Market Insights

April 30, 2013

A Goldilocks Recovery

The Global Investment Committee (GIC) leaves allocations unchanged for the month. We continue to recommend an overweight position in equities, particularly in the US, Japan and Europe. In contrast, we remain heavily underweight interest rate exposure, particularly government bonds.

With economic data improving, despite some recent disappointments, we believe the outlook for the US continues to slowly brighten. The gradual pace of recovery is likely to ensure the Fed continues to implement a highly aggressive monetary easing strategy.

Meanwhile, the change of leadership at the Bank of Japan (BoJ), and the resulting extraordinary monetary stimulus plan, signifies a new era for Japan in our view. With foreign investors still cautious given disappointments in the past, the markets are likely to continue to reflect the positive effects of this plan.

We are heavily underweight government bonds, and in general are cautious on the potential rise of interest rates as the US steadily recovers. Low yields continue to catalyze inflows into emerging market debt and high yield. We remain overweight both, along with a small overweight in corporate bonds.

We maintain overweight in US and Japan equities, as well as in Europe where valuations continue to be extremely attractive. The instability of economic data in China makes us somewhat cautious on emerging markets (where we remain neutral) and other commodity-sensitive countries.

Given this scenario, we continue to favor the US dollar over other currencies.

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					
Europe equities				■	
US equities				■	
Japan equities				■	
UK sovereign		■			
Europe sovereign fixed income	■				
Japan sovereign fixed income	■				
Medium-dated US corporate IG				■	
US municipal bonds			■		
US corporate high yield				■	
US Treasuries		■			
Global inflation-linked bonds			■		
Gold			■		

Allocations as of April 22, 2013.
–2 = very underweight; –1 = underweight; 0 = neutral
1 = overweight; 2 = very overweight; IG = investment grade

Alexander Godwin, Global Head of Asset Allocation

Investment Products: Not FDIC Insured • No Bank Guarantee • May Lose Value

Citi Personal Wealth Management

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A Goldilocks Recovery

We remain positive on a gradual recovery in the US, though the path may be a bit bumpy

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.

We remain positive on the outlook for a gradual recovery in US economic growth during the course of the year. That said, the path is likely to be a bit bumpy and this fragility will likely mean the Fed maintains extremely loose monetary policy.

In previous years, we have seen a seasonal pattern of economic data weakening into spring and summer. Once again, recent data is looking more mixed. While we have seen new home sales, housing starts and consumer confidence announcements come in ahead of expectations, we have seen other data points undershoot, notably the manufacturing Purchasing Managers Index (PMI) and non-farm payroll data for March, and growth in Gross Domestic Product (GDP) during the first quarter of 2013.

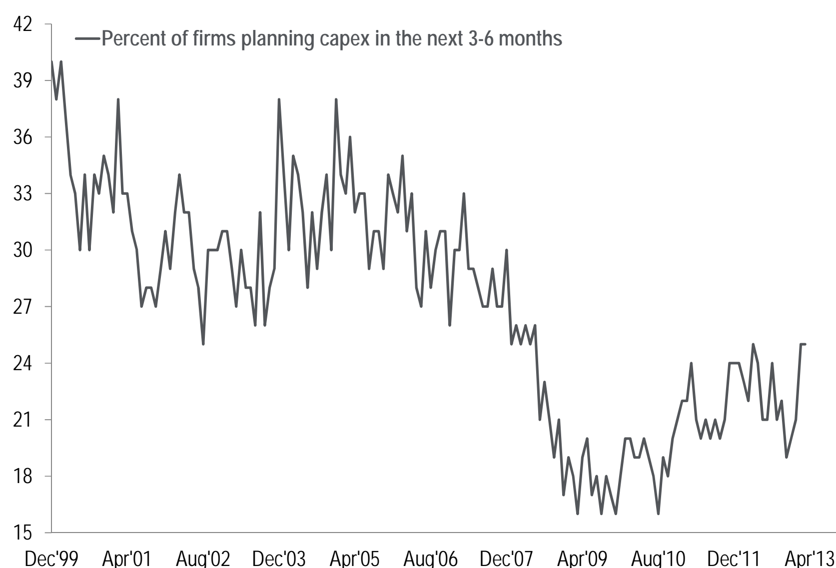
This needs to be carefully monitored; however we do believe that we are in a much better situation this time around. Both the housing market and prospects for a pick-up in corporate capital expenditure look to be more supportive, while confidence levels also look better.

The housing market continues to gradually improve. Prices are now up by 7.9% year-on-year (as at January 2013). This is beginning to feed into both recovering construction activity and home equity withdrawal – both key avenues for the housing market to translate into economic growth. Construction activity is now up by 8.1% year-on-year, with housing starts climbing by 5.5% year-to-date. Home equity withdrawal has also seen a recovery, and according to Moody's, is projected to rise by 31% in 2013 to $104bn – the highest level since it bottomed in 2008.

We continue to believe that corporate capital expenditure will pick up in the second half of the year, boosted by aging capital equipment and renewed economic confidence. Capital equipment has been aging rapidly since 2008, as corporations held back from spending more on replacement. Last year was even more severe given the added uncertainty over the fiscal cliff negotiations.

Since sequestration, and thus reduced concerns over the path of taxes and spending, we expect companies to release much of this pent-up demand and capital expenditure levels to rise. Already the NFIB's (National Federation of Independent Business) small business indicators of Capex are signaling this intention (Figure 1).

Figure 1. Small business indicators point to increased capital expenditure



Source: Citi Private Bank using Haver Analytics as at April 29, 2013. NFIB = National Federation of Independent Business

We expect more competitive energy prices in the US as production surges

We believe energy prices will also be supportive, as new production comes on stream especially in North America. The rise of shale technology is likely to fuel a dramatic increase in energy production in the US over the next decade, to a point where the US becomes energy neutral by 2020.

This will likely have an impact on world-wide energy prices, but even more so in the US, where oil exporting is currently not allowed. More competitive prices will help heavy industry, chemicals and other intensive users of energy. We believe it will bring a significant overall benefit to the economy.

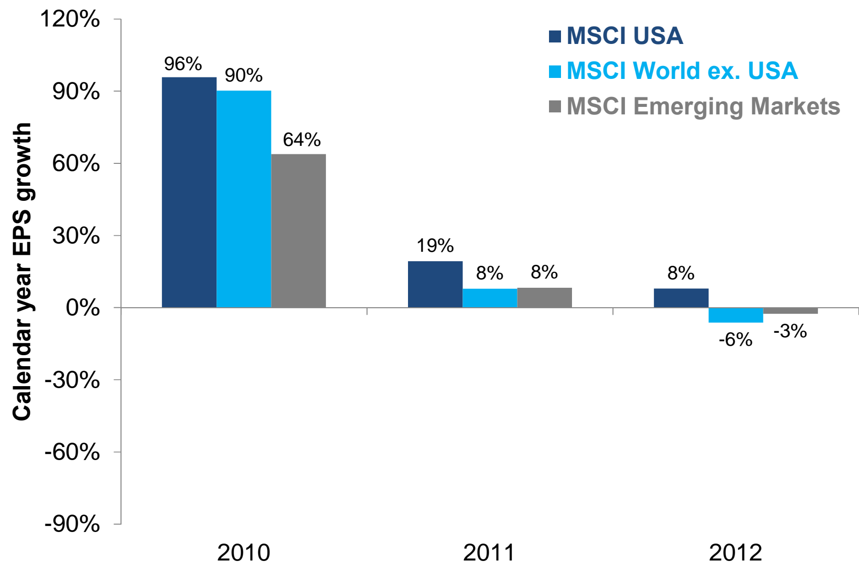
Rapid wage growth in China will likely see production return to the US mainland

With wages continuing to grow by double-digits in China, we are already seeing the rapid convergence of all-in production costs (including logistics, quality control etc.) between China and parts of the US. This is catalyzing a repatriation of production back to the US mainland which will surely accelerate as China wages continue to grow and US energy competitiveness increases. This should provide further positive support for the US economy going forwards.

Corporate earnings growth in the US has outpaced Europe and much of the world

While US economic growth has been moderate since the crisis, the corporate earnings picture has been much stronger, growing overall by 96%, 19% and 8% in 2010, 2011 and 2012 respectively. This has outpaced Europe and much of the rest of the world (Figure 2).

Figure 2. US corporate earnings have outpaced Europe and much of the rest of the world



Source: Citi Private Bank using FactSet as at April 29, 2013. EPS = earnings per share

We continue to see a steady rise in shareholder payouts in the US

While US earnings growth may be decelerating, with 2013 earnings per share growth projected to be 7.4% year-on-year by the consensus, this remains superior to other areas of the world. Furthermore, we continue to see a steady rise in shareholder payouts – both dividends and share buybacks are running at an annual pace of $700bn or 6% of current market capitalization. With good cash flows, strong balance sheets and elevated cash balances, we believe this trend will continue.

Behind the economic and corporate developments, continues to lie the aggressive monetary easing by the Fed (the current quantitative easing program is buying $85bn of securities per month). This year we expect to see the Fed buy more treasuries than the US government will issue.

Given the gradual and uneven pace of recovery, we believe the Fed will continue to apply aggressive stimulus in the future.

The Fed's aggressive stimulus has catalyzed a renewed search for higher yielding asset classes

One effect of this stimulus has been to catalyze a renewed search for higher yielding asset classes, given the low yields on offer for government securities and increasingly high-grade corporate issuers. This has resulted in inflows into both high yield and emerging market bonds. Investors are also allocating towards high-yielding equities, particularly companies with good balance sheets and strong cash flows. We believe this trend will continue.

Japan

Never before has Japan embarked on such aggressive monetary policy to stimulate inflation

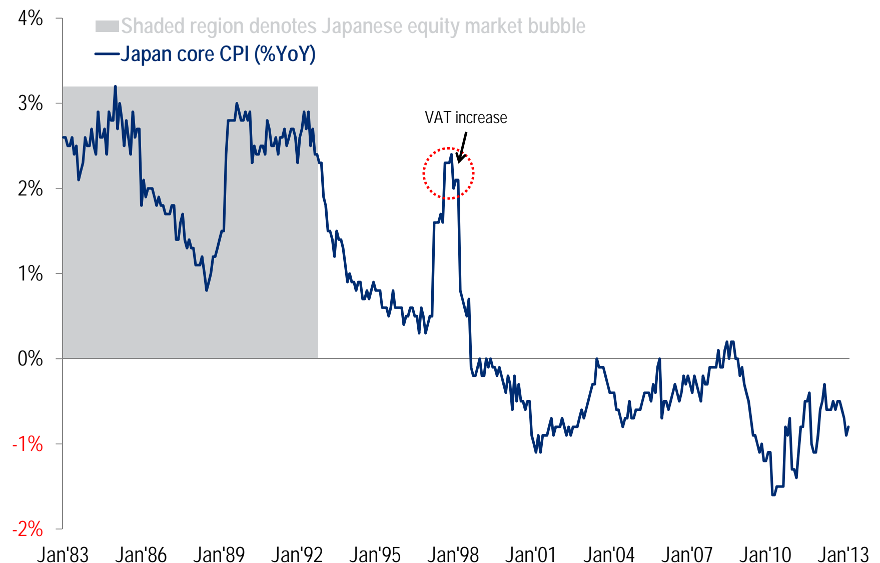
The change in leadership at the BoJ and resulting policy announcement represents a new era for Japan. Never before has Japan's central bank embarked on such aggressive monetary policy designed to stimulate inflation.

The new governor, Kuroda, announced a plan to buy up to $75bn of securities per month. Relative to GDP, this is equivalent to the Fed snapping up $200bn in securities each month [that is 2.5x its current pace]. Over the next two years, this will likely expand the BoJ's balance sheet from 30% of GDP to over 60%. This represents both huge growth and huge absolute amounts. In contrast, since the onset of the crisis, the Fed's balance sheet has risen from around 6% of GDP in December 2007 to 20% of GDP as at March 2013.

We expect more easing before Japan can achieve its 2% inflation target

The stated aim is to achieve a 2% inflation target. The order is tall, indeed. Looking back to even the bubbly 80's, the Japanese economy *barely* managed to produce a 3% inflation rate (Figure 3). While, in the short-term the BoJ will likely wait to see the results of the current stimulus package, we believe that more may well be initiated before it can achieve this target.

Figure 3. Inflation in Japan *only* rose to 3% during the 1980's asset price bubble



Source: Citi Private Bank using Haver Analytics as at April 29, 2013. CPI = consumer price index

The weakening Yen will provide support to Japan's export industries

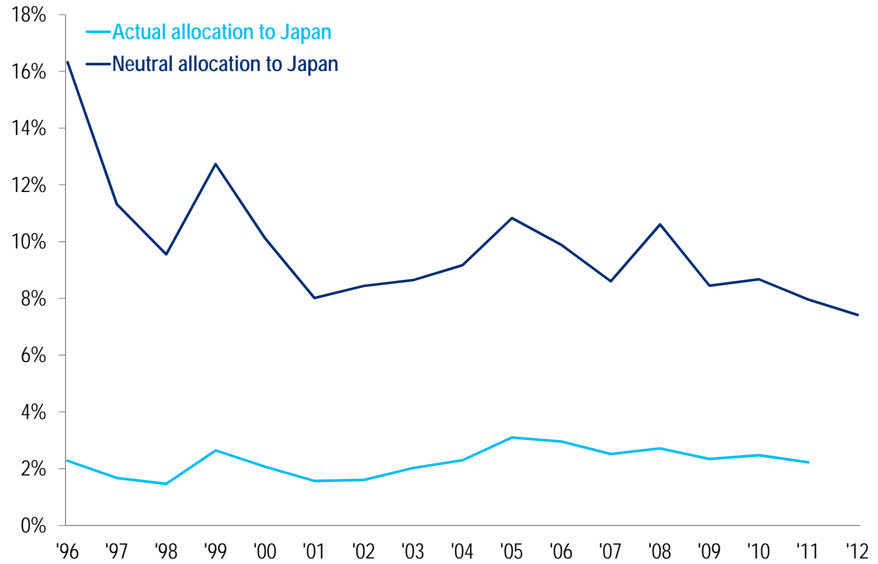
We have already seen the impact on the currency, with the Yen falling over 12% against the US dollar year-to-date. This will provide an immediate help to Japan's export industries. We are already seeing this feed into earnings estimates, with expectations for earnings to rise by over 48% year-over-year in 2013.

There could be more flows into Japan, especially if reforms gain traction

We have also seen a huge impact on the equity market, with the Japanese market rising by 36.5% (in local currency terms, year-to-date). Despite this rally, we believe many experienced investors are still not positioned in Japan given the many disappointments and false dawns in the past, often blaming inefficient labor markets and misaligned corporate incentives (Figure 4). Such scapegoats, however, are the target of the Prime

Minister's *third* arrow in the 'Abenomics' doctrine, and should be watched closely. Details are expected to emerge in the early summer months. We believe there could be more flows into Japan as investors gradually reposition, particularly if proposed reforms appear likely to gain traction.

Figure 4. Many experienced investors are still not fully exposed to Japanese equities



Source: Citi Private Bank using FactSet as at April 29, 2013.

Europe

Economic growth continues to be lackluster in Europe

Economic growth continues to be lackluster in Europe, with recent data looking far from encouraging. Spanish unemployment continues to rise, now standing at 27%. Youth unemployment is significantly worse at close to 60%. This picture is mirrored (although not as bleakly) across the whole region, with the exception of Germany.

One positive development is that Italy now appears to have finally formed a government. This government, a coalition of left and right wing groups, will at least provide some short term stability, although the policy divergence between the two camps will probably mean that the coalition will not last too long. In general, we continue to believe that new elections will eventually be called.

Backstopping the situation in Europe continues to be the European Central Bank's (ECB) promise to support bond markets and the upcoming German elections. German politicians are treading a fine balance between steering clear of European policies that could cause instability, while also appearing tough towards the debtor nations in the face of their electorate. We believe that overall both of these factors should contribute towards a relatively stable environment, with any big decisions being pushed back until after the elections in October.

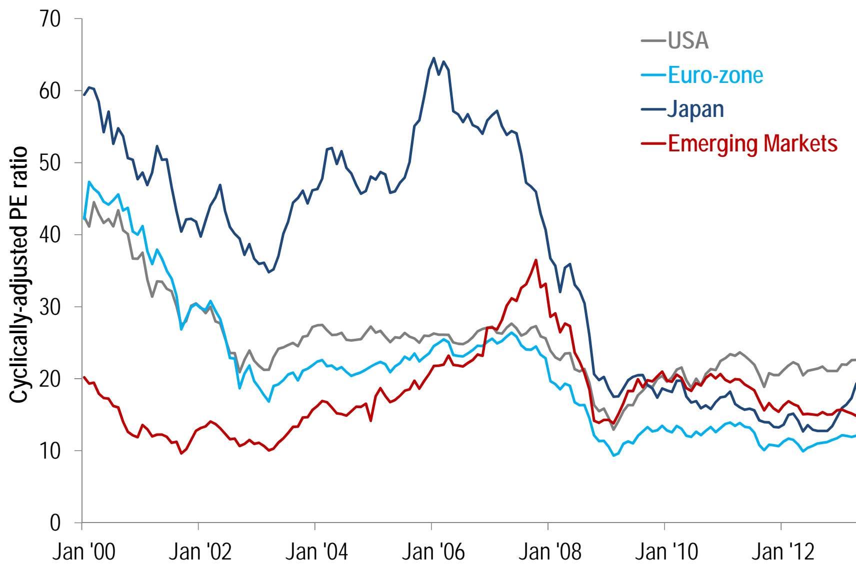
The ECB is now the only central bank to not be aggressively easing

The ECB is now the only major central bank to not be aggressively easing. We do expect interest rates to be cut this year but currently there is nothing more expected by market watchers. If the ECB were to do more, it would be a strong positive catalyst for markets in the region.

We remain overweight Europe, where valuations continue to look attractive

We remain overweight Europe, where valuation levels – especially cyclically-adjusted price-to-earnings ratios continue to look attractive and imply much of the difficult situation is already reflected in stock prices (Figure 5).

Figure 5. Cyclically-adjusted price-to-earnings ratio



Source: Global Financial Data as at April 29, 2013

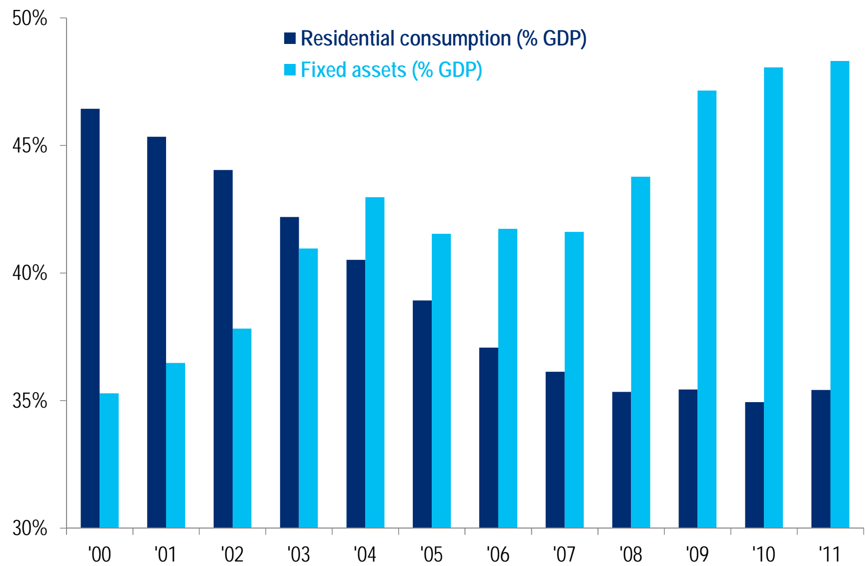
China

Recent economic data highlights the problems China is facing with maintaining growth while preventing overheating in some parts of the economy. While growth rates appear to be stabilizing compared to last year's deceleration, it seems a return to pre-crisis trends is unlikely.

The biggest difficulty for China is the unsustainable growth model

The biggest difficulty for China is the unsustainable growth model, with almost 50% of the economy effectively driven by construction (fixed asset investment in infrastructure, property and productive capacity). This continues to grow at a faster pace than consumption, demonstrating just how far China is away from any sort of rebalancing (Figure 6).

Figure 6. China's growth model remains a challenge



Source: Citi Private Bank using Haver Analytics as at April 29, 2013

With China able to finance its growth domestically, accounting for a huge 50% of the savings rate, the Chinese government has a good degree of control over growth – both through infrastructure projects and the banking system. However, signs that the current account surplus is falling should be somewhat concerning.

We are neutral China and emerging market equities

Nevertheless, our view is that in the short-term China will be able to maintain reasonable growth rates. We are neutral China and the rest of emerging market equities.

Fixed income

We are looking to keep interest rate exposure low

In light of a steadily recovering US economy, we believe that the current low yield levels (10-year treasuries at 1.7%) will gradually normalize over time. With this in mind, we are heavily underweight government bonds and are looking to keep interest rate exposure very low.

We continue to be overweight emerging market bonds in hard currency

We continue to be overweight emerging market bonds in hard currency where the country fundamentals – current account surpluses, low deficits, low government debt levels and good FX reserves – are often superior to developed markets.

We also favor high yield

We also favor high yield, which continues to experience low default rates and a supportive refinancing environment, although we would recommend adopting a selective approach.

Notes

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 April 22, 2013.

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.

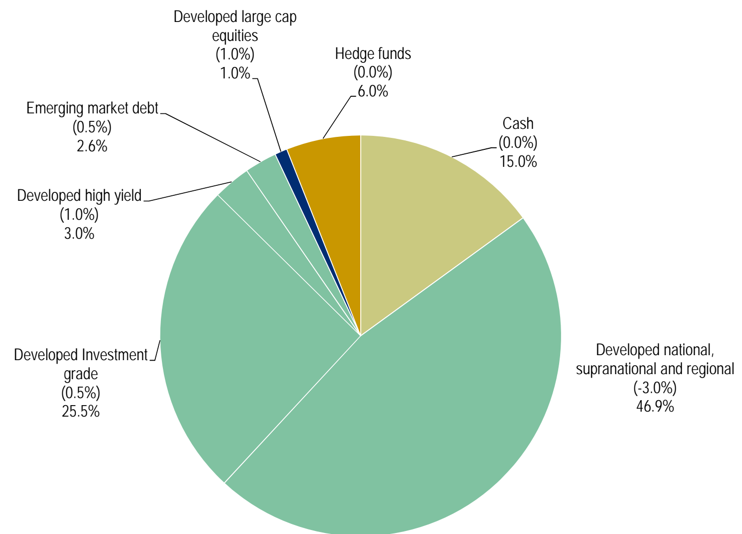
Classification	Strategic (%)	Tactical (%)	Active (%)
Cash	**15.0**	**15.0**	**0.0**
Fixed income	**79.0**	**78.0**	**-1.0**
Developed national, supranational and regional	**49.9**	**46.9**	**-3.0**
Fixed	**45.0**	**41.4**	**-3.6**
Americas	**14.0**	**19.1**	**5.0**
EMEA	**13.5**	**8.9**	**-4.6**
UK	2.2	1.5	-0.8
Core Europe	6.6	4.3	-2.3
Peripheral Europe	4.1	2.7	-1.4
Others	0.6	0.4	-0.2
Asia	**13.8**	**9.2**	**-4.6**
Asia (ex Japan)	0.8	0.5	-0.3
Japan	13.0	8.7	-4.3
Supranational	**3.8**	**4.3**	**0.5**
Floating	**4.9**	**5.5**	**0.6**
Europe (ex UK)	2.0	2.3	0.3
UK	1.1	1.2	0.1
Asia	0.0	0.0	0.0
US	1.7	2.0	0.2
Developed investment grade	**25.0**	**25.5**	**0.5**
Fixed	**25.0**	**25.5**	**0.5**
Americas	**19.6**	**20.5**	**0.9**
US corporate	7.2	9.0	1.8
US securitized	12.4	11.5	-0.9
MBS	12.3	11.4	-0.9
ABS	0.1	0.1	-0.0
EMEA	**5.4**	**5.0**	**-0.4**
Europe (ex UK)	4.7	4.3	-0.3
UK	0.7	0.7	-0.1
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**	**3.0**	**1.0**
Americas	**1.6**	**2.6**	**1.0**
EMEA	**0.4**	**0.4**	**0.0**
Asia	**0.0**	**0.0**	**0.0**
Emerging market debt	**2.1**	**2.6**	**0.5**
Americas	**1.0**	**1.2**	**0.2**
EMEA	**0.8**	**0.9**	**0.1**
Asia	**0.3**	**0.5**	**0.2**
Equities	**0.0**	**1.0**	**1.0**
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 GIC of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years.

Risk level 1: 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 GIC of the Citi Private Bank.

Core positions

- Developed large cap equities remain at 1.0% allocation corresponding to an overall 1.0% underweight position in global fixed income
- The overweight position in global developed investment grade stands at 0.5% versus the strategic benchmark
- Developed sovereign and supranational fixed income remains underweight (-3.0%) driven by underweights in European (-4.6%) and Japanese sovereigns (-4.6%). This is partially offset by a 1.5% overweight position in US municipal bonds.
- Developed high yield is at an overweight position (1.0%)
- Emerging market debt remains overweight (0.5%) versus the strategic benchmark.

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.

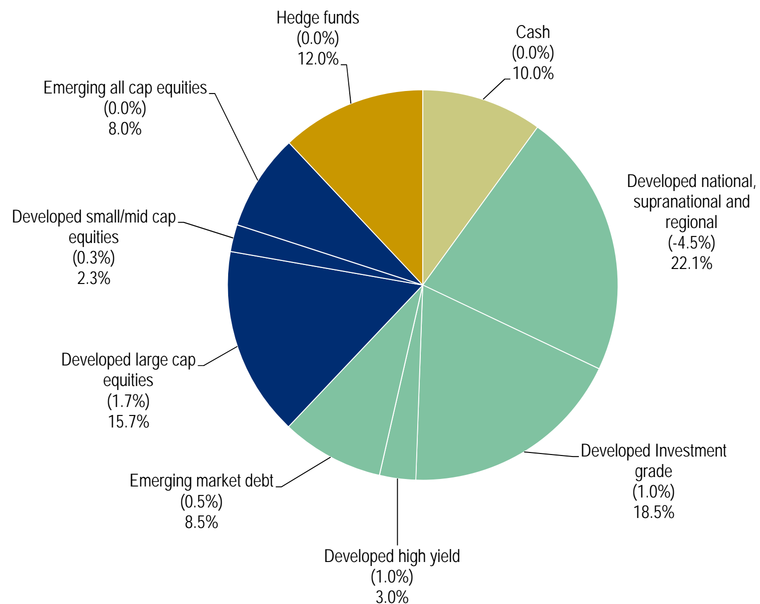
Classification	Strategic (%)	Tactical (%)	Active (%)
Cash	**10.0**	**10.0**	**0.0**
Fixed income	**54.1**	**52.1**	**-2.0**
Developed national, supranational and regional	**26.6**	**22.1**	**-4.5**
Fixed	**24.0**	**19.5**	**-4.5**
Americas	**7.5**	**9.0**	**1.5**
EMEA	**7.2**	**4.2**	**-3.0**
UK	1.2	0.7	-0.5
Core Europe	3.5	2.0	-1.5
Peripheral Europe	2.2	1.3	-0.9
Others	0.3	0.2	-0.1
Asia	**7.3**	**4.3**	**-3.0**
Asia (ex Japan)	0.4	0.2	-0.2
Japan	6.9	4.1	-2.8
Supranational	**2.0**	**2.0**	**0.0**
Floating	**2.6**	**2.6**	**0.0**
Europe (ex UK)	1.1	1.1	0.0
UK	0.6	0.6	0.0
Asia	0.0	0.0	0.0
US	0.9	0.9	0.0
Developed investment grade	**17.5**	**18.5**	**1.0**
Fixed	**17.5**	**18.5**	**1.0**
Americas	**13.7**	**14.9**	**1.1**
US corporate	5.0	6.5	1.5
US securitized	8.7	8.3	-0.3
MBS	8.6	8.3	-0.3
ABS	0.1	0.1	0.0
EMEA	**3.8**	**3.6**	**-0.1**
Europe (ex UK)	3.3	3.1	-0.1
UK	0.5	0.5	0.0
Asia	**0.0**	**0.0**	**0.0**
Floating	**0.0**	**0.0**	**0.0**
Developed high yield	**2.0**	**3.0**	**1.0**
Americas	**1.6**	**2.6**	**1.0**
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**	**0.0**	**0.0**
Commodities	**0.0**	**0.0**	**0.0**
Gold	**0.0**	**0.0**	**0.0**

Classification	Strategic (%)	Tactical (%)	Active (%)
Equities	**23.9**	**25.9**	**2.0**
Developed large cap equities	**13.9**	**15.7**	**1.7**
Americas	**8.2**	**9.0**	**0.9**
US all	7.6	8.8	1.3
Canada	0.6	0.2	-0.4
EMEA	**3.8**	**4.3**	**0.5**
UK	1.4	1.4	0.0
Germany	0.5	0.7	0.1
France	0.5	0.6	0.1
Switzerland	0.5	0.7	0.1
Benelux	0.2	0.2	0.0
Scandi	0.3	0.4	0.1
Spain	0.2	0.2	0.0
Italy	0.1	0.2	0.0
Others	0.1	0.1	0.0
Asia	**2.0**	**2.3**	**0.4**
Australasia	0.5	0.3	-0.2
Far East ex Japan	0.3	0.3	0.0
Japan	1.2	1.7	0.6
Developed small/mid cap equities	**2.0**	**2.3**	**0.3**
Americas	**1.2**	**2.3**	**1.0**
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	**8.0**	**8.0**	**0.0**
Americas	**1.8**	**1.8**	**0.0**
Brazil	1.1	1.1	0.0
Mexico	0.4	0.4	0.0
Other	0.3	0.3	0.0
EMEA	**1.4**	**1.4**	**0.0**
Turkey	0.1	0.1	0.0
Russia and Eastern Europe	0.5	0.5	0.0
South Africa	0.6	0.6	0.0
Other	0.2	0.2	0.0
Asia	**4.8**	**4.8**	**0.0**
China	1.5	1.5	0.0
India	0.5	0.5	0.0
South Korea	1.2	1.2	0.0
Taiwan	0.9	0.9	0.0
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 GIC of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years.

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 GIC of the Citi Private Bank.

Core positions

- Global equities remain overweight by 2.0%and global fixed income remains underweight by 2.0%.
- Within developed equities, overweights in US (2.4%), Europe ex UK (0.3%) and Japan (0.4%) are slightly offset by an underweight position in Asia ex Japan (-0.3%) and Canada (-0.5%). Overall, both developed large cap and mid/small cap equities are now at an overweight position.
- Emerging market equities remain at a neutral position across the three regions.
- Within fixed income, the overweight in global corporate investment grade stands at 1.0% versus the strategic benchmark
- Developed sovereign and supranational fixed income remains highly underweight (-4.5%). Within developed sovereign, underweights in Japan (-2.8%) and Europe (-3.0%) are slightly offset by an overweight position in US municipal bonds (0.6%).
- Emerging debt and developed high yield remain both overweight.

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.

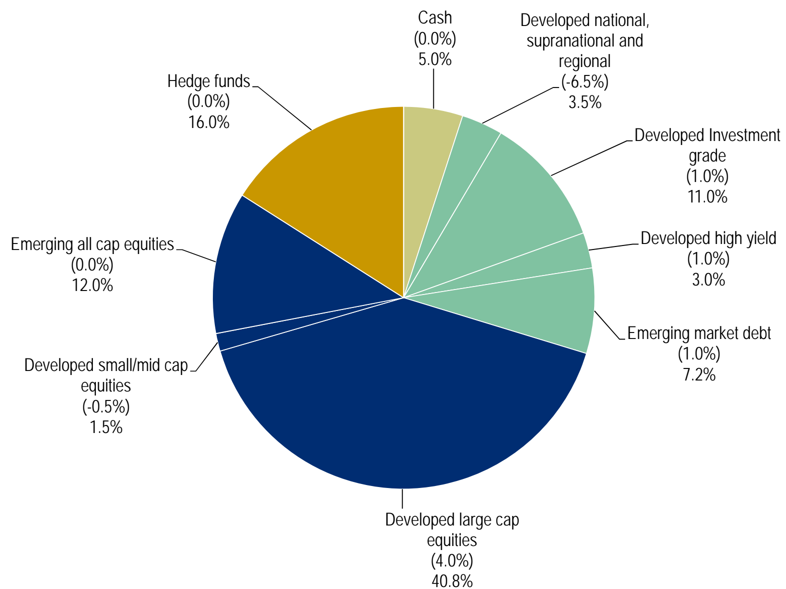
Classification	Strategic (%)	Tactical (%)	Active (%)
Cash	**5.0**	**5.0**	**0.0**
Fixed income	**28.2**	**24.7**	**-3.5**
Developed national, supranational and regional	**10.0**	**3.5**	**-6.5**
Fixed	**9.0**	**2.6**	**-6.4**
Americas	**2.8**	**1.8**	**-1.0**
EMEA	**2.7**	**0.0**	**-2.7**
UK	0.4	0.0	-0.4
Core Europe	1.3	0.0	-1.3
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**	**0.9**	**-0.1**
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	0.3	0.0
Developed investment grade	**10.0**	**11.0**	**1.0**
Fixed	**10.0**	**11.0**	**1.0**
Americas	**7.8**	**8.8**	**1.0**
US corporate	2.9	3.9	1.0
US securitized	5.0	5.0	0.0
MBS	4.9	4.9	0.0
ABS	0.1	0.1	0.0
EMEA	**2.2**	**2.2**	**0.0**
Europe (ex UK)	1.9	1.9	0.0
UK	0.3	0.3	0.0
Asia	**0.0**	**0.0**	**0.0**
Floating	**0.0**	**0.0**	**0.0**
Developed high yield	**2.0**	**3.0**	**1.0**
Americas	**1.6**	**2.6**	**1.0**
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**	**0.0**	**0.0**
Commodities	**0.0**	**0.0**	**0.0**
Gold	**0.0**	**0.0**	**0.0**

Classification	Strategic (%)	Tactical (%)	Active (%)
Equities	**50.8**	**54.3**	**3.5**
Developed large cap equities	**36.8**	**40.8**	**4.0**
Americas	**21.6**	**23.5**	**1.9**
US all	19.9	22.9	3.0
Canada	1.7	0.6	-1.1
EMEA	**10.0**	**11.3**	**1.3**
UK	3.6	3.5	-0.1
Germany	1.4	1.7	0.3
France	1.4	1.6	0.3
Switzerland	1.4	1.7	0.3
Benelux	0.5	0.6	0.1
Scandi	0.8	1.0	0.2
Spain	0.4	0.5	0.1
Italy	0.3	0.4	0.1
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**	**1.5**	**-0.5**
Americas	**1.2**	**1.5**	**0.3**
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**	**12.0**	**0.0**
Americas	**2.7**	**2.7**	**0.0**
Brazil	1.7	1.7	0.0
Mexico	0.6	0.6	0.0
Other	0.4	0.4	0.0
EMEA	**2.2**	**2.2**	**0.0**
Turkey	0.2	0.2	0.0
Russia and Eastern Europe	0.8	0.8	0.0
South Africa	0.9	0.9	0.0
Other	0.3	0.3	0.0
Asia	**7.1**	**7.1**	**0.0**
China	2.2	2.2	0.0
India	0.8	0.8	0.0
South Korea	1.8	1.8	0.0
Taiwan	1.3	1.3	0.0
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 GIC of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years.

Risk level 3: 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 GIC of the Citi Private Bank.

Core positions

- Global equities remain overweight by 3.5% versus the strategic benchmark.
- Within developed equities, overweight positions in US (3.4%), Japan (1.2%) and Europe ex UK (1.1%) are slightly offset by underweight positions in Canada (-1.2%) and Asia ex Japan (–0.7%).
- Emerging market equities stand at a neutral position across all the three regions.
- Within fixed income, the overweight in global corporate investment grade remains at 1.0% versus the strategic benchmark.
- Developed sovereign and supranational fixed income remains highly underweight (-6.5%). Within developed sovereign, underweights in Japan (-2.6%), Europe (-2.7%) and US treasuries (-1.2%) are slightly offset by an overweight position in US municipal bonds (0.4%).
- Emerging market debt remains overweight (1.0%), distributed equally across Asia and Latin America.
- Corporate high yield is kept at an overweight position (1.0%).

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.

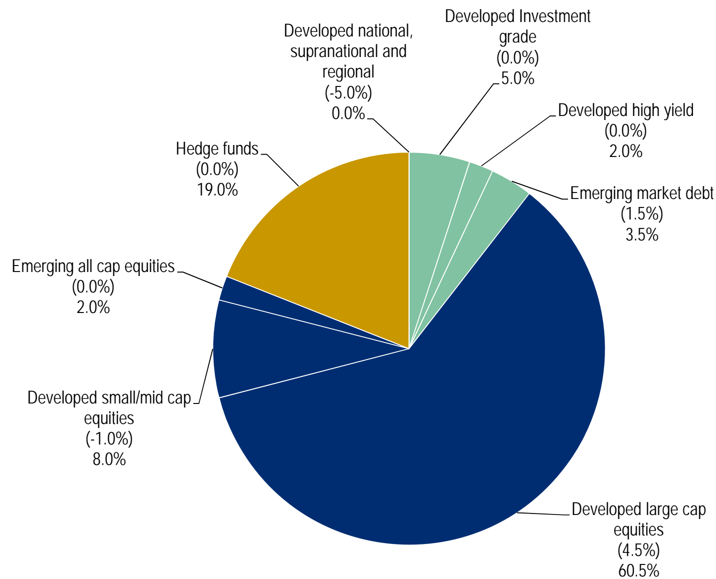
Classification	Strategic (%)	Tactical (%)	Active (%)
Cash	**0.0**	**0.0**	**0.0**
Fixed income	**14.0**	**10.5**	**-3.5**
Developed national, supranational and regional	**5.0**	**0.0**	**-5.0**
Fixed	**4.5**	**0.0**	**-4.5**
Americas	**1.4**	**0.0**	**-1.4**
EMEA	**1.3**	**0.0**	**-1.3**
UK	0.2	0.0	-0.2
Core Europe	0.7	0.0	-0.7
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**	**0.0**	**-0.4**
Floating	**0.5**	**0.0**	**-0.5**
Europe (ex UK)	0.2	0.0	-0.2
UK	0.1	0.0	-0.1
Asia	0.0	0.0	0.0
US	0.2	0.0	-0.2
Developed investment grade	**5.0**	**5.0**	**0.0**
Americas	**3.9**	**4.0**	**0.1**
US corporate	1.4	1.8	0.3
US securitized	2.5	2.3	-0.2
MBS	2.5	2.2	-0.2
ABS	0.0	0.0	0.0
EMEA	**1.1**	**1.0**	**-0.1**
Europe (ex UK)	0.9	0.8	-0.1
UK	0.1	0.1	0.0
Asia	**0.0**	**0.0**	**0.0**
Developed high yield	**2.0**	**2.0**	**0.0**
Americas	**1.6**	**1.7**	**0.1**
EMEA	**0.4**	**0.3**	**-0.1**
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**	**0.0**	**0.0**
Commodities	**0.0**	**0.0**	**0.0**
Gold	**0.0**	**0.0**	**0.0**

Classification	Strategic (%)	Tactical (%)	Active (%)
Equities	**67.0**	**70.5**	**3.5**
Developed large cap equities	**56.0**	**60.5**	**4.5**
Americas	**32.9**	**34.9**	**2.0**
US all	30.3	34.0	3.7
Canada	2.6	0.9	-1.7
EMEA	**15.2**	**16.7**	**1.5**
UK	5.5	5.2	-0.3
Germany	2.2	2.5	0.4
France	2.1	2.4	0.4
Switzerland	2.2	2.5	0.4
Benelux	0.7	0.9	0.1
Scandi	1.2	1.4	0.2
Spain	0.6	0.7	0.1
Italy	0.5	0.6	0.1
Others	0.3	0.3	0.0
Asia	**7.9**	**8.9**	**1.0**
Asia (ex Japan)	3.1	2.2	-0.9
Japan	4.7	6.7	1.9
Developed small/mid cap equities	**9.0**	**8.0**	**-1.0**
Americas	**5.5**	**8.0**	**2.5**
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**	**0.0**	**-1.4**
Asia (ex Japan)	0.5	0.0	-0.5
Japan	0.9	0.0	-0.9
Emerging all cap equities	**2.0**	**2.0**	**0.0**
Americas	**0.4**	**0.4**	**0.0**
Brazil	0.3	0.3	0.0
Mexico	0.1	0.1	0.0
Other	0.1	0.1	0.0
EMEA	**0.4**	**0.4**	**0.0**
Turkey	0.0	0.0	0.0
Russia and Eastern Europe	0.1	0.1	0.0
South Africa	0.2	0.2	0.0
Asia	**1.2**	**1.2**	**0.0**
China	0.4	0.4	0.0
India	0.1	0.1	0.0
South Korea	0.3	0.3	0.0
Taiwan	0.2	0.2	0.0
Other Emerging Asia	0.2	0.2	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 GIC of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years.

Risk level 4: 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 GIC of the Citi Private Bank.

Core positions

- Global equities remain overweight by 3.5% versus the strategic benchmark.
- Within developed equities, overweight positions in US (6.8%), Japan (1.0%) and Europe ex UK large cap (1.7%) are slightly offset by underweight positions in Canada (-2.2%) and Asia ex Japan (–1.4%)
- Emerging market equities stand at a neutral position across the three regions.
- Within fixed income, our position in global corporate investment grade is kept at neutral.
- Developed sovereign and supranational fixed income remains fully underweight (-5.0%) driven by underweights in Japan (-1.3%), Europe (-1.3%) and US (-1.3%).
- The corporate high yield position remains neutral.
- Emerging debt remains at an overweight position (1.5%).

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.

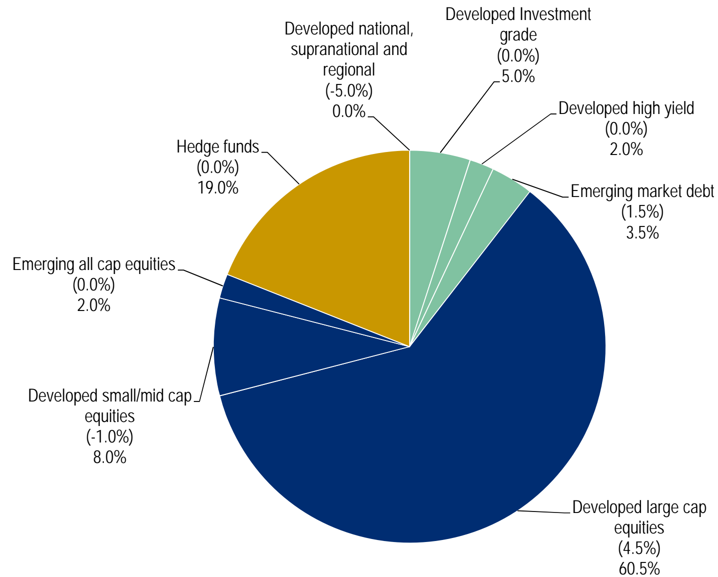
Classification	Strategic (%)	Tactical (%)	Active (%)
Cash	**0.0**	**0.0**	**0.0**
Fixed income	**4.0**	**3.0**	**-1.0**
Developed national, supranational and regional	**0.0**	**0.0**	**0.0**
Developed investment grade	**0.0**	**0.0**	**0.0**
Fixed	**0.0**	**0.0**	**0.0**
Americas	**0.0**	**0.0**	**0.0**
US corporate	0.0	0.0	0.0
US securitized	0.0	0.0	0.0
MBS	0.0	0.0	0.0
ABS	0.0	0.0	0.0
EMEA	**0.0**	**0.0**	**0.0**
Europe (ex UK)	0.0	0.0	0.0
UK	0.0	0.0	0.0
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**	**1.7**	**0.1**
EMEA	**0.4**	**0.3**	**-0.1**
Asia	**0.0**	**0.0**	**0.0**
Emerging market debt	**2.0**	**1.0**	**-1.0**
Americas	**0.9**	**0.5**	**-0.4**
EMEA	**0.8**	**0.3**	**-0.4**
Asia	**0.3**	**0.2**	**-0.1**
Equities	**76.0**	**77.0**	**1.0**
Developed large cap equities	**59.0**	**62.0**	**3.0**
Americas	**34.7**	**35.8**	**1.1**
US all	32.0	34.9	2.9
Canada	2.7	0.9	-1.8
EMEA	**16.0**	**17.1**	**1.1**
UK	5.8	5.4	-0.4
Germany	2.3	2.6	0.3
France	2.2	2.5	0.3
Switzerland	2.3	2.6	0.3
Benelux	0.8	0.9	0.1
Scandi	1.3	1.5	0.2
Spain	0.6	0.7	0.1
Italy	0.5	0.6	0.1
Others	0.3	0.3	0.0

Classification	Strategic (%)	Tactical (%)	Active (%)
Asia	**8.3**	**9.1**	**0.8**
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**	**13.0**	**-2.0**
Americas	**9.1**	**13.0**	**3.9**
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**	**0.0**	**-2.4**
Asia (ex Japan)	0.9	0.0	-0.9
Japan	1.5	0.0	-1.5
Emerging all cap equities	**2.0**	**2.0**	**0.0**
Americas	**0.4**	**0.4**	**0.0**
Brazil	0.3	0.3	0.0
Mexico	0.1	0.1	0.0
Other	0.1	0.1	0.0
EMEA	**0.4**	**0.4**	**0.0**
Turkey	0.0	0.0	0.0
Russia and Eastern Europe	0.1	0.1	0.0
South Africa	0.2	0.2	0.0
Other	0.0	0.0	0.0
Asia	**1.2**	**1.2**	**0.0**
China	0.4	0.4	0.0
India	0.1	0.1	0.0
South Korea	0.3	0.3	0.0
Taiwan	0.2	0.2	0.0
Other Emerging Asia	0.2	0.2	0.0
Hybrid investments	**20.0**	**20.0**	**0.0**
Hedge funds	**20.0**	**20.0**	**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 GIC of the Citi Private Bank.

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 GIC of the Citi Private Bank.

Core positions

- Global equities remain overweight by 1.0% and global fixed income remains underweight by 1.0%.
- Within developed equities, overweight positions in US (7.7%), Japan large cap (1.9%) and Europe ex UK large cap (1.5%) are slightly offset by underweight positions in Canada (-2.7%) and Asia ex Japan (–1.9%).
- Emerging market equities stay at a neutral position across the three regions.
- Within fixed income, the only position corresponds to a 1.0% underweight in emerging market debt.
- Corporate high yield allocation remains unchanged at 2.0% and stands at a neutral position versus the strategic benchmark.

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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