Global Strategy: Quadrant



# Reflation and Uncertainty

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- "It's our dollar, but it's your problem," a former U.S. Treasury Secretary once explained. So it is again for global investors and policymakers. U.S. interest rate expectations are now on a higher and less predictable course given the prospect of a new round of U.S. fiscal easing.

- We see a high likelihood of U.S. corporate and personal income tax cuts implemented by mid-2017 by the new Trump administration. A deficit-financed infrastructure spending program is possible, but somewhat less probable given potential Congressional opposition.

- Trump's tax-and-spend campaign promises appear to represent a "high-risk, high-reward" gamble to accelerate U.S. growth. Given a revival in U.S. labor force growth, restrained import prices, and perhaps stronger productivity gains, Trump's fiscal plans have a chance of working as intended, at least for a time.

- Comparisons to Reagan have already been made. However, global asset prices are very different from what they were at the start of 1981. Inflation then was falling from a 14% rate and the U.S. dollar was at a generational low. By contrast, interest rates and inflation today are just beginning to rise from historical lows. The U.S. dollar already posted a large gain between 2011 and 2015. A further U.S. dollar surge from present levels is thus far from assured.

- "Announcement effects" from other large policy surprises suggest markets quickly price in a new outlook. Such effects may represent the larger part of any future asset market impact. Long-term U.S. interest rates have already jumped 45 basis points since November 8 and equity market sectors have seen a "violent" rotation.

- However, in light of the generally less predictable road ahead, as well as the probability of significant U.S. fiscal easing, the Citi Private Bank Global Investment Committee made several asset allocation changes to reduce overall portfolio risk again. These included a cut in global equities to -1.0% from neutral and steps to reduce duration in bond portfolios.

- We believe the U.K. referendum and U.S. presidential election highlight pending political risks in Europe, where inter-country cooperation is of greater financial consequence than elsewhere. The European political calendar over the coming twelve months will likely involve many rounds of apprehension and suspense.

# GIC November 17th – Summary

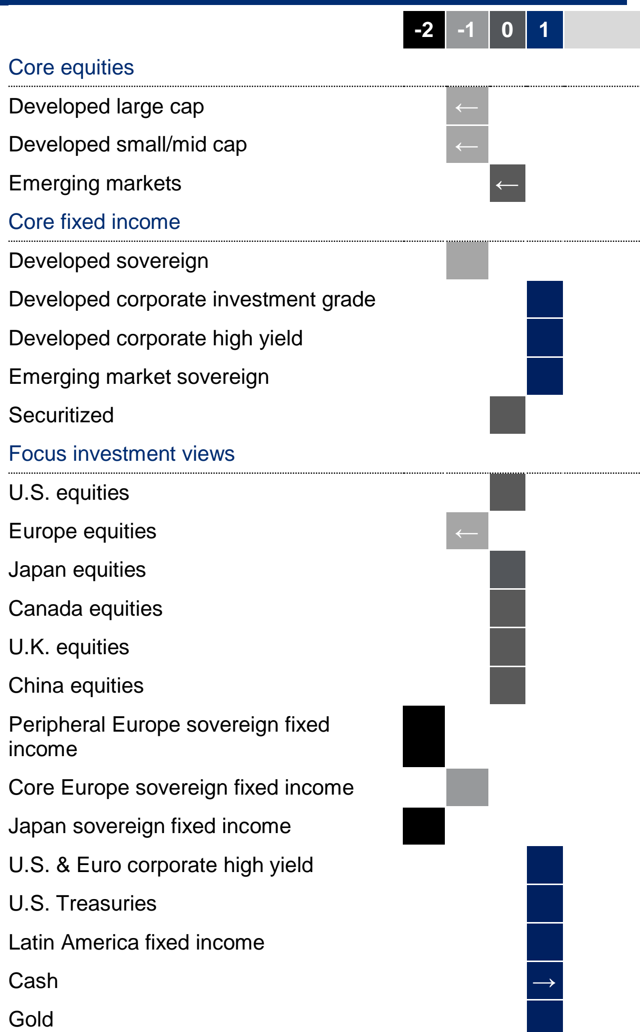
**The Citi Private Bank Global Investment Committee reduced its allocation to global equities from neutral to -1.0% adding to a tactical cash overweight position now at +1.5%. The GIC left its allocation to global fixed income at -1.0%, but reduced the duration of U.S. dollar fixed income portfolios to neutral with several changes to sub-sectors. The GIC left its allocation to U.S. equities at neutral, but cut its allocation to European equities (ex-U.K.) to underweight. In anticipation of some further U.S. dollar appreciation and interest rate pressures, we also reduced some Southeast Asian equity weightings.**

The election of Donald Trump with Republican control in the U.S. Congress creates a significantly less certain U.S. policy outlook compared to the gridlock that prevailed in recent years. While not certain, the unified government appears likely to succeed in passing sizeable U.S. corporate and personal income tax cuts. Increased U.S. infrastructure spending is also possible. These policies would represent a significant boost to U.S. growth, though likely no sooner than the second half of 2017. In contrast, possible disruptions to U.S. trade relationships, as discussed by then-candidate Trump, remain a downside risk for the world economy.

Fixed income markets have already moved to price in stronger U.S. growth, higher inflation and greater U.S. borrowing from the world. The U.S. dollar has risen sharply to a 13-year high.

So-called “announcement effects” have often accounted for the bulk of asset market movements on significant changes in expected policies. However, in our view, the probability of further increases in the U.S. dollar and concurrent global interest rate pressures has risen looking ahead.

## Asset Classes




Allocations as of November 17, 2016.
–2 = very underweight; –1 = underweight; 0 = neutral
1 = overweight; 2 = very overweight
Arrows indicate changes from previous GIC meeting.

With this in mind, we lowered the duration of U.S. investment grade corporate debt to neutral, while maintaining a significant overweight. We also reduced our allocation to U.S. municipal debt to neutral from overweight and added further to our overweight in short-term U.S. Treasuries as an alternative to cash. We maintain large underweights in government bonds in Europe and Japan.

US interest rate and currency pressures shocked emerging markets, with the largest hit to Latin America. However, we see valuations in the region as compelling and maintained overweights. The oil sector is likely to see no more than a temporary setback in its recovery. Conversely, we believe the U.K. referendum and U.S. presidential election highlight ongoing political risks in Europe, where inter-country cooperation is of greater financial importance than elsewhere. The long list of political hurdles over the coming year led us to reduce our equity allocation to underweight in the region.

# Reflation and Uncertainty

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**Like Brexit in the U.K, Trump's economic policies present substantial unknowns, both positive and negative risks for growth.**

Remember New York in the 1980s? If only we could gobble up inflation-ravaged assets and ride the great wave of plunging interest rates, falling taxes and a surging U.S. dollar once again.

Unfortunately for investors, the world economy and asset values are not configured the same way as when Ronald Reagan took office in January 1981, near the start of a great secular bull market.

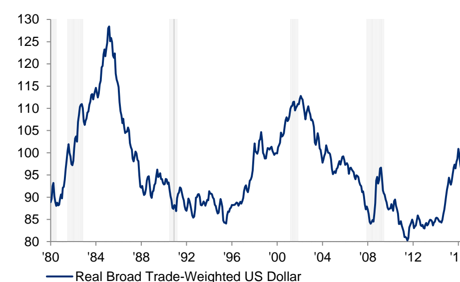
When "the Gipper" took office, the price/earnings multiple of the S&P 500 was 9 times compared to 18 times today. The U.S. 10-year Treasury yield was 11%. Inflation was 14% and on its way down. At the start of the Reagan administration, the top U.S. marginal tax rate was 70%. New York apartments traded at about one-eighth today's value per square foot, netting a price gain three times larger than the rise in U.S. inflation over the past 35 years.

The decline in inflation to 4.5% by the time Reagan left office, coupled with a far slower drop in interest rates, pushed up the U.S. dollar to a record high by 1985. This was followed by a multi-country agreement to weaken it reached at New York's Plaza Hotel – ironically, once owned by Donald Trump – in September of that year - **Figure 1** and **Figure 2**.

Figure 1: U.S. Inflation – CPI Y/Y%

Source: Bureau of Labor Statistics, National Bureau of Economic Research, as of October 2016.
Note: Shaded region denotes periods of recession as defined by the NBER.

Figure 2: Inflation-adjusted U.S. Trade-Weighted Dollar Index




Source: Bureau of Labor Statistics, National Bureau of Economic Research, as of October 2016.
Note: Shaded region denotes periods of recession as defined by the NBER.

Surely, Trump's tax and deregulation proposals are Reagan-esque. While we are unsure about how far the Republican Congress will go along with a large deficit-financed infrastructure spending plan, we see across-the-board tax cuts as more likely, and the larger part of any stimulus. "Permanent" U.S. personal income and corporate tax cuts would amount to near 3% of U.S. GDP under the latest pre-election Trump plan.

**It is possible that U.S. fiscal easing, just like the Fed's world-leading monetary stimulus of 2008, encourages others to do the same.**

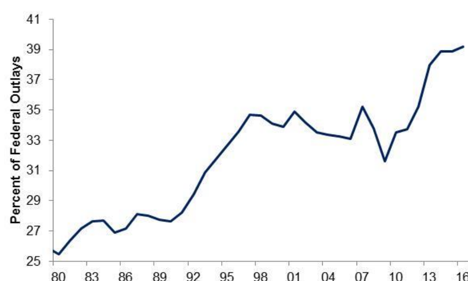
While not a certainty, sizeable tax cuts are likely to be implemented in the second half of 2017. The Republican-controlled Congress probably has few qualms about larger deficits if they result from a smaller tax-take from the private sector. The U.S. Congress may even succeed in "dynamically scoring" such a plan in budget forecasts to suggest that economic growth will limit any impact on future deficits and interest rates.

A "tax holiday" to repatriate retained corporate earnings held abroad at much-reduced rates is also likely, similar to the last such holiday in 2004/2005 (the "Homeland Investment Act" or HIA). While not a dominant factor, inflows from another HIA should add to upward pressure on the U.S. dollar heading into 2018, and limit some of the immediate inflationary impact of domestic stimulus so late in a U.S. recovery.

Unlike in 1981, however, inflation and interest rates in the U.S. are beginning to rise from very low levels, rather than falling from high levels. The U.S. fiscal position is not nearly as favorable looking forward as looking back – **Figure 3** and **Figure 4**.

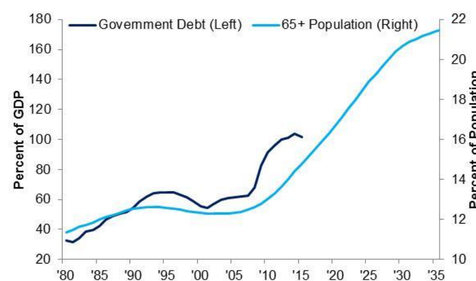
**While many Reagan comparisons will be made, asset values and exchange rates are remarkably different from where they were when Reagan took office.**

Figure 3: Social Security and Medicare Outlays as % of Federal Spending




Source: Haver Analytics as of November 16, 2016. Note: U.S. Social Security and Medicare spending is triggered at the age of 65.

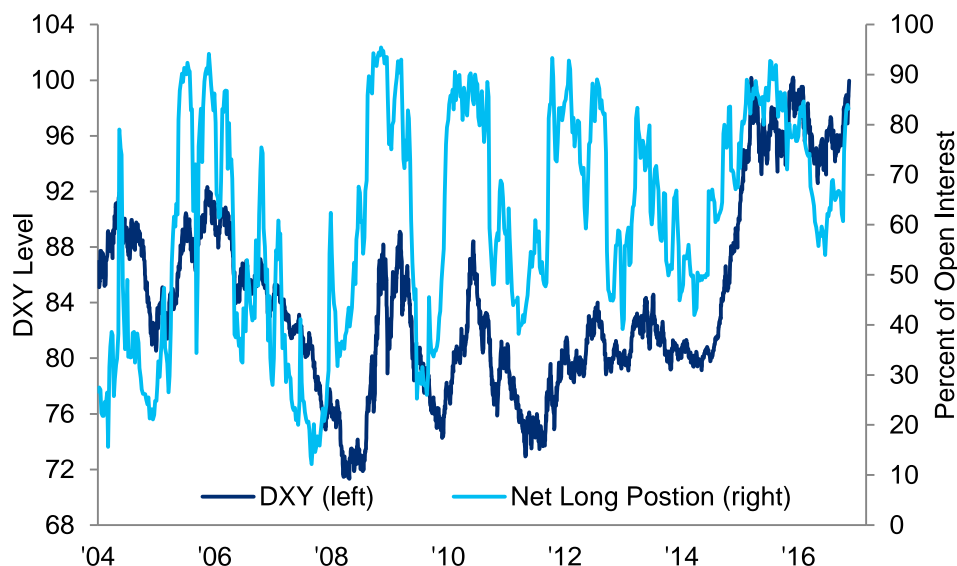
Figure 4: U.S. Government Debt % and Over 65 Population Share %




Source: Haver Analytics as of November 16, 2016. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

Unlike at the start of 1981, the U.S. dollar posted a significant historic gain from 2011-2016 already. Investors are already quite bullishly positioned in U.S. dollar assets - **Figure 5**. While the Federal Reserve is likely to tighten a bit more confidently if the projected Trump policy course plays out, we expect Fed tightening to lag behind inflation. A further U.S. dollar boom from present levels is far from assured.

Figure 5: U.S. dollar Index and Net Speculative Futures Long Positions as % of Open Interest




Note: Open interest is the sum of all long and short positions.

Source: Haver Analytics as of November 8, 2016. 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.

**A large fiscal stimulus late in the current recovery represents a high risk, high reward gamble to accelerate U.S. growth. It possibly may work.**

The Trump's campaign's tax and spending policies appear to represent a "high risk, high reward" gamble to accelerate U.S. growth. Using a U.S. football metaphor, it could be called a "hail Mary pass." Yet the risk of bust it presents would likely only follow if it achieves a boom.

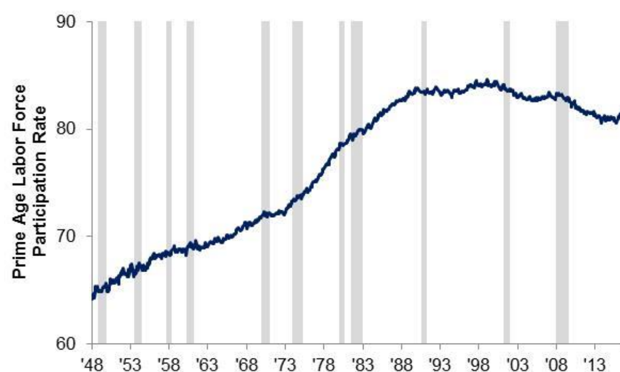
With our earlier caveats on long-term U.S. budget dynamics and worries about trade policy – see below – it is only fair to acknowledge Trump's fiscal plans have a chance of working as intended. As **figure 6** shows, the growth of the U.S. labor force has been weaker than demographics would imply in the U.S. economic recovery to date. Only in the past year has the U.S. labor force expanded convincingly. This made us increasingly optimistic about the U.S. outlook prior to the election – see our Mid-year Outlook 2016. The stronger policy incentives, including reduced taxes on labor income and business creation, could extend this trend.

Meanwhile, for a variety of reasons beyond our scope here, U.S. productivity growth in the recovery to date has been the weakest since the early 1980s - **figure 7**. While productivity growth is extraordinarily hard to predict, we can foresee a number of reasons why this ultra-slow trend should not continue.

Both labor force and productivity data may point to a strengthening in U.S. potential growth during a period when fiscal easing boosts demand. While repatriating foreign profits should work no better in 2017 than it did in 2005 in boosting U.S. investment spending, lower taxes on capital formation and reduced regulation could help move the needle, with so many incentives working in tandem.

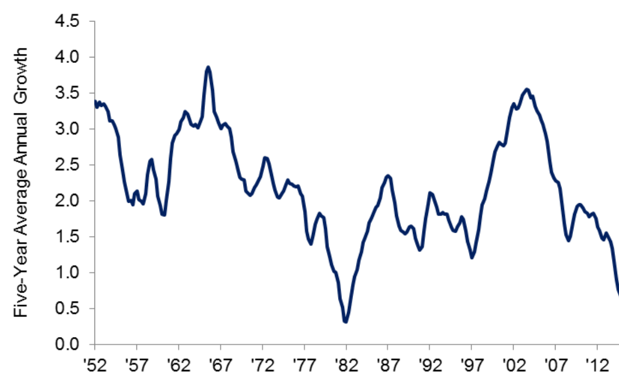
As usual, hard data are lacking to measure the impact of the election itself on the U.S. economy. U.S. consumer confidence readings in a week's time could be notable. Perhaps even more interesting, however, will be the small business confidence reading from the National Association of Independent Business on December 13. It would not surprise us to see a rise in small business spirits on the mere prospect of reduced healthcare contribution costs and promises of reduced regulation.

Figure 6: Prime Age Labor Force Participation




Note: Prime age is counted as 25-54.
Source: Haver Analytics as of November 14, 2016.

Figure 7: U.S. Productivity Growth (5-Year Average)




Source: Haver Analytics as of November 17, 2016.

## Brexit, Trump and Beyond

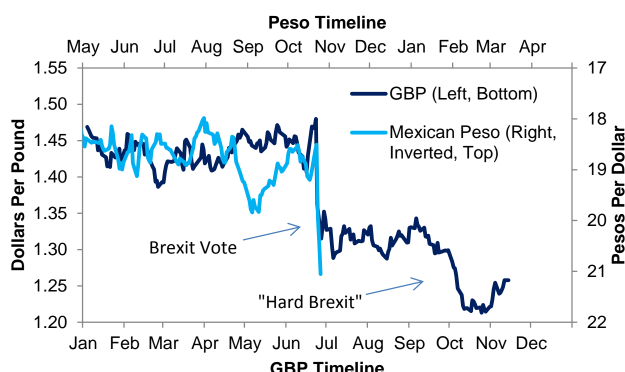
**The U.S. Presidential election and Brexit represent the same political movement. We should expect repeats elsewhere.**

We consider Brexit in the U.K. to be the same underlying, nativist political movement that elected Donald Trump. The U.K. Independence party's Nigel Farage and Donald Trump even campaigned together in the U.S. Depending on how this impact repeats itself in Europe, if it indeed does, investors should prepare for a tense year ahead, especially given the greater importance of political cooperation there for financial and economic stability.

In the case of Brexit, global investors looked at the sharp decline in Sterling as a buying opportunity. There were significant hopes that the divorce with the European Union (E.U.) would either not be implemented, or that the costs of leaving would be made negligible. However, when the May administration vowed three months later to keep the "Leave" campaign's promises to regain control over immigration from the E.U. – regardless of the consequences for London's finance sector – Sterling dropped another 8% after an initial decline of 10%. Fascinatingly, the Mexican peso has shown the same initial reaction as Sterling, although it was far more lowly valued than Sterling was to begin with – **figure 8**.

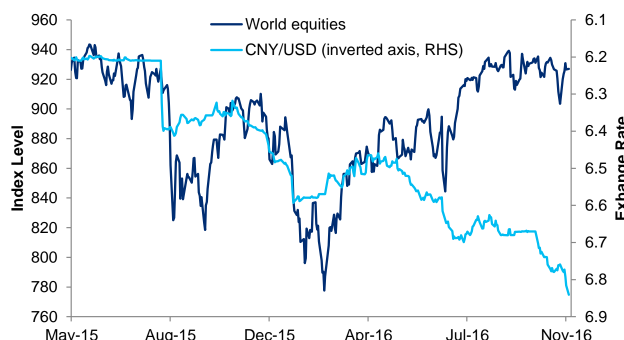
Amid the joy over prospects of fiscal easing, might President Trump not choose to keep any of the campaign promises that markets have feared? In the U.S. case, we are worried about a potentially acrimonious turn in relations with China – **figure 9**. Lurches in the course of Chinese devaluation coincided with global stock market corrections in both August 2015 and January 2016.

Figure 8: U.K. Pound and Mexican Peso (time lagged)




Source: Haver Analytics as of November 14, 2016.

Figure 9: Chinese Yuan/USD and Global Equities




Source: FactSet, The Yield Book, as of November 14, 2016. 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.

The two possible U.S. election outcomes differ not only in terms of policy, but also in terms of *predictability.* Assessing the outlook under a future Trump administration is not quite as simple as taking Obama/Clinton policy and adding tax cuts plus de-regulation – **figure 10**.

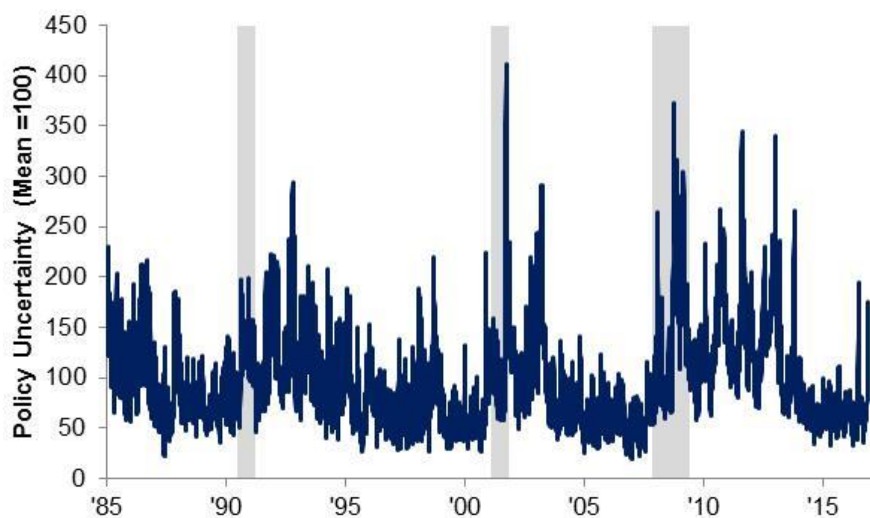
**"It's our dollar, but it's your problem." And so it is again.**

With this higher uncertainty in mind, the Citi Private Bank Global Investment Committee decided to make asset allocation changes once again in the direction of reducing risk. This included reducing the duration of U.S. bond portfolios to neutral. In equities, we reduced international exposures for reasons of both domestic politics (Europe) and concerns over U.S. interest rates (Southeast Asia). As Richard Nixon's Treasury Secretary once famously said, "it's our dollar, but it's your problem." And so it is again.

**Swiftly priced "announcement effects" could represent the bulk of the near-term move in interest rates and other asset prices with the election of Donald Trump.**

**However, we still choose to modestly reduce interest rate risk in our allocations.**

Figure 10: U.S. Policy Uncertainty Index (Seven Day Moving Average)

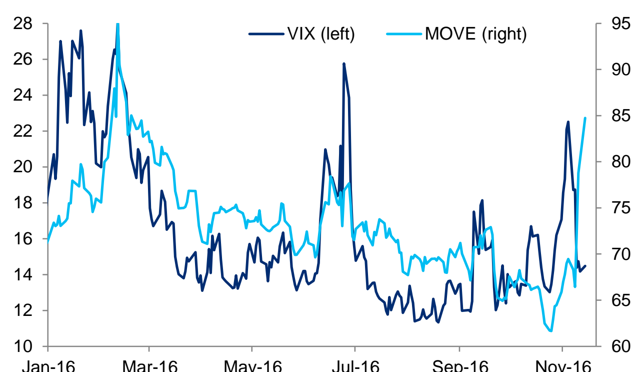



Source: Haver Analytics as of November 18, 2016.

As **figure 11** shows, expected U.S. interest rate volatility has jumped sharply while U.S. equities have remained calm. A violent sector rotation masks turmoil beneath the surface – **figure 12**.

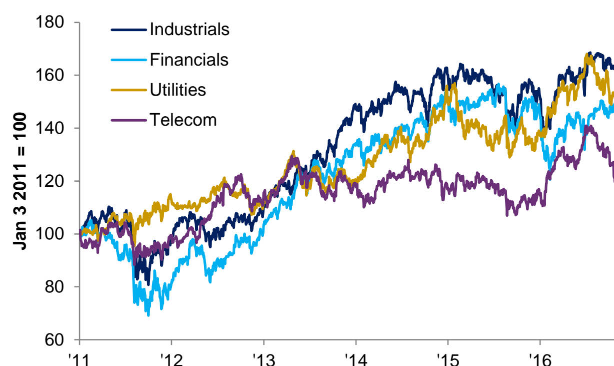
The divergence in expected volatility is unusual, and unlikely to continue without challenge. Higher rates simply must impact other asset classes at some point. While we don't expect to see "high" absolute interest rates or high rates of inflation, nearly all developed market asset valuations currently reflect *low for both*.

Figure 11: Implied U.S. Treasury Volatility vs U.S. Equity Volatility




Source: Haver Analytics as of November 14, 2016. 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.

Figure 12: S&P Economic Sectors: Strong Rotation




Source: Standard & Poor's, Citi Private Bank as of November 11, 2016. 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.

When we consider the extent of the sector rotation – positive for financials and industrials, negative for utilities and staples – and the *speed* at which rates have risen, we would note the tendency for well-functioning, efficient markets to make very large moves on announcement effects. As example, central banks have achieved the bulk of their market impact from quantitative easing simply by announcing policy changes, long before actually purchasing any assets. So it may prove with U.S. fiscal easing that will have to go through a tortured legislative process a half year or more from now.

**We reduce bond portfolio duration to neutral. It may also be time to consider hedging U.S.-dollar floating rate liabilities.**

However, with the likelihood of substantial fiscal easing late on into a U.S. recovery, we must consider inflationary consequences somewhat more seriously than we have in long time. Consider the challenge for asset allocation: in periods where high inflation and rising bond yields drove U.S. equity bear markets (1965-1984), the total return on long-term U.S. Treasuries was +0.4%. During those periods, U.S. equity declines averaged a drop of 27%. Since 1985 on the other hand, a period of disinflation, U.S. Treasury returns were +11.5% during the bear markets declines (-29% on average). In other words, asset markets tend to be uncorrelated in periods of low inflation, and more highly correlated when they are driven lower by the trend of destabilizing inflation.

Global interest rates were already trending modestly higher in advance of the U.S. election – see last month's Quadrant World Bond Market Exhales.. Ahead of the U.S. election, our underweight positions in most government bonds outside of the U.S. helped offset weakness elsewhere in the portfolio, such as our overweights in gold and

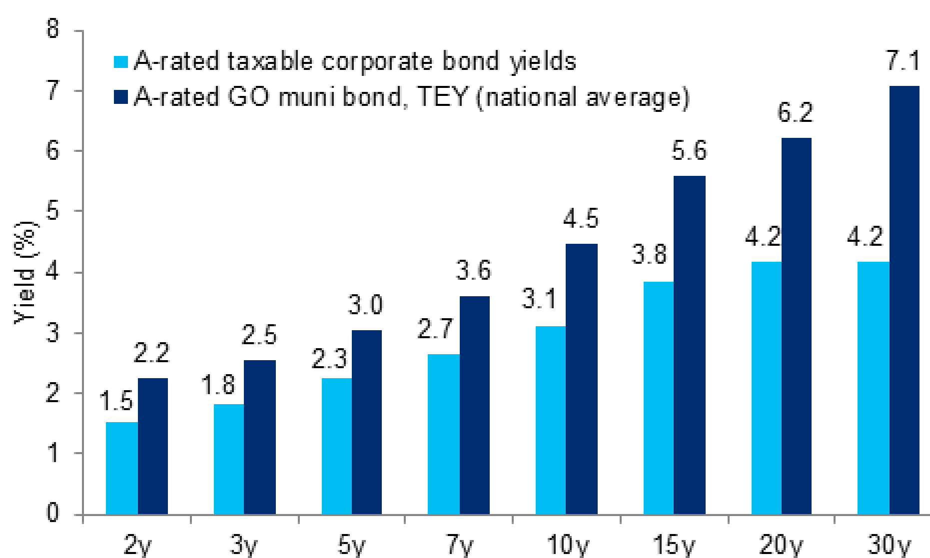
Latin American debt. While we believe U.S. yield premiums still offer an attractive opportunity for global investors, particularly corporate securities, we reduced portfolio duration to neutral, given the more uncertain interest rate outlook and consequently greater risk.

**A stronger U.S. dollar and higher rates has pushed down gold initially, but we maintain a small overweight in both gold and TIPs as an inflation hedge.**

Given the possibility of significant income tax cuts and a tightening of spreads to U.S. Treasuries, we also reduced the U.S. municipal debt weighting to neutral. For U.S. income tax payers, munis will still represent a core holding that can achieve a higher post-tax return than most comparably-rated corporates – figure 13. For investors able to take advantage of this tax differential, we still hold munis instead of corporates. Yet for other global investors, the municipal bond yield advantage to Treasuries has vanished.

Meanwhile, for those sensitive to U.S. floating interest rate liabilities, the new wider range of interest rate possibilities the new U.S. administration represents may well argue for hedging interest rate exposure going forward.

Figure 13: A-Rated Corporate Bonds and Municipal Bonds (Tax Equivalent Yield)




Note: Tax equivalent yields are calculated with current tax rates.

Source: Bloomberg as of November 17, 2016.

The U.S. dollar has rallied sharply on the prospect of U.S. stimulus – as well as consequently higher interest rates – and policies that "put U.S. interests first." At least over a short-term time frame, the reinvigorated dollar could continue to dampen U.S. inflation pressures, ironically by improving the trade competitiveness of imports – figure 14. However, we continue to hold small overweight positions in both gold and U.S. Treasury Inflation Protected Securities (TIPS) with a view to seeking compensation for a higher inflation rate.

Figure 14: Import Prices and the Trade-Weighted U.S. dollar

Source: Haver Analytics as of November 15, 2016.

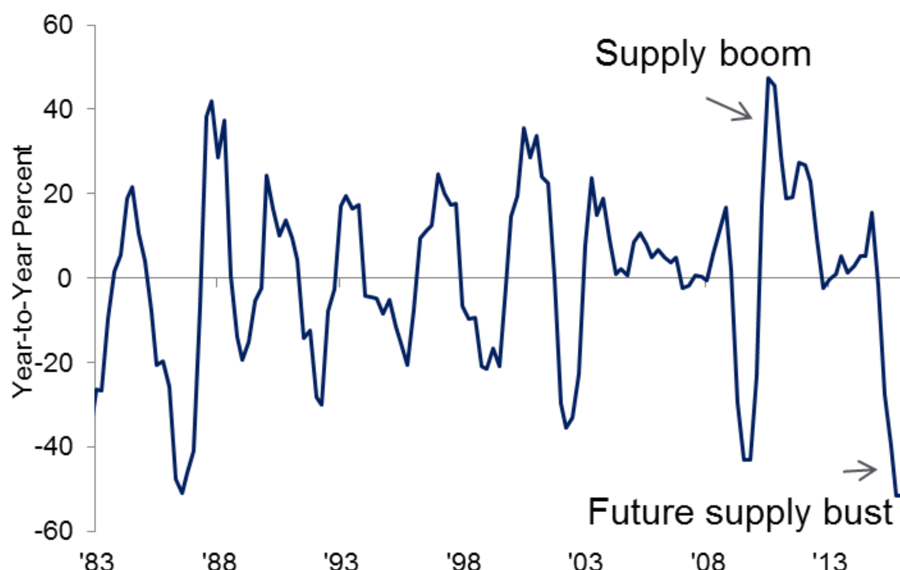
## Oil and Emerging Markets

**Profits, not "command decisions" will drive oil production in the U.S.**

The stronger U.S. dollar – as well as President-elect Trump's desire to seek the maximum U.S. energy production – represents a fresh challenge for the oil sector and closely-linked asset markets. However, we see it as a mere setback. Production decisions in the U.S. are quite different from those of state-owned producers elsewhere. The U.S. could gain a larger share of global oil markets under President Trump than under Obama/Clinton, and at a somewhat lower oil price. However, potential profits will still drive U.S. production and investment. With the fall in oil from $115 to a low of $27 at the start of 2016, U.S. and global petroleum industry investment has fallen 60% over two years – **figure 15**. The path of recovery may only be slowed marginally.

**Latin American asset markets made the largest drop within EM. Their valuation remains the best in EM.**

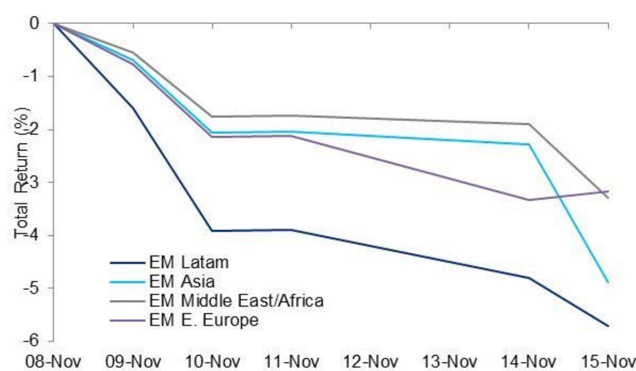
Figure 15: U.S. Capital Investment in Petroleum and Gas (inflation adjusted)




Source: Haver Analytics as of November 16, 2016.

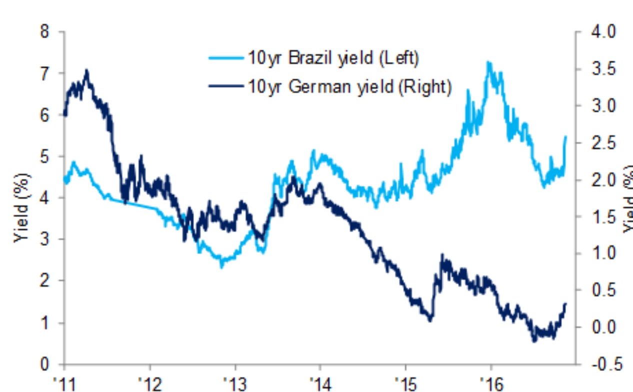
For commodity sensitive emerging markets, the story is the same. The spike in the U.S. dollar and interest rates has set back Latin American EM harder than other regions – **figure 16**. We now see a greater risk to the region, yet asset values are attractive after sharp declines from 2011-2015 – **figure 17**. In particular, Brazil's trade linkages to the U.S. are modest and local interest rates are competitive enough to attract savings inflows barring a very sharp rise in U.S. rates.

Figure 16: EM Bond Total Returns Since Election




Source: The Yield Book as of November 16, 2016. Past performance is no guarantee of future returns. Real results may vary.

Figure 17: German and Brazilian Sovereign Bond Yields




Source: Haver Analytics as of November 16, 2016.

The case of Mexico is now far riskier from a U.S. trade policy perspective. Yet Mexico's real effective exchange rate has already fallen to levels just below the advent of the North American Free Trade Agreement – **figure 18**. When political risks become clearer, or if the exchange rate overshoots further, the country's assets may present a future buying opportunity.

Figure 18: Mexican Peso (Real Effective Exchange Rate)

Source: Bloomberg as of November 16, 2016.

**For those tired of political uncertainty, Europe in particular offers no reprieve in 2017.**

Some Asian asset markets resisted the impact of the Trump-inspired U.S. dollar surge better than others. The same is true when looking at the longer period of U.S. dollar strength beginning in 2011. The richly-valued markets of Singapore, Philippines and Thailand are now small underweights as U.S. trade and exchange rate risks have risen.

Finally, the largest cut we have made is to European equities excluding the U.K. Valuations and monetary policy are supportive – **figure 19**. However, any repeat of the nativist, populist political victories in the Eurozone would have different consequences than in the U.S. or U.K. case. Mere questions over the durability of the monetary union can create market dislocations, as was seen in 2012. While it is possible that cohesion will hold for each and every Euro member, the European political calendar over the coming twelve months will likely herald many rounds of apprehension and suspense – **figure 20**.

Figure 19: Euro Stoxx Dividends and Euro IG Corporate Bond Yields

Source: Bloomberg as of November 16, 2016. 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.

Figure 20: Timeline of Key Elections and Signposts 2016-2018

Source: Citi Research and Bloomberg as of November 17, 2016.

# Portfolio allocations

This section shows the strategic and tactical allocations for Risk Levels 1 to 5 set by Citi Private Bank's Global Investment Committee on November 17, 2016. Recommend allocations reflect annual rebalancing and model revisions.

## Risk Level 1

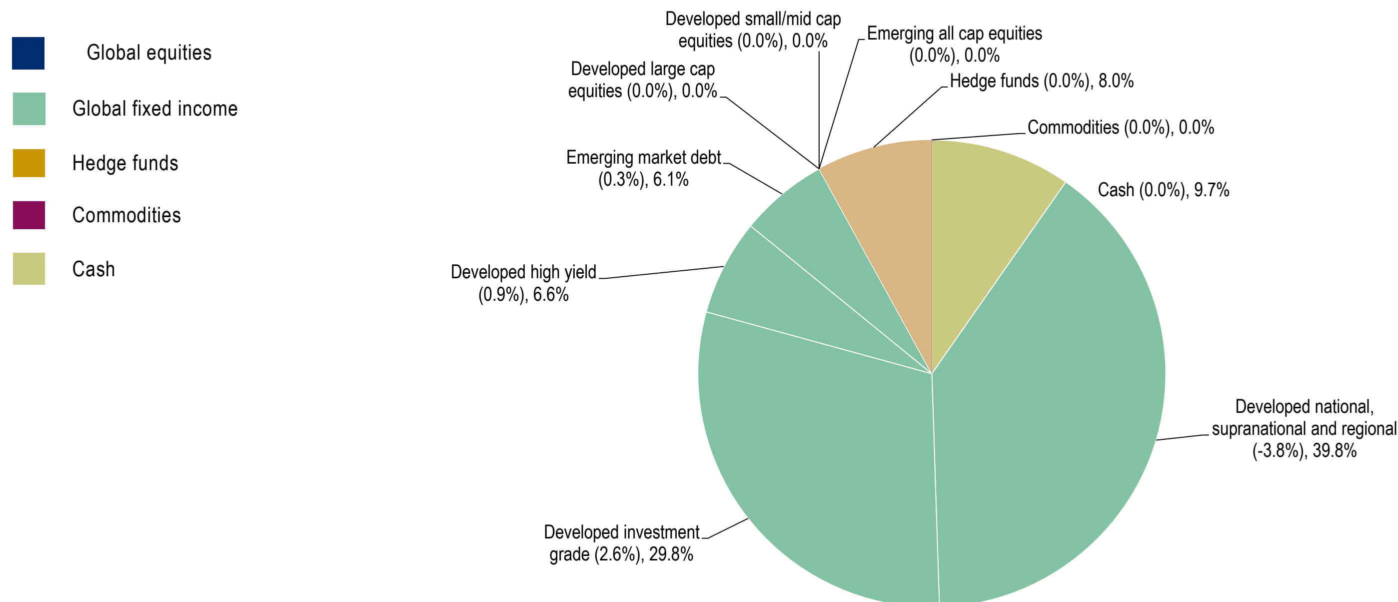
Risk Level 1 is designed for investors who have a preference for capital preservation and relative safety over the potential for a return on investment. These investors prefer to hold cash, time deposits and/or lower risk fixed income instruments.

| Classification | Strategic (%) | Tactical* (%) | Active (%) |
|---|---|---|---|
| Cash | 9.7 | 9.7 | 0.0 |
| Fixed income | 82.3 | 82.3 | 0.0 |
| Developed Investment Grade | 70.8 | 69.6 | -1.2 |
| Developed national, supranational and regional | 43.6 | 39.8 | -3.8 |
| Americas | 15.0 | 16.0 | 1.0 |
| EMEA | 18.0 | 16.0 | -2.0 |
| U.K. | 3.7 | 3.6 | -0.0 |
| Core Europe | 8.0 | 7.1 | -0.9 |
| Peripheral Europe | 5.8 | 4.8 | -0.9 |
| Others | 0.6 | 0.5 | -0.1 |
| Asia | 9.8 | 6.9 | -2.9 |
| Asia (ex Japan) | 0.3 | 0.4 | 0.1 |
| Japan | 9.5 | 6.5 | -3.0 |
| Supranational | 0.8 | 0.8 | 0.0 |
| Developed corporate investment grade | 27.2 | 29.8 | 2.6 |
| Americas | 19.4 | 21.8 | 2.4 |
| U.S. | 18.7 | 21.0 | 2.4 |
| Canada | 0.7 | 0.8 | 0.0 |
| EMEA | 7.7 | 7.9 | 0.2 |
| Europe (ex U.K.) | 5.9 | 6.0 | 0.1 |
| U.K. | 1.8 | 1.8 | 0.0 |
| Asia | 0.1 | 0.1 | 0.0 |
| Asia (ex Japan) | 0.1 | 0.1 | 0.0 |
| Japan | 0.0 | 0.0 | 0.0 |

| Classification | Strategic (%) | Tactical* (%) | Active (%) |
|---|---|---|---|
| Developed high yield | 5.8 | 6.6 | 0.9 |
| Americas | 4.4 | 4.9 | 0.4 |
| EMEA | 1.3 | 1.8 | 0.4 |
| Emerging market debt | 5.8 | 6.1 | 0.3 |
| Americas | 0.7 | 1.0 | 0.3 |
| EMEA | 0.7 | 0.7 | -0.0 |
| Asia | 4.4 | 4.5 | 0.1 |
| Equities | 0.0 | 0.0 | 0.0 |
| Developed Equities | 0.0 | 0.0 | 0.0 |
| Emerging Equities | 0.0 | 0.0 | 0.0 |
| Hybrid investments | 8.0 | 8.0 | 0.0 |
| Hedge funds | 8.0 | 8.0 | 0.0 |
| Real Assets | 0.0 | 0.0 | 0.0 |
| Commodities | 0.0 | 0.0 | 0.0 |
| Total | 100.0 | 100.0 | 0.0 |

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the GIC of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years. Minor differences may result due to rounding.

# Risk Level 1: tactical allocations




Figures in brackets are the difference versus the strategic benchmark

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. 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 commodities are all at neutral position.
- Within fixed income, developed sovereign continues to be the largest underweight at -3.8%. Developed corporate investment grade fixed income remains the largest overweight at +2.6% followed by high-yield at 0.9% overweight position.
- EM fixed income remains at a small overweight position of 0.3% with both Latin America and Asia debt in overweight positions.
- Within equities, both developed and EM equities remain at neutral allocation.

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# Risk Level 2

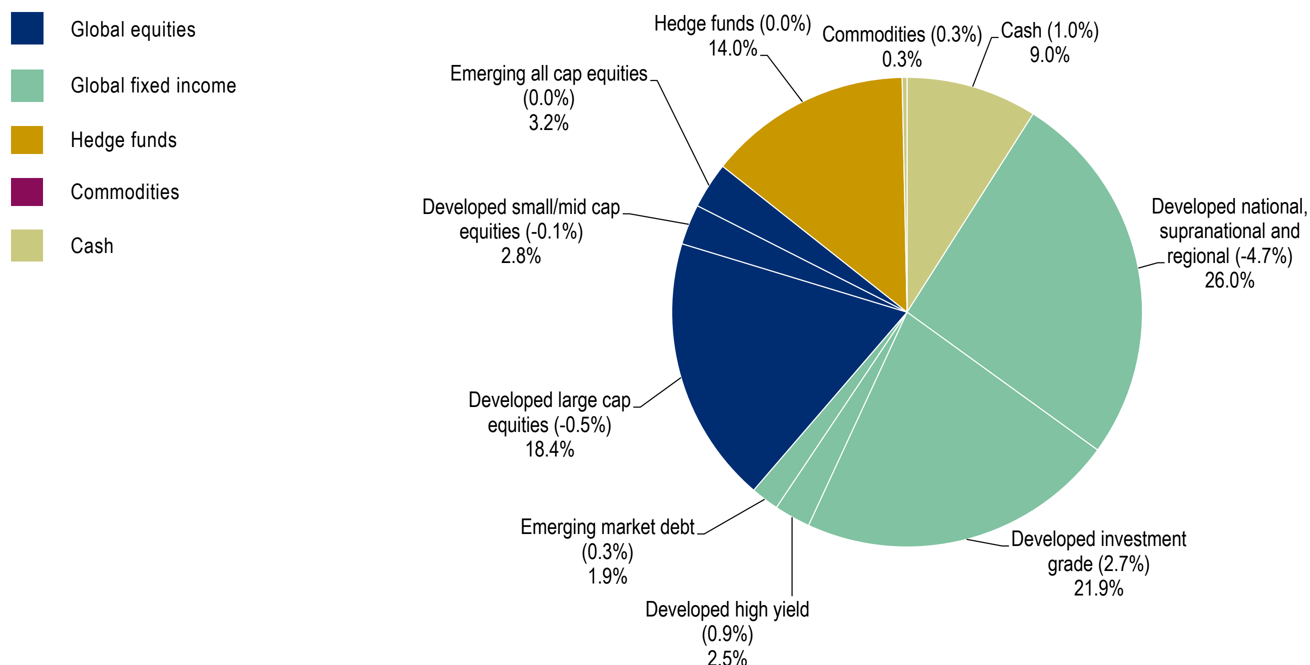
Risk Level 2 is designed for investors who emphasize capital preservation over return on investment, but who are willing to subject some portion of their principal to increased risk in order to generate a potentially greater rate of return on investment.

| Classification | Strategic (%) | Tactical* (%) | Active (%) |
|---|---|---|---|
| **Cash** | **8.0** | **9.0** | **1.0** |
| **Fixed income** | **53.0** | **52.3** | **-0.7** |
| **Developed Investment Grade** | **49.8** | **47.9** | **-1.9** |
| **Developed national, supranational and regional** | **30.6** | **26.0** | **-4.7** |
| **Americas** | **10.5** | **11.5** | **1.0** |
| **EMEA** | **12.7** | **10.3** | **-2.4** |
| U.K. | 2.6 | 2.5 | -0.1 |
| Core Europe | 5.6 | 4.6 | -1.1 |
| Peripheral Europe | 4.0 | 3.0 | -1.1 |
| Others | 0.4 | 0.3 | -0.2 |
| **Asia** | **6.9** | **3.6** | **-3.3** |
| Asia (ex Japan) | 0.2 | 0.3 | 0.1 |
| Japan | 6.7 | 3.3 | -3.4 |
| **Supranational** | **0.6** | **0.6** | **0.0** |
| **Developed corporate investment grade** | **19.1** | **21.9** | **2.7** |
| **Americas** | **13.6** | **16.3** | **2.6** |
| U.S. | 13.1 | 15.7 | 2.6 |
| Canada | 0.5 | 0.5 | 0.0 |
| **EMEA** | **5.4** | **5.5** | **0.1** |
| Europe (ex U.K.) | 4.1 | 4.2 | 0.1 |
| U.K. | 1.3 | 1.3 | 0.0 |
| **Asia** | **0.1** | **0.1** | **0.0** |
| **Developed high yield** | **1.6** | **2.5** | **0.9** |
| **Americas** | **1.2** | **1.8** | **0.5** |
| **EMEA** | **0.4** | **0.7** | **0.4** |
| **Emerging market debt** | **1.6** | **1.9** | **0.3** |
| **Americas** | **0.2** | **0.4** | **0.2** |
| **EMEA** | **0.2** | **0.2** | **0.0** |
| **Asia** | **1.2** | **1.4** | **0.2** |
| **Hybrid investments** | **14.0** | **14.0** | **0.0** |
| **Hedge funds** | **14.0** | **14.0** | **0.0** |
| **Real assets** | **0.0** | **0.3** | **0.3** |
| **Commodities** | **0.0** | **0.3** | **0.3** |

| Classification | Strategic (%) | Tactical* (%) | Active (%) |
|---|---|---|---|
| **Equities** | **25.0** | **24.4** | **-0.7** |
| **Developed Equities** | **21.8** | **21.2** | **-0.6** |
| **Developed large cap equities** | **18.9** | **18.4** | **-0.5** |
| **Americas** | **11.9** | **11.8** | **-0.2** |
| U.S. all | 11.3 | 11.1 | -0.2 |
| Canada | 0.7 | 0.6 | 0.0 |
| **EMEA** | **4.4** | **4.2** | **-0.2** |
| U.K. | 1.4 | 1.4 | 0.0 |
| Germany | 0.6 | 0.5 | -0.1 |
| France | 0.6 | 0.6 | -0.1 |
| Switzerland | 0.7 | 0.6 | 0.0 |
| Benelux | 0.3 | 0.3 | 0.0 |
| Scandi | 0.4 | 0.4 | 0.0 |
| Spain | 0.2 | 0.2 | 0.0 |
| Italy | 0.1 | 0.1 | 0.0 |
| Others | 0.1 | 0.1 | 0.0 |
| **Asia** | **2.5** | **2.5** | **-0.1** |
| Australasia | 0.5 | 0.5 | 0.0 |
| Far East ex Japan | 0.3 | 0.3 | 0.0 |
| Japan | 1.7 | 1.7 | 0.0 |
| **Developed small/ mid cap equities** | **2.9** | **2.8** | **-0.1** |
| **Americas** | **1.7** | **1.6** | **0.0** |
| **EMEA** | **0.8** | **0.7** | **-0.1** |
| Europe (ex U.K.) | 0.6 | 0.6 | 0.0 |
| U.K. | 0.2 | 0.1 | -0.1 |
| **Asia** | **0.4** | **0.4** | **0.0** |
| Asia (ex Japan) | 0.1 | 0.1 | 0.0 |
| Japan | 0.3 | 0.3 | 0.0 |
| **Emerging all cap equities** | **3.2** | **3.2** | **0.0** |
| **Americas** | **0.4** | **0.5** | **0.1** |
| Brazil | 0.2 | 0.2 | 0.0 |
| Mexico | 0.2 | 0.2 | 0.0 |
| Other | 0.1 | 0.1 | 0.1 |
| **EMEA** | **0.5** | **0.5** | **0.0** |
| Turkey | 0.1 | 0.1 | 0.0 |
| Russia and Eastern Europe | 0.2 | 0.2 | 0.0 |
| South Africa | 0.2 | 0.2 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 |
| **Asia** | **2.3** | **2.2** | **-0.1** |
| China | 0.7 | 0.7 | 0.0 |
| India | 0.4 | 0.4 | 0.0 |
| South Korea | 0.5 | 0.5 | 0.0 |
| Taiwan | 0.4 | 0.4 | 0.0 |
| Other Emerging Asia | 0.3 | 0.3 | -0.1 |
| **Total** | **100.0** | **100.0** | **0.0** |

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the GIC of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years. Minor differences may result due to rounding.

# Risk Level 2: tactical allocations




Figures in brackets are the difference versus the strategic benchmark

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core positions

- Global equities have an underweight position of -0.7% with global fixed income underweight maintained at -0.7%. Cash overweight is increased to +1.0%.
- Gold remains at a small overweight position of +0.3%.
- Within fixed income, developed sovereign remains the largest underweight at -4.7% and developed corporate investment grade the largest overweight at +2.7% followed by high-yield at +0.9%.
- Emerging market fixed income remains at an overweight position of 0.3% with both Latin America and Asia at overweight positions and EMEA at neutral allocation.
- Within equities, underweight in developed equities is increased to -0.6%.
- Emerging market equities are brought down to neutral position from slight overweight.

# Risk Level 3

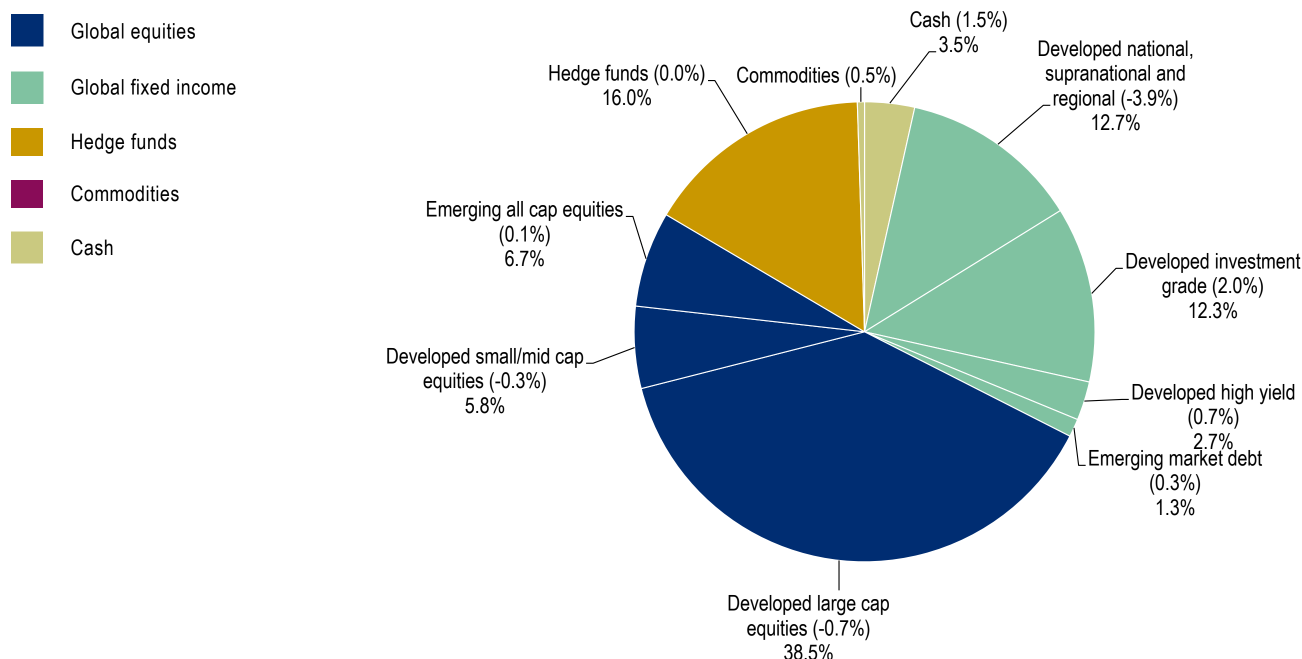
Risk Level 3 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. Risk Level 3 may be appropriate for investors willing to subject their portfolio to 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** | **3.5** | **1.5** |
| **Fixed income** | **30.0** | **29.0** | **-1.0** |
| **Developed Investment Grade** | **27.0** | **25.0** | **-2.0** |
| **Developed national, supranational and regional** | **16.6** | **12.7** | **-3.9** |
| **Americas** | **5.7** | **6.2** | **0.5** |
| **EMEA** | **6.9** | **4.9** | **-1.9** |
| U.K. | 1.4 | 1.3 | -0.1 |
| Core Europe | 3.0 | 2.2 | -0.9 |
| Peripheral Europe | 2.2 | 1.4 | -0.8 |
| Others | 0.2 | 0.1 | -0.1 |
| **Asia** | **3.7** | **1.2** | **-2.5** |
| Asia (ex Japan) | 0.1 | 0.2 | 0.1 |
| Japan | 3.6 | 1.0 | -2.6 |
| **Supranational** | **0.3** | **0.3** | **0.0** |
| **Developed corporate investment grade** | **10.4** | **12.3** | **2.0** |
| **Americas** | **7.4** | **9.4** | **2.0** |
| U.S. | 7.1 | 9.1 | 2.0 |
| Canada | 0.3 | 0.3 | 0.0 |
| **EMEA** | **2.9** | **2.9** | **0.0** |
| Europe (ex U.K.) | 2.2 | 2.2 | 0.0 |
| U.K. | 0.7 | 0.7 | 0.0 |
| **Asia** | **0.0** | **0.0** | **0.0** |
| **Developed high yield** | **2.0** | **2.7** | **0.7** |
| **Americas** | **1.6** | **1.9** | **0.3** |
| **EMEA** | **0.5** | **0.9** | **0.4** |
| **Emerging market debt** | **1.0** | **1.3** | **0.3** |
| **Americas** | **0.1** | **0.3** | **0.2** |
| **EMEA** | **0.1** | **0.1** | **0.0** |
| **Asia** | **0.8** | **0.9** | **0.1** |
| **Hybrid investments** | **16.0** | **16.0** | **0.0** |
| **Hedge funds** | **16.0** | **16.0** | **0.0** |
| **Real assets** | **0.0** | **0.5** | **0.5** |
| **Commodities** | **0.0** | **0.5** | **0.5** |

| Classification | Strategic (%) | Tactical* (%) | Active (%) |
|---|---|---|---|
| **Equities** | **52.0** | **51.0** | **-1.0** |
| **Developed Equities** | **45.3** | **44.3** | **-1.1** |
| **Developed large cap equities** | **39.3** | **38.5** | **-0.7** |
| **Americas** | **24.8** | **24.8** | **0.0** |
| U.S. all | 23.5 | 23.5 | 0.0 |
| Canada | 1.4 | 1.4 | 0.0 |
| **EMEA** | **9.1** | **8.6** | **-0.6** |
| U.K. | 3.0 | 3.0 | 0.0 |
| Germany | 1.2 | 1.0 | -0.2 |
| France | 1.3 | 1.1 | -0.2 |
| Switzerland | 1.4 | 1.3 | -0.1 |
| Benelux | 0.6 | 0.5 | 0.0 |
| Scandi | 0.8 | 0.8 | 0.0 |
| Spain | 0.4 | 0.4 | 0.0 |
| Italy | 0.3 | 0.2 | -0.1 |
| Others | 0.1 | 0.1 | 0.0 |
| **Asia** | **5.3** | **5.1** | **-0.1** |
| Australasia | 1.0 | 1.0 | 0.0 |
| Far East ex Japan | 0.7 | 0.6 | -0.1 |
| Japan | 3.6 | 3.6 | 0.0 |
| **Developed small/ mid cap equities** | **6.1** | **5.8** | **-0.3** |
| **Americas** | **3.5** | **3.5** | **0.0** |
| **EMEA** | **1.7** | **1.4** | **-0.3** |
| Europe (ex U.K.) | 1.3 | 1.2 | -0.1 |
| U.K. | 0.4 | 0.2 | -0.2 |
| **Asia** | **0.9** | **0.9** | **0.0** |
| Asia (ex Japan) | 0.2 | 0.2 | 0.0 |
| Japan | 0.7 | 0.7 | 0.0 |
| **Emerging all cap equities** | **6.7** | **6.7** | **0.1** |
| **Americas** | **0.8** | **1.1** | **0.3** |
| Brazil | 0.4 | 0.4 | 0.0 |
| Mexico | 0.3 | 0.3 | 0.0 |
| Other | 0.1 | 0.4 | 0.3 |
| **EMEA** | **1.0** | **1.0** | **0.0** |
| Turkey | 0.1 | 0.1 | 0.0 |
| Russia and | 0.4 | 0.4 | 0.0 |
| South Africa | 0.4 | 0.4 | 0.0 |
| Other | 0.1 | 0.1 | 0.0 |
| **Asia** | **4.8** | **4.6** | **-0.2** |
| China | 1.5 | 1.5 | 0.0 |
| India | 0.7 | 0.7 | 0.0 |
| South Korea | 1.0 | 1.0 | 0.0 |
| Taiwan | 0.8 | 0.8 | 0.0 |
| Other Emerging Asia | 0.7 | 0.5 | -0.2 |
| **Total** | **100.0** | **100.0** | **0.0** |

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the GIC of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years. Minor differences may result due to rounding.

# Risk Level 3: tactical allocations




Figures in brackets are the difference versus the strategic benchmark

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core positions

- Global equities are reduced to an underweight position of -1.0% from neutral with global fixed income underweight maintained at -1.0%. Cash is now at an increased overweight position of +1.5% with gold remained at a small overweight of 0.5%.
- Within fixed income, developed sovereign remains the largest underweight at -3.9%, with U.S. government debt at an overweight position. Developed corporate investment grade remains the largest overweight at +2.0% followed by high-yield at +0.7%.
- Emerging market fixed income remains at a small overweight position of +0.3% with both Latin America and Asia at overweight positions and EMEA at neutral allocation.
- Within equities, developed market equities are now at an increased underweight position of -1.1% driven by reduced position in Europe ex-U.K. equities.
- Overweight in Emerging equities is reduced to +0.1% driven by underweight in Asian equities.

# Risk Level 4

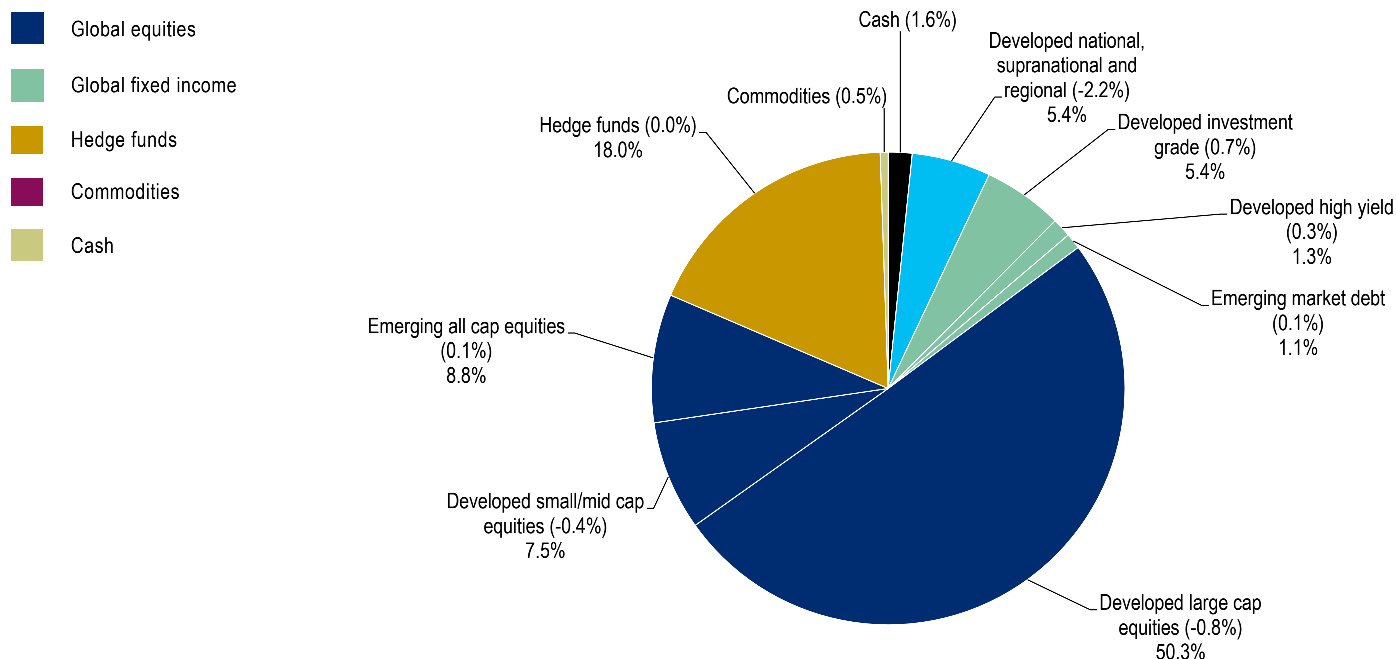
Risk Level 4 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. They are willing to subject a large portion of their portfolio to greater risk and market 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** | **0.0** | **1.6** | **1.6** |
| **Fixed income** | **14.3** | **13.2** | **-1.1** |
| **Developed Investment Grade** | **12.3** | **10.8** | **-1.5** |
| **Developed national, supranational and regional** | **7.6** | **5.4** | **-2.2** |
| **Americas** | **2.6** | **2.7** | **0.1** |
| **EMEA** | **3.1** | **2.1** | **-1.0** |
| U.K. | 0.6 | 0.6 | -0.1 |
| Core Europe | 1.4 | 0.9 | -0.5 |
| Peripheral | 1.0 | 0.6 | -0.4 |
| Others | 0.1 | 0.0 | -0.1 |
| **Asia** | **1.7** | **0.5** | **-1.2** |
| Asia (ex Japan) | 0.1 | 0.1 | 0.0 |
| Japan | 1.7 | 0.4 | -1.3 |
| **Supranational** | **0.1** | **0.1** | **0.0** |
| **Developed corporate investment grade** | **4.7** | **5.4** | **0.7** |
| **Americas** | **3.4** | **4.2** | **0.8** |
| U.S. | 3.2 | 4.0 | 0.8 |
| Canada | 0.1 | 0.1 | 0.0 |
| **EMEA** | **1.3** | **1.3** | **-0.1** |
| Europe (ex U.K.) | 1.0 | 1.0 | 0.0 |
| U.K. | 0.3 | 0.3 | 0.0 |
| **Asia** | **0.0** | **0.0** | **0.0** |
| **Developed high yield** | **1.0** | **1.3** | **0.3** |
| **Americas** | **0.8** | **0.9** | **0.1** |
| **EMEA** | **0.2** | **0.4** | **0.2** |
| **Emerging market debt** | **1.0** | **1.1** | **0.1** |
| **Americas** | **0.1** | **0.2** | **0.1** |
| **EMEA** | **0.1** | **0.1** | **0.0** |
| **Asia** | **0.8** | **0.7** | **0.0** |
| **Hybrid investments** | **18.0** | **18.0** | **0.0** |
| **Hedge funds** | **18.0** | **18.0** | **0.0** |
| **Real assets** | **0.0** | **0.5** | **0.5** |
| **Commodities** | **0.0** | **0.5** | **0.5** |

| Classification | Strategic (%) | Tactical* (%) | Active (%) |
|---|---|---|---|
| **Equities** | **67.7** | **66.6** | **-1.1** |
| **Developed Equities** | **59.0** | **57.8** | **-1.2** |
| **Developed large cap equities** | **51.1** | **50.3** | **-0.8** |
| **Americas** | **32.3** | **32.5** | **0.2** |
| U.S. all | 30.6 | 30.7 | 0.1 |
| Canada | 1.8 | 1.8 | 0.0 |
| **EMEA** | **11.9** | **11.1** | **-0.8** |
| U.K. | 3.9 | 3.9 | 0.0 |
| Germany | 1.5 | 1.3 | -0.2 |
| France | 1.7 | 1.5 | -0.2 |
| Switzerland | 1.8 | 1.7 | -0.1 |
| Benelux | 0.8 | 0.7 | -0.1 |
| Scandi | 1.0 | 1.0 | 0.0 |
| Spain | 0.6 | 0.5 | 0.0 |
| Italy | 0.4 | 0.3 | -0.1 |
| Others | 0.2 | 0.1 | 0.0 |
| **Asia** | **6.9** | **6.7** | **-0.2** |
| Australasia | 1.3 | 1.3 | -0.1 |
| Far East ex Japan | 0.9 | 0.7 | -0.1 |
| Japan | 4.7 | 4.7 | 0.0 |
| **Developed small/mid cap equities** | **7.9** | **7.5** | **-0.4** |
| **Americas** | **4.5** | **4.5** | **0.0** |
| **EMEA** | **2.3** | **1.8** | **-0.4** |
| Europe (ex U.K.) | 1.7 | 1.5 | -0.2 |
| U.K. | 0.6 | 0.3 | -0.3 |
| **Asia** | **1.1** | **1.2** | **0.0** |
| Asia (ex Japan) | 0.3 | 0.3 | 0.0 |
| Japan | 0.9 | 0.9 | 0.0 |
| **Emerging all cap equities** | **8.7** | **8.8** | **0.1** |
| **Americas** | **1.1** | **1.5** | **0.4** |
| Brazil | 0.5 | 0.5 | 0.0 |
| Mexico | 0.4 | 0.4 | 0.0 |
| Other | 0.2 | 0.5 | 0.4 |
| **EMEA** | **1.4** | **1.4** | **0.0** |
| Turkey | 0.1 | 0.1 | 0.0 |
| Russia and Eastern Europe | 0.6 | 0.6 | 0.0 |
| South Africa | 0.6 | 0.6 | 0.0 |
| Other | 0.1 | 0.1 | 0.0 |
| **Asia** | **6.2** | **6.0** | **-0.3** |
| China | 1.9 | 2.0 | 0.0 |
| India | 1.0 | 1.0 | 0.0 |
| South Korea | 1.4 | 1.4 | 0.0 |
| Taiwan | 1.1 | 1.1 | 0.0 |
| Other Emerging Asia | 0.9 | 0.6 | -0.3 |
| **Total** | **100.0** | **100.0** | **0.0** |

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the GIC of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years. Minor differences may result due to rounding.

# Risk Level 4: tactical allocations




Figures in brackets are the difference versus the strategic benchmark

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core positions

- Global equities are reduced to an underweight position at -1.1% from neutral with global fixed income underweight maintained at -1.1%. Cash overweight is increased to +1.6% with gold remained at an overweight position of 0.5%.
- Within fixed income, developed sovereign remains the largest underweight at -2.2% and developed corporate investment grade largest overweight at +0.7%.
- Both emerging debt and high yield fixed income remain at small overweight positions.
- Within equities, developed equities underweight is increased to -1.2% driven by underweight positions in Europe ex-U.K. equities, both large cap and small/mid cap.
- Emerging equities overweight is reduced to +0.1%.

# Risk Level 5

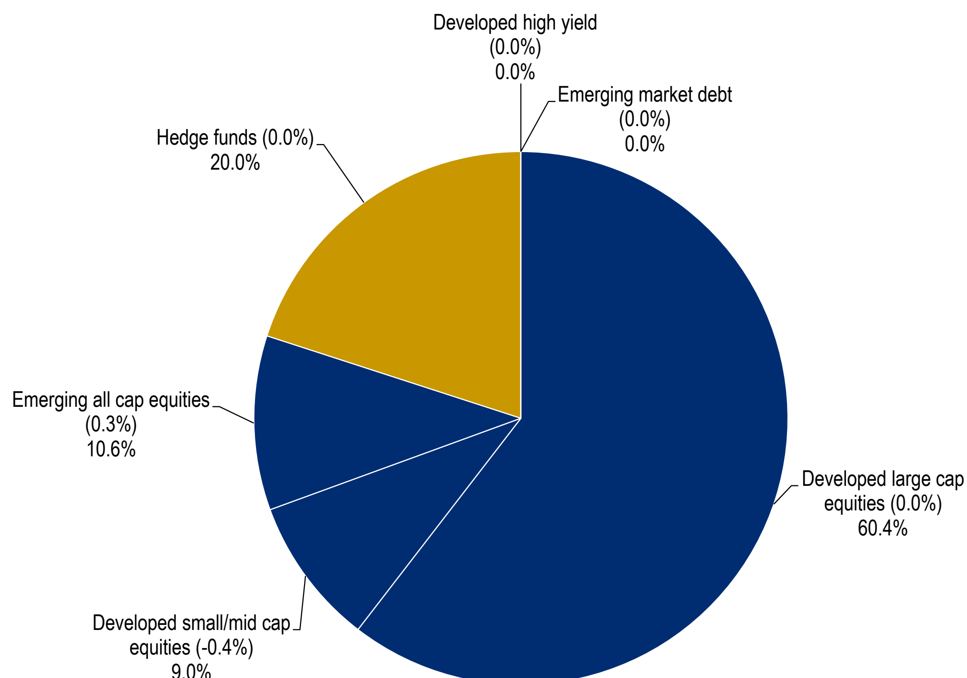
Risk Level 5 is designed for investors who emphasize return on investment. They are willing to subject their entire portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investments. Investors may have a preference for investments or trading strategies 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 |
| **Developed national, supranational and regional** | **0.0** | **0.0** | **0.0** |
| **Developed Corporate Investment Grade** | **0.0** | **0.0** | **0.0** |
| **Americas** | **0.0** | **0.0** | **0.0** |
| **EMEA** | **0.0** | **0.0** | **0.0** |
| Europe (ex U.K.) | 0.0 | 0.0 | 0.0 |
| U.K. | 0.0 | 0.0 | 0.0 |
| **Asia** | **0.0** | **0.0** | **0.0** |
| Asia (ex Japan) | 0.0 | 0.0 | 0.0 |
| Japan | 0.0 | 0.0 | 0.0 |
| **Developed high yield** | **0.0** | **0.0** | **0.0** |
| **Americas** | **0.0** | **0.0** | **0.0** |
| **EMEA** | **0.0** | **0.0** | **0.0** |
| **Asia** | **0.0** | **0.0** | **0.0** |
| **Emerging market debt** | **0.0** | **0.0** | **0.0** |
| **Americas** | **0.0** | **0.0** | **0.0** |
| **EMEA** | **0.0** | **0.0** | **0.0** |
| **Asia** | **0.0** | **0.0** | **0.0** |
| **Equities** | **80.0** | **80.0** | **0.0** |
| **Global Developed Equities** | **69.8** | **69.4** | **-0.3** |
| **Developed large cap equities** | **60.4** | **60.4** | **0.0** |
| **Americas** | **38.2** | **39.1** | **0.9** |
| U.S. all | 36.1 | 36.9 | 0.8 |
| Canada | 2.1 | 2.1 | 0.0 |
| **EMEA** | **14.1** | **13.3** | **-0.7** |
| U.K. | 4.6 | 4.7 | 0.1 |
| Germany | 1.8 | 1.6 | -0.3 |
| France | 2.0 | 1.8 | -0.3 |
| Switzerland | 2.2 | 2.1 | -0.1 |
| Benelux | 0.9 | 0.9 | -0.1 |
| Scandi | 1.2 | 1.2 | 0.0 |
| Spain | 0.7 | 0.6 | 0.0 |
| Italy | 0.5 | 0.3 | -0.1 |
| Others | 0.2 | 0.2 | 0.0 |

| Classification | Strategic (%) | Tactical* (%) | Active (%) |
|---|---|---|---|
| **Asia** | **8.1** | **8.1** | **-0.1** |
| Australasia | 1.6 | 1.5 | 0.0 |
| Far East ex Japan | 1.0 | 0.8 | -0.2 |
| Japan | 5.6 | 5.7 | 0.1 |
| **Developed small/mid cap equities** | **9.4** | **9.0** | **-0.4** |
| **Americas** | **5.3** | **5.4** | **0.1** |
| **EMEA** | **2.7** | **2.2** | **-0.5** |
| Europe (ex U.K.) | 2.0 | 1.8 | -0.2 |
| U.K. | 0.7 | 0.3 | -0.3 |
| **Asia** | **1.4** | **1.4** | **0.0** |
| Asia (ex Japan) | 0.3 | 0.3 | 0.0 |
| Japan | 1.0 | 1.1 | 0.0 |
| **Emerging all cap equities** | **10.2** | **10.6** | **0.3** |
| **Americas** | **1.3** | **1.8** | **0.5** |
| Brazil | 0.6 | 0.6 | 0.0 |
| Mexico | 0.5 | 0.5 | 0.0 |
| Other | 0.2 | 0.7 | 0.5 |
| **EMEA** | **1.6** | **1.6** | **0.0** |
| Turkey | 0.2 | 0.2 | 0.0 |
| Russia and Eastern Europe | 0.7 | 0.7 | 0.0 |
| South Africa | 0.7 | 0.7 | 0.0 |
| Other | 0.1 | 0.1 | 0.0 |
| **Asia** | **7.4** | **7.2** | **-0.2** |
| China | 2.3 | 2.4 | 0.1 |
| India | 1.1 | 1.2 | 0.0 |
| South Korea | 1.6 | 1.6 | 0.0 |
| Taiwan | 1.3 | 1.3 | 0.0 |
| Other Emerging Asia | 1.0 | 0.7 | -0.3 |
| **Hybrid investments** | **20.0** | **20.0** | **0.0** |
| **Hedge funds** | **20.0** | **20.0** | **0.0** |
| **Real assets** | **0.0** | **0.0** | **0.0** |
| **Commodities** | **0.0** | **0.0** | **0.0** |
| **Gold** | **0.0** | **0.0** | **0.0** |
| **Total** | **100.0** | **100.0** | **0.0** |

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the GIC of the Citi Private Bank. Minor differences may result due to rounding.

# Risk Level 5: tactical allocations




Figures in brackets are the difference versus the strategic benchmark

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core positions

- Developed equities are at small underweight position of -0.3% and emerging equities at small overweight position of +0.3%.
- Underweight in developed equities are driven by underweight EMEA equities, both large cap and small/mid cap.
- Within emerging equities, Latin American equities remain at +0.5% overweight position with EMEA at neutral allocation.

# Asset allocation definitions

| Asset classes | Benchmarked against |
|---|---|
| Global equities | MSCI All Country World Index, which represents 48 developed and emerging equity markets. Index components are weighted by market capitalization. |
| Global bonds | Barclays Capital Multiverse (Hedged) Index, which contains the government -related portion of the Multiverse Index, and accounts for approximately 14% of the larger index. |
| Hedge funds | 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. |
| Commodities | Dow Jones-UBS Commodity Index, which is composed of futures contracts on physical commodities traded on U.S. 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.<br>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. |
| Cash | 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). |
| **Equities** | |
| Developed market large cap | 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. |
| US | 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 U.S. economy. Although the S&P 500 focuses on the large cap segment of the market, with over 80% coverage of U.S. equities, it is also an ideal proxy for the total market. |
| Europe ex U.K. | MSCI Europe ex U.K. 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 U.K. |
| U.K. | MSCI U.K. 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 U.K. |
| Japan | 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. |
| Asia Pacific ex Japan | 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. |
| Developed market small and mid-cap (SMID) | MSCI World Small Cap Index, which is a capitalization-weighted index that measures small cap stock performance in 23 developed equity markets. |
| Emerging market | 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. |
| **Bonds** | |
| Developed sovereign | 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. |
| Emerging sovereign | Citi Emerging Market Sovereign Bond Index (ESBI), which includes Brady bonds and U.S. 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. |
| Supranationals | 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. |
| Corporate investment grade | 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. |
| Corporate high yield | 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. |
| Securitized | 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. |

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