



Q1 | 12

Europe | North America | Japan | Asia Pacific | Latin America

Standpoint

Global Market Analysis From Regional Consumer Bank

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The fear factor

Looking at the overall performances and volatility of risky assets, and at the evolution of bonds spreads over the year, many investors will probably be happy to leave 2011 behind them. Unfortunately, when we look at the various comments from analysts and economists, the sky ahead doesn't look any brighter in 2012 than it was last year, on the contrary.

"Low potential growth and cyclically weak economic activity due to the necessary fiscal tightening and the enduring credit crunch will delay the completion of the deleveraging process and increase its cost."

Willem Buiter, Citi Chief Economist

In most cases, observers expect a continued deterioration of the economic environment and the forecasts that are most highlighted

in the media are those predicting extreme events such as global recession, break-up of the Euro Area or default of a major European country, for example. Citi analysts also forecast a sluggish global economic environment characterized by a recession in the Euro Area and increasing divergences between economic areas. In a Developed World that is increasingly focused on deleveraging necessity, both in the private and the public sectors, Citi analysts think that economic growth is likely to remain subdued for an extended period of time.

"There is more debt in more sectors in more countries than ever"

Matt King, Credit Strategist Citi

Opinions, forecasts, and weightings expressed by Citigroup Global Consumer Group Investments may not be attained or suitable for all investors. **Past performance is no guarantee of future results.** There are additional risks associated with international investments, including foreign, political, currency and economic factors to consider. Please contact your financial professional to determine what is suitable for your individual situation



GCG 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. The Global Investment Committee (GIC) has cut its risk exposure further and has increased their underweight position in global equities. Correspondingly, they have added to their position in fixed income and initiated a position in gold. They believe gold is likely to do well in an environment of further monetary easing globally – something already firmly underway by central banks in the US and the UK, and is likely to be followed by a swath of emerging market countries. Risks stemming from the European debt crisis have heightened and decisive intervention by the European Central Bank (ECB), or through a bailout plan with enough firepower, may only arrive once the crisis is severe enough that no other option appears available. This could require more pain and steeper falls in markets, and all this makes holding equities a less attractive proposition.

Global equities

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

Global fixed income

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

Citi analysts also point out that risks to their base case scenario are rather biased to the downside (deeper deterioration) than to the upside (improvement). Indeed, a significant portion of the record global debt pile will have to be refinanced this year. Citi analysts estimate that eurozone banks have some €250 billion of senior unsecured debt maturing while the IMF estimates that the G7 and BRIC countries combined will face \$7.6 trillion of maturing bonds.

“Heavy political elections agenda and sovereign debt refinancing uncertainties are likely to feed markets volatility.”

Furthermore, in a number of countries Political leaders are likely to be increasingly stretched between national interests and international obligations in an election year in many major countries. Citi analysts think that these are sources of uncertainties that are likely to have a major influence on the markets' performances in the coming months.

Now, when we compare the overall market forecasts for 2012 to those in early 2011, we observe that a major key difference relies in the fact that the consensus mood and prospects are particularly pessimistic today, while it was particularly optimistic back in early 2011. To be sure, the economic context turned out particularly challenging in 2011, but was it a surprise? As pointed out by Citi analysts, concerns such as a Greek default, liquidity squeeze in Italy and Spain, rating downgrade of Triple-A sovereign issuers, un-sustainability of fiscal deficits in Developed Markets, weaknesses of the Euro construction, impact of the private

sectors deleveraging on the Global economic activity and the slowdown of the Chinese economy in a context of inflation pressures, credit bubble and Global demand slowdown are all events that were well known by the economic, financial and political community.

“2011 has been another year that many people would rather forget, but it's been especially tough if you started it very bullish on risky assets”

Richard Cookson, CIO Citi Private Bank

However, at the start of 2011, the mood was particularly optimistic as all these risks were overshadowed by the so-called success of Quantitative Easing programs in the US and its impact on markets performances. Citi analysts point out that if the year was indeed tough; it has been pretty bad for investors who actually underestimated these risks in the first place and didn't adapt their portfolios accordingly. Indeed, they remind us that a large part of the potential underperformance of an investment strategy doesn't come from the economic environment itself, but rather from underestimating, or overestimating, the risks lying ahead. This often happens when one mixes up risk awareness with fear, or opportunity awareness with greed. As a new year starts, there is no reason to be fearful. But there are many risks and challenges, as well as opportunities and solutions, that investors should address properly in their investment strategy, and, hopefully, enjoy the year!

Europe

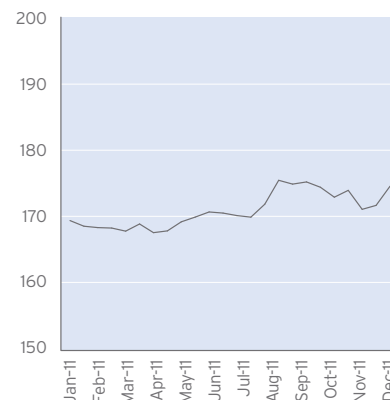
Fixed income

Deleveraging and Decoupling

Citi analysts think that the deepening sovereign crisis drove the Euro Area into recession during the 4th quarter of 2011 and that the recession will pursue in 2012 increasing the decoupling between the Euro Area economy and the rest of the world. They expect real GDP to fall by 1.2% in 2012, with a further small fall of 0.2% in 2013. However, they continue to think that the Euro Area will not break up, and that no country will exit European Monetary Union in 2012. They also recognized downside risks for 2012, both from EMU breakup/exit scenarios, and also from the vicious circle between weakening economies, financial market strains and accelerated bank deleveraging. On the monetary policy side, Citi analysts expect the European Central Bank to cut the main refi rate to 0.5% in mid-2012 and

also to extend its nonstandard measures given the increasing tensions in the banking sector.

In a context of economic recession and political jitters, Citi analysts think the sovereign crisis is likely to deepen further in 2012. They think that ratings will continue to be under pressure across the region which will increase the wave of government yields decoupling between all European countries and German Bunds. In the corporate sector, Citi analysts continue to believe that the broad based deleveraging process and the benign global growth outlook in a context of wide credit spreads over sovereign yields offer an attractive fundamental backdrop for corporate bonds. However, they strongly underweight financials, most exposed to the risk of sovereign default.



Citi Euro BIG (EUR)

Data source: Bloomberg as of 31 December 2011.

Equities

Uncertainties Dominate

Turbulence and fears have dominated financial markets over the past year and Citi analysts think they will not leave quickly nor without a fight. Deepening of the sovereign crisis, economic recession, fiscal austerity, earnings slowdown, Euro break-up fears and lack of political leadership combined with a heavy electoral agenda do not bode well for equities in 2012. However, Citi analysts observe that valuations are particularly compelling as cyclically adjusted Price-to-Earnings ratios are now approaching also the record lows observed during the hyper inflation period in the 70s and the credit bubble burst in 2008. In other words, Citi analysts think that a lot of bad news seems already priced in and that pessimists would need more fuel such as a full credit crunch,

euro break-up or global recession to drive share prices materially lower, Citi analysts believe.

However, Citi analysts recognize that in a context of slowing growth and profit margin erosion, valuations alone do not suffice to justify a rebound in equity markets. Citi analysts have indeed decreased substantially their earnings growth estimate to between -10% and -15% for European companies in 2012. They therefore prefer companies that will be able to take advantage of the increasing economic decoupling between Europe and the rest of the world, and of the broad based corporate deleveraging process to deliver balance sheet quality and growth exposure to investors. They define "growers" as companies whose profit growth is largely exposed the strong economic dynamic of Emerging



DJ Stoxx 600

Data source: Bloomberg as of 31 December 2011.

Markets, companies able to grow sales volumes in a challenging economic environment, such as Global Leaders, and companies able to grow dividends and return cash to investors.

North America

Fixed income

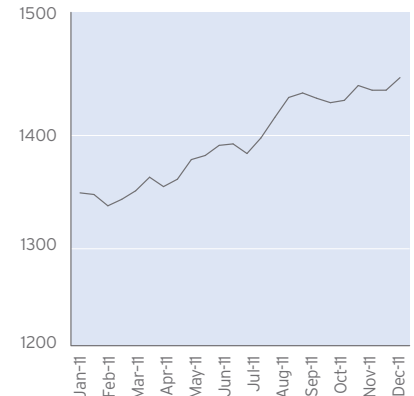
Credits appear attractively valued relative to fundamentals

The economy is expected to continue on a path of slow and uneven expansion, with GDP growth forecasted to rise from 1.7% in 2011 to 1.9% in 2012. While financial conditions are improving slowly, they still represent a modest headwind to economic growth. Monetary policy is as such expected to remain focused on supporting financial conditions, but with inflation within desired ranges and unemployment stubbornly high, the Federal Reserve (Fed) is unlikely to raise policy rates until sometime beyond 2013. Instead, the Fed may opt to use communication strategies to extend accommodation, expand their balance sheet or renew purchase of mortgage backed securities (MBS).

Citi analysts expect 10-Year Treasury yields to remain in a fairly tight range

around 2% through 1H12. The recent range of 1.7%-2.4% seems reasonable, in their view, given still resilient US GDP growth and European risks. European concerns will continue to dampen Treasury yields. Despite the US credit rating downgrade by S&P in 2011, Treasuries remain a safe haven asset. Further, concerns of outright financial contagion make the possibility of a return to 2008-2009 non-zero. Finally, weaker economic growth in Europe may constrain US economic growth; though this is addressed in our expectations for sub-2% GDP growth.

Meanwhile, US credits appear attractively valued relative to the fundamental backdrop. Corporate earnings are expected to remain robust and new issue supply is likely to continue on a declining trend. Citi analysts see potential for investment



Citi US BIG

Data source: Bloomberg as of 31 December 2011.

grade and high-yield bond spreads to tighten by 75 bps and 100 bps, respectively, by end-2012, though they expect the trading environment to remain choppy.

Equities

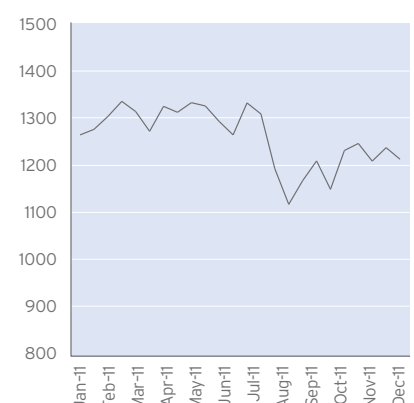
Modest gains expected in 2012

Poor investor sentiment, supportive US credit conditions, attractive valuations and depressed corporate earnings expectations all argue for modest gains in US equities in 2012. Citi analysts have set relatively constructive targets for the S&P 500 index and 12,375 for the Dow Jones Industrial Average for this year. While they expect low corporate earnings growth, fiscal uncertainty and corporate margin pressures to challenge the equity market throughout 1H12, they see potential for a rally in 2H12 as progress is made in Europe and as we gain more insight into the US electoral process.

Employment growth and commodity price weakness are likely to impact corporate margins negatively, but considering that the equity market already appears to be pricing in a much weaker corporate earnings outlook, the

downside may be limited. Meanwhile, government policy issues have been one of the biggest concerns for US equity investors and thus the Presidential election is likely to be watched carefully. Housing trends also look like they could find a bottom in 2012 as excess homes get absorbed around mid-year (another possible catalyst for 2H12 strength). Moreover, time could also alleviate fears of a much broader global banking "contagion" from Europe's sovereign debt issues. Thus, 2012 overall could prove rewarding even if 1H12 is a bit more challenging.

In terms of sectors, Citi favours Food Beverage & Tobacco, Diversified Financials, Insurance, Semiconductors & Semi Equipment, Technology Hardware & Equipment and Telecoms, and is neutral on Consumer Services, Media, Food & Staples Retailing, Household &



S&P 500 Index

Data source: Bloomberg as of 31 December 2011.

Personal Products, Energy, Regional Banks, Healthcare Equipment & Services, Commercial Services & Supplies, Transportation, Materials and Utilities.

Japan and Asia Pacific

Japan equities

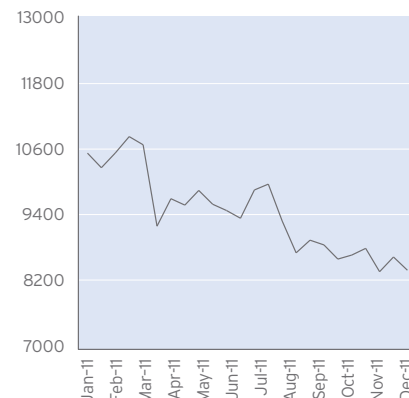
Title?

Citi analysts think TOPIX is likely to stage a sharp rebound in 2012. They base this view on two key factors, valuations and corporate earnings. Valuations have reached a level that is as attractive as, or even more attractive than, their level at the time of the index's post-Lehman failure low. Moreover, under their main scenario, which assumes that a global recession can be avoided, we expect TOPIX earnings-per-share for FY3/13 to come in more than 30% higher than in FY3/10. This could spell the end to "Everyday Low Prices" before the end of 2012, in Citi analysts' view.

The main reason behind the current stock market slump would be a pressure from the market on Eurozone

policymakers (or, more specifically, the ECB) to purchase large amounts of government bonds and to implement mandatory capital injections for financial institutions. Citi analysts do not expect Japanese equities to bounce back until the probability has increased that such policies will be formulated in response to market pressure.

As a result of weak macroeconomic momentum and downward pressure on valuations from the strong yen, Citi analysts expect the next rebound in Japanese equities to be smaller than the rebound from the post-Lehman failure low. They think the recovery of TOPIX will mirror the weakness of global economic momentum and proceed slowly.



NIKKEI 225 Index

Data source: Bloomberg as of 31 December 2011.

Asia-Pacific equities

Potential for more upside than downside

Citi analysts believe there may be more upside than downside in Asian equities and see potential for 25-30% upside over the next 12 months, assuming that a more settled macro picture or earnings resilience at the corporate level leads to investors regaining their appetite for risk. They forecast the MSCI Asia ex Japan index at 575-600 by end-2012.

With Europe expected to slip back to recession and global growth likely to be subdued, investors are understandably concerned about corporate earnings. Consensus corporate earnings growth forecasts have been on the decline and currently stand at 11% for 2012. Historically, a global recession would mean an over 20% earnings drop in

Asia, but this is not Citi's base case. That said, until earnings forecasts revisions stabilize, uncertainty is likely to prevail. Valuations however suggest that a lot of bad news may already be priced into the Asian equity market. The MSCI Asia ex Japan index was trading at 1.5x price-to-book and 10.5x price-to-earnings as of December 21, 2011. Citi analysts note that from those valuation levels, Asian equities have typically been higher 92% of the time in the next 12 months based on the last 36 years.

Meanwhile, with real interest rates remaining negative and the loan to deposit ratio way below the historical high, liquidity is also not much of an issue in Asia. As such, Citi analysts believe that certain cyclicals, Tech, Industrials and Energy may offer value along with Banks and Real Estate; the



MSCI Asia Pacific Ex-Japan

Data source: Bloomberg as of 31 December 2011.

Consumer space however looks over-owned and pricey. In terms of markets, they prefer North Asia - Hong Kong, Korea and Taiwan.



CEEMEA and Latin America

CEEMEA equities

Central Europe Most Sensitive to the Euro Area Debt Crisis

In the context of moderate global economic growth and heightened recession risks in the Euro Area, Citi analysts anticipate a slowdown in the economic activity in the CEEMEA region as well. Similarly to what happened during the 2009 recession, CEEMEA countries appear more vulnerable to the developing debt risks in the Europe than other Emerging Markets. Within CEEMEA, the brunt of this economic slowdown is expected to be borne by Central Europe, where both Hungary and Czech Republic are likely to come very close to a new recession in 2012, according to Citi analysts. Central European countries are also the most exposed to a potential increase in deleveraging by western European banks. Elsewhere, growth should be positive but modest, well below levels

experienced both last year and prior to the crisis. Citi analysts think that the Russian economy appears to have potential upside as it could see a boost if oil prices remain resilient.

Citi analysts believe that CEEMEA equities have the potential to perform well over the year provided that the Euro debt crisis offers signs of stabilization or resolution, that China's economic growth pace remains reasonable and that the US economy continues to grow, even at a modest pace. However they also warn that disappointment in one of these factors could turn out into a bad year for CEEMEA equities given their high sensitivity to investors' risk appetite. Citi analysts also observe that CEEMEA equities, while apparently cheap, do not appear to be pricing in a euro break-up or a sharp fall in commodity prices, and investor positioning does not look particularly bearish. This still leaves



MSCI EM EMEA

Data source: Bloomberg as of 31 December 2011.

scope for plenty of market volatility which justifies a defensive bias as the year starts.

Latin America equities

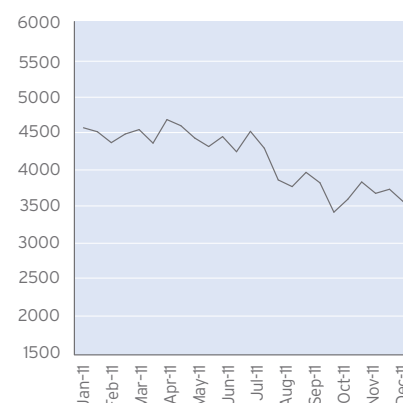
Poor Sentiment Drove Record Outflows

Citi analysts observe that the deterioration in the global economic outlook and the sovereign crisis breaking out in Europe have particularly dampened sentiments in Latin America. Furthermore, fears about Brazilian inflation, credit bubble, and understandable concerns about increasing government intervention in Brazil and Peru have also contributed to increase the wave of risk aversion towards Latin American assets. This resulted in strong funds outflows which, reaching 12,6% of total Assets Under Management, outpaced other Emerging Markets outflows (only 6% in Asia by comparison) as well as the relative-to-AUM outflows observed in Latin America during the 2008 market collapse.

Citi analysts think that the outflow trend and the decline in regional

equity markets have been excessive relative to Latin America's relatively benign macro outlook for this year. They believe that as long as the situation does not turn into a full fledged financial crisis, which could also bring the US economy into recession, policy can help weather the slowdown ahead. Furthermore, Citi' analysts' forecasts for commodity prices and the US dollar for 2012 do not point to major moves in either asset class; this suggests that the role these factors will play in Latin American returns may be more muted in 2012 than usual.

In more detail, Citi analysts see Brazil and Chile as the most attractively valued markets in Latin America, while Mexico is the most expensive. The preference for Brazilian equities stems from the fact that local factors are increasingly becoming drivers of



MSCI EM Latin America

Data source: Bloomberg as of 31 December 2011.

performance. Even though European politics has been a key driver of Brazilian performance, the domestic macro outlook has been gaining relevance and is bound to continue doing so, according to Citi analysts.

Global REITs and commodities

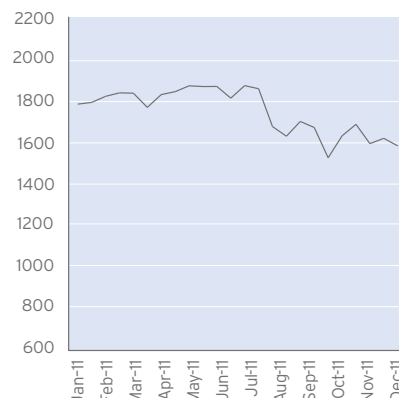
Real Estate Investment Trusts (REITs)

Seeking earnings and NAV growth in a slower growth environment

Citi analysts believe the US REIT sector may be positioned to continue to benefit from a number of key tailwinds in 2012, albeit not as strong as they were in 2011. These include: 1) Reasonable and growing dividends - Dividends remain reasonable (approximately 4%) and are backed by the lowest payout ratios on record. With cash flow growth likely to remain positive, dividends look positioned to continue to grow; 2) Better balance sheets and cost of capital advantage - US REITs have strong access to attractively priced debt and equity capital especially relative to when we headed into the 2008 recession, limiting dilutive equity raises. Low interest rates also act as a strong support for US REITs and direct property pricing which should keep cap rates flat to down and also makes dividend yields and implied cap rate more attractive; 3) Solid earnings

drivers - The sector's cash flow growth is expected to remain positive (+10% in 2012) with positive re-financings, continued internal growth and increased external growth activities; and 4) Limited new supply - New construction levels, while off the lows, remain depressed.

Conversely, the sector would undoubtedly be negatively impacted by a market sell-off, retrenching funds flow and widening credit and capital costs which have all raised the sector's downside risks. Given the upside and downside risks, Citi analysts hold a more subdued flat to +10% total return outlook for 2012, translating to MSCI US REIT index levels of 740-820 versus +5-15% for 2011. In terms of investment strategy, they are focused on companies that can increase earnings and net asset value (NAV) even in a slow growth environment. They also favour mid- to larger-cap companies that can benefit



EPRA/NAREIT Global Index

Data source: Bloomberg as of 31 December 2011.

from having better access to capital, high quality portfolios, stable fundamentals and growth opportunities. Within the sector, they prefer Multifamily, Malls and Lodging and disfavour Office, Shopping Centres and Healthcare.

Commodities

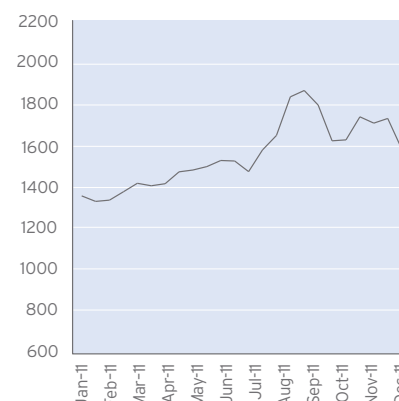
Challenging environment for commodities going into 2012

Policy response - particularly out of Europe - will be a key catalyst for commodity direction. Citi's outlook for global growth remains positive for 2012 and commodities could benefit from any uptick in growth. Further monetary stimulus is anticipated from the European Central Bank and the Bank of England, though it remains an open question in the US. But it is net positive for commodities if the Federal Reserve were to proceed with QE3. Going into 2012, global growth prospects and investor sentiment are expected to influence the risk-on/risk-off cycle for commodities. Geopolitical tensions within the Organization of the Petroleum Exporting Countries (OPEC) and the Middle East and North Africa (MENA) region will also be of particular relevance to petroleum markets.

Citi analysts estimate that total demand

for oil may rise from 89.4m b/d in 2011 to 90.3m b/d in 2012, while total supply could increase from 88.5m b/d in 2011 to 90.3m b/d in 2012. Beyond demand and supply, they see potential for oil prices to be supported at over US\$100/bbl by several other factors: geopolitical risks, expectations of more liquidity tranches to come via monetary policy, and Citi's house views that the Euro currency union does not break up, and China manages a soft landing. They forecast WTI prices to average US\$101/bbl in 2012 and Brent prices to average US\$110/bbl in 2012.

Gold prices have been supported by investment demand on the back of market uncertainty and financial tensions, and Central Bank buying. Citi analysts continue to hold a positive outlook for gold prices, as investors remain risk adverse and look for risk protection, and see potential for gold prices to average US\$1,710/oz in 2012. They however caution that current



Golds US\$/troy oz.

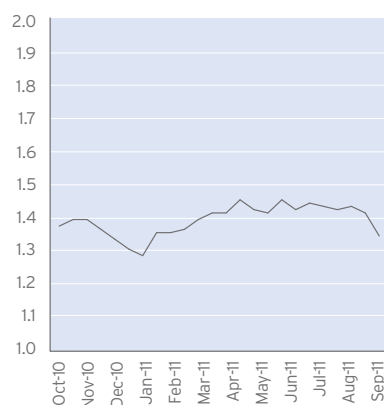
Data source: Bloomberg as of 31 December 2011.

tensions and concerns are likely to dissipate over time and jewellery demand (which can be quite price sensitive) is unlikely to be able to make up for the loss of investment demand when sovereign financial tension eases.

Currencies

Euro

Citi analysts observe that the EUR/USD has been choppy, but trending lower over the last weeks as the European Central Bank (ECB) has softened its monetary policy, driving rate differentials lower. Citi analysts also point out that during the last quarter of 2011 Euro-Periphery issues have spread to core Europe as shown by the widening of Austrian, Belgium and even triple-A French spreads. They think that this trend is likely to continue weighing on the currency pair. On the other hand, the non-standard measures adopted by the ECB to improve banks' liquidity situations are likely to stem further deleveraging by European banks and may go a long way toward reducing the illiquidity currently plaguing sovereign debt markets, according to Citi analysts. They also see downside risks on the USD with fiscal pressures and a possible third round of Quantitative Easing in the US. Citi analysts forecast EUR/USD to drop into a 1.20-1.25 range.

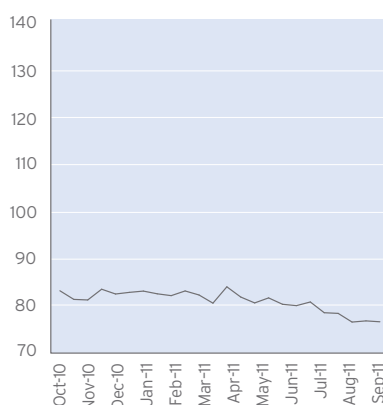


Euro-Dollar (USD/EUR)

Data source: Bloomberg as of 31 December 2011.

Yen

Citi analysts observe that USD/JPY has continued to trade in a range bound fashion over the last quarter of 2011. Investors made a bit of an effort to break to the upside but there has not yet been any real follow through. Overall the inclination is to be short JPY given poor fundamentals, according to Citi analysts. Japanese economic, growth remains indeed fragile and is supported by a large and very probably unsustainable, fiscal deficit. Reconstruction spending should support growth in 2012 but tax hikes in 2013 will likely be needed to finance this. However, Citi analysts also observe that investors have become more cautious following losses on short JPY positions. While US rates remain at low level, Citi analysts would not expect much upside on USDJPY and forecast USD/JPY at 76¥ over a 6-12 months period.

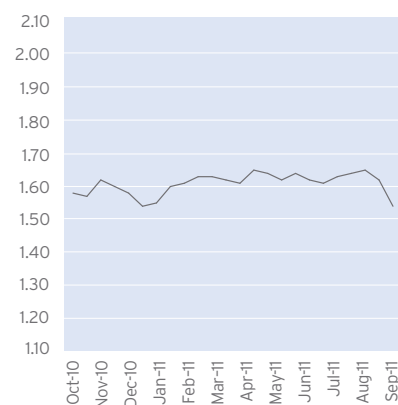


Dollar-Yen (JPY/USD)

Data source: Bloomberg as of 31 December 2011.

Pound sterling

GBP/USD has largely been moving sideways over the past few weeks given the uncertainty surrounding the direction of UK interest rates. Citi analysts think that the relative resilience of the British pound is partly due to the fact that the Bank of England has not been as aggressive as the US Federal Reserve. Citi analysts also observe that the British pound has become somewhat of a safe haven from eurozone risk, despite the UK's large trade and financial exposure to the continent, and its own growth issues. The fact that the UK is now perceived as a safe haven while the Bank of England (BoE) is the middle of a new Quantitative Easing initiative is a sign of how extreme market worry about EUR is. Citi analysts think the BoE is likely to expand further its QE program which is likely to drag GBP/USD below 1.55\$.



Pound-Dollar (USD/GBP)

Data source: Bloomberg as of 31 December 2011.



The search for a new generation of emerging markets

By Andrew Howell, Citi Emerging Markets Strategist for CEEMEA & Maria Gratsova, Citi Analyst

Nothing ventured, nothing gained. This maxim reflects one of the basic tenets of financial markets: investors demand a higher expected return for investing in projects of greater uncertainty.

Over the past 24 years – and especially over the past decade – investing in emerging markets has certainly delivered those higher returns. A \$1,000 investment in the MSCI Emerging Markets index on the day it was launched in 1988 would be worth \$17,553 today, including reinvested dividends, a compound annual return of 12.7%. This compares with the same investment in the MSCI World index, which today would be worth just \$4,940 (an annual return of 6.9%).

While the group of markets we call emerging are expected to continue to do well in the coming years, we believe that replicating their outperformance of the past quarter century will be difficult. The emerging markets (EMs) have evolved, both in terms of their size and the pace of their growth. Greater political stability, improvements in infrastructure, financial deepening and a rapid expansion in trade have driven dramatic changes in the fabric of emerging market countries. As EMs have matured and become less risky places, the expected return from investing in them has almost certainly converged downward. Replicating the higher returns of EMs past may require investors to look to new geographies: the Frontier Markets. Our “Frontier-15”, 15 countries in particular which have the potential to generate the kind of returns for equity investors over the coming

decades that the emerging markets themselves have produced over the past quarter century. These are Argentina, Bangladesh, Egypt, Ghana, Iraq, Kazakhstan, Kenya, Mongolia, Nigeria, Pakistan, Romania, Sri Lanka, Ukraine, Venezuela, and Vietnam.

Frontier markets have relatively small/ illiquid equity markets compared with EM, and tend to be less economically developed. An essential element of our argument is that frontier markets are smaller than they should be, given the size of the population and potential economic output of the countries in which they are based. The combined population of the Frontier-15 is 922m, or about 13% of the world’s population, with combined GDP of \$2.4tr, about 4% of the world total. Due to the more limited development of the capital markets, F-15 free float market cap is just \$52b, or 0.1% of world market cap of \$26tr. The combined market cap-to-GDP ratio of the Frontier-15 is 2.6%, compared with 57.9% for the world’s developed markets. A long way to go here. A comparison with the emerging markets group is also instructive: today, the Frontier-15 represents 24% of the members of the MSCI emerging markets index by population, 11.7% by GDP and yet just 1.5% by market cap. If these economies follow a similar path to the one that the emerging markets themselves followed over the past quarter century, FM should grow. Some of the key drivers of this growth path are strong economic growth, fast-growing population, urbanization, increased

productivity, better governance, improvement of the education system, access to natural resources, lower level of indebtedness, falling cost of capital and deepening of financial markets and valuations amongst others.

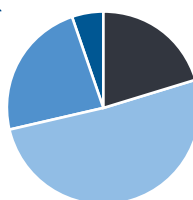
It is worth noting that Frontier markets tend to have weaker institutions, and less political stability, than more mature economies. There is also an unmistakable paradox in a number of our arguments. Call it “bad = good”: the reason the frontier markets have such growth potential is not due to their success in the past, but rather to their failure – or at least to their lack of progress in keeping up with the world’s more successful economies. Many of the reasons why we think frontier markets can do so well are hardly cause for celebration today: weak institutions, a high cost of capital, poor infrastructure. Many of these are not far from what the Citi Chief Economist, Dr. Buiter calls “formerly inward-looking, autarkic poor countries kept back by the intrusive overregulation of most economic activity.” But that is the very point: all of these factors can change, as many have in the emerging markets. Over time, the frontier markets are likely to adopt many of the changes implemented by their more successful peers, the emerging markets, while doing their best to avoid their own more egregious mistakes of the past. Given their starting point, even modest improvements can yield significant results. Such has been the story with emerging markets, and indeed the developed markets before them.

Asset allocations

Euro-tilted model portfolios

Defensive

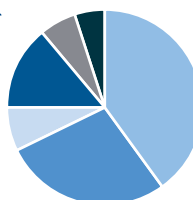
Seeking primarily capital preservation over time and only willing to accept very minor portfolio value fluctuations from month to month.



- EUR Cash **20%**
- EUR Government Bonds **50%**
- EUR Corporate Bonds **23%**
- European Equities **5%**

Income-oriented

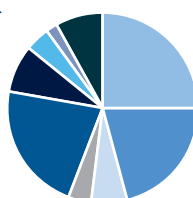
Seeking growth of wealth over time but unwilling to accept significant fluctuations in the value of portfolio from month to month.



- EUR Government Bonds **40%**
- EUR Corporate Bonds **28%**
- EUR High Yield Bonds **7%**
- European Equities **14%**
- Global Equities **6%**
- Global REITs **5%**

Growth and income

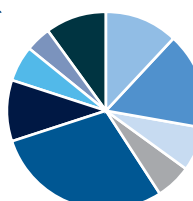
Seeking long-term capital growth foremost but unwilling to accept significant losses on value of portfolio over the medium term.



- EUR Government Bonds **25%**
- EUR Corporate Bonds **21%**
- EUR High Yield Bonds **6%**
- Emerging Market Debt **4%**
- European Equities **22%**
- US Equities **8%**
- Pacific Equities **4%**
- Emerging Markets Equities **2%**
- Global REITs **8%**

Growth oriented

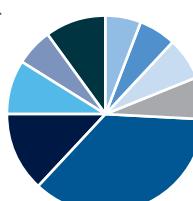
Seeking long-term capital appreciation and willing to tolerate measured medium-term volatility in order to enhance longer-term performance.



- EUR Government Bonds **12%**
- EUR Corporate Bonds **16%**
- EUR High Yield Bonds **7%**
- Emerging Market Debt **6%**
- European Equities **29%**
- US Equities **10%**
- Pacific Equities **6%**
- Emerging Markets Equities **4%**
- Global REITs **10%**

Aggressive Growth

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.



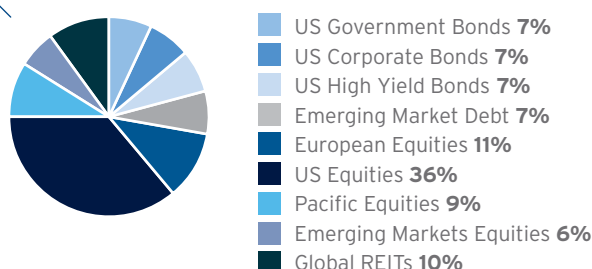
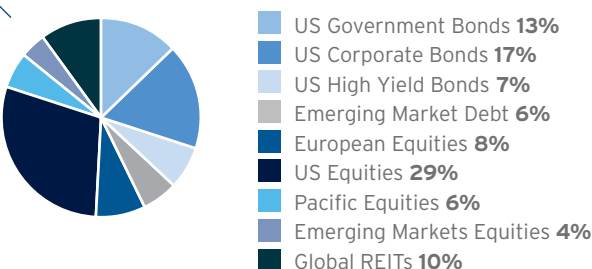
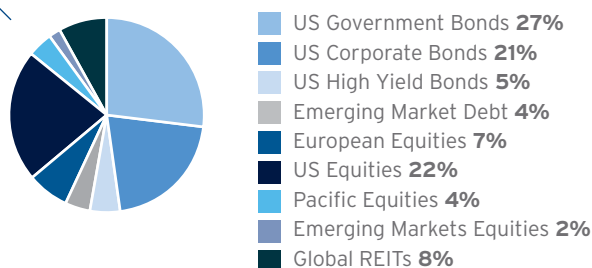
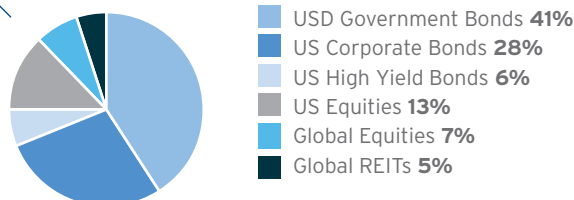
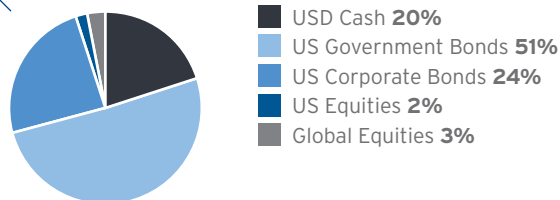
- EUR Government Bonds **6%**
- EUR Corporate Bonds **6%**
- EUR High Yield Bonds **7%**
- Emerging Market Debt **7%**
- European Equities **36%**
- US Equities **13%**
- Pacific Equities **9%**
- Emerging Markets Equities **6%**
- Global REITs **10%**

Spotlight on allocations

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.

Data Source: Citibank NA as of 30 September 2011.

USD-tilted model portfolios



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 allocation to global equities at underweight and our allocation to global bonds at overweight.

Macro headwinds continue to weight on risk sentiment and a sustainable rally in equities appears unlikely until we see resolution of the European sovereign debt crisis. With Europe now expected to slip back into recession, global economic growth prospects are also being questioned and markets need to be reassured that a China hard landing and global recession can be avoided.

Allocation to regional equity markets

- We have maintained our overweight allocation to Japanese equities and our underweight allocation to US equities, and emerging market equities. European equities are now underweight.

Given heightened risks in the Eurozone and lack of progress on the policy front, Citi analysts have cut their exposure to Core European equities (Germany and France) from overweight to neutral. This brings their overall position on European equities down to underweight from overweight. Although US equity valuations remain relatively rich, economic and corporate earnings data have been outpacing expectations. Citi analysts have as such slightly reduced their underweight position on US small- and mid-cap equities to acknowledge these positive signs. In their view, US large-cap equities may be more vulnerable to a sharp global slowdown.

Allocation to government and credit markets

- We have maintained our overweight allocations to investment-grade corporate bonds and emerging market debt, and our underweight allocations to government bonds. High-yield corporate bonds are now overweight.

Corporate earnings and balance sheets are strong around the globe and Citi analysts forecast that default rates on corporate bonds may continue to remain low. Citi analysts have added to their overweight position on US high-yield bonds, brining their overall exposure to high-yield bonds to overweight. Although high-yield bond returns are correlated with equity returns, Citi analysts highlight that in the US, high-yield bonds look more attractively valued compared to equities and shorter duration Treasuries. They have therefore switched some money from shorter duration Treasuries to high-yield bonds.

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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