Market Insights

June 6, 2012

In your debt

If you didn't know it before, you do now: we are living in extraordinary times. Yields on Treasuries, German bunds and UK gilts have fallen to levels that would, even a few months ago, have seemed absurd.

For extraordinary, read: dreadful. Such arrestingly nugatory yields tell you a lot not only about elevated systemic concerns, but about potential global growth rates. Global growth has dropped with a thud in recent weeks. So have equity prices. All of this year's gains have been given up; in dollar terms emerging equities are back to their lows of late last year.

We remain resolutely underweight developed and emerging equities. Stock markets that have already fallen sharply still look vulnerable. Globally, corporate profits are falling compared with their level a year ago.

We continue to be overweight fixed income, especially US dollar fixed income. However we have reduced our high yield exposure another notch. High yield bonds do not perform well when equity volatility spikes.

The dollar, the yen and, to a lesser extent sterling are likely to continue to do well. Emerging and commodity currencies are likely to remain under downward pressure. So, too, are industrial commodities, and for the same reasons: China is likely to continue to disappoint.

This Quadrant marks the launch of our new strategic asset allocation methodology, Adaptive Valuation Strategies (AVS). AVS uses current valuation levels to estimate future returns for each asset class. This is combined with an approach to risk that focuses on potential downside during periods of market crisis.

The introduction of this new approach causes a number of changes to our strategic asset allocation weights. For information on these and the overall methodology please see the AVS White Paper and the AVS At-a-Glance.

Richard Cookson, Global Chief Investment Officer, Citi Private Bank

Alexander Godwin, Global Head of Asset Allocation , Citi Private Bank

Asset classes

	–2	–1	0	1	2
Core equities					
Developed large cap		■			
Developed small cap		■			
Emerging markets		■			
Core fixed income					
Developed sovereign		■			
Developed corporate investment grade					■
Developed corporate high yield			◄		
Emerging market sovereign				■	
Securitized				►	
Focus investment views					
Peripheral Europe equities			■		
US equities		■			
Japan equities				■	
Emerging Asia equities		■			
UK sovereign		■			
Peripheral Europe sovereign fixed income	■				
Japan sovereign fixed income	■				
Medium-dated US non-financial corporate IG					■
Global financial corporate investment grade		■			
US municipal bonds				■	
US corporate high yield			◄		
US Treasuries				■	
Global inflation-linked bonds		■			
Gold				■	

Arrows indicate changes from the allocations made on May 29, 2012.
–2 = very underweight; –1 = underweight; 0 = neutral
1 = overweight; 2 = very overweight; IG = investment grade

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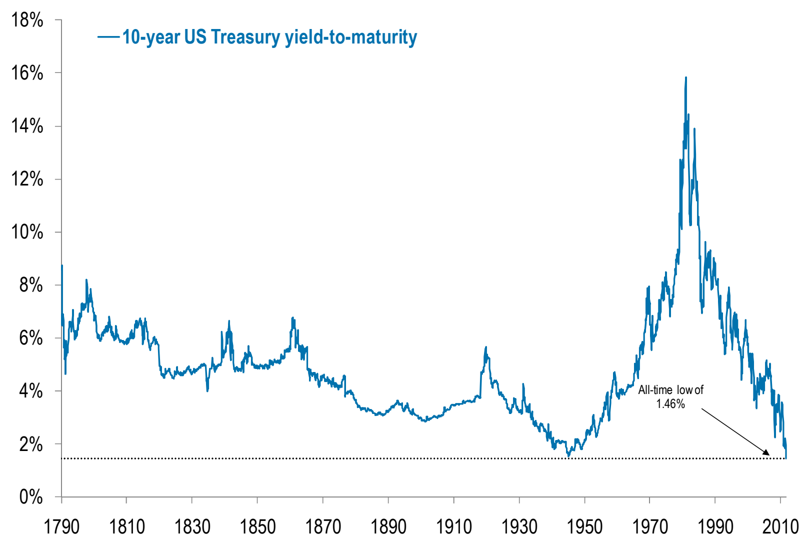
If you didn't know it before, you do now: we are living in extraordinary times. Yields on Treasuries, German bunds and UK gilts have fallen to levels that would, even a few months ago, have seemed absurd.

Yields on Treasuries, German bunds, UK gilts and any other bond market that is still considered safe have fallen to historic lows

As I sit here writing, the yield on ten-year Gilts and US Treasuries is a decidedly meagre 1.6%. To be honest, that looks positively generous compared with the 1.2% on offer on ten-year German bund yields or the less than 0.5% on 10-year Swiss government bonds. These are far and away the lowest long-term rates that any of these countries have ever seen. Swiss 10-year yields now tie Japan's in 2003 for the lowest long-term interest rates in recorded history. Investors, it is clear, can't get enough of these things.

The views of Citi and its Global Investment Committee are distinct from and may differ from the views of our sub-advisors, which provide Citi with various services including portfolio advice and acting as sub-advisor for advisory products, some of which follow portfolio allocations determined by the sub-advisors. We will continue to offer products using the services of sub-advisors. The views in this publication are those of the Global Investment Committee. Vis-à-vis the strategic allocation: Overweight means up to 10% greater; Neutral: no change to the strategic allocation; Underweight: up to 10% below.

Figure 1. 10-year US Treasury yields are at an all time low



Source: Citi Private Bank using Global Financial Data, as at June 6, 2012

Global growth has dropped with a thud in recent weeks. So have equity prices

For extraordinary, read: dreadful. Such arrestingly nugatory yields tell you a lot not only about elevated systemic concerns, but about potential global growth rates. From Shenzhen to Sao Paulo and Barcelona to Mumbai, global growth has dropped with a thud in recent weeks. So have equity prices. All of this year's gains have been given up; in dollar terms emerging equities are back to their lows of late last year. Why the rout? Will it continue? What to do about it?

We remain underweight developed and emerging equities and overweight fixed income, especially US dollar fixed income

Take the last of these questions first. We remain resolutely underweight developed and emerging equities and overweight fixed income, especially US dollar fixed income. Stock markets that have already fallen sharply still look vulnerable. Globally, corporate profits are falling compared with their level a year ago. True, the consensus of stock analysts still thinks they will rise, but that doesn't fill us with any confidence: the consensus, after all, has never predicted a fall. Call us old fashioned, but the prospect of still weaker growth isn't likely to lead to brisk profits growth, especially when they have already risen so much.

We are bringing down our exposure to high-yield to neutral

Moreover, bond yields that are so low don't make equities more attractive if they are telling you that growth is likely to be so extraordinarily weak. Especially when, as in the US, valuations are so stretched. To bring the US stock market to its average cyclically adjusted valuation over the last 100 years would require a fall of 30%. Other stock markets are much cheaper, European markets not least; but, rightly or wrongly, growth and systemic worries are likely to continue to put downward pressure on even cheap markets for now. We are bringing down our exposure to high-yield another notch. High yield bonds do not perform when equity volatility spikes.

The dollar, the yen and sterling are likely to continue to do well. Emerging and commodity currencies are likely to remain under downward pressure. So, too, are industrial commodities

The dollar, the yen and, to a lesser extent sterling are likely to continue to do well. Emerging and commodity currencies are likely to remain under downward pressure. So, too, are industrial commodities, and for the same reasons: China is likely to continue to disappoint. A sharp loosening in policy in the US, in Europe or in China could turn these things around swiftly but only if sharp enough and only temporarily. The amphetamines are loosing their potency not just in the developed world but, quite probably, in the emerging world too.

Europe tearing apart at the seams

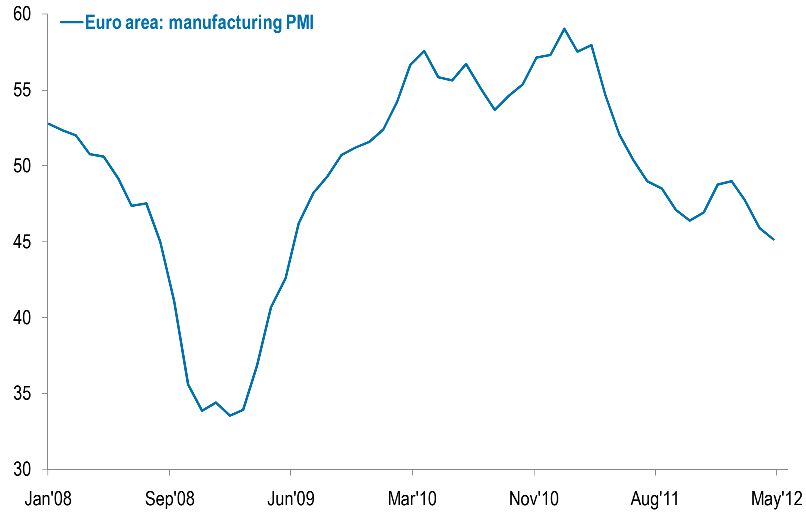
There are, very broadly two-inter-related problems: the Japan-style debt deleveraging problems in much of the developed world; and the dependence of much of the emerging world on China for its growth

There are, very broadly two-inter-related problems: the Japan-style debt deleveraging problems in much of the developed world, suffered in its most acute form in the Eurozone; and the dependence, one way or another, of much of the emerging world on China for its growth. China's economy, which was anyway slowing, has taken another lurch down in recent weeks. At some point central banks are likely to step in to provide their usual dose of drugs, a.k.a quantitative easing and rate cuts. But we suspect that things have to get still worse before they get better – and previous episodes, we now know, have provided only temporary respite. As any addict knows, next time round the dose will therefore have to be bigger to get the same effect.

The best way to think of what is happening in Europe is as a clutch of inter-related problems: private sector deleveraging, sovereign debt crisis, banking crisis and one central bank for 17 countries

Consider the developed world first. The best way to think of what is happening in Europe, very much the world's worst problem for now, is as a clutch of inter-related problems. First, having built up too much debt, the private sector is desperately trying to pay it off. As a force this is contractionary and deflationary. That's where you need the government to borrow and spend instead. Unfortunately, Europe also has a sovereign debt problem, i.e. its governments already have had too much of it. Austerity is another way of saying that they are trying to reduce the growth in that debt. But this means that both the private and the public sector are trying to save at the same time. In a single currency, with no escape valves, this means that economies shrink fast. It also means that even where sovereigns didn't have too much debt to begin with, such as in Ireland or Spain, private sector debt becomes public sector debt, courtesy of the banking sector. Europe also thus has (its third problem) a banking crisis. Fourth, it has a central bank for 17 countries, not one. In any other country, the central bank could in essence print more money to stop the economy going into freefall. With 17 countries, this is much more difficult.

Figure 2. Growth in the Eurozone has fallen sharply



Source: Citi Private Bank using Haver Analytics, as at June 6, 2012. PMI = Purchase Manufacturing Index. The euro area composite is calculated from eight member countries: Germany, France, Spain, Italy, Ireland, Greece, Austria and the Netherlands. This is estimated to be 90% of euro manufacturing activity.

Solving all of these problems, it is becoming increasingly clear, is fiendishly hard. Greece will probably leave the euro and default. The next elections, on June 17th, in one sense change little whoever wins. You would still be left with an economy that is shrinking fast and unable, even if its politicians were more willing, to put its finances in order. The country is, after all, already in a savage depression.

Just as the single market and the single currency allow rapid financial integration, they also allow just the opposite: they enable investors and depositors to shift their money to banks or investments elsewhere in Europe

And the problem for other countries is that even talking about Greece exiting the euro and defaulting means that the emperor has ever fewer clothes in those other countries, too. Why so? If you were a depositor or investor in another peripheral country - let's call it Spain, to pick a country at random - why would you take the risk that your country wouldn't go the same way? As a depositor, you might earn a few more basis points, but you run the risk not just of the bank going bust, but of the country also leaving the euro. It doesn't really matter if the likelihood of that happening is currently small. Just as the single market and the single currency allow rapid financial integration, they also allow just the opposite: they enable investors and depositors to shift their money to banks or investments elsewhere in Europe.

According to the Bank of Spain, some EUR100 billion of money fled the country in the first three months of this year. That is why two-year German bond yields are now precisely zero

As the withdrawal of money accelerates, the worries about the country thus threaten to become a self-fulfilling prophecy. According to the Bank of Spain, some EUR100 billion of money fled the country in the first three months of this year. Investors have been selling Spanish bonds and switching their euros to other, stronger, banks and investments. That is why two-year German bond yields are now precisely zero. What has not yet happened is that retail investors have done much of the same.

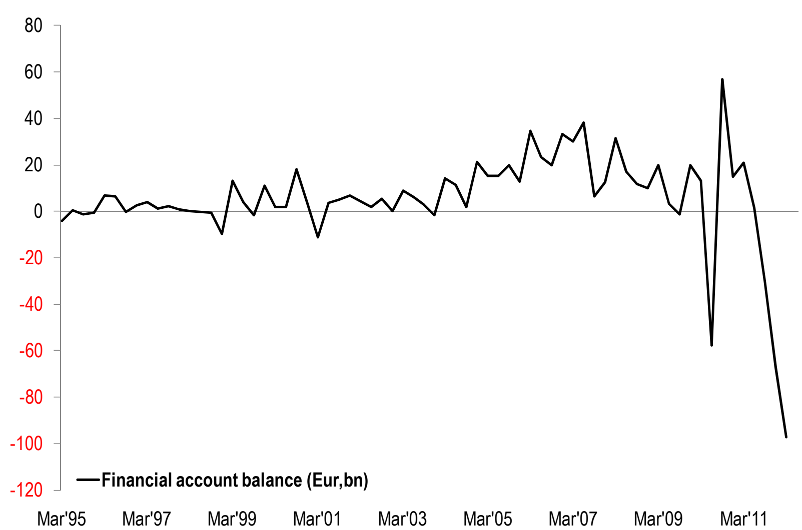
Figure 3. 2-year German bond yields are at a historic low of zero

Source: Citi Private Bank using Global Financial Data, as at June 6, 2012

Another round of LTROs will happen but only when things get worse than they are now

What might stop them doing so? The ECB could do another round of LTROs to support the banking system. As we've seen, though, that just gives foreigners the chance to get out; to that extent, it perhaps even accelerates the process. Alas, even if it didn't, ripping up the fiscal compact, which is pretty much what has been happening, makes doing another round harder. This is because the compact was put in place to enable the ECB to act. So the fact that it is turning out to be about as toothless as its predecessor, the growth and stability pact, makes another round (and direct purchases of government debt in the secondary market) much harder. Not impossible, but harder. It will happen, in other words, but only when things get worse than they are now.

Figure 4. Deposit withdrawals continue to accelerate in Spain



Source: Citi Private Bank using Bank of Spain, as at June 6, 2012

On present trends, that won't take long. What else might help? Common euro bonds would; but Germany has steadfastly refused to countenance them unless and until there is more fiscal and political integration. And who can blame them? It has also said that the European Stability Mechanism (the large dollop of cash that replaces the temporary EFSF) shouldn't be able to inject money directly into troubled banks, only via sovereigns. Again, they might relent, but probably not yet. So none of this is helping that outflow – or indeed the reasons for it.

What you really need to stem the wholesale flight out of the periphery is a joint and severally guaranteed deposit insurance scheme

What you really need to stem the wholesale flight out of the periphery is a joint and severally guaranteed deposit insurance scheme. This would need to cover not just the risk of the banks going bust but also the risk for, say, a Spanish depositor that their euros would remain euros and not get converted into, say new pesetas. The trouble here is that such a scheme would require core European economies, not least Germany, to accept a huge contingent liability of the sort of magnitude they have (understandably) baulked at before. And they aren't likely to do that until Greece leaves and, again, things get worse. All of which means capital flight from the peripheral countries is likely to continue. At some stage either Germany signs up to lending its balance sheet to other countries, or agrees to the ECB turning on the spigot, or the euro will not survive in its current form.

The US slows. Again.

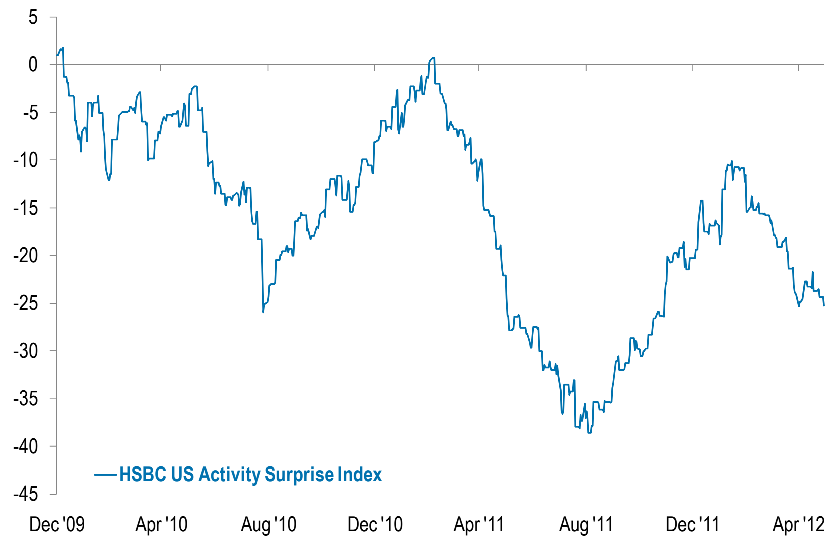
The US itself suffers from the same malady as Europe, merely in less extreme form

Europe might be the biggest problem but is far from the only one. It might be politically expedient of Barak Obama to blame America's current woes on Europe, but the fact is that the US itself suffers from the same malady as Europe, merely in less extreme form. It has a private sector that is saving. The result would be a shrinking economy except for a public sector that borrows and spends instead; an activist central bank; and the good fortune to have the world's reserve currency. Unlike Europe, it is politically and fiscally unified, which enables an acceptable transfer of resources from strong areas to weak ones.

The private sector is still saving and if/when fiscal policy is tightened aggressively the economy will suffer, perhaps badly

But the US is also running into perceived spending constraints because both the stock of its debt is large and because that stock is growing rapidly, thanks to those $1 trillion yearly fiscal deficits. The only real disagreement between Mitt Romney and Barack Obama is the timing of the fiscal tightening and whether it is better to do this via spending cuts or tax increases. And this matters because the private sector is still saving and if (when?) fiscal policy is tightened aggressively, as is due to happen on January 1st, the economy will suffer, perhaps badly.

Figure 5. US growth continues to weaken



Source: Citi Private Bank using HSBC, as at June 6 2012. Last data point as at May 29, 2012

A raft of US numbers has come in worse than expected

As we suggested would happen in the last few Quadrants, anyway weak growth in the US is again becoming still weaker. A raft of numbers has come in worse than expected. The most obvious of these, of course, was last week's employment numbers. Only 69,000 jobs were created last month, much weaker than predicted; and previous months' gains were revised down. Unemployment edged up to 8.2% (though it had fallen in the past few years, lest we forget, only because so many people had left the labour force). Wage growth is anaemic. Nominal year-over-year wage growth is growing at only 1.7%, which means that real wage growth (i.e. adjusted for inflation) is negative.

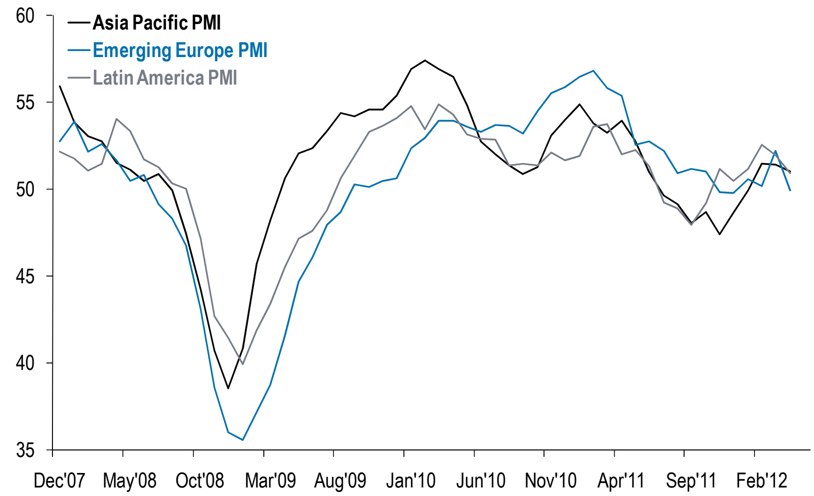
All of which is precisely why interest rates are stuck at as close to zero as makes no difference; there is so little inflationary pressure; bond yields have plumbed one very low yield after another and equity markets are in danger of being downgraded further. That they haven't been downgraded before is largely thanks to corporate profits that had remained very robust and the perception that many other equity markets were thought to be pretty well uninvestible. The trouble is that the more that investors buy US equities because of their perceived safety, the less safe they become because valuations are driven up to the sorts of relative and absolute valuations that mean that, by definition, they will deliver desultory returns.

And so does the emerging world

Recent numbers in major EM countries have been dreadful too

And in case you thought that growth was merely a developed-world problem, recent numbers in Brazil (0.70%), India (5.23%), and South Korea (2.95%) have all been pretty dreadful too. Most alarming of all – and, we suspect, the broader problem that underlies many of those bad numbers elsewhere in the emerging world -- have been some very unpleasant numbers indeed coming out of China.

Figure 6. Growth in the emerging world is slowing



Source: Citi Private Bank using Haver Analytics, as at June 6, 2012. PMI = Purchase Manufacturing Index

Rare is the emerging economy that hasn't hugely benefitted from strong Chinese growth in the past few years. Many investment portfolios have been constructed on the assumption that it will continue. It is, then, worrying that the consensus continues to believe that the Chinese authorities have both the desire and the ability to effect only a slight slowdown in growth.

We are much less sanguine, for all the reasons about which we have been writing and talking over the past year or so. Very rapid growth in credit as a percentage of GDP; previously soaring house prices; a sharp deterioration in the current –account balance (which measures the economy's excess of saving over spending); a rapid rise (and then fall) in real money supply growth; rapid growth in foreign-exchange reserves: taken together these have always signalled problems for an economy. Note the use of the word "always" there.

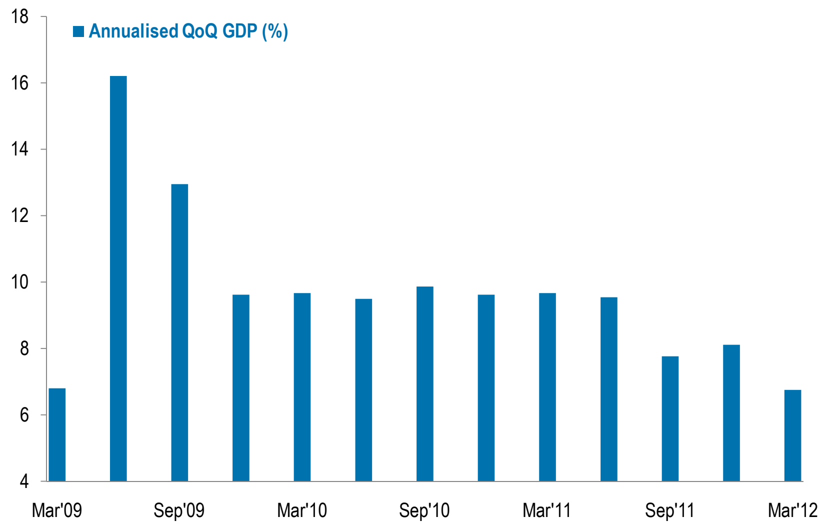
Chinese economic growth slowed to 8.1% in the first quarter: slower than expected and certainly slower than growth in most of the past few years, but hardly catastrophic

So we shouldn't be too surprised that the economy has slowed; the surprise would have been if it hadn't. How much has it slowed? A robust answer to that question is complicated by the fact that, as its own statistics bureau admits, the statistics in China are to accuracy what my younger daughter is to punctuality: the relationship is what you might describe as a little hazy. Still, on the official numbers, Chinese economic growth slowed to 8.1% in the first quarter of this year compared with the same quarter in the previous year: slower than expected and certainly slower than growth in most of the past few years, but hardly catastrophic.

Having peaked in the second and third quarters of 2009, growth in China has fallen remorselessly

But that number doesn't really tell you what's been going on now, for myriad reasons. Most countries look not at the change compared with the previous year, but the change compared with the previous quarter. Often that number is then expressed as an annual rate. Doing it that way gives you a better idea of what has been happening more recently. China started to publish quarter-on-quarter numbers in late 2010. On these numbers, the country grew by an annualised 7.4% in the first quarter of this year compared with the final quarter of 2011. Whether this is anything like the right number is, of course, still subject to the above caveats. CIRA's China economists calculated the annualised quarterly growth at 6.8%, though they stress that any small differences in the model can lead to big differences in results. So you should, they say, look at the trend. The trouble is that, as the chart shows, the trend is not your friend. Having peaked in the second and third quarters of 2009, growth in China has fallen remorselessly.

Figure 7. Growth in China has fallen remorselessly

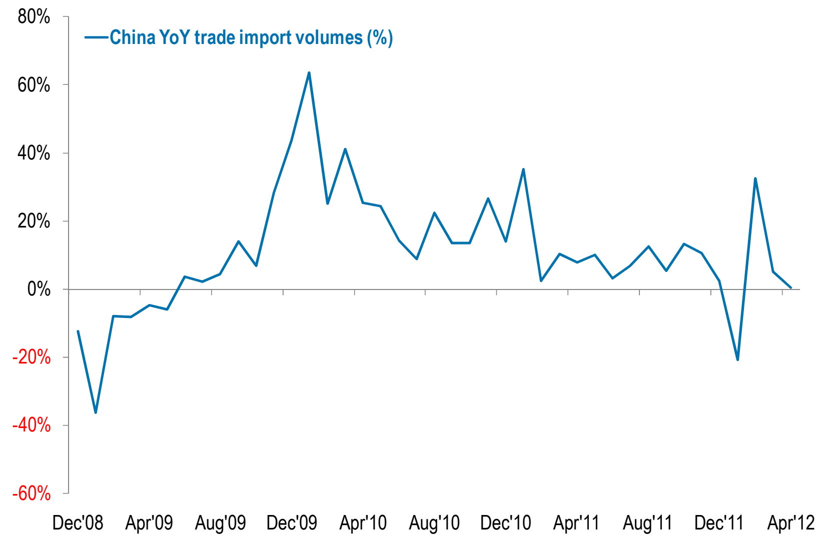


Source: Citi Private Bank using Citi Investment Research & Analysis, as at June 6, 2012. Please refer to the attached link : https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html, which contains the important disclosures regarding companies covered by Citi's Equity Research analysts, and for details on the CIRA ratings system, please refer to the attached link: https://www.citigroupgeo.com/geopublic/Disclosures/disclratings.pdf.

A slew of announcements over the past couple of weeks show a worrying decline in growth. Imports have collapsed as fast as exports

Bad enough, of course, but in recent weeks weak growth has become weaker still, a fact borne out not just by exports to China from the likes of South Korea and Australia but by China's own numbers. A slew of announcements over the past couple of weeks show a worrying decline in growth. Imports, for example, have collapsed as fast as exports (thus nailing the argument that it is all to do with weakness in Europe). Although part of the reason for this has been the sharp fall in commodity prices, they have dropped sharply even if you look at the volumes of imports. Indeed, as the chart shows, year-over-year imports peaked in early 2010 and have then fallen remorselessly.

Figure 8. Import volumes continue to decline



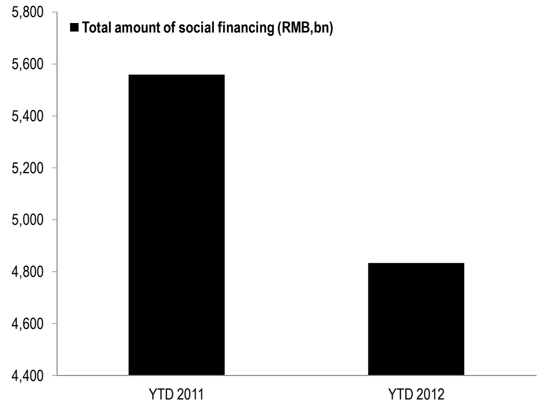
Source: Citi Private Bank using Citi Investment Research & Analysis, as at June 6, 2012. Please refer to the attached link : https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html, which contains the important disclosures regarding companies covered by Citi's Equity Research analysts, and for details on the CIRA ratings system, please refer to the attached link: https://www.citigroupgeo.com/geopublic/Disclosures/disclratings.pdf.

Moreover, credit growth has been very weak. The very anaemic rise in lending in recent months has been the result not of lack of supply but from poor demand

Moreover, credit growth has been very weak. The official measure of what's called total social financing, which includes lending other than just from banks, fell very sharply indeed in April. In the year to the end of April, total lending fell 13% from the same period last year. If anything, May looks to have been even worse than April. And there is a mass of anecdotal evidence to suggest that the very anaemic rise in lending in recent months has been the result not of lack of supply but from poor demand.

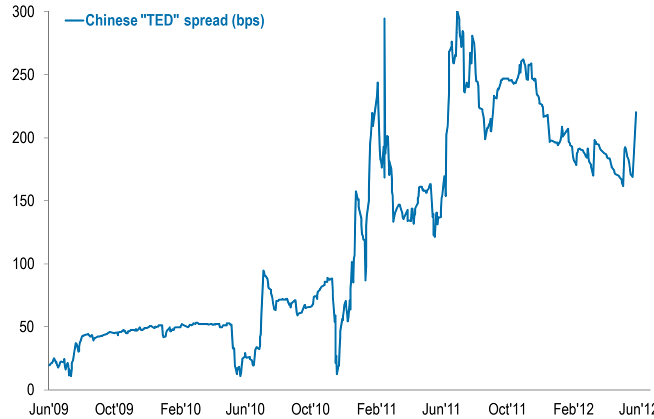
Why does this appear to be because of a lack of demand? Well, for one thing, the government can merely tell the big four state-owned banks to lend. For another, as the chart shows, spreads on interbank loans over similar maturity government bills have been falling lately. Had credit been in short supply, they would have been far more likely to have risen. As anyone from Tokyo to Washington to Madrid could tell you, lack of credit demand as a result of too much debt in the first place is a much harder problem to fix. So all this is rather worrying.

Figure 9. Credit growth has been anaemic…



Source: Citi Private Bank using National Bureau of Statistics as at June 6, 2012

Figure 10. …And demand for credit remains weak



Source: Citi Private Bank using Bloomberg as at June 6, 2012. TED spread calculated as the difference between yields on 3 month interbank loans over 3 month government bills.

Chinese policy-makers haven't been anything like as aggressive in their response as most had expected even at the beginning of the year, when growth assumptions were a lot higher

Strangely, though, Chinese policy-makers haven't been anything like as aggressive in their response as most had expected even at the beginning of the year, when growth assumptions were a lot higher. The People's Bank of China has cut banks' reserve-rate requirements three times, but not interest rates. Wen Jiabao, the prime minister, has said that the government will "give more priority to maintaining growth". And the authorities have indeed tossed a few bones in that direction, bringing forward existing spending commitments and loosening fiscal policy a touch. So far, however, none of the measures amount to very much at all. An article last week in Xinhua, generally regarded as the mouthpiece of official policy, said that the government had no intention of the sort of massive stimulus that it unleashed in 2008 and 2009.

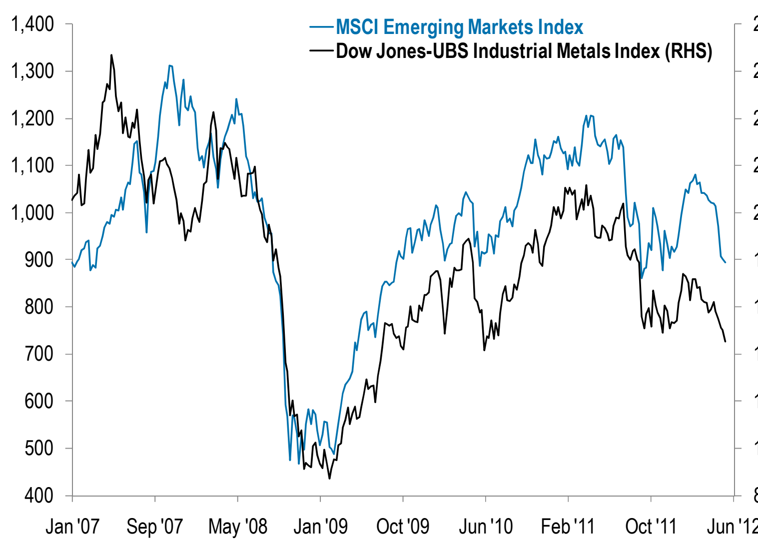
Why? There are, we think, broadly two answers to that first question. The first is that the splurge in 2008/09 left the country with an almighty housing bubble, huge growth in credit and a sharp increase in inflation. The second is what all this has done to increase further anyway-high disparities in wealth. Lots of stories of corruption and huge wealth among the powerful and connected perhaps undermine the legitimacy of a communist regime that is due to hand over the reins of power to its chosen successors in October. So the way in which we have been thinking about it is that, at the margin, the distribution of that wealth matters more than growth per se. Or, to put this another way, we suspect that the authorities fear that stomping on the accelerator will mean that these bad problems get worse. All of which is not to say that they won't loosen further as growth stumbles, they will; but that they will continue to be cautious in doing so.

Will growth pick up much even if they did plonk their foot firmly on the accelerator? Certainly expectations of growth will pick up, perhaps sharply, temporarily. But the problem longer term is that an economy with the problems we have outlined is an economy in which fiscal and monetary and fiscal policy becomes much less effective because the private sector already has too much debt. For evidence of that, look at what has happened in most of the developed world over the past few years – or, indeed, what happened in Japan in the 1990s. Which is also why we think that investors' confidence in the Chinese government's ability to fine-tune the economy is misplaced. After all, they didn't want what looks very much like a credit and housing bubble, yet that is what they got. By the same token, one should be very wary that they will be able to control the downside.

Commodities, commodity and emerging currencies and emerging stocks are likely to remain under downward pressure over the medium term

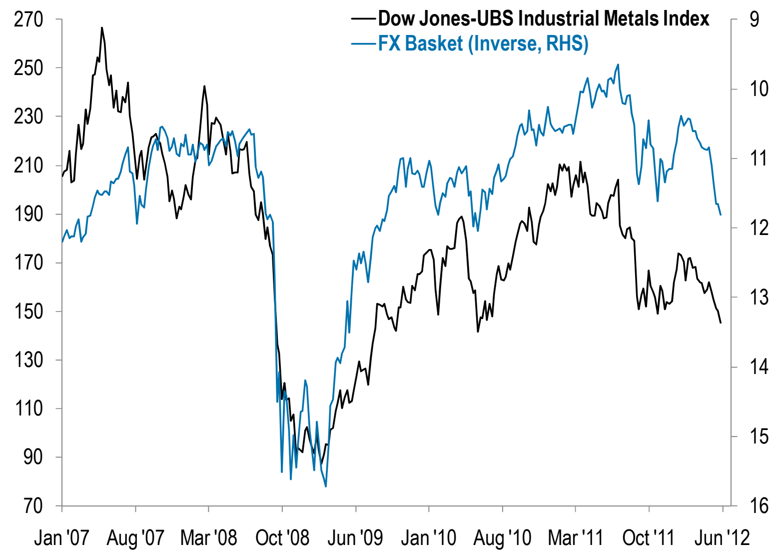
What does all this mean for investors? It means that although there is always a risk of a short-term spike in commodities, commodity and emerging currencies and emerging stocks, we think that investors should continue to assume that the oomph that China has injected to parts of the global economy will continue to ebb. This means that all of the above are likely to remain under downward pressure over the medium term – just as they have been under downward pressure for more than a year now. You can see all this very easily in the charts below. What you can also see is what we have been warning about: that investing in emerging stocks over the past year or so has meant a double whammy of not just falls in local equity prices but also falls in currencies too. That's why the MSCI emerging-market index looks so much worse when measured in dollars than in local currencies.

Figure 11. Emerging stocks are positively correlated to commodity prices



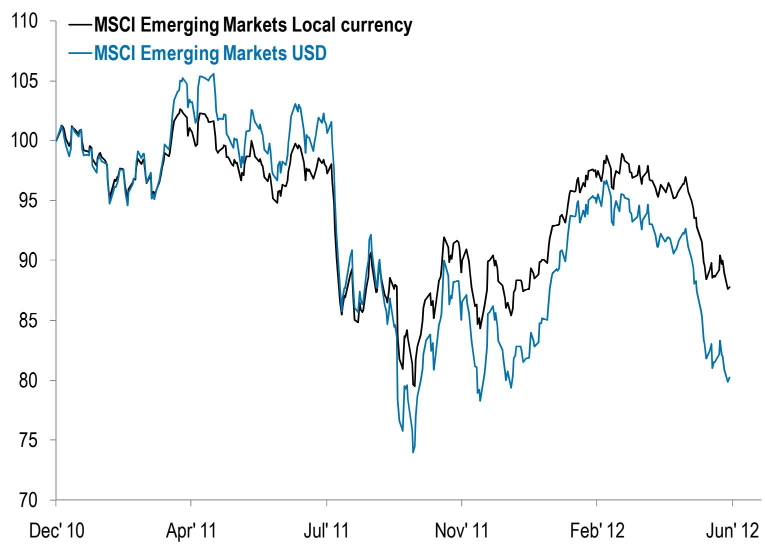
Source: Citi Private Bank using Bloomberg, as at June 6, 2012

Figure 12. So, for that matter, are commodity currencies



Source: Citi Private Bank using Bloomberg, as at June 6, 2012. The FX basket is an equally weighted basket including the following currencies: ZAR, AUD, NZD, and BRL. For Illustrative Purposes Only. Past performance is no guarantee of future results

Figure 13. MSCI emerging market index has fallen more in dollars than in local currencies

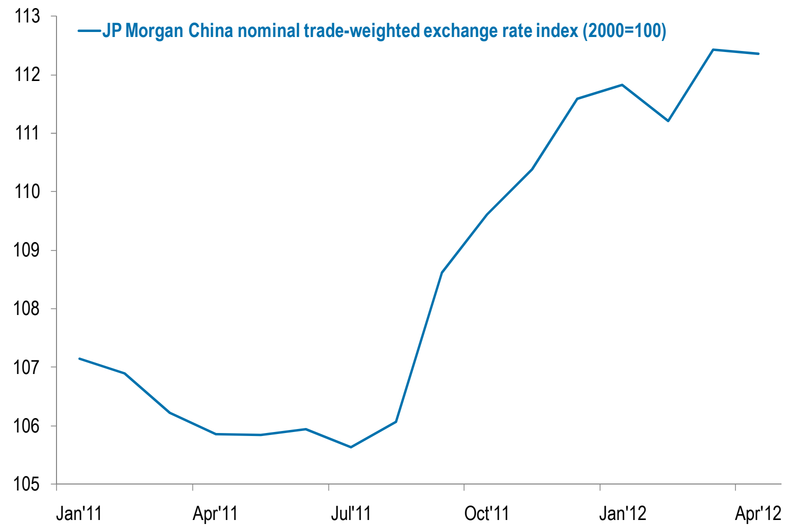


Source: Citi Private Bank using Bloomberg, as at June 6, 2012

We would recommend buying the US dollar (or dollar substitutes, such as the Hong Kong dollar) versus most Asian currencies

Interestingly, Asian currencies have in general fallen less than their counterparts in EMEA or Latin America. That is, of course, partly because some of them, such as the Hong Kong dollar (explicitly) and the Chinese renminbi (less explicitly) are tied to the dollar. But even ignoring these, one might have expected the likes of, say, the South Korean won to have fallen further than it has. And we have worries even about the Chinese renminbi. At a time when they are hamstrung in their domestic policy response, it probably makes sense for the authorities to devalue the renminbi further. In trade-weighted terms, as the chart shows, the Chinese currency has, after all, strengthened over the past couple of years. That helps to explain why the renminbi has started to fall against the dollar in recent weeks. In other words we would recommend buying the US dollar (or dollar substitutes, such as the Hong Kong dollar) versus most Asian currencies. There is, we think, more downside risk.

Figure 14. The Chinese currency has strengthened recently



Source: Citi Private Bank using Haver Analytics as at June 6, 2012

Portfolio allocations

This section shows the strategic and tactical allocations for risk levels 1 to 5 set by Citi Private Bank's Global Investment Committee on May 29, 2012.

Risk level 1

Risk level 1 is designed for investors who have a preference for capital preservation and relative safety over the potential for a return on investment. These investors prefer to hold cash, time deposits and/or lower risk fixed income instruments.

Classification	Strategic (%)	Tactical (%)	Active (%)
Cash	**15.0**	**15.0**	**0.0**
Fixed income	**79.0**	**79.0**	**0.0**
Developed national, supranational and regional	**49.9**	**48.4**	**–1.5**
Fixed	**45.0**	**44.8**	**–0.2**
Americas	**14.0**	**31.4**	**17.4**
EMEA	**13.5**	**8.5**	**–5.0**
UK	2.2	0.0	–2.2
Core Europe	6.6	8.5	1.9
Peripheral Europe	4.1	0.0	–4.1
Others	0.6	0.0	–0.6
Asia	**13.8**	**0.0**	**–13.8**
Asia (ex Japan)	0.8	0.0	–0.8
Japan	13.0	0.0	–13.0
Supranational	**3.8**	**4.9**	**1.1**
Floating	**4.9**	**3.6**	**–1.3**
Europe (ex UK)	2.0	2.1	0.1
UK	1.1	1.4	0.3
Asia	0.0	0.0	0.0
US	1.7	0.0	–1.7
Developed investment grade	**25.0**	**26.5**	**1.5**
Fixed	**25.0**	**26.5**	**1.5**
Americas	**19.6**	**21.8**	**2.2**
US corporate	7.2	12.8	5.6
US securitized	12.4	9.0	–3.4
MBS	12.3	8.8	–3.5
ABS	0.1	0.2	0.1
EMEA	**5.4**	**4.7**	**–0.7**
Europe (ex UK)	4.7	3.5	–1.1
UK	0.7	1.2	0.5
Asia	**0.0**	**0.0**	**0.0**
Asia (ex Japan)	0.0	0.0	0.0
Japan	0.0	0.0	0.0

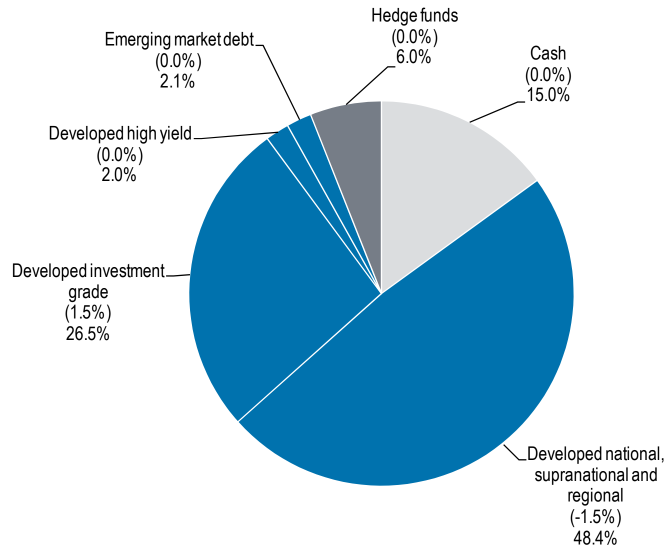
Classification	Strategic (%)	Tactical (%)	Active (%)
Floating	**0.0**	**0.0**	**0.0**
Developed high yield	**2.0**	**2.0**	**0.0**
Americas	**1.6**	**1.6**	**0.0**
EMEA	**0.4**	**0.4**	**0.0**
Asia	**0.0**	**0.0**	**0.0**
Emerging market debt	**2.1**	**2.1**	**0.0**
Americas	**1.0**	**1.0**	**0.0**
EMEA	**0.8**	**0.7**	**–0.1**
Asia	**0.3**	**0.4**	**0.1**
Equities	**0.0**	**0.0**	**0.0**
Hybrid investments	**6.0**	**6.0**	**0.0**
Hedge funds	**6.0**	**6.0**	**0.0**
Real Assets	**0.0**	**0.0**	**0.0**
Commodities	**0.0**	**0.0**	**0.0**
Gold	**0.0**	**0.0**	**0.0**
Total	**100.0**	**100.0**	**0.0**

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the OCIO of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years. See Appendix for detailed Strategic and Tactical tables.

Risk level 1: tactical allocations

Global equities
Global fixed income
Hedge funds
Commodities
Cash

Figures in brackets are the difference versus the strategic benchmark



Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the OCIO of the Citi Private Bank.

Core positions

- US corporate investment grade remains significantly overweight (5.6%) versus the strategic benchmark.
- Developed sovereign and supranational fixed income is now at a 1.5% underweight position, driven by underweights in peripheral Europe (–4.1%), UK (-2.2%) and Japanese sovereigns (–13%). This is mainly offset by a 17.4% overweight position in North American sovereigns including a 9.4% overweight to US municipal bonds.
- Global inflation linked fixed income remains underweight (-1.3%).
- Developed high yield is now at a neutral position.

Risk level 2

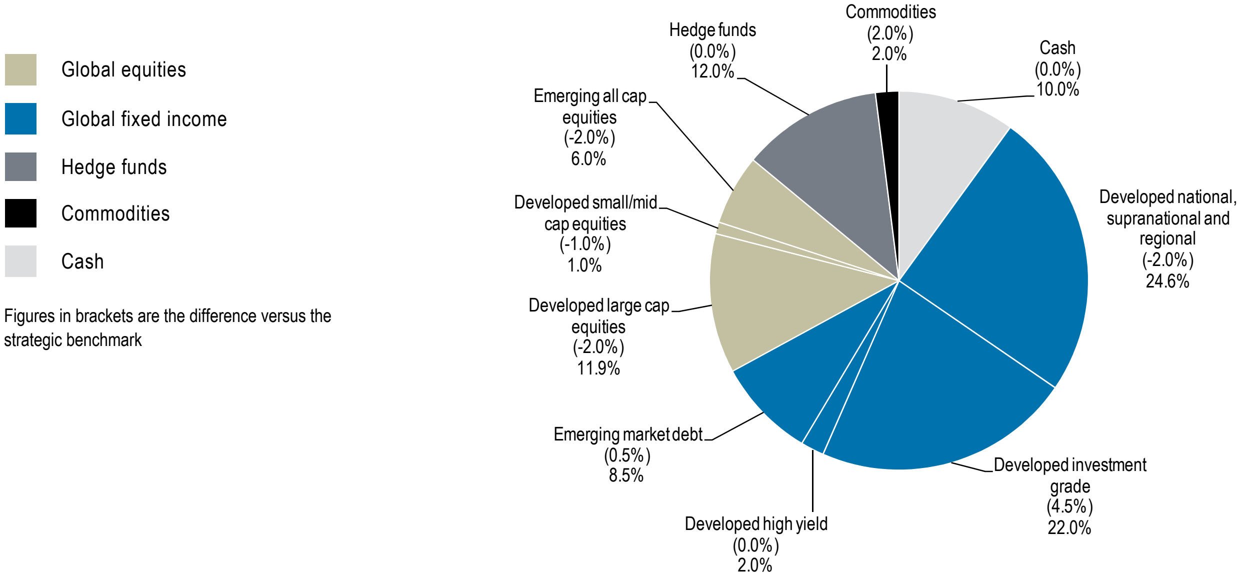
Risk level 2 is designed for investors who emphasize capital preservation over return on investment, but who are willing to subject some portion of their principal to increased risk in order to generate a potentially greater rate of return on investment.

Classification	Strategic (%)	Tactical (%)	Active (%)
Cash	**10.0**	**10.0**	**0.0**
Fixed income	**54.1**	**57.1**	**3.0**
Developed national, supranational and regional	**26.6**	**24.6**	**–2.0**
Fixed	**24.0**	**22.7**	**–1.2**
Americas	**7.5**	**15.9**	**8.5**
EMEA	**7.2**	**4.3**	**–2.8**
UK	1.2	0.0	–1.2
Core Europe	3.5	4.3	0.8
Peripheral Europe	2.2	0.0	–2.2
Others	0.3	0.0	–0.3
Asia	**7.3**	**0.0**	**–7.3**
Asia (ex Japan)	0.4	0.0	–0.4
Japan	6.9	0.0	–6.9
Supranational	**2.0**	**2.5**	**0.5**
Floating	**2.6**	**1.8**	**–0.8**
Europe (ex UK)	1.1	1.1	0.0
UK	0.6	0.7	0.1
Asia	0.0	0.0	0.0
US	0.9	0.0	–0.9
Developed investment grade	**17.5**	**22.0**	**4.5**
Fixed	**17.5**	**22.0**	**4.5**
Americas	**13.7**	**18.1**	**4.4**
US corporate	5.0	10.6	5.6
US securitized	8.7	7.5	–1.2
MBS	8.6	7.3	–1.3
ABS	0.1	0.2	0.1
EMEA	**3.8**	**3.9**	**0.1**
Europe (ex UK)	3.3	2.9	–0.3
UK	0.5	1.0	0.5
Asia	**0.0**	**0.0**	**0.0**
Floating	**0.0**	**0.0**	**0.0**
Developed high yield	**2.0**	**2.0**	**0.0**
Americas	**1.6**	**1.6**	**0.0**
EMEA	**0.4**	**0.4**	**0.0**
Asia	**0.0**	**0.0**	**0.0**
Emerging market debt	**8.0**	**8.5**	**0.5**
Americas	**3.6**	**3.9**	**0.3**
EMEA	**3.1**	**2.9**	**–0.3**
Asia	**1.2**	**1.7**	**0.5**
Hybrid investments	**12.0**	**12.0**	**0.0**
Hedge funds	**12.0**	**12.0**	**0.0**
Real assets	**0.0**	**2.0**	**2.0**
Commodities	**0.0**	**2.0**	**2.0**
Gold	**0.0**	**2.0**	**2.0**

Classification	Strategic (%)	Tactical (%)	Active (%)
Equities	**23.9**	**18.9**	**–5.0**
Developed large cap equities	**13.9**	**11.9**	**–2.0**
Americas	**8.2**	**6.4**	**–1.8**
US all	7.6	6.1	–1.4
Canada	0.6	0.2	–0.4
EMEA	**3.8**	**3.4**	**–0.3**
UK	1.4	1.2	–0.1
Germany	0.5	0.5	0.0
France	0.5	0.5	0.0
Switzerland	0.5	0.5	0.0
Benelux	0.2	0.2	0.0
Scandi	0.3	0.3	0.0
Spain	0.2	0.1	0.0
Italy	0.1	0.1	0.0
Others	0.1	0.1	0.0
Asia	**2.0**	**2.1**	**0.2**
Australasia	0.5	0.3	–0.2
Far East ex Japan	0.3	0.2	0.0
Japan	1.2	1.6	0.4
Developed small/mid cap equities	**2.0**	**1.0**	**–1.0**
Americas	**1.2**	**0.7**	**–0.5**
EMEA	**0.5**	**0.0**	**–0.5**
Europe (ex UK)	0.3	0.0	–0.3
UK	0.2	0.0	–0.2
Asia	**0.3**	**0.3**	**0.0**
Asia (ex Japan)	0.1	0.0	–0.1
Japan	0.2	0.3	0.1
Emerging all cap equities	**8.0**	**6.0**	**–2.0**
Americas	**1.8**	**1.5**	**–0.3**
Brazil	1.1	1.1	0.0
Mexico	0.4	0.1	–0.3
Other	0.3	0.3	0.0
EMEA	**1.4**	**1.1**	**–0.3**
Turkey	0.1	0.1	0.0
Russia and Eastern Europe	0.5	0.5	0.0
South Africa	0.6	0.3	–0.3
Other	0.2	0.2	0.0
Asia	**4.8**	**3.4**	**–1.3**
China	1.5	1.1	–0.3
India	0.5	0.2	–0.3
South Korea	1.2	0.9	–0.3
Taiwan	0.9	0.5	–0.3
Other Emerging Asia	0.7	0.7	0.0
Total	**100.0**	**100.0**	**0.0**

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the OCIO of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years. See Appendix for detailed Strategic and Tactical tables.

Risk level 2: tactical allocations



Figures in brackets are the difference versus the strategic benchmark

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the OCIO of the Citi Private Bank.

Core positions

- Equities remain underweight by 5%. Correspondingly, global fixed income remains 3% overweight, while the position in gold remains unchanged at 2%.
- Within developed equities, underweights in North America (–2.3%), Europe (-0.8%) and Asia ex Japan (–0.3%) are partially offset by an overweight position in Japan (0.5%). Emerging markets remain underweight by 2%, distributed across the three regions.
- Within fixed income, US corporate investment grade remains highly overweight (5.6%).
- Developed sovereign and supranational fixed income is now at a 2% underweight position. Within developed sovereign, UK (-1.2%) and peripheral Europe remain underweight (–2.2%). Japan sovereigns represent the largest underweight (–6.9%) and North America sovereigns largest overweight (8.5%) including a 4.7% overweight to US munis. Global inflation-linked bonds remain underweight (–0.8%).
- Developed high yield now stands neutral.

Risk level 3

Risk level 3 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. Risk level 3 may be appropriate for investors willing to subject their portfolio to additional risk for potential growth in addition to a level of income reflective of his/her stated risk tolerance.

Classification	Strategic (%)	Tactical (%)	Active (%)
Cash	**5.0**	**5.0**	**0.0**
Fixed income	**28.2**	**34.2**	**6.0**
Developed national, supranational and regional	**10.0**	**7.5**	**–2.5**
Fixed	**9.0**	**6.9**	**–2.1**
Americas	**2.8**	**4.9**	**2.1**
EMEA	**2.7**	**1.3**	**–1.4**
UK	0.4	0.0	–0.4
Core Europe	1.3	1.3	0.0
Peripheral	0.8	0.0	–0.8
Others	0.1	0.0	–0.1
Asia	**2.8**	**0.0**	**–2.8**
Asia (ex Japan)	0.2	0.0	–0.2
Japan	2.6	0.0	–2.6
Supranational	**0.8**	**0.8**	**0.0**
Floating	**1.0**	**0.6**	**–0.4**
Europe (ex UK)	0.4	0.3	–0.1
UK	0.2	0.2	0.0
Asia	0.0	0.0	0.0
US	0.3	0.0	–0.3
Developed investment grade	**10.0**	**17.5**	**7.5**
Fixed	**10.0**	**17.5**	**7.5**
Americas	**7.8**	**14.4**	**6.6**
US corporate	2.9	8.4	5.6
US securitized	5.0	6.0	1.0
MBS	4.9	5.8	0.9
ABS	0.1	0.2	0.1
EMEA	**2.2**	**3.1**	**0.9**
Europe (ex UK)	1.9	2.3	0.5
UK	0.3	0.8	0.5
Asia	**0.0**	**0.0**	**0.0**
Floating	**0.0**	**0.0**	**0.0**
Developed high yield	**2.0**	**2.0**	**0.0**
Americas	**1.6**	**1.6**	**0.0**
EMEA	**0.4**	**0.4**	**0.0**
Asia	**0.0**	**0.0**	**0.0**
Emerging market debt	**6.2**	**7.2**	**1.0**
Americas	**2.8**	**3.3**	**0.5**
EMEA	**2.4**	**2.4**	**0.0**
Asia	**1.0**	**1.5**	**0.5**
Hybrid investments	**16.0**	**16.0**	**0.0**
Hedge funds	**16.0**	**16.0**	**0.0**
Real assets	**0.0**	**2.0**	**2.0**
Commodities	**0.0**	**2.0**	**2.0**
Gold	**0.0**	**2.0**	**2.0**

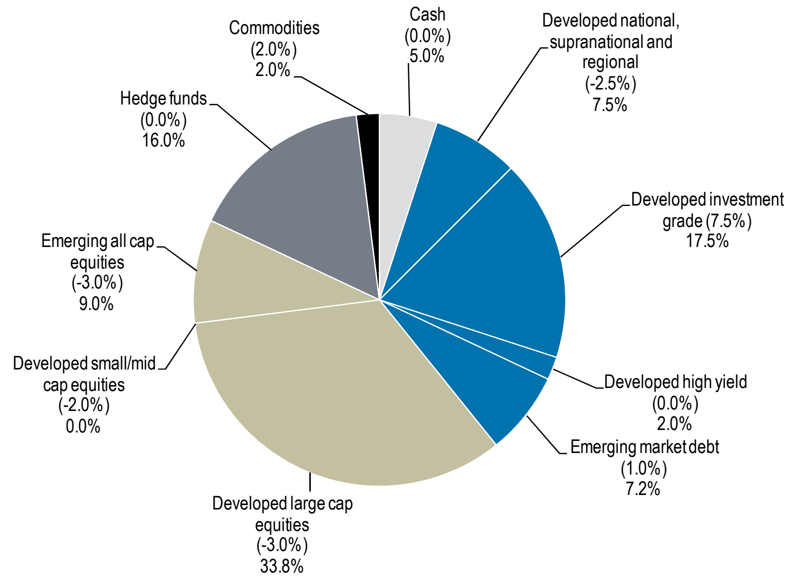
Classification	Strategic (%)	Tactical (%)	Active (%)
Equities	**50.8**	**42.8**	**–8.0**
Developed large cap equities	**36.8**	**33.8**	**–3.0**
Americas	**21.6**	**18.0**	**–3.6**
US all	19.9	17.4	–2.5
Canada	1.7	0.6	–1.1
EMEA	**10.0**	**9.8**	**–0.2**
UK	3.6	3.5	–0.1
Germany	1.4	1.4	0.0
France	1.4	1.3	0.0
Switzerland	1.4	1.4	0.0
Benelux	0.5	0.5	0.0
Scandi	0.8	0.8	0.0
Spain	0.4	0.4	0.0
Italy	0.3	0.3	0.0
Others	0.2	0.2	0.0
Asia	**5.2**	**6.0**	**0.8**
Australasia	1.3	0.8	–0.5
Far East ex Japan	0.7	0.7	0.0
Japan	3.1	4.5	1.4
Developed small/mid cap equities	**2.0**	**0.0**	**–2.0**
Americas	**1.2**	**0.0**	**–1.2**
EMEA	**0.5**	**0.0**	**–0.5**
Europe (ex UK)	0.3	0.0	–0.3
UK	0.2	0.0	–0.2
Asia	**0.3**	**0.0**	**–0.3**
Asia (ex Japan)	0.1	0.0	–0.1
Japan	0.2	0.0	–0.2
Emerging all cap equities	**12.0**	**9.0**	**–3.0**
Americas	**2.7**	**2.2**	**–0.5**
Brazil	1.7	1.6	0.0
Mexico	0.6	0.1	–0.5
Other	0.4	0.4	0.0
EMEA	**2.2**	**1.7**	**–0.5**
Turkey	0.2	0.2	0.0
Russia and Eastern Europe	0.8	0.8	0.0
South Africa	0.9	0.4	–0.5
Other	0.3	0.3	0.0
Asia	**7.1**	**5.2**	**–2.0**
China	2.2	1.7	–0.5
India	0.8	0.3	–0.5
South Korea	1.8	1.3	–0.5
Taiwan	1.3	0.8	–0.5
Other Emerging Asia	1.1	1.1	0.0
Total	**100.0**	**100.0**	**0.0**

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the OCIO of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years. See Appendix for detailed Strategic and Tactical tables.

Risk level 3: tactical allocations

Global equities
Global fixed income
Hedge funds
Commodities
Cash

Figures in brackets are the difference versus the strategic benchmark



Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the OCIO of the Citi Private Bank.

Core positions

- The underweight position in equities remains at 8%. Global fixed income remains unchanged at a 6% overweight position and allocation to gold stays at 2%.
- Within developed equities, the 5% underweight is driven by North America (–4.8%), developed Europe (–0.7%) and Asia ex Japan (–0.6%). This is partially offset by an overweight position in Japanese equities (1.2%).
- Emerging equities remain underweight by 3%, mostly driven by the underweight in emerging Asia equities.
- Within fixed income, developed investment grade remains the largest tactical overweight (7.5%). This is partially offset by underweights in Japanese sovereigns (–2.6%) and global inflation-linked bonds (–0.4%). North America sovereigns remain overweight (2.1%) with US municipals overweight by 1.4%. Core European sovereigns remain neutral while peripheral European sovereigns remain fully underweight (–0.8%).
- Emerging market debt remains overweight (1%), distributed equally across Asia and Latin America debt.
- Corporate high yield position now stands neutral.

Risk level 4

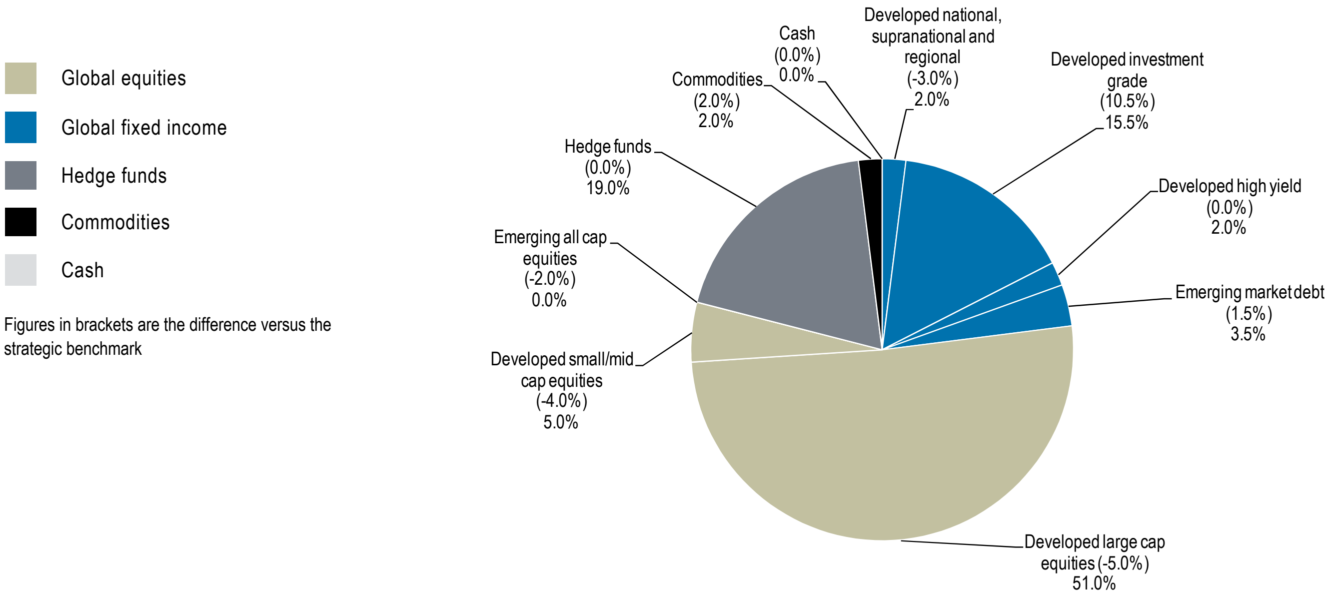
Risk level 4 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. They are willing to subject a large portion of their portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investment. Investors may have a preference for investments or trading strategies that may assume higher-than-normal market risks and/or potentially less liquidity with the goal (but not guarantee) of commensurate gains.

Classification	Strategic (%)	Tactical (%)	Active (%)
Cash	**0.0**	**0.0**	**0.0**
Fixed income	**14.0**	**23.0**	**9.0**
Developed national, supranational and regional	**5.0**	**2.0**	**–3.0**
Fixed	**4.5**	**1.9**	**–2.7**
Americas	**1.4**	**1.3**	**–0.1**
EMEA	**1.3**	**0.4**	**–1.0**
UK	0.2	0.0	–0.2
Core Europe	0.7	0.4	–0.3
Peripheral	0.4	0.0	–0.4
Others	0.1	0.0	–0.1
Asia	**1.4**	**0.0**	**–1.4**
Asia (ex Japan)	0.1	0.0	–0.1
Japan	1.3	0.0	–1.3
Supranational	**0.4**	**0.2**	**–0.2**
Floating	**0.5**	**0.1**	**–0.3**
Europe (ex UK)	0.2	0.1	–0.1
UK	0.1	0.1	–0.1
Asia	0.0	0.0	0.0
US	0.2	0.0	–0.2
Developed investment grade	**5.0**	**15.5**	**10.5**
Americas	**3.9**	**12.8**	**8.8**
US corporate	1.4	7.5	6.0
US securitized	2.5	5.3	2.8
MBS	2.5	5.1	2.7
ABS	0.0	0.1	0.1
EMEA	**1.1**	**2.7**	**1.7**
Europe (ex UK)	0.9	2.1	1.1
UK	0.1	0.6	0.5
Asia	**0.0**	**0.0**	**0.0**
Developed high yield	**2.0**	**2.0**	**0.0**
Americas	**1.6**	**1.6**	**0.0**
EMEA	**0.4**	**0.4**	**0.0**
Emerging market debt	**2.0**	**3.5**	**1.5**
Americas	**0.9**	**1.6**	**0.7**
EMEA	**0.8**	**1.2**	**0.4**
Asia	**0.3**	**0.7**	**0.4**
Hybrid investments	**19.0**	**19.0**	**0.0**
Hedge funds	**19.0**	**19.0**	**0.0**
Real assets	**0.0**	**2.0**	**2.0**
Commodities	**0.0**	**2.0**	**2.0**
Gold	**0.0**	**2.0**	**2.0**

Classification	Strategic (%)	Tactical (%)	Active (%)
Equities	**67.0**	**56.0**	**-11.0**
Developed large cap equities	**56.0**	**51.0**	**-5.0**
Americas	**32.9**	**27.2**	**-5.7**
US all	30.3	26.3	-4.1
Canada	2.6	0.9	-1.6
EMEA	**15.2**	**14.7**	**-0.5**
UK	5.5	5.3	-0.2
Germany	2.2	2.1	-0.1
France	2.1	2.0	-0.1
Switzerland	2.2	2.1	-0.1
Benelux	0.7	0.7	0.0
Scandi	1.2	1.2	0.0
Spain	0.6	0.6	0.0
Italy	0.5	0.5	0.0
Others	0.3	0.2	0.0
Asia	**7.9**	**9.1**	**1.2**
Asia (ex Japan)	3.1	2.2	-0.9
Japan	4.7	6.8	2.1
Developed small/mid cap equities	**9.0**	**5.0**	**-4.0**
Americas	**5.5**	**3.4**	**-2.1**
EMEA	**2.1**	**0.0**	**-2.1**
Europe (ex UK)	1.3	0.0	-1.3
UK	0.8	0.0	-0.8
Asia	**1.4**	**1.6**	**0.2**
Asia (ex Japan)	0.5	0.0	-0.5
Japan	0.9	1.6	0.7
Emerging all cap equities	**2.0**	**0.0**	**-2.0**
Americas	**0.4**	**0.0**	**-0.4**
Brazil	0.3	0.0	-0.3
Mexico	0.1	0.0	-0.1
Other	0.1	0.0	-0.1
EMEA	**0.4**	**0.0**	**-0.4**
Turkey	0.0	0.0	0.0
Russia and Eastern Europe	0.1	0.0	-0.1
South Africa	0.2	0.0	-0.2
Asia	**1.2**	**0.0**	**-1.2**
China	0.4	0.0	-0.4
India	0.1	0.0	-0.1
South Korea	0.3	0.0	-0.3
Taiwan	0.2	0.0	-0.2
Other Emerging Asia	0.2	0.0	-0.2
Total	**100.0**	**100.0**	**0.0**

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the OCIO of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years. See Appendix for detailed Strategic and Tactical tables.

Risk level 4: tactical allocations



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Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the OCIO of the Citi Private Bank.

Core positions

- Global equities remain underweight by 11%. Correspondingly, global fixed income stands at a 9% overweight position with 2% allocated to gold.
- Within developed equities, the 7% underweight is driven by North America (–7.8%), European small caps (–2.1%) and Asia ex Japan (–1.4%). This is partially offset by an overweight position in Japanese equities (2.8%).
- Within emerging equities, the 2% underweight is driven mostly by emerging Asia equities (–1.2%) with slight underweights in Latin America and emerging EMEA equities.
- Within fixed income, corporate investment grade remains the largest tactical overweight (10.5%) driven by US corporates (6.0%) and US securitized (2.8%). These are offset by underweight positions in European sovereigns (–1%) and Japanese sovereigns (–1.3%). Global inflation-linked bonds remain slightly underweight (–0.3%).
- Corporate high yield position has been decreased and now stands neutral.

Risk level 5

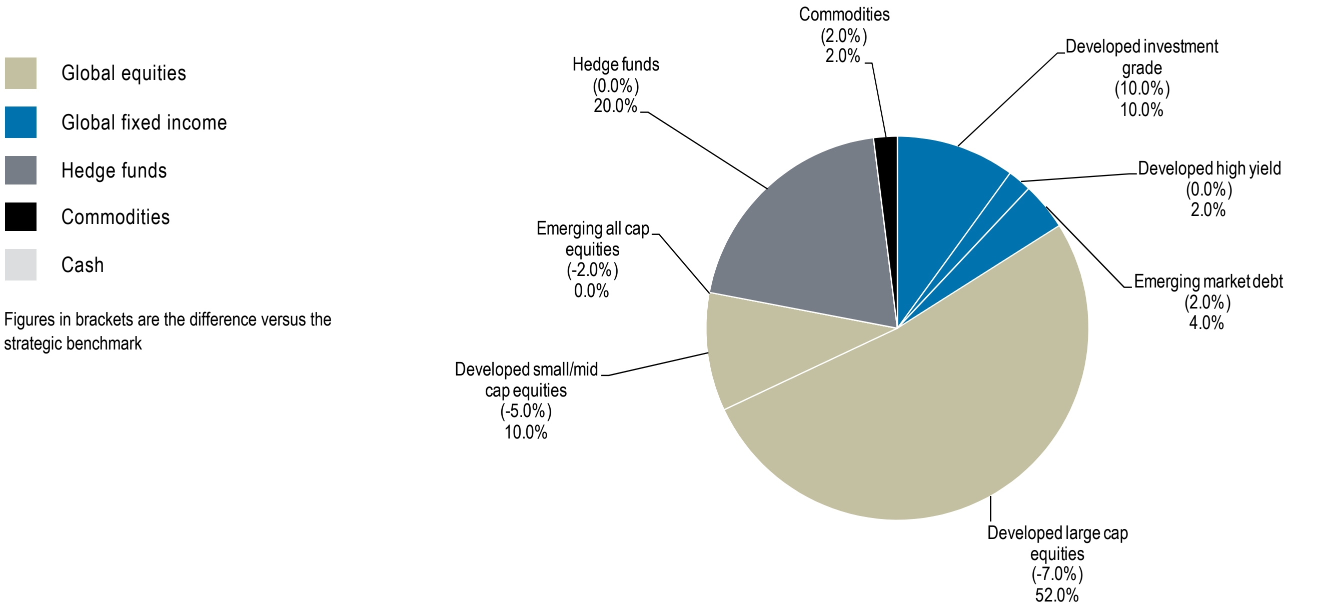
Risk level 5 is designed for investors who emphasize return on investment. They are willing to subject their entire portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investments. Investors may have a preference for investments or trading strategies that may assume higher-than-normal market risks and/or potentially less liquidity with the goal (but not guarantee) of commensurate gains. Clients may engage in tactical or opportunistic trading, which may involve higher volatility and variability of returns.

Classification	Strategic (%)	Tactical (%)	Active (%)
Cash	**0.0**	**0.0**	**0.0**
Fixed income	**4.0**	**16.0**	**12.0**
Developed national, supranational and regional	**0.0**	**0.0**	**0.0**
Developed investment grade	**0.0**	**10.0**	**10.0**
Fixed	**0.0**	**10.0**	**10.0**
Americas	**0.0**	**8.2**	**8.2**
US corporate	0.0	4.8	4.8
US securitized	0.0	3.4	3.4
MBS	0.0	3.3	3.3
ABS	0.0	0.1	0.1
EMEA	**0.0**	**1.8**	**1.8**
Europe (ex UK)	0.0	1.3	1.3
UK	0.0	0.4	0.4
Asia	**0.0**	**0.0**	**0.0**
Asia (ex Japan)	0.0	0.0	0.0
Japan	0.0	0.0	0.0
Floating	**0.0**	**0.0**	**0.0**
Developed high yield	**2.0**	**2.0**	**0.0**
Americas	**1.6**	**1.6**	**0.0**
EMEA	**0.4**	**0.4**	**0.0**
Asia	**0.0**	**0.0**	**0.0**
Emerging market debt	**2.0**	**4.0**	**2.0**
Americas	**0.9**	**1.8**	**0.9**
EMEA	**0.8**	**1.3**	**0.6**
Asia	**0.3**	**0.8**	**0.5**
Equities	**76.0**	**62.0**	**–14.0**
Developed large cap equities	**59.0**	**52.0**	**–7.0**
Americas	**34.7**	**27.8**	**–6.9**
US all	32.0	26.8	–5.2
Canada	2.7	1.0	–1.7
EMEA	**16.0**	**15.0**	**–1.0**
UK	5.8	5.4	–0.4
Germany	2.3	2.1	–0.1
France	2.2	2.0	–0.1
Switzerland	2.3	2.1	–0.1
Benelux	0.8	0.7	0.0
Scandi	1.3	1.2	–0.1
Spain	0.6	0.6	0.0
Italy	0.5	0.5	0.0
Others	0.3	0.3	0.0

Classification	Strategic (%)	Tactical (%)	Active (%)
Asia	**8.3**	**9.2**	**0.9**
Australasia	2.1	1.2	–0.9
Far East ex Japan	1.2	1.1	–0.1
Japan	5.0	6.9	1.9
Developed small/mid cap equities	**15.0**	**10.0**	**–5.0**
Americas	**9.1**	**6.8**	**–2.3**
EMEA	**3.5**	**0.0**	**–3.5**
Europe (ex UK)	2.2	0.0	–2.2
UK	1.3	0.0	–1.3
Asia	**2.4**	**3.2**	**0.8**
Asia (ex Japan)	0.9	0.0	–0.9
Japan	1.5	3.2	1.7
Emerging all cap equities	**2.0**	**0.0**	**–2.0**
Americas	**0.4**	**0.0**	**–0.4**
Brazil	0.3	0.0	–0.3
Mexico	0.1	0.0	–0.1
Other	0.1	0.0	–0.1
EMEA	**0.4**	**0.0**	**–0.4**
Turkey	0.0	0.0	0.0
Russia and Eastern Europe	0.1	0.0	–0.1
South Africa	0.2	0.0	–0.2
Other	0.0	0.0	0.0
Asia	**1.2**	**0.0**	**–1.2**
China	0.4	0.0	–0.4
India	0.1	0.0	–0.1
South Korea	0.3	0.0	–0.3
Taiwan	0.2	0.0	–0.2
Other Emerging Asia	0.2	0.0	–0.2
Hybrid investments	**20.0**	**20.0**	**0.0**
Hedge funds	**20.0**	**20.0**	**0.0**
Real assets	**0.0**	**2.0**	**2.0**
Commodities	**0.0**	**2.0**	**2.0**
Gold	**0.0**	**2.0**	**2.0**
Total	**100.0**	**100.0**	**0.0**

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the OCIO of the Citi Private Bank. See Appendix for detailed Strategic and Tactical tables.

Risk level 5: tactical allocations



Figures in brackets are the difference versus the strategic benchmark

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the OCIO of the Citi Private Bank.

Core positions

- Global equities remain highly underweight (–14%), offset by a 12% overweight to global fixed income and a 2% allocation to gold.
- The underweight position in developed markets (–12%) is driven by North America (–9.2%), Europe (–4.5%) and Asia ex Japan (–1.9%). This is partially offset by an overweight position in Japanese equities (3.6%).
- The 2% underweight to emerging equities comes primarily from underweight in emerging Asia equities.
- Within fixed income, corporate investment grade remains the largest tactical overweight (10%) driven by US corporates (4.8%) and US securitized (3.4%).
- Corporate high yield position stands neutral while emerging debt is overweight by 2%.

Asset allocation definitions

Asset classes	Benchmarked against
Global equities	MSCI All Country World Index, which represents 48 developed and emerging equity markets. Index components are weighted by market capitalization.
Global bonds	Barclays Capital Multiverse (Hedged) Index, which contains the government-related portion of the Multiverse Index, and accounts for approximately 14% of the larger index.
Hedge funds	HFRX Global Hedge Fund Index, which is designed to be representative of the overall composition of the hedge fund universe. It comprises all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage and relative value arbitrage. The strategies are asset-weighted based on the distribution of assets in the hedge fund industry.
Commodities	Dow Jones-UBS Commodity Index, which is composed of futures contracts on physical commodities traded on US exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME). The major commodity sectors are represented including energy, petroleum, precious metals, industrial metals, grains, livestock, softs, agriculture and ex-energy.
Cash	Three-month LIBOR, which is the interest rates that banks charge each other in the international inter-bank market for three-month loans (usually denominated in Eurodollars).
Equities	
Developed market large cap	MSCI World Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure the equity market performance of the large cap stocks in 23 developed markets. Large cap is defined as stocks representing roughly 70% of each market's capitalization.
US	Standard & Poor's 500 Index, which is a capitalization-weighted index that includes a representative sample of 500 leading companies in leading industries of the US economy. Although the S&P 500 focuses on the large cap segment of the market, with over 80% coverage of US equities, it is also an ideal proxy for the total market.
Europe ex UK	MSCI Europe ex UK Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in each of Europe's developed markets, except for the UK.
UK	MSCI UK Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in the UK.
Japan	MSCI Japan Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in Japan.
Asia Pacific ex Japan	MSCI Asia Pacific ex Japan Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure the performance of large cap stocks in Australia, Hong Kong, New Zealand and Singapore.
Developed market small and mid cap (SMID)	MSCI World Small Cap Index, which is a capitalization-weighted index that measures small cap stock performance in 23 developed equity markets.
Emerging market	MSCI Emerging Markets Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure equity market performance of 22 emerging markets.
Bonds	
Developed sovereign	Citi World Government Bond Index (WGBI), which consists of the major global investment grade government bond markets and is composed of sovereign debt, denominated in the domestic currency. To join the WGBI, the market must satisfy size, credit and barriers-to-entry requirements. In order to ensure that the WGBI remains an investment grade benchmark, a minimum credit quality of BBB–/Baa3 by either S&P or Moody's is imposed. The index is rebalanced monthly.
Emerging sovereign	Citi Emerging Market Sovereign Bond Index (ESBI), which includes Brady bonds and US dollar-denominated emerging market sovereign debt issued in the global, Yankee and Eurodollar markets, excluding loans. It is composed of debt in Africa, Asia, Europe and Latin America. We classify an emerging market as a sovereign with a maximum foreign debt rating of BBB+/Baa1 by S&P or Moody's. Defaulted issues are excluded.
Supranationals	Citi World Broad Investment Grade Index (WBIG)—Government Related, which is a subsector of the WBIG. The index includes fixed rate investment grade agency, supranational and regional government debt, denominated in the domestic currency. The index is rebalanced monthly.
Corporate investment grade	Citi World Broad Investment Grade Index (WBIG)—Corporate, which is a subsector of the WBIG. The index includes fixed rate global investment grade corporate debt within the finance, industrial and utility sectors, denominated in the domestic currency. The index is rebalanced monthly.
Corporate high yield	Barclays Global High Yield Corporate Index. Provides a broad-based measure of the global high yield fixed income markets. It is also a component of the Multiverse Index and the Global Aggregate Index.
Securitized	Citi World Broad Investment Grade Index (WBIG)—Securitized, which is a subsector of the WBIG. The index includes global investment grade collateralized debt denominated in the domestic currency, including mortgage-backed securities, covered bonds (Pfandbriefe) and asset-backed securities. The index is rebalanced monthly.

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Published June 6, 2012

Citigroup Global Markets Inc.