Private Bank

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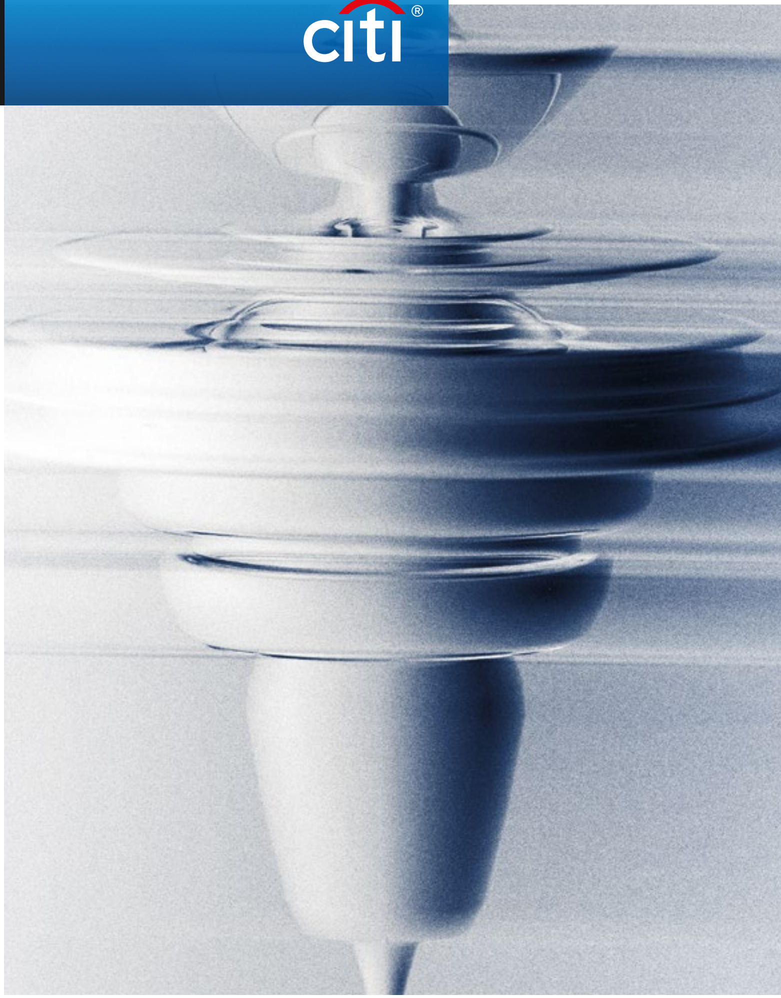

Outlook 2018:
Findings & opportunities

Contents

Go global now: riding the global expansion's second wind

We expect an acceleration of economic growth around the world in 2018. Investors should take this potential opportunity to build fully global allocations.

A fully global asset allocation may potentially generate a higher long-run return while also seeking to minimize risk.

Faster growth likely

We expect global GDP growth to experience a 'second wind', accelerating from 3.1% in 2017 to 3.4% in 2018.* Low inflation worldwide, meanwhile, suggests no economic overheating.

Although we expect smaller market gains in 2018 than in 2017 – **figures 1** and **2** – we remain bullish.

Go global now

We recently raised our tactical allocation to equities and reduced our recommended exposure to fixed income.

Outside the US, equity valuations are significantly lower and corporate earnings could again record double-digit gains in 2018. We therefore urge clients to 'go global now'.

We have a neutral allocation to US equities, but are overweight Europe outside the UK, developed Asia, and emerging markets.

Despite our underweight to fixed income, we still see selective opportunities, particularly in developed high yield and emerging markets fixed income.

Figure 1. Global equity return estimates 2018

MSCI Global	8%
S&P 500	6%
MSCI Global ex-US	9%
MSCI Emerging Markets	12%
Euro Stoxx 600	12%

Figure 2. Global currency-hedged fixed income return estimates 2018

Global Aggregate	3%
US Aggregate	2%
Euro Area Aggregate	-1%
Emerging Market Sovereign	5%

Figures 1 and 2 source: Citi Private Bank, as of 17 Nov 2017. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

Note: ‘Global Aggregate’ is Citi World Broad Investment Grade Index, ‘US Aggregate’ is Citi US Broad Investment Grade Index, ‘Euro-Area Aggregate’ is Citi Euro Broad Investment Grade Index, ‘Emerging Market Sovereign’ is Citi Emerging Markets Sovereign Bond Index (ESBI), and ‘High Yield Corporate’ is Citi US High Yield Market Index.

See Glossary for definitions.

* Source: Citi Research, as of 27 Nov 2017

International investing entails greater risk, as well as greater potential rewards compared to US investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economics.

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Diversification does not ensure against loss.

Build a great portfolio now

We revisit the fundamental principles of asset allocation and best investment practices that have helped keep some families among the world's wealthiest for generations.

The families who have managed to remain among the world's wealthiest over several generations have typically built great investment portfolios following the fundamental principles of asset allocation, whereas those who have drifted below the wealthiest have typically not.

Go global now: diversification is powerful

By investing in a broad range of different asset classes across the world, it is possible to lower a portfolio's risk while also potentially enhancing its returns.

Stay invested

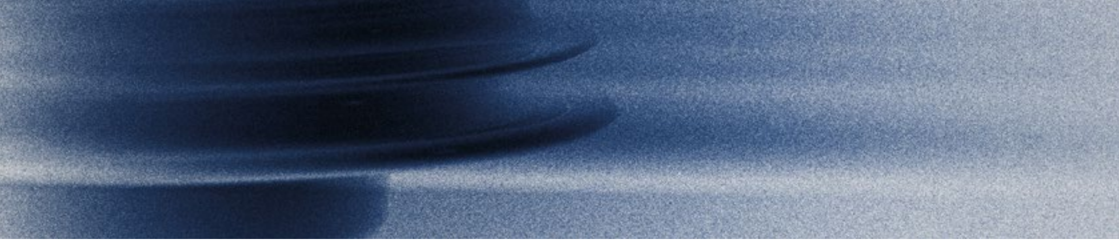
Over longer periods, the effect of earning compound returns from a balanced allocation that includes risky assets has been powerful for those with sufficient risk tolerance. Market timing, by contrast, increases risk.

Cash is not king

Over time, having large weightings to cash acts as a significant drag upon both portfolio returns and your level of wealth. **Our studies[1] show that over the last 65 years, if an investor held a 30% allocation to cash, it would reduce the value of a fully invested portfolio by 55% - figure 3.**

We recommend taking a quantitative approach to determine your future cash needs under various scenarios, drawing upon the analysis of our Global Investment Lab.

1 Citi Private Bank Global Asset Allocation team, as of 31 Oct 2017.

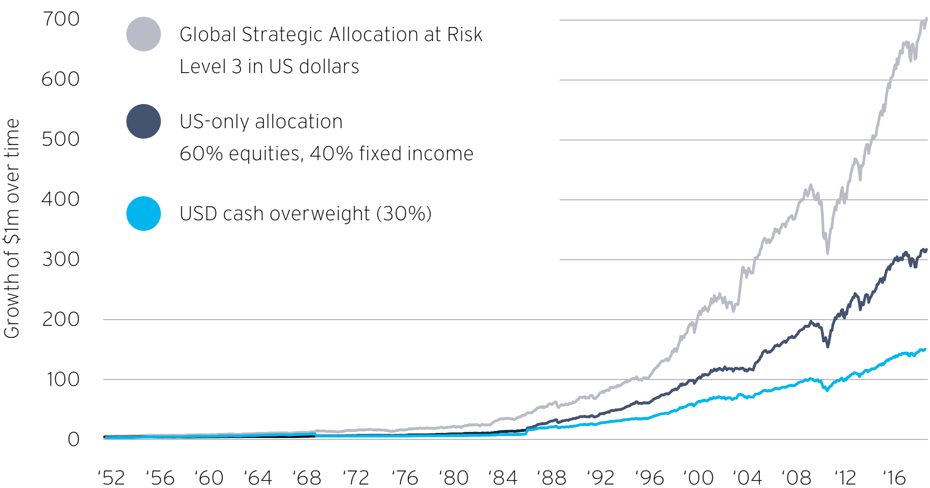


Address risk

We believe the most effective form of risk mitigation over time has been global multi-asset class diversification itself. As **figure 3** shows, such an allocation has generated more than twice the gain of the strongest single region, the US. **As the vast majority of economic downturns are regional, rather than global, investors take too much local risk and underperform during regional crises.**

For suitable clients, however, hedging strategies may enable continued risky asset exposure while also helping to shield wealth from large drawdowns. With many measures of market volatility falling to record lows in 2017, the cost of hedges has also plunged.

Figure 3. Global multi-asset allocation vs US-only allocation vs Cash overweight allocation



Source: Global Asset Allocation team, Citi Private Bank, as of 31 Dec 2016. *The Global US Dollar Allocation represents an AVS Risk Level 3 allocation, including equities, fixed income, commodities, cash and hedge funds. The US-only allocation assumes 60% equity and 40% fixed income proportions, rebalanced on an annual basis. The US$ cash overweight allocation is a historical allocation on an asset class level, and assumes 42% equity and 28% fixed income proportions and 30% cash, rebalanced on an annual basis. Risk levels are an indication of clients' appetite for risk. Risk Level 3 – Seeks modest capital appreciation and, secondly capital preservation. The returns shown were calculated at an asset class level using indices and do not reflect fees, which would have reduced the performance shown. Past performance is no guarantee of future returns. Real results may vary.

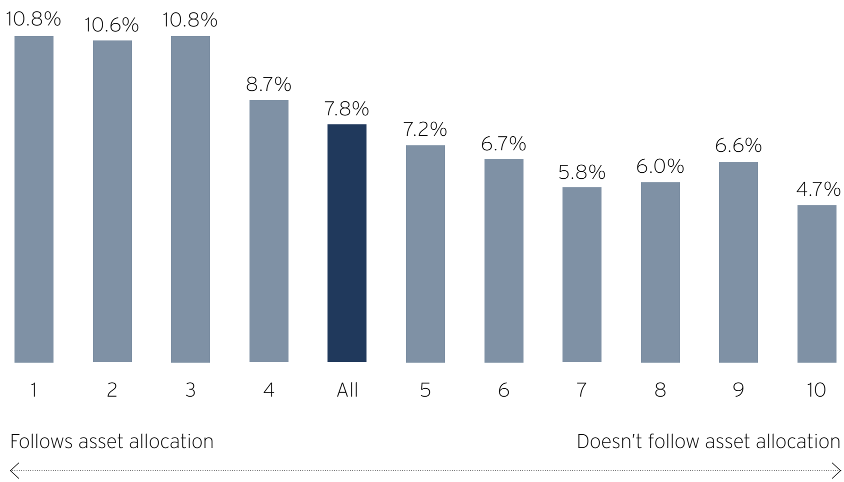
Diversification does not ensure against loss of investment.

Give your portfolio a regular check-up

Portfolios tend to drift away from the target allocation over time, while many investors accumulate a large number of small positions, both of which can dilute performance.

As **figure 4** shows, Citi Private Bank client portfolios that have followed an asset allocation plan have performed better than those that do not. With about 80% of Private Bank clients overly concentrated in a single currency and region, 66% of such portfolios are lagging behind our benchmark globally-diversified multi-asset class allocation, with the median performance lagging 2% annually since 2015. Ask your Private Banker or Investment Counselor for your own personalized report comparing your portfolio to key benchmarks - see opposite.

Figure 4. Year-to-date performance by level of asset allocation engagement



Notes: Regions are designated by location of CPB client relationship. Performance figures are median USD for each of approximately 8,000 separate Private Bank portfolios. Clients with more than 50% cash holdings or more than 50% equity holdings excluded. Gaps are calculated through measuring differences allocated to our asset allocation vs other investments. Left figure divided by median above or below our recommended asset allocation. Right figure scaled in deciles. For longer-term data on performance differences, please see prior slide. Source: Citi Private Bank Investment Lab through November 2017.

Outlook 2018 Watchlist

The average client portfolio has 47% of assets that aren't aligned to the recommended allocation.*

How does yours compare?

Failing to follow an established long-term plan is one of the main reasons why families can drift below the world's wealthiest over time.

To help keep your portfolio aligned to your recommended allocation and to our investment themes, we can provide you a detailed report showing how your portfolio compares to key benchmarks.

Your relationship team can then recommend ways for you to address any issues identified.

To request your report, please reach out to your Banker or Investment Counselor.

*Source: Citi Private Bank, as of 21 Nov 2017. Recommended allocation is the reference allocation that reflects our understanding of a client's investment objectives and risk tolerance.

Our favored markets for 2018

We enter 2018 with an increased tactical overweight to equities, focused on Europe and Asia ex-Japan. We have also increased our underweight to fixed income.

EUROPE

EPS growth forecast 2018:[1]

EUROPE EX-UK	10.2%
GERMANY	9.5%
FRANCE	7.4%

Sectors: Europe ex-UK financials, energy

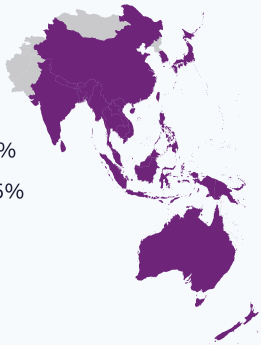
ASIA

Equity

EPS growth forecast 2018:[1]

EM ASIA	13.3%
CHINA	15%
TAIWAN	9.8%

Sectors: financials, IT, consumer discretionary



Fixed income

Local currency sovereign bonds offer 5-year yields of:[3]

INDIA	6.9%
INDONESIA	6.1%
CHINA	3.9%

We also like US dollar Asian High Yield

S. Korea equities - 2018 PE of 8.8. Japan equities: below ave. long-term valuation.

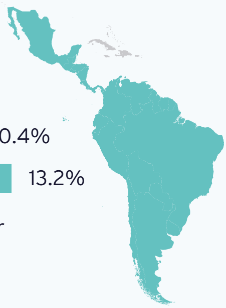
LATIN AMERICA

Equity

EPS growth forecast 2018[1]

MSCI EM LATAM	10.4%
BRAZIL	13.2%

Sectors: energy, materials, consumer discretionary, financials



Fixed income

Local currency sovereign bonds offer 5-year yields of:[3]

BRAZIL	9.7%
MEXICO	7.1%

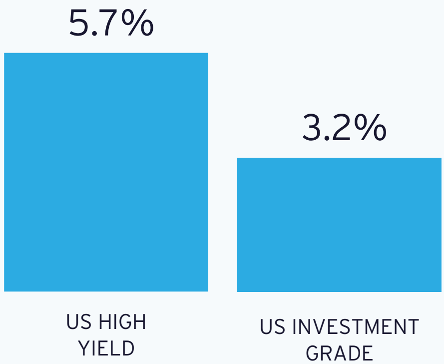
US dollar: Argentina, Brazil, and Colombia - spreads over US Treasuries of roughly 270 basis points

Past performance is not indicative of future return. Real results may vary.

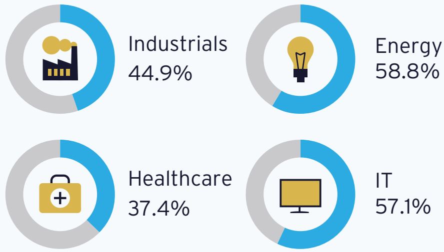
NORTH AMERICA

Equity

IT, healthcare, energy, industrials may benefit from the weaker US dollar



Foreign sales as % of total sales:[2]



Fixed income

US High Yield and US Investment Grade offer higher yields than other developed market securities.[3] We also like US municipal bonds.

OPPORTUNITIES

- ✔ Emerging markets: long-term outperformance potential
- ✔ Varied sources of higher yield, inc. from fixed income and alternative assets
- ✔ Cheap hedging strategies
- ✔ Private credit, e-commerce related real estate
- ✔ Global healthcare, inc. disruptors like biosimilars makers
- ✔ Robotics makers and beneficiaries

Sources: 1. Citi Research, as of 28 Nov 2017. **2.** Factset, as of 28 Nov 2017. **3.** The Yield Book, as of 28 Nov 2017.

Indices are unmanaged. An investor cannot invest directly in an index.

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Each investor should carefully view the risks associated with the investment and make a determination based upon the investor's own particular circumstances, that the investment is consistent with the investor's objectives.

Core income strategies

Even in today's world of very low interest rates, there are potential opportunities to seek yield and diversification.

Despite having risen in 2017, global interest rates remain near multi-decade lows. While this poses a challenge to investors, we see potential to seek yield in fixed income - **figure 5** - and beyond.

Fixed income

US high yield bonds: offer yields substantially above many other fixed income assets and we believe that they may rally alongside rising equities in 2018, as they often have done historically.

US high yield variable-rate bank loans: a less volatile alternative to high yield bonds that are negatively correlated to US Treasury debt, providing a potential source of diversification.

Securitized debt: backed by assets such as residential mortgages, car loans, or aircraft loans, which can have yields of 4%-10%. Their floating-rate coupons can lead to outperformance in rising rate periods.

Emerging markets fixed income: we see Latin America as the most attractive EM region, especially local currency debt in Brazil, Colombia and Mexico.

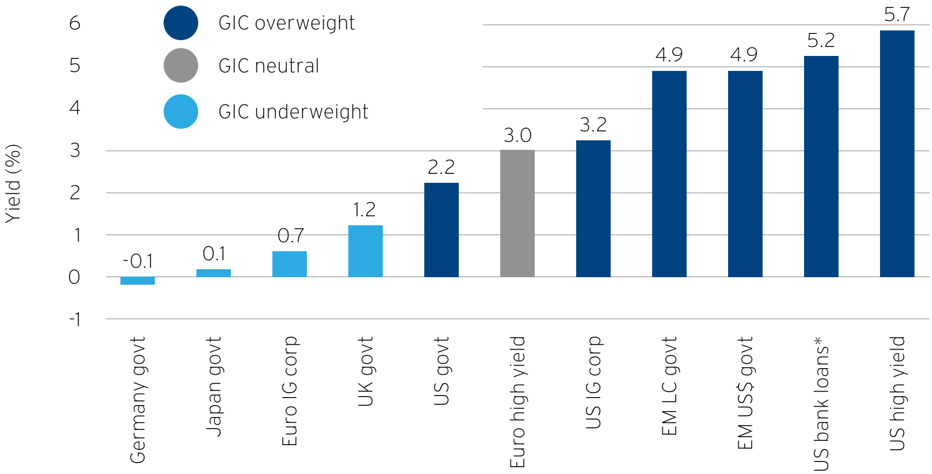
Asian local currency debt: there may be potential in China, Indonesia, and India, as well as a range of possibilities across Central and Eastern Europe, the Middle East and Africa.

Alternative investments

Private equity: providing growth capital to alternative investment managers offers a potential opportunity to earn yield, based on managers' various cash return streams.

Real estate: we are attracted to private lending to commercial real estate borrowers who are finding it hard to borrow from traditional lenders.

Figure 5. Large yield divergences offer opportunity



Source: Bloomberg Barclays Indices as of November 2017. *US bank loans is not an official part of the Global Investment Taxonomy. Note: GIC overweight, underweight, and neutral refer to the tactical asset allocation positioning of Citi Private Bank's Global Investment Committee (GIC).

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Emerging opportunities

We believe emerging markets (EMs) may offer the potential for long-term outperformance.

We went overweight both equities and fixed income across all emerging market (EM) regions worldwide in March 2017.

Long-term outperformance potential

After the strong subsequent gains, some may be tempted to believe the best for EMs is already behind us.

Our view, though, is that EMs may offer long-term outperformance potential and that many investors may not have enough exposure.

Cheaper markets, cheaper currencies

Overall, EM equities and fixed income are cheap compared to their developed counterparts, as are the currencies in which they are denominated.

EM equities trade on a discount of around 40% to US equities – **figure 6**.

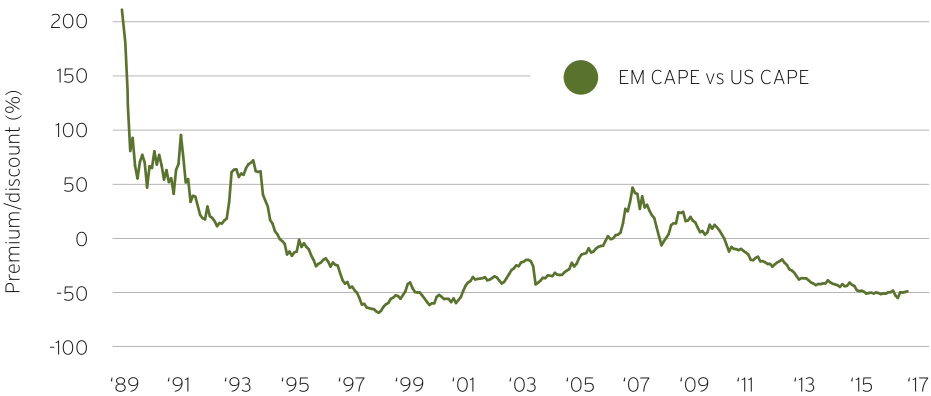
Even after a strong performance in 2017, a basket of EM local currency bonds still yields some 6% more than equivalent developed market local currency bonds.

Don't pick one, pick them all

Our recommended approach is to have a broadly diversified allocation to EM securities, reflecting our overweight to all EM asset classes in every region.

This allocation should include all of the large EMs – China, India, Indonesia, Brazil, and Mexico – as well as many of the small EMs such as Chile, Peru, Taiwan, and Thailand.

Figure 6. EM equities' relative cheapness



CAPE stands for cyclically-adjusted price/earnings ratio, which compares the present equity price with the ten-year average of inflation-adjusted earnings. Source: MSCI and Bloomberg, as of 27 Nov 2017. 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. Past performance is not guarantee of future results, and future results may not meet our expectations due to a variety of economic, market and other factors.

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Exploiting volatility

After unusual calm in 2017, volatility could make a comeback in 2018. This creates new possibilities for preparing portfolios for the unexpected.

Financial markets including US and European equities saw record low volatility in 2017, with others including emerging market equities and commodities experiencing falls in volatility.

In 2018, we believe volatility will start to rise from its lows, with gradual monetary tightening by central banks likely to be a key driver.

Customized hedges

While bullish on equities' outlook for 2018, we believe it may be a good time to buy customized hedges, enabling continued exposure to market upside while protecting against a large sell-off over the coming year.

Stock replacement

For investors with significant gains in a particular sector or equity, it is also possible to maintain upside exposure without continuing to own the actual stock.

If the underlying asset price rises during the stock replacement strategy's lifetime, the investor participates in the gains.

If it falls, the investor does not suffer the larger losses that would have been incurred via direct exposure.

Dual-directional strategy

For investors who expect volatility, but are unsure which direction markets may go, a dual-directional strategy can gain if a market either rises or falls.

Hedge fund strategies

When volatility returns, we believe that many hedge fund strategies may be beneficiaries, as they have often been during past periods of higher equity volatility – **figure 7.**

Diversifier hedge fund strategies typically seek to identify and exploit the direction of asset prices and have often done well during sustained periods of volatility or market dislocations.

Figure 7. Higher volatility, hedge fund outperformance

	VIX level				
	<15	**15-20**	**20-25**	**>20**	**>30**
HFRI Equity Hedge (Total) Index	-0.8%	-0.3%	0.2%	0.7%	1.9%
HFRI Fund Weighted Composite Index	-1.0%	-0.4%	0.3%	1.0%	2.6%
HFRI Relative Value (Total) Index	-1.3%	-0.5%	0.6%	1.5%	3.4%
SG CTA Index	-1.5%	-1.0%	0.0%	1.7%	4.6%
SG Macro Trading (Discretionary) Index	-1.6%	-0.5%	1.1%	1.8%	4.1%

Source: Bloomberg, HFR, SocGen, as of 24 Oct 2017. The table represents the performance of each of the indices minus the performance of the S&P 500 Total Return Index at various VIX levels between Jan 2000 and Aug 2017. An investor cannot invest in an index. They are shown for illustrative purposes only. Past performance is no guarantee of future returns. Real results may vary.

See Glossary for definitions.

Transforming commerce

Ongoing disruption across many industries continues to create investment opportunities, but also demands selectivity.

We appear to be in the early stages of various new multi-year disruptive transformations in industries including robotics and automation, healthcare, and financial technology.

After we highlighted the potential investment implications of the robotics revolution in Outlook 2017, related equities rose 69.4%.

If innovation in automation can drive outsized demand for robotics, history would suggest that outperformance can persist for more than a year.

Healthcare

The global population is aging rapidly, creating a pressing need for new treatments for previously incurable illnesses and improved treatments for other conditions.

Immunotherapy harnesses a patient's own immune system to eliminate or slow the growth and spread of cancerous cells.

Biosimilars – synthetic replicas of blockbuster biologic drugs – could take billions in revenue from the makers of biologics in the decade to 2025 – **figure 8**.

Artificial intelligence may be increasingly used in disease prevention, diagnosis, and healthcare administration.

Given our outlook for healthcare, we think that it can play a prominent role in diversified equity portfolios, with potential benefits that go beyond defensiveness.

Depending on an investor's objectives, a carefully-considered selection of healthcare investments can be made that seeks growth or yield.

Financial technology

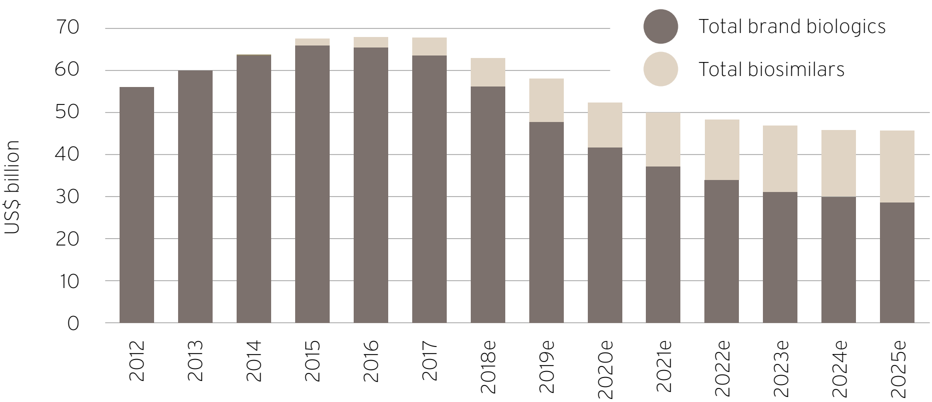
Cryptocurrencies like Bitcoin have been the focus of feverish speculative activity in 2017, with investors buying simply in the hope of further rapid price gains.

It is unclear which, if any, cryptocurrency standard will achieve dominance in the future.

Our preferred financial technology innovators include Chinese e-commerce and e-payments players, and US e-payment facilitators, credit card incumbents, and certain technology hardware producers.

Invest where technology dominates competition and drives industry change.

Figure 8. The revenue opportunity for biosimilars



Source: Citi Research, as of Oct 2017. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future results.

Glossary

The CBOE Volatility Index (VIX Index) is a leading measure of market expectations of near-term volatility conveyed by S&P 500 Index option prices.

Citi US Broad Investment Grade Index (USBIG)—Corporate, is a subsector of the USBIG. The index includes fixed rate US Dollardenominated investment grade corporate debt within the finance, industrial and utility sectors. This index includes US and non-US corporate securities (excludes US government-guaranteed and non-US sovereign and provincial securities).

Citi Emerging Markets Sovereign Bond Index includes local currency sovereign bond indices for 14 emerging markets countries. These indices comprise fixed-rate sovereign debt with at least one-year until maturity. They are market capitalization-weighted and rebalanced monthly for Brazil, Chile, Colombia, Hungary, Indonesia, Malaysia, Mexico, Peru, Philippines, Poland, Russia, Thailand, Turkey, and South Africa.

The Citi Euro Broad Investment Grade Index is a multi-asset benchmark for investment-grade, Euro-denominated fixed income bonds. It includes government, government-sponsored, collateralized, and corporate debt.

Citi's US High-Yield Market Index is a US dollar-denominated index which measures the performance of high-yield debt issued by corporations domiciled in the US or Canada. Recognized as a broad measure of the North American high-yield market amongst all Citi's fixed income indices, it includes cash-pay and deferred-interest securities. All the bonds are publically placed, have a fixed coupon, and are non-convertible.

The Citi World Broad Investment Grade Index is a multi-asset, multicurrency benchmark which provides a measure of the global fixed income markets.

Diversifiers are hedge funds that typically are expected by HFRM to display low or negative correlation and/or beta to traditional asset classes though they may display significant degrees of market correlation at certain points of the investment cycle. The portfolio managers of such funds are often long volatility and generally may provide attractive diversification benefits to a client's portfolio though returns are often 'unpredictable' and can be volatile. This internal classification is based on the analysis and subjective views of HFRM. The internal classification is subject to change without notice to investors and there is no guarantee that the funds will perform as described above. It is important to note that the market strategy described above may not completely eliminate market risk. There is no guarantee that hedge funds classified as 'Diversifiers' will perform as described above. Hedge funds should not be invested in based on their classification as 'Diversifiers' and other assets in a client's overall portfolio should be taken into consideration before an investment is made.

The Euro Stoxx 600 represents large, mid and small cap companies across 17 countries across Europe including: Austria, Belgium, Czech Republic, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

HFRI Equity Hedge (Total) Index is an equal weighted index if multiple equity hedge fund managers. Equity Hedge investing consists of a core holding of long equities hedged at all times with short sales of stocks and/or stock index options. Some managers maintain a substantial portion of assets within a hedged structure and commonly employ leverage. Where short sales are used, hedged assets may be comprised of an equal dollar value of long and short stock positions. Other variations use short sales unrelated to long holdings and/or puts on the S&P 500 index and put spreads. In addition to equities, some funds may have limited assets invested in other types of securities.

The HFRI Fund Weighted Composite Index is a global, equal-weighted index of over 2,000 single manager funds.

The HFRI Relative Value (Total) Index is an equal weighted index that maintains positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities.

The MSCI Emerging Markets Index captures large and mid cap representation across twenty-four Emerging Markets (EM) countries. With 837 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Emerging Markets (EM) Latin America Index captures large and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 113 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI World Index represents the performance of more than 1,600 large- and mid-cap stocks across 23 developed markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI World ex-USA Index represents the performance of largeand mid-cap representation across 22 of 23 developed markets countries excluding the United States. With 1,005 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

SG CTA Index is a benchmark of major commodity trading advisors and calculates the daily rate of return for a pool of CTAs selected from the larger managers that are open to new investment.

SG Macro Trading (Discretionary) Index represents the performance of all the trading strategies, whether available through either onshore or offshore fund structures, as well as managed accounts that are reported to SG Alternative Investment Solutions.

The Standard & Poor’s 500 Index is a capitalization-weighted index that includes a representative sample of 500 leading companies in leading industries of the US economy. Although the S&P 500 focuses on the large cap segment of the market, with over 80% coverage of US equities, it is also an ideal proxy for the total market.

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