



Citi Global Wealth Investments

July 23, 2021

# Global Strategy | Quadrant

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## Unfinished Pandemic, Unfinished Recovery

**News from the UK suggests a coming surge of delta-COVID in highly vaccinated economies.** This will set back the time frame for global reopening beyond our prior assumptions, into 2022.

**For the world economy and markets, we'd characterize the likely impact as "disappointment" rather than "shock."** Authorities will manage the virus with widely different approaches in each country and region. It will lengthen the duration of COVID distortions to sectors, lengthening the depression of international travel.

Notably, **the spread of the delta variant in India was extremely rapid and so was its retreat, largely over two months' time.** The most effective vaccinations might only slow the spread, but they do greatly reduce the severity of health impacts.

**The world economy isn't positioned in the same way when it was shocked with the unknown in 1Q 2020.** Excess demand for goods and some services is draining limited supplies. This is not the backdrop for a contraction in industrial production, trade and employment overall.

**"Surprise" is a key element of shocks. Producers and market participants had no idea of the COVID demand impact when it first struck.** A more limited economic impact is likely now with "social close" travel and hospitality industries likely to see a "double dip" contraction in some regions. In others, they may simply fail to fully rebound.

**While we expect the global economic recovery will proceed and co-exist with COVID, asset prices are elevated relative to when the pandemic first hit.** Until the world sees full, effective vaccinations or "herd immunity," the likely new global COVID surge will promote dispersion of asset prices and dampen "mean reversion." It has already dropped Fed tightening expectations by 40 basis points, spurring a rally in long-term safe haven bonds.

**Like all other past health crises, COVID is not unstoppable. However, the longer it persists, the greater "inertia" will build to create lasting impact.** A COVID setback will lengthen the period of unusually accommodative monetary policy. **When the Fed ultimately raises interest rates, it will be at least marginally later in the economic expansion. This poses somewhat greater risk, and is itself a reason why long-duration, high quality bond yields will rise less than previously assumed.**

**Bond valuations are still unappealing for reallocation, with US real yields falling back to a cycle low -1%.** However, we remain fully allocated to US bonds with 10-year US Treasuries roughly equal to the global average yield. This includes sub-investment grade debt and many other low quality sovereign borrowers. We continue to express our -8% underweight in bonds and cash in Europe and Japan.

**With our previous views of the maturation of the market recovery, we reduced allocations to Brazil and Global REITs, reinvesting in US large caps and China shares. The latter have underperformed by 23 percentage points since we reduced our weighting in January.** We also shift 10% of recommended portfolios into global dividend growth strategies to raise portfolio quality and reduce risk within equities.

The Global Investment Committee (GIC) left our allocation to Equities and Fixed Income unchanged. However, we made several changes within the composition of our global equity portfolios to reflect an evolving economic cycle.

We see increased [near-term market risks](#) related from variants and the course the pandemic. However, our changes today continue a set of long-planned steps aimed at increasing our exposure to sustainable long term returns and de-emphasizing assets merely rebounding from the shock of 2020.

Today's moves include upgrading allocations to large cap US equities and China at the expense of other emerging markets and real estate. We also now recommend holding 10% of medium-risk portfolios in equities that demonstrate consistent dividend growth, split between the US and non-US. This move does not raise the overall equity allocation, but raises the credit quality and income characteristics of the equity portfolio. The allocation to Global Equities remains 8% overweight. The allocation to global Fixed Income and Cash is 8% underweight.

Today, we eliminated our thematic overweight to global REITS after a full recovery during the past 16 months. We do not expect negative returns for the asset class, but yields of 3% may represent the larger part of return in the coming year. A strong dispersion of performance between urban commercial real estate and ex urban housing should remain, with both unlikely to outperform global equities at the same time. Growth opportunities in e-commerce, technology and health care real estate assets are notable, but these are not representative of global real estate as a whole. We would note that Real Estate remains a fully-allocated sector within large cap equities after removing our overweight (first added in June 2020).

We also eliminated our overweight in Latin American equities, but continue to expect economic recovery in the region in the years ahead. The allocation with the largest overweight in Brazil has returned 63% in US dollar terms since we added our overweight in April 2020. The composition of Latam's markets - with a heavy skew to energy and other commodities - typically shows slow, volatile growth after large cyclical rebounds. While we believe near-term US monetary policy developments support the region, this will gradually move to a less accommodative posture in coming years.

In a positive light, we see Latin America's fundamentals mostly impaired by COVID rather than unorthodox policies and debt. However, we still see the future outlook for Fed policy impacting those emerging markets most dependent on international financing. With a neutral allocation to Latam, our allocation to the most leveraged EMs in Europe, the Middle East and Africa is underweight.

Today, we upgraded US large cap equities apart from Healthcare (our largest thematic overweight). US large caps show sustainable growth opportunities even at a higher-than average valuation. US dividend growth has compounded at 6% over the past 20 years vs 3% in Europe, explaining the large valuation gap between the two regions. The US and China markets both offer technological solutions that are rising as shares of the economy and profits. Our US large cap overweight now offsets our underweight in SMID, which we held as an overweight during the majority of the past 16 months.

Since we lowered our weighting in China in late January, China's equities have underperformed the global equity market by 23 percentage points. China shares are one of the few larger global equity markets posting a negative return in 2021. We believe this has been driven by credit tightening measures and regulatory changes that are becoming either fully embedded in valuations or are set to reverse. The growth slowdown and credit market disruptions in China can both be traced to deliberate policy actions that we believe China will conclude. China equities trade at 14X trailing earnings, with local tech shares having fallen far more than US shares. The recent stronger credit trends and cut to reserve ratio requirements typically reflect a broader change in macro-economic policy away from growth restraint (please see our [Asia Strategist](#) for full discussion).

Long-term interest rate trends in the US also influence our view of US growth stock valuations. Despite falling 50 basis points from the high of 2021, US 10-year Treasury yields are at a slight premium to global bond yields that include sub-investment grade and emerging markets debt. While we don't expect long-term yields to keep falling in coming quarters, a rebound in rates driven by policy tightening will likely come somewhat later than we expected, at a more advanced stage of the business cycle recovery. Even if this delay is marginal (6 months or less), it would come at a riskier time, restraining the level of yields. Many developments suggest long-term rates will struggle to reach our earlier assumptions in the coming year. Nonetheless, with 10-year yields a full percentage point below 10-year average estimated inflation most global bonds remain unappealing. At the low end of the risk spectrum, we overweight Treasury Inflation Protected Securities. At the higher end of the risk spectrum, we overweight variable rate US loans. We express the majority of our global bond underweight through European and Japanese government bonds.

As we discussed in last month's [Quadrant](#), the fastest pace of economic rebound will likely soon pass. This has sent yields lower, prior to troubling COVID developments of the past two weeks. We have always expected variants to pose challenges requiring adaptive vaccines in the coming year. However the surprise has been the very sharp rise in national cases in the second most vaccinated large country, the UK. This suggests the strong potential for a rise in infections globally among the unvaccinated in the coming few months. At the same time, the path of infections in India in the late spring suggests this could be very severe but short in duration as the so-called delta variant spreads rapidly.

We would view another wave of global COVID infections as a "disappointment" likely to slow the pace of global reopening rather than a "shock." The surprise factor in play in early 2020 is absent, and industries are not positioned with the same level of vulnerability. Most goods-producing industries are constrained by lack of supplies amid excess demand. A cooling will not cause another plunge in global production or trade. Household balance sheets in developed economies are strongly positioned to sustain growth. On the other hand, economic vulnerabilities are acute in global travel and hospitality which will delay economic recovery in some smaller tourism-driven economies.

With this said, asset prices have also evolved since the initial COVID shock. While world markets may resist a severe setback from a new COVID wave, most assets have recovered sharply from 2020 losses. While some pockets of distressed values remain, as we discussed in our [Mid-Year Outlook](#), we believe "mean reversion" opportunities are diminishing. In a period of more moderate gains, we have shifted allocations toward sustainable return generators such as dividend growth strategies. In the past 30 years, US firms with the most consistent dividend growth have outperformed the [S&P 500 by 60 percentage points](#). In each of the 5 years of annual equity market losses, these firms have seen shares fall by less than markets as a whole. Lower quality firms typically post larger gains after crisis periods but lag in sustained recoveries. Our allocations are shifting to reflect this maturation of the recovery cycle.

## ASSET CLASSES | Global USD with Alternatives Level 3

	-2	-1	0	1	2
<b>FIXED INCOME</b>					
Developed Sovereign					
Developed Investment Grade Corporates					
High Yield					
Emerging Market Sovereigns					
<b>EQUITIES</b>					
Developed Equities					
Large Cap					
US				→	
Europe					
Asia ex-Japan					
Japan					
Small and Mid Cap					
US SMID Cap					
Non-US SMID Cap					
Emerging Market Equity				←	
<b>CASH</b>					
<b>COMMODITIES</b>					

Please refer to the [Portfolio Allocations](#) for a comprehensive breakdown of the portfolios at each risk level.

-2 = very underweight | -1 = underweight | 0 = neutral |

1 = overweight | 2 = very overweight

Arrows indicate changes from previous GIC meeting

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## Shock Over, Setback Looms

For the first time since the rollout of effective vaccines in the winter of 2020, we see a significant setback in the path to ending the global pandemic.

We've always expected COVID mutations and the need for new vaccines to adapt to them. COVID, like various flu strains, will likely always be with humanity in some form. The majority of the world's population remains unvaccinated, yet this will eventually change.

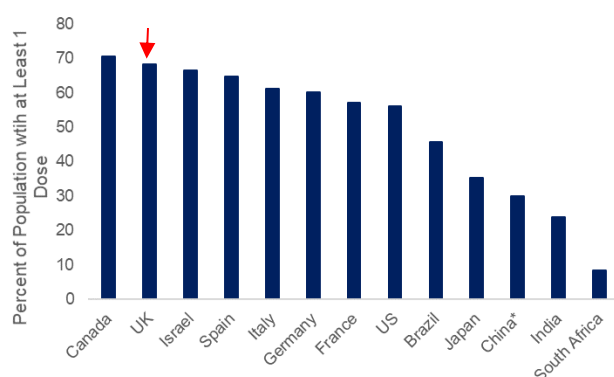
The production of vaccines is rapid. If the will exists, greater international vaccine coordination could greatly improve both the local and global health outlook (please see our [CIO bulletin of July 18](#)).

**What has elevated our concerns, and helped sink global bond yields, has been the spread of the more-infectious Delta variant in the second most vaccinated major economy, the UK** (see figure 1). This suggests another summer wave of COVID spread across the world, with negative effects within nations that now believe pandemic is behind them (see figure 2). In the meanwhile, some emerging nations continue to struggle with resources to fight a pandemic that has never waned (see figure 3).

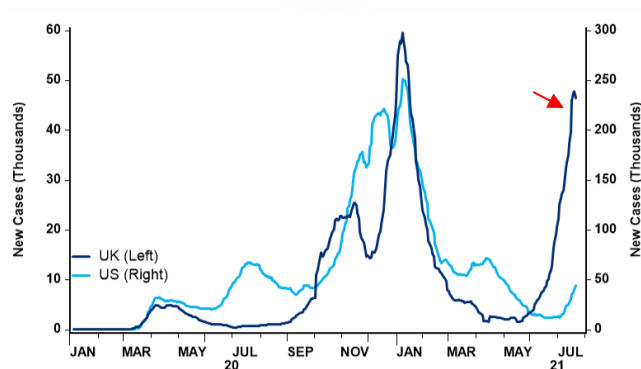
News from the UK suggests a coming surge of delta-COVID in highly vaccinated economies in coming months. This will set back the time frame for global reopening.

For the world economy and markets, we'd characterize it as a "disappointment" rather than a "shock."

**Figure 1: Share of Population With at Least 1 Vaccine Dose by Country**

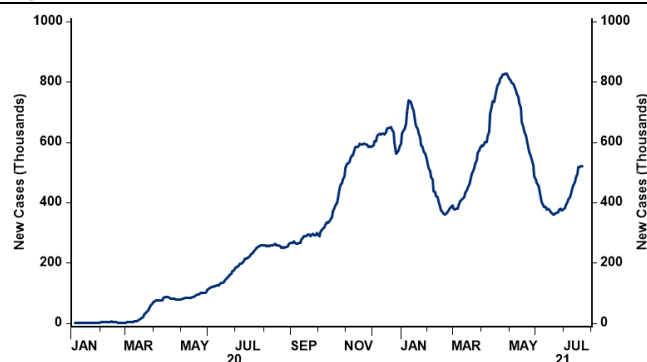


**Figure 2: New COVID Infections: US vs UK**



Source: Haver Analytics through July 23, 2021

**Figure 3: Global New COVID Infections**



**Figure 4: UK Fatalities as a Share of COVID Infections**



Note: Death to case ratio is calculated based on a three week lag. Source: Haver Analytics through July 23, 2021

Vaccinations are lowering the severity of the health impact for those contracting the virus (see figure 4). Treatments have improved with experience. The share of those contracting the illness that have to be intubated is falling. Still, the high level of likely infections to come will again strain some health systems. For many, this will dash hopes that the pandemic had been stopped. It should slow the absolute pace of growth by stemming a *broadening* of economic activity.

Notably, with the delta variant more contagious but no more severe than earlier variants, it suggests a severe but short-term setback. Confirmed new infections climbed by about 18 million in India in April and May. New infections then quickly waned, despite comparatively little progress on vaccinations. As we discussed on [April 11](#), the virus is highly unpredictable. Investors could take great, unnecessary risks attempting to “trade” COVID developments.

## Economy and Markets Not Positioned as They Were in Early 2020

Cooling growth? Yes, but  
Demand is too strong now for  
producers to satisfy.

Surprise is an important element of generating a “shock.” While extending the COVID pandemic will surely be a disappointment, the world’s public will not recoil in existential fear as it did in 1Q 2020 to the “novel” virus. Consumer sentiment data suggest less complacency. This is even as macro stimulus has left consumer demand at a pace *too strong* for producers to satisfy (see figures 5-6).

Inventories are collapsing and unfilled job openings in the US are highly suggestive of an overheating. With luck, this might now cool to somewhat more sustainable pace (see figures 7-8). The overall economic setting makes a full blown collapse in production, trade and corporate profits quite unlikely.

The story in markets is different, though they are also not as vulnerable to “surprise and shock.” World equities have risen 25% since end 2019 on strong macro stimulus, and this cannot be fully repeated. The particular distortions that COVID drives will continue to drive a “wedge” between the outlook for industries and keep a wide dispersion in asset prices (see figures 9-10).

Figure 5: University of Michigan US Consumer Sentiment

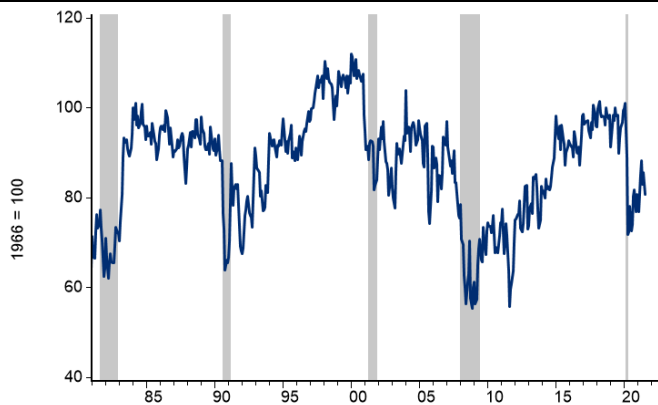
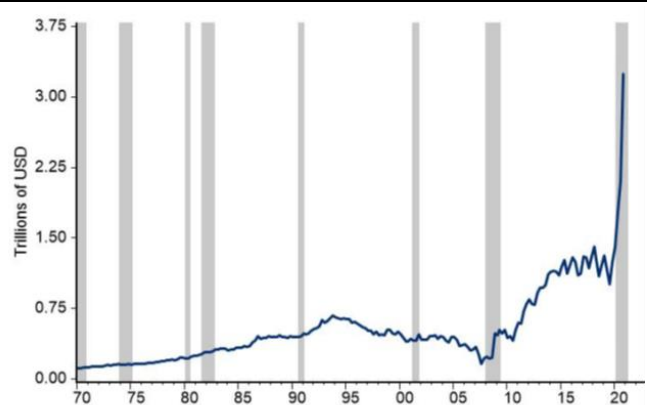


Figure 6: US Household Cash and Liquid Assets



Note Shaded regions are recessions. Source: Haver Analytics through July 23, 2021

Figure 7: US Autos Inventories vs Production

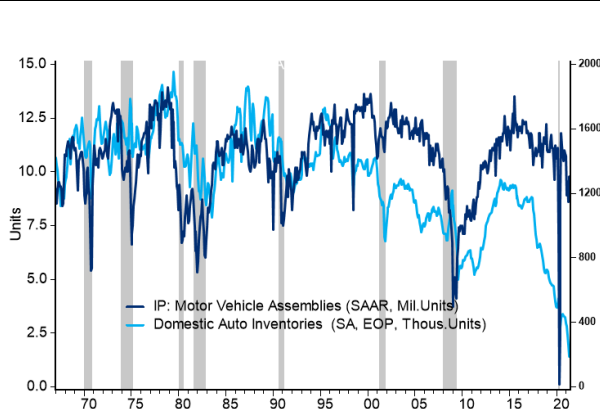
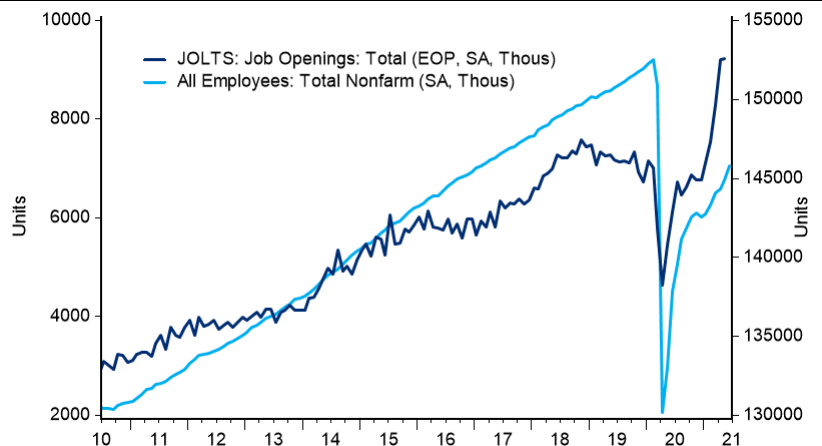


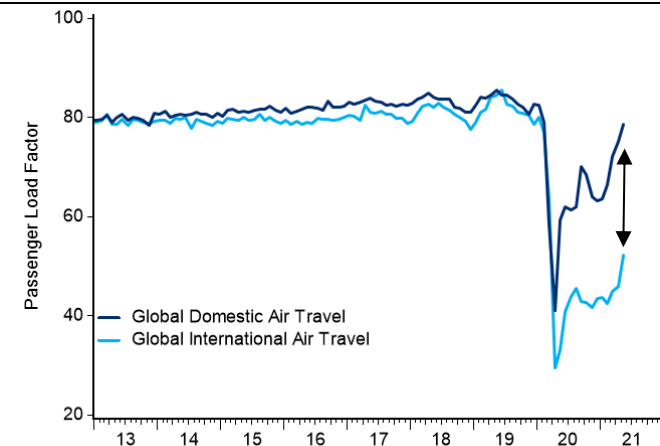
Figure 8: US Job Openings vs Employment



Note: Shaded regions are recessions. Source: Haver Analytics through July 23, 2021



**Figure 9: Global travel: Domestic vs International**



**Figure 10: US “Stay at Home” and “Leave Your Home” Equity Baskets**



Source: Haver Analytics and Bloomberg through July 18, 2021; Note: “Stay at Home” basket includes names identified to benefit from COVID-related disruptions and a shift to working from home; “Leave Your Home” basket includes Buy and Neutral Rated US names in the following sub-industries: Banks, Industrial Conglomerate, Machinery, Oil Gas & Consumable Fuel, Textiles Apparel & Luxury Goods, Energy Equipment & Services, Hotels Restaurants & Leisure, Building Products, Retail REITs, Construction & Engineering, Leisure Products, Airlines, Multiline Retail. 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 no guarantee of future results. Real results may vary.

## Hysteresis for Bonds...And Growth Stocks?

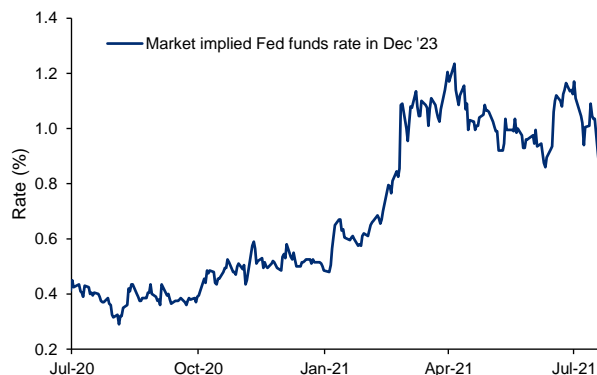
As figure 11 shows, expectations of Federal Reserve rate hikes out to 2023 have fallen 40 basis points. We think COVID delta is largely responsible. As discussed, we don't see new variants, particularly delta, as a long-term driver of the economy. However, a new surge in infections should keep US monetary policy from shifting in any way in the coming few months.

Even if US policy changes are delayed by a mere six months, it implies a subtle long-term impact. At the margin, economies gain a level of dependency on macro policy intervention. Tightening later in an economic cycle would come at a time when the expansion is somewhat more advanced. It might be a trivial difference. It might be more than trivial. However long the delay, business cycle risks typically build during growth periods.

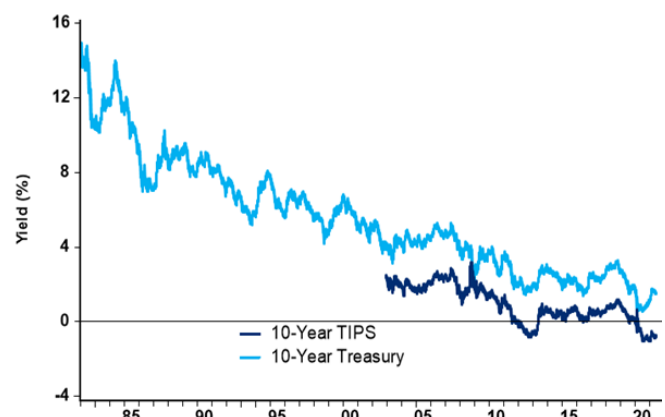
What does this mean for the bond market? For one, it has richened back toward cycle highs in inflation-adjusted terms (see figure 12). Despite a -8% allocation to global fixed income and cash, it has not hurt our investment performance as we overweight US Treasury Inflation Protected securities (generally longer duration) and neutral weight US bonds generally. (The majority of our underweight is European and Japanese sovereign bonds).

A COVID-constrained world expansion means demonstrable growth will be highly valued.

**Figure 11: Expected Fed Funds Rate**



**Figure 12: US Real Yield (TIPS) and Nominal**

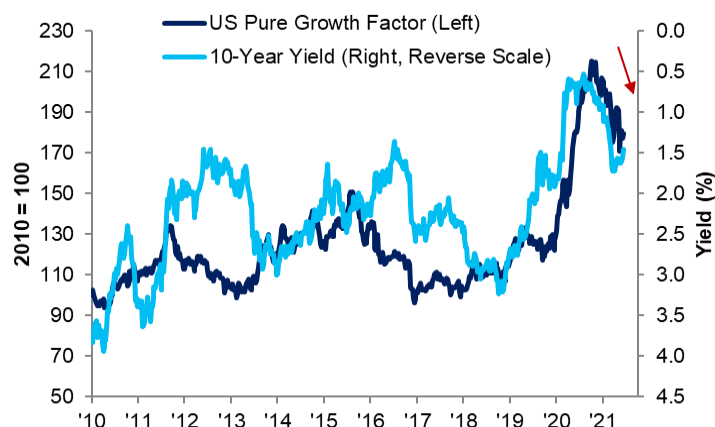


Source: Haver Analytics as of July, 2021; Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Past performance is no guarantee of future results. Real results may vary.

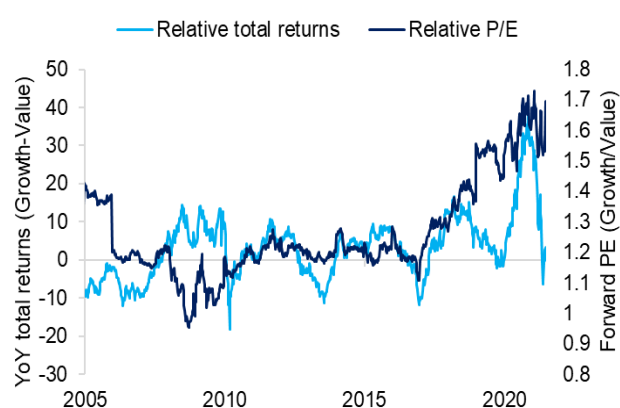
The 1.25% yield on 10-year US Treasuries is actually a hair above global average yields which include sub-investment grade debt and a variety of less credible sovereigns (some who borrow in foreign currencies.) The overall outlook suggests a sharply lower probability that US yields will rise to our 2% expectation by year end. Yet the fall in bond yields means investors are no better compensated for risk, even with the new COVID developments.

The outlook we describe implies a more compelling case for *demonstrable* growth, in a world that is still suffering COVID constraints. Low bond yields imply continued high valuations for quality assets. We would include US growth stocks in that category, where we expect convincingly visible EPS growth to power returns. This is even if we are unsatisfied with entry valuations in such stocks or bonds (see figures 13-14).

**Figure 13: US Treasury 10-Year Note Yield vs US Growth Stock Index**



**Figure 14: US Value/Growth Relative Returns and Relative Valuation**



Source: Haver, Bloomberg as of July 24, 2021; US Pure Growth Factor is the Bloomberg US Pure Growth Index; 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 no guarantee of future results. Real results may vary.

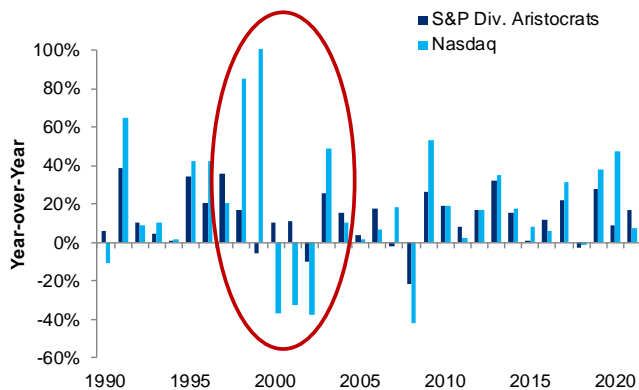
## What Are We Adding to Portfolios Now

Consistent with these issues, the Citi Global Wealth Global Investment Committee met this week and recommended several key changes in portfolios which retain our equity bias but seek equity investments that are of high quality as we move past the last 12 months of COVID-recovery and mean reversion. **We upgraded allocations to large cap US equities and China at the expense of other emerging markets and real estate. We also now recommend holding 10% of medium-risk portfolios in equities that demonstrate consistent dividend growth, split between the US and non-US.** We will now walk through each of these changes in more detail.

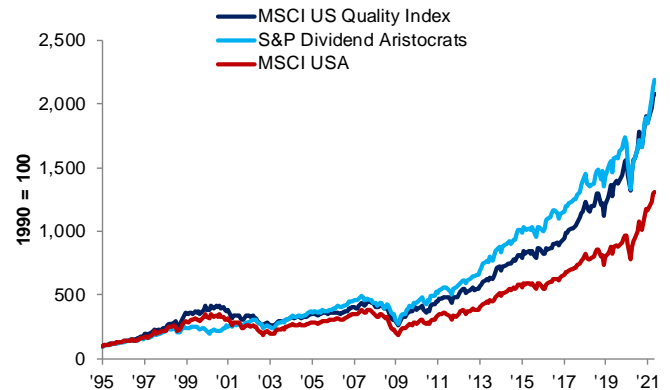
### A bias towards quality

Our moves were all made with an eye toward boosting portfolio quality, which has taken a back seat for many investors amidst the reopening excitement since last November. We define quality equity investments as those regions, sectors, and companies that seek superior but stable profitability, while continuously growing payouts to shareholders along the way. At various points over the past 18 months both highly speculative growth stocks and deep value “reopening” names have led the market higher (see figure 15). During early cycle periods, it is common to see those names most punished during a downturn recover the most in percentage terms, leading to short-term underperformance of more “boring” dividend growers and other quality names. But outside of these brief periods, investing with a quality lens has outperformed passive equities over the past 25 years (see figure 16).

**Figure 15: Annual Returns for Dividend Growers and the Nasdaq**



**Figure 16: Dividend Growth and Balance Sheet Quality Tend to Outperform Over the Long-Run**



Source: Bloomberg as of July 22, 2021. Circle highlights 1998-2003 period when Dividend Aristocrats delivered much more stable returns than the Nasdaq. MSCI Quality Index identifies stocks with high scores based on three fundamental variables: high return on equity, stable YoY earnings growth, and low financial leverage. Dividend Growers proxied using S&P Dividend Aristocrats Index. 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.

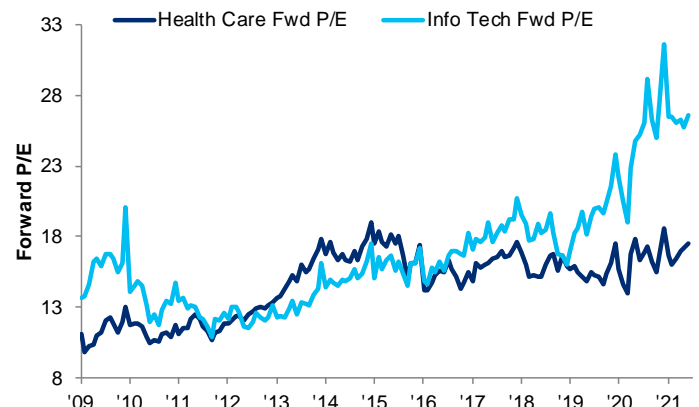
### Adding to US large caps, while retaining our health care bias

As part of this broader shift to quality, we moved to increase our allocations to US large caps, which now offset our underweight to riskier and more highly leveraged US small and mid-caps. We know what you are thinking. How could we add to the US given where index levels and valuations are? While we do not deny that S&P 500 absolute valuations as measured by P/E ratios are not cheap on a historical basis, when compared to the alternatives across other traditional asset classes (i.e. high quality US bonds) valuations are still trading at average levels. More importantly, we have concentrated a significant portion of our US bias within the health care sector, which still trades at a deep discount to other compelling growth equities and is also more defensive.

**Figure 17: S&P 500 earnings yield vs US bond yields**



**Figure 18: S&P 500 Health Care vs IT Valuations**



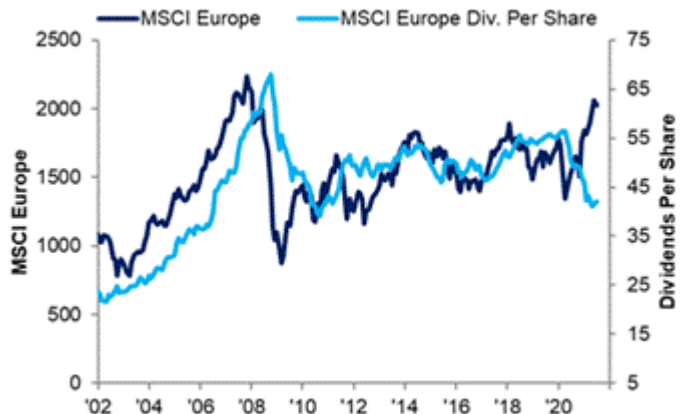
Source: Factset as of July 15, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

In addition, we believe US large caps have largely earned a better valuation relative to other regions like Europe. Figures 19 and 20 illustrate that the ability of US companies to deliver consistent dividend growth over the past 30 years, which has far outpaced the dividend growth rates in Europe and Japan. US dividends compounded at a 6% growth rate, while Europe has delivered just 3% since 2002. Investors have learned to (rightly) pay up for US shares in an expectation that these trends continue.

Figure 19: S&amp;P 500 vs Dividends per Share



Figure 20: MSCI Europe vs Dividends per Share



Source: Bloomberg as of July 22, 2021. Note: S&P Dividend Aristocrats Index identifies companies that have consistently grown dividend payouts for at least 25 consecutive years. 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 no guarantee of future results. Real results may vary.

The S&P 500 is a remarkably diversified index. A high concentration in COVID-defensives makes US equities much more defensive during waves of rising virus cases. Meanwhile, so far this year the index has been dragged higher by COVID-cyclicals as vaccinations ramped up in the US. In addition, the US large cap equity market scores highly across many of our key “quality” pillars: with high profitability, moderate levels of leverage, stable earnings, and a solid track record of dividend growth (see figure 21).

Figure 21: Quality Screen by Equity Region and Size

Region	ROE ('22E, %)	Region	Oper. Margin ('22E)	Region	Net Debt to EBITDA	Region	Earnings Stability (Std. Dev.)	Region	10yr Div. Growth (CAGR)
US	19.8	Asia ex-Japan	24.5	EM Asia	0.41	Asia ex-Japan	13.4	US SMID	15%
Latam	17.6	Latam	24.1	CEEMEA	0.83	US	13.9	US	8%
UK	13.5	CEEMEA	23.1	Latam	1.07	UK	16.2	EM Asia	3%
CEEMEA	12.9	US	17.6	US	1.24	EM Asia	18.3	CEEMEA	2%
EM Asia	12.8	EM Asia	15.6	Europe ex-UK	1.39	US SMID	19.6	Japan	2%
US SMID	12.5	UK	15.5	Asia ex-Japan	1.55	Europe ex-UK	20.5	Europe ex-UK	1%
Europe ex-UK	12.1	Europe ex-UK	14.8	UK	1.59	CEEMEA	26.8	UK	0%
Asia ex-Japan	10.5	US SMID	10.4	US SMID	1.94	Latam	37.9	Asia ex-Japan	0%
Japan	8.7	Japan	9.3	Japan	2.10	Japan	51.9	Latam	-3%

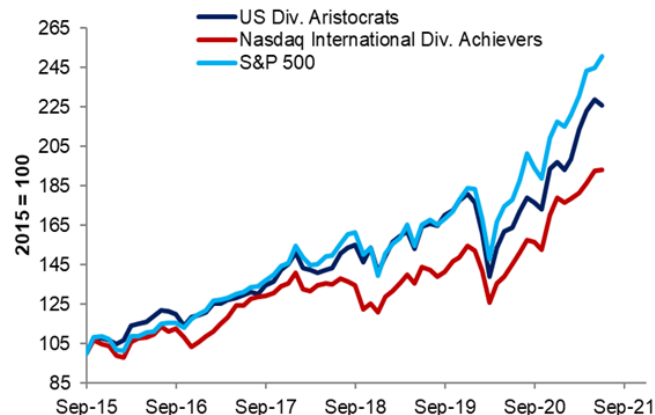
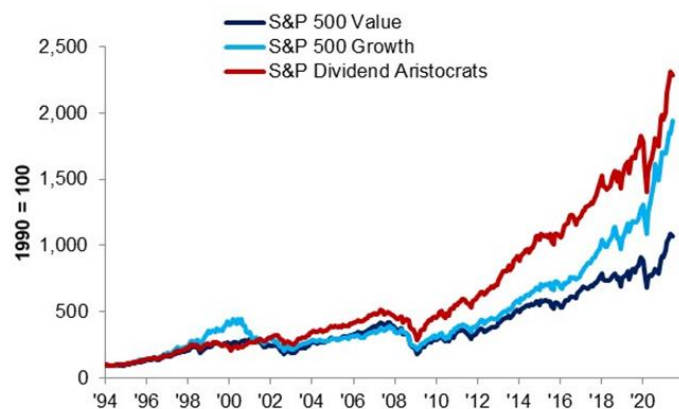
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### Style Shift: Implement with dividend growers

[We recently highlighted](#) in detail the opportunity presented by dividend growth equities. In moderate risk client portfolios, we recommend investing 10% of assets in global shares with a consistent track record of growing dividend payouts. This can be split evenly between US and non-US shares, as the characteristics that enable a firm to consistently deliver capital to shareholders is typically agnostic to jurisdiction.



**Figure 22: US Dividend Aristocrats vs Growth and Value Style** **Figure 23: S&P 500, US Dividend Aristocrats, and non-US Dividend Achievers**



Source: Bloomberg as of July 22, 2021. Note: S&P Dividend Aristocrats Index identifies companies that have consistently grown dividend payouts for at least 25 consecutive years. 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 no guarantee of future results. Real results may vary.

## Legging back into China

Within EM, we added a small overweight to Chinese equities after a difficult first half of 2021. In January of this year, in anticipation of significant tightening steps by Chinese policymakers, we recommended neutralizing overweights to the Chinese equity market. Since then, Chinese shares have underperformed nearly every other regional equity market, and investor pessimism remains quite dour following a string of credit events, regulatory actions against big tech platforms, and concerns around the delisting of ADRs.

[As we published in a note earlier this month](#), we believe we are nearing a turning point in the Chinese credit cycle, as policymakers shift from tightening to easing (see figure 24). Domestically-listed shares in sectors like financials and industrials stand to benefit directly from recent moves to expand credit and boost the domestic economy. Meanwhile, while tech regulation concerns could linger for some time, we ultimately believe that the establishment of a regulatory framework to establish guardrails around monopolistic behavior, fintech, and use of data will entrench current leaders in these areas and could actually provide needed clarity for management teams over the medium term.

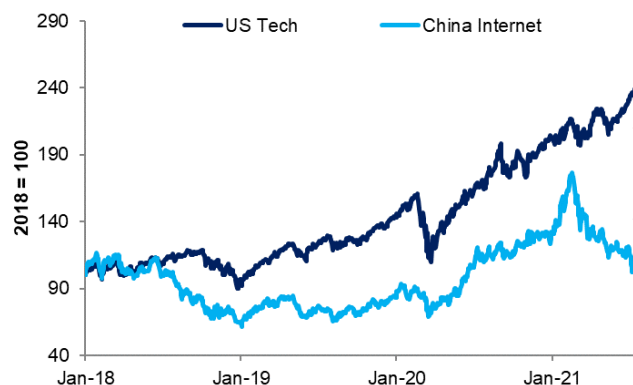
With that said, our view on China comes with two important caveats. First, we believe the levels of growth enjoyed by early leaders in Chinese e-commerce, digital media, and fintech are unlikely to be sustainable going forward. This is not necessarily a bearish comment, as we have seen revenue growth slow in US big tech in recent years as their businesses mature and their products saturate the global market. But despite a lot of similarities between US and Chinese tech giants, the returns in Chinese tech have significantly lagged their US counterparts since 2018 (see figure 25). In addition, areas like clean energy within China are still at an earlier point in their growth cycle and enjoy heavy government support, which should enable these firms to deliver significant growth in the years ahead as decarbonization and electrification are only just taking off in China.

Second, we urge some caution in investing in US-listed American Depositary Receipts (ADRs). Both the US and Chinese governments have (for different reasons) signaled concern around the current structure of US listings of Chinese companies. We instead recommend investing directly in mainland (A-Shares) and Hong Kong (H-Shares) listed names, which face much less regulatory scrutiny. Most of the major US ADRs have already set up dual listings in Hong Kong as well. We therefore suggest making use of active managers who can capture those sectors most likely to benefit from domestic easing, while avoiding or underweighting names currently in the regulatory crosshairs on both sides of the Pacific.

**Figure 24: China Equity Forward P/E vs New Credit as % of GDP**



**Figure 25: China vs US Tech**



Source: Bloomberg as of July 22, 2021. 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 no guarantee of future results. Real results may vary.

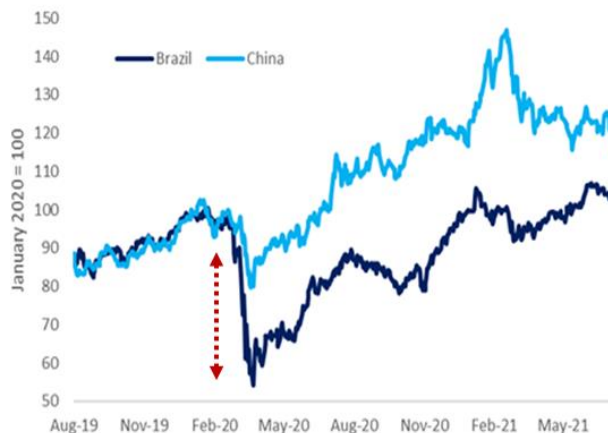
### Funding our quality upgrade with early-cycle winners

Our upgrades to the US and China came at the expense of two COVID recovery allocations that in our view have largely run their course. Latin American equities are up 63% since we initiated that overweight in April 2020, and while they continue to lag most other regions relative to 2019 levels, we see the risk/reward in the region as significantly diminished going forward. A largely unvaccinated population in major countries like Mexico and Brazil is a worrisome reality in the context of a highly transmissible delta variant. In addition, political uncertainty ahead of Brazil's presidential elections next year could be met with foreign investor skittishness, as is common ahead of tumultuous elections in EM countries (see figure 26). In addition, Latin American equities themselves are highly exposed to global growth, with 70% of market cap in the region made up of COVID-cyclicals. That figure is even more extreme in Brazil, where 78% of the equity universe is concentrated in cyclicals like materials, financials, and energy, leaving the region vulnerable to future waves of COVID-19.

**Figure 26: Brazilian Bovespa YoY Returns**



**Figure 27: China vs US tech**

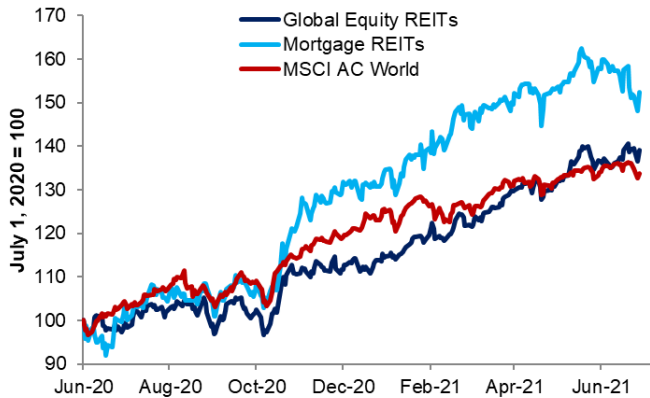


Source: Bloomberg as of July 24, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

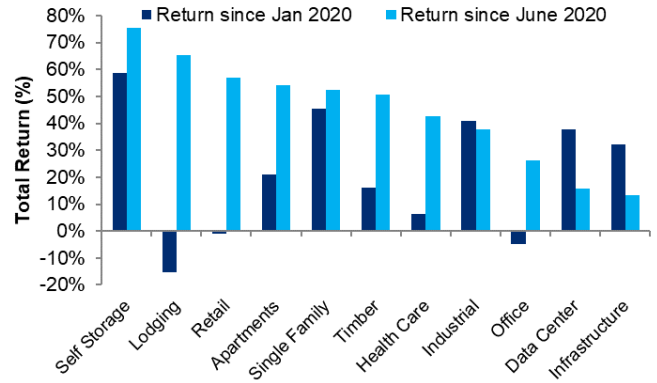
The other funding source for this month's portfolio shifts came from our thematic allocation to Equity REITs. Despite consensus investor caution in REITs, [last June the Citi Private Bank Global Investment Committee went overweight global equity and mortgage REITs](#) as part of a series of tactical moves to position for a post-COVID world. The equity REIT sector has delivered 39% in total return since then, led by much more significant returns in COVID-

impacted sectors like lodging and retail (see figures 28-29). One year later, we ultimately see the short-term recovery in COVID-impacted equity REITs as nearly complete, though we view select areas like cell towers, data centers, industrial warehouses, residential, and health care as likely to serve as sources of long-run income in portfolios ([see Equity Strategy bulletin for a deeper dive](#)). With that said, our allocations to both large and small cap equities already include equity REITs within their benchmarks, and we believe the select longer-run opportunities at the sub-sector level can be better captured via active management while avoiding areas like office and malls that face more structural challenges.

**Figure 28: 1 Year REIT returns vs Global Equities**



**Figure 29: Equity REIT Performance by Sub-Sector**



Source: Bloomberg as of July 22, 2021. 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 no guarantee of future results. Real results may vary.

## Portfolio allocations

This section shows the strategic and tactical asset allocations. The Quant Research & Global Asset Allocation (QRGAA) team creates strategic asset allocations using the [CPB Adaptive Valuations Strategy](#) (AVS) methodology on an annual basis. Global Investment Committee (GIC) provides underweight and overweight decisions to AVS's Global USD without Hedge Funds Risk Level 3 portfolio. QRGAA then creates tactical allocations for risk levels 1,2,4 and 5. These are included below. Also included below are Global USD with Hedge Funds and 10% illiquids PE & RE (Private Equity and Real Estate) for risk levels 2,3,4 and 5. The below strategic/tactical allocations are reflective of the July 21, 2021 GIC meeting.

### Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 2

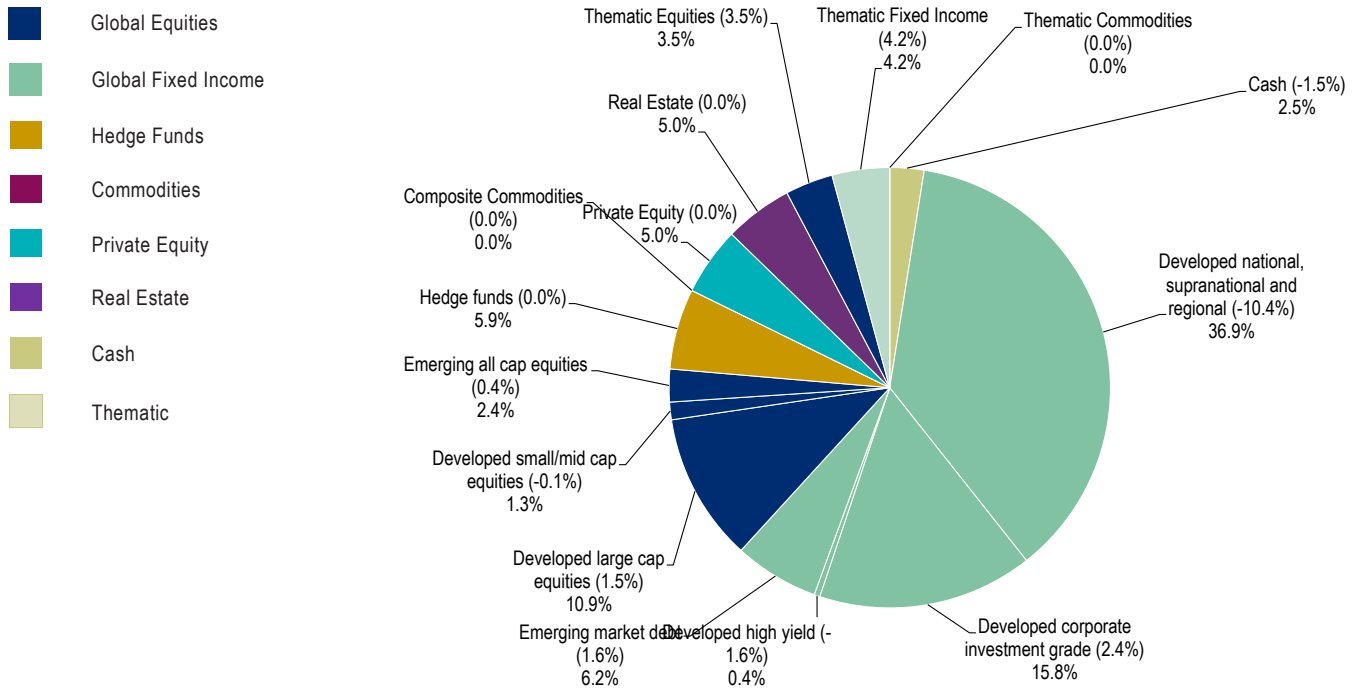
Risk Level 2 is designed for investors who emphasize capital preservation over return on investment, but who are willing to subject some portion of their principal to increased risk in order to generate a potentially greater rate of return on investment.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	4.0	2.5	-1.5
Fixed Income	67.2	63.5	-3.8
Developed Investment Grade	60.6	52.6	-8.0
US	33.7	36.6	2.9
Government	14.1	13.3	-0.8
Inflation-Linked	2.0	3.3	1.3
Short	3.8	2.2	-1.6
Intermediate	5.8	5.3	-0.5
Long	2.5	2.5	0.0
Securitized	10.8	12.1	1.2
Credit	8.9	11.2	2.4
Short	1.2	1.4	0.2
Intermediate	4.7	6.9	2.1
Long	2.9	2.9	0.0
Europe	20.4	13.1	-7.3
Government	15.8	8.5	-7.3
Credit	4.5	4.5	0.0
Australia	0.4	0.4	0.0
Government	0.4	0.4	0.0
Japan	6.1	2.6	-3.6
Government	6.1	2.6	-3.6
Developed High Yield	2.0	0.4	-1.6
US	1.5	0.0	-1.5
Europe	0.5	0.4	-0.1
Emerging Market Debt	4.6	6.2	1.6
Asia	0.8	1.9	1.1
Local currency	0.4	1.0	0.6
Foreign currency	0.4	0.9	0.5
EMEA	2.6	2.6	0.0
Local currency	1.3	1.3	0.0
Foreign currency	1.3	1.3	0.0
LatAm	1.3	1.7	0.4
Local currency	0.6	0.7	0.0
Foreign currency	0.6	1.1	0.4
Thematic Fixed Income	0.0	4.2	4.2
US Bank Loans	0.0	4.2	4.2
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	12.8	18.1	5.2
Developed Equities	10.8	12.2	1.3
Developed Large Cap Equities	9.4	10.9	1.5
US	6.4	7.2	0.8
Canada	0.3	0.3	0.0
UK	0.4	0.8	0.4
Switzerland	0.3	0.3	0.0
Europe ex UK ex Switzerland	0.9	1.0	0.1
Asia ex Japan	0.3	0.4	0.1
Japan	0.8	0.8	0.0
Developed Small/Mid Cap Equities	1.4	1.3	-0.1
US	0.8	0.5	-0.3
Non-US	0.7	0.8	0.1
Emerging All Cap Equities	2.0	2.4	0.4
Asia	1.8	2.3	0.5
China	1.1	1.4	0.2
Asia (ex China)	0.6	0.9	0.3
EMEA	0.1	0.0	-0.1
LatAm	0.1	0.1	0.0
Brazil	0.1	0.1	0.0
LatAm ex Brazil	0.0	0.0	0.0
Thematic Equities	0.0	3.5	3.5
Global Equity REITs	0.0	0.0	0.0
US Mortgage REITs	0.0	0.5	0.5
Global Healthcare	0.0	3.0	3.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Hedge Funds	5.9	5.9	0.0
Private Equity	5.0	5.0	0.0
Real Estate	5.0	5.0	0.0
Total	100.0	100.0	-0.0

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

# Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 2 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overweight position of +5.2%, global fixed income has an underweight of -3.8%, cash has an underweight of -1.5%.

Within equities, developed large cap equities are at an overweight position of +1.5% while developed small/mid cap equities are at underweight positions of -0.1%. Emerging market equities have an overweight of +0.4%. Thematic equities have an overweight of +3.5%.

Within fixed income, developed investment grade has an underweight position of -8.0%; developed high yield has an underweight position of -1.6% and emerging market debt has an overweight position of +1.6%. Thematic fixed income has an overweight of +4.2%.

Private Equity and Real Estate are both neutral, each with 5% allocation.



## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 3

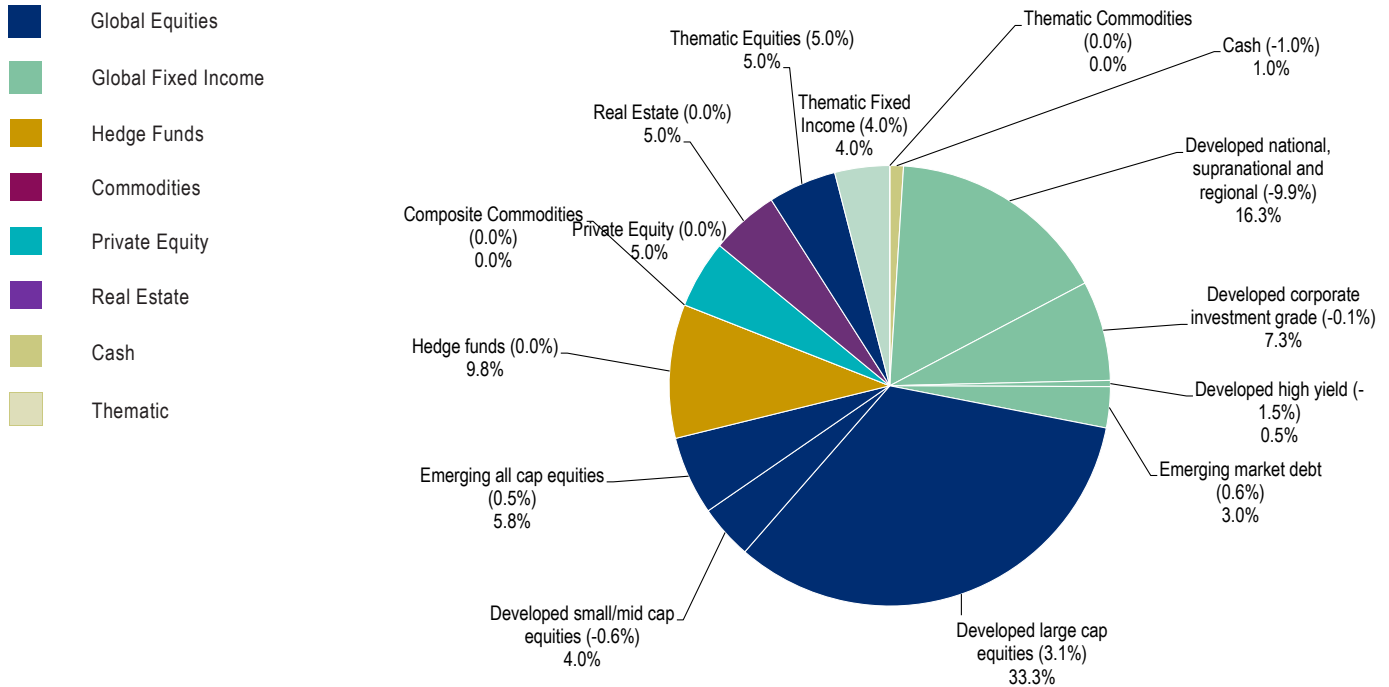
Risk Level 3 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. Risk Level 3 may be appropriate for investors willing to subject their portfolio to additional risk for potential growth in addition to a level of income reflective of his/her stated risk tolerance.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	2.0	1.0	-1.0
Fixed Income	38.1	31.1	-7.0
Developed Investment Grade	33.6	23.6	-10.0
US	18.7	18.9	0.2
Government	7.8	8.1	0.2
Inflation-Linked	1.1	3.3	2.1
Short	2.1	0.1	-2.0
Intermediate	3.2	3.3	0.1
Long	1.4	1.4	0.0
Securitized	6.0	5.9	-0.1
Credit	4.9	5.0	0.1
Short	0.7	0.7	0.0
Intermediate	2.6	2.7	0.0
Long	1.6	1.6	0.0
Europe	11.3	4.4	-6.9
Government	8.8	2.1	-6.7
Credit	2.5	2.3	-0.2
Australia	0.2	0.2	0.0
Government	0.2	0.2	0.0
Japan	3.4	0.1	-3.3
Government	3.4	0.1	-3.3
Developed High Yield	2.0	0.5	-1.5
US	1.5	0.0	-1.5
Europe	0.5	0.5	-0.0
Emerging Market Debt	2.4	3.0	0.6
Asia	0.4	1.0	0.5
Local currency	0.2	0.5	0.3
Foreign currency	0.2	0.4	0.2
EMEA	1.3	1.4	0.0
Local currency	0.7	0.7	0.0
Foreign currency	0.7	0.7	0.0
LatAm	0.7	0.7	0.0
Local currency	0.3	0.3	0.0
Foreign currency	0.3	0.3	0.0
Thematic Fixed Income	0.0	4.0	4.0
US Bank Loans	0.0	4.0	4.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	40.1	48.1	8.0
Developed Equities	34.8	37.3	2.5
Developed Large Cap Equities	30.2	33.3	3.1
US	20.6	22.1	1.5
Canada	1.0	1.0	0.0
UK	1.2	2.2	1.0
Switzerland	0.9	1.0	0.0
Europe ex UK ex Switzerland	2.9	3.1	0.2
Asia ex Japan	1.1	1.3	0.2
Japan	2.5	2.6	0.1
Developed Small/Mid Cap Equities	4.5	4.0	-0.6
US	2.4	1.8	-0.6
Non-US	2.1	2.2	0.1
Emerging All Cap Equities	5.3	5.8	0.5
Asia	4.7	5.4	0.8
China	3.0	3.4	0.4
Asia (ex China)	1.6	2.0	0.4
EMEA	0.3	0.0	-0.3
LatAm	0.3	0.3	0.0
Brazil	0.2	0.2	0.0
LatAm ex Brazil	0.1	0.1	0.0
Thematic Equities	0.0	5.0	5.0
Global Equity REITs	0.0	0.0	0.0
US Mortgage REITs	0.0	1.0	1.0
Global Healthcare	0.0	4.0	4.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Hedge Funds	9.8	9.8	0.0
Private Equity	5.0	5.0	0.0
Real Estate	5.0	5.0	0.0
Total	100.0	100.0	0.0

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 3 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

### Core Positions

Global equities have an overweight position of +8.0%, global fixed income has an underweight of -7.0%, cash has an underweight of -1.0%.

Within equities, developed large cap equities have an overweight position of +3.1% while developed small/mid cap equities have an underweight position of -0.6%. Emerging market equities have an overweight of +0.5%. Thematic equities have an overweight position of +5.0%.

Within fixed income, developed investment grade debt has an underweight position of -10.0%; developed high yield has an underweight position of -1.5%; emerging market debt has an overweight position of +0.6%. Thematic fixed income has an overweight position of +4.0%.

Private Equity and Real Estate are both neutral, each with 5% allocation.

## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 4

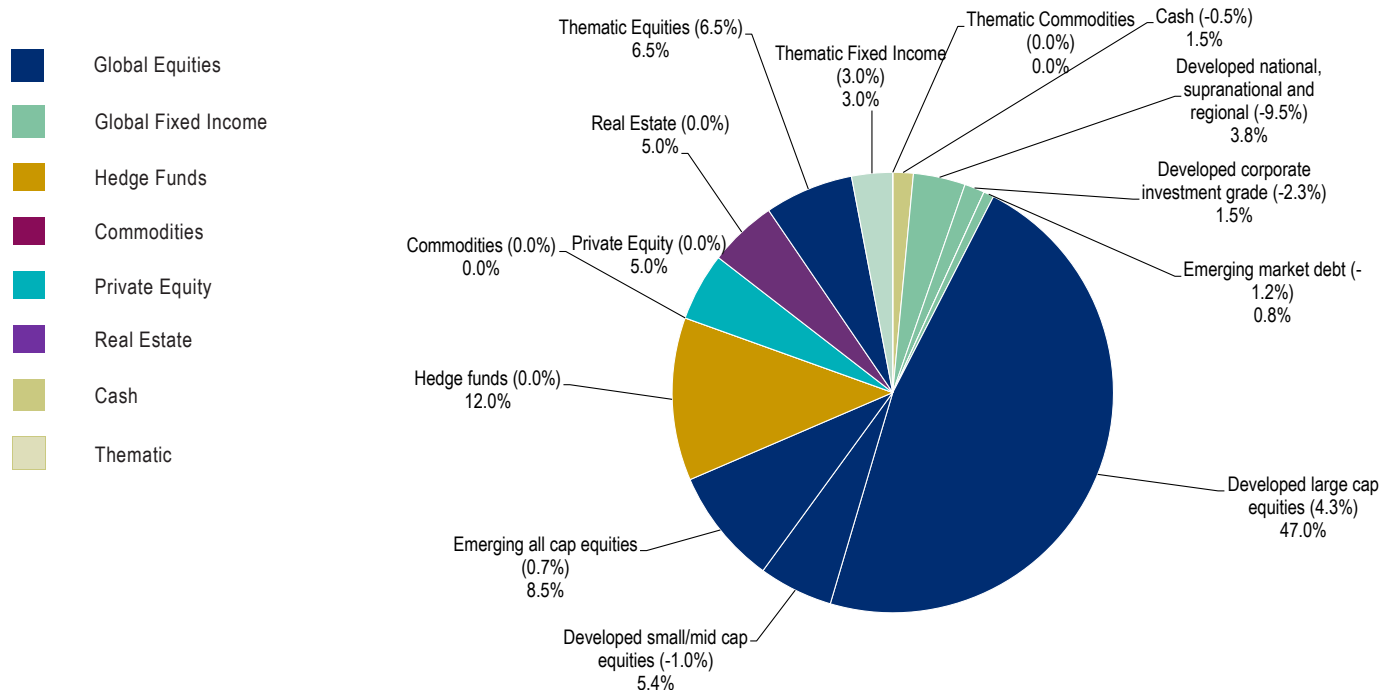
Risk Level 4 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. They are willing to subject a large portion of their portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investment. Investors may have a preference for investments or trading strategies that may assume higher-than-normal market risks and/or potentially less liquidity with the goal (but not guarantee) of commensurate gains.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	2.0	1.5	-0.5
Fixed Income	19.0	9.0	-10.0
Developed Investment Grade	17.0	5.3	-11.8
US	9.5	4.7	-4.8
Government	4.0	3.0	-1.0
Inflation-Linked	0.6	1.7	1.1
Short	1.1	0.0	-1.1
Intermediate	1.6	0.5	-1.1
Long	0.7	0.7	0.0
Securitized	3.0	0.5	-2.5
Credit	2.5	1.2	-1.3
Short	0.3	0.0	-0.3
Intermediate	1.3	0.9	-0.5
Long	0.8	0.3	-0.5
Europe	5.7	0.6	-5.1
Government	4.5	0.3	-4.1
Credit	1.3	0.2	-1.0
Australia	0.1	0.0	-0.1
Government	0.1	0.0	-0.1
Japan	1.7	0.0	-1.7
Government	1.7	0.0	-1.7
Developed High Yield	0.0	0.0	0.0
US	0.0	0.0	0.0
Europe	0.0	0.0	0.0
Emerging Market Debt	2.0	0.8	-1.2
Asia	0.3	0.5	0.1
Local currency	0.2	0.3	0.1
Foreign currency	0.2	0.2	0.0
EMEA	1.1	0.0	-1.1
Local currency	0.5	0.0	-0.5
Foreign currency	0.5	0.0	-0.5
LatAm	0.6	0.3	-0.3
Local currency	0.3	0.0	-0.3
Foreign currency	0.3	0.3	0.0
Thematic Fixed Income	0.0	3.0	3.0
US Bank Loans	0.0	3.0	3.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	57.0	67.5	10.5
Developed Equities	49.1	52.5	3.3
Developed Large Cap Equities	42.7	47.0	4.3
US	29.0	31.2	2.1
Canada	1.4	1.4	0.0
UK	1.7	3.1	1.4
Switzerland	1.3	1.4	0.0
Europe ex UK ex Switzerland	4.1	4.4	0.3
Asia ex Japan	1.6	1.9	0.3
Japan	3.6	3.7	0.1
Developed Small/Mid Cap Equities	6.4	5.4	-1.0
US	3.4	2.6	-0.8
Non-US	3.0	2.8	-0.1
Emerging All Cap Equities	7.9	8.5	0.7
Asia	6.9	8.0	1.1
China	4.5	5.2	0.7
Asia (ex China)	2.4	2.9	0.4
EMEA	0.5	0.0	-0.5
LatAm	0.5	0.5	0.0
Brazil	0.3	0.3	0.0
LatAm ex Brazil	0.2	0.2	0.0
Thematic Equities	0.0	6.5	6.5
Global Equity REITs	0.0	0.0	0.0
US Mortgage REITs	0.0	1.5	1.5
Global Healthcare	0.0	5.0	5.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Hedge Funds	12.0	12.0	0.0
Private Equity	5.0	5.0	0.0
Real Estate	5.0	5.0	0.0
Total	100.0	100.0	-0.0

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 4 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overweight position of +10.5%, global fixed income has an underweight of -10.0%, cash has an underweight of -0.5%.

Within equities, developed large cap equities have an overweight position of +4.3% while developed small/mid cap equities have an underweight position of -1.0%. Emerging market equities have an overweight of +0.7%. Thematic equities have an overweight of +6.5%.

Within fixed income, developed investment grade has an underweight position of -11.8%; developed high yield has a neutral position and emerging market debt has an underweight position of -1.2%. Thematic fixed income has an overweight of +3.0%.

Private Equity and Real Estate are both neutral, each with 5% allocation.

# Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 5

Risk Level 5 is designed for investors who emphasize return on investment. They are willing to subject their entire portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investments. Investors may have a preference for investments or trading strategies that may assume higher than-normal market risks and/or potentially less liquidity with the goal (but not guarantee) of commensurate gains. Clients may engage in tactical or opportunistic trading, which may involve higher volatility and variability of returns.

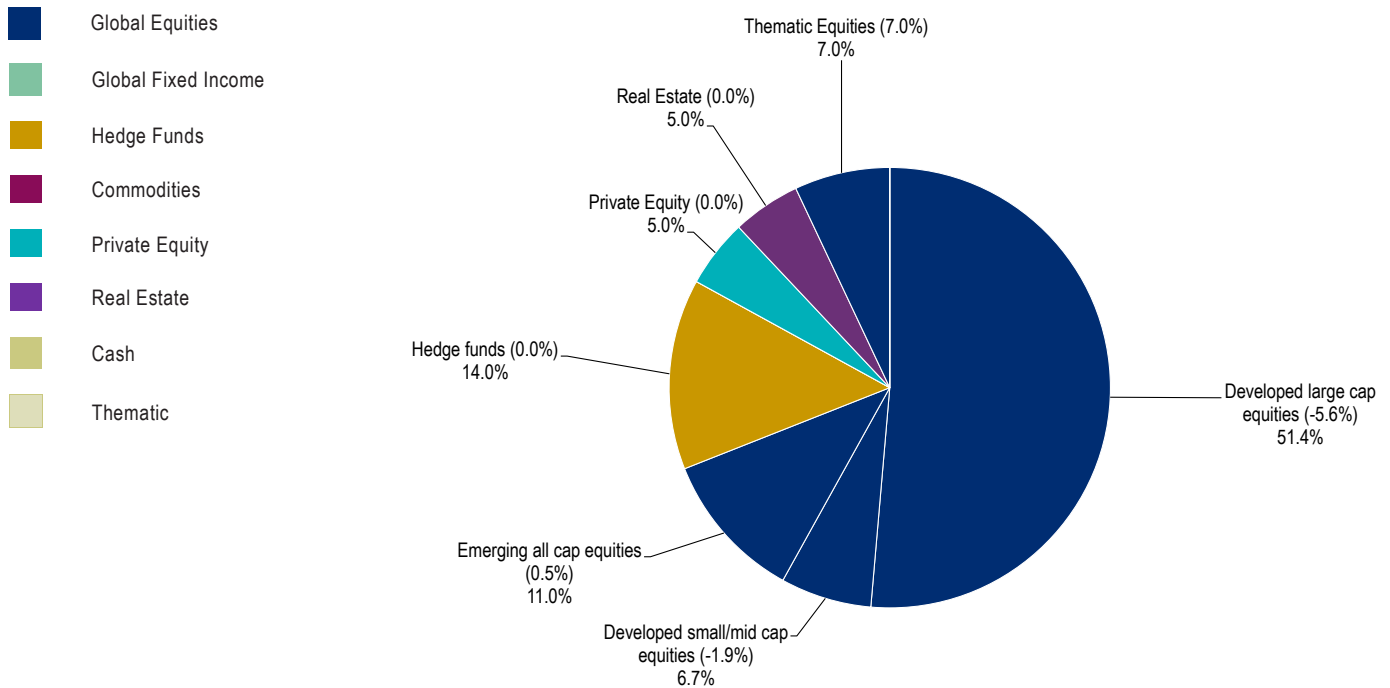
Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	0.0	0.0	0.0
Fixed income	0.0	0.0	0.0
Developed Investment Grade	0.0	0.0	0.0
US	0.0	0.0	0.0
Government	0.0	0.0	0.0
Inflation-Linked	0.0	0.0	0.0
Short	0.0	0.0	0.0
Intermediate	0.0	0.0	0.0
Long	0.0	0.0	0.0
Securitized	0.0	0.0	0.0
Credit	0.0	0.0	0.0
Short	0.0	0.0	0.0
Intermediate	0.0	0.0	0.0
Long	0.0	0.0	0.0
Europe	0.0	0.0	0.0
Government	0.0	0.0	0.0
Credit	0.0	0.0	0.0
Australia	0.0	0.0	0.0
Government	0.0	0.0	0.0
Japan	0.0	0.0	0.0
Government	0.0	0.0	0.0
Developed High Yield	0.0	0.0	0.0
US	0.0	0.0	0.0
Europe	0.0	0.0	0.0
Emerging Market Debt	0.0	0.0	0.0
Asia	0.0	0.0	0.0
Local currency	0.0	0.0	0.0
Foreign currency	0.0	0.0	0.0
EMEA	0.0	0.0	0.0
Local currency	0.0	0.0	0.0
Foreign currency	0.0	0.0	0.0
LatAm	0.0	0.0	0.0
Local currency	0.0	0.0	0.0
Foreign currency	0.0	0.0	0.0
Thematic Fixed Income	0.0	0.0	0.0
US Bank Loans	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	76.0	76.0	-0.0
Developed Equities	65.5	58.0	-7.5
Developed Large Cap Equities	57.0	51.4	-5.6
US	38.7	37.8	-0.9
Canada	1.9	0.0	-1.9
UK	2.3	3.2	0.9
Switzerland	1.8	0.6	-1.2
Europe ex UK ex Switzerland	5.5	4.5	-0.9
Asia ex Japan	2.1	1.6	-0.5
Japan	4.8	3.7	-1.1
Developed Small/Mid Cap Equities	8.6	6.7	-1.9
US	4.6	3.4	-1.2
Non-US	4.0	3.3	-0.7
Emerging All Cap Equities	10.5	11.0	0.5
Asia	9.2	10.1	0.9
China	6.0	6.4	0.4
Asia (ex China)	3.2	3.7	0.5
EMEA	0.6	0.4	-0.2
LatAm	0.7	0.4	-0.2
Brazil	0.4	0.3	-0.2
LatAm ex Brazil	0.2	0.2	-0.1
Thematic Equities	0.0	7.0	7.0
Global Equity REITs	0.0	0.0	0.0
US Mortgage REITs	0.0	1.0	1.0
Global Healthcare	0.0	6.0	6.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Hedge Funds	14.0	14.0	0.0
Private Equity	5.0	5.0	0.0
Real Estate	5.0	5.0	0.0
Total	100.0	100.0	0.0

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.



## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 5 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities, global fixed income, cash and gold all have an overall neutral position.

Within equities, developed large cap equities have an underweight position of -5.6% and developed small/mid cap equities have an underweight position of -1.9%. Emerging market equities have an overweight of +0.5%. Thematic equities have an overweight of +7.0%.

Within fixed income, developed government debt, developed corporate investment grade, developed high yield and emerging market debt are all at neutral position.

Private Equity and Real Estate are both neutral, each with 5% allocation.

# Global USD without Hedge Funds: Risk Level 1

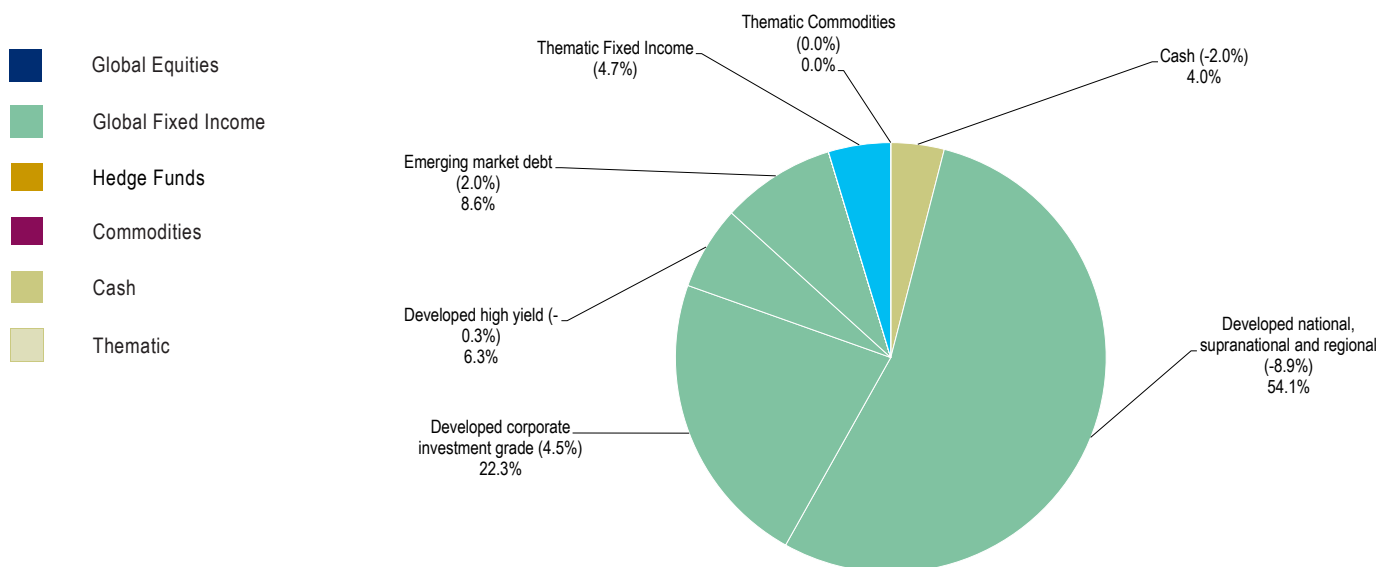
Risk Level 1 is designed for investors who have a preference for capital preservation and relative safety over the potential for a return on investment. These investors prefer to hold cash, time deposits and/or lower risk fixed income instruments.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	6.0	4.0	-2.0
Fixed Income	94.0	96.0	2.0
Developed Investment Grade	80.8	76.4	-4.4
US	45.0	51.1	6.1
Government	18.8	19.4	0.6
Inflation-Linked	2.7	3.5	0.8
Short	5.0	4.8	-0.2
Intermediate	7.8	7.8	0.0
Long	3.3	3.3	0.0
Securitized	14.4	15.9	1.5
Credit	11.8	15.8	4.0
Short	1.6	2.6	1.0
Intermediate	6.3	9.3	3.0
Long	3.9	3.9	0.0
Europe	27.2	20.2	-7.0
Government	21.1	13.6	-7.5
Credit	6.0	6.5	0.5
Australia	0.5	0.5	0.0
Government	0.5	0.5	0.0
Japan	8.2	4.7	-3.5
Government	8.2	4.7	-3.5
Developed High Yield	6.6	6.3	-0.3
US	5.0	3.1	-1.9
Europe	1.6	3.2	1.6
Emerging Market Debt	6.6	8.6	2.0
Asia	1.1	2.4	1.3
Local currency	0.6	1.1	0.5
Foreign currency	0.6	1.4	0.8
EMEA	3.6	3.6	0.0
Local currency	1.8	1.8	0.0
Foreign currency	1.8	1.8	0.0
LatAm	1.8	2.5	0.7
Local currency	0.9	0.9	0.0
Foreign currency	0.9	1.6	0.7
Thematic Fixed Income	0.0	4.7	4.7
US Bank Loans	0.0	4.7	4.7
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	0.0	0.0	0.0
Developed Equities	0.0	0.0	0.0
Developed Large Cap Equities	0.0	0.0	0.0
US	0.0	0.0	0.0
Canada	0.0	0.0	0.0
UK	0.0	0.0	0.0
Switzerland	0.0	0.0	0.0
Europe ex UK ex Switzerland	0.0	0.0	0.0
Asia ex Japan	0.0	0.0	0.0
Japan	0.0	0.0	0.0
Developed Small/Mid Cap Equities	0.0	0.0	0.0
US	0.0	0.0	0.0
Non-US	0.0	0.0	0.0
Emerging All Cap Equities	0.0	0.0	0.0
Asia	0.0	0.0	0.0
China	0.0	0.0	0.0
Asia (ex China)	0.0	0.0	0.0
EMEA	0.0	0.0	0.0
LatAm	0.0	0.0	0.0
Brazil	0.0	0.0	0.0
LatAm ex Brazil	0.0	0.0	0.0
Thematic Equities	0.0	0.0	0.0
Global Equity REITs	0.0	0.0	0.0
US Mortgage REITs	0.0	0.0	0.0
Global Healthcare	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD without Hedge Funds: Risk Level 1 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overall neutral position, global fixed income has an overweight of +2.0%, cash has an underweight of -2.0%.

Within equities, developed large cap equities, developed small/mid cap equities and emerging market equities are all at neutral positions.

Within fixed income, developed investment grade debt has an underweight position of -4.4%; developed high yield has an underweight position of -0.3% and emerging market debt has an overweight position of +2.0%. Thematic fixed income has an overweight position of +4.7%.

## Global USD without Hedge Funds: Risk Level 2

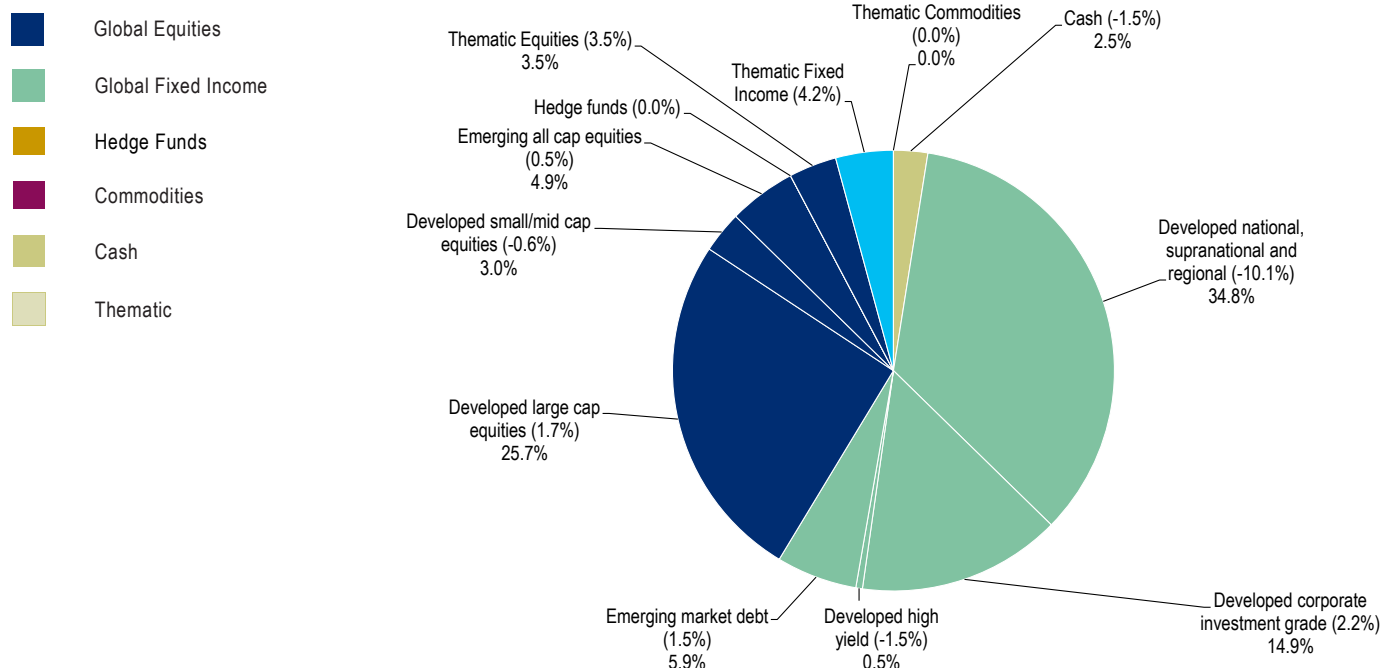
Risk Level 2 is designed for investors who emphasize capital preservation over return on investment, but who are willing to subject some portion of their principal to increased risk in order to generate a potentially greater rate of return on investment.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	4.0	2.5	-1.5
Fixed Income	64.1	60.4	-3.8
Developed Investment Grade	57.6	49.7	-7.9
US	32.1	34.6	2.5
Government	13.4	12.6	-0.8
Inflation-Linked	1.9	3.1	1.2
Short	3.6	2.1	-1.5
Intermediate	5.5	5.0	-0.5
Long	2.4	2.4	0.0
Securitized	10.3	11.4	1.1
Credit	8.4	10.6	2.2
Short	1.2	1.4	0.2
Intermediate	4.5	6.5	2.0
Long	2.8	2.8	0.0
Europe	19.4	12.4	-7.0
Government	15.1	8.1	-7.0
Credit	4.3	4.3	0.0
Australia	0.3	0.3	0.0
Government	0.3	0.3	0.0
Japan	5.8	2.4	-3.4
Government	5.8	2.4	-3.4
Developed High Yield	2.0	0.5	-1.5
US	1.5	0.0	-1.5
Europe	0.5	0.5	0.0
Emerging Market Debt	4.5	5.9	1.5
Asia	0.8	1.8	1.1
Local currency	0.4	0.9	0.6
Foreign currency	0.4	0.9	0.5
EMEA	2.5	2.5	0.0
Local currency	1.2	1.2	0.0
Foreign currency	1.2	1.2	0.0
LatAm	1.2	1.6	0.4
Local currency	0.6	0.6	0.0
Foreign currency	0.6	1.0	0.4
Thematic Fixed Income	0.0	4.2	4.2
US Bank Loans	0.0	4.2	4.2
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	31.9	37.1	5.2
Developed Equities	27.5	28.7	1.2
Developed Large Cap Equities	23.9	25.7	1.7
US	16.3	17.0	0.8
Canada	0.8	0.8	0.0
UK	0.9	1.8	0.9
Switzerland	0.7	0.7	0.0
Europe ex UK ex Switzerland	2.3	2.4	0.1
Asia ex Japan	0.9	1.0	0.2
Japan	2.0	2.0	-0.1
Developed Small/Mid Cap Equities	3.6	3.0	-0.6
US	1.9	1.2	-0.8
Non-US	1.7	1.9	0.2
Emerging All Cap Equities	4.4	4.9	0.5
Asia	3.9	4.7	0.8
China	2.5	2.8	0.3
Asia (ex China)	1.4	1.9	0.5
EMEA	0.3	0.0	-0.3
LatAm	0.3	0.3	0.0
Brazil	0.2	0.2	0.0
LatAm ex Brazil	0.1	0.1	0.0
Thematic Equities	0.0	3.5	3.5
Global Equity REITs	0.0	0.0	0.0
US Mortgage REITs	0.0	0.5	0.5
Global Healthcare	0.0	3.0	3.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Total	100.0	100.0	0.0

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD without Hedge Funds: Risk Level 2 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overweight position of +5.2%, global fixed income has an underweight of -3.8%, cash has an underweight of -1.5%.

Within equities, developed large cap equities have an overweight position of +1.7% while developed small/mid cap equities have an underweight of -0.6%. Emerging market equities have an overweight of +0.5%. Thematic equities have an overweight of +3.5%.

Within fixed income, developed investment grade has an underweight position of -7.9%; developed high yield has an underweight position of -1.5% and emerging market debt has an overweight position of +1.5%. Thematic fixed income has an overweight position of +4.2%.



## Global USD without Hedge Funds: Risk Level 3

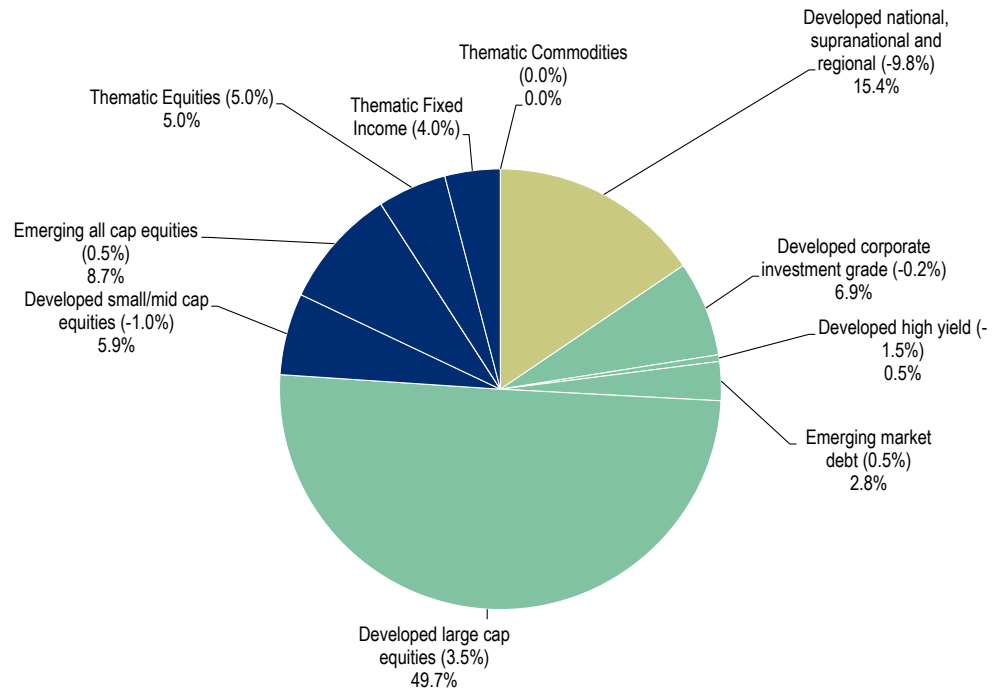
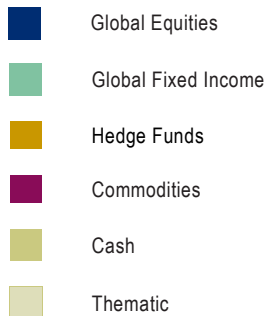
Risk Level 3 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. Risk Level 3 may be appropriate for investors willing to subject their portfolio to additional risk for potential growth in addition to a level of income reflective of his/her stated risk tolerance.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	2.0	1.0	-1.0
Fixed Income	36.6	29.6	-7.0
Developed Investment Grade	32.3	22.3	-10.0
US	18.0	17.9	-0.1
Government	7.5	7.6	0.1
Inflation-Linked	1.1	3.1	2.0
Short	2.0	0.1	-1.9
Intermediate	3.1	3.1	0.0
Long	1.3	1.3	0.0
Securitized	5.8	5.6	-0.2
Credit	4.7	4.7	0.0
Short	0.6	0.6	0.0
Intermediate	2.5	2.5	0.0
Long	1.5	1.5	0.0
Europe	10.8	4.1	-6.7
Government	8.4	1.9	-6.5
Credit	2.4	2.2	-0.2
Australia	0.2	0.2	0.0
Government	0.2	0.2	0.0
Japan	3.3	0.1	-3.2
Government	3.3	0.1	-3.2
Developed High Yield	2.0	0.5	-1.5
US	1.5	0.0	-1.5
Europe	0.5	0.5	0.0
Emerging Market Debt	2.3	2.8	0.5
Asia	0.4	0.9	0.5
Local currency	0.2	0.5	0.3
Foreign currency	0.2	0.4	0.2
EMEA	1.3	1.3	0.0
Local currency	0.6	0.6	0.0
Foreign currency	0.6	0.6	0.0
LatAm	0.6	0.6	0.0
Local currency	0.3	0.3	0.0
Foreign currency	0.3	0.3	0.0
Thematic Fixed Income	0.0	4.0	4.0
US Bank Loans	0.0	4.0	4.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	61.4	69.4	8.0
Developed Equities	53.2	55.7	2.5
Developed Large Cap Equities	46.2	49.7	3.5
US	31.4	32.9	1.5
Canada	1.5	1.5	0.0
UK	1.8	3.3	1.5
Switzerland	1.4	1.4	0.0
Europe ex UK ex Switzerland	4.5	4.6	0.2
Asia ex Japan	1.7	2.0	0.3
Japan	3.9	3.9	0.0
Developed Small/Mid Cap Equities	6.9	5.9	-1.0
US	3.7	2.7	-1.0
Non-US	3.2	3.2	0.0
Emerging All Cap Equities	8.2	8.7	0.5
Asia	7.2	8.2	1.0
China	4.7	5.2	0.5
Asia (ex China)	2.5	3.0	0.5
EMEA	0.5	0.0	-0.5
LatAm	0.5	0.5	0.0
Brazil	0.3	0.3	0.0
LatAm ex Brazil	0.2	0.2	0.0
Thematic Equities	0.0	5.0	5.0
Global Equity REITs	0.0	0.0	0.0
US Mortgage REITs	0.0	1.0	1.0
Global Healthcare	0.0	4.0	4.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Total	100.0	100.0	0.0

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD without Hedge Funds: Risk Level 3 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overweight position of +8.0%, global fixed income has an underweight of -7.0%, cash has an underweight of -1.0%.

Within equities, developed large cap equities have an overweight position of +3.5% while developed small/mid cap equities have an underweight position of -1.0%. Emerging market equities have an overweight of +0.5%. Thematic equities have an overweight of +5.0%.

Within fixed income, developed investment grade debt has an underweight position of -10.0%; developed high yield has an underweight position of -1.5%; emerging market debt has an overweight position of +0.5%. Thematic fixed income has an overweight of +4.0%.

## Global USD without Hedge Funds: Risk Level 4

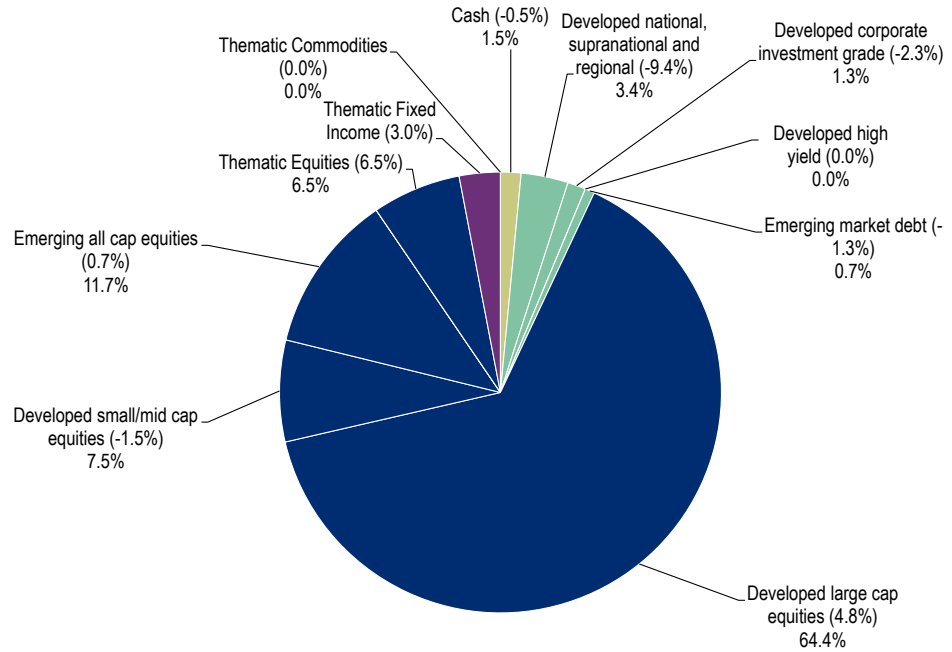
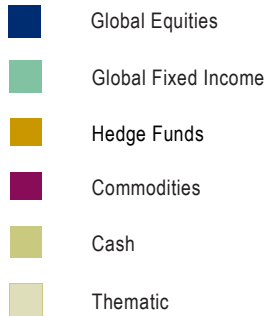
Risk Level 4 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. They are willing to subject a large portion of their portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investment. Investors may have a preference for investments or trading strategies that may assume higher-than-normal market risks and/or potentially less liquidity with the goal (but not guarantee) of commensurate gains.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	2.0	1.5	-0.5
Fixed Income	18.5	8.5	-10.0
Developed Investment Grade	16.5	4.8	-11.7
US	9.2	4.2	-4.9
Government	3.8	2.7	-1.2
Inflation-Linked	0.5	1.5	1.0
Short	1.0	0.0	-1.0
Intermediate	1.6	0.5	-1.1
Long	0.7	0.7	0.0
Securitized	2.9	0.5	-2.5
Credit	2.4	1.1	-1.3
Short	0.3	0.0	-0.3
Intermediate	1.3	0.8	-0.5
Long	0.8	0.3	-0.5
Europe	5.5	0.5	-5.0
Government	4.3	0.3	-4.0
Credit	1.2	0.2	-1.0
Australia	0.1	0.0	-0.1
Government	0.1	0.0	-0.1
Japan	1.7	0.0	-1.7
Government	1.7	0.0	-1.7
Developed High Yield	0.0	0.0	0.0
US	0.0	0.0	0.0
Europe	0.0	0.0	0.0
Emerging Market Debt	2.0	0.7	-1.3
Asia	0.3	0.4	0.1
Local currency	0.2	0.3	0.1
Foreign currency	0.2	0.2	-0.0
EMEA	1.1	0.0	-1.1
Local currency	0.5	0.0	-0.5
Foreign currency	0.5	0.0	-0.5
LatAm	0.6	0.3	-0.3
Local currency	0.3	0.0	-0.3
Foreign currency	0.3	0.3	-0.0
Thematic Fixed Income	0.0	3.0	3.0
US Bank Loans	0.0	3.0	3.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	79.5	90.0	10.5
Developed Equities	68.6	71.9	3.3
Developed Large Cap Equities	59.6	64.4	4.8
US	40.5	42.7	2.1
Canada	2.0	2.0	0.0
UK	2.4	4.3	1.9
Switzerland	1.9	1.9	0.0
Europe ex UK ex Switzerland	5.7	6.0	0.3
Asia ex Japan	2.2	2.6	0.4
Japan	5.0	5.0	0.1
Developed Small/Mid Cap Equities	9.0	7.5	-1.5
US	4.8	3.6	-1.3
Non-US	4.1	3.9	-0.3
Emerging All Cap Equities	11.0	11.7	0.7
Asia	9.6	11.0	1.3
China	6.3	7.1	0.8
Asia (ex China)	3.4	3.9	0.5
EMEA	0.7	0.0	-0.7
LatAm	0.7	0.7	0.0
Brazil	0.4	0.4	0.0
LatAm ex Brazil	0.2	0.2	0.0
Thematic Equities	0.0	6.5	6.5
Global Equity REITs	0.0	0.0	0.0
US Mortgage REITs	0.0	1.5	1.5
Global Healthcare	0.0	5.0	5.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Total	100.0	100.0	-0.0

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD without Hedge Funds: Risk Level 4 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overweight position of +10.5%, global fixed income has an underweight of -10%, cash has an underweight of -0.5%.

Within equities, developed large cap equities have an overweight position of +4.8% while developed small/mid cap equities have an underweight position of -1.5%. Emerging market equities have an overweight of +0.7%. Thematic equities have an overweight position of +6.5%.

Within fixed income, developed investment grade debt has an underweight position of -11.7%; developed high yield has a neutral position and emerging market debt has an underweight position of -1.3%. Thematic fixed income has an overweight position of +3.0%.

## Global USD without Hedge Funds: Risk Level 5

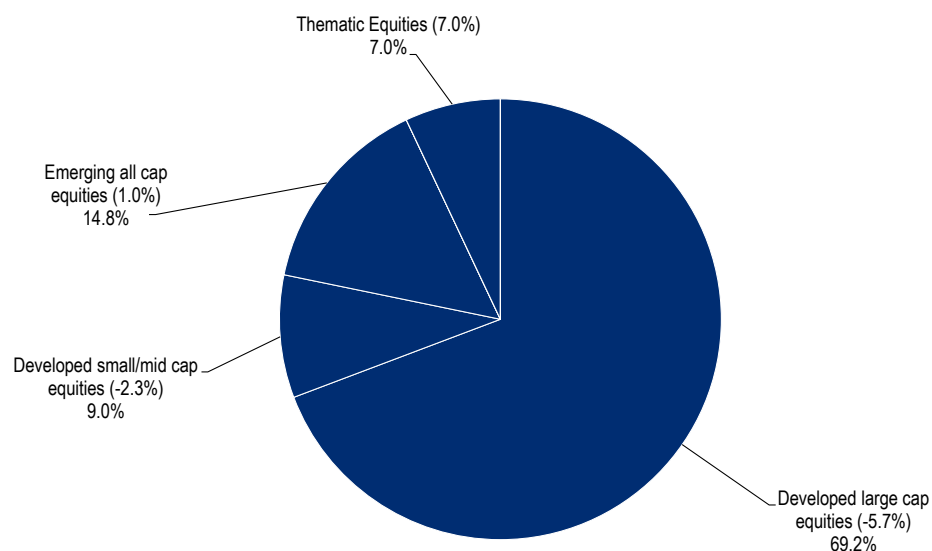
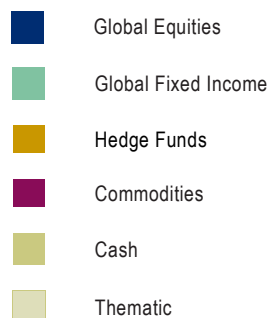
Risk Level 5 is designed for investors who emphasize return on investment. They are willing to subject their entire portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investments. Investors may have a preference for investments or trading strategies that may assume higher than-normal market risks and/or potentially less liquidity with the goal (but not guarantee) of commensurate gains. Clients may engage in tactical or opportunistic trading, which may involve higher volatility and variability of returns.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	0.0	0.0	0.0
Fixed income	0.0	0.0	0.0
Developed Investment Grade	0.0	0.0	0.0
US	0.0	0.0	0.0
Government	0.0	0.0	0.0
Inflation-Linked	0.0	0.0	0.0
Short	0.0	0.0	0.0
Intermediate	0.0	0.0	0.0
Long	0.0	0.0	0.0
Securitized	0.0	0.0	0.0
Credit	0.0	0.0	0.0
Short	0.0	0.0	0.0
Intermediate	0.0	0.0	0.0
Long	0.0	0.0	0.0
Europe	0.0	0.0	0.0
Government	0.0	0.0	0.0
Credit	0.0	0.0	0.0
Australia	0.0	0.0	0.0
Government	0.0	0.0	0.0
Japan	0.0	0.0	0.0
Government	0.0	0.0	0.0
Developed High Yield	0.0	0.0	0.0
US	0.0	0.0	0.0
Europe	0.0	0.0	0.0
Emerging Market Debt	0.0	0.0	0.0
Asia	0.0	0.0	0.0
Local currency	0.0	0.0	0.0
Foreign currency	0.0	0.0	0.0
EMEA	0.0	0.0	0.0
Local currency	0.0	0.0	0.0
Foreign currency	0.0	0.0	0.0
LatAm	0.0	0.0	0.0
Local currency	0.0	0.0	0.0
Foreign currency	0.0	0.0	0.0
Thematic Fixed Income	0.0	0.0	0.0
US Bank Loans	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	100.0	100.0	-0.0
Developed Equities	86.2	78.2	-8.0
Developed Large Cap Equities	74.9	69.2	-5.7
US	51.0	50.9	-0.0
Canada	2.5	0.0	-2.5
UK	3.0	4.3	1.3
Switzerland	2.3	0.8	-1.5
Europe ex UK ex Switzerland	7.2	6.1	-1.1
Asia ex Japan	2.7	2.1	-0.6
Japan	6.3	5.0	-1.3
Developed Small/Mid Cap Equities	11.3	9.0	-2.3
US	6.0	4.5	-1.5
Non-US	5.2	4.5	-0.8
Emerging All Cap Equities	13.8	14.8	1.0
Asia	12.1	13.7	1.6
China	7.9	8.6	0.8
Asia (ex China)	4.2	5.0	0.8
EMEA	0.8	0.5	-0.3
LatAm	0.9	0.6	-0.3
Brazil	0.5	0.3	-0.2
LatAm ex Brazil	0.3	0.2	-0.1
Thematic Equities	0.0	7.0	7.0
Global Equity REITs	0.0	0.0	0.0
US Mortgage REITs	0.0	1.0	1.0
Global Healthcare	0.0	6.0	6.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Total	100.0	100.0	0.0

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD without Hedge Funds: Risk Level 5 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities, global fixed income, cash and gold are all at neutral position.

Within equities, developed large cap equities have an underweight position of -5.7% and developed small/mid cap equities have an underweight position of -2.3%. Emerging market equities have an overweight of +1.0%. Thematic equities have an overweight position of +7.0%.

Within fixed income, developed government debt, developed corporate investment grade, developed high yield and emerging market debt are all at neutral position.

# Asset Allocation Definitions

ASSET CLASSES	Benchmarked against
<b>Global equities</b>	MSCI All Country World Index, which represents 48 developed and emerging equity markets. Index components are weighted by market capitalization.
<b>Global bonds</b>	Bloomberg Barclays Capital Multiverse (Hedged) Index, which contains the government -related portion of the Multiverse Index, and accounts for approximately 14% of the larger index.
<b>Hedge funds</b>	HFRX Global Hedge Fund Index, which is designed to be representative of the overall composition of the hedge fund universe. It comprises all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage and relative value arbitrage. The strategies are asset-weighted based on the distribution of assets in the hedge fund industry.
<b>Commodities</b>	Dow Jones-UBS Commodity Index, which is composed of futures contracts on physical commodities traded on US exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME). The major commodity sectors are represented including energy, petroleum, precious metals, industrial metals, grains, livestock, softs, agriculture and ex-energy. The Thomson Reuters / Core Commodity Index is designed to provide timely and accurate representation of a long-only, broadly diversified investment in commodities through a transparent and disciplined calculation methodology.
<b>Cash</b>	Three-month LIBOR, which is the interest rates that banks charge each other in the international inter-bank market for three-month loans (usually denominated in Eurodollars).
<b>Equities</b>	
<b>Developed market large cap</b>	MSCI World Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure the equity market performance of the large cap stocks in 23 developed markets. Large cap is defined as stocks representing roughly 70% of each market's capitalization.
<b>All Country Ex US</b>	MSCI All Country ex US, which is free-float adjusted and weighted by market capitalization. The index is designed to measure the equity market performance of the large cap stocks in all countries excluding the US.
<b>US</b>	Standard & Poor's 500 Index, which 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.
<b>Europe ex UK</b>	MSCI Europe ex UK Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in each of Europe's developed markets, except for the UK
<b>UK</b>	MSCI UK Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in the UK
<b>Japan</b>	MSCI Japan Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in Japan.
<b>Asia Pacific ex Japan</b>	MSCI Asia Pacific ex Japan Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure the performance of large cap stocks in Australia, Hong Kong, New Zealand and Singapore.
<b>Developed market small and mid-cap (SMID)</b>	MSCI World Small Cap Index, which is a capitalization-weighted index that measures small cap stock performance in 23 developed equity markets.
<b>Emerging market</b>	MSCI Emerging Markets Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure equity market performance of 22 emerging markets.
<b>Bonds</b>	
<b>Developed sovereign</b>	Citi World Government Bond Index (WGBI), which consists of the major global investment grade government bond markets and is composed of sovereign debt, denominated in the domestic currency. To join the WGBI, the market must satisfy size, credit and barriers-to-entry requirements. In order to ensure that the WGBI remains an investment grade benchmark, a minimum credit quality of BBB-/Baa3 by either S&P or Moody's is imposed. The index is rebalanced monthly.
<b>Emerging sovereign</b>	Citi Emerging Market Sovereign Bond Index (ESBI), which includes Brady bonds and US dollar -denominated emerging market sovereign debt issued in the global, Yankee and Eurodollar markets, excluding loans. It is composed of debt in Africa, Asia, Europe and Latin America. We classify an emerging market as a sovereign with a maximum foreign debt rating of BBB+/Baa1 by S&P or Moody's. Defaulted issues are excluded.
<b>Supranationals</b>	Citi World Broad Investment Grade Index (WBIG)—Government Related, which is a subsector of the WBIG. The index includes fixed rate investment grade agency, supranational and regional government debt, denominated in the domestic currency. The index is rebalanced monthly.
<b>Corporate investment grade</b>	Citi World Broad Investment Grade Index (WBIG)—Corporate, which is a subsector of the WBIG. The index includes fixed rate global investment grade corporate debt within the finance, industrial and utility sectors, denominated in the domestic currency. The index is rebalanced monthly.
<b>Corporate high yield</b>	Bloomberg Barclays Global High Yield Corporate Index. Provides a broad-based measure of the global high yield fixed income markets. It is also a component of the Multiverse Index and the Global Aggregate Index.
<b>Securitized</b>	Citi World Broad Investment Grade Index (WBIG)—Securitized, which is a subsector of the WBIG. The index includes global investment grade collateralized debt denominated in the domestic currency, including mortgage -backed securities, covered bonds (Pfandbriefe) and asset-backed securities. The index is rebalanced monthly. Moody's Baa Corporate Bond Index is an investment bond index that tracks the performance of all bonds given a Baa rating by Moody's Investors Service.



BAML US Corporate index (Bank of America Merrill Lynch) tracks the performance of US dollar denominated investment grade rated corporate debt publically issued in the US domestic market.

## Other miscellaneous definitions

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**Asset Backed Securities (ABS)** A security whose income payments and hence value are derived from and collateralized (or "backed") by a specified pool of underlying assets such as consumer credit card debt or auto loans.

**Commercial Mortgage Backed Securities (CMBS)** Commercial mortgage-backed securities (CMBS) are a type of mortgage-backed security that is secured by mortgages on commercial properties, instead of residential real estate.

**High Yield Corporate Bonds (HY)** High yield corporate bonds are bonds with a credit rating less than BBB- (S&P) or Baa3 (Moody's), and are debt securities issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations.

**Investment Grade Corporate Bonds (IG)** Investment grade corporate bonds are bonds with a credit rating equal to or above BBB- (S&P) or Baa3 (Moody's), and are debt securities issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations.

**COVID-Cyclicals** Financials, Industrials, Energy, Materials, Real Estate, Consumer Discretionary ex-Amazon.

**COVID-Defensives** IT, Health Care, Communication Services, Consumer Staples, Utilities, Amazon.

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#### Bond rating equivalence

Alpha and/or numeric symbols used to give indications of relative credit quality. In the municipal market, these designations are published by the rating services. Internal ratings are also used by other market participants to indicate credit quality.

Bond credit quality ratings	Rating agencies		
	Moody's <sup>1</sup>	Standard and Poor's <sup>2</sup>	Fitch Ratings <sup>2</sup>
<b>Investment Grade</b>			
Highest quality	Aaa	AAA	AAA
High quality (very strong)	Aa	AA	AA
Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
<b>Not Investment Grade</b>			
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

<sup>1</sup> 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.

<sup>2</sup> The ratings from AA to CC by Standard and Poor's and Fitch Ratings may be modified by the addition of a plus or a minus to show relative standing within the category.

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Additionally, the underlying collateral supporting non-Agency MBS may default on principal and interest payments. In certain cases, this could cause the income stream of the security to decline and result in loss of principal. Further, an insufficient level of credit support may result in a downgrade of

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