

## FX Investment Products

### DBS Equilibrium Exchange Rate Strategy Total Return Swap



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#### Overview

DBS Equilibrium Exchange Rate (DEER) is a proprietary valuation methodology developed by DBS Group Research to calculate the fair value of currencies. Leveraging off these valuations, we have created the DEER Strategy that seeks to produce consistent positive returns as currencies converge to their fair values. It comprises of a curated list of currencies and utilises the long-short strategy to generate returns. The strategy will be rebalanced quarterly based on DEER recommendations from DBS Group Research, which will be made publicly available.

Investors will gain exposure to the DEER Strategy via a Total Return Swap (TRS). This product provides medium to long-term investors with an opportunity to profit from currency misalignments that should correct with time, as shocks inevitably fade, and fundamentals reassert.

#### Investment Rationale

**Diversification:** DEER Strategy will provide exposure to the FX Asset class, comprising of 8 major highly liquid currencies. DEER recommendations are equally weighted.

**DBS Research Expertise:** Recommendations are based on DEER Valuation Model developed by DBS Group Research.

**Data Driven:** DEER recommendations are Rule-based investment decisions, removing emotional aspects of investment.

**Long-term approach to investing:** Reap the benefits of allowing currencies time to converge to their fair values to generate returns rather than “timing the market” on individual currency pairs. The minimum recommended holding period for this Strategy is 3 to 4 years.

**Market Neutral:** DEER Strategy is agnostic to markets moves and is expected to return positive performances in all market conditions over the long term.

**Liquidity:** The Strategy employs highly-liquid 3-month Forwards on Major currencies and liquidity should not be a concern even when market volatility is high. Daily liquidity will be provided.

**Low Volatility:** FX as an asset class has relatively low volatility

**Transparent:** Group Research will publish a DEER valuation report every quarter detailing the recommendations for the quarter ahead, along with commentary for the performance of the quarter that passed. Indicative mid prices of the DEER Strategy will be published on Bloomberg weekly.

## Key Guidelines

Using DEER recommendations from Group Research, The Strategy will sell three of the most relatively overvalued currencies and buy three of the most relatively undervalued currencies from the pool of G8 Currencies: AUD, NZD, GBP, EUR, CAD, CHF, JPY, and USD. The Strategy rebalances every 3 months based on the latest report from Group Research.

Investors will gain exposure to the DEER Strategy via a Total Return Swap (TRS).

### 1) Initial Composition of the Strategy

At inception of the Strategy, the strategy will buy the three most relatively undervalued currencies against USD and sell the three most relatively overvalued currencies against USD. Positions will be taken in 3-month forwards. If USD is one of the top 3 over/under-valued currencies, only 5 forward positions will be taken and there will be a net short/long USD position created by these 5 forwards.

### 2) Holding period of the Forwards

Each recommended currency that are included in the Strategy will be subject to a “smart” 12 month holding period. The Strategy will execute 3-month forwards 4 times. By default, each position will be held for 12 months unless a switch happens. At each quarterly rebalance, the strategy will “switch” the position if valuation swings to the opposite side i.e. from overvalued to undervalued or vice versa.

### 3) Rebalancing of the Strategy

The previous FX Forwards will expire, and the realized gains or losses are converted to USD cash. If cash balance is positive, it will earn overnight Fed Funds rates. If cash balance is negative, Funding rate of Fed Funds + 30bps will be charged to the Strategy daily.

On or before each Rebalancing Date, DBS Group Research will publish their new recommendations. The Strategy will be rebalanced such that new FX Forwards will be entered based on the “smart” holding period rules detailed in the Termsheet.

## DEER Valuations

Please refer to our quarterly updates on the <https://www.dbs.com.sg/corporate/research-and-insight/insights>

## Strategy Summary

<b>Strategy Calculation Agent</b>	DBS Bank Limited (Moody’s Aa1, S&P AA-, Fitch AA-)
<b>Currencies</b>	AUD, NZD, GBP, EUR, CAD, CHF, JPY, and USD
<b>Underlying</b>	3-month FX Forwards, rebalanced quarterly
<b>Management Fees</b>	0.75% p.a. of the notional amount
	These fees are recurring, calculated daily, and are additional to those in the DBS Fee/ Monetary and Non-Monetary Benefits Schedule. All fees/ benefits may be received directly by DBS PB/TPC and/or internally allocated or retroceded amongst various divisions in DBS. These would be factored into the Strategy Value (as defined in the Termsheet).

## Investment Product Summary

<b>Format</b>	OTC Total Return Swap (TRS)
<b>Total Return Receiver</b>	Investor
<b>Total Return Payer</b>	DBS Bank Limited (Moody's Aa1, S&P AA-, Fitch AA-)
<b>Tenor</b>	10 years
<b>Lock-in Period</b>	Nil
<b>Underlying</b>	DEER Strategy
<b>Settlement Currency</b>	USD
<b>Notional Amount</b>	Min 250k USD (multiples of 50k USD)
<b>Initial Margin Requirement</b>	10% of Notional Amount
<b>Client Risk Profile</b>	Without consideration of any individual's portfolio or personal circumstances, this product is risk rated 5 and generally suitable for investors with Aggressive investment profile.

## General Product Information

<b>Product Name</b>	DEER Strategy (the "Strategy") Total Return Swap
<b>Description</b>	<p>The Total Return Swap allows investors to gain exposure to the DEER Strategy. Investors are Total Return receivers of DEER Strategy returns net of Management Fees.</p> <p>If Total Return is positive (Final Fixing Value &gt; Initial Fixing Value), Investors will receive the difference in cash from the bank.</p> <p>If Total Return is negative (Final Fixing Value &lt; Initial Fixing Value), Investors will need to pay the difference in cash to the bank.</p>
<b>Leverage</b>	<p>TRS is traded as an unfunded product</p> <p>Investor will provide 10% initial margin on the Notional Amount</p>
<b>Scenario Analysis</b>	<p>All figures and scenarios are for illustration only, and do not represent all possible outcomes or describe all factors that may affect the value of this Transaction. Actual outcomes and payments under this Transaction may vary from those illustrated below and such variations may be significant.</p> <ul style="list-style-type: none"> <li>• This is a 10-year trade.</li> <li>• Trade Date is 10 June 2021 and the Scheduled Termination Date is 10 June 2031.</li> <li>• The trade tracks DEER Strategy S1.</li> <li>• Investor enters into the trade with Initial Fixing Value at 101.</li> <li>• TRS Notional Amount is USD 10,000,000.</li> </ul>

Scenario A1: TRS matures and the Final Fixing Value is 110

Net gain to Investor =  $USD\ 10,000,000 \times (110 - 101) / 100 = USD\ 900,000$

Scenario A2: TRS matures and the Final Fixing Value is 90

Net loss to Investor =  $USD\ 10,000,000 \times (101 - 90) / 100 = USD\ 1,100,000$

Scenario A3: TRS matures and the Final Fixing Value is 55

Net loss to Investor =  $USD\ 10,000,000 \times (101 - 55) / 100 = USD\ 4,600,000$

Scenario B1: Prior to TRS maturity, Investor unwinds at 110

Net gain to Investor = USD 10,000,000 x (110 - 101) / 100 = USD 900,000

Scenario B2: Prior to TRS maturity, Investor unwinds at 90

Net loss to Investor = USD 10,000,000 x (101 - 90) / 100 = USD 1,100,000

Scenario B3: Prior to TRS maturity, Investor unwinds at 55

Net loss to Investor = USD 10,000,000 x (101 - 55) / 100 = USD 4,600,000

#### Worst Case

If Strategy Value drops to 50, Strategy Cancellation event will be triggered, and positions will be unwound at prevailing market rate.

Thus, Loss will be  $[(\text{Initial Fixing} - \text{Final Fixing}) / 100 \times \text{Notional}]$

In a worst-case scenario, where Initial Fixing – Final Fixing is >100, Investors may lose more than their full Notional Amount.

#### Issuer Risk

Investor bears the credit risk of DBS Bank

#### Key Risk

**Credit risk.** Investors is taking on the credit risk of DBS Bank Ltd (Moody's Aa1, S&P AA-, Fitch AA-) with respect to all payments due under this TRS.

**Market risk.** If the currencies do not converge toward fair value due to other factors external to the model, the value of the Strategy may go down. Entering into this TRS involves market risk.

**Mark-to-market risk.** Investors bears the downside risk of the mark-to-market value fluctuation of this TRS, which is determined by many market factors and is calculated in accordance with the internal valuation model of the Bank

**Liquidity risk.** While FX forwards are highly liquid, the secondary market for this TRS may be limited or non-existent. This TRS will not be listed or traded on any exchange or other regulated market.

**Interest Rate Risk:** The Strategy underlying this TRS will be influenced by the relevant interest rate(s) which are in turn influenced by the complex and interrelated global and regional political, economic, financial and other factors that (directly or indirectly) can affect interest rates.

**Foreign Exchange Risk:** The Strategy underlying this TRS will be influenced by the relevant foreign exchange rate(s) which are in turn influenced by the complex and interrelated global and regional political, economic, financial and other factors that (directly or indirectly) can affect interest rates.

**Interaction Risk:** Different types of risks may interact unpredictably, particularly in times of market stress.

**Leverage Risk:** The degree of leverage can work for as well as against Investors. Due to the leverage, a small movement in the market can lead to a major gain but any losses will also be magnified sharply. The Bank's terms relating to top-up and close-out will apply and Investor may be required at short notice to provide additional margin failing which outstanding transactions may be closed out at a significant loss.

**Margin Requirement Risk:** The Bank reserves the right to review and revise the margin requirement from time to time during the tenor of this TRS. Upon such review, Investor may be subject to a significantly higher margin requirement than that required at the point of transacting.

## Please refer to the Termsheet for the Comprehensive description of all Risks

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