Findings & Opportunities

2024

Slow then grow

Investing in the markets' big reset

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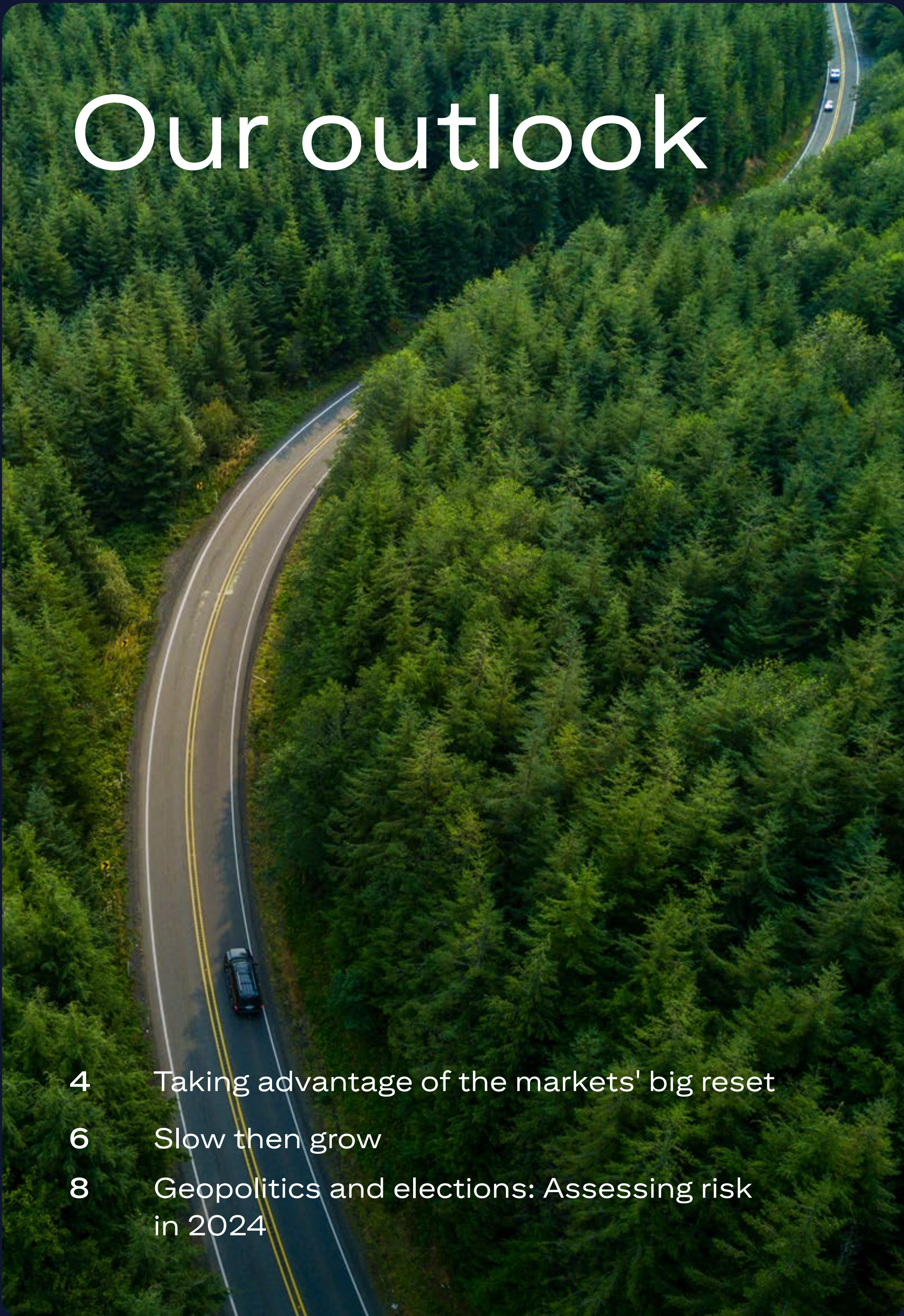
Contents



Our outlook

Taking advantage of the markets' big reset

David Bailin
Chief Investment Officer,
Citi Global Wealth

The global economy looks set for further recovery in later 2024 and beyond, with investor expectations resetting upward. We see potential portfolio opportunities.

Our expectations:

- Global GDP growth to slow from 2023's 2.6% to 2.2% in 2024 before rising 2.8% in 2025
- Despite the coming growth slowdown, we expect no broad-based economic collapse
- Government stimulus to engender cyclical upturn in China into 2024 and 2025
- US inflation to dip to 2.5% by end-2024
- Corporate profits to rise 5% in 2024 and 7% in 2025
- An upward reset of currently attractive valuations across major asset classes

Amid this "big reset," we believe that investors can potentially benefit from fully invested, globally diversified allocations – see **Core portfolios could be ready to shine.**

Following a painful two years for fixed income, we discuss why **Peak rates equals peak income: Extend duration.**

Equities globally look attractive, and we like potential opportunities such as small- and mid-cap growth shares with solid balance sheets.

We explore the potential benefits of private equity, real estate, and hedge funds given our belief that most qualified investors are underweight alternatives.

To complement core portfolios, we make our case for **Investing with and in unregulated financial companies.**

We advocate exposure to long-term economic growth drivers – see **G2 polarization; Increasing longevity and healthcare innovation.**

Slow then grow

Steven Wieting
Chief Investment Strategist and Chief Economist

We see 2024 as an important transition year, setting the stage for sustainable growth and market returns ahead.

We expect economic growth globally to slow in early 2024 before picking up in the second half, along with corporate earnings.

Growth should then strengthen further in 2025, with earnings estimates for that year rising during 2024 (**FIGURE 1**).

This forms part of a "slow then grow" pattern. We are entering a period of normalization and growth, following the after effects of the pandemic.

While not our base case, an ongoing deep slowdown in China is perhaps the biggest risk, as it could worsen the "slow" and delay the "grow."

The runup to November's US election is likely to create anxiety for investors; but we think such fears are unlikely to derail markets – see **Geopolitics and elections: Assessing risk in 2024.**

Diversified allocations may also strengthen portfolios from security concerns and unpredictable election results – see **Core portfolios could be ready to shine.**

FIGURE 1

Citi Global Wealth real gross domestic product (GDP) forecasts

GWI Real GDP Forecasts (%)	2020	2021	2022	2023E	2024E	2025E
US	-2.8	5.8	1.9	2.4	1.6	2.6
China	2.2	8.5	3.0	5.5	4.0	4.0
EU	-6.3	5.6	3.4	0.5	0.4	1.3
UK	-11.0	7.6	4.3	0.6	0.6	1.5
Global	-3.2	5.9	3.3	2.6	2.2	2.8

CGWI EPS Forecasts (%)	2020	2021	2022	2023E	2024E	2025E
S&P 500 US	-13.5	46.9	6.0	0.9	5.1	6.8

Source: Citi Global Wealth Investments and Bloomberg as of November 12, 2023. All forecasts are expressions of opinion, are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. **Past performance is no guarantee of future results. Real results may vary.**

Geopolitics and elections: Assessing risk in 2024

Steven Wieting
Chief Investment Strategist and Chief Economist

David Bailin
Chief Investment Officer

Maya Issa
Senior Investment Strategist

Malcolm Spittler
Investment Strategist and Senior US Economist

With two wars raging and major elections scheduled on every continent, 2024's headline risks for markets may seem high. History suggests otherwise.

We see the economic repercussions of the Ukraine war and the interaction with politics in the US and Europe as among today's greatest global risks.

Hamas's attack on Israel – while not immediately driving a significant regional conflict – still has the potential to cause similar global disruption.

The share of geopolitically vulnerable energy supplies has increased.

General elections loom in 2024 in nations comprising 68%of global equity market capitalization[1]; the US election may see partisan conflict at new heights.

More than 90% of geopolitical events have not changed the world economy and markets' direction (**FIGURE 2**).

We advocate for globally diversified core portfolios, staying fully invested and seeking potential opportunities through events that cause fear but not catastrophe.

Investments in Western energy supplies from fossil fuels to alternatives may mitigate some geopolitical and inflation risks - see **OPEC's unlikely role in the energy transition.**

We see cybersecurity software as a key defensive investment.

FIGURE 2

Historically, US equities have typically rebounded from geopolitical shocks

S&P 500	Initial impact (%)	30 days %	90 days %
Average all events	-4.8	-0.8	1.9
Average ex WW2	-4.7	-0.6	2.6
Average ex WW2 and oil embargo	-4.1	-0.2	3.5

Source: Haver Analytics and Bloomberg as of November 15, 2023. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. **Past performance is no guarantee of future results. Real results may vary.**

[1] Bloomberg as of October 4, 2023

Portfolio views

Core portfolios could be ready to shine

Jonathan Leach
Head of Multi Asset Class Solutions, Citi Investment Management

David Bailin
Chief Investment Officer

Paisan Limratanamongkol
Head of Global Asset Allocation and Quantitative Research

Davide Andaloro
Senior Portfolio Manager and Head of Multi Asset Strategy, Citi Investment Management

Long-term valuations suggest this is a good time to build or add to globally diversified core portfolios.

We believe clients should consider holding most of their wealth, aside from business assets and homes, in core investment portfolios.

Core portfolios should be globally diversified across asset classes in line with a customized long-term plan according to each investor's objectives and be kept fully invested throughout market cycles.

Our proprietary methodology's strategic return estimates (SREs) look promising across the board for the first time in years (FIGURE 2).

Attractive fixed income yields may help anchor core portfolio returns as well as providing resilience.

Within equities, small- and mid-cap valuations point to stronger returns, which in turn may potentially assist the highly correlated asset classes of private equity and hedge funds.

While we see private equity forecasts as attractive, alternatives are available to qualified clients, are illiquid and have high downside risk.

Some risks to our SREs include inflationary or deflationary shocks and other unexpected major developments.

FIGURE 2

Long-term outlook for asset classes – our Strategic Return Estimates (SREs)

	2024 SRE	2023 SRE	2022 SRE
Global Equities	8.70%	7.60%	4.20%
Developed Market Equities	8.20%	7.00%	3.80%
Emerging Market Equities	12.80%	12.90%	8.10%
Global Fixed Income	5.80%	5.10%	2.00%
Investment-Grade Fixed Income	5.40%	4.60%	1.80%
High-Yield Fixed Income	7.90%	7.40%	2.60%
Emerging Market Fixed Income	8.10%	7.80%	3.60%
Cash	4.30%	3.40%	0.90%
Hedge Funds	11.50%	9.10%	4.10%
Private Equity	19.50%	17.60%	11.60%
Real Estate	10.90%	10.60%	8.80%
Commodities	2.70%	2.40%	1.50%

Source: CGW Global Asset Allocation and Quantitative Research Team. Strategic Return Estimates (SREs) for 2024 based on data from October 2023, prior Strategic Return Estimates for 2023 (based on data as of October 2022) and 2022 (based on data as of October 2021). Returns estimated in US Dollars. All estimates are expressions of opinion, are subject to change without notice and are not intended to be a guarantee of future events. Strategic Return Estimates are no guarantee of future performance. Past performance is no guarantee of future returns. Strategic Return Estimates based on indices are Citi Global Wealth's forecast of returns for specific asset classes (to which the index belongs) over a 10-year time horizon. Indices are used to proxy for each asset class. The forecast for each specific asset class is made using a proprietary methodology that is appropriate for that asset class. Equity asset classes utilize a proprietary forecasting methodology based on the assumption that equity valuations revert to their long-term trend over time. The methodology is built around specific valuation measures that require several stages of calculation. Assumptions on the projected growth of earnings and dividends are additionally applied to calculate the SRE of the equity asset class. Fixed Income asset class forecasts use a proprietary forecasting methodology that is based on current yield levels. Other asset classes utilize other specific forecasting methodologies.

SREs do not reflect the deduction of client fees and expenses. Past performance is not indicative of future results. Future rates of return cannot be predicted with certainty. Investments that pay higher rates of return are often subject to higher risk and greater potential loss in an extreme scenario. The actual rate of return on investments can vary widely. This includes the potential loss of principal on your investment. It is not possible to invest directly in an index.

All SRE information shown above is hypothetical, not the actual performance of any client account. Hypothetical information reflects the application of a model methodology and selection of securities in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading.

Peak rates equals peak income: Extend duration

Bruce Kirkwood Harris

Head of Fixed Income Investment Strategy

Joseph Kaplan

Senior Fixed Income Investment Strategist

After a difficult couple of years, we believe fixed income's outlook may be better in 2024, especially quality issues of middling duration.

Rising US Federal Reserve interest rates hit many bond indices hard in 2023; our positive outlook a year ago was early but now looks promising.

Barring a surprise inflation scare, the Fed's hiking cycle appears to be over; rate cuts may occur in 2024 if unemployment rises.

Present bond yields are historically high, embedding a yield premium over expected inflation.

We favor seeking portfolio income and diversification via intermediate-term (i.e., five- to seven-year maturity) US dollar bonds, potentially locking in peak interest rates.

A fall in rates would drive bond prices; current income protects investors to the extent that rates stay higher for longer.

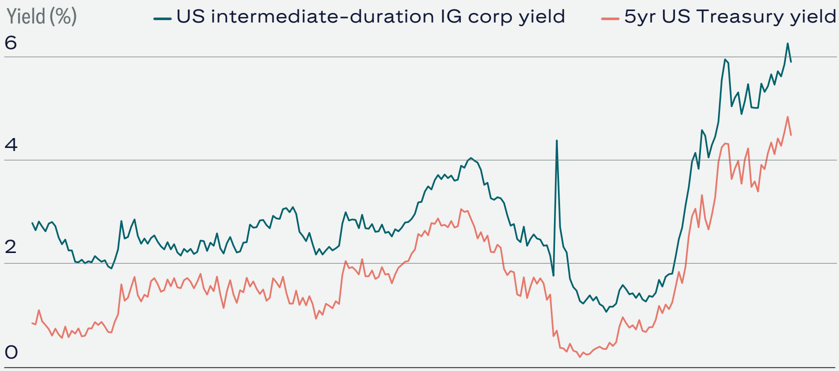
Combining US Treasurys and investment-grade credit can add substantial and durable income to suitably diversified portfolios.

Potential opportunities for suitable investors also lie in private credit and US municipal bonds, though these asset classes also come with additional factors to take into consideration.

A shock that drives inflation higher would threaten our positive case, causing bond prices to drop and eroding the purchasing power of their principal and coupons. Investors should understand all risks before investing.

FIGURE 4

Historical yields on intermediate fixed income



Source: Bloomberg as of November 22, 2023. Bloomberg Intermediate Corporate Total Return Index used for US intermediate-duration IG corp yield. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. **Past performance is no guarantee of future results. Real results may vary.**

Alternative investing in 2024

Daniel O'Donnell
Head of Alternative Investments

Stefan Backhus
Head of Alternatives Strategy

Despite a promising long-term return outlook, most qualified investors lack sufficient exposure to alternatives.

Alternatives have the highest next-decade strategic return estimates within our proprietary methodology among ten broad asset classes (FIGURE 3) in **Core portfolios could be ready to shine.**

Over time, a private equity and real estate allocation would have delivered higher returns than a public equity – only allocation (FIGURE 5).

For suitable investors with a moderate risk appetite, a 27% allocation to alternatives might be considered: 12% hedge funds; 10% private equity; and 5% real estate.

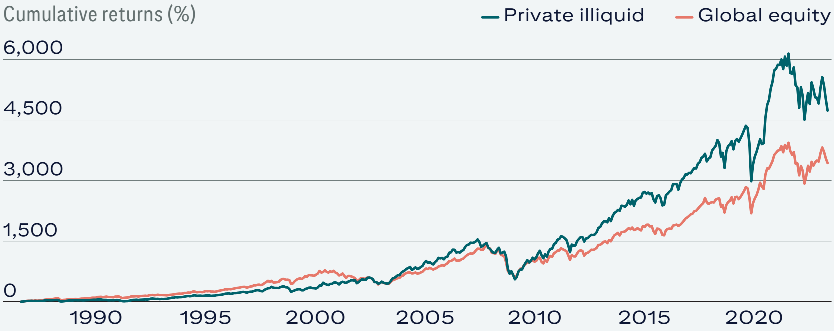
Our large family office clients have average alternative allocations of 46%[1], whereas many qualified individual clients have low single digit allocations.

The potential for enhanced returns, lower volatility and higher yields are some benefits diversified alternatives exposure may offer. Risks include illiquidity, asymmetric losses from potential leverages, volatility of returns, restrictions on transfer of interests and more, including tax considerations.

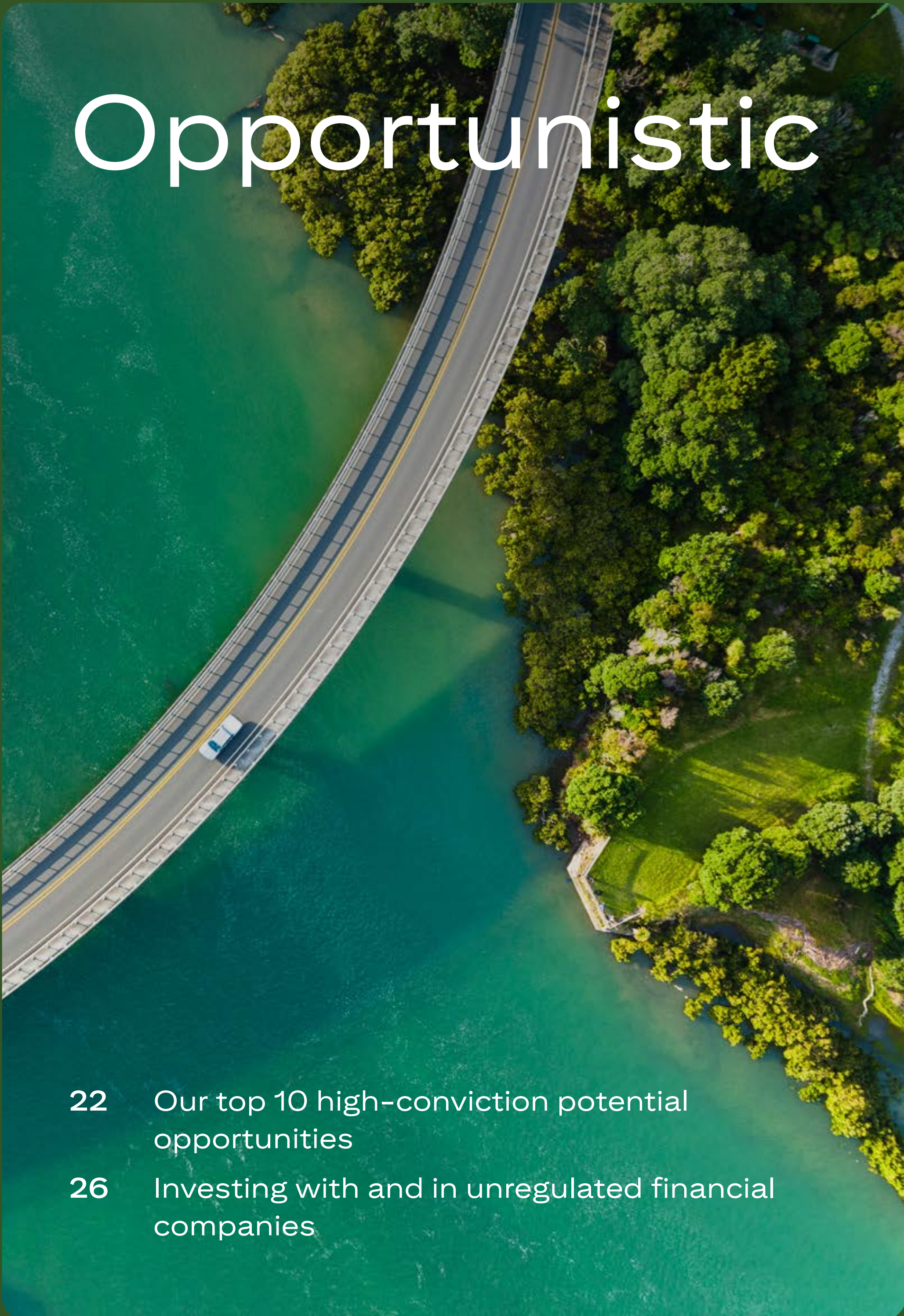
[1] Citi Private Bank Global Family Office Survey Insights Report 2023.

FIGURE 5

Private equity and real estate outperformed a public equity allocation 1985–2022



Source: Citi Global Wealth ("CGW") Global Asset Allocation team, as of October 31, 2023. The returns shown were calculated at an asset class level using indices and do not reflect additional fees or expenses, which would have reduced the performance shown. Indices are unmanaged, may or may not be investable and have no expenses. Diversification does not ensure against loss of investment. Chart displays the performance of the Global Equity asset class, consisting of 90% Developed Market Equity (MSCI World Index and CGW Global Asset Allocation team data) and 10% Emerging Market Equity (MSCI Emerging Markets Index and CGW Global Asset Allocation team data), compared to a private illiquids proxy of 65% Private Equity (Cambridge Associates LLC US Private Equity Index and CGW Global Asset Allocation team data) and 35% Real Estate (FTSE EPRA Nareit Global Index and CGW Global Asset Allocation team data) for the period 1986–2022. Private equity and real estate indices are net of manager level fees and expenses. See Glossary for definitions. **Past performance is no guarantee of future returns. Real results may vary.**



Opportunistic

Our top 10 high-conviction potential opportunities

David Bailin
Chief Investment Officer

Steven Wieting
Chief Investment Strategist and Chief Economist

Joseph Fiorica
Head of Equity Investment Strategy

Bruce Kirkwood Harris
Head of Fixed Income Investment Strategy

Jaideep Tiwari
Head of Foreign Exchange Investment Strategy

Stefan Backhus
Head of Alternatives Strategy

We explore ten investments that may offer opportunistic potential over the next year or so.

Opportunistic portfolios – accounting for 5% to 20% of clients' investment wealth – seek to complement core allocations by raising overall returns, risk-adjusted returns or both.

We explore high-conviction ten shorter-term opportunistic investments:

1. Semiconductor equipment makers

The revolution in artificial intelligence depends heavily upon advanced semiconductors and, in turn, upon makers of semiconductor machines and materials. The US and its allies are seeking to bolster their supply chain via subsidized spending on chip equipment and battery tech makers. Risks include geopolitical tensions and supply disruptions.

2. Cybersecurity shares

Online fraud and political disinformation are intensifying, with corporate spending on cybersecurity rising in response. With valuations near early pandemic lows, we think a rebound is justified. Technological disappointments and higher interest rates are among the risks.

3. Western energy producers, equipment makers and distributors' equities

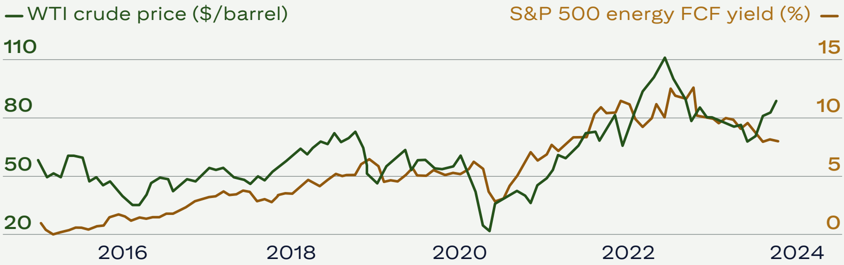
Geopolitical strife and supply constraints are helping keep traditional energy prices and related firms' cash flows high (**FIGURE 6**). Investments in many oil & gas producers, pipelines and equipment makers are both a potential source of income and partial hedge against inflation and geopolitical risk. A slowing economy and oversupply could undermine the bullish case somewhat.

4. Copper miner equities / clean energy infrastructure

Copper is vital to the clean energy transition, with high-demand, restrained supply and no substitution supporting its price outlook. We favor investments across various profitable producers. Oversupply, price volatility and a stronger US dollar are among risks.

FIGURE 6

Rising crude prices, high producers' free cash flow yield



Source: Bloomberg and Haver Analytics as of November 22, 2023. All forecasts are expressions of opinion, are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. **Past performance is no guarantee of future results. Real results may vary.**

5. Medical technology and tools equities

Higher rates have hit medtech valuations hard. We now expect AI-accelerated drug discovery and testing, more mergers & acquisitions and greater capital expenditure. We seek cheaply valued tech and tools exposure. Risks include disruption from new technologies and tighter monetary policy.

6. Defense contractors

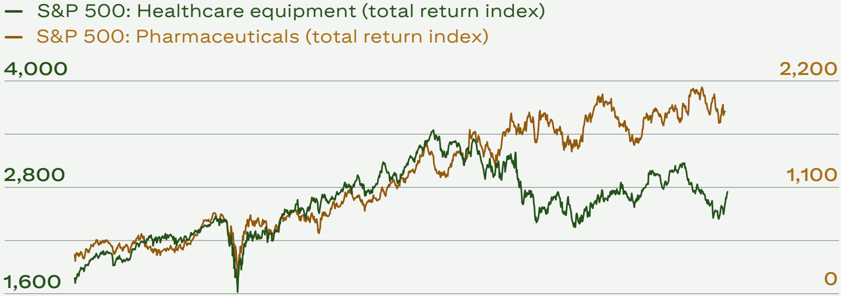
Amid conflicts in Ukraine and the Middle East, NATO members are hiking defense spending. US and European defense equipment and arms producers' share prices have suffered on supply constraint concerns, but we see catchup potential. Strong buyer power and potentially less upside potential in bull markets are among traditional drawbacks.

7. Private capital asset management firms

Regulatory pressure on banks has created potential opportunities for private credit and equity funds that provide financing. We seek to own such asset managers via listed equity and alternative vehicles – see **Investing with and in unregulated financial companies.**

FIGURE 7

Healthcare equipment has cheapened but may rebound



Source: Haver Analytics through November 22, 2023. All forecasts are expressions of opinion, are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. **Past performance is no guarantee of future results. Real results may vary.**

8. The Japanese yen and yen-denominated Japan tech, financial shares

The trade-weighted Japanese yen hit a two-decade low in 2023. We now expect a stronger Japanese economy and monetary tightening. As well as direct currency positions, Japanese banks, semiconductor, battery, robotics and automation equities offer yen exposure.

9. Private credit and structured debt securities

With banks less able to lend, private debt demand is healthy, and investors are keen to own this asset class. Suitable and qualified investors may also consider structured credit where high yields are available. Regulatory scrutiny on nonbank lenders and relaxed constraints on banks could hinder progress.

10. Normalization of the US yield curve

The US ten-year-one-year yield curve has been inverted for 15 months, with the longest ever being 20 months. It can steepen via rising long-term rates and/or falling short rates. Suitable clients may consider “curve steepening” strategies. Atypical moves in interest rates would frustrate this trade.

Investing with and in unregulated financial companies

Daniel O'Donnell
Head of Alternative Investments

Stefan Backhus
Head of Alternatives Strategy

Alternative lenders could benefit from renewed tightening of banks' capital requirements, which is an investable trend.

Proposed tighter capital requirements could hamper US banks' lending; unregulated non-bank financial firms may pick up slack in middle-market corporate lending.

Private credit funds can charge borrowers yield premiums and pass them on as higher yields to fund investors at the cost of lower liquidity from extended lockup periods.

Another possibility is buying the public shares of private equity firms that manage private credit funds.

For suitable and qualified investors, owning a general partner stakes fund gives direct exposure to private credit funds' underlying deals as well as management fees and carried interest.

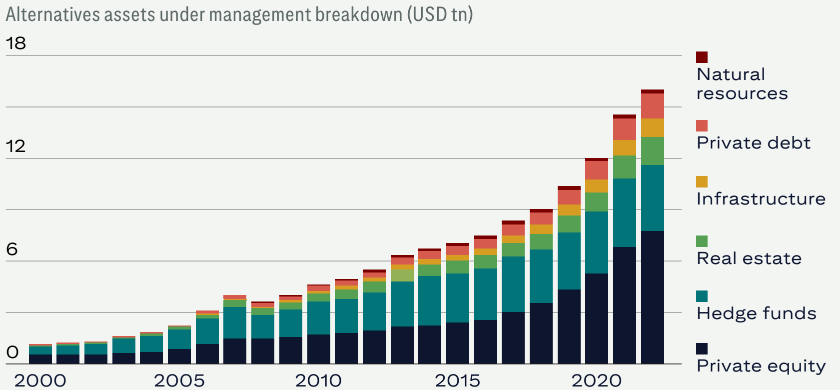
While rapid growth in US private credit (**FIGURE 8**) could attract regulatory scrutiny, we think this unlikely for now.

Risks include losses due to leveraging or other speculative investment practices, illiquidity, return volatility and restrictions on transferring fund interests.

Others include insufficient diversification, no valuation and pricing data, complex tax structures and tax reporting delays, less regulation, higher fees than mutual funds, and advisor risk.

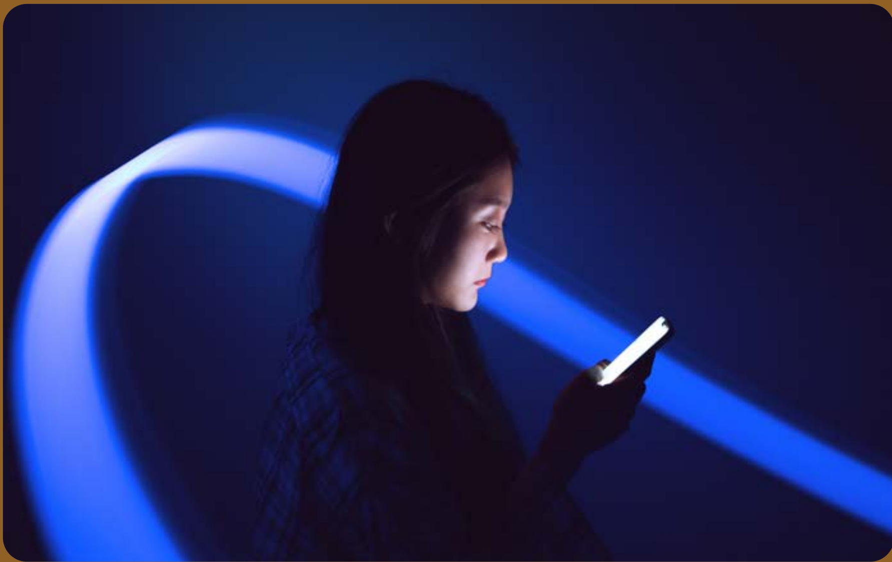
FIGURE 8

Private debt has grown alongside other alternatives



Source: Preqin and HFRI as of December 31, 2022.

Unstoppable trends



AI-propelled digitization in 2024

Joseph Fiorica
Head of Equity Investment Strategy

Cecilia Chen
Equity Investment Strategist

We believe it is not too late for investors to position for the next phase of the generative artificial intelligence buildout.

Generative artificial intelligence (AI) may potentially be as revolutionary a technology as the printing press, democratizing information and creativity.

Outside of technology, financials and fintech are likely to be among the most impacted economic sectors, with natural resources and climate tech least so.

Generative AI also brings risks around IP infringement, misinformation, reinforcement of biases and tools that can increase cybercrime severity.

We expect 2024 to see major AI capacity buildout as financial conditions ease; scale and free cash flow will initially favor larger players.

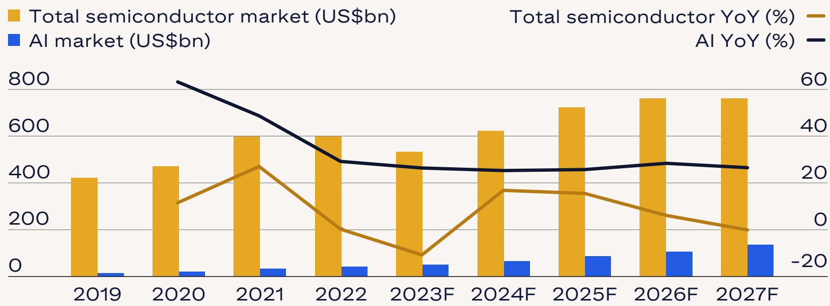
Mega-cap tech leaders should thus continue to provide reliable exposure to the AI trend.

High-performance chips essential to AI computing should see rising demand (FIGURE 9).

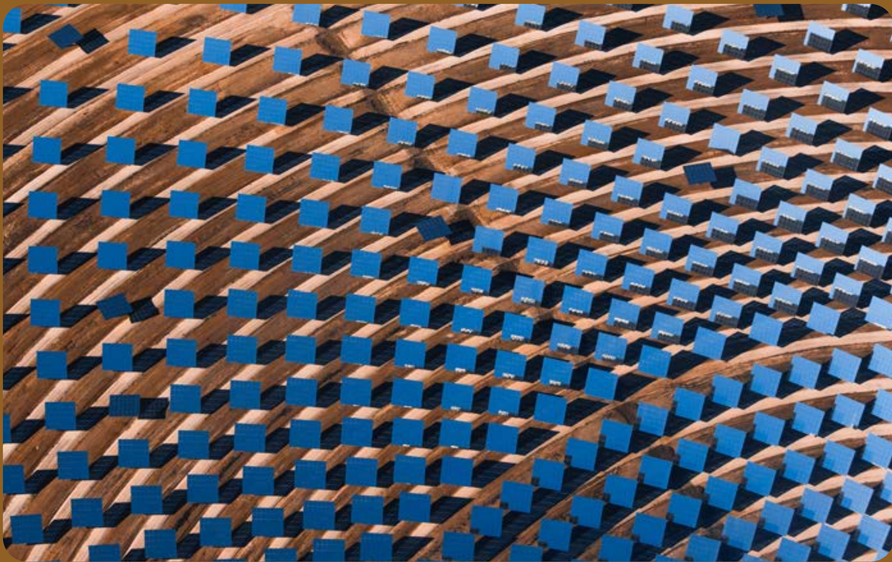
We also see potential in areas such as semiconductor equipment, robotics, drug discovery and cybersecurity.

FIGURE 9

AI semiconductor market value and year-on-year growth vs total semiconductors



Source: Citi Research and Gartner as of November 17, 2023. All forecasts are expressions of opinion, are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. For illustrative purposes only. **Past performance is no guarantee of future results. Real results may vary.**



OPEC's unlikely role in the energy transition

Malcolm Spittler
Senior Economist

Maya Issa
Equity Investment Strategist

Harlin Singh
Head of Sustainable Investing

By boosting oil prices, the world's most powerful energy cartel is incentivizing the sustainable energy transition. We identify potential winners.

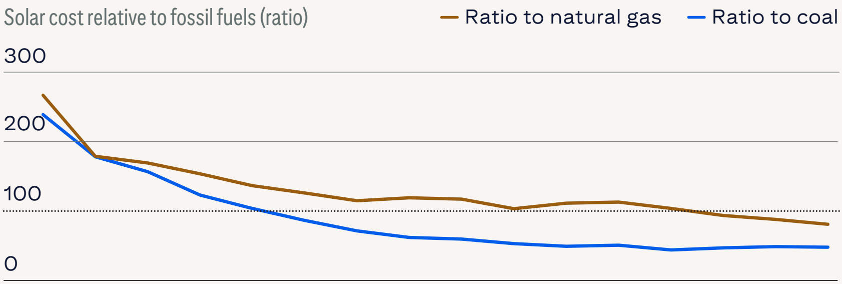
The transition from carbon-intensive to sustainable energy sources is accelerating.

This is greatly needed to combat climate change and bolster energy security. We thus consider the transition an unstoppable trend.

Electricity from new wind or solar plants is now cheaper by some measures than electricity from new gas or coal facilities (**FIGURE 10**).

FIGURE 10

Solar's falling cost vs natural gas and coal



Source: Bloomberg as of December 31, 2022.

With current record investment, we believe sustainable energy can become more competitive still.

Simultaneously, OPEC – the Organization of Petroleum Exporting Countries – is using its cartel power to maximize oil revenues, making the shift to clean energy more attractive.

Potential opportunities include near-term income from Western suppliers of traditional energy; copper-related investments vital to the transition; and financially robust green energy firms longer term.

The many risks include technological disappointments, supply shocks, policy mishaps and inadequate financing.

Increasing longevity and healthcare innovation

Diane Wehner
Senior Portfolio Manager - Equities

Nathan Weinstein
Global Healthcare Analyst

Joe Fiorica
Head of Equity Strategy

As human aging and technological advances continue, we seek attractively valued healthcare investments.

The unstoppable trend of increasing human longevity – a key driver of healthcare demand – remains in force.

To ease the financial burden on societies globally, better, cheaper healthcare is vital; we believe innovation can contribute to this.

Artificial intelligence could accelerate the drug discovery process and enhance value-based care, which prioritizes prevention.

Biologics are addressing conditions such as Alzheimer's and cancer; new weight-loss medications are tackling diabetes, heart disease and related issues.

Healthcare has faced numerous issues including regulatory uncertainty, higher financing costs for research and development, and COVID inventory overhangs.

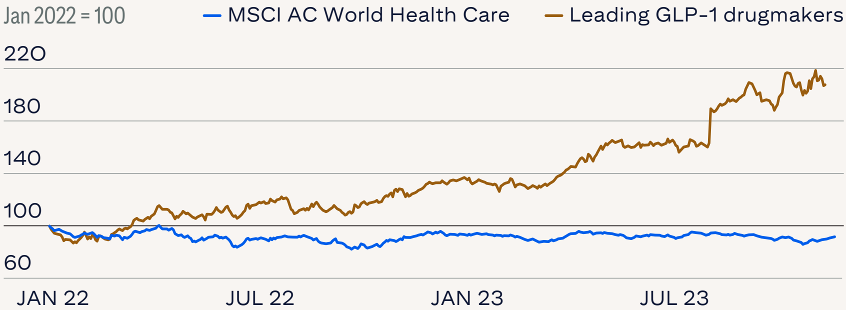
While risks remain, we expect lower interest rates, easing financing conditions, and takeovers of small- and mid-cap firms by large biopharma firms to boost the sector.

A bounce back from 2023's earnings recession may occur in 2024, driving potential sector outperformance.

We favor the likes of beaten down medical technology, and tools firms and, value-based care providers, and select areas within biopharma.

FIGURE 11

Healthcare's recent malaise



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G2 polarization: The global technology industry

Ligang Liu
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Charles Reinhard
Head of North America Investment Strategy

David Bailin
Chief Investment Officer

Kerry White
Head of North America, Citi Investment Management

As US-China rivalry intensifies, the companies and trading partners in the middle scramble to keep up with the demand of a bifurcating global tech industry.

Economic and geopolitical polarization between the US and China – the "G2 powers" – has intensified, especially in technology.

Rival supply chains are emerging on each side; some firms from the US and its allies are moving production away from China.

China's exports to the US have dropped 30% since early 2022, as exports from Mexico to the US have risen and Asia (ex-China) exports to the US have leveled off (**FIGURE 12**).

A more polarized world is riskier, especially if G2 tensions escalate; globally diversified portfolios may help mitigate risk.

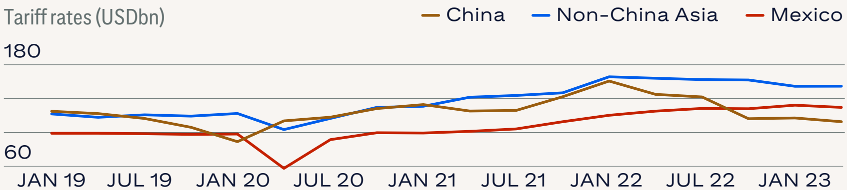
Such allocations would include both sides' technological champions.

We also seek investments in agile supply chain fragmentation beneficiaries, with many in the likes of Vietnam and Mexico.

We also favor US, Japanese and European robotics, AI-powered logistics suppliers, and industrial real estate trusts owning factories and warehouses both sides of the Atlantic.

FIGURE 12

China exporting less to US, but Mexico more



Source: Haver Analytics as of November 22, 2023. Note: Non-China Asia includes Taiwan, South Korea, Japan and some key ASEAN such as Singapore, Vietnam and Malaysia.

Implementing our themes

Our themes can be introduced to portfolios in many ways, as part of your core portfolio holdings or opportunistically. They span multiple asset classes and can be implemented by proprietary or third-party managers, as well as via capital markets strategies. Here, we present a selection of the implementation possibilities that we currently see.

Your relationship team and our product specialists stand ready to build thematic portfolios that are suitable for your portfolio objectives, risk profile and time horizon.

Unstoppable trends

AI-propelled digitization in 2024

Equity strategies from specialist managers spanning mega-cap tech leaders; high-performance chips essential to AI computing; semiconductor equipment; robotics; drug discovery; and cybersecurity.

How OPEC is fueling the sustainable energy transition

Strategies seeking near-term income from Western suppliers of traditional energy; copper-related investments vital to the transition; and financially robust green energy firms longer term via specialist managers.

Increasing longevity and healthcare innovation

Beaten down medical technology and tools firms and value-based care providers.

G2 polarization: The global technology industry

Investments in agile supply chain fragmentation beneficiaries, with many in the likes of Vietnam and Mexico; US, Japanese and European robotics and AI-powered logistics suppliers; and industrial real estate trusts owning factories and warehouses both sides of the Atlantic.

IMPORTANT INFORMATION

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Credit risk	**Moody's[1]**	**Standard & Poor's[2]**	**Fitch Ratings[2]**
Investment grade			
Highest quality	Aaa	AAA	AAA
High quality (very strong)	Aa	AA	AA
Upper medium grade (strong)	A	A	A
Medium grade	Baa	BBB	BBB
Not investment grade			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

[1] The ratings from Aa to Ca by Moody's may be modified by the addition of a 1, 2, or 3 to show relative standing within the category.

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Changes in Regulatory or Tax Treatment of Energy Related MLPs. If the IRS changes the current tax treatment of the master limited partnerships included in the Basket of Energy

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- lack of liquidity in that there may be no secondary market for the fund and none is expected to develop;
- volatility of returns;
- restrictions on transferring interests in the Fund;

- potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
- absence of information regarding valuations and pricing;
- complex tax structures and delays in tax reporting;
- less regulation and higher fees than mutual funds; and
- manager risk.

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