Q1 | 11

Standpoint

Global market analysis from the Global Consumer Group

2011, the year of Great Imbalances

Growing Imbalances

After the year of the "Credit Crisis" (2008), the year of the "Great Recovery" (2009) and the year of the "Sovereign Crisis" (2010), what could be 2011? The expression that probably best describes the opinion of Citi analysts is "Great Imbalances". According to them, the Global economic growth is likely to remain sluggard in the developed world and uncomfortably fast in the emerging world. Obviously, global growth is rarely uniform, but the current recovery is more uneven across major economies than usual. For example, while global growth in 2010E (3.9% YoY) has been well above average (2.9%), the countries that recorded strong growth (above the last 30 years average or above 8% YoY) accounted for only about 50% of the global GDP. In other words, for roughly half the global economy, 2010 was not a particularly good year. By contrast, in previous periods of strong global growth (e.g., 1984-89, 1994-97, 2004-07), countries with strong growth accounted for more than two-thirds of global GDP. Citi analysts believe that the core themes that will dictate macro trends in 2011 are Easy Money, Sovereign Crisis and Asian Leadership.

US Easy Money

After the launch of the second round of Quantitative Easing in the US, Citi analysts think that the Federal Reserve will stay focused on improving, or at least stabilising, financial conditions until labour market and inflation trends show signs of sustainable improvement. However, Citi analysts think that achieving these objectives will prove tricky for the Fed as deleveraging remains extremely high with the Private sector financial surpluses (households plus companies) having soared to 7-8% of GDP in the US in 2010 while the process of balance sheet repair is probably not yet over, given the overhang of high private debts.

Citi outlook

A snapshot of Citi's global market views across a select group of asset classes, regions and currencies over the next six to twelve months.

Our Market Outlook reflects our assessment of each asset class independently of other asset classes. Our Portfolio Allocation reflects our relative assessment of each asset class in the context of a portfolio. Investors' expectations of a new program of quantitative easing (QE) had previously sent US Treasury yields lower and equities around the world higher. Since the 3 November announcement of QE, US rates at the long end have moved higher and going forward, Citi analysts expect US and core European government bonds to sell off moderately as developed economies continue to grow at a slow-to-moderate pace and as markets focus more on the fiscal deficits. Short-term rates are likely to remain at a historically low level, however, as Federal Reserve and European Central Bank policy rates are likely to remain unchanged in 2011 and well into 2012.

The outlook is for continued corporate earnings growth over the coming year, though earnings growth rates may be more subdued in 2011 than the recovery year of 2010. Public finance deleveraging ("fiscal austerity" programs) is expected to cloud growth prospects in developed countries, leading Citi analysts to hold a balanced performance outlook for global bonds and global equities over the coming months. Within bonds, they continue to favour the outlook for corporate investment-grade and especially high-yield bonds, with the view that companies are likely to continue strengthening already strong balance sheets. Within equities, they favour the outlook for German and Japanese stocks, over other regional equity markers, particularly US stocks.

Global equities

Market	Market outlook	Portfolio allocation
	Neutral	Neutral
US	Negative	Underweight
Europe	Positive	Overweight
Japan	Positive	Overweight
Latin America	Neutral	Neutral
Asia Pacific	Negative	Underweight
Eastern Europe	Neutral	Neutral

Global fixed income

Market	Market outlook	Portfolio allocation
	Neutral	Neutral
US Treasuries	Negative	Underweight
US High Grade Corporate	Positive	Overweight
Euro Government Bonds	Negative	Underweight
Euro High Grade Corporate	Positive	Overweight
Japan Investment Grade	Neutral	Neutral
High Yield	Positive	Overweight
Emerging Market Debt	Positive	Overweight

Alternative investments	Market outlook	Portfolio allocation
	N/A	Neutral
Hedge Funds	Neutral	Neutral

Data Source: Citigroup Global Markets Inc. Weightings provided by Citigroup Global Wealth Management and Citigroup Global Consumer Group Investments as of December 2005.

Sovereign Crisis in the Euro Area

Citi analysts expect continued economic weakness and extremely high sovereign spreads in Greece, Ireland and Portugal. With rescue packages in place, they do not expect early sovereign debt default or restructuring in 2011, and nor do they expect the crisis to spill over into a significant tightening in financial conditions for core countries. However, Citi analysts believe that simple creation of more liquidity will not be enough to save Europe. The Irish and Spanish sovereign-debt crisis is also a crisis of fiscal non-sustainability and bank insolvency. They therefore think that the rescue mechanism will have to be expanded in time and size, and that the question of debt restructuring will eventually have to be addressed. They also think that if sovereign risk contagion widens, especially to Spain, then adverse effects on euro area growth and financial conditions might well escalate markedly.

Asian Leadership

Citi analsts believe that Emerging Asia's is likely to grow at twice the pace of the global GDP as the region benefits of solid fiscal positions, relatively low household debt levels, high personal savings, relatively low corporate leverage and low external debts. Moreover, monetary conditions for most countries in Asia remain very accommodative on the back of both slow rate hikes vis-à-vis inflation and liquidity creation in the developed world prompting capital inflows into the region. With relatively well-capitalized Asian banks, intermediation of low (in many cases, negative) real rates into robust credit growth has been very effective, providing fuel to Asia's domestic demand. In Citi analysts' opinion, risks in Asia and Emerging Markets are rather to the upside than to the downside.

Challenging Year for Investors

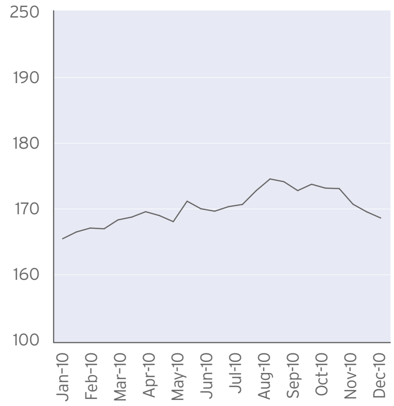
After a bouncy but positive year for investors, Citi analysts think that 2011 is likely to be another challenging year for investors. They believe that macro uncertainties and imbalances will continue to generate high levels of volatility, but they also observe growing divergences between macro trends and markets performances. It is indeed striking to see that in 2010, European equities outperformed US equities in local currencies, despite the Sovereign Crisis in the EU and the Quantitative Easing in the US, whilst Chinese equities were amongst the poorest performers despite the role of China as driver of the global economy. In an environment of growing macro imbalances, Citi analysts think that earnings growth and valuations are likely to be key performance factors in 2011.

Europe

Fixed income

Economic and Yields Divergences

A divergence in trends is emerging in Citi forecasts for European growth in 2011. Forecasts for France and the periphery countries of the Eurozone continued to be reduced, while Citi analysts have revised up their 2011 GDP forecast for the entire Eurozone, from August's 1.2% to the current forecast of 1.4%. Germany and the other northern countries have seen their 2011 GDP growth estimates hiked. The Periphery countries not only suffer from large fiscal and debt imbalances, but they are also suffering from a loss of competitiveness as the euro has not adjusted downward to allow them to grow. The divergence is more striking in the movement in yields and related credit default swap (CDS) spreads: the riskiness of the bonds of Ireland and Portugal has now attained levels close to Greece, and Spain and Italy have worsened too. In this challenging backdrop, Citi analysts forecast that the ECB will not raise rates in 2011, but will begin raising rates in 1Q12, before the Fed begins its rates normalization process. Citi analysts continue to be negative on government bonds, particularly periphery sovereign bonds, as they expect spreads to continue to increase going forward. They are less pessimistic for German bunds given their "safe haven" profile and the accommodative monetary policy. Citi analysts find Corporate Bonds more attractive on positive earnings trend, continued deleveraging and attractive relative yields.



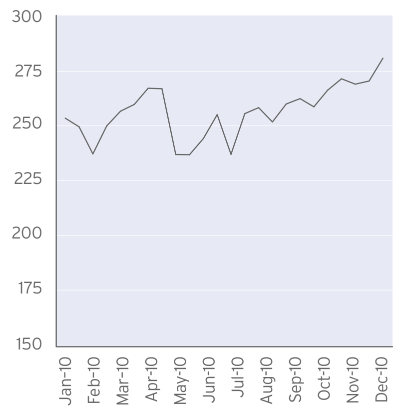
Citi Euro BIG (EUR)

Data source: Bloomberg as of December 31, 2010

Equities

Valuations and Emerging Markets Exposure

Looking at the strong performance of European stocks in 2010 as opposed to the European GDP growth or the Sovereign risks in the Euro Area, investors might look at European stocks as a winning contrarian play. However, a closer look at the performances drivers shows that prices have been largely driven by fundamentals which are likely to continue to support European Equities in 2011, according to Citi analysts. Given the two-speed economic recovery and the increasing divergences between economic growth in Emerging Markets and Developed Countries, it seems emerging markets represent better growth opportunities in today's world. European companies, benefitting from a larger share of their earning stream from Emerging Markets activity, are likely to deliver more attractive earnings growth potential for investors. In addition, Citi analysts believe that the valuations of European stocks appear particularly attractive compared to other regions. Not only the Price-to-Earnings ratios didn't re-rate this year as earnings grew faster than stock prices, but Equity risk premia remain particularly high at 6,6% versus 2% for US equities for example. Citi analysts also think that country risk will remain elevated as the Irish bailout illustrates the potential for contagion across Europe. Country alpha was powerful in 2010 and Citi still prefers Core European countries over Periphery countries.



DJ Stoxx 600

Data source: Bloomberg as of December 31, 2010

Forecasts may not be attained. **Past performance is no guarantee of future results.**
There are additional risks associated with foreign investments.

North America

Fixed income

The Fed's focus on accommodation likely to put a floor on risk

The US continues to face a challenging economic landscape, with stalled labor and housing markets. Slower global growth on the back of Europe's ongoing currency crisis and China's efforts to cool inflationary pressures provide an uncertain business environment for export markets. Rather than policy normalization that many expected one year ago, the Federal Reserve (Fed) has embarked on a new round of extraordinary intervention in the securities markets, announcing a six-month program of $600B of Treasury purchases. Citi analysts expect soft economic conditions to keep the central bank's focus on monetary accommodation and with inflation continuing to be subdued, Citi expects the Fed to leave the current 0-0.25% policy interest rate unchanged throughout 2011 and well into 2012.

Reoccurring episodes of financial uncertainty, especially related to stresses in the Eurozone, may favor US Treasuries as a safe haven, but Citi's general expectation for the year ahead is for positive economic momentum to benefit more risky forms of fixed income, offering a spread on the risk-free products. Corporate balance sheets in the US came into the crisis stronger than individual balance sheets; since that time, governments have experienced fiscal difficulties, leaving corporate borrows as the strongest issuers.

With corporate default rates expected by Citi analysts to continue falling, Citi recommends an overweight to corporate bonds. Furthermore, as yields on US Treasury bonds remain quite low, they believe that investors may now be well compensated for holding lower-rated, higher-yielding corporate bonds.

Citi US BIG

Data source: Bloomberg as of December 31, 2010

Equities

US stocks may underperform over the coming year due to relative valuation concerns

US equities headed higher in the fourth quarter as the Federal Reserve's quantitative easing (QE) program reassured markets that the central bank was putting a floor on the economy, reducing the probability of a double-dip recession. On the back of a stimulative tax deal in Washington, Citi analysts hiked their US GDP forecast for 2011 by 0.5% to 2.7%, as they see potential for the economy to pick up steam in the second half of 2011. A serious proposal on closing the long term fiscal deficit from a presidential bipartisan commission in early December also raised hopes.

While Citi believes that the US economy continues to recover, the slow pace of the cyclical recovery and the relatively rich equity valuations could limit stock price performance in the short term. Moreover, a long list of concerns could weigh on stock market performance, including: US financial reform implementation, the health of the European banking sector, uncertainty fiscal reform efforts and the prospect of rising bond yields.

A continued rally in 2011 is, however, forecasted by Citi analysts, and is expected to be driven by solid corporate earnings growth, some improvements in the labor market and domestic demand. Within the US equity market, Citi continues to recommend no bias between small-, mid- or large-cap stocks. Compared to other regional equity markets around the world, Citi fears that US stocks may underperform over the coming year due to relative valuation concerns.

S&P 500 Index

Data source: Bloomberg as of December 31, 2010

Japan and Asia Pacific

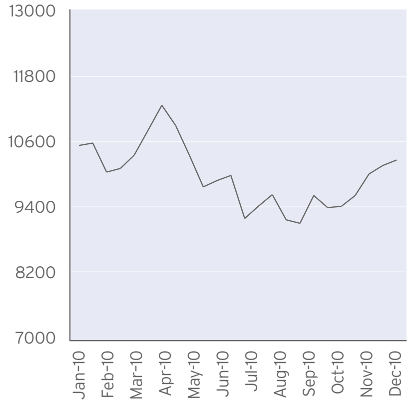
Japan Equities

Supportive US Yields

After bottoming on November 3, Japanese equities have staged a rapid recovery. Citi analysts think this is because US long-term interest rates have turned higher and the yen weaker, as the gap between Japanese and US long-term rates widens. They forecast a rebound in Japanese equities through next spring.

First, Japanese equities have been laggards, underperforming the global index over the last year. There has been a lull in yen appreciation, so Citi analysts are optimistic that Japanese equities will shed their laggard ways. Second, US long-term rates are showing signs of rising and this should push the yen weaker. Third, they note the seasonality in share price gains. Japanese equities tend to rise from November through April the next year. Since 1990, TOPIX has on average gained 9.5% from the November low to the April high the next year.

However, Citi analysts believe the performance of equities after their initial bounce will depend on what happens with the US economy and the financial crisis in Europe. They expect economic weakness in Europe and the US to be protracted, so the rate at which Japanese equities advance could fade. In other words, they think that the current bounce in Japanese equities is in large part a reaction to their having fallen too far. As for sector recommendations, Citi analysts think the long-term gains for Asia plays and for international commodity price-driven names will continue. Near term, however, they forecast gains for laggard domestic-demand stocks and financials.



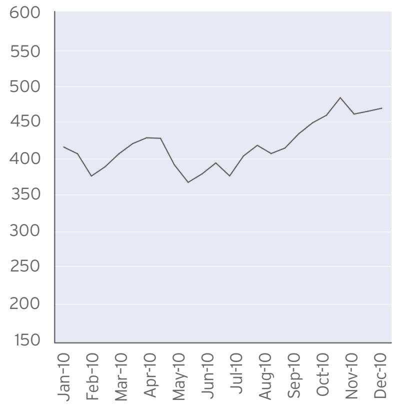
NIKKEI 225 Index
Data source: Bloomberg as of December 31, 2010

Asia Pacific Equities

Positive Momentum despite Monetary Risks

Asia's growth is likely to moderate in 2011 because of base effects. This is especially so in the first half of the year, but momentum is expected to stay relatively strong as investment remains buoyant in many countries. Inflation concerns are likely to warrant continued monetary policy normalization, though regulators are also likely to seek to manage capital inflows to slow FX appreciation. Citi analysts however believe that these regulations are unlikely to be very effective and consequently expect a combination of rate hikes, currency appreciation and asset reflation throughout 2011.

Citi analysts remain constructive on Asian stocks in general. . With negative real rates and very low nominal rates, the liquidity environment remains favourable for financial assets. An upward sloping US yield curve and a weak USD should help to reflate Asian assets while excess domestic liquidity is turning up, which could further support equities. On top of this, as 2011 is the third year of the stock market cycle, price-to-earnings (P/E) multiples may start expanding again, as they tend to have done historically, with investors becoming convinced of the economic recovery and extending their investment horizons. Additionally, with the region's capex-to-sales ratio about 10% to 30% below the 10-year average, capex may emerge as a significant driver, which bodes well for future corporate earnings. The growth recovery is expected to tilt the advantage back towards cyclicals, which are relatively cheap and under-owned. Citi analysts are therefore overweight banks, real estate, industrials, energy, and technology.
In terms of markets, expect a strong performance of Japanese stocks, they are neutral on Emerging Asia and underweigh Developed Asia. Their favourite countries are Hong Kong (low interest rates and a weak USD), Korea (cyclical and capex play) and Taiwan (cyclical and tech exposure).



MSCI Asia Pacific Ex-Japan
Data source: Bloomberg as of December 31, 2010

CEEMEA and Latin America

CEEMEA Equities

Improving Relative GDP growth pace

Although the GDP growth rate in CEEMEA economies has fallen short of those in Asia and Latin America, Citi analysts observe that has still fared well over the course of 2010, with upgrades to GDP growth expectations in many places. There has been considerable variation within the region. Turkey beat growth expectations by the most as Citi analysts started the year looking for 4.2% growth in 2010, while they see upside potential to their current 7.6%. The story in Russia has been more disappointing as the market is likely to match our analysts' 3% estimate at the beginning of the year but fall short of their mid-year expectations that had risen closer to 6%. Going forward, Citi analysts expect growth rates in CEEMEA to be similar next year for the region overall, compared with slowing in Asia and Latin America. Therefore the growth gap between CEEMEA and the rest of the emerging world should close somewhat. Citi analysts expect CEEMEA equities to perform well in 2011 driven by local and global economic expansion, earnings growth but also by a small re-rating. They indeed expect earnings to rise by over 25% in CEEMEA while valuations do not yet look excessive. In addition, limited growth prospects in the developed world and very low interest rates are likely to continue to favor portfolio flows into emerging markets and feed large equities issuances in 2011.

MSCI EM EMEA

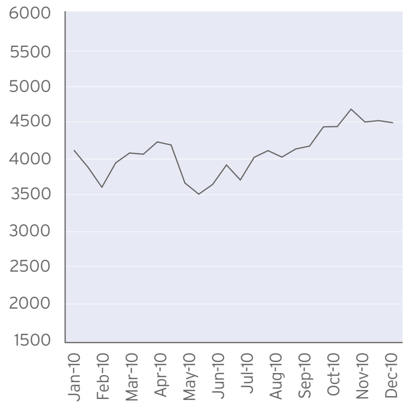
Data source: Bloomberg as of December 31, 2010

Latin America Equities

Strong outlook for equities across Latin America

Citi analysts think valuations for Latin American equities on the whole remain reasonable, though looking across the regional equity universe, some pockets of the market may be getting expensive. Some sectors and individual stocks have run considerably since the lows of last summer with the risk/reward no longer as compelling. The primary example of this is the consumer staples sectors in Brazil and in Chile. Other segments of the market that have also had a very strong run include banks, parts of the industrial sector and, within commodities, copper, gold and silver stocks. Many of the stocks in these groups are around prices very close to their 3-year highs.

Citi analysts have argued that the risk/reward in banks, consumer staples, core industrials and copper, gold and silver stocks is less attractive and while certain stocks in these sectors may perform well, this could be a time to take some profits on winners. In Citi's view, a rotation to some of last year's worst performing stocks could be the right move. Citi analysts believe that the best opportunities among the laggards of 2010 include the commodity underperformers as well as some of the growth stocks that have lost favor with investors. Less attractive are the laggards with more structural issues, such as significant political, corporate governance, competitive, regulatory and balance sheet risks. These structural issues may be difficult to fully overcome in the short to medium term and could remain an overhang on these stocks.



MSCI EM Latin America

Data source: Bloomberg as of December 31, 2010

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Global REITs and commodities

Real Estate Investment Trusts (REITs)

Potential for US REITs to post a third year of gains in 2011

Citi analysts see potential for the US REIT sector to produce positive returns for the third consecutive year in 2011. While they acknowledge that concerns are mounting, particularly the spike in longer term interest rates, they see five important tailwinds that could benefit US REITs over the next 12 months: (1) accelerating internal growth, (2) ramping external growth, (3) rising dividends, (4) increased capital flows which should keeping cap rates flat to down and (5) a cost of capital advantage for REITs versus the private market.

The US REIT sector's core earnings and cash flow growth could accelerate to 6-8% in 2011 and 2012, Citi analysts believe. Same store growth is expected to accelerate over the next few years (averaging 2-3%), while REITs could potentially continue to accelerate their external growth initiatives, enhanced through accretive stock and debt financing. Dividends, which were cut through the downturn, have begun to increase and Citi expect the industry's yield to grow in excess of 5-10% per year in 2011 and 2012, driven by cash flow growth and the lowest payout ratios on record. Capital flows have also been a large contributor to returns over the years and there appears to be substantial capital on the sidelines. Cap rates could continue to compress as this capital is put to work.

Still, valuation poses a concern for some investors – the broad equity market offers lower multiples and better growth prospects, while the sector's spread to corporate bonds yields has narrowed considerably. Nonetheless, Citi analysts believe that valuation in itself is not enough of a catalyst for US REITs to reverse course, though it may limit the upside and keep returns more modest than in the recent past. They forecast total returns of 5-15% for 2011 versus the 21% seen in 2010 (as of 15 December).

EPRA/NAREIT Global Index

Data source: Bloomberg as of December 31, 2010

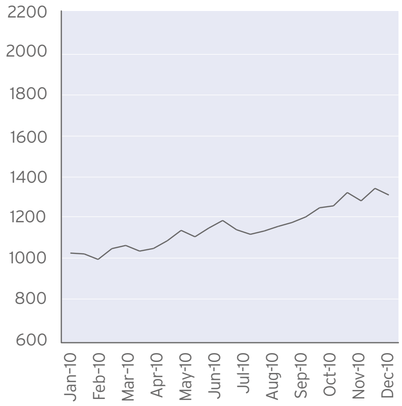
Commodities

USD and emerging markets remain key, volatility to persist given myriad of macro concerns

The USD and emerging market demand are likely to remain key determinants of the outlook for commodities in 2011. Firstly, the expansion of USD liquidity from a second round of quantitative easing (QE2) by the US Federal Reserve (Fed) is expected to weaken the USD and lend support to commodity prices. Another implication of QE2 is that many emerging market currencies are likely to continue strengthening against the USD, which means, all else equal, effectively cheaper commodity rates and therefore supporting demand for them. Secondly, robust growth is expected to continue in emerging market economies in 2011. Considering that these economies account for a large and rising fraction of world GDP (around 50%) and as their consumption is commodity-intensive, strong demand should lend support to prices over the medium term. But, that said, given the myriad of macro concerns (Europe's fiscal crisis, China's policy tightening, currency/trade wars), commodity prices are likely to stay volatile.

The impact of QE2 on risk sentiment and USD is expected to support oil prices despite high, but gradually falling US inventories. Additionally, global economic growth, led by emerging market demand, and improving fundamentals in the developed world is likely to continue to put gradual upward pressure on prices. Further gains are anticipated for most base metals in the short and medium term, especially aluminium and copper.

Gold continues to be the clear beneficiary of QE2 as policy rates stay low and the USD weakens. "Safe-haven" demand also remains in play on the back of significant tail risks to the global economy. While Citi analysts expect gold to rally further in the short term, they caution that prices could be vulnerable as the global economic recovery gains traction and expectations of higher policy rates build up.



Golds US$/troy oz.

Data source: Bloomberg as of December 31, 2010

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There are additional risks associated with foreign investments.

Currencies

Euro

Citi models suggest that despite the move lower in the EUR – USD interest rate differential, the spot EUR/USD exchange rate still trades below its predicted value of 1.34. Citi analysts think that while the EUR consolidation may look vulnerable at the moment, a reversal in the upside pressure on US yields as well as an easing of the strains in the euro area peripherals could allow EUR/USD to move closer to the predicted value in the beginning of the year. Negotiations on the design and the implementation of euro area Permanent Crisis Resolution Mechanism could aid EUR consolidation going further. Citi analysts also believe that the ability of the ECB to credibly distance itself from the bailouts in the periphery will determine the degree of cyclical support EUR will receive in 2011. Furthermore, the overall perception of the ECB as being the most hawkish of the major Central Banks should continue to provide EUR with cyclical support in the coming months. Citi analysts forecast an exchange rate of 1.45$/€ on a 6-12 months horizon.

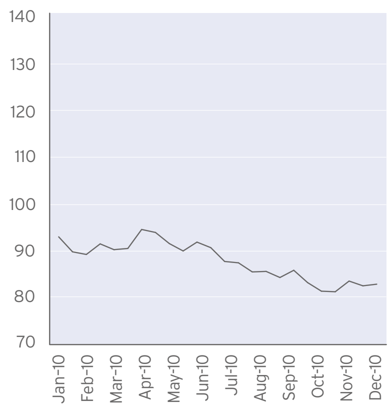
Yen

The risk of intervention, either direct or indirect in the form of further quantitative easing in Japan, has eased as USD/JPY has stabilized above 83 in December. Downward pressure has also eased as it appears exporters have largely caught up with their underhedge and covered positions through the end of the calendar year, according to Citi analysts. They think a sustained rebound in risk appetite could weaken the JPY further as the market goes back to using it as the funding leg of intra-regional trades. Further widening in USD-JPY rate differential on the back of continuing rally in US yields could support USD/JPY in the very near term as well. Citi analysts believe that USD/JPY may rebound to as high as about 90 between December and the 2nd quarter of 2011. After Q2, Citi analysts do not expect USD/JPY to decline again and believe that USD/JPY will continue along a gradual upward trajectory. Citi analysts forecast an exchange rate of 84 JPY/USD on a 6-12 months horizon.

Pound sterling

Despite the end of year correction in GBP/USD due to better than expected macroeconomic data in the US, weakening UK labor market data and concerns about growing social discontent ahead of the upcoming fiscal austerity in 2011, Citi analysts think the GBP/USD strengthening trend should persevere going forward. They expect the Sterling to be supported by more evidence that the economic recovery is gaining traction in the UK while inflation pressures in the UK remain very strong and the 12-months CPI expectations hit 2-year high. With inflation pressures in the UK feeding into higher inflation expectations, Citi analysts maintain a fairly constructive view on the GBP and expect a cautious rebound in the beginning of the year term if risk appetite recovers some more. Citi analysts forecast an exchange rate of 1.63$/£ on a 6-12 months horizon.

Euro-Dollar (USD/EUR)
Data source: Bloomberg as of December 31, 2010



Dollar-Yen (JPY/USD)
Data source: Bloomberg as of December 31, 2010

Pound-Dollar (USD/GBP)
Data source: Bloomberg as of December 31, 2010

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2018-2022 World Cups and CEEMEA

By Andrew Howell, Equity Strategist for the Central and Eastern Europe, Middle East and Africa (CEEMEA)

FIFA has announced that the 2018 and 2022 FIFA Soccer World Cups will take place in CEEMEA: Russia in 2018 and Qatar in 2022. These decisions have been announced in a year in which CEEMEA's South Africa hosted the World Cup; two years from now, Russia will host the Winter Olympics and Poland and Ukraine will co-host the UEFA European Cup. Having been largely overlooked as a site for major world sporting events in the past, CEEMEA is becoming a hotbed of sporting activity.

Prior World Cups: The Economic Record

Earlier this year, our South Africa economist Jean-Francois Mercier wrote an in-depth assessment of the ramifications of the 2010 FIFA World Cup on South Africa, quantifying the expected impact of such an event. On the positive side, he argued, the following can be expected: a boost to infrastructure spending in the five years prior to the event; benefits to hospitality, retail, telecoms and a range of other domestic industries in the year of the event; and possibly some lasting benefits to tourism, national pride and a country's "image" in the years after the event. On the negative side, such events are likely to bring higher government debt, an increase in imports, and the potential for "white elephant" sporting facilities of limited use after the events are over.

In all, academic studies suggest that the impact on overall GDP growth of such events, including multiplier effects, has tended to be somewhat less than 2% of

GDP for host countries, spread over a period of several years. In the case of South Africa in 2010, according to a preliminary analysis by the South Africa Reserve Bank, 200,000 additional tourists came to South Africa in 2Q10 compared to the normal levels at that time of the year; these "soccer tourists" spent about R3.5bn, equivalent to less than 0.2 % of GDP. While the Cup was taking place, growth did not appear to benefit however; the 2Q quarterly growth rate of 2.8% was slower than the 4.6% in 1Q10, probably due to some stock-building in 1Q that later unwound as the event progressed. The impact on prices as well as retail sales was minimal. Undoubtedly, the event boosted sentiment and seemed to contribute to a sense of national pride, however the economic impact seems to have fallen short of what some pre-event studies had been predicting.

Market Impact: Not Much of a Pattern

In the final hours of trading the Russian market responded positively to FIFA's announcements. However, before getting too excited, we note that it is difficult to discern much of a pattern in the market performance of host countries after such FIFA announcements. Following the announcement in 2004, South Africa equities did well; Germany didn't do much, however (2000 announcement for 2006 games); Korea did poorly (1996 for 2002). This is of course much more a story of the global equity environment during those periods than any function of the impact of FIFA.

The Russia Bid

According to FIFA, Russia's World Cup event will be held across 13 host cities, in 16 stadiums. Of the 16 stadiums, 13 need to be built, and 3 will be renovated. The total stadium construction and renovation budget has been set at US$3.9bn (0.2% of GDP). However, taking into account other necessary infrastructure and preparatory work, it seems likely that total expenditure will come in significantly higher, albeit probably less than 1% of GDP. However, the economic impact of the 2018 Cup is likely to be diluted by the fact that Russia is hosting the 2014 Winter Olympics in Sochi, preparations for which will involve significant investment in transport infrastructure.

Positive For Sentiment If Not Much Else

As our market history observations illustrate, it would be a mistake to read too much into these World Cup announcements. The events of 2018-22 are simply too far into the future to have much of an impact on valuations for most stocks today. Even for those that could see some benefit, such as steel stocks, many other factors are likely to be more important moving forward

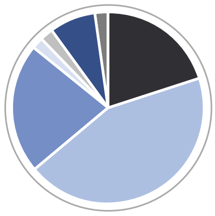
Final word

Asset allocations

Euro tilted model portfolios

Income

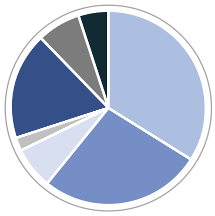
Seeking primarily capital preservation over time and only willing to accept very minor portfolio value fluctuations from month to month.



- EUR Cash **20%** -
- EUR Government Bonds **44%** -
- EUR Corporate Bonds **22%** -
- EUR High Yield Bonds **2%** -
- Emerging Market Debt **2%**
- European Equities **8%** -
- Global Equities **2%** -

Conservative

Seeking growth of wealth over time but unwilling to accept significant fluctuations in the value of portfolio from month to month.



- EUR Government Bonds **34%** -
- EUR Corporate Bonds **27%** -
- EUR High Yield Bonds **7%** -
- Emerging Market Debt **2%**
- European Equities **18%** -
- Global Equities **7%** -
- Global REITs **5%** -

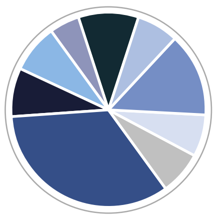
Balanced

Seeking long-term capital growth foremost but unwilling to accept significant losses on value of portfolio over the medium term.

- EUR Government Bonds **19%** -
- EUR Corporate Bonds **19%** -
- EUR High Yield Bonds **6%** -
- Emerging Market Debt **6%** -
- European Equities **28%** -
- US Equities **6%** -
- Pacific Equities **5%** -
- Emerging Markets Equities **3%** -
- Global REITs **8%** -

Growth

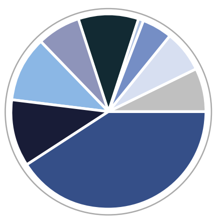
Seeking long-term capital appreciation and willing to tolerate measured medium-term volatility in order to enhance longer-term performance.



- EUR Government Bonds **7%** -
- EUR Corporate Bonds **14%** -
- EUR High Yield Bonds **7%** -
- Emerging Market Debt **7%** -
- European Equities **34%** -
- US Equities **8%** -
- Pacific Equities **8%** -
- Emerging Markets Equities **5%** -
- Global REITs **10%** -

Opportunity

Seeking long-term capital appreciation and can accept potentially large losses on portfolio over the near-to-medium term in order to maximise long-term performance.



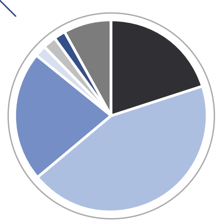
- EUR Government Bonds **1%** -
- EUR Corporate Bonds **5%** -
- EUR High Yield Bonds **7%** -
- Emerging Market Debt **7%** -
- European Equities **41%** -
- US Equities **11%** -
- Pacific Equities **11%** -
- Emerging Markets Equities **7%** -
- Global REITs **10%** -

Forecasts may not be attained. **Past performance is no guarantee of future results.**
There are additional risks associated with foreign investments.

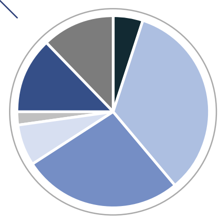
The suggested allocations are intended to be general in nature and are not to be construed as specific investment advice. Investors are encouraged to consult with their Financial Professional to determine their allocation needs based on their risk tolerance, suitability and goals. [Note that there are additional risks associated with hedge funds, as such funds are speculative. Please refer to page 12 for important information about hedge funds.]

Data Source: Citibank NA as of December 2010

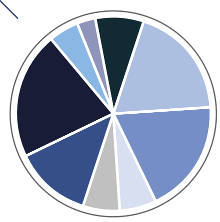
USD tilted model portfolios



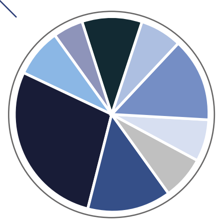
- USD Cash **20%** -
- US Government Bonds **44%** -
- US Corporate Bonds **22%** -
- US High Yield Bonds **2%** -
- Emerging Market Debt **2%**
- US Equities **2%** -
- Global Equities **8%** -



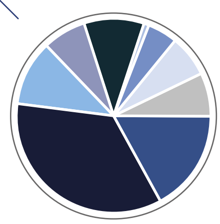
- USD Government Bonds **34%** -
- US Corporate Bonds **27%** -
- US High Yield Bonds **7%** -
- Emerging Market Debt **2%**
- US Equities **13%** -
- Global Equities **12%** -
- Global REITs **5%** -



- US Government Bonds **19%** -
- US Corporate Bonds **19%** -
- US High Yield Bonds **6%** -
- Emerging Market Debt **6%** -
- European Equities **13%** -
- US Equities **21%** -
- Pacific Equities **5%** -
- Emerging Markets Equities **3%** -
- Global REITs **8%** -



- US Government Bonds **7%** -
- US Corporate Bonds **14%** -
- US High Yield Bonds **7%** -
- Emerging Market Debt **7%** -
- European Equities **14%** -
- US Equities **28%** -
- Pacific Equities **8%** -
- Emerging Markets Equities **5%** -
- Global REITs **10%** -



- US Government Bonds **1%** -
- US Corporate Bonds **5%** -
- US High Yield Bonds **7%** -
- Emerging Market Debt **7%** -
- European Equities **17%** -
- US Equities **35%** -
- Pacific Equities **11%** -
- Emerging Markets Equities **7%** -
- Global REITs **10%** -

Spotlight on allocations

About the Citi Asset Allocation Process

The Citibank tactical portfolio allocations are based on the work of the Global Investment Committee (GIC) of Citi Private Bank. The membership of the committee is comprised of experienced investment specialists from across Citi. The GIC deliberates on the macroeconomic and financial market environment in order to formulate an outlook across multiple asset classes and is responsible for maintaining tactical model portfolios based on this outlook. The tactical weights that are applied to the Citibank portfolios are aligned to the decisions of the GIC.

Allocation to bond and equity markets

- We have maintained our neutral allocation to global equities and global bonds.

Citi analysts believe that corporate profit growth is likely to slow to a below historical trend pace beyond the rebound over the coming year or so. As such, they believe that the market's assumptions of long-term profit growth may be subject to disappointment and that equity market returns may struggle. Additionally, despite a rally in US long-term government bonds, yields remain quite low by historic standards and a moderate sell-off in government bonds could drag on bond portfolio returns going forward, in their view. Citi analysts consequently foresee even return prospects for global bonds and global equities.

Allocation to regional equity markets

- We have maintained our allocation to European equities at overweight, our allocation to US equities at underweight and our allocation to emerging market equities at neutral. Japan is now overweight.

Citi analysts believe that pessimism regarding the outlook for European stocks has been overdone in core European equity markets, those countries that are less impacted by the sovereign debt crisis. These may outperform other global equity markets going forward. In regards to Asian equities, they are concerned about a potential correction in the Chinese real estate market and a wider slowdown in Chinese economic activity, which could potentially weigh on commodity prices and consequently, the corporate earnings in other emerging equity markets where commodity producers feature prominently. Citi analysts believe the Japanese equity market represents an attractive investment opportunity as valuation levels and implied equity returns now appear compelling against their own history and also on a global comparative basis.

Allocation to government and credit markets

- We have maintained our allocations to investment-grade corporate bonds, high-yield corporate bonds and emerging market debt at overweight and have maintained an underweight position in government bonds.

With corporate earnings stabilizing, corporations worldwide deleveraging – using earnings to pay down debt – Citi analysts forecast that default rates on corporate bonds may continue to fall and the fundamental outlook for this asset class continues to improve. Despite the year end rise in sovereign bond yields, the attractiveness of corporate bonds, particularly high-yield, relative to equities, remains compelling, in the view of Citi analysts. Concerning government bonds, they favour emerging market sovereign bonds over developed market sovereign bonds given that budget deficit concerns appear to be concentrated among the latter group.

Forecasts may not be attained. **Past performance is no guarantee of future results.**
There are additional risks associated with foreign investments.

Important Disclosure

"Citi analysts" refers to investment professionals within Citi Investment Research and Analysis, Citigroup Global Markets and voting members of the Global Investment Committee and Global Portfolio Committee of Citi Private Bank.

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Subject to the nature and contents of the document, the investments described herein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal the amount invested. Certain investments contained in the document may have tax implications for private customers whereby levels and basis of taxation may be subject to change. Citibank does not provide tax advice and investors should seek advice from a tax adviser.

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GRA21439 01/11