Global Strategy: Quadrant

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Fast and Furious

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- Politics may be turning the US into an ideological battleground. Nonetheless, US corporate profits were already hitting record highs in 4Q 2016 before any potential corporate income tax cuts in 2017 or any macroeconomic stimulus measures. As such, we maintain a full investment allocation to US equities even as valuations have risen in anticipation of an acceleration in economic growth.

- Now that Trump policies are moving from rhetoric to reality, investors need to discern which actions are likely to drive political firestorms versus those with more concrete economic and financial impact.

- Tax cuts remain the most likely major early action with unified Republican control of government. However, the timeline for passage and important details are still very much in question.

- A Border Adjustment Tax (BAT) of some form is likely to be included in early Congressional tax reform proposals, but President Trump has suggested that it is too complicated. The proposal faces major domestic opposition from the business community.

- The chance of a trade war from either a BAT or aggressive renegotiation of standing trade agreements remains a risk but in our view significantly less certain than the stimulative effect of tax relief and deregulation.

- Tactical opportunities will likely present themselves in 2017 as country, sector and company winners and losers from tax reform and trade policy come into focus.

- **China:** Growth has recovered, but China faces somewhat tighter macro policies. Chinese policymakers will likely prioritize stability ahead of the 19th Party Congress, particularly in currency and debt, limiting risks of a spillover.

- **Europe:** Economic fundamentals appear stronger for 2017, with improving growth, loose monetary policy and slow inflation forecast. However, political risks threaten asset price volatility, suggesting large tail risks. The uncertainty may present tactical opportunities in the year ahead.

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GIC February 16th

The Citi Private Bank Global Investment Committee left its asset allocation unchanged today, overweighting US dollar assets while keeping a small tactical overweight in both cash and gold. We continue to assess investment opportunities amid fast-changing market valuations and speculation over new policies.

The allocation to global equities remains at -1.0% and fixed income -1.0%. Within this allocation, we maintained a neutral (full) allocation to US equities, an overweight to US credit and to select emerging markets fixed income. These allocations have all provided solid returns so far this year. We maintained large underweights in European and Japanese government bonds where returns have been negative thus far in 2017.

In international equities markets, we see currency depreciation hampering potential returns measured in US dollars over the next 12-18 months. This reflects an expected diverging path for US monetary policy from other central banks, and potential US fiscal policy steps that could bear directly on exchange rates. Nonetheless, most international equity markets have rallied in the year-to-date. While we maintain full investment allocations to emerging market equities, we continue to favor those linked to the petroleum recovery over those that appear vulnerable to higher US interest rate.

European sovereign credit risks have re-emerged this year amid some populist-led election campaigns. While yields remain low, European sovereign bonds have suffered losses even as the Euro remains firm. Political outcomes could determine the outlook for European equities. Valuations remain favorable, corporate earnings are recovering, and the moderate economic recovery in the Eurozone appears entrenched. This suggests the potential for outperformance if political risks fail to materialize. However, implied volatility (on the risks to Eurozone cohesion) appears underpriced at the moment.

After the Fed raised short-term US interest rates a mere 0.5% over the course of two years, emerging Asia may also be challenged by a somewhat more conventional path of tightening by the US central bank in 2017. However, the stabilization of China's economy and its efforts toward a smooth political transition ahead of the 19th National Congress this autumn may help the region's markets.

Asset Classes

	-2	-1	0	1	2
Core equities					
Developed large cap		■			
Developed small/mid cap		■			
Emerging markets			■		
Core fixed income					
Developed sovereign		■			
Developed corporate investment grade				■	
Developed corporate high yield				■	
Emerging market sovereign				■	
Securitized			■		
Focus investment views					
US equities			■		
Europe equities		■			
Japan equities			■		
Canada equities			■		
U.K. equities			■		
China equities			■		
Peripheral Europe sovereign fixed income	■				
Core Europe sovereign fixed income		■			
Japan sovereign fixed income	■				
US Treasuries				■	
Latin America fixed income				■	
Cash				■	
Gold				■	

Allocations as of February 16, 2017.
–2 = very underweight; –1 = underweight; 0 = neutral
1 = overweight; 2 = very overweight

Arrows indicate changes from previous GIC meeting.

Latin America has continued to make progress after a multi-year collapse in commodities and currencies, and we continue to see solid opportunities in the region's fixed income and equities. A sole performance exception has been Mexico which saw a severe currency market revaluation after the 2016 US election. While political and economic risks remain, we would advise international investors to avoid underweight positions in Mexican assets with the peso now at a multi-decade inflation-adjusted low.

We continue to see long-term US yields contained by low developed market sovereign bond yields elsewhere. While US credit market valuations have risen significantly, yields remain globally appealing.

Looking ahead, the GIC will weigh prospective returns for various regional equities markets after the seasonally-strong winter performance period has passed and as important details on planned US fiscal reforms come to light.

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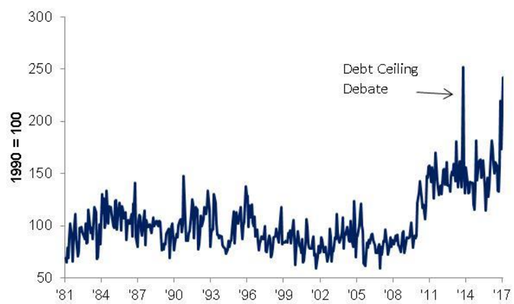
Watching the news, it will appear that the US has become an ideological battleground, dragging much of the planet earth with it. To avoid "arguing over argument," we cite the Federal Reserve Bank of Philadelphia's "Partisan Conflict Index" as evidence. The series has spiked to the highest level since the US debt-ceiling standoff of 2013 (**see figure 1**). The measure merely tracks disputes between US lawmakers, not the wider public discord over controversial policies. Notably, the latest observation in figure 1 merely reflects the opening days of the new Congress and Trump Administration in January.

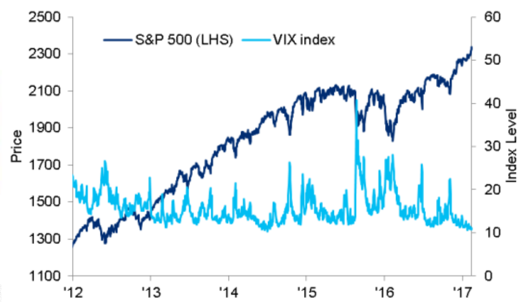
At the same time, share prices have been on a tear, and expected volatility has fallen back toward historic lows (see figure 2). This is despite the historical proclivity for policy uncertainty to reduce the confidence of investors.

Figure 1: US "Partisan Conflict" Index



Source: Federal Reserve Bank of Philadelphia, Haver Analytics, as of February 14, 2017.

Figure 2: S&P 500 and VIX Index



Source: Haver Analytics, as of February 14, 2017.

Note: The VIX is the Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

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.

Mere Noise or Consequence

Hot emotions from political conflict call for a step back to dispassionately assess prospects.

At times of political conflict, we see it as particularly important to separate emotion from analysis in investment decisions. To help us do so, we looked back at our September 2016 election white-paper to assess how we then saw the prospects for a Trump Presidency, which, relying on polling data, we and most others failed to predict (see our election whitepaper).

Pre-election, we saw a set of **two growth negatives and two growth positives** if Trump led a unified Republican US government:

1) "Trump tax and investment policies could stimulate US growth," we said then. We would add deregulation as a theoretically strong growth positive, though not without risk (see our January *Quadrant* called Now, About Those Promises... and further comments below).

2) We said "disruptions to trade – impacting both domestic production and activity abroad – appear(s) to be the largest obvious economic risk." We also cited changes in the mobility of human capital through legal and illegal immigration as a potential disruptor.

Investors crave clarity on the growth outlook, but the likely Trump policy implications remain the same as they were pre-election.

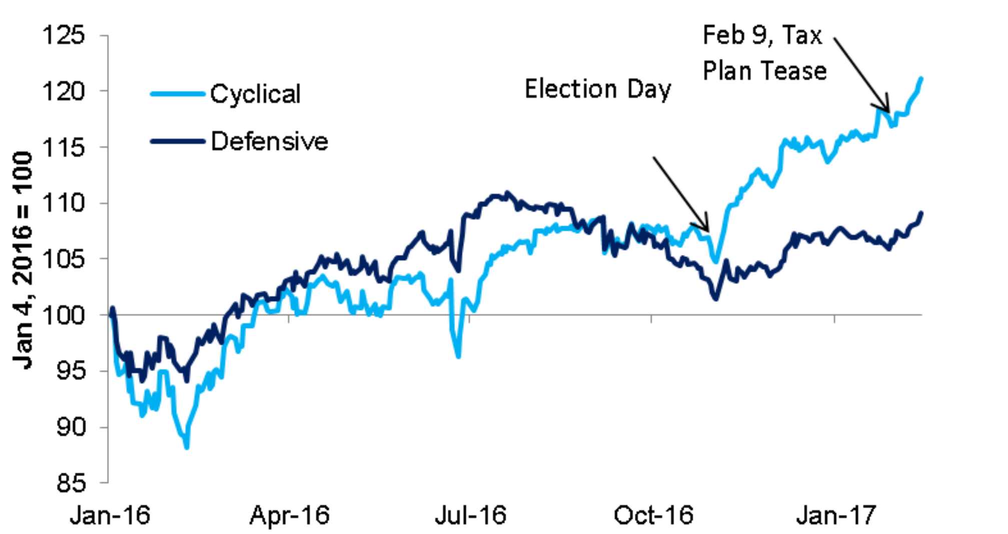
Today, investors yearn for simple clarity in the US growth outlook. Yet **the contrast between the positives and negatives above remains the same.** We continue to see tax reforms effectively easing US fiscal policy and deregulation as highly likely. Yet to a less certain extent, financial markets also face concerns over trade wars and disruptions to the mobility of capital and human resources (please see our Outlook 2017 and our discussion below for more).

Yes, Tax Cuts are Coming

Markets have focused on comments about tax relief, but the White House and House Speaker Ryan have signaled very different time tables.

On February 9, President Trump reinvigorated growth expectations - so called "Trump Trades" - with a promise of a tax reform announcement "in two or three weeks" (see figure 3). Earlier, House Speaker Paul Ryan suggested legislative action in 200 days. One is forced to speculate if this period will bring doubts, distractions, or unmitigated confidence in the tax plan.

Figure 3: US "Cyclical" and "Defensive" Stock Price Indexes



Source: FactSet and MSCI, as of February 15, 2017.

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In the end, we have confidence that US tax reductions will be among the many policy options that will pass in Congress (corporate and personal tax cuts).

The well-established recovery in energy is enough to boost 2017 EPS growth significantly, even before the effect of any new tax policy is added in.

For US equities, EPS already grew nearly 6% in the final quarter of 2016 as the energy sector recession ended. EPS gains as least as large should be expected in 2017 prior to any tax-related boost of uncertain magnitude and timing. While US equities have already rallied in anticipation of a likely economic acceleration, we maintain the full allocation to US equities given the likely positive course for earnings (see figure 4-5)

Figure 4: S&P 500 and US Industrial Production Y/Y%

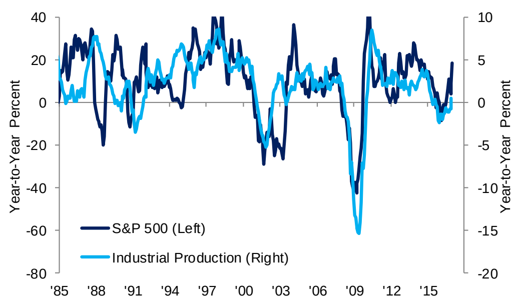
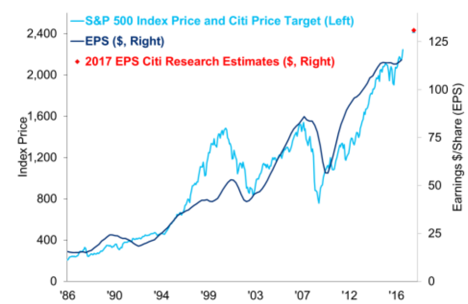


Figure 5: S&P 500 Index, EPS and Consensus EPS estimate



Source: Thompson Reuters, FactSet and Haver Analytics as of January 26, 2017.

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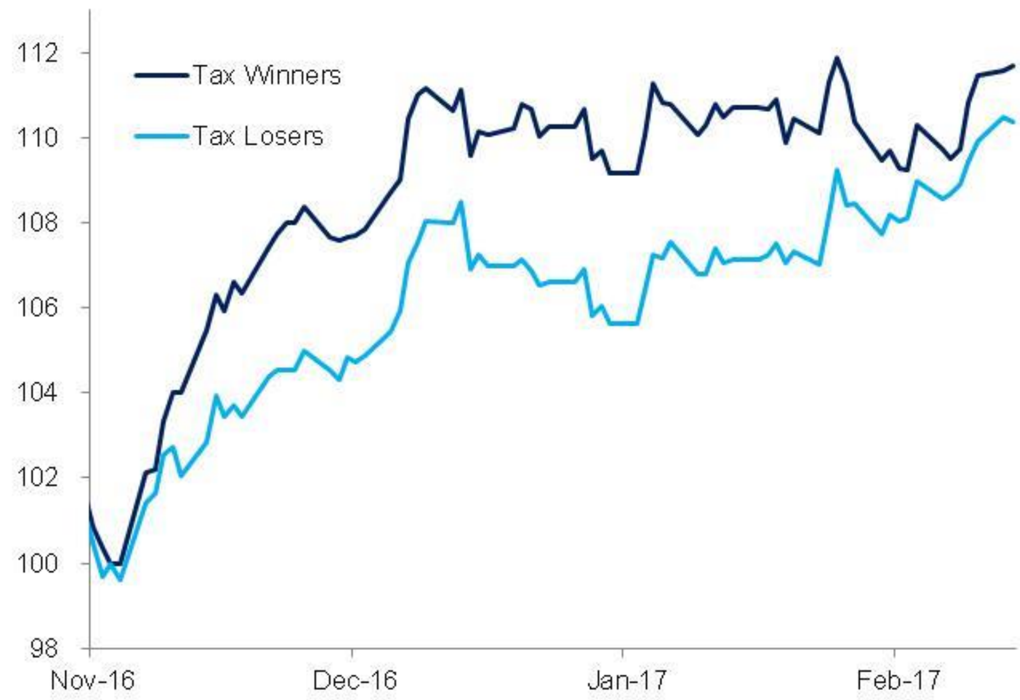
Who will pay for tax cuts remains uncertain. The proposed Border Adjustment Tax would create corporate winners and losers.

As discussed last month, the true uncertainty is whether the Congress finances large domestic tax cuts by pushing the tax burden abroad. A 20% "Border Adjustment Tax" (BAT) could be called an "import VAT" or just a tariff by another name. While cutting corporate tax rates overall, the US House plan also eliminates imports as a deductible business cost. Such a measure could impose rather dramatic transition costs for businesses unable to source content in the US or simply those that offer US consumers the world's best market price.

In the end, the disruptions likely from elements of the BAT as proposed make it unlikely to be included in a tax reform package without significant adjustment. If so, this also means that other elements of the package are also subject to change.

The unknowns and complexities of the coming corporate tax reforms suggest large potential winners and losers on the tax front. For now, these may merely be approximated by the divergence in a firm's tax rate from the statutory rate of 35%. Opportunities and risks on the tax front seem sure to be forthcoming this year (see figure 6).

Figure 6: Citi US Equities "Tax Winners and Losers" Indices



Source: Bloomberg as of February 15, 2017.

Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment.

Note: The tax winners and loser indexes were created by Citigroup, and are maintained by Bloomberg. They are designed to track the firms facing the largest impacts of both the removal of debt interest deduction and lower tax rates.

Trade Wars, What Are They Good For?

A trade war appears less likely than tax cuts and other domestic stimulus, but remains a non-trivial risk.

Meanwhile, it could simply be there is more "bark than bite" in the US administration's saber rattling over trade. We see a trade war (or wars) as lower in probability than domestic growth boosting measures. Yet the US House budget plan's reliance on the BAT and other "US first" measures suggests more than mere semantic risk of trade conflict.

Mexico exports about 30% of its GDP to the US while the US exports 1.4% of its GDP to Mexico. The US thus has dramatically greater economic leverage in pending trade negotiations. Yet the controversy over President Trump's insistence that Mexico in some fashion pay for a border wall with the US has pushed the issue into the political realm of national pride and honor. Anti-US candidate Andrés Manuel López Obrador is leading polls for the Mexican presidential election in 2018. With such uncertainties, economists may underestimate the impact of political and trade policy uncertainty on investment spending in the country.

Strong populist language from Trump has driven the inflation adjusted Peso to the lowest level since NAFTA was enacted. It has also greatly influenced the outlook for Mexico's domestic politics.

Notably, Mexico's currency has fallen as much as 20% in value against the USD from the US pre-election period this year. The peso's inflation-adjusted trade-weighted value is now lower than it was prior to the 1994 North American Free Trade Agreement. As such, the Private Bank Global Investment Committee sees a long-term value opportunity in Mexican assets (see figures 7-8).

Figure 7: Real Trade Weighted Mexican Peso

Source: Haver Analytics, as of February 14, 2017.

Figure 8: Brexit, US Election Impact on Mexican Peso and British Pound vs USD

Source: Haver Analytics, as of February 15, 2017.

While not appropriate for a large or concentrated position, a diversified asset allocation should find some room for higher risk holdings. While we have overweight positions in some other Latin American assets (Brazil fixed income and Andean equities), we would avoid short or underweight positions in Mexican assets at this point.

The Mexican peso has significant bi-directional risk, having already fallen more than the proposed US border adjustment tax.

The Mexican peso could easily lose 10% off its value if trade negotiations fail and outright disruptions to cross-border trade occur. However, the Mexican peso is the only currency to have fallen more than the proposed US border adjustment tax within 2016, which is only a possibility. For Mexican clients, we would continue to argue in favor of greater global diversification. For others, long-term return opportunities may be building amid the currency's drop.

Meanwhile, China/US trade relations will carry larger, global implications (see China Outlook section below). In some respects, the US seems to be aiming for the "development economics" protectionist path followed by China in the past few decades and the US's own distant past. It remains to be seen if US President Trump's recent affirmation of a "one China policy" with regards to

Taiwan earns him any trade concessions. If so, it would suggest, his earlier, controversial comments over the subject paid off.

Immigration as a Growth Contributor

Restrictions on travel are likely to remain larger issues for the news cycle than the economy, as the spillover to immediate business activity appears limited.

We suspect the legal dispute over limitations to US entry for citizens of several Muslim-majority countries will have quite limited economic impact on the US relative to the firestorm of media coverage. Yes, global investors may see the move as a sign of risk of more widespread steps to limit human and capital mobility, moving the US in the direction of isolation. Foreign direct (non-portfolio) investment in the US economy is valued at $7 trillion, and the inflow of US FDI was about $430 billion annualized in the first three quarters of 2016. While difficult to isolate from other drivers, the dispute appears to have driven some weakening in the US dollar's value during the height of the controversy at the end of January. Investors from certain countries have expressed concern to us over the rule of law in the US looking forward.

The potential economic disruption from restricting high skilled worker visas appears larger.

The US Technology sector, one that bears a clear outperformance and relative advantage for the US, strongly opposed the move. A parallel issue for the industry is the future of H1B visas, which provide US work permits for high skilled workers, which elements of the Trump administration have vowed to discontinue. The visa battle also drove a sharp rebuke from US universities, where the education of foreign students is another sector of relative advantage for the US, helping drive a net trade services surplus of $248 billion in 2016.

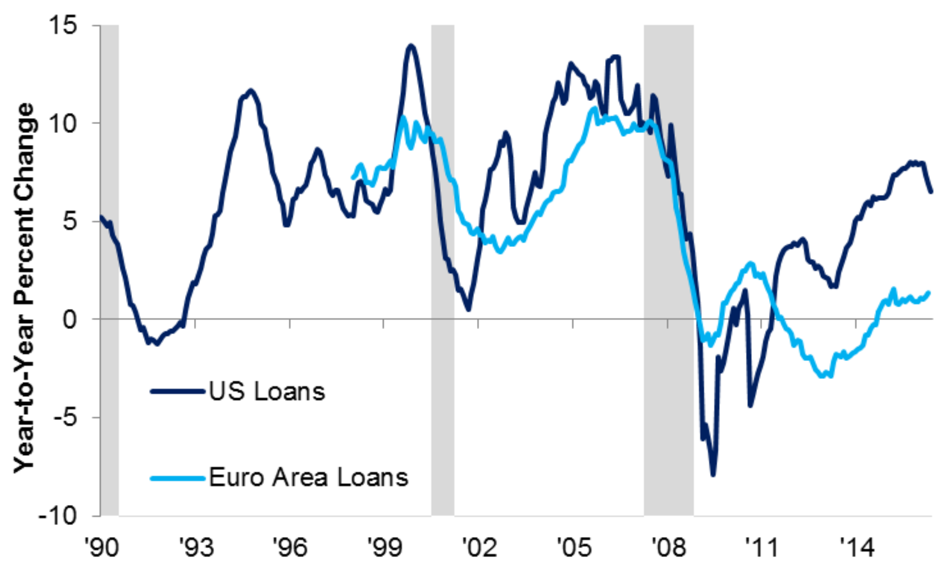
The potential growth rate of any economy is the sum of its productivity growth and working age population. The loss of skilled immigrants would be a long-term economic blow as data show. According to the National Foundation for American Policy, 51% of new business startups in the US that have attained a market value of $1 billion were the creation of immigrants. While already employing thousands in the US, these incubators of innovation fit the niche of the fastest growing US employers.

Regulation and Growth

Last month, we discussed the record-breaking rise in US small business confidence after the US election, as measured by the National Federation of Independent Business. With "regulation" cited by the survey participants as their most persistent high level concern, we linked this to the new and uncertain business costs associated with the Affordable Care act.

Beyond this single issue however, regulation poses both known and unknown costs on economies, and the US seems likely to experiment with deregulation en masse. Regulations contribute to public safety and the soundness of the financial system. Poor or inadequate regulation can prove more costly over the long run. With that said, we have to differ with those who have argued for various theoretical reasons that regulatory restraints on the financial system would essentially be cost free, and not hamper growth. Empirically, US bank lending in the present recovery has been the weakest of any recovery cycle (see figure 9).

Figure 9: Real Economy Lending Growth

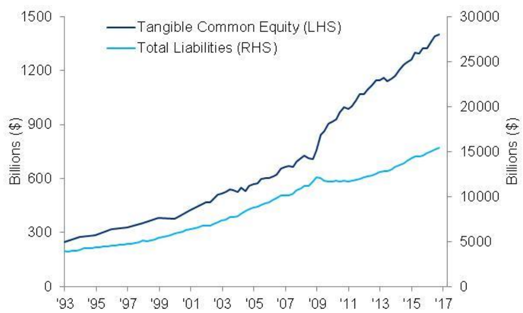


Source: Haver Analytics as of February 21, 2017

Note: For the Euro Area this includes consolidated loans to all nonfinancial corporate business, and for the US this includes Commercial, Industrial, Real Estate, and Consumer Loans.

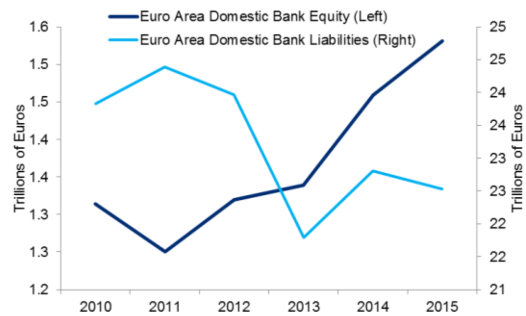
With this noted, the sunk costs in regulation and rise in bank equity capital is still likely to pay dividends in the US growth rate in the period ahead. The rise in bank equity capital in the US has exceeded that of Eurozone banks by a factor of 5X in the post crisis period (see figures 10 and 11). This has allowed a more robust lending response than in the case of Europe (see figure 9 above and European section below).

Figure 10: Assets and Liabilities of US Banks



Source: Haver Analytics as of February 15, 2017.

Figure 11: Equity and Liabilities of Euro Area Banks



Source: Haver Analytics as of February 15, 2017.

EMEA Investment Strategy:
Jeffrey Sacks
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European markets face greater volatility ahead

Economic fundamentals for Europe remain supportive with faster growth, loose monetary policy and only gradually rising inflation.

The forecast for European economic growth is a reasonable 1.5% this year, while average earnings growth could be the strongest it has been for five years. In addition the ECB will maintain loose monetary conditions, because even as inflation rises, it is still far below the 2% target. However European political risks are on the rise, ahead of several elections where populist parties have been gaining in the polls. As a result, tail-risks for European assets have increased.

If none of the political risks are realized, and economic growth improves as forecast, we might expect further strength in the stock market and in high yield corporate bonds. Overall, we advocate caution at the index level in both European equities and sovereign bonds, while highlighting tactical opportunities within equity and corporate credit sectors and themes.

Populist politics threaten the otherwise positive outlook, while highlighting tactical opportunities.

Ahead of the Dutch election in mid-March 2017, three new polls show a drop in the support for Geert Wilders' right-wing Freedom Party who have an anti-establishment platform. This polling momentum could be significant. In addition we will monitor the actual Dutch election result's impact on subsequent votes in other European countries. Europe depends on political cohesion and there could be a cumulative impact with this year's crowded European election calendar.

The French election will remain a key focus for markets throughout the spring.

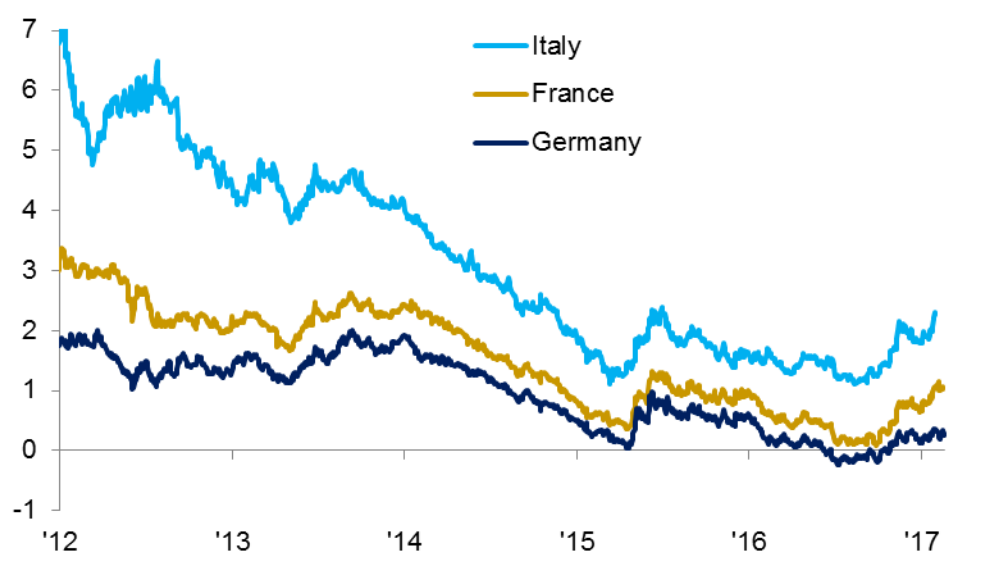
The big subsequent risk is the French presidential election, with the first round taking place on 23rd April, and with the second and final round on 7th May. A victory for the current center-left favorite, former Minister of the Economy, Emmanuel Macron, could be positive for the EU, given his desire for greater economic and monetary integration. His main rival, Marine Le Pen of the far-right wing National Front, is a vocal Eurosceptic, who could prompt an EU and Eurozone crisis if she won.

While consensus expectations put a low probability on a Le Pen victory in France, the same expert expectations were incorrect for both Brexit and Trump.

Her agenda seeks to break with key principles of the EU through protectionist and nationalist policies. It includes clawing back national sovereignty from the EU and abandoning the Euro within six months of taking office. She is leading the polls for the first round, on 28%. While consensus expectations are that she will lose the second round to Mr. Macron by 62% to 38%, there are reasons to be cautious and the polls could be volatile in the next two months. Recently there have been waxing and waning reports of a left-wing alliance between Mr. Hamon and Mr. Melenchon, which could get through the first round vote and perhaps present Le Pen with a weaker opponent in the second round.

A Le Pen victory and a move to a parallel currency regime would ostensibly involve redenomination risk for €2 trillion government debt, with substantial negative impacts on yields. The 10-year French sovereign bonds (rated Aa2) at a 75 basis point spread above German 10-year Bunds, are now at their widest levels since 2012 (see Figure 12).

Figure 12: Italian, French and German 10-Year Yields



Source: Haver Analytics as of February 21, 2017

Eurozone and EU referendums would still require a majority in the National Assembly, but would likely worsen the situation for Italy and Greece.

A Le Pen win could also trigger a broader confidence crisis for both the EU and the Euro. France was a founder member of both political projects, and a Le Pen victory would rupture the vital French-German axis, as well as highlighting populist feelings, which have been growing throughout Europe. The pressure on the Euro would have secondary effects, harming other fragile countries within the Eurozone, such as Italy and Greece.

If Le Pen wins, she would still need a National Assembly majority in order to hold Eurozone and EU referendums. The probability of achieving this is currently low. However, even if she does not win, the Italian and Greek situations are worsening, emphasizing the ongoing structural challenges faced by the EU and the Eurozone.

Italy has the highest level of voters intending to back non-mainstream parties in the Eurozone.

In Italy, national elections are due by February 2018 and could be held as early as in June 2017. Regardless of the actual election date, Italy has the highest levels of voters intending to back non-mainstream parties of any Eurozone country. And while none of the alternative parties might reach the new 40% threshold to gain power, the resulting seat allocation via proportional representation is likely to make harder the process of coalition-building post-election. On the one hand, this could lessen the probability of a referendum on Euro membership; on the other hand it raises the probability of policy paralysis which could in turn delay the country's necessary structural economic reforms (without which debt sustainability becomes an even more pressing issue).

Debt pressures are rising again in Greece. In order to make a €7.2 billion loan repayment due in July 2017, a further bailout of Euro 86 billion needs to be approved. The Eurozone creditors and the International Monetary Fund (IMF) are at odds with each other about the need for significant debt write-offs. For its part, Greece is only willing to agree to bailout and austerity measures that are socially sustainable and also allow the country into the ECB bond purchase program.

With no currencies of their own, political pressures are likely to be reflected chiefly in sovereign bond yields, in contrast to the Brexit effect.

Unlike the Brexit vote – which has had its greatest impact on Sterling – political pressures in Europe are likely to be reflected in sovereign bond yields. The European currency and growth outlooks are interlocked. As cohesion is expected to remain in question, bond yields are likely to keep building in higher risk premia. With this said, if the Eurozone "runs the gauntlet" of political risks this year, while policy and reforms remain on track, we might see circumstances to reconsider our cautious allocations in the region.

Asia Investment Strategy:
Ken Peng
Shirley Wong

The Rooster Crows

China's growth, policy and markets

Growth may still pick up near term on credit boom and reflation

- China's growth has recovered, but is facing tighter policy, though real borrowing costs remain supportive
- Policymakers would prioritize stability ahead of the Party Congress, particularly in currency and debt, limiting risks of spillover
- Earnings growth is likely to pick up on reflation and steadier macro, while investor flows still favor HK market

Roosters crow at the sight of first light, which may have been seen in China's economy and corporate earnings.

Growth began to pick up in mid-2016 and has beaten expectations consistently since. In fact, purchasing manager surveys (PMIs) point to more upside in GDP growth in coming quarters (Figure 13), making it possible to keep growth at around the targeted 6.5% this year even if a slowdown takes place in 2H.

At the same time, credit growth remained aggressive, with RMB3.7tn (USD 550B) of new total financing in January. This means that the credit boom of early 2016 is being refinanced, which would contain credit risk. Rising growth came with rising inflation, as commodity prices recovered and industrial deflation turned to inflation, with PPI rising from -5.4% y/y a year ago to 6.9% y/y this January. This is boon for corporate profits.

Despite initial tightening and higher rates, real borrowing costs remain supportive of growth

With solid growth, monetary policy has tightened, though real rates are still conducive to growth. The Peoples Bank of China (PBOC) raised the rates on liquidity facilities twice in two months, reduced open market operations, and provided window guidance to banks to curb lending broadly in February. Market rates have also surged during periods of RMB weakness. Still, with higher inflation, real lending rates remain consistent with higher growth (Figure 14). We would expect the tightening policy tilt to remain until growth momentum turns negative.

Figure 13: PMI points to higher GDP growth in 1H

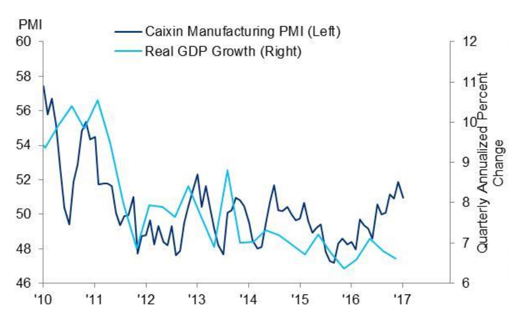


Figure 14: Real rates have fallen on reflation, still supportive of growth

Source: National Bureau of Statistics, Caixin, PBOC, as of January 2017

Real estate is supported by wealth, while tightening aims to stabilize prices and may weigh on growth in 2H

China's real estate market contributed a lot to the growth pickup, which often elicits dire predictions. Property is a channel for savings and is better evaluated on the merits of savings and wealth, rather than affordability by the average wage earner. China saves 48% of its GDP and still generates 8-10% per capita income growth. While interest rates are rising and capital account controls severely limit global asset allocation, real estate and equities are the only asset classes large enough to park captive wealth.

As a result, despite draconian purchase restrictions and mortgage curbs, property prices only flattened after a 10% rise in 2016, according to 70-city average price data. Sales volume began to fall last 4Q and has further to decline. Meanwhile, construction starts lag and are likely to still pick up in 1Q, possibly peaking in 2Q. This is likely to weigh on GDP in 2H, which is likely to cause some relaxation of policy by yearend. Prices are unlikely to make major moves either way, which is basically the policy objective.

Figure 15: Policy tightening has reigned in prices and sales, while construction may start to slow down by mid-2017

Figure 16: FX reserve erosion has slowed down under capital controls, while depreciation continues

Source: National Bureau of Statistics, PBOC, Bloomberg, as of January, 2017

RMB depreciation may continue at 3-5% per year, tolerable for China's reserve managers and global markets

The RMB may weaken further in 2017, but markets have gotten accustomed to this, so long as it is a gradual process. From March and December 2016, the RMB depreciated by 8% against the USD, far more than in 2015. But unlike in 2015, this weakening was expected by the market. Currently, market expectations are 3-5% depreciation in 2017, which is likely given USD strength, but is also milder than last year.

FX reserve erosion is ongoing and may continue to for several years, but the pace has become more manageable under strict capital controls. At about $30bn decline per month, it would take three more years to go below $2tn, or roughly the gross amount of China's external debt. In this backdrop, the risks of currency crisis and spillovers are limited in our view.

Reflation is helping to revive earnings growth

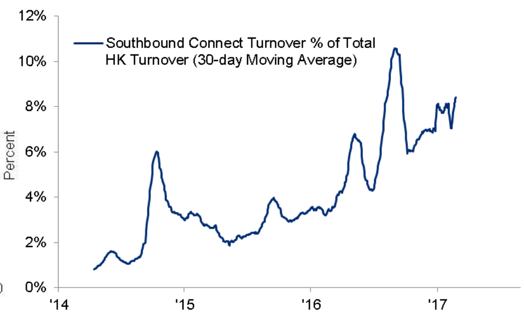
Corporate earnings are growing again after years of lull. MSCI China EPS growth fell from 50% during the massive credit stimulus of 2009-10 to -30% last year amid industrial deflation. Now, reflation has already lifted earnings growth (Figure 17), while banks have expanded margins with higher rates and more diversified asset risks. EPS growth may top 10% in 2017 as a result.

Diversification needs of mainland investors are fueling inflows to HK

Moreover, the growing need for diversification from mainland investors boosted fund inflows to Hong Kong despite lackluster flows from other global investors. The amount of inflows to Hong Kong via the Shanghai and Shenzhen equity connect programs amounted to HKD2.5bn per day after Chinese New Year. The turnover now accounts for over 8% of total HK turnover, higher than even the 2015 bubble period (Figure 18). This trend is likely to continue as the connect programs are the only legal and freely usable channels for mainland investors, particularly insurance and pension managers, to diversify from RMB risk.

Figure 17: Earnings growth may have begun to turn around under reflation

Figure 18: Inflows from mainland account for rising share of HK turnover



Source: MSCI, Bloomberg, National Bureau of Statistics, as of 13 February 2017

China's stability efforts this year may offset concerns over the strong USD on Asia's markets.

The trade relationship between the US and China (and the rest of the world) is still highly uncertain. However, some recent developments suggest any potential US protectionism is unlikely to be entirely targeted at China. As noted, President Trump has reaffirmed the US commitment to the "one-China" policy, which he had threatened to ignore just weeks earlier.

It was also reported that the US administration is considering redefining currency manipulation as "unfair subsidy." This would potentially apply to a list of countries well beyond China. In Asia, Japan, Taiwan and Korea appear more vulnerable to this change, while Malaysia and Singapore are more exposed to the potential supply chain impact of this change in their role as conduits of regional trade. This redefinition does not necessarily add or reduce the risks of protectionism, but may be intended to be used as a foreign policy tool in a wide array of trade relationships.

And of course, the Border Tax Adjustment is another closely watched uncertainty that is broader than any bilateral issue. If implemented, North Asia's major exporters would be negatively impacted, which could lead to retaliatory measures and deeper trade conflict. But the BTA's potential boost to US inflation, reduction in US competitiveness and even job cuts at importers like retailers are strong arguments against such a tax as noted previously.

In conclusion, China's stabilizing influence on the region this year might be under-appreciated, even if the US dollar resumes its climb. We will assess these and other influences on regional allocations in coming months.

Portfolio allocations

This section shows the strategic and tactical asset allocations for Risk Levels 1 to 5 portfolios. 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 the AVS's Global USD with Hedge Funds Risk Level 3 portfolio. QRGAA then creates tactical allocations for other risk levels. The below tactical allocations are reflective of the February 16, 2017 GIC meeting.

Risk Level 1

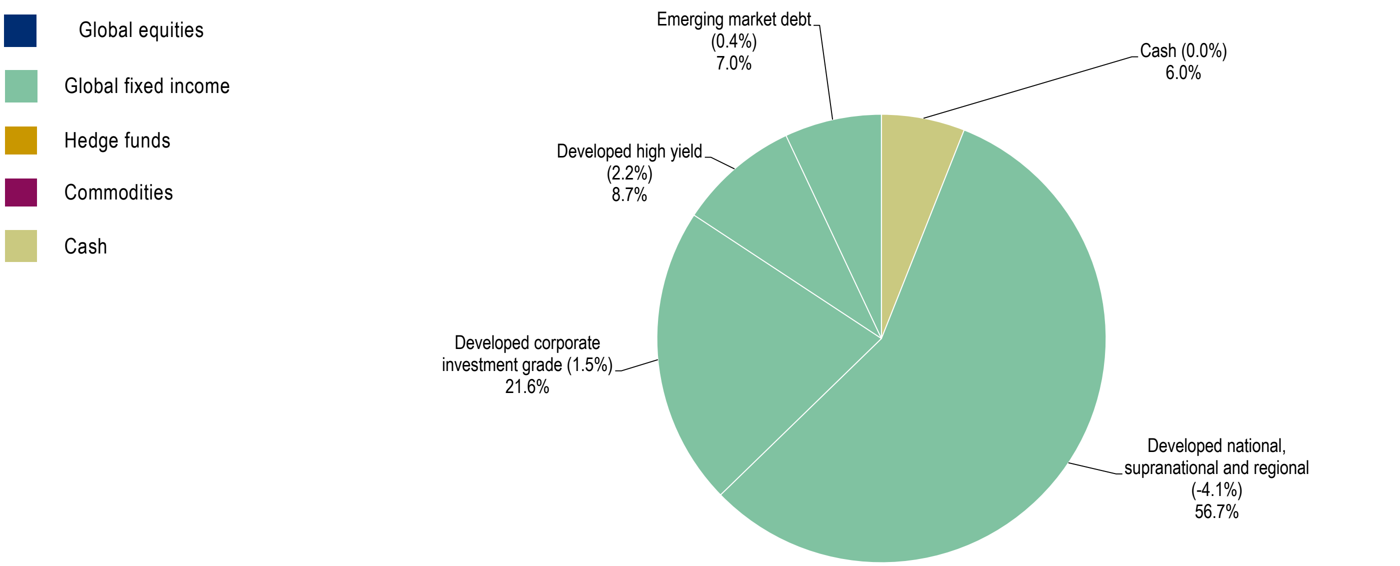
Risk Level 1 is designed for investors who have a preference for capital preservation and relative safety over the potential for a return on investment. These investors prefer to hold cash, time deposits and/or lower risk fixed income instruments.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	6.0	6.0	0.0
Fixed income	94.0	94.0	0.0
Developed Investment Grade	80.8	78.3	-2.6
Developed national, supranational and regional	60.8	56.7	-4.1
Americas	21.4	22.5	1.1
EMEA	24.4	22.3	-2.1
U.K.	4.5	4.5	-0.0
Core Europe	11.3	10.3	-1.0
Peripheral Europe	7.8	6.9	-1.0
Others	0.8	0.6	-0.2
Asia	13.8	10.7	-3.1
Asia (ex Japan)	0.4	0.6	0.1
Japan	13.4	10.1	-3.2
Supranational	1.2	1.2	0.0
Developed corporate investment grade	20.0	21.6	1.5
Americas	13.8	15.1	1.4
US	13.2	14.6	1.4
Canada	0.6	0.6	0.0
EMEA	6.2	6.3	0.1
Europe (ex U.K.)	5.0	5.1	0.1
U.K.	1.2	1.2	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	6.6	8.7	2.2
Americas	5.2	6.9	1.7
EMEA	1.4	1.9	0.5
Emerging market debt	6.6	7.0	0.4
Americas	0.8	1.0	0.2
EMEA	0.7	0.7	0.0
Asia	5.1	5.3	0.2
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	0.0	0.0	0.0
Hedge funds	0.0	0.0	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

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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 -4.1%. Developed high yield bond has the largest overweight at +2.2% followed by developed corporate investment grade at 1.5% overweight position.

EM fixed income remains at a small overweight position of 0.4% with both Latin America and Asia debt in overweight positions.

Within equities, both developed and EM equities remain at neutral allocation.

Risk Level 2

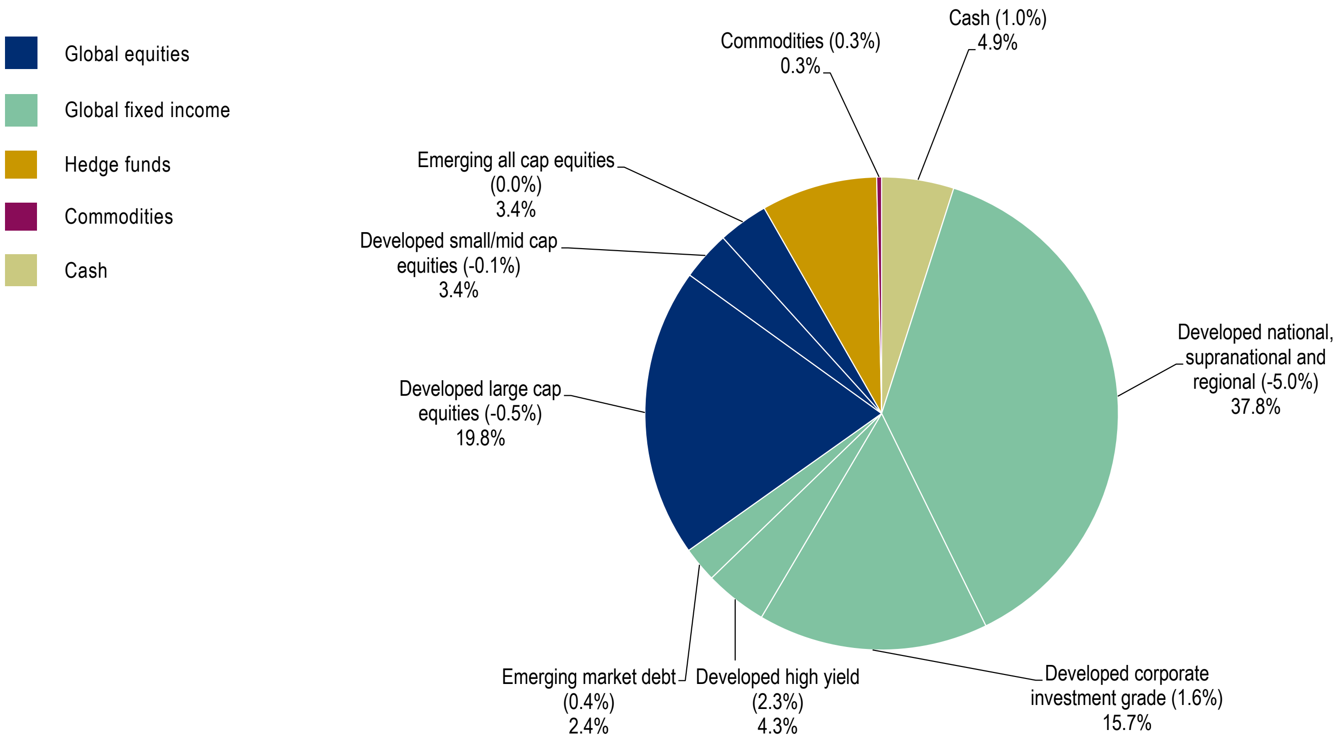
Risk Level 2 is designed for investors who emphasize capital preservation over return on investment, but who are willing to subject some portion of their principal to increased risk in order to generate a potentially greater rate of return on investment.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	**3.9**	**4.9**	**1.0**
Fixed income	**60.9**	**60.2**	**-0.7**
Developed Investment Grade	**56.9**	**53.5**	**-3.4**
Developed national, supranational and regional	**42.8**	**37.8**	**-5.0**
Americas	**15.1**	**16.2**	**1.1**
EMEA	**17.2**	**14.6**	**-2.5**
U.K.	3.2	3.1	-0.1
Core Europe	7.9	6.8	-1.1
Peripheral Europe	5.5	4.4	-1.1
Others	0.6	0.4	-0.2
Asia	**9.7**	**6.2**	**-3.5**
Asia (ex Japan)	0.3	0.5	0.2
Japan	9.4	5.7	-3.7
Supranational	**0.9**	**0.9**	**0.0**
Developed corporate investment grade	**14.1**	**15.7**	**1.6**
Americas	**9.7**	**11.2**	**1.5**
US	9.3	10.8	1.5
Canada	0.4	0.4	0.0
EMEA	**4.4**	**4.5**	**0.1**
Europe (ex U.K.)	3.5	3.6	0.1
U.K.	0.8	0.9	0.0
Asia	**0.1**	**0.1**	**0.0**
Developed high yield	**2.0**	**4.3**	**2.3**
Americas	**1.6**	**3.3**	**1.8**
EMEA	**0.4**	**0.9**	**0.5**
Emerging market debt	**2.0**	**2.4**	**0.4**
Americas	**0.2**	**0.4**	**0.1**
EMEA	**0.2**	**0.2**	**0.0**
Asia	**1.6**	**1.8**	**0.2**
Hybrid investments	**7.9**	**7.9**	**0.0**
Hedge funds	**7.9**	**7.9**	**0.0**
Real assets	**0.0**	**0.3**	**0.3**
Commodities	**0.0**	**0.3**	**0.3**

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	**27.2**	**26.6**	**-0.7**
Developed Equities	**23.8**	**23.1**	**-0.6**
Developed large cap equities	**20.3**	**19.8**	**-0.5**
Americas	**13.1**	**13.0**	**-0.2**
US all	12.3	12.2	-0.2
Canada	0.8	0.8	0.0
EMEA	**4.3**	**4.0**	**-0.2**
U.K.	1.3	1.3	0.0
Germany	0.6	0.5	-0.1
France	0.6	0.6	-0.1
Switzerland	0.6	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	**2.9**	**2.8**	**-0.1**
Australasia	0.6	0.6	0.0
Far East ex Japan	0.4	0.3	0.0
Japan	2.0	1.9	0.0
Developed small/ mid cap equities	**3.5**	**3.4**	**-0.1**
Americas	**2.1**	**2.0**	**0.0**
EMEA	**0.9**	**0.8**	**-0.1**
Europe (ex U.K.)	0.7	0.7	0.0
U.K.	0.2	0.1	-0.1
Asia	**0.5**	**0.5**	**0.0**
Asia (ex Japan)	0.1	0.1	0.0
Japan	0.4	0.4	0.0
Emerging all cap equities	**3.4**	**3.4**	**0.0**
Americas	**0.4**	**0.5**	**0.1**
Brazil	0.2	0.2	0.0
Mexico	0.1	0.1	0.0
Other	0.1	0.2	0.1
EMEA	**0.5**	**0.5**	**0.0**
Turkey	0.0	0.0	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	**2.6**	**2.5**	**-0.1**
China	1.0	1.0	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



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Core positions

Global equities have an underweight position of -0.7% with global fixed income underweight maintained at -0.7%. Cash has an overweight position of +1.0%.

Gold remains at a small overweight position of +0.3%.

Within fixed income, developed sovereign remains the largest underweight at -5.0% and developed high yield bond has the largest overweight at +2.3% followed by developed corporate investment grade at +1.6%.

Emerging market fixed income has a small overweight position of +0.4% with both Latin America and Asia at overweight positions and EMEA at neutral allocation.

Within equities, developed large cap equities have the highest underweight at -0.5%.

Emerging market equities remain at neutral position.

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	**31.8**	**30.8**	**-1.0**
Developed Investment Grade	**27.8**	**24.8**	**-3.0**
Developed national, supranational and regional	**20.9**	**16.9**	**-3.9**
Americas	**7.4**	**7.9**	**0.5**
EMEA	**8.4**	**6.4**	**-1.9**
U.K.	1.5	1.4	-0.1
Core Europe	3.9	3.0	-0.9
Peripheral Europe	2.7	1.9	-0.8
Others	0.3	0.1	-0.1
Asia	**4.7**	**2.2**	**-2.5**
Asia (ex Japan)	0.1	0.2	0.1
Japan	4.6	2.0	-2.6
Supranational	**0.4**	**0.4**	**0.0**
Developed corporate investment grade	**6.9**	**7.9**	**1.0**
Americas	**4.7**	**5.7**	**1.0**
US	4.5	5.5	1.0
Canada	0.2	0.2	0.0
EMEA	**2.1**	**2.1**	**0.0**
Europe (ex U.K.)	1.7	1.7	0.0
U.K.	0.4	0.4	0.0
Asia	**0.0**	**0.0**	**0.0**
Developed high yield	**2.0**	**3.7**	**1.7**
Americas	**1.6**	**2.9**	**1.3**
EMEA	**0.4**	**0.8**	**0.4**
Emerging market debt	**2.0**	**2.3**	**0.3**
Americas	**0.2**	**0.4**	**0.2**
EMEA	**0.2**	**0.2**	**0.0**
Asia	**1.6**	**1.7**	**0.1**
Hybrid investments	**12.0**	**12.0**	**0.0**
Hedge funds	**12.0**	**12.0**	**0.0**
Real assets	**0.0**	**0.5**	**0.5**
Commodities	**0.0**	**0.5**	**0.5**

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	**54.2**	**53.2**	**-1.0**
Developed Equities	**47.3**	**46.2**	**-1.1**
Developed large cap equities	**40.3**	**39.6**	**-0.7**
Americas	**26.1**	**26.1**	**0.0**
US all	24.5	24.5	0.0
Canada	1.6	1.6	0.0
EMEA	**8.5**	**7.9**	**-0.6**
U.K.	2.7	2.7	0.0
Germany	1.1	1.0	-0.2
France	1.3	1.1	-0.2
Switzerland	1.3	1.2	-0.1
Benelux	0.6	0.6	0.0
Scandi	0.7	0.7	0.0
Spain	0.4	0.4	0.0
Italy	0.3	0.2	-0.1
Others	0.1	0.1	0.0
Asia	**5.7**	**5.6**	**-0.1**
Australasia	1.1	1.1	0.0
Far East ex Japan	0.7	0.6	-0.1
Japan	3.9	3.9	0.0
Developed small/ mid cap equities	**7.0**	**6.7**	**-0.3**
Americas	**4.1**	**4.1**	**0.0**
EMEA	**1.8**	**1.5**	**-0.3**
Europe (ex U.K.)	1.4	1.3	-0.1
U.K.	0.4	0.2	-0.2
Asia	**1.1**	**1.1**	**0.0**
Asia (ex Japan)	0.3	0.3	0.0
Japan	0.8	0.8	0.0
Emerging all cap equities	**6.9**	**7.0**	**0.0**
Americas	**0.8**	**1.1**	**0.2**
Brazil	0.5	0.5	0.0
Mexico	0.2	0.2	0.0
Other	0.1	0.4	0.3
EMEA	**0.9**	**0.9**	**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	0.0	0.0	0.0
Asia	**5.2**	**5.0**	**-0.2**
China	2.1	2.1	0.0
India	0.7	0.7	0.0
South Korea	0.9	0.9	0.0
Taiwan	0.8	0.8	0.0
Other Emerging Asia	0.6	0.4	-0.2
Total	**100.0**	**100.0**	**0.0**

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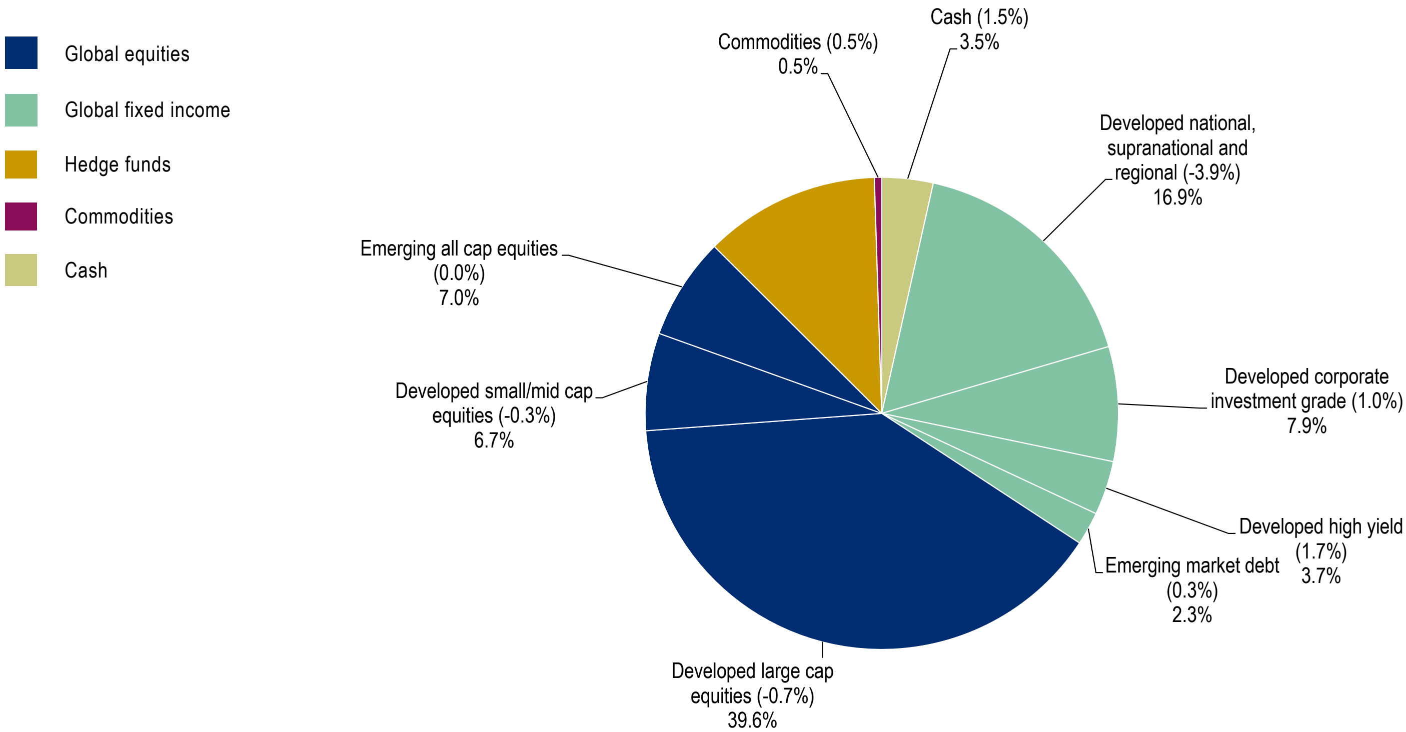
Risk Level 3: tactical allocations



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Core positions

Global equities remain at -1.0% underweight, global fixed income remains at -1.0% underweight with cash overweight at +1.5% and gold overweight at +0.5%.

Within fixed income, developed sovereign remains the largest underweight at -3.9%, with US government debt at an overweight position. Developed high yield has the largest overweight at +1.7% followed by developed corporate investment grade at +1.0%.

Emerging market fixed income has a small overweight position of +0.3% with both Latin America and Asia at overweight positions and EMEA at a neutral allocation.

Within equities, developed large cap equities have the highest underweight of -0.7% followed by developed small/mid cap equities at -0.3%.

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	**14.4**	**13.3**	**-1.1**
Developed Investment Grade	**14.4**	**12.4**	**-2.1**
Developed national, supranational and regional	**10.9**	**8.4**	**-2.5**
Americas	**3.8**	**4.0**	**0.1**
EMEA	**4.4**	**3.2**	**-1.2**
U.K.	0.8	0.7	-0.1
Core Europe	2.0	1.5	-0.5
Peripheral	1.4	0.9	-0.5
Others	0.1	0.1	-0.1
Asia	**2.5**	**1.0**	**-1.4**
Asia (ex Japan)	0.1	0.1	0.1
Japan	2.4	0.9	-1.5
Supranational	**0.2**	**0.2**	**0.0**
Developed corporate investment grade	**3.6**	**4.0**	**0.4**
Americas	**2.5**	**2.9**	**0.4**
US	2.4	2.8	0.5
Canada	0.1	0.1	0.0
EMEA	**1.1**	**1.1**	**0.0**
Europe (ex U.K.)	0.9	0.9	0.0
U.K.	0.2	0.2	0.0
Asia	**0.0**	**0.0**	**0.0**
Developed high yield	**0.0**	**0.8**	**0.8**
Americas	**0.0**	**0.6**	**0.6**
EMEA	**0.0**	**0.2**	**0.2**
Emerging market debt	**0.0**	**0.2**	**0.2**
Americas	**0.0**	**0.0**	**0.0**
EMEA	**0.0**	**0.0**	**0.0**
Asia	**0.0**	**0.1**	**0.1**
Hybrid investments	**14.0**	**14.0**	**0.0**
Hedge funds	**14.0**	**14.0**	**0.0**
Real assets	**0.0**	**0.5**	**0.5**
Commodities	**0.0**	**0.5**	**0.5**

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	**71.6**	**70.5**	**-1.1**
Developed Equities	**62.3**	**61.1**	**-1.2**
Developed large cap equities	**53.1**	**52.3**	**-0.8**
Americas	**34.3**	**34.5**	**0.2**
US all	32.3	32.4	0.2
Canada	2.1	2.1	0.0
EMEA	**11.2**	**10.4**	**-0.8**
U.K.	3.5	3.5	0.0
Germany	1.5	1.2	-0.2
France	1.7	1.4	-0.2
Switzerland	1.7	1.6	-0.1
Benelux	0.8	0.8	-0.1
Scandi	1.0	1.0	0.0
Spain	0.5	0.5	0.0
Italy	0.3	0.2	-0.1
Others	0.2	0.1	0.0
Asia	**7.6**	**7.4**	**-0.2**
Australasia	1.5	1.4	-0.1
Far East ex Japan	1.0	0.8	-0.1
Japan	5.1	5.1	0.0
Developed small/mid cap equities	**9.2**	**8.8**	**-0.4**
Americas	**5.4**	**5.4**	**0.0**
EMEA	**2.4**	**1.9**	**-0.4**
Europe (ex U.K.)	1.8	1.7	-0.2
U.K.	0.6	0.3	-0.3
Asia	**1.4**	**1.4**	**0.0**
Asia (ex Japan)	0.4	0.4	0.0
Japan	1.1	1.1	0.0
Emerging all cap equities	**9.3**	**9.4**	**0.1**
Americas	**1.1**	**1.5**	**0.4**
Brazil	0.6	0.6	0.0
Mexico	0.3	0.3	0.0
Other	0.2	0.5	0.4
EMEA	**1.2**	**1.2**	**0.0**
Turkey	0.1	0.1	0.0
Russia and Eastern Europe	0.6	0.6	0.0
South Africa	0.5	0.5	0.0
Other	0.1	0.1	0.0
Asia	**7.0**	**6.7**	**-0.2**
China	2.8	2.8	0.0
India	1.0	1.0	0.0
South Korea	1.2	1.2	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**

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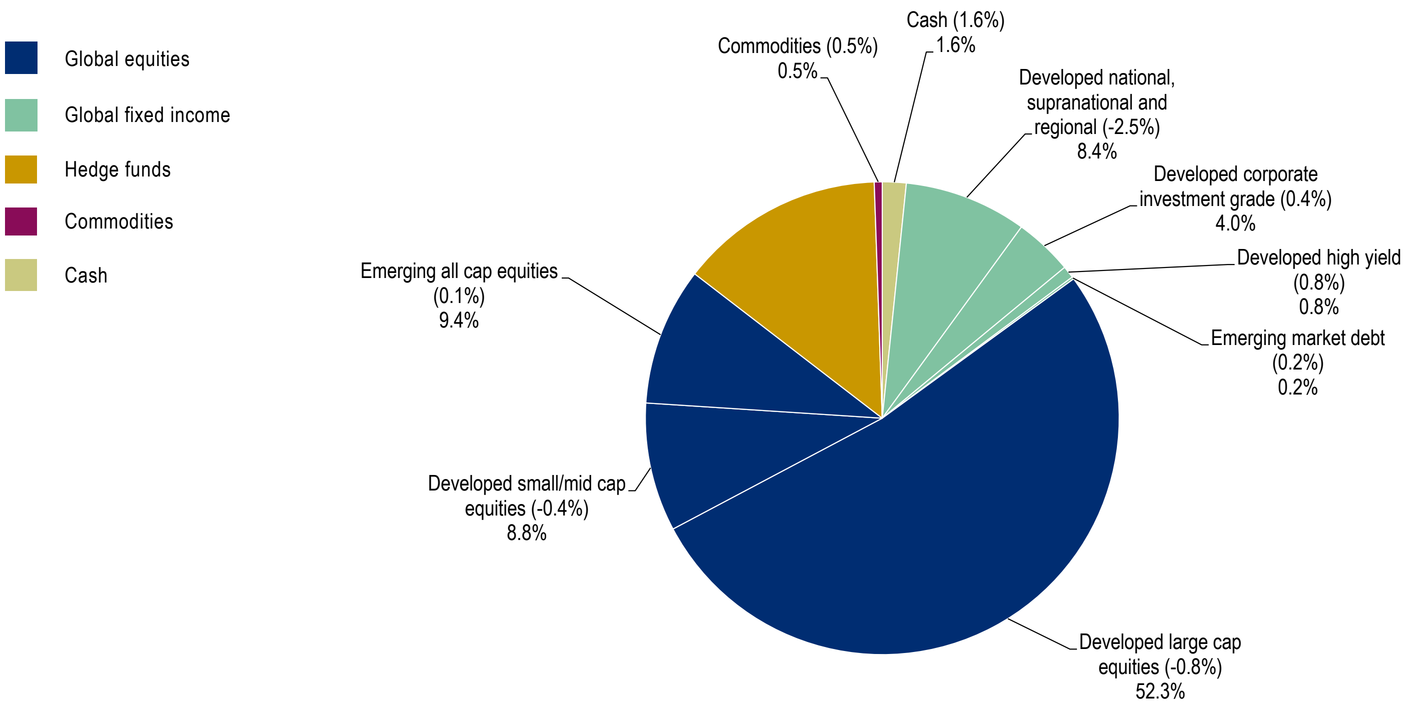
Risk Level 4: tactical allocations



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Core positions

Global equities remain an underweight position of -1.1%, global fixed income underweight maintains at -1.1% with cash overweight at +1.6% and gold overweight at +0.5%.

Within fixed income, developed sovereign has the largest underweight at -2.5% and developed high yield bonds the largest overweight at +0.8%.

Emerging market debt has a small overweight position with allocations to Asia.

Within equities, developed large cap have the largest underweight at -0.8% followed by developed small/mid cap equities at -0.4%.

Emerging equities have a small overweight position with an overweight allocation in Latin America and an underweight position in Asia.

Risk Level 5

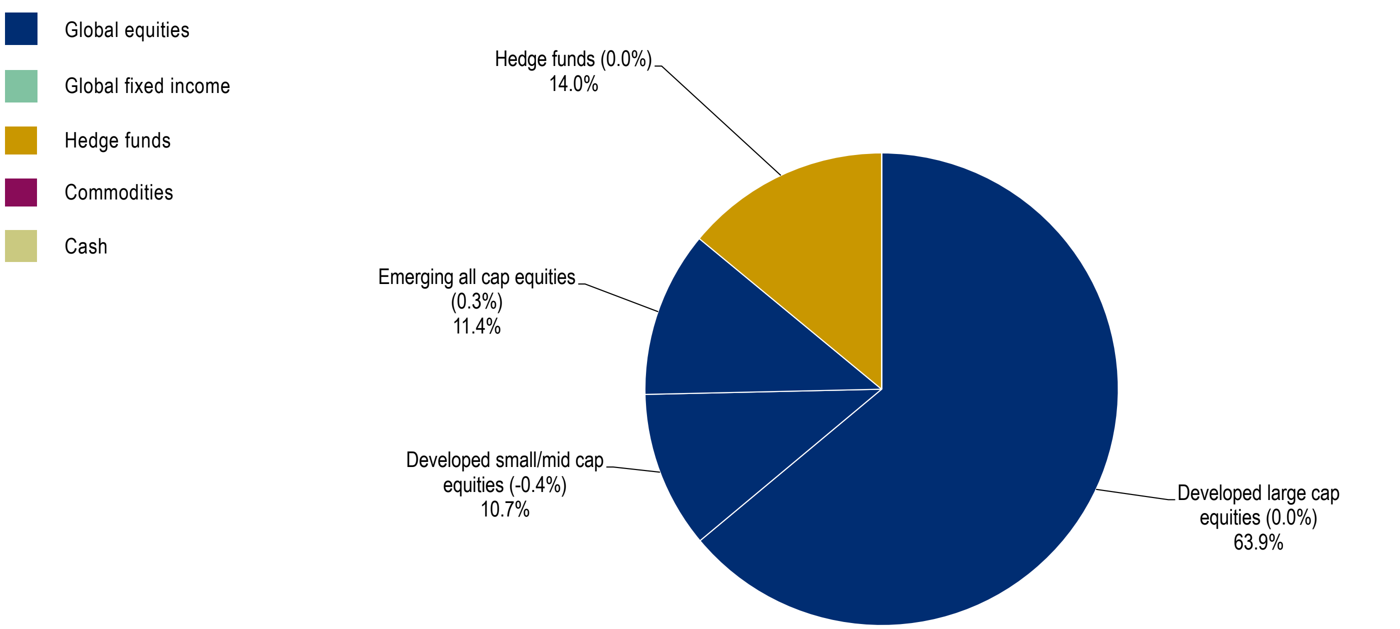
Risk Level 5 is designed for investors who emphasize return on investment. They are willing to subject their entire portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investments. Investors may have a preference for investments or trading strategies 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	**86.0**	**86.0**	**0.0**
Global Developed Equities	**75.0**	**74.6**	**-0.3**
Developed large cap equities	**63.9**	**63.9**	**0.0**
Americas	**41.4**	**42.3**	**0.9**
US all	38.9	39.7	0.9
Canada	2.5	2.5	0.1
EMEA	**13.4**	**12.6**	**-0.8**
U.K.	4.3	4.3	0.1
Germany	1.8	1.5	-0.3
France	2.0	1.8	-0.3
Switzerland	2.0	1.9	-0.1
Benelux	1.0	0.9	-0.1
Scandi	1.2	1.2	0.0
Spain	0.6	0.6	0.0
Italy	0.4	0.3	-0.1
Others	0.2	0.2	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Asia	**9.1**	**9.0**	**-0.1**
Australasia	1.8	1.8	0.0
Far East ex Japan	1.1	1.0	-0.2
Japan	6.1	6.3	0.1
Developed small/mid cap equities	**11.1**	**10.7**	**-0.4**
Americas	**6.5**	**6.6**	**0.1**
EMEA	**2.9**	**2.3**	**-0.5**
Europe (ex U.K.)	2.2	2.0	-0.2
U.K.	0.7	0.3	-0.4
Asia	**1.7**	**1.8**	**0.0**
Asia (ex Japan)	0.4	0.4	0.0
Japan	1.3	1.3	0.0
Emerging all cap equities	**11.0**	**11.4**	**0.3**
Americas	**1.3**	**1.8**	**0.5**
Brazil	0.7	0.7	0.0
Mexico	0.4	0.4	0.0
Other	0.2	0.7	0.4
EMEA	**1.5**	**1.5**	**0.0**
Turkey	0.1	0.1	0.0
Russia and Eastern Europe	0.7	0.7	0.0
South Africa	0.6	0.7	0.0
Other	0.1	0.1	0.0
Asia	**8.2**	**8.1**	**-0.1**
China	3.3	3.3	0.1
India	1.2	1.2	0.0
South Korea	1.5	1.5	0.0
Taiwan	1.3	1.3	0.0
Other Emerging Asia	1.0	0.7	-0.3
Hybrid investments	**14.0**	**14.0**	**0.0**
Hedge funds	**14.0**	**14.0**	**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

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

Within global equities, developed equities have a small underweight position of -0.3% while emerging equities at a small overweight position of +0.3%.

The underweight allocation in developed equities is driven by an underweight position in EMEA equities, both large cap and small/mid cap.

Within emerging equities, Latin American equities have an overweight position at +0.5% 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 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.
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 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.
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 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.
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	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.
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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INDIA Bangalore 91–80–4144–6389 Mumbai 91–22–4001–5282 New Delhi 91–124–418–6695 SINGAPORE Singapore 65–6227–9188	ISRAEL Tel Aviv 972–3–684–2522 MONACO Monte Carlo 377–9797–5010 SPAIN Madrid 34–91–538–4400 SWITZERLAND Geneva 41–58–750–5000 Zurich 41–58–750–5000 UNITED ARAB EMIRATES Abu Dhabi 971–2–494–3200 Dubai 971–4–604–4644 UNITED KINGDOM London 44–207–508–8000	LATAM OFFICES IN US Houston, TX 713–966–5102 Miami, FL 305–347–1800 New York, NY 212–559–9155 MEXICO Mexico City 52–55–22–26–8310 Monterrey 52–81–1226–9401		