7.65%

Source: Citi Research, Markit, Bloomberg. Indicative prices shown. * As % of equity tranche notional (using the suggested delta for the short risk leg). ** Using the past 6m beta of daily P&Ls.

The trade would have worked well over the past 12m, as Figure 19 and Figure 20 show, using the 6m daily P&L beta to size the CDX IG leg. We expect the trade to continue performing well.

Figure 19. No-delta S9 Jun-15 0-3% vs. CDX IG - Cum. Return

Using a 6m beta-weighted notional for the CDX IG.



Source: Citi Research, Markit. Daily beta-hedging using the corresponding (daily P&L) beta for the past 6m. Return of a long risk position, % of notional.

Figure 20. Long risk Jun-15 0-3% vs. short risk CDX IG (beta-weighted)

Cumulative return as % of No-delta 0-3% notional.



Source: Citi Research, Markit. Daily beta-hedging using the corresponding (daily P&L) beta for the past 6m.

No. 3 – Long risk European IG default risk vs. short risk European growth

■ Sell Main S9 Jun-15 equity protection vs. Short EuroStoxx 50 (SX5E)

■ **We believe default risk is more attractive than growth, i.e. equity, risk in Europe over the next year.** Further liquidity provision by the ECB should have a higher impact on default risk, especially if there are doubts regarding whether further measures will be effective in quickly addressing the risk of deflation in Europe (think Japan).

■ **Investors can pair a long risk S9 Jun-15 equity tranche with a short on EuroStoxx 50 (SX5E) to play this theme.** As before, sizing the trade is the trickiest part. The beta of SX5E with respect to the S9 equity tranche over the past 6m has been around 0.42x.

■ Using a 0.42x notional on the SX5E leg means that, if kept until the equity tranche expires in Jun-15, and assuming no defaults **the trade will be in the money if the return on the SX5E is below 11.3%** (if the equity tranche makes ~4.75% and the notional on the SX5E is 0.42x, then the trade will break even with the SX5E returning 4.75% / 0.42). Last year, the SX5E return was 16%.

Figure 21. Trade idea details - Sell Main S9 Jun-15 equity prot. vs. Short SX5E

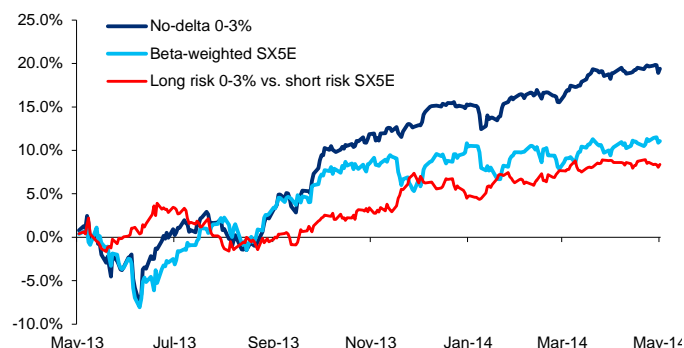
	Level	Protection	Notional*
S9 Jun-15 0-3%	430bp	Sell	1.0
SX5E S22	3164	Buy	0.42

Source: Citi Research, Markit, Bloomberg. Indicative prices shown. * As % of equity tranche notional (using the suggested delta for the short risk leg).

The trade would have worked well over the past 12m, as Figure 19 and Figure 20 show, using the 6m daily P&L beta to size the SX5E leg. We expect the trade to continue performing well.

Figure 22. No-delta S9 Jun-15 0-3% vs. SX5E - Cum. Return

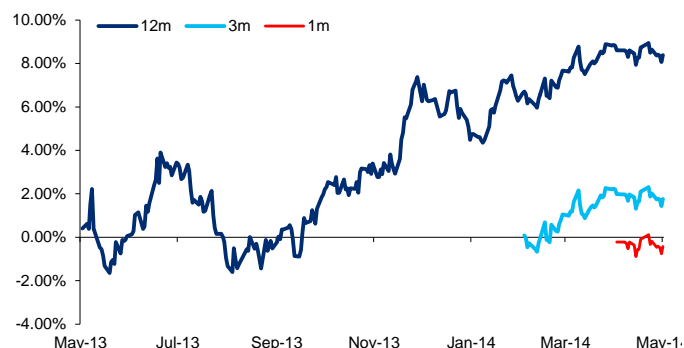
Using a 6m beta-weighted notional for the SX5E.



Source: Citi Research, Markit. Daily beta-hedging using the corresponding (daily P&L) beta for the past 6m. Return of a long risk position, % of notional.

Figure 23. Long risk Jun-15 0-3% vs. short risk SX5E (beta-weighted)

Cumulative return as % of No-delta 0-3% notional.



Source: Citi Research, Markit. Daily beta-hedging using the corresponding (daily P&L) beta for the past 6m.

Analytics, Past Trade Ideas & Publications

Analytics – Available at Citi Velocity

Options	iTraxx Volatility Report CDX Volatility Report European Cross-Asset Volatility Report Volatility P&L Report – Credit Indices	Tranches	iTraxx Series 9 Tranche Report iTraxx Series 19 Tranche Report iTraxx Series 21 Tranche Report
Curves	iTraxx Curve P&L Report	Indices	CDS Indices Positioning Report CDS Indices Trading Volumes Report
Returns	European Credit Derivatives Returns		

Recent Trade Ideas

Indices -	Sub/Senior Financials compression	20-May-15
Curves -	5s10s Main Flatteners	25-Apr-14
Options -	Main 70-75 May Receiver 1x2	2 Apr 2014
Options -	Buy SenFin vs. Sell CDX IG straddles	18 Mar 2014
Single names vs. Index	Releveraging Trade	24 Feb 2014
Tranches vs. Options -	Sell protection and monetize the positive convexity by selling straddles	20 Feb 2014
Tranches -	Buy 9-100% S9 Jun-18 protection, delta-hedged	20 Feb 2014
Tranches -	Sell 3-6% S9 Jun-18 protection, delta-hedged	20 Feb 2014
Options vs. Curves -	Flatteners vs. OTM payers	13 Feb 2014
Options -	Sell Main vol, buy SenFin vol	21 Jan 2014
Tranches -	More mezz, less seniors - 3-6% vs. super senior	15 Jan 2014
Options -	SenFin vs. Xover Recs	9 Jan 2014
Options -	Payer spread vs. index long	9 Jan 2014
Options -	Sell 1m Main straddles	9 Jan 2014
Options -	Sell Crossover Receiver	9 Jan 2014
Options -	Sell strangles and go on holidays: Position for spreads to stay in the recent range in mid-January	9 Dec 2013
Tranches -	Sell S9 Jun-18 6-9% protection vs. Xover 5y S20	15 Nov 2013
Tranches -	Sell S9 Jun-18 22-100% protection vs. light delta	15 Nov 2013
Indices -	Long risk Senior Fins. vs. short risk Main	5 Nov 2013
Options -	Crossover receiver ladders	23 Oct 2013
Options -	Long risk CDX IG vs. Main via Receivers	15 Oct 2013
Options -	Buy Senior Financials straddles vs. sell Crossover straddles	9 Oct 2013
Tranches -	Long risk equity vs. short risk 3-6% in S19 Jun-16 (3y)	26 Sep 2013
Tranches -	Long risk S19 Jun-18 (5y) 3-6% vs. 5y S20 Crossover	26 Sep 2013
Tranches -	Long risk iTraxx S9 Jun-18 (10y) super senior vs. short risk CDX IG S9 Dec-17 (10y) super senior	26 Sep 2013
Indices -	Equal Notional 3s5s Flatteners: Adding cautious longs by selling forward protection	5 Sep 2013
Single Names -	Sub/Senior compression trades in European banks	13 Aug 2013
Options -	iTraxx Senior Financials vs. CDX IG via Receivers	7 Aug 2013

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Our preferred carry trades in indices, options and tranches	11 Mar 2014
New 2014 CDS Definitions - What's new? What's changing? Why? When? How?	26 Feb 2014
iTraxx Roll - Potential Changes: Crossover number of constituents will increase to 60 names	10 Feb 2014
2014 European Credit Outlook: Strategy // Positioning and Trades	13 Jan 2014
Global Structured Credit Outlook: A Rockier Ride (R Roy, A Basu, K Malhotra, R Brauchler)	20 Dec 2013
2013 Trading Volumes in European Credit: CDS Indices, Single Name CDS and IG Bonds	5 Dec 2013
Credit Options - What did investors do in 2013? What will they do in 2014? (2013 European Credit Conference Presentation)	4 Dec 2013
Credit Index Options 1-0-1: Launching our option pricing tool @ CitiVelocity (2013 European Credit Conference Presentation)	2 Dec 2013
Europe Returns: Assessing value across flow and structured credit assets	22 Nov 2013
iTraxx Tranches Views & Trades: Mezz may be back next year	15 Nov 2013
Financial CDS to get a re-vamp	7 Aug 2013
Hedging menu: payer spreads, 3s5s flatteners and Jun 15/18 equity tranche flatteners	28 Mar 2013
What bail-in means for CDS	11 Feb 2013

Source: Citi Research.

Trade Recommendations Summary

We are opening the first trade recommended in this report, and closing three trades: mezz tranche long, senior tranche short and receiver 1x2 (expiring today).

Figure 24. Open trades – Summary and P&L

Trade Description	Leg	Format	Direct.	Notnl.	Entry Upfront	Entry Spread	Coupon	Current Upf.	Current Spread	P&L*
Sell 1m Main straddles *** 09-Jan-14	Sell 1m Main straddles	Price	Buy	1.00	0.00%			0.83%		0.83%
									Total	0.83%
Payer spread vs. index long *** 09-Jan-14	Buy 3m 25-60% pay spread Sell index prot.	Price Price	Buy Buy	1.00 1.00	0.00% 0.00%			-0.36% 0.86%		-0.36% 0.86%
									Total	0.51%
SenFin vs. Xover Recs *** 09-Jan-14	Buy 3m SenFin Recs Sell 3m Xover Recs	Price Price	Buy Buy	1.00 0.29	0.00% 0.00%			0.32% -1.49%		0.32% -0.44%
									Total	-0.12%
Flattener vs. OTM payer *** 13-Feb-14	3s5s flattener Main Sell 3m 120bp Main payer	Price Price	Buy Buy	1.00 0.75	0.00% 0.00%			0.32% 0.10%		0.32% 0.07%
									Total	0.40%
Equity tranche vs. straddle *** 20-Feb-14	Sell Jun-18 S9 equity prot., DH Sell 1m Main straddles, DH	Price Price	Buy Buy	1.00 0.50	0.00% 0.00%			-0.41% 0.22%		-0.41% 0.11%
									Total	-0.30%
Releveraging trade 24-Feb-14	Basket of low spread/leverage CDS Main NonFins	Prot. Prot.	Buy Sell	1.00 0.50	-3.14% -1.54%	35 67	100 100	-3.12% -1.63%	35 67	-0.22% 0.16%
									Total	-0.05%
Senior Fin vs. CDX IG straddle 18-Mar-14	SenFin Jun-14 90bp straddle CDX IG Jun-14 65bp straddle	Price Price	Buy Sell	1.00 1.90	0.97% 0.51%			0.90% 0.39%		-0.07% 0.23%
									Total	0.16%
iTraxx Main 5s10s flattener 25-Apr-14	Main S21 5y Main S21 10y	Prot. Prot.	Buy Sell	1.36 1.00	-1.42% 1.48%	71 117	100 100	-1.41% 1.34%	72 115	-0.08% 0.21%
									Total	0.14%
Series 9 Jun-15 0-3% 21-May-14	Series 9 Jun-15 0-3%	Prot.	Sell	1.00	-0.75%	430	500			
									Total	

Source: Citi Research. Spreads and coupons in bp. * P&L expressed as % of the leg with notional equal to 1. ** Over the last month. Prices as of COB yesterday. *** We track the trade P&L by using an initial 0% upfront and a current upfront equal to the trade P&L in %. DH = delta hedged.

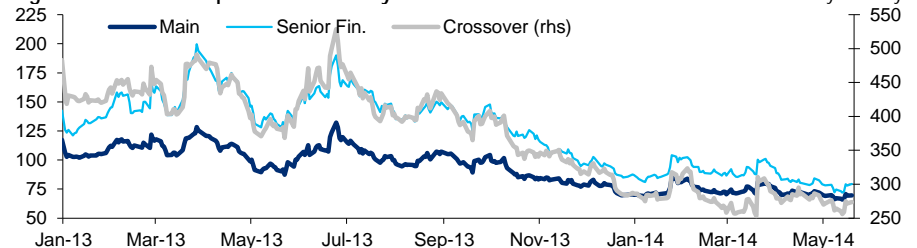
Figure 25. Open and closed trades summary statistics

Number	Open	Closed*	Percentage	Open	Closed*
In profit	5	17	In profit	63%	71%
In loss	3	7	In loss	38%	29%
	8	24			

Source: Citi Research. * Since 1-Jun-13. Excluding the trade ideas opened in the current publication.

Representative Market Conditions

Figure 26. Historical spreads – iTraxx 5y on-the-run indices



Source: Citi Research, Markit. In bp.

Figure 27. Closed trades since Oct-13 – Summary and P&L

Trade Description	Leg	Format	Direct.	Notnl.	Entry Upfront	Entry Spread	Coupon	Final Upfront	Final Spread	P&L* Total
S19 3-6% vs. S20 Crossover	Main S19 3-6% Jun-18	Prot.	Sell	1.00	-3.25%	422	500	-5.70%	366	2.99%
Opened: 26-Sep-13	Crossover S20 Dec-18	Prot.	Buy	1.00	-5.18%	386	500	-6.96%	343	-2.32%
Closed: 14-Oct-13									Total	0.67%
iTraxx vs. CDX IG super senior	Main S9 22-100% Jun-18	Prot.	Sell	1.00	0.60%	37	25	0.34%	32	0.29%
Opened: 26-Sep-13	CDX IG S9 30-100% Dec-17	Prot.	Buy	1.00	-3.54%	13	100	-3.43%	16	0.00%
Closed: 4-Nov-13									Total	0.29%
Senior Fin vs. Xover straddle	Xover Dec-13 400bp straddle	Price	Sell	1.00	2.64%			2.63%		0.00%
Opened: 9-Oct-13	SenFin Dec-13 140bp straddle	Price	Buy	2.05	1.29%			1.48%		0.40%
Closed: 15-Nov-13									Total	0.40%
325-350-375 Nov. Crossover Receiver Ladder	325 Xover Nov Rec	Price	Sell	2.00	0.18%			0.02%		0.32%
Opened: 23-Oct-13	350 Xover Nov Rec	Price	Sell	1.00	0.61%			0.47%		0.14%
Closed: 15-Nov-13	375 Xover Nov Rec	Price	Buy	1.00	1.45%			1.46%		0.01%
									Total	0.47%
CDX IG vs. Main Receivers	CDX IG S21 Nov 85 Receiver	Price	Buy	1.00	0.47%			0.62%		0.15%
Opened: 15-Oct-13	Main S20 Nov 100 Receiver	Price	Sell	1.00	0.52%			0.91%		-0.39%
Closed: Expired 20-Nov-13									Total	-0.24%
S19 Jun-16 0-3% vs. 3-6%	Main S19 0-3% Jun-16	Prot.	Sell	1.00	8.00%	839	500	3.88%	725	5.11%
Open: 26-Sep-13	Main S19 3-6% Jun-16	Prot.	Buy	2.00	-7.00%	234	500	-9.75%	132	-7.47%
Closed: 9-Dec-13									Total	-2.36%
SenFin vs. Main	Senior Fin. 5y S20	Prot.	Sell	1.00	0.60%	112	100	0.07%	102	0.61%
Open: 26-Sep-13	Main 5y S20	Prot.	Buy	1.35	-0.79%	84	100	-0.94%	81	-0.32%
Closed: 9-Dec-13									Total	0.29%
S9 super senior vs. light delta	Main S9 22-100% Jun-18	Prot.	Sell	1.00	0.18%	30	25	0.03%	26	0.19%
Open: 15-Nov-13	Main S9 index Jun-18	Prot.	Buy	0.33	-3.65%	93	175	-4.24%	77	-0.29%
Close: 14-Jan-14									Total	-0.10%
75-85 Main January strangle	75bp Jan Main receiver	Price	Sell	1.00	0.08%			0.19%		-0.11%
Open: 9-Dec-13	85bp Jan Main Payer	Price	Sell	1.00	0.13%			0.00%		0.13%
Close: 14-Jan-14									Total	0.02%
Sell Crossover Receiver	275bp Feb. Receiver	Price	Sell	1.00	0.32%			0.17%		0.15%
Open: 9-Jan-14										
Close: 13-Feb-14									Total	0.15%
iTraxx Main Eq. Notional Flatteners	Main S19 3y	Prot.	Buy	1.00	-0.97%	65	100	-1.57%	33	-1.04%
Open: 5-Sep-13	Main S19 5y	Prot.	Sell	1.00	0.24%	105	100	-1.47%	65	2.15%
Close: 13-Feb-14									Total	1.11%
S9 6-9% vs. S20 Crossover	Main S9 6-9% Jun-18	Prot.	Sell	1.17	-0.25%	294	300	-3.19%	223	4.37%
Open: 15-Nov-13	Crossover S20 Dec-18	Prot.	Buy	1.00	-7.07%	344	500	-9.80%	274	-4.06%
Close: 19-Feb-14									Total	0.31%
3-6% vs. super senior	Main S9 3-6% Jun-18	Prot.	Sell	1.00	-5.50%	366	500	-5.34%	367	0.34%
Open: 14-Jan-14	Main S9 22-100% Jun-18	Prot.	Buy	9.00	0.03%	26.625	25	0.12%	28	0.60%
Close: 19-Feb-14									Total	0.94%
Main vs. SenFin vol ***	Sell Feb 70 Main straddles, DH	Price	Buy	1.00	0.00%			-0.02%		-0.02%
Open: 21-Jan-14	Buy Feb 80 SenFin straddles, DH	Price	Buy	0.50	0.00%			0.02%		0.01%
Close: Expired									Total	-0.01%
Senior tranche short ***	Buy Jun-18 S9 9-12% prot., DH	Price	Buy	0.03	0.00%			0.26%		0.01%
Open: 20-Feb-14	Buy Jun-18 S9 12-22% prot., DH	Price	Buy	0.10	0.00%			0.24%		0.02%
Close: 20-May-14	Buy Jun-18 S9 22-100% prot., DH	Price	Buy	0.78	0.00%			-0.05%		-0.04%
									Total	-0.01%
Mezz tranche long ***	Sell Jun-18 S9 3-6% prot., DH	Price	Buy	1.00	0.00%			-0.55%		-0.55%
Open: 20-Feb-14										
Close: 20-May-14									Total	-0.55%
Main May Rec 1x2s	Main May 75bp Rec	Price	Buy	1.00	0.24%			0.16%		-0.08%
Open: 2-Apr-14	Main May 70bp Rec	Price	Sell	2.00	0.10%			0.02%		0.16%
Close: 20-May-14									Total	0.09%

Source: Citi Research. Spreads and coupons in bp. * P&L expressed as % of the leg with notional equal to 1. *** We track the trade P&L by using an initial 0% upfront and a final upfront equal to the trade P&L in %.

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Appendix A-1

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