

AUSTRALIAN

RESEARCH



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1. Key Features

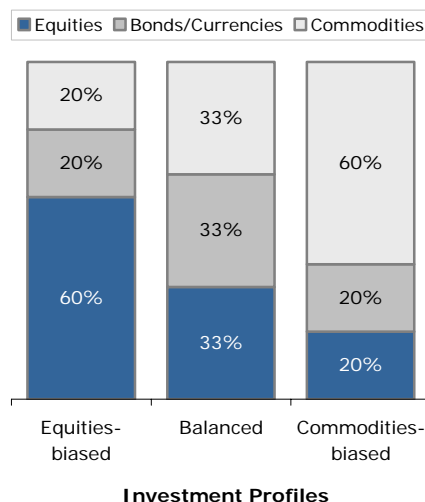


General Information

Name	Citigroup Optimiser II (2005-05) (<i>Optimiser II</i>)
Product Issuer / Responsible Entity	Citigroup Global Markets Australia Pty Limited (<i>CGMA</i>)
Security	Units and Deferred Purchase Agreement
Asset Class	A combination of international equities, bonds, currencies and commodities
Underlying Investment	Investments linked to three multi-asset investment profiles: <ul style="list-style-type: none"> ■ Equities-biased (60% international equities + 20% bonds/currencies + 20% commodities); ■ Balanced (33.3% international equities + 33.3% bonds/currencies + 33.3% commodities); and ■ Commodities-biased (20% international equities + 20% bonds/currencies + 60% commodities).
Risk	Moderate-risk investments (risk of capital loss mitigated by capital protection if held to maturity)
Investment Objective	To seek out-performance from the best performing asset class in the medium term via three market-linked investment profiles with the benefit of capital protection at maturity. Return will be the best performing investment profile return.
AEGIS RATING	APPROVED

Offer Details

Diversification of the three investment profiles at the time of investment:



Offer Opens	24 October 2005
Offer Closes	30 November 2005
Maturity Date	8 December 2008 (3 years)
Minimum Investment	A\$5,000 (multiples of A\$1,000 thereafter)

Notes:

The performance of Optimiser II at maturity will be based on a fixed portion (the participation rate) of the highest return of the three investment profiles.

Participation rate was 85% on 12 October 2005; the final participation rate, which will be fixed on the issue date, 8 December 2005, will range between 70% and 100% but will not be less than 70%.

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Fees

Up-front Fees	None
Ongoing Fees	None
Indirect Fees	Whilst there are no direct fees, investors should note the issuer may profit from its ability to manage the underlying risk associated with the investment of the Optimiser funds and its responsibilities as the issuer of the Optimiser. Aegis does not have detailed information about the level of indirect fees and whether they are appropriate. Our discussions with the issuer lead us to believe the indirect fees are similar to those in other structured products.
Early Exit Fees	In the event that Optimiser II terminates early, the issuer may charge the investor any break costs associated with early termination.
Other Fees	Unforeseeable costs and taxes may be passed on to the investors at the discretion of the issuer. There are none at the time of the Product Disclosure Statement (<i>PDS</i>).

Advisor Commissions

Up-front	Up to 2% (including GST) of the investment amount, payable by CGMA at no additional cost to the investor.
Ongoing	Trailing fee of up to 0.33% per annum (including GST). This fee will be paid by CGMA at no additional cost to investors.

2. Executive Summary

- Optimiser II is a three-year investment offering exposure to three investment profiles consisting of global equities, bonds, currencies and commodities. Optimiser II seeks capital growth from the best performing asset class in the medium term via three market-linked investment profiles with the benefit of capital protection at maturity.
- Performance of Optimiser II at maturity will be a fixed portion (the participation rate) of the best investment profile return from the following three profiles:
 - Equities-biased (60% international equities; 20% bonds/currencies; 20% commodities);
 - Balanced (1/3 international equities; 1/3 bonds/currencies; 1/3 commodities); and
 - Commodities-biased (20% international equities; 20% bonds/currencies; 60% commodities).
- The three investment profiles are notional portfolios with exposure to reference assets that are equally weighted within their respective asset class:
 - International equities (EURO STOXX 50; Hang Seng; Nikkei 225; S&P 500);
 - Bonds/Currencies (Citigroup World Government Bond Index; AUD/USD); and
 - Commodities (Aluminium; Copper; Crude Oil; Natural Gas).
- The participation rate at the time of the PDS was 85%. The final participation rate will be fixed at the issue date, with a minimum of 70% and a maximum of 100%. Investors should note that the participation rate will dictate the level of return of Optimiser II. The higher the participation rate, the higher the return investors will receive at maturity. Refer to Section 4 – *Product Overview* for details.
- Aegis believes the risk of the participation rate changing by around 5% (up or down) is relatively high, and investors should be comfortable with this risk before investing. As at the end of October, indications are that the participation rate would be higher than the 85% indication given in the PDS.
- The product seeks to provide capital growth and will distribute a 1% coupon of the initial investment amount annually, in arrears.
- Capital protection is provided by CGMA, the issuer, which, at maturity, returns the initial investment amount to investors. This is paid by way of conversion of Optimiser II units to the delivery asset (that is, units in the StreetTRACKS S&P/ASX 200 Fund). Thus, depending on any associated costs (there are none at the date of the PDS), capital protection may return close to or less than the initial investment amount after costs, taxes and brokerage.
- At maturity, CGMA will deliver to the investor either units of the StreetTRACKS S&P/ASX 200 Fund or sale proceeds from the delivery asset. There may be costs, taxes and brokerage associated with the delivery of units or sale proceeds.
- The issuer will provide monthly liquidity to unit holders who wish to redeem their investments. Investors should note that redemptions prior to 8 December 2008 (the *maturity date*) would attract costs, losses or expenses in relation to early maturity as described in the *Liquidity* section below. Redemption prior to the maturity date will invalidate the capital protection.
- There will be no up-front or ongoing management fees payable by investors. A placement fee of 2% up-front and 0.33% per annum may be paid to financial advisers by the issuer at no additional cost to investors.
- There will be no currency risks associated with the reference assets, as the performance of these assets will be measured with reference to their starting level in absolute terms. Exposure to currency risk will only be relevant to the Bond/Currencies asset class.
- Aegis has reviewed this product and has issued an **APPROVED** rating.

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3. Aegis Overview

Optimiser II represents a simple and well-structured capital-protected portfolio of diversified asset classes that seeks out-performance with moderate risk. The product offers potential for capital growth, income and capital protection over a three-year term. Aegis believes it is suitable for investors seeking a diversified exposure to the broad asset classes within an overall balanced portfolio.

A particular strength of the product is the benefit of receiving the return of the best performing investment profile. This will appeal to investors who do not have a particular sector view on equities, bonds or commodities.

Depending on the general market direction, potential return can be high. However, it remains to be seen whether the equities market and the commodities market sustain a strong upward momentum in the next three years. This is a critical success factor for Optimiser II.

Also of importance is the participation rate, which will dictate the overall return of Optimiser II to the investor. At the date of the PDS, it is estimated to be 85%. A higher or lower rate to be fixed on the issue date will impact the final investment value of Optimiser II.

The structure is relatively simple - a deferred purchase agreement, whereby investors pay A\$1.00 per unit initially and will receive, overall, a return of capital plus 1% coupon of the initial investment amount annually plus the best return of the three investment profiles at maturity subject to the participation rate.

Investors should note that capital protection will apply only if the investment is held to maturity. At maturity, the delivery of units of the StreetTRACKS S&P/ASX 200 Fund, the delivery asset, or sale proceeds from the delivery asset may be less than the final value of Optimiser II units due to associated costs (none as at the date of the PDS) with the disposal of these units. Under the terms of the PDS, capital protection is an unsecured obligation of the issuer. Hence, the protection is subject to the creditworthiness of CGMA.

Optimiser II is a three-year term investment, which, while providing flexibility to investors, may be exposed to the risk of short-term volatility and counter cyclical trends. Success of the product depends on sustainable uptrends in the next 36 months. If markets tend to range or turn bearish, the performance of the investment profiles will suffer and will be difficult to recover within the relatively short time frame.

In terms of fees, the product does not charge investors up-front or ongoing fees. A 2% up-front placement fee and 0.33% per annum trail commission is payable by the issuer at no additional cost to the investor. However, there may be associated costs for early redemption and/or sale of the delivery asset. The issuer may profit from its ability to manage the underlying risk associated with the investment of the Optimiser funds and its responsibilities as the issuer of the Optimiser.

Overall, Aegis believes this product is well structured to provide exposure to a diversified portfolio of asset classes with the benefit of receiving the best performing investment profile return with capital protection. Return of the product will depend primarily on the performance of the general market in the next few years. The product may be suitable for investors seeking diversification within an overall investment portfolio as well as enhanced market return with moderate risk.

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Recommendation

Aegis has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, team stability, experience and performance; fees, risks and likely outcomes.

Our rating is based on the following scale:

80 – 100 Recommended

60 – 79 Approved

0 – 59 Not Recommended

We have reviewed the product and have issued an **APPROVED** rating.

A 'Recommended' rating indicates that Aegis believes this is a superior grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters.

An 'Approved' rating indicates that Aegis believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation parameters. The product may provide unique diversification opportunities but may not stand apart from its peers.

A 'Not Recommended' rating indicates that Aegis believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. However, this does not mean that the product is without merit.

This report has been commissioned, and, as such, Aegis has received a fee for its publication. However, under no circumstances has Aegis been influenced, either directly or indirectly, in making statements and/or recommendations contained in this report.

The Product Disclosure Statement (PDS) dated 14 October 2005 has not been lodged with the Australian Securities and Investments Commission (ASIC) and is not required by the Corporations Act 2001 to be lodged with ASIC. The offer of the securities is made in the PDS, and anyone wishing to acquire the securities should complete the application form in the PDS.

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4. Product Overview

The Offer

Optimiser II is an offer to investors seeking to gain a diversified exposure to asset classes, including international equities, bonds, currencies and commodities, over a three-year period with capital protection. The product offers potential for medium-term capital growth and a coupon of 1% per annum from the highest performing investment profile. The three investment profiles are Equities-biased, Balanced and Commodities-biased, which will be discussed in Section 5 – *Underlying Investments*.

The product is capital-protected by Citigroup if held to maturity. Capital protection will provide unit holders on the maturity date a minimum of the initial investment amount subject to costs and taxes, including brokerage costs of the delivery asset (at the date of the PDS, CGMA is not aware of any costs or taxes).

The issuer will provide monthly liquidity to unit holders who wish to redeem their investments. Depending on the performance of the investment profiles, investors should note that redemptions prior to the maturity date would attract costs, losses or expenses in relation to early maturity as described in the *Liquidity* section below. Redemption prior to the maturity date will invalidate the capital protection.

On an annual basis, a 1% coupon based on the investment amount will be distributed to unit holders and will be payable in arrears.

The offer opens on 24 October 2005 and closes on 30 November 2005. At maturity, CGMA, the issuer, will deliver to the investor either units of the StreetTRACKS S&P/ASX 200 Fund or sale proceeds from the delivery asset.

Investment Objective

The investment objective of Optimiser II is to seek out-performance from the best performing asset class in the medium term via three market-linked investments with the benefit of capital protection at maturity.

The Structure

Optimiser II is structured to include a number of key components:

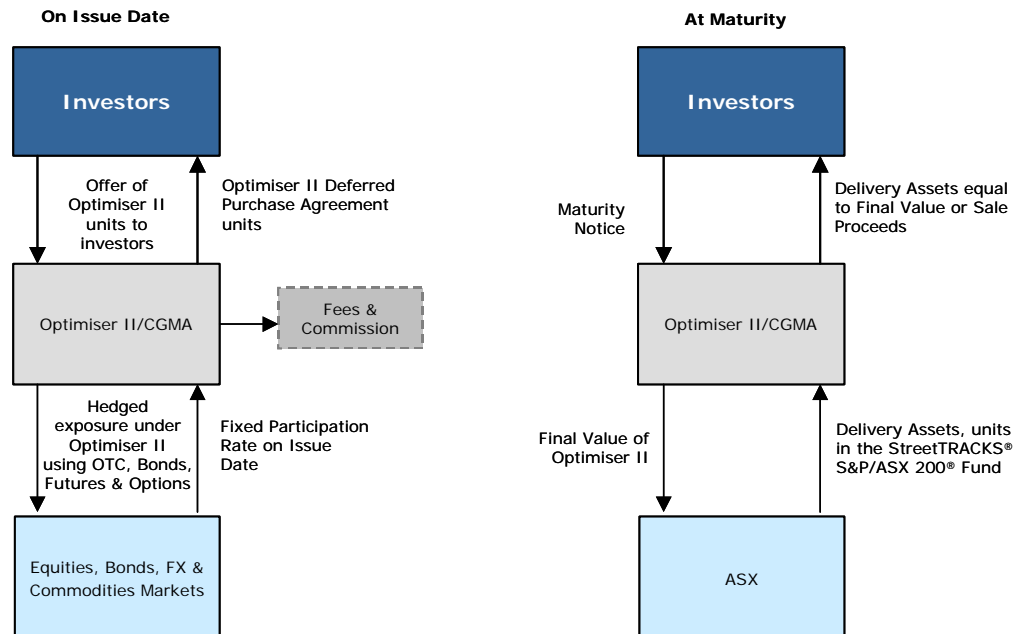
- Three investment profiles (Equities-biased, Balanced and Commodities-biased); and
- The capital protection.

These components will be discussed in greater detail below.

Figure 1 below illustrates the structure of Optimiser II and its key components.

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Figure 1. Optimiser II Investment Structure and Transaction Flow on Issue Date and Maturity



Source: Aegis Equities Research

On the issue date, investors pay A\$1.00 per unit in Optimiser II to gain exposure to the three investment profiles. At this time, the participation rate will be fixed and may range between 70% and 100%, with a minimum of 70% (at the date of the PDS, the participation rate was 85%). Investments in equities, bonds, currencies and commodities markets are hedged by CGMA. Fees and commission may be payable by CGMA to financial advisers at no additional cost to investors.

During the three-year investment term, investors will receive a 1% coupon of the investment amount annually in arrears.

Approximately 20 business days before the maturity date, CGMA will notify investors of the upcoming maturity through a maturity notice, allowing investors to elect to receive the delivery asset or sale proceeds from the delivery asset equal to the final value of Optimiser II units less costs, taxes and brokerage. At the time of the PDS, CGMA is not aware of any associated costs. The final value at maturity is the greater of A\$1.00 per unit and the value of Optimiser II.

Optimiser II will gain exposure to the performance of three investment profiles, which comprise a range of market indices in international equities, bonds, currencies and commodities. The three investment profiles are

- Equities-biased;
- Balanced; and
- Commodities-biased.

Figure 2 below outlines the weightings of the three investment profiles.

Figure 2. Investment Profiles and Asset Allocation

Investment Profile	Equities Allocation (%)	Bond/Currencies Allocation (%)	Commodities Allocation (%)	Total (%)
Equities-biased	60	20	20	100
Balanced	33.3	33.3	33.3	100
Commodities-biased	20	20	60	100

Source: Citigroup

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The underlying asset allocation will be equally weighted across a basket of reference assets. Also refer to Section 5 – *Underlying Investments* for the underlying reference assets.

Figure 3. Sub-allocation of Investment Profiles

Asset Class	Reference Asset	Investment Profile		
		Equities- biased (%)	Balanced (%)	Commodities -biased (%)
Equities Allocation	EURO STOXX 50	15	8.33	5
	Hang Seng	15	8.33	5
	Nikkei 225	15	8.33	5
	S&P 500	15	8.33	5
Bond/ Currencies Allocation	Citigroup World			
	Government Bond Index	10	16.67	10
	Australian Dollar Exchange Rate	10	16.67	10
Commodities Allocation	Aluminium	5	8.33	15
	Copper	5	8.33	15
	Crude Oil	5	8.33	15
	Natural Gas	5	8.33	15
		100	100	100

Source: Citigroup

At maturity, Optimiser II will provide investors with the best performance over the three investment profiles adjusted for the participation rate.

Participation Rate and Final Value

The participation rate is the degree to which investors will participate in the performance of the best performing investment profile. It is dependent on a number of market-driven variables that may change from time to time. The key factors influencing the participation rate include the following:

- Australian dollar interest rates;
- Volatility of reference assets;
- Correlations between the reference assets; and
- Forward price of commodities relative to spot.

Figure 4 below provides an outline of the impact of change in these factors on the participation rate.

Figure 4. Factors Influencing the Participation Rate

Factor	Change in Factor	Effect on Participation Rate
Australian dollar interest rates	Increase	Increase
Volatility of reference assets	Increase	Decrease
Correlations between the reference assets	Increase	Decrease
Forward price of commodities relative to spot	Increase	Decrease

Source: Citigroup

Based on the information provided, Aegis has conducted a preliminary sensitivity analysis on the participation rate given a change in each of these individual factors, assuming all other variables are constant.

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Aegis believes the volatility of the reference assets and the correlation between the reference assets are unlikely to make a significant difference to the participation rate.

To change the participation rate by 10%, either

1. Australian dollar interest rates would have to move by over 30 basis points or
2. The forward price of all commodities (referenced in Optimiser II) relative to spot would have to change by over 6%.

Aegis believes the risk of the participation rate changing by around 5% (up or down) is relatively high, and investors should be comfortable with this risk before investing.

Note that following the issue date, the participation rate will be fixed; the risk to the participation rate is between the date the investor applies and the issue date of the units.

As at the end of October, indications are that the participation rate would be higher than the 85% indication given in the PDS.

The participation rate will be used to calculate the final value that investors will receive from their investments in Optimiser II at maturity. At the time of the PDS, the participation rate was 85%. The participation rate is expected to be fixed on the issue date, with a minimum of 70% and a maximum of 100%, and will remain fixed throughout the investment term. Therefore, the higher the participation rate, the greater the return investors will receive from the best performing investment profile. Mathematically, the participation rate will impact the final value in the following way:

Final value per unit = A\$1.00 [1 + (Participation Rate × Best Performing Investment Profile Return)]

Given that CGMA offers investors the benefit of capital protection, the final value or final investment value at maturity will be the greater of

- (a) A\$1.00 per unit; or
- (b) A\$1.00 [1 + (Participation Rate × Best Performing Investment Profile Return)]

Below, we provide an example of how the final investment value is determined.

Assumptions:

Figure 5. Investment Profiles Returns and Participation Rate Assumptions

<i>Participation Rate: 85%</i>				
Investment Profile	Investment Profile Return			
	Scenario 1 (%)	Scenario 2 (%)	Scenario 3 (%)	Scenario 4 (%)
Equities-biased	34.07	24.08	26.42	-0.44
Balanced	29.42	24.75	26.98	-1.09
Commodities-biased	31.21	23.96	32.23	-7.63
Best Performing Investment Profile Return	34.07	24.75	32.23	-0.44

Source: Citigroup

Scenario 1:

At maturity, the Equities-biased profile outperforms other investment profiles

- | | |
|-------------------------------------------------|-------------------------------------------------------------|
| Best performing investment profile: | Equities-biased Profile |
| Final Value per unit is greater of (a) and (b): | (a) A\$1.00
(b) A\$1.00 × [1 + (85% × 34.07%)] = A\$1.29 |
| Final Value per unit: | A\$1.29 |

Scenario 2:

At maturity, the Balanced profile outperforms other investment profiles

Best performing investment profile:	Balanced Profile
Final Value per unit is greater of (a) and (b):	(a) A\$1.00 (b) $A\$1.00 \times [1 + (85\% \times 24.75\%)] = A\1.21
Final Value per unit:	A\$1.21

Scenario 3:

At maturity, the Commodities-biased profile outperforms other investment profiles

Best performing investment profile:	Commodities-biased Profile
Final Value per unit is greater of (a) and (b):	(a) A\$1.00 (b) $A\$1.00 \times [1 + (85\% \times 32.23\%)] = A\1.274
Final Value per unit:	A\$1.274

Scenario 4:

At maturity, the Equities-biased profile outperforms other investment profiles

Best performing investment profile:	Equities-biased Profile
Final Value per unit is greater of (a) and (b):	(a) A\$1.00 (b) $A\$1.00 \times [1 + (85\% \times -0.44\%)] = A\0.996
Final Value per unit:	A\$1.00

These examples are provided for illustrative purpose only and do not indicate the likely performance of any of the three investment profiles or of Optimiser II.

Capital Protection

Optimiser II is capital-protected by CGMA. Investors pay the initial investment amount at inception and receive a 1% coupon of the initial investment amount each year in arrears (three times over the investment term) and an amount equal to A\$1.00 per unit plus the return of the best performing investment profile at maturity subject to the participation rate.

Capital protection will be provided to investors in Optimiser II only if they hold their investment until the maturity date. Capital protection will not apply to those investors who exit the investment prior to or post the maturity date. Investors should note that the obligation of the issuer to repay their initial investment amount does not apply if Optimiser II is terminated prior to the maturity date, that is, when an early maturity event occurs. An early maturity event is generally beyond the issuer's control and may include events such as, but not limited to, the suspension of a reference asset index (see Section 9 – *Terms and Conditions* on page 35 of the PDS).

At maturity, CGMA will deliver to the investor, based on the final investment value, either

- Units of the StreetTRACKS S&P/ASX 200 Fund, the delivery asset; or
- Sale proceeds from the delivery asset valued at the closing price (that is, closing price of the delivery asset reported by the ASX on the trading day immediately following the maturity date).

Investors should note that the conversion of the final investment value at maturity to the delivery asset may be subject to costs and taxes, including brokerage (none as at the date of the PDS). Hence, the value of the delivery asset or sale proceeds from the delivery asset received by the investor may be less than the final investment value. This may mean that the minimum amount paid to the investor may be close to or less than the initial investment amount after deducting such costs.

Distribution

Optimiser II will pay a coupon of 1% per annum based on the issue price of A\$1.00 per unit, payable in arrears.

Investors are not entitled to receive any other dividends or distributions with respect to Optimiser II, reference assets or delivery assets during the term of the investment.

Leverage

Optimiser II does not borrow or employ direct leverage in its investments. CGMA may have an indirect exposure to reference assets via derivatives such as swaps, futures and options contracts to hedge their exposure under Optimiser II.

Liquidity

The issuer offers monthly liquidity to investors who wish to terminate their investment prior to the maturity date. Request for early termination will be required in writing. An indicative unit price for Optimiser II can be obtained from www.citiwarrants.com.au. Investors should note that the issuer may, in its absolute discretion, accept or reject any early termination request. Upon acceptance of an early termination request, the issuer will either apply the normal maturity process or pay a refund.

If the normal maturity process applies, the investor will receive the early maturity value, which is equal to the fair economic value of Optimiser II, as determined by the issuer, less any costs, losses or expenses that it incurs in relation to the early maturity, including costs and taxes, break costs, administrative costs plus other associated costs. The fair economic value is the theoretical value of the underlying components of Optimiser II, including the mark-to-market value of any hedges. Depending on the value of the underlying references indices at any time, it may be higher or lower than the issue price. Investors should note that early redemptions will not benefit from the best performing investment profile return.

The refund received by investors will equate an amount determined by the issuer in its absolute discretion, and may adjust for any costs, losses or expenses as mentioned above in relation to the early maturity value.

Investors should note that the issuer provides capital protection only if investors hold their investments in Optimiser II until the maturity date. Early maturity may result in an amount less than the initial investment.

At Maturity

Optimiser II is structured as a deferred purchase agreement. Under the agreement, an investor in Optimiser II agrees to either

- Elect to accept physical delivery of the delivery assets at maturity (units in the StreetTRACKS S&P/ASX 200 Fund); or
- Elect to sell the delivery assets under the agency sale arrangement and receive sale proceeds at the maturity date.

Approximately 20 business days before the maturity date, the issuer will notify investors of the upcoming maturity by sending them a maturity notice, advising investors of the above two options. If investors do not choose either option, Optimiser II will automatically default to the physical delivery of units in the StreetTRACKS S&P/ASX 200 Fund. It should be noted that costs and taxes, including brokerage, may be deducted from the final value before delivery.

If an investor elects the agency sale arrangement option on the maturity notice and return the notice to the issuer by the closing time (5:00 p.m. Sydney time on the trading day, immediately before the maturity date), the issuer will pay the investor sale proceeds, which will equal the number of delivery assets sold multiplied by the closing price, less costs and taxes.

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Investors should note if there are associated costs to the delivery assets (none at the time of the PDS) or sale proceeds of the delivery assets, these costs may have implications for the capital protection. Refer to the section on *Capital Protection* above.

Taxation

If an investor holds units in Optimiser II and subsequently in the delivery asset, any appreciation in the value of those units should generally be taxable. If investment returns are capital gains rather than income, those investors could benefit from the 50% discount for capital gains made in respect of units in Optimiser II.

Fees, Commissions and Expenses

Up-front Fees

- **Placement Fee.** 2% (including GST) of the investment amount, payable by the issuer at no additional cost to investors. The issuer may also pay advisers, out of its own funds, an additional volume-based up-front fee of up to 0.50% of the investment amount.
- **Total Up-front Fees.** There are no up-front fees payable by investors.

Ongoing Fees

- **Trailing Commission.** 0.33% (including GST) per annum based on the initial investment amount, payable by the issuer at no additional cost to investors (See page 23 of the PDS).
- **Total Ongoing Fees.** There are no ongoing fees payable by investors.

Other Fees

- **Early Exit (Break Costs).** In the event that Optimiser II terminates early, the issuer may charge the investor any break costs associated with early termination. The issuer will notify investors of such break costs in the early termination notice.
- **Indirect Fees.** Whilst there are no direct fees, investors should note that the issuer may profit from its ability to manage the underlying risk associated with the investment of the Optimiser funds. Aegis does not have detailed information about the level of indirect fees and whether they are appropriate. Our discussions with the issuer lead us to believe that the indirect fees are similar to those in other structured products.

Investors should note that the issuer reserves the right to pass on to investors any unforeseen costs and taxes. As at the date of the PDS, the issuer is not aware of any such costs and taxes.

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5. Underlying Investment

Reference Assets

Optimiser II will gain exposure to the performance of three investment profiles, which comprise a range of market indices in international equities, bonds, currencies and commodities. The three investment profiles are

- Equities-biased;
- Balanced; and
- Commodities-biased.

Below is the relevant reference asset for the equities, bonds, currencies and commodities constituents.

Figure 6. Reference Assets of Optimiser II

Equities	Bonds/Currencies	Commodities
EURO STOXX 50	Citigroup World Government Bond Index	Aluminium
Hang Seng	Australian Dollar Exchange Rate	Copper
Nikkei 225		Crude Oil
S&P 500		Natural Gas

Source: Citigroup

Reference assets are intended to be fixed for the investment term unless any of the reference assets is closed or suspended. In such case, the relevant reference asset may be changed partially or completely at the issuer's discretion so as to leave the investor and the Citigroup in the same position after the change as they were before the change unless it is not possible to do so, in which case it may be determined to be an early maturity event.

Performance Analysis

As described above, Optimiser II provides exposure to three investment profiles with specific weightings in the reference assets. This transparency allows us and the investors to analyse its performance by reconstructing a performance history based on the predetermined weightings.

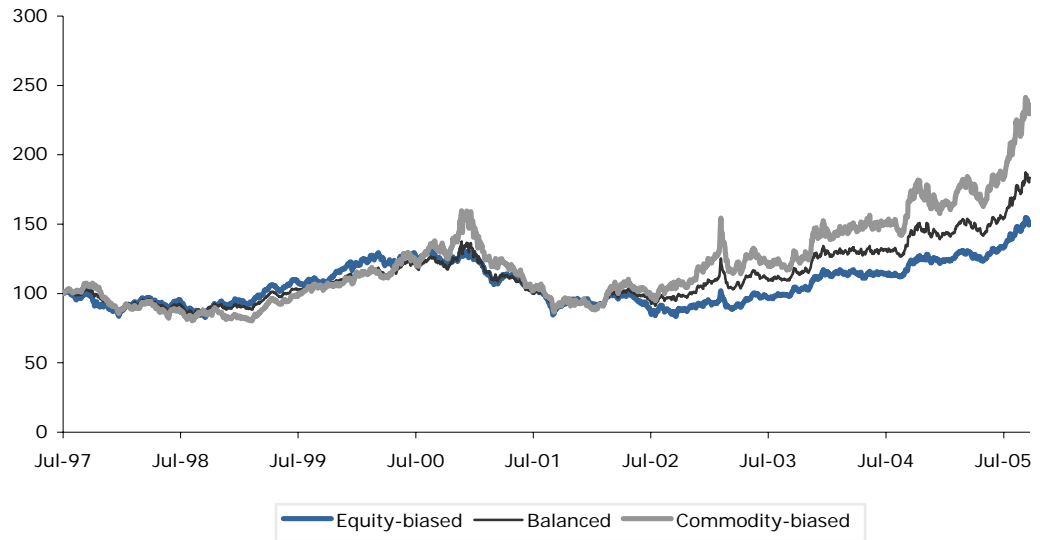
Figure 7 below provides a reconstructed performance history to show the relative performance of the three investment profiles over the period July 1997 to September 2005.

The performance history of the three investment profiles, which comprise global equities, bonds, currencies and commodities, clearly exhibits a fair degree of volatility, trend and cycle over the long term. It is apparent that the three investment profiles have had similar performance prior to 2002. Since that time, the Commodities-biased investment profile has outperformed the other profiles due to commodity strength and rising oil prices for the last few years.

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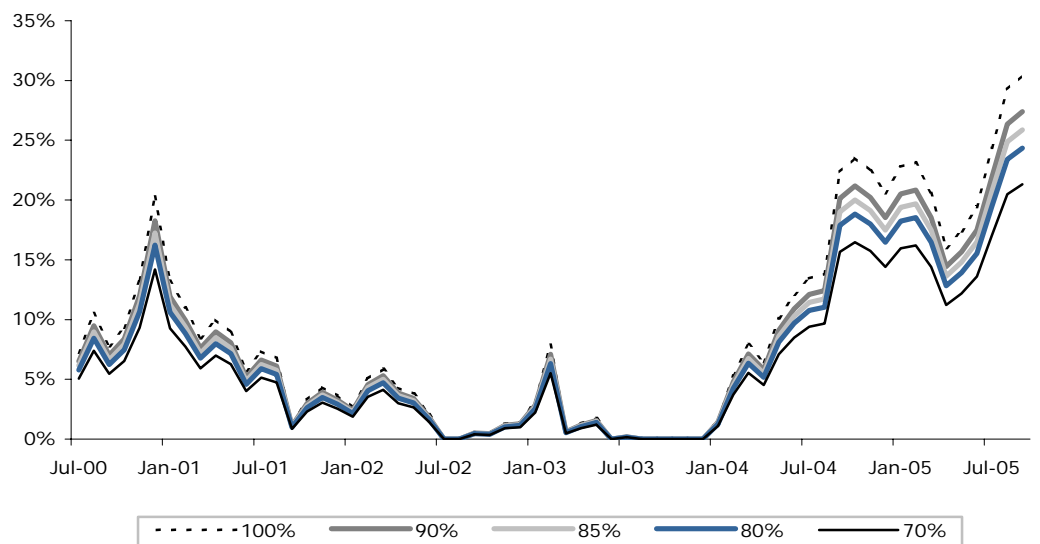
Figure 7. Performance of the Three Investment Profiles (July 1997-September 2005)



Source: Aegis Equities Research

Next, we overlay additional guidelines assuming the best performing investment profile over a period of three years adjusted for different participation rate scenarios. Three years have been selected to closely replicate the assumptions for Optimiser II. Figure 8 below represents the monthly rolling three-year annualised performance of the best performing investment profile over the same period, with participation rates of 70%, 80%, 85%, 90% and 100%. At the date of the PDS, participation rate was 85%. Whilst it is highly unlikely to result in a 70% (minimum) or 100% (maximum) participation rate, it provides an indication of a possible performance band throughout that period.

Figure 8. Monthly Rolling Three-Year Return (annualised) of Best Performing Investment Profile Adjusted for Participation Rate (70%, 80%, 85%, 90% and 100%)



Source: Aegis Equities Research

Due to the bullish nature of the equities and commodities market in the past 18 months, the investment return generated from the best performing profile assuming an 85% participation rate has been 25.88% per annum. The out-performance has been largely the result of a buoyant market. This may pose the next question such as the likely direction of the market in the next 12 to 18 months as a strong indicator for the success of Optimiser II.

Figure 9. Correlation Analysis of Reference Assets (July 1997–September 2005)

	EURO STOXX 50	S&P 500	Nikkei 225	Hang Sang	Crude Oil	Copper	Natural Gas	Aluminium	WGBI	AUD/ USD
EURO STOXX 50	1.00									
S&P 500	0.80	1.00								
Nikkei 225	0.48	0.44	1.00							
Hang Sang	0.50	0.49	0.51	1.00						
Crude Oil	-0.08	-0.12	0.04	-0.03	1.00					
Copper	0.29	0.28	0.22	0.26	0.05	1.00				
Natural Gas	0.04	0.07	0.04	0.07	0.32	0.12	1.00			
Aluminium	0.21	0.26	0.19	0.13	0.05	0.72	0.11	1.00		
WGBI	-0.39	-0.19	-0.12	-0.05	0.14	0.02	0.15	0.15	1.00	
AUD/USD	0.03	0.19	0.19	0.27	0.14	0.24	0.19	0.26	0.53	1.00

Source: Aegis Equities Research

As expected, the individual reference assets do not show signs of a strong correlation amongst themselves. In some cases, there is negative correlation, further demonstrating the diversification benefit of the asset allocations of the three investment profiles.

Based on the performance history of the reconstructed performance, we believe the success of Optimiser II will be highly dependent on the outlook and direction of various markets over the next 24 to 36 months. While we do not attempt to anticipate or predict the direction of the markets, it is nonetheless an important determinant for Optimiser II where it is not intended to participate in longer term cycles.

Monte Carlo Simulation

To better assess the potential risk and return of Optimiser II, we have conducted two distinct Monte Carlo simulations based on the performance characteristics of individual reference assets over the last eight years. The simulated results assume the best performance of the three investment profiles at participation rate scenarios of 70%, 80%, 85%, 90% and 100%.

The first method uses a log normal distribution of expected results based on each asset's underlying volatilities. The second method uses a random generation of past monthly performance to include some elements of asset correlations into the simulations. Note, however, there are only eight years worth of data in this sample, which skews the result.

Both methods give similar results; however, the variability of the returns using historical periods is higher. Figure 10 below shows the result of the statistically generated results.

Figure 10. Performance Simulation: Optimiser II Risk and Return

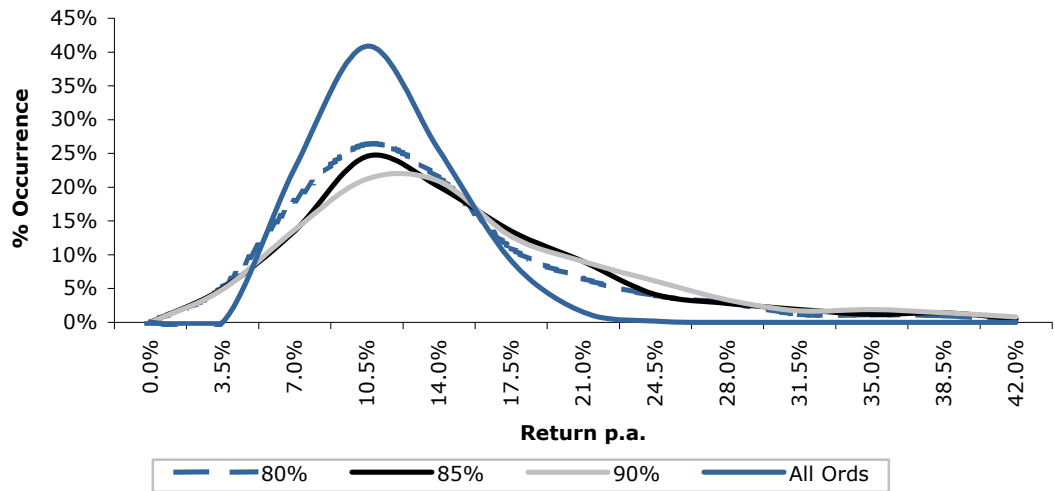
	Participation Rate					All Ords
	70%	80%	85%	90%	100%	
Average Return p.a. (%)	11.85	12.35	13.95	14.47	15.16	9.75
Standard Deviation (%)	7.75	8.23	9.90	10.06	9.78	3.19
Median Return p.a. (%)	10.14	10.55	11.46	11.92	13.12	9.29

Source: Aegis Equities Research

The simulated result presents an average return band of 11.85% to 15.16% per annum based on the participation rate of 70% to 100%. Respectively, the result exhibits a standard deviation range of 7.75% to 9.78%. At an indicative participation rate of 85%, return per annum is 13.95%, with 9.90% standard deviation - a markedly higher return compared to the All Ordinaries Index with a significantly higher standard deviation. Similar to Optimiser II, the simulated performance of the All Ordinaries Index assumes that capital protection applies.

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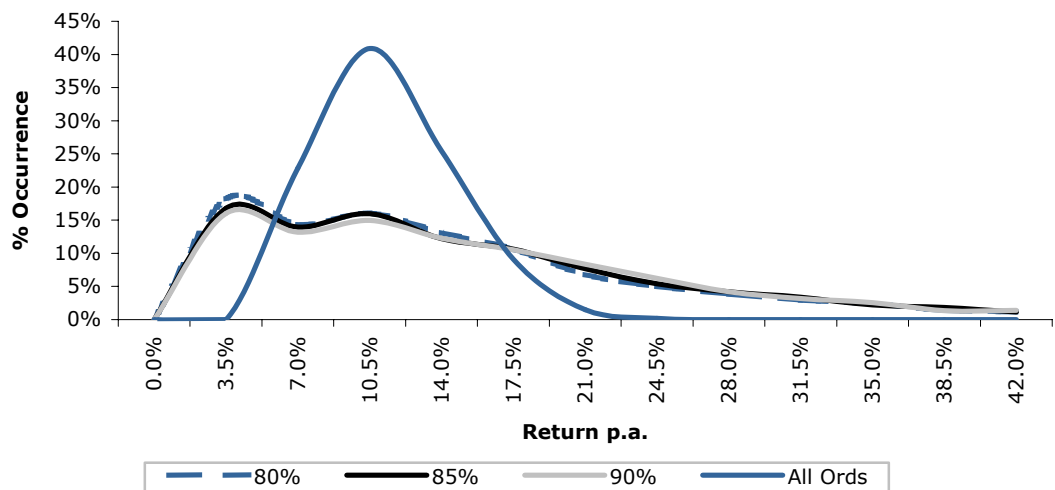
Figure 11. Statistical Performance Simulation: Return Distribution of Optimiser II



Source: Aegis Equities Research

Using the historical periods, Monte Carlo simulation gives the following distribution:

Figure 12. Historical Performance Simulation: Return Distribution of Optimiser II



Source: Aegis Equities Research

It becomes clear that although the simulated performance of Optimiser II has a high mean return, a significantly higher standard deviation is also evidenced. Further, relative to the simulated results of the All Ordinaries Index, it exhibits much positive skewness and a fatter tail. This can be interpreted as a high degree of variance in its return, but with a significantly greater upside potential. This result is consistent with the higher volatility expected for international equities as well as commodities. In light of this, capital protection is adding greater value for such investment compared to an investment exposure to the All Ordinaries Index alone.

Based on this exercise, we conclude that the simulated performance of Optimiser II exhibits a significant degree of volatility, commensurate with a greater return potential than the All Ordinaries Index.

Investors should note that any performance simulation is derived from randomly generated numbers that can provide a less biased assessment of performance outcomes. However, investors should not fully rely on these results as an expectation of future performance.

The data used in the above simulation are based exclusively on historical data and should not be used as a guide to future expected performance of Optimiser II.

6. SWOT Analysis

Strengths

- Optimiser II offers exposure to a well-diversified asset portfolio consisting of international equities, bonds, currencies and commodities. The performance of Optimiser II will be determined by the highest performing investment profile at maturity, which means that investors will benefit from the highest return of the three investment profiles without the need to make specific asset class selection decisions.
- The product seeks to gain medium-term capital growth and to pay investors an income of 1% per annum.
- Capital protection provided (if the investment is held to maturity) ensures investors obtain at least their capital at the maturity date, mitigating any downside risk.
- Fees and charges applicable to the product are considered low due to the passive management nature of the investments (market indices).
- The product has a three-year investment term, a relatively shorter term investment compared to other structured products offerings. This may provide flexibility to investors who are seeking shorter term investments.
- The reference assets of Optimiser II consist of three investment profiles, which are a combination of market indices with predetermined weightings. A simple and transparent structure that allows investors to assess its performance and associated risks.

Weaknesses

- The three investment profiles derive their performance from various market indices/contracts, therefore, it is possible to provide an indication of past performance based on Optimiser II terms. Nevertheless, Optimiser II is a new product, and, as such, it is not possible to provide actual historical performance of the product.
- Early redemption of units invalidates an investor's capital protection as well as attracts costs, losses or expenses. Further, early redemptions will not benefit from the best performing investment profile return.
- The past performance of the three investment profiles (and the best performing investment profile) appears to be largely driven by the longer term direction of the investment markets. Hence, a three-year term investment may not be able to fully participate in the upside of a bullish market whilst being exposed to short- to medium-term volatility.
- The deferred purchase agreement requires that at maturity, units in Optimiser II be exchanged with the delivery asset. For investors who wish to receive cash, the delivery asset will need to be sold. The sale of the delivery asset may also be subject to costs, taxes and brokerage expenses (none at the time of the PDS). Therefore, despite capital protection, the net sale proceeds may be less than the initial investment amount.

Opportunities

- Exposure to a structured investment that invests across a range of asset classes, including international equities, bonds, currencies and commodities.
- Investors can benefit from potential capital growth in the best investment profiles taking advantage of the best performing asset class.

Threats

- Participation rate remains as one of the key success factors for Optimiser II. A participation rate close to 70% significantly reduces any upside potential of the product.
- Under the terms of the PDS, capital protection is an unsecured obligation of the issuer. Hence, the protection is subject to the creditworthiness of CGMA.
- Where there is an early maturity event, Optimiser II will be terminated early. The amount received by investors may be less than the initial investment amount.

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7. Risks

We refer investors to Section 5, pp 24-25 of the PDS and provide the following as a summary only.

- **Early Maturity Risk:** In certain circumstances, Optimiser II may be terminated early where an investor requests early maturity or an early maturity event occurs. Investors will always be given 30 days' notice of any proposed early maturity by the issuer unless it is otherwise impracticable to do so. The issuer guarantees to provide capital protection only for investments held for the full term of Optimiser II. Prior to the maturity date, investors will receive the fair economic value of Optimiser II or the refund (as determined by the issuer); this amount may be less than the initial investment amount. In determining the fair economic value or the refund, the issuer may deduct break costs or taxes in relation to the early maturity.
- **General Market Risk:** During the term of the investment, the value of Optimiser II will be affected by a number of market variables that change daily, such as the performance of the reference assets; interest rates; volatility and the trading liquidity of the futures contracts; FX contracts and/or indices; time remaining to maturity; prevailing and anticipated economic conditions; technological, legal or political conditions; and other interrelated factors that affect the performance of markets generally. There is no guarantee that any or all of the reference assets will have increased in value at the maturity date so there is a risk that investors in Optimiser II will only receive the Issue Price plus the Coupons. Further, the value of reference assets may fluctuate over the life of Optimiser II such that an increase in the value of reference assets in the early part of the term of Optimiser II may be offset by a corresponding decrease in the value of reference assets later in the term and investors would only receive the Issue Price plus the Coupons.
- **Event Risk:** There may be adjustments to the terms of Optimiser II due to adjustment events such as (but not limited to) mergers and disposals, price source disruption, trading suspension, material change in the calculation and/or composition of reference assets and changes in the Corporations Act or taxation laws as set out in the terms.
- **Performance of Obligations by the Issuer:** The value of Optimiser II depends on the ability of the issuer to perform its obligations under the terms. These obligations are unsecured contractual obligations of the issuer and will rank equally with the issuer's other unsecured obligations and debt other than liabilities mandatorily preferred by law. The issuer is a wholly owned subsidiary of Citigroup Inc., a diversified global financial services holding company whose businesses provide a broad range of financial services to consumer and corporate customers, with more than 200M customer accounts doing business in more than 100 countries.
- **Liquidity Risk:** It is at the issuer's absolute discretion to permit early maturity once a month. However, Optimiser II obtains exposure to the reference assets using over-the-counter (*OTC*) transactions. These *OTC* transactions must be unwound to allow for early maturity and, consequently, Optimiser II may be illiquid.
- **Exercise of Discretion by the Issuer:** Investors should note that a number of provisions of the terms confer discretions on the issuer and its associates, which could affect the value of Optimiser II. These include the power to nominate adjustment events and early maturity events to substitute the reference assets and/or the delivery assets, to adjust or modify the method of any calculation as set out or used in the terms and to make adjustments to the terms of Optimiser II as contemplated in the terms.
- **Tax Risk:** We recommend that investors seek independent tax advice before making an investment in Optimiser II. The issuer is not in the business of providing tax advice and therefore cannot be relied upon to advise upon, nor take any responsibility for, the taxation implications in respect of an investment in Optimiser II.

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- **Factors Affecting the Reference Assets:** The value of the reference assets will vary over time. The individual performance of each of the reference assets will have a direct effect on the value of Optimiser II units and on the final value at maturity. An investor in Optimiser II should be familiar with stocks, bonds, commodities, foreign exchange contracts and with investments in the financial markets generally. In particular, investors should be familiar with the financial markets on which the reference assets are based, economic, political and other aspects relevant to investments in the countries where the reference assets are issued or traded and where the relevant commodities are sourced or consumed. Investors should understand that economic, financial and political developments in those countries, among other things, may have a material effect on investments in those countries.
- **Interest Rates:** Fluctuations in interest rates can indirectly affect the value of Optimiser II units during the term of investment. If long-term interest rates increase, then all other things being equal, the relative value of Optimiser II is expected to fall because an investor could have obtained a better investment return by investing in other financial products, such as variable interest rate deposits. Conversely, if long-term interest rates decrease, then all other things being equal, the relative value of Optimiser II is expected to increase. In addition, interest rates movements that affect the Asset Class Return of the Bonds/Currencies Asset Class will directly impact the value of Optimiser II. The level of the Citigroup World Government Bond Index (the *Citi WGBI*) would generally be expected to fall if the yield of an included country's government fixed-rate issues increases and vice versa. As the Asset Class Return will be derived in part by the performance of the Citi WGBI, changes in the level of the Citi WGBI will have a direct impact on the final value of Optimiser II.
- **No Proprietary or Interest in the Reference Assets:** The issuer and the investors will not have any proprietary interest or entitlement in or to any obligation or asset relating to any reference asset.
- **Investment Decisions:** The information in the PDS is intended to provide investors and their professional advisers information they would reasonably require and reasonably expect to find for the purpose of making an informed assessment of the capacity of the issuer to fulfil its obligations under Optimiser II and the risks, rights and obligations associated with Optimiser II. It is impossible in a document of this type to take into account the investment objectives, financial situation and particular needs of each investor. Accordingly, nothing in the PDS should be construed as a recommendation by the issuer or any associate of the issuer or any other person concerning investment in Optimiser II. Readers should not rely on the PDS other than in respect of those matters referred to above, and should not rely on it as the sole basis for any investment decision in relation to Optimiser II, or any other security.
- **Performance of Optimiser II is likely to be different from the performance of the Reference Assets:** Investors should be aware that the return they receive from investing in Optimiser II may be less than or greater than the return they would have achieved by investing directly in each of the reference assets themselves.
- **Capital Protection:** Capital protection under the terms is an unsecured obligation of the issuer. Capital protection will not apply if there is an early maturity event or if the investor does not hold the investment until the maturity date.
- **Potential Conflicts of Interest:** The issuer and other Citigroup companies may conduct transactions as principal and as agent in various financial instruments, including the delivery assets and the reference assets. These trading activities may affect (positively or negatively) the price at which the delivery assets trade or the level of the reference assets at any point in time.

8. Entities Involved

Citigroup Global Markets Australia Pty Limited

The issuer of Optimiser II is CGMA, which is a wholly owned subsidiary of Citigroup Inc. and a member of Citigroup. The group has been in the Asia Pacific region for more than 100 years and today provides more services in more markets for more clients than any other financial institution. The group counts as valued clients 10M customers across 18 countries and territories.

Citigroup Inc.

Citigroup Inc. (together with its subsidiaries) is a diversified global financial services holding company whose businesses provide a broad range of financial services to consumers and corporate customers, with more than 200M customer accounts doing business in more than 100 countries. Major brand names under the Citigroup's trademark red umbrella include Citibank, CitiFinancial, Primerica, Smith Barney and Banamex.

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