

Citi's Online Academy

**Centralizing Global Short-term Investing:
New Tools and Techniques**

May 6, 2010



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Corporate Investment Practices & Trends

Global Market Outlook

The financial system is stable once again and the global economy is recovering faster than expected from the global crisis and returning to expansionary territory, but divisions between industrialized and developing countries remain stark and burgeoning government debt levels could leave the financial system unsettled.

- Faster-than-expected recovery is due to the unprecedented cooperation between major economies to combat the crisis. However, the sovereign debt crisis has potential to derail a global recovery. Inflation remains muted given lagged effects of financial restraint.
- European economic recovery remains sub-par and will underperform the U.S., and with the U.K. likely to outperform the Euro zone. However, The Bank of England may feel forced to hike rates to shore up confidence in monetary policy and stabilize the currency, threatening the fragile economic recovery.
- The short end of the yield curve remains fairly flat and begins to steepen around 6 months.
- Fed Fund Futures implies with high probability that U.S. rates will stay at the current low level into the 3rd quarter at least; with a 21.9% probability that rates will go up by at least 25bps by September, 2010, a 51.0% probability that rates will go up by at least 25bps by November, 2010 and a 54.3% probability that rates will go up by at least 25bps by December, 2010.¹
- Citi view: The Fed is likely to remain on hold over coming quarters. Gradual tightening becomes possible only towards end 2010, conditional on recovery. ECB and BOE on hold – low rates to continue.
- Globally, considerable risks to recovery persist, with painful fiscal and private sector adjustments still to come, notably in Europe/UK. Fiscal stimulus and bank bailouts have taken a toll on sovereign balance sheets, some more than others.

¹Source: Bloomberg Federal Funds Implied Probability as of 04/30/10

Key Investment Considerations

When determining the proper cash investment product an investor must first consider these four main factors and their corporate investment policies

“Safety” is a relative term and does not provide enough explanation as to an investor’s needs and expectations.

Risk

What is the level of “risk” an investor is willing to accept? Types of risks to consider may include Credit, Market, Liquidity, Capital and Interest Rate. Investment guidelines may help eliminate several investment options based on the risk involved or the rating of the instrument.

Preservation of Capital

Is preservation of capital essential or required? Is one of the investment objectives to maintain principal?

Liquidity

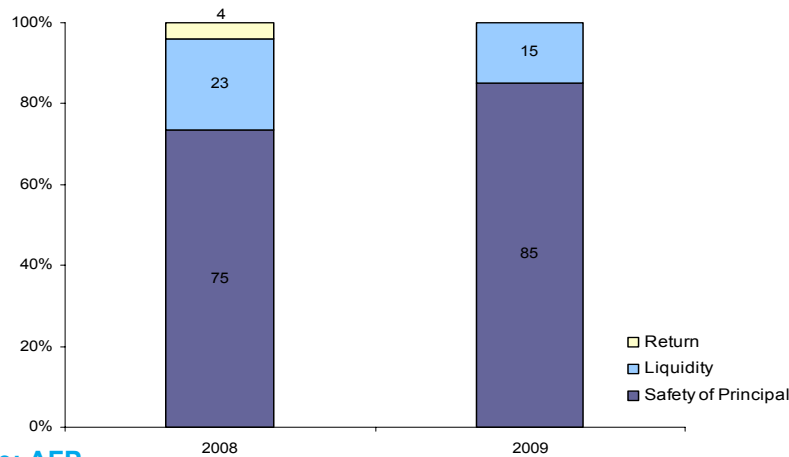
Is daily liquidity necessary? Is liquidity a prerequisite for all of the cash being invested? Giving up some liquidity may provide additional returns/yield. Not all “liquid” instruments provide protection against “market risk” and possible loss of capital.

Expected Return

Given the expectations for risk, preservation of capital and liquidity, what are the available investment products that fit the criteria the investor is looking for? What are the returns/yields on the available products and do they provide a return that the investor is expecting? Different products may provide a wide spectrum of returns based on market conditions and periods of market turmoil.

Recent Changes to Investment Portfolios

Over the past 2 ½ years there was a flight to high quality investments, including bank deposits and money market funds. In 2010 we see some shifts in client investment behavior.

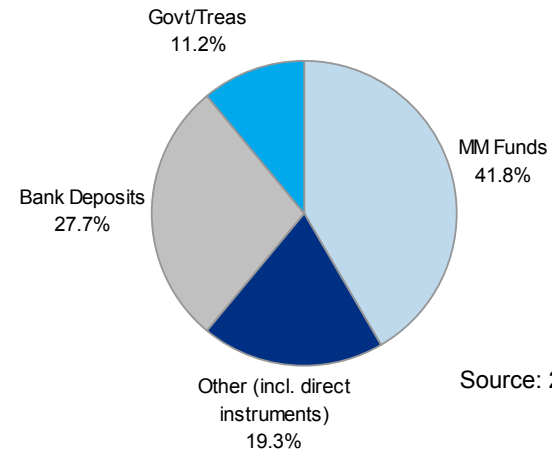


Source: AFP

Corporate investors have emphasized liquidity and capital preservation over yield:

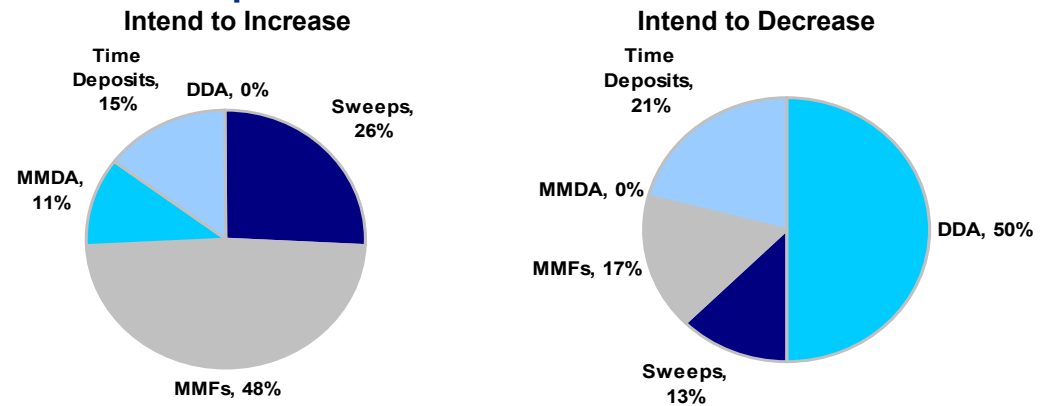
- Some companies modified their investment policies and objectives, most revised their investment philosophy to address the concerns.
 - Yield was removed from the list of key objectives
 - Majority of cash has an investment horizon of less than 30 days
- Increased usage of
 - High-quality and insured bank deposits
 - Money Market Funds
 - Government & Treasury backed instruments
- Decreased usage of risk-based direct investment instruments (Asset Backed CP, traditional CP, VRDNs)

Average Investment Portfolio Composition



Source: 2009 AFP Liquidity Survey

2010 Expected Investment Portfolio Shifts



Q: What type of investment do you intend to increase in 2010?

Q: What type of investment do you intend to decrease in 2010?

Source: Citi's Poll – Dec 2009 Client Webinar



Money Market Funds: Statistics, Trends and Changes in Regulation

Investors continue to utilize money market funds as confidence in funds continues to grow, in part due to increased conservative portfolio management and the recent regulatory changes, although the low rate environment continues.

- **Summary of SEC's Rule Changes for Money Market Funds (Rule 2a-7) – Announced Jan 27th**

- Maturity Limits

- Shortens the Weighted Average Maturity (WAM) of a fund's portfolio to 60 days, instead of the current 90 day limit
- Introduces a Weighted Average Life (or "Spread WAM") with a maximum of 120 days

- Liquidity

- Introduces requirements for "daily liquid assets" of at least 10% of assets and "weekly liquid assets" of at least 30% of assets
- Restricts "illiquid" securities to no more than 5% of portfolio, down from current 10% max
- Adoption of new rule 22e-3. The rule permits a fund to suspend redemptions and payment of redemption proceeds if the fund's board, including a majority of disinterested directors, determines that the deviation between the fund's amortized cost price per share and the market-based NAV may result in material dilution or other unfair results, the board, including a majority of disinterested directors, irrevocably has approved the liquidation of the fund, and the fund, prior to suspending redemptions, notifies the Commission of its decision to liquidate and suspend redemptions.

- Credit Quality

- Limits investment in Tier 2 securities to 3% of assets (down from current 5% max, note: "AAA" rated funds do not invest in Tier 2 securities)
- Limits exposure to any single Tier 2 issuer to 0.5% of assets
- Limits the maximum maturity of Tier 2 securities to 45 days

- Operational

- Requires increased transparency (detailed monthly portfolio holding reporting to the public by the 5th business day of the following month)
- Requires funds to tighten controls around "Know your Client" procedures

- **Global MMF Assets: US \$2.98 trillion, Offshore \$578 billion**

- >75% of institutional investors use MMF's, 38% use Investment Portals (Source: AFP).
- Some institutional investors have started to shift back to Prime/CP funds in search of yield, while Govt. and Treasury funds assets remain strong

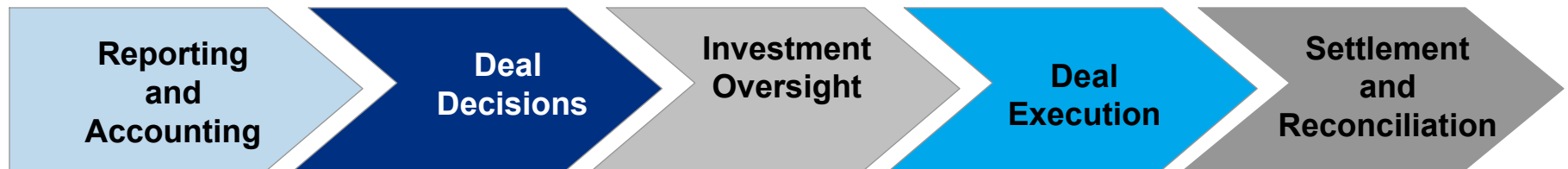
- In line with these changes from the U.S., IMMFA, the trade association representing the European AAA rated MMF industry, recently adopted changes to their Code of Practices with an implementation date of January 1, 2011.

	2a-7	IMMFA
Maximum WAM	60 days	60 days
Maximum WAL	120 days	120 days
Maximum maturity	397 days	397 days
Minimum o/n	10%	5%
Minimum ≤ 7 days	30%	25%
'Know your investor'	Yes	No
Periodic stress testing	Yes	Yes
Portfolio disclosure	Yes	No
Report shadow NAV	Yes	No

Investment Processes

Investment Process and Common Challenges

The challenge for many Treasurers is to create a streamlined investment process that has the right level of control and oversight while maintaining flexibility for changing market conditions.



<ul style="list-style-type: none">• Maintaining Consistency• Cash Visibility• Cash Flow Forecasting	<ul style="list-style-type: none">• Timeliness of Information• Experienced money management staff• Measuring against the market• Considering ongoing market volatility	<ul style="list-style-type: none">• Up-to-date Investment Policy• Counterparty and Credit Risk monitoring• Tracking compliance of the policy (pre and post-trade)	<ul style="list-style-type: none">• Mobilizing cash• Executing centralized investing• Achieving automation• Managing increased counterparties	<ul style="list-style-type: none">• Managing settlement risks• Reporting Integration
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Critical success factors

The optimal investment strategy relies on the right processes, a robust policy and matching your service provider's capabilities to your company's goals and requirements.

Process

- Strong cash forecasting and visibility
- People, process, and technology capabilities
- Deal execution flexibility and secure investment workflow

Policy

- Flexible, robust, up-to-date investment policy
- Widespread awareness and compliance to the policy
- Ongoing monitoring and evaluation of policy

Provider

- Reach and integration – consistency and ease of delivery
- Maintenance without excessive physical touch points
- Matching treasury goals and to service providers' capabilities

Citibank Online Investments – Client Case Study

Case Study: Centralizing Investment Deal Execution & Reporting

Ability to centralize the management of deal execution across legal entities, automate wire settlement and integrate investment reporting into overall cash position

Company	<ul style="list-style-type: none">• A USD15-billion provider of products for storing, protecting, optimizing and leveraging information that generates its revenues from operations in more than 60 countries• Treasury operations, centralized at its US headquarters, manages and invests nearly USD6-billion on behalf of all business units
Challenges	<p><i>“...we have a very good idea of how much cash we have to fund our accounts, but it was extremely inconvenient to manage...European accounts while based in the US because of early morning cut-offs.” Principal Treasury Analyst</i></p> <ul style="list-style-type: none">• Acquired more than 30 companies around the world between 2004 and 2008, creating challenges related to managing, controlling and investing cash
Citi Solution	<ul style="list-style-type: none">• Citi Online Investments to manage investments across multiple legal entities and time zones.• TreasuryVision to aggregate cash and investment positions across all legal entities.
Benefits	<p><i>“It [Citi Online Investments] has really added more efficiency, more flexibility and more value to our processes – every day.” Global Cash Manager</i></p> <ul style="list-style-type: none">▲ Ability to access one application to manage investments across many legal entities and geographies.▲ Ability to view aggregated reporting across cash and investment positions.

Case Study: Outsourced Investment Management

Bespoke, flexible approach to investment management, driven by a client's individual liquidity, risk and liquidity goals

Company	<ul style="list-style-type: none">• Has \$1 billion in a previously US government guaranteed MMF (all MMF insurance expired in September 2009, new 2a7 rules take effect on May 28th, 2010), and \$400mm of in-house managed cash• Investment guidelines with credit concentration limits
Challenges	<ul style="list-style-type: none">• Limited in-house resources for money management and back office processing of trades, as treasury team has many functions outside of investment responsibilities• Investment objectives:<ul style="list-style-type: none">a) Principal protection as keyb) Access to day-to day liquidity, but some longer term investments tied to monthly/quarterly cash flowsc) Maximize yield, assuming first to goals met
Citi Solution	<ul style="list-style-type: none">• Directed Agent Investment Services (DAIS). Complements Citi's other Cash and Securities products, i.e. Custody, Treasury Analytics, Cash Management accounts etc.
Benefits	<ul style="list-style-type: none">▲ Quick to market solution, with one directed agent agreement required▲ Bespoke, flexible approach to investment management, driven by a client's individual liquidity, risk and liquidity goals. Full transparency of holdings▲ Outsourced execution of front and back-office functions - including all securities settlements - to a professional desk with and pre and post trade compliance and operational controls▲ Access to institutional level investment pricing, with competitive fee structure



Case Study: Outsourced Investment Management, continued

Sample investment guidelines

- Maximum investment maturity: 397 days
- Maximum portfolio weighted average maturity: 90 days
- Maximum portfolio weighted average interest rate exposure: 60 days
- Issuers must have minimum short-term rating of A-1/P-1; split ratings not allowed
- Issuers must have minimum long-term rating of A+/A1
- Ratings criteria apply at time of purchase

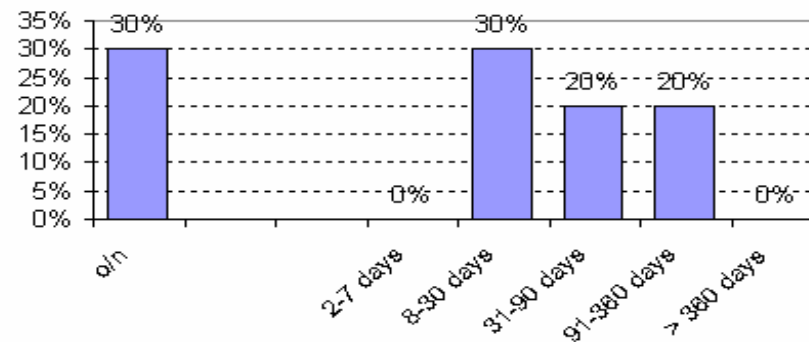
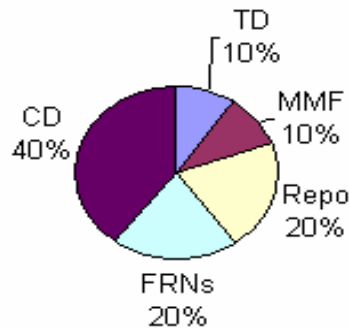
Permitted investments

- Obligations of US Government, US agencies or International Organizations
 - Any instrument issued or guaranteed by the above; No limit as to amount
- Bank obligations: TDs, CDs, Bank Notes, Bankers Acceptances
 - Bank must have at least \$10bn in assets
 - Head office domiciled in country with at least one AA- equivalent or better rating
 - Maximum 5% per issuer; portfolio limit for all bank obligations is 100%
- CP (including ABCP) and other corporate obligations
 - Programs supported by multiple dealers; program size > \$1bn
 - Limit holdings to 15% of program size; dollar limit per industry of 25%
- Repurchase agreement
 - Counterparty must be Tier 1 rated
 - Underlying collateral may be: US Governments, Agencies, Agency mortgage backed securities, Corporates or Equities
 - Collateral must be marked to market daily; Margin of 102% must be maintained daily; 105% for international equities
 - Collateral must be held by agent or third party custodian

Case Study: Outsourced Investment Management, continued

Sample investment portfolio

Instrument	Type	Credit Quality (S&P/Moodys)	Yield/Disc	Maturity	DTM/Reset	Allocation	Principal Amt
Citibank N.A.	Custody Account	A-1/P-1	0.19%	4/29/2010	1	10.00%	\$10,000,000
Fidelity Prime Money Market	2a7 Money Market Fund	AAA Rated	0.19%	4/29/2010	1	10.00%	\$10,000,000
Deutsche Bank Securities Inc	Corporate Tri-Party Repo	Investment Grade	0.35%	4/29/2010	1	10.00%	\$10,000,000
Abbey National Bank	Certificate of Deposit	A-1+/P-1	0.23%	5/26/2010	28	10.00%	\$10,000,000
BNP Paribas Securities	Corporate Tri-Party Repo	Investment Grade	0.38%	6/25/2010	58	10.00%	\$10,000,000
Nordea	Certificate of Deposit	A-1+/P-1	0.30%	7/27/2010	90	10.00%	\$10,000,000
Societe General	Certificate of Deposit	A-1/P-1	0.39%	9/25/2010	150	10.00%	\$10,000,000
UBS	Certificate of Deposit	A-1/P-1	0.49%	10/25/2010	180	10.00%	\$10,000,000
Credit Agricole - 1ml +12	Floating Rate Bank Note	A-1+/P-1	0.40%	1/24/2011	30	10.00%	\$10,000,000
Barclays Bank - 1ml +40	Floating Rate Bank Note	A-1+/P-1	0.68%	4/27/2011	30	10.00%	\$10,000,000
			<i>Gross Yield</i>	<i>Weighted Average Maturity</i>		<i>Total Portfolio Value</i>	
			0.36%	57		\$100,000,000	



Questions and Answers

- Today's Presenters:

- | | | |
|----------------|------------------------------|------------------------|
| – John Carter | +1 (212) 816-1164 (New York) | john.s.carter@citi.com |
| – Alison Tosh | +44 (20) 7508-2667 (London) | alison.tosh@citi.com |
| – Jeff Bonaldi | +1 (212) 657-0370 (New York) | jeff.bonaldi@citi.com |

Next Webinar

- Effective Global Liquidity and Risk Management: Global Visibility As A Key Step

- When: June 2, 10:00AM EST / 3:00PM GMT
- Speakers: Cindy Gerhard and Duncan Cole

- Register at:

<http://www.transactionservices.citigroup.com/transactionservices/home/corporations/calendar.jsp>

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Citi believes that sustainability is good business practice. We work closely with our clients, peer financial institutions, NGOs and other partners to finance solutions to climate change, develop industry standards, reduce our own environmental footprint, and engage with stakeholders to advance shared learning and solutions. Highlights of Citi's unique role in promoting sustainability include: (a) releasing in 2007 a Climate Change Position Statement, the first US financial institution to do so; (b) targeting \$50 billion over 10 years to address global climate change: includes significant increases in investment and financing of renewable energy, clean technology, and other carbon-emission reduction activities; (c) committing to an absolute reduction in GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (d) purchasing more than 234,000 MWh of carbon neutral power for our operations over the last three years; (e) establishing in 2008 the Carbon Principles; a framework for banks and their U.S. power clients to evaluate and address carbon risks in the financing of electric power projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

efficiency, renewable energy & mitigation

